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FINANCE for DENTISTS – Part XI

The Current Scenario

Author: Dr. Bhavdeep Singh Ahuja

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November – December 2019 Issue – First Part

DISCLAIMER: Although every effort has been taken to make sure that there are no mistakes, there might be still, some mistakes inadvertently crept in the article. Please notify the same @ author's email: **drbhavdeep@gmail.com** or Call/Whatsapp: **98761-93039** and they will be corrected ASAP.

We had covered the introduction about mutual funds – modes of investment, eligibility criterion, how to get started with mutual funds (investing) and modes to invest along with a brief introduction on classification, the tips to kick-start investing mutual funds in India and just a basic introduction to select the mutual funds in the last part of this series.

Let us continue ahead of that:

In the next few parts of this series, I am going to give you an in-depth detail about a few terms and concepts used very commonly in the arena of Mutual Funds so that when I will doing a further detailed analysis of mutual funds, these terms and concepts don't seem alien to you.

So, here we begin:

NAV (Net Asset Value)

Net Asset Value (NAV) is the market value of a mutual fund unit. The overall cost of a mutual fund depends on this market value per fund unit. If you add up the market value of all the shares in the fund and divide it by the number of total mutual fund units, the resulting figure will be the NAV. So, NAV is simply, the price per share of the fund. Just like shares have a share price; mutual funds have a net asset value. Generally, mutual fund units begin with a unit-cost of Rs. 10 and it rises as the fund's assets under the AMC (Asset Management Company) grow. So, a popular mutual fund will have a higher net asset value than a less popular one.

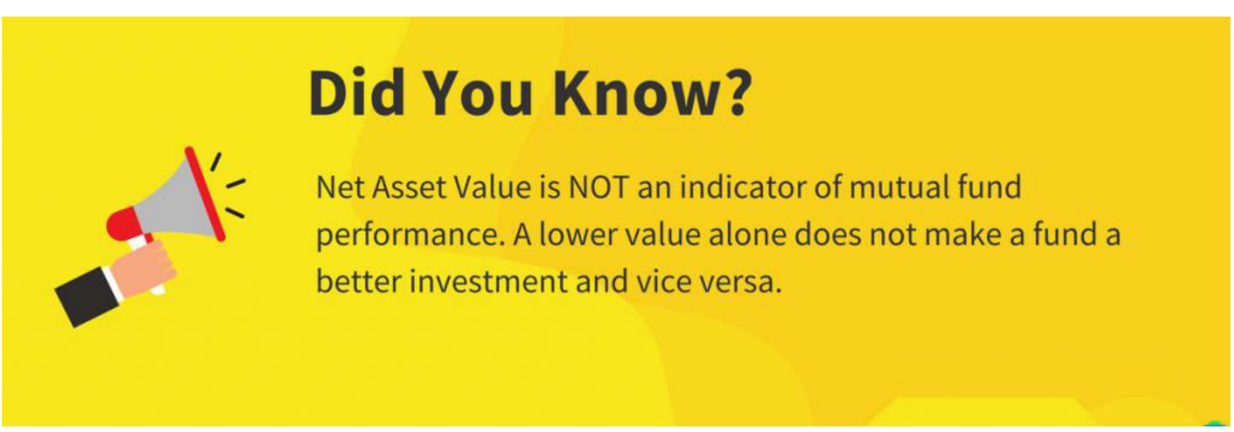
This brings us to the next question.

How important is the net asset value when selecting a mutual fund?

It is not wise to base your investment decisions on the NAV of a mutual fund scheme. NAVs don't reflect the future prospects of the mutual fund scheme. It is just the total value of the mutual fund scheme investments minus liabilities and expenses. Therefore, a higher NAV means the scheme investments have prospered really well or the scheme has been around for a long period. The investors should focus on the scheme's performance and the returns generated while investing in a mutual fund scheme.

Difference between NAV & Market Price

Investors tend to assume that the net asset value and the market price of an equity share are the same, which is not true. They might be selling or buying the mutual fund units at NAV but it shouldn't be confused with the market price of a unit. The share price is decided by investors in the stock market whereas the investors don't decide the NAV of a mutual fund unit. Factors like demand-supply and company's potential also determine the share price. So, the net asset value will always be different from the market price of a share.



(Image Courtesy: Google)

How is NAV calculated?

1. **General Net Asset Value Calculation**: If a mutual fund has a NAV of Rs.

500, then that is how much you will have to pay for one unit of that mutual fund. Conversely, if you want to invest Rs. 5,000 in a mutual fund with a net asset value of Rs. 500, then you will able to buy only 10 units of that fund. The cost of an equity fund is the total cost of all the shares, it has. These price fluctuations are subject to the changes as per the share market and this is why mutual fund portfolio comes with a daily NAV.

2. **Daily NAV Calculation**: All mutual companies estimate their portfolio worth, once the stock market closes at 3:30pm each day. The market opens again the next day with the previous day's closing share prices. The fund house deducts all the outstanding liabilities and expenses accordingly to calculate net asset value (NAV) of the day using the given formula.

Net Asset Value = [Assets – (Liabilities + Expenses)] / Number of outstanding units

Assets of a mutual fund scheme are divided into securities and liquid cash. Securities include the equity, debentures, bonds and commercial papers. Interest accrued and dividends are also part of the assets. The cash balance in the bank account is added and the money payable to others is subtracted to determine the net asset value of the fund. The fund manager also deducts the daily expenses to manage a fund. You get the cost per unit on a daily basis when you divide total asset value by the number of mutual fund units issued so far.

