OUTLOOK
MONEY

MARCH 2014

Get the Global Edge

THE GATEWAY TO INVESTMENT IN INTERNATIONAL MUTUAL FUNDS

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RELIGARE Invesco
Mutual Fund

An investor
education initiative
by
Religare Invesco Mutual Fund

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Mutual Fund investments are subject to market risks, read all scheme-related documents carefully.

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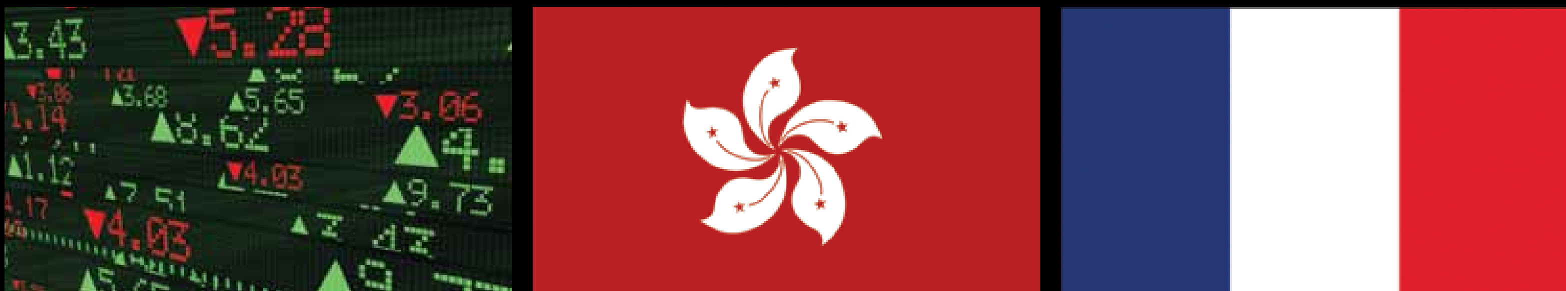
SPREAD YOUR INVESTMENTS GLOBALLY



You buy Swiss cheese and chocolates in gourmet stores, buy a Prada for your anniversary gift, use Apple iPhone and are on course to set your son to Harvard or Stanford in the US. In short, you have a worldview, but what about your investments? Is there an after-thought to invest in companies, such as Google, Apple or Samsung, whose products and services we have got so much accustomed to? If the answer is no, maybe it's time to consider easily accessible and affordable international investment opportunities that can give your investments the global edge.

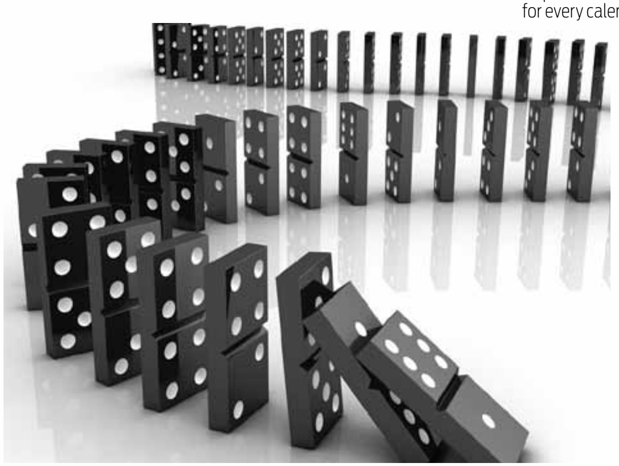
Investment Sans **Boundaries**

Even hundred years ago Indians venturing overseas were looked down upon. But that's history with investments by Indians and foreigners flowing in and out of the country. While investments made by foreign institutional investors in India get highlighted often, there are also numerous investment opportunities that exist abroad for Indians. But now, when the going in India has been so good—returns on stocks measured by returns on Sensex has been at an impressive 16.25 per cent CAGR over the last five years (ended December 2013)*—we Indians often wonder why look beyond Indian borders? The answer lies in the fact that even if you have well-diversified investments in stocks and equity mutual funds across large, mid and small-caps, besides debt and gold funds as well as other investments, be it fixed income instruments or real estate, they are all bound to be impacted by domestic economic factors. What do you do at times of unimpressive economic growth as in the recent past? It pays to spread your investments across country baskets to include both the developed markets, such as the US, Europe, Japan and Singapore, and also the emerging markets.

*__Past performance may or may not be sustained in future.__

Why Diversify **Globally**

We have all heard about the 'domino effect' where a gentle push to just one of the numerous dominoes stacked up in a line results in the collapse of the entire line of dominoes. You



wouldn't want that to happen to your investments, would you? Investing in different asset classes or geographies that share a low correlation with each other, ensures that all your investments don't meet the same fate if, say, one of the asset classes or one of the countries invested in, is not doing well.

While investors of mature economies seek growth from investments in emerging markets, investors from emerging markets, such as India, seek the stability that developed economies provide, especially during volatile times.

