

Mutual Fund Analyst

21 April 2022

Agenda

- Marketing, distribution, sales & investor services related to mutual funds
- Design of mutual fund products
- Who can invest in mutual funds in India?
- Investor services – application, redemption, investment plans & services, query resolution, collaterals, outreach & client connect
- Fund distribution channels
- Sales practices
- Scheme information document (SID)
- Statement of additional information (SAI)
- Key information memorandum (KIM)

Marketing

What is a financial product?

There is no product.

There is no look and feel of the product. Only an expectation of getting back a higher amount of money in future.

It may be called interest (deposits, bonds), it may be called market upside (equity), it may be called insurance coverage, it may be called dividend (equity) or rent (real estate).

It is the expectations packaged by the financial product manufacturer, either as a contract or as an expectation.



How is Mutual Fund marketed?

Awareness channels:

Media advertisements at industry level (AMFI, Mutual Fund Sahi Hai)

Media advertisements at individual Mutual Fund level

Print media, electronic visual media, other visual media

Digital - website, apps

Investor / prospect outreach

IAP, other investor touchpoint

Onboarding:

Mutual Fund Distributors (MFDs)

- Last mile connectivity
- Human touch
- Persuasion
- Execution
- On-going engagement

SEBI registered investment advisors (RIAs)

- Advise
- Awareness

How is Mutual Fund marketed?

Direct:

Apps

Websites

Robo-advisory websites

RIA advised

MF websites

MF direct outreach to corporate clients

SEBI Advertisement Code for Mutual Funds

- Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.
- No celebrities shall form part of the advertisement.
- Advertisements shall be accompanied by a standard warning in legible fonts which states '**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**' No addition or deletion of words shall be made to the standard warning.
- Advertisement issued by mutual funds shall be in terms of 6th Schedule of SEBI (Mutual Fund) Regulations, 1996.

Advertisement Guidelines for Mutual Funds

- **When the mutual fund scheme has been in existence for more than 3 years:**
 - ✓ Performance advertisement of mutual fund schemes shall be provided in terms of CAGR for the past 1 year, 3 years, 5 years and since inception.
 - ✓ Point-to-point returns on a standard investment of Rs. 10,000 shall also be shown in addition to CAGR for the scheme to provide ease of understanding to retail investors.
- If the same fund manager has not managed the scheme for the full period for which the information is being published in the advertisement, the same should be disclosed in the footnote.

Advertisement Guidelines ...

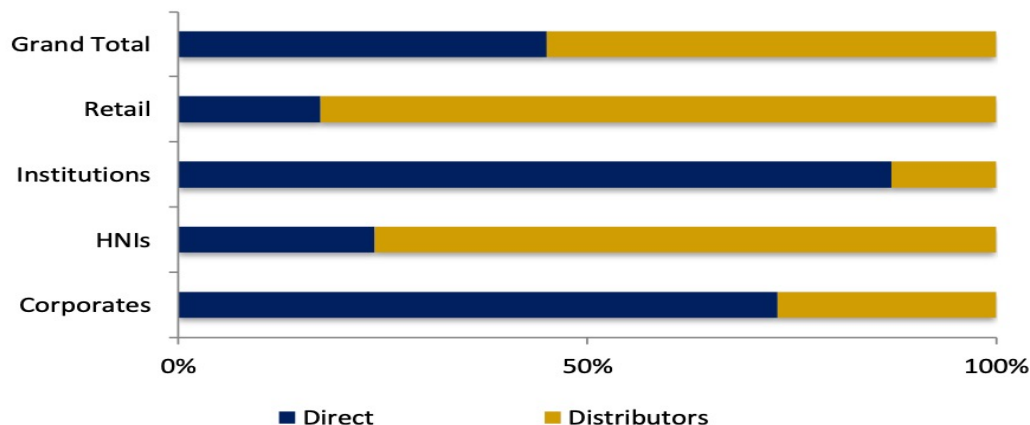
- **Where the scheme has been in existence for less than 6 months:**
past performance shall not be provided,
- **If the scheme has been in existence for more than 6 months but less than 1 year:** then simple annualized growth rate of the scheme for the past 6 months from the last day of month-end preceding the date of advertisement shall be provided.
- **In the case of money market schemes or cash and liquid schemes,** the performance can be advertised by simple annualization of yields for at least 7 days, 15 days and 30 days.
- **For the sake of standardization, a similar return in INR and by way of CAGR must be shown**

Celebrity endorsements of MFs at industry level

- SEBI has permitted celebrity endorsements at the **industry level** for the purpose of increasing awareness of Mutual Funds as a financial product category.
- **The celebrity endorsements shall not promote a scheme of a particular Mutual Fund or be used as a branding exercise of a Mutual Fund house/AMC.**
- Expenses towards such celebrity endorsements shall be limited to the amounts that are aggregated by Mutual Funds at industry level for the purpose of conducting investor education and awareness initiatives.
- **Prior approval of SEBI shall be required for such endorsement.**

Distributor Vs Direct

Investor Type



About 17% of the retail investors chose to invest directly, while 24% of HNI assets were invested directly.

