MUTUAL FUND

INTRODUCTION

Mutual Fund means a fund established in the form of trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments etc. The small investors prefer some kind of collective investment vehicle like, MFs, which pool their marginal resources, invest in securities and distribute the returns there from among them on cooperative principles. The investors benefits in terms of reduced risk and higher returns arising from professional expertise of fund managers employed by the MFs. This approach was conceived in the USA in the 1930s. In developed financial markets, MFs have almost overtaken bank deposits and total assets of insurance funds. Experiment with MFs in India began in 1964 with the establishment of Unit Trust of India (UTI). UTI lost its monopoly status in 1987 with the entry of other public sector MFs promoted by public sectors banks and insurance companies. The industry was opened to private sector, including foreign institutions, in 1993 giving Indian investors a broader choice and increasing competition to public sector funds.

Advantages of Mutual Funds

The advantages of investing in a MF are:

a) **Professional Fund Management:** Investors avail the services of experienced and skilled professionals who are backed by a dedicated investment research team which analysis the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.

b) **Diversification:** MFs invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. Investors achieve this diversification through a MF with far less money that one can do on his own.

c) **Convenient Administration:** Investing in a MF reduces paper work and helps investors to avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies. MFs save investors time and make investing easy and convenient.

d) **Return Potential:** Over a medium to long term, MFs have the potential to provide a higher return as they invest in a diversified basket of selected securities.

e) **Low Costs:** MFs are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.

f) **Liquidity:** In open ended schemes, investors can get their money back promptly at net asset value related prices from the MF itself. With close ended schemes, investors can sell their units on a stock exchange at the prevailing market price or avail of the facility of direct repurchase at Net Asset Value (NAV) related prices which some close ended and interval schemes offer periodically or offer it for redemption to the fund on the date of maturity.

g) **Transparency:** Investors get regular information on the value of their investment in addition to disclosure on the specific investments made by scheme, the proportion investment in each class of assets and the fund manager's investment strategy and outlook.

SCHEME OF MUTUAL FUNDS

The MFs in India offer a wide array of schemes that cater to different needs suitable to any age, financial position, risk tolerance and return expectations. MF can be categorized into different types like on structure basis, on investment objective basis etc. There are various schemes of MF, which are summarized on the following basis:

1. **On the basis of Structure of Corpus:** On the basis of structure, MF scheme can be divided into two parts i.e. open-ended and close-ended scheme.

   a) **Open-ended scheme:** it means a MF scheme which does not specify any duration for redemption. This scheme has variable corpus due to ongoing purchase or redemption throughout the year. Investors can conveniently buy & sell units at NAV related prices. The fund itself buys back the shares surrendered and is ready to sell new shares. Generally the transaction takes place at the net asset value which is calculated on a periodical basis. The NAV is total net assets after liabilities divided by the total number of shares outstanding on a given day) of the MFs rises or falls as a result of the performance of securities in the portfolio and the stock exchanges.

   b) **Close-ended scheme:** It is a MF scheme in which the MF management sells a limited number of shares and the period of redemption is specified. Under this scheme, there are fixed number of units resulting into fixed-corpus and units are available for subscription only during a specified-period. The shares of such MFs are traded in the secondary markets. The requirement for listing is laid down to grant liquidity to the investors who have invested with the MF.

Open ended Vs. Close ended scheme

Basis of Difference	Open-ended	Close-ended
Nature of corpus	In open-ended scheme, there is variable corpus, because there is no fixed number of units due to on-going purchase and redemption	In close-ended, there is fixed corpus and no new units can be offered beyond the limit.
Listing	There is no listing of units in open-ended scheme. Transaction done directly with the fund.	There is listing of units on stock exchange for buying and selling.
Number of values	There is only on price is available i.e. NAV	There are two values available i.e. NAV, Market value.
Liquidity	Highly liquid	Mostly-liquid

