

# MUTUAL FUND BASICS

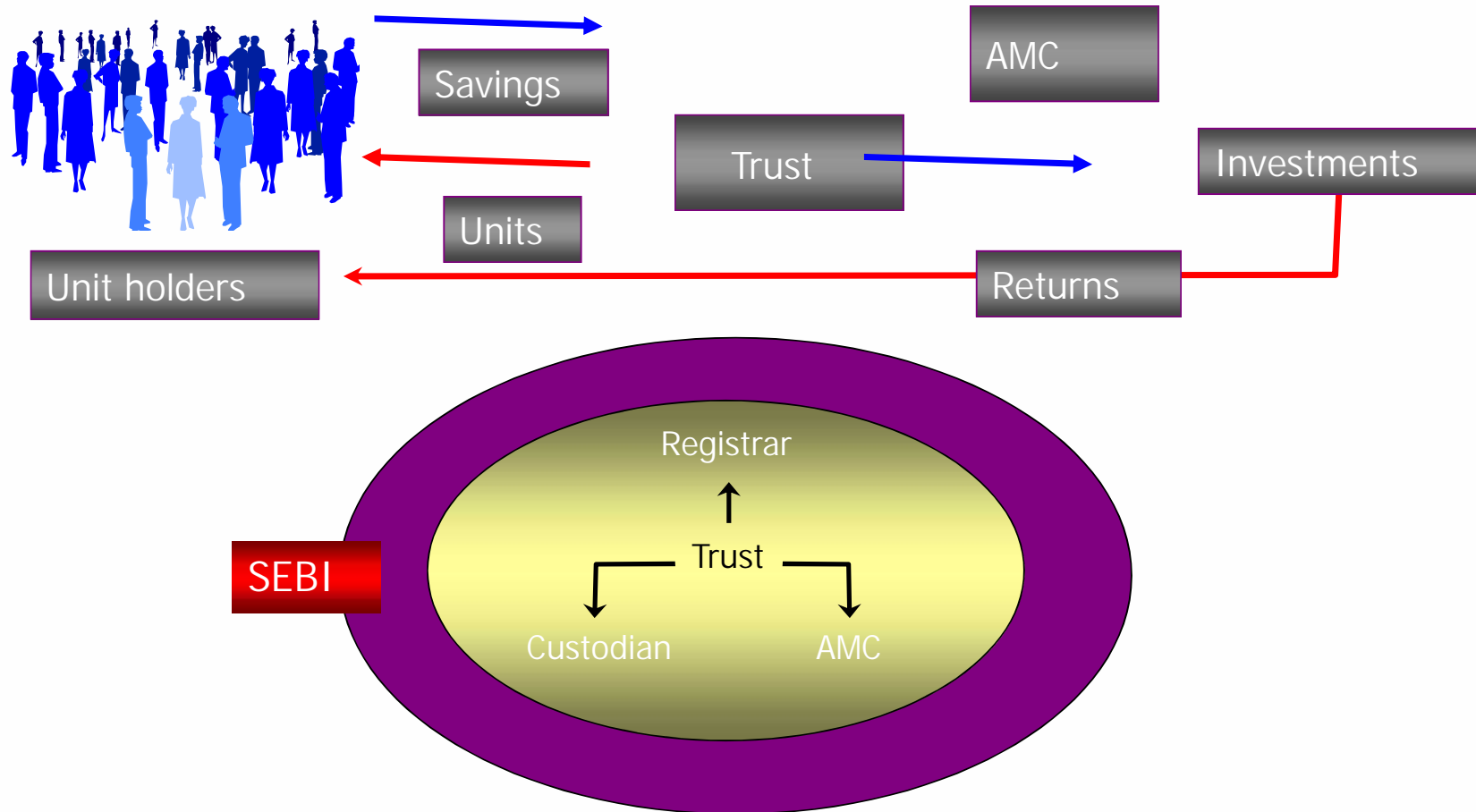


# WHAT IS MUTUAL FUND?

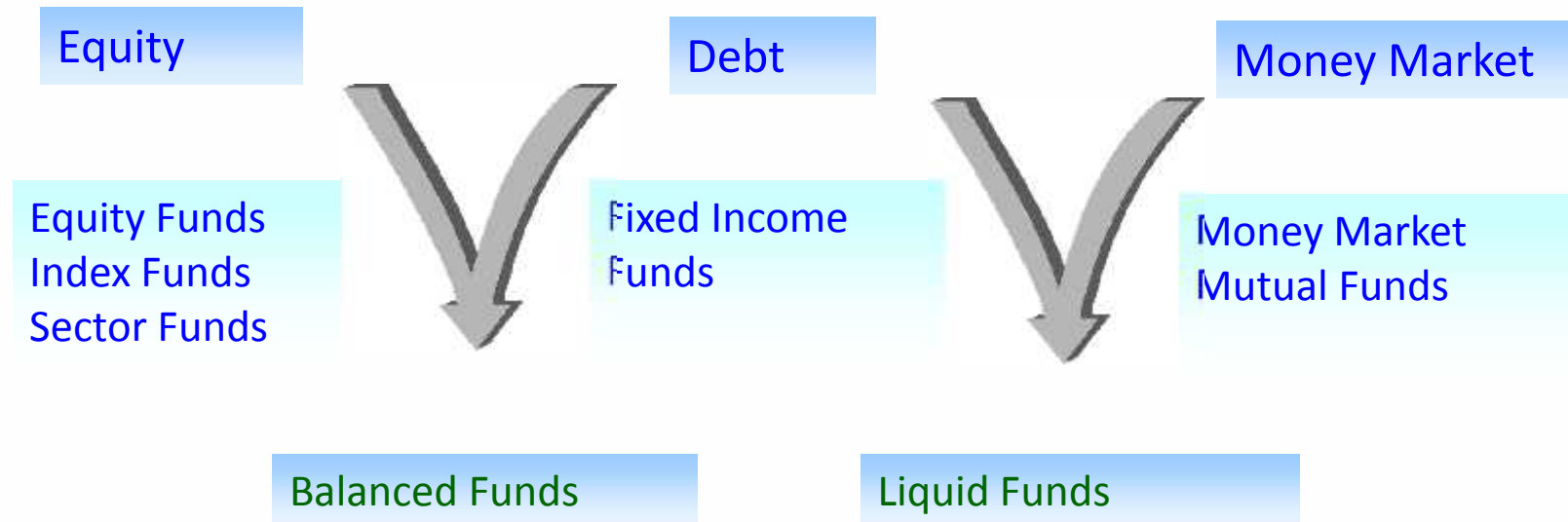


- It is a pool of money, collected from investors, and is invested according to certain investment objectives
- The contributors and beneficiaries are the same class of people namely the investors
- A mutual funds business is to invest the funds thus collected, according to the their wishes of the investors who created the pool
- e.g. money market mutual fund seeks investors to invest predominantly in Money Market Instruments

# HOW DOES A MUTUAL FUND WORK?



# TYPES OF FUNDS-BY INVESTMENT OBJECTIVE



# WHAT ARE EQUITY FUNDS?

- Predominantly invest in equity shares of the company

## Choices in equity funds

- Aggressive Growth Funds
- Growth Funds
- Specialty Funds
  - Sector Funds
  - Offshore Funds
  - Small Cap Equity Funds
  - Option Income Funds
- Diversified Equity Funds
  - ELSS
  - Index funds
  - Value Funds
  - Equity Income Funds

## WHAT ARE OPEN-ENDED FUNDS?

- In an open ended fund, investors can buy and sell units of the fund, at NAV related prices, at any time, directly from the fund.
- Open ended scheme are offered for sale at a pre- specified price, say Rs. 10, in the initial offer period. After a pre-specified period say 30 days, the fund is declared open for further sales and repurchases
- Investors receive account statements of their holdings

## WHAT ARE CLOSED END FUNDS?

- A closed -end fund is open for sale to investors for a specified period, after which further sales are closed.
- Any further transactions happen in the secondary market where closed-end funds are listed.
- The price at which the units are sold or redeemed depends on the market prices, which are fundamentally linked to the NAV.
- Investors receive either certificates or depository receipts, for their holdings

## WHAT ARE LIQUID AND MONEY MARKET FUNDS



- These debt funds invest only in instruments with maturities less than a year.
- The investment portfolio is very liquid and enables investors to hold their investments for very short horizons of a day or more.

