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## PRODUCT UPDATE – BARODA LIQUID FUND

### **Market Outlook:**

The Indian economy has been facing cyclical and structural issues for some time which has got aggravated due to the COVID pandemic. While the government is employing fiscal and monetary measures to address the economic situation, concerns like Govt. borrowings, inflation and FPI outflows are expected to create upward pressure on interest rates on the longer end of the curve. RBI measures like repo rate cut, long term repo operations (LTRO), and removal of FPI ownership limits in certain G-secs are aimed at soothing long-term interest rates. RBI has announced couple of liquidity measures addressing the concerns of NBFCs, / MFIs and liquidity to RRBs / Co-Op Banks and Housing Sector through NABARD / SIDBI and NHB. As a result of these measures, there is adequate liquidity in the system, however, due to the lockdown, trading volumes being witnessed is at the lower end which is resulting in volatility at the shorter end. Another key point to note is the expected implementation of Daily Mark to Market for Mutual funds from 1st May'20. Both these factors may cause some variation in daily returns going forward. In our assessment such variation would get evened out over a period 15 days & above.

### **Suitability:**

Liquid funds invest in money market securities, commercial papers, short term papers such as NCD, TREPs, etc. with residual maturity upto 91 days. This restriction makes them relatively less sensitive to interest rate fluctuations, as compared to other debt funds. These funds aim to provide investors with high liquidity while seeking to preserve capital and deliver optimal yield on investments. Liquid funds are thus ideal for investors to park their surplus money and earn return on the same without compromising on the liquidity aspect of their surplus funds.

### **Why Baroda Liquid Fund?**

The fund was launched in Feb'09 & is managed by Alok Sahoo & Hetal Shah. It has an AAUM of 6,088 crs as on 31<sup>st</sup> March '20. The fund's objective is to generate income with a high level of liquidity by investing in a portfolio of money market and debt securities.

However, in order to evaluate liquid funds, highest returns is not the only factor that needs to be considered, deeper evaluation of other factors like consistency of returns, portfolio credit quality, performance during volatile markets & portfolio composition.

### **a) Portfolio Composition:**

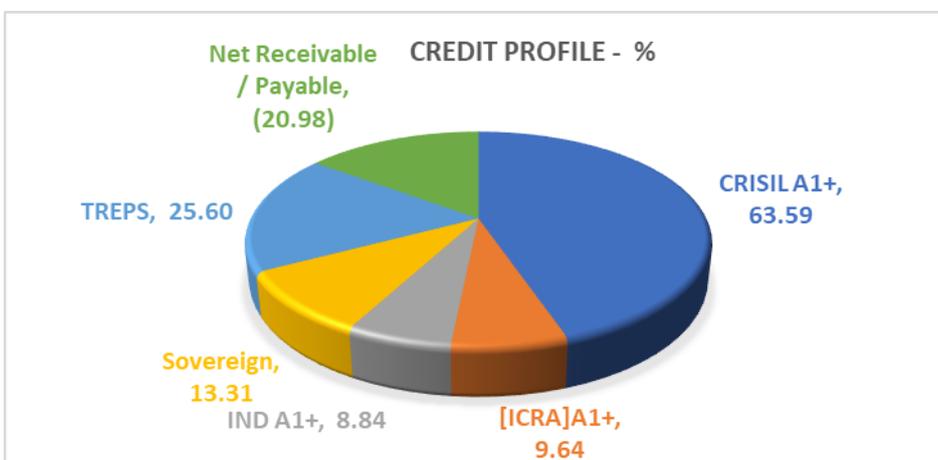
The portfolio consists of Bank CDs, Manufacturing CPs, Treasury Bills and Cash. The below table shows the sectoral allocation over the past 6 months. The fund manager has pruned down his exposure to NBFC & HFC to NIL & has increased the exposure towards Banks making the portfolio very liquid. The portfolio quality is superior in nature & going forward given the credit concerns, the portfolio composition would be the key factor to watch out for during investing.

Sector Allocation - Baroda Liquid Fund						
Sector	Oct'20	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20
<b>Banks</b>	23.49	22.91	20.79	10.69	16.91	59.22
<b>NBFC</b>	13.60	10.50	9.16	8.66	1.95	NIL
<b>HFC</b>	8.96	2.81	5.07	2.94	0.23	NIL
<b>SOV/Cash</b>	33.90	39.60	41.25	62.18	69.13	17.94
<b>Others</b>	20.05	24.18	23.73	15.53	11.78	22.84

