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SUGGESTED ANSWERS

CA FINAL

Test Code – JK-SFM-22

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Answers

Q.1

(a)

(i) Semi-annual fixed payment

= (N) (AIC) (Period)

Where N = Notional Principal amount = ₹5,00,000

AIC = All-in-cost = 8% = 0.08

$= 5,00,000 \times 0.08 \left(\frac{180}{360}\right)$

= 5,00,000 × 0.08 (0.5)

= 5,00,000 × 0.04 = ₹20,000/- **(2 Marks)**

(ii) Floating Rate Payment

$= N\ (LIBOR) \left(\frac{dt}{360}\right)$

$= 5,00,000 \times 0.06 \times \frac{181}{360}$

= 5,00,000 × 0.06 (0.503) or 5,00,000 × 0.06 (0.502777)

= 5,00,000 × 0.03018 or 0.30166 = ₹15,090 or 15,083

Both are correct **(2 Marks)**

(iii) Net Amount

= (i) – (ii)

= ₹20,000 – ₹15,090 = ₹4,910

or = ₹20,000 – ₹15,083 = ₹4,917 **(4 Marks)**

(b)

Opportunity gain of A Inc under currency swap	**Receipt**	**Payment**	**Net**
Interest to be remitted to B. Inc in $ 2,00,000x9%=$18,000		¥21,60,000	
Converted into ($18,000x¥120)			
Interest to be received from B. Inc in $ converted into Y (6%x$2,00,000 x ¥120)	¥14,40,000	-	
Interest payable on Y loan	-	¥12,00,000	
	¥14,40,000	**¥33,60,000**	
Net Payment	¥19,20,000	-	
	¥33,60,000	**¥33,60,000**	
$ equivalent paid ¥19,20,000 x(1/¥120)			$16,000
Interest payable without swap in $			$18,000
Opportunity gain in $			$ 2,000

(4 Marks)

Opportunity gain of B inc under currency swap	**Receipt**	**Payment**	**Net**
Interest to be remitted to A. Inc in ($ 2,00,000 x 6%)		**$12,000**	
Interest to be received from A. Inc in Y converted into $ =¥21,60,000/¥120	$18,000		
Interest payable on $ loan@10%	-	$20,000	
Opportunity gain in $	**$18,000**	**$32,000**	
Net Payment	$14,000	-	
	$32,000	**$32,000**	
Y equivalent paid $14,000 X ¥120			¥16,80,000
Interest payable without swap in ¥ ($2,00,000 X ¥120X8%)			¥19,20,000
Opportunity gain in Y			¥ 2,40,000

(4 Marks)

Alternative Solution

Cash Flows of A Inc

(i) At the time of exchange of principal amount

Transactions		Cash Flows
Borrowings	$2,00,000 x ¥120	+ ¥240,00,000
Swap		- ¥240,00,000
Swap		+$2,00,000
Net Amount		+$2,00,000

(ii) At the time of exchange of principal amount

Transactions		Cash Flows
Interest to the lender Interest	¥240,00,000X5%	¥12,00,000
Receipt from B Inc.	¥2,00,000X120X6%	¥14,40,000
Net Saving (in $)	¥2,40,000/¥120	$2,000
Interest to B Inc.	$2,00,000X9%	-$18,000
Net Interest Cost		-$16,000

A Inc. used $2,00,000 at the net cost of borrowing of $16,000 i.e. 8%. If it had not opted for swap agreement the borrowing cost would have been 9%. Thus there is saving of 1%.

