VPM : Project 2 Mutual Fund Analysis

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Group : 65

Mutual Fund Scheme : Motilal Oswal Midcap 30 Regular Growth

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Fund Manager : Niket Shah, Ankush Sood

History of Mutual Fund Industry in the World

The mutual fund industry is one of the largest and most important components of the global financial system. It provides a wide range of investment options to investors, ranging from equity funds and bond funds to alternative investment funds. In this report we will try to explain the history of the Mutual Fund Industry in the world, how it got started and its current position as a means of investment.

First Mutual Funds

Mutual funds have been around for centuries and the idea behind is also very simple, i.e pooling of assets by multiple people to lower their risk by diversifying into multiple different assets. The first modern investment funds, the precursor of mutual funds, were established in the Dutch Republic. In response to the financial crisis of 1772–1773, Amsterdam-based businessman Abraham (or Adriaan) van Ketwich formed a trust named Eendragt Maakt Magt ("unity creates strength"). His aim was to provide small investors with an opportunity to diversify. This allowed small investors to participate in larger investments. Other examples followed, including an investment trust launched in Switzerland in 1849 and similar vehicles formed in Scotland in the 1880s.

Beginning of Mutual Fund Industry in the US

The idea of pooling resources and spreading risk using closed-end investments found its way to the U.S. by the 1890s. The Boston Personal Property Trust, formed in 1893, was the first closed-end fund in the U.S. According to Collins Advisors, the investments were primarily in real estate and the vehicle might today be described as a hedge fund rather than a mutual fund.
The creation of the Alexander Fund in Philadelphia in 1907 was an important step toward what we know as the modern mutual fund. The Alexander Fund featured semiannual issues and allowed investors to make withdrawals on demand.

Modern Mutual Funds

The creation of the MFS Massachusetts Investors' Trust in Boston marked the arrival of the modern mutual fund in March 1924, according to Bianco Research. This brought along important changes to the investment company concept in the process, including a simplified capital structure, continuous offering of shares, ability to redeem shares rather than hold them until the dissolution of the fund, and a set of clear investment restrictions and policies. This became the blueprint for many open-end mutual funds today, in the Caribbean and elsewhere. The fund was opened to investors in 1928, eventually spawning the mutual fund firm known today as MFS Investment Management. State Street Investors' Trust was the custodian of the Massachusetts Investors' Trust.

The year 1929 saw the launch of the Wellington Fund, which was the first balanced fund, including both stocks and bonds. The Vanguard Wellington Fund (VWELX) is still in existence today and claims to be America's oldest balanced fund.

Introduction of Market Regulations after the Stock Market Crash of 1929

By 1929, there were 19 open-ended mutual funds competing with nearly 700 closed-end funds, while the open-end funds accounted for only 5% of the industry's $27 billion in total assets. With the stock market crash of 1929, the dynamic began to change as highly leveraged closed-end funds were wiped out and small open-end funds survived.

After the Wall Street Crash of 1929,Government regulators also began to take notice of the fledgling mutual fund industry and the United States Congress passed a series of acts regulating the securities markets in general and mutual funds in particular.

- The Securities Act of 1933 requires that all investments sold to the public, including mutual funds, be registered with the SEC and that they provide prospective investors with a prospectus that discloses essential facts about the investment.
- The Securities Exchange Act of 1934 requires that issuers of securities, including mutual funds, are now required to provide full disclosure of their holdings and performance in the form of a prospectus.. This act also created the Securities and Exchange Commission (SEC), which is the principal regulator of mutual funds in the US.
- The Revenue Act of 1936 established guidelines for the taxation of mutual funds. It allowed mutual funds to be treated as a flow-through or pass-through entity, where income is passed through to investors who are responsible for the tax on that income.
- The Investment Company Act of 1940 established rules specifically governing mutual funds to minimize conflicts of interests..

These new regulations encouraged the development of open-end mutual funds.

Expansion of Mutual Funds in the 1950s

It took nearly 2 decades after the Wall Street Crash of 1929 for people's confidence to return to the Stock Market and the Mutual Funds. This can be seen from the fact that at the beginning of the 1950s, the number of open-end funds topped 100 and in 1954, the financial markets finally overcame their pre-1929 crash peak, and the mutual fund industry began to grow in earnest, adding some 50 new funds over the course of the decade.

