

'India Dedicated' funds offer cushion to US Fed rate hike

By [Ashutosh R Shyam](#), ET Bureau | 25 Mar, 2015, 04.00AM IST

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A major reason why the impending interest rate hike by the [US Fed](#) is likely to have limited impact on foreign fund flows into Indian equities is that these funds are now favouring more stable and long-term money markets. A narrowing current account deficit, expanding foreign exchange reserves, a sharp fall in crude oil prices and a relatively stable currency make India an attractive investment destination.

This is apparent from the proportion of 'India dedicated funds' in the total funds deployed by foreign institutional investors in India. Over the last year, these funds witnessed net inflows of \$9.4 billion, nearly half of the total FII funds that flowed into Indian equities.

The key difference between India dedicated and non-dedicated [FIIs](#) is the mode of raising funds from investors. India dedicated fund managers primarily raise capital to invest solely in Indian securities based on macro parameters, while non-dedicated FII funds are based on geographies such as Asia, [BRIC](#) or emerging markets. A fund manager can invest in a country with a higher or lower weight compared to the weight assigned by [MSCI](#). Hence these funds are considered stickier with their investments compared to the relatively fleet-footed [exchange traded funds](#) (ETFs).



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Estimation of FII flows by fund type

(Fig in \$bn)	2012	2013	2014	2015 YTD
FII FLOWS	24.4	22.1	16.1	4
Primary market	2	2	2.1	0.9
Secondary market	22.2	20.1	14	3
ETF FLOWS	2.3	-1	2	0.7
India dedicated	0.9	0.1	2.4	0.9
Non India	1.4	-1	-0.4	-0.2
NON-ETF FLOWS	22.1	23.1	14.1	3.3
India dedicated	-2	-5.3	3.1	1.7
Non India	24.1	28.4	11	1.5
INDIA DEDICATED (AUM)	34.4	27	38.8	45.1
ETFs	5.6	5	8.9	10.4
Non-ETF	28.8	22	29.9	34.7

This also indicates the willingness of foreign investors to take 'micro bets' on Indian markets instead of looking solely at the economy's macro outlook. This could act as a harbinger for more stable and long-term foreign investments as it has the potential to counterbalance the risk (to some extent) of flow reversals on the part of non-dedicated funds.

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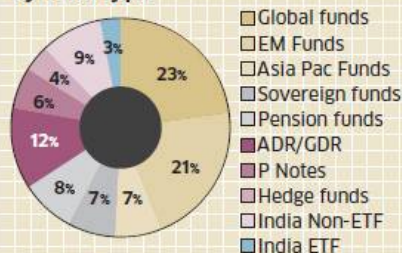
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Trend of India dedicated FII fund base as % total FII



FII's Investment in Indian equities by fund type



Source: CLSA

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