An Analysis on Investment of Indian Mutual Funds in Overseas Securities

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Abstract*- This paper considers different types of Mutual Fund schemes making investment in Overseas Securities. Overseas Mutual Fund schemes categorizes in the paper on the basis of their investment portfolio. Paper looks at the returns on Overseas Mutual Fund Schemes in contrast with comparable portfolio schemes and return on them generated in US and China. Paper likewise looks at the returns of Mutual Fund Schemes making investment abroad with similar broad portfolio schemes in India which are generating average rate of return. Some main secondary data sources used for Mutual Fund statistics are; Value Research online, Morning Star (India), Morning Star (China), Morning Star (USA), US News.com, Money Control and Investment Company Institute.*

Keywords- Funds, Investors, Overseas, Securities, Financial

I. INTRODUCTION

A Mutual Fund can be termed to be a financially intermediary that pools funds of investors who have same general investment objectives. Mutual Funds invest into different types of financial securities on behalf of such investors. Such pooled funds give investors corresponding ownership of diversified portfolio which the Mutual Fund owns and manages. Mutual Funds are managed by professional fund manager who on behalf of the investors invest the money by buying / selling stocks, bonds etc.

There are many reasons that encourage investors to invest through Mutual Funds. Some broad reasons are as follows:

Before going for investment an informed investor needs to do research. However, many retail investors find it cumber some and time consuming. Different Mutual Fund schemes give an opportunity of investing and the fund thereby taking responsibility of investing in stocks and shares after going through an analysis and research. Mutual Funds also offer diversification. An investor invests his fund by the Mutual Fund in a variety of securities. It helps the investor to diversify the portfolio across different companies and sectors. This diversification leads to risk reduction in overall portfolio. It is also less expensive to invest in a Mutual Fund because the investment amount is minimum and fairly low in Mutual Fund units. Mutual Fund investment reduces overall risk for retail investor who is intending to invest in securities market. Mutual Funds also provide flexibility and variety to the investor in terms of investment options in financial securities. This is possible because of the availability of various schemes of Mutual Funds. Certain Mutual Fund investment schemes also provide tax benefit. Suppose taking an example tax advantage is available in India when investors invest in ELSS (Equity linked Saving Schemes). So considering various benefits available with Mutual Fund, it is going to be a popular investment vehicle worldwide.

II. MOTIVATING THE INDIAN MUTUAL FUND INDUSTRY TO INVEST IN OVERSEAS BY OPENING OF NEW INVESTMENT WINDOW

In the Financial Year 2007-08, during the budget speech the Finance Minister of India had given permission to the Indian Mutual Funds market to invest in overseas securities. Accordingly, the Securities and Exchange Board of India (SEBI), the Regulator for the regulation of capital market known as Securities and Exchange Board of India and Mutual Funds, issued a circular in this regard on September 26, 2007 with the captioned subject “Overseas Investments by Mutual Funds”. As per provisions Overseas Investments by Mutual Funds were permitted. The Aggregate ceiling limit for Mutual Funds to invest abroad be registered with SEBI was decided at USD 6 billion per annum.

Mutual Funds registered with SEBI were permitted through the guideline to invest in following instruments;

1. ADR’s/GDR’s issued by Indian or Foreign companies
2. Overseas companies equity listed on recognized stock exchanges overseas.
3. Initial and follow on public offerings for listings at recognized Stock Exchanges Overseas.
4. In countries foreign debt securities with short term and long term debt instruments as well as fully convertible currencies with rating not below investment grade by accredited/ registered credit rating agencies.
5. The money market instruments are not rated below the investment grade

6. Repos in the form of investment where the counterparty is not rated below the investment grade (Such Repo transactions should not involve borrowing of funds by Mutual Funds)
7. Government securities where countries are not below investment grade
8. Derivatives traded on recognized stock exchanges overseas for hedging and portfolio balancing with underlying as securities
9. Deposits are short term in nature with the banks overseas where the issuer is rated not below investment grade
10. Investment in aforesaid securities, Real Estate Trusts(REIT'S), listed in stock exchanges and overseas securities which are unlisted should not exceed ten percent of their net assets by issuing securities through registered overseas Mutual Fund
11. Overall ceiling limit for investment in overseas ETF's that invest in Securities was fixed at USD 1 billion.

