WHAT ARE MUTUAL FUNDS ?

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments.

The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual fund charges a small fee.

In short, mutual fund is a collective pool of money contributed by several investors and managed by a professional Fund Manager.

Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.

The fees and expenses charged by the mutual funds to manage a scheme are regulated and are subject to the limits specified by SEBI.

HOW A MUTUAL FUND WORKS?

One should avoid the temptation to review the fund's performance each time the market falls or jumps up significantly. For an actively-managed equity scheme, one must have patience and allow reasonable time - between 18 and 24 months - for the fund to generate returns in the portfolio.

When you invest in a mutual fund, you are pooling your money with many other investors. Mutual fund issues "Units" against the amount invested at the prevailing NAV. Returns from a mutual fund may include income distributions to investors out of dividends, interest, capital gains or other income earned by the mutual fund. You can also have capital gains (or losses) if you sell the mutual fund units for more (or less) than the amount you invested.

Mutual funds are ideal for investors who –

1. lack the knowledge or skill / experience of investing in stock markets directly.
2. want to grow their wealth, but do not have the inclination or time to research the stock market.
3. wish to invest only small amount.

WHY INVEST IN MUTUAL FUNDS?

As investment goals vary from person to person – post-retirement expenses, money for children's education or marriage, house purchase, etc. – the investment products required to achieve these goals too vary. Mutual funds provide certain distinct advantages over investing in individual securities. Mutual funds offer multiple choices for investment across equity shares, corporate bonds, government securities, and money market instruments, providing an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. The main advantages are that you can invest in a variety of securities for a relatively low cost and leave the investment decisions to a professional manager.

Types of Mutual Fund Schemes

Mutual Fund Scheme classification

TYPES OF MUTUAL FUND SCHEMES Mutual Fund Scheme classification

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified

based on -

1. Organisation Structure – Open ended, Close ended, Interval
2. Management of Portfolio – Actively or Passively
3. Investment Objective – Growth, Income, Liquidity
4. Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi Asset
5. Thematic / solution oriented – Tax saving, Retirement benefit, Child welfare, Arbitrage
6. Exchange Traded Funds
7. Overseas funds
8. Fund of funds

Scheme Classification by Organization Structure

• **Open-ended schemes** are perpetual, and open for subscription and repurchase on a continuous basis on all business days at the current NAV.

• **Close-ended schemes** have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide exit route before maturity and can be sold/traded on the stock exchanges.

• **Interval schemes** allow purchase and redemption during specified transaction periods (intervals). The transaction period has to be for a minimum of 2 days and there should be at least a 15-day gap between two transaction periods. The units of interval schemes are also mandatorily listed on the stock exchanges.

Scheme Classification by Portfolio Management

Active Funds

In an Active Fund, the Fund Manager is ‘Active’ in deciding whether to Buy, Hold, or Sell the underlying securities and in stock selection. Active funds adopt different strategies and styles to create and manage the portfolio.

- The investment strategy and style are described upfront in the Scheme Information document (offer document)
- Active funds expect to generate better returns (alpha) than the benchmark index.
- The risk and return in the fund will depend upon the strategy adopted.
- Active funds implement strategies to ‘select’ the stocks for the portfolio.

Passive Funds

Passive Funds hold a portfolio that replicates a stated Index or Benchmark e.g. –

- Index Funds
- Exchange Traded Funds (ETFs)

In a Passive Fund, the fund manager has a passive role, as the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager / dealer merely needs to replicate the same with minimal tracking error.

Active v/s Passive Funds

Active Fund –

- Rely on professional fund managers who manage investments.
- Aim to outperform Benchmark Index
- Suited for investors who wish to take advantage of fund managers' alpha generation potential.

Passive Funds –

- Investment holdings mirror and closely track a benchmark index, e.g., Index Funds or Exchange Traded Funds (ETFs)
- Suited for investors who want to allocate exactly as per market index.
- Lower Expense ratio hence lower costs to investors and better liquidity

Classification by Investment Objectives

Mutual funds offer products that cater to the different investment objectives of the investors such as –

1. Capital Appreciation (Growth)
2. Capital Preservation
3. Regular Income
4. Liquidity
5. Tax-Saving

Mutual funds also offer investment plans, such as Growth and Dividend options, to help tailor the investment to the investors' needs.

Growth funds

- Growth Funds are schemes that are designed to provide capital appreciation.
- Primarily invest in growth oriented assets, such as equity
- Investment in growth-oriented funds require a medium to long-term investment horizon.
- Historically, Equity as an asset class has outperformed most other kind of investments held over the long term. However, returns from Growth funds tend to be volatile over the short-term since the prices of the underlying equity shares may change.
- Hence investors must be able to take volatility in the returns in the short-term.

Income funds

- The objective of Income Funds is to provide regular and steady income to investors.
- Income funds invest in fixed income securities such as Corporate Bonds, Debentures and Government securities.
- The fund's return is from the interest income earned on these investments as well as capital gains from any change in the value of the securities.
- The fund will distribute the income provided the portfolio generates the required returns. There is no guarantee of income.
- The returns will depend upon the tenor and credit quality of the securities held.

Liquid / Overnight /Money Market Mutual Funds

- Liquid Schemes, Overnight Funds and Money market mutual fund are investment options for investors seeking liquidity and principal protection, with commensurate returns.

– The funds invest in money market instruments* with maturities not exceeding 91 days.

– The return from the funds will depend upon the short-term interest rate prevalent in the market.

- These are ideal for investors who wish to park their surplus funds for short periods.

– Investors who use these funds for longer holding periods may be sacrificing better returns possible from products suitable for a longer holding period.

* Money Market Instruments includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.

Classification by Investment Portfolio

Mutual fund products can be classified based on their underlying portfolio composition

– The first level of categorization will be on the basis of the asset class the fund invests in, such as equity / debt / money market instruments or gold.

– The second level of categorization is on the basis of strategies and styles used to create the portfolio, such as, Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/Small-cap Equity fund, Value fund, etc.

– The portfolio composition flows out of the investment objectives of the scheme.

Expense Ratio

Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to charge certain operating expenses for managing a mutual fund scheme – such as sales & marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees – as a percentage of the fund's daily net assets.

All such costs for running and managing a mutual fund scheme are collectively referred to as 'Total Expense Ratio' (TER)

The TER is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a mutual fund is disclosed after deducting the expenses.

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

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

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

In addition, mutual funds have been allowed to charge up to 30 bps more, if the new inflows from retail investors from beyond top 30 cities (B30) cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher. This is essentially to encourage inflows into mutual funds from tier - 2 and tier - 3 cities.

TER has a direct bearing on a scheme's NAV – the lower the expense ratio of a scheme, the higher the NAV. Thus, TER is an important parameter while selecting a mutual fund scheme.

As per the current SEBI Regulations, mutual funds are required to disclose the TER of all schemes on a daily basis on their websites as well as AMFI's website.

RISKS IN MUTUAL FUNDS

STANDARD RISK FACTORS

- Mutual Fund Schemes are not guaranteed or assured return products.
- Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.
- As the price / value / interest rates of the securities in which the Scheme invests fluctuates, the value of investment in a mutual fund Scheme may go up or down.
- In addition to the factors that affect the value of individual investments in the Scheme, the NAV of the Scheme may fluctuate with movements in the broader equity and bond markets and may be influenced by factors affecting capital and

money markets in general, such as, but not limited to, changes in interest rates, currency exchange rates, changes in Government policies, taxation, political, economic or other developments and increased volatility in the stock and bond markets.

- Past performance does not guarantee future performance of any Mutual Fund Scheme

SPECIFIC RISK FACTORS

Risks associated with investments in Equities

Risk of losing money:

Investments in equity and equity related instruments involve a degree of risk and investors should not invest in the equity schemes unless they can afford to take the risk of possible loss of principal.

Price Risk:

Equity shares and equity related instruments are volatile and prone to price fluctuations on a daily basis.

Liquidity Risk for listed securities:

The liquidity of investments made in the equities may be restricted by trading volumes and settlement periods. Settlement periods may be extended significantly by unforeseen circumstances. While securities that are listed on the stock exchange carry lower liquidity risk, the ability to sell these investments is limited by the overall trading volume on the stock exchanges. The inability of a mutual fund to sell securities held in the portfolio could result in potential losses to the scheme, should there be a subsequent decline in the value of securities held in the scheme portfolio and may thus lead to the fund incurring losses till the security is finally sold.

Event Risk:

Price risk due to company or sector specific event.

