Benefits of investing in international mutual funds

If you are an investor, you would have heard people and financial advisors talk about the importance of diversification. Asset allocation or diversification of assets involves a practice wherein you allocate parts of your wealth to different categories and types of assets, in an attempt to benefit from the rise in different securities while also limiting the downside. In this scenario, if your portfolio consists of equity, debt and gold, then you stand to make gains whenever any of these assets move upwards in value. Alternatively, if the equity market crashes unexpectedly, your portfolio remains comparatively secure as only a portion of your money is invested in stocks. Did you know that you can also diversify within asset classes? For instance, even if you have already invested in equities, you can diversify your portfolio further by turning your eyes towards international funds. Geographic diversification and the ability to earn returns on global stock movements are some benefits of international investing.

What are international funds?

Given the many benefits of international investing, and the ability to participate in the growth of foreign industries, several discerning domestic investors are now keen on international funds. International funds are mutual funds which invest in the shares of companies or units of mutual funds which are located in a foreign region. Suppose you want to invest in the major global technology leaders such as Meta, Alphabet, Netflix, Amazon and Apple. How can you do this when you are living in India? You can invest in these companies through international funds or fund of funds which invest in global markets. US technology mutual funds are one of the major international funds that you will find in India. While the US is one of the most popular foreign markets for investment purposes, greater china equity offshore funds and funds in emerging economies are also appealing to investors these days.

So how do international funds work? There are two types of international funds – one where the fund manager directly invests in international stocks, and another, wherein fund managers invest the pooled wealth in the units of mutual funds which are already investing in the international market. The second type of international fund is known as a fund of fund and this fund invests in underlying international funds. As an investor, you can choose to invest in either of these fund types. Alternatively, you can also invest in international index funds, such as funds that track the US Nasdaq or the ETFs located in emerging markets.

Types of international funds

Just like there are different mutual funds in India, you will also find different types of international funds. These include the following –

a. Global funds: Such funds park their money in countries across the world, based on the underlying mandate that the scheme follows.

b. Global sector funds: Such funds invest in specific sectors, on a global scale. For instance, you can invest in the global renewable energy sector through global sector funds.
c. Country funds: These international funds park their money in stocks listed in specific countries, like companies in US, China, etc.
d. Regional funds: Such international funds invest in specific geographic regions, like Europe, Asia, etc.

Based on your investor profile, you can invest in any of these international funds.

Benefits of investing in international funds

There are many benefits of international investing. Let us take a look at these benefits –

1. Geographical diversification: Investing in international funds offers you the ability to diversify on a geographical level, helping you safeguard against geopolitical volatility in the domestic market. Optimal diversification involves asset allocation across different geographies poised for a strong showing in the future.

2. Opportunity for growth: When you invest in international funds, you have the opportunity to participate in the growth of more than one equity market since you stand to benefit from the rise of global companies that you believe in. If you are a customer to the MANGA (Meta, Amazon, Netflix, Google, and Apple) companies, it is but obvious that you should stand to benefit from the profits earned by these global giants and international funds allow you the ability to do the same.

3. Currency benefit: International fund investments help you enjoy currency benefit when the dollar rises in value against the rupee, acting as a hedge against domestic currency devaluation. This is because your investment would be in dollars.

4. Excellent management: Access to professional and experienced management services for your international portfolio is another benefit of international investing. If you try to invest on your own, you may end up making mistakes but international funds bring you an easy way to invest in foreign markets.

5. Liquidity and convenience: International investing offers you the option of investing in a highly liquid asset category known to offer historically strong returns and that too, in an extremely convenient manner.

Factors to consider before investing

One of the biggest factors to consider before investing in international funds is your investor profile and portfolio. If you are a beginner who is yet to build a substantial domestic portfolio, then it is advisable that you wait before dipping your toes in the international market. Further, you should consider your risk profile as well as investment horizon before investing in international funds.

In conclusion, these funds are known to be risky and tend to offer strong returns over the longer term so ensure that you are willing to face an amount of risk and stay committed for at least three to five years. Once you assess these factors and decide on the way forward, you can easily pick the best international fund to start investing in and enjoy the benefits of international investing.