

FORUM VIEWS

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- Emotionally Intelligent or Intelligently Emotional?

INSIDE

- Cyber Liability for Stockbrokers • SEBI Informal Guidance Scheme • Importance of Credit Score in the Indian Lending Industry
- AI and Skill Development in India • The Impact of Learning (& Unlearning) on your Organization's Growth?
- Principles for Optimal Hydration & more



FROM PASSIVE TO ACTIVE: THE NEED OF THE HOUR IN RETIREMENT FUND MANAGEMENT

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Retirement funds/ Pension Funds have played a crucial role in Indian Capital Markets. The long-term investment horizon of these funds incubated long term debt instruments such as perpetual bonds, zero-coupon bonds, and other innovative financial products which contribute to the liquidity, depth, and overall growth of the financial markets strengthening the overall ecosystem. The evolving landscape of India's capital markets presents a compelling case for embracing active fund management strategies. Provident funds are one of the largest contributors to the ETFs with a contribution of close to ₹1,59,299 Crores. The development of ETFs in capital markets would be incomplete without the contribution of Provident funds/Pension Funds. This fund's traditional passive approach, predominantly adopted by the Retirement Funds / Pension funds, has limitations that hinder the realization of **real market returns**.

By actively managing provident funds, it can create a greater depth in capital markets. The ability to identify and act upon market opportunities in a timely manner can translate into significant growth for retirement funds and provide a competitive edge.

Additionally, an active management approach allows for flexibility in portfolio adjustments, enabling it to align investments with emerging sectors, industries, or specific securities that show promising potential.

The following shows why active approach is the need of the hour:

- Currently, Retirement Funds has invested ₹1,59,299.46 crore in exchange-traded funds (ETFs) till March 2022. Union minister of state for labour and employment reply showed that the notional market value of the Retirement Funds investment in ETFs stood at ₹2,26,919.18 crore as on March 31, 2022.
- Retirement funds invest 85% of the funds in debt instruments and 15% in ETFs, as per the investment pattern notified by the government.

- Retirement Funds has been investing in ETFs since August 2015. Hence the as per the above-mentioned statistics Retirement Funds ETF Investments has a CAGR of around 7.07% for a period of 7 years.

*The 10 Year GOI G-SEC yield for the period of 7 year (2017-2022) is ≈ 6.96%

As we are in a lower interest rate regime in the past decade, these pension/provident funds rely more and more on non SLR bonds and ETFs.

The current 10-year GOI G SEC yield stands at 6.96%. With this context, actively managing pension funds can be particularly advantageous in a low-yield environment. While the fixed income market may offer relatively lower returns, actively investing in top-performing stocks. presents an opportunity to potentially achieve higher returns, overcoming the limitations imposed by passive strategies.

Passive investment strategies in pension funds, accomplished through ETFs, typically involve allocations across a basket of 30 stocks. Laggard stocks can drag down the overall fund returns. Instead, an active investment approach that focuses on investing in top-performing stocks has the potential to achieve higher returns.

A comparative study of the returns of the Top performing ETFs in the Sensex and Nifty Indexes vs Returns from Top 16 performing stocks gives us a highlight on the parity between both:

ETF	Annualized Returns (2015 - 2022)	Highest Return	Lowest Return
SBI S&P BSE Sensex	12.40%	29.45% (2017)	2.72% (2016)
SBI Nifty 50	12.34%	30.16% (2017)	4.25% (2016)
LIC MF Nifty 50	14.56%	30% (2017)	4.13% (2016)
UTI Nifty 50	14.37%	30.31% (2017)	4.46% (2016)

Source : BSE

Retirement funds/ Pension Funds have played a crucial role in Indian Capital Markets. The long-term investment horizon of these funds incubated long term debt instruments such as perpetual bonds, zero-coupon bonds, and other innovative financial products which contribute to the liquidity, depth, and overall growth of the financial markets strengthening the overall ecosystem.

BSE SENSEX 30 SCRIPS ACCORDING TO CAGR

From the below table, we can see that the average returns from the Top performing stocks in the BSE Sensex 30 Index & Nifty 50 Index ranges between 10% - 30% resulting in an average return of around 16% CAGR.

