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Be a global citizen and a global investor

July 2024

Dear Investors and Partners,

The Union Budget 2024 has rationalised the tax structure of different asset classes, including International Fund of Funds (FoFs). Previously, International FoFs were taxed as debt funds at the marginal rate, but they will now attract a long-term capital gains tax of 12.5% if sold after 24 months.

The assets under management in International FoFs have increased to Rs 25,887 crore as of June 2024, from merely Rs 2,025 crore in June 2019. The number of folios, or investor accounts, in International FoFs surged from 1.27 lakh to 14.53 lakh during the same period (Source: AMFI). Though there has been an increase in investor interest in this category over the last many years, there is still ample scope to take advantage of the benefits that the category provides.

There has been a strong movement towards investing in equities in India, especially among the younger population seeking alternatives to traditional investments. India's stock market capitalization has risen to \$5.34 trillion as of August 7, 2024, making it the fourth largest market. (Source: BSE) The equity culture among retail investors is just beginning, and there's still significant growth potential. In a global context, India's market cap is around 10% of the US market cap at \$55 trillion as of June 2024. (Source: S&P Global) Global market capitalisation is approximately \$110 trillion at the end of 2023 which means that the Indian Equity market is around 5% of the overall global equity market.

Investors with sufficient exposure to Indian equities might consider allocating a portion of their savings to global equities. This can provide exposure to unique themes and companies not available in India, such as luxury products, video streaming, gaming, e-commerce, and globally recognized brands.

Apart from diversification benefits, investors with dollar-oriented goals, such as foreign trips or especially children's overseas education, can benefit from dollar exposure. While the currency impact can be both ways, over the past five years, the dollar has appreciated by 20% against the INR benefiting Indian investors in these global Fund-of-Funds.

The industry offers a plethora of options, including active, passive, thematic, and country-specific strategies for investors seeking global diversification. As of June 2024, there are 55 International FoFs available. Choosing the right strategy can be daunting for investors new to this category.

While it is always recommended to consult a trusted advisor for what would suit your unique requirements, for first time investors, it would be better to not risk their capital into very narrow themes and instead it would be better to invest in a diversified global fund. This benchmark and region-agnostic approach ensures that investors can invest in any geography and company across sectors.

Global funds can also help provide asset class diversification. For example, a Real Estate and Real estate investment trusts (REITs) can provide exposure to themes such as data centers, malls, hotels/resorts & entertainment, and commercial real estate through Real Estate FoFs offered by mutual funds. These funds provide a liquid, diversified, and accessible channel for individual investors to invest into a whole new asset class such as real estate.

As the saying goes, "Don't put all your eggs in one basket." It is wise for investors to diversify beyond Indian equities by adding a global dimension to their portfolios. Global markets often move independently, so a downturn in one region may be offset by stability or growth in another. Exposure to various geographies ensures that a portfolio does not depend solely on the fortunes of a single market.

In an increasingly interconnected world, the opportunity for Indian investors to diversify their portfolios by investing in international markets has been given another boost by the recent tax change. While the Indian market presents ample opportunities, looking beyond domestic borders can help mitigate risk, provide a hedge against local currency fluctuations, and achieve diversification. Being a global citizen and a global investor too is good.

Happy Investing!