Debt Funds

A1 Investments

Discovering the Power of Compounding !

A venture by IIT Bombay alumnus

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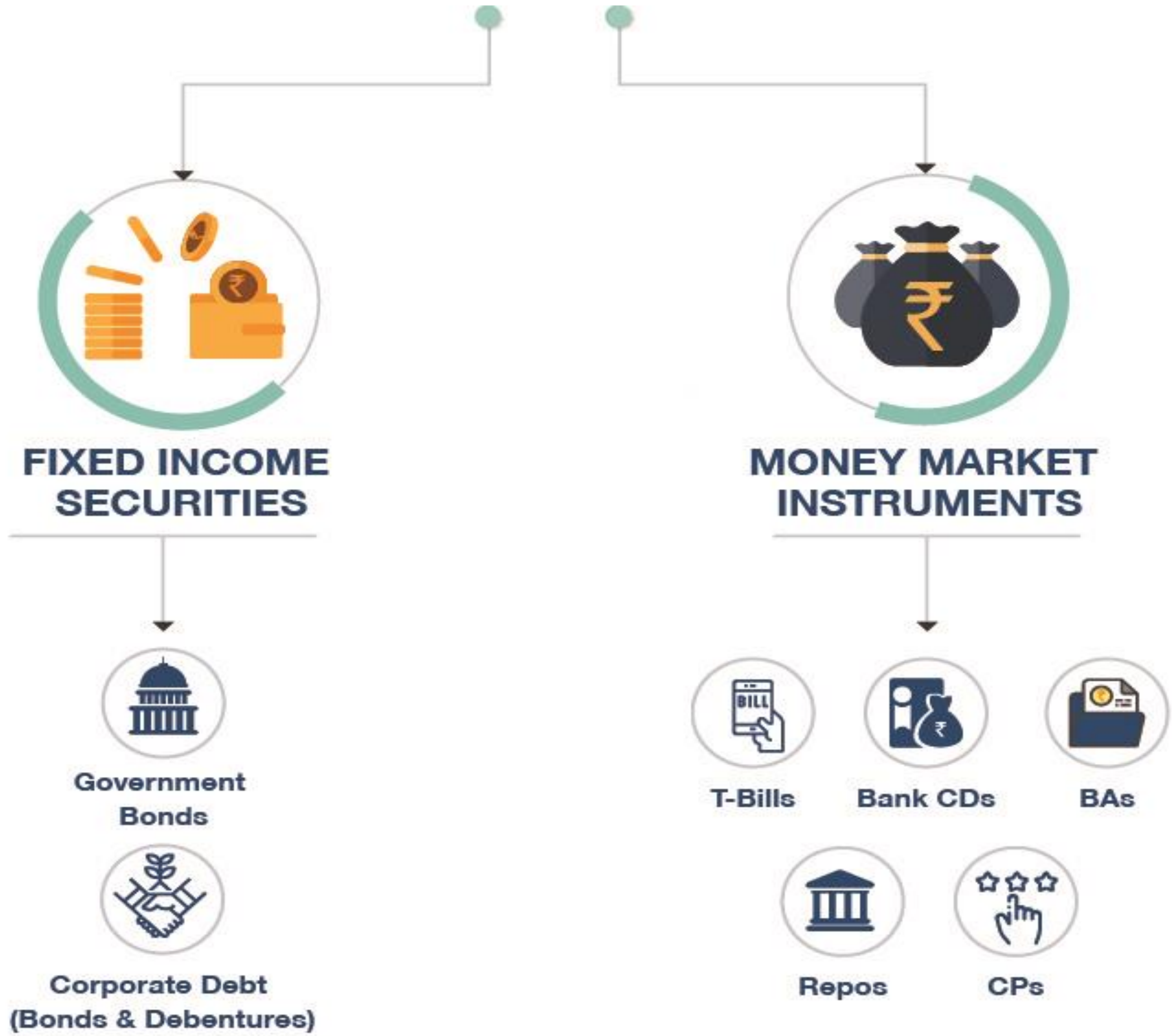
What are debt funds?

