



# Introduction to Mutual Funds

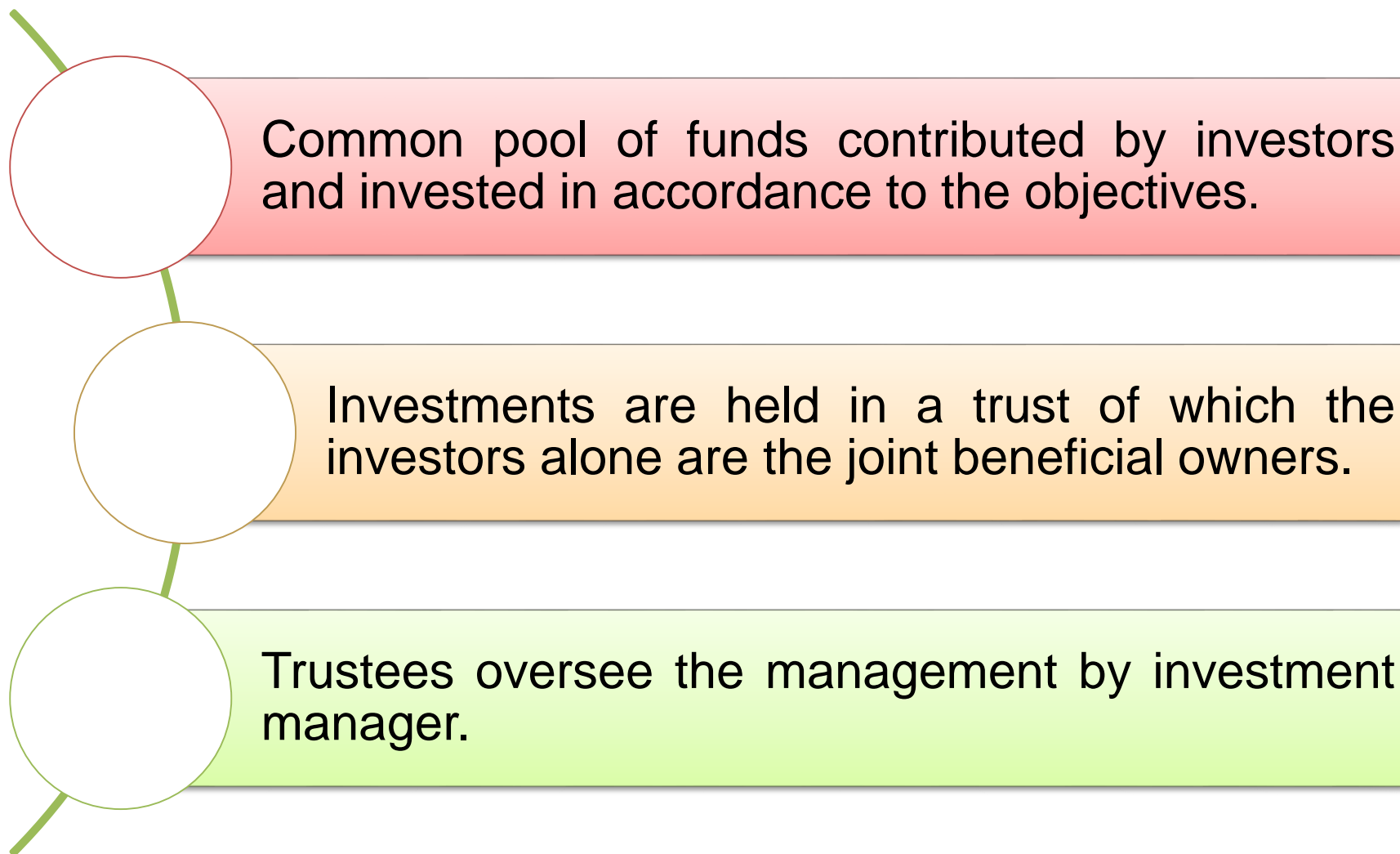
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