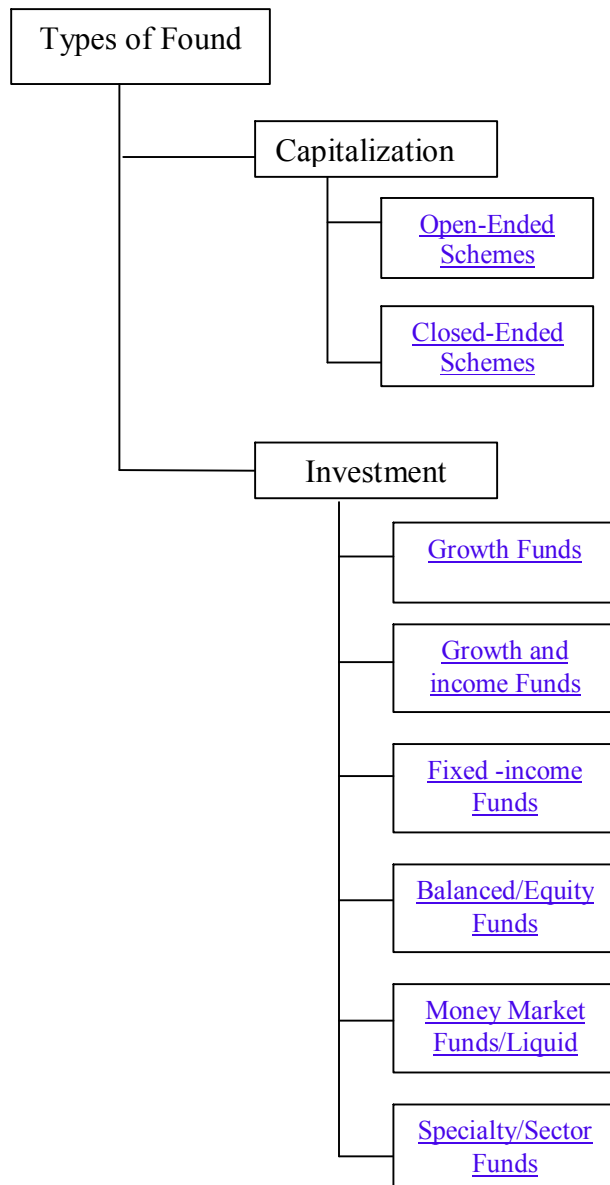


Types of Funds

There are wide variety of Mutual Fund schemes that cater to investor needs, whatever the age, financial position, risk tolerance and return expectations. The mutual fund schemes can be classified according to both their investment objective (like income, growth, tax saving) as well as the number of units (if these are unlimited then the fund is an open-ended one while if there are limited units then the fund is close- open-ended one while if there are



Open-ended schemes

These funds are sold at the NAV based prices, generally calculated on every business day. These schemes have unlimited capitalization, open-ended schemes do not have a fixed maturity - i.e. there is no cap on the amount you can buy from the fund and the unit capital can keep growing. These funds are not generally listed on any exchange.

Open-ended funds are bringing in a revival of the mutual fund industry owing to increased liquidity, transparency and performance in the new open-ended funds promoted by the private sector and foreign players. Open-ended funds score over close-ended ones on several counts. Some of these are listed below:

- a) Any time exit option: The issuing company directly takes the responsibility of providing an entry and an exit. This provides ready liquidity to the investors and avoids reliance on transfer deeds, signature verifications and bad deliveries.
- b) Tax advantage: Though Budget 2004 proposals envisage a tax rate of 20.91 % (Corporate investors) and 13.06875 % (Non-Corporate investors) on dividend distribution made by the Debt funds, the funds continue to remain attractive investment vehicles. In equity plans there is no distribution tax.
- c) Any time entry option : An open-ended fund allows one to enter the fund at any time and even to invest at regular intervals (a systematic investment plan).

The open ended funds offered by ICICI Prudential Mutual Fund are Liquid Plan, Income Plan, Gilt-Treasury, Gilt-Investment, Balanced Fund, Growth Fund, Tax Plan, FMCG Fund, Technology Fund, Monthly Income Plan, Child Care Plan, Power and Short Term Plan

Close ended schemes

Schemes that have a stipulated maturity period, limited capitalization and the units are listed on the stock exchange are called close-ended schemes.

These schemes have historically seen a lot of subscription. This popularity is estimated to be on account of firstly, public sector MFs having floated a lot of close-ended income schemes with guaranteed returns and secondly easy liquidity on account of listing on the stock exchanges.

The closed-ended fund managed by ICICI Prudential Mutual Fund is ICICI Premier.

