Mutual Fund Glossary

A

Account Statement

Statement issued by the mutual fund giving details of transactions and holdings of an investor in the schemes

Adjusted NAV (Total Return):

The Net Asset Value after adjusting for all changes caused due to dividend declaration, bonus etc. assuming reinvestment of distributions made to the investors at the prevailing NAV.

Annual Return

It is a percentage of change in net asset value over a year's time, assuming reinvestment of distribution such as dividend payment and bonus.

Annualized Returns

Absolute returns over a period (which could be larger or smaller than a year) aggregated to a period of one year. Used for the purpose of comparing returns over different periods.

Applicable NAV

Net Asset Value at which purchase or sales is transacted. A cut-off time is set by the fund and all investments or redemptions are processed at that particular NAV. This NAV is relevant if the application is received before that cut-off time. If the application is received thereafter, it will be treated as the next day's application and allotted the relevant NAV.

Asset Allocation

It means allocation of total funds available with the scheme into various asset classes. This is based on the investment objective of the scheme.

Asset Management Company (AMC)

The company vested with the responsibility of managing investments of the schemes and making decisions in accordance with the stated investment objective of each scheme. AMC are appointed by the trustees to manage money on behalf of investors.

Average Cost Method

This is the average price of units purchased by the investor calculated by adding up all the costs involved in purchasing all the units of investment and then dividing the sum by the total number of units.

Average Maturity

It’s the average time to maturity of all fixed-period investments in the portfolio of a scheme.

Annual and Semiannual Reports

The yearly and half-yearly record of a scheme's performance and is required to be distributed to investors under SEBI regulations.

B

Balanced Funds

Funds that invest in equity and debt instruments in varying proportions. These funds supplement capital appreciation from equities with a steady return from debt instruments. To a large extent, the returns depend on the performance of the equity portion in the portfolio. There is some flexibility in changing the asset composition between equity and debt and fund managers use their judgment to buy the best asset class at each time.

Benchmark

The investment performance of the scheme needs to be compared in relative terms against some indicator, which is called as the benchmark for the scheme. For example, the performance of an equity fund could be benchmarked against the BSE Sensex.

Beta

It shows the sensitivity of the fund to movements measured against the benchmark. A beta of more than 1 indicates an aggressive fund and the value of the fund is likely to rise or fall more than the benchmark. A beta of less than 1 implies a defensive fund that will rise or fall less than the benchmark. A beta of 1 indicates that the fund and the benchmark will react identically.

Bond

A debt instrument issued either by a company, the government or its agencies. It carries a fixed interest and promises return of principal on a specified date.

Bonus

Additional units allotted to investors on the basis of their existing holdings. Basically, there is a split of existing units into more than one unit resulting in the reduction of the NAV per unit. The investor is neither better nor worse off as a consequence of bonus units.

BSE Index

A popular index reflecting the stock prices of 30 companies listed on the Bombay Stock Exchange (BSE) which is taken to be representative of the stock market movement.

Bear Market

A period during which security prices in a particular market are generally falling and there is lot of sell pressure.

Bull Market

A period during which security prices in a capital market are generally rising and the general perspective of the investors is positive.

C

Capital Gains

As per the Income Tax Act, the gains made on sale of securities and certain other assets (including units of mutual funds) are charged to capital gains tax. The gains can be long-term or short-term depending on the period of holding of the asset and are charged to tax at different rates. Gains on mutual fund units held for a period of 12 months or more are long-term gains and such gains on equity mutual fund are currently exempted.

Closed-end Fund

Close ended schemes have a pre-defined maturity. The fund may also offer an exit route by offering to repurchase at NAV related prices. Though such funds may often be listed on stock exchanges their units generally trade at a discount.

Cost of Churning

The portfolio of a scheme changes from time to time. The rate of change depends on the style of the fund manager, whether he follows the buy-and-hold philosophy or aggressively churns the fund. Such portfolio changes have associated costs of brokerage, custody fees, transaction fees and registration fees which lower the returns. These costs comprise the cost of churning.

