

Mutual Funds and PMS

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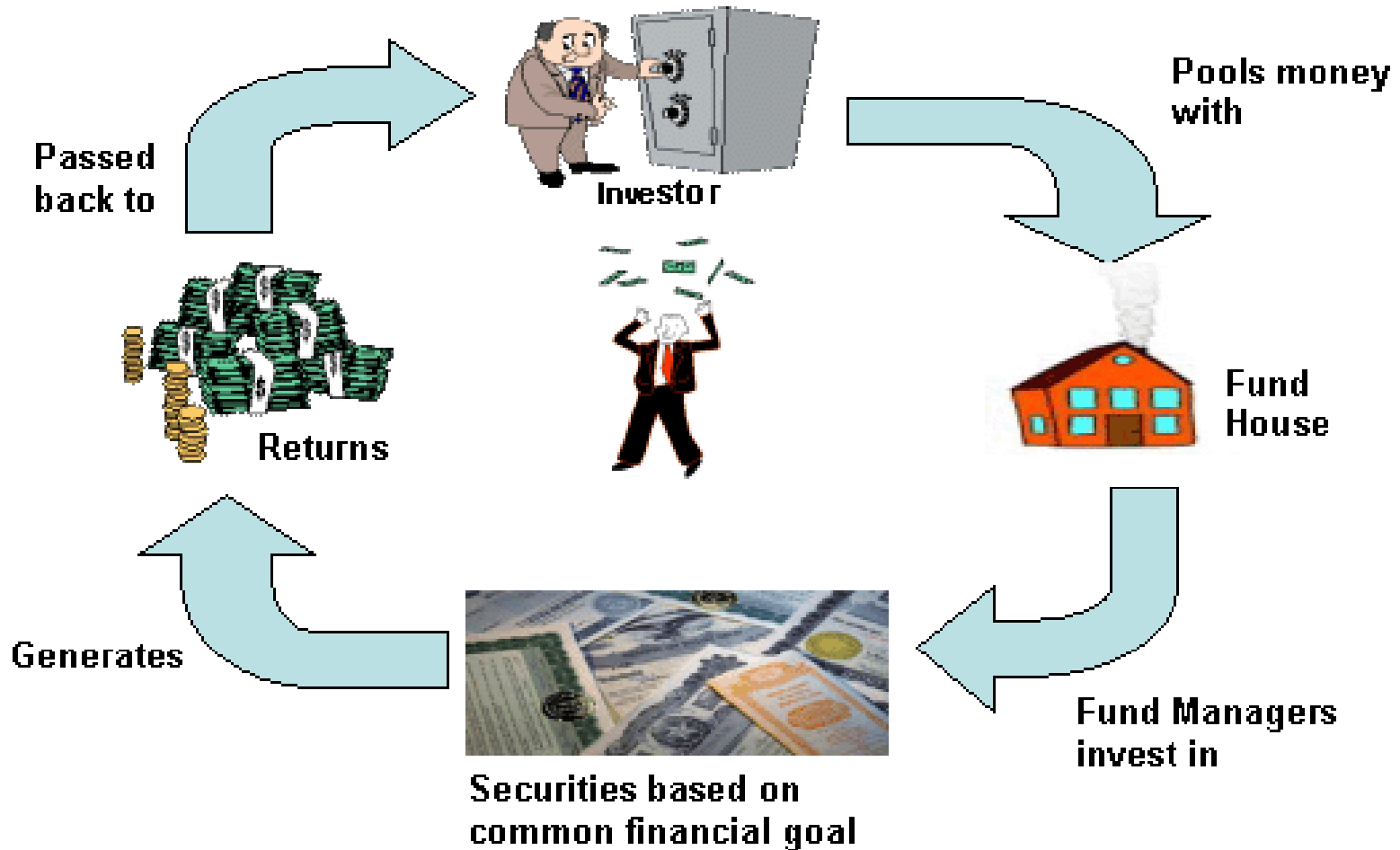
What is a Mutual Fund and Why a Mutual Fund

- A mutual fund is the trust that pools the savings of a number of investors who share a common financial goal.
- Anybody with an investible surplus of as little as a few hundred rupees can invest in Mutual Funds.
- The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debenture to money market instruments, depending upon the scheme's stated objective.
- It gives the market returns and not assured returns.
- In the long term market returns have the potential to perform better than other assured return products.
- Mutual Fund is the most cost efficient distributors of financial products

