How to read a Mutual Fund Factsheet?

Mirae Asset Knowledge Academy
An Investor Education Initiative

Know how your money is managed

The benefits of investing in mutual funds are well known. However, buying them on face value is not enough. Investors should know how their money is managed. They should research as much as possible on a scheme's strategy, performance, risks involved and how the money is invested. Many investors shy away from this exercise as they consider it cumbersome. To make life easy for investors, mutual funds disclose a fund factsheet which details the quintessential information required before investing.

The factsheet is a concise document with a plethora of information about how the fund is managed; it is disclosed on a monthly basis. This article tries to decode the factsheet and explains how investors should use it for making investment decisions.

Five things to look out for in mutual fund factsheets

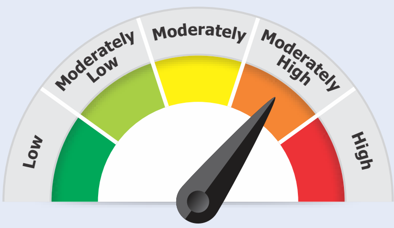
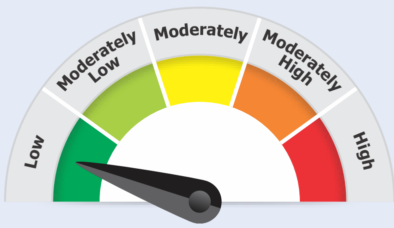
- Basic information
- Performance aspects
- Fund manager details
- Portfolio aspects
- Key ratios

Basic information

The factsheet provides all the general information on the fund – its objective or philosophy, options (growth or dividend), plans (direct and regular), net asset value (NAV) of each plan, minimum investment amount, systematic features (SIP, SWP, STP) and assets under management (AUM) data.

It is important to know about the fund's exit load, as it gets deducted from total gains if the investor exits during a specific period after investment. It is a small penalty charged on prevailing NAV to discourage premature redemption. Different schemes have different exit loads, while few such as liquid funds generally do not have exit load. Some funds have a fixed exit load and some have a tiered structure. For instance, a fund may have nil exit load if the investor withdraws up to 10% of units per year. For units more than 10%, it charges 3% for exit before 12 months, 2% for exit before 24 months, 1% for exit before 36 months and nil after that.

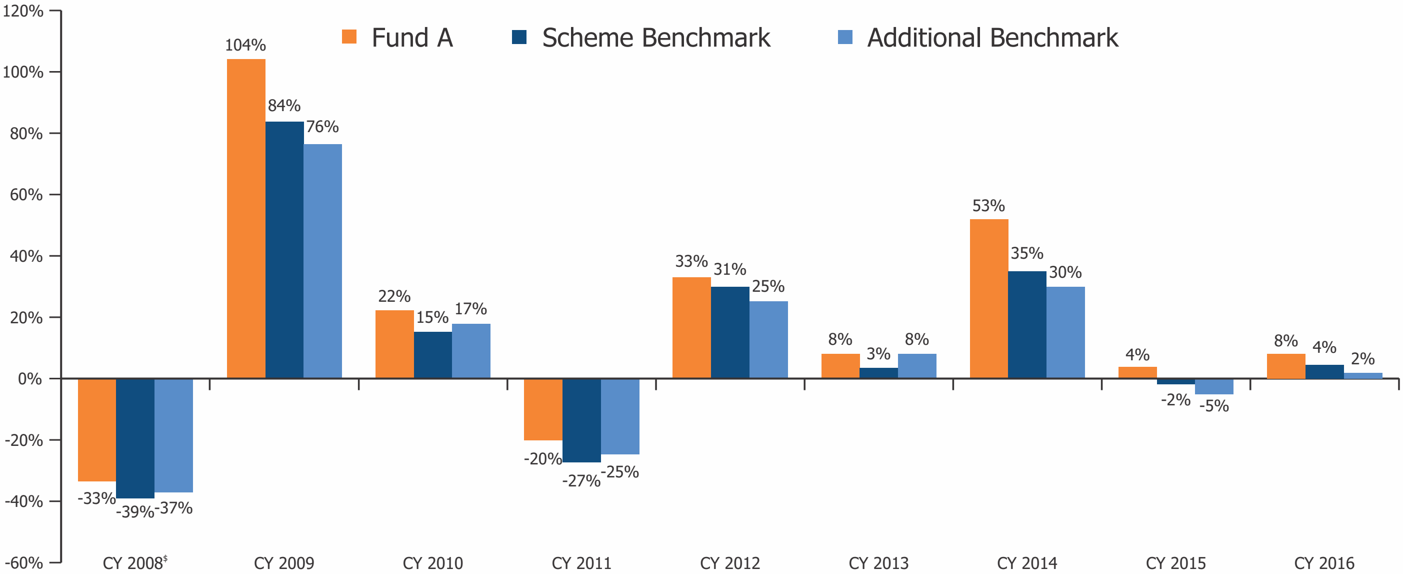
Investors should look out for the fund's product labeling and riskometer. Product labeling underlines product suitability for investors. It tells about ideal investment time frame required to benefit from the fund and where it invests. Riskometer is a presentation that helps investors measure the risk associated with the fund. It presents five levels of risks - low, moderately low, moderate, moderately high and high. Since an equity fund typically has high risk involved, needle of the scale points towards moderately high /high, suggesting the fund is meant for investors with a high risk-taking appetite. Examples of equity and liquid funds are listed below:

