

Ideas @ Edelweiss Multi Strategy Funds – International Equity Investing

Investors the world over are used to investing in global stocks both as a form of portfolio diversification as well as a source of additional return. However, Indian investors have not really warmed up to this idea because of blockbuster post-tax returns from domestic equities. But with moderate domestic equity returns and a volatile rupee being the new normal, we suggest that investors allocate at least 20% of their equity portfolio to global stocks and recommend that they do so in a SIP manner.

A local Indian can purchase global stocks either through the RBI's liberalized remittance scheme (\$200,000 per year under LRS) or through an international equity mutual fund. To keep things simple, we will discuss the later but the same thought process applies to investments made through LRS.

The most important consideration should be to pick a fund that is uncorrelated to the Indian market. The two important sources of diversification are foreign currency exposure and risk factors that are distinct from the two major risk asset classes - Indian equities and gold. On the FX side, the rupee has a statistically significant 0.29 correlation with the NIFTY.

Global exposure means that you are short the rupee and by extension have hedged out some of the equity volatility. The NIFTY is heavy with banks and commodity companies, hence it is not surprising that Motilal's tech heavy N100 and DSP's World Agriculture Fund have the lowest beta to both the NIFTY as well as gold. The former gives you exposure to world beating companies like Apple while the latter allows you to profit from the underinvested agricultural value chain. Another approach is to keep it simple and go with a vanilla broad based fund like Birla's International Equity Fund – Plan A.

Two valid criticisms of international equity mutual funds are the double layer of fees for feeder funds and their debt-fund like taxation. Nevertheless, we think that this emerging asset class merits a look from all investors.