Mutual Funds

Learning Objectives

In this session, you will learn about:

- What are Mutual Funds?
- Reasons for Investing in Mutual Funds
- Asset Management Company (AMC)
- Categories of Mutual Funds: Debt, Equity
- Systematic Investment Plan (SIP)
- Fund Factsheets, Account Statement
- Taxation on Equity and Debt Funds
- Entry & Exit Loads
- IPO & NFO
- Know Your Customer and Compliance

Did You Know?

With nearly

$16 trillion

in assets, the U.S. mutual fund industry remained the largest in the world at year-end 2014.

Mutual Funds

In a nutshell:
A Mutual Fund is money pooled in by a large number of investors.

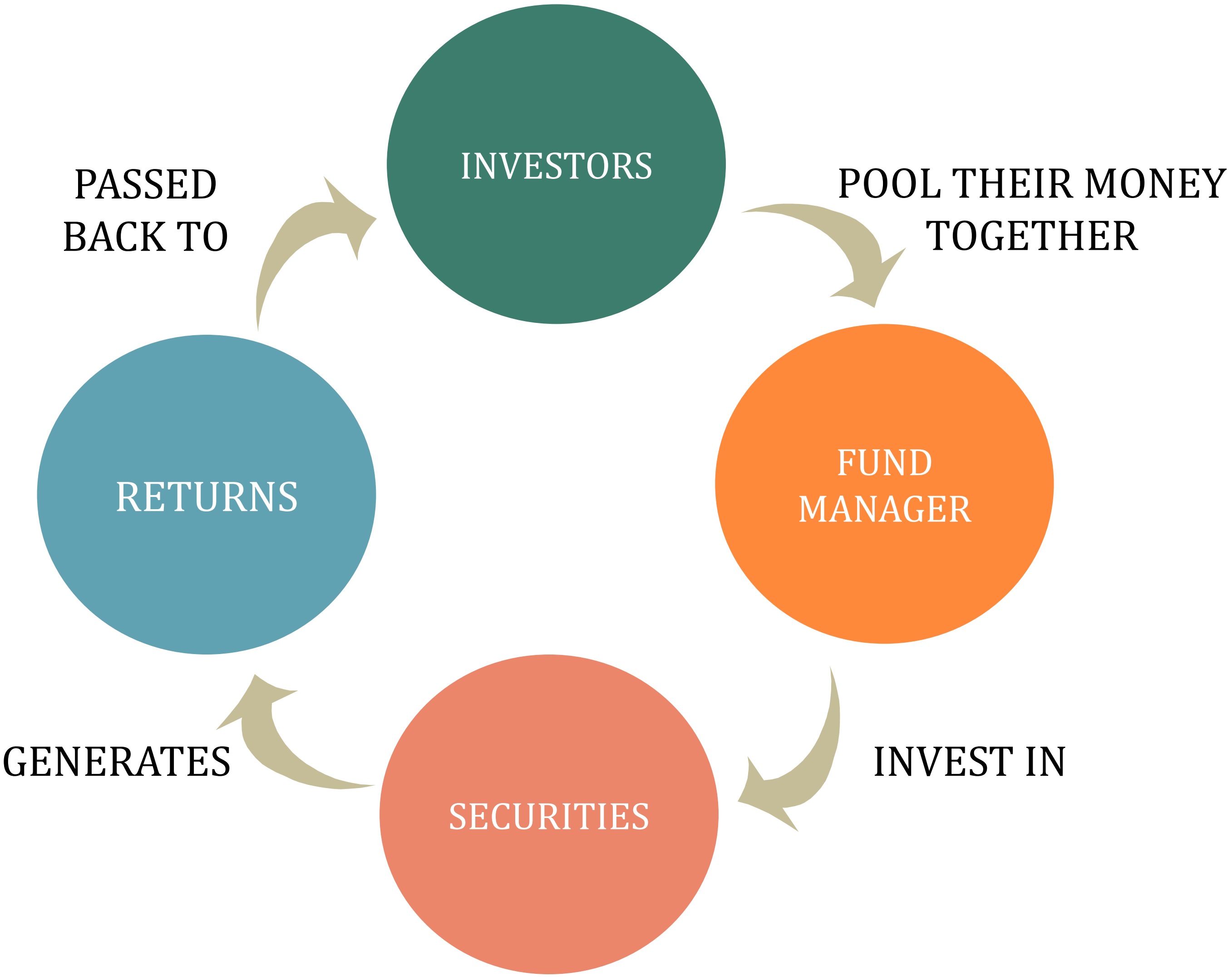
Mutual Funds

This money is then managed by a professional Fund Manager, who uses his investment management skills to invest it in various financial instruments.

For example:

- An equity fund would invest in equity and equity related instruments and
- A debt fund would invest in bonds, debentures, gilts etc.

How Mutual Funds Work?

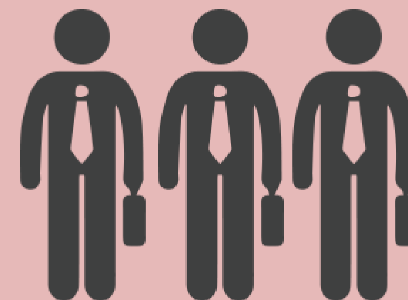


Benefits of Investing in Mutual Funds

Why Invest in Mutual Funds?

Benefits of Investing in Mutual Funds

Portfolio & Risk Diversification



Professionally Managed

Transparent

Regulated

Benefits of Investing in Mutual Funds

Benefit 1

Benefit 2

Benefit 3

