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Innovative Investments – Quant Funds

Quant Funds are not only a new category of funds but also a totally new way of looking at investments.

A 'Quant Fund' is an investment fund that selects securities based on quantitative analysis. In such funds, computer-based models are built to determine whether or not an investment is attractive and is to be invested into. In a pure "quant shop" the final decision to buy or sell is made by the model. However, in a quant fund there is scope for the fund manager to use human judgment in addition to a quantitative model.

Quant funds are rule-based funds that rebalance their portfolio automatically at regular intervals, as per pre-determined formulas and in line with the fund's objective.

'If computers can beat world champion chess players, they should also be able to beat the traders on Wall Street?' This is the thinking that goes behind quant funds, whose name has been derived from the term "quantitative analysis". The unique advantage available to quant funds is that computers are not swayed by emotions and therefore they react much faster to changes in numerical values when compared to human beings.

However, the limitation here could lie in the fact that errors could also occur in calculations made by computers if they have been programmed incorrectly. Further, the basis for a great investment decision by a quant fund lies in the great and superior investment strategy that has been programmed into the computers managing that fund.

In actively-managed funds, buy and sell calls are taken by the fund manager. On the other hand, in quant funds a mathematical formula identifies buy and sell calls as set out in the objective of the fund. Usually, quant funds seek momentum-driven stocks and normally do not take a long-term position in any one stock.

Quant funds can be rigorously back-tested over different time frames to seek how the model works and whether it generates adequate returns. As there are always two sides to a coin, we will now look at the below table which depicts the advantages and disadvantages of a quant fund.

Advantages	Disadvantages
Stocks are bought and sold based on pre-determined set of rules. Mathematics overrules emotions	The pre-determined rules could miss the unconventional opportunities in the market
As the funds' performance has been back-tested, the rolling returns are generally superior to those of the benchmark index	Funds may be slow to catch trends and hence could respond late to the market changes.
The models usually go through intensive filters and balances	There is always a need for sufficient filters for right selection of stocks
Good for the long term investors as these minimize market risks	Not for investors who look at short term gains

For information on MUTUAL FUNDS contact: 1800 425 8282 or visit: www.thefinapolis.com

Product Showcase :: Jeevan Varsha

Jeevan Varsha is a closed ended money back endowment assurance policy from Life Insurance Corporation of India.

Unique features

Closed ended policy: The policy is available for limited time duration, only up to 31 March 2009.

Guaranteed additions: Policy provides guaranteed additions, which form part of the death benefits or maturity benefits (i.e. survival benefit in the last policy year). The guaranteed addition is available as at the rate of:

✘ Rs.65 per thousand sum assured value per year for a policy term of 9 years

✘ Rs.70 per thousand sum assured value per year for a policy term of 12 years

Loyalty additions: Depending on the Corporation's experience, the policy will be eligible for loyalty addition on the life assured surviving the stipulated date of maturity or on death of the life assured during the last policy year, at rates and terms as declared by the Corporation.

Rebate on premium frequency: Policy provides a rebate of 2% and 1% on the tabular premium rates for annual and semi-annual premium payment frequencies.

Rebate for high sum assured: Policy provides a rebate on the per thousand sum assured value. The details are:

Value of sum assured	Rebate per thousand sum assured
Less than Rs.1,00,000	Nil
Rs.1,00,000 and above but less than Rs.2,00,000	Rs.2.00
Rs.2,00,000 and above but less than Rs.5,00,000	Rs.3.50
Rs.5,00,000 and above	Rs.5.00

Policy loan: Loan is available under the policy after the policy acquires paid-up value.

Policy benefits

Death benefits: In the unfortunate event of death of the life assured during the policy term, the benefits payable to the nominee / beneficiary will be:

- ✘ Sum assured and the accrued guaranteed additions, on death occurring during the policy term excluding the last policy year.
- ✘ Sum assured and the accrued guaranteed additions and loyalty additions (if any), on death occurring during the last policy year.

