

Participant Handbook

Sector
BFSI

Sub-Sector
Fund Investment & Services

Occupation
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and Agency**

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Shri Narendra Modi
Prime Minister of India

“ Skilling is building a better India.
If we have to move India towards
development then Skill Development
should be our mission. ”



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for

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The preparation of this handbook would not have been possible without the banking sector's support. Industry feedback has been extremely beneficial since inception to conclusion, and it is with their guidance that we have tried to bridge the existing skill gaps in the industry. This participant handbook is dedicated to the aspiring youth, who desire to achieve special skills that will be a long-term asset for their future pursuits.

About this book

Welcome to the "Mutual Fund Distribution Specialist" training program. This handbook is designed to provide participants with comprehensive knowledge about the mutual fund distribution process, focusing on guiding clients through investment decisions, managing portfolios, and ensuring regulatory compliance. Throughout this training program, participants will gain insights into the intricacies of mutual fund products, investment strategies, and client engagement. The handbook will cover various aspects, including educating clients on the risk-return profile of different funds, aligning investment choices with financial goals, and conducting regular portfolio reviews.

Participants will also be equipped with the necessary skills to stay updated on market trends, fund performance, and regulatory changes within the mutual fund industry. Effective communication skills will be emphasized, enabling participants to build trust with clients, explain complex financial concepts, and address inquiries. The handbook outlines the key knowledge and understanding required for successful mutual fund distribution. This includes staying informed about market conditions, fund characteristics, and relevant regulatory requirements. Performance criteria are established to encourage participants to achieve the necessary skills through hands-on training and adherence to industry standards.

This Participant Handbook is designed based on the Qualification Pack (QP) under the National Skill Qualification framework (NSQF) and it comprises of the following National Occupational Standards (NOS)/ topics and additional topics.

1. BSC/N3805- Conduct Market Research on Mutual Funds and Sell the Products
2. BSC/N3807- Perform After-Sales Activities NOS Version No. 2.0
3. DGT/VSQ/N0102: Employability Skills (60 Hours)

Symbols Used



Key Learning Outcomes



Unit Objectives



Exercise



Tips



Notes



Activity



Summary



Practical

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1. Introduction to the Banking Sector and the Job Role of Mutual Fund Distributor



Unit 1.1 - Banking Industry and its Sub-Sectors in India

Unit 1.2 - Introduction to Mutual Fund

Unit 1.3 - Introduction to Skill India Mission



Key Learning Outcomes

By the end of this module, the participants will be able to:

1. Describe the scope of the Banking Industry and its sub-sectors
2. Elaborate on the concept of Mutual Funds and explain its functioning.
3. Define the role and responsibilities of a Mutual Fund Distributor
4. Outline the overview of the Skill India Mission

UNIT 1.1: Banking Industry and its Sub-Sectors in India

Unit Objectives

By the end of this unit, the participants will be able to:

1. Outline the banking sector in India.
2. Identify the sub-sectors of the banking sector in India.
3. Summarize the history of Banking and Financial Services in India.
4. Recall the challenges faced by the banking and finance sector in India.
5. List the basic terminologies used in banking services.

1.1.1 Banking Sector Landscape in India

What is a Bank?

Banks are government or privately-owned institutions that generally accept deposits and make loans. In addition, banks also offer related services like currency exchange, safe deposit boxes, certificates of deposit (CDs), individual retirement accounts (IRAs), etc.

Deposits are money people leave in an institution with the understanding that they can get it back at any time or at an agreed-upon future time. A loan is a money given to a borrower to be generally paid back with interest.

Types of Banks in India

Banks in India can be classified into four types:

- Central banks
- Commercial banks
- Cooperative banks
- Specialized banks

The Reserve Bank of India (RBI) is India's central bank. The central bank's main function is to regulate all other banks and act as an apex body for the economic sector.

Commercial banks can be further classified into:

- **Public sector banks (PSBs)** are the backbone of the Indian banking system, owned and operated by the government. Think of them as the established giants, serving a vast network of branches across the country. Some prominent examples include State Bank of India (SBI), Bank of India (BoI), Bank of Baroda, and Punjab National Bank (PNB).
- **Private sector banks** are the dynamic players, driven by innovation and customer-centric approaches. Think of them as the agile challengers, offering a wider range of products and services with a focus on speed and efficiency. Leading examples include HDFC Bank, ICICI Bank, and Axis Bank.
- **Foreign banks:** These international players bring global expertise and specialized services to the Indian market. They are niche specialists catering to specific needs like international trade finance or wealth management. Examples include Citibank, HSBC, and Standard Chartered Bank.

- **Regional Rural Banks (RRB):** These are a unique category established to serve the needs of rural communities. Think of them as the regional champions, providing basic banking services and credit facilities in underserved areas. Some of the examples include Paschim Banga Gramin Bank and Uttarbanga Kshetriya Gramin Bank in West Bengal, Chaitanya Godavari Grameena Bank in Andhra Pradesh, Pandyan Grama Bank in Tamil Nadu, Saurashtra Gramin Bank in Gujarat, Rajasthan Marudhara Gramin Bank in Rajasthan, Langpi Dehangi Rural Bank in Assam, etc.
- **Cooperative banks** are community-driven institutions catering to specific groups or regions. They can be further classified into:
 - **Urban Cooperative Banks:** These banks serve the needs of urban communities, often focusing on specific professions or sectors.
 - **Rural Cooperative Banks:** These institutions play a vital role in providing basic banking services and credit facilities in rural areas.

Other types of banks in India include:

- **Local Area Banks (LABs)** are small private banks that provide financial services in rural and semi-urban areas. The Government of India established LABs to help local institutions pool rural savings and make them available for investment. One of the prominent examples of LAB is Coastal Local Area Bank Ltd., the largest LAB in India, which operates in five districts of Andhra Pradesh.
- **Small Finance Banks (SFBs)** focus on providing basic financial services like micro-loans and savings accounts to individuals and businesses that traditional banks might not reach. Examples include Ujjivan Small Finance Bank, Jana Small Finance Bank, AU Small Finance Bank, Utkarsh Small Finance Bank, etc.
- **Payments Banks** focus on providing basic financial services like money transfers, mobile payments, and bill payments but cannot offer loans or credit cards. Examples include Indian Post Payment Bank, Airtel Payment Bank, Fino Payment Bank, Paytm Payment Bank, and Jio Payment Bank.
- **Development banks** are specialized institutions established to promote specific sectors or industries. A prominent example is the Industrial Development Bank of India (IDBI), which is crucial in financing infrastructure development and industrial projects.

Other Financial Institutions

- **Non-Banking Financial Companies (NBFCs)** are alternative financial service providers, filling crucial gaps left by traditional banks. They are not banks but offer similar services like loans, credit cards, and investment products. Examples include Tata Capital, Aditya Birla Financial Services, Fullerton India, and IIFL.
- **Microfinance Institutions (MFIs)** provide small loans and financial services to individuals and businesses that traditional banks wouldn't touch. Examples include Bandhan Financial Services Limited, Asirvad Microfinance Limited, Fusion Microfinance Pvt Ltd., and Cashpor Micro Credit.

1.1.2 History of Banking and Financial Sector in India

The story begins in ancient times, when informal moneylending paved the way for the "sahukar" system, with community leaders offering credit and financial services. The arrival of colonial powers like the East India Company in the 17th century ushered in Western banking practices, establishing the first Presidency Banks in Calcutta, Bombay, and Madras. These institutions primarily served the colonial government and trade, leaving the broader population's needs largely unmet.

The winds of independence in 1947 brought a shift in focus. The nationalization of major banks in the 1950s and 1960s aimed to channel resources towards national development and prioritize lending

to agriculture and small businesses. Public sector banks became the backbone of the system, with a strong emphasis on social welfare and financial inclusion.

However, like a ship in calm waters, the system began to show signs of stagnation. Rigidities and bureaucratic processes hampered growth. By the 80s, the winds of change were gathering force. Global financial landscapes were evolving rapidly, and India couldn't afford to be left behind.

The 90s saw a dramatic shift. Liberalization became the mantra, opening doors for private banks, foreign investments, and a flood of new financial instruments. Once a niche corner, mutual funds blossomed into mainstream players, offering retail investors access to diverse investment avenues. Technology became the silent revolution, with digital banking and mobile money bridging the distance between institutions and individuals.

Today, India's financial landscape is a kaleidoscope of colours. Public sector banks stand tall, serving millions across the country. Private Banks bring innovation and dynamism. Foreign institutions add global expertise and best practices. NBFCs cater to specific needs, while microfinance institutions empower the underserved. Fintech start-ups inject technological disruption, continuously rewriting the rules of the game.

India's banking and financial sector, the lifeblood of the economy, is constantly evolving. The government has been actively implementing various initiatives to keep pace with changing needs and ensure sustained growth.

1. **Recapitalization of Public Sector Banks (PSBs):** Recognizing the importance of PSBs in serving a large segment of the population, the government launched a massive recapitalization plan in 2017. This involved injecting over Rs. 2.1 lakh crore into PSBs, aimed at improving their capital adequacy, enhancing lending capacity, and boosting investor confidence.
2. **National Asset Reconstruction Company Ltd. (NARCL):** To address the issue of bad loans plaguing PSBs, the government established NARCL in 2021. This "bad bank" aims to acquire stressed assets from PSBs, freeing up their capital for productive lending and improving their financial health.
3. **Fintech Promotion and Hubs:** Recognizing the potential of fintech to revolutionize the financial landscape, the government has taken several steps to nurture its growth. This includes setting up fintech hubs across the country, creating a regulatory sandbox for testing innovative products, and launching the "Jan Dhan-Aadhaar-Mobile (JAM)" trinity for seamless financial inclusion.
4. **Open Banking Framework:** To promote transparency and competition, the government introduced the Open Banking Framework in 2019. This framework allows customers to securely share their financial data with authorized third-party applications, enabling personalized financial services and innovative products.
5. **Digital Payments Push:** Recognizing the convenience and efficiency of digital payments, the government has launched various initiatives to promote their adoption. This includes UPI (Unified Payments Interface), BHIM (Bharat Interface for Money), and e-RUPI, aimed at facilitating cashless transactions across the country.
6. **Financial Inclusion:** Ensuring access to financial services for all remains a core focus. The Pradhan Mantri Jan Dhan Yojana has successfully brought millions into the banking fold, while initiatives like microfinance and mobile banking further bridge the financial gap.
7. **Insolvency and Bankruptcy Code (IBC):** The IBC, introduced in 2016, provides a time-bound and efficient mechanism for resolving bad loans. This has improved the debt resolution process and strengthened investor confidence in the Indian financial system.

1.1.3 Emerging Trends in Indian Banking and Finance Sector

Insurance:

- **Microinsurance:** Targeting financially excluded populations with affordable insurance for life, health, and crops, promoting financial security.
- **Insurtech:** Leveraging technology to offer personalized policies, digital claims processing, and chatbots for customer service, enhancing accessibility and convenience.

Fund Houses:

- **Passive Investments:** The rising popularity of Index Funds and ETFs offering low-cost diversification and risk management, attracting new investors.
- **Thematic Funds:** Focus on specific themes like ESG, technology, or infrastructure, catering to investors with sustainable or sector-specific interests.

Data and Analytics:

- **Big Data:** Utilizing vast amounts of customer data to personalize financial products, assess creditworthiness, and predict market trends for informed investment decisions.
- **AI and Machine Learning:** Automating tasks like fraud detection, KYC verification, and chatbot interactions, improving efficiency and customer experience.
- **Robo-advisors:** AI-powered platforms offering automated investment advice and portfolio management, democratizing access to financial expertise.

Enhanced Security and Fraud Mitigation:

- **Blockchain Technology:** Securely store and verify data through a distributed ledger, increasing transparency and reducing fraud in transactions.
- **Biometric Authentication:** Utilizing fingerprints, iris scans, and voice recognition for secure access and transactions, reducing password vulnerabilities.
- **Open Banking:** Sharing customer data securely with authorized third-party applications for personalized financial solutions and seamless integrations.

Digital Payments:

- **UPI (Unified Payments Interface):** Revolutionizing cashless transactions through instant mobile money transfers, driving financial inclusion and convenience.
- **QR Code payments:** Simplifying merchant payments and eliminating physical cash dependence, making transactions fast and seamless.

Cloud-based Architectures and Mobile Apps (Fintechs):

- **Cloud Computing:** Leveraging cloud infrastructure for data storage, security, and scalable IT services, reducing costs and enhancing flexibility.
- **Fintech Startups:** Disrupting traditional banking models with innovative mobile apps for investments, microloans, and wealth management, catering to diverse financial needs.

1.1.4 Challenges in the Indian Banking and Finance Sector

The Indian banking and finance sector, despite its impressive strides, faces a dynamic range of challenges.

One of the biggest hurdles plaguing banks is the burden of "bad debts" or Non-Performing Assets (NPAs). These unpaid loans act like anchors, weighing down their ability to lend and grow. To break free, stricter loan recovery mechanisms, improved risk assessment through data analytics, and a streamlined bankruptcy resolution process are essential.

Meanwhile, a digital storm is reshaping the banking landscape in India. Cutting-edge technologies like AI, blockchain, and cloud computing offer immense potential for personalized services, faster

transactions, and cost-efficiency. However, integrating these advancements while ensuring robust cybersecurity and attracting tech-savvy talent poses significant challenges for traditional institutions.

The rising wave of fintech start-ups and new-age banks adds to the competitive storm. Like nimble surfers, they ride the digital wave with personalized services, lower fees, and faster transactions. Established banks must adapt and innovate, collaborate with these agile players, and focus on niche segments where they can excel.

Beyond the internal battles, bridging the financial inclusion gap remains a crucial yet demanding task. Millions, particularly in rural areas, stand on the shore, yearning for access to essential financial services. Mobile technology adoption, tailored solutions, and collaborative efforts between government and financial institutions are the lifeboats needed to bring them onboard.

1.1.5 Basic Terminologies Used in Banking Services

Terminologies	Explanation
Account	A record of your financial transactions with a bank, such as a savings account, checking account, or credit card account.
Balance	The amount of money remaining in your account after all debits and credits have been posted.
Beneficiary	The person or organization that receives money in a transaction
Cheque	A written order to a bank to pay a specific amount of money to a named person or company.
Credit	The ability to borrow money from a bank or other financial institution.
Debit	The removal of money from your account, such as when you make a purchase with a debit card or write a cheque.
Fixed Deposit (FD)	A deposit that earns a fixed interest rate for a specific period of time.
Interest	The fee charged for borrowing money or the money earned for lending money.
Loan	A sum of money that you borrow from a bank or other financial institution and repay over time with interest.
Net Banking	Online banking allows you to access your bank account and manage your finances online.
PIN	Personal Identification Number, a secret code that you use to access your bank account or ATM.
RTGS	Real-time Gross Settlement is a system for immediately transferring large amounts of money between banks.
NEFT	National Electronic Funds Transfer is a system for transferring money between banks electronically.
IFSC Code	Indian Financial System Code is a unique code that identifies each bank branch in India.
Investment	Money that is put into something with the expectation of making a profit.
KYC	Know Your Customer is a process that banks use to verify the identity of their customers.

Terminologies	Explanation
MICR Code	Magnetic Ink Character Recognition Code is a code printed on cheques that allows them to be processed electronically.
Mutual Fund	A pool of money collected from many investors and invested in a diversified portfolio of securities, such as stocks, bonds, and real estate.
NAV	Net Asset Value, the price per unit of a mutual fund scheme.
NEFT	National Electronic Funds Transfer is a system that allows for the electronic transfer of funds between bank accounts.
Net Banking	Online banking allows customers to access their bank accounts and perform banking transactions online.
NPA's	Non-Performing Assets are loans that the borrower is not repaying.
SIP	A systematic Investment Plan allows you to invest a fixed amount of money in a mutual fund scheme at regular intervals.
Lump Sum Investment	A one-time investment in a mutual fund scheme.
Entry Load	A fee charged when you invest in a mutual fund scheme.
Exit Load	A fee charged when you sell your units in a mutual fund scheme
Open-ended Fund	A mutual fund scheme that allows you to buy and sell units at any time.
Closed-ended Fund	A mutual fund scheme with a fixed number of units only allows you to buy and sell units on the stock exchange.
Debt Fund	A mutual fund scheme that invests primarily in bonds and other fixed-income securities.
Equity Fund	A mutual fund scheme that invests primarily in stocks.
UPI	Unified Payments Interface is a system that allows instant real-time money transfer between bank accounts on mobile phones.
Withdrawal	Taking money out of an account.

Table 1.1.1: Common Terminologies in the Banking and Finance Sector

UNIT 1.2: Introduction to Mutual Fund

Unit Objectives

By the end of this unit, the participants will be able to:

1. Discuss what a mutual fund is and summarize its importance.
2. Illustrate how mutual funds work.
3. Outline the history of Mutual Funds in India
4. List the constituents of Mutual Funds.
5. List the roles and responsibilities of a mutual fund distributor.

1.2.1 Mutual Funds

Imagine a bustling bazaar filled with vendors selling all sorts of wares. Each vendor represents a different company, and their wares are its shares. Now, picture yourself walking through this bazaar, a bit overwhelmed by the choices and unsure which vendor to entrust your hard-earned rupees with. That's where mutual funds come in – they act like your trusted guide, helping you navigate the market and invest in a basket of these wares, all under one roof!

Here's how it works, step by step:

- **You invest:** You choose a mutual fund that aligns with your financial goals and risk tolerance. You can invest a lump sum or through small, regular instalments, making it accessible to everyone.
- **The pool grows:** Think of it as a big pot where everyone throws in their contributions. This collective pot is called the mutual fund corpus.
- **Enter the fund manager:** Just like you wouldn't navigate a crowded marketplace alone, a mutual fund has a skilled guide – the fund manager. They research, analyse, and select the best investments for the chosen portfolio, making sure it reflects the fund's objectives.
- **Diversification is key:** Unlike buying just one mango, the fund manager spreads the money across different "company slices," like apples, oranges, and maybe even some exotic fruits! This diversification helps spread risk and potentially increase returns.
- **Your slice of the pie:** Each unit of the mutual fund represents a tiny ownership stake in the pool of investments. As the market goes up and down, the value of the fund's holdings fluctuates, reflected in the "Net Asset Value" (NAV) – basically, the price of each unit.
- **Buying and selling:** When you invest, you buy units at the current NAV. If the NAV rises, your investment grows! You can then sell your units at the market price to cash in on the profit. However, remember that market movements can also lead to losses.

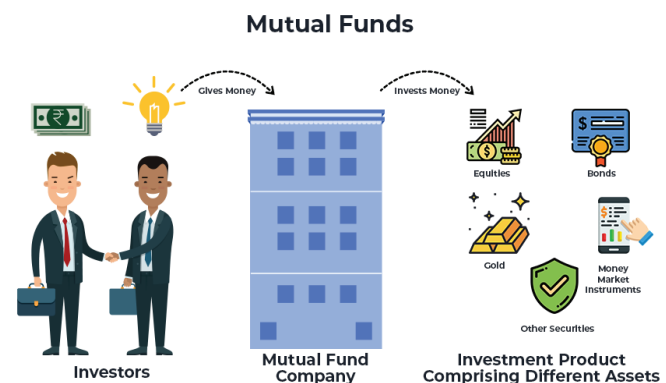


Fig. 1.2.1: Basic structure of Mutual Fund

In India, mutual funds cater to a wide range of investors, from risk-averse beginners to seasoned investors seeking higher returns. There are equity funds for capital appreciation, debt funds for regular income, and hybrid funds for a balanced mix. You can even choose funds based on specific sectors like infrastructure or technology.

Advantage and Disadvantages of Mutual Funds:

Advantage	Disadvantage
• Professional Management: You benefit from the expertise and analysis of professional fund managers, saving you time and effort. • Diversification: Mutual funds spread your investment across various assets, reducing risk compared to putting all your eggs in one basket. • Convenience and Accessibility: Investing in a diverse portfolio with low minimum investment amounts becomes easy and affordable. • Liquidity: Most mutual funds offer easy buying and selling options, providing you with quick access to your invested capital. • Potential for Higher Returns: By pooling resources and leveraging professional expertise, mutual funds can potentially offer higher returns than individual stock picking. • Regular Income: Certain debt and hybrid funds offer regular dividends, providing investors with a steady stream of income.	• Fees and Expenses: Management fees, sales charges, and other expenses can eat into your returns. • Lack of Control: You relinquish control over individual investment decisions to the fund manager. • Market Risk: Mutual funds are still subject to market fluctuations, leading to potential losses. • Limited Information: Access to some underlying fund holdings may be limited, making it difficult to fully understand the portfolio composition. • Performance Variability: Past performance does not guarantee future results, and some funds may underperform market benchmarks. • Tax Implications: Capital gains or dividends may be subject to taxation depending on the type of fund and your investment horizon.

Table 1.2.1: Pros and Cons of Mutual Funds

1.2.2 History of Mutual Funds in India

India's mutual fund journey began in 1963 with the birth of UTI, aiming to bring ordinary investors into the fold of the stock market. This first phase saw UTI dominate the scene, paving the way for future growth.



Fig .1.2.2: UTI Mutual Funds

The next chapter, from 1987 to 1993, witnessed the entry of public sector giants like SBI and LIC, diversifying the landscape and fuelling investor confidence.



Fig. 1.2.3: SBI and LIC Mutual Funds

Then came a turning point in 1993: private players entered the field, bringing fresh energy and a wider range of options for investors. This phase, marked by the establishment of SEBI regulations, laid the foundation for the industry's future.

The early 2000s saw consolidation and challenges, including the global financial crisis of 2009. But the industry bounced back, with SEBI actively introducing initiatives to boost penetration and investor confidence.

Since 2014, the industry has been on a steady rise, witnessing significant growth in both assets under management and investor participation. Factors like rising income, urbanization, and digitalization further fuel this upward trajectory.

The future of India's mutual fund industry looks bright, with potential for further expansion as more Indians embrace financial instruments like stocks and bonds.

1.2.3 Constituents of Mutual Fund

The world of mutual funds thrives on a powerful collaboration between three distinct entities: the Sponsor, the Trustee, and the Asset Management Company (AMC). Each one of them plays a vital role in ensuring the smooth functioning and success of the fund, ultimately translating into a secure and potentially rewarding investment journey.

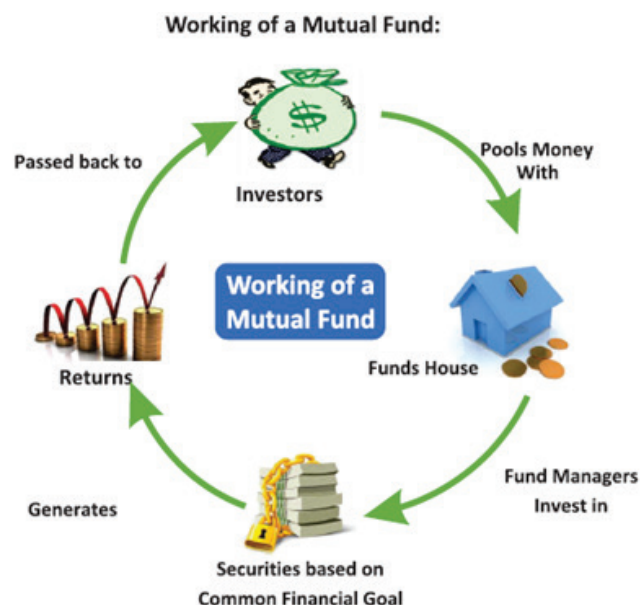


Fig. 1.2.4: Working of Mutual Fund

The Sponsor

Imagine the Sponsor as the visionary architect behind the mutual fund. They are the ones who conceive the idea, identify a market need, and set the initial framework for the fund. Think of them as the seed planters, sowing the first ideas and nurturing them into a robust financial instrument.