Benefit 4

Portfolio & Risk Diversification

- Invest across asset classes:
  - Equity
  - Debt
  - Gold
- Invest in multiple companies and sector

Benefits of Investing in Mutual Funds

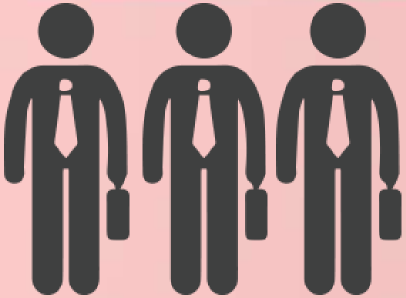
Benefit 1

Benefit 2

Benefit 3

Benefit 4

Professionally Managed



- A mutual fund is managed by professionals who possess considerable expertise, resources and experience.
- Through research & analysis of markets and economy, they can spot favourable investment opportunities.

Benefits of Investing in Mutual Funds

Benefit 1

Benefit 2

Benefit 3

Benefit 4

Transparency

- Investors know the fund's investment objective and the instruments wherein the fund can invest.
- Mutual funds publish their fund fact sheet almost on a monthly basis.
- Investors know their scheme's portfolio along with the proportion of investment in each asset type.

Benefits of Investing in Mutual Funds

- Benefit 1
- Benefit 2
- Benefit 3
- **Benefit 4**

Regulated by SEBI

- All the mutual funds are registered with SEBI.
- They function within the provisions of strict regulation created to protect the interests of the investor.

What is an AMC?

An AMC is a company that invests its clients' pooled fund into securities that match its declared financial objectives.
Source: Investopedia