How does investment-timing affect NAV?

A mutual fund company releases its latest NAV on all working days, due to which it is strictly time-bound. This is why mutual funds keep a deadline for daily investments, which is 2 pm for liquid funds or 3 pm for equity or debt funds. You can be allotted the NAV of the same day, the previous day or the next day according to the time you submit your application and funds. If you invest before 2 pm in a liquid fund, you will be allotted units at the NAV of the previous day. This will happen only if you also transfer the money before the deadline. If you miss the deadline and submit your application and money after 2 pm, you will be allotted units at the NAV of the same day. If you submit your application before 2 pm, but fail to transfer the money before the deadline, you will not be eligible for the previous day's NAV. In the case of equity and other debt funds, the same deadline is 3 pm. If you submit the application before 3 pm, you will get the unit on the basis of the same day's NAV. Submitting the application after the deadline will get you the next day's NAV. Unlike liquid funds, it is not necessary to transfer the funds before such timeline.

Role of NAV in fund performance

A lot of investors think the net asset value to be similar to the stock price. This causes them to believe that a fund with a lower net asset value is cheaper and hence, a better investment. In truth, lower NAV is not an indicator of mutual fund performance. A lower value alone does not make a fund a better investment or vice versa. Hence, it should not be the only determining factor to choose a mutual fund.

Example

Let us have a look at two randomly picked mutual funds. On 21st September 2017, the NAV of Frontline Equity was Rs. 215.77 and that of Focused Bluechip Equity was Rs. 38.53. There is a stark difference in the net asset value of both funds, but as the table below shows, the performance of both funds are comparable.

Fund name	NAV (Rs.)	Launch date	AUM (Rs.)	1-year returns (%)	3-year returns (%)	5-year returns (%)
Birla Sun Life Frontline Equity	215.77	30 August 2002	18,948 crore	17.71	13.35	19.33
ICICI Pru Focused Bluechip Equity	38.53	23 May 2008	14,337 crore	18.37	11.94	17.63

(Table Courtesy: Cleartax)

Basically, the NAV should not have bearing on any of your fund selection. It basically shows how the underlying assets have performed. In the above table, the NAV of ICICI Prudential fund is relatively lesser than the Birla Sun Life fund. However, it is not an appropriate indicator of fund performance. You need to look for returns perspective keeping your investment horizon in mind and make an informed decision. In short, a fund's NAV is more useful in understanding how the fund performs on an everyday basis. Always look at the fund's historical performance and current cost among other parameters (which I will be detailing ahead) before investing.

AMFI – Association of Mutual Funds in India

AMFI or Association of Mutual Funds in India came into being in 1995 and its top priority is to protect the interest of investors. Mutual fund is still a comparatively untapped financial sector in India. Initially, there was a lot of ambiguity and myths around them and people were reluctant to invest. Therefore, statutory bodies like SEBI (I shall be discussing that also in the coming section) and AMFI have a huge role in keeping investors informed. It is very important that we know our rights as an investor. It is a government body and has a strong role to play in the mutual fund sector. If you face an unexpected monetary loss or have a concern regarding a mutual fund, AMFI is your first stop. It is a non-profit government organization and primary regulator under the purview of SEBI.

Role of AMFI in Investor Awareness

The AMFI has been instrumental in setting ethical and transparent regulations in the Indian mutual fund arena. In the last two decades, it has contributed immensely to protect the interests of investors as well as fund houses. They make investments more accessible and transparent to attract more people. Hence, every fund house, advisers, trustees and agents (intermediaries) must register with AMFI, which you can find on the government website (http://www.amfiindia.com). It currently has 44 members, which includes 42 SEBI-registered Asset Management Companies. Their advertisements explain the advantages of mutual funds without ignoring the risk factors, which says a lot about their transparency.