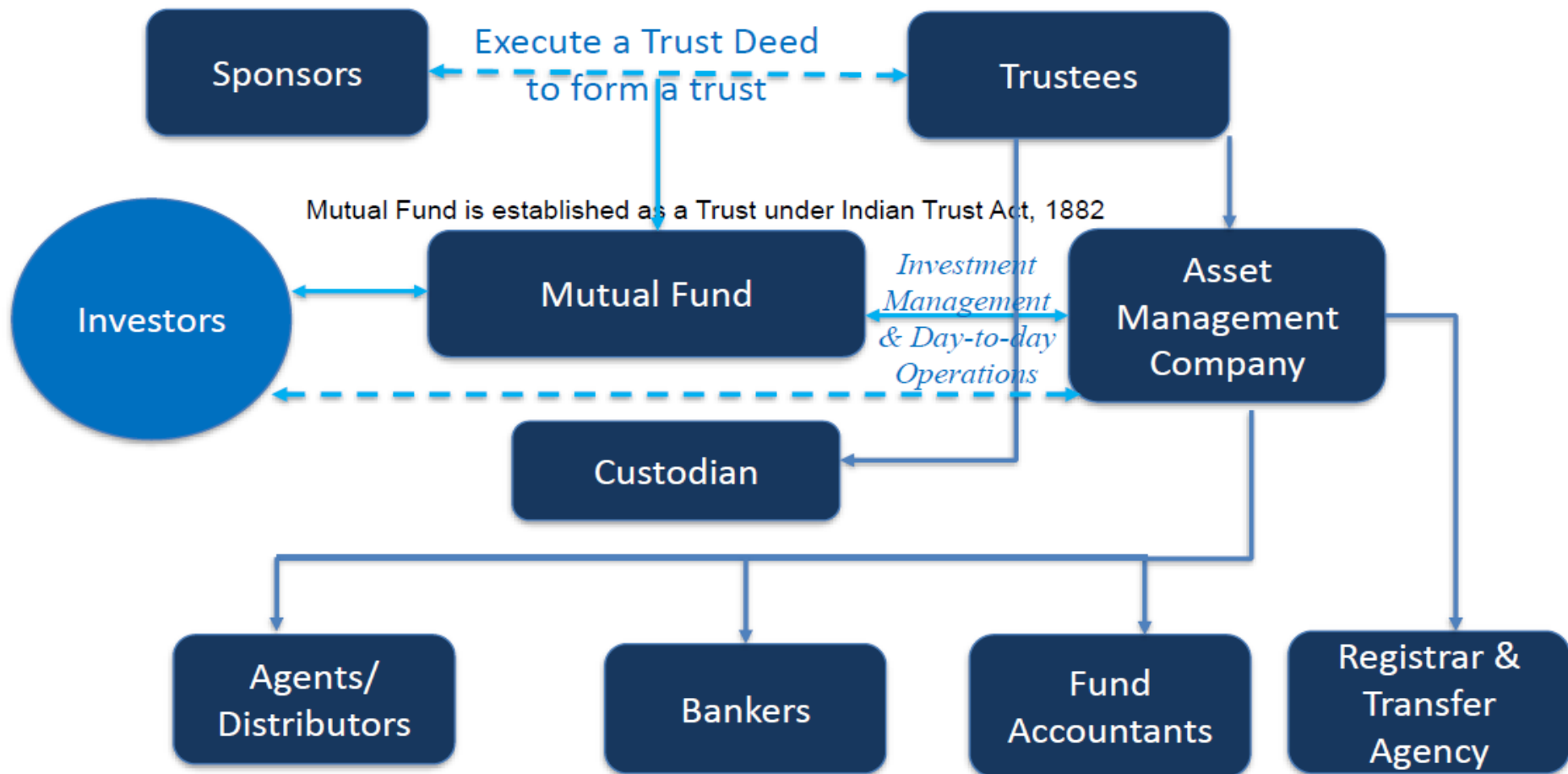
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# What is a Mutual Fund (MF)?



