TITLE : " New Fund Offers- Process in Mutual Funds"

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NEW FUND OFFER (NFO) PROCESS IN MUTUAL FUNDS

ABSTRACT: The new fund offer is the first subscription offering scheme offered by management or investment companies for any new fund. The new fund offer was initiated by the asset management company. This is when a fund is launched to raise capital in the markets from the public for the purchase of company securities.. The NFO can be subscribed by the investor within the limited period only. The NFO can be implemented on the basis of first -come-first serve basis. In this article we will study about how NFO's are utilized for investing in the mutual funds as the mutual funds are one of the most common new fund offerings which are marketed by the investment.

KEYWORDS: New fund offer, raise capital, purchasing company securities, first-come-first-serve basis.

INTRODUCTION:

Stock exchanges have IPOs or initial public offers where companies offer their shares to investors for the first time. In the same way mutual funds have NFO's. However the IPO's and NFO's are different in investment nature. Mutual Fund Scheme is the first new fund offer to offer its units to the public. A mutual fund uses the NFO to raise funds for the schemes under it by allotting unites of equal value to its investors.

REVIEW OF LITERATURE:

A new fund offer is similar to an initial public offering (IPO). Both represent efforts to increase capital for further work. There may be new fund offers with aggressive marketing campaigns designed to entice investors to purchase units in the fund. New fund offers often have the potential for significant gains after public trading begins.

There are two broad types of mutual funds – effectively managed and passive funds, and in most cases, any new fund that has been launched has a fund already available on the market.

In such a situation, it makes more sense to buy into a fund that is already available, which has assets under management, and some track record.

In the view of investors 'Every mutual funds which are in existence at present has been offered by a NFO. The position and purpose of the NFO, how AMC will use the accumulated funds to invest in the company.

Ex: In 2000, a large number of NFOs focused on technology and media.

When should you invest in mutual fund NFOs?

The NFO is often confused with the IPO of a stock where investors speculate that they are buying cheap. Fund houses also do a great marketing job selling their NFOs. So before investing, it is important to check whether the NFO offering is offering something new or if the fund house already has something in common.

A mutual fund NFO or new fund offer occurs when a new mutual fund is launched and offered to the public before it opens up to daily transactions.

To the extent it is similar to a share IPO where you buy before the stock is listed. A few years ago, shares were offered at a discount to the IPO, which people considered to be the fair value of the share, and the shares always held at a premium to their offer price on their list. This created a lot of excitement for the IPO and some of these mutual funds were also ready for NFO.

Mutual funds also do a great job in marketing their NFOs and whenever a mutual fund is an NFO it generates a lot of interest.

However, very few mutual fund NFOs actually attribute the enthusiasm they receive. In most cases whatever new fund is launched, they have a fund that is previously in the market

Available to the makes more sense to purchase into a fund that is already available, have assets under management, and go by some track record.

However, there are some examples when you can seriously consider buying into mutual funds NFOs, and also subscribe to new ETFs (exchange traded funds). ETFs are structurally different in that mutual fund, but for the purpose of this post I will combine them with mutual funds, as both are similar in terms of offering new funds.

Actively Managed Funds:

Actively managed funds are those funds where fund managers try to beat the market using pre-defined strategy and the reality is that most active mutual funds are not able to beat their underlying index.

In such a situation, how do you decide whether a new mutual fund will be able to beat its index? They tell you what they are planning to do, and in many cases they even test their results, but if back testing defeats all markets then every mutual fund will beat the market.

In the absence of any such parameters, you have to rely largely on the past performance of the fund manager and if this affects you, there is good reason to invest in this new NFO. However, this will not happen for most NFOs.

Passively Managed Funds:

Passively managed funds are funds that track an index or commodity and only try to track the returns of that index or commodity. Gold ETFs, gold funds of funds and Nifty based mutual funds are a good example of passively managed funds. In terms of gold, there are 25 ETFs and Funds of Funds that track this commodity, so it is very difficult for investors to introduce something new and invest in it for the 26th.

