Valuation and Portfolio Management

Project - 2

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Name of the Mutual fund Scheme	Invesco India Mid Cap Fund
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Fund Manager's Name	Aditya Khemani & Amit Ganatra

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History of mutual fund industry in the world

Introduction

The mutual fund industry remains as a demonstration of the dynamism of aggregate venture vehicles, winding around a story that traverses hundreds of years of financial development. From its modest starting points in the 18th century to its ongoing height as a foundation of worldwide money, the common mutual fund industry has gone through a wonderful excursion formed by development, guideline, and market influences. This complete investigation dives into the verifiable forms of the mutual fund industry, following its direction from beginning to the cutting edge scene, with a specific spotlight on critical turns of events, administrative achievements, worldwide development, and the business' getting through influence on wealth creation and economic development around the world.

Over the long term, mutual funds have democratized admittance to venture valuable opportunities, permitting people, everything being equal, to partake in the monetary business sectors and create financial wellbeing over the long run. Furthermore, the business' accentuation on transparency, expansion, and expert administration has imparted certainty among financial investors, cultivating trust and strength in the monetary framework. As we consider the mutual fund industry's rich history, we perceive its critical job in molding the worldwide economy and giving a pathway to monetary success for a large number of financial investors all over the globe.

The Early Beginnings (18th Century)

The starting of the mutual fund industry can be looked back to the 18th century, with the establishment of the first investment trust by Dutch merchant Adriaan van Ketwich in 1774. Van Ketwich's drive, 'Eendragt Maakt Magt,' spearheaded the idea of pooling assets for investment purposes, furnishing investors with admittance to enhanced portfolios. This early type of aggregate venture set up for ensuing advancements in the business, laying the basis for modern mutual funds. However, it was not until the 19th century that collective investment vehicles gained broader recognition and adoption, particularly with the emergence of investment trusts in the UK.

Expansion and Development (19th Century)

The 19th century added on further advancements in aggregate speculation vehicles, especially in Europe. Speculation arose in the UK, offering investors potential chances to put resources into a differentiated arrangement of protections. These trusts assumed an important part in working in unfamiliar business sectors which added to the globalization of the mutual fund industry. Furthermore, the foundation of venture trusts in Switzerland and Scotland during this period highlighted the developing fame of aggregate speculation plans around the world. Before the 20th century, there were some early versions of investment pools that set the stage for what we now know as mutual funds. But it wasn't until the 1900s that the mutual funds we use today really started to develop.

The Birth of the Modern Mutual Fund (20th Century)

The early 20th century denoted a groundbreaking period for the mutual fund industry, especially in the US. The production of the Massachusetts investors trust in 1924 is generally viewed as the beginning of the modern mutual fund era. This open-end mutual fund presented proficient administration and a consistent issuance and recovery of offers, establishing the groundwork for the business' remarkable development in the decades to come. Administrative changes following the securities exchange crash of 1929, including the institution of the Protections Demonstration of 1933 and the Protections Trade

Demonstration of 1934, gave an administrative structure to mutual funds, upgrading investor insurance and transparency.

The Post-War Boom and Global Expansion (Mid-20th Century Onwards)

The post-World War II time saw a time of exceptional development and extension for the mutual fund industry. In the US, the quantity of mutual funds and assets under management flooded, powered by financial flourishing and administrative improvements. The presentation of index funds during the 1970s upset the business, offering investors a minimal expense speculation choice that tried to recreate the exhibition of market lists. Around the world, mutual funds got some decent momentum, with nations across Europe and Asia laying out their own administrative systems to work with the development of the business.

Technological Advancements and Innovation (Late 20th Century to Present)

The latter half of the 20th century saw mechanical progressions and developments that changed the mutual fund industry. The ascent of money market funds during the 1970s offered investors another speculation choice, consolidating liquidity and wellbeing with serious yields. The appearance of the web and advanced innovations upset the executives, making it simpler for investors to get to data and deal with their ventures. The introduction of exchange-traded funds (ETFs) during the 1990s gave investors another speculation vehicle that consolidated the enhancement of mutual funds with the adaptability of exchanging individual stocks. These developments prepared for the mutual fund industry to arrive at new levels of availability, productivity, and investor engagement.