45% of the assets of the mutual fund industry came directly. A large proportion of direct investments were in non equity-oriented schemes where institutional investors dominate.

*Equity-oriented schemes include equity and balance funds.
Institutions include domestic and foreign institutions and banks.
HNIs are investors who invest with a ticket size of Rs. 2 lakhs or above.*

How is Mutual Fund marketed?

Marketing tools:

Robust regulations

Track record

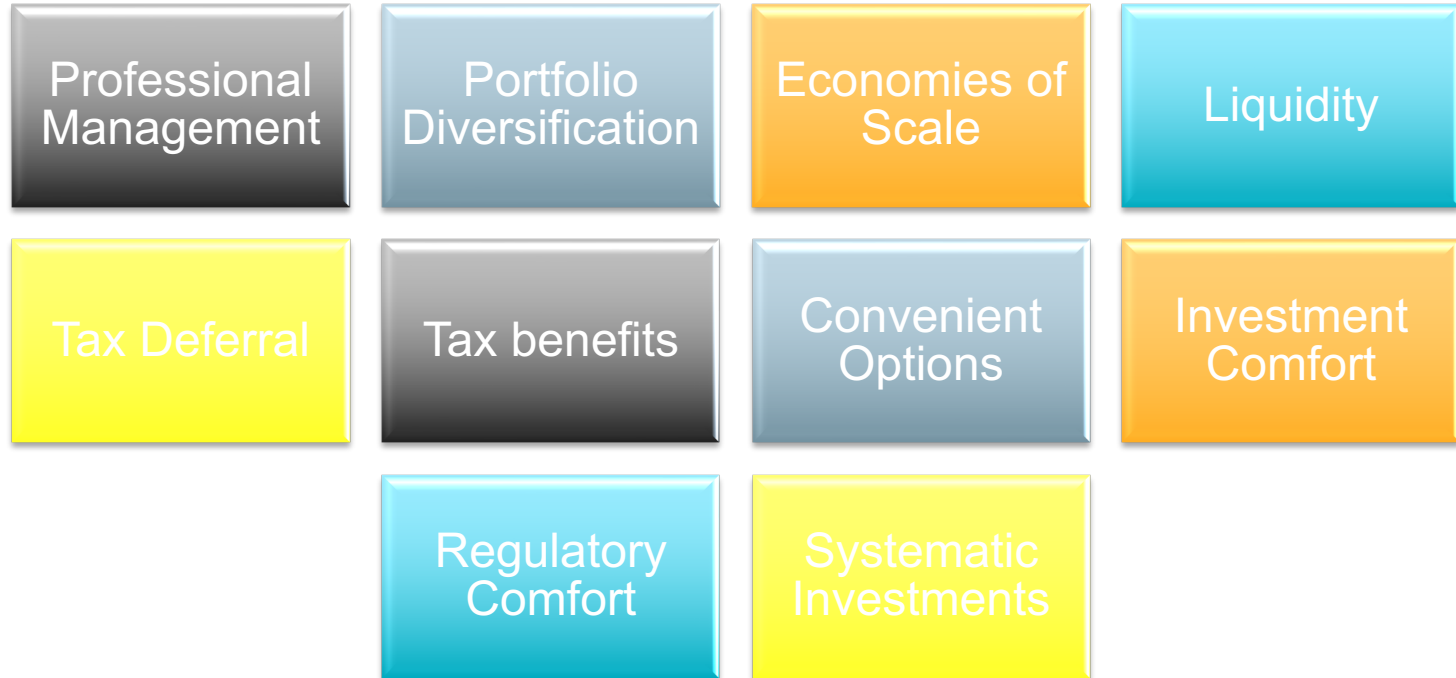
Word of Mouth (WoM)

