SAMCO MUTUAL FUND | *Cutting-edge Systems For Wealth Creation*

FAQ's

INVESTOR AWARENESS PROGRAM

For Mutual Fund Investors

DISCLAIMER

- This is not a legal document.
- These FAQs are prepared with a view to guide mutual fund Investors on investments in mutual funds. For full particulars of laws governing the Mutual Funds (MF), please refer to the Acts/Regulations/Guidelines/Circulars etc. appearing under the Legal tab of SEBI website i.e. www.sebi.gov.in. The contents of these FAQs are updated as on August 31, 2024.

Introduction

Different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks. The investors should compare the risks and expected returns after adjustment of tax on various instruments while taking investment decisions. The investors may seek advice from experts while making investment decisions.

With an objective to make the investors aware of functioning of mutual funds, an attempt has been made to provide information in question-answer format which may help the investors in taking investment decisions.

1) What is a Mutual Fund?

Mutual fund is a mechanism for pooling money by issuing units to the investors and investing investors funds in securities in accordance with objectives as disclosed in offer document.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is diversified because all stocks may not move in the same direction in the same proportion at the same time. Mutual funds issue units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unitholders.

The profits or losses are shared by investors in proportion to their investments. Mutual funds normally come out with a number of schemes which are launched from time to time with different investment objectives. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) before it can collect funds from the public.

2) What is the history of Mutual Funds in India and role of SEBI in mutual funds industry?

Unit Trust of India was the first mutual fund set up in India in the year 1963. In late 1980s, Government allowed public sector banks and institutions to set up mutual funds. In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objectives of SEBI are to protect the interest of investors in securities and to promote the development of and to regulate the securities market.

As far as mutual funds are concerned, SEBI formulates policies, regulates and supervises mutual funds with an aim to protect the interest of the investors. SEBI notified the regulations for mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were fully revised in 1996 and have been amended thereafter from time to time. SEBI also issues directions through circulars to mutual funds from time to time to protect the interests of investors.

All mutual funds whether promoted by public sector or private sector entities, including those promoted by foreign entities are governed by the same set of Regulations. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI.

3) How is a mutual fund set up?

A mutual fund is set up in the form of a trust, which has sponsor, trustees, Asset Management Company (AMC) and custodian. The trust is established by a sponsor or more than one sponsor who is like promoter of a company. The trustees of the mutual fund hold its property for the benefit of the unitholders. AMC approved by SEBI manages the funds by making investments in various types of securities. Custodian, who is required to be registered with SEBI, holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of supervision and direction over AMC. They monitor the performance and compliance of SEBI Regulations by the mutual fund.

SEBI Regulations require that at least two-thirds of the directors of trustee company should be independent and should not be associated with the sponsors in any manner. Further, fifty per cent of the directors in the board of AMC should be independent and should not be associated with sponsor or its subsidiaries or the trustees in any manner.

All mutual funds are required to be registered with SEBI before they launch any scheme.

4) What is Net Asset Value (NAV) of a scheme?

NAV is the unit price of a mutual fund scheme. The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV). NAV indicates the price at which investors buy or redeem mutual fund units.
NAV of a scheme is determined by dividing the net assets (Total Asset – Total Liabilities) of the scheme by the total number of outstanding units on any particular date. For example, if the total asset of a mutual fund scheme is INR 200 lakh and total liabilities is INR 10 lakh and 10 lakh units are outstanding, then the NAV per unit of the fund is calculated as under:

Net asset = Total Asset – Total Liabilities
= INR 200 lakh – INR 10 lakh
= INR 190 lakh
NAV = Net asset/total outstanding units
= INR 19 (i.e.190 lakh/10 lakh).