Cash Flows of B Inc

(i) At the time of exchange of principal amount

Transactions		Cash Flows
Borrowings		+ $2,00,000
Swap		- $2,00,000
Swap	$2,00,000 x ¥120	+¥240,00,000
Net Amount		+¥240,00,000

(ii) At the time of exchange of principal amount

Transactions		Cash Flows
Interest to the lender	$2,00,000X10%	- $20,000
Interest Receipt from A Inc.		+$18,000
Net Saving (in ¥)	-$2,000X¥120	- ¥2,40,000
Interest to A Inc.	$2,00,000X6%X¥120	- ¥14,40,000
Net Interest Cost		- ¥16,80,000

B Inc. used ¥240,00,000 at the net cost of borrowing of ¥16,80,000 i.e. 7%. If it had not opted for swap agreement the borrowing cost would have been 8%. Thus there is saving of 1%

(c)

Selection of Bonds

Bonds are fixed income avenues. The following factors have to be evaluated in selecting fixed income avenues:

(a) Yield to maturity: The yield to maturity for a fixed income avenues represent the rate of return earned by the investor, if he invests in the fixed income avenues and holds it till its maturity.

(b) Risk of Default: To assess such risk on a bond, one has to look at the credit rating of the bond. If no credit rating is available relevant financial ratios of the firm have to be examined such as debt equity, interest coverage, earning power etc and the general prospect of the industry to which the firm belongs have to be assessed.

(c) Tax Shield: In the past, several fixed income avenues offers tax shields but at present only a few of them do so.

(d) Liquidity: If the fixed income avenues can be converted wholly or substantially into cash at a fairly short notice it possesses a liquidity of a high order.

(4 Marks)

Q.2

(a)

Net payoff for the holder of the call option

					(₹)
Share price on exercise day	300	310	320	330	340
Option exercise	No	No	No	Yes	Yes
Outflow (Strike price)	Nil	Nil	Nil	320	320
Out flow (premium)	8	8	8	8	8
Total Outflow	8	8	8	328	328
Less inflow (Sales proceeds)	-	-	-	330	340
Net payoff	-8	-8	-8	2	12

(4 Marks)

Net payoff for the holder of the put option

					(₹)
Share price on exercise day	300	310	320	330	340
Option exercise	Yes	Yes	No	No	No
Inflow (strike price)	320	320	Nil	Nil	Nil
Less outflow (purchase price)	300	310	-	-	-
Less outflow (premium)	7	7	7	7	7
Net Payoff	13	3	-7	-7	-7

(4 Marks)

The Call Option can be exercised gainfully for any price above ₹ 328 and Put Option For any Price below ₹ 313

(2 Marks)

(b)

The amount of EURO bought by selling US$

US$ 10,00,000 * EURO 1.4400 = EURO 14,40,000

The amount of EURO sold for buying USD 10,00,000 * 1.4450 = EURO 14,45,000

Net Loss in the Transaction = EURO 5,000

To acquire EURO 5,000 from the market @

(a) USD 1 = EURO 1.4400 &

(b) USD1 = INR 31.4500

Cross Currency buying rate of EUR/INR is ₹ 31.4500 / 1.440 i.e. ₹ 21.8403

Loss in the Transaction ₹ 21.8403 * 5000 = ₹ 1,09,201.50

Alternatively, if delivery to be affected then computation of loss shall be as follows:

EURO to be surrendered to acquire $ 10,00,000	= EURO 14,45,000
EURO to be received after selling $ 10,00,000	= EURO 14,40,000
Loss	= EURO 5,000

(3 Marks)

To acquire EURO 5,000 from market @

US $ 1 = EURO 1.4400

US $ 1 = INR 31.45

Cross Currency = $\frac{31.45}{1.440}$ = ₹ 21.8403

Loss in Transaction (21.8403 x EURO 5,000) = ₹ 1,09,201.50

(3 Marks)

(c)

Objectives of Portfolio Management

Some of the important objectives of portfolio management are:

(i) **Security/Safety of Principal:** Security not only involves keeping the principal sum intact but also its purchasing power.

(ii) **Stability of Income:** To facilitate planning more accurately and systematically the reinvestment or consumption of income.

(iii) **Capital Growth:** It can be attained by reinvesting in growth securities or through purchase of growth securities.

(iv) **Marketability i.e. the case with which a security can be bought or sold:** This is essential for providing flexibility to investment portfolio.

(v) **Liquidity i.e. nearness to money:** It is desirable for the investor so as to take advantage of attractive opportunities upcoming in the market.

