

ET**IN THE CLASSROOM**

Using Overnight / Liquid Funds to Earn More

Financial planners believe investors can allocate surplus money lying in bank accounts to liquid or overnight funds as these could yield better returns than a savings bank account.



WHAT ARE OVERNIGHT AND LIQUID FUNDS?

Overnight and liquid funds are a category of debt mutual funds. Overnight funds have a portfolio that invests in securities that mature in a single day, while liquid funds invest in debt and money market securities that mature within 91 days. They buy short-term instruments like treasury bills and government securities. Combined, these schemes manage close to ₹5.73 lakh crore of assets.

WHY ARE THE TYPICAL RETURNS FROM THESE FUNDS?

Many investors tend to keep money idle in savings bank accounts to meet near-term goals like paying school /college fees, vacation, or buying electronic goods 3-6 months later. Wealth managers believe such money can be put to better use by investing in a liquid or overnight fund.

Money in an investor's savings account of reputed nationalised or private sector banks earns an interest of 2.7-3%. Despite a rise in interest rates across the board, banks have not hiked savings account rates. However, bond yields have increased the returns of debt mutual funds. Currently, investors can earn 6.5-7% on their investments in overnight and liquid funds, double that of a savings account.

WHAT IS THE TIME HORIZON AND MINIMUM INVESTMENT AMOUNT?

Financial planners suggest investors should use overnight funds if they have a time frame of one day to a week, while they can use liquid funds if they have a time frame of seven days to three months. Liquid funds levy a graded exit load of 0.0070% to 0.0045% if investors withdraw money before a week. Most funds accept amounts as low as ₹500 here as a lumpsum investment in these schemes.

WHAT RETURNS CAN AN INVESTOR EXPECT FROM OVERNIGHT FUNDS AND LIQUID FUNDS?

As per data from Value Research, over the past year, the liquid fund category has given an average return of 7.03%, while overnight funds have given a return of 6.69%.



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.

HOW SOON ARE THE REDEMPTION PROCEEDS CREDITED?

Once an investor submits a redemption request before the cut-off time, on a working day, the money reaches their bank account on the next working day.

PRASHANT MAHESH

ARE THERE RISKS IN INVESTING IN OVERNIGHT AND LIQUID FUNDS?

Financial planners consider liquid funds to carry the lowest risk as well as the least volatility in the category of mutual funds. This is because they generally invest in instruments with high credit ratings. The net asset value of these funds changes to the extent of interest income accrued, including weekends.