NAV of a fund changes every day as a result of changes in the market price of the securities that form a part of the portfolio. Therefore, NAV is determined on a daily basis and required to be disclosed by the mutual funds on a daily basis. NAV of schemes has to be updated in accordance with time lines mentioned under:

(Timelines in Business days)

Sr.no.	Scheme type	Timeline
1	All schemes other than those mentioned below	11 PM on T day
2	For schemes having exposure to ETCDs (Exchange Traded Commodity Derivatives)	9 AM on T+1 day
3	Fund of Funds (FoFs) schemes	10 AM on T+1 day
4	Schemes investing at least 80% of total assets in permissible overseas investments	10 AM on T+1 day
5	Index funds and ETFs investing at least 80% of total assets in permissible overseas investments	
6	Schemes unable to disclose NAV as per timeline mentioned above due to inability in capturing same day valuation of underlying investments	Such time as per disclosure made in SID along with reasons for such delayed disclosure

T = date of transaction in mutual fund units in India

5) What is cut off timing and its role in determining the applicable NAV for transactions in Mutual Fund scheme (s)?

The purchase and redemption are done at the applicable NAV. In order to ensure fairness to investors, SEBI has prescribed cut-off timings which are uniformly applicable for all mutual funds. These are provided below:

Type of Scheme	Transaction type	Cut off time	Applicable NAV
Liquid fund and Overnight fund	Purchases and Switch in	1.30 pm	• where the application is received up to cut off time 1.30 p.m. on a day and funds are available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day of receipt of application; • where the application is received after 1.30 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day • If funds are not available for utilization, irrespective of the time of receipt of application, the closing NAV of the day immediately preceding the day on which the funds are available for utilization.
	Redemptions and Switch Out	3.00 pm	• Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; • Where the application is received after 3.00 pm – the closing NAV of the next business day.
Equity oriented funds and debt funds (except liquid and overnight funds)	1. Purchases and Switch in 2. Redemptions and switch out	3.00 pm	• If application is received and funds (for purchase) are available for utilization before cut off time, the closing NAV of the day on which the application is received. • If the application is received after cut off time, the closing NAV of the next business day will be applicable. • If funds (for purchase) are not available for utilization, irrespective of the receipt time of application, closing NAV of the day on which the funds are available for utilization will be applicable.

Examples: Assume that in a particular week, Monday, Wednesday and Thursday are business days and Tuesday is a non-business day.

- An investor submits an application on Monday to buy units of an *equity mutual fund* scheme for INR 3,00,000. If an application is made on Monday and the fund gets realized on Wednesday by 2 pm, it will be Wednesday's NAV. If funds are realized or available for utilisation on Wednesday by 5 pm, then it will be Thursday's NAV.
- An investor makes an application to purchase units of a *liquid fund*. If an application is made on Monday and the fund gets realized by 1 p.m. on Monday, it will be Sunday's NAV. If it gets realized by 3 pm on Monday, it will be Tuesday's NAV. If it gets realized by 10 am on Wednesday, it will beTuesday's NAV.

6) What are the different types of mutual fund schemes?

Schemes according to Maturity Period:

A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.

Open-ended Fund/Scheme

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 Net Asset Value (NAV) per unit which is declared on a daily basis. The key feature of open-ended scheme is liquidity.

Close-ended Fund/Scheme

A close-ended fund or scheme is one where the period of maturity of the scheme is fixed and the same is specified in the offer documents e.g. KIM, SID at the time of launch of the scheme. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the new fund offer and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices and the same options are disclosed in the offer Documents.

Schemes according to Investment Objective:

A scheme can also be classified as growth scheme, income scheme or balanced scheme considering its investment objective. Such schemes may be open-ended or close-ended schemes as described earlier. Such schemes may be classified mainly as follows:

Growth/Equity Oriented Scheme

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, growth, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

Income/Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes.

However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

Balanced/Hybrid Scheme

The aim of balanced schemes is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Schemes

These schemes are also income schemes and their aim is to provide easy liquidity, preservation of capital and moderate income.

These schemes invest exclusively in short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared with other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

Gilt Funds

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

Index Funds

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index (Sensex), NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors known as “tracking error” in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme. The tracking error refers to the annualized standard deviation of the difference in daily returns between the underlying index and the NAV of the Index. For Index Fund in existence for a period of less than one year, the annualized standard deviation to be calculated based on available data.

7) What are Sectoral fund and Thematic Funds?