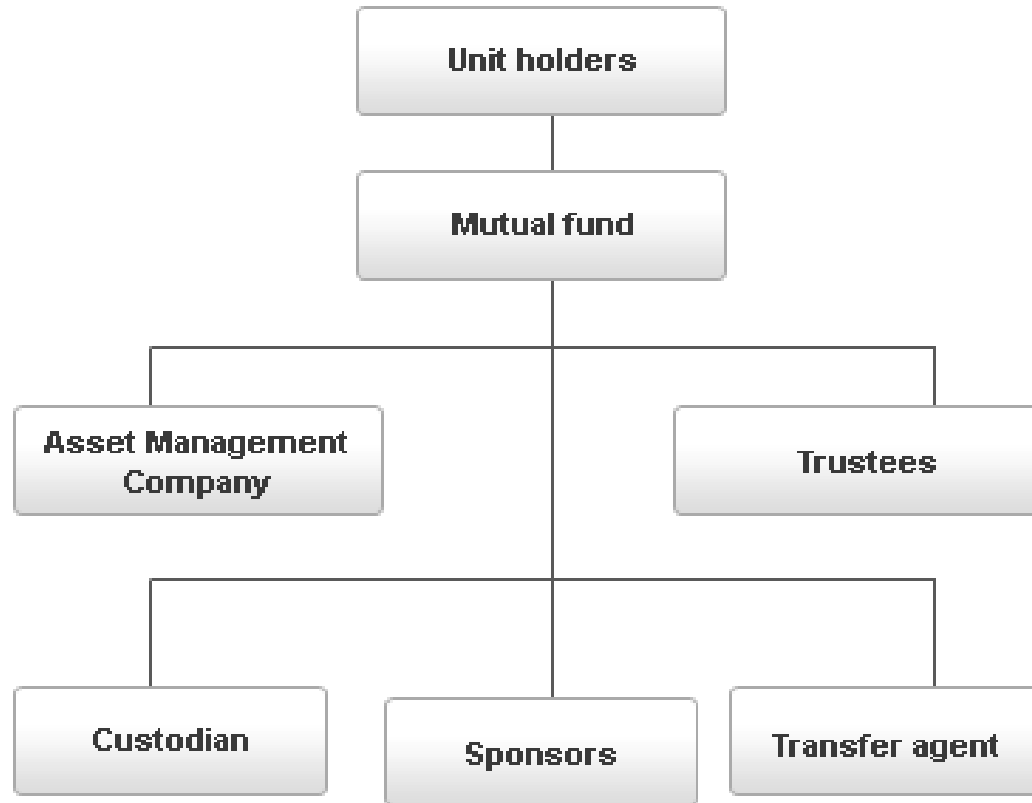


How Mutual Fund works?

A vehicle for investing in portfolio of stocks and bonds

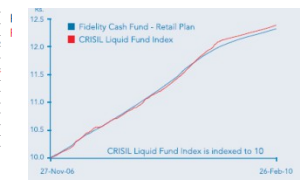
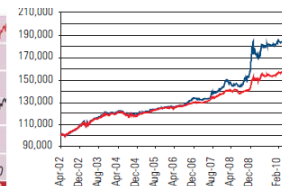
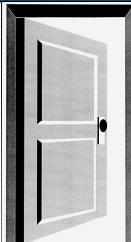
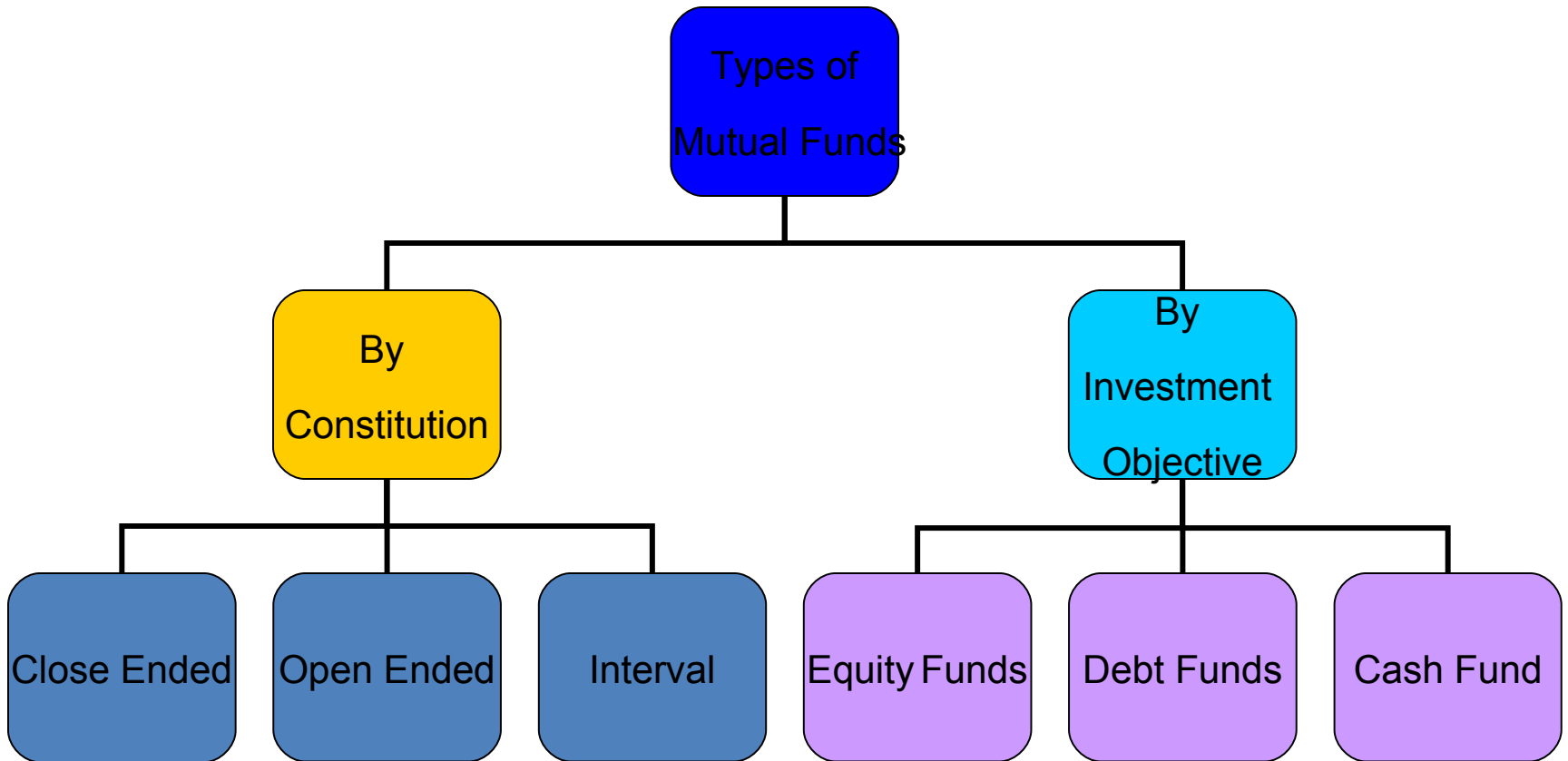