In the guidelines it was further specified that Mutual Funds shall appoint a Dedicated Fund Manager for making the overseas investments. It was the advice from SEBI to the boards of Asset Management Companies and Trustees to exercise due diligence in making the investment decision.
In the guidelines it was further specified that Mutual Funds shall appoint a Dedicated Fund Manager for making the overseas investments. SEBI also advised boards of Asset Management Companies and Trustees to exercise due diligence in making the investment decision. For Mutual Fund schemes proposing overseas investments, following disclosure requirements were made mandatory:

I. In the offer documents of the schemes intentions to invest in foreign securities or ETFs shall be disclosed. It is necessary to explain the attendant risk factor clearly in the offer documents. Such disclosures shall be in comprehensible language for an average investor.
II. It is imperative for Mutual Funds to disclose the name of the dedicated fund manager making overseas investment
III. Similarly the Mutual Funds should disclose exposure limits that are percentage of asset under scheme they would invest in foreign securities.
IV. While declaring the half yearly portfolio such investment should be disclosed in the prescribed format by making a separate heading "Foreign Securities/ overseas ETFs".

In order to enhance the aggregate overseas investment limit to USD 7 billion, SEBI issued its circular dated 8th April 2008. Various schemes have been launched by several Mutual Funds for providing investments in overseas securities / overseas ETFs. It can be stated that though the Mutual Fund Industry in India celebrated its Golden Jubilee in the year 2014,Mutual Fund schemes investing abroad are still in nascent stage. In India investment in financial instruments is still under development phase even though the savings rate in India is high as a percentage of Gross Domestic Product (GDP). One of the major reasons for same appears to be low financial literacy. Overseas investments require more literacy about the financial risks across global instruments. If Investments in overseas securities through Mutual Fund Schemes is done carefully, it will help investors to spread their risks across markets.

III. RANKING OF MUTUAL FUNDS SCHEMES AS PER ASSET UNDER MANAGEMENT

Mutual Funds schemes investing abroad have least Asset under Management. This indicates that inspite of existing market and plethora of schemes under this category they are not being preferred by Investors.

TYPES OF SCHEMES	ASSET UNDER MANAGEMENT (IN Cr)	RANK IN ORDER OF ASSET UNDER MANAGEMENT
Debt schemes	1148878.04	1
Equity schemes	844054.21	2
Liquid or money schemes	446228.89	3
Balanced schemes	179411.39	4
Gilt	8143.01	5
Gold ETF	4570.91	6
Fund of Funds investing overseas	1633.88	7
GRAND TOTAL	2632950.33	

Source: AMFI

The attempt of this paper is to understand Performance of Indian Mutual Fund Schemes Investing in Overseas Securities and Investor Awareness of Such Schemes

IV. ADVANTAGES AND DISADVANTAGES OF INVESTING OVERSEAS SECURITIES THROUGH MUTUAL FUNDS:

Investing in overseas funds is the biggest advantage because an investor can spread money among several markets. This makes diversification possible as well as hedging risk by spreading investment across mix of securities and markets. Individual economies may be subjected to economic cycles. Subsequently returns tend to be smoother while investment will be made across several economies. The options for investment in Overseas provide opportunity to invest in select markets if so desired for instance investment in South America, Brazil, China, etc.

Compactly following are the advantages of investing in overseas securities.

1. With little exposure to country specific risks which includes country specific business cycles, overseas Mutual Fund schemes help in investing in overseas equity.
2. Such funds provide opportunity to invest in securities worldwide through expert intervention (read Mutual Funds)
3. Investing in Global Funds diversifies the risk of investors
4. Investing in Global funds also provides hedging for country risk
5. Such investments also allow investor to invest in some specific desired global markets / regions.

