

Here's How JM Flexicap Fund Outperformed All Peers Last Year

JM Flexicap Fund allocates a considerably higher part of its assets towards stocks in the industrials and materials sector.

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Even though it may not be the first that comes to mind when one thinks of flexi-cap funds, JM Financial Ltd.'s flexi-cap fund outshined its peers as the best performing fund in its category over the last year.

It also beat the benchmark NSE Nifty 500 index over one, three, five and 10-year periods. Out of the 35 funds in its category, Quant Flexi Cap Fund, Franklin India Flexi Cap Fund, HDFC Flexi Cap Fund are the only ones after JM Flexicap Fund that have also managed to do the same, according to the Association of Mutual Funds in India.

Top Consistent Flexi Cap Outperformers

Outperformance over respective benchmarks in percentage terms

Scheme Name	1-Year	3-Year	5-Year	10-Year
JM Flexicap Fund	27.7%	12.0%	6.6%	3.8%
Quant Flexi Cap Fund	22.2%	6.4%	12.7%	5.9%
Franklin India Flexi Cap Fund	6.4%	2.9%	1.8%	1.3%
HDFC Flexi Cap Fund	5.1%	6.9%	1.4%	0.6%

As on July 12

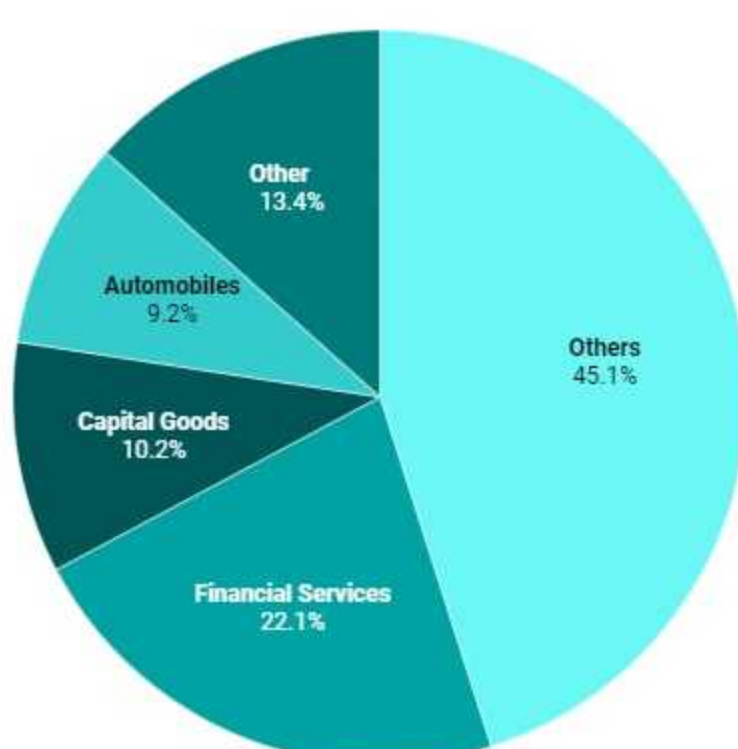
Source: AMFI, NDTV Profit



With the total size of its assets under management measuring up to a little over Rs 3,400 crore, JM Flexicap Fund recorded a growth in net asset value by over 67% over a one-year period, compared to a return of nearly 40% for the benchmark BSE 500 Total Return Index.

The Satish Ramanathan-managed fund has the largest allocation of its holdings towards the financial services sector at 22%, followed by capital goods at 10.2%, and automobiles and auto components at 9.2%, according to the fund's fact sheet for the month of June.