Credit Risk

Credit risk is that a bond issuer may not be able to pay interest and repay the principal.

Custodian

An agency which has custody of all the securities purchased by the mutual fund. The service can be provided only by a corporate entity which has been granted a certificate of registration to carry on the business of custodian of securities under the SEBI regulations.

Cut-off Time

In respect of all mutual funds regulated by SEBI, fresh subscriptions and redemptions are processed at a particular NAV. Every fund specifies a cut-off time in respect of fresh subscriptions and redemption of units. All requests received before the cut-off times are processed at that day's NAV and thereafter at the next day's NAV.

D

Date of Redemption

The date specified for the redemption of a scheme. No such date is specified for an open-ended scheme.

Debt/Income Funds

Funds that invest in income bearing instruments such as corporate debentures, PSU bonds, gilts, treasury bills, certificates of deposit and commercial papers. Although these funds are less risky, the underlying investments carry a credit and interest-rate risk. Comparatively, these funds are less risky and are preferred by risk-averse investors.

Dividend

It is the portion of profits that a company or a mutual fund distributes to its shareholders or unit holders.

Dividend per Unit

Total amount of dividend declared by a fund for a scheme divided by total number of units issued to all the investors.

Dividend Payout

In a dividend payout option, the fund pays out dividend from time to time

Dividend Reinvestment

In a dividend reinvestment option, the dividend is reinvested in the scheme itself. Hence instead of receiving dividend, the unit holders receive units. Thus the number of units allotted under the dividend reinvestment option would be the dividend declared divided by the ex-dividend NAV.

Dividend Yield

The dividend earned per unit of a scheme at the prevailing per unit price.

Diversification

Investing across a number of asset classes or assets within an asset class to help in reducing the risk.

E

Employee Unique Identification Number (EUIN)

It's a 7 digit unique alphanumeric number issued by AMFI to all the people associated with the sale/distribution of mutual funds.

Equity Linked Savings Scheme (ELSS)

ELSS offer tax-saving with the advantage of participating in the growth of the capital market. An investment of up to 1,00,000 in ELSS qualifies under Section 80C of the Income Tax Act, 1961. As per the ELSS guidelines issued by the Central government, mutual funds have to ensure that at least 80 percent of the funds are invested in equities and equity-related instruments. Investors can sell back their units to the mutual fund at the NAV-based repurchase price after the lock-in-period of three years.

Equity Schemes

Schemes where more than 65% of the investments are done in equity and equity related securities of various companies. These funds tend to provide maximum returns over a long-term horizon. However, the returns from these funds are directly linked to the stock market and are volatile as compared to those from debt funds.

Ex-dividend Date

In respect of any distribution of dividend, the date from which the holders are not entitled to the dividend. On the ex-dividend date, the NAV is accordingly reduced to the extent of the dividend declared

Exit Load

The fee charged at the time of redemption. It amounts to the difference between the NAV of the units of a scheme and the price at which existing units are redeemed. The fee has to fall within the overall limit laid down by SEBI.

Exit Window

In the case of close-ended/interval schemes, the specified date or period during which the investor can redeem units held by him in the scheme before the maturity of the scheme.

Expense Ratio

The expenses of a scheme include management fees and fees associated with the scheme's daily operations. Expense Ratio refers to the annual percentage of fund's assets that is paid out in expenses and can affect the performance of the scheme.

F

Face Value

The original issue price of one unit of a scheme, generally Rs 10.

Fund Management Costs

The charge levied by an AMC on a mutual fund for managing their funds.

G

Gilt Funds

Gilt Funds are those schemes which invest only in government securities of different maturities. They generally offer lower returns as compared to a regular debt fund as the credit risk in gilts is virtually zero. They are, however, subject to interest rate risk.

