

Knowledge Bank - IDBI Nifty Index Fund

What is an Index?

- While there may be thousands of stocks listed on a share market (NSE and BSE together have more than 6000 listed companies), and many of them are traded every day, experts feel that the “mood” of the share market can be easily captured by selecting stocks with leadership positions in major industries and monitoring their prices. This selection is called a basket of stocks or “*Index*”, and there can be many such Indices. But the “bellwether” index which is chosen to represent the mood or expectations of the entire stock market consists of the top stocks (“blue chip”) in each sector based on
 - Liquidity i.e. what is the volume of shares traded every day – more the better
 - free-float market-capitalization (market price of the share x number of shares held by the public) – higher the free float, more diversified the ownership, hence better
 - Other factors which indicate that it represents its industry better than any other stock.

The stock that is so selected gets a weightage assigned to it based on various scientific calculations by the “Index Cell” of the Stock Exchange or a 3rd party agency. Then experts identified by the exchange who constitute the Index Committee decide whether this is acceptable, and then an index is formed.

The committee may decide to revise the stocks in this basket from time to time based on market developments, and they usually review it every 6 months (Nifty Index).

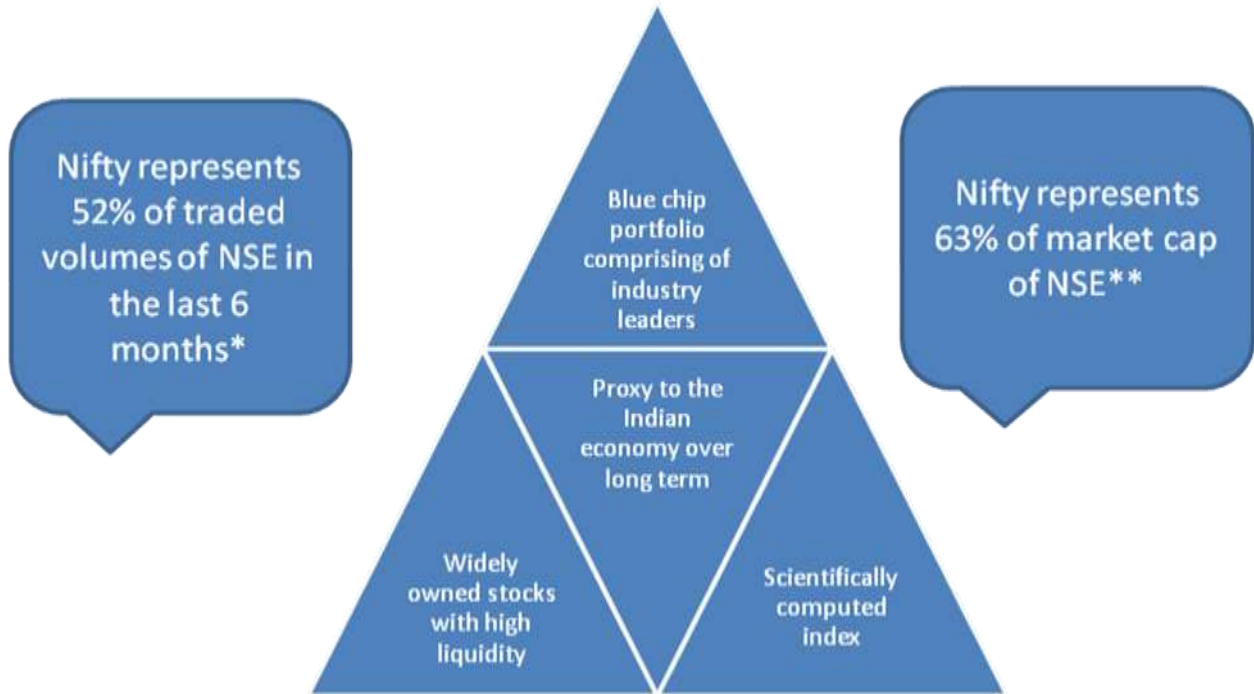
NIFTY (S&P CNX Nifty Index comprising 50 stocks monitored by the Index Maintenance Committee) and SENSEX (BSE 30, selected by the Index Committee of the Bombay Stock Exchange) are two “bellwether” indices in India.

So when you ask “How is the market today?” the answer that you usually get is on the basis of the upward or downward movement of the NIFTY or SENSEX.

What is Nifty?

