

Global innovation funds are for savvy investors, say analysts

Invest in a diversified global fund before taking limited exposure to a thematic offering

Sanjay Kumar Singh Last Updated at September 2, 2021 00:49 IST

Innovation, by its very nature, is a risky theme, since many companies tend to fail



Now that most fund houses have their diversified international offerings — both active and passive — in place, some of them are launching thematic funds. One theme that has become available recently is global innovation.

Axis Asset Management Company's (AMC's) fund was launched in May. Kotak AMC's, in July. Both are fund-of-funds (FoFs).

While the Axis Global Innovation FoF invests in London-based Schroder International Selection Fund Global Disruption, Kotak Global Innovation FoF invests in Luxembourg-domiciled Wellington Global Innovation Fund.

IIFL and Tata AMCs' applications for the launch of such a fund are with the regulator.

Access to disruptors

These funds will give Indian investors a chance to invest in companies that are at the forefront of innovation and are industry disruptors.

"We use the products and services of many of these innovator companies, but have so far not been able to benefit from their business growth. Indian investors will now be able to do so through this fund," says Harsha Upadhyaya, chief investment officer-equity, Kotak AMC.

These funds offer investors a chance at outsized gains.

"Many of these innovators may not survive, but those that do tend to be large wealth creators," says Upadhyaya. Amazon being a prime example.

The pace of technological change has been accelerating in recent times.

"Many of these newly-emerged players are game changers. From an investment perspective, investing in successful disruptors is a good way to capture growth," says Ashwin Patni, head-products and alternatives, Axis AMC.

Both these funds are not confined to the technology (tech) sector alone. They offer investors diversified exposure to sectors like health care, biotech, financial tech, environment, consumer lifestyle, automation in manufacturing, and so on.

The fund managers have tried to control risk.

"The fund managers at Schroder have included many established players in the portfolio, besides upcoming ones," says Patni.

Both these funds are not just US-focused, but will invest in innovators across the globe. The mother funds have a sound track record.

"Innovation will lead to investments in growth-oriented businesses, which is what Indian investors prefer," says Vishal Dhawan, chief financial planner, PlanAhead Wealth Advisors.

Innovation entails risk

Innovation, by its very nature, is a risky theme, since many companies tend to fail. Big Tech has done well in the US this year, and that has provided a tailwind to the performance of these funds.

“When there is a shift-back to the old economy stocks, this theme may not do as well,” says Dhawan.

Moreover, both the mother funds — from Wellington and Schroder — do not have a long track record (four years-plus and a little less than three years, respectively).

Investors need to be mindful of costs.

“In an FoF, the investor has to pay the expense ratio of both the feeder fund and the mother fund,” says Arvind Rao, certified financial planner and founder, Arvind Rao & Associates.

They will be more expensive than many international index funds and exchange-traded funds (ETFs) available now.

“Alpha generation will have to be higher to justify their costs,” says Dhawan.

To tap into the innovation theme, they will have to invest in mid- and small-cap stocks, which could add to their volatility.

Who should invest

First-time investors in international equities should opt for an ETF or index fund which will offer them low-cost, diversified exposure.

Savvy investors may go for such thematic offerings. Rao suggests that if an investor puts Rs 100 in equities and Rs 20 of it goes into international funds, then Rs 5 (or 25 per cent of his international exposure) may go into a thematic offering.

Finally, avoid extrapolating recent returns in the future. And if you enter into these funds, do so with a horizon of at least seven years.

Why invest in international funds

- For geographic diversification, so that one's portfolio performance is not entirely dependent on the Indian market
- Investing in markets with low correlation will reduce overall portfolio volatility
- Exposure to sectors and themes not available in India
- Hedge against rupee's tendency to depreciate against hard currencies like the US dollar
- To make it easier to meet financial goals denominated in foreign currencies, like a child's higher education in a foreign university, or a world tour
