

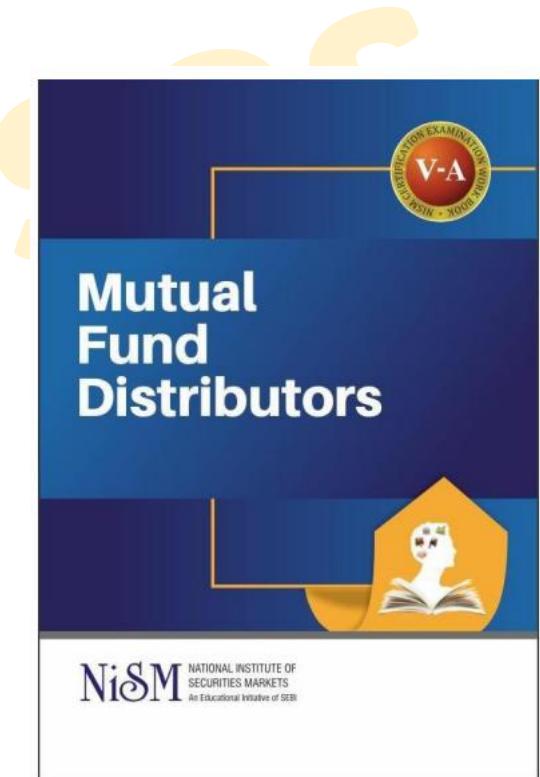
NISM-Series-V-A: Mutual Fund Distributors Certification Examination

100 MCQ – 1 mark each

Passing marks: 50

No Negative marking

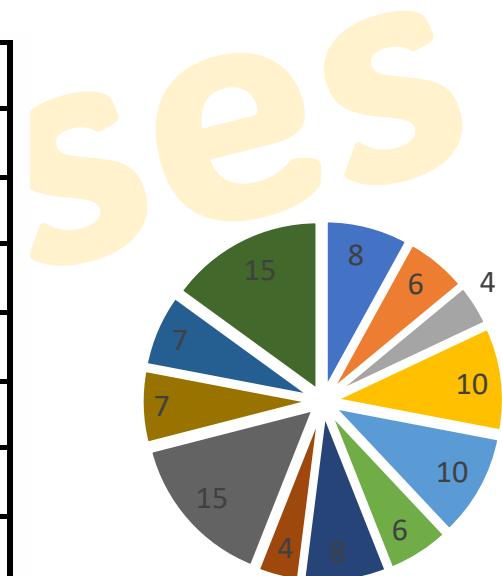
Time: 2 hours



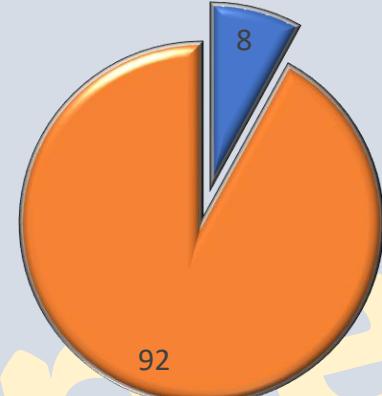
The certification aims to enhance the quality of sales, distribution, and related support services in the mutual fund industry.

Syllabus Outline with weightages

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Unit 1



INVESTMENT LANDSCAPE

Investor and their dilemma

Investor:

- Any person or entity who invest his money(capital) with the expectation of receiving financial returns.

General Investor queries:

- Where should I invest my money?
- Which is better: Stocks or real estate
- Which mutual fund scheme is best?

How to find answers to these queries?

Financial goals and investments

Financial Goals:

- Child Education
- Retirement Planning
- Marriage
- Buying a house
- Vacation

Financial goals are defined by amount and timeline.

Why investments?

- To meet financial goals.

Achieved through investments

Steps to achieve financial Goals:

Define Goals -> Set priority -> Assign amount and timeline to each goal -> Invest accordingly

Life events

Desirable events

- Child Education
- Retirement Planning
- Marriage
- Buying a house
- Vacation

Plan through investments

Undesirable events

- Hospitalization
- Theft

Rely on emergency corpus or insurance products

Inflation and its impact

IMPORTANT

Inflation:

- General rise in the price of goods over the period of time.

$$A = P * (1 + r)^n$$

Impact:

- Erodes the purchasing power of money.

$$14693 = 10000 * (1 + 0.08)^5$$

$$21589 = 10000 * (1 + 0.08)^{10}$$

How much money would you need to buy the goods you can buy with Rs. 10,000 today

If inflation is assumed at 8% p.a.⁵

After 5 years	Rs. 14,693
After 10 years	Rs. 21,589
After 20 years	Rs. 46,610
After 30 years	Rs. 1,00,627

The pool approach



Have a pool of savings/investments and meet financial requirements from them.

Disadvantage:

- The time horizon for investments is not known.
- Inflation erodes the purchasing power of money.
- Mismatch of cash flows – expenses higher than income or no income at the time of funding the goal

While planning long-term goals, consider the impact of inflation on the final amount required for the goal.

Factors to evaluate investments

IMPORTANT

Important Factors

- **Safety** - Safety of capital invested. Understand the risk involved.
- **Liquidity** - How easily can one convert investment to cash
- **Returns** - Capital appreciation/Periodic income

Other Factors

- **Convenience** - ease of investing/redemption
- **Ticket Size** - Minimum investment amount
- **Income Tax** - Tax payable on earnings
- **Tax deductions** - 80C deductions etc

Different Asset Classes

Major Asset Classes :

- **Equity**
- **Fixed Income**
- **Real Estate**
- **Commodities**
- **Hybrid**

Tech

Equity <ul style="list-style-type: none">• Blue-chip Companies• Mid-sized companies• Small-sized companies• Unlisted Companies• Foreign Stocks• Equity Mutual Funds• Exchange Traded Funds• Index Funds	Fixed Income <ul style="list-style-type: none">• Fixed deposit with a bank• Recurring deposit with a bank• Endowment Policies• Money back Policies• Public Provident Fund• Sukanya Samruddhi Yojana (SSY)• Senior Citizens' Savings Scheme (SCSS)• Post office Monthly Income Scheme• Recurring deposit with a post office• Company fixed deposit• Debentures/bonds• Debt Mutual Funds
Real Estate/Infrastructure <ul style="list-style-type: none">Physical Asset<ul style="list-style-type: none">• Residential/ CommercialFinancial Asset<ul style="list-style-type: none">• Real Estate Mutual Funds (REMF)• Real Estate Investment Trusts (ReIT)• Infrastructure Investment Trust (InvIT)	Commodities <ul style="list-style-type: none">• Gold• Silver• Gold Funds• Commodity ETFs
Hybrid asset classes <ul style="list-style-type: none">• Hybrid Mutual funds or Multi Asset Fund	Others <ul style="list-style-type: none">• Rare coins• Art• Rare stamps

Investment Risks

IMPORTANT

Inflation	Interest Rate	Liquidity	Market / Price	Credit
<ul style="list-style-type: none">• Affects the real rate of return earned.• Real return – inflation-adjusted return• Nominal return – return without inflation adjustment	<ul style="list-style-type: none">• Interest rate changes directly impact the price of bonds/debt securities.• Interest rate and bond prices have an inverse relation.• Interest Rate Up -> bond rate down and vice versa• Maturity Factor :<ul style="list-style-type: none">• Long-term maturity bonds are more impacted than bonds with short-term maturity.	<ul style="list-style-type: none">• Asset not easy to sell or pay charges for selling it early.• Example: Charges on Premature withdrawal from fixed deposit.	<ul style="list-style-type: none">• Change in market outlook• Types:<ul style="list-style-type: none">• Market-wide (Covid-19),• Company-specific (Sales down),• Industry or sector-specific (Pharma Sector)	<ul style="list-style-type: none">• Default on bond payments.• Always check the credit ratings of the bonds before investing

Risk Measures and Management Strategies

- One needs to manage the risks that one is taking.

Strategies for management of the investment risk

Avoid:

- Avoid investing in assets that you don't understand or do not want to take the respective risk.
- Eg : Crypto, Currency markets etc

Take a position to benefit from some event/ development

- Suppose you are expecting interest rates to go down. Invest in long-maturity bonds as interest rate and bond prices have an inverse relationship.

Diversify

- Diversify across various investment options to spread the risk of loss.

Behavioral Biases in Investing

IMPORTANT

Investors are driven by emotions and biases. This leads to irrational behavior toward the management of money.

To avoid behavioural biases, take the opinion of a Registered investment advisor or mutual fund distributor.

Behavioural Bias	Meaning
Availability Heuristic	Rely on past examples/experiences in your mind and not do enough research.
Confirmation Bias	Decide first and then find data to support their beliefs
Familiarity Bias	Prefers familiar over the novel. Leads to concentrated portfolio.
Herd Mentality (भेड़ चाल)	Do what others are doing.
Loss Aversion	Prefers avoiding losses. Better not to lose 5000 than to gain 5000.
Overconfidence	Thinking that I am far better than others.
Recency Bias	Impact of recent events. Both +ve and -ve.

Risk Profiling



- Identify the risk appetite of the investor.
- Do not recommend schemes that are beyond the investor risk-handling capacity.

Factors to evaluate risk appetite:

- **The need to take risks** – needs higher returns to reach goals.
- **The ability to take risks** – Financial ability and the time horizon.
- **The willingness to take risks** – Psychological capacity to handle risk.



Asset Allocation



- **Process of allocating money across various asset categories to achieve some objective.**
- **Most investors have allocated money across various asset categories but mostly it is done without any process or rationale behind it.**

Asset allocation approaches	
Strategic	Target allocation across various asset categories. Fixed percentage target across various assets. Eg: 60% equity, 40% debt.
Tactical/Dynamic	Dynamically change the allocation between the asset categories to take advantage from market opportunities. Eg : Initial allocation - 60% equity, 40% debt Equity valuations look attractive, and change allocation as 65% equity, 35% debt or 70% equity, 30% debt

Rebalancing

- Need to make modifications in the asset allocations.
- In strategic asset allocation, if assets values move differently and their ratio are changed, say from 60:40 to 65:35. Then we may need to sell one asset and buy other to readjust ratio to 60:40.
- The risk appetite of the investor might have changed. Rebalance to handle updated risk profile.

Rebalancing is required in both strategic and tactical asset allocation.

Do-it-yourself versus Taking Professional Help

Ask below questions

- Can I do the job myself? (Relevant skills)
- Do I want to do it? (Time-consuming)
- Can I afford to outsource? (Mutual funds charge fees for providing professional service)

As not all investors have relevant skills, they invest through mutual funds.

The next chapter discusses mutual fund and their roles in investor's portfolios.

Unit 1



INVESTMENT LANDSCAPE

1. Which can also be purchased for consumption purposes apart from an investment?

a. Real estate

b. Stocks

c. Bonds

d. Debentures

ourses

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2. The purchasing power of currency changes on account of which of the following?

a. Inflation

b. Asset allocation

c. Compound interest

d. Diversification

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3. What is real rate of return?

a. Return that the investor gets after payment of all expenses

b. Return that the investor gets after taxes

c. Return that the investor gets after adjusting the risks

d. Return that the investor gets after adjusting inflation

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4. When the interest rate in the economy increases, the prices of existing bonds __ ?

a. Increases

b. Fluctuate

c. Decreases

d. Remains same

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5. Select the one that is not a type of investment risk

a. Cyber risk

b. Inflation risk

c. Market risk

d. Credit risk

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a. Cyber risk

b. Inflation risk

c. Market risk

d. Credit risk

6. Which is not a factor to evaluate investment

a. Return

b. Reachability

c. Safety

d. Liquidity

ourses

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7. Which is true for “Loss aversion”

- a. Ability to take high risk
- b. Ability to bear loss
- c. Tendency to prefer avoiding losses
- d. Tendency to invest in equity market

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8. What is asset allocation?

- a. Keeping securities in proper place
- b. Allocating available money in equity
- c. Allocating right proportion of funds to equity, debt and other securities.
- d. None of the above

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9. Choose the correct types of asset allocation

a. Strategic and Tactical

b. Recency and Familiarity

c. Diversification and Concentrated

d. Equity and Debt

ourses

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10. Which is not an asset class?

a. Real Estate

b. Equity

c. Commodities

d. Mutual Fund

ourses

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11. Which is diversification

- a. Investing across various asset classes to spread the risk of loss
- b. To diversify investment amount in periodic manner
- c. Investing in sector funds to diversify portfolio
- d. Investment style to reduce inflation risk

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12. Evaluation of risk appetite requires information regarding?

a. The need to take risk

b. The ability to take risk

c. The willingness to take risk

d. All of the above

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13. People generally invest in multiple asset classes without professional help but the disadvantage is that?

- a. Their returns are low
- b. Investments are not aligned with their financial goals
- c. They invest in risky assets
- d. None of the above

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14. What is the disadvantage in pool saving approach?

a. Time horizon for investments is not known

b. Default Risk

c. Risky portfolio

d. Low returns

ses

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15. After 20 years, how much money is required to buy the goods you can buy with Rs. 10000 today if inflation is assumed at 8%p.a.

a. 14,693

b. 21,589

c. 46,610

d. 1,00,627

15. After 20 years, how much money is required to buy the goods you can buy with Rs. 10000 today if inflation is assumed at 8%p.a.

a. 14,693

b. 21,589

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$$A = P * (1 + r)^n$$

$$10000 * (1 + 0.08)^{20}$$

d. 1,00,627



B1. Which does not offer income on a regular basis

a. Real estate

b. Physical Gold

c. Stocks

d. Debentures

COMMENT
BELOW



B1. Which does not offer income on a regular basis

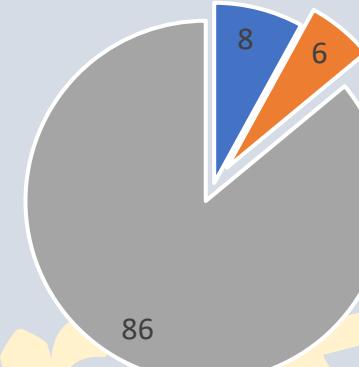
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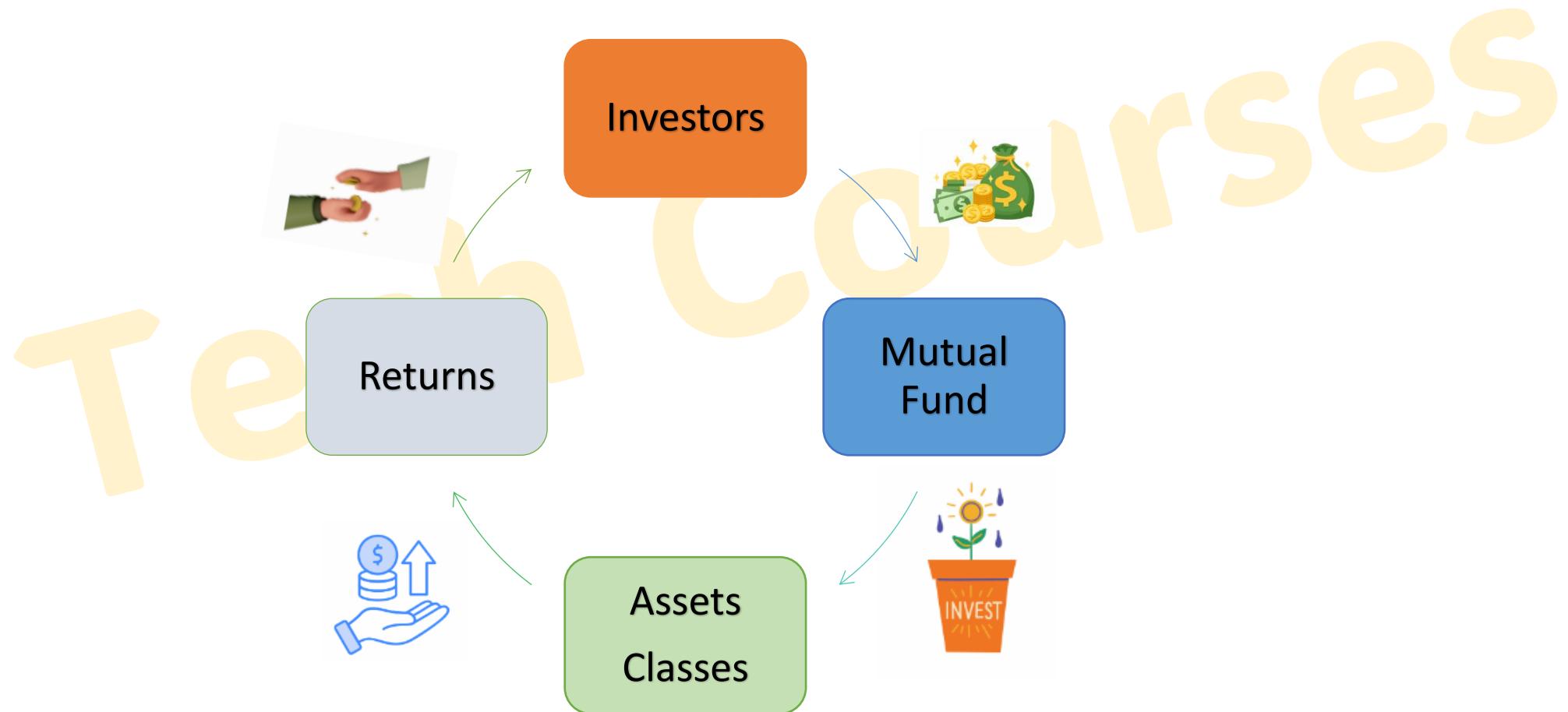
d. Debentures

Unit 2



Concept & Role of a Mutual Fund

Mutual Fund



Mutual Fund

- Mutual Fund is a **professionally managed investment vehicle**.
- Mutual funds offer **different schemes** to cater to the needs of diverse investors.
- Mutual funds pool money from investors and invest in equities, bonds, money market (very short-term debt) instruments, and other securities in line with the stated investment objective.

A mutual fund is established in the form of a trust.
under the Indian Trusts Act, 1882.

Investment Objectives

- The investment objectives are a combination of **safety, liquidity, and returns**

Investment Objectives	Type of mutual fund scheme
The scheme intends to provide reasonable income along with high liquidity by investing in overnight securities having a maturity of one business day.	Overnight fund
To generate capital appreciation/income from a portfolio, predominantly invested in equity and equity related instruments	Equity fund
The primary objective of the scheme is to generate long term capital appreciation by investing predominantly in equity and equity related securities of companies across the market capitalization spectrum. The fund also invests in debt and money market instruments with a view to generate regular income.	Hybrid fund
The primary objective of the scheme is to generate a steady stream of income through investment in fixed income securities.	Long Duration fund

Important Concept in Mutual Funds

IMPORTANT

Concept	Meaning
Units	An investor in a scheme is issued units of the scheme. No of Units = Amount invested / value of each unit
Face Value	Every unit has a face value of Rs. 10. Relevant from an accounting perspective.
Unit Capital	No of units issued * Face Value
Net Asset Value (NAV)	True value of 1 unit
Asset Under Management (AUM)	The sum of all investments made by investors in the mutual fund scheme.
Mark to Market	The process of valuing each security at its current market price.

Advantages and disadvantages of Mutual Fund

IMPORTANT

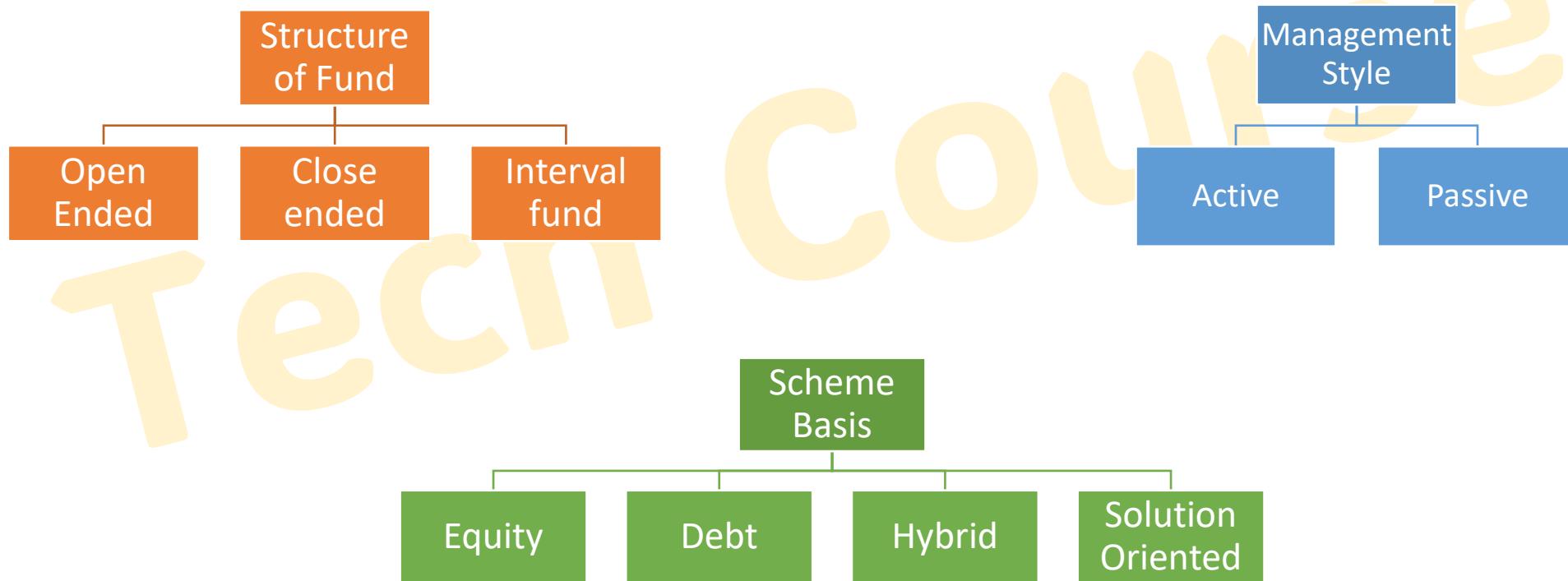
Advantages

- Professional Management
- Portfolio Diversification
- Economies of Scale
- Transparency
- Liquidity
- Tax Benefits
- Systematic Approach

Disadvantages

- Lack of portfolio customization
- Choice overload
- No control over costs
- No guaranteed returns

Classification of Mutual Fund



Classification of Mutual Fund

IMPORTANT

Structure of Fund	
Open Ended	<ul style="list-style-type: none">• Enter and exit in a scheme anytime.• Can buy additional units later after NFO (New Fund Offer)
Close Ended	<ul style="list-style-type: none">• Can buy units from the fund only during its NFO.• Have a fixed maturity.• Post NFO, the sale and purchase happen on the stock exchange between two different investors, and the fund is not involved.• Generally trade at a discount to the NAV.
Interval Fund	<ul style="list-style-type: none">• Combine features of both open-ended and close-ended schemes.• After NFO, it reopens at periodic intervals to provide entry and exit.

Classification of Mutual Fund

IMPORTANT

Management Style	
Active	<ul style="list-style-type: none">Decides asset allocation actively and rebalances the portfolio frequently.Due to frequency rebalancing, expenses for running are highExpected to perform better than the market.
Passive	<ul style="list-style-type: none">Invest based on a specified index. Eg: Sensex, NiftyThe proportion of each share in the portfolio is the same as the weightage assigned to the share in the tracked index.Known as index schemes and have low running costs.Generally perform the same as the market (tracked index).

Classification of Mutual Fund

Scheme Categorization	
Equity	11 sub-categories
Debt	16 sub-categories
Hybrid	6 sub-categories
Solution Oriented	2 sub-categories
Other	2 sub-categories

Equity Schemes

IMPORTANT

Multi Cap Fund	Open-ended scheme investing across large, mid, and small-cap stocks. Minimum 75% in equity – 25% large, 25% mid, 25% small
Large Cap Fund	Open-ended scheme investing in large cap stocks. Minimum 80% in large-cap .
Mid Cap Fund	Open-ended scheme investing in mid-cap stocks. Minimum 65% in mid-cap .
Small Cap Fund	Open-ended scheme investing in small-cap stocks. Minimum 65% in small-cap .

Box 2.2: Definition of Large-cap, Mid-cap and Small-cap

Large cap, mid cap and small cap companies are defined 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

Market Capitalization =
No of shares * Market price of a share

Equity Schemes

IMPORTANT

Dividend Yield Fund	Open-ended scheme investing in dividend-yielding stocks. Minimum 65% in equity .
Value/Contra Fund	Open-ended scheme following a value investment strategy. Minimum 65% in equity .
Focused Fund	Open-ended scheme investing in a maximum of 30 stocks . Minimum 65% in equity .
Sector/Thematic Fund	Open-ended scheme investing in a specific sector (bank, power) or theme (infrastructure). Minimum 80% in any sector or theme .
Equity Linked Savings Scheme (ELSS)	Open-ended scheme with lock-in period of 3 years and tax benefit . Minimum 80% in equity .

Large Cap, Sector, ELSS – 80, Multi Cap – 75, Rest - 65

Debt Schemes

IMPORTANT

Overnight Fund	Maturity of 1 day
Liquid Fund	Maturity of up to 91 days
Ultra-Short Duration Fund	Macaulay duration (Average) between 3 months and 6 months
Low Duration Fund	Macaulay duration between 6 months and 12 months.
Money Market Fund	Maturity up to 1 year.
Short Duration Fund	Macaulay duration between 1 year and 3 years.
Medium Duration Fund	Macaulay duration between 3 years and 4 years.
Medium to Long Duration	Macaulay duration between 4 years and 7 years.
Long Duration Fund	Macaulay duration greater than 7 years.
Dynamic Bond	Investing across duration.

Debt Schemes

IMPORTANT

Corporate Bond Fund	Investing in AA+ and above rated corporate bonds. Minimum 80% in corporate bonds.
Credit Risk Fund	Investing in below highest-rated corporate bonds (AA and below). Minimum 65% in corporate bonds.
Banking and PSU Fund	Investing in banks, PSU . Minimum 80% in such investments.
Gilt Fund	Investing in government securities (G-secs). Minimum 80% in government securities.
Floater Fund	Minimum 65% in floating (variable interest) rate instruments.