## What are Gilt Funds?

- It invests only in securities that are issued by the Government and therefore do not carry any credit risk
- It invests in both long-term and short-term paper.
- Ideal for institutional investors who have to invest in Govt. Securities
- Enables retail Participation



## HOW ARE FUNDS DIFFERENT IN TERMS OF THEIR RISK PROFILE?

<b>Equity Funds</b>	<b>High level of Return , but has a high level of risk too</b>
<b>Debt Funds</b>	<b>Returns comparatively less risky than equity funds</b>
<b>Liquid and Money Market Funds</b>	<b>Provide stable but low level of return</b>

Investors have to face the risk- return trade off

## WHAT ARE THE CATEGORIES OF INVESTORS ELIGIBLE TO BUY MF UNITS?

- Resident Individuals
- Indian Companies
- Indian trusts and charitable institutions
- Banks
- NBFC's
- Insurance companies
- Provident funds
- Non-resident Indians
- OCB's
- SEBI registered FII's

## WHAT ARE NET ASSETS OF A MUTUAL FUNDS?



The net assets represent the market value of assets which belong to the investors, on a given date.

Net assets are calculated as:

Market value of investments

Plus(+) current assets and other assets

Plus(+) accrued income

Less(-) current liabilities and other liabilities

Less(-) accrued expenses

## WHAT IS NAV? HOW IS IT COMPUTED?

NAV is the value of one unit of the fund.

NAV= net assets of the fund/ units outstanding

<b>Investment in -</b>			<b>After 30 Days</b>
	Rs		Rs
Equity Shares	4,50,00,000		6,50,00,000
Government bonds	3,00,00,000		2,80,00,000
Corporate bonds	1,50,00,000		1,20,00,000
Money Market Instruments	1,00,00,000		1,00,00,000
	<b>10,00,00,000</b>		<b>11,50,00,000</b>
<b>Number of units</b>	<b>1,00,000</b>		
<b>Net assets</b>			
MTM value of investments			11,50,00,000
Plus current assets		4,00,000	
Plus accrued income		1,00,000	
			11,55,00,000
Less current liabilities		3,00,000	
Less accrued expenses		1,35,000	
<b>Net assets of the fund</b>			<b>11,50,65,000</b>
<b>NAV</b>			<b>11.5065</b>

# ADVANTAGES OF MUTUAL FUNDS

Portfolio Diversification



Professional Management



Reduction of risk



Reduction of transaction costs



Liquidity



Convenience and flexibility



Access to information



# TEXT BENEFITS IN MUTUAL FUNDS



- **Dividends Tax Free in the hands of investors for all type of MF schemes**

- **There will be Dividend Distribution Tax  
Debt Funds ...**

<b>Individuals</b>	<b>12.50% + surcharge</b>
<b>Corporate</b>	<b>20.00% + surcharge</b>

**Effective tax rate is much lower than on interest of bank FD for higher tax bracket Individuals and Corporate investors**