In the 1960s, Fidelity Investments began marketing mutual funds to the public, rather than only wealthier individuals or those working in the finance industry. The introduction of money market funds in the high-interest rate environment of the late 1970s boosted industry growth dramatically.

Rise of Index Funds

In 1971, William Fouse and John McQuown of Wells Fargo established the first index fund, a concept that John Bogle in 1976 would use as a foundation on which to build The Vanguard Group, a mutual fund powerhouse renowned for low-cost index funds. It is now called the "Vanguard 500 Index Fund" and is one of the largest mutual funds.

These funds were aimed at capturing the average market returns rather than doing detailed company-by-company analysis as earlier funds had done. The first S&P 500 index fund was offered to the general public in 1973 by Rex Sinquefield while he was employed at American National Bank of Chicago. Sinquefield's fund had over $12 billion in assets after its first seven years. Batterymarch Financial, a small Boston firm then employing Jeremy Grantham, also offered index funds beginning in 1973 but it was such a revolutionary concept back then that they did not have paying customers for over a year.

The Big Bull Market of the 1980s

With the 1980s and '90s came an unprecedented bull market and previously obscure fund managers like Max Heine, Michael Price, and Peter Lynch became household names. According to Robert Pozen and Theresa Hamacher, growth was the result of three factors:

1. A bull market for both stocks and bonds,
2. New product introductions (including funds based on municipal bonds, various industry sectors, international funds).
3. Wider distribution of fund shares. Among the new distribution channels were retirement plans. Mutual funds are now the a preferred investment option in certain types of retirement plans,

specifically in 401(k), other defined contribution plans and in individual retirement accounts (IRAs), all of which surged in popularity in the 1980s

Challenges in the early 2000s

In the early 2000s, the mutual fund industry faced a number of challenges, including the dot-com bubble in 1997, various scandals in the early 2000s and the global financial crisis of 2008. These events has led to increased scrutiny and regulation of the industry, and many mutual fund companies were forced to pay fines and settle lawsuits.

Rise of ETFs

In recent times, a new tweak has been done to mutual funds called the exchange traded funds (ETF), i.e. they are traded on stock exchanges. ETFs are similar to mutual funds in many ways, except that they can be bought and sold from other owners throughout the day on stock exchanges whereas mutual funds are bought and sold from the issuer based on their price at day's end.
These new funds, with their ultra-low expense ratios and ease of trading, have made a huge mark on the investment industry. About $4 trillion is now invested in these funds, and most of it has poured in since the Great Recession receded.

Future of Mutual Funds

Despite the various setbacks, the story of the mutual fund is far from over. In fact, the industry is still growing. In the U.S. alone there are more than 10,000 mutual funds, and if one accounts for all share classes of similar funds, fund holdings are measured in the trillions of dollars.
We are seeing the emergence of new funds called ESG(Environmental, Social and Governance) funds, where investors choose to invest in companies that align with their values and beliefs. New technologies are coming up every day such as being able to invest at the push of a button from the comfort of your home, smart systems which can give sound investment advice and robust portfolio management services.
The current mutual fund industry remains healthy and fund ownership is expected to continue to grow in the near future.

Briefly explain the history of mutual funds in India

A mutual fund is an investment vehicle that collects money from investors sharing a common goal, which is then managed by an Asset Management Company (AMC). The AMC invests this pool of money in various financial instruments to maximize returns while minimizing risk, with SEBI regulating all security investments in India.

The history of mutual funds in India dates back to 1964 when the Unit Trust of India (UTI) was established by the government of India. UTI was set up under the UTI Act with the objective of encouraging savings and investment among the masses, especially small investors who did not have access to stock markets. UTI launched its first scheme, the Unit Scheme 1964, which was a balanced scheme with a mix of equity and debt investments.

UTI's launch marked the beginning of the mutual fund industry in India. The concept of mutual funds was relatively new in India at the time, and UTI had to work hard to create awareness and educate people about the benefits of mutual funds. The initial years were challenging for UTI, as there was a lack of awareness and acceptance among investors.

However, UTI's fortunes changed in the 1970s and 1980s when the government made a series of policy changes that helped UTI grow rapidly. UTI launched new schemes, including equity schemes, which were popular among investors. In addition, UTI was given tax exemptions, and the government promoted UTI through various initiatives such as the National Plan and the Five Year Plans.

