

FMPs are back, but face stiff competition from target maturity schemes

Fixed maturity and target maturity schemes are similar except that one is closed-ended and the other is open-ended.

Abhishek Kumar Jul 28, 2022



Mutual funds are coming out with fixed maturity plans (FMPs) as hardening yields have made the category attractive again. However, analysts, RIAs and MFDs say they are not very keen on the product given that the market has a similar offering in target maturity funds (TMFs) but with added advantages.

FMPs and TMFs are similar products — they come with fixed maturity and hence the returns are predictable. The biggest difference between the two is liquidity. While FMPs are closed-ended, TMFs are open-ended.

"Target maturity funds have a few advantages. One is liquidity. Unlike FMPs where you need to find a buyer in the secondary market if the need arises, TMFs can be sold directly to the fund house," said Vishal Dhawan of Plan Ahead Wealth Advisors.

With TMFs, there's also more clarity as investors can look at the portfolio composition and past performance. The passive structure also removes the fund manager risk. "In FMPs, not much is known before investing. In target maturity, you can see the portfolio and make a more informed decision. Since TMFs are designed like an index fund, the portfolio remains similar throughout," said Rahul Jain, Senior VP Research at International Money Matters.

However, the liquidity in TMFs comes at a slight cost — the NAV is prone to fluctuations due to regular inflows and outflows. The returns may see an impact if the redemption is made before maturity.

Losing sheen

FMPs have been losing sheen for quite some time now. The AUM of the category went down to Rs. 15,620 crore in June 2022 from Rs.93,000 crore in May 2020.

While FMPs lost sheen after the change in taxation norms in which the holding period to avail long term capital gains tax benefits was extended, introduction of TMPs, volatility in the debt market due to series of credit events and interest rate changes added to its woes despite having a close end structure.
