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Mutual Fund investors should wait and see until process is over: Experts

No need to rush for change in investments for now: Experts

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Written by **Sandeep Singh** | New Delhi | Updated: May 6, 2018 7:28:06 am

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Over the past few days, Mutual Funds in India have acted on the Securities and Exchange Board of India's (Sebi's) directive on rationalisation and categorisation of their schemes.

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There is a concern these days for Indian mutual fund (MF) investors. Over the past few days, MFs in India have acted on the Securities and Exchange Board of India's (Sebi's) directive on rationalisation and categorisation of their schemes and as a result, they have been changing the names of schemes, merging two or more schemes in the similar category into one and even changing investment attributes of the scheme.

E-mails from fund houses to the investors intimating them about the changes in the scheme have left many of them perplexed as to what does it mean and what do they need

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to do? While the exercise is still on and industry insiders say that it will take almost a month for the entire process of name change and scheme merger to be over, experts say investors should wait for the process to complete before digging into their portfolio of schemes for any change in their asset allocation.

“There is no need to worry or rush for change in investments. The change process is currently on and will continue for few more weeks. Once the industry is through with the changes, investors can look at all the schemes invested into and decide whether there is a need to move out from any scheme,” said Surya Bhatia, founder, Asset Managers, a Delhi-based investment advisory firm.

What are the changes?

Under Sebi’s new rules on “categorisation and rationalisation”, many schemes are undergoing name change and some are also seeing a change in the characterisation of the scheme as the rules call for one scheme per category and also mandates fund houses to change the fundamental attributes of the scheme in line with the name of the scheme. So, if a scheme is called a mid-cap equity scheme, it can now have investments only in mid-cap companies unlike in the past where such schemes also had some investments in large-cap companies.

Under the changes, a balanced fund will now become hybrid fund and a prudence scheme will become balanced advantage fund with flexibility to invest between 0-100 per cent in equity or debt. “It is a good change as far as the investors are concerned because now, by the name of the scheme, the investor knows where the fund is investing. It, however, takes some flexibility away from the fund manager,” said C J Goerge, managing director, Geojit Financial Services.

Experts say that essentially, there are four kinds of situations arising out of the recent exercise within the industry — a) No change for a scheme; b) Change in name but nothing else changes and the underlying remains the same; c) No change

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in name but the fundamentals of how the money is invested sees a change; d) Change in both the name of the scheme and fundamental attributes of the scheme.

“Investors need to deep dive into their mutual fund portfolio only if there is a significant change in the fundamental attributes of the scheme, such as if the scheme moves from being a pure large-cap fund to a large- and mid-cap fund or there is a change in debt-equity investment ratio,” said Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

He added that investors need not hurry in moving out of the scheme if there is a change in the attribute of the scheme. “Investors need to see if there are no exit load and tax implications from the aspect of duration of their investment in the scheme. If they need to stay invested for another few months to be eligible for long-term capital gains tax or to save on exit load, they should stay invested for now,” said Dhawan.

Are the changes significant?

Experts in the investment advisory fraternity agree that a change in the fundamental attribute of the scheme would need a close examination by investors and their advisors. “There will be some significant and meaningful changes. Now, if the scheme is named as small-cap scheme, it can only invest in small-cap firms and that holds true for mid- and large-cap schemes, too. So, investors will have to take a conscious call whether they want a pure exposure in any of these schemes,” said George.

Dhawan feels that investors will have to sit with their advisors and see how their asset allocation stands after the changes are implemented by the fund houses and accordingly restructure their portfolio. He, however, added that if the fundamental attribute of a scheme is not changing meaningfully then “investors should stay invested and not worry too much.”

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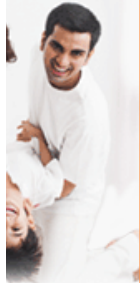
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There are some who feel that while there will be changes in the basic character of the scheme in some cases, it won't be too big as the fund house will be conscious not to change the nature of the scheme in a manner that leads to a major disruption. Another important change going forward for investors will be in terms of taking past return as the primary deciding criteria for investing in a scheme. "When the attributes of the scheme change then past returns can't be seen as an indicator for future investments till the scheme as operated with the new attributes for atleast a year or two," said an investment advisor.

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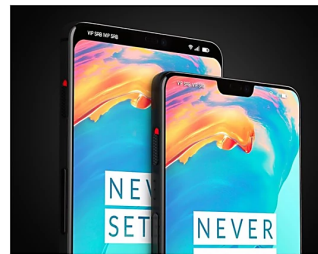
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