Invest in government securities, corporate debentures and other such debt instruments

May deliver returns marginally higher than inflation

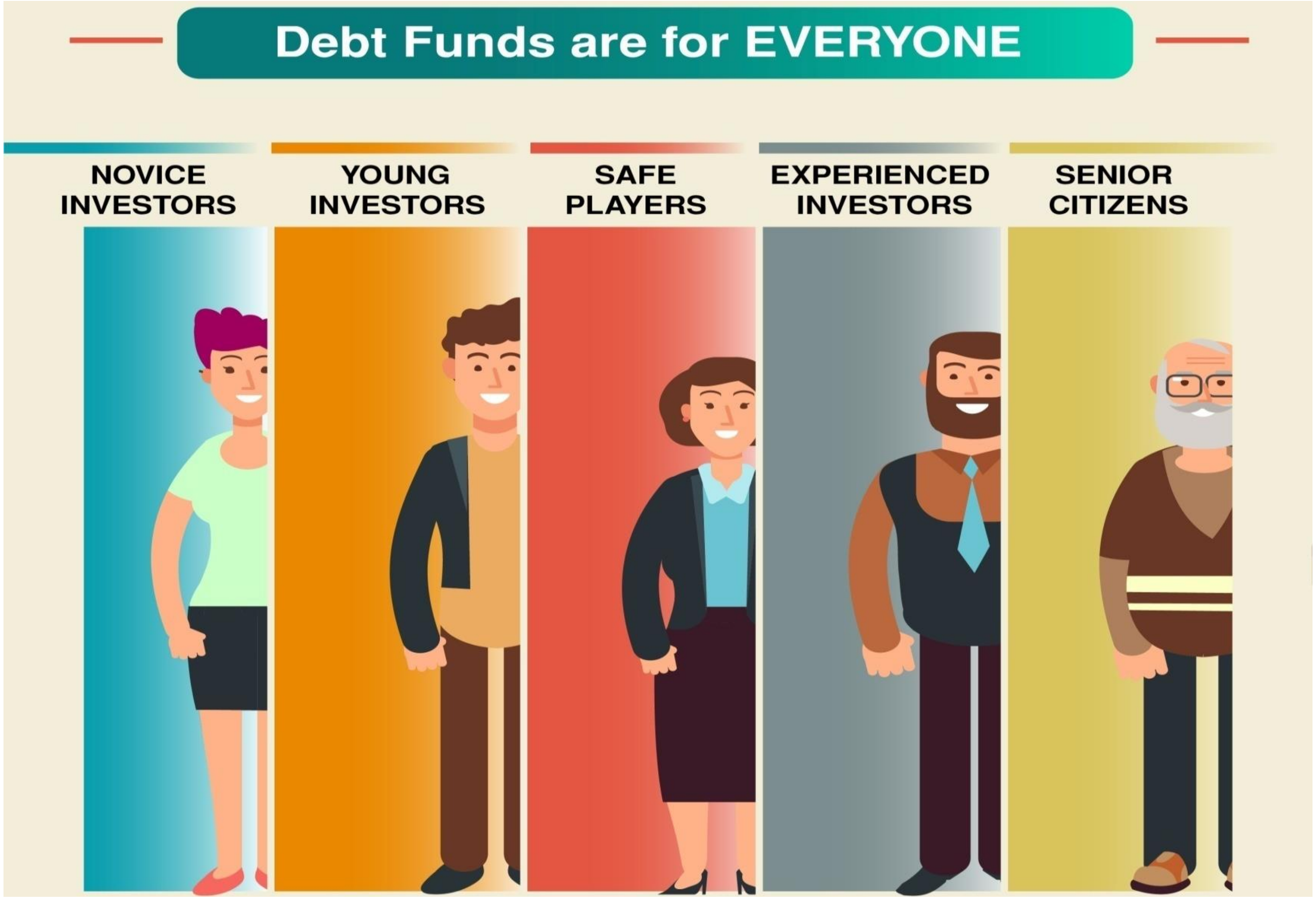
Would be less volatile than equity funds most of the time

