Study Notes for NISM Series V – A: MUTUAL FUND DISTRIBUTORS Exam (Earlier - AMFI Exam)

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Prepared By

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YouTube Training Video Link

https://www.youtube.com/playlist?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

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NISM Series 5A - MUTUAL FUND DISTRIBUTORS EXAM

Assessment Structure

https://www.youtube.com/watch?v=_SmCb_UmiLA&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

Total Questions = 100 X 1 mark each (NO NEGATIVE MARKS)
Total Duration = 2 hours.
Passing score = 50%
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Chapterwise Weightages

Unit 1	Concept & Role of a Mutual Fund	6%
Unit 2	Fund Structure & Constituents	4%
Unit 3	Legal & Regulatory Environment	10%
Unit 4	Offer Document	6%
Unit 5	Fund Distribution & Channel Management Practices	8%
Unit 6	Accounting, Valuation & Taxation	10%
Unit 7	Investor Services	12%
Unit 8	Return, Risk & Performance of Funds	10%
Unit 9	Scheme Selection	10%
Unit 10	Selecting the Right Investment Products for Investors	9%
Unit 11	Helping Investors with Financial Planning	7%
Unit 12	Recommending Model Portfolios & Financial Plans	8%

YouTube videos – Topic wise

1. How to become a Mutual Fund Agent?
2. NISM Mutual Fund Distributors Exam Pattern
3. What is a Mutual Fund?
4. Terminologies used in Mutual Fund Industry
5. Open and Closed end funds
6. Types of Equity Funds
7. Types of Debt Mutual Funds
8. Types of Hybrid Schemes, Balanced Schemes
9. Tax Saving Scheme - ELSS
10. Gold Exchange Traded Fund
11. Passive Funds and Fixed Maturity Plans
12. Index Funds
13. Tracking Error - Index Funds
14. Product Labeling - Riskometer
15. Mutual Fund Structure and Constituents
16. Dividend Distribution Tax
17. Grandfather Clause introduced in Budget and Taxation changes
18. Capital Gain Tax
19. Calculation of Long term capital gain tax using Indexation
20. Tax Deducted at Source and Securities Transaction Tax
21. Cut off timing - NAV
22. Liquid Funds Cut off timing
23. Liquid Funds - Redemption
24. Who can Invest in Mutual Funds?
25. Micro SIP and PAN Exempt Cases
26. Risk Adjusted Performance - Sharpe Ratio
27. Risk Adjusted Performance - Treynor ratio and Alpha
28. Mutual Fund Offer Document
29. Statement of Additional Information
30. NAV, Sale Price, Repurchase Price
31. NAV Calculation - Part1
32. NAV Calculation - Part2
33. Asset Allocation, Strategic Asset Allocation
34. Fixed and Flexible Asset Allocation
35. SIP and STP
36. SWP, Dividend Payout,Dividend Reinvestment and Growth Options
37. Systematic Risk and Unsystematic Risk
38. Beta - measure of Market risk
39. Upfront Commission, Trail Commission, Transaction Charges

40. What is Sensex and Nifty? How it is calculated?

CONCEPT AND ROLE OF A MUTUAL FUND

WHAT IS A MUTUALFUND?

https://www.youtube.com/watch?v=lhTtfaFoV90&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc&index=2

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Anybody with an investible surplus of as little as a few hundred rupees can invest in Mutual Funds. These investors buy units of a particular Mutual Fund scheme that has a defined investment objective and strategy.

The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme's stated objectives. The income earned through these investments and the capital appreciation realized by the scheme is shared by its unit in proportion to the number of units owned by them.

Thus a Mutual Fund offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low-cost.

TYPES OF MUTUALFUND SCHEMES

https://www.youtube.com/watch?v=07mktpDEYiI&index=3&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

https://www.youtube.com/watch?v=xlCsRC3cqzI&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc&index=4

(A) By Structure

Open-Ended Schemes do not have a fixed maturity. You deal with the Mutual Fund for your investments & Redemptions. The key feature is liquidity. You can conveniently buy and sell your units at Net Asset Value (NAV) related prices, at any point of time. Investors can sell their units to the scheme through a re-purchase transaction at re-purchase price, which is linked to NAV.

Close-Ended Schemes have a stipulated maturity period are called close ended schemes. You can invest in the scheme at the time of the initial issue and thereafter you can buy or sell the units of the scheme on the stock exchanges where they are listed.

Interval Schemes combine the features of open-ended and close-ended schemes. The periods when an interval scheme becomes open-ended, are called 'transaction periods'; the period between the close of a transaction period, and the opening of the next transaction period is called 'interval period'. Minimum duration of transaction period is 2 days, and minimum duration of interval period is 15 days. No redemption/repurchase of units is allowed except during the specified transaction period (during which both subscription and redemption may be made to and from the scheme). Scheme should be compulsorily listed in Stock Exchange during the interval period.

SEBI - Categorization and Rationalization of Mutual Fund Schemes

The Schemes would be broadly classified in the following groups as per SEBI guidelines:
Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes, Other Schemes

Equity Schemes
https://www.youtube.com/watch?v=eSQnv0e9awQ&index=6&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
SEBI has defined large cap, mid cap and small cap companies as follows:
a. Large Cap: 1st -100th company in terms of full market capitalization
b. Mid Cap: 101st -250th company in terms of full market capitalization
c. Small Cap: 251st company onwards in terms of full market capitalization

Also an Equity scheme should invest minimum 65% of its assets in Equity and Equity related instruments.

Multi Cap Fund: Investing across large cap, mid cap, small cap stocks. The minimum investment in equity and equity related instruments shall be 65 percent of total assets.

Large Cap Fund: Investing in large cap stocks. The minimum investment in equity and equity related instruments of large cap companies shall be 80 percent of total assets.

Mid Cap Fund: Investing in mid cap stocks. The minimum investment in equity and equity related instruments of mid cap companies shall be 65 percent of total assets.

Large and Mid-Cap Fund: Investing in both large cap and mid cap stocks. Large cap Stocks – Minimum 35%, Mid Cap stocks – Min 35% of total assets.

Dividend Yield Fund: Predominantly investing in dividend yielding stocks.

Value Fund & Contra Fund: A value fund follows a value investment strategy. Minimum investment in equity & equity related instruments shall be 65 percent of total assets. **Value Schemes invest in Undervalued Companies**. Investments in value funds yield benefits over longer holding periods. **A contra fund** follows contrarian investment strategy. Mutual Funds will be permitted to offer either Value fund or Contra fund.

Focused Fund: Investing in maximum 30 stocks (the scheme needs to mention where it intends to focus, viz., multi cap, large cap, mid cap, small cap).

Sectoral/ Thematic: Investing in a specific sector such as Pharma,FMCG is a sectoral fund. The minimum investment in equity & equity related instruments of a particular sector/ particular theme shall be 80 percent of total assets. Sectoral fund schemes are ideal for investors who have decided to invest in a particular sector. Thematic funds invest in line with an investment theme. The investment is more broad-based than a sector fund; but narrower than a diversified equity fund.

