

# **Study Notes for NISM Series V – A: MUTUAL FUND DISTRIBUTORS Exam (Earlier - AMFI Exam) Version - MAY 2024**

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YouTube Training Video Link

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**HARDCOPY / SOFTCOPY of the tests will NOT be provided**

## **NISM Series 5A - MUTUAL FUND DISTRIBUTORS EXAM**

### **Assessment Structure**

[https://youtu.be/SmCb\\_UmiLA?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/SmCb_UmiLA?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

Total Questions = 100 X 1 mark each (NO NEGATIVE MARKS)

Total Duration = 2 hours.

Passing score = 50%

Certificate Validity = 3 years.

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### **Chapterwise Weightages**

Unit 1	Investment Landscape	8 %
Unit 2	Concept & Role of a Mutual Fund	6 %
Unit 3	Legal Structure of Mutual Funds in India	4 %
Unit 4	Legal and Regulatory Framework	10 %
Unit 5	Scheme Related Information	10 %
Unit 6	Fund Distribution and Channel Management Practices	6 %
Unit 7	Net Asset Value, Total Expense Ratio and Pricing of units	8 %
Unit 8	Taxation	4 %
Unit 9	Investor Services	20 %
Unit 10	Risk, Return and Performance of Funds	7 %
Unit 11	Mutual Fund Scheme Performance	7 %
Unit 12	Mutual Fund Scheme Selection	10 %

### **YouTube videos – Topic wise**

1. [How to become a Mutual Fund Agent?](#)
2. [NISM Mutual Fund Distributors Exam Pattern](#)
3. [What is a Mutual Fund?](#)
4. [Terminologies used in Mutual Fund Industry](#)
5. [Open and Closed end funds](#)
6. [Types of Equity Funds](#)
7. [Types of Debt Mutual Funds](#)
8. [Types of Hybrid Schemes, Balanced Schemes](#)
9. [Tax Saving Scheme - ELSS](#)
10. [Gold Exchange Traded Fund](#)
11. [Passive Funds and Fixed Maturity Plans](#)
12. [Index Funds](#)
13. [Tracking Error - Index Funds](#)
14. [Mutual Fund Structure and Constituents](#)

15. [Grandfather Clause introduced in Budget and Taxation changes](#)
16. [Capital Gain Tax](#)
17. [Calculation of Long term capital gain tax using Indexation](#)
18. [Tax Deducted at Source and Securities Transaction Tax](#)
19. [NAV Cut off Timing for Non Liquid Funds | Mutual Fund NAV - YouTube](#)
20. [Cutoff Time for Liquid Fund Purchase | Mutual Fund - YouTube](#)
21. [Liquid Funds - Redemption](#)
22. [Who can Invest in Mutual Funds?](#)
23. [Micro SIP and PAN Exempt Cases](#)
24. [Risk Adjusted Performance - Sharpe Ratio](#)
25. [Risk Adjusted Performance - Treynor ratio and Alpha](#)
26. [Mutual Fund Offer Document](#)
27. [Statement of Additional Information](#)
28. [NAV, Sale Price, Repurchase Price](#)
29. [NAV Calculation - Part1](#)
30. [NAV Calculation - Part2](#)
31. [Asset Allocation, Strategic Asset Allocation](#)
32. [SIP and STP](#)
33. [SWP, Dividend Payout, Dividend Reinvestment and Growth Options](#)
34. [Systematic Risk and Unsystematic Risk](#)
35. [Beta - measure of Market risk](#)
36. [Upfront Commission, Trail Commission, Transaction Charges](#)
37. [Total Expense Ratio - Part1](#)
38. [Total Expense Ratio - Part2](#)
39. [Transmission, Dividend Stripping, Capital Protection Oriented Schemes](#)
40. [Arbitrage Funds, Interval Funds, National Pension System](#)
41. [Stamp Duty on Mutual Funds | Mutual Fund Industry Updates - YouTube](#)
42. [Mutual Fund Instant Access Facility | Instant Redemption - YouTube](#)
43. [Taxation of Mutual Fund Dividend | TDS on MF Dividends - YouTube](#)
44. [Direct Plan & Regular Plan of Mutual Funds | Which is Best for Investors ? - YouTube](#)
45. [What is Sensex and Nifty? How it is calculated? \(not in syllabus. Just for knowledge sake\)](#)

## **Chapter 1 – The Investment Landscape**

1. Saving and investing are not to be considered as two completely different things, but two steps of the same process – in order to invest money, one needs to save first. Thus, saving precedes investing.
2. **Factors to evaluate investments - Safety, Liquidity, Returns, Convenience, Ticket size, Taxability of income, Tax deduction**
3. There are four broad asset categories or asset classes i.e. Real estate, Commodities, Equity and Fixed income.
4. Real estate could be further classified into various categories, viz., residential real estate, land, commercial real estate, etc.
5. Real estate is illiquid. It is not a divisible asset
6. Apart from capital appreciation, Real Estate can also generate current income in form of rents.
7. In case of real estate, the transaction costs, e.g., brokerage charges, registration charges, etc. are quite high. This would bring down the return on investment.
8. Bonds can be classified into subcategories on the basis of issuer type i.e., issued by the government or corporates or on the basis of the maturity date: short term bonds (ideal for liquidity needs), medium term bonds, and long-term bonds (income generation needs).
9. Bonds pay regular interest; thus, the investors can expect current income. Bond transactions through secondary market may result into capital gains or losses.
10. Two commodities that many investors are quite familiar with as investment avenues, are gold and silver (Metal commodities).
11. Investments in equity and bonds can be done only in financial form, whereas one can buy the other two assets, viz., real estate and commodities either in financial or in physical form. It is this physical form that gives a feeling of safety to many. Anything that is tangible is perceived to be safer than something intangible.
12. Real estate and commodities like silver or gold could be bought as investment or for consumption purposes
13. Equity - owner's capital in a business. Also known as Risk Capital.
14. Apart from long term capital appreciation, equity share owners may also receive dividends
15. Inflation or price inflation is the general rise in the prices of various commodities, products, and services that we consume.
16. Inflation erodes the purchasing power of the money.
17. The returns on investment without factoring inflation is known as the “nominal rate”. Returns adjusted for inflation, one gets the “real rate of return”. If the investment returns are higher than inflation, the investor is earning a positive real rate, and vice versa.
18. Liquidity risk is when the investor cannot liquidate their investments at will.