Risks Associated with investment in Debt Securities and Money Market Instruments

Debt Securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligation (Credit Risk) on the due date(s) and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (Market Risk).

The timing of transactions in debt obligations, which will often depend on the timing of the Purchases and Redemptions in the Scheme, may result in capital appreciation or depreciation because the value of debt obligations generally varies inversely with the prevailing interest rates.

Interest Rate Risk

Market value of fixed income securities is generally inversely related to interest rate movement. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. Accordingly, value of a scheme portfolio may fall if the market interest rate rise and may appreciate when the market interest rate comes down. The extent of fall or rise in the prices depends upon the coupon and maturity of the security. It also depends upon the yield level at which the security is being traded.

Credit Risk

This is risk associated with default on interest and /or principal amounts by issuers of fixed income securities. In case of a default, scheme may not fully receive the due amounts and NAV of the scheme may fall to the extent of default. Even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer. It may be mentioned here that a government security is a sovereign security and is safer. Corporate bonds carry a higher amount of credit risk than government securities. Within corporate bonds also there are different levels of safety and a bond rated higher by a rating agency is safer than a bond rated lower by the same rating agency.

Spread Risk

Credit spreads on corporate bonds may change with varying market conditions. Market value of debt securities in portfolio may depreciate if the credit spreads widen and vice versa. Similarly, in case of floating rate securities, if the spreads over the benchmark security / index widen, then the value of such securities may depreciate.

Liquidity Risk

Liquidity risk refers to the ease with which securities can be sold at or near its valuation yield-to-maturity (YTM) or true value. Liquidity condition in market varies from time to time. The liquidity of a bond may change, depending on market conditions leading to changes in the liquidity premium attached to the price of the bond. In an environment of tight liquidity, necessity to sell securities may have higher than usual impact cost. Further, liquidity of any particular security in portfolio may lessen depending on market condition, requiring higher discount at the time of selling.

The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of some of these investments. Different segments of the Indian financial markets have different settlement periods, and such periods may be extended significantly by unforeseen circumstances. Further, delays in settlement could result in temporary periods when a portion of the assets of the Scheme are not invested and no return is earned thereon or the Scheme may miss attractive investment opportunities.

At the time of selling the security, the security may become illiquid, leading to loss in value of the portfolio. The purchase price and subsequent valuation of restricted and illiquid securities may reflect a discount, which may be significant, from the market price of comparable securities for which a liquid market exists.

Counterparty Risk

This is the risk of failure of the counterparty to a transaction to deliver securities against consideration received or to pay consideration against securities delivered, in full or in part or as per the agreed specification. There could be losses to the fund in case of a counterparty default.

Prepayment Risk

This arises when the borrower pays off the loan sooner than the due date. This may result in a change in the yield and tenor for the mutual fund scheme. When interest rates decline, borrowers tend to pay off high interest loans with money borrowed at a lower interest rate, which shortens the average maturity of Asset-backed securities (ABS). However, there is some prepayment risk even if interest rates rise, such as when an owner pays off a mortgage when the house is sold or an auto loan is paid off when the car is sold. Since prepayment risk increases when interest rates decline, this also introduces reinvestment risk, which is the risk that the principal may only be reinvested at a lower rate.

Re-investment Risk

Investments in fixed income securities carry re-investment risk as the interest rates prevailing on the coupon payment or maturity dates may differ from the original coupon of the bond (the purchase yield of the security). This may result in final realized yield to be lower than that expected at the time

The additional income from reinvestment is the "interest on interest" component. There may be a risk that the rate at which interim cash flows can be reinvested are lower than that originally assumed.

Advantages of Investing in Mutual Funds

1. Professional Management — Investors may not have the time or the required knowledge and resources to conduct their research and purchase individual stocks or bonds. A mutual fund is managed by full-time, professional money managers who have the expertise, experience and resources to actively buy, sell, and monitor investments. A fund manager continuously monitors investments and rebalances the portfolio accordingly to meet the scheme’s objectives. Portfolio management by professional fund managers is one of the most important advantages of a mutual fund.

2. Risk Diversification — Buying shares in a mutual fund is an easy way to diversify your investments across many securities and asset categories such as equity, debt and gold, which helps in spreading the risk - so you won't have all your eggs in one basket. This proves to be beneficial when an underlying security of a given mutual fund scheme experiences market headwinds. With diversification, the risk associated with one asset class is countered by the others. Even if one investment in the portfolio decreases in value, other investments may not be impacted and may even increase in value. In other words, you don't lose out on the entire value of your investment if a particular component of your portfolio goes through a turbulent period. Thus, risk diversification is one of the most prominent advantages of investing in mutual funds.

3. Affordability & Convenience (Invest Small Amounts) — For many investors, it could be more costly to directly purchase all of the individual securities held by a single mutual fund. By contrast, the minimum initial investments for most mutual funds are more affordable.

4. Liquidity — You can easily redeem (liquidate) units of open ended mutual fund schemes to meet your financial needs on any business day (when the stock markets and/or banks are open), so you have easy access to your money. Upon redemption, the redemption amount is credited in your bank account within one day to 3-4 days, depending upon the type of scheme e.g., in respect of Liquid Funds and Overnight Funds, the redemption amount is paid out the next business day.

However, please note that units of close-ended mutual fund schemes can be redeemed only on maturity. Likewise, units of ELSS have a 3-year lock-in period and can be liquidated only thereafter.

5. Low Cost — An important advantage of mutual funds is their low cost. Due to huge economies of scale, mutual funds schemes have a low expense ratio. Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc. The limits of expense ratio for various types of schemes has been specified under Regulation 52 of SEBI Mutual Fund Regulations, 1996.

6. Well-Regulated — Mutual Funds are regulated by the capital markets regulator, Securities and Exchange Board of India (SEBI) under SEBI (Mutual Funds) Regulations, 1996. SEBI has laid down stringent rules and regulations keeping investor protection, transparency with appropriate risk mitigation framework and fair valuation principles.

7. Tax Benefits —Investment in ELSS upto ₹1,50,000 qualifies for tax benefit under section 80C of the Income Tax Act, 1961. Mutual Fund investments when held for a longer term are tax efficient.

Categorization of Mutual Fund Schemes

As per SEBI guidelines on Categorization and Rationalization of schemes issued in October 2017, mutual fund schemes are classified as –

1. **Equity Schemes**
2. **Debt Schemes**
3. **Hybrid Schemes**
4. **Solution Oriented Schemes – For Retirement and Children**
5. **Other Schemes – Index Funds & ETFs and Fund of Funds**

– Under Equity category, Large, Mid and Small cap stocks have now been defined.

– Naming convention of the schemes, especially debt schemes, as per the risk level of underlying portfolio (e.g., the erstwhile 'Credit Opportunity Fund' is now called "Credit Risk Fund")

– Balanced / Hybrid funds are further categorised into conservative hybrid fund, balanced hybrid fund and aggressive hybrid fund.

EQUITY SCHEMES

An equity Scheme is a fund that –

– Primarily invests in equities and equity related instruments.

– Seeks long term growth but could be volatile in the short term.

– Suitable for investors with higher risk appetite and longer investment horizon.

The objective of an equity fund is generally to seek long-term capital appreciation. Equity funds may focus on certain sectors of the market or may have a specific investment style, such as investing in value or growth stocks.

Equity Fund Categories as per SEBI guidelines on Categorization and Rationalization of schemes

Multi Cap Fund*	At least 75% investment in equity & equity related instruments
Flexi Cap Fund	At least 65% investments in equity & equity related instruments
Large Cap Fund	At least 80% investment in large cap stocks
Large & Mid Cap Fund	At least 35% investment in large cap stocks and 35% in mid cap stocks
Mid Cap Fund	At least 65% investment in mid cap stocks
Small cap Fund	At least 65% investment in small cap stocks

Dividend Yield Fund	Predominantly invest in dividend yielding stocks, with at least 65% in stocks
Value Fund	Value investment strategy, with at least 65% in stocks
Contra Fund	Scheme follows contrarian investment strategy with at least 65% in stocks
Focused Fund	Focused on the number of stocks (maximum 30) with at least 65% in equity & equity related instruments
Sectoral/ Thematic Fund	At least 80% investment in stocks of a particular sector/ theme
ELSS	At least 80% in stocks in accordance with Equity Linked Saving Scheme, 2005, notified by Ministry of Finance

*Also referred to as Diversified Equity Funds – as they invest across stocks of different sectors and segments of the market. Diversification minimizes the risk of high exposure to a few stocks, sectors or segment.

