AMFI

TATA MUTUAL FUND
Expertise that's trusted

Mutual Funds & Me

Grow your wealth through Mutual Funds

Purpose of the booklet

As a part of the formal education system in our elementary and high schools, we are taught various subjects including math, science, languages and social studies. But there is really no formal teaching on how to manage money during our growing up days. And hence, as adults many of us are completely clueless about investments or even the need of investing.

India boasts a savings rate of ~37%* which is much higher than that of the developed nations. However, due to lack of investor awareness, these savings do not get channelized into high return earning capital market investments. In fact, most of the savings find their way into traditional safe havens including bank deposits and other physical assets. Government statistics show more than 65%* of financial savings are invested in bank deposits. While these instruments are safe, in the long run, an investor has to do better than just beating inflation.

Savings should be productively invested, and depending on the life stage of the investor, optimum allocation should be made to capital market instruments. Someone who has the passion, understanding, and can devote significant time in doing research, can invest directly in these markets. However, most of us are constrained by the lack of time and skill to invest directly... and this is where mutual funds come into the picture.

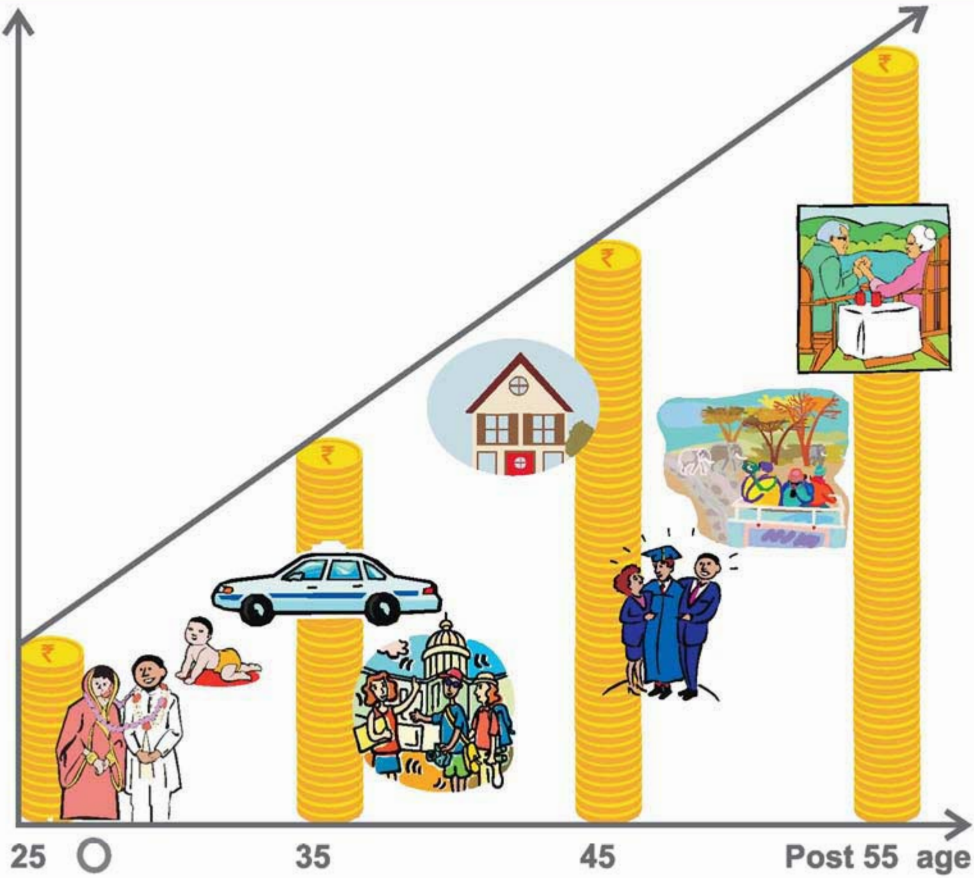
AMFI (The Association of Mutual Funds of India) has published this booklet to spread the awareness of mutual funds among common investors. This is an investor friendly booklet where investing fundas in general, and mutual fund investing in particular, are explained in an easy to comprehend manner - in the form of a conversation between a novice young investor and a financial advisor.