Survival benefits: On the life assured surviving during the policy tenure, the policy provides for periodical payment of a percentage of Sum Assured at specified durations.

Survival benefits available at the end of	Survival benefit as a % of sum assured (SA) value for policy term of	
	9 years	12 years
3 policy years	15% of SA	10% of SA
6 policy years	25% of SA	20% of SA
9 policy years	60% of SA + Guaranteed additions & loyalty additions	30% of SA
12 policy years	-	40% of SA + Guaranteed additions & loyalty additions

Eligibility parameters

Age at entry: minimum – 15 years; maximum – 66 years / 63 years for a 9 years / 12 years policy term respectively

Maximum age at maturity: 75 years

Policy term choice: 9 years and 12 years

Premium payment term: 9 years

Premium payment frequency: annual, semi-annual, quarterly and monthly (through ECS mode only)

Sum assured value: minimum – Rs.75,000 in case of premium being paid on a monthly basis (Rs.50,000 for all other premium payment frequencies; maximum – no limit (subject to underwriting guidelines). Sum assured is available in multiples of Rs.5,000.

Paid Up Policy

If after at least 3 full years' premiums have been paid for the policy and any subsequent premium is not duly paid, then the policy shall not be wholly void, but shall continue as a paid-up policy for a reduced sum.

As a paid up policy, the sum assured of the policy shall be reduced to a value called the paid-up value. This paid up value will be in the same proportion to the full sum assured value as the number of premiums actually paid bears to the total number of premiums stipulated for in the policy, less any survival benefit paid.

The paid up policy, will be free from all liability for payment of further premiums. It will, however, not be entitled to the guaranteed additions from the due date of first unpaid premium. Nevertheless, the accrued guaranteed additions will remain attached to the reduced paid-up policy.

Notwithstanding the benefits available under a fully in force policy, in the case of a reduced paid up policy, no survival benefits shall be payable and the paid-up value along with the accrued Guaranteed Additions, if any, shall be payable only in lump-sum on the expiry of policy term or death of life assured, if earlier.

Surrender Value

Guaranteed surrender value will be available after the expiry of 3 policy years, provided the premiums have been paid for at least three years. The guaranteed surrender value will be equal to 30 percent of the total amount of the premiums paid excluding the premium for the first year, all extra premiums that may have been paid and the amount of survival benefits paid earlier.

Here, the cash value of any existing guaranteed additions will also be paid. The Corporation may, however, pay special surrender value as the discounted value of paid up sum assured and guaranteed addition, as applicable on date of surrender, provided the same is higher than guaranteed surrender value

Cooling off period

The policy can be returned to the Corporation within 15 day's from issuance, if the policy holder is not satisfied with the terms and conditions of the policy.

Tax benefits

Premiums paid under the policy are eligible for deduction under Section 80C of the Income Tax Act, 1961. The benefits available under the policy are exempt from tax under Section 10(10D) of the Act.

Product Showcase :: Met Growth

Met Growth is a unit linked insurance policy from MetLife India Insurance Company Limited. The policy aims at the creation of wealth to support the income during the post retirement years as well as provides for the necessary life insurance cover. This is a non-participating policy

Unique features

Guaranteed loyalty additions: First year premium under the policy is utilized for the provision of the guaranteed loyalty additions. These additions are expressed as a percentage of the first year premium and are added at the end of the 10th and 15th policy year. At the end of the 10th policy year, the loyalty additions equivalent to 50% of the first year premium will be added to be investment fund(s). At the end of the 15th year, depending on the annualized premium value, the additions will be as per the below table:

Annualized premium value	Guaranteed Loyalty Additions as a % of first year premium value
Silver (Rs.12,000 to Rs.25,000)	55%
Gold (Rs.25,001 to Rs.2,00,000)	60%
Platinum (Rs.2,00,001 & above)	70%

Further, the guaranteed loyalty additions calculated at the rate of 2% of the average fund value* of the regular premium account are also added at the end of the 20th policy year and every five years thereafter.