Debt Funds Invest in

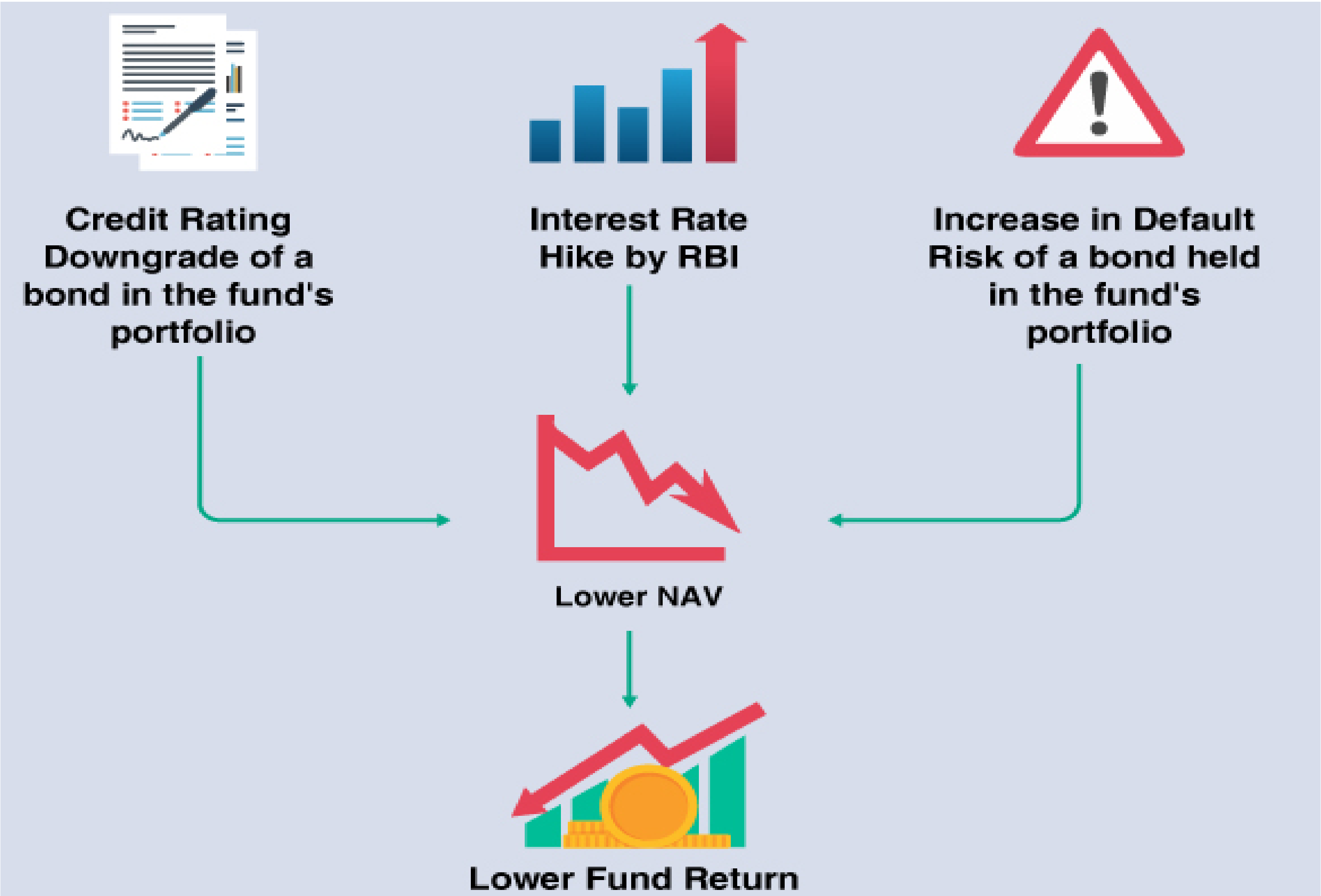


Debt Funds for Financial Goals