- **Initiating the Fund:** Financial institutions like banks, insurance companies, or investment houses often act as sponsors. They are responsible for establishing the legal structure, typically a trust that will hold the fund's assets and act as the custodian of investor money.
- **Appointing the AMC:** The Sponsor's crucial task is to choose a competent and experienced Asset Management Company (AMC) to manage the fund's portfolio. They conduct thorough due diligence, evaluating the AMC's track record, investment philosophy, and compliance with regulations.
- **Setting the Fund's Objectives:** The Sponsor defines the fund's objectives and investment mandate. This encompasses factors like the target asset class (equity, debt, and hybrid), risk profile, and investment horizon. This initial direction guides AMC's investment decisions and ensures alignment with investor expectations.

The Trustee

Picture the Trustee as the vigilant watchdog, safeguarding your investment and ensuring the fund operates within legal and regulatory boundaries. They act as a neutral party, representing the interests of investors and serving as a check and balance against the AMC.

- **Independent Oversight:** Trustees are typically independent entities, such as trust companies or law firms, with no vested interest in the fund's performance. They monitor the AMC's activities, ensuring adherence to the trust deed, investment mandate, and relevant regulations set by SEBI or other authorities.
- **Protecting Investor Rights:** The Trustee acts as a voice for investors, addressing their concerns and ensuring fair treatment. They review and approve the fund's offering documents, annual reports, and any investment strategy or fee changes.
- **Dispute Resolution:** In case of any disputes between investors and the AMC, the Trustee acts as a neutral arbitrator, aiming for a fair and equitable resolution.

The Asset Management Company (AMC)

An Asset Management Company (AMC) is a company that pools money from investors and invests it in various securities.

The Asset Management Company (AMC) collects money from different people and groups, like regular folks and big organizations. They pool all this money together, creating a big chunk of cash. The AMC then has a team of smart money experts who look into different investment options like stocks, bonds, real estate, and other unique investments.

Their main job is to create a mix of investments, kind of like putting together a variety pack of snacks. This mix should match what the investors want to achieve with their money. The AMC actively keeps an eye on these investments, buying and selling stuff to make sure they make as much money as possible while keeping things safe.

The profits made from these investments get shared with the investors. But, the AMC takes a small cut for their hard work, like a fee for their services. They usually charge a percentage of all the money they're managing for you. And, just so you know, there are rules to ensure the AMC plays fair and looks out for the investors. This keeps everything ethical and protected.

What is an AMC?

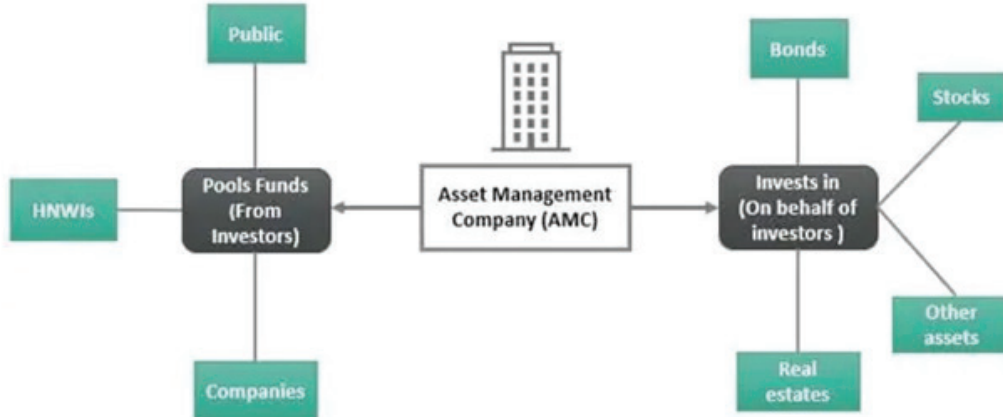


Fig. 1.2.5: How AMC works

AMCs are the brains and hands behind the portfolio selection, actively making decisions that shape the fund's performance and your returns.

- **Portfolio Management Expertise:** AMCs boast teams of seasoned investment professionals, analysts, and research experts. They leverage their knowledge and market insights to choose the best investment options for the fund based on its objectives and risk profile.
- **Day-to-day Operations:** The AMC handles the practical aspects of portfolio management, including buying and selling securities, adjusting asset allocation, and managing transaction costs. They track market movements, analyse risks, and make strategic decisions to optimize returns for investors.
- **Performance Reporting and Transparency:** AMCs are responsible for keeping investors informed about the fund's performance through regular reports, disclosures, and investor communication channels. They strive to ensure transparency and maintain a dialogue with investors, building trust and confidence.

AMC Functions

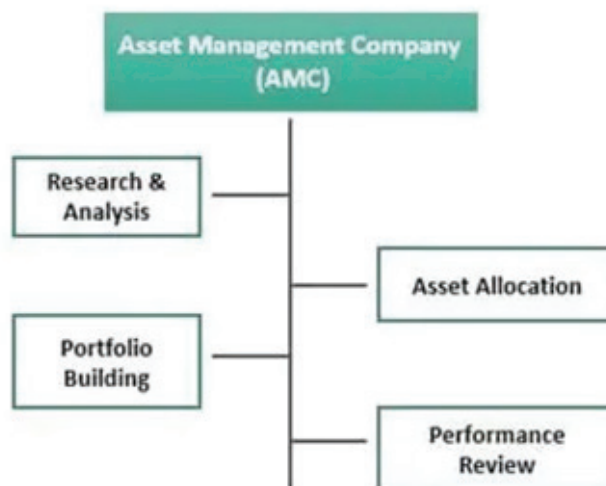


Fig. 1.2.6: Functions of an AMC

India has many popular asset management companies (AMCs) such as SBI Mutual Fund, HDFC AMC, Aditya Birla Sun Life Mutual Fund, Kotak Mahindra Asset Management Company, ICICI Prudential Asset Management Company, Franklin Templeton Mutual Fund, DSP Mutual Fund and Navi AMC Limited.

1.2.4 Where do Mutual Fund Invests?

The investments of a mutual fund depend heavily on its specific type and objective. Here's a breakdown of where different types of mutual funds typically invest:

General types:

- **Stock funds:** Focus on stocks, aiming for potential capital appreciation through increased stock prices. They can be further categorized by:
 - **Growth funds:** Target companies with high growth potential but often pay little or no dividends.
 - **Income funds:** Prioritize stocks that pay regular dividends, providing consistent income alongside potential capital appreciation.
 - **Value funds:** Invest in undervalued stocks with the potential for future price increases.
- **Bond funds:** Invest in bonds, primarily for stable income and lower risk than stock funds. Different types include:
 - **High-yield bond funds:** Focus on higher-risk bonds with potentially higher returns.
 - **Municipal bond funds:** Invest in tax-exempt bonds issued by local governments.
- **Balanced funds:** Combine stocks and bonds in a mix to balance risk and reward.
- **Index funds:** Passively track a specific market index, such as the S&P 500, aiming for average market returns with lower fees.

Specialty types:

- **Sector funds:** Focus on a specific industry or sector, like technology or healthcare.
- **Target-date funds:** Automatically adjust asset allocation based on a target retirement date, becoming more conservative as you approach retirement.
- **Socially responsible funds:** Invest in companies with positive social and environmental practices.

Beyond the common categories:

- Some funds invest in alternative assets like real estate, commodities, or private equity.
- International funds invest in securities of companies outside the investor's home country.

The specific assets a mutual fund invests in depend on its stated investment goals and the expertise of its fund manager. Investors choose mutual funds based on their risk tolerance, investment objectives, and time horizon.

1.2.5 Role of a Mutual Fund Distributor

What exactly does a Mutual Fund Distributor do?

First, they are educators. They demystify the jargon-filled world of mutual funds, explaining concepts like risk, return, and diversification in a way that even the most novice investor can grasp. They become financial translators, making complex prospectuses understandable roadmaps for achieving financial goals.

Second, they are advisors. They analyse an investor's risk appetite, financial goals, and time horizon, carefully tailoring a portfolio of mutual funds that fits like a glove. They are the confidantes, the sounding boards, guiding investors through the ups and downs of the market with a steady hand and a wealth of knowledge.

Third, they are facilitators. They streamline the investment process and bridge the gap between investors and fund houses. They handle paperwork, navigate KYC regulations, and ensure a smooth and hassle-free experience for every investor.

Mutual Fund Distributors are also Relationship Managers, nurturing long-term relationships with their clients. They stay abreast of market trends, providing regular updates and portfolio reviews to ensure investors stay on track. They become more than just distributors; they become trusted financial companions.



Fig. 1.2.7: Disclaimer for Mutual Funds

For those with the right skills, dedication, and passion, the career path offers a landscape of exciting opportunities for the Mutual Fund Distributors:

Distributors can chart a course for a flourishing career. They can climb the ladder with experience and proven performance, taking on supervisory roles, managing teams, or even specializing in niche areas like wealth management. The financial industry rewards talent and a successful distributor can build a name for themselves, attracting lucrative opportunities and high-paying positions.

The field promises not just personal growth but also financial prosperity. Distributors' earnings often include base salaries, performance-linked bonuses, and commissions based on the investments they generate. Skilled individuals with a strong client base can see their income soar, enjoying a lifestyle fuelled by their success.

A distributor's work goes beyond mere transactions; it's about building meaningful client relationships. They become financial guides, confidantes, and trusted advisors, impacting the lives of individuals and families. Witnessing clients achieve their financial goals, whether securing their child's future or planning for retirement, brings immense satisfaction and a sense of purpose to the role. The financial world is dynamic, and distributors are at the forefront of this dynamism. They have the privilege of continuously learning and staying updated on market trends, new investment products, and evolving regulations. This constant intellectual stimulation keeps the job fresh and challenging, fuelling personal and professional growth.

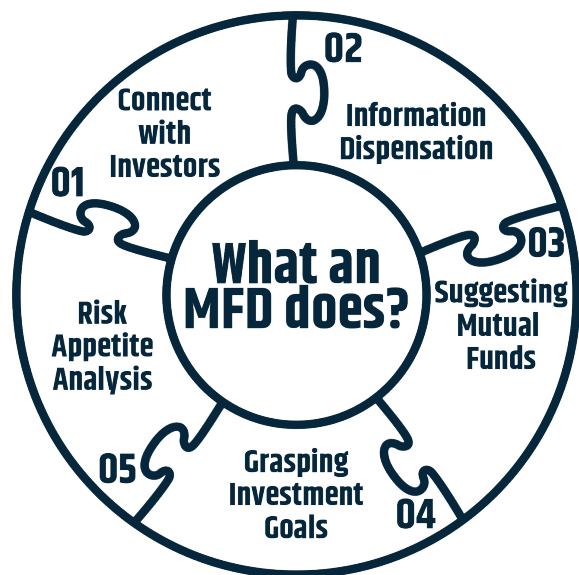


Fig. 1.2.8: Role of Mutual Fund Distributor (MFD)

Mutual funds play a crucial role in mobilizing capital and driving economic growth. By promoting financial literacy and guiding investments into productive sectors, distributors contribute to the larger picture. They become agents of financial inclusion, empowering individuals and fostering a more stable and prosperous economy.

1.2.6 Mutual Funds Sahi Hai Campaign

"**Mutual Funds Sahi Hai**" (Mutual Funds are Right) is a comprehensive campaign launched by the **Association of Mutual Funds in India (AMFI)** in 2017. Its primary goal is to raise awareness about mutual funds and encourage Indian citizens to consider them as a valuable investment option for long-term wealth creation.



Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Fig. 1.2.9: Mutual Funds Sahi Hai Campaign Launched by AMFI

Key Objectives of the Campaign:

1. **Increase awareness:** Many Indians remain unfamiliar with or apprehensive about mutual funds. The campaign aims to educate them about the basics of mutual fund investing, highlighting its potential for wealth creation and long-term financial security.
2. **Debunk myths:** Misconceptions surrounding mutual funds can discourage potential investors. The campaign addresses common myths, such as high risks, complex procedures, and inaccessibility, replacing them with accurate information and simplified explanations.
3. **Promote diversification:** The campaign emphasizes the benefits of diversification, encouraging investors to move beyond traditional avenues like gold and real estate. Mutual funds offer exposure to various asset classes, minimizing risk and maximizing potential returns.
4. **Build trust:** Transparency and trust are crucial in the financial sector. The campaign highlights the regulatory framework governing mutual funds and focuses on building investor confidence through credible messaging and responsible advertising.
5. **Target diverse audiences:** "Mutual Funds Sahi Hai" recognizes different investor segments' unique needs and financial goals. It creates targeted messages and uses relatable scenarios to resonate with first-time investors, young professionals, and even retirees.





“

The Mutual Fund Sahi Hai campaign has heightened the awareness of mutual funds as a category. We are definitely finding the impact in terms of increase in knowledge of mutual funds

”

MVS Murthy

Head-Marketing & Digital - Tata Asset Management



“

The impact of AMFI's efforts and campaign cannot be undermined. It has definitely helped rope in a broader segment and geography of investors, into the category

”

Ajay Kakar

Chief Marketing Officer - Aditya Birla Capital

Fig. 1.2.10: Impact of “Mutual Funds Sahi” Campaign in the words of Prominent Finance (Industry) Experts

UNIT 1.3: Introduction to Skill India Mission

Unit Objectives

By the end of this unit, the participants will be able to:

1. Describe the importance of the Skill India Mission.
2. List the initiatives and programs under the Skill India mission.
3. Discuss the objectives and benefits of the Skill India Mission.
4. Throw light on the BFSI Sector Skill Council and their objectives.

1.3.1 Overview of the Skill India Mission

Skill India is a government initiative launched by Prime Minister Narendra Modi in 2015 to train over 400 million Indians in industry-related jobs. The initiative aims to empower young Indians with relevant skills to improve their employability and entrepreneurship opportunities. The National Skills Development Corporation (NSDC) manages the Skill India campaign.

This project aimed to establish and implement comprehensive skill development training programs. These programs would assist in bridging the gap between industry demands and skill requirements. Hence, it helps the country flourish as a whole.

The Skill India programs were designed to address various aspects of skill development and training in India. Here are some key components and objectives of these programs:

- Curriculum-Based Skill Training Courses
- Incorporating Skill-Based Learning into School Curricula
- Long- and Short-Term Skill Training
- Employment Generation
- Industry Collaboration

The government has designed several critical programs to ensure the Skill India Mission is carried out nationwide.

The following are the schemes under the Skill India initiative:

- Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
- Jan Shikshan Sansthan (JSS)
- Pradhan Mantri Kaushal Kendra (PMKK)
- Pre-Departure Orientation Training (PDOT)
- India International Skill Centres (IISCs)
- Pradhan Mantri YUVA Yojana (PM YUVA)
- SANKALP (Skills Acquisition and Knowledge Awareness for Livelihood Promotion)



Skill India
कौशल भारत - कुशल भारत

Fig. 1.3.1: Logo of Skill India with Tag Line

1.3.2 Initiatives and Programs under the Skill India Mission

The Skill India Mission is an initiative by the Government of India aimed at empowering the youth of the country with skill sets to enhance their employability and entrepreneurship capabilities. The mission was launched in 2015 and has several key initiatives and programs:

Pradhan Mantri Kaushal Vikas Yojana (PMKVY):

Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is a flagship initiative of the Government of India that was introduced on July 15, 2015. The program is part of the larger Skill India Mission, which aims to empower Indian youth by providing them with industry-relevant skills that enhance their employability and lead to a better quality of life.

The Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is a critical initiative with multifaceted objectives that have far-reaching importance for India's socio-economic development. Firstly, PMKVY is instrumental in bridging the gap between job seekers and employment opportunities by equipping the Indian youth with industry-relevant skills. This enhances their employability and addresses the evolving demands of various industries. The program's alignment with the National Skill Qualification Framework (NSQF) ensures that the skills imparted are standardised and recognised, leading to better employment prospects and a more competitive workforce.

Secondly, PMKVY goes beyond mere job readiness; it serves as a catalyst for entrepreneurship. By nurturing entrepreneurial skills and providing training that empowers individuals to start their own businesses, PMKVY fosters economic self-reliance and job creation. This dual focus on employability and entrepreneurship is pivotal in enhancing youth empowerment, improving livelihoods, and ultimately contributing to India's economic growth. As a result, PMKVY plays a crucial role in reducing unemployment rates, promoting social and economic inclusion, and positioning India for sustained economic progress in an increasingly competitive global landscape.

National Apprenticeship Promotion Scheme (NAPS):

The National Apprenticeship Promotion Scheme (NAPS) is an initiative by the Government of India to promote apprenticeship training and encourage employers to engage apprentices. The scheme was introduced on August 19, 2016, to facilitate skill development for a large number of Indian youth by offering them apprenticeship opportunities across various sectors and industries.

The National Apprenticeship Promotion Scheme (NAPS) embodies a set of objectives that hold paramount importance for India's skill development landscape. Firstly, NAPS serves as a catalyst for skill enhancement by providing individuals with practical, hands-on training through structured apprenticeship programs. This experiential learning equips them with industry-specific skills, significantly enhancing their employability and preparing them for the demands of the modern job market. NAPS also plays a pivotal role in bridging the existing skill gap by aligning the skills of the youth with the precise requirements of industries, ensuring a seamless transition into the workforce.

Secondly, NAPS promotes industry relevance and a culture of industry-ready workforce development. It encourages industries to engage apprentices and aims to create a symbiotic relationship where both employers and apprentices benefit from the engagement. The scheme's provision for wage reimbursement to employers makes it financially feasible for industries to participate in apprenticeship programs, further incentivising their involvement. In doing so, NAPS contributes significantly to skill enhancement, employability, and economic growth, as a well-trained and industry-ready workforce is pivotal to India's progress and competitiveness in the global economy.

Craftsmen Training Scheme (CTS):

The Craftsmen Training Scheme (CTS) is a vocational training program in India that focuses on providing technical and practical skills to individuals in various trades. It is administered by the Directorate General

of Training (DGT) under the Ministry of Skill Development and Entrepreneurship. The CTS program is an integral part of the industrial training system in India.

The Craftsmen Training Scheme (CTS) is a pivotal initiative with a set of overarching objectives that hold significant importance in the realm of skill development. Firstly, the core objective of CTS is to impart technical skills and knowledge to individuals across a diverse array of trades. These skills are indispensable for enhancing employability across various industries, ultimately narrowing the gap between the demand for skilled labour and the available workforce. The CTS programs are meticulously designed to align with industry requirements and standards, ensuring that individuals receive training that is not just relevant but directly applicable to the dynamic job market.

Secondly, CTS is vital in promoting craftsmanship and excellence within various trades. It empowers individuals to become skilled artisans and technicians, fostering a culture of quality and expertise. Furthermore, the scheme significantly contributes to employment generation by providing vocational training, thereby reducing unemployment rates and enhancing the economic prospects of trained individuals. The nationally recognised certificates awarded upon successfully completing CTS programs validate these skills, making individuals more appealing to potential employers. In sum, CTS's importance extends to enhancing employability, promoting industry readiness, nurturing a skilled workforce, fostering diverse skill development, and ensuring standardised training and certification that benefits individuals and the nation's overall economic growth.

Skill Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP):

Skill Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) is a strategic initiative by the Government of India, launched on November 20, 2017, to bolster skill development and vocational training nationwide. The program's fundamental goal is to enhance the quality and alignment of skill development programs with the dynamic needs of the labour market.

With its multifaceted objectives, SANKALP plays a pivotal role in advancing the skill development landscape in India. Its core objective is to elevate the quality and relevance of skill development programs, ensuring that individuals acquire skills that are not only in demand but also encompass both technical and soft skills essential for the contemporary job market. Furthermore, SANKALP promotes lifelong learning, fostering a culture where individuals continuously upgrade their skills to adapt to evolving industry requirements and technological advancements. The program's emphasis on strengthening the institutional capacity of skill development stakeholders, including training providers, assessment agencies, and industry bodies, ensures that the entire ecosystem is equipped to deliver high-quality training and assessment, thus bolstering the employability of the workforce.

Secondly, SANKALP holds immense importance in the broader context of India's socio-economic development. By promoting industry engagement and collaboration, the program ensures that training programs are meticulously aligned with industries' ever-evolving needs and standards. This strategic alignment leads to better job placement, fostering economic growth while simultaneously advancing the cause of inclusivity by making skill development opportunities accessible to marginalised and disadvantaged groups, including women, rural populations, and persons with disabilities. Ultimately, SANKALP's comprehensive approach contributes to India's global competitiveness by equipping its workforce with the skills needed to excel in an increasingly dynamic and globalised job market, thereby playing a pivotal role in the nation's economic progress and prosperity.

Skill Strengthening for Industrial Value Enhancement (STRIVE):

Skill Strengthening for Industrial Value Enhancement (STRIVE) is a significant program initiated by the Government of India to bolster the country's skill development ecosystem. STRIVE was officially launched on November 16, 2016, with the crucial support of the World Bank. The primary objective is to enhance the quality and relevance of the workforce by focusing on skill development in diverse

industrial sectors. The program was introduced to align the skills of the youth with the dynamic and evolving requirements of the industry.

With its well-defined objectives, STRIVE plays a pivotal role in shaping India's skill development landscape. Its central aim is to elevate the quality and relevance of skill development programs, ensuring that the workforce remains adept and up-to-date with the latest technologies and practices demanded by evolving industries. This emphasis on staying current and industry-aligned not only enhances the employability of individuals but also significantly bolsters the overall productivity and efficiency of industries, ultimately contributing to the nation's economic growth. Furthermore, by promoting apprenticeships and practical learning experiences, STRIVE bridges the gap between theory and practice, making the youth more familiar with industry processes and thus better prepared for job market demands.

Secondly, STRIVE holds profound importance for India's socio-economic development. It encourages entrepreneurship and self-employment, fostering an environment conducive to startups and small businesses and enforces accountability through an outcome-based funding approach. This approach ensures that investments in skill development programs are tied to actual outcomes, thereby driving efficiency and effectiveness in the utilisation of resources. Moreover, the program's focus on strengthening institutions involved in skill development through capacity building and necessary reforms further enhances their ability to provide quality training and contribute effectively to the nation's skill development landscape. Ultimately, STRIVE's holistic approach empowers India's workforce with industry-relevant skills, fosters entrepreneurship, enhances institutional capabilities, and positions the nation for global competitiveness, all of which are crucial elements for India's continued progress and prosperity.

Udaan:

Udaan is a special industry initiative by the Government of India aimed at providing skill development and employment opportunities to the youth of Jammu and Kashmir. The program was introduced in 2011 to address the unique challenges faced by young individuals in the state and integrate them into the mainstream economy.

Udaan, as a well-conceived initiative, stands out with its multifaceted objectives aimed at addressing the unique socio-economic challenges in Jammu and Kashmir. Its primary goal of generating employment opportunities for the region's youth is paramount, considering the historical challenges they have faced in accessing job markets. By offering comprehensive skill development and training programs across various sectors, Udaan equips young individuals with the necessary skills and knowledge, significantly increasing their employability. Moreover, the program's focus on integrating the youth into India's mainstream economic activities fosters a sense of belonging and empowerment, reducing their isolation and contributing to regional and national economic growth.

Furthermore, Udaan's approach of encouraging private sector engagement in the training and employment of the youth creates a mutually beneficial relationship. It provides job opportunities for the youth and strengthens the region's industrial and economic landscape. The program goes beyond skill development by providing specialised training and coaching for competitive examinations, further enhancing the youth's prospects for securing public and private jobs. Additionally, Udaan plays a pivotal role in promoting peace and stability in Jammu and Kashmir by addressing socio-economic challenges and offering opportunities that can lead to reduced unemployment rates, enhanced skill levels, and, ultimately, a more stable and prosperous region.

Udaan embodies a transformative approach that empowers youth, fosters economic development, promotes peace and stability, enhances skills, and encourages private-sector participation. Udaan contributes to the region's growth and the larger goals of inclusive development and national unity by addressing the unique challenges and providing a pathway to economic empowerment.

Startup India:

Startup India is an initiative launched by the Government of India to promote entrepreneurship and nurture a conducive ecosystem for startups. The initiative was introduced on January 16, 2016, by the Prime Minister of India, Narendra Modi, as part of the larger vision to encourage innovation, job creation, and economic growth in the country.