Sector Specific Funds

Sectoral funds invest in a particular sector of the economy such as infrastructure, banking, technology or pharmaceuticals etc.

– Since these funds focus on just one sector of the economy, they limit diversification, and are thus riskier.

– Timing of investment into such funds are important, because the performance of the sectors tend to be cyclical.

Examples of Sector Specific Funds - Equity Mutual Funds with an investment objective to invest in

- **Pharma & Healthcare Sector**
- **Banking & Finance Sector:**
- **FMCG (fast moving consumer goods) and related sectors.**
- **Technology and related sectors**

Thematic funds

- **Thematic funds select stocks of companies in industries that belong to a particular theme - For example, Infrastructure, Service industries, PSUs or MNCs.**
- **They are more diversified than Sectoral Funds and hence have lower risk than Sectoral funds.**

Value Funds (Strategy and Style Based Funds)

Equity funds may be categorized based on the valuation parameters adopted in stock selection, such as

- **– Growth funds identify momentum stocks that are expected to perform better than the market**
- **– Value funds identify stocks that are currently undervalued but are expected to perform well over time as the value is unlocked**
- **Equity funds may hold a concentrated portfolio to benefit from stock selection.**

– These funds will have a higher risk since the effect of a wrong selection can be substantial on the portfolio's return

Contra Funds

- **Contra funds are equity mutual funds that take a contrarian view on the market.**
- **Underperforming stocks and sectors are picked at low price points with a view that they will perform in the long run.**
- **The portfolios of contra funds have defensive and beaten down stocks that have given negative returns during bear markets.**
- **These funds carry the risk of getting calls wrong as catching a trend before the herd is not possible in every market cycle and these funds typically underperform in a bull market.**
- **As per the SEBI guidelines on Scheme categorisation of mutual funds, a fund house can either offer a Contra Fund or a Value Fund, not both.**

Equity Linked Savings Scheme (ELSS)

ELSS invests at least 80% in stocks in accordance with Equity Linked Saving Scheme, 2005, notified by Ministry of Finance.

Has lock-in period of 3 years (which is shortest amongst all other tax saving options)

Currently eligible for deduction under Sec 80C of the Income Tax Act upto ₹1,50,000

DEBT SCHEMES

- **A debt fund (also known as income fund) is a fund that invests primarily in bonds or other debt securities.**
- **Debt funds invest in short and long-term securities issued by government, public financial institutions, companies**

– Treasury bills, Government Securities, Debentures, Commercial paper, Certificates of Deposit and others

- **Debt funds can be categorized based on the tenor of the securities held in the portfolio and/or on the basis of the issuers of the securities or their fund management strategies, such as**

– Short-term funds, Medium-term funds, Long-term funds

– Gilt fund, Treasury fund, Corporate bond fund, Infrastructure debt fund

- **Floating rate funds, Dynamic Bond funds, Fixed Maturity Plans**
- **Debt funds have potential for income generation and capital preservation.**

Debt Fund Categories as per SEBI guidelines on Categorization and Rationalization of schemes

Overnight Fund	Overnight securities having maturity of 1 day
Liquid Fund	Debt and money market securities with maturity of upto 91 days only
Ultra Short Duration Fund	Debt & Money Market instruments with Macaulay duration of the portfolio between 3 months - 6 months
Low Duration Fund	Investment in Debt & Money Market instruments with Macaulay duration portfolio between 6 months- 12 months
Money Market Fund	Investment in Money Market instruments having maturity upto 1 Year
Short Duration Fund	Investment in Debt & Money Market instruments with Macaulay duration of the portfolio between 1 year - 3 years
Medium Duration Fund	Investment in Debt & Money Market instruments with Macaulay duration of portfolio between 3 years - 4 years
Medium to Long Duration Fund	Investment in Debt & Money Market instruments with Macaulay duration of the portfolio between 4 - 7 years
Long Duration Fund	Investment in Debt & Money Market Instruments with Macaulay duration of the portfolio greater than 7 years
Dynamic Bond	Investment across duration
Corporate Bond Fund	Minimum 80% investment in corporate bonds only in AA+ and above rated corporate bonds
Credit Risk Fund	Minimum 65% investment in corporate bonds, only in AA and below rated corporate bonds
Banking and PSU Fund	Minimum 80% in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds
Gilt Fund	Minimum 80% in G-secs, across maturity
Gilt Fund with 10 year constant Duration	Minimum 80% in G-secs, such that the Macaulay duration of the portfolio is equal to 10 years
Floater Fund	Minimum 65% in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives)

Dynamic Bond funds alter the tenor of the securities in the portfolio in line with expectation on interest rates. The tenor is increased if interest rates are expected to go down and vice versa

Floating rate funds invest in bonds whose interest are reset periodically so that the fund earns coupon income that is in line with current rates in the market, and eliminates interest rate risk to a large extent

Short-Term Debt Funds

The primary focus of short-term debt funds is coupon income. Short term debt funds have to also be evaluated for the credit risk they may take to earn higher coupon income. The tenor of the securities will define the return and risk of the fund.

– Funds holding securities with lower tenors have lower risk and lower return.

- **Liquid funds invest in securities with not more than 91 days to maturity.**
- **Ultra Short-Term Debt Funds hold a portfolio with a slightly higher tenor to earn higher coupon income.**

Short-Term Fund combine coupon income earned from a pre-dominantly short-term debt portfolio with some exposure to longer term securities to benefit from appreciation in price.

Fixed Maturity Plans (FMPs)

-FMPs are closed-ended funds which eliminate interest rate risk and lock-in a yield by investing only in securities whose maturity matches the maturity of the fund.

– FMPs create an investment portfolio whose maturity profile match that of the FMP tenor.

– Potential to provide better returns than liquid funds and Ultra Short Term Funds since investments are locked in

– Low mark to market risk as investments are liquidated at maturity.

– Investors commit money for a fixed period.

– Investors cannot prematurely redeem the units from the fund

– FMPs, being closed-end schemes are mandatorily listed - investors can buy or sell units of FMPs only on the stock exchange after the NFO.

– Only Units held in dematerialized mode can be traded; therefore investors seeking liquidity in such schemes need to have a demat accoun

Capital Protection Oriented Funds

Capital Protection Oriented Funds are close-ended hybrid funds that create a portfolio of debt instruments and equity derivatives

– The portfolio is structured to provide capital protection and is rated by a credit rating agency on its ability to do so. The rating is reviewed every quarter.

– The debt component of the portfolio has to be invested in instruments with the highest investment grade rating.

– A portion of the amount brought in by the investors is invested in debt instruments that is expected to mature to the par value of the capital invested by investors into the fund. The capital is thus protected.

– The remaining portion of the funds is used to invest in equity derivatives to generate higher returns

Hybrid funds

Hybrid funds Invest in a mix of equities and debt securities.

SEBI has classified Hybrid funds into 7 sub-categories as follows:

Conservative Hybrid Fund	10% to 25% investment in equity & equity related instruments; and 75% to 90% in Debt instruments
Balanced Hybrid Fund	40% to 60% investment in equity & equity related instruments; and 40% to 60% in Debt instruments
Aggressive Hybrid Fund	65% to 80% investment in equity & equity related instruments; and 20% to 35% in Debt instruments
Dynamic Asset Allocation or Balanced Advantage Fund	Investment in equity/ debt that is managed dynamically (0% to 100% in equity & equity related instruments; and 0% to 100% in Debt instruments)
Multi Asset Allocation Fund	Investment in at least 3 asset classes with a minimum allocation of at least 10% in each asset class
Arbitrage Fund	Scheme following arbitrage strategy, with minimum 65% investment in equity & equity related instruments
Equity Savings	Equity and equity related instruments (min.65%); debt instruments (min.10%) and derivatives (min. for hedging to be specified in the SID)

Solution-oriented & Other funds

Retirement Fund	Lock-in for at least 5 years or till retirement age whichever is earlier
Children's Fund	Lock-in for at least 5 years or till the child attains age of majority whichever is earlier
Index Funds/ ETFs	Minimum 95% investment in securities of a particular index
Fund of Funds (Overseas/ Domestic)	Minimum 95% investment in the underlying fund(s)

Hybrid funds

Invest in a mix of equities and debt securities. They seek to find a 'balance' between growth and income by investing in both equity and debt.

– The regular income earned from the debt instruments provide greater stability to the returns from such funds.

