BASICS OF MUTUAL FUNDS

AWA

Preface

Investing in mutual funds is one of the most popular ways to grow your wealth over time. Whether you are a beginner or an experienced investor, understanding the basics of mutual funds is essential to make informed investment decisions.

This book aims to provide you with a comprehensive understanding of mutual funds, starting with the basics such as what a mutual fund is and its structure, how it works, and the different types of mutual funds available in the market. We will also cover important topics such as key regulatory bodies and their initiatives , the history of mutual funds, the role of the fund manager, important documents relating to mutual funds, how to read a factsheet and how to monitor your mutual fund investments.

By the end of this book, you will have a solid understanding of mutual funds and the confidence to make informed investment decisions that align with your financial goals.

Note to the readers:

This book is intended to provide general information and educational material about mutual funds. It is not intended to provide specific investment advice or recommendations. While this book aims to provide a comprehensive introduction to mutual funds, readers should not rely solely on the information presented here and should always conduct their own research and seek professional advice before making any investment decisions.

Chapter - 1

Introduction to Mutual Fund and understanding the Structure of a Mutual Fund

1.1. What is a Mutual Fund?

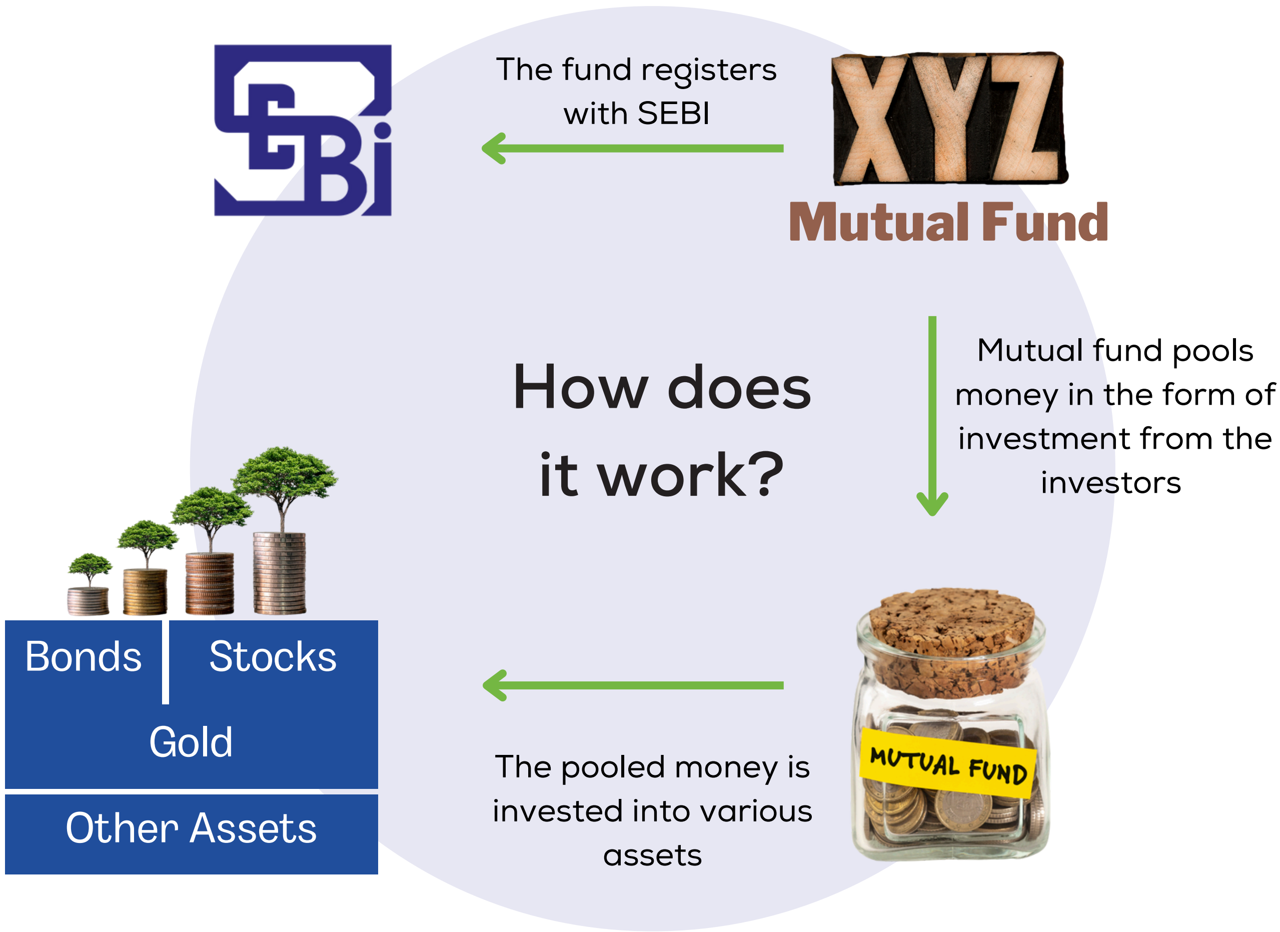


Figure 1.1. How Mutual Funds Work

A mutual fund is an investment avenue that pools money from investors with a common objective and invests the pooled money into various asset classes like stocks, bonds and other assets. Before a mutual fund may collect funds from the public, it must be registered with the Securities and Exchange Board of India (SEBI).

Investors can have many investment objectives. In order to offer investors the choice to meet their goals and income requirements, a mutual fund can have many "schemes". Mutual funds launch a number of schemes that have varying investment goals and are introduced from time to time. Every Scheme has a pre-announced investment objective. When investors invest in a mutual fund scheme, they are effectively buying into its investment objective.

1.2. Mutual Fund Structure

A mutual fund is set up in the form of a trust, which has a sponsor, trustees, asset management company (AMC), (Registrar and Transfer Agent) RTA and custodian.

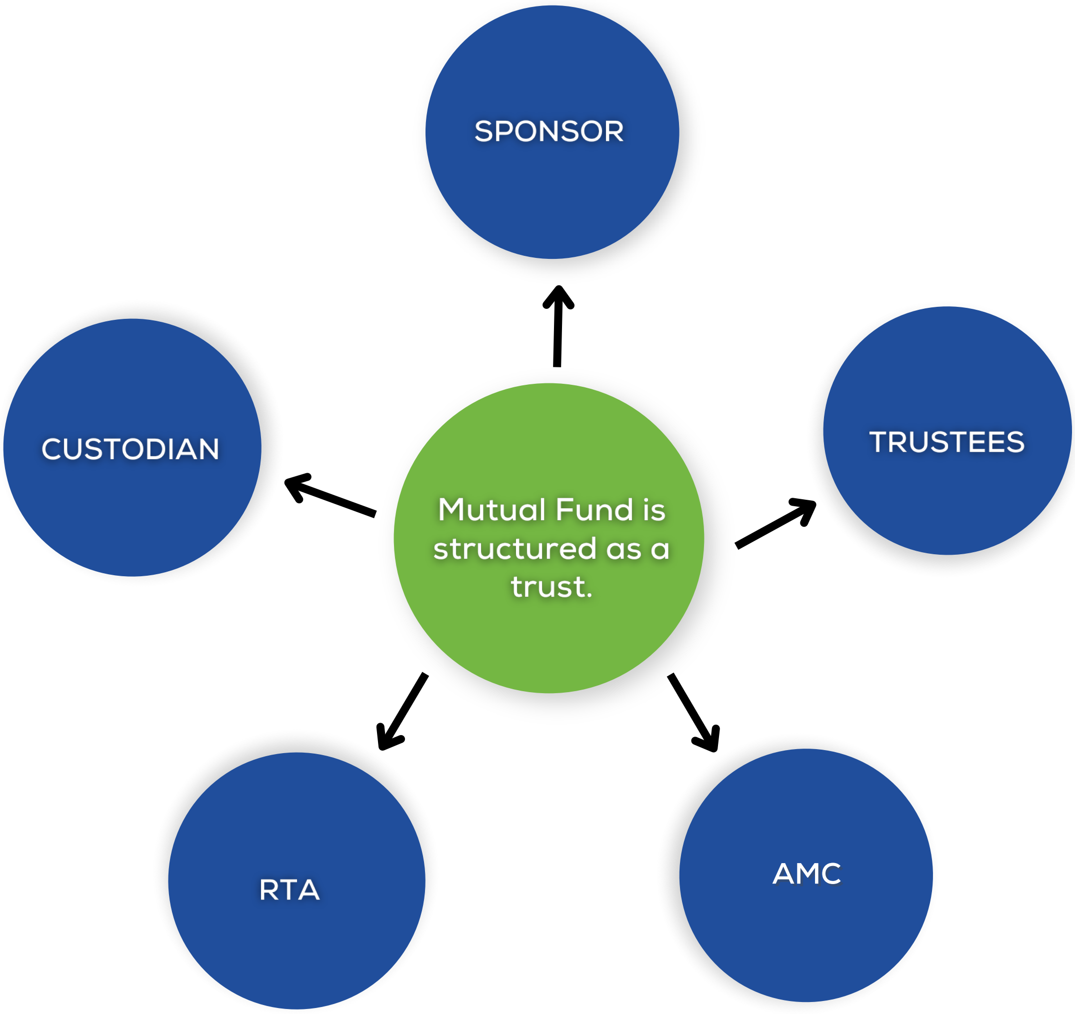


Figure 1.2. Mutual Fund Structure

SPONSORS

The trust is established by a sponsor or sponsors who act similarly to a company promoter.

Figure 1.3. Sponsors

TRUSTEES

The mutual fund's trustees hold its property for the benefit of its unitholders. They monitor mutual funds' performance and compliance with SEBI regulations.

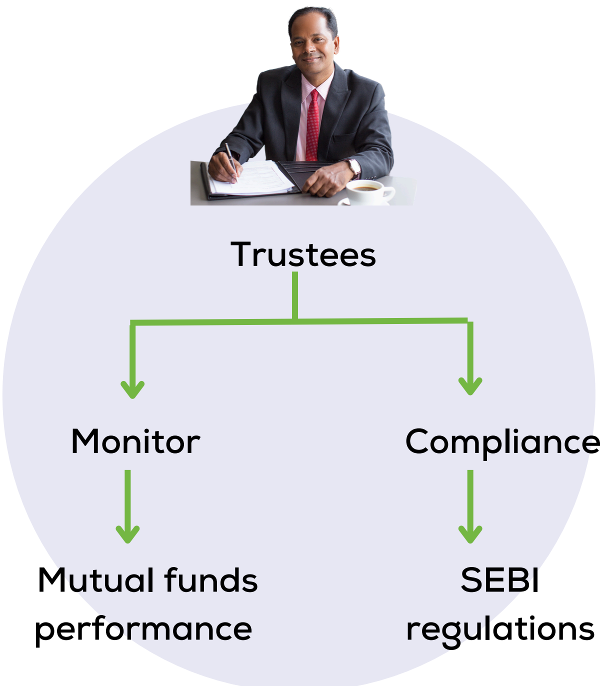


Figure 1.4. Role of Trustees

AMC

AMC (Asset Management Company), authorized by SEBI, manages the funds by investing in various types of securities. To do so, AMCs hire a team of qualified professionals like dealers, analysts and fund managers who comprise the Investment Team.

Fund managers are responsible for picking the right set of securities that go into building an MF scheme. They base this selection on in-depth research and analysis of the market. They also make sure to comply with all the regulatory authorities while choosing the securities for a scheme.

The primary goal of an asset management firm is to work for the benefit of it's investors, which they do by matching MFs to your financial objectives.

Figure 1.5. AMC

Figure 1.6. AMC Composition

RTAs

Registrar & transfer agents - They are the institutions that register and maintain detailed records of the transactions of investors for the convenience of mutual fund houses.

These transactions can be purchases, switches and sales by investors, updating bank account details and nominations, other personal records etc. RTAs also carry out the KYC documentation for new investors.

Figure 1.7. Role of RTAs

CUSTODIAN

Custodian - A Custodian is required to be registered with SEBI and is in charge of keeping the securities of the fund's various schemes. It is responsible for the safekeeping of all the securities.

Let us understand the Structure Of Mutual Funds with the help of an illustrative diagram as shown on the next page -

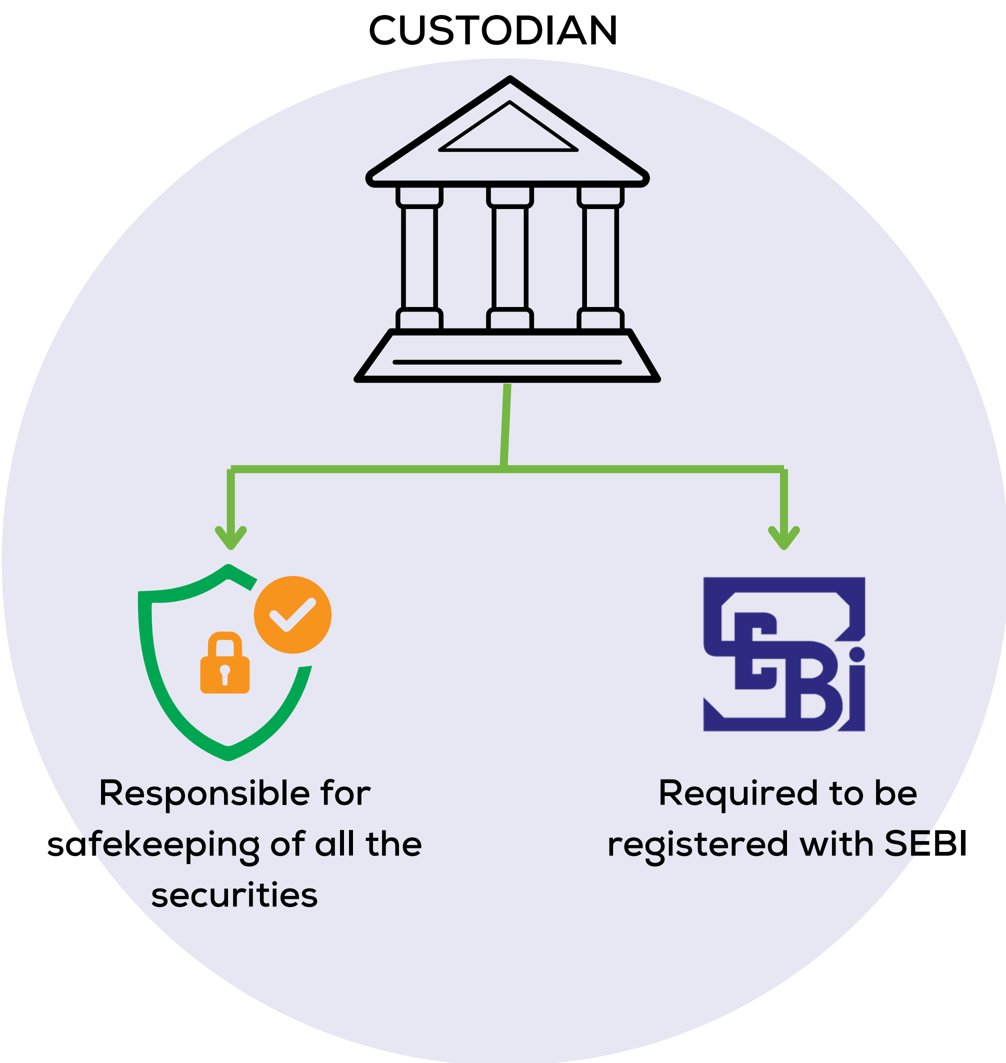


Figure 1.8. Custodian

Let's take a real life example to understand this structure better -

SBI MUTUAL FUND	
Sponsor	State Bank of India
Trustee	SBI Mutual Fund Trustee Company Pvt Ltd
AMC	SBI Funds Management Private limited
Custodian	3 Custodians: Deutsche bank, HDFC Bank, SBI SG Global Securities Services Pvt Ltd
RTA	Computer Age Management Services (CAMS)
Name of few Mutual Funds Schemes	SBI Multicap Fund, SBI Small Cap fund, SBI Liquid Fund, SBI Nifty Next 50 Index Fund

Table 1.1. Structure of SBI Mutual Fund

Chapter - 2

Key mutual fund terms

2.1 Key Mutual Fund Terms

Let us now move ahead to learn some key Mutual Fund terminologies -

AUM

Assets under management (AUM) is the total investment value or market value of assets that a mutual fund holds under its various schemes. The assets could be equities, bonds, cash equivalents like reverse repos, treasury bills, derivatives, etc. Market value can fluctuate daily depending on how the underlying asset is traded in the financial markets. In the case of mutual funds, the market value of the assets in its schemes are computed daily.

Table 2.1 AUM

So if we take a hypothetical example of a Mutual Fund which has two schemes, one is an equity scheme which has assets with a market value of Rs 100 cr. Another is a debt scheme which has assets with a market value of Rs 50 cr. The total AUM of the Mutual Fund would be Rs 100 cr plus Rs 50 cr, which equals Rs 150 cr.

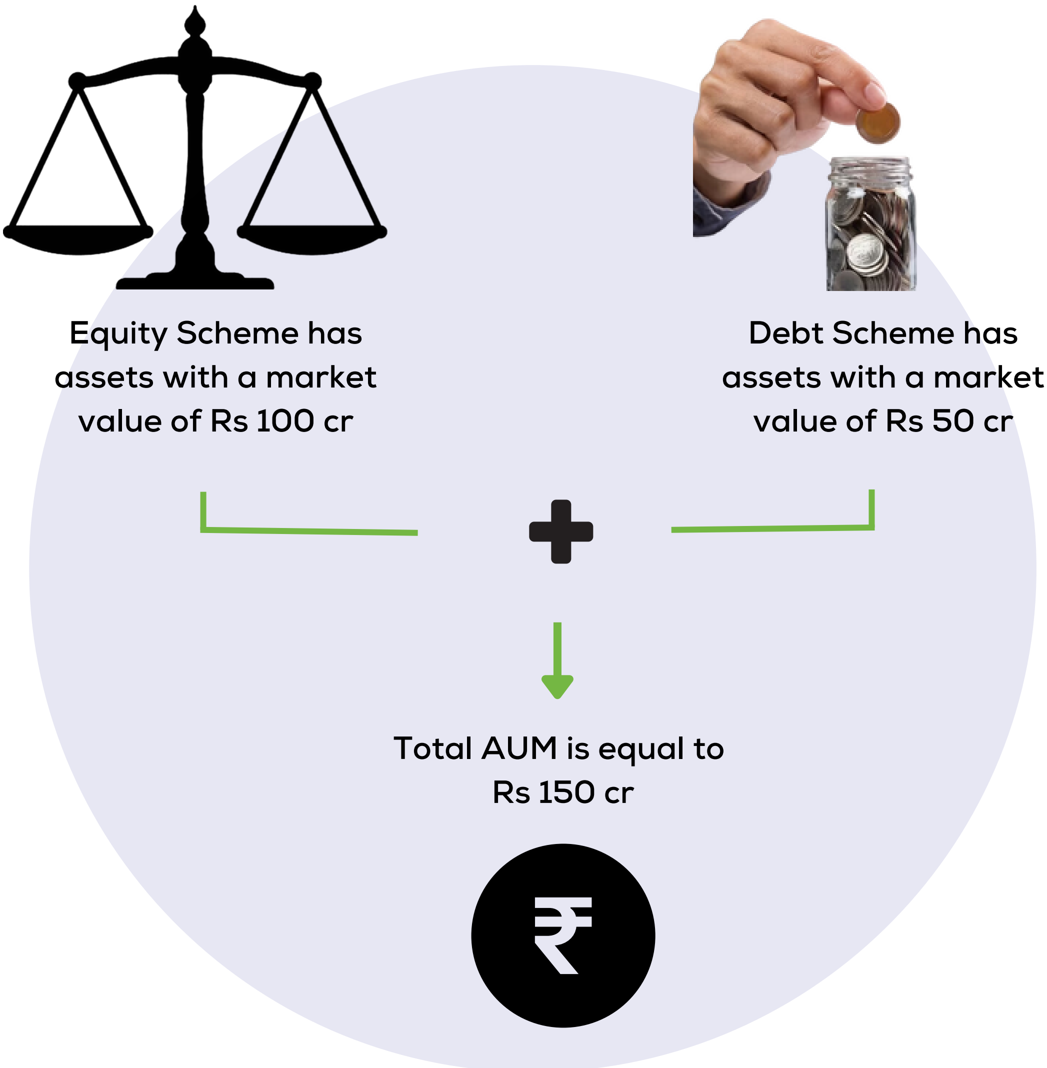


Figure 2.2

The AUM of every mutual fund is published on the respective mutual fund's website as well as on many other public websites. You can even find the AUMs of all mutual funds on the AMFI (Association of Mutual Funds of India) website.

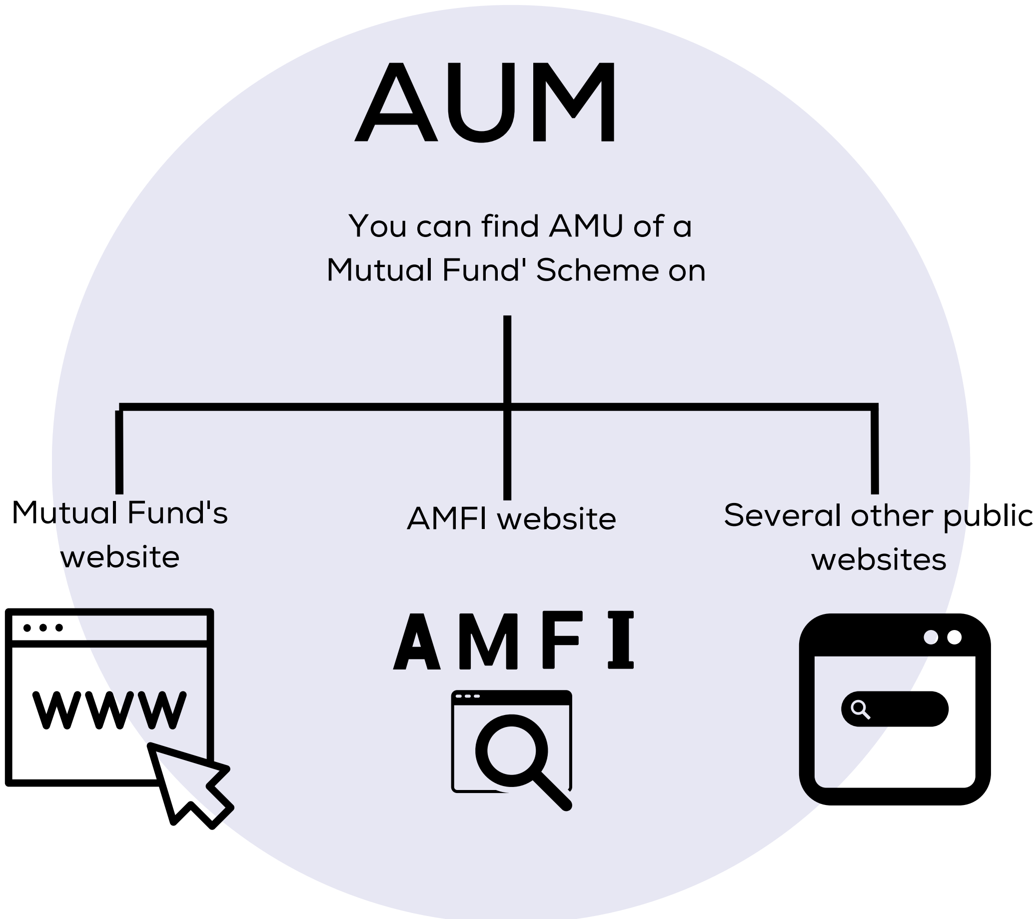


Figure 2.3. AUM

NAV

Net Asset Value (NAV) is used to indicate the market value of a specific Mutual Fund scheme. Simply put, NAV is the market value of the securities/assets held by the Scheme. Mutual Funds make investments in a variety of financial markets, including the equity market, debt market, money market, etc., with the money they receive from investors under various schemes. Since the market value of these assets can change every day depending on the trades by buyers and sellers, the NAV of a scheme also varies on a daily basis. The NAV per unit is the market value of securities/assets of a scheme plus interest accrued minus any liabilities and expenses divided by the total number of units of the Scheme on any particular date. The term Net is used because the value is declared after netting out (subtracting) expenses.

NAV = **MARKET VALUE OF A SPECIFIC MUTUAL FUND SCHEME**

For example, if the market value of a mutual fund scheme's assets is Rs 5 crores and the mutual fund has issued 10 lakh units of Rs 10 each to investors, the fund's NAV per unit is Rs.50.

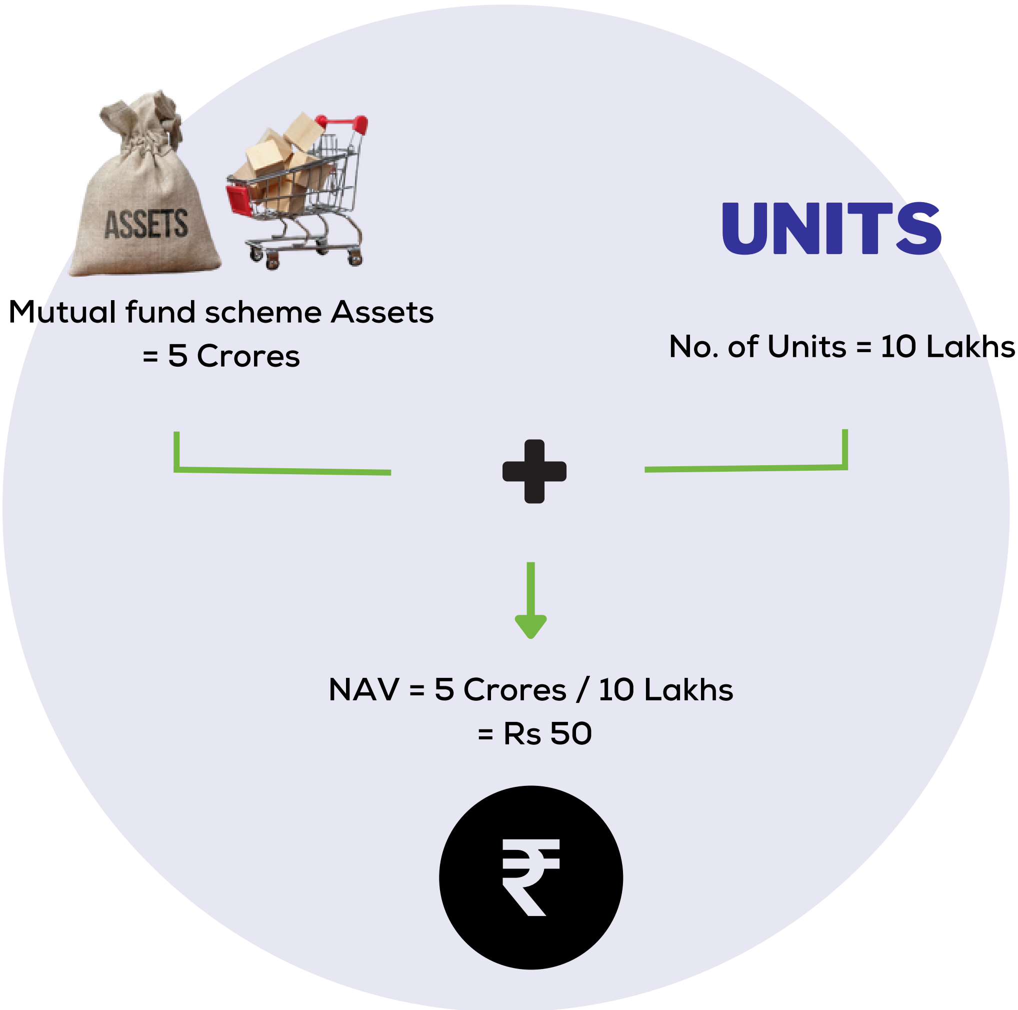


Figure 2.4. Net Asset Value (NAV)

Mutual funds are bought or sold on the basis of NAV. While the absolute NAV in itself does not matter, what would be relevant for the investor is the increase or decrease in the NAV. The increase in NAV would determine the kind of returns the investor would get from that particular Scheme.

NAVs of a Mutual Fund' Scheme can be found on the Mutual Fund's website. You can also find NAV's of all Mutual Fund schemes on the AMFI (association of mutual funds in India) website. Several other public websites like valueresearchonline.com, moneycontrol, etmoney, fundindia, mutualfundsofindia, advisorkhoj etc also provide NAV data.