AMC:
ASSET MANAGEMENT COMPANY

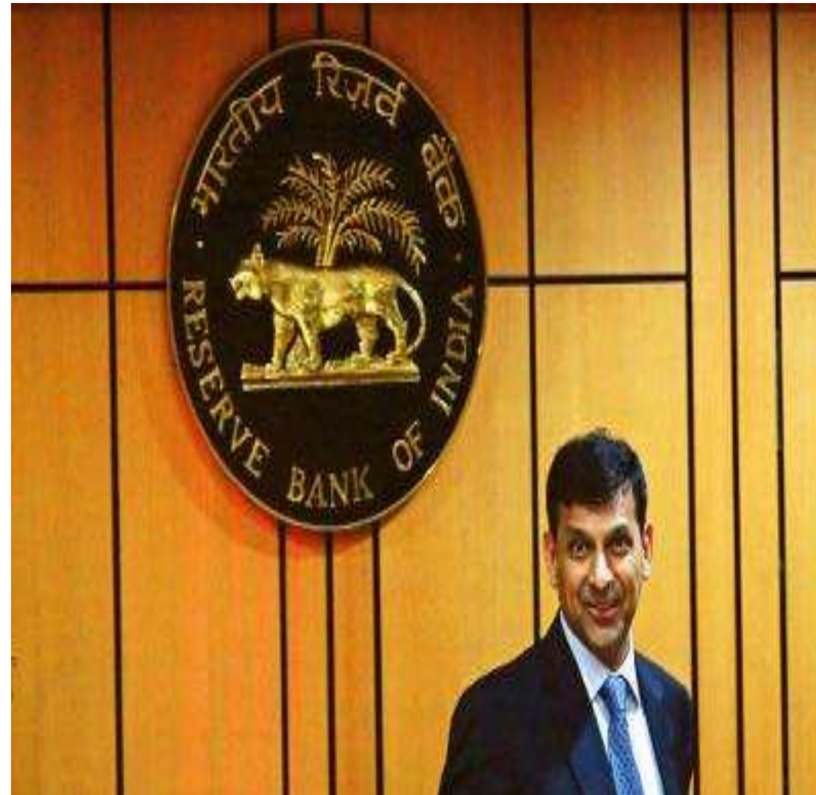
What is an AMC?

Mutual Funds, Hedge Funds, Pension Funds are all run by AMCs

AMCs earn their income by charging fees to their clients.

Who Regulates Mutual Funds?