JM Financial Flexi Cap: Sectoral Allocation



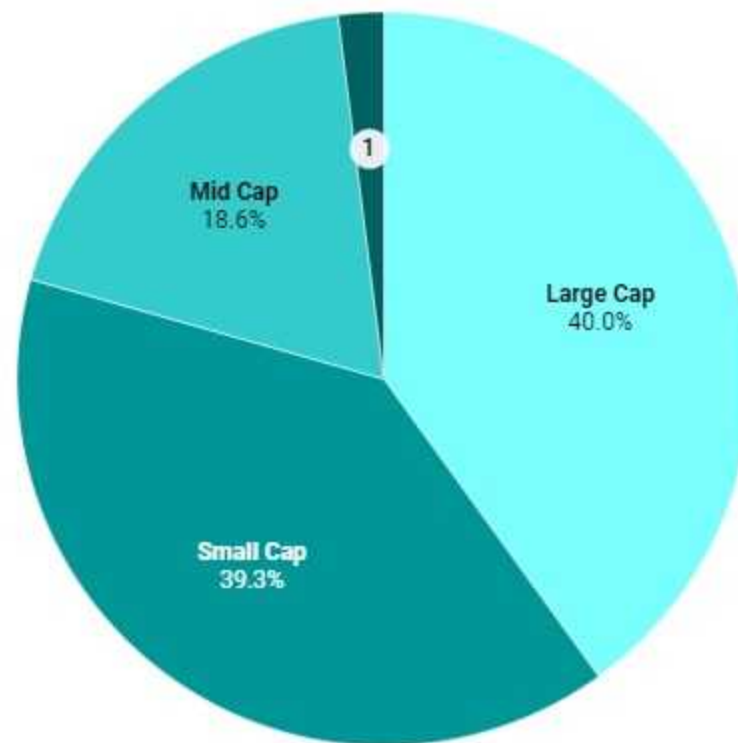
Allocation Overview

The financial services sector has largely been a laggard over the past year, with the Nifty Financial Services recording an 18% return in comparison to a 25.7% growth in Nifty 50 during the same period.

The capital goods sector has some of the biggest outperformers over the last year, such as Texmaco Rail & Engineering Ltd. that gave a return of 249% and commands a 2.45% weightage in the scheme's portfolio.

In allocation across market capitalisation groups, the fund allocates 40% of its holdings in large-cap companies, closely followed by small caps at 39.3%. Mid-cap stocks command the smallest share at 18.6%.

JM Financial Flexi Cap: Market Cap Allocation



Source: Factsheet



At the end of June, the fund held 64 stocks in its portfolio. The top 25 stocks with the highest allocation commanded a combined weightage of 57% and the top 10 making up for 29.2%.

With nearly 58% of its holdings allocated in the broader markets, the returns may be coming from a tilt towards a certain market capitalisation, according to Vishal Dhawan, chief executive officer of Plan Ahead Wealth Advisors.

The broader end of the market has not only participated, but considerably outperformed Nifty 50, with the Nifty Smallcap 250 index growing 64% since July last year.

Dhawan advised caution against looking only at near-term returns to analyse a fund and also look at the fund manager's ability to reallocate funds across market caps.

With the returns that Indian equities have given over the last couple of years, everything has been looking good. Even the 10-year returns look good, aided by the recent outperformance, according to Kshitiz Mahajan, co-managing partner at Complete Circle Wealth Solutions.

The portfolio-churn ratio or the degree to which a fund revises its holdings is also a key metric to pay attention to, Mahajan said. JM Flexicap Fund's churn ratio stood at 119% as of March 2023, according to Morningstar Inc.

The growth outlook for its holdings can also help understand if a valuation gap exists. If there is a significant gap between the trailing price-to-earnings ratio and the growth outlook, earnings for multiple years ahead might be getting factored already, Mahajan said.

What Sets It Apart?

For its category, JM Flexicap Fund allocates a considerably higher part of its assets towards stocks in the industrials and materials sector, according to data provided by Value Research.

It allocates over a fourth of its holdings to industrials, above the average of 12.7% for other funds in the same category. This includes companies like Blue Star Ltd., which has over doubled in the span of a 52-week period and holds a 2.64% weight in the fund.

Similarly, it allocates a 12.9% weight to companies in the materials space against the category average of 7.79%. This sector includes companies like Grasim Industries Ltd., Ambuja Cements Ltd. and Tata Steel Ltd. in order of weightage in the fund. The three have given returns of 61%, 65% and 46% respectively.

It also allocates a considerably smaller share of its holdings towards sectors that have largely been laggards over the past year. While companies in the financial space have the highest allocation out of any sector at 22%, the weight is less than that of the category average, which stands at 27.4%, as well as their weight in the benchmark at 28%.

This is followed by the information technology sector, on which the fund allocates lower than the average of 13.1% for the category, according to Value Research.

The fund's diverse allocation towards the broader market also contributed to its outperformance, as it gradually increased its weight in small caps from 15.4% a year ago to over double that as of June.

Key Metrics

The fund has a beta of 0.9 due to the fact that its holdings are not concentrated among the biggest holdings. Beta value signifies the inherent volatility in returns. A value lower than '1' implies lower volatility than that of the overall market.

This can also be seen in the downside capture ratio – a measure of how the fund performs when the overall market is facing a decline. In April, JM Flexicap Fund is one of the rare few with a downside capture ratio that has a negative value over the past one year, according to the data shared by Morningstar.

While a ratio of less than 100 implies that the fund's returns fell less than the market's decline during bearish periods, a negative value implies that the fund rose despite the decline in markets.