For those who would like to grow their wealth in a systematic way, this is a must-read booklet to make informed investments in mutual funds.

So what are you waiting for? Get started...

**Source: RBI, Economic Survey of India, US Bureau of Economic Analysis*

I have a dream...

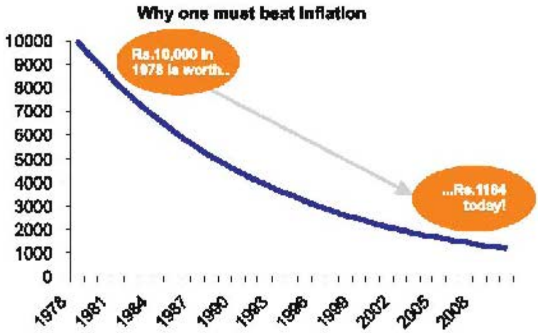


...and I am 'saving' to fund it

Are your savings really saving you?

Keeping your savings in a bank is just not enough to beat rising prices. Inflation will eat into your savings.

Take an example: your grandfather in the 1970's used to manage his monthly expenses with just Rs. 500. But today, even Rs. 15,000 is not enough.



Average inflation assumed to be 6.5%
(Inflation from June 2008 to July 2010)
Source: Ministry of Commerce and Industry

I never thought about that! Tell me more...

Just investing to beat inflation will only help you maintain your current standard of living.

To fund your future, you must invest in a way that yields higher rates of returns.

Invest to fund your future; not just to beat inflation

Understand the power of compounding

Let me tell you about the power of compounding
Einstein had once said, "*Compound interest is the greatest mathematical discovery of all time.*" Compounding makes trivial savings invested over the long term into a sizable sum.

Years	Rate of Return @ 5.5%	7.75%	10%	11%
10	159,507	180,416	204,845	216,998
20	435,627	571,052	759,368	865,638
30	913,612	1,416,853	2,260,488	2,804,519
40	1,741,039	3,248,174	6,324,079	8,600,127

Assumed Rs.1000 invested each month for respective period and interest rates.

Look at the table

- Investing Rs.1000 per month @ 5.5% for 20 years will yield Rs. 4.3 lakhs which is required to keep up with the inflation.
- If the rate of return is increased by just 1%, from 10% to 11%, the sum will grow to Rs. 28 lakhs as against Rs. 22 lakhs after 30 years.

An additional 1% will fetch you Rs. 6 lakhs more...this is the power of compounding.

Compounding will work wonders when you

- **Start early** - you will gain more even if you invest in small amounts
- **Invest for the long term** - investments are made systematically over a long period
- **Are patient** - patience always pays

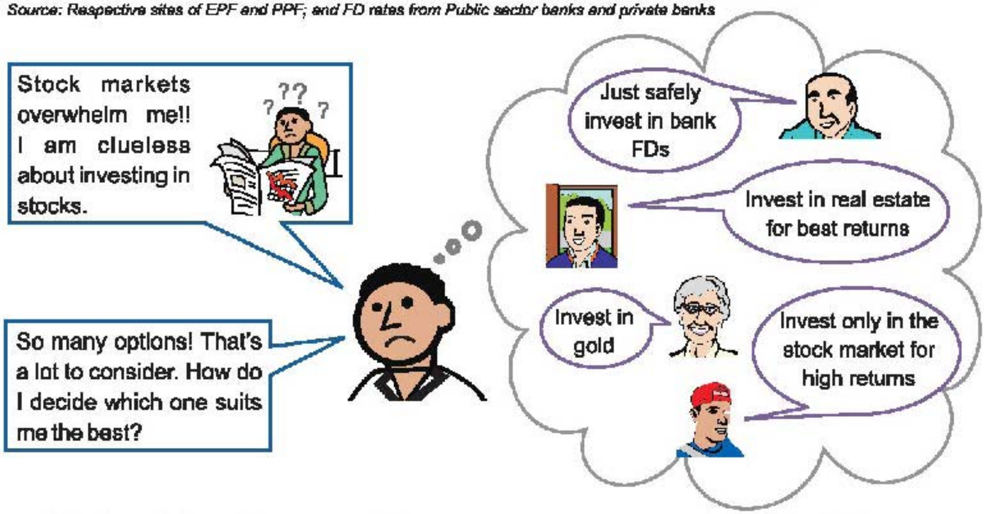
So higher the returns, higher the chances of meeting my future needs

So what are my investment options?