Less Risky Debt Funds – 80%

More Risky Debt Funds – 65%

Hybrid Schemes

IMPORTANT

Conservative Hybrid Fund	Debt – 75% to 90%, Equity – 10% to 25%
Balanced Hybrid Fund	Debt – 40% to 60%, Equity – 40% to 60%
Aggressive Hybrid Fund	Debt – 20% to 35%, Equity – 65% to 80%
Multi Asset Allocation	Investing in at least three asset classes. Minimum 10% allocation in each of the three asset classes.
Arbitrage Fund	Investing in arbitrage opportunities. Arbitrage means simultaneously buying and selling in different markets to take advantage of price differences. Minimum 65% in equity.
Equity Savings	Investing in equity, arbitrage and debt. Minimum 65% in equity, 10% in debt.

Solution Oriented Schemes

IMPORTANT

Retirement Fund	Long term planning related to acquiring a corpus for retirement. Lock-in of 5 years or till retirement age (whichever is earlier).
Children's Fund	Invest to build a corpus for child and their needs in the coming years. Lock-in of 5 years or until the child attains maturity (whichever is earlier).

Other Schemes

Index Funds/ Exchange Traded Fund (ETF)/ Smart Beta Fund	Replicating/tracking a specific index. Minimum 95% in securities of a particular index which is being replicated.
Fund of Funds (Overseas/Domestic)	Investing in an underlying fund. Minimum 95% in underlying fund.
Real Estate Mutual Fund	Invest in real estate. Minimum 75% in real estate.
Quant Funds	Rely on data analysis done by machines to select securities in the portfolio. Take out the human element in decision making.

Unit 2



Concept & role of Mutual Fund

1. ___ indicates how much money can be generated per unit of mutual fund in case the scheme is liquidated.

a. Asset Under Management

b. Net Asset Value

c. Market price

d. Exit load

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2. Each mutual fund scheme must have a stated investment objective. State whether True or False.

a. True

b. False

2. Each mutual fund scheme must have a stated investment objective. State whether True or False.

a. True

b. False

3. Which of the following is an advantage of mutual funds?

- a. Customized portfolio
- b. Convenience to buy stock and bonds directly from the mutual fund
- c. Economies of scale

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**4. The transparency levels in mutual fund are very low.
State whether True or False.**

a. True

b. False

**4. The transparency levels in mutual fund are very low.
State whether True or False.**

a. True

b. False

5. Which amongst the following categories of mutual funds have a fixed maturity date?

a. Open-ended funds

b. Exchange Traded Funds

c. Close-ended funds

d. Interval funds

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6. Mutual fund is a vehicle in the form of a _____

a. Bank

b. Custodian

c. Registrar

d. Trust

ourses

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a. Bank

b. Custodian

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d. Trust

7. The fund that combine features of both open ended and close ended schemes are called?

a. Dual Funds

b. Hybrid Funds

c. Interval Funds

d. Intermediary Funds

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b. Hybrid Funds

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8. Mark to Market (MTM) is the process of valuing securities at _____

a. Current Market Price

b. Book Value

c. Net Asset Value

d. Face Value

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d. Face Value

9. Equity fund must have at least ___ investment in equity?

a. 65%

b. 75%

c. 80%

d. 95%

ourses

9. Equity fund must have at least ___ investment in equity?

a. 65%

b. 75%

c. 80%

d. 95%

**10. Unit capital is derived by multiplying no of units by its
_____?**

a. Face value

b. Book Value

c. Market Value

d. Net Asset value

**10. Unit capital is derived by multiplying no of units by its
_____?**

a. Face value

b. Book Value

c. Market Value

d. Net Asset value

11. Which is not a sector fund?

- a. Diversified Fund
- b. Banking Fund
- c. Infrastructure Fund
- d. Power Fund

ourses

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b. Banking Fund

c. Infrastructure Fund

d. Power Fund

12. A mutual fund issued 1 crore units. The face value of each unit is 10 Rs. What is the unit capital?

a. 10 crore

b. 10 lakh

c. 1 crore

d. 10 Rs

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a. 10 crore

b. 10 lakh

c. 1 crore

d. 10 Rs



B2. Which fund are generally more volatile in nature?

- a. GILT Fund
- b. Diversified Equity Fund
- c. Small Cap Fund
- d. Exchange Traded fund

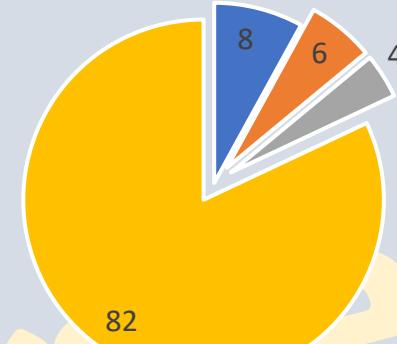
COMMENT
BELOW



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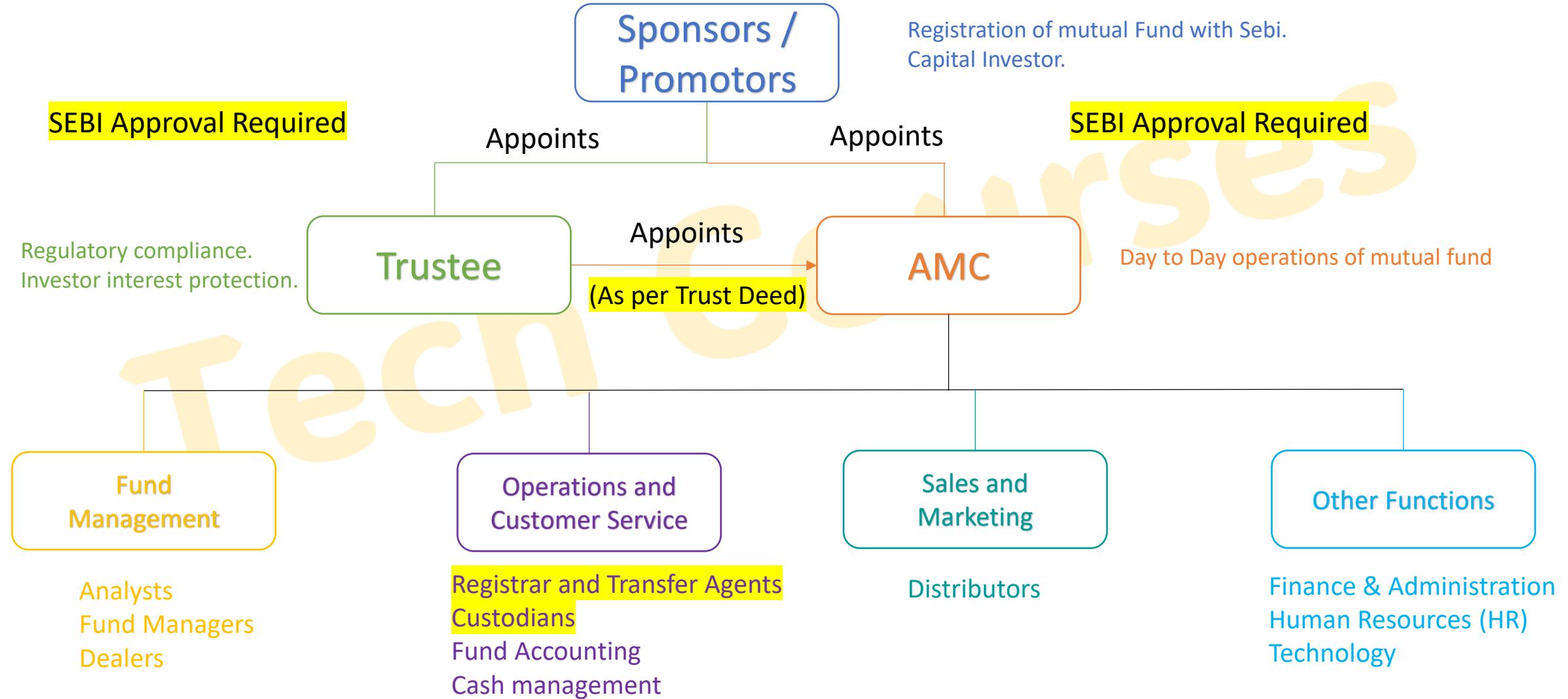
Unit 3



Legal Structure of Mutual Funds in India

Structure of Mutual Funds in India

IMPORTANT



Key Points to remember



- Mutual funds are constituted as a **trust**.
- Mutual funds are governed by the **Indian Trusts Act, 1882**.
- The mutual fund trust is **created by one or more Sponsors(Promotors)** .
- **The trust acts through its trustees** who is appointed by the sponsor.
- **Investors/Unit holders** are beneficiaries of mutual fund.
- Separate **Asset Management Company(AMC)** handles **day to day management** of the schemes.
- The operations of the mutual fund are governed by a **Trust Deed** which is **executed between the Sponsors and the Trustees**.
- **Custody of the assets**(securities, gold, silver etc) of the schemes lies with the **Custodian**, who is **appointed by the Trustees**.
- The **record of investors** and their unit-holding may be maintained by the AMC itself, or it can appoint a **Registrar & Transfer Agent (RTA)**.

Sponsors

Role

- Make an **application to SEBI for registration** of a mutual fund.
- Main persons behind the mutual fund business.
- Invests in the capital of the AMC.
- Appoints Trustee.
- Appoints AMC along with Trustees as per the agreement in the Trust Deed.

Key Points:

- Must contribute a **minimum 40% of networth** of the AMC.
- Must be in financial services for at least **5 years**.
- Have net profit (providing for depreciation, interest & tax) in each of the immediately preceding 5 years.
- Have an average net annual profit of **10 crore** during the immediately preceding 5 years.

Trustees / Board of Trustees

Role

- Defines the functioning of AMC through an Investment Management Agreement with AMC.
- **Compliance with SEBI regulations** through periodic (quarterly) review of transactions, and complaints.
- **Protect the interests of the investors/unit-holders.**
- **Appointed by Sponsor with SEBI approval.**
- File half-yearly reports to SEBI.

Key Points:

- The sponsor will have to appoint at least 4 trustees.
- **At least 2/3rd** of the trustees need to be **independent trustees** i.e. not associated with the sponsor.
- No AMC, director, officer, or employee of an AMC can be appointed as a trustee.
- A person can be appointed as a trustee of only 1 mutual fund.

Asset Management Company (AMC)

Role

- **Day-to-day operations** of the mutual fund following SEBI regulations and the trust deed.

Key Points:

- **Appointed by the sponsor or the trustee** as per trust deed with SEBI approval.
- **50%** of directors on board of AMC should be **independent directors** i.e. not associated with the sponsor or any of its subsidiaries or the trustees.
- The AMC needs to have a **minimum net worth** of Rs **50 crore**.
- AMC can be **terminated** by a majority of the trustees or by **75% of the unit-holders**.
- Approval of SEBI and unit-holders required for change/termination of AMC.
- If AMC is terminated, unit-holders are given the **option to exit** on the prevailing NAV **without any exit load** within a period of not less than **30 days from the date of communication**.

Custodian

Role

- Has custody of the assets of the fund.
- Accept and give delivery of securities for the purchase and sale transaction.
- Settles all the transactions on behalf of mutual funds.
- Tracks corporate actions (dividends, bonuses, and rights) in the companies where the fund has invested.

Key Points:

- Appointed by the trustees with custodial agreement.
- Need to register with SEBI (Custodian) under SEBI regulations 1996.
- Ensures that the securities are indeed held in the scheme for the benefit of investors.

Registrar and Transfer Agents (RTA)

Role

- Maintains investor records
- Serve as investor service centers(ISCs) to handle documentation of investors.
- Process purchase and redemption transactions of investor.
- Update the unit capital of the scheme.

Key Points:

- Appointed by the AMC.
- Not compulsory to appoint an RTA. AMC can choose to handle in-house.
- All RTAs need to register with SEBI.

Other Key Personnel

IMPORTANT

Auditors	Audit the accounts. Auditor for mutual fund scheme should be different from that of the AMC. Scheme auditor appointed by trustees. The AMC auditor appointed by the AMC.
Distributors	Sell mutual fund schemes to investors. Can be empaneled with more than one AMC. Can be individuals or institutions such as companies, brokers or banks. Need to pass the NISM certification exam and register with AMFI.
Collecting Bankers/ Payment Aggregators	Collection and payment of funds for the schemes. Banks, digital wallets, and the payments bank.
KYC Registration Agencies (KRA)	Uniform KYC (Know your Customer) process under the Prevention of Money Laundering Act. They are registered with SEBI. Verify the identity and address of the investor.
Valuation Agencies	Fair valuation of debt securities
Credit Rating Agencies	Rate debt securities issued by various investors in terms of quality.
Depositories	Holds securities in dematerialized or electronic form on behalf of investors. Two depositories : NSDL – National Securities Depository Limited (NSDL) & Central Depository Services Limited (CDSL)

Association of Mutual Funds in India (AMFI)

- Association of all registered AMC.
- Define and maintain high professional and ethical standards in the operation of the mutual fund industry.
- Promote best practices and code of conduct to be followed by its members.
- Represent to the government, RBI & SEBI on matters related to the mutual fund industry.
- Run investor awareness program and protect the interest of investors.
- Registration of mutual fund distributors by allotting them AMFI Registration Number(ARN)
- Regulate and discipline the conduct of distributors including cancellation of ARN.

AMFI is neither a regulatory body nor a Self-Regulatory Organization(SRO).

Unit 3



Legal Structure of Mutual Funds in India

1. Who are the beneficiaries of mutual fund trust.

a. Employees of the AMC

b. Mutual Fund distributors

c. Unitholders

d. Trustees of the mutual fund

ourses

1. Who are the beneficiaries of mutual fund trust.

a. Employees of the AMC

b. Mutual Fund distributors

c. Unitholders

d. Trustees of the mutual fund

2. Who handles the day-to-day management of the mutual fund?

a. Asset Management Company

b. Registrar and Transfer Agency

c. Mutual Fund Trustees

d. Unitholders

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3. Who tracks the various corporate actions like bonus, dividend, or rights issues in companies where the mutual fund scheme has invested?

- a. Registrar and Transfer Agency
- b. Custodian
- c. Auditors of the Asset Management Company
- d. Unitholders

3. Who tracks the various corporate actions like bonus, dividend, or rights issues in companies where the mutual fund scheme has invested?

- a. Registrar and Transfer Agency
- b. Custodian**
- c. Auditors of the Asset Management Company
- d. Unitholders

4. Registrar and Transfer Agency function must be independent of the Asset Management Company, and it cannot be retained in-house.

a. True

b. False

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a. True

b. False

5. Mutual Fund distributors are registered with which agency?

- a. SEBI
- b. Depositories – NSDL/CDSL
- c. AGNI
- d. AMFI

5. Mutual Fund distributors are registered with which agency?

- a. SEBI
- b. Depositories – NSDL/CDSL
- c. AGNI
- d. AMFI

6. Which of the following statements is/are True

- a) Sponsor makes application to SEBI for registration of mutual fund.**
- b) AMFI is neither a regulator body nor a self regulatory organization.**

a. Only a

b. Only b

c. Both a and b

d. None

6. Which of the following statements is/are True

- a) Sponsor makes application to SEBI for registration of mutual fund.**
- b) AMFI is neither a regulator body nor a self regulatory organization.**

a. Only a

b. Only b

c. Both a and b

d. None

7. Who ensures compliance with SEBI regulations and defines functioning of the AMC?

a. Trustees

b. Sponsors

c. Custodian

d. Auditors of the AMC

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B3. Which of the following is rated by a credit rating agency?

- a. Equity Funds
- b. Debt Funds
- c. Both a and b
- d. None

**COMMENT
BELOW**

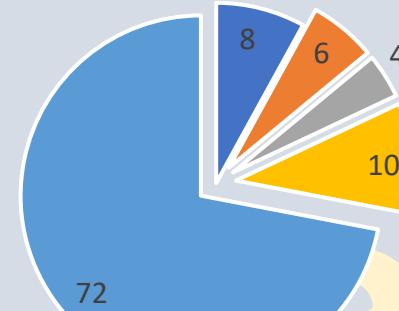


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BELOW**

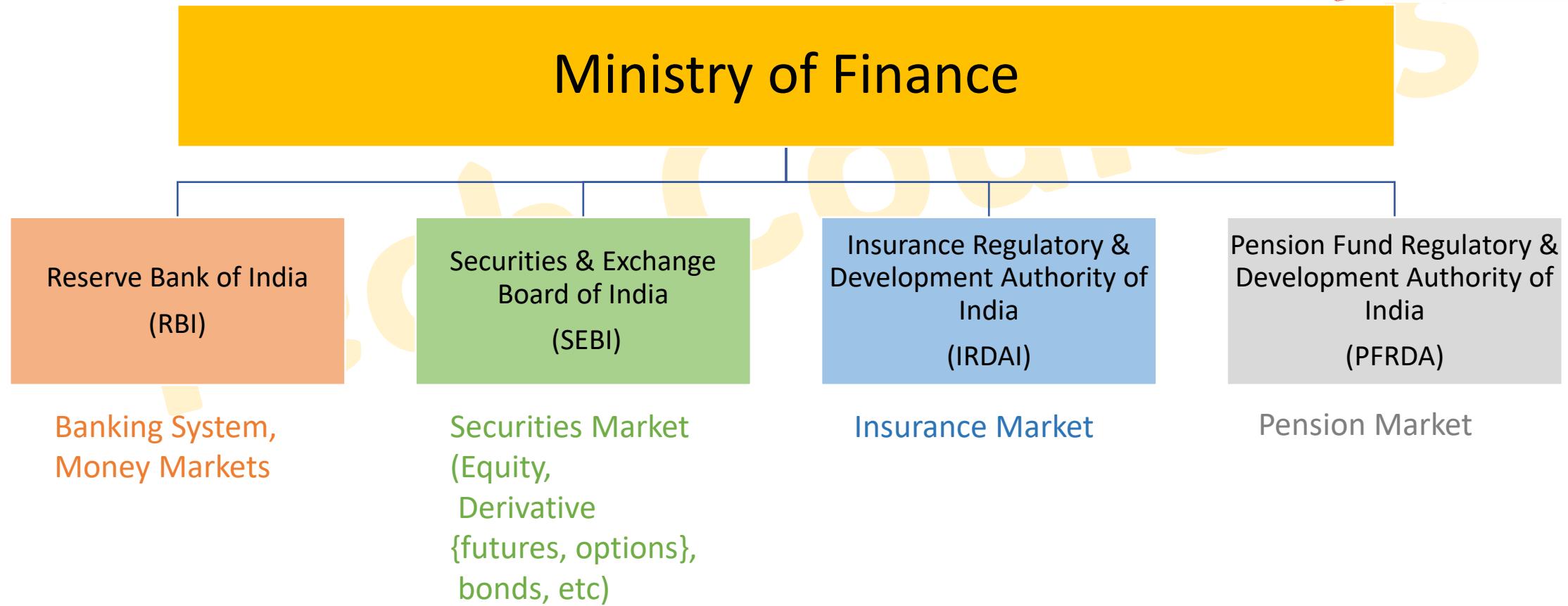
Unit 4



Legal and Regulatory Framework

Regulators in India

IMPORTANT



Role of SEBI

Regulates securities market, mutual funds, depositories, custodians, registrar and transfer agents(RTAs), and credit rating agencies.

Regulation covers:

- Disclosures
- Efficiency of transactions
- Deliberate speculation
- Insider trading
- Excessive risk taken by mutual funds
- Inadequate collateral by issuers of debt securities

Regulatory reform by SEBI

Scheme Related documents and categorization of mutual fund schemes	Up to date information. Guidelines for investment restrictions. Categorization bring-in uniformity.
Risk Management System	Exposure limits for investments to get diversified portfolio
Disclosures and reporting Norms	Timely disclosure of information in particular format for transparency.
Governance Norms	Auditors, valuation committees, independent directors, benchmarking
Valuation	Mark-to-market process, dividend distribution guidelines
Loads, fees and expenses	Limits on expenses and commissions payable to distributors.
Advertisements	Inclusion of disclaimer and risk factors.
Investors rights and obligations	Dispatch of account statements, penalty in case of delay
Certification and Registration of intermediaries	NISM certificate mandatory for distributors
Segregated Portfolio	Segregate portfolio in case of a credit event to deal with liquidity risk.

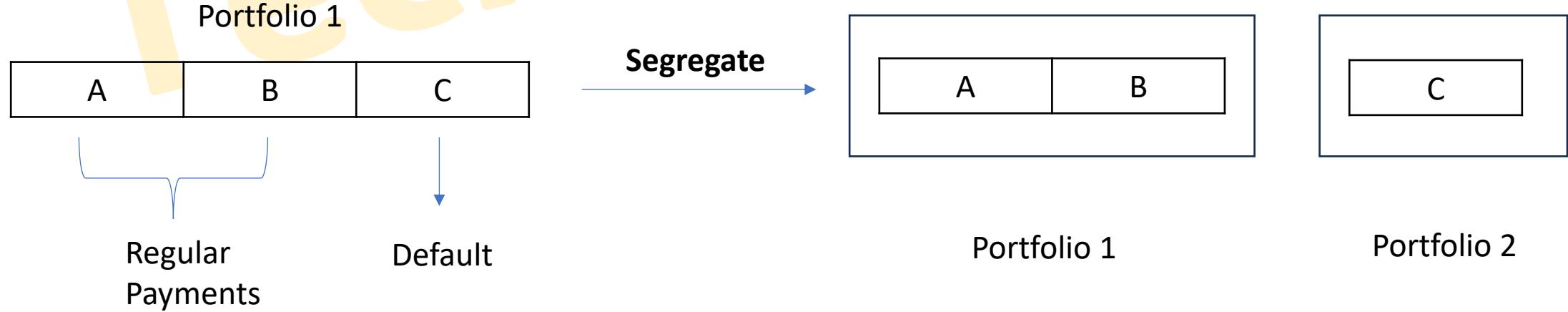
Segregated Portfolio

IMPORTANT

Segregated portfolio creation is a mechanism to separate distressed, illiquid assets from other liquid assets in a mutual fund portfolio to deal with a situation arising due to a credit event.

Credit Event

A credit event is a negative change in a borrower's capacity to meet its payment obligations.

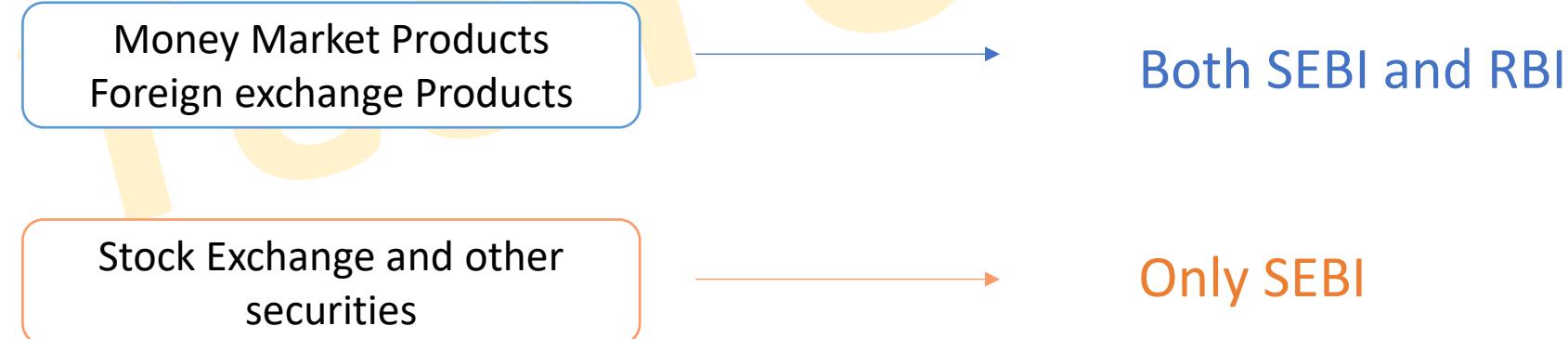


Mutual Funds Regulators

Normally, mutual funds are regulated by SEBI.

But, RBI regulates the money market and foreign exchange market in India.

So, mutual funds need to comply with RBI's regulations regarding investments in the money market, investments outside the country, and investments from NRI.



Investment Restrictions



- Mutual Fund will buy and sell securities on a **delivery basis**.
- Mutual fund shall not advance any loans.
- Investment in **group companies of the sponsor** will be limited to **25%** of the net assets.
- Mutual fund **shall not invest more than 10%** of its NAV in a particular company.
- Mutual fund shall not invest more than **10%** of its NAV in **debt instruments of a single issuer**.
- Mutual fund shall not invest more than **10%** of units issued by a **single issuer of REIT and InvITs** (Real Estate).
- Open-ended debt funds have to maintain a minimum of **10%** of their corpus in **liquid assets**.

SEBI Advertisement Code for Mutual Funds



- Advertisements shall be accurate and unambiguous.
- Advertisements shall not contain false, misleading, biased statements.
- Advertisements shall not carry any exaggerated slogan.
- Advertisements should be in simple language and use minimal legal terminology.
- No unfair comparisons with other advertisements.
- Shall be accompanied by a standard warning in legible fonts without any addition or deletion of words.
“ Mutual Fund investments are subject to market risks, read all scheme-related documents carefully”.
- **Celebrity endorsements at the industry level to increase awareness are allowed.**
- **However, celebrity endorsements shall not promote any particular scheme.**

SEBI issues guidelines to all market intermediaries to prevent the circulation of unauthenticated news.

Investors Rights & Obligations

IMPORTANT

Right to beneficial ownership	Proportionate ownership (amount invested) of the assets of the scheme.
Right to change the distributor	A written request to AMC. AMCs to comply with no question policy .
Right to inspect documents	Key documents (Trust Deed, Investment management agreement, Custodial Services Agreement, RTA Agreement, Memorandum & articles of Association of the AMC)
Right to appoint nominees	Can specify up to 3 nominees . Nominee will get units on death of investor. Can also specify %age distribution. If not specified, equal distribution.
Right to pledge units	Offer security to a financier.
Right to grievance redressal	AMC to maintain and publish complaints redressed in their annual report and AMFI's website. Number, time taken and status of pending complaints.
Right in the context of change in fundamental attributes	If there is change in scheme fundamental attributes, unitholders are provided option to exit in 30 days without any exit load.
Rights to terminate the appointment of an AMC	75% of unitholders can terminate the appointment of an AMC. Investors can file suits against trustees if obligations not fulfilled.
Right to unclaimed amounts	AMC to make continuous efforts to remind investors through letters. Annual Report to mention the unclaimed amount and no of such investors.
Other Rights	Receiving account/portfolio statements , half-yearly disclosures. Mutual fund transaction details within 15 days in a prescribed format.

