

Contra funds break trend

Analysts say they are behaving like equity diversified schemes

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Mumbai, May 31

Contra funds, which in the last five years have given high to very-high returns, may not be sticking to their investment policy, say analysts.

Contra funds have an investment policy of going against the tide. They invest in sectors and stocks that may underperform in the short-term but have high potential in the medium to long-term.

However, fund analysts say that these funds are no longer following this mandate and are behaving like any other equity diversified scheme and, therefore, may be on their way out.

Between 2005 and 2007 various fund houses launched contra funds. But after 2007, no contra fund has been launched. J M Contra Fund, which was launched in 2007, merged with JM Multi Strategy Fund on April 1.

Today there are seven con-

Mixed show				
Fund	1 Month	6 Months	1 Year	5 Years
SBI Magnum Sector Funds Umbrella - Contra - Growth	-5.38	-7.36	3.48	11.47
Kotak Contra Fund - Growth	-5.10	-10.36	1.75	8.24
Religare Contra Fund - Growth	-4.91	-4.33	6.88	NA
Tata Contra Fund - Growth	-4.02	-0.61	16.37	9.87
ING Contra Fund - Dividend	-2.68	-9.12	0.07	10.56
UTI Contra Fund - Growth	-6.14	-8.71	-0.08	6.58
L&T Contra Fund - Growth	-6.02	-6.98	5.60	-0.22

tra funds in the industry. Of these, SBI Magnum Contra Fund, which was the first contra fund to be launched, has since inception (1999) given 17.20 per cent in annualised returns. However, last six-month returns for the fund were -7.36 per cent.

Tata Contra Fund, which has since inception in 2005 given 10.96 per cent annualised returns, has been the top performing fund in the 1-year, 6-month and 3-month categories (see table).

“There is generally a mistaken belief that contra funds invest in stocks of godforsaken companies,” said Mr Bhupinder Sethi, Co-Head-Equities, Tata Asset Management and fund manager of Tata Contra Fund. “Principally, we buy into growth companies early when they are under-owned and under-appreciated, buying them when they go through lean patches, or buying them when they are hit by company specific bad news, which is temporary in nature, enabling an

investor to buy them cheap.”

However, it must be noted here that during the last 1-month and 6-month periods, all the contra funds gave negative returns.

Fund analysts are of the opinion that difficult markets may have prompted the fund managers to review their investment mandate. These funds have over time started to behave like any other equity diversified fund.

According to a report on contra funds by Morningstar, most of the popular sectors among diversified equity funds — industrial materials (capital goods), financial services, consumer goods, technology and energy — are also the most owned sectors in the portfolios of contra funds.

For the seven contra funds, banking, petroleum, gas and petrochemical products and software and consultancy services are the top three sectors with around 10 per cent or

more of their AUMs invested in each of these sectors.

“Fund managers would typically ask investors to wait for contra-picks to generate returns. But the point is that when you don’t have contrapicks in the portfolio, what returns are you talking about? In India they are not sticking to their policy,” says Mr Dhruva Raj Chatterji, Senior Research Analyst, Morningstar.

Most of these funds also have invested in those stocks that can be typically called large or mega-caps, featuring big names such as Reliance Industries, ICICI Bank, HDFC Bank, ONGC, ITC and Infosys.

The report from Morningstar also says that the so-called contrarian picks of these contra funds are not so evident in their current portfolios. A few funds have taken some contralike bets in their portfolios, but they don’t seem to make a significant impact in the overall scheme of things.