There are various investment options. However, traditionally, market-linked products have yielded higher returns than the fixed income products.

Investment Instrument	Indicative returns	Tax benefits	Duration	Risk of downside	Backing
Bank and Post Office - fixed deposits	5.25% to 7.75%	✔	Short-term and Long-term	No	Government
National Savings Certificates	8%	✔	Long-term	No	Government
Employee Provident Fund (EPF)	8.5%	✔	Long-term	No	Government
Public Provident Fund (PPF)	8%	✔	Long-term	No	Government
Gold	Market-linked	✕	Short-term	Yes	No protection from Govt.
Real Estate	Market-linked	✕	Long-term	Yes	No protection from Govt.
Direct Equities / Stocks	Market-linked	✕	Long-term	Yes	No protection from Govt.
Mutual Funds	Market-linked	✔	Short-term and Long-term	Yes	No protection from Govt.

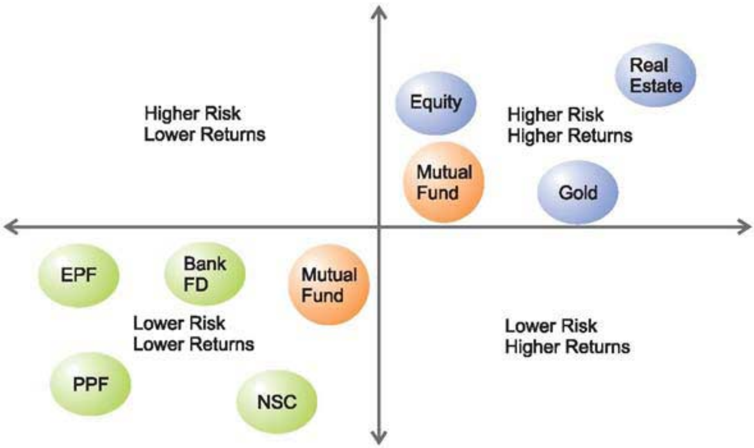
Source: Respective sites of EPF and PPF; and FD rates from Public sector banks and private banks



Mutual funds can give you exposure to all of these

How do mutual funds help?

Risk Return matrix

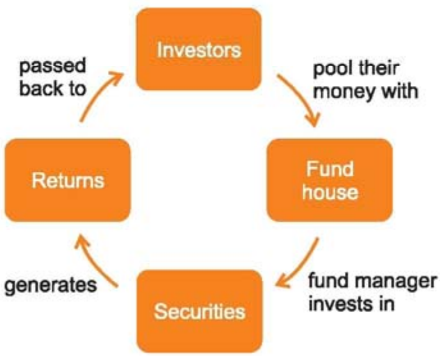


From the chart you can see that each investment option has different risk and return associated with them. Unlike other investment options mutual funds offer wide choice of schemes suiting the investor's needs.

Think of a mutual fund as a collection of stocks, bonds, debentures, money market instruments and/or other securities.

The fund house managing the fund brings together a group of investors just like you, where each one holds a share proportional to their investment.

The money is pooled in and invested in various securities. The returns generated are passed back to the investor.