Financial planning

Convenience, transparency, accessibility

Multiple fund options

Advantages of Mutual Funds for Investors



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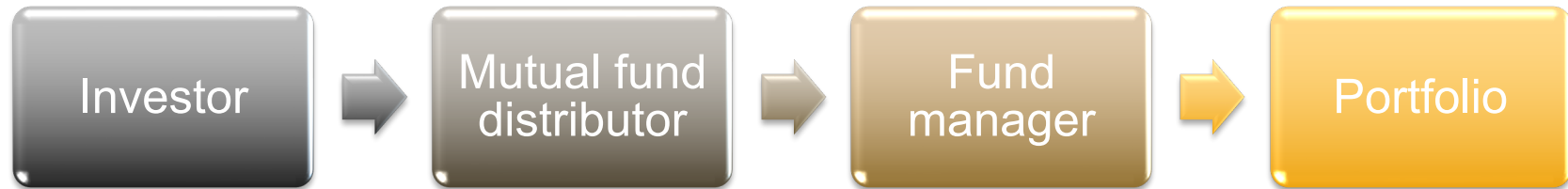
- 1. Mutual fund distributors (MFDs) can advertise their services in media. State whether this statement is True or False.**
 - a) True
 - b) False

- 2. Which of the following statements is 'True' with respect to celebrity endorsement for mutual funds?**
 - a) SEBI has permitted celebrity endorsement at the industry level for the purpose of increasing the awareness of mutual funds
 - b) SEBI has permitted celebrity endorsements for the promotion of individual mutual fund schemes
 - c) Celebrities can endorse only NFOs
 - d) Celebrities can endorse only ongoing mutual fund schemes

Distribution

The role and importance of mutual fund distributors

An investor needs to invest the money in a portfolio of various investment options to achieve financial goals. This process of building a portfolio could be achieved with the help of the selection of a basket of mutual fund schemes. However, one may still need help in constructing a portfolio with the help of an expert. This expert could be a mutual fund distributor.



Different kinds of mutual fund distributors

- **Individual players**
- **Non-individual entities**
 - Banks
 - NBFCs and stock brokers
 - National distributors
 - Regional distributors

Modes of distribution

- Traditional physical paper-based transactions,
- New age, digital mode (online) of transactions,
- Hybrid mode.

The different models of online distribution

- Online Channel Partners
- Stock Exchange Platforms
- MF Utilities
- Computer-based and Mobile-based Apps offered by distributors
- Electronic platforms created by the AMCs
- New age investment platforms

Due Diligence Process by AMCs for Distributors of Mutual Funds

- Further, SEBI has mandated AMCs to put in place a due diligence process to regulate distributors who qualify as per previous slide.
- At the time of empanelling distributors and during the review process, AMCs have to undertake a due diligence process to satisfy 'fit and proper' criteria.

Difference between distributors and Investment Advisors

- A distributor cannot call themselves an investment advisor.
- **Do mutual fund distributors advise their clients:**
 - SEBI Investor Adviser Regulations, 2013 exempt distributors of mutual funds from registration as investment advisers, so long as the distributor is providing any investment advice to one's clients incidental to the primary activity of distribution of funds.
 - The mutual fund distributor is to see whether the product is suitable for the client or not.
 - The distributor must perform an analysis of suitability.

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1. Mutual Fund Distributors Certification Examination offered by _____ is required for becoming a mutual fund distributor.

- a) Securities and Exchange Board of India
- b) National Institute of Securities Markets
- c) Association of Mutual Funds in India
- d) National Skills Development Corporation

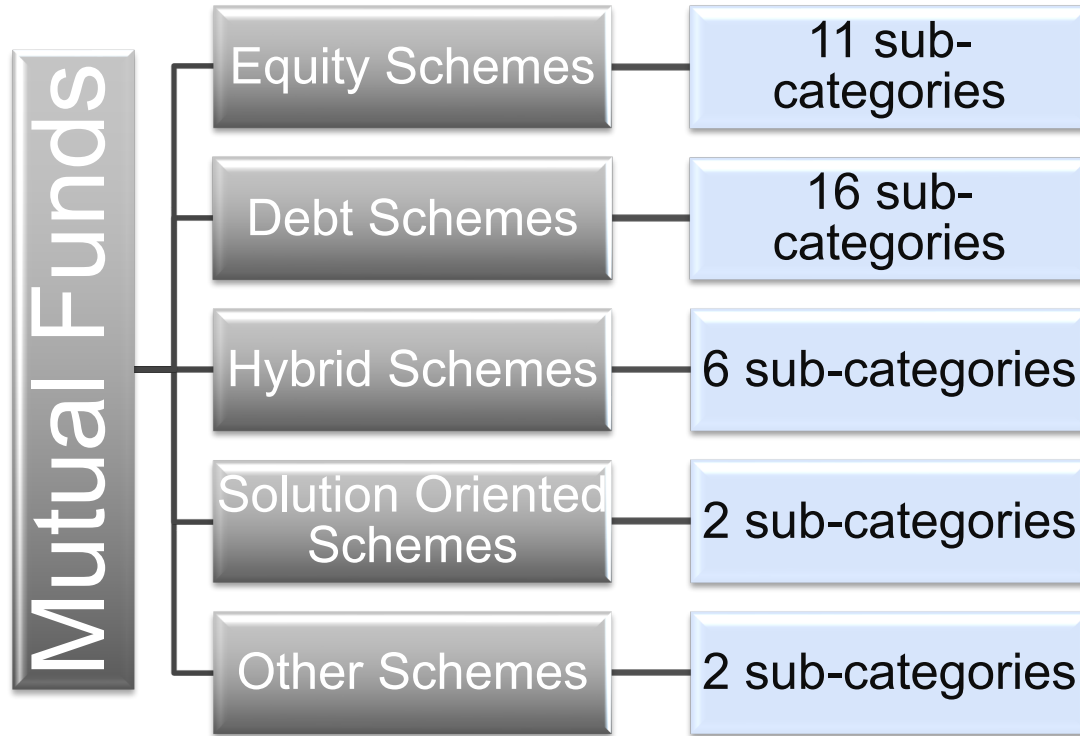
2. Mutual fund distributors can only earn upfront commission from the mutual funds. State whether True or False?

