1

INTRODUCTION

Unit Structure

1.0 OBJECTIVES

1) To know the different investment avenues
2) To understand the concept and role of mutual fund.
3) To acquire the knowledge of Equity and Bond Instruments in Comparison with Mutual Fund
4) To know the history of Mutual Fund in India

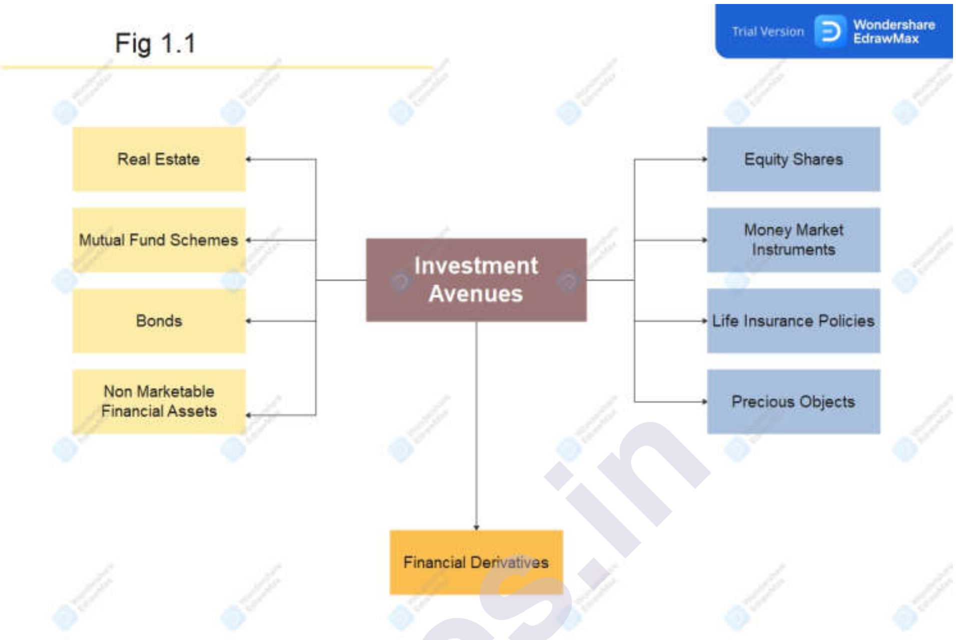
1.1INTRODUCTION TO INVESTMENT AVENUES

In its broadest sense, an investment is a sacrifice of current money or other resources for future benefits. Several avenues of investment are available today. You can deposit money in a Saving bank account or purchase a long-term government bond or invest in the equity shares of a company or contribute to a provident fund account or buy a stock option or buy a stock future or acquire a plot of land or invest in some other form.

The two key aspects of any investment are time and risk. The sacrifice takes place now and is certain. The benefit is expected in the future and tends to be uncertain. In some investments (like government bonds) the time element is the dominant attribute. In other investments (like stock options) the risk element is the dominant attribute. In yet other investments (like equity shares) both time and risk are important. Almost everyone owns a portfolio of investments. The portfolio is likely to comprise financial assets (bank deposits, bonds, stocks, and so on) and real assets (car, house, and so on). The portfolio may be the result of a series of haphazard decisions or may be the result of deliberate and careful planning. Your economic well-being in the long run depends significantly on how wisely or foolishly you invest. useful in systematic and rational investment management. It seeks to improve your abilities in the field of investments.

As an investor you have a wide array of investment avenues available to you. Sacrificing some rigour, they may be classified as shown in Fig 1.1

Fig 1.1



1. **Non-marketable Financial Assets**
   A good portion of financial assets is represented by non-marketable financial assets. They can be classified into the following broad categories:
   - Fixed Deposits in Bank
   - Recurring Deposits
   - Post office deposits
   - Company deposits
   - Provident fund deposits

2. **Equity Shares**
   Equity shares represent ownership capital. As an equity shareholder, you have an ownership stake in the company.
   - Blue chip shares
   - Mid Cap
   - Small Cap
   - Sector Specific shares

3. **Bonds or debentures**
   It represent long-term debt instruments. ***Bond*** is a negotiable certificate evidencing indebtedness. It is normally unsecured. A debt security is generally issued by a company, municipality, or government. A bond investor lends money to the issuer and in exchange the issuer promises to repay the loan amount on a specified maturity date. ***Debentures*** includes debenture stock,

bonds and any other securities of a company, whether constituting a charge on the company's assets or not". Following are the different forms of Bonds or Debentures.

- Savings bonds
- Government agency securities
- PSU bonds
- Debentures of private sector companies

4. Money Market Instrument

It is a market for short term funds i.e., period of 364 days or less. The money market is an avenue for borrowing and lending for the short term. While on one hand money market helps in shifting big amount of money between banks, on the other hand, it provides a mean by which the surplus of funds of the cash rich institutions can be used by bank (at cost). A supplier of funds to the money market can be virtually anyone with a temporary excess of funds. Money Market Instruments are more liquid in nature. Following are the examples of Money Market Instruments

- Treasury Bills
- Certificate of Deposits
- Commercial Papers

5. Mutual Funds

Instead of directly buying equity shares and/or fixed income instruments, you can participate in various schemes floated by mutual funds which, in turn, invest in equity shares and fixed income securities. There are three broad types of mutual fund schemes:

- Open Ended Funds
- Close Ended Funds
- Growth Funds
- Income Funds
- Balanced schemes
- Money Market Mutual Funds
- Gilt Funds
- Hybrid Funds

6. Life Insurance

In a broad sense, life insurance may be viewed as an investment. Insurance premiums represent the sacrifice and the assured sum, the benefit. The important types of insurance policies in India are:

- Endowment assurance policy
- Money back policy
- Whole life policy
- Term assurance policy

7. Real Estate

For the bulk of the investors the most important asset in their portfolio is a domestic house. In addition to a residential house, the more affluent investors are likely to be interested in the following types of real estate:

- Agricultural land
- Semi-urban land
- Commercial property
- A resort home
- A second house Precious Objects
- Shops

8. Precious objects

There are items that are generally small in size but highly valuable in monetary terms. The important precious objects are:

- Gold and silver
- Precious stones - Diamond
- Art objects -Paintings

9. Financial Derivatives

A financial derivative is an instrument whose value is derived from the value of an underlying asset. It may be viewed as a side bet on the asset. The most important financial derivatives from the point of view of investors are:

- Future &Options- Currency Derivative, Commodity Derivatives, Stock and Index Future & Options

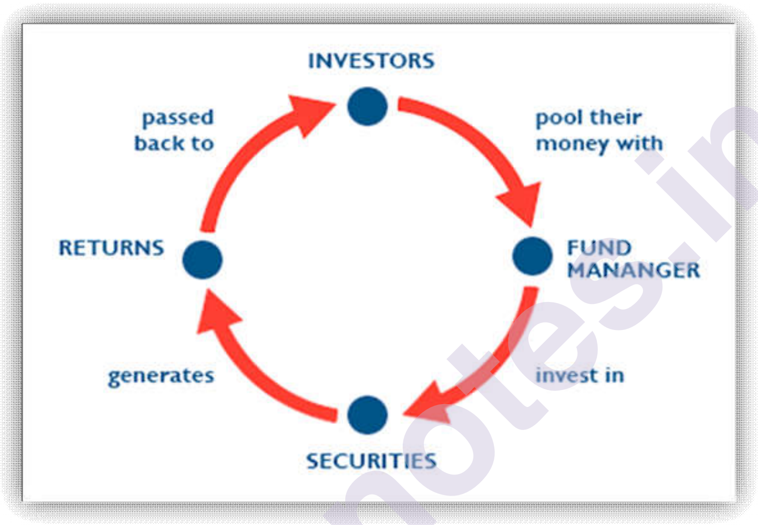
1.2 CONCEPT AND ROLE OF MUTUAL FUND

Concept

According to SEBI Regulations, 1996, "Mutual Fund means a fund established in the form of trust to raise monies through the sale if units to the public or a section of public under one or more schemes for investing in securities, in accordance with regulation".

The securities market being highly volatile requires lot of expertise and knowledge for investment in it by investors. Thus, it is reinforced by the Securities Market 'put not your trust in money, put your money in trust'. Which implies special type of investment vehicles such as Mutual Funds. Mutual Funds are trust which pool resources from large number of investors through issue of units for investments in capital market such as shares, debentures and bonds and money market instruments, such as Commercial Paper, Certificate of Deposits and Treasury Bonds. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. The process converts individual savings, which would otherwise have remained idle, into funds usable in industries. The investments are speared over wide cross section of industries and sectors through careful analysis by experts. The diversification eliminates unsystematic risks and the investors can expect better returns for lesser risk. Such diversifications are usually not attainable by individuals' investors due to fund constraints and lack of necessary expertise.

A Mutual Fund is a trust that pools the savings of several investors who share a common financial goal. Anybody with an investible surplus of as little as a few hundred rupees can invest in different Mutual Funds Schemes. These investors buy units of a particular Mutual Fund scheme that has a defined investment objective and strategy. The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme's stated objectives. The income earned through these investments and the capital appreciation realized by the scheme is shared by its unit in proportion to the number of units owned by them. Thus, a Mutual Fund offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low-cost.



Role of Mutual Fund

The Mutual Fund segment is one of the fastest expanding segments of our Indian Economy. During the last ten-year period the industry has grown at nearly 22 per cent CAGR. With assets of US $ 125 billion, India ranks 19th and one of the rapid growing countries of the world. The factors leading to the development of the industry are large market Potential, high savings rate, comprehensive regulatory framework, tax policies, innovations of new schemes, aggressive role of distributors, investor education awareness by SEBI, and past performance. Mutual funds are not only providing growth to capital market through channelization of savings of retail investors but themselves playing active role as active investor in Indian companies in secondary as well as primary market. Let's look at the mutual fund's role in capital market development in detail.

(1) Mutual fund as a source of household sector savings mobilization: Mutual fund industry has come a long way to assist the transfer of savings to the real sector of the economy. Total AUM of the mutual fund industry clocked a CAGR of 12.4 per cent over

FY 07-16. That shows how mutual funds have played pivotal role in mobilising retail investors' savings into capital market in last 10 years in India. By the end of March, 2017 AUM with Mutual funds are around Rs. 17.5 lakh crores. In 2017 itself, investors poured Rs. 3.4 lakh crores across all the categories of Mutual funds in India.

(2) Mutual Fund as Financial service or Intermediary: The financial services sector is the second-largest component after trade, hotels, transport and communication all combined together, and contributes around 15 per cent to India's GDP. With the rapid growth, mutual funds have become increasingly important suppliers of debt and equity funds.

(3) Mutual funds popularity among small investors: Small investors have lots of problems like limited funds, lack of expert advice, lack of access to information etc. Mutual funds have come as a great help to all retail investors. It is a special type of institutional mechanism or an investment method through which the small as well as large investors pool their savings which are invested under the advice of a team of professionals in large variety of portfolios of corporate securities Safety with good return on investment is the outcome of these professional investment in mutual funds. It forms a significant part of the capital market, providing the advantage of a well-diversified portfolio and expert fund manager to a large number, particularly retail investors. An ordinary investor who applies for shares in a IPO of any company is not sure of any guaranteed allotment. But mutual funds who invest in the particular capital issue made by companies get confirmed allotment of, shares, therefore, the investment in good IPO's can be achieved though investment in a mutual fund.

(4) Mutual Funds as part of financial inclusion policy of Govt. of India: Now SEBI is motivating mutual funds to spread in smaller cities and in rural India to attract small savings and making rural people aware of new investment avenue like mutual fund providing good returns at low risk. So Govt. of India policy of financial inclusion to mobilise savings of unbanked people of India is being supported actively by mutual funds now. In its effort to encourage investments from smaller cities, SEBI allowed AMCs to hike expense ratio up to 0.3 per cent on the condition of generating more than 30 per cent inflow from smaller cities. Mutual funds and AMFI undertake Investor awareness programmes for this purpose of financial inclusion.

1.3 COMPARISON OF MUTUAL FUND WITH EQUITY AND BOND INSTRUMENTS

	Bonds	Mutual Funds	Individual Stocks
Exposure to risk	Lesser than Stocks and MFs	More than Bonds and less than individual Stocks	Highest risk exposure
Returns	Fixed returns which are usually lower than stocks and MFs	Variable returns which are usually higher than bonds. Possibility of loss as well	Highest potential of returns and losses
Liquidity	Liquidity is lower	High liquidity	High Liquidity
Portfolio Management	Investor is responsible for selecting, buying, and selling the bond	Investor only has to buy or sell a fund's assets. Experts manage the portfolio's composition	Investor is responsible for selecting, buying, and selling individual stocks
Expense	No extra charges for investing in bonds	Mutual Funds managers charge a management fee	No extra charges for investing in stocks

1.4 HISTORY OF MUTUAL FUND IN INDIA

A strong financial market with broad participation is essential for a developed economy. With this broad objective India's first mutual fund was establishment in 1963, namely, Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India '**with a view to encouraging saving and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities**'.

The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

- **First Phase - 1964-1987**

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up bythe Reserve Bank of India and functioned under the Regulatory and administrative control ofthe Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988UTI had Rs. 6,700 crores of assets under management.

- **Second Phase - 1987-1993 (Entry of Public Sector Funds)**

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banksand Life Insurance Corporation of India (LIC) and General Insurance Corporation of India(GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89),Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund(Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fundin December 1990. At the end of 1993, the mutual fund industry had assets undermanagement of Rs. 47,004 crores.

- **Third Phase - 1993-2003 (Entry of Private Sector Funds)**

With the entry of private sector funds in 1993, a new era started in the Indian mutual fundindustry, giving the Indian investors a wider choice of fund families. Also, 1993 was the yearin which the first Mutual Fund Regulations came into being, under which all mutual funds,except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now mergedwith Franklin Templeton) was the first private sector mutual fund registered in July 1993.The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive andrevised Mutual Fund Regulations in 1996. The industry now functions under the SEBI(Mutual Fund) Regulations 1996.The number of mutual fund houses went on increasing, with many foreign mutual fundssetting up funds in India and also the industry has witnessed several mergers and acquisitions.As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805crores. The Unit Trust of India with Rs. 44,541 crores of assets under management were wayahead of other mutual funds.

- **Fourth Phase - February 2003- April 2014**

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI wasbifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust ofIndia with assets under management of Rs. 29,835 crores as at the end of January 2003,representing broadly, the assets of US 64 scheme, assured return and certain other schemes.The Specified Undertaking of Unit Trust of India, functioning under an administrator andunder the rules framed by Government of India and does not come under the purview of theMutual Fund Regulations.The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registeredwith SEBI and functions under the Mutual Fund Regulations. With the bifurcation of theerstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets undermanagement and with the setting up of a UTI Mutual Fund, conforming to the SEBI MutualFund Regulations, and with recent mergers taking place among different private sector funds,the mutual fund industry has entered its current phase of consolidation and growth.

- **Fifth Phase (Since 2014)**

Taking cognisance of the lack of penetration of MFs, especially in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI introduced several progressive measures in September 2012 to "re-energize" the Indian Mutual Fund industry and increase MFs' penetration.

In due course, the measures did succeed in reversing the negative trend that had set in after the global melt-down and improved significantly after the new Government was formed at the Center.

Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts).

- The Industry's AUM crossed the milestone of □10 Trillion (□10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of about three years the AUM size had increased more than two folds and crossed □ 20 trillion (□20 Lakh Crore) for the first time in August 2017. The AUM size crossed □ 30 trillion (□30 Lakh Crore) for the first time in November 2020.
- The overall size of the Indian MF Industry has grown from □ 7.20 trillion as on 30th September 2012 to □ 38.42 trillion as on 30th September 2022, more than 5 fold increase in a span of 10 years.
- The MF Industry's AUM has grown from □ 20.40 trillion as on September 30, 2017 to □38.42 trillion as on September 30, 2022, around 2 fold increase in a span of 5 years.
- The no. of investor folios has gone up from 6.20 crore folios as on 30-Sep-2017 to 13.81 crore as on 30-Sep-2022, more than 2 fold increase in a span of 5 years.
- On an average 12.67 lakh new folios are added every month in the last 5 years since September 2017.

The growth in the size of the industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energising the MF Industry in September 2012 and the support from mutual fund distributors in expanding the retail base.

MF Distributors have been providing the much needed last mile connect with investors, particularly in smaller towns and this is not limited to just enabling investors to invest in appropriate schemes, but also in helping investors stay on course through bouts of market volatility and thus experience the benefit of investing in mutual funds.

MF distributors have also had a major role in popularising Systematic Investment Plans (SIP) over the years. In April 2016, the no. of SIP accounts has crossed 1 crore mark and as on 30th September 2022 the total no. of SIP Accounts are 5.84 crore.

(Source: https://www.amfiindia.com)

1.5 SUMMARY

A mutual fund is a fund that pools money from various investors and is managed by a team of fund managers. The fund is invested in a bucket of stocks- domestic market as well as international markets (NASDAQ, TAIWAN etc.), bonds, and cash equivalents. The assets of the fund are chosen around a particular theme. The fund is continuously adjusted as per the performance of the underlying assets.

The amount contributed by each investor is invested in stocks/ securities/ bonds of the bucket, proportionate to their weights in the bucket. The investor, however, doesn't have any ownership of the underlying asset. They just own the units of the mutual fund.

While looking at Mutual Funds vs Bonds, we have seen that while bonds offer nearly risk-free fixed returns, Mutual funds come with a potential of high returns at relatively higher risk. Individual stocks beat them both with the highest risk and returns. One must weigh the nuances of Mutual Funds Vs Bonds Vs Stocks against their risk appetite, goals, and investment horizon before choosing the right mix.

1.6 MULTIPLE CHOICE QUESTIONS

1. ___________ is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.

A) Government Securities B) Mutual Funds

C) Derivatives D) Shares

2. Mutual funds in India are permitted to invest in___________

A) Securities B) Securities and gold

C) Securities other than real estate D) Securities, gold, real estate

3. Phase 1 of Mutual funds in India extended from ……………..

a. 1964- 1987 b. 1961- 1987 c. 1964- 1988 d. 1961- 1988

4. Phase 2 of Mutual funds in India extended from ……………….

a. 1987-1994 b. 1987-1993 c. 1988-1995 d. 1987-1992

5. Phase 3 of Mutual funds in India extended from ……………….

a. 1996-2004 b. 1994-2000 c. 1995-2002 d. 1993-2003

6. Phase 4 of Mutual funds in India extended from ……………….

a. 2003-2014 b. 2004-2013 c. 2004-2012 d. 2002-2011

7. The history of mutual funds in India can be broadly divided into ………. phases.

a. 4 b. 6 c. 7 d. 5

Solution- 1- B, 2- D, 3-A, 4- B, 5-D, 6- A, 7- D

1.7 QUESTION

1) What is the Concept of Mutual Fund? Explain the role of mutual fund?

2) Write a note on History of Mutual Fund in India.

3) Explain the comparison of Mutual Fund with Equity and Bond Instruments

1.7 REFERENCES

Books

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2) Workbook for NISM-Series-V-C: Mutual Fund Distributors (Level 2) Certification Examination
3) Mutual Funds - Portfolio Structures, Analysis, Management, and Stewardship John A. Haslem, Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
4) Financial Management- Ravi Kishore, Taxmann Publication

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2

DIFFERENT TYPES OF FUNDS

Unit Structure

2.0 OBJECTIVES

1) To understand how investor do the scheme selection in Mutual Funds
2) To learn more about expense ratios and Income ratios
3) To acquire the knowledge about portfolio turnover rate and Transaction costs

2.1 MUTUAL FUND SCHEME SELECTION

Mutual fund means a fund established in the form of a trust to raise money through sale of units to the public under one or more schemes for investing in securities, including money market instruments.

The small investors who generally lack expertise to invest on their own in the securities market prefer some kind of collective investment vehicle like mutual fund, which pool their managerial resources, invest in securities, and distribute the returns there from among them on cooperative principles. The investor benefits in terms of reduced risk and higher returns arising from professional expertise of fund manager employed by the Mutual Fund.

A Mutual Fund scheme invests across various type of marketable securities as per the stated investment objective of each individual schemes. This is an emerging as a preferred option for meeting individual's financial goals according to each individual's choice of investment horizon and risk appetite. The Mutual fundinvestment decisions are made by professional fund managers, backed by a team of research analysts. In return, each individual scheme charges certain expenses to the investor of the scheme towards costs related to fund management, operating expenses, distribution expenses, investor awareness, etc. However, Securities & Exchange Board of India (SEBI) has prescribed certain limits on expenses that could be charged to each individual schemes. Further, the investors tend to benefit from professional fund management at relatively lower costs by investing in mutual fund schemes.