Dis-advantages of investing in overseas Mutual Funds:

1. Currency Risk: Downside of investment in overseas securities is currency risk. Overseas investment includes investment in foreign securities done in foreign currency. Thus rupee returns emanating from such investments may be impacted on account of changes in Rupee value in comparison to other currencies.
2. Tax Implications: Overseas investment can also complicate tax impact. Capital gain from the funds investing in overseas market is treated same way as long term capital gains from debt funds. However Profit is added to the investor income for the year if the holding period is less than a year and taxed according to his/her tax bracket.
3. Information Risk: On account of limited understanding investment in overseas markets is far more complex than investing in domestic markets. Investor fails to predict the economic and political changes in such overseas markets because of the complexities.

V. INDIAN MUTUAL FUNDS OVERSEAS INVESTMENT – TYPES OF FUNDS

There are four categories of overseas funds that are providing overseas investment opportunity to investors. These types are:

a. Direct fund investment in overseas markets
b. To achieve international exposure Fund of Funds (FoF) that invests in several other Mutual Funds.
c. Funds that use feeder route. Fund which does almost all of its investments through a master fund via a master-feeder relationship is known as feeder fund. Excluding the master fund that performs all the investments, it is a condition quiet similar to a fund of funds.
d. Hybrid funds – In domestic company's hybrid funds invest sixty to seventy percent of their corpus and the balance amount is invested in overseas market.

Nearly all the overseas schemes of fund available in India are investing in Equity and are proving two options to their investors; (i) Growth (ii) Dividend.

Growth Schemes hardly give short term returns to the investor. Returns accrue only on selling the units. Here the difference between value of purchase and sale of unit at its NAV (Net Asset Value) is gain or profit. Dividend Scheme on the other hand provides returns to the investors at periodic intervals. However intervals may not be certain and the dividend amount is not fixed. NAV of dividend schemes is lower than growth schemes because they are reinvested in case of Growth scheme but not reinvested in the Dividend scheme thereby providing advantage of compounding to its investors. As per AMFI data less than 10% of Indian Households invest in Mutual Funds. According to the investment data on investment in various Mutual Fund schemes shows that overseas investments considering corporate and retail participation through Mutual Funds is very low. So it is seen that overseas investment requires greater visibility in terms the return advantage associated with such funds. In the study how much returns Mutual Fund schemes are generating for their investors over the years is highlighted here.

VI. HERE ARE THE 5 MOST POPULAR INTERNATIONAL FUNDS IN INDIA

Table 1

Instruments	1-year return	2-year return	3-year return
1-Franklin India feeder franklinUS opportunities Fund	4.72%	18.03%	13.79%

(Data as on September 04, 2019)

Franklin India Feeder Franklin US Opportunities Fund is a 7-year-old fund which got launched in February 2012. It is a great international fund which has given attractive returns of 4.72%, 18.03% and 13.79% over the last 1 year, 3 year and 5 year periods respectively. However, it has not succeeded in outperforming its benchmark over 3 and 5 Years Tenure. The scheme operates as a fund-of-fund and has invested 99.86% of its assets in the Franklin US Opportunities

Fund and the remaining 0.14% in cash and debt instruments (as on September 04, 2019). The scheme's underlying Mutual Fund, the Franklin US Opportunities Fund, invests a majority of its assets in equity securities of US companies which demonstrate growth at higher levels than the overall US economy.

Table 2

Instruments	1-year return	2-year return	3-year return
2-ICICI prudential blue chip equity Fund	5.34%	13.89%	11.51%

(Data as on September 04, 2019)

ICICI Prudential US Blue chip Equity Fund is a relatively recent addition to the foreign funds category. It joined the international funds club in July 2012. However, even in this relatively short span of time, the scheme has succeeded in emerging as one of the best international funds in India. It outperformed its benchmark over the last 1 year period by generating returns of 5.34%. It generated slightly lower returns during the last 3 year (13.89%) and 5 year (11.51%) periods as well. As on September 04, 2019, the scheme has invested 95.02% of its assets in US equities and the balance 4.98% in debt and cash instruments. The scheme has given maximum weightage to the Technology (19.79%) in its portfolio, followed by Healthcare (14.26%) and FMCG services (13.86%).