19. Interest rate risk is the risk that an investment's value will change as a result of a change in interest rates.
20. Interest rate risk affects the value of bonds/debt instruments. Any reduction in interest rates will increase the value of the Bonds and vice versa
21. Credit Risk - When someone lends money to a borrower, the borrower commits to repay the principal as well as pay the interest as per the agreed schedule. The issuer pays the dues, but with some delay, and the issuer does not pay principal and the interest at all – this is known as Credit Risk
22. Market Risk - the prices of all stocks (or at least a large number of stocks) in the market may witness a fall. This is a market wide fall.
23. Market Risk is also known as Systematic Risk or NON-Diversifiable risk. It cannot be reduced or diversified. It is measured by BETA
24. when the sales of a company's products fall, due to technological changes, or arrival of a better product, the company's share price falls. During such times, there could be many other companies, whose share prices may rise. This is an example of a company specific risk
25. Industry Specific Risk - if the Government policy changes with respect to a particular industry, all the firms may get impacted. Similarly, if a new and better technology becomes available, all the firms within the same industry that use the old technology may get impacted.
26. Confirmation bias is the tendency to look for additional information that confirms their already held beliefs or views. investors decide first and then look for data to support their views.
27. Availability Heuristic - Most people rely on examples or experiences that come to mind immediately while analyzing any data, information, or options to choose from.
28. Familiarity Bias - An individual tends to prefer the familiar over the novel, as the popular proverb goes, "A known devil is better than an unknown angel." This leads an investor to concentrate the investments in what is familiar, which at times prevents one from exploring better opportunities, as well as from a meaningful diversification.
29. Herd Mentality - "Man is a social animal" – Human beings love to be part of a group.
30. Loss Aversion explains people's tendency to prefer avoiding losses to acquiring equivalent gains: people to stay away from profitable opportunities, due to perception of high risks
31. Overconfidence This bias refers to a person's overconfidence in one's abilities or judgment. This leads one to believe that one is far better than others at something, whereas the reality may be quite different

32. Recency bias - The impact of recent events on decision making can be very strong. This applies equally to positive and negative experiences. Investors tend to extrapolate the event into the future and expect a repeat.
33. The risk profilers try to ascertain the risk appetite of the. In order to ascertain the risk appetite, the following must be evaluated:
- The need to take risks
  - The ability to take risks, and
  - The willingness to take risks
34. Asset Allocation is a process of allocating money across various asset categories in line with a stated objective.
35. <https://www.youtube.com/watch?v=KjdIf1zA6wU> (Asset allocation video)
36. Strategic Asset Allocation is allocation aligned to the financial goals of the individual. It considers the returns required from the portfolio to achieve the goals, given the time horizon available for the corpus to be created and the risk profile of the individual.
37. Strategic asset allocation - to maintain a target allocation across various asset categories. to arrive at allocation between various asset categories in percentage terms. This percentage target is also called the “strategic asset allocation”.
38. Tactical asset allocation is typically suitable for seasoned investors operating with a large investible surplus.
39. Tactical asset allocation dynamically changes the allocation between the asset categories to take advantage of the opportunities presented by various markets at different points of time
40. A mutual fund is managed by a team of professionals, known as the asset management company. By choosing to invest through mutual funds, one is not investing in alternative investment options, but only changing the way of investing money.

## **Chapter 2 – Concept and Role of a Mutual Fund**

[https://youtu.be/lhTtfaFoV90?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/lhTtfaFoV90?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

1. [https://youtu.be/07mktpDEYil?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/07mktpDEYil?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)
2. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal to invest in different markets and securities, in line with stated investment objectives.
3. The investment that an investor makes in a scheme is translated into a certain number of ‘Units’ in the scheme.
4. The number of units issued by a scheme multiplied by its face value (Rs. 10) is the capital of the scheme—its Unit Capital.

5. The fees or commissions paid to various mutual fund constituents come out of the expenses charged to the mutual fund scheme. These are known as recurring expenses.
6. the true worth of a unit, is called Net Asset Value (NAV).
7. When a scheme is first made available for investment, it is called a 'New Fund Offer' (NFO).
8. Sum of all investments made by investors in the mutual fund scheme is the entire mutual fund scheme's size, is known as the scheme's Assets Under Management (AUM).
9. Process of valuing each security in the investment portfolio of the scheme at its current market value is called Mark to Market (MTM).
10. Mutual funds also offer facilities that help investors invest amounts regularly through a Systematic Investment Plan (SIP); or withdraw amounts regularly through a Systematic Withdrawal Plan (SWP); or move money between different kinds of schemes through a Systematic Transfer Plan (STP).
11. Open-ended funds allow the investors to enter or exit at any time, after the NFO.
12. Close-ended funds have a fixed maturity. Investors can buy units of a close-ended scheme, from the fund, only during its NFO.
13. Closed Ended Funds have a fixed Unit Capital
14. Interval funds combine features of both open-ended and close-ended schemes. They are largely close-ended but become open-ended at pre-specified intervals.
15. The periods when an interval scheme becomes open-ended, are called 'transaction period'; the period between the close of a transaction period, and the opening of the next transaction period is called the 'interval period'.
16. Minimum duration of transaction period is 2 days, and minimum duration of interval period is 15 days.
17. Exchange Traded Funds (ETFs) are those mutual fund schemes that are traded on a stock exchange just like any other stock. These funds usually track an index or have a fixed portfolio strategy based on some index so they are passive in nature.
18. Actively managed funds are funds where the fund manager has the flexibility to choose the investment portfolio, within the broad parameters of the investment objective of the scheme.
19. Passive funds invest on the basis of a specified index; whose performance it seeks to track. They are not designed to perform better than the market. Such schemes are also called index schemes. these schemes have low running costs
20. Fixed Maturity Plans are a kind of close-ended debt fund where the duration of the investment portfolio is closely aligned to the maturity of the scheme.
21. Capital Protection Funds are closed-end hybrids funds. In these types of funds, the exposure to equity is typically taken through the equity derivatives market.
22. Infrastructure Debt Funds are investment vehicles that can be sponsored by commercial banks and NBFCs in India in which domestic/offshore institutional

investors, especially insurance and pension funds can invest through units and bonds issued by the IDFs.

23. SEBI has defined large cap, mid cap and small cap companies as follows:

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

### Equity Schemes

[https://youtu.be/eSQnv0e9awQ?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/eSQnv0e9awQ?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

[https://www.youtube.com/watch?v=Ne1k-BrcI9E&index=9&list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://www.youtube.com/watch?v=Ne1k-BrcI9E&index=9&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

[https://youtu.be/xlCsRC3cqzI?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/xlCsRC3cqzI?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

No.	Category of Schemes	Scheme Characteristics
1	Multi Cap Fund	Large cap – 25% ; Midcap – 25% ; Small Cap – 25%
2	Flexicap Fund	Minimum investment in equity across market cap - 65%
3	Large Cap Fund	Large cap companies-80% of total assets
4	Large & Mid Cap Fund	Large cap -35% & Mid cap stocks-35% of total assets
5	Mid Cap Fund	Minimum investment in mid cap -65% of total assets
6	Small cap Fund	Minimum investment small cap -65% of total assets
7	Dividend Yield Fund	Minimum investment -65% in Dividend yielding stocks
8	Value Fund*	Value investment strategy. 65% of total assets in equity
	Contra Fund*	Contrarian investment strategy. 65% of total assets in equity
9	Focused Fund	<b>Max number of 30 stocks. Needs to mention where it intends to focus - Multi / Large / Mid /Small cap.</b>
10	Sectoral/ Thematic	80% of total assets in that Particular Sector / Theme
11	ELSS	<b>At least 80% in Equity &amp; Equity related instruments. Sec 80C tax benefit. 3 years Lock-in.</b>

*Mutual funds in India are permitted to offer either Value Fund or Contra Fund.  
If a Mutual Fund has launched Value Fund then it cannot Launch Contra Fund  
If a Mutual Fund has launched Contra Fund then it cannot Launch Value Fund*

