

Lecture - 1/2

31/07/2022

11081 2022

Ch-12 Mutual fund

- established in the form of trust to money through sale of units
- Investors get access to professional management
- Mutual fund invest the fund in capital market / other market
- It plays active role in building wealth and generating income on investor.
- Started with the introduction of unit trust of India in 1963 [Total 45 mutual fund in India]

scheme

↓
open ended MF

- i) Variable Corpus
- ii) Not listed on recognized stock exchange
- iii) Highly liquid
- iv) free entry and exit
- v) only one value (Net Asset Value)
- vi) can be redeemed on any

↓
close ended MF

- i) fixed Corpus
- ii) listed on RSE
- iii) mostly liquid
- iv) Restricted entry
- v) Two value (Net Asset Value & market value)
- vi) can be redeemed on maturity

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* Types of plan

Regular Plan

Direct Plan

- Sold through distributor

- high expenses ratio because of commission of distributor

- lower return because high expense ratio

- Directly Purchase from AMC

- less expenses ratio because No distributor is involved

- ~~low~~ less expenses
- High return

* Parties involve in MF

i) Sponsor :

- i) Influential investor who creates demand for security Mutual fund

- ii) set up trustee & AMC

- iii) contribute 40% of AMC

ii) Asset management company :

- Company registered under Companies Act, 2013 and having certificate from SEBI

- Known as fund manager

- Responsible for investment Decision i.e invest pooled fund as per their financial object

- It provides more diversification and investing option

- 40% of net worth is contributed by sponsor

- can be removed by majority of trustee or 75% of unit holders

iii) Trustee :

- owner of trust property who holds the property for the benefits of unit holders
- They hold or administer the trust property

iv) unit holders :

- Investor who holds units of mutual fund

v) custodian :

- Hold securities & other assets of mutual fund and provides incidental services like maintaining the accounts of client, collecting the benefits or rights
- Registered under SEBI
- Open separate ~~account~~ custody account and deposit account in the name of each client
- Generally appointed by trustee or sponsor

vi) Transfer agent :

- Deals with issue and redemption & transfer of units of Mutual fund
- maintain updated records of client
- Registered with SEBI

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* Schemes According to investment objectives

I] Income oriented mutual fund

- fixed Income to Investor

- Investment in Debt securities like debenture bonds, Govt securities
- low risk, low return
- suitable for passive income

II] Growth oriented schemes

- Investment in good quality scripts
- Growth by way of Dividend and capital appreciation
- No guaranteed return
- less risk and high return

III] High Growth mutual Fund

- Investment in the securities having high Volatility
- high risk, high return
- Income through Rapid capital appreciation
- suitable for active investor

IV] Hybrid mutual fund

- known as balance fund
- mixture of debt & equity
- Investment mix depend upon the investor
- feature of Income oriented Mutual fund and growth oriented Mutual fund

V] Capital Protection oriented scheme

- Intention is ~~to~~ to protect the original capital invested by investor
- close ended Mutual fund
- Generally listed on stock exchange

- mixture of each of equity & debt
- more towards debt investment

VI] Tax saving scheme

- Rebate to investor under tax law
- Government offer tax incentives
- lock-in \rightarrow period 3 years
- Equity linked saving scheme

VII] special scheme

- Investment in specified sector
- Replicate the performance of particular index such as NIFTY-50 or specific sector.
- Return is equivalent to the return generated by such specific sector or Index
- ideal for the investor who has already decided to invest in specific sector

VIII] Real estate mutual fund

- Investment in real estate sector directly or indirectly
- close ended scheme
- listed on RSE

IX] off shore mutual fund

- Investment in foreign company
- obtain permission from RBI and follow FEMA regulation

XI] Leverage fund

- known as borrowed fund
- fund collected from unit holder as well as borrow money from bank or financial institution

XII] Hedge fund

- Hedge means mitigation of risk
- fund employed in speculation trading
- fund use to hedge market risk
- use complex strategy for hedging