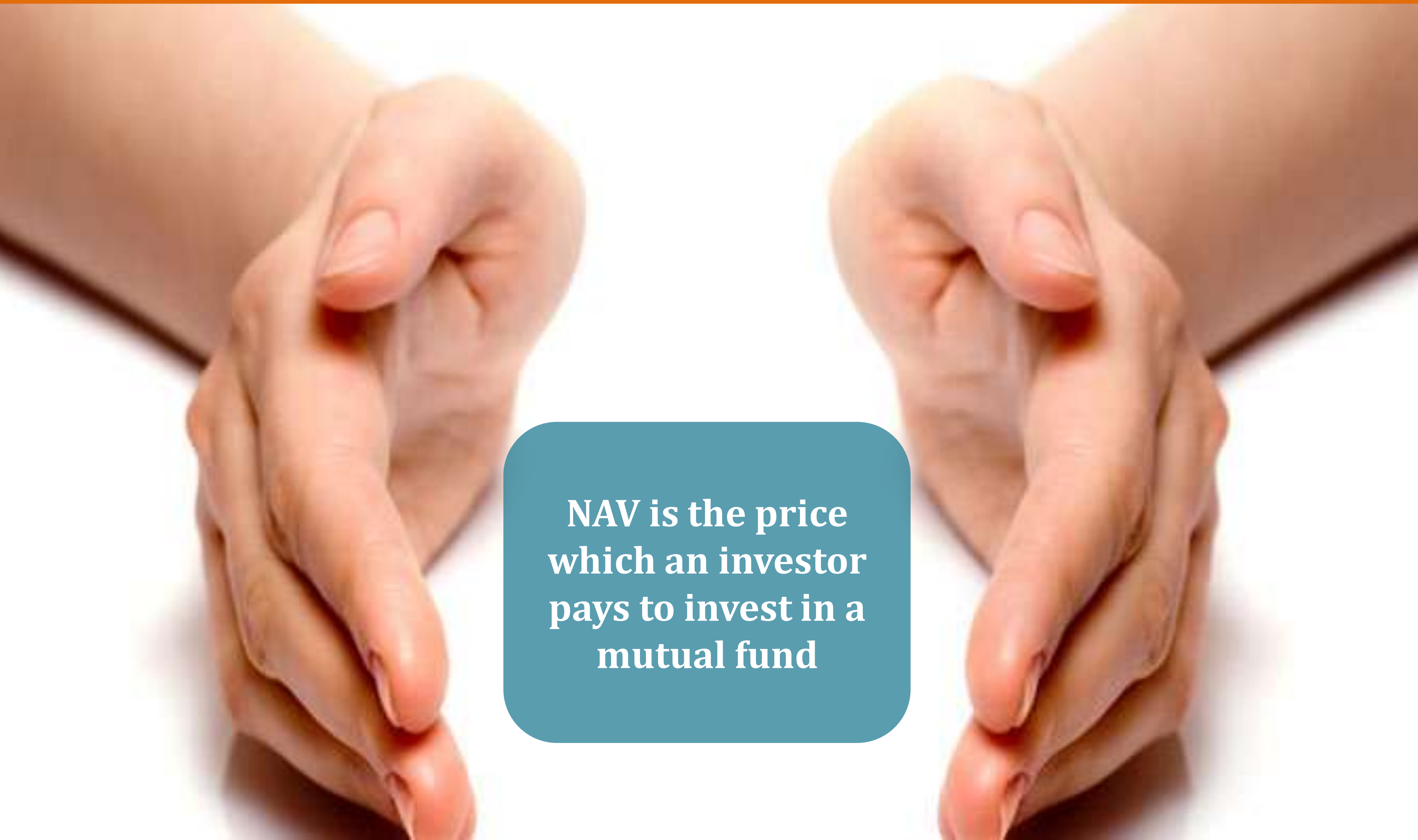
SEBI regulates all the AMCs



The RBI regulates those AMCs which are promoted by banks

What is Net Asset Value?

The NAV is the price of each unit of a mutual fund.



How is Net Asset Value Calculated?

It is calculated by dividing the total value of all the cash and securities in a fund's portfolio, less any liabilities, by the number of units outstanding.

When is NAV Calculated?

The NAV of each fund is calculated daily at the end of each trading day based on the closing market prices of the portfolio's securities.

It is published on each AMC’s website, AMFI website and most investment portals.

How are Mutual Funds Classified?

TYPES OF MUTUAL FUNDS

- 

  By Maturity

- 

  By Asset Class

Mutual Fund Types by Maturity

OPEN ENDED

- The fund remains open for subscription and repurchase on a continuous basis without any limit to the size, investors and units to be issued.
- Liquidity is the main feature of such funds.