Sectoral fund invests in stocks belonging to specific sector of the economy, in order to take advantages within the said sector. The examples of sectoral funds are: banking funds, Information Technology (IT), Pharmaceuticals etc. These funds are launched to get the benefit from growth and performance of the particular sector. For example, technology sector would primarily invest in tech companies only. The returns in these funds are dependent on the performance of the respective sectors/industry.

Thematic funds invest in stocks across a specific theme. These funds focus on specific themes or trends in the market. The themes can be based on economic trends, social changes, technological advancements etc. Examples of these funds are MNC funds, PSU (public sector units) funds, energy funds. Compared to sectoral fund thematic funds are more broad-based, as they pick companies and sectors united by an idea. For instance, an infrastructure theme fund will invest in cement, power, steel, among other sectors.

8) Are there any mutual fund schemes launched with the objective to provide tax benefits?

Yes, certain mutual fund schemes, known as Equity Linked Savings Schemes (ELSS) are eligible for deduction under Section 80C of the Income Tax Act, 1961 (Old tax Regime). The provisions relating to ELSS are governed by Equity Linked Saving Scheme, 2005 notified by Ministry of Finance. These schemes are growth oriented and invest pre-dominantly in equities. Their growth, opportunities and risks associated are like any equity-oriented scheme. Certain mutual fund retirement schemes have also been notified for tax benefit under section 80 C of the Income Tax Act, 1961.

Investors should note that the provisions relating to income tax deductions are governed by Income tax act, 1961 and subject to continuous changes/amendments.

9) What is a Fund of Funds (FoF) scheme?

A scheme that invests primarily in other schemes of the same mutual fund or other mutual funds is known as a FoF scheme. A FoF scheme enables the investors to achieve greater diversification through one scheme. It spreads risks across a greater universe.

10) What are Exchange Traded Funds (ETFs)?

ETFs are mutual fund units that investors can buy or sell at the stock exchange. This is in contrast to a normal mutual fund unit that an investor buys or sells from the mutual fund (directly or through a distributor). In the ETF structure, the mutual fund does not deal directly with investors or distributors. Units are issued to a few designated large participants called Authorised Participants (APs). The APs provide buy and sell quotes for the ETFs on the stock exchange, which enable investors to buy and sell the ETFs at any given point of time when the stock markets are open for trading.

ETFs therefore trade like stocks and experience price changes throughout the day as they are bought and sold. Buying and selling ETFs requires the investor to have demat and trading account.

11) What is a capital protection-oriented scheme?

A capital protection-oriented scheme is typically a hybrid scheme that invests significantly in fixed-income securities and a part of its corpus in equities. These are close-ended schemes that come in tenors of fixed maturity e.g. three to five years.

Structure of the scheme - Example

If the fund collects INR 100, it invests INR 80 in fixed-income securities and INR 20 in equities or equity related instruments. The money is invested in such a way that the INR 80 portion is expected to grow to become INR 100 in three years (assuming that the scheme has a maturity period of three years). Thus, the aim is to preserve the INR 100 capital till maturity of the scheme.

Thus, the scheme is oriented towards protection of capital and not with guaranteed returns. Further, the orientation towards protection of capital originates from the portfolio structure of the scheme and not from any bank guarantee or insurance cover. Investors are neither offered any guaranteed/indicated returns nor any guarantee on repayment of capital by the scheme.

12) What is entry load and exit load in mutual funds?

An entry load can be defined as the amount or fee paid by an investor upon entering a scheme. However, SEBI has abolished the practice of imposing entry loads on mutual funds. Hence, currently the entry load is no longer permitted.

Exit load is a fee or charge imposed on investors by a mutual fund when investors redeem/sell their units before a specified period. The purpose of exit load is to discourage short-term trading and to protect long-term investors from the potential adverse effects of short-term trading activities.

The information about the load structure can be found in mutual fund's offer document or scheme information document (SID). Exit load is calculated as a percentage of NAV.