Equity Linked Savings Scheme (ELSS): Tax saving scheme with a statutory lock in of 3 years. Minimum investment in equity and equity related instruments shall be 80 % of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by the Ministry of Finance).
https://www.youtube.com/watch?v=Ne1k-BrcI9E&index=9&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

Equity Index Fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. These schemes attempt to replicate the performance of a particular index such as the BSE Sensex, the NSE 50 (NIFTY). Invests in Index Stocks as per the Weightage. Fund Manager has no role in deciding on investments. These funds are not designed to outperform the Index and have Low Running Cost. An Index Fund with Low Tracking Error is a Good Fund.
Index fund is an example of Passive style of Fund management.
Training Video for Index or Passive Funds : https://www.youtube.com/watch?v=uq7ICqOk4bw

DEBT Funds
https://www.youtube.com/watch?v=3w_Ta-iUJzc&index=7&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
Overnight Fund: The investment is in overnight securities having maturity of 1 day.

Liquid Fund: Investment is into debt & money market securities with maturity of upto 91 days

Ultra Short Duration Fund: Investing in debt and money market instruments with Macaulay duration between 3 months and 6 months.

Low Duration Fund: Investing in debt and money market instruments with Macaulay duration between 6 months and 12 months.

Money Market Fund: Investing in money market instruments having maturity upto 1 year.

Short Duration Fund: Investing in debt and money market instruments with Macaulay duration between 1 year and 3 years.

Medium Duration Fund: Investing in debt and money market instruments with Macaulay duration of the portfolio being between 3 years and 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years.

Medium to Long Duration Fund: Investing in debt and money market instruments with Macaulay duration between 4 years and 7 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years.

Long Duration Fund: Investing in debt and money market instruments with Macaulay duration greater than 7 years.

Dynamic Bond: An open ended dynamic debt scheme investing across duration.

Corporate Bond Fund: An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. The minimum investment in corporate bonds shall be 80 percent of total assets (only in AA+ and above rated corporate bonds)

Credit Risk Fund: Investing in below highest rated corporate bonds. The minimum investment in corporate bonds shall be 65 percent of total assets only in AA and below rated corporate bonds (excludes AA+ rated corporate bonds).
Banking and PSU Fund: Investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds. The minimum investment in such instruments should be 80 percent of total assets.

Gilt Fund: Investing in government securities across maturity. The minimum investment in G-secs is defined to be 80 percent of total assets (across maturity).

Floater Fund: An open ended debt scheme predominantly investing in floating rate instruments. Minimum investment in floating rate instruments shall be 65 percent of total assets.

Fixed Maturity Plans - Fixed Maturity Plans (FMPs) are investment schemes floated by mutual funds and are close ended with a fixed tenure, the maturity period ranging from one month to three/five years. Fixed maturity plans are a kind of debt fund where the investment portfolio is closely aligned to the maturity of the scheme. The objective of such a scheme is to generate steady returns over a fixed-maturity period and protect the investor against Interest rate fluctuations.

Hybrid Funds – Investing in two or more asset class
https://www.youtube.com/watch?v=AXHEbVFHrpQ&index=8&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
Conservative Hybrid Fund: Investment in debt instruments 75 % and 90 % of total assets while investment in Equity shall be between 10 % and 25 % of total assets.

Balanced Hybrid Fund: Investment in equity 40% to 60%, investment in debt 40% to 60%. Arbitraging is not permitted in this scheme.

Aggressive Hybrid Fund: Investment in equity 65 % to 80 % of total assets while investment in debt instruments shall be between 20 % and 35 % of total assets.
Mutual funds in India are permitted to offer either Aggressive Hybrid Fund or Balanced Fund.
Dynamic Asset Allocation or Balanced Advantage: It is an open ended dynamic asset allocation fund with investment in equity/debt that is managed dynamically.

Multi Asset Allocation: An open ended scheme investing in at least three asset classes with a minimum allocation of at least 10 percent each in all three asset classes. Foreign securities are not treated as a separate asset class in this kind of scheme.

Arbitrage Fund: Investing in arbitrage opportunities. The minimum investment in equity and equity related instruments shall be 65 percent of total assets. They simultaneously buy and sell securities in different markets to take advantage of the price difference. Returns are more in line with money market returns, rather than equity market returns. Moderately Low Risk Category. Arbitrage funds are not meant for equity risk exposure, but to lock into a better risk-return relationship than liquid funds and ride on the tax benefits that equity schemes offer.

Equity Savings: An open ended scheme investing in equity, arbitrage and debt. Hedging is also allowed. The minimum investment in equity is 65 % of total assets and minimum investment in debt is 10 % of total assets. Minimum hedged & unhedged investment needs to be stated in the SID. Asset Allocation under defensive considerations may also be stated in the Offer Document.

Solution Oriented Schemes:

Retirement Fund: An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).

Children's Fund: An open ended fund for investment for children having a lock-in for at least 5 years or till the child attains age of majority (whichever is earlier).

Other Schemes

Exchange Traded Funds (ETF) are also passive funds whose portfolio replicates an index or benchmark such as an equity market index or a debt index. The units are issued to the investors in a new fund offer (NFO) after which they are available for sale and purchase on a stock exchange. Units are credited to the investor's demat account and the transactions post-NFO is done through the trading and settlement platforms of the stock exchange. The units of the ETF are traded at real time prices that are linked to the changes in the underlying index.

Gold Exchange Traded Funds (GETFs) –
https://www.youtube.com/watch?v=VOzaJ55IM5o&index=10&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
Gold Exchange Traded Funds offer investors an innovative, cost-efficient and secure way to access the gold market. Gold ETFs are intended to offer investors a means of participating in the gold bullion market by buying and selling units on the Stock Exchanges, without taking physical delivery of gold. GOLD ETF invests in 99.99% pure GOLD. NAV of GOLD ETF depends on Real Prices of GOLD Bullion. Gold funds invest in gold and gold-related securities.
Actively managed funds are funds where the fund manager has the flexibility to choose the investment portfolio, within the broad parameters of the investment objective of the scheme.
Passive funds invest on the basis of a specified index, whose performance it seeks to track.
Capital Protected Schemes are close-ended schemes, which are structured to ensure that investors get their principal back, irrespective of what happens to the market.

Real estate funds invest in real estate. Commodity funds invest in asset classes like food crops, spices, fibres, industrial metals, energy products or precious metals as may be permitted by their investment charter. Direct investing in Commodities is not allowed in India.

Fund of Funds (FOFs) - Fund of Funds are schemes that invest in other mutual fund schemes. Minimum investment in the underlying fund - 95% of total assets.

Funds Investing Abroad – Off Shore Schemes - Mutual Funds have been permitted to invest in foreign securities/ American Depository Receipts (ADRs) / Global Depository Receipts (GDRs). Some of such schemes are dedicated funds for investment abroad while others invest partly in foreign securities and partly in domestic securities. While most such schemes invest in securities across the world there are also schemes which are country specific in their investment approach. **Example: Franklin Asian Equity Fund, HSBC Brazil Fund.**

Net Asset Value (NAV) – Current market price of the unit.