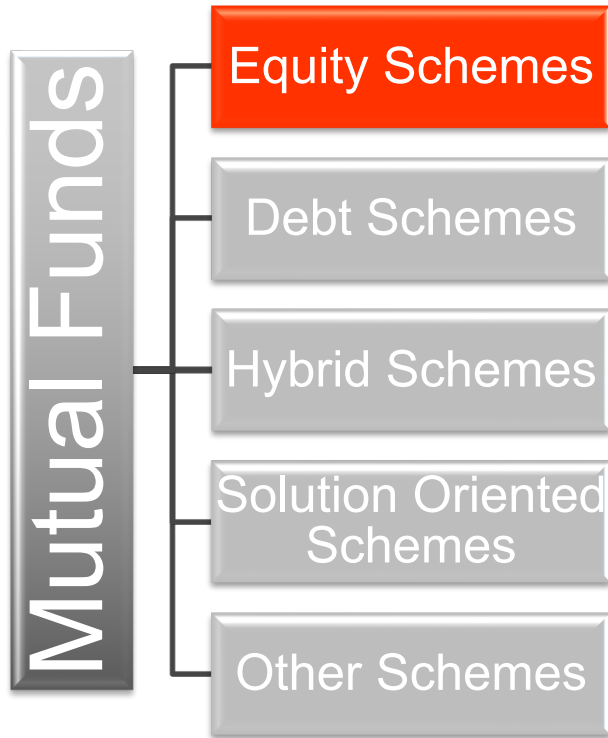
- a) True
- b) False

Design of Mutual Fund products

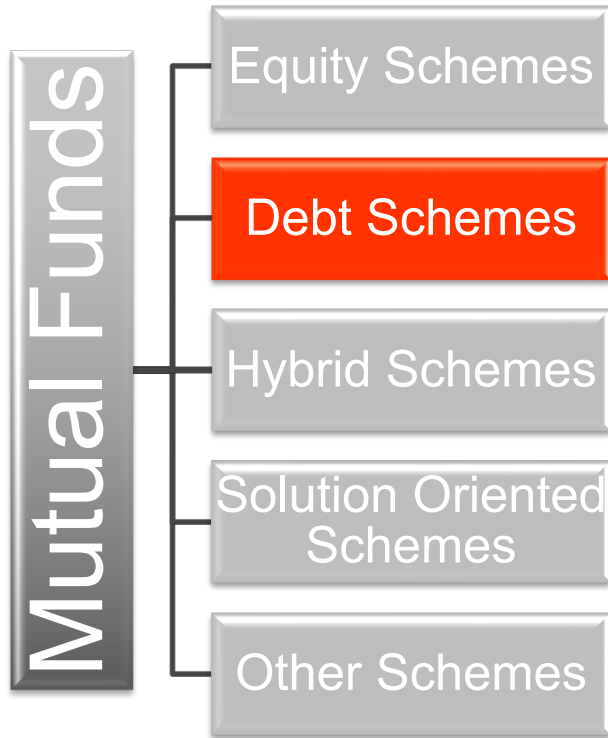
Investment Objectives of Mutual Funds

Investment Objectives	Type of mutual fund scheme
Very short term parking for up to 7 days	Overnight fund
Short Term Parking 7 days to 3 months	Liquid fund
Fixed Income Securities	Debt funds / FMP
Long term Wealth Creation	Equity funds
Wealth Creation with moderate volatility	Hybrid funds