Let the experts manage your money

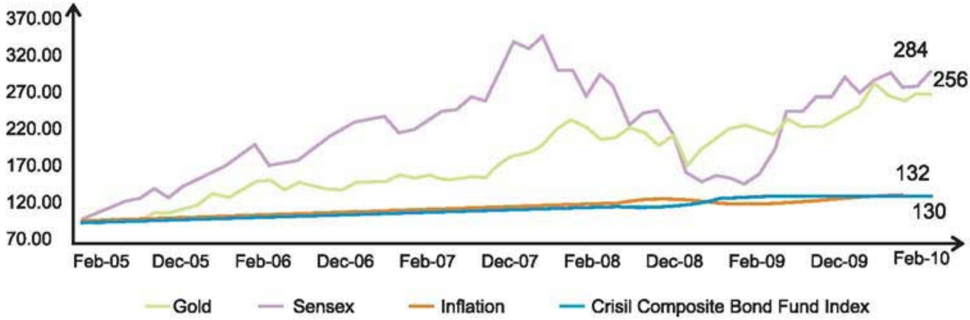
Mutual Funds: *Dus ka dum!*

Features	Benefits
1. Professional management	An investor can avail the services of skilled professionals and research team which analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.
2. Diversification	Mutual funds invest in a number of companies across various industries and asset classes. This reduces the risk, since seldom do all stocks decline at the same time and proportion.
3. Convenient Administration	Investing in a mutual fund helps you avoid many problems such as delayed payments and unnecessary follow up with brokers and companies.
4. Return potential	Over a medium to long-term, mutual funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.
5. Low costs	Mutual funds are a relatively less expensive way to invest as compared to investing directly in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.
6. Liquidity	In open-ended schemes, an investor can get his money back promptly at NAV from the mutual fund itself. With close-ended schemes, he can sell the units on a stock exchange at the prevailing market price or avail the repurchase facility which some close-ended schemes offer periodically at regular intervals.
7. Transparency	An investor can get regular information on the value of his investment, other disclosures, the fund manager's investment strategy and outlook etc.
8. Flexibility	Through Systematic Investment Plans (SIP), Systematic Withdrawal Plans (SWP) and dividend reinvestment plans, an investor can systematically invest or withdraw funds according to his needs and convenience.
9. Choice of schemes	Mutual funds offer a variety of schemes to suit varying investor's needs.
10. Well-regulated	All mutual funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors.

I need more proof...

Sensex outperforming other asset classes

Movement of asset classes in the last 5 years



As we can see from the graph, the Sensex has outperformed all other asset classes over the long-term.

Typically, mutual funds invest in equities for fetching higher returns. However, they can also invest by combining equity with other asset classes - *just like a combo package.*

Investing with a long-term horizon helps you to achieve your future needs quite comfortably.

That's great. This is an investment avenue that I will certainly consider. But I have a question...

I have heard that there are hundreds of funds in the market. How do I pick the one that suits me the best?

That decision-making process can be simplified if you select the appropriate category of fund that suits your risk profile.

Let me introduce you to various types of mutual funds

Mutual funds help you look beyond stock markets

Most funds can be broadly classified into one of the following categories:

Type of funds

Growth Schemes	Balanced Schemes	Income Schemes	Money market / liquid Schemes	Exchange traded funds (ETFs)	Specialised Schemes
Aim to provide capital appreciation over the medium to long term. These schemes normally invest a majority of their funds in equities and are willing to bear short term decline in value for possible future appreciation. These schemes are not for investors seeking regular income or needing their money back in the short term.	Aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. They invest in both shares and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace or fall equally when the market falls.	Aim to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited.	Aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short term instruments such as money market instruments having 91 day maturity, treasury bills, certificates of deposit, commercial paper, Government securities less than a year, and Interbank call money.	An ETF is a basket of stocks that reflects the composition of an index, like Nifty, Sensex, etc. It can be compared to a stock that can be bought or sold during the market hours. Some ETFs invest in gold. These ETFs offer investors a means to participate in the gold market by buying and selling units on the Stock Exchanges, without taking its physical delivery.	This category includes index schemes that attempt to replicate the performance of a particular index such as the BSE Sensex, the NSE 50 (NIFTY) or sector specific schemes which invest in specific sectors such as Technology, Infrastructure, Banking, Pharma etc.

Some mutual Funds invest in foreign securities/ American Depository Receipts (ADRs) / Global Depository Receipts (GDRs). Some of these are dedicated funds for investment abroad while others invest partly in foreign securities and partly in domestic securities.

But how do I select funds for my portfolio?

Follow these steps to choose the right mutual funds

1. Identify your investment needs

a) What are my investment objectives and needs?
b) How much risk am I willing to take?
c) What are my cash flow requirements?

