

FII

CERTIFICATE IN
FIXED-INCOME INVESTING

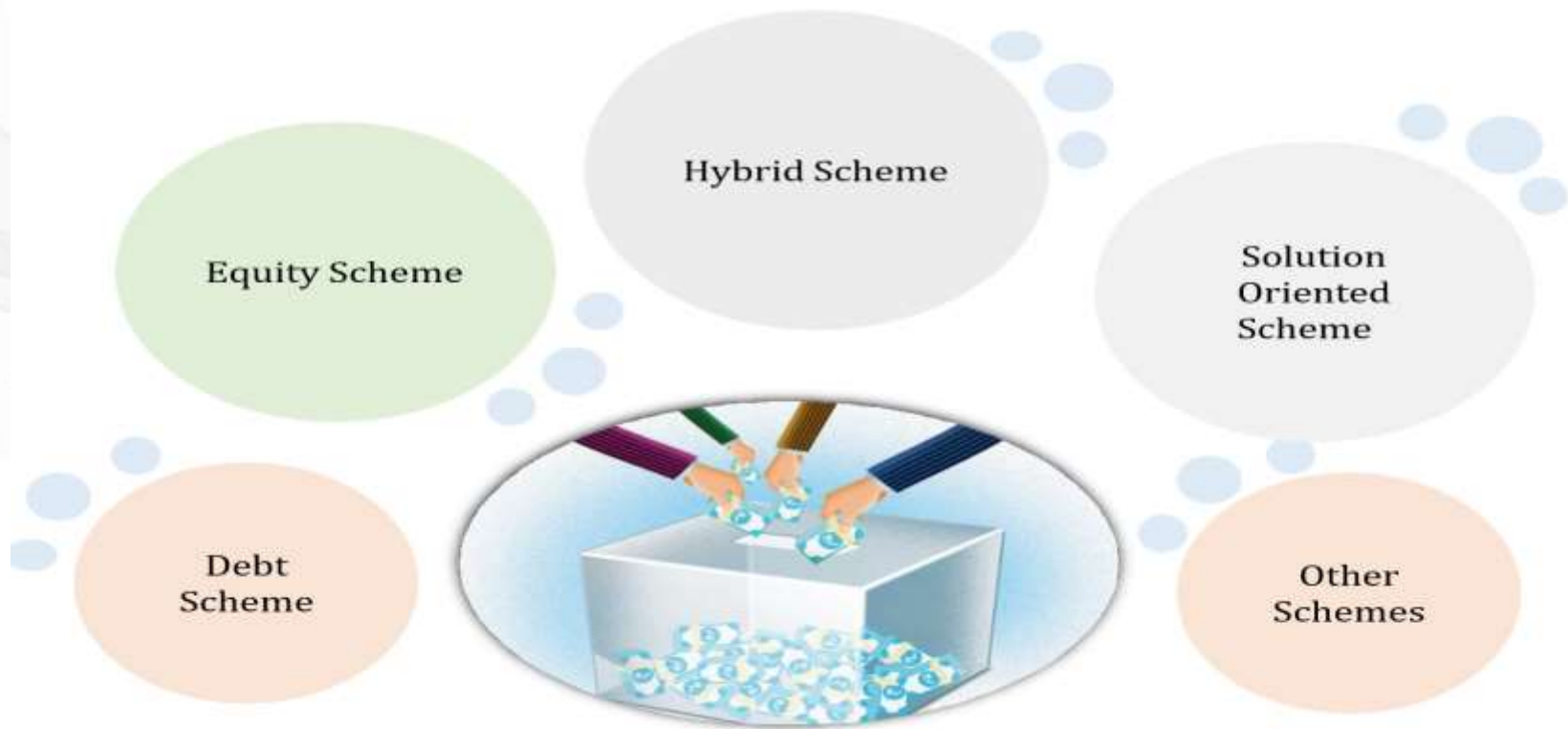
Session 7- Fixed Income Investing

Fixed Income Mutual Funds

Parameters for classification

- There most important parameter for classifying debt funds is portfolio maturity/ duration.
- The other parameter is credit.
- Longer the maturity of the fund, longer is the duration and consequently, higher the impact of movements in interest rates in the underlying market.
- Long bond funds will have relatively higher volatility than short bond funds and vice versa.
- Exposure to less-than-top rated bonds leads to higher accrual level but higher credit risk.

