All you need to know about NFO (New Fund Offer)

Asset Management Companies (AMCs) often launch new investment schemes which are available for subscription for the first time. These new schemes are offered to investors via a New Fund Offer (NFO). Through NFOs, you can purchase units of a newly launched mutual fund scheme at an offer price which is generally fixed at Rs 10 per unit.

What is the purpose of launch of an NFO and how you can subscribe to it

NFO is launched to raise capital through public subscription for buying securities such as stocks, bonds, government securities, etc. Just like an Initial Public Offering (IPO), an NFOs aim to attract investors and raise money for the fund. NFOs are allotted on a first-come- first- serve basis and are usually open for a specific duration (mostly 15 days). Once the NFO period is over, the units of the newly launched mutual fund scheme can be bought and sold from the market at the prevailing NAV which might differ from the offer price of the NFO. The NAV of a mutual fund scheme is basically the per share or per unit value of a mutual fund portfolio.

It is calculated as:
NAV = (Market value of the portfolio less liabilities) / total number of fund units

Types of NFOs

Open-ended Funds: The open-ended funds can be bought or sold anytime as per investor convenience. The number of units and the NAV of these funds keeps fluctuating based on demand/supply, value of the securities in the portfolio, and the fund's performance.

Close-ended Funds: Investors are not allowed entry and exit in these funds after the NFO period. These funds have a fixed time period which could range from 3 to 5 years. Once bought, these can be sold only on completion of the fixed time-period. While units of close ended funds can be bought and sold on the exchange, their liquidity remains fairly low.

Things to Consider before investing in NFO

Investing in NFO is now a seamless process. You need to complete your KYC and you can invest through various channels such as the mutual funds' platform or the AMC, brokers, and online platforms. You need to keep in mind the following things before investing in an NFO:

Cost: Check the costs associated with the fund and compare it with different fund houses.

Nature of securities: Assess the securities and sector where the fund will be investing and the main objective of the new fund scheme. Check whether it matches your risk profile, investment objective and returns expectation.

Theme: Check if the fund offers something unique or different which can be financially more rewarding as compared to the already existing funds.

Amount and tenure: The minimum subscription amount and lock-in period must be considered before investing.

NFOs are generally available at a price that could be cheaper than their market NAV. This makes them a compelling investment opportunity from a future return potential perspective. Further, there are also several benefits to investing in close-ended NFOs. These include:

Benefits of investing in an NFO

New strategies: NFO of close-ended funds provide opportunity to invest in innovative strategies which the existing open-ended funds might not be offering.

Greater flexibility: Fund managers of close-ended funds have more flexibility to decide when to invest in the market. They may hold funds and decide to invest later if they think that the market is too high. This can have a significant impact on the performance of the fund.

Less vulnerable: Close-ended funds are less vulnerable to large inflows and outflows unlike open-ended funds as investment can be made only through NFO.

Disciplined investing: Close-ended funds have a lock-in period of 3-5 years. This prevents investors from prematurely exiting funds and staying invested for a longer period of time in order to benefit from the investment.

The mutual fund industry is very big and diverse with hundreds of funds spread across various sectors and categories. Yet, the fund houses keep introducing new funds every year. If you find that the new fund has the potential to offer something new, then investing in the NFO can be a good option.