Sale Price - Is the price you pay when you invest in a scheme. Also called as Offer Price.
Sale Price – NAV = Entry Load
Repurchase Price - Price at which units are repurchased / Redeemed by the Mutual Fund.
NAV – Repurchase Price = Exit Load

For better understanding of NAV, Sale Price etc kindly watch below video

https://www.youtube.com/watch?v=rVuo_gTWTLQ

WHY SHOULD YOU INVEST IN MUTUAL FUNDS?

1. Professional Management - You avail of the services of experienced and skilled professionals who are backed by a dedicated investment research team.

2. Diversification - Mutual Funds invest in a number of companies belonging to different industries and sectors. This diversification reduces the risk .

3. Convenient Administration - Mutual Funds save your time and make investing easy and convenient.

4. Return Potential - Over a medium to long term, Mutual Funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.

5. Low Costs - Mutual Funds are a relatively less expensive to directly investing in the capital markets because the benefits of reduction in share brokerage which translate into lower costs for investors.

6. Liquidity - In open-ended schemes, you can get your money back promptly at Net Asset Value (NAV) related prices from the Mutual Fund itself. With close-ended schemes, you can sell your units on a stock exchange at the prevailing market price.

7. Transparency - You get regular information on the value of your investment in addition to disclosure on the specific investments made by your scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

8. Flexibility - Through features such as Systematic Investment Plans (SIP), Systematic Withdrawal Plans (SWP) and dividend reinvestment plans, you can systematically invest or withdraw funds according to your needs and convenience.

9. Well Regulated - All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors.

Mutual funds mobilize different pools of money. Each such pool of money is called a mutual fund scheme. Mutual funds offers investors within a scheme various options, such as dividend payout option, dividend reinvestment option and growth option.

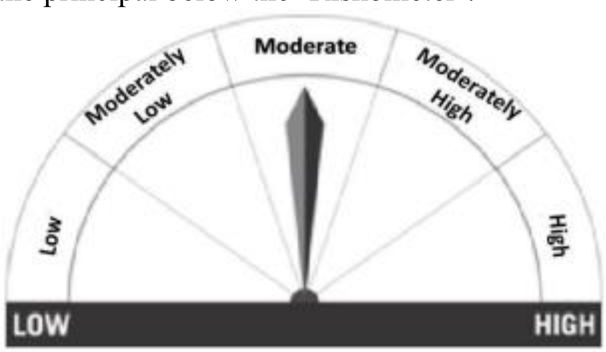
An investor buying into a scheme gets to select the preferred option also. The investment that an investor makes in a scheme is translated into a certain number of 'Units' in the scheme. The number of units multiplied by its face value (Rs10) is the capital of the scheme – its Unit Capital.

When the profitability metric is positive, the true worth of a unit, also called Net Asset Value (NAV) goes up.
When a scheme is first made available for investment, it is called a 'New Fund Offer' (NFO). The money mobilized from investors is invested by the scheme as per the investment objective committed. Profits or losses, as the case might be, belong to the investors. The investor does not however bear a loss higher than the amount invested by him.

The relative size of mutual fund companies is assessed by their assets under management (AUM). The AUM captures the impact of the profitability metric and the flow of unit-holder money to or from the scheme.

Lack of portfolio customization and an overload of schemes & scheme variants are drawbacks.

RISK CLASSIFICATION BASED ON RISKOMETER
https://www.youtube.com/watch?v=BCdjYBqP6f4&index=13&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
Riskometer is a pictoral representation of the risk to the principal invested in a mutual fund product. Risk will be categorized in five levels. There will also be a written statement of the risk to the principal below the 'Riskometer'.



Level of Risk	Definition	Example
Low	Principal at Low Risk	Liquid or Overnight Fund
Moderately Low	Principal at Moderately Low Risk	FMP / Capital Protection Oriented Scheme
Moderate	Principal at Moderate Risk	Income Fund / Conservative Monthly Income Plan
Moderately High	Principal at Moderately High risk	Index Fund / ETF / Equity dividend yield fund / Solution Oriented Schemes
High	Principal at high risk	Sector / Thematic Fund

SCHEME RANKINGS BASED ON RISK – Order from Highest risk to Lowest Risk

- **SECTOR FUNDS - Highest Risk**
- FLEXIBLE ASSET ALLOCATION FUNDS

- GROWTH FUNDS
- JUNK BOND OR HIGH YIELD SCHEMES
- DIVERSIFIED EQUITY FUNDS
- INDEX FUNDS
- VALUE FUNDS
- EQUITY INCOME OR DIVIDEND YIELD FUNDS
- FIXED ASSET ALLOCATION FUNDS
- MIP
- CAPITAL PROTECTION ORIENTED FUNDS
- CAPITAL PROTECTED FUND
- DIVERSIFIED DEBT FUNDS
- GILT FUNDS
- **LIQUID FUNDS OR MONEY MARKET FUNDS - Lowest Risk**

FUND STRUCTURE AND CONSTITUENTS

Mutual funds in India are governed by SEBI (Mutual Fund) Regulations, 1996.The regulations permit mutual funds to invest in securities including money market instruments, or gold or gold related instruments or real estate assets.

Mutual funds are constituted as Trusts. The mutual fund trust is created by one or more Sponsors, who are the main persons behind the mutual fund operation.
Every trust has beneficiaries. The beneficiaries, in the case of a mutual fund trust, are the investors who invest in various schemes of the mutual fund. In order to perform the trusteeship role, either individual may be appointed as trustees or a Trustee company may be appointed. When individuals are appointed trustees, they are jointly referred to as Board of Trustees. A trustee company functions through its Board of Directors.

Day to day management of the schemes is handled by an AMC. The AMC is appointed by the sponsor or the Trustees. Although the AMC manages the schemes, custody of the assets of the scheme (securities, gold, gold-related instruments & real estate assets) is with a Custodian, who is appointed by the Trustees.

Investors invest in various schemes of the mutual fund. The record of investors and their unit-holding may be maintained by the AMC itself, or it can appoint a Registrar & Transfer Agent (RTA).
The sponsor needs to have a minimum 40% share holding in the capital of the AMC.

The sponsor has to appoint at least 4 trustees – at least two-thirds of them need to be independent. Prior approval of SEBI needs to be taken, before a person is appointed as Trustee.

AMC should have networth of at least Rs 50crore. At least 50% of the directors should be independent directors. Prior approval of the trustees is required, before a person is appointed as director on the board of the AMC.
Custodian has custody of the assets & is appointed by the board of trustees. Sponsor & Custodian can't be the same. Custodian must be Independent. Custodian tracks corporate benefits.

RTA (Registrar and Transfer Agent) is appointed by AMC and maintains investor's records. Investor Service Centres (ISC), are offices of R&T. It is not compulsory to appoint a RTA.

Scheme Auditor & AMC Auditor are different. Scheme Auditor is appointed by Trustee, AMC auditor by AMC.
Role of calculating the NAV & DISCLOSING IT is done by Fund Accountant. It is not compulsory to Outsource Fund Accounting Activity.