An exception to this is when the new fund promises to charge a lower expense ratio than the existing funds.

All funds charge their holders' expenses, expressed as a percentage and lower as a percentage; it's better for you.

If all existing gold funds spend 1% and a new fund arrives and charges just 0.25%, then there is good reason to consider buying into it.

However, it is cautioned here that some funds, even with low expense ratios, do not fund with high expense ratios because there is a tracking error that occurs due to other reasons.

Exposure to a new commodity class:

This is by far my favourite reason to invest in NFO, but as is evident, this is not all that often.

When the then benchmark (now Goldman Sachs) launched the first gold ETF, it was the only fund of its kind that was giving way to electronic exposure to gold in India, and that was a big reason to buy into it.

Likewise, Motilal's N100 ETF that gives you exposure for the NASDAQ was a great new product and a very good reason for anyone to buy the fund in the early days.

There is no ETF or mutual fund that allows you to get in touch with silver in India right now, but I think this kind of product will be of great interest during launch and rightly so There is no ETF or mutual fund that allows you to get in touch with silver in India right now, but I think this kind of product will be of great interest during launch and will be right there

Fixed Maturity Plans:

This is a special category of mutual funds that have expired and have some tax benefits on fixed deposits and the only way to buy them is during NFO, so it is not a mind to buy FMP during NFO.

ADVANTAGES:

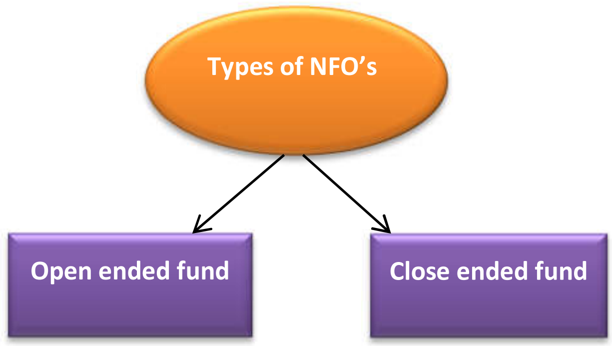
- Flexibility in investment:
- NFO allows to diversifying the investment portfolio.
- NFO provides low minimum subscription amounts.
- NFO helps the fund manager to make the right investment decision.
- Usually NFO's are launched as limited period offer so that it can provide a very profitable investment to the investors.
- NFO's are best suited for long term investors.
- It provides opportunity to invest with small budget in a theme such as tax savings.

DISADVANTAGES:

- Most NFO's come with a lock in period it means that investors cannot redeem there units before six months to a year.
- The NFO is not rated by credit rating agencies such as CRISIL.

NFO is similar to the initial public offer (IPO) to growth of the capital from the market. NFO's are offered for a specified period of time. In this period investors choosing to invest in these schemes at offer price in most cases the price are fixed at RS 10. The investor can do in this specified period only. After the NFO period the investor will have experience in these funds on prevailing NAV only. Investors buy an NFO unit of the mutual fund at an offer price it is fixed at RS. 10 per unit. Once the limited time expires the unit of the fund can be purchased at an offer at the prevailing at the point in period of time. In NFO there is an open ended fund and the close ended fund.

In the open ended fund an investor can enter in the fund and exit at any time after launch of the fund in NFO period ends. As well as in the close ended fund the investor cannot allow the entry or exit in NFO period, till its maturity period of time. It's time period is 3 to 4 years from the launching period of NFO. Most investors try to find mutual fund investment opportunities when the market is in a profitable position. One of the main objectives of NFO is to raise capital from the markets to invest further in various kinds of assets which are such as stocks and bound. NFO can be cancelled if the investors in their company do not show much interest in subscribing to it.



