

FMPs, income funds big hit with investors

FMPs see highest Rs 56,825 cr inflow in the 12 months till January

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INVESTORS in mutual funds have been playing safe for the past one year, preferring to invest through the close ended debt funds, or fixed maturity plans (FMPs), as they are popularly known as, as well as in interval income funds which are semi-close ended debt funds.

A FCRB analysis of Association of Mutual Funds in India's data on monthly net inflows in various categories of mutual fund schemes revealed Rs 56,825 crore flowed into FMPs on a net basis (sales minus redemptions) in the 12 months up to January this year. In the same period, another net inflow of Rs 25,679 crore went into interval funds, both old and new.

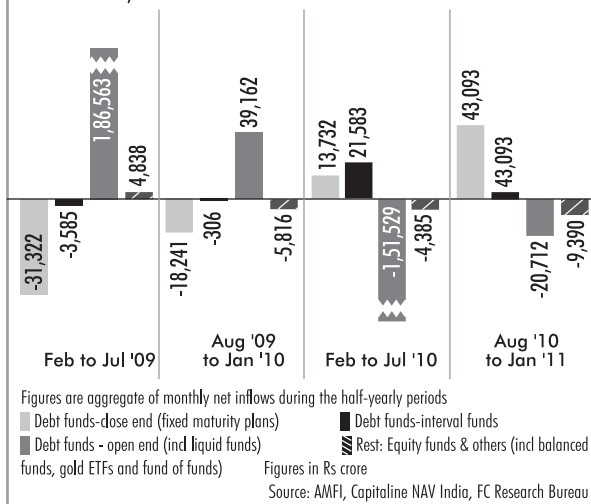
Just the year back, from February 2009 to January 2010, both these debt fund categories had seen net outflows of Rs 49,563 crore and Rs 3,891 crore respectively.

Other debt funds, open-ended ones, including liquid funds and income funds, collectively suffered high net outflows of Rs 1,72,241 crore in the February 2010 to January 2011 period, as compared to gaining high net inflows of Rs 2,25,725 crore in the corresponding previous year period.

The trend clearly indicated a reversal of preferences of investors in debt funds from open end to

Close end funds rule

Net inflows shift from open end debt funds to close, and semi-close, end debt funds



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Lakshmi Iyer
Head of fixed income,
Kotak Mahindra AMC

close end in the last one year.

"The clear intent of investors is to mitigate the interest rate risk which FMPs and interval funds can offer by locking in the corpus for a specified fixed period,"

said Lakshmi Iyer, head of fixed income and products at Kotak Mahindra Asset Management Company.

Both class of investors – companies and retail – took to FMPs, and in a much intense manner in the second half of the analysed period of past one year than in the first half when interval funds were preferred to FMPs (see graph).

"Many companies have got cash surplus which they do not require for a period of one year and these are invested in one-year FMPs where, with the benefit of indexation, one can get returns which are higher than bank fixed deposits (FDs) on a post-tax basis," said Murthy Nagarajan, head of fixed income at Tata AMC.

Most FMPs have a maturity of around one year

while some offer two-year and three-year maturity options and some of three months or six months.

In interval funds, the frequency at which the funds are opened for purchases and redemptions, are generally quarterly, half-yearly or yearly. Due to the fixed tenure of investments, investors are assured of a stable return, unlike in an open end income fund or a liquid fund where the net asset values are volatile, falling if the interest rates rise and vice versa.

"More than 90 per cent of the FMPs' which have come in the market have invested only in banks' certificate of deposits (CDs), which have fetched high risk adjusted returns in the last one year due to the liquidity squeeze and asset liability mismatch faced by many banks," Nagarajan said.

Bank CDs have been the preferred investments of most open end, and close end, debt funds, but the close end ones end up benefiting far more from it.

The spate of FMPs continue. As of Thursday, there were 16 FMPs across around 10 mutual funds. Kotak AMC's Iyer believes investors will continue to favour FMPs till there is a clear sign of the interest rate cycle reversing.

Equity funds, in the meanwhile, have seen more outflows in the last 18 months than inflows.

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