Business Standard

Fri, 08 Dec-17; Business Standard - Mumbai; Size : 347 sq.cm.;
Circulation:30029; Page : 13

Opt for open-end ELSS with a track record

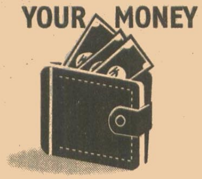
Fund houses have launched closed-end equity-linked savings schemes that offer nothing new

CHIRAG MADIA
Mumbai, 7 December

With the tax filing season around the corner, mutual fund houses are beginning to launch tax-saving products. This time, there is a new innovation in the form of 10-year equity linked savings schemes (ELSS). At present, two such schemes are open for subscription, from UTI Asset Management Company (AMC) and BOI AXA AMC. ICICI Prudential AMC has applied to the Securities and Exchange Board of India (Sebi) to launch a similar fund. Usually, ELSS have a three-year lock-in period and the investor gets tax benefits under Section 80 C for investing in these schemes.

The new launches, with a longer timeline, are expected to allow fund managers more time to plan their investments and play long-term themes that can give higher returns than the benchmark. "Our fund will focus on benefits from rural resurgence and this is the theme of our fund. The spotlight would be around the companies that will predominantly benefit from the rural income surge and be played through the next 10 years," said Lalit Nambiar, executive vice-president and fund manager (equity) at UTI Asset AMC.

To make it attractive for retail investors, fund houses have given the option to exit the closed-end schemes after three years of the mandatory lock-in. These funds, therefore, won't be listed at the stock exchanges and save investors from the hassle of finding the right price in the illiquid secondary market.



But investment advisors aren't too enthused by these products. According to them, closed-end tax-saving funds do not add any significant value to an investor's portfolio. "It's always preferable to go for an open-end fund that has a track record of performance under different market cycles. This way, investors have an idea of what to expect from the fund manager," says Vidya Bala, head-mutual fund research at FundsIndia. Investment managers say one should look at new schemes only if they offer a new investment idea that makes sense for the overall portfolio.

In the ELSS category, there are both open-end and closed-end schemes. And their performance has been almost at par. Top performers in both kinds of schemes have given above 40 per cent returns. The average returns of all ELSS schemes was 31 per cent in the same period. So, in terms of pure returns, one cannot differentiate between the two.

Mutual fund officials say one might see similar closed-end schemes being launched in the coming months as Sebi has tightened the screws on the industry with its strict mandate on open-end schemes. "With the regulator unlikely to give its nod for any similar schemes in the open-end category, fund houses are taking this route to introduce new schemes," says an industry player. UTI Long Term Advantage Fund-Series VI Regular Plan closes on January 12, while BOI AXA Midcap Tax Fund Series 1 closes on February 9.

CLOSED-END FUNDS

(Returns in %)

Scheme	3 years	1-year	6 months
UTI Long Term Advantage Fund Series II	9.49	27.57	8.31
SBI Long Term Advantage Fund Series I	NA	32.49	13.49
Sundaram Long Term Tax Advantage Fund Series I	NA	20.51	2.55
Invesco India AGILE Tax Fund	4.83	21.22	5.67
L&T Long Term Advantage Fund - I	14.56	28.17	4.49
Reliance Equity Linked Saving Fund - Series I	6.39	29.58	7.35
Category average-tax savings	30.95		

Source: Value Research