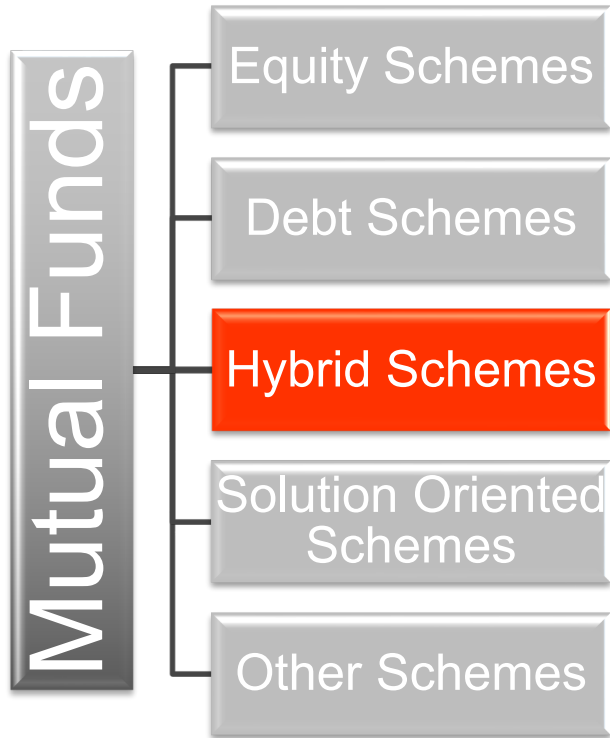




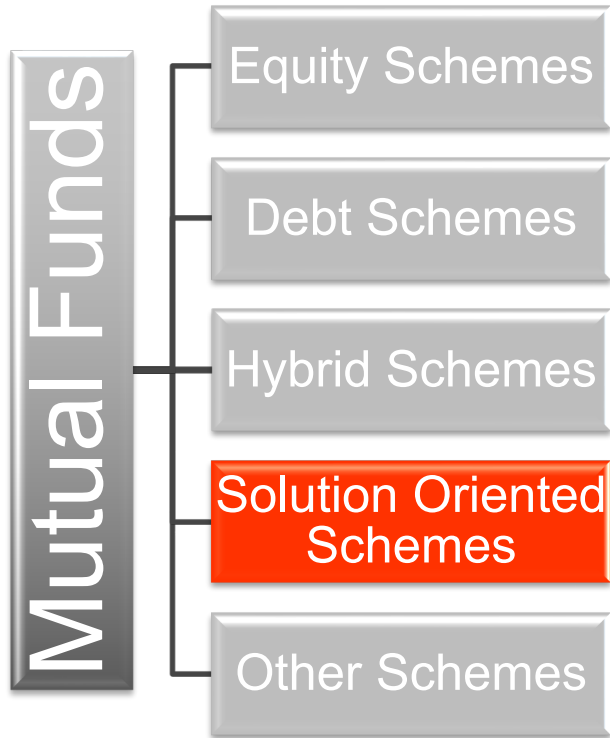
1. Multi cap fund
2. Large cap fund
3. Large & Mid Cap fund
4. Mid cap fund
5. Small cap fund
6. Dividend yield fund
7. Value fund or Contra fund
8. Focused fund
9. Sectoral / thematic
10. ELSS
11. Flexi cap Fund



1. Overnight fund
2. Liquid fund
3. Ultra short duration fund
4. Low duration fund
5. Money market fund
6. Long duration fund
7. Dynamic fund
8. Corporate bond fund
9. Credit risk fund
10. Banking and PSU fund
11. Gilt fund ... (etc.)



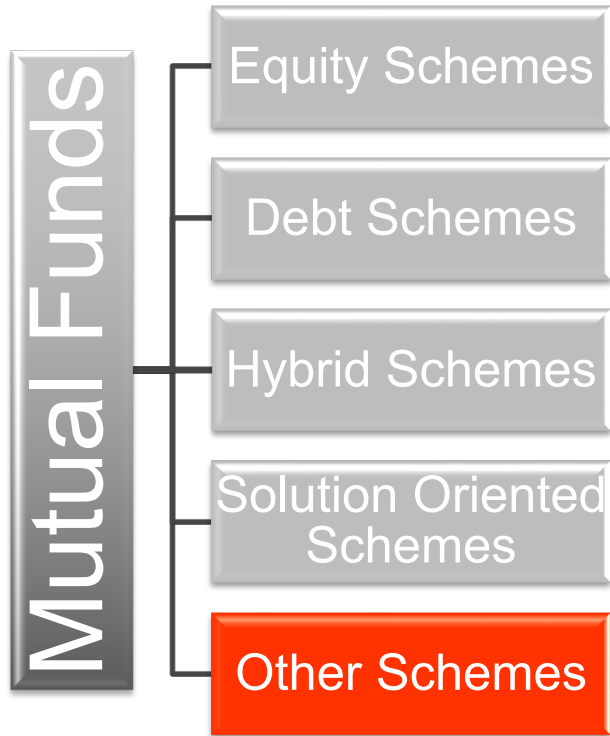
1. Conservative Hybrid Fund (10%-20% Equity)
2. Balanced Hybrid (40% to 60% Equity) or Aggressive Hybrid Fund (65% to 80% Equity)
3. Dynamic Asset Allocation or Balanced Advantage
4. Multi Asset Allocation
5. Arbitrage Fund
6. Equity Savings