Table 3

Instruments	1-year return	2-year return	3-return
3- SDP US flexible Equity Fund	3.09%	13.25%	10.71%

(Data as on September 04, 2019)

DSP US Flexible Equity Fund has been around for more than 6 years as part of the international fund segment and was launched in August 2012. The 1-year return of the scheme is not that attractive but over the longer term, the 3 year and 5 year returns of the scheme have been recorded at 13.25% and 10.71% respectively. Following a fund-of-fund investment strategy, this international fund has invested 96.33% of its assets (as on September 04, 2019) in Black Rock Global Funds – US Flexible Equity Fund (domiciled in Luxembourg). The BGF US Flexible Equity Fund has also invested its assets in the stocks of US-based large cap companies which makes it a relatively safer equity investment option.

Table 4

Instruments	1-year	2-year	3-year
4-Motilal Oswal NASDAQ100exchange traded Fund	2.73%	11.41%	10.39%

(Data as on September 04, 2019)

Motilal Oswal NASDAQ 100 Exchange Traded Fund (ETF) made its debut in March 2011. It is an ETF which invests in foreign equities.The scheme has generated attractive returns of 2.73%, 11.41%, and 10.39% over the last 1 year, 3 year and 6 year periods respectively. The sector-wise allocation of its funds shows that the scheme follows a conservative approach which helps it in sustaining market volatility. The scheme also features a fundamentally-strong portfolio. The top 3 company holdings of the scheme are Microsoft US (11.33%), Apple (10.12%) and Amazon (9.84%).

Table 5

Instruments	1-year	2-year	3-year
5- Adityabirla sun life International Equity Fund	2.82%	12.80%	7.56%

(Data as on September 04, 2019)

Aditya Birla Sun Life International Equity Fund (Plan A) has been part of the international funds segment since October 2007. The scheme has performed extraordinarily in the short term by posting 1 year return of 2.82% as opposed to a return of 0.29% posted by its benchmark for the same period. As of September 04 2019, the scheme had generated returns of 12.80% and 7.56% over the 3 year and 5 year periods which is at par with or higher that other international funds in India. The scheme has given maximum weightage to equity (95.57%) in its portfolio followed by debt instruments (0.94%) and Cash & Cash equivalents (3.49% of total assets). The top 3 individual holdings of this scheme are The Walt Disney Company (3.07%), Enbridge Inc. (3.00%) and Microsoft Corporation (2.83%).

VII. ANALYSIS OF MUTUAL FUND SCHEMES INVESTING ABROAD:

For the purpose of this study top five best performing Mutual Fund schemes have been selected and analyzed in greater detail for evaluating returns earned by the scheme. For analysis purpose the study has used secondary data available on these schemes. The data sources are Value Research online, Morning Star, and economics times, etc. Following table carries details of the funds that have given best average annualized returns (%) over preceding three year period. The data table given below highlights top five schemes that have given best 3 year return in comparison to CNX Nifty. This includes all types of Overseas Portfolio Mutual Funds that is;

A. Direct fund investing in overseas markets.
B. Fund of Funds that are investing in several other Mutual Funds to achieve international exposure
C. Funds that use feeder route.
D. Hybrid funds – Hybrid global funds invest sixty to seventy percent of their corpus in domestic companies and the balance in overseas market.

The returns from the international funds depend on the performance of the market they are investing in and also the forex or the currency movement. International Mutual Funds are topping the return charts. The category has returned around 20 per cent in one year. The international fund category has given an average return of 3.69 per cent in the last three months and 19.24 per cent in a year. Toppers in the category have returned as much as around 40 per cent returns in a year.