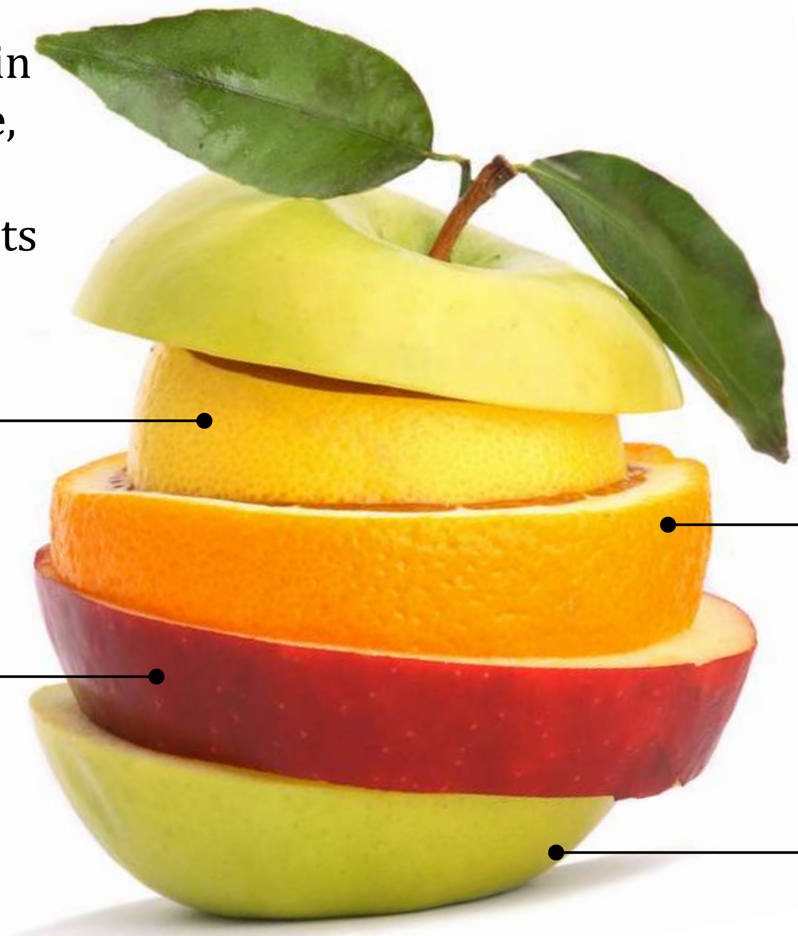
CLOSE ENDED

- The fund is closed for subscription after the new fund offer (NFO) period is over.
- They have a maturity period of 5-7 years.
- These funds are listed on the stock exchange.
- Investors can invest in these funds through the secondary market

Mutual Fund Types by Asset Class

IMARTICUS LEARNING

Debt Funds: These invest in fixed income securities like, treasury bills, corporate bonds, certificate of deposits (CDs), commercial papers (CPs), debentures, and government securities



Equity Fund: These funds invest in equity and equity related instruments.

Gold Funds: These invest in physical gold. Most gold funds are exchange traded funds (ETFs)

Balanced Funds: With 65% or more exposure to domestic equities are categorised as equity funds.

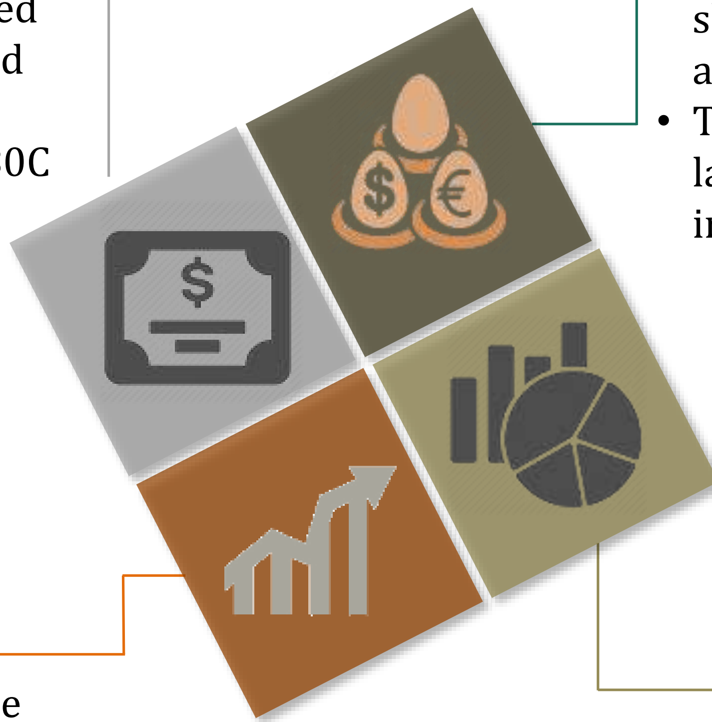
Mutual Fund Types by Asset Class

EQUITY LINKED SAVINGS SCHEMES

- These are ideally diversified equity funds with an added qualification for tax deduction under section 80C of the income tax act.