LEGAL AND REGULATORY ENVIRONMENT

SEBI regulates mutual funds, depositories, custodians and registrars & transfer agents in the country. AMFI is an industry body, but not a self-regulatory organization. The AMFI Code of Ethics sets out the standards of good practices to be followed by the Asset Management Companies in their operations and in their dealings with investors, intermediaries & the public.

AMFI has framed AGNI, a set of guidelines and code of conduct for intermediaries, consisting of individual agents, brokers, distribution houses and banks engaged in selling of mutual fund products.

Investment objective defines the broad investment charter. Investment policy describes in greater detail, the kind of portfolio that will be maintained. Investment strategies are decided on a Day-to-day basis by the senior management of the AMC.

Investors' Rights & Obligations

1. Under the SEBI guidelines, NFOs other than ELSS can remain open for a maximum of 15 days. Allotment of units or refund of moneys should be done within 5 business days of closure of the scheme. Further, open-ended schemes have to re-open for sale / re-purchase within 5 business days of the allotment.

2. Receive dividend within 30 days of their declaration and receive the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase. Failing which AMC has to pay a penalty of 15% per annum basis.

3. Receive communication from the Trustees about change in the fundamental attributes of any scheme or any other changes which would modify the scheme and affect the interest of the unit holders & to have option to exit at prevailing Net Asset Value without any exit load.
4. To disclose your schemes' entire portfolio twice a year, un audited financial results half yearly and audited annual accounts once a year.

5. Investors can choose to change their distributor or go direct. In such cases, AMCs will need to comply, without insisting on any kind of No Objection Certificate from the existing distributor.

6. Unit-holders have the right to inspect key documents such as the Trust Deed, Investment Management Agreement, Custodial Services Agreement, R&T agent agreement and Memorandum & Articles of Association of the AMC.

7. Scheme-wise Annual Report or an abridged summary has to be mailed to all unit-holders within 6 months of the close of the financial year.

8. PAN based Consolidated Account Statement (CAS) for each calendar month will be sent by post/email on or before 10th of the succeeding month.

9. SOA to dormant investors (no transaction during the previous 6 months) can be sent along with the Portfolio Statement / Annual Return.
10. In the case of SIP / STP / SWP SoA dispatched within 10 working days of Initial transaction and thereafter Once in a Quarter.

11. On specific request, SOA to be sent with in 5 working days. Statement of accounts (SOA) is to be sent to investors within 5 days of closure of the NFO.

12. Investor can ask for a Unit Certificate for his Unit Holding. It is different from a SOA. SOA contains opening balance, transactions during the period & closing balance. A Unit Certificate mentions the number of Units held by the investor. SOA is like a Bank pass book. Unit Certificate is like a Balance Confirmation Certificate. Unit Certificates are non-transferable & no transactional convenience. Unit Certificate if requested then AMC will issue within 5 days.

13. The investor/s can appoint upto 3 nominees, who will be entitled to the Units in the event of the demise of the investor/s. The investor can also pledge the units. This is normally done to offer security to a financier.

14. Units of all mutual fund schemes held in demat form are freely transferable. Investors have the option to receive allotment of mutual fund units of open ended and closed end schemes in their demat account

15. NAV has to be published daily, in at least 2 daily newspapers having circulation all over India. NAV and re-purchase price are to be updated in the website of AMFI and the mutual fund. NAV is to be calculated upto 4 decimal places in the case of index funds, liquid funds and other debt funds. NAV for equity and balanced funds is to be calculated upto at least 2 decimal places. Investors can hold their units even in a fraction of 1 unit.

16. For Fund of Funds →NAV updated in AMFI Site by 10 am the following day . For other schemes → NAV updated in AMFI Site by 9 pm the same day

17. The mutual fund has to publish a complete statement of the scheme portfolio and the unaudited financial results, within 1 month from the close of each half year. In lieu of the advertisement, the mutual fund may choose to send the portfolio statement to all Unit-holders.

18. Debt-oriented, close-ended / interval, schemes /plans need to disclose their portfolio in their website every month, by the 3rd working day of the succeeding month.

19. The Annual Report of the AMC has to be displayed on the website of the mutual fund. The Scheme-wise Annual Report will mention that Unit-holders can ask for a copy of the AMC's Annual Report.

20. The trustees / AMC cannot make any change in the fundamental attributes of a scheme, unless the requisite processes have been complied. This includes option to dissenting unit-holders to exit at the prevailing Net Asset Value, without any exit load. This exit window has to be open for at least 30 days.

21. Merger or consolidation of schemes is not considered a change in the fundamental attribute **of the surviving scheme** if the required conditions are met.

22. The appointment of the AMC for a mutual fund can be terminated by a majority of the trustees or by 75% of the Unit-holders of the Scheme. 75% of the Unit-holders can pass a resolution to wind-up a scheme.

Limitation of Rights of Unit-holders
If an investor feels that the trustees have not fulfilled their obligations, then he can file a suit against the trustees for breach of trust. Under the law, a trust is a notional entity. Therefore, investors cannot sue the trust (but they can file suits against trustees, as seen above).
The principle of caveat emptor (let the buyer beware) applies to mutual fund investments.
Protections under the Companies Act, 2013 are not available to investors in a mutual fund scheme.

Unclaimed Amounts
The mutual fund has to deploy unclaimed dividend and redemption amounts in the money market. AMC can recover investment management and advisory fees on management of these unclaimed amounts, at a maximum rate of 0.50% p.a

The investor can claim his moneys from the scheme within 3 years. Payment will be based on prevailing NAV. If the investor claims the money after 3 years, then payment is based on the NAV at the end of 3 years.

If a security that was written off earlier is now recovered, within 2 years of closure of the scheme, and if the amounts are substantial, then the amount is to be paid to the old investors. In other cases, the amount is to be transferred to the Investor Education Fund maintained by each mutual fund.

Investors need to give their bank account details along with the redemption request. Adequate safeguards exist to protect the investors from the possibility of a scheme going bust.

OFFER DOCUMENT - Training Video : https://www.youtube.com/watch?v=Yo1G_Rfg7Js

Investors get to know the details of any NFO through the Offer Document, which is one of the most important sources of information about the scheme for investors.

Mutual Fund Offer Documents have two parts:
(a) Scheme Information Document (SID), which has details of the scheme

(b) Statement of Additional Information (SAI), which has statutory information about the mutual fund that is offering the scheme.

In practice, SID and SAI are two separate documents, though the legal technicality is that SAI is part of the SID. Both documents need to be updated regularly.

Offer Documents in the market are "vetted" by SEBI, though SEBI does not formally "approve" them. KIM is essentially a summary of the SID and SAI. It is more easily and widely distributed in the market. As per SEBI regulations, every application form is to be accompanied by the KIM.

Scheme Information Document (SID) – has details of the scheme. Draft SID is available for viewing in SEBI website for 21 working days. Final SID is hosted on AMFI site 2 days before the issue opens.

Statement of Additional Information (SAI) contains statutory information. Single SAI is enough for all the schemes of a Mutual Fund. SAI is part of SID. SID should be read in conjunction with the SAI and not in Isolation.

Updation of SID - First Updation after NFO
For Scheme launched in the 1st half of FY → Within 3 months of the end of SAME FY.
For Scheme launched in the 2nd half of FY → Within 3 months of the end of NEXT FY.
Regular Updation
SID needs to be updated every year.