– The proportion of equity and debt that will be held in the portfolio is indicated in the Scheme Information Document

– Equity oriented hybrid funds (Aggressive Hybrid Funds) are ideal for investors looking for growth in their investment with some stability.

– Debt-oriented hybrid funds (Conservative Hybrid Fund) are suitable for conservative investors looking for a boost in returns with a small exposure to equity.

– The risk and return of the fund will depend upon the equity exposure taken by the portfolio - Higher the allocation to equity, greater is the risk

Multi Asset Funds

- **A multi-asset fund offers exposure to a broad number of asset classes, often offering a level of diversification typically associated with institutional investing.**
- **Multi-asset funds may invest in a number of traditional equity and fixed income strategies, index-tracking funds, financial derivatives as well as commodity like gold.**
- **This diversity allows portfolio managers to potentially balance risk with reward and deliver steady, long-term returns for investors, particularly in volatile markets.**

Arbitrage Funds

"Arbitrage" is the simultaneous purchase and sale of an asset to take advantage of the price differential in the two markets and profit from price difference of the asset on different markets or in different forms.

– Arbitrage fund buys a stock in the cash market and simultaneously sells it in the Futures market at a higher price to generate returns from the difference in the price of the security in the two markets.

– The fund takes equal but opposite positions in both the markets, thereby locking in the difference.

– The positions have to be held until expiry of the derivative cycle and both positions need to be closed at the same price to realize the difference.

– The cash market price converges with the Futures market price at the end of the contract period. Thus it delivers risk-free profit for the investor/trader.

– Price movements do not affect initial price differential because the profit in one market is set-off by the loss in the other market.

– Since mutual funds invest own funds, the difference is fully the return.

Hence, Arbitrage funds are considered to be a good choice for cautious investors who want to benefit from a volatile market without taking on too much risk.

Index Funds

Index funds create a portfolio that mirrors a market index.

– The securities included in the portfolio and their weights are the same as that in the index

– The fund manager does not rebalance the portfolio based on their view of the market or sector

– Index funds are passively managed, which means that the fund manager makes only minor, periodic adjustments to keep the fund in line with its index. Hence, Index fund offers the same return and risk represented by the index it tracks.

– The fees that an index fund can charge is capped at 1.5%

Investors have the comfort of knowing the stocks that will form part of the portfolio, since the composition of the index is known.

Exchange Traded Funds (ETFs)

An ETF is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund.

ETFs are listed on stock exchanges.

- **Unlike regular mutual funds, an ETF trades like a common stock on a stock exchange. The traded price of an ETF changes throughout the day like any other stock, as it is bought and sold on the stock exchange.**
- **ETF Units are compulsorily held in Demat mode**
- **ETFs are passively managed, which means that the fund manager makes only minor, periodic adjustments to keep the fund in line with its index**
- **Because an ETF tracks an index without trying to outperform it, it incurs lower administrative costs than actively managed portfolios.**
- **Rather than investing in an 'active' fund managed by a fund manager, when one buy units of an ETF one is harnessing the power of the market itself.**
- **Suitable for investors seeking returns similar to index and liquidity similar to stocks**

Fund of Funds (FoF)

- **Fund of funds are mutual fund schemes that invest in the units of other schemes of the same mutual fund or other mutual funds.**
- **The schemes selected for investment will be based on the investment objective of the FoF**
- **The FoF have two levels of expenses: that of the scheme whose units the FoF invests in and the expense of the FoF itself. Regulations limit the total expenses that can be charged across both levels as follows:**

– TER in respect of FoF investing liquid schemes, index funds & ETFs has been capped @ 1%

– TER of FoF investing in equity-oriented schemes has been capped @ 2.25%

– TER of FoF investing in other schemes than mentioned above has been capped @2%.

Gold Exchange Traded Funds (FoF)

- **Gold ETFs are ETFs with gold as the underlying asset**

– The scheme will issue units against gold held. Each unit will represent a defined weight in gold, typically one gram.

– The scheme will hold gold in form of physical gold or gold related instruments approved by SEBI.

– Schemes can invest up to 20% of net assets in Gold Deposit Scheme of banks

- **The price of ETF units moves in line with the price of gold on metal exchange.**
- **After the NFO, units are issued to intermediaries called authorized participants against gold or funds submitted. They can also redeem the units for the underlying gol**

Benefits of Gold ETFs

Convenience --> option of holding gold electronically instead of physical gold.

- **– Safer option to hold gold since there are no risks of theft or purity.**

– Provides easy liquidity and ease of transaction.

- **For the purpose of capital gains taxation, Gold ETFs are considered as "Specified Mutual Funds" (i.e., non-equity oriented mutual funds).**
- **No wealth tax is applicable on Gold ETFs .**

International Funds

International funds enable investments in markets outside India, by holding in their portfolio one or more of the following:

– Equity of companies listed abroad.

– ADRs and GDRs of Indian companies.

– Debt of companies listed abroad.

– ETFs of other countries.

– Units of passive index funds in other countries.

– Units of actively managed mutual funds in other countries.

International equity funds may also hold some of their portfolios in Indian equity or debt.

– They can hold some portion of the portfolio in money market instruments to manage liquidity.

International funds gives the investor additional benefits of

– Diversification, since global markets may have a low correlation with domestic markets.

– Investment options that may not be available domestically.

– Access to companies that are global leaders in their field.

There are risks associated with investing in such funds, such as –

– Political events and macro economic factors that are less familiar and therefore difficult to interpret

– Movements in foreign exchange rate may affect the return on redemption

– Countries may change their investment policy towards global investors.

For the purpose of taxation, these funds are considered as non-equity oriented mutual fund schemes.

NET ASSET VALUE (NAV)

NAV stands for Net Asset Value. The performance of a mutual fund scheme is denoted by its NAV per unit.

NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on a given date. For example, if the market value of securities of a mutual fund scheme is ₹200 lakh and the mutual fund has issued 10 lakh units of ₹ 10 each to the investors, then the NAV per unit of the fund is ₹ 20 (i.e., ₹200 lakh/10 lakh).

Since market value of securities changes every day, NAV of a scheme also varies on day-to-day basis.

NAVs of mutual fund schemes are published on respective mutual funds' websites as well as AMFI's website daily.

For details on Disclosure of NAV of Mutual fund schemes, please click here

Unlike stocks, where the price is driven by the stock market and changes from minute-to-minute, NAVs of mutual fund schemes are declared at the end of each trading day after markets are closed, in accordance with SEBI Mutual Fund Regulations. Further, Units of mutual fund schemes under all scheme (except Liquid & Overnight funds) are allotted only

at prospective NAV, i.e., the NAV that would be declared at the end of the day, based on the closing market value of the securities held in the respective schemes.

A mutual fund may accept applications even after the cut-off time, but you will get the NAV of the next business day. Further, the cut-off time rules apply for redemptions too.

	Liquid Funds/Overnight Funds	All Other Schemes*
Subscription	• Where the application is received up to 1.30 p.m. on a day and the funds are available for utilization before 1.30 p.m. without availing any credit facility, the closing NAV of the day immediately preceding the day of receipt of application. • Where the application is received after 1.30 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, the closing NAV of the day immediately preceding the next business day; and • Irrespective of the time of receipt of application (before or after 1.30 p.m. on a day), where the funds are not available for utilization before 1.30 p.m. without availing any credit facility, the closing NAV of the day immediately preceding the day on which the funds are available for utilization.	• Where the application is received up to 3:00 p.m. and funds are available for utilization before 3:00 p.m., the closing NAV of the day on which the application is received. • Where the application is received after 3:00 p.m. and the funds are available for utilization, closing NAV of the next business day. • Irrespective of the time of receipt of application (before or after 3:00 p.m.), where the funds are not available for utilization, the closing NAV of the day on which the funds are available for utilization before cut-off time of 3.00 p.m.
Redemption	• Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; and • Where the application is received after 3.00 pm – the closing NAV of the next business day. • Provided that in case application is received through online mode, the cut-off timing of 7 PM shall be applicable for overnight fund schemes. Explanation: "Business Day" does not include a day on which the Money Markets are closed or otherwise not accessible.	• Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and • Where the application is received after 3.00 pm – closing NAV of the next business day.