Different asset class or categories of mutual fund schemes open for the investors to choose from:

1) By Structure

i) Open Ended Schemes

These schemes do not have a fixed maturity period. An open-endedfund sells and repurchases units at all timesat a price linked to net asset value (NAV). These schemes are available for subscription and repurchase on a continuous basis. The key feature of these schemes is liquidity.

ii) Close Ended Schemes

A close-ended fund makes a one-time sale of a fixed number of units during the initial offer period. These schemes have a stipulated maturity period. The fund is open for subscription only during a specified period at a time of launch of the scheme. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

iii) Interval Schemes

These combines the features of open-ended schemes and close ended schemes which may be traded on the stock exchange any time or will be open for sale or redemption during predetermined intervals at NAV related prices.

2) Actively Managed Funds & Passive Funds

i) Actively Managed Funds

Funds where the fund manager has the flexibility to choose the investment portfolio, within the broad parameters of the investment objective of the scheme. Since this increases the role of the fund manager, the expenses for running the fund turn out to be higher. Investors expect actively managed funds to perform better than the market.

ii) Passive Funds

In this fund, investment on the basis of specified index, whose performance it seeks to track. The proportion of each share in the scheme's portfolio would also be the same as the weightage assigned to the share in the computation of the S & P BSE Sensex. The performance of these funds tends to the concerned index. It is not designed to perform better than the Index market. Such schemes is also called index schemes.

iii) Exchange Traded Funds

An ETF is an amalgam financial product, a cross between a stock and a mutual fund. ETF is a portfolio or basket of securities that replicate the composition of indices like NIFTY, BANKNIFTY, SENSEX etc. The units are issued to the investors in a new fund offer (NFO) after which they are available for sale and purchase on a stock exchange. The units of the ETD are traded at real time prices that are linked to the changes in the underlying index.

3) SEBI- Categorisation & Rationalisation of MF Schemes

The Schemes would be broadl classified in the following groups as per SEBI guidelines: Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes, Other Schemes

- **Equity Schemes**

(a) An Equity scheme should invest minimum 65% of its assets in Equity and Equity related instruments.

- **Large Cap Fund:** Investing in large cap stocks. The minimum investment in equity and equity related instruments of large cap companies shall be 80 percent of total assets.

- **Mid Cap Fund:** Investing in mid cap stocks.The minimum investment in equity and equity related instruments of mid cap companies shall be 65 percent of total assets.

- **Large and Mid Cap Fund:**Investing in both large and mid cap stock. Large Cap Stocks- Min 35 %, Mid Cap Stock- Min 35 % of total assets

- **Multi Cap Fund:**Large Cap, Mid Cap and Small cap stocks. The minimum investment in equity and equity related instruments shall be 65 % of total assets

- **Equity Income or Dividend Yield Funds:**These funds mainly invests in stocks of companies whose dividend payout is higher. Capital appreciationis main object and increase the higher income through the dividends.

- **Focused Fund:**Investing in maximum 30 stocks. The scheme document must mention the focus stock which may be Large Cap, Mid Cap, Small Cap, Multi Cap etc

- **Diversified Equity Fund:** These funds seek to invest substantially in equities, leaving a small portion in liquid money market securities. These funds seek to reduce the sector specific risks through diversification.

- **Speciality Fund:**These funds invest in only predetermined portfolio of securities. Most of the speciality funds tend to be concentrated funds and are more volatile than diversified funds.

- **Sector Funds:** The fund's portfolio consists of investment in only one industry or sector of the market such as pharmaceuticals, telecommunication, Financial Services and Banking, Information Technology etc. The returns in those funds are dependent on the performance of the respective sectors. These funds may give higher returns, but they are riskier compared to diversified funds.

Debt Schemes

- **Overnight Fund:** The investment is in overnight securities having maturity of 1 days.

- **Liquid Fund:** Investment is into money market and debt securities with maturity of upto 91 days

- **Ultra Short Fund:** Investing in money market and debt instruments with maturity duration between 3 monthsand 6 months.

- **Low Duration Fund:** Investing in debt and money market instruments with Macaulay duration between 6 months and 12 months.

- **Money Market Fund:** Investing in money market instruments having Macaulayup to 1 year.

- **Short Duration Fund:** Investing in debt and money market instruments with Macaulay duration between 1 year and 3 years.

- **Medium Duration Fund:** Investing in debt and money market instruments with Macaulay duration of the portfolio being between 3 years and 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years.

- **Medium to Long Duration Fund:** Investing in debt and money market instruments with Macaulay duration between 4 years and 7 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years.

- **Long Duration Fund:** Investing in debt and money market instruments with Macaulay duration greater than 7 years.

- **Dynamic Bond:** An open-ended dynamic debt scheme investing across duration.

- **Corporate Bond Fund:** An open-ended debt scheme predominantly investing in AA+ and above rated corporate bonds. The minimum investment in corporate bonds shall be 80 percent of total assets (only in AA+ and above rated corporate bonds)

Hybrid Schemes

- **Aggressive Hybrid Fund/ Balanced Fund:** Investment in equity 65 % to 80 % of total assets while investment in debt instruments shall be between 20 % and 35 % of total assets.

- **Dynamic Asset Allocation or Balanced Advantage:** It is an open-ended dynamic asset allocation fund with investment in equity/debt that is managed dynamically.

- **Multi Asset Allocation:** An open-ended scheme investing in at least three asset classes with a minimum allocation of at least 10 percent each in all three asset classes. Foreign securities are not treated as a separate asset class in this kind of scheme.

- **Arbitrage Fund:** The minimum investment in equity and equity related instruments shall be 65 percent of total assets. They simultaneously buy and sell securities in different markets to take advantage of the price difference. Returns are more in line with money market returns, rather than equity market returns. Moderately Low Risk Category. Arbitrage funds are not meant for equity risk exposure, but to lock into a better risk-return relationship than liquid funds and ride on the tax benefits that equity schemes offer.

Solution Oriented Schemes

- **Retirement Fund:** An open-ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).

- **Children's Fund:** An open ended fund for investment for children having a lock-in for at least 5 years or till the child attains age of majority (whichever is earlier).

Other Schemes

- **Gold Exchange Traded Funds (GETFs) -** Gold Exchange Traded Funds offer investors an innovative, cost-efficient and secure way to access the gold market. Gold ETFs are intended to offer investors a means of participating in the gold bullion market by buying and selling units on the Stock Exchanges, without taking physical delivery of gold. GOLD ETF invests in 99.99% pure GOLD. NAV of GOLD ETF depends on Real Prices of GOLD Bullion. Gold funds invest in gold and gold-related securities.

- **Real estate funds invest in real estate:** Commodity funds invest in asset classes like food crops, spices, fibres, industrial metals, energy products or precious metals as may be permitted by their investment charter. Direct investing in Commodities is not allowed in India.

- **Fund of Funds (FOFs):**Fund of Funds are schemes that invest in other mutual fund schemes. Minimum investment in the underlying fund - 95% of total assets.

Criteria in Selection of Mutual Fund

It is very important to carefully analyse a mutual fund before one chooses the right fund for himself. The following are a set of features to be looked into in a mutual fund.

- Fund Manager's Track Record: The fund manager should have a proven track record as efficient fund management is able to create confidence in the mind of the investor.

- Portfolio Quality: If the poor quality investments don't backfire, a fund might generate high returns. High credit ratings of investments, means that the fund is investing in low risk instruments, indicating portfolio safety.

- Number of Retail Investors and Average Holding Size: It is easier to deploy and manage a small fund but even if a few investors leave it, a small fund could be in trouble.

- Size of fund: Critical mass gives access to opportunities not available to smaller funds.

- Weighted Average Maturity: Longer maturities hedge against downward movement in interest rates while it could lose out on short term upswings in interest rates. Short maturities protect against rising interest rates.

- Sudden change in Portfolio or NAV: This might be a case of a revamp of the portfolio for good but also beware that it might suddenly be open to more risk due to a change in investment.

- Dividend Frequency: Tax free dividends are good for those looking for regular returns but frequent dividends can hinder capital growth through redeployment.

2.2. EXPENSE RATIO

The expense ratio is the percentage that denotes the amount of money you are paying to the Asset Management Company as a fee to manage your investments. In other words, it is the per-unit cost for running and managing the mutual fund. The expense ratio differs from one mutual fund to another. You do not pay for this expense ratio separately; it is calculated as a percentage of the daily investment value.

For example, if you invest Rs 50000 in a mutual fund with an expense ratio of 2%, then (2%/365=0.0054%) will be deducted from the investment value each day. The per-day levying of the expense ratio ensures that you only pay for the period you stay invested. But this deduction of the expense ratio is lowering your returns by a tiny amount every day. Hence, a mutual fund scheme with a lower expense ratio is more beneficial to you because it takes away a lesser portion of money from your returns

Formula for Expense Ratio

Expense Ratio= (Total costs that are borne by the mutual fund)/(Average assets under management)

- **Total costs that are borne by the fund:**The costs incurred by the AMC mentioned above like fund manager's fee, marketing, and distribution expenses, legal/audit costs.
- **Average assets under management:** The total value of all investors' money in that fund

Currently, in India, the expense ratio is fungible, i.e., there is no limit on any allowed expense as long as the total expense ratio is within the prescribed limit. The regulatory limits of TER that can be incurred/charged to the fund by a Mutual Fund AMC have been specified under Regulation 52 of SEBI Mutual Fund Regulations.

Effective from April 1, 2020 the TER limit has been revised as follows.

Assets Under Management (AUM)	**Maximum TER as a percentage of daily net assets**	
	TER for Equity funds	TER for Debt funds
On the first Rs. 500 crores	2.25%	2.00%
On the next Rs. 250 crores	2.00%	1.75%
On the next Rs. 1,250 crores	1.75%	1.50%
On the next Rs. 3,000 crores	1.60%	1.35%
On the next Rs. 5,000 crores	1.50%	1.25%
On the next Rs. 40,000 crores	Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.	Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.
Above Rs. 50,000 crores	1.05%	0.80%

(Source: https://www.amfiindia.com)

In addition, mutual funds have been allowed to charge up to 30 bps more, if the new inflows from retail investors from beyond top 30 cities (B30) cities are at least

(a) 30% of gross new inflows in the scheme or

(b) 15% of the average assets under management (year to date) of the scheme, whichever is higher. This is essentially to encourage inflows into mutual funds from tier - 2 and tier - 3 cities.

2.3 INCOME RATIO

The investor who invests in mutual fund units can receive returns in the following two ways:

- Capital Appreciation- Profit earned on sale of units at a higher NAV than the original cost.
- Income Distribution (Dividend) When a fund makes a profit on its investment, this profit will be given to investor as a dividend which can be reinvested in the fund or retain it in the form of cash.

$$r = \frac{(NAV_t - NAV_{t-1}) + I_t + G_t}{NAV_{t-1}}$$

Where, r = return on mutual fund

It = Income at time period ‘t’

NAVt=Net asset value at the time period ‘t’

Gt = Capital gain distribution at time period ‘t’

NAV t-1 = Net asset value at time period t-1

Example: A mutual fund that had a net asset value of Rs. 10 at the beginning of month -t made income and capital gain distribution of Rs. 0.05 and Rs. 0.04 per share respectively during the month, and then ended the month with a net asset value of Rs. 10.03. Calculate monthly return.

$$r = \frac{(NAV_t - NAV_{t-1}) + I_t + G_t}{NAV_{t-1}}$$

By substituting, we get

$$r = \frac{(10.03-10.00) + 0.05 + 0.04}{10.00}$$

r = 0.012 = 1.20 % p.m. or 14.4 % p.a

2.4 PORTFOLIO TURNOVER RATE AND TRANSACTION COSTS

2.4.1 Portfolio Turnover Rate

It provides a measurement on how many times the fund managers bought or sold the assets under a fund over a period of time. It is often determined by the market conditions and fund management style.

How to calculate Portfolio Turnover Rate?

We can take the minimum of either bought stock or sold stocks under a fund and divide them by the average Assets Under Management (AUM). The number you get is the Portfolio Turnover Ratio of that particular fund. The stocks and the AUM have to be taken from the same time horizon. The time horizon can be monthly or yearly. The Portfolio Turnover Rate is always stated in percentage.

Suppose an equity fund purchased stocks worth Rs. 350 crore and sold stocks worth Rs. 450 crore. The average AUM of the fund is Rs.1400 crore. In this case, the Portfolio turnover ratio of the fund is 25%, which means one-fourth of the stocks were traded.

This can be calculated using the following **Portfolio Turnover Ratio formula**:

Portfolio Turnover Ratio = Minimum stocks bought or sold / Average AUM * 100

Portfolio Turnover Ratio = 350 Crore/ 1400 Crores *100

= 25%

Higher Portfolio Turnover Ratio Indicates

1) High frequency in stock(high trading activities)
2) Higher transaction cost, makes the fund management expensive
3) Fund manager can take risk of purchase and sale of stocks.

Lower Portfolio Turnover Ratio Indicates

1. Low frequency in stock (Low trading activities)
2. Lower transaction cost, does not affected by the management cost
3. The fund managers are confident on the purchase of stock and want to hold them till the tenure.
4. The high risk factor make fund managers less active.

2.4.2 Transaction Cost

Asset Management Companies (AMC) charge a well-earned fee from the investors and these charges are approved by the Securities and Exchange Board of India (SEBI). The fees include costs such as advisory fees, operational costs, investment management fees, registrar and transfer agent fees, ongoing service charges, etc. All the expenses involved are together known as the total expense ratio (TER).

It is divided into two parts

1) One Time charges

- **Transaction charges for first-time investors:** If you invest directly (without agents- Direct Mode) into a mutual fund scheme, then there will be no transaction charges at as all. If you invest through mutual fund agents/ distributors (Regular), then no charges are there for investments less than Rs 10,000. However, Rs 150 will be charged for investments more than Rs 10,000.

For example, if you invest Rs 7,000, then the entire 7,000 will be invested and you will purchase units for the whole Rs 7,000 but if you invest Rs 11,000, then Rs 150 will be deducted and the remaining amount Rs 10,850 (11,000-150) will be invested and you will purchase units for Rs 10,850 only.

- **Transaction charges for existing investors:** If you invest directly (without agents- Direct Mode) into a mutual fund scheme, then there will be no transaction charges at all. If you invest through mutual fund agents/ distributor (Regular), there will be no charges for investments less than Rs 10,000. For investments more than Rs 10,000, a charge of Rs 100 will be levied.

- **Transaction charges for SIP:** If you invest directly (without agents- Direct) into a mutual fund SIP scheme, then there will be no transaction charges at all. However, if you invest through agents/ Distributor - Regular, while there will be no charges at all if the total investment in a SIP is less than Rs 10,000 if the total investment is more than Rs 10,000, then Rs 100 will be deducted. This Rs 100 will be deducted in four installments of Rs 25 each on 2nd, 3rd 4th and 5th months.

- **Exit Charges:** Exit charges are like a penalty that the investor has to pay if he sells the units before the specific period applicable for a mutual fund scheme. Exit charges may vary from one scheme to another scheme. Generally, exit charges am from 1% to 3%.

For example, if you are trying to sell the units of an equity mutual fund before 1 year, then 1% will be deducted from the final amount that you are going to receive.

Exit charges are deducted from the scheme's NAV and hence the NAV value will come down resulting in a lesser final amount. This is known as "Redemption NAV'.

For example, you have invested in an equity mutual fund and you got 1,000 units. You are trying to withdraw the entire 1000 units after 10 months. The current NAV is 15. So, exit load of 1% is applied

2) **Recurring Charges**

Recurring charges are collected by the mutual fund company for providing various professional fund management services to the investors. These recurring charges are calculated on a daily basis and deducted from the net assets of the fund. The NAV declared every day is after deducting these recurring charges

2.5 SUMMARY

- Mutual funds are also fast emerging as a preferred option for meeting individual's financial goals according to each individual's choice of investment horizon and risk appetite. The investors can **invest** in different mutual fund schemes by submitting the application form physically at the Official Points of Acceptance or through the website/ mobile app of the mutual fund house, or other digital options provided by Registrar & Transfer Agents, etc.
- Hybrid mutual funds invest across asset classes like equities, debt securities and gold. The different kinds of hybrid mutual funds are:Conservative hybrid funds, Balanced hybrid funds, Aggressive hybrid funds
- The portfolio turnover ratio refers to the percentage change of the assets in a fund over a one-year period.
- Transaction Cost includes the costs such as advisory fees, operational costs, investment management fees, registrar and transfer agent fees, ongoing service charges, etc. All the expenses involved are together known as the total expense ratio (TER).

2.6 MULTIPLE CHOICE QUESTIONS

1. The value of one unit of investment in Mutual fund is called the _______________.

A) Net Asset Value B) Issue value
C) Market value D) Gross Asset value

2. The feature of a mutual fund, where it spreads the investment in varied stocks and sectors by pooling the funds of various investors, is called as _______________.

A) Professional Management B) Affordability
C) Diversification D) Profit

3. The funds in which units can be purchased only during the initial offer period are called

A) Open-Ended Funds B) Close-Ended Funds

C) Interval Funds D) Fixed maturity plan

4. ______________ are considered high-risk funds but also tend to provide high returns.

A) Equity Funds B) Money Market Funds

C) Balanced or Hybrid Funds D) Debt Funds

5. ____________ are funds that invest in company debentures, government bonds and other fixed-income assets.

A) Equity Funds B) Money Market Funds

C) Balanced or Hybrid Funds D) Debt Funds

6. Which type of fund is more volatile?

A) Large-cap funds B) Mid-cap funds

C) Small-cap funds D) Hybrid Funds

7. Investors can enter and exit under _______ at any time

A) Fixed maturity plan B) Open-Ended Funds

C) Close-Ended Funds D) Interval fund

8. Mutual Fund schemes are first offered to investors through.

A) Stock exchange B) New Fund Offer

C) Initial Public Offer D) AMFI

9. In ____________ funds, the money is invested primarily in short-term or very short-term instruments e.g. T-Bills, CPs etc.

A) Growth funds B) Income funds

C) Liquid funds D) Tax-Saving Funds (ELSS)

10. Transaction cost is ………… with investment in Mutual Funds.

A) High B) Low

C) Very high D) Nil

Solution- 1 -A, 2- C, 3- B, 4- A, 5- D, 6- A, 7-B, 8 – B, 9- C, 10- B

2.7 QUESTION

1) Explain the different types of mutual fund schemes and their criteria to select the scheme.

2) What is Portfolio Turnover Rate? Mention how we can calculate the Portfolio Turnover Ratio?

3) Write a note on Transaction Charges on Mutual Fund

4) Briefly explain Expense ratio in Mutual Fund

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3

STRUCTURE AND KEY CONSTITUENTS OF MUTUAL FUND

Unit Structure

3. 0 OBJECTIVES

1) To understand the roles of Sponsor, Trustees, AMC, Custodian
2) To know about the depositories
3) To acquire the knowledge about the distributors

Introduction

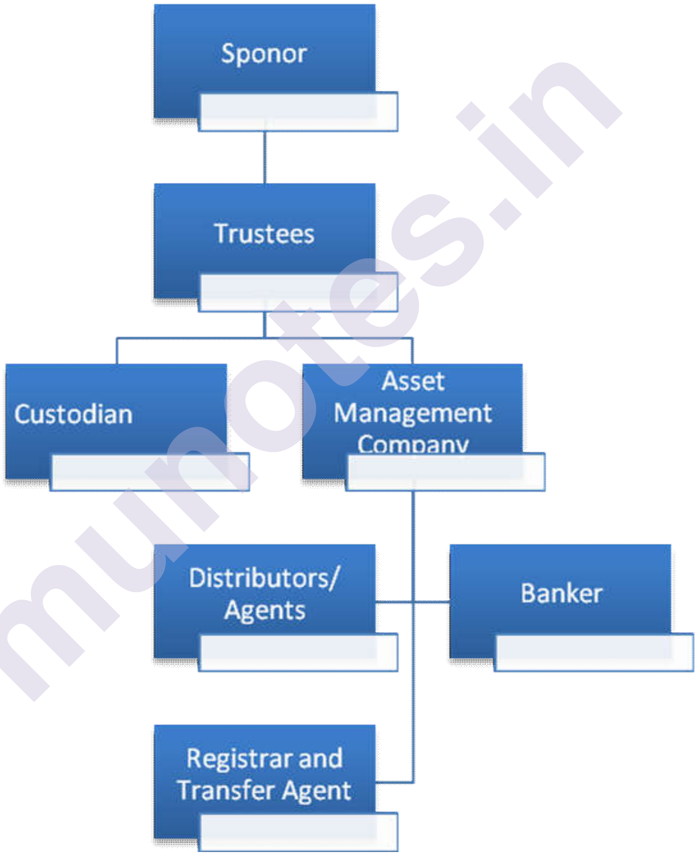
It is a trust that pools together resources of investors to make a foray into investments in capital markets, thereby making investors part owners of the assets of mutual funds.