# Structure of Mutual Fund

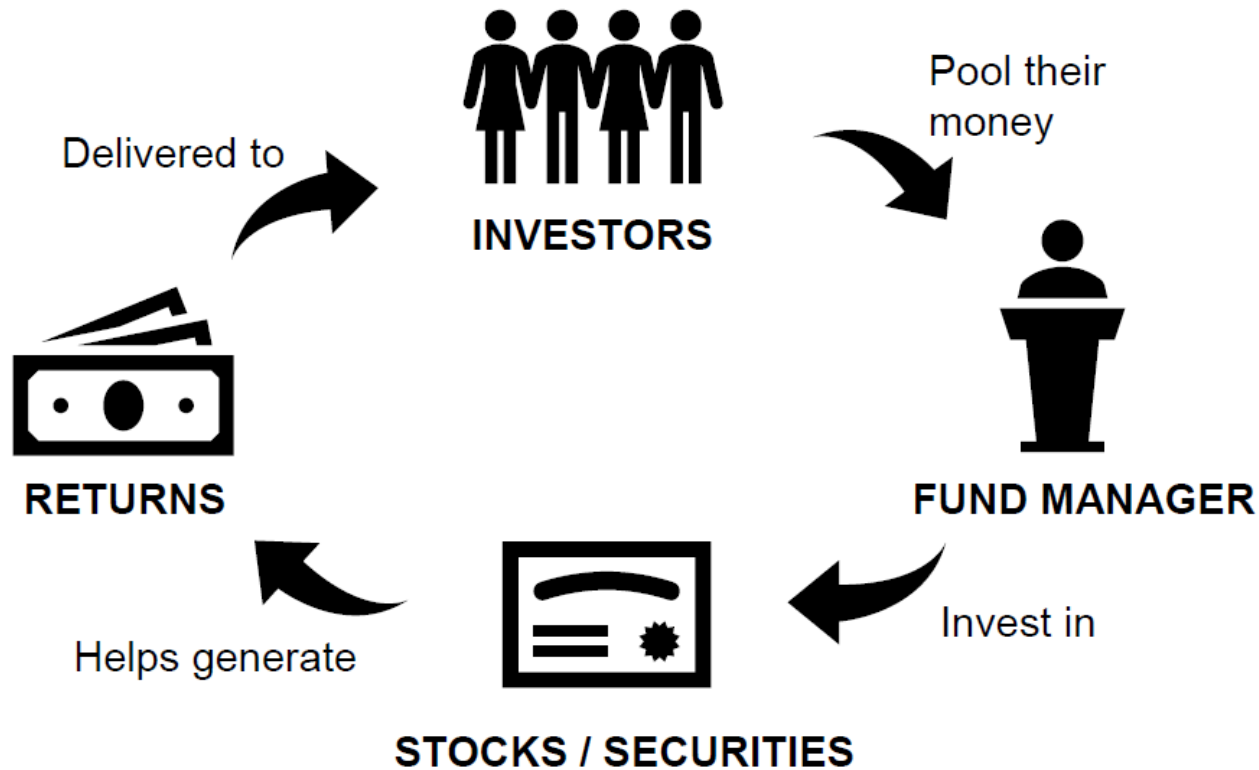


# What is an Asset Management Company (AMC)?



- Investment manager of the mutual fund.
- Appointed by the trustees, with SEBI approval.
- Trustees and AMC enter into an investment management agreement.
- Required to invest seed capital of 1% of amount raised subject to a maximum of Rs.50 lakh in all open-ended schemes.
- Should have a net worth of at least Rs.50 crore at all times.
- At least 50% of members of the board of an AMC have to be independent.
- AMC of one mutual fund cannot be an AMC or trustee of another fund.
- AMCs cannot engage in any business other than that of financial advisory and investment management

# How does a Mutual Fund Work?



- Pool of investors money.
- Invested according to pre-specified investment objectives.
- Benefits accrue to those that contribute to this pool.
- There is thus mutuality in the contribution and the benefit.
- Hence the name '**mutual**' fund.

## Classification of Mutual Funds

### Based on Structure

Open Ended Funds

Closed Ended Funds

Interval Funds

### Based on Investment Objective

Debt Funds

Equity Funds

Hybrid Funds

### Based on Investment Style

Passive Funds

Active Funds



# Classification ~ Based on Structure



## Open Ended Funds

- No fixed maturity date.
- Accept continuous sale and re-purchase requests.
- Transactions are NAV-based.
- Unit capital is not fixed.

## Closed Ended Funds

- Run for a specific period.
- Offered in an NFO but are closed for further purchases after NFO.
- Unit capital is kept constant.

## Interval Funds

- Variant of closed-ended funds.
- Becomes open-ended at specific intervals.
- Have to be mandatorily listed.