UTI's success led to a virtual monopoly over the mutual fund industry in India during this period. Other mutual funds that were launched during this time struggled to compete with UTI's strong brand recognition and government backing. UTI remained the dominant player in the mutual fund industry in India until the liberalization era of the 1990s.

In conclusion, the establishment of UTI in 1964 marked the beginning of the mutual fund industry in India. UTI's initial years were challenging, but the government's policy changes in the 1970s and 1980s helped UTI grow rapidly and establish a monopoly over the industry. UTI's success paved the way for the growth and evolution of the mutual fund industry in India.

The liberalization era in India started in 1987 when the government started opening up the economy to the private sector and foreign investment. This led to the entry of many private sector players in various sectors including finance. The mutual fund industry in India also witnessed significant changes during this period.

The government of India announced a series of economic reforms in 1991, which included the liberalization of the Indian economy, removal of restrictions on foreign investment, and deregulation of many sectors including the financial sector. These reforms paved the way for the entry of private sector mutual funds in India.

The establishment of the first private sector mutual fund in India, Kothari Pioneer Mutual Fund, was a result of these reforms. It was set up in 1993 as a joint venture between Kothari Group and Pioneer Global Asset Management Company, USA. Kothari Pioneer Mutual Fund was the first mutual fund in India to be regulated by the Securities and Exchange Board of India (SEBI), the regulatory body for the securities market in India.

The entry of private sector mutual funds in India brought in a new level of competition in the industry. Private sector mutual funds were able to offer innovative products and services, which gave investors more options to choose from. The industry also witnessed a shift towards professional management, as private sector mutual funds brought in experienced fund managers from other countries.

In addition to the establishment of Kothari Pioneer Mutual Fund, several other private sector mutual funds were set up during this period, such as HDFC Mutual Fund, Birla Sun Life Mutual Fund, and ICICI Prudential Mutual Fund. The entry of private sector players, coupled with the growth of UTI, helped the mutual fund industry in India to grow rapidly during the 1990s and 2000s.

Overall, the liberalization era in India from 1987 to 1993 played a significant role in the growth and evolution of the mutual fund industry in India. The entry of private sector mutual funds brought in new competition and innovation, which ultimately benefited investors in India.

After the liberalization of the Indian economy in 1991, the mutual fund industry saw a significant growth in the 1990s and 2000s. Private sector mutual funds were allowed to operate in the Indian market in 1993, which led to the entry of several new players in the industry. As a result, the number of mutual fund schemes and assets under management (AUM) grew rapidly.

In addition to the entry of private sector players, the Unit Trust of India (UTI) also underwent significant changes during this period. UTI was bifurcated into two separate entities - UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India (SUUTI) - in 2003. This allowed UTI Mutual Fund to operate as a standalone mutual fund, which further expanded the reach of the mutual fund industry in India.

The mutual fund industry in India also underwent several regulatory changes and initiatives during this period. One of the key initiatives was the introduction of the KYC (Know Your Customer) norms in 2005. This was a major step towards enhancing the transparency and accountability of the industry. It required mutual fund companies to verify the identity of their investors, which helped to prevent fraud and money laundering.

SEBI (Securities and Exchange Board of India), the regulatory body for the securities market in India, also introduced several regulations to safeguard the interests of investors. For example, SEBI mandated mutual fund companies to disclose the total expense ratio (TER) of their schemes, which helped investors understand the costs associated with investing in mutual funds. SEBI also introduced guidelines for the sale and distribution of mutual fund schemes, which further enhanced the transparency of the industry.

In recent years, the mutual fund industry in India has witnessed the growth of Systematic Investment Plans (SIPs). SIPs allow investors to invest a fixed amount of money at regular intervals, which has made it easier for small investors to participate in the stock market. The increasing role of technology has also been a key trend in the industry, with many mutual fund companies offering online investment platforms and mobile applications for investors to manage their investments.

Overall, the growth and evolution of the mutual fund industry in India has been driven by several factors, including the liberalization of the economy, the entry of private sector players, regulatory initiatives, and the increasing adoption of technology. With the growing awareness and interest among investors, the industry is expected to continue to grow in the coming years.