DIVERSIFIED EQUITY FUNDS

- These funds invest in shares of companies across sectors.
- The companies can be large, medium and small in size.



INDEX FUND

- These funds invest in those companies which form a part of any index and in the same proportion as the weightage of those companies in the index.

SECTOR FUNDS

- These funds have the mandate to invest in a particular sector only.

Mutual Fund Types by Asset Class

IMARTICUS LEARNING

01 Liquid Funds

02 Income Funds

03 Fixed Maturity Plans (FMPs)

04 Gilt Funds

05 Monthly Income Plans (MIPs)

What is an SIP?

SIP: Systematic investment plan is a method / style of investing in mutual funds.

Also known as rupee cost averaging

How an SIP Works?

Under SIP, an investor can invest a fixed amount every week/month/ quarter in a specific fund.

- SIP does away with the temptation to time the market.
- It brings about **commitment** and **discipline** in the process of investment.

Benefits of SIP

#1

SIP helps in bringing down the cost of purchase over the long term

#2

SIP does away with the temptation to time the market

#3

It brings about commitment and discipline in the process of investment

#4

It is ideal for accumulating funds for long term goals like children's education, retirement, etc.

WHY YOU MUST INVEST USING AN SIP?

Growth vs Dividend Option

MF typically have two options – The NAV is different for each option.

GROWTH:
THE FUND DOESN'T DECLARE ANY DIVIDEND

DIVIDEND:
THE FUND CAN DECLARE A DIVIDEND, IF THE FUND MAKES A PROFIT

Growth vs Dividend Option

If the dividend is paid to the investor, it is known as Dividend Payout.

If the dividend amount is reinvested in the fund, its known as Dividend Reinvestment.

The NAV of dividend option falls to the extent of dividend declared on the ex-dividend date.

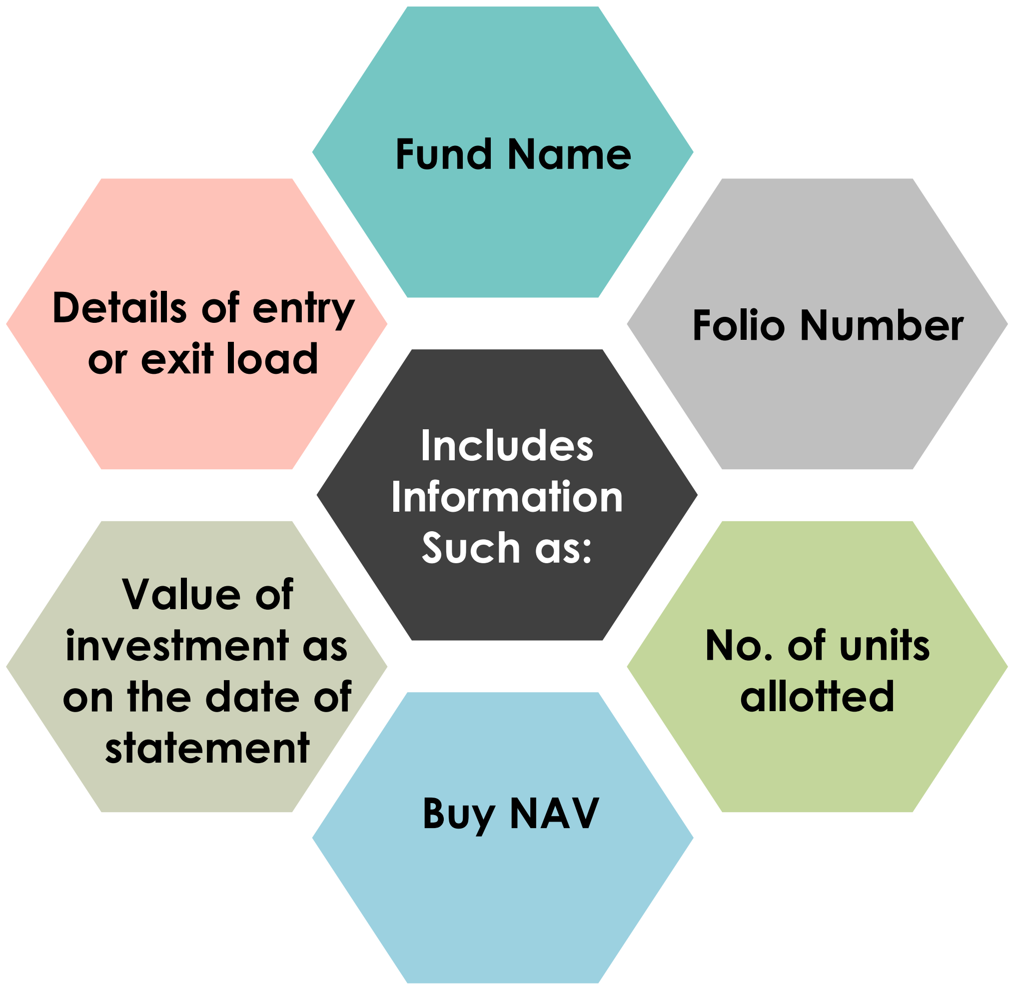
What is a Fund Factsheet?