## **DEBT Funds**

[https://www.youtube.com/watch?v=3w\\_Ta-iUJzc&index=7&list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://www.youtube.com/watch?v=3w_Ta-iUJzc&index=7&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

<b>Category of Schemes</b>	<b>Scheme Characteristics</b>
Overnight Fund	Investment in overnight securities having maturity of <b>1 day</b>
Liquid Fund	Debt & money market securities with maturity of upto <b>91 days only</b>
Ultra Short Duration Fund	Investment in Debt & Money Market - <b>3 months -6 months</b>
Low Duration Fund	Investment in Debt & Money Market - <b>6 months-12 months</b>
Money Market Fund	Money Market instruments having <b>maturity upto 1 year</b>
Short Duration Fund	Investment in Debt & Money Market instruments - <b>1 year –3 years</b>
Medium Duration Fund	Investment in Debt & Money Market instruments - <b>3 years –4 years</b>
Medium to Long Duration Fund	Investment in Debt & Money Market instruments - <b>4 –7 years</b>
Long Duration Fund	Investment in Debt & Money Market <b>greater than 7 years</b>
Dynamic Bond	Investment across duration (i.e Bonds of all maturity / term)
Corporate Bond Fund	Corporate bonds – <b>80% in AA+ &amp; above rated bonds</b>
Credit Risk Fund	Minimum 65% in <b>AA and Below rated bonds</b>
Banking and PSU Fund	<b>Debt instruments of banks, PSU, PFI -80% of total assets</b>
Gilt Fund	Minimum investment in <b>Gsecs-80%</b> of total assets (across maturity)
Gilt Fund with 10 year constant duration	Minimum investment in <b>Gsecs-80%</b> of total assets such that the Macaulay duration of the portfolio is equal to <b>10 years</b>
Floater Fund	Minimum investment in floating rate instruments-65% of total assets

## **Hybrid Funds – Investing in two or more asset class**

[https://www.youtube.com/watch?v=AXHEbVFHrpQ&index=8&list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://www.youtube.com/watch?v=AXHEbVFHrpQ&index=8&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

<b>Category of Schemes</b>	<b>Scheme Characteristics</b>
Conservative Hybrid Fund	Equity - 10% to 25%; Debt - 75% to 90% of total assets

Balanced Hybrid Fund	Equity - 40% to 60%; Debt - 40% to 60% of total assets
Aggressive Hybrid Fund	Equity - 65% to 80%; Debt - 20% to 35% of total assets
Dynamic Asset Allocation or Balanced Advantage	Investment in equity/ debt that is managed dynamically Equity - 0% to 100%; Debt - 0% to 100% of total assets
Multi Asset Allocation	Invests in at least <b>three asset classes</b> with a minimum allocation of at least <b>10% each in all three asset classes</b>
Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets
Equity Savings	Equity – minimum 65% of total assets and minimum investment in debt- 10% of total assets. <b>Hedging ALLOWED</b>

*Mutual funds in India are permitted to offer either Aggressive Hybrid Fund or Balanced Fund.*

#### **Solution Oriented Schemes:**

Sr. No	Category of Schemes	Scheme Characteristics
1	Retirement Fund	Scheme having a <b>lock-in for at least 5 years or till retirement age whichever is earlier</b>
2	Children's Fund	Scheme having a <b>lock-in for at least 5 years or till the child attains age of majority whichever is earlier</b>

#### **Other Schemes**

Sr. No	Category of Schemes	Scheme Characteristics
1	Index Funds/ ETFs	Minimum investment in securities of a particular index (which is being replicated/ tracked)- 95% of total assets
2	FoFs (Overseas/ Domestic)	Minimum investment in the underlying fund- 95% of total assets.

**There can be only one scheme per category, except in the following cases:**

1. Index funds and ETFs replicating or tracking different indices,
2. Fund of Funds having different underlying schemes, and
3. Sector funds or thematic funds investing in different sectors or themes

Index or Passive Funds : <https://www.youtube.com/watch?v=uq7ICqOk4bw>

**Gold Exchange Traded Funds (GETFs) –**

[https://youtu.be/VOzaJ55IM5o?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/VOzaJ55IM5o?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

**Gold Sector Funds** are schemes that invest in shares of gold mining and other gold processing companies.

**Capital Protected Schemes are close-ended schemes**, which are structured to ensure that investors get their principal back, irrespective of what happens to the market.

**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.

**Fixed Maturity Plans – close ended** with a fixed tenure, the maturity period ranging from one month to three/five years. Fixed maturity plans are a kind of **debt fund** where the **investment portfolio is closely aligned to the maturity of the scheme**.

### **CHAPTER 3: LEGAL STRUCTURE OF MUTUAL FUNDS IN INDIA**

[https://youtu.be/bhXoJXpMiNU?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/bhXoJXpMiNU?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

1. Mutual funds are constituted as Trusts. Therefore, they are governed by the Indian Trusts Act, 1882.
2. Day to day management of the schemes is handled by an Asset Management Company (AMC). The AMC is appointed by the sponsor or the Trustees.
3. AMC should have networth of at least Rs 50 crore.
4. At least 50% of the directors of AMC should be independent directors.
5. Prior approval of the trustees is required before a person is appointed as director on the board of the AMC.
6. Appointment of an AMC can be terminated by a majority of trustees, or by 75 % of the Unit-holders
7. The sponsor needs to have a minimum 40% shareholding in the capital of the AMC.
8. The sponsor has to appoint at least 4 trustees – at least two-thirds of them need to be independent.
9. The application to SEBI for registration of a mutual fund is made by the sponsor(s) and the sponsor invests in the capital of the AMC.
10. Association of Mutual Funds in India's (AMFI) website lists the names of all the Asset Management Companies, which are members of AMFI, in terms of the category of the sponsor, viz., Banks, Institutions, Private sector, etc.
11. The custodian has custody of the assets of the fund. Custodian Accept and give delivery of securities and settles all the transactions
12. Custodian is a SEBI Registered entity appointed by Trustees and Tracks corporate actions such as dividends, bonuses and rights

13. Scheme auditor is appointed by the Trustees, the AMC auditor is appointed by the AMC. Auditor appointed to audit MF scheme accounts needs to be different from the auditor of the AMC. Scheme A/c maintained independently of AMC A/c
14. Collecting banks enable the collection and payment of funds for the schemes
15. Depository holds the securities in dematerialised or electronic form. National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) are two depositories in India
16. Fund management is the most critical function in an Asset Management Company. It is at the core of the value proposition offered by the firm. The main function of this team is to invest the investors' money in line with the stated objective of the scheme and to manage the same effectively.
17. Registrar and Transfer Agency (RTA), which is a big part of this unit, maintains investor records as well as allots or redeems units, processes purchase/redemption/switch requests, dividends, etc. Appointing a Registrar & Transfer Agent (RTA) is optional. AMC can do this in-house also
18. Offices of RTA – Investor Service Centres
19. Dealer place orders with securities brokers based on the instructions of the fund managers
20. Fund accountant performs the role of calculating the NAV, by collecting information about the assets and liabilities of each scheme.
21. All distributors need to pass the NISM Certification Examination (NISM-Series-V-A: Mutual Fund Distributors (MFD) Certification Examination) and register with AMFI.
22. It is mandatory for all investors in the securities market, including the mutual fund investors, to be KYC (Know Your Customer) compliant under the provisions of the Prevention of Money Laundering Act.
23. 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 employees of Mutual Fund Distributors AMFI allot EUIN (Employee Unique Identification Number)
24. AMFI is neither a regulatory body nor a Self-Regulatory Organisation (SRO). AMFI conducts nationwide investor awareness programme and also interact with SEBI, RBI, Government on all matters concerning the mutual fund industry
25. AMFI disseminate information on the MF industry and to undertake studies and research

