Business Standard

Re-evaluate investment if fund's nature changes

Ask yourself: if you had fresh money to invest, would the new or merged fund be your first choice?

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When an investor puts his money in a mutual fund scheme, she does so because the scheme fits well in her portfolio and helps her meet her financial goals. But if the fund house changes the nature of the fund, she needs to re-evaluate her investment carefully.

Reliance Nippon Life Asset Management has announced that it will merge Goldman Sachs CNX 500 Fund into Reliance Index Fund-Nifty Plan, and Goldman Sachs India Equity Fund into Reliance Equity Opportunities Fund. Baroda Pioneer (BP) Mutual Fund plans to change the nature of BP Infrastructure Fund to BP Large-cap Fund, and BP PSU Equity Fund to BP Mid-cap Fund.

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Several factors are driving the merger and conversion of schemes. The first is regulatory pressure. "Sebi doesn't want fund houses to have multiple schemes with the same mandate," says Sundeep Sikka, executive director and CEO, Reliance Nippon Life Asset Management. Budget 2016, by removing the tax liability for investors upon merger of schemes, has lent impetus to this trend. Also, when a fund fails to garner adequate assets under management (AUM), the fee that the fund house earns from it may not justify the cost of running it. All the four funds mentioned above have AUM of less than Rs. 100 crore. Finally, thematic or sector funds are launched when market conditions favour them. But if conditions change and these themes don't do well, fund houses close or merge them, or change their mandate.

Checks investors should run
Does the new/merged fund fit in your portfolio and help you meet your financial goal?
If the change in the fund's mandate disturbs your asset allocation, correct it
If you are being moved to an index fund, check whether it has a low expense ratio and a low tracking error compared to peers
If you are being moved to an active fund, check its track record, consistency, risk ratios, and expense ratio
Are you comfortable with the fund house?

When a fund's mandate gets changed, investors should evaluate the situation as if they are being asked to make a fresh investment in the new or merged entity. Consider GS CNX 500 Fund's merger with Reliance Index Fund-Nifty Plan. "The nature of the fund changes quite significantly here. The CNX 500 is a diversified index consisting of 500 large-cap and mid-cap stocks. The Nifty, by contrast, is a concentrated index of 50 large-cap stocks," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. Investors may stay invested in Reliance's Nifty fund for large-cap exposure and invest in another mid-cap oriented fund. Alternatively, if they want multi-cap exposure through a single fund, they may move out.

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As for GS India Equity Fund and Reliance Equity Opportunities, both are flexi-cap funds. But as Kaustubh Belapurkar, director-manager research, Morningstar Investment Advisor explains: "Reliance Equity Opportunities takes higher mid-cap exposure and also takes significant over- and underweight positions in sectors." He adds that if the investor is comfortable with Reliance Equities Opportunities' higher risk profile, she may stay invested in it as the fund has a good track record.

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Baroda Pioneer Mutual Fund is converting its thematic and sector funds into diversified equity funds with broader mandates. "Sector and thematic funds do well only in specific parts of the market cycle. Only investors with high risk appetite should invest in them, and then too only a small portion of their portfolio. The larger portion of an investor's portfolio should go into diversified equity funds," he says. He adds that investors should put their money in funds with a track record instead of going with new offerings.

Investors who decide to exit their fund should try to eliminate tax liability by doing so after a year. If the fund house gives a 30-day window when the investor can quit without paying an exit load (in case of fundamental attribute change), avail of it.