Unclaimed amount and Illiquid Securities

IMPORTANT

What happens with Unclaimed amount

- Mutual funds deploy unclaimed amounts (dividend, redemption, etc) in the **money market/ liquid schemes**.
- AMC can **recover investment management and advisory fees** on the management of these unclaimed amounts at a **maximum of 0.50%** and there shall be no exit loads charged on this plan.

Proceeds of Illiquid Securities

Illiquid securities are those which are **not recoverable** at the time of maturity. In such cases

- If amounts are recovered within 2 years, then the amount is paid to old investors.
- If more than 2 years, the amount is transferred to the **Investor Education Fund** of the mutual fund.

Investor Grievance Redress Mechanism



First AMC -> Then SEBI

- Investors can make complaints to the AMC.
- If the issue is not redressed by AMC, write to SEBI with the complaint details.

SEBI Complaint Redress System (SCORES)

<http://scores.gov.in>

Web-based centralized grievance redress system of SEBI. With SCORES, investors can

- **Lodge** their complaints
- **Follow up** on their complaints
- **Track the status** of complaints online.

SEBI handles complaints for Listed companies/RTAs, Brokers/stock exchanges, Depository, Mutual Funds, Portfolio Managers, KRAs, Collective investment schemes, Merchant bankers, Credit ratings, and foreign portfolio investors.

AMFI Code of Conduct for Intermediaries



AMFI Code of Ethics (ACE)

- Set out the standard of good practices **to be followed by the AMCs** in their operations and their **dealing with investors, intermediaries, and the public**.
- Sets more explicit standards for AMCs and Trustees.

AMFI Guidelines & Norms for Intermediaries (AGNI)

Intermediaries consist of **individual agents, brokers, distribution houses, and banks** engaged in selling of mutual fund products.

Violation by the intermediary results in the following action by AMFI:

- Ask for an explanation within 3 weeks.
- If not satisfactory, AMFI will issue a warning letter.
- On **2nd violation**, AMFI will **cancel the ARN** (AMFI Registration Number) of the intermediary involved and intimation sent to all AMCs

Intermediary has a right of appeal to AMFI

Unit 4



Legal and Regulatory Framework

1. Which of the following regulates mutual funds in India?

- a. Securities and Exchange Board of India
- b. Association of Mutual funds in India
- c. Asset Management Companies
- d. Board of Trustees of mutual funds

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- a. Securities and Exchange Board of India
- b. Association of Mutual funds in India
- c. Asset Management Companies
- d. Board of Trustees of mutual funds

2. Mutual funds can buy and sell securities only on delivery basis?

a. True

b. False

2. Mutual funds can buy and sell securities only on delivery basis?

a. True

b. False

3. Who regulates pension market in India?

a. SEBI

b. RBI

c. IRDAI

d. PFRDA

ourses

3. Who regulates pension market in India?

a. SEBI

b. RBI

c. IRDAI

d. PFRDA

4. Which of the following statements is True with respect to celebrity endorsement for mutual funds?

- a. SEBI has permitted endorsement at the industry level to increase the awareness of mutual funds
- b. SEBI has permitted celebrity endorsements for the promotion of individual mutual funds scheme
- c. Celebrities can endorse only NFOs
- d. Celebrities can endorse only ongoing mutual fund schemes

4. Which of the following statements is True with respect to celebrity endorsement for mutual funds?

- a. SEBI has permitted endorsement at the industry level to increase the awareness of mutual funds
- b. SEBI has permitted celebrity endorsements for the promotion of individual mutual funds scheme
- c. Celebrities can endorse only NFOs
- d. Celebrities can endorse only ongoing mutual fund schemes

5. Investors have the right to specify up to nominees for their mutual fund investment folios.

a. 0

b. 1

c. 3

d. 5

ourses

5. Investors have the right to specify up to nominees for their mutual fund investment folios.

a. 0

b. 1

c. 3

d. 5

6. Investors have right to inspect which of the following documents?

- a. Trust deed
- b. Article of Association
- c. RTA Agreement
- d. All of the above

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- b. Article of Association
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- d. All of the above

7. Which of the following is not the right of an investor in mutual fund?

a. Right to beneficial ownership

b. Right to safety

c. Right to change the distributor

d. Right to pledge mutual fund units

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8. AGNI (AMFI Guidelines & Norms for Intermediaries) is _____?

a. Code of conduct for intermediaries

b. Rules and Regulations

c. Terms and conditions

d. All of the above

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a. Code of conduct for intermediaries

b. Rules and Regulations

c. Terms and conditions

d. All of the above

9. Who is responsible for preventing circulation of unauthenticated news?

a. RBI

b. SEBI

c. AMFI

d. AMC

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a. RBI

b. SEBI

c. AMFI

d. AMC

10. Who regulates money market?

a. RBI

b. SEBI

c. IRDAI

d. PFRDA

ourses

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11. What is not covered in SEBI regulations?

- a. Insider trading
- b. Mutual fund internal working
- c. Collateral for debt securities
- d. Deliberate speculation

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- a. Insider trading
- b. Mutual fund internal working
- c. Collateral for debt securities
- d. Deliberate speculation

12. Mutual fund advertisements must include proper disclaimers and risk factors.

a. True

b. False

12. Mutual fund advertisements must include proper disclaimers and risk factors.

a. True

b. False

13. Mutual fund scheme shall not invest more than ____ in the equity share and equity related instruments of a company.

a. 5%

b. 10%

c. 25%

d. There is no limit

13. Mutual fund scheme shall not invest more than ____ in the equity share and equity related instruments of a company.

a. 5%

b. 10%

c. 25%

d. There is no limit

14. Segregated portfolio is created?

a. In case of a credit event

b. On 1st January

c. At time of portfolio creation

d. On 1st April

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a. In case of a credit event

b. On 1st January

c. At time of portfolio creation

d. On 1st April

15. Segregated portfolio is created to deal with?

- a. Inflation
- b. Liquidity risk
- c. Valuation
- d. All of the above

courses

15. Segregated portfolio is created to deal with?

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- c. Valuation
- d. All of the above

16. Misleading statements are acceptable in mutual fund advertisements.

a. True

b. False

16. Misleading statements are acceptable in mutual fund advertisements.

a. True

b. False

17. With SCORES (SEBI Complaint Redress System), investors can?

- a. Lodge their complaints
- b. Follow up on their complaints
- c. Track the status of complaints
- d. All of the above

17. With SCORES (SEBI Complaint Redress System), investors can?

- a. Lodge their complaints
- b. Follow up on their complaints
- c. Track the status of complaints
- d. All of the above

18. If investor complaint is not redressed by AMC, then investor can register complain to ?

- a. SEBI
- b. AMFI
- c. RBI
- d. No option other than AMC

18. If investor complaint is not redressed by AMC, then investor can register complain to ?

- a. SEBI
- b. AMFI
- c. RBI
- d. No option other than AMC

19. In case of 2nd violation by intermediary, ARN will get ?

- a. Cancelled
- b. A warning
- c. Escalated to SEBI
- d. Nothing happens

19. In case of 2nd violation by intermediary, ARN will get ?

a. Cancelled

b. A warning

c. Escalated to SEBI

d. Nothing happens



B4. Intermediary in AGNI (AMFI guidelines & norms for intermediaries) stands for?

- a. Individual agents
- b. Brokers and distribution houses
- c. Banks engaged in selling mutual fund
- d. All of the above

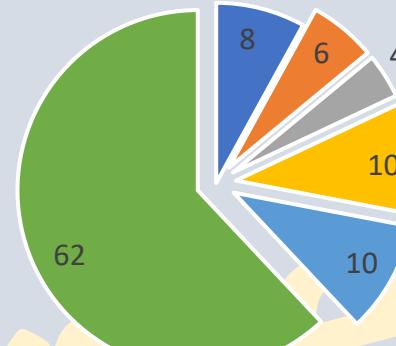
COMMENT
BELOW



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Unit 5



Scheme Related Information

Scheme Related Documents



The primary sources of information for an investor.

Mandatory

- Scheme Information Document (SID)
- Statement of Additional Information (SAI)
- Key Information Memorandum (KIM)
- Addendum

- Information about a particular mutual fund scheme
- Information about the mutual fund /AMC
- Summary of SID and SAI
- Interim changes in scheme-related documents

Non Mandatory

- Fund Fact Sheet

- Used by investors, fund distributors, media, and others to access information about the various schemes of the mutual fund.

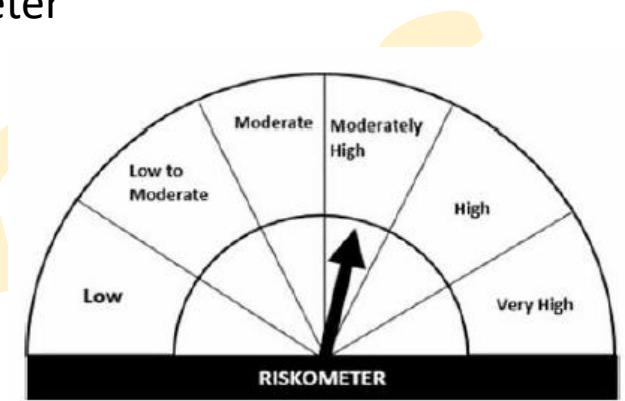
All mandatory documents are prepared in the format prescribed by SEBI and submitted to SEBI. SEBI does not approve or disapprove the Scheme Related Documents, it gives its observations.

Contents of SID

IMPORTANT

Details about a particular scheme offered by the mutual fund.

- **Risk Factors** – General and scheme specific. Scheme Suitability and Risk-O-Meter
- **Due Diligence Certificate issued by the AMC.**
- **Name of the scheme**
- **Fundamental attributes**
 - **Type**
 - Open-ended/close-ended/interval
 - Sector Fund/Equity Fund/Index Fund / Any other type of Fund
 - **Investment Objective**
 - Growth/Income/Both
 - Tentative portfolio break up / **Asset Allocation**
 - **Terms of the Issue**
 - **Liquidity** provisions – listing, repurchase, redemption
 - **Expenses/Fees/Exit Load/Transaction charges/ Any guarantee/Safety Net**
- **Plans and options available** – Regular/Direct/Dividend pay-out/ Dividend re-investment/Growth
- **Benchmark**



Contents of SID

- **Eligible investors**
- **Minimum number of investors** in the scheme.
- **Investment limits:** maximum and minimum amount an investor can invest
- Investment Strategy – philosophy adopted to identify securities, rebalance the portfolio, selling securities.
- Investment restrictions / Regulatory restrictions
- Managers of the scheme
- Performance track record of the scheme
- Units & offer
- Details of the computation of the NAV (formula etc)
- Points at which the application form can be submitted and cut-off time
- Modes of transactions/payments – physical/internet/channel distributors/electronic mode/stock exchanges.
- Mandatory information to be provided (PAN, bank account details, KYC)
- Sources of information – Details of the periodic information the mutual fund will provide to the investors.
- Tax implications arising out of profits from the scheme.

Contents of SAI

IMPORTANT

Statutory information about the mutual fund or AMC, that is offering the scheme.
A single SAI is relevant for all the schemes offered by a mutual fund.

- **Constituents of the mutual fund** – Sponsors, AMC, Trustee, Custodian, RTA, Auditor, Collective Banker
- **Condensed financial information** for schemes launched in the **last 3 financial years**.
- **Rights of Unit-holders** – beneficial ownership, appoint nominee, etc.
- **How to apply** – to a mutual fund scheme
- **Investment Valuation Norms** – SEBI standardized guidelines for portfolio valuation.
- **Tax, Legal & General information w.r.t. nominations**, transfer and transmission of units, investment by minors
- **Investor Grievance** – how investors can register and follow up for a grievance.

Contents of KIM

IMPORTANT

Summary of SID & SAI. It contains key points that investors should know.
Every application form is to be accompanied by the KIM.

- Name of the AMC, mutual fund, Trustee, Fund Manager and scheme
- **Date of issue opening, closing, re-opening**
- Investment objective
- Asset allocation pattern
- Risk profile of the scheme
- Plans and Options
- Benchmark Index
- Dividend Policy
- **Performance of the scheme and benchmark over last 1,3,5 years and since inception.**
- Expenses of the scheme
- Information regarding registration of investor grievances.

Addendum

Interim changes are updated through the issuance of an addendum.

- Considered part of the scheme-related documents and **must accompany the KIM**.

Tech courses

Other mandatory Disclosures

IMPORTANT

1. Two key disclosures that **existing investors** should receive:
 - a) Current value of one's investments
 - b) Information about where the scheme has invested

Current value of investments = Unit balance in the investor's account * Current NAV

2. Disclosure of Daily NAV:

- Daily at the end of each business day
- Publish on the website of the AMC and AMFI's website.
- Calculation Rules
 - Open-ended – daily on all business days
 - Liquid/Oversight Funds – daily even on Sundays/holidays
 - Close-ended – at least once a week.

3. Disclosure of Total Expense Ratio (TER):

- a) Daily
- b) Publish on the website of the AMC and AMFI's website.
- c) If there is a change in TER, AMCs need to update investors through email at least 3 working days before effecting such change.

Other mandatory Disclosures

4. Portfolio disclosure on the website of AMC and AMFI

- a) For Equity schemes
 - a) Monthly/half yearly within 10 days from the close of each month/ half-year
- b) For debt schemes
 - a) Fortnightly (Every 15 days) within 5 days of every fortnight.

5. Unaudited Financial Results

- Half yearly (before the expiry of one month from the close of each half year)
- on the website of AMC, advertisement in English, and regional newspaper

6. Annual Reports/ Abridged summary

- a) Annually (no later than 4 months from the date of closure of the relevant financial year i.e. March 31)
- b) Publish on the website of the AMC and AMFI's website.

Fund Factsheet – Not Mandatory

Extensively used by investors, fund distributors, fund rating agencies, research analysts, media, and others to access information about the various schemes of the mutual fund.

- Generally published **monthly**.
 - Contains Basic information about each scheme
 - Inception date
 - Corpus size(AUM)
 - Current Nav
 - Benchmark
 - Security-wise allocation
 - Sector-wise allocation
 - Rating profile of the various securities
 - Portfolio features
 - PE ratio
 - Beta
 - Standard deviation
 - Sharpe ratio
 - Exit load

AXIS BLUECHIP FUND
(An Open-Ended Equity Scheme Predominantly Investing In Large Cap Stocks)

FACTSFHEET
August 2024

INVESTMENT OBJECTIVE: To achieve long term capital appreciation by investing in a diversified portfolio predominantly consisting of equity and equity related securities of Large cap companies including derivatives. There is no assurance that the investment objective of the Scheme will be achieved.

PORTFOLIO

Security wise

Instrument Type Under NAV (INR) % of NAV

EQUITY		96.31%
HDFC Bank Limited	Bank	8.49%
ICICI Bank Limited	Bank	7.72%
Reliance Industries Limited	Petroleum Products	5.63%
Tata Consultancy Services Limited	IT - Software	5.04%
Bajaj Finance Limited	Finance	5.02%
Infyos Limited	IT - Software	4.99%
Bharti Airtel Limited	Telecom - Services	4.93%
Avenue Supermarts Limited	Retailing	4.80%
InterGlobe Aviation Limited	Transport Services	2.73%
Bajaj Auto Limited	Automobiles	2.72%
Larsen & Toubro Limited	Construction	2.66%
Sun Pharmaceutical Industries Limited	Pharmaceuticals & Biotechnology	2.52%
Chokanandam Investment and Finance Company Ltd	Finance	2.48%
UltraTech Cement Limited	Cement & Cement Products	2.37%
Mahindra & Mahindra Limited	Automobiles	2.35%
Tata Motors Limited	Automobiles	2.35%
Zomato Limited	Retailing	2.00%
TVS Motor Company Limited	Automobiles	2.08%
NTPC Limited	Power	1.72%
Pidilite Industries Limited	Chemicals & Petrochemicals	1.72%
State Bank of India	Bank	1.68%
Info Edge (India) Limited	Retailing	1.59%
Nestle India Limited	Food Products	1.49%
ITC Limited	Diversified FMCG	1.47%
Kotak Mahindra Bank Limited	Bank	1.26%
Trent Limited	Retailing	1.15%
Godrej Consumer Products Limited	Personal Products	1.00%
The Indian Hotels Company Limited	Leisure Services	1.00%
Cipla Limited	Pharmaceuticals & Biotechnology	0.73%
SBI Life Insurance Company Limited	Insurance	0.67%
Tech Mahindra Limited	IT - Software	0.66%
Siemens Limited	Electrical Equipment	0.66%
Samarpanha Metheron International Limited	Auto Components	0.66%
Hindustan Unilever Limited	Diversified FMCG	0.42%
Macindia Pharma Limited	Pharmaceuticals & Biotechnology	0.38%
Maruti Suzuki India Limited	Automobiles	0.52%
Other Domestic Equity (Less than 0.50% of the corpus)		0.04%

PERFORMANCE (as on 30th August, 2024)

Period	1 Year		3 Years		5 Years		Since Inception		Date of Inception
	Current Value of Investment of ₹10,000/-	CAGR(%)	Current Value of Investment of ₹10,000/-	CAGR(%)	Current Value of Investment of ₹10,000/-	CAGR(%)	Current Value of Investment of ₹10,000/-	CAGR(%)	
Axis Bluechip Fund - Regular Plan - Growth Option	33.90%	13,400	9.03%	13,253	16.08%	21,079	13.11%	61,320	05-Jan-10
BSE 100 TRI (Benchmark)	36.93%	13,693	17.05%	16,015	20.67%	25,613	13.02%	60,174	05-Jan-10
Nifty 50 TRI (Additional Benchmark)	32.64%	13,264	15.17%	19,374	19.37%	24,262	12.63%	57,175	05-Jan-10

Part performance may not be sustainable in future. Different plans have different structures. Investors should read the scheme rules dated 25th November 2010 and the latest annual report dated 31st March 2024 and the latest half yearly report dated 31st March 2024 for more information. The above performance is as on 30th August, 2024. The performance of the fund manager is based on the fund manager's total assets under management as on 30th August, 2024.

INCOME DISTRIBUTION CUM CAPITAL WITHDRAWAL (IDCW)

Regular Plan

Options	Record Date	IDCW (₹ Per unit)		NAV per unit (Cum IDCW)	NAV per unit (Ex IDCW)
		Inclusion (₹/Lakh)	Others		
IDCW	Feb 08, 2024	1.60	1.60	18.76	18.70
	Mar 13, 2023	1.60	1.60	14.41	14.49
	Mar 26, 2022	1.60	1.60	19.37	17.77

Please refer to page no 112-115, 116, 124, 138 for NAV, TER, Riskometer & Statutory Details.

ENTRY & EXIT LOAD

Entry Load:	NA
Exit Load:	If redeemed / switched-out within 12 months from the date of allotment (for 10% of investments); NIL for remaining investments. 1% if redeemed / switched-out after 12 months from the date of allotment; NIL.

Update of Scheme Documents



Document	Update Frequency
SID	Half-yearly. Within the next six months from the end of the 1 st half or 2 nd half of the financial year in which schemes were launched. Subsequently, within one month from the end of the half-year.
SAI	Annually. By the end of 3 months of every financial year.
KIM	Half-yearly Within one month from the end of the half-year.
Addendum	Whenever there is an interim material change .
Fund Fact Sheet	Not mandatory but generally published monthly

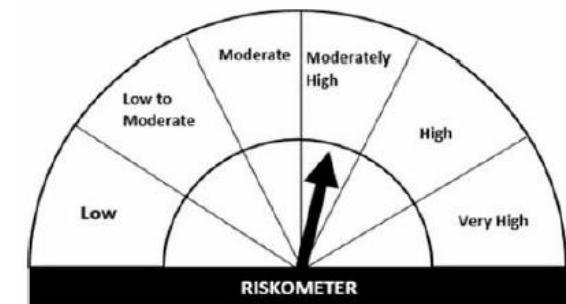
Key points to remember

IMPORTANT

1. An **investor** is presumed to have read and understood the scheme-related documents before investing. Therefore, an investor **cannot claim** at a future date of being **unaware of a fact** that was disclosed in the scheme-related documents.

2. The **suitability of the scheme** depends on:
 - a) Financial need of the investor
 - b) The risk and return
 - c) The investment horizon

3. A **pictorial representation** of the risk to the principal invested in a mutual fund product is depicted using a '**Risk-O-Meter**'. It has to be evaluated monthly.
It has 6 levels of risk:
 1. Low, Low to Moderate, Moderate, Moderately high, High, Very High



Key points to remember



4. **Sponsors are not responsible or liable for any loss** arising out of the scheme's operations beyond each sponsor's contribution to setting up the scheme.
5. If there is any **change in the risk level**, then this has to be conveyed through a **Notice cum addendum** and email or SMS to the investors/unitholders.
6. The **past performances** are only indicated and **do not guarantee** the future performance of the schemes.
7. The **trustees** are responsible for **ensuring the fundamental attributes** of the scheme.
8. **The fundamental attributes can be changed** only if the below requirements are fulfilled:
 - a) **Written communication** about a proposed change to investors.
 - b) Advertisements in **one English daily newspaper** having nationwide circulation.
 - c) Advertisement in **regional language newspaper** where the Head office of a mutual fund is situated.
 - d) Investors are given an option for **30 days to exit** the scheme without any exit load.
 - e) Trustee shall **take comments of the Board** before bringing such change.

Unit 5



Scheme Related Information

1. “Please read the scheme related documents carefully” – which documents does this line refer to?

- a. Scheme Information Document and audited balance sheet of the AMC
- b. Trust deed and Key Information Memorandum
- c. Statement of Additional Information and fund fact sheet
- d. Scheme Information Document & Statement of Additional Information

1. “Please read the scheme related documents carefully” – which documents does this line refer to?