- **Dividend Tax Free for all Equity and Balanced schemes**

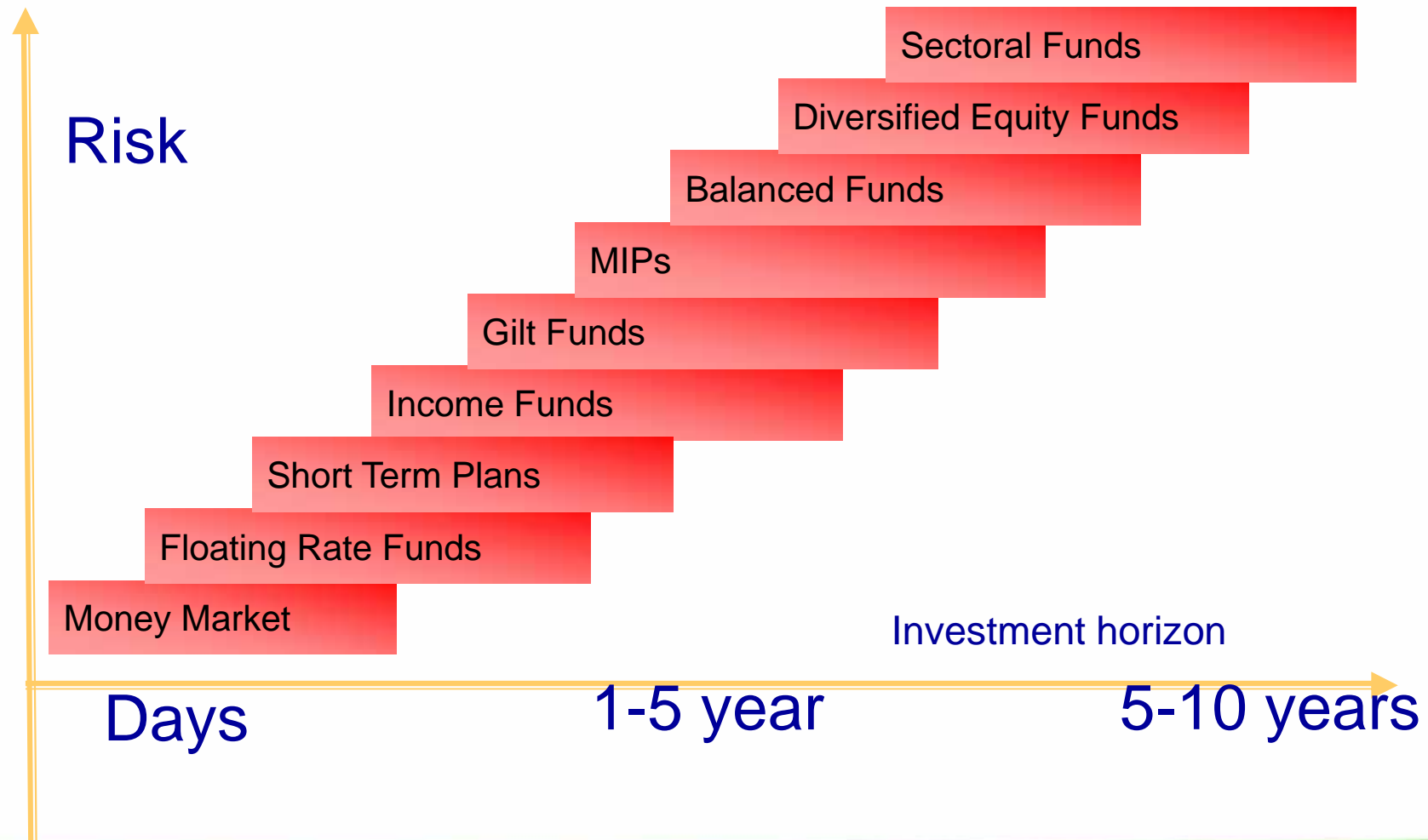
## TEX BENEFITS OF MUTUAL FUNDS-CONTINUE



- Capital Gain Tax
  - For Equity / Balanced Funds
    - LT Capital Gain Tax Nil
    - ST Capital Gain Tax @ 10%
  - For Debt Funds
    - LT Capital Gain Tax @ 10%
    - ST Capital Gain Tax @Tax bracket of Investors

Deduction up to Rs. 1.50 lakh available u/s 80C for investment in ELSS from FY2014-15

# RISK PROFILES





# WHY EQUITY MUTUAL FUNDS ARE SUCCESSFUL?

Qualities	Description
Investment Process	A systematic method of selection of the scrips, with the synchronization of objective.
Infrastructure	Technology, information at hand, statistical tools, research team, time etc.
Experience	The experience of making investment decisions on <b>a regular basis</b> & experience of standing all the business/economy cycles.

# WHY EQUITY MUTUAL FUNDS ARE SUCCESSFUL?

Qualities	Description
Knowledge & Qualification	Most Fund managers are professionally qualified. Moreover, their knowledge is assisted by a lot many support which they get in the form of their research team, study etc
Constant Monitoring	Reviewing & analyzing your investment at every moment of time

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ARTHAM SOLUTIONS PVT LTD

302, Regent Square, Above D mart,  
Nr. Karan Park, Kalpana Chawla Road,  
Adajan, Surat 395009. INDIA  
Tel. :(0261) 2730271

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