

Investments and Returns of selected Ultra Short Term Mutual Funds in the Present Scenario

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Abstract

Mutual Fund in India is an old concept, but still not having an impact in the investment pattern of people in India. The study aims evaluating the performance of mutual fund schemes that deals with Ultra Short Term investment which is considered to be a better plan for fixed deposits in banks. For the study, six Ultra Short Term Mutual Funds of six different companies are taken and the investment portfolio, risk,

returns, ratings etc are analysed. The end result might give the people awareness about the debt and money market funds which are having a higher rate of returns than the savings pattern of the people. The risk and returns of the above Ultra Short Term Mutual Funds i.e., debt and money market funds are taken for the previous year 2019-2020.

Keywords : mutual funds, risk, ratio, returns and ultra short term.

Introduction

Mutual Funds refer to the pooling of money of small household savings and investing in variety of portfolio, by the fund manager of mutual funds, who has an expert knowledge about different company's earning capacity, so as to maximize the profits and to minimize the loss from such investment. Mutual Fund in India was introduced in the year 1963 by Unit Trust of India and showing growth in the debt market. People of India are not much aware of the debt market, money market, share market, investment, bonds, securities etc. But in recent decades, people started to have awareness about the debt and securities issued by the government, but stringent about the securities issued by the private companies. So to make people aware of these securities, which give better returns for the money invested in the securities market, this study on Ultra Short Term Mutual Funds have been made.

Ultra Short Term Mutual Fund is a fixed income securities, i.e., Debt securities which are mostly liquid in nature i.e., easily converted into cash when sold in securities market and have shorter maturity periods. The maturity period ranges from six months from one year. Ultra short Mutual Fund, though riskier, helps the investors to avoid interest rate risk but offers better returns than money market securities. These can be closely related with that of the liquid funds that offer higher liquidity than any other long term investment horizons. SEBI has laid down a rule that the liquid funds can be invested only in securities that have a maturity less than 91 days. But this rule does not apply for Ultra Small Term Mutual Funds, whereit might invest from a week to eighteen months. If any surplus funds are made to be invested for a period ranging from one month to nine month, with good returns, this Ultra Short Term Mutual Funds can be the best option.

The Ultra Short Term Mutual Fund can be used by the investors for both short- term investment as well as Systematic Transfer Plan (STP) instead of going for liquid funds. Choosing these options might help the investors in investing in Ultra Short Term Mutual Fund and asking for standing instructions to transfer a regular amount every month to the equity fund which belong to the same fund house. This is an option that if a lump sum money is to be invested in equity fund for a longer period of time. In such case, the investor is benefited by high liquidity in Ultra Short Term Mutual Fund and higher dividend from equity than the regular liquid securities.

Objectives

1. To present the Ultra Short Term Mutual Funds.
2. To find and analyses the net asset of selected Ultra Short Term Mutual Funds.
3. To present the growth of past 6 years about Ultra Short Term Mutual Funds.

Methodology

The samples of six Ultra Short Term Mutual Funds are taken based on the previous year risk and return performance. For this purpose, data is taken from fincash website regarding 6 best ultra short term mutual funds 2020.

Features of Ultra Short Term Mutual Funds

The main features of Ultra Short Term Mutual Fund is that it belongs to the open ended fund, categorized as debt fund with a minimum investment ranging from INR 1,000 to 5,000. It is considered as the low risk debt fund and it could be redeemed at the request made in the stock

exchange. The redemption request, if made before 3pm will be redeemed the next day. If it is made after 3pm, redemption request will be processed a day after.

