

Things to know about Overnight Funds



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Overnight Funds are a type of open ended debt schemes investing in overnight securities. These funds invest in debt instruments that have a maturity period of one day. The securities in the portfolio mature every day and the fund manager uses the proceeds to buy new securities for the portfolio maturing the very next day. Since the securities in these funds mature the next day, these funds are not exposed to the kind of interest rate risk or default risk like the rest of the debt funds. The instruments often used are triparty repo (TREPS), Reverse repos, and other eligible assets with one day maturity.

How do Overnight Funds work?

The fund manager purchases securities in the fixed income markets each day which matures very next day. At the start of each business day, the entire Asset Under Management (AUM) would be in cash. Therefore, it is expected to have the least effect if the Reserve Bank of India (RBI) changes the interest rates. As the securities mature the next day, new overnight securities are purchased at the new price. The reinvestment is done at the new rate of the next business day.

Features of Overnight Funds

- Relatively unaffected by market volatility
- Greatest liquidity among debt funds
- One-day maturity
- Subject to Minimum risk due to the short investment horizon
- Better utilisation of idle funds

How are Overnight Funds Taxed?

Gains on selling of units held for more than three years are subject to LTCG tax at the rate of 20% after indexation. Gains on sale of units held for a shorter period are added to a person's income and taxed at the marginal tax rate. Their dividends are subject to 29.12% dividend distribution tax.



Who should invest in Overnight Funds?

- Investors who are risk-averse and are looking to park their money overnight
- Investors looking for greater liquidity
- Can be opted by institutional investors (banks, insurers and corporates) looking for potential returns when parking surplus funds
- Investors who require a temporary parking spot for money in a financial emergency
- can be feeder funds for those investing in equity funds through systematic transfer plan

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