#### **CHAPTER 4: LEGAL AND REGULATORY FRAMEWORK**

1. Reserve Bank of India (RBI) that regulates the banking system, as well as money markets; Securities and Exchange Board of India (SEBI) regulates the securities markets; Insurance Regulatory and Development Authority of India (IRDAI)

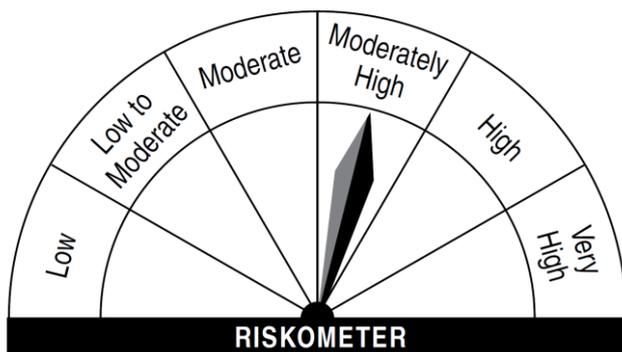
- regulates the insurance market; and Pension Fund Regulatory and Development Authority of India (PFRDA) regulates the pension market.
2. The Mutual Fund will buy and sell securities on delivery basis.
  3. The Mutual Fund shall not advance any loans.
  4. The scheme will not invest in the unlisted or privately placed securities of any associate or group company of the sponsor.
  5. Investment in the listed securities of the group companies of the sponsor will be limited to 25 percent of the net assets
  6. The Mutual Fund under all its schemes shall not own more than 10 percent of a company's paid-up capital bearing voting rights
  7. The Scheme shall not invest more than 10 percent of its NAV in the equity shares and equity related instruments of a company except Index/ Sector/Industry Specific funds
  8. No celebrities shall form part of the advertisement.
  9. A mutual fund scheme shall not invest more than 10 percent of its NAV in debt instruments comprising money market instruments and non-money market instruments issued by a single issuer which are rated not below investment grade
  10. Non-Convertible Preference Shares are to be treated as debt instruments
  11. ELSS requires that at least 80 percent of the ELSS funds should be invested in equity and equity-linked securities.
  12. Performance advertisement of mutual fund schemes shall be provided in terms of CAGR for the past 1 year, 3 years, 5 years and since inception.
  13. Unit-holders have a proportionate right to the beneficial ownership of the assets of the scheme.
  14. Investors can choose to change their distributor or opt for direct investing.
  15. 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.
  16. SEBI Complaint Redress System (SCORES) is a web-based centralized grievance redress system of SEBI. SCORES enables investors to lodge, follow up on their complaints and track the status of redressal of such complaints online on the website (<http://scores.gov.in>).
  17. 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.

## CHAPTER 5: SCHEME RELATED INFORMATION

[https://youtu.be/Yo1G\\_Rfg7Js](https://youtu.be/Yo1G_Rfg7Js)

1. Mutual fund investments are subject to market risk. It is necessary to read all scheme related documents before investing.

2. There are primarily two important documents for understanding about the mutual fund scheme:
  - Scheme Information Document (SID), which has details of the particular scheme.
  - Statement of Additional Information (SAI), which has statutory information about the mutual fund or AMC, that is offering the scheme.
3. A pictorial representation of the risk to the principal invested in a mutual fund product is depicted using a 'Riskometer'.
4. Risk-o-meter shall have the following six levels of risk for mutual fund schemes i.e., low risk, low to moderate risk, moderate risk, moderately high risk, high risk and very high risk.



5. SID also describes the Investment Objective of the scheme that helps investors match their objective to that of the scheme.
6. Key Information Memorandum (KIM) is essentially a summary of the SID and SAI. It contains the key points of these documents that are essential for the investor to know to make a decision on the suitability of the investment for their needs.
7. SID, SAI and KIM need to be updated periodically and the interim changes are updated through the issuance of an addendum. The addendum is considered to be a part of the scheme related documents and must accompany the KIM.
8. Current value of investments Unit balance in the investor's account X current NAV
9. Regular updating of SAI has to be done by the end of 3 months of every financial year.
10. KIM shall be updated at least once in half-year, within one month from the end of the respective half-year, based on the relevant data and information as at the end of September and March and shall be filed with SEBI forthwith through electronic mode only.
11. Mutual Fund declares the Net Asset Value of the scheme on every business day on AMFI's website [www.amfiindia.com](http://www.amfiindia.com).
12. In case of open-ended schemes, the NAV is calculated for all business days and released to the Press. In case of closed-ended schemes, the NAV is calculated at least once a week.

13. Fund factsheet contains the basic information of each scheme such as the inception date, corpus size (AUM), current NAV, benchmark and a pictorial depiction of the fund's style of managing the fund.

### **Scheme Information Document has the following information**

- details of the particular scheme
- Name of the scheme
- Type of the scheme-Open-ended/Close-ended/Interval
- Equity/Debt/Liquid/Hybrid etc.(the expected nature of scheme portfolio)
- Standard RiskFactors-risks that all mutual fund investments are exposed to
- Scheme Specific Risk-certain risks specific to the individual asset category.
- minimum number of investors in the scheme-20

### **SAI – Statement of Additional Information**

- Single SAI is relevant for all the schemes offered by a mutual fund
- SAI is part of the SID and has statutory information about the mutual fund or AMC, that is offering the scheme
- Contents of SAI - Constituents of the mutual fund, How to apply, Rights of Unit Holders, Investment Valuation norms, Tax Legal, Investor Grievance

### **Key Information Memorandum KIM**

- KIM is essentially a summary or synopsis of the SID and SAI
- Key Information Memorandum (KIM) is mandatorily circulated along with the application form. As per SEBI regulations, every application form is to be accompanied by the KIM.
- SID, SAI and KIM need to be updated periodically,
- Interim changes are updated through the issuance of addendum
- Addendum is considered to be a part of the scheme related documents and must accompany the KIM

### **Fundamental Attributes**

- Type of a scheme - Open ended/Close ended/Interval scheme, Sectoral/Equity Fund/Balance Fund/Income Fund/Index Fund/Any other type of Fund
- Investment Objective – Growth or Income
- Tentative Portfolio, minimum and maximum asset allocation, option to alter the asset allocation for a short term period on defensive considerations
- Terms of Issue like Liquidity Provisions such as Listing Purchase Redemption

