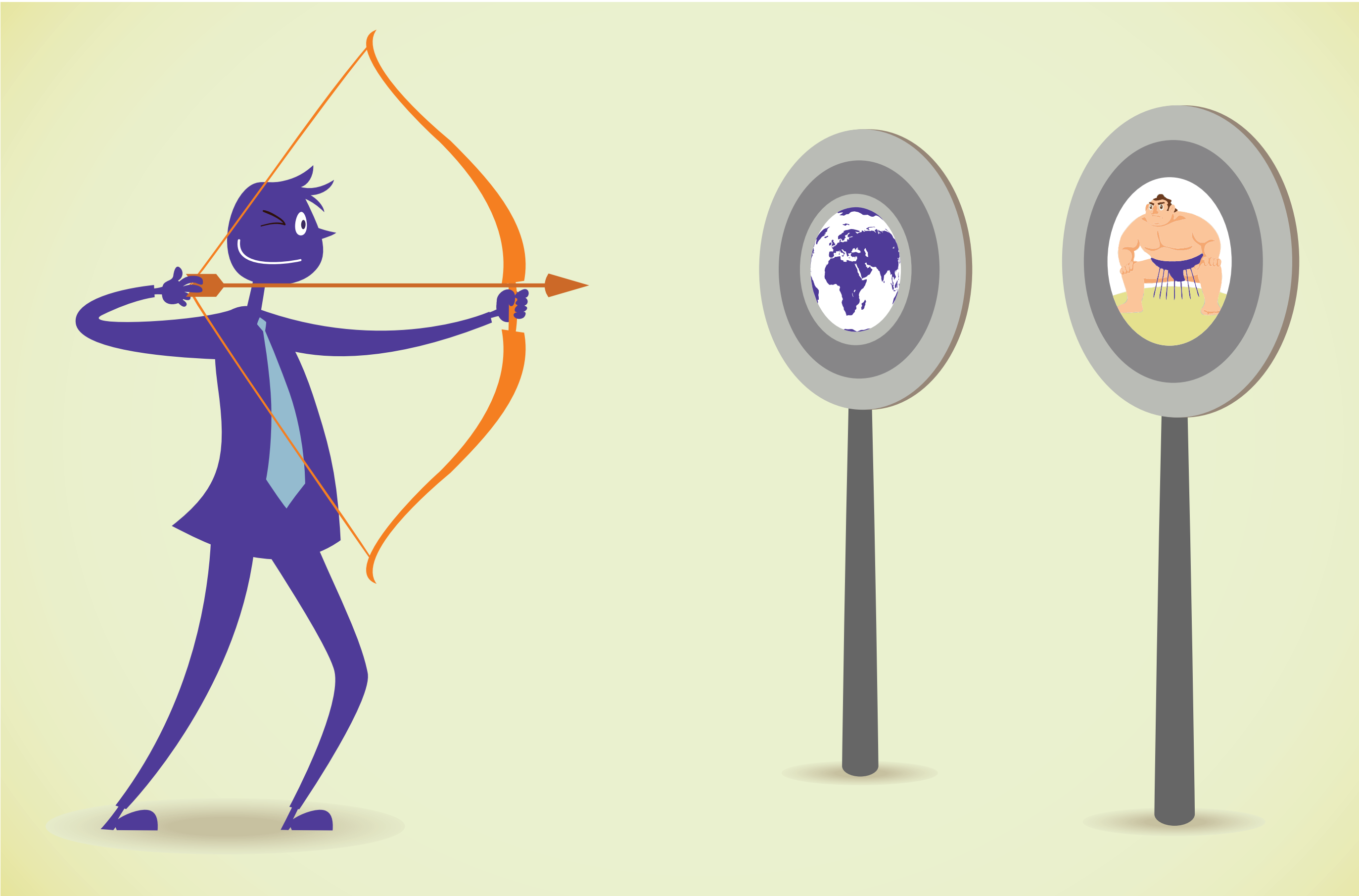
Should you venture abroad with these funds?