NIFTY Index is an important barometer of the mood of the Indian stock market, available on the National Stock Exchange (NSE). The Nifty is a well-diversified 50-stock value-weighted index representing 22 sectors of the Indian economy. The stocks are amongst the largest and the most liquid stocks in the Indian equity market. Started in 1995, it is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds. Nifty is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL is India's first specialized company focused upon the index as a core product. Apart from S&P CNX

Nifty Index, IISL also owns the CNX Nifty Junior, S&P CNX 500, CNX Midcap and a whole set of other indexes (for further information please visit www.nseindia.com). IISL has a marketing and licensing agreement with Standard & Poor's, who is the world leader in Index services.



*Source : www.nseindia.com

**Source : www.nseindia.com, Data as of 31.12.2009; free-float market cap

Performance of Nifty Index (CAGR)

Total Return Index as on 31st March 2010

1 Year	3 Years	5 Years	10 Years	Since Inception
73%	14%	22%	15%	16%

Source: Accord Fintech

Note: Past Performance is not indicative of future returns

What is Total Returns Index?

A total returns (TR) Index is calculated on S&P CNX Nifty. This index shows the returns on the Index portfolio, inclusive of dividend. The difference between the two Indexes Nifty and TR Index at any given time is the return obtained on reinvestment of dividends through the intervening period. Thus it is the ideal benchmark for Index Funds which earn dividend and reinvests promptly.

Top 10 Stocks on Nifty and their weightages as on 23rd April 2010

SECURITY (S&P CNX Nifty)	CLOSE_PRICE	WEIGHTAGE
RELIANCE INDUSTRIES LTD	1088.20	11.98
INFOSYS TECHNOLOGIES LTD	2726.95	8.55
ICICI BANK LTD.	977.70	7.09
LARSEN & TOUBRO LTD.	1617.60	6.34
ITC LTD	266.95	4.52
HDFC LTD	2727.40	4.50
HDFC BANK LTD	1951.80	4.43
STATE BANK OF INDIA	2260.60	3.79
TATA STEEL LIMITED	648.35	2.58
BHEL	2480.75	2.55

Source: www.nseindia.com

What is Indexing?

"Indexing" is an investment approach that seeks to match the investment returns of an investment vehicle like an index fund with the specified market benchmark, or Index. Through Indexing, an investment manager seeks to replicate the target Index by holding all of the securities in the Index. There is no attempt to use traditional "active" money management or to make "bets" on individual stocks or narrow industry sectors in an attempt to outpace the Index. Thus, Indexing is a "passive" investment approach emphasizing broad diversification and low portfolio trading activity.

What is an Index Fund?

A mutual fund scheme that faithfully buys the index without making any judgmental decisions on which stocks to buy more, or less off or whether to keep cash or invest, is known as an index fund. The fund makes no effort to beat the index ("*passive investing*"). The fund may be an open-ended mutual fund scheme or an Exchange traded Fund, which can be bought on the stock market. Unlike actively managed equity funds, index funds do not attempt to outperform the benchmark index. Measure of performance of an index fund is the tracking error which is the difference between the performances of the index fund versus the underlying benchmark Index.

In the USA, the world's largest Index fund market, academic research over the years has reiterated the "efficient markets" concept which says that stocks are mostly priced accurately and that it is impossible to profit from both public and private information (every investor has access to the same information). Though a few actively managed mutual funds may beat the market on a few occasions, it is very rare for active funds to consistently beat the market in the long run.

The NIFTY is perhaps best described as the proxy for the Indian Economy. It consists of the best companies of India in a proportion decided on a robust scientific process.

- In the short term it reflects the sentiment, hopes and fears about India's economy or the impact of global events on the Indian economy.
- In the medium to long term it offers the best opportunity to reap the fruits of the India growth story – the 7-8% or more of GDP growth while the developed world struggles with 1% GDP growth, the stellar businesses, an aspiring middle class and a rural economy driving consumption, strong regulatory mechanisms and the burgeoning infrastructure and financial systems.

What is Tracking Error?

Tracking error is defined as the annualized standard deviation of the difference in returns between the index fund and its target index. In simple terms, it is the difference between returns from the Index Fund to that of Index. An index fund manager needs to calculate his tracking error on a daily basis especially if it is an open ended fund. Lower the tracking error, closer are the returns of the fund to that of the target index. Tracking error is always calculated against the Total Returns Index which shows the returns on the index portfolio, inclusive of dividend.