Table 6: Five best Overseas Funds on basis of Average Annualized Returns [%] as on September 2019

RANK	SCHEMS	AVERAGE ANNUAL RETURN
1	DSP black rock world mining world mining fund	38.44
2	Edelweiss greater china equity off-shore funds	37.51
3	Franklin India feeder franklin US opportunity funds	29.34%
4	Kotak global emerging fund	29.30%
5	Principal gobal opportunity fund	26.99%

Source: Economics Times.com

Thus it can be seen that all categories of overseas investment Mutual Funds are present in India. Varied formats in which they are operating are

;▪ As Direct Investment Fund
▪ As Fund of Funds
▪ As Feeder Fund
▪ As Hybrid Fund

Subsequently it can be seen that most of the funds that have given good returns over market indices are the ones that are investing in either Emerging Market Companies from markets like India, China, South Africa, Taiwan, South Korea, etc. or those funds which have invested top performing US Companies.

VIII. COMPARISON OF RETURNS OF MUTUAL FUND SCHEMES HOLDING EQUITY PORTFOLIO IN INDIA WITH MUTUAL FUND SCHEMES INVESTING ABROAD.

Here effort was also made to understand the returns being generated by the best Equity Mutual Funds in India with the returns being generated by Indian Overseas Mutual Funds. For simplifying a logical comparison of Mutual Fund Schemes following considerations have been made:

1. For the comparison purpose only Equity Funds are being considered as Overseas Mutual Funds from India predominantly have Equity Portfolio.
2. For Indian Mutual Fund Market equity funds are considered for comparison as portfolio of most of Overseas Schemes consists of equity based well-known stocks.
3. Funds having more or less same portfolio (from same Fund House) are not being considered again to reduce replication effect of portfolio similarity on the returns.
4. Along with above stated considerations only five best performing Equity Mutual Fund Schemes are being considered.

Table 7- Comparison of return of Equity Mutual Fund in India with the return of Indian overseas Mutual Fund as on September 2019

Equity Mutual Fund		Indian Overseas Mutual Fund	
Schemes	Annualized return 3 year	Schemes	Annualized return 3-year
1-Axis Bluechip Fund -	14.44%	1-Franklin India feeder franklin US opportunities Fund	13.79%
2-Mirae Asset Tax Saver Fund - Regular Plan	14.05%	2-ICICI prudential Bluechip equity Fund	11.51%
3-Mirae Asset Emerging Bluechip Fund	12.82%	3- SDP US flexible Equity Fund	10.71%
4-Axis Midcap Fund -	12.40%	4-Motilal Oswal NASDAO 100exchange traded Fund	10.39%
5-Sundaram Large and Mid Cap Fund	11.98%	5- Adityabirla sun life International Equity Fund	7.56%

Source- www.Money Control. Com

Above table highlights that return generated by Equity Mutual Funds in India are better than the return generated by Indian Mutual Funds investing in Overseas Securities. This can be a reason for lower corporate and retail interest in Indian Mutual Funds investing abroad (Reference Table 1 to 5). In past returns on Overseas Mutual Funds during certain time periods have been better than that of Indian Equity Mutual Funds. Those were the time periods when Indian stock markets were under pressure while the global markets had performed well. One such year had been year 2013. Because of recovery of the US markets and improvement in global economic markets the returns generated by Indian Mutual Funds investing abroad were higher than that of Indian Equity Mutual Funds. Also in those time period stock markets in India were subdued on account of internal negative economic sentiments. However on an average the returns generated by Equity Mutual Funds in India are better than that of being generated by Indian Mutual Funds investing in Overseas Securities.

IX. CONCLUSION

Even though the savings rate in India is high as a percentage of Gross Domestic Product (GDP) the savings through financial instruments is still developing in India. From various reasons, one reason for same appears to be low financial literacy. Overseas investments require more literacy about the financial risks across global instruments. If investments are done carefully in overseas securities through Mutual Fund Schemes, it can help investors to spread their risks across markets. More efforts need to be made by Mutual Fund companies to enhance awareness regarding Indian Mutual Funds investing in overseas securities. In the era of globalization, the opportunity to invest in overseas instruments needs to be fully and effectively utilized by the Indian Mutual Funds for the benefit of the investors. The findings of the study may help the Government, Regulator and Asset Management Companies to make appropriate policy change and may help the investors to make more informed decisions.

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