

Q calculate NAV, Based on the following inf below information

Fund name Axis Quant Fund

Launch date June-21

Amount collected 100 Cr

No. of units ($\frac{100}{10}$) 10 Cr

Invested into

TCS 25 Cr

HUL 25 Cr

Axis bank 20 Cr

Hindalco 30 Cr

→ shares value appreciated by 10%

2x Mgt fee to incurred/ payable is Rs. 5 Cr

3x Audit fee payable is Rs. 2 Cr

4x Dividend Receivable Rs. 3 Cr

5x cash & bank bal as of today is Rs. 5 Cr

6x No. of unit's in the fund as of today Rs. 10.5 Cr

Soln

Assets

Investments ($100 + 10\%$) 110

Cash 5

Receivable 3

118

Liabilities

Mgt fee 5

Audit fee 2

7

NAV ($118 - 7$) 111

No. of unit's 10.5

per unit ($\frac{111}{10.5}$) 10.57

Q. Now you want to buy 100 units in this fund how much you have to pay assuming there is 1% Entry load on NAV.

per unit	10.57		
Entry load	+ 1%	for 100 units	
Total to be paid	10.67	Capital (100x100)	1057
NO. of units	100	Entry load	+ 10.57
Total to be paid	1067.57		<u>1067.57</u>

Q. If the fund sold 1L units today at Rs 10.57 per unit. (Today NAV), NAV per unit will change? Cash received will increase so unit value raises, NAV also increases. However, like the no. of units also increase in the same proportion, NAV per unit is same as 10.57. If the fund is collecting entry load ₹ 10.57 (for selling 100 units), cash bal will increase by that amt so NAV will increase slightly.

Q. The fund purchased 100 shares of Wipro & paid Rs. 25,000. While entering the no. of shares they have entered as 90 shares, any impact on NAV.

Solⁿ:

NO. of shares considered for Wipro is	90
Actual NO. of shares are	100
MV (Market value) today is	Rs 250
Actual value (250x100)	25,000
Reported value (250x90)	<u>22,500</u>
Investment value under reported	<u>2,500</u>

Investment Calculation is:

Take NO. of shares in each co. stock
take today's closing MV of each stock
multiply both.

NAV Impact when

- Interest income → ↑ NAV
- Interest expense → ↓
- Increase in share value / unrealised gain → ↑
- Decrease in share value / unrealised loss → ↓
- Securities sold on loss → ↓
- Mgt fee expenses recorded → ↓
- units sold to investors → ↑ in NAV, NAV/unit will not change

Note: when co. issues bonus shares, there will be no impact on NAV only no. of units will increase

profit & loss approach

Op bal NAV	10
Add: All incomes	1
Less: All expenses & losses	(0.5)
closing NAV	<u>10.5</u>

Entry load

Entry load is the expense to the investors, payable at the time of entering in to the fund. It is income to the fund, collected from those investors.

Eg:- If NAV is 100 that day, entry load on that fund is 1% on NAV, fund will collect Rs. 101 per unit from new investors.

Reason to collect this extra money from investors is to recover the fund expenses caused due to these new investors like the fund has to buy shares, incur some admin expenses to process the sale of new units.

Eg:- if a new investor came and fund sold worth of 10 crs., the fund may incur Rs 10,000 towards stock exchange brokerage to buy shares with that 10 crs. So they will collect that money in the form of entry load so NAV will not decrease. Expenses will not increase in the fund.

NOTE:- In India, SEBI banned this entry load, funds cannot collect this now.

Exit load:-

Money collected from the investors while leaving the fund.

Eg:- NAV in the fund is Rs 100/unit. One investor want to sell/redeem the unit, he will be paid Rs. 99 if the exit load is 1% on NAV. Reason to collect this exit load is to recover the expenses related to this redemption from the investor.

Eg:- if investor wants to exit the fund, the fund will sell the shares in stock exchange, the fund need to pay brokerage to the stock broker. If not collected from the outgoing investor, total expense

total expense in the fund will be more, that can decrease the NAV is daily more investors are exiting the fund.

Each fund can decide if they want to charge the exit load or not, it is discretion of the fund house and it is not mandatory to charge the exit load. Generally, the funds collected exit load if investor leave the fund within 1 year from his investment date and they do not charge it if investor is leaving the fund after 1-year.

Subscriptions/ sale transactions

If a new investor is buying the units in the fund, it is subscription to that investor, sale transaction to the fund. if a MF is an open ended fund, investors can buy and sell the unit's in that fund so these subscriptions can happen on a daily basis, fund will sell the unit's based on that day NAV per unit.

If it is closed ended fund, fund will not sell new units. investors can buy and sell between the investors in the stock exchange.

Fund name - Axis blue chip fund

NAV per units on 14th June 100

Entry load (assume) 1% on NAV

Dhoni wants to buy 1 lac units, they will collect the below NAV per units on 14th June 100 money

Entry load of 1% 1

to be collected 101

no. of units 100,000

Amount to be collected 101,00,000

Entry load income in the fund will be 1,00,000.

SIP - Systematic Investment Plan

an investor can invest a fixed amount on a fixed interval like monthly/weekly etc.

Eg: you can tell your bank to deduct Rs. 10k per month and deposit/invest that money into an equity blue chip fund/other fund.

If the NAV on 1st June is Rs. 100 per unit, you will get 100 units ($10,000/100$)

In the next month if the NAV is 110, you will get 90.9 units ($10,000/110$)

Month	Investment	NAV/unit	No. of units
June	10,000	100	100
July	10,000	110	90.91
Aug	10,000	120	83.33
Sep	10,000	80	125
Total			399.24

The main advantage of this SIP route is, investor can get the units at different NAVs at different points of times, mostly that will decrease the average cost per unit for the investor.

This will make the saving a habit to the investors since every month they are investing rather occasionally. This is one of the major reasons to attract more in to mutual funds in India.

STP - Systematic Transfer Plan

This will allow the investor to transfer money from one MF scheme to other scheme on a systematic basis like monthly transfer.

Eg:- from 2020 to 2030, you can invest in Equity schemes, from that year till 2040,

You can transfer 50,000 per month in to debt schemes. So risk will be reduced over a period.

SWP Systematic withdrawal plan

In this case investor can give one time instruction to withdraw a specific amount on each month/ at regular interval

Eg: you have invested 15000 per month from 2020 to 2040, then you can withdraw Rs. 50,000 per month from 2040 to 2050 or so.

Redemptions/re purchase transaction

If an investor wants to sell the units to the fund and take the money back, it is redemption/exit to the investor, it is re purchase to the fund.

In an open ended fund, investor can redeem their unit's any time, fund will pay based on applicable NAV that day. If exit load charges are applicable, then fund will deduct that amount and pay the net amount to the investors.