THE
MUTUAL FUND
INVESTOR'S HANDBOOK

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FOREWORD

We are delighted to present to you the second edition of Money Simplified. The objective of this edition is to empower you with knowledge that will help you make investment decisions in a rational and objective fashion.

In 2002, the private sector mutual fund industry completed a decade in India. In the beginning, expectations of investors from the private sector ran high – so much so that people were willing to pay a premium to purchase units of the first private sector mutual fund! Today, expectations are at best mixed. This is due to investors being let down time and again by the industry.

But the mutual fund industry has its share of 'out performers'. Some of the funds have kept their promises. Funds have provided investors with a variety of innovative and flexible solutions that help investors realise their financial objectives.

Mutual Funds make a good investment vehicle for just about all of us. Like with any other investment option, all you need to do is take adequate care before you entrust your money to an AMC.

And this is where Personal*fn* can help you. Our personalised services (in Mumbai only) help you work out an investment solution that best suits your needs. As our customer, you will get access to research on not only mutual funds but also other investment opportunities like insurance and deposits. We will also assist you in making the investment without ever having to leave the comfort of your home.

Unlike others, our services do not end once the investment is made. Post investment we will provide you with a range of online tools and products that will help you track your investments.

It is pertinent to highlight that we do not charge customers (retail or HNI) for the services rendered.

This issue will give you an insight into how we at Personal*fn* evaluate your needs and match them to the investment opportunity presented by mutual funds. Finally, we hope you will give us a chance to be your personal financial advisor.

Yours, personally

Team Personal*fn*
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WHAT STEPS TO CONSIDER BEFORE INVESTING?

A lot of mutual fund investors only have bitter comments about how their investments have performed over the last few years. While the performance of the mutual fund investment is certainly to blame, the problem to a large extent lies in the fact that these investments were not made with an objective and analytical approach.

The truth is that mutual funds today offer the investor a far more varied and diverse range of options. Most, if not all, of an investor's needs can be addressed by a mutual fund. Today, the domestic mutual fund segment has so many fund houses offering a plethora of so many products, that it boggles the investor's mind. The trick is to find a scheme that best suits your needs.

Below, we have outlined some very basic steps the investor needs to take before investing.

Step 1

Identify your investment objective:

Broadly investment objectives can be classified in these four categories:

1. Short term investing
2. Capital appreciation
3. Regular income
4. Tax-saving

Each investment objective demands a unique approach and mindset. There are different schemes catering to each objective and the investor must select the scheme that best optimises his objective.

Investment Objective	Investment Horizon	Ideal Instrument
Short term investing	1-6 months	Liquid/Short Term Plans
Capital appreciation	Over 3 years	Diversified Equity/Balanced Funds
Regular income	Flexible	Monthly Income Plans/Income Funds
Tax-saving	3 year lock-in	Equity-linked Schemes (ELSS)

Step 2

Select the fund house/AMC

After having identified your investment objective, you now need to select the fund house or Asset Management Company that can best help you achieve those objectives. Selecting the right fund house can be quite challenging for the retail investor. There are two reasons for that – one is the large number of fund houses in the country today that could confuse any investor. The other reason stems from the first - more fund houses implies more homework on your part. However, its not as difficult as it sounds. Typically to identify the right fund house, you need to draw up a small checklist and see how the fund measures up on each one.

a. What is the fund's background?

Check the background of the fund house or to be more precise, background of its sponsors. Do the sponsors have a strong fund management background? Are they known for integrity, conservatism and innovation?

b. How is the fund house's overall performance?

Even if you wish to invest in just one scheme of the fund house, you must check to see how the fund house is performing as a whole. Are its debt and equity schemes both performing well? Has the performance been steady?

c. Has the fund been in the news for the wrong reasons?

Inquire to see if the fund house has got negative reviews in the past for whatever reasons. Has the fund been pulled up by SEBI over any issue? Has the fund defaulted on a promise to the investor like an assured return?

d. What is the fund manager's track record?

Take a look at the performance (risk-adjusted returns, volatility in NAV) of other funds, if any, managed by the same fund manager. Has the performance been steady compared to its peers and the benchmark index?

Step 3

Select the scheme

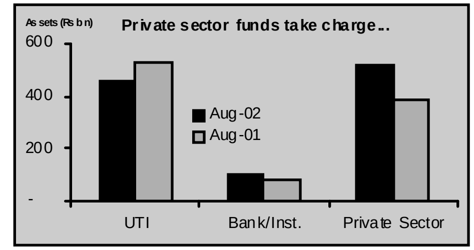
Identifying your objective and the fund house is half the battle. Once you have selected the fund house you need to see if its scheme matches your objectives. For instance, if you want steady capital appreciation, you need to see if its diversified equity fund has posted capital appreciation over the last three years at a steady rate after considering the quantum of risk undertaken i.e. risk-adjusted return. If you are looking for a regular income stream, you need to see if its monthly income plan has declared dividends consistently every month and so on.

Simple as they may seem, these are the steps you need to take to arrive at the scheme that best fits your investment objective. A lot of investors take the short cut by taking tips from their neighbourhood mutual fund distributor. Actually, that could prove to be expensive as a lot of investors have found out. Investing is serious business and it must involve some thought, analysis and plenty of caution.

Mutual Fund Performance – A Review

'What steps to consider before investing?' is particularly relevant when you step back a little in time and review the performance of mutual fund categories. For most of its history, the domestic mutual fund industry was dominated by UTI to begin with, and later, by a host of bank and institution sponsored mutual funds. These funds had the implicit backing of the government and this led investors to flock around them in the hope of better performance and fulfillment of commitments.

However, it did not take long for investors to realise how bad an idea it was to invest in 'government-backed' mutual funds. The government backing actually drove these funds to misdemeanors (UTI) and defaults (Canstar) and led to a sense of complacency. This got highlighted even more with the launch of private sector mutual funds. Over the years, some of the private sector funds have led the way as far as innovation and performance are concerned and this has come without any compromise on integrity and conservatism.



(Source: AMFI. Data as on August 31,2002)

There is more to it than just UTI

Asset Management Co.	Assets (Rs bn)
Prudential ICICI AMC	86.4
Templeton AMC	83.2
HDFC AMC	59.3
Standard Chartered AMC	40.9
Zurich AMC	38.9
Alliance Capital AMC	38.1
SBI Funds Management Ltd.	32.6
Jeevan Bima Sahayog (LICMF) AMC	25.7
Kotak Mahindra AMC	23.3
DSP Merrill Lynch Invest. Mgrs	21.4

(Source: AMFI. Data as on August 31,2002)

EXPERT VIEW...

I would give track record, portfolio and performance a weightage of about 15%. I would give expenses a weightage of 10%. I would give service levels, responsiveness a weightage of 10%. The sponsors and promoters would get a weightage of 5%. That leaves you covered for 40%. I would say that's about the best an investor can do and leave the rest to God! - Vivek Reddy, Ex - CEO, Pioneer ITI AMC

HOW MUTUAL FUNDS SCORE OVER DIRECT INVESTING?

Is direct stock-picking smarter than investing in mutual funds? Each has its pros and cons, and its important for the investor to understand this before he embarks on an investment spree.

Investors with profound insight in stocks and investments with the requisite time and skill to analyse companies can do their own stock-picking. However, investors who lack any one or all these pre-requisites are better off investing in stocks through mutual funds. Funds offer several important advantages over direct stock-picking.

1) Diversification

Investing in stocks directly has one serious drawback - lack of diversification. By putting all money in just a few stocks, the investor subjects himself to considerable risk should even one of those stocks decline.

A fund by investing in several stocks tries to overcome the risk of investing in just 3-4 stocks. By holding say 15 stocks, the fund avoids the danger that one rotten apple will spoil the whole portfolio. Funds own anywhere from a couple of dozen to more than a hundred stocks. A diversified portfolio can generally hold its own even if a few stocks fall dramatically.

2) Professional management

No matter how sound an investment sense a stock investor may have, sooner than later he will realize that active portfolio management requires considerably more skill, not to mention a lot of time. There is an ocean of a difference between part-time stock-picking and full-time fund management.

On the other hand, the mutual fund investor does not have to track the prospects and potential of companies in the portfolio. Mutual funds are run by skilled professionals who continuously monitor these companies.

3) Lower entry level

There are few quality stocks today an investor can enter into, with just Rs 3,000-5,000. Investing in stocks can be an expensive affair. Sometimes with as much as Rs 5,000 an investor can buy just a single stock.

The minimum investment in a mutual fund may be as low as Rs 500. This implies that with just Rs 500, a mutual fund investor can take exposure in a fund portfolio of 20-30 stocks. The entry barrier in mutual funds is low so as to encourage investor participation.

4) Economies of scale

By buying a handful of stocks the stock investor loses out on economies of scale. This tends to pull down the profitability of the portfolio. If the investor buys/sells actively, the impact on profitability would be that much higher.

Due to frequent purchases/sales, mutual funds incur proportionately lower trading costs than individuals. Lower costs translate into significantly better investment performance.

5) Innovative plans/for unitholders

By investing in the stock market directly, the investor deprives himself of various innovative plans that are offered by fund houses.

Fund houses offer automatic re-investment plans, systematic investment plans (SIPs), systematic withdrawal plans, asset allocation plans, triggers. These features allow investors to enter/exit or switch from funds seamlessly and on a whole facilitate investments significantly. This is something the investor can never duplicate on his own.

6) Liquidity

A stock investor may not always find the liquidity in a stock to his liking. There could be days when the stock is hitting the up/down filter and buying/selling is curtailed. This does not allow him to enter/exit a stock.

Mutual funds make very liquid investments. Some times a mutual fund may be more liquid than other investment avenues. For instance, there are days when there are no buyers or sellers for an individual stock. On the other hand, an open-ended fund can be bought/sold at that day's NAV by simply approaching the fund or its registrar.

EXCEEDING INVESTOR EXPECTATIONS

Diversified Equity Funds	NAV (Rs)	Return (%) 1-Yr	2-Yr	5-Yr
Franklin India Bluechip Fund G	21.2	24.0	-6.8	24.6
Zurich I Equity Fund G	20.7	35.2	-0.6	23.9
Franklin India Prima Plus G	22.3	26.3	-3.1	23.3
Franklin India Prima Fund G	27.5	73.1	8.6	22.7
Reliance Growth Fund G	28.0	59.8	5.1	16.7
Reliance Vision Fund	24.4	91.2	11.2	14.0
Sun F & C Value Fund G	15.6	12.6	-17.6	11.4
Sundaram Growth Fund	11.9	23.9	-10.4	9.9
DSP-ML Equity Fund	12.3	6.9	-20.2	5.2
BSE Sensex	-	8.7	-49.0	-23.5
S&P Nifty	-	7.3	-37.0	-11.3

(NAVs as on September 13, 2002. Growth over 1-Yr is annualized compounded)

7) Minimises loss

Companies going under outnumber mutual funds going under. In other words, investing in mutual funds assures more safety of investment than investing directly in stocks.

