

MUTUAL FUND DISTRIBUTOR TRAINING



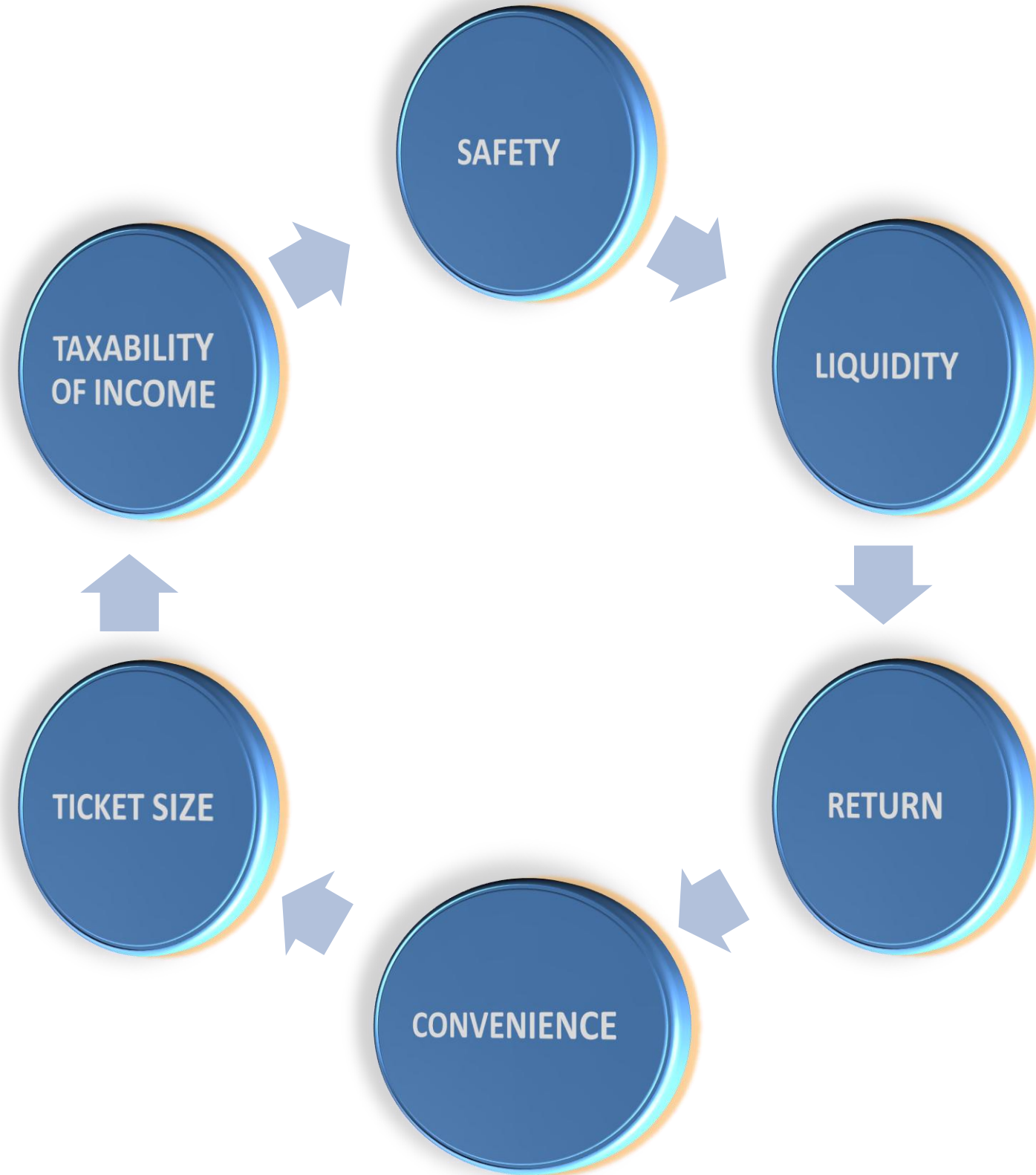
Omnicompanying Enterprises Private Limited

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INVESTMENT LANDSCAPE



FACTORS TO EVALUATE INVESTMENTS

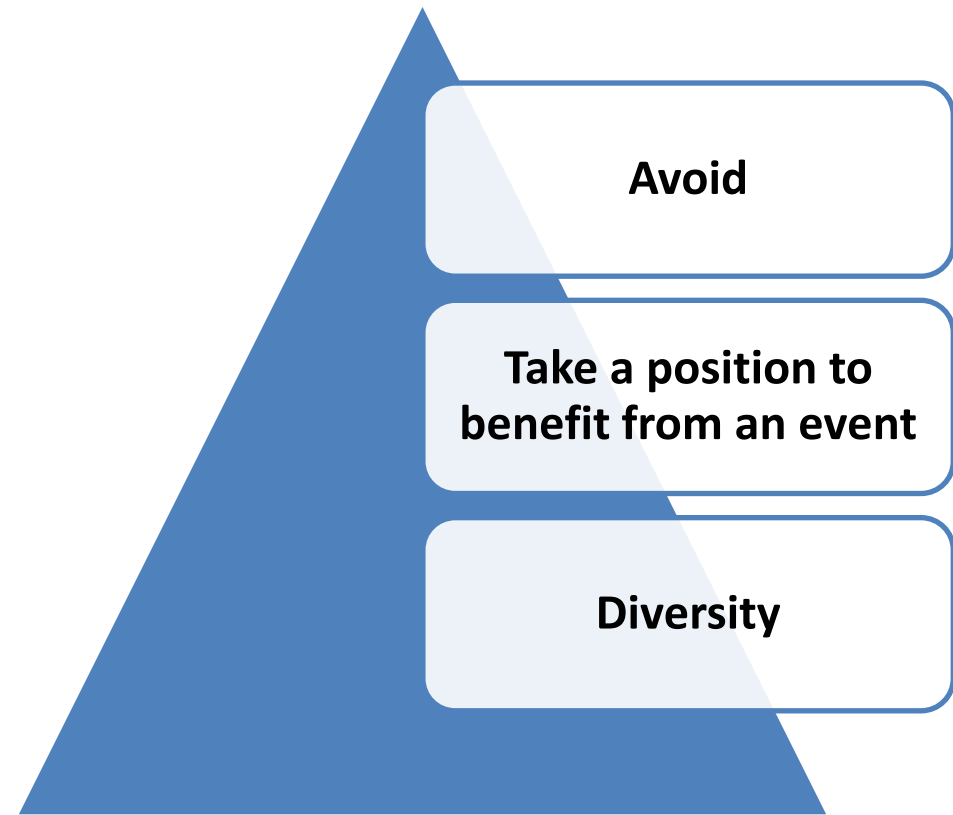
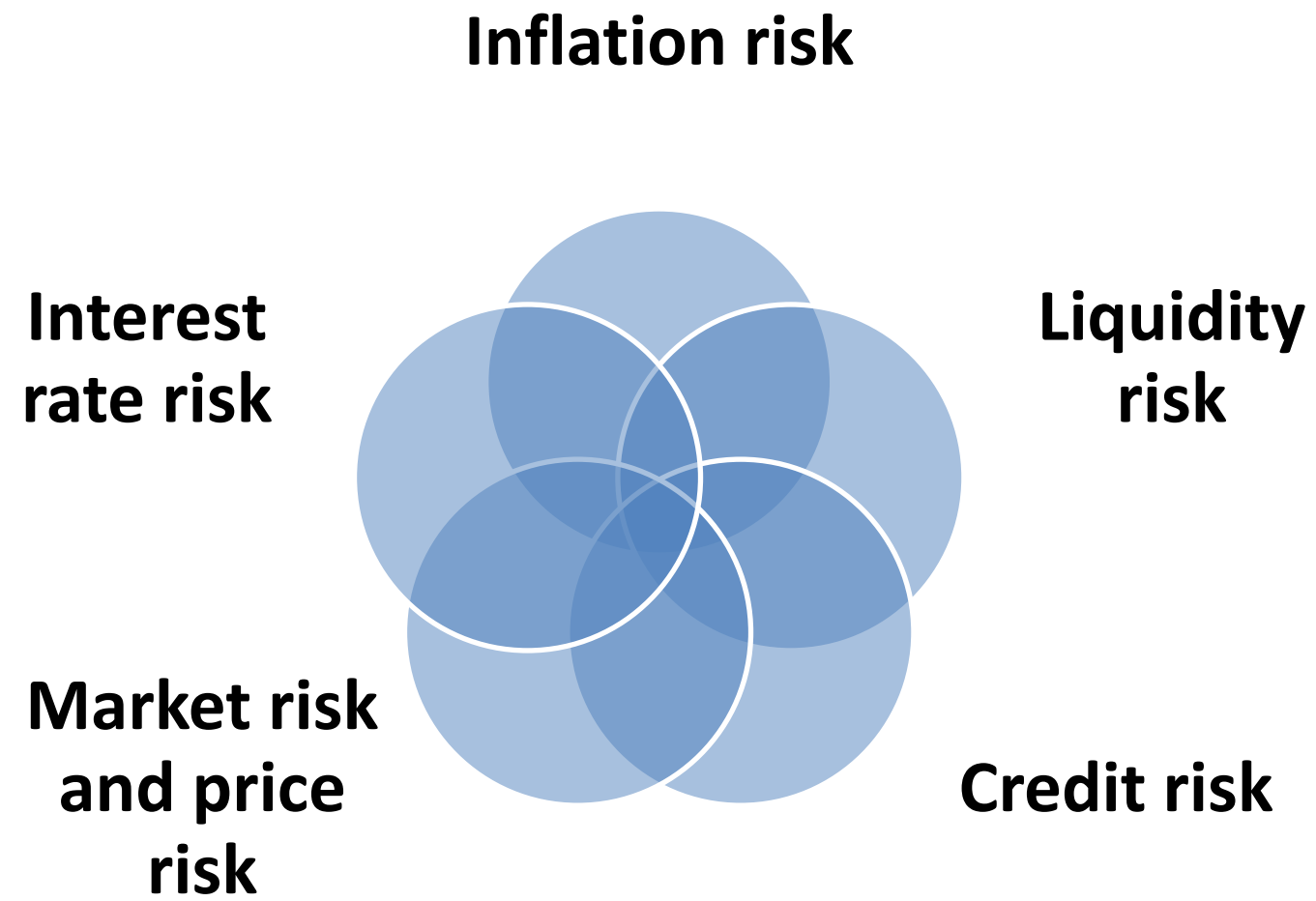


Different Asset Classes

Investment avenues classified under different asset categories	
Equity	Fixed Income
<ul style="list-style-type: none"> - Bluechip Companies - Mid-sized companies - Small-sized companies - Unlisted Companies - Foreign Stocks - Equity Mutual Funds - Exchange Traded Funds - Index Funds 	<ul style="list-style-type: none"> - Fixed deposit with a bank - Recurring deposit with a bank - Endowment Policies - Money back Policies - Public Provident Fund - Sukanya Samriddhi Yojana (SSY) - Senior Citizens' Savings Scheme (SCSS) - Post office Monthly Income Scheme - Recurring deposit with a post office - Company fixed deposit - Debentures/bonds - Debt Mutual Funds
Real Estate/Infrastructure	Commodities
Physical Asset Residential/ Commercial Financial Asset Real Estate Mutual Funds (REMF) Real Estate Investment Trusts (REIT) Infrastructure Investment Trust (InvIT)	<ul style="list-style-type: none"> - Gold - Silver - Gold Funds - Commodity ETFS
Hybrid asset classes	Others
Hybrid Mutual funds or Multi Asset Fund	<ul style="list-style-type: none"> - Rare coins Art

Investment risks

Risk Measures and Management Strategies



Behavioral biases in investment decision-making

Availability
heuristic

Confirmation
bias

Familiarity
bias

Herd
mentality

Loss aversion

Over
confidence

**Recency bias
(more people
invest in bull
market)**

**Behavior
patterns –
savers /
investors**

**Interest of
investors**

**Ethical
standard and
boundaries-
more
disciplined**

**Risk profiling
– need to take
risk / ability
to take risk /
willingness to
take risk**

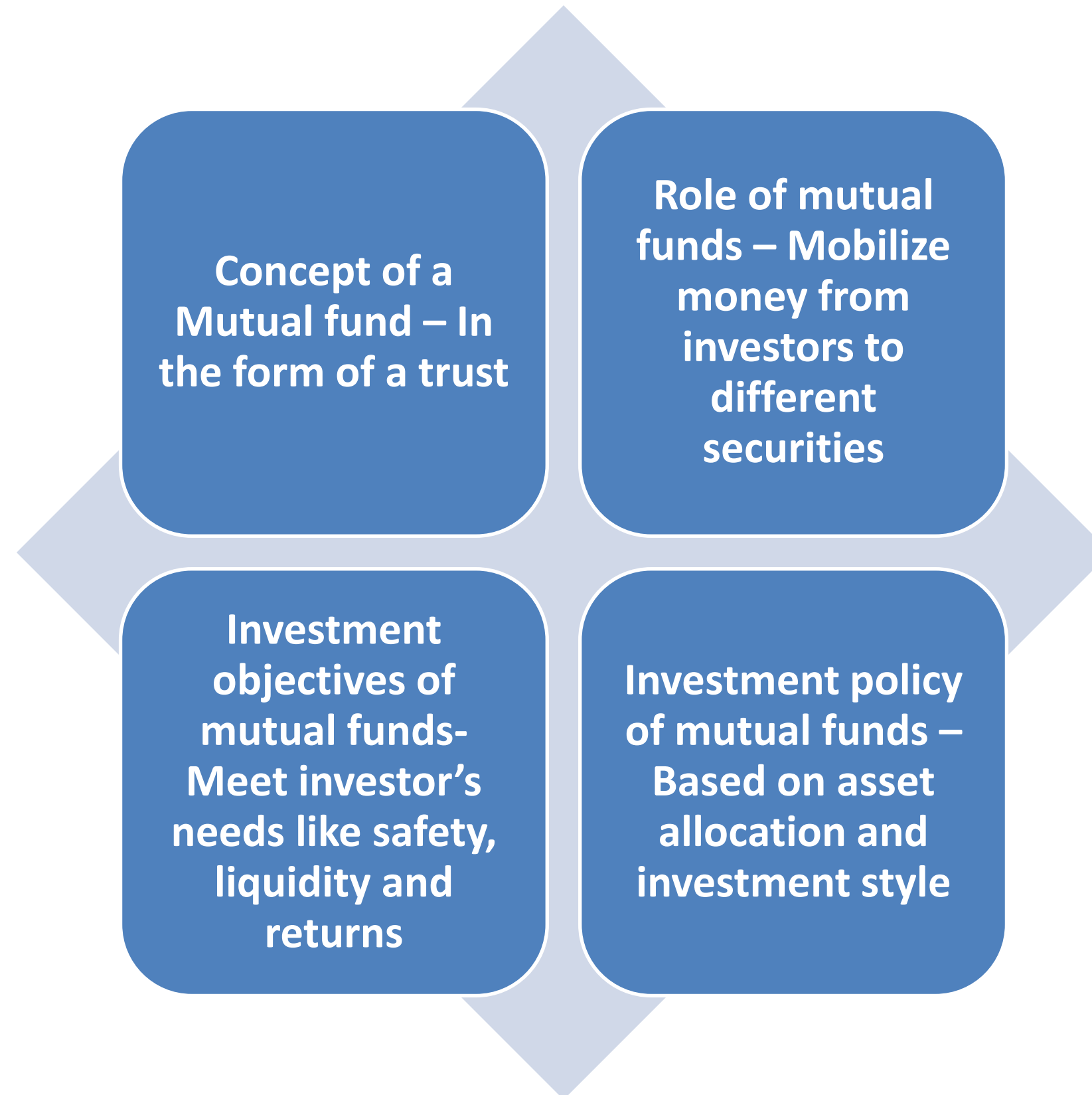
Understanding Asset allocation

Strategic asset allocation -
Aligned to financial goals /
percentage target of various
asset categories