Mutual funds provide the leverage of earning higher returns with little savings. For Ex. - if an individual has Rs.50000 as savings, he may invest in few stocks and create a portfolio of his own, but his returns would be limited to changes in the market value of the share and dividends from the stocks. He would be exposed to the risk of those stocks not performing well. Whereas in case of mutual funds, with little investment, you get a share of larger portfolio and the risk is diversified to lot many stocks in the portfolio. As a matter of financial discipline, if I have Rs. l 000 per month to invest in, I can invest in a fund every month through a Systematic Investment Plan (SIP)

So by investing in mutual funds you are not only putting your eggs in different baskets but also overcoming the limitation of the quantum of investment in hand and you can do away with the burden of managing you portfolio of your own as this is being 'outsourced' to a fund manager having expertise in the field

Parties to Mutual Fund

1. **Sponsor**
2. **Trustees**
3. **Custodian**
4. **Asset Management Company**
5. **Distributors/ Agents**
6. **Bankers**
7. **Registrar and Transfer Agent**



3.1 SPONSOR (PROMOTERS OF A COMPANYWHO RUNS THE SHOW)

- The SEBI (Mutual Funds) Regulations, 1996, defines *sponsor* as any person who, acting alone or in combination with another body corporate, establishes a mutual fund.

- The sponsor forms the Trust and appoints the board of trustees, appoints the AMC as the fund managers and may also appoint custodian to hold the fund assets.

- As per the SEBI (Mutual Fund) Regulations, 1996, sponsor makes an application for registration of the mutual fund and contributes atleast 40% of the net worth of the asset management company.

- The sponsor must comply with the eligibility criteria without which the Board may reject the application.

Eligibility criteria for grant of certificate of registration are that the sponsor should

(i) have a sound track record and general reputation of fairness and integrity in all his business transactions.

(ii) (the applicant is a fit and proper person

(iii) in the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board;

(iv) the sponsor has contributed or contributes at least 40% to the net worth of the asset management company:

(v) the sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence;

(vi) appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations

(vii) appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;

(viii) appointment of custodian in order to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorised by the trustees

3.2. TRUSTEES

Trustees hold unit holder money in authentic manner. The Eligibility Criteria for a trustee and the rights and obligations of the trustees as stated in the SEBI (Mutual Fund) Regulations, 1996 are as follows:

A) Eligibility criteria for being a trustee:

No person shall be eligible to be appointed as a trustee unless-

(a) he is a person of ability, integrity and standing; and

(b) has not been found guilty of moral turpitude; and

(c) has not been convicted of any economic offence or violation of any securities laws;

(d) has furnished particulars as specified in Form C.

(e) No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund

(f) No person who is appointed as a trustee of a mutual fund shall be eligibleto be appointed as a trustee of any other mutual fund

(g) Two-thirds of the trustees shall be independent persons and shall not beassociated with the sponsors or be associated with them in any manner whatsoever

(h) In case a company is appointed as a trustee then its directors can act astrustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

B) Role of Trustees

(a) Ensure that Asset Management Company is managed independently and interest is not compromised.

(b) Ensure that transactions entered by Asset Management Company as per regulations and schemes.

(c) Ensures that Asset Management Company has not given any undue advantage to its associates.

(d) Review the investor complaints and ensure redressal; follow the code of conduct mentioned in the Vth Schedule of the The SEBI (Mutual Funds) Regulations, 1996

(e) Trustees to file details of transactions of dealing in securities on quarterly basis. It also reviews the networth of the AMC on quarterly basis.

(f) As a custodian of funds be accountable for the funds and property of respective schemes.

(g) Trustees should take remedial action for non-compliance of regulations.

(h) Trustees should check Asset Management Companies compliances.

C) Approval of the Board for appointment of trustee

(1) No trustee shall initially or any time thereafter be appointed without prior approval of the Board.

(2) The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

D)) Trustees shall exercise due diligence as under:

A. General Due Diligence :

(a) The Trustees shall be discerning in the appointment of the directors on the Board of the asset management company.

(b) Trustees shall review the desirability or continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes.

(c) (The Trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.

(d) The Trustee shall ensure that all service providers are holding appropriate registrations from the Board or concerned regulatory authority.

(e) The Trustees shall arrange for test checks of service contracts.

(f) Trustees shall immediately report to the Board of any special developments in the mutual fund.

B. Specific due diligence: The Trustees shall :

(i) obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees,

(ii) obtain compliance certificates at regular intervals from the asset management company,

(iii) hold meeting of trustees more frequently,

(iv) consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action, maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings,

(v) prescribe and adhere to a code of ethics by the Trustees, asset management company and its personnel,

(vi) communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.

3.3 ASSET MANAGEMENT COMPANY (AMC)

An Asset Management Company that manages a mutual fund. The AMC hires a professional money manager, who buys and sells securities in line with the fund's stated objective. It is an organized form of money portfolio manager which has several or varied investment objectives.

Under SEBI Regulations, every mutual fund is required to have an Asset Management Company (AMC) incorporated in accordance with the Companies Act, 2013 to manage the funds of the mutual fund. The AMC should approve by SEBI and should enter into an agreement with the trustees of the mutual fund to formulate schemes, raise money against units, invest the funds in accrued securities and after meeting the permissible costs as per norms, distribute income to the shareholders of the funds.

Restrictions on AMC are:

- Not act as a trustee of any mutual fund
- Not undertake any activity conflicting with the activities of the mutual fund
- AMC shall not invest in any of its schemes unless intention to invest has been made in the offer document

Obligations of AMCs are:

- AMC shall not carry transactions with any broker whether associated with sponsor or not; for average of 5% or more; with exceptions
- Ensure regulatory compliances & approvals when required
- Liable to mutual funds for the acts of omission & commission
- Details of directors, their interest in other companies; changes in interest to be submitted to the trustees
- Fund manager to ensure that the funds of the scheme are invested to meet the objectives of the scheme
- Due diligence and care in all investment decisions
- AMC shall not utilize the services of any sponsor or its associates etc
- AMCs to make half yearly disclosures for:

▪ Underwriting obligations

▪ Devolvement

▪ Subscriptions in the schemes lead managed by associates

▪ Subscriptions to debt/ equity issues where sponsors/associates acted as arranger/ lead manager

3.4 CUSTODIAN

Appointment of Custodian

- The mutual fund should appoint a custodian to carry out the custodial services for the scheme and send intimation of the same to the SEBI within fifteen days of the appointment.
- However, in case of a gold exchange traded fund scheme (i.e. a mutual fund scheme that invests primarily in gold/gold related instruments), the assets may be kept in custody of a bank registered as a custodian with the SEBI.
- In case of a real estate asset mutual fund scheme (i.e. a mutual fund scheme that invests directly/indirectly in real estate assets/ other permissible assets), the title deed of the assets held by it may be kept in the custody of a SEBI-registered custodian.
- A custodian in which the sponsor or its associates hold 50 per cent or more of the voting rights or the share capital or where 50 per cent or more of the directors of the custodian represent the interest of the sponsor or its associates, cannot act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company.
- However, a custodian whose 50 per cent or more rights in held by the sponsors/its associates, can act as a custodian for mutual fund constituted by the same sponsor/associates/subsidiaries if

i. networth of the sponsor is `20,000 crore,

ii. its 50 per cent/more directors do not represent the interest of the promoter/associates,

iii. the custodian and the AMC are not subsidiaries of each other and do not have common directors and they undertake to act independently in their dealings with the scheme.

Agreement with custodian

The mutual fund should enter into a custodian agreement, which should contain the clauses that are necessary for the efficient and orderly conduct of the affairs of the custodian. The agreement, the service contract, terms and appointment of the custodian can be entered into only with the prior approval of the trustees.

3.5 DEPOSITORIES

A depository is an organisation where the securities of an investor are held in the electronic form at his request through the medium of a Depository Participant (DP). If the investor wants to utilize the services offered by a Depository, the investor has to open a beneficiary account with the Depository through a DP. DP is the representative or agent in the depository system and it maintains the investor's securities account balances and intimates to him the status of his holdings from time to time. The investor can open accounts with one or more DPs. When a person buys any security e.g. Stock, M.F., Debentures already in depository mode, the buyer will become owner of the said security in the depository within a day of settlement being made. The buyer is not required to apply to the company for registering the security in his name.

Depository is an agency for keeping security on deposits in electronic (paperless) form and makes scripless trading possible. The physical form of securities could be held in electronic form by way of immobilization and dematerialization. While custodians immobilize the physical securities by custodial function, depositories interface with the Investors only through depository participants who are registered with the depository as well as SEBI.

Definition and Meaning of Depository

According to Section 2 (e) of the Depository Act, 1996, " Depository means a company formed and registered under the companies Act, 1956 and which has been granted a certificate of registration under Section 12 (1 A) of the Securities and Exchange Board of India Act, 1992.

There are two depository players in the market i.e., National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL)

Definition and Meaning of Depository Participant

Depository Participant (DP) is the agent of the depository and is the interface between the depository and the investor. According to SEBI Guidelines, financial institutions, banks, custodians, stock brokers etc can become depository participants.

Stocking Holding Corporation of India Limited (SHCIL) is the first depository participany in India registered with NSDL. Besides SHCIL, a number of new and private and foreign bank like HDFC Bank, ICICI Bank, IDBI Bank, Hong Kong Bank, Standard Chartered Bank are providing shares depository services to its customers from its various branches.

3.6 DISTRIBUTORS

The mutual fund distributor's job is to assess the needs, limitations, resources and financial goals of the investor. This analysis would help the mutual fund distributor arrive at a suitable asset allocation plan for the investor.The distributor then goes on to identify mutual fund schemes, which are appropriate for the investor in the given situation. Look at this in another way, the mutual fund distributor analyses the situation of the investor; whereasthe fundmanager analyses the market factors. Both the professionals play important roles in helping the investor achieve one's financial goals.

• **Different kinds of Mutual Fund Distributor**

In India, Mutual Funds distributed through multiple channels such as Individual Mutual Fund Distributors, Bank Branches, National Distributors through their branches or their sub-agents, post offices and directly by the AMCs. Now, Mutual Fund is distributed with the use of technology such websites, mobile applications and stock exchanges as well as traditional method of paper based applications forms.

1) Individual Players

Mutual Fund Distributors start their business – single-handedly, as individuals.This is a very large part of the distribution link between the asset management companies and the investors. Almost all of them operated as individuals, and single-handedly, without any staff orskeleton staff, mainly to handle the paperwork nut now days distributors have websites and apps.

2) Non Individual

Non-individual entities include partnerships, regional distributors, national distributors, NBFCs, banks, stockbrokers, etc. Out of these, the distribution companies and banks are sometimes referred as institutional distributors

• **Banks**

Banks/ NBFCS/ Cooperative Banks

It has emerged as a prominent channel for the distribution of mutual fund products to theiraccount holders. Within the banking structure, the multinational banks were the first to enterthe business of mutual fund distribution. The private sector banks and the public-sector bankentered the business much later. Nowadays, even some cooperative banks are also distributing mutual funds. Banks employ different business units catering to different client segments, viz., retail banking and wealth management or private banking.

Modes of Distribution

Financial products were distributed using application forms printed on paper. This process involved carrying physical forms to the client's place and then depositing those forms at the respective official points of acceptance (OPOAs). With the advent of the internet and mobile phones, the distribution channelshifted to digital mode.

Many distributors and their investors still prefer the paper mode, whereas the new age Internet-based businesses, viz. e-commerce platforms, and online distributors operate entirely through the digital mode. On the other hand, there are a few that employ a hybrid mode, where some transactions take place digitally, some others happen physically.

- **Online Channel Partner**

A few distributors offer transaction support through their own websites. Investors, also prefer to transact through the internet, rather than the cumbersome paperwork and dependence on the distributor.

- **Stock Exchange Platforms**

SEBI has facilitated buying and selling of the units of open-ended mutual funds through the stock exchanges. Exchanges have developed mutual fund transaction engines for this purpose. The low cost and deeper reach of the stock exchange network enable an increased level of participation of retail investors in mutual funds. Ex- NSE MF

- **MF Utilities**

Investors who register on the MFUtilities are allotted a Common Account Number (CAN) under which all their mutual fund holdings are consolidated. Investors have to be KYC compliant to register for a CAN. Ex- Prudent

- **Computer based and Mobile Based Apps**

These are through apps and websites that are created by distributors to facilitate investments for their clients. These multiple channels make it easier for clients to transact in a simple manner.

- **Electronic Platforms created by AMCs**

AMCs have also created their own facilities like web-based and mobile-based applications that facilitate various transactions.

3.7 SUMMARY

- **Sponsors:** Sponsors are the person who alone or in combination with body corporate, establishes a mutual fund.

- **Custodian:** It is an agency providing custodial services to the fund.

- **Trustees:** Every mutual fund is in the form of trust deed and the trustee should be appointed who shall hold the property of mutual fund for the interest of the unit holders.

- **Asset Management Company:** Under SEBI Regulations, every mutual fund is required to have an Asset Management Company (AMC) incorporated in accordance with the Companies Act, 2013 to manage the funds of the mutual fund. The AMC should approve by SEBI and should enter into an agreement with the trustees of the mutual fund to formulate schemes, raise money against units, invest the funds in accrued securities and after meeting the permissible costs as per norms, distribute income to the shareholders of the funds.

- **Distributor:**The mutual fund distributor analyses the situation of the investor, whereasthe fundmanager analyses the market factors.

3.8 MULTIPLE CHOICE QUESTIONS

1. Who establishes the Mutual Fund in India?
a) Securities Exchange Board of India b) Asset Management Company
c) Sponsor d) Shareholders

2. _____________ are also known as the protectors of the fund and are employed by the fund sponsor.
a) Sponsor b) Trustees
c) Asset Management Company d) Custodian

3. Mutual funds are constituted in India as ____________.
a) Trusts b) Limited liability partnership
c) Companies d) Non-Government organisations

4. ____________ are an important link between fund managers and investors.
a) Trustees b) Asset Management Company
c) Custodian d) Registrar And Transfer Agents

5. Net Asset Value (NAV) of a mutual fund scheme is calculated and published on websites of ________.
a) SEBI website only b) SEBI and AMFI websites
c) AMFI and Mutual fund website d) Mutual fund website only

6. ……………. helps in financial transactions of a mutual fund.
a) custodian b) banker
c) distributor d) sponsor

7. ……………… helps in financial transactions of mutual funds.
a. Distributors b. Trustees c. Custodians d. Banks

8. AMC is required to be approved by …………….
a. RBI b. IBDI c. SEBI d. IRDA

9. AMC look after administrative functions of a mutual fund for which they charge ………………
a. administrative fees b. professional fees
c. management fees d. Processing fees

10. The …………… of the mutual fund appoints the AMC.
a. sponsor b. trustee c. custodian d. Broker

11. Mutual Fund is established by …………
a. Sponsor b. custodian c. Trustee d. Broker

Solution: 1 – C, 2- B, 3- A, 4- D, 5- D, 6- B,7- D, 8- C, 9- C, 10- B, 11- A

3.9 QUESTION

1) Discuss the Parties in Mutual Fund Industries with its role in short.
2) Write a note on
a) Sponsors
b) Custodian
c) Trustees
d) Asset Management Company
e) Distributor

3.10 REFERENCE

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4

LEGAL AND REGULATORY FRAMEWORK

Unit Structure

4. 0 OBJECTIVES

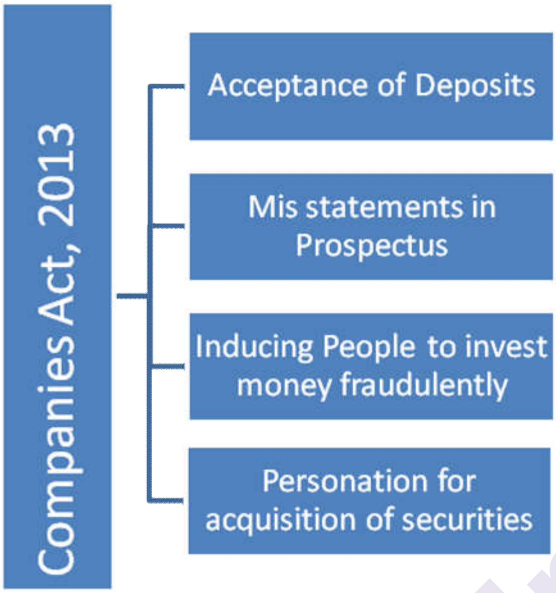
1) To understand the role of regulators in India
2) To know about different provisions of companies act, 2013
3) To understand the role of AMFI
4) To know about the AMFI Code of Conduct for Intermediaries

4.1 ROLE OF REGULATORS IN INDIA

The regulations in financial markets are driven by the need to safeguard the interests of the consumers of various financial products and services, as well as to ensure a regulated development of the financial markets, which is essential for the growth of the economy. Currently, there are four regulators, viz.,

1. Reserve Bank of India (RBI) that regulates the banking system, as well as money markets;
2. Securities and Exchange Board of India (SEBI) that regulates the securities markets;
3. Insurance Regulatory and Development Authority of India (IRDAI) that regulates the insurance market; and
4. Pension Fund Regulatory and Development Authority of India (PFRDA) that regulatesthe pension market. These regulators come under the purview of the Ministry of Finance.

4.2 COMPANIES ACT, 2013



Acceptance of Deposit

Section 73 *says that no Company shall accept or review deposit under this Act from public except in a manner provided under Chapter V (Acceptance of Deposits by Companies), Companies Act, 2013.*

However, this section does not apply to

a) Banking Companies and
b) NBFC's as defined under RBI Act, 1934 and
c) Companies specified by central government after consultation of RBI

Section 73 (3) *says that if a company fails to repay the deposit or part thereof or any interest thereon within the time specified under section 74 or such further times as may be allowed by the Tribunal, the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine shall not be less than Rs..1 Crores but may extend to Rs. 10 Crores and every officer of the company who is in default shall be punishable with imprisonment which may extent to 7 years or with fine which shall not be less than Rs. 25 Lakhs but which may extend to Rs. 2 Crores or with both.*

Misstatement in Prospectus

Section 34 *says that where a prospectus, issued, circulated or distributed, includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to be misled, every person who authorizes the issue of such prospectus shall be liable for action under section 447.*

Section 447 *says that any person who is found to be guilty of fraud, shall be punishable with imprisonment for a term which shall not be less than 6* *months but which may extend to 10 years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. Provided that where the fraud in question involves public interest the terms of the imprisonment shall not be less than three years.*

Inducing People to invest money fraudulently

Section 36 *says that any person who either knowingly or recklessly makes any statement, promise or forecast which is false, deceptive or misleading, or deliberately conceals any, material facts, to induce another person to enter into, or to offer to enter into-*

a. Any agreement for, or with a view to, acquiring, disposing of subscribing for or underwriting, securities; or

b. Any agreement the purpose or the pretended purpose of which is to secure a profit or any of the parties form the yield of securities or by reference to fluctuations in the value of securities; or

c. Any agreement, for, or with a view to, obtaining credit facilities from bank or financial institution, shall be liable for action under section 447.

Personation for acquisition of securities

Section 38 *says that any person who*

a. Makes or abets making an application in a fictitious name to a company for acquiring, or subscribing for, its securities; or

b. Makes or abets making of multiple applications to the company in different names or in different combinations of his name or surname for acquiring or subscribing for its securities; or

c. Otherwise induces directly or indirectly a company to allot, or register any transfer therof, securities to him, or to any other person in a fictitious name, shall be liable for action under section 447.

4.3 RESERVE BANK OF INDIA ACT, 1934

Section 45 QA of the RBI Act gives a depositor similar rights as are provided under Companies Act to approach Company Law Board for payment of matured deposits in case of NBFCs.

Section 45QA*says the* Power of Company Law Board to offer repayment of deposit.

(1) Every deposit accepted by a non-banking financial company, unless renewed, shall be repaid in accordance with the terms and condition of such deposit.

(2) Where a non-banking financial company has failed to repay and deposit or part thereof in accordance with the terms and conditions of such

deposit, the Company Law Board constituted under section 10E of the Companies Act, 1956 (1 of 1956), may, if it is satisfied, either on its own motion or on an application of the depositor, that it is necessary so to do to safeguard the interests of the company, the depositors or in the public interest, direct, by order, the non-banking financial company to make repayment of such deposit or part thereof forthwith or within such time and subject to such conditions as may be specified in the order:

Provided that the Company Law Board may, before making any order under this sub-section, give a reasonable opportunity of being heard to the nonbanking financial company and the other persons interested in the matter.]

4.4 ROLE AND FUNCTION OF AMFI

The Association of Mutual Funds in India (AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

AMFI, the association of all the Asset Management Companies of SEBI registered mutual funds in India, was incorporated on August 22, 1995, as a non-profit organisation. As of now, 42 Asset Management Companies that are registered with SEBI, are its members. (Source: Association of Mutual Funds in India | Indian Mutual Fund Industry (amfiindia.com))

Association of Mutual Funds in India (AMFI) is the association of all the registered Asset Management Companies. AMFI involves the registration of mutual fund distributors, by allotting them AMFI Registration Number (ARN), which is mandatory for becoming a mutual fund distributor. For ARN it is essential for distributor to pass NISM Mutual Fund Certification. Periodically, AMFI also issues various circulars recommending best practices for the asset management companies, as well as the distributors. An important point to note here is that AMFI is neither a regulatory body nor a Self-Regulatory Organisation (SRO).