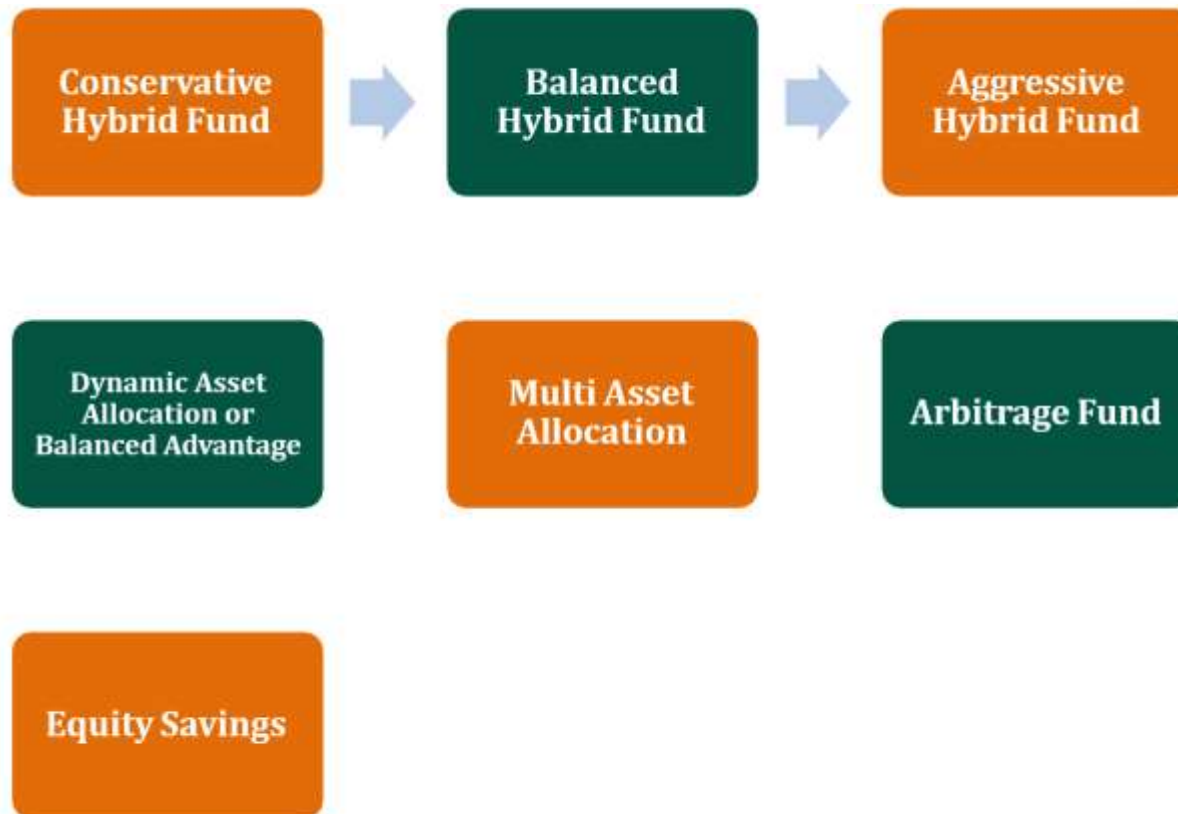
Fund Categories - New



Classification of Debt Schemes



Hybrid Schemes Classification



SEBI Circular Excerpts 6 Oct '17

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Overnight Fund**	Investment in overnight securities having maturity of 1 day	An open ended debt scheme investing in overnight securities
2	Liquid Fund ^{***}	Investment in Debt and money market securities with maturity of upto 91 days only	An open ended liquid scheme
3	Ultra Short Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months	An open ended ultra-short term debt scheme investing in instruments with Macaulay duration between 3 months and 6 months (please refer to page no. __)*
4	Low Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months- 12 months	An open ended low duration debt scheme investing in instruments with Macaulay duration between 6 months and 12 months (please refer to page no. __)*
5	Money Market Fund	Investment in Money Market instruments having maturity upto 1 year	An open ended debt scheme investing in money market instruments
6	Short Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year – 3 years	An open ended short term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years (please refer to page no. __)*
7	Medium Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay	An open ended medium term debt scheme investing in instruments with Macaulay

SEBI Circular Excerpts

		duration of the portfolio is between 3 years – 4 years	duration between 3 years and 4 years (please refer to page no. __)*
8	Medium to Long Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 – 7 years	An open ended medium term debt scheme investing in instruments with Macaulay duration between 4 years and 7 years (please refer to page no. __)*
9	Long Duration Fund	Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years	An open ended debt scheme investing in instruments with Macaulay duration greater than 7 years (please refer to page no. __)*
10	Dynamic Bond	Investment across duration	An open ended dynamic debt scheme investing across duration
11	Corporate Bond Fund	Minimum investment in corporate bonds- 80% of total assets (only in highest rated instruments)	An open ended debt scheme predominantly investing in highest rated corporate bonds
12	Credit Risk Fund^	Minimum investment in corporate bonds- 65% of total assets (investment in below highest rated instruments)	An open ended debt scheme investing in below highest rated corporate bonds
13	Banking and PSU Fund	Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions- 80% of total assets	An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions.
14	Gilt Fund	Minimum investment in Gsecs- 80% of total assets (across maturity)	An open ended debt scheme investing in government securities across maturity
15	Gilt Fund with 10 year constant duration	Minimum investment in Gsecs- 80% of total assets such that the Macaulay duration of the portfolio is equal to 10 years	An open ended debt scheme investing in government securities having a constant maturity of 10 years
16	Floater Fund	Minimum investment in floating rate instruments- 65% of total assets	An open ended debt scheme predominantly investing in floating rate instruments