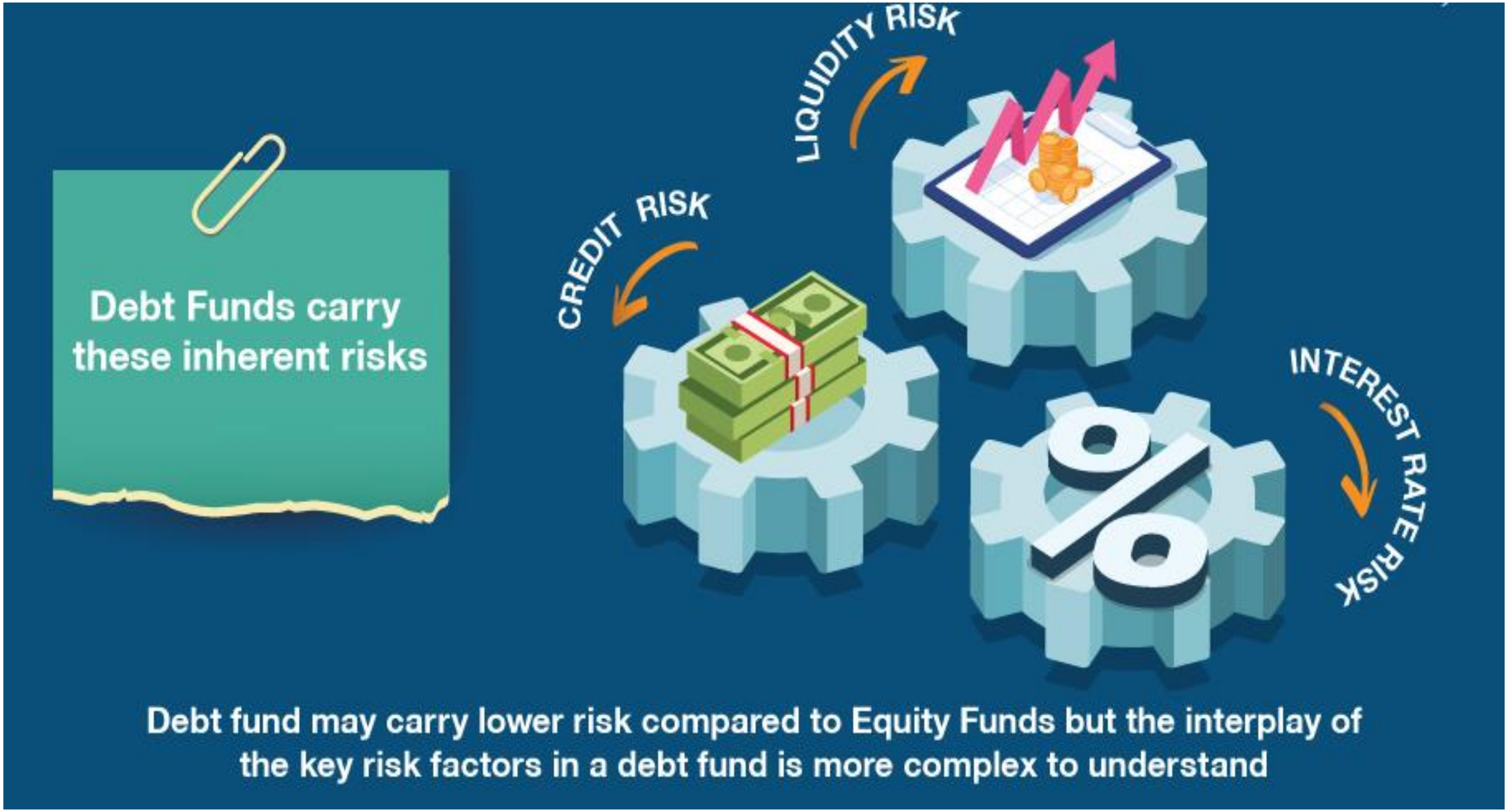
Who should invest in debt funds?