- a. Scheme Information Document and audited balance sheet of the AMC
- b. Trust deed and Key Information Memorandum
- c. Statement of Additional Information and fund fact sheet
- d. Scheme Information Document & Statement of Additional Information

2. Which of the following statement is True with respect to the SID & SAI ?

- a. These two documents are prepared in the format prescribed by AMFI as part of AMFI's code of conduct
- b. These documents are prepared in the format prescribed by AMC as part of AMFI's Best Practices Circular
- c. These two documents are prepared in the format prescribed by SEBI
- d. Each AMC is free to prepare these documents in the format they desire

2. Which of the following statement is True with respect to the SID & SAI ?

- a. These two documents are prepared in the format prescribed by AMFI as part of AMFI's code of conduct
- b. These documents are prepared in the format prescribed by AMC as part of AMFI's Best Practices Circular
- c. These two documents are prepared in the format prescribed by SEBI
- d. Each AMC is free to prepare these documents in the format they desire

3. How often should the Key Information Memorandum (KIM) be updated?

- a. At least once a month
- b. At least once every six months
- c. At least once a year
- d. It need not be updated after it is issued once

3. How often should the Key Information Memorandum (KIM) be updated?

- a. At least once a month
- b. At least once every six months**
- c. At least once a year
- d. It need not be updated after it is issued once

4. The NAV of scheme is disclosed on the website of ____?

- a. RBI
- b. AMC
- c. Both a and b
- d. Neither a nor b

ourses

4. The NAV of scheme is disclosed on the website of ____?

a. RBI

b. AMC

c. Both a and b

d. Neither a nor b

5. Which among the following is not a statutory document?

- a. Fund Factsheet
- b. Statement of Additional Information
- c. Scheme Information Document
- d. Key Information Memorandum

5. Which among the following is not a statutory document?

- a. Fund Factsheet
- b. Statement of Additional Information
- c. Scheme Information Document
- d. Key Information Memorandum

6. Which of the following statements is/are True?

- a) An investor can claim unaware of a fact disclosed in the scheme-related documents at a future date.**
- b) SEBI does not approve or disapprove the Scheme Related Documents, it gives its observations.**

a. Only a

b. Only b

a. Both a and b

b. Neither a nor b

6. Which of the following statements is/are True?

- a) An investor can claim unaware of a fact disclosed in the scheme-related documents at a future date.**
- b) SEBI does not approve or disapprove the Scheme Related Documents, it gives its observations.**

a. Only a

b. Only b

a. Both a and b

b. Neither a nor b

7. A pictorial representation of the risk to the principal invested in a mutual fund product is depicted using a ___?

- a. Scheme suitability
- b. Scheme Information Document
- c. Risk-O-Meter
- d. Risk factor

7. A pictorial representation of the risk to the principal invested in a mutual fund product is depicted using a ___?

- a. Scheme suitability
- b. Scheme Information Document
- c. Risk-O-Meter
- d. Risk factor

8. The suitability of the scheme depends upon?

- a. Financial need of the investor from the investment
- b. The risk and return preferences
- c. The investment horizon
- d. All of the above

8. The suitability of the scheme depends upon?

- a. Financial need of the investor from the investment
- b. The risk and return preferences
- c. The investment horizon
- d. All of the above

9. Due diligence certificate in the SID is issued by ___?

a. AMC

b. AMFI

c. SEBI

d. RBI

9. Due diligence certificate in the SID is issued by ___?

a. AMC

b. AMFI

c. SEBI

d. RBI

10. If there is a change in the risk level of the scheme, then this has to be conveyed through _____ to investors.

a. Addendum

b. Fund Fact Sheet

c. SID

d. KIM

10. If there is a change in the risk level of the scheme, then this has to be conveyed through _____ to investors.

a. Addendum

b. Fund Fact Sheet

c. SID

d. KIM

11. Which of the following statements is/are False?

- a) The past performances are only indicated and do not guarantee the future performance of the schemes.**
- b) The sponsors are responsible for any loss arising out of the operations of the scheme beyond the contributions made by each sponsor towards setting up the scheme.**

a. Only a

b. Only b

a. Both a and b

b. Neither a nor b

11. Which of the following statements is/are False?

- a) The past performances are only indicated and do not guarantee the future performance of the schemes.**
- b) The sponsors are responsible for any loss arising out of the operations of the scheme beyond the contributions made by each sponsor towards setting up the scheme.**

a. Only a

b. Only b

a. Both a and b

b. Neither a nor b

12. Maximum and minimum amount an investor can invest in a mutual fund scheme is mentioned in ____?

- a. SID
- b. SAI
- c. Addendum
- d. None of the above

12. Maximum and minimum amount an investor can invest in a mutual fund scheme is mentioned in ____?

a. SID

b. SAI

c. Addendum

d. None of the above

13. Fundamental attributes of a scheme can not be changed.

a. True

b. False

13. Fundamental attributes of a scheme can not be changed.

a. True

b. False

14. A single SAI is relevant for all the schemes offered by a mutual fund.

a. True

b. False

14. A single SAI is relevant for all the schemes offered by a mutual fund.

a. True

b. False

15. Every application form is to be accompanied by the

- a. SID
- b. SAI
- c. KIM
- d. Fund Fact Sheet

ourses

15. Every application form is to be accompanied by the

_____.

a. SID

b. SAI

c. KIM

d. Fund Fact Sheet

ourses

16. Interim changes in scheme related documents are updated through the issuance of _____.

a. SID

b. SAI

c. KIM

d. Addendum

16. Interim changes in scheme related documents are updated through the issuance of _____.

a. SID

b. SAI

c. KIM

d. Addendum

17. Regular update of SAI has to be done _____ ?

- a. By the end of 3 months of every financial year
- b. Half yearly
- c. As suitable to AMC
- d. Never updated once published

urses

17. Regular update of SAI has to be done _____ ?

- a. By the end of 3 months of every financial year
- b. Half yearly
- c. As suitable to AMC
- d. Never updated once published

18. KIM shall be updated at least ____ ?

a. Monthly

b. Quarterly

c. Half yearly

d. Annually

18. Kim shall be updated at least ____ ?

a. Monthly

b. Quarterly

c. Half yearly

d. Annually

19. NAV is required to be disclosed _____ on the website of the AMC and on AMFI's website ?

a. Daily (at the end of each business day)

b. Once in 3 days

c. Weekly

d. Whenever investor asks

19. NAV is required to be disclosed _____ on the website of the AMC and on AMFI's website ?

a. Daily (at the end of each business day)

b. Once in 3 days

c. Weekly

d. Whenever investor asks



B5. Total Expense Ratio (TER) needs to be disclosed _____

- a. Daily
- b. Once in 3 days
- c. Weekly
- d. Whenever investor asks

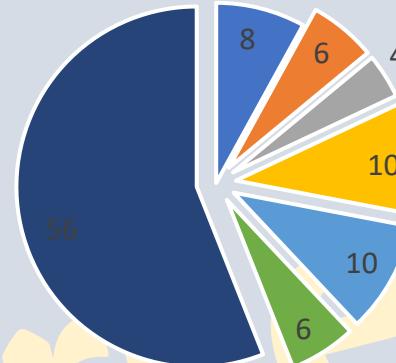
**COMMENT
BELOW**



B5. Total Expense Ratio (TER) needs to be disclosed _____

- a. Daily
- b. Once in 3 days
- c. Weekly
- d. Whenever investor asks

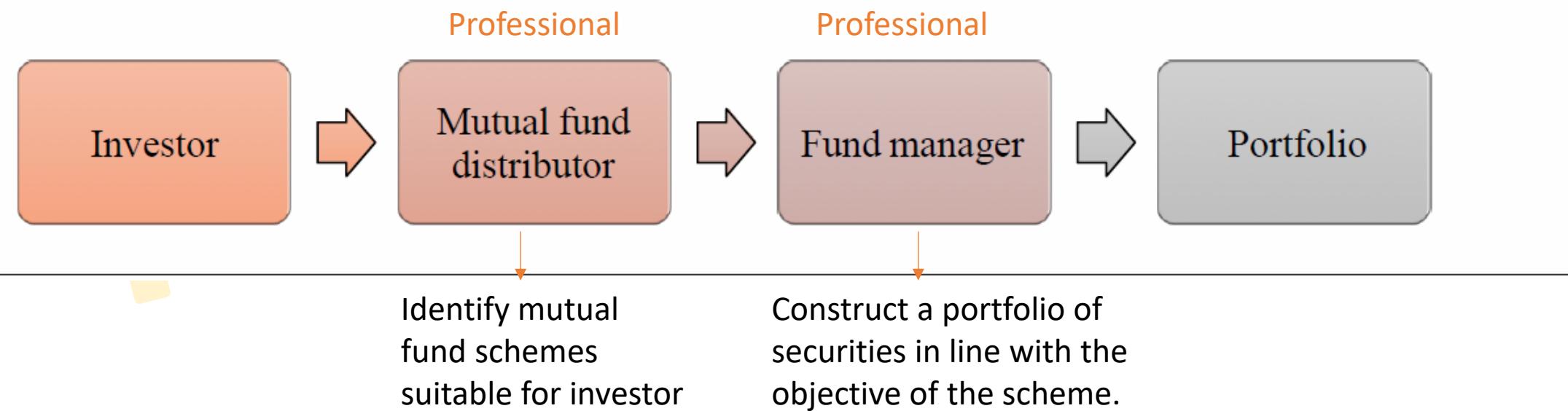
Unit 6



Fund Distribution and Channel
Management Practices

Investor and Professionals

Chart 6.1: Mutual Fund Investors, professionals and portfolio



Mutual Fund Distribution

Different kinds of mutual fund Distributors

Individual Agents

Non Individual Entities
(Banks, NBFCs, Stock Brokers)

- National Distributors – operate at the national level
- Regional Distributors – operates within a region

Different modes of distribution

Physical

Official point of
Acceptance (OPOAs)

Digital

(Online Channel partners, Stock Exchange platforms, MF Utilities,
Web and mobile-based applications (Zerodha, etc)

Eligibility Criteria for Mutual Fund Distribution

Obtain NISM Certification

(Mandated by SEBI)

Know Your Distributor (KYD) Requirements

(Bio-metric & documents verification: Pan, Address proof)

Obtain AMFI Registration number

(Minimum Age: 18 years)

Empanelment with AMCs

(Any no of AMCs/distribution agents)

Revenue for a mutual fund distributor

IMPORTANT

Trail Commission

- Payable as %age of AUM. Mandated by SEBI to be followed by the AMCs.
- **No upfront commission**, directly or indirectly, in cash or any kind, through any route.
 - Exception:
 - The upfronting of trail commission is applicable for SIP of up to Rs. 3000 per month, per the scheme, for an investor investing for the first time in the mutual fund scheme.
 - The commission paid is to be recovered on a pro-rata basis from the distributors if the SIP is discontinued for the period for which the commission is paid.
- Trail commission is **calculated** on the **daily** balances as a %age of the net assets attributable to the Units sold by the distributor.
- Trail commission will **increase/decrease depending upon the NAV**.
- **Paid out periodically** (monthly/quarterly) to the distributor.
- Trail commission is paid for as long as the investor's money is held in the fund.
- **No commission is payable to distributors for their own investments.**

Trail Commission for the day = AUM * Trail commission rate p.a. / 365

Trail Commission Calculation

IMPORTANT

Trail Commission for the day = AUM * Trail commission rate p.a. / 365

- No of units: 1 lakh
- NAV per unit: 10
- Value = No of units * NAV = 1lakh * 10 = Rs. 10 lakh
- Trail Commission rate: 1 percent p.a.
- Trail Commission for the day = 10 lakh * 1 percent / 365
= 10000/365 = Rs. 27.40

Suppose, NAV changes to 11 the next day

- Value = No of units * NAV = 1lakh * 11 = Rs. 11 lakh
- Trail Commission for the day = 11 lakh * 1 percent / 365
= 11000/365 = Rs. 30.14

Additional Commission



For promoting mutual funds in small towns (cities and towns beyond the top 30 locations)

Type of Investor	Transaction Charges (Rs.) (For purchase/subscription of Rs. 10,000 and above)
First time mutual fund investor	Rs. 150/-
Investor other than first time mutual fund investor	Rs. 100/-

- The **transaction charge is deducted** from the gross investments of the investor and paid to the distributor and the balance (**net subscription**) shall be invested.
- Example:
 - Investment: 25000, NAV: 43.21
 - No of allotted units = **(25000 – 150) / 43.21 = 575.098**
- For SIP, the transaction charge is deducted in 4 equal instalments if the total SIP amount is ≥ 10000 .
- **Total SIP amount = amount per SIP instalment * no of instalments**

GST on Distributors Commission

Goods and Service Tax(GST) is payable by any person making taxable supplies of goods/services with annual turnover exceeding Rs.20 lakhs

- A mutual fund distributor, who has registered and obtained a GST number would be required to pay the GST to the government.
- **For unregistered distributors, the AMC is liable to pay GST** under reverse charge on commission paid.

*Reverse charge mechanism:

Normally, the supplier of goods/services pays the GST on supply to the government.

The supplier adds this amount to the bill while charging the customer.

However, in the reverse charge mechanism, the customer pays the said tax to the government.

Commission Disclosure and Due Diligence Process for Distributors



SEBI has mandated Mutual Funds/AMCs to disclose the commission of distributors and put in place a due diligence process to regulate distributors (fit and proper) who satisfy **any of the below criteria**:

1. Multiple-point presence (**More than 20 locations**)
2. **AUM raised over Rs. 100 crore across the industry** in the non-institutional category but including high-net-worth individuals (HNIs)
3. The commission received of over **Rs. 1 Crore p.a. across the industry**
4. The commission received of over **Rs. 50 Lakhs from a single mutual fund**

Customer **risk/investment objective evaluation** should be **delinked from sales** i.e.

A mutual fund distributor should not sell schemes just to increase sales but should sell based on customer investment objectives.

Mis-selling units of mutual funds scheme

SEBI regulation defines mis-selling as any of the below:

1. Making a false or misleading statement, or
2. Concealing or omitting material facts of the scheme, or
3. Concealing the associated risk factors of the scheme, or
4. Not taking reasonable care to ensure the suitability of the scheme to the buyer.

Nomination facilities to Distributors

Distributors are encouraged to provide nominations. It reduces the legal process in case of demise.

- Whenever the nominees are **registered**, the payment of commission can be made to the registered nominees, **without the requirement of a legal heir certificate**, or succession certificate.
- **A death certificate duly attested by the Gazetted officer is a necessary document to be submitted.**
- A nominee need not be an ARN holder to claim and receive the commission.
- Nominees are not allowed to transfer the assets to his/her account unless a specific request is received from the investors in this regard. On receiving the request, the assets can be transferred provided the nominee is a valid ARN holder

Change of distributor

The mutual fund industry allows the investor to change the distributor, without specifying any reason.

- A written request by the investor to AMC.
- AMCs will need to comply, without the need of a 'No Objection Certificate'
- In case of a change of distributor, no commission would be payable to any distributor, neither the old one nor the new one.

Some other Key points

1. All employees engaged in selling of mutual funds must have an **EUIN(Employee Unique Identification number)**.
2. **Employees can not attract investors through the temptation of rebates/gifts, pass back of commission, etc.**
3. AMC can terminate the empanelment at any time.

4. Distributors can opt out of charging transaction charges at the distributor level i.e. distributor can not choose to charge transaction charges from one investor and not from another.
5. **Transaction charges** do not apply to transactions other than **purchases/subscriptions** that result in **fresh inflows**.
6. Purchases/subscriptions routed through the stock exchange are not eligible for transaction charges.

7. **Permanent Account Number(PAN)** is used to identify investors as new/existing.

8. Mutual fund distributors can not be registered as investment advisors/financial planners and cannot give investment advice other than the schemes they are selling.
9. An investment advisor cannot earn both advisory and distribution commissions.

10. On “execution only” transactions where the distributor gives no advice, the customer is not required to pay the distributor anything other than the standard flat transaction charges.

Unit 6



Fund Distribution and Channel
Management Practices

1. Only individuals are allowed to distribute mutual funds in India.

a. True

b. False

1. Only individuals are allowed to distribute mutual funds in India.

a. True

b. False

2. Mutual fund distributors certification examination offered by _____ is required for becoming a mutual fund distributor.

- a. Securities and Exchanges Board of India
- b. National Institute of Securities Markets
- c. Association of Mutual Funds in India
- d. National Skills Development Corporation

2. Mutual fund distributors certification examination offered by _____ is required for becoming a mutual fund distributor.

- a. Securities and Exchanges Board of India
- b. National Institute of Securities Markets**
- c. Association of Mutual Funds in India
- d. National Skills Development Corporation

3. In what form do mutual fund distributors earn revenue?

- a. Commission from mutual funds for the distribution of the schemes
- b. Fees collected from the investors
- c. Commission received from Association of Mutual Funds in India
- d. Investment advisory fee from Mutual Funds

3. In what form do mutual fund distributors earn revenue?

- a. Commission from mutual funds for the distribution of the schemes**
- b. Fees collected from the investors**
- c. Commission received from Association of Mutual Funds in India**
- d. Investment advisory fee from Mutual Funds**

4. Mutual fund distributors can only earn upfront commission from the mutual funds.

a. True

b. False

4. Mutual fund distributors can only earn upfront commission from the mutual funds.

a. True

b. False

5. Mutual fund distributors earn no commission when the investor chooses to invest in “direct” plans.

a. True

b. False

5. Mutual fund distributors earn no commission when the investor chooses to invest in “direct” plans.

a. True

b. False

6. Commission can be rebated back to attract investors to buy a mutual fund scheme?

a. True

b. False

6. Commission can be rebated back to attract investors to buy a mutual fund scheme?

a. True

b. False

7. An existing investor in a small town purchase a mutual fund scheme of Rs. 15000. How much transaction charge can be paid to distributor?

a. 100

b. 150

c. 200

d. 250

7. An existing investor in a small town purchase a mutual fund scheme of Rs. 15000. How much transaction charge can be paid to distributor?

a. 100

b. 150

c. 200

d. 250

Allowed Transaction Charges

Small towns outside the top 30

New Investor – 150

Existing Investor – 100

Top 30 cities

New/Existing Investor - 0

8. A Due Diligence Process is required for distributors who satisfy which of the below criteria:

- a. Multiple point presence (More than 10 locations)
- b. AUM raised over Rs. 50 crores across the industry
- c. Commission received over Rs. 50 lakhs p.a. across industry
- d. Commission received over Rs. 50 lakhs from a single mutual fund.

8. A Due Diligence Process is required for distributors who satisfy which of the below criteria:

a. Multiple point presence (More than 10 locations)

20

b. AUM raised over Rs. 50 crores across the industry

100

c. Commission received over Rs. 50 lakhs p.a. across industry

1 crore

d. Commission received over Rs. 50 lakhs from a single mutual fund.

50 lakhs

**9. A mutual fund distributor is paid trail commission for
_____?**

- a. First 5 years
- b. First 10 years
- c. First 15 years
- d. As long as investor holds the investment

9. A mutual fund distributor is paid trail commission for _____?

- a. First 5 years
- b. First 10 years
- c. First 15 years
- d. As long as investor holds the investment

Trail Commission for the day
 $= \text{AUM} * \text{Trail commission rate p.a.} / 365$

10. Which of the below statements is/are True?

- a) EUIN refers to employee's unique identification number.**
- b) ARN refers to Agent registration number.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

10. Which of the below statements is/are True?

- a) EUIN refers to employee's unique identification number.**
- b) ARN refers to Agent registration number.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

ARN – AMFI Registration Number

11. Which of the below statements is/are False?

- a) Commission paid at the time of investment is called Upfront Commission.**
- b) Ticket size is a reference to minimum investment amount.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

11. Which of the below statements is/are False?

- a) Commission paid at the time of investment is called Upfront Commission.**
- b) Ticket size is a reference to minimum investment amount.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b



B6. Which of the following is not a mode of mutual fund distribution?

- a. Online channel partners
- b. National Institute of Securities Market
- c. Stock Brokers
- d. Mutual Fund Utilities

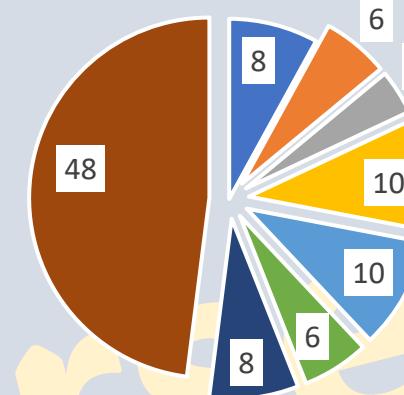




B6. Which of the following is not a mode of mutual fund distribution?

- a. Online channel partners
- b. National Institute of Securities Market
- c. Stock Brokers
- d. Mutual Fund Utilities

Unit 7



Net Asset Value, Total Expense Ratio and
Pricing of units

Valuation of Different Securities

Traded Securities

- Valued at last closing price on the stock exchange.

Non Traded Securities

- When a security is not traded on any stock exchange for 30 days, the scrip must be treated as non-traded.
- Valued “in good faith” by AMC.

Convertible debenture/bonds

- They give option to convert to equity.
- The non-convertible and convertible components shall be valued separately.

Gold / Silver

- Gold – 995.0 parts per thousand
 - Silver – 999.0 parts per thousand
- } AM fixing price of London Bullion Market Association (LBMA)

Valuation Principles

Fair treatment to all investors irrespective of investment amount.

Summary of principles laid out by SEBI:

- **Fair Valuation** i.e. valuation shall reflect the realizable value of the assets.
- The board of the **AMC** shall approve valuation policies with periodic review.
- Valuation policies should seek to **address conflict of interest**.
- Disclosure in Statement of Additional Information (**SAI**).
- **Deviation** from disclosure is allowed with appropriate **reporting to the Board of Trustee, AMC, and Investors**.
- AMC shall consider prices of trades of the **same/similar security** reported at all available public platforms.

Net Assets

$$\text{Net Assets} = \text{Assets} - \text{Liabilities}$$

Assets:

Valuable things you own like money, property, and belongings.

Liabilities:

Debts/Obligations you owe to others like loans, bills, or payments.

- Assume, you have 1 lakh in bank deposits, a house worth 50 lakhs, and 50 thousand in cash.

$$\text{Assets} = 1 \text{ lakh} + 50 \text{ lakh} + 50 \text{ thousand} = 51 \text{ lakh } 50 \text{ thousand}$$

- Now, you have a pending home loan of 40 lakh and a credit card payment of 50 thousand.

$$\text{Liabilities} = 40 \text{ lakh} + 50 \text{ thousand} = 40 \text{ lakh } 50 \text{ thousand}$$

$$\text{Net Assets} = \text{Assets} - \text{Liabilities}$$

$$= 51 \text{ lakh } 50 \text{ thousand} - 40 \text{ lakh } 50 \text{ thousand}$$

$$= 11 \text{ lakhs}$$

Net Assets Value (NAV)

IMPORTANT

Net Assets Value = Net Assets / No of outstanding units

OR

Net Assets Value = (Total Assets – Liabilities other than to Unitholders) / No of outstanding units

- Investors bought 20 crore mutual fund units at Rs. 10 each.
- **Unit Capital** = 20 crore * 10 = 200 crores.
- Out of 200 crores: 140 crores, invested in equities, have appreciated by 10 percent i.e. 14 crores.
 : 60 crores were placed in bank deposits, and 8 crores were earned as interest.
- Scheme expenses paid is 4 crore, while a further expense of 1 crore is payable.
- **Assets** = Unit Capital + Return on Equity + Interest – Expenses paid = $200 + 14 + 8 - 4 = 218$ crores.
- **Liabilities** = Expense payable = 1 crore

Net Assets = $218 - 1 = 217$ crores

NAV = $217 / 20 = \text{Rs. } 10.85$ per unit

NAV calculation :

Equity and balanced funds: 2 decimal places

Others(Index, Liquid, Debt Funds): 4 decimal places

Net Assets Value (NAV)

IMPORTANT

- Higher the interest, dividend, and capital gains, higher the NAV.
- Higher the appreciation in the portfolio, higher the NAV.
- Lower the expenses, higher the NAV.

- (A) + Interest income
- (B) + Dividend income
- (C) + Realized capital gains
- (D) + Valuation gains
- (E) - Realized capital losses
- (F) - Valuation losses
- (G) - Scheme expenses

Q1. Calculate the NAV given the following information

- Value of stocks : 150 crores
- Value of bonds : 67 crores
- Value of money market instruments: 2.36 crores
- Dividend accrued but not received: 1.09 crores
- Interest accrued but not received: 2.68 crores
- Fees payable: 0.36 crore
- No of outstanding units: 1.90 crores

Solution :

$$\text{NAV} = (150 + 67 + 2.36 + 1.09 + 2.68 - 0.36) / 1.90 = \text{Rs. } 117.25$$

Net Assets Value = Net Assets / No of outstanding units

Net Assets Value (NAV)

IMPORTANT

- Higher the interest, dividend, and capital gains, higher the NAV.
- Higher the appreciation in the portfolio, higher the NAV.
- Lower the expenses, higher the NAV.

- (A) + Interest income
- (B) + Dividend income
- (C) + Realized capital gains
- (D) + Valuation gains
- (E) - Realized capital losses
- (F) - Valuation losses
- (G) - Scheme expenses

Q2. Calculate the NAV given the following information

- Value of stocks: 230 crores
- Value of money market instruments: 5 crores
- Dividend accrued but not received: 2.39 crores
- Amount payable on purchase of shares: 7.5 crores
- Amount receivable on sale of shares: 2.34 crores
- Fees payable: 0.41 crore
- No of outstanding units: 2.65 crores

Solution :

$$\text{NAV} = (230 + 5 + 2.39 + 2.34 - 7.5 - 0.41) / 2.65 = 231.82/2.65 = \text{Rs. } 87.48$$

Add the receivables, subtract the payables

Mark to Market



The process of valuing each security in the investment portfolio at its current market value.

- Helps investors buy and sell units of a scheme at fair prices.
- Bring **transparency**.
- Helps in assessing the performance of the scheme/ fund manager.

If schemes are not valued at mark-to-market, then

- Issuing fresh units at a price lower than the NAV will result in the post-issue NAV coming down for all investors.
- Redeeming units at a price lower than the NAV will increase the NAV for the remaining investors.

Total Expenses in Mutual Fund Scheme

Expenses AMCs can charge to mutual fund scheme.



- Investment and advisory fees
- Marketing/Selling including agents' commission
- Brokerage and transaction cost
- Trustee, custodian, registrar, auditor, rating fees.
- Investor communication cost, fund transfer cost, and other operational costs.
- Insurance premiums, statutory advertisements
- Storage and handling of gold/silver, commodities.
- Real estate assets maintenance costs
- Listing fees

Expenses AMCs can not charge to mutual fund schemes

- Any other expense stated above
- Example – Software upgrade costs, GST on agents' commission, Vacation

Total Expenses Ratio Limits

IMPORTANT

Type	Maximum Limit
Liquid, Index, Exchange Traded Fund	1% of the daily net assets of the scheme.
Debt and other schemes	2% of the daily net asset of the scheme.
Equity & Equity oriented	2.25% of the daily net assets of the scheme.
Brokerage and transaction cost	Cash Market transaction: 0.12% of the trade value Derivatives transactions: 0.05% of the trade value
New inflows beyond top 30 cities	Additional expense of up to 0.30% of the daily net assets of the scheme. Shall be credited back to the scheme if redeemed within 1 year.
Additional (investment / advisory fees, etc)	0.05% of daily net assets of the scheme (only for schemes where exit load is applied)

Expenditure over the TER limit has to be borne by the AMC.

Dividends & Distributable Reserves

IMPORTANT

Conservative Approach: Dividends can be paid out of distributable reserves only.

For the calculation of distributable reserves,

- Add all the profits earned (accruals of income - expenses)
- **Ignore valuation gains.**
- **Valuation losses need to be adjusted against the profits.**
- Ignore that portion of the sale price on new units, which is attributable to valuation gains.

The trustee shall decide the quantum of the dividend and the record date

- **Record date** is the date used as a cut-off to determine the eligibility of investors.
- **NAV** will be adjusted (**decline**) at the end of the **record date** to reflect the payout of the dividend.
- There is **no assurance** or guarantee to Unitholders as to the **rate or quantum of dividend** distribution that it will be paid regularly

Entry and Exit load

IMPORTANT

Entry Load: Payable during purchase. **SEBI has banned entry loads.** Sale price same as NAV.

Exit Load: Payable during redemption/repurchase before a certain time period.

