

Children's funds stem downside with high quality bonds

Funds invested in highly rated bonds are suitable for investors who are looking for consistent returns with moderate risk profile and better corpus

Financial planning is inevitable when we as parents accept the responsibilities for our children's future. Children's education and marriage are among the crucial events which shape the episode of their life. To ensure this we need to make goal-oriented investments, which should be structured in such a way that they deliver required returns at a moderate risk. These investments can help ease our worries about children future. The children's fund is one such investment option. These funds are focused on meeting a child's higher cost of education and their future aspirations.

The portfolio of these funds is generally a blend of debt and equity. The debt instruments ensure downside protection and stable returns, while equity securities act as a kicker to the value portfolio.

These funds have a lock-in period of three years or till the beneficiary turns to 18, whichever is later. This type of fund attracts those investors, who are looking to invest in funds when the child is still a minor.

Based on the criteria listed, we have shortlisted three funds—

HDFC Children's Gift Fund - Saving Plan, Tata Young Citizens Fund and UTI Children's Career Balanced Plan.


HDFC Children's Gift Fund-Savings Plan

Since its launch in 2001, the scheme has been successful in generating steady long-term returns at a low risk level by investing 80% to 100% of its assets in debt instruments and up to 20% in equities. Being a debt oriented plan, the scheme takes a predominant exposure to debt and money market instruments. This fund has a lock-in period of three years. Parents with children below 18 years of age are only eligible to apply for this scheme. The fund offers a dual benefit of savings as well as insurance against personal accident to the extent of ₹3 lakh.

The concentration of high quality bonds had ensured a downside protection during 2008, when stock markets severely crashed. The fund has generated 9.47% and 8.79% compound annualised returns for the last three- and five-year periods, while the Benchmark Crisil MIP

Scheme name	Compounded annualised %				Asset Allocation			
	1-yr	2-yrs	3 yrs	5 yrs	Since Inception	Equity (%)	Debt (%)	Others (%)
HDFC Childrens Gift Fund - Saving Plan	10.53	17.20	9.47	8.79	11.16	18.20	61.70	20.10
Tata Young Citizens Fund	5.74	24.57	5.92	9.46	14.01	49.52	20.80	29.68
UTI Childrens Career Balanced Plan	8.39	20.21	6.20	9.35	8.25	35.83	36.37	27.80
AVERAGE	8.22	20.66	7.20	9.20	11.14			
INDICES								
Crisil MIP Blended Index	6.14	9.89	5.51	7.38				
Crisil Balanced Fund Index	9.58	27.79	3.97	11.34				

▶ Up to 1 year simple annualized returns, Greater than 1 year compound annualized returns
▶ Returns as on February 18,2011 ▶ The asset allocation is for month ended January 2011



Blended Index stood at 5.51% and 7.38%, respectively. For consecutive three years, the fund has outperformed its peers.

The fund saw a change in management in August 2010 with Miten Lathia taking over from Chirag Setalvad. This fund is suitable for the investor who expects stable returns at lesser risk.

Tata Young Citizens Fund
The fund has been in existence

since October 1995 and seeks to generate capital growth with an emphasis on capital preservation. The fund is aggressive in nature and has almost equal exposure to debt and equity. The scheme primarily focuses on large-cap companies and LAAA rated bonds. The portfolio has maintained a higher exposure towards the banking stocks. Since last few months, the portfolio has also been tracking NBFC stocks as

well. The fund has exited from the fertilisers segment lately, although the allocation was not very major. The fund is benchmarked against Crisil Balanced Fund Index and it has generated a fair return of 5.92% in the last three years, while the benchmark index produced 3.97%. The major factor that goes against this fund is its high standard deviation of 14.9, which reflects a high volatility in returns. The fund is

currently managed by Murthy Nagarajan.

UTI Children's Career Balanced Plan

The fund can certainly boast of having a huge fund size of around ₹3,000 crore. The fund has been in existence since July 1993. The higher exposure towards debt to the extent of 60% reflects a conservative portfolio. The fund has consistently focused on major sectors such as banking, automobile, pharmaceuticals and petroleum with an emphasis on large-cap stocks. On the debt segment, it has invested primarily in AAA rated papers and has increased exposure towards AA rated bonds since April 2008.

The average maturity period of the scheme is about four years. Since September 2009, the fund is managed by Anoop Bhaskar. This fund is suitable for investors, who are looking for consistent returns at moderate risk profile. On the performance front, the fund has outperformed the respective benchmark (Crisil Balanced Fund Index) only during the period of three years.

Scheme selection methodology

We have confined ourselves to open-ended children plans that have allocated more than 50% of their assets in the debt and cash segments for the past three years. As for the analysis, the funds have been chosen on the basis of their risk adjusted returns, measured on a three-year rolling frequency. In addition to the aforesaid criteria, we have chosen only those schemes with a corpus greater than the median of the category. The median assets under management (AUM) under the scheme were ₹48.9 crore as on December 2010 (latest available AUM). Sharpe Ratio reflects returns after factoring all risk parameters, both diversified and non-diversified. A high ratio is always better than a low ratio. The fund that does not beat the risk-free rate of return or the return on the whole market is worth leaving for the risk-free instrument itself.