

Types of Mutual Fund

Mutual fund schemes may be classified on the basis of its structure and its investment objective.

By Structure:

Open-ended Funds An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices. The key feature of open-end schemes is liquidity.

Closed-ended Funds A closed-end fund has a stipulated maturity period, which generally ranges from 3 to 15 years. The fund is open for subscription only during a specified period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor.

Interval Funds Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices.

By Investment Objective:

Growth Funds The aim of growth funds is to provide capital appreciation over medium to long-term period of time. Such schemes normally invest a majority of their corpus in equities. It has been proven that returns from stocks, have outperformed most other kind of investments held over the long term. Growth schemes are ideal for investors having a long-term outlook seeking growth over a period of time.

Income Funds The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities. Income Funds are ideal for capital stability and regular income.

Balanced Funds The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents. In a rising stock market,

the NAV of these schemes may not normally keep pace or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

Money Market Funds The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money. Returns on these schemes may fluctuate depending upon the interest rates prevailing in the market. These are ideal for corporate and individual investors as a means to park their surplus funds for short periods.

Load Funds A Load Fund is one that charges a commission for entry or exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically entry and exit loads range from 1% to 2%. It could be worth paying the load, if the fund has a good performance history.

No-Load Funds A No-Load Fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a no load fund is that the entire corpus is put to work.

Other Schemes:

Tax Saving Schemes: These schemes offer tax rebates to the investors under specific provisions of the Indian Income Tax laws as the Government offers tax incentives for investment in specified avenues. Investments made in Equity Linked Savings Schemes (ELSS) and Pension Schemes are allowed as deduction u/s 80 C of the Income Tax Act, 1961.

Special Schemes

Industry Specific Schemes Industry Specific Schemes invest only in the industries specified in the offer document. The investment of these funds is limited to specific industries like InfoTech, FMCG, pharmaceuticals, etc.

Index Schemes Index Funds attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50

Sectoral Schemes Sectoral Funds are those, which invest exclusively in a specified industry or a group of industries or various segments such as 'A' Group shares or initial public offerings.

Debt Schemes

Liquid Plan

Liquid Plan invests in securities of short-term nature, which generally means securities of less than one-year maturity. The typical, short-term, interest bearing instruments these funds invest in Treasury Bills issued by government, certificates of deposit issued by banks and commercial paper issued by companies. Money Market Mutual Funds also invest in interbank call money market.

Investment Pattern: - Money market 80% & Debt instruments 20%

Fund Objective: - Investors seeking for short-term investment (as short as 1 week) at relatively low risk.

Expected Return: -4% to 5% (Annualized). Investors with a time horizon over 15 days can invest in short plans where the returns are in the range of 5% to 6%.

Redemption: - Within one business day

Risk Profile: -Suitable for investors with low risk profile for short-term period.

Income Plan

Income funds invest in debt instruments issued not only by government, but also by private companies, public sector undertakings, banks and financial institutions and other entities such as infrastructure companies/utilities.

Investment Pattern: - Debt securities 75 % & Money market & Cash 25%

Fund Objective :-Investors seeking steady and consistent returns from a basket of high quality debt instrument through proactive management aimed at controlling credit, interest rate, liquidity and valuation risk.

Expected Return:- 6% to 7% (annualised).

Redemption: - Within three-business day

Risk Profile: - Suitable for investor with a very low appetite for risk.

Gilt Scheme

The scheme aims at returns, commensurate with zero credit risk by investing in securities created and issued by the central government and/or state government and/or repost/reverse or in such government securities as may be permitted by RBI. The scheme may also invest a portion of the corpus in the call money market or in an alternative investment for the call money market as may be provided by RBI to meet the liquidity requirements.

Investment Pattern: - Gilt Securities (incl. Treasury bills) average maturity normally not exceeds 8 yrs.

Fund Objective: -To generate income through investment in gilts of various maturities.

Expected Return: -Around 6% (annualised).

Redemption: - Within three-business day

Risk Profile: - Suitable for investor with a very low appetite for risk.

Monthly Income Plan

To generate regular income through investments in debt and money market instruments and also to generate long-term capital appreciation by investing a portion in equity related instruments.