(vi) Diversification: The basic objective of building a portfolio is to reduce the risk of loss of capital and/or income by investing in various types of securities and over a wide range of industries.

(vii) Favourable Tax Status: The effective yield an investor gets from his investment depends on tax to which it is subjected to. By minimising the tax burden, yield can be effectively improved.

(4 Marks)

Q.3

(a)

(i) NAV of the Fund

$$= \frac{₹\,4,00,000 + ₹\,93,72,000 + ₹\,72,24,000 + ₹\,3,03,06,000}{6,00,000}$$

$$= \frac{₹\,4,73,02,000}{6,00,000} = ₹\,78.8366 \text{ rounded to } ₹\,78.84$$

(2 Marks)

(ii) The revised position of fund shall be as follows:

Shares	No. of shares	Price	Amount (₹)
L Ltd.	20,000	20.00	4,00,000
M Ltd.	38,000	312.40	1,18,71,200
N Ltd.	20,000	361.20	72,24,000
P Ltd.	60,000	505.10	3,03,06,000
Cash			5,00,800
			5,03,02,000

No. of units of fund = 6,00,000 + $\frac{30,00,000}{78.8366}$ = 6,38,053

(3 Marks)

(iii) On 2nd February 2012, the NAV of fund will be as follows:

Shares	No. of shares	Price	Amount (₹)
L Ltd.	20,000	20.50	4,10,000
M Ltd.	38,000	360.00	1,36,80,000
N Ltd.	20,000	383.10	76,62,000
P Ltd.	60,000	503.90	3,02,34,000
Cash			5,00,800
			5,24,86,800

NAV as on 2nd February 2012 = $\frac{₹\,5,24,86,800}{6,38,053} = ₹\,82.26$ per unit

(3 Marks)

(b)

(i)

	Acquirer Company	Target Company
Net Profit	₹ 80 lakhs	₹ 15.75 lakhs
PE Multiple	10.50	10.00
Market Capitalization	₹ 840 lakhs	₹ 157.50 lakhs
Market Price	₹ 42	₹ 105
No. of Shares	20 lakhs	1.50 lakhs
EPS	₹ 4	₹ 10.50

Maximum Exchange Ratio 4 : 10.50 or 1 : 2.625

Thus, for every one share of Target Company 2.625 shares of Acquirer Company.

(4 Marks)

(ii) Let x lakhs be the amount paid by Acquirer company to Target Company. Then to maintain same EPS i.e. ₹ 4 the number of shares to be issued will be:

$$\frac{(80\,\text{lakhs} - 15.75\,\text{lakhs}) - 15\%\,0.70\,x}{20\,\text{lakhs}} = 4$$

$$\frac{95.75 - 0.105\,x}{20} = 4$$

x = ₹ 150 lakhs

Thus, ₹ 150 lakhs shall be offered in cash to Target Company to maintain same EPS. **(4 Marks)**

(c)

The CAPM distinguishes between risk of holding a single asset and holding a portfolio of assets. There is a trade-off between risk and return. Modern portfolio theory concentrates on risk and stresses on risk management rather than on return management. Risk may be security risk involving danger of loss of return from an investment in a single financial or capital asset. Security risk differs from portfolio risk, which is the probability of loss from investment in a portfolio of assets. Portfolio risk is comprised of unsystematic risk and systematic risk. Unsystematic risks can be averted through diversification and is related to random variables. Systematic risk is market related component of portfolio risk. It is commonly measured by regression coefficient Beta or the Beta coefficient. Low Beta reflects low risk and high Beta reflects high risk.

As the unsystematic risk can be diversified by building a portfolio, the relevant risk is the non-diversifiable component of the total risk. As mentioned earlier, it can be measured by using Beta (β) a statistical parameter which measures the market sensitivity of returns. The beta for the market is equal to 1.0. Beta explains the systematic relationship between the return on a security and the return on the market by using a simple linear regression equation. The return on a security is taken as a dependent variable and the return on market is taken as independent variable then $Rj = R_f + \beta (R_m - R_f)$. The beta parameter β in this William Sharpe model represents the slope of the above regression relationship and measures the sensitivity or responsiveness of the security returns to the general market returns. The portfolio beta is merely the weighted average of the betas of individual securities included in the portfolio. Portfolio beta $\beta = \sum$ proportion of security × beta for security.

