Debt fund investors must take indexation benefits, no point exiting any position now, says Marzban Irani of LIC Mutual Fund Asset Management

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The data published by Association of Mutual Funds in India (AMFI) reveals that in the 16 open ended debt schemes, 12 categories witnessed net outflows. Money Market Fund was the worst performer with net outflows of almost 14600 cr. Short Duration Fund (-8,603.03), Low Duration Fund (-6,716.30), Ultra Short Duration (-7,104.96), and Fund and Floater Fund (-5,285.55) were the other top laggards.

*In light of further rate hikes by the Reserve Bank of India (RBI) to follow and liquidity getting drained, investors can remain in liquid and overnight category, **Marzban Irani, Chief Investment Officer (CIO), Fixed Income, LIC Mutual Fund Asset Management Ltd** tells **Zee Business' Shivendra Kumar**. However, with correction happening at the long end, one can gradually look at other Medium to long duration funds depending on risk appetite. Edited excerpts*

Q: Net inflows for equity MFs increased over 16 per cent in May over April 2022. Is this route becoming more favourable for investment as against putting money directly into equities?

In the recent months especially in the post pandemic era, we have seen new retail investors, coming in huge numbers, to invest in Equities. Given that these investors are fairly new to the Equity market, they may enter into equity investment through Mutual Fund. Mutual Funds offer variety of equity products based on different risk appetites. Mutual Funds are managed by professional Fund Managers having vast knowledge and experience in investment management. Mutual fund products are transparent and simple in nature. This may precisely be the reason for noticeable net inflows in May 2022. We are optimistic on rising retail interest in equity markets and expect retail buoyancy to continue hereon.

Q: From net inflows of Rs 54,756 cr in April to net outflows of Rs 32,722 cr in May, what has gone so wrong for the debt-oriented schemes?

As the Global central banks started hiking rates, there were expectations on the domestic front that we might see rate hikes. However, in April Standing Deposit Facility (SDF) was introduced, which was not a direct rate hike. It was only in May that there was rate hike and inflation estimates were higher. Besides normal repo rate hike, there was CRR hike as well. Starting April, liquidity started reducing gradually. Yields started correcting because markets are always ahead of rate actions. They priced in additional rate hikes. Hence with yields inching upwards there were outflows to avoid month-on-month losses.

Q: Overnight and liquid funds are seeing a good traction among the investors. What could be the reason for that? Do you recommend investments in both or either of these funds?

Since further rate hikes are expected and liquidity is getting drained, investors can remain in liquid and overnight category. However, with correction happening at the long end, one can gradually look at other Medium to long duration funds depending on risk appetite.

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Q: What should investors do with debt funds they have invested in? Do you suggest they remain invested in some while exit in others?

Investors should stay invested and take indexation benefit. Yields have corrected sharply and there is no point exiting any position now, if investors are already invested. Instead of looking at returns and volatility, one should look at asset allocation and rebalance the portfolio accordingly.