

ET**IN THE
CLASSROOM**

Ultra Short-Term Funds

Investors looking to park money for 3-9 months and earn more than savings account interest often deploy it in ultra short-term funds.



WHAT ARE ULTRA SHORT-TERM MUTUAL FUNDS?

Ultra short-term schemes invest in debt securities and money market instruments to maintain the Macaulay Duration of the portfolio between three and six months.

Macaulay Duration measures the time it will take for the principal of a bond to be repaid from the internal cash flows generated by the bond. Currently, the industry has 25 schemes that manage assets of ₹1.07 lakh crore.

WHAT ADVANTAGES DO THESE SCHEMES OFFER?

Ultra short-term debt funds are low-risk investments. The securities in the portfolio are high-quality debt or money market instruments and a large chunk of the portfolio is in AAA-rated or equivalent securities. The funds typically invest in securities with maturities ranging from three to six months. The shorter term helps reduce the impact of sharp interest rate changes and gives stability to the portfolio. While these are conservative schemes, they aim to provide more than bank savings accounts. Returns from these schemes accrue from interest income earned through the underlying securities, though a small amount could be from capital appreciation as well. As per data from Value Research, these funds on average delivered a return of 7.18% over the last one year.



Invesco Mutual Fund

An investor education and awareness initiative

For Know Your Customer (KYC) guidelines along with the documentary requirements and procedure for change of address, phone number, bank details, etc., please visit the Education and Guidance section on www.invescomutualfund.com. Investor should deal with only SEBI registered Mutual Funds, details of which can be verified under "Intermediaries/Market Infrastructure Institutions" on <https://www.sebi.gov.in/index.html>. For any grievance / complaint, please call us on 1800-209-0007 or write to us at mfservices@invesco.com. Alternatively, complaints can be registered on the SEBI SCORES Portal at <https://scores.gov.in>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

WHO SHOULD INVEST IN THEM?

Investors with a low risk tolerance and a short-term investment time frame of 3-9 months, looking to earn more than a bank savings account can consider these schemes. Some investors also use ultra short-term funds to move money to equity funds in case of downfall or correction, while some also use it for systematic transfer plans.

WHAT IS THE TAX TREATMENT?

Ultra short-term mutual funds are taxed like any other debt scheme. Any capital gains from these funds are added to the investor's total income and taxed at the applicable marginal tax rate.

PRASHANT MAHESH