

Mutual Funds FAQs

Mutual Fund

- A mutual fund is a special form of trust which pools in money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments.
- Mutual Funds have many advantages compared to other investments including Professional Management, Diversification, Economy of Scale, Liquidity, Simplicity etc. Investors should examine the above features carefully to understand how they can use mutual fund investments effectively.

Mutual Fund Scheme

- Mutual Funds setup different Schemes that investors can choose to invest in, offering a variety of investment patterns.
- Each scheme is defined by its investment objective which in turn decides the scheme's asset allocation and investment strategy.
- You can usually find a scheme that matches your requirement in terms of:
 - Risk appetite
 - Being open to further investments
 - Being open to withdrawal
 - Maturity date / Lock-in period, if any
 - Passive / active investment style
 - Tax benefits, if any
 - Cost structure of fund, etc.

Unit of a Mutual Fund (scheme)

- A Unit of a Mutual fund scheme is the trading and book keeping unit for shares of ownership of that mutual fund scheme.
- Units of the mutual fund scheme are bought and sold for transferring ownership.
- Units of a mutual fund scheme are identical and fungible.

NAV (of a scheme)

- The Net Asset Value (NAV) of a mutual fund scheme applies to the units of that scheme. It is defined as the market value, in Rupees,
 - of one unit of that Mutual Fund Scheme. It is simply the unit's share of the market value of the scheme's holdings of assets.
- NAV is calculated and published as per regulations. Investors can use the NAV to purchase, redeem or track value of units in a Mutual Fund.

Asset Management Company, Trustee

- Every Mutual Fund is a trust. The management of the trust's assets is delegated to an Asset Management Company, and the functioning of the Asset Management Company is overseen by the Mutual Fund's Trustees. In fact the AMC is responsible for designing the mutual fund's schemes, marketing them, managing the funds, distributing returns and managing the investor's relationship with the fund. The AMC charges the fund an Asset Management fee for the services provided.

Registrar and Transfer Agent

- Each Mutual Fund appoints a Registrar and Transfer Agent to provide record-keeping and unit transfer services. The record of unit entitlement in the RTA's books is deemed to be the final record of ownership, and is held in electronic form with the RTA. In the case of mutual fund units, there are no other physical notes or certificates representing ownership of those units.
- The modern day RTA has gone well beyond the statutory requirements of the role into providing value added services to the investors, distributors and the AMC.

Holding/Safekeeping of Mutual Fund Units

- Mutual Fund units are held under a Folio in the RTA's books, which is similar to an account with a bank (a Folio is usually created at the time the investor makes the first investment with a Mutual Fund). Investors are not required to hold any physical certificates as title to the units. Folios are identified by Folio numbers which are unique to that Mutual Fund.
- Investors can hold units of several schemes of a mutual fund under the same folio, and these units are accounted separately. However, all units belonging to the same scheme are identical and fungible. This means that within units of a scheme, "how many units" is significant but "which units" does not matter.
- Since 2011, investors have also been given the option of holding Mutual Fund units in Demat accounts for select schemes which are listed on the stock exchange.

Buying and Selling Mutual Fund Units

- All buying and selling of Mutual Fund units is done with the Mutual Fund itself. There is no secondary market for mutual fund units.
- The Mutual Fund acts as the counter party in all purchases (buying by investor) and redemptions (selling by investor) of units.
- A folio is usually created at the time of first purchase of units in a mutual fund. An exception to the above rule relates to the listing of units
- of some Exchange Traded Schemes (ETS/ETF) of Mutual Funds on stock markets. Such units are held in demat accounts by the beneficiary

- investors, and can be traded openly with other investors. The investor also has the option of trading with the Mutual Fund itself.
- The Mutual fund acts as a market-maker, willing to enter into both buy and sell transactions at prices close to NAV.

LOADS

- Loads are charges paid by the Investor to the Mutual Fund at the time of Investing or Redemption.
In general, loads can be:
 - Entry load –paid when an investment is made in a scheme. Entry Load is no more applicable to investments in Mutual Funds.
 - Exit load –paid when a redemption/switch is carried out from a scheme. A percentage of the redemption proceeds is deducted as
 - Exit load and the remaining amount is credited to the investor. Exit load structure is declared in advance in the Scheme Information
 - Document. Financial Advisors are expected to keep clients informed about loads pertaining to schemes at the time of transacting.