	Equity Fund	Liquid Fund
Product Labeling	This product is suitable for investors who are seeking: • Growth of capital in the long term • Investment predominantly in equity and equity-related instruments	This product is suitable for investors who are seeking: • Optimal returns in the short term • Investment in portfolio of short duration money market and debt instruments
Riskometer	 **Investors understand that their principal will be at Moderately High Risk**	 **Investors understand that their principal will be at Low Risk**

The data used is for illustration purpose only.

Performance aspects

Although the past performance does not guarantee future trend, investors can get a broad idea on how a fund may perform in future. This section looks at the fund's performance (lump sum as well as SIP) across time frames and compares it with the fund's benchmark and a market benchmark. Many fund houses provide graphical representation of calendar year performance of funds along with standard SEBI prescribed performance tables.



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Performance Report

Period	Returns (CAGR %)			Value of ₹ 10000 invested (in ₹)		
	Fund A Return	Scheme benchmark*	Additional benchmark**	Fund A Return	Scheme benchmark*	Additional benchmark**
Last 1 year	28.32	22.47	16.88	-	-	-
Last 3 year	21.81	14.17	9.77	-	-	-
Last 5 year	19.76	13.08	11.21	-	-	-
Since Inception	16.63	8.61	7.59	39,891	21,025	19,305
NAV as on 31st March 2017	39.891					
Index Value (31st March 2017)	Index Value of S&P BSE 200 is 3991.85 and Index value of S&P BSE Sensex is 29620.50					
Date of allotment	4th April, 2008					
Scheme Benchmark	*S&P BSE 200					
Additional Benchmark	**S&P BSE Sensex					

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SIP PERFORMANCE

SIP Investment	Since Inception	7 Years	5 Years	3 Years	1 Year
Total Amount Invested (In ₹)	1,070,000	840,000	600,000	360,000	120,000
Mkt Value as of 31st March 2017 (In ₹)	2,613,431	1,603,717	997,343	458,533	136,171
Fund Return (%)	19.26%	18.15%	20.45%	16.38%	26.03%
Benchmark Return (%) (S&P BSE 200)	11.87%	11.57%	13.45%	10.96%	21.24%
Add. Benchmark Return (%) (S&P BSE Sensex)	9.95%	9.31%	10.19%	7.02%	16.72%

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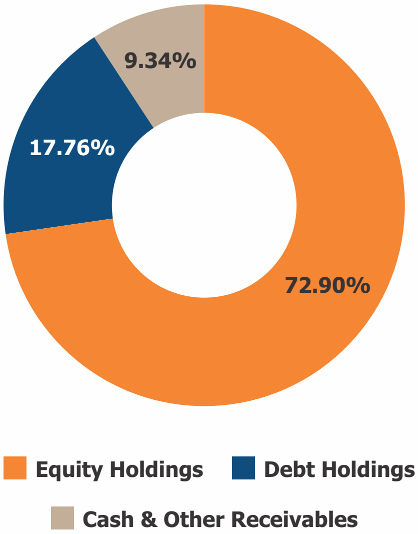
Fund manager details

In an investment voyage, mutual fund is the ship and fund manager is the sailor. Success of the voyage depends on the manager's expertise. Hence, it is imperative to know the fund manager well. The factsheet provides information on the manager's experience and qualification. You can find out their track record by reviewing the performance of all schemes managed by them.