Tracking error indicates:

- **How closely the Fund is tracking the Index:** It refers to how close the weightages of the stocks in the portfolio are to the weightages of the stocks in the index. The more closely the weightage of the stocks are tracked in the index, lower will be the tracking error. The factors that affect tracking error are inflows /outflows in the fund, corporate actions, change of index constituents and the level of cash maintained in the fund for liquidity purposes.
- **The Cost that routinely subtracts from fund returns:** Expenses like **transaction** costs including broker commission bid and ask spread, etc. gets subtracted from the returns of the fund. Higher the expenses incurred, greater will be the tracking error.

Why Index Funds?

- Long track record – most index funds choose indices that have been around for years
- Lower expenses – Expenses lower than an active fund
- Portfolio Transparency - What you see is what you get
- No surprises: we can't buy into small companies that disappear or can't be sold
- No style drift or deviation from stated investment objective – Only Index and always Index
- No holding cash and losing opportunities – Fully invested in the Index
- No chance of fund manager changing jobs – Independent of Fund Managers



What is IDBI Nifty Index Fund?

- The IDBI Nifty Index Fund is an open-ended fund that will invest only in the NIFTY stocks without trying to second guess the market i.e. we would not try to judge which stocks to buy/how much to buy. We would buy the entire basket in the same proportion as the basket.
- As a retail investor, if you want to participate in the India Growth Story and invest systematically catching the highs and lows, this is an efficient vehicle for doing so. You don't have to buy it from the stock market or pay brokerage (there is no entry load for mutual fund). Being an open-ended mutual fund scheme, liquidity is available on all working days.
- You can efficiently do a "SIP on the Indian Economy" (regular investing like a recurring deposit with a bank)
- What you see is what you get – you know the portfolio even before you invest and there will be no surprises when you look at it at month end. So in a down-turn you will not be stuck with shares that have no liquidity. In an upturn you will still be buying only the best.

What are the key features of IDBI Nifty Index Fund?

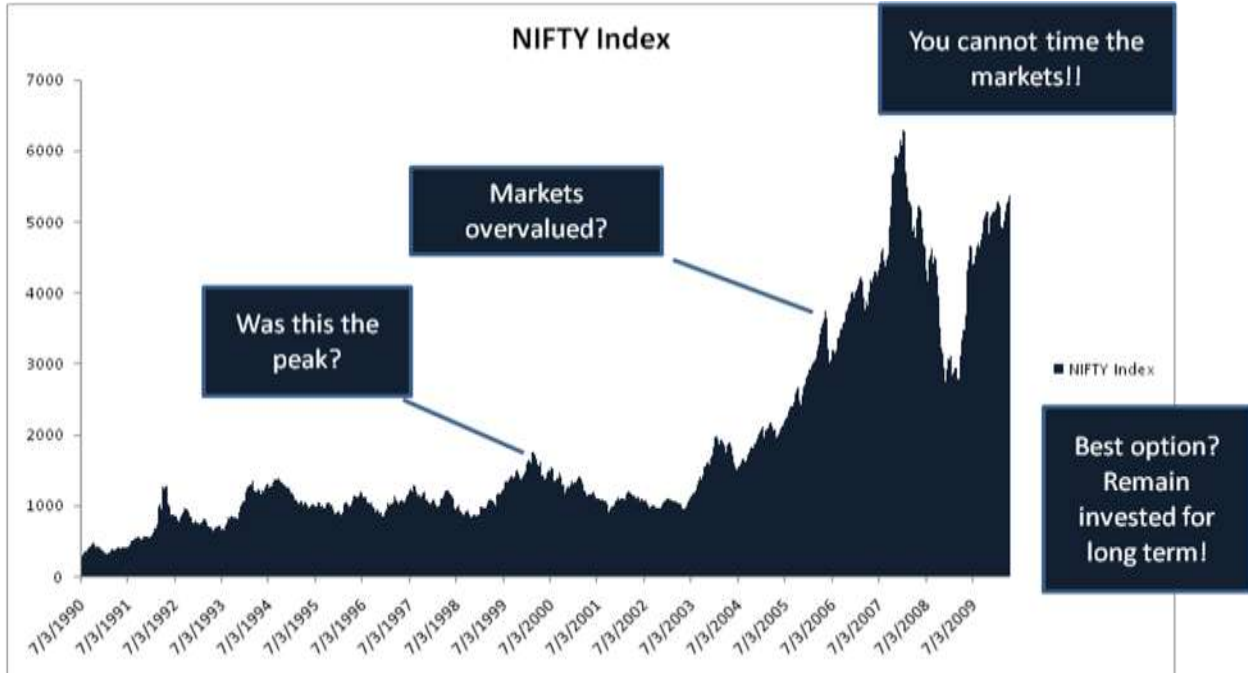
- An open-ended passively managed equity scheme tracking the S& P CNX Nifty Index (Total Returns Index)
- Re-open for continuous sale and repurchase from June 30, 2010
- Benchmark - S&P CNX Nifty Index (Total Returns Index)
- Dividend Plan and Growth Plan available. Option for Payout/Reinvestment available in Dividend Plan
- Minimum investment: Rs. 5,000/- and in multiples of Rs.100/-.
- NAV, Sale and Repurchase price and liquidity on all business days
- No Entry load. Exit Load : 1% for exit (repurchase/switch-out/SWP) on or before 1 year from the date of allotment
- Systematic Plan available with Monthly and Quarterly installments for periodic investments
- Nomination facility available
- Dividends are tax-free. Long-term capital gains tax-free. No TDS for resident investors