Suppose a mutual fund scheme charged exit load of 1% for redemption within 90 days from the date of purchase. Assume that you redeem 1000 units of a scheme before 90 days of purchase and NAV per unit is INR 50. The exit load will be = 1% X 1000 (numbers of units) X INR 50 (NAV per unit) = INR 500. This amount will be deducted from redemption proceeds and you will get redemption proceeds of INR 49500.

13) Can a mutual fund impose fresh load or increase the exit load beyond the level mentioned in the offer documents?

Mutual funds cannot increase the exit load beyond the level mentioned in the offer document. Any change in the load will be applicable only to prospective investments and not to the original investments. In case of imposition of fresh loads or increase in existing loads, the mutual funds are required to amend their offer documents.

14) What is sale and repurchase/redemption price?

The price or NAV a unit holder is charged while investing in an open-ended scheme is called sale price.

Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the investors/unitholders. It may include exit load, if applicable.

15) What is expense ratio?

Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc.

An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses. Information on expense ratio that may be applicable to a scheme is mentioned in the offer document. Currently, in India, the expense ratio is fungible, i.e., there is no limit on any particular type of allowed expense as long as the total expense ratio is within the prescribed limit. You may refer to regulation 52 of the SEBI (Mutual Funds) Regulations, 1996, for limits on expense ratio.

16) What are the various methods available to investors for investing in a scheme of a mutual fund?

Investors can contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Investors must ensure that they invest through Association of Mutual Funds in India (AMFI) registered distributors and that the distributor has a valid AMFI Registration Number (ARN).

Investors can verify the registration status of a particular distributor whether he/she has been suspended/terminated from doing mutual fund business at http://www.amfiindia.com/locate-the-nearest-financial-advisor. An employee of a corporate distributor is also required to have an Employee Unique Identification Number (EUIN).

The distributors are required to disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.

Forms can be deposited with mutual funds through the agents and distributors who provide such services. These days, post offices and banks also distribute the units of mutual funds. However, the investors may please note that the mutual fund schemes being marketed by banks and post offices should not be taken as their own schemes and there is no assurance of returns is given by them. The only role of banks and post offices is to help in distribution of mutual funds schemes to the investors.

Investors should not be carried away by commission/gifts, if any, given by agents/distributors for investing in a particular scheme.

Investors also have the option to invest directly with the mutual fund either by visiting the mutual fund branch or online through mutual fund website. In addition, the investors can also invest through MF central website/application. The details of MF Central may be accessed using https://mfcentral.com and MFCentral Mutual fund App.

17) When will the investor get statement of account after investing in a mutual fund and what is a consolidated account statement (CAS)?

Mutual funds are required to dispatch statements of accounts within five working days from the date of closure of the initial subscription of the scheme or from the date of receipt of the request from the investors/unitholders. Mutual fund shall issue units in dematerialized form within two working days of the receipt of request from unit holder.

Also, mutual funds are required to send confirmation specifying the number of units allotted to the investor by way of email and/or SMS's to the investor's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the investors/unitholders.

Mutual funds are required to issue consolidated account statement (CAS) for each calendar month, on or before fifteenth day of the succeeding month, to the investors in whose folios transaction(s) has/have taken place during that month.

A CAS every half yearly (September/ March) is issued, detailing holding at the end of the six month, across all schemes of all mutual funds, to all such investors in whose folios and demat account no transaction has taken place during that period.

18) Do investors need to pay any commission to the distributor for selling mutual fund schemes?

As stated above, no entry load can be charged for any mutual fund scheme. An investor can choose to pay upfront commission directly to the distributor, based on his assessment of various factors including the service rendered by the distributor. However, for investments made through a distributor, commission is paid by mutual fund to the distributor such that the total expense ratio for an investor is within the limits on expense ratio specified under regulation 52 of the SEBI (Mutual Funds) Regulations, 1996. Hence, the cost borne by investors remains within the limit prescribed under SEBI Regulations.