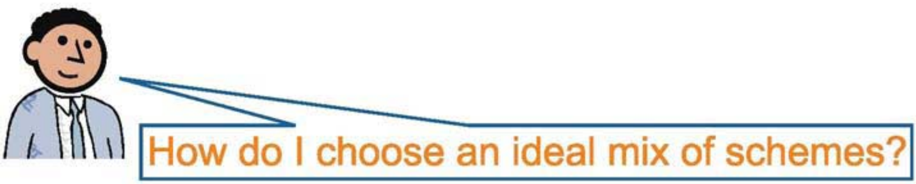
2. Choose the right mutual fund

a) The track record of performance over the last few years in relation to the appropriate benchmark and similar funds in the same category.
b) Look for reputation of fund house and performance of the fund manager.
c) How well the mutual fund is organized to provide efficient, prompt and personalized service.
d) Degree of transparency as reflected in frequency and quality of their communications.

3. Select the ideal mix of schemes

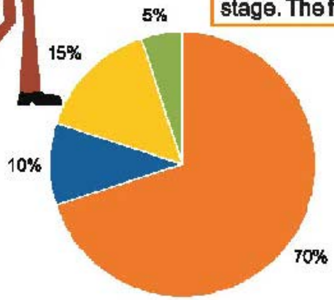
Investing in just one scheme may not meet all your investment needs. You may consider investing in a combination of schemes to achieve your specific goals.

4. You can also take the help of unbiased and independent mutual fund rating websites like Morningstar and Valueresearchonline. There are other websites like moneycontrol / Valuenotes / mutualfundsindia which have various articles on mutual funds. It is always better to take advice from an AMFI Certified distributor / Financial planner.



Your risk tolerance will determine your portfolio

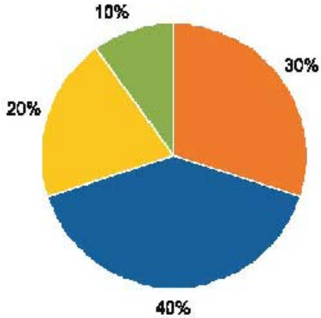
Risk means the willingness to bear a loss on the principal investment for getting returns on the amount invested. The risk taking ability primarily depends on your personal traits, responsibilities and life stage. The following are the suggested portfolio on these factors:



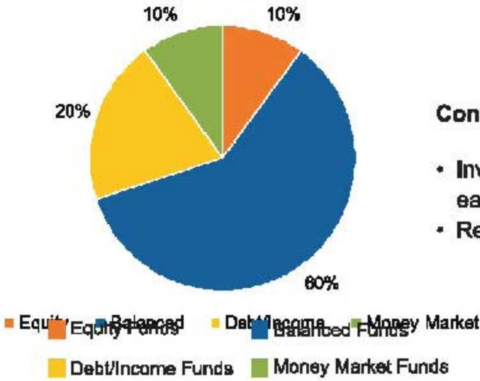
e portfolio

- in their prime earning years and willing ore risk
- seeking growth over a long term

Moderate portfolio



- Investors seeking income and moderate grow
- Investors looking for growth and stability moderate risk



Conservative portfolio

- Investors who need to preserve their capital and earn a regular income
- Retirees usually prefer this

Ok. I will choose a portfolio to suit my risk appetite…

Can I get tax benefits?

Tax liability chart

Individual investor	Equity Oriented funds	Other than Equity Oriented funds	Money Market and Liquid Funds
Long-term Capital Gains *(Gains on units held for more than 12 months)*	NIL (subject to Securities transaction tax (STT) @ 0.25%)	10% without cost inflation index benefit or 20% with cost inflation index benefit whichever is lower+surcharge @10%+secondary and higher education cess (@1% on income tax and surcharge)	As applicable for other than equity funds
Short-term Capital Gains *(Gains on units held for less than 12 months)*	15%+Surcharge @10%+education cess (@2% on income tax and surcharge) + secondary and higher education cess (@1% on income tax and surcharge), subject to STT	Normal rate of taxes as applicable to the tax payer	As applicable for other than equity funds
Dividend Distribution Tax	NIL	12.5%+Surcharge @10%+education cess (@2% on income tax and surcharge) + secondary and higher education cess (@1% on income tax and surcharge) i.e. 14.1625%	25%+Surcharge@10%+education cess (@2% on income tax and surcharge) + secondary and higher education cess (@1% on income tax and surcharge) i.e. 28.325%
Dividend	Tax Free	Tax Free	Tax Free

