'Look out for NFOs of international feeder funds'

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By Vishal Dhawan

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Many investors are still unclear about the impact the recent re-categorisation exercise had on their mutual fund portfolio. Sure, their inbox is full of mails from fund houses about the recategorisation and rationalisation of mutual fund schemes. However, since most of these communications are not exactly reader-friendly, many investors are still clueless about the significant impact the exercise had on their mutual fund schemes. No wonder, they also do not have a portfolio strategy in place.

As a result of the rationalisation and clearer demarcation of mutual fund schemes, possible opportunities created by equity market conditions, we have also been seeing a spate of New Fund Offers (NFOs) getting launched, with some high decibel advertising campaigns always accompanying these launches.
So, what should investors do now?

Track records still matter
Many investors and advisors believe that the track records of mutual fund schemes do not matter anymore. They argue that since many schemes are going to be managed differently, their record is not relevant anymore. We tend to differ.

We strongly believe that that track records still matter, as good and consistent track records get built on the back of strong investment processes and high quality research, which are still as relevant today as they were before the recategorisation.

Just like a good batsman adapts differently to a fast bouncy pitch and a slow spinning track, a good fund manager will adapt his style to the new mandate. That is why an existing fund with a good track record is still preferable to an NFO, where you are buying a promise of a great tomorrow. Do not get lured by a Rs 10 NFO being cheaper than an existing scheme - it is one of the oldest tricks in the trade to get you to buy something which you would not have invested otherwise.

Add passive index funds and ETFs
Active fund managers have been finding it more difficult to outperform indices net of expenses. It is going to become even more difficult, since performances of active funds are now measured against Total Return Indices. The re-categorisation further narrows the flexibility of active manager to make superior returns over the indices, net of cost. That is why we believe that passive strategies like index funds and ETFs should form a larger part of investor portfolios. We could be aligning ourselves to the international trend of passive strategies outperforming active strategies. Have at least a portion of your mutual fund portfolio in index funds and ETFs, and focus on costs.

Go international with portfolios
Our holidays are becoming increasingly international; our children are increasingly studying overseas. However, our mutual fund portfolios unfortunately continue to remain local.

We believe that true diversification of portfolios will only come when geographies are also diversified in portfolios. Look out for NFOs of international feeder funds - they may actually be good for your portfolios. The track record of the parent fund means that it is not really a New Fund Offer but an opportunity to buy into a strategy with a track record .

Your mutual fund portfolio strategy may need something fresh as a result of recent changes, not something new. Focus on Fresh Fund Offers instead of New Fund Offers.

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