

Convenience for all

ING Mutual Fund introduced the FoF concept a few years ago but it never did meet with much success. Why do you feel now is the time to push this category of products?

The big story is that regulatory changes have altered the way distributors now conduct business. The earlier model of rotating the same money — churning money between funds — does not work anymore. It is now necessary for distributors to seriously consider increasing the book size they manage. They can do this either by acquire new clients or getting more money from the existing ones. This is applicable to a relationship manager in a bank, a national distributor or an independent financial advisor. He can now

focus on new business if he has someone who can take care of the core allocation of the funds.



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Are distributors reacting positively to this?

Certainly. Four months ago, our multi-manager portfolio was ₹242 crore. Today, it stands at ₹385 crore. During this time we added ₹161 crore in fixed income and ₹33 crore in equity.

You speak of a product whose time has come of age from the distribution point of view. Can you tell me how this is a great product from an investor's point of view?

It is the most efficient way of investing.

On the tax front it is inefficient for an investor to keep moving money within the span of a year. But if he goes through a multi-manager route, that gets taken care of at the fund level. He does not have to worry about the tax impact when churning or rebalancing his portfolio.

Where time is concerned, it's difficult to keep track of the performance of each fund manager on a regular basis. Even if you have an advisor who does the needful and keeps you informed, it is time consuming to make the changes. It's much easier to hand it over to someone whose job is to do this day in and day out.

Knowledge-wise, who is the best person to look at a portfolio of another fund? A fund manager. He is in the best position to question another fund manager. So why not let the experts man-

age your money for you? Neither does the investor have to worry about the hiring and firing of fund managers. Everything is taken care of by this multi-manager product.

Does the fund manager of a FoF get time to meet with the fund managers of other actively managed funds?

At times, it is difficult. If the size of the funds is small, the chance of accessing time from a fund manager is limited. As the fund size begins to grow, one can access funds managers more frequently. As our asset size grows and we become a more dominant player, it will get reflected in our fund performance.

How often are the funds reviewed?

The review takes place daily but changes are only done as and when necessary. Some funds like HDFC Top 200 and Birla Sun Life Frontline Equity have been in the portfolios for a long while. However, the fund manager has the flexibility to make changes whenever he wants to. He also has the flexibility to decide how many funds he would like to have in his portfolio.

The funds get in purely on merit and stay there on merit. So for an investor, it's an instant and convenient access to few of the best fund managers in the industry.

A look at the FoFs offered by your fund house shows that none stand really tall in terms of performance, when compared to their respective categories. To cite one example, the ING OptiMix Multi Manager Equity Option, when compared with its peers in the 'Large & Mid Cap' category, it did not impress in 2008 or 2009.

One thing you must understand that a FoF is akin to a portfolio. You are comparing a FoF, which is a compilation of many funds, to other individual funds. There will definitely be a difference when an entire portfolio of funds is being compared to individual options.

When you look at the returns of a FoF from our offerings, you are looking at the aggregate returns of the best in the industry.

The issue is that investors look at the top performing fund of the category and compare a FoF to it. This will always be an average performer because it has at least four funds in it. You cannot compare it with one fund. And when the top per-

former falls below, the FoF will be the one that will do better but then the comparison is made with the current best performer. It's not a fair comparison at all simply because of the structure of the product. A FoF has a natural cushion built into it.

Besides the in-built nature of the product, any calls that went wrong? Calls in your case would be fund selection.

A huge chunk of our allocation in one of the products was in DWS Alpha Equity. The fund manager of that fund was 20 per cent in cash which caused him to lag behind the rally of March to May 2009. Hence we also missed out on that start which got reflected in the performance. Also, one of the funds we invested in did well in 2008 but underperformed in 2009. We moved out

of it but it hit performance.

Does the FoF concept target a specific audience? In the sense, can one say that it is targeted at those who do not have sufficient money for diversification on their own?

No, the multi-manager concept works for retail individuals, high networth individual (HNIs) and super HNIs. The underlying logic applies to all.

I believe that a FoF should form the core of any portfolio. So let's say, for the sake of simplicity, you have ₹100 to invest, then ₹60-75 should be allocated to a FoF, the actual amount depending on the age and risk profile. The balance amount can be tactically allocated. And one must have relatively higher expectations on the downside and relatively lower expectations on the upside.