Don’t let your money sit idle.

Consider Mutual Fund Liquid Schemes for your surplus money.

Key Features of Liquid Schemes:

- Easy Liquidity
- Investments in short term instruments
- Low interest rate risk
- Net Asset Values are calculated for all calendar days

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INTRODUCTION TO LIQUID FUNDS

What are liquid funds?

Liquid funds are open-ended high liquidity income schemes that invest in debt and money market instruments with maximum maturity of up to 91 days only. Hence, the average maturity of a liquid fund is low (<= 91 days). This strategy helps:

a) mitigate risk arising out of interest rate volatility
b) provide high liquidity to the portfolio
c) generate stable income

What is the level of risk in liquid funds?

Low risk *(BLUE)*

Note: ***Risk is represented as:***

(BLUE)	*(YELLOW)*	*(BROWN)*
investors understand that their principal will be at low risk	*investors understand that their principal will be at medium risk*	*investors understand that their principal will be at high risk*

Due to the typical structuring of investment portfolio, i.e. since liquid funds hold very short term instruments and during which the chances of interest rate fluctuations are lesser, liquid funds are categorised as low risk products from liquidity and interest rate risk perspective. Returns on these schemes fluctuate much less compared to other funds. Further, the probability of the credit risk i.e. the risk of default is also low due to short maturity of investment portfolio. The credit risk is mitigated by investments based on evaluation of credit fundamentals such as outlook on the sector, parentage, quality of management, credit ratings and overall financial strength of the credit, etc.

Where do liquid funds invest?

Typically, such funds invest in the following instruments having maximum/residual maturity of up to 91 days:

1. Bank Certificate of Deposits
2. Bank Fixed Deposits
3. Treasury Bills
4. Bill Rediscounting
5. Commercial Paper
6. Collateralised Borrowing & Lending Obligation
7. Other debt securities with residual maturities up to 91 days

Please note this list is an indicative list and is not exhaustive.

What is the difference between a liquid fund and other debt funds?

In view of the investment restriction mentioned above, the volatility in returns is low thereby generating stable stream of income in line with prevailing yield on underlying debt/money market instruments. Other open-ended debt funds invest in a range of debt and money market instruments with no restrictions on the maturity of the instrument except as mentioned in their respective Scheme Information Documents.

Additionally, liquid funds are unique when compared to other debt funds with respect to applicability of Net Asset Value (NAV). As per the applicable guidelines, the NAV of liquid funds is computed for 365 days unlike other debt mutual funds where NAV is computed for business days only.

In case of other debt funds for purchase applications received within the cut-off time (3.00 P.M) having value upto ₹ 2 lakhs, the NAV as at the end of the day of the application, is applied. For applications of more than ₹ 2 lakhs, within the cut-off time (i.e. 3.00 P.M.) the allotment of units is subject to realisation of funds.

However, in case of liquid funds, for all transactions – irrespective of the value of investment – received within the cut-off time (i.e. up to 2.00 P.M.) where money is also realised within the cut-off time, the units are allotted as per previous day NAV. For e.g. if a purchase transaction in a liquid fund is submitted on Monday before 2.00 P.M. and amount is also realised by 2.00 P.M. on Monday, then NAV of Sunday is applicable. Similarly, when redemption request is submitted before cut-off time on Friday, then applicable NAV for redemption is of Sunday, i.e. the day before the next business day. Essentially, your investments generate returns for every single day of investment. Liquid funds offer high liquidity as all redemptions payouts are normally credited to the bank account on the next working day. Further, as the objective is to provide high liquidity, liquid funds generally have no exit loads.

Benefits of investing in a liquid fund

1. Access to wholesale debt/money markets with low amount of investment
2. Potential to earn higher income than alternative options like parking money in a savings bank account or a current account where there is no income
3. Tax efficient returns (refer table below)
4. Flexibility of investment options like growth and dividend with daily/weekly/monthly frequencies
5. As a conduit to transfer funds systematically to other schemes such as equity funds

Liquid funds are short term investment products ideal for parking surplus money pending deployment or for meeting contingencies.

How are earnings from Liquid Funds taxed?^^

	Resident Investors	Mutual Fund
Dividend Income	NIL	Dividend Distribution Tax (DDT) Individual/HUF 28.325%* Others 33.99%* (Refer Note below)
Capital Gains:		
Long Term	10%*/20%*	NIL
Short Term	Income tax rate applicable to the Unit holders as per their income slabs.	NIL

*including applicable surcharge, education cess and secondary and higher education cess.

Note:

On income distribution, if any, made by the Mutual Fund, additional income tax is payable under section 115R of the Act, in the case of "other than equity oriented funds". An equity oriented fund is a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of the total proceeds of such fund.

^^The information given herein is as per the prevailing tax laws. Investors should be aware that the fiscal rules/tax laws may change and there can be no guarantee that the current tax position may continue indefinitely. In view of the individual nature of tax consequences, please consult your professional tax advisor.