Source: Finance Bill 2008
Indexation is explained in the glossary

Tax benefits

- A mutual fund investor can claim indexation benefits for long-term capital gains
- Dividends are tax free in hands of the investor
- The amount invested in tax-saving equity linked savings schemes (ELSS) is eligible for deduction under Section 80C upto Rs.100,000 (in a financial year)
    - ELSS offers twin advantage of tax benefits with high earnings potential
    - It has shorter lock-in period of 3 years. Maturity period of NSC is 6 years and for PPF it is 15 years
    - Currently, the long-term capital gains are not taxable for equity funds

You can invest a lump sum or small sums through SIP

SIP or Systematic Investment Plan enables you to invest in mutual funds through small and periodic installments - just like a bank's monthly recurring deposit. It's a convenient way to invest regularly over the long term in a disciplined manner. Some funds allow the monthly investment to be as low as Rs. 100/-.

SIPs help you to:
- Accumulate wealth over the long term by harnessing the power of compounding
- Rupee cost averaging** mitigates the need to time the market, which a lump sum investor has to take care of

From the table we can see that, even though the NAV has remained the same, the SIP Investor managed to book a profit of Rs. 440 in six months as compared to the lump sum option.

Month	NAV (Rs.)	LUMP SUM INVESTOR Amount Invested (Rs.)	LUMP SUM INVESTOR Units bought	SIP INVESTOR Amount invested (Rs.)	SIP INVESTOR Units bought
1	40	12,000	300	2,000	50
2	36			2,000	56
3	28			2,000	71
4	44			2,000	45
5	52			2,000	38
6	40			2,000	50
Total Invested		12,000		12,000	
Average price paid (Rs.)		40		39	
No. of units bought		300		311	
Value of Investments after six months (Rs.)		12,000		12,440	

*These are hypothetical numbers for illustration. Fractional units are ignored. However, there is no guarantee that Rupee Cost Average plan would yield better results than lump sum investing

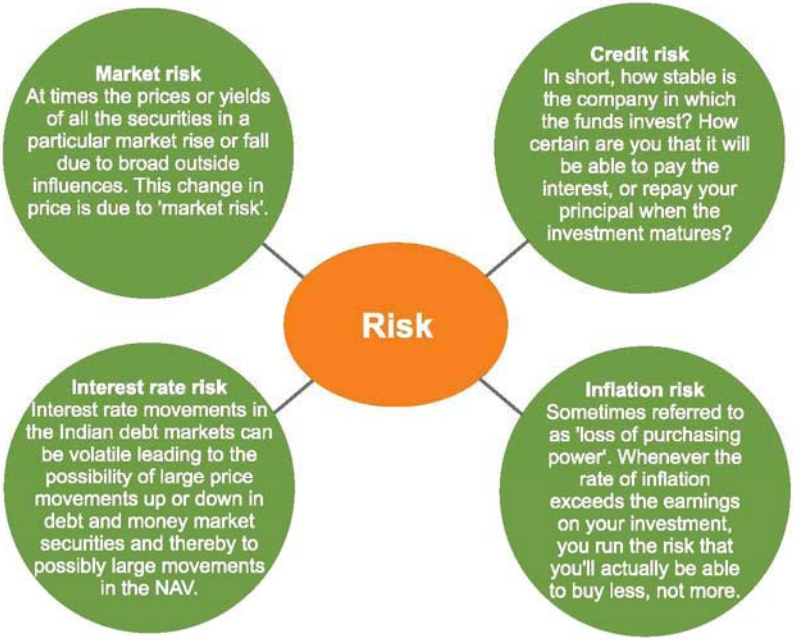
Mutual funds do carry a lot of benefits. But there must be some risks that I need to be aware of...