*other than Liquid Funds & Overnight Funds

Sale Price

- **Sale Price is the price payable per unit by an investor for purchase of units (subscription) and/or switch-in from other schemes of a mutual fund.**
- **SEBI vide circular no. SEBI / IMD / CIR No. 4 / 168230 / 09 dated June 30, 2009 has abolished Entry Load for all mutual fund schemes.**
- **Hence, during the New Fund Offer (NFO), the Sale Price per unit is at Face Value per unit specified in the respective Scheme Information Document (SID) and Key Information Memorandum (KIM)**

- **During the 'Ongoing Offer' period (i.e., the date from which the scheme re-opens for subscriptions/redemptions after the closure of the NFO period.), the units may be purchased at NAV i.e., the Sale Price per unit is equivalent to applicable NAV on the date of subscription**

Repurchase/Redemption Price

- **The Repurchase/Redemption Price is the price per Unit at which a Mutual Fund would 'repurchase' the units (i.e., buys back units from the investor) upon redemption of units or switch-outs of units to other schemes/plans of the Mutual Fund by the investors, and includes Exit Load, if / wherever applicable.**
- **Redemption price is calculated as follows:**

Redemption Price = Applicable NAV*(1- Exit Load, if any) For Example: If the Applicable NAV is ₹10 and Exit Load is 2%, then the Redemption Price will be = ₹10* (1-0.02) = ₹9.80

It may be noted that an AMC / Trustee has the right to modify existing Exit Load structure and/or to introduce Exit Loads subject to a maximum limit prescribed under the Regulations.

Any change in Load structure will be effective on prospective basis and will not affect the existing mutual fund units in any manner.

As per SEBI (Mutual Funds) Regulations, 1996, in respect of Open-Ended Schemes, Repurchase Price (commonly referred to as Redemption price) shall not be lower than 95% of NAV.

It may be noted that units of Closed Ended Schemes cannot be Repurchased premature

Myths & Facts about Mutual Funds

Fact : In fact, Mutual funds are meant for of common investors who may lack the knowledge or skill set to invest in securities market. Mutual Funds are professionally managed by expert Fund Managers after extensive market research for the benefit of investors. A mutual fund is an inexpensive way for investors to get a full-time professional fund manager to manage their money.

Fact : Mutual funds can be for the short term or for longer term based on one's investment horizon and objective.

There are different types of mutual fund schemes – which invest in different types of securities – in equity as well as debt securities that are suitable for different investor needs.

In fact, there are various short-term schemes where you can invest for a few days to a few weeks to a few years e.g., Liquid Funds are low duration funds, with portfolio maturity of less than 91 days, while Ultra short-Term Bond Funds are low duration funds, with portfolio maturity of less than a year. There are Short-Term Bond Funds which are medium duration funds where the underlying portfolio maturity ranges from one year – three years. Then, there are Long-Term Income Funds which are medium to long duration funds with portfolio maturity between 3 and 10 years.

While Equity Schemes are most suitable for a longer term, debt mutual funds are suitable for investors with short term (less than 5 years) investment horizon.

Fact : Mutual Funds invest in stock market (i.e., equities), bond market (corporate bonds as well as govt. bonds) and Money Market instruments such as Treasury Bills, Commercial Papers, Certificate of Deposit, Collateral Borrowing & Lending Obligation (CBLO) etc. Many of these instruments are not available to retail investors due to large ticket size of minimum order quantity (such as G-Secs) and hence, retail investors could participate in such investments through mutual fund schemes

Fact : This is a common misconception. A mutual fund's NAV represents the market value of all its underlying investments. **NAV of a fund is irrelevant, because it represents the market value of the fund's investments and not the market price.** Any capital appreciation will depend on the price movement of its underlying securities. Let us understand this through an illustration.

Suppose, you invest ₹10,000 each in scheme A whose NAV is ₹20 and scheme B (whose NAV is say, ₹100. You will be allotted 500 units of scheme A and 100 units of scheme B. Assuming that both schemes have invested their entire corpus in exactly same stocks and in the same proportions, if the underlying stocks collectively appreciate by 10%, the NAV of the two schemes should also rise by 10%, to ₹22 and ₹110, respectively. Thus, in both the scenarios, the value of your investment increases to ₹ 11,000.

Thus, the current NAV of a fund does not have any impact on the returns.

Fact : Absolutely incorrect. One could start investing mutual funds with just ₹5000 for a lump-sum / one-time investment with no upper limit and ₹1000 towards subsequent / additional subscription in most of the mutual fund schemes. And for Equity linked Savings Schemes (ELSS), the minimum amount is as low as ₹ 500.

In fact, one could invest via Systematic Investment Plan (SIP) with as little as ₹500 per month for as long as one wishes to.

Fact : Holding mutual fund Units in Demat mode is absolutely optional, except in respect of Exchange Traded Funds. For all other schemes, including the close-ended listed schemes like Fixed Maturity Plans (FMPs), it is entirely upto the investor whether to hold the units in a Demat mode or in conventional physical accountant statement mode.

Fact : This is a very common misconception because of the general association of Mutual Funds with shares. One needs to keep in mind that the NAV of a scheme is nothing but a reflection of the market value of the underlying shares held by the fund on any day. Mutual Funds invest in shares, which may be bought or sold whenever deemed appropriate by the

Fund Manager depending on the scheme's investment strategy (Buy-Hold-Sell). If the Fund Manager feels that a particular stock has peaked, he can choose to sell it.

A high NAV does not mean the fund is expensive. In fact, high NAV indicates a good performance of the scheme over the years.

Fact : Mutual fund ratings are dynamic and based on performance of the scheme over time – which in itself is subject to market fluctuations. So, a Mutual fund scheme that may be on top of the rating chart currently, may not necessarily maintain the same rating month after month or at a later date . However, a top rated fund is a good first step to short list a scheme to invest in (although past performance does not necessarily guarantee better returns in future). Investment in a mutual fund scheme needs to be tracked with respect to the scheme's benchmark to evaluate its performance periodically to decide whether to stay invested or to exit.

History of Mutual Funds in India

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

In the last few years the MF Industry has grown significantly. The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

First Phase - 1964-1987

The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had ₹ 6,700 crores of Assets Under Management (AUM).

Second Phase - 1987-1993 - Entry of Public Sector Mutual Funds

The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987), Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LIC established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of ₹47,004 crores.

Third Phase - 1993-2003 - Entry of Private Sector Mutual Funds

The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market.

In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993. With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider choice of MF products. The initial SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable.

The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFs with total AUM of ₹1,21,805 crores, out of which UTI alone had AUM of ₹44,541 crores.

Fourth Phase - since February 2003 – April 2014

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.

Following the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors who had entered the capital market during the peak, had lost money and their faith in MF products was shaken greatly. The abolition of Entry Load by SEBI, coupled with the after-effects of the global financial crisis, deepened the adverse impact on the Indian MF Industry, which struggled to recover and remodel itself for over two years, in an attempt to maintain its economic viability which is evident from the sluggish growth in MF Industry AUM between 2010 to 2013.

Fifth (Current) Phase – since May 2014

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

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

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

- The Industry's AUM crossed the milestone of ₹10 Trillion (₹10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of about three years the AUM size had increased more than two folds and crossed ₹ 20 trillion (₹20 Lakh Crore) for the first time in August 2017. The AUM size crossed ₹ 30 trillion (₹30 Lakh Crore) for the first time in November 2020.
- The overall size of the Indian MF Industry has grown from ₹ 10.83 trillion as on 31st March 2015 to ₹69.50 trillion as on April 30, 2025, about 6 and half fold increase in a span of 10 years.
- The MF Industry's AUM has grown from ₹ 22.26 trillion as on March 31, 2020 to ₹69.50 trillion as on April 30, 2025, more than 3 fold increase in a span of 5 years.
- The no. of investor folios has gone up from 8.97 crore folios as on 31-March-2020 to 23.63 crore as on 30-Apr-2025, more than 2 and half fold increase in a span of 5 years.
- On an average 24.03 lakh new folios are added every month in the last 5 years since March 2020.

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

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

Direct Plan

One may invest in mutual funds DIRECTLY i.e., without involving or routing the investment through any distributor/agent in a 'Direct Plan'.

OR one may choose to invest in mutual funds with the help of a Mutual Fund distributor/agent in what is termed as a 'Regular Plan'.

'Direct Plan' and 'Regular Plan' are both part of the same mutual fund scheme, have the same / common portfolio and are managed by the same fund manager, but have different expense ratios (recurring expenses that is incurred by the mutual fund scheme).

Direct Plan has lower expense ratio than the Regular Plan, as there is no distributor/agent involved, and hence there is saving in terms of distribution cost/commissions paid out to the distributor/agent, which is added back to the returns of the scheme. Hence, a Direct Plan has a separate NAV, which is higher than the “Regular” Plan’s NAV.