Structure of Mutual Fund



Custodian keeps safe custody of the investments (related documents of securities invested).

Types of Mutual Funds



Types of Mutual Funds

Classification based on Objectives

GROWTH

- Equity Funds
Investing in Equities .i.e. Shares
- Long-term
- High Risk
High Return

INCOME

- Debt Schemes
Investing in Debt instruments like Bonds
- Regular Income Provision
- Risk Return levels are medium

LIQUID

- Cash / Money Market Fund
Investing in money market instruments like CD's, CP's, Treasury Bills etc
- Lower returns but easy liquidity

Additional Type of Mutual Funds

Balanced Fund



Blend of Equity + Debt

Index Fund



Invest in Co's that participate
in Stock Market Indices

Sector Fund



Invest in Various Sectors like
- Health Care
- Banking
- FMCG
- Technology
Etc

ELSS / TAX Fund

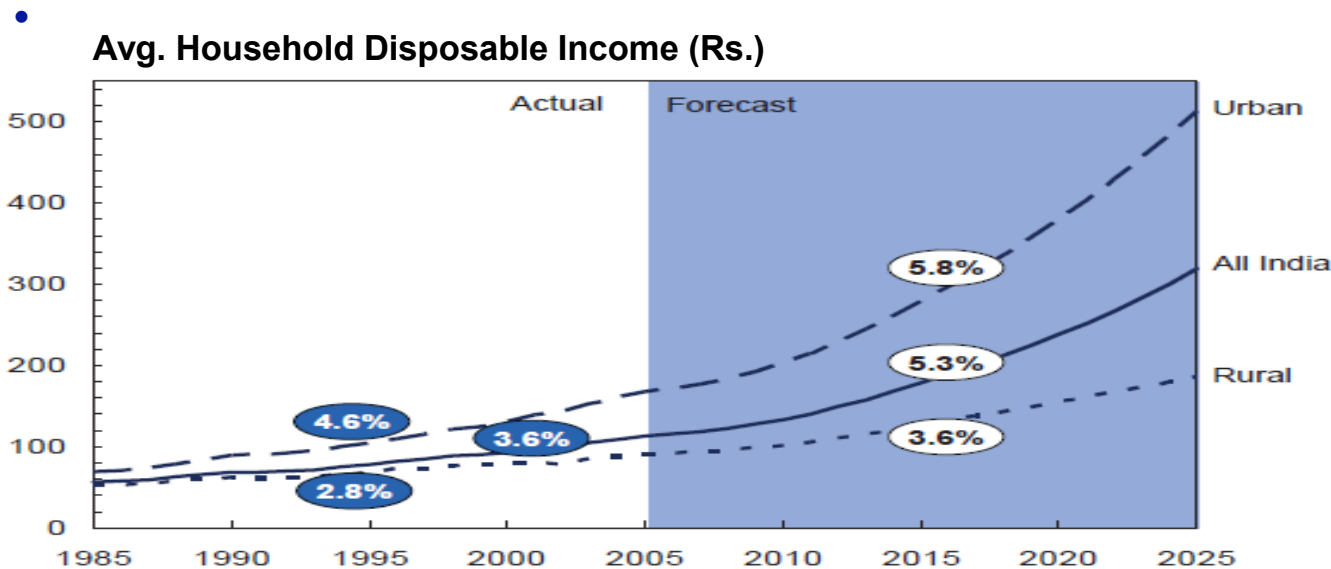


Invest in Security that provides
Tax Benefits generally long-
term in nature

Financial Savings in India

As Economy grows, savings grow and demand for investment products rise

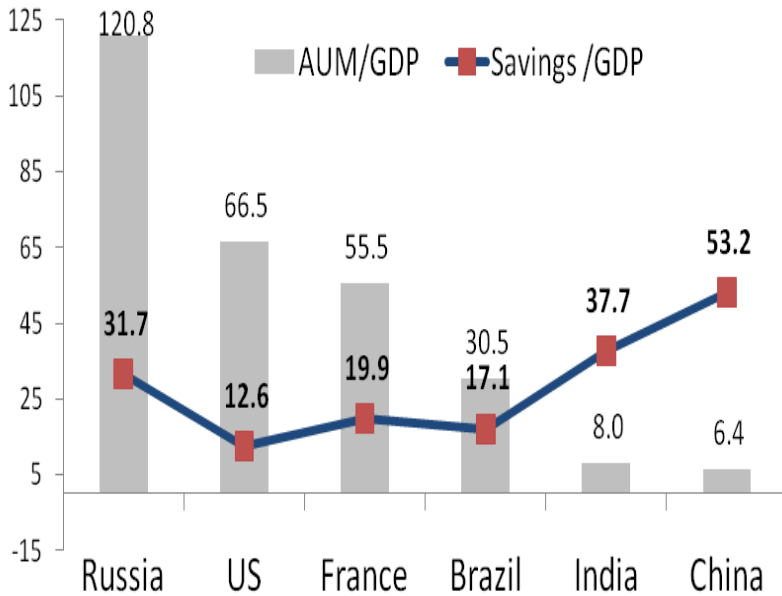
- Indian incomes are expected to rise at faster rates this decade...
- India, being a dominantly savings oriented economy, growing incomes imply a continued growth in savings rates with savings being channeled into both physical and financial investments



Source: McKinsey Report

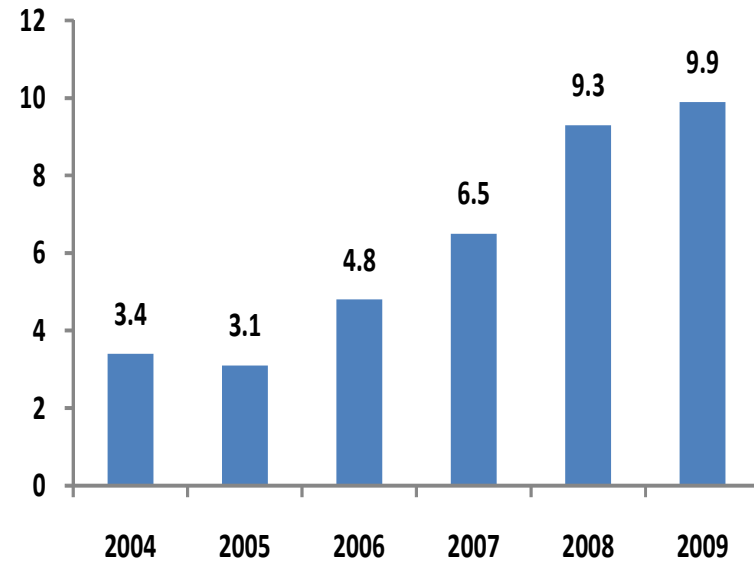
Significant growth potential exists for the industry supported by strong fundamentals

High savings rate indicates potential



MF penetration rising

Penetration = Ratio of Mutual Fund folio holders to economically active investors