# Classification ~ Based on Investment Objective



## Debt Funds

- Invest in short and long term debt instruments.
- Aim to provide regular income.

## Equity Funds

- Invest in equity securities.
- Aim to provide growth and capital appreciation over long term.

## Hybrid Funds

- Invest in a combination of equity & debt securities
- Proportion of equity and debt may vary.
- Aim to provide for both income and capital appreciation.

# Classification ~ Based on Investment Style



## Passive Funds

- Replicate a market index.
- Invest in same securities and in same proportion as that of index.
- No active selection of any stock / sector.
- Expenses are lower.
- Portfolio is modified every time index composition changes.

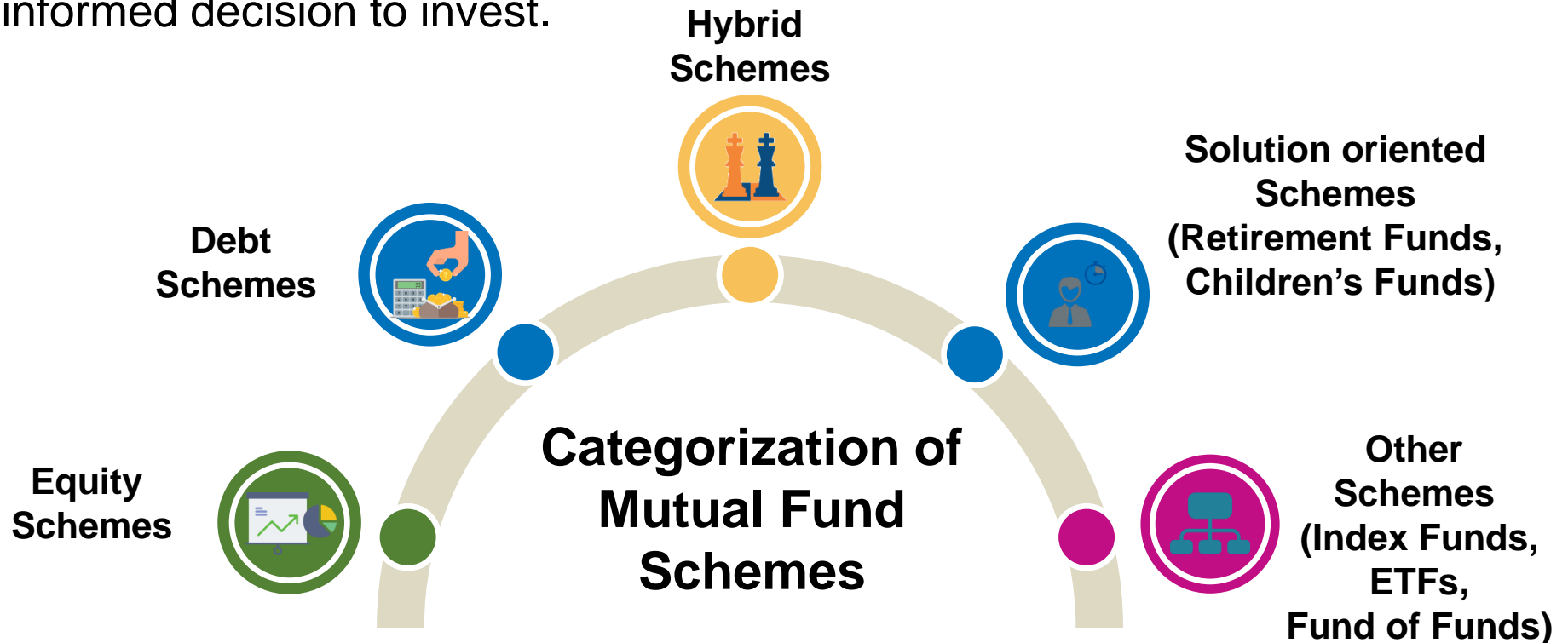
## Active Funds

- Invests in securities and sectors that may offer a better return than the index.
- Actively manage the allocation to market securities and cash.
- May perform better or worse than the market index.
- Incur a higher cost than passive funds.