There are 16 scrips outperforming benchmark rates that achieved above 10 percent return in the S&P BSE Sensex Index and 29 scrips in the Nifty 50 Index. This shows that majority scrips give a yield above the benchmark rates and ETF's. We believe that active management is the need of the hour to reap real benefit to the retirement fund scheme and its subscribers.

Sr. No.	SCRIP	CAGR (2015-2022)
1	BAJAJ FINANCE LIMITED	30.68%
2	TITAN COMPANY LIMITED	28.48%
3	RELIANCE INDUSTRIES LIMITED	25.09%
4	ASIAN PAINTS LIMITED	18.65%
5	NESTLE INDIA LIMITED	15.71%
6	ICICI BANK LIMITED	15.67%
7	HDFC BANK LIMITED	15.30%
8	HINDUSTAN UNILEVER LIMITED	14.78%
9	ULTRATECH CEMENT LIMITED	13.91%
10	KOTAK MAHINDRA BANK LIMITED	13.56%
11	MARUTI SUZUKI INDIA LIMITED	12.99%
12	TATA CONSULTANCY SERVICES LIMITED	12.36%
13	HCL TECHNOLOGIES LIMITED	11.49%
14	BAJAJ AUTO LIMITED	11.44%
15	INFOSYS LIMITED	11.34%
16	MAHINDRA AND MAHINDRA LIMITED	10.86%

Source : NSE

Sr. No.	SCRIP	CAGR (2015-2022)
1	BAJAJ FINANCE LIMITED	30.81%
2	JSW STEEL LIMITED	30.15%
3	TITAN COMPANY LIMITED	28.24%
4	ADANI ENTERPRISES LIMITED	27.75%
5	RELIANCE INDUSTRIES LIMITED	24.95%
6	TATA CONSUMER PRODUCTS LIMITED	23.20%
7	BRITANNIA INDUSTRIES LTD	20.67%
8	ASIAN PAINTS LIMITED	18.44%
9	DIVI'S LABORATORIES LIMITED	18.24%
10	TATA STEEL LIMITED	17.22%
11	APOLLO HOSPITALS ENTERPRISE LIMITED	17.19%
12	NESTLE INDIA LIMITED	15.71%
13	ICICI BANK LIMITED	15.61%
14	HINDALCO INDUSTRIES LIMITED	15.50%
15	HDFC BANK LIMITED	15.20%
16	HINDUSTAN UNILEVER LIMITED	14.72%
17	GRASIM INDUSTRIES LTD	13.99%
18	ULTRATECH CEMENT LIMITED	13.93%
19	KOTAK MAHINDRA BANK LIMITED	13.53%
20	MARUTI SUZUKI INDIA LIMITED	12.79%
21	TATA CONSULTANCY SERVICES LIMITED	12.43%
22	HCL TECHNOLOGIES LIMITED	11.65%
23	INFOSYS LIMITED	11.54%
24	ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED	11.50%
25	BAJAJ AUTO LIMITED.	11.32%
26	UPL LIMITED	11.05%
27	MAHINDRA AND MAHINDRA LIMITED	10.91%
28	EICHER MOTORS LIMITED	10.64%
29	POWER GRID CORPORATION OF INDIA LIMITED	10.40%

Source : NSE

53.33% of the stocks in BSE Sensex and 58% of stocks in Nifty 50 have given a weighted average return of \approx 16%.

Rather than investing in fixed large basket of stocks that includes laggards which negatively affect the overall portfolio, further dragging down the returns, an equity/fund manager can select the top performing scrips (approximately yielding 16% CAGR) through active fund management that can yield higher returns than ETFs (12% appx.).

Sensex was at 24000 when provident funds first invested in 2015, as of today it is at 62000. If market goes to 70000 fresh funds in the next two years can give return \approx 5% due to the base effect. If the rates stay in the current low interest rate regime, provident funds will not be able to achieve a higher pay-out rate i.e., above the current 8% (Present pay-out rate of Provident/Pension funds).

Hence a active fund management is the need of the hour.

Deven Shashikant Padhya, Managing Director, Force Reckon Investments Limited.

Over 27 years of progressive experience in the industry, dedicated majority to Bond Market and Retirement Benefits, best known for creating innovation product. He has single handily managed INR 70,000 Cr funds and has advised more than INR 1 lakh Cr fund. He has ventured into Asset Acquisition recently and has created a book size of more than INR 500 Cr Assets for his clients.