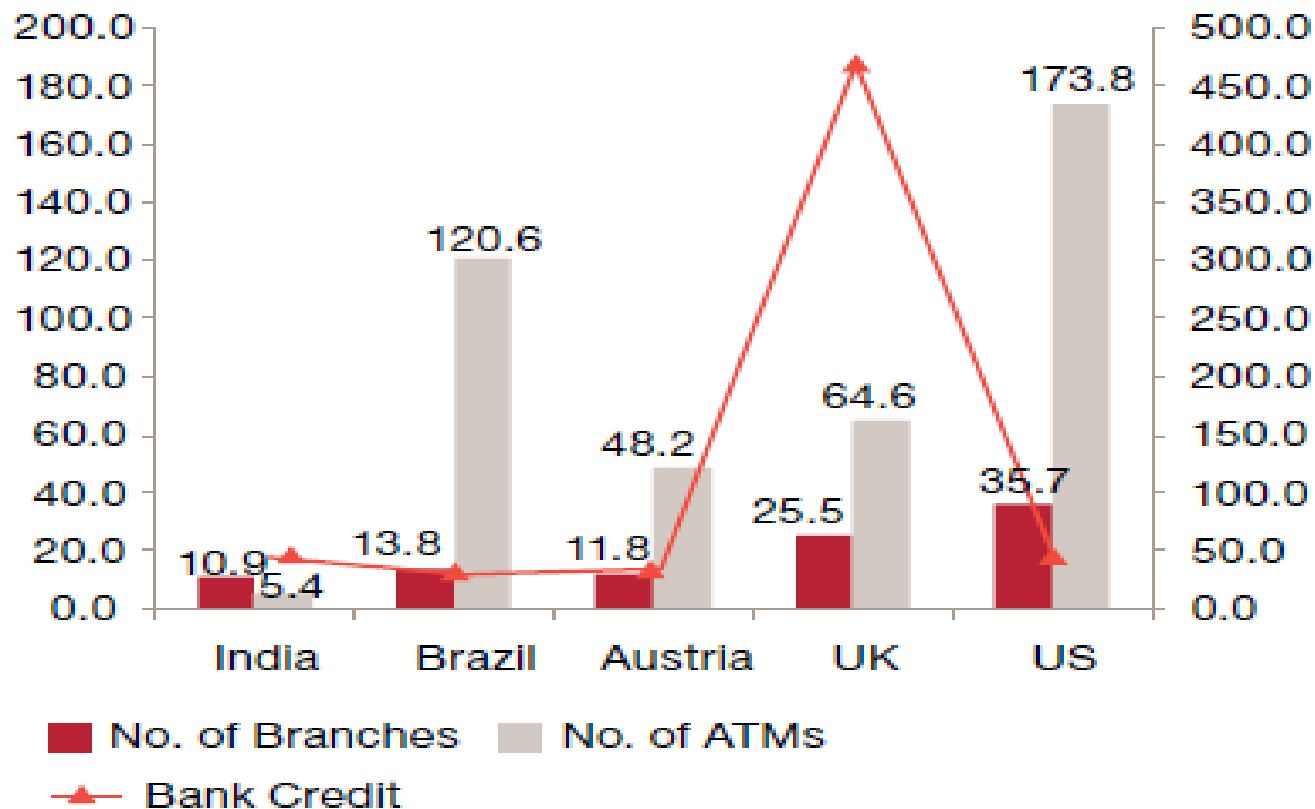


Source: SEBI, Evalueserve

However, financial inclusion is still very low, offering scope for ample growth

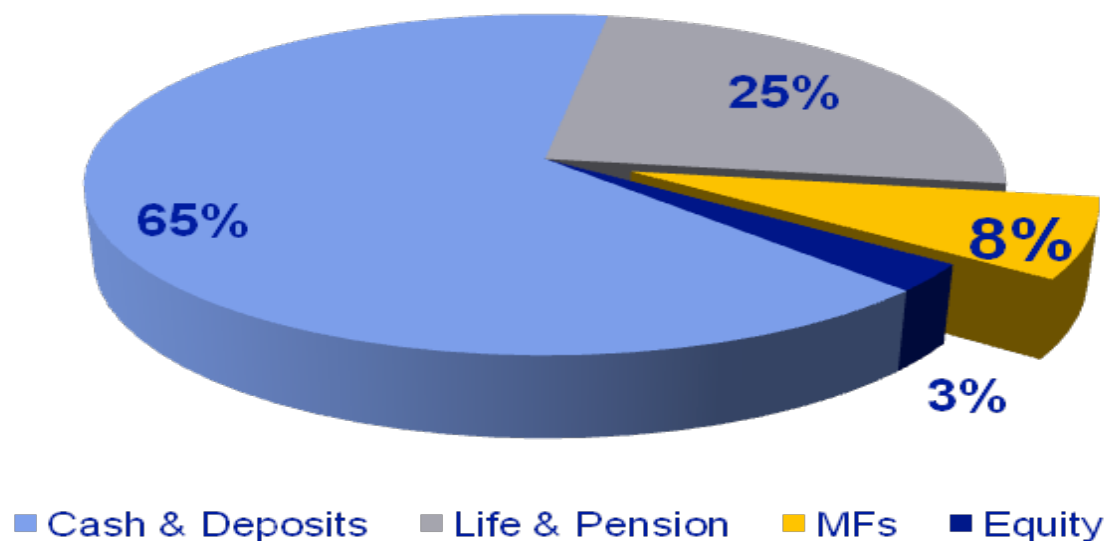
Figure 4

Financial inclusion data as compared to other economies



MFs are poised to take away share from deposits

- India remains under-penetrated for Banking. As Banking grows, demand for investment products grow even faster..