The objectives of AMFI are:

- To define and maintain high professional and ethical standards in all areas of operation of 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 SEBI and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the mutual fund Industry.

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

4.4.1 AMFI Code of Conduct for Intermediaries

A) AMFI Code of Ethics (ACE)

Association of Mutual Funds in India (AMFI) is to promote the investors' interest by defining and maintaining high ethical and professional standards in the mutual fund industry. The AMFI Code of Ethics (ACE)sets out the standards of good practices to be followed by the Asset Management Companies in their operations and in their dealings with investors, intermediaries, and the public. SEBI (Mutual Funds) Regulation, 1996 requires all Asset Management Companies and Trustees to abide by the Code of Conduct as specified in the Fifth Schedule to the Regulation.

The AMFI Code has been drawn up to supplement that schedule, to encourage standards higher than those prescribed by the Regulations for the benefit of investors in the mutual fund industry.

While the SEBI Code of Conduct lays down broad principles, the AMFI Code of Ethics (ACE) sets more explicit standards for AMCs and Trustees.

B) AMFI's Code of Conduct for Intermediaries of Mutual Funds

AMFI has also framed a set of guidelines and code of conduct for intermediaries (known as AMFI Guidelines & Norms for Intermediaries (AGNI)), consisting of individual agents, brokers, distribution houses and banks engaged in selling of mutual fund products.

In the event of breach of the Code of Conduct by an intermediary, the following sequence of steps is initiated by AMFI:

- Write to the intermediary (enclosing copies of the complaint and other documentary evidence) and ask for an explanation within 3 weeks.
- In case an explanation is not received within 3 weeks, or if the explanation is not satisfactory, AMFI will issue a warning letter indicating that any subsequent violation will result in cancellation of AMFI registration.

- If there is a proved second violation by the intermediary, the registration will be cancelled, and intimation sent to all AMCs. The intermediary has a right of appeal to AMFI.

4.6 SUMMARY

- The regulations in financial markets are driven by the need to safeguard the interests of the consumers of various financial products and services, as well as to ensure a regulated development of the financial markets. Regulators such as RBI, SEBI, PFRDA, IRDAI.

- The Companies Act, 2013 provides laws for issue, allotment and transfer of securities and also public disclosure to be made at and the matters and report to the stated in the prospectus, newspaper, advertisement of prospectus. The main points are covered such as Acceptance of Deposit, Misstatement in Prospectus, Inducing people to invest money fraudulently etc.

- Section 45 QA of the RBI Act gives a depositor similar rights as are provided under Companies Act to approach Company Law Board for payment of matured deposits in case of NBFCs.

- Association of Mutual Funds in India (AMFI) is the association of all the registered Asset Management Companies. AMFI involves the registration of mutual fund distributors, by allotting them AMFI Registration Number (ARN), which is mandatory for becoming a mutual fund distributor. It also the objectives and code of conduct for Intermediaries.

4.7 MULTIPLE CHOICE QUESTION

1. In India, AMC must be registered with____________.

A) Company’s Act, 2013　　B) No registration required.

C) Securities Exchange Board of India　　D) Reserve Bank of India

2. ________________ regulates the Mutual fund industry in India.

A) Reserve Bank of India

B) Association of Mutual Funds of India

C) Securities Exchange Board of India

D) State Bank of India

3. The Mutual fund industry follows which of the following regulation?

A) SEBI (Mutual fund) regulations 1996

B) Mutual fund regulation 2004

C) Mutual fund regulation 2003

D) RBI

4. AMFI was incorporated on ________________.

A) 22nd August 1995　　B) 12th April 1992

C) 1st April 1935　　D) 15th August 1947

5. ARN stands for
A) ASSI Registration Number B) AMFI Registration Number
C) AMC Registration Number D) ANC Registration Number

Solution: 1 – C, 2 – C, 3- A, 4- A, 5- B,

4.8 QUESTION

1) What are the different role and objectives of AMFI? Explain the code of conduct of AMFI.

2) Explain the legal provisions of Companies Act, 2013.

3) Define Section 45QA of the Reserve Bank of India Act.

4.8 REFERENCE

Books

1) Workbook for NISM-Series-V-B: Mutual Fund Foundation Certification Examination
2) Workbook for NISM-Series-V-C: Mutual Fund Distributors (Level 2) Certification Examination
3) Workbook for NISM-Series-V-A: Mutual Fund Distributors Certification Examination
4) Mutual Funds - Portfolio Structures, Analysis, Management, and Stewardship John A. Haslem, Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
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https://upstox.com/

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5

NET ASSET VALUE

Unit Structure:

5.0 NET ASSET VALUE (NAV)

Net asset value (NAV) is the value of a fund's assets less the value of its liabilities (NAV). The term "net asset value," which is frequently used in regard to mutual funds, is used to calculate the worth of the assets owned. The SEC mandates that mutual funds and unit investment trusts (UITs) compute their NAV at least once per business day.

Calculating Net Asset Value

The following is the NAV formula:

$$\text{Net Asset Value} = \text{Value of Assets} - \text{Value of Liabilities}$$

Where:

- Value of assets is the value of all the securities in the portfolio
- Value of liabilities is the value of all liabilities and fund expenses (such as staff salaries, management expenses, operational expenses, audit fees, etc.)

5.1 NAV CALCULATION – WHAT IS IT?

The Net Asset Value (NAV) is the market value of a share in a specific mutual fund and is frequently linked to investments in mutual funds. By dividing the difference between a company's assets and liabilities by the number of outstanding shares, you can get NAV. Investors can determine whether a fund is undervalued or overvalued using NAV. It determines how much of a specific fund you'll get when you take your investment out.

NAV Calculation: The Formulae

The net asset value, or NAV, of a mutual fund is calculated by dividing its net assets by the total number of outstanding units. The following is the mathematical formula for calculating mutual fund NAV:

Net Asset Value = (Assets – Liabilities)/Total Number of Outstanding Units

Here, the assets include the value of securities held and liquid cash, equity, debentures, bonds, exchange bills, commercial papers, any interest or dividend earned. The liabilities include expenses in the form of money payable, interest payable, fund management expenses etc. Fund Managers calculate the NAV of a mutual fund at the end of the market day.

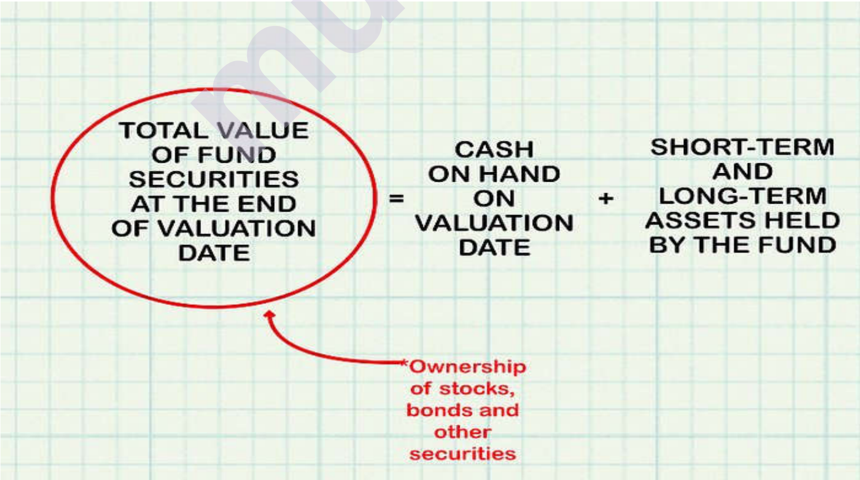
The NAV of a mutual fund is always calculated at the end of the market day. This is because the market value of securities changes on a daily basis. Hence, the NAV of a mutual fund also changes daily.

Example 1

Suppose the market value of the securities of a mutual fund scheme is Rs 500 lakh. The mutual fund issues 10 lakh units of Rs 10 each to its investors. So, the NAV per unit of the fund is Rs 50.

1. Choose the date of the valuation.

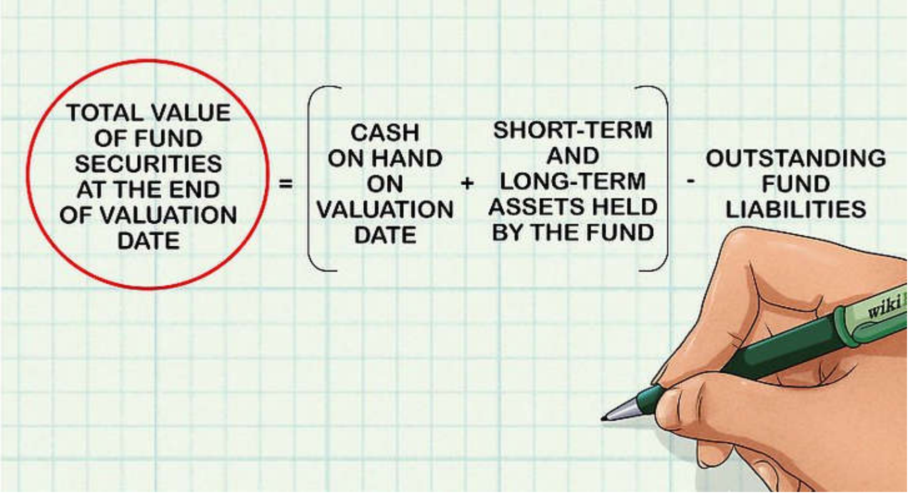
Every day the stock market is open, a mutual fund, hedge fund, or ETF's net asset value (NAV) changes due to changes in the investment value of the fund. You must use fund data for the calculation on a date that is pertinent to your needs for your net asset value estimate to be valuable. Select a precise date and make sure that all the figures you need to determine the net asset value of your fund originate from that date.



2. Calculate the total value of the fund's securities at the end of the valuation date.

The stocks, bonds, and other securities that the fund owns are its holdings in securities. You can find out the value of your fund's investment in each type of security at the end of the valuation date because these securities' values are posted on a daily basis.

• The value of any cash on hand at the time of valuation, as well as any short- or long-term assets held by the fund, should be included in this total.



5.2 ACCOUNTING:

Mutual funds accounting is a critical matter for the financial system, given the increasing preference for mutual funds over direct holdings of securities such as stocks and bonds by the investing public. In particular, many, if not most, individual investors and retail clients have the majority of their savings in employer-sponsored 401(k) plans, which typically offer a selection of mutual funds as the investment choices. The end product of mutual funds accounting is the accurate pricing of these investment vehicles and the correct assignment of investment income to holders thereof. These are thus, the major concerns for the chief financial officers (CFOs), controllers, and operations managers of mutual fund companies.

Aspects of Mutual Funds Accounting

Numerous fundamental duties related to mutual fund accounting may be carried out by internal staff members or contracted out to other service providers, such custodian banks. These procedures consist of:

- Daily calculating the net asset value, or market value, of its investment portfolio (NAV).
- Planning for and documenting every revenue, including interest and dividends.
- Tracking interest that is due on bonds and other fixed-income assets that are held in the investment portfolio.
- Appropriately amortizing bond purchase discounts or premiums. See the in-depth justification below.
- Keeping track of all transactions involving securities, such as purchases and sales of portfolio investments.

- Tracking all long- and short-term capital gains that are a result of transactions involving securities in the fund.
- Keeping track of all financial inputs and outflows related to purchases and redemptions of shares by investors.
- Maintaining records of the shares owned, and transactions made, by each shareholder in the fund.
- Tracking distributions of income and capital gains made to shareholders in the fund.

In the best mutual funds accounting departments, these activities will be highly automated. However, some manual input, reviews, and adjustments may still be necessary.

5.3 VALUATION AND TAX IMPLICATIONS

What are the tax implications of investing in mutual funds? It is a question I frequently come across online. Okay, first, let's get one thing straight. In India, you have to pay a tax when you earn a profit either by doing business, selling any commodity or even getting returns from your investments. And mutual funds are no exception to this rule. Between all the meticulous planning, it's easy to overlook the tax implications of investing in mutual funds since all we focus on is the generated returns.

Taxes paid on mutual funds can get a bit confusing since there are multiple points to remember like type of fund, duration of investment, tax slab etc. Allow us to simplify this for you.

Firstly, understand earnings from mutual funds

There are two main ways to earn by investing in a recognised mutual fund.

Generate earnings from dividends:

Certain mutual funds offer a dividend payout component, meaning you can earn from the dividends issued by the stocks in the mutual fund you invested in. The dividend is received in proportion to the number of shares you hold via the mutual fund.

How are these dividends taxed?

Initially, dividends were tax-free when investors received them as companies paid Dividend Distribution Tax (DDT) before they shared the profits in the form of dividends. Dividends upto Rs. 10 lakh were tax-free and anything above would attract a 10% DDT.

However, the Union Budget made amendments in 2020, stating that dividends received from these funds will be taxed normally, meaning the dividends will be added to your taxable income. Additionally, if the dividends cross Rs. 5,000, then a TDS of 10% will be levied. If the PAN and Aadhaar are not linked, TDS will be 20%.

Earnings in the form of capital gains:

The profit you earn after selling an asset at a higher price than what you initially bought is known as a capital gain. Suppose you buy units at Rs.1000 and they generate a return of 10%. After some time, the value of your units will be Rs.1100, and if you sell the units, then Rs.100 earned is taxable.

How are capital gains on mutual funds taxed?

Capital gains are taxable only after the asset is sold. The tax implications of investing in mutual funds depend on the scheme and the tenure of the investment. For making calculations simpler, mutual funds are categorized below

Fund Type	**Short-Term Capital Gains**	**Long-Term Capital Gains**
Equity Funds	Less than one year	Over one year
Debt Funds	Less than three years	Over three years
Hybrid Equity oriented Funds	Less than one year	Over one year
Hybrid Debt oriented Funds	Less than three years	Over three years

Fund Type	**Short-Term Capital Gains (STCG)**	**Long-Term Capital Gains (LTCG)**
Equity Funds	15% + surcharge + cess	Up to Rs.1 lakh a year is tax-free. Beyond that is taxed at 10%
Debt Funds	Taxed based on income tax slab	20% + surcharge + cess
Hybrid Equity oriented Funds	15% + surcharge + cess	Up to Rs.1 lakh a year is tax-free. Beyond that is taxed at 10%
Hybrid Debt oriented Funds	Taxed based on income tax slab	20% + surcharge + cess

Securities Transaction Tax (STT)

Apart from the above LTCG and STCG tax, a 0.001% Securities Transaction Tax is levied by the government when units of an equity fund or hybrid equity-oriented funds are sold. It is very similar to Tax Deducted at Source (TDS). Having STT helps keep a tab on taxpayers from evading taxes by not disclosing the profit from the sale of these units.

Are SIP's an exemption from tax?

In short, no. A Systematic Investment Plan or SIP allows you to invest a particular sum every month or quarter in a mutual fund scheme. Suppose you invest in a mutual fund scheme, and after 13 months, you withdraw them. Since these funds are held for more than one year, you will get long-term capital gains. If the gains are less than Rs. 1L, you don't have to pay tax.

If you withdraw before 12 months, you will receive short-term capital gains taxed at 15% + surcharge + cess, irrespective of your income tax slab.

In a nutshell

Just keep in mind that the longer you stay invested, the better it is. The tax implications of investing in mutual funds may seem intimidating at first, but it begins to make more sense as you keep investing. As the adage goes, Rome wasn't built in a day.

All you need to ensure is that you're clear on your goals, read the products carefully, and do your homework. You can always take the help of Fi's online calculators before taking the final plunge.

1. Is income from a mutual fund taxable?

The tax depends on the mutual fund scheme and the tenure of the investment. Any dividends made from Mutual Funds are if the dividends cross Rs. 5,000, then a Tax Deducted at Source (TDS) of 10% will be levied. If the PAN and Aadhaar are not linked, TDS will be 20%.

Long Term Capital Gains Tax: Any profit you make from the sale of an investment, held for an extended period, be it stocks or real estate, results in Long Term Capital Gains tax. The duration varies for different assets.

Example: For stocks & bonds > over 1 year.

Gold > over 3 years.

Short-term capital gain tax: It is levied on capital gains from the sale of an asset held for a short period. Did well in the stock market? Just sold an asset that you held for a brief period? Then, get ready to shell out some hefty charges as Short-Term Capital Gain tax! A type of tax that needs to be paid by you for the profits gained from short-term investments. P.S Apart from LTCG & STCG tax, a 0.001% Securities Transaction Tax is also charged when units of an equity fund or hybrid equity-oriented funds are sold.

2. How much tax do you pay on mutual fund withdrawal?

The rule of the game is to stay invested longer. The longer you hold your mutual funds, the more tax efficient they become.

Equity Funds

STCG: 15% + surcharge + cess
LTCG: Up to Rs. 1 lakh a year is tax-free. Beyond that is taxed at 10%

Debt Funds

STCG: Taxed based on income tax slab
LTCG: 20% + surcharge + cess

Hybrid Equity-oriented Funds

STCG: 15% + surcharge + cess
LTCG: Up to Rs. 1 lakh a year is tax-free. Beyond that is taxed at 10%

Hybrid Debt oriented Funds

STCG: Taxed based on income tax slab
LTCG: 20% + surcharge + cess

Note:

STCG stands for Short-Term Capital Gains
LTCG stands for Long-Term Capital Gains

3. Are all mutual funds tax-exempt?

No. Mutual funds are not tax-exempt. Like all things, you have to pay taxes if you earn a profit on your investments. The good thing is that mutual funds, when used right, are tax efficient. Plus, there are mutual funds that help you save on income tax

ELSS: Planning to dabble in mutual funds for tax-saving benefits? Check Equity Linked Saving Schemes (ELSS). Unlike other equity funds, it enables you to invest in stocks while remaining eligible for tax deductions (upto Rs. 1.5 lakh)! The caveat here is a 3 year lock-in period.

ULIP: It's insurance + investment! Here part of the premium paid gets invested (as per choice) & the rest becomes part of an insurance policy. Unit Linked Insurance Plan (ULIP) also offers tax benefits! Sounds like a winner, right? Before opting in, dig deeper into the fees.

5.4 SUMMARY

1. The net asset value represents the value of the total holdings of the ULIP / mutual fund.It may be divided by the number of units held by investors and, thereby, represent the net asset value per unit (NAV/unit).

2. Due to the several levels of entering and exiting investments, as well as governmental regulations, operating costs, and fees, mutual fund accounting is frequently complicated. For investors looking to maximize returns while minimizing risk, these funds can provide a fairly secure method of investing in a variety of securities. In accounting terminology, the positive side of a mutual fund's balance sheet represents investor

deposits and investment dividends, while the negative side represents fund purchases and expenses.

3. In this chapter, we understand earning from mutual funds, generating earnings from dividends, forms of capital gains, taxes, etc are covered.

5.5 QUESTIONS

Multiple Choice Questions (MCQs):

1. **Normal Rate of Return depends on ....**
A) Rate of interest
B) Rate of Risk
C) **Both (A) and (B)**
D) None of the above

2. **Any non-trading income included in the profit should be ....**
A) **Eliminated**
B) Deducted
C) Ignored
D) All of the above

3. **Under net asset method, value of a share depends on ....**
A) **Net Assets available to equity shareholders**
B) Net assets available to debentures holders
C) Net assets available to preference shareholders
D) None of the above

4. **Net asset value is also called as ....**
A) asset backing value
B) Intrinsic value
C) Liquidation value
D) **(A) and (B) and (C)**

E) **While deciding net asset value, fictitious assets .... Should not be considered**
F) Should be considered
G) Added to total assets
H) None of the above

5. **Yield value depends on ....**
A) Paid-up equity share capital
B) future maintainable profit
C) Normal rate of return
D) **None of the above**

6. **Fair value of a share is equal to ....**
A) Intrinsic value only
B) Yield value only
C) **Average of intrinsic and yield value**
D) None of the above

7. **Value of a partly paid equity share is equal to ....**
A) **Value of fully paid share-calls unpaid per share**
B) Calls in arrears per share
C) Paid-up value per share
D) None of the above

8. **To calculate Net Assets**
A) **Fictitious Assets are excluded**
B) Fictitious Assets are included
C) Tangible Assets are excluded
D) Intangible Assets are excluded

9. **Yield value is subject to ....**
A) Gross profits
B) Operating profits
C) Net profit
D) Losses

True or False:

1. To calculate Net Assets Fictitious Assets are excluded: **True**
2. Yield value is subject to Losses: **False**
3. Value of a partly paid equity share is equal to Value of fully paid share-calls unpaid per share: **True**
4. Under net asset method, value of a share depends on Net Assets available to equity shareholders: **True**

Brief Questions:

1. How NAV is calculated? State the examples.

2. Define Mutual fund accounting with a suitable example.

3. Discuss the valuationand taximplications.

Case Study:

This example will make it clear that returns are independent of NAV.

Let us say, you have Rs 10,000 to invest.

You have two choices:

1. • Fund X – NAV 10

2. • Fund Y – NAV 50

- Portfolios are the same for both funds, but NAVs are different.