Further, a transaction charge of INR 150 and INR 100 per subscription of INR 10,000 and above by a new and an existing investor, respectively, can be levied by distributor. This transaction charge can be levied only if a distributor has opted in to levy transaction charge for that type of mutual fund scheme. Further, the transaction charge, if any, is to be deducted by the mutual fund from the subscription amount and paid to the distributor and the balance is to be invested.

19) How does an investor know how much commission the distributor is earning and what is the TER being charged in a scheme?

The Consolidated Account Statement (CAS) issued to investors is required to provide information in terms of total purchase value/cost of investment in each scheme. Further, CAS issued for the half-year (ended September/March) also provides the amount of actual commission paid by Mutual Funds to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each mutual fund scheme. The term "commission" here refers to all direct monetary payments and other payments made in the form of gifts/rewards, trips, event sponsorships etc. by mutual funds to distributors. Further, a mention may be made in such CAS indicating that the commission disclosed is gross commission and does not exclude costs incurred by distributors such as GST (wherever applicable, as per existing rates), operating expenses, etc.

Such half-yearly CAS is issued to all mutual fund investors, excluding those investors who do not have any holdings in mutual fund schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period.

Such half-yearly CAS are also required to disclose the scheme's average Total Expense Ratio (in percentage terms) for the half year period for each scheme's applicable plan (regular or direct or both) where the concerned investor has actually invested.

20) Can a mutual fund change the asset allocation while deploying funds of investors?

Considering the market trends, any prudent fund manager can change the asset allocation, i.e., he can invest higher or lower percentage of the fund in equity or debt instruments compared to what is disclosed in the offer document. It can be done on a short term basis on defensive considerations i.e. to protect the NAV. Hence, the fund managers are allowed certain flexibility in altering the asset allocation considering the interest of the investors. In case the mutual fund wants to change the asset allocation on a permanent basis, they are required to inform the unit holders and give them option to exit the scheme at prevailing NAV without any exit load.

21) What is product labelling?

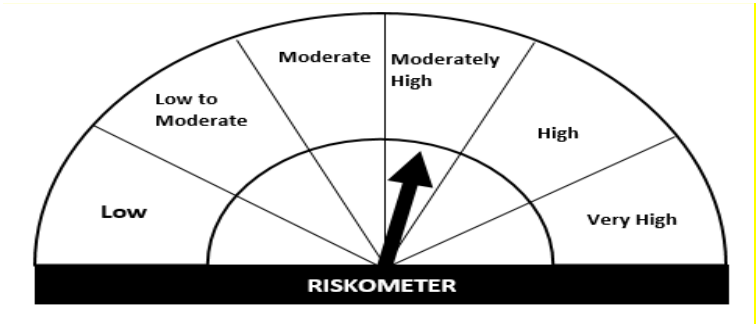
Product labelling has been introduced to help investors have an easy understanding of the kind of product/scheme they are investing in and its suitability to them.

All the mutual funds are required to label their schemes on the parameters as mentioned under:

a. Nature of scheme such as to create wealth or provide regular income in an indicative time horizon (short/ medium/ long term).

b. A brief about the investment objective (in a single line sentence) followed by kind of product in which investor is investing (Equity/Debt).

c. The depiction of risk shall be through pictorial meter named "Riskometer" and this meter would appropriately depict the level of risk in any specific scheme. Risk-o-meter shall have following six levels of risk for mutual fund schemes:



- Low Risk
- Low to Moderate Risk
- Moderate Risk
- Moderately High Risk
- High Risk and
- Very High Risk

To know about the product labelling of the scheme investors should refer to the front page of initial offering application forms, Key Information Memorandum (KIM) and Scheme Information Documents (SIDs, Common application form – along with the information about the scheme, and Scheme advertisements.

However, investors should consult their financial advisers if they are not clear about the suitability of the product.

22) What is application supported by blocked amount (ASBA)?

ASBA is a facility provided by banks to investors in new fund offers (NFOs) of mutual funds. If investors apply for an NFO via ASBA, their application amount gets blocked in their bank account. While the amount stays in the account, it cannot be used until the MF unit allotment is done. In case of unsuccessful subscription i.e. getting subscription of less than 90% of the minimum subscription amount by the mutual fund, the blocked amount is unblocked. For more information, please refer to FAQs on ASBA available on SEBI website at http://www.sebi.gov.in/cms/sebi_data/commondocs/asbaprocess1_p.pdf.

