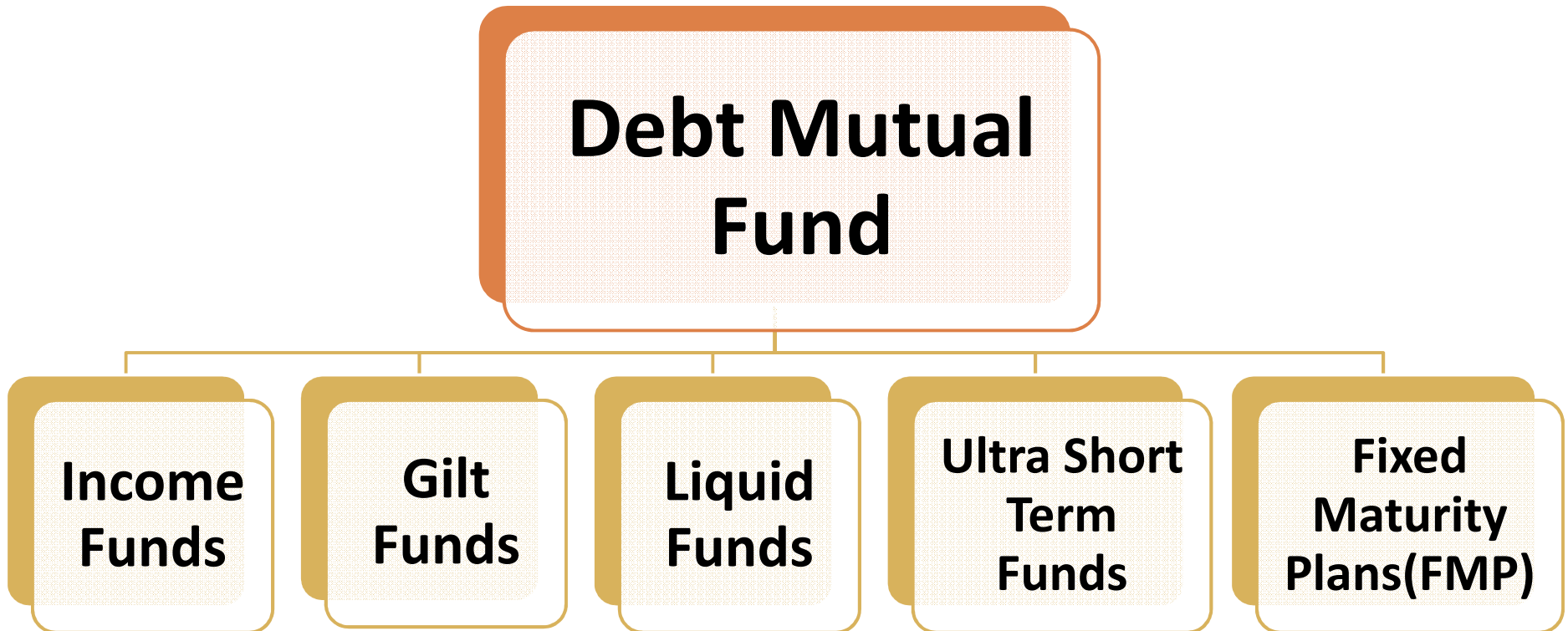




What is a Debt Fund?

- Invests in fixed income instruments, such as bonds, G-sec's, commercial paper, certificate of deposits (CDs), treasury bills (T-Bills), money market instruments, etc..
- Ideal for investors who want regular income, but are risk-averse.
- Less volatile and hence, are less risky than equity funds.

Category of debt mutual funds



Terms to Know

- **Average Maturity (in years):**
 - ▣ Debt fund portfolio comprises of several bonds with varying maturity dates. Average maturity is the weighted average of maturity for all bonds in the fund portfolio.
- **Modified Duration (in years):**
 - ▣ The duration measures price sensitivity of the portfolio to change in interest rates. E.g. if interest rates go up or down by 1%, the NAV will go down or up by 4% if modified duration is 4. **Bond Prices are inversely related to interest rates.**
- **Yield to Maturity (in %):**
 - ▣ YTM is the approximate return or proxy of what the bond will earn from its coupon payments as well as annualized gain / loss on purchase price if held till maturity.

Which type of fund is for you?

	Income Funds	Gilt Fund
Invest In	across debt instruments such as bonds, corporate debentures and government securities	Invest in all type of government securities and bonds issued by Govt
Holding period	3-5 Years	3-5 Years
Risk factor	Medium to high Interest rate risk and Default risk	Zero default risk, High interest rate risk
Who Should Invest	Individual with high risk tolerance who want to gain from falling interest rate scenarios	Since underlying bond price will fluctuate wildly, only those comfortable with high degree of interest rate volatility.
Category Average Returns (3 Years) as on June 7, 2016	7.54% p.a.	7.51% p.a.