The 21st Century: Challenges and Opportunities

The 21st century has brought both difficulties and opportunities for the mutual fund industry. The worldwide financial crisis of 2008 tested the flexibility of mutual funds, prompting expanded administrative examination and chance administration rehearses. In any case, the business has additionally seen huge development and advancement, with the ascent of economical and dependable financial planning picking up speed. Mutual funds have progressively consolidated environmental, social, and governance (ESG) measures into their speculation methodologies, reflecting investor interest for socially mindful venture choices. Looking forward, the mutual fund industry is prepared to continue creating due to changing business area components, innovative headways, and moving investor inclinations.

Conclusion

The historical backdrop of the mutual fund industry is a showing of its adaptability and flexibility in investigating changing business area components and managerial scenes. From its honest beginning stages to its continuous obviousness, the mutual fund industry has formed into a crucial piece of the overall money related structure, offering investors different hypothesis decisions and opportunities. Throughout the long term, it has endured monetary slumps, administrative changes, and changes in investors' feelings, arising more grounded and stronger each time. As the business keeps on advancing, its capacity to develop and meet the advancing necessities of investors will be urgent in molding its future direction. Creative movements, such as artificial intelligence and blockchain development, hold the responsibility of changing management practices, while authoritative enhancements highlighting growing transparency and investors security will energize trust and certainty. Furthermore, the mutual fund industry's obligation to investor education and fortification will expect a basic part in ensuring that investors seek after informed decisions and achieve their financial objectives.

History of mutual fund industry in India

Introduction

The mutual fund industry in India has navigated a wonderful direction since its origin, developing from a single substance into a complex area overseeing trillions of rupees in assets. This extraordinary excursion not just mirrors the advancement of India's financial scene yet in addition highlights the significant effect of mutual funds on investors and the more extensive economy. In this, we will plunge into the rich history of the mutual fund industry in India, following its improvement through key stages, authoritative changes, and fundamental accomplishments. From the spearheading days of the Unit Trust of India (UTI) to the progression time that opened ways to private and foreign players, each stage has added to the business' development and maturation. Additionally, we look at how administrative systems have developed to shield investor interests and cultivate market transparency. By disentangling the complexities of India's mutual fund journey, we gain experiences into its part in democratizing admittance to speculation opportunities and preparing reserve funds for financial development.

Phase I: The Inception and Monopoly of UTI (1964-1987)

Establishment of UTI

The mutual fund industry in India took its first steps with the establishment of the Unit Trust of India (UTI) in 1964 under the Unit Trust of India Act of 1963. UTI was a government-backed initiative aimed at mobilizing savings from retail investors and channeling them into the capital markets to fuel economic growth. The launch of the scheme, the Unit Scheme 1964 (US-64), marked the beginning of mutual fund operations in India.

UTI's Monopoly Era

For more than twenty years, UTI held an imposing business model in the Indian mutual fund industry. During this period, UTI sent off different creative plans taking care of various investor fragments, including the Master Share scheme in 1986 and Month to month Pay Plans. UTI's strength considered huge development in assets under management (AUM) and assumed an essential part in encouraging a culture of investment among the majority.

Phase II: Public Sector Expansion (1987-1993)

Entry of Public Sector Banks

The last part of the 1980s saw a huge improvement with the passage of public sector banks and monetary organizations into the mutual fund field. This enhancement denoted the finish of UTI's elite command over the business. Driving public area elements, for example, the State Bank of India, Canara Bank, and others laid out their common asset auxiliaries, extending the range of mutual funds to a more extensive investor base.

Growth and Diversification

The passage of public area players prompted quick development and broadening inside the mutual fund industry. Investors were given a more extensive cluster of speculation choices and plans, bringing about a flood in AUM and investor support. This stage laid the preparation for a more competitive scene and made ready for additional progression in the resulting years.

Phase III: Opening Up to Private Sector and Foreign Participation (1993-2003)

Economic Reforms and Liberalization

The early 1990s proclaimed another period of financial changes and advancement in India. As a feature of these changes, the mutual fund industry was opened up to private area players and foreign investors, meaning to encourage rivalry, development, and productivity on the lookout. This period denoted a huge shift towards a more market-situated way to deal with financial services.

Establishment of SEBI and Regulatory Reforms

The establishment of the Securities and Exchange Board of India (SEBI) in 1992 denoted a vital achievement in the guideline of the Indian capital business sectors. SEBI presented the Mutual Fund Guidelines in 1993, setting down complete rules for the activity of mutual funds. These rules ensure transparency, protecting investor interests, and propelling the effective improvement of the mutual fund industry.

