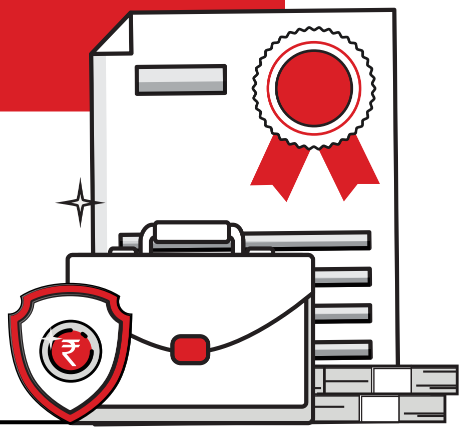
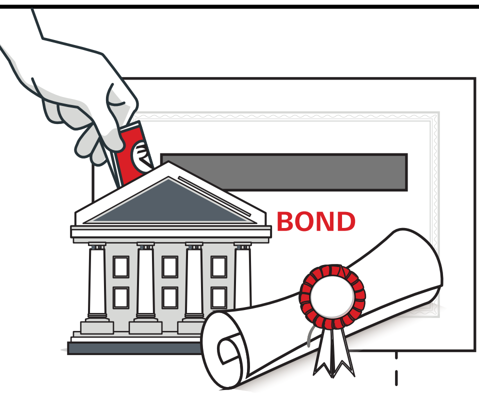
Mutual Fund

Debt mutual funds decoded



The foundation of a well-diversified mutual fund portfolio is built on both asset classes. While equity funds are essential to generate relatively higher risk-adjusted returns & wealth in the long run; debt mutual funds aim to safeguard the entire investment portfolio.



Introduction to debt funds

Debt mutual funds primarily invest in fixed-income generating securities such as treasury bills, commercial papers, certificates of deposit, government and corporate bonds. The bond issuer repays the borrowed sum at a pre-decided interest rate (coupon rate) within pre-defined period (maturity) which becomes the accrual income of debt schemes. The key objective of these funds is to deliver relatively safe and steady income.

Returns on debt fund depend on two components

Accrual income & price movement: Accrual income is the interest income the fund accrues at a particular coupon rate on the bond it holds. The principal amount is repaid by the bond issuer at the time of maturity. And as bond prices are inversely proportional to interest rate movement, the fund may also benefit due to the change in the interest rates. Therefore, the bond prices go up when the interest rates go down and vice-versa.

Credit risk: All bonds are assigned a credit rating from AAA (Highest) to D (Default) which suggests the quality and creditworthiness of the bond issuing company. In between there is an entire rating scale from AA+, AA, AA-,A+, A (26 scales in all). Therefore a bond with a AAA rating has a better credit quality than a AA rated Bond. A fund may embark on credit risk as an attribute and invest in a bond of the company that has a weak or low credit rating but strong fundamentals.

The combination of accrual income, price movement and credit risk of underlying bonds/securities determines the performance of debt funds.

Advantages of including debt fund in your portfolio

Risk-return tradeoff

Debt funds offer a wide range of products offering various risk return trade-offs and investors can select the one depending upon their risk appetite. The fund which undertakes more risk may offer more returns than the one which undertakes less risk. But at the same time such funds also carry the risk of capital erosion.

Different categories for different horizon

For the purpose of parking your surplus cash with easy access, you may invest in overnight fund or Liquid fund and for an investment horizon of 6-12 months you may invest in low duration funds. For longer tenors one may look at short, medium and long duration funds.

Diversification across various instruments

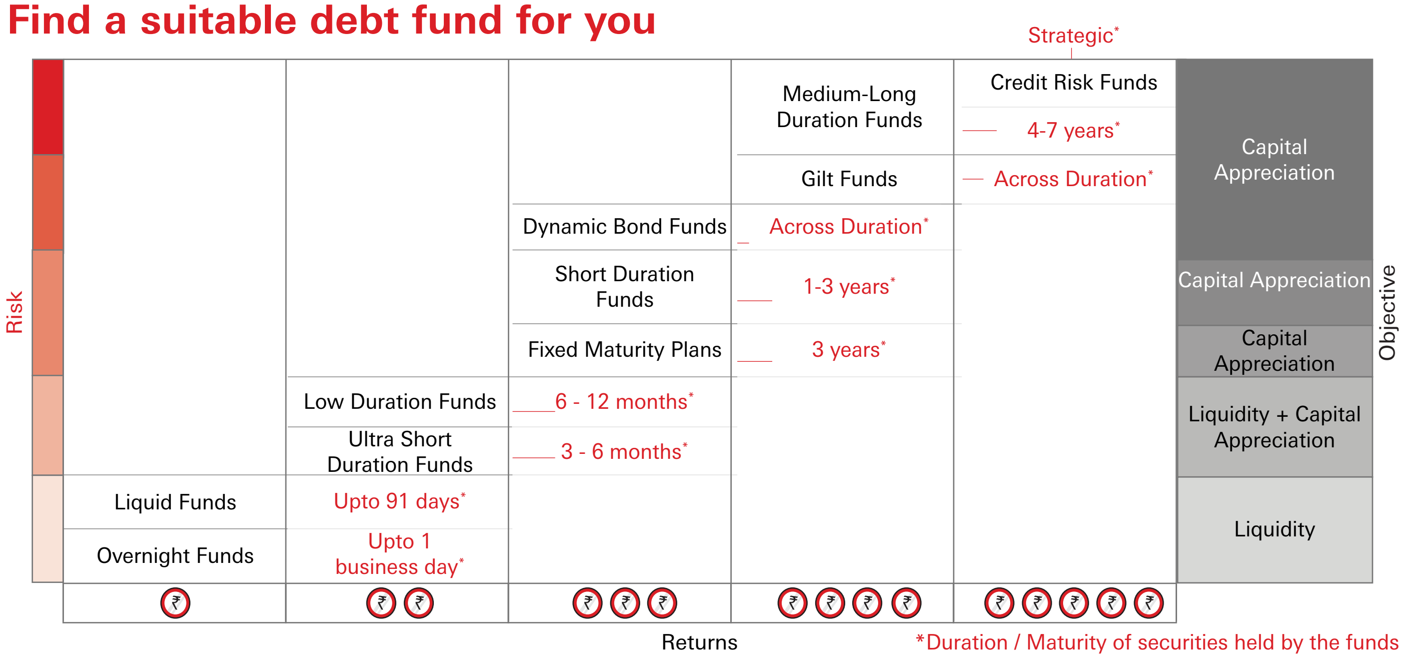
Debt funds spread the money across various debt instruments such as Government securities, non-convertible debentures (NCDs) and bonds which are otherwise inaccessible to retail investors.

Tax liability curtailed

With indexation benefit (min 3 year investment), long term capital gains on debt funds are adjusted against the rate of inflation which bring down the tax liability thereby resulting in higher post-tax income.

The extensive range of debt mutual funds can help different types of investors fulfil their financial goals

Find a suitable debt fund for you



*Duration / Maturity of securities held by the funds

Achieving short-term financial goals can be easier with the help of the most suitable debt mutual fund.

To know more visit assetmanagement.hsbc.co.in

An investor awareness initiative by HSBC Mutual Fund.

Mutual fund investments are subject to market risks, read all scheme related documents carefully.