Key portfolio attributes to look for in equity/ hybrid funds

Asset allocation

It highlights the exposure to different asset classes - equity, debt and cash - in a portfolio.

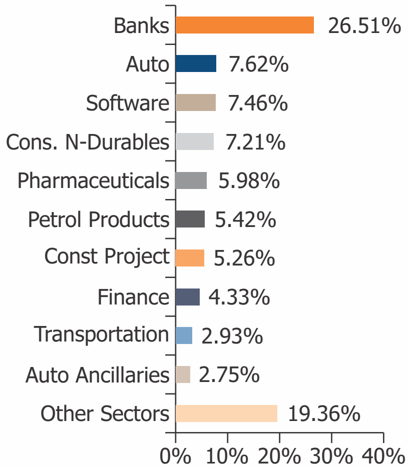


Company and sector allocation

It informs investors about a fund's concentration level in sectors and stocks. An aggressive fund manager may have high concentration among fewer companies and sectors, which may not be appropriate for investors seeking diversification. Investors should check whether the fund has taken higher-than-prudent exposure to risker sectors or low quality stocks.

Portfolio Top 10 holdings	% Allocation
Equity Shares	
HDFC Bank Ltd	7.05%
ICICI Bank Ltd	6.34%
Larsen & Toubro Ltd	3.96%
IndusInd Bank Ltd	3.81%
State Bank of India	3.79%
HDFC Ltd	3.72%
Maruti Suzuki India Ltd	3.38%
Infosys Ltd	3.17%
Kotak Mahindra Bank Ltd	2.93%
ITC Ltd	2.91%
Other Equites	53.77%
Equity Holding Total	**94.83%**
Cash & Other Receivables	**5.17%**
Total	**100.00%**

Allocation - Top 10 Sectors



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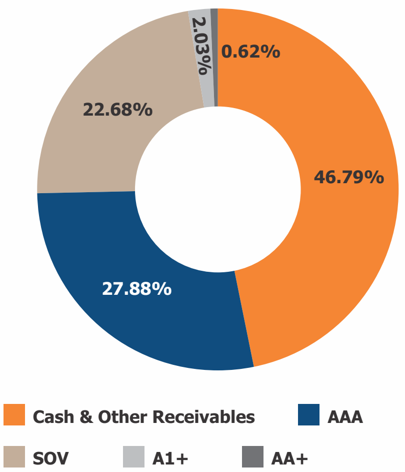
Key portfolio attributes to look for in debt funds

Credit quality profile

A debt fund's holdings are classified according to its credit ratings such as AAA, AA+, A1+ (given by credit rating agencies), etc.

Funds with higher exposure to AAA (top rated long-term debt) and A1+ (top rated short-term debt) have lower credit risk and higher credit quality.

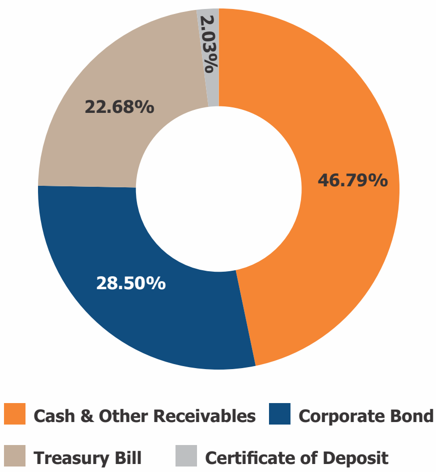
Conservative investors should check whether the fund manager in order to boost performance is taking undue exposure to lower rated debt papers as they typically trade at higher yields but are exposed to high credit and liquidity risk vis-à-vis top rated papers.



Instrument break-up

It highlights allocation to various debt instruments such as commercial papers (CPs), certificate of deposits (CDs), NCDs and bonds, gilts and cash equivalents.

