livemint

CAMS data shows arbitrage and debt fund exodus, steady equity flows

- Equity funds (including ELSS) received a net inflow of ₹10,144 crore in the month of March, almost in line with 10,795 crore flows received in the month of February
- The numbers look quite encouraging given the fact that equity markets registered their worst ever monthly fall in the month of March

Data from CAMS up to 27th March showed huge outflows from arbitrage and debt funds even as net flows into equity funds held up. Arbitrage funds lost about 37% of their assets under management in March while equity funds saw inflows similar to what they received in February which was an 11 month high. The CAMS data was not released officially, but confirmed by independent sources to Mint.
Arbitrage Funds witnessed an outflow of ₹32,760 crores up to 27th March. At the end of February the category had an AUM of ₹85,360 crores meaning that about net outflows amounting to about 37% of the category have occured. Tata Mutual Fund and ICICI Prudential Mutual Fund temporarily closed themselves for fresh subscriptions in their arbitrage funds in late March.
A note put out by ICICI Prudential Mutual Fund stated the narrowing arbitrage spreads as the reason. However Radhika Gupta, CEO, Edelweiss Mutual Fund took a contrary view. “We have always believed in arbitrage funds as a great category for medium term investments.
A few days of negative returns created panic in this space - which is unfortunate. Even at that time, when other funds were giving exit calls and closing subscriptions, we put out two notes to clarify facts and in fact told investors that everything will settle down.
This has proved true as roll spreads came back to good levels very quickly. The redemptions in this category are unfortunate and we believe a few days of activity in any fund under such unique market conditions do not call for an exit call in a category - the churn only hurts investors," she said. Dilshaad Billimoria, a Bengaluru based SEBI Registered Investment Advisor concurred.

"We have a positive outlook on arbitrage funds. In February we suggested the category to a number of clients. Typically we recommend these types of funds to clients who have financial goals that are 2-3 months away. We have not seen any panic redemptions in this space," she said.

Equity funds (including ELSS) received a net inflow of ₹10,144 crore in the month of March, almost in line with 10,795 crore flows received in the month of February. The numbers look quite encouraging given the fact that the equity markets registered their worst ever monthly fall in the month of March. The equity market bellwether index, S&P BSE Sensex, has corrected 26% as on 30 March 2020. People have continued with their SIP investments and have also invested lumpsum to benefit from the attractive valuations. Suresh Sadgopan, founder, Ladder7 Financial Advisors , said that "Investors are anxious about the economy shutting down and equity markets not doing well but the same has not resulted in redemption as of now. Most of our clients are continuing with their SIPs." "However, if the correction continues we can't really say how investors will react." he added.

Experts believe that the numbers may not be as encouraging in the month of April, the equity markets don't recover. "The March numbers are encouraging as in the initial part of the correction, people with cash invested in the equities out of greed. However, that greed has turned into fear now as the markets corrected further and despite the valuation looking more attractive, they are not willing to invest more," said Vishal Dhawan, founder, PlanAhead Wealth Advisors.

"Now people are concerned about their own income and cash flows amid the lockdown. Therefore, people who are in industries which are directly impacted by the Coonavirus outbreak such as travel and tourism etc may stop their SIPs going forward or may have already done. The impact of which we may see in the month of April" he added.

The category of tax saving funds have continued to see dismal flows when compared to previous years. The net inflows for the month of March were ₹1095 crore, 60% lower than ₹2,742 crore flows received in the March 2019. Experts believe, poor performance of the tax saving funds as well as the change in budget, that doesn't allow an investor to claim 80C deduction, if the person opts for the new tax regime with lower slab rates, could be the reason for the poor flows in tax saving funds.

Short Term Income Funds also saw a net outflow of ₹23,000 crore. The short duration category had a size of ₹1,04,679 crore at the end of February, although there is some uncertainty about whether the outflow number also includes money moving out of low duration, money market and other similar categories. However debt fund managers were sanguine about the industry being able to meet liquidity requirements in this category. The RBI has not opened a dedicated window for debt mutual funds but it has launched a Targeted Long Term Repo Operations (TLTRO) programme in which banks can borrow cheaply from the RBI and invest money in corporate debt, including secondary market corporate debt. "I believe there will be good appetite from the banks for corporate bonds under the TLTRO programme of the RBI. The spreads between the money they will be getting from the RBI and the corporate bond yields are substantial. The money will first flow into short term paper and then 3 and 5 year paper. I don't think there is an alarming liquidity situation in respect of debt funds," said Dwijendra Srivastava, CIO Fixed Income, Sundaram Mutual Fund. Mahendra Jajoo, Head Fixed Income Mirae Asset Mutual Fund expressed a similar view. “"Most of the redemptions that had to happen due to year end payments have already happened. I think the situation may improve from here on. The TLTRO programme has given confidence to the market and yields have subsided, even though they are above their all time lows," he said. However he added one caveat. “Credit is a whole different story and if there are any repayment doubts about an issuer, I don't think that paper will be picked up by the market," he added.