PREFACE

This summary notes doesn't guarantee passing the exam.

IT IS ONLY MEANT TO CONDENSE THE HUGE CONTENT OF ICMAI.

One needs to have a visualisation of connected questions with every concept studied here.

THE VISUALS COME ONLY WHEN YOU HAVE PRACTICED THE CONNECTED SUMS AT LEAST 3 TIMES AFTER UNDERSTANDING THE LOGIC BEHIND THE CONCEPTS.

For effortless understanding of logic and practice of sums once, Join full classes of SFM with Satish Sir.

Exclusively taught as per CMA Final Course.
ICMAI Material Covered with all practicals and theories.

YOU WILL FALL IN LOVE FOR FINANCE, FOR SURE

"I believe in - showing students how to cook rather than to give the food. Specially, I have also given sessions for preparing summary notes, where I am showing the process of how to summarise the big chapters. This would help you in all other subjects." - Satish Sir

Reviews of our regular classes of SFM

The books were great with regards to the content and coverage that has been provided. I really liked the numerous variation of sums that were provided to us in the entire course. I really loved the flow of the classes and the content was very well covered.

Thanking You.
Dipti Saraf

The content in the book is very good and well organized, there is extra space for page numbers and what is new is very useful and saves time for study, also the quality of the book is very good including the quality of paper and binding of the book.

Anjali Kumari Shaw

Mutual Funds

Mutual funds

- Theory
- Practicals

Theory

- MF structure
- Adv/Disadv
- Select a M/F Scheme
- Exit from M/F
- Types of M/F
- Options
  - Plans in M/F Scheme
  - Dir Plans

1. M/F Structure

- Sponsor
- Trust
- Beneficiary
- SEBI
- Trustee
  - AMC
  - Custodians
  - Depositories
  - Trustee Agents
  - MF Distributors

Advantages / Disadvantages

Advantages

1. Professionally managed
2. Diversified
3. Easy administr
4. Loan against mf
5. Low cost
6. Transparency
7. Regulated

Disadvantages

1. No Guarantee
2. Low returns
3. Taxability
4. Cost of Investment
5. Unethical practices

3. Selection of a MF Scheme

1. Past Performance – Monthly, Quarterly, Annual
   - CAGR

- Past 5 yrs
- Sharpe Ratio, Treynor Ratio, Jensen's Alpha, Beta

2. AUM 3. Age of fund 4. Fund Mgr 5. Ex impkin

6. Holding Pattern 7. Portfolio T/o Ratio

8. Exp Ratio 9. Objective of fund

10. Mkt timing

4. Exit from M/F

1. Investor's goal achieved
2. Under performance from benchmark, from peers
3. Changes in objective of M/F
4. " " " investor
5. " " " Fund Mgr

5. Type of M/F

1. Open Ended M/F
2. Closed Ended M/F
3. Interval fund
4. Growth fund
5. Income fund
6. Equity Fund atleast 65%
7. Debt fund atleast 65%
8. Balanced fund Eq + Debt
9. Liquid / Money Mkt / Cash fund
10. ELSS
   - locked in 3yr
   - 65% Equity
11. Capital Protection
   - by hedging
   - Ltd returns
12. Index fund
13. Fund of fund

14. Off Shore fund & Intral fund

↓ raises globally & invest in domestic

↓ raises domestic & invest in global Co.

15. Arbitrage fund - invest in arbitrage Opp.
- High Risk /unregulated
- Alternative investment

16. Sector fund - Specific Sector focus

17. Exch traded fund (ETF)

- Listed on Stock Exchange
- Index ETF, Commodity ETF, Bond ETF, Cimeray ETF

18. Hedge fund
- HNIS - Alternate investment
- High risk - Fund mgrs chgs high variable fees

Others
1. Life Style fund => based on investor life style
2. Load Fund => Chgs an entry/exit fee
3. Quantitative fund => Uses Sophisticated tools

& techniques to select Securities

4. Assured Return Schemes =>

5. Floating rate funds => Invests in floating rate instruments

6. Thematic funds => Emerging sectors

6. Plans in M/f Schemes

- Direct Plan => buy/sell directly
- Regular Plan => through MF distributors

7 Options of M/f Investment

- Growth => reinvested
- Dividend => periodic income
- Reinv of div => new uts allotted against dividend

