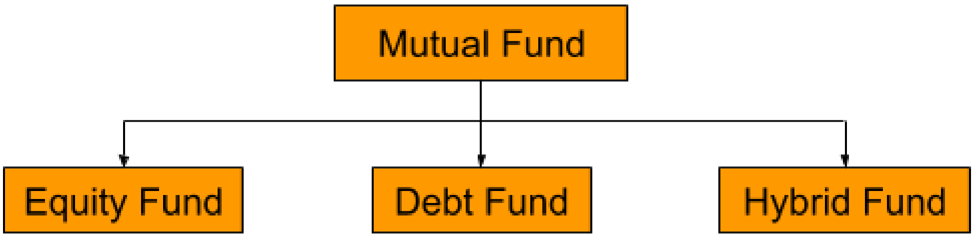
MUTUAL FUND

What is a Mutual Fund?
A mutual fund is an professionally managed investment fund that pools money from many investors to purchase securities like stocks, bonds and other assets.
Funds are managed by professional Fund managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors.
And mutual funds charge annual fees known as expense ratios for the service provided.

Types of mutual fund:

There are different types of funds, based on assets invested there are 3 types.



Equity Fund:

- It is a fund that invests in stocks/shares of different companies.
- Here funds are invested across companies from different sectors or with varying market capitalizations.
- Equity funds are known to generate higher returns than any funds, But there is an amount of risk associated with these funds since their performance depends on various market conditions.

Debt Fund:

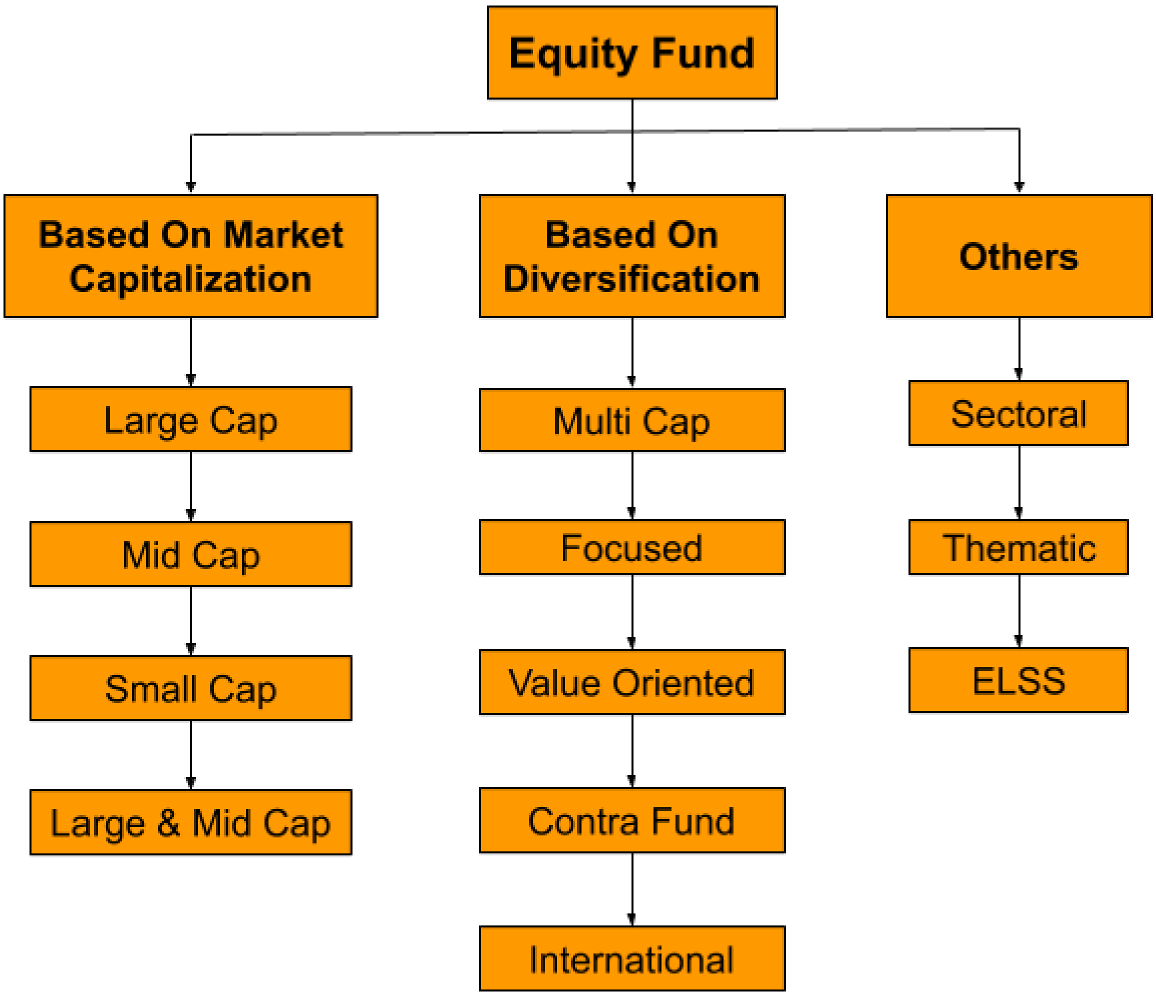
- It is a fund that invests in bonds, or other debt securities.
- Here funds are invested in securities which generate fixed income like treasury bills, corporate bonds, commercial papers, government securities etc.
- These instruments have a pre-decided maturity date and interest rate that the buyer can earn on maturity hence its also known as fixed income securities. The returns are usually not affected by fluctuations in the market therefore, debt securities are considered to be low-risk investment options.