A mutual fund may lose money, but may not go down as easily as a company. The legal structure and stringent regulations that bind a mutual fund safeguard a unitholder's interests far better.

As highlighted above, investing in mutual funds has some unique benefits that the direct stock investor would be hard put to duplicate. By no means are we insinuating that mutual fund investing is a sure-fire way of logging growth. This can be done even by investing directly in stocks. However, mutual funds offer the investor a relatively safer and surer way of picking growth minus the hassle and stress that has become synonymous with stocks over the years.

HOW TO SELECT AN EQUITY FUND ?

Investing in a diversified equity fund (also referred to as growth fund) isn't as complex as investing directly in equities. However, the equity fund investor must do his homework to ensure against any disappointments later.

Below we list out six steps an investor must take to ensure that the fund he is investing in is what he is actually looking for.

Step 1
Evaluate the returns and timeframe

The first thing the investor should look at is consistent returns. While evaluating mutual funds the first criteria is to find out how much return has the fund has given over 1, 3 and 5 years. You will find that while many funds have gained significantly in year, the five-year performance is not impressive. Then there are funds that do not have significant returns in a year but the five-year performance reveals a good deal of consistency.

Private sector mutual funds like Zurich and Templeton have given a compounded annual return of 23% over a period of five years. On the other hand, some schemes have not performed in the past and have only turned positive in the near term. The significant gains in a one-year period could be due to a one off event rather than an outcome of disciplined stock selection.

Step 2
Evaluate the volatility

The swing in returns is actually a risk for the investor. The risk here is measured by the standard deviation. Standard deviation measures the movement of the returns away from the average return. Higher the deviation more risky the investment. If a fund gives a return of Rs 100 and the standard deviation is 20% for a year, this implies that the returns could have varied anywhere between Rs 80 to Rs 120 during the course of the year.

Diversified Funds	Return (%) 1 yr	2 yr	5 yr	SD	Expense Ratio (%)
ING Growth Portfolio G	13.2	-43.0	NA	16.8	2.3
Franklin India Prima Fund G	73.1	8.6	22.7	10.5	2.5
Alliance Equity Fund G	18.9	-21.9	NA	8.4	2.2
Reliance Growth Fund G	59.8	5.1	16.7	7.8	2.0
Zurich I Equity Fund G	35.2	-0.6	23.9	6.6	2.5

(NAVs as on September 13, 2002. Growth over 1-Yr is annualized compounded)

Here select funds have shown a very high standard deviation. This means that the returns have varied widely from the mean. Meanwhile, funds like the Zurich India Equity Fund has given significant return and the risk undertaken by the fund manager has been comparatively lower. Obviously, funds like these have performed much better by giving higher returns for lower risk.

Step 3
Evaluate the risk-adjusted return (Sharpe Ratio)

Combination of risk and returns gives a very interesting number, which is known as the Sharpe Ratio. It gives the return per unit of risk. Therefore, the investment that gives the highest return per unit of risk should be considered over others. Let us take the example of Fund X which has appreciated by 40% in a year and has a standard deviation is 42%. Although the Sharpe Ratio maybe very high, the possibility that an investment of Rs 100 in the Fund could drop to Rs 58 may be upsetting for investors.

Step 4
Evaluate the expenses

The cost of investing in a fund is indicated by the Expense Ratio. The expense ratio represents the percentage of the fund's assets that go purely towards the expense of running the fund. The expense ratio covers the investment advisory fee, the administrative costs, and other operating expenses. These costs are distinct from the costs of buying a fund i.e. the sales loads.

The expense ratio has to be looked in relation to the returns offered by the fund. If the fund has a higher expense ratio, this should be justified by better performance.

Step 5
Evaluate the fund manager's style

One of the key reasons for investing in mutual funds is to avail the expertise of professionals to manage your money. It would therefore, be very important to know who will be the fund manager, what kind of experience does the fund manager have, how long has he been with the current scheme and also how have the schemes performed under the fund manager.

Another very important thing an investor needs to know before investing is the fund manager's style. Is the fund manager an aggressive investor? Does he try to time the market? Or is the fund manager a conservative investor? These questions will help you gauge the risk inherent in placing your money under the management of the fund manager in question. For instance, there are some fund managers in the industry who were known to keep away from the infamous K-10 stocks, when these stocks were gaining swiftly. IDBI-PRINCIPAL Growth Fund was among the handful of funds that chose to ignore the K-10 stocks. Many others chose not to invest in technology stocks at the height of the technology boom. Sundaram Growth Fund is a fund that did not give in to irrational exuberance regarding tech stocks in 1999-2000.

Step 6
Evaluate the level of portfolio diversification

Another very important reason to invest in an equity fund is to derive the benefits of diversification i.e. putting all your eggs into a one basket. Many diversified funds have invested 30% to 40% of the assets in a single sector. Is the fund truly diversified? In the other extreme case, the fund might have invested in as many as 250 to 300 stocks. For example, US64 had over 500 stocks in its portfolio. Look at the scheme's portfolio and ensure that the fund is well diversified but not fragmented.

Investing in mutual funds requires a significant amount of research. Though the whole point of investing through mutual funds is to delegate the stock selection process, the investors must be equally careful about the most important decision, who to entrust their money with. This is as important as the quality of management while selecting a stock. Thankfully, the numbers that an investor needs to look at are much simpler and easier to understand in this case.

Your equity fund shopping list:

1. A low sales load (below 2.0%)
2. A low expense ratio (below 1.0%)
3. Full investment policy. Low cash reserves – up to a maximum of 5%.
4. Standard deviation not higher than 15%
5. Consistent returns over 5-years

GOT A GRIEVANCE?

Here's what you should do...

Step 1: Write to the fund house

Step 2: If this doesn't get you a response, write to SEBI's investor grievance cell. Website: www.sebi.gov.in

Here is what you cannot do:

You cannot approach the Consumer Grievance Forum because you as an investor in the fund are a direct beneficiary of the Trust. Therefore you cannot file a suit against the Trustees.

HOW TO SELECT A BOND FUND?

Investing in a bond fund (also referred to as income fund) can be quite a challenge for the lay investor. There are several factors he needs to consider, which require good insight into the working of a bond fund. We have tried to list down some of these factors to enable you to make an educated choice while selecting a bond fund.

Step 1
Evaluate the asset allocation

A bond fund invests primarily in corporate debt, government securities and money market instruments. Investors need to evaluate the asset allocation of the fund to gauge volatility in the fund. For example, prices of government securities (gilts) in times of economic and political turbulence can be volatile, and this leads to higher uncertainty i.e. more risk. A well-diversified portfolio is a strong positive.

Ideally a bond fund must have 25% in gilts, 70% in corporate debt (including financial institutions) and 5% in cash/call. By taking relatively lower exposure to gilts, the fund will be able to curtail interest rate volatility. With higher exposure to corporate debt, it will adhere to its objective of investing in bonds.

Step 2
Evaluate the rating profile

The investor should see that the asset allocation of the portfolio is in line with the rating allocated to the securities. Look out for securities with 'AAA' rating, as this will reduce the credit or default risk. Sandesh Kirkire (Head Debt Funds, Kotak Mutual) a leading debt fund manager, concurs, 'From a lay investor's perspective, I think the most critical thing is the quality of the portfolio. The investor should see the rating profile of the debt securities invested by the fund.'

Ideally a bond fund must have 60% exposure to AAA-rated securities and 25% exposure to gilts, which have a sovereign rating. With 85% in AAA/sovereign, this is a very solid portfolio as far as the rating goes. With only 15% in AA-rated paper, there is minimal risk thereby ensuring a high credit quality.

Step 3
Evaluate the maturity profile

Investors need to see the maturity profile of the fund portfolio. See the maturity breakup of the securities and look out for paper that is at the lower end of the yield curve.

Ideally, the Bond Fund has about 40% in less than 3 years and 35% in 3-5-year paper. This is a conservative strategy as the fund manager does not want to compromise on the liquidity and stability of the fund by taking excessive exposure to longer-dated paper (more than 5 years), which could add to volatility. The fund may have 15% in 5+ year paper, which is reasonable and should boost returns in times of a decline in interest rates.

Sandesh explains how fund managers use various instruments to adjust the maturities, 'Maturity is normally controlled through investments in gilts which are normally at the longer end while the investments in corporate debt are normally at the short to medium end. Depending on the interest rate view of the fund house, the fund manager increases the fund's average maturity or shortens it mainly through the gilt route.'

From a risk perspective, one important point an investor must consider is the average maturity of the fund's portfolio. A bond fund having an average maturity at the lower end of the market say 3-5 years is less volatile than a fund with an average maturity at the higher end of the market say over 5 years. What is the ideal average maturity for a bond fund? Sandesh explains, 'There is no standard maturity. Funds tend to increase or shorten their maturity portfolios depending on their interest rate view.'

Step 4
Evaluate performance

Look at the returns given by the fund over a period of time – at least over 12 months to get a good idea and 36 months to judge consistency in performance. Look at its dividend history if you plan to invest in the dividend option.

For the lay investor who is unable to independently evaluate the bond fund manager's investment strategy vis-à-vis interest rate movements, returns serve as a reliable benchmark. Sandesh asserts, 'I think an investor should mainly look at the average rolling return for 6 months to a year over a longer period, for him to get the comfort on the return expectations. Most of the fund managers do indicate the return expectation over the next six months to a year so as to give a realistic expectation to the investor.'

Bonds funds come with various options - short-term plans, long-term plans and so on. For the lay investor the idea is to match his investment horizon with the plan. Sandesh advises, 'I think the lay investor should invest in debt schemes looking at his investment horizon. For short-term horizons he should look at investing in the liquid (for a 1 month horizon) or the short term bond plans (for 1-6 months). For horizons above 6 months he should look at the bond schemes or the long term gilt schemes.'

