MUTUAL FUND NAVIGATOR

Highlights

- Indian equities and Indian debt under performed the commodities for the month of Oct'09
- Widely tracked equity indices, Nifty and CNX Mid cap gave negative returns; 10 year G Sec was also negative for the month; while gold and oil were positive for the month.

Gold	Oil	Nifty	CNX Mid Cap	10 year G Sec
1.28%	6.45%	-7.34%	-1.98%	-0.58%

Source: Bloomberg. Figures are in INR

- The trend highlights the new challenges that investors could face going forward. Lower or normalized equity returns with higher inflation (because of higher commodity prices)
- Commodities have lower correlation with equities and fixed income and an investor can benefit from this by allocating some part of the portfolio to commodities.
- From an Indian context perspective, an investor could allocate some portion of money to commodities either directly through futures or indirectly through the mutual funds (though the commodity mutual funds are allowed to only invest in stocks, it could be used as a proxy for investment in commodities).

Equity Funds

Funds / Index	Returns
Nifty	-7.34%
CNX mid cap	-1.98%
Diversified funds	-4.48%
Mid cap funds	-3.38%

Source: Bloomberg. MFI. Figures are in INR

Mutual funds were also negative for the month, like the equity indices. Diversified funds did worse than the mid cap funds as large cap stocks fell more than the mid cap stocks.

Manager selection adds value

We believe that careful fund selection and active monitoring could add significant value to the investor's mutual fund portfolio. This is clearly highlighted in the table below:

Diversified funds (% returns)

	1 month	3 month	6 month	1 year
Minimum	-12.08	-4.11	17.79	-0.81
Maximum	-0.32	15.68	78.88	135.22
Range	11.76	19.79	61.09	136.02

Source: MFI. Figures are in INR. As on Oct'09.Fund classification as per MFI Explorer.

Mid cap funds (% returns)

	1 month	3 month	6 month	1 year
Minimum	-9.59	1.68	54.62	39.58
Maximum	-1.20	15.68	78.88	118.48
Range	8.39	14.00	24.26	78.91

Source: MFI. Figures are in INR. As on Oct'09. Fund classification as per MFI Explorer

It is very evident that the performance range of mutual fund schemes across the diversified space and mid cap space continues to be large, irrespective of the time period. The longer the time period, the bigger is the differential between the minimum return offered by a fund and the maximum offered by another fund. E.g: Across the diversified space, the differential performance in minimum return offered to maximum return offered ranges from 11.76% for 1 month to 136.02% for 1 year.

As a result, performance of a portfolio of an investor, if he is in the right scheme at the right time, could be very different from that of an investor who is in the wrong scheme at that time.

Our observation has been that investors typically don't actively track the schemes they have invested either because of inertia, lower knowledge or the tax / load impact. As a result, their portfolios over a longer period of time, offer much lower returns as compared to a carefully crafted portfolio, which is actively monitored.

Debt Funds

The average returns for debt funds have been in the range of -0.06% to 0.48%. A brief snapshot of some of the debt categories is given below:

Exhibit: Average returns of debt funds for the month of Oct'09

Funds	Returns
Income funds	0.23%
Gilt funds	-0.06%
Short term funds	0.48%
Ultra Short term funds	0.35%

Source: MFI explorer; As on Oct'09. Fund classification as per ING Multi Manager Research.

Short term funds gave the highest returns while gilt funds gave the least. Income funds and gilt funds were lower than ultra short term funds.

Given the stance taken by the Reserve Bank of India and expected inflation outlook, we believe that the risk return is not in favor of income & gilt funds.

Commodity Sector

The average returns for commodity funds were -0.72%, which were lower than gold and oil. It could be attributed to weakness in commodity stocks, wherein the funds invest, as compared to investing directly in commodities. Secondly, dollar weakness have significantly higher impact on commodity prices than the stocks of companies that produce them.

Commodity / Funds	Returns
Gold	1.28%
Oil	6.45%
Average commodity funds	-0.72%

Source: Bloomberg. MFI. Figures are in INR. Fund classification as per ING Multi Manager Research.

As iterated earlier, we believe that commodities offer good diversification to an investor and he should allocate a part of portfolio to them.

Arvind Bansal
VP & Head - Multi Manager Investments
ING Investment Management (India) Pvt. Ltd.

INVESTMENTS

www.ingim.co.in