In due course, the lower expense ratio of Direct Plan translates to higher returns on the investments which keeps compounding over the years. Thus, the investment in Direct Plan would be worth more over a period, in comparison to investment in Regular Plan of the same scheme. It should be however borne in mind that the difference between NAV of Direct Plan and Regular Plan tends to be marginal.

Direct Plans are for those who prefer to invest DIRECTLY in a mutual fund scheme without the help of any distributor/agent. Investing in a Direct Plan is like buying a product from the manufacturer directly, whereby the cost to customer would be lower. Except that, investing in a mutual fund scheme directly is not as simple as buying some item from a factory outlet, because choosing a mutual fund scheme requires adequate knowledge and awareness of the mutual fund product, especially the risks that are associated with the potential rewards. Choosing a Direct Plan means making your own decisions about fund/scheme selection (and the related execution work) which not everyone may be capable of.

In short, Direct Plan is suited for those who understand what kind of mutual funds are needed for different kinds of investment needs, are capable of researching these independently and able to identify/shortlist the funds to invest in, and then go through the process of actually investing without the help of an intermediary.

However, when the markets fall and investment values come under pressure, independent advice from a professional advisor can help one stay the course. Thus, Direct Plan makes sense only if you have adequate knowledge and capability to select good funds yourself; or, are willing to seek professional advice of a registered investment adviser for a fee.

While the Direct Plan makes sense for knowledgeable, Do-it-Yourself (DIY) investors, it may not be suited for all investors, especially new and inexperienced investors. So, if you are new and inexperienced investor or unsure in which scheme to invest and need guidance/assistance in investing, you may be better off seeking help of a mutual fund distributor and invest in Regular Plan.

How to invest in a Direct Plan?

You could invest in a Direct Plan online through the websites of the respective mutual funds or via online platforms of stock exchanges platform or Mutual Funds Utility (MFU) or other various digital channel.

There are also a few online portals which offer a facility to invest in Direct Plans. However, such online portals are run by private firms that offer robo-advisory financial planning services, usually for a fee – which could be per year or per transaction.

Please also note that, not all online portals offer Direct Plans, even though one may invest in mutual fund schemes on such portals.

Many banks offer an option to invest in MF schemes on their Internet banking portal. Financial intermediaries, including banks are mutual fund distributors, and hence do not /cannot offer you Direct Plans on their web portals.

You may also invest in Direct Plan using a physical application form, which can be submitted at the investor service centre/branch of the concerned mutual fund or its registrar and transfer agent (RTA) along with the cheque or demand draft.

While filling up a mutual fund application form – whether online via the website of a mutual fund or in physical mode, please ensure that you tick / select the 'Direct Plan' box. If you are choosing the physical mode, it is advisable to strike out the box for distributor code on the top of the application form or write the word "Direct" in the box.

Cut off Timings & New Rule on Applicable NAV

New Rule on Applicable NAV effective from 1st Feb. 2021

Cut-off timings for mutual fund transactions

For determining applicable Net Asset Value (NAV) for subscription and redemption transactions

Type of Schemes	Transaction type	Cut-off timings
Liquid Funds & Overnight Funds	Subscription (including Switch-in from other schemes)	1:30 p.m.
	Redemption (including Switch-in from other schemes)	3:00 p.m.
All other schemes (other than Liquid Funds / Overnight Funds)	Subscription (including Switch-in from other schemes)	3:00 p.m.
	Redemption (including Switch-in from other schemes)	3:00 p.m.

What is the new rule on Applicable NAV?

As per SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2020/175 dated September 17, 2020 read with circular no. SEBI/HO/IMD/DF2/CIR/P/2020/253 dated December 31, 2020, effective from February 1, 2021, the applicable NAV in respect of purchase of units of mutual fund scheme shall be subject to realization & availability of the funds in the bank account of mutual fund before the applicable cut off timings for purchase transactions, irrespective of the amount of investment, under ALL mutual fund schemes. (The above rule is already applicable for purchase transactions under Liquid funds and Overnight Funds).

When will the new rule come into effect?

The revised rule is applicable for all purchase transactions received from 1st Feb. 2021.

To which transactions is the NAV based on realization of funds applicable ?

1. All purchase transactions – whether Initial purchase or additional purchase of units; whether lump-sum investment or under Systematic Investment Plan (SIP); irrespective of the amount of investment
2. Purchase of units through Inter-scheme switching of investments, including switch transactions under Systematic Transfer Plan (STP) or trigger events irrespective of the amount of investment.

How is the Applicable NAV determined?

The Applicable NAV for purchase transactions (including Switch-In transactions) under all mutual fund schemes (other than Liquid funds and Overnight Funds) irrespective of the amount of investment, shall be determined as follows:

Time of receipt of Transaction and Money	Applicable NAV
Where the purchase transaction is received upto cut-off time of 3.00 p.m. on a business day at the official point(s) of acceptance and funds for the entire amount of subscription/purchase are available for utilization upto 3.00 p.m. on the same Business Day.	NAV of the same Business Day shall be applicable
Where the transaction is received upto cut-off time of 3.00 p.m. on a business day at the official point(s) of acceptance, but the funds for purchase of units are available for utilization after 3.00 p.m. on that Business Day or on a subsequent Business Day	NAV of the subsequent Business Day on which the funds are available for utilization prior to 3.00 p.m. shall be applicable.
Where the transaction is received AFTER the cut-off time of 3.00 p.m. on a business day at the official point(s) of acceptance and funds for the entire amount of subscription/purchase are available for utilization upto 3.00 p.m. on the same Business Day.	NAV of subsequent Business Day shall be applicable.
Where the application is received after cut-off time of 3.00 p.m. on a business day at the official point(s) of acceptance and funds for the entire amount of subscription/purchase are available for utilization after 3.00 p.m. on the same Business Day or subsequent Business Day.	NAV of subsequent Business Day on which fund realized prior to 3.00 p.m. shall be applicable

Illustrations to explain the new Applicable NAV Rule (effective from 01-Feb-2021)

a) Lump Sum purchase transaction for say, ₹50,000 received (time stamped) before cut-off time of 3.00 p.m. on Thursday 11-Feb-2021

If the funds are received in the mutual fund's account before cut-off time of 3.00 p.m. on 11th February 2021, the investor will be allotted closing NAV of 11-Feb-2021. However, if the funds are received in the mutual fund's bank account at say 5.00 p.m. on 11th February 2021, i.e., after the cut-off time of 3.00 p.m., the allotment of units will be done at the NAV of Friday 12-Feb-2021. However, if the funds are received in the mutual fund's bank account at say 4.00 p.m. on Friday 12-Feb-2021, the units will be allotted at the closing NAV of Monday 15-Feb-2021 (Feb. 13 & 14 being Saturday & Sunday i.e., non-business days).

In short, the units are allotted at the NAV of the business day on which the funds are received into the mutual fund account before applicable cut-off time.

b) SIP Transaction

Assuming an investor has signed up for SIP transaction of say, ₹5,000 to be debited on 10th of every month. Hitherto, the investor would have been allotted SIP units at the NAV for

10th the month (assuming the same is a Business day) irrespective of the date on which the money was received / credited to the Mutual Fund’s bank account. As per the new Rule, the investor would be allotted the SIP units at the NAV for 10th only if the money is received/credited to the Mutual Fund’s bank account before 3.00 p.m. on 10th. Else, the SIP units will be allotted units at the NAV of the next business day on which funds are received before the cut-off time.

In view of the above, investors are encouraged to avail electronic payment modes for remittance of funds to the mutual fund bank account to facilitate speedy fund transfers.

What is the Applicable NAV for Switching of Units?

Valid applications for Inter-scheme switching of investments will be considered for processing on the earliest day which is a Business Day for both the ‘Switch out’ scheme and the ‘Switch in’ scheme. Applications for ‘Switch In’ shall be treated as purchase applications and the Applicable NAV based on the cut off time for purchase shall be applied. Applications for Switch Out shall be treated as redemption applications and the Applicable NAV based on the cut off time for redemption shall be applied. Please see Table 2 below.

