GLOSSARY

1. Association of Mutual Funds in India (AMFI)

AMFI is the trade association of mutual funds in India. AMFI represents the mutual fund industry at various policy forums, and does promotional and training.

2. Annual report

Report released by fund house once a year that details its state of affairs.

3. Annualized return

The return a fund would have generated over a year on a compounded basis. This method is the best indicator to measure the performance of a fund.

4. Asset allocation

It is the process of allocating the overall corpus to different assets like equities, bonds, real estate, derivatives etc.

5. Asset Management Company (AMC)

A Company registered with SEBI, which takes investment/divestment decisions for the mutual fund, and manages the assets of the mutual fund.
6. **Balanced fund**

A scheme that invests substantially in both debt and equity.

7. **Benchmark**

A yardstick against which the returns generated by an asset is evaluated.

8. **Closed-ended fund:**

A fund where investors have to commit their funds for a particular period. Closed-ended funds have to necessarily be listed on recognized stock exchanges in India, as it provides and exit route for the investor.

9. **Corpus**

The amount of money available with a scheme for investing. If already invested, the corpus is the current value of the scheme’s portfolio.

10. **Custodian**

The entity that holds a mutual fund’s securities on its behalf for a fee.

11. **Debt funds**

Schemes that invest only in debt securities with the objective of generating a steady income while preserving capital. Based on the kind, and mix, of debt
securities they invest in, debt funds are broadly classified as income funds, gilt funds and liquid funds.

12. Discount/Premium to NAV

The percentage difference between the market price of a unit and its NAV. If a scheme’s market price is higher than its NAV, it is said to be trading at a premium; if the price is lower, it is said to be trading at a discount. This is only applicable to closed-end scheme listed on a stock exchange.

13. Dividends

Payment made by a mutual fund to its unit holders from the income generated by it.

14. Dividend plan

An investment plan that periodically distributes the profits gained as dividends.

15. ELSS (Equity-Linked Saving Schemes).

Diversified equity funds that additionally offer a tax deduction under Section 80C on investments up to Rs. 1 lakh.
16. Equity funds

The class of schemes that invests primarily in Equity.

17. Expense ratio:

The ‘expense ratio’ of a scheme is its costs expressed as a percentage of its corpus, and is an indicator of how much it charges the investor.

18. Fund fact-sheet

A newsletter sent by mutual funds to its unit holders, either half-yearly or quarterly. The newsletter reviews performance of all its schemes during the reference period, give important scheme information such as portfolio details, and offers pointers on what lies ahead.

19. Fund of funds

Schemes that, instead of investing in stocks and bonds, provide the same exposure indirectly by investing in other mutual funds schemes.

20. Fund manager

The person responsible for managing a scheme’s money.
21. Gilt funds

A class of debt funds that invest in government securities and treasury bills, with the objective of generating steady and regular returns while taking on modest levels of risk.

22. Government securities (G-secs)

Debt securities of tenures of over one year issued by the government. They don’t carry any risk of default as it is issued by the government.

23. Growth plans

An investment plan wherein all gains are reinvested in the scheme.

24. Initial Load

A charge imposed on the scheme to meet the cost related to the initial issue of the scheme. This can be charged only by closed-ended funds.

25. Interest Rate Risk

The change in the price of a debt security due to changes in the market interest rates is the interest rate risk. In the case of debt oriented mutual fund schemes, this interest rate risk affects the NAV of the fund. A rise in the interest rates leads to a fall in the price of a fixed income security.
26. **Interim Dividend:**

An advance installment of the dividend finally declared. The final dividend is at least equal or more than the interim dividend. The interim dividend is a fair indication of a company’s profitability, during the year.

27. **Load**

A fee levied by a scheme on an investor at the time buying or selling units, expressed as percentage of the scheme’s NAV. There are two types of load: entry load and exit load. An entry load (or a front-end load) is levied at the time of buying units, and has the effect of increasing the purchase price. An exit load (or a back-end load) is levied when unit holders sell their units, and has the effect of reducing the sale price.