Tactical asset allocation –
Dynamically change based on
opportunities

Rebalancing – Rebalancing can
be done based on the returns
generated

2. Concept and role of a mutual fund



Important concepts in Mutual fund

Unit capital - Number of units issued by scheme multiplied by face value

Face value – Generally face value Rs. 10/-

Units – Investments in a scheme translated into units

Recurring expenses – Commissions and other charges

Net asset value – Net realizable value per unit

Asset under management – number of units outstanding multiplied by current NAV

Mark to market – Done on daily basis, results in daily NAV fluctuations

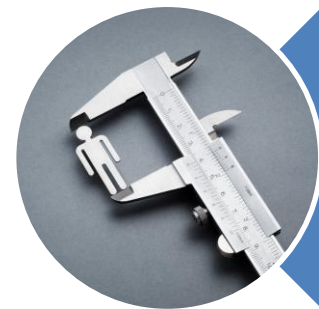
Advantages of Mutual funds for Investors



Professional management



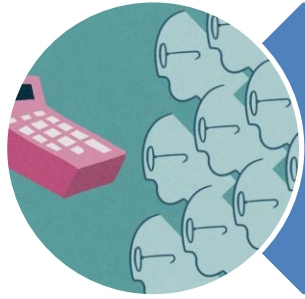
Affordable portfolio diversification – even with small investment can get the benefit of diversification



Economies of scale



Transparency – investors can make informed decision using the documents –SID, SAI and KIM



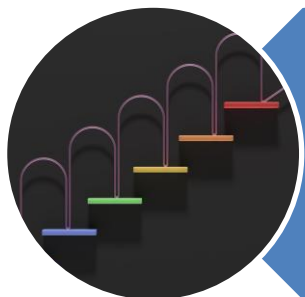
Liquidity



Tax deferral - Mutual funds are not liable to pay tax on income they earn. By staying invested for long, investor can defer tax liability



Regulatory comfort

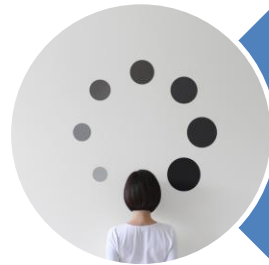


Systematic approach to investments - SIP, SWP, STP

Limitations of Mutual fund



Lack of portfolio customization



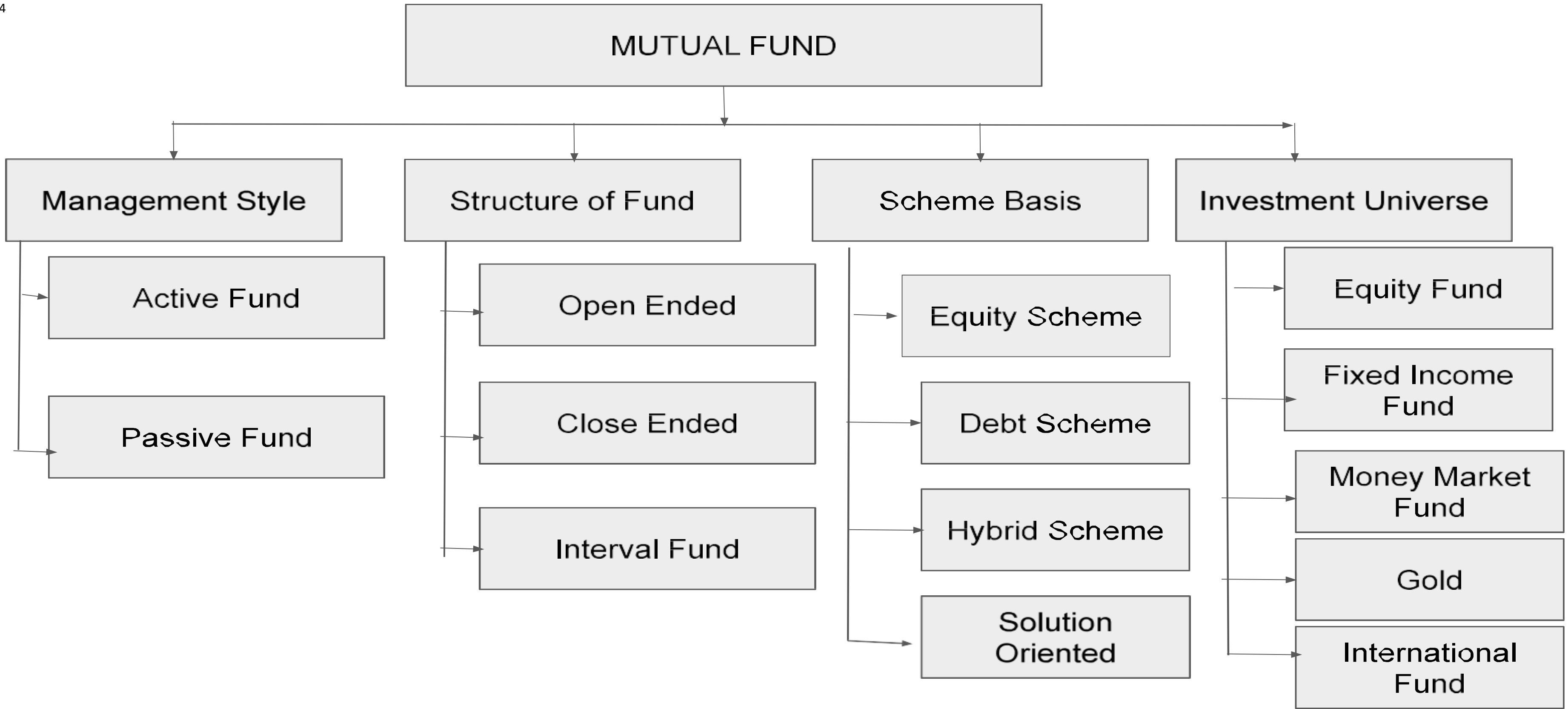
Choice overload – so many schemes to choose from – SEBI introduced categorization



No control over costs – SEBI has imposed certain limits on schemes



No guaranteed returns



Classification of Mutual funds

Close-ended funds - units can be bought during NFO only

To provide liquidity, fund lists the units on stock exchanges, which is compulsory. It's unit capital does not change

Mutual fund scheme categorization and SEBI regulation

Equity schemes (11 sub-categories)

- **Multi-cap fund** - minimum of 75% of total assets in equity (min 25% in Large, min 25% in Midcap, min 25% in Small cap)
- **Large cap fund** - min. 80% in Large cap companies
- **Large and Mid-cap fund** - min. 35% in Large cap and min. 35% in Mid-cap
- **Mid-cap fund** - min. 65% in Mid-cap
- **Small cap fund** - min. 65% in Small cap
- **Dividend Yield Fund** - min. 65% in equity. investing in dividend yielding stocks
- **Value fund or Contra fund** - min. 65% in equity & equity related instruments
- **Focused fund** - max. 30 stocks. min. 65% in equity & equity related instruments of total assets
- **Sectoral / Thematic** - min. 80% in equity & equity related instruments of a particular sector / theme
- **Equity linked savings scheme** - lock-in of 3 years and tax benefit. min. 80% in equity & equity related instruments
- **Flexi-cap fund** - min. 65% in equity and equity related investment across large, mid and small cap stocks

Mutual fund scheme categorization and SEBI regulation

Debt schemes (16 sub-categories)

- **Overnight fund**
- **Liquid fund** - debt and money market instruments maturity up to 91 days
- **Ultrashort duration fund** - debt and money market instruments maturity 3 to 6 months
- **Low duration fund** - debt and money market instruments with duration 6 to 12 months
- **Money market fund** - money market instruments maturity up to 1 year
- **Short duration fund** - debt and money market instruments with 1 to 3 years duration
- **Medium duration fund** - debt and money market instruments with 3 to 4 years
- **Medium to long duration fund** - debt and money market instruments with 4 to 7 years duration
- **Long duration fund** - debt and money market instruments with greater than 7 years duration
- **Dynamic bond** - across duration
- **Corporate bond fund** - predominantly investing in AA+ above. min. 80% in such bonds
- **Credit risk fund** - investing in below highest rated corporate bonds. min. 65% in AA and below rated corporate bonds
- **Banking and PSU fund** - investing in debt instruments of banks, PSU, public financial institutions and Municipal bonds. min. 80% in such instruments
- **Gilt fund** - investing in govt. securities across maturity. min. 80% in G-secs
- **Gilt fund with 10 year constant duration** - investing in govt. securities having constant maturity of 10 years. min. 80% in G-secs with duration equal to 10 years
- **Floater fund** - investing in floating rate instruments. min. 65% in floating rate instruments

Mutual fund scheme categorization and SEBI regulation

Hybrid schemes (6 sub-categories)

- **Conservative hybrid fund - 75-90% in debt instruments and 10-25% in equity**
- **Balanced or aggressive hybrid fund - balanced hybrid - 40-60% in equity and 40-60% in debt Aggressive hybrid - 65-80% in equity and 20-35% in debt**
- **Dynamic asset allocation or balanced advantage - investment in equity/debt managed dynamically**
- **Multi asset allocation - investment in at least 3 asset classes with min. 10% in all three**
- **Arbitrage fund - min. 65% in equity and equity related instruments investing in arbitrage opportunities**
- **Equity savings - investment in equity, arbitrage and debt. min. 65% in equity and min. 10% in debt.**

Mutual fund scheme categorization and SEBI regulation

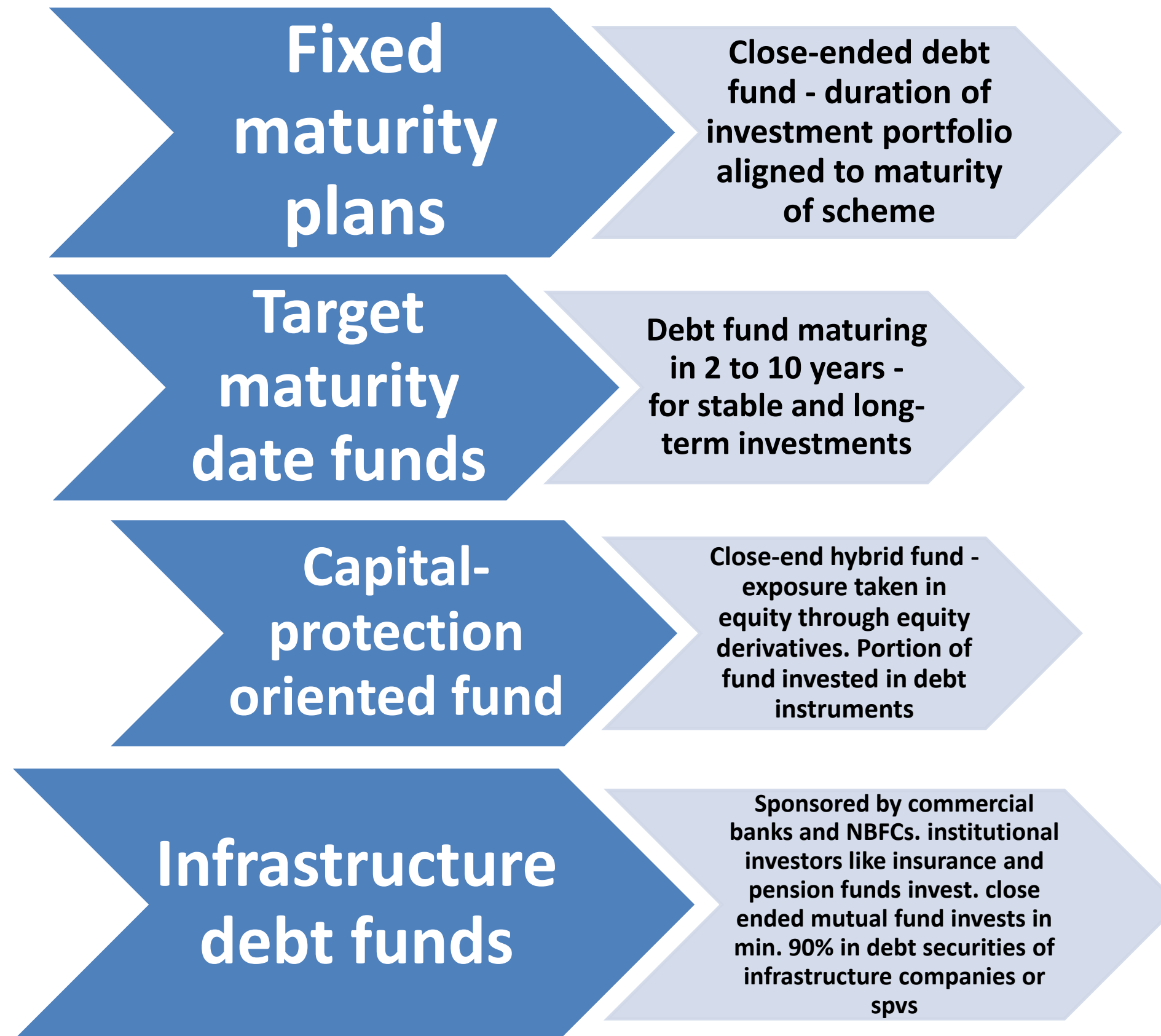
**Solution oriented
schemes
(2 sub-categories)**

- **Retirement fund - lock-in of 5 years or till retirement age (whichever earlier)**
- **Children fund - lock-in of 5 years or till child attains majority (whichever earlier)**

Mutual fund scheme categorization and SEBI regulation

Other schemes (2 sub-categories)

- **Index funds/ETF - min. 95% in a particular index**
- **Fund of funds (overseas/domestic) - investing in underlying fund. min. 95% in underlying fund**



Real estate mutual fund

- Invests in min 35% held in physical assets. not less than 75% in real estate assets, equity shares or debentures of real estate development projects
- Value of funds assessed every 90 days by 2 valuers accredited by credit rating agency. lower of 2 taken to calculate NAV. REIT and InvITs are not mutual funds.