Classification according to investment objectives

Objectives

Mutual funds have specific investment objectives such as growth of capital, safety of principal, current income or tax-exempt income. In general mutual funds fall into three general categories:

- Equity Funds invest in shares or equity of companies.
- Fixed-Income funds invest in government or corporate securities that offer fixed rates of return.
- Balanced Funds invest in a combination of both stocks and bonds.

Investment

1. Growth Funds

These funds seek to provide growth of capital with secondary emphasis on dividend. They invest in shares with a potential for growth and capital appreciation. Because they invest in well-established companies where the company itself and the industry in which it operates are thought to have good long-term growth potential, growth funds provide low current income. Growth funds generally incur higher risks than income funds in an effort to secure more pronounced growth.

These funds may invest in a broad range of industries or concentrate on one or more industry sectors. Growth funds are suitable for investors who can afford to assume the risk of potential loss in value of their investment in the hope of achieving substantial and rapid gains.

They are not suitable for investors who must conserve their principal or who must maximize current income.

2. Growth and Income Funds

Growth and income funds seek long-term growth of capital as well as current income. The investment strategies used to reach these goals vary among funds. Some invest in a dual portfolio consisting of growth stocks and income stocks, or a combination of growth stocks, stocks paying high dividends, preferred stocks, convertible securities or fixed-income securities such as corporate bonds and money market instruments. Others may invest in growth stocks and earn current income by selling covered call options on their portfolio stocks.

Growth and income funds have low to moderate stability of principal and moderate potential for current income and growth. They are suitable for

investors who can assume some risk to achieve growth of capital but who also want to maintain a moderate level of current income.

3. Fixed-Income Funds

The goal of fixed income funds is to provide current income consistent with the preservation of capital.

These funds invest in corporate bonds or government-backed mortgage securities that have a fixed rate of return. Within the fixed-income category, funds vary greatly in their stability of principal and in their dividend yields. High-yield funds, which seek to maximize yield by investing in lower-rated bonds of longer maturities, entail less stability of principal than fixed-income funds that invest in higher-rated but lower-yielding securities.

Some fixed-income funds seek to minimize risk by investing exclusively in securities whose timely payment of interest and principal is backed by the full faith and credit of the Indian Government. Fixed-income funds are suitable for investors who want to maximize current income and who can assume a degree of capital risk in order to do so.

4. Balanced

The Balanced fund aims to provide both growth and income. These funds invest in both shares and fixed income securities in the proportion indicated in their offer documents. Ideal for investors who are looking for a combination of income and moderate growth.

5. Money Market Funds/Liquid Funds

For the cautious investor, these funds provide a very high stability of principal while seeking a moderate to high current income. They invest in highly liquid, virtually risk-free, short-term debt securities of agencies of the Indian Government, banks and corporations and Treasury Bills. Because of their short-term investments, money market mutual funds are able to keep a virtually constant unit price; only the yield fluctuates.

Therefore, they are an attractive alternative to bank accounts. With yields that are generally competitive with - and usually higher than -- yields on bank savings account, they offer several advantages. Money can be withdrawn any time without penalty. Although not insured, money market funds invest only in highly liquid, short-term, top-rated money market instruments.

Money market funds are suitable for investors who want high stability of principal and current income with immediate liquidity.

6. Specialty/Sector Funds

These funds invest in securities of a specific industry or sector of the economy such as health care, technology, leisure, utilities or precious metals. The funds enable investors to diversify holdings among many companies within an industry, a more conservative approach than investing directly in one particular company.

Sector funds offer the opportunity for sharp capital gains in cases where the fund's industry is "in favor" but also entail the risk of capital losses when the industry is out of favor. While sector funds restrict holdings to a particular industry, other specialty funds such as index funds give investors a broadly diversified portfolio and attempt to mirror the performance of various market averages.

Index funds generally buy shares in all the companies composing the BSE Sensex or NSE Nifty or other broad stock market indices. They are not suitable for investors who must conserve their principal or maximize current income.

A summary is presented in the table below of the various funds and their investment objectives.

	Scheme type		Time Horizon	Risk Profile	Typical Investment Pattern		
Objective	Open	Close			Equity (%)	Debt (%)	Money Market Inst./Others (%)
Money Market	Yes	No	Short-Term	Low	0	0-20	80-100
Income	Yes	Yes	Medium-Long Term	Low to Medium	0	80-100	0-20
Growth	Yes	Yes	Long Term	High	80-100	0-20	0-20
Balanced	Yes	Yes	Long term	Medium to high	0-60	0-40	0-20
Tax Saving	Yes	Yes	Long term	High	80-100	80-100	0-20