A Fund Fact sheet is a monthly disclosure made by fund houses for all its schemes and typically contains:

- Investment objective
- Portfolio of stocks/bonds/ money market instruments
- Sectors where the fund is invested in
- AUM, fund manager, entry & exit loads
- Returns of the fund over different time period
- Important risk and return ratios
- Fund suitability based on riskometer

What is an Account Statement?

It is a statement that includes all the details related to investment in a particular mutual fund scheme, and serves as a proof of investment in a scheme of mutual fund.



How are Equity Funds Taxed?

Equity and equity oriented funds generate two kinds of income:

CAPITAL GAINS

- Capital gains are classified as long term if the units are held for more than 12 months from the date of purchase. These are exempt from tax.
- Gains from units redeemed / switched within 12 months of purchase are classified as short term. These are taxed @ 15%.

DIVIDENDS

Dividend paid by equity and equity oriented funds are exempt from income tax

How are Debt Funds Taxed?

Debt funds generate two kinds of income:

CAPITAL GAINS

- Capital gains are classified as long term if the units are held for more than 36 months from the date of purchase. These units qualify for indexation benefits. The gains are taxed @20%
- Gains from units redeemed / switched within 36 months of purchase are classified as short term. These are taxed at the marginal rate of tax

DIVIDENDS

Dividend paid by debt funds are exempt from income tax in the hands of unit holders

Entry & Exit Loads

WHAT IS IT?

Load refers to the charge payable by an investor for investing in mutual fund.
Load is generally calculated on the NAV of the fund.

WHAT ARE THEY FOR?

These charges are towards the distribution and marketing expenses of the fund.

WHERE CAN I FIND THEM?

Loads are mentioned in the Scheme Information Document (SID) and vary from scheme to scheme.

Basics of Loads

Entry & Exit Loads

Entry Load:
Entry load is charged at the time of entry into the fund.

Exit Load:
Exit load is payable at the time of redemption / switch out from the fund.

Know Your Customer

It is important for the investors to be KYC compliant before investing in mutual funds.

Know Your Customer

AIM:
Capturing important information about investors to verify their identity.

KYC Process: Components

Important documents that accompany KYC application form include:

- Photograph
- PAN card
- Address proof
- Aadhar copy

FATCA Compliance

To combat offshore tax evasion in recent tax compliance history

Foreign Account Tax Compliance Act

FATCA aims at better tax compliance by preventing US persons from using banks and other financial institutions to avoid US taxation on their income and assets.

CRS Compliance

CRS stands for
Common Standard on Reporting and Due Diligence for Financial Account Information

For countries other than US, investors have to comply with the CRS requirement.