Hybrid Fund:

- It is a fund that invest in more than one asset class ie. combination of equity and debt investments.
- Here funds are allocated in equity and debt instruments in varying proportions.
- These funds are considered to be riskier than debt funds but safer than equity funds.

Now you have understood 3 types of fund based on asset invested, lets understand further only on types of equity fund in this E-book.

Types of Equity Funds:



Large cap:

- Funds which at least invest 80% of their total assets in equity shares of large-cap companies (the top 100).
- These schemes are considered to be more stable than the mid cap or small cap funds.

Mid cap:

- Funds which at least invest 65% of their total assets in equity shares of mid-cap companies (101 - 250th placed companies based on market capitalization).
- These schemes tend to offer better returns than the large-cap schemes but are also more volatile than large cap.

Small cap:

- Funds which at least invest 65% of their total assets in equity shares of small cap companies (251st and onwards based on market capitalization).
- These schemes tend to offer great returns than the large and mid cap schemes but are also highly volatile.

Large & Mid cap:

- Funds which at least invest around 35% of their total assets in equity shares of large and mid cap companies each.
- These schemes offer a blend of lower volatility and better returns.

Multi cap:

- Funds which at least invest around 25% of their total assets in equity shares of large, mid and small cap companies each in proportions.

Focused:

- Funds are invested in a maximum of 30 stocks of companies and not more than that, there is also no limitation on market cap or sectors it can invest.

Value Oriented:

- Funds are invested in stocks that are currently trading on discount below their actual worth due to some reason but have long term potential.

Contra:

- These schemes follow a contrarian strategy of investing. Where fund managers invest in under-performing stocks and purchase them at low prices under the assumption that these stocks will recover in the long term from prevailing market trends.

International:

- Funds are invested in stocks of companies listed outside of India. These funds help you invest in some of the biggest companies in the world.

Sectoral:

- Funds are invested entirely in one sector.
- For Ex: An IT sector fund invests only in IT companies, a banking sector fund only in banks and so on.
- And it's also one of the riskiest mutual funds to invest.

Thematic:

- Funds are invested in stocks tied to a theme ie. These funds are invested in companies and sectors united by an idea.
- For Ex, an infrastructure theme fund will invest in cement, power, steel, among other sectors.

ELSS (Equity Linked Saving Scheme):

- Funds are invested into equity of upto 80%, further there is a Lock-in period of 3 years.
- It is also called tax saving schemes since they offer tax exemption of the invested amount up to a limit of Rs. 150,000 from your annual taxable income under Section 80C of the Income Tax Act.