List the top 10 mutual fund houses in India based on Assets Under Management (AUM)

S.No.	AMC	Average AUM (in Rs) (Excluding Funds of Funds - Domestic but including Fund of Funds - Overseas) (As of the end of last quarter)
1	SBI Mutual Fund	₹ 71,236,205.96 Cr
2	ICICI Prudential Mutual Fund	₹ 48,808,084.50 Cr
3	HDFC Mutual Fund	₹ 44,479,627.40 Cr
4	Nippon India Mutual Fund	₹ 29,280,257.02 Cr
5	Kotak Mahindra Mutual Fund	₹ 28,659,989.83 Cr
6	Aditya Birla Sun Life Mutual Fund	₹ 28,171,710.00 Cr
7	Axis Mutual Fund	₹ 24,822,000.78 Cr
8	UTI Mutual Fund	₹ 24,084,095.79 Cr
9	IDFC Mutual Fund	₹ 11,889,850.82 Cr
10	DSP Mutual Fund	₹ 11,609,627.30 Cr

Top 10 fund mutual fund houses in the world based on their Assets Under Management (AUM)

S.No.	Firm	Country	Average AUM (in Billion USD)(As of 2022) (Source : Wikipedia)
1	BlackRock	United States	9,570
2	Vanguard Group	United States	8,100
3	Fidelity Investments	United States	4,283
4	UBS	Switzerland	4,380
5	State Street Global Advisors	United States	4,020
6	Morgan Stanley	United States	3,230
7	JPMorgan Chase	United States	2,960
8	Credit Agricole	France	2,875
9	Allianz	Germany	2,760
10	Capital Group	United States	2,700

Salient features of the SEBI mutual fund regulations.

The regulations for the registration and operation of mutual funds in India contain several eligibility criteria, procedures, and requirements. To receive a certificate of registration, the sponsor of the mutual fund must have a reputation for fairness and integrity in their business transactions. Additionally, an existing mutual fund must be in the form of a trust and the trust deed must have been approved by the Board. The sponsor must contribute or have contributed at least 40% to the net worth of the asset management company.

The trust deed must be registered under the provisions of the Indian Registration Act, 1908, and must be in the form of a duly executed deed by the sponsor in favor of the trustees named in the instrument. The sponsor or trustee, if authorized by the trust deed, must appoint an asset management company that has been approved by the Board. The appointment can be terminated by a majority of the trustees or by 75% of the unit-holders of the scheme. Any change in the appointment of the asset management company must be subject to prior approval by the Board and unit holders.

The mutual fund must appoint a custodian to carry out custodial services for the fund's schemes and must notify the Board within fifteen days of the appointment. However, in the case of a gold or gold exchange-traded fund scheme, the assets of the scheme may be kept in the custody of a bank registered as a custodian with the Board. A custodian in which the sponsor or its associates hold 50% or more of the voting rights of the share capital or where 50% or more of the directors of the custodian represent the interest of the sponsor or its associates cannot act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary companies.

Before launching a scheme, the asset management company must obtain approval from the trustees and file a copy of the offer document with the Board. Every mutual fund must pay filing fees as specified in the Second Schedule along with the offer document of each scheme.

A close-ended scheme will be wound up on the expiry of its duration or redemption of the units unless it is rolled over for a further period under sub-regulation (4) of regulation 33. A mutual fund scheme may be wound up after repaying the amount due to the unit holders on the happening of any event that, in the opinion of the trustees, requires the scheme to be wound up or if 75% of the unit-holders of the scheme pass a resolution that the scheme be wound up or if the Board directs it in the interest of the unit-holders. In case of winding up, the trustees must give notice disclosing the circumstances leading to the winding up of the scheme to the Board and two daily newspapers having circulation all over India and a vernacular newspaper circulating at the place where the mutual fund is formed.

Every asset management company for each scheme must keep and maintain proper books of accounts, records, and documents to explain its transactions and disclose the financial position of each scheme at any point in time, giving a true and fair view of the state of affairs of the fund. The asset management company must maintain and preserve its books of accounts, records, and documents for eight years. The company must follow the accounting policies and standards specified in the Ninth Schedule to provide appropriate details of the scheme-wise disposition of the assets of the fund at the relevant accounting date and the performance during that period, along with information regarding the distribution or accumulation of income accruing to the unit holder fairly and truly.

