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## Value focussed MF are cutting their exposure to Indian stocks. What about you?

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**Moneycontrol News**

A look at the gravity defying move of Indian bellwether indices such as BSE Sensex and CNX Nifty over past year makes one believe that it is time to celebrate. But the value investors in Indian markets are turning cautious. Mutual fund schemes that use value investing as a cornerstone for their asset allocation and portfolio construction have cut their exposure to Indian stocks.

Parag Parikh Long Term Equity Value Fund has cut its net investments in Indian stocks to 46.76% as of July 31 from 57.22% a year ago. Raunak Onkar, Co-Fund Manager (Equity), PPFAS Mutual Fund, drives home this point. â€œOn a percentage basis, the equity exposure has been reduced. Net exposure (excluding cash to futures arbitrage) to Indian stocks has not been cut, it has stayed the same in absolute terms. Whereas the international equity piece has grown a bit & there's an addition in cash levels,â€ he said. The fund invests more than 65% of the money in equity and equity related instruments.

Quantum Long Term Equity Value Fund too has reduced its investments in Indian shares to 79.5% from 82.27%. Among asset allocation funds driven by valuations of asset classes, Franklin India Multi Asset Fund has reduced the equity exposure to 29.05% from 41.34%. DSP Dynamic Asset Allocation Fund too has reduced its exposure to stocks to 20.18% from 42%.

While explaining about the changes in asset allocation of DSPDAAF, Atul Bhole, VP and fund manager, DSP Investment Managers says, â€œThe equity proportion of the scheme can vary between 10%-90%and depends on the Yield Gap Model which at its basic, takes into account differential between earnings yield of Nifty and the 10-year G-Sec yield. If we see on a year on year basis, equity yields have remained almost constant while fixed income yields have gone up from 6.46 to 7.77 (represented by the 10 year G Sec) which has made fixed income more attractive from a yield perspective and hence this warranted a cut in exposure to stocks from 40% to 20%.â€

As valuations climb, the funds have chosen to stay light on Indian stocks and exposure to bonds and arbitrage has gone up. Increased exposure to bond and bond funds are expected to reduce portfolio volatility.

Equity funds prefer to take cash-future arbitrage positions instead of purchasing bonds. This is done to comply with the regulatory necessity that equity funds have to invest at least 65% of their money into equity and equity related instruments. Cash-future arbitrage trades fall in this definition and technically allows the scheme to enjoy the tax status of an equity fund. When the fund manager takes the cash-future arbitrage position, he is effectively buying the share in cash market and simultaneously sells it in the futures markets. This helps him to pocket the price differential without taking risk of stock price erosion.

Asset allocation funds have an objective to generate healthy risk adjusted returns over longer term by investing across asset classes. â€œAsset allocation funds have a risk management mandate. They are likely to cut their exposure to risky assets such as stocks after a rally,â€ explains Feroze Azeez, deputy CEO, Anand Rathi Private Wealth Management. Over last one year CNX Nifty has given 17.37% returns. The standalone price to earnings ratio of CNX Nifty has gone up to 28.32 from 25.61 a year ago. Does that mean you should sell all your equity investments and go home? Not really.

â€œRisk and returns are the two sides of the coin. You have to measure the risk involved. Define how much marked to market risk you can take in the interim,â€ says Feroze Azeez. While investing a sum in equity with a five year time frame in the mind, even before you commit your money you should be clear about how much losses you are willing to tolerate. He recommends investing half of your money in large cap funds and rest in mid cap funds if you have a time frame of five years. â€œIt makes sense to invest in mid cap oriented funds given the recent correction,â€ says Feroze Azeez.

You have to keep in mind your financial goals and asset allocation too. For the financial goals that are five years away and more, you may consider investing in equity mutual funds and aggressive hybrid (erstwhile balanced) funds. Longer the time frame better it works.

â€œThere is a tendency to chase the better performing asset class,â€ points out Vishal Dhawan, founder and chief financial planner, Plan Ahead Wealth Managers. Short duration bond funds as a category have given 4.5% average returns over past one year. Large cap equity funds delivered 13% returns, over the same period. Returns in recent past makes trend followers to increase the allocation to stocks as compared to bonds. More investments in equity funds will further skew the allocation in favour of stocks. â€œOne should instead rebalance his asset allocation taking into account his stated asset allocation. After taking into account long term capital gains and exit loads one may want to allocate more to bonds by reducing exposure to stocks,â€ says Vishal Dhawan.

At this juncture asset allocation should be the guiding star for the investor over market sentiment. Even if you are starting your investment journey and your asset allocation demands investments in stocks, avoid making lumpsum investments. Dhawan advises sticking to systematic investment plans (SIP) or systematic transfer plans (STP). Though lumpsum investment has scored better returns over SIP and STP in recent past, the investors should not ignore the timing risk.

â€œEquity investors should lower their return expectations compared to the year gone by, owing to high valuations of many good quality businesses,â€ said Onkar.