1. Retirement Fund

2. Children's Fund

- RF - having a lock-in of 5 years or till retirement age (whichever is earlier).
- CF - having a lock-in for at least 5 years or till the child attains the age of majority (whichever is earlier).



1. Index Funds / Exchange Traded Fund

2. Fund of Funds (Overseas/Domestic)

- This minimum investment in securities of a particular index (which is being replicated/tracked) or underlying fund shall be 95% of total assets.

There can be only one scheme per category, except in the following cases:

1. Index funds and ETFs replicating or tracking different indices,
2. Fund of Funds having different underlying schemes, and
3. Sector funds or thematic funds investing in different sectors or themes

Design of Mutual Fund products

- The contours of the funds have been laid out by SEBI.
- Being a pool, customization is not possible. It is possible to tweak a fund strategy and positioning within SEBI norms.
- AMCs make various funds available. MFD / investor can pick and choose from the basket as per suitability.
- The basket is comprehensive, there is a fund at or near every requirement, subject to mass suitability.

Documents from MFs

Mandatory Documents

- “Mutual fund investments are subject to market risk. Please read all scheme related documents before investing.”
- So, what are the scheme related documents?
- There are primarily two important documents for understanding about the mutual fund scheme:
 - a) **Scheme Information Document (SID)**
 - which has details of the particular scheme
 - b) **Statement of Additional Information (SAI)**
 - which has statutory information about the mutual fund or AMC, that is offering the scheme.

Scheme Related Documents

- It stands to reason that a single SAI is relevant for all the schemes offered by a mutual fund.
- In practice, SID and SAI are two separate documents, though the legal technicality is that SAI is part of the SID.
- Both documents are prepared in the format prescribed by SEBI and submitted to SEBI.
- While SEBI does not approve or disapprove the Scheme Related Documents, it gives its observations,
- Draft SID and SAI are public documents, available for viewing on SEBI's website.
- The final documents have to be hosted on AMFI's website 2 days before the issue opens.
- Investors need to note that their investments are governed by the principle of caveat emptor i.e. let the buyer beware.

Objective of the scheme related documents

- The units of the scheme are offered to the investor through the scheme related documents.
- By signing the application form and making a payment, the investor is accepting the offer, and
- By issuing units against such an acceptance, the mutual fund then completes the contract.
- Thus, the scheme related documents contain information that forms the basis of the **contractual relationship** between the investor and the fund.

Contents of Scheme Information Document (SID)

- Eligible investors
- Scheme suitability
- Transactions: purchase and repurchase prices
- Load Structures
- Investment limits: max. and minimum amount an investor can invest
- Plans and options available under the scheme
- Liquidity and Redemption in a scheme
- Fees, expenses, transaction charges
- Calculation of the scheme's Net Asset Value (NAV) per unit
- Fundamental Attributes etc.

Content of Statement of Additional Information (SAI)

- Constituents of the mutual fund
- How to Apply
- Rights of Unit-holders
- Investment Valuation Norms
- Tax, Legal & General Information
- Investor Grievance

Key Information Memorandum (KIM)

- While an investor is expected to read all the scheme related documents, circulation of the same along with the application forms is too difficult and costly.
- KIM is essentially a summary of the SID and SAI.
- It contains the key points of these documents that are essential for the investor to know to make a decision on the suitability of the investment for their needs.
- As per SEBI regulations, every application form is to be accompanied by the KIM.
- It is more easily and widely distributed in the market.

Content of KIM

- Name of the AMC, mutual fund, Trustee, Fund Manager and scheme
- Dates of Issue Opening, Issue Closing and Re-opening for Sale and Repurchase
- Investment Objective
- Asset allocation pattern of the scheme
- The risk profile of the scheme
- Plans and Options
- Benchmark Index
- Dividend Policy
- Performance of scheme and benchmark over last 1 year, 3 years, 5 years and since inception.
- Expenses of the scheme
- Information regarding registration of investor grievances

Addendum

- While the SID, SAI and KIM need to be updated periodically, the interim changes are updated through the issuance of such addendum. The addendum is considered to be a part of the scheme related documents, and must accompany the KIM.

