Tata Balanced Fund offers 2.65% in one year. Is it time to sell?

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Tata Hybrid Equity Fund (erstwhile Tata Balanced Fund) has returned 2.65 per cent in the last one year. The scheme was severely underperforming its benchmark and category in the same period. It ranked 96 among 102 equity hybrid schemes available in the market. The scheme is lagging its benchmark and category even in two- and three-year periods. Is it time to dump Tata Hybrid Equity Fund?

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“The fund started underperforming in 2016. There was some improvement in 2017 but it’s still underperforming its peers in the category,” says Vidya Bala Head of Mutual Fund Research, FundsIndia. “Some of the equity calls didn’t work well for the season. The returns became volatile because of the exposure to long-term gilt. Wrong cash calls also pulled the fund down. So, the part that was to give you diversification and stability didn’t work for them,” Vidya Bala adds.

The scheme returned 7.36 per cent in three years, while the category offered an average return of 9.91 per cent in the same time. Some peer funds have offered 15 per cent returns in three years. The scheme has been on the watch list of many mutual fund advisors. Most of them were giving the scheme time to tide over the bad phase because of its impressive past performance. However, the scheme, which was known for its consistency in the past, seem to be struggling to regain its lost glory. No wonder, many mutual fund advisors have given up on the scheme.

Vishal Dhawan, Founder, Plan Ahead Wealth Advisors, had put the scheme on his watch list last year. He is now asking investors to move out of the scheme. “We wanted to give the scheme some time to come back. But with the continued underperformance of the scheme and changes in the fund management team, we think investors should move out of the fund,” says Vishal Dhawan.

FundsIndia.com has also removed the scheme from its recommended list of hybrid funds. “We have removed the scheme from our recommendation some time ago and we have also asked investors to stop fresh SIPs in the scheme,” says Vidya Bala.

Mutual fund advisors are unsure whether the scheme would stage a comeback in the near the future. "The fund management team has done changes in the portfolio but it is difficult to say if it will play out anytime soon. If a scheme underperforms for more than two years, I don't think investors can give it more time to perform," says Vishal Dhawan.

Advisors say the scheme recently reduced its exposure to long-term gilt to cut down the volatility in the debt part of the portfolio. “At this point, a hybrid fund has to go really low on duration to keep the volatility low. We might not ask all the investors to exit the fund. Some people might have exit loads, taxation impact, etc. But fresh investment should be avoided because the bounce back might take time,” says Vidya Bala. The scheme charges an exit load of 1 per cent on redemption within 365 days.

The fund manager of the scheme Pradeep Gokhale told ET.com Mutual Funds that the performance of the scheme has improved over the last six months owing to change in strategy. "On a six-month basis, the ranks have already started improving. What happened in 2017 was that we were relatively underweight on the consumer sector and the financial sector, particularly NBFCs, whereas we had a higher weightage of construction, public sector capex, cement and pharma. This had impacted the performance of the fund," said Pradeep Gokhale.

"In the last six months we have increased weights in the the consumer and auto sectors. Also, the construction sector, has now started improving as we have started seeing signs of execution picking up there as well. We also had lower midcap exposure relative to competition as we thought valuations were on the higher side, which impacted us in 2017 but it has started paying off. This has resulted in better performance in the last six months despite tough market conditions. Our bets on pharma did not do well in 2017. But we still have exposure to pharma that has now started performing."

Gokhle says he is hopeful that the fund will stage a come back in a couple of quarters. "The market also doesn't have the kind of momentum that it had last year. Our current stance is apt for this kind of market where earnings growth is better but macros are a bit challenging. The underlying portfolio of the fund is good. The quality of stocks is high. I would suggest that the investors who are investing in the scheme should stay invested. We are hopeful that the fund will perform good hereon," the fund manager said.

ET.com Mutual Funds had been closely following the scheme for the last two years. You can read our earlier stories here. You might want to read them, especially the fund manager interview, if you have investments in an erstwhile solid performer in the equity-oriented hybrid category.

Read the stories here: **Is it time to sell your investments in Tata Balanced Fund?**

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