

Product Note- Fidelity Flexigilt Fund

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Description

Fidelity with its vast international experience has launched a unique fund in the Indian market where the money will be invested in government securities, which are also known as Gilt securities. Distinctive feature is that the fund manager will have the flexibility to invest in gilts of varying maturities and therefore has an active mandate to turn interest rate volatility to the fund's advantage. That explains their naming the fund 'Flexigilt'- generally Gilt funds are sedate and remain invested in long-term government securities.

Market View & Return

Presently with the inflation going up, RBI has implemented monetary tightening measures like increasing repo rate and cash reserve ratio. Yields of 10-year gilt securities had moved up to a high of 9.5%. The present view is that inflation will start subsiding in a few months. Sustained slowdown in credit growth and industrial production will make it difficult for RBI to continue the current interest rate tightening cycle. The expectation is that RBI will relax the interest rates to revive the momentum of 8-9% economic growth as soon as inflation rates provide them with the room to ease rates. In a declining rate environment, long term Gilts appreciate in value providing the investors with healthy capital gains. However, the interest rates are expected to fluctuate and remain volatile. Expected returns of Flexigilt are likely to be in the range of annualized 11-12% but are not likely to come in a straight line. Therefore the appropriate time horizon for this fund will be in range of 1-2 years.

Risk

There is no credit risk since the fund is investing only in government securities. However interest rate risk exists since Gilt values are sensitive to interest rate movements. That's where the experience of Fidelity team in different international scenarios will be beneficial. They have a good track record of managing debt funds with a flexible mandate.

Recommendation-where does it fit in the portfolio?

I will recommend Fidelity Flexigilt to be a part of the portfolio since the return expectation of annualized 11-12% is very good and that also without any credit risk. However, because of current interest rate volatility, only that part of the portfolio should be invested which is not required for 1-2 years. It will be beneficial for money that is lying idle or earning very low returns in bank deposits. For NRIs, this is even more relevant since interest rates in many countries are at very low levels of 3-4%. Moreover, Indian Rupee is in a long-term appreciation trend and with its present corrected level of more than Rs 44/USD provides a good return potential even from a currency perspective.

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