"Investors should look at hybrid funds in such times"

Radhika Gupta
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The returns an investor can achieve is a function of the risks that he is willing to take, Radhika Gupta tells ***Anuradha Himatsingka.***

What is your assessment of the current market situation, post the rally?
Uncertainty is the biggest enemy of the markets. The last six months was a period of uncertainty primarily because of demonetisation and the UP elections. The recent round of corporate results indicate things are not as bad as expected. We now foresee a period of stability. Markets are also being driven by the fact that foreign investors have begun pumping in funds. However, the pink health of markets does not mean investors should get carried away. They should stick to principles of asset allocations and invest systematically.

Do you foresee huge volatility in the market in the near future?
No one can foresee volatility. The Chinese calendar termed 2016 as 'Year of the Monkey' and why not? We had Brexit and the Trump victory which no one foresaw. Not a single person had foreseen the demonetisation announcement. These are unknown unknowns, Black Swans. Which is why, an investor should prepare his portfolio for continuous uncertainty. The basic principle for an investor should be: stick to asset allocation on the different categories and asset classes with the help of an adviser. Regardless of the ups and downs of the market, one should invest systematically to ride over volatility. The mutual fund space offers a wide gamut of products including those which are not pure equity or pure fixed income. The hybrid category for instance is one of the fastest growing spaces, and we are very excited about them because they help navigate volatility.

As more equity funds amass high AUM, can they continue to deliver healthy returns and remain true to mandate?
Equity fund performance is linked to how well capital markets do. Markets today are robust. Equity funds will be the right option for investments being made with a three-year time horizon and without a worry about daily and monthly mark-to-market. Companies don't turn around in a year. So how can equity funds be expected to perform in an one year period? Equity funds can add value only over three years. For shorter time horizons, hybrid and fixed income funds are a better choice. We believe funds should be run at a size where they can be nimble and deliver on their mandate. For large cap funds, that size may be significantly larger than mid-cap funds, but there is a right size for every opportunity.

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Are SIPs heading to the right funds?
I think SIPs are flowing into equity funds that have delivered strong long-term performance. A fund manager directs SIP flows into funds only if he is confident of its long-term performance. In general, SIP flows are headed in the right direction, and at ₹4,000 crore a month, they constitute a material number. SIPs are helping us build a strong base of domestic retail money month-on-month, in a market that once just spoke about FII flows. They are good for investors because they help ride out volatility, and good for fund managers because they receive money consistently, rather than in lump format.

Which funds should investors be positioned in right now?
It depends entirely on the investor's risk profile. Personally, I feel investors should look at hybrid funds in these market conditions primarily because the risk-return trade-off is good. The investor continues to enjoy upside with more downside protection and high tax efficiency. For investors who have a genuine three-year time horizon, good quality mid-cap and multi-cap funds are timeless.

What are your thoughts on recent instances of bond defaults impacting debt funds?
Bond defaults are a reality and will continue to happen, because that is the nature of the fixed income market. Investors need to pay attention to the risk part, not just the return. A sensible fund manager will minimise the impact of downgrades and defaults on a portfolio through correct sizing of the position, entry and exit times, and strong credit checks.

What returns can an investor expect by investing in mutual funds?
What returns an investor can achieve is a function of the risks he is willing to take. In the equity category, the lowest risk fund is the equity arbitrage fund wherein an investor should expect liquid plus kind of return, i.e. around 6% with minimal downside. On the other hand, there are mid-cap and small cap funds, which are certainly more volatile but which probably gives compounded return of 15-18% over a 3-year investment horizon. Hybrid funds have a CAGR that is between 8-12% depending on the risk profile and equity component. Fixed income funds are obviously far more conservative.

How will you take Edelweiss AMC forward?
Edelweiss Financial Services as a sponsor is very committed about the asset and wealth management business, particularly the AMC business, because the opportunity in India is massive. By 2025, we want to be a market leader in this space. Our commitment to the business is also visible in the fact that we are hiring senior investment talent and fund managers and expanding our sales and marketing reach. That said, size is not an end in itself. Over the next two-to-three years, we want to position ourselves as a very quality business. I don't want to build a business that is 70% liquid assets. We have a six flagship equity funds and a similar number of funds in the fixed income category, and want our funds to be category brands.