SEBI (MUTUAL FUND) REGULATIONS 1996

The Securities and Exchange Board of India (SEBI) has the power to regulate mutual funds under the SEBI (Mutual Fund) Regulations 1996. These regulations have been made with the approval of the Central Government. The regulations have been divided into five chapters. Chapter I is the preliminary chapter and contains two rules. Rule 1 deals with the short title, application, and commencement of the regulations. Rule 2 provides definitions for important terms used in the regulations.

Chapter II deals with the registration of mutual funds. Chapter III discusses the constitution and management of mutual funds, including the operation of trustees. Chapter IV deals with the constitution and management of asset management companies and custodians. Chapter V deals with the schemes of mutual funds.

The following are some important definitions and terms used in the regulations. Money market instruments include commercial papers, commercial bills, treasury bills, government securities, call or notice money, certificate of deposit, usance bills, and any other like instruments specified by the Reserve Bank of India from time to time. Money market mutual fund is a scheme of a mutual fund that invests exclusively in money market instruments.

A mutual fund is a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments or gold or gold-related instruments.

The offer document is any document by which a mutual fund invites the public for subscription of units of a scheme. An open-ended scheme is a scheme of a mutual fund that offers units for sale without specifying any duration for redemption.

The sponsor is any person who, acting alone or in combination with another body corporate, establishes a mutual fund. The trustee is the Board of Trustees or the Trustee Company who hold the property of the mutual fund in trust for the benefit of the unit holders. The unit is the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme. The unit holder is a person holding a unit in a scheme of a mutual fund.

An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor. The securities laws include the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956, and the Depositories Act, 1996, including their amendments, and such other laws as may be enacted from time to time.

SEBI categorization of Mutual Fund Schemes.

Categories of Schemes

In order to bring uniformity and standardization in the characteristics of mutual fund schemes, the Mutual Fund Advisory Committee (MFAC) has decided to categorize mutual fund schemes into five broad groups: Equity Schemes, Debt Schemes, Hybrid Schemes, Solution-Oriented Schemes, and Other Schemes.

- Equity Schemes: Equity schemes are mutual fund schemes that invest primarily in equity shares of companies. They can be further classified into large cap, mid cap, small cap, multi-cap, and dividend yield schemes.

- Debt Schemes: Debt schemes are mutual fund schemes that invest primarily in debt instruments such as bonds, debentures, and other fixed-income securities. They can be further classified into liquid funds, ultra-short duration funds, short duration funds, medium duration funds, long duration funds, and dynamic bond funds.

- Hybrid Schemes: Hybrid schemes are mutual fund schemes that invest in a mix of equity and debt instruments. They can be further classified into aggressive hybrid funds, conservative hybrid funds, balanced hybrid funds, and dynamic asset allocation funds.

- Solution-Oriented Schemes: Solution-oriented schemes are mutual fund schemes that are designed to meet specific financial goals such as retirement planning, child education, and marriage planning. They can be further classified into retirement funds and children's funds.

- Other Schemes: Other schemes include mutual fund schemes that do not fall under any of the above categories, such as index funds, sectoral and thematic funds, and fund of funds.

Definition of Large Cap, Mid Cap, and Small Cap

To ensure uniformity in the investment universe for equity schemes, the MFAC has defined large cap, mid cap, and small cap as follows:

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

The Securities and Exchange Board of India (SEBI) has issued a circular outlining the process to be followed by mutual funds in categorizing and rationalizing their schemes. The objective of this circular is to make it easier for investors to choose between different schemes and to reduce confusion in the market. The circular specifies that only one scheme per category would be permitted, except in the case of index funds/ETFs replicating/tracking different indices, fund of funds having different underlying schemes, and sectoral/thematic funds investing in different sectors/themes.

Mutual funds are required to analyze each of their existing schemes in light of the list of categories stated in the circular and submit their proposals to SEBI after obtaining due approvals from their trustees. This must be done as early as possible, but not later than two months from the date of the circular. The proposals submitted by mutual funds must also include the proposed course of action (such as winding up, merger, fundamental attribute change, etc.) in respect of the existing similar schemes as well as those that are not in alignment with the categories stated in the circular.