GLOBAL MARKET PERFORMANCE
DEVELOPED ECONOMIES

Mature markets have performed consistently over the last five years on the back of a stable economy

INDEX	MARKET	2009	2010	2011	2012	2013
DOW JONES	US	18.87	10.99	5.53	7.22	26.50
S&P 500	US	23.49	12.64	0.00	13.29	29.60
NASDAQ	US	43.72	15.62	-2.67	13.63	35.11
FTSE 100	UK	22.07	9.00	-5.55	5.84	14.43
CAC 40	France	21.46	-3.73	-17.88	15.29	16.02
DAX	Germany	22.66	15.71	-15.42	24.30	24.22
NIKKEI 225	Japan	17.30	-3.59	-18.32	21.59	53.63
HANG SENG	Hong Kong	51.39	5.38	-20.32	20.70	1.95
STRAITS TIMES	Singapore	64.49	10.09	-17.04	19.68	-0.66

Past performance may or may not be sustained in future.
All figures in percentage and for the calendar year. Returns are calculated in currencies of the respective index. Opening and closing figures of first and last trading day, respectively, of each index for every calendar year taken into consideration. (Source –Yahoo Finance).

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GLOBAL MARKET PERFORMANCE
EMERGING MARKETS

Volatility and muted investor interest across developing markets resulted in low growth

INDEX	COUNTRY	2009	2010	2011	2012	2013
SHANGHAI SE COMPOSIT	China	74.25	-13.43	-21.68	4.60	-7.07
BOVESPA	Brazil	82.66	1.05	-18.12	7.39	-15.55
SENSEX	India	75.12	17.37	-25.05	25.05	7.50

Past performance may or may not be sustained in future.
All figures in percentage and for the calendar year. Returns are calculated in currencies of the respective index. Opening and closing figures of first and last trading day, respectively, of each index for every calendar year taken into consideration. (Source –Yahoo Finance).

But the key to gaining from international investing is not to invest in markets across geographies that move in tandem, especially our country, i.e., India, and others. Low or negative correlation between domestic and global markets reduces our dependence on investments denominated in one currency. In case of Indians who have invested only in India, it is the rupee. It is important to note that the relationship among international markets keeps changing over time with fresh opportunities arising from time to time. Thus, spreading your investment eggs across country baskets is no different from spreading your investment eggs across asset baskets. However, the diversification must provide you with commensurate returns. To achieve that outcome you need to make investments

in countries or markets that are negatively correlated or have low correlation to the domestic market. Sample this: India is an emerging market, while Europe is a developed economy. The study of the equity market returns from these two economies suggests a low correlation between them—when the European equity markets have risen at a faster pace, the Indian equity saw relatively low growth and vice versa. Thus, you would want to diversify to markets that not only have very strong fundamentals but also share a low correlation with the home country (India). Low correlation means that two or more asset classes or countries share an inverse relationship, i.e., when the returns from an asset class or a country go up those from the other asset class or country are subdued and vice-versa. After the 2008 crisis, world market volatility has increased and we are witnessing divergent trends in both developed and emerging markets (see pages 5 & 6). This makes a case for investors considering to take advantage of this trend by investing in international equity markets.

Global Edge with **Mutual Funds**

You can give the global edge to your investments by investing in a variety of ways: mutual funds (MFs), exchange-traded funds, direct investments in foreign markets through equities, commodities and residential or commercial real estate. Buying units of an international mutual fund scheme is relatively easier than investing directly in equities. But those seeking direct investment in foreign equities, may do well to consider the following:

Demat account: Holding a Demat account is a must for making direct investment in foreign equities. Investors should also consider the costs involved.

Overseas trading account: Investors seeking direct investment in foreign equities will be required to hold and maintain an overseas trading account. This calls for paperwork, costs, time and charges that one may have to shell out as brokerage each time a transaction is done through this account.

Overseas bank account: One will also be required to hold an overseas bank account in the currency of the country where one wants to invest in. Investors will be required to make regular remittances from their Indian bank account to this overseas bank account. The limits for these remittances are prescribed by the RBI.

Currency conversion: Investors will also have to bear conversion costs if their overseas bank account is dominated in one currency, say the dollar, and the investor wants to purchase foreign equity in Euros from the European market.

Budget: While units of an international mutual fund can be purchased even with a small investable surplus, direct investment in foreign stocks will call for much larger investment.

Managing investments: The onus of keeping track of the foreign economy and its equity markets will be on the investor if he / she opts for investing directly in foreign equities.

Since MFs have the advantages over direct investments of being affordable (since you buy units), benefits from fund manager expertise and easy liquidity, among others, your quest towards having the global edge in your portfolio of investments should make you knock the doors of MFs. You can not only buy international mutual funds that invest directly in foreign stocks and are managed by Indian fund managers, but even in those that invest in an underlying foreign mutual fund based out of the foreign country. These schemes are managed by local fund managers of the country where we want to invest in and, being natives of that country, these fund managers have a deep understanding of the equity market and the economy of that country.

