

Fund Call Reliance Monthly Income Plan

Good show over the long run

The fund's debt-equity mix offers stability while spicing up returns

DHURAIVEL GUNASEKARAN

Equity markets are scaling new highs. Hence, investors with medium risk appetite can allocate or shift part of their assets to hybrid mutual funds.

Hybrid funds invest both in equity and debt. Monthly income plans are such funds investing 10-30 per cent in equity and the rest in debt instruments. The higher allocation to debt helps steady growth of principal with minimal risk. The equity component, on the other hand, helps spice up returns.

Reliance Monthly Income Plan is one such fund under the 'MIP-conservative' category. The fund has generated consistent risk-adjusted return since its launch. Despite the fund's mediocre performance in 2016 due to relatively lower allocation to mid-cap stocks, its long-term performance has been healthy.

The fund has delivered 9.9, 9.3 and 10.7 per cent annualised returns during one, three and five years, respectively, while the category posted 8.6, 8.3 and 9.3 per cent returns.

Given the higher allocation to debt which is actively managed,

monthly income plans are suitable for different categories of investors with varying risk profiles. For instance, investors with medium risk appetite can consider allocating a part of their investment if they want to diversify into debt assets instead of investing directly into debt securities or debt schemes.

Likewise, investors who are nearing retirement can shift part of their investment from high risky assets to such relatively low-risk funds.

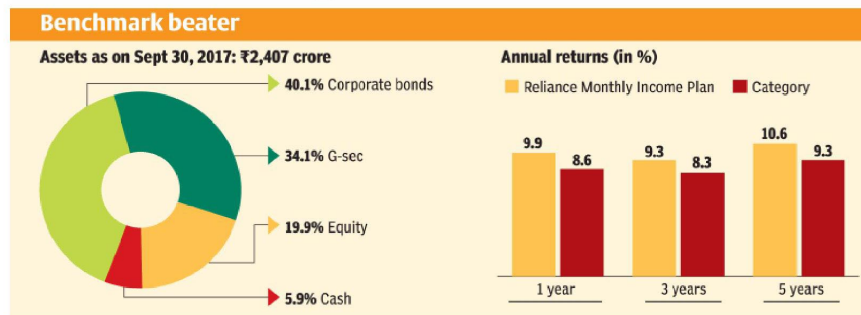
Common misconception

Before investing, it's important to take note of the common misconception about funds carrying the 'monthly income plan' tag.

Although these funds declare dividends on a regular basis, through the 'dividend option', investors should not rely on them for their regular commitments as the pay-outs are not mandatory and depend on the performance of the funds.

Further, the dividend declared by these funds attracts dividend distribution tax (DDT) of 28.84 per cent.

On the other hand, the invest-



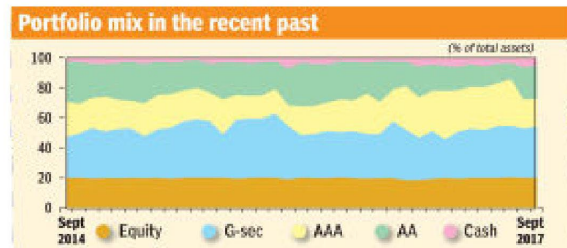
ment redeemed from the growth option after 36 months qualifies for long-term capital gain tax, which is taxed at 20 per cent with indexation.

Fund mix

Reliance Monthly Income Plan has maintained an equity-debt mix of 20:80 (on average over the last three years). On the equity side, the fund has relatively

lower exposure to mid-cap stocks (around one-fifth of equity portfolio). However, aggressive sector calls have helped rake in higher returns.

For instance, the fund increased allocation considerably in private sector banks, textile and steel sectors in the last one year while decreasing its exposure to entertainment, refineries and telecommunications. The



fund follows a bottom-up approach with a long-term view while cherry-picking stocks.

On the fixed income portfolio, the fund has been aggressive in playing the duration strategy. The fund manages the duration through G-Sec exposure with allocation of at least 25 per cent of the total assets at any time.

The average maturity of the debt portfolio is 11 years as per the latest portfolio (as of September 2017).

The fund is also aggressive on its credit calls. It follows an accrual strategy through right blend of short to medium tenor corporate bonds.

Currently, its exposure to lower rated — AA and below — is at 22 per cent of total assets. This pegs up the credit risk of the portfolio.



Fundas

- Consistent performer
- Aggressive fixed income portfolio
- Relatively lower exposure to mid-caps