Objectives of Startup India:

- **Foster Entrepreneurship:** The primary objective of Startup India is to cultivate and encourage a culture of entrepreneurship, innovation, and creativity in the nation. It aims to inspire individuals to come forward with innovative ideas and solutions to address various societal and economic challenges.
- **Job Creation:** The initiative aims to generate employment opportunities by supporting the establishment and growth of startups. It recognises startups as significant contributors to job creation and economic development.
- **Facilitate Growth and Innovation:** Startup India aims to provide a nurturing environment for startups to grow and innovate. It offers various incentives, funding opportunities, and support mechanisms to facilitate the growth of startups.
- **Simplify Regulations:** The initiative seeks to reduce the regulatory burden on startups by streamlining the compliance process, enabling startups to focus more on their core activities and less on administrative formalities.
- **Promote Inclusivity:** Startup India encourages participation from women entrepreneurs, rural areas, and underprivileged sections of society. It promotes inclusivity and aims to ensure that the startup ecosystem's benefits reach all population segments.

1.3.3 Objectives and Benefits of Skill India Mission

The Skill India Mission, launched by the Government of India, aims to empower the country's large youth population by enhancing their skills and making them employable in a rapidly evolving job market. The primary objectives of the Skill India Mission include addressing the widening gap between the demand for skilled workers and the available workforce, promoting a culture of skill development across various sectors, and ensuring that the youth are equipped with the necessary skills to secure gainful employment or become entrepreneurs.

One key aspect of the Skill India Mission is creating a robust skill development ecosystem encompassing training programs, certification mechanisms, and industry partnerships. The mission seeks to align skill development with the industry's needs, thereby increasing individuals' employability. Various sectors, including manufacturing, services, and agriculture, are targeted to ensure a comprehensive approach to skill enhancement.

Objectives of Skill India Mission:

- **Create a Skilled Workforce:** The primary objective of the Skill India Mission is to train a large number of Indian youth in various skills to make them employable in different sectors of the economy.
- **Enhance Employability:** The mission seeks to improve the employability of the workforce by aligning training programs with the needs of the industry. The goal is to bridge the gap between demand and supply of skilled labour.

- **Promote Entrepreneurship:** Skill India aims to encourage entrepreneurship by providing necessary training and support to individuals who want to start their own businesses. This includes fostering a culture of innovation and self-employment.
- **Ensure Inclusivity:** The mission focuses on inclusivity by providing skill development opportunities to all sections of society, including disadvantaged and underprivileged groups. This helps in reducing socio-economic disparities.
- **Adaptability to Technological Changes:** Skill India recognizes the importance of keeping pace with technological advancements. Therefore, it aims to equip the workforce with skills relevant to emerging technologies, ensuring they remain competitive in the global market.
- **Encourage Lifelong Learning:** The mission promotes a culture of continuous learning by emphasizing the importance of upskilling and reskilling throughout one's career. This is crucial in an era where the nature of work is constantly evolving.

Benefits of Skill India Mission:

- **Employment Generation:** By enhancing the skills of the workforce, the mission contributes to increased employment opportunities, both in the formal and informal sectors.
- **Economic Growth:** A skilled workforce is essential for economic growth. Skill India aims to contribute to the growth of industries and the overall economy by ensuring a supply of competent and adaptable workers.
- **Reduction in Unemployment:** By aligning training programs with industry needs, Skill India helps reduce unemployment by creating a pool of job-ready individuals.
- **Global Competitiveness:** A skilled workforce enhances India's competitiveness in the global market. Skilled workers are better equipped to meet international standards and contribute to the success of Indian industries on a global scale.
- **Poverty Alleviation:** Skill development can be a powerful tool for poverty alleviation. By enabling individuals to acquire skills and secure gainful employment, the mission contributes to lifting people out of poverty.
- **Social Inclusion:** Skill India emphasizes inclusivity, ensuring that individuals from diverse backgrounds and communities have access to skill development opportunities. This contributes to social cohesion and reduces disparities.
- **Entrepreneurship Promotion:** The mission encourages entrepreneurship by providing aspiring entrepreneurs with the necessary skills and support, fostering a culture of innovation and self-reliance.

1.3.4 BFSI Sector Skill Council

The BFSI Sector Skill Council (SSC) stands as a beacon in India's financial landscape, dedicated to bridging the skill gap and fostering excellence within the Banking, Financial Services, and Insurance (BFSI) sector. Incorporated on September 16, 2011, this not-for-profit company collaborates with leading organizations to develop competency standards, training programs, and assessment methodologies, ensuring a steady stream of skilled professionals to fuel the sector's growth.

The BFSI Sector Skill Council of India is set up to bring leading organizations of the BFSI industry together to create strategies and operational plans that will create standardized skill requirements for the various job roles in the industry.



Fig. 1.3.2: Logo BFSI SSC

The skill council will also accredit well-equipped service providers who will partner to disseminate the training. Its stakeholders and partners see the skill council as a nation-building activity with far-reaching implications for social development and empowerment through financial inclusion. Great care is being taken to address the needs of the various industry verticals as well as the geographical regions of the country appropriately.

Vision	Mission
BFSI SSC strives to complement the existing vocational education system in meeting the entire value chain's requirements of appropriately trained manpower in quantity and quality across all levels on a sustained and evolving basis.	• Upgrade skills to international standards through significant industry involvement. • Be a conduit of change through thought leadership, research, market intelligence and membership engagement.

Key Objectives

The primary means by which the skill council will achieve this objective is by creating a system to engage in the following:

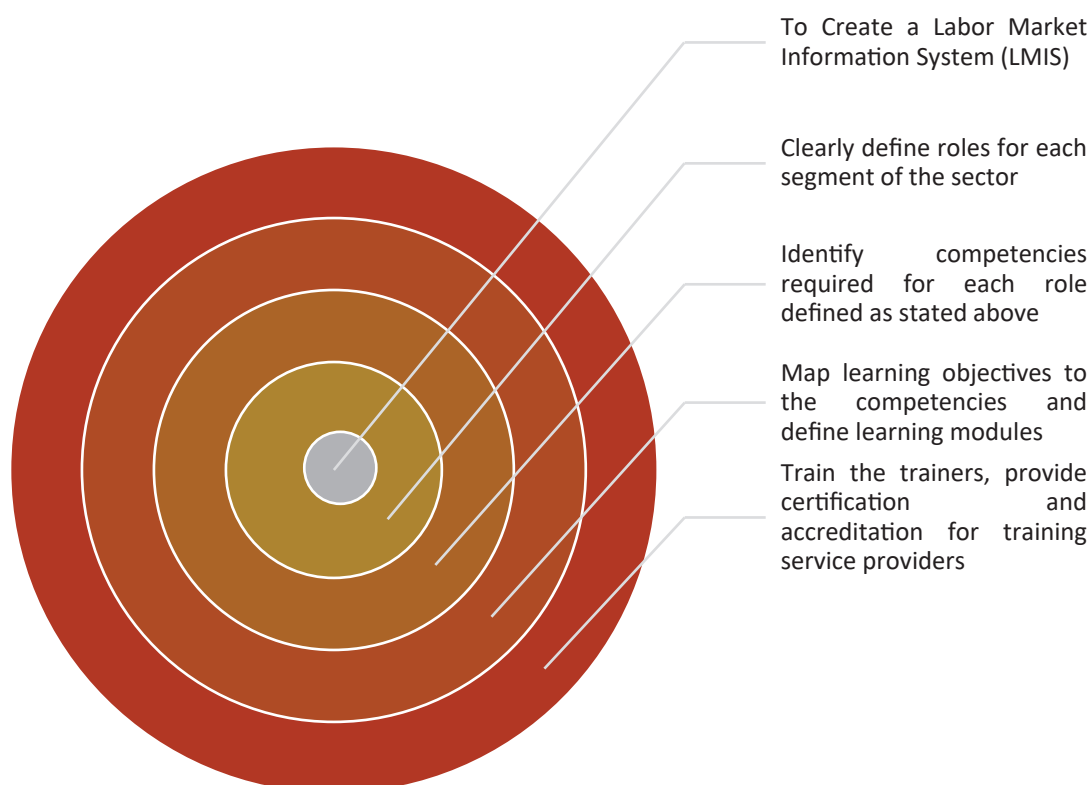


Fig. 1.3.3: Key Objectives of BFSI SSC

Summary

- Banks in India are categorized into central banks, commercial banks (public sector, private sector, foreign banks, regional rural banks), cooperative banks (urban and rural), and specialized banks (local area banks, small finance banks, payments banks, development banks).
- The Reserve Bank of India (RBI) is the central bank overseeing and regulating the entire banking system.
- The banking history in India dates back to informal money lending, with formal banking introduced during the colonial era. Post-independence, nationalization aimed at social welfare and development, but by the 90s, liberalization led to the entry of private and foreign banks, along with technological advancements.
- Trends include microinsurance, insurtech, passive and thematic funds in fund houses, utilization of big data and AI in data analytics, enhanced security measures like blockchain and biometric authentication, and the growth of digital payments through UPI and QR code transactions.
- Mutual funds serve as a guided investment platform where investors pool their money into a collective fund managed by a professional fund manager.
- Investors buy units in the fund, representing a share in the diverse portfolio managed by the fund manager.
- The key steps involve selecting a suitable mutual fund, contributing to the fund's corpus, entrusting a fund manager with portfolio decisions, and benefiting from diversification.
- Mutual funds in India cater to various investor profiles with options like equity, debt, and hybrid funds, each serving specific financial goals.
- India's mutual fund journey began in 1963 with the establishment of UTI, which initially dominated the scene. Public sector giants like SBI and LIC entered the market from 1987 to 1993, and private players joined in 1993, marking a significant phase.
- Despite challenges, the industry has shown steady growth since 2014, with factors like rising income, urbanization, and digitalization contributing to its expansion.
- Mutual funds comprise three main entities: the Sponsor, Trustee, and Asset Management Company (AMC). The Sponsor initiates the fund, appoints the AMC, and sets fund objectives. The Trustee acts as a neutral watchdog protecting investor interests, while the AMC actively manages the fund's portfolio.
- Mutual funds invest based on their types: stock, bond, balanced, index, and speciality funds like sector or socially responsible funds. Mutual Fund Distributors play a crucial role as educators, advisors, and facilitators, guiding investors through the mutual fund landscape, tailoring portfolios, and building long-term relationships.
- The Skill India Mission, launched by Prime Minister Narendra Modi in 2015, aims to empower the youth of India by providing them with relevant skills to enhance employability and entrepreneurship opportunities. Managed by the National Skills Development Corporation (NSDC), the mission includes various initiatives and programs to bridge the gap between industry demands and skill requirements.

Exercise

Multiple-choice Question:

1. What is the primary function of the Reserve Bank of India (RBI)?
 - a. Accepting deposits
 - b. Making loans
 - c. Regulating other banks
 - d. Providing safe deposit boxes

2. What do Payments Banks focus on providing?
 - a. Mortgage loans
 - b. Basic financial services like money transfers
 - c. Business loans
 - d. Credit cards

3. Which financial institution is specifically established to promote specific sectors or industries?
 - a. Non-Banking Financial Companies (NBFCs)
 - b. Small Finance Banks (SFBs)
 - c. Development Bank
 - d. Microfinance Institutions (MFIs)

4. Which type of mutual fund adjusts asset allocation based on a target retirement date?
 - a. Stock funds
 - b. Balanced funds
 - c. Sector funds
 - d. Target-date funds

5. What role does the Trustee play in a mutual fund?
 - a. Managing day-to-day operations
 - b. Overseeing the activities of the AMC
 - c. Initiating the fund and setting objectives
 - d. Actively managing the fund's portfolio

Descriptive Questions

1. Explain the historical evolution of the banking sector in India, highlighting key milestones from ancient times to the present day.
2. Define and elaborate on the key terminologies used in banking services, such as RTGS, NEFT, NAV, and KYC. Explain their significance in the context of financial transactions and services.
3. Discuss the historical evolution of mutual funds in India, highlighting key milestones and phases.
4. What are the advantages and disadvantages of investing in mutual funds? Provide examples for each category and explain how these factors impact an investor's decision-making process.
5. Describe the roles of the Sponsor, Trustee, and Asset Management Company (AMC) in functioning a mutual fund. How do these entities collaborate to ensure the success of the fund?

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Scan the QR codes or click on the link to watch the related videos



<https://youtu.be/3ZCOzBQmzo4?si=Aq10iF6AXK78GBKX>

Scheduled Banks and Non Scheduled Banks



<https://youtu.be/st3uGllkfy0?si=Cf99bTR6EHypI6-j>

Full Forms of Banking Terms You Should Know



<https://youtu.be/rsFBpGUAZWA?si=9aTR24OnjiWpZJu6>

Mutual Fund for Beginners



https://youtu.be/FYnu6N1TJxl?si=KanAsNgh8s_XyoGw

What is Skill India Scheme?

2. Conduct Market Research and Sell the Products



Unit 2.1 - Foundations of Investment Decisions

Unit 2.2 - Client-Centric Investment Strategies



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Apply proper techniques to analyse the mutual fund market to identify the top-performing funds, customer interests, trends, etc.
2. Explain how to liaise with the existing customers to gain customer perspective on the mutual fund market performance.
3. Discuss various documents required for the sale and purchase of mutual funds.
4. Explain the methods to handle customers and their queries.

UNIT 2.1: Foundations of Investment Decisions

Unit Objectives

By the end of this unit, the participants will be able to:

1. Explore the legal and regulatory framework governing mutual funds in India, including the roles and functions of key authorities like SEBI, RBI, and AMFI
2. Explain methods for analysing the mutual fund market to identify top-performing funds, customer interests, and trends
3. Develop the ability to prepare a sample comparative analysis report of top mutual fund schemes, benchmarking them against major indices like SENSEX and NIFTY.
4. Discuss about various types of mutual fund schemes, their characteristics, and their underlying structures.
5. Illustrate the methods for calculating risk-adjusted returns, annual growth rate, Net Asset Value (NAV), and other accounting formulas that help to determine the returns and risk levels of different mutual fund schemes.
6. State the significance of gathering and analysing the latest insights for regular stock market updates and their impact on the mutual fund market.

2.1.1 Introduction to Regulatory Authorities

investors, ensure market integrity, and foster healthy growth. This framework involves a complex interplay between various authorities, each playing a distinct role in overseeing and shaping the industry.

List of the national financial and regulatory authorities in the mutual fund market in India:

1. Securities and Exchange Board of India (SEBI)

In India's intricate dance of mutual funds, SEBI takes centre stage as the guardian of investors and the architect of industry integrity.



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

Fig. 2.1.1: SEBI

Here's a closer look at SEBI's roles:

Investor Safeguarding:

- **Setting the Ground Rules:** SEBI crafts the regulatory playbook for mutual funds, dictating the dos and don'ts of establishment, operation, and compliance. They are the architects of the industry's ethical framework, from investment mandates to fee structures.
- **Watchful Oversight:** SEBI is the vigilant guardian, keeping a keen eye on mutual funds and Asset Management Companies (AMCs). Inspections and investigations ensure strict adherence to regulations, swiftly addressing violations to protect investor interests.
- **Empowering Investors:** Knowledge is power. SEBI empowers investors through educational resources, guidelines, and awareness campaigns. Arming investors with information fosters a culture of informed decision-making in the mutual fund arena.

Market Development Advocacy:

- **Fueling Expansion:** SEBI opens doors for new entrants, injecting vitality into the mutual fund landscape. Streamlining approval processes stimulates healthy competition and encourages innovative approaches, contributing to the industry's dynamic growth.
- **Transparency Mandate:** Clear waters breed trust. SEBI mandates transparent disclosure requirements for mutual funds, ensuring investors have a crystal-clear view of objectives, performance, and risk factors. This transparency enhances investor confidence.
- **Trust Builder:** SEBI is the basis of a trustworthy mutual fund environment. Through robust regulations and unwavering commitment to investor protection, they cultivate trust, paving the way for broader investor participation and a flourishing mutual fund landscape.

2. Ministry of Finance

In the intricate regulatory landscape of the Indian mutual fund industry, the 'Securities and Exchange Board of India' (SEBI) serves as the day-to-day regulatory authority. However, the Ministry of Finance is the guiding force that shapes the industry's broader vision and strategic direction. The Ministry sets the long-term vision for the mutual fund sector, aligning it with overarching national economic and financial development objectives. This involves initiatives to promote financial inclusion, stimulate savings and investment, and cultivate a stable and efficient capital market. The Ministry may establish specific industry growth targets, introduce new product categories, or expand mutual fund participation across different population segments.

Central to its role, the Ministry of Finance actively engages in legislative activities related to the mutual fund industry. This includes the enactment and amendment of laws governing mutual funds. Collaborating with Parliament, the Ministry introduces and advocates for legislation, issuing notifications and circulars to refine existing regulations. For instance, the Ministry might propose amendments to the SEBI Act, enhancing the regulator's powers or providing clarity on its role in specific areas. This legislative involvement underscores the Ministry's commitment to fostering a regulatory environment that aligns with evolving market dynamics.



Fig. 2.1.2: Ministry of Finance

While SEBI operates autonomously in its daily regulatory functions, the Ministry of Finance serves as a crucial oversight body. It systematically monitors SEBI's performance, assessing its effectiveness in achieving predefined goals, and provides guidance as necessary. Additionally, the Ministry scrutinizes SEBI's budget allocations, staffing levels, and organizational structure to ensure that the regulator has the requisite resources and capabilities to effectively fulfil its responsibilities. This collaborative relationship ensures a checks-and-balance system that enhances the integrity and stability of the mutual fund industry.

Furthermore, the Ministry of Finance collaborates with other key ministries, such as the Ministry of Corporate Affairs, the Ministry of Industry and Commerce, and the Reserve Bank of India. This inter-ministerial coordination is aimed at maintaining consistency and coherence in policies affecting the mutual fund industry. Addressing cross-cutting issues like corporate governance, taxation, and monetary policy, this collaboration creates a conducive environment for the sustained growth of the mutual fund sector in India.

3. Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) assumes a limited yet pivotal role in India's financial landscape, focusing primarily on monetary policy formulation and banking regulation. While not extensively involved in the day-to-day operations of the mutual fund market, the RBI serves as a gatekeeper for foreign investors seeking entry into the Indian mutual fund arena. It establishes and monitors limits on foreign investments across various types of mutual funds, ensuring adherence to these limits.

Furthermore, the RBI plays a crucial role in overseeing the smooth settlement of transactions within the mutual fund space. This oversight extends to the clearing and settlement of mutual fund trades on stock exchanges, managing the seamless flow of funds between investors and fund houses.

Although not a direct regulator, the RBI's monetary policy decisions wield significant influence over the mutual fund market. Changes in interest rates, liquidity levels, and foreign exchange regulations, driven by the RBI, can significantly impact investor sentiment and preferences, subsequently influencing fund performance and capital flows.

Moreover, the RBI maintains a close and collaborative relationship with the Securities and Exchange Board of India (SEBI), the principal regulator of the mutual fund market. This collaborative approach involves regular communication, information sharing, and joint initiatives, contributing to a more comprehensive and effective regulatory framework for the mutual fund industry.



Fig. 2.1.3: Reserve Bank of India (RBI)

Effect of Exchange Rates

What is an exchange rate?

The price of one currency expressed in terms of another is known as the exchange rate. There are 2 types of exchange rates:

- **Floating exchange rates are determined by the forces of supply and demand in the market,**
- **Fixed exchange rates are set by a nation's central banks, like RBI for India.**

It's important to note that the impact of the exchange rate on mutual funds is complex and depends on various factors, including the specific type of fund, its investment strategy, and the overall economic environment.

- **Currency Risk and Foreign Investments**

Mutual funds often invest in various financial instruments, including stocks and bonds, denominated in different currencies. Changes in exchange rates can significantly affect the returns of these investments. If the Indian rupee strengthens against other currencies, the returns on foreign investments may decrease when converted back to rupees, and vice versa.

RBI's policies and interventions in the foreign exchange market directly impact the currency risk associated with mutual fund investments. For instance, RBI's efforts to stabilize or adjust the exchange rate can influence the attractiveness of foreign investments for mutual funds.

- **Impact on Asset Allocation**

Exchange rate movements influence the relative attractiveness of different asset classes. When the domestic currency strengthens, it may make domestic assets more appealing, potentially

leading to a shift in asset allocation by mutual funds. Conversely, a weaker domestic currency might make foreign assets more attractive.

RBI's interventions to manage the exchange rate can indirectly influence the investment decisions of mutual funds, prompting adjustments in their asset allocation strategies.

- **Inflation and Interest Rates**

Exchange rate movements are interconnected with inflation and interest rate dynamics, both of which are influenced by RBI's monetary policy decisions.

Changes in interest rates can affect capital flows, impacting currency values. RBI's decisions on interest rates, inflation targeting, and liquidity management can, in turn, influence the attractiveness of different investments, including those held by mutual funds.

- **Investor Sentiment and Confidence**

RBI's exchange rate policies contribute to overall economic stability and confidence in the financial markets.

A stable and well-managed exchange rate can enhance investor confidence in the mutual fund market. Conversely, abrupt or unpredictable changes in the exchange rate may create uncertainty, affecting investor sentiment and mutual fund performance.

- **Global Market Integration**

The exchange rate is crucial in the global integration of financial markets.

RBI's interventions and policies impact India's integration with global financial markets. Changes in the global economic environment, influenced by exchange rate dynamics, can affect the performance of mutual funds with international exposure.

4. Association of Mutual Funds in India (AMFI)

Complementing SEBI's regulatory functions, the Association of Mutual Funds in India (AMFI) assumes a critical role in fostering a thriving and investor-friendly mutual fund ecosystem. One of AMFI's primary functions is to promote ethical practices within the industry. By developing and enforcing its members' comprehensive code of conduct, AMFI ensures adherence to fair marketing practices, disclosure transparency, and investor protection measures. This commitment to ethical conduct benefits investors and plays a crucial role in building and sustaining trust in the mutual fund market.

Another significant aspect of AMFI's contribution lies in investor education; through proactive initiatives such as workshops, awareness campaigns, and online resources, AMFI endeavours to demystify investment concepts and promote financial literacy among investors. By empowering investors with knowledge, AMFI helps them make informed decisions and confidently navigate the market's complexities. This emphasis on investor education aligns with the broader goal of creating a more informed and empowered investor base.

AMFI's role extends to the professional development of industry participants. By offering training programs and certification courses for distributors and other professionals, AMFI contributes to enhancing their knowledge, skills, and ethical standards. This, in turn, translates into improved service and guidance for investors. Furthermore, AMFI serves as a vital platform for addressing investor grievances. Through a dedicated investor helpline and an efficient complaint redressal mechanism, it provides

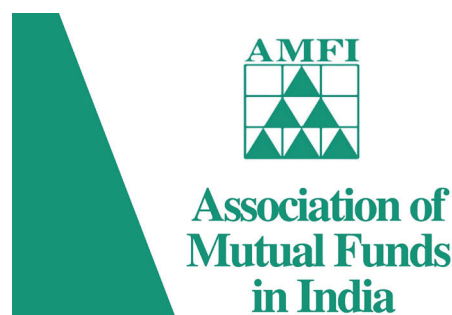


Fig. 2.1.4: Association of Mutual Funds in India (AMFI)

investors with an avenue to voice concerns and ensures prompt resolution, thereby safeguarding investor interests.

In addition to these functions, AMFI engages in market research and data analysis to understand investor preferences, identify trends, and assess the industry's overall performance. The insights derived from such activities are shared with policymakers, regulators, and industry stakeholders, contributing to informed decision-making and the continued development of the mutual fund market.

5. Additional Authorities

- Central Board of Direct Taxes (CBDT):** The Central Board of Direct Taxes (CBDT) serves as a significant authority in the Indian financial landscape, specifically overseeing the taxation aspects related to mutual funds and their investors. CBDT plays a crucial role in formulating and implementing tax policies and regulations that impact mutual funds. It establishes the rules regarding the taxation of capital gains, dividends, and other income generated through mutual fund investments. Investors in mutual funds are subject to various tax implications, and CBDT ensures clarity and compliance in these matters. Additionally, CBDT collaborates with other financial authorities to maintain consistency and coherence in the taxation framework, contributing to the overall transparency and effectiveness of the mutual fund taxation system.
- Pension Fund Regulatory and Development Authority (PFRDA):** The Pension Fund Regulatory and Development Authority (PFRDA) is another key authority that intersects with the mutual fund domain, particularly in the context of certain pension schemes that invest in mutual funds. PFRDA oversees and regulates pension funds, including those that allocate a portion of their investments to mutual funds. As part of its mandate, PFRDA establishes guidelines for managing and investing pension funds, ensuring prudence and safeguarding the interests of pension scheme beneficiaries. The authority's role is integral in maintaining the stability and security of pension funds that utilize mutual funds as part of their investment strategy.