Environmental,
social and
governance
investing

New types of funds

- **Smart beta fund - extension of index of ETFs - equal weightage of index not market cap**
- **Quant funds - rely on data analysis and numbers undertaken by machines**
- **International REITs**

SPECIALIZED INVESTMENT FUNDS

Equity oriented investment strategies

- Equity long-short fund - min. 80% in equity and equity related instruments. max. short exposure of unhedged in equity is 25%
- Equity ex-top 100 long short fund
- min. 65% invested in equity and equity related stocks excluding top 100 by market cap. short exposure of unhedged in equity is 25%
- Sector rotation long-short fund
- min. 80% in equity and equity related in maximum 4 sectors. max short exposure of unhedged is 25%. if fund decided to go short on a sector, all stocks of the sector must be held as short positions

SPECIALIZED INVESTMENT FUNDS

Debt oriented investment strategies

- **Debt long-short fund - interval fund investing in debt instruments across duration, including unhedged short exposure through exchange-traded debt derivative instruments**
- **Sectoral debt long-short fund - interval fund investing in debt instruments including short positions in debt instruments of min. 2 sectors. must invest in at least 2 sector debt instruments with max exposure restricted to 75%. max short exposure unhedged is 25%**

SPECIALIZED INVESTMENT FUNDS

Hybrid investment strategies

- **Active asset allocator long-short fund - interval scheme with strategy to dynamically invest across equity, debt, equity derivatives, debt derivative, commodity derivative, REITs and Invlts. max short positions in equity derivative and debt derivatives restricted to 25%**
- **Hybrid long-short fund - interval scheme with strategy to invest in equity, debt, equity derivatives and debt derivatives. min. 25% each in equity, debt. maximum short exposure of unhedged restricted to 25%**

3. Legal structure of mutual funds in India



Mutual fund established in the form of a trust - Asset management company to run the business



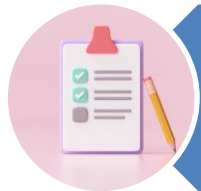
Key constituents of a Mutual fund - Mutual fund application to SEBI made by sponsors - more than 5 years experience in financial services and net worth is positive in all preceding 5 years and at least 10 crore

4

Take approval of SEBI to appoint a person as Trustee. Sponsor has to appoint at least 4 trustees.
If a trustee company it would need 4 directors on board



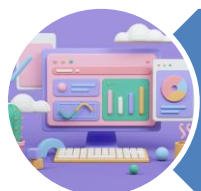
Trustee responsible to protect interest of investors



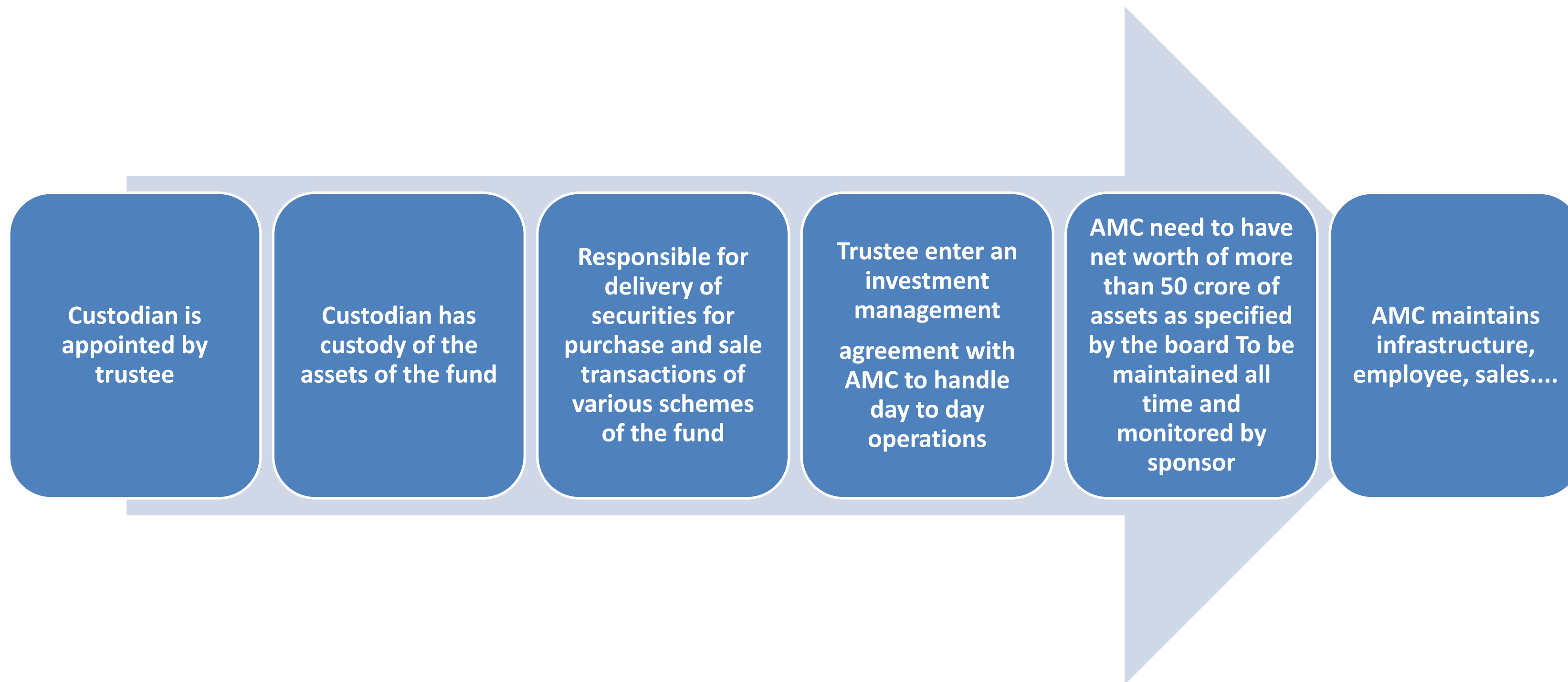
On quarterly basis review transactions of mutual fund with AMC and its associates