- Fees or Expenses charged, Any Safety net or guarantee

### **Change in Fundamental Attributes and other important points**

- A written communication about the proposed change is sent to each Unit- holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and
- The Unitholders are given an option for a period of 30 days to exit at the prevailing Net Asset Value without any exit load.
- KIM shall be updated at least once in half-year
- SID shall be revised and updated immediately after completion of duration of the exit option (not less than 30 days from the notice date) in case of change in Fundamental attributes
- Regular update of SID shall be done within one month from the end of each half-year period
- Regular update of SAI has to be done by the end of 3 months of every financial year.
- Documents in the market are “vetted” by SEBI, and not approved by SEBI.
- SID and SAI are prepared in the format prescribed by SEBI
- Draft SID and SAI are available on SEBI’s website
- The final documents (after incorporating SEBI’s observations) have to be hosted on AMFI’s website (www.amfiindia.com) two days before the issue opens.
- Mutual Funds/ AMCs shall disclose portfolio (along with ISIN) as on the last day of the month / half-year for all their schemes on their respective website and on the website of AMFI within 10 days from the close of each month/ half-year respectively
- **Non-Mandatory Document - Monthly Fact Sheet.** It is not a regulatory requirement to publish the monthly fact sheet, rather it is a market practice followed. Factsheet is a marketing and information document

### **CHAPTER 6: FUND DISTRIBUTION AND CHANNEL MANAGEMENT PRACTICES**

1. Mutual funds are distributed in India to the investors through multiple channels, viz., individual mutual fund distributors, bank branches, national distributors through their branches or their sub-agents, post offices, and directly by the AMCs.
2. SEBI has facilitated buying and selling of the units of open-ended mutual funds through the stock exchanges.
3. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) have extended their trading platforms to help the stock exchange brokers become a channel for investors to transact in Mutual Fund units.

4. NSE's platform is called NMF II Platform. BSE's platform is the BSE STAR Mutual Funds Platform.
5. MF Utilities (MFU) is a transaction aggregating platform that connects investors, RTAs, distributors, banks, AMCs and others.
6. Investors who register on the MFU are allotted a Common Account Number (CAN) under which all their mutual fund holdings are consolidated.
7. Trail commission is calculated as a percentage of the net assets attributable to the Units sold by the distributor. It is normally paid by the AMC on a monthly basis.
8. Investment advisor means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser.
9. In order to cater to people with small saving potential and to increase reach of mutual fund products in urban areas and smaller towns, SEBI has allowed a transaction charge per subscription of Rs. 10,000/- and above to be paid to distributors of the mutual fund products.
10. Transaction charges do not apply to transactions other than purchases/subscriptions that result in fresh inflows.
11. Permanent Account Number (PAN)/PAN Exempted KYC Reference Number (PEKRN) will be used to identify the investor as a new/existing investor.
12. Goods and Services Tax (GST) became applicable with effect from July 2017. GST is payable by any person making taxable supplies of goods/services and whose annual turnover exceeds Rs. 20 lakhs.
13. Trail Commission payable as a percentage of AUM attributable to the Units sold by the distributor
14. Trail commission is paid for as long as the investor's money is held in the fund.
15. No commission is payable to the distributor for their own investments

**Transaction Charges** : a transaction charge per subscription of Rs. 10,000/- and above to be paid to distributors of the mutual fund products.

Type of Investor	Transaction Charges (For Purchase / Subscription of Rs 10,000 and above)
First time Mutual Fund Investor	Rs 150
Investor other than First time Investor	Rs 100

[https://youtu.be/If8e18D9cX0?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/If8e18D9cX0?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

1. Transaction charges not applicable on direct investments, Switches, STP ,SWP, Redemption
2. In SIP, transaction charges deducted in 4 equal instalments.

3. NIL transaction charges for customers of Distributors who have chosen the 'opt out' option
4. 'OPT OUT' shall be at the distributor level & Product level and not at Investor Level
5. PAN/PEKRN will be used to identify the investor as a new/existing investor.
6. SEBI has mandated AMCs to put in place a due diligence process to regulate distributors who qualify any one of the following criteria:
  - Multiple point presence (More than 20 locations)
  - AUM raised over Rs. 100 crores across the industry in the non-institutional category but including high net worth individuals (HNIs)
  - The commission received of over Rs. 1 Crore p.a. across industry
  - The commission received of over Rs. 50 Lakhs from a single mutual fund

## **CHAPTER 7: NET ASSET VALUE, TOTAL EXPENSE RATIO AND PRICING OF UNITS**

1. The unit-holders' funds in the scheme is commonly referred to as "net assets".
2. Net asset includes the amounts originally invested, the profits booked in the scheme, as well as appreciation in the investment portfolio. It goes up when the market goes up, even if the investments have not been sold.
3. NAV of the scheme will depend upon the value of this portfolio, which in turn, depends upon the value of the securities held in it.
4. The process of valuing each security in the investment portfolio of the scheme at its current market value is called 'mark to market'.
5. Investment and Advisory Fees are charged to the scheme by the AMC.
6. The difference between the NAV and re-purchase Price is called the "exit load".
7. NAV is to be calculated up to 4 decimal places in the case of index funds, liquid funds and other debt funds. In case of equity and balanced funds is to be calculated up to at least 2 decimal places.
8. SEBI has banned entry loads. So, the Sale Price needs to be the same as NAV
9. Exit loads have to be credited back to the scheme immediately
10. Mutual funds are not allowed to charge differential exit loads based on the amount of investment.
11. Initial Issue / NFO Expenses are Borne by AMC
12. Index fund / ETF - Total expense ratio including the investment and advisory fees shall not exceed 1%.
13. Closed Ended Equity Scheme Equity Max Total expense ratio including the investment and advisory fees shall not exceed 1.25%
14. The securities shall be valued at the last quoted closing price on the stock exchange

15. When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is principally traded.
16. When a security is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a 'non-traded' scrip.
17. Segregated Portfolio is a portfolio, comprising of debt or money market instrument affected by a credit event
18. AMC shall not charge investment and advisory fees on the segregated portfolio.
19. The Net Asset Value (NAV) of the segregated portfolio shall be declared on a daily basis.
20. Segregated portfolio shall be effective from the day of credit event
21. All existing investors shall be allotted equal number of units in the segregated portfolio as held in the main portfolio as on the day of the credit event
22. Redemption or subscription is not allowed in a segregated portfolio
23. Units of segregated portfolio shall be listed on recognized stock exchanges
24.  $NAV = (\text{Value of stocks} + \text{Value of bonds} + \text{Value of money market instruments} + \text{Dividend accrued but not received} + \text{Interest accrued but not received} - \text{Fees payable}) / \text{No. of outstanding units}$

**NAV & Sale Price Explanation - [https://youtu.be/rVuo\\_gTWTLQ](https://youtu.be/rVuo_gTWTLQ)**

**NAV Calculation Video –**

[https://youtu.be/Iz0YUFimOTs?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/Iz0YUFimOTs?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

## **CHAPTER :8 TAXATION**

- Section 10(23)(D) of the Income Tax Act exempts all the income earned by the mutual fund schemes.
- Long term Capital Gain
  - Equity Schemes (65% & above in Domestic Equity) – more than 1 year holding period
  - Non Equity Schemes (35% to 64% in Equity) – more than 3 years Holding period.
  - Non Equity Schemes (less than 35% in Equity) – always Short term irrespective of Holding period
- Short term Capital Gain
  - Equity Schemes (65% & above in Domestic Equity) – Less than or Equal to 1 year holding period
  - Non Equity Schemes (35% to 64% in Equity) – Less than or Equal to 3 years Holding period.
  - Non Equity Schemes (less than 35% in Equity) – always Short term irrespective of Holding period