Fig. 2.1.5: Pension Fund Regulatory and Development Authority (PFRDA)

2.1.2 Introduction to SENSEX and NIFTY

Imagine walking into a bustling marketplace where you see companies shouting their prices instead of fruits and vegetables. NIFTY and SENSEX are like your trusty market guides, helping you understand which companies are thriving and which ones are taking a back seat.

NIFTY

NIFTY is short for the "National Stock Exchange Fifty" and is like SENSEX's cousin but traded on India's National Stock Exchange (NSE).

NIFTY tracks the performance of the top 50 companies listed on the National Stock Exchange (NSE), representing almost half of the total market capitalization. It's like a curated basket of the best and brightest – think Reliance Industries, HDFC Bank, Infosys, etc. By tracking NIFTY, you get a quick pulse of the Indian economy's big players. If NIFTY goes up, it means these top companies are doing well, indicating a generally positive market sentiment. A dip in NIFTY might suggest some challenges for these leaders.

SENSEX

SENSEX stands for "Sensitive Index," and it is like a health report card for the Bombay Stock Exchange (BSE), one of India's major stock exchanges.

SENSEX follows the performance of the top 30 companies, again representing a significant portion of the market. It includes around 30 large, well-established companies from different sectors, like information technology, banking, and manufacturing. These companies are like the top students in the class, and their performance gives us a sense of how the overall stock market is doing. Each company in SENSEX doesn't have the same impact. Just like in a group project, some students contribute more than others. Similarly, in SENSEX, larger companies (in terms of their market value or "market capitalization") have a bigger say in the overall performance.

When you hear that "SENSEX is up" or "SENSEX is down," it means the combined value of these top 30 companies' stocks is either rising or falling. This gives us an idea of how confident investors are feeling about the overall Indian economy.

Difference between Sensex & Nifty



Sensex is regulated by
Bombay Stock Exchange



Nifty is regulated by
National Stock Exchange

Fig. 2.1.6: NIFTY vs SENSEX

2.1.3 Analysing the Mutual Fund Market to Identify the Top-Performing Funds

Analysing the mutual fund market involves a multi-faceted approach to identify top-performing funds, understand customer interests, and spot emerging trends. Here are some key methods to be employed:

1. Quantitative Analysis of Fund Performance

- **Historical Return Analysis:** This isn't just about chasing past returns and understanding the fund's narrative. Compare its performance against its benchmark index, like the Nifty 50 for equity funds. Does it consistently outperform over short, medium, and long-term periods? Does it weather market storms with grace, delivering positive returns even when the broader market plummets? Such resilience speaks volumes about the fund manager's skill and the robustness of the investment strategy.
- **Risk-Adjusted Returns:** Analyse measures like Sharpe Ratio and Sortino Ratio to assess how well the fund generates returns relative to its risk level. Higher ratios indicate better risk-adjusted performance.
- **Volatility Analysis:** Evaluate the fund's volatility through standard deviation and maximum drawdown measures. Lower volatility suggests a more stable performance.

- **Expense Ratio Comparison:** Compare the fund's expense ratio (management fees) with similar funds. Lower expense ratios can lead to higher net returns for investors.

2. Qualitative Analysis of Fund Characteristics

- **Investment Strategy:** Imagine a vast ocean offering countless routes to different shores. The fund's investment strategy – its philosophy, portfolio composition, and style – acts as your compass, guiding you towards those aligned with your client's risk tolerance and goals. Is it the steady trade winds of value investing, seeking hidden treasures in undervalued gems? Or the exhilarating currents of growth, chasing the high tides of emerging companies? Understanding the fund's investment philosophy enables you to match it with your clients' ambitions, creating a harmonious voyage towards their financial harbours.
- **Fund Manager Analysis:** Just as a skilled captain navigates stormy seas with grace, a seasoned fund manager steers their portfolio through market turbulence. Researching the manager's experience, track record, and investment philosophy becomes vital. Have they weathered previous storms with prudence? Does their investment approach resonate with your own understanding of the market? Consistency across different market cycles and funds they manage strengthens your confidence in their leadership, allowing you to recommend their vessel with assurance.
- **Fund House Reputation:** Finally, we arrive at the lighthouse guiding the entire fleet – the fund house's reputation. Evaluate their overall track record, risk management practices, and regulatory compliance history. A strong, well-established house shines brightly, instilling confidence in the overall operation and the stewardship of your client's investments. Choosing a fund from such a house allows you to stand beside your clients with unwavering conviction, knowing they're under the watchful eye of an experienced navigator.

3. Customer Interest Analysis

- **Fund Inflows and Outflows:** Imagine the market as a bustling marketplace. Investors, like merchants, constantly move their capital, leaving footprints in the form of fund inflows and outflows. Consistent inflows paint a picture of a fund in favour, its offerings resonating with the market's desires. Conversely, significant outflows can be the first crack in the facade, prompting you to delve deeper and understand the source of the departure. By closely monitoring this financial snap, you'll be the first to detect shifts in investor preferences and adjust your dance accordingly.
- **Investor Surveys and Market Research:** The market's whispers hold valuable insights beyond mere monetary movement. Industry surveys, research reports, and investor forums act as decoder rings, translating your clients' voices. Analyse data on current investment trends, popular fund categories, and key customer concerns. This intel equips you to anticipate the next big wave of investor interest, allowing you to recommend the vessels best suited to navigate it.
- **Social Media Sentiment Analysis:** The roar of the crowd online, in the form of social media discussions, holds another layer of the puzzle. You can identify emerging trends and gauge public perception by tracking online sentiments about specific funds and the mutual fund industry in general. Is a new fund generating excited chatter? Is a regulatory change sparking concerns? By listening to the online echo chamber, you'll be able to address your clients' questions with real-time information and insights, cementing your role as their trusted guide.

4. Trend Analysis

- **Macroeconomic Indicators:** Imagine the market as a grand symphony, where each instrument – GDP growth, inflation, interest rates – plays a crucial role. You gain insights into the market's overall tone by monitoring these economic indicators. Is a rising GDP like a triumphant allegro, suggesting strong investment opportunities? Or is inflation, a foreboding timpani roll, hinting at potential market turbulence? Understanding these economic instruments allows you to anticipate their impact on different fund categories and sectors, empowering you to recommend the ones best suited to ride the coming waves.

- **Regulatory Changes:** The market's waters are also shaped by regulatory winds, bringing in new currents like investment restrictions or tax policies. Staying updated on these changes is crucial, as they can significantly impact how funds operate and the choices available to investors. Imagine a sudden squall of new investment restrictions forcing a change in asset allocation. Awareness of such potential squalls allows you to adjust your sails and recommend funds agile enough to navigate the altered landscape.
- **Technological Advancements:** the winds of change also blow from the future, heralded by technological advancements like robo-advisors and blockchain. These disruptive technologies are like the arrival of nimble speedboats, reshaping investor behaviour and the way mutual funds operate. By analysing their impact, you can anticipate shifting investor preferences and identify funds embracing these innovations, positioning yourself at the forefront of the financial frontier.

Important

The Sharpe ratio and the Sortino ratio are both risk-adjusted measures of investment returns. The main difference between the two is that the Sharpe ratio considers both upside and downside risks, while the Sortino ratio only considers downside risks.

The Sortino ratio is calculated as the inverse of the Sharpe ratio. The formula for the Sortino ratio is:

$$S = (R - T) / DR$$

S: Sortino ratio

R: Average realized return

T: Required rate of return

DR: Target downside deviation

Tools for Navigating the Mutual Fund Landscape

As an aspiring mutual fund distributor, your ability to analyse and recommend top funds goes beyond mere intuition. To truly excel, you need to equip yourself with the right tools and resources, like a seasoned cartographer navigating the complex terrain of the financial landscape.

Here is the list of the top powerful tools for navigating the Mutual Fund market:

Financial Data Platforms:

- **Bloomberg:** Imagine Bloomberg as a sophisticated captain's dashboard, offering real-time market data, historical performance metrics, and in-depth analyses of individual funds and sectors. Explore advanced charting tools, filter funds based on specific criteria, and compare them side-by-side to identify hidden gems.
- **Morningstar:** Think of Morningstar as a detailed map of the financial landscape. Utilize their comprehensive star-rating system based on risk-adjusted returns and qualitative factors to gauge a fund's potential quickly. Access detailed portfolio holdings, manager biographies, and insightful research reports to delve deeper into specific funds.
- **Value Line:** Picture Value Line as a treasure trove of historical data and insightful projections. Analyse long-term performance trends, compare expense ratios across categories, and uncover hidden value opportunities through their unique ranking system.

Industry Research Reports and Analysis:

- **Reputable Firms:** Seek out research reports and analyses from renowned firms like Moody's, Fitch, and JP Morgan. These unbiased assessments offer valuable insights into market trends, sector outlooks, and the overall health of the mutual fund industry. Utilize their expertise to anticipate potential shifts and identify promising investment themes.
- **Independent Analysts:** Don't discount the power of independent research. Look for reports from respected analysts with specialized knowledge in specific sectors or investment strategies. Their unique perspectives can shed light on niche opportunities and challenge conventional wisdom.

Fund House Websites and Annual Reports

- Every fund house website holds a wealth of information. Explore their investment philosophies, portfolio composition breakdowns, and fund manager profiles. Analyse annual reports for detailed performance data, risk management strategies, and compliance records. This first-hand information allows you to understand the inner workings of the fund and assess its commitment to investor interests.

2.1.4 Types of Mutual Fund Schemes

Prospective mutual fund distributors must be able to navigate the maze of various mutual fund schemes. Let's examine the main categories that point investors toward the ideal financial vessel to assist them in plotting their course.

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on:

- Organisation Structure – Open-ended, Close ended, Interval
- Management of Portfolio – Actively or Passively
- Investment Objective – Growth, Income, Liquidity
- Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi-Asset
- Thematic / solution oriented – Tax saving, Retirement benefit, Child welfare, Arbitrage
- Exchange Traded Funds
- Overseas funds
- Fund of funds

1. Scheme Classification by Organization Structure

- **Open-ended schemes** are perpetual and open for subscription and repurchase continuously on all business days at the current NAV.
- **Close-ended schemes** have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide an exit route before maturity and can be sold/traded on the stock exchanges.
- **Interval schemes** allow purchase and redemption during specified transaction periods (intervals). The transaction period has to be for a minimum of 2 days, and there should be at least a 15-day gap between the two transaction periods. The units of interval schemes are also mandatorily listed on the stock exchanges.

2. Scheme Classification by Portfolio Management

Active Funds

In an Active Fund, the Fund Manager is 'Active' in deciding whether to Buy, Hold, or Sell the underlying securities and in stock selection. Active funds adopt different strategies and styles to create and manage the portfolio.

- The investment strategy and style are described upfront in the Scheme Information document (offer document)
- Active funds expect to generate better returns (alpha) than the benchmark index.
- The risk and return in the fund will depend upon the strategy adopted.
- Active funds implement strategies to 'select' the stocks for the portfolio.

Passive Funds

Passive Funds hold a portfolio that replicates a stated Index or Benchmark e.g. –

- Index Funds
- Exchange Traded Funds (ETFs)

In a Passive Fund, the fund manager has a passive role, as the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager/dealer merely needs to replicate the same with minimal tracking error.

Active v/s Passive Funds

Active Fund	Passive Funds
• Rely on professional fund managers who manage investments. • Aim to outperform Benchmark Index. • Suited for investors who wish to take advantage of fund managers' alpha generation potential.	• Investment holdings mirror and closely track a benchmark index, e.g., Index Funds or Exchange Traded Funds (ETFs) • Suited for investors who want to allocate exactly as per the market index. • Lower Expense ratio, hence lower costs to investors and better liquidity

3. Classification by Investment Objectives

Mutual funds offer products that cater to the different investment objectives of the investors, such as:

- Capital Appreciation (Growth)
- Capital Preservation
- Regular Income
- Liquidity
- Tax-Saving

Mutual funds also offer investment plans, such as Growth and Dividend options, to help tailor the investment to the investors' needs.

Growth Funds

Growth Funds are investment schemes strategically crafted to yield capital appreciation for investors. These funds predominantly allocate their investments towards growth-oriented assets, with a primary focus on equities.

Choosing to invest in growth-oriented funds necessitates a medium to long-term investment horizon, as the potential for capital appreciation tends to unfold over extended periods. Historically, equities have demonstrated their prowess as an asset class by outperforming many other types of investments over the long term.

However, it is essential for investors to be mindful of the inherent volatility associated with Growth Funds, particularly in the short term. The prices of underlying equity shares, which form a substantial part of these funds, can exhibit fluctuations, leading to varying returns.

Consequently, investors opting for Growth Funds should possess the capacity to withstand short-term volatility while keeping their eyes on the potential for robust returns in the broader context of their investment horizon.

Large-cap growth mutual funds are one of the largest types of mutual funds in terms of market share. Large-blend funds offer investors value and growth and are also very popular. Foreign large-cap growth funds are much lower in terms of market share.

Foreign growth funds are becoming more common for investors who want to take advantage of global growth. These funds invest in international stocks, posting strong revenue and earnings growth. For international growth funds, technology and consumer sectors are the most common. Large internet names such as Tencent (TCTZF), Baidu (BIDU), and Alibaba (BABA) can be found among the top ten holdings for many international growth funds.

Income Funds

Income Funds are specifically structured to cater to the objective of furnishing investors with a consistent and reliable income stream. These funds strategically allocate their investments in fixed-income securities, encompassing corporate bonds, bonds, debts, and government securities.

The primary source of returns for Income Funds emanates from the interest income generated by these investments, supplemented by potential capital gains resulting from fluctuations in the value of the securities. While the fund endeavours to distribute income to investors, it's crucial to note that this is contingent upon the portfolio's ability to generate the necessary returns, and as such, there is no assured guarantee of income.

The actual returns from Income Funds are intricately tied to factors such as the maturity period and credit quality of the securities held within the portfolio, underscoring the importance of careful consideration and assessment for investors seeking a stable income-generating investment avenue.

For an investor, income funds are ideal for planning for a child's education, setting aside money towards the down payment on a house, and retirement planning, among other long-term goals.

Even investors with higher risk appetites who prefer to invest through equity funds/equities can consider investing a portion of money in income funds for diversification.

Liquid / Overnight /Money Market Mutual Funds

- Liquid Schemes, Overnight Funds and Money market mutual funds are investment options for investors seeking liquidity and principal protection with commensurate returns.
 - The funds invest in money market instruments* with maturities not exceeding 91 days.

- The return from the funds will depend upon the short-term interest rate prevalent in the market.
- These are ideal for investors who wish to park their surplus funds for short periods.
- Investors who use these funds for longer holding periods may be sacrificing the best returns possible from products suitable for a longer holding period.

4. Classification by Investment Portfolio

- Mutual fund products can be classified based on their underlying portfolio composition:
 - The first level of categorization will be on the basis of the asset class the fund invests in, such as equity/debt/money market instruments or gold.
 - The second level of categorization is on the basis of strategies and styles used to create the portfolio, such as Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/Small-cap Equity fund, Value fund, etc.
 - The portfolio composition flows out of the scheme's investment objectives.

** Money Market Instruments include commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity of up to one year, call or notice money, certificate of deposit, bills, and any other like instruments as specified by the Reserve Bank of India from time to time.*

2.1.5 Compare Mutual Funds with Market Indices

Conducting a comparative analysis involves understanding the context, choosing relevant metrics, and interpreting results accurately.

Metrics to compare:

Returns

- This is the most fundamental measure, comparing the percentage gain (or loss) of the mutual fund scheme against the index over different timeframes, such as 1 year, 3 years, or 5 years.

Volatility

- This assesses the riskiness of the investment, comparing the standard deviation of returns for the scheme and the index. A lower volatility indicates a smoother ride, while a higher one implies greater fluctuations.

Sharpe Ratio

- This helps adjust returns for risk, dividing excess returns (scheme return minus risk-free rate) by the standard deviation. A higher Sharpe ratio indicates superior performance relative to risk.

Sortino Ratio

- Similar to Sharpe ratio, but it focuses on downside risk (negative returns) only, providing a better comparison for conservative investors.

Maximum Drawdown

- This measures the peak-to-trough decline in the scheme's value over a specific period, highlighting downside risk potential.

Fig. 2.1.7: Metrics to compare Mutual Funds

Key Comparison Approaches for Mutual Fund Analysis

Absolute Returns

Directly compares the percentage gains or losses of the mutual fund with the index over different time periods (like 1 year, 3 years, etc.).

Gives a straightforward understanding of performance but doesn't factor in risk.

Relative Returns

Measures how the fund has done compared to the index, showcasing outperformance or underperformance.

Example: If the fund returns 12% and the index returns 10%, the relative return is 2%, indicating the fund beat the benchmark.

Risk-Adjusted Returns

Uses metrics like Sharpe and Sortino ratios to gauge performance while accounting for risk.

Particularly useful for evaluating volatile funds or periods.

Correlation Analysis

Assesses how closely the fund's returns move in sync with the index.

High correlation: Fund closely mirrors the market, suitable for those seeking to track it.

Low correlation: Fund offers diversification potential, as it doesn't always move with the market.

Fig. 2.1.8: Comparison Approaches

2.1.6 Risk-Adjusted Returns

In the bustling marketplace of investments, simply chasing high returns can be akin to navigating treacherous seas without a compass. Enter risk-adjusted return, a crucial metric that helps you, the aspiring mutual fund distributor, guide your clients towards calmer waters, maximizing their gains while mitigating risk.

Imagine two investments: one promising a dazzling 20% return, the other a steadier 10%. But what if the first carries the potential for sudden, tempestuous losses while the second offers a smoother, more predictable journey? This is where the risk-adjusted return comes into play. It acts as your financial sextant, revealing the true cost of those returns, factoring in the inherent risks involved.

How it works?

Quantifying Risk:

- First, we measure the volatility of an investment and its tendency to fluctuate in value. This can be done through methods like standard deviation, which reveals the average distance of returns from their mean.
- We then compare this volatility to a benchmark, often a risk-free asset like a government bond. This establishes a baseline for "safe" returns, against which the riskiness of the investment is judged.

Balancing the Equation:

- Now comes the magic. We take the excess return (the return above the benchmark) and divide it by the measure of volatility. This ratio quantifies the "reward per unit of risk" – the efficiency with which the investment generates returns relative to its potential for turbulence.

Popular Metric Variations:

- **Sharpe Ratio:** This classic measure simply divides excess return by standard deviation. It rewards investments that deliver high returns with relatively low volatility.
- **Sortino Ratio:** This variation focuses on downside risk, penalizing investments for negative returns while acknowledging positive volatility. This is particularly useful for evaluating investments aiming for capital preservation.
- **Treynor Ratio:** This ratio assesses how well an investment's return exceeds the benchmark, highlighting the effectiveness of its active management compared to a passive "market-matching" approach.

Interpreting the Results:

- Higher risk-adjusted ratios (like Sharpe or Sortino) generally indicate better performance, suggesting the investment delivers more reward for every unit of risk it takes.
- Comparing these ratios across different funds or asset classes within a client's risk tolerance allows you to recommend the most efficient options for their financial voyage.

How is Risk-Adjusted Return Calculated?

There's no single risk-adjusted return formula. Instead, multiple metrics can help you analyse the risk profile of an investment. Some of the most commonly used metrics are:

Alpha

Alpha measures your investment against its benchmark to see whether it is outperforming or underperforming. For instance, the performance of an equity mutual fund can be compared to the NIFTY50 index to calculate its Alpha.

Beta

Beta is a volatility metric that measures the risk profile of an investment against the broader market. If the Beta of investment is higher than 1, it is considered more volatile than the market.

Standard deviation

This is the most common measure, capturing how much returns deviate from their average (mean). A lower standard deviation indicates lower volatility and vice versa.

R-squared

The percentage of an investment's performance that the performance of an index can explain.

Sharpe Ratio

The Sharpe ratio measures the profit of an investment that exceeds the risk-free rate per unit of standard deviation. It is calculated by taking the return of the investment, subtracting the risk-free rate, and dividing this result by the investment's standard deviation.

All else equal, a higher Sharpe ratio is better. The risk-free rate used is the yield on very low-risk investment, usually the 10-year Treasury bond (T-bond), for the relevant period.

For example, say Mutual Fund A returned 12% over the past year and had a standard deviation of 10%. Mutual Fund B returned 10% with a standard deviation of 7%, and the risk-free rate over the period was 3%. The Sharpe ratios would be calculated as follows:

- Mutual Fund A: $(12\% - 3\%) / 10\% = 0.9$
- Mutual Fund B: $(10\% - 3\%) / 7\% = 1$

Even though Mutual Fund A had a higher return, Mutual Fund B had a higher risk-adjusted return, meaning that it gained more per unit of total risk than Mutual Fund A.

Treynor Ratio

The Treynor ratio is calculated the same way as the Sharpe ratio but uses the investment's beta in the denominator. As with the Sharpe, a higher Treynor ratio is better.

Using the previous fund example and assuming that each of the funds has a beta of 0.75, the calculations are as follows:

- Mutual Fund A: $(12\% - 3\%) / 0.75 = 0.12$
- Mutual Fund B: $(10\% - 3\%) / 0.75 = 0.09$

Here, Mutual Fund A has a higher Treynor ratio, meaning the fund earns more return per unit of systematic risk than Fund B.

2.1.7 Annual Growth Rate (AGR)

As an aspiring mutual fund distributor, understanding how to analyse fund performance is crucial. One key metric in this toolkit is the Annual Growth Rate (AGR), which offers a valuable perspective on the fund's historical returns.

What is AGR?

Think of AGR as a measuring tape for growth. It reflects the average annual rate at which the fund's value has increased over a specific period, typically expressed as a percentage. Imagine a fund that grows from Rs. 100 to Rs. 140 in three years. Its AGR would be approximately 13.4% (calculated using the compound interest formula).

Why is AGR Important?

AGR offers several advantages for analysing mutual fund performance:

- **Compares Different Timeframes:** Unlike simple annual returns, AGR smooths out fluctuations and provides a more holistic view of the fund's growth trajectory over multiple years. This helps you compare its performance across different market cycles and investment horizons.
- **Benchmarking:** To assess its relative performance, you can compare the fund's AGR to relevant benchmarks like market indices or inflation rates. This helps you understand if the fund is outperforming or underperforming its target market or simply keeping pace with inflation.
- **Risk-Adjusted Perspective:** While AGR doesn't directly account for risk, it can be combined with other risk-adjusted metrics like Sharpe Ratio to provide a more comprehensive picture of the fund's performance relative to its volatility.

Limitations of AGR

Different fund styles (growth, value, etc.) have varying risk and return profiles. Understanding the fund's style will help you interpret its AGR in context.

AGR smooths out short-term fluctuations, but it doesn't erase them. Be aware of the fund's historical volatility and how it aligns with your client's risk tolerance.

Expense ratios can impact a fund's overall returns. Consider the fund's expense ratio when evaluating its AGR performance.

Two main AGR calculation methods are:

Compound Interest Formula

Imagine your fund's value as a snowball rolling downhill, gathering momentum (compounding) as it grows. This formula captures that snowball effect:

$$\text{AGR} = \left[\left(\frac{\text{Ending NAV}}{\text{Starting NAV}} \right)^{1/n} \right] - 1$$

Where:

- Ending NAV is the fund's net asset value at the end of the chosen period.
- Starting NAV is the fund's net asset value at the beginning of the chosen period.
- n is the number of years in the period.