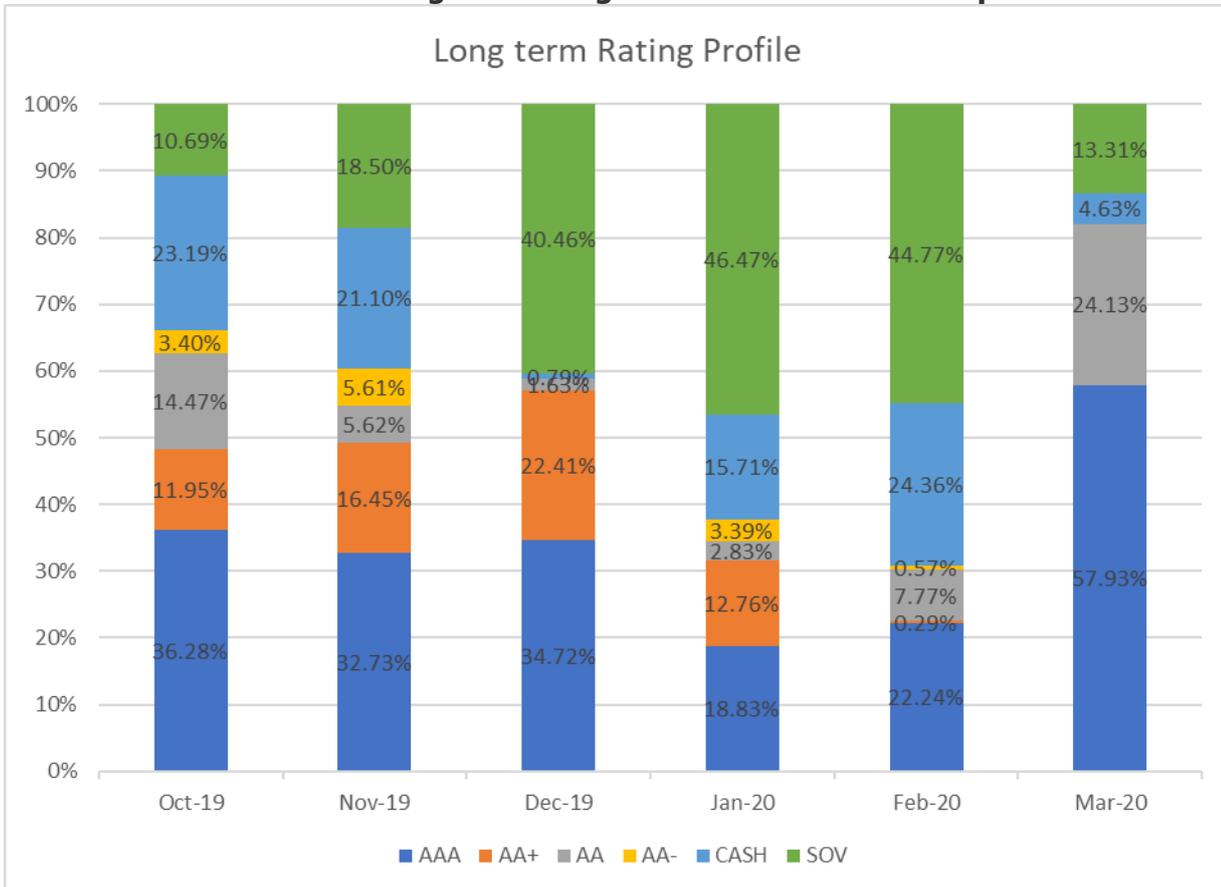
**b) Credit Ratings:**

Returns generated by Liquid Fund are mostly in line with the prevailing money market rates & do not fluctuate much as the underlying assets mature within 60 to 90 days and hence, the interest rate risk is low. However, at times, the returns may show higher deviation due to a change in the credit rating of the underlying security or other long-term debt borrowings by the same issuer. Hence, overall credit risk profile of the issuer is important along with the credit rating of the security in which the fund has invested. With slowing economy and the rise in the number of downgrades, it is important to check the risks being undertaken by the fund manager. At Baroda Mutual Fund, the fund manager invests in high rated instruments based on their short-term ratings (A1+ / Sov.). Additionally, the fund manager is also cognizant of the long-term ratings profile of issuers while making investment decisions. These qualitative aspects help the fund manager in assessing the credit risk of such instruments on an overall basis.

**Baroda Liquid Fund investments credit rating profile as on March 31, 2020:**



The below table shows the Long-term ratings of the instruments in the portfolio across 6 months.



Historically, the fund has been run conservatively, with minimal exposure towards AA- & below rated papers & has maintained a superior portfolio compared to its peers. Nearly, 76% of the Portfolio consist of AA+ above rating & has higher allocation to it than its peers which indicates that the fund manager is risk averse & the portfolio is less exposed to default risk.

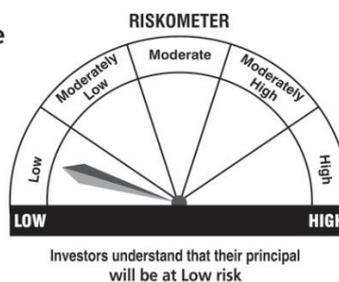
**Recommendation:**

While investing, investors should prefer the safety of principal over returns & choose such funds where the fund house has a robust investment process and risk management strategy in place and where the fund manager does not chase returns by taking higher credit risk. Considering the lower volumes in the market due to lockdown conditions and expected MTM implementation from 1st May'20 onwards, we recommend investors to consider investing into Liquid funds with a time horizon of 15 days & above. Once the lockdown is lifted & markets return to normalcy, shorter time periods may be considered by the investors.

**Baroda Liquid Fund: This product is suitable for investors who are seeking ~**

- Regular income over short term with maintaining a balance between returns and liquidity.
- Investment predominantly in Money Market (i.e. CP/CDs) and Debt Market Instruments.

~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.



**Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.**