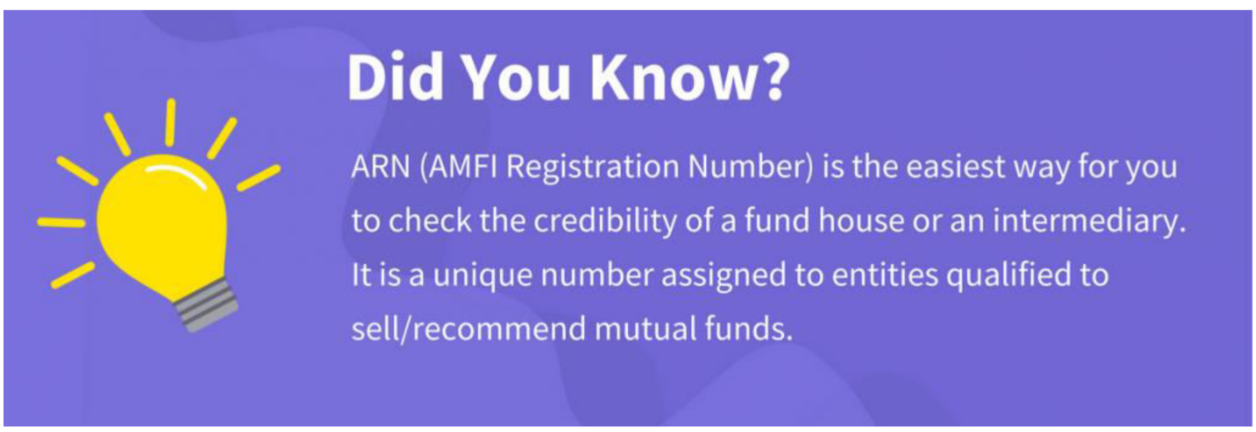
Objectives of AMFI

1. To outline ethical and uniform professional standards in every mutual fund operating under the association.
2. To encourage members and investors to maintain ethical business practices and regulations.
3. To get AMCs, agents, distributors, advisories and other bodies involved in the capital market or financial service fields to comply with their guidelines.
4. To network with SEBI and comply with their mutual fund regulations.
5. To represent the Finance Ministry, RBI, and SEBI on everything related to the industry.
6. To spread awareness across the country on safe mutual fund investments.
7. To distribute information on mutual fund sector and conduct research and workshops on various funds.
8. Keep a check on Code of Conduct of everyone included and take disciplinary action in case of rule violations.
9. Investors can approach AMFI to air their grievances and register complaints against a fund manager or a fund house.

10. Safeguards the interest of investors and asset management companies

AMFI Registration Number or ARN

AMFI Registration Number (ARN) is a unique number assigned to mutual fund agents, distributors and brokers. Only those whom clear NISM (National Institute of Securities Markets) Certification can get an ARN. Also, if you are a senior citizen, passing the NISM CPE (Continuing Professional Education) is mandatory for the same. Without this number, you can't sell a mutual fund or even recommend one. AMFI issues ARN ID card to companies and individuals engaged in mutual fund trading. NISM certificate is valid only for three years. It entails name of the AMC, a photo of the cardholder, ARN number, the address of the corporate and validity (three years). Therefore, it is easier for investors to cross-check. Brokers, agents and intermediaries play a key role in encouraging more investors to invest in mutual funds. To make sure that only qualified people sell funds to prospective investors, AMFI authorizes only people or entities with ARN Number to sell mutual funds.



(Image Courtesy: Google)

All third-party agents must register and pass a qualification test to become AMFI-registered advisers. These people are well-versed about the mutual fund types, market trends and the reasoning behind. We should not entertain any entity without ARN when it comes to mutual fund investing. Always double-check the registration number before investing. However, if you wish to invest directly, always specify the ARN code of AMC and not that of the distributor in the 'direct' box. In a nutshell, AMFI is responsible for making mutual funds a trusted and transparent investment vehicle over the years. Therefore, if you face any dispute or disagreement with an AMC regarding a scheme, you can file a complaint with the AMFI. It is always better to go via a qualified distributor that offers well-researched and hand-picked mutual funds after careful study as then investing with them becomes quite convenient and rewarding and it is never too late to start, if you haven't done that by now.

Asset Management Company (AMC)

Having a financial expert to manage your money is always a good idea; especially if you are not aware of how the markets work. This is when a mutual fund house or an Asset Management Company (AMC) comes into the picture. Asset management companies (AMCs) are firms pooling investments from various individual and institutional investors. The company manages the investment by investing in capital assets such as stocks, real estate, bonds and so on. The asset management companies have professionals called fund managers who decide where the pooled money is invested. Fund managers identify the investment options that are in line with the objectives of the investors. The fund manager first evaluates various metrics such as market and industry risks, before making a decision that is in line with the investment goals. For instance, a debt fund invests mostly in bonds and government securities to keep the risks minimal. But an equity fund mainly focuses on equities (shares) of companies. The ultimate aim here is to make profitable investment decisions that will give investors maximum returns. When you invest with an AMC, you purchase a portfolio they offer. The company is principally responsible for driving the mutual fund and making decisions that benefit the investors. Under the leadership of a fund manager, it invests the money in line with the trust deed and the financial objective of the scheme. The process is broadly followed like below:

1. **Asset Allocation**: Each mutual fund comes with a particular financial goal or a theme, which helps the fund manager to decide on the assets on which the investments can be made. For example, most debt-oriented funds do not invest more than 20% of their assets under management in equities. Another example would be that most balanced funds invest only 60% of their assets in equities.

2. **Research and Analysis**: Building the fund's portfolio rides a lot on researching and analyzing the performance of the asset classes. Experts study the market, micro and macro-economic aspects and fund performances regularly and pass the reports to the fund manager, who then makes decisions to generate good returns.

3. **Portfolio Construction**: An AMC typically has researchers and analysts who report their market findings and trends to the fund manager. Based on these findings and investment objectives, the fund manager then chooses the securities to buy or sell. This is how a company builds a portfolio, which depends predominantly on the experience and expertise of the manager.