2. **On the basis of investment objective:** MF can be classified based on their portfolio as under:
   a) **Income oriented scheme:** This scheme offers fixed income to the investors. It is suitable for investors seeking, capital stability and regular income. Under this scheme, fund is invested in fixed income securities, like government bonds, debentures etc.
   b) **Growth oriented scheme:** Under this scheme, funds are invested in equities with low risk and high yield. This scheme provides capital appreciation to the investors and high source of income by way of dividend. This scheme is suitable for investors having a long term outlook seeking growth over period of time.
   c) **Hybrid scheme:** This scheme offers to the prospective investor benefits of the previously mentioned scheme i.e. fixed income as well as growth prospects. Under hybrid scheme the corpus of MF is invested in both fixed income securities like bond and debentures as well as in sound equity scrips. In fact these funds utilize the concept of balanced investment management, so these funds are also known as **"Balanced Funds".**
   d) **High Growth Scheme:** In this scheme investment is made in high risk and high return securities available in the market and induces investors seeking high degree capital appreciation. Aggressive investors willing to take excessive risks are the normal target group of such funds.

e) **Money Market Mutual Funds (MMMFs):** MMMFs means funds that are invested in short term debt securities in the money market like Certificates of Deposits, Commercial paper, Govt. Treasury Bills, etc.

Features of MMMFs:

- As MMMFs are in large size, hence they get a higher yield on such short term instrument in comparison to individual investor.
- These schemes are ideal for corporate and individual investors, as a means to park their surplus funds for short periods.
- Return in the schemes of such funds may fluctuate, depending upon the interest rate, prevailing in the market.
- MMMFs were earlier governed by RBI but presently these are exclusively governed by the SEBI (Mutual Fund) Regulation, 1996.

f) **Tax saving schemes:** These schemes offer tax rebates to the investors under Tax laws as prescribed from time to time. This is made possible because the govt. offers tax incentive for investment in specified avenues. For examples, Equity Linked Saving Scheme (ELSS), and pension's scheme.

g) **Stock Funds/ Equity funds:** These funds allow an investor to own a portion of the company that they have invested in. It's like having shares of a certain company. Stock that have proven historically to be the best investment and also which have already outperformed all other types of investment in long-term, but the return is high. These funds produces a greater level of current income by investing in equity securities of companies with solid reputation and which have a good record of paying dividends.

h) **Leverage Funds:** It is also known as borrowed funds. In order to increase the size and the value of the portfolio of unit holder, under this scheme loan is taken at lower cost and then invested and surplus i.e. gains exceeding the cost of the borrowed funds, are given to the unit holders. These funds invest in speculative trading and risky investments to take the advantage of declining market to realize gains.

i) **Hedge Funds:** These are not borrowed funds; they are used for speculative trading. Hedge fund doesn't increase the portfolio size and value. Hedge funds are more risky. Hedge funds employ their funds for speculative trading.ie. for buying shares, whose price are likely to rise and for selling shares whose prices are likely to fall.

j) **Real Estate Funds:** Real estate fund is of close ended type. These funds are named so because of primary investment in real estate ventures.

Leverage Funds Vs. Hedge funds

Basis of Difference	**Leverage Funds**	**Hedge Funds**
Meaning	Leverage funds are also known as borrowed funds.	Hedge funds are not borrowed funds; they are used for speculative trading.
Increase in portfolio	Leverage funds increase the size of portfolio.	Hedge funds do not increase the portfolio size and value.
Risk factor	Leverage funds are less risky.	Hedge funds are more risky.
Trading	Leverage funds tend to indulge in speculative trading and risky investments.	Hedge funds employ their funds for speculative trading, i.e., for buying shares whose prices are likely to rise and for selling shares whose prises are likely to fall.

Risks involved in Mutual Funds

- Excessive diversification of portfolio, losing focus on the securities of the key segments.
- Too much concentration on blue-chip securities which are high priced and which do not offer more than average return.
- Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.
- Poor planning of investment with minimum returns.
- Unresearched forecast on income, profits and government policies.
- Fund managers being unaccountable for poor results.
- Failure to identify clearly the risk of the scheme as distinct from risk of the market.