XIRR (Extended Internal Rate of Return):

Think of XIRR as a sophisticated speedometer that accounts for every bump and turn on the fund's growth journey. This method considers all cash flows, including:

- Initial investment
- Redemptions
- Reinvestments of dividends or interest
- Additional contributions

It then calculates the internal rate of return that makes the present value of all these cash flows equal to zero.

The optimal method depends on your needs and the situation. The compound interest formula is often sufficient for simple calculations and long-term assessments. If the period involves irregular investments or you need precise calculations, consider XIRR.

2.1.8 Net Asset Value (NAV)

Calculating a mutual fund's Net Asset Value (NAV) is crucial for understanding its performance and determining returns for investors. Here are the standard methods:

Total Value Method

This is the most common method and involves the following steps:

- **Sum up Assets:** Add the market value of all the fund's assets, including stocks, bonds, cash, and other investments.

- **Subtract Liabilities:** Deduct any outstanding liabilities like accrued expenses or payable taxes.
- **Divide by Outstanding Units:** Divide the resulting net asset figure by the fund's total number of outstanding units.

$$\text{Formula: NAV} = (\text{Total Assets} - \text{Liabilities}) / \text{Outstanding Units}$$

Bid and Ask Method

This method utilizes the bid and ask prices of the fund's units:

- **Average Bid and Ask:** Calculate the average of the bid and ask prices for a unit of the fund on the exchange.
- **Divide by Outstanding Units:** Divide the average bid-ask price by the total number of outstanding units.

$$\text{Formula: NAV} = (\text{Average Bid-Ask Price}) / \text{Outstanding Units}$$

Weighted Average Method

This method is used for funds with multiple classes of units with different voting rights or fees. It involves:

- **Multiply Asset Value by Unit Weight:** Multiply the market value of each asset by its corresponding weight assigned to the specific unit class.
- **Sum Weighted Values:** Add up the weighted values for all assets.
- **Subtract Liabilities:** Deduct any outstanding liabilities.
- **Divide by Class Units:** Divide the resulting net asset figure by the total number of outstanding units for the specific class.

$$\text{Formula: NAV} = [(\text{Asset Value} * \text{Unit Weight}) - \text{Liabilities}] / \text{Units for Class}$$

2.1.9 Determining Returns and Assessing Risk

Returns

Absolute Return

Imagine your client invested Rs. 100 in a fund at the beginning of the year and Rs. 120 at the end. The absolute return would be:

$$\text{Absolute Return} = [(\text{Ending NAV} - \text{Starting NAV}) / \text{Starting NAV}] * 100\%$$

In this case, the absolute return = $[(120 - 100) / 100] * 100\% = 20\%$.

Simple Return

This builds on absolute return by considering the initial investment:

$$\text{Simple Return} = \text{Absolute Return} / \text{Starting NAV} * 100\%$$

Here, the simple return = $20\% / 100 * 100\% = 20\%$.

Compound Return

To account for the snowball effect of reinvestments, use the compound interest formula:

$$\text{Compound Return} = [(\text{Ending NAV} / \text{Starting NAV})^{(1/n)} - 1] * 100\%$$

Assuming monthly reinvestments ($n = 12$), the compound return might be slightly higher than the simple return (e.g., 20.1%).

Risk

- **Standard Deviation:** Imagine the fund's returns like a rollercoaster – the standard deviation measures how much they deviate from the average (up or down). A higher standard deviation indicates higher volatility or risk.
- **Beta:** This compares the fund's volatility to the market's. A beta of 1 suggests the fund moves in line with the market, while a beta above 1 implies it amplifies market movements (higher risk).
- **Sharpe Ratio** combines return and risk, dividing excess return (above a risk-free rate) by standard deviation. A higher Sharpe Ratio indicates better risk-adjusted performance.

Let's compare two funds:

Fund A	Fund B
Absolute return = 20%	Absolute return = 15%
Simple return = 20%	Simple return = 15%
Compound return = 20.2%	Compound return = 15.6%
Standard deviation = 15%	Standard deviation = 10%
Beta = 1.2	Beta = 0.8
Sharpe Ratio = 0.8	Sharpe Ratio = 1
Interpretation While Fund A offers higher returns, its higher standard deviation and beta indicate greater risk. Fund B, with lower returns but lower risk, might be preferred by risk-averse investors.	

Table 2.1.1: Fund Comparison

2.1.10 Gather and Analyse Insights for Regular Stock Market Updates

What is a Stock Market?

Imagine a lively marketplace, but instead of fruits, people are trading ownership pieces of companies. This lively hub is the stock market, where investors buy and sell these ownership pieces, known as shares. Think of shares as tickets that give you a company slice—like owning a small piece of it. When you own shares, you get a share of the company's profits, called dividends, and you might even get a say in some of the company's decisions through voting rights.

Now, picture the stock market like a big network of stock exchanges. These are places where traders and investors come together to exchange these ownership shares of publicly traded companies. When a private company decides to join this marketplace, it makes an initial public offering (IPO). It's like the

company is throwing a grand opening party and inviting everyone to become a part-owner by buying shares. This way, more people can join in and become shareholders of that company. So, the stock market is essentially a bustling space where ownership pieces of companies change hands, creating opportunities for investors to be a part of various businesses.

In the vibrant world of the stock market, various players come together to create a dynamic ecosystem:

- **Companies:** These are the stars of the show. They issue shares through Initial Public Offerings (IPOs), which is like inviting the public to become part-owners. Companies do this to raise money for expanding their operations, making acquisitions, or funding new ventures.
- **Individual Investors:** That's you and me! We participate by buying and selling shares. Our goal? Hoping that the value of the shares we own goes up, allowing us to make a profit when we decide to sell.
- **Institutional Investors:** These are the heavyweights—mutual funds, pension funds, and insurance companies. They play big by investing large sums of money on behalf of their clients, contributing significantly to the overall market activity.
- **Brokers and Exchanges:** Picture them as the backstage crew. Brokers and exchanges facilitate the buying and selling process. They act as intermediaries, making sure that transactions happen smoothly between investors and the market.



Fig. 2.1.9: (i) Bombay Stock Exchange (ii) Kolkata Stock Exchange

Significance of Stock Market

Capital Formation

Imagine a budding entrepreneur with a ground breaking idea. But turning that idea into reality requires capital, and that's where the stock market shines. By issuing shares, companies gain access to an ocean of investors willing to contribute their funds in exchange for a slice of the future pie. This influx of capital fuels:

- **Expansion:** Companies can open new stores, launch new products, or enter new markets, scaling their operations and reaching wider audiences.
- **Acquisitions:** They can acquire other companies, diversify their offerings, strengthen their market position, and gain valuable technologies or customer bases.
- **Innovation:** Stock market funding nurtures cutting-edge research and development, fostering advancements in healthcare, technology, and other crucial sectors.

This cycle of investment and growth ripples through the economy, creating jobs, generating tax revenue, and boosting overall prosperity.

Wealth Creation

For individual investors, the stock market is more than just a ticker board; it's a potential gateway to financial independence. Owning shares in successful companies allows you to participate in their growth, reaping the rewards in two ways:

- **Capital Gains:** As the value of your shares increases over time, you can sell them at a profit, pocketing the difference between the purchase and sale price. This capital appreciation can significantly bolster your net worth.
- **Dividends:** Many companies share a portion of their profits with their shareholders through regular dividend payments. These periodic payouts provide a steady stream of income, supplementing your salary or other income sources.

Of course, the stock market also carries inherent risks, and not every investment guarantees success. But with careful research, diversification, and a long-term perspective, it can be a powerful tool for building wealth and securing your financial future.

Economic Barometer

Think of the stock market as a giant mood meter for the economy. Its performance tells a story about the collective confidence of businesses and investors. When economic optimism prevails, companies perform well, share prices rise, and the market thrives. Factors like strong corporate earnings, favourable government policies, or positive economic indicators can fuel this confidence.

Conversely, when pessimism takes hold, economic slowdown, political uncertainty, or other negative factors can trigger market downturns. Share prices may decline, reflecting lowered expectations for future growth and profitability.

Economists, policymakers, and individual investors can gain valuable insights into the economy's overall health by closely monitoring the stock market. This information can guide investment decisions, inform policymaking, and provide a roadmap for economic ups and downs.

How Stock Market Work?

Trading Platforms and Exchanges

Imagine this bustling marketplace not as a physical location but as a network of interconnected platforms and exchanges. These act as the stage where the buying and selling drama unfolds. Some popular examples include the New York Stock Exchange (NYSE) and the Bombay Stock Exchange (BSE).

Brokers and Orders

Think of brokers as the skilled playwrights in this drama. They are licensed professionals who connect buyers and sellers, facilitating the flow of orders – instructions to buy or sell shares at specific prices or times. Different order types, like market orders (immediate execution) or limit orders (execution at a specific price), offer investors flexibility and control in their trading strategies.

Bid and Ask

The delicate dance of the bid and ask prices is at the heart of every trade. The bid is the highest price a buyer is willing to pay for a share, while the ask is the lowest price a seller is willing to accept. When the bid and ask prices meet, a trade is made, pushing the share price up or down based on who initiated the trade (buyer or seller) and the quantity involved.

Fuelling Factors

The price of a share isn't simply a random number pulled out of a hat. It's a complex tapestry woven from numerous factors, like:

- **Company performance:** Strong financial results, innovative products, and a positive market outlook increase investor confidence, pushing prices up. Conversely, poor performance or negative news can trigger a sell-off, driving prices down.
- **Market sentiment:** The overall mood of investors can significantly impact share prices. Optimistic sentiments lead to bullish markets, while fear and uncertainty can usher in bearish trends.
- **Economic data and events:** Interest rates, inflation, political events, and global economic conditions can all influence investor confidence and, consequently, share prices.

Market Indices and Derivatives

The stock market isn't just about individual companies. Market indices, like the S&P 500 or the Sensex, track the performance of a group of stocks, offering a broader view of the market's health. Additionally, derivatives like options and futures allow investors to take calculated risks and amplify potential gains (or losses) by speculating on future price movements.

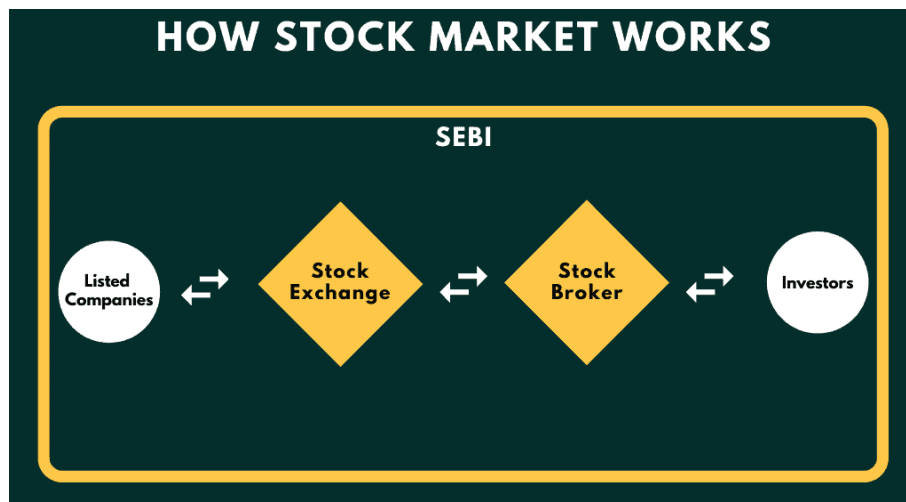


Fig. 2.1.10: Basics of how the stock market works in India

Significance of Gathering and Analysing Insights for Stock Market Updates

1. Make Informed Recommendations

Think of yourself as a financial navigator, guiding clients through the often turbulent waters of the market. By regularly consuming and interpreting market insights, you gain valuable knowledge about:

- **Company performance:** Unveiling the strengths and weaknesses of individual companies through financial reports, news articles, and analyst opinions.
- **Industry trends:** Identifying emerging sectors, disruptive technologies, and potential game-changers that could reshape the market landscape.
- **Economic conditions:** Understanding the impact of interest rates, inflation, and global events on investor sentiment and market movements.

This comprehensive understanding allows you to tailor recommendations to your clients' specific risk tolerance, investment goals, and financial profiles, increasing the likelihood of successful outcomes.

2. Build Trust and Credibility

Imagine a client asking, "What's the latest on X company?" Being able to confidently answer with insightful commentary, not just generic headlines, builds trust and establishes you as a knowledgeable resource. This, in turn, fosters strong client relationships and attracts new ones seeking your expertise.

3. Navigate Market Fluctuations

The stock market is a living organism constantly evolving and reacting to a multitude of factors. By diligently staying abreast of the latest developments, you can:

- **Anticipate potential risks:** Early warning signs of industry challenges, political uncertainties, or economic downturns allow you to advise clients on potential adjustments to their portfolios.
- **Identify emerging opportunities:** Spotting promising companies, breakthrough technologies, or sectors poised for growth enables you to recommend strategic investments that can capitalize on these trends.

4. Building a Robust Ecosystem

The flow of insights transcends individual funds, impacting the entire mutual fund market:

- **Improved overall returns:** By collectively making informed investment decisions based on accurate analysis, the industry can potentially contribute to higher average returns for investors throughout the market.
- **Enhanced risk management:** Regular monitoring and sharing of insights allows for early identification and mitigation of systemic risks, promoting stability and investor confidence in the industry.
- **Innovation and product development:** Insights into investor preferences, emerging trends, and regulatory changes can guide the development of new and innovative mutual fund products, catering to diverse investor needs and risk appetites.

UNIT 2.2: Client-Centric Investment Strategies

Unit Objectives

By the end of this unit, the participants will be able to:

1. Explain how to create detailed customer profiles, including understanding their risk tolerance, financial goals, and investment experience.
2. Discuss the standard procedure of conducting risk profiling to identify a client's financial requirements and risk tolerance, ensuring investments align with their profile.
3. Discuss various documents required for the sale and purchase of mutual funds.
4. Identify methods to effectively handle customer queries and concerns, building trust and rapport.
5. Role-play scenarios on how to liaise with existing customers to gain valuable insights and perspectives on the mutual fund market performance.
6. Practice dramatizing situations where you approach prospective customers, appraising them of mutual fund schemes and explaining the functioning of the market.
7. Explain how to suggest appropriate mutual fund schemes based on a client's profile.

2.2.1 Customer Profiling

In the context of mutual funds, a customer profile is a thorough and organised depiction of a single investor's financial traits, investing goals, risk tolerance, and preferences. It is a fundamental tool for prospective mutual fund distributors, providing insights that direct customised investment suggestions catered to individual client needs.

A customer profile goes beyond demographics, capturing a holistic picture encompassing:

- **Financial Literacy:** Their understanding of financial concepts, risk tolerance, and investment goals.
- **Investment Experience:** Whether they're seasoned investors or financial novices.
- **Income and Assets:** Their financial stability and investment potential.
- **Risk Appetite:** Their comfort level with potential losses and preferred level of investment volatility.
- **Life Stage and Goals:** Their aspirations, financial responsibilities, and investment timelines.
- **Values and Preferences:** Their ethical considerations, preferred investment styles, and desired level of service.

To create a customer profile, mutual fund distributors engage in a meticulous process that involves gathering relevant information about the investor. This includes a thorough examination of the investor's financial goals, both short-term and long-term, their current financial situation, and any specific investment preferences they may have. The process also involves a detailed exploration of the investor's risk tolerance, ascertaining their comfort level with market fluctuations and potential investment risks.

Additionally, mutual fund distributors seek to understand the investor's time horizon, liquidity needs, and any specific constraints or considerations that may impact their investment decisions. Factors such as age, income, investment experience, and future financial obligations are carefully considered to construct a holistic and accurate customer profile.

Developing a customer profile is a consultative procedure by nature; it entails having deep discussions with the investor to obtain qualitative information to supplement the quantitative data. In order to

establish a connection that is honest and built on trust, mutual fund distributors use their professional communication skills to make sure that investors feel informed and confident at every stage of the profiling process.

Crafting an accurate profile involves a multi-layered approach:

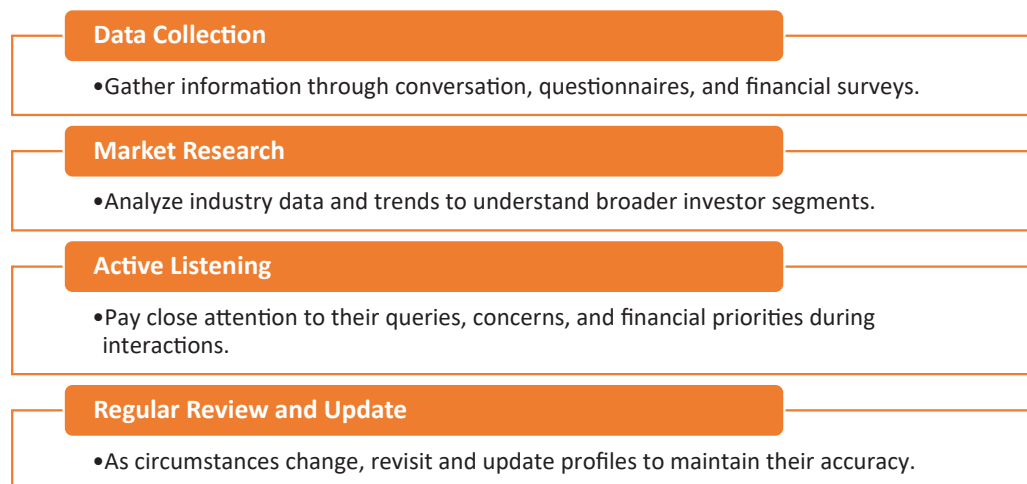


Fig. 2.2.1: Creating Customer Profile

Once the customer profiling is done, the mutual fund distributors thoroughly grasp the investor's financial situation. This information is crucial for developing customised investment plans, suggesting appropriate mutual fund products, and offering continuing assistance that aligns with the investor's risk tolerance and financial goals.

Developing a customer profile is a calculated risk that enables prospective mutual fund distributors to provide customer-focused services and establish long-lasting bonds through openness, trust, and customised financial advice.

Here's a step-by-step guide on how to create comprehensive customer profiles, including understanding risk tolerance, financial goals, and investment experience:

Step 1: Conduct Initial Assessment

- Begin with an initial assessment to gather basic demographic information, such as age, income, occupation, and marital status.
- Understand the investor's current financial situation, including assets, liabilities, and overall net worth.

Step 2: Establish Financial Goals

- Engage in open and detailed discussions to identify the investor's financial goals. These may include short-term objectives (e.g., buying a house) and long-term goals (e.g., retirement planning).
- Prioritize and quantify these goals, ensuring clarity on the time horizon.

Step 3: Evaluate Risk Tolerance

- Utilize risk tolerance questionnaires or conduct in-depth interviews to gauge the investor's comfort level with market fluctuations and potential financial losses.
- Explore scenarios to understand how the investor reacts to various levels of risk, ensuring a comprehensive assessment.

Step 4: Assess Investment Experience

- Inquire about the investor's past investment experiences, including any exposure to mutual funds, stocks, bonds, or other financial instruments.
- Assess their familiarity with investment concepts and their ability to comprehend the risks and rewards associated with different asset classes.

Step 5: Conquest Time Horizon Analysis

- Determine the investor's time horizon by understanding when they plan to achieve specific financial goals.
- Align investment recommendations with the investor's time horizon, ensuring the chosen strategies match their time-related constraints and objectives.

Step 6: Determine Liquidity Needs

- Identify the investor's liquidity needs by understanding any short-term financial obligations or emergency funds they may require.
- Ensure that the investment strategy considers these liquidity needs to maintain financial flexibility.

Step 7: Understand the Preferred Communication Style

- Understand the investor's preferred communication style and frequency. Some investors prefer regular updates and communication, while others prefer a more hands-off approach.
- Establish clear communication channels and expectations to foster a transparent and comfortable client-advisor relationship.

Step 8: Perform Documentation and Review

- Document all gathered information securely and organised, creating a comprehensive customer profile.
- Regularly review and update customer profiles to accommodate investor financial situation changes, goals, or risk tolerance.

Step 9: Ensure Compliance Considerations

- Ensure compliance with regulatory requirements by documenting and storing customer information securely.
- Adhere to privacy and data protection regulations, prioritizing the security of client information.

2.2.2 Risk Profiling**Risk Tolerance**

Imagine going on a roller coaster. Some people love the thrill, while others feel scared. Similarly, in investing, risk tolerance is like your comfort level with the ups and downs of the financial roller coaster.

You have a high-risk tolerance if you're okay with the idea that your investments might go up and down. But you might have a lower risk tolerance if you get nervous about your money fluctuating a lot. It's crucial to know how much financial roller coaster excitement your clients can handle to help them pick investments that match their comfort levels.

Low-Risk Tolerance

You prefer calm and steady investments, even if the returns are smaller. Think of government bonds or savings accounts.

Moderate Risk Tolerance

You're okay with some wobbles, but not too much. Balanced funds or a mix of stocks and bonds might be a good fit.

High Risk Tolerance

You're an adventurous investor who enjoys the thrill of potentially high returns, even if it means a bumpy ride. Consider aggressive growth funds or individual stocks.

Risk Profiling

Think of risk profiling as getting to know your clients' roller coaster preferences. It's like asking them, "How much excitement are you looking for in your investments?" To do this, you might use simple surveys or have a chat to understand if they're more like roller coaster enthusiasts (high-risk tolerance) or if they prefer a gentler ride (lower-risk tolerance).

The goal is to create a profile that reflects how much risk your clients are comfortable with. This way, you can recommend investments that align with their preferences. Some clients may be up for the thrill of potentially higher returns, while others might prefer a smoother ride, even if it means more moderate gains.

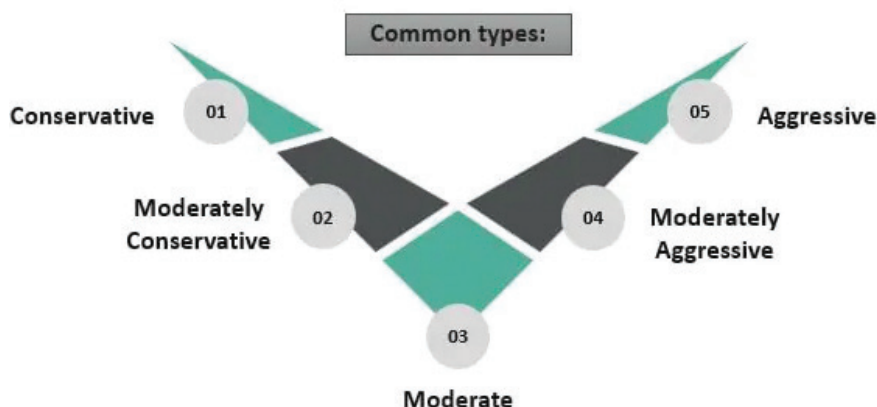
Types of Risk Profiles

Fig. 2.2.2: Types of Risk Profiles

Remember:

- Tolerance for risk has no right or wrong answer! It all comes down to determining your personal comfort zone and selecting assets based on your requirements and objectives.
- Your client's risk tolerance may vary over time; therefore, examining their profile and periodically modifying the investments is critical.
- As a distributor of mutual funds, you can assist your clients in striking the ideal balance between return and risk by using risk profiling tools and conversing with them.

2.2.3 Documents Required for Mutual Fund Transactions

Know Your Customer (KYC)

- **Proof of Identity (POI):** This could be your PAN card, Aadhaar card, passport, voter ID card, driving license, or any other government-issued photo ID.



Fig. 2.2.3: Proof of Identity (PAN Card, Aadhaar Card and Voter ID)

- **Proof of Address (POA):** This could be your Aadhaar card, utility bills like electricity or phone bills (not older than three months), bank statements (not older than three months), registered rent agreement, or any other government-issued document with your address.

Investment Details

Mutual Fund Application Form: Duly filled and signed, specifying the scheme you wish to invest in, amount, and investment mode (lump sum or SIP).



Expertise that's trusted

COMMON APPLICATION FORM FOR DEBT SCHEMES

For sale of Units of Tata Mutual Fund Scheme(s) to Resident/ Non-Resident Indians.
Please refer complete details on all page(s) and scheme description/details while applying.