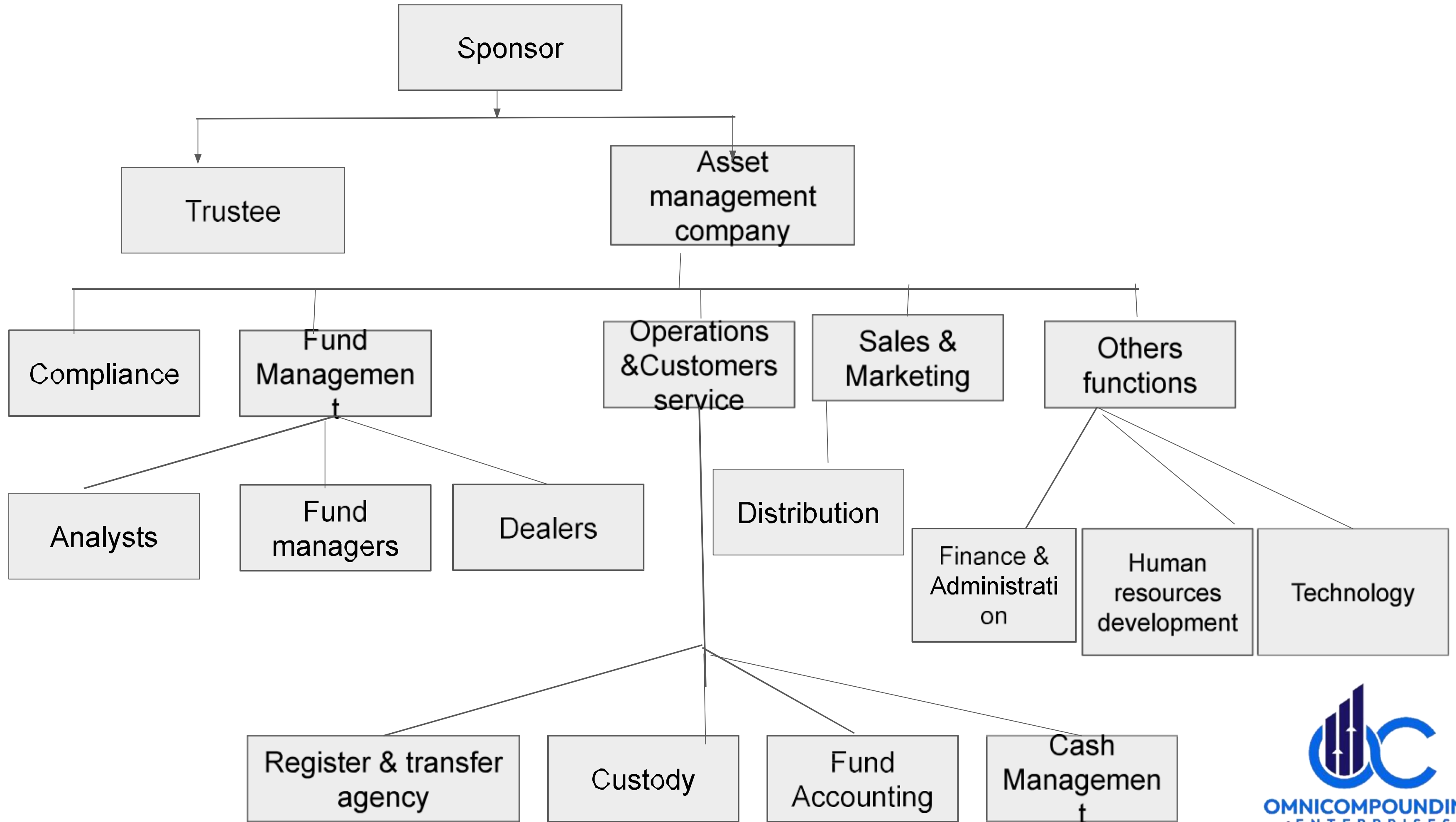


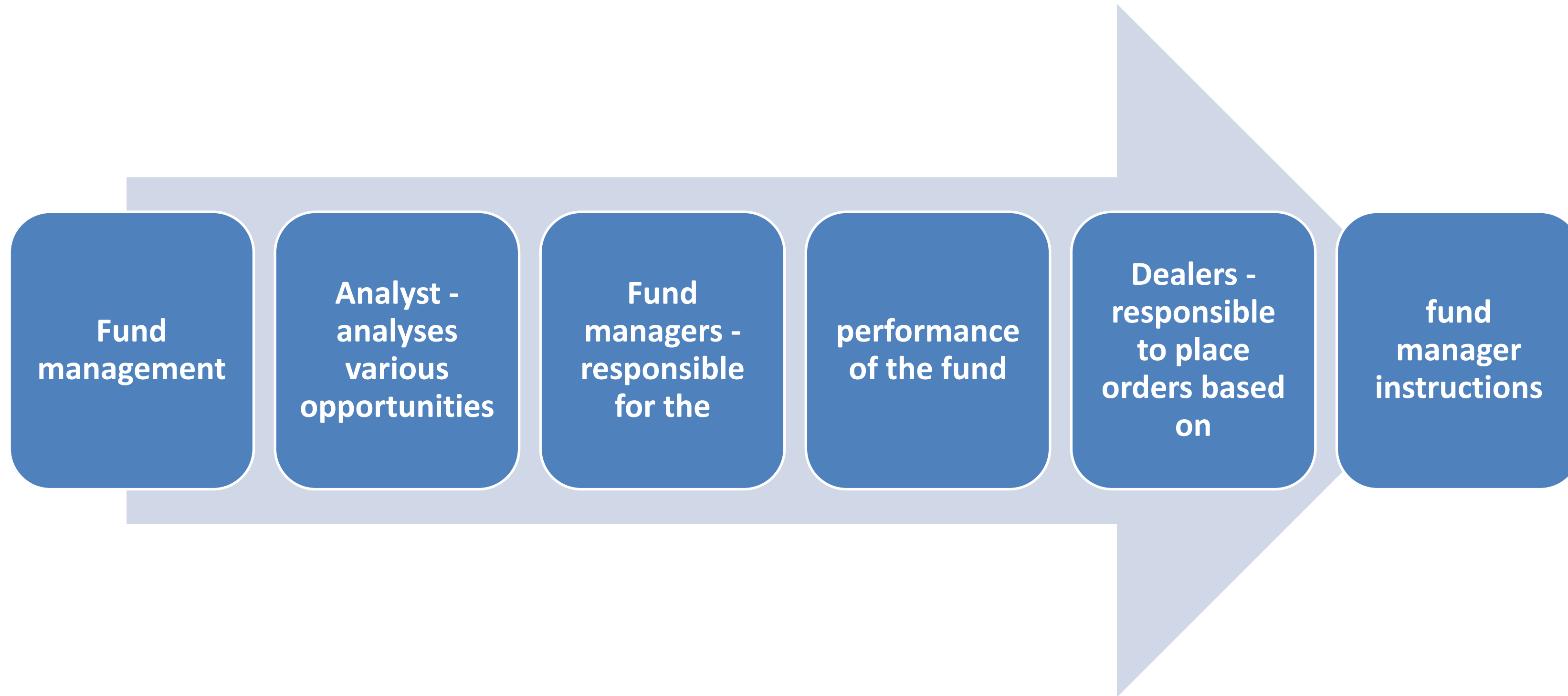
Periodically review investor complaints

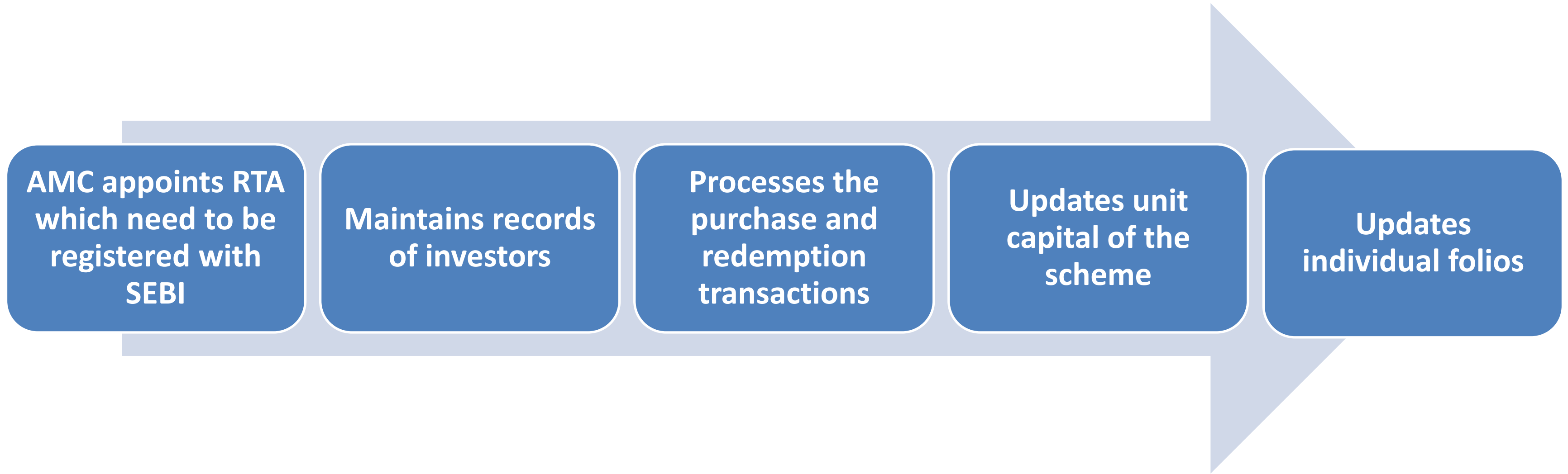


File half-yearly reports to SEBI

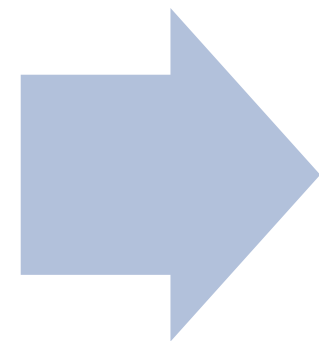








Collecting banker/payment aggregators



appointed by AMC

KYC registration agencies

Mandatory for all investors to be KYC compliant under prevention of money laundering act.

Central KYC registry agencies from 2011 to avoid KYC process for each mutual fund

Depository is an institution which holds the securities in de-materialized or electronic form - NSDL, CDSL

Investors can transact through stock exchanges

Open ended also available through special segments on stock exchanges

BSE - BSE-star MR

NSE - NMF-II

MF Utilities by AMFI

AMFI - Association of all registered AMC

- **To maintain high professional and ethical standards**
- **To interact with SEBI**
- **To represent to Govt. and RBI on matters related to mutual fund industry**
- **Undertake nationwide investor awareness program**
- **To regulate the conduct of distributors and to protect interest of investors**
- **Registration of MFDs and allots AMFI registration number (ARN) which is mandatory to become a mutual fund distributor**

4. Legal and Regulatory framework

Role of SEBI

Regulates mutual funds,
depositories, custodians,

registrars and transfer agents and
credit rating agencies

Protect the interest of the
investor and promote the
development of securities market

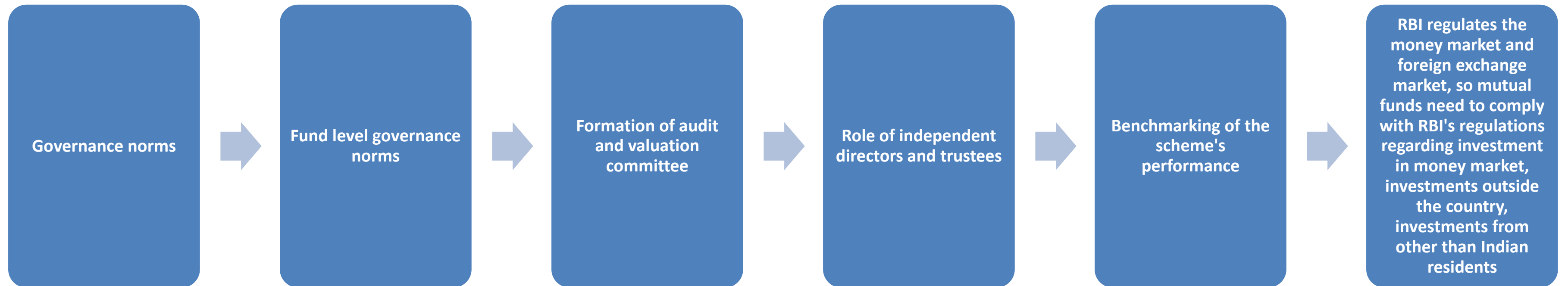
Different types of
regulation categories

Scheme related documents

SEBI mandated to use total
return index as against price
return index to compare
scheme performance

Conversion and
consolidation of existing
schemes

As per SEBI mutual fund
categorization and
rationalization conversion
of existing scheme done

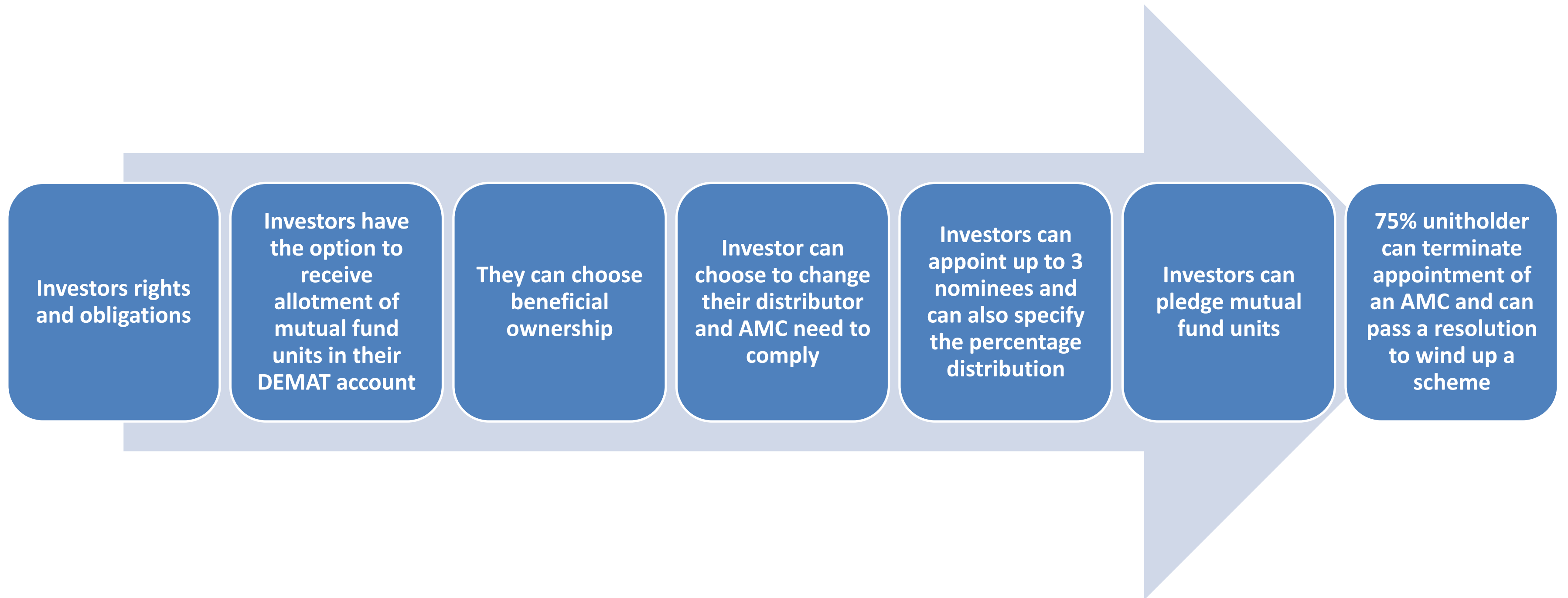


General restrictions

- **Scheme will not invest in unlisted or privately placed securities of any associate or group company of the sponsor**
- **Mutual funds under all its schemes shall not own more than 10% of a company paid-up capital**
- **A mutual fund shall not invest more than 10% in debt instruments comprising money market instruments and non-money market instruments issued by a single issuer. This limit not applicable for govt. securities**
- **Parking of funds in short-term deposits with all scheduled commercial banks shall be limited to 15%**
- **Debt funds must maintain a minimum of 10% of corpus in liquid assets**
- **Mutual funds buy and sell on delivery basis**

Advertisement guideline for mutual funds

- **Disclosing performance - when scheme exists for more than 3 years then performance in terms of CAGR for past 1 year, 3 year, 5 years and since inception shall be provided. New fund less than 6 months shall not provide**
- **Incase of money market performance can be advertised by annualization of yields.**
- **Celebrity endorsements at industry level and shall not promote a scheme of a particular mutual fund**
- **Branding and advertisement requirements for Specialized Investment Funds**
- **SIFs should have distinct identification to maintain clear difference between mutual fund and SIF**
- **For 5 years AMC may use sponsor or mutual fund brand name in offer document from SEBI approval of launch of SIF**



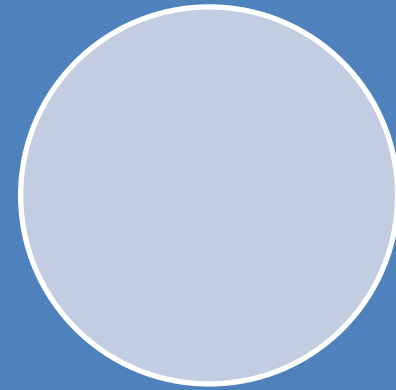
5. Scheme related information



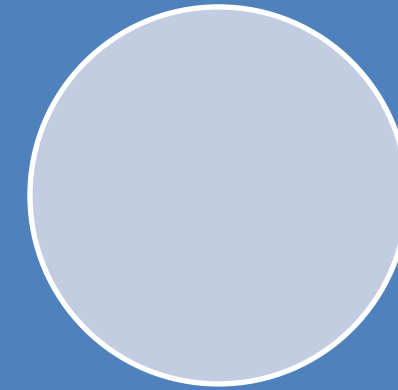
Mandatory documents



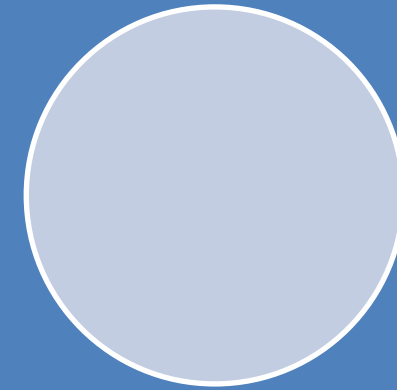
Mutual fund returns are subject to market risks, read all scheme related documents, what documents?



Scheme Information Document (SID)



Statement of Additional Information (SAI)



Key Information Memorandum (KIM)



Scheme Information Document (SID)

Details of the scheme

Name of the scheme, open-ended/close-ended/interval, Equity/debt/liquid/hybrid etc.

Risk-o-meter and statement of the suitability of the scheme are available on the front page

Describes the asset allocation of the scheme

Load structure, fees, expenses, transaction charges

Provides the details of computation of NAV

Within six months from end of 1st half or 2nd half of FY in which schemes were launched, SID shall be updated



Statement of Additional Information (SAI)

Statutory information about the mutual fund or AMC

Single SAI is relevant for all schemes offered by AMC

Complete details of constituents of the mutual fund sponsors, AMC and Trustee company and service providers

Regular update must be done by end of 3 months of every FY

Key Information Memorandum (KIM)

It is a summary of SID and SAI

Shall be updated at least once in half-year

Addendum

Interim changes are updated through issuance of addendum and must accompany the KIM

Other mandatory information/disclosure

Existing investors in a mutual fund scheme also need to track the progress of their investment

Current value of investment - disclosure of daily NAV at the end of each business day

Disclosure of total expense ratio

AMCs required to update investors through email whenever any change in the expense ratio

Risk-o-meter

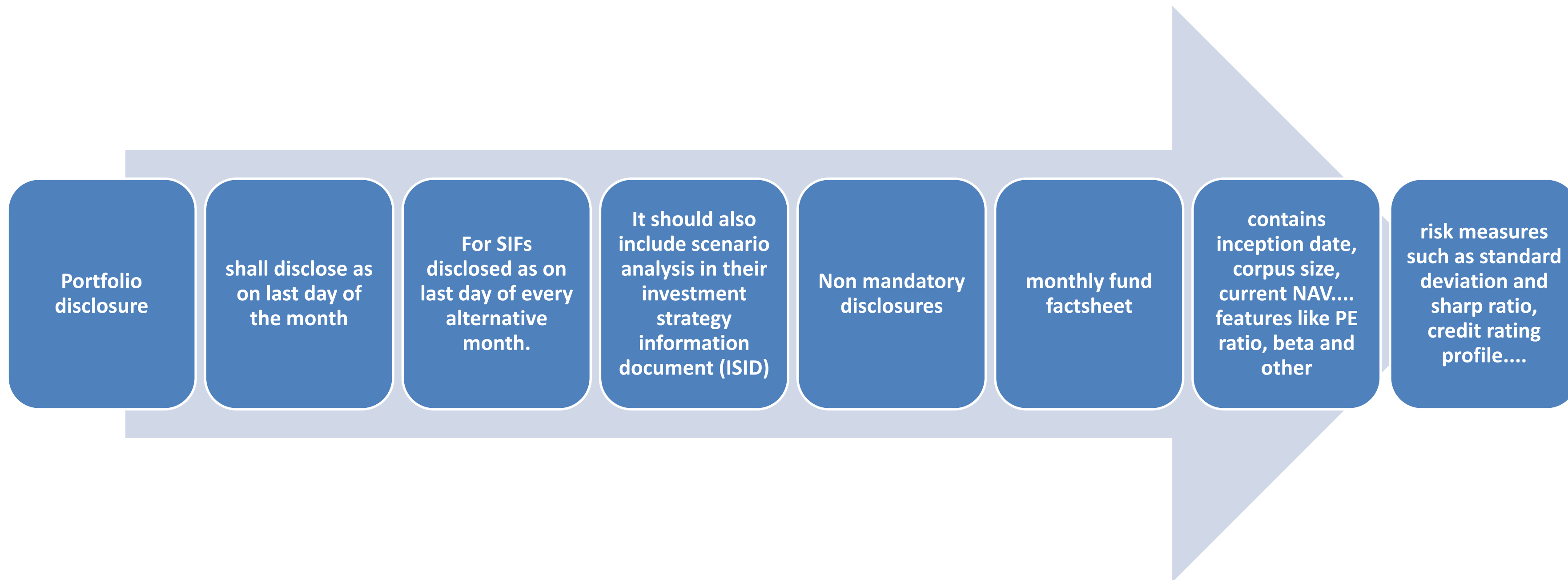


Pictorial representation of risk to the principal invested in a mutual fund depicted using a risk o meter.

