

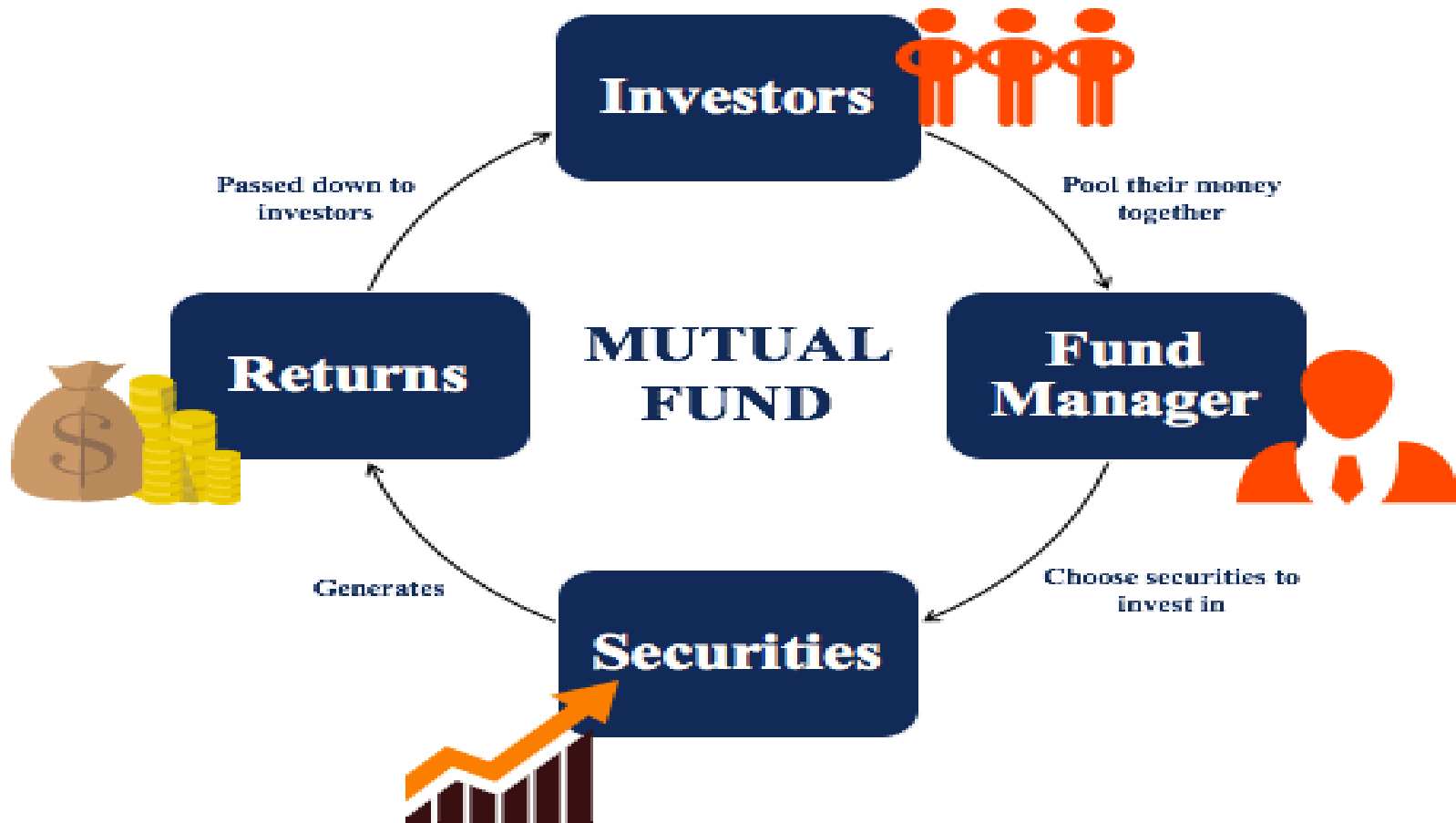
Essence of Mutual Fund

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What is Mutual Fund?



Why Should You Invest in Mutual Funds?

- Easy to Understand
- Earn Income or Build Wealth
- Offer Choice of Various Categories of Schemes
- Access to Ready Investment Portfolio and Past Track Record
- For Regular and Disciplined Investing
- Help You Render Service of Investment Professionals

What do you get as a Mutual Fund Investor?

- Status of a Unit holder in the Scheme
- Statements of Accounts
- Share in Gains or Loss in Value of the Mutual Fund Scheme

Benefits of Investing in Mutual Funds

- Diversification
- Professional Management
- Lower Entry Level
- Economies of Scale
- Flexible and Innovative Plans for Investors
- Liquidity
- Transparency
- Well Regulated Structure

Key Constituents of a Mutual Fund

- Sponsors
- Trust
- Asset Management Company (AMC)
- Custodian
- Registrar and Transfer Agent (RTA)
- Auditors
- Fund Accountants
- Mutual Fund Distributors
- Collection Bankers

Types of Mutual Funds...1

- Open ended funds
- Close Ended funds

Asset classes

SEBI has broadly classified into 5 groups.

