Mutual Funds Helpless In Making Impact On Corporate Governance, Says UTI AMC’s Imtaiyazur Rahman

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Mutual funds can’t make a meaningful impact on corporate governance as they hold small stakes and voting has become prescriptive, according to Imtaiyazur Rahman, current head of UTI Asset Management Company.

Rahman, interim chief executive officer at UTI AMC, was replying to a question Dhirendra Kumar, founder-CEO of Value Research asked during a panel discussion on *Fund Managers – Alpha Males* as a part of the at the Gatekeepers of Governance conference in Mumbai. Promoters and investors who can cause a difference to corporate governance are those who have a skin in the game, Kumar said, adding that the simplest thing that mutual funds can do is that if they don’t like something or find something fishy, they can vote “with their feet, walk away, stating that this would be the right thing to do”.

Rahman cited a sense of helplessness. “Any mutual fund company will have 2-3 percent stake in any large company. It becomes meaningless and we just cast the vote and don’t make any meaningful impact on corporate governance.”

He cited the example of Dewan Housing Finance Corporation Ltd. where asset managers couldn’t sign the inter-creditors agreement with bankers because of regulatory guidelines as segregation of portfolios was not possible.

According to Rahman, it’s also tough to go against large clients who provide business. “We as an industry manage large institutions’ money, corporate money. It becomes difficult for us to vote against them.”

Ashishkumar Chauhan, managing director and chief executive officer at BSE Ltd., acknowledged the asset managers’ dilemma. Every fund has a basic agency conflict—to continue to have that business, or do what is right, he said.

Chauhan said asymmetry of information and power played a role in the agency conflict. Asymmetry of information meant that an agent and insiders in a fund have more information compared to outsiders. Asymmetry of power meant that insiders have more power when compared to outsiders.

“For example, related-party transactions is an asymmetry of power. You give the contracts to your friends in a more lenient way. This element of power is in play even without related-party transactions,” Chauhan said.

Passive Vs Active Funds

Active funds will continue to be more popular in the Indian capital market, said UTI AMC’s Rahman. “In India, passive funds are not popular, but active funds are popular and are generating good returns. Most active funds are giving 20-24 percent returns,” he said.

If India becomes a $5 trillion country, mutual funds will definitely have a 20 percent contribution, he said, and the industry can’t only grow only on passive funds. “There needs to be a combination of both. In this context, active funds will definitely continue to be popular.”

Creating Alpha

“If you see the data for the last five years, and see 20 fund managers, only three of them have created alpha,” Rahman said, referring to returns beating the comparable index. “We have charged fees to create alpha, but have not created alpha,” he said, adding: “Why do investors pay money to us? To create alpha.”

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