After reviewing the proposals submitted by mutual funds, SEBI will issue observations and mutual funds will have to carry out the necessary changes in all respects within a maximum period of three months from the date of such observation. In the case of a merger of schemes/change of fundamental attribute(s) of a scheme, as laid down under SEBI Circular No. IIMARP/MF/CIR/01/294/98 dated February 4, 1998, the Asset Management Companies (AMCs) would be required to comply with Regulation 18 (15A) of SEBI (Mutual Funds Regulation, 1996).

Mutual funds are advised to strictly adhere to the scheme characteristics stated in the circular as well as to the spirit of the circular. They must ensure that the schemes so devised should not result in duplication/minor modifications of other schemes offered by them. The decision of SEBI in this regard shall be binding on all mutual funds.
The categorization and rationalization of schemes will be beneficial for investors as it will make it easier for them to choose the right scheme for their investment needs. It will also help in reducing the clutter in the market and avoid confusion among investors. Mutual funds will also benefit from this as it will help in optimizing their product offerings and streamlining their operations.

In conclusion, the SEBI circular outlining the process to be followed by mutual funds in categorizing and rationalizing their schemes is a step in the right direction. It will help in creating a more transparent and efficient market for mutual fund investments in India. Mutual funds must adhere to the guidelines stated in the circular and make the necessary changes within the specified timeframe.

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

Mutual funds are one of the most buzzing investment options as they help you achieve your financial goals. Mutual funds are also tax-efficient instruments. As the interest on fixed deposits is added to your taxable income and taxed at your income tax slab rate, investing in fixed deposits is a disadvantage, particularly if you fall into the highest income tax bracket. This is where mutual funds score better. When you invest in a mutual fund, you get the benefit of expert money management and tax-efficient returns

Profits gained from investment in mutual funds are subject to tax as 'Capital gains'. So, before investing in mutual funds, one should clearly understand how their returns will be taxed.

Factors to Determine Tax on Mutual Funds

Taxes levied on mutual funds are influenced by the following factors :

- **Fund types** : Depending on whether the mutual fund is debt-oriented or equity-oriented, they are taxed in different ways.
- **Dividend** : A dividend is a portion of the accumulated profit distributed between investors of a mutual fund scheme by the fund house. Investors are not forced to sell their assets.
- **Capital Gains** : Capital gains occur when investors sell their capital assets for a higher price than their actual cost.
- **Holding period** : According to Indian income tax regulations, if you hold your investment for an extended period, you will be required to pay a low tax amount.

Taxes

- **Taxation of Dividends** : As per the amendments made in the Union Budget 2020, dividends offered by any mutual fund scheme are taxed in the classical manner. That is, dividends received by investors are added to their taxable income and taxed at their respective income tax slab rates.
- **Taxation of Capital Gains of Debt Mutual Funds** : Debt funds are those mutual funds whose portfolio's debt exposure is in excess of 65% and equity exposure is not more than 35%. Starting 1st April 2023, the debt funds will no longer receive indexation benefits and will be taxed in a similar way as Bank's Fixed Deposits. Therefore, the gains from debt funds will now be added to your taxable income and taxed at the slab rate.
  Earlier, the long-term capital gains from debt funds were taxed at 20% with indexation benefit.
- **Taxation of Capital Gains of Equity Mutual Funds** : Equity funds are those mutual funds where more than 65% of its total fund amount is invested in equity shares of companies. you realise short-term capital gains if you redeeming your equity fund units within a one year. These gains are taxed at a flat rate of 15%, irrespective of your income tax bracket.
  You make long-term capital gains on selling your equity fund units after holding them for over one year. These capital gains of up to Rs 1 lakh a year are tax-exempt. Any long-term capital gains exceeding this limit attracts LTCG tax at 10%, without indexation benefit.

