

Chapter 5: SCHEME RELATED INFORMATION

5.1 Mandatory Documents

When investing in mutual fund schemes, certain documents are mandatory for investors to understand the scheme's features, risks, and terms. These documents include:

Key Information Memorandum (KIM): The KIM provides essential information about the mutual fund scheme, such as its investment objective, asset allocation, fund manager's details, and historical performance. It helps investors make informed decisions before investing.

Scheme Information Document (SID): The SID is a detailed document that provides comprehensive information about the mutual fund scheme. It includes details about the investment strategy, risk factors, fund manager's experience, expense ratio, and other operational aspects. Investors must read the SID carefully to understand the nuances of the scheme.

Statement of Additional Information (SAI): The SAI contains additional information about the mutual fund scheme, including legal and regulatory disclosures, details about the AMC, trustees, service providers, and other relevant information. While it is not mandatory to provide the SAI to investors, it is available upon request and can provide deeper insights into the scheme.

Quiz Questions:

Which document provides essential information about a mutual fund scheme, including its investment objective and historical performance?

- A. Scheme Information Document (SID)
- B. Key Information Memorandum (KIM)
- C. Statement of Additional Information (SAI)

Answer: B

What does the Scheme Information Document (SID) include?

- A. Legal disclosures and regulatory information
- B. Comprehensive details about the mutual fund scheme's investment strategy and risk factors
- C. Additional information about the fund manager's personal investments

Answer: B

5.2 Non-Mandatory Disclosures

In addition to mandatory documents, mutual funds may provide non-mandatory disclosures to enhance transparency and clarity for investors. These disclosures include:

Portfolio Disclosure: Mutual funds may disclose their portfolio holdings periodically, allowing investors to understand the composition of their investments across various securities and sectors.

Performance Updates: Regular updates on the scheme's performance, including NAV movements, returns over different time periods, and comparisons with benchmark indices or peer funds.

Expense Ratio Breakdown: Detailed breakdown of the expense ratio, including management fees, administrative costs, and other expenses charged to the scheme.

Risk Factors: Detailed disclosure of specific risks associated with the scheme, such as market risk, credit risk, liquidity risk, and operational risk.

Non-mandatory disclosures provide investors with additional insights into the mutual fund scheme's operations and performance, fostering transparency and informed decision-making.

Quiz Questions:

What type of disclosure may mutual funds provide to show the breakdown of expenses charged to the scheme?

- A. Portfolio Disclosure
- B. Performance Updates
- C. Expense Ratio Breakdown

Answer: C

Why do mutual funds provide non-mandatory disclosures?

- A. To confuse investors with excessive information
- B. To enhance transparency and provide additional insights to investors
- C. To avoid regulatory scrutiny

Answer: B