What is NET ASSET VALUE (NAV)? How is NAV of a fund Calculated?

MFs raise money by selling their shares to public and redeeming them at current net asset value. NAV is the value of the assets of the each units of the scheme. It is computed by dividing the net assets of the scheme by number of units of that scheme outstanding on the date of valuation. NAV on a particular date reflects the realizable value that investor will get for each units that he is holding if the schemes is liquidated on that date. NAV also includes dividends, interest accruals and reduction of liabilities and expenses apart from market value of investments. NAV measures the performance of a particular scheme of MFs in term of appreciation or depreciation.

Calculation of NAV:

Market value of investment + Receivables + Accrued income – liabilities – Accrued Expenses ÷ Number of units outstanding

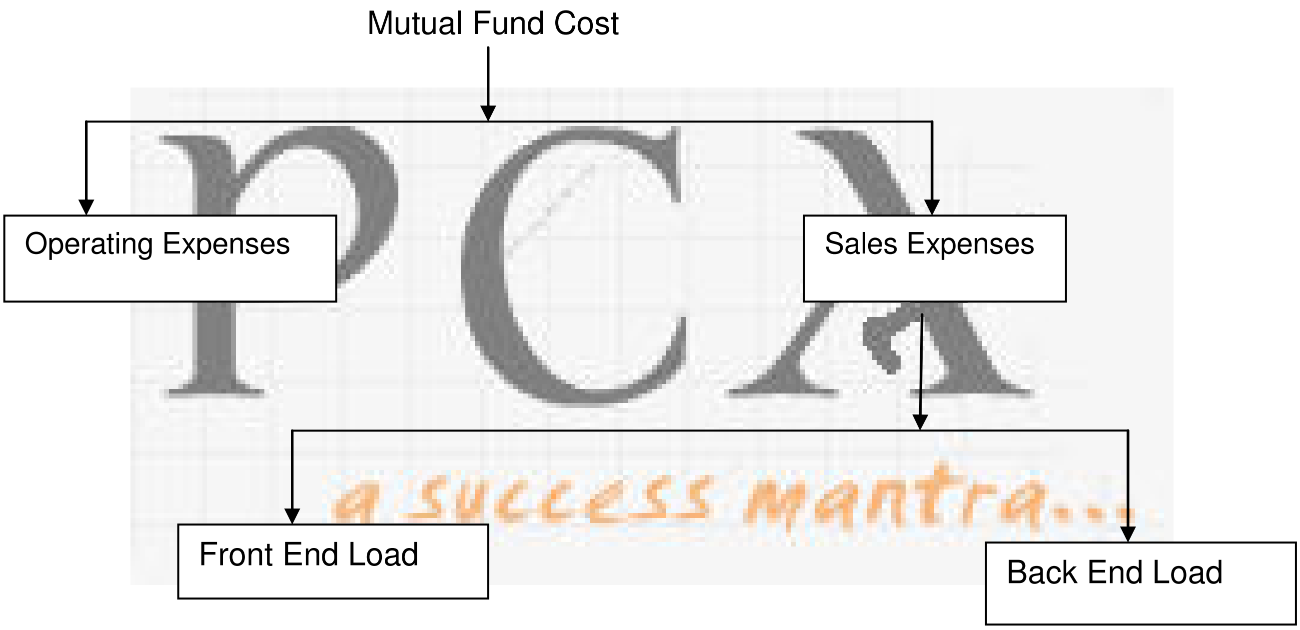
Example: Total assets = ` 200 Lakhs

Liabilities = ` 20 lakhs, Outstanding Units = 10 lakhs

= 200 lakhs – 20 lakh ÷ 10 lakhs = Rs. 18/unit

MUTUAL FUND COSTS

Below figure shows the overall cost for MFs:



1. **Operating Expenses:** These are expenses relating to MF operation like investment advisory fees, audit fees, custodial fees, agents commission, marketing and distribution expenses. The breakup of these expenses is required to be reported in the schemes offer documents. Based on the type of the scheme and the net assets, an upper limit of operating expense is fixed. Any expenses over and above the upper limits are borne by the AMC, the trustee or the sponsor. Operating expenses are calculated on an annualised basis but are accrued on a daily basis.
2. **Sales Expenses:** These are of two type's i.e. Front End Load and Back End Load
    a) **Front End Load:** Front end load means "entry load" which is paid by investors while investing in MFs. It is paid when investor buys a unit of MFs. This load determines the public offer price. For example if an investor invests

in a scheme that charges 2 % entry charges at an NAV of Rs. 10, then the public offer price will be:

POP = 10 + 2 % of ` 10

= 10 + 0.20

= 10.20

Alternatively, POP can also be calculated with the formula as under:

POP = Net Asset Value/ (1-front end load)

= 10/ (1 – 0.20) = ` 10.20

b) **Back End Load:** Back end load means “exit load” which is paid when, investor sells a unit of MF before predetermined maturity time. If the investors hold the fund to “maturity” of the “contract” there is no need to pay exit load. For example, if an investor redeems some units in a scheme that charges 2% exit charges at an NAV of Rs. 10, then the redemption price will be;

Redemption Price (RP)

= 10 – 2% of Rs. 10

= 10 – 0.20 = ` 9.80

Alternatively, RP can also be calculated with the formula as under;

ROP = Net Asset Value/ (1+ front end load)

= 10/ (1 + 0.20)

= ` 9.80

Front-end Load Vs. Back-end Load

Basis of Difference	Front-end Load	Back-end Load
Meaning	Front end Load means “Entry Load” which is paid by investor while investing in MFs.	Back end load means “Exit Load” which is offered by investors while selling unit of MF.
Time of payment	Entry Load is paid when investor buys a unit of MF.	Exit Load is paid when investor sells a unit of MF.
Amount to be paid/ received by investors	Amount to be paid = NAV (1+ Entry Load)	Amount to be received = NAV (1- Exit Load)

ORGANS OF A MUTUAL FUND

Following are the main organs of a MF:

1. **Sponsor:** A sponsor or promoters firstly applies to SEBI to get a registration for starting MF activities. SEBI grants the registration subject to fulfilment of the necessary criteria of experience, profitability, positive net worth, etc.

2. **Trustees:** After getting registration from SEBI, the sponsor forms a trust under the provision of the Indian Trust Act, 1882. The sponsor also appoints trustees and Board of trustees. The composition of Board of trustees is governed by the SEBI that requires that at least 2/3rd of trustees shall be independent persons not associated with the sponsors in any manner. The trustee plays an important role as they 'hold in trust' the investments of the unit holders of the MF.
3. **Asset Management Company:** The Board of trustees doesn't manage the day-to-day activities of the MF directly. Instead, it appoints an AMC. AMC is a company incorporated as per the Companies Act, 1956. Every MF is required to have an AMC to manage the funds. The AMC should be approved by SEBI and should enter into an agreement with the trustees of the MF, to formulate scheme.

   Functions of AMC:

   - ✓ AMC raises the money against units and invest the fund in securities.
   - ✓ After meeting the permissible costs as per norms, AMC distributes the income to the share holders of the funds
   - ✓ AMC is also responsible for operations of MFs
   - ✓ It takes all reasonable steps and exercise due- diligence to ensure that the investment of the funds to any scheme is not contrary to the provisions of the schemes, Regulation and Trust Deed.
4. **Custodian:** A custodian holds the securities of various schemes of the fund in their custody. However, presently the custodian is being replaced by the depository, who maintains an electronic record of securities bought and sold by a MF.
5. **Registrar:** It is appointed in order to accept and process the unit holder' applications. It also informs the AMC regarding the amount received for subscription, redemption and so forth.