Investment Pattern: - Debt & Money market securities & cash 85% & equities & equity related securities 15%

Fund Objective : -Investors seeking regular income through investments in fixed income securities so as to get monthly/quarterly/half yearly dividend. The secondary objective of the scheme is to generate long term capital appreciation by investing a portion of scheme's assets in equity and equity related instruments.

Expected Return: - 7.5% to 9% (annualised).

Redemption: - Within three-business day

Risk Profile: -Suitable for investor with medium risk profile and seeking regular income.

Systematic Investment Plan

What is SIP ?

Effects of compounding on savings of Rs. 10,000/- each month

What is SIP ?

SIP is an investment plan designed for anyone looking for regular investment, where you invest fixed amounts every month in any funds. SIP thus helps you regularly by making investment in an asset class of your choice.

Effects of compounding on savings of Rs. 10,000/- each month

If we assume the stock market rate of return to be around 25% then from the below table it is very clear how the compounding effect of saving of Rs. 10,000/- per month can make you a **CROREPATI**.

- The returns are before Tax.
- The investments of Rs. 10,000/- if made in fixed deposit, NSC, PPF, etc. the compounding effect can make the value investment from Rs.36,00,000/- to around Rs.2,07,26,247/- to Rs. 3,06,97,517/- @ 10% to 12% p.a. for 30 years.
- Hence, the same if tried with SIP the returns can be as much as Rs. 15,60,08,367/- to Rs. 43,56,68,526/- @ 20% to 25%.
- Depending upon stock market conditions the above returns from investment in SIP can be more than or less than the amounts reflected.

At the End of year	Savings at the end of each yr	Cumulative Amount at the End of Each year Assuming Rate of Return					
		10%	12%	15%	18%	20%	25%
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1	120000	126000	127200	129000	130800	132000	135000
2	240000	264600	269664	277350	285144	290400	303750
3	360000	417060	429224	447953	467270	480480	514688
4	480000	584766	607931	644145	682179	708576	778359

5	600000	769243	808082	869767	935771	982291	1107949
6	720000	972167	1032252	1129232	1235009	1310749	1519937
7	840000	1195384	1283322	1427617	1588111	1704899	2034921
8	960000	1440922	1564521	1770760	2004771	2177879	2678651
9	1080000	1711014	1879463	2165374	2496430	2745455	3483314
10	1200000	2008115	2232199	2619180	3076587	3426546	4489142
11	1320000	2334927	2627263	3141057	3761173	4243855	5746427
12	1440000	2694420	3069735	3741215	4568984	5224626	7318034
13	1560000	3089862	3565303	4431397	5522201	6401552	9282543
14	1680000	3524848	4120339	5225107	6646997	7813862	11738178
15	1800000	4003333	4741980	6137873	7974257	9508634	14807723
16	1920000	4529666	5438217	7187554	9540423	11542361	18644654
17	2040000	5108633	6218003	8394687	11388499	13982833	23440817
18	2160000	5745496	7091364	9782890	13569229	16911400	29436022
19	2280000	6446045	8069527	11379324	16142490	20425680	36930027
20	2400000	7216650	9165071	13215222	19178938	24642816	46297534
21	2520000	8064315	10392079	15326505	22761947	29703379	58006917
22	2640000	8996746	11766329	17754481	26989898	35776055	72643647
23	2760000	10022421	13305488	20546653	31978880	43063266	90939558
24	2880000	11150663	15029347	23757652	37865878	51807919	113809448
25	3000000	12391729	16960068	27450299	44812536	62301503	142396810
26	3120000	13756902	19122476	31696844	53009592	74893804	178131012
27	3240000	15258593	21544374	36580371	62682119	90004564	222798765
28	3360000	16910452	24256898	42196426	74095700	108137477	278633457
29	3480000	18727497	27294926	48654890	87563726	129896973	348426821
30	3600000	20726247	30697517	56082124	103455997	156008367	435668526

FMP's (Fixed Maturity Plans)

FMPs stands for Fixed Maturity Plan. These are close-ended income schemes with a fixed maturity date. The period could range from fifteen days to as long as two years or more.

When the period comes to an end, the scheme matures and money is paid back.