**Suppose an investor were to invest Rs 1,000 per month for 6 months. If, in the first month, the NAV is Rs 10, the investor will be allotted Rs 1,000 ÷ Rs 10 i.e. 100 units. In the second month, if the NAV has gone up to Rs 12, the allotment of units will go down to Rs 1,000 ÷ Rs 12 i.e. 83.3 units. If the NAV goes down to Rs 9 in the following month, the unit-holder will be allotted a higher number of Rs 1,000 ÷ Rs 9 i.e. 111.1 units. Thus, the investor acquires his units closer to the average of the NAV on the 6 transaction dates during the 6 month period - a reason why this approach is also called Rupee Cost Averaging.

Risk comes when you don't know what you are doing

All investment avenues have some risk associated with them, however the degree of risk may vary. Simply put, we risk our principal for getting returns. If the fund performs well, our money will grow. If not, we could suffer losses on our principal amount.

Other risks would include variability, or period-by-period fluctuations in total return.



I have weighed the pros and cons, and now have a better understanding of mutual funds.

So how do I go about buying mutual funds?

Simple...follow the steps below to buy or sell mutual fund

Buying

- Determine financial goals
- Identify 'what to buy'
- Evaluate funds from various mutual fund companies
- Online: Mutual fund company and others
- Offline: AMFI registered distributor (Banks, Financial service companies, Brokers, Individual agents)
- Fill up form
- Attach relevant documents including Know Your Customer (KYC) form
- Submit

Selling

- Get common transaction slip (*Download from mutual fund company's website or get it from the broker, distributor or branch*)
- Choose 'redemption'
- Fill up relevant details (*You could do partial redemption as well*)
- Sign the form (*All applicants to the units need to sign*)
- Submit (*Submit the form to the branch of the specific mutual fund / online / through brokers, agents and AMFI registered distributors*)
- Money into your bank account (*Money gets credited to you as per the scheme-specific turnaround time*)

But remember, only sell your mutual fund units if:

- The fund has been consistently under-performing compared to its peers over a long term
- The fund doesn't fit into your plans anymore
- You are in urgent need of cash

As the moral of the story goes:

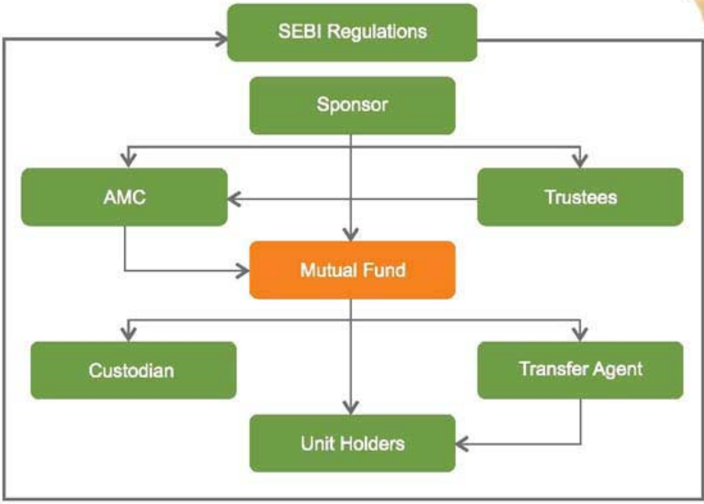
Invest early + through SIPs + for the long term = creation of wealth

HAPPY INVESTING!

Thank you for putting me on the right track towards a bright future!

But wait, there's more

Mutual fund structure



Terms	Definition
Sponsor	The application to SEBI for registration of a mutual fund is made by the sponsor/s. Thereafter, the sponsor invests in the capital of the AMC. The sponsors are the main people behind the mutual fund operation.
Trustee	The trustees have a critical role in ensuring that the mutual fund complies with all the regulations, and protects the interests of the unit-holders. As part of this role, they perform various kinds of general and specific due diligence.
AMC	Day to day operations of asset management are handled by the asset management company (AMC). It therefore arranges for the requisite offices and infrastructure, engages employees, and interacts with regulators and various service providers. Further, it has to exercise due diligence and care in all its investment decisions.
Custodian	The custodian has custody of the assets of the fund. As part of this role, the custodian needs to accept and give delivery of securities for the purchase and sale transactions of the various schemes of the fund.
RTA (Registrar and transfer agent)	The RTA maintains investor records. Their offices in various centres serve as Investor Service Centres (ISCs), which perform a useful role in handling the documentation of investors.
Regulator SEBI	SEBI was officially formed by the Government of India in 1992. To protect the interest of the investors, SEBI regulates the mutual funds.