* The average fund value is the average of the fund value of the last 36 monthly anniversaries preceding the due date after monthly deductions preceding the loyalty addition calculation.

The guaranteed loyalty additions would be allocated to the chosen investment funds in the same proportion as the existing premium allocation instruction of the policyholder at the time of additions. The fund value pertaining to top up premiums is not eligible for loyalty additions.

Top up premium: Top up premium can be paid to enhance the investment fund value. The minimum top up premium amount is Rs.5,000. The sum assured would also be increased by 125% of the top up premium on each such payment. Any top up premiums paid would not be eligible for partial withdrawals for three years from the date of such payment.

Policy benefits

Death benefit: In the unfortunate event of death of the life assured during the policy term, the nominee / beneficiary will receive the higher of the fund value or the sum assured (less partial withdrawals as applicable).

If the death of the life assured happens before attaining 7 years of age, and:

- (a) If death happens before completion of one policy year, then all the regular premiums received till date of death will be paid back without interest.

- (b) If death happens after the first policy anniversary, the death benefit payable will be the fund value plus the amount equal to the regular premium paid in the first policy year.

Maturity benefit: At the end of the policy term, the investment fund value including the guaranteed loyalty additions are paid to the policy holder.

The maturity benefit payment can be received by the policy holder as a lump sum amount or in installments ranging to maximum of 5 years from the policy term end under the settlement option.

Eligibility parameters

Age at entry: minimum – 3 months; maximum – 60 years

Maximum age at maturity: minimum – 18 years; maximum – 75 years

Policy term: minimum – 15 years; maximum – 30 years

The policy term options available are: 15 years, 20 years, 25 years and 30 years

Sum assured value: minimum – 5 times the annual premium value; maximum – 20 times the annual premium value. For entry age of 55 years and above, maximum sum assured is only 5 times the annual premium value.

Premium payment term is the same as the policy term.

Minimum annual premium amount: Rs.12,000

Premium payment frequency: annual, semi-annual, quarterly and monthly

Investment fund choice

Policy provides the choice of 5 investment funds. Any one of these or a combination of two or more of these funds can be opted for to customize the asset allocation under the policy as per ones unique investment requirements. In case of a combination of investment funds, a minimum allocation of 20% is necessary in each of the chosen funds. The allocation in the chosen investment fund(s) starts from the second policy years onwards. The details of the investment funds are:

Fund Name	Investment objective	Risk return profile	Asset allocation in				
			Equities	Money market instruments	Long & short term bonds	Government securities	Infrastructure / Social sector securities
Multiplier	To generate long term capital appreciation by investing in diversified equities	Very high	80% to 100%	0% to 40%	0%	0%	0%
Virtue	To generate long term capital appreciation by investing in diversified equities of companies promoting healthy lifestyle and enhancing quality of life.	High	60% to 100%	0% to 40%	0%	0%	0%
Balancer	To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities	High to moderate	35% to 65%	0% to 40%	0% to 60%	10% to 60%	0% to 60%
Protector	To earn regular income by investing in high quality fixed income securities	Low	0%	0% to 40%	0% to 60%	25% to 90%	0% to 60%
Preserver	To generate income at a level consistent with preservation of capital, through investments in securities issued or guaranteed by Central and State Governments	Very low	0%	0% to 40%	0%	80% to 100%	0%

Policy provides the option of re-directing or changing the premium allocation pattern to suit the change in the investment and financial requirements of the policy holder. This re-direction will be subject to condition of minimum allocation of 20% of the premium in each of the funds chosen. One premium re-direction option is available free-of-charge in every policy year. Subsequent re-directions in a policy year will be charged for.

Policy also provides the option of switching the investment value from one fund to the other either partially or fully. There are 12 free-of-charge switches in a policy year. The minimum value of a switch is Rs.5,000.