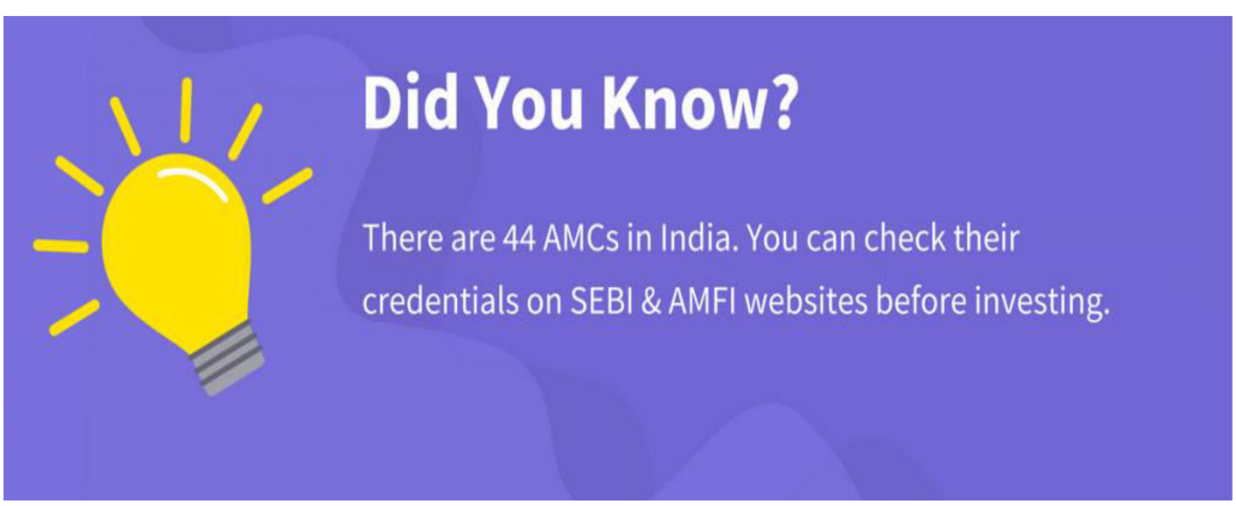
4. **Performance Review:** Despite the disclaimers in the fine print, AMC's face

a lot of hostility from the investors and trustees, when it is not able to justify its investment decisions. For instance, the company must provide unit holders with information that have a direct impact on their holdings. It must also send regular updates on sales and repurchases, NAV, portfolio details and so on to investors.

Selection criterion for us to choose AMC

While AMCs follow the investment objective of every scheme before investing, you still are recommended to check its track record. Market savvy investors can also look at the performance history of various schemes managed by the company during both market ups and downs. Investors can consider the following points while choosing an AMC:

1. **The reputation of the AMC**: A fund house does not earn its status in a day; it takes months or years. For example, a company gets a good reputation after performing consistently well, for say 5 or 10 years. Check the reviews, talk to other investors and check if the past performance has been consistent.
2. **Fund manager's credentials**: An AMC is what a fund manager's capability is. For example, with the fear of losing customers, no fund house will hire a manager with less than impeccable expertise. Nowadays, it is easy to find how a fund manager has managed assets in the past and check his performance over a period of time.
3. **Fee vs. Commission**: It is advisable to choose an asset management company that charges a fixed fee, rather than commission because choosing an AMC that charges a fixed fee will always keep you informed and be prepared with responses.



(Image Courtesy: Google)

The question that pops now is, whether these fund houses are as reliable as banks?

There is a widespread notion that mutual funds are not as safe as bank accounts or schemes offered by banks. People fear that AMCs can shut down at any time. This is because banks are visible to all and regulated by the Reserve Bank of India (RBI). However, people often overlook the fact that mutual funds are also under the purview of RBI and the Finance Ministry and hence, are quite safe. The sponsor or the trustees appoint an AMC for managing the pool of funds. The AMC charges a fee and acts under the supervision of the trustees, who are, in-turn, regulated by SEBI. The primary reason for this is to ensure objectivity and transparency. So, you can go ahead and invest your money in mutual funds to build long-term wealth while saving on taxes.

Role of SEBI & AMFI in AMC Operations

An AMC works under the supervision of the board of trustees. But, they are answerable to India's capital market regulator, the Securities and Exchange Board of India (SEBI). The Association of Mutual Funds in India (AMFI) is another statutory body that addresses investors' grievances. Every fund house must comply with the set of risk management guidelines by SEBI and AMFI. While SEBI is a government body, mutual fund companies have formed the AMFI. Together, they keep the functioning of the industry ethic-driven and transparent. RBI also plays an essential role in regulating AMCs, if a bank is one of the sponsors. Finally, the Ministry of Finance works as the authority for all these regulators.

SEBI and AMFI guidelines investors should know

The following are some of the practices and guidelines for mutual fund companies that SEBI, AMFI and RBI mandate:

1. An AMC shall not act as the trustee of any mutual fund.
2. The company shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents.
3. They shall submit quarterly reports on its activities and the compliance with these regulations to the trustees.
4. Key personnel of an AMC should have a clean record (not convicted of any economic offence).
5. The Chairman of the AMC shall not be a trustee of any mutual fund.
6. The AMC should have a net worth less than Rs. 10 crores.