8 Investment Plans

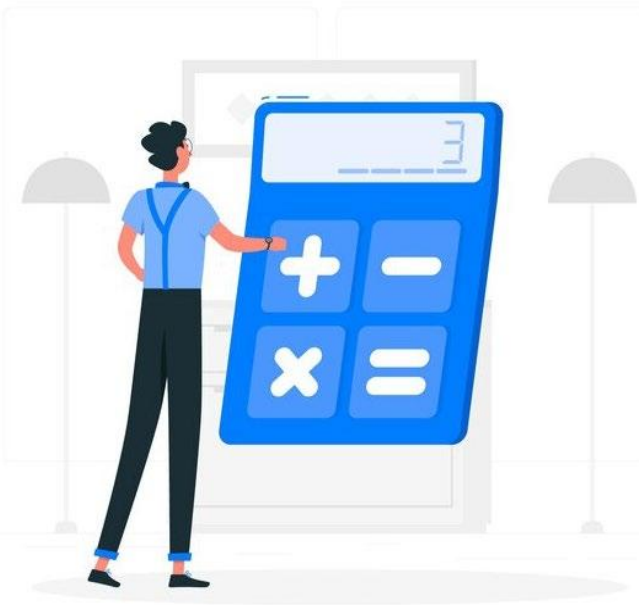
- SIP
- STP - from one fund to another fund
- SWP - like a pension

Calculations in MF

1. NAV Calculn
2. Returns Calculn
3. Ratios
4. NAV using EAY
5. Div Equalisn Effect
6. STCG & STT Effect

1. NAV Calculation

P/F of MV ✓
Accrued income ✓
Cash ✓
✓
Less: CL (✓)
NAV ✓
nos issued & subs ✓
NAV/unit ✓



[nos can be in fraction]

Portfolio Turnover Rate = Lower of Purch & Sales / Avg NAV.

NAV Trading Price (QY)

In Actual Mkt, NAV may trade above or below the calculated NAV.

If Act trading Price > NAV, we say the M/F units are at Premium.

If Act trading price < NAV, it is at Disc.

$$\text{Prem/disc \%} = \frac{\text{Act Price} - \text{NAV}}{\text{NAV}}$$

2. Return Calculations

- HPR
- CAGR
- EAY
- Returns with Reinv
- Diff Return

(a) HPR - Investor's view pt.

Return for the period of holding = Return to investor in M/F

$$= \frac{\text{Cl NAV} - \text{Op NAV} + \text{Div \& CG distn}}{\text{Op NAV}}$$

$= \left(\frac{SV - PC + Div}{PC}\right)$

Return p.a : HPR × 12/n

- Investor PP/SP can be diff from NAV
- Div is only in Income Plan

(b) **CAGR** :- normally in Growth fund

→ $FV = PV(1+r)^n$

↓ ↓

NAV_1 NAV_0

→ No income distbn is there, we use CAGR (Q14)

(c) **EAY**

Return p.a => HPR × 12/n (preferred)

or

$FV = PV(1+r)^K$ K = 12 - when HPR is monthly

$EAY = \left[\frac{FV - PV}{PV} \times 100\right]$

Or

$$(1+r)^k - 1$$

(d) Return with Reinvestment of Income Distributed

Step 1 Div & Inc accrued

Step 2 Addl wts allotted on reinv.

Step 3 No. of wts in hand on cl. date

Step 4 Return pa $= \frac{SV - PC}{PC}$ (assume 1yr period)

SV = New wts after reinv × Cl NAV

PC = Orig wts × Op NAV

(e) Indifference Return

Net return to be earned by MF to match with the desired return of investor

$$\text{Return desired by Investor} = \left(\boxed{\text{Return earned by mf}} - \frac{\text{Rec Exp}}{\%}\right) \times \left(1 - \frac{\text{Initial Exp}}{\%}\right)$$

Return earned by MF = $\frac{\text{Return desired by Investor}}{1 - \text{Initial Exp \%}} + \text{Rec Exp \%}$

3. Ratios for MF Performance

- Exp Ratio = $\frac{\text{Rec Exp}}{\text{Avg NAV}}$
- P/F T/O Ratio = $\frac{\text{Lower of SV or PL}}{\text{Avg NAV}}$
- P/E Ratio ↓ WAvg P/E Ratio of Securities ↓ Weight = MV

Front End load & Back End load

Front End load = Entry load

Public offer Price = PC + Front End load
= NAV

NAV

(+) FE load — any % of above NAV ✓

Prefer this

PNAV = ✓

(+) FE load = ✓ (% on Net PC)

NAV (PC / (1 − FEL))

✓

Back End load = Exit load

Net SV = SV − Exit load

NAV

SV = ✓

↪ BEL = ✓

Net SV ✓

SV = ✓

↪ BEL = ✓

Net SV (SV / (1 + BEL))

