



## How should you choose the right international fund?

Each global fund has a different risk-reward level associated with it

**Nikhil Walavalkar**



International funds have topped the charts in terms of returns delivered by equity schemes of all hues. These funds gave one-year returns of 16.29 per cent on an average, compared to a mere 0.51 per cent managed by large-cap equity schemes, according to Value Research. Clearly, good returns are attracting investors to the virtues of global investing. The best-performing international fund gave a return of 65 percent in the past one year. Twenty-four funds gave a one-year return in excess of 10 percent. But seven funds actually made losses. What's the lesson? Not all international funds are the same.

## **Not just FAANG**

If you are under the impression that investing in an international equity fund means indirectly owning a portion of Facebook, Amazon, Apple, Netflix and Alphabet (erstwhile Google) – or popularly referred to as the FAANG stocks – then you are mistaken.

All international funds do not invest in the US. You get many options that invest in various countries, regions and sectors or themes. These schemes are focused on stocks listed in the US, Japan, Brazil and China. You can also invest in European, emerging market or Asia-pacific stocks. You can pick schemes that invest in shares of agriculture, energy or gold mining. Each of these has a different risk-reward associated with it.

Schemes investing in shares of gold miners did well whereas schemes investing in emerging markets especially in commodity focused economies faltered. For example DSP World Gold Fund gained 65.31 per cent in the last one year. Over the same time frame, HSBC Brazil Fund lost 23.41 per cent. Brazil has the second highest number of Coronavirus cases in the world.

International funds have Rs 7,100 crore worth of assets under management. Among the top five in terms of assets, four are invested in US stocks and manage a Rs 4284 crore portfolio. Prateek Pant, co-founder and head of products and solutions, Sanctum Wealth Management recommends diversifying overseas fund investments across US, Europe, as well as emerging markets.

Sankaran Naren, executive director and chief investment officer of ICICI Prudential AMC told Moneycontrol that the [upmove in US stock prices](#) is nearing a peak.

Investors should look at overseas investing as a means of diversification.

## **Diversification over returns**

Overseas investments let investors tap businesses that are not available in Indian stock markets – internet search engines, e-commerce, social media, electric vehicles, semiconductors etc.

Not all economies grow or shrink simultaneously.

“Investors should consider investing in international funds for diversification,” says Vishal Dhawan, Founder and Chief Financial Planner, Plan Ahead Wealth Advisors. Instead of getting carried away by short term past performance, investors should have a time frame of more than five years.

If you build a portfolio of un-correlated investments, then there is a high possibility that you will pocket healthy risk-adjusted returns over the long term.

### **Diversified vs sectoral schemes**

Diversified offerings are perceived to be less risky. Sectoral offerings such as DSP World Gold Fund can be highly rewarding for the investors if they can time the entry and exit right. But these are not for naïve investors.

PGIM India Global Equity Opportunities Fund feeds into PGIM Jennison Global Equity Opportunities Fund. The underlying fund invests in a concentrated portfolio of around 35-45 stocks or American Depository Receipts (ADR) of companies around the world including names such as Amazon, Apple, Adyen, Shopify, Tesla and Netflix. The fund has given 50.77 per cent returns in the last one year.

As with domestic funds, diversified international schemes, particularly those focused on the US are better.

### **Active or Passive**

Investors can look at passive options such as index funds tracking stock indices in overseas markets. You have index funds tracking S&P 500, Nasdaq and Hangseng. “In developed markets, given the information efficiency, it is relatively difficult to outperform the

benchmark indices consistently over the long term. Hence, for equity investment in developed markets such as the US, it is preferable to invest through Index funds," says Nitin Shanbhag, head- investment products, Motilal Oswal Private Wealth Management. In April 2020, Motilal Oswal had launched an index fund that tracks the S&P500 index.

Active funds can work better for investors looking to invest in emerging markets.

"Investors should consider deploying up to 10 per cent of their surplus to international equity schemes through a systematic investment plan or systematic transfer plan," says Dhawan. Make sure you stick around for at least five years. Global funds are treated like debt funds when it comes to taxation. Gains on units held for more than three years are taxed at 20 per cent after indexation.