	Equity-oriented funds*	Non-equity-oriented funds Equity between 35% to 65% of portfolio	Non-equity oriented funds with equity less than 35% of portfolio
Short term capital gains	15 percent	Marginal tax rate, as applicable for the investor	Marginal tax rate, as applicable for the investor
Long term capital gains	10 percent	20% with indexation benefits ( <i>see Box 8.1</i> )	It is taxable as STCG irrespective of holding period

Indexation Video - [https://youtu.be/xvXvR4unxk8?list=PLCZvkZJiAVK56z\\_al\\_5b-4WMMRUXMWydc](https://youtu.be/xvXvR4unxk8?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc)

- Equity Long-term capital gains – First 1 lakh is tax free.
- Dividends are taxed in the hands of Investors as per their slab
- Securities Transaction Tax (STT) at the time of Redemption applicable only for Equity Schemes.

Transaction	STT Rates	Payable by
Purchase of units of equity oriented mutual fund	Nil	Purchaser
Sale of units of equity oriented mutual fund (delivery based)	0.001	Seller
Sale of units of an equity oriented mutual fund to the mutual fund	0.001	Seller

### **Setting off Capital Losses under Income Tax Act**

- Capital loss, short term or long term, cannot be set off against any other head of income (e.g. salaries).
- Short term capital loss set off against short term capital gain or long-term capital gain.
- Long term capital loss can only be set off against long term capital gain

The dividend would be added to the taxable income of the assessee for the year. The dividends would be taxable in the hands of the recipient at the applicable tax rate.

### **Tax benefit under Section 80C of the Income Tax Act**

Certain mutual fund schemes, known as Equity Linked Savings Schemes (ELSS) are eligible for deduction under Section 80C of the Income Tax Act. As the name suggests, this is an equity linked scheme, and hence the scheme invests in equity shares. The benefit is available upto Rs. 1.50 lacs per year per taxpayer in case of individuals and HUFs. The scheme has a lock-in period of three years from the date of investment.

### **Tax Deducted at Source**

There is no TDS on re-purchase proceeds to resident investors.

In case of dividends from mutual fund schemes, even for resident Indians, TDS is applicable. Tax is required to be deducted at 10 percent on the dividend amount if it exceeds Rs. 5,000.

Dividend plans in Mutual Funds are called IDCW (Income Distribution cum Capital Withdrawal)

## **CHAPTER 9: INVESTOR SERVICES**

Close-ended Schemes have an NFO Open Date and NFO Close Date. But, they have no Scheme Re-opening Date, because the scheme does not sell or re-purchase units. Investors will need to buy or sell units from the stock exchange where the scheme is listed.

### **Direct and Regular Plans**

Investors have the option to invest (purchase or subscribe to mutual fund units) directly without routing the investment through a distributor (Direct Plan). In this case, the investor

must mention "Direct" in the space provided in the application form for entering the AMFI

Registration Number (ARN).

If the investment (purchase/subscription) is routed through a distributor/Advisor (Regular Plan) then the ARN/RIA number and other details have to be provided in the space provided for the same.

The direct plan shall have a lower expense ratio excluding distribution expenses, commission,

etc., and no commission shall be paid from such plans. Since the TER is different in both cases, the plans will have separate NAVs

**Annual Account Statement** – MF's provide the Account Statement to the Unit-holders who have not transacted during the last 6 months prior to the date of generation of account statements. The Account Statement reflects the latest closing balance and value of the units prior to the date of generation of the account statement.

**Consolidated Account Statement** - (CAS) for each calendar month is sent by post/email provided there has been a financial transaction in the folio in the previous month. If an email id is registered with the AMC, only a CAS via email is sent. For the purpose of sending CAS, investors are identified across mutual funds by their Permanent Account Number (PAN).

**Switch** is a redemption from one scheme & a purchase into another combined into one transaction. It is a combination of Purchase and Repurchase transactions simultaneously.

**NACH** - National Automated Clearing House (NACH) is a centralised clearing system launched by the National Payments Corporation of India (NPCI). NACH have same day presentation and settlement, including returns processing. It comes in two variants – NACH Credit and NACH Debit.

**Application Supported by Blocked Amount** - (ASBA) is a facility where the investment

application in a New Fund Offer (NFO) is accompanied by an authorization to the bank to

block the amount of the application money in the investor’s bank account.

The benefit of ASBA is that the money goes out of the investor’s bank account only on allotment. Until then, it keeps earning interest for the investor. Further, since the money transferred from the investor’s bank account is the exact application money that is due on

account of the allotment, the investor does not have to wait for any refund

**Cash Payments** - Mutual funds usually do not accept cash. Small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small traders/businessmen/workers are allowed cash transactions for purchase of units in mutual funds to the extent of Rs. 50,000/- per investor, per mutual fund, per financial year

**Instant Access Facility** - IAF facilitates credit of redemption proceeds in the bank account of the investor on the same day of the redemption request. The MFs/AMCs can offer IAF only in Liquid and Overnight schemes of the mutual fund. The monetary limit under the IAF is Rs. 50,000 or 90 percent of latest value of investment in the scheme, whichever is lower. This limit is applicable per day per scheme per investor. Also, there can be repurchase transactions through the stock exchange platform or MFU platform.

**CUT OFF TIMING –**

[NAV Cut off Timing for Non Liquid Funds | Mutual Fund NAV - YouTube](#)

[Cutoff Time for Liquid Fund Purchase | Mutual Fund - YouTube](#)

<b>Purchase – NON Liquid Funds</b>	<b>Time</b>	<b>NAV</b>
Fund available for Utilisation	Till 3 PM	Same day NAV
If Fund is not available for utilization on application date before 3PM then the NAV of the day on which Funds are realized before 3 pm shall be applicable.		
<b>Redemption – NON Liquid Funds, Any Amount, till 3 PM, Same Day NAV</b>		
<b>Purchase – LIQUID FUNDS</b>	<b>Time</b>	<b>NAV</b>
Fund available for Utilization	Before 1.30 pm	Previous Day NAV
If Fund is not available for utilization on application date before 1.30PM then the NAV previous to the date of Fund realization before 1.30 pm shall be applicable.		

<b>Redemption – LIQUID Funds</b>		
Any Amount	Till 3PM	NAV of the day immediately preceding the next business day

**Cutoff timings are not applicable for NFO’s and International Funds.**

**Time Stamping** - The precision in setting cut-off timing makes sense only if there is a fool proof mechanism of capturing the time at which the sale and re-purchase applications are received Mutual funds disclose Official Points of Acceptance (OPoAs) and their addresses in the SID and their website. All transaction requests need to be submitted at the OPoAs.

The time stamping on the transaction requests is done at the official points of acceptance.

