

Franklin Templeton India winds up six mutual fund schemes

Unexpected arrival of pandemic (COVID – 19) has created an unprecedented situation which has impacted almost all the businesses across the globe. This impact is magnified even more which you look at the global equity and bond markets. All the markets are seeing a mass selloff as no one is able to gauge the intensity of the problem and the ripples this has sent across businesses. One thing looks quite certain standing at this juncture, businesses are going to face a hard time in the coming year or two.

This selloff situation has created immense pressure on fund managers and houses to meet continuous client redemptions. Situation for managers who are managing less liquid assets like bonds is the most miserable.

In line with the issue mentioned above, a renowned fund house “Franklin Templeton” decided to wind up six mutual fund schemes to combat the challenging situation and maintaining the interest of investors. Relevant details pertaining this matter are discussed below.

Introduction and Track record

Established in 1947, Franklin Templeton is a global asset management company with more than 600 investment professionals operating in 25 countries around the world. Franklin Templeton has a 20+ years track record in India and is committed to India as more than 33% of company’s global workforce works in India.

Which Schemes are getting winded up?

1. Franklin Low Duration Fund
2. Franklin Dynamic Accrual Fund
3. Franklin Credit Risk Fund
4. Franklin Short Term Income
5. Franklin Ultra-Short Bond Fund
6. Franklin Income Opps Fund

What does this mean?

Winding up a fund is very similar to the lockdown situation. These schemes will not allow any further transactions. Meaning, investor will not be able to purchase or sell any units of these funds.

This however doesn’t mean that you have lost all your money invested in these funds. This simply means that these funds will now work as a separate portfolio and any interest income or redemption received by the AMC will be passed through to you. Simply put, Franklin will pass on all the interest and redemption amount to you (in case of no default).

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Why are they winding up?

- Firstly, COVID 19 has created unfathomable illiquidity in the debt market
- Secondly, redemption pressure continues to mount post March 2020 as well and even resorting borrowing hasn't suffice
- Lastly, Franklin also wants to keep the interest of investors who stay put in mind as they would be the ones getting substantially affected if the step wasn't taken

What can be expected going forward?

- As mentioned above, underlying securities continue to accrue their coupons and there will be some scheduled maturities which the funds will get back on time.
- As and when the situation improves, AMC will try to sell these securities in the secondary market to recover funds and it will take some time for these funds to eventually come back to investors in a phased manner
- Doing so will ensure the true realizable value coming back to the investor as selling at current distressed valuations doesn't make sense to meet redemptions. This will lead to permanent loss of capital for the investor
- This was a precautionary measure to ensure no further erosion of investor's funds. AMC will not be charging any management fees starting tomorrow and will be declaring NAV daily.
- Patience is the key for investors as it will take some time to recover money in a phased manner which is not detrimental to the interest of investors.

Situation like COVID – 19 is nothing short of a Black Swan and no one can fully prepare to combat these kind of situations even if one is fully aware of something like this coming. Concept Investwell Pvt. Ltd. as your investment advisor recommended you to invest in one or multiple mutual fund schemes mentioned above. We like to reassure you that the step taken by Franklin Templeton AMC is in your best interest and we are keeping a constant track on all the developments pertaining to this matter. We will keep you posted. Hope you are taking proper care of yourself and your family. Stay home. Stay safe.

*Mutual Funds are subject to market risks, please read all scheme related documents carefully before investing.

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