Need Based Updation
SID needs to be updated if there is any change in the fundamental attribute of the scheme.

Key Information Memorandum
KIM is essentially a summary of the SID and SAI. It is more easily and widely distributed in the market. As per SEBI regulations, every application form is to be accompanied by the KIM.
Contents of KIM

- Name of the AMC, mutual fund, Trustee, Fund Manager and scheme
- Dates of Issue Opening, Issue Closing & Re-opening for Sale and Re-purchase
- Plans and Options under the scheme
- Risk Profile of Scheme
- Price at which Units are being issued
- Benchmark
- Dividend Policy

FUND DISTRIBUTION AND CHANNEL MANAGEMENT PRACTICES

SEBI does not prescribe any limit on commission payable. Upfront commission shall be paid by Investors directly based on the service rendered by the distributor. AMC pays Trail commission to MF Distributors on a Quarterly on Average Net Assets canvassed by the distributor. Since trail commission is calculated as a percentage on AUM, distributors get the benefit of valuation gains in the market.
The scheme application forms carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of

Various factors including the service rendered by the distributor

Institutional channels build their reach through employees, agents and sub-brokers.

AMCs keep exploring newer channels of distribution to increase the size of assets managed. The internet has increased the expectations of advice that investors have from their distributors. The stock exchange brokers have become a new channel for distribution of mutual funds. These brokers too need to pass the prescribed test, get the AMFI Registration No. and get themselves empanelled with AMCs whose schemes they want to distribute.

Commission Disclosure

SEBI has mandated Mutual Funds / AMCs to disclose on their respective websites the total commission and expenses paid to distributors who satisfy one or more of the following conditions with respect to non-institutional (retail and HNI) investors:

i. Multiple point of presence (More than 20 locations)

ii. AUM raised over Rs. 100 crore across industry in the non-institutional category but including high networth individuals (HNIs).

iii. Commission received of over Rs. 1 crore p.a. across industry

iv. Commission received of over Rs. 50 lakhs from a single Mutual Fund/AMC

SEBI Advertising Code

When the mutual fund scheme has been in existence for more than 3 years:

1) Point-to-point returns on a standard investment of Rs. 10,000/- shall also be shown
2) Performance advertisement shall be provided in terms of CAGR for the last 1 year, 3 years, 5 years and since inception along with Benchmark Index.
3) In the case of money market schemes or Liquid schemes, the performance can be advertised by simple annualisation of yields for 7 days, 15 days and 30 days.

ACCOUNTING, VALUATION AND TAXATION

The unit-holders' funds in the scheme is commonly referred to as "net assets".
Net asset includes the amounts originally invested, the profits booked in the scheme, as well as appreciation in the investment portfolio. It goes up when the market goes up, even if the investments have not been sold.

A scheme cannot show better profits by delaying payments. While calculating profits, all the expenses that relate to a period need to be considered, irrespective of whether or not the expense has been paid. In accounting jargon, this is called accrual principle.

Similarly, any income that relates to the period will boost profits, irrespective of whether or not it has been actually received in the bank account. This again is in line with the accrual principle. In the market, when people talk of NAV, they refer to the value of each unit of the scheme. Higher the interest, dividend and capital gains earned by the scheme, higher would be the NAV. Higher the appreciation in the investment portfolio, higher would be the NAV.

Lower the expenses, higher would be the NAV. The difference between the NAV and Re-purchase Price is called the "exit load". Dividends can be paid out of distributable reserves.

Investors would be incentivized to hold their units longer, by reducing the load as the unit holding period increased. Such structures of load are called "Contingent Deferred Sales Charge (CDSC)"
SEBI has banned entry loads. So, the Sale Price needs to be the same as NAV. The exit load charged, if any, after the commencement of the SEBI (Mutual Funds) (Second Amendment) Regulations, 2012, shall be credited to the scheme. Service tax on exit load shall be paid out of the exit load proceeds and exit load net of service tax shall be credited to the scheme.

Initial issue expenses need to be met by the AMC. There are limits to the recurring expenses that can be charged to the scheme. These are linked to the nature of the scheme and its net assets.

Transaction Charges in case of transactions through Opt-in Mutual Fund Distributor	
Type of Investor	**Charges for Purchase of Rs 10,000 and above**
First Time Investor	Rs 150
Regular Investor	Rs 100

https://www.youtube.com/watch?v=If8e18D9cX0&index=15&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

NAV Calculation Video -
https://www.youtube.com/watch?v=Iz0YUFimOTs&index=19&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

Recurring Expense Limits

Net Assets	**Equity**	**Debt**
First 100 Crores	2.50%	2.25%
Next 300 Crores	2.25%	2.00%
Next 300 Crores	2.00%	1.75%
Above 700 crores	1.75%	1.50%
For FOF the total expenses should not exceed 0.75% For Index Funds – 1.5% Recurring Expenses includes Fund Management Fee also		

Valuation

Where equity shares of a company are not traded in the market on a day, or they are thinly traded, a formula is used for the valuation. The valuation formula is based on the Earnings per Share of the company, its Book Value, and the valuation of similar shares in the market (peer group).
Debt securities that are not traded on the valuation date are valued on the basis of the yield matrix prepared by an authorized valuation agency. The yield matrix estimates the yield for different debt securities based on the credit rating of the security and its maturity profile.

INVESTOR SERVICES

SEBI and RBI have allowed Qualified Foreign portfolio investors who meet KYC requirements to invest in equity and debt schemes of Mutual Funds through two routes
1) Direct route – Holding MF units in Demat account through a SEBI registered DP
2) Indirect route – Holding MF units via Unit Confirmation Receipt (UCR)

Individual and non-individual investors are permitted to invest in mutual funds in India. The 'Who can invest' section of the Offer Document is the best source to check on eligibility to invest.

KYC Registration Agencies - KRA

All Investors have to comply with the KYC formalities. In-Person Verification (IPV) by a SEBI-registered intermediary is compulsory for all investors. IPV done by only one SEBI-registered intermediary (broker, depository, mutual fund distributor etc.). This IPV will be valid for transactions with other SEBI-registered intermediaries too. Distributors who have a valid NISM-Series-V-A: Mutual Fund Distributors certificate and a valid ARN can carry out the In-person verification if they have completed the KYD process.
Micro SIPs i.e. SIPs with annual investment below Rs 50,000 per Financial Year per Mutual Fund House is exempted from the PAN Card requirement. Relaxation in PAN requirement is not available for PIO, HUF, and Non Individuals. It is available for Minor, Individuals and NRI.Small investors investing in cash, upto Rs. 50,000 per mutual fund per financial year do not need to provide PAN Card. However Repayment in form of redemptions, dividends, etc. with respect to aforementioned investments shall be paid only through banking channel. Rs. 50,000 is a composite limit for the small investor's Micro-SIP and lump sum investments together.
Government of India authorised the **Central Registry of Securitisation and Asset Reconstruction and Security Interest of India (CERSAI)** to act as and to perform the functions of the Central KYC Record Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of all the clients in the financial sector
After the successful completion of cKYC (Central KYC) process, an investor is allotted a 14 digit KYC Identification Number (KIN) by CERSAI.

e-KYC service of UIDAI – Investors to authorise the transaction through OTP send by Unique Identification Authority of India (UIDAI) to the mobile number linked with Aadhar.However only investments upto Rs 50,000 can be done through e-KYC

KYC template finalised by CERSAI has to be used by the registered intermediaries

Demat makes it possible to trade in Units in the stock exchange. Full application form is to be filled for a first time investment in a mutual fund. Thereafter, additional investments in the same mutual fund are simpler. Only transaction slip would need to be filled.

