MUTUAL FUND ....

Part-1

Individual → Consume

Individual → Save

↓

Invest

↓

Financial Market

- Equity
- Fixed Income
- Alternate Investment
  - Commodities
  - Real Estate
  - Private Equity

Does the investor have expertise & time to invest?

If yes, Direct Investment.

If No, Indirect Investment.

Indirect Investment

- Small Investors
  ↓
  Mutual Funds
- High Networth Individuals (HNI)
  ↓
  - Portfolio Management Scheme [PMS]
  - Alternate Investment Category III
- Ultra HNIs
  ↓
  Separately Managed Account.

-¦- Dividend Equalisation :-

→ Open Ended Fund -

You can buy or sell/redeem unit from the fund

Open ended Fund - shares are not listed on stock exchange NSE or BSE.

itself @ NAV + Entry Load or NAV - Exit Load.

Dividend Equalisation is the amount that is charged from new entrants & paid to those redeeming, so to ensure fair treatment to all continuing investors.

Q.36	Pg
CW · 90	

Total Income	xx
(+) Dividend Equalisation Received	xx
(-) Dividend Equalisation Paid	(xx)
Income available for distribution	xxx

Issue price for fresh units = NAV + Entry Load + Dividend Equalisation p.u.

Repurchase price = NAV - Exit Load + Dividend Equalisation p.u.

Ending NAV = $\frac{x}{y}$

where, y = opening units + units issued - units redeemed

x = opening net assets + portfolio appreciation + Total income + cash inflow - cash outflow - Dividend distributed.

Sol^n of Q.36] ↓

(ii) Issue price at the end of April.

Opening NAV	19.00
(+) 2% load	0.38
(+) Dividend equalisation p.u. (31.96 / 400)	0.0799
	19.4599

Dividend equalisation received = 0.0799 x 5 = 0.3995 lakhs.

Cash Inflow = 19.4599 × 5 = 97.2995 lakhs.

(iii) Repurchase Price at the end of May -

Opening NAV		19.00
(-) 2% exit load		(0.38)
(+) Dividend Equalisation p.u.		
April : 31.96/400	0.0799	
May : 46.125/405	0.1139	0.1938
		18.8138

Dividend equalisation paid = 0.1938 × 4 = 0.7752 lakhs

Cash outflow = 18.8138 × 4 = 75.2552 lakhs

(i) Income available for distribution -

Income of April	31.960
Income of May	46.125
Income of June	58.470
Total Income	136.5550
(+) Div. Eq^n. received	0.3995
(-) Div. Eq^n. paid	(0.7752)
	136.1793 lakhs

(iv) NAV on 30th June -

	(₹ in lakhs)
Opening Net Assets (400 × 19)	7600.0000
(+) Portfolio Value Appreciation	515.6700
(+) Total Income	136.5550
(+) Cash Inflow	97.2995
(-) Cash Outflow	(75.2552)
(-) Dividend Distributed (60% of 136.1793)	(81.7076)
Net Assets on 30th June	8192.5617
No. of units [400 + 5 - 4]	401 units
∴ NAV on 30th June [8192.5617 / 401]	20.4303

Self practice : HW. Q. 21] pg. 56 ; Extra Q. 3] pg. HW. sol^n. 161

Part-2

-:- Various types of Plans :-

- Regular Plan or Dividend Payout Plan
- Dividend Reinvestment Plan
- Bonus Plan
- Growth Plan

Eg: NAV on 1st April, 2022 = 50
NAV on 31st Dec, 2022 = 58
Dividend Distribution = 2 per unit
Capital Gain Distributⁿ = 1 per unit
Calculate Holding Period Return (HPR)

$$HPR = \frac{\text{Distributions p.u.} + (NAV_1 - NAV_0)}{NAV_0} \times 100$$

$$HPR = \frac{(2+1) + (58-50)}{50} \times 100 = 22\%$$

Effective Annual yield = $HPR \times \frac{12}{n} = 22 \times \frac{12}{9} = 29.33\%$
(yeh h to SAR but maante EAR h q k mutual funds bhole bhale investors k liye h ... factor nhi lagate fir bhi EAR kehte h ...)

Note : what if 58 was NAV on 31st Dec, 2023
i.e. holding period = 21 months (Apr 2022 - Dec 2023)
$EAR = 22 \times \frac{12}{21} = 12.5714\%$

Suppose it is a dividend reinvestment plan.
So, both dividend distribution & capital gain distribution are invested at an NAV of 54.
If No. of units purchased on 1st April, 2022 = 500
Calculate HPR & EAR.

Solⁿ:- Initial Investment $(V_0) = 500 \times 50 = 25000$
Distribution amount reinvested
$= (2+1) \times 500 = 1500$
Reinvestment price = 54

∴ No. of units received on reinvestment = $\frac{1500}{54}$ = 27.7778 units

∴ Total units = 500 + 27.7778 = 527.7778

∴ Ending value on 31st December, 2022 (V_1)
= 527.7778 × 58 = 30611

$$HPR = \frac{V_1 - V_0}{V_0} \times 100 = \frac{30611 - 25000}{25000} \times 100 = 22.44\%$$

$$EAR = 22.44\% \times \frac{12}{9} = 29.92\%$$

Note : In the entire eg., agar entry load & exit load hota toh... kya krte ?
Purchase price = 50 + Entry Load.
Redemptⁿ price = 58 − Exit Load.

The above discussion relates to open ended fund where investor purchases additional units or reedeems existing units @ NAV subject to load feature from the fund itself. In case of close ended fund, you should think of it like a share traded on NSE or BSE .... no concept of load.

Self Practice: CW. Q. 20] pg. 84
CW. Q. 23] pg. 85
CW. Q. 24] pg. 85
HW. Q. 12] pg. 52
HW. Q. 13] pg. 53
HW. Q. 15] pg. 54

The whole Mutual Funds chapter is for small (naive) investors .... they don't understand compounding / factoring, so we just use unitary method whenever sum asks effective Annual yield we have to calculate simply as SAR.... always unitary method.