For example: 1% for 0-1 year, 0% for >1 year

Exit load shall be same for all investors irrespective of investment amount

- No exit load on bonus units and units allotted on reinvestment of dividend.
- Exit loads have to be credited back to the scheme immediately i.e., they are not available for the AMC to bear selling expenses

Some other Key points

1. SEBI has imposed below limits on additional tier1 and tier2 bonds also known as AT1 or AT2 bonds.
 - a) A mutual fund scheme shall not invest more than 10% of its assets into such instruments.
 - b) A mutual fund scheme shall not invest more than 5% on such instruments of a single investor.
2. **Accounts of the schemes need to be maintained separately from the accounts of the AMC.**
3. **The auditor for the AMC has to be different from that of the schemes.**
4. Investors can hold their units even in a fraction of 1 unit. May not be tradable on current exchange systems.
5. About the segregated portfolio in case of a credit event:
 - a) AMC shall not charge investment/advisory fees on the segregated portfolio.
 - b) TER can be charged, on a pro-rata basis only upon recovery of the investments.
 - c) **NAV of the segregated portfolio shall be declared on a daily basis.**

Unit 7



Net Asset Value, Total Expense Ratio and
Pricing of units

1. As per the fair valuation principles laid out by SEBI, it is mandatory to disclose the valuation policy in _____.

- a. Statement of Additional Information
- b. Statement of Accounts sent to investors periodically
- c. Fund fact sheet
- d. The fair valuation principles are not to be put in public

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- a. Statement of Additional Information
- b. Statement of Accounts sent to investors periodically
- c. Fund fact sheet
- d. The fair valuation principles are not to be put in public

2. Investors have bought 20 crore units of a mutual fund scheme at Rs. 10 each. The scheme has thus mobilized 20 crore units * 10 per unit i.e., Rs. 200 crore. An amount of Rs. 140 crore is invested in equities. The balance amount of Rs. 60 crore, mobilized from investors, was placed in bank deposits. Interest and dividend receivable(accrued but not received) by the scheme is Rs. 8 crores, and scheme expenses payable(accrued but not paid yet) is RS. 4 crore. Calculate the scheme's NAV per unit.

a. 10.00

b. 10.20

c. 20.00

d. 20.40

2. Investors have bought 20 crore units of a mutual fund scheme at Rs. 10 each. The scheme has thus mobilized 20 crore units * 10 per unit i.e., Rs. 200 crore. An amount of Rs. 140 crore is invested in equities. The balance amount of Rs. 60 crore, mobilized from investors, was placed in bank deposits. Interest and dividend receivable(accrued but not received) by the scheme is Rs. 8 crores, and scheme expenses payable(accrued but not paid yet) is RS. 4 crore. Calculate the scheme's NAV per unit.

a. 10.00

b. 10.20

c. 20.00

d. 20.40

$$\begin{aligned}(200 + 8 - 4) / 20 \\= 204 / 20 = 10.20\end{aligned}$$

3. Lower the expenses, higher the NAV.

a. True

b. False

3. Lower the expenses, higher the NAV.

a. True

b. False

4. Higher the appreciation in the portfolio, ____ the NAV.

a. Lower

b. Higher

c. No change in

d. Can be lower or higher

4. Higher the appreciation in the portfolio, ____ the NAV.

a. Lower

b. Higher

c. No change in

d. Can be lower or higher

5. In case of mutual fund schemes, dividends can be paid only out of _____.

- a. Premium reserve account
- b. Unit Capital
- c. Distributable surplus generated by the scheme
- d. Mark-to-market profits

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- a. Premium reserve account
- b. Unit Capital
- c. Distributable surplus generated by the scheme
- d. Mark-to-market profits

6. For the calculation of distributable reserves

- a. Valuation gains are considered
- b. Valuation loss are ignored
- c. Valuation gains are ignored but valuation losses need to be adjusted against the profits
- d. Consider that portion of the sale price on new units, which is attributable to valuation gains.

6. For the calculation of distributable reserves

a. Valuation gains are considered

b. Valuation loss are ignored

c. Valuation gains are ignored but valuation losses need to be adjusted against the profits

d. Consider that portion of the sale price on new units, which is attributable to valuation gains.

7. NAV will _____ at the end of the record date to reflect the payout of the dividend.

a. Appreciate

b. Decline

c. Remain unchanged

d. Can appreciate, decline or remain unchanged

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a. Appreciate

b. Decline

c. Remain unchanged

d. Can appreciate, decline or remain unchanged

8. What is the maximum Total Expense Ratio chargeable in the case of index funds?

- a. 1% of the daily net assets
- b. 1.5% of the daily net assets
- c. It depends as the TER changes in line with the size of the scheme
- d. Any amount that the AMC may deem appropriate

8. What is the maximum Total Expense Ratio chargeable in the case of index funds?

a. 1% of the daily net assets

b. 1.5% of the daily net assets

c. It depends as the TER changes in line with the size of the scheme

d. Any amount that the AMC may deem appropriate

9. Mutual funds are allowed to charge differential exit loads based on the amount of investment.

a. True

b. False

9. Mutual funds are allowed to charge differential exit loads based on the amount of investment.

a. True

b. False

10. SEBI has banned mutual funds to charge entry load to the investors.

a. True

b. False

10. SEBI has banned mutual funds to charge entry load to the investors.

a. True

b. False

11. In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately.

a. True

b. False

11. In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately.

a. True

b. False

12. Which of the following expenses are charged to a mutual fund scheme?

a. Custodian fees

b. Auditor fees

c. Rating fees

d. All of the above

12. Which of the following expenses are charged to a mutual fund scheme?

a. Custodian fees

b. Auditor fees

c. Rating fees

d. All of the above

13. NAV is calculated up to _____ decimal places in the case of index funds?

a. 1

b. 2

c. 3

d. 4

13. NAV is calculated up to _____ decimal places in the case of index funds?

a. 1

b. 2

c. 3

d. 4

14. When a security is not traded on any stock exchange for a period of _____ prior to the valuation date, the scrip must be treated as a ‘non traded’ scrip.

a. 1 day

b. 15 days

c. 30 days

d. 1 year

14. When a security is not traded on any stock exchange for a period of _____ prior to the valuation date, the scrip must be treated as a ‘non traded’ scrip.

a. 1 day

b. 15 days

c. 30 days

d. 1 year

15. Which of the following statements is/are True?

- a) Accounts of the scheme needs to be maintained separately from the accounts of the AMC.**
- b) The auditor for the scheme has to be different from that of the AMC.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

15. Which of the following statements is/are True?

- a) Accounts of the scheme needs to be maintained separately from the accounts of the AMC.**
- b) The auditor for the scheme has to be different from that of the AMC.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b



B7. Who decides the quantum of the dividend and the record date?

- a. Trustee
- b. Custodian
- c. Auditor
- d. Registrar and Transfer Agents

**COMMENT
BELOW**



B7. Who decides the quantum of the dividend and the record date?

a. Trustee

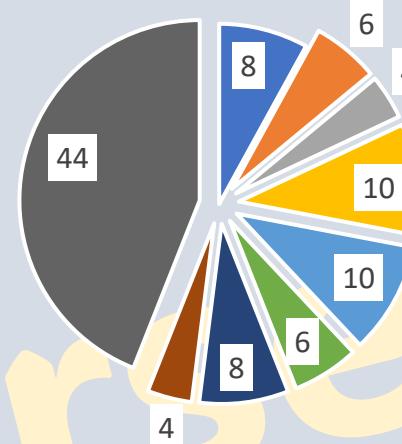
b. Custodian

c. Auditor

d. Registrar and Transfer Agents

Unit 8

Taxation



Tax Applicability in respect of Mutual Funds

- Return on investments may be subject to tax.
- Mutual fund is a pass-through vehicle, so we must consider the income at two levels
 - **Income earned by the fund**
 - Tax-exempt
 - Taxable
 - **Income earned by the investor**
- Tax rates would vary depending on:
 - **Type of income** – short-term capital gain, long-term capital gain, dividend income
 - **Type of mutual fund scheme** – equity-oriented, non-equity-oriented
 - **Type of investor** – Resident Indian, NRIs, non-individual investors.

Capital Gains Tax

IMPORTANT

Short Term vs Long Term

Type	Equity	Non Equity (debt etc)
Short Term	<=1 year	<=3 years
Long Term	> 1 year	> 3 years

Capital Gain Tax

Type	Short term tax rate		Long term tax rate	
	As is	To be	As is	To be
Equity	15%	20%	10%	12.5%
Non Equity	Marginal tax rate			20% with indexation

- Long-term capital gains arising out of equity are exempt up to Rs. 1 lakh.
- Example :
- Total long-term gain in a year
RS. 90000 -> No Tax
Rs. 110000 -> Tax on Rs. 10000

- Marginal tax rate means the gain is added to investor income and the investor is taxed at whatever tax bracket his income falls in.

Dividend is taxed at the marginal tax rate

Indexation

IMPORTANT

Indexation means that the cost of purchase is adjusted upwards to reflect the impact of inflation

Indexed Cost = Actual cost * (CII in the year of sale / CII in the year of purchase)

Cost Inflation Index (CII)

Announced every year by the Central Board of Direct Taxes (CBDT).

Q. Assume that an investor invested a sum of Rs. 1,00,000 in an eligible fund in the year 2015, and sold the same after 3 years. He got Rs. 1,25,000 as the redemption proceeds. Calculate the taxable amount without indexation and with indexation.

CII 2015-16: 254, CII 2018-2019: 280

Without Indexation

$$\begin{aligned}\text{Taxable amount} &= \text{Selling price} - \text{Purchase price} \\ &= 125000 - 100000 \\ &= \text{Rs. 25000}\end{aligned}$$

With Indexation

$$\begin{aligned}\text{Indexed Cost} &= 100000 * (280/254) = 110236.22 \\ \text{Taxable amount} &= \text{Selling price} - \text{Indexed Cost} \\ &= 125000 - 110236.22 \\ &= \text{Rs. 14763.78} \\ \text{Tax} &= 14763.78 * 20\% = \text{Rs. 2952.76}\end{aligned}$$

Setting off of Capital Gains and Losses

Short term and long term capital gains set off

- ✓ Short term capital loss can be set off against short as well as long-term capital gain.
- ✓ Long term capital loss can only be set off against long term capital gain.
- ✓ Short term or long term capital loss can not be set off against any other type of income (salaries).

Bonus Stripping / Dividend Stripping

- In case of bonus issues/dividend payout, NAV decreases without impacting the total amount the investor will get.
- So, investors used to buy units just before bonus issue/dividend payout and sell after NAV decreases on record date to incur capital loss which can be settled against future capital gains.
- This practice is termed bonus stripping/dividend stripping.
- However, such capital loss is not available for setting off against capital gains, if the original units were bought within 3 months prior to the record date and sold off within 9 months after the record date.
- In such cases, the capital loss would be treated as the cost of acquisition of bonus units/dividend payout.

Tax Deferment and Stamp Duty

Tax Deferment

Since the mutual fund schemes are tax-exempt, and the capital gains are realized only when booked, one can allow the gains to run without worrying about tax on the same. This concept is known as deferment of taxes and allows one the benefit of compounding before tax.

Stamp Duty

- **Purchase transaction** - 0.005% of the amount invested.
- **Transfer Transaction** – 0.015%

Securities Transaction Tax (STT)



STT is only applicable to equity-oriented schemes during selling(redemption/switch/sale).

- Purchase– No STT
- Debt securities – No STT
- Not equity-oriented security – No STT
- **STT Rate**
 - Delivery based: **0.001%**
 - Non delivery based: 0.025%
 - If not specified, consider delivery based i.e. 0.001%

Tax Benefits and TDS



Tax Benefit Under 80C

- Equity Linked Saving Schemes(ELSS) are eligible for a deduction of up to **1.50 Lakhs** per year per taxpayer.
- The tax benefit would be available to the **first holder**, in case of a joint holding.

Downside:

- **ELSS schemes have a lock-in period of 3 years** from the date of investment.
- Retirement funds that provide the benefit of Section 80C have a **lock-in of 5 years**.

Tax Deducted at Source (TDS)

- In the case of **capital gains** from mutual fund investments, TDS is applicable for **NRI's**.
- In the case of **dividends (IDCW)** from mutual fund schemes, TDS is applicable **even for resident Indians**.
- **10%** (by AMC) on the dividend amount **if it exceeds Rs. 5000**.

Goods & Services Tax (GST)



AMCs can charge GST within the limits prescribed by SEBI.

GST that can be charged to the scheme

- ✓ GST on **investment management and advisory fees** can be charged **additionally** to TER.
- ✓ GST on **other fees, brokerage and transaction** can be charged **within the maximum limit** of TER.
- ✓ GST on **exit load** shall be deducted from the exit load and the **net amount** shall be **credited to the scheme**.

GST that can not be charged to the scheme

- GST on **commission payable to the distributors** of mutual funds.

Unit 8

Taxation



1. Which of the following statements is/are True?

- a) The Income Tax Act allows setting off of the short-term capital loss against long-term capital gains.**
- b) The dividend received by a mutual fund investor will be taxable?**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

1. Which of the following statements is/are True?

- a) The Income Tax Act allows setting off of the short-term capital loss against long-term capital gains.**
- b) The dividend received by a mutual fund investor will be taxable?**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

**2. In case of capital gains from mutual fund investments,
Tax Deduction at Source(TDS) is applicable for _____**

- a. Minor through guardian
- b. Non-Resident Indians(NRIs)
- c. All investors, who have invested more than Rs. 5 lakhs
- d. TDS is not applicable in case of mutual funds

**2. In case of capital gains from mutual fund investments,
Tax Deduction at Source(TDS) is applicable for _____**

- a. Minor through guardian
- b. Non-Resident Indians(NRIs)
- c. All investors, who have invested more than Rs. 5 lakhs
- d. TDS is not applicable in case of mutual funds

3. In the non-equity-oriented funds, with equity in the range of 35 and 65 percent of portfolio, the rate of long-term capital gains tax is _____

a. 10% with indexation

b. 10% without indexation

c. 20% with indexation

d. 20% without indexation

3. In the non-equity-oriented funds, with equity in the range of 35 and 65 percent of portfolio, the rate of long-term capital gains tax is _____

a. 10% with indexation

b. 10% without indexation

c. 20% with indexation

d. 20% without indexation

4. Redemption from which of the following mutual fund schemes would attract Securities Transaction Tax(STT) for an investor?

- a. Multi-cap mutual fund
- b. Government Securities Fund
- c. Liquid Fund
- d. Overnight Fund

4. Redemption from which of the following mutual fund schemes would attract Securities Transaction Tax(STT) for an investor?

a. Multi-cap mutual fund

b. Government Securities Fund

c. Liquid Fund

d. Overnight Fund

5. Equity linked Savings Schemes(ELSS) are eligible for deduction under Section 80C of the Income Tax Act upto an amount of _____ ?

a. Rs. 1,00,000

b. Rs. 1,50,000

c. Rs. 2,00,000

d. Rs. 2,50,000

5. Equity linked Savings Schemes(ELSS) are eligible for deduction under Section 80C of the Income Tax Act upto an amount of _____ ?

a. Rs. 1,00,000

b. Rs. 1,50,000

c. Rs. 2,00,000

d. Rs. 2,50,000

6. In case of long term capital gains arising out of equity shares and equity-oriented mutual funds, the tax is applicable only on the capital gains above Rs. _____

a. Rs. 1,00,000

b. Rs. 1,50,000

c. Rs. 2,00,000

d. Rs. 2,50,000

6. In case of long term capital gains arising out of equity shares and equity-oriented mutual funds, the tax is applicable only on the capital gains above Rs. _____

a. Rs. 1,00,000

b. Rs. 1,50,000

c. Rs. 2,00,000

d. Rs. 2,50,000

7. At what rate is the Securities Transaction Tax charged on sale of units of debt oriented mutual fund in a stock exchange?

a. 0%

b. 0.1%

c. 0.01%

d. 0.001%

7. At what rate is the Securities Transaction Tax charged on sale of units of debt oriented mutual fund in a stock exchange?

a. 0%

b. 0.1%

c. 0.01%

d. 0.001%

8. What is the tax applicable on the income earned by the mutual fund schemes?

- a. It is a function of the type of income since dividends, short term capital gains and long-term capital gains attract different tax rates
- b. Income earned by a mutual fund is exempt from taxes
- c. 10% plus surcharge and cess
- d. It is a function of the marginal rate of tax applicable to the respective investor in the mutual fund scheme

8. What is the tax applicable on the income earned by the mutual fund schemes?

- a. It is a function of the type of income since dividends, short term capital gains and long-term capital gains attract different tax rates
- b. Income earned by a mutual fund is exempt from taxes**
- c. 10% plus surcharge and cess
- d. It is a function of the marginal rate of tax applicable to the respective investor in the mutual fund scheme



B8. GST on all the fees other than investment and advisory fees shall be charged to the scheme within the _____ limit of TER

a. Minimum

b. Maximum

c. Prescribed

d. No limit

A purple ribbon banner with the words "COMMENT" and "BELOW" in white, tilted diagonally.



B8. GST on all the fees other than investment and advisory fees shall be charged to the scheme within the _____ limit of TER

a. Minimum

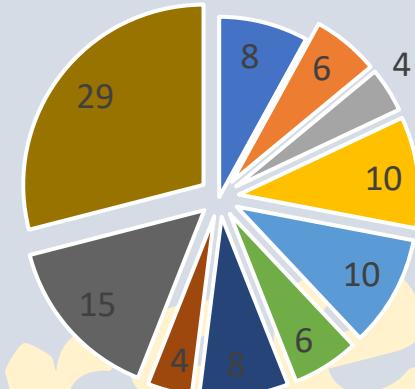
b. Maximum

c. Prescribed

d. No limit

Unit 9

Technology Courses



Investor Services

New Fund Offer



New Fund Offer (NFO)

Units in a mutual fund scheme are offered to investors for the first time through a New Fund Offer (NFO).

Important Dates for NFO

- **NFO Open Date** – date from which investors can invest in the NFO.
- **NFO Close Date** – date up to which investors can invest in the NFO.
- **Scheme Re-opening Date** – Date from which the investors can offer their units for re-purchase(sale) or buy new units of the scheme.

Key Points

- **Close-ended schemes have no scheme re-opening date.**
- NFOs other than ELSS can remain open for a **minimum of 3 and a maximum of 15 days**.
- **Allotment** of units/refund of money should be done **within 5 business days** of closure of the scheme.
- Open-ended schemes must **re-open** for sale/re-purchase **within 5 business days** of allotment.

- **NFO Price** is the price per unit that the investors have to pay to invest during the NFO.
- **Ongoing price** is the price at which the investor purchases or receives redemption/switch-outs.

Investment Plans & Options

IMPORTANT

Direct Plan	Investor invest directly with the AMC. No intermediary. Low expense ratio , no commission to be paid
Regular Plan	Invest through intermediary / distributors. High expense ratio , commission applicable
Dividend Pay-Out Option	Investor receives dividend in his bank account . NAV declines up to the extent of dividend paid out. Ex-dividend NAV – Reduced NAV after dividend pay-out (after record date) Cum-dividend NAV – Dividend announced but not paid out (before record date)
Dividend Re-Investment Option	The dividend amount is re-invested in the same scheme and additional units are allotted to the investor. NAV declines up to the extent of dividend paid out. The investor does not receive the dividend in his bank account. No of investor units increases due to re-investment amount.
Growth Option	Dividend is not declared . Nothing is received in bank account and there is nothing to re-invest. The NAV would capture the full value of the portfolio gains .

Dividend option has been renamed to Income Distribution cum capital withdrawal

Investment Option for different investors

Invest A , Investor B, and Investor C invests in 100 units of a mutual fund scheme each at a NAV of Rs. 20. Face value of unit is Rs. 10.

Investor A – Growth option

Investor B – Incomes Distribution cum capital withdrawal payout

Investor C – Income Distribution cum capital withdrawal reinvestment.

The mutual fund declares a **dividend of 10%**.

Q1. Which of the investors in the scheme are entitled to receive the dividend.

Investor B and Investor C.

Investors in growth options do not receive dividends.

Q2. What is the dividend amount that the investors are entitled to receive.

Dividend is calculated at face value. So 10% of 10 = Rs. 1 per unit.

Total dividend receivable = dividend per unit * no of units = 1 * 100 = Rs. 100

Q3. What will be the effect on NAV of dividend payout for each investor.

Investor B and Investor C NAV will reduce by the amount of dividend i.e. Rs. 1. New NAV = $20 - 1 = \text{Rs. } 19$

Investor A NAV will remain same i.e. Rs. 20

Allotment of Units to the Investor

New Fund Offer	Units in an NFO are sold at the face value i.e. Rs. 10. Investment amount divided by 10 would give the number of units bought.
On-Going Offer	Units are sold at market (sale) price. Investment amount / market(sale) price would give the number of units bought.
Rights Issue	Price at which the units are offered is clear at the time of investment. Investment amount / right issue price would give the number of units bought.
Bonus Issue	Units are allotted free of cost. In a 1:3 bonus issue, the investor is allotted 1 unit(free) for every 3 units already held by the investor. Example: Investor has 1800 units and a 1:3 bonus issue is declared. The investor will get 600 new units for free. The NAV gets reduced proportionately and the value of the investor's holding does not change as a result of the bonus issue.

Eligible Investors

Individual Investors

Invest for their personal benefit or the benefit of their family.

- Resident Indian adult investors (>18 years)
- **Minors (i.e. below 18 years)** – Need to invest through their guardians.
- **Hindu Undivided Families (HUFs)** – the head of the family (Karta) invest on behalf of the family
- **Non-Resident Indians(NRIs)/Person of Indian Origin(PIO)** resident abroad – provide PIO/OCI Card (Overseas Citizenship of India Card)
- Foreign Investors

Special Category

Non-individual Investors (Organizations/Institutions)

Authorized individuals sign the documents on behalf of the organizations/institutions they represent.

- Companies/corporate bodies, registered in India
- Banks
- Registered Societies
- Other Mutual Funds registered with SEBI
- Scientific and Industrial Research Organizations
- Universities and Educational Institutions
- Foreign Portfolio Investors

Filling the application form for Mutual funds

Information Required	Key Points	IMPORTANT
Direct Plan / Regular Plan	Space provided in application form for entering the AMFI Registration Number Direct Plan – mention ‘Direct’ in that space Regular Plan – mention ‘ARN’ number of distributor in that space	
Unit Holder Information	A mutual fund investment can have up to 3 holders . The folio is created in the name of the first holder who is the primary investor . In case of FPI/NRI/PIO investors, an overseas address must be provided.	
KYC Details	KYC acknowledgement letter as proof of compliance by each holder	
FATCA & CRS Details	For applicants, whose country of birth/citizenship/nationality is other than India , additional information required under Foreign Account Tax Compliant ACT(FATCA) and Common Reporting Standards(CRS) Place/City/Country of birth, country of citizenship etc.	
Bank Account Details	Bank details of the first holder of the folio in the application form. Details in application form should match with bank account linked to the demat .	
Nomination	Nominate up to 3 nominees and can specify the %age distribution to each nominee. Default – equal %age . Nomination can be made anytime .	

Rules Regarding Minor & POA as a Unit Holder

Investment made for a minor

- Done through a guardian and **KYC of guardian** is required.
- Document to establish the natural relationship(notarized photocopy of the court order).
- **Age proof** of minor.
- An investment by minors **cannot have joint holders**.
- An investment by minors **cannot have a nomination**.
- Minor can be a nominee of other investments but their investment can not have a nomination.
- **Once minor attains maturity:**
 - The information of minor has to replace that of the guardian.
 - The guardian can no longer operate the folio and the account will be frozen for operations till the status of minor is updated.
 - Financial transaction are disallowed until the minor's signature is attested by their banker.

Power of Attorney(POA)

- The POA holder can conduct all transactions except make or change nomination.

IMPORTANT

Financial Transactions with Mutual Funds

Initial Purchase

- During the NFO

Additional Purchases

- Subsequent transactions after NFO
- An existing investor can make fresh purchases in another scheme of mutual fund under the same folio.

Repurchase/Redemption

- At the applicable NAV
- Units will be redeemed on a First-in-First-Out (FIFO) basis.

Switch

- Redemption from one scheme and a purchase into another combined into one transaction.

Dividend Reinvestment

- Process where the dividend that is declared by a mutual fund scheme is actually used to purchase more units of the scheme instead of this being received as a pay-out.

Non Financial Transactions with Mutual Funds

Nomination

Pledge of
Units

Demat
Account

Change in
Folio Details

Transmission
of Units

Non Financial Transactions with Mutual Funds

IMPORTANT

Nomination

- Only individuals can make a nomination.
- Investment by minors cannot have a nomination.
- A nomination **cannot** be made in favour of trust (except religious or charitable), society, body corporate, partnership, **Karta of a HUF & a POA holder**.
- The nominee holds the units in trust for the legal heirs of the investor. It does not create any title or beneficial interest in the units in favor of the nominee after the death of the unit holder.

Pledge of Units

- Unitholders can pledge their units with banks, NFBCs, and others to raise money.
- Unitholders can not sell the pledged units until the pledge is released.

Non Financial Transactions with Mutual Funds

Demat Account

- The investor needs to open a demat account with a depository participant (CDSL, NSDL)
- **Less paperwork**, direct credit of bonus and right units, etc.
- **Change of address** or other details needs to be given **only to the depository** participant instead of separately provided to each company/mutual fund.

Change in Folio Details

- Personal information, bank account, guardian, status from minor to major.
- **Individual -> 5 bank accounts**
- **Non Individual -> 10 bank accounts.**
- Before deleting the default bank account, another needs to be set as default.

Non Financial Transactions with Mutual Funds

IMPORTANT

Transmission of Units

- Process of transferring units in the **event of the death** of the unit holder.
- The **first** holder passes away -> the **second** holder becomes the first holder.
- **Single** holder passes away -> units transferred to the **nominee**
- **Joint holder has more priority over nominee.**
- If **no nomination** -> transferred to the **legal successors**.
- **Before transfer** is affected, the mutual fund will insist on
 - The **KYC** documentation from the **nominee**
 - The **death certificate** of the deceased unit- holder
 - An **indemnity against future problems** for the mutual fund arising out of the transfer.

Payment Mechanisms

IMPORTANT

- Internet Banking & Mobile Banking
 - **NEFT, RTGS, IMPS** – for transfers within India
 - **SWIFT** – for transfers from abroad
- Debit Card / Credit Card / UPI / Cheque / Demand Draft / E-Wallets (**Max Rs. 50,000 per investor**)
- **Cash (Max Rs. 50,000 per investor)** – resident individuals, sole proprietorships, minors investing via guardian
 - **Application must be submitted in physical form**
- Stock Exchange platforms / Mutual fund Utility platform
- National Unified USSD Platform (without a smartphone and internet by dialing *99#)
- Aadhar-enabled payment service
- Application Supported by blocked amount (ASBA)
- One-Time Mandate(OTM) – debit happens through NACH
- **National Automated Clearing House(NACH)** is a centralised web based solution for banks, financial institutions to facilitate interbank high volume, electronic transactions which are **repetitive and periodic** in nature. **Auto debit for bill payments**, loan instalments, insurance premiums, SIPs etc

Non Accepted payment modes

Stock-invests, Postal orders, Money orders, Outstation cheques and Post-dated cheques(except for SIPs)

Third Party Payments

Payment made through a bank account other than that of the first holder of the folio.