4. NAV using EAY (Q25)

1. Op. NAV
2. Addl wh allotted] Y1

3. Amt of Div & CG] Y_2

4. Add wts allotted

$$= \frac{\text{Div \& CG}}{\text{NAV on } Y_2 = x}$$

5. Total wts after above add wts

= Step2 + Step 4 ⇒ x solve

6. NAV on Yr 3

Use Annualised Return — convert to HPR & find Cl. NAV

5. **Dividend Equalisation Effect** [Q28]

PP ⇒ NAV on date + $\frac{\text{Div Eqn levy}}{\text{income to MF}}$ + FE Load

SP ⇒ NAV - - + $\frac{\text{Div Eqn levy}}{\text{Exp to MF}}$ − BE Load

- Div Eqn levy ⇒ PP ⇒ Collected from Investor
  SP ⇒ Paid to the investor

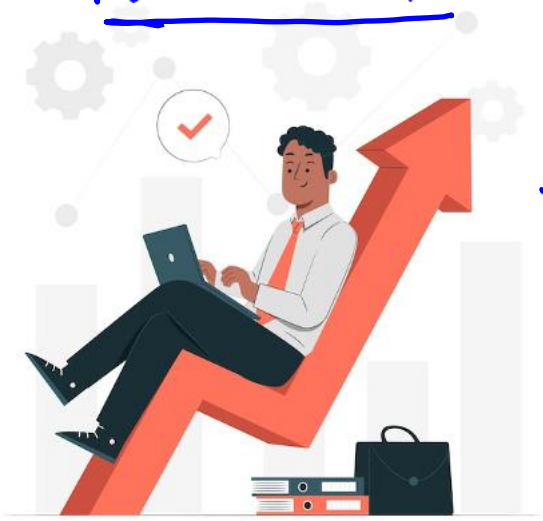
It is an income for MF if it is collected

at the time of issue.

It is an exp for MF if it is paid at the time of redemption / repurchase

6 STCG / STT effect [Q29]

For investor => STT is paid on Sv & Purchase both



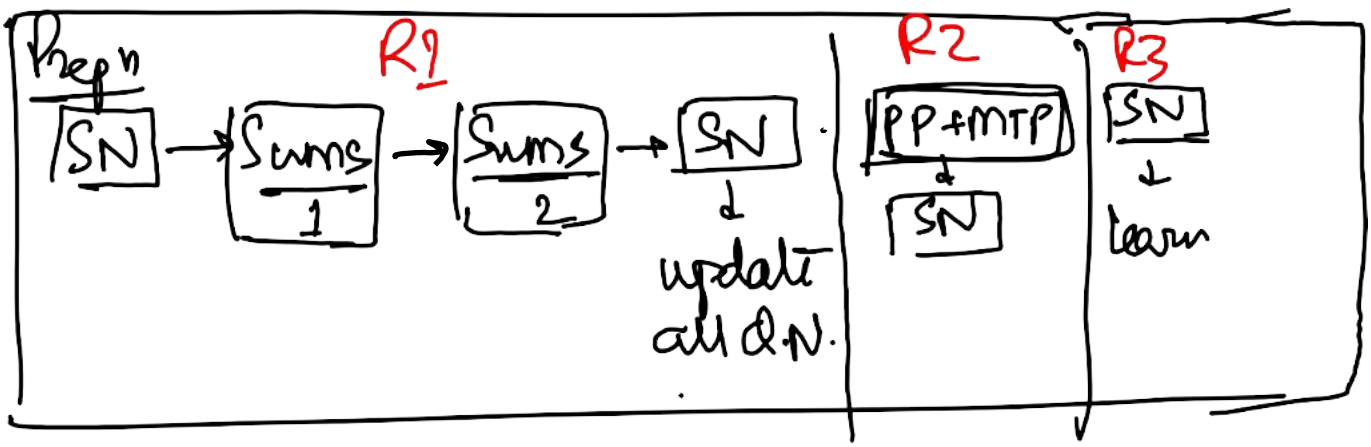
=> Net Sv = NAV − STT @ 1% on NAV

=> Net PC = NAV + STT @ 1% on NAV

STCG => If Purch & Sale within 1 yr

=> [Net Sv − PC]

Bonus wls => PC = Nil or NAV on that date



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The fees that you may pay to us is your REFERENCE.

Please refer your friends or family to take all classes of CA/CMA only from SJC Institute.

Thank You.