livemint

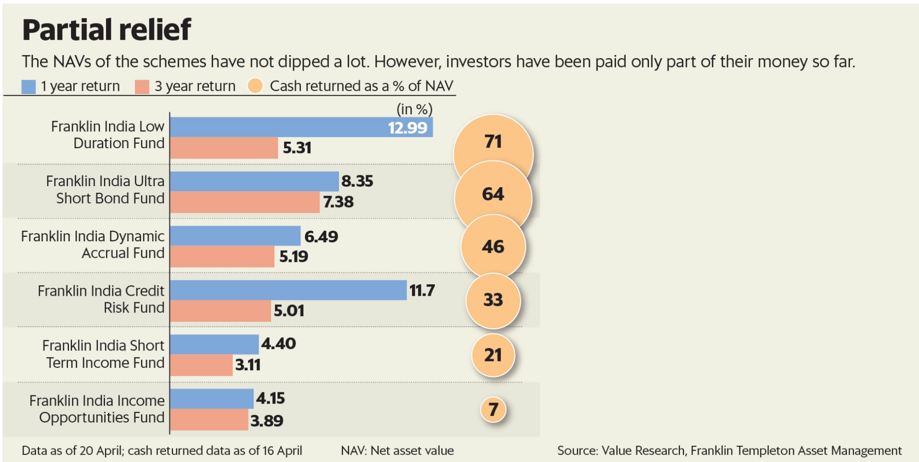
FT's debt investors see year of pain, with silver linings

Neil Borate

It has been a year since the shock freezing of six debt mutual fund schemes of Franklin Templeton Asset Management (India) Pvt. Ltd on 23 April 2020. Post the freeze, investors in the schemes had to deal with almost a year of uncertainty about when they will recover their money.

Various cases related to the freezing, particularly on the matter of whether investor consent is a precondition for winding up, made their way through the courts. A winding-up vote was finally held in December 2020 and investors gave their consent.

This was followed by a Supreme Court order to start distributing the accumulated cash in February. So far, out of the roughly ₹26,000 crore that was wound up, investors have received ₹12,084 crore in cash (₹9,122 crore in February and ₹2,962 crore in April).



The apex court also appointed SBI Funds Management Pvt. Ltd to dispose of the assets in the schemes and oversee the distribution of the money received, thereby bridging the trust deficit for investors who were sceptical of winding up by Franklin Templeton itself.

Amid a difficult year for Franklin investors who have been deprived of access to their own money, there are a few silver linings. The net asset values (NAVs) of the schemes have not dipped significantly due to defaults or downgrades, with defaults by Future Group firms in September 2020 being a notable exception. Investors on aggregate have been paid around 46% of their money so far, although the recoveries vary from scheme to scheme *(see table)*.

SBI Funds remains confident of disposing of most of the Franklin assets over the next couple of months despite the second covid wave, its CEO Vinay Tonse told Mint in a recent interview.

If only a small fraction of illiquid papers remain, a move by Franklin to take them on its own books may provide closure on the matter to investors as the asset management company had done with debt papers of JSPL in 2016.

"We are confident that the portfolio investments remain sound and can be monetized at a fair value given appropriate time under normal market conditions. We are, however, not in a position to make any forward-looking statements with regard to the monetization," said a spokesperson for the fund house in response to a Mint query.

A heated debate has broken out among industry experts over whether investors should exit the remaining Franklin schemes (other than the six debt funds being wound up). The AMC retains around ₹60,000 crore of such assets and funds with large brand recognition such as Franklin India Bluechip and Franklin India Prima.

Prime Investor, a mutual fund research portal, asked investors to exit these schemes on 7 April. On the equity side, it pointed to underperformance in the past few years, which saw a concentrated rally in the stock market.

According to Prime Investor, the past year saw a catch-up by Franklin Templeton, which broadly follows a value style of investing, but the catch-up was not strong enough.

On the debt side, a loss of investor confidence can trigger panic and spark redemptions in schemes other than the six being wound up. This can force the affected schemes to sell highly rated holdings to meet redemptions, Prime Investor pointed out.

Alternatively, it can force the fund house to hold a large amount of cash to meet such an eventuality and this eats into returns, the research portal noted.
Prime Investor also expressed concerns about the exit of managerial talent from the embattled fund house.

A Franklin Templeton spokesperson, however, dismissed these concerns. “We have a stable and experienced portfolio management team. The emerging markets India equity team possesses over 20 years of experience in successfully investing in the Indian equity market. The team members have average industry experience of approximately 16 years and seven years of service with the firm," he said.

However, the picture on the ground is mixed. While senior fund managers have stayed put so far, the fund house has seen senior-level exits in its marketing team. Media reports also suggest a possible exit of the fund house from the country with the business being sold to a competitor or wound up.

“Franklin Templeton’s commitment to India remains steadfast. We were early entrants in the Indian mutual fund industry and have remained a part of the industry even while many other global asset managers decided to leave. We have no plans to exit our India business and any speculation suggesting otherwise, or any rumours around the sale of our business in India are incorrect and simply that—rumours," said a Franklin Templeton spokesperson in response to a Mint query on the subject.

Other experts have taken a more measured view. “Take a scheme-specific call. For example, if you are comfortable with the growth style of the Franklin US Opportunities Fund, there is no reason to exit because of events in India. Similar is the case with their other equity funds—exit if there is sustained underperformance and not otherwise," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

“As for fund house risk, the asset size is so large that a sale to another AMC is more likely than a wholesale exit and return of money to investors. If this actually happens, you can make a decision at that point rather than now based on who they are selling to," he said.

Kaustubh Belapurkar, director - fund research at Morningstar Advisor India, drew a distinction between existing and new investors.

“On the equity side, if you are an existing investor, redeeming at this point would be premature. The judicial process is still on and the equity team continues to be stable, with the funds being run with a consistent style. If there are any team changes in the future, you can look at this question then. New investors may want to look at other options till there is greater clarity on the ongoing issues," he added.