Transaction wise NAV applicability matrix (applicable from 01-Feb-2021)

Transaction Type	Transaction received before cut-off timing	Money Received by MF before cut-off timing	Applicable NAV
Purchase / SIP Installment	Y	Y	Same Business Day
	N	Y	Next business day on which Time Stamping done before cut-off time
	Y	N	Next business day on which money received by the fund before cut-off time
Inter scheme Switch Transaction			
Transaction Type	Transaction received before cut-off timing	Money Received by MF before cut-off timing	Applicable NAV
Switch out	Y	N/A	Same Business Day
Switch in	N/A	Y	Business Day on which funds are received (in line with redemption pay out of Switch Out scheme) in Switch-in scheme before cut-off time

How the NAV will be determined, if the subscription money is transferred / credited to mutual fund account first and the application / transaction is received subsequently?

In such a scenario, the date & time stamped on the application/transaction will be considered for determining Applicable NAV.

Is there any change in cut-off timings for purchase transactions?

No. There is no change in the existing cut off timings purchase transactions.

Does the new Rule on Applicable NAV apply to all modes of transactions?

Yes. The new NAV Rule is uniformly applicable for all mode of transactions (whether physical or through online platforms such as exchange platforms/online channel partners/MFU etc) In short, the allotment of units will be subject to realization of subscription money irrespective of the mode of transaction.

What will the Applicable NAV on units allotted on Reinvestment of Dividend?

The allotment of units upon reinvestment of dividend will be at ex-dividend NAV.

What about NFO Purchase and NFO Switch-In Transactions?

In case of NFO subscriptions, the Units are allotted in respect all valid applications received till the close of business hours on NFO closure date provided the funds are realised (credited to the mutual fund collection account) prior to allotment of units.

In case of switch transactions from an existing scheme into NFO scheme, the Switch-Out requests received & time stamped before the cut off timing applicable to the source schemes shall be processed, and the units in the NFO scheme will be allotted on Allotment date.

NFO Units are allotted at face value of the Units as specified in the Scheme Information Document.

What is the Applicable NAV for Redemption of Units (including Switch-outs)?

The Applicable NAV for redemptions continues to be as follows:

Where the redemption transaction is received on any Business Day at the official points of acceptance of transactions upto 3.00 p.m.	NAV of the same Business Day shall be applicable.
Where the transaction is received after 3.00 p.m.	NAV of the next Business Day.

Tax Regime for Mutual Funds

Applicable for the Financial Year 2024-25

I. Tax Rates for Mutual Fund Investors

EQUITY ORIENTED FUNDS(other than Equity Oriented Fund of Funds) (Subject to STT[14&15])					
Tax Status of Investor	Capital Gains Tax[2]		Tax on Distributed Income under Dividend Option	TDS on Capital Gains[18,19]	TDS[18,19] on Distributed Income Dividend Option
	Short Term	Long Term			
Resident Individual / HUF / AOP / BOI /	15%/20%[3]	10%/12.5%[4]	At the applicable Tax slab rate	NIL	10%[12]
Domestic Companies					
N R I s[4]				STCG - 15%/20%[3] LTCG - 10%/12.5%[4]	20%[13]

SPECIFIED MUTUAL FUND[5&6]					
Tax Status of Investor	Capital Gains Tax[5]		Tax on Distributed Income under Dividend Option	TDS on Capital Gains[18,19]	TDS[18,19] on Distributed Income Dividend Option
	Short Term	Long Term			
Resident Individual / HUF / AOP / BOI /	At the applicable Tax slab rate	NA	At the applicable Tax slab rate	NIL	10%[12]
Domestic Companies	15%/22%[8&9]/25%[10]/30%				
N R I s[4]	At the applicable Tax slab rate			STCG - 30%	20%[13]

OTHER MUTUAL FUNDS					
Tax Status of Investor	Capital Gains Tax[7]		Tax on Distributed Income under Dividend Option	TDS on Capital Gains[18,19]	TDS[18,19] on Distributed Income under Dividend Option
	Short Term	Long Term			
Resident Individual /	At the applicable Tax slab rate	20%/12.5%[11]	At the applicable Tax slab rate	NIL	10%[12]
HUF / AOP / BOI /					
Domestic Companies / Firms	15%/ 22%[8&9]/ 25%[10]/ 30%				
N R I s[17]	At the applicable Tax slab rate	20%(Listed Units)/10%(Unlisted Units)/12.5%[11]		STCG – 30% LTCG – 20%(Listed Units)/10%(Unlisted Units)/12.5%[11]	20%[13]

Tax & TDS are subject to applicable Surcharge and Health & Education Cess at the rate of 4%. Please see the Notes below

NOTES:

- Provided that the mutual fund units are held as capital assets.
- Capital gains arising on the transfer or redemption of equity-oriented units held for a period of more than 12 months, immediately preceding the date of transfer, should be regarded as 'long-term capital gains'. Further, cost of acquisition to compute long-term capital gains is to be higher of (a) Actual cost of acquisition; and (b) Lower of (i) fair market value as on 31 January 2018; and (ii) full value of consideration received upon transfer.
- As per section 111A of the Income-tax Act, 1961 (the Act) short-term capital gains on transfer of units before 23 July 2024 of EOFs shall be taxable @15% and for transfer on or after 23 July 2024 shall be taxable @20%.
- As per section 112A of the Act, long-term capital gains, exceeding ₹ 1,25,000, on transfer of units of EOFs before 23 July 2024 shall be taxable at the rate of 10% and on transfer of units on or after 23 July 2024 shall be taxable at the rate of 12.5% provided transfer of such units is subject to STT, without giving effect to first and second proviso to section 48 i.e., without taking benefit of foreign currency fluctuation and indexation benefit.
- Finance Act 2023 has introduced section 50AA which provides that any gains on transfer / redemption of units of specified mutual funds acquired on or after 1 April 2023 are deemed as short-term capital gains. For the purposes of section 50AA, “specified mutual fund” means a mutual fund by whatever name called, where not more than 35% of its total proceeds is invested in the equity shares of domestic companies. An “equity-oriented fund” which invests in units of another fund instead of investing directly in equity shares of domestic company may be regarded as “specified mutual fund” as per section 50AA of the Act and taxed accordingly. As per the Finance (No. 2) Act 2024 (applicable from financial year 2025-26) the “specified mutual fund” means:

    1. a mutual Fund by whatever name called, which invest more than sixty five percent of the total proceeds in debt and money market instrument or;
    2. a fund which invests sixty five percent or more of its proceeds in units of fund referred to in sub-clause (a) For this purpose, “debt and money market instruments” shall include any securities, by whatever name called, classified or regulated as debt and money market instruments by the Securities and Exchange Board of India (SEBI). Accordingly, as per the amended definition, which is applicable from FY 2025-26, only debt oriented mutual fund schemes (including fund of fund) should be covered within the ambit of section 50AA of the Act.

- **Various Categories of MF Schemes which fall under "Specified Mutual Funds" for FY 2024-25** Fund of funds as defined under the “Equity Oriented Fund” definition under section 112A of the Act Liquid Funds /Money Market Funds / Income Funds (Debt Funds) / Gilt Funds Gold ETFs / Bond ETF / Liquid ETF Fund Of Funds (Domestic) Fund Of Funds Investing Overseas Infrastructure Debt Funds
- Capital gains arising on transfer or redemption of Units of schemes other than EOF and other than specified mutual fund as per section 50AA of the Act shall be regarded as long-term capital gains, if such units are held for a period of more than 12 months (in case of listed units)/24 months (in case of unlisted units) immediately preceding the date of such transfer (i.e. on or after 23 July 2024). If the transfer take place before 23 July 2024, then capital gains arising on transfer or redemption of such units shall be regarded as long-term capital gains, if such units are held for a period of more than 36 months.
- If a company decides to opt for the new taxation regime as per the Taxation Law Amendment Act, 2019, then tax shall be levied at the rate of 22%. i.e., the lower rate of 22% is optional and subject to fulfilment of certain conditions as provided in section 115BAA.
- As per section 115BAB, the new domestic manufacturing companies may opt for beneficial tax rate of 15% subject to prescribed conditions. Furthermore, the first proviso to Section 115BAB provides that any income which is not derived from nor is incidental to manufacturing or production of an article/ thing and in respect of which no specific tax rate is specified under Chapter XII of the Act, would be taxable at 22% and no deduction would be allowed while computing such income.
- Tax shall be levied @ 25%, if the total turnover or gross receipts of the financial year 2022-23 does not exceed ₹ 400 crores. Further, the domestic companies are subject to minimum alternate tax (except for those who opt for lower rate of tax of 22%) not specified in above tax rates.
- As per section 112 of the Act, any income arising from the transfer of long-term capital asset, which is chargeable under head capital gains shall be taxable at 20% with indexation benefit if the transfer takes place before 23 July 2024 and at 12.5% without indexation benefit if transfer take place on or after 23 July 2024. As per section 112 of the Act, in case of NRIs, any income arising from the transfer of long-term capital asset, which is chargeable under head capital gains shall be taxable @ 10% on transfer of capital assets, being unlisted securities, computed without giving effect to first and second proviso to section 48 i.e., without taking benefit of foreign currency fluctuation and indexation benefit or @ 20% with indexation benefit if the transfer takes place before 23 July 2024. In case, if transfer takes place on or after 23 July 2024, such income shall be taxable @ 12.5% without indexation.