Investors View on Ultra Short Term Mutual Funds

As an investor in Ultra Short Term Mutual Fund, an investor could expect a return from 7 to 9 percent, taking into other factors also into consideration. When comparing to the returns of liquid funds, the returns are generally higher in case of Ultra Short Term Mutual Fund. Though the liquid funds are fixed income havens, there is no guarantee for such returns. The Net Asset Value falls with the rise in interest rate and vice versa. These types of fund are suitable where the interest rates are falling regime. When taking the returns into consideration, the risk of these funds should also be seen. Despite debt funds, the Ultra Short Term Mutual Funds are less risky to interest rate risk as they have shorter maturity of the securities. But when comparing to the liquid funds, these Ultra Short Term Mutual Funds are pretty risky. When the volatility is more, the securities market will be affected. The volatility in Ultra Short Term Mutual Fund is more than expected. After taking the risk and returns, the cost of the fund is taken into consideration. The Ultra Short Term Mutual Fund charges fee to manage the money invested as expense ratio. The upper limit fixed by SEBI for the expense ratio is 1.05%, taking into accounts the returns generated by these types of funds as compared to liquid funds and lower expense ratio will help to generate more returns which is been affected by way of fluctuations in the interest rate. Though the Ultra Short Term Mutual Funds are less risky and mature in 6 months, the returns would be better if it is taken to the higher horizons. The finance invested in Ultra Short Term Mutual Fund might differ, say, if it has to be parked for a period of three months to one year, these funds become versatile. As stated earlier, that if funds has to be invested in two types in the same portfolio as Ultra Short Term Mutual Fund and transferring the regular income to equity to fetch more dividend, a Systematic Transfer Plan (STP) may help and if the funds has to be used for emergency purposes, the investor has to initiate a Systematic Withdrawal Plan (SWP). When the securities are sold, it would fetch a capital gain. The capital gains are categorized under two heads as short term capital gain and long term capital gain (STCG) depending on the period it is held. If the securities are held and sold for a period below 3 years, it is called STCG and if it is held for more than 3 years, it becomes Long Term Capital Gain (LTCG). The tax applicable for Capital Gains without indexation is 10% ie for short term capital gain and with indexation is 20% ie for Long term capital gain.

The Six Best Ultra Short Term Mutual Funds

Best Ultra Short Term Mutual Funds are very short term Mutual Funds which can be invested in a combination of debt securities, treasury bills, commercial papers, certificate of deposit and corporate bonds, which are having a maturity period ranging from 6 months to one year or less. The volatility is less in the returns of Ultra Short Term Mutual Funds when compared to other liquid funds in the market. As stated earlier the investors can invest in very short period funds if they are looking for a couple of months, if they want a better returns, they can take up Systematic Transfer Plan and if wanted for emergency, they have to invest in the Systematic Withdrawal Plans available in Ultra Short Term Mutual Funds. But before investing in Ultra Short Term Mutual Funds, the investors have to look at the bestperforming Ultra Short Term Mutual Funds for the financial year 2020- 2021. The conservative investors restrict their investment only with the saving account in banks, where they feel the volatility is nil. They usually prefer investing in fixed deposits or savings account which is the investment horizons available with the banks. Here are some six best performing Ultra Short Term Mutual Funds are given below. They have the ranks as

- 1) Aditya Birla Sun Life Savings Fund
- 2) SBI Magnum Ultra Short Duration Fund
- 3) ICICI Prudential Ultra Short Term Mutual Fund
- 4) Kotak Savings Fund
- 5) Invesco India Ultra Short Term Mutual Fund
- 6) DSP Blackrock Money Manager Fund

The table below shows the returns of different funds taken for study for 3 months, 6 months, one year and in the year 2019.

Table 1: Net asset of Growth Fund

| Growth Fund | NAV(Rs) | Net Asset (Crore) | 3 Months | 6 Months | 1 Year | 3 Years | 2019 |
|--------------------------------------|------------------------------|-------------------|----------|----------|--------|---------|------|
| Aditya Birla Sun Life savings Fund | 401.205 Increase 0.18 | 12,268 | 1.5% | 3.2% | 7.7% | 7.7% | 8.5% |
| SBI Magnum Ultra Short Duration Fund | 4,495.37 Increase 1.12 | 8,925 | 1.7% | 3.3% | 7.6% | 7.5% | 8% |
| ICICI Prudential | | | | | | | |

| Growth Fund | NAV(Rs) | Net Asset (Crore) | 3 Months | 6 Months | 1 Year | 3 Years | 2019 |
|-------------------------------------|------------------------------|-------------------|----------|----------|--------|---------|------|
| Ultra Short Term Fund | 20.4494 Increase 0.01 | 5,426 | 1% | 2.9% | 7.4% | 7.4% | 8.4% |
| Kotak Savings Fund | 32.4151 Increase 0.01 | 9,148 | 1.7% | 3.2% | 7.3% | 7.3% | 7.8% |
| Invesco India Ultra Short Term Fund | 2,058.61 Increase 0.51 | 527 | 1.6% | 2.9% | 7% | 7.1% | 7.6% |
| DSP Blackrock Money Manager Fund | 2,624.59 Increase 0.61 | 2,384 | 1.6% | 2.9% | 6.8% | 6.1% | 7.3% |

List of Funds having AMU \geq 500 Crore and sorted on last 1 year returns.

The same performance will be reflecting in next year, i.e. 2020 – 2021. The details of the above top 6 ultra-short terms mutual funds given in the following paragraphs.