Policy charges

The first year premium is utilized towards the provision of the guaranteed loyalty additions. The premium being allocated to the investment fund(s) chosen from the second year onwards, the policy charges are also levied from the second year. The details of these charges are:

Premium allocation charge – This charge is nil and hence results in a 100% allocation of the premium to the chosen investment funds. However, the premium allocation charge for top up premiums is 3.50%.

Policy administration charge: This charge is a percentage of the sum assured and would be deducted every month from the fund value from the 2nd year onwards. Policy administration charges will be waived in the first year. This percentage will also depend on the annualized premium value. The details for the charge are:

Annualized premium value	Policy administration charge as a % of the sum assured (S.A.) when S.A. is		
	5 times the annualized premium	10 times the annualized premium	20 times the annualized premium
Silver (Rs.12,000 to Rs.25,000)	0.225%	0.1125%	0.05625%
Gold (Rs.25,001 to Rs.2,00,000)	0.15%	0.075%	0.0375%
Platinum (Rs.2,00,001 & above)	0.10%	0.05%	0.025%

Insurance company reserves the right to increase the charge to 0.33% with prior approval from IRDA.

Fund management charge: This charge is levied for the management of the investment fund(s) chosen and are expressed as a percentage of the fund value managed. The details are:

Fund	Multiplier	Virtue	Balancer	Protector	Preserver
Fund management charge	1.75% p.a.	1.75% p.a.	1.50% p.a.	1.25% p.a.	1.25% p.a.

Insurance company reserves the right to increase the charge to 2.50% with prior approval from IRDA.

Mortality charge: This charge will be levied, for the provision of the life assurance cover, from the second year onwards. It will be deducted at the beginning of each month by cancellation of an appropriate number of units. No mortality charges are levied in the first policy year. The indicative mortality charge per Rs.1,000 of sum assured is:

Gender	Age of life assured		
	20 years	30 years	40 years
Male	0.134667	0.147542	0.254167
Female	0.124667	0.146875	0.213083

Surrender charge: This charge is expressed as a percentage of the annualized premium and is deducted from the fund value to arrive at the surrender value payable. As policy surrender is not permitted during the first three policy years, the surrender charge is not applicable in these first three years.

Number of years for which premium has been paid	Surrender charge as a % of the first year premium	
	In policy year 4	In policy year 5
Less than one	Not applicable	Not applicable
One to less than two	75%	Not applicable
Two to less than three	15%	15%
Three or more	10%	5%

The surrender charge will be nil if the surrender is opted for in the sixth year or later on with three or more years premium having been duly paid.

Switching charge: A subsequent switch after 12 free-of-charge switches in a policy year will be charged at the rate of Rs.250 per switch.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Partial withdrawal charge: A subsequent partial withdrawal after first two free-of-charge withdrawals in one policy year will be charged at the rate of Rs.250 per withdrawal.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Miscellaneous charge: The insurance company has the option to charge Rs.250 for alterations like premium redirection (the subsequent one after first free-of-charge redirection in a policy year) and reinstatement of the policy.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Policy surrender

Policy surrender can be opted for after the completion of first three policy years. The surrender value is as available after the deduction of the surrender charge detailed in the 'policy charges' section.

Partial withdrawal

The partial withdrawal facility provides financial liquidity to the policy holder to enable him / her to meet the intermittent financial needs. The facility is available after the life assured attains 18 years of age and after the completion of first three policy years. The minimum amount of a partial withdrawal is Rs.5,000.

The minimum fund value remaining after the partial withdrawal should be equal to 120% of the annualized regular premium. The current limit on the maximum partial withdrawal is restricted to 10% of the fund value in a policy year. This limit shall apply only during the first 15 policy years. First two partial withdrawals are free-of-charge in one policy year.

Tax benefits

Premium paid under the policy is eligible for deduction under the provisions of Section 80C of the Income Tax Act, 1961. Policy benefits are exempt from tax under Section 10(10D) of the Act.

Important: In this policy, the investment risk in the investment portfolio is borne by the policy holder.

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