moneymarket → less than 1 ye

Chapter-12

Mutual Funds

A mutual fund is an investment scheme that collects money from people and invests those funds in various assets. The money collected from various investors is usually invested in financial securities like shares and money-market instruments like certificate of deposit and bonds.

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structred and maintained to match the investment objectives stated in its prospectus.

A mutual fund is required to be registered with SEBI before it can collect funds from the public.

Mutual funds is a trust

IDBI Bank.
Sponsor

IDBI direct
Custodian

IDBI Mutual
IDBI Asset Management Ltd.

IDBI Mutual
Mutual Funds trust

Fintech
Registrar

★ Unit holders

A unitholder is an investor who owns the units issued by a trust, like a real estate investment trust or a master limited partnership (MLP). The securities issued by trusts/ MF are called units, and investors in units are called unitholders. The unit in turn reflect share of the investor in the Net Assets of the fund.

★ Sponsor

A sponsor is a influential investor who creates demand for a security because of their positive outlook on it (markets) The sponsor brings in capital and creates a Mutual fund trust and sets up the AMC. The sponsor makes an application for registration of the mutual fund and contributes. at least 40%. of the net worth of the AMC.

★ Asset Management Company.

An asset management company (AMC) is a company that invests its clients' pooled funds into securities that match. declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have themselves. AMC s manage mutual fuds, hedge funds and pensionplans, these companies earn income by charging service fees or comissions to their clients.

★ Trustee

A trustee is a person or firm that holds and admisters property or assets for the benefit of a third party. A trustee may be appointed for a wide variety of purposes, such as in case of bankruptcy, for a charity, for a trust fund or for certain types of retirement plans and pensions.

Mutual Fund.

A mutual fund established under the Indian Trust Act to raise money through, the sale of units to the public ~~from~~ for investing in the capital market. The funds thus collected as per the directions of asset management company for invested. The mutual fund has to be SEBI registered.

Custodian

A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits ~~of~~ or rights accruing to the client in respect of securities. Examples: Yes bank ltd, State bank of India, ICICI Bank ltd, BNP Paribas, Axis Bank ltd, Edelweiss Custodial Services ltd

Transfer Agents

A transfer agent is a person who has been granted a Certificate of Registration to conduct the business of transfer agent under SEBI Regulations Act, 1993. Transfer Agents services include issue and redemption of mutual fund units, preparation of transfer documents and maintenance of updated investments records. They also record transfer of units between investors where depository does not function. They also facilitate investors to get customized reports.

Depository
A depositor facilitates the smooth flow of trading and ensure the investor's about their investment in securities.

1.) NSDL 2.) CDSL

Advantages of Mutual Funds.

1.) Liquidity
2.) Transparency
3.) Low Costs
4.) Return Potential
5.) Diversification
6.) Convenient Adminstration
7.) Professional Management

Professional Management.
Investors avail the services of experienced and skilled professionals who are backed by a dedicated investment research team which analyses the performance and prospectus of companies and selects suitable investments to achieve the objectives of the scheme.

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

Liquidity
In open ended schemes, investors can get their money back promptly at net asset value related prices from the mutual fund itself. With close ended schemes, investors can sell their units on a stock exchange at the prevailing

market price or avail of the facility of direct repurchase at net asset value (NAV) related prices which some close ended and interval schemes offer periodically or offer it for redemption to the fund on the date of maturity.

Lower Cost

Mutual funds are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.

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.

Convenient Administration

Investing in a mutual fund reduces paper work and helps investors to avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies. Mutual funds save investors time and make investing easy and convenient.

Diversification

Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. Investors achieve this diversification through a mutual fund with far less money than one can do on his own

★ Risk involved in Mutual Funds.

1.) Excessive diversification of portfolio, losing focus on the securities of the key segments

2.) Too much concentration on blue-chip securities which are high priced and which doe not offer more than average return

3.) Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and comission.

4.) Poor planning of investment returns

5.) Unresearched forecast on income, profits and govt. policies

6.) Fund managers being unaccountable for poor results

7.) Faliure to identify clearly the risk of the scheme as distinct from risk of the market.

8.) Under performance in comparison to pers.

Expense Ratio.

- The fees charged by the scheme to manage investors money
- This is commonly referred as 'Expense ratio'. In short, Expense ratio is the cost of running and managing a MF which is charged to the scheme. All the expenses incurred by MF, AMC will have to be managed within the limits specified under Regulations 52 of SEBI Mutual Fund Regulations.
- For actively managed equity schemes, the total expense ratio (TER) allowed under the regulations is 2.5% for the first ₹100 crore of average weekly net assets; 2.25% for the next ₹300 crore, 2% for the subsequent ₹300 crore and 1.75% for the balance Asset under management (AUM).
- The expense ratio is calculated as a percentage of the scheme's average net asset value (NAV). The daily NAV of a mutual fund is disclosed after deducting the expense.