Sr. No. :

ISSUE OF UNITS OF TATA MUTUAL FUND SCHEMES AT NAV BASED RESALE PRICE WITH APPLICABLE LOAD IF ANY FOR ONGOING SALE											
Refer complete scheme details/instructions while filling in application form in English BLOCK LETTERS. Tick (✓) whichever is applicable. Strike out which is not required											
BROKER/AGENT CODE						SUB-BROKER CODE					
A											
Existing Folio No. : _____ ☐ SIP Form attached.											
PAN AND KYC COMPLIANT STATUS DETAILS (MANDATORY)											
PAN # (Refer Instruction - D)								KYC Compliant Status (If yes attach proof) KYC Mandatory for investment of Rs. 50,000 and above. (Refer Instruction - E)			
First Applicant / Guardian*								☐ Yes	☐ No		
Second Applicant								☐ Yes	☐ No		
First Applicant / Guardian*								☐ Yes	☐ No		
*If the First Applicant is a Minor, then please state the details of Parent / Guardian. # Please attach PAN proof.											
UNITHOLDER INFORMATION											
Name of First Applicant			Mr. Ms. Ms.			Please mention your name as it appears in your Bank Account			Date of Birth		
Name of Guardian (in case first Applicant is Minor)			Mr. Ms. Ms.						D D M M Y Y Y Y		
Contact Person (in case of company)											
Mailing Address (PO Box Address is not sufficient) (Indian Address in case of NRIs/Flis)											
City						State		Country		Pin Code	
Email ID											
I/We wish to receive A/c Statement / Annual Report / Quarterly Statement via Email instead of the physical copy ☐ Yes ☐ No											
Contact Particulars			Telephone : Office			Residence			Fax		
Status (First Sole Applicant) Please (✓)			☐ Resident Individual			☐ NRI/NRO			☐ NRI/NRE		
			☐ Trust			☐ Partner			☐ Public Ltd. Co.		
			☐ Proprietorship			☐ BOI			☐ Pvt. Ltd. Co.		
Overseas Address (Mandatory for NRI/Flis applications in addition to)			☐ AOP			☐ On behalf of Minor			☐ FII		
			☐ HUF			☐ Banks			☐ Body Corporate		
			☐ Others								
City						State		Country		Pin Code	
Occupation						☐ Agriculture ☐ Business ☐ Service ☐ Professional ☐ Housewife ☐ Retired ☐ Student ☐ Other					
Mode of Holding						☐ Single ☐ Joint ☐ Anyone or Survivor					
Name of Second Applicant						Status (✓) ☐ RI ☐ NRI					
						Date of Birth					
						D D M M Y Y Y Y					

Name of Third Applicant		Status (✓) ☐ RI ☐ NRI		Date of Birth	
Name of Power of Attorney holder for investment on behalf of Applicant.					
Name		PAN No. (Refer Instruction D)			
* Kindly enclose copy of the proof of PAN. In case of joint holding, PAN of all the joint holders should be mentioned in the application form.					
NOMINATION DETAILS (To be filled in by individual(s) applying singly or jointly)					
Name and Address of the Nominee(s)	Nominee's Relationship with 1st unitholder	Proportion (%) by which the units shared by will be shared by each nominee (% to aggregate to 100%)	Date of Birth	Name & Address of Guardian (to be furnished in case the nominee is minor)	Signature of Guardian
Nominee 1					
Nominee 2					
Nominee 3					

Fig. 2.2.4: Mutual Fund Application Form

- **Cheque/NEFT/RTGS details:** If opting for a lump sum investment, provide a cheque drawn on your bank account or NEFT/RTGS details for online transfer.

Additional Documents (if applicable)

- **Minor Investment:** If investing on behalf of a minor, a copy of the minor's birth certificate and the guardian's KYC documents are required.
- **Joint Investment:** For joint investments, all joint holders need KYC documents.
- **NRI Investment:** NRIs may need additional documents like passport, PIO card, OCI card, and bank account details.

2.2.4 Handle Customer Queries and Concerns Effectively

Handling queries and concerns effectively is crucial for aspiring mutual fund distributors to build trust and rapport with the clients. Here are some methods to ensure a positive and satisfactory customer experience:

Active Listening and Empathy:

- Go beyond mere acknowledgement. Repeat key points to ensure you've understood correctly, reinforcing your commitment to their concerns.
- Use empathetic statements to convey understanding genuinely. Phrases like "I can imagine how frustrating that must be" or "I appreciate you bringing this to my attention" show genuine empathy.

Clear and Concise Communication:

- Break down complex information into even simpler terms, ensuring your customer fully grasps the solutions you're presenting.
- Provide visual aids or examples when explaining solutions to enhance clarity and reinforce understanding.

Patience and Professionalism:

- Exercise patience not just in listening but throughout the entire resolution process. Avoid rushing the conversation or decisions.
- Reassure the customer of your commitment to resolving their concerns, demonstrating high professionalism.

Transparency and Honesty:

- Give a timeframe for resolution whenever possible, keeping the customer informed about progress.
- Provide insights into the root cause of the issue, demonstrating transparency in your operations.

Going the Extra Mile:

- Personalization goes beyond addressing by name. Remember and reference past interactions to show your commitment to their unique needs.
- Offer additional resources or assistance beyond what's strictly necessary, showcasing your dedication to their satisfaction.

Building Trust and Rapport:

- Maintaining your positive attitude consistently throughout the interaction reinforces your commitment to their well-being.
- Express genuine interest by asking follow-up questions about their overall experience or needs, going beyond the immediate concern.

After Resolving the Issue:

- In your follow-up, ensure satisfaction and ask for feedback on the resolution process, demonstrating your commitment to continuous improvement.
- Consider personalized follow-ups based on the nature of the concern, showing that you value their experience and want to ensure their ongoing satisfaction.

Additional Considerations

- Leverage technology not just for efficiency but also for personalized service. Use data from previous interactions to anticipate customer needs.
- Continuous training ensures your staff remains adept in the evolving landscape of customer service, staying ahead in communication and resolution skills.
- Implement a robust feedback mechanism, actively seeking insights from customers to identify areas for improvement and further enhance their experience.

2.2.5 Liaising with Existing Customers for Mutual Fund Market Insights

Open Communication Channels

- Arrange recurring meetings or phone conversations to stay in touch with your clientele. This establishes a channel of open communication and demonstrates your commitment.
- To accommodate varying tastes, provide a variety of contact channels, such as email, phone conversations, video conferences, or even in-person meetings.
- Promote candid and frank feedback. Pay attention to their worries, inquiries, and observations on the market and their investments.

Targeted Questions and Surveys

- Ask targeted questions about their market knowledge, risk tolerance, and investment portfolio. This aids in obtaining focused insights that are pertinent to their experience.
- To gather quantitative and qualitative data, use online or offline surveys using a variety of question styles, such as multiple choice, open-ended, and Likert scale.
- Arrange small group meetings with clients with comparable investing profiles to encourage in-depth discussions and peer-to-peer learning.

Leverage Existing Data

- Monitor their investment activities, such as swaps, redemptions, and purchases. This may indicate how they feel about particular industries or finances.
- Use platforms or communication technologies that provide sentiment analysis of customer interactions to determine how they see the market.
- Integrate information from several sources, including market trends, client feedback, and performance reports, to understand their viewpoint comprehensively.

Value and Action

- Thank them for their comments and wisdom. Express gratitude for everything they have done to help you grasp the market.
- Examine the data acquired to find patterns, issues, and business prospects. Use this information in your investment plans, recommendations, and client interactions.
- Provide your clients with pertinent research and market updates, highlighting how their input influences your strategy.

2.2.6 Engaging Potential Clients

Reaching out to potential clients to evaluate mutual fund plans and explain how the market works involves several situations, each needing a different strategy.

Here are some situations and strategies for engaging potential clients:

Networking Events

- **Scenario:** You're attending a networking event or business gathering.
- **Approach:**
 - Instead of a generic inquiry about financial planning, try a specific icebreaker like "What's your biggest financial concern at this stage of your life?"
 - Share a brief story about someone in the same profession who achieved financial security through mutual funds. Quantify the benefits, e.g., "Mr. X, a doctor like you, achieved a 20% increase in his retirement savings within five years thanks to targeted mutual funds."
 - Propose a "coffee chat" or a quick follow-up call in a casual setting to discuss their specific needs, avoiding the pressure of a formal meeting.

Seminar or Workshop

- **Scenario:** You're hosting a seminar or workshop on financial literacy.

- **Approach**

- To grab attention, start with a relatable statistic about financial unpreparedness or a current market event.
- Use interactive quizzes, case studies, and animated explainer videos to break down complex concepts visually and engagingly.
- Offer limited free consultations as an incentive to encourage individual action and address specific concerns not covered in the workshop.

Online Webinar

- **Scenario:** Hosting an online webinar or virtual event.
- **Approach:**
 - Conduct live polls and actively answer questions in real time to keep participants engaged and address their immediate concerns.
 - Invite a financial expert or successful investor to share their personal experience with mutual funds to add credibility and inspire viewers.
 - Provide a dedicated landing page with access to webinar recordings, resource downloads, and a personalized consultation booking form.

Social Gatherings

- **Scenario:** You meet someone at a social event who expresses interest in financial planning.
- **Approach:**
 - Show genuine interest in their financial situation by asking open-ended questions and actively listening to their responses.
 - Briefly debunk common myths about mutual funds, like "they're risky" or "only for the wealthy", before explaining their potential benefits.
 - Mention positive testimonials from your clients who have achieved their financial goals with mutual funds to build trust and credibility.

Referral Introductions

- **Scenario:** You are introduced to a potential client through a referral.
- **Approach:**
 - Gather information from the referrer about the potential client's background and financial goals to personalize your initial conversation.
 - Highlight specific mutual funds that align with the referrer's description of the client's risk tolerance and investment objectives.
 - Clearly explain fees, risks, and potential returns associated with the recommended mutual funds before proceeding.

Financial Health Check-up

- **Scenario:** Offering financial health check-ups to individuals.
- **Approach:**
 - When presenting mutual funds as a solution, don't just cite benefits; estimate potential returns and project how they can help achieve specific financial goals, like early retirement or a child's education.

- Offer access to online tools, calculators, and educational resources to empower clients to make informed investment decisions.
- After the check-up, create a customized investment plan outlining different mutual fund options and a clear roadmap for achieving their financial goals.

Social Media Engagement

- **Scenario:** Engaging with potential clients on social media platforms.
- **Approach:**
 - Create bite-sized, visually appealing videos that explain core concepts like risk diversification or compound interest engagingly.
 - Host live Q&A sessions on your social media platforms to answer real-time audience questions and build an interactive community.
 - Utilize targeted advertising and sponsored content to reach specific demographics on social media platforms with relevant and personalized mutual fund information.

Additional Tips:

1. **Prioritise the "why" above the "what":** While describing the operation of mutual funds is crucial, don't overlook the "why" for each individual. Link their objectives and worries to the possible advantages of mutual funds.
2. **Make use of storytelling:** Narratives elicit emotional responses in people. To make your explanation more memorable, include relatable tales about how mutual funds have assisted others in achieving comparable objectives.
3. **Talk about everyday worries:** Be ready to dispel misconceptions and anxieties regarding mutual funds, such as risk, volatility, and hidden costs. To foster trust, give explanations that are both clear and honest.
4. **Paying attention actively:** Attention to comprehending the person's wants and circumstances. Asking clarifying questions and paying attention will help you adjust your advice.
5. **Call to action:** Conclude every discussion with a specific action offer, such as a follow-up meeting, access to particular resources, or a customised investment plan. Make it simple for them to advance towards their financial objectives.

2.2.7 Suggest Appropriate Mutual Fund Schemes Based on Client's Profile

Step 1: Conduct a Detailed Customer Profiling

- **Objective:** Understand the customer's financial goals, risk tolerance, investment horizon, and preferences.
- **Approach:**
 - Schedule a meeting to discuss their financial situation, aspirations, and concerns.
 - Utilize questionnaires, interviews, and discussions to create a comprehensive customer profile.
 - Consider psychological factors like their financial knowledge and comfort level with market fluctuations.
 - Assess their existing investment experience and preferred asset classes, if any.

Step 2: Tailor Recommendations to Customer's Preferences

- **Objective:** Align mutual fund suggestions with the customer's preferences and goals.
- **Approach:**
 - Present a curated selection of mutual fund schemes that match the customer's risk tolerance, investment horizon, and financial objectives.
 - Avoid technical jargon and explain complex concepts in simple, relatable language.
 - Use visuals like charts and graphs to illustrate risk-return profiles.
 - Briefly compare your recommendations with similar schemes in the market, highlighting their unique advantages or strengths for the customer's specific needs.

Step 3: Explain the Benefits and Success Factors

- **Objective:** Communicate the advantages of the chosen mutual fund schemes.
- **Approach:**
 - Clearly articulate the benefits, such as potential returns, diversification, professional fund management, and liquidity.
 - Use personalized case studies or relatable scenarios to illustrate how similar individuals achieved their goals with similar mutual funds. Quantify potential returns based on their investment amount and timeline.
 - Discuss risk management strategies like stop-loss orders or asset allocation adjustments to mitigate potential losses.
 - Explain the underlying factors impacting the fund's performance, such as economic trends, industry analysis, and fund management decisions.

Step 4: Present Past and Projected Performance

- **Objective:** Provide insights into the historical and expected performance of the mutual funds.
- **Approach:**
 - Share historical returns and performance metrics of the selected funds.
 - Discuss the fund manager's track record and strategy.
 - Explain that past performance does not guarantee future results but indicates the fund's management capabilities.

Step 5: Discuss Risk Levels

- **Objective:** Educate customers about the associated risks and volatility.
- **Approach:**
 - Use simple language to explain the different risks (market, credit, liquidity) associated with mutual funds.
 - Discuss how risk levels align with their risk tolerance and investment goals.
 - Provide scenarios to illustrate potential fluctuations in the fund's value.

Step 6: Clarify Terms and Conditions

- **Objective:** Ensure customers understand the terms and conditions of the selected mutual fund schemes.
- **Approach:**
 - Review the fund's prospectus, emphasizing key terms, fees, and redemption policies.
 - Explain any penalties or charges associated with early withdrawals.
 - Encourage customers to ask questions and seek clarification on any confusing terms.

Step 7: Explain Dividends and Other Payments

- **Objective:** Inform customers about potential income streams and associated payments.
- **Approach:**
 - Clarify the concept of dividends, interest, and capital gains.
 - Discuss the frequency and method of dividend payments.
 - Provide examples of how these payments contribute to overall returns.

Step 8: Address Customer Questions and Concerns

- **Objective:** Foster open communication and address any queries or reservations.
- **Approach:**
 - Encourage customers to ask questions throughout the discussion.
 - Provide clear, honest, and transparent answers.
 - Address concerns promptly and, if necessary, revisit certain aspects to ensure complete understanding.

Step 9: Provide Supporting Documents and Resources

- **Objective:** Offer additional materials for reference and further understanding.
- **Approach:**
 - Provide the customer with the fund's documentation, including the prospectus, fact sheets, and performance reports.
 - Direct them to online resources for continuous learning and monitoring.

Step 10: Follow-Up and Review

- **Objective:** Maintain an ongoing relationship and review the investment periodically.
- **Approach:**
 - Schedule follow-up meetings to review the performance of the chosen mutual funds, address any new concerns, and make adjustments if needed.
 - Demonstrate your commitment to their financial success.
 - Always remember that the secret is to customise your strategy to meet individual client's specific needs and goals, giving them the confidence and empowerment to make their investing decisions.

Summary

- SEBI plays a central role in safeguarding investors, setting industry rules, and advocating market development. AMFI complements SEBI by promoting ethical practices, conducting investor education, and addressing grievances.
- Exchange rates impact mutual funds through currency risk, asset allocation, inflation, interest rates, and global market integration.
- NIFTY tracks the top 50 companies on the NSE, reflecting the overall economy's health. SENSEX monitors the top 30 companies on BSE, providing insights into the stock market's overall performance.
- Financial data platforms like Bloomberg, Morningstar, and Value Line provide real-time data, performance metrics, and in-depth analyses.
- Fund house websites and annual reports provide detailed information on investment philosophies, portfolio composition, and fund manager profiles.
- Risk-adjusted returns help mutual fund distributors guide clients by considering both returns and associated risks. Metrics like Sharpe Ratio, Sortino Ratio, and Treynor Ratio quantify reward per unit of risk.
- NAV reflects the fund's performance by accounting for assets, liabilities, and outstanding units. NAV calculation methods include Total Value, Bid and Ask, and Weighted Average.
- The stock market functions as a dynamic marketplace for buying and selling ownership shares of companies. It is vital in capital formation and wealth creation and serves as an economic barometer.
- Customer Profiling in Mutual Funds involves comprehensively depicting an investor's financial traits, goals, risk tolerance, and preferences. Factors considered include financial literacy, investment experience, income/assets, risk appetite, life stage/goals, and values/preferences.
- Understanding clients' risk tolerance is crucial for recommending suitable investments. Low, moderate, and high-risk tolerance categories help tailor investment suggestions to match individual comfort levels.
- Collecting Proof of Identity (POI), Proof of Address (POA), and detailed investment information, such as the Mutual Fund Application Form, is part of the Know Your Customer (KYC) process.
- Different strategies are employed to engage potential clients and explain mutual fund opportunities, such as networking events, seminars, online webinars, social gatherings, referral introductions, and financial health check-ups.

Exercise

Multiple-choice Question:

1. What is the purpose of quantitative analysis in mutual fund market analysis?
 - a. Evaluating investment strategy
 - b. Assessing customer interest
 - c. Analysing fund performance based on numerical data
 - d. Examining fund manager's track record

2. How does the RBI influence the mutual fund market?
 - a. Direct regulatory functions
 - b. Monitoring fund performance
 - c. Gatekeeping foreign investments and overseeing transactions
 - d. Conducting investor education

3. What does the Beta measure in assessing risk?

a. Standard Deviation	b. Volatility against the broader market
c. Excess return	d. Weighted average of returns

4. What is an essential component of KYC for mutual fund investment?

a. Proof of education	b. Proof of employment
c. Proof of identity and proof of address	d. Proof of social media presence

5. How can mutual fund distributors gather insights from existing customers?
 - a. Conducting webinars only
 - b. Leveraging existing data and monitoring investment activities
 - c. Ignoring customer feedback
 - d. Engaging in one-time communication

Descriptive Questions

1. Analyse the methods involved in identifying top-performing mutual funds, covering both quantitative and qualitative aspects.
2. Explain the role of risk-adjusted returns in guiding mutual fund clients. Provide examples of popular risk-adjusted metrics.
3. Describe the significance of Annual Growth Rate (AGR) in analysing mutual fund performance. Discuss its limitations and how it complements other metrics.
4. Discuss the role of risk profiling in mutual fund distribution and its significance in recommending suitable investments.
5. Provide a comprehensive overview of the steps in suggesting appropriate mutual fund schemes based on a client's profile.





3. Perform After-Sales Activities

Unit 3.1 - Operational Procedures in Mutual Fund Management

Unit 3.2 - Customer Relationship Management and Market Awareness



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Explain how to assist the customer in completing mutual fund schemes' top-up/switch/redemption process.
2. Apply proper techniques to plan and execute regular engagement with customers for periodic review of customers' financial goals.
3. Discuss how to assist customers in identifying their current portfolio's risk.
4. Describe effective techniques for up-selling and cross-selling based on the revised financial goals of the customer.
5. Show how to update the customer's data on NFO (New Fund Offering).

UNIT 3.1: Operational Procedures in Mutual Fund Management

Unit Objectives

By the end of this unit, the participants will be able to:

1. Discuss the standard procedures for customers to submit requests for top-up, switch, and redemption of mutual fund schemes.
2. Explain the process of marking a lien on mutual fund units, including required documentation and forms.
3. Explore the standard procedure for customers to update their Know Your Customer (KYC) details and nominations.
4. Identify the required forms and documents and the importance of keeping these details current.
5. Discuss effective practices for planning and executing regular engagement with customers.
6. Emphasize the importance of periodic reviews to ensure alignment with their financial goals.
7. Role play a scenario where a customer seeks assistance in estimating risks in their current portfolio.

3.1.1 Top-Up, Switch, and Redemption of Mutual Fund

Top-Up

"Top-up" in the context of mutual funds refers to the act of investing additional money into an existing mutual fund scheme. Investors may choose to top up their investments for various reasons, such as having additional savings to invest, taking advantage of market opportunities, or increasing their exposure to a particular fund.

Standard Procedures for Top-Up

Channels:

- **Online Platforms:** Most fund houses and distributors offer online platforms for initiating top-up requests. This is often the fastest and most convenient option. Customers can log in with their account details, select the existing scheme, specify the desired scheme, and enter the switch amount.
- **Physical Forms:** Customers can download switch request forms from the fund house or distributor's website. They must fill in the required details, attach any necessary documents, and submit the form physically at the distributor's office or directly to the fund house.
- **Phone Calls:** Some distributors may facilitate switch requests through phone calls, but this method is less common and might require additional verification procedures.

Requirements:

- **Scheme Details:** Fund name and folio number.
- **Investment Amount:** Specify the amount you want to invest.

- **Payment Method:** Choose your preferred payment method (online transfer, bank transfer, cheque, etc.).
- **Additional Information:** Depending on the platform or distributor, you might need to provide additional details like bank account information or transaction reference number.

Processing Time:

Top-up requests usually get processed within 1-3 business days, depending on the chosen method and fund house.

Switch

Switching in the context of mutual funds refers to the process where an investor moves their investment from one mutual fund scheme to another within the same fund house. Investors may choose to switch their investments for various reasons, such as changing market conditions, altering risk preferences, or adjusting their investment strategy.

Standard Procedures for Switching Mutual Fund Schemes

Channels:

- Similar to top-up, switching can be done online, through physical forms, or via phone calls.

Requirements:

- Customers need to provide details of both the existing and desired scheme and the desired switch amount.
- Some platforms may also require a reason for switching.

Exit Load Charges:

- Certain schemes might impose exit load charges if switched within a specific period. Ensure customers are aware of these fees before initiating a switch.

Processing Time:

- Switching requests typically take 2-5 business days to complete, depending on the fund house and chosen method.
- Online switches often process faster than physical forms or phone requests.

Redemption

- Redemption in the context of mutual funds refers to the process of selling or liquidating units of a mutual fund scheme, thereby converting the investment into cash. Investors often choose to redeem their mutual fund units for various reasons, such as meeting financial goals, responding to changes in market conditions, or addressing liquidity needs.

Standard Procedures for Redemption of Mutual Fund

Channels:

- Redemption requests can be submitted online, through forms, or via phone calls.

Requirements:

- Customers need to specify the scheme name, folio number, and redemption amount. Some platforms might require a reason for redemption.

Exit Load Charges:

- Similar to switching, some schemes may have exit load charges for redemptions within a specific period.

Settlement Time:

- Redemption proceeds are typically credited to the customer's bank account within 2-5 business days, depending on the fund house and chosen method.

Important Reminders:

- Redemption proceeds are determined by the scheme's Net Asset Value (NAV) on the day of redemption, not the purchase price.
- Investors can redeem a part of their holdings, not necessarily the entire investment.
- Investors can opt for **Systematic Withdrawal Plans (SWPs)** to automate regular redemptions at pre-set intervals.

3.1.2 Marking a Lien on Mutual Fund Units

What is Lien in Banking?

A lien in the banking industry is a lender's legal right or interest in a borrower's property that serves as security for loan or debt repayment. If a lien is present, the lender has the right to seize or sell the collateral in the event that the borrower defaults on their debt.

What does a Lien Mean?

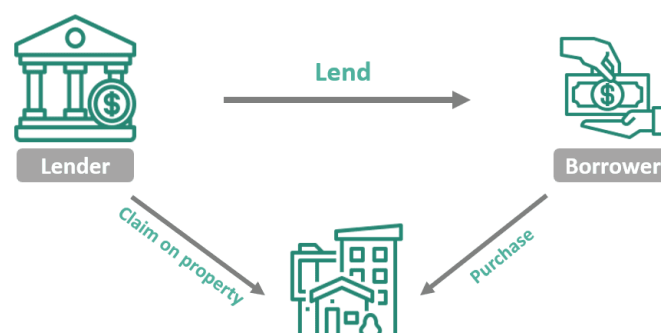


Fig. 3.1.1: Concept of Lien in Banking

In essence, a lien gives the lender some kind of security by guaranteeing that, in the case of default, they will have a claim over the borrower's assets.