BOND FUNDS ON THE RUN

Bond Funds	NAV (Rs)	Returns (%)		
		1-Yr	2-Yr	5-Yr
PNB Debt Fund G	16.7	18.8	19.8	-
JM Income Fund G	22.8	15.8	16.7	14.0
K Bond (Wholesale Plan) G	14.7	14.6	16.4	-
HDFC Income Fund G	13.4	14.6	-	-
Birla Income Plus B	24.1	14.5	15.4	13.4
IL&FS Bond Fund G	14.8	14.2	15.0	-
Alliance Income G	19.8	14.1	15.2	12.8
DSP ML Bond Fund G	19.6	14.0	15.6	13.2
LIC MF Bond Fund G	15.7	14.0	15.2	-

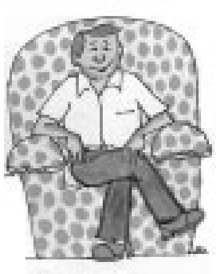
(NAVs as on September 13, 2002. Growth over 1-Yr is annualized compounded)

These are some of the important pointers you need to keep in mind while investing in a bond fund. Hopefully, investors who are cautious enough to consider these factors will have grown older and richer.

Your bond fund shopping list

1. At least 70% in corporate debt and not more than 30% in gilts.
2. At least 80% in AAA/Sovereign rated paper
3. At least 70% in less than 5 year paper.

REGULAR INVESTING IS THE KEY



Currently equity markets are witnessing some volatility and there is no clear trend. The opinion of most fund managers is that markets are undervalued and there is bound to be an upturn, although poor monsoons and political tumult seem to have nixed that. So what should you the investor do in such a scenario. A smart bit of rupee-cost averaging is one way mutual fund investors can tide over these market blues.

Regardless of focus (or lack of it) in the markets, equity fund investors with some focus of their own, can still do their bit. Investors who have opted for the systematic investment plan (SIPs) can reap the benefits of rupee-cost averaging and may well see their investments grow over a period of time. But first, what is rupee-cost averaging and how does it work?

Rupee-cost averaging is an investment strategy that combines simplicity, risk reduction and affordability. Its an ideal way to space out one's purchases and avoid paying too much. A big advantage of rupee-cost averaging is that it takes the guesswork out of deciding when to buy. It does not burden the investor with timing his investments and over a period of time it helps him diversify his investments.

Under rupee-cost averaging an investor essentially buys more units of a mutual fund when prices are low and fewer units when they are high. This is good discipline since it forces the investor to commit cash at market lows, when others are wary and exiting the market. Investors may even be pleased when prices fall because the fixed rupee investment would now fetch more units.

Let us see how this works in reality. We have taken below a fund with the assumption that an investor is investing Rs 500 in it on a monthly basis under an SIP.

In the illustration, the average NAV over 5 months works out to Rs 8.0. However, the average cost of purchase of mutual fund units is only Rs 7.4. What the SIP has helped you do is that, it has lowered your average cost of investing in the mutual fund.

Period	NAV (Rs)	Amt (Rs)	Units	Avg Cost (Rs)
1	10.0	500	50.0	10.0
2	6.0	500	83.3	7.5
3	5.0	500	100.0	6.4
4	9.0	500	55.6	6.9
5	10.0	500	50.0	7.4
Average NAV:		Rs 8.0		
Average Cost of purchase:		Rs 7.4		

For rupee-cost averaging to be a success, stock prices and therefore mutual fund NAVs must push higher over time. Fortunately for the investor, this is a long-term phenomenon and the investor need not be too concerned about short-term blips. One of the problems encountered when applying an averaging strategy to individual stocks is that there's a much greater possibility that they may fall in price and never recover, especially if the company's future prospects suffer for some reason, thereby adversely affecting its competence. Fund investors do not have this worry since they own a diversified portfolio. Few funds have been long-term losers, and they aren't too difficult to spot. Of course to be able to spot these funds, they must have some history.

Rupee-cost averaging works even better if the investor has the discipline to increase investments during a downturn in the markets (as explained in the illustration above). That's when one can take advantage of rock bottom prices, which will further reduce the average cost and enhance returns.

When establishing an investment plan, the investor needs to consider the frequency of his investments - monthly, quarterly, semi-annually, or any regular interval. More frequent intervals increase the investor's chances of buying units when prices are especially low.

Regular investing can help you amass a significant amount in your retirement years. Investors who need some proof of that must look at how life insurance works. By investing a fixed premium amount over 20-25 years, you end up with a cumulative sum that can be 3-4 times the premiums paid. Mutual funds can also help you do that provided you show some commitment, discipline and planning.

POWER OF COMPOUNDING

The benefits of starting to invest early in life is something we are all told about. But, seldom can we put a number to this benefit. We got IDBI - PRINCIPAL to help us in this process. And this is what we got!

The investment vehicle is a balanced fund (50:50 equity/debt allocation) that gives a compounded return of 13% p.a..

You begin investing Rs 1,000 on a monthly basis either at the age of (1) 25 years or (2) 30 years.

If you commenced investing at the age of 25 years, you would have accumulated Rs 8 m (Rs 80 lakhs) at the age of 60 years.

However, if you have started at the age of 30 years, you would have accumulated only Rs 4 m.

You would have lost half your wealth by starting only 5 years later!

INTERESTING INVESTMENT OPPORTUNITIES

The domestic mutual fund industry is finally getting proactive and is responding to investor's needs. After launching all the plain vanilla products, we are finally seeing the industry innovating with various products addressing a larger audience. We have profiled some of these innovative products.

(A) Floating Rate Instruments (FRI)

With increasing volatility in government securities/bond prices, investors have started realising the risk of investing in an income/gilt fund.

Earlier investors had a misconception about the working of income and gilt funds. Many investors perceived these funds as 'very safe' investments providing steady returns. However, with interest rate volatility and political and economic turbulence becoming the order of the day, the investor has now perceived the considerable risk of investing in debt funds.

First and foremost, it is critical for an investor to understand the factors that dictate the performance of a debt fund. We have highlighted some of the risks associated with a debt fund and how they can be eliminated.

a. Credit risk: This arises from risk that the issuing company will default on its commitment to repay the principal amount to the investor.

b. Price risk: Price risk arises out of trading (purchase and sale) of debt securities in the secondary market.

c. Event risk: Risk arising from any disastrous event (natural calamity, war) taking place in the country (or in any part of the world) that could have a negative impact on the domestic economy.

d. Interest rate risk: The most difficult and complex risk associated with a debt fund is that of interest rate risk. A rise/fall in the interest rates can have a significant impact on bond prices as also the NAV (net asset value) of the fund.

The last risk component – interest rate risk is indeed the most difficult to contain and its something that fund managers (and investors) have to live with throughout the life of the fund. Interest rate risk can be reduced in one of the two ways:

1) By making the right call on interest rates every time. By its very nature, this task is unlikely. Even a very good fund manager can be right often, but not always.

2) By adjusting the coupon rate on the instrument regularly. This will curtail price fluctuation arising out of interest rate volatility. A floating rate instrument seeks to do just this.

First let's see how an income fund's net asset value (NAV) can get affected by interest rate fluctuations. The Income Fund has invested in "ABC" Corporate Bond. Every bond paper consists of three components: the coupon rate, the price and the tenure. ABC has issued a 10-yr bond, which offers a fixed rate of 10%. The bond is currently trading at Rs 100 in the market.

ABC Corporate bond	Market Rate (%)	Price (Rs)	Interest Inc. (Rs)
Initial offer	10.0	100.0	10.0
Interest rate rise	11.0	94.1	10.0
Interest rate fall	9.0	106.4	10.0

The t1able shows how the bond price moves with a rise or fall in interest rates. It is evident that if the interest rates rise to 11% in this case, the price of that corporate bond would fall to Rs 94.1 (as also the fund's NAV) in order to adjust to the higher yield prevailing in the market (i.e. 11%). However, if the interest rates fall to 9% in this case, the price of the bond will shoot up (as also the fund's NAV) to Rs 106.4.

As is evident, the rise or fall in the interest rate can have a significant impact on the fund's NAV.

A Floating Rate Bond seeks to eliminate interest rate risk by resetting the coupon rate regularly. An investor who enters a floating rate mutual fund will curtail volatility arising from interest rate risk to a considerable extent.

However, there is a downside to investing in an floating rate scheme. As the coupon rate gets reset depending on the interest rate scenario, the investor may lose out on a higher coupon rate, if there is a general decline in interest rates.

FRI: Who can invest?

Investors who are willing to sacrifice returns for higher safety and lower volatility.

Indicative returns?

The return on such products is linked to the underlying floating rate. For example, if it is linked to the overnight call rate, it should return 5.75-6.00% p.a. each day, with subsequent day's returns linked to daily call rates thereafter - Binay Chandgothia, Debt Fund Manager, IDBI - PRINCIPAL AMC

(B) Fixed Maturity Plans

Fixed Maturity Plans (FMPs) are basically income/debt schemes giving a fixed return over a period of time. FMPs are similar to close ended schemes, which are open only for a short period of time during the initial offer. However, unlike closed ended schemes where an investor's money is locked for a particular period, FMPs give the investor an option to exit, which is subject to an exit load.

FMPs are launched in the form of a series i.e. each series replaces the one which has matured. e.g. Fund 'A', launches an FMP Series I having 90 days maturity, after 90 days that scheme matures and automatically Series II starts with 90 days maturity. As per SEBI, if an investor wants to redeem from any of the series he has to give a redemption request 10 days prior to the maturity date of that scheme. In case the investor doesn't give the redemption request his funds will be carried forward to the next series wherein he has to stay invested for an additional 90 days or can redeem by paying an exit load.

Investment pattern: FMPs primarily invest in debt instruments like bonds, debentures and money market instruments. The fund manager invests in these instruments and holds them till maturity, giving a fixed return to the investor.

Investment period: As we have outlined earlier, FMPs are launched in the form of series having varying maturities. The maturity period varies from 3 months to 12 months.

Minimal risk: Unlike debt funds, which are exposed to three kinds of risks viz. interest rate, credit and liquidity risk, FMPs are a better option. FMPs eliminate interest rate risk as the fund manager holds the instruments till maturity getting a fixed rate of return. They primarily invest in AAA or P1+ rated instruments with a short-term maturity profile from 3 months to 12 months so there is also low credit risk. FMPs have minimal liquidity risk as they invest in short-term instruments, which give them adequate liquidity. Also, as they have a fixed maturity profile the investor can expect a fixed return if he holds till maturity and hence there is less redemption pressure.

Minimal expenses: Because of their very nature of holding the instrument till maturity, FMPs minimise expenses. As there is no regular churning of the portfolio, this reduces costs incurred in buying, these instruments and also the fund managers cost of reviewing the portfolio on a regular basis.

FMP: Who can invest?
Corporates/high networth individuals (HNIs)
Indicative returns?
91day FMPs should give a return of 6-6.25% p.a. 365 day FMPs should return about 7%p.a - Binay Chandgothia, Debt Fund Manager, IDBI-PRINCIPAL AMC

(C) Short Term Plans

Short Term Plans serve an important need – liquidity with optimal returns.

