The ABC of Mutual Funds

Know the basics of Mutual Funds for long term wealth creation

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Why does one need to invest

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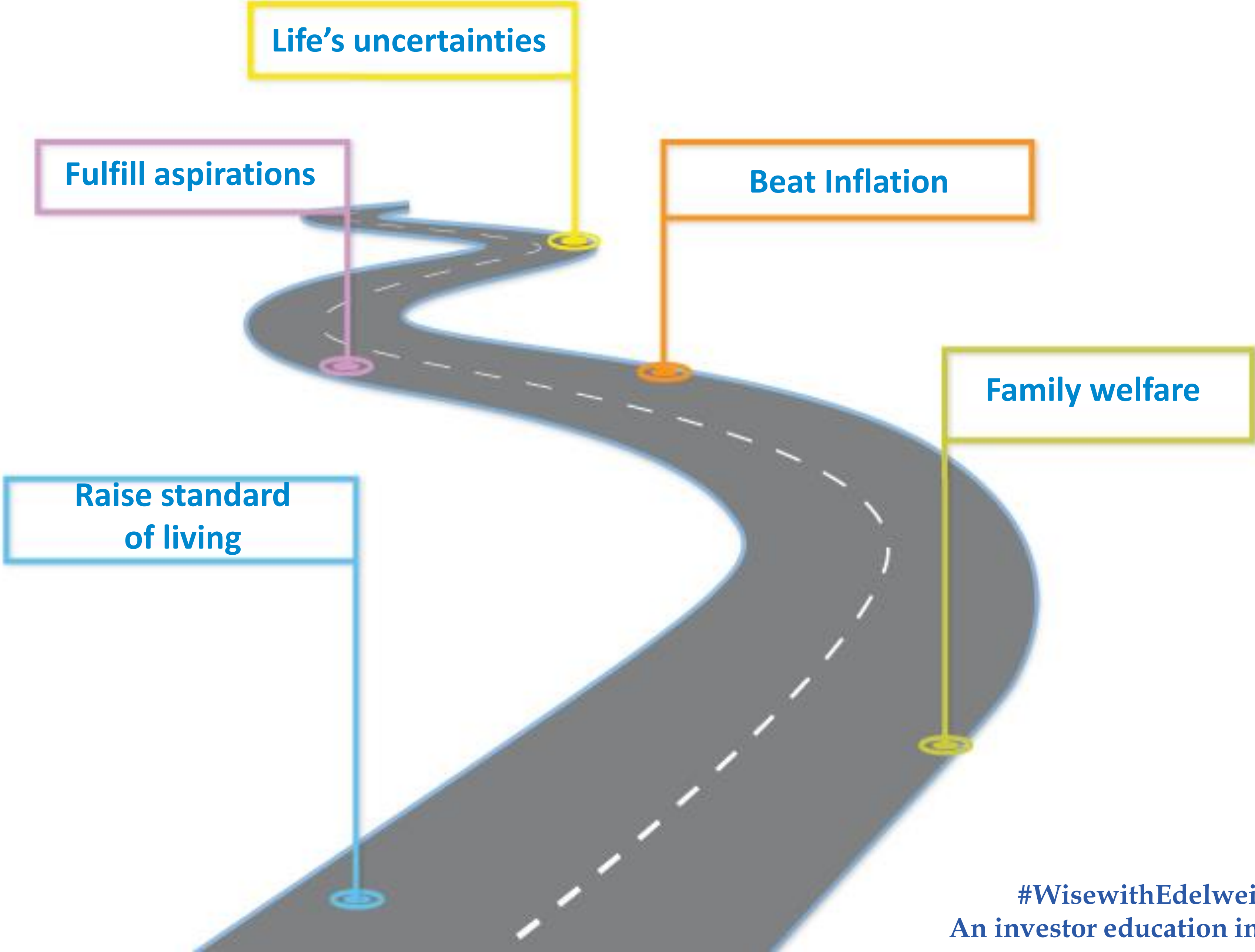

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Make your money work

When you keep money idle your purchasing power decreases

For e.g., ₹1 lakh kept idle 10 years earlier is worth ₹ 48,398 today (assuming Inflation at 7%)

What is Inflation?

Inflation denotes the increase in prices of goods & services in the economy over a period of time

Illustration

Petrol average price per litre ten years back was ₹ 43. Today, it is ₹ 73 per litre

Where to Invest?

Different asset classes are known to given different historical returns and are generally associated with varying risk appetites.

Equity Markets

Well placed on the back of improving macros and corporate earnings

Fixed Income

Considered to be relatively stable

Gold

Returns are commensurate for inflation hedging

Real Estate

Low growth in last couple of years

Its important to maintain a balance between risk and returns.

Mutual Funds help to strike that balance.

Mutual Funds

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Sow the seeds

Invest in Mutual Funds

Nurture them

Let experts nurture your investments

Reap the benefits

Fulfill your financial goals

A mutual fund is an investment vehicle that pools the money from investors and invests on their behalf for long term wealth creation. The Asset Management Company(AMC) has a fund management team that conducts thorough research and analysis before investing.

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Why Mutual Funds?

- Managed by Experts
- Diversified Portfolio
- Long-term wealth creation
- Risk Management
- Hassle-free investing

The SIP Route

Mutual Funds allow you to invest through Systematic Investment Plans (SIPs), so you can sock away small sums of money at regular intervals

Fulfil financial goals	Power of Compounding	Rupee Cost Averaging	Consistency
You can align your SIP investments to your financial goals	SIPs help to earn returns on returns. For eg, a monthly investment of Rs. 6000 earning 12% p.a. makes you a crorepati in just 30 years.	Since you invest regularly irrespective of market movement, your cost of investment averages out in long run.	SIPs allow you to invest consistently through auto-debits from your bank accounts.