1) Aditya Birla Sun Life savings Fund:

This fund was launched on 16th April 2003 with the primary objective of this scheme is to give a regular income to the investors by investing in debt and money market instruments. By the receipt of coupon payments or sales of securities, income is generated. They usually invest its Net assets in fixed income instruments, Money market instruments, cash and cash equivalents in normal market conditions. These funds are ranked 6th in Ultra Short Term Mutual Funds, considered as moderately low risk and has given an annual returns of 7.8% since it was launched. The returns in the year 2019 was 8.5%, 2018 was 7.6% and the year 2017 marked 7.2%

2) SBI Magnum Ultra Short Duration Fund

The main objective of this fund is to provide an opportunity to the investors to get a return by investing in debt and money market securities, with the benefit of high liquidity. This fund was introduced in 21st May 1999 with low risk and has given a return of 7.4% since the fund was launched. In 2019 it has a return of 8%, 2018 return was 7.9% and the year 2017 showed a return of 6.6%.

3) ICICI Prudential Ultra Short Term Fund

By investing the funds of the investors in debt and money market instruments, these funds generate regular income to its investors. Added, they have an objective of long term capital appreciation from equity investment under this scheme. The fund was launched on 3rd May 2011

with moderate risk given a return of 8.2% since launched. The returns were 8.4%, 7.5% and 6.9% for the years 2019, 2018 and 2017 respectively.

4) Kotak Savings Fund

Kotak savings fund was launched on 13th August 2004 with an objective of reducing the interest rate risk of the money invested by the investors in debt and money market instruments. But there is no guarantee or assurance for the scheme's objective, because interest rates are highly volatile. Spite of moderately low risk, the fund has given a return of 7.8% since launched and has given returns of 7.8% in the year 2019, 7.4% in the year 2018 and 6.7% in the year 2017.

5) Invesco India Ultra Short Term Fund

The objectives of this fund are to generate standard income and wealth appreciation by investing in portfolio of medium term debt and money market instruments. Since launch on 30th December 2010, with moderate risk, the scheme has given a return of 8%, ranked 40 in Ultra Short Bond category. Its returns were 7.6%, 7.3% and 7.1% in the year 2019, 2018 and 2017 respectively.

6) DSP Blackrock Money Manager Fund

This scheme was introduced in 31st July 2016 with moderately low risk, investing in portfolio constituted with money market securities and high quality debt securities for giving a reasonable income with low risk and high liquidity. But the assurance is nil with the investment objective of this scheme. It has realized a return of 7.2% since launched. It was given 75th rank in Ultra Short Bond Category with returns of 7.3% in 2019, 5% in 2018 and 6% in 2017.

Table 2 :Growth of Rs. 10,000 investment over the years

| Growth Fund | 30 April 2015 | 30 April 2016 | 30 April 2017 | 30 April 2018 | 30 April 2019 | 30 April 2020 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Aditya Birla Sun Life savings Fund | 10,000 | 10,901 | 11,828 | 12,647 | 13,696 | 14,709 |
| SBI Magnum Ultra Short Duration Fund | 10,000 | 10,817 | 11,584 | 12,366 | 13,388 | 14,371 |
| ICICI Prudential Ultra Short Term Fund | 10,000 | 10,921 | 11,909 | 12,718 | 13,718 | 14,719 |
| Kotak Savings Fund | 10,000 | 10,841 | 11,686 | 12,455 | 13,434 | 14,396 |
| Invesco India Ultra Short Term Fund | 10,000 | 10,855 | 11,783 | 12,576 | 13,550 | 14,479 |

| Growth Fund | 30 April 2015 | 30 April 2016 | 30 April 2017 | 30 April 2018 | 30 April 2019 | 30 April 2020 |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| DSP Blackrock Money Manager Fund | 10,000 | 10,767 | 11,525 | 12,228 | 12,883 | 13,747 |

The above table shows the investment of Rs. 10,000 on 30th April 2015 of the aforesaid funds and the returns for every year till 30th April 2020. The above table clearly mentioned that the returns of ICICI Prudential Ultra Short Term Fund was higher with Rs. 10,921 on 30th April 2016, Rs. 11,909 on 30th April 2017, Rs. 12,718 on 30th April 2018, Rs. 13,718 on 30th April 2019 and Rs. 14,719 on 30th April 2020. This shows that ICICI Prudential Ultra Short Term Fund gives good returns than that of other funds mentioned.