Marking a Lien on Mutual Fund Units

A lien is essentially a legal claim on an investor's mutual fund units. It gives the lender (usually a bank or financial institution) the right to sell the units to recover their loan amount if the borrower defaults on their loan payment.

This provides some security for the lender while allowing the borrower to access funds without selling their investment outright.

When is a Lien Used?

Liens are commonly used when investors take out a loan against their mutual fund holdings. This type of loan, known as a Loan Against Mutual Funds (LAMF), allows investors to access liquidity without disturbing their long-term investment plans.

Lien Marking Process on Mutual Fund

Step 1: Initiation

- A client approaches a distributor or lender to inquire about a loan against mutual funds (LAMF).
- The client specifies the mutual fund units they intend to use as collateral for the loan.
- The distributor or lender guides the client through the eligibility criteria and loan terms.
- Sometimes, the client needs to submit/upload the Consolidated Account Statement (CAS) to calculate the eligible loan amount.

Step 2: Documentation:

Both your client and the lender need to sign various documents, including:

- **Lien Agreement:** This legally binding document outlines the key terms and conditions of the lien, including:
 - Loan amount secured by the lien
 - Applicable interest rate
 - Repayment schedule
 - Consequences of default
- **Mutual Fund Lien Request Form:** This form, provided by the fund house, serves multiple purposes:
 - Identifies the specific units to be marked with the lien
 - Authorizes the fund house to execute the lien marking process
 - Contains the client's personal and account information
- Other loan documents may include loan agreements, KYC forms, and bank account details to facilitate loan disbursement and repayment.

Step 3: Submission:

- The distributor, acting as a facilitator, meticulously completes all required forms, gathers necessary documents, and submits this comprehensive package to the concerned fund house for processing.

Step 4: Processing

- Upon receiving the lien request, the fund house undertakes a thorough verification process:
 - Validation of client information and account details
 - Examination of lien agreement and other documents
 - Assessment of unit eligibility for lien
- Once satisfied with the verification, the fund house proceeds to mark the lien on the designated units within the client's folio.
- This processing stage typically takes a few business days to complete.

Step 5: Confirmation

- Upon successful lien marking, the fund house promptly sends confirmation to both parties involved:
 - The client receives a notification acknowledging the lien and its implications.
 - The distributor receives a confirmation for their records and informs the client. This confirmation is a crucial record, indicating the lien's existence and terms.

Note

1. Clients can choose to use only a portion of their units as collateral.
2. A single folio can have multiple liens marked on different units for different loans.
3. When the loan is fully repaid, the lender submits a request to the fund house to remove the lien.
4. Most fund houses provide detailed information on LAMF and lien marking procedures on their websites.

3.1.3 Know Your Customer (KYC)**What is KYC?**

Know Your Customer (KYC) is an essential technique used by mutual fund distributors, banks, and other financial organisations to identify and confirm the information of their investors or customers. Before clients can use services or purchase, they must complete the KYC process.

In the battle against financial crimes, including money laundering and financing of terrorism, this protocol is an effective weapon. Through rigorous identity and fund source verification, KYC serves as a strong barrier against illegal activity in the financial system. Beyond merely adhering to regulations, KYC is essential to preserving the security and integrity of financial transactions.

Mutual Funds Distributors need to have a deep understanding of the KYC procedure. In addition to guaranteeing compliance with industry rules, it presents distributors as defenders of a safe and reliable financial environment. In addition to reducing risks, the KYC procedure becomes a tool for improving the general customer experience.

Furthermore, KYC empowers Mutual Fund Distributors to provide tailored investment advice. By delving into a client's financial profile, distributors can offer personalized insights and recommend mutual fund options that align with the client's goals and risk tolerance. This personalized approach not only builds trust but also strengthens the distributor-client relationship.

Types of KYC

There are two main types of KYC:

- **Basic KYC:** This involves verifying a client's identity and address using basic documents like a PAN card, driving license, Aadhaar card, Voter ID, or passport. Distributors can typically complete this level of KYC themselves.
- **Enhanced KYC:** This applies to high-risk transactions or clients with certain profiles. It requires additional verification of income sources, bank statements, and other financial documents. This process often involves third-party KYC verification agencies.

Central KYC Registry (CKYC)

KYC records are kept in a centralised location known as the Central KYC Registry (CKYC). Upon submitting their KYC documents, people receive a unique CKYC number and are registered in the repository. For any financial transaction, this unique identification can be used in place of submitting physical KYC documents, simplifying and speeding up the verification process.

All financial institutions have access to the CKYC repository, which gives them a quick and easy way to confirm the KYC information of their clients. This shared resource guarantees a standardised and safe method of client identification, improving coordination and collaboration across the financial sector.

CKYC & KRA KYC FORM
AXIS MUTUAL FUND

KNOW YOUR CLIENT APPLICATION FORM (For Individuals only)

(Please fill the form in English and in BLOCK Letters) Application Type* ☐ New ☐ Update KYC Number*

Fields marked with * are mandatory fields KYC Type* ☐ Normal (PAN is mandatory) ☐ PAN Exempt Investors (Refer instruction K)

1. IDENTITY DETAILS (Please refer instruction A at the end)

PAN Please enclose a duly attested copy of your PAN Card

Name* (Same as ID proof) Maiden Name (if any) Father / Spouse Name* Mother Name* Date of Birth* Gender* Marital Status* Citizenship* Residential Status* Occupation Type*	First Name Middle Name Last Name M- Male Married IN- Indian Resident Individual S-Service (Private Sector) O- Others (Professional) B- Business X- Not Categorized	F- Female Unmarried Others - Country Non Resident Indian Person of Indian Origin Public Sector Self Employed Retired Government Sector Housewife Student	PHOTO  Signature / Thumb Impression
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2. PROOF OF IDENTITY (PoI)* (for PAN exempt investor or if PAN card copy not provided) (Please refer instruction C & K at the end)

(Certified copy of any one of the following Proof of Identity (PoI) needs to be submitted)

☐ A- Passport Number ☐ B- Voter ID Card ☐ C- PAN Card ☐ D- Driving Licence ☐ E- Aadhaar Card ☐ F- NREGA Job Card ☐ Z- Others (any document notified by the central government)	Passport Expiry Date Driving Licence Expiry Date Identification Number
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3. PROOF OF ADDRESS (POA)*

☐ 3.1 Current / Permanent / Overseas Address Details (Please see instruction D at the end)

Address

Line 1*
 Line 2
 Line 3 City / Town / Village*
 District* Zip / Post Code* State / U.T Code* as per Indian Motor Vehicle Act, 1988
 State/UT* Country* Country Code as per ISO 3166

Address Type* ☐ Residential / Business ☐ Residential ☐ Business ☐ Registered Office ☐ Unspecified

(Certified copy of any one of the following Proof of Address (PoA) needs to be submitted)

☐ Passport Number ☐ Voter ID Card ☐ Driving Licence ☐ Aadhaar Card ☐ NREGA Job Card ☐ Others (any document notified by the central government)	Passport Expiry Date Driving Licence Expiry Date Identification Number
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3.2 CORRESPONDENCE / LOCAL ADDRESS DETAILS * (Please see instruction E at the end)

Same as Current / Permanent / Overseas Address details (In case of multiple correspondence / local addresses, please fill 'Additional Form', Submit relevant documentary proof)

Line 1* _____

Line 2 _____

Line 3 _____ City / Town / Village*

District* _____ Zip / Post Code* _____ State / UT Code* _____ as per Indian Motor Vehicle Act, 1988

State/UT* _____ Country* _____ Country Code _____ as per ISO 3166

Fig. 3.1.2: CKYC Form (for Individual)

3.1.4 Standard Procedure to Update KYC Details in Mutual Funds

Initiation

Clients generally start the process by receiving notifications from their fund houses or distributors indicating that their Know Your Customer (KYC) information needs to be updated. Clients are notified of the approaching necessity by this communication, which also initiates the procedure.

KYC updates can be prompted by a number of factors, such as changes to personal information like name, address, or contact information, the need to update compliance due to regulatory changes, or the expiration of an existing KYC. Clients must be able to identify these triggers in order to comprehend the necessity and significance of the KYC updating procedure.

Updation

Clients have two main routes to choose from in order to expedite KYC updates. The majority of fund houses and distributors offer online platforms that make updating KYC quick and easy. Clients access their accounts, follow the instructions on the screen, and might need to upload scanned copies of updated documents.

As an alternative, fund house or distributor websites offer tangible forms for download. Clients complete the form, affix the required paperwork, and deliver the actual package to the fund house or the distributor's office.

Documentation

Proof of Identity (POI), such as a PAN card, Aadhar card, or passport, and Proof of Address (POA), such as recent utility bills, bank statements, or Aadhaar cards, are needed for KYC updates. A photo the size of a passport can also be required, depending on the specifications.

In order to guarantee accurate updating of their records, clients must supply their current KYC information, which includes their folio number or PAN connected to mutual fund assets.

Verification

The processing of KYC updates involves a thorough verification process conducted by the fund house or distributor. Upon successful verification, the updated KYC details receive approval, and the customer's records are promptly amended to reflect the changes.

Customers receive confirmation of the successful KYC update through online notifications or physical mail, ensuring transparency and keeping them informed about the status of their KYC compliance.

It's worth noting that customers have the flexibility to undertake partial updates, allowing them to modify specific details without undergoing the entire KYC process anew.

While the typical timeframe for KYC updates ranges from 5 to 7 working days, online updates may expedite the process. Customers can actively track the status of their KYC update requests through online platforms or by reaching out to their distributor or fund house, providing them with a sense of control and assurance throughout the process.

3.1.5 Nominee in Mutual Funds

A nominee in the banking and finance sector is a person who is designated to receive the funds in a bank account after the account holder passes away. A nominee is typically someone the account holder trusts and appoints.

In the context of mutual funds, a nominee serves a different purpose than in the banking and finance sector. Mutual Fund Distributors must comprehend the subtleties of nominees in mutual fund investing.

Purpose of a Nominee:

In contrast to a bank account nominee's direct inheritance of funds upon the account holder's demise, a mutual fund nominee assumes a distinct function.

Rather than inheriting the units directly, their principal responsibility is to expedite a seamless transfer of mutual fund units to the legal heirs. This distinction is pivotal, as it streamlines the inheritance process, minimizing time-consuming legal formalities.

Choosing a Nominee:

Choosing a nominee requires serious thought. A trusted person, usually a first-degree relative such as a spouse, kids, or parents, is a popular option. Notably, minors are eligible to designate units, but until adulthood, a legal guardian must supervise the units.

Moreover, proposers are free to name one or more candidates, and they can also indicate whatever proportion of units each nominee will get.

Benefits of Naming a Nominee:

Naming a nominee in mutual funds bears distinctive advantages. The nominee's direct communication with the fund house expedites the unit claiming process, averting delays and intricate legal proceedings for heirs. This efficiency facilitates a faster claim process and potentially reduces costs associated with legal procedures and bureaucratic hurdles.

Additionally, the convenience and peace of mind derived from the knowledge that loved ones can readily access the units simplify financial planning for investors.

Important Points to Remember:

Several important factors need to be taken into account. A person's lifetime ability to purchase, sell, or redeem units is unaffected by their nomination. There is flexibility, enabling the nominee to be changed at any moment using forms that the fund house designates. For smooth communication and performance of their duty, it is essential that the candidate is aware of their responsibilities and keeps their contact information with the fund house up to date.

Comparison with Beneficiaries:

Mutual Fund Distributors must discern that in mutual funds, beneficiaries are not utilized in the same manner as nominees. While specific schemes might incorporate beneficiary options for systematic withdrawal plans (SWPs) or other scenarios, nominees play a distinct and pivotal role in the efficient transfer of mutual fund units to legal heirs.

Documentation for Mutual Fund Nominee Registration

When nominating someone for mutual fund investment, the client must submit specific forms and documents to the fund house.

Forms	Documents
• Nominee Registration Form: This form, provided by the fund house, officially declares your chosen nominee and their details. Ensure you fill it out accurately and completely. • Transaction Request Form (Optional): Some fund houses might require separate forms for specific actions like unit transfers or redemptions involving the nominee.	• Proof of Identity for Nominee: Similar to KYC verification, your nominee needs to submit valid ID proof like a PAN card, Aadhaar card, voter ID, or passport. • Proof of Address for Nominee: Proof of residence documents like recent utility bills, bank statements, or an Aadhaar card are required for the nominee. • Proof of Relationship (Optional): In some cases, the fund house might request documents like a marriage certificate or birth certificate to verify the relationship between you and the nominee.

Table. 3.1.1: Documentation for Nominee Registration

Fig. 3.1.3: Nominee Form

3.1.6 Required Forms and Documents for a Mutual Fund Distributor

ARN (Association of Mutual Funds in India) Registration

- Form A (Corporate ARN Holder without sub-brokers)
- Form A1 (Corporate ARN Holder with sub-brokers)
- Form B (Sub-broker ARN Holder)
- Form C (Individual/HUF ARN Holder)

- Supporting Documents:
 - PAN Card
 - Aadhaar Card
 - Educational Qualification Documents (NISM Mutual Fund Distributors Certification Examination/ CPE Certificate)
 - Bank Account Details
 - Photographs

KYC (Know Your Client) Documents

- KYC Form (Individual)
- KYC Form (Non-Individual)
- Supporting Documents:
 - Proof of Identity (PAN Card, Aadhaar Card, Passport, etc.)
 - Proof of Address (Utility Bills, Bank Statements, etc.)
 - Proof of Bank Account Details

Additional Forms

- MF Utility Forms: Varies depending on specific needs. Some examples include:
 - Login Access Request Form for Non-Individual TransactEezz
 - Multiple Bank Account Registration Form
 - Transmission Request Form (for unit transfer on death)
- Scheme-specific Forms: Certain mutual fund schemes may require additional forms for specific investments.

Other documents to be kept updated

- Client Registration Form (CRF)
- Client's Know Your Customer (KYC) Forms
- Nomination Form
- Transaction Form
- Change of Broker (CoB) Form

3.1.7 Importance of Keeping Details Current and Updated

Keeping mutual fund distributor details current is crucial.

- Evolving regulations often require updated KYC details to meet new anti-money laundering (AML) or customer protection guidelines. Keeping your information current shows regulatory adherence and avoids potential fines or penalties.
- Outdated broker information can lead to commission misallocation, causing confusion and disputes among intermediaries. Updating details like your ARN and firm affiliation ensures proper credit for your sales efforts.
- Current bank details and transaction forms are essential for seamless buy/sell/switch order processing. Incorrect information can result in delays, declined transactions, and unnecessary frustration for both the distributor and client.

- Keeping nomination details updated ensures your client's assets go to their intended beneficiaries in case of unfortunate events. Outdated nominations can lead to legal complications and delays in disbursement.
- Current client details allow you to provide accurate portfolio updates, investment performance reports, and personalized advice. This demonstrates professionalism and fosters trust and satisfaction with your service.
- Clients' financial situations and goals can evolve over time. Updating their profile allows you to adjust their investment strategy accordingly, ensuring continued alignment with their changing needs and risk tolerance.
- Current contact information guarantees seamless communication. Timely updates on market events, fund performance, or crucial documents reach clients directly, avoiding missed opportunities or important deadlines.

3.1.8 Importance of Regular Client Engagement

Building enduring and solid connections with your clients is critical in the highly competitive financial services industry. The foundation of this effort is consistent involvement, which develops trust, loyalty, and, eventually, a successful portfolio. Mutual Fund Distributors who use proactive communication techniques will surely witness an improvement in their client relationships.

Planning for Impactful Engagement:

- **Know Your Audience:** Segment your clientele based on demographics, investment goals, and risk tolerance. Tailor your communication strategies to resonate with each segment's needs and preferences.
- **Define Engagement Goals:** Be clear about what you aim to achieve through engagement. Do you want to educate, inform, build trust, or encourage specific investment decisions? Articulating clear goals helps you measure the effectiveness of your efforts.
- **Content is King:** Craft engaging content that adds value to your clients' lives. Offer market insights, investment tips, fund performance updates, and personalized portfolio reviews. Remember, quality trumps quantity.
- **Choose the Right Channels:** Identify the communication channels your clients prefer. Utilize a mix of email newsletters, social media updates, webinars, and one-on-one meetings to cater to diverse communication styles.

Executing with Excellence:

- **Be Consistent:** Establishing a consistent and reliable schedule for communication is foundational. Clients value predictability and appreciate timely updates. Distributors instill confidence and reinforce their commitment to regular engagement by adhering to a well-defined schedule.
- **Personalize the Touch:** The essence of effective communication lies in personalization. Distributors should avoid sending generic messages, address clients by name, reference their specific investment goals, and tailor communication to their unique situations. This personalized approach cultivates a sense of individual importance.
- **Embrace Technology:** The strategic use of digital tools is essential for streamlining engagement. Online portals, mobile apps, and chatbots can significantly enhance accessibility, providing clients with convenient access to information and resources. Embracing technology not only improves efficiency but also aligns with the preferences of today's digitally savvy clients.

- **Be a Two-Way Street:** Effective communication is not a monologue. Distributors should actively encourage feedback and genuinely listen to clients' concerns. Establishing open communication channels builds trust and allows distributors to adapt their approach based on client feedback, fostering a collaborative and productive relationship.
- **Celebrate Milestones:** Acknowledging and celebrating client achievements is a powerful engagement strategy. Whether it's reaching investment goals or attaining significant returns, recognizing these milestones fosters a positive client experience. It not only reinforces trust but also underscores the distributor's commitment to the success of their clients.

3.1.9 Importance of Periodic Reviews

For Mutual Fund Distributors, engaging in regular reviews with clients is not merely a task; it's a strategic approach to navigate life's uncertainties and optimize their financial journey.

Consider the shifting sands of life - job changes, family milestones, or the undulating rhythm of market fluctuations. Regular reviews are pivotal to reassessing clients' financial goals, risk tolerance, and investment horizons. By doing so, distributors ensure that the portfolio aligns with the current financial landscape, adapting to the client's evolving needs and circumstances.

Market dynamics are akin to a dance, with highs and lows that impact fund performance. Timely reviews empower distributors to make informed adjustments to portfolio allocations, striking a balance that maximizes returns while minimizing exposure to risks. Identifying underperforming assets becomes crucial, allowing for their replacement with better-suited options that align with the client's objectives.

Tax implications weave an intricate pattern in the financial tapestry. Regular reviews offer a strategic vantage point to analyse tax liabilities and refine asset allocation or investment strategies. This optimises tax efficiency and alleviates burdens on clients, ensuring that their investments work harmoniously within the broader context of their financial plan.

Adaptability is a hallmark of success, and the financial markets are no exception. With new investment opportunities and market trends emerging constantly, regular reviews become the lens through which Mutual Fund Distributors can introduce clients to promising options. This adaptability enables distributors to navigate changing market dynamics and capitalize on growth opportunities, steering the portfolio toward continued success.

Yet, beyond the numbers and strategies, regular reviews are about building trust and nurturing communication. They embody a commitment to the well-being of clients.

In the ever-evolving financial landscape, these reviews are the compass that keeps clients on course, ensuring that their financial journey aligns with their aspirations.

3.1.10 Case Study: Navigating Uncertainty - A Client Seeks Risk Assessment

Meet Priya: A 35-year-old entrepreneur with a thriving business. She's invested in mutual funds for five years, aiming for a comfortable retirement at 60. However, recent market volatility has left her feeling uneasy about her portfolio's risk exposure.

Seeking Guidance: Priya approaches her trusted Mutual Fund Distributor, Rohan, seeking an assessment of her portfolio's risk and potential adjustments to navigate her concerns.

The Current Landscape:

- Priya's portfolio comprises a mix of equity and debt funds, with a 60% equity allocation.
- Her primary concern is the recent market downturn, which has negatively impacted her equity holdings.
- While she understands the inherent risk of equity investments, she wants to ensure her portfolio aligns with her long-term retirement goals.

Rohan's Approach:

- **Active Listening and Clarification:** Rohan actively listens to Priya's concerns, understanding her risk tolerance, investment horizon, and financial goals.
- **Portfolio Analysis:** He dives deep into Priya's portfolio breakdown, analyzing individual fund performance, asset allocation, and risk profiles.
- **Risk Assessment Tools:** Rohan utilizes risk assessment tools and simulations to quantify the potential impacts of various market scenarios on Priya's portfolio.
- **Scenario Planning:** He presents different scenarios based on Priya's risk tolerance and adjusts the portfolio allocation accordingly, showcasing potential outcomes under each scenario.
- **Open Communication:** Throughout the process, Rohan maintains open communication with Priya, explaining his rationale and addressing her questions and concerns transparently.

Outcome and Recommendations:

- Based on the analysis, Rohan suggests a slight reduction in Priya's equity allocation (5-10%) and recommends further diversifying into low-risk debt and balanced funds.
- He emphasizes the importance of staying invested for the long term and avoiding impulsive decisions based on short-term market fluctuations.
- Priya feels reassured and empowered by Rohan's guidance. She appreciates his personalized approach, risk assessment, and clear recommendations aligned with her goals.

Key Takeaways

- Priya's case highlights the vital role of tailored risk assessment in managing client portfolios. By actively listening to Priya's concerns, understanding her specific financial situation, and analyzing her fund performance and risk profiles, Rohan was able to provide recommendations that were not only technically sound but also relevant to her unique needs and goals.
- The case study emphasizes the importance of going beyond subjective assessments and utilizing risk assessment tools and simulations. These tools allowed Rohan to quantify the potential impact of various market scenarios on Priya's portfolio, providing her with a clearer picture of the potential risks and rewards associated with different investment options.
- The case illustrates the delicate balance between navigating short-term market fluctuations and staying focused on long-term goals. Rohan's advice to Priya to slightly reduce her equity allocation while maintaining a long-term investment horizon demonstrates the importance of managing risk without sacrificing potential growth opportunities.
- Throughout the process, Rohan prioritized clear and transparent communication with Priya. He explained his rationale for each recommendation, addressed her questions openly, and ensured she understood the rationale behind the proposed adjustments. This transparent approach built trust and empowered Priya to make informed decisions about her portfolio.

UNIT 3.2: Customer Relationship Management and Market Awareness

Unit Objectives

By the end of this unit, the participants will be able to:

1. Discuss techniques for up-selling and cross-selling based on revised financial goals.
2. Illustrate how to identify opportunities that align with customer objectives.
3. Explain the importance of updating customers on mutual fund performance, responding to queries, and addressing concerns promptly.
4. Elaborate on New Fund Offerings (NFOs).
5. Elaborate on risk assessment methods for customer portfolios in dynamic market scenarios.
6. Provide insights into evaluating risks and adjusting portfolios accordingly.

3.2.1 Concept of Up-Selling and Cross-Selling

Upselling and cross-selling are sales techniques that aim to increase the value of a sale and a business's revenue.

Upselling involves encouraging customers to purchase a product's better or more expensive version. For example, a salesperson might offer an upgrade or premium version of a product or add-ons that increase the product's functionality.

Cross-selling involves encouraging customers to purchase additional products or services. These products or services are often complementary to one another. For example, a salesperson might encourage a customer who has just purchased a new phone to buy a protective case.

Upselling is most successful when offering a higher-quality version of a single product. Cross-selling is more effective when several related products can be provided to customers as an add-on or bundle.