Investors in shorter maturity debt funds such as liquid, ultra short term, short-term debt funds should check whether higher proportion has been allocated to shorter maturity instruments such as CPs and CDs. As long-term debt instruments such as gilts and bonds are typically more sensitive to interest rate changes compared with CPs and CDs, higher exposure to former instruments by liquid or ultra-short term may result in high risk.



Quantitative data

Average maturity:

Average time involved in maturing all debt securities in the portfolio. It is calculated on a weighted average basis. Income and gilts typically have higher average maturity than liquid and ultra short-term debt funds. Dynamic bond funds, on the other hand, can change their average maturity based on the prevailing interest scenario.

Modified duration:

A measure of price sensitivity of the debt portfolio to a change in interest rates. It basically implies interest rate risk. Duration of three years shows that if interest falls (or rise) by 1%, NAV of the fund will rise (or fell) by 3%. Gilts and income funds usually have higher duration than shorter maturity debt funds.

Yield to maturity (YTM):

It broadly indicates the total returns investor will earn from interest payment and annualised gains or losses from bonds, if held until maturity.

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Key ratios

Ratio	Meaning	Significance	Key takeaway
Portfolio turnover ratio	It is the percentage of a fund's holdings that have changed in a given year. It measures the fund's trading activity, which is computed by taking the lesser of purchases or sales & dividing by average monthly net assets.	If the portfolio is churned many times during a year, the fund will incur higher transaction costs. Aggressively managed funds generally have higher portfolio turnover rates than conservative funds. A low turnover figure (30% to 50%) would indicate a buy-and-hold strategy.	Lower the better
Expense ratio	It is the cost of managing the fund charged to investors. Expense ratio of a direct plan is lower than that of a regular plan as the former excludes distribution and trailing fees.	While the expense ratio lowers investors' total returns, it should not be the only criteria for choosing a fund. Fund charging higher expense ratio does not mean investors should avoid it. Funds with higher expense ratio may give superior returns than funds with lower ratio.	Lower the better
Beta	It measures a fund's volatility compared to that of a benchmark. It tells how much a fund's performance would swing compared to a benchmark.	If a fund has a beta of 1.5, it means that for every 10% upside or downside, the fund's NAV would be 15% in the respective direction. If it is 0.8, for every 10% upside or downside, the fund's NAV would be 8% in the respective direction.	Lower the better
Standard deviation (SD)	It measures the volatility of a fund's returns vis-à-vis its average. It tells how much the fund's return can deviate from its historical mean return. If a fund has 12% average rate of return and a standard deviation of 4%, its return will range from 8% to 16%.	The higher the number, the more volatile is the fund's returns. Investors should prefer funds with lower volatility.	Lower the better
Sharpe ratio	It measures how well the fund has performed vis-a vis the risk taken by it. It is the excess return over risk-free return divided by standard deviation.	The higher a portfolio's Sharpe ratio, the better its risk-adjusted performance. A negative Sharpe ratio indicates that a risk-less asset would perform better than the security being analysed. This measurement is very useful to compare funds with similar returns or high returns, by analysing the same in line with the risk taken.	Higher the better
R-squared	It measures the relationship between a portfolio and its benchmark. It can be thought of as a percentage from 1 to 100.	If you want a portfolio that moves like the benchmark, you'd want a portfolio with a high R-squared. Index funds will have R-squared very close to 100.	Higher the better
Information ratio	It is a measure of the risk-adjusted returns of the fund. It is the excess return over benchmark divided by the tracking error.	The information ratio is often used to gauge the skill of fund managers. It measures the expected active return of the manager's portfolio divided by the amount of risk the manager takes relative to the benchmark. The higher the information ratio, the better is the manager's performance. It shows the manager's consistency in generating superior risk-adjusted performance	Higher the better
Tracking error	It is the standard deviation of the differential return, which is defined as the difference between fund returns and benchmark returns. It measures the extent to which the differential returns vary from the average differential return.	It is the most important ratio while choosing which index fund to invest in. Funds with lower tracking error provide returns in line with the benchmark indices.	Lower the better

Fund factsheet is one of the best guides containing all information for analysing the fund and taking informed decisions.

Email Us customercare@miraeasset.com

Call Us 1800-2090-777 (Toll Free) Mon-Fri: 9.30am to 5.30pm

Internet www.miraeassetmf.co.in

Contact your financial advisor for details