

# Silver lining for investors in international MFs as rupee plunges

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The one-year performance of international funds is deep in the red but the cut would be deeper if not for the greenback's red-hot streak.

Sample this: the Nasdaq 100 index is down 25 per cent in one year, while the international funds in India, which replicate this index, are down just 17 per cent.

"The currency depreciation has been much higher than the average this time, resulting in significant downside protection for international funds," said Rahul Jain, senior vice-president-research, International Money Matters.

Interestingly, the rupee's value erosion has helped funds benchmarked to the Nasdaq 100 outperform those benchmarked to the Nifty 50 index, despite the gains in the tech-heavy index lagging slightly. (Nifty is up 47 per cent, while Nasdaq has gained 45 per cent over a three-year period in local currency terms)

According to Value Research data, the Motilal Oswal Nasdaq 100 ETF has given an annualised return of 18 per cent during the three-year period as against the 15 per cent delivered by most Nifty50 index funds.

The gains accrued on account of dollar gains is one of the main draws for investing in international funds, especially those based in the US. This is also the reason why investment advisors and experts recommend SIPs in international funds for goals like foreign education and travel. Barring one, the rupee has largely depreciated against the dollar in each of the calendar years in the past decade.

There are also other advantages to international investing like geographical diversification and exposure to bigger and innovative companies. These factors coupled with the attractive returns generated by global markets post the 2020 sell off, helped international funds onboard a lot of new investors in the last couple of years.

According to data from the Association of Mutual Funds in India (AMFI), new fund offerings (NFOs) in the international fund of funds (FoF) category collected over Rs 5,000 crore in the financial year (FY) 2022. During the period, the assets under management (AUM) of these FoFs more than doubled to Rs 22,000 crore.

However, the AUM hasn't gained this year owing to two factors — restrictions in fresh inflows after the industry breached the \$7 billion limit in international securities and the poor performance of international markets.

The Nasdaq 100 is down about 31 per cent in 2022 so far as high inflation and the resultant interest rate hikes have hit the earnings of companies.

However, investment advisors are still recommending investors to continue with their international investment plans.

"Different geographies tend to do well at different points in time. Short-term returns are not a good indicator of future performance. There is merit in international markets from the valuations point of view. The valuations in many overseas markets are now down to their long-term averages while India continues to quote at a significant premium. It is actually a good time to rebalance allocation to international funds. For example, if the plan was to invest 20% in international fund and the rest 80% in India and if the relative outperformance of Indian funds has made this mix 85: 15, then this is the right time to sell some units in Indian funds and invest in international ones to bring this mix back to 80:20," said Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors.

"Investors should continue with their investment plan. Though the markets haven't done well in recent times, they can turn any time," said Suresh Sadagopan, Founder and Principal Officer of Ladder7 Wealth Planners.