Entry of Private and Foreign Players

The progression of the mutual fund industry pulled in famous confidential area organizations and foreign financial foundations to enter the Indian market. These new contestants carried with them worldwide prescribed procedures, imaginative monetary items, and high level speculation systems, adding to the development and complexity of the business. This stage saw a flood in item development, showcasing methodologies, and investor outreach initiatives.

Phase IV: Consolidation, Growth, and Innovation (2003-Present)

Market Consolidation

The early 2000s saw a time of consolidation inside the mutual fund industry, described by consolidations and acquisitions among fund houses. This combination pointed toward accomplishing economies of scale, improving functional efficiencies, and fortifying business sector presence. A few unmistakable consolidations reshaped the business scene, prompting the rise of bigger and more diversified mutual fund houses.

Technological Advancements and Product Innovation

The mutual fund industry has been at the front line of embracing technological headways to upgrade investor experience and extend market reach. The presentation of online stages, portable applications, and advanced exchange capacities has made mutual fund ventures more open and helpful for investors. Developments, for example, Systematic Investment Plans (SIPs), Exchange-Traded Funds (ETFs), and direct plans have additionally differentiated venture choices and taken care of all investor preferences.

Regulatory Enhancements and Investor Protection

SEBI has kept on refining its administrative structure to stay up with the development of the mutual fund industry. Administrative improvements pointed toward safeguarding investor interests, further developing business sector transparency, and encouraging healthy competition. Initiatives, for example, categorization and rationalization of mutual fund schemes, implementation of Total Expense Ratio (TER) caps, and promotion of direct plans have added to a more investor accommodating environment.

Conclusion

The history of mutual funds in India is an adventure of development,innovation, and change, mirroring the development of the Indian financial scene. From its unassuming starting points with UTI to the dynamic and serious industry of today, mutual funds play had a significant impact in democratizing admittance to capital business sectors and preparing reserve funds for financial development. With progressing administrative changes and a developing investor base, the industry is ready to proceed with extension, offering promising opportunities for wealth creation and financial consideration in India.

Top 10 mutual fund houses in India based on AUM

The top 10 mutual fund houses in India based on Assets Under Management (AUM) **as of December, 2023** are:

SBI Mutual Fund: AUM of Rs 8.86 lakh crore.

ICICI Prudential Mutual Fund: AUM of Rs 6.71 lakh crore.

HDFC Mutual Fund: AUM of Rs 5.82 lakh crore.

Nippon Life India Mutual Fund: AUM of Rs 3.99 lakh crore.

Kotak Mahindra Mutual Fund: AUM of Rs 3.62 lakh crore.

Aditya Birla Sun Life Mutual Fund: AUM of Rs 3.16 lakh crore.

UTI Mutual Fund: AUM of Rs 2.83 lakh crore

Axis Mutual Fund: AUM of Rs 2.63 lakh crore.

Mirae Asset Mutual Fund: AUM of Rs 1.58 lakh crore.

Edelweiss Mutual Fund: AUM of Rs 1.44 lakh crore.

Top 10 mutual fund houses in the world based on AUM

The top 10 mutual fund houses in the world based on Assets Under Management (AUM) **as of December, 2023** are:

BlackRock: AUM of $10.01trillion

Vanguard Group: AUM of $7.6 trillion

Fidelity Investments: AUM of $4.24 trillion

State Street Global Advisors: AUM of $3.6 trillion

Morgan Stanley: AUM of $3.131 trillion

JP Morgan Chase: AUM of $3.006 trillion

GoldmanSachs: AUM of $2.672 trillion

Credit Agricole: AUM of $2.66 trillion

Allianz Group: AUM of $2.36 trillion

Capital Group: AUM of $2.3 trillion

Salient features of the SEBI mutual fund regulations

SEBI rule and regulation of mutual funds:
The Securities and Exchange Act of India, 1992, the Board exercises the powers conferred by section 30 of the Act with the prior approval of the Central Government, provides for the regulation of mutual funds.
▪ **Formation** - There have also been some structural changes in the mutual fund sector regarding the creation of investment management companies with 50% independent directors, a separate corporate board consisting of at least 50% independent trustees, and appointment. independent \guards.
▪ **Document**s - SEBI must \approve or evaluate mutual fund offer documents and scheme details. A standard form must be developed for mutual fund prospectuses.
▪ **Discount Code** – SEBI mutual funds are required to follow the specified discount code.
▪ **Income Control** - SEBI introduced the Securities Control and Regulation of Mutual Funds Act. Now mutual funds could not give a guarantee about their performance. Due to pressure from mutual funds, SEBI looked at \guidelines that allow guaranteed returns under certain conditions.
▪ **Minimum corpus** – Current SEBI guidelines for mutual funds require a minimum of Rs 50 crore in the open-ended scheme and Rs 20 crore in Rs. If the application is unsuccessful, the money must be returned. The Association of Mutual Funds of India (AMFI) has repeatedly approached the regulatory authorities for minimum material requirements.
▪ **Institutionalization** - By introducing proportional allocation and raising the minimum contribution to Rs 5,000, SEBI has tried to institutionalize the market etc. in recent years. These \firms are designed to channel the investments of individual investors into mutual investments. financial resources.
▪ **Investment of Transferred Funds** - SEBI has extended the deadline to nine months in which mutual funds have to invest the funds collected from the latest tax saving schemes. The guidance was issued to protect mutual funds against losses arising from investing in emerging market funds with very high prices and subsequent poor net worth.
▪ **Investment valuation** - Transparent and well-known disclosure of mutual funds' net asset values (NAV) is important when providing information to investors about the fund's Performance.
▪ **Review** – SEBI reviews mutual funds every year. A SEBI audit of all 27 mutual funds was proposed by March 1996 to streamline their operations and protect the interests of investors. SEBI ensures that the mutual fund follows the rules and guidelines given to it. Thus SEBI monitored the mutual fund and its associated person.
▪ **Underwriting** - In July 1994, SEBI allowed funds to take underwriting of underwriting issues as part of their investment activities. This mutual fund can diversify its business.
▪ **Conduct** - Mutual funds may not offer buyback schemes or guarantee benefits to corporate investors, SEBI said in September 1994. The rules governing mutual funds and portfolio managers ensure their operational efficiency.
▪ **Voting rights** - In September 1993, mutual funds were allowed to exercise their voting rights. The Department of Corporate Affairs has reportedly given mutual funds the right to vote as full shareholders in \companies in which they have equity investments.
SEBI registration and Compliance:

- SEBI oversees the Indian securities industry, including mutual funds, stock brokers, investment counselors, and portfolio managers.

- Entities must register with SEBI and follow all applicable procedures.
- Registration includes stockbrokers, DPs, IAs, PMs, credit rating agencies, venture capital funds, and alternative investment funds.
- The registration process consists of submitting an application form, meeting qualifying conditions, and passing an aptitude exam.
- Compliance topics include KYC standards, AML processes, fair trade, information disclosure and reporting, minimum net assets, and investment limits.
- SEBI conducts inspections and audits to ensure compliance
- Non-compliance can lead to fines, suspension, or cancellation of registration. - Compliance is vital for ethical client service and preventing market manipulation. - SEBI monitors and regulates securities market players.

KEY ROLE:

The sponsor sets up a mutual fund trust under the Indian Trust Act of 1882. The sponsor designates AMC to supervise the fund's investments.
The trustee oversees investor assets and ensures that the AMC follows the trust agreement and SEBI regulations. The trustee defends the interests of unit holders and has the authority to pursue legal action against AMC.
AMC oversees the fund portfolio according to investment objectives and risk tolerance. AMC chooses investments, designates custodians, and manages fund operations.
The custodian protects fund assets such as stocks, bonds, and cash. The custodian verifies that appropriate safety measures are followed to protect investor assets.
Eligibility:
Sponsor: Establishes fund as trustee, needs solid history, financial security, and must be a suitable individual. The sponsor must invest a minimum of 40% of the AMC's total value when it is first established. Sponsors or directors must not possess a criminal history related to fraud, moral turpitude, or economic offenses.
Asset management company (AMC) overseas fund portfolios, which are indirectly impacted by the sponsor's qualifications. AMC requires skilled individuals in investment management and risk analysis. Approval from SEBI is necessary for the key personnel and investment procedures of the AMC. SEBI regulations must be followed for trust deeds, custodians, and Scheme Information Documents.
Significance: Guarantees ethical handling, safeguarding of investors, and stability in the mutual fund sector. Eligibility requirements are essential for ensuring ethical behavior, protecting investors from misconduct or volatility, and upholding industry stability.
Transparency and Disclosure:
SEBI Mutual Fund Rules, 1996 prioritize transparency and openness for investors to make informed decisions. The Statement of Additional Information (SID) outlines fund objectives, risks, costs, and performance. Asset management organizations provide regular updates on portfolios, profits, and costs. Investors can assess fund performance against benchmarks. These regulations aim to empower investors with the necessary information and hold AMCs accountable for their investments.
Investment restriction:
SEBI regulations aim to protect investors and promote responsible fund management without directly controlling investor choices. Factors to consider include evaluating risk profiles through required

