

Mutual Funds

Income/Debt Mutual Funds

Income / Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

Money Market or Liquid Fund : These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

The primary investment objective of the scheme is to seek to generate reasonable returns from low risk investments, which provide high level of liquidity.

Gilt Fund : These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

The primary investment objective of the scheme is to seek to generate regular returns and growth of capital by investing in a diversified portfolio of central and state government securities.

Fixed Maturity Plan: These are debt schemes, where the scheme corpus is invested in fixed-income securities. They are offered for different tenures from one month to three years. They are closed-ended in nature. They are like a fixed deposit in a bank, with a slight difference. The interest rate in a fixed deposit in a bank is 'guaranteed', but only 'indicative' in the FMP of a mutual fund. The regulator does not allow fund companies to guarantee returns, and hence there is the concept of 'indicative returns' in FMPs.

Since the fund house knows the interest rate that it will earn on its investments, it can provide 'indicative returns' to investors. The primary investment objective of the scheme is to seek to generate regular returns and growth of capital by investing in a diversified portfolio of central and state government securities and other fixed income/ debt securities normally maturing in line with the time profile of the scheme with the objective of limiting interest rate volatility. These plans effectively eliminate interest rate risk by holding the underlying securities till maturity.

Sector Bond Fund: Specialty bond funds invest in specific debt securities such as municipal bonds or corporate bonds.

Some Debt schemes of mutual funds

Birla Sun Life Income Fund	Icici Prudential Income Plan
Principal Income Fund	Reliance Income Fund
Fidelity Short Term Income Fund	Sbi Magnum Income Fund
Templeton India Income Fund (Tiif)	Jm Income Fund
Hdfc Mf Monthly Income Plan	Tata Income Fund