

INDEX FUND



Index Funds

Index Funds refer to the Mutual Fund schemes whose portfolio is constructed using a market index as a base. In other words, the performance of an index fund is dependent on the performance of a particular index.

These schemes are passively managed. These funds contain shares in a similar proportion as they are in a particular index.

Index funds passively track the performance of a particular index. Unlike actively-managed funds, index funds are not meant to outperform the market but mimic the performance of the index.

When an investor is planning to invest in index funds, they should pay attention to the tracking error of the fund.

The tracking error measures the deviation of fund return from the benchmark it is tracking.

It is the difference between the index fund return and its benchmark return.

The lower the tracking error, the better the fund's performance.

Index Funds

Some of The Benefits of Investing in Index Funds Are:

1. **Diversification** An index is a collection of different stocks and securities. They offer diversification to the investor which is the main motive of Asset Allocation. This ensures that the investor does not have all his eggs in one basket.
2. **Fewer Expenses** Index fund has a lower operating expense as compared to other mutual fund schemes. Here, the fund managers need not have a separate team of research analysts to carry out in-depth research of the companies against, which a significant amount is spent. In index funds, the manager just needs to replicate the index. Therefore, the expense ratio is lower in the case of index funds.
3. **Less Managerial Influence** Since the fund simply follows the movement of the particular index, the manager doesn't have to choose what stocks to invest in. This is a plus point since the manager's own style of Investing (which may not be in sync with the market at times) does not creep in.

Types of Index Mutual Funds

The weightage of a company in the Sensex or Nifty depends on its free-float market capitalization. It is a percentage of the total market capitalization of the index. So, if the market capitalization of a company is Rs 1 crore, while that of the index is Rs 200 crore, its stock has a weightage of 0.5%.

1. **SENSEX Index Funds** These index funds track BSE SENSEX as a benchmark index & invest in 30 companies on BSE Sensex based on weightage login as discussed above. These Types of Mutual Funds are backed by ETF's (Exchange Traded Fund) traded on the exchange.
2. **NIFTY Index Funds** These index funds track NSE NIFTY 50 as benchmark index & invest in 50 companies on Nifty 50 based on weightage login as discussed above. These types of Mutual Funds are backed by ETF's (Exchange Traded Funds) traded on the exchange.
3. **NIFTY Junior Index Funds** These index funds track NSE NIFTY Junior 50 as benchmark index & invest in 50 companies on NSE NIFTY Junior 50 based on weightage login as discussed above. These types of mutual funds are backed by ETF's (Exchange Traded Funds) traded on the exchange

Top Performing Index Funds

List of Top Performing Index Funds to Invest in FY 2020

Fund Name	1Y Return	3Y Return	5Y Return	AUM (CR)
Motilal Oswal Nasdaq 100 ETF	6.68%	18.82%	17%	166.06
ICICI Prudential Nifty Index Fund	17.27%	17.27%	7.86%	19.87
HDFC Index Fund – Direct Plan – Sensex Plan	17.73%	16.85%	8.80%	399.64
Tata Index Fund – Direct Plan – SENSEX	17.74%	16.79%	8.52%	12.11
Nippon India Index Fund – Sensex Plan	17.51%	16.68%	8.32%	22.55