

The background features a pair of hands holding a globe, overlaid with various financial and ESG-related icons such as a bank building, a bar chart, and a location pin. The text is centered over this image.

# Understanding Investment Funds

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# Module 1: Introduction to Funds

- ❖ **Definition** – A fund is a pool of money collected from multiple investors to be invested collectively.
- ❖ **Importance** – Funds democratize investing, allowing small investors to access diversified portfolios.
- ❖ **Comparison** – Unlike direct stock ownership, funds spread risk across many assets.
- ❖ **Example:** A mutual fund may hold 100 different stocks, so if one company fails, the impact is limited.

# Introduction to Funds

- ❖ A fund is a pool of money collected from many investors.
- ❖ Invested collectively in a diversified portfolio.
- ❖ Helps achieve common investment goals.

# Why Are Funds Important?

- ❖ **Diversification:** Spreads risk across multiple assets.
- ❖ **Accessibility:** Allows small investors to participate.
- ❖ **Professional Management:** Managed by experts.
- ❖ **Funds vs. Single Stocks**
- ❖ **Funds:** Many investments, lower risk, diversified.
- ❖ **Single Stock:** One company, higher risk, less diversified.

## Module 2: Types of Funds

- ❖ **Mutual Funds** – Publicly available, professionally managed, invest in stocks/bonds.
- ❖ **Hedge Funds** – Private, high-risk strategies, often for wealthy investors.
- ❖ **Pension Funds** – Long-term savings vehicles for retirement.
- ❖ **Sovereign Wealth Funds** – State-owned, investing national reserves globally.

# Types of Funds in Finance

- ❖ Funds differ by purpose, risk, and investor profile.
- ❖ Four major categories: mutual funds, hedge funds, pension funds, sovereign wealth funds.
- ❖ Each serves unique financial goals.

# Mutual Funds – Collective Investing

- ❖ Open to the public; professionally managed.
- ❖ Invest in diversified portfolios of stocks and bonds.
- ❖ Ideal for small investors seeking steady growth.
- ❖ Example: Vanguard 500 Index Fund tracks the S&P 500.

# Hedge Funds – High-Risk Strategies

- ❖ Private investment partnerships for accredited investors.
- ❖ Use leverage, derivatives, and short-selling.
- ❖ Aim for high returns but carry significant risk.
- ❖ Example: Bridgewater Associates uses global macro strategies.

## Pension Funds – Retirement Security

- ❖ Long-term funds providing income after retirement.
- ❖ Managed conservatively to ensure stability.
- ❖ Invest in bonds, blue-chip stocks, and real estate.
- ❖ Example: California Public Employees Retirement System (CalPERS).

# Sovereign Wealth Funds – National Investments

- ❖ Owned by governments; invest national reserves globally.
- ❖ Aim to stabilize economies and generate long-term returns.
- ❖ Examples: Norway's Government Pension Fund Global, Singapore's GIC.

## Module 3: Fund Management

- ❖ **Role of Fund Managers** – Professionals making investment decisions.
- ❖ **Investment Strategies** – Growth investing, value investing, index tracking.
- ❖ **Performance Evaluation** – Benchmarks like S&P 500, ROI, Sharpe ratio.
- ❖ **Exercise:** Case study: Compare two fund managers' strategies.

## Fund Managers – Decision Makers

- ❖ Professionals responsible for managing pooled investments.
- ❖ Decide asset allocation: stocks, bonds, real estate, etc.
- ❖ Balance risk and return to meet investor goals.
- ❖ Accountability: performance compared to benchmarks.

# Strategies in Fund Management

- ❖ **Growth Investing:** Focus on companies with high potential expansion.
- ❖ **Value Investing:** Target undervalued stocks with strong fundamentals.
- ❖ **Index Tracking:** Replicate performance of a market index (e.g., S&P 500).
- ❖ **Active vs. Passive:** Active seeks to outperform, passive follows the market.

# Measuring Fund Success

- ❖ Benchmarks: Compare against indices like S&P 500 or VN-Index.
- ❖ Metrics: ROI (Return on Investment), Sharpe Ratio, Alpha.
- ❖ Time Horizon: Short-term vs. long-term performance.
- ❖ Investor Reports: Transparency through regular updates.

## Case Study – Comparing Strategies

- ❖ **Manager A:** Growth strategy, invests heavily in tech stocks.
- ❖ **Manager B:** Value strategy, focuses on undervalued industrial firms.
- ❖ **Outcome:** Growth fund shows higher volatility but strong returns; value fund steadier with moderate gains.
- ❖ **Lesson:** Strategy choice depends on investor risk tolerance.

# Module 4: Risks and Returns

## ❖ Risk Factors

- Market volatility,
- Interest rates,
- Poor management.