Growth Plan

The Growth plan of a scheme retains back the earnings, instead of declaring dividends of the scheme. The returns from the investor's point of view are accumulated within the scheme. There are differing implications for tax computation.

Guaranteed Returns

Returns from mutual fund schemes are subject to market and other investment risks. As such there is no assured/guaranteed return in mutual funds. This applies even to debt schemes. The launch of scheme/fund offering guaranteed returns is now subject to certain restrictions imposed by the SEBI, and generally SEBI does not allow guaranteed returns.

I

Index Funds

A class of equity funds that invest in equity shares of various companies in the same proportion in which they appear in the composition of any popular index, such as the BSE Sensex, S&P 500. The performance of such funds closely tracks the performance of the index. These are passively managed investments.

Indexation

The central government specifies an index linked to the wholesale price index. The indices of two years (year of purchase and the year of sale) are used for the purpose of computing capital gains tax. The purchase price is multiplied by the index of the year of sale and the product is divided by the index of the year of purchase. This benefit is available only if the security has been held for more than 12 months (long-term). Since capital gains on long-term equity mutual fund investments are tax free, indexation benefits are applicable only to investments in debt mutual fund schemes. On sale of any debt mutual fund scheme, one can opt for paying tax at the rate of a flat 10% of capital gains or go in for paying 20% of capital gains after taking the benefit of indexation. This benefit of indexation is available only to investors who are resident under the Income Tax Act.

Investment Objective

It is the declared purpose of investment of a mutual fund scheme.

Investment Strategy

The internal guidelines that a fund follows in investing the money received from the investors.

Income

Dividends, interest, etc paid to a mutual fund’s shareholders. Income is earned on a fund’s investment portfolio after deducting operating expenses.

Inflation Risk

The risk that a portion of an investment’s return may be eliminated by inflation.

Interest Rate Risk

The possibility that a bond’s or debt fund’s value will decrease due to rising interest rates.

L

Liquidity

The ability to have ready access to invested money. Open end mutual funds are liquid because their shares can be redeemed for current value on any business day. In the context of mutual funds, it is the cash and cash equivalent assets available to meet expenses and immediate redemption requirements of the investors

Liquid funds/money market funds

Funds investing only in short-term money market instruments including treasury bills, commercial paper and certificates of deposit. The objective is to provide liquidity and preserve the capital

Listing

The process of registration with the stock exchanges after which the scheme qualifies for trading on a stock exchange.

Load

The fee charged by the fund at the time the investor redeems his units (exit load). Funds that charge these loads at the time of exit are called load funds. It amounts to the difference between the NAV of the units of a scheme and the price at which units are redeemed. Though the load is decided by the AMC, it has to fall within the overall limit laid down by SEBI. Schemes that do not charge any load are called "no-load" schemes.

Lock-in Period

The period during which the investor cannot redeem the units.

M

Management Fee

Fee, usually expressed as percentage of assets under management, within the limits laid down by SEBI, charged by the AMC for managing of the mutual fund scheme.

Minimum Subscription

The minimum amount required to be invested to purchase units of a scheme of a mutual fund.

Minimum Withdrawal

The smallest sum that an investor can withdraw from the fund at one time.

Money Market

It refers to a market for very short-term securities such as Treasury Bills and Call Money make up the bulk of trading in the money markets.

Mutual Funds

An investment company/trust that pools money from unit holders and invests that money into a variety of securities, including stocks, bonds, and money-market instruments as defined in the offer document of the specific mutual fund.

N

Net Asset Value (NAV)

The value of fund's portfolio at market value less current liabilities and other accrued expenses divided by the number of units outstanding.

Non Performing Investments

Part of the portfolio investment of a debt fund which is not making interest payment or principal amount repayments in time.

Nifty

An index of prices of a group of fifty specified stocks listed on the NSE.

O

Offer Document

Document by which a mutual fund invites the public for subscription to units of a scheme and informs them of the characteristics of the scheme. The document contains information about the scheme to enable a prospective investor to make an informed investment decision.