- **Taxation of Capital Gains of Hybrid Mutual Funds** : The rate of taxation of capital gains on hybrid or balanced funds is dependent on the equity exposure of the portfolio. If the equity exposure exceeds 65%, then the fund scheme is taxed like an equity fund, if not then the rules of taxation of debt funds apply.
- **Taxation of Capital Gains When Invested Through SIPs** : Systematic investment plans (SIPs) are a method of investing in mutual funds. They are designed in such a way that investors can invest a small amount periodically in a mutual fund scheme. Investors are offered the liberty to choose the frequency of their investment. It can be weekly, monthly, quarterly, bi-annually, or annually. You purchase a certain number of mutual fund units through every SIP installment. The redemption of these units is processed on a first-in-first-out basis. Suppose you invest in an equity fund through an SIP for one year, and you decide to redeem your entire investment after 13 months. In this case, the units purchased first through the SIP are held for the long-term (over one year) and you realise long-term capital gains on these units. If the long-term capital gains are less than Rs 1 lakh, then you don't have to pay any tax. However, you make short-term capital gains on the units purchased through the SIPs from the second month onwards. These gains are taxed at a flat rate of 15% irrespective of your income tax slab. You will have to pay the applicable cess and surcharge on it.
- **Securities Transaction Tax (STT)** : Apart from the tax on dividends and capital gains, there is another tax called the Securities Transaction Tax (STT). An STT of 0.001% is levied by the government (Ministry of Finance) when you decide to buy or sell mutual fund units of an equity fund or a hybrid equity-oriented fund. There is no STT on the sale of debt fund units.

Details Regarding the Fund Fact Sheet

There are a lot of good Mutual Funds out there and choosing the one that's right for you can seem very challenging, so here we will try to explain the steps one can take to remedy this, and go over the main things that any investor should consider before investing in any asset.

Things to consider before making any Investment Decision

Before deciding on which fund to invest your money in, there are 3 important things that you need to consider :

1. The first thing you need to do is identify your goals for this investment. Whether you want to invest for long-term capital gains, or is current income more important? Will the money be used to pay for college expenses, or to fund a retirement that's decades away? Identifying a goal is an essential step in whittling down the number of mutual fund options to a manageable number.
2. Another thing that you need to consider is your personal risk tolerance. Can you accept dramatic swings in portfolio value? Or, is a more conservative investment more suitable? This would affect the kind of asset class you would be more comfortable in investing in.
3. Finally, the desired time horizon must be addressed. How long would you like to hold the investment? Do you anticipate any liquidity concerns in the near future? Mutual funds have sales charges, and that can take a big bite out of your return in the short run.

Things to Look out for in the Fund Fact Sheet

Things to look for in a Mutual Fund that you are interested in before investing:

- **Objective** : Looking at the Objective of the Mutual Fund given in the factsheet and seeing whether it aligns with your goals, risk tolerance and time horizon.
- **Past Performance** : Next thing is to look at the returns that have been made by the Fund in the last 1, 3, 5 or 10 years and see whether the fund’s performance can meet your goals. This can also be used to compare performance of the fund with funds of different asset management companies and also against the market index. SIP returns for the same are also given in the fact sheet.
- **Risk Measures** : Next thing to look out for are the ratios like Standard Deviation(lower the better), Beta ratio(lower the better), Sharpe ratio(higher the better) and Treynor ratio. Using them you can analyze how risky this mutual fund is as compared to other funds.
- **Fees and Loads** : Mutual fund companies make money by charging fees to the investor. So, it is essential for you to understand the different types of charges associated with an investment before you decide to invest. Some funds charge a sales fee known as a load. It will either be charged at the time of purchase or upon the sale of the investment. Some other common fees are the expense ratio, transaction fees etc. These all are given in the fact sheet.
- **Passive vs. Active Management** : Actively managed funds have portfolio managers who make decisions regarding which securities and assets to include in the fund. Active funds seek to outperform a benchmark index, depending on the type of fund. Fees are often higher for active funds. Passively managed funds, often called index funds, seek to track and duplicate the performance of a benchmark index. The fees are generally lower than they are for actively managed funds. Passive funds do not trade their assets very often unless the composition of the benchmark index changes.
- **Holdings** : The fact sheet also contains the major holding of the mutual fund both company wise , sector wise, as well as according to the Market Cap of the Company. You can use this to see if the

funds investments align with the sectors or companies you would want to invest in and your goals.

A few other things that you can consider are the Fund Manager, Size of the Fund and the Minimum Investment needed.