Types of Mutual Fund.

- Based on maturity period.

→ Open ended MF

- Entry and exist of units of MF — ~~Anytime~~ / At NAV / From issuer (MF)
- Highly liquidity
- No. of units of MF = Not Fixed
- Over subscription = Not possible
- Total Corpus (capital) → be raised from issue of units of MF
  ↓
  not fixed.

→ Close ended MF

- Entry & Exist of the MF
  (Buy) (Sale)

At specified From issuer at NAV (MF itself) at

At anytime (once listed to stock exchange) From stock exchange at Market price.

- Mostly liquid (once listed) $\boxed{\text{Listing - Mandatory}}$
- No. of units (Fixed)
- Oversubscription → Possible
- Total Capital → Fixed.

- Based on investment objective

→ Income oriented.

It is MF scheme whose objectives is regular income for investor (unit holder). Such MF invests in debt instruments.

→ Growth oriented.

It is MF scheme whose objectives is to provide growth to the investor. Such MF invest in equity instrument.

→ Hybrid Schemes
The objective of such schemes is to provide regular income as well as growth. Such MF invest in equity as well as in debt in specified ratio & disclosed in the offer document.

→ High growth. (small capital funds)
Such MF invest in equity shares those are volatile & securities prices fluctuate significantly.

→ Capital Protection orientation
The objective of such MF is to protect the capital MF

→ Tax savings. Example : Equity linked Saving schemes [ELSS]
Such MF invest in equity shares/securities which are the part of equity market. Tax deduction is available if investor is investing in Tax savings scheme [Sec 80(c) of I.T]
Note: Lock in period of 3 years.

→ Special Scheme (Index fund)
Such scheme of MF invest in equity shares in the proportion of Index (Sensex, Nifty)

→ Real Estate fund.
Such MF invest in Real estate funds securities of company engaged in real estate

→ Off Shore funds.
It is a MF which invest in securities of foreign company

→ Fund of Fund
It is a MF which invest in other MF → Funds of Funds

is not allowed unless expressively mentioned in offer document (prospectus).

→ Money market Mutual Fund.

It is a MF which invest in money market instruments (Commercial paper, T-Bills etc) which invest in debt securities engaged in infra projects.

→ New Direction Fund.

It is a MF which invest in those companies which are engaged in research & development.

→ Leverage Fund

It is a MF which invest out of borrowed fund raised from bank / financial institutions and not from the fund from the unit holder.

The objective of such fund is ~~the~~ to generate surplus income which shall be utilised for providing surplus returns to the unit holder.

Example.

	G ltd	K ltd.
	2,00,000 eq. sh. of ₹10/-	2,00,000 → 1,00,000 eq. sh. of ₹10/- ~~10,000 shares~~ ; Debt : 1,00,000 @ 10%.
	20,000 shares.	
Profit	2,00,000	2,00,000
- interest	–	(10,000)
	2,00,000	1,90,000
(-) Tax @ 50%.	(1,00,000)	(95,000)
	1,00,000	95,000
÷ no. of shares	20,000	10,000
EPS.	₹5	₹9.5

Practical Question 1

2008-June [6] (a) A unit of Evergrow Equity fund is redeemed at ₹15, the exit load being 2.25%. Calculate the NAV
(4marks) [CSIG-II]

→ As given in question.
Redemption price = ₹15 , % of exist load = 2.25%

$$\boxed{\text{Redemption price} = \frac{NAV}{1 + \text{Exist load}}}$$ or

NAV = Redemption Price (1 + exist load)
= 15 (1 + 2.25%)
= 15 (1 + 0.225)
= ₹15.34

FORMULA TABLE

1.) **Net Asset Value (NAV)**

$$= \frac{\text{market value or fair value of scheme's investments} + CA - CL \text{ \& Provisions}}{\text{No. of outstanding units on the valuation date}}$$

2.) **Public offer price (P.O.P.) of an unit of mutual fund** =

$$\frac{NAV}{1 - \text{Front end load}}$$

3.) **Redemption Price of an unit of MF** = $\frac{NAV}{1 + \text{Back end load}}$

4.) **Value of rights (in case of MF)** $V_r = \frac{n}{m}(P_{ex} - P_{of})$

Here n = no. of rights shares offered
m = no. of original shares held
P_{ex} = Ex-right price
P_{of} = Right offer price.

5.) **Rate of Return** = $\frac{(\text{NAV at present} - \text{NAV at purchase}) + \text{Dividend}}{\text{NAV at purchase}} \times 100$

★ Types of plan.