CAPM provides a conceptual framework for evaluating any investment decision where capital is committed with a goal of producing future returns. CAPM is based on certain assumptions to provide conceptual framework for evaluating risk and return. Some of the important assumptions are discussed below:

(i) Efficient market: It is the first assumption of CAPM. Efficient market refers to the existence of competitive market where financial securities and capital assets are bought and sold with full information of risk and return available to all participants. In an efficient market, the price of individual assets will reflect a real

or intrinsic value of a share as the market prices will adjust quickly to any new situation, John J. Hampton has remarked in "Financial decision making" that although efficient capital market is not much relevant to capital budgeting decisions, but CAPM would be useful to evaluate capital budgeting proposal because the company can compare risk and return to be obtained by investment in machinery with risk and return from investment in securities.

(ii) **Rational investment goals:** Investors desire higher return for any acceptable level of risk or the lowest risk for any desired level of return. Such a rational choice is made on logical and consistent ranking of proposals in order of preference for higher good to lower good and this is the scale of the marginal efficiency of capital. Beside, transactive preferences and certainty equivalents are other parameters of rational choice.

(iii) Risk aversion in efficient market is adhered to although at times risk seeking behaviour is adopted for gains.

(iv) CAPM assumes that all assets are divisible and liquid assets.

(v) Investors are able to borrow freely at a risk less rate of interest i.e. borrowings can fetch equal return by investing in safe Government securities.

(vi) Securities can be exchanged without payment of brokerage, commissions or taxes and without any transaction cost.

(vii) Securities or capital assets face no bankruptcy or insolvency.

(4 Marks)

Q.4

(a)

(i) Computation of Business Value

			(₹ Lakhs)
Profit before tax $\frac{77}{1-0.30}$			110
Less: Extraordinary income			(8)
Add: Extraordinary losses			10
			112
Profit from new product		(₹ Lakhs)	
Sales		70	
Less: Material costs	20		
Labour costs	12		
Fixed costs	10	(42)	28
			140.00
Less: Taxes @30%			42.00
Future Maintainable Profit after taxes			98.00
Relevant Capitalisation Factor			0.14
Value of Business (₹98/0.14)			700

(5 Marks)

(ii) Determination of Market Price of Equity Share

	(₹ Lakhs)
Future maintainable profits (After Tax)	₹ 98,00,000
Less: Preference share dividends 1,00,000 shares of ₹ 100 @ 13%	₹ 13,00,000
Earnings available for Equity Shareholders	₹ 85,00,000
No. of Equity Shares	50,00,000
Earning per share = $\frac{₹\,85,00,000}{50,00,000}$ =	₹ 1.70
PE ratio	10
Market price per share	₹ 17

(3 Marks)

(b)

(i) Swap Points for 2 months and 15 days

	Bid	Ask
Swap Points for 2 months (a)	70	90
Swap Points for 3 months (b)	160	186
Swap Points for 30 days (c) = (b) – (a)	90	96
Swap Points for 15 days (d) = (c)/2	45	48
Swap Points for 2 months & 15 days (e) = (a) + (d)	115	138

(4 Marks)

(ii) Foreign Exchange Rates for 20th June 2016

	Bid	Ask
Spot Rate (a)	66.2525	67.5945
Swap Points for 2 months & 15 days (b)	0.0115	0.0138
	66.2640	67.6083

(2 Marks)

(iii) Annual Rate of Premium

	Bid	Ask
Spot Rate (a) Foreign Exchange Rates for	66.2525	67.5945
20th June 2016 (b)	66.2640	67.6083
Premium (c)	0.0115	0.0138
Total (d) = (a) + (b)	132.5165	135.2028
Average (d) / 2	66.2583	67.6014
Premium	$\frac{0.0115}{66.2583} \times \frac{12}{2.5} \times 100$ **= 0.0833%**	$\frac{0.0138}{67.6014} \times \frac{12}{2.5} \times 100$ **= 0.0980%**

(2 Marks)

(c)

Here we can assume two cases (i) If investor is US investor then there will be no impact of appreciation in $. (ii) If investor is from any other nation other than US say Indian then there will be impact of $ appreciation on his returns.