- So, with your money you get either 1,000 units of Fund X or 200 units of Fund Y.

- After one year, both funds will have grown equally as their portfolios are the same.

Let's assume that the funds have grown by 20 per cent. Then the NAVs after one year will be Rs 12 for Fund X and Rs 60 for Fund Y. The value of your investment will be 1,000*12= Rs

12,000 for Fund X, and 200*60 = Rs 12,000 for Fund Y. Thus, your returns will be the same, irrespective of the NAV.

When we purchase a mutual fund at its NAV, we are buying it at its book value. And since we are buying it at its book value, we are paying the right price for its assets, whether it is Rs 10 or Rs100. What you want to buy in a scheme is its performance, not its NAV. And the simplest way todo this is to compare returns over similar periods.

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6

FINANCIAL PLANNING

Unit Structure:

6.0 INTRODUCTION TO FINANCIAL PLANNING

Making a plan for your future, specifically one that addresses how you will handle your finances and be ready for all potential expenses and problems is known as financial planning. The procedure entails assessing your current financial situation, determining your goals, and developing and putting into practice pertinent recommendations.

Financial planning can include a wide range of services, which we outline below. It is comprehensive and all-encompassing. Instead, than concentrating on just one area of your money, it sees clients as actual individuals with a range of objectives and duties. After that, it discusses a number of financial realities to determine how to help individuals live their lives to the fullest.

Financial planning is a step-by-step approach to meeting one's life goals. A financial plan acts as a guide as you go through life's journey. Essentially, it helps you be in control of your income, expenses, and investments such that you can manage your money and achieve your goals.

If you take a closer look at the above examples, you'll find that there is one factor that connects all of them: money. You need to have an adequate amount of money to fulfill your goals and desires. More importantly, you need to have money at the right point in time.

For example, if you want to build up a corpus of Rs. 10,00,000 for your daughter's college education through investments, you need to grow this amount by the time she turns 18. Not a year later. This is where financial planning becomes essential.

What are the Benefits of financial planning?

There are numerous practical benefits to financial planning. It helps you to:

1. Increase your savings

It may be possible to save money without having a financial plan. But it may not be the most efficient way to go about it. When you create a financial plan, you get a good deal of insight into your income and expenses. You can track and cut down your costs consciously. This automatically increases your savings in the long run.

2. Enjoy a better standard of living

Most people assume that they would have to sacrifice their standard of living if their monthly bills and EMI repayments are to be addressed. On the contrary, with a good financial plan, you would not need to compromise your lifestyle. It is possible to achieve your goals while living in relative comfort.

3. Be prepared for emergencies

Creating an emergency fund is a critical aspect of financial planning. Here, you need to ensure that you have a fund that is equal to at least 6 months of your monthly salary. This way, you don’t have to worry about procuring funds in case of a family emergency or a job loss. The emergency fund can help you pay for varied expenses on time.

4. Attain peace of mind

With adequate funds at hand, you can cover your monthly expenses, invest for your future goals and splurge a little for yourself and your family, without worry. Financial planning helps you manage your money efficiently and enjoy peace of mind. Don’t worry if you have not yet reached this stage. If you are on the path of financial planning, the destination of financial peace is not very far away.

Financial planning for life goals

The importance of personal financial planning in India cannot be ignored. It is not just about increasing your savings and reducing your expenses. Financial planning is a lot more than that. This includes achieving your future goals, such as:

1. Wealth creation

The rise in the price of everyday items means that if you want to maintain or increase your current standard of living in the future, you need to create a sufficient corpus of wealth. You may also want to purchase a better car or a new house in the future. All this requires money, and it merely highlights the importance of wealth creation. It is possible to achieve these goals by carefully investing your money in the right avenues. Equity mutual funds can be a suitable option for long term goals. These funds could help the investor to accumulate wealth in the long run.

2. Retirement planning

Your retirement may be 25 or 30 years in the future. But that does not mean you plan for it when you retire. To enjoy a happy and comfortable retired life, you need to start building your safety net right now. Planning at an early stage in life can help secure your future against financial uncertainties. Also, you invest lesser amounts if you start early and gain from the power of compounding which helps to build a large enough corpus over the 25-30 year period.

3. Child's education

Education has become very expensive, not only in India but across the world. And in future, this cost is only going to rise. This is why it is necessary to start planning from the moment your child is born. Calculate how much you wish to earn and start investing in long-term investment avenues that can help you achieve this goal. You can approach a financial advisor for advice if you are not sure how to proceed further.

4. Saving tax

Every year, you are probably paying a substantial amount as tax. But you can now lower your tax outgo legally. The Indian Income Tax Act provides various provisions for people to reduce their tax outgo. By planning your taxes in advance, you can identify the best avenues to invest your money and reduce your taxable income. Mutual funds provide a tax-efficient avenue for investing in your life goals.

Importance of Financial Planning

Financial Planning is the process of framing objectives, policies, procedures, programs and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

1. Adequate funds have to be ensured.
2. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
3. Financial Planning ensures that the suppliers of funds are easily investing in companies that exercise financial planning.
4. Financial Planning helps in making growth and expansion programs which helps in the long-run survival of the company.
5. Financial Planning reduces uncertainties with regard to changing market trends which can be faced easily through enough funds.

6. Financial Planning helps in reducing the uncertainties which can be a hindrance to the growth of the company. This helps in ensuring stability and profitability in concern.

6.1 OVERVIEW OF FINANCIAL PLAN

A financial plan is a written description of a person's current financial condition, long-term financial objectives, and plans for achieving those objectives. A financial plan can be made independently or with the assistance of a professional financial planner and begins with a detailed assessment of the person's present financial situation and future expectations.

Components of a Good Financial Plan

According to Schwab's 2021 Modern Wealth Survey, people who have financial plans are more likely to pay their payments on time and save money each month than people who don't. What then constitutes a sound financial plan?

Schwab has identified the eight crucial elements every plan should contain, regardless of the method used to create it. While there are many ways to go about developing a plan—do it yourself, use a robo-advisor, work with a financial planner, or a combination thereof—Schwab has identified the eight critical components.

1. Financial goals

You can't make a plan until you know what you want to accomplish with your money—so whether you're creating it yourself or working with a professional, your plan should start with a list of your goals, both big and small. It can help to organize them by how soon you'll need the money:

- Short-term goals are those you hope to achieve in the next five years—such as paying off debt or buying a new car.
- Medium-term goals are those you hope to achieve in the next five to 10 years—such as the down payment on a home or starting your own business.
- Long-term goals are those that are 10 or more years away—including college and, of course, retirement.

For each goal, specify a dollar figure and a target date. "The more specific your goals, the easier it is to measure your progress toward them," says Rob Williams, vice president of financial planning at the Schwab Center for Financial Research.

A host of online tools can help you run the numbers, weigh competing priorities, and determine the best course of action for you. And if you have multiple goals to work toward, a robo-advisor, or automated investing platform, can help you weigh the importance of each goal, ranking them by needs, wants, and wishes.

Any time is a good time to establish a financial plan.

Ideally, you start investing for financial goals early in life, but any time is a good time to check in on your current financial situation and assess how you're doing—Are you still on track? Do you have other goals you hadn't previously considered? Having a financial plan helps you assess where you are today and where you want to go next.

2. Net worth statement

Every plan needs a baseline, so next you should determine your net worth. Make a list of all your assets (bank and investment accounts, real estate, valuable personal property) and another one of all your debts (credit cards, mortgages, student loans). Your assets minus your liabilities equals your net worth.

"Don't be discouraged if your liabilities outweigh your assets," Rob says. "That's not uncommon when you're just starting out—especially if you have a mortgage and student loans."

3. Budget and cash flow planning

Your budget is really where the rubber meets the road, planning-wise. It can help you determine where your money is going and where you can cut back in order to meet your goals.

A budget calculator can help ensure you don't overlook irregular but important expenses, such as car repairs, out-of-pocket health care costs, and real estate taxes. As you're compiling your list, separate your expenses into two buckets: must-have items such as groceries and rent, and nice-to-haves such as eating out and gym memberships.

When considering how your goals fit into your budget, you may want to pressure-test it using "what if" scenarios: What if you want or need to retire earlier? What if you downsized your mortgage? Some robo-advisors offer tools that allow you to adjust certain assumptions to see how they could affect your savings strategy.

4. Debt management plan

Debt is sometimes treated like a four-letter word, but not all debt is bad debt. A mortgage, for example, can help build equity—and boost your credit score in the bargain. High-interest consumer debt like credit cards, on the other hand, weighs heavily on your credit score. Plus, every dollar you pay in finance charges and interest is one you can't put toward other goals.

If you have high-interest debt, make sure you create a plan that can help you pay it off as quickly as possible. If you're not sure where to start, a financial advisor can help you prioritize, then determine how much of your budget should go toward your debts each month.

5. Retirement plan

An old rule of thumb says you'll need approximately 80% of your present income in retirement. However, this assumes that retiring will free you from any work-related expenses and taxes, that you've paid off your mortgage, and that your children will be financially independent.

It's also important to keep in mind that Medicare doesn't cover everything, and health care expenses that Medicare doesn't cover—such as long-term care—can add up quickly. You also might spend more on other things in retirement, like travel, dining out, gifts, or financial support to a relative or friend.

Plugging in different scenarios into a retirement savings calculator can help you figure out what you may need in retirement.

Don't count on the 80% rule

If you're saving 20–30% of your pre-retirement income, then the 80% income-replacement rule is a good place to start. Otherwise, it's safer to aim at covering 100% of your pre-retirement income, less whatever you're saving for retirement. As with any general rule, there are plenty of exceptions. So be sure to sit down and fine-tune your retirement budget as the time draws near. This should be your top priority, since you can borrow for most other goals but not for retirement.

6. Emergency funds

When something unexpected happens—you lose your job, for example, or get hit with an unexpected medical bill—an emergency fund can help you avoid tapping your long-term savings to make ends meet.

It's generally a good idea to save enough to cover at least three months'—but ideally six months'—worth of essential living expenses (e.g., groceries, housing, transportation, and utilities). Save this money in a highly liquid checking or savings account so you can access it in a hurry should the need arise.

7. Insurance coverage

Insurance is an important part of protecting your financial downside—but neither should you overpay for coverage you don't need. In general:

- **Health insurance**: Without it, even routine care can cost a pretty penny, while a serious injury or hospital stay could set you back tens of thousands of dollars. As you get older, you may want to consider long-term care insurance, as well.

- **Disability insurance**: This coverage protects you and your family in the event you're unable to work. Employer-provided disability insurance typically replaces about 60% of your salary.

- **Auto and homeowners'/renters' insurance**: If you own a car or home—or rent and can't afford to replace possessions out of pocket—make sure you're adequately protected.
- **Life insurance**: This is generally a good idea for those with dependents. Work with an insurance agent to understand what type of—and how much—coverage makes the most sense for you.

8. Estate plan

At a minimum, you should have a will, which states your final wishes with regards to your assets, dependents, and who you want to administer your estate. You should also keep the beneficiaries of your insurance policies and retirement accounts up to date. Also consider establishing powers of attorney for financial and health care decisions, in the case you become incapacitated.

For help getting started or tackling more complex estate-planning tasks, consider working with an estate attorney or a qualified financial planner.

6.2 FINANCIAL PLANNING STRATEGIES

When a company's finances are handled with the intention of attaining its goals and objectives while also maximizing shareholder value over a number of years, it is possible for strategic financial planning to be successful.

Strategic Financial Planning will offer a personalized financial advising solution that is suited to your unique needs and circumstances, regardless of where you are in life. In order to help you succeed, accomplish your goals, and quickly reach financial independence, our knowledgeable Financial Advisers partner with you at every stage of your unique financial planning journey.

In a broad sense, strategy formulation refers to the market in which a firm intends to establish itself as a participant. This indicates that the firm has decided to offer just certain items and services while refusing to sell any other products or services at all. It is this choice that determines the chances that the firm will have and the competition that it will most likely encounter in the future.

In comparison to just being in a strategic position and then competing, utilizing strategic financial planning to set your firm in an advantageous strategic position offers more advantages. It is important to take a long-term vision of where the firm wants to go in a few years' time while making strategic financial decisions for the organization.

Examples of Financial Planning Strategy:

Creating strategic financial management goals for a variety of business objectives, from product growth to customer service to internal operations and office culture, is simple and straightforward. Nonetheless, from a financial standpoint, this goal-setting process is more likely to be focused on financial benchmarks that can be achieved within a particular time frame. You can also look at examples of financial planning to get some additional knowledge on it.

When it comes to strategic financial management, specific goal formulation is simpler since numbers make it easier to conceive goals and measure progress. Examples of strategic financial objectives include the following:

- Reduce operational expenses by $300,000 by the beginning of the following fiscal quarter.
- Profit margins should be increased by 10% in the current financial year.
- Within the following 12 months, reserve working capital should be increased by fifty percent.
- Over the following three fiscal quarters, revenue must increase by at least 2 percent every quarter.

You may work backward from your objective to build a template for how the company can accomplish the desired result once you've determined what you want to achieve.

6.3 ASSET ALLOCATION

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance, and investment horizon. The three main asset classes—equities, fixed-income, and cash and equivalents—have different levels of risk and return, so each will behave differently over time.

Why Asset Allocation Is Important?

There is no simple formula that can find the right asset allocation for every individual. However, the consensus among most financial professionals is that asset allocation is one of the most important decisions that investors make. In other words, the selection of individual securities is secondary to the way that assets are allocated in stocks, bonds, and cash and equivalents, which will be the principal determinants of your investment results.

Factors that can affect asset allocation

The process of determining the right mix of assets for your portfolio is a very personal one. When making investment decisions, an investor's asset allocation decision is influenced by various factors such as personal financial goals and objectives, risk appetite, and investment horizon. Let's understand these factors.

1. Time of horizon

Time horizon is the number of months or years an investor is expecting to invest to achieve a particular goal. Different investment horizons entail different risk tolerance. For instance, a long-term investment horizon might prompt an investor to invest in a higher-risk portfolio as the slow economic cycles and high volatility in the market tend to ride out with time.

2. Risk tolerance

Risk tolerance refers to an investor's willingness and ability to lose some or all of their original investment in anticipation of greater potential returns. Aggressive investors, or investors with high risk profile are likely to risk most of their investments to get better returns. On the other hand, conservative investors, or risk-averse investors are likely to invest in securities that preserve their original investments.

3. Risk vs returns

When it comes to investing, risk and returns are inseparably intertwined. The phrase "no pain, no gain" closely sums up the relationship between risk and reward. All investments hold some level of risk. The reward for undertaking risk results in higher potential for better returns.

6.4 WEALTH MANAGEMENT

Introduction

Wealth management is a branch of financial services dealing with the investment needs of affluent clients. These are specialized advisory services catering to the investment management needs of affluent clients.

Wealth management is a consultative process. It involves consultations with affluent clients and discussions on their financial needs and goals.

Strategies & Methods Corporations Use to Maximize Wealth

Corporations, just like individuals, attempt to maximize their wealth by being productive and investing money wisely. In addition to building wealth for the organization itself, corporations strive to maximize the wealth of their stockholders. Common strategies and methods corporations use to maximize wealth include building their credit, investing in real estate or other investment products and boosting stock prices.

1. Building Credit

Planned, deliberate borrowing can increase a corporation's reputation in the lending market, granting it access to larger sums of capital with more desirable loan terms from a wider range of lenders. Greater access to capital can help a company finance strong expansion, allowing it to generate real wealth in the process. Paying accounts in full each month and keeping your number of open accounts at a reasonable level are surefire ways of boosting your credit score and credit limits over time.

2. Investing

Corporations can invest in real property, mutual funds and insurance products, among other things, just as individuals can. Since corporations owe a fiduciary duty to their stockholders to act in their best interest, corporations should favor highly conservative investment products such as government bonds, CDs and dividend-focused mutual funds.

Corporations can also maximize income by renting out unused real property and excess productive capacity. Rather than selling your old building when moving into a larger facility, for example, consider renting it out through a real estate agent to boost and diversify your income.

3. Retained Earnings

Building wealth through savings is an age-old method of accumulating wealth that has gained renewed popularity since the turn of the century. Wise corporations learn to funnel a portion of all profit into safe, interest-bearing accounts. Smart corporations never leave cash sitting idle. Retained earnings should always be kept in conservative, interest-bearing accounts.

4. Shareholder Wealth

Corporations exist to increase the wealth of their stockholders. Some stockholders want to earn a profit from holding stock and selling it at the right moment; others want to hold it for years and collect dividend income. The best ways for a corporation to accomplish these goals for stockholders are to increase company performance on key investment metrics such as earnings per share (EPS) to boost stock prices, and to consistently increase dividend payouts.

6.4 SUMMARY:

- A financial plan provides a detailed picture of your current financial situation, your financial objectives, and any plans you have made to reach those objectives. Details on your cash flow, savings, debt, investments, insurance, and any other aspects of your financial life should be included in good financial planning.

- Financial planning is a continuous process that can help you meet your short-term demands, minimize financial stress, and create a nest egg for your long-term objectives, such as retirement.

- Making a financial plan is crucial because it enables you to maximize your assets, ensures that you achieve your long-term objectives, and gives you the assurance you need to handle any hiccups along the way.

- Asset allocation is an investing strategy that divides up a portfolio's assets in accordance with an investor's objectives, risk tolerance, and investment horizon in order to balance risk and reward.
- There is no easy formula that can determine the ideal asset allocation for every person because the three major asset classes—equities, fixed-income, and cash and equivalents—have varying degrees of risk and return.
- To maintain and increase your wealth, wealth management combines financial planning and investment strategy. It includes estate planning, retirement planning, and investment management, among other things.

6.5 QUESTIONS:

Multiple Choice Questions (MCQs):

1. Financial management is concerned with managerial activities relating to
   (a) Planning
   (b) Procurement and administration of funds
   (c) Optimum utilization of funds
   (d) All of the above

2. Which of the following factors affect financial decision?
   (a) Cost
   (b) Risk
   (c) Cash flow position
   (d) All of the above

3. _________ refers to planning regarding financial needs of the enterprise various sources of raising funds and their optimum utilization.
   (a) Financial planning
   (b) Capital structure
   (c) Financial management

4. Which of the following is not a feature of a financial plan?
   (a) Simplicity
   (b) Cost
   (c) Flexibility
   (d) Foresight

5. _____ is the decision related to composition of capital structure & also depends upon ability of the business to generate cash.
   (a) Market condition
   (b) Flexibility
   (c) Cash flow ability
   (d) Control

6. Rate of return on capital is exceptionally high in
(a) Under – capitalization
(b) Over – capitalization
(c) Working capital
(d) Fixed capital

7. Which of the factors affect dividend decisions?
(a) Preference of shareholders
(b) Earning
(c) Stability of dividend
(d) All of the above

8. _____ refers to the structure of total capital funds raised by the company.
(a) Fixed capital
(b) Capital structure
(c) Capital requirements
(d) Under capitalization

True or False:

1. Investment is the employment of funds on assets to earn returns: **True**
2. Registrar to the issue recommends the basis of allotment: **True**
3. The rise of the Internet has Significantly democratized the flow of investment information: **False**
4. Dividends are paid yearly: **True**
5. Investors should be willing to invest in riskier investments onlyIf they are true speculators: **True**

Brief Answer Questions:

1. How to make a financial plan for an individual?
2. How do you measure shareholder wealth maximization?
3. Why is shareholder wealth maximization important?
4. Discuss financial planning strategies with suitable examples.
5. Why is asset allocation important?

Case Study:

Financial Planning is an ongoing process to help you make sensible decisions about money that can help you achieve your goals in life, its not just about buying products like pension or an individual saving account. Following case is take into consideration during Financial Planning.

Name - Mr. Rajiv Tibrewal D.O.B-19.06.1958Age-52yrs 10mths

Employment-Employed with the family business (Spouse is the proprietor) and is the sole key-man of the said business.

Underinsured with the following dependants

Wife- Kavita Tibrewal D.O.B-09.05.1966Age - 44yrs 11mths

Son- Rahul Tibrewal D.O.B-13.11.1989Age-21yrs 5mths

Daughter-Shreya TibrewalD.O.B-16.11.1993 Age-17yrs 6mths

Plan Needed For Retirement At Age 65 Yrs. With A Current Monthly Surplus Of Approx. Rs.10,000.00

1. Invest Rs. 3,000.00 per month in a conventional pension plan for 13 yrs. that might build up a corpus of around Rs.7,00,000.00

2. Invest Rs.3,000.00 per month in PPF for 13 yrs that might build up a corpus of around Rs.7,70,000.00

3. Invest Rs.3,250.00 per month for 13 yrs in risk-associated instruments that have the potential to build a corpus of around Rs.11,00,000.00

4. Allot approximately Rs.750.00 per month Le. approx. Rs.4500.00 half yearly for protection worth Rs.5,00,000.00 for 7 yrs.

