GILT FUND

Capital SPROUT

WHERE YOUR TRUST RESIDES

NEWSLETTER – AUG 24

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The Chairman's Message

Greetings from Capital Sprout!

It gives me pleasure to share the Aug-24 issue of Capital Sprout's Wealth Bulletin, which will focus on the **Gilt Fund, a type of Debt Mutual fund**, and analysis of Gilt Fund v/s Bank FDR concerning various factors.

The world is changing at an unprecedented pace. Just as a ship must constantly adjust its sails to navigate changing winds, individuals today must adapt to ever-evolving conditions to thrive. In the modern world, the ability to embrace change has become as critical as the necessities of life. Without this adaptability, even the most fundamental needs may become out of reach. This concept applies equally to **wealth management, investment, and financial planning.** Over the past decade, numerous innovative investment products have emerged in global financial markets, each with unique features. It is becoming increasingly difficult to overlook these developments in the modern era.

There is a class of investors in the market that seeks stable returns with security, assurance, and a low risk appetite, while also desiring regular cash flow. Traditionally, bank fixed deposits (FDRs) have been the preferred choice for these investors. However, an alternative investment product offers higher credibility, greater safety, better features than FDRs, and the ability to outpace inflation. Despite slightly higher credit risk, it generates post-tax returns superior to bank FDRs. Which investment would you choose? This is exactly what a Gilt fund offers.

When buying a house, we don't just look at the price; we evaluate the location, long-term value, and potential for appreciation. Similarly, when selecting an investment, we should consider more than just the immediate returns. Factors like risk, growth potential, and inflation protection are just as crucial to ensure financial stability, much like choosing a home that secures our future.

In this newsletter, we cover everything you need to know about Gilt funds, including their features, benefits, a comparison with bank FDRs, and key factors to consider before investing.

I hope that readers will find this newsletter valuable.

CA DR Rajesh Khandol

What Are “Gilt Funds”

Gilt funds are a type of DEBT MUTUAL FUND that invest primarily in **Government Securities** issued by the Central and State Governments of India, and the Reserve Bank of India (RBI).

- Since the money is mainly invested in the securities issued by the Governments, these funds are said to carry minimal risk.

- These debt instruments may have different maturity profiles, coupon rates, yields, etc.

- According to the Securities and Exchange Board of India (SEBI) mandate, GILT MUTUAL FUND must invest at **least 80% of its money in debt instruments** issued by the Indian government.

Options of investment for Gilt funds are:

- Central government bonds
- State government bonds
- Treasury bills
- State development loans
- RBI fixed-rate bonds
- RBI floating rate bonds
- Inflation-indexed bonds

Features & advantages of gilt funds

Relatively low risk	Government securities held by gilt funds **are backed by the sovereign guarantee** of the central and state governments of India and RBI. This makes them one of the most stable mutual fund investment options available with **minimal credit risk.**
No market risk	Compared to equity and hybrid funds, gilt funds have significantly lower risks as they **don't have equity exposure**.
Higher return than bank FDR & other fixed income investment	However, their returns are mostly higher than most fixed-income investments like Bank **Fixed Deposits (FD)** and other Fixed return investment
Generate higher returns when interest rate falls	The whole world is moving towards a lower interest rate regime after COVID-19. **G-Sec** are highly interest-sensitive, any reduction in Interest Rates will improve Gilt fund returns
Taxation	The main advantage of a **Gilt Fund** as compared to Fixed Deposits is that you have to pay the tax only when you withdraw the money. However, in the case of FDs, you have to pay the tax on a yearly & accrual basis
No lock-in period	Gilt funds have **NO LOCK-IN**, which makes Gilt funds more flexible than Bank FDR. Investors can withdraw funds at any time they want.

Gilt fund
Vs
Bank FDR

Gilt funds can be classified in the same category as Bank FDRs. The best way to measure the performance of any investment is Comparison of its Return on Investment with its peer.

Investment period	Time duration	CAGR return (in %) (pre-tax return)	
		FDR rates of SBI	Average return of top 3 AMC' Gilt funds
1 year	01-09-2023 to 31-08-2024	6.80%	8.55%
3 years	01-09-2021 to 31-08-2024	5.00%	6.05%
5 years	01-09-2019 to 31-08-2024	6.70%	6.66%

Note:

- Gilt fund returns are average return of SBI, ICICI & HDFC gilt funds

- The above statistics prove that irrespective of the investment period (1 year, 3 years, 5 years), Gilt fund returns outperform Bank FDR returns.