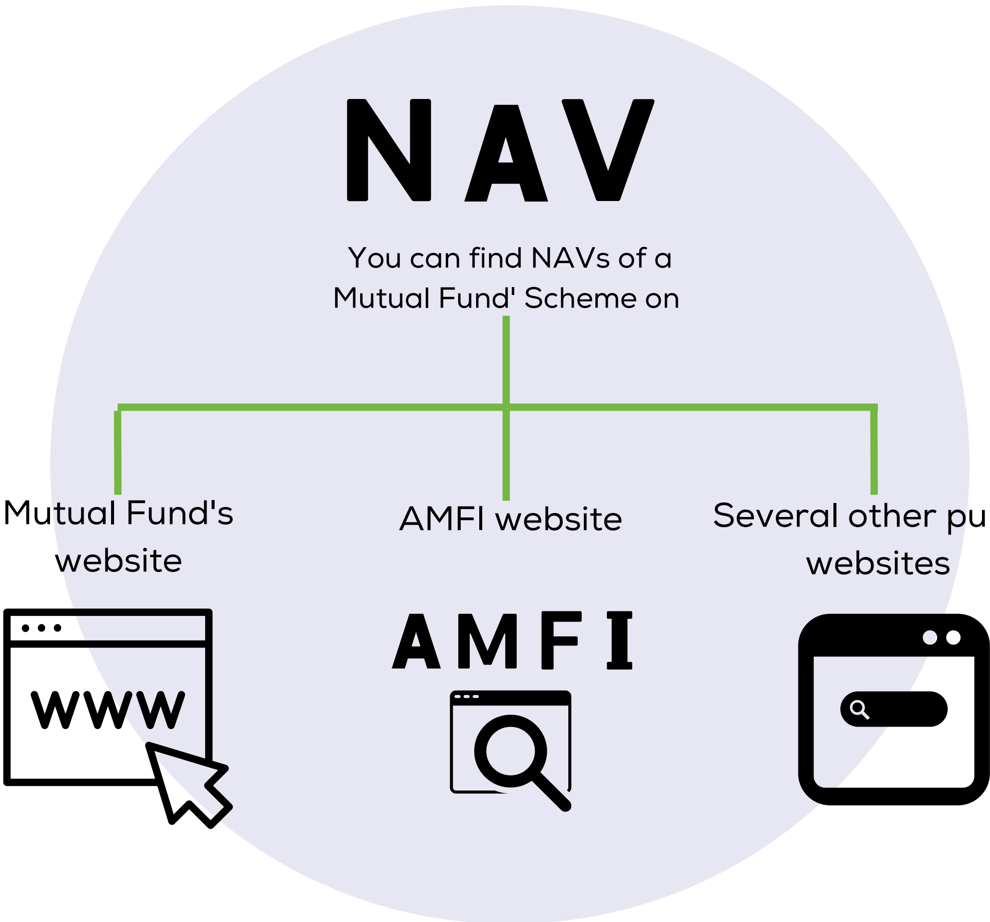


Figure 2.5. Where to find the Net Asset Value (NAV)

2.2 How is Market Value for NAV calculation determined?

The market value of the assets like equities, bonds, and cash-like instruments are computed based on their traded prices as available on key exchanges and trading platforms at the end of the day. While equities are available on exchanges like NSE and BSE for debt instruments, the prices are provided by independent valuation agencies nominated by the Mutual Fund Industry Body AMFI. Currently, these are CRISIL and ICRA.

Every mutual fund is required to upload its valuation policy on its website. This can be accessed by investors.

Unitholder

Investors of mutual funds are known as unitholders/The Mutual Fund Investor. Investors who have invested in mutual fund units share the profits or losses proportionately to those investments.

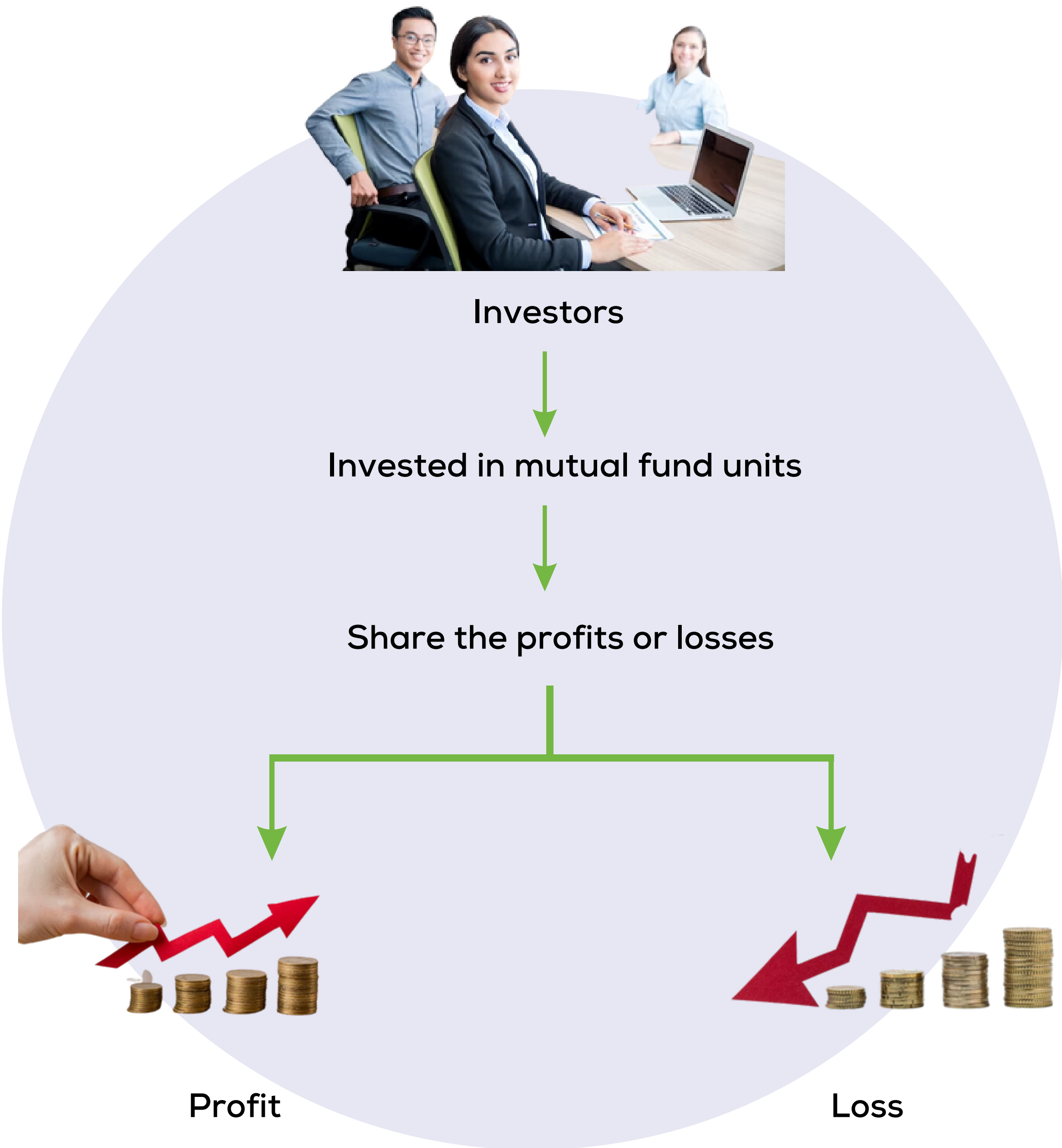


Figure 2.7.Unitholder

Here's a simple way to understand the concept of a Mutual Fund Unit and Unitholder

Let's say that there is a box of 10 cookies costing ₹200. Five friends decide to buy the same, but they have only ₹40 each, and the shopkeeper only sells by the box. So the friends then decide to pool in ₹40 each and buy the box of 10 cookies. Now based on their contribution, they each receive 2 cookies or 2 units.
And how do you calculate the cost of one unit? Simply divide the total amount by the total number of cookies: 200/10 = Rs 20.

This results in each friend being a unit holder in the box of cookies that is collectively owned by all of them, with each person being a part owner of the box.

Shopkeeper sells
Box of 10 cookies

=

Box of 10 cookies
costing ₹200

Each one wants to buy a
box of cookies

→

Have only
₹40 each

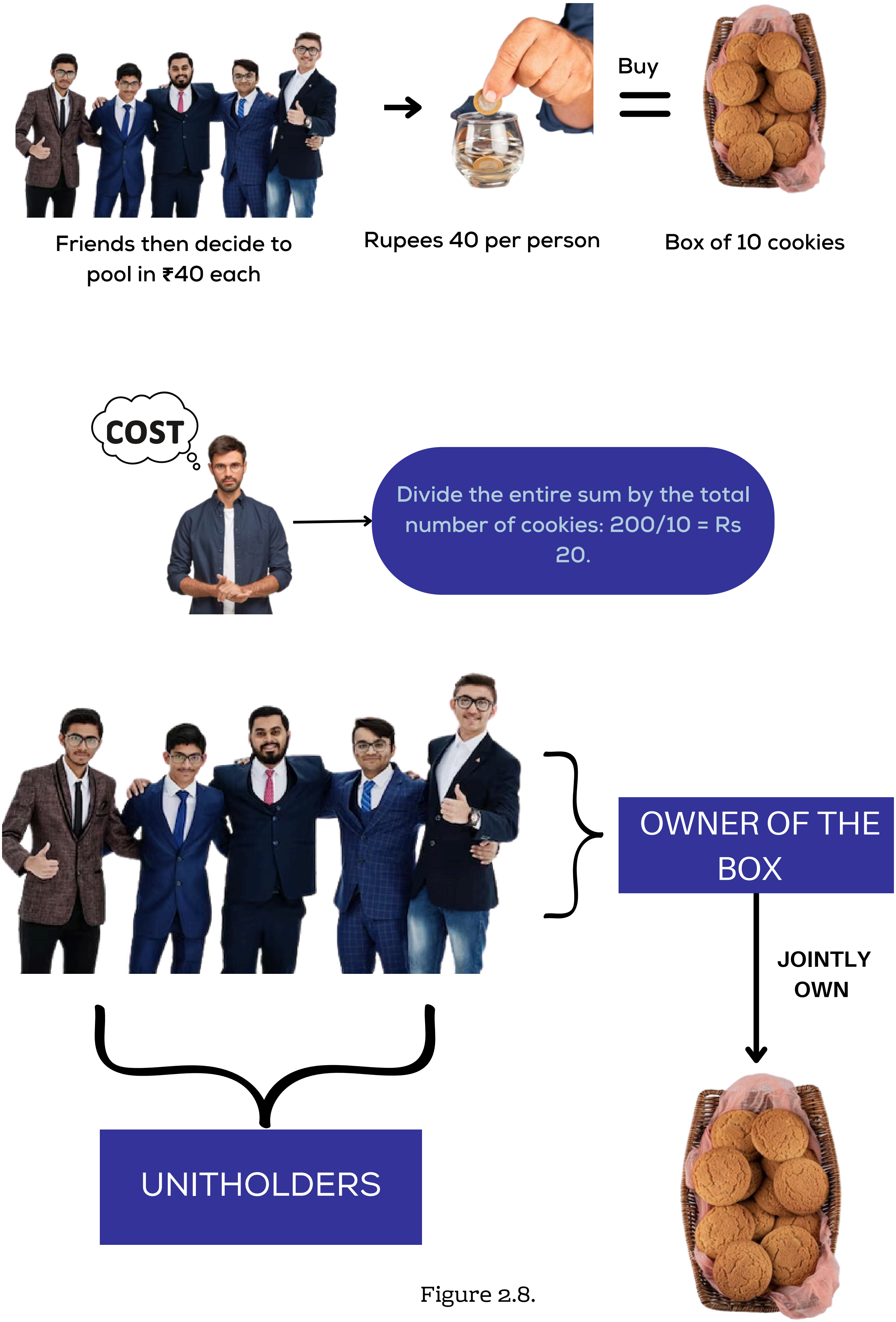

Friends then decide to pool in ₹40 each
Rupees 40 per person
Buy
Box of 10 cookies
COST
Divide the entire sum by the total number of cookies: 200/10 = Rs 20.
OWNER OF THE BOX
JOINTLY OWN
UNITHOLDERS

Figure 2.8.

Types of Investors in Mutual Funds

AMFI (Association of Mutual Funds in India) defines three broad categories of investors: Retail, HNI and Institutional

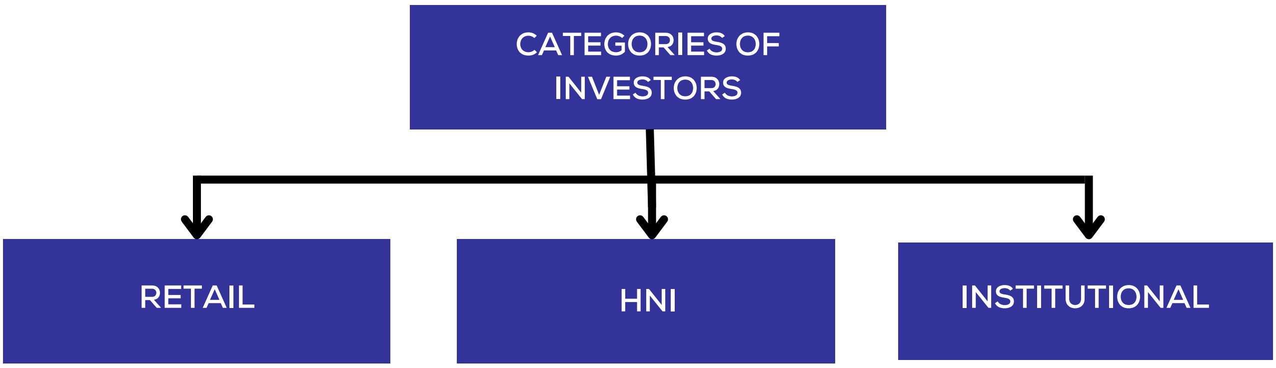


Fig 2.9.

Retail Investors are defined as those individuals having investments of Rs 2 lakhs or less in a specific scheme. HNI (High networth Individuals) are individual investors who have investments worth more than Rs 2 lakhs in a specific scheme. Institutional investors can comprise corporates, banks, charitable trusts and other financial institutions

Expense Ratio

The TER is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a mutual fund is published after the deduction of such expenses.

The TER that mutual funds are charging for each Scheme must be disclosed. Usually, this can be found in the factsheet or on the website for the mutual fund. Investors must be informed of any modifications made to TER. SEBI, the regulator, also establishes TER maximum limits.

TOTAL EXPENSE RATIO = % Scheme's average NAV

Figure 2.10.

As a percentage of the fund's daily net assets, mutual funds are allowed to charge certain operating costs for managing a mutual funds scheme, such as sales and marketing/advertising expenses, administrative costs, transaction costs, investment management fees, registrar fees, custodian fees, and audit fees.

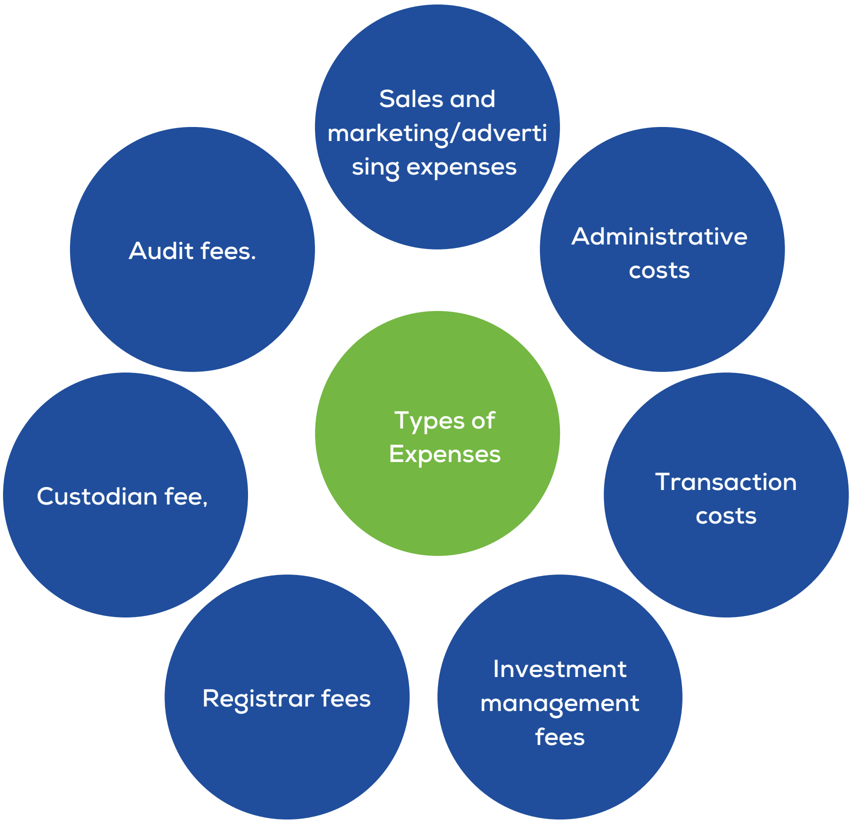


Figure 2.11.

Total Expense Ratio(TER) refers to all such expenses incurred in operating and managing a mutual fund scheme.

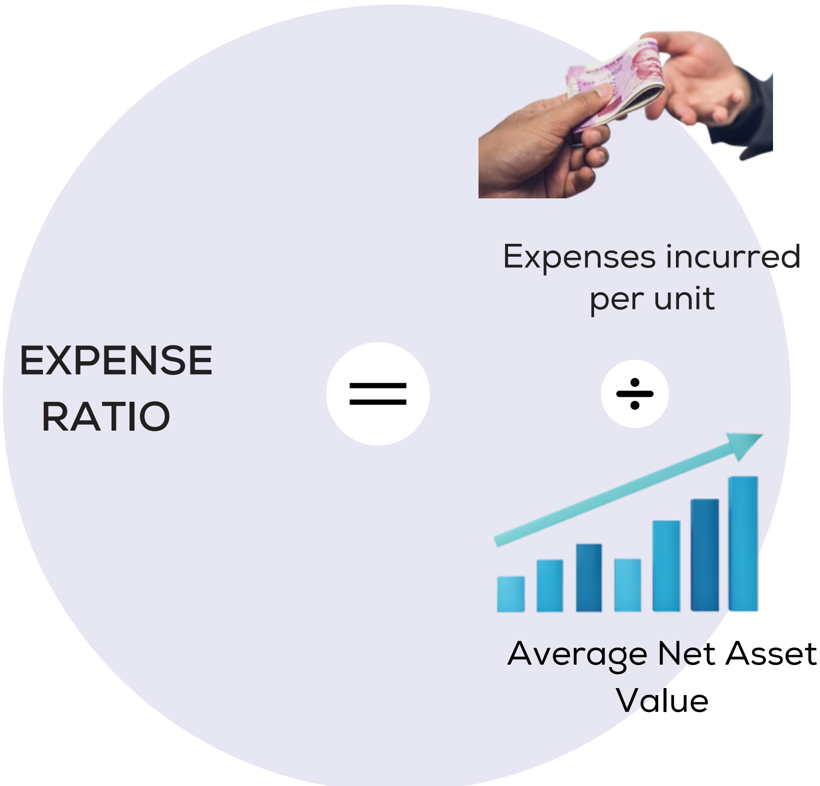


Figure 2.12.

Direct Plan Vs Regular Plan

Every Mutual Fund scheme can be broadly divided into two types depending on whether the investor wishes to invest **directly** or **through an advisor/agent/broker**.

In a "Direct Plan," one may invest in mutual funds DIRECTLY, without involving or routing the investment through distributors or agents.

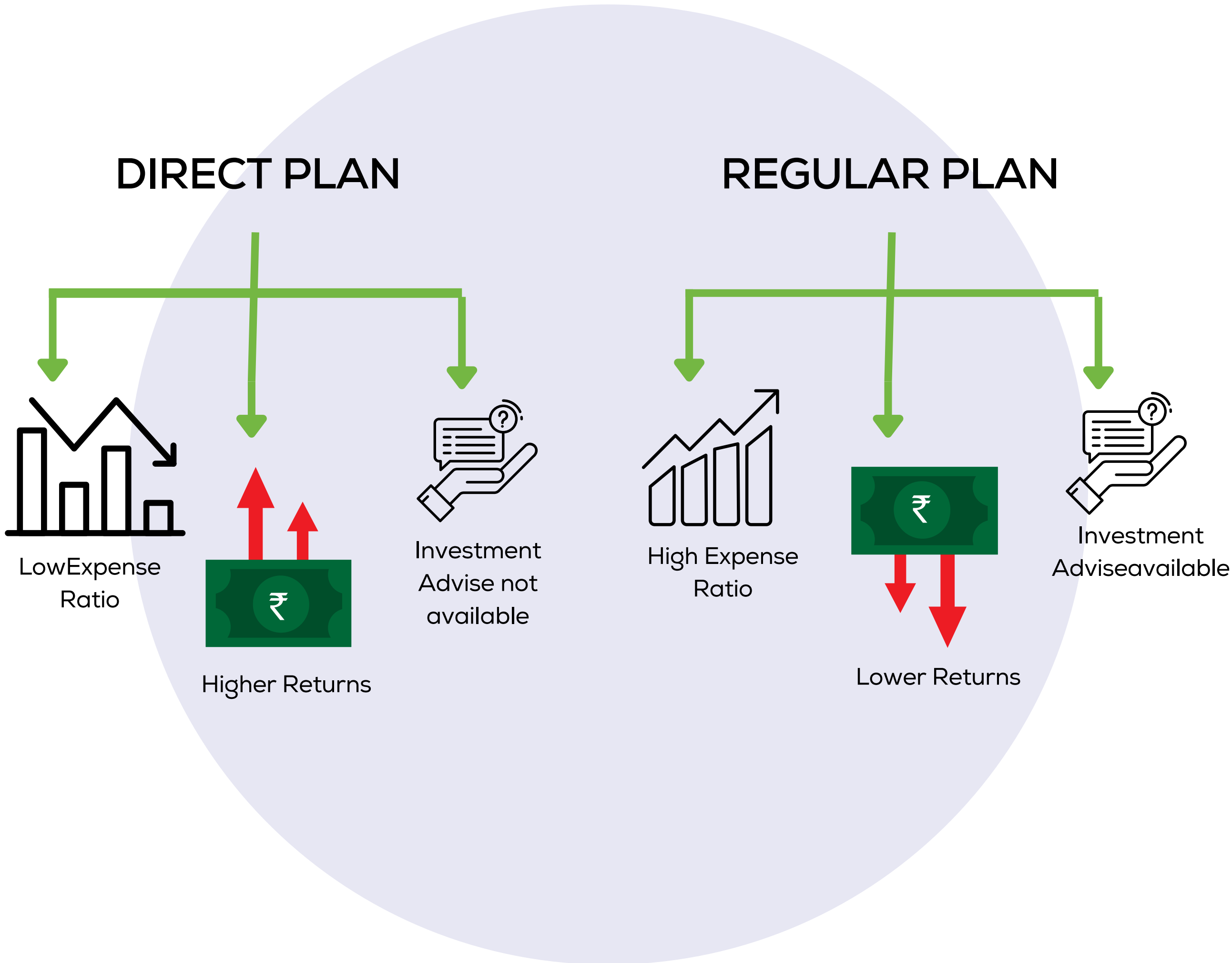


Figure 2.13. Direct Plan Vs Regular Plan

OR, one may opt to invest in mutual funds through what is known as a "Regular Plan" with the assistance of a mutual fund distributor or agent.

Every Mutual Fund scheme has a"Direct Plan" and a "Regular Plan". They share a common portfolio, and are managed by the same fund manager; but have different expense ratios and different NAVs.

The Direct Plan has a lower expense ratio than the Regular Plan because there are no distribution costs. As a result, there is a saving in terms of the distribution costs and commissions paid to the distributor or agent, which are then contributed back to the scheme's returns.

The NAVs of Direct Plans and Regular Plans are therefore calculated independently.

Let's take a closer look at how Direct and Regular Plans are further divided based on the types of returns that Mutual Fund investors receive from the scheme.

Growth Plan and IDCWPlan

As an investor not only do you have a choice of investing in a direct or regular plan, but within both types of plans, you further have the option to invest in either a Growth plan or IDCW plan

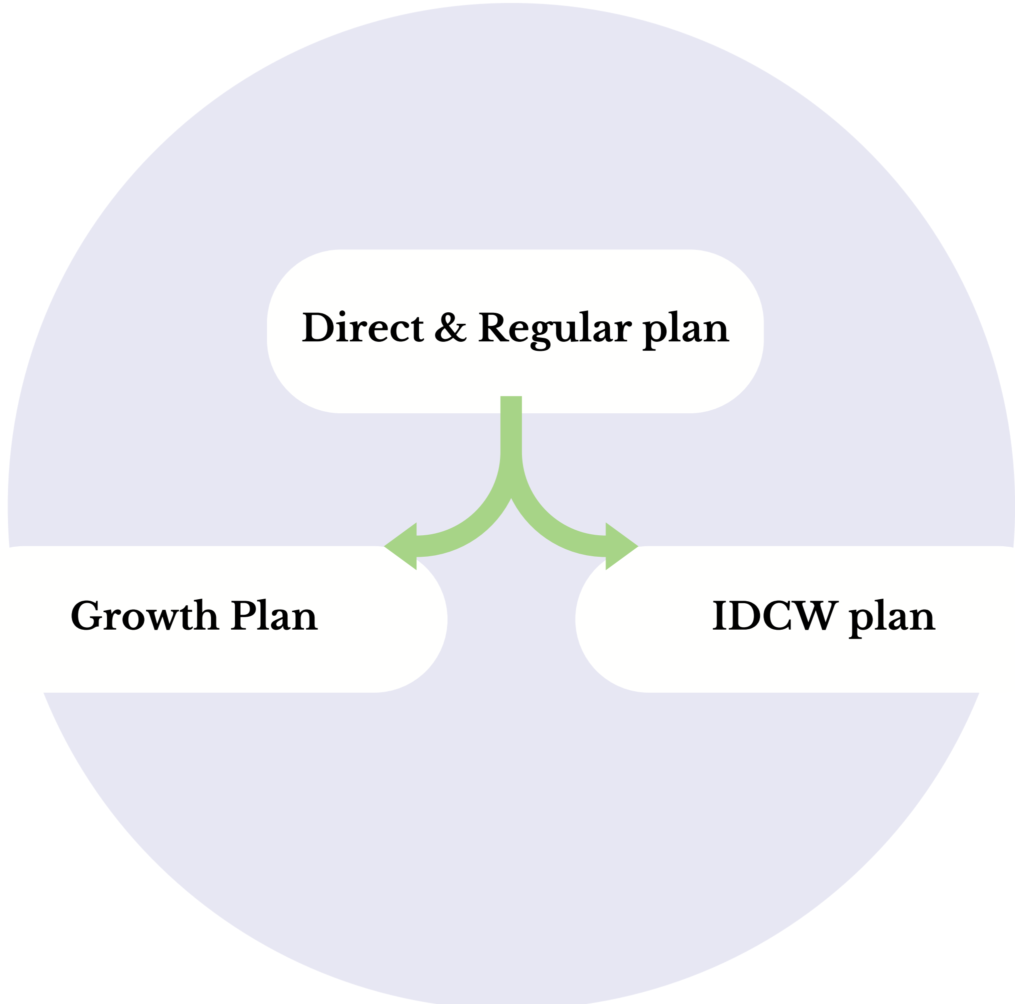


Figure 2.14. Growth Plan and IDCW

Earlier instead of IDCW, the options available were various types of dividend and dividend reinvestment plans. However there was confusion among investors as at times the mutual fund may pay dividends even when income was not available. In such cases it would be out of the capital amount or the principal amount invested by the investor. Thus the name of the plan was changed in order to clarify to investors that in such a plan the distribution can be from income earned or from the principal/capital amount itself.

Despite having identical underlying portfolios, the IDCW and Growth Plans differ in how they allocate the returns generated by the scheme.

For instance, you can choose to receive the returns on your investments on a regular basis under the IDCW plan.

Figure 2.15. IDCW plan.

On the other hand, you can permit the scheme's returns to be reinvested in the Growth Plan of a Mutual Fund scheme. You do not choose to get them on a regular basis. Reinvesting returns allows you to potentially earn returns on returns, which allows you to take advantage of compounding.

Figure 2.16 Growth Plan

Let's illustrate with a live example.

The NAVs are again computed separately. In the case of an IDCW plan, whenever payouts happen the NAV would fall to that extent.

Let's illustrate with a live example.

Mirae Asset Large Cap Fund

(An open ended equity scheme predominantly investing across large cap stocks)

Scheme Code	Plan Name	NAV (₹)	NAV Date
IORG	Regular Growth Plan	70.702	13-Jun-2022
IORD	Regular Daily IDCW	21.342	13-Jun-2022
IOD1	Direct Plan - Growth	77.271	13-Jun-2022
IOD2	Direct Daily IDCW	47.592	13-Jun-2022

Data Source: https://www.miraeassetmf.co.in/mutual-fund-scheme/nav-update

As you can see the above Mutual Fund scheme has 4 options with 4 NAVs. The underlying portfolio of the 4 options would be common with the same fund manager/s.

Scheme Benchmark

A benchmark is defined as a standard against which the performance of a mutual fund scheme is measured. In 2012, SEBI made it mandatory that the fund houses should declare a benchmark index for every scheme. This is because different mutual fund schemes have different investment objectives and, therefore, cannot be expected to perform similarly. For e.g. an equity scheme will not generate similar returns as a debt fund. Or, within equity, a large-cap equity scheme may perform differently from a small-cap equity scheme. Thus a reference point is needed for investors to evaluate if a scheme is performing well. This is where benchmarks come in. In India, NSE, S&P BSE and CRISIL have developed various types of standard indices which can be used as benchmarks.