Investors can pay for their Unit purchases through cheque / DD, Net-based remittances, Standing Instructions or ASBA. Non-resident investment on repatriation basis has to be paid through cheque on NRE account, or a banker's certificate that investment is made out of moneys remitted from abroad. Transaction Slip can be used for re-purchase.

NSE's platform is called NEAT MFSS. BSE's platform is BSE StAR Mutual Funds Platform.

Investors can indicate the amount to re-purchase or the number of units to repurchase. Cut-off timings have been specified for different types of schemes and different contexts to determine the applicable NAV for sale and re-purchase transactions. Time Stamping is a mechanism to ensure that the cut-off timing is strictly followed.

CUT OFF TIMING - **https://www.youtube.com/watch?v=wTiqwc8g_QI**

Purchase – NON Liquid Funds	**Time**	**NAV**
Less than 2 Lakhs	Till 3 PM	Same day NAV
Equal or Greater than 2 Lakhs	Anytime	NAV of Fund Realisation day
Redemption – NON Liquid Funds, Any Amount, till 3 PM, Same Day NAV		
Purchase – LIQUID FUNDS	**Time**	**NAV**
Fund available for Utilization	Before 2 pm	Previous Day NAV
If Fund is not available for utilization on application date before 2 then the NAV previous to the date of Fund realization before 2 pm shall be applicable.		
Redemption – LIQUID Funds		
Any Amount	Till 3PM	NAV of the day immediately preceding the next business day

Cutoff timings are not applicable for NFO's and International Funds.

Taxation - **Securities Transaction Tax (STT)** is applicable on investments in equity and equity mutual fund schemes. STT is not payable at the time of Purchase of Units. At the time of redemption 0.001% STT has to be paid.

No Tax Deducted at Source (TDS) on dividend payments or re-purchase payments to resident investors. Withholding tax or TDS is applicable for non-resident investors.

Dividend Distribution Tax - Income distributed (Dividend distribution) is applicable on dividends paid by mutual fund schemes.
https://www.youtube.com/watch?v=sgAsj0h9Y8k&index=16&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

Scheme	Individual / HUF	Corporate
Equity	10%	10%
Non-Equity	25%	30%
Infrastructure Debt Scheme	25% (5% for NRI)	30%
Surcharge,Health & Education cess to be added to Tax rates		

Capital Gain Tax Video Link
https://www.youtube.com/watch?v=7l24tLCd88Y&index=17&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

- **Short Term Capital gains – Holding Period**
  - <=1 year for Equity oriented scheme

  - <=3 years for Non-Equity Schemes
- **LongTerm Capital gains**
  - >1 year for Equity Schemes
  - > 3 Years for Non-Equity Schemes

Scheme	Equity	Non-Equity
Short Term	15%	Marginal Rate
Long Term	10% for gains exceeding Rs 1 Lakh	20% after Indexation
Surcharge,Health & Education cess extra		

- NRI – LTCG tax Non-Equity
  - Listed Schemes - 20% after indexation
  - Unlisted – 10% without indexation

  Indexation Video - https://www.youtube.com/watch?v=xvXvR4unxk8&index=18&list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc
- Companies – STCG tax Non-Equity - 25% if total Turnover is less than 250 crore

Setting off Capital Losses under Income Tax Act

• Capital loss, short term or long term, cannot be set off against any other head of income (e.g. salaries).
• Short term capital loss is to be set off against short term capital gain or long term capital gain.
• Long term capital loss can only be set off against long term capital gain

RETURN, RISK& PERFORMANCE OF FUNDS
https://www.youtube.com/watch?v=IuoBu2OqaCc

Dividend payout, Dividend investment and Growth are 3 possible options within a scheme. The portfolio returns are the same for all three options. Each option has different implications on the investor's bank account, investor's taxation and scheme NAV.

A constant amount is regularly invested in SIP, withdrawn in SWP and transferred between schemes in STP. These minimize the risk of timing the decisions wrongly.

Triggers are another way of bringing discipline into investing. Nomination and Pledge options are available for mutual fund investors.

The portfolio of a mutual fund scheme is based on Fundamental and Technical. Fundamental Analysis reviews company's financial statements, quality of management, competitive position in its product / service market etc. Technical analysts study price-volume charts of the company's share prices. Longer term investment decisions are taken through fundamental analysis while technical analysis is used for shorter term speculative decisions, including intra-day trading. Even where a fundamental analysis-based decision has been taken on a stock, technical analysis might help decide when to implement the decision i.e. the timing.

Growth investment style entails investing in high growth stocks. Value investment style is an approach of picking up stocks which are valued lower, based on fundamental analysis. In a top-down approach, sector allocation is the key decision. Stock selection is important in bottom-up approach.

The returns in a debt portfolio are driven by interest rates and yield spreads. If the portfolio manager expects interest rates to rise, then the portfolio is switched towards a higher proportion of floating rate instruments; or fixed rate instruments of shorter tenor. On the other hand, if the expectation is that interest rates would fall, then the manager increases the exposure to longer term fixed rate debt securities.
This additional return offered by a non-government issuer, above the yield that the government offers, is called yield spread. Better the credit quality, lower the yield spread.
Benchmarking is a form of relative returns comparison. It helps in assessing under-performance or out-performance. Choice of benchmark depends on scheme type, choice of investment universe, choice of portfolio concentration and the underlying exposure.

Benchmark for Equity Schemes - SENSEX, S&P CNX Nifty, BSE 100
Benchmark for Debt Schemes - NSE's MIBOR, CRISIL LiquiFEX for Liquid Schemes
Gilt Schemes Si-Bex (1 to 3 years), Mi-Bex (3 to 7 years) & Li-Bex (more than 7 years)
Every scheme in addition to its own benchmark should use additional benchmark.
This additional benchmark for an Equity Scheme can be Sensex or Nifty, for a Long term debt scheme can be 10 Year G-Sec, Short term debt scheme can be Treasury bill Index.

Gold ETF – Gold Price is the benchmark
Liquid Fund – NSE Mibor or CRISIL Liquid Fund Index
Hybrid Funds – CRISIL Hybrid Index

Gold is a truly international asset, whose quality can be objectively measured. The value of gold in India depends on the international price of gold (which is quoted in foreign currency), the exchange rate for converting the currency into Indian rupees, and any duties on the import of gold.
Unlike gold, which is a global asset, real estate is a local asset. It cannot be transported – and its value is driven by local factors.