Updation of Scheme Documents - Regulatory provisions

- **Updation of SID**

- For the open ended and interval schemes, the SID shall be updated within next 6 months from the end of the 1st half or 2nd half of the financial year in which schemes were launched.
- Subsequently, SID shall be updated within 1 month from the end of the half-year, based on the relevant data and information as at the end of September and March respectively.

Updation ...

- **Updation of SAI**

- Regular update has to be done by the end of 3 months of every financial year. Material changes have to be updated on an ongoing basis and uploaded on the websites of the mutual fund and AMFI.

- **Updation of KIM**

- KIM shall be updated at least once in **half-year**, within one month from the end of the respective half-year, based on the relevant data and information as at the end of September and March and shall be filed with SEBI forthwith through electronic mode only.

Other Mandatory information / disclosure

- Disclosure of Daily NAV
- Disclosure of Total Expense Ratio
- Scheme-wise dashboard on mutual fund website
- Risk-o-meter
- Portfolio disclosure
- Financial results
- Annual reports and related disclosures
- Disclosure pertaining to change in control of the AMC

Other Disclosures

- **Fund Factsheet**
 - One of the most popular documents from the mutual fund is the monthly Fund Factsheet.
 - This document is extensively used by investors, fund distributors, fund rating agencies, research analysts, media and others to access information about the various schemes of the mutual fund.

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1. How often should the Key Information Memorandum (KIM) be updated?

- a) At least once a month
- b) At least once every six months
- c) At least once a year
- d) It need not be updated after it is issued once

2. As per the SEBI guidelines, how often should the mutual fund scheme's portfolio be published?

- a) Monthly
- b) Half-yearly
- c) Annually
- d) Never

MF investors and process

Mutual Fund Investors

- Eligibility to Invest
- **Individual Investors**
 - Resident Indian adult individuals, above the age of 18
 - Minors can invest through Parents/ Lawful guardians
 - Hindu Undivided Families (HUFs)
 - Non-Resident Indians (NRIs) / Persons of Indian origin (PIO)
 - Foreign investors can invest in equity schemes of MFs registered with SEBI after completing KYC process.

Mutual Fund Investors ...

- **Non-individual Investors**

- Companies / corporate bodies, registered in India
- Registered Societies and Co-operative Societies
- Religious and Charitable Trusts
- Trustees of private trusts
- Partner(s) of Partnership Firms etc.
- Banks and Financial Institutions and Investment Institutions
- Foreign Portfolio Investors registered with SEBI
- International Multilateral Agencies approved by the Government of India
- Foreign portfolio investors who meet KYC requirements to invest in equity and debt schemes of Mutual Funds can invest through two routes, Direct Route & Indirect route.

Mutual Fund Investors ...

- **Sources of Information on Eligibility to invest**
 - It is a good practice to check the 'Who can Invest?' section of the Scheme Information Document (SID), especially for a first time investor.

Financial Transactions with Mutual Funds

- Initial Purchase of Mutual Fund Units
- Additional Purchases
- Repurchase of Units
- Switch

Payment Mechanism for mutual fund purchases

- Online Transactions
- Internet Banking
- M-Banking
- Stock exchange platform and MFU platform
- Unified Payment Interface
- Application Supported by Blocked Amount (ASBA)
- Aadhaar Enabled Payment Service
- National Unified USSD Platform
- Cards
- E-Wallets
- One-Time Mandate (OTM)
- Cheque/Demand Draft

Other payment mechanism for mutual fund purchases

- **Cash Payments**
 - Small investors, who may not be tax payers and may not have PAN/bank accounts, such as farmers, small traders/businessmen/workers are allowed cash transactions for purchase of units in mutual funds to the extent of Rs. 50,000/- per investor, per mutual fund, per financial year.
 - Although investment can be made in cash, repayment in form of redemptions, dividend payments etc. can be only through the banking channel. The pay-out bank details have to be provided in the application form.

Third Party Payments

- If the payment is made through a joint bank account, then the person mentioned as the first holder of the folio should be one of the joint holders for the payment to be considered non-third-party payment.
- **There are some exceptions where third party payments will be accepted:**
 - Payment by Parents/Grand-Parents/Related Persons on behalf of a minor in consideration of natural love and affection or as gift for a value not exceeding Rs 50,000/- for each regular purchase or per SIP instalment.
 - Employer making payments on behalf of the employee through payroll deductions
 - Payments by the AMC to its empaneled distributors on account of commissions etc.