As per recent guidelines issued by SEBI, all mutual fund schemes in a particular category will have at least a uniform benchmark (known as Tier I) so that it facilitates ease of understanding and comparison. There can be a second benchmark (known as Tier II) which is optional which can reflect the unique investing style or strategy of a scheme.

The scheme benchmark data can be found on the mutual fund's website. It is also included in any scheme specific advertisements and can also be checked in the mutual fund factsheet.

For an illustration, the below table depicts the details of few mutual fund schemes with their benchmark:

SCHEME NAME	1ST TIER BENCHMARK
Mirae Asset Large Cap Fund	NIFTY 100 Total Return Index
Axis Bluechip Fund	S&P BSE 100 Total Return Index and NIFTY 50 TRI
CanaraRobeco Flexi Cap Fund	S&P BSE 500 Total Return Index
SBI Magnum Ultra ShortDuration FundCustodian	CRISIL ULTRA SHORT DURATION B -1 INDEX
Tata Hybrid Equity Fund	CRISIL Hybrid 35+65 - Aggressive Index TRI

Table 2.1. Mutual Fund Schemes

NFO

A 'New Fund Offer' or an NFO is the first time a mutual fund scheme is made available for investment. The fund house must first file a draft offer document with SEBI. Only after SEBI's permission can the MF launch the NFO to the public and accept investments.

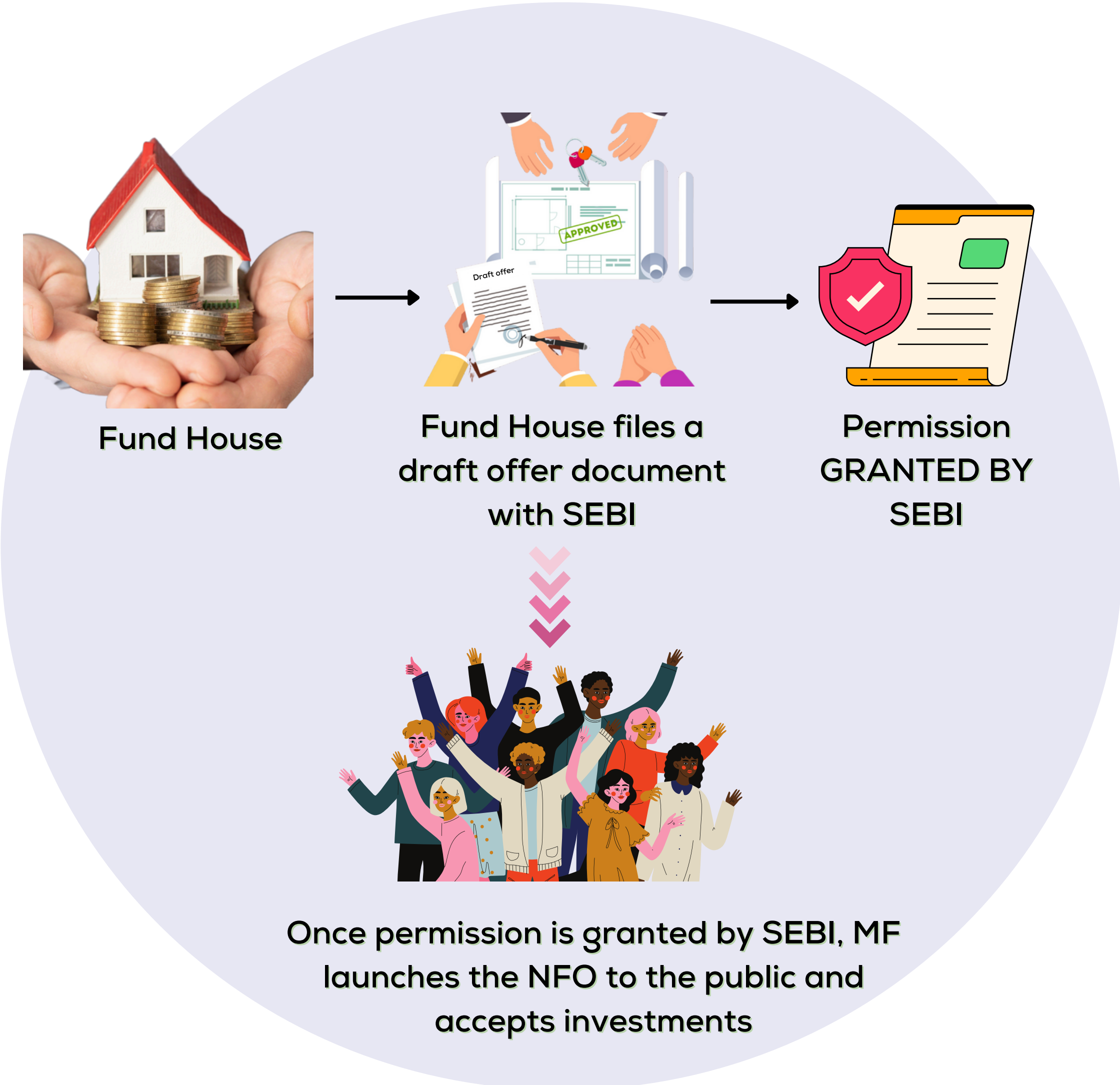
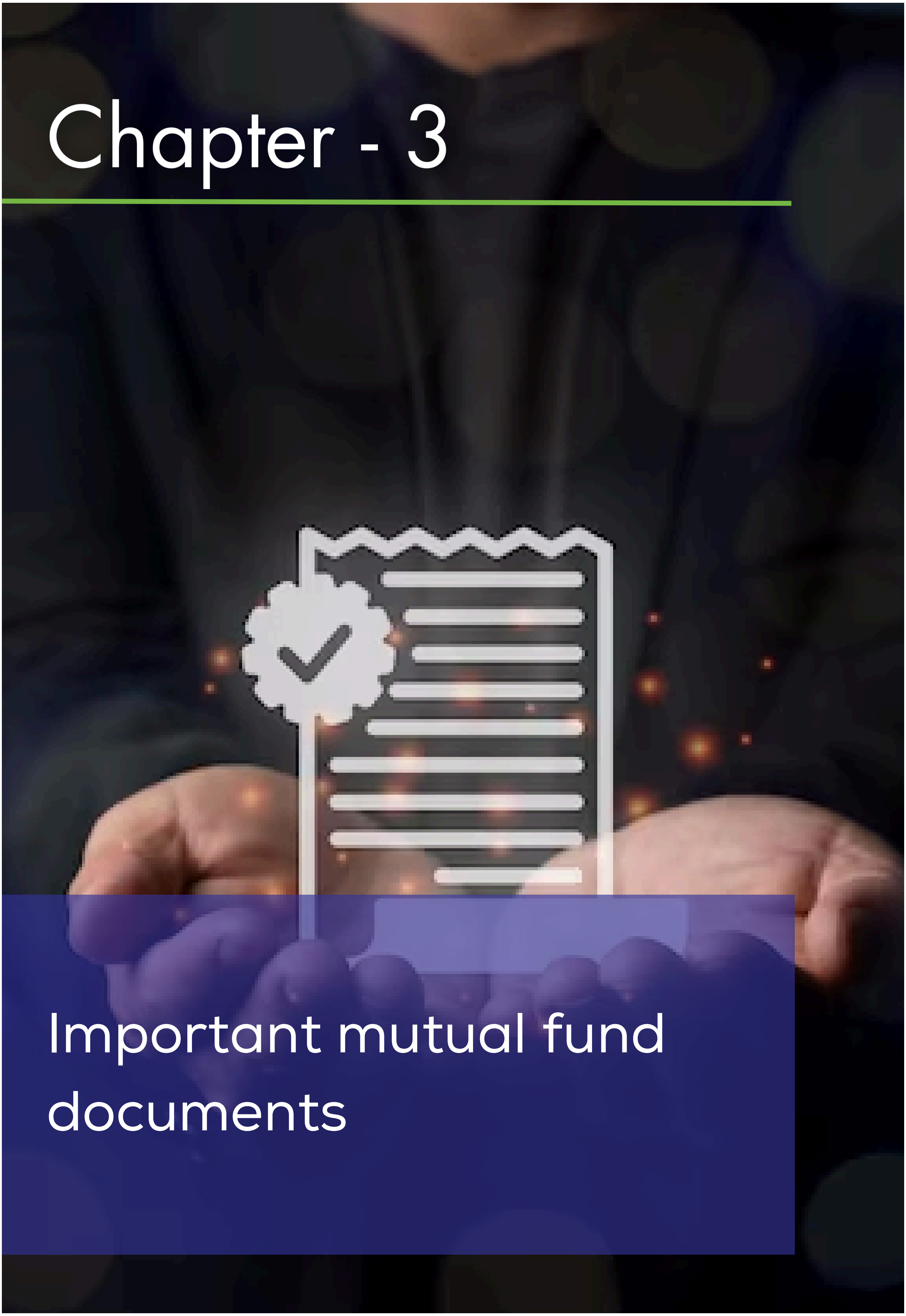


Table 2.17. NFO

SEBI has laws governing how much a new fund on offer must accumulate throughout the NFO. According to the regulations, the minimum subscription amount for debt-oriented and balanced hybrid schemes at the time of NFO must be at least Rs. 20 crore, while the minimum subscription amount for other schemes must be at least Rs. 10 crores.

The mutual fundwho is launching a new scheme must also ensure that the amount collected during the NFO is collected from a minimum of 20 investors. Furthermore, no single investor can own more than 25% of the scheme's corpus, ensuring that the investment amount is not concentrated among a few investors. In mutual fund jargon, this criterion is known as the 20-25 rule, and every NFO must follow it. In fact, all mutual fund schemes must follow the 20-25 rule at all times.

Furthermore, the fund house launching a new fund must invest in the scheme itself. This is to ensure the AMC's skin in the game.



Chapter - 3

Important mutual fund documents

3.1 Important Mutual Fund documents

There areimportant documents applicable to mutual funds which an investor must know about.

If you've ever watched a TV advertisement for a mutual fund, you may have noticed that it ends with the phrase "Read all scheme-related documents carefully." What exactly are these papers?

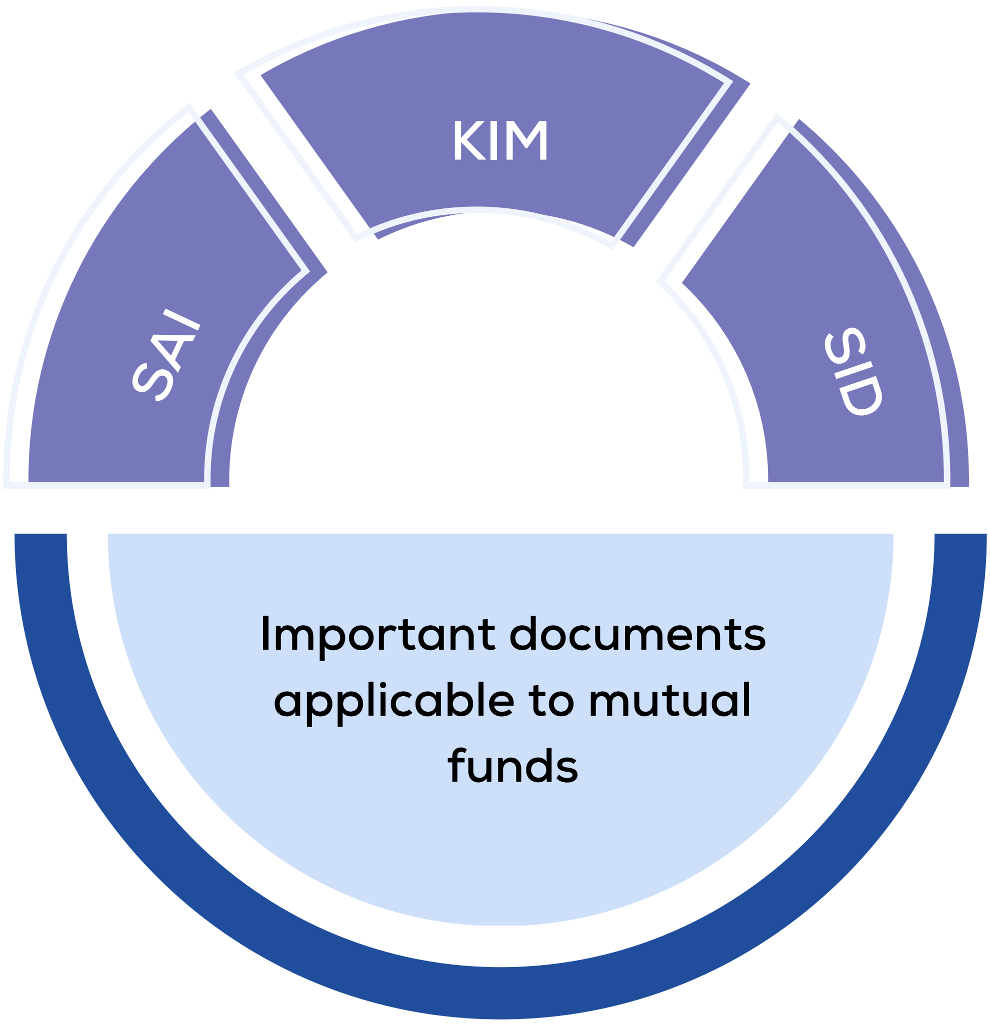


Table 3.1. Important Mutual Fund documents

There are 3 important documents namely Scheme Information Document (SID), Key Information Memorandum (KIM) and Statement of Additional Information (SAI)

These are prepared by the Asset Management Company (AMC) when a new scheme is introduced, and they are then submitted for approval to the Securities and Exchange Board of India (SEBI).

The SAI is common to all schemes of the mutual fund and is filed with SEBI as a one time filing. Subsequently SAI has to be uploaded on the Mutual Fund website and on AMFI website. Any material changes would need to be updated in the SAI on an ongoing basis. The SAI contains statutory information about the Mutual Fund like

1. The constitution of the Mutual Fund – Sponsors, Asset Management Company and Trustees. Duties and obligations of Trustees, AMC.
2. Information on Key Personnel, Trustee Directors and AMC Board of Directors
3. All information on service providers and associates such as Registrars, Custodians, Bankers, Auditors and Legal Counsel.
4. Condensed Financial Information about the scheme of the mutual fund
5. Investment Valuation Norms for the securities and other assets
6. Tax and Legal and General Information

The SID has information like -

1. Product Labeling, Riskometer, Benchmark, other details about the scheme like investment objective,asset allocation pattern,plans and options, load structure.
2. Risk factors and risk mitigation strategies.
3. Fund Manager/s of the scheme.
4. Investment restrictions.
5. Investment process followed by the AMC.
6. How the scheme is different from other existing schemes of the AMC.
7. Details of the NFO,scheme expenses and how to apply.
8. How NAV is calculated for the scheme
9. Details of penalties,pending litigation against the AMC or the sponsor.
10. Rights of the unit holder.

The KIM is the concise version of SID. As implied by the name, it includes all of the Key Information that a potential investor needs to be aware of before investing in the scheme. Every application form must include a copy of the KIM.

One can access all these documents from the respective mutual fund websites.

Apart from these three important documents, a mutual fund has to give an investor an account statement whenever the investor does any transaction in a mutual fund scheme.

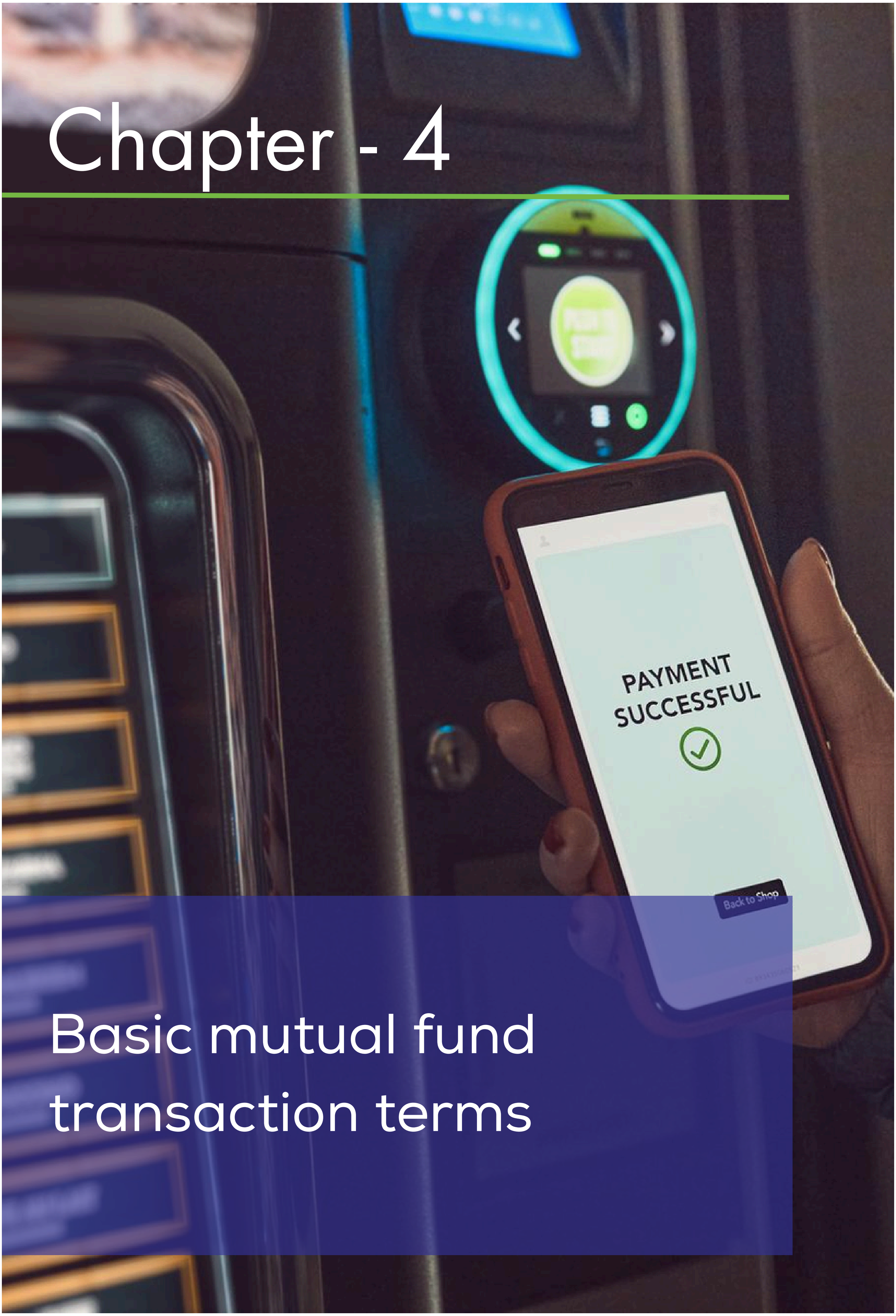
3.2 Account Statement

The summary statement provided by the mutual fund house regarding your investments with them is known as a statement of account. The mutual funds provide it whenever the investor makes a transaction with the mutual fund house, whether it be a purchase, sale, or switch. You can request the mutual fund for an account statement anytime. The account statement contains key details like KYC details, nominee, registered bank account, Allotted NAVs and units and market value etc. Investors should always verify all their details and transactions through the account statement. The account statement is usually sent through email id if the investor has registered his or her email id.

But what is one has investments and transactions across multiple mutual funds. Is it possible to get information on all such transactions in one place? Yes it is. With the help of the Consolidated Account Statement.

Consolidated Account Statement (CAS) is a single/combined account statement which gives details of holdings across all Mutual Funds and also other securities held in dematerialised (Demat) mode like equity shares, etc. CAS is generated monthly and distributed to all mutual fund investors by a depository such as NSDL or CDSL. All transactions for the previous month are sent by the 10th of the current month.

Chapter - 4



Basic mutual fund transaction terms

4.1 Basic mutual fund transaction terms

As we all know, every investment has two sides: buying and selling. In MFs, we use terms like subscription and redemption. Let's understand these unique MF transaction terms.

SUBSCRIPTION

When an investor chooses to invest his or her savings into a mutual fund, the investment is typically made by 'buying' units in the fund. This is also known as 'subscribing' to the fund.

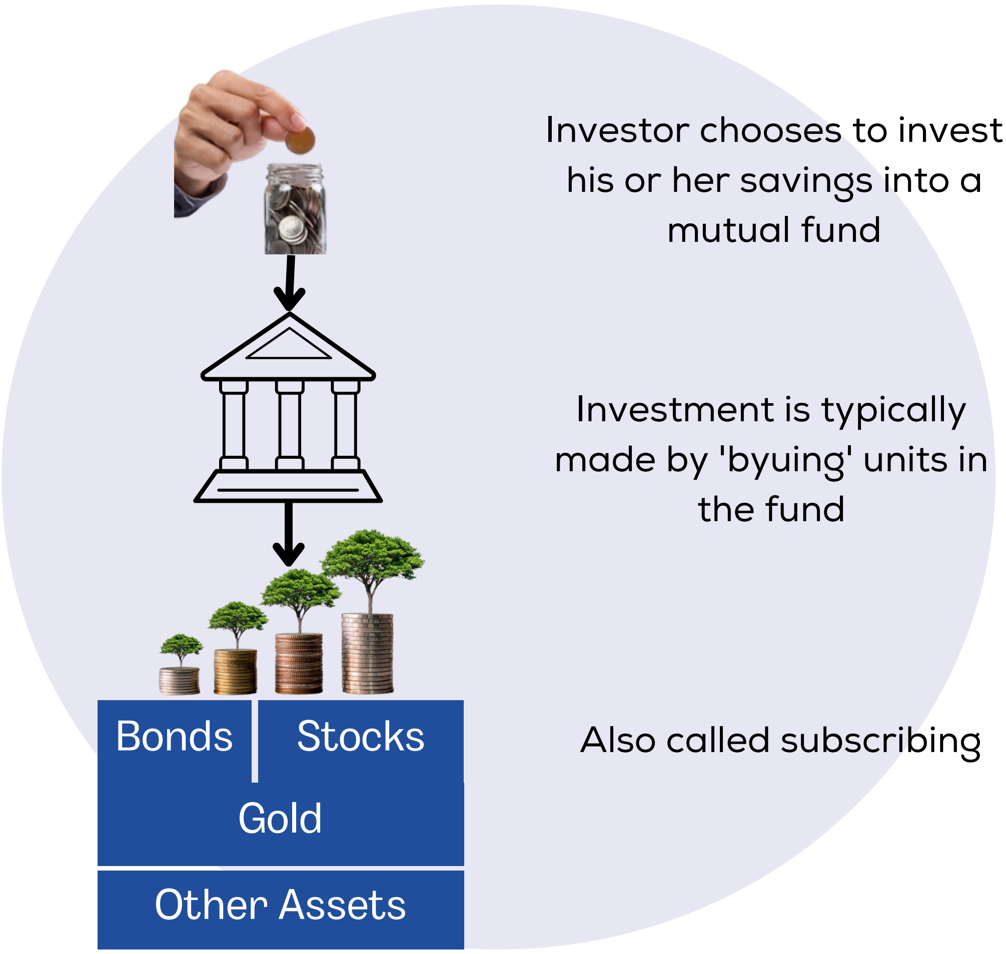


Figure 4.1 Subscription

REDEMPTION

When an investor chooses to sell his or her existing investment in a mutual fund scheme, it is known as "redemption".

Figure 4.2. Redemption

Both subscription and redemption can be done offline or online. There are various modes available.

There are regulatory prescribed cutoff timings for receiving subscription and redemption requests. NAVs are accordingly applied.

SIP vs Lump Sum

SIP has now become synonymous with Mutual Funds. The most common method of investing in a mutual fund scheme is through a systematic investment plan or SIP. You can stagger your investments over time with a SIP by making a fixed amount of investments at predetermined intervals. Depending on your comfort level, the frequency of your SIP can be weekly, monthly, quarterly, or every two years. SIPs are open-ended, which means you can start or end one at any time. In the event that you do not have enough money to invest, you can choose to pause your SIP temporarily.

A **lump-sum** investment is a one-time transaction in which you invest a large sum of money, such as Rs.1,00,000. You might choose to make a lump-sum investment if you have a sizeable amount of cash on hand. Some investors may also want to time the market if they feel there has been a crash, and it's a good opportunity to invest.

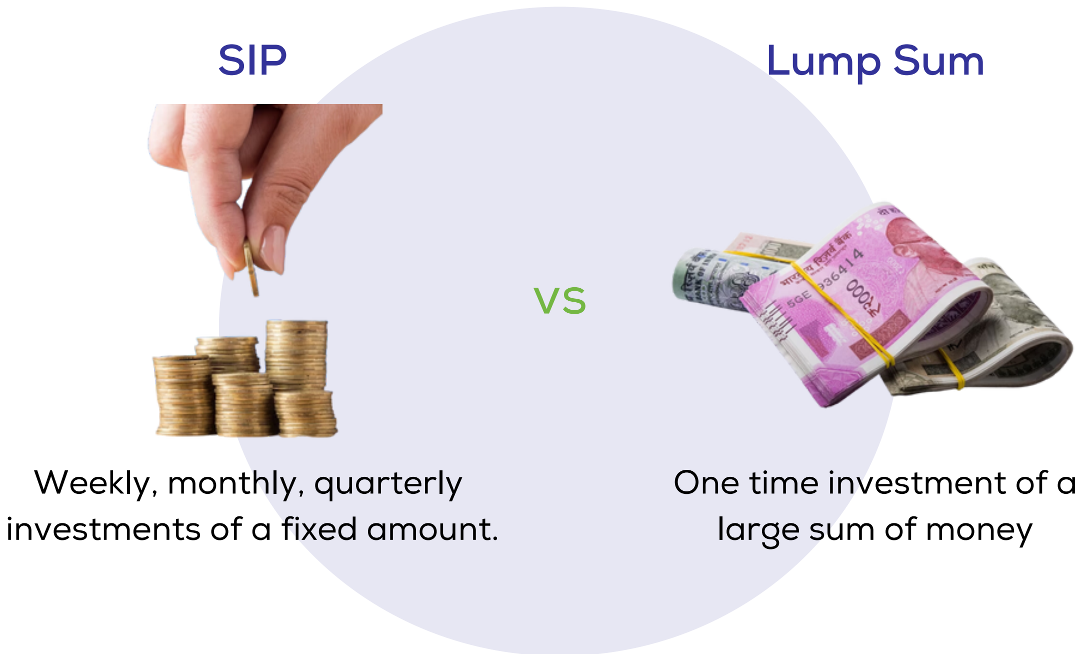


Figure 4.3. SIP vs Lump Sum

	SIP	LUMP SUM
Frequency of investment	Regular	One-time
Preffered risk appetite	Low to moderate	Moderate to high
Flexibility	High	Low
Impact of marlt volatality	Low	High
Investment horizon	3-5 years	5-7 years

Table 4.1

STP, SWP and Switches

STP is an abbreviation for Systematic Transfer Plan. An STP transfers a set amount of money from one mutual fund scheme to another on a regular basis on a predetermined frequency. An STP is typically used to move money from a liquid or debt fund to an equity fund. This averages out an investor's purchase price in the equity fund, lowering risk. Every STP transfer is considered a redemption from the source scheme and investment in the target scheme of the same mutual fund.