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes
- Others Schemes

Types of Mutual Funds...2

Definition of Large Cap, Mid Cap and Small Cap

- Large Cap : First 1-100 company in terms of full market capitalization
- Mid Cap : 101st -250th company in terms of full market capitalization
- Small Cap : 251st company onwards in terms of full market capitalization

Equity Scheme Category	Scheme Characteristics
Multi Cap Fund	Minimum 65% across large cap, mid cap, small cap stocks
Large Cap Fund	Minimum 80% across large cap stocks
Large and Mid Cap Fund	Minimum 35% in large cap & 35% in mid cap stocks
Mid Cap Fund	Minimum 65% across Mid cap stocks
Small Cap Fund	Minimum 65% across Small cap stocks
Dividend Yield Fund	Predominantly invest in dividend yielding stock, minimum investment in equity shall be 65 percent
Value Fund or Contra Fund	Min 65% in equity stocks. A value fund - a value investment strategy. A contra fund - contrarian investment strategy. <i>Mutual Funds will be permitted to offer either Value fund or Contra fund.</i>
Focused Fund	Minimum 65% in Equity and maximum 30 stocks in portfolio.
Sectoral/ Thematic Fund	Min. 80% in equity of a particular sector or theme
Equity Linked Savings Scheme (ELSS)	Min. 85% in accordance with ELSS notification of Ministry of Finance

Debt Category of Schemes	Scheme Characteristics
Overnight Fund	Maturity in 1 day
Liquid Funds	Maturity upto 91 days
Ultra Short Duration Fund	Duration between 3 – 6 months
Low Duration Fund	Duration between 6 – 12 months
Money Market Funds	Maturity upto 1 year
Short Duration Fund	Duration between 1 – 3 years
Medium Duration Fund	Duration between 3 – 4 years
Medium to Long Duration Fund	Duration between 4 – 7 years
Long Duration Fund	Duration greater than 7 years
Dynamic Bond	Across duration
Corporate Bond Fund	80% in highest rated corporate bond
Credit Risk Fund	65% in lower than highest rated
Banking & PSU Fund	80% in PSU
Gilt Funds	80% in G-Sec
Gilt Fund with 10 years constant duration	Duration equal to 10 years
Floater Fund	65% in floating rate bonds

Hybrid Schemes	Scheme Characteristics
Conservative Hybrid Fund	Investment -Debt 75% - 90% and Equity 10% - 25%
Balanced Hybrid Fund	Investment -Debt 40% -60% and Equity 40% -60%
Aggressive Hybrid Fund	Investment -Equity 65% -80% and Debt 20% -35%
*Mutual funds in India are permitted to offer either Aggressive Hybrid Fund or Balanced Fund.	
Dy. Asset Allocation or Balanced Adv	Invest in equity/debt that is managed dynamically.
Multi Asset Allocation	Minimum 10 percent each in all three asset classes
Arbitrage Fund	Min 65% in Equity and arbitrage opportunities
Equity Savings	Min 65% in Equity, Min 10 % in Debt and arbitrage.
Solution Oriented Schemes	Scheme Characteristics
Retirement Fund	Lock-in of 5 yrs or retirement age (whichever is earlier)
Children's Fund	lock-in of 5 years or child attains age of majority (whichever is earlier).
Other Schemes	Scheme Characteristics
Index Funds/ Exchange Traded Fund	replicating/ tracking a specific index.
Fund of Funds (Overseas/ Domestic):	fund scheme investing in fund
Real Estate Mutual Fund scheme	Min 35% in physical assets. Min 75% be in real estate, MBS
Real Estate Investment Trusts (REIT)	Invest in commercial real estate. Min amt 2 lakhs.
Infrastructure Investment Trusts (InvIT)	Invest in Infrastructure sector. Min amt 10 lakhs.

Some Myths About Mutual Fund

Myths based on Incorrect Beliefs

- Mutual Funds Lack the Excitement
- Mutual funds are too Diversified
- Mutual funds are Expensive

Myths based on Incorrect Facts

- A Mutual Fund Scheme Invests in the Same Stocks as its Benchmark Index
- Mutual Funds Invest up to 35% in Debt
- Funds with more Stars/Higher Rankings Provided by Independent Third Party Agencies make better Buys
- Once the Fund House Makes the Grade, so do all its Funds