assessments, ensuring diversification among asset classes, and managing exit fees to prevent multiple redemptions. Lock-in periods restrict early withdrawals to meet investment goals. Additionally, SEBI sets subscription limits for high-risk mutual fund categories to mitigate potential risks. Overall, SEBI regulations focus on safeguarding investor interests and promoting stable and transparent investment practices in the mutual fund industry.

Investor objective:

Investors have various goals when investing, such as capital growth through stocks, generating income through bonds, maintaining wealth with balanced funds, and meeting short-term needs with liquid funds. Mutual funds help investors achieve these objectives by providing opportunities for long-term growth, consistent income, and the protection of invested capital while also meeting immediate liquidity needs.

Investor protection:

Investor protection focuses on safeguarding the interests of investors in financial instruments, promoting fair treatment, and reducing risks through rules and procedures. Key components include transparent disclosure of information, regulatory supervision by agencies like SEBI, avenues for complaints through grievance redressal mechanisms, and risk profiling to guide investment choices. Protection for investments emphasizes strategies to protect the capital from losses, including diversification to lower market risk, and custodianship agreements for asset safety. Some investment products, like ULIPs, offer insurance protection. Overlapping processes and synergy between systems can enhance overall effectiveness. Investor and investment protection work together to create a secure environment for investors, ensuring fair market practices and responsible fund management. Ultimately, these strategies, along with diversification, help achieve long-term investment objectives and positive outcomes for investors.

Process of SEBI:

- Each scheme application form contains essential information about the scheme that must be provided.
- The offer document should include relevant details to assist investors in making investment choices.
- Every advertisement related to the scheme needs to be sent to SEBI within seven days from the advertisement's issuance date.
- Ads promoting a program should reveal its investment goal to potential investors.
- The offer documents and advertisements must not include any false information or misrepresentation that can result in deceit or deceive investors.
- The opening phase of a mutual fund scheme should be limited to 45 days, with the exception of equity-linked saving schemes.
- No advertisement can include information that relies on assumptions to be accurate.
- In an advertisement, it is not appropriate to compare two schemes unless they are similar and all pertinent details are provided.
- Every ad must reveal the identity of the sponsor, trustees, and AMC of the fund.
- It is required that all ads reveal the scheme's associated risk factors.
- All ads must specify that mutual fund investment carries market risk.
- During an open subscription period, it is not allowed to advertise that the scheme has reached full capacity or has exceeded its subscription limit

Overview of the SEBI categorization of Mutual Fund Schemes

In October 2017, SEBI (Securities and Exchange Board of India) launched the classification and rationalization of mutual schemes to bring uniformity, clarity and transparency to the mutual fund sector. The main goal was to help investors make informed investment decisions and facilitate comparison of similar systems across different investment fund houses. Here is an overview of SEBI's classification of Mutual Funds.

A. Equity Schemes:

- **a. Multi Cap Fund:**
  An equity scheme without any specific limits investing in large-cap, mid-cap, and small-cap stocks.
- **b. Large Cap Fund:**
  A large portion of this equity scheme is allocated to large-cap stocks.
- **c. Mid Cap Fund:**
  A mid-cap stock-focused open-ended equity scheme primarily invests in mid-cap stocks
- **d. Small Cap Fund:**
  An equity scheme primarily focused on investing in small-cap stocks
- **e. Dividend Yield Fund:**
  A mutual fund that mainly invests in stocks that offer dividends.
- **f. Value/Contra Fund:**
  An equity scheme that is open-ended and adopts a value/Contra investment strategy.
- **g. Sectoral/Thematic:**
  Mutual funds concentrate their investments on particular sectors or themes in the economy instead of spreading them out across various sectors.
- **h. ELSS:**
  A tax-saving scheme with a mandatory 3-year lock-in period linked to equity investments is open-ended.