The **Risks**

Like horse and carriage, returns from every investment comes with risks, and international funds are not an exception. The risks with international mutual funds include currency fluctuations and political upheavals in constituent markets.

FIVE-YEAR COMPOUNDED ANNUAL GROWTH RATE (CAGR)

The developed economies performed better

INDEX	CAGR (%)
DEVELOPED >>	
DOW JONES	18.57
S&P 500	15.40
NASDAQ	21.48
FTSE 100	8.77
CAC 40	5.80
DAX	14.49
NIKKEI 225	12.62
HANG SENG	10.04
STRAITS TIMES	12.45
DEVELOPING >>	
SHANGHAI SE COMPOSIT	2.39
BOVESPA	6.52
SENSEX	16.25

Past performance may or may not be sustained in future.
Period: 1 Jan 2009-31 Dec 2013;
Source: Yahoo Finance.

Currency risk. An Indian investor will invest money in an international mutual fund scheme in the domestic currency i.e. Indian rupee, which will then be converted to the currency of the country where the mutual fund scheme is investing at the prevailing exchange rates.

However, the net asset value (NAV) of the international mutual funds, which is quoted on a daily basis, is expressed in the Indian rupees, after taking into account the exchange rate of the day. International mutual fund schemes thus run the risk on account of exchange rate fluctuation. This implies that for an international mutual fund scheme investing in, say, the US, the movement of the rupee vis-à-vis the dollar can impact the scheme's NAV when quoted in rupee terms i.e. the NAV will increase if the rupee depreciates against the dollar and vice-versa.

Sample this: If you invest ₹10,000 in an international mutual fund in India that invests in USD and the exchange rate at the time of investment is ₹50 to a dollar, you will get units worth $200. After one year, if the rupee depreciates by ₹2 to ₹52 to a dollar, your $200 worth of investment would be worth ₹10,400 (a 4 per cent gain) purely on the exchange rate play, assuming that foreign equities have not risen or fallen at all. Obviously, the exchange rate can also turn against you if the rupee appreciates.

Also, where the international funds invest in more than one country, the exchange rate fluctuation between the currencies of those countries can also positively or negatively impact the NAV of the scheme and, in turn, its returns.

Country-specific risk. "Putting your eggs in one basket" analogy works within international funds, too. Investing in just one foreign country, as against a group of countries, is akin to investing in a sectoral fund that invests in just one sector versus a diversified equity funds that invest across sectors. There are several microeconomic (typically company related), macroeconomic (typically country- or region-related) and geo-political factors impacting a country's economic performance. Investors are thus advised to ensure the economic health and future outlook of the country where the international mutual fund will be investing money. It is advisable to consult your financial advisor before investing.

How to Pick a **Global Fund**

As an international mutual fund invests your money in markets that you may not be well conversant with; it is important to consider the following before making an international mutual fund pick...

- Track record of the global mutual fund scheme where one wants to invest money. Returns from two different funds investing in same country can vary at various points in time.
- Track record of the fund manager managing the scheme. It will also help to look for experienced fund managers with expert teams that have research and trading presence across the world. Such experts are adept at mitigating key risks associated with global investing.
- Some international mutual funds could be theme based. An investor here needs to be cognizant not only with the geography but also the investment theme within the geography where he is investing.

Taxation

Tax treatment of international mutual funds in India is similar to that of the Indian debt funds. Thus akin to debt funds, if an investor holds on to his investments in an international mutual fund for more than 12 months, the same will be considered as long term, making the investor eligible for indexation benefits. Any gains arising from investments made in international mutual funds and held for more than 12 months will be taxed at 10 per cent without indexation or 20 per cent with indexation.

However, where the investments in international mutual fund are held for less than 12 months, the same will be considered as short term and will be included in the total income of the investor to be taxed at the applicable tax slab.

Things To **Consider**

If you are considering investing in an international mutual fund, you must evaluate factors including the performance track record of the underlying scheme, the extent of diversification it has across markets, the costs and expenses pertaining to the international mutual fund and also the country of domicile of the underlying mutual fund. Investors may also do well to consider whether a tax treaty exists between India and that country where the underlying fund is domiciled and are advised to consult their financial advisors before investing. In different markets, the risks and returns could vary due to different sets of political, economic, regulatory and social factors prevalent in the investee country. Depreciation and appreciation of the currency will also have an impact on the returns and it has to be taken into consideration before making an investment decision. With the recent episodes of the Indian rupee and Indian equities being on a roller-coaster ride and the periods of FII (foreign institutional investor) exodus making the market choppier, adequate international diversification has now become more important than ever. That's not all. With domestic investments in other asset classes far from being at their rewarding best, chances are that the investments in foreign markets can set off any losses incurred in the Indian market. Therefore it is advisable to invest about 7 per cent to 10 per cent of your portfolio in international mutual funds or stocks, though this will be largely influenced by your individual requirements. One should also avoid investing in countries that have very volatile and unstable currencies. With these basics covered, you will be ready to make the world your oyster for your investments.