5. After 7 yrs. invest the unutilized Rs.750.00 per month for the next 6 yrs that might build up a corpus of around RS.75,000.00

6. The EXPECTED Corpus after 13 yrs from the above = Rs.26.45,000.00

The above plan is on the basis of certain assumptions and expectations and is not binding on anyone. The plan might fail due to various external factors like Government policies, Natural or unnatural calamities, unforeseen circumstances, etc. Whoever follows this plan does so entirely on his/her own risk and discretion

❖❖❖❖

7

MARKETING OF UNITS

Unit Structure:

7.0 MARKETING UNITS

Definitions

Market unit means a dwelling unit authorized to be developed by zoning designation and which is not subject to any buyer or price restrictions. “Project” means the lots or parcels and any development thereon, included and approved in an application by a developer for zoning or building permit, subdivision or consolidation, State Land Use District Boundary Amendment, Zoning Amendment, or amendment into the Visitor

Market unit means a market dwelling unit in the proposed development that is not an IZ Affordable Housing Unit.

Market unit means and refer to any Unit within the Condominium that is not identified and restricted as an Affordable Unit in either this Master Deed or any applicable Affordable Housing Declaration. These Units are sometimes called "Fair Market Units".

7.1 SELECTING THE RIGHT INVESTMENT PRODUCTS FOR INVESTORS

The majority of investors seek to make their investments in a way that minimizes their danger of principal loss while generating extremely high returns as soon as possible. Due to this, many people are constantly searching for the best investing strategies that would allow them to more than double their money with little to no risk in a short period of time.

Unfortunately, there isn't an investment option that combines high returns with low risk. In actuality, risk and returns are inversely correlated; that is, when returns increase, so does risk, and vice versa.

Before investing, you must match your personal risk profile with the risks connected with the investment opportunity. There are some investments that carry high risk but have the potential to generate higher inflation-adjusted returns than other asset classes in the long term while some investments come with low risk and therefore lower returns.

There are two buckets that investment products fall into and they are financial and non-financial assets. Financial assets can be divided into market-linked products (such as stocks and mutual fund) and fixed income products (like Public Provident Fund, bank fixed deposits). Non-financial assets - many Indians invest via this mode - are the likes of physical gold and real estate.

Here is a look at the 10 investment avenues that Indians can consider when saving for financial goals.

1. Direct equity

Investing in stocks might not be everyone's cup of tea as it's a volatile asset class and there is no guarantee of returns. Further, not only is it difficult to pick the right stock, timing your entry and exit is also not easy. The only silver lining is that over long periods, equity has been able to deliver higher than inflation-adjusted returns compared to all other asset classes.

At the same time, the risk of losing a considerable portion or even all of your capital is high unless one opts for stop-loss method to curtail losses. In stop-loss, one places an advance order to sell a stock at a specific price. To reduce the risk to certain extent, you could diversify across sectors and market capitalisations. To directly invest in equity, one needs to open a demat account.

Banks also allow opening of a 3-in-1 account. Here's how you can open one to invest in shares.

2. Equity mutual funds

Equity mutual fund schemes predominantly invest in equity stocks. As per current the Securities and Exchange Board of India (Sebi) Mutual Fund Regulations, an equity mutual fund scheme must invest at least 65 percent of its assets in equity and equity-related instruments. An equity fund can be actively managed or passively managed.

In an actively traded fund, the returns are largely dependent on a fund manager's ability to generate returns. Index funds and exchange-traded fund (ETFs) are passively managed, and these track the underlying index. Equity schemes are categorised according to market-capitalisation or the sectors in which they invest. They are also categorised by whether they are domestic (investing in stocks of only Indian companies) or international (investing in stocks of overseas companies).

3. Debt mutual funds

Debt mutual fund schemes are suitable for investors who want steady returns. They are less volatile and, hence, considered less risky compared to equity funds. Debt mutual funds primarily invest in fixed-interest generating securities like corporate bonds, government securities, treasury bills, commercial paper and other money market instruments.

However, these mutual funds are not risk free. They carry risks such as interest rate risk and credit risk. Therefore, investors should study the related risks before investing.

4. National Pension System

The National Pension System (NPS) is a long-term retirement-focused investment product managed by the Pension Fund Regulatory and Development Authority (PFRDA). The minimum annual (April-March) contribution for an NPS Tier-1 account to remain active has been reduced from Rs 6,000 to Rs 1,000. It is a mix of equity, fixed deposits, corporate bonds, liquid funds, and government funds, among others. Based on your risk appetite, you can decide how much of your money can be invested in equities through NPS.

5. Public Provident Fund (PPF)

Since PPF has a long tenure of 15 years, the impact of compounding of tax-free interest is huge, especially in the later years. Further, since the interest earned and the principal invested is backed by sovereign guarantee, it makes it a safe investment. Remember, interest rate on PPF is reviewed every quarter by the government.

6. Bank fixed deposit (FD)

A bank fixed deposit is considered a comparatively safer (than equity or mutual funds) choice for investing in India. Under the deposit insurance and credit guarantee corporation (DICGC) rules, each depositor in a bank is insured up to a maximum of Rs 5 lakh with effect from February 4, 2020 for both principal and interest amount.

Earlier, the coverage was maximum of Rs 1 lakh for both principal and interest amount. As per the need, one may opt for monthly, quarterly, half-yearly, yearly or cumulative interest option in them. The interest rate earned is added to one's income and is taxed as per one's income slab.

7. Senior Citizens' Saving Scheme (SCSS)

Probably the first choice of most retirees, the Senior Citizens' Saving Scheme is a must-have in their investment portfolios. As the name suggests, only senior citizens or early retirees can invest in this scheme. SCSS can be availed from a post office or a bank by anyone above 60. SCSS has a five-year tenure, which can be further extended by three years once the scheme matures. The upper investment limit is Rs 15 lakh, and one may open more than one account. The interest rate on SCSS is payable quarterly and is fully taxable. Remember, the interest rate on the scheme is subject to review and revision every quarter.

However, once the investment is made in the scheme, then the interest rate will remain the same till the maturity of the scheme. Senior citizen can claim deduction of up to Rs 50,000 in a financial year under section 80TTB on the interest earned from SCSS.

8. Pradhan Mantri Vaya Vandana Yojana (PMVVY)

PMVVY is for senior citizens aged 60 years and above to provide them an assured return of 7.4 per cent per annum. The scheme offers pension income payable monthly, quarterly, half-yearly or yearly as opted. The minimum pension amount is Rs 1,000 per month and maximum Rs 9,250 per month. The maximum amount that can be invested in the scheme Rs 15 lakh. The tenure of the scheme is 10 years. The scheme is available till March 31, 2023. At maturity, the investment amount is repaid to the senior citizen. In the event of death of senior citizen, the money will be paid to the nominee.

9. Real Estate

The house that you live in is for self-consumption and should never be considered as an investment. If you do not intend to live in it, the second property you buy can be your investment.

The location of the property is the single most important factor that will determine the value of your property and also the rental that it can earn. Investments in real estate deliver returns in two ways - capital appreciation and rentals. However, unlike other asset classes, real estate is highly illiquid. The other big risk is with getting the necessary regulatory approvals, which has largely been addressed after the coming of the real estate regulator.

10. Gold

Possessing gold in the form of jewelry has its own concerns such as safety and high cost. Then there are the 'making charges, which typically range between 6-14 percent of the cost of gold (and may go as high as 25 percent in case of special designs). For those who would want to buy gold coins, there's still an option.

Many banks sell gold coins nowadays. An alternate way of owning gold is via paper gold. Investment in paper gold is more cost-effective and can be done through gold ETFs. Such investment (buying and selling) happens on a stock exchange (NSE or BSE) with gold as the underlying asset. Investing in Sovereign Gold Bonds is another option to own paper gold. An investor can also invest via gold mutual funds. Read more about sovereign gold bonds.

7.2 FUND DISTRIBUTION AND CHANNEL MANAGEMENT PRACTICES

Distribution of Mutual Funds:

_ Mutual funds are sold through five principal distribution channels:

(1) the direct channel,

(2) the advice channel,

(3) the retirement planchannel,

(4) the supermarket channel, and

(5) the institutionalchannel.

Individual investors are primarily served by the first four channels. Investors transact with mutual funds directly through the direct channel. Individual investors utilise third parties or intermediaries who deal with mutual funds on their behalf through the advisory, retirement plan, and supermarket channels. On behalf of mutual funds, third parties also offer services to fund investors.

The provision of investment advice and continuous support to fund clients by financial advisors at full-service securities firms, banks, insurance companies, and financial planning firms is the most significant aspect of the advice channel. Sales loads or asset-based fees are used to pay advisors.

The employer-sponsored defined contribution plans that offer mutual funds and other products for purchase by plan participants through payroll deductions make up the majority of the retirement plan channel.

The cheap brokers that make up the supermarket channel provide mutual funds from numerous fund sponsors. Numerous fund offers are exempt from transaction fees and sales loads.

The institutional channel is used by corporations, financial institutions, endowments, foundations, and other institutional investors to carry out transactions with mutual funds either directly or indirectly through third parties.

Mutual Fund Distribution Channels:

The sale of mutual funds is made available through five distribution channels (Figure 1). Investors use the direct channel to transact with mutual funds directly via mail, phone, internet, or at customer service locations. In the advice channel, shareholders use financial advisors from securities companies, banks, insurance companies, and financial planning firms to buy and sell shares. Discount brokers provide investors with a big selection of mutual funds from a wide range of fund firms through the supermarket channel. Employers that sponsor defined contribution plans must choose a finite number of mutual funds for retirement plan participants to invest in. The institutional channel, which also includes endowments, corporations, financial institutions, trusts, non-profit organisations, and other groups, comprises of non-personal accounts.

In contrast to the institutional channel, investors in the other fourchannels are principally individuals. Among these four channels, it isonly in the direct channel that investors interact with mutual fundsthemselves. In the other three channels — advice, supermarket, andretirement plan — a third party or intermediary, whether a discountbroker, financial adviser or a retirement plan administrator selected bythe 401(k) plan sponsor, places transaction orders with mutual funds on behalf of investors and provides services to investors on behalf of mutualfunds. In many instances, the funds themselves may not know theidentity of the investors but only that of the intermediaries.

During the 1990s, it became increasingly common to offer mutualfunds through more than one distribution channel. The developmentof multi-channel distribution has brought a larger number of funds intodirect competition within the same distribution channel.

As a share of mutual fund assets, the advice channel is the largest, accounting for an estimated 55 percent of all mutual fund assets at theend of 2002 (Figure 2). The retirement plan channel is second in sizewith an asset share of 16 percent. The institutional channel has anestimated 13 percent, the direct channel 12 percent, and the supermarketchannel 5 percent of all fund assets.

However, the asset share of a distribution channel may not accurately represent how many investors used it. In a household poll of mutual fund owners performed in 2001, 48% said that their primary source for purchasing mutual funds was through a retirement plan, while 37% said that their primary source was through an adviser. The retirement plan channel is very new; it didn't begin to grow quickly until the 1990s, which contributes to this reversal. As a result, average account sizes in the retirement plan channel are substantially lower than in the adviser channel. Additionally, the rollover of assets from defined contribution plans—typically prompted by employment changes and retirement—often resulted in the appearance of assets in other channels.Ten percent of the respondents to the survey primarilyused the direct channel, and 5 percent used the supermarket channel. The remainder of this section describes more fully the features of thefive distribution channels.

FIGURE 1

Principal Features of Mutual Fund Distribution Channels

Channel	Principal Investors Using the Channel	Companies or Organizations Providing Transaction Services	Method of Conducting Share Transactions	Mutual Funds Offered in the Channel	Investor Services
Direct	Individual investors	Mutual fund companies	Transaction orders placed directly with mutual fund companies by mail, telephone, or Internet, or at customer-service centers	Mutual funds of the fund company offering direct transactions	Investment information
Advice	Individual investors	Full-service securities firms, registered investment adviser firms, and insurance agencies	Transaction orders placed with representatives of firms providing transaction services who transmit orders to fund companies	Mutual funds from a large number of fund companies	Investment information, advice, and ongoing assistance; access to funds from different companies within one account
Retirement Plan	Participants in defined contribution plans	Plan sponsor or employer	Transaction orders placed with plan administrators who transmit orders to fund companies	Limited number of mutual funds selected by plan sponsor	Investment information
Supermarket	Individual investors and registered investment advisers acting on behalf of individual investors	Discount brokers	Transaction orders placed with discount brokers who transmit orders to fund companies	Mutual funds from a large number of fund companies	Investment information; access to funds from different fund companies within one account
Institutional	Trusts, businesses, financial institutions, endowments, and other institutional investors	Mutual fund companies	Direct contact with mutual fund companies or with agents of the fund companies	Mutual funds of the fund companies offering direct transactions	Investment information

a) Direct Channel

In the direct channel, investors buy and redeem shares directly from the fund or, more precisely, through the fund's transfer agent. The fund company sponsoring the fund does not provide investment advice, so investors must undertake their own research to choose funds. Fund companies selling directly to investors provide a variety of products and tools to assist in decision-making.

When investors purchase fund shares directly, the fund company provides ongoing services to the fund shareholder such as quarterly statements, recordkeeping, and transaction processing. These firms typically maintain websites and telephone servicing centers that their direct customers may use. Because of the relatively fixed cost of providing these services, funds selling directly to investors often require higher minimum balances than funds offering shares through third parties, and they frequently assess fees to those investors who do not maintain the minimum balance levels in their accounts.

b) Advice Channel

The principal feature of the advice channel is the provision of investment guidance, assistance, and advice by financial professionals. These include full-service brokers at national wirehouses, independent financial planners and advisers, registered sales representatives at banks and savings institutions, and insurance agents. Such advisers help fund shareholders identify financial goals such as retirement, tax management, education savings, and estate planning. They assess the risk tolerance of their clients and select mutual funds and other investments to meet these goals.

As an intermediary between investors and funds, financial professionals conduct transactions for the shareholder, maintain the financial records for the investments under their management, send periodic financial statements to shareholders, and coordinate the distribution of prospectuses, financial reports, and proxy statements to shareholders on behalf of the funds. Shareholders' questions about their funds and accounts often are handled by the financial professionals rather than by the fund companies themselves.

c) Retirement Plan Channel

Some employers assume the cost of TPA services. In these cases, employees receive all of the education and service associated with the retirement plan as an employee benefit. Other employers do not subsidize the full cost of the plan. In these cases, third-party services are paid by employer subsidies, direct charges to employees, or fees included in mutual fund expenses. These expenses that pay for third-party services, such as 12b-1 fees and service fees, are included in the expense ratio of the share class along with the annual fees and expenses that shareholders pay for the management of the fund.

d) Supermarket Channel

The most important feature of a fund supermarket is its nontransaction-fee (NTF) program, whereby an investor may purchase mutual funds with no transaction fees from a large number of fund companies. The NTF offerings at a discount broker often number in the thousands, providing an investor the convenience of purchasing "noload" funds from different families at a single location.

Supermarkets generally do not provide investment advice, and investors must undertake their own research when choosing funds.7 However, supermarkets provide a variety of products and tools to assist shareholders' decisionmaking. In addition, the supermarkets provide a convenient platform through which investors can research funds, obtain fund literature, and purchase fund shares. The supermarket platform not only provides fund sponsors with access to a national retail distribution channel, but it also promotes competition among funds because investors can readily compare fund fees, expenses, and returns. The fund supermarket holds a single account with each fund and maintains shareholder transaction records for the mutual fund. The supermarket also provides consolidated reports to fund shareholders, distributes mutual fund proxy statements, financial reports, prospectuses, and tax reports. In addition, because the supermarket maintains the relationship with the investor rather than the fund itself, fund shareholders rely on the supermarket's telephone representatives and website for account information, reducing the fund's direct cost for providing these services.

e) Institutional Channel

The institutional channel comprises a variety of institutions purchasing fund shares for their own accounts. These institutions include businesses, financial institutions, endowments, foundations, and state and local governments. Fund sponsors often create special share classes or funds for institutional investors. Because these investors have large average account balances, the cost of managing a fund or share class with institutional accounts is lower than that for funds with a large number of small accounts. Consequently, the expense ratios for institutional funds and share classes tend to be lower than for comparable funds sold to individual investors.

7.3 SUMMARY

1. Making an investment for the sake of making an investment is not the primary objective of investing. Based on your needs, you should invest. This will allow you to choose the best investment option for your needs.

2. Alternatives to the front-end sales charge have since been introduced by funds offered through financial professionals including brokers. A fee based on assets is often included in the alternative payment options, along with a front-end or back-end sales price. Many times, funds provide a variety of share classes, each of which invests in the same underlying asset portfolio, but which may provide owners with a different way to pay for broker services.

7.4 QUESTIONS

Multiple Choice Questions (MCQs):

1. If there is an increase in interest rates then the fixed interest rate of the corporate bond will
A) Return to the corporation
B) Decrease in value
C) Remain unchanged
D) Increase in value

2. Which one of the following is shown first when the assets are arranged in the order of their liquidity?
A) Investment
B) Cash in hand
C) Debtors
D) None of the above

3. An investor invests in assets known as a
A) Securities
B) Block of Assets
C) Portfolio
D) None of the above

4. Over the period, investors determine the compound growth rate of an investment by
A) Arithmetic median
B) Arithmetic mean
C) Calculus mean
D) Geometric mean

5. Investors agree to invest in high- risk investments if only
A) There are any true speculations
B) The predicted return is satisfactory for taking a risk
C) There are no safe options except for holding cash
D) The return is short

6. In Capital Market Line every investment is
A) Finitely divisible
B) Infinitely divisible
C) Both a & b
D) None of the above

7. Investments would score high only if there is a protection to
A) Real estate
B) Preferred stock
C) Government bonds
D) Common stock

8. A statistical measure of how closely two variables especially in stock returns move together
A) variation coefficient
B) certainty equivalent
C) variance
D) covariance

9. The ability to convert an asset rapidly and without influencing its price is referred to as ________.
A. Scalability
B. Liquidity
C. Marketability
D. minimal risk

10. Horse racing, card games, and the lottery are all instances of ________.
A. Investing
B. Gambling
C. Speculating
D. Arbitrage

True or False:

1. Common stockis most likely to become virtually worthless if a company declares bankruptcy: **True**

2. A shareholder-funded investment program that trades in a variety of assets like Mutual Funds: **True**

3. Investors agree to invest in high-risk investments if only the predicted return is satisfactory for taking a risk: **True**

4. In Capital Market Line every investment is Finitely divisible: **False**

Brief Answer Questions:

1. How to Select the right investment products for investors?
2. Discuss the mutual fund distribution.
3. Define Mutual fund distribution channelmanagement practices.

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8

PORTFOLIO MANAGEMENT

Unit Structure:

8.0 MEANING OF PORTFOLIO MANAGEMENT

Introduction The way we think about investing may need to shift fundamentally if we are to create a successful investment plan for the twenty-first century. For instance, although assuming less risk, a portfolio with only 60% equity that performs much better than the Sensex should unquestionably be regarded as superior. New developments in investment and finance also provide us with answers that are both simpler and more beautiful (as well as very, very different) than those we were raised with. We have been trained to believe that stock selection, market timing, and manager performance are the secrets to achievement. Even the best investment techniques, like Strategic Global Asset Allocation, require some getting used to because of these deeply established ideas.What I'm advocating is so different from public expectations that sometimes people look at me as if I'm not quite right or a few bricks short of a full load. For instance:

1. As an investment advisor, I'm expected to have an opinion on where the market is going. Well, I have an opinion, but it's no more likely to come true than yours or your dog's. People are offended and disappointed when I tell them that. Thanks to the media, we are exposed daily to countless 'experts' who are worried about the market. Their indicators and forecasts point to a possible 'correction.' They are prepared to retreat to the 'safety' of cash. This allows them to look responsible, conservative, and caring. By pandering to the public's fear, they hope thousands of anguished investors will decide to trust them with their money. On the other hand, advisors who insist on remaining fully invested at all times appear wild and crazy.

2. Advisors are supposed to beat somebody or something. Often the first question people will ask is: "What kind of numbers have you achieved this year?" Those numbers become the chief yardstick to determine if the advisor is good or bad.

3. I'm still waiting for the first investor to ask: "What's the best long-term allocation?" Or, "How much risk do I need to take to meet my goals?"

Without tools to evaluate risk or choose between alternative strategies, investors are left with just one number to compare performance. By default, year-to-date or last year's performance figures are the only criteria for measurement. If those figures alone determined a successful investment plan, we could all buy one copy of Money Magazine each year, pick the single, top performing mutual fund, and go sailing. Unfortunately, the Money Magazine approach is often the worst way to form a strategy.

8.1 RISK & RETURN TRADE-OFF

Definition: Higher risk is associated with a greater probability of higher return and lower risk with a greater probability of smaller return. This trade that an investor faces between risk and return while considering investment decisions is called the risk-return trade-off.

Description: For example, Rohan faces a risk-return trade-off while making his decision to invest. If he deposits all his money in a savings bank account, he will earn a low return i.e. the interest rate paid by the bank, but all his money will be insured up to an amount of Rs 1 lakh (currently the Deposit Insurance and Credit Guarantee Corporation in India provides insurance up to Rs 1 lakh).