SEBI Circular Excerpts

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Conservative Hybrid Fund	Investment in equity & equity related instruments- between 10% and 25% of total assets; Investment in Debt instruments- between 75% and 90% of total assets	An open ended hybrid scheme investing predominantly in debt instruments
2	Balanced Hybrid Fund @	Equity & Equity related instruments- between 40% and 60% of total assets; Debt instruments- between 40% and 60% of total assets No Arbitrage would be permitted in this scheme	An open ended balanced scheme investing in equity and debt instruments
	Aggressive Hybrid Fund @	Equity & Equity related instruments- between 65% and 80% of total assets; Debt instruments- between 20% 35% of total assets	An open ended hybrid scheme investing predominantly in equity and equity related instruments
3	Dynamic Asset Allocation or Balanced Advantage	Investment in equity/ debt that is managed dynamically	An open ended dynamic asset allocation fund
4	Multi Asset Allocation ##	Invests in at least three asset classes with a minimum allocation of at least 10% each in all three asset classes	An open ended scheme investing in __, __, __ (mention the three different asset classes)
5	Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets	An open ended scheme investing in arbitrage opportunities
6	Equity Savings	Minimum investment in equity & equity related instruments- 65% of total assets and minimum investment in debt- 10% of total assets Minimum hedged & unhedged to be stated in the SID.	An open ended scheme investing in equity, arbitrage and debt

Explanation of the New Categories

- Overnight is a new category, suitable for corporate investors
- These Funds will invest in CBLO / TREPS
- Definition of Liquid Funds remain same as currently
- Ultra Short Term Funds will have it in the range of 3 to 6 months
- It is defined as duration, hence maturity will be marginally higher
- Low Duration Funds will have it in the range of 6 to 12 months
- It is defined as duration, hence maturity will be marginally higher
- Money Market Funds will have maturity upto 1 year

Explanation of the New Categories

Short duration funds will have duration in the range of 1 to 3 years, hence maturity will be marginally higher

Medium duration will be in the range of 3 to 4 years and medium to long duration 4 to 7 years

Long duration will be more than 7 years

Medium and Medium to Long, the fund manager can bring it down to 1 year subject to conditions

In Credit Risk Funds, minimum 65% of the portfolio should be in instruments rated AA and below, which will give a higher portfolio running yield to the fund, at the cost of a higher credit risk.

Commentary on Fund Categories – Volatility

If the investor wants to take advantage of falling interest rates, s/he has to come to long maturity funds e.g. Long Duration Fund or Gilt Fund or Dynamic Fund

- The volatility will be higher in long maturity funds i.e. interest rate risk will be higher
- Volatility works both ways, in your favor and against you
- If you want to take the benefit of interest rates coming down, you have to take the risk as well
- Volatility risk is part and parcel of long maturity funds

Commentary on Fund Categories – Credit

In Credit Risk Funds, minimum 65% will have to be in credit risk instruments, defined as AA and below i.e. not in AAA or AA+

The maturity band in these Funds has not been defined; normally it is kept similar to Short Maturity Funds i.e. 2 to 3 years

Credit risk will be higher than conventional Funds. In the event of default in an instrument, returns will be impacted to the extent of non-payment

Investors not willing to take duration risk but desirous of a higher accrual than conventional Short Maturity Funds should come to this category

Summary

- There are various types of funds as per maturity profile, all the way from Liquid (less than 3 months) to Long Duration (more than 7 years).
- Interest rate risk is progressively higher with increasing maturity. However, it is part and parcel of long maturity funds. To take the benefit of falling interest rates, you have to take that risk.
- In Credit Risk Funds, portfolio running yield is higher, but at the cost of higher a higher credit risk.

