Glossary

Mutual fund

Mutual fund is a mechanism for pooling resources by issuing units to investors and investing funds in securities in accordance with objectives as disclosed in the offer document.

Net asset value - NAV

For mutual funds, NAV is the total value of the fund's portfolio, less liabilities. The NAV is usually calculated on a daily basis. It is the rate at which a mutual fund unit is bought or sold. The net asset value per share usually represents the fund's market price, subject to a possible sales or redemption charge.

Nominal Interest Rate

The interest rate unadjusted for inflation.

Offer Document (OD)

“Offer Document” means any document by which a mutual fund invites public for subscription of units of a scheme. It is a legal document that provides information about a specific mutual fund. Such information includes the fund’s investment objectives, load structure, and subscription and redemption policies. Its purpose is to inform investors of potential risks involved before they invest in a fund, and provides other information that could help investors decide whether the investment is appropriate for them. An abridged offer document of the scheme also accompanies the application form.

Open-Ended Fund

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at net asset value (NAV) related prices which are declared on a daily basis.

Passive Management

Annual report

A record published by a company after the end of each financial year giving details of its financial condition. The report, as required by law, is distributed to all shareholders, contains a description of the company's operations, its balance sheet, income statement, auditor's report and
other relevant information. An annual report is the most important source of information about a company.

Asset

Any item of value owned by a person or firm that can be converted to cash; these include stocks, accounts receivable, inventory, office equipment, house or car. A firm's assets are listed on its balance sheet, where they are set off.

Asset management company (AMC)

“Asset Management Company” means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub regulation (2) of regulation 21. The AMC is a company, floated by the sponsor, is responsible for managing the funds mobilized under the mutual fund.

Assets under management

The total market value of assets owned by a mutual fund. The asset level depends on the market valuation and the money held by the mutual fund. Average annual yield Sum of each year's return on investment, divided by the number of years invested.

Back-end Load

Also known as exit load, it is a fee that investors pay when selling mutual funds within a certain number of years. The fee is a shown as a percentage and usually decreases yearly when it drops to zero.

Balance sheet

It is a summary of a company’s assets and liabilities. The balance sheet is attached to the annual report of the company and is given to all share holders. These statements are audited.

Balanced-fund

A mutual fund that invests its assets into the money market, bonds and equity so as to provide both growth and income.

Basis point

A unit that is equal to 1/100th of 1 per cent, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

Bear market
A prolonged period of falling prices, accompanied by widespread pessimism. In the stock market a bear is an investor who believes that the markets or a particular stock is going to fall and thus sells the shares with a hope of buying them back as and when the market falls.

**Beta**

It is a measure of a security’s risk. Each security has a certain amount of risk attached to it. Beta tries to measure the risk involved with each security. Investor should choose a security which gives the highest return for a given risk level.

**Blue chip**

A very high security stock. The stock of a large company with a strong record of stable earnings and/or dividend growth and a reputation for high quality management and/or products.

**Bond**

A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. Bond is a promise to pay the principal along with the interest after a specified period of time.

**Bonus share**

Extra shares given by a company to its shareholders. Bonus shares are a kind of reward to share holders. Bonus shares are given on a pro-rata basis to the current share holders of the company.

**Book Value**

It is the historical cost of assets less liabilities. Book value often differs substantially from market price.

**Closed-end fund**

A mutual fund scheme which is open for a fixed period and sells off its assets at the end of the period and distributes the money thus obtained among unit holders. These units may be bought and sold in the secondary market.

**Debentures**

They are bonds issued by a company to raise capital. There are various kinds of debentures: secured or unsecured, convertible or non convertible.

**Debt/equity ratio**
The ratio is determined by dividing long-term debt by common stockholder equity. It is one of the most useful financial ratios. Creditors use it to see whether it is safe to lend money to the particular company. The ratio should ideally be around 2 times.

**Diversification**

Investing in a variety of companies and sectors so as to spread risk.