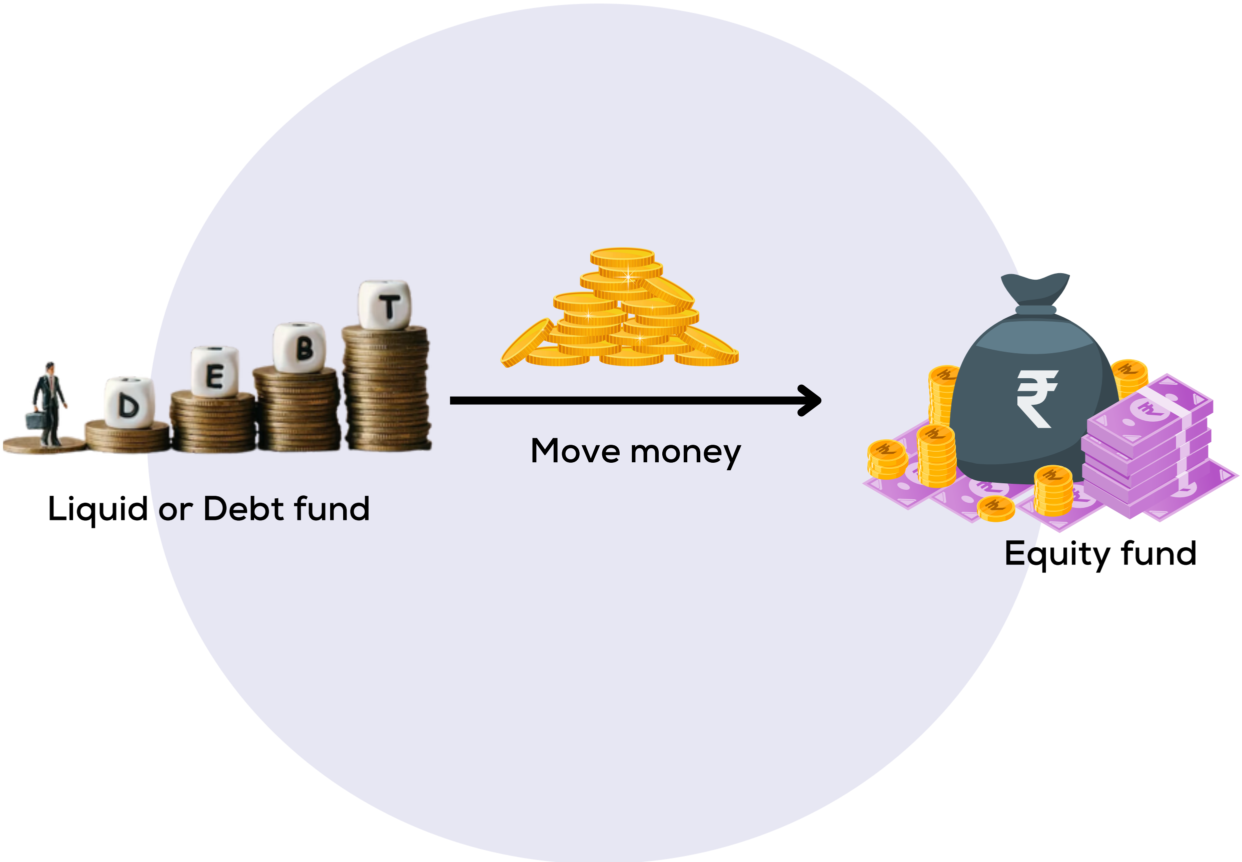


Figure 4.4 STP

SWP stands for Systematic Withdrawal Plan

SWP, or systematic withdrawal plan, is a mutual fund investment strategy that enables investors to make fixedwithdrawals from their mutual fund investments at predetermined intervals, such as monthly, quarterly, or yearly.The AMC will credit the withdrawal amount to the investors' bank accounts on the day of the month, quarter, or year they choose. SWP Plan generates this cash flow by redeeming units of the mutual fund scheme at the specified interval. SWP investors can continue to invest as long as there are balance units in the scheme.

Switches as the term indicates is when an investor wants to move his or her money/investments from one scheme to another of the same mutual fund. This could be for the purpose of modifying asset allocation, rebalancing their portfolio, reducing equity or debt exposure, etc.

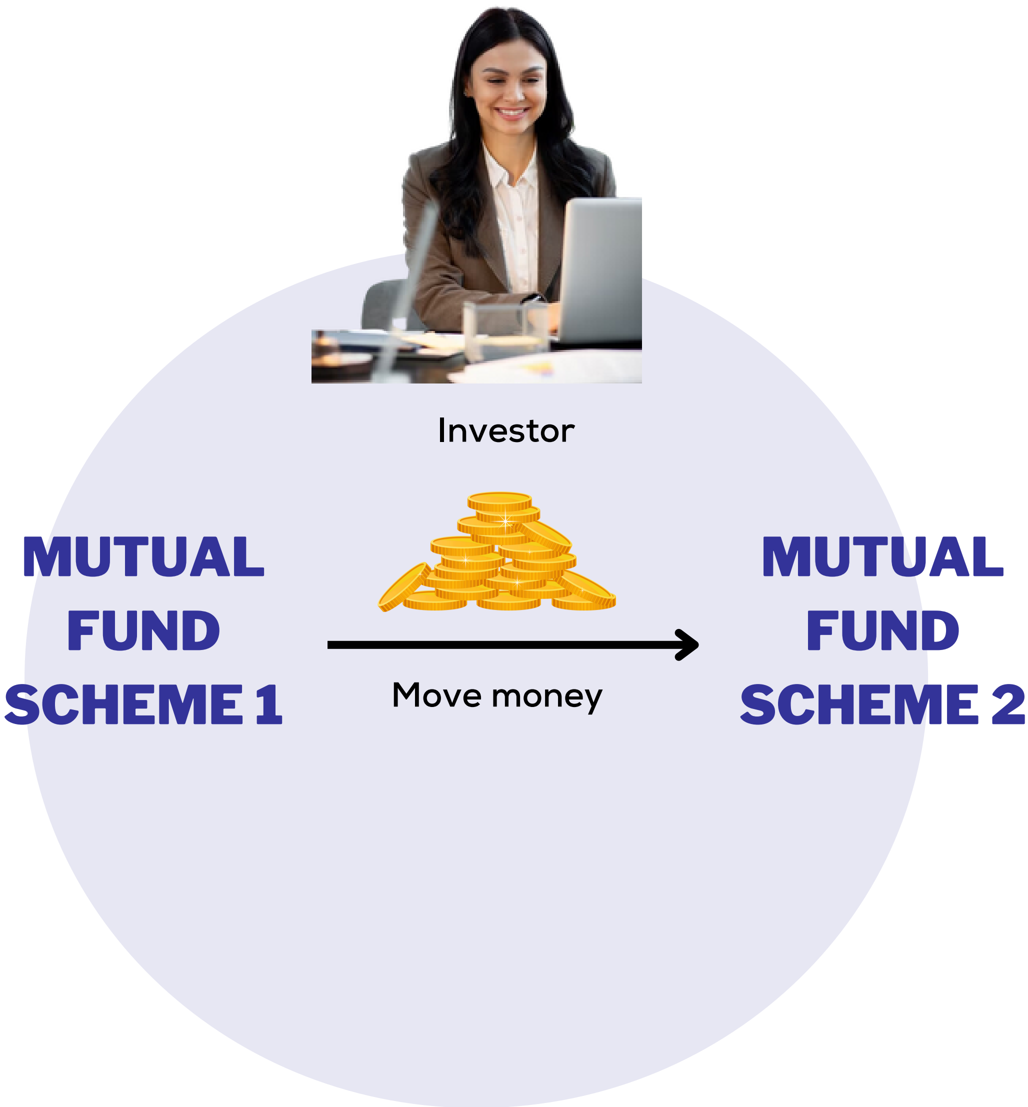


Figure 4.5 Switches

Chapter - 5

Key regulatory bodies in mutual fund industry: Their roles and responsibilities

5.1 Key regulatory bodies in mutual fund industry: Their roles and responsibilities

SEBI (Securities Exchange Board of India)

Market regulator SEBI oversees all mutual funds in India. It issues guidelines that AMCs must follow while managing funds. These guidelines are all encompassing and cover all aspects of a mutual fund and AMC operations including approvals for new fund launches, investment management, advertising, sales and marketing, risk guidelines, investment limits, declaration of financials, disclosures required to be made by mutual funds and much more. SEBI also periodically conducts audits of AMCs. SEBI has powers to undertake investigations where they observe wrongdoings and impose penalties as required.

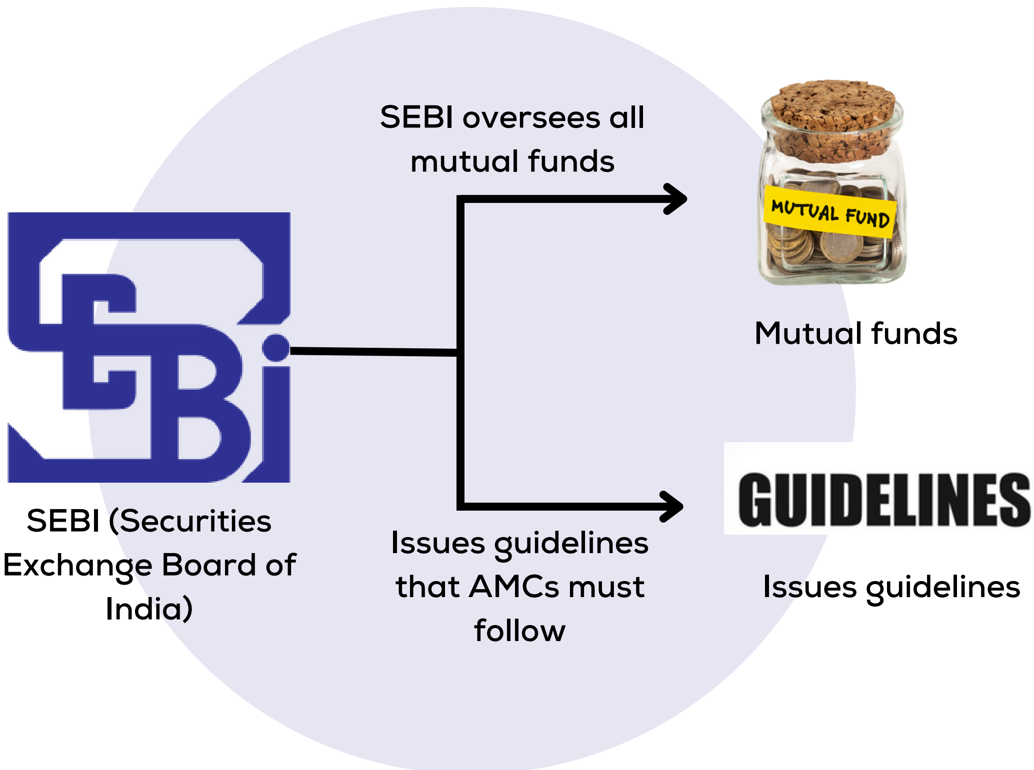


Figure 5.1

AMFI

AMFI is the country's central body for mutual funds. AMFI was established as a non-profit organization on August 22, 1995. It has all 43 Asset Management Companies registered with SEBI as members at the end of April 2023.

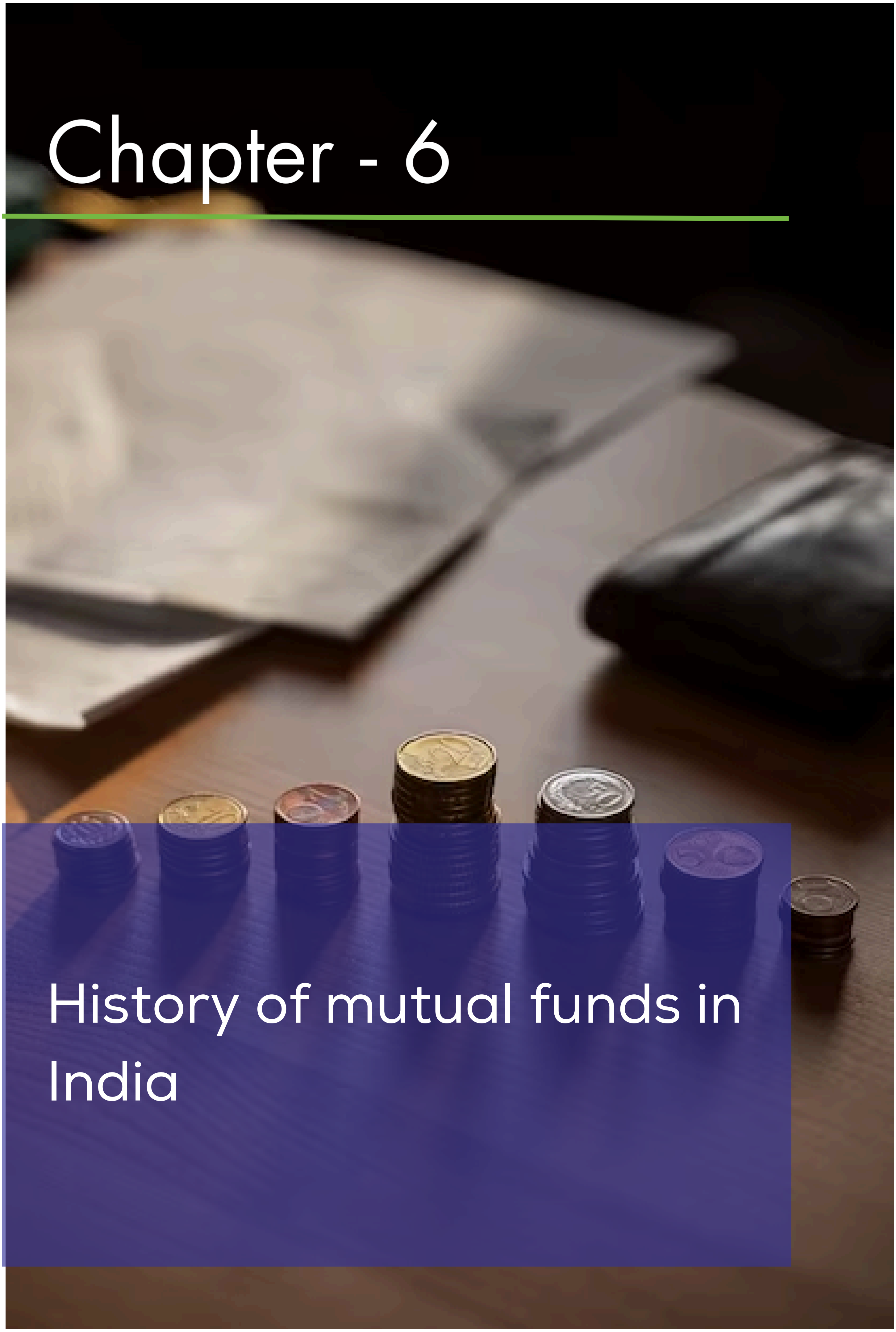
Figure 5.2

As defined on it's website ,AMFI's objectives are-

- To define and maintain high professional and ethical standards in all areas of operation of the mutual fund industry.
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.
- To interact with the Securities and Exchange Board of India (SEBI) and to represent SEBI on all matters concerning the mutual fund industry.
- To represent the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.

- To undertake a nationwide investor awareness programme so as to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on the Mutual Fund Industry and to undertake studies and research directly and/or in association with other bodies.
- To regulate the conduct of distributors including disciplinary actions (cancellation of ARN) for violations of the Code of Conduct.
- To protect the interest of investors/unit holders.

Chapter - 6

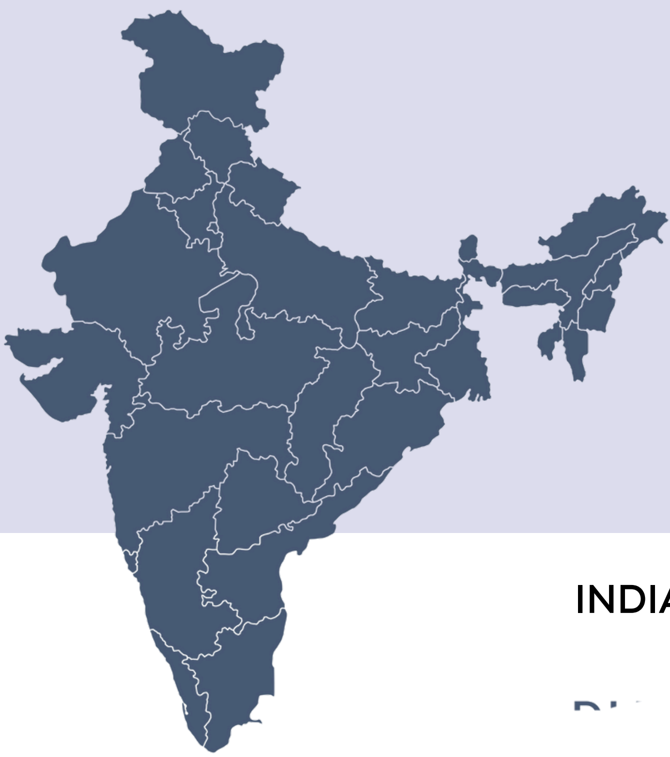


History of mutual funds in India

6.1 Evolution of the Mutual Fund Industry.

Mutual Funds in India are **about 60 years old** and the Industry has grown by leaps and bounds in the last 10 to 15 years. Regulations have also developed hand in hand with product innovation, changing trends, global practices and protection of investor interests. The mutual fund industry went from being very lightly regulated to presently being heavily regulated as the size and funds it is managing grew.

Let's look a bit more in detail at the evolution of the Mutual Fund Industry.



INDIA

Early Origins

The history of mutual funds in India can be traced to the formation of the Unit Trust of India (UTI) in 1963, which was established by an Act of Parliament. UTI was the first mutual fund in India and was set up with the objective of mobilizing small savings from the public and investing them in the capital markets to foster economic growth

In the early years, UTI operated as a monopoly, and its schemes were primarily targeted towards retail investors. Over the years, UTI introduced a variety of schemes to cater to different investor needs, including equity, debt, and balanced funds.

6.1 Entry of Public and Private sector mutual funds

In 1987, the Government of India allowed public sector banks and financial institutions to set up mutual funds, which marked the beginning of the era of public sector mutual funds in India. SBI Mutual Fund was the first "non-UTI" mutual fund, followed by Canbank, Punjab National Bank, Indian Bank, Bank of India, and Bank of Baroda Mutual Funds. LIC launched its mutual fund in June 1989, while GIC did so in December 1990. This led to a substantial growth in AUM and the mutual fund industry had Rs 47,000 crores in assets under management at the end of the third decade of its establishment.

1987

The beginning of the era of public sector mutual funds in India

1989

LIC launched its mutual fund.

1990

GIC launched its mutual fund.

1993

First private sector mutual fund

2003

There were 33 mutual funds with a total AUM of Rs. 1,21,805 crores, In July 1993, the first private sector mutual fund, Kothari Pioneer MF, was registered, marking a new era for the Indian mutual fund industry. The number of mutual funds increased with foreign sponsors entering the market, and the sector saw mergers and acquisitions. By the beginning of 2003, there were 33 mutual funds with a total AUM of Rs. 1,21,805 crores, of which Rs. 44,541 crores belonged to UTI.

6.2 Splits, Mergers and Global Financial Crisis

In February 2003, UTI was split into SUUTI (Specified Undertaking of the Unit Trust of India) and UTI Mutual Fund, with the latter operating under SEBI MF Regulations. One of the primary reasons for the split was to separate the assured return schemes offered by UTI from its other schemes. UTI had been offering assured return schemes, where investors were promised a fixed return irrespective of market conditions, which had led to significant liabilities for UTI when markets underperformed and this led to outcry by investors. The split was aimed at segregating these assured return schemes from the other schemes of UTI, which were market-linked, to ensure better management and accountability.

From 2003 to 2009 several mergers and acquisitions took place. For example in 2004, BNP paribas Mutual Fund acquired the mutual fund business of Alliance Capital Asset Management. Birla Mutual Fund acquired the MF business of Sunlife Mutual Fund in the same year. Since then several mutual funds domestic and foreign continue to enter, exit or merge in India however SEBI regulations ensure that such exits and acquisitions are done in an orderly manner.

In recent years, Sundaram Mutual Fund acquired the MF business of Principal Mutual fund and HSBC Mutual Fund acquired the MF business of L&T Mutual Fund.

2003

UTI was split into SUUTI and UTI Mutual Fund

2004

BNP paribas Mutual Fund acquired the mutual fund business of Alliance Capital Asset Management.

2009

SEBI decided to abolish entry load

A significant event which impacted the Indian MF industry adversely was the the global financial crisis of 2008 which led to large liquidity outflows from India and also outflows from Indian mutual fund schemes. Stock markets world over including India crashed and the debt market also saw soaring yields. This caused a severe dip in performance of mutual fund schemes and led to a decline in investor confidence.

In 2009, SEBI decided to abolish entry load. The charges collected from the investors by imposing the entry load was used by the MFs to pay mutual fund distributors upfront commission to sell MF schemes. Abolishing entry load caused a dent in distributor revenues and distributors needed to reorient and change their business models. It took over two years for the industry to recover and adapt to maintain economic viability, as reflected in the slow growth of AUM in the MF sector from 2010 to 2013.

6.3 Re-Energizing the Mutual Fund industry and The Popularity of SIPs

The Mutual Fund industry in India was struggling due to a lack of penetration, especially in smaller cities. To address this issue and align the interests of different stakeholders, the Securities and Exchange Board of India (SEBI) introduced several progressive measures in September 2012.

In May 2014, the industry started to see a turnaround with consistent influxes, growth in assets under management (AUM), and an increase in the number of investor folios. On May 31, 2014, the industry's AUM crossed the milestone of 10 Lakh Crore for the first time. In the next three years, the AUM increased more than two-fold and had crossed 20 Lakh Crore in August 2017. In November 2020, the AUM size surpassed Rs 30 lakh Crore for the first time. The MF Industry AUM stood at ₹39.46 Lakh Crore as on February 28, 2023.

2012

The Securities and Exchange Board of India (SEBI) introduced several progressive measures

2014

The industry started to see a turnaround with consistent influxes, growth in assets under management (AUM).
the industry's AUM crossed the milestone of 10 Lakh Crore for the first time

2017

The AUM increased more than two-fold and had crossed 20 Lakh Crore

2020

The AUM size surpassed Rs 30 lakh Crore for the first time.

The regulatory actions taken by SEBI to re-energize the Mutual Fund Industry over the years and the support from mutual fund distributors in expanding the retail base had a dual effect that allowed the industry to grow in size.

To make investing in mutual funds accessible to more people, mutual fund distributors have been crucial in bridging the gap between investors and suitable schemes, particularly in smaller towns. Over the years, mutual fund distributors have also played a significant role in popularizing Systematic Investment Plans (SIP). The number of SIP accounts surpassed the 1 crore mark in April 2016, and as of February 2023, there are 6.28 crore SIP accounts in existence.

2016

The number of SIP accounts surpassed the 1 crore mark.

2023

There are 6.28 crore SIP accounts in existence.

6.4 Key Statistics of MF Industry

- As of 31st March 2023, the Indian mutual fund industry had Rs 41.12 Lakh Crorein assets under management (AUM).

- The proportionate share of equity-oriented schemes is now 51.3% of the industry assets in Feb 2023, up from 40.8% in Feb 2018.

- The proportionate share of debt-oriented schemes is 19.2% of industry assets in Feb 2023, down from 35.1% in Feb 2018.

- Significant increase in ETF market share from 3.3% in Feb 2018 to 13.2% in Feb 2023

- Individual investors now hold a relatively higher share of industry assets, i.e. 57.6% in Feb 2023, compared with 50.7% in Feb 2018 Institutional investors account for 42.4% of the assets, of which corporates are 96%. The rest are Indian and foreign institutions and banks.

6.5 Existing Mutual Funds in India, their size and how they stack up in rankings.

Let us take a look at the list of existing Mutual Funds India, their size and how they stack up in rankings. The reader should be aware that these rankings can keep changing and new mutual funds can enter and existing mutual funds exit the league tables.

Average Assets under Management (AAUM) for the quarter of January - March 2023 (Rs in Lakhs)

SR.NO	MUTUAL FUND NAME	AVERAGE AUM
1	SBI Mutual Fund	71845657.78
2	ICICI Prudential Mutual Fund	52283155.32
3	HDFC Mutual Fund	45363567.53
4	Nippon India Mutual Fund	29529661.17

SR.NO	MUTUAL FUND NAME	AVERAGE AUM
5	Kotak Mahindra Mutual Fund	29159323.58
6	Aditya Birla Sun Life Mutual Fund	27596530.63
7	Axis Mutual Fund	24218330.91
8	UTI Mutual Fund	23886835.58
9	Edelweiss Mutual Fund	12055769.94
10	Mirae Asset Mutual Fund	11806578.01
11	Bandhan Mutual Fund	11707076.30
12	DSP Mutual Fund	11472165.07
13	Tata Mutual Fund	9845841.25
14	HSBC Mutual Fund	8345874.15
15	Franklin Templeton Mutual Fund	6428077.88
16	Canara Robeco Mutual Fund	6248535.33
17	Invesco Mutual Fund	4650330.87

SR.NO	MUTUAL FUND NAME	AVERAGE AUM
18	Sundaram Mutual Fund	4462262.53
19	PPFAS Mutual Fund	3371581.08
20	Motilal Oswal Mutual Fund	3302915.05
21	Baroda BNP Paribas Mutual Fund	2450722.45
22	PGIM India Mutual Fund	2143652.84
23	Quant Mutual Fund	1876061.59
24	LIC Mutual Fund	1763860.59
25	Union Mutual Fund	1001120.77
26	Mahindra Manulife Mutual Fund	982087.16
27	IIFL Mutual Fund	461570.02
28	NJ Mutual Fund	429959.84

SR.NO	MUTUAL FUND NAME	AVERAGE AUM
29	IDBI Mutual Fund	373308.8
30	ITI Mutual Fund	361161.31
31	Bank of India Mutual Fund	339356.17
32	JM Financial Mutual Fund	296949.14
34	Navi Mutual Fund	220985.39
35	Quantum Mutual Fund	214884.76
36	IL&FS Mutual Fund (IDF)	133434.89
37	Trust Mutual Fund	118960.54
38	Samco Mutual Fund	78104.55

SR.NO	MUTUAL FUND NAME	AVERAGE AUM
39	IIFCL Mutual Fund (IDF)	62918.14
40	Taurus Mutual Fund	51331.17
41	Indiabulls Mutual Fund	51151.64
42	Shriram Mutual Fund	28271.99
Grand Total		411256039.6

Table 6.1

Chapter - 7

Benefits of Investing in mutual funds

7.1 Benefits of Investing in Mutual Funds

Let us check out a comparison of Mutual Funds with other traditional asset investing asset classes like Bank FDs/Gold/Real Estate

	Mutual Fund	Bank FD	Gold	Real Estate	Direct Equity Investment
Who Manages the Asset	Professional Fund Managers	Self	Self	Self / Housing Society/ Developer	Self
Risk	Low to High	Low	Low	Moderate to High Risk	Moderate to High Risk
Mode of Investing	Online/Offline	Online / Offline	Online/Offline	Offline	Online
Volatility	Low to High	N.A.	Low	Moderate to High	Moderate to High

	Mutual Fund	Bank FD	Gold	Real Estate	Direct Equity Investment
Return Potential	Low to High	Low	Low to Moderate	Low to High	Low to High
Liquidity	High	High	Moderate	Low	Moderate to High
Market Linked Return	Yes	No	Yes	Yes	Yes
Credit Rating/ Grading	Some debt funds have credit rating	Banks have credit rating	Gold jewellery can be graded	Project or Develop er can be rated by rating agencie.	NA
Taxation	Short or long term Capital gain based on tenure Stamp duty at time of purchase	Interest will be taxed as per income tax slab.	GST on purchase of gold and making charges STCG and LTCG are applicable on sale SGB interest income taxed as per income tax slab	Long or Short term capital Gain based on holding period	Long or Short term capital Gain based on holding period

Table 7.1

To summarize - Professional fund managers manage mutual funds, making it convenient for investors since they don't have to spend time researching and tracking market statistics. The risk and return potential of mutual fund schemes can vary, with different levels of volatility, enabling investors to invest according to their risk appetite. Additionally, mutual funds provide investors with the flexibility to choose from various schemes designed to meet different investment objectives and risk profiles.Investors can start their investing journey with small amounts of money, making it easier for them to start investing and gradually increase their investment over time. Moreover, mutual funds offer high liquidity, allowing investors to sell them at any time they want, and their market value is transparent.

Chapter - 8

Reguatory measures for sale and investor-friendly mutual fund investing

8.1 SEBI

SEBI is the Regulator for Mutual funds and AMCs (Asset Management Companies). Over the years SEBI has been taking many measures to make mutual funds more safer and transparent so that investors can make informed decisions. From disclaimers in mutual fund advertisements to mandatory email disclosures to investors to uploading key data on mutual fund websites to issuing monthly mutual fund factsheets and much more.