- **In a 5 five-year investment period also**, the gilt fund's return is higher than Bank FDR's return considering the tax effect (presuming that investments are not redeemed till maturity)

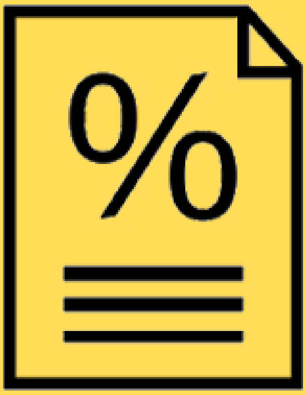
Gilt fund
Vs
Bank FDR

Why gilt funds are better than bank FDR

Gilt funds are better than Bank FDR not only in the return perspective but some other important factors also.

Entity credibility	Since the Government has higher Creditability than Banks, Gilt funds are considered a **more credible** investment mode than Bank FDR
Guarantee cover	Investments up to only Rs. 5 Lakh in Bank FDRs are Secured by government guarantee under DICGC whereas Gilt funds investments are mainly in government securities which are **fully guaranteed by the government** without any limit
Taxation	The advantage of a Gilt fund is that you have to pay income tax **only when you withdraw the fund**. However, in the case of Bank FDRs, you have to pay tax yearly & accrual basis. It will have a direct impact on Cash Outflow.
Pre-mature withdrawal	Although Bank FDRs can be prematurely withdrawn at any time, you will incur a **penalty of 0.50% to 1%.** In contrast, Gilt funds can be withdrawn without any exit load.

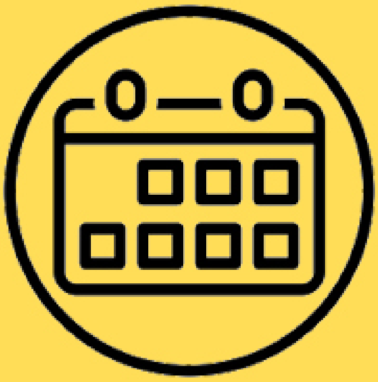
Factors to be considered while investing in gilt funds



Interest rates

Assess the prevailing and anticipated interest rate scenario. Gilt mutual funds in India are sensitive to interest rate changes, impacting their returns.

A thorough understanding of interest rate trends helps in strategic decision-making.



Investment horizon

Define your investment horizon clearly. Gilt funds are well-suited for longer-term investors

Fund manager’s track record

Evaluate the track record of the fund manager. Managing a Gilt fund is not as simple as it may seem; it requires more skill and knowledge from fund managers than managing equity mutual funds.

Fund manager who can evaluate RBI fiscal policy, Repo rates, Interest rates fluctuation, Economic indicators can take pro-active steps and generate alpha returns in managing their funds.

Conclusion

Gilt funds are like **hidden diamonds** and this class of investment is unfortunately ignored in India. Broker houses, Investment advisory firms tend to compare Gilt fund returns with other Debt Mutual funds hence other quality factors of Gilt funds are sometimes overlooked.

Considering historical statistical data, and other qualitative factors already mentioned in the bulletin, GILT funds carry apparent advantages over bank FDRs not only from a return perspective but from security, flexibility, and creditability & taxation perspectives as well. Investor class who need security with assurance can still earn more return than bank FDRs by choosing Gilt fund with professional advice of Wealth Advisor.

Considering a probability of Interest rate reduction in near future, probability of receiving an alpha return in the Gilt fund is very high.

Performances

Equity Market

Indices	01-08-2024	31-08-2024	High	Low
BSE S&P SENSEX	81,949.68	82,365.77	82,637.03	78,295.56
NIFTY 50	25,030.95	25,235.90	25,268.35	23,893.70

Mutual Fund

AUM Data of Mutual Fund for the Month of August 2024

(INR. In Lakh Crore)

Particulars	AUM As On 31-07-2024	Fresh Fund Mobilize During Aug– 24	Redemption During Aug-24	AUM As On 31-08-2024
Total AUM of all mutual funds scheme	65.35	10.80	9.72	66.43
AUM of equity oriented (growth) schemes	29.70	0.73	0.34	30.09

Source: Association of Mutual Fund of India (AMFI)

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
Aug-2024	23,547	13,38,945

FII & DII Inflow/Outflow Position

FII's selling in the month of Aug-24 is 0.21 Lakh.
DII's buying in the month of Aug-24 is 0.48Lakh.

Inflow/Outflow position in the month of Aug 2024

(*INR. In Crore)*

FII /DII	Gross Purchase	Gross Sale	Net
FII	4.03Lakh	4.25 Lakh	(0.21) Lakh
DII	3.03 Lakh	2.55Lakh	0.48 Lakh

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