Sponsor	Forms a trust and appoints the board of trustees
Trustees	Regulate the mutual fund while adhering to SEBI and AMFI
Asset Management Company (AMC)	Takes a call on which fund to sell/buy/hold and engages in the buying and selling of securities
Custodian	Responsible for holding and safeguarding the mutual fund units
Registrar and Transfer Agents (RTA)	They are the record keepers

(Table Courtesy: Cleartax)

Role of the AMC in the Overall mutual fund structure

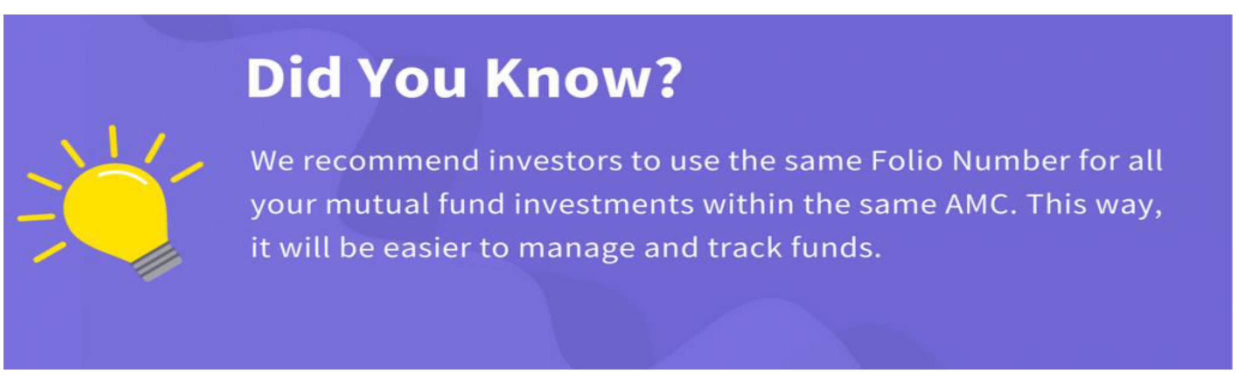
The Government of India and RBI formed the Unit Trust of India (UTI) in 1963 to regulate mutual fund industry. Later, when the government permitted public sector banks and institutions to set up mutual funds, the need for an impartial regulator arose. As a result, they passed the SEBI Act (1992) and made AMCs integral to the mutual fund structure. To understand the functions of an AMC better, we have to know where the AMC stands in the mutual fund structure. All the entities mentioned in the above table work in tandem to create different mutual fund types catering to different investors. Thus, in short, AMC's position or rank in the AMFI is an essential factor for any investor.

Folio Number – Benefits & Relevance

Everybody who has a bank account is familiar with the usual 12 or 14 or 16 digit (long) bank account number. The bank assigns this number to customers, like an identification number unique to the account holder. Similarly, fund houses as well allot such a number to every mutual fund investor and it is called as the Folio Number. Folio numbers are unique and are issued to mutual fund investors. However, if you hold more than one share of a mutual fund, only one folio number will be issued. It represents your shares in a mutual fund scheme. Therefore, folio numbers ensure systematic storing of mutual fund investment records. It is also easy to settle disputes with the folio number records. It can be quickly obtained from your mutual fund statement or from the fund house or broker. At the time of application, the column for the folio is left blank. The fund house or the asset management company generates the number only after your first investment. For example, if you become an investor in Fund B, you are assigned a different folio number from that assigned to you already in Fund A. Therefore, you may buy different funds under different folio numbers. However, it will be easier if you can get the AMC to combine every holding under one number. Mutual fund statements are important as it summarizes your investment trail in that fund; much similar to how a consolidated bank account statement shows every transaction you do on a particular bank account. Hence, the folio number is an integral component of your mutual fund statement. You must make sure that this number is the same every time you invest. Using the same folio number will make it easier for you to manage your investments with the AMC. They must email a statement to you within 2-3 days after investing, and a hard copy in 7-10 days.

Advantages of Folio Number

1. Easiest way to check an investor's record.
2. Can trace funds deposited by the investor in different fund plans.
3. Can dig up transaction history and investor's contact information.
4. Avail investment statements for any periods using the folio number.
5. Can use this number to get a list of your units with the AMC instantly.
6. Alleviates the need to undergo KYC process again with the same fund house.
7. Besides saving investors the hassle of noting hundreds of account numbers in phone or diary, a folio number helps to transact from anywhere anytime.
8. It, therefore, helps the AMC to verify the authenticity of the unit holder.



(Image Courtesy: Google)

How to find your Folio Number

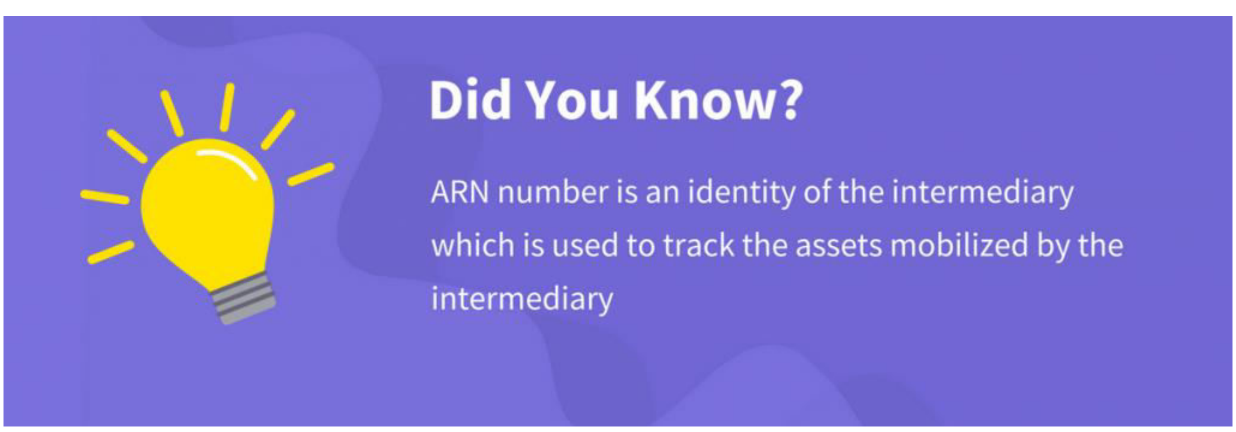
Having your folio number saved will always be of great use. This will allow you to check the performance of your mutual fund investments and take informed decisions accordingly. Earlier, checking the mutual fund statement was the only way to find folio number. Therefore, if the statement gets lost or damaged, investors went through a lot of hassle in getting a new one, but not anymore as there are multiple ways to find or retrieve the folio number.

