

## NEW FUND OFFERINGS AND THEIR ANALYSIS

### What is NFO?

A new fund offer (NFO) is **the first time subscription offer for a new scheme launched by asset management companies (AMCs)**. A new fund offer is established in the market to raise capital from the public to buy securities like shares and government. Bonds etc.

### Factors to consider while investing in an NFO

1. **Fund house reputation** with background and credibility checks- If an investor wants to invest in an NFO, it is of utmost importance to do a background check on the fund house. Ensure that the fund house has a strong history of operating in the mutual fund industry for at least five to ten years. It will help you analyze the kind of performance that the fund house has delivered during market ups and downs. If the fund house has a good track record, then the NFO might perform as promised.
2. **Objective/ Theme**- The fund objectives spell out the asset allocation, riskiness, expected returns, and liquidity, among other things. It helps you develop a perception of the viability of the NFO. An NFO must clearly explain its investment process, which it will carry out for the given investment horizon. Simply reading the offer document should help potential investors understand what the fund manager will do with their money. If investors cannot make out the objectives of the NFO, it shows weaknesses in the investment process. It is advised to read the fine print carefully to understand the fund theme when you come across an NFO. The investment theme must be sustainable and not already exist in the market. However, if you find that the new fund offer is a mere repetition of a current strategy, then it is probably not a viable option.
3. **Type of NFO**- open-ended/ closed-ended- When an investor appeals for a mutual fund scheme during this period, they get fund units at the NFO price. An open ended fund enables investors to enter and exit the fund any time after they are started. In contrast, a close-ended fund is a fund that does not permit the entry and exit of investors after the NFO period till maturity. Close-ended funds usually mature in 3-4 years from their launch date.
4. **Time Horizon**- This is an essential consideration for one's needs and objectives and to ensure the returns play out within the time horizon. Ensure that your investments are in line with your investment horizon and goals. It is advised to re-evaluate your options if the preferred NFO happens to be longer than your investment horizon. NFOs also come with lock-in periods ranging from three to five years. In such cases, you will be required to stay invested for the entire tenure. Once you have subscribed to a mutual fund scheme, you may not be able to redeem your units before maturity. In some cases, you could also be charged a pre-exit fee (exit load) for the same.

5. **Subscription** –What if the subscription price is Rs 10 or Rs 1000? NFOs usually specify a minimum subscription amount for the investors. *There is no difference in entry price of Rs 10 or Rs 1000. What is important is the growth that happens in the Investment, which is measured as a percentage in returns. Therefore a 10% Growth on Rs 10 or Rs 1000 is the same In percentage terms. Hence the point of low entry is mute in NFOs*
6. **Fee** - what are the initial fees being charged. The overall cost involved in Investment is one of many parameters that decide your potential returns. Though there is no entry load, some NFOs charge exit loads if you redeem units before the completion of the tenure. If the lock-in period is longer than your investment horizon, then your returns can be affected by the exit loads. The expense ratio – the annual fee the fund house charges for managing your money – is another crucial parameter. You are checking if the expense ratio is lower or equal to what SEBI mandates is advised.
7. **Risk Return-** Investing in NFOs could be risky. Unlike existing funds, where you can readily check the asset allocation and risks involved, NFOs don't have a performance and risk-involved history. Without any benchmarks or metrics, it will be difficult for you to predict the fund's performance. And you won't be able to assess how the fund manager intends to utilize your money. Whether the fund emerges in flying colours or goes down the drain can remain a mystery. Therefore, is the Risk-adjusted return good to invest in.
8. **Market Condition-** Does the market warrant this Investment considering the micro and macro environment? This solely depends on the environmental factors in these situations about the NFO being invested in.

**Lumpsum or SIP-** Lumpsum or SIP should be based on a valuation check and whether financials look strong or not. SIP and lumpsum investments allow investors to benefit from potential wealth creation through mutual funds. However, the primary difference between SIP and lumpsum methods is the frequency of Investment.

SIPs allow you to pump money into a mutual fund scheme periodically, such as daily, weekly, monthly, quarterly, or half-yearly, etc. On the other hand, lumpsum investments are one-time bulk investments in a particular scheme. The minimum investment amount also varies. You can begin investing in SIPs with as little as Rs.500 per month, while generally, lumpsum investments need at least Rs.1,000.

If you are an investor with a small but regular amount of money available for Investment, SIPs can be a more suitable investment option. Lumpsum investments may benefit investors with a relatively high investment amount and risk tolerance.

### Comparison of the two methods – SIP vs Lumpsum

#### *During Times of Market Lows*

For investors who can recognize market cycles, identifying a market low and investing a lumpsum amount in a mutual fund at the right time can garner high returns. This is because of the basic principle of investing – buying low and selling high.

Seasoned investors with ample market knowledge can benefit from lumpsum investments. However, an ill-timed investment could result in losses and lost confidence. An investor

whose lumpsum is making losses may hesitate to pump in money again. Some of the other benefits of lumpsum investments are:

- It can give considerable returns for those with a long-term investment horizon (seven to 10 years minimum).
- It can help achieve specific financial goals like investing in a child's education fund or retirement fund.
- It requires a one-time payment only.

### **Factors to Consider Before Investing**

When trying to decide the right investment route, consider the following factors:

#### **1. Amount**

If you have a bulk amount at your disposal, a lumpsum investment may be a good way to go so that you do not spend the money. On the other hand, for a salaried person trying to inculcate a savings habit, an SIP route, would be more suited.

#### **2. Market Timing**

During a market low, lumpsum Investment will generate higher returns. If you are unable to identify cycles, a SIP will help distribute the risk.

#### **3. Fund Type**

For [equity funds](#), as mentioned above, market volatility plays a huge factor in returns. [Debt funds](#) are less affected by market trends and are likely to give you similar returns for lumpsum and SIP investments.

#### **Bottomline**

Choosing a SIP over a lumpsum investment should be based on your requirements. Factors such as income, financial stability, investment goals, and risk capacity must determine the route of Investment.

That said, experts believe that SIPs are superior on two counts: they can help you tide over market fluctuations and be a good investment option even for novice investors since they do not necessitate frequent monitoring of financial markets.

**Either way, some form of Investment is better than none.**

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