B. Debt Schemes:

- **a. Overnight Fund:**
  A debt scheme with no fixed maturity investing in securities maturing overnight.
- **b. Liquid Fund:**
  An open-ended liquid scheme
- **c. Money Market Fund:**
  A debt scheme without a fixed maturity that invests in money market instruments.
- **d. Ultra Short Fund:**
  An ultra-short-term debt scheme that is open-ended invests in instruments with Macaulay's duration ranges from 3 months to 1 year
- **e. Low Duration Fund:**
  A low-term debt scheme that is open-ended invests in instruments with Macaulay duration between 6 months and 12 months
- **f. Short Duration Fund:**
  A short-term debt scheme that is open-ended invests in instruments with Macaulay duration between 1 year and 3 years
- **g. Medium Duration Fund:**
  A medium-term debt scheme that is open-ended invests in instruments with Macaulay duration between 3 years and 4 Years
- **h. Medium to Long Duration Fund:**
  A medium-term debt scheme that is open-ended invests in instruments with Macaulay duration between 4 years and 7 years

i. **Long Duration Fund:**
A long-term debt scheme that is open-ended invests in instruments with Macaulay duration greater than 7 years

j. **Dynamic Bond:**
A flexible debt scheme with a dynamic approach to investing in various durations.

k. **Corporate Bond Fund:**
A debt scheme with no predefined maturity date that mainly invests in corporate bonds with the highest credit ratings.

l. **Credit Risk Fund:**
An unleveraged debt fund that invests in top-rated corporate bonds.

m. **Banking & PSU Fund:**
A debt scheme that primarily invests in debt instruments of banks, Public Sector Undertakings, and Public Financial Institutions is open-ended.

n. **Gilt Fund:**
A debt scheme with no fixed maturity investing in government securities.

o. **Floater Fund:**
A flexible debt scheme that mainly focuses on investing in floating-rate instruments.

C. Hybrid Schemes:

a. **Conservation Hybrid Fund:**
A hybrid scheme with an open investment strategy mainly focused on debt instruments.

b. **Balanced Hybrid Fund:**
A diverse investment scheme that allocates funds to both stocks and bonds.

c. **Aggressive Hybrid Funds**:
A hybrid scheme that primarily invests in equity and equity-related instruments with an open-ended structure.

d. **Dynamic Asset Allocation Funds:**
A flexible fund that adjusts asset allocation dynamically

e. **Multi-Asset Allocation Fund:**
An open-ended mutual funds scheme invests in a diverse range of asset classes, including equity, debt, and potentially other assets like commodities or real estate.

D. Solution Oriented schemes:

a. **Retirement Fund:**
a retirement plan with no fixed duration that requires a commitment of either 5 years or until reaching retirement age

b. **Children's Fund:**
A flexible investment fund for children with a minimum lock-in period of 5 years or until they reach adulthood.

E. Other schemes:

a. **Index Funds/ETFs:**
A dynamic program that mirrors the results of a particular market index.

b. **FoF's(Overseas/Domestic):**
A fund-of-funds scheme that invests in a variety of foreign and domestic mutual funds.

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

Overview of the Taxation of gains in the Mutual Fund Investments (Indian guidelines)

According to the Indian guidelines for taxation of capital gains in mutual fund investments, taxation rates are based on the type of mutual fund and the holding period of the mutual fund, along with the amount of capital gains.

Types of Mutual Funds
Mutual funds in India are categorized broadly into 4 types according to sale and taxation guidelines:

- **Equity Funds** - Any mutual fund that has more than 65% of its corpus invested in equity
- **Debt Funds** - Any mutual fund that has more than 65% of its corpus invested in debt securities, money market instruments, Govt. securities, corporate bonds.
- **Hybrid Funds-Equity Oriented** - Equity comprises the largest part of the mutual fund (equal to or more than 65%)
- **Hybrid Funds-Debt Oriented** - Debt comprises the largest part of the mutual fund

Holding Period
Holding period is the amount of time between the sale of the mutual fund and its purchase. If the mutual fund assets are sold within a specified holding period then they are categorized as **Short Term Capital Gains (STCG)** and, if they are sold after the specified period then they are categorized as **Long Term Capital Gains (LTCG)**. The specified holding periods are different for the different types of mutual funds and different taxation policies are applied depending on whether the gains are STCG or LTCG.

Union Budget 2023 Changes
As per the Union Budget of 2023, changes were made in the taxation policy for investments made till 31 March 2023 and investments made starting from 1 April 2023.

Mutual Fund vs Holding Period
The following table gives the minimum holding period specified by the government to qualify for LTCG. Any capital gains before this holding period will be taxed according to STCG.

