A new US-focused mutual fund has been rolled out: Should you invest in it?

The IDFC US Equity fund of fund will deploy money in the JP Morgan US Growth Fund.

JASH KRIPLANI AUGUST 02, 2021

IDFC Mutual Fund (MF) has rolled out its first international scheme. The new IDFC US Equity Fund of Fund (IDFCUS FoF) will invest in the JP Morgan US Growth Fund (JPMUSG), which manages investor assets of $1.8 billion.
The new fund offer (NFO) is open for subscription between July 29 and August 12.

The scheme

The fund will invest almost its entire corpus in JPMUSG, which is an actively-managed mutual fund scheme investing in stocks listed on US exchanges. The top-holdings of this fund include Alphabet (Google), Apple, Microsoft, Facebook and PayPal.
JPMUSG is benchmarked against the Russell 1000 Growth Index.

What works?

An analysis done by IDFC MF using the past five years' market movements shows that a portfolio with 20 percent investments in the Russell 1000 Growth Index has outperformed a portfolio fully invested in the Nifty 50. At the same time, it is able to do so with a lower volatility.
Vishal Kapoor, chief executive officer of IDFC MF, says the reason the fund house decided to go for a US fund was because large US companies have revenues coming from several geographies. "Over 40 percent of the revenues in a portfolio of US equities can come from non-US regions," he says.
He adds, "Indian investors still have just two percent allocation to international funds. So, we felt that Indian investors should be first given the option of an actively-managed diversified international fund, and our research indicated US markets are the best proxy for international diversification."
Several new funds that have been launched give international diversification, but quite a few of these are sectoral or theme-based.

Other factors that prompted IDFC MF to launch a US fund, Kapoor says are resilience shown by US markets in past, high earnings visibility, innovation of US companies, growing number of new investment themes, and US alone being 25 percent of global GDP.

Data shared by IDFC MF shows that the underlying fund JPMUSG has given 4.6-5 percent higher returns than its benchmark in three-year and five-year periods, respectively.

"An actively-managed fund has the advantage of going overweight on some stocks. For example, the fund is currently overweight on beneficiaries of the economy reopening and underweight on technology stocks, which ran up last year. It can also invest in stocks outside its benchmark," Kapoor says.

What doesn't work?

While data shared by the fund house suggests JPMUSG has done well against its benchmark in recent periods, Vishal Dhawan, founder and chief executive officer of Plan Ahead Wealth Advisor points out that it has generally not been easy for active funds to outperform benchmark indices in the US.

"When investors move out of their comfort zone, i.e., their home country, and invest in an overseas fund, we prefer that they do not take fund manager risk," he says.

As mentioned earlier, JPMUSG is underweight on the technology sector, with exposure of 38.8 percent compared to its benchmark, which has a weight of 46.6 percent.

On the other hand – S&P 500 – the other popular US benchmark has a weight of 27.6 percent to technology.

So, if technology sector starts to decline after its COVID-19 rally, JPMUSG may fall less than its benchmark, but may fall more than S&P 500.

Kapoor points out that ETFs tracking the Nasdaq are more exposed, as it has about 50 percent weight to technology stocks.

Dhawan also says that JPMUSG is a growth-style fund and if value stocks do well, it may underperform the value-oriented indices in US.

Also, as IDFCUS is an FoF investing in an overseas fund, it will get treated as a debt fund for taxation purpose. Investors wanting lower rate of long-term capital gains (LTCG) tax will have to wait for three years for 20 percent LTCG tax, with indexation benefit (inflation-adjusted gains).
IDFCUS is the 12th US-focused international fund in the MF industry. Though, to be fair, all US-focused funds are not the same; some are diversified, some invest just in technology companies, some are active and others are passively-managed.

Moneycontrol’s take

A US-focused fund is a good way to start your international investments. And a fund such as the JPMUSG that comes with a good track record is a good vehicle to go with. Just remember that there is a fund manager risk involved.

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