Like an income scheme, FMPs invest in fixed income instruments i.e. bonds, government securities, money market instruments etc. The tenure of these instruments depends on the tenure of the scheme.

FMPs effectively eliminate interest rate risk. This is done by employing a specific investment strategy. FMPs invest in instruments that mature at the same time their schemes come to an end. So a 90-day FMP will invest in instruments that mature within 90 days.

For all practical purposes, an FMP is an income scheme of a mutual fund. Hence, the tax incidence would be similar to that on traditional income schemes. The dividend from an FMP will be tax free in the hands of an individual investor. However, it would be subject to the dividend distribution tax.

Redemptions from investments held for less than a year will be short-term gains and added to the investor's income to be taxed at slab rates applicable. If such an investment were held for more than a year, the long-term gains would get taxed at 20 per cent with indexation or at 10 per cent without. These rates are subject to the surcharge and education cess as normally applicable. One can avail the benefit of double indexation and save tax on FMPs held for more than one year.

FAQ

Why do mutual funds come out with different schemes?

A Mutual Fund may not, through just one portfolio, be able to meet the investment objectives of all their unit holders. Some unit holders may want to invest in risk-bearing securities such as equity and some others may want to invest in safer securities such as bonds or government

securities. Hence, the Mutual Fund comes out with different schemes, each with a different investment objective.

PURCHASE

How can I purchase units?

You could get in touch with us or any of our sub-brokers. We would provide you with the application form and assistance in applying for any of the mutual fund schemes.

How are the units priced?

The units are priced based on the NAV (net asset value). The unit holders may be required to pay an entry load at applicable rates at the time of purchasing the units. The entry load is calculated with reference to the NAV of the scheme on the date of purchase of units. The NAV is the current market worth of a mutual fund unit. NAV of units under any fund/ scheme shall be calculated as shown below.

NAV (Rs.) =

(Market or Fair Value of the fund investments + Current Assets - Current Liabilities and Provisions)

No. of units outstanding under the fund

UNITHOLDERS

What documentation will I receive?

If you invest during the Initial Offer Period: An account statement is sent to you by post stating the number of units allotted, not normally later than 45 days from the close of the initial offer period.

If you invest in an open-ended fund: An account statements/transaction confirmation is normally sent to you within 7 days from the date of the transaction.

What happens to the income received by the mutual fund?

The income received is credited to the scheme and constitutes part of the NAV.

What are the charges that could be applicable to me?

There are different kinds of expenses that could be applicable to you depending upon the investment / redemption that you seek to make and the applicable loads on these activities for different schemes. For more details on the kind of expenses applicable to your specific case please check the section Entry load, Exit Load and Switching cost.

REDEEMING

How long do I need to hold my units?

There is no lock-in in the case of open-ended funds.

What is an Exit Load?

There is an exit load that would apply to the NAV of certain scheme's units if these were sold prior to a specific holding period.

Why do we charge an Exit Load?

There are various administrative and other costs associated with the redemption of units by an investor. The funds collected as Load would be credited to a separate account in the Scheme accounts and would be utilized to meet such expenses as permitted under the SEBI regulations.

How do I make withdrawals?

These can be made either by redeeming units (receiving money) or by effecting a switch from one scheme to another (receiving another funds' units).

How to redeem units?

These can be made either by redeeming units (receiving money) or by effecting a switch from one scheme to another (receiving another funds' units). You have to make redemption request as per the terms of the scheme. The redemption amount is paid back to the investor within specified days from the date of request.

Who is a Registrar?

A Registrar holds and maintains the details of the transactions carried out by each unit holder in a Mutual Fund scheme. He is appointed by the AMC to serve the unit holder for the purchases, sales or switching of units that he may carry out. The dividend distribution, recording of nominations or transfers are some other services rendered by the Registrar. He may also have Investor Service Centres in various cities, where an investor can get over-the-counter service.

Does the NAV of Rs. 10 indicate that the fund units are cheaper ?

It is a wrong perception that if the mutual fund is offering units at Rs. 10 it is cheaper. Yes, you would at this price get more number of units than you would get if it were priced higher with the same investible surplus. But the number of units you get is a function of a scheme's NAV and not an indicator of how cheap a scheme is. The scheme's NAV is the market value of its portfolio holdings at a given point of time and its performance is what determines your returns.