Returns can be measured in various ways – Simple Returns, Annualised Returns, Compounded Returns, Compounded Annual Growth Rate. CAGR assumes that all dividend payouts are reinvested in the scheme at the ex-dividend NAV.

SEBI guidelines govern disclosures of return by mutual fund schemes. Loads and taxes pull the investor's returns below that earned by the Scheme. Investor returns are also influenced by various actions of the investor himself.

Risks in mutual fund schemes would depend on the nature of portfolio, its liquidity, outside liabilities and composition of unitholders. Fluctuation in returns is a measure of risk. Variance and Standard Deviation are risk measures for all kinds of schemes; beta is relevant for equity; modified duration and weighted average maturity are applicable for debt schemes.

Sharpe Ratio, Treynor Ratio and Alpha are bases to evaluate a fund manager's performance based on risk-adjusted returns. Quantitative measures are based on historical performance, which may or may not be replicated in future. Scheme evaluation is an art, not a science.

SCHEME SELECTION

Asset allocation is the approach of spreading one's investments between multiple asset classes to diversify the underlying risk. The sequence of decision making in selecting a scheme is:
Step 1 – Deciding on the scheme category (based on asset allocation);
Step 2 – Selecting a scheme within the category;
Step 3 – Selecting the right option within the scheme.

Asset Allocation Video - https://www.youtube.com/watch?v=KjdIf1zA6wU

While investing in equity funds, a principle to internalize is that markets are more predictable in the long term, than in the short term. So, it is better to consider equity funds, when the investment horizon is adequately long.
In an actively managed diversified fund, the fund manager performs the role of ensuring higher exposure to the better performing sectors or stocks. An investor, investing or taking money out of a sector fund has effectively taken up the role of making the sector choices.

It can be risky to invest in mid-cap / small cap funds during periods of economic turmoil. As the economy recovers, and investors start investing in the market, the valuations in front-line stocks turn expensive. At this stage, the mid-cap / small cap funds offer attractive investment opportunities. Over longer periods, some of the mid/small cap companies have the potential to become large cap companies thus rewarding investors.

Although these schemes invest in equity markets, the expected returns are in line with liquid funds.

The comparable for a liquid scheme in the case of retail investors is a savings bank account. Switching some of the savings bank deposits into liquid schemes can improve the returns for him.
Businesses, which in any case do not earn a return on their current account, can transfer some of the surpluses to liquid schemes.

Balanced schemes offer the benefit of diversity of asset classes within the scheme. A single investment gives exposure to both debt and equity.

Investors need to understand the structure of the gold schemes more closely, before investing.

Equity investors would like to convince themselves that the sectors and companies where the scheme has taken higher exposure are sectors / companies that are indeed promising.

Debt investors would ensure that the weighted average maturity of the portfolio is in line with their view on interest rates.

Investors in non-gilt debt schemes will keep an eye on credit quality of the portfolio – and watch out for sector concentration in the portfolio, even if the securities have a high credit rating.

Any cost is a drag on investor's returns. Investors need to be particularly careful about the cost structure of debt schemes. SEBI legislations prescribe a maximum exit load of 7%.
Leveraging is taking large positions with a small outlay of funds.

Securities issued by the Government are called Government Securities or G-Sec or Gilt. Treasury Bills are short term debt instruments issued by the RBI.
Certificates of Deposit are issued by Banks (for 91 days to 1 year) or Financial Institutions (for 1 to 3 years).
Commercial Papers are short term securities (upto 1 year) issued by companies.
Bonds / Debentures are generally issued for tenors beyond a year. Governments and public sector companies tend to issue bonds, while private sector companies issue debentures.

The difference between the yield on Gilt and the yield on a non-Government Debt security is called its yield spread.

Significant Unit holder means any entity holding 5% or more of the total corpus of any scheme.
Maximum investment per investor is limited to 25% of the Net Assets of the scheme.
A scheme should have a minimum of 20 investors at any point of time.

MF can borrow only to meet Redemption / Liquidity needs. Borrowing is limited to 20% of Net Assets for a Max Period of 6 months. However MF cannot invest Borrowed amount

Amongst index schemes, tracking error is a basis to select the better scheme. Lower the tracking error, the better it is. Similarly, Gold ETFs need to be selected based on how well they track gold prices.

Mutual fund research agencies assign a rank to the performance of each scheme within a scheme category (ranking). Some of these analyses cluster the schemes within a category into groups, based on well-defined performance traits (rating).

Seeking to be invested in the best fund in every category in every quarter is neither an ideal objective, nor a feasible target proposition. Indeed, the costs associated with switching between schemes are likely to severely impact the investors' returns. The underlying returns in a scheme, arising out of its portfolio and cost economics, is what is available for investors in its various options viz. Dividend payout, dividend re-investment and growth options.

Dividend payout option has the benefit of money flow to the investor; growth option has the benefit of letting the money grow in the fund on gross basis (i.e. without annual taxation). Dividend reinvestment option neither gives the cash flows nor allows the money to grow in the fund on gross basis. Taxation and liquidity needs are a factor in deciding between the options.

SELECTING THE RIGHT INVESTMENT PRODUCTS FOR INVESTORS

Physical assets like land, building and gold have value and can be touched, felt and used. Financial assets have value, but cannot be touched, felt or used as part of their core value. Shares, debentures, fixed deposits, bank accounts and mutual fund schemes are all examples of financial assets that investors normally invest in.

The difference in comfort is perhaps a reason why nearly half the wealth of Indians is locked in physical assets. There are four financial asset alternatives to holding gold in physical form – ETF Gold, Gold Sector Fund, Gold Futures & Gold Deposits.

Real estate in physical form has several disadvantages. Therefore, investors worldwide prefer financial assets as a form of real estate investment.

Bank deposits and mutual fund debt schemes have their respective merits and demerits. Interest earned in a bank deposit is taxable each year. However, if a unit holder allows the investment to grow in a mutual fund scheme, then no income tax is payable on year to year accretions. In the absence of the drag of annual taxation, the money can grow much faster in a mutual fund scheme.

NPS (National Pension System)

- Pension Funds Regulatory and Development Authority (PFRDA) is the regulator
- Tier I (Pension account), is non-withdrawable
- Tier II (Savings account) is withdrawable
- An active Tier I account is a pre-requisite for opening a Tier II account
- Investors can invest through Points of Presence (POP)
- Asset Class E: Equity market instruments
- Asset Class C: Corporate Bonds
- Asset Class G: Government Securities
- Investment based on Age : Life Cycle Fund
- NPS managed by 8 Pension Fund Managers (PFMs)
- Permanent Retirement Account Number (PRAN), is applicable across all the PFMs

HELPING INVESTORS WITH FINANCIAL PLANNING

Financial planning is a planned and systematic approach to provide for the financial goals that will help people realise their aspirations, and feel happy. The costs related to financial goals, in today's terms, need to be translated into the rupee requirement in future. This is done using
the formula A = P X (1 + i)n

The objective of financial planning is to ensure that the right amount of money is available at the right time to meet the various financial goals of the investor. An objective of financial planning is also to let the investor know in advance, if some financial goal is not likely to be fulfilled.
A "goal-oriented financial plan" is a financial plan for a specific goal. An alternate approach is a "comprehensive financial plan" where all the financial goals of a person are taken together, and the investment strategies worked out on that basis.
The Certified Financial Planner – Board of Standards (USA) proposes the following sequence of steps for a comprehensive financial plan:

• Establish and Define the Client-Planner Relationship

• Gather Client Data, Define Client Goals
• Analyse and Evaluate Client's Financial Status
• Develop and Present Financial Planning
• Implement the Financial Planning Recommendations
• Monitor the Financial Planning Recommendations

RECOMMENDING MODEL PORTFOLIOS AND FINANCIAL PLANS

Life Cycle and Wealth cycle approaches help understand the investor better.