Earlier, investors with surplus funds parked their monies in liquid funds and were satisfied with the returns that these funds generated by way of dividend. But if the investor had to remain invested for over a month (3-6 months), liquid funds underperformed the long-term income funds. At the same time, the short term investor could not possibly invest in an income fund where the fund manager can take considerable risks to enhance returns. So the short-term investor of 3-6 months did not have a product catering to his needs that would optimize returns without compromising on capital preservation. Something that fits well between a liquid fund and a long-term income fund. Necessity is the mother of invention they say, and this gave rise to Short Term Plans (STP). Like liquid funds, STPs invest mainly in AAA paper/treasury bills implying high standards of safety. In other words, if you can rely on a liquid fund, you will also find an STP measuring up to your expectations where preservation of capital is concerned. Only the interest rate risk in an STP is marginally higher vis-à-vis a liquid fund, which should not impact an investor adversely if he is in the fund for over 1 month.

For an investor who has parked his surplus for a short term, receiving his redemption cheque in time can be critical. Liquid funds fulfill that requirement nicely and have systems in place to submit the redemption cheque within 24 hours of the redemption request. STPs match this by offering a similar facility on redemption. Some fund houses have a direct credit facility with some banks, wherein funds get transferred to your account directly.

To use a cliché, an STP is a win-win investment proposition for the investor who has some surplus funds for the short-term plan. This along with the lower cost of managing STPs are some of the reasons why we have seen a lot of funds making a dash to introduce this product in their portfolios. There is significant pent-up demand for this product from the corporate and HNI segment, which is now being channelised effectively by fund houses. Its little wonder that in such a short period of time, net assets of STPs have leapfrogged significantly to account for a large chunk of the funds' total assets under management.

STP: Who can invest?
Corporates/high networth individuals (HNIs)/retail investor
Indicative returns?
STPs should give a return of 6.50-7.50% p.a. under the current market conditions. Normally, they would give a return of 50-100 basis points higher than a liquid fund - Binay Chandgothia, Debt Fund Manager, IDBI - PRINCIPAL AMC

INVESTORS: SAY NO TO REBATES!

Going by SEBI's guidelines released on June 26, 2002, mutual fund distributors can no longer pass on incentives to investors to do business with them.

What impact will this have on mutual fund investors?

First a little background. Passing on incentives/rebates has been the norm rather than the exception in the domestic financial sector. Right from life insurance, the most critical element in financial planning to a Rs 1,000 investment in an RBI Relief Bond, incentives had to be passed on by the distributor. If not, then the investor would simply go to his nearest (and highest paying) competitor. While this practice has been abolished in the life insurance industry, it has been thriving in other product segments.

Incentives are unethical because they deprive the end-user (the investor) of an objective analysis of all options available at his disposal. In a lot of industries (like defence) incentives/rebates/kickbacks are considered illegal and unscrupulous. With incentives the investor does not have (or is willfully denied) the opportunity of objectively evaluating all available options. The investor is tempted to choose an investment (mutual fund, fixed deposit) because of a carrot that is dangled in front of him. The carrot (read incentive) could take the shape of cash (as a % of investment or a fixed amount) or a promotional item (like a pen).

This was the case for a long time and a whole lot of investors put in money in an investment not necessarily because of what that investment was meant to do, but because of what their distributor gave them!

Mercifully, the powers that be (thank you, Mr Bajpai) recognised the mess that investors were getting into and initiated reforms to tidy up the sector. This has done wonders for the industry. Rebates may or may not exchange hands, but the laws and guidelines are in place to combat this menace and any violation of this rule by the distributor leads to immediate termination of agency.

For the investors, there cannot be a move more beneficial than this one. You now get to choose a mutual fund scheme that is doing well, ranks higher vis-à-vis its peers and will hopefully work for you. You could have done all this earlier as well but you were never allowed to do it. You probably never even realised what you were missing because your mutual fund distributor never told you that!

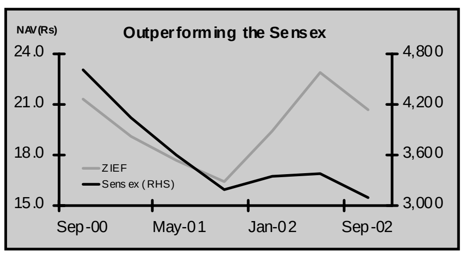
The incentive era has been phased out. The dawn of a new era will see the mutual fund investor getting more aware and objective in his investment approach. This was the way he was meant to be investing. Hopefully, this is the way he will be investing.

FUND FOCUS: ZURICH INDIA EQUITY FUND

Fund Management Team:
Chandresh Nigam / Prashant Jain (CIO)
Objective: Capital appreciation
Load: 2% at entry
Net Assets: Rs 2.6 bn (August 31, 2002)

Profile

Zurich India Equity Fund (ZIEF), launched in 1994, is the flagship diversified equity fund from Zurich India Mutual Fund. ZIEF is one of the more successful equity funds in the country today. ZIEF has clocked nearly 30% growth (absolute) over the last 12 months. This has come with a mixture of conservative fund management and aggression. The fund has consistently delivered value to investors over the years without resorting to anything risky like investments in K10 stocks or going overboard with software stocks during the tech frenzy in 1999-2000.



Is this fund for you?

ZIEF is a high-risk, high-return investment. It is ideal for investors looking to create wealth over the long term (at least 3 years) by taking on some quantum of risk with the promise of higher reward. Given the equity nature of the fund, it is suitable for 'younger' investors (upto 40 years of age). Older investors can consider investing very small amounts for capital appreciation over the long term, which is possible only with an equity-linked instrument.

Sectoral Allocation

As per the latest fact sheet, ZIEF has nearly 21.1% of its net assets in oil (refining/marketing/exploration), which is on the higher side. Other leading sectors include – pharma – 14.6%, consumer products – 11.4%, software – 10.6%, auto – 5.4%, metals – 5.3%, telecom – 5.1%. The fund is well-diversified across 13 sectors with 1 - 2 companies under each sector.

Diversified Equity Funds	NAV (Rs)	Return (%)		
		1-Yr	2-Yr	5-Yr
Zurich I Equity Fund G	20.74	35.2	-0.6	23.9
Franklin India Bluechip Fund G	21.16	24.0	-6.8	24.6
Alliance Equity Fund G	24.85	18.9	-21.9	NA
Templeton India Growth Fund	12.26	18.0	-3.8	3.8
Birla Advantage Fund Plan B	23.72	11.8	NA	NA
Pru ICICI Growth G	17.8	11.8	-15.7	NA

(NAVs as on September 13, 2002. Growth over 1-Yr is annualized compounded)

Stock Allocation

What comes out very distinctly in ZIEF's stock allocation is its bias towards public sector units (PSUs) slated for disinvestment - HPCL, BPCL, ONGC, MTNL, BHEL, accounting for over 30% of net assets. Other leading stocks are large caps and liquid – Ranbaxy, Hindustan Lever, Infosys, TELCO, TISCO, MTNL. While the fund's stock selection is astute, the heavy PSU tilt at this stage could add some volatility.

Outlook

Historically the fund's performance has met investor expectations, more so in the downturn post-March 2000, when most tech-heavy equity funds performed dismally. Going by its current portfolio, the fund has a judicious mix of companies even if it looks overweight on PSUs. Given the fund's investment management capabilities and its ability to tide over volatility, investors who are looking at significantly beating the index with that much more risk can consider investment in the fund.

(For our views on other mutual fund schemes log onto to www.personal*fn*.com)

INTERVIEW WITH MR. VIVEK REDDY

In Vivek Reddy's own words, 'he is the first employee of the first private sector mutual fund in India'. Pioneer ITI Asset Management Company, now merged with Franklin Templeton Mutual Fund, owes much of its success to Vivek Reddy, its chief executive officer (CEO).
Mr Reddy spoke to Personalfn on how to select a mutual fund and on the secret behind Pioneer's retail success story.

1. What would be your advice to investors looking at investing in the present scenario – from the aspect of both debt and equity funds?
Every investor must look at investing in equity and debt in line with his needs. To that extent, the fundamental tenet of investing still remains the same i.e. financial planning or asset allocation. So the conservative investor who wants stability should look at debt funds and the investor looking at capital appreciation over the long term must consider equity funds. Within this broad context, the bias must be towards equities for anyone with a investment horizon of 3-4 years.

On the fixed income side, given the lower interest rate regime, investors can expect about 7% returns going forward. Compared to this scenario, we need to look at relatively undervalued equity markets and decent corporate performance of about 12 - 15% - boosted by higher profitability and a re-rating of the price to earnings (P/E) ratio. With this we could be seeing an annualized growth of about 15% and when we consider that fixed income could be giving half of that, there is a compelling case for investment in equities.

And with interest rates on a decline, this could see the added liquidity finding its way in the stock markets. That has been the trend in other markets like the US. We haven't seen that happening here largely due to lack of confidence in equities. But once investors get some degree of confidence in equities, the scenario could improve. So earlier if investors were looking at an asset mix of 50% in equities and 50% in debt, they can maybe now look at 60-65% in equities.

2. How should one go about selecting an asset management company and subsequently a mutual fund scheme?
Investors should look at the long-term performance of the AMC. They should see how its funds have performed over 1, 3 and 5 years. This gives an idea of how the fund manager has performed in that period. So if the AMC has performed well over these investment horizons, but there is a new fund manager in place, then this does not mean much. Typically, the investors need to look at long-term per formances and not just over the last year. This is one of the most important guideposts.

Then they need to see how responsive the fund can be, how good is its servicing level. The next criterion would be the sponsor's background, their experience and integrity. But given that most have credible sponsors it's not really a differentiating factor.

On a scale of 1 to 100, where 100 indicates a fail-safe investment decision, I would give track record, portfolio and performance a weightage of about 15%. I would give expenses a weightage of 10%. I would give service levels, responsiveness a weightage of 10%. The sponsors and promoters would get a weightage of 5%. That leaves you covered for 40%. I would say that's about the best an investor can do and leave the rest to God!

3. Three of the best five performing equity schemes over the last 5 years have been from the Pioneer ITI AMC, an AMC that you set up. To what would you attribute this success?
Our approach to business was simple and direct. We knew what investors wanted and we tried to give that without any frills. If we liked our research on a company and found it fundamentally sound and able to give value, we bought it. That was our approach, no technical analysis and no exotic theory.

We applied our common sense and judgment to go with our decision and these two factors did the trick for us. We did not allow ourselves to get distracted by anything. A lot of funds follow styles of investing or a process and that governs their investment decisions. They believe that fund managers can come and leave but they have to follow processes. With us there was a lot of individual style.