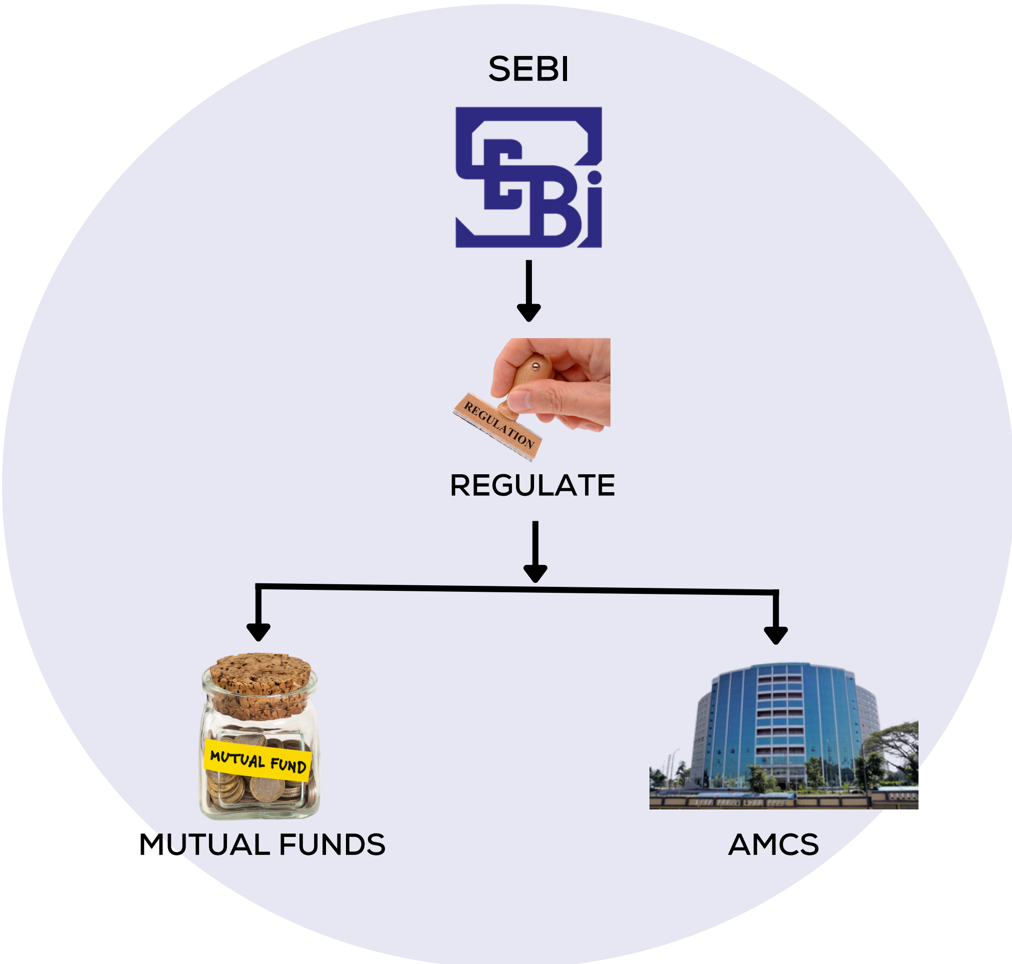
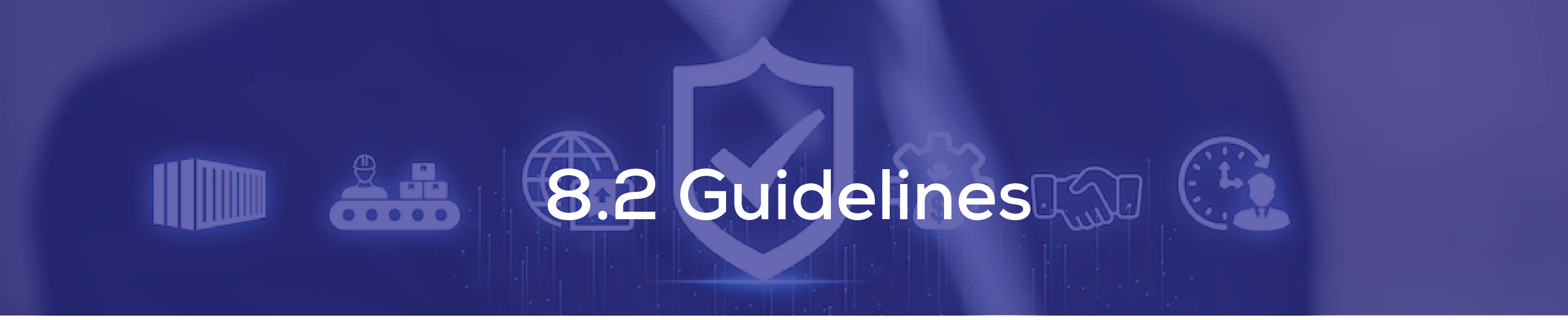


Figure 8.1.

SEBI also conducts its own independent audit of every AMC from time to time to check if guidelines are being followed.



8.2 Guidelines

Let's learn about a few of such guidelines in detail-

Figure 8.2. Guidelines

1. Sector and issuer Limits to avoid concentration risk

SEBI has put in place detailed guidelines for mutual funds to adhere to in terms of their investments in equities, bonds and other asset classes. Some of these guidelines are put in place to ensure that mutual funds do not take excessive exposure to a single sector or a single issuer and that mutual funds ensure their schemes are adequately diversified. These limits are different for equity securities and debt securities.

For example, in an equity oriented scheme, a mutual fund cannot invest more than 10% of the scheme AUM in equity shares and instruments of a single company.

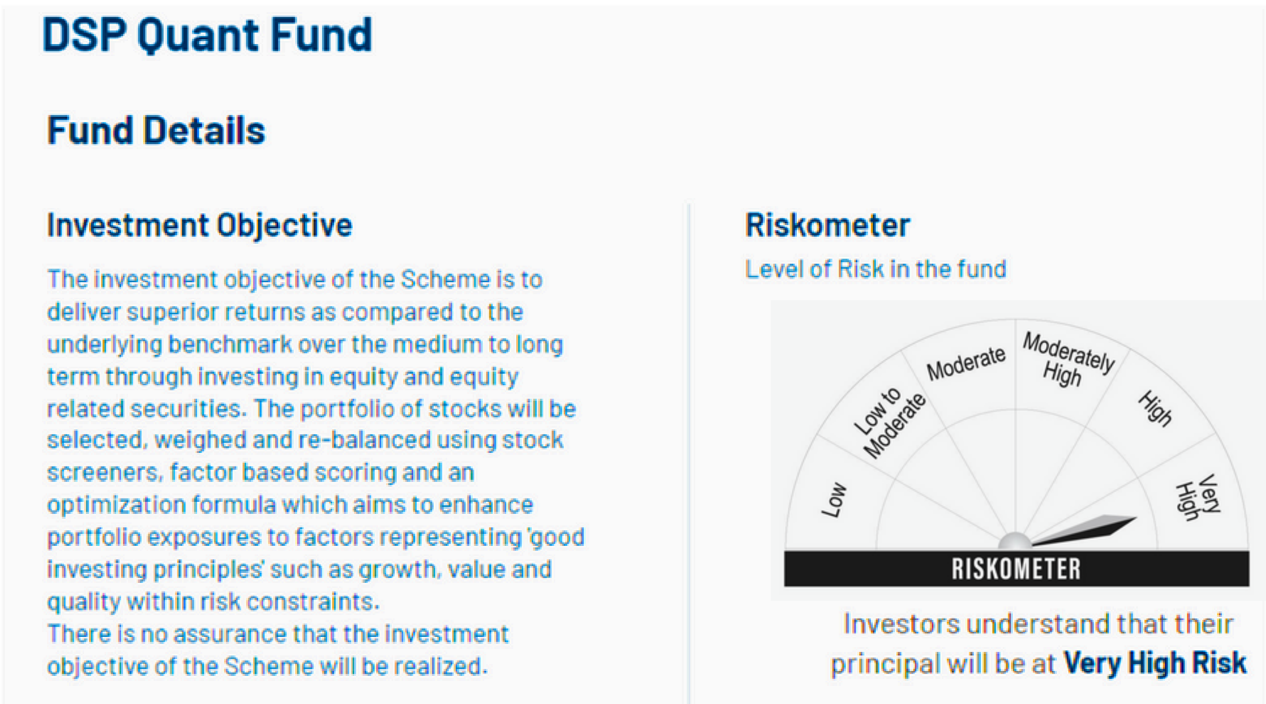
Key Takeaway for Investors: The Securities and Exchange Board of India (Sebi) has guardrails in place to shield investors from the dangers of being overexposed to a specific security, sector, or group.

2. Riskometer

"Mutual Funds are subject to Market Risks" An oft repeated and heard sentence! The reason why this is emphasized repeatedly in all mutual funds advertisements, presentations etc is to highlight to the investor that mutual funds do not offer any guaranteed returns in India. The returns that can be generated by mutual funds depend on how markets perform.

In addition to such disclosures, SEBI has made it essential for all fund houses to display a riskometer to help investors understand the risks involved with mutual fund investments. Because different mutual funds have varying levels of risk, the riskometer includes six risk categories ranging from low to very high.

Here is a live example to illustrate



Data Source - https://invest.dspim.com/mutual-fund-products/equity-schemes/sector-fund-Quant-fund/dquaf-regular-growth

Changes in methodology of assigning the Riskometer

According to a new circular from SEBI on the MF risk-o-meter released in October 2020, fund houses are now required to list the risk level of their schemes on a six-stage scale ranging from "low" to "very high."According to this ruling, the risk-o-meter should be evaluated on a monthly basis. This ruling was implemented from January 2021

Additionally, it mandated that within 10 days of the end of the month, all schemes must disclose their portfolio disclosure and risk-o-meter risk level on the websites of the fund houses and the Association of Mutual Funds in India (AMFI).If there are any changes in the risk-o-meter reading with regard to the schemes, the fund houses need to communicate that to the investors.

On a monthly basis, the risk level for the schemes shall be evaluated, based on the securities in which the scheme invests, namely, equity, debt, derivatives, foreign securities etc. and based on the AUM of these securities forming part of the scheme portfolio as on the last day of the given month. As per SEBI guidelines, the underlying securities of a scheme shall be assigned a value for the parameters like volatility, credit risk etc. based on which the risk level will be calculated.

The Equity securities are assessed based on the following 3 parameters

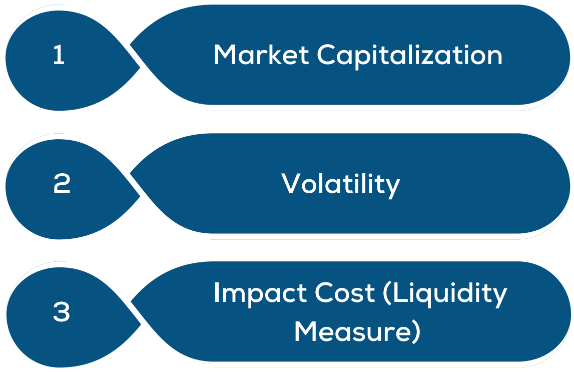


Figure 8.3.

In Debt securities, the risk is categorized based on the following 3 parameters

- Credit Risk - Based on the rating of each Security
- Interest Rate Risk - Based on the Macaulay Duration of the portfolio
- Liquidity Risk - Based on listing status, Credit Rating and Structure of Debt instrument

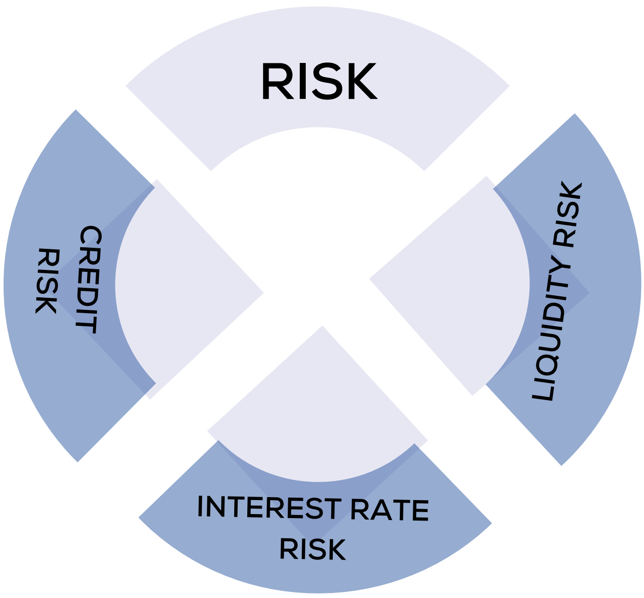


Figure 8.4. Risk

Key Takeaway for Investors: A Riskometer measures the risk of a mutual fund scheme. Investors should look at the Riskometer and be aware of the risk before investing. Any changes in risk levels should also be checked.

3. Risk Management Framework

In 2021, Markets regulator Sebi came out with revised risk management framework (RMF) for mutual funds with certain mandatory and recommendatory elements. The objective is to ensure prudent management of key risks involved in mutual fund operations. The RMF is quite comprehensive and requires mutual funds to capture scheme wise risk metrics, Risk management practices infundmanagement, customer service, marketing and distribution, Disaster recovery and business contingency planning and Risk mitigation requirements and control mechanisms.

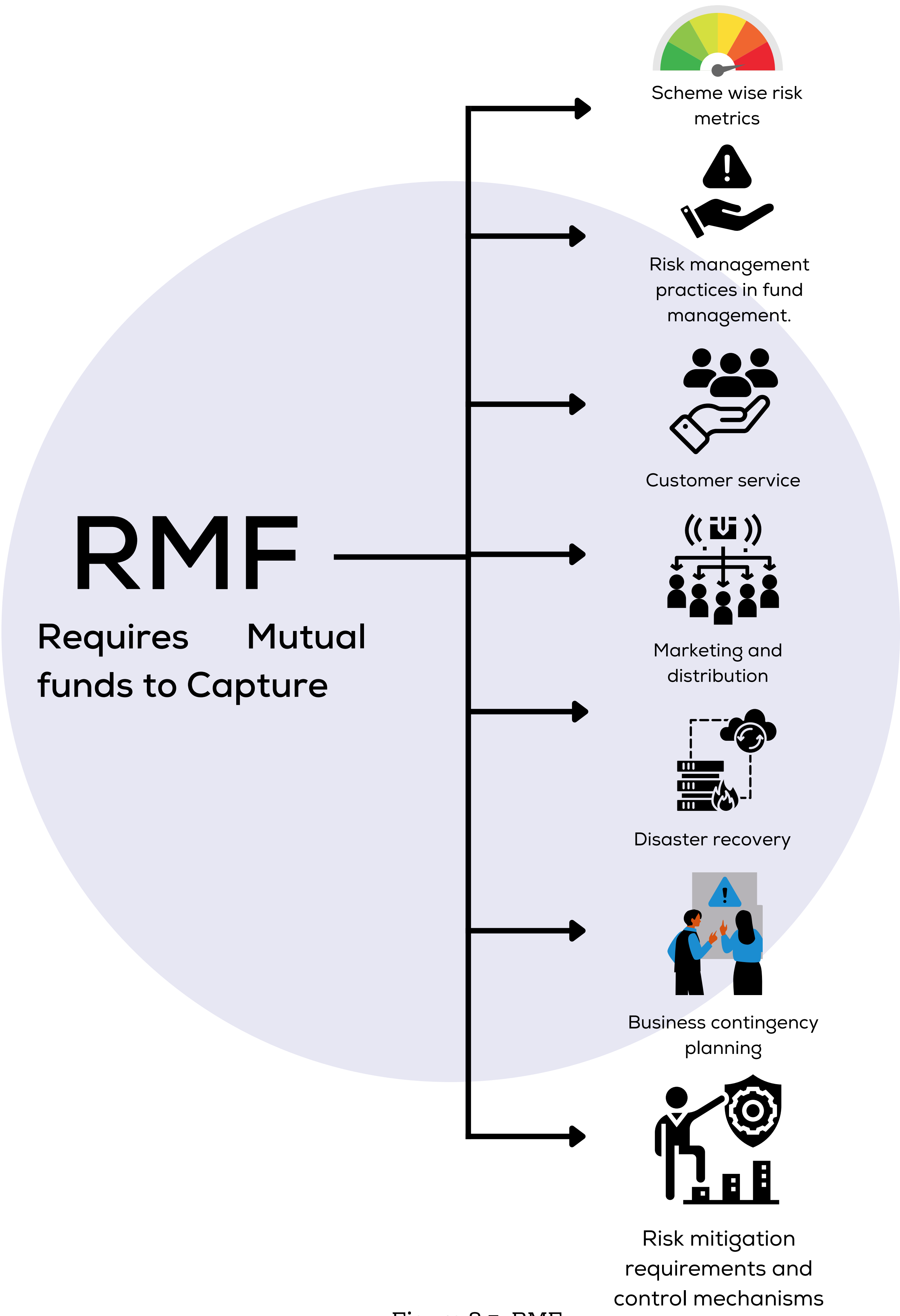


Figure 8.5. RMF

Additional triggers that could require review of the RMF, including:

1. Material claims or litigations from customers or incidents.
2. Material findings from internal or external audits.
3. Adverse media attention impacting reputation risk.
4. Adverse observations from the regulator(s), etc.
5. Key risk indicator breaches
6. New regulatory requirements
7. Sector-relevant developments or incidents

Mutual Funds have to implement this framework and ensure the necessary systems are in place. Mutual funds should have an independent CRO (Chief Risk Officer). Targeted Risk levels have to be defined for each scheme and various types of investment risks associated with a mutual fund scheme should be monitored and assessed.

Key Takeaway for Investors: The latest Risk Management Framework set in place by SEBI ensures mutual funds identify, measure and take proactive steps to manage risks in their mutual fund operations and have adequate oversight with experienced professionals like Chief Risk Officer and committees like Risk Management committee etc.

4. Swing Pricing Framework:

SEBI has directed mutual funds to implement the swing pricing framework for certain categories of debt oriented mutual funds in 2022. The mechanism aims to shield small debt fund investors from sizable institutional redemptions during times of crisis, like they were in 2019 and 2020. Bonds, debentures, and commercial papers are some of the less liquid debt instruments held by debt mutual funds. Therefore, if a sizable redemption order is issued, the debt funds must either sell their holdings of securities or draw upon their respective cash reserves. Swing pricing can be helpful here. Swing pricing is crucial because, when there is a need for redemptions, a mutual fund scheme can easily sell better-quality papers as the market is highly liquid. This means that investors who stayed put are stuck with an excessive amount of lower-quality, illiquid paper. Swing pricing enables mutual funds to lower the NAV in order to pass on the cost of these redemptions to the departing investors.

SWING PRICING
FRAMEWORK

Small debt fund investors

From Sizable institutional redemptions.

Let's look at an example. Let's say that a fund ABC with a Rs 1000 crore base holds Rs 50 crore in cash. Due to the market fall, several investors want to redeem their units worth Rs.400 crores. In order to honor the redemption request, the ABC fund will either need to borrow money or sell the underlying securities at a discount. Let's assume that the debt markets are currently volatile. The swing mechanism enters the scene at this point. The trading cost incurred for such large selling is deducted from the NAV of the specific selling unitholder so that the others who remain invested do not suffer from a lower NAV due to the excessive redemption action. Thus, there will essentially be two NAVs: one is the reduced NAV for unitholders' who are selling and going away and another for those who prefer to continue investing in the aforementioned debt fund.

Key Takeaway for Investors: Swing Pricing framework has been introduced by SEBI to protect small or retail investors in a mutual fund during periods of stress in the debt markets and when liquidity is low.

5. Segregation of debt funds post 2018 credit crisis:

One of the key distress points for investors was that when a steep credit event (downgrade of a debt security or even default) happened and there was a significant valuation hit on some debt mutual funds, the funds did not have an option to provide exit to investors while ensuring they do not miss out on recovery. SEBI guidelines now enable funds to provide segregation as an option. If this option is enabled on the debt fund you invest in, then the AMC may decide to segregate the downgraded exposure from the rest of the portfolio. In such an eventuality, you can exit from the balance exposure while continuing to have a claim (ownership) on the segregated units and any future recovery would accrue to you as an investor at the time of the event. The condition is the downgrade should be below investment grade or default. So, do check if the debt fund you invest in has an option for segregation.

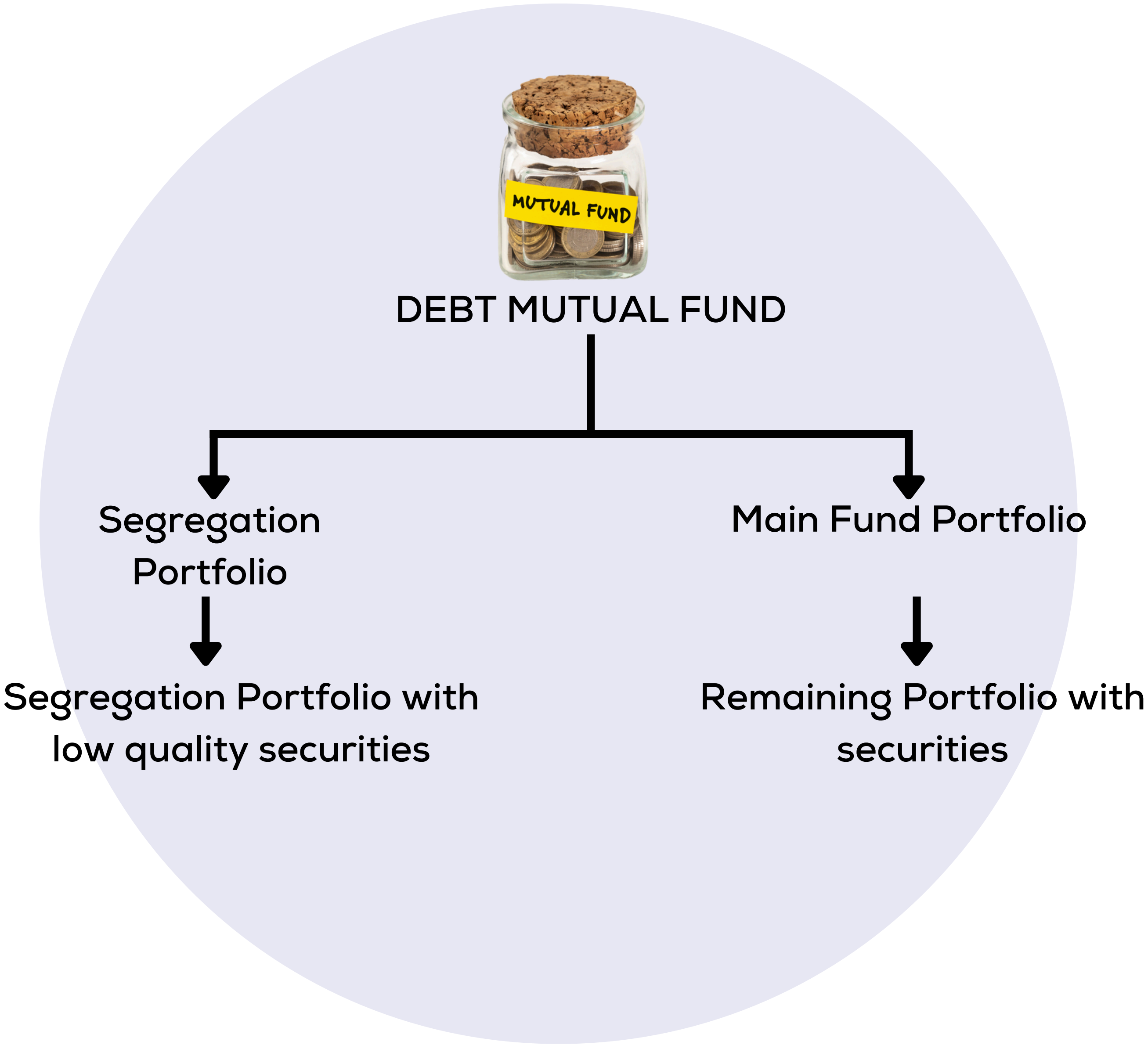


Figure 8.6. Segregation of debt funds post 2018 credit crisis

6. Skin in the Game circular

To make AMC key employees more accountable to investors and to ensure they take prudent investment decisions, SEBI has also recently in 2021 mandated a circular popularly referred to as skin in the game circular. Essentially it says key employees of a mutual fund like fund managers, CEOs etc should mandatorily invest a portion of their own money in the schemes they are managing. This money is locked in for a period of time and there are detailed guidelines on how much to invest.

Figure 8.7. Skin in the Game circular

To make AMC key employees more accountable to investors and to ensure they take prudent investment decisions, SEBI has also recently in 2021 mandated a circular popularly referred to as skin in the game circular. Essentially it says key employees of a mutual fund like fund managers, CEOs etc should mandatorily invest a portion of their own money in the schemes they are managing. This money is locked in for a period of time and there are detailed guidelines on how much to invest.

As per current guidelines the key employees of the asset management companies must invest a minimum of 20% of their gross annual CTC.

Key Takeaway for Investors: By forcing AMC employees to invest their own money in the schemes they manage for investors, SEBI is ensuring that investor interests are protected.

7. Complaint redressal mechanism

All mutual funds are mandated to have investor grievance mechanisms in place and they are expected to resolve and close investor complaints in a timely manner requiring even reporting to the Board of Trustees. However if an investor does not get a satisfactory response they can even lodge a complaint on SEBI's portal called SCORES (Sebi Complaints Redress System).

Investor complaints

Resolve and close by

Mutual funds Investor grievance mechanisms or by Sebi COmplaints REdress System.

Figure 8.8. Complaint redressal mechanism

8. Uniform Benchmark Methodology

Every category of MF schemes will have a single common benchmark.

In order to standardise and bring uniformity in the Benchmarks of Mutual Fund Schemes, SEBI has mandated that therewouldbe a two-tiered structure for benchmarking of schemes for certain categories of schemes. The scheme's category should be reflected in the first tier benchmark, and the fund manager's investment approach or strategy within the category should be shown in the second tier benchmark. Total Return Indices should always be used as the benchmarks.

To illustrate with an example below is an example of an equity mutual fund scheme. As can be seen the first benchmark is the common benchmark used by its competitors who have a fund in the same category. The second benchmark is the additional benchmark. The mutual fund is obligated to show performance against both benchmarks whenever its displaying its performance.

ICICI Prudential Bluechip Fund Growth

BENCHMARK
Nifty 100 Index TRI
Nifty 50 Index TRI
(Additional Benchmark)

Data source: https://www.icicipruamc.com/mutual-fund/equity-funds/icici-prudential-bluechip-fund

Summary

We have presented some of the key regulations of the many that SEBI has issued to regulate mutual funds and asset management companies. Mutual funds are one of the most regulated financial services industry. This should give investors a high degree of confidence in making investments through mutual funds.

Chapter - 9

An overview of different types of mutual funds

9.1 Open and close ended mutual fund schemes

Let’s look at the various types of mutual fund schemes available for investors to invest. It's important to understand the categories as there is a plethora of mutual fund schemes and often it can be confusing to the investor.

The first basic difference to understand is between **Open ended vs Close ended mutual fund schemes**

OPEN ENDED MUTUAL FUND SCHEMES

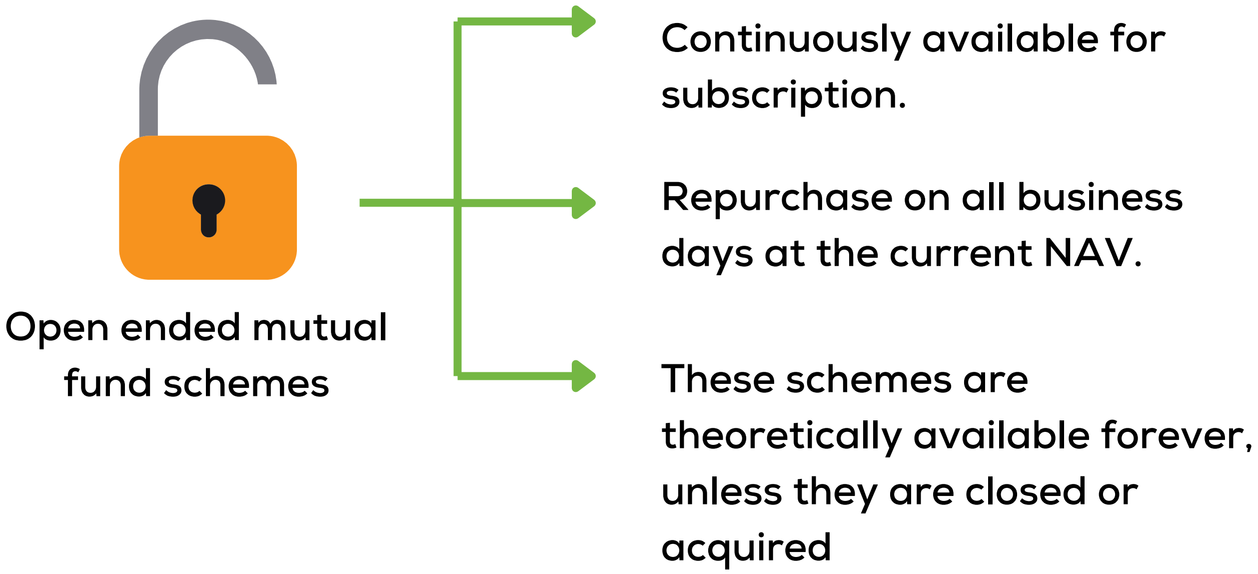


Figure 9.1 Open ended MF schemes

CLOSE ENDED MUTUAL FUND SCHEMES

Close ended mutual fund schemes

- Close-ended schemes have a fixed maturity date
- An investor can subscribe to the units of such a scheme at the time of NFO (New Fund offer) when the scheme has been launched and is open for a certain number of days.
- Investments will mature and be redeemed automatically and funds credited to the investors bank account when the scheme matures.
- Investors cannot sell or redeem their investments with the fund house before the maturity of the scheme.
- However in order to provide an exit route, SEBI regulations state that the units of close-ended schemes should be mandatorily listed and can be sold/traded on the stock exchanges.

Figure 9.2 Close ended MF Schemes

9.2 Equity and Debt Orientedmutual fund schemes

Two main types of schemes depending on the type of asset classes the scheme invests in.

Equity Oriented scheme

Debt Oriented Scheme

Figure 9.3

Equity Mutual Fund scheme/Equity Oriented Mutual Fund Scheme

Equity schemes primarily invest in stocks or equity shares. For a scheme to be classified as an equity oriented scheme, at the minimum 65% of its Net Assets (or AUM) should be invested in equity and equity related instruments.