Mutual Fund	Holding Period
Equity Funds	12 Months
Debt Funds	36 Months (Till 31 March 2023)
Hybrid Funds-Equity Oriented	12 Months
Hybrid Funds-Debt Oriented	36 Months (Till 31 March 2023)

Starting from 1 April 2023, Debt Funds and Hybrid Debt Oriented Funds will not have any minimum holding periods, i.e., both STCG and LTCG will be taxed the same.

Taxation Policies

The following table makes a comparison for the taxation policies for different types of mutual funds, holding periods, and pre and post 1 April 2023:

Type of Mutual Fund	Holding Period (Till 31 March 2023)		Holding Period (From 1 April 2023)	
	STCG	LTCG	STCG	LTCG
Equity Funds	15%	10% for annual gain exceeding Rs. 1 Lakh	15%	10% for annual gain exceeding Rs. 1 Lakh
Debt Funds	According to tax slab rate	20% with indexation	According to tax slab rate	
Hybrid Equity-Oriented Funds	15%	10% for annual gain exceeding Rs. 1 Lakh	15%	10% for annual gain exceeding Rs. 1 Lakh
Hybrid Debt-Oriented Funds	According to tax slab rate	20% with indexation	According to tax slab rate OR 20% with indexation (if more than 35% in equity)	

Indexation

Indexation is the inflation adjustment of your purchase NAV according to the Consumer Inflation Index (CII). Your starting investment is adjusted to Indexed Cost of Acquisition (ICoA) according to this formula:

ICoA = Original cost of acquisition * (CII of the year of sale/CII of year of purchase(or CII of 2001-2002 if before this year))

Using this, you can adjust the original cost of acquisition for long term investments to reduce your capital gains by comparing ICoA and sell value, and hence, taxes applicable on them.

SIP Returns

For schemes like SIP, your investments are taxed on a First-In-First-Out basis ,that is, the initial investments that are applicable for LTCG are taxed accordingly and the rest later on (if not applicable for LTCG) are taxed according to STCG on time of sale.

Summary about what an investor should look at while investing in a mutual fund

An investor should look at the following data points while investing in a mutual fund:

NAV - Net Asset Value is the unit price of a mutual fund. You purchase the mutual fund units based on this price. It reflects the price of the funds further invested into equity and bonds. It gets updated at the end of the day.

Crisil Rank (rating) - CRISIL is a credit rating agency for the Indian market. Its rank and rating of a mutual fund is a good indicator of how the mutual fund is performing compared to its peers. Higher the CRISIL rank, the better.

Risk-O-Meter - It provides a quick glance at the risk of getting negative returns on your investments from very less to very high.

Type of Mutual Fund - This will include whether the mutual fund is equity based, debt based, or is a hybrid. This will impact its portfolio composition as well as taxation policies. Other things to check include whether the mutual fund is growth focused or dividend focused.

Category - It tells you the investment type of the company -small cap, mid cap, large cap companies, etc.

Expense Ratio - The annual fees that the fund charges you to manage your money in form of a percentage of the NAV. Whether the mutual fund has a regular plan or direct plan will also impact the expense ratio (lower in the latter case).

Returns - The CAGR or annualized return percentage of the mutual fund for different time periods like past few months, 1 year, 3 years, 5 years, since inception, etc.

Benchmarks - Comparing the returns to the industry average and the category average to judge the relative performance of the mutual fund.

Types of Holdings (Portfolio Composition) - The kind of holdings that the mutual fund has like stocks, gold, bonds, securities, etc. and the kind of sectors that the mutual fund invests in.

Top Holdings - Checking the top and major holdings of the mutual funds like companies, commodities, bonds, etc. and their individual performances and their relative share of the fund.

Risk Ratios (Standard Deviation, Beta, Sharpe ratio, Treynor's ratio, Jensen's alpha) - These risk ratios give a good idea of the risk and return analysis of the mutual fund compared to the market and industry/ category. Some of these are:

- **Standard deviation and Beta:** These values give an idea the volatility of the investments and whether the investment will keep a similar performance as in the past. Lower values for these indicate lower volatility.

- **Sharpe Ratio, Treynor's Ratio -** These ratios indicate the excess returns generated for the risk taken. This is done by taking the difference between their returns and risk-free returns, like Indian government bonds, and dividing by standard deviation and beta respectively for both. Higher the value indicates better returns for the risk taken.
- **Jensen's Alpha:** This value gives the excess returns generated by the fund compared to a benchmark like Sensex or industry/category average, etc. Again, higher the alpha, the better.