REGISTRATION OF MUTUAL FUND

As per Regulation 7 of SEBI (MF) Regulations, 1996 following conditions must be satisfied by an applicant to get registration certificate:

- ✓ The applicant (also called as sponsor) shall be fit and proper person.
- ✓ It must have a sound track record of positive net worth in last 5 years and net profits in 3 out of 5 years and is carrying on business in financial services for at least 5 years.
- ✓ The sponsor should contribute 40% or more of net worth of AMC.
- ✓ Appointment of trustee and AMC are as per the requirement of these regulations.

- ✓ Appointment of custodian in order to keep the custody of securities or other assets of MF and carry out the custodian activities as may be authorised by the trustees.

CONSTITUTION AND MANAGEMENT OF MF AND OPERATION OF TRUSTEES

Regulation 14 stipulates that a MF shall be constituted in the form of a trust and the instruments of trust shall be in the form of a deed duly registered under Indian Registration Act, 1908 and executed by the sponsor in favour of the trustees named in the instrument.

Regulation 15 lays down that the trust deed shall contain clauses as prescribed in the Third Schedule to the Regulations. The trust deed shall not contain any clause which has the effect of limiting or extinguishing the obligations and liabilities of the trusts in relation to any MF or the unit holders or indemnifying the trustees or the AMC for loss or damage caused to the unit holders by their acts of negligence, commission or omission.

Regulation 16 lays down the eligibility criteria for appointment of trustees, which are as follows;

- He should be a person of ability, integrity and standing;
- He has not been convicted of any economic offence/ violation of any securities laws
- He has not been found guilty of moral turpitude
- No AMC or any of its officers/ employees shall be eligible to act a trustee of any MF.
- No person who is already appointed as a trustee of a MF can be appointed as a trustee of any other MF.
- 2/3rd of the trustees shall be independent persons and shall not be associated with the sponsors.
- In case a company is appointed as a trustee them its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the MF.
- Prior approval of SEBI shall be necessary for the appointment of any trustee.

Rights and Obligations of Trustees

Board of Trustees is important organ of MF. Its rights and duties are as follow:

i. To enter into trust deed as per Schedule III, with the sponsor
ii. To enter into an investment management agreement as per Schedule IV, with AMC.
iii. To obtain from the AMC such information as considered necessary by the trustee.
iv. To review net worth of AMC and transactions of MF on quarterly basis.

v. To ensure before the launch of any scheme that the AMC has;
   - Proper systems for its back office, dealing room and accounting.
   - Appointed fund manager(s) for the scheme(s) and submitted their bio-data within 15 days of their appointment.
   - Appointed auditors to audit its accounts.
   - Appointed a compliance officer to comply with regulatory requirements and to redress investor grievances.
   - Appointed registrars and laid down parameters for their supervision.
   - Prepared a compliance manual and designed internal control mechanisms including internal audit systems.
   - Specified norms for empanelment of brokers and marketing agents.

vi. To ensure that AMC has been managing MFs scheme independently of other activities and in the interest of investors.

vii. Each trustee shall file the details of his transactions of dealing in securities with a MF on a quarterly basis.

viii. The trustees shall take steps to ensure that the transactions of the MF are in accordance with the provisions of the trust deed.

ix. The trustees shall ensure that no change in the fundamental attributes of any scheme or any other change which would modify the scheme and affects the interest of unit holders, shall be carried out unless written communication about the proposed change is sent to each unit holder; and the unit holders are given an option to exit at the prevailing NAV without any exit load.

x. The trustees shall abide by the code of conduct as specified in the Fifth Schedule.

General and Specific Due-Diligence by Trustees

The trustees shall exercise due diligence as under:

I. General Due Diligence

- The trustees shall be discerning in the appointment of the directors on the Board of the AMC.
- Trustees shall review the desirability of continuance of the AMC if substantial irregulations are observed in any of the scheme and shall not allow the asset management companies float new schemes
- The trustees shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.