# Categorization of Mutual Fund Schemes

Categorization of open-end mutual funds:

- To ensure uniformity in characteristics of similar type of schemes launched by different mutual funds.
- Helps investors to evaluate different options available before making informed decision to invest.



# How to invest in Mutual Funds?

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Via Physical Mutual  
Fund Application  
Form

Via Online Mode  
(Website of Mutual  
Fund)

Via Mobile App of  
Mutual Fund

Via AMFI  
Registered Mutual  
Fund Distributor  
(using physical  
form / online /  
mobile app)

# Centralized KYC (C-KYC) in Securities Market

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- KYC registration is centralized through **KYC Registration Agencies (KRAs)** registered with SEBI.
- Each investor to undergo KYC process **only once in securities market** and details would be shared with other intermediaries by the KRAs.
- Standard Account Opening form (AOF) has 2 parts:
  - **Part I** : Basic and uniform KYC details of the investor
  - **Part II** : Additional KYC information as may be sought separately by the Mutual Fund

# Mutual Funds investment procedure



Indicate whether you are a First Time Investor/ Existing Investor.



Visit official website of KRA and check whether you are KYC compliant or not.  
You must submit this KYC status.



Provide your details like name, address, etc.



Submit Bank account details and copy of “Cancelled Cheque”.



Once documents are accepted by Mutual Fund Company, you may start making investment.

## Lump-sum Investment

- One time investment.
- Usually, large sum of money is invested in one go.
- Investor faces risk of volatility in markets.

## Systematic Investment Plan (SIP)

- Staggered Investment.
- Period of commitment - 6 months, 1 / 3 / 5 years.
- Specific intervals - monthly, quarterly, half-yearly.
- Made on specific dates e.g. 1st, 5th, 10th, 15th of every month.



## Direct Mutual Fund

- Directly offered by fund house.
- No involvement of third party agents – brokers or distributors.
- No commissions and brokerage.
- Have low Expense ratio (because of no commissions).
- Have high NAV.
- Return is higher due to a lower expense ratio

## Regular Mutual Fund

- Bought through an intermediary.
- Intermediaries can be brokers, advisors or distributors.
- Commissions and brokerage paid.
- High Expense ratio as there are commissions to pay.
- Low NAV.
- Return is lower due to a higher expense ratio

# MF Plans – Growth vs Dividend Options



## Growth Option

- Gains made in portfolio are retained and reflected in NAV.
- Realized profit/loss is treated as capital gains or loss.
- No increase or decrease in number of units, except if units are purchased or sold, by the investor.

## Dividend Payout Option

- Fund declares dividend from realized profits.
- Amount and frequency varies and depends upon distributable surplus.
- NAV falls after dividend payout to the extent of dividend paid.

## Dividend Reinvestment Option

- Dividend is re-invested in same scheme by buying additional units at ex-dividend NAV.
- Number of units standing to the credit of the investor, increases each time a dividend is declared, and reinvested back into the scheme.

# How to check information about MFs (Offer Document)?



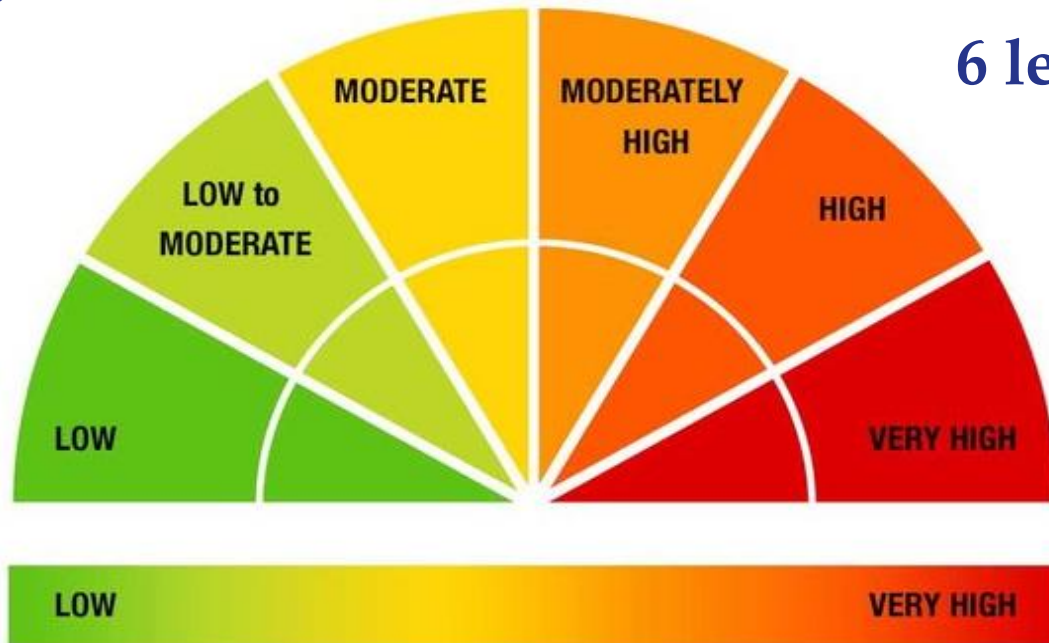
## Statement of additional information (SAI)