Can the NAV of a debt fund fall?

A debt fund invests in fixed-income instruments, where safety of capital and regular returns are assured. These include Commercial Paper, Certificates of Deposit, debentures and bonds. While the rate of interest on these instruments stays the same throughout their tenure, their market value keeps changing, depending on how the interest rates in the economy move.

A debt fund's NAV is the market value of its portfolio holdings at a given point in time. As interest rates change, so do the market value of fixed-income instruments - and hence, the NAV of a debt fund. Thus it is a misnomer that the debt fund's NAV does not fall.

What can one benchmark the performance of a mutual fund against ?

A mutual fund scheme should be benchmarked against relevant indices and that relevant index can be chosen after taking into consideration the asset class it represents. The Equity funds can be benchmarked against BSE Sensex, S & P Nifty etc.

The Debt funds can be benchmarked with T-Bill index or I-Bex etc. depending on the average maturity of the scheme.

Performance of an equity fund must be compared over a 1-2 year horizon and for a debt fund a period of 6-12 months is considered ideal.

Does out performance of a benchmark index always connote good performance ?

No, it is not necessary that out performance of a benchmark index always connotes good performance. The volatility does not permit the investor to rely on one factor only. The index performance is volatile and may be driven by a few scrips only, which may not be very reflective. So it is better to keep other factors like risk adjusted returns (volatility of returns) and NAV movement in mind while deciding to invest in a fund.

Does higher return necessarily mean a better fund?

Yes, on the face of it high return does connote good fund but there is also some a certain amount of risk taken by the scheme to achieve these returns. Thus it is prudent to measure risk also while considering returns to rank a scheme. Today there are a lot of statistical tools like Beta, Sharpe ratio, Alpha and standard Deviation to measure this risk. A risk adjusted return is the best measure to use while judging a scheme. You can also refer to the ratings assigned by a reputed rating agency.

Dose investing in more than one fund family imply diversification?

No, Investing in more than one Mutual fund family does not necessarily imply diversification. What is more important is to measure exposure to different asset classes irrespective of which mutual fund manages your money.

What should one keep in mind while choosing a good mutual fund?

Each individual has different financial goals, based on lifestyle, financial independence and family commitments, level of incomes and expenses and many other factors. Thus, before investing your money you need to analyze the following factors:

Define the Investment objective

Your financial goals will vary, based on your age, lifestyle, financial independence, family commitments and level of income and expenses among many other factors. Therefore, the first step should be to assess your needs. You can begin by defining the investment objectives, which could be regular income, buying a home or finance a wedding or educate your children or a combination of all these needs. Also your risk appetite of the investor and cash flow requirements need to be taken into account.

Choose the right Mutual Fund

Once the investment objective is clear in your mind the next step is choosing the right Mutual Fund scheme. Before choosing a mutual fund the following factors need to be considered:

- * NAV performance in the past.
- * Track record of performance in terms of returns over the last few years in relation to appropriate yardsticks and other funds in the same category.
- * Risk in terms of volatility of returns.
- * Services offered by the mutual fund and how investor friendly it is.
- * Transparency, which is reflected in the quality and frequency of its communications.

Go for a proper combination of schemes

Investing in just one Mutual Fund scheme may not meet all your investment needs. You may consider investing in a combination of schemes to achieve your specific goals.

5. What are Risk Factors?

The discussion on investment objectives would not be complete without a discussion on the risks that investing in a mutual fund entails.

At the cornerstone of investing is the basic principle that the greater the risk you take, the greater the potential reward. Remember that the value of all financial investments will fluctuate.

Typically, risk is defined as short-term price variability. But on a long-term basis, risk is the possibility that your accumulated real capital will be insufficient to meet your financial goals. And if you want to reach your financial goals, you must start with an honest appraisal of your own personal comfort zone with regard to risk. Individual tolerance for risk varies, creating a distinct "investment personality" for each investor. Some investors can accept short-term volatility with ease, others with near panic. So whether you consider your investment temperament to be conservative, moderate or aggressive, you need to focus on how comfortable or uncomfortable you will be as the value of your investment moves up or down.