Factors affecting Performance of Debt Funds



Risks in Debt Funds



Debt Funds

Not so famous among common investors but very famous with intelligent investors

Generates regular interest income which can beat inflation

Choose according to risk reward ratio

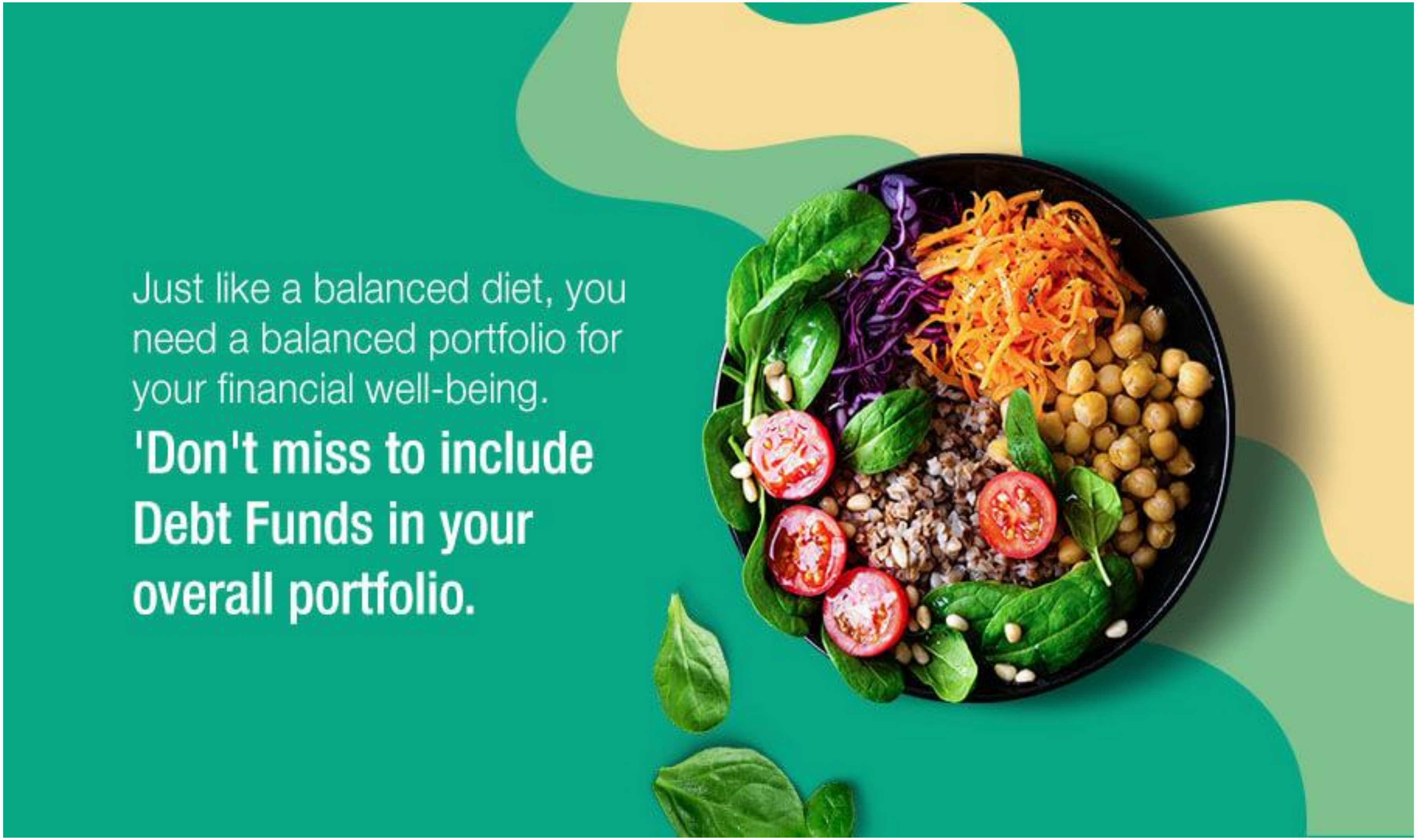
An option of zero credit risk investment such as central government securities

Other categories where investor can expect higher returns with some credit risk

Wealth Creation

- As we saw in the last presentation, there is no need to take high risk to generate good returns
- Investments that beat inflation can create good wealth
- You save a part of your earnings
- You should invest the savings depending on market situations
- One should have a balanced portfolio which has a blend of different type of assets.
- 12-15% Compounded Annual Growth (CAGR) is a great value for your portfolio

Why Debt Funds?



Debt – part of asset allocation

- If you have 100% debt in your portfolio, it is as good as selecting a cricket team with all bowlers.
- Similarly, 100% equity portfolio is like an all batsmen cricket team.
- You should look at the pitch, the opponent team, the situation and select the team.
- Similar is the case of asset allocation in your portfolio. You should take into account factors like market condition, geopolitical stability etc.

Gilt Funds Vs FD

- Gilt funds are debt mutual funds that invest in government securities.
- Credit quality and safety of gilt funds are one step ahead of fixed deposits
- In case of a nationalized bank, the fixed deposit can be considered safe. But people go for cooperative banks because they're offering 2% more than the nationalized banks. This is where risk comes into picture.

Gilt Funds Vs FD

Duration	1 yr	3 yr	5 yr	7 yr	10 yr
FD* returns	4.4%	5.1%	5.3%	5.4%	5.4%
Gilt fund# returns	12.5%	8.91%	8.9%	9.78%	8.84%

* We are assuming nationalized bank FDs here.
# These are average gilt fund returns. Current 10yr G-sec yield ~6. The returns may increase or decrease depending on interest rate cut or hike.

Though gilt fund returns can't be guaranteed, the returns should beat the inflation post tax.

