

Published Date:	10 Jul 2023	Publication:	Financial Express [Mumbai]
Journalist:	Saikat Neogi	Page No:	1
Circulation:	40,578		

1

FE SPECIAL



Credit risk funds: Vet them carefully

Being aggressive here
seldom pays unless the
yield is quite high

■ PERSONAL FINANCE, P7

Published Date:	10 Jul 2023	Publication:	Financial Express [Mumbai]
Journalist:	Saikat Neogi	Page No:	7
Circulation:	40,578		

● FIXED INCOME

Credit risk funds: Vet them carefully

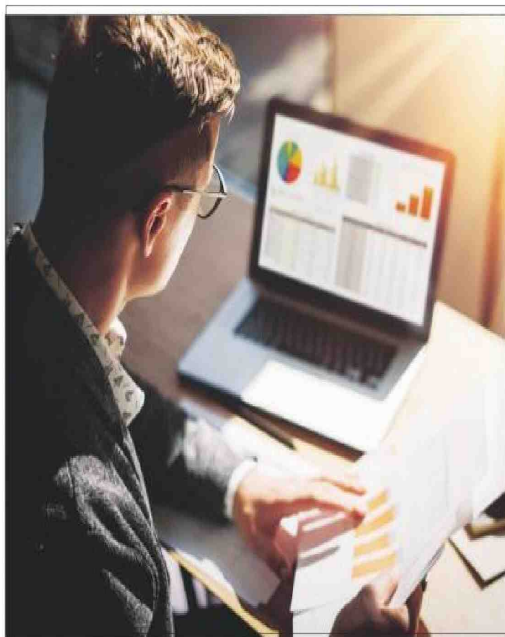
Being aggressive here seldom pays unless the yield is quite high

SAIKAT NEOGI

1 AS THE NUMBER of investment-grade bond issuances has been on a steady rise indicating overall buoyancy in the credit segment, individuals are looking at credit risk funds for higher returns. With the investment cycle picking up steam and much of the private capex yet to be committed, one can expect a series of high-quality issuances in the sub-AAA category. However, investors must be cautious as returns in isolation may not be the best metric to go by.

Credit risk funds are debt funds that invest at least 65% of the portfolio in bonds rated AA and below. Investors who want to generate additional returns along with some risk opt for such funds. Even liquidity is an issue as the secondary market for lower rated debt securities has not yet developed in India.

Nirav Karkera, head, Research, Fisdor, says an investment into a credit risk fund must be a subject matter of one's investment profile and risk appetite. "However, for those with suitable attributes, now could be a good time to allocate selectively towards credit risk funds. It is imperative to understand the risk management framework, fund manage-



ment style and risks associated with every issuance held in the portfolio."

Similarly, Abhishek Banerjee, founder & CEO, Lotusdew Wealth & Investment Advisors, says for an aggressive debt investor, it is probably better to bet on interest rate view from monetary policy instead of betting on lower rated credit. "You try to earn a yield for potential complete loss of principal and being aggressive here seldom pays unless the yield is quite high," he says.

What to look for

Before investing in credit risk funds, investors must look at the

fund manager's past track record of managing credit risks, identifying high quality credit opportunities and the fund house's risk management framework. Also look at the expense ratios and the ability to manage redemption pressure.

Murthy Nagarajan, head, Fixed Income, Tata Mutual Fund, says corporate governance is the most important factor other than the financial matrix that must be used for evaluating credit rating as many companies have failed due to deficiency of corporate governance. "Investors should look into the portfolio of the credit funds

HIGH-RISK BETS

■ Understand the risk management framework, fund management style & risks associated with each issuance in the portfolio

■ Credit risk oriented portfolios are usually illiquid given their high exposure to lower rated paper

■ While a credit risk fund offers opportunity via gradual investing for aggressive fixed income investors, corporate bond funds are better for less aggressive investors

ended schemes, where investors can redeem anytime, the underlying liquidity or the ability to immediately sell at a price equal or close to the fair value of the portfolio remains crucial.

"Credit risk oriented portfolios are usually illiquid given their high exposure to lower rated paper. Such funds when they face significant redemptions can get into trouble. This risk is tough to manage as investor behaviour is not in the control of the fund manager," he says.

Corporate bond funds

While a credit risk fund offers opportunity through gradual investing for aggressive fixed income investors, corporate bond funds are better suited for relatively less aggressive investors.

"With a higher credit quality and average duration for most funds between two and four years, corporate bond funds also offer a distinct proposition. For relatively conservative investors or ones with limited resources to evaluate credit risk funds, corporate bond funds serve a strong proposition," says Karkera.

As interest rates have pivoted, longer-term investments make more sense in the corporate bond category. "The liquidity risk is low for corporate bond funds and the ability to handle mass redemptions is better, given the exposure to high quality papers which have high liquidity," says Nagarajan.

and be comfortable with the credit names before taking a call to invest. There are many companies which have failed even after having high ratings from rating agencies. Deficiency in corporate governance issues in high rated companies are coming to light," he adds.

Investors must keep in mind how the fund house plans to address sudden high redemptions as was the case after Franklin Templeton shut down six debt schemes in April 2020 that had invested in lower credit rated paper.

Arun Kumar, VP and head of Research, FundsIndia, says in open-