Payment Mechanism for Repurchase of Units

- Cheque
- Electronic Modes
- Instant Access Facility

Cut-off Time

Type of Scheme	Transaction	Cut off time	Applicable NAV
Equity oriented funds and debt funds (except liquid funds)	Purchases and Switch-ins	3:00 pm	Irrespective of the time of receipt of application, NAV of the business day on which the funds are available for utilisation without availing of any credit facility before the cut-off time of that day is applicable.
Liquid fund	Purchases and Switch-ins	1:30 pm	If application received up to the cut off on a day and funds are available for utilisation before the cut-off time, without availing any credit facility, whether intra-day or otherwise then closing NAV of the day immediately preceding the day of the receipt of application is applicable.
			If application received after cut off time on a day and funds are available for utilisation on the same day whether intraday or otherwise, the closing NAV of the day immediately preceding the next business day is applicable. [Mutual funds shall calculate NAV for each calendar day for their liquid fund schemes and plans.]
			Irrespective of the time of receipt of applications , where the funds are not available for utilisation 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 on which the funds are available for utilisation.

Cut-off ...

Type of Scheme	Transaction	Cut off time	Applicable NAV
Equity oriented funds and debt funds (except liquid funds)	Redemptions and Switch-Outs	3:00 pm	Same day NAV if received before cut off time.
			Next business day NAV for applications received after cut off time.
Liquid fund	Redemptions and Switch-Outs	3:00 pm	NAV of day immediately preceding the next business day, if received before cut off time. If redemption request is received through Instant Access Facility (IAF) up to the cut off time, then the lower of: (a) NAV of previous calendar day and (b) NAV of calendar day on which application is received.
			Next business day NAV for applications received after cut off time. If redemption request is received through Instant Access Facility (IAF) after the cut off time, then the lower of: (a) NAV of calendar day on which such application is received and (b) NAV of next calendar day

The above cut-off timing is not applicable for NFOs and International Schemes.

Time Stamping

- As a convenience, the distributor may accept the transaction request from the investor, but this would need to be sent to an Official Points of Acceptance (OPoAs) at the earliest.
- When the cut-off timing is applied, the time when it is submitted to the OPoA is relevant – not the time when the investor submits the transaction request to the distributor.
- These points of acceptance have time stamping machines with tamper-proof seal.
- Opening of the machine has to be properly documented and reported to the Trustees,
- The daily time stamping of application does not start with serial One (1).

Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

- To comply with the requirements of **Foreign Account Tax Compliance Act** and **Common Reporting Standards** provisions, financial institutions, including mutual funds, are required to undertake due diligence process to identify foreign reportable accounts.
- The application form requires information to be provided if the citizenship/nationality/place of birth/tax residency are places other than India for all categories of investors. The countries of tax residency and respective tax payer reference ID has to be provided.
- If there is a change in the status of the investor after the information is first provided, then the same has to be reported to the mutual fund within **30 days**.

Systematic Transactions

- Systematic Investment Plan (SIP)
- Systematic Withdrawal Plan (SWP)
- Systematic Transfer Plan (STP)
- Switch
- Transfer of IDCW plan

Non-Financial Transactions in Mutual Funds

- Nomination
- Pledge/Lien of Units
- Demat Account
- Change in Folio Details
- Transmission of Units

Investor transactions – turnaround times

Service provided by Mutual Funds	Turnaround Time
NAV Calculation and disclosure	On a daily basis
Mutual Fund Schemes (other than NFO of ELSS) to remain open for subscription	Maximum of 15 days
Mutual Fund Schemes to allot units or refund money	Within 5 business days of closure of NFOs
Re-opening for ongoing sale/re-purchase of open ended scheme (other than ELSS)	Within 5 business days of allotment
Dispatch of Dividend warrants to investors	Within 15 days of declaration of the Dividend
Dispatch of Redemption/re-purchase cheques to investors	Within 10 working days from the date of receipt of transaction request.
Unit certificate	To be issued within 5 working days of the receipt of request for the certificate.

Account statements for investments

- **Monthly Statement of Account**

- Mutual funds issue the Statement of Account (SOA) every month if there is a transaction during the month.

- **Annual Account Statement**

- The Mutual Funds provide the Account Statement to the Unit-holders who have not transacted during the last six months prior to the date of generation of account statements.

- **Consolidated Account Statement (CAS)**

- A CAS for each calendar month is sent by post/email on or before 10th of the succeeding month provided there has been a financial transaction in the folio in the previous month.
- If an email id is registered with the AMC, only a CAS via email is sent.
- Where there are no transactions in a folio during any 6 month period, a CAS detailing holding across all schemes of all mutual funds at the end of every such 6 month period.

Thank You