Managing risks

Mutual funds offer incredible flexibility in managing investment risk. Diversification and Systematic Investing Plan (SIP) are two key techniques you can use to reduce your investment risk considerably and reach your long-term financial goals.

Diversification

When you invest in one mutual fund, you instantly spread your risk over a number of different companies. You can also diversify over several different kinds of securities by investing in different mutual funds, further reducing your potential risk. Diversification is a basic risk management tool that you will want to use throughout your lifetime as you rebalance your portfolio to meet your changing needs and goals. Investors, who are willing to maintain a mix of equity shares, bonds and money market securities have a greater chance of earning significantly higher returns over time than those who invest in only the most conservative investments. Additionally, a diversified approach to investing -- combining the growth potential of equities with the higher income of bonds and the stability of money markets -- helps moderate your risk and enhance your potential return.

Types of risks:

All investments involve some form of risk. Even an insured bank account is subject to the possibility that inflation will rise faster than your earnings, leaving you with less real purchasing power than when you started (Rs. 1000 gets you less than it got your father when he was your age). Consider these common types of risk and evaluate them against potential rewards when you select an investment.

Market Risk

At times the prices or yields of all the securities in a particular market rise or fall due to broad outside influences. When this happens, the stock prices of both an outstanding, highly profitable company and a fledgling corporation may be affected. This change in price is due to "market risk."

Inflation Risk

Sometimes referred to as "loss of purchasing power." Whenever inflation sprints forward faster than the earnings on your investment, you run the risk that you'll actually be able to buy less, not more. Inflation risk also occurs when prices rise faster than your returns.

Credit Risk

In short, how stable is the company or entity to which you lend your money when you invest? How certain are you that it will be able to pay the interest you are promised, or repay your principal when the investment matures?

Interest Rate Risk

Changing interest rates affect both equities and bonds in many ways. Investors are reminded that "predicting" which way rates will go is rarely successful. A diversified portfolio can help in offsetting these changes.

Effect of loss of key professionals and inability to adapt business to the rapid technological change.

An industries' key asset is often the personnel who run the business i.e. intellectual properties of the key employees of the respective companies. Given the ever-changing complexion of few industries and the high obsolescence levels, availability of qualified, trained and motivated personnel is very critical for the success of industries in few sectors. It is, therefore, necessary to attract key personnel and also to retain them to meet the changing environment and challenges the sector offers.

Failure or inability to attract/retain such qualified key personnel may impact the prospects of the companies in the particular sector in which the fund invests.

Exchange Risks

A number of companies generate revenues in foreign currencies and may have

investments or expenses also denominated in foreign currencies. Changes in exchange rates may, therefore, have a positive or negative impact on companies which in turn would have an effect on the investment of the fund.

Investment Risks

The sectoral fund schemes, investments will be predominantly in equities of select companies in the particular sectors. Accordingly, the NAV of the schemes are linked to the equity performance of such companies and may be more volatile than a more diversified portfolio of equities.

Changes in the Government Policy

Changes in Government policy especially in regard to the tax benefits may impact the business prospects of the companies leading to an impact on the investments made by the fund.

NRI INVESTMENT

The following persons are eligible to apply:

Indians and persons of Indian Origin residing abroad

Overseas Corporate Bodies predominantly owned by NRIs

Foreign Institutional Investors registered with SEBI

In terms of notification, no F.E.R.A 195/99-RB dated 30th March, 1999, RBI has granted a general permission to Mutual Funds, as referred to in clause (23D) of Section 10 of Income Tax Act, 1961, to issue and repurchase units of their Schemes which are approved by SEBI to NRIs/OCBs on repatriation/non-repatriation subject to conditions set out in the aforesaid notification.

How to invest?

NRIs can invest on a repatriable basis by making payments for subscription from the NRE/FCNR accounts maintained with the banks authorized to deal with Forex in India, by way of an Indian Rupee Draft purchased abroad or by way of a foreign exchange draft. Payments made from NRO accounts may be treated as non-repatriable as per RBI guidelines.

What is an NRE account?

A special type of account that Non Resident Indians can open with any Indian bank for making investments in India on a repatriable basis.