SEBI and RBI have allowed Qualified Foreign portfolio investors who meet KYC requirements to invest in equity and debt schemes of Mutual Funds through two routes

- 1) Direct route – Holding MF units in Demat account through a SEBI registered DP
- 2) Indirect route – Holding MF units via Unit Confirmation Receipt (UCR)

Individual and non-individual investors are permitted to invest in mutual funds in India. The ‘Who can invest’ section of the Offer Document is the best source to check on eligibility to invest.

### **KYC Registration Agencies - KRA**

All Investors have to comply with the KYC formalities. In-Person Verification (IPV) by a SEBI-registered intermediary is compulsory for all investors. IPV done by only one SEBI-registered intermediary (broker, depository, mutual fund distributor etc.). This IPV will be valid for transactions with other SEBI-registered intermediaries too. Distributors who have a valid NISM-Series-V-A: Mutual Fund Distributors certificate and a valid ARN can carry out the In-person verification if they have completed the KYD process.

### **PAN Exempt Investments in Mutual Funds**

Micro-SIPs i.e., SIPs where annual investment does not exceed Rs 50,000. Small investors investing up to Rs. 50,000 per mutual fund per financial year do not need to provide PAN Card. Rs. 50,000 is a composite limit for the small investor’s Micro-SIP and lump sum investments together.

Government of India authorised the **Central Registry of Securitisation and Asset Reconstruction and Security Interest of India (CERSAI)** to act as and to perform the functions of the Central KYC Record Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of all the clients in the financial sector

**KYC** template finalised by **CERSAI** has to be used by the registered intermediaries

**SIP Top-up Facility** - Mutual funds provide an additional facility through an SIP to enhance the disciplined savings of investors. It is called the SIP Top-Up facility

### Nomination

- Nomination can be made in favour of a maximum of three nominees.
- Where there are multiple nominees, the unitholder(s) must define the percentage holding for each nominee making a total of 100 percent
- Only individual investors can make a nomination. Investments by minors cannot have a nomination. A Power of Attorney holder cannot make a nomination.
- The nominee can be an individual, including minors and NRIs, central and state governments and local authorities. If the nominee is a minor, then a guardian too can be specified.
- nomination cannot be made in favour of a trust (except a religious or charitable trust), society, body corporate, partnership, Karta of an HUF or a Power of Attorney holder.

**Transmission of Units** - process of transferring units to the person entitled to receive it in the event of the death of the unit holder. The person entitled to receive it depends upon the folio conditions of joint holding and nomination. If the first holder passes away, the second holder is substituted as first holder. In a singly held folio with nominations, the units are transferred to the nominee. If a folio is jointly held and has nominations, the right of the joint holder will take precedence. If there are no nominations in the folio, the units are transmitted to the legal successors

<b>Service provided by Mutual Funds</b>	<b>Turnaround Time</b>
NAV Calculation and disclosure	On a daily basis
Mutual Fund Schemes (other than IPO of ELSS) to remain open for subscription	Maximum of 15 days
Mutual Fund Schemes to allot units or refund money	Within 5 business days of closure of NFOs
Re-opening for ongoing sale/re-purchase of open ended scheme (other than ELSS)	Within 5 business days of allotment
Dispatch of Dividend warrants to investors	Within 30 days of declaration of the dividend
Dispatch of Redemption/re-purchase cheques to investors	Within 10 working days from the date of receipt of transaction request.
Scheme-wise Annual Report or an abridged summary to all unit holders	Four months from the date of closure of the relevant accounts year
Statement of portfolio to be sent to all unitholders	Before the expiry of 10 days from the close of each half year (i.e. 31st Mar and 30th Sep)

Half Yearly Disclosures (unaudited financial results) on mutual fund website	Within 1 month from the close of each half year (i.e. 31st Mar and 30th Sep)
A Consolidated Account Statement (CAS) by post/email	On or before 10th of the succeeding month
Unit certificate	To be issued within 5 working days of the receipt of request for the certificate.
	For close ended schemes, units in demat form to be issued to unitholders within 2 working days of the receipt of request from unitholders.
Initial transaction SIP / STP / SWP	within 10 working days
Ongoing SIP/STP/SWP	once every calendar quarter (March, June, September, December) within 10 working days of the end of the quarter.
On specific request by investor	it will be dispatched to investor within 5 working days without any cost.

## **CHAPTER 10: RISK, RETURN AND PERFORMANCE OF FUNDS**

<https://www.youtube.com/watch?v=IuoBu2OqaCc>

### **General Risk Factors**

- Liquidity Risk
- Interest Rate Risk
- Re-investment Risk
- Political Risk
- Economic Risk
- Foreign Currency Risk

### **Specific Risk Factors**

- Risk related to equity and equity related securities
  - Risk associated with short selling and Stock Lending
  - Risks associated with mid-cap and small-cap companies
  - Risk associated with Dividend
  - Risk associated with Derivatives
- Risks related to debt funds
  - Reinvestment Risk
  - Rating Migration Risk
  - Term Structure of Interest Rates Risk
  - Credit Risk
  - Risk associated with floating rate securities
  - Risk factors associated with repo transactions in Corporate Bonds
  - Risks associated with Creation of Segregated portfolio
  - Risks associated with investments in Securitized Assets

## **Fundamental and Technical analysis**

Fundamental analysis is a study of the business and financial statements of a firm in order to identify securities suitable for the strategy of the schemes as well as those with high potential for investment returns and where the risks are low.

Fundamental analysis → security selection strategy → identifying long term investment avenues.

Technical Analysts believe that price behaviour of a share over a period of time throws up trends for the future direction of the price. Along with past prices, the volumes traded indicate the underlying strength of the trend and are a reflection of investor sentiment, which in turn will influence future price of the share. Technical Analysts therefore study price-volume charts (a reason for their frequently used description as “*chartists*”) of the company’s shares to decide support

**Earnings per Share (EPS):** Net profit after tax ÷ No. of equity shares outstanding

**Price to Earnings Ratio (P/E Ratio):** Market Price per share ÷ Earnings Per Share (EPS)

The **Price Earnings to Growth (PEG) ratio** relates the PE ratio to the growth estimated in the company’s earnings. A PEG ratio of one indicates that the market has fairly valued the

company’s shares, given its expected growth in earnings. A ratio less than one indicates the

equity shares of the company are undervalued, and a ratio greater than one indicates an overvalued share.

**Book Value per Share:** Net Worth ÷ No. of equity shares outstanding

**Price to Book Value:** Market Price per share ÷ Book Value per share

**Dividend Yield:** Dividend per share ÷ Market price per share

*Growth investment style* entails investing in high growth stocks i.e. stocks of companies that are likely to grow much faster than the market

*Value investment style* is an approach of picking up stocks, which are priced lower than their

intrinsic value, based on fundamental analysis

Investors need a longer investment horizon to benefit from the price appreciation in such stocks.

**Portfolio building approach – Top down and Bottom up**

A *bottom-up* approach on the other hand analyses the company-specific factors first and then evaluates the industry factors and finally the macro-economic scenario and its impact on the companies that are being considered for investment. Stock selection is the key decision in this approach; sector allocation is a result of the stock selection decisions.

Both the approaches have their merit. Top down approach minimizes the chance of being stuck with large exposure to a poor sector. Bottom up approach ensures that a good stock is picked, even if it belongs to a sector that is not so hot. What is important is that the approach selected should be implemented professionally.