Equity funds are further classified into various types depending on the types of stocks and investment style. In the Indian context, in 2018, SEBI came out with categorization guidelines to simplify the various types of equity schemes and to ensure fund houses do not launch multiple funds which are similar in nature.

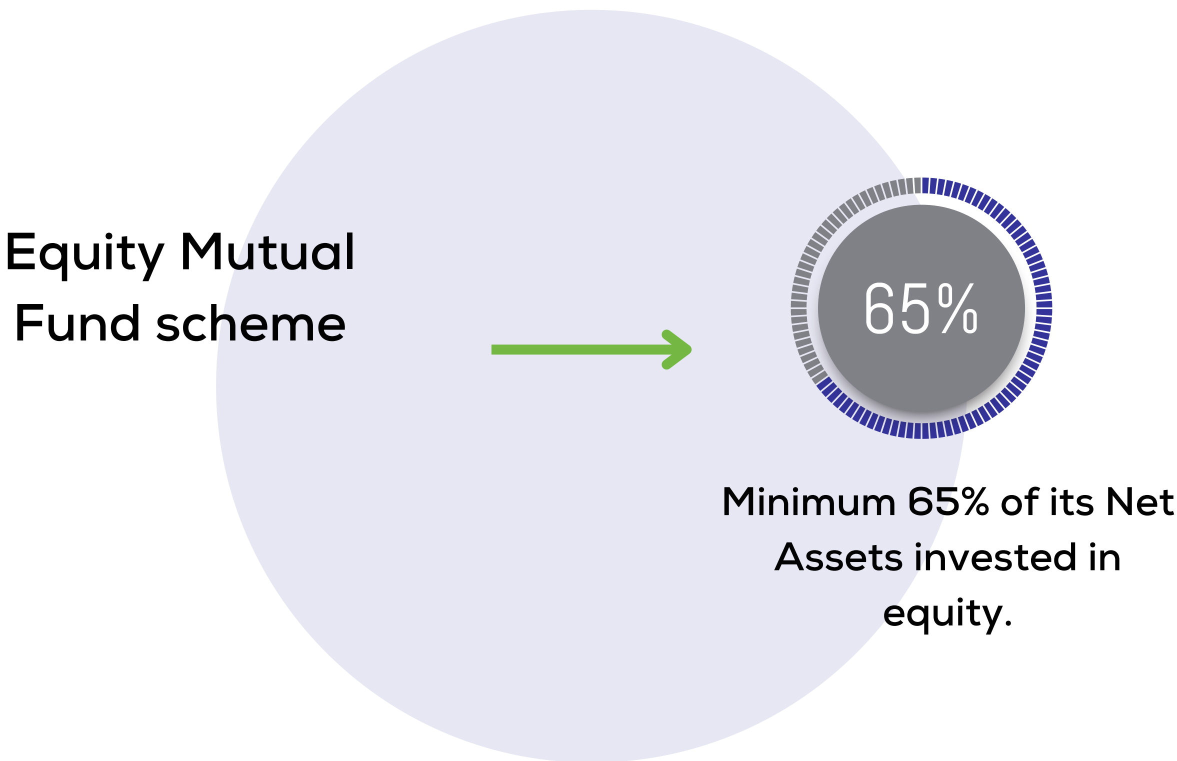


Figure 9.4

9.3 Category of Schemes

Broadly these consist of 10 categories, the features of which, along with the scheme description have been given below:

Category of Schemes	Key Scheme Attributes	Key Scheme description	Example
Large Cap Fund	Should invest 80% of total assets in equity and its related securities of large cap firms	An open-ended equity scheme that majorly invests in large cap stocks	Mirae AssetLarge Cap Fund
Mid Cap Fund	Should invest 65% of total assets in equity and its related securities of mid cap firms	An open-ended equity scheme that majorly invests in mid cap stocks	PGIM India Midcap Opportunities Fund

Category of Schemes	Key Scheme Attributes	Key Scheme description	Example
Small Cap Fund	Should invest 65% of total assets in equity and its related securities of small cap firms	An open-ended equity scheme that majorly invests in small cap stocks	Canara Robeco Small Cap Fund.
Multi Cap Fund	Should invest 65% of total assets in equity and its related securities	An open-ended equity scheme that majorly invests across large cap, mid cap, and small cap stocks	Parag Parikh Flexi Cap Fund
Large & Mid Cap Fund	Should invest 35% of total assets in equity and its related securities of large cap firms and 35% of total assets in equity and its related securities of mid cap firms	An open-ended equity scheme that majorly invests in both large cap and mid cap stocks	Quant Large and Mid Cap Fund
Dividend Yield Fund	Should invest majorly in dividend yielding stocks and at least 65% of total assets in equity	An open-ended equity scheme that majorly invests in dividend yielding stocks	ICICI Prudential Dividend Yield Equity Fund
Value Fund	Should follow a value investment strategy and invest 65% of total assets in equity and its related securities	An open-ended equity scheme following a value investment strategy	ICICI Prudential Value Discovery Fund

Category of Schemes	Key Scheme Attributes	Key Scheme description	Example
Contra Fund	Should follow a contrarian investment strategy and invest 65% of total assets in equity and its related securities.	An open-ended equity scheme following a contrarian investment strategy	SBI Contra Fund
Sectoral/Thematic Fund	Should invest at least 80% of total assets in equity and its related securities of a particular theme or sector	An open-ended equity scheme investing in (name of the theme or sector)	SBI Banking & Financial Services Fund
Focused Fund	Should invest 65% of total assets in equity and its related securities. Should focus on the number of stocks (a maximum of 30 stocks)	An open-ended equity scheme investing in a maximum of 30 stocks (mention where the scheme intends to focus, viz., multi cap, large cap, mid cap, small cap)	Mirae Asset Focused Fund
ELSS	Should invest 80% of total assets in equity and its related securities (in accordance with Equity Linked Saving Scheme 2005 notified by the Ministry of Finance)	An open-ended equity-linked savings scheme with a statutory lock-in of 3 years and tax benefits	IDFC Tax Advantage (ELSS) Fund

Table 9.1

SEBI categorization guidelines -

https://www.amfiindia.com/investor-corner/knowledge-center/SEBI-categorization-of-mutual-fund-schemes.html

A little more explanation is required on ELSS Funds given the taxation connected in the Indian context.

ELSS Mutual Fund

Equity Linked Savings System is referred to as ELSS. It is a type of equity-oriented scheme that allows the investor to deduct up to Rs. 1.5 lacs from their total income under Section 80C of the Income Tax Act of 1961.

Thus, if an investor invests Rs. 50,000 in an ELSS, the amount will be deducted from their total taxable income, lowering their tax burden.

The lock-in period for these schemes, however, is three years from the date of unit allocation. The investor is free to redeem or exchange the units after the lock-in period has ended. Systematic Investment Plans (SIP) are another option for investors, and SIP investments up to 1.5 lakh rupees made in a fiscal year are eligible for tax deductions.

Debt Mutual Fund Schemes

Many investors have the impression that mutual funds invest only in the stock market. They may not be aware that there is a whole different category of mutual fund schemes which invest in the debt market. The Indian Debt market comprises of bonds, debentures and other types of debt instruments issued by Government of India, various State governments, Indian corporates and banks.Such debt instruments have a feature of providing regular income through either coupons or other mechanisms and may be considered safer than equity instruments (depending on their credit worthiness).

Here too SEBI has defined scheme categories and key characteristics of that type of scheme based on their interest rate risk and credit risk.

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Low Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 6 months and 12 months	An open-ended low duration debt scheme investing in securities with Macaulay duration between 6 months and 12 months	Aditya Birla Sun Life Low Duration Fund
Ultra Short Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 3 months and 6 months	An open-ended ultra short-term debt scheme investing in securities with Macaulay duration between 3 months and 6 months	Tata Ultra Short Term Fund
Liquid Fund	Should invest in debt and money market securities having a maturity of up to 91 days only	An open-ended liquid scheme	Quant Liquid Plan
Overnight Fund	Should invest in overnight securities with a maturity of 1 day	An open-ended debt scheme investing in overnight securities	DSP Overnight Fund

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Short Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 1 year and 3 years	An open-ended short-term debt scheme investing in securities with Macaulay duration between 1 year and 3 years	SBI Magnum Medium Duration Fund
Medium Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 3 years and 4 years	An open-ended medium-term debt scheme investing in securities with Macaulay duration between 3 years and 4 years	Aditya Birla Sun Life Income Fund
Money Market Fund	Should invest in money market securities with maturity of up to 1 year	An open-ended debt scheme investing in money market securities	Nippon India Money Market Fund
Medium to Long Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 4 years and 7 years	An open-ended medium-term debt scheme investing in securities with Macaulay duration between 4 years and 7 years	ICICI Prudential Bond Fund

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Long Duration Fund	Should invest in debt and money market securities so that the Macaulay duration of the portfolio is more than 7 years	An open-ended debt scheme investing in securities with Macaulay duration of more than 7 years	ICICI Prudential Long Term Bond Fund
Corporate Bond Fund	Should invest 80% of total assets in highest rated corporate bonds	An open-ended debt scheme investing in the highest rated corporate bonds	ICICI Prudential Corporate Bond Fund
Dynamic Bond Fund	Should invest across duration	An open-ended dynamic debt scheme investing across duration	Tata Dynamic Bond Fund
Banking & PSU Fund	Should invest 80% of total assets in debt securities of banks, public sector undertakings, and public financial institutions	An open-ended debt scheme investing in debt securities of banks, public sector undertakings, and public financial institutions	Axis Banking & PSU Debt Fund
Credit Risk Fund	Should invest 65% of total assets in the below highest rated corporate bonds	An open-ended debt scheme investing in below highest rated corporate bonds	ICICI Prudential Credit Risk Fund

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Floater Fund	Should invest 65% of total assets in floating rate instruments	An open-ended debt scheme predominantly investing in floating rate instruments	HDFC Floating Rate Debt Fund
Gilt Fund	Should invest 80% of total assets in government securities	An open-ended debt scheme investing in government securities across maturity	SBI Magnum Gilt Fund
Gilt Fund with 10 year Constant Duration	Should invest 80% of total assets in government securities such that the portfolio's Macaulay duration is 10 years	An open-ended debt scheme investing in government securities that have a constant maturity of 10 years	ICICI Prudential Constant Maturity Gilt Fund

Table 9.2

9.4 Hybrid/Balanced Mutual Fund Scheme

Let us also look at the third category of schemes which are basically a mix of equity and debt or even other asset classes like gold.

Hybrid/Balanced Mutual Fund Scheme

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Balanced Hybrid Fund	Should invest between 40% and 60% of total assets in equity and its related securities; should invest between 40% and 60% of total assets in debt securities. No arbitrage will be allowed	An open-ended balanced scheme investing in equity and debt securities	ICICI Prudential Asset Allocator Fund (FOF)
Aggressive Hybrid Fund	Should invest between 65% and 80% of total assets in equity and its related securities; should invest between 20% and 35% of total assets in debt securities	An open-ended hybrid scheme investing in equity and debt securities	Baroda BNP Paribas Aggressive Hybrid Fund

Category of Schemes	Scheme Attributes	Uniform Description of the Scheme	Example
Conservative Hybrid Fund	Should invest between 10% and 25% of total assets in equity and its related securities; should invest between 75% and 90% of total assets in debt securities	An open-ended hybrid scheme investing mainly in debt securities	Canara Robeco Conservative Hybrid Fund
Dynamic Asset Allocation or Balanced Advantage Fund	Should invest in dynamically managed equity or debt securities	An open-ended dynamic asset allocation fund	Edelweiss Balanced Advantage Fund
Equity Savings	Should invest at least 65% of the total assets in equity and its related securities and at least 10% of total assets in debt securities	An open-ended scheme investing in equity, arbitrage, and debt	Edelweiss Equity Savings Fund
Arbitrage Fund	Should follow arbitrage strategy and invest at least 65% of total assets in equity and its related securities	An open-ended scheme investing in arbitrage opportunities	Axis Arbitrage Fund

Table 9.3

9.5 Solution Oriented Schemes

Scheme Category	Scheme Attributes	Uniform Description of the Scheme	Example
Children's Fund	Lock-in period for at least 5 years or till the child attains majority age, whichever is earlier	An open-ended fund for investment for children with a lock-in period for a minimum of 5 years or until the child reaches majority age, whichever is earlier	SBI Magnum Childrens Benefit Fund
Retirement Fund	Lock-in period of at least 5 years or till retirement age, whichever is earlier	An open-ended retirement solution-oriented scheme with a lock-in period of 5 years or till retirement age (whichever is earlier)	ICICI Prudential Retirement Fund

Table 9.4

9.6 Other types of mutual fund schemes

Scheme Category	Scheme Attributes	Uniform Description of the Scheme	Example
Index Funds/ETFs	Should invest at least 95% of total assets in securities of a particular index	An open-ended scheme tracking/replicating (name of the index)	DSP Equal Nifty 50 Fund
Fund of Funds (Overseas or Domestic)	Should invest at least 95% of total assets in the underlying fund	An open-ended fund of fund scheme investing in ____ (name of the underlying fund)	Edelweiss Bharat Bond FoF- April 2030

Table 9.5

Active vs Passive Mutual Fund Schemes

In recent times passive mutual fund schemes are gaining in popularity. Let us understand what they are and how they are different from active funds.

Active Funds

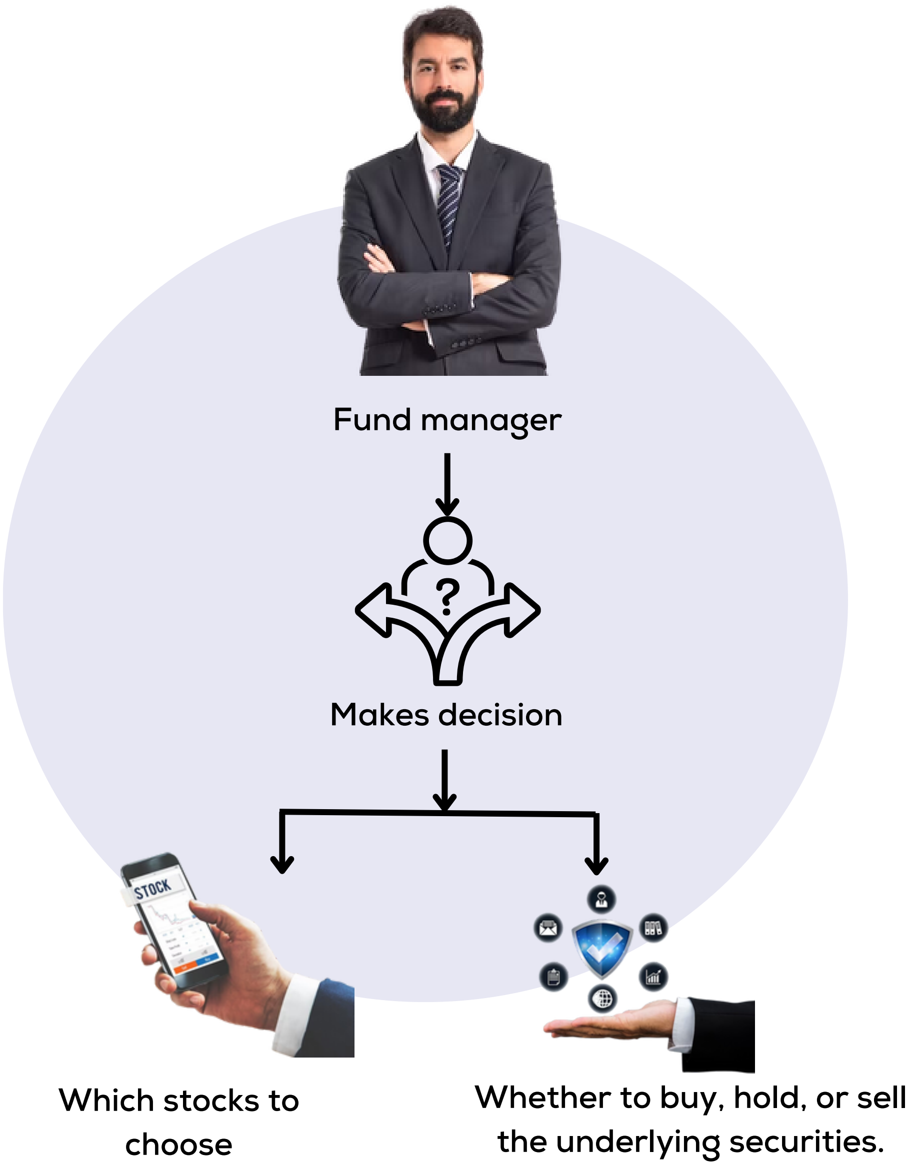


Fig 9.5 Active Funds

In an active fund, the fund manager makes decisions about which stocks to choose and whether to buy, hold, or sell the underlying securities. To build and manage the portfolio, active funds use a variety of strategies and management techniques.

- The Scheme Information Document(SID) provides an upfront description of the investment philosophy of active funds.
- The goal of active funds is to outperform the benchmark index in terms of returns (alpha). What matters is whether they are successful or not.
- The strategy chosen will determine the risk and return in the fund.
- The stocks for the portfolio are "selected" basis different strategies.
- Suitable for investors who want to benefit from fund managers' ability to generate alpha.

Passive Funds

Passive Funds maintain a portfolio that strongly resembles a specified Index or Benchmark. They can be further divided into two types

PASSIVE FUNDS

INDEX FUNDS

An index fund replicates the performance of a particular index, like the Sensex or NSE 50. These funds are passively managed.

ETFS (EXCHANGE-TRADED FUNDS)

Index funds that are listed and traded on exchanges like equities stocks are known as exchange-traded funds.

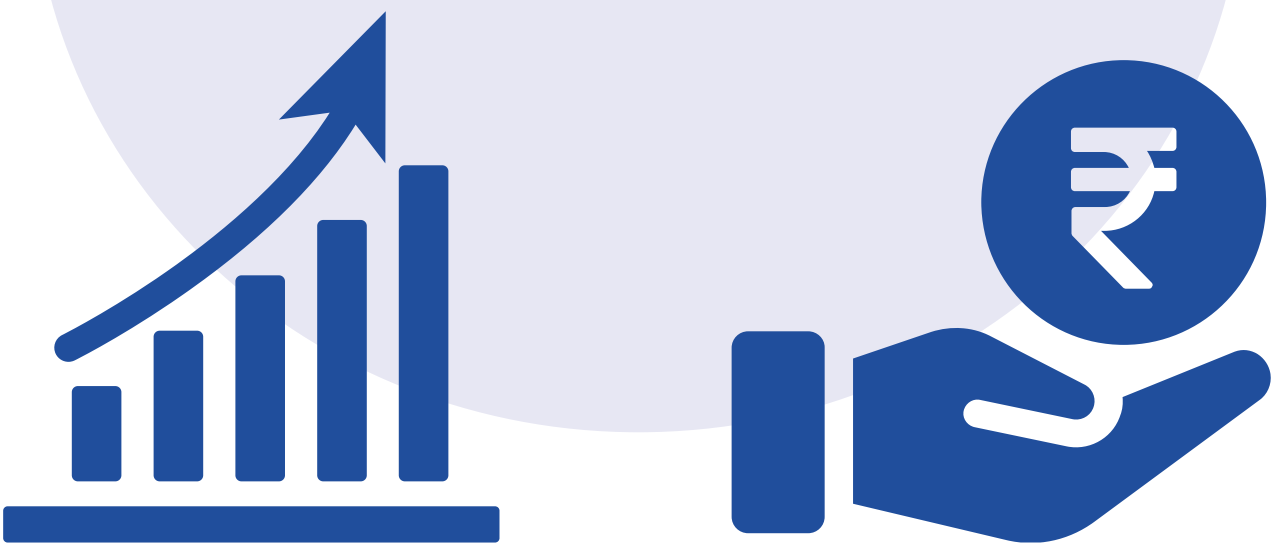


Fig 9.6 Passive Funds

The fund manager has a passive role in a Passive Fund because the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager / dealer only needs to replicate the same with minimal tracking error.

- Passive Funds are Suitable for investors who want to allocate exactly as per market index.

FoFs (Fund of Funds)

Instead of making direct investments in stocks, bonds, or other securities, a "Fund Of Funds" (FoF) is a type of mutual fund scheme that manages a portfolio of other mutual fund schemes. The majority of a FoF Scheme's investments are in the units of another Mutual Fund scheme. Multi-manager investment is a common name for this type of investing.

The units of other mutual fund schemes, either from the same mutual fund or from different mutual fund houses, serve as the underlying investments for a FoF.

The question arises….Why would any investor be interested to invest in an FoF?

- According to experts, fund of funds aremore suitable for investors who want to gain access to one fund to access a variety of different asset classes. Let’s say an investor wants to invest in an equity scheme, a debt scheme and a gold scheme. Instead of investing in multiple schemes, FoF which combines all three asset classes by investing in underlying MF schemes can be an easier way of investing.

- In the Indian context some fund houses also offer FoFs where the underlying scheme is an ETF. This can be useful for investors who don't have a demat account or who don't want to buy the ETF directly.

- FoFs can also be offered for taking exposure to international equities. To give an example there is an FoF called Kotak Nasdaq 100 FoF. The underlying mutual fund scheme that this FoF invests in is called IShares NASDAQ 100 UCITS ETF which operates in the US. So through this domestic FoF one can take exposure to international equities.

Summary and Key takeaway for Investors: There are many types of mutual fund schemes available. It is important to know what kind of mutual fund scheme you are investing in and what are its key characteristics. The SEBI categorization is a useful barometer to know the same. In recent times passive funds have gained in popularity as many actively managed mutual funds are not able to generate higher returns than benchmark.

Knowing the type of mutual fund scheme you want to invest in is vital before you commit your hard earned money. If these classifications look complex to you or if you don't have the time and energy to decide and research yourself, then it is advisable to hire a trusted SEBI registered mutual fund advisor or a MF distributor.

Chapter - 10

A step-by-step guide to investing in mutual funds

10.1 Ways of investment

The first step as an investor is to decide on whether to invest directly or through advisor

INVESTOR

"Why do I need an Advisor?"

An investor expects a financial advisor/broker to provide some services and make things easier for them. You must perform those services on your own and voluntarily put up with the inconvenience if you want to invest directly in mutual funds or purchase mutual funds without a broker.

A professional financial advisor or financial planner can potentially increase your return. An independent advisor can help remove our personal biases and help to bring a more systematic approach.

Such advisors would be monitoring markets as well as mutual funds closely. They may also be interacting with mutual fund industry professionals like sales people and fund managers closely. Another important reason to go with an advisor/broker is that they may provide other value added services like risk profiling, overall asset allocation strategy, portfolio rebalancing as required from time to time and also advice on insurance products, wealth protection measures etc.

You may want to think about investing in mutual funds on your own without consulting a professional if you have the necessary time, knowledge, and discipline to complete all these tasks on your own.

10.2 Types of advisor

Types of advisor

If you choose to use an advisor to invest in mutual funds, you should be aware of the two main regulatory categories of advisors.

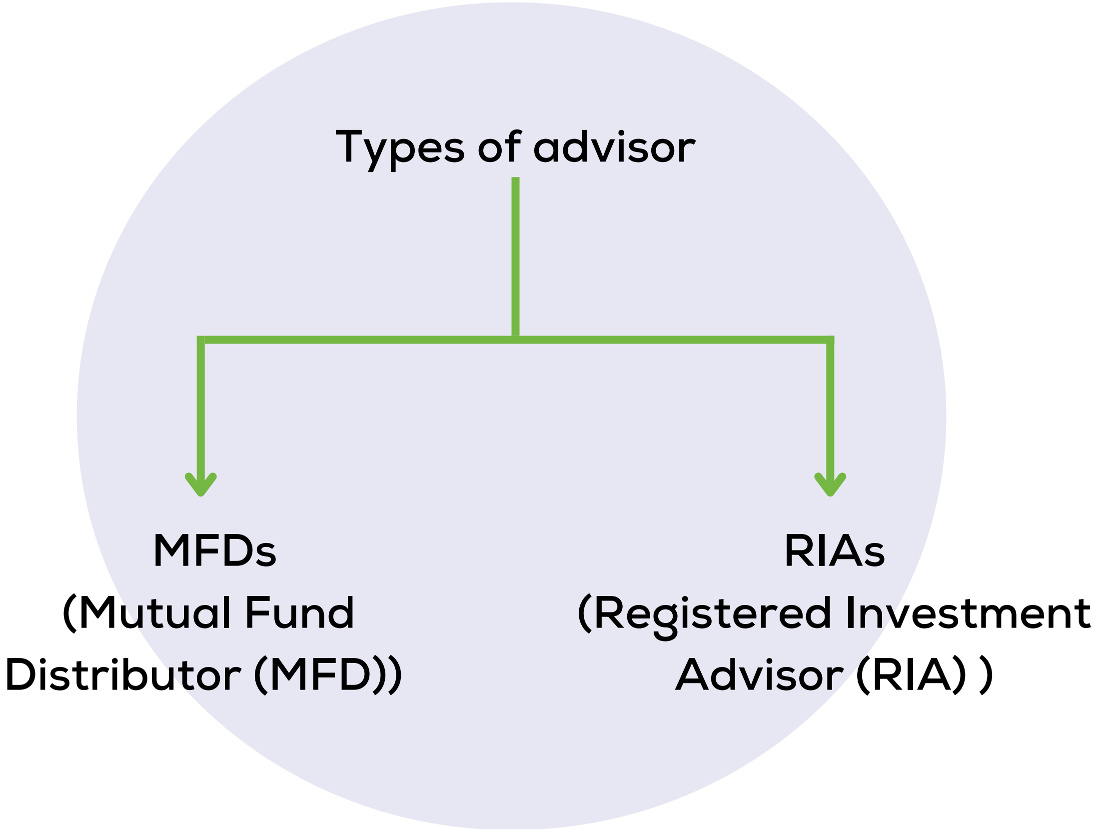


Fig 10.1 Types of advisor

Registered Investment Advisor (RIA)

Registered Investment Advisors (RIA) are fee based advisors. They do not derive any commission from the mutual fund scheme they recommend. Thus they usually recommend the "direct" plans of the mutual fund scheme. The market regulator, the Securities and Exchange Board of India (SEBI), registers RIAs. Compared to distributors of mutual funds, RIAs owe their customers more obligations.

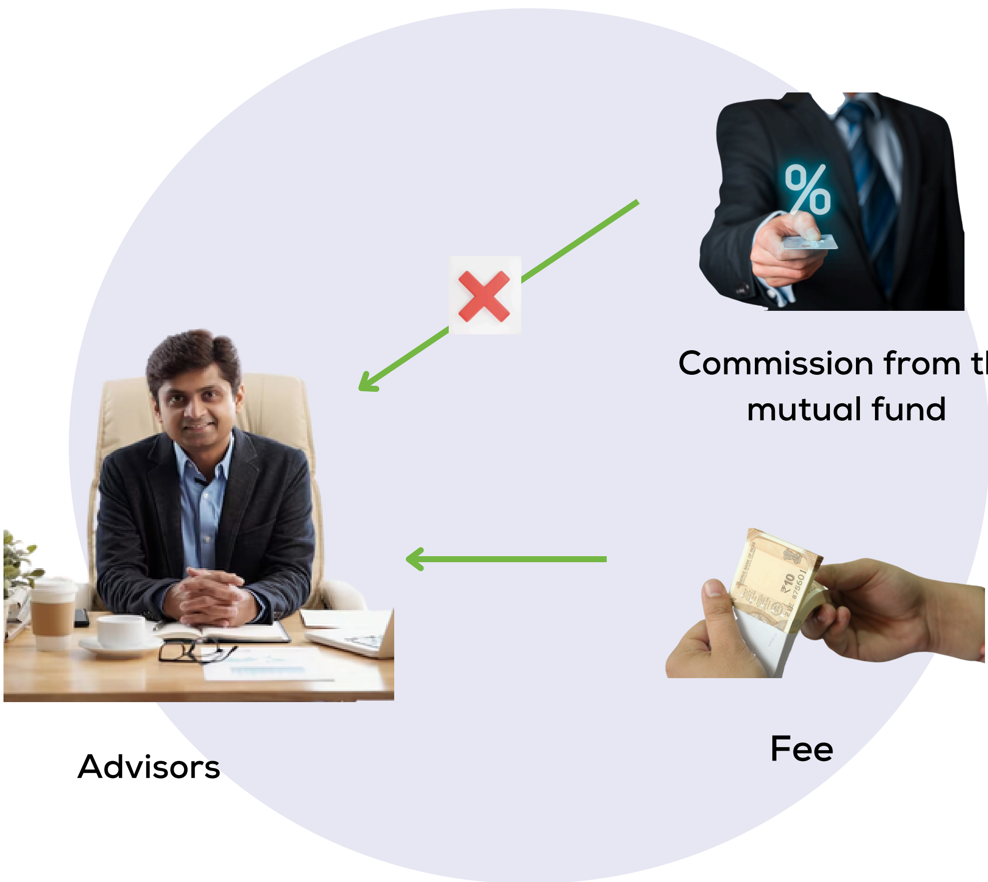


Fig 10.2 RIA

Individuals or even organizations can become an RIA. For example PayTM Money is registered as an RIA with SEBI and they have an app through which investors can invest in mutual funds.

