Date : 24-Nov-2008 Edition : Mumbai Page No.: 23 Page Name: Front Page Size: 122.27 sq. cm

Sector: Banking and Finance Circulation: 0 AVE: Rs.134494.54 Frequency: Daily

DNA MONEY

India offshore funds lose 2/3rds of their assets

Comparatively, domestic mutual funds have had a bearable run

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The carnage in the Indian markets has hit offshore funds more than domestic mutual funds.

While the Indian mutual fund industry lost nearly a third of its assets under management (AUMs) from peak levels earlier this year, offshore funds, which manage money for retail investors from developed countries, have lost 66% owing to a flight to safety and strengthening dollar.

While the majority of erosion for Indian mutual fund industry came from debt side and that too in the crisis-ridden October, foreign funds have lost mostly on equity.

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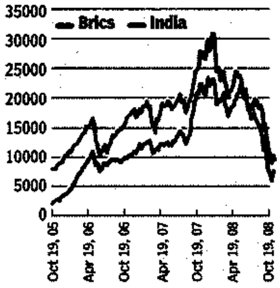
AUM of India/Bric-dedicated funds fall sharply



Source: EPFR, Merrill Lynch Research

Off the cliff

The AUM of Indian mutual funds has shrunk from Rs 5.5 lakh crore to around Rs 4 lakh crore

The assets of India-dedicated funds fell from $31 billion in January, 2008 to $10 billion currently

The 22 India-focused funds in Japan saw assets diminish from $13.2 billion to $4.5 billion currently

Date : 24-Nov-2008 Edition : Mumbai Page No.: 24 Page Name: Money & Banking Size: 153.43 sq. cm

Sector: Banking and Finance Circulation: 0 AVE: Rs.122740.48 Frequency: Daily

India offshore funds lose 2/3rds of assets

Since the Sensex fall from 21000 in January 2008, the AUM of Indian funds has shrunk from Rs 5.5 lakh crore to around Rs 4 lakh crore, a decline of 27%. The AUM of India-dedicated funds fell from $31 billion in January, 2008 to $10 billion and those of BRIC (acronym for Brazil, Russia, India and China) nations' funds fell from $24 billion to $7 billion.

Another indicative trend is the AUM of the 22 India-focused funds in Japan, which collapsed from $13.2 billion at the beginning of 2008 to $4.5 billion currently.

All these funds have lost two-thirds or more. DSP Merrill Lynch analysts Jyotivardhan Jaipuria and Anand Kumar say this resilience in the local institutions and the lack of redemption pressure on the equity side has helped the Indian markets. "While income/money market funds in India have seen significant redemptions in past few months, equity schemes have largely been immune to panic selling. Typically, equity market bottoms have been marked by retail panic. It would be interesting to see if this time is different," they said in a report on Friday last.

Domestic institutions have been big buyers of equity this year. While MFs have bought stocks worth $3 billion so far this year, life insurance companies which are bigger players are said to have pumped in almost an equal amount in the market.

FIIs have been negative on India from the beginning of the year with only 2 months receiving inflows during the year. In spite of the selling throughout the year, they still hold nearly 40% of the free float of the market (close to 16% of the Indian markets is still held by the FIIs).

A good part of the selling is attributed to post-October selling by absolute return schemes. Exposure of the absolute return funds in the Asian markets are down significantly in the past year.

Experts feel this could have touched levels from where outflows could not be substantial. According to a study by UBS, Asian hedge fund exposure has fallen from levels of around 90% in the summer of last year, to levels closer to 26%.

"For sure, long/short funds could cut their exposure levels further. And we remain, like the industry itself, aware that the redemption cycle continues to be a substantial challenge. Nevertheless, underlying exposure levels are less than half where they were in the summer, which should limit the damage from further cuts in exposure, and help cushion further redemption activity," UBS analysts Niall Macleod and Aakash Rawat, said in a report on Friday. Dipen Shah, vice-president, research, Kotak Securities, said, significant deleveraging has happened in the FII front.

"From over $250 billion at the peak, FII investments are down to around $60 billion. From here on, the scope for outflow is very limited. I feel the incremental outflow will start reducing. Once they are done with the liquidations and they are convinced that rupee won't depreciate further, at least they will stop selling, that will probably provide some stability to the market," Shah said.

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