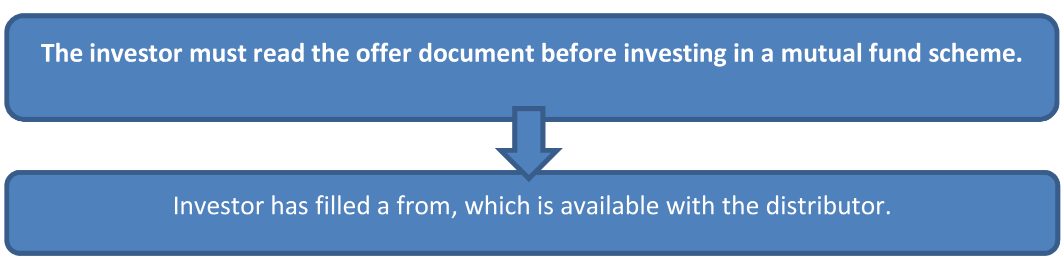
NFO's are introduced for those funds which are new and have no previous track record. This makes NFO slightly uncertain as it is not possible to predict how the fund may behave in further situations. Usually a fund company launches the NFO to complete its item basket, or if the investor requests for a specific investment theme.

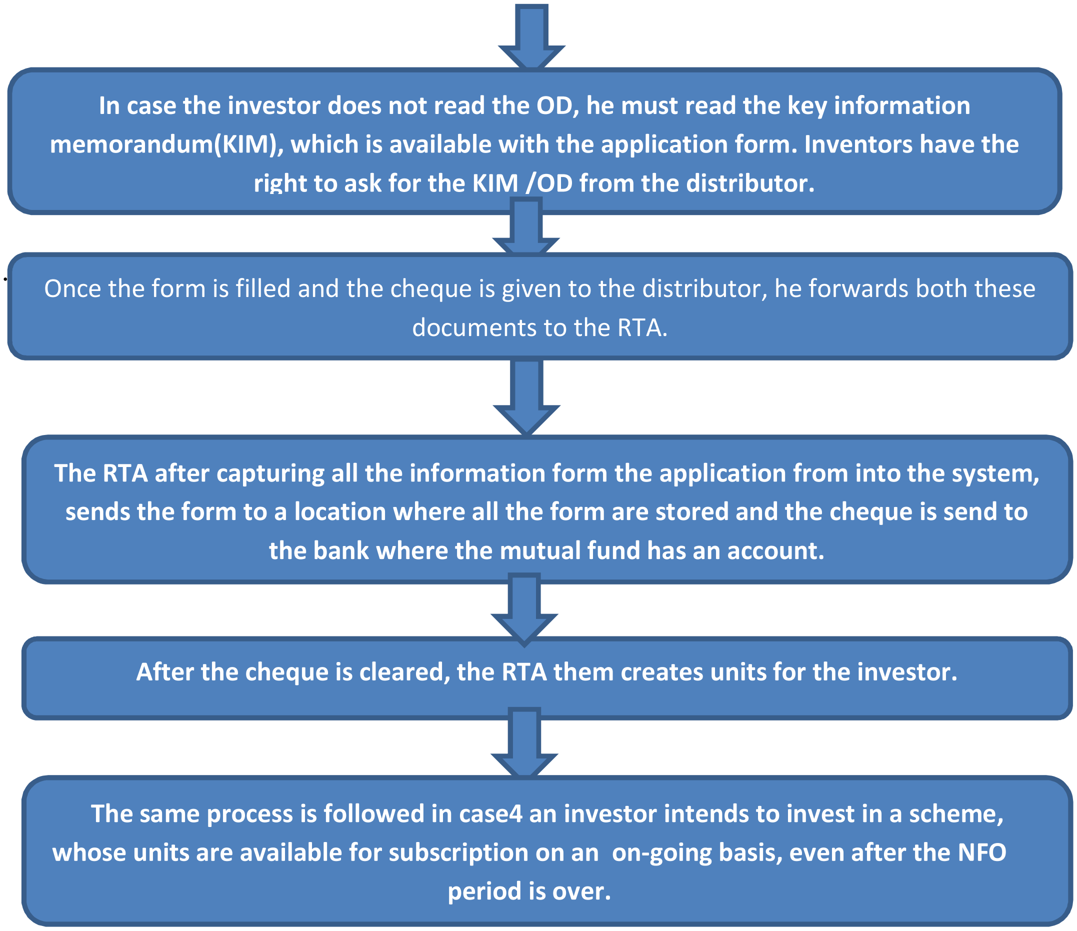
OBJECTIVES:

- Studying the procedure of NFO's in investment of mutual funds.
- Analysing the investment objective of the scheme in order to generate capital appreciation.
- Understanding how new fund offers attracts different kind of investors and knowing how it fulfils their needs.