- There shall be no TDS deductible if dividend income paid / credited in respect of units of a mutual fund is below ₹ 5,000 in a financial year.
- Tax to be deducted at source at the rate of 20% or at the rate specified under the relevant double tax avoidance agreement, whichever is lower as per section 196A of the Act.
- Securities Transaction Tax ('STT') is applicable only in respect of sale of units of Equity-oriented funds (EOFs) on a recognised stock exchange and on repurchase (redemption) of units of EOFs by the mutual fund. STT in not applicable in respect of purchase/ sale/ redemption of units of other schemes (other than EOFs).
- **Securities Transaction Tax (STT) in respect of Units equity-oriented mutual fund Schemes**

Transaction	Rates	Payable by
Purchase of units of equity-oriented mutual fund	Nil	Not Appliable
Sale of units of equity-oriented mutual fund (delivery based)	0.001%	Seller
Sale of units of equity-oriented mutual fund (non-delivery based)	0.025%	Seller
Sale of units of an equity-oriented fund to the Mutual Fund	0.001%	Seller

- **Surcharge Rate as a percentage of Income-tax**

Tax Status	**Income < ₹50 lakh**	**Income > ₹50 lakh but < /= ₹1 crore**	**Income > ₹1 crore but < /= ₹2 crore**	**Income > ₹2 crore but < /= ₹5 crore**	**Income > ₹5 crore**
Individual / HUF/ AOP (resident & foreign)*	NIL	10%	15%	25%	37%
Tax Status	**Income < /= ₹1 crore**	**Income > ₹1 crore, but < /= ₹10 crore**	**Income > ₹10 crore**	-	-
Partnership Firm (Domestic / foreign)	NIL	12%	12%	-	-
Domestic company	NIL	7%	12%	-	-
Domestic company (opting for new tax regime)	NIL	10%	10%	-	-
Foreign company	NIL	2%	5%	-	-

In addition, “Health and Education Cess” @ 4% shall be applicable on aggregate of base tax and surcharge. * The surcharge rate applicable to capital gains taxable under section 112, 112A and 111A of the Act is capped to 15%. *In case investor is opting for ‘New Tax Regime’ under section 115BAC (1A) of the Act , the rate of surcharge is capped at 25%. ** The surcharge rates in the case of an association of persons consisting of only companies as its members as under —

Particulars	Rate
Income > ₹50 lakh but <= ₹1 crore	10%
Income > ₹1 crore	15%

- Non-resident individuals (NRI) shall be entitled to be governed by provisions of the applicable Tax Treaty, which India has entered with the country of residence of the NRI, if that is more beneficial than the provisions of the Act , subject to certain conditions. As per section 90(4) of the Act, a non-resident shall not be entitled to claim treaty benefits, unless the non-resident obtains a Tax Residency Certificate of being a resident of home country. Furthermore, as per section 90(5) of the Act, non-resident is also required to provide such other documents and information, as prescribed by CBDT, as applicable.
- Relaxation to NRIs from deduction of tax at higher rate (except income distributed by mutual fund) in the absence of Permanent Account Number (PAN) is subject to the NRI providing specified information and documents. As per provisions of Section 206AA of the Act, if there is default on the part of a NRI (entitled to receive redemption proceeds from the Mutual Fund on which tax is deductible under Chapter XVII of the Act) to provide its PAN, the tax shall be deducted at higher of the following rates: i) rates specified in relevant provisions of the Act; or ii) rate or rates in force; or iii) rate of 20%. However, the provisions of section 206AA of the Act shall not apply, if the requirements as stated in Rule 37BC of the Income-tax Rules, 1962, are met.
- Section 206AB of the Act provides for higher rate for TDS for the non-filers of income-tax return. The TDS rate in this section is higher of the following rates: i) twice the rate specified in the relevant provision of the Act; or ii) twice the rate or rates in force; or iii) the rate of five per cent. However, the said provision does not apply to a non-resident who does not have a permanent establishment in India and a person who is not required to furnish the return of income for the assessment year relevant to the said previous year and is notified by the Central Government in the Official Gazette in this behalf.

II. OTHER TAX PROVISIONS

- Capital gains arising on Transfer of units upon consolidation of mutual fund schemes of two or more schemes of EOFs or two or more schemes of a Scheme other than EOF in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains tax.

- Likewise, Capital gains arising on Transfer of units upon consolidation of Plans within a mutual fund scheme in accordance with SEBI (Mutual Funds) Regulations, 1996 is exempt from capital gains tax.
- Currently, switching units of mutual fund within the same scheme from Growth Plan to Dividend Plan and vice-versa is subject to capital gains tax.
- Creation of segregated portfolio: SEBI has permitted creation of segregated portfolio of debt and money market instruments by mutual fund schemes in certain situations. As per the said SEBI circular, all existing unit holders in the affected mutual fund scheme as on the date of the credit event shall be allotted equal number of units in the segregated portfolio as held in the main portfolio. As per sub-sections (2AG) and (2AH) to Section 49 of the Act, cost of acquisition of a unit or units in a segregated portfolio shall be the amount which bears to the cost of acquisition of a unit or units held by the assessee in the total portfolio in the same proportion as the net asset value of the asset transferred to the segregated portfolio bears to the net asset value of the total portfolio immediately before the segregation of portfolios. Further, the cost of acquisition of the original units held by the unit holder in the main portfolio shall be reduced by the amount as so arrived for the units of segregated portfolio.
- An Equity Oriented Mutual Fund has been defined in section 112A of the Act. As per the said definition, a fund of fund scheme structure shall be treated as an Equity Oriented Fund where the fund invests in units of another fund which is traded on recognised stock exchange::
    - a minimum of ninety per cent of the total proceeds of such fund is invested in the units of such other fund; and
    - such other fund also invests a minimum of ninety per cent of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange

Thus, if a fund invests in units of other funds and fulfills the aforementioned criteria, then it shall be regarded as Equity Oriented Fund. However, if the aforementioned conditions are not fulfilled, then the same shall be regarded as other than Equity Oriented Fund and subjected to the same tax treatment as applicable to a non-equity-oriented fund.

However, section 50AA of the Act deems any gains on transfer / redemption of units of specified mutual funds acquired on or after 1 April 2023 as short-term capital gains. For the purposes of section 50AA, “specified mutual fund” means a mutual fund by whatever name called, where not more than 35% of its total proceeds is invested in the equity shares of domestic companies. Accordingly, an “equity-oriented fund” which invests in units of another fund instead of investing directly in equity shares of domestic company may be regarded as “specified mutual fund” as per section 50AA of the Act and taxed accordingly.

The Finance (No. 2) Act 2024 has further amended the definition of the specified mutual fund (applicable from financial year 2025-26) and as per amended definition "specified mutual fund" means "(a) a mutual Fund by whatever name called, which invest more than sixty five percent of the total proceeds in debt and money market instrument or; (b) a fund which invests sixty five percent or more of its proceeds in units of fund referred to in sub-clause (a)".

For this purpose "debt and money market instruments" shall include any securities, by whatever name called, classified or regulated as debt and money market instruments by the SEBI.

Accordingly, as per the amended definition, which is applicable from FY 2025-26, only debt oriented mutual fund schemes (including fund of fund) should be covered within the ambit of section 50AA of the Act.

- **Bonus Stripping:** As per Section 94(8), the loss due to sale of original units in the schemes, where bonus units are issued, will not be available for set off; if original units are: (A) bought within three months prior to the record date fixed for allotment of bonus units; and (B) sold within nine months after the record date fixed for allotment of bonus units. However, the amount of loss so ignored shall be deemed to be the cost of purchase or acquisition of such unsold bonus units held on the date of transfer of original units. The provision of this sub section are also applicable to securities. Further, the definitions of the terms "unit" and "record date" also include the units of business trusts (i.e. Real Estate Investment Trusts [REITs]/ Infrastructure Investment Trusts [InvITs]) and units of Alternate Investment Funds in the ambit of the said section.