- The trustee shall ensure that all service providers are holding appropriate registrations from SEBI or concerned regulatory authority.
- The trustee shall arrange for test checks of service contracts.
- Trustees shall immediately report to SEBI of any special developments.

II. Specific Due Diligence

- Obtain internal audit reports at regular intervals from independent auditors appointed by the trustees.
- Obtain compliance certificate at regular intervals from the AMC.
- Hold meeting of trustees more frequently.
- Consider the reports of the independent auditor and compliance reports of AMC at the meetings of trustees for appropriate action.
- Maintain records of the decisions of the trustees i.e. the minutes of meetings.
- Prescribe and adhere to code of ethics by the trustees, AMC and its personnel.
- Communicate in writing to the AMC of the deficiencies and checking on the rectification of deficiencies.

Responsibility of Independent Directors

The independent directors of the trustees or AMC shall pay specific attention to the following;

- ✓ The investment management agreement and the compensation paid under the said agreement.
- ✓ Service contracts with affiliates—whether the AMC has charged higher fees than outside contractors for the same services.
- ✓ Selection of the AMC's independent directors.
- ✓ Selecting and nominating individuals to fill independent director's vacancies.
- ✓ Securities transactions involving affiliates to the extent such transactions are permitted.
- ✓ Code of ethics must be designed to prevent fraudulent, deceptive or manipulative practice by insiders in connection with personal securities transactions.
- ✓ The reasonableness of fees paid to sponsors and AMC and others for services provided.
- ✓ Principle underwriting contracts with associates of AMC and their renewals.

ADVERTISEMENT CODE FOR MFs

As per 6th Schedule of SEBI (MF) Regulations 1996, all advertisements shall be in accordance with the advertisement code and shall be submitted to SEBI within 7 days from their issue. The advertisement shall avoid misleading statements as well as incorrect or false opinion. Following are the various advertisement code clauses:

i. An advertisement shall be truthful, fair, and clear and shall not contain a statement, promise or forecast which is untrue or misleading.

ii. An advertisement shall be considered to be misleading if it contains misleading statements, inaccurate portrayal of past performance or statements promising the benefits of owning units without simultaneous mention of material risks associated with it.

iii. The advertisement shall not be so designed in content and format or in print as to be likely to be misunderstood, or likely to disguise the significance of any statement.

iv. The sales literature may contain only information, the substance of which is included in the funds current advertisements in accordance with the Code.

v. Advertisement shall not be so framed as to exploit the lack of experience or knowledge of the investors as the investors may not be sophisticated in legal or financial matters.

vi. The advertisement shall not contain information, the accuracy of which is to any extent dependent on assumptions.

vii. The advertisement shall not compare one fund with another, implicitly or explicitly, unless the comparison is fair and all information relevant to the comparison is included in the advertisement.

viii. The funds which advertises yield must use standardized computations such as annual dividend on face value, annual yield on the purchase price, and annual compounded rate of return.

ix. MFs shall indicate in all advertisements the names of the Trustee, Manager and/or Financial Advisor to the Fund, bringing out clearly their legal status and liability of these entities.

x. All advertisement shall also make a clear statement to the effect that all MFs and securities investments are subject to market risks, and there can be no assurance that the funds objectives will be achieved.

xi. All advertisement launched in connection with the scheme should also disclose prominently the risks factors as stated in the offer document along with the following warning statements;

a) Is only the name of the scheme and does not in any manner indicate either the quality of the scheme, its future prospects or returns; and

b) Please read the offer document before investing.

xii. Any advertisement reproducing or purporting to reproduce any information contained in an offer document shall reproduce such information in full and disclose all relevant facts and not be restricted to select extracts relating to that item which could be misleading. No celebrities shall form part of the advertisement.

xiii. No advertisement shall be issued stating that the scheme has been subscribed or oversubscribed during the period the scheme is open for subscription.

xiv. If a corporate advertisement is issued by the sponsor or any of the companies in the group or an associate company of the sponsor during the subscription period, no reference shall be made to the scheme of the MF.

xv. Advertisement on the performance of a MF or its AMC shall compare the past performance only on the basis of per unit of statistics. Advertisements for NAVs must indicate the past as well as these latest NAV of a scheme.

