

GOOD FOR INVESTORS looking to invest in equities for first time, or those who seek low volatility, say analysts

Equity Savings Funds Offer a Safer Option at Today's Elevated Valuations

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Mumbai: A relatively low-risk mutual fund product that invests in a mix of stocks, debt and arbitrage opportunities is increasingly gaining popularity among investors worried about the stock market prospects after a four-year rally. Inflows into equity savings schemes of mutual funds have more than doubled to ₹10,635 crore in August from ₹4,652 crore a year back.

Investing at Market Highs

These funds came into prominence in 2014, after the government changed taxation rules for debt funds, increasing the tenure for long-term capital gains from one year to three years. These funds typically invest roughly 33% of their portfolio in equities, arbitrage opportunities and debt each. The portfolio of such funds is structured in such a way that the corpus set aside for investing in stocks and arbitrage remains above 65%. This helps these funds being classified as equity

Fund Scorecard

Scheme Name	Corpus (Cr.)	1 year return (%)
ICICI Pru Equity Income	2549	7.12
HDFC Equity Savings	2387	12.28
DSPBR Equity Savings	1118	9.55
Reliance Equity Savings	1116	11.45
Kotak Equity Savings	899	10.18

Source: Accord Fintech, Compiled by ETIG Database

mutual funds, which enjoy exemption from capital gains tax if held for more than a year. The equity component varies between 20-

40% depending on the fund managers' view of the market. Financial planners feel these funds make sense to investors looking to

invest in equities for the first time, or for those who want low volatility.

"Corporate earnings is yet to pick and the market has had a sharp run-up with valuations looking expensive. The Nifty trades at a PE of 26, a 29% premium to its historical average of 20.3. For investors shifting from fixed deposits or for those making their first investments, equity savings funds are a good option," says Gajendra Kothari, MD, Etica Wealth Management. He recommends ICICI Pru Equity Income Fund and Kotak Equity Savings Fund.

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Post demonetisation, many investors are shifting from physical savings to financial savings. Lower returns from fixed deposits and bleak outlook on real estate are driving investors to equity mutual funds.

Many investors are taking a plunge into these funds for the first time, while several others

are seen swapping their fixed deposits, as returns there have dwindled to 6-6.5%.

“Given that these are meant for conservative investors, the equity portion of most funds is deployed into large-cap equities,” says Harshvardhan Roongta, chief financial planner, Roongta Securities. He expects such funds to give a return of 8% over a three year period.