

New Fund Analysis: Sundaram Long Term Micro Cap Tax Adv Fund Series III

NFO Period: 8th August to 11th November 2016

Lock in period: 3 years

The new ELSS (Equity Linked Saving Scheme) from Sundaram Mutual fund focuses on investing in small sized companies. It aims at capital appreciation over 10 years by investing predominantly in equity and equity related instruments of micro cap companies. 'Micro cap' is defined as a stock whose market capitalization is equal to or lower than the 301st stock by market cap (after sorting the securities in the descending order of market capitalization) on the National Stock Exchange of India (NSE).

The scheme benchmark is Nifty Small Cap 100 index. This is a shift from the previous close ended micro cap funds launched by the fund house where the benchmark was S&P BSE Small Cap index.

Asset Allocation

	Minimum (%)	Maximum (%)
Micro Cap Stocks	65	100
Other equity (large and mid cap stocks)	0	35
Debt & Money Market instruments	0	20

'Large cap' stocks are defined as any equity stock whose market capitalization shall not be below the market capitalization of the 50th stock and mid-cap stocks are defined as any equity stock whose market capitalization shall not be above 50th stock and below 100th stocks.

Investment Strategy

The portfolio will comprise of about 50 stocks. One of the criteria for selecting a stock will be liquidity (i.e. adequate trading volumes). Adequate trading volume will be defined as trading volume sufficient to exit the stock in its entirety within 15 days based on the 10 day trading volume prior to the date of purchase. An in-house risk management team will monitor the trading volumes of each of the stocks on a daily basis and will red flag any potential cause for concern if the trading volumes were to fall for any reason. Once a stock has been red flagged the Investment committee meeting comprising of the Fund manager, the CEO, the MD and head of Operations and the committee will decide if there is need to exit the stock.

The fund shall follow a combination of top-down and Bottom-up approach to investing in equity and equity related investments. Investments will be pursued in select macro themes, which cut across various industries and sub sectors (e.g. Restructuring, Infrastructure spending, Skilled labour, etc.). Within such a framework, the emphasis will be on investing in companies with quality management unique business strength, sustainable medium/long term growth and reasonable valuations.

Fund Managers

S. Krishnakumar is the Chief Investment Officer – Equity at Sundaram Mutual Fund. Krishna Kumar is a BE from Regional Engineering College, Trichy (now National Institute of Technology) and a PGDBA (Financial & Portfolio Management) from LIBA, Chennai, has close to 27 years of experience, of which 20 years are in Equity Markets. He is the Fund Manager of Sundaram Select Mid Cap, Sundaram S.M.I.L.E, Sundaram Select Small Cap Series, Sundaram Select Micro Cap Series, Sundaram Tax Saver, Sundaram Value Fund.

Dwijendra Srivastava is the Chief Investment Officer – Debt at Sundaram Mutual Fund. He has 13 years of experience in the fund management space. He plays a vital role in the management of all fixed income portfolios of Sundaram Mutual.

Past Performance of Sundaram Micro cap fund series

The average 1 year return of the Micro cap series schemes (which have existed for at least 1 year and co-managed by S Krishnakumar) is 16%.

Scheme Name	1 Year
Sundaram Select Micro Cap-Series I-Reg(G)	10.07
Sundaram Select Micro Cap-Series II-Reg(G)	10.05
Sundaram Select Micro Cap-Series III-Reg(G)	9.99
Sundaram Select Micro Cap-Series IV-Reg(G)	9.86
Sundaram Select Micro Cap-Series V-Reg(G)	23.75
Sundaram Select Micro Cap-Series VI-Reg(G)	23.58
Sundaram Select Micro Cap-Series VII-Reg(G)	23.52
S&P BSE Small-Cap	16.9

Figures in %; as on 25th August, 2016

Our View

Investors should bear in mind that small cap funds tend to be volatile and hence the risk level is high. However, over long term small cap funds tend to deliver the highest returns. So the fund can be considered for the twin objective getting tax relief under Section 80C investment and wealth creation over the long term.