Which type of fund is for you?

	Liquid Funds	Ultra Short Term Funds	Fixed Maturity Plans (FMP)
Invest In	Invest in liquid & money market instruments such as treasury bills, inter bank call money market, CP, CD etc.	Invest in debt securities like CP, CD and bonds with a maturity of 1-3 years.	Generate income by investing in a portfolio of fixed income securities
Holding period	1 day to few months	Few month to a year	3 years or more
Risk factor	Very low	Low	Low-Medium
Who Should Invest	Investor who have surplus money lying ideal and seeking better returns than interest offered by banks		Those looking to park their money for a fixed tenure.
Category Average Returns as on June 7, 2016	7.96% p.a. (1 yr)	8.33% p.a. (1 yr)	8.64% p.a. (3 yr)

Post tax returns comparison

Fixed Deposit V/S Debt Funds & FMP

	Fixed Deposit	Debt Funds	FMP
Investment amount	50,00,000	50,00,000	50,00,000
Pre tax return	^7.50%	^7.50%	^8.60%
Indexed cost of acquisition*	NA	64,52,359	64,52,359
Accumulated Value	62,11,484	62,11,484	64,11,199
Taxable Interest Amount	12,11,484	0	0
Tax Payable	3,74,349	NA	NA
Post tax Value	58,37,136	62,11,484	64,11,199
Post tax return	5.30%	7.50%	8.60%

Note*: Cost Inflation Index for purchase year (2015-16) is 1081 and for sale year (2019-20) is assumed to be 1395 (Inflation at 6% p.a.). For Fixed deposit, assuming individual is in highest tax slab, tax @30.9%.

Note^: For fixed deposit, we have taken 3-5 years interest rate of HDFC Bank Ltd. For Debt funds, we have taken category returns of Debt: Income and Debt: Gilt Medium & Long Term for 3 years. For FMP 3 year category returns taken.

Post tax returns comparison

Liquid Funds V/S Savings Bank Account

	Liquid Funds	Savings Bank Account	
30% Tax Bracket	Growth@8%	4% interest rate	6% interest rate
Initial investment (Rs.)		10,00,000	
Interest Earned	80,000	40,000	60,000
Tax paid	24,000	9,000	15,000
Net gain	56,000	31,000	45,000
20% Tax Bracket	Growth@8%	4% interest rate	6% interest rate
Initial investment (Rs.)		10,00,000	
Interest Earned	80,000	40,000	60,000
Tax paid	16,000	6,000	10,000
Net gain	64,000	34,000	50,000
10% Tax Bracket	Growth@8%	4% interest rate	6% interest rate
Initial investment (Rs.)		10,00,000	
Interest Earned	80,000	40,000	60,000
Tax paid	8,000	3,000	5,000
Net gain	72,000	37,000	55,000

Interest on Savings Bank account upto Rs. 10,000 is not taxable u/s 80TTA

Taxation

Taxation	Fixed Deposit	Debt Funds
Short Term Capital Gain (units held for 36 months or less)	As per tax slab	As per tax slab
Long Term Capital Gain (units held for more than 36 months)		20% with indexation

Illustration 1: Returns on Income funds, If interest rate increases by 1%.

<i>YTM</i>	<i>9.00%</i>
<i>Modified Duration</i>	<i>4 years</i>
<i>Portfolio Yield (YTM)</i>	<i>9.00%</i>
<i>Increase in Yield</i>	<i>1.00%</i>
<i>Expense Ratio</i>	<i>1.50%</i>
<i>Fall in Prices due to rise in interest rate</i>	<i>4.00%</i>
<i>Net Yield to investor</i>	<i>4.50%</i>

Illustration 2: Returns on Income funds, If interest rate falls by 1%.

<i>YTM</i>	<i>9.00%</i>
<i>Modified Duration</i>	<i>4 years</i>
<i>Portfolio Yield (YTM)</i>	<i>9.00%</i>
<i>Decrease in Yield</i>	<i>1.00%</i>
<i>Expense Ratio</i>	<i>1.50%</i>
<i>Rise in Prices due to fall in interest rate</i>	<i>4.00%</i>
<i>Net Yield to investor</i>	<i>10.50%</i>

Thank you!

Email: mfcustomercare@ventura1.com

***Time is ticking and every second counts....START
INVESTING NOW....ITS NEVER TOO LATE !!***