Market Phase-wise Returns

Market phase analysis – CRISIL-AMFI debt fund performance indices



A Medium to Long duration funds B Gilt funds C Short duration funds D Bank FD

18-year CAGR

Short Term Debt Fund 7.54%

Medium to Long Duration Funds 7.78%

Gilt Funds 8.18%

Fund Snapshot

Monthly Data for March 2020								
Sr	Scheme Name	No. of Schemes	No. of Folios	Funds Mobilized	Repurchase / Redemption	Net Inflow (+ve)/Outflow (-ve)	Net Assets	Average Net Assets
A	Open ended Schemes							
I	Income/Debt Oriented Schemes							
1	Overnight Fund	30	86,255	7,98,847.98	7,72,194.39	26,653.59	80,174.20	90,511.31
2	Liquid Fund	39	18,15,547	3,95,180.16	5,05,217.22	-1,10,037.06	3,34,725.33	3,82,240.34
3	Ultra Short Duration Fund	29	6,50,202	11,796.48	40,849.46	-29,052.98	72,226.36	87,634.94
4	Low Duration Fund	26	9,63,640	10,003.78	29,924.91	-19,921.13	81,371.17	92,105.77
5	Money Market Fund	20	3,50,429	16,244.46	43,646.77	-27,402.30	57,016.65	74,256.44
6	Short Duration Fund	28	3,59,856	4,811.70	15,850.23	-11,038.53	93,444.33	99,010.33
7	Medium Duration Fund	18	2,21,149	671.90	2,836.03	-2,164.14	28,290.30	29,623.72
8	Medium to Long Duration Fund	14	1,08,506	182.25	774.30	-592.06	9,804.80	9,805.20
9	Long Duration Fund	2	27,215	92.52	35.87	56.65	1,669.58	1,651.42
10	Dynamic Bond Fund	29	2,15,543	847.16	1,680.22	-833.06	18,115.97	18,621.47
11	Corporate Bond Fund	20	3,91,721	4,902.36	8,693.37	-3,791.01	81,729.80	83,261.47
12	Credit Risk Fund	23	4,61,927	710.44	6,279.23	-5,568.79	55,380.52	58,361.77
13	Banking and PSU Fund	19	1,70,392	4,563.03	10,867.47	-6,304.44	72,475.88	75,147.36
14	Gilt Fund	21	1,16,938	1,400.80	654.09	746.71	9,284.98	8,923.40
15	Gilt Fund with 10 year constant dura	4	34,206	138.54	55.00	83.54	941.41	895.48
16	Floater Fund	7	1,62,058	2,398.66	8,148.28	-5,749.61	32,490.43	35,860.38
	Sub Total - I (1+2+3+4+5+6+7+8+9+10)	329	61,35,584	12,52,792.21	14,47,706.82	-1,94,914.62	10,29,141.70	11,47,910.81

Fund Snapshot

III	HybridSchemes							
27	Conservative Hybrid Fund	22	3,86,103	62.94	468.74	-405.80	11,189.67	11,603.79
28	Balanced Hybrid Fund/Aggressive Hybrid	33	52,72,614	2,092.39	3,607.97	-1,515.57	1,00,990.17	1,11,519.18
29	Dynamic Asset Allocation/Balanced	23	26,57,247	2,516.92	2,774.06	-257.14	77,091.39	83,711.23
30	Multi Asset Allocation	8	6,31,330	551.72	276.36	275.36	9,439.41	11,407.58
31	Arbitrage Fund	25	2,96,071	6,389.17	40,156.42	-33,767.24	52,210.31	72,883.83
32	Equity Savings	23	3,29,350	94.07	883.25	-789.18	11,228.91	12,230.96
	Sub Total - III (27+28+29+30+31+32)	134	95,72,715	11,707.22	48,166.80	-36,459.58	2,62,149.84	3,03,356.56

Quiz

1. Portfolio maturity of a debt Mutual Fund Scheme is computed as:

- A. Average maturity of the top 10 bond holdings in the portfolio
- B. Average maturity of all the bond holdings in the portfolio
- C. Average maturity of all instruments in the portfolio
- D. Weighted average maturity of all instruments in the portfolio

2. There is a given maturity date in:

- A. Liquid Funds
- B. Interval Funds
- C. Short Duration Funds
- D. Fixed Maturity Plans (FMPs)

Quiz

3. Which fund category has a defined minimum portfolio maturity?

- A. Liquid Funds
- B. Gilt Funds
- C. Long Duration Funds
- D. Dynamic Bond Funds

4. Which fund category has a defined maximum portfolio maturity?

- A. Long Duration Funds
- B. Dynamic Bond Funds
- C. Money Market Funds
- D. Government Security Funds

Quiz

5. The difference in expense ratio (TER) between direct plan and regular plan of MFs is:
- A. The higher admin cost of regular plans
 - B. As decided by the Trustees of the Mutual Fund
 - C. The brokerage (distributor remuneration) in regular plan
 - D. Decided by SEBI on a case to case basis
6. If you want a better credit quality debt fund with higher credit rating of instruments in the portfolio, you will choose:
- A. Short Duration Fund
 - B. Credit Risk Fund
 - C. Dynamic Bond Fund
 - D. Corporate Bond Fund

Thank You