Link of all registered investment advisor as per SEBI - https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=13

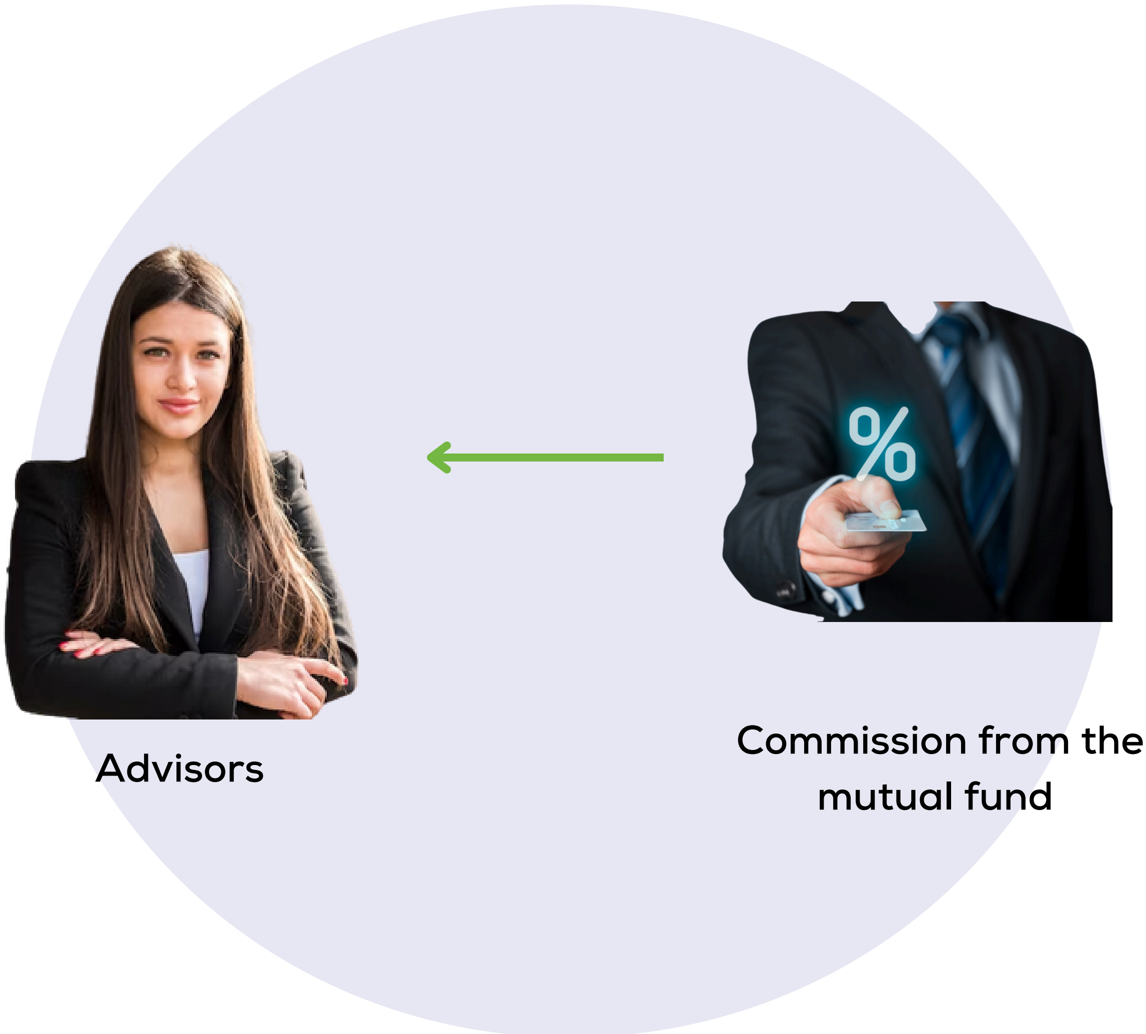


Fig 10.3 MFD

MFDs are commission based advisors. They derive their fees from the underlying schemes they sell. Here as well, the MFDs can be individuals or organizations. In case you wish to take the services of an MFD do check the link below. For example HDFC bank is a registered mutual fund distributor.

Link for all Registered MFD as per AMFI -
https://www.amfiindia.com/locate-your-nearest-mutual-fund-distributor-details

To understand the difference between these two kinds of advisors here is a comparative table between RIA and MFD

	RIA	MFD
Roles and Responsibility	They offer comprehensive investment or financial planning advice	They offer services by selling products
Charges	Fee based	Commission based
Compensated by	Client	AMC
Type of MF scheme they advise	Direct Scheme	Regular Scheme
Registration	SEBI Registration is Compulsory	Registration with AMFI is required
Conflict of Interest	No	Yes

Table 10.1

While choosing an advisor do check what **modes of investing** they recommend or assist you with. It should be **convenient** for you. Nowadays most advisors assist their clients in doing investments through **online** mode only. The BSE Star MF platform is a portal which is popular with mutual fund distributors as they can route their customers MF transactions fairly smoothly through this platform.

10.3 KYC Process

KYC (Know Your Client) is a mandatory requirement imposed by the Securities and Exchange Board of India (SEBI) to prevent money laundering under the Money Laundering Act of 2002.

You need to have your KYC verified with the intermediaries registered with the Securities and Exchange Board of India (SEBI) before starting to invest in mutual funds. This mandatory requirement of KYC verification by SEBI is a one-time process.

KYC needs to be registered with KYC Registration Agencies (KRA). You can initiate registration with mutual fund distributors, mutual fund houses, or directly through KYC Registration Agencies (KRA) online.

Following are the KRAs in India registered with SEBI –

- CDSL Ventures Limited (CVL)
- NSDL Database Management Limited (NDML)
- DotEx International Limited (DotEx)
- CAMS Investor Services Private Limited
- Karvy Data management Services limited

Some documents like proof of identity, proof of address, photographs and duly filled and signed KYC forms would be required to be submitted. Nowadays the KYC process can be done online too through eKYC.

If your KYC is not registered, you can get it registered through eKYC. You can do it through the online platform of KYC Registration Agencies (KRA)

Once your KYC is registered or eKYC is done, you can start investing in mutual funds.

10.4 Modes of Direct Investments

Once you have decided to start investing directly, you can explore the various options available to see what is most convenient for you. You must take care at all times to ensure you select **DIRECT** plans for the Mutual fund schemes you decide to invest in.

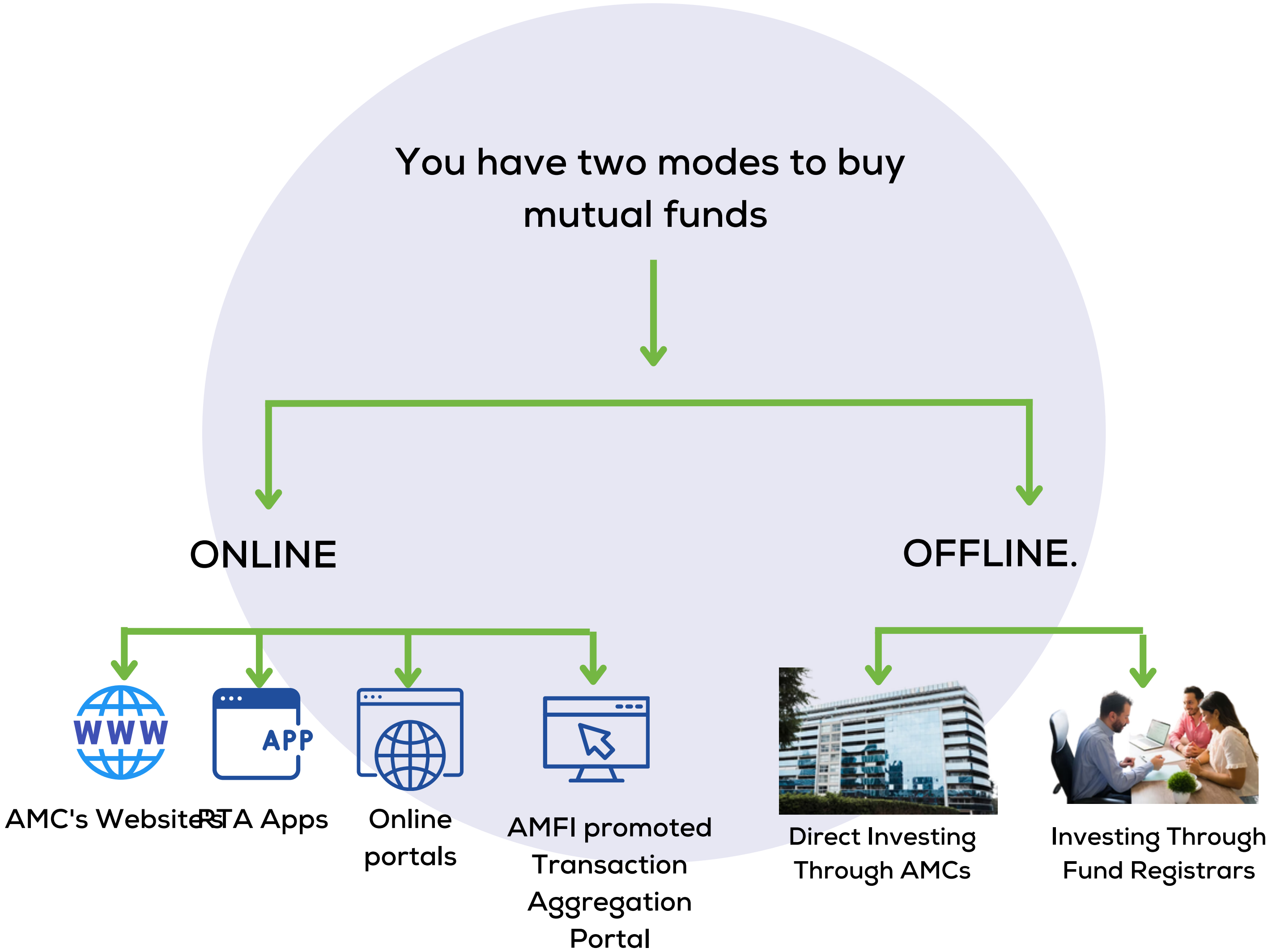


Fig 10.4 Modes of Direct Investments

1. Offline Method

You can visit specific mutual fund house offices, branches of distributors, or brokers to avail mutual fund forms.

Direct Investing Through AMCs

Walk into the nearest office or Investor Service Centre of the AMC of your choice. If you are a first time investor, then you will have to complete your KYC and you will be allotted a 'Folio Number'. Once folio number is allotted, subsequent investments can be done online. Ensure that you specifically check the Direct Plan box in your application. The only challenge in this approach is that you will have to obtain a distinct folio number for each AMC.

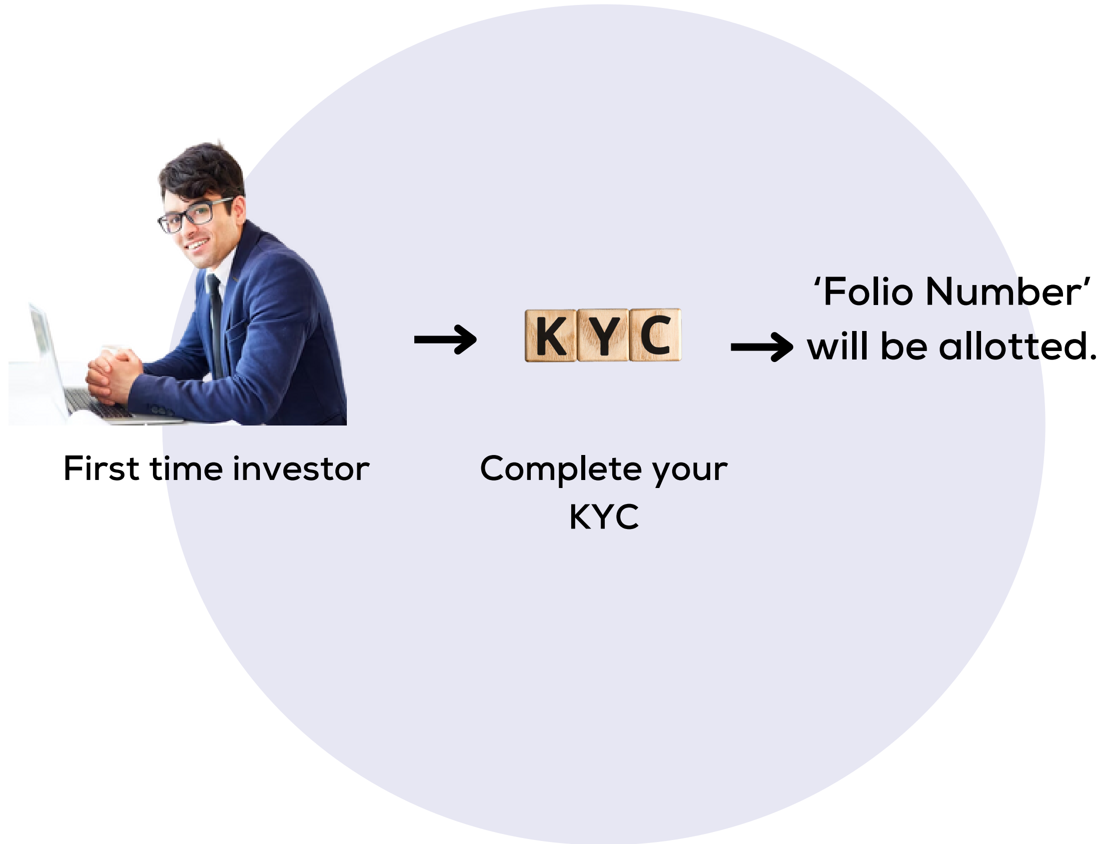


Fig 10.5 Direct Investing Through AMCs

You can fill in the forms with complete details of investment type (Lumpsum/Systematic investment plan), mode of payment, bank details, and holding type. Enclose the payment cheque/demand draft along with the signed form and submit it.

Investing Through Fund Registrars

RTAs (Registrar and Transfer Agents) are the record keepers and folio managers of all mutual fund accounts. There are two key players viz. Karvy and CAMS. You can register with any Registrar online to invest in Direct Plans. Of course, when you approach a Registrar, you can only invest in funds for which they are the registrars. In fact, when you submit an application with your AMC, it is processed by the registrar and not by the AMC. So, this is an extension of the first method.

You can submit the documents directly at the branch or service centre of such registrars.

2. Online Method

Online mode is the most preferred mode to buy mutual funds nowadays than the conventional offline method of buying mutual funds. You can conveniently buy mutual funds online in no time through many platforms. Following are some of the ways to buy mutual funds online:

- **AMC (Asset Management Companies):** You can visit the website of fund houses and start investing your desired choice of funds. Some fund houses also provide eKYC if your KYC is not done. Nowadays most fund houses also provide mobile apps for purchasing mutual funds. Ensure to select the “DIRECT” option while investing.

- **RTA Apps:** Both CAMs and Karvy offer investors online options to invest directly. CAMs has a myCAMs app and Karvy has kFinKArt Investor.

- **Online portals:** There are online portals who offer you the choice of opting for the “DIRECT” option of mutual fund schemes so that you are actually investing directly. For eg moneycontrol, groww, paytm money and many others. These portals also offer mobile apps through which you can invest as well.

10.5 AMFI promoted Transaction Aggregation Portal:

MF Utility (MFU) is a "Transaction Aggregation Portal" through which a Mutual Fund customer is enabled to transact in multiple schemes across Mutual Funds using a single form/payment. It was started as an initiative of the mutual fund industry through AMFI (Association of Mutual Funds of India). It provides browser-based access to Mutual Fund customers, with connectivity to Registrars and Transfer Agents (RTA), Banks, Asset Management Companies (AMC), Payment Gateways (PG) and KYC Registration Agencies (KRAs) and enables online transaction submission in multiple schemes across Mutual Funds through a single form/payment. You will have to take a one-time registration and obtain a Common Account Number (CAN).

10.6How to monitor MF performance and your MF portfolio

It has gotten a lot simpler to monitor investment and portfolio performance in this digital and information age.

An investor who has placed an investment through an intermediary or advisor typically receives updates and review statements that track the performance of their portfolio and scheme. While advisors can help you track your portfolio and share performance data, it is essential for investors to have some knowledge about their own investments. This is even more true in case you don't have an advisor and are managing all investments yourself.

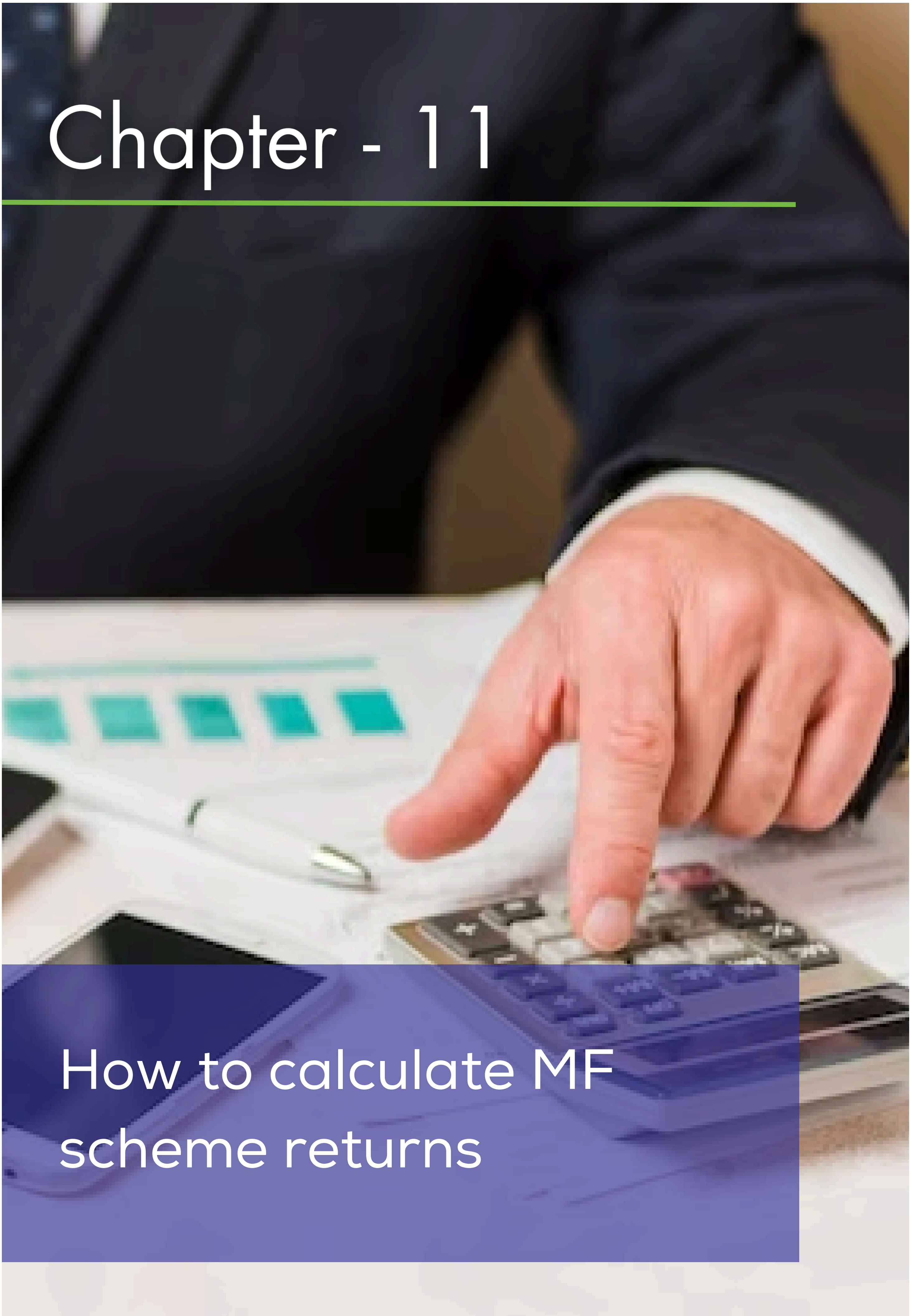
If you are managing your MF investments yourself, then there are several websites and mobile apps that you can check to keep track of scheme performance. Like ET money, valueresearchonline.com, Groww, AMFI etc. Some websites also provide customized portfolio tracking tools so you can keep tabs on your own portfolio. Popular business publications frequently review and comment on mutual funds.

Here is an example of a website which allows you to select schemes you have invested in and calculate the returns based on a specified period.

MF Return Calculator -
https://www.moneycontrol.com/mf/returns-calculator.php

One can calculate MF returns by oneself and in the next chapter we would learn about the same.

Chapter - 11



How to calculate MF scheme returns

11.1 Three types of return calculation methods

It is useful to know how to calculate returns on MF investments yourself. All you need is an excel sheet or a calculator.

There are 3 types of return calculation methods which you should know about.

1. Absolute Return

Absolute return measures the gain or loss of an investment as a percentage of the capital invested. It calculates return **irrespective of time.**

Let’s take an example to understand this:

Let’s say you have **Rs. 12,000** in a mutual fund scheme. After three years, it grew to **Rs.17,000.**

Your **absolute return** will be **(Rs. 17,000 – Rs. 12,000)/Rs. 12,000 = 0.4166**

To convert to percentage we multiply by **100**
0.4166*100 = 41.66%

Absolute return can also be calculated from NAVs using the same formula

Absolute returns Percentage =(Current NAV – Initial Investment NAV)/Initial Investment NAV x 100

Let's again take an Example -

Nav of HSBC Large Cap Equity Fund - Growth as on 1 July 2021 is 289.20 and NAV of same fund as on 31 Dec 2021 is 320.98

If you just wish to know the **Absolute Return** percentage will be –

Current NAV = 320.98
Initial Investment NAV = 289.20

Absolute returns Percentage ={ (320.98 - 289.20) / 289.20 } *100 = 0.1098*100 = 10.98 %

When you refer to returns in a mutual fund factsheet or on the MF website, if the period of review/investment is less than 1 yr then absolute returns are shown. This is a mandatory requirement as laid down by SEBI and has now become an acceptable market practice.

However in case you still need to understand how this return looks like on an annualized basis, you can use the formula for Simple Annualized Return.

2. Simple annualised return -

Simple annualized return is calculated when the holding period is less than 1 year and you may still wish to extrapolate returns in a manner to know how the investment will likely perform if it were held for a period of 1 year.

The formula is
Simple Annualised Rate of Return = (Ending Value / Beginning Value)^(365/n) – 1

Where,

n = Number of days one held the investment

Let's take the same Example as in the prior case - NAV of HSBC Large Cap Equity Fund - Growth as on 1 July2021 is 289.20 and NAV of the same fund as on 31 Dec 2021 is 320.98.

Previously we saw the absolute returns was 10.98%. Now if you wish to calculate the Simple Annualised Rate of Return it can be done as below

Ending value (NAV as on 31 Dec 2021) = 320.98

Beginning value (NAV as on 1 July 2021) = 289.20

Number of days of holding period (1 July to 31 Dec) = 183 days

Hence, Simple Annualised Rate of Return =
(320.98/289.20)^(365/183) - 1 = 0.23115
In terms of percentage = 0.23115 * 100 = 23.11%

3. CAGR

The annual growth of your investments over a given time period is known as compound annual growth rate, or CAGR. In other words, it is a measure of how much you earned on your investments each year over a specific time period. This is not to say that your investment would have grown steadily. There may be periods of volatility when one year it may have performed higher and next year even gone negative. However this measure helps to see the mean average annual return over a significant period of time. At least over one year.

This is one of the most widely used approaches to determining the increase or decrease in your investment returns over time.

CAGR = {(Today's Value/Initial Investment Value) ^ 1/n – 1} *100

Here n = number of years

Let's say you have **Rs. 12,000** in a mutual fund. After three years, it grows to **Rs.17,000**, so CAGR will be -

Today's value = Rs 17000
Initial investment = Rs 12000
Number of years = 3

CAGR = (Rs. 17,000/Rs. 12,000)^(⅓) – 1 * 100 = 12.31%

When it comes to your MF Investment, you can take the relevant NAVs andcalculate CAGR :

CAGR = {(Current NAV /initial investment NAV) ^ (1/n) – 1} *100

For Example -

If NAV of Axis Equity Saver Fund - Direct Plan - Growth on 1 Jan 2018 is 12.12 and 18.38 on 31 Dec 2021, then **CAGR** will be -

Current NAV (NAV as on 31 Dec 2021) = 18.38
Initial Investment NAV (NAV as on 1 Jan 2018) = 12.12
Number of years (1 Jan 2018 to 31 Dec 2021) = 4 Years

CAGR = (18.38/12.12)^(¼) - 1 = 0.1097*100 = 10.97%

Chapter - 12

How to monitor, review and rebalance the MF portfolio

12.1 How to Read a Mutual Fund Factsheet and where to get it?

A mutual fund factsheet is a document that provides a 360-degree view of the schemes of the mutual fund and its performance. The factsheet, published monthly by AMCs, has vital information and disclosures that help you have a granular view of the fund and analyse the same.

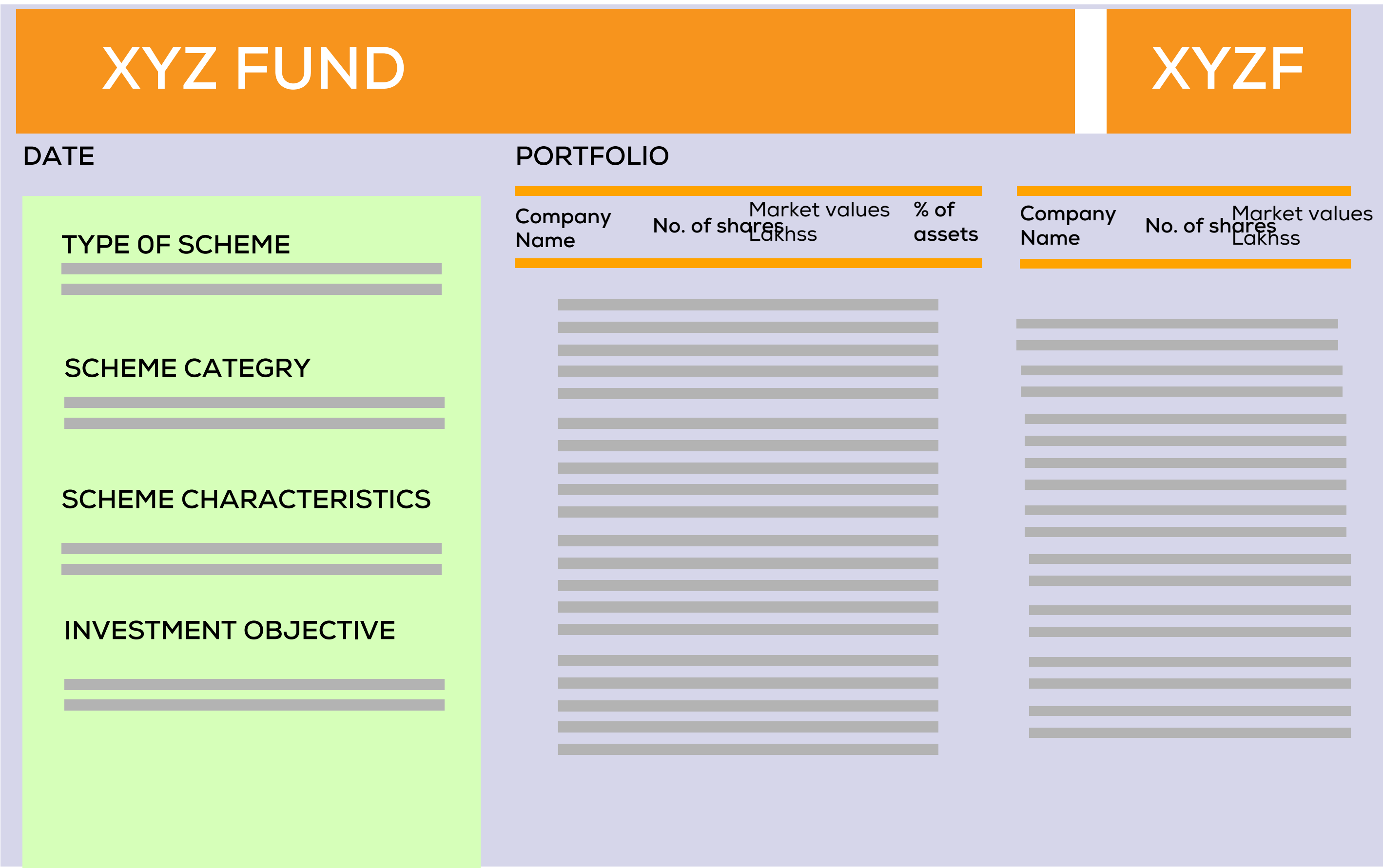


Fig 12.1 Mutual Fund Factsheet

The factsheet starts with a view from the CEO’s desk and then a monthly update for equity and debt by the respective investment teams.