Third party payments acceptance criteria:

- **Payment by Parents/related persons** on behalf of a minor (max RS. 50,000 per purchase).
- **Employer** making payments on behalf of the **employee**.
- **Custodian** on behalf of FPIs (Foreign Portfolio Investors)
- Payments by the **AMC** to its empaneled **distributors** on account of commissions etc. in the form of units of the mutual fund scheme managed by the AMC.

A third-party declaration form has to accompany the application where the payment is from this source.

Cut-off Time

IMPORTANT

Type of Scheme	Transactions	Cut off Time	Applicable NAV
Equity Oriented funds and debt funds(except liquid and overnight funds)	Purchase and Switch ins	3:00 PM	NAV of the business day on which the funds are available for utilization.
Liquid Fund and Overnight Funds	Purchase and Switch ins	1:30 PM	Before cut-off time - NAV of the day immediately preceding the day on which the funds are available for utilization After cut-off time – NAV of the day immediately preceding the next business day
Equity Oriented Funds and Debt Funds(except liquid funds)	Redemptions and Switch outs	3:00 PM	Before cut-off time – same-day NAV After cut-off time – Next business day NAV
Liquid funds	Redemptions and Switch outs	3:00 PM	Before cut-off time – NAV of the day immediately preceding the next business day. After cut-off time – Next business day NAV

Cut-off Time Examples (Equity Purchase)

Consider the below details regarding business days:

- Sunday – non-business day
- Monday – business day
- Tuesday – non-business day
- Wednesday – business day
- Thursday – business day
- Friday – business day
- Saturday – non-business day

Cut-Off time: 3 PM

NAV of the business day on which the funds are available for utilization.

Q1. An investor applies on Monday to buy units of an **equity mutual fund scheme** for Rs. 3,00,000. Which day NAV will be applicable if the funds get realized on

a) Wednesday by 2 PM?

→ Wednesday's NAV

b) Wednesday by 5 PM?

→ Thursday's NAV

Cut-off Time Examples (Liquid Purchase)

Consider the below details regarding business days:

- Sunday – non-business day
- Monday – business day
- Tuesday – non-business day
- Wednesday – business day
- Thursday – business day
- Friday – business day
- Saturday – non-business day

Cut-Off time: 1:30 PM

Before cut-off time

NAV of the day immediately preceding the day on which the funds are available for utilization

After cut-off time

NAV of the day immediately preceding the next business day

Q1. An investor applies on Monday to buy units of a **liquid fund**.

Which day NAV will be applicable if the funds get realized on

a) Monday by 1 PM?

→ **Sunday's NAV**

b) Monday by 3 PM?

→ **Tuesday's NAV**

c) Wednesday by 10 AM?

→ **Tuesday's NAV**

Cut-off Time Examples (Equity Redemption)

Consider the below details regarding business days:

- Sunday – non-business day
- Monday – business day
- Tuesday – non-business day
- Wednesday – business day
- Thursday – business day
- Friday – business day
- Saturday – non-business day

Cut-Off time: 3 PM

Before cut-off time

same-day NAV

After cut-off time

Next business day NAV

Q1. An investor applies on Monday to redeem units of an **equity fund**.

Which day NAV will be applicable if the application is submitted

a) Before the cut-off time?

→ Monday's NAV

b) After the cut-off time?

→ Wednesday's NAV

Cut-off Time Examples (Liquid Redemption)

Consider the below details regarding business days:

- Sunday – non-business day
- Monday – business day
- Tuesday – non-business day
- Wednesday – business day
- Thursday – business day
- Friday – business day
- Saturday – non-business day

Cut-Off time: 3 PM

Before cut-off time

NAV of the day immediately preceding the next business day.

After cut-off time

Next business day NAV

Q1. An investor applies on Monday to redeem units of a **liquid fund**.

Which day NAV will be applicable if the application is submitted

a) Before the cut-off time?

→ **Tuesday's NAV**

b) After the cut-off time?

→ **Wednesday's NAV**

Time & Date Stamping

IMPORTANT

Financial Transactions

- The time stamping on the transaction is done at the official point of acceptance.
The time when submitted to the **distributor** -> **Not relevant**
The time when submitted to the **OPoA** (by investor/distributor) -> **Relevant**
- Applications are **sequentially numbered**.
- The daily time stamping of the application **does not start with serial 1**.

Non Financial transactions

- Time stamping is done but not relevant.
- The **date stamping** is relevant/pertinent.

Online transactions

- The **web server** to which the instruction goes is used for time stamping.

Know Your Customer (KYC)

All investors must be KYC-compliant(identity and address), irrespective of the investment value.

KYC Documents:

PAN card with photo

- Market intermediaries may verify the PAN of their clients online at the Income Tax website.

Category of investors Exempt from PAN card

- Transaction on behalf of central/state governments and by officials appointed by the courts
- Investors residing in the state of Sikkim
- UN entities/Multilateral agencies exempt from paying taxes/filing tax returns in India
- Investments in mutual fund schemes up to Rs. 50000 (Including micro SIP i.e. SIPs where annual investment does not exceed Rs. 50000) per investor per year per mutual fund.

Address Proof

- Passport, Aadhar, voter ID, Driving license, etc -> Self/Distributor attested

Mutual funds, depositories, RTAs, KYD-compliant mutual fund distributors, and brokers are authorized to facilitate the KYC documentation of investors.

KYC for Minors, POA, NRI, Institutional Investors

Minor

- KYC of **guardian** required

POA (Power of Attorney)

- KYC of **both investor and POA holder** required.
- A POA holder cannot apply for KYC compliance on behalf of the issuer of the POA

NRI (Non Resident Indian)

- **PAN & overseas address proof** required for KYC

Institutional Investors

- **Authorized individuals/ signatories** on behalf of the institution.
- Need to provide details of **Ultimate Beneficiary Owner(UBO)**.
- An **UBO of a company** is one who has more than **25%** ownership.
- An UBO of a **trust** is one who has more than **15%** ownership.

Systematic Transactions

IMPORTANT

Systematic Investment Plan (SIP)

- Invest periodically same amount of money.

Systematic Withdrawal Plan (SWP)

- Make a lumpsum investment and withdraw periodically on an already set date

Systematic Transfer Plan (STP)

- Combination of SWP and SIP. Periodically transfer the amount from one scheme to another.
- It is different from a switch as in a switch, the full amount transfer takes place in a single transaction.

Dividend Transfer Plan (DTP)

- Invest divided earned in a scheme into another scheme of the same mutual fund.

Some Other Key Points to Remember

1. A joint holder cannot be added/deleted, except in the event of death can a name be deleted.
2. Investors can hold the units in physical or demat mode (specified in the application form).
 - **De-materialization** – the process of converting physical units into demat units.
 - **Re-materialization** – convert the demat units into physical form.
3. An **existing investor** can make fresh purchases in another scheme of mutual fund under the **same folio**.
4. Units will be **redeemed** on a **First-in-First-Out (FIFO)** basis.
5. To avail of the **NACH facility** of the RBI, the applicant should have an account with a **bank in a city** where the facility is **approved by RBI** and the bank should **participate in the local MICR clearing**.
6. A systematic transaction can be cancelled at any time by giving the mutual fund notice in writing.
7. An **SIP** may stand **cancelled** due to **insufficient funds** in the bank account when payment is due.
8. **Triggers** – one time-facility that extinguishes when the trigger is activated and the corresponding action is completed. Example - **Stop loss trigger**

Some Other Key Points to Remember

9. Once an **NRI becomes an RI**, he cannot operate his NRO/NRE/FCNR accounts.
 - A Resident foreign currency(RFC) account may be opened by a returning Indian to transfer balances from NRE/FCNR accounts. This account can hold foreign currency and continue to receive funds in foreign currency from investments abroad.
10. For a **change in the Karta of a HUF**, the below documents are required:
 - a) Attested copy of the death certificate
 - b) Bank certificate stating signature and details of new Karta
 - c) Indemnity bond signed by all co-parceners (family members) and new Karta

Additional Notes

- An NRE account can be opened if you want to transfer your foreign income to India and want to avoid taxation liabilities. They are both a variation of savings account. **NRE & NRO accounts** are the 2 ways by which NRIs can operate their finances in India.
- FCNR stands for **Foreign Currency Non-Resident Account**. If you are an NRI and wish to maintain a Fixed Deposit Account in India, you can opt for an FCNR Account that allows you to save money earned overseas in Foreign Currency.

Unit 9



Investor Services

1. The date from which the investors can offer their units for re-purchase to the scheme or buy new units of the scheme is called?

a. NFO Open Date

b. NFO Close Date

c. Scheme Re-Opening date

d. No special Name

1. The date from which the investors can offer their units for re-purchase to the scheme or buy new units of the scheme is called?

a. NFO Open Date

b. NFO Close Date

c. Scheme Re-Opening date

d. No special Name

2. Close-ended schemes have an NFO Open and NFO Close Date. But they have no Scheme Re-opening date.

a. True

b. False

2. Close-ended schemes have an NFO Open and NFO Close Date. But they have no Scheme Re-opening date.

a. True

b. False

3. NFO's other than ELSS can remain open for subscription for a maximum of 30 days.

a. True

b. False

3. NFO's other than ELSS can remain open for subscription for a maximum of 30 days.

a. True

b. False

15 Days

4. Direct plan has lower expense ratios as compared to Regular plan?

a. True

b. False

4. Direct plan has lower expense ratios as compared to Regular plan?

a. True

b. False

**5. An investor has 1800 units and a 1:3 bonus issue is declared.
How much unit will he have after bonus issue is completed?**

a. 600

b. 2400

c. 5400

d. 7200

5. An investor has 1800 units and a 1:3 bonus issue is declared. How much unit will he have after bonus issue is completed?

a. 600

b. 2400

c. 5400

d. 7200

1:3 bonus means 1 free unit for every 3 units held
i.e. 600 free units for 1800 units held.

Total units = $1800 + 600 = 2400$

6. In a Re-investment of Income Distribution cum capital withdrawal plan?

a. The investor receives the dividend in his bank account

b. No dividend is declared

c. The dividend amount is re-invested in the same scheme

d. None of the above

6. In a Re-investment of Income Distribution cum capital withdrawal plan?

a. The investor receives the dividend in his bank account

b. No dividend is declared

c. The dividend amount is re-invested in the same scheme

d. None of the above

7. In Income Distribution cum capital withdrawal (Re-investment Option), NAV _____ on record date.

- a. Declines to the extent of dividend
- b. Appreciate to the extent of dividend
- c. Remains same
- d. NAV captures the portfolio changes entirely

7. In Income Distribution cum capital withdrawal (Re-investment Option), NAV _____ on record date.

a. Declines to the extent of dividend

b. Appreciate to the extent of dividend

c. Remains same

d. NAV captures the portfolio changes entirely

8. Investors in _____ mutual fund scheme are entitled to receive the divided.

a. Income Distribution cum capital withdrawal (payout)

b. Income Distribution cum capital withdrawal (reinvestment)

c. Growth

d. Both a and b

8. Investors in _____ mutual fund scheme are entitled to receive the divided.

a. Income Distribution cum capital withdrawal (payout)

b. Income Distribution cum capital withdrawal (reinvestment)

c. Growth

d. Both a and b

9. In which of these options will the unit balance increase in the mutual fund investors folio without any transaction being done by the investor?

a. Growth option

b. Dividend Payout option

c. Dividend reinvestment option

d. Redemption

9. In which of these options will the unit balance increase in the mutual fund investors folio without any transaction being done by the investor?

a. Growth option

b. Dividend Payout option

c. Dividend reinvestment option

d. Redemption

10. How can an investor remit money in an Indian mutual fund from abroad?

- a. Through Immediate Payment Service (IMPS)
- b. Through Real time gross settlement (RTGS)
- c. Through Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- d. Through National electronic funds transfer (NEFT)

10. How can an investor remit money in an Indian mutual fund from abroad?

- a. Through Immediate Payment Service (IMPS)
- b. Through Real time gross settlement (RTGS)
- c. Through Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- d. Through National electronic funds transfer (NEFT)

11. Which of the below statements is/are True?

- a) Time stamping is relevant only for financial transactions and not for non-financial transactions.**
- b) Time stamping is relevant for both financial and non-financial transactions**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

11. Which of the below statements is/are True?

- a) Time stamping is relevant only for financial transactions and not for non-financial transactions.**
- b) Time stamping is relevant for both financial and non-financial transactions.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

Time & Date Stamping done for both.

Relevance :

Financial: Time & Date

Non-Financial - Date

12. An investor applies on Monday to redeem units of a liquid fund. Which day NAV will be applicable if the application is submitted before the cut-off time?

Sunday, Tuesday, Saturday

Monday, Wednesday, Thursday, Friday

-

non-business day
business day

a. Sunday

b. Monday

c. Tuesday

d. Wednesday

12. An investor applies on Monday to redeem units of a liquid fund. Which day NAV will be applicable if the application is submitted before the cut-off time?

Sunday, Tuesday, Saturday

Monday, Wednesday, Thursday, Friday

-

non-business day
business day

a. Sunday

b. Monday

c. Tuesday

d. Wednesday

Before cut-off:

NAV of the day immediately preceding the next business day.

After cut-off:

NAV of the next business day.

13. Which of these are considered as Institutional group of investors?

a. Hindu Undivided Families(HUFs)

b. Companies

c. High Net worth Individuals (HNIs)

d. Non-Resident Indians (NRIs)

13. Which of these are considered as Institutional group of investors?

a. Hindu Undivided Families(HUFs)

b. Companies

c. High Net worth Individuals (HNIs)

d. Non-Resident Indians (NRIs)

14. Which information has to be included in the mutual fund application form when a Non-Resident Indian (NRI) subscribes for the units?

- a. Passport details
- b. Countries of residence in the past one year
- c. Details of investments made in the last one year
- d. Current overseas address

14. Which information has to be included in the mutual fund application form when a Non-Resident Indian (NRI) subscribes for the units?

- a. Passport details
- b. Countries of residence in the past one year
- c. Details of investments made in the last one year
- d. Current overseas address

15. For which type of investor, authorized signatory is required?

a. Institutional Investor

b. High Net worth Investors

c. Non Resident Indian

d. Retail Investor

15. For which type of investor, authorized signatory is required?

a. Institutional Investor

b. High Net worth Investors

c. Non Resident Indian

d. Retail Investor

16. Who can make a nomination?

- a. Individuals
- b. Power of attorney holders
- c. Investment by minor
- d. Institutional investors.

16. Who can make a nomination?

- a. Individuals
- b. Power of attorney holders
- c. Investment by minor
- d. Institutional investors.

17. Which can not be a nominee?

- a. Religious Trust
- b. Educational Trust
- c. Minor (Accompanied by KYC of guardian)
- d. Karta of a HUF

17. Which can not be a nominee?

- a. Religious Trust
- b. Educational Trust
- c. Minor (Accompanied by KYC of guardian)
- d. Karta of a HUF

18. Which of the following statements is/are True

- a) Investors other than individuals have to provide details of the ultimate beneficial owner except listed companies
- b) The guardian may operate the minor's account only until the minor attains maturity.
- c) The minor's account is frozen for operation by the guardian on the day the minor attains maturity.

a. a,b

b. a,c

c. b,c

d. a,b,c

18. Which of the following statements is/are True

- a) Investors other than individuals have to provide details of the ultimate beneficial owner except listed companies
- b) The guardian may operate the minor's account only until the minor attains maturity.
- c) The minor's account is frozen for operation by the guardian on the day the minor attains maturity.

a. a,b

b. a,c

c. b,c

d. a,b,c

19. Which of the below statements is/are True?

- a) An investment for a minor cannot have joint holders.**
- b) The Power of Attorney(PoA) holder can conduct all transactions except make or change nominations.**
- c) A joint holder can be added/deleted.**

a. a,b

b. b,c

c. a,c

d. a,b,c

19. Which of the below statements is/are True?

- a) An investment for a minor cannot have joint holders.**
- b) The Power of Attorney(PoA) holder can conduct all transactions except make or change nominations.**
- c) A joint holder can be added/deleted.**

a. a,b

b. b,c

c. a,c

d. a,b,c

20. Which of the below statements is/are False?

- a) An existing investor can not make fresh purchases in another scheme of the same mutual fund under the same folio.**
- b) Units will be redeemed on a First-in-First-Out(FIFO) basis.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

20. Which of the below statements is/are False?

- a) An existing investor can not make fresh purchases in another scheme of the same mutual fund under the same folio.**
- b) Units will be redeemed on a First-in-First-Out(FIFO) basis.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

21. An investor can make a nomination in favour of maximum ___ nominees.

a. 1

b. 3

c. 5

d. 10

21. An investor can make a nomination in favour of maximum ____ nominees.

a. 1

b. 3

c. 5

d. 10

22. How many (maximum) bank accounts can a resident individual investor register with a mutual fund folio?

a. 1

b. 3

c. 5

d. 10

22. How many (maximum) bank accounts can a resident individual investor register with a mutual fund folio?

a. 1

b. 3

c. 5

d. 10

Individual – 5 bank account

Non Individual – 10 bank account

23. Which of the following statements is True?

- a. Hindu Undivided Families (HUFs) are not allowed to invest in mutual fund schemes
- b. Minors cannot invest in mutual fund schemes
- c. Foreign investors can invest in Indian mutual fund schemes, provided they have completed the Know-Your-Client(KYC) formalities

23. Which of the following statements is True?

- a. Hindu Undivided Families (HUFs) are not allowed to invest in mutual fund schemes
- b. Minors cannot invest in mutual fund schemes
- c. Foreign investors can invest in Indian mutual fund schemes, provided they have completed the Know-Your-Client(KYC) formalities

24. Whose KYC needs to be completed in case of an application by a minor?

- a. The minor
- b. The guardian
- c. Any family member of the minor
- d. No KYC required in case of applications by minors

24. Whose KYC needs to be completed in case of an application by a minor?

- a. The minor
- b. The guardian
- c. Any family member of the minor
- d. No KYC required in case of applications by minors

25. Which of the following statements is/are False?

- a) A switch is a redemption from one scheme and a purchase into another combined into one transaction.**
- b) Systematic Transfer Plan(SIP) is the combination of SWP and SIP.**
- c) An SIP can not be cancelled if there are insufficient funds in the bank account when payment is due.**

a. Only a

b. Only b

c. Only c

d. All a,b,c

25. Which of the following statements is/are False?

- a) A switch is a redemption from one scheme and a purchase into another combined into one transaction.**
- b) Systematic Transfer Plan(SIP) is the combination of SWP and SIP.**
- c) An SIP can not be cancelled if there are insufficient funds in the bank account when payment is due.**

a. Only a

b. Only b

c. Only c

d. All a,b,c

26. Which of the following statements is/are False

- a) The daily time stamping of the application does not start with serial 1.**
- b) To avail NACH facility of the RBI the applicant should have an account with a bank in a city where the facility is approved by RBI and the bank should participate in the local MICR clearing**
- c) A Resident foreign currency(RFC) account can not be opened by a returning Indian to transfer balances from NRE/FCNR accounts.**

a. Only a

b. Only b

c. Only c

d. All a,b,c

26. Which of the following statements is/are False

- a) The daily time stamping of the application does not start with serial 1.**

- b) To avail NACH facility of the RBI the applicant should have an account with a bank in a city where the facility is approved by RBI and the bank should participate in the local MICR clearing**

- c) A Resident foreign currency(RFC) account can not be opened by a returning Indian to transfer balances from NRE/FCNR accounts.**

a. Only a

b. Only b

c. Only c

d. All a,b,c

27. What is the fastest way of remitting funds on real time basis?

- a. National Electronic Funds Transfer (NEFT)
- b. Real Time Gross Settlement (RTGS)
- c. Cheque
- d. Demand Draft

27. What is the fastest way of remitting funds on real time basis?

- a. National Electronic Funds Transfer (NEFT)
- b. Real Time Gross Settlement (RTGS)
- c. Cheque
- d. Demand Draft

28. Investments in Mutual Funds can be made using ____.

a. Application Supported by Blocked Amount (ASBA)

b. Cash

c. Remittance

d. All of the above

28. Investments in Mutual Funds can be made using ____.

a. Application Supported by Blocked Amount (ASBA)

b. Cash

c. Remittance

d. All of the above

29. FATCA is applicable for applicants?

a. Who are Indian Residents

b. Who are retail investors

c. Who does not have a PAN card

d. Whose country of birth/citizenship/nationality is other than India

29. FATCA is applicable for applicants?

a. Who are Indian Residents

b. Who are retail investors

c. Who does not have a PAN card

d. Whose country of birth/citizenship/nationality is other than India



B9. At what price are the bonus units issued to the unitholders?

a. The price is decided by the AMC

b. Free of cost

c. At the prevailing NAV

d. Prevailing NAV / bonus ratio

COMMENT
BELOW



B9. At what price are the bonus units issued to the unitholders?

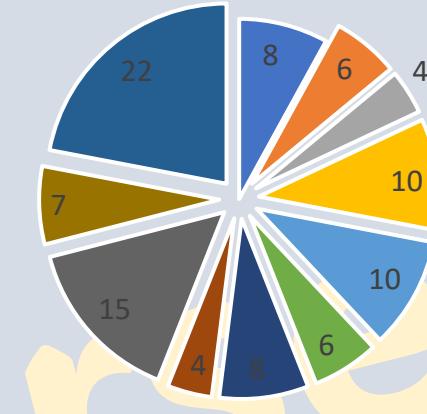
a. The price is decided by the AMC

b. Free of cost

c. At the prevailing NAV

d. Prevailing NAV / bonus ratio

Unit 10



Risk, Return and Performance of Funds

Investment Risks

IMPORTANT

Inflation	Interest Rate	Liquidity	Market / Price	Credit
<ul style="list-style-type: none">• Affects the real rate of return earned.• Real return – inflation-adjusted return• Nominal return – return without inflation adjustment	<ul style="list-style-type: none">• Interest rate changes directly impact the price of bonds/debt securities.• Interest rate and bond prices have an inverse relation.• Interest Rate Up -> bond rate down and vice versa• Maturity Factor :<ul style="list-style-type: none">• Long-term maturity bonds are more impacted than bonds with short-term maturity.	<ul style="list-style-type: none">• Asset not easy to sell or pay charges for selling it early.• Example: Charges on Premature withdrawal from fixed deposit.	<ul style="list-style-type: none">• Change in market outlook• Types:<ul style="list-style-type: none">• Market-wide (Covid-19),• Company-specific (Sales down),• Industry or sector-specific (Pharma Sector)	<ul style="list-style-type: none">• Default on bond payments.• Always check the credit ratings of the bonds before investing

Investment Risks

Reinvestment Risk (interest on interest)

- The rate at which interim cashflows can be reinvested may be lower than originally assumed.

Political Risk

- Government change (Central/State/Local), Unrest between countries

Economic Risk

- Slowdown in economic growth, increase in fiscal deficits (Central/State)

Foreign Currency risk

- Foreign investors in Indian mutual funds earn INR and convert it to their home currency.
- The INR, when translated into home currency could be lower because of currency movements.
- Example: 1 US dollar conversion to INR changes from 85 to 90 i.e. US dollar appreciates.
- Now, the same INR value will result in fewer dollars.

Investment Risks

Settlement Risk / Counterparty Risk

- The other party in a contract default on its obligations.

Transaction in Units through Stock Exchange

- Order processing/settlement by BSE/NSE/clearing corporations – not in fund control

Short Selling

- Sale of shares that the seller does not own at the time of trading.
- Counterparty and liquidity risk of the stock being borrowed.

Mid-Cap and Small-Cap Companies

- More volatile. Liquidity risk

Investment Risks

Dividend Risk

- No assurance that a company may continue paying dividend in future

Derivatives

- Highly leveraged instruments. Even small price movements could have an impact on their value.
- Counterpart and liquidity risk

Model Risk

- Mis-pricing or improper valuation of securities

Rating Migration Risk

- Change in rating from AAA to AA+ and vice versa
- Rating upgrade -> +ve effect on price
- Rating downgrade -> -ve effect on price.

Investment Risks

Spread Risk / Credit Spread

- Bonds must provide higher interest rates over risk-free government securities due to the risk involved.
- The spread of security over the underlying benchmark might change leading to a change in NAV.

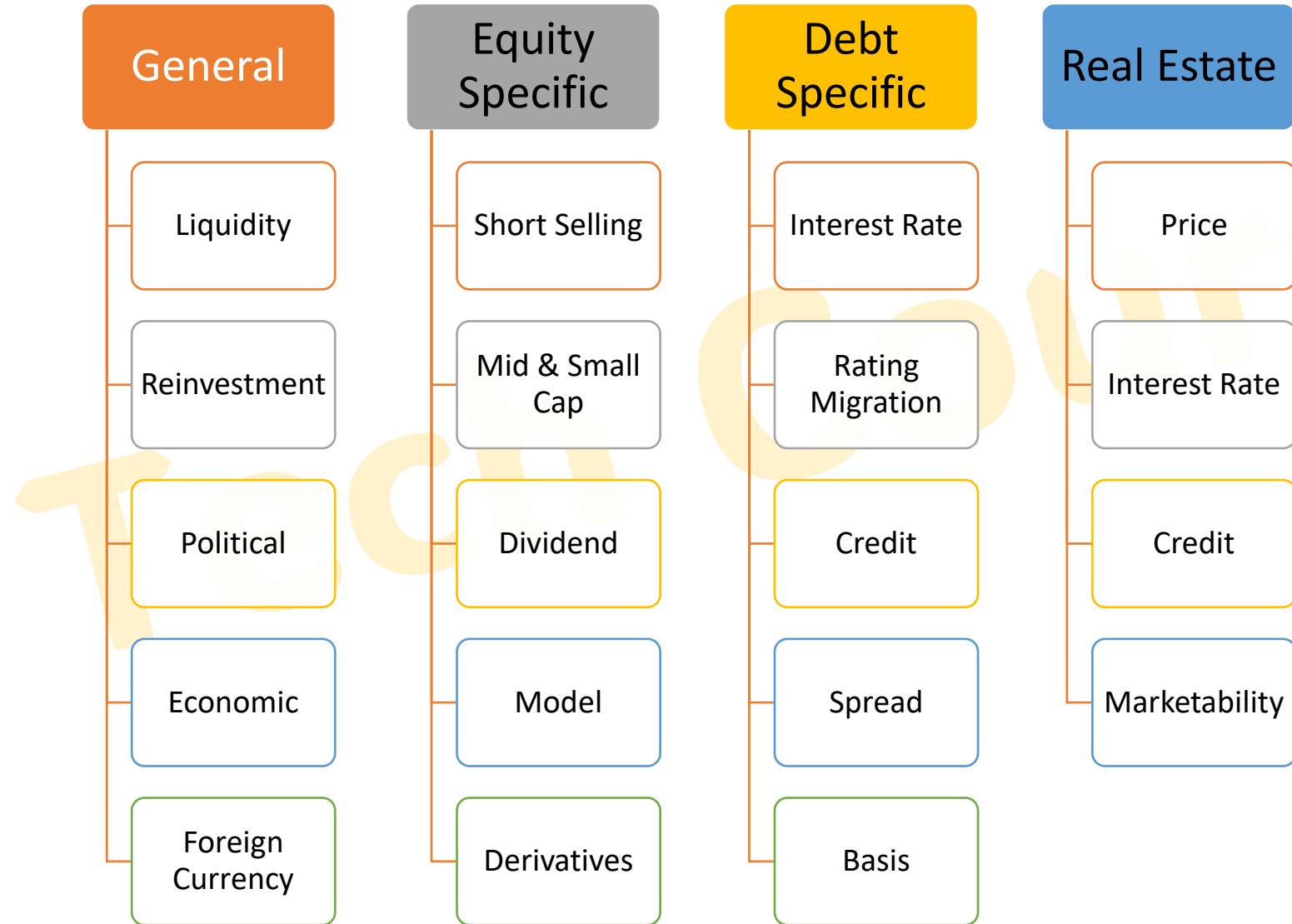
Basis Risk

- The underlying Benchmark become less active and thus may not be able to capture the exact interest rate movements, leading to loss of value of the portfolio.