XIII] Fund of fund

- Investment in unit of other mutual fund
- Introduced by ICICI
- Current not operated in India

XIV] New ~~direction~~ ~~fund~~ direction fund

- Investment in technology and scientific research
- company such as birth control, pollution control

XV] Exchange traded fund

- Investment in index or basket of securities
- Describe as more tax efficient than tradition equity mutual fund
- Introduce in 1993

XVI] Money market mutual fund

- Investment in money market instrument such as T-bill, Govt securities

- short term Investment having higher yield
- safe Investment

~~xxxx~~ ~~Before Investment~~

- No default risk

~~xxxx~~ Infrastructure Debt fund

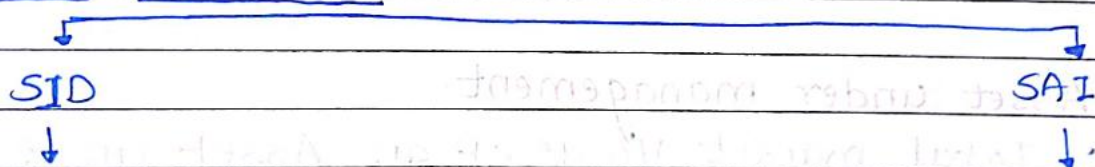
- Investment in Infrastructure project or Infra sector
- Investment in the debt securities of Infra Co.

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* Mutual fund Terminology

i) offer document



- | | |
|--|---|
| <ul style="list-style-type: none"> • It contain details of scheme • updated every year • Name of scheme shall be on the cover page • It contain highlight of the scheme • Risk factor | <ul style="list-style-type: none"> • contain statutory Information • updated quarterly • Information about : Sponsor, MF, trustee, custodian, AMC • Rights of unit holder |
|--|---|

* Key Information memorandum

- Summary of SID & SAI
- updated at least once in a year
- Issued along with application form

* Facts sheets

- Provided by AMC to MF on monthly basis
- It contains NAV, expenses ratio, exit load, past performance, yield to maturity

* Net Asset Value

- market value of the unit on the particular given data
- Declared daily on the website of AMC & also publish in 2 Newspaper
- $$\text{NAV} = \frac{\text{market value of Investment} + \text{Receivable} + \text{accrued Income} + \text{other Income} - \text{outstanding Exp} - \text{liability} \& \text{ other Expenses}}{\text{No. of units}}$$

* Asset under management

- Total market value of an Asset under management
- periodically disclosed $\left\{ \begin{array}{l} \text{monthly} \\ \text{quarterly} \end{array} \right.$
- Disclosed by AMC in fact sheet

* Know your client

- one time mandatory process to investment in mutual fund
- It required Pan card, address proof citizenship status, TIN

* FATCA (Foreign account tax compliance Act)

- All financial institution including MF to report all financial transaction of us resident and entities
- Object is to prevent tax evasion
- for Non-Individual investor obtain Information of ultimate beneficial owner

* Nomination

- upto 3 Nominees can be registered
- In case of death investment shall be transferred in the favour of the Nominee
- If nominee is not registered then transfer to legal heir after he produces the document like will

* Expenses ratio

- fees charge to manage the fund
- expenses like fee paid to trustee Amc Custodian, AMC's expenses commission to distributors & other selling expenses
- known as cost of running and managing a mutual fund
- It is calculated as a percentage of the scheme avg Net Asset value
- Decided expenses
 - first 100 Cr \rightarrow 2.5%
 - Next 300 Cr \rightarrow 2.25%
 - Next 300 Cr \rightarrow 2%
 - Balance amt \rightarrow 1.75%

* Holding period return

- Total return received from holding an asset

- Holding period return =

$$\frac{\text{Income (end value - original value)}}{\text{original value}} \times 100$$

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* Redemption Price = NAV

- (1 + Back end load)

* Price offer = NAV

- (1 - front end load)