RESTRICTIONS ON INVESTMENT BY MUTUAL FUNDS

A. Investment in credit rated debt instruments issued by a single issuer shall not be more than 15% of its NAV. Such investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of AMC.

   However, in case of unrated debt instruments investment shall not be more than 10% of its NAV and the total investment in such instruments shall not exceed 25% of the NAV of the scheme.

B. No MF under all its schemes should own more than 10% of any company's paid up capital carrying voting rights.

C. Transfer of investment from one scheme to another scheme in the same MF shall be allowed at the prevailing market price.

D. A scheme may invest in another scheme under the same AMC or any other MF without charging any fees, provided that aggregate investment made by all schemes under the same management or in schemes under the management of any other AMC shall not exceed 5% of the NAV of the MF.

E. The initial issue expenses in respect of any scheme may not exceed 6% of the funds raised under that scheme.

F. To buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities.

G. To purchase and transfer the securities in the name of the MF on account of the concerned scheme.

H. Any fund pending for deployment shall be deposited in short term deposits of scheduled commercial banks.

I. No MF shall make any investment in;

- Any unlisted securities of an associated or group company of the sponsor; or
- Any security issued by way of private placement by an associate or group company of the sponsor; or
- The listed securities of group companies of the sponsor which is excess of 25% of the net assets.

J. A MFs scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments in case of open ended scheme and 10% of its NAV in case of close ended scheme.

INVESTMENT VALUATION NORMS

MF shall value its investments according to the following valuation norms:

1) **Valuations Norms for Traded Securities:** the securities shall be valued at the last quoted closing price on the stock exchange. Now there may be following cases:

   - ❖ When the securities are traded on more than one RSE, the securities shall be valued at the last quoted closing price on the RSE where the security is principally traded. It would be left for AMC to select the appropriate RSE.
   - ❖ Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the AMC.
   - ❖ When on a particular valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on another stock exchange may be used.
   - ❖ When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other exchange, as the case may be, on earliest previous day prior to the valuation date may be used.

2) **Valuation Norms for Non-Traded Securities:**

- ❖ When a security is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a non-traded scrip.
- ❖ Non-traded securities shall be valued "in good faith" by the AMC on the basis of appropriate valuation methods based on the principles approved by the Board of AMC.

3) **Value of rights:** Until they are traded, the value of the rights shares should be calculated as:

Value of right = n/m (Pex – Pof)

where, N----Number of rights shares offered
M----Number of Original shares held
Pex--- Ex-Right Price
Pof---Right offer Price

Where the rights are not treated *pari passu* with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

REAL ESTATE MUTUAL FUND SCHEME

It means a scheme that invests directly or indirectly in the real estate assets or other permissible assets in accordance with SEBI (Mutual Fund) Regulations, 1996.

Features of REMFS: Some of the salient features of REMFS are follows:

a) Existing MFs are eligible to launch REMFs if they have adequate number of experienced key personnel/ directors.
b) Sponsors seeking to set up REMF scheme shall be carrying on business in real estate for a period not less than 5 years.
c) Every REMF shall be close-ended and its units shall be listed on a RSE.
d) NAV of the scheme shall be declared daily.
e) At least 35% of the net assets of the scheme shall be invested directly in real estate assets. Balance may be invested in mortgage backed securities, securities of companies engaged in dealing in real estate assets or in undertaking real estate development projects and other securities.

f) Each asset shall be valued by two valuers who are accredited by a credit rating agency, every 90 days from the date of purchase. Lower of the two values shall be taken for the computation of NAV.

g) A REMF scheme shall not undertake lending or housing-finance activities. There are specific accountings and valuation norms, pertaining to REMF.

h) Caps (limits) will be imposed on investments in a single city, single project, securities issued by sponsor/ associate companies etc.

i) Unless otherwise stated, the investment restrictions specified in the Seventh Schedule shall apply.