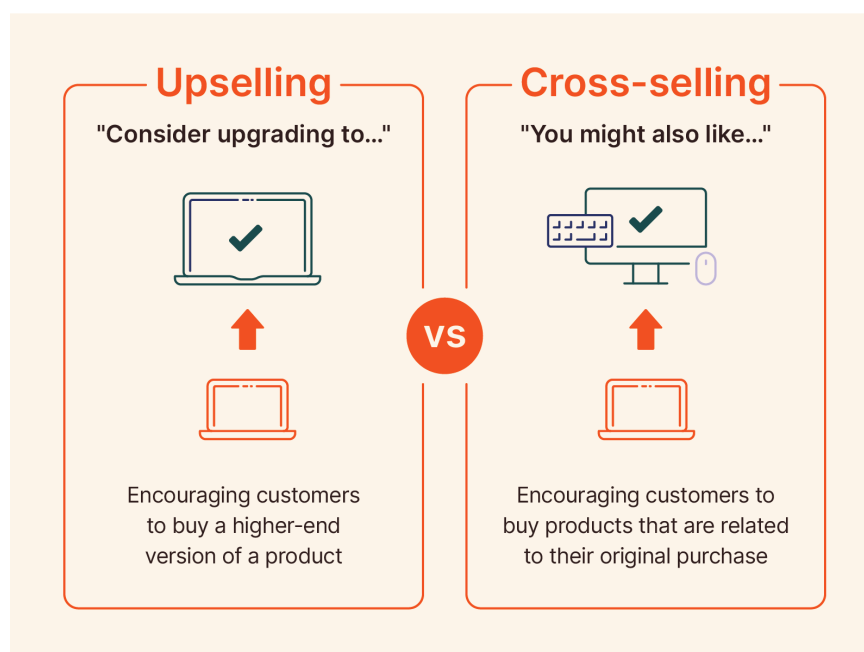


Fig. 3.2.1: Upselling and Cross-Selling

3.2.2 Upselling and Cross-Selling in Mutual Fund Distribution

Upselling and cross-selling techniques can significantly enhance business revenue and the overall value of a sale. These approaches aim to provide clients with additional options that align with their financial objectives while fostering a more comprehensive and tailored investment strategy.

Upselling in Mutual Fund Distribution:

Upselling involves encouraging clients to consider a product's superior or more premium version. This may entail proposing an upgraded or higher-quality fund that aligns more closely with the client's investment goals in mutual funds. For instance, a mutual fund distributor might suggest a fund with a proven track record of higher returns or additional features that enhance the overall investment experience. The key to successful upselling lies in understanding the client's preferences and needs, ensuring that the recommended product genuinely adds value to their investment portfolio.

Cross-Selling Strategies in Mutual Fund Distribution:

Conversely, cross-selling revolves around encouraging clients to explore additional products or services that complement their existing investments. In the mutual fund domain, this could involve proposing related financial instruments or services that enhance the client's overall financial strategy. For instance, after assisting a client in selecting a mutual fund, a distributor may suggest complementary products such as insurance policies or systematic investment plans (SIPs) to further diversify and fortify the client's financial portfolio. Cross-selling is particularly effective when the suggested products integrate seamlessly with the client's investment plan, offering a holistic and well-rounded financial solution.

Up-Selling and Cross-Selling with Revised Goals

As your clients evolve, so too do their financial needs and aspirations. Revising financial goals presents an opportunity to solidify your role as a trusted advisor and explore potential growth avenues through up-selling and cross-selling.

Remember, these techniques are most effective when applied with genuine care and a focus on client benefit.

- **Discovering Hidden Opportunities:** Engage in active listening as you discuss your client's updated goals during goal-review meetings. Understanding their updated risk tolerance, time horizon, and any life events affecting their financial environment are just as important as the figures in this situation. Look behind the obvious: maybe they need to transition to income protection due to a family milestone or because their entrepreneurial aspirations now demand a more aggressive growth approach.
- **Tailor-made Solutions:** Don't approach up-selling and cross-selling with a one-size-fits-all approach. Craft personalized solutions based on your client's unique situation. If they seek higher growth, introduce them to complementary equity funds with a strong track record but within their revised risk tolerance. For income-focused clients, suggest balanced funds or fixed-income options that align with their revised goals. Remember, the key is to demonstrate how these new options seamlessly fit into their evolving financial narrative.
- **Value above Hype:** Stay away from an aggressive sales pitch. Rather, concentrate on informing your client of the possible advantages of the suggested solutions. Using plain language devoid of technical terms, describe how these new funds or solutions can assist them in achieving their updated objectives. Emphasise the attributes and advantages that specifically cater to their requirements, illustrating how these products can serve as stepping stones towards their updated financial vision.

- **Transparency and Trust:** Always prioritize transparency throughout the process. Clearly explain the suggested options' associated fees, risks, and potential downsides. Encourage open dialogue, address any concerns honestly, and ensure your client feels fully informed before making any decisions. Remember, building trust is paramount for long-term success, and transparency is the cornerstone of that trust.
- **Honour Milestones Rather Than Just Sales:** Cross-selling and up-selling go beyond just completing transactions. See these as chances to strengthen your bond with your client and acknowledge their progress towards their objectives. Reward them for taking the initiative to review their financial plans, acknowledge their accomplishments, and provide continuing assistance as they embark on their new investing path.
- **Regular Reviews and Adjustments:** Keeping pace with the evolving financial landscape, mutual fund distributors should engage in regular reviews with clients. This practice ensures that the investment strategy remains aligned with the client's goals and provides opportunities for strategic adjustments. During these reviews, distributors can introduce new investment opportunities, adjust fund allocations, or suggest additional products that better suit the client's revised financial objectives.

3.2.3 Significance of Prompt Communication in Mutual Fund Distribution

Let's explore why updating clients on fund performance, responding to queries promptly, and addressing concerns swiftly are crucial for client satisfaction and the long-term success of your practice.

Case Study: Priya's Portfolio Paradox

Priya, a young professional with a long-term investment horizon, trusts your guidance. However, a recent market downturn has left her feeling uneasy about the performance of her equity-heavy portfolio. She hesitates to call, unsure if her concerns are valid.

In this case, waiting for her to reach out could be detrimental. By proactively updating her on the market situation, her fund's performance, and potential adjustments to her portfolio, you demonstrate your proactive commitment to her financial well-being. A regular communication schedule, whether through email newsletters, phone calls, or personalized reports, keeps her informed and alleviates unnecessary anxiety.

Imagine Priya hesitates to call and misses out on valuable insights due to fear of judgment or a perceived lack of importance. You build trust and encourage open communication by making yourself readily available to answer her questions, regardless of their complexity. Remember, even seemingly trivial queries deserve prompt and thoughtful responses. Every interaction is an opportunity to solidify your role as a trusted advisor.

Your response is critical when Priya finally calls to express her concerns about the market downturn. Listen attentively, acknowledge her anxieties, and validate her feelings. Don't dismiss her concerns as unfounded; offer clear explanations and provide data-driven insights into the fund's performance and future outlook. If adjustments are necessary, present them as collaborative decisions aligned with her long-term goals.

You create a ripple effect of positive outcomes by prioritizing proactive updates, prompt query responses, and empathetic concern addressing. Priya feels valued, informed, and confident in your guidance. This strengthens your relationship, encourages loyalty, and potentially opens doors for referrals and future investments.

Communication is more than just exchanging information; it's also about developing understanding, establishing trust, and enabling your clients to make wise decisions. You may become a trusted financial partner and help your clients achieve long-term success by incorporating timely and transparent communication as a fundamental aspect of your practice.

3.2.4 New Fund Offerings (NFOs)

New Fund Offers (NFOs) are like grand openings for a brand new mutual fund scheme. It's the first time the fund is made available for investors to purchase units, allowing them to be among the first to invest in the strategy.

Similar to the Initial Public Offering (IPO) concept, portfolio details, such as the company shares to be purchased, the kind of securities to be procured, the fund manager, etc., are incorporated in such new fund offers.

Through such offers, investors can purchase units of a mutual fund at the subscription price, usually set at Rs.10 per unit. Open and closed-end funds are launched via new fund offers for a limited period, after which such mutual funds are traded in the market based on their corresponding net asset value (NAV).

As per SEBI regulations, a new fund offering can remain active in the market for a maximum of 30 days. The offer price to subscribe to such mutual funds is Rs. 10, and the collected revenue can be utilised in procuring securities of various publicly traded companies listed on a stock exchange.

After a new fund offer closes, any trade of a respective mutual fund has to be done based on the NAV of the fund. Subscribing to a mutual fund through new fund offers is profitable, as investors get access to respective units at a nominal cost. Hence, profits realised later are substantial, allowing individuals to realise immense capital gains once the mutual fund starts trading in the open market.

Types of New Fund Offers (NFOs)

Close Ended Funds

These mutual funds are associated with a fixed corpus, raised through new fund offer. After the subscription period is over, no further addition to the portfolio is allowed, and the NAV of the fund is determined based on the number of units in circulation with respect to the total value of underlying assets.

Any purchase or sale of mutual fund units has to be done through market exchange, similar to stock market trading. The price at which the NAV units are traded is subject to the overall demand and supply in the market, determining whether a unit is traded at a premium or discount.

Let us consider an example. Miss Pubali has subscribed to X mutual fund to procure 100 units at Rs. 10 each. After the mutual fund commenced operating in the stock market, the NAV stood at Rs. 12 (due to fluctuation in the portfolio asset prices). Thus, the value of her investment currently stands at Rs. 1,200 (12×100).

For some reason, Pubali decides to sell her investment in the stock market, wherein investors are willing to pay Rs. 15 per unit. Hence, we can conclude that the mutual fund is trading at a premium to its NAV price.

On the other hand, in case of a negative outlook regarding the performance of fund X, the price of each mutual fund can also fall to, say, Rs. 8 per unit. In such cases, X is trading at a discount to its NAV price, and selling respective shares would incur a loss.

Open Ended Funds

Most mutual funds can be categorized as open-ended funds, wherein the number of units of the respective fund keeps fluctuating with a corresponding demand. New fund offerings allow individuals to procure units of a mutual fund before its NAV has been determined, thereby allowing them to gain profits in the long run. After a mutual fund starts operating, investors have to pay the respective net asset value to obtain each unit of the fund.

For example, Monica invests in an open-ended mutual fund Y during its new fund offer with Rs. 500, procuring 50 units. Upon activation of the fund, the NAV value stands at Rs. 20 per unit (per the performance of the underlying assets), implying any new purchases must be made at this price. Monika is eligible to receive Rs. 1,000 (50x20) at the new NAV price if she decides to sell her share of the fund.

Open and closed-end funds can be chosen as a tool for investment, as both are likely to generate capital gains and dividend returns (depending upon the type of investment scheme). While open-ended funds tend to be actively managed by portfolio managers, close-ended funds are likely to be passively managed to replicate the returns of a benchmark index.

Interval Funds

Interval funds represent the characteristics of both open-ended funds and close-ended funds. These funds fall under the category of closed-ended funds, but they allow you to make purchases and redemptions through the AMC window at regular intervals. These intervals may occur annually or semi-annually, allowing investors to transact within specific timeframes.

How NFOs Work?

The process of making new fund offerings (NFOs) involves several steps that mutual fund distributors should be aware of to communicate with potential investors effectively.

An Asset Management Company (AMC) initiates an NFO by introducing a new mutual fund scheme designed with a specific investment objective, such as focusing on a particular sector or asset class. The AMC publishes a prospectus (Offer Document) outlining multiple key details to inform investors about this opportunity. This information serves as a guide for investors to make informed decisions.

Similar to the prospectus of a newly listed company, the Offer Document is the most important source of information about mutual fund schemes for investors. It is a legal document that describes the product and all the important aspects surrounding its management and maintenance. The Offer Document discloses the following components:

- The names and backgrounds of fund managers;
- Details of the investor relation officer;
- Details of the AMC and its directors;
- Details of the custodian and the registrar;
- Details of the transfer agent and
- Details of the statutory auditor.

Importance of Offer Documents

For aspiring Mutual Fund Distributors, understanding the significance of key offer documents is crucial for providing comprehensive guidance to potential investors. These documents play a pivotal role in educating investors about the nature and specifics of mutual fund schemes, aiding them in making informed decisions aligned with their financial goals and risk tolerance.

The **Scheme Information Document (SID)** serves as a comprehensive guide to a specific mutual fund scheme. It outlines essential details such as the type of scheme (open-ended or close-ended, equity or debt), investment objectives, asset allocation, benchmark index, and other critical factors. Distributors can leverage the SID to help investors align their investment objectives and risk appetite with the characteristics of the scheme.

The **Statement of Additional Information (SAI)** acts as a supplementary document, offering additional insights not covered in the prospectus. Distributors can use the SAI to give investors a deeper understanding of the mutual fund, covering aspects like fund constitution, sponsor and trustee details, application procedures, rights of unit holders, valuation processes, and legal and tax information.

Key Information Memorandum (KIM) serves as a condensed version of the Offer Document, providing a quick reference for investors. Distributors can advise first-time investors to go through the detailed offer document initially and later refer to the KIM once they are familiar with the Asset Management Company (AMC).

The **Fund Factsheet** is a succinct three-page document offering a snapshot of the mutual fund. Distributors can guide investors to review the fees, risk assessment, and historical returns outlined in the factsheet. This document is particularly useful for potential investors seeking a quick overview before delving deeper into fund details.

Effectively communicating the importance of these offer documents equips Mutual Fund Distributors to assist investors in making well-informed decisions.

Following this, marketing campaigns are launched to attract potential investors. During a specified subscription period, investors can subscribe to the NFO by filling out an application form and providing the initial investment amount. Once the subscription period concludes, the AMC collects the funds from investors and allocates them based on the defined investment strategy.

After the investments are made, the fund's Net Asset Value (NAV) is calculated. The NAV determines the initial price per unit of the fund. Subsequently, the fund units become available for trading on stock exchanges. This opens the door for investors to buy and sell units at the prevailing market price, providing liquidity to the investment.

There are 3 relevant dates related to NFO:

1. **Opening Date:** It refers to the date on which the fund opens for subscription to the public.
2. **Closing Date:** It refers to the date on which the fund closes for subscription to the public.
3. **Subscription Reopening Date:** After the NFO is over, the scheme will be open for entry and exit as it will now be a listed fund. The date at which the fund becomes available for trading in the stock market is the subscription reopening date.

The fund houses use NFOs to raise public money to purchase securities such as equity shares, bonds, etc. in the market. Moreover, New Fund Offerings are usually cheaper as they are new to the market. They are often matched compared to Initial Public Offering (IPO), in which investors can purchase shares before getting listed on the exchange. Also, NFOs are marketed quite well, which prevents you from missing them. However, it's your hard-earned money, and you must do thorough research and make a well-researched judgment before proceeding with the investment.

How to Invest in an NFO?

Investing in a New Fund Offering (NFO) can be done directly through the fund houses, providing investors with both online and offline options. For a direct approach, investors can visit the fund house's website to navigate the necessary steps. This involves completing the Know Your Customer (KYC) process, a crucial requirement in the financial services industry. Following KYC verification, investors can apply for

the NFO, where they can select the desired number of units and the basis on which the payment will be made.

Upon successfully applying for units in an NFO, the fund house undertakes the task of crediting the mutual fund units to the investor's account within a stipulated period, typically five days, if the NFO is successful. This marks the completion of the investment process, and investors become unit-holders in the newly launched mutual fund scheme.

3.2.5 Important Rules Around NFOs in India

1. Minimum Subscription:

- SEBI regulations specify minimum subscription amounts:
 - Debt-oriented and balanced hybrid schemes: Rs. 20 crore.
 - Other schemes (equity, etc.): Rs. 10 crore.

2. Minimum Number of Investors:

- An NFO must attract at least 20 investors to launch successfully.

3. Single Investor Limit:

- No single investor can hold more than 25% of the corpus of the scheme, promoting diversification and protecting the interests of all investors. This rule applies throughout the scheme's lifetime, not just at NFO.
- This rule is known as the 20-25 rule in the mutual fund parlance, and every NFO must comply with it.

4. Fund House Investment:

- SEBI recently revised the "skin-in-the-game" rule requiring fund houses to invest in their own NFOs. The phrase 'Skin in the game' refers to owning the risk by being involved in achieving a particular goal. Best known as 'Hammurabi's code', it is named after King Hammurabi (Mesopotamia, 1972-1750 BC), who laid out this set of laws to manage risk.
- Previously, it was 1% of the raised amount or Rs. 50 lakh (whichever was lower).
- **However, SEBI hasn't yet finalized the new risk-based investment norms.** They announced their intention to raise the minimum investment based on scheme risk level (likely higher for equity funds), but the specific regulations and implementation details are still under development.

3.2.6 Risk Assessment Strategies for Dynamic Markets

Mutual fund investing has become increasingly popular among people who want to increase their wealth. Investors can easily participate in a diverse portfolio of stocks, bonds, and other securities through mutual funds, which fund managers expertly manage with years of experience. Even though investing in mutual funds has many advantages, investors must understand the nuances of these products, especially the dangers involved, in order to make wise selections. Mutual fund distributors can assist with this.

What is market risk in mutual funds?

We are all aware that **‘Mutual Fund Investments are Subject to Market Risk’.**

One of the fundamental risks inherent in mutual fund investments is market risk. Market risk, also known as systematic risk, refers to the possibility of financial loss arising from broad market movements. Factors such as economic conditions, geopolitical events, and overall market sentiment can impact the

performance of a mutual fund. Understanding market risk is essential for investors and distributors alike, as it directly influences the value of the invested capital.

Unlike traditional bank deposits, mutual funds don't guarantee returns, and their performance is intricately linked to the performance of the underlying securities in the portfolio. During periods of market volatility or economic downturns, the value of mutual fund units may experience temporary decreases, leading to fluctuations in the overall investment value. However, it is crucial to view these market fluctuations from a long-term perspective, recognizing them as part of the natural cycle of investments.

Ways to Measure Mutual Fund Risk

For aspiring Mutual Fund Distributors, understanding the various indicators of investment risk is crucial in evaluating stocks, bonds, and mutual fund portfolios. Five key indicators—alpha, beta, standard deviation, R-squared, and the Sharpe ratio—form the basis of risk assessment and are integral components of modern portfolio theory (MPT), a widely used methodology in financial analysis.

Alpha, a measure of performance on a risk-adjusted basis, gauges a security or fund portfolio's excess return relative to a benchmark index. A positive alpha signifies outperformance, while a negative alpha indicates underperformance.

Example:

Fund XYZ has an annual return of 12%.

Benchmark Index Return: 10%

$\text{Alpha} = 12\% - 10\% = 2\%$

In this case, Fund XYZ has a positive alpha of 2%, indicating that it has outperformed the benchmark index by 2%.

Beta assesses volatility or systematic risk compared to the broader market. A beta of 1.0 implies movement in line with the market, with values above or below indicating higher or lower volatility.

Example:

Fund PQR has a beta of 1.2.

If the market (benchmark) has a return of 10%, Fund PQR is expected to have a return of

$1.2 \times 10\% = 12\%$

A beta above 1 suggests higher volatility; in this case, Fund PQR is expected to be 20% more volatile than the market.

R-squared, a statistical measure ranging from 0 to 100, elucidates the percentage of a fund portfolio or security's movements explained by a benchmark index. Higher R-squared values denote a closer correlation to the index, influencing investment decisions based on correlation preferences.

Example:

Fund LMN has an R-squared value of 85.

This implies that movements in its benchmark index can explain 85% of Fund LMN's movements. A higher R-squared suggests a closer correlation to the index.

Standard deviation measures the dispersion of data from its mean, reflecting an investment's risk or volatility. A high standard deviation signifies a greater deviation from the norm, indicating higher risk.

Example:

Investment ABC has an annual standard deviation of 15%.

This indicates that the annual returns of Investment ABC typically deviate from the mean (average) by around 15%. A higher standard deviation implies higher risk or volatility.

The **Sharpe ratio**, developed by Nobel laureate William Sharpe, assesses risk-adjusted performance by subtracting the risk-free rate from the rate of return and dividing by the standard deviation. A higher Sharpe ratio indicates superior risk-adjusted performance, emphasizing the importance of evaluating returns relative to the associated risk.

Example:

Fund UVW has an annual return of 8%, a risk-free rate of 3%, and a standard deviation of 12%.

Sharpe Ratio = $(8\% - 3\%) / 12\% = 0.4167$

The higher the Sharpe ratio, the better the risk-adjusted performance. In this case, a Sharpe ratio of 0.4167 indicates the risk-adjusted performance of Fund UVW.

Mitigating Market Risk

Several strategies can be employed to deal with market risk, considering that it cannot be entirely eliminated. Diversification is a key approach involving the spread of investments across different asset classes like stocks, bonds, and commodities. This strategy mitigates the impact of underperformance in a single security or sector by distributing risk across various sectors and securities.

Another effective strategy is the implementation of a Systematic Investment Plan (SIP). Through SIPs, investors contribute a fixed amount regularly, irrespective of market conditions. This method, known as rupee-cost averaging, allows investors to buy more units when prices are low and fewer units when prices are high, thereby reducing the impact of market volatility over time.

Maintaining a long-term perspective is inherent in mutual fund investments designed for long-term wealth generation. While short-term fluctuations may lead to temporary losses, historical trends indicate that the market tends to recover and deliver better return potential over the long run. Staying invested for an extended duration enhances the capacity to withstand market volatility and leverage the power of compounding.

Financial advisors or Mutual Fund Distributors possess the knowledge and expertise to guide investors in selecting suitable mutual funds aligned with their financial goals, risk appetite, and investment horizon. Professionals analyse market trends, evaluate fund performance, and assist in making informed investment decisions.

FAQs

How can diversification help mitigate market risk in mutual funds?

- Diversification helps minimize market risk in mutual funds by spreading investments across different asset classes, sectors, and securities. This reduces the impact of individual investment performance on the overall portfolio.

What is the role of a systematic investment plan (SIP) in managing market risk?

- Systematic Investment Plan (SIP) helps manage market risk by employing a disciplined investment approach. By investing a fixed amount at regular intervals, investors benefit from rupee-cost averaging.

3.2.7 Adjusting Client Portfolios in Market Swings

As an aspiring mutual fund distributor, navigating through changing market dynamics involves a shift from merely suggesting investments to becoming a skilled portfolio navigator. The role evolves to incorporate a flexible approach where adjustments are seamlessly integrated into the investment journey rather than being occasional necessities.

Here are strategies for mutual fund distributors to keep their clients' portfolios on course:

Regularly monitoring market trends and economic indicators becomes an essential practice. Staying informed about factors such as interest rates, inflation, and global economic events helps anticipate potential shifts in various asset classes. Upon identifying a change in market conditions, the distributor's next step involves assessing the client's risk tolerance and investment goals. Understanding the client's financial objectives and risk appetite becomes fundamental in making suitable adjustments, particularly during periods of heightened volatility when clients with lower risk tolerance may prefer a more conservative allocation.

After evaluating the client's risk profile, the distributor can consider reallocating the portfolio to align with the revised strategy. This may include rebalancing asset classes, such as adjusting the allocation between equity and debt funds. For example, in a bullish market, the distributor might recommend increasing exposure to equities for potential capital appreciation. During times of economic uncertainty or market downturns, it may be prudent to explore defensive strategies. This could involve increasing allocations to defensive sectors or allocating a portion of the portfolio to assets with lower correlation to traditional equity and bond markets, such as gold or real estate.

Effective communication is pivotal in this process. Distributors should proactively engage with clients, explaining the rationale behind any proposed adjustments and managing expectations. Transparency and clear communication are crucial in building trust and ensuring clients understand the reasoning behind the recommended changes.

Emphasizing the long-term perspective becomes a critical aspect of guiding clients through adjustments. Distributors can highlight that markets go through cycles, and short-term fluctuations are a natural part of investing. It is essential to encourage clients to stay focused on their long-term financial goals and avoid making impulsive decisions based on short-term market movements.

Ongoing monitoring and periodic reviews are integral to the process. Regularly assessing the performance of the adjusted portfolio, considering changes in market conditions or the client's financial situation, ensures that the portfolio remains aligned with the client's objectives and adapts to evolving market dynamics.

Summary



- Top-up in Mutual Funds involves adding additional funds to an existing mutual fund scheme. Standard procedures for top-ups include online platforms, physical forms, and phone calls.
- Switching refers to moving investments from one mutual fund scheme to another within the same fund house. Exit load charges may apply, and processing time ranges from 2-5 business days.
- Redemption