INVESTMENT PROCESS OF NFO IN MUTUAL FUND:

The following chart represents the investment process of NFO in mutual funds---





Investment process of NFO's includes two ways through which one can invest in it easily. As NFO's is an easy, convenient process and we can choose any one of the method for investing in NFO's.

The two types of investment process of NFO's in mutual funds are:

1. Investing in NFO through a broker
2. Investing in NFO through your online-trading account

1. Investing in NFO through a broker:

In this process you can reach your broker who can help you invest in new fund offers. Brokers usually act as authorized intermediaries between the company and the public. Make sure the broker you reach is an authorized broker from a reputable investment company and one you trust. Your broker can help you complete all the formalities related to applying for NFO and filling the required forms. He also provides details related to all the necessary documents to be submitted with your application. The most important benefit of applying for NFO through a broker is that you get door-step services. Also, you can get advice from your broker about the future performance of the fund you are investing.

2. **Investing in NFO through your online-trading account:**

This is definitely the most convenient way to invest NFO mutual funds. If you are already investing in stocks and mutual funds, then you must have an online trading account. You can use your online trading account to invest in NFO. You can buy and sell your NFO units online, easily, from the comfort of your home. You can also use your online-trading account to track the net asset value or NAV of your investment.

LAUNCHING OF NEW FUND OFFER:

New fund offers are not widespread, making them challenging to identify. Companies should offer a new fund with the Securities and Exchange Commission (SEC) offering a method of tracking. Investors seeking information about new fund offers before the launch date can also receive alerts from their brokerage firm News outlets and news aggregators are also a good source for information on new fund offers. Sources such as closed-end fund centers provide details on new fund offers.

Companies will also offer press releases on new fund offers. For example, Vanguard issued a press release in August 2017 announcing the launch of the Vanguard Total Corporate Bond in November2017.

NFO analysis: ITI Small-Cap Fund

ITI Asset Management Company (AMC) launched its ITI Balanced Advantage Fund last month. Even after completing a year in this space, ITI AMC is relatively new which launched its first fund in April 2019. He started launching his own liquid fund, followed by a multi-cap fund, which was launched in May 2019. Four different funds. Arbitrage funds, equity-linked savings schemes (ELSS), A new fund offer (NFO) has come for the Overnight Fund and now the Small-Cap Fund, which is named ITI Small-Cap Fund. The latter is an open-ended fund that primarily invests in small-cap shares, open for membership until February 10, 2020. The plan will reopen for continued sales and repurchases on or before February 24, 2020.

Objective: The investment objective of the scheme is primarily to compliment capital by investing in equity and equity-related instruments of small-cap companies. Having said this, it provides no assurance or guarantee that the investment objective will be achieved at all times.

Asset Allocation:

Instruments	Allocations (% of total assets)		Risk Profile
	Minimum	Maximum	High / Medium / Low
Equity and Equity related small cap company's equipment	100%	65%	High
Equity and Equity Related Instruments of other than small cap Companies	35%	0%	High
Debt and Market Instruments Money	35%	0%	Low to Medium
Units issued by REITs and InvITs.	10%	0%	Medium to High

Small-cap investment universe: cap small-cap investment universe will include companies as defined by SEBI from time to time.