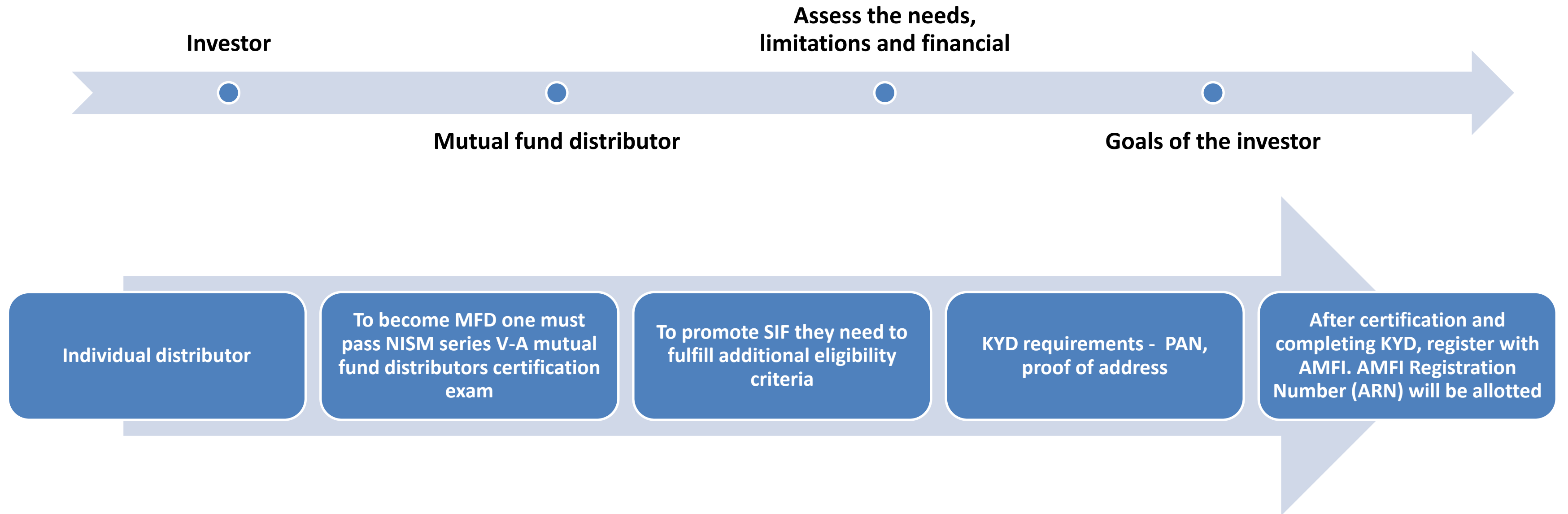
Risk levels in case of SIFs

Risk band level 1 to risk band level 5 assigned at the time of NFO.
It will be evaluated on monthly basis





6. Fund distribution and channel management practices



With ARN one can empaneled with any number of AMCs or can become agents of distributor who already empaneled with AMCs

MFD earns income as a percentage of assets under advisory

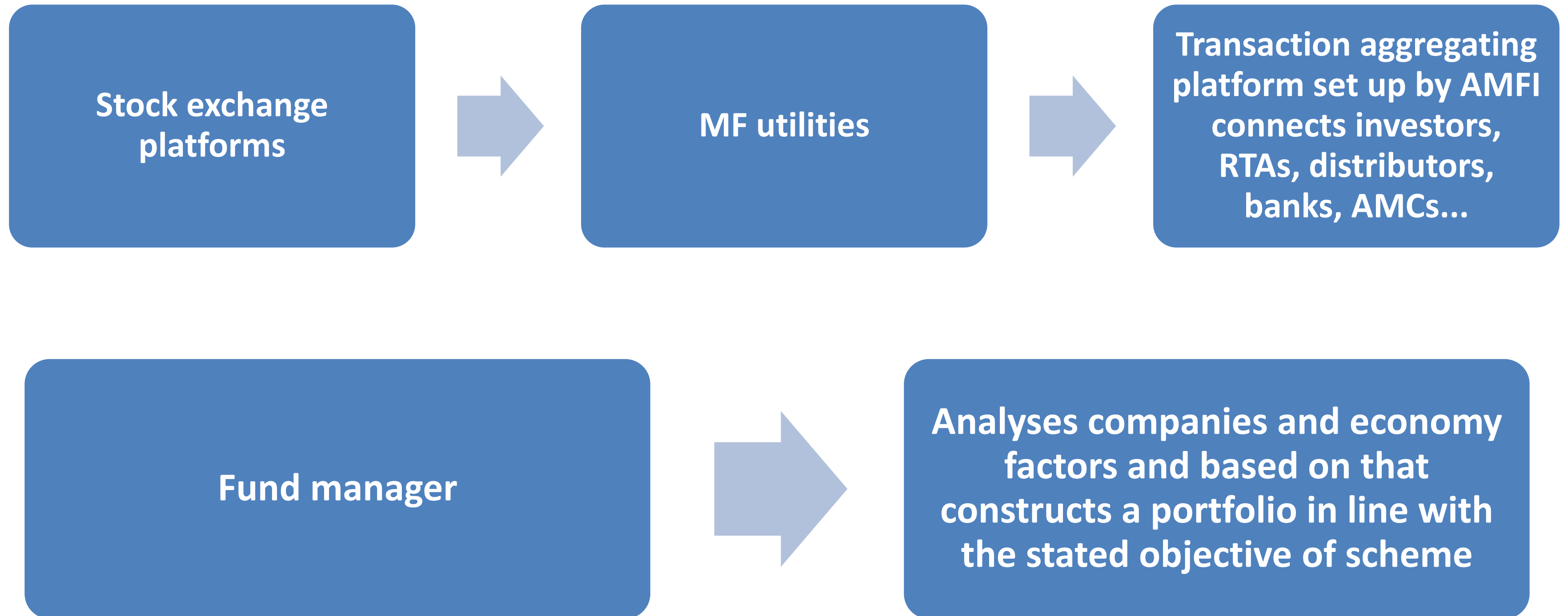
No commission is payable to distributor for their own investments

Nomination facility offered by AMCs to AMFI registered MFDs

Non-individual distributor

Regional distributors, national distributors, NBFCs, banks, stockbrokers, etc..

institution distributors need to register with AMFI and employee of these need to clear NISM V-A and obtain an Employee Unique Identification Number (EUIN)



7. NAV, TER and pricing of units

Fair Valuation Principles

Ownership when changes due to buy and sell any investor in the scheme should get a fair price for their investment

Principle 1 valuation must be fair

Principle 2

Investments in new type of securities by MF scheme shall be made only after valuation methodologies established and approved by board of AMC

Principle 3

Procedures shall describe process to deal with exceptional events where market quotations are no longer reliable for a particular security

Principle 4

AMC shall provide periodic review of valuation policies

Principle 5

Valuation policies and procedures approved by board of AMC should seek to address conflict of interest

Principle 6

Disclosure of valuation policy and procedures shall be made in SAI, on website of AMC

Principle 7

Any deviation from disclosed may be allowed with appropriate reporting to board of trustees

Principle 8

AMC shall have policies and procedures to detect and prevent incorrect valuation

Principle 9

Documentation shall be maintained and preserved by AMC

Principle 10

To maintain fairness, AMC shall take into consideration prices of same security or similar security reported at all available public platform

Valuation

1. Traded securities other than money market and debt securities valued at last quoted closing price on the stock exchange

When traded on more than one stock exchange, security shall be based on where the security is principally traded based on closing price

If a security is not traded on any stock exchange more than 30 days, it must be treated as a 'non-traded' scrip and it is valued in good faith by AMC

2. Value of gold valued based on London Bullion Market Association in USD per troy ounce

3. Value for silver based on LMBA in USD per troy ounce

Computation of NAV

Example: 20 crore units
bought at 10/-

means scheme mobilized
200/- crores

140 crore in equity
appreciated by 10%

60 crore in deposits and
money market

Interest and dividend
received by scheme 8 crore,
scheme expenses paid 4
crore, while a further
expense of 1 crore is
payable

Profit after expenses
4 crore and capital
appreciation is 14
crore.

So, unit holders fund
in the scheme is 218
crore

which is called as
net assets

NAV calculation

$(\text{Total assets} - \text{Liabilities}) / \text{no. of outstanding units}$

Mark to market

NAV meant to reflect true worth of each unit of the scheme

**Total
expenses in
mutual fund
scheme**

**Investment
and advisory
fees -
charged by
AMC**

**Recurring
expenses**

**Marketing
and selling
expenses,
brokerage
and
transaction
cost, fees and
expenses of
trustees,
audit fees,
custodian
fees, listing
fee.....**

**SEBI has
banned entry
loads, so sale
price need to
be same as
NAV**

**AMC shall
not charge
investment
and advisory
fees on
segregated
portfolio**

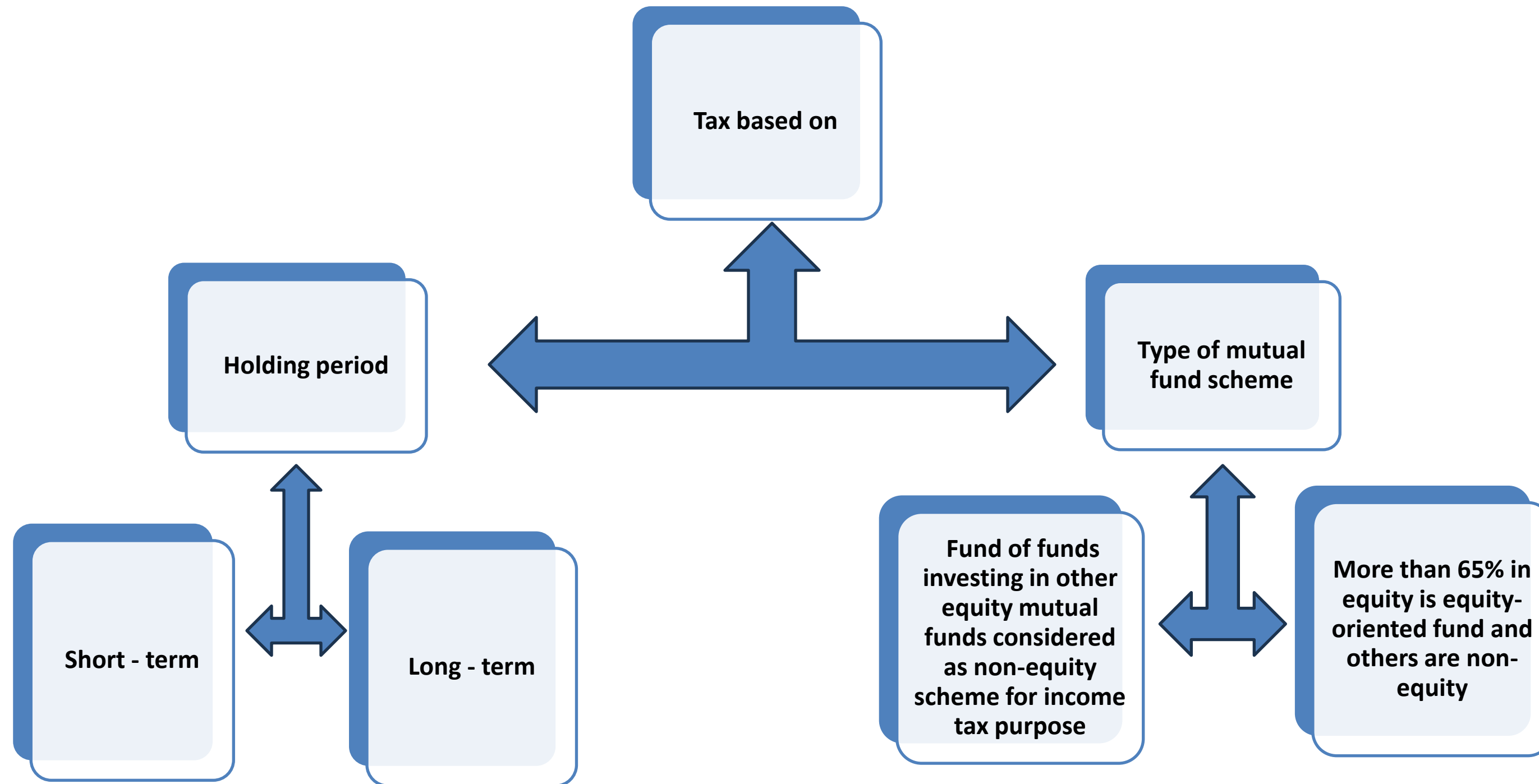
8. Taxation

As per tax laws, mutual fund's income is exempt from income tax as mutual funds are continued as trusts in India for the benefit of unit holders