Consolidated Account Statements (CAS)	**App or Website of the AMC**	**Mutual Fund Statements**
Like bank issues passbook for savings or salary accounts	You can make your fund transactions app-based or online	Fund house gives it to investors at the time of purchasing the fund
They issue it monthly for free. There will be extra charges for other statement requests	Both the app and online portal are commission-free	AMC charges requests for new copies accordingly
Reflects info about the entire scheme including folio	Folio is available on every e-statement	You will receive the folio number as email & SMS

(Table Courtesy: Cleartax)

ARN Code in Mutual Funds

ARN Code as we discussed above is also known as Application Reference Number. Only qualified mutual fund experts and distributor with an Application Reference Number or ARN code can sell mutual funds. Let us understand the significance of ARN as to **why an ARN code is required**. Everyone has heard the line, 'mutual fund investments are subject to market risks' in the television advertisement. However, that doesn't mean one can't reduce the risk by more diligence. So, an intermediary is obliged to inform and educate the investor about the risks involved. This will safeguard the interests of all the parties involved in the transaction. SEBI and AMFI take several measures to ensure the safety of investors. One such step includes the mandatory procurement of ARN code for the distributors. For example, the Association of Mutual Funds in India (AMFI) has mandated all intermediaries involved in selling or marketing of mutual funds to clear a National Institute of Securities Markets (NISM) Certification. After clearing the exam, they must register with AMFI to obtain AMFI Registration Number (ARN).



(Image Courtesy: Google)

It is easy to get an ARN code for an individual. AMFI relies on M/s Computer Age Management Services Pvt. Ltd. (CAMS) for processing the registration and issuing ARN on its behalf. Intermediaries have to apply in a prescribed form. It is available online as well as offline at the offices of AMFI and CAMS. One can also apply online from the CAMS online service. We have to submit the application form along with knowing your dealer (KYD) acknowledgement. After applying for KYD, then the individual should present KYD application form in person. The intermediary must also submit a copy of their NISM certification, Aadhaar Card, PAN Card, bank account proof and two passport size photographs. The fee for individuals and senior citizens is Rs. 3,540/- including GST. The fees and the documentation differ for corporates and other entities.

Benefits of ARN Code

ARN code is crucial for both the intermediary as well as the investor. ARN number is like an ID of the intermediary. It can be used to track the assets mobilized by the intermediary. You can also use it to calculate the brokerage of the intermediary. Legally, an intermediary becomes eligible for distributing mutual funds only after they have received the ARN number. On the other hand, AMFI takes care to assure the investor about the credentials of any registered intermediary. They have to adhere to the ethical code set by the AMFI. Investors can leverage ARN by changing the distributor. If a distributor is changed, then the investor is not charged trail commissions resulting in long-term financial benefits to the investor.

Common Account Number – CAN

The Common Account Number (CAN) is a reference number issued to the mutual fund investors by the MFU platform. The MFU (Mutual Fund Utilities) is a shared platform used by all Indian AMCs. The MFU helps in easing the transaction in multiple schemes via a common transaction form. The MFU has made it easier for all the mutual fund investors to manage and track their investments on the MFU platform. This platform is an essential tool for investors as it helps in facilitating and consolidating investor holdings across separate fund houses into a cohesive statement. This is done through using the CAN (Common Account Number) service, wherein an investor needs to self-register on the MFU platform and then, can use their platform to track the performance of their investments. To obtain a Common Account Number (CAN), an investor must finish the KYC process, which is a one-time activity. The process for KYC Registration for obtaining a CAN is via the following steps:

1. **Step 1**: Investors should download the KYC form from an AMC's website, or a transfer agent's website. They can also visit the 'Downloads' section of the CDSL {Central Depository Services (India) Limited} website (https://www.cdslindia.com/index.html).
2. **Step 2**: Now, print out the KYC application form for the individual application (for a fresh KYC).
3. **Step 3**: Fill the form and provide self-attested copies of the following documents:
   a. Proof of identity
   b. Proof of Address – preferably Aadhaar
   c. PAN Card
   d. Photograph
4. **Step 4**: Self-attest the form and send it to the AMC with which you wish to invest or a Registered Transfer Agent. Please know that there are no fees for KYC registration.