Industry Structure

Origin of Mutual Funds in India

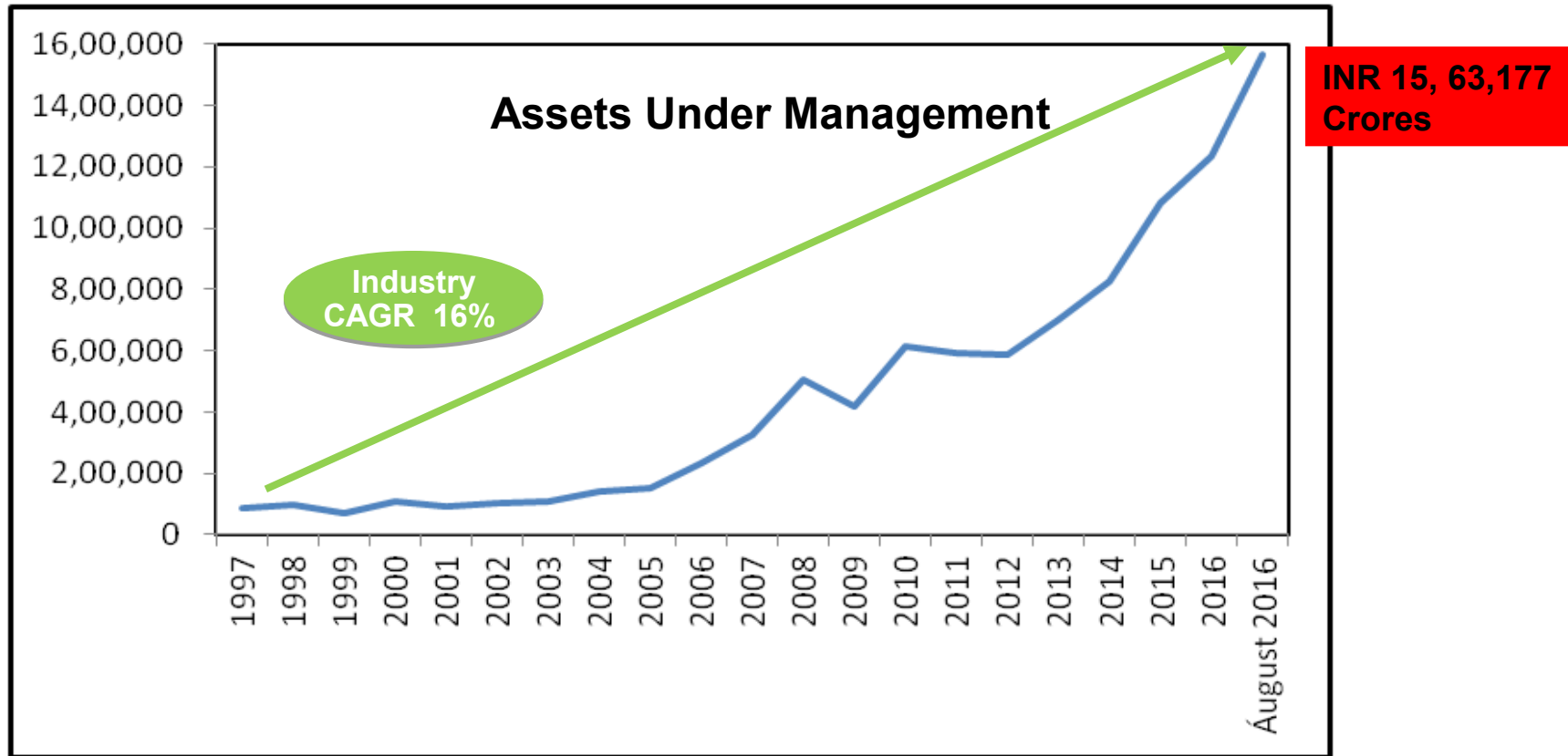
- The foundation for the mutual fund operation in India was laid by parliament in 1963 with an enactment of UTI



Current Status

- 44 Players-Ranging from Govt. institutions to private sector and foreign players
- Mutual Funds along with insurance companies form the largest local institutional investors
- More than Rs 15 lakh crores under management
- Almost 5 crore Investors