If any investor choose Income Distribution cum Capital Withdrawal (IDCW), get income in form of dividends,

whereas investors in growth plan would not get dividend

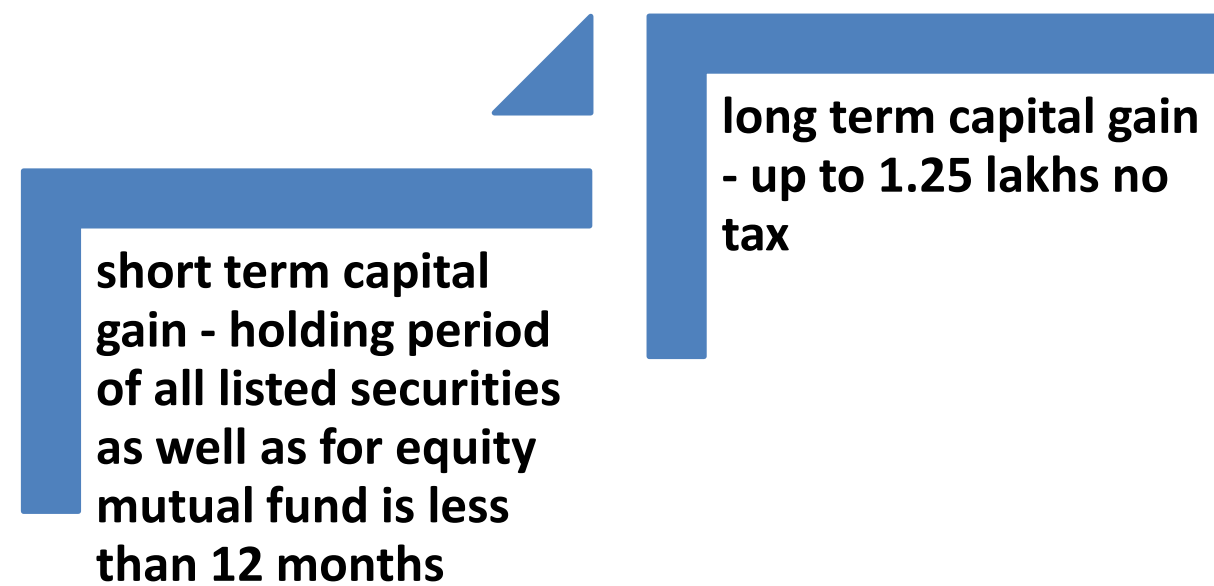
Dividend added to taxable income of the assessee



Type of investors



Capital gains



Stamp duty of MF units

units will be allotted post deduction of stamp duty

stamp duty @ 0.005% applicable at the time of issue of units.

stamp duty applicable on all transactions. purchase, dividend reinvestment, SIP, STP..

Setting off capital gains and losses under income tax act

Short term capital loss is to be set off against short term capital gain or longterm capital gain

Capital loss, short or long term cannot be set off against any other head of income like salary

Long term capital loss can only be set off against long term capital gain

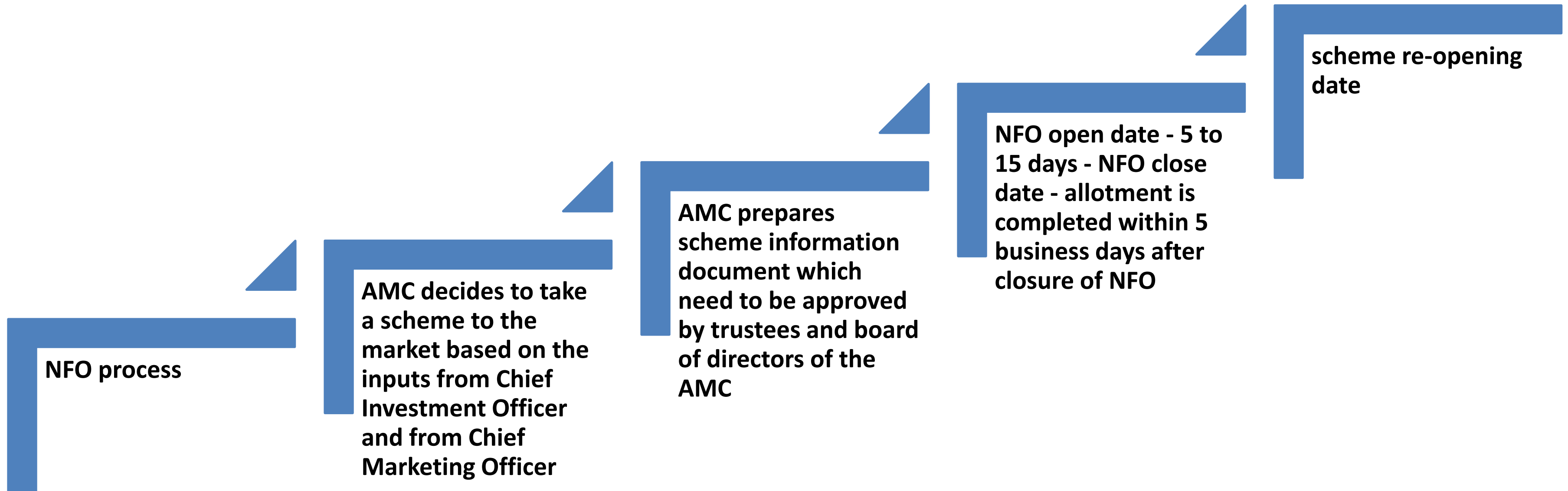
Securities transaction tax

when investor sells units in stock exchange will incur STT. STT not applicable on purchase of units of any equity scheme. Not applicable for debt securities.

Tax benefit under section 80C of income tax act

Equity Linked Savings Schemes are eligible for deduction under section 80C under old tax regime

9. Investor services



Direct and regular plans

Monthly and annual account statement

NRI/POI residents abroad can invest on a repatriable basis or on a non-repatriable basis

Application requires additional information under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

In case of NRI investments, if payments are through NRO a/c then registered account should be same type. If payments routed through NRE account, then registered accounts can be NRO or NRE account

If investor choose repatriable mode, then the charges of currency related are born by the investor only

Foreign investors can invest in equity schemes of MFs as Qualified Foreign Investors after completing KYC process. They must be from member of country of FATF

Non-individual investors - companies, corporate bodies, trustees, partnership firms FPI registered with SEBI

NRI to RI once he becomes a resident he cannot hold NRO/NRE/FCNR accounts. A Resident Foreign Currency (RFC) account may be opened, and this account can continue receive funds in foreign currency from abroad investments

Switch

Redemption from one scheme and a purchase into another combined in one transaction

National Automated Clearing House (NACH)

It is a web-based solution for banks, financial institutions, corporate and governments to facilitate interbank transactions which are repetitive and periodic in nature

ASBA

Through One Time Mandate investors can choose the frequency of debit like monthly, quarterly, half-yearly.. and fixed amount to be debited

All payments should be made from the bank account of holder of the folio, if it is a joint account then one of the joint holder must be first holder of the folio

Payments by parents/grand parents/related person on behalf of minor value of not more than 50000 SIP allowed. person who make payment should be KYC compliant and sign third party declaration form

Cut off time 3 pm for Equity oriented funds and debt funds except liquid and overnight funds.
Cut off time 1.30 pm for liquid fund and overnight funds

Same day NAV used if received before cut - off time or next business day NAV

KYC documents - PAN & Proof of address

SIP - SYSTEMATIC INVESTMENT PLAN

Helps in rupee cost averaging as investors gets more units in market fall and less units when market rise

Mutual fund required registration time of 30 days for an SIP enrollment

SIP top up facility also can be opted

SWP

STP

Unclaimed Assets - RTAs have developed a platform to trace inactive and unclaimed mutual fund folios.

Mutual Fund Investment Tracing and Retrieval Assistant (MITRA)

10. Risk, return and performance of funds

General and specific risk factors Scheme Information Document(SID) contains a list of all these risks

General risk factors - settlement risk, liquidity risk, default risk, possible loss of principal, economic slowdown..

Specific risk factors - Risk related to equity and equity related securities volatility

Risks associated with mid-cap and small-cap companies these companies have ability to grow faster, but there is a risk that such companies may not achieve their expected earnings

Risk associated with derivatives - these are highly leveraged instruments, even small price movement could have an impact on the value

Counterparty risk - this risk is mitigated as exchange provides guaranteed settlement

Risks related to debt funds - rating migration risk, interest rate risk, credit risk, spread risk

Risk factors with REIT and InvIT - price risk, interest rate risk, credit risk, liquidity risk. Lower than expected distributions

Risk managing

**Liquidity risk - managed by creating a portfolio which has adequate access to liquidity.
There is good secondary market liquidity in govt. securities**

Credit risk - investing in securities issued by borrowers which have good credit profile

Rating migration risk - invest in high grade/quality securities.

**Factors affect
mutual fund
performance**

**Market /
systematic risk**

**Risks that
impact the
entire economy
are known as
systematic risks**

**Fund managers
cannot reduce
systematic risk
except by staying
out of the market**

**scheme may not
be able to control
the systematic
risk beyond a
certain level as
SEBI regulations
impose certain
limits on
permissible cash
allocation.**

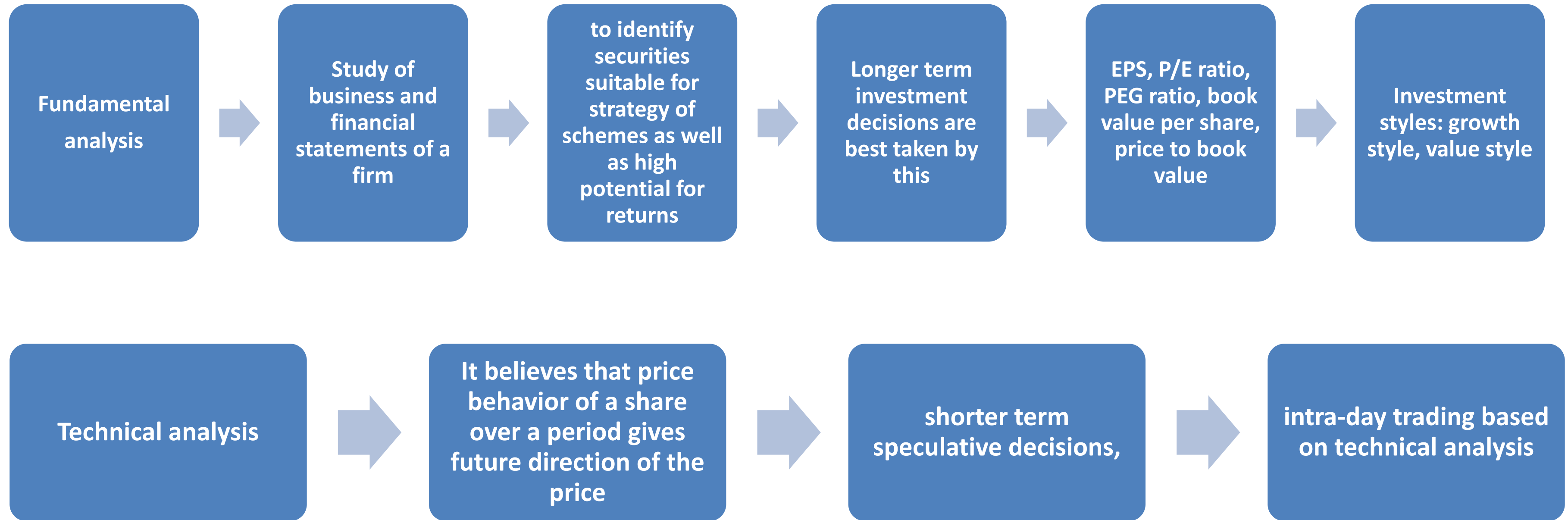
**Company
specific risk /
unsystematic
risk**

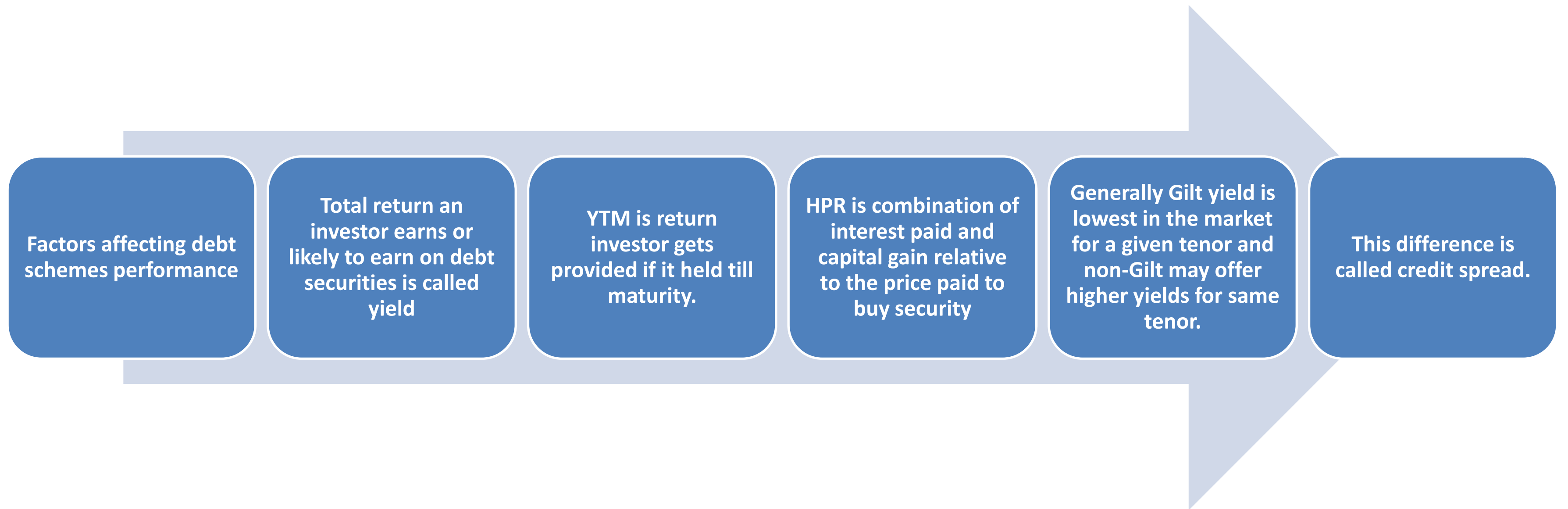
**Risks impact
the specific
company are
company
specific risk -
can be
reduced by
diversification**

**Factors
affecting
performance
of equity
schemes to
generate
superior
returns than
benchmark**

**fund manager
must
construct a
portfolio
based on
security
selection and
market timing**







Measures of return

Simple return = $(\text{later value} - \text{initial value}) * 100 / \text{initial value}$

Annualized return = $\text{simple return} * 12 / \text{period of simple return (in months)}$

Compounded return = $(\text{later value} / \text{initial value})^{(1/n)} - 1$

Measures of risk

Variance - measures fluctuation in periodic returns of a scheme as compared to its own average return

Standard deviation - it also measures fluctuation in periodic returns of a scheme as compared to its own average return, it is equal square root of variance

high standard deviation indicates greater volatility in returns and greater risk

Beta

Beta based on Capital Asset Pricing Model (CAPM) which states there are two risks in investing in equities, systematic risk and non-systematic risk.