28. **Lock-in period**

The period for which investments made in a scheme cannot be withdrawn. In mutual funds, a lock-in period of three years is applicable on equity-linked saving schemes (ELSS).

29. **Market Capitalization**

This represents the market value of the company. It is a product of the current market price and the number of shares outstanding.
30. New fund offer (NFO)

The maiden sale of units in a scheme through a process similar to that for new share issues. However, unlike shares, it doesn’t really matter whether you buy units through an NFO or from the fund house subsequently.

31. Net asset value (NAV)

A measure of how much each unit of a scheme is worth at any point in time. A scheme’s NAV is its net assets (the market value of the financial securities it owns minus whatever it owes) divided by the number of units it has issued.

32. No-load fund

A scheme that does not charge any processing fee.

33. Offer document

A detailed document that contains information pertaining to a scheme, intended to help the investor make an informed decision on whether to invest in the fund or not. It is also referred to as the prospectus.

34. Open-ended fund

A scheme investors can enter or exit at any point of time, at its then prevailing NAV. This convenience gives it the edge over closed-ended scheme, and makes it the preferred option, for mutual funds and investors alike.
35. Portfolio

The list of securities held by a scheme on a given day.

36. Redemption

When a unit holder sells the units back to the mutual fund.

37. Repurchase price

The unit price at which a unit holder sells his units back to the mutual fund. Usually, the repurchase price is the NAV less an exit load.

37. Returns

The gain from an investment in percentage terms. In the context of mutual funds, returns are measured by changes in NAV.

38. Compounded Annual Growth Rate (CAGR)

This method calculates the returns a fund would have generated over a year. Since it breaks down performance into a unit of one year and incorporates the effect of compounding, annualized return is a better indicator of a fund's performance than a straight arithmetic average.

39. Risk – Adjusted returns

The risk incurred by a scheme to generate returns.
40. SEBI (Securities and Exchange Board of India)

The capital market regulator, also responsible for regulating the mutual fund industry.

41. Sector funds

The riskiest among equity funds, sector funds invest only in stocks of a specific industry, say, IT or pharmaceuticals.

42. Switching

Transferring from one scheme to another in a group of schemes operated by a Mutual fund, where the rules permit. A fee may or may not be charged for switching.

43. Systematic investment plan (SIP)

This is based on the concept of rupee cost averaging, SIP allows an investor to invest a pre-fixed amount in a scheme at set intervals, and derive the benefits of fluctuating share prices and NAVs. So, when the share price drops, the investor gets more units and when the NAV is high, his entire investment is valued at the existing higher level, while his cost of purchase averages out.
44. **Standard deviation**

Measure of volatility of the scheme's returns.

45. **Treasury bills**

Debt Securities of maturity less than one year issued by the government. The government tag means these bills don't carry any default risk; however, they are still susceptible to price fluctuations.

46. **Trustee**

Internal regulators in a mutual fund whose job is to ensure that the fund house safeguards the interests of its unit holders.

47. **Unit**

A unit in a mutual fund scheme means one share in the assets of a particular scheme.

48. **Unitholder**

A person, or entity, which holds units in a scheme.

49. **Value investing**

An investment style that tries to identify stocks that are undervalued to its intrinsic worth or to valuation for the industry in the market. They generally have a lower price earnings multiple but high dividend yields.
INDICES FOR BENCHMARKING PORTFOLIOS

1) Benchmarks for Equity Portfolios
   1. BSE Sensex
   2. BSE 100
   3. BSE 200
   4. BSE 500
   5. S&P CNX Nifty
   6. CNX Nifty Junior
   7. S&P CNX 500
   8. CNX Midcap 200

2) Benchmarks for Debt Portfolios
   1. Crisil composite bond fund index
   2. Crisil Short term fund index
   3. Crisil liquid fund index
   4. I-Sec Si-Bex
   5. I-Sec Mi-Bex
   6. I-Sec Li-Bex
   7. I-Sec composite index

3) Benchmarks for Balanced Portfolios
   1. Crisil balanced index
   2. Crisil MIP blended index
Bibliography