Segregated Portfolio Risk

- Investors may not be able to liquidate their holdings till the time of recovery of money from the issuer.

Risk Categorization



ses

Managing Risk

Liquidity Risk

- Create a portfolio that has **adequate access** to liquidity.
- By investing in **money market funds/ keeping cash**.

Credit Risk

- Invest in securities issued by borrowers with **good credit profile**.
- **Assign limits** to each issuer. **Review** periodically.

Term structure of interest Rates

- Actively manage the duration based on the market condition.
- **Prefer short duration debt funds**.

Rating Migration Risk

- Invest in **high-rated securities**.
- Monitor and **review** periodically.

Factors Affecting Mutual Fund Performance

IMPORTANT

Risks that an asset class is exposed to, as well as the risks that the fund manager may choose to avoid.

Market/Systematic risk

- Impact the entire economy.
- Can not be reduced through diversification.
- Non-diversifiable risk.

Company Specific/Unsystematic Risk

- Impact the specific company.
- Can be reduced through diversification.
- Diversifiable risk.

Finance theory states that one is rewarded for taking the non-diversifiable risk only, and not for taking the diversifiable risk.

Factors Affecting Performance of Equity Schemes

IMPORTANT

Security Selection

Select good quality securities



Fundamental Analysis

- Study of the business and financial statements
- Analysis of Economy, Industry and Company
- Identify long-term investment opportunities

Market Timing

Time the entry/buy and exit/sale into a market



Technical Analysis

- Study past prices, the volumes traded
- Analysis of Support/Resistance levels
- Short term/ Intra-day trading

Even where a fundamental analysis-based decision has been taken on a stock, the technical analysis might help decide when to implement the decision i.e. the timing.

Financial Parameters

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

- How much profit the company earned for each equity share that they own.

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

- How much investors in the market are prepared to pay in relation to the company's earnings.
- Compare with peer group P/E ratios.
- Higher P/E ratio -> overvalued stock or the investors are expecting higher earnings in future.
- The P/E ratio needs to be recalculated every time there is a change in the earnings and its estimates.

Price Earnings to Growth (PEG) ratio : P/E ratio ÷ Earning Growth rate

- Relate the P/E ratio to the growth estimated in the company's earnings.
- PEG ratio :
 - 1 → fair value
 - < 1 → undervalued
 - > 1 -> overvalued

Financial Parameters

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

- How much each share is worth, as per the company's own book of accounts.
- Net Worth : Assets – Liabilities
- Book value is an accounting measure and may not represent the true value of the company.

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

- How much the market is prepared to pay for each share of the company, as compared to its book value.
- Can not be viewed as stand-alone numbers but compared across companies, normally within a sector.

Dividend Yield: Dividend per share ÷ Market price per share

- Measure of payouts received from the company, in %age, for each rupee of investment in the share.
- Not guaranteed or fixed.
- Generally considered by conservative investors looking to identify steady and lower risk equity investments.
- Tend to go down across stocks in a bull market and rise in a bear market.

Investment Styles – Growth and Value

IMPORTANT

Risks that an asset class is exposed to, as well as the risks that the fund manager may choose to avoid.

Growth

- Invest in stocks that are likely to grow much faster than the market (high growth).
- High valuation -> Growth stocks
- Market value > Intrinsic Value
- Market Correction impact -> Greater
- High P/E and PEG ratios, Lower dividend yield

Value

- Pick stocks which are priced lower than their intrinsic value, based on fundamental analysis.
- Cheap Valuation -> Value Stocks
- Market value < Intrinsic value
- Market Correction impact -> Lesser
- Need longer investment horizon

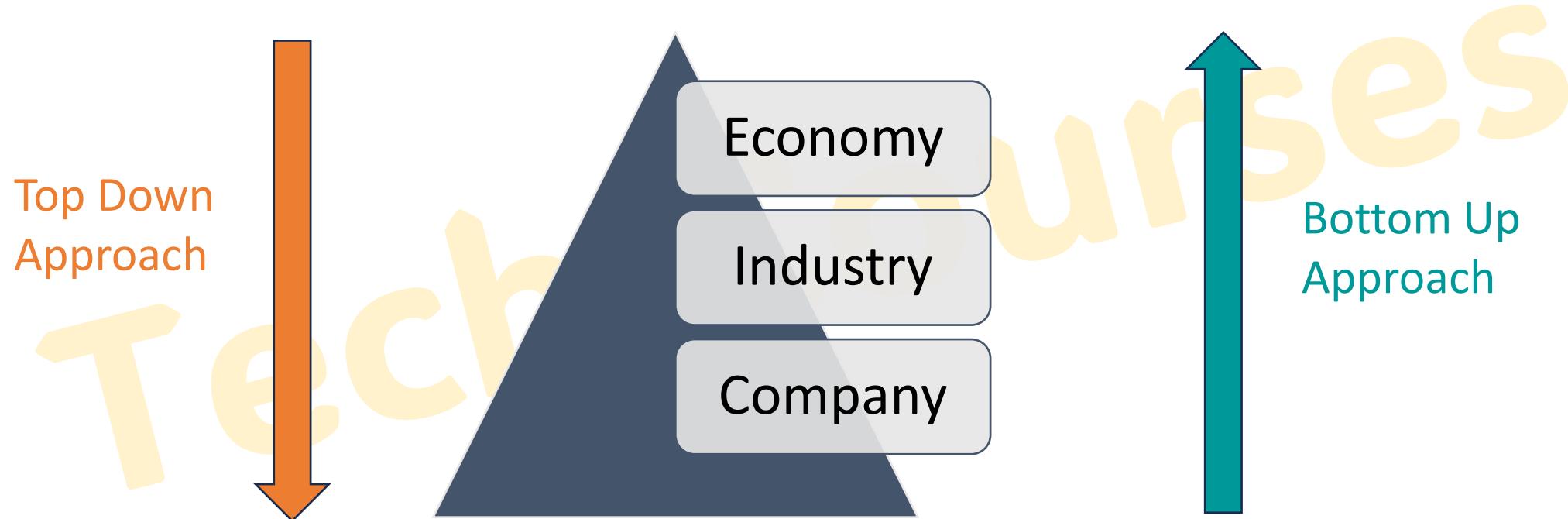
High Valuation is not the equivalent of high share price.

Look at value in the context of company's financials

Portfolio Building Approach - EIC Framework

IMPORTANT

EIC – Economy, Industry, Company



- Top-down approach minimizes the chance of being stuck with large exposure to a poor sector.
- Bottom-up approach ensures that a good stock is picked, even if it belongs to a sector that is not so hot.

Factors Affecting Performance of Other Schemes

Debt : Interest income + Capital Gain/Loss

Interest Rate

- **Inverse Relationship with bond price**
- Interest Rate Up → Bond prices go down
- Interest Rate down → Bond prices go up

Credit Spread

- The difference between the yield on GILT and the yield on a non-government debt security is called its credit spread.
- **Inverse relationship with bond rating**
- Rating improves → Credit spread go down
- Rating downgrades → Credit spread go up

Gold : Considered Safe Asset class. Most countries hold a part of their foreign currency reserved in gold.

Global Price of Gold

- **Political/ Economic crisis -> Gold prices go up**
- Bulk demand/buy → Gold prices go up
- Bulk supply/sell → Gold prices go down

Strength of The Rupee

- **Inverse Relationship with Gold Price**
- Rupee Weakens → Gold price go up
- Rupee Strengthens → Gold price go down

Factors Affecting Performance of Other Schemes

Real Estate: Rental Income + Capital Appreciation

Interest Rate

- Inverse Relationship with Real Estate Price
- Interest Rate Up → Prices go down
- Interest Rate down → Prices go up

Infrastructure development

- Direct relationship with price
- More development -> prices go up

Economic Scenario

- Direct relationship with price
- Recession → Prices go down
- Growth → Prices go up

Measures of Return

IMPORTANT

Simple Return

$$\frac{(\text{Later Value} - \text{Initial value}) * 100}{\text{Initial value}}$$

Compounded Return

$$(\text{Later Value} \div \text{Initial value}) ^ {(1/n)} - 1$$

$$A = P * (1 + r) ^ n$$
$$r = (A/P) ^ {(1/n)} - 1$$

n is number of period in years

Annualized Return

$$\frac{\text{Simple Return} * 12}{\text{Period of Simple Return (in Months)}}$$

Compounded Annual Growth rate(CAGR)

Similar to Compounded return but assume dividend would be re-invested in the same scheme at the ex-dividend NAV

Measures of Return

IMPORTANT

Q1. Suppose you invested in a scheme at a NAV of Rs. 12. Later, you found that the NAV has grown to Rs. 15 in 4 months.

a) Calculate Simple Return

$$\text{Simple Return} = \frac{(\text{Later Value} - \text{Initial value}) * 100}{\text{Initial value}} = \frac{(15 - 12) * 100}{12} = 25\%$$

b) Calculate annualized return which helps to compare the return of two different time periods.

$$\text{Annualized Return} = \frac{\text{Simple Return} * 12}{\text{Period of Simple Return (in Months)}} = \frac{25 \text{ percent} * 12}{4} = 75\%$$

Measures of Return

IMPORTANT

Q2. Suppose you invested in a scheme at a NAV of Rs. 1000.. Later, you found that the NAV has grown to Rs. 4000 in 2 years. **Calculate Compounded Return**

$$\begin{aligned}\text{Compounded Return} &= (\text{Later Value} \div \text{Initial value}) ^ {(1/n)} - 1 = (4000 \div 1000) ^ {(1/2)} - 1 \\ &= 4 ^ {(1/2)} - 1 \\ &= 2 - 1 = 1 \text{ i.e. } 100\%\end{aligned}$$

Measures of Risk

IMPORTANT

Variance

$$\frac{\sum (\text{Periodic return} - \text{Average return})^2}{n - 1}$$

MS Excel Formula :

=var(range of cells where the periodic returns are calculated)

- Variance measures the **fluctuation in periodic returns of a scheme**, as compared to its own average return.
- Variance as a measure of risk is relevant for **both debt and equity schemes**.

Standard Deviation

Square root of Variance

MS Excel Formula :

=stdev(range of cells where the periodic returns are calculated)

Variance points +

- Standard deviation is a measure of total **risk in a scheme**
- A **high standard deviation** indicates **greater volatility** in the returns and **greater risk**.
- Since standard deviation is calculated using historic numbers it has **limited use in predicting future performance**.

Measures of Risk

IMPORTANT

Beta

- Beta measures the **fluctuation in periodic returns** in a scheme, as **compared to fluctuation** in periodic returns of a **diversified stock**(representing the **market**) index over the same period.
- **The diversified stock index has a Beta of 1.**
- Companies or schemes, whose beta is **more than 1** are seen as **riskier than the market**.
- Beta **less than 1** is indicative of a **less risky** scheme than the market.
- An investment with a beta of **0.8%** will move **8 percent when market moves by 10 percent**.
- An investment with a beta of 1.2 will move by 12 percent both on the upside and downside when markets move (up/down) by 10 points.
- Beta as a measure of risk is relevant **only for equity schemes**.
- **Systematic risk** is measured by Beta.

Measures of Risk

IMPORTANT

Modified duration

- Measures the risk sensitivity of value of a debt security to change in interest rates.
- Higher the modified duration, higher is the interest sensitive risk in a debt portfolio.
- A professional fund manager would rely on modified duration as a better measure of interest rate sensitivity.

Credit Rating

- Indicates the credit or default risk in a scheme.
- Higher the credit rating, lower is the default risk.
- Government securities, cash and cash equivalents do not have a credit risk.

Some other Key Points

1. **Securitized Assets:** Selling loan receivables to an SPV
 - A securitization transaction involves the sale of receivables by the originator (bank, NFBC, housing finance company) to a **Special Purpose Vehicle(SPV)**, set up in the form of a trust.
2. **Assured returns schemes**
 - Guarantor specified in SID.
 - The **guarantor** need to **pay** if the scheme is not able to pay the assured return.
3. Debt schemes that are to mature within a year are called **money market securities**.
4. Securities issued by the government are called government securities or **G-Sec or Gilt**.
5. **Treasury bills** are short term debt instruments **issued by the RBI** on behalf of the government of India.

Unit 10



Risk, Return and Performance of Funds

1. Which of the following statements is/are True?

- a) Government securities can be considered to be completely risk-free from defaults.**
- b) Unsystematic risk can be reduced through diversification.**
- c) The name of the scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns.**

a. a,b

b. a,c

c. b,c

d. a,b,c

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b. a,c

c. b,c

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2. Fundamental analysis forms the basis to decide

- a. Future price movements of the share
- b. When to buy a given share/market timings consideration
- c. Whether to buy a given share on the basis of fundamental attributes(EIC framework)
- d. Whether to use technical analysis or not

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3. Which of the following type of analysis tracks the price and volume data related to trading in the security?

a. Quantitative analysis

b. Fundamental analysis

c. Technical analysis

d. Situation analysis

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4. An investor invested in scheme A when the scheme's NAV was Rs. 120 per unit. The investor redeemed the investments at the NAV of Rs. 135. Calculate the simple return

- a. 10.00 percent
- b. 11.11 percent
- c. 12.50 percent
- d. 15.00 percent

4. An investor invested in scheme A when the scheme's NAV was Rs. 120 per unit. The investor redeemed the investments at the NAV of Rs. 135. Calculate the simple return

- a. 10.00 percent
- b. 11.11 percent
- c. 12.50 percent
- d. 15.00 percent

5. Which of the following is a measure of fluctuation in periodic returns in an equity mutual fund scheme?

a. Variance

b. Sharpe ratio

c. Modified duration

d. Jensen's Alpha

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6. It may not be possible to reinvest interest received at the same rate as the principal. This is known as

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b. Inflation risk

c. Default risk

d. Interest-rate risk

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7. Which of the following statements is/are True?

- a) A bond's rating indicates its default Risk.**
- b) Model risk is the risk of mis-pricing or improper valuation of derivatives.**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

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- a) A bond's rating indicates its default Risk.**
- b) Model risk is the risk of mis-pricing or improper valuation of derivatives.**

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b. Only b

c. Both a and b

d. Neither a nor b

8. By their very nature, growth funds are considered high-risk.

a. True

b. False

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a. True

b. False

9. Risk is equated with

- a. Volatility of earnings
- b. Level of earnings
- c. The number of investors in a fund
- d. The number of schemes of a fund family

ourses

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10. ____ style is an approach of picking up stocks, which are priced lower than their intrinsic value, based on fundamental analysis.

a. Growth investment

b. Value investment

c. Top Down

d. Bottom Up

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11. ____ style entails investing in high-growth stocks i.e. stocks of companies that are likely to grow much faster than the market.

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12. A mutual fund manager is planning to invest in Indian pharma companies as these companies are setting up new manufacturing capacities. Identify the investment style of the fund manager.

a. Value Investment Style

b. Growth Investment Style

c. Cyclic investment Style

d. Target Investment Style

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a. Value Investment Style

b. Growth Investment Style

c. Cyclic investment Style

d. Target Investment Style

13. Of which of the following factors does returns from an international fund depend on?

- a. Asset Class performance
- b. Foreign currency exchange rates
- c. Both a and b
- d. Neither a nor b

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- b. Foreign currency exchange rates
- c. Both a and b
- d. Neither a nor b

14. Which of the following is a disadvantage of standard deviation as a measure of risk?

- a. It measures total risk, not just market risk
- b. It is an independent number
- c. It is based on past returns which does not necessarily indicate future performance
- d. All types of funds can be measured with standard deviation

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B10. In case of a securitized asset, ____ will not be an originator to a special purpose vehicle(SPV).

a. Commercial Bank

b. RBI

c. Non-Banking Finance Company

d. Housing Finance Company

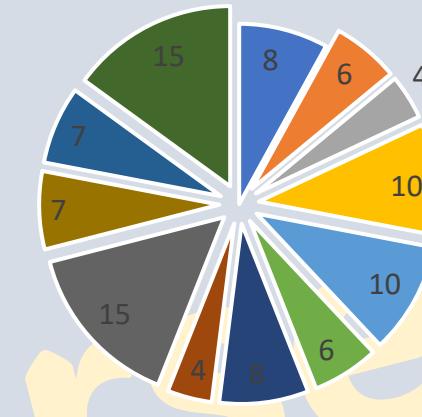
**COMMENT
BELOW**



B10. In case of a securitized asset, _____ will not be an originator to a special purpose vehicle(SPV).

- a. Commercial Bank
- b. RBI
- c. Non-Banking Finance Company
- d. Housing Finance Company

Unit 11



Mutual Fund Scheme Performance

BENCHMARK



Standard index against which a **mutual fund performance** is **compared**. Benchmark is mentioned in **SID**.

Criteria for choosing benchmark of a scheme

- Investment objective (wealth creation, regular income, liquidity, etc)
- Asset allocation pattern
- Investment strategy

Changing benchmark – Allowed if properly documented and justified

- Change in investment objective
- Better index available

Along with past performance of the scheme, the **performance of the benchmark** during the same period has to be mentioned.

Price Return Index vs Total Return Index

IMPORTANT

Today, mutual fund schemes are **benchmarked** to the Total Return Index variant of an Index (**TRI**)

Price Return Index (Used before 2018)

- Capture capital gains of the index constituents

Total Return Index (Used currently)

- Captures capital gains + **dividends/interest payments**
- Increased transparency of mutual funds

The gap between the returns between PRI and TRI is the amount of dividend.

Benchmark for Equity Schemes

BSE Sensex, BSE 100, BSE 200, BSE 500, BSE 500, BSE MIDCAP
NIFTY 50, NIFTY 100, NIFTY 200, NIFTY 500, NSE MIDCAP 50
Sector-specific

Large Cap Fund	BSE Sensex / Nifty 50
Mid Cap Fund	Nifty Midcap 50 / BSE Midcap
Diversified Equity Fund(fewer, up to 50 stocks)	BSE Sensex / Nifty 50
Diversified Equity Fund (many, > 50)	BSE 100 / NSE 100/ BSE 200 / NIFTY 200 / BSE 500 / NIFTY 500
Sector Fund	BSE BANKEX / BSE FMCG / Nifty Infrastructure / Nifty Auto Index

Benchmark for Debt Schemes

Developed by research and rating agencies recommended by AMFI.
CRISIL, ICICI Securities and NSE have developed various benchmarks.

Scheme Category	CRISIL Index
Overnight Fund	CRISIL Overnight Index
Liquid Fund	CRISIL Liquid Fund Index
Ultra-Short-Term Fund	CRISIL Ultra Short-Term Debt Index
Money Market Fund	CRISIL Money Market Index
Low Duration Fund	CRISIL Low Duration Debt Index
Short Duration Fund	CRISIL AA Short Term Bond Fund Index
Medium Duration Fund	CRISIL Medium Term Debt Index
Medium to Long Duration Fund	CRISIL Medium to Long Term Debt Index
Long Duration Fund	CRISIL Long Term Debt Index
Dynamic Bond	CRISIL Composite Bond Fund Index
Corporate Bond Fund	CRISIL Short Term Corporate Bond Index, CRISIL Medium Term Corporate Bond Index, CRISIL Long Term Corporate Bond Index, CRISIL Corporate Bond Composite Index
Credit Risk Fund	CRISIL Credit Risk Index

Benchmark for Hybrid Schemes

A mix of debt and equity.



Scheme Category	Index	Debt Index	Equity Index
Aggressive Hybrid Fund	CRISIL Hybrid 25+75 – Aggressive Index	CRISIL Composite Bond Fund Index [25% allocation]	S&P BSE 200 (TRI) [75% allocation]
Balanced Hybrid Fund	CRISIL Hybrid 50+50 – Moderate Index	CRISIL Composite Bond Fund Index [50% allocation]	S&P BSE 200 (TRI) [50% allocation]
Conservative Hybrid Fund	CRISIL Hybrid 75+25 – Conservative Index	CRISIL Composite Bond Fund Index [75% allocation]	S&P BSE 200 (TRI) [25% allocation]

Benchmark for Other Schemes

IMPORTANT

Gold ETF	Gold Price
Real Estate Funds	Real Estate Indices
International Funds	Country-specific where the scheme proposes to invest. Shanghai Composite Index (Chinese Index) S&P 500 (US market) Across countries : Synthetic index blend of the indices relevant to the countries invested
Government Securities	BSE India Sovereign Bond Index / BSE India Government Bill Index / Nifty Composite G-sec index/ Nifty 4-8 year G-sec Index/ Nifty 10-year G-sec index I-Bex (ICICI Securities) Si-Bex (1 to 3 years), Mi-Bex(3 to 7 years), Li-Bex(more than 7 years)
Index Funds and ETFs	Underlying index
Fund of Funds Schemes (FoFs)	Single fund/scheme – the benchmark of the underlying scheme Multiple Schemes – Broad Market Index

Standard Benchmark

IMPORTANT

Schemes need to disclose returns for the following benchmarks apart from the scheme benchmarks.

Scheme Type	Benchmark
Equity scheme	Sensex or Nifty
All Debt Schemes having duration / maturity up to 1 year and arbitrage Funds	1 year T-Bill
All Debt Schemes which are not covered in point 2	10 years dated Gol security
Conservative Hybrid Fund	10 years dated Gol security
Balanced Hybrid Fund / Aggressive Hybrid Fund / Dynamic Asset Allocation or Balanced Advantage /Multi Asset Allocation	Sensex / Nifty
→ Equity Savings	10 years dated Gol security
→ Retirement Fund / Children's Fund	Sensex / Nifty
Index Funds / ETFs & FoFs (Overseas/ Domestic)	Appropriate benchmark based on the underlying asset allocation as per above

Quantitative Measure of Fund Performance

IMPORTANT

Mathematical approaches to evaluate the performance of the fund manager of a scheme.

Relative Returns

- Scheme **risk not considered** during comparison.
- Even for the same underlying benchmark, schemes' risk levels can be different.
- May be unfair towards the fund manager who has taken a lower risk but generated the same return as a peer.

Risk Adjusted Returns

- Evaluate based on **risk-reward relationship**.
- First adjust the return earned by the scheme with the respective risks taken and then compare.
- Various Measures :
Sharpe Ratio, Treynor Ratio, Alpha

Risk-Adjusted returns is a better quantitative measure for comparison

Measures of Risk-Adjusted Returns

IMPORTANT

R_f: Risk-free returns (government securities), R_s: Scheme actual returns

R_m: Market Index return, R_s – R_f: Risk premium

Sharpe Ratio : (R_s – R_f) ÷ Standard Deviation

- Uses Standard Deviation as a measure of risk.
- The **higher** the Sharpe Ratio, **the better** the scheme is considered to be.
- Compare **similar schemes**. Equity vs Equity scheme, Debt vs Debt etc. **Not for Equity vs Debt**

Treynor Ratio : (R_s – R_f) ÷ Beta

- Uses Beta as a measure of risk.
- The **higher** the Treynor Ratio, **the better** the scheme is considered to be.
- Since **Beta** is more relevant for **diversified equity schemes**, Treynor Ratio is used for such schemes only.

Alpha : R_s – optimal return where optimal return, CAPM = R_f + (R_m – R_f) * Beta

- The difference between a scheme' actual return and its optimal return is its Alpha.
- **+ve Alpha:** **outperformance** by fund manager
- **-ve Alpha:** **Underperformance** by fund manager
- Since **Beta** is more relevant for **diversified equity schemes**, Alpha is used for such schemes only.

Quantitative Measure of Fund Performance

IMPORTANT

Q1. If the risk-free return is 5 percent, and a scheme with a standard deviation of 0.5 percent earned a return of 7 percent, what will be its Sharpe Ratio?

$$\text{Sharpe Ratio} = (R_s - R_f) / \text{Standard Deviation} = (7 \text{ percent} - 5 \text{ percent}) / 0.5 = 4$$

Q2. If the risk-free return is 5 percent, and a scheme with a Beta of 1.2 earned a return of 8 percent, what will be its Treynor Ratio?

$$\text{Treynor Ratio} = (R_s - R_f) / \text{Beta} = (8 \text{ percent} - 5 \text{ percent}) / 1.2 = 2.5$$

Tracking Error

IMPORTANT

R_p: Portfolio Return, R_b: Benchmark Return

Tracking error: Standard Deviation of (R_p – R_b)

- The **difference** between an **index fund's return and the market return** is the tracking error.
- Measure of the **consistency of out-performance** of the fund manager relative to the benchmark.
- It is not enough if the fund can generate a high excess return, it must do so consistently.
- Tracking error is calculated as the standard deviation of the excess returns generated by the fund.
- The tracking error has to be **low for a consistently out-performing fund**.