Open-ended Schemes

Schemes for which a fixed date of redemption is not specified. The fund offers to sell and buy units at any time at prices linked to the prevailing NAV.

Operating Expenses

Refers to those business costs paid from a fund's assets before earnings are distributed to shareholders.

P

Portfolio Churning

Switches between different stocks in the market, keeping in view the market conditions. See also Cost of Churning

Price of units

Price offered by a mutual fund for repurchase or sale of a unit on a daily basis

Prepayment Risk

The possibility that a bond owner will receive his or her principal investment back from the issuer prior to the bond's maturity date.

R

Rating

An evaluation of a scheme in relation to a parameter. The rating could be done in respect of the creditworthiness of debt instruments, risk of loss in an investment or the performance of an investment.

Redemption of units/repurchase

Buying back/cancellation of the units by a fund on an on-going basis or on maturity of a scheme. The investor is paid a consideration linked to the NAV of the scheme.

Registrar & Transfer Agency

An agent appointed for the purpose of handling the records of the unit holders or shareholders.

Redemption/Repurchase price

The price of a unit (net of exit load) that the fund offers the investor to redeem his investment.

Risk/Reward Tradeoff

It is the investment principle that an investment must offer higher potential returns as compensation for the likelihood of increased risk.

S

SEBI

Securities and Exchanges Board of India established under Securities and Exchanges Board of India Act, 1992.

Sector Funds

Schemes of mutual funds that invest predominantly in a particular industry or sector of the economy such as information technology, pharmaceuticals, banking etc. These funds tend to be more volatile than funds holding a diversified portfolio of securities across many industries but may offer greater potential returns. These funds should be considered only if an investor has a high risk appetite.

Switching

It is the transfer of one's investment from one scheme to another.

Systematic Investment Plan (SIP)

SIP allows an investor to buy units of a mutual fund scheme on a regular basis by means of periodic investments into that scheme. Here the plan allows the investor to take advantage of the Rupee Cost Averaging method.

Systematic Withdrawal Plan (SWP)

SWP permits the investor to receive a pre-determined amount / units from his investment in a mutual fund scheme on a periodic basis. Those in need of a regular income such as retirees often opt for this.

Systematic Transfer Plan (STP)

An STP allows the investor to transfer a pre-determined amount from his investment in a fund scheme to another fund scheme of the same fund house on a periodic basis. This plan is generally used to transfer sums from a money market/liquid scheme to another scheme.

Securities Transaction Tax (STT)

Tax levied on your equity mutual fund investment, equity shares and derivatives.

T

Total Return

The performance of an investment, including yield (dividends, interest, capital gains) as well as changes in per unit price, calculated over a designated period of time expressed in percentage terms. Simply put, it is the return one gets on investment taking all factors into account.

Trustees of a Mutual Fund

SEBI regulations require requires all funds to appoint a board of trustees. They appoint and oversee the operations of the AMC to ensure that the interest of investors is always safeguarded.

Transaction Costs

The costs incurred by the buying and selling of securities including broker commissions and the difference between dealer buying and selling price.

Treasury Bills (T-bills)

A short-term debt instrument issued by the government with a maturity period of one year or less.

U

Unitholder

The owner of units or shares of a mutual fund.

V

Volatility

Volatility refers to the ups and downs of the price of an investment. If the price movements are rapid over a short period of time it’s highly volatile and vice versa.

Y

Yield

Annual rate of return on an investment, expressed as a percentage. For mutual funds, the closing NAV divided by purchase price NAV.

Yield curve

The curve gives the relationship between yields on a group of fixed-income securities with varying maturities viz. treasury bills, notes, and bonds. The curve typically slopes upward since longer maturities normally have higher yields, although it can be flat or even inverted at times

Yield to maturity (YTM):

Used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield and the time between interest payments.

Z

Zero Coupon bond

A bond that does not pay a regular interest, but accumulates the interest, and pays it along with the principal when the security matures.