As non-systematic risk can be diversified away, investors need to be compensated only for systematic risk, and this is measured by its Beta

Beta measures the fluctuation in periodic returns in a scheme as compared to fluctuation in period return of a diversified stock index

Diversified stock index has Beta of 1

If beta is more than 1 are seen as riskier than the market and less than 1 indicative of a company or scheme less risky than the market

Beta of 0.8 means it moves 8% when market move by 10%. It applies to increase as well as fall in value

Weighted average maturity

If a scheme has 70% of its portfolio in a 4-year security and 30% in 1 year security the weighted average maturity is $(70\% * 4) + (30\% * 1)$ i.e., 3.1 years

11. Mutual fund scheme performance

Benchmarks and performance

Benchmark for a scheme is decided by the AMC in consultation with the trustees

In SID along with past performance of the scheme the performance of the benchmark during the same period must be mentioned

Price return index or total return index

Earlier mutual fund schemes were benchmarked to price return variant, with effect from 1st Feb 2018 schemes are benchmarked to total return variant of an index. TRI considers all dividends/interest payments in addition to the capital gains

Quantitative measures of fund manager performance

Relative comparison how did a scheme perform vis-a-vis its benchmark or peer group are called relative return comparisons

If a scheme earned a higher return than the benchmark it means that is out performance by fund manager and in reverse case that is under performance

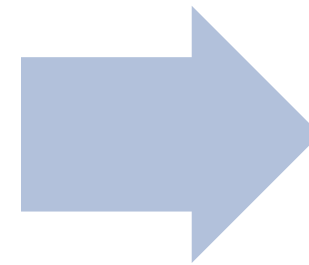
Sharp ratio

It is commonly used measure of risk-adjusted returns

Investment with Govt., returns are risk-free return (R_f). T-bill index is a good measure of this

Through investment in a scheme, risk taken and return earned is (R_s)

Difference between these two is called risk premium

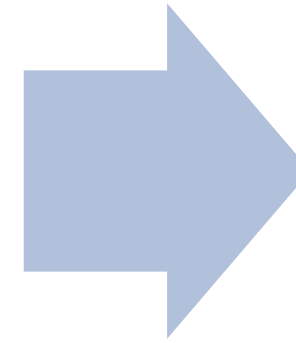


$R_s - R_f$

Sharp ratio uses standard deviation as a measure of risk

$$\text{sharp ratio} = (R_s - R_f) / \text{standard deviation}$$

Treynor ratio –

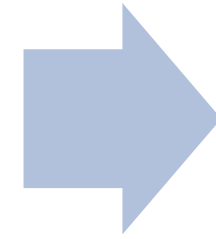


like sharp ratio it is also measure of risk premium per unit of risk, for risk Treynor ratio uses beta

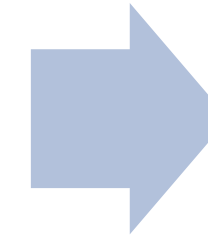
$$\text{Treynor ratio} = (R_s - R_f) / \text{Beta}$$

higher the Treynor ratio better the scheme is

Alpha

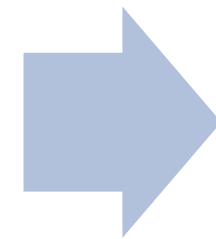


the difference between a scheme's actual return and its optimal return is its alpha,

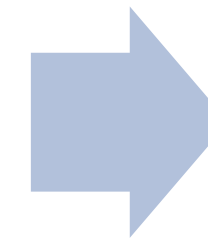


which is a measure of fund manager's performance

Information ratio

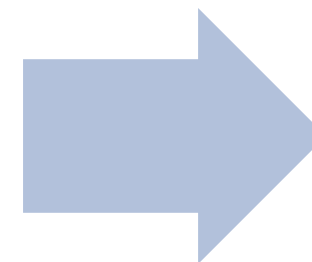


It is mandatory for AMCs to disclose the information ratio to measure risk-adjusted return of a portfolio.



This must be disclosed on their website daily

Information ratio (IR) =



**(portfolio return - benchmark return)
/ std of excess return**

Tracking error

beta of market is 1

As index fund mirror the index the difference between index fund's return and market return is tracking error

Scheme performance disclosure

SEBI mandated disclosure of performance data by all AMCs.

SID of each scheme needs to be updated once every year and as part of this exercise the scheme performance numbers must be updated

Suitability of the product can be assessed from product labels that provided with product literature. Risk-o-meter identifies the risk to the capital invested and match the investor's risk-taking ability to that of scheme

Fund factsheet

Apart from scheme information, AMCs may also provide periodic updates on markets and economy

12. Mutual fund scheme selection

Scheme selection
based on

Investor need

Investor may need long term appreciation in the value of his investment, or he may need periodic income from the investment or parking funds with need of high liquidity

Risk profile of the
investor

Need to take risk, ability to take risk and willingness to take risk - understanding of the risk profile and investment risks associated with various schemes, would be essential for deciding asset allocation

Asset allocation

Based on the need, the asset class which is most suitable for investor is determined

Investment time horizon is equally important to select suitable asset class

Investor seeking growth and willing to take risk and if he willing to invest for adequately long term, equity may be suitable

Investor may prefer to invest and not willing to take risk associated with equity investing may prefer lower returns from debt

Age of investor

Generally young investors have potential for taking higher risks compared to old people, however, this may not be correct as different investors have different goals and risk-taking ability

Core and satellite portfolio

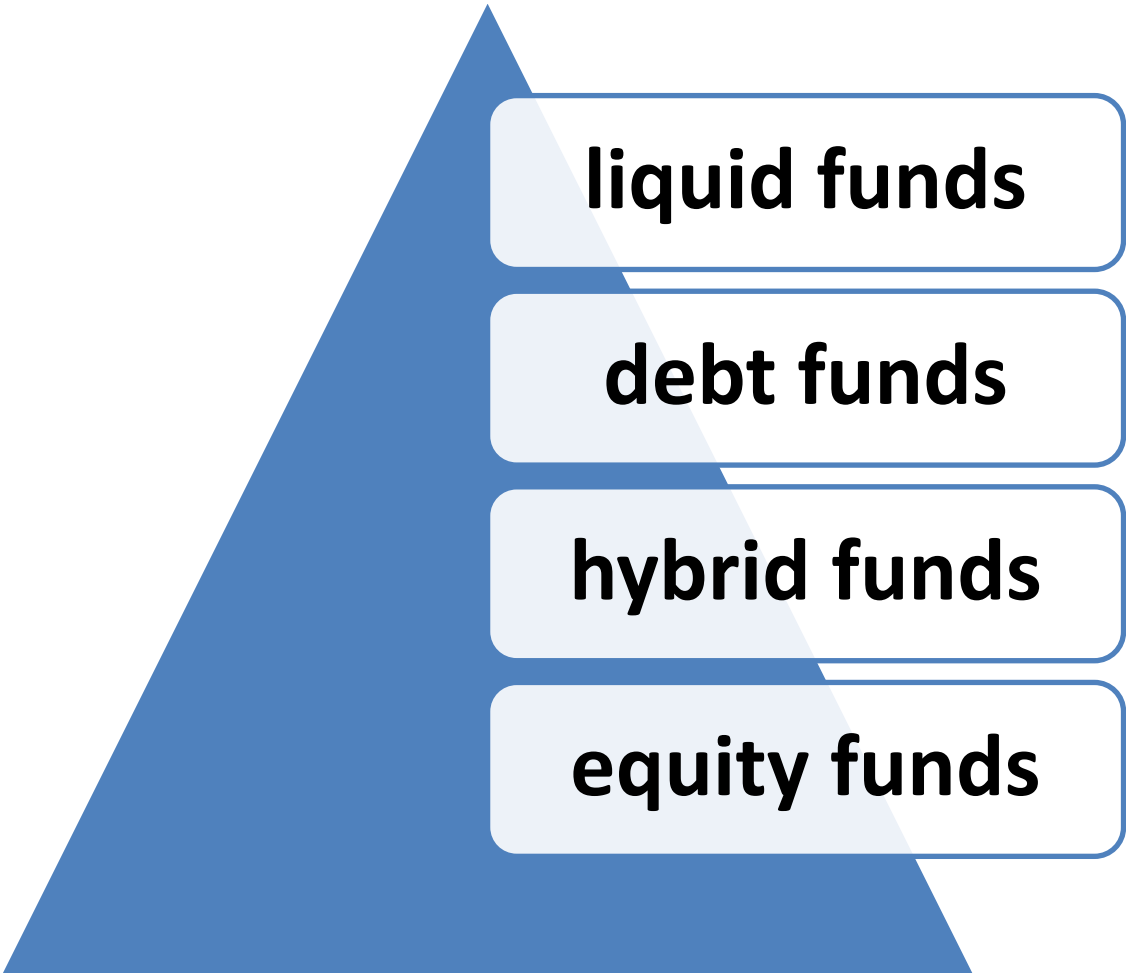
core portfolio will be invested according to long term needs and goals; satellite portfolio will be invested to take advantage of expected short term market movement. ex. sector funds

Scheme selection based on investment strategy

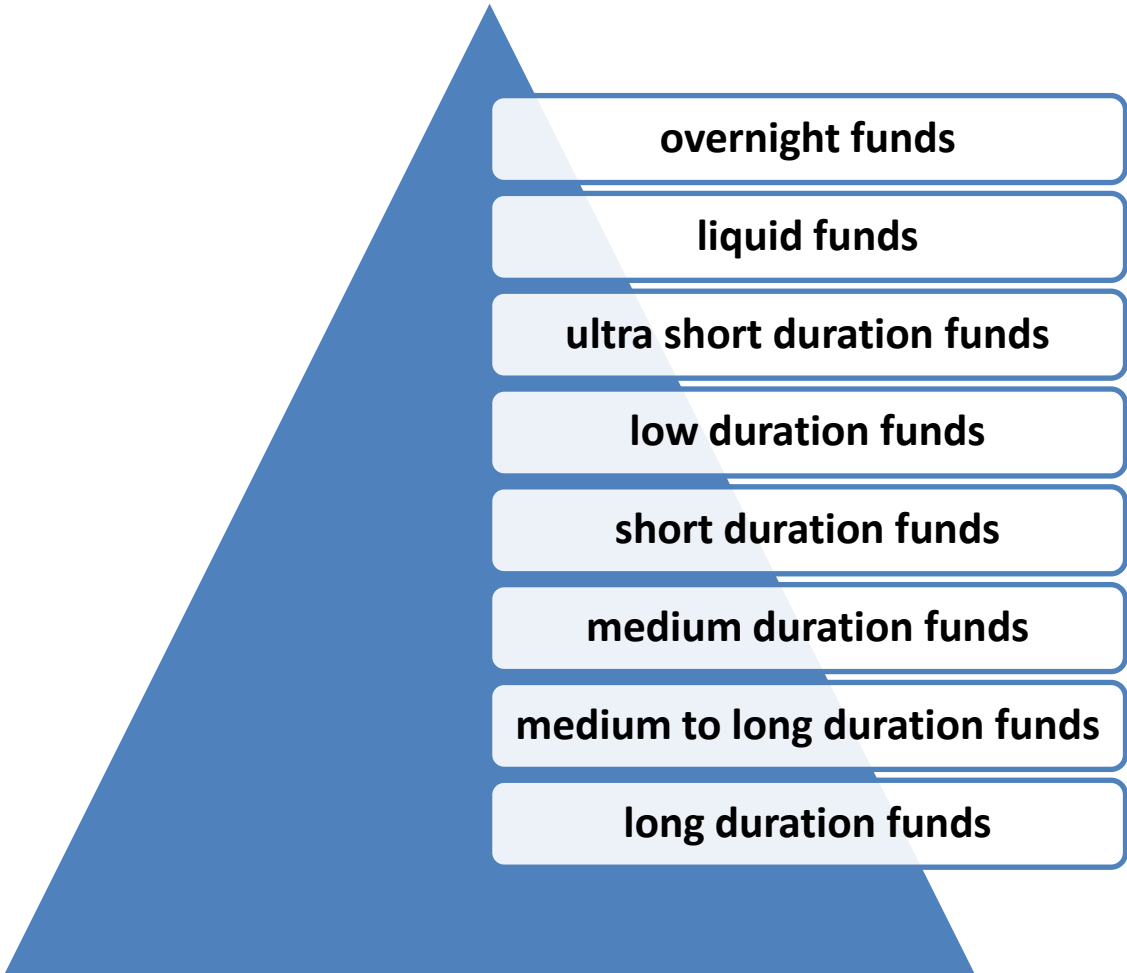
The portfolio is constructed in line with investment strategy