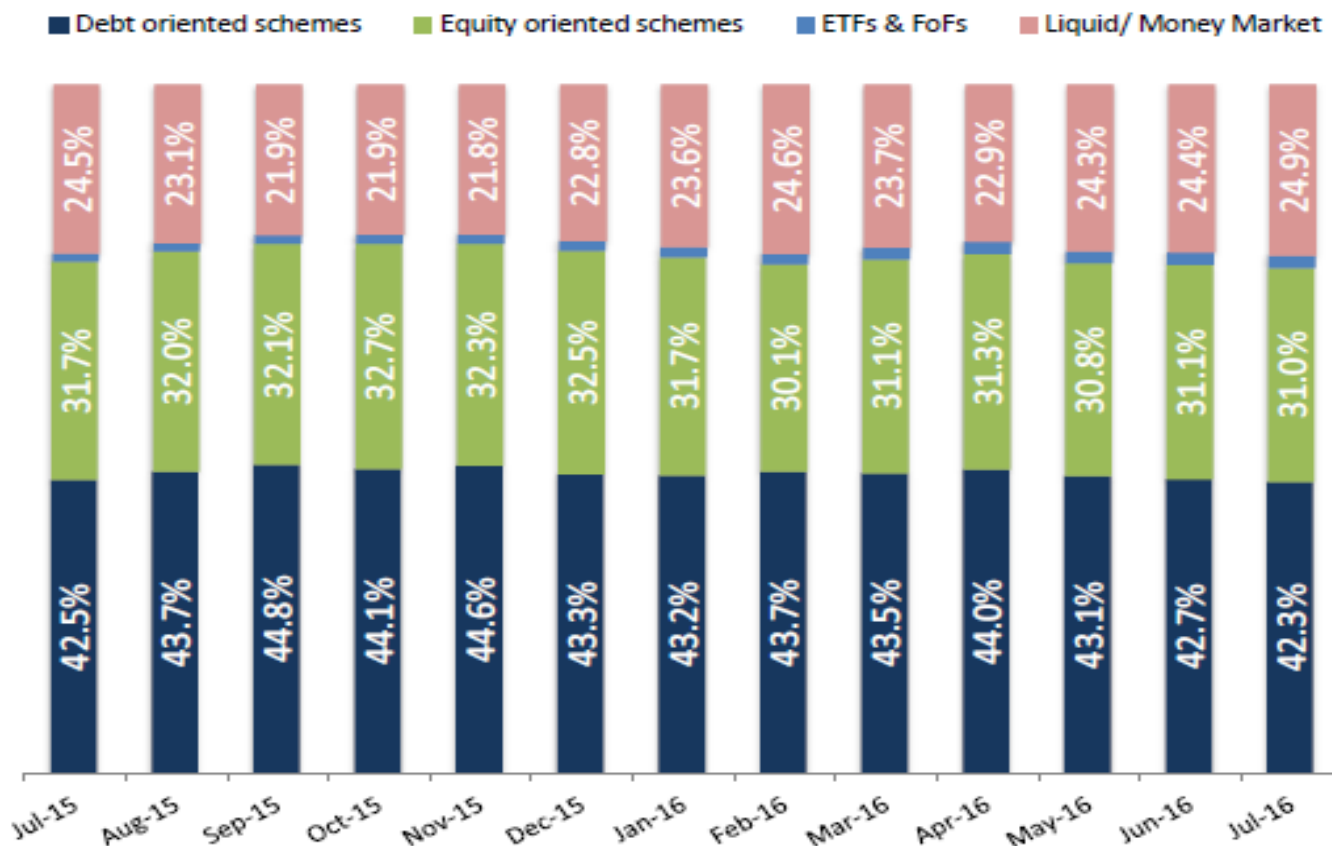
Indian MF Industry: AUM - 18x in 19 years



- Assets managed by the Indian mutual fund industry have grown from Rs. 85,000 Crores in 1997 to 15,63,000 Crores in August 2016.