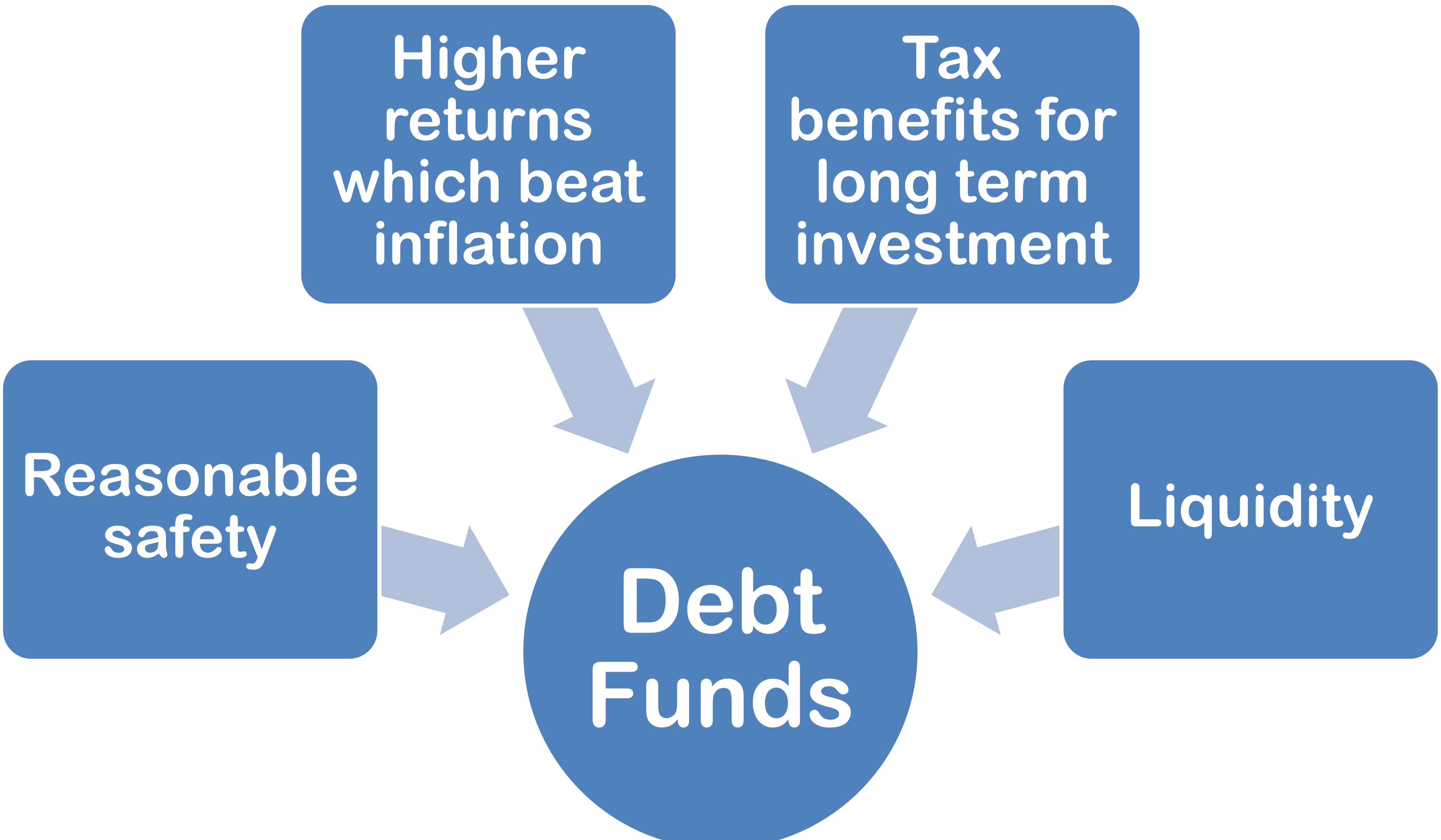
Tax implications and Liquidity Debt Fund Vs FD

- If we stay invested for 3+ years, the tax advantage is superb for debt funds.

	Returns	Taxation	Net returns	Liquidity
FD	6%	30%	6%-6%*0.3= 4.2%	Penalty for withdrawal before FD tenor completion
Debt Funds	6%	20% with indexation benefit	6%-(6%-5%#)*0.2 = 5.8%	Withdrawal possible at 1 day's notice

Assuming 5% inflation

To summarize…



Get in touch with us to know more

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