Benchmark:

The performance of the scheme will be benchmarked against the Nifty Small-Cap 100 Total Return Index (TRI). Most of the schemes in this category are benchmarks against Nifty small-cap TRIs, followed by S&P BSE small-cap TRIs. In addition, there are only eight schemes out of 22, which have the same benchmark index as ITI small-cap funds. So, they will become true companions. The five-year trailing returns of the Nifty small-cap TRI are 3.84 per cent, while the S&P BSE small-cap TRI is 5.56 per cent. In addition, the five-year trailing returns have a category average of 7.93 per cent.

Investment Strategy:

The scheme is said to primarily follow a small-cap strategy, with small-cap stocks having a minimum risk of 65 per cent. The fund may also participate in other equities and equity-related securities to create an optimal portfolio.

The plan will follow a bottom-up stock selection process to build its portfolio, with a focus on the appreciation potential of individual stocks from a fundamental perspective. It is said to place bets on small-cap stocks that meet security, trade quality, and low leverage (SQL) margins. Investment philosophies, have good corporate governance, trade on cyclical bottoms, they belong to emerging sectors, are beneficiaries of the formalization of the economy and for which government policies will be favourable.

It is also certain that the fund can invest some part of its funds in debt and money market securities.

The study is conducted with reference to ICICI Prudential.

Fund Manager:

The plan will be co-managed by George Haber Joseph and Pradeep Gokhale. Prior to joining ITI AMC, George Haber Joseph was associated with ICICI Prudential AMC's fund management team from 2008to2018.

During that period, she also managed ICICI Prudential Multi-Cap Fund, ICICI Prudential Long-Term Equity Fund - Tax Saving, ICICI Prudential Child Care Gift Plan as well as some close-ended funds. If we look at the performance of the said funds in this period, they were associated with ICICI Prudential AMC; ICICI Prudential Multi-Cap Funders give 7.83%, ICICI Prudential Long-Term Equity Fund (Tax Saving) -9.58% and ICICI Prudential Child Care Fund- 6.31%.

The fund will also be co-managed by Pradeep Gokhale, who joined Tata AMC from 2004 to 2018 before joining ITI AMC. During his stay with Tata AMC, he managed funds such as Tata Large-Cap Fund, Tata Large and Mid. Cap Fund, Tata India Offshore Opportunities Fund and Tata Ethical Fund. If we look at the performance of these funds, during following his tenure with Tata AMC, Tata Large-Cap Fund returned 16.32 per cent, Tata Large and Mid-Cap Fund 16.48 per cent and Tata Ethical Fund 16.84 per cent.

In addition, George Heber Joseph co-managed other ITI funds. ITI Liquid Fund, ITI Multi-Cap Fund, ITI Long-Term Equity Fund, ITI Arbitrage Fund, ITI Overnight Fund and ITI Balanced Advantage Fund. Even Pradeep Gokhale manages the ITI fund. ITI Multi-Cap Fund, ITI Long-Term Equity Fund and ITI Balanced Advantage Fund.

Cyclical bottles, as they relate to emerging sectors, are beneficiaries of the formalization of the economy and for which government policies will be favourable. It is also certain that the fund can invest some of its funds in debt and money market securities.

Recommendation

There is no doubt that both fund managers are competent and have extensive experience in managing equity mutual funds. The small cap category is expected to perform well this year as well. Therefore, it would be better to see how the fund's investment philosophy. Also, being an NFO, it will be seen how long it takes to deploy funds. It should be seen that hey should not take much time to deploy, as different stocks may be available at attractive valuations**.** The investor who is an aggressive risk taker, needs a small-cap fund to achieve long-term financial goals, which are due to be ten-plus years from today, in the same category.

CONCLUSION:

Mutual industries are very diverse. There are hundreds of funds in different categories spread across various sectors in the industry.

Despite this, you can still find new funds being offered by fund houses every year. Therefore if you want a fund that has the ability to give “new”, NFO investment may be an option.

There is only so much money you can invest in mutual funds, and you should try to buy a few mutual funds with limited overlap so that it really gives you the benefit of diversification. With that in mind, evaluate each NFO carefully to see whether it's worthy of your portfolio or not.

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