**Diversified Fund**

A type of investment fund that contains a wide array of securities and is adequately diversified. A mutual fund classified as a diversified fund actively maintains a high level of diversification in its holdings; the fund is thus able to reduce risks, because events that affect one sector are unlikely to have the same effect on other sectors. For example, the fund may restrict its purchases so it is not dominated by companies from one industry or representing one market capitalisation size.

**Dividend**

Distribution of a portion of a company's earnings, as decided by the board of directors, to a class of its shareholders. It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.

**Equity Linked Savings Scheme-ELSS**

A mutual fund scheme that offer tax rebates to investors under specific provisions of the Income Tax Act. These schemes are growth oriented and invest pre-dominantly in equity. Their growth opportunities and risks are like those of any equity-oriented scheme.

**Exchange-Traded Fund – ETF**

A mutual fund that tracks an index, a commodity or basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold.

**Fund inception date**

The date at which the fund is officially registered with SEBI.

**Fund manager**

A person who manages a mutual fund scheme.
**Fund of Funds**

A mutual fund that invests in other mutual funds. This method is also known as multi-management.

**Gilts**

These are risk-free bonds issued by the government and are safe investment options.

**Growth-fund**

A diversified portfolio of stocks that has capital appreciation as its primary goal, and thereby invests in companies that reinvest their earnings in expansion, acquisitions, and/or research and development.

**Hedging**

A strategy designed to reduce investment risk. Hedging techniques use call options, put options, short selling, or futures contracts. A hedge can help lock in existing profits. Its purpose is to reduce the volatility of a portfolio, by reducing the risk of loss.

**Hedge fund**

An aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

**Holding period**

The duration of time for which an individual holds a security.

**Inception date**

The date at which a mutual fund scheme opens.

**Income-fund**

A mutual fund that seeks to provide stable current income by investing in securities that pays interest or dividends.

**Index fund**

A portfolio of investments that is weighted the same as a stock-exchange index in order to mirror its performance.

**Initial public offering –IPO**

A company's first sale of stock to the public.
Liabilities

A financial obligation or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Liquidity

Easy conversion of an asset into cash. A market is liquid when it has a high level of trading activity, allowing buying and selling with minimum price disturbance.

Load

A fee or commission charged to an investor when buying or redeeming shares in a mutual fund. The fee may be charged at the time the investor buys into the mutual fund (called a front-end load) or when the investor redeems his/her mutual fund shares (called a back-end load).

Management Fee

A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise.

Money Market Fund

A mutual fund that invests in short-term debt instruments. The fund's objective is to earn interest for shareholders while maintaining a net asset value of `.10 per share.

Sale price

The price at which a fund offers to sell one unit of its scheme to investors. This NAV is grossed up with the entry load applicable, if any.

Sector Fund

A mutual fund that makes investments solely in businesses that operates in a particular industry or sector of the economy.

Switching

The movement of investments from one scheme to another usually within the family of schemes. An investor may switch schemes because of market conditions.

Systematic Investment Plan -SIP

It allows an investor to periodically invest in units by issuing post-dated cheques. Investors, thus benefit from rupee cost averaging.

Systematic Risk

The risk inherent in the entire market. It is also known as market risk.
**Systematic Withdrawal Plan – SWP**

A service offered by a mutual fund that provides a payout to the shareholder at predetermined intervals.

**Systematic Transfer Plan -STP**

A plan that allows the investor to provide a mandate to the fund to periodically and systematically transfer a certain amount from one scheme to another.

**Transaction Costs**

Costs incurred when buying or selling securities. These include brokers' commissions and spreads.

**Transfer Agent**

A corporation that maintains records of investors, account balances and transactions, cancels and issues certificates, process investor mailings and deals with associated problems (such as lost or stolen certificates).

**Trustees**

“Trustees” mean the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders.

**Unit**

The interest of investors in either of the schemes, which consists of each unit representing one undivided share in the assets of the schemes.

**Unit holder**

“Unit holder” means a person holding unit in a scheme of a mutual fund.

**Unsystematic Risk**

The risk that is firm-specific; this include losses in the company due to bad management, or fire.

**Value Fund**

A mutual fund that primarily holds value stocks, stocks deemed to be undervalued in price.