ET IN THE CLASSROOM

New Fund Offers

With markets in a buoyant phase and investor interest high in equity-oriented mutual funds, fund houses have lined up several new fund offers. These new products are in categories where they do not have a presence or in themes that are currently attractive.


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WHAT IS A NEW FUND OFFER?

A new fund offer, or NFO, is a limited-time subscription call when an asset management company launches a new scheme. The fund house offers an NFO for a category where it is not present to widen its offerings. For example, if an AMC does not have a large-and-midcap fund or a multicap fund, it launches an NFO for them. It is priced at ₹10 per unit. Since the NFO is for an open-ended product, the scheme will reopen for subscription after the NFO period ends, and units are allotted at the prevailing net asset value (NAV).

HOW IS A MUTUAL FUND NFO DIFFERENT FROM AN EQUITY IPO?

Corporates seeking capital for expansion or private equity funds who need an exit take the equity IPO route to raise money. If it is an offer for sale, money goes to the investors making the sale else it is used as growth capital by the company. IPOs are generally made by privately owned companies looking to become publicly traded. A mutual fund NFO, on the other hand, merely collects money from investors and builds a portfolio (stocks/bonds/government securities), based on a stated strategy. For example, it could be a large cap, midcap, or a multicap fund. Nowadays, shares in an IPO are offered at a premium and rarely at face value. But, an NFO from a mutual fund is always available at ₹10. Unlike an oversubscribed IPO where an investor may or may not get an allotment, there is a confirmed allotment in a mutual fund NFO.

SHOULD YOU BUY INTO NFOs?

There is high-decibel marketing around NFOs. Some of them offer exposure new themes or sectors which are attractive to portfolios. However, financial planners feel investors should build a long-term portfolio that includes assets like gold, fixed income and equities based on their needs, risk tolerance and long-term goals. They advise investors to buy into NFOs only if their portfolios need it. Investors should avoid an NFO merely because it is available at ₹10. Financial planners believe investors should prefer open-ended mutual fund schemes having a track record over NFOs. That is because, in an existing scheme, one can easily evaluate the portfolio and past performance. In an NFO, however, the portfolio and the scheme's size, among other things, are unknown.

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