

Contra funds disappoint; managers seek more time

Dipped 1-year performance hit long-term cumulative returns

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CONTRA funds (short for contrarian) invest into neglected or out-of-favour stocks and sectors that may be undervalued today, but show promising potential for growth in the long term. However, the performance of contra funds has dipped in the past one year; dragging down the cumulative returns over longer periods as well, shows a study done by Morningstar India. However, fund managers point out that 12 months is too short a time to judge.

Seven contra funds such as ING Contra, Kotak Contra and SBI magnum Contra delivered an average return of 3.66 per cent over one year (ended May 24), significantly under performing the Sensex, which returned 9.37 per cent over the same period. A typical diversified equity fund has returned 6.09 per cent over the past one year, also failing to beat Sensex.

“The lack of discipline among contra funds on sticking to their investment mandate undoubtedly rais-

Not contrarian by performance

While the recent show of contra funds has been unimpressive, the 3-year as well as 5-year return charts are not bad

Name	Year-to-Date	1-year	3-year	5-year
ING Contra	-12.75	-0.13	5.41	10.3
Kotak Contra	-14.07	0.81	5.16	8.65
L&T Contra	-13.07	4.79	-5.2	-0.08
Religare Contra	-8.98	5.94	12.17	N.A
SBI Magnum Sector Umbrella Contra	-12.85	0.93	3.64	11.72
Tata Contra	-7.21	13.55	7.72	10.42
UTI Contra	-14.16	-0.31	5.77	6.86
Average Contra Fund	-11.87	3.66	4.95	7.98
Average Diversified Fund	-11.38	6.09	3.85	10.28
BSE Sensex	-12.18	9.37	2.66	11.24

* All periods up to May 24, 2011. Figures in per cent and greater than one-year are compounded annualised
Source: Morningstar Direct

es the basic question of their relevance in today's crowded market. Asked Dhruva Raj Chatterji, senior research analyst, Morningstar, “Why should a fund investor choose these funds

over other traditional diversified equity funds, especially when they all seem to be chasing the same stocks?”

According to the independent investment re-

search provider, the star performing contra fund of yesteryears, and the largest one of its kind namely SBI Magnum Contra, has seen its performance drop to the bottom quartile (within its peer group of large cap equity funds) in the year 2010, and year-to-date in 2011 as well. The fund in the last 12 months gave just 1 per cent return to its investors.

In fact (see table), investors in two out of the seven contra funds have lost money with ING Contra and UTI Contra losing 0.13 and 0.31 per cent, respectively, in the 12-month period under review.

The best-performing fund has been Tata Contra that has notched up 13.55 per cent returns. Another contra fund called Religare Contra Fund has, however, managed to sustain its performance in recent years, and outperform other peer funds and key indices.

Contra funds just like other equity fund categories cannot do well all the time, said fund managers.

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