However, if he invests in equities, he faces the risk of losing a major part of his capital along with a chance to get a much higher return than compared to a saving deposit in a bank.

Importance of Risk Return Trade-Off in Mutual Funds

The following are essential reasons to understand the risk-returntrade-off in mutual funds –

- Portfolio construction starts with an understanding of the link between risk-return trade-offs. Time is another crucial component. Longer time horizons require larger yields and allow for greater risk-taking. For instance, you might schedule a tiny monthly SIP to help you reach your financial objective.

- You also need to comprehend how this link is both a cause and an effect. For instance, the greater risk does not always equate to greater reward. if you decide to invest your entire portfolio in a sector fund. Nevertheless, if a sector experiences a multi-year bear cycle, your portfolio will perform poorly. It will also produce negative returns, despite the fact that you took a bigger risk. As a result, you should always evaluate the risk before making an investment.

- Risk and profit can be balanced by using financial planning. The best approach is to provide a list of the different asset classes together with the risk factors for each asset class. Next, decide which asset class to choose based on your financial objectives. For instance, you can choose a debt fund if your short-term objective is a family vacation. On the other hand, if you want to make long-term plans for your children's education, you can select an equity fund.

- Portfolio optimization with a trade-off between risk and reward. Portfolio optimization is the process of determining how to maximise returns for a given level of risk or how to minimise risk for a given level of return. Once you are aware of the complete amount of risk you are willing to take as an investor, you can break it into different asset classes.

- Portfolio creation is not just about aggregating different mutual funds together. It is about creating diversification in the portfolio and managing the asset allocation and maintaining the risk-return matrix.

How is Risk Return Trade Off Calculated in Mutual Funds?

Mutual funds can help spread out risk as you invest money in a pool of investments. The pool has a mix of equities, bonds, or other securities with different risk profiles. Hence, if one underperforms or becomes volatile, the other investments help to balance it. While investing in mutual funds, you can determine the risk with different metrics.

The following are some metrics that can be used to calculate risk-return trade-off in mutual funds –

1. Alpha

Alpha measures the risk-adjusted returns of a mutual fund scheme against its underlying benchmark. A scheme with zero alpha indicates that it has delivered the same returns as the benchmark. A scheme with negative alpha indicates that the fund has underperformed its benchmark. On the other hand, a scheme with positive alpha indicates better performance than its benchmark. Thus, the higher alpha, the higher the potential returns.

Alpha = (Mutual Fund Return – Risk Free Return (Rf)) – [(Benchmark Return – Risk Free Return (Rf)) * Beta]

In simple words, alpha helps to determine how much returns the mutual fund investment can potentially generate. Even though a higher alpha indicates higher returns. It is not the only metric to evaluate a fund's performance.

2. Beta

Beta measures the volatility of a mutual fund towards dynamic market movements. In simple words, this metric measures the sensitivity of a mutual fund portfolio against the market. Beta helps to understand how the fund responds to market fluctuations. Also, the beta of the market or benchmark is always one. A fund with a beta lower than one suggests lesser volatility when compared to its benchmark index. On the other hand, a fund with a beta of more than one suggests higher volatility than its benchmark.

Beta = (Mutual Fund Return – Risk Free Rate (Rf)) / (Benchmark Return – Risk Free Rate (Rf))

You can decide whether to include a mutual fund in your portfolio based on the beta value. New investors or risk-averse investors should choose funds with a beta of less than one as they are less volatile. At the same time, risk-takers can pick funds with higher beta. However, higher beta does not guarantee high returns, as it does not give information about the fund's inherent or absolute risk.

3. Sharpe Ratio

Sharpe ratio is a performance metric that helps in estimating the risk-adjusted returns potential of a mutual fund scheme. Risk-adjusted returns indicate the return that a mutual fund scheme generates over and above the risk-free rate of return. In simple words, the Sharpe ratio helps to determine the potential returns a scheme can generate against each unit of risk it undertakes.

The higher the ratio, the better the return potential compared to the risk. A higher Sharpe ratio indicates the return potential of a fund is higher than expected at a particular risk level. Similarly, if the Sharpe ratio is negative, it signifies that the returns potential of a fund is lower than the risk carried by the fund.

Share Ratio = (Mutual Fund Returns – Risk Free Rate) / Standard Deviation

Moreover, the Sharpe ratio considers the investment's inherent risk (standard deviation). Thus, you can analyse the fund's risk to understand if it can generate returns compared to the risk-free rate.

Standard Deviation

Standard deviation helps to measure how much a portfolio return deviates from its average. Simply put, a standard deviation of a mutual fund shows how much a mutual fund's performance deviates from expected returns. A higher standard deviation shows higher volatility and carries a higher level of risk than a fund with a lower standard deviation. Therefore, standard deviation measures total risk rather than just market-related volatility.

You can use standard deviation as a performance ratio to compare two funds in the same category. You cannot determine whether the standard deviation is high or low without comparing it to other funds in the same category.

The above are the four metrics used to calculate the risk for different mutual funds while taking an investment decision. There is more emphasis on building a well-diversified portfolio to protect against market volatility. Also, the risk-return trade-off applies to every investment. Hence, you must focus on your investment objective, horizon, and risk tolerance level so that risk-return trade-offs match your investment portfolio.

8.2 RISK ADJUSTED RETURNS

When you compare the performance of two investments or check the returns of your portfolio, you should not only consider the returns generated by the investments but also the amount of risk taken to earn these returns. Risk-adjusted return can help you measure the same. It is a concept that is used to measure an investment's return by examining how much risk is taken in obtaining the return. Risk-adjusted returns are useful for comparing various individual securities and mutual funds, as well as a portfolio.

How can risk-adjusted returns be calculated?

If we speak of risk-adjusted returns, there are five measures that can be used - Alpha, Beta, R-squared, Standard Deviation, and Sharpe Ratio. All of these measures give specific information to investors about risk-adjusted returns. Let's have a closer look at risk-adjusted returns and how they can be measured:

1. **Alpha:** If you want to know how well an investment is doing, then Alpha is a good measure. It is simply the measure of an investment against a benchmark index such as the Sensex, Nifty, etc. Alpha provides a picture of the talent of a fund manager or a portfolio manager because you can see if you are getting returns that are outperforming the benchmark.

2. **Beta:** Beta is a measure of volatility and indicates how much risk is involved in investment compared with the broader market. A Beta value against the market. A Beta value higher than 1 will indicate more volatility in your chosen investment as compared to the market.

3. **Standard Deviation:** Standard deviation simply measures how much an asset's returns vary over the observed period compared to its mean or average returns. This is a useful measure since you can learn more about how steady an asset's returns are.

4. **R-squared:** R-squared is used to see the correlation of a portfolio's price trends with a benchmark. While Alpha measures performance, R-squared is more concerned about movement. This statistical measure is taken in percentage terms and ranges from 1-100. The higher the number, the more your portfolio moves in alignment with the chosen benchmark. A low R-squared number usually suggests less correlation with the index.

5. **Sharpe Ratio:** Sharpe ratio basically measures how much return an investor is getting in correlation to the level of risk he is exposing himself to. Basically, the Sharpe ratio works by taking into consideration how the asset performed and then subtracting that return from the returns that could have gotten from a risk-free instrument like

government security. Now you take that number and divide it by the standard deviation of the asset. This will provide you with the Sharpe ratio. The higher the ratio, the more you are rewarded for the risk that you are taking.

8.3 SUMMARY

A general review of asset management, including categories of investors, investment programs, and goods, is given in this reading. Investors should use a portfolio technique to help them reach their financial goals. We provide an overview of the stages involved in managing a client's investment portfolio. Next, we contrast the financial requirements of institutional and individual investors. Next, both defined contribution and defined benefit pension schemes are explained. The asset management1 sector is extensively addressed because it acts as a vital link between sources and consumers of investment capital globally. In our final section, we go over mutual funds and other pooled investment products that asset managers provide.

Finding the best investments is the goal of the risk and return analysis. As a result, investors employ a variety of techniques to assess the market, sector, and company. Portfolio diversification, or selecting the best combination of many investment possibilities, can lower risk and boost profits.

The stock market is susceptible to changes. Investors should not, however, monitor the performance of their mutual funds on a daily basis. Typically, one should conduct a semi-annual or annual evaluation of the performance of their fund. The performance of the funds cannot be accurately measured by evaluating them over a shorter time frame. Before they jump to conclusions and become irritated about the performance of the fund, mutual fund investors should also keep in mind their financial goal and investment horizon.

8.4 QUESTIONS

Multiple Choice Questions (MCQs):

1. If there is an increase in interest rates than the fixed interest rate of the corporate bond will

a. Return to the corporation
b. Decrease in value
c. Remain unchanged
d. Increase in value

2. Which one of the following is shown first when the assets are arranged in the order of their liquidity?

a. Investment
b. Cash in hand
c. Debtors
d. None of the above

3. An investor invests in assets known as a
a. Securities
b. Block of Assets
c. Portfolio
d. None of the above

4. Over the period, investors determine the compound growth rate of an investment by
a. Arithmetic median
b. Arithmetic mean
c. Calculus mean
d. Geometric mean

5. Investors agree to invest in high- risk investments if only
a. There are any true speculations
b. The predicted return is satisfactory for taking a risk
c. There are no safe options except for holding cash
d. The return is short

6. In Capital Market Line every investment is
a. Finitely divisible
b. Infinitely divisible
c. Both a & b
d. None of the above

7. Investments would score high only if there is a protection to
a. Real estate
b. Preferred stock
c. Government bonds
d. Common stock

8. Employment of funds with the aim of achieving additional income is known as____
a. Investment
b. Speculation
c. Gambling
d. Biting

9. _______ is based on tips, rumours and hunches, unplanned and without knowledge of the exact nature of risk.
a. Investment
b. Speculation
c. Gambling
d. Arbitrage

10. Buying low and selling high, making a large capital gain is associated with ________
a. Investment
b. Speculation
c. Gambling
d. Arbitrage

True or False:

1. All personal investing is designed to achieve certain objective: **True**

2. The fundamental analysis approach has been associated with certainties: **False**

3. Unsystematic risk is avoidable through proper diversification: **True**

4. The fundamental analysis is a method of finding out Future price of a security: **True**

Brief Answer Questions:

1. Define the concept of portfolio management.
2. Explain risk & return trade-off.
3. What is risk-adjusted returns?How can risk-adjusted returns be calculated?

Case Study:

Portfolio Management: Institutional

Introduction:

The development of a strategic asset allocation (SAA) for long-horizon institutional investors like university endowments raises special challenges. These include supporting spending policies while ensuring the long-term sustainability of the endowment and establishing optimal exposure to illiquid investment strategies in the context of a diversified portfolio.

Large university endowments typically have significant exposure to illiquid asset classes. The exposure to illiquid asset classes impacts the portfolio's overall liquidity profile and requires a comprehensive liquidity management approach to ensure liquidity needs can be met in a timely fashion. In addition, capital market conditions and asset prices change, resulting in a need to change asset allocation exposures and/or rebalance the portfolio to maintain a profile close to the strategic asset allocation.

Derivatives are often used by institutions to manage liquidity needs and implement asset allocation changes. The cash-efficient nature of derivatives and their high levels of liquidity in many markets make them suitable tools for portfolio rebalancing, tactical exposure changes, and satisfying short-term liquidity needs—all while maintaining desired portfolio exposures.

This case study explores these issues from the perspective of a large university endowment undertaking a review of its asset allocation and then implementing proposed allocation changes and a tactical overlay program. Rebalancing needs for the endowment arise as market moves result in the drift of the endowment's asset allocation.

The case is divided into two major sections. The first section addresses issues relating to asset allocation and liquidity management. The case introduces a framework to support management of liquidity and cash needs in an orderly and timely manner while avoiding disruption to underlying managers and potentially capturing an illiquidity premium. Such concepts as time-to-cash tables and liquidity budgets are explored in detail. Aspects relating to rebalancing and maintaining a risk profile similar to the portfolio's strategic asset allocation over time are also covered.

The second section explores the use of derivatives in portfolio construction from a tactical asset allocation (TAA) overlay and rebalancing perspective. The suitability of futures, total return swaps, and exchange-traded funds (ETFs) is discussed based on their characteristics, associated costs, and desired portfolio objectives. The case also presents a cost–benefit analysis of derivatives and cash markets for implementing rebalancing decisions. Environmental, social, and governance (ESG) considerations arising in the normal course of investing are also explored.

Learning Outcomes

The member should be able to:

- discuss tools for managing portfolio liquidity risk;
- discuss capture of the illiquidity premium as an investment objective;
- analyze asset allocation and portfolio construction in relation to liquidity needs and risk and return requirements and recommend actions to address identified needs;
- analyze actions in asset manager selection with respect to the Code of Ethics and Standards of Professional Conduct;
- analyze the costs and benefits of derivatives versus cash market techniques for establishing or modifying asset class or risk exposures;
- demonstrate the use of derivatives overlays in tactical asset allocation and rebalancing.

Summary

The QU endowment case study covers important aspects of institutional portfolio management involving the illiquidity premium capture, liquidity management, asset allocation, and the use of derivatives versus the cash market for tactical asset allocation and portfolio rebalancing. In addition, the case examines potential ethical violations in manager selection that can arise in the course of business.

From an asset allocation perspective, the case highlights potential risk and rewards associated with increasing exposure to illiquidity risk through investments like private equity and private real estate. Although this exposure is expected to generate higher returns and more-efficient portfolios in the long-run, significant uncertainties are involved both from a modeling and implementation perspective. Finally, the case highlights social considerations that may arise with investing.

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9

MEASURING FUND PERFORMANCE

Unit Structure:

9.0 MEASURING FUND PERFORMANCE

Investments in mutual funds require some level of market and financial knowledge. Investors have two options here. Either purchase a regular fund from a third party or invest directly after thorough study. But after that, an investor still has obligations. It would be beneficial if you also monitored the fund's performance on the market.

How to measure Mutual Fund Performance?

1. Define the Investment Goals

What is the purpose of my investment? Answer to this should be the foundation of your mutual fund choices. For instance, if you want a regular income with capital protection, you can choose to invest in a debt fund. However, if you have a higher risk appetite and an aim to build your wealth, equities will suit your purpose. So it is crucial to define your financial goal first and then decide your investment. This also has a pivotal role in fund evaluation.

Shortlist a few peer Funds to compare

It is difficult to assess a mutual fund in isolation. So, you should always make a small list of comparable funds and continuously compare them. There are many FinTech firms and third party websites that offer free mutual fund screener tools.

2. Check the historical Performance Data

Now every mutual fund handbook comes with a disclaimer stating that past performance is no indicator of future performance. However, this data can help you check how the fund has fared across different market cycles. Consistency can also shed light on the skill of the fund manager. In short, it will be easier for you to find a fund with lower risks but higher returns.

3. Fee Structure of the Fund

A mutual fund company charges you for its services and expertise. Some funds require deft management and quick decisions on whether to buy, sell or hold on to an asset. Please remember that a fund with a higher fee is automatically better. Do check out other parameters too before choosing.

4. Risk-Adjusted Returns

Every fund expects certain risks related to the market and the industry. When fund strategies in such a way that they make more returns against anticipated risks, we call them risk-adjusted returns.

5. Performance against Index

Indexes like Nifty, BSE Sensex and BSE 200 set benchmarks, and all fund performances are evaluated on this basis. Comparing different timelines against the benchmark as well as peers, can be insightful. A well-managed fund won't fall too hard during a market low.

9.1 BENCHMARKING

A benchmark is an index that is used to gauge the performance of mutual funds. For instance, the Nifty 50 serves as a benchmark for many large-cap funds and index funds. Securities and Exchange Board of India (SEBI) mandated that all benchmarks be changed from the Price Index to the Total Returns Index as of February 1, 2018. (TRI). Since dividends are taken into account, a Total Returns Index is thought to be more accurate than a price index. Keep in mind that a benchmark should only be used to assess a fund by comparing its long-term results. For instance, a 3-year performance in an equity fund is more valuable than a 6-month performance against the benchmark.

Benefits of Benchmarks

1. You can compare a benchmark return with the return of a mutual fund to evaluate its performance.

2. You can use a benchmark to compare two different funds that fall in the same category. For example, if Fund A outperforms the benchmark by 3%, and Fund B outperforms by 6%, it will be easier for you to decide which fund to invest in.

3. You can use a benchmark to evaluate the possible performance of a fund that is about to be launched. Such funds have no past history or track record. However, the benchmark chosen can give you a rough idea of the kind of rights you will get.

Which Benchmark to Use?

In their filing paperwork, mutual funds must list their own benchmarks (called SID or Scheme Information Document). SID typically serves as the fund's benchmark and is disclosed on websites run by third parties and mutual funds. For instance, the Nifty 100 TRI serves as the benchmark for the HDFC Top 100 Fund, a large-cap equities fund, while the Nifty 500 TRI (Total Return Index) serves as the standard for the HDFC Equity Fund, a multi-cap fund. However, there are situations when the chosen benchmark may not be entirely appropriate and may overstate a fund's performance.

For example, Kotak Standard Multicap Fund, which has the ability to purchase companies other than the top 200 listed on stock exchanges, utilises Nifty 200 as its benchmark rather than Nifty 500.

How to Overcome the Problem of an Inappropriate Benchmark?

When the benchmark selected by a fund is inappropriate, the investor should compare the fund with its category average performance rather than its benchmark performance. A category average will include all the funds in a particular category- such as all mid-cap funds or all small-cap funds. These funds are required to adhere to the same rules as the fund in question and hence they can be easily compared with that fund.

For example, all large-cap funds are required to invest 80-100% of their assets in large-cap stocks (defined as the top 100 stocks by market capitalization). Some of these funds may choose Nifty 50 as a benchmark and others may choose Nifty 100. However, you can overcome this divergence by simply comparing each individual fund against the average returns of all funds in the large-cap category, regardless of which benchmark they have chosen.

The second solution to a mutual fund choosing an inappropriate benchmark is that the investor should assign his or her own benchmark to the fund and measure the fund against that benchmark. This is usually done by expert research institutions like Value Research and Morningstar. You will often see their benchmarks diverging from the ones chosen by the fund house. This is because they have taken an active decision to substitute the declared benchmark with an alternative benchmark.

9.2 QUANTITATIVE MEASURES USED FOR ANALYSIS

Mutual fund investments(MFI) are subject to market risks. However, there are various quantitative measures in the Modern Portfolio Theory (MPT) that can help to objectively analyse your MFIs for potential risks and volatility to make a more educated decision. Choosing a mutual fund investment subjectively depends entirely on your financial goals, risk appetite, and asset allocation

With over 1,500 schemes out there in the mutual fund (MF) industry and more getting added every other day, there are many options for investors to choose from. But if you plan to invest directly in MFs, apart from the past performance, here are four quantitative measures that can help you make sense of your MFI.

Quantitative measures give you a brief idea of the risk taken by the fund and the volatility you can expect in your returns:

1. Standard Deviation:

Standard Deviation is a measure of dispersion that indicates how much the data deviates from the average. While selecting mutual funds, standard deviation indicates the deviation of actual returns from the expected returns based on their historical performance.

The more spread out the data (Returns), the more standard deviation the fund's returns will have, indicating high volatility in returns and therefore, high risk. Hence, this is a great measure for adjusting your funds according to your risk appetite.

2. Sharpe Ratio:

The Sharpe ratio is one of the most popular methods for calculating risk-adjusted returns. The Sharpe ratio is used by investors to understand the return on investment compared to its risk. A Sharpe ratio greater than 1 indicates a fund has a higher return to risk ratio, which is ideal. However, generally, investors compare the Sharpe Ratios of multiple funds to select the funds with a higher Sharpe Ratio to limit the risks and maximise gains.

3. Beta Coefficient:

Beta Coefficient is used to understand the volatility of a fund compared to the market as a whole. Under this method, Market Beta is considered 1 if the individual MF's Beta is less than 1, it indicates lesser volatility than the market and a value more than 1 reflects more volatility. For example, if XYZ Mutual Fund has a 0.8 Beta coefficient, it indicates that this particular fund is less volatile than the market. Thus, you can choose the mutual funds according to the level of volatility you are comfortable with

4. Portfolio:

All mutual funds mandatorily exhibit where the funds allocated will be invested, whether they will be invested in small companies or large companies. It also shows if the companies included in the portfolio exhibit growth or value characteristics

For equity and hybrid funds, portfolio analysis helps you determine asset allocation and company/sector allocation of the funds. The debt fund portfolio exhibits credit quantity, instrument breakup, and related quantitative data (Average maturity period, yield, etc.) All this information can be found in the factsheets of the funds and can help you make a more informed choice.

9.3 SUMMARY

When buying mutual funds, many people may have seen the typical disclaimer that "previous performance is not a guarantee for future results." This disclaimer highlights the possibility that prior returns produced by mutual funds won't hold true going forward. In other words, investing in mutual funds does not guarantee a profit. Investors must therefore go beyond last year's returns to evaluate prior performance. Investors should also keep an eye on their returns so they can make wise choices that will result in higher returns.