- The AUM of Mutual Funds has grown more than 18 times in the last 19 years
- The pace of growth has increased in the last 10 years

Source: AMFI, RBI

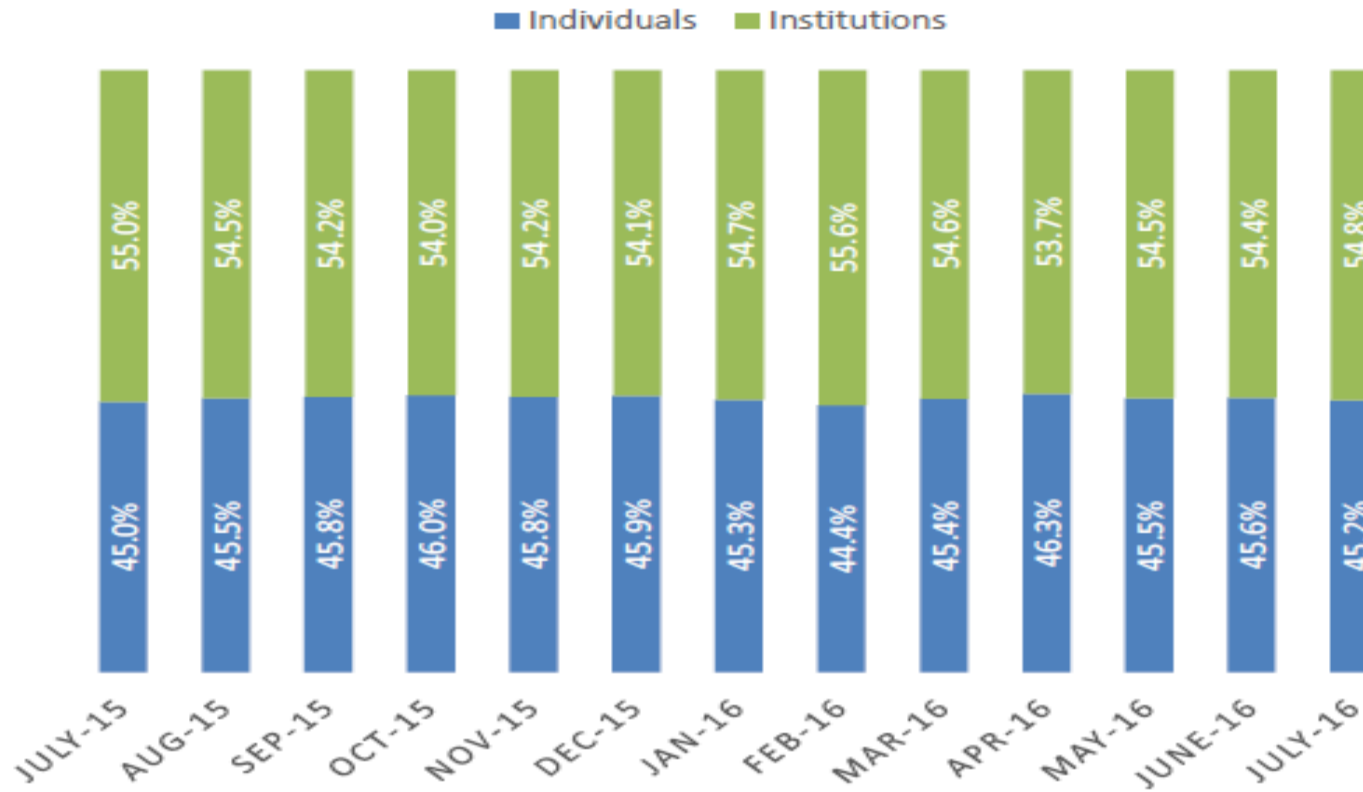
Indian MF Industry: Asset Class Composition



