

Ultra short-term funds set to give better returns

■ FMPs may generate double digit returns over next 1 yr

Chirag Madia

Mumbai, Jan 27: In a scenario where interest rates are headed up ultra-short term bond funds and fixed maturity plans (FMPs) are likely to give better returns over the period of 6-8 months. This is the consensus view among fixed income fund managers who today are not in an enviable position having disappointed investors over the past few months. Moreover, going ahead, they're up against some keen competition from banks that are furiously hiking rates on term deposits.

While ultra-short term bond funds might give returns of 8.5-10%, Fixed Maturity Plans (FMPs) may even generate double digit returns over the next one year. Dhawal Dalal, SVP, head fixed income at DSP BlackRock, said, "Currently liquid funds are eligible for investment in assets up to 3 months and are trading at over 8.75%. So my expectation is that if yields continue to remain where they are, investors should expect returns in liquid funds between 8-8.5%, which is decent." In the last six months, liquid fund have given a returns of 3.22% while ultra-short term funds have given a returns of 3.13%.

However, in the last few months income funds have were not able to give better returns than liquid funds following hard-

MF RETURNS

(in %)

Category	3 mths	6 mths
Liquid funds	1.77	3.22
Ultra-short term funds	1.71	3.13
Short-term funds	1.31	2.18
Income funds	1.20	2.06
Gilt short term funds	1.24	2.00

Source: Valueresearch Online



ening of short-term yields due to the prevailing tight liquidity situation and expectation of a rise in inflation. According to a study by Crisil, income funds gave a return of 0.84% during December 2010 quarter while gilt funds returned 1.4% and liquid funds gave a return of 1.71%.

According to Tarun Bhatia, director, Capital Markets, CRISIL, "The yield on the one-year CD firmed up by 145 basis points during the quarter and credit spreads across maturities widened as corporate bond yields hardened more than the yields on government securities. While this negatively impacted the performance of income funds, the short-term debt categories benefited." Murthy Nagarajan, head, fixed income at Tata Mutual Fund, said, "Investors with a longer horizon should look at investing in FMPs. They can also in-

vest in ultra-short term fund which could return anywhere between 8.5-10% in the next six months to one year." The major reason for long-term schemes—three years—not giving better returns was the fairly big spurt in interest rate in the past few months. While the yield on the ten year benchmark rose to 8.25% a surge of 25 basis points in just three months, rates on instruments such as the three-month CD went up by as much as 200 basis from 7% to 9%.

Schemes of a longer maturity were unable to generate good returns compared to liquid schemes. Mahendra Jajoo, ED and CIO, Fixed Income at Pramerica Mutual Fund said, "In the coming months returns from long-term schemes will be uncertain to predict. As such, ultra-short term schemes are the best bet."