Due to fluctuations in the overall state of the economy, the capital markets continue to fluctuate. This alteration also throws off the portfolio's asset allocation. For instance, the market rally may cause the initial portfolio allocation of 50/50 equities and debt to move to 60/40. This could raise the fund's risk profile above and beyond what the investor would prefer.

The evaluation of funds also enables investors to compare the performance of their investments to those of other funds that are similar. A change in the fund manager or in the fund's core characteristics may also prompt an assessment. Consequently, a mutual fund portfolio needs to be reviewed and rebalanced on a regular basis. This aids in maintaining the portfolio's risk profile.

9.4 QUESTIONS:

Multiple Choice Questions (MCQs):

1. A mutual fund with a beta of 1.1 has outperformed the S&P500 over the last 20 years. We know that this mutual fund manager ________________.
A. must have had superior stock selection ability
B. must have had superior asset allocation ability
C. must have had superior timing ability

D. may or may not have outperformed the S&P500 on a risk adjusted basis
1. A mutual fund with a beta of 1.1 has outperformed the S&P500 over the last 20 years. We know that this mutual fund manager ________________.
A. must have had superior stock selection ability
B. must have had superior asset allocation ability
C. must have had superior timing ability
D. may or may not have outperformed the S&P500 on a risk adjusted basis

1. The First player of the Mutual fund industry was_______________.
A) ICICI MF
B) UTI MF
C) SBI MF
D) LIC MF

2 . UTI mutual fund was set up in the Year _______________.
A) 1963
B) 1986
C) 1956
D) 1947

3. Who establishes the Mutual Fund in India?
A) Securities Exchange Board of India
B) Asset Management Company
C) Sponsor
D) Shareholders

4. In India, AMC must be registered with____________.
A) Company's Act, 2013
B) No registration required.
C) Securities Exchange Board of India
D) Reserve Bank of India

5. ___________ is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.
A) Government Securities
B) Mutual Funds
C) Derivatives
D) Shares

6. The value of one unit of investment in Mutual fund is called the _______________.
A) Net Asset Value
B) Issue value
C) Market value
D) Gross Asset value

7. ________________ regulates the Mutual fund industry in India.
A) Reserve Bank of India
B) Association of Mutual Funds of India
C) Securities Exchange Board of India
D) State Bank of India

8. _______________ schemes not exposed to sudden and large movements of funds.
A) Fixed maturity plan
B) Open-Ended Funds
C) Close-Ended Funds
D) Interval fund

9. Dividend income received from mutual in the hands of unit holders
A) Fully Taxable
B) Fully Exempt
C) Partly Exempt
D) Partly Taxable

10. Presently there are __________ AMC in India
A) 40
B) 50
C) 44
D) 39

True or False

1. The performance of a scheme is reflected in its Net asset value: **True**
2. Small amount is needed to invest in Mutual Funds is a myth about Mutual Fund Investment in India: **False**
3. Abridged version of OD is called OD: **False**
4. OD is a supplementary document that contains additional information about the fund: **False**
5. Trustee approves the contents of the Offer document: **True**

Brief answer Questions:

1. Define the measuring fund performance.
2. What is the significance of a mutual fund benchmark?
3. Why is it important to compare a scheme's performance with that of its benchmark?
4. What is benchmark error?

9.5 REFERENCES

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10

PROTECTION OF INVESTORS

Unit Structure

10. 0 OBJECTIVES

1) To understand the meaning of Investor Protection
2) Discuss the rights of investor in India
3) Learn about responsibilities of investors
4) Identify the redressal mechanism for investor grievance.
5) Discuss the various laws and regulations pertaining to investor protection in India

10.1 MEANING OF INVESTOR PROTECTION

Investors are although the source of financing industries, they faces many types of grievances such as receipt of inadequate information or misrepresentation in prospectus or New Fund Offer or any other documents, delay or non receipt of dividend etc. The basic objective of establishment if SEBI is to protect interest of investors from these grievances and to regulate and promote development of capital market.

SEBI is the most prominent regulatory agency for controlling the securities market. It is not only lays down laws for issuing securities but also ensures that the issuers comply with different norms for investor protection.

SEBI has sought to balance the two objectives by constantly reviewing and re-appraising its existing policies and programmes, formulating new policies and regulations, to foster developments in these areas and implementing them to ensure growth of the market with efficiency, integrity and protection of interest of the investor.

10.2 INVESTORS' RIGHTS & OBLIGATIONS

Mutual fund investors are entitled to some important rights which are meant to protect the investments and bring more transparency to the mutual fund investors. These rights are bifurcated into two parts—AMC related rights and Fund related rights.

1. Right to beneficial ownership

Mutual Fund Unitholders have a proportionate right tothe beneficial ownership ofthe assets ofthe scheme. The investor can ask for a Unit Certificate Statement for his Unit-holding ownership. Investors also have the option to receive an allotment of mutual fund units of different mutual fund schemes in their demat account.

2. Right to change the distributor

Investors can choose to change their distributor or opt for direct investing. This needs to be done through a written request by the investor. In such cases, AMCs will need to comply, without insisting on any kind of 'No Objection Certificate' from the existing distributor.

3. Right to Inspect documents

Unit-holders have the right to inspect key documents such as the Trust Deed, Investment Management Agreement, Custodial Services Agreement, RTA agreement and Memorandum & Articles of Association of the AMC.

4. Right to appoint nominees

The investors can appoint up to 3 nominees, who will be entitled to the 'Units' in the event of the demise of the investors. The investor can also specify the percentage distribution between the nominees. If no distribution is indicated, then an equal distribution between the nominees will be presumed.

5. Right to pledge mutual fund units

Investors can pledge their mutual fund units. This is normally done to offer security to a financier.

6. Right to grievance redressal

There is a formal grievance redressal policy for investors. SEBI has mandated that the status of complaints redressed should be published by each AMC in their annual report. The same should be available on the website of the mutual fund and on AMFI's website. It should provide the status of the number of complaints received by the AMC, the time taken to resolve the complaints and the status of pending complaints. The scheme related documents also have details of the number of complaints received and their disposal. Pending investor complaints can be a ground for SEBI to refuse permission to the AMC to launch new schemes.

10.3 REDRESSAL OF INVESTOR GRIEVANCES

The pronouncement "Caveat Emptor" is a maxim from the law Sales of Goods Act, 1930 which means that when buying any thing the buyer must protect his own interests and in case he fails to exercise reasonable care and caution, he cannot complain later for any loss caused to him due to his failure or negligence.

However, in the securities market, the transaction are not carried on the principle of caveat emptor and the investors are provided due protection. For their grievances they can seek redressal from the seller/ issuer of securities under the law.

The general grievances faced by the investor can be listed as under:

- Delay/ non receipt of refund orders, allotment letters and share certificates/ Debenture Certificates
- Delay/ non receipt of allotment letter/ debenture certificate after transfer.
- Furnishing inadequate information of making misrepresentation in prospectus/ New Fund Offer/ Application Form/ Advertisement and rights of documents.
- Delay in listing of securities with stock exchange
- Delay/ non receipt of share certificates/ bonds/ debentures after endorsement of part payment/ call money.
- Delay of se certificate / bands/ debentures after sub- division and consolidation
- Delay/ non receipt of letter of offer of right issue
- Delay/ non receipt of bonus shares/ right shares
- Delay/ non receipt of notices of meeting/ annual report
- Fixing unduly high premium on shares.
- Obtaining undue benefits by company insiders.
- Delay/ default in payment of interest and repayment of deposits

Below are the various investor grievances and authorities to be approached.

Sr. No.	Grievances Pertaining to	Regulator
1.	Banks- Public/ Private / Foreign Bank	Reserve Bank of India
2.	Banks- Issue collection/ Credit Rating Agencies/ Custodial Services/ Debentures Trustees/ Depository Participants/ Financial and Investment Consultants/ Foreign Brokers/ Foreign Debt Funds/ FIIs/ Investment Bankers/ Investor Association / Mutual Funds and Asset Management Company /	Securities Exchange Board of India

	Portfolio Managers/ Registrars & STAs/ Stock Broker / Stock Exchanges/ Sub Brokers / Venture Capital Funds	
3	Chit Funds	Registrar of the state concerned
4	Listed Companies	• Ministry of Corporate Affairs • Registrar of Companies • Stock Exchanges • Securities Exchange Board of India
5	All Companies	• Ministry of Corporate Affairs • Registrar of Companies
6	Company Secretaries	Institute of Company Secretaries of India
7	Auditors	• The Institute of Chartered Accountants of India • Comptroller and Auditor General of India
8	Co-operative Banks/ NBFCs/ Primary Dealers	Reserve Bank of India
9	Mutual Funds Brokers/ Agents	• Association of Mutual Funds in India • Securities Exchange Board of India
10	Insurance Companies/ Insurance Broker/ Agents	Insurance Regulatory and Development Authority of India.
11	Pension Fund	Pension Fund Regulatory and Development Authority (PFRDA)
12	Monopoly and Anti-Competitive practices	Competition Commission of India (CCI)
13.	Housing Finance Companies	National Housing Bank (NHB)

10.3.1. Various Acts and Laws relating to the Investor Protection

Following are the different Acts under which there is specific provision for investor protection in India.

1. Companies Act, 2013

The Act provides laws for issues, allotment and transfer of securities and also public disclosures to be made at and the matters and reports to be stated in the prospectus, newspaper advertisement of prospectus, civil and criminal liabilities for misstatements in the prospectus, acceptance of deposits, transfer and transmission of shares and other matters related therein.

2. SEBI Act, 1992

The Act provides for the establishment of a Board called as Securities Exchange Board of India to regulate securities market by empowering the Board to regulate the business activities of various stock exchanges, intermediaries, depositories and other self-regulatory organizations to protect the interests of investors in securities and to promote the development of the securities market. The Act enable the Board to regulate the market and market players by empowering the Board to call for information from and conduct inquiries, investigations and audit of stock exchanges, various intermediaries and other self-regulatory organisations, to call for any information from banks, any other authority, board or corporations established under any Central, State or provincial Act, in respect of transactions related to the securities market, levying of fees and charges, and providing same powers to the Board as vested in the civil court under the Civil Procedure Code, 1908 in the matter of discovery and production of documents, summoning and enforcing of the attendance of persons an examining them on oath and inspection of any books, registers and other documents of persons associated to the securities market, issuing commissions for the examination of witnesses or documents.

3. Securities Contracts (Regulation) Act, 1956

The Act prevents undesirable transactions in securities by regulating the business of dealing therein a control of all aspects of securities trading and the running of stock exchanges

.

4. Reserve Bank of India Act, 1934

Section 45 QA of the Reserve Bank of India Act gives a depositor similar rights as are provided under Companies Act to approach Company Law Board for payment of matured deposits in case of NBFCs.

5. Indian Penal Code, 1860

Economic Offence Wings of Police Departments have power under IPC to take up the cases of cheating, forgery and misappropriation etc. relating to the Investment.

10.4 REDRESSAL OF INVESTOR GRIEVANCES AT SEBI

There will be occasions when an investor has a complaint against, a listed company or an intermediary registered with SEBI. In the event of such complaint, the investor should first approach the concerned company/ intermediary against whom there is a complaint. Sometimes the response received may not be satisfactory. Therefore, investor should know as to which authority they should approach to get their complaints redressed.

SCORES (SEBI Complaints Redressal System) –

Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform (Link - SEBI | Master Circular on the redressal of investor grievances through the SEBI Complaints Redress System (SCORES) platform)

SCORES is a web based centralised grievance redress system of SEBI. It enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online on website https://scores.gov.in/scores/Welcome.html from anywhere.

The salient features of SCORES are

a) It is web enabled and provides online access 24 * 7.

b) Complaints and reminders thereon can be lodged online at the above website at anytime from anywhere.

c) An email is generated, acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking.

d) The complaint forwarded online to the entity concerned for its redressal.

e) The entity concerned uploads an Action Taken Report (ART) on the complaint.

f) SEBI scrutinizes the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately.;

g) The concerned investor can view the status of the complaint online from the above given website by logging in the unique registration number.;

h) The entity concerned and the concerned investor can seek and provide clarification on his complaint online to each other.

i) Every complaint has an audit trail; and

j) All the complaints are saved in a central database which generates relevant MIS reports to enable SEBI to take appropriate policy decisions and or remedial actions, if any.

Annexure-2
(to SEBI/HO/OIAE/IGRD/P/CIR/2022/0150 dated November 07, 2022)

Timelines for handling of complaints and actions in case of non-compliances

Sr No.	Activity	No of calendar days
1.	**Complaint handling:**	
a.	Complaint received in SCORES by the listed company	T
b.	Response to be obtained from Listed Company	Within T+30
c.	If no response received, alert to Listed company in the form of reminder for non-redressal of complaint	T+31
d.	Response to be obtained from Listed Company	Within T+60
2.	**Action in case of non-compliances:**	
a.	Notice to Listed company intimating the fine @ Rs. 1000/- per day, per complaint to be levied for not resolving the complaints within 60 days	T+61
b.	Notice to Promoters for non-resolution of complaints and non-payment of fine to the stock exchange.	T+76
c.	Freezing of promoters shareholdings (i.e. entire shareholding of the promoter(s) in listed company as well as all other securities held in the demat account of the promoter(s)) in demat account.	T+86
d.	Stock exchanges may take any other actions, as deemed appropriate.	
e.	Once Stock exchange has exhausted all options and yet the number of pending complaints exceed 20 or the value involved is more than Rs. 10 lakhs, the Exchange to forward the details of such Listed companies to SEBI for further action, if any	

(Source: Sebi Website)

How to register complaint online in SCORES?

The complaint registration form contains personal details and complaint details. There are certain mandatory fields on the Form such as Name, Address for correspondence, State, Email Address of Investor. Besides this, select the complaint category, entity name, nature of complaint related to, complaint details in brief (up to 1000 characters). A PDF document (up to 1 MB of size for each nature of complaint) can also be attached along with the complaint as the supporting document. On successful submission of complaint, system generated unique registration number will be displayed on the screen which may be noted for future correspondence. An email acknowledging the complaint with complaint registration number will also be sent to the complainant's email ID entered in the complaint registration form. In case, you are not able to register a complaint online, you can send your complaint through post to any of the SEBI offices whose addresses are given under the menu ' Contact us"

Matters that are not considered as complaints in SCORES?

a) Complaints that are incomplete or not specific

b) Allegations without supporting documents.

c) Offering suggestions or seeking guidance/ explanation

d) Seeking explanation for non trading of shares or illiquidity of shares

e) Dispute arising out of private agreement with companies/ intermediaries

10.5 RIGHT TO INFORMATION ACT, 2005

10.5. 1. Introduction

The act is one of the most important acts which empowers ordinary citizens to question to the (Central/ State/ local) government and its working. This has been widely used by citizens and media to uncover corruption, progress in government work, expenses related information, etc.

All constitutional authorities, agencies, owned and controlled, also those organisations which are substantially financed by the government comes under the purview of the act. The act also mandates public authorities of union government or state government, to provide timely response to the citizens' request for information.

The act also imposes penalties if the authorities delay in responding to the citizen in the stipulated time.

10.5.2 Objectives of the RTI Act

1. Empower citizens to question the government.
2. The act promotes transparency and accountability in the working of the government.
3. The act also helps in containing corruption in the government and work for the people in a better way.
4. The act envisages building better-informed citizens who would keep necessary vigil about the functioning of the government machinery.

10.5.3 The Information which is Exempt from Disclosure

The Right to Information Act, 2005 under Sections 8 and 9 exempts certain categories of information from disclosures. These include:

- Information, disclosure of which would prejudicially affect the sovereignty and integrity of India, the security, strategic, scientific or economic interests of the State, relation with foreign State or lead to incitement of an offence
- Information which has been expressly forbidden to be published by any court of law or tribunal or the disclosure of which may constitute contempt of court;
- Information, the disclosure of which would cause a breach of privilege of Parliament or the State Legislature.

- Information including commercial confidence, trade secrets or intellectual property, the disclosure of which would harm the competitive position of a third party, unless the competent authority is satisfied that larger public interest warrants the disclosure of such information.

- Information available to a person in his fiduciary relationship, unless the competent authority is satisfied that the larger public interest warrants the disclosure of such information.

- Information received in confidence from foreign Government; information, the disclosure of which would endanger the life or physical safety of any person or identify the source of information or assistance given in confidence for law enforcement or security purposes.

- Information which would impede the process of investigation or apprehension or prosecution of offenders.

- Information which would impede the process of investigation or apprehension or prosecution of offenders.

- Information which relates to personal information the disclosure of which has no relationship to any public activity or interest, or which would cause unwarranted invasion of the privacy of the individual.

10.5.4 Who will provide Information?

Information is furnished by the Central Public Information Officer of the Office. You may also deposit the application with any Central assistant Public Information Officers (CAPIOs) designated for the purpose at various levels, who will receive the requests for information from the public and forward it to the Central Public Information Officers (CPIO). The CPIO will arrange for providing necessary information to the public as permitted under the law. The public authorities are also required to designate authorities senior in rank to CPIO, as Appellate Authorities, who will entertain and dispose off appeals against the decision of the CPIO as required under the Act. Any person who does not receive the decision from CPIO wither by way of information or rejection within the time frame, may within 30 days from the expiry of period prescribed for furnishing the information or 30 days from the date of receipt of the decisions, prefer an appeal to the Appellate Authority.

You can submit RTI application online at **http://rtionline.gov.in**

10.5.5 Fee / Cost to get the Information

A request for obtaining information under Section 6(1) of the Act needs to be accompanied by an application fee of Rs.10 by way of cash against proper receipt or by DD or bankers' cheque or Indian Postal Order.

As per the Right to Information (Regulation of Fee and Cost) Rules, 2005, the public authority shall charge:

- Rs.2/- for each page (in A-4 or A-3 size paper) created or copied;
- Actual charge or cost price of a copy in larger size paper;
- Actual cost or price for samples or models; and
- For inspection of records, no fee for the first hour; and a fee of rupees five for each subsequent hour (or fraction thereof).

  Further, to provide information under Section 7(5) of the Right to Information Act, 2005, the public authority shall charge:

- Rs. 50/- per diskette or floppy; and
- for information provided in printed form at the price fixed for such publication or Rs. 2/- per page of photocopy for extracts from the publication

10.6 SUMMARY

Investor protection is to protect the investors from being deceived or being put to loss by the companies. SEBI has been in fact constitutes for the purpose of investor protection and welfare only. According to the SEBI Act, the objectives is to protect the interest of the investors in securities and to promote the development and to regulate the securities market.

In order to afford adequate protection to investors, provisions have been incorporated in different legislations such as the Companies Act, 2013, Securities Contracts (Regulation) Act, 1956, Depository Act, 1956 and Listing Agreement of the Stock Exchanges supplemented by many guidelines, circulars and press notes issued by the Ministry of Finance, Ministry of Corporate Affairs and SEBI from time to time.

SCORES is a web based centralized grievance redress system of SEBI which enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online from the website.

The Government of India has enacted "Right to Information Act 2005" to provide for setting out the practical regime of right to information for citizens to secure access to information under the control of Public Authorities in order to promote transparency and accountability in the working of any public authority.

10.7 MULTIPLE CHOICE QUESTION

1. In which year Electronic mode/ platform for lodging and tracking complaints by the investors (SCORES) was launched

a) 2010 b)2011 c) 2012 d) 2014

2. Which is major benefit of SCORES?

a) Speedy redressal
b) Reduces the turnaround time
c) Available 24 * 7
d) All of the above

3. The title of the RTI Act, 2005 seeks to promote the following qualities in the working of every public authority?
a) Reputation
b) Transparency
c) Punctuality
d) Efficiency

4. Right to Information Act, 2005 came into force on which of the following data?
a) 22nd June, 2005
b) 12th October, 2005
c) 15th June, 2005
d) 15th August, 2005

5. The RTI application is addressed to______
a) Prime Minister of India
b) President of India
c) Public Information Officer
d) Chief Minister of the respective State

Solution- 1- b, 2- d, 3- b, 4- b, 5- c

10.7 QUESTIONS

1) What do you mean by Investor Protection? " Investor protection is the major responsibility of the Securities Exchange Board of India"
2) What are the common grievances of investor in India? State the authorities which can be approached by an investor for redressal of these grievances.
3) Describe in brief various acts and laws relating to the investor protection
4) Write a note on SCORES (SEBI Complaints Redressal System)
5) Write a note on Right to Information Act, 2005

10.8 REFERENCE BOOKS

1) Workbook for NISM-Series-V-B: Mutual Fund Foundation Certification Examination
2) Workbook for NISM-Series-V-C: Mutual Fund Distributors (Level 2) Certification Examination
3) Mutual Funds - Portfolio Structures, Analysis, Management, and Stewardship John A. Haslem, Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
4) Financial Management- Ravi Kishore, Taxmann Publication

5) RTI Online :: Frequently Asked Questions - Reference for Reading

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