- Contains generic and statutory information of mutual fund.
- Contains financial information of mutual fund.
- Lays down rights of investor.
- Other additional information.

## Scheme information document (SID)

- Scheme type (open or closed end).
- Investment objective.
- Asset allocation.
- Investment strategies.
- Terms with regard to liquidity.
- Fees and expenses.
- Other information relating to the scheme.

# Risk-o-Meter and its importance



## 6 levels of risk for MF schemes

1. Low Risk
2. Low to Moderate Risk
3. Moderate Risk
4. Moderately High Risk
5. High Risk Very
6. High Risk

## Importance of Risk-o-meter

Helps align risk that a fund carries with the risk profile of the investor

### Equity as Asset Class:

Volatile, High Risk

### Debt as Asset Class:

Stable, Low Risk

### Hybrid as Asset Class:

Moderate; Risk depends on allocation and concentration

# Nomination for Trading/Demat/Mutual Fund Units

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- Investor to get two options regarding nomination
  - ❖ To provide nomination in the prescribed form up to three person along with their percentage
  - ❖ Opting out of nomination through prescribed declaration form
- **Last date for submission of 'choice of nomination' for Demat Accounts and Mutual Fund Folios is June 30, 2024**
- Applicable for opening new Demat account and trading accounts on or after October 01, 2021
- Applicable for investor subscribing to mutual fund units on or after October 01, 2022.
- For existing unit holder, AMC shall provide an option to submit
  - ❖ In case of physical option, the form shall carry the wet signature
  - ❖ In case of online option, AMC shall validate the form using e-Sign Or through two factor authentication (2FA)

# Mutual Fund investment by Minor

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- ❖ Payment on behalf of minor shall be from
  - Bank Account of the minor
  - Joint account of the minor with the guardian
- ❖ KYC process to be completed upon attaining the status of major

# New SEBI Investor Website



<https://investor.sebi.gov.in>



Dive into Money Matters to grasp Personal Finance concepts.



Educational Resources, related to investments, including securities market



Access a range of Financial Tools and Calculators.

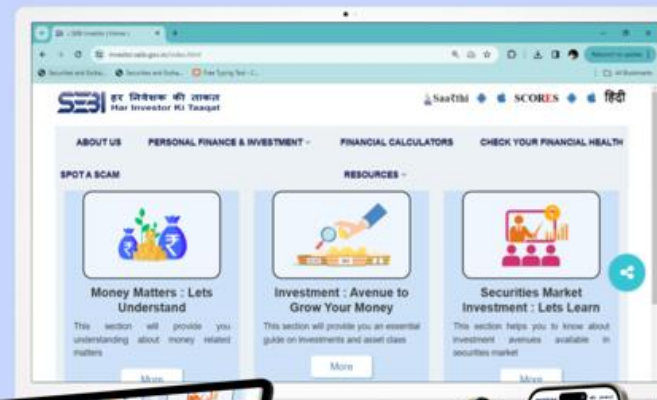


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- <https://investor.sebi.gov.in/>
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□ Redressal of Grievances : [www.scores.gov.in/](http://www.scores.gov.in/)

□ Toll-free Helpline Numbers :

① 1800 266 7575

① 1800 22 7575 [9:00 am - 06:00 pm on all days except declared holidays]

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English, Hindi, Bengali, Gujarati,  
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**Thank You**