23) How to fill up the application form of a mutual fund scheme?

An investor must mention clearly his name, address, number of units applied for and such other information as required in the application form. Know your Customer (KYC) documents need to be submitted by a first time investor.

24) What is a direct plan?

SEBI has mandated mutual funds to compulsorily launch a direct plan for direct investments, i.e., investments not routed through a distributor, from 01 January 2013 in addition to regular plan. Such direct plan has a lower expense ratio compared to regular plan as there is no distribution expenses and no commission is to be paid from such plans. The direct plan also has a separate NAV.

Investment in direct plans can be made in lump sum, i.e. a onetime payment, or through a Systematic Investment Plan (SIP).

25) What is a Systematic Investment Plan (SIP)?

A SIP allows investors to save and invest periodically over a longer period of time. It is a convenient way to "invest as you earn" and offers the investor an opportunity to enter the market regularly, thus averaging the acquisition cost of Units. Any investor/unitholder can avail of this facility subject to certain terms and conditions contained in the Application Form. The Fundamental Attributes and other terms and conditions regarding purchase/redemption, price and related matters are the same as contained in the offer document.

For example

X decides to invest INR 1,000 per month for a year. When the market price of shares falls, X benefits by purchasing more units; and is protected by purchasing less when the price rises as explained below.

Date	NAV	Approx. number of units the investor will get at INR 1000
1-Jan	10	100
1-Feb	10.5	95.24
1-Mar	11	90.91
1-Apr	9.5	105.26
1-May	9	111.11

1-Jun	11.5	86.96
1-Jul	11	90.91
1-Aug	10.5	95.24
1-Sep	10	100
1-Oct	9.5	105.26
1-Nov	10	100
1-Dec	9.5	105.26
		1186.15

Within one year, X has 1,186 units by investing just INR 1,000 every month at an average cost of 12000/1186.15 = 10.1170. This is as against 12,000/10 = 1,000 units or 12000/11.5 = 1043.5 units or 12000/9 = 1,333.3 units if X had invested lump sum on 1 Jan, 1 Jun or 1 May, respectively.

26) What is Systematic Transfer Plan (STP)?

STP is a facility allowing investors to transfer their invested amount on a periodic basis from one scheme to another schemes launched by the same Mutual fund by giving a single instruction.

27) What is Systematic Withdrawal Plan (SWP)?

SWP allows the investor/unitholder to withdraw a specified sum of money each month/quarter/half-yearly/yearly from his investments in the Schemes. SWP is ideal for investors seeking a regular inflow of funds for their needs

28) What is Switching?

Switching is the process of redeeming one fund and purchasing another within the same AMC. This allows investors to reallocate their investments based on their changing financial goals and market conditions.

29) Is it possible to invest in mutual fund schemes using cash?

Yes, cash investments up to INR 50,000 per investor, per mutual fund, per financial year can be made in mutual funds. However, the limit of INR 50,000 would be an umbrella limit for investments by an investor through both e-wallet and/or cash per mutual fund, per financial year. Although investment can be made in cash but repayment in form of redemptions, IDCW/dividend payments can only be made through the banking channel. The pay-out bank details have to be provided in the application form.

30) Can non-resident Indians (NRIs) invest in mutual funds?

Yes, non-resident Indians can also invest in mutual funds. Necessary details in this respect are given in the offer documents of the schemes.

31) What should an investor look into an offer document?

Mutual fund investments are subject to market risks. An investor should carefully read all the scheme related documents before investing. An abridged offer document known as [Key Information Memorandum (KIM)], which contains information in concise form, is required to be

given to the prospective investor by the mutual fund. The application form for subscription to a scheme is an integral part of the offer document. SEBI has prescribed minimum disclosures in the offer document.

32) What is IDCW (Dividend plan) in mutual funds?