The Need of a Common Account Number (CAN)

The MF Utilities (MFU) portal has made it possible for all those investing in mutual funds to track and manage their investments via a single platform. Once you have been issued a Common Account Number, the MFU will map your existing investment folios across the sea of mutual funds you have invested in and to your CAN. This mapping will be based on your PAN details and will take into account your holding pattern and other parameters. Once you create the CAN, it will work as de-facto storage for all important information such as:

1. Investor Name(s)
2. KYC Status
3. Income Details
4. Mode of Holding
5. Nomination
6. Nationality
7. Tax Status
8. Contact details of the primary holder
9. Multiple Bank Accounts registered at CAN level
10. Depository Account details
11. Power of Attorney, if any

12. Guardian Information for an applicant who is a minor
13. FATCA (Foreign Account Tax Compliance Act), UBO (Ultimate Beneficial Owner) related details etc

Benefits of Migrating to a Single Portal Using CAN

1. The Common Account Number (CAN) will act as a single reference point for all the mutual fund investments and reduce ambiguity.
2. The MFU will act as a Neutral Point of Service (POS) irrespective of the transfer agent servicing the mutual fund.
3. Investors will have access to a Common Transaction Form which can be used to transact in multiple schemes at a time, across mutual fund types.
4. The portal will also provide a single payment facility for investments with the help of a single, consolidated form.
5. Investors will have the option to choose from multiple modes of payments including both physical and electronic mediums.
6. Investors can have a consolidated view of their investments across the industry using their CAN details.
7. Investors will also receive alerts, triggers, reminders, etc. for their transactions, and important deadlines like SIP expiry, etc.
8. For any queries, the MFU will act as centralized complaint management and tracking system to log in complaints across the industry.

The point of concern for the investors is how would the existing folios or investments be migrated or linked to the MFU?

The MF utility website is not wholly involved in the investors' migration of their existing investments to its own platform. However, after investors have created their Common Account Number, the MFU will start mapping their existing folios (across the different types of mutual funds) to their CAN. This migration will take place based on the investor's PAN, their holding pattern and other parameters.

SEBI and its Guidelines for Investing in Mutual Funds

The Securities and Exchange Board (SEBI) is the designated regulatory body for finance and markets in India. In India, the SEBI MF Regulations of 1996 govern the workings of mutual funds. These guidelines treat mutual funds like Public Trusts that fall under the Indian Trust Act of 1982. The primary function of the board is to protect the interests of the investors in securities and promote and regulate the securities market. SEBI has laid the ground rules for investors to become aware of the functioning of the mutual funds by providing necessary information. They serve to simplify the broad spectrum of mutual fund schemes that may often seem quite confusing to the investors. The guidelines on the merger and consolidation of mutual fund schemes issued by SEBI are aimed at simplifying the process of comparing various mutual fund schemes that are on offer by fund houses. Investors looking for investment avenues must be aware of certain rules and regulations that govern the Indian mutual fund sector – the SEBI guidelines for mutual funds. For handling mutual funds and to ensure accountability on the trustees, the guidelines specify a three-tier set up comprising of the fund managers, the investors and the representatives.

Structure of Mutual Funds as per SEBI guidelines

The SEBI guidelines define the Guarantor as one who, in his capacity as an individual or in partnership with a different entity or entities, launches a mutual fund. The role of the guarantor is to make revenue by putting together a mutual fund and handing it to the fund manager. A sponsor sets up the mutual funds as per the guidelines of the Indian Trust Act, 1882, for Public Trust. They are responsible for listing with the SEBI, having provisions for resource management and ensuring the functioning of the fund takes place as per the SEBI guidelines. The Trustee or Trust is established through a trust deed that is implemented by the sponsors of the funds and is accountable to all the investors of the mutual fund. The trustee company is regulated by the Indian Companies Act 1956, while the firm and the board members are overseen by the Indian Trusts Act, 1882. The Investment management of the trust is done through an Asset Management Company which is to be listed as per the regulations of Indian Companies Act of 1956.

Role of SEBI in Mutual Fund regulations

As far as Mutual funds are concerned, SEBI makes the policies for mutual funds and also regulates the industry. It lays guidelines for the mutual funds to safeguard the investors' interest. Mutual funds are very distinct in terms of their investment strategy and asset allocation activities. This requires bringing about uniformity in the functioning of the mutual funds that may be similar in schemes. This will assist the investors in taking investment decisions more clearly. To facilitate this standardization and bringing about uniformity in the similar schemes, the mutual funds have been categorized accordingly as follows.