4. A key feature that distinguished Pioneer from its peers was its retail base. Why were you 'successful' in developing a retail franchise even as others struggled?
Again it was our direct approach that endeared us to the retail investor - our attitude and culture and plain speaking style, no jargons, no technical details. We attracted a lot of retail investors by meeting up with a lot of retail intermediaries. We valued even a Rs 10,000 application. A lot of funds seemed to believe that 1% (profit) on a Rs 10,000 application isn't worth it. But we found that if we had a fair number of these applications it added up to quite a bit. And not all of them are active and demanding.

Also the Rs 10,000 investor can give you repeat business and that reduces your cost of marketing. When other funds saw the Rs 10,000 investor, they did not realise that he could be representing lakhs of investors. We got a lot of repeat investments. In fact in the last couple of years we had about 40 - 50% share of applications. We also had extensive reach with over 30 offices in the country. We had a lot of our people going to several districts and non-metros and speaking to people. Of course our performance also helped, so it was a good mix that helped us.

5. When you spoke to your retail investor base about equity investing, what was your approach?
The investor isn't pleased with equities at this stage after 10 years of mediocre performance. But to be honest, we managed to get investors only in the boom time or at times of IPOs and fund launches. To that extent, we weren't all that successful. In the bear markets especially, we had a difficult time.

6. What are your views on SEBI's decision to impose a ban on the practice of 'rebating' by mutual fund distributors?
I am not sure if it was required. To me it seemed like a flexible system depending on the services you wanted to avail. If the investor wanted to avail all the services he would part with the entire load and would not insist on a rebate. But a lot of corporate investors aren't looking at availing at all the services and used to ask for the rebate.

7. What are the key regulatory issues that SEBI needs to address?
There can be more transparency in industry.

8. Do you think that the mutual fund industry has been able to meet the expectations of investors?
That would depend on what is his benchmark for evaluating mutual fund performance. On the equity side if he is looking at equity funds vis-à-vis the index then we have done well. If he is looking at equity funds in absolute terms or against a fixed income instrument then we would not have done so well.

9. Any advice for the retail investor as he recovers from yet another meltdown in the markets?
I would advise him to be patient and plan his asset allocation. Consider the factors that we discussed earlier while evaluating funds. Stick to liquid assets, which is what mutual funds provide.

INTERVIEW WITH MR KANU DOSHI

Mr Kanu Doshi, is a fellow member of the Institute of Chartered Accountants of India. Having specialised in taxation, he is currently a tax consultant to, inter alia, UTI and Association of Mutual Funds in India. He is a director on the boards of companies like Zurich AMC, Peoples Financial Services and a member of the AMC of UTI.

In an interview with Personalfn, Mr Doshi outlined the critical tax-related issues that affect the mutual fund investor. He gave his views on how mutual funds can serve as a tax-efficient investment avenue.

1. As an investor in mutual funds what sections of the Income Tax Act are applicable to me from the viewpoint of dividend?

Income distribution from mutual funds (i.e. dividend) is taxed at the rate applicable to the investor. Currently there are three income slabs that are taxed at 10%, 20% and 30%. When the investor's taxable income crosses Rs 150,000, he is subjected to 30% tax (plus surcharge of 5%).

2. How capital gains on mutual funds are treated?

There are two types of capital gains – short-term capital gains and long-term capital gains. Mutual fund is a capital asset and could be held for over 12 months. If it is sold/redeemed/ transferred within 365 days, at a profit, short-term capital gains tax will be applicable. For instance, if you have bought a mutual fund at par Rs 10 and the value of the unit falls, as has been the case with most equity funds, then you will have a short-term loss or long-term capital loss depending on your holding period. However, if you were wise enough to have invested in a fund that has clocked capital appreciation, you will have capital gains.

Coming to your question on how capital gains are treated – short term capital gain is treated like any other income and is taxed according to the income slab that we discussed in the previous question. However, if you have been invested for over 12 months, you will have long-term capital gain and this will be treated at a lower rate of tax. The rationale behind taxing long-term capital gains at a lower rate is to encourage investment and discourage trading.

3. Could you please shed some light on the benefits of indexation and how they can be used to limit tax liability?

Long-term capital gains that we have discussed are eligible to a concession by way of indexation. Indexation as a concept was introduced 5-7 years ago to factor in the inflation that may have crept in your investment between the date of purchase and the date of sale. This is because the surplus on your investments over the years is inflation-driven and not surplus in real terms. So this surplus due to the inflation should not be taxed at all. This is done by raising your cost of purchase.

For instance, if you have made an investment in the year 1995 when the index was say 200 and if you sell it in the year 2000 when the index was 400, then so long as your long-term capital gain is less than 100%, you will not have to pay anything. If you still have a surplus after indexation, then only that will be subjected to a flat rate of 20%. If you choose to opt out of indexation then as per the amendment three years ago, you can calculate the capital gains with indexation and also calculate capital gains without indexation and apply a rate of 10% on that, and then see which of the two is lower. That is your tax payable.

Mind you, indexation and 20% tax is applicable for all capital assets, except mutual fund units and listed stocks. For instance, in the case of a immoveable property, one cannot opt for 10% capital gains tax – he must necessarily go for indexation and 20% tax. Its only the listed stock/mutual fund investor who has an option in this regard.

4. Can gains and losses from mutual funds be set off? How does this work?

Yes. For instance, let us take a scenario where you have a short-term or long-term capital gain on your mutual fund units. You also have short-term or long-term capital loss on your stocks. The law permits you to set off your short-term capital gains against short-term capital loss. Even if you had loss on your mutual funds and gains on stocks, a set-off is possible. Now the question is – does the law recognise short-term loss and long-term loss differently. The answer to that is – yes. The law treats short-term loss and long-term loss differently.

According to the Finance Act 2002, long-term capital loss can be set-off only against long-term capital gain. However, short-term capital loss can still be set-off against long-term capital gain also. As far as unabsorbed capital loss is concerned, it can be carried forward and can be used to set-off short-term or long-term capital gain for eight long years.

5. What is dividend stripping? Under the latest budgetary provisions, is it permitted?

It was observed by the government that some mutual funds had come up with very novel schemes to save tax of very high networth investors. The fund houses used to declare their record dates for dividend well in advance. The investor used to enter the scheme with this information, collect his dividend and then exit at NAV immediately after collecting dividends. In the process, he would post capital loss, which he could set off against his any other capital gain.

In the Finance Act, two years ago, the government decided to correct this and the law said – If you have invested in a scheme within three months of income declaration (dividend declaration) that was tax-exempt and if you have sold the investment within three months of the income distribution, you cannot claim a short-term capital loss as a result of your redemption at NAV. So there are three conditions:

a. the investor should have entered the fund within three months of income declaration;
b. he should have collected tax-exempt dividend; and
c. the investor should have exited the investment within three months of such exempt income declaration.

These three factors were cumulative. In other words, all three of them have to exist at the same time for dividend stripping to be disallowed, under section 94 (7).

As per Finance Act, 2002, income from mutual funds is now no longer tax-exempt. So what this implies is that one of the three conditions to curb dividend stripping is not fulfilled. This, in effect, means that dividend stripping is now possible after 31.3.2002.

6. Now that dividends are taxable, what is your advice to the investor who is looking for a tax-effective, regular income stream?

Investors who need liquidity, can choose the systematic withdrawal plan. However, the first withdrawal must be made only after 365 days so that maximum tax can be applicable at 10% under capital gains. If investors would like to avoid even the 10%, they can set off the gains against a capital loss, if any.

7. In your opinion, what needs to be done at the budgetary level to stimulate the mutual fund industry?

The best gift the finance minister can give the investor in his budget is to maintain status quo on taxation of dividends of companies and Mutual funds. Mutual fund dividends have been tax exempt since 1999 and company dividends have been tax exempt since 1997. The tax exemption on these items should be reinstated. Over the past few years, when dividends were tax-free, investor sentiment was buoyant. I would say even the distribution tax of 10% on dividends must be removed as it amounts to double taxation of the same income, first in the hands of companies and again in the hands of investors.

8. Some key pointers for the retail investor to optimise his tax outgo?

To optimise his tax-planning, the investor should use every bit of tax concession at his disposal. He must particularly use his 80L limit of Rs 12,000 + Rs 3,000 (interest on government securities), which is ignored by a lot of investors.

9. Any tax planning potential through mutual funds?

Yes. Mutual funds are the only avenue which can facilitate capital formation for minor child of a high networth investor, if the investor puts money in the growth option.

TAX & MUTUAL FUNDS

Income from mutual fund	Head of income under which taxed	Rate of tax	Set off of losses from mutual funds
Dividend	Income from other sources	Applicable rates 10%, 20% & 30% according to the income slabs of the investor	
Capital appreciation	Capital Gains Long term capital gains – investment in the mutual fund scheme held for more than 12 months	Irrespective of the income slab i: 20% with indexation benefit ii: 10% without indexation benefit	Long term capital loss from MF can be set off only against long term capital gain from MF or any other capital asset Any unabsorbed long term loss in a year can be carried forward for set off in subsequent years against any other long term capital gains
	Short term capital gains – investment in the mutual fund scheme held for less than 12 months	Treated as any other income - applicable rates 10%, 20% & 30% according to the income slabs of the investor	Short term capital loss from MF can be set off against both short term and long term capital gain from MF or any other capital asset Any unabsorbed short term loss in a year can be carried forward for set off in subsequent years against both short and long term capital gains

Money Simplified

personalfn

Performance Analysis of India's leading Mutual Fund schemes

All statistics provided by Credence Analytics

PERFORMANCE ANALYSIS GLOSSARY

Asset Allocation

A systematic approach for dividing the portfolio into stocks, bonds and cash.

In our performance analysis, we have given the portfolio break up for equity and debt (cash and others have been included in the debt component).

Asset Allocation in our analysis is as on August 31, 2002, unless stated otherwise.

Average Maturity

It is the average of the maturities of all papers/instruments in a bond fund. Typically, a higher average maturity implies that fund manager is bullish on the interest rate scenario and a lower average maturity implies that he is cautious.

Expense Ratio

Expense ratio is annual expenses of a fund (at the end of the financial year), including the management fee, administrative costs, divided by the average assets under management. A lower ratio would indicate a more cost efficient fund.

Net Asset Value (NAV)

NAV is the price or value per unit of a fund. It is calculated by dividing the market value of the net assets of the fund by the number of units outstanding. Net Assets includes the the cash held and any accrued income less the liabilities of the fund.