1. Regular Plan – In regular plan, you can avail the distribution services of an intermediary

2. Direct Plan – In direct plan, you investing directly with AMC, Hence, lower the cost.

NAV = Asset – Management + Distribution (exp) = $\frac{\text{Net Assets}}{\text{No. of units}}$

★ Factors of Judging the efficiency of MF

1. Past track record of MF.
2. Consistent Growth in NAV, dividend, capital appreciation of MF.
3. MF is liquid or not
4. Being MF listed or not.
5. The investment objective of MF being clearly mentioned in the offer document.
6. Investment objective complied or not
7. MF is stable or not.

★ Listing of Close ended scheme.

1. All close ended mutual fund scheme are required to be listed on exchange (stock exchange)
2. For getting the units of mutual funds listing on stock exchange, an application need to make to recognised stock exchange for obtaining in-principle approval.
3. In the following situation: Close ended MF are not required to be listed:

(i) In case of capital protection oriented scheme
(ii) Where close ended MF scheme provide for repurchase facility and such repurchase facility should be reopen

within 6 months from closure of subscription.
(iii) Such MF provides for periodic repurchase facility to all the unit holder. Such MF scheme provides for monthly income to its unit holder
(iv) Such mutual fund scheme are special schemes which are for senior citizen, children, physically handicap, women, widow.

☆ Guaranteed Return
1. MF cannot issue guaranteed return scheme unless the following conditions being satisfied.
a) Such guaranteed return need to be assumed by sponsor, trustee, AMC.
b) Detail of such person providing guaranteed return need to be specified in the offer document.
c) Manner of providing guaranteed return is also required to be specified in the offer document.

☆ Infrastructure Debt fund scheme:
(i) It is a MF which invest primarily in debt securities or linked to debt instruments of infra companies or infra projects or SPV (special purpose vehicle) created for promoting investment infrastructure.
(ii) It is a close ended MF scheme having locking period of minimum 5 years.
(iii) The tenure of such MF scheme can be extended to 2yrs subject the approval of 2/3 unit holder by value.
* (iv) Unit of such MF scheme are required to be listed on stock exchange provide the units are fully paid up.
(V) Minimum investment by each investor = 1 crore

(vi) Minimum value of each units of MF ₹ 10 lakhs
(vii) Single investor shall not hold more than 50% of the total value of scheme.
(viii) Such scheme can be issued by availing public offer or private placement basis.
(ix) If the scheme being issued by public offer then minimum offer period will be 45 days.
(x) If the scheme being issued by private placement then maximum number of allotee will be 49.
(xi) Such scheme should have been launched after obtaining firm commitment from strategic investors of atleast 25 cr.

[Strategic investors includes banks, NBFC, FI, FII]

☆ Investment pattern scheme of infra debt fund scheme:

Minimum 90% total asset
↓
1. Debt securities of ifra companies
↓
2. Securtized debt infra instruments of infra companies.
↓
3. Infra Project
↓
4. SPV created for promoting investment in infrastructure co.
↓
5. loan for infra project which are completed and revenue is generating.

Max 10% of Total asset of the scheme.
↓
1. Equity shares of infra co.
↓
2. Convertible securities of infra companies.
↓
3. Mezzainine Finance Instructor.
↓
4. Money market instruments
↓
5. Bank Deposits

☆ Infra debt fund scheme shall not invest for more than 30% of net asset in debt securities or securitized debt instrument of single infra company

Infra debt fund scheme shall not

Infra debt instrument shall invest max 25% of his total fund in listed security of sponsor or group company or associate sponsor.

Eligibility

1. Existing MF can launch this scheme provided it has adequate no. of employees having experience in infra sector.
2. SEBI shall issue certificate of registration for launch of this scheme provided the sponsor or parent company of sponsor is engaged in the business of infra financial sector for more than equal to 5 years and sponsor complys with SEBI regulations.

☆ Mezzanine Finance

1. It's a hybrid instrument having a feature of equity and debt instruments
2. It is issued by the company for raising funds for expansion of existing company.
3. In this case borrower should make the payment of principle or interest amount.
4. In any case borrower fails to make the payment then lender shall get controlling interest upon the borrower and debt instruments shall be converted into equity shares of borrower

In this case of conversion, it only take place in case of default not on the redeemption.

★ Gold Exchanged Traded fund

1. It is a MF which invest in gold or gold related instrument (Sovereign gold)
2. Gold related instruments are instruments whose underlying assets are gold
3. Pending amount can be invested towards government Securities, money market instruments, bank deposits.

★ Gold Deposit scheme

1. SEBI has recognised gold deposits scheme as gold related instruments whose underlying assets are gold.
2. Investment in GDS of bank by gold exchanged traded fund shall be subject to following condition :
   a) Maximum investment by GETF in gold deposit scheme is equals to 20% of total asset under management of such scheme.
   b) For making such investment MF have to put in a place a written policy which need to approved by board of trustee and board of AMC of such policy to be received by atleast by once in a year
   c) The gold certificate issued by bank for investment made by gold exchange traded fund in gold deposit scheme (GDS) shall be held in demat form.