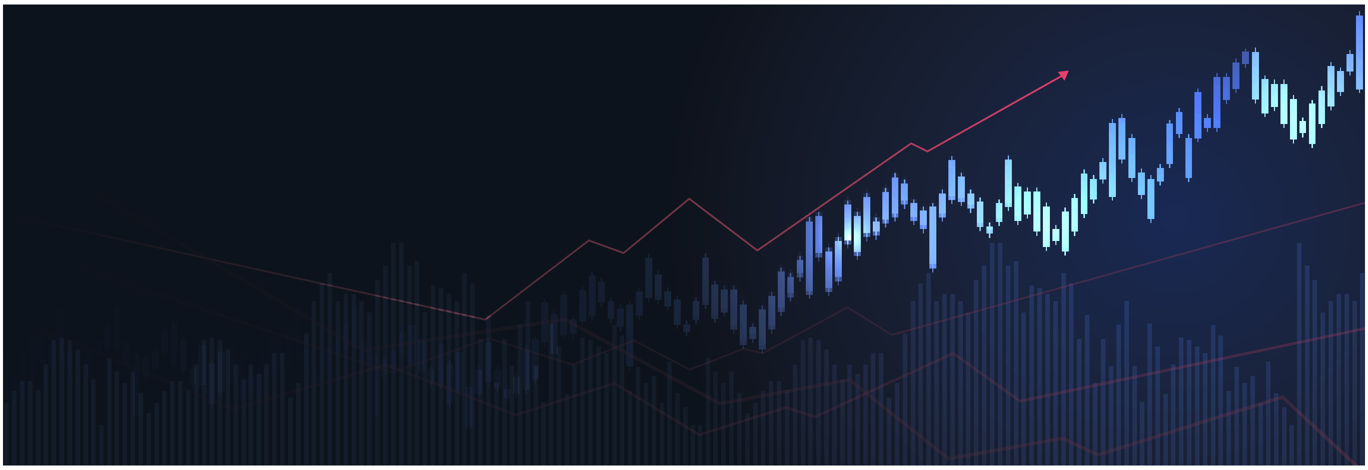
MIRAE ASSET Mutual Fund

Nifty 50 Index



What is Nifty 50 Index?

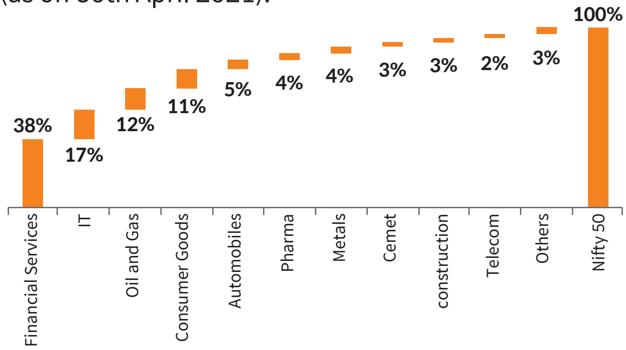
Nifty 50 is the index of 50 largest companies by market capitalization listed on the National Stock Exchange. The weights of the index constituents are based on free float market capitalization. Free float market capitalization means the market cap of free floating shares, which are shares held by the public. Free float shares are shares which are not held by the promoters and their families, related parties, management of the company and the Government. In free float market capitalization based index, the companies with higher free float market cap will have higher weights in the index. Nifty 50 Index, along with the BSE Sensex, are considered to be the barometers of the equity market in India.

How is Nifty 50 Index constructed?

The Nifty index represents 50 companies selected from the universe of Nifty 100 Index based on free-float market capitalisation and liquid companies having average impact cost of 0.50% or less for 90% of the observations for a basket size of Rs. 10 Crores. The index is based on free float market capitalization and is calculated on a real time basis (daily) and rebalanced semi-annually based on data for six months ending January and July. The replacement of stocks in Nifty 50 Index (if any) is generally implemented from the first working day after Futures & Options expiry of March and September (Futures and options are derivative contracts which derive their value from an underlying stock or index. Futures and options contract expiry in NSE takes place on the last Thursday of the contract month). As part of the semi-annual reconstitution of the index, a maximum of 10% of the index size (number of companies in the index) may be changed in a calendar year.

What is the composition of Nifty 50 Index?

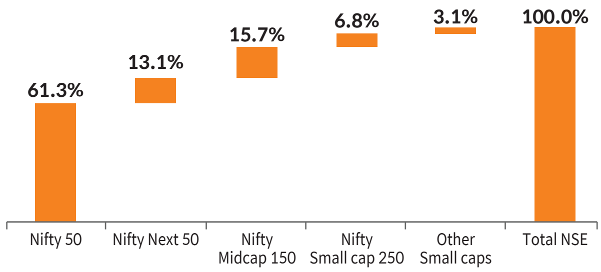
Nifty 50 Index covers 13 industry sectors. Among them they cover the core sectors of the economy e.g. power, metals, oil and gas, cement, fertilizers, etc. Nifty also cover the large industry sectors like Banking and Finance, Information Technology (IT), Pharmaceuticals, Consumer Goods, Automobiles etc. The chart below shows the industry sector composition of Nifty 50 Index (as on 30th April 2021).



