IDBI mutual

An Investor Education
& Awareness Initiative

THE POWER OF EQUITY FUNDS

What are Equity Funds?

Mutual Funds offer a wide variety of schemes to invest in. One category among them is called Equity Funds. These Funds predominantly invest in equity (shares/stock) and equity related instruments. There are various categories of Equity Funds depending upon the type of instruments they invest in, the way they are managed (ie. actively or passively), the approach adopted for investment (eg. Growth or Value). Investments under these funds are in line with scheme's investment objective. Equity mutual funds are considered as the riskiest class of mutual funds, and hence, they have the potential to provide higher returns than Debt and Hybrid Funds.

Who should invest in Equity Mutual Funds

The investment decision in Equity Funds should be in sync with investor's investment time horizon, risk bearing capacity and financial goal. Investor with long term investment horizon who is willing to bear the risk associated with investment in equities; with an aim to build the assets for future may look at equity mutual funds as an investment option with a view to create long term wealth. Equity funds are an ideal investment option for small investors. The benefits which make equity funds suitable for small investors are small capital requirement for investment and diversified portfolio.

Type of Equity Mutual Funds

- **Index Funds**- These are passively managed funds which means that the fund manager invests in the same securities as present in the underlying index in the same proportion and doesn't change the portfolio's composition. These schemes try to replicate the performance of its underlying index, they invest into. These scheme charge low expense ratio compared to other equity schemes.
- **Sectoral / Thematic Funds**- These schemes invest in equity or equity-related instruments of a particular sector/theme. They are considered as a risky bet as in these funds there is low scope available for diversification. These schemes concentrate on investments within a particular sector (E.g. Banking, Pharma, Consumer, etc.) as defined by investment objective of the scheme. These schemes have potential to generate maximum returns in long run. Investor with high risk appetite may focus on these schemes.
- **Focused** - As the name suggests, these schemes have a corpus invested in fixed number of stocks (maximum 30 stocks). These schemes invest in high conviction stocks. Stock selection is done after considering the performance of the stocks over different market cycles. These schemes aim to deliver high returns by investing in limited no of companies by focusing on the long term performance of the stocks they invest in. These schemes offer least diversification as compared to other funds in the equity mutual fund category.
- **Multi Cap / Flexi Cap Funds**- These schemes invest across all 3 market capitalizations i.e. Large cap, Mid Cap and Small Cap. There is no sector or company bias for investment under these schemes.
- **Market Cap based Schemes (Large, Mid & Small)** - Market Capitalization means total no of shares issued by a company multiplied by its current market price. Accordingly, we have large, mid and small cap defined. Based on market capitalization top 100 stocks are considered as large cap, next 150 as mid cap and from 251st onwards they are categorized as small cap stocks. These schemes which focus on large, mid or small cap are known as Large Cap Funds, Mid Cap Funds and Small cap Funds respectively. One can choose any of these schemes based on Risk appetite and investment horizon.
- **Equity Linked Savings Scheme (ELSS)**- Investment under these schemes offer Tax benefits under 80C of Income Tax Act 1961. Investor can invest up to Rs.1.50Lakh (p.a) in these schemes to avail the tax deduction. In addition to this these scheme offer capital appreciation. Investment under the scheme is subject to lock-in period of 3 years which help these schemes to create a long term wealth while ignoring short term market volatility.
- **Value Funds** – These schemes follow a value investing strategy and seek to invest in stocks that are deemed to be undervalued in price based on fundamental characteristics. They work on the assumption that market will find through value on fundamentally strong but currently undervalued stock over a period of time. This scheme help investors to benefit from the long term growth potential of undervalued companies.

Please consult your mutual fund distributor before investing.

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