- Debt assets make up about 42% of the industry AUM while Liquid / Money Market Funds contribute about 25% of assets
- Equity assets make up about 31% of the total industry AUM

Source: AMFI

Indian MF Industry: Investor Distribution



- Individual Investors hold about 45% of the industry AUM
- Institutional investors hold about 56% of Industry AUM

Source: AMFI

Mutual Fund Benefits

Advantages of Mutual Funds

1. Professional Management
2. Diversification
3. Convenient Administration
4. Return potential
5. Low cost
6. Liquidity
7. Transparency
8. Flexibility
9. Choice of schemes
10. Well regulated
11. Tax benefits



How do I make money from a mutual fund?

1. Capital appreciation:

As the value of securities in the fund increases, the fund's unit price will also increase. You can make a profit by selling the units at a price higher than at which you bought

2. Coupon / Dividend Income:

Fund will earn interest income from the bonds it holds or will have dividend income from the shares

3. Income Distribution:

The fund passes on the profits it has earned in the form of dividends

Disclaimer

As the value of securities in the fund increases, the fund's unit price will also increase. You can make a profit by selling the units at a price higher than at which you bought. Although Mutual Fund does not guarantee the same.



MUTUAL FUND

Taxation Benefit investing in Mutual Funds

Taxation of dividends of mutual fund schemes

Category	Tax Rates for Individuals/HUF/NRI
Liquid Funds	28.84%
Other Debt Funds	28.84%
Equity Funds	Nil

The amount invested in tax-saving funds (ELSS) is eligible for deduction under Section 80C, However the aggregate amount deductible under the said section cannot exceed Rs 150,000 (in a financial year).

Capital Gains

- Under Indexation, you are allowed by law to inflate the cost of your asset by a government notified inflation factor.
- This factor is called the 'Cost Inflation Index', from which the word 'Indexation' has been derived.
- This inflation index is used to artificially inflate your asset price.
- This helps to counter erosion of value in the price of an asset and brings the value of an asset at par with prevailing market price.
- This cost inflation index factor is notified by the government every year. This index gradually increases every year due to inflation.

Portfolio Management Services

PMS

- Portfolio – means bundle of assets (Equity, Debt, Mutual Funds, etc)
- So PMS means managing bundle of assets on clients behalf
- Why so? Because HNIs who are not able or willing to track, monitor their own portfolios invest with PMS providers
- As per SEBI minimum ticket size i.e. (minimum investment) is Rs. 25 lakh per client.
- The target clients are HNIs and Institutions/corporate investors.
- Regulations more liberal, no cap on fees.

Almost every MF has a PMS division

PMS	MF
Customized Tailor made portfolio's	Which an MF schemes can't have & MF more of a retail type business
Personal touch in relationship between Portfolio mgr and PMS Investor	Completely missing
Profit earned by PMS investor completely belong to him	Whereas, in MF profit is distributed as dividend and dividend distribution tax is applicable

Current Status

- Rs 8 lakh crore under management from ~55000 clients
- Around 300 registered PMS providers ranging from Stock brokers to Mutual Fund houses
- Three segments:
 - Discretionary PMS
 - Non-Discretionary PMS
 - Advisory

Investment Advisors

Investment Advisory

- Ownership of Assets and execution remain with client
- The investment advisor provides advise
 - Binding Advice
 - Non-binding Advice
- Advisor earns a fee for advice offered
- Asset ownership as well as returns, stay with clients
- Can be useful for institutional investors including FIIs as well as HNIs

Where Chartered Accountants can help

Financial planners/Distributors

Fund raising for corporate clients - Debt/Equity

Investor awareness initiatives

YC/KYD/ FATCA issues

Questions?

THANK YOU

Important Disclosures

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