THE TIMES OF INDIA

MIPs increase equity exposure

M Allirajan | TNN

With the markets hovering close to 18k, monthly income plans (MIPs) have increased their equity exposure significantly. The best-performing schemes in the category have nearly touched the mandatory ceiling and this has enabled them generate higher returns. MIPs typically have 10-30% exposure to equity.

An MIP is a type of investment vehicle that provides a specified monthly payment to the investor. While a higher-equity exposure has helped these schemes log in 6-8.5% returns since mid-October during which markets have traded within a band and with a largely upward trend, MIPs with lower equity holdings have remained laggards, analysis shows.

YOUR MONEY

The net asset value of top-ranking MIPs touched 52-week high on July 22-23 and as a result, many schemes have given dividends ranging from 1.5-2%. In all, four MIPs feature in the top 10 debt schemes for the six-month period (till July 26).

"MIPs have increased allocation to equity as there is much less uncertainty about the market (movement) in the near term," says Lakshmi Iyer, head, fixed income and products, Kotak Mahindra mutual fund. Moreover, the performance of the fixed income portfolio of MIPs was not in line with expectations in the past two months prompting fund managers to shore up equity allocations, she says.

Some large fund houses have seen a significant increase in sales of hybrid and MIP products in the past year, say industry officials.

Though MIPs have managed to ride on the market momentum now, equity allocations in the future would largely hinge on market direction, say industry officials.

Since MIPs, which invest mainly in government securities and corporate bonds, usually make payouts on a monthly basis they would not be able to take aggressive market calls, officials say. Though there is only a limited upside to the market, even a 10-15% growth in equity for the rest of the year would allow MIPs net decent returns, says a senior official with a large fund house.

An actively managed hybrid or MIP can easily beat pure debt funds, and if market conditions are favourable can earn returns in excess of 10%, he says.