GOLD EXCHANGE TRADED FUNDS (GETF)

1. A MF scheme that invests primarily in;
    - Gold
    - Gold related instruments
2. **Restrictions on GETF:** A GETF is subject to the following investment restrictions;
    - The initial issue expenses in respect of such scheme should not exceed 6% of the funds raised under that scheme.
    - The funds of any such scheme should be invested only in gold or gold related instruments in accordance with its investment objective; and
    - Pending deployment of funds shall be deposited in short term deposits of scheduled commercial banks;
3. **Valuation:** GETF shall be valued at the market price of gold in the domestic market and will be marked to market on a daily basis.
4. **Determination of NET ASSET VALUE:** NAV of units under the scheme would be calculated as shown below:

    NAV = Market or fair value of scheme's investments + current assets – current liabilities & provisions ÷ no. of units outstanding under scheme on the valuation date.

    The NAV shall be calculated up to four decimals.

EXCHANGE TRADED FUNDS

ETF represents investment by a MF into a basket of securities that are traded on stock exchange. ETFs follow stock market indices and are traded on stock exchanges like a single stock at index prices. The biggest advantage offered by these funds is that they offer diversification flexibility of holding a single share (tradable at index price) at the same time. It provides investors with combined benefits of a closed end and an open end MF.

Advantages:

- **Liquidity:** ETF can be bought and sold easily through stock exchange, at any time throughout the trading day, at prevailing price, allowing for intraday trading. So, it is more liquid in nature.
- **Economical:** ETF does not involve any entry or exit load, which make it more economical. It can be traded on stock exchange.

Investment Strategies Followed by a Mutual Fund Company

There are two types of investment strategies, namely *top-down and bottom-up investing strategies.* These are discussed as

- **Bottom-up investing:** This strategy is based on fundamental factors specific to individual stock performance, where less importance is given to the economic factors. Shares are chosen based on the company's performance rather than any significant economic cycle. This approach is short term in nature.
- **Top-down approach:** This approach is opposite to bottom up approach. It is based on the economic factors of the market and industry, and then looks at the industry scenario to assess the potential performance of a company. It is a long term approach.

Warm Regards,
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CA	CPT	All subjects
	IPCC Group I	1. Accounts 2. Cost & Financial Management 3. Taxation 4. Law, Ethics & Communication
	IPCC Group II	1. Advanced Accounts 2. Auditing & Assurance 3. Information Technology & Strategic Management
	CA Final	1. Advanced Auditing & Professional Ethics 2. Corporate & Allied Laws 3. Information System Control & Audit (ISCA)
CS	Foundation	All subjects
	Executive Group – I	1. Company Law 2. Cost & Management Accounting 3. Economic & Commercial Laws 4. Tax Laws & Practice
	Executive Group – II	1. Company Accounts & Auditing Practices 2. Capital markets & Securities Laws 3. Industrial, Labour & General Laws.
	Professional Module – I	1. Advanced Company Law & Practice 2. Secretarial Audit, Compliance, Management & Due Diligence. 3. Corporate Restructuring, Valuation & Insolvency.
	Professional Module – II	1. Information Technology & Systems Audit 2. Financial, Treasury & Forex Management 3. Ethics, Governance & Sustainability.
	Professional Module – III	1. Advanced Tax Laws & Practice 2. Drafting, Appearances & Pleadings
B.Com	B.Com. – I, II, III	1. Financial Accounting 2. Business Math & Statistics 3. Indirect Tax Laws 4. Direct Tax Laws 5. Operations Research