**Standard Deviation** - is a measure of total risk in an investment. As a measure of risk it is relevant for both debt and equity schemes. A high standard deviation indicates greater volatility in the returns and greater risk. Comparing the standard deviation of a scheme with that of the benchmark and peer group funds gives the investor a perspective of the risk in the scheme

**Beta** - is based on the *Capital Asset Pricing Model (CAPM)*, which states that there are two kinds of risk in investing in equities – *systematic risk* and *non-systematic risk*.

**Modified duration** measures the sensitivity of value of a debt security to changes in interest rates. Higher the modified duration, higher is the interest sensitive risk in a debt portfolio. The credit rating profile indicates the credit or default risk in a scheme. Government securities do not have a credit risk. Similarly, cash and cash equivalents do not have a credit risk. Investments in corporate issuances carry credit risk. Higher the credit rating, lower is the default risk.

Segregated portfolio means a portfolio, comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme. “Main portfolio” means the scheme portfolio excluding the segregated portfolio. Asset Management Company (AMC) were allowed to create segregated portfolio in a mutual fund scheme in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA). Creation of segregated portfolio was made optional and at the discretion of the AMC.

## **CHAPTER 11: MUTUAL FUND SCHEME PERFORMANCE**

Returns can be measured in various ways – Simple Returns, Annualised Returns, Compounded Returns, Compounded Annual Growth Rate. CAGR assumes that all dividend payouts are reinvested in the scheme at the ex-dividend NAV.

SEBI guidelines govern disclosures of return by mutual fund schemes. Loads and taxes pull the investor's returns below that earned by the Scheme. Investor returns are also influenced by various actions of the investor himself.

### **Price Return Index or Total Return Index**

Earlier, the Mutual Fund schemes were benchmarked to the Price Return variant of an Index

(PRI). PRI only captures capital gains of the index constituents.

**Total Return variant of an Index (TRI)** variant of an index considers all dividends/interest payments that are generated from the basket of constituents that make up the index in addition to the capital gains.

**NSE's MIBOR** (Mumbai Inter-Bank Offered Rate) is based on short term money market. NSE similarly has indices for the Government Securities Market.

**ICICI Securities' Sovereign Bond Index (I-Bex)** is based on government securities. It consists of an umbrella index covering the entire market, and sub-indices catering to three contiguous maturity buckets. The three sub-indices are—**Si-Bex (1 to 3 years), Mi-Bex (3 to 7 years) and Li-Bex (more than 7 years )**

Liquid schemes invest in securities of upto 91 days' maturity. Therefore, a short term money

market benchmark such as NSE's MIBOR or CRISIL Liquid Fund Index is suitable.

**Hybrid Funds** - invest in a mix of debt and equity. Therefore, the benchmark for a hybrid fund is a blend of an equity and debt index. CRISIL Hybrid Index

**Gold ETF** - Gold price would be the benchmark for such funds.

**Real Estate Funds** - A few real estate services companies have developed real estate indices. These have shorter histories, and are yet to earn the wider acceptance that the equity indices enjoy.

**International Funds** - The benchmark would depend on where the scheme proposes to invest. Thus, a scheme seeking to invest in China might have the Hang Seng Index (Chinese index) as the benchmark.

S&P 500 may be appropriate for a scheme that would invest largely in the US market

### **Standard benchmarks**

Equity scheme → Sensex or Nifty

Long term debt scheme → 10 year dated GoI security

Short-term debt fund → 1 year T-Bill

Gold is a truly international asset, whose quality can be objectively measured. The value of gold in India depends on the international price of gold (which is quoted in foreign currency), the exchange rate for converting the currency into Indian rupees, and any duties on the import of gold.

Unlike gold, which is a global asset, real estate is a local asset. It cannot be transported – and its value is driven by local factors

**Sharpe Ratio = (Rs minus Rf) ÷ Standard Deviation**

**Treynor Ratio = (Rs minus Rf) ÷ Beta**

**Alpha** - Non-index schemes too would have a level of return, which is in line with its higher or lower beta as compared to the market. Let us call this the *optimal return*.

The difference between a scheme's actual return and its optimal return is its *Alpha*—a measure of the fund manager's performance. Alpha measures the performance of the investment in comparison to a suitable market index. Positive alpha is indicative of outperformance by the fund manager; negative alpha might indicate under-performance

**Tracking Error** - The Beta of the market, by definition is 1. An index fund mirrors the index. Therefore, the index fund too would have a Beta of 1, and it ought to earn the same return as the market. The difference between an index fund's return and the market return is the *tracking error*

## **CHAPTER 12: MUTUAL FUND SCHEME SELECTION**

### ***International Equity funds***

When an Indian investor invests in equities abroad, he is essentially taking two exposures:

- An exposure on the international equity market.
- An exposure to the exchange rate of the rupee. If the investor invests in the US, and the US Dollar becomes stronger during the period of his investment, he benefits; if the US Dollar weakens (i.e. Rupee becomes stronger), he loses or the portfolio returns will be lower.

### ***Portfolio Turnover***

Purchase and sale of securities entails broking costs for the scheme. Frequent churning of the portfolio would not only add to the broking costs, but also be indicative of unsteady investment management.

Portfolio Turnover Ratio is calculated as Value of Purchase and Sale of Securities during a

period divided by the average size of net assets of the scheme during the period

The portfolio turnover needs to be viewed in the light of the investment style.

Six month holding period may be too short for a value investment style, but perfectly acceptable for a scheme that wants to benefit from shifts in momentum. A short holding

period may indicate that the fund manager is looking for tactical investments to take advantage of short-term market opportunities rather than identifying and investing in fundamentally strong companies for the long-term.

### **Core and satellite portfolio**

#### **Core Portfolio**

To meet the long-term needs and goals of the investor.  
Long-term returns in broad alignment with the markets.  
Diversified Equity / Large Cap / Mid Cap funds are examples

#### **Satellite Portfolio**

Take advantage of expected short-term market movements - Tactical Asset Allocation  
Held for the period when the conditions are suitable.

#### Examples

- (1) Sector / Thematic Funds - Cyclical
- (2) Long term GILT Funds – Interest rates are expected to come down
- (3) Gold funds – Unstable Political Scenario

The division between core and satellite portfolios will depend upon each investor's profile. Conservative investors may like a very small proportion of their overall portfolio to be managed tactically. A moderate investor may be comfortable with an 80 percent allocation to core investments and a 20 percent exposure to satellite or tactical portfolio. An investor comfortable with taking higher risk may have an even higher exposure to tactical investments.

Significant Unit holder means any entity holding 5% or more of the total corpus of any scheme.

Amongst index schemes, tracking error is a basis to select the better scheme. Lower the tracking error, the better it is. Similarly, Gold ETFs need to be selected based on how well they track gold prices.

<https://nism.modelexam.in> (Mock Tests for NISM, Bank , Insurance & Financial Planning Exams)

### **IMPORTANT NOTE :**

1. Attend **ALL** Questions. There is NO NEGATIVE mark.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the question & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

**Scan the following QR code for NISM Mutual Fund Exam Training Videos**



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**All the Best ☺**

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