We have taken NAVs as on Sept 13, 2002.

NAV Returns

NAV Returns is the percentage change in the NAV over the given period of time.

In case where returns are for periods less than one year, returns are absolute. For periods greater than 1 year, the return reflects the compounded annual growth rate (CAGR). However, in case of liquid funds, the returns are annualised for all periods, even less than a year.

Net Assets

Net assets is the total value of a fund's cash and securities less its liabilities or obligations. All net asset figures in our analysis are as on August 31, 2002, unless stated otherwise.

Rolling Return

It is the return calculated based on the moving averages over a timeframe. In case of liquid and short-term plans, we have taken 6-month rolling returns. This means that it is the average of returns rolled over the last 180 days. A rolling return tends to iron out the volatility.

Sharpe Ratio

It is a measure developed to calculate risk-adjusted returns. The Sharpe Ratio is the difference between the annualised return of the scheme, Ri, and the average risk free return, Rf, (normally bank fixed deposit rate) divided by the standard deviation SD during the specified period.

Sharpe Ratio = $(Ri - Rf)/SD$

Therefore higher the magnitude of the Sharpe Ratio, higher is the performance rating of the Scheme.

Standard Deviation

It tells us how much the values have deviated from the mean of the values. Standard deviation measures by how much the investor could diverge from the mean return either upwards or downwards. It points to the element of risk associated with the fund. The standard deviation is calculated by using returns of the scheme i.e. the Net Asset Value (NAV). Higher the standard deviation, higher the element of risk (volatility) in a scheme.

Standard Deviation has been calculated for taking monthly returns for the last 2 years.

DIVERSIFIED EQUITY SCHEMES

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Expense Ratio (%)
Alliance Equity Fund (Gr)	24.85	18.9	(21.9)	NA	8.45	(0.19)	4,963	2.22
Birla Advantage Fund Plan B	23.72	11.8	NA	NA	4.64	(0.14)	3,496	2.21
Boinanza Exclusive Growth	9.67	42.6	12.0	4.7	7.63	0.16	182	1.42
Chola Freedom Technology (Cum)	8.50	10.3	(29.0)	NA	8.56	(0.26)	251	NA
DSP-ML Equity Fund	12.33	6.9	(20.2)	5.2	6.88	(0.23)	264	2.43
Franklin India Bluechip Fund (G)	21.16	24.0	(6.8)	24.6	7.66	(0.05)	3,686	2.36
Franklin India Growth Fund	5.17	22.5	(17.7)	NA	7.62	(0.18)	299	2.44
Franklin India Index Fund	7.63	2.8	(16.4)	NA	6.31	(0.21)	528	0.98
Franklin India Prima Fund (G)	27.47	73.1	8.6	22.7	10.49	0.10	865	2.49
Franklin India Prima Plus (G)	22.28	26.3	(3.1)	23.3	7.55	(0.01)	1,356	2.45
Franklin India Vista Fund (G)	4.29	37.9	(45.2)	NA	13.61	(0.27)	NA	1.29
HDFC Growth Fund (Gr)	8.14	23.9	NA	NA	6.04	(0.20)	1,436	2.31
Housing Unit Scheme - 1992	91.65	7.0	(21.5)	NA	6.26	(0.16)	NA	NA
IDBI PRIN. Child Benefit (CBP)	15.90	9.5	11.1	NA	1.91	0.16	21	2.15
IDBI PRIN. Child Benefit (FGP)	15.68	9.1	10.6	NA	1.99	0.14	NA	2.25
IDBI PRIN.Equity Fund (Gr.)	8.91	24.0	(13.7)	(0.9)	7.85	(0.12)	744	2.45
IDBI PRIN.INDEX Fund	7.71	3.3	(16.8)	NA	6.41	(0.21)	1,758	1.47
IL&FS Growth&Value Fund (Gr)	10.55	25.7	(16.0)	NA	6.87	(0.15)	844	1.93
ING Growth Portfolio (Gr)	6.62	13.2	(43.0)	NA	13.20	(0.25)	659	2.33
JM Equity Fund (Gr.)	6.87	11.2	(24.3)	(8.2)	7.81	(0.24)	114	2.50
K 30	10.93	15.4	(17.8)	NA	6.80	(0.20)	283	2.50$
LIC MF Equity Fund	5.76	18.7	(18.1)	(7.3)	8.45	(0.18)	288	1.95$
Magnum Equity Fund	8.13	12.6	(30.7)	2.2	8.16	(0.29)	1,036	1.37
Magnum Global Fund	7.07	16.9	(25.9)	(1.7)	8.37	(0.22)	NA	2.00

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Expense Ratio (%)
Magnum Growth Fund 1999	8.28	12.7	NA	NA	5.11	(0.33)	NA	0.15
Magnum Multiplier Plus (Open)	8.15	7.7	(41.5)	(6.4)	9.66	(0.32)	1,695	2.26
Master Plus 91	15.51	18.1	(12.5)	(4.7)	6.83	(0.13)	4,634	NA
Mastergain 92	9.46	20.7	(12.9)	(4.6)	6.90	(0.12)	8,971	NA
Mastergrowth 93	13.44	27.7	(11.2)	(3.3)	7.21	(0.09)	2,363	NA
Primary Equity Fund	13.36	18.1	(5.1)	4.4	5.89	(0.07)	770	NA
Pru ICICI Growth (Gr)	17.80	11.8	(15.7)	NA	7.24	(0.16)	3,461	NA
Reliance Growth Fund (Gr)	28.00	59.8	5.1	16.7	7.77	0.04	198	1.99
Reliance Vision Fund	24.43	91.2	11.2	14.0	8.92	0.10	387	NA
Sun F & C Value Fund (Gr)	15.63	12.6	(17.6)	11.4	7.93	(0.15)	260	1.80
Sundaram Growth Fund	11.91	23.9	(10.4)	9.9	7.15	(0.10)	266	NA
Tata Life Sc & Tech Fund (I)	8.20	0.4	(19.4)	NA	5.14	(0.30)	188	0.15
Tata Pure Equity Fund	8.95	3.7	(20.9)	NA	6.78	(0.25)	298	2.23
Templeton India Growth Fund	12.26	18.0	(3.8)	3.8	6.37	(0.02)	1,732	2.36
UTI - Master Index Fund	9.47	4.5	(17.8)	NA	6.51	(0.21)	2,783	2.59*
UTI - UGS 10000	10.57	13.3	(5.7)	NA	4.72	(0.12)	1,308	2.58*
UTI Nifty Index Fund	6.11	3.6	(16.3)	NA	6.49	(0.20)	1,244	3.05*
UTI Select Equity Fund	12.34	8.3	(13.0)	NA	6.43	(0.13)	289	1.17*
Zurich (I) Cap Builder (Gr)	10.87	22.7	(9.0)	NA	5.77	(0.15)	315	2.50
Zurich (I) Equity Fund (Gr)	20.74	35.2	(0.6)	23.9	6.64	0.01	2,576	2.49
Zurich (I) Top 200 Fund (Gr)	15.68	26.8	(2.3)	NA	6.25	-	514	2.47
BSE 200		17.7	(15.1)	(1.3)	7.89			
BSE Sensex		3.7	(18.8)	(5.1)	6.66			
S&P CNX Nifty		2.1	(17.5)	(2.8)	6.51			

Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

EQUITY LINKED SAVINGS SCHEME (TAX)

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Expense Ratio (%)
Alliance Tax Relief 96	74.90	28.8	(16.6)	35.4	8.22	(0.14)	186	2.50
Birla Equity Plan	13.17	17.2	(24.7)	NA	6.95	(0.30)	260	2.37
BOB ELSS 96	12.15	17.4	(15.5)	(0.4)	6.78	(0.18)	16	2.45
Canequity - Tax Saver	16.28	2.8	(32.5)	0.9	9.18	(0.31)	65	2.18$
Dhanaraksha 89	25.72	5.3	3.9	6.0	2.04	(0.13)	701	1.76
Dundee Taxsaver Fund (App)	8.91	23.0	(7.8)	NA	6.63	(0.09)	NA	2.50
Escorts Tax Plan (Gr)	9.22	17.8	(5.5)	NA	6.24	(0.11)	NA	NA
Franklin India Tax Shield (O) (G)	22.97	22.7	(12.9)	NA	7.80	(0.12)	950	2.50
IDBI PRIN.Tax Savings Fund	16.54	34.3	(9.3)	11.2	7.62	(0.11)	420	2.50
LIC MF Tax Plan	6.99	7.9	(26.3)	(7.1)	8.61	(0.29)	11	2.50
Magnum Tax Gain Scheme	15.27	13.9	(37.8)	5.0	10.83	(0.27)	403	2.43
Pru ICICI Tax Plan(Gr)	11.89	27.0	(10.0)	NA	7.71	(0.08)	687	2.00
SUN F & C Personal Tax Saver	43.17	25.4	(9.5)	24.4	6.81	(0.14)	36	1.89
Sundaram Tax Saver (Open End)	8.45	25.0	(9.9)	NA	7.14	(0.09)	48	1.85
Tata Tax Saving Fund	24.12	11.2	(16.5)	21.0	6.84	(0.16)	258	2.50
Taurus Libra Tax Shield	7.85	36.0	(13.3)	(1.6)	10.70	(0.07)	NA	2.39
ULIP - 1971	12.64	6.0	NA	NA	3.41	(0.27)	NA	NA
UTI Equity Tax Savings Plan	10.89	30.5	(8.9)	NA	7.56	(0.02)	218	NA
Zurich (I) Tax Saver (Gr)	17.58	18.5	(3.6)	NA	6.28	(0.04)	44	2.48
BSE 200		17.7	(15.1)	(1.3)	7.89			
BSE Sensex		3.7	(18.8)	(5.1)	6.66			
S&P CNX Nifty		2.1	(17.5)	(2.8)	6.51			

Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

SECTORAL FUNDS

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Expense Ratio (%)
Alliance Basic Industries(Gr)	10.26	36.6	6.9	NA	7.46	0.08	382	2.50
Alliance Buy India Fund (Gr)	5.27	10.7	(8.9)	NA	3.90	(0.25)	425	2.48
Alliance New Millennium (Gr)	4.29	37.5	(32.8)	NA	13.05	(0.18)	2,226	2.26
Birla IT Fund (Gr) Plan B	11.54	73.0	(24.9)	11.4	13.03	(0.10)	528	2.50
Birla MNC Fund (Gr)	28.33	15.0	(7.0)	26.5	4.51	(0.17)	804	NA
DSP-ML Opportunities Fund(Gr)	7.52	27.0	(13.4)	NA	7.95	(0.09)	562	2.38
DSP-ML Technology.Com (Gr)	4.37	41.9	(31.2)	NA	12.51	(0.17)	190	2.45
Franklin FMCG Fund (G)	10.99	6.7	(5.9)	NA	3.92	(0.17)	210	2.50
Franklin Infotech Fund (G)	12.76	17.7	(36.0)	NA	14.36	(0.18)	1,815	2.26
Franklin Internet Opport(G)	4.58	10.6	(26.6)	NA	10.32	(0.19)	2,018	2.30
Franklin Pharma Fund (G)	9.20	7.7	(5.1)	NA	3.91	(0.16)	429	2.50
K MNC Scheme	7.82	6.9	(13.8)	NA	6.10	(0.22)	295	2.48$
K Techology Scheme	2.89	20.0	(40.6)	NA	12.06	(0.27)	507	2.25$
Magnum IT Fund	5.51	8.5	(44.4)	NA	10.82	(0.36)	463	1.62
Magnum Pharma Fund	8.62	(3.3)	(7.1)	NA	4.16	(0.20)	216	1.54
Pru ICICI Technology Fund(Gr)	2.91	13.2	(33.0)	NA	10.79	(0.24)	1,408	2.33
UTI Brand Value Fund	7.70	9.1	(8.4)	NA	5.85	(0.10)	392	3.76*
UTI Petro Fund	11.09	65.5	20.4	NA	12.83	0.15	534	2.68*
UTI Services Sector Fund	12.65	11.0	(25.9)	NA	8.03	(0.22)	581	5.01*
UTI Software Fund	7.36	28.0	(41.5)	NA	13.45	(0.23)	1,775	3.46*
BSE 200		17.7	(15.1)	(1.3)	7.89			
BSE Sensex		3.7	(18.8)	(5.1)	6.66			
S&P CNX Nifty		2.1	(17.5)	(2.8)	6.51			

Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

BALANCED FUNDS

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Expense Ratio (%)	Asset Alloc (%) Debt	Equity
Alliance 95 Fund (Gr)	45.94	45.9	(12.3)	26.2	6.05	(0.16)	3,031	2.25	37.1	62.9
Birla Balance (Gr)	8.34	8.3	(17.9)	NA	4.30	(0.39)	2,657	2.00	38.2	61.8
Canpremium (Open)	21.34	21.3	16.8	NA	5.74	0.17	57	2.50$	62.8	37.2
DSP-ML Balanced Fund (Gr)	9.23	9.2	(10.6)	NA	4.96	(0.18)	544	2.08	36.1	63.9
Franklin India Balanced (Gr)	9.77	9.8	(2.3)	NA	4.40	(0.08)	159	1.46	40.2	59.8
GIC Balanced Fund	12.25	12.3	(5.0)	(3.5)	3.85	(0.17)	394	2.15	36.6	63.4
HDFC Balanced Fund (Gr)	10.03	10.0	NA	NA	4.32	(0.10)	934	2.18	36.1	63.9
ING Balanced Portfolio (Gr)	6.14	6.1	(24.4)	NA	7.23	(0.27)	235	2.17	7.4	92.6
JM Balanced Fund (Gr)	22.75	22.8	14.3	15.9	6.86	0.17	121	2.50	42.5	57.5
K Balance Unit Scheme 99	10.42	10.4	(5.5)	NA	4.96	(0.12)	414	2.48$	44.9	55.1
Magnum Balanced Fund	16.01	16.0	(26.2)	5.5	6.63	(0.33)	936	2.01	NA	NA
PNB Balanced Growth Fund (Gr)	12.03	12.0	(9.8)	NA	4.94	(0.22)	12	NA	56.9	43.1
Pru ICICI Balanced Fund (Gr)	9.01	9.0	(7.1)	NA	4.50	(0.16)	1,796	2.25	38.3	61.7
Sundaram Balanced Fund (Gr)	10.06	10.1	(0.7)	NA	4.34	(0.05)	154	NA	43.8	56.2
Tata Balanced Fund	16.32	16.3	(11.0)	9.2	5.01	(0.19)	961	2.44	44.6	55.4
Tata Young Citizens Fund	19.81	19.8	(6.5)	11.4	3.99	(0.18)	640	2.50	55.0	45.0
Templeton India Pension (G)	18.69	18.7	6.9	11.7	2.73	0.06	288	1.50	56.7	37.4
Unit Scheme - 1964	6.92	6.9	NA	NA	4.93	(0.21)	113,001	NA	NA	NA
Unit Scheme - 1995 (Growth)	29.66	29.7	(1.9)	17.2	3.49	(0.19)	1,846	NA	NA	NA
Zurich (I) Prudence (Gr)	28.97	29.0	4.0	18.6	5.08	0.03	1,306	2.50	39.5	60.5

Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

MONTHLY INCOME PLANS

Scheme Name	NAV (Rs)	Return (%) 1Mth	3Mth	6Mth	12Mth	Incep.	Net Assets (Rs m)	Expense Ratio (%)	Asset Alloc (%) Debt	Equity
Alliance Monthly Income (Gr)	15.71	1.3	1.9	4.4	13.5	15.3	4,059	1.92	89.9	10.1
Birla MIP Plan C (Growth)	12.54	0.8	2.6	4.6	13.6	13.2	1,182	1.64	93.1	6.9
FT India MIP (G)	12.53	1.4	2.7	3.3	10.0	12.2	624	2.25	84.3	15.7
IDBI MIP (Gr)	10.45	1.0	3.5	NA	NA	4.5	621	NA	98.7	1.3
Magnum MIP (Gr)	11.51	0.9	2.6	4.4	7.6	10.0	467	0.10	96.0	4.0
Pru ICICI MIP (Cum)	12.24	0.8	2.0	4.0	9.7	11.1	4,115	2.00	95.2	4.8
Reliance MIP (Gr)	12.75	1.2	3.4	6.5	12.4	12.8	1,101	0.84	100.0	-
Sun F & C Monthly Inc. (Gr)	12.35	1.0	2.2	3.4	9.7	9.0	545	NA	94.5	5.5
Templeton M I P (Growth)	12.77	0.9	1.4	3.3	11.6	9.9	918	1.91	86.5	13.5
Crisil MIP Blended Index		1.2	2.4	NA	NA	NA				

Expense Ratio as in FY01; * = FY00; $ = FY02

LIQUID FUNDS

Scheme Name	NAV (Rs)	Return (%) 1wk	1mth	3mth	6mth	Rolling Return (%)	Net Assets (Rs m)
Alliance Cash Manager (Gr)	14.35	6.7	6.6	6.8	7.1	7.1	4,913
Birla Cash Plus (Gr)	15.76	6.5	6.8	6.9	7.2	7.2	5,879
Chola Liquid Fund (Cum)	11.79	6.4	6.7	6.7	7.0	7.2	1,046
DSP-ML Liquidity Fund (Gr)	14.25	6.5	6.7	6.9	7.2	7.1	3,423
Grindlays Cash Fund (Gr.)	10.89	6.5	6.7	7.0	7.2	7.2	5,551
HDFC Liquid Fund (Gr)	11.65	6.1	6.8	7.1	7.4	7.3	12,831
IDBI PRIN. Cash Mgmt(Call) Gr	11.38	5.3	5.5	5.7	6.4	6.4	197
IDBI PRIN. Cash Mgmt(Liq)(Gr)	11.55	6.2	7.0	7.2	7.2	7.2	2,323
ING Savings Portfolio (G)	10.22	3.7	3.9	2.9	3.7	3.7	1
ING Treasury Portfolio (Gr)	12.37	6.5	6.9	7.3	7.5	7.4	184
JM High Liquidity Fund (Gr)	16.18	7.0	6.9	7.0	7.3	7.4	3,106
K Liquid (Gr)	11.69	6.4	6.7	6.8	7.2	7.2	6,010
LIC Liquid Fund (Gr)	10.36	3.7	5.8	6.7	7.2	7.1	173
Magnum Insta Cash Fund (Cash)	13.13	6.3	6.8	6.9	7.0	7.1	142
Pru ICICI Liquid (Gr)	14.39	6.5	6.7	6.9	7.2	7.1	16,422
Reliance Liquid Cash Fund (G)	10.45	5.0	4.7	4.9	5.5	5.6	145
Reliance Liquid Fund TP (Gr)	14.18	6.8	7.4	7.7	7.6	7.4	1,336
Sundaram Money Fund (App)	12.27	2.9	6.9	7.0	7.1	7.0	830
Templeton India Liquid (Gr)	14.50	6.4	7.1	7.3	7.3	7.2	5,672
Templeton India Treasury Mgt (G)	1,455.22	6.7	6.9	7.4	7.6	7.5	5,290
UTI Money Market Fund (Income)	16.36	6.6	6.6	7.0	7.2	6.8	1,350
Zurich (I) Liquidity (SP)(Gr)	12.11	6.8	7.0	7.1	7.2	7.2	7,841
Crisil Liquid Fund Index		5.7	7.0	7.2	NA	NA	

SHORT TERM PLANS

Scheme Name	NAV (Rs)	Return (%) 1wk	1Mth	3Mth	6Mth	Rolling Returns (%)	Net Assets (Rs m)
Alliance Short Term Fund (Gr)	10.34	8.3	9.1	9.1	NA	8.4	3,127
Birla Bond Plus (G)	10.69	7.0	9.8	9.7	8.6	8.4	4,794
Chola Freedom (Income)STP(Cum)	16.63	7.0	8.8	7.9	7.8	10.7	1,000
Grindlays Super Saver (STP)(G)	11.57	5.6	8.9	9.5	8.6	8.0	10,396
HDFC Short Term Plan (G)	10.49	6.9	9.5	9.5	9.0	8.8	13,353
IDBI Income Fund STP (Gr)	10.34	6.7	8.7	9.3	NA	8.7	3,218
IL&FS Bond Fund (STP) (Gr)	10.55	6.9	9.2	9.7	8.7	8.3	962
ING Income Portfolio STP - (Gr)	10.06	6.4	NA	NA	NA	7.0	176
JM Short Term Fund (Gr)	10.22	8.1	9.3	NA	NA	9.2	2,847
K Bond Short Term Plan (Gr)	10.32	6.2	8.4	8.8	NA	8.3	4,189
Pru ICICI Short Term Plan(G)	10.82	7.7	9.1	9.8	9.0	8.7	15,082
Sun F & C Fixed Income Securities STP (A)	10.23	6.8	9.5	8.6	NA	8.4	145
Tata Short Term Bond Fund (App)	10.10	8.1	10.5	NA	NA	10.2	1,345
Templeton India STP Incomeplan(G)	1,056.02	6.8	9.5	10.0	9.4	8.9	4,814
Templeton Floating Rate(STP)(G)	10.48	7.0	7.1	7.1	7.8	7.7	2,450
Zurich (I) High InterestSTP(G)	10.57	5.7	10.1	10.4	9.7	9.3	10,288

