

Finding Your Fund **Choose Your Mutual** **Funds Wisely**

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**CENTRE FOR INVESTMENT
EDUCATION & LEARNING**

Table of Contents

1. Understanding Product Information	5
2. Interpreting Returns in Mutual Funds	14
3. Evaluating Risk	19
4. Positioning Debt Funds in Investor's Portfolio	25
5. Interpreting Risk and Return of Debt Funds	32
6. Positioning Equity Funds in an Investor's Portfolio	40
7. Interpreting Risk and Return in Equity Funds	45
8. Interpreting Risk and Return in Equity Funds	52
9. Product Comparisons	55
10. Product Suitability of Needs	63

Mutual funds offer a range of products to investors. These products are designed to meet various investment objectives, which can be categorized in terms of:

- Risk and return expectations
- Investment horizon
- Investment strategy

Some investors are looking at their retirement needs; others are trying to fund a short holiday. Some are seeking a steady income; others are seeking long-term growth. In order to understand how a product should be positioned to an investor according to their needs, it is important to understand how the product features match the investor's needs.

For example, investors who are willing to take higher risks for growth and capital appreciation over a period of time, tend to choose equity products. Investors who seek regular income and a lower level of risk, tend to choose debt products.

Long-term investors may choose equity, while investors with short to medium term horizons choose debt and debt-oriented products.

Some products may also address multiple objectives. Investors with a short investing horizon, unwilling to risk their principal, may prefer a high quality portfolio comprising of only short-term money market instruments. Such investors could find that a liquid meets all these objectives.

Mutual fund products are primarily created to cater to a large range of customer needs. Investors should choose products those that fit their needs. In order to make that choice, it is important to understand what the products features are, in the context of the needs of the investor.

1.1 Process of Selection

To select a mutual fund product for an investor's portfolio, an advisor must establish suitability at three levels:

- The asset class in which the fund invests must be suitable to the investor's requirement. For example: equity for growth and debt for regular income.
- The strategy and fund management style will determine the type of fund and its suitability to the investor's portfolio as long-term investments or short-term tactical investment. For example, the investor must evaluate how is the portfolio created and managed: Is it a diversified or focused fund; is it a large, mid or small cap fund; is it a sectoral or thematic fund; is the fund management strategy growth or value based?
- From among a particular type of funds in an asset class that is suitable to the investor, the particular fund is selected based on its performance and features. For example, an investor looking to invest in large-cap equity funds for long-term appreciation in the value of the investments will consider all the funds in this category and select on the basis of their performance.

1.2 Scheme Objective

Fund objective explains what the fund intends to do. Each category of funds is backed by an investment philosophy, which is pre-defined in the objectives of the fund. Investors can align their investment needs with the fund's objective and invest accordingly.

The mutual fund's investment objective states what the portfolio aims to achieve in terms of capital appreciation and income generation, among others. It could also inform the investor about the investment style of the managers and the risk it is prepared to take for achieving its investment objective.

Examples:

Scheme	Objective
HDFC Premier Multi-cap Fund	To generate capital appreciation in the long term through equity investments by investing in a diversified portfolio of Mid Cap & Large Cap 'blue chip' companies.
Reliance Quant Plus Fund	To generate capital appreciation by investing in an active portfolio of stocks selected from S&P CNX Nifty on the basis of a mathematical model.
ICICI Prudential Focused Equity Fund	To maximize long-term total return by investing in equity and equity related securities of about 20 large-cap companies
DSP Black Rock Government Securities Fund	To generate income through investment in Central Government Securities of various maturities.
Templeton India Income Fund	To generate a steady stream of income through investment in fixed income securities.

1.3 Asset Allocation

Mutual funds invest across multiple asset classes such as equity, debt, cash, and gold. The risk, return, and holding period requirements for each of these asset classes vary. Equity as an