SEBI on April 1, 2021 has renamed the dividend option in mutual funds to Income Distribution cum Capital Withdrawal (IDCW). The change was made to clarify the difference between dividends from stocks and mutual funds and to avoid confusion that the dividend option was a guaranteed bonus.

33) What is the timeline for transfer of IDCW and redemption proceeds to investors/unitholders:

The payment of IDCW (dividend) proceeds to the investors/unitholders shall be made within seven working days from the record date*. The transfer of redemption or repurchase proceeds to the unitholders shall be made within three working days from the date of redemption or repurchase and five working days for schemes investing at least 80% of total assets in permissible overseas investments. In case of failures to dispatch the redemption/repurchase proceeds within the stipulated time period, the mutual fund is liable to pay interest as specified by SEBI from time to time (15% p.a. at present) for the period of delay.
*Record date is the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders/investors for receiving IDCW.

34) Can a mutual fund change the nature of the scheme from the one specified in the offer document?

Yes, mutual funds can change the nature of their schemes known as fundamental attributes (structure, investment pattern, terms of issue etc.), but they must follow certain procedures as enumerated below:

- Send written communication to all unit holders about the proposed changes.
- The mutual fund must publish an advertisement in an English daily with nationwide circulation and in a newspaper in the language of the region where the mutual fund's head office is located
- The mutual fund must give unit holders a 30-day window to exit the scheme without paying an exit load
- Seek prior approval from SEBI to change any fundamental attributes of the scheme.

The mutual funds are also required to follow similar procedure (seeking positive consent from the investors) while converting the scheme from close-ended to open-ended scheme.

35) How will an investor come to know about the changes, if any, which may occur in the mutual fund?

There may be changes from time to time in a mutual fund. The mutual funds are required to inform any material changes to their investors/unit holders. Apart from it, many mutual funds send newsletters to their investors. At present, Scheme Information Document (SID) is required to be revised and updated within one month from the end of the half-year, based on the relevant data and information as at the end of September and March respectively. In the meantime, the investors are informed about the material changes by way of addendum to the offer document.

36) How to know the performance of a mutual fund scheme?

The performance of a scheme is reflected in its NAV which is disclosed on daily basis. The NAVs of mutual funds are required to be published on the web sites of mutual funds. All mutual funds are also required to put their NAVs on the web site of Association of Mutual Funds in India (AMFI) www.amfiindia.com and thus the investors can access NAVs of all mutual funds at one place. Also, each mutual fund is required to have a dashboard on its website providing performance and key disclosures pertaining to each scheme managed by the mutual fund.

The mutual funds are also required to publish their performance in the form of half-yearly results which also include their returns over a period of time i.e. last six months, 1 year, 3 years, 5 years and since inception of schemes. Investors can also look into other details like percentage of expenses of total assets as these have an effect on the return and other useful information in the same half-yearly format.

The mutual funds are also required to send annual report or abridged annual report to the unitholders at the end of the year.

Investors can compare the performance of their schemes with those of other mutual funds under the same category. They can also compare the performance of equity oriented schemes with the benchmarks like BSE Sensitive Index, Nifty, etc.

37) How to know where the mutual fund scheme has invested the money mobilized from investors?

The mutual funds are required to disclose full portfolios of all of their schemes on a monthly basis on their website and on the website of AMFI within 10 days from the close of each month/ half-year respectively in a user-friendly and downloadable spreadsheet format. For debt schemes, such disclosure is done on fortnightly basis within 5 days of every fortnight.

In case of unit holders whose e-mail addresses are registered, the Mutual Funds are required to send via email both the monthly and half-yearly statement of scheme portfolio within 10 days from the close of each month/ half-year respectively. Mutual Funds are also required to publish an advertisement every half-year disclosing the hosting of the half-yearly statement of its schemes portfolio on their respective website and on the website of AMFI and the modes such as SMS, telephone, email or written request (letter) through which a unit holder can submit a request for a physical or electronic copy of the statement of scheme portfolio. Such advertisement to be published in the all India edition of at least two daily newspapers, one each in English and Hindi.