G-SEC (GILT) FUNDS

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Avg. Maturity	Expense Ratio (%)
LIC MF Govt. Sec. Fund (Gr)	14.75	19.1	16.3	NA	1.43	0.47	1,049	NA	1.28
Templeton India Govt Sec (Gr)	17.76	22.9	23.3	NA	1.87	0.63	6,072	13.2 yrs	NA
UTI G-Sec Fund (Growth)	15.04	15.6	16.8	NA	1.34	0.54	3,060	NA	0.87*
Birla Gilt Plus (I P)(Gr)	15.38	17.0	18.9	NA	1.38	0.63	257	13.6 yrs	1.50
K Gilt (Invest) (Gr)	17.51	19.9	20.6	NA	1.62	0.62	2,810	11.6 yrs	1.64$
Pru ICICI Gilt(IP)(Gr)	16.63	21.2	21.6	NA	1.91	0.56	4,626	5.3 yrs	1.00
Zurich (I) Sov Gilt (IP)(Gr)	13.56	12.0	14.9	NA	1.04	0.58	87	5.0 yrs	NA
Chola Gilt (Investment) (Gr)	14.46	16.9	19.6	NA	1.34	0.70	1,820	10.2 yrs	NA
Long term									
Alliance Govt. Sec. (LT)(Gr)	14.96	18.1	17.5	NA	1.23	0.63	197	10.5 yrs	1.25
Birla Gilt Plus (L T P) (Gr)	16.83	22.7	22.9	NA	1.77	0.65	1,708	12.6 yrs	1.50
DSP-ML Govt. Sec Fund (LDP-G)	16.92	23.0	23.2	NA	1.67	0.71	887	12.6 yrs	0.98
JM G-Sec Fund (PFP) (Gr)	16.71	18.8	21.2	NA	1.54	0.67	60	9.2 yrs	1.00
Zurich (I) Sov Gilt (PT)(Gr)	14.45	19.6	19.6	NA	1.72	0.54	54	8.9 yrs	NA
Short term									
Alliance Govt. Sec. (ST)(Gr)	13.26	8.6	10.7	NA	0.69	0.38	16	2.3 yrs	1.25
Birla Gilt Plus (L P)(Gr)	13.86	10.1	12.1	NA	0.70	0.52	78	3.0 yrs	1.50
Chola Gilt (Saving Plan) (Gr)	12.28	7.5	9.4	NA	0.64	0.24	NA	1 day	NA
DSP-ML Govt. Sec Fund (SDP-G)	13.36	8.4	10.6	NA	0.52	0.48	325	2.6 yrs	0.98
K Gilt (Saving) (Gr)	14.35	8.2	9.8	NA	0.43	0.45	192	2.0 yrs	1.02$
Pru ICICI Gilt(TP)(Gr)	13.90	8.9	11.1	NA	0.64	0.47	675	1.6 yrs	1.00
Zurich (I) Sov Gilt (SP)(Gr)	12.17	5.3	6.9	NA	0.25	(0.15)	40	303 days	NA

Some funds have a flexible maturity profile and therefore have not been classified as either Short or Long term.
Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

INCOME FUNDS

Scheme Name	NAV (Rs)	Return (%) 1 yr	2 yr	5 yr	SD	SR	Net Assets (Rs m)	Avg. Maturity	Expense Ratio (%)
Alliance Income (Gr)	19.84	14.1	15.2	12.8	0.90	0.67	13,475	5.9 yrs	1.81
Birla Income Plus B	24.13	14.5	15.4	13.4	0.89	0.69	25,491	6.5 yrs	1.65
Chola Triple Ace (Cumulative)	19.74	12.3	14.2	11.5	0.77	0.68	1,760	6.0 yrs	NA
DSP-ML Bond Fund(Gr)	19.63	14.0	15.6	13.2	0.90	0.69	15,228	6.0 yrs	1.80
Grindlays Super Saver (Gr)	13.46	13.6	15.7	NA	0.96	0.67	21,680	69 mths	1.68$
HDFC Income Fund (Gr)	13.41	14.6	NA	NA	0.86	0.68	27,412	5.8 yrs	1.92
IL&FS Bond Fund (Gr)	14.80	14.2	15.0	NA	0.85	0.69	2,776	6.3 yrs	1.57
ING Income Portfolio (Gr.)	14.72	12.4	13.3	NA	1.06	0.43	3,099	5.2 yrs	2.06
JM Income Fund (Gr)	22.77	15.8	16.7	14.0	0.92	0.77	8,040	6.6 yrs	2.00
K Bond99 (Wholesale Plan)(Gr)	14.71	14.6	16.4	NA	0.82	0.83	7,833	5.6 yrs	1.49$
LIC MF Bond Fund (Gr)	15.71	14.0	15.2	NA	0.84	0.71	15,838	4.9 yrs	2.21
Magnum Income Fund(Gr)	15.96	13.5	14.5	NA	0.87	0.64	10,556	5.6 yrs	1.54
PNB Debt Fund (Gr)	16.66	18.8	19.8	NA	1.28	0.73	788	9.0 yrs	NA
Pru ICICI Income (Gr)	16.95	13.8	15.1	NA	0.80	0.73	31,342	5.0 yrs	1.64
Reliance Income Fund (Gr)	17.69	13.4	14.3	NA	0.85	0.63	5,154	5.1 yrs	1.20
SUN F & C Bond Fund - Gr Plan (Plan B)	17.34	9.3	12.1	NA	0.78	0.47	814	6.1 yrs	2.00
Sundaram Bond Saver (Cumm.)	18.40	13.5	15.2	NA	0.77	0.78	5,862	5.3 yrs	NA
Tata Income Fund(Accumulation) (Gr)	19.16	10.6	12.0	12.5	0.74	0.52	1,202	5.5 yrs	2.06
Templeton India Income (Gr.)	20.48	14.0	15.1	13.4	0.82	0.73	20,345	5.7 yrs	1.69
UTI - Bond Fund (Income)	10.94	13.0	14.0	NA	0.64	0.80	14,944	NA	NA

Expense Ratio as in FY01; * = FY00; $ = FY02 | SD - Standard Deviation SR - Sharpe Ratio

GLOSSARY

Asset Allocation
A systematic approach for dividing the portfolio into stocks, bonds and cash. Factors such as age, investment horizon, risk tolerance, and portfolio size determine an individual's asset allocation. This strategy is designed to optimise asset-class risk.

Asset Management Company (AMC)
A highly regulated organisation that pools money from many people into a portfolio structured to achieve certain objectives. Typically an AMC manages several funds - open-ended /closed-ended across several categories - growth, income, balanced.

Automatic reinvestment
A service available from virtually all funds, whereby your dividend and capital gains distributions can be reinvested into full and fractional shares at the prevailing NAV.

Asset management fee
The fee charged by the AMC for portfolio management. The fee charged on an annual basis is calculated as percentage of net assets under management.

Balanced fund
A hybrid portfolio of stocks and bonds.

Closed-end fund
Closed-end funds neither issue nor redeem fresh units to investors. Some closed-ended funds can be bought or sold over the stock exchange if the fund is listed. Else, investors have to wait till the redemption date to exit . Most listed closed-ended funds trade at discount to the NAV.

Distributor
The organisation that supplies mutual fund products to investors. The distributor may sell units to securities dealers, who then sell them to investors, or it might deal directly with the public.

Dividend yield
The indicated annual dividend divided by the current price of an investment.

Load
A charge paid when an investor buys/sells a fund. There could be a load at the time of entry or exit, but rarely at both times.

Expense ratio
The annual expenses of a fund (at the end of the financial year), including the management fee, administrative costs, divided by the funds under management.

Growth/Equity fund
A fund holding stocks with good or improving profit prospects. The primary emphasis is on appreciation.

Index fund
A fund that replicates a particular market index such as the BSE Sensex by holding many if not all of the same stocks and in the same proportion as in the benchmark index. With low-cost, passively managed index funds, you're assured of doing about as well as the benchmark index.

Initial public offering (IPO)
The sale of a mutual fund's scheme to investors for the first time.

Liquidity
The ease with which an investment can be bought or sold. A person should be able to buy or sell a liquid asset quickly with virtually no adverse price impact.

Money-market fund
A fund that invests in short-term debt securities such as Treasury bills and Commercial paper. As the safest of all funds, these portfolios have a stable NAV.

Open-ended fund
By far the most popular type of investment company. A diversified and professionally managed scheme, it issues fresh units to incoming investors at NAV plus any applicable sales charge, and it redeems shares at NAV from sellers, less any redemption fee.

Net asset value (NAV)
The price or value of one unit of a fund. It is calculated by summing the current market values of all securities held by the fund, adding in cash and any accrued income, then subtracting liabilities and dividing the result by the number of units outstanding.

Net assets
The total value of a fund's cash and securities less its liabilities or obligations.

Portfolio turnover
A measure of the amount of buying and selling activity in a fund. Turnover is defined as the value of securities sold or purchased during a year divided by the average of monthly net assets. A turnover of 100 percent, for example, implies positions are held on average for about a year.

Prospectus/Letter of offer
A type of owner's manual for unitholders. The prospectus provides essential information about a fund's investment policies, objectives, risks and services, and information on management fees and important financial data including past performance.

Real return
The amount by which a security's nominal return exceeds inflation. If inflation turns out to be much higher than investors had predicted, the real return can be negative. Obviously, the higher your real return, the better.

Record date
The date on which a fund determines its 'unitholders of record' who are entitled to an impending dividend or bonus units. The record date is normally the business day prior to the ex-dividend or ex-bonus date.

Redemption price
The price you receive when you sell fund units. It equals NAV less any exit load.

Sector fund
Any of various funds that invest exclusively in a specific industry or stock group.

Systematic Investment Plan (SIP)
A service enabling you to have a designated sum of money transferred regularly from your bank account or pay-check to the fund account. SIP enables an investor to benefit from compounding.

Total return
The most complete measure of investment performance. Total return considers the price increase or decrease of an asset, along with its income or yield.

Treasury securities
Debt obligations of the union government. The government issues Treasury bills and other paper with maturities ranging from 1 year to 10 years. These securities are considered to be free of default risk but may carry interest-rate risk.

Zero-coupon bond
A bond that makes no periodic interest payments. The final maturity payment includes accrued interest as well as principal. Zero-coupon bonds are sold at a discount to their maturity values.