Risk levels in mutual fund schemes

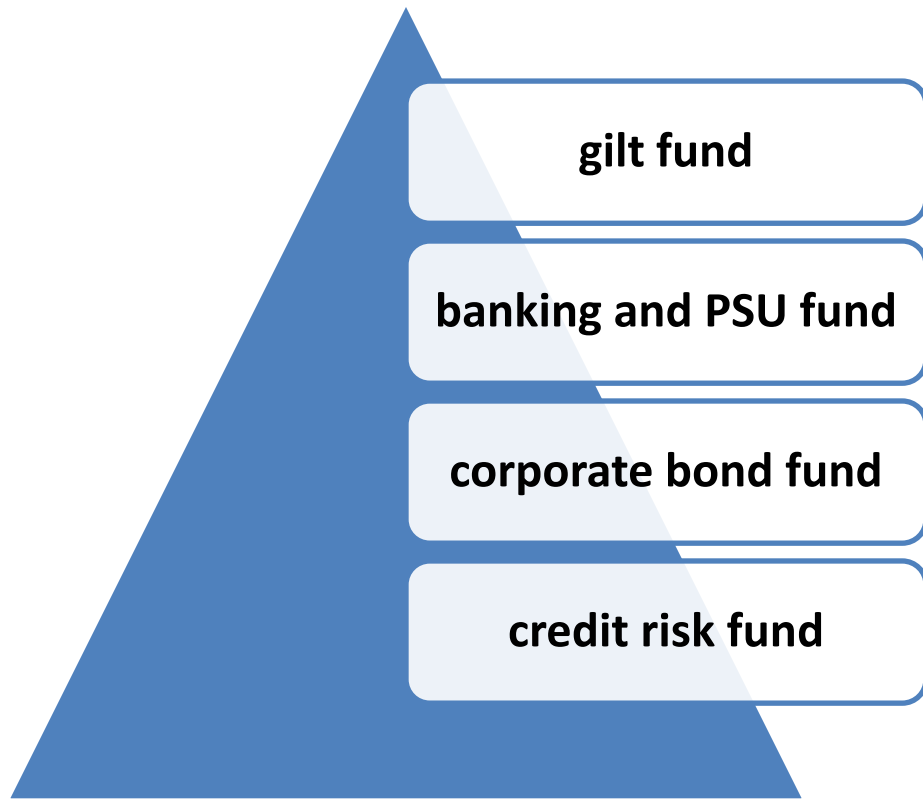
risk - return hierarchy of mutual funds



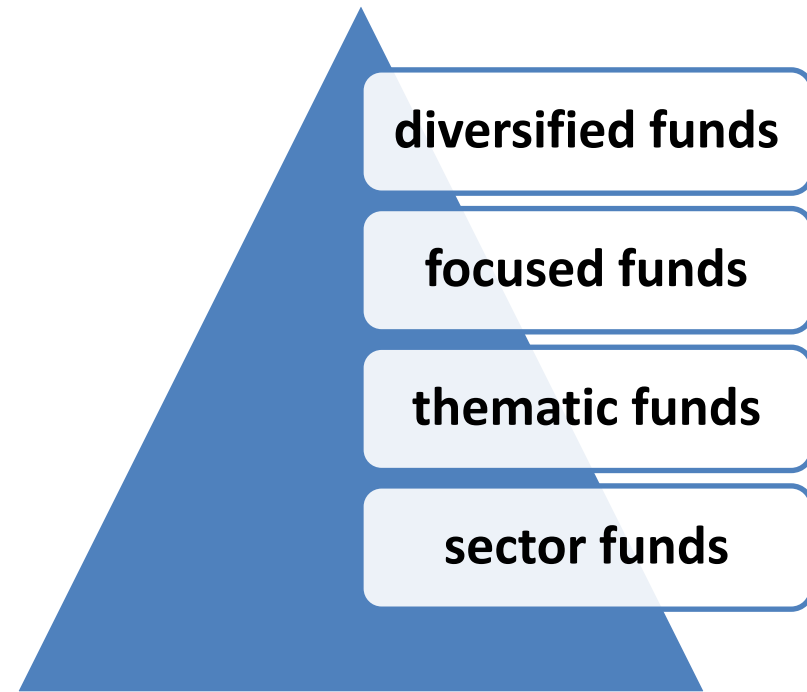
risk - return hierarchy of debt funds



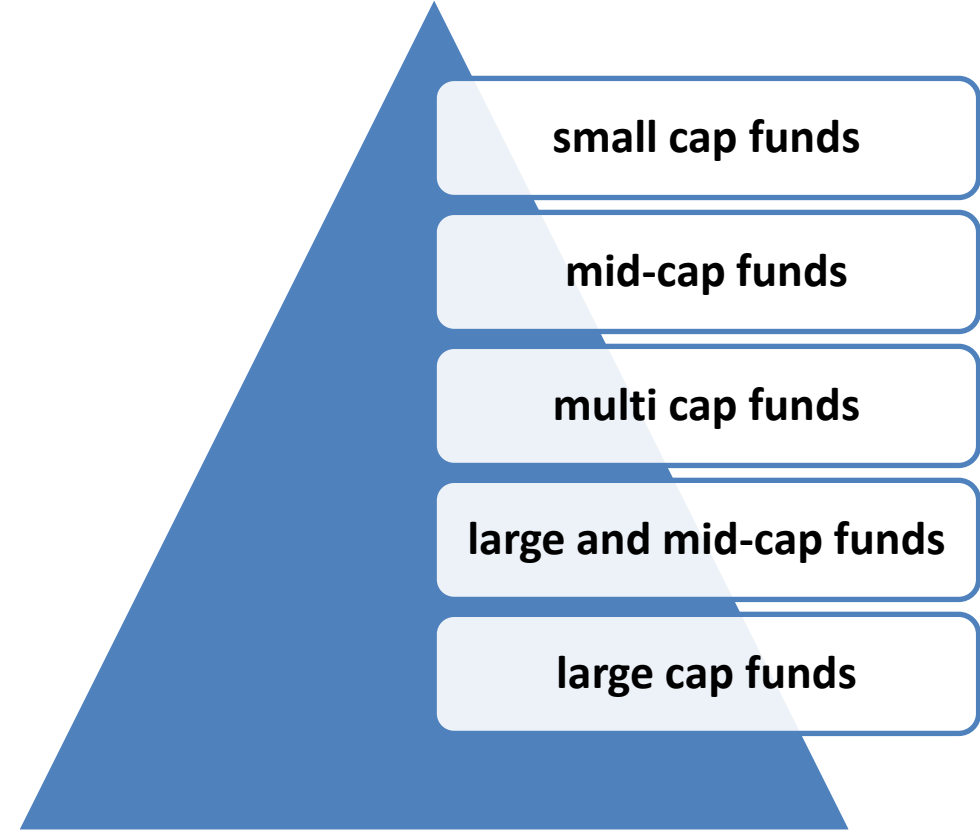
Hierarchy of credit risk in debt funds



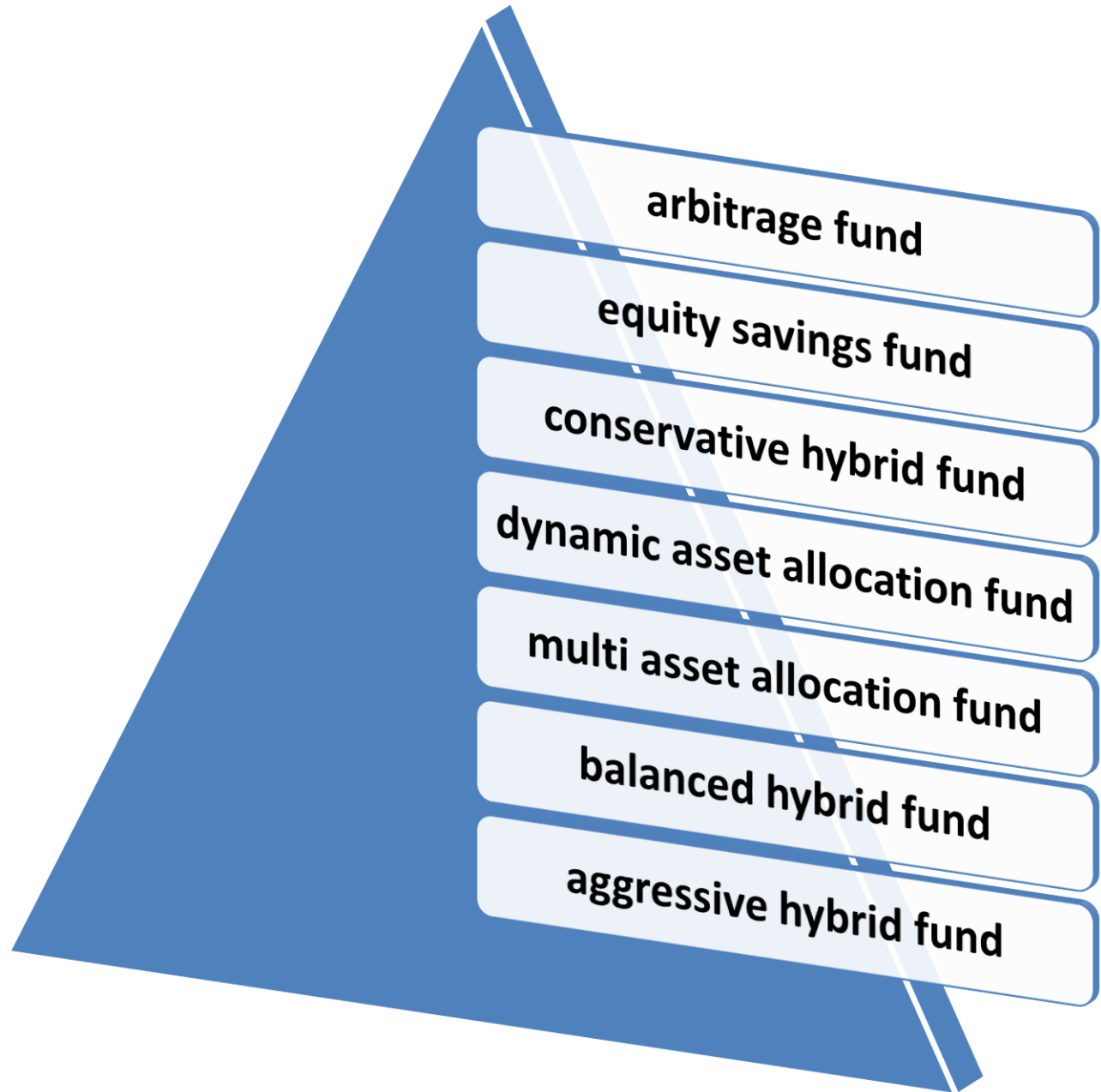
Risk-return hierarchy of diversified to concentrated funds



Risk-return hierarchy of equity mutual fund



**risk-return
hierarchy of
hybrid funds**



Active fund vs passive fund

Index funds are passive funds and expected to offer return in line with the market as they mimic the index

Cost of index fund is low as there is no research and fund management expenses

ETFs are also passive funds

Investor in an active fund is bearing a higher cost for fund management and higher risk to earn returns better than benchmark

International equity funds

Indian investor taking exposure on international market and exposure to exchange rate of rupee

Gold funds

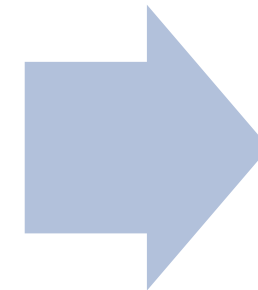
Gold ETF are different and gold sector funds are different

Gold funds invest in shares of gold mining and other gold processing companies, which is linked with profitability of these companies

Selection of scheme offered by different AMCs

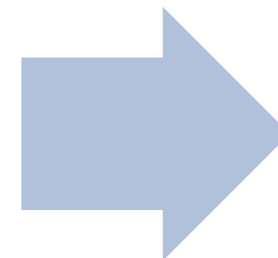
Investor should evaluate whether fund portfolio reflects its investment objective and fund manager should follow the strategy as per SID

Fund manager



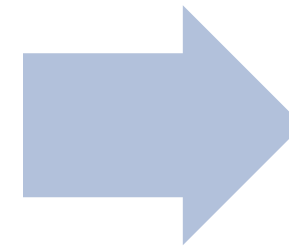
He is the one who makes huge difference to the scheme's performance

Fund performance



It is the primary criterion of the selection. Fund should have ideally out-performed consistently

Fund age

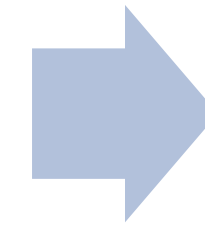


A fund with long history has a track record that can be studied

Fund size

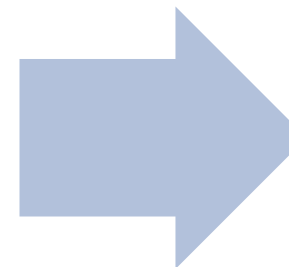


For an equity fund that invest in large caps, a large fund size may be an advantage, while for a sector fund or a mid-cap fund with limited investment options may be disadvantage.



Large fund size will allow better diversification and economies of scale

Portfolio turnover



Frequent churning of the portfolio would add broking cost and indicates unsteady investment management

Do's and Don'ts while selecting a mutual fund scheme

Ensuring suitability

Sticking to investor asset allocation

Past performance may or may not be sustained in future

Understanding the investment objective and investment strategy of the scheme



THANK YOU AND BEST
WISHES FOR YOUR EXAM

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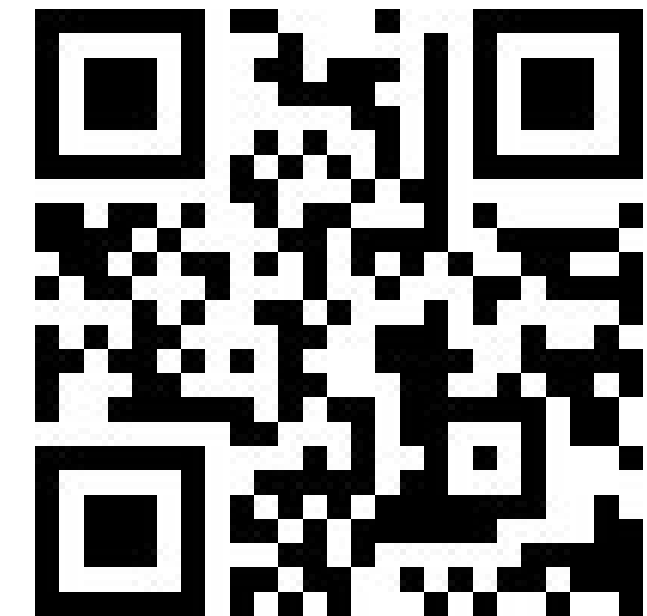
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