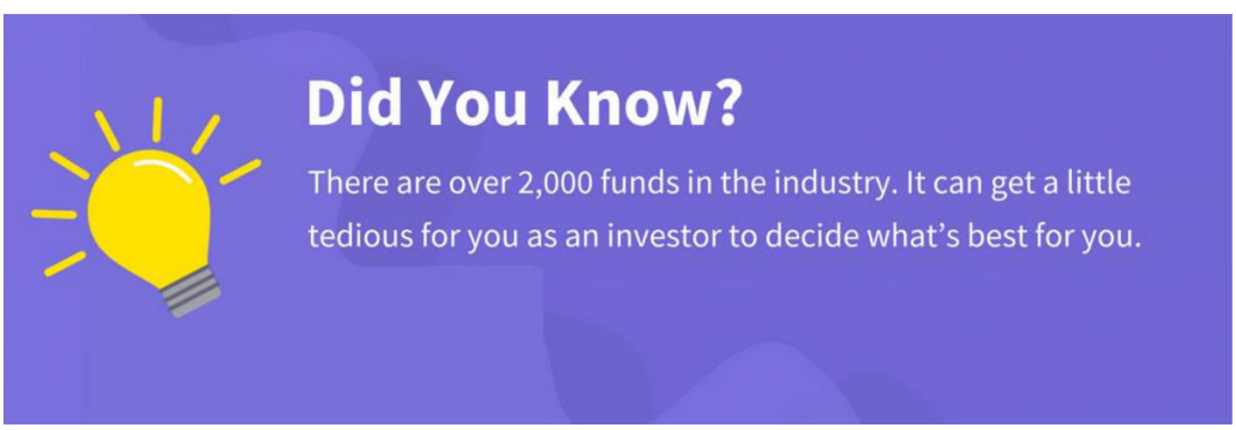
1. Equity Schemes

2. Debt Schemes
3. Hybrid Schemes
4. Solution Oriented Schemes
5. Other Schemes

The categorization and rationalization of mutual funds into these five broad categories ensures that the mutual fund houses are only able to have one scheme in each sub-category with some exceptions. The categorization helps in simplifying the selection of funds and works in the best interest of the investors by allowing them to evaluate their risk options prior to making informed decisions about investing in the right scheme. Following this consolidation of schemes, the investors can take a more informed decision without much hassles or confusion. In order to fulfill this purpose, SEBI has come up with some guidelines to help the retail investors in their mutual funds' investment decisions.

Key Highlights of SEBI guidelines for Mutual Funds

1. Categorization of schemes into five groups – Equity, Debt, Hybrid, Solution Oriented, Others.
2. To ensure uniformity, large, mid and small cap has been defined clearly.
3. A lock-in period specified for solution-oriented schemes.
4. Permission of only one scheme in each category, except for Index Funds / Exchange Traded Funds (ETF), Sectoral / Thematic Funds and Funds of Funds.



(Image Courtesy: Google)

SEBI guidelines to invest in Mutual Funds

SEBI keeps in place the regulatory framework and guidelines that govern and regulate the financial markets in the country. The guidelines for investors are listed below:

1. **Assessment of your personal financial situation**: Mutual funds present the most diversified form of investment options and therefore, may carry a

certain amount of risk factor with it. Investors must be very clear in their assessment of their financial position and the risk-bearing capacity in the event of poor performance of such schemes. Investors must, therefore, consider their risk appetite in accordance with the investment schemes.

2. **Obtain researched information on the mutual funds' investment schemes**: Before venturing into mutual fund investment, it is imperative for you as an investor to obtain detailed information about the mutual fund scheme option. Having the right information when required to make the necessary decision is the key to making good investments. This may help in choosing the right schemes, knowing the guidelines to follow and also be informed of the investors' rights.
3. **Diversify your portfolios**: Diversification of portfolios allows investors to spread out their investments over various schemes, thereby, increasing chances of maximizing profits or mitigating risk of potentially huge losses. Diversification is crucial to gaining long-term and sustainable financial advantage.
4. **Avoid the clutter of portfolios**: Choosing the right portfolio of funds requires managing and monitoring these schemes individually with care. The investor must not clutter the portfolio and decide on the right number of schemes to hold so as to avoid overlap and be able to manage each one of them equally well. If you are not sure of the right schemes for your portfolio, take the help of a learned financial advisor who can help simplify this for you.
5. **Assign a time dimension to the investment schemes**: It is advisable for the investors to assign a time frame to each scheme to encourage the financial growth of the plan. It may help in containing the volatility and fluctuations in the market if the plans are maintained stably over a period of time.

SEBI categorization impacts all investors – How?

The categorization scheme is fashioned to help the investors in the following ways:

1. This may reduce the number of schemes on offer, thereby, making it comparatively easier to choose
2. It may have some schemes get merged with the others
3. It may cause your expense ratio to fall due to the higher AUM (Assets Under Management) per scheme

With the number of funds available and the changes brought about, it can get a little confusing for a new investor to keep up. This is where comes to your aid. Contact us for any queries you may have regarding the SEBI guidelines for investing in mutual funds.

(Series to be Continued)

(We shall continue this Article on Finance in the Part 12 of this Series in Volume 2 Issue 6 – November–December 2019 Issue – Second Part with Mutual Funds)

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Dr. Bhavdeep Singh Ahuja graduated in 1998 from Punjabi University, Patiala. He has specialized in Implants from BioHorizons Inc. USA in 2004-05 & in Advanced Course from LACE-ICOI, USA in 2006. Apart from Dentistry, he holds a **Triple M.B.A.** in Hospital Management, Finance/Human Resources (dual) & Marketing from three premier Institutes/Universities of India viz. the IIMM Pune, IGNOU Delhi & Annamalai University, Chennai respectively. He also holds Post Graduate Diploma's in Medical Law & Ethics (NLSIU - Premier LAW School of India), Clinical Research, Cyber Law, IPR's (Intellectual Property Rights), Disaster Management, Financial Management, Bioinformatics amongst many more from different Universities. He is a Certified Health Care Waste Manager from IGNOU & is qualified in Consumer Law as well. He is an academically oriented dentist & has more than **75** Original Scientific Publications to his credit in many International & National journals. He lectures all over India extensively on the topics of Practice Management, Medical Law, Ethics and Consent and Finance for Dentists and he is writing a series on these topics in multiple journals simultaneously. He has been the Past Editor-in-Chief, L.E.D. E-Journal & PAGE 3 OLA-D E-Newsletter, the twin Publications of IDA Ludhiana Branch. Presently, he is into his **21st Year** of Clinical Private Practice in Ludhiana, Punjab.