Table 3 :Asset Allocation

| Growth Fund | Cash | Debt |
|--|-------------|-------------|
| Aditya Birla Sun Life savings Fund | 37.60% | 62.40% |
| SBI Magnum Ultra Short Duration Fund | 57.39% | 42.61% |
| ICICI Prudential Ultra Short Term Fund | 34.11% | 62.29% |
| Kotak Savings Fund | 45.23% | 53.26% |
| Invesco India Ultra Short Term Fund | 28.85% | 71.15% |
| DSP Blackrock Money Manager Fund | 86.54% | 13.46% |

The above table shows the asset allocation of the growth funds. Out of hundred how much cash and debt were allocated by the mutual funds were presented in the above table. Highest cash allocated by the DSP Blackrock Money Manager fund and the highest debt allocated by the Invesco India Ultra Short Term fund.

Table 4:Investment in Debt- Ultra Short Bond

| Growth Fund | Minimum Investment (Rs) | Minimum SIP Investment (Rs) |
|--|--------------------------------|------------------------------------|
| Aditya Birla Sun Life savings Fund | 1,000 | 1,000 |
| SBI Magnum Ultra Short Duration Fund | 5,000 | - |
| ICICI Prudential Ultra Short Term Fund | 5,000 | 1,000 |
| Kotak Savings Fund | 5,000 | 1,000 |
| Invesco India Ultra Short Term Fund | 5,000 | 1,000 |
| DSP Blackrock Money Manager Fund | 1,000 | 500 |

The above table shows the minimum investment in debt bonds of the aforesaid funds. The minimum investment ranges from Rs. 1,000 in DSP Blackrock Money Manager Fund and Aditya Birla Sun Life savings Fund and Rs. 5,000 in other funds. The minimum investment in SIP is Rs. 500 in DSP Blackrock Money Manager Fund and Rs. 1,000 in other funds.

Table 5 :Credit Rating

| Growth Fund | Rating |
|--|---------------|
| Aditya Birla Sun Life savings Fund | ★★★★★ |
| SBI Magnum Ultra Short Duration Fund | ★★★ |
| ICICI Prudential Ultra Short Term Fund | ★★★ |
| Kotak Savings Fund | ★★★ |
| Invesco India Ultra Short Term Fund | ★★★ |
| DSP Blackrock Money Manager Fund | ★★ |

The credit ratings of the aforesaid funds are given in the above table. The ratings are five star is given to Aditya Birla Sun Life savings Fund, three star rating is given for SBI Magnum Ultra Short Duration Fund, ICICI Prudential Ultra Short Term Fund, Kotak Savings Fund, Invesco India Ultra Short Term Fund and rating of DSP Blackrock Money Manager Fund is given as two star.

Table 6 :Risk and Ratios of 6 mutual funds – Debt – Ultra short bonds

| Asset Management Company | Risk | Expense Ratio | Sharpe Ratio | Exit Load |
|---|----------------|----------------------|---------------------|---|
| Birla Sun Life Asset Management Company Limited | Moderately Low | 0.35 | 7.52 | Nil |
| SBI Funds Management Private Limited | Low | 0.28 | 9.92 | Nil |
| ICICI Prudential Asset Management Company Limited | Moderate | 1.09 | 5.75 | 0-1 Month(0.5%) 1 Month & above- Nil |

| Asset Management Company | Risk | Expense Ratio | Sharpe Ratio | Exit Load |
|---|----------------|---------------|--------------|-----------|
| Kotak Mahindra Asset Management Company Limited | Moderately Low | .68 | 9.51 | Nil |
| Invesco Asset (Limited) Private Limited | Moderate | .53 | 8.56 | Nil |
| DSP Blackrock Money Managers Private Limited | Moderately Low | 1 | 8.86 | Nil |

The risk is *low* in SBI Funds Management Private Limited, *moderately low* in Birla Sun Life Asset Management Company Limited, Kotak Mahindra Asset Management Company Limited and DSP Blackrock Money Managers Private Limited and moderate in ICICI Prudential Asset Management Company Limited and Invesco Asset (Limited) Private Limited. It concluded that SBI is best option to invest to reduce the risk and earn more returns.

Conclusion

In the current scenario, where even banks face financial insecurity every now and then, these smart investments give hope for the investors to think it is safe and got back at any period of time, say short term, long run and even withdrawn anytime. Ultra Short Term Mutual funds give reasonable returns to investors to manage financial insecurities. So, investing in Ultra Short Term Mutual funds has added confidence in the minds of small investors and it seems to be the best choice of the funds to be invested now and in near future.

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