

NFO in Mutual Fund: Definition, How it works & Benefits

5 May 2025

A New Fund Offer (NFO) in mutual funds is the launch of a new scheme by an Asset Management Company (AMC), allowing investors to buy units at a fixed price—usually ₹10, however, investor should check scheme information document for same. Similar to an IPO in stocks, an NFO is the starting point of a mutual fund's journey. It offers investors early access to new investment opportunities, often based on unique strategies or market trends. While NFOs can provide diversification and long-term growth potential, they also come with risks due to a lack of performance history. Understanding how NFOs work helps in making informed investment decisions.

What is NFO in Mutual Fund?

An NFO, or New Fund Offer, marks the launch phase of a new [mutual fund scheme](#). It's the period when investors can subscribe to a fund before it becomes available for regular trading. The fund is typically offered at a base price (often ₹10 per unit), giving early investors a simple entry point. Unlike ongoing mutual funds that have a changing [Net Asset Value \(NAV\)](#), NFOs offer units at a fixed cost. After the subscription window closes, the collected money is invested according to the scheme's objective. Once launched, the fund's NAV begins to fluctuate based on market movements and underlying asset performance.

Benefits of Investing in NFOs:

Benefit	Explanation
Early Entry Advantage	Investors can participate from inception, potentially benefiting from long-term growth as the fund establishes itself over time.
Low Initial NAV	Units are usually offered at ₹10, however, investor should check scheme information document for same. This provides a psychological benefit and ease of entry to investors.
Unique Investment Themes	NFOs often target new sectors, themes, or strategies not available in the AMC's existing funds, offering diversified portfolio exposure.
Diversification Opportunity	Helps spread risk by adding new asset classes or sectors to an existing investment portfolio.
Tailored Investment Options	Investors can choose funds that align with specific goals, such as sector exposure, hybrid strategies or passive investment styles.

However, it is crucial to approach NFO investment with a balanced perspective, acknowledging the potential risks involved. Unlike existing mutual funds in India with a proven track record, a

new fund lacks performance history. This makes it challenging to assess how the fund might perform under various market conditions. Additionally, NFOs may sometimes have higher expense ratios compared to more established funds, which may impact your overall returns.

Different Categories of NFOs

To cater the diverse investor profiles and market opportunities, AMCs launch different categories of NFOs:

Type of NFO	Key Characteristics
Equity NFOs	Invest in equity shares; high risk-return potential; suited for long-term, aggressive investors.
Debt NFOs	Focus on bonds and debt instruments; lower risk; suitable for conservative investors seeking stability.
Hybrid NFOs	Mix of equity and debt; balanced risk and return; appropriate for moderate-risk investors.
Sectoral/Thematic NFOs	Invest in specific sectors or themes; high growth potential with concentrated risk.
Passive NFOs	Track indices like Nifty or Sensex; low cost; suitable for broad market exposure.
Target Maturity NFOs	Fixed maturity debt funds; predictable returns if held till maturity; suitable for goal-based investing.

Who Should Invest in NFOs?

- **Risk-Tolerant Investors:** May prefer equity/sectoral NFOs for high growth potential.
- **Long-Term Investors:** May seek capital appreciation in equity/hybrid NFOs.
- **Diversification Seekers:** May explore thematic/hybrid NFOs for new asset classes.
- **Conservative Investors:** May opt for relatively stable returns in debt/target maturity NFOs.
- **Passive Investors:** May choose low-cost index tracking via Index Fund/ETFs NFOs.

Before diving into any NFO in mutual fund investing, it's essential to conduct thorough due diligence and understand the specifics of the fund offering. These categories help investors understand what is NFO and how it works.

Important Points to Consider Before investing through NFO:

- **Alignment with Financial Goals:** Ensure NFO objectives align with your wealth, retirement, or life goals.
- **Understanding the Fund Type and Risk:** Understand fund type (equity, debt, etc.) and its risk level relative to your tolerance.
- **Fund Manager's Experience:** Research the fund manager's background, as their expertise impacts performance. Also, consider the [AUM \(Assets Under Management\)](#) of the AMC, which reflects its scale and credibility.
- **Review the NFO Document:** Carefully read the offer document for critical information on strategy, allocation, risks, expenses, [exit load](#) etc.
- **Current Market Conditions:** Consider how market conditions may affect the fund's potential performance.
- **Investment Time Horizon:** Align your investment timeframe with the fund's nature (e.g., long-term for equity).

Evaluating these factors could provide some insight into whether an NFO investment might suit your portfolio.

How to Invest in NFOs (Example – Kotak Mutual Fund):

Though steps may vary, investing during an NFO is generally simple across different AMCs.

1. **Visit the Website/App:** Navigate to the official website or mobile application of the Asset Management Company (in this case, [Kotak Mutual Fund](#)).
2. **Select the NFO:** Look for a dedicated section on the website or app that lists the ongoing New Fund Offers. Select the specific NFO you are interested in.
3. **Read Scheme Details:** Thoroughly review the offer document and other relevant details about the chosen NFO.
4. **Create a folio (for new investors):** If you are a new investor with Kotak Mutual Fund, you will need to complete the Know Your Customer (KYC) process and register for an account. Existing investors can typically log in to their accounts.
5. **Enter Investment Amount:** Specify the amount you wish to invest in the NFO. There might be a minimum investment amount requirement.
6. **Choose Payment Method:** Select your preferred payment method, such as net banking.
7. **Confirm Investment:** Review all the details of your investment application and confirm.
8. **Track Investment:** After the NFO period closes and the units are allotted, you can track the performance of your investment through the AMC's website or app.

Conclusion:

NFOs can offer growth and diversification, but success depends on factors like fund type, objective, costs, and manager expertise. Aligning the NFO with your goals, risk tolerance, and market outlook is key to making informed investment decisions.

FAQs:

1. Is it good to invest in NFO?

Investing in an NFO depends on your goals and risk appetite. Typically, a NFO provides early access but lacks a track record of risk, returns, portfolio quality etc.

2. Can I withdraw money from NFO?

Once invested during an NFO of an open-ended fund, investors can withdraw after fund launch (subject to exit load). For investments made in NFO of a close-ended, the withdrawals may be done after maturity or via exchange (if liquidity permits).

3. Which is better, NFO or IPO?

NFO are for investing in mutual fund units which are potentially less risky due to a diversification. Investing directly in shares through IPO may be a riskier proposition. Hence investing in both, NFOs or IPOs largely depends on individual's risk appetite and investment goals.

4. What happens after buying units issued during NFO?

After buying the units through NFO, investors may hold it for long term for wealth creation.

5. What is the process of investing in an NFO?

Investors may visit AMC's platform like its website or mobile application, review details, create a folio (if new to the AMC), invest amount, make the payment and confirm.

6. How does NFO work?

During the NFO, units are offered at a fixed price, allocated post-closing and then the fund starts operating.

7. How many schemes can a mutual fund company bring through NFO?

There's no fixed limit; AMCs can launch multiple NFOs as per SEBI guidelines and market strategy.

8. What is the NAV rate at which the NFO is allotted?

Usually the NFO offering price is at the rate of ₹10, ₹100 or ₹1000 per unit.

9. How long is an NFO open for subscription?

NFOs remain open for subscription for a period ranging from 3 days to 15 days. However, for most of the equity and hybrid funds, the NFO remains open for 15 days.

Disclaimers

Investors may consult their Financial Advisors and/or Tax advisors before making any investment decision.

These materials are not intended for distribution to or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.