## ❖ Diversification – Spreading investments to reduce risk.

## ❖ Measuring Returns – ROI, Sharpe ratio, comparison to benchmarks.

## ❖ Exercise: Draw a risk-return chart for two funds.

# Understanding Risks in Funds

- ❖ Market volatility: prices rise and fall unpredictably.
- ❖ Interest rate changes: affect bond values and borrowing costs.
- ❖ Poor management: weak decisions reduce fund performance.
- ❖ External shocks: geopolitical events, inflation, or crises.

## Diversification – Spreading Risk

- ❖ Invest across multiple asset classes (stocks, bonds, real estate).
- ❖ Reduces impact of one asset's poor performance.
- ❖ “Don't put all your eggs in one basket.”
- ❖ Example: Balanced fund with 60% stocks, 30% bonds, 10% real estate.

## Returns – Measuring Growth

- ❖ ROI (Return on Investment): percentage gain/loss.
- ❖ Sharpe Ratio: return adjusted for risk.
- ❖ Alpha: performance compared to benchmark.
- ❖ Long-term vs. short-term returns.

## Balancing Risk and Reward

- ❖ High risk → potential for high returns, but more volatility.
- ❖ Low risk → stable returns, but limited growth.
- ❖ Investor choice depends on risk tolerance.
- ❖ Example: Tech growth fund vs. government bond fund.

## Applying Risk and Return Concepts

- ❖ Task: Compare two funds — one aggressive, one conservative.
- ❖ Draw a risk-return chart showing volatility vs. average return.
- ❖ Discuss which fund suits a young investor vs. a retiree.
- ❖ Lesson: Investment strategy must match investor profile.

## Module 5: Regulations and Ethics

- ❖ **Legal Framework** – Protects investors through strict rules.
- ❖ **Compliance** – Ensures transparency and accountability.
- ❖ **Ethical Investing** – Focus on sustainability, avoid harmful industries.
- ❖ **Example:** ESG funds avoid investing in tobacco or fossil fuels.

# Regulations Governing Funds

- ❖ Funds operate under strict financial laws.
- ❖ Protect investors from fraud and mismanagement.
- ❖ Examples: SEC regulations in the U.S., State Bank rules in Vietnam.
- ❖ Ensure transparency and accountability.

## Compliance – Following the Rules

- ❖ Regular reporting to regulators.
- ❖ Disclosure of portfolio holdings.
- ❖ Audits and independent reviews.
- ❖ Penalties for non-compliance.

# Ethics in Fund Management

- ❖ ESG (Environmental, Social, Governance) principles.
- ❖ Avoid industries harmful to society (tobacco, fossil fuels, weapons).
- ❖ Promote sustainability and social responsibility.
- ❖ Growing demand for “green funds.”

# Safeguarding Investor Interests

- ❖ Clear communication of risks.
- ❖ Fair treatment of all investors.
- ❖ Mechanisms for dispute resolution.
- ❖ Example: Investor compensation schemes.

# Applying Regulations and Ethics

- ❖ Task: Review a sample fund prospectus.
- ❖ Identify compliance features (reporting, disclosure).
- ❖ Debate: Should funds exclude fossil fuels entirely?
- ❖ Lesson: Regulations protect investors, ethics guide responsible investing.

## Module 6: Case Studies

- ❖ **Success Story** – Vanguard pioneered low-cost index funds.
- ❖ **Failure Story** – Long-Term Capital Management collapsed due to leverage.
- ❖ **Lessons Learned** – Discipline, transparency, and risk control are essential.
- ❖ **Exercise:** Write a reflection on what makes a fund successful.

## Learning from Real Funds

- ❖ Case studies show how funds succeed or fail.
- ❖ Provide lessons in management, risk, and discipline.
- ❖ Help investors understand practical applications of theory.

## Vanguard – Low-Cost Index Funds

- ❖ Pioneered index funds in the 1970s.
- ❖ Focused on low fees and passive investing.
- ❖ Became one of the largest fund managers globally.
- ❖ Lesson: Cost efficiency and transparency attract investors.

# Long-Term Capital Management Collapse

- ❖ Hedge fund using complex mathematical models.
- ❖ Excessive leverage led to massive losses in 1998.
- ❖ Required bailout to avoid global financial crisis.
- ❖ Lesson: Overconfidence and high leverage can destroy funds.

## Key Takeaways from Case Studies

- ❖ Discipline in strategy is essential.
- ❖ Transparency builds investor trust.
- ❖ Risk control prevents catastrophic losses.
- ❖ Long-term focus beats short-term speculation.

## Applying Case Study Insights

- ❖ Task: Compare Vanguard's success with LTCM's failure.
- ❖ Identify 3 factors that led to success vs. failure.
- ❖ Discuss: Which lessons are most relevant for today's investors?
- ❖ Lesson: Case studies guide better decision-making in fund management.