> Eligibility criteria for reg of mutual funds

- Sponsor:

- 5 years of Etp in financial serious
- Positive Net worth in last 5 years
- last year of Net worth shall exceed contribution in AMC
- Profit after Tax, Interest & Depreciation in 3yrs out of last 5 years & profit in immediately preceeding year
- fit & proper person
- contribute in AMC atleast 40%
- Sponsor Associates, group company

AMC shall hold 10% or more shareholder or voting power in AMC or trustee of other, other mutual fund and cannot represent on the

board of AMC & trustee of any other mutual fund

- Any shareholder holding 10% or more voting power in AMC / Trustee of any other cannot hold 10% or more holding in any other AMC or trustee company & cannot represent on board of AMC / Trustee

- Trustee must be register with SEBI

> Qualification of Trustee

- Person of ability integrity & standing

- Not found guilty of moral turpitude

- Not convicted of any economic offence or violation of securities laws

- AMC & its director cannot be act as trustee

- Trustee of ~~MF~~ MF cannot acts as a trustee of other MF.

- 2/3rd of Trustee shall not be associated with sponsor

- IF Trustee is a company then BoD of Trustee company can be Trustee of other MF

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> Constitution of AMC

- Appointed by sponsor or trustee if authorised

- Removal → Majority of Trustee or 75% of unit holders

- charge in AMC → Prior approval of SEBI and unit holder
- At least 50% of director shall not be associated with sponsor any of its subsidiaries or the trustee
- > Appointment of custodian
 - Appointment by trustee if authorised
 - Intimate to SEBI within 15 Days from appointment
 - In Gold exchange fund the gold must be in custody of custodian
 - In real estate mutual fund the title deed must be in custody of custodian
 - enter into custodian agreement

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* Mutual fund regulation

- Procedure for launching of scheme
 - a) scheme shall be approved by Trustee & offer document filled with SEBI
 - b) Sponsor or AMC shall invest 1% or ₹ 50 lacs (whichever is less) in option specified by SEBI and cannot redeemed unless the scheme is wound up
 - c) obtain in-principle approval from stock exchange and enter into agreement
 - d) close ended scheme may be converted with the approval of unit holder.

- e) Rolled over → consent of unit holder and redeem the unit holder who do not opt for roll over
- f) Subscription period → max 15 days except ELSS (equity linked saving scheme)
- g) Application upto 5000 unit holder → full allotment
- h) wound up
- 75% of approval of unit holder
 - rolled over
 - approval of trustee
 - By SEBI

* Code of Conduct & advertisement code

- scheme should not be operated in the interest of sponsor, AMC, or in the interest of sponsor AMC or special class of unit holder
- adequate, fair, accurate & timely disclosure
- scheme wise segregation of Bank Account and securities Account
- Not use any unethical mean to sell unit
- No celebrities shall from part of advertisement
- No advertisement shall discredit other mutual fund or make unfair comparison

- standard warning → mutual fund investment are subject to market risks read all scheme related document carefully

- For 14 words running at least 5 second considered as clear

* Restriction on Investment by Mutual fund

- max 10% investment in debt instrument of single issue however can invest upto 12% with the approval of Board of Trustee & Director of AMC

- Not invest in unlisted debt instrument except Govt securities & money market instrument

- may invest upto 10% non convertible debenture

- shall not own more than 10% of co's paid up capital carrying voting rights

- Transfer of investment at ~~premium~~ prevailing market price

- Investment in other mutual fund → max 5%

- cannot invest in unlisted securities of associate co. group co. of the sponsor

- can invest in listed securities of sponsor associate company group company of the sponsor max 25% of NAV

* Investment in Abroad

- ADR / GDR
- Equity of overseas company
- foreign debt securities
- money market instrument
- Govt securities
- Derivative
- short term deposit
- units issued by overseas MF

Note : MF shall ensure that the repurchase price shall not be lower than 95% of NAV