What HSBC's acquisition of L&T MF means for investors

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HSBC intends to merge the operations of L&T MF with its existing business in India

HSBC Asset Management Company and L&T Finance Holdings recently entered into an agreement that the former will buy the mutual fund unit of the latter. Going ahead, HSBC intends to merge the operations of L&T Mutual Fund with that of its existing asset management business in India.

Here, we look at what it means to existing investors in both funds.

Option to exit

L&T Mutual Fund has 27 actively managed funds—10 in equity, 13 in debt and four in hybrid category—with L&T Triple Ace Bond (corporate), L&T India Value and, L&T Emerging Businesses Fund (small cap) being the top schemes in terms of assets being managed.

HSBC Mutual Fund is comparatively a small fund house with eight schemes each in equity and debt category and two in hybrid. The fund house also has a few fund of funds investing in overseas/domestic markets.

Both the AMCs currently have about 17 schemes in common.

But post Sebi's scheme categorization rules, mutual funds can have only one open-ended scheme in each category.

Thus, once L&T MF is acquired by HSBC, the overlapping schemes of L&T will be merged with similar schemes in HSBC or vice versa, for which we do not have substantial information at this point of time.

Post that, one scheme from either of the fund houses ceases to exist.

The investors of the scheme that is getting merged will be issued units of the scheme with which the former is merged. Say, if L&T Flexi Fund gets merged with HSBC Flexi cap, investors in the former will be given units of the latter.

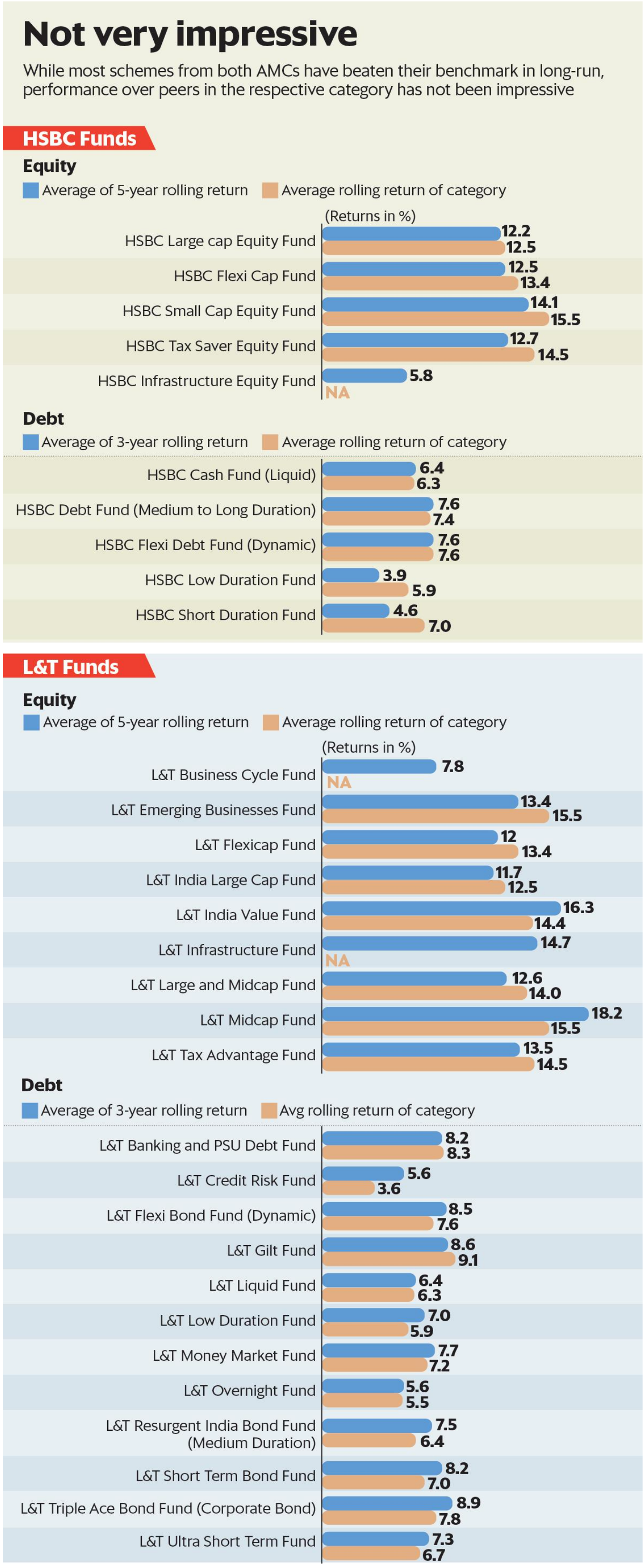
But before that, investors will be given a notice of the proposed changes and the option to exit the scheme at the prevailing net asset value (NAV) without paying exit loads, if they do not want to continue with the new scheme.

Note that both the fund houses provide an ELSS (equity-linked savings scheme), or tax-saving scheme that comes with a lock-in of three years. Those with investments within the lock-in period may not have an option to exit but to stay with merged scheme.

How they fared

For assessing the performance, equity and debt funds with only five- and three-year NAV history respectively is considered. And, whenever return is referred to, read it as average of the daily rolled returns for the said period.

As per data from PrimeInvestor, the five-year return of almost all equity funds, except business cycle fund of L&T's and infrastructure fund of HSBC's, has been better than their benchmark. However, the performance of both AMCs over peers in the respective category has not been impressive in the five-year period. HSBC's funds from large, flexi, small and tax-saver schemes' five-year return lagged against average category returns by 20-180 basis points. Similar funds from L&T MF lagged their category's returns during the said period by 70-210 basis points.



Equity and debt schemes only with 5-year and 3-year NAV history respectively are considered
3-year returns are rolled daily over a period of 3 years. 5-year returns are rolled for a period of 5 years.
Source: PrimeInvestor

L&T Value and L&T Midcap funds have only been the outperformers from the lot for the AMC in the equity segment in terms of five-year average rolling return.

However, L&T MF contained downside better than HSBC. We considered minimum return metric from PrimeInvestor, which gives the lowest return generated in the rolling period chosen. This can be indicative of a fund's ability to contain downsides or losses.

For example, the minimum five-year rolling return in the past five years for the infrastructure fund of L&T has been -1.5%. But, it is -12.7% for HSBC's fund in the same category.

Even in the debt category, L&T Mutual Fund scored better with higher returns compared to the category average in the three-year period.

What should investors do now?

Experts believe that investors in both the fund houses can wait to see how HSBC decides to manage each fund after the merger.

The acquisition transaction should not automatically trigger an investor to do something, said Vishal Dhawan, CEO & founder, Plan Ahead Wealth Advisors.

"Different approaches can be taken on how these funds will get managed in future. It is too early for the decision to be made at this point of time. The right time would be after six months from completion of the integration process," Dhawan added.

Not just the existing investments, even the ongoing investments such as SIPs or STPs too in to these funds require no change in strategy based on the announcement of merger, according to Dhawan.

Addressing L&T MF investors' worries on how their investments will fare after the acquisition by HSBC MF, Dhirendra Kumar, CEO, Value Research, said, "L&T MF is the larger fund house and I expect that its fund managers will be retained by and large. So, I don't think there is much to fear from a fund manager exit point of view."

The cloud of uncertainty that has hanging over the sale of L&T MF for the past few years has also finally gone and this is again, a net positive for its MF investors," Kumar concluded.

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