BEST MUTUAL FUNDS

DEBT: SHORT-TERM

SAGE ADVICE: Sudhir Agrawal of UTI ST stresses on the need for asset allocation

1. UTI ST INCOME FUND

2. Principal Income Fund-STP
3. PineBridge India ST Fund

A HEALTHY BLEND OF CAUTION AND CONVICTION

The fund is conservative on credit, but bullish on interest rates by Raghu Mohan

1-YR RETURNS
11.18%
NET ASSET VALUE
Rs 13.61
BENCHMARK RETURNS*
9.10%

TOP HOLDINGS

8.33% GoI 9 Jul '26
6.68%

RELIANCE GAS TRANSPORTATION INFRA 10.25% (22 Aug '21)
4.17%

RURAL ELECTRIFICATION Corp 9.4% (20 Jul '17)
3.7%

RANBAXY LABORATORIES 9.2%
3.4%

SAIL 8.75% (8 Nov '17)
3.18%

*Crisil Short Term Bond Fund Index. Data as on 31 Dec 2012. Cash and cash equivalent are not considered for holdings
Source: Ace MF database

THE conservative Sudhir Agrawal manages one of the country's biggest short-term (ST) debt funds, UTI ST Income Fund, with average assets under management (AAUM) of Rs 2,050.79 crore — winner of *Businessworld*'s survey of the best-performing mutual funds (MF) in the Debt: Short-Term category. "We prefer not to trade a lot just for the sake of trading unless we have a clear view on rates. But once we are convinced about the rate, we execute the call aggressively to benefit from it," he says.

By end-December, his fund gave a year-to-date (YTD) return of 11.18 per cent. Next came Principal Income Fund with an AAUM of Rs 210.60 crore and a YTD return of 10.16 per cent, followed by PineBridge India ST Fund's AAUM of Rs 744.57 crore and a YTD return of 10.10 per cent.

Agrawal is bullish on interest rates. "We expect the Reserve Bank to cut the repo rate by 75-100 basis points during this calendar year," he says, adding that the cut may be facilitated by an expected sharp fall in Wholesale Price Index inflation to around 6.25 per cent. "In line with our view, we have increased the duration in our income funds and advised investors to continue investing in income funds, both short- and long-term," says Agrawal.

Lower interest rates can also sink many boats, and Agrawal is aware of the dangers. He is wary of investments in real estate and aviation, where the credit quality of issuers is doubtful, and is conscious of the fact that many borrowers in the bank loan market have restructured their debts. "Our priority is to get our macro view clear. If we are convinced about our rate view, we will look at the relative valuations and execute the investment decision. As an organisation, we are conservative on the credit side and avoid taking risky credit calls," he says.

Before he started life as a fund manager, he did a stint with Credit Analysis and Research, a rating agency. "I always had a fascination with the larger economy. I was on the research side (of debt). It has, in many ways, shaped me as a fund manager." Understandably, he has a word of advice for investors: MF investments are not just about equity exposure; as many investors may not be aware, the MF industry also offers a number of debt fund options.

"We need to introduce the concept of asset allocation to investors, where they need to be told that debt investment should be an integral part of their portfolio. They need to be told about the tax advantage that a debt MF offers over other investment avenues. We would also like to advise them about the need to treat their investments in debt as long-term instruments rather than looking at their day-to-day performance."

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