Product Label & Portfolio Description

Helps investors understand the suitability of a scheme and match it with their investment objective.

Product Label

- Snapshot of the **suitability** of the product.
- **Scheme objectives** as wealth creation, regular income generation or providing liquidity.
- **Asset class** in which the scheme will invest to achieve the objective.
- A suitable investment **holding period** is also indicated.
- **Risk-o-meter** identifies the risk to the capital invested and helps match the **investor's risk-taking ability/profile** to that of the scheme.

Portfolio Description

- The description of the way the portfolio will be managed.
- Asset allocation
- Investment strategy/philosophy

Unit 11



Mutual Fund Scheme Performance

1. Which of the following statements is/are False?

- a) Once it is finalized, a mutual fund scheme's benchmark cannot be changed at a later date.**
- b) The difference between a scheme's actual return and its optimal return is its Alpha.**

a. Only a

b. Only b

c. Both a and b

1. Which of the following statements is/are False?

- a) Once it is finalized, a mutual fund scheme's benchmark cannot be changed at a later date.**
- b) The difference between a scheme's actual return and its optimal return is its Alpha.**

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b. Only b

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2. Which amongst the following is a measure of risk-adjusted returns of mutual fund scheme?

a. Standard Deviation

b. Beta

c. Variance

d. Sharpe ratio

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3. Which of the following cannot be considered for the purpose of selecting a scheme's benchmark?

a. Mutual fund scheme's investment objectives

b. Investment strategy of the MF scheme

c. Scheme's asset allocation pattern

d. Scheme's past returns

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4. ____ takes into account all dividends generated from the basket of constituents that make up the index in addition to the capital gains.

- a. Total return index
- b. Price return index
- c. Dividend return index

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- b. Price return index
- c. Dividend return index

5. Which is the most appropriate measure of evaluating how closely an index fund is tracking its benchmark?

- a. Treynor ratio
- b. Tracking error
- c. Total Expense Ratio (TER)
- d. Asset Under Management (AUM)

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6. Which of the following drive the choice of benchmark in equity schemes?

- a. Portfolio concentration
- b. Choice of investment universe
- c. Scheme Type
- d. All of the above

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7. Which of the following statements is/are True?

- a) Relative return considers risk while comparing different schemes.**
- b) Risk-Adjusted returns are better to compare different schemes.**
- c) Though the benchmark is the same for the two schemes, their risk levels can be different.**

a. a,b

b. a,c

c. b,c

d. a,b,c

7. Which of the following statements is/are True?

- a) Relative return considers risk while comparing different schemes.
- b) Risk-Adjusted returns are better to compare different schemes.
- c) Though the benchmark is the same for the two schemes, their risk levels can be different.

a. a,b

b. a,c

c. b,c

d. a,b,c

8. Which of the following statements is/are True?

- a) The data related to the fund performance of all mutual funds is available on the AMFI website.**
- b) SEBI has mandated disclosure of performance data by all the AMCs**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

8. Which of the following statements is/are True?

- a) The data related to the fund performance of all mutual funds is available on the AMFI website.
- b) SEBI has mandated disclosure of performance data by all the AMCs

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

9. Mutual funds are benchmarked to the Total Return variant of an Index(TRI) and not to the Price Return variant of an Index(PRI).

What is the advantage of TRI over PRI?

a) It ensures that the performance comparison is fair

b) Increases transparency

a. Only a

b. Only b

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What is the advantage of TRI over PRI?

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a. Only a

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10. ____ will help the investors understand the suitability of a mutual fund scheme to them.

a. Standard Deviation / Beta

b. Tracking Error

c. Alpha of the scheme

d. Product Label

10. ____ will help the investors understand the suitability of a mutual fund scheme to them.

a. Standard Deviation / Beta

b. Tracking Error

c. Alpha of the scheme

d. Product Label

11. Which of the following statements is/are False?

- a) For international equity fund, the ideal benchmark will be the BSE 500 index as it is a very broad index covering 500 companies**

 - b) For Gold ETF, gold prices will be the ideal benchmark**
- a. Only a**
- b. Only b**
- c. Both a and b**
- d. Neither a nor b**

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- a. Only a**
- b. Only b**
- c. Both a and b**
- d. Neither a nor b**

12. Which of the following statement(s) is/are False?

a) Its ideal to benchmark a sector fund against an index representing the respective sector

a) Its advisable to benchmark a sector fund against a diversified fund to get the correct picture

a. Only a

b. Only b

c. Both a and b

12. Which of the following statement(s) is/are False?

a) It's ideal to benchmark a sector fund against an index representing the respective sector

a) It's advisable to benchmark a sector fund against a diversified fund to get the correct picture

a. Only a

b. Only b

c. Both a and b

13. What is negative Alpha?

- a. Indicative of under-performance by the fund manager
- b. Indicative of over-performance by the fund manager
- c. Indicative of under-hedging by the fund manager
- d. Indicative of over-hedging by the fund manager

13. What is negative Alpha?

a. Indicative of under-performance by the fund manager

b. Indicative of over-performance by the fund manager

c. Indicative of under-hedging by the fund manager

d. Indicative of over-hedging by the fund manager



B11. Which of these is a measure of risk-adjusted returns?.

a. Sharpe Ratio

b. Treynor Ratio

c. Alpha

d. All of the above

COMMENT
BELOW



B11. Which of these is a measure of risk-adjusted returns?.

a. Sharpe Ratio

b. Treynor Ratio

c. Alpha

d. All of the above

Unit 12



Mutual Fund Scheme Selection

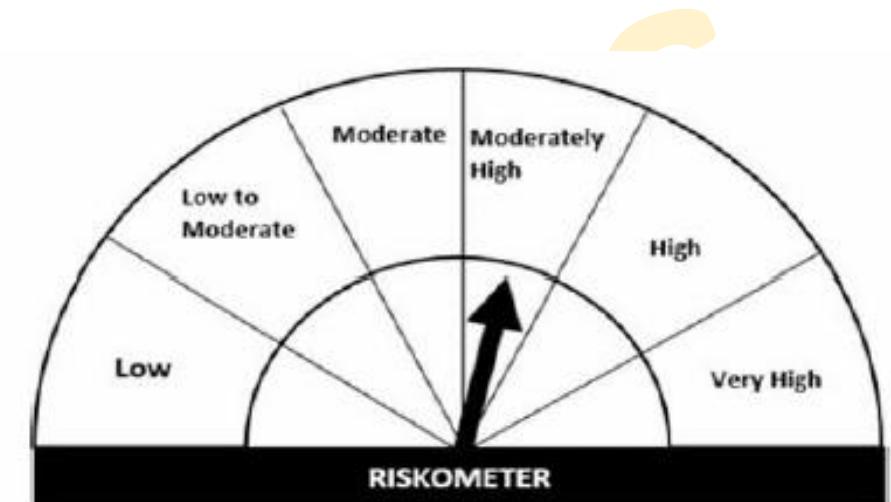
Risk Levels in Mutual Fund Schemes

IMPORTANT

Category	Risk-Return Hierarchy (Low → High)
Mutual Funds	Liquid Funds → Debt Funds → Hybrid Funds → Equity Funds
Debt Funds (Duration - Interest rate risk)	Overnight Funds → Liquid Funds → Ultra-short Duration Funds → Low Duration Funds → Short Duration Funds → Medium Duration Funds → Medium to Long Duration Funds → Long Duration Funds
Debt Funds (Issuer – Credit Risk)	Gilt Fund → Banking and PSU fund → Corporate Bond Fund → Credit Risk Fund
Equity Mutual Funds	Large Cap Funds → Large and Mid-Cap Funds → Multi Cap Funds → Mid Cap Funds → Small Cap Funds
Diversified to Concentrated Funds	Diversified Funds → Focused funds → Thematic Funds → Sector Funds
Hybrid Funds	Arbitrage Fund → Equity Savings Fund → Conservative Hybrid Fund → Dynamic Asset Allocation Fund → Multi Asset Allocation Fund → Balanced Hybrid Fund → Aggressive Hybrid Fund

Risk Levels in Mutual Fund Schemes

1. **Equity** is more risky than **debt**.
2. A **concentrated** fund is more riskier than a **diversified** fund.
3. As **debt duration** increases, interest rate risk increases.
4. Credit risk depends on the **credibility** of the issuer.
5. **Small-cap** funds are riskier than **large-cap** funds.
6. **Aggressive** funds are more risky than **Conservative** funds.



- Risk level in a scheme can be understood with the help of Product Label (prevents mis-selling).
- Risk level is represented pictorially using a “Risk-o-meter”.

Scheme Selection Based on Investor

Investor Need

- **Long-term appreciation**, periodic income, high liquidity

Risk Profile of the investor

- The **need** to take risks (High returns to fund a goal)
- The **ability** to take risks (Financial conditions)
- The **willingness** to take risks (Mental Strength)

Asset Allocation

- Investor's needs, time horizons, risk appetite, and return expectations
- Looking for growth/willing to take risks and long horizon -> **Equity**
- Regular income / short duration – **Debt**

Scheme Selection Based on Investor

IMPORTANT

Age of the investor

- Younger investors are believed to have a higher risk-taking ability than old people.
- But, investors in the same age group may also have different goals and risk-taking abilities.
- Always **check investor risk profile and don't rely on age** factor alone for risk-taking ability.

Investment time horizon

- **Longer the horizon -> higher the risk taking ability**

Core and satellite portfolio

- **Core portfolio** – long-term goals (Diversified equity fund)
- **Satellite portfolio** – take advantage of expected short-term market movements (Sector fund)

Scheme Selection Based on Investment Strategy

Active Fund v/s Passive Funds

- **Active Fund** – Better return expectations, higher cost, higher risk
- **Passive Fund** – No selection risk because the fund manager has no role in creating the portfolio.

Open-ended funds v/s close-ended funds

- **Open-ended** – easy to redeem at any time
- **Close-ended** – fixed maturity, not easy to redeem before maturity.

Diversified funds vs Sector funds vs Thematic funds

- **Diversified Funds** – Multi-sector exposure, less risky
- **Sector Funds** (Cement, steel) – Concentrated in one sector, risky, timing is key to investing.
- **Thematic Funds** (Infrastructure, PSU, MNC) – Particular theme. Fall between diversified and sector funds.

Large-cap vs Mid-cap vs Small Cap Funds

- **Large Cap** – Established companies, less risky,
- **Mid Cap / Small Cap** – Initial stages of growth, more risky

Scheme Selection Based on Investment Strategy

IMPORTANT

Growth vs value funds

- **Growth funds** – outperform in a bull market
- **Value funds** – outperform in a falling market

International Equity Funds

- Exposure to the international equity market for **diversification**.
- Exposure to the **exchange rate** of the Rupee.
- **Example** – Indian investor invests in the US, US dollar appreciates -> benefit; US dollar depreciates -> Loss

Fixed Maturity Plans

- **Predictable returns**, can not be redeemed before maturity except through stock exchanges.

Target Maturity Funds (TMFs)

- **Invest in top-notch** (Government securities, AAA-rated companies)
- Can be purchased or redeemed at any time.

Scheme Selection Based on Investment Strategy

Short Duration Funds

- If the **interest rate is expected to increase** -> safer to invest
- Mature in short duration, so can be reinvested at higher interest on maturity.

Liquid Funds

- **Lower risk, lower return.**
- Comparable to a savings bank account.
- Not advisable to use these schemes for longer periods due to low returns.

Floater Funds

- Invest in **floating rate instruments**.
- The **NAV** of the floaters tends to be **steady**.

Scheme Selection Based on Investment Strategy

IMPORTANT

Hybrid Schemes

- **Equity** component -> Appreciation in value i.e. **growth**
- **Debt** component -> Regular returns i.e. **stability**
- Provide **equity exposure with lower risk.**

Gold funds

- Provide a **hedge against inflation** and political, economic, and fiscal uncertainties.
- **Gold ETF** – a passive fund that tracks the price of gold
- **Gold Sector funds :**
 - Invest in shares of gold mining and other gold processing companies.
 - Affected by gold price, gold reserve, and company's management

Scheme Selection Based on AMCs

Matching the fund's portfolio with its investment objective

- Check if the fund manager **follows the strategy** and style that the scheme intends **according to its SID**.

Fund Manager

- Knowledgeable enough to **identify changes in market trends**.

Fund performance

- Returns generated **relative to its benchmark** over a period of time.
- Should have **consistently outperformed** the benchmark.
- Equity – at least last 5 years, Debt – at least last 3 years
- Shorter term debt – 7days, 15 days and 1 month

Fund Portfolio

- Determine the **risk and return** in the scheme.

Scheme Selection Based on AMCs

Fund Age

- A fund with a long history has a **track record** that can be studied.
- A new fund managed by a portfolio manager with a lacklustre track-record is avoidable.

Fund Size

- **Large fund size** – Better diversification and economies of scale
- **Small fund size** – more flexible and better able to take advantage of market opportunities

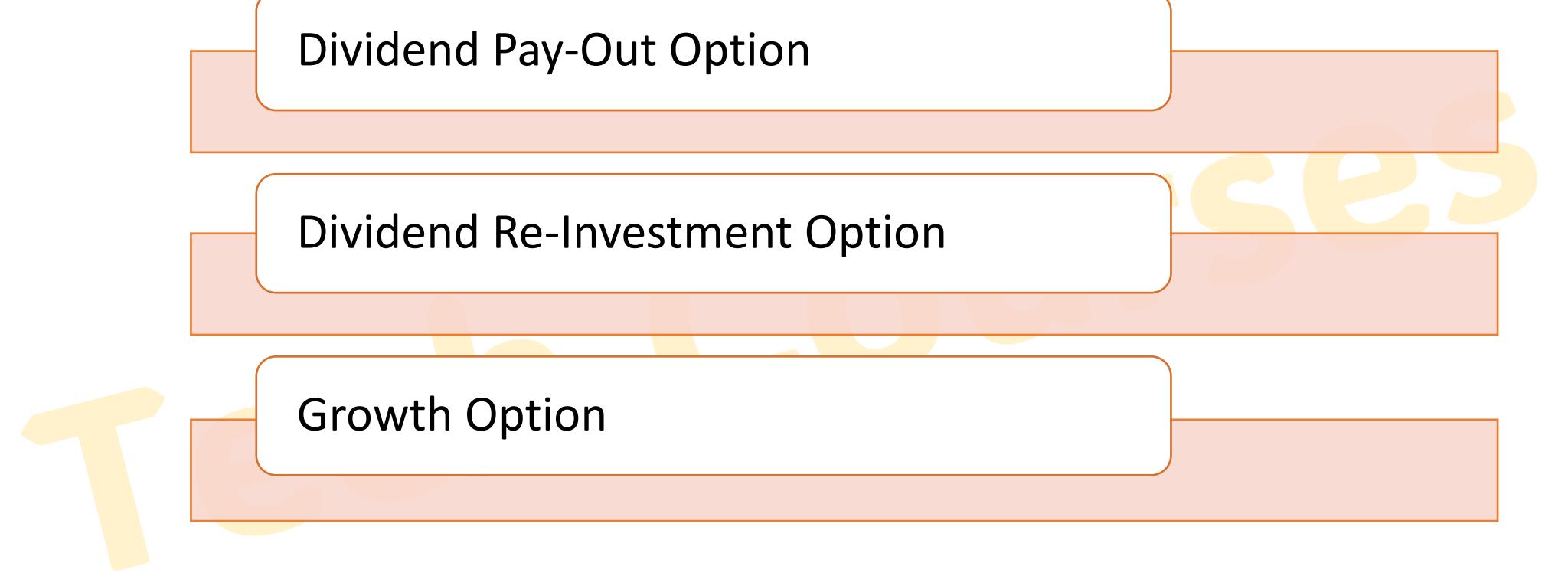
Portfolio Turnover

- The purchase and sale of securities entails **broking costs** for the scheme.
- Frequent churning indicates **unsteady investment management**.

Scheme Running Expenses

- Particularly careful about the cost structure of debt schemes, because in the normal course, **debt returns can be much lower than equity returns**.
- **Index funds** should have **lower costs** due to a passive investment strategy.

Selecting Options in mutual fund schemes



Dividend Pay-Out Option

Dividend Re-Investment Option

Growth Option

- The need for a regular income is better met through a SWP than a Dividend Pay-out Option.
- Taxation and liquidity needs are a factor in deciding between the options

Do's & Don't while Selecting Mutual Fund Schemes

Things Mutual Fund Distributors must keep in mind while selecting schemes for the investor.

IMPORTANT

Do's

- ✓ Ensuring Suitability
- ✓ Sticking to Investor's asset allocation
- ✓ Understand the investment objective and investment strategy of the scheme
- ✓ Keeping an eye on the taxes and loads
- ✓ Develop a consistent methodology

Don't

- ✗ Chasing past performance

When there is a need to withdraw money from a scheme, the distributor must assess the implication of capital gains tax and exit loads.

Some Other Key Points

1. **Long-term gilt funds** do well when interest rates are expected to decline.
2. The **investment strategy** of the scheme is devised to achieve the investment objective. The portfolio is constructed in line with the investment strategy.
3. **Open-end schemes** are also subject to the risk of large fluctuations in net assets, on account of heavy sales or re-purchase.
4. A **close-ended equity fund** allows the fund manager to target better returns by investing in stocks of companies that may realize its potential in some time, or relatively illiquid stocks with prospects of good returns without the pressure of investment redemptions.
5. **Diversification** is protection against ignorance. If one is not sure, diversification is always a good idea.
6. Investors need to bear in mind that **rankings and categories are based on historical performance**, which may or **may not be repeated in future**.

Unit 12



Mutual Fund Scheme Selection

1. Which scheme categories would be considered the least risky in terms of credit risk?

a. Credit risk fund

b. Corporate bond fund

c. Dynamic bond

d. Gilt fund

ourses

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a. Credit risk fund

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2. For an investor to get a quick sense of the level of risk involved in a mutual fund scheme, SEBI suggested a simplified framework known as _____

- a. Risk-o-Meter
- b. Risk factors
- c. Fact sheet
- d. Investor's risk profile

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3. Passive funds are safe, as the NAV of such funds does not go down even when the respective markets fall.

a. True

b. False

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a. True

b. False

4. Which among the following schemes would have lower risk of concentration?

a. Multi-cap fund

b. Focused fund

c. Thematic fund

d. Sector fund

ourses

4. Which among the following schemes would have lower risk of concentration?

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5. _____ are close-ended debt funds.

a. Fixed maturity plans(FMPs)

b. Overnight funds

c. Dynamic debt funds

d. Arbitrage funds

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6. A person who wants to retain liquidity in his investments will invest in _____.

a. ELSS schemes

b. Fixed Deposits

c. PPFs

d. Liquid Funds

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a. ELSS schemes

b. Fixed Deposits

c. PPFs

d. Liquid Funds

7. A ___ investor will prefer lower risk and will settle for a lower return.

a. Aggressive

b. Adventurous

c. Conservative

d. Moderate

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b. Adventurous

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8. Among equity funds, focused funds carry _____, risks as compared to diversified funds due to _____.

- a. Lower; Highly concentrated portfolio
- b. Lower; lower expenses of the fund
- c. Higher; higher concentrated portfolio
- d. Higher; investments in debt securities

8. Among equity funds, focused funds carry _____, risks as compared to diversified funds due to _____.

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b. Lower; lower expenses of the fund

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9. What is the investment objective of a mutual fund which seeks to grow in value over a period of time?

- a. Regular returns
- b. Safety of Capital
- c. Capital Adequacy
- d. Capital Appreciation

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10. Which of these funds are suitable for investors who have a long term investment horizon and are looking for growth?

- a. Liquid funds
- b. Equity funds
- c. Income funds
- d. Long duration funds

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11. In the usual course of events, a fund manager will have to provide the maximum liquid assets for _____.

a. Equity ETFs

b. Open-ended Fund

c. Close-ended Fund

d. Gold ETFs

11. In the usual course of events, a fund manager will have to provide the maximum liquid assets for _____.

- a. Equity ETFs
- b. Open-ended Fund**
- c. Close-ended Fund
- d. Gold ETFs

12. When compared to open ended funds, investors in close ended funds face a higher level of _____.

a. Market Risk

b. Credit Risk

c. Investment Risk

d. Liquidity Risk

12. When compared to open ended funds, investors in close ended funds face a higher level of _____.

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13. An investor chooses a mutual fund scheme based on whether his/her _____ matches with that of the scheme.

a. Investment objective

b. Investment strategy

c. Investment period

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14. The units of a Close-ended mutual fund are traded between the unit holders/investors and _____ on the stock exchange

a. The Mutual fund

b. Other unit holders/investors

c. Specially appointed market makers to enhance liquidity

d. The Sponsors

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- b. Other unit holders/investors**
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- d. The Sponsors

15. Which of these is a passive fund?

- a. Gold Exchange Traded Fund
- b. Gilt Funds
- c. Gold Sector Fund
- d. Gold Mining Companies Fund

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- b. Gilt Funds
- c. Gold Sector Fund
- d. Gold Mining Companies Fund

16. A better performance than return on index is given by

- a. Active fund manager
- b. Passive fund manager

16. A better performance than return on index is given by

- a. Active fund manager
- b. Passive fund manager

17. The equity share prices of gold mining companies can depend on

- a) The gold reserves of the company**
- b) The operational efficiency and management of the company**
- c) International prices of gold**

a. a,b

b. b,c

c. a,c

d. a,b,c

17. The equity share prices of gold mining companies can depend on

- a) The gold reserves of the company**
- b) The operational efficiency and management of the company**
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a. a,b

b. b,c

c. a,c

d. a,b,c

18. An international fund is investing in US stocks. What would be the impact on it if US Dollar depreciates against the Indian Rupee?

- a. The NAV of the scheme in Indian rupees will appreciate
- b. The NAV of the scheme in Indian Rupees will depreciate
- c. No impact on the fund as its investing in stocks and not currency

18. An international fund is investing in US stocks. What would be the impact on it if US Dollar depreciates against the Indian Rupee?

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- b. The NAV of the scheme in Indian Rupees will depreciate**
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19. Indicate which funds have the lowest to highest risk sequence.

- a) Liquid fund
- b) Credit Risk fund
- c) Corporate bond fund

a. a->b->c

b. a->c->b

c. c->b->a

d. b->c->a

19. Indicate which funds have the lowest to highest risk sequence.

- a) Liquid fund
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a. a->b->c

b. a->c->b

c. c->b->a

d. b->c->a

20. Which of the following has the highest risk?

- a. Index Funds
- b. Diversified Equity Fund
- c. Long Duration Funds
- d. Gilt Funds

20. Which of the following has the highest risk?

- a. Index Funds
- b. Diversified Equity Fund
- c. Long Duration Funds
- d. Gilt Funds

21. _____ can be used in lieu(instead) of Income distribution cum capital withdrawal (dividend) pay-outs.

- a. SIP
- b. SWP
- c. STP
- d. All of the above

21. _____ can be used in lieu(instead) of Income distribution cum capital withdrawal (dividend) pay-outs.

a. SIP

b. SWP

c. STP

d. All of the above

You get regular income in the case of SWP.

In dividend payouts, the dividend distribution is not guaranteed.

22. Which of the following statements is/are False

- a) Best strategy in selecting a mutual fund scheme is based on its past performance**
- b) When an investor wants to redeem from a scheme, the distributor must suggest redemption from the scheme with the maximum exit load**

a. Only a

b. Only b

c. Both a and b

d. Neither a nor b

22. Which of the following statements is/are False

- a) Best strategy in selecting a mutual fund scheme is based on its past performance**
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a. Only a

b. Only b

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23. The mutual fund distributors can ignore the impact of exit load at the time of repurchase

a. True

b. False

23. The mutual fund distributors can ignore the impact of exit load at the time of repurchase

a. True

b. False

24. A top performing scheme within a category ____.

- a. Is the best choice for an investor to invest his funds
- b. Usually remains the top performer for a long period of time
- c. May or may not be the top performer in the future
- d. Usually be the worst performer in the future

24. A top performing scheme within a category ____.

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- c. May or may not be the top performer in the future
- d. Usually be the worst performer in the future

25. Shares of companies with large market capitalization

- a. Are more liquid
- b. Have greater growth potential
- c. Are not traded on exchange
- d. All of the above

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- a. Are more liquid
- b. Have greater growth potential
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26. Risk appetite decreases as the number of dependent members in family increases.

a. True

b. False

26. Risk appetite decreases as the number of dependent members in family increases.

a. True

b. False

27. When there is a need to withdraw money from a scheme, the distributor must assess the implications of capital gains tax and _____ on the investor's portfolio

a. Exit loads

b. Entry loads

c. Dividend tax

27. When there is a need to withdraw money from a scheme, the distributor must assess the implications of capital gains tax and _____ on the investor's portfolio

a. Exit loads

b. Entry loads

c. Dividend tax

28. Debt funds target

- a. Long term capital appreciation
- b. High growth with risk
- c. Protection of principal amount
- d. Low risk and stable income

28. Debt funds target

a. Long term capital appreciation

b. High growth with risk

c. Protection of principal amount

d. Low risk and stable income

29. Consider the below risk order (low → high)of different funds

Liquid Funds -> Short Duration Funds -> Medium Duration Funds

Which type of risk is being talked about?

a. Interest Rate Risk

b. Credit Risk

c. Default Risk

d. Model Risk

29. Consider the below risk order (low → high)of different funds

Liquid Funds -> Short Duration Funds -> Medium Duration Funds

Which type of risk is being talked about?

a. Interest Rate Risk

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c. Default Risk

d. Model Risk

30. The biggest advantage of investment in gold is:

- a. Hedge against inflation
- b. High return
- c. High appreciation value
- d. Low purchase price

30. The biggest advantage of investment in gold is:

a. Hedge against inflation

b. High return

c. High appreciation value

d. Low purchase price



B12. The longer the horizon to the goal, the ability to take risks is higher.

a. True

b. False

COMMENT

BELOW



B12. The longer the horizon to the goal, the ability to take risks is higher.

a. True

b. False