Mutual Funds are required to provide a physical copy of the statement of its scheme portfolio, without charging any cost, on specific request received from a unit holder.

The scheme portfolio shows investment made in each security i.e. equity, debentures, money market instruments, government securities, etc. and their quantity, market value and % to NAV. These portfolio statements are also required to disclose illiquid securities in the portfolio, investment made in rated and unrated debt securities, non-performing assets (NPAs), etc.

38) Is there any difference between investing in a mutual fund and in an initial public offering (IPO) of a company?

Yes, there is a difference. Initial Public Offering (IPO) is offered by a company to directly raise money for a single company as per the stated objective. In the case of mutual funds, the money garnered is used for investing in eligible securities such as equity and debt instruments of basket of companies, money market instruments, gold, etc.

39) Where can an investor look for information on mutual funds?

Almost all the mutual funds have their own web sites, where details of NAVs,SIDs ,KIMs and portfolio of the schemes etc. are readily available. Investors can also access the NAVs of all mutual funds at the web site of Association of mutual funds in India (AMFI) www.amfiindia.com.

Investors can log on to the web site of SEBI www.sebi.gov.in and go to "Mutual Funds" section for information on SEBI regulations and guidelines, data on mutual funds, draft offer documents filed by mutual funds, etc. Also, in the annual reports of SEBI available on the web site, information on mutual funds is given.

There are a number of other web sites which give a lot of information of various schemes of mutual funds including returns over a period of time. Many newspapers also publish useful information on mutual funds on daily and weekly basis.

Investors may also approach their financial advisors to guide them in this regard.

40) How can an investor view unclaimed IDCW / Redemption amount lying in their folios, if any, with a mutual fund and process to claim it?

Investor can find the details of unclaimed amounts on respective website of mutual fund upon key in the necessary information i.e. folio number, date of birth and registered mobile number etc.

To know the process of claiming unclaimed IDCW/Redemption amount, investor should refer to the concerned website of the mutual fund.

The information on unclaimed amount along with its prevailing value (based on income earned on deployment of such unclaimed amount) is separately disclosed to investors through the periodic statement of accounts/CAS sent to the investors.

41) Can an investor appoint a nominee for his investment in units of a mutual fund?

Yes. Regulation 29A of SEBI (Mutual Fund) Regulations, 1996, notifies that the mutual fund shall provide nomination facility to the unit holders to nominate a person in whose favour the units shall be transmitted in the event of death of the unit holder. An investor, investing in mutual fund units has to provide nomination or opt out of nomination through physical or online mode. The requirement of nomination is optional for jointly held folios. A person may nominate upto three persons and clearly indicate the percentage of allocation/share in favour of each of the nominee against their names, and such allocation/share shall be in whole numbers without any decimals. Further an individual may appoint different nominees for different schemes. Non individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of Power of Attorney cannot nominate.

42) If mutual fund scheme is wound up, what happens to money invested?

In case of winding up of a scheme, the proceeds of sale realised by disposing of the assets of the scheme after adjustment of liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the investors/unitholders in proportion to their respective interest in the assets of the scheme. Unitholders are entitled to receive a report on winding up from the mutual funds which gives all necessary details.

43) Where can investors lodge their complaints?

The grievance redressal and dispute mechanism is mentioned in the offer documents and website of the respective mutual fund. Investors should approach the concerned Mutual Fund / Investor Service Centre of the Mutual Fund for resolution of their complaints. Details regarding the name address, and phone number of the investor relation officer whom should be approach in case of any query, complaints etc. can be found in the offer document/SAI of the respective mutual fund. In case of non redressal of the complaint, the investors can approach SEBI for redressing their complaints. Investor may lodge their complaints through SCORES (SEBI Complaints Redress System – https://scores.sebi.gov.in) or by sending their complaints on the address given below:

Securities and Exchange Board of India
Office of Investor Assistance and Education,
Securities and Exchange Board of India,
SEBI Bhavan II
PN-C7, G Block BKC,
Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra 400051

Investors can lodge their complaint through SEBI SCORES mobile app also.