

FIXED INCOME INVESTING

Stick to Ultra Short-Term Funds



ANIRGAN BORA

Investors looking to put money in fixed income schemes could opt for debt funds that invest in short-term papers. After the rate cut on Monday, the RBI has cut a total of 150 basis points since the beginning of 2015 when rate easing began and fund managers say further aggressive rate cuts are unlikely. "Gilt and dynamic bond funds have already seen as much as 3-4% appreciation beginning 2016. This was a result of long-term rates (10-year gilt) falling from 7.76% in end December 2015 to 7.43% over the past 3 months," says Vidya Bala, head of research at Fundsindia.com.

Fund managers believe that at best, there could be one more rate cut of 25 bps. "Since we are close to the end of the rate cut cycle, investors could start switching from long duration gilt funds to ultra short-term funds," says Dwijendra Srivastava, CIO (debt), Sundaram Mutual Fund. He believes that since in India, the need for capital is huge, there could even be a reversal or tightening of rates post one more cut. "Short-term debt funds, holding short-to-medium bonds, will still stand to gain from the rate ease as the bonds they hold may see a price appreciation," adds Vidya Bala.

—Prashant Mahesh

Data: Value Research; 5 star funds by Value Research

LIQUID FUNDS

WHERE DO THEY INVEST: Treasury bills, Interbank call money market, Commercial Paper and Certificate of Deposit

TIME FRAME: **1 day-3 mths** 1 YR RTN: **7.9%**

WHAT TO DO POST MONETARY POLICY: Continue to be a good choice for investors looking to park their emergency funds and earn more than their savings bank deposits

5/4 STAR RATED FUNDS BY VALUE RESEARCH
Indiabulls Liquid, JM High Liquidity

ULTRA SHORT/SHORT TERM FUNDS

WHERE DO THEY INVEST: CPs, CDs and bonds with maturity of 6 months to 5 years

TIME FRAME: **6-12 mths** 1 YR RTN: **8.07%**

WHAT TO DO: Fund managers expect just one more cut of 25 bps. Hence medium and short-term funds will be less volatile

5/4 STAR RATED FUNDS BY VALUE RESEARCH
HDFC Short Term, Indiabulls Short Term, Principal Debt Opportunities Fund, JM Floater Long Term Fund

DYNAMIC BOND FUNDS

WHERE DO THEY INVEST: Bonds, corporate paper and government securities

TIME FRAME: **6 mths-5 yrs** 1 YR RTN: **6.82%**

WHAT TO DO: Fund manager has the flexibility to manage the duration of the portfolio. Retail investors with a view of 3 years and above could invest through these funds.

5/4 STAR RATED FUNDS BY VALUE RESEARCH
ICICI Prudential Long term Fund, Birla SL Dynamic Bond Fund

INCOME/GILT FUNDS

WHERE DO THEY INVEST: Bonds, corporate debentures and government securities

TIME FRAME: **3-5 years** 1 YR RTN: **6.38%**

WHAT TO DO: Short-term investors should consider shifting their gilt holdings slowly to short-term funds. Invest only if you have a five-year view here.

5/4 STAR RATED FUNDS BY VALUE RESEARCH
Birla SL Treasury Optimiser, L&T Gilt, SBI Magnum Gilt, Sundaram Gilt