Source: National Stock Exchange (30th April 2021), Advisorkhoj Research.

Why is Nifty 50 so important in the market?

- The chart below shows the contribution of different benchmark indexes to the market capitalization of all stocks in the National Stock Exchange (NSE). You can see that large cap stocks (100 largest stocks by market capitalization as per SEBI), comprising of Nifty 50 and Nifty Next 50 indexes, account for nearly 75% of total market capitalization of NSE. Nifty 50 accounts for nearly 80% of the market cap of large cap stocks.

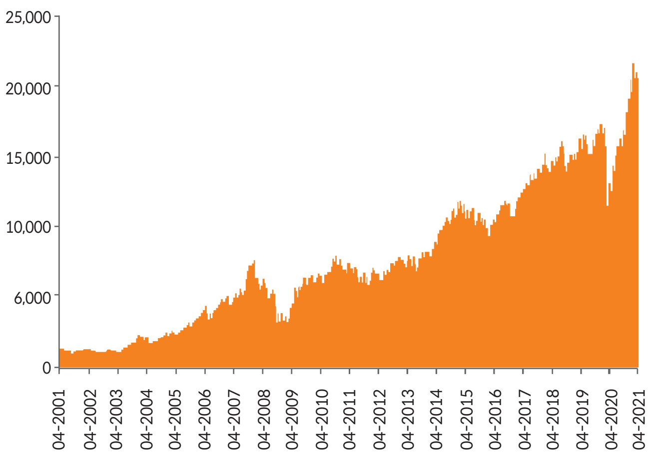


Source: AMFI (30th December 2020), Advisorkhoj Research.

- Derivatives (futures and options) which derive its underlying value from Nifty 50 Index are among the most heavily traded derivatives in the market.
- Exchange Traded Funds (ETFs) and index funds tracking Nifty 50 are among the most popular ETFs and index funds in India.
- Nifty 50 Total Returns Index (TRI) serves as benchmark indexes or additional benchmark indexes for many equity mutual fund schemes.

Performance of Nifty 50 Index

The chart below shows the performance of Nifty 50 Total Returns Index over the last 20 years (ending 30th April 2021). Over the past 20 years, Nifty 50 TRI has given 15.23% CAGR returns. Over the same period Gold has given 12.52% CAGR returns, while Fixed Deposits have given 7.1% average CAGR returns. The long term performance of Nifty 50 shows that equity has the potential of giving superior returns over long investment tenures compared to other asset classes.



Source: National Stock Exchange (30.04.2001 to 30.04.2021), Advisorkhoj Research.
Disclaimer: Past performance may or may not be sustained in the future.

How to invest in Nifty 50 Index?

Exchange Traded Funds (ETFs) and index funds are the most convenient and cost efficient ways of investing in Nifty 50. Since ETFs and Index Funds are passively managed, their cost is relatively lower than that of an actively traded mutual fund scheme. Lower cost will generally result in higher returns for the same level of performance, subject to tracking error.

Investors need to have demat and trading accounts to invest in ETFs. After the New Fund Offerings period, ETFs can be bought or sold in the stock exchanges at current market prices. You can also invest or redeem directly with the Asset Management Companies (AMCs) if you are transacting in lot sizes specified by the AMCs. If you do not have demat accounts, then you can invest in Nifty 50 Index Funds which are essentially mutual fund schemes. However, investors should note that Total Expense Ratios (TERs) of ETFs are significantly lower than those of index funds.

Benefits of Nifty 50 ETFs

- Nifty 50 ETFs are diversified investments with exposure to 13 industry sectors and 50 stocks. Diversification generally reduces risks specific to individual stocks or sectors.
- Nifty 50 companies are generally perceived to be a market leader in their respective industry segments.
- Nifty 50 ETF can provide stability to investment portfolio with relatively lower downside risks in volatile markets.
- Actively managed funds are generally overweight / underweight on certain stocks / sectors relative to the benchmark index. This may give rise to unsystematic risks. There is only systematic risk in Nifty 50 ETFs because they replicate market returns.
- Nifty 50 ETFs are low cost investments. For the same level of performance, lower costs can translate into higher returns over long investment tenures due to the effect of compounding.

Who should invest in Nifty 50 ETFs?

- Investors who want capital appreciation with relatively low volatility.
- Investors who have moderately high risk appetite.
- Investors who have sufficiently long investment tenures, at least 5 years.
- Investors who have demat accounts – you need to have demat accounts to invest in ETFs. If you do not have a demat account, then you can invest in Nifty 50 index funds. Index funds are mutual fund schemes, which are managed exactly in the same way as ETFs. The cost of index funds is generally higher than that of ETFs.
- Investors should consult with their financial advisors before investing in Nifty 50 Index.