Explanation regarding some important terms

- **Expense Ratio** : Expense ratio is the annual fee that an investment company charges its clients to manage their investment. It is expressed as a percentage of the investment's total assets and covers the costs of running the investment, such as administrative fees, legal fees, marketing expenses, custodian fees, and management fees. The expense ratio is deducted from the investment's returns. Say for example the fund has an expense ratio of 1% and an average annual return of 12 %, then the client will receive 11% return on investment annually.
- **Exit Load** : Mutual Fund exit load is a fee charged by the mutual fund houses if investors exit a scheme partially or fully within a certain period from the date of investment, as specified in the Scheme Information Document.
- **Returns** : The returns for the SIP and lump Sum investments are given in an annualized form(compounded annually) for a period longer than 1 year, and in absolute form for periods less than that.
- **Portfolio Beta** : Beta is used in the capital asset pricing model (CAPM), which describes the relationship between systematic risk and expected return for assets (usually stocks). For example: If a fund has a beta of 1.5, it means that for every 10% upside or downside, the fund's NAV would be 15% in the respective direction. If it is 0.8, for every 10% upside or downside, the fund's NAV would be 8% in the respective direction.
- **Standard Deviation** : It tells how much the fund's return can deviate from its historical mean return. It is also referred to as sigma. And returns for 68% people would lie in between the mean +/- 1 standard deviation, and for 95% people would lie in between the mean +/- 2 standard deviation
- **Sharpe Ratio** : The Sharpe ratio compares the return of an investment with its risk. It compares a fund's historical or projected returns relative to an investment benchmark with the historical or expected variability of such returns. The ratio's utility relies on the assumption that the historical record of relative risk-adjusted returns has at least some predictive value. It is given by the difference between the portfolio return and the risk free rate divided by the Standard Deviation of the Portfolios excess return.
- **Treynor Ratio** : also known as the reward-to-volatility ratio, is a performance metric for determining how much excess return was generated for each unit of risk taken on by a portfolio. It is given by the difference between the portfolio return and the risk free rate divided by the Beta of the Portfolio. It indicates how much return an investment, such as a portfolio of stocks, a mutual fund, or exchange-traded fund, earned for the amount of risk the investment assumed.
- **Holdings** : They tell how much of the portfolio’s AUM is invested in the sector, company or in that market cap.
- **NAV** : It refers to the Net Asset Value and it represents a fund's per share market value. It is the price at which investors buy (bid price) fund shares from a fund company and sell them (redemption price) to a fund company. A fund's NAV is calculated by dividing the total value of all the cash and securities in a fund's portfolio, less any liabilities, by the number of shares outstanding.
- **AUM** : It refers to the Assets Under Management and it represents the total amount of money that is managed by that Fund at that particular point in time. It can be seen as the product of the Funds NAV and the total number of shares outstanding.

Target Audience for our Chosen Scheme(Motilal Oswal Midcap Fund)

We believe that this scheme is suitable for people who want to invest for long term growth and have a moderate to high risk appetite. This can be seen from the objective of the fund, as given in the fact sheet. Its high standard deviation of over 33% and an annual return of over 20% (not considering the expense ratio) since its inception, justifies this statement. Using a mutual fund also provides diversification for the investor, thus reducing the unsystematic risk of their investment. The main Sector holdings are the Residential, Commercial, Power Equipment and Auto Ancillaries, which are pretty good choice of investment, as in a good economy, their demand increases, which has been seen recently post the lockdowns.

Calculating SIP returns

If we invested in Motilal Oswal Midcap Fund - Regular Growth, from 1 April 2020 to 31 March 2023, using an SIP with a monthly investment of Rs 10,000 , then we would have (assuming ability to buy partial amounts of shares of the Mutual Fund) Rs 515565.9365.
The entire calculation regarding this is given in the attached excel sheet. what we have done is, we have bought shares of the mutual fund at any investment time based on its NAV at that time and then calculated the value of the shares that we have bought.

Reference Links :

1. https://www.sebi.gov.in/legal/circulars/oct-2017/categorization-and-rationalization-of-mutual-fund-schemes_36199.html
2. https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-mutual-funds-regulations-1996-last-amended-on-november-16-2022-_65274.html
3. https://groww.in/blog/top-10-mutual-fund-houses-india
4. https://cleartax.in/s/different-mutual-funds-taxed
5. https://www.miraeassetmf.co.in/docs/default-source/fachsheet/mutual_fund_factsheet_how_to.pdf