

# HNIIs find succour in debt PMS

## Play In Yield Curve Helps Debt Schemes Earn Up To 15% Returns In Past Few Months

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**B**ATTERED by the sustained down-trend in equities, high net worth investors are turning towards debt portfolio management schemes (debt PMS) which are garnering average annualised returns close to 15% over the past few months.

A portfolio study conducted by Trust Investment Advisors shows that debt PMS have not only outperformed equity portfolios by a mile, but also have logged better returns compared to income funds and fixed maturity plans. A look at the yield profile of debt instruments (not disclosed in public domain) states that while debt PMS posted an average return of 14.4% (annualised & pre-tax), income funds and FMPs have returned -1.1% and 10.2%, respectively.

Returns have not been easy for PMS fund managers as they seemed to have rigorously played on yield curve and duration, considering the high volatility in interest rates during July and August. In fact, the 10-year G-Sec had rallied well above the 9% mark (currently trading in the range of

8.5% to 9%) soon after RBI announced its credit policy review in July-end.

"The returns in debt PMS come from trading in debt papers as well as from coupon interest. It gives greater scope to the fund manager to play on the yield curve and duration depending on the interest rate scenario," said **Maneesh Kumar**, head-wealth management solutions, ASK Wealth Advisors, which also offers debt PMSs.

"Over the past three months, when interest rates were tightening, several debt PMS fund managers had reduced the duration of the portfolio by investing in short-term papers. However, post the recent easing of inflation and the 10-year G-sec yields, fund managers have retreated to their older portfolios to include longer dated securities for capturing capital appreciation," Mr Kumar added.

According to experts, income fund managers were trapped with papers having longer duration while interest rates were tightening during June and July. Debt fund managers were able to modify the duration of portfolios to shorter duration. Also money market instruments

formed a large percentage of debt PMS portfolio and that worked to the advantage of debt PMSs, experts said.

However, there is a segment in the market which reckons that it is pretty much difficult for debt portfolios to log returns in the range of 15% in present conditions. "There is no way to check the claims of brokerages that have provided such returns. For all we know, they might be investing in equities as well. It is a common practice among brokerages (offering debt PMS) to buy (option) puts in falling market conditions," said a debt fund manager.

"Yielding 15% returns by investing purely into debt papers looks highly improbable. It will probably work if they invest in equities and hi-interest unrated papers," the fund manager added. Unrated (or lowly rated) bonds and papers come with higher interest rates, often ranging between 11% and 14%.

There are takers for under-rated state government and semi-government bonds as well. These instruments yield higher in the range of 200 bps to 300 bps over triple 'A' rated papers.

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### DEBT PAYS

| Period/<br>Instruments | Debt<br>PMS | Income<br>Funds | FMP   |
|------------------------|-------------|-----------------|-------|
| June '08               | 12.14       | -12.23          | 9.85  |
| July '08               | 11.30       | 0.50            | 10.00 |
| August '08             | 20.00       | 8.13            | 9.95  |
| June-Aug Qtr           | 14.40       | -1.14           | 10.25 |

\*The above returns are annualized and pre-tax (%)

SOURCE: Trust Investment Advisors  
(Past performance is not indicative of future results)