First we shall compute return on bond which will be common for both investors.

$$\text{Return} = \frac{(\text{Price at end - Price at begining}) + \text{Interest}}{\text{Price at begining}}$$

$$= \frac{(5250\,500)\,350}{5000}$$

$$= \frac{250\,350}{5000} = 0.12 \text{ say } 12\%$$

(i) For US investor the return shall be 12% and there will be no impact of appreciation in $.

(ii) If $ appreciate by 2% then return for non-US investor shall be:

Return x 1.02 = 0.12 x 1.02=0.1224 i.e. 12.24%

Alternatively, it can also be considered that $ appreciation will be applicable to the amount of principal as well. The answer therefore could also be (1+0.12) (1+0.02) -1 =1.12X1.02 - 1 = 0.1424 i.e. 14.24%

(4 Marks)

Q.5

(a)

(i) Calculation of theoretical minimum price of a 6 months forward contract

Theoretical minimum price = ₹ 1,800 + (₹ 1,800 x 12/100 x 6/12) = ₹ 1,908

(3 Marks)

(ii) Arbitrage Opportunity

The arbitrageur can borrow money @ 12 % for 6 months and buy the shares at ₹ 1,800. At the same time he can sell the shares in the futures market at ₹ 1,950.

On the expiry date 6 months later, he could deliver the share and collect ₹ 1,950 pay off ₹ 1,908 and record a profit of ₹ 42 (₹ 1,950 – ₹ 1,908).

(5 Marks)

(b)

Particulars	Adjusted Value ₹ lakhs
Equity Shares	63.920
Cash in hand	2.760
Bonds and debentures not listed	2.125
Bonds and debentures listed	7.500
Dividends accrued	1.950
Fixed income securities	9.409
Sub total assets (A)	87.664
Less: Liabilities	
Amount payable on shares	13.54
Expenditure accrued	1.76
Sub total liabilities (B)	15.30
Net Assets Value (A) – (B)	72.364
No. of units	2,75,000
Net Assets Value per unit (₹ 72.364 lakhs / 2,75,000)	₹ 26.3142

(8 Marks)

(c)

Establishment of a Mutual Fund: A mutual fund is required to be registered with the Securities and Exchange Board of India (SEBI) before it can collect funds from the public. All mutual funds are governed by the same set of regulations and are subject to monitoring and inspections by the SEBI. The Mutual Fund has to be established through the medium of a sponsor. A sponsor means any body corporate who, acting alone or in combination with another body corporate, establishes a mutual fund after completing the formalities prescribed in the SEBI's Mutual Fund Regulations.

The role of sponsor is akin to that of a promoter of a company, who provides the initial capital and appoints the trustees. The sponsor should be a body corporate in the business of financial services for a period not less than 5 years, be financially sound and be a fit party to act as sponsor in the eyes of SEBI.

The Mutual Fund has to be established as either a trustee company or a Trust, under the Indian Trust Act and the instrument of trust shall be in the form of a deed. The deed shall be executed by the sponsor in favour of the trustees named in the instrument of trust. The trust deed shall be duly registered under the provisions of the Indian Registration Act, 1908. The trust deed shall contain clauses specified in the Third Schedule of the Regulations.

