

Fixed Maturity Funds-DID YOU KNOW?

Fixed Maturity Funds...made simple

These funds are Closed Ended debt oriented mutual fund schemes with a defined maturity profile.

Close ended means they remain open for subscription only for a short period of time. They then close and do not accept any fresh subscriptions. But investors who want their money back in case of any exigency can exit any time by paying the appropriate load.

In short they are Fixed Deposit schemes floated by Mutual Funds*

* Capital is not protected

Key features

Broadly there are 2 key features of these plans;

- o **Maturity:** Fixed Maturity Funds are close ended schemes with different maturity profiles such as monthly, quarterly, half yearly, annual and plans with maturity of more than 1 year.
- o **Investments:** They invest in fixed income instruments, like CBLO, Repo, government securities, money market instruments, corporate bonds and other debt securities.

Investment Objective.....

- o FMPs seek to achieve growth of capital by investing in a portfolio of fixed income securities normally maturing in line with the time profile of the respective plans.
- o They yield competitive & tax efficient returns with minimal risk along with good duration management being the key focus.

One should invest in Fixed Maturity Funds.....

To protect from uncertain and volatile interest rate scenario on account of :

- o Volatile global crude prices
- o An uncertain global interest rate scenario
- o An uncertain outlook on domestic WPI numbers
- o Volatility in the dollar v/s other major currencies
- o Credit pick up in the domestic economy
- o Supply pressure in the gilts market due to higher government borrowing.

Considering this, FMP's are a viable solution for investors for predictable and stable returns.

FMPs are for....

- o Investors looking to invest for a fixed term.
- o Investors looking for higher tax efficient returns compared to bank deposits and liquid funds.
- o Ideal for investors who are looking at predictable and steady returns.

Taxation aspect....

Following are the tax implications depending upon the option of investment;

- o If you invest in dividend option, the dividend is paid out net of dividend distribution tax; **Dividend Distribution Tax**
 - o For individual investors: 14.025%
 - o For Corporate investors: 22.44%
- o If you invest in the growth option of the FMP for less than a year, the gains are added to the investor's income and taxed at the investor's income tax slab rate.
- o If you invest in the growth option of the FMP for over a year, you pay either 10% capital gains tax without indexation or 20% with indexation.

Edge over other investment avenues...

Options	Lock-in Period	Returns	Remarks
PPF	6 years*	8% p.a.	Max investment capped at Rs. 70K, Fixed Return Instrument
NSC	6 years	8.16 % p.a.	Amount is fully taxable, Fixed return instrument
Bank Fixed Deposit	1-3 years (SBI Fixed Deposit)	6.25% p.a	**33.66% Interest is taxable depending on the income level.
RBI Savings Bonds	6 years	#8% Taxable	NRI's cannot invest Premature encashment not allowed
NRE Deposits (Rupee Deposits)	2 years to less than 3 years(SBI NRE Fixed Deposit)	6.70%	Interest is tax free
Post Office Monthly Income Scheme	1 year	8 %	Nil tax benefits
Post Office Time Deposits	6 months	6.25%-7.5% (Rate for 1-5 yrs)	No premature closure before 6 months, No interest is paid if closed before expiry of 1 year

*Only part of your contribution is withdraw able

** assumed in highest tax bracket

8% RBI Savings (Taxable) Bonds 2003 (www.rbi.org.in)

FMP vis a vis Bank FD.....

Bank fixed deposit are the closest and the most traditional investment avenue when it comes to comparison with FMPs. Though as mutual fund schemes, FMPs cannot assure guaranteed returns, they do provide an indicative return.

Let us take a hypothetical example of comparison of post tax returns for a 1 yr bank fixed deposit and a 1 yr FMP;

Investments	FMP		Bank FD
	Growth	Dividend	
Tenure	1 yr	1 yr	1 yr
Returns	6.00	6.00	6.00
Tax	0.67	0.74	2.02
Post Tax Returns	*5.33	**5.26	#3.98

*Post tax returns after considering 11.22% long term capital gains tax without indexation

** Post tax returns after considering 14.025% dividend distribution tax for individual investor without indexation effect

Post tax returns after considering 33.66% income tax rate (assuming investor is in highest tax bracket)

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