Some Common Myths about SIP

- Only Small Investors go in for SIPs
- Rupee Cost Averaging can be done in a Stock itself – then Why SIP?
- SIP Mutual Fund Schemes are different from Lump sum Mutual Fund Schemes
- Lump sum Investments cannot be done in a Mutual Fund Scheme, where a SIP account exists
- I'll be penalised, if I miss one or two SIP dates
- Markets are at a Low to Start a SIP
- In case of SIP in Tax Saving mutual fund schemes, entire money can be withdrawn after 3 Years

Understanding Returns to measure MF performance

- Absolute returns
- Trailing returns
- Rolling returns

Total Expense Ratio

AUM Slab (INR crore)	TER for equity oriented schemes	TER for other schemes (excl. Index, ETFs and Fund of Funds)
0 - 500	2.25%	2.00%
500 - 750	2.00%	1.75%
750 - 2,000	1.75%	1.50%
2,000-5,000	1.60%	1.35%
5,000 - 10,000	1.50%	1.25%
10,000 - 50,000	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof
>50,000	1.05%	0.80%

Risk-Adjusted Return

- Beta
- Standard Deviation
- Sharpe's Ratio
- Alpha

Portfolio Evaluation..1

Equity Funds

- Funds define their objectives, strategies and style upfront in the offer documents.
- Monitoring the portfolio of the fund periodically helps identify any significant deviations which alter the risk in the fund.
- Funds may adopt strategies or alter the portfolio holdings to benefit from existing market conditions.
- Strategy for security selection adopted,
- Market segment: Large-cap, mid-cap, small-cap or a combination of these.
- Sector focus in the portfolio, if any
- Style adopted such as growth, value, blend.
- Concentration in the portfolio
- Holding in individual stocks and the top 5/10 stocks
- Sector concentration
- A concentrated portfolio has a greater selection risk but also has the potential to generate better returns if the right selections are made.
- A diversified portfolio will require contributions from a larger number of individual holdings to boost performance
- Extent of cash holding. A high cash holding indicates a defensive stance.
- If the markets improve after the fund has moved into cash, it will underperform. If the market falls as expected, the fund will outperform.
- The extent of rebalancing done in the portfolio
- The portfolio turnover ratio indicates the buying and selling done in the portfolio
- A high turnover may indicate a tactical rather than strategic view being taken of the portfolio holdings
- A high turnover also adds to the costs of fund management

Portfolio Evaluation..2

Debt Funds

- The instruments held in a debt fund's portfolio indicates the focus of the fund: whether accrual or total returns
- Short-term instruments such as treasury bills, commercial paper, certificates of deposits and others are held for the coupon income
- Long-term instruments, such as government securities and corporate bonds, generate coupon income and capital gains or loss
- Capital gains/loss arises from change in the value of securities in response to change in market interest rates. Longer the tenor, greater is the price change.
- The capital gains if any, adds to the interest income and adds to the total returns. Capital loss eats into the interest and reduces the total returns
- A fund may enhance its yield by taking on credit risk
- The credit rating profile of the portfolio indicates the credit risk
- Higher the credit risk, greater is the yield expected
- The fund may take on higher interest rate risk to benefit from capital gains by increasing the duration of the securities held
- The average maturity, duration and modified duration of the portfolio indicates the interest rate risk in the fund.
- Increasing the maturity increases the risk of loss if interest rates go up
- A fund may increase the maturity to benefit from capital gains from an anticipated fall in interest rates.
- A fund may lock in the yield by holding the securities to maturity
- FMPs are an example of funds that follow this strategy

Portfolio Evaluation..3

- Hybrid funds hold a combination of asset classes, typically equity and debt
- The risk in a hybrid fund depends primarily on the equity exposure that the fund is mandated to take
- Equity oriented hybrid funds, such as Balance funds, are more risky than Monthly Income Plans (MIP). Aggressive MIPs take a greater exposure to equity (20% to 25%) as compared to conservative MIPs(5% to 10%)

Steps to select winning Mutual Funds...1

- Performance:
 - Compare funds
 - Performance across time periods
 - Judge the returns
 - Judge the risk
 - Judge the risk-adjusted returns
- Portfolio Quality
 - Assess the portfolio concentration
 - Assess the portfolio turnover
 - Average Maturity, Modified Duration & YTM

Steps to select winning Mutual Funds...2

- Costs
 - Expense Ratio
 - Exit Load
- Fund Manager's Experience
- No. of schemes to fund manager is managing
- Proportion of AUM performing
- Unique schemes
- Investment systems and processes

Operation of Mutual Funds

- Modes of Transacting in Mutual Funds
 - Physical Mode
 - Online – MF, NSE- NMFS, BSE- Star Mf, MF Utilities
- Mandatory Documentation before investing in Mutual Fund
 - Permanent Account Number (PAN)
 - Know Your Customer (KYC)
 - FATCA

Investor's Complaint

SEBI's online investor grievance mechanism, called Sebi Complaints Redress System (**SCORES**), can be used to register complaints against AMCs and other intermediaries.

Thank You