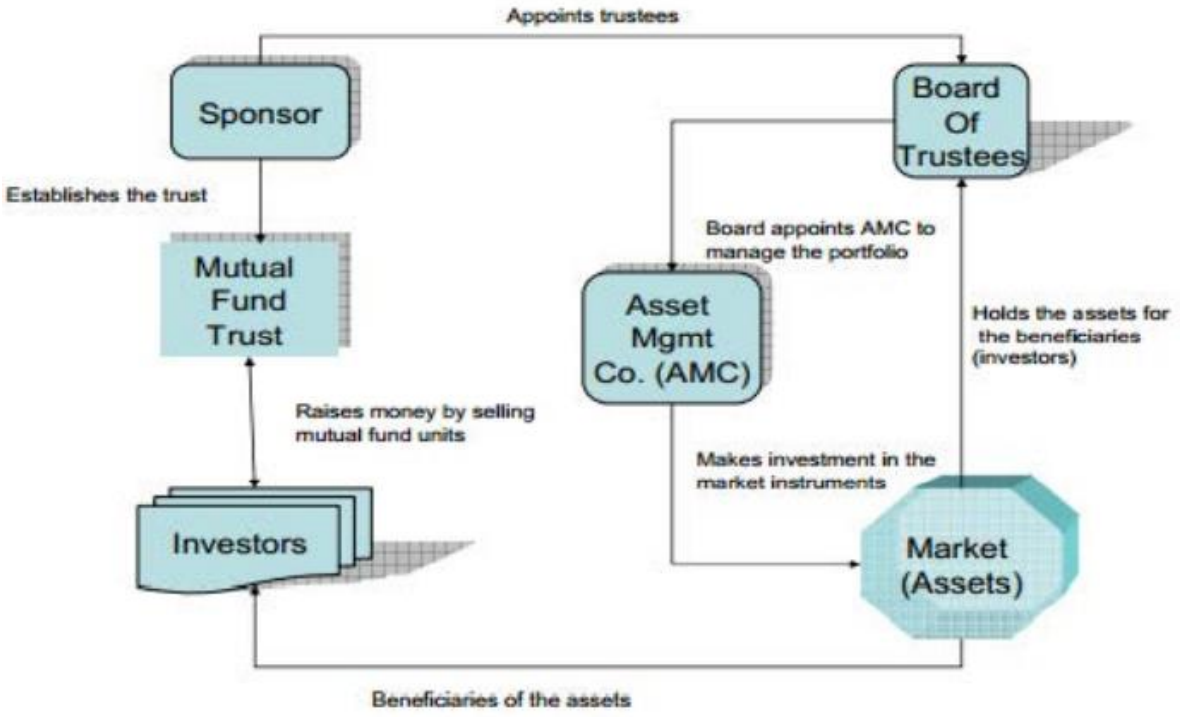
An Asset Management Company, who holds an approval from SEBI, is to be appointed to manage the affairs of the Mutual Fund and it should operate the schemes of such fund. The Asset Management Company is set up as a limited liability company, with a minimum net worth of ₹ 10 crores.

The sponsor should contribute at least 40% to the networth of the Asset Management Company. The Trustee should hold the property of the Mutual Fund in trust for the benefit of the unit holders.

SEBI regulations require that at least two-thirds of the directors of the Trustee Company or board of trustees must be independent, that is, they should not be associated with the sponsors. Also, 50 per cent of the directors of AMC must be independent. The appointment of the AMC can be terminated by majority of the trustees or by 75% of the unit holders of the concerned scheme.

The AMC may charge the mutual fund with Investment Management and Advisory fees subject to prescribed ceiling. Additionally, the AMC may get the expenses on operation of the mutual fund reimbursed from the concerned scheme.

The Mutual fund also appoints a custodian, holding valid certificate of registration issued by SEBI, to have custody of securities held by the mutual fund under different schemes. In case of dematerialized securities, this is done by Depository Participant. The custodian must be independent of the sponsor and the AMC.



