

Contra funds beat major indices in returns race

RIGHT PICK: Six Of Eight Contrarian Funds Earn Money For Investors

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FUND managers, who have chosen to bet on stocks different from their peers, have been fairly successful in their picks. While none of the contrarian fund managers can claim a spectacular performance, a good number of them have managed to beat benchmark indices by a decent margin. Six out of eight 'contra' funds have earned money for investors.

Funds based on contrarian calls (or contra funds) invest in stocks that are overlooked by the market or are waiting to be 'discovered' by investor. It is only when institutional investors take interest in a stock that its price begins to appreciate. In theory, contra investing is clearly opposite to value investing.

"We don't buy bad companies. We invest in fundamentally sound companies that are currently out of flavour among investors," said Bhupinder Sethi, head, equity offshore funds, Tata Mutual Fund. "We buy stocks that have fallen because of some short-term negatives; we are fairly certain that these businesses are likely to do well in the mid-to long-term," Mr Sethi added. Counting out the ₹14-crore ING Contra fund and ₹235-crore JM Contra Fund, all other contrarian call-based funds have managed to generate better returns than benchmark indices. The ₹3,624-crore Magnum Contra Fund has gained over 21% over the past one year.

The ₹125-crore Tata Contra Fund and the ₹89-crore Kotak Contra Fund returned 34% and 33%, respectively, during the considered period. The ₹70-crore Religare Contra Fund (ex-Lotus MF) has given 28% returns in one year. The 30-share Sensex has gained just about 17% in one year's time. Equity diversified funds, as a category, have logged 29% as average returns over the past 12 months.

SEASON'S FLAVOUR



AUM
(₹ Cr) 1-Year-
Return (%)

Tata Contra	125	34
Kotak Contra	89	33
Religare Contra	70	28
Magnum Contra	3,624	21
UTI Contra	228	21
L&T Contra	10	19
JM Contra	235	16.5
ING Contra	14	15
BSE Sensex	18799	17
Equity Funds - Cat Ret	NA	29

Source: valueresearch.com

Contrarian fund managers claim that they identify stocks or potential multi-baggers early on and invest in them at cheap prices. According to them, the best time to structure a contrarian portfolio is when there is an unwarranted risk aversion in the market coupled with high pessimism.

In practice, however, fund managers don't really go all out investing in newer sectors or stocks. They stick to the traditional, 'tried-and-tested' favourites; their exposure to contrarian picks or sector calls are low and, at time, even insignificant.

Just like any equity fund, all contra funds have loaded their portfolios with energy or power companies. Funds, like Magnum Contra, Kotak Contra and UTI Contra, have 26%, 22% and 19%, respectively, of their net corpus in the power sector.

Finance companies — another favourite sector among fund managers — come next in the order of allocation with some funds allocating 14-16% of their overall corpuses. Contrarian fund managers have also invested in technology, engineering and FMCG stocks, akin to fund managers

who only believe in value investing.

To cite a few contra calls, UTI Contra has 8% exposure to the textile sector; the fund has over 5% of its money in Vardhaman Textiles. Kotak Contra has 15% money allocated to pure services sector.

The fund has one-off investments in United Spirits, Hindustan Media Ventures, Spice Jet and Zensar Technologies (all between 2 and 2.5%). Tata Contra has allocated about 11% to services sector and the fund has investments in Tata Global Beverages, Sadbhav Engineering (about 5% in both companies) and services company 3M India (around 3%).

"It is all about picking a stock at right valuations. Investors should not be blinded by index movements; they should look beyond the Sensex and buy undervalued stocks," Mr Sethi of Tata Mutual added. According to him, real estate and infrastructure companies could see a rally in coming months, considering that these sectors have not participated in the recent rally. "Investors will be able to find good undervalued stocks in these sectors," Mr Sethi added.

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