Can't a fund manager do better by exercising his judgment?

- In India, with the improving efficiency of the Indian markets, particularly in the case of larger stocks it is increasingly becoming difficult for an investor to beat the stock market in a sustained manner. Today NSE is the 3rd largest stock market in the world in terms of trading volumes.
- There have been some excellent fund managers and excellent fund houses which have consistently outperformed the benchmark index. There are many others who have not done so well. Some of these are already a part of your “CORE PORTFOLIO” – your long term investments in the equity market.
- A study of top-performing schemes shows that a top performer in one year rarely repeats the same in subsequent years. Investing by looking at the rear view mirror doesn't work – that's why the risk factors say “Past Performance is not indicative of Future Returns”. Certainly there are brilliant fund managers and you must invest with them.
- But IDBI Nifty Index Fund gives you
 - an exposure to 50 stocks across 22 sectors
 - without the risk of human judgment errors and
 - a portfolio that says what you see is what you get

Make IDBI Nifty Index Fund a part of your “CORE PORTFOLIO”

Is the market over-valued?



Source: www.nseindia.com; Data as of 23.4.2010

No one knows for sure. One cannot predict the course of the market since the market mirrors the mood of millions of investors, increasingly reflected through the behavior of institutional investors. Rather than timing the market,

- Look at the economic growth of India
- The index has been constructed by the exchange to be most representative of the market and their industry
- Invest regularly – that way you will also capture the lows, thus keeping your average cost of investment down.
- Benefit from the long-term opportunities that the Indian economy has to offer

**INVEST IN IDBI NIFTY INDEX FUND
TO OWN INDIA GROWTH STORY**

Risk Factors

All mutual funds and securities investments are subject to market risks and there can be no assurance that the objective of the Scheme will be achieved. The NAV of the units issued under Scheme may go up or down depending upon the factors and forces affecting the securities markets. IDBI Nifty Index Fund, an open ended passively managed equity scheme tracking the S&P CNX Nifty Total Returns Index, is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects and returns. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAD carefully before investing. Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of capital. Past performance of the Sponsor/AMC/Mutual Fund does not guarantee future performance of the scheme. The name of the scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns. The sponsor is not responsible or liable for any loss resulting from the operation of the scheme beyond the initial contribution of Rs. 10 lakhs made by it towards setting up the Fund. The present scheme is not a guaranteed or assured return scheme. Plans on offer: Growth Plan and Dividend Plan with option for dividend payout & re-investment. Investment objective — The investment objective of the scheme is to invest only in and all the stocks comprising the S&P CNX Nifty Index in the same weights of these stocks as in the Index with the objective to replicate the performance of the Total Returns Index of S&P CNX Nifty index. The scheme may also invest in derivatives instruments such as Futures and Options linked to stocks comprising the Index or linked to the S&P CNX Nifty index. Asset Allocation Pattern: 95— 100% in stocks in the S&P CNX Nifty Index and derivative instruments linked to the S&P CNX Nifty Index. 0 — 5% in cash and Money Market Instruments including money at call but excluding subscription and redemption cash flow. Terms of Issue: Offer for units of Rs. 10/- per unit during the NFO with minimum subscription amount of Rs. 5000/-.The units will be available for purchase and repurchase on all Business days on an ongoing basis. NAV Disclosure: NAV will be computed and disclosed on all business days. Load structure: Entry load: Nil; Exit load for Redemption/switch-out/Transfer: 1% for exit on or before 1 year from the date of allotment; for Systematic Withdrawal Plan: 1 % for exit on or before 1 year from the date of allotment of each installment of withdrawal. For further information please contact: IDBI Asset Management Ltd., IDBI Asset Management Ltd., IDBI Building, 2nd floor, Plot no 39-41, Sector – 11, CBD Belapur, Navi Mumbai – 400 614.