(4 Marks)

Q.6

(a)

(i) Current future price of the index = 5000 + 5000 (0.09-0.06) $\frac{4}{12}$ = 5000 + 50 = 5,050

∴ Price of the future contract = ₹ 50 x 5,050 = ₹ 2,52,500

(2 Marks)

(ii) Hedge ratio = $\frac{1010000}{252500}$ × 5.1 = 6 contracts

Index after there months turns out to be 4500

Future price will be = 4500 + 4500 (0.09-0.06) × $\frac{1}{12}$ = 4,511.25

Therefore, Gain from the short futures position is = 6 x (5050 – 4511.25) x 50 = ₹1,61,625

(6 Marks)

Note: Alternatively we can also use daily compounding (exponential) formula.

(b)

(i) Computation of Beta of Portfolio

Investment	No. of shares	Market Price	Market Value	Dividend Yield	Dividend	Composition	β	Weighted β
I.	60,000	4.29	2,57,400	19.50%	50,193	0.2339	1.16	0.27
II.	80,000	2.92	2,33,600	24.00%	56,064	0.2123	2.28	0.48
III.	1,00,000	2.17	2,17,000	17.50%	37,975	0.1972	0.90	0.18
IV.	1,25,000	3.14	3,92,500	26.00%	1,02,050	0.3566	1.50	0.53
			11,00,500		**2,46,282**	**1.0000**		**1.46**

Return of the Portfolio $\frac{2,46,282}{11,00,500} = 0.2238$

Beta of Port Folio 1.46
Market Risk implicit

$0.2238 = 0.11 + \beta \times (0.19 - 0.11)$

Or, $0.08\ \beta + 0.11 = 0.2238$

$\beta = \frac{0.2238 - 0.11}{0.08} = 1.42$

Market β implicit is 1.42 while the portfolio β is 1.46. Thus the portfolio is marginally risky compared to the market.

(4 Marks)

(ii) The decision regarding change of composition may be taken by comparing the dividend yield (given) and the expected return as per CAPM as follows:

Expected return R_S as per CAPM is:

R_S $I_{RF} + (R_M - I_{RF})\ \beta$

For investment I R_S $I_{RF} + (R_M - I_{RF})\ \beta$

.11 + (.19 - .11) 1.16

20.28%

For investment II, R_S .11 + (.19 - .11) 2.28 = 29.24%

For investment III, R_S .11 + (.19 - .11) .90

18.20%

For investment IV, R_S .11 + (.19 - .11) 1.50

23%

Comparison of dividend yield with the expected return Rs shows that the dividend yields of investment I, II and III are less than the corresponding R_s,. So, these investments are over- priced and should be sold by the investor. However, in case of investment IV, the dividend yield is more than the corresponding R_s, so, XYZ Ltd. should increase its proportion.

(4 Marks)

(c)

Advantages of Mutual Fund

(a) Professional Management: The funds are managed by skilled and professionally experienced managers with a back up of a Research team.

(b) Diversification: Mutual Funds offer diversification in portfolio which reduces the risk.

(c) Convenient Administration: There are no administrative risks of share transfer, as many of the Mutual Funds offer services in a demat form which save investor's time and delay.

(d) Higher Returns: Over a medium to long-term investment, investors always get higher returns in Mutual Funds as compared to other avenues of investment. This is already seen from excellent returns, Mutual Funds have provided in the last few years. However, investors are cautioned that such high returns riding on the IT boom should not be taken as regular returns and therefore one should look at the average returns provided by the Mutual Funds
particularly in the equity schemes during the last couple of years.

(e) Low Cost of Management: No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.

(f) Liquidity: In all the open ended funds, liquidity is provided by direct sales / repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.

(g) Transparency: The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half-yearly basis. However, many Mutual Funds

disclose this on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are now published through AMFI in the newspapers.

(h) Other Benefits: Mutual Funds provide regular withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any load.

(i) Highly Regulated: Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated as per the Mutual Fund Regulations which provide excellent investor protection.

(j) Economies of scale: The way mutual funds are structured gives it a natural advantage. The "pooled" money from a number of investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges.

This also allows retail investors access to high entry level markets like real estate, and also there is a greater control over costs.

(k) Flexibility: There are a lot of features in a regular mutual fund scheme, which imparts flexibility to the scheme. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience.

The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.

(4 Marks)