AUM - Assets Under Management is the amount of money that has been invested in the mutual fund. A larger mutual fund provides stability but can be slower and inefficient to manage compared to a smaller and hence, more agile mutual fund.

Fund House - One can also judge the past performance of a fund house in other schemes it has launched and make an investment decision based on their reputation.

Exit Load - The amount charged by the fund house for selling the mutual fund NAVs.

The above values of our Mutual Fund (As of 11 April 2024):

NAV - Rs. 157.86
Crisil Rank (rating) - 3 stars
Risk-O-Meter - Very High
Type of Mutual Fund: Equity based (99%), growth focused, Open Ended (can invest anytime)
Category - Mid Cap Fund
Expense Ratio - 0.58%, direct plan
Returns - 24.08% for the past 5 years
Benchmarks - S&P BSE Midcap 150 TRI: 24.93% and Category Avg: 23.71% for the past 5 yrs
Types of Holdings (Portfolio Composition) - Holdings in mid cap stocks: 44.66%, in small cap stocks: 19.79%
Top Holdings - Trent Limited, Max Healthcare Institute Ltd., Federal Bank Ltd., Cholamandalam Investment & Finance Co. Ltd., L&T Finance Holdings Ltd., etc.
Risk Ratios (Standard Deviation, Beta, Sharpe's ratio, Treynor's ratio, Jensen's alpha) compared to category averages(the latter) -

Standard Deviation: 14.31 vs 14.76
Beta: 0.85 vs 0.88
Sharpe Ratio: 0.97 vs 0.95
Treynor's Ratio: 0.16 vs 0.16
Jensen's Alpha: -0.18 vs -0.68

AUM - Rs. 4239.54 Crores
Exit Load: 1% if sold within a year, none otherwise.

Type of Investor for which the Scheme is Suitable

The scheme is suitable for those investors who are seeking long term capital appreciation and have an appetite for risk for higher returns. This scheme is focused on equity and equity-related instruments for mid cap companies which could potentially grow much larger.

Rationale For Choice

The reason why we chose this mutual fund scheme is that most of the large cap schemes were focused on similar company sets in the Indian market which were stable but not growing as rapidly. The mid cap section offered potential for greater returns and growth at the cost of higher risk. Also this scheme has shown strong positive growth from its inception with an CAGR of 21.41% vs 15.1% of BSE 150 Mid Cap Tri but, at the same time has shown some relative growth in recent years compared to category average which provided room for analysis of where things have not gone good for the scheme or could have gone better.

SIP returns for the last 3 years

We have to calculate the SIP returns (annualized) of the Invesco Mid Cap Funds - Growth from 1 March 2021 to 29 February 2023 (3 years) if we invest Rs. 10,000 each month for 36 months, i.e., Rs. 3,60,000. We had a sell value of Rs. 5,33,728 (Moneycontrol). By using excel sheet's XIRR function (have attached the excel sheet alongside to check), the **returns came out to be:**

0.273431629

,i.e., we have **27.34% SIP Returns.**

For this period Profit/Loss: 173727.68 (48.26%)

Link to the sheet: SIP return

SIP Date	SIP Amount
01-03-2021	-10,000
01-04-2021	-10,000
01-05-2021	-10,000
01-06-2021	-10,000
01-07-2021	-10,000
01-08-2021	-10,000
01-09-2021	-10,000
01-10-2021	-10,000
01-11-2021	-10,000
01-12-2021	-10,000
01-01-2022	-10,000
01-02-2022	-10,000
01-03-2022	-10,000
01-04-2022	-10,000
01-05-2022	-10,000
01-06-2022	-10,000
01-07-2022	-10,000
01-08-2022	-10,000
01-09-2022	-10,000
01-10-2022	-10,000

01-11-2022	-10,000
01-12-2022	-10,000
01-01-2023	-10,000
01-02-2023	-10,000
01-03-2023	-10,000
01-04-2023	-10,000
01-05-2023	-10,000
01-06-2023	-10,000
01-07-2023	-10,000
01-08-2023	-10,000
01-09-2023	-10,000
01-10-2023	-10,000
01-11-2023	-10,000
01-12-2023	-10,000
01-01-2024	-10,000
01-02-2024	-10,000
29-02-2024	5,33,728
SIP Returns (XIRR)	**0.273431629**