More about mutual funds...

Terms	Definition
Entry load	Entry load is charged to investors for meeting the selling and distribution expenses of the scheme. A major portion of the entry load is used for paying commissions to the distributor. However, SEBI has waived entry loads since 1 August 2009.
Exit load	Exit loads are charged when the investor exits the scheme. If the investor exits early, he will have to bear more exit load and if he remains invested for a longer period of time, his exit load will reduce. Thus the longer the investor remains invested, lesser is the exit load. After some time the exit load reduces to nil; i.e. if the investor exits after a specified time period, he will not have to bear any exit load.
Expense ratio	Expense ratio is defined as the ratio of expenses incurred by a scheme to its Average Weekly Net Assets i.e how much of the investor's money is going towards expenses and how much is being invested. This ratio should be as low as possible.
AUM	Assets Under Management (AUM) represents the money which is managed by a mutual fund in a scheme.
NAV	Net Asset Value is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.
Indexation	• Under Indexation, an investor is allowed by law to inflate the cost of his asset by a government notified inflation factor. This factor is called the 'Cost Inflation Index', from which the word 'Indexation' has been derived. • 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.

Rights of the unit holder

Under the SEBI (Mutual Funds) Regulations, the investor is entitled to:

1. Receive unit certificates or statements of accounts confirming his title within 30 days from the date of closure of the subscription under open-ended schemes, or within 6 weeks from the date his request for a unit certificate is received by the mutual fund.

2. Receive information about the investment policies, financial position and general affairs of the scheme.

3. Receive dividend within 30 days of their declaration and receive the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase. In case the AMC fails to send the redemption proceeds within stipulated time, it has to pay an interest @ 15%. This rate may change from time to time subject to regulations.

4. Vote in accordance with the regulations to: change the Asset Management Company and wind up the schemes. Investors can wind up a scheme or even terminate the AMC if unitholders representing 75% of scheme's assets pass a resolution to that respect.

5. Receive communication from the trustees about changes in the fundamental attributes of any scheme, or any other changes which would modify the scheme and affect the interest of the unit holders and to have an option to exit at prevailing Net Asset Value without any exit load in such cases.

6. Inspect the documents of the mutual funds specified in the scheme's offer document. In addition to these rights, the investor can expect the following from mutual funds:

    a. To publish their NAV, in accordance with the regulations: daily in the case of open-ended schemes, and once a week in the case of close-ended schemes.

    b. To disclose schemes' entire portfolio twice a year, unaudited financial results half yearly, and audited annual accounts once a year. In addition, many mutual funds send out newsletters periodically.

    c. To adhere to a Code of Ethics which require that investment decisions are taken in the interest of the unit holders.

7. Lastly, investors can approach the investor relations officer for grievance redressal. In case the investor does not get appropriate solution, he can approach the investor grievance cell of SEBI.

TATA MUTUAL FUND

Expertise that's trusted

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Website www.tatamutualfund.com

I now know how to invest in mutual funds. Do you?

If not, please call on this toll free number for getting sound advice!

1800 1800 1800 1800

(AMC can put in their number)

Disclaimer

This guide on the concept, operations and advantages of Mutual Funds and the rights of the Mutual Fund unitholders, is intended purely as a guide and does not solicit investment in any specific Mutual Fund. It is not a legal or regulatory document. It is recommended that you read the relevant offer document and if necessary, consult your investment advisor before making an investment decision.

*Mutual funds investments are subject to market risks. Please read the **SID** and **SAI** before investing in mutual funds.*

This guide can be obtained directly from:
Contact details of AMC

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