It covers important aspects of the schemes managed by a mutual fund like investment objective, benchmark, AUM, fund managers, features like options available, minimum investment amount, exit loads applicable, and NAVs of different plans. The factsheet also covers important performance and risk parameters like standard deviation (measure of volatility), beta, Sharpe ratio, expense ratio of different plans, and portfolio turnover for equity funds while duration, average maturity, and portfolio yield are disclosed for debt funds.

The factsheet also shows portfolio holdings for the previous month across sectors and securities. It showcases the fund’s historic performance in comparison to its benchmark and specifies the risk level of the fund.

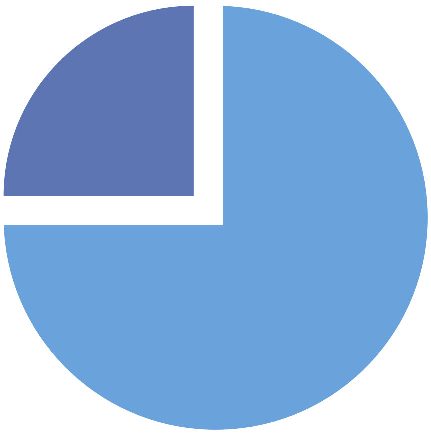
The fund factsheet is released by the 10th or 15th of the successive month and is usually uploaded by the AMCs on their website so that investors can access them. You can also call the customer care center of the fund house or email them to request for the fund factsheet.

Some of the other important factors to check for in the factsheet

https://www.amfiindia.com/investor-corner/online-center/trackmfinvestment.html

Total Expense Ratio (TER)

These are the expenses charged by the fundhouse for managing that particular scheme. This is deducted prior to declaring the NAV. Hence as an investor you pay this. It is important to know how much it is.



Riskometer

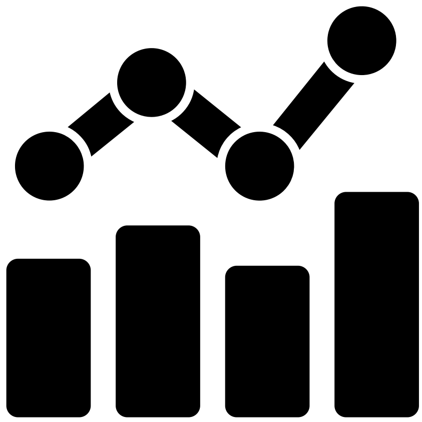
The fact sheet will show how risky a fund is. This is depicted by a Riskometer.

Returns

The fact sheet will show the fund's results over the past one year/three year/ five years/since inception etc. This is crucial to know before you buy a fund, as it gives a snapshot of the fund's history and current trajectory.

Benchmark

Since different MF schemes have different investment objectives and invest in various asset classes, absolute return comparison between various schemes of the same fund house may not be suitable. What would be required is to compare the fund's performance against a relevant benchmark. The factsheet gives data on the scheme benchmark as well and how the fund has fared against the benchmark. It is important to know however that benchmark returns are gross and that of the mutual fund scheme is net (after deducting fees/expenses).



12.2 How to compare mutual fund schemes for performance?

The most important factor to keep in mind while comparing various mutual fund schemes is that they should be “Apple” to “Apple” comparisons. So you should compare funds in the same SEBI category. So an Equity large cap scheme of one mutual fund should not be compared to the balanced fund of another MF scheme. As both schemes would have different investment objectives.

Mutual fund scheme performance and its detailed analysis can be done with the help of mutual fund websites. There are many such websites, portals and even mobile apps through which you can do the performance check. Some of the popular ones are valueresearchonline.com, moneycontrol.com, etc.

Let us show you an example of how to compare returns from the AMFI website.

Here is the url:
https://www.amfiindia.com/research-information/other-data/mf-scheme-performance-details
https://www.mutualfundindia.com/MF/Factsheet/Details?id=

Basic your requirement, one can select the desired category and other important details-

- Select the structure of the mutual fund (open, close-ended or Interval)
- Select category of fund (Debt, equity, hybrid etc)
- Selection type of scheme (large-cap, mid-cap, small cap etc)
- Selecting a specific mutual fund or selecting all to have an overall analysis

12.2 Rebalance Mutual fund

As you can see you would get the comparative returns.

How to rebalance MF investments

An investor balances their portfolio to its target allocation through the process of rebalancing. The portfolio achieves the ideal asset mix through rebalancing. To achieve this, underperforming assets are sold off and money is invested in assets with growth potential.

Why is Rebalancing important?

Portfolio rebalancing is the process of buying and selling parts of your portfolio to restore the original weights of each asset class. The weight of each security or asset class in the portfolio can be changed using portfolio rebalancing if your investment strategy or risk tolerance have changed.

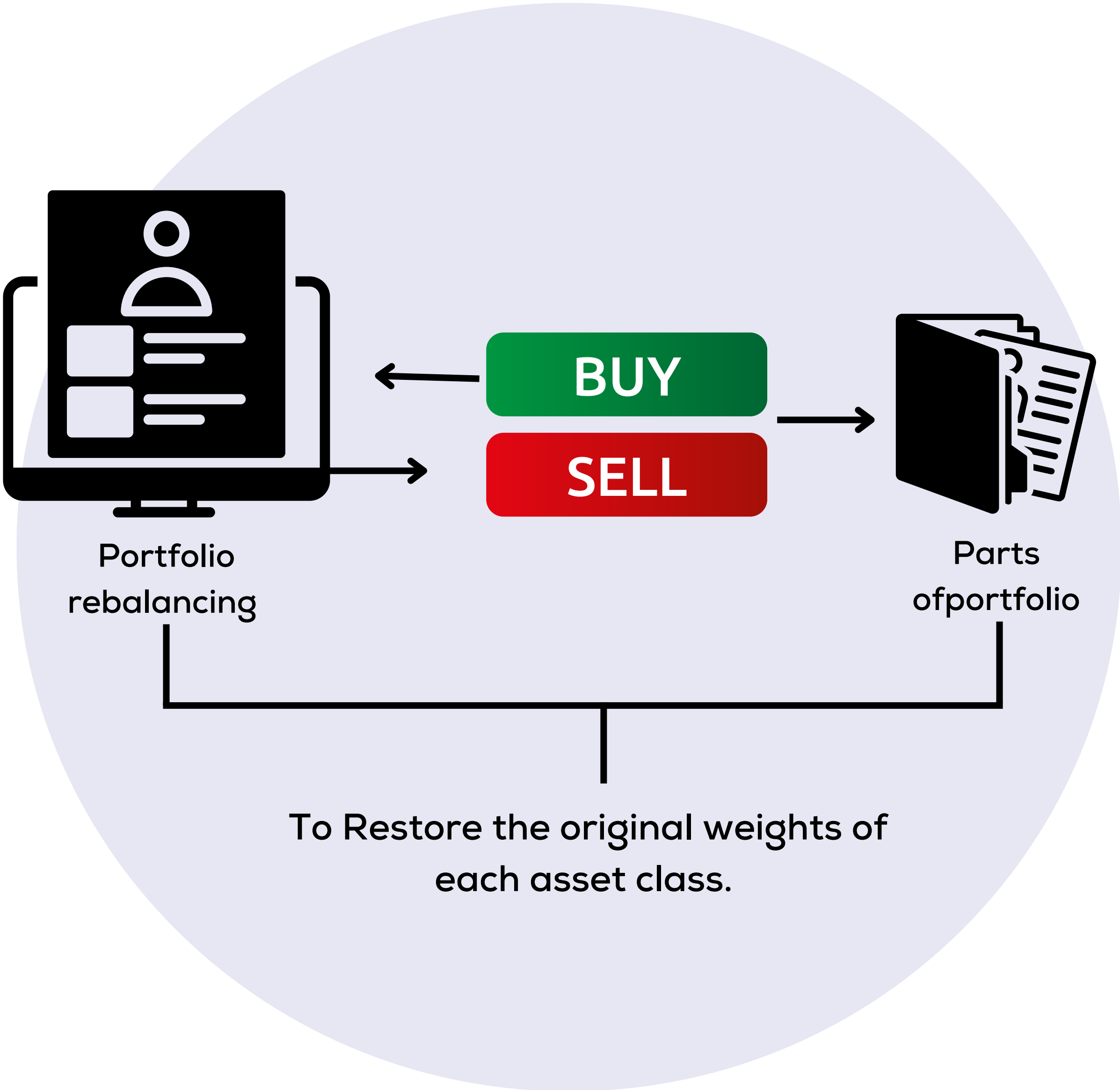


Fig 12.2 Rebalancingt

How can you rebalance your MF investments?

Step 1: Create an asset allocation plan first by taking your income, anticipated retirement age, risk tolerance, and life goals into account. Make an asset allocation plan, but if you're not sure, seek advice from a good mutual fund advisor.

Step 2: Assess your current asset allocation by identifying where and how your current investments are placed. Apart from mutual funds you may have other kinds of investments as well. Consider all in entirety. Check whether your investments are on track to meet your goals and whether they are delivering the expected returns. One also needs to check if the mutual funds are performing well as compared to their benchmarks and relative performance in their respective fund category.

Step 3: Chart out a rebalancing plan if the mutual funds in your portfolio are not performing as per expectations or your goals/risk appetite have changed. Look at alternative MF schemes that you wish to invest into or replace with.

Step 4: When selling or switching from your mutual fund investments, keep in mind the tax ramifications, especially those related to capital gains. Other factors to keep in mind are exit loads (some MF schemes charge exit loads if you exit the scheme before a certain period is over like say before 1 yr).

Step 5: Review your mutual fund investments at least once every three months to evaluate your position. However, rebalance them only when you believe the allocations are significantly off course from achieving the goal.

Two friends Ankit and Anup discussing about their MF investment andreturns. Let's take a sneak peek into their conversation -

Ankit: “You know I recently invested in HDFC Equity Savings Fund- Growth Option.

Anup: “ Hey what a coincidence! I also invested in the same fund!”

Ankit : “ Really? Wow. What is your view on this fund? The NAV is 52.781 as on yesterday i.e. 1st April 2022

Anup: “No, I don't think so. I can see the latest NAV on my MF app and it shows as 48.616

Ankit: “Wait a minute. Let me check again....”

Anup: “ Ah I got it now. I have invested in the Regular Plan of the same scheme and I think you have invested in the Direct Plan!”

Ankit: " Oh yes that’s correct. Therefore my returns are better than yours! ”

Anup:”Why should that be?”

OAWA

Basics of MUTUAL FUNDS

Wow! This discussion just got interesting! Here's something to think about, Is Ankit's claim correct? If Yes, then why? Let's find out -

Assume that both the friends invested on the same date, i.e 1st April 2019. And the NAVs of HDFC equity Savings Fund - Growth Option- Direct Plan and HDFC Equity Savings Funds - Growth Option- Regular Plan were 39.144 and 38.902 respectively.

Let's list down the NAV data. Ankit said he has invested in the Direct Plan of HDFC Equity Savings- Growth Option.

HDFC Equity Savings Fund - Growth Option - Direct Plan

NAV as on 1 April 2019 - 39.144
NAV as on 1 April 2022 - 52.781

Anup said he has invested in the Regular Plan of HDFC Equity Savings- Growth Option.

HDFC Equity Savings Fund - GROWTH PLAN - Regular

NAV as on 1 April 2019 - 38.902
NAV as on 1 April 2022 - 48.616

Since the return periods are more than 1 yr, we will use the formula of CAGR to calculate the returns.

CAGR = {(Current NAV /initial investment NAV) ^ (1/n) – 1} *100

CAGR (HDFC Equity Savings Fund - Growth Option - Direct Plan) = {(52.781/39.144)^(⅓) - 1}= 0.1047*100 = 10.47 %

CAGR (HDFC Equity Savings Fund - GROWTH PLAN - Regular) = {(48.616 /38.902)^(⅓) - 1} = 0.0771 *100 = 7.71 %

As you can see, Ankit is right indeed! Even though both the friends have invested in the same mutual fund scheme and they are comparing returns over the SAME period, their returns are different. Can you now tell why the Direct plan returns are higher than the regular plan for the same scheme?

Chapter - 13

Tips for smooth and hassle-free mutual fund investment for you and your family

13.1 Importance of Nominations

While you have done your MF investments its important to ensure that in the event of death, your legal heirs (typically family members) can access your investments and get it transferred for themselves. Nominations are not unique to mutual funds …it has to be done for most forms of investments like PF/PPF, Bank accounts, FDs, demat accounts, etc.

Importance of Nominations

The process of appointing a person to take care of the assets in the event of the investor's demise is called Nomination.

One of the biggest benefits of appointing a nominee is that it helps in smooth transfer of funds to the nominee(s) on the demise of the investor. Not having a nominee will increase the process of claim for the heirs/claimant as they may have to produce documents like a will, legal heir certificate, no-objection certificate etc. to get the units transferred in their name.

The nominee can be any family member of the investor – spouse, child, a friend or any other trustworthy person. The ultimate choice of having a nominee depends on the investor.

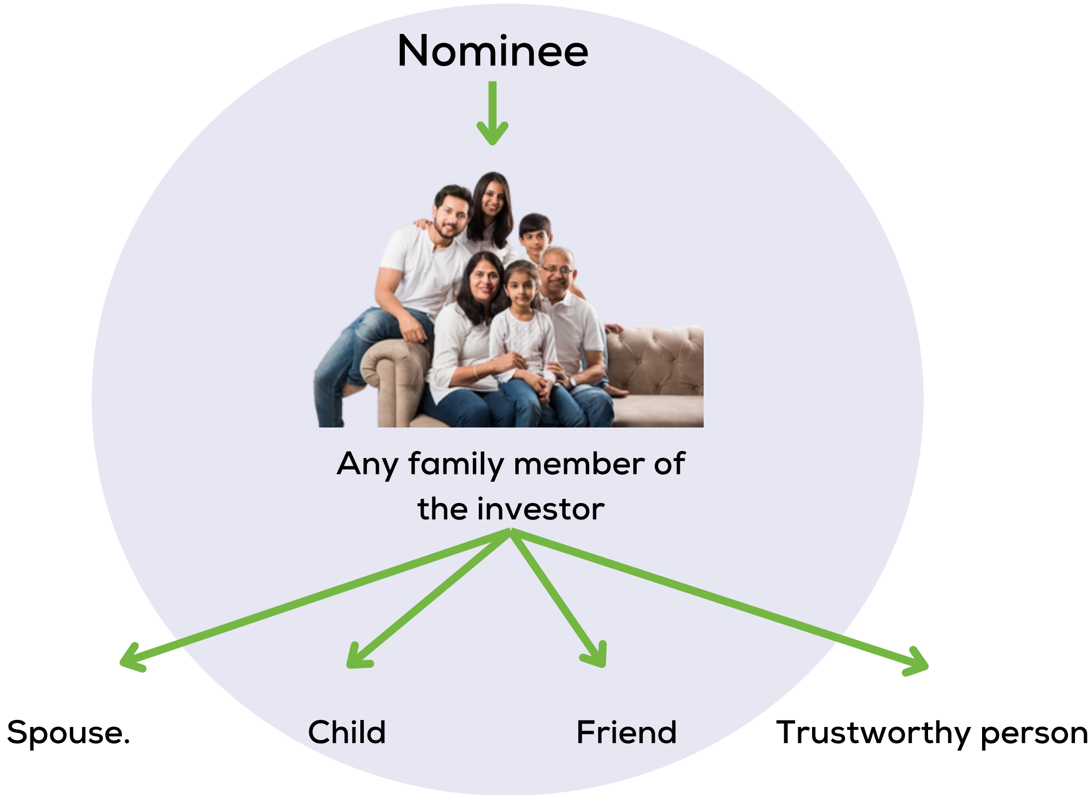


Fig 13.1 Nominee

13.1 Process of making a nomination

Nomination can be done by filling in the details of the nominee in the assigned column of the online/offline application form. Nomination is permitted for joint holders; however, the surviving holder becomes the beneficiary in the event of death of the other holders. The nominee becomes the beneficiary only in the case of death of all the holders.

Maximum number of nominees

Up to 3 nominees can be appointed in one mutual fund folio. The percentage of the amount that will go to each nominee in case of the unit holder's demise can also be specified. Each nominee is eligible for an equal share if the percentage is not specified.

An investor can, as per his/her wish, modify a nominee at any time.

What happens in the event of death of the unit holder

A number of provisions ensure that the legal heirs or nominees can claim the deceased investor's investments in the event of the death of a mutual fund investor. The process of transferring Mutual Fund investments to a claimant following an investor's death is referred to as "transmission of units."

13.3 Who Can Claim Mutual Fund Units of a Deceased Investor?

The person or people who submit a claim to a fund house in order to have investments belonging to deceased investors transferred into their names are referred to as claimants. After an investor's demise, one of three types of claimants may be eligible to receive units transferred to their name. These consist of-

- Joint Account Holders
- Nominee(s)
- Legal Heirs

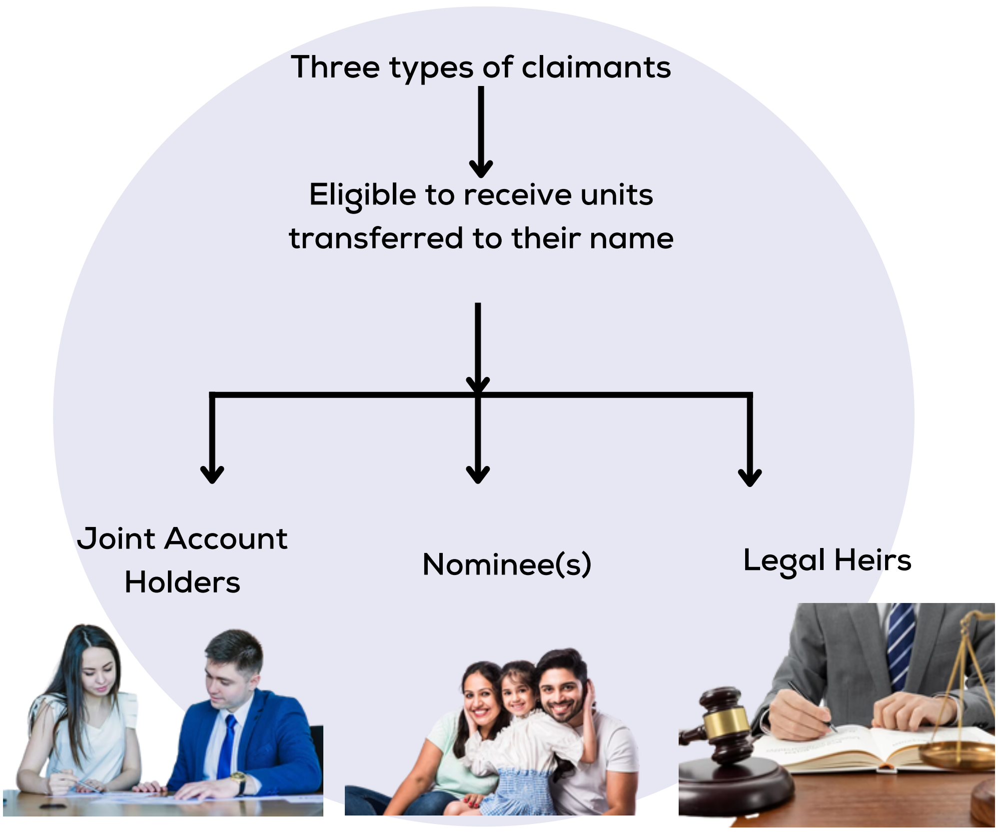


Fig 13.2 Three types of claimants

The procedure for transferring a deceased investor's mutual fund investments to a claimant is generally similar to the ones followed for other inheritance claims. However, depending on the claimant type and the type of Mutual Fund holding, there are some differences in documentation and procedure (joint account or sole account)

Conclusion

In conclusion, mutual funds can be an excellent investment option for investors looking to grow their wealth over the long term. This book on Basics ofMutual Funds provides valuable insights into how mutual funds work, it's history, key regulatory bodies and some measures introduced by the regulator for securing investor's benefit. It also covers different types of mutual funds available, steps to be followed for investing in mutual funds, ways to calculate MF returns and finally monitoring, reviewing and rebalancing MF portfolio.

Investing in mutual funds can offer several advantages, including professional management, diversification, flexibility, risk profiling and return potential. It also offers convenience, as investors can buy and sell mutual fund units online and invest throughSIPs and SWPs to manage their investments.

Overall, this book aims to provide a comprehensive guide to investing in mutual funds and can be an excellent resource for both new and experienced investors looking to maximize their returns while managing their risks.

To assess your knowledge, please try to answer the MCQs provided in the Exercise section.

Exercise

1. ....hire a team of qualified professionals like dealers, analysts and fund managers who comprise the Investment Team.

A. Custodian
B. Trustees
C. Asset management Company
D. Registering and Transfer Agent

2. The market value of securities/assets of a scheme plus interest accrued minus any liabilities and expenses divided by the total number of units of the scheme on any particular date is called.

A. Par Value
B. Current Value
C. Net Acquired Value
D. Net Asset Value

3. All such costs for running and managing a mutual fund scheme are collectively referred to as..

A. Total Expense Rate
B. Total expense Ratio
C. Total Earned Ratio
D. Total Earned Rate

4. The Direct Plan has a .... expense ratio than the Regular Plan.

A. Higher
B. Lower
C. Positive
D. Negative

5. Information on Key Personnel, Trustee Directors and AMC Board of Directors is available in -

A. Scheme Information Document
B. Key Information Memorandum
C. Statement of Additional Information
D. None of the above

6. These Investors comprise corporates, banks, charitable trusts and other financial institutions.

A. Retail Investor
B. Institutional Investors
C. High Networth Individuals
D. Individual Investors

7. Riskometer has.......level of risk levels

A. 5
B. 6
C. 7
D. 4

8. It is a mutual fund investment plan, through which investors can withdraw fixed amounts at regular intervals

A. Systematic Withdrawal Plan
B. Simple Withdrawal Plan
C. Systematic withdrawal process
D. Simple Withdrawal Plan

9. It is a single/combined account statement which shows the details of financial transactions made by an investor during a month across all Mutual Funds

1. Consolidated Account Series
2. Common Account Statement
3. Consolidated Account Statement
4. Cumulative Account Statement

10. Draft Offer Document and Scheme Information Document are prepared by the.........when launching a new scheme and submitted to the Securities and Exchange Board of India (SEBI) for approval.

1. Trustees
2. RTA
3. AMC
4. Custodian

11. ....Should invest 80% of total assets in equity and its related securities of large cap firms

Multi cap fund
Large cap fund
Small-Cap fund
Sectoral Fund

12. Sectoral funds are also called

Value Fund
Dividend fund
Thematic Fund
ELSS

13. ELSS is a type of equity-oriented scheme where the individual investor can get a deduction from the total income of up to Rs........ .lacs under Sec 80C of Income Tax Act 1961.

Rs 115000
Rs 150000
Rs 100000
Rs 125000

14. ....Should invest in a minimum of three asset classes with a minimum allocation of 10% in each asset class.
Dynamic Allocation fund
Conservative Hybrid fund
Multi Asset Allocation Fund
Balanced hybrid Fund

15. Children's fund is an open-ended fund for investment for children with a lock-in period for a minimum of ..... years or until the child reaches majority age, whichever is earlier.

1. 3
2. 5
3. 7
4. 8

16. Exchange-traded fund is a type of -

1. Active Fund
2. Passive Fund

17. ....Should invest in debt and money market securities so that the Macaulay duration of the portfolio is between 6 months and 12 months

1. Ultra short Duration Fund
2. Short duration fund
3. Low Duration Fund
4. Liquid fund

18. Overnight fund Should invest in overnight securities with a maturity of..... day

1. 1
2. 2
3. 3
4. 4

19. An open-ended debt scheme investing in government securities across the maturity

- Credit fund
- Gilt fund
- Money market fund
- Banking fund

20 . It is a type of fund in which investments are done in an open-ended equity scheme investing in a specific domain like banking, insurance, IT etc.

- Sectoral Fund
- Hybrid fund
- Floating fund
- Multi cap Fund

21. Registered Investment Advisors (RIA) are.......based advisors.

- Commission
- Fee

22. RIAs are registered with

- RBI
- EXIM
- SEBI
- AMFI

23. An MFD and an RIA can recommend the same mutual fund scheme. However, the MFD would usually recommend which plan of the scheme?

- Direct scheme
- Regular scheme

24. Which of the following is not the difference between RIA and MFD

1. RIA is fee-based while MFD is commission based.
2. RIA is compensated by the client while MFD by AMC.
3. RIA advises regular schemes while MFD advises direct schemes.
4. SEBI registration is compulsory for RIA, while AMFI registration is compulsory for MFD.

25. KYC is a compulsory requirement by the regulator ……. to prevent money laundering under the Money Laundering Act, 2002.

1. RBI
2. AMFI
3. SEBI
4. None of the above

26. ....are the record keepers and folio managers of all mutual fund accounts.

- RTA
- KRA
- AMC
- None of the above

27. ....is a "Transaction Aggregation Portal" through which a Mutual Fund Investor is enabled to transact in multiple schemes across Mutual Funds using a single form/payment.

- Mutual fund user
- Mutual fund utility

28. Which one of the following are compulsory documents required for KYC?

- Proof of Identity
- Proof of address
- Photograph
- All of the above

29. Which company introduced kFinKArt Investor RTA app

- SBI
- HDFC
- KARVY
- CAMS

30. Which of the following are NOT direct modes of investing in mutual funds -

RTA Service center /branch
MF Utilities
Branch of AMC
None of the above

Answers -

1. C
2. D
3. B
4. B
5. C
6. B
7. B (Reason - Riskometer helps depict the level of risk in a mutual fund scheme. The risk-o-meter has six risk levels: Low, Moderately Low, Moderate, Moderately High, High and very high risk.)
8. A
9. C (Reason - CAS is generated and dispatched to the investors by the Depositories (NSDL or CDSL), providing the details of financial transactions in both mutual fund folios and depository accounts.)
10. C
11. B

12.C (Reason - It is a fund which primarily invests in a single sector/industry, concentrating on entities which operate under the ambit of this particular sector.For Eg - UTI Transportation and Logistics Fund, Reliance Pharma Fund,ICICI Prudential Technology Fund etc.)
13.B
14.C [Reason -An example of multi-asset allocation funds is Quant Multi-Asset Fund Growth (equity)]
15.B
16.B
17.C
18.A
19.B
20.A
21.B
22.C
23.B
24.C
25.C
26.A
27.B
28.D
29.C
30.D

Reading Material

Sector and issuer Limits to avoid concentration risk
https://www.sebi.gov.in/sebi_data/meetingfiles/sep-2019/1568030594032_1.pdf

Changes in methodology of Riskometer
https://www.sebi.gov.in/legal/circulars/oct-2020/circular-on-product-labeling-in-mutual-fund-schemes-risk-o-meter_47796.html

Risk Management Framework
https://www.sebi.gov.in/legal/circulars/sep-2021/risk-management-framework-rmf-for-mutual-funds_52943.html

Swing Pricing Framework
https://www.sebi.gov.in/legal/circulars/sep-2021/circular-on-swing-pricing-framework-for-mutual-fund-schemes_52997.html

Segregation of debt funds post 2018 credit crisis
https://www.sebi.gov.in/legal/circulars/nov-2019/creation-of-segregated-portfolio-in-mutual-fund-schemes_44889.htm

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https://www.sebi.gov.in/legal/circulars/sep-2021/clarifications-with-respect-to-circular-dated-april-28-2021-on-alignment-of-interest-of-key-employees-designated-employees-of-asset-management-companies-amcs-with-the-unitholders-of-the-mutual-_52703.html

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https://www.sebi.gov.in/legal/circulars/oct-2021/guiding-principles-for-bringing-uniformity-in-benchmarks-of-mutual-fund-schemes_53539.html

KYC Process
https://www.camsonline.com/Investors/Transactions/KYC/Paper-less-KYC

What happens in event of death of the unit holder
https://www.amfiindia.com/investor-corner/investor-center/nominations.html#accordion9

Most mutual funds offer a fund in the ELSS category. An investor can check the scheme performance, track record and invest as per his or her requirements.
https://www.etmoney.com/mutual-funds/pgim-india-elss-tax-saver-fund-direct-growth/30666?utm_medium=adwords&utm_campaign=&utm_source=&utm_partner=adwords&gclid=CjwKCAjw46CVBhB1EiwAgy6M4ubGU6sZKiAykfbPtVnHspZeI7ERyRtEOLwKk4KW_YRh-ObeJGvn7xoCEYAQAvD_BwE

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Changes of SEBI in MF industry - https://www.outlookindia.com/website/story/business-news-yearender-2021-seven-big-sebi-changes-that-affect-mutual-fund-investors/407230

Revised risk management framework - https://economictimes.indiatimes.com/mf/mf-news/sebi-releases-revised-risk-management-framework-for-mfs/articleshow/86560466.cms?from=mdr

Diversification of investment - https://www.etmoney.com/blog/why-you-should-diversifyyour-investments-across-fund-houses/

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