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Understanding
Net Asset Value(NAV)

What is NAV?

Net asset value (NAV) represents a fund's per unit market value.

Why is it important ?

This is the price at which investors buy or sell Mutual Fund units.

How is it calculated?

$$\frac{\text{Fund Assets} - \text{Fund Liabilities}}{\text{Outstanding units}}$$

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Types of Mutual Fund Schemes

There are two key types of Mutual Funds schemes:

Open-Ended Schemes

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at the **Net Asset Value** (NAV) declared on a daily basis.

Close-Ended Schemes

A close-ended fund or scheme has a stipulated maturity period, e.g., five and seven years and is open for subscription only during a specified period at the time of launch of the scheme. Thereafter, they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

Categories of Mutual Funds

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Equity Orientend Mutual Funds	Equity oriented mutual funds primarily (at least 65%) invest in equity and equity related instruments.
Debt Funds	Debt funds primarily invest in debt/ fixed income instruments such as T-Bills, Government Securities, Corporate Bonds, Money Market instruments and other debt securities of different time horizons. The returns from a debt fund comprise of interest income and capital appreciation in the value of the security due to changes in interest rate scenario, credit rating of securities etc.
Hybrid Funds	Hybrid funds have the flexibility of investing across asset classes, equity and debt.
Goal Based Funds	Goal-based funds aim at providing solutions for various life goals like retirement planning, child's education etc.
Others	• **Gold Funds** – Such funds invest in gold ETFs, thereby rendering a diversification opportunity to invest in other than equity and debt. • **Fund of Funds** – Such funds will invest in other fund schemes and accordingly, the investor can enjoy wider diversification.

Equity Oriented Mutual Funds

Equity oriented mutual funds can be categorized based on the following:

Market Cap of Companies

Equity funds can be categorized as large cap funds, mid-cap funds, small cap funds, multi cap funds depending upon the type of companies the fund intends to invest in.

Geographical Categorisation

Equity funds can also be categorized based on primary geography. Most of the equity oriented funds may be investing only in domestic equity markets, while a few schemes may also be invested in equities of foreign companies.

Investment Style

Equity oriented funds may also be categorized on the basis of the investment style intended to be pursued for the assets e.g. value , contrarian, growth etc.

Equity Linked Savings Schemes (ELSS)

Such category of equity oriented mutual funds are eligible for tax deduction u/s 80C of the Income Tax Act. Such funds have a lock-in of 3 years from the date of investment.

Sectoral/ Thematic Funds

Such funds will invest only in the companies operating in a particular sector, such as Banking, Infrastructure etc.

Debt Funds

Debt funds can be broadly categorized as below:

Liquid Funds

Such funds invest in debt and money market securities with a maturity of upto 91 days. Considering the short term nature of the securities, credit risk is lower in such funds/ As such, these funds are considered as a suitable alternative to keeping your money idle.

Duration Funds

Such funds may invest in debt securities across different time horizons and thus will be categorized as short duration fund, medium duration fund, long duration fund, dynamic bond etc.

Credit Funds

Such funds invest in debt securities issued by companies across various time horizons & credit ratings. These tend to provide better returns but also come with higher credit risk.

Gilt Funds

Such funds invest primarily in Government Securities across various maturities.

Investment Options in MFs

Mutual Funds allow you to invest in the following two options:

Dividend Option

Under the Dividend option, the scheme declares dividend from the realized profits on a periodical basis. This periodicity can be daily, weekly, monthly, quarterly or as may be decided by the fund scheme. When the dividend is declared/ paid, the Net Asset Value NAV of the scheme reduces to that extent along with the impact of Dividend Distribution tax, if any. However, there is no guarantee of the dividend as it can be declared only from realized profits.

Growth Option

Under the Growth option, the profits earned by the Mutual Fund scheme are reinvested into the portfolio. So, the investor can earn returns only at the time of redemption through the increase in NAV. Since there are no payouts from the scheme, the NAV of growth option will always be higher from the dividend option plan of the same scheme.

Taxation of Mutual Funds

Mutual Funds investments are taxed based on the type/category invested in.
For this purpose, mutual funds are categorized into two categories :
(1)Equity Oriented Funds and
(2)Other than Equity Oriented Funds.

Here is the how the returns and dividend are taxed in the hands of investors:
1.Capital Gains – Here is the brief taxability of the capital gains from mutual funds

Type of Fund	Long Term Capital Gains	Short Term Capital Gains	Cut-off period for considering long-term
Equity oriented funds	**10% (See note below)**	**15%**	**12 months or more**
Other funds	10% without indexation or 20% with indexation, whichever is beneficial to the taxpayer	**Based on tax slab**	**36 months or more**

Note – Such gains were exempt in the hands of investor till 2017-18. However, Union Budget 2018 has proposed a tax at a rate of 10% for such gains (exceeding Rs. 1 lakh in a year) without any indexation benefit.

2. Dividend – Dividends are exempt from tax in the hands of investor, whether received from an equity oriented fund or a debt fund or any other fund.

How can you invest in MFs?

Financial Adviser

You can invest in Mutual Fund schemes through your financial adviser. A Financial Adviser would not only help you pick a suitable scheme based on your risk appetite, investment horizon and financial goals, but also handhold you through the entire investment procedure. The necessary forms can be deposited with the fund house through him/her.

Intermediaries

You can also invest in Mutual Funds through Banks or brokerages. Submit the application/Know Your Customer(KYC) and provide necessary information to the intermediary for furthering the process

AMC representative

You may contact the AMC and request a representative meeting for further information on investing in mutual funds.

Online

You can visit AMC Website register, select your scheme and make payment based on available modes.

THANK YOU!

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