



Franklin Templeton MF: Chennai Investor Group CFMA Asks Investors to Vote Against Winding Up of 6 Debt Schemes

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The Chennai Financial Markets and Accountability (CFMA), an investor group, has asked investors of Franklin Templeton Mutual Fund (FTMF) to vote against the proposal by Franklin Templeton Trustee Services Pvt Ltd (Trustee) to wind up six debt schemes.

In its bulletin, CFMA says, "We have consistently felt that FTMF took a unilateral decision to wind up six schemes to avert inevitable default and consequent regulatory actions against the fund managers and trustees. FTMF has front-ended the lie of COVID-19 excuse to conceal their bad, illegal, improper and risky investments made by their fund managers, whereas how come the Covid-19 reason has not been the case with any other scheme of FTMF or any other mutual fund?"

"These abruptly closed debt funds were managed by the so-called professional fund managers claiming that 'Sab Sahi Hai' and were expected to perform better than the benchmark index, which in the case of debt funds is a 10-year government bond yield. Unitholders should not get lured by the vague promises of FTMF and more specifically by Sanjay Sapre, (president of Franklin Templeton Asset Management (India) Pvt Ltd -FTAMPL) which has been attempted since the winding up was announced. In fact, all unitholders should demand in writing from Mr Sapre that there will not be any loss of value to any unitholder. Otherwise, let Mr Sapre clarify in writing how much loss each unitholder will have to suffer and why?" CFMA says.

Last week, the Supreme Court (SC), while granting a stay on redemption request from investors of FTMF, had directed the trustees to call a meeting of unit-holders to seek their consent within a week. On 24 October this year, the Karnataka High Court had asked FTAMPL to seek consent from unitholders for winding up the six debt schemes.

The voting will take place from 26th to 28th December, while the meeting of unit-holders of these six debt schemes is scheduled for 29 December 2020.

In a communication, FTAMPL has warned of potential losses if its investors vote against its plan to wind up six debt fund schemes it froze during April this year.

After the ruling from the apex court, Mr Sapre, the president of FTAMPL, had informed unit-holders that between 24th April and 27th November 2020, the schemes under winding up have received over Rs11,576 crore from maturities, pre-payments, and coupons. Out of the Rs11,576 crore, the schemes have received Rs2,836 crore in November 2020.

"...four out of the six schemes are already cash positive. Even though the schemes could not actively monetize the portfolio, the cash available for disbursement as on 27th November 2020 stands at Rs7,226 crore for these four schemes, subject to fund running expenses. This shows that subject to unforeseen credit events, if any, the securities held in the funds can be liquidated at fair value, if the schemes are allowed to undertake an orderly process of liquidation. This is preferable to a distress sale of securities (at steep discounts) that would occur if a rush of redemptions forces an emergency liquidation of the securities at prices far below their realizable value under normal market conditions," Mr Sapre says.

CFMA, the Chennai-based investor group, however, has urged the apex court to let the forensic audit report of FTMF be made available to unitholders before voting so that an informed decision can be made. It says it would reiterate its request before the Supreme Court during the next hearing on 11 December 2020.

CFMA says, "We all have invested by believing in the regulator SEBI and the Karnataka High Court clearly said that SEBI has not effectively discharged its duty as a regulator. Hence, it should be a court monitored time bound recovery by SEBI exactly in line with what it has done in the case of Sahara. If SEBI can ask Sahara to deposit Rs24,000 crore in bank, why can't SEBI do the same in case of FTMF, i.e. Rs28,000 crore? This says it all about the intent of SEBI!"

"However, unlike Sahara, all 3 lakh unit holders of FTMF and their claims are very clearly established, and they all are available at the press of a button. But it is not happening because SEBI is selectively not exercising its rights of Section 11 and so many other penal rights. Rather, SEBI is feigning ignorance instead of proceeding against FTMF," it added.

Sharing an email received by one Ranga Srivatsa, an investor of FTMF, the investor group alleges that based on the email content, all unitholders will have to face a minimum haircut of 50%.

"All unit holders must realise that FTMF is trying to trick us all by camouflaging their treachery with the use of convenient and misleading English words in their communication. But the naked reality is that each unitholder would have to face a minimum haircut of 50% and possibly even more as stated in their fancy English email to Ranga Srivatsa that mentions 'ill-liquidity discount of 50%', which means that investment of Rs100 will lose Rs50 at best or even more,' CFMA says.

CFMA, a society to protect the interests of investors, was the first to oppose the Franklin Templeton move to abruptly close its six debt schemes and filed a public interest litigation (PIL) in the Madras High Court.

Earlier, on 23 April 2020, Franklin Templeton had announced shutting down six debt fund schemes due to poor and illiquid investments amid the coronavirus crisis, leaving lakhs of investors in a lurch. The total assets under management (AUM) of the six schemes were over Rs25,000 crore, spread across Franklin India Low Duration Fund, Franklin India Dynamic Accrual Fund, Franklin India Credit Risk Fund, Franklin India Short Term Income Plan, Franklin India Ultra Short Bond Fund and Franklin India Income Opportunities Fund.

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