There are differences between investors with respect to the levels of risk they are comfortable with (risk appetite). Risk profiling is an approach to understand the risk appetite of investors - an essential pre-requisite to advice investors on their investments. Risk profilers have their limitations. Risk profile is influenced by personal information, family information and financial information.

Spreading one's exposure across different asset classes (equity, debt, gold, real estate etc.) balances the risk. Some international researches suggest that asset allocation and investment policy can better explain portfolio performance, as compared to being exposed to the right asset classes (asset allocation) is a more critical driver of portfolio profitability than selection of securities within an asset class (stock selection) and investment timing.

Strategic Asset Allocation is the ideal that comes out of the risk profile of the individual. Tactical Asset Allocation is the decision that comes out of calls on the likely behaviour of the market. Financial planners often work with model portfolios – the asset allocation mix that is most appropriate for different risk appetite levels. The financial planner would have a model portfolio for every distinct client profile.

Model Portfolio

Young call centre / BPO employee with no dependents

1. 50% in Diversified Equity Funds through SIP
2. 20% in Sector Fund, 10% each in Gold ETF, Diversified Debt, Liquid.

Young married single income family with two school going kids

1. 35% diversified equity schemes; 15% in gold ETF,
2. 30% diversified debt fund, 10% each in Sector and liquid schemes

Single income family with grown up children who are yet to settle

1. 35% diversified equity schemes; 20% liquid schemes
2. 15% each in gold ETF, gilt fund & diversified debt fund

Couple in their seventies, with no immediate family support

1. 15% diversified equity index scheme; 10% gold ETF
2. 30% gilt fund, 30% diversified debt fund, 15% liquid schemes

Couple in their seventies, with no immediate family support but very sound physically and mentally, & a large investible corpus

1. 20% diversified equity scheme; 10% diversified equity index scheme;

2. 10% each in Gold ETF & Liquid, 25% each in gilt & diversified debt fund

Payment Mechanism for Purchase / Additional Purchase

Cheques accompanying the investment application are to be signed by the investor. Third-party cheques are not accepted. Third-party cheques are accepted in special cases. Payment by Parents/Grand-Parents/Related Persons on behalf of a minor in consideration of natural love and affection or as gift for a value not exceeding Rs 50,000/- for each regular Purchase or per SIP instalment. In such cases persons who make payment should be KYC Compliant and sign Third Party Declaration Form., Similarly, employer making payments on behalf of employee through payroll deductions, and custodian on behalf of FIIs are permitted third-party payments.

RTGS is used for Instantaneous Transfer of Funds. In NEFT Fund is transferred in Batches. SWIFT is used for abroad transfer and takes 2 or 3 days.

For investors directly investing into mutual funds without routing through a distributor, Mutual funds/ AMCs will provide a separate plan which will have lower expense ratio and will have a separate NAV with effect from January 2013.

Derivative Investments - Mutual Funds are barred from writing options (they can buy options) or purchasing instruments with embedded written options. In India, mutual fund AUM is hardly 10% of bank deposits.

Factors that Influence the Investor's Risk Profile

1. Risk appetite increases as the number of earning members increases
2. Risk appetite decreases as the number of dependent member's increases
3. Risk appetite is higher when life expectancy is longer. Lower the age, higher the risk that can be taken. People earning regular income can take more risk than those with unpredictable income streams.
4. Well qualified and multi skilled professionals can afford to take more risk
5. Those with steady jobs are better positioned to take risk
6. Daring and adventurous people are better positioned mentally to take risk.
7. Higher the capital base, better the ability to financially take the downsides of risk.

Abbreviations

A/A Articles of Association
ACE AMFI Code of Ethics
AGNI AMFI Guidelines & Norms for Intermediaries
AMC Asset Management Company
AMFI Association of Mutual Funds in India
AML Anti-Money Laundering
ARN AMFI Registration Number
ASBA Application Supported by Blocked Amount
CAGR Compounded Annual Growth Rate
CDSC Contingent Deferred Sales Charge
CFT Combating Financing of Terrorism
CVL CDSL Ventures Ltd

DD Demand Draft
DDT Dividend Distribution Tax (Additional Tax on Income
Distribution)
DP Depository Participant
ECS Electronic Clearing Service
F&O Futures & Options
FCNR Foreign Currency Non-Resident account
FEMA Foreign Exchange Management Act, 1999
FII Foreign Institutional Investor
FIRC Foreign Inward Remittance Certificate
FMP Fixed Maturity Plan
HUF Hindu Undivided Family
ISC Investor Service Centre
IPV In-Person Verification
KIM Key Information Memorandum
KYC Know Your Customer
M/A Memorandum of Association
M-Banking Mobile Banking
MF Mutual Fund
Micro-SIP SIP with annual aggregate investment less than Rs 50,000
MIN Mutual Fund Identification Number
NAV Net Asset Value
NBFC Non-Banking Finance Company
NEFT National Electronic Funds Transfer
NFO New Fund Offer
NOC No Objection Certificate
NPA Non-Performing Asset
NRE Non-Resident External account
NRI Non-Resident Indian
NRO Non-Resident Ordinary account
PAN Permanent Account Number
PDC Post-Dated Cheques
PFM Pension Fund Manager
PFRDA Pension Fund Regulatory & Development Authority
PIO Person of Indian Origin
PMLA Prevention of Money Laundering Act
PoA Power of Attorney / Points of Acceptance, depending on context
POP Points of Presence
RBI Reserve Bank of India
RTA Registrars & Transfer Agents
RTGS Real Time Gross Settlement
SAI Statement of Additional Information
SEBI Securities & Exchange Board of India
SID Scheme Information Document
SIP Systematic Investment Plan
SRO Self Regulatory Organisation

STP Systematic Transfer Plan
STT Securities Transaction Tax
SWP Systematic Withdrawal Plan
SWIFT Society for Worldwide Interbank Financial Telecommunication

USEFUL WEBSITES

www.amfiindia.com
www.camsonline.com
www.valueresearchonline.com
https://nism.modelexam.in (Mock Tests for NISM, Bank , Insurance & Financial Planning Exams)

IMPORTANT NOTE :

1. Attend **ALL** Questions. There is NO NEGATIVE mark.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the question & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

Scan the following QR code for NISM Mutual Fund Exam Training Videos

YouTube Training Video Link

https://www.youtube.com/playlist?list=PLCZvkZJiAVK56z_al_5b-4WMMRUXMWydc

All the Best ☺