One of the two recently launched international funds takes asset allocation calls, while the other focuses on Japanese equities. Should they be a part of your portfolio?



SANJAY KUMAR SINGH

The Indian equity markets were very volatile between September 2007 and the first half of 2013. Fund houses launched many international funds during this period to allow investors to diversify beyond the domestic market. The process of enlarging the international bouquet continues with two recent launches.

DSPBR Global Allocation Fund

This fund-of-funds (FoF) will invest in BlackRock Global Funds-Global Allocation Fund. The mother fund was launched in 1997 and has an AUM of $105 billion. This FoF allows you to outsource the global asset allocation decision to a fund manager. "Based on valuations and the prospects of equities, the fund manager will decide how much to invest in equities and how much in debt and cash," says Vidya Bala, head of mutual fund research, Fundsindia.com. It also allows geographic diversification. "Different international markets do well in different years. It is difficult for retail investors to catch these uptrends. By investing in this fund, you allow the 40-strong fund management team to decide where to invest," says Pankaj Sharma, executive VP and head of business development and risk management, DSP BlackRock MF. The fund has a lower level of volatility than pure equity funds.

Diversify globally

NAME: DSP BLACKROCK GLOBAL ALLOCATION FUND

NATURE: FUND OF FUNDS-OVERSEAS

MOTHER FUND: BLACKROCK GLOBAL FUNDS-GLOBAL ALLOCATION FUND

RETURNS OF MOTHER FUND(%)

	YTD	1-yr	3-yr	5-yr	Since inception
BGF Global Allocation	0.31	14.26	16.63	13.54	10.97
Reference benchmark	2.71	17.52	19.77	16.48	10.02

Returns as on 30 June, 2014

Bet on Japan

NAME: RELIANCE JAPAN EQUITY FUND

NATURE: OPEN-ENDED FUND

NFO LAUNCH DATE: 8 AUGUST 2014

NFO CLOSURE DATE: 20 AUGUST 2014

One risk that the fund carries is that the fund manager has more calls to take: which asset class to go overweight on, and which geography to bet on. Any of those calls could possibly go wrong. Also, if the rupee appreciates against the dollar, the fund's returns will be affected. This fund should be used more as a diversification tool. "Those looking for very high returns may be disappointed," says Bala (*see returns table*). According to Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors: "This diversified fund with a long track record can serve as the first fund in your international portfolio." You may allocate up to 5% of your total portfolio to it.

Reliance Japan Equity Fund

For the first time in India you have a fund that gives you full exposure to the Japanese market. The fund has chosen the direct and not the fund-of-funds route. "The fund will rely on investment advisory services from Nissay Asset Management, the asset management arm of Nissay Life Insurance, Japan's largest life insurer. This will be supplemented by third-party research reports," informs Sundeep Sikka, CEO, Reliance Capital Asset Management.

To reduce risk, the fund will invest in 30 top stocks that meet the following criteria: the company must have a high market share and a competitive edge; the company's name and products must enjoy strong brand equity; earnings must be solid and stable; and growth potential must be above industry average.

The Japanese economy and its equity market are both third largest globally. Prime Minister Shinzo Abe's economic policies appear to be working and many experts are optimistic about that market's prospects. Valuations are also attractive currently. Owing to recent reforms in the country, more pension and household money may flow into equities.

Being a country-specific fund, the fund could potentially be more risky than a more diversified offering. If the rupee appreciates against the yen, the fund's returns could be affected. Investors should also be aware that prior to its current revival, the Japanese economy was in the doldrums for a long time.

Investors with a high risk appetite may invest in this fund. According to Dhawan, "Construct your international portfolio with a diversified fund first and then add a country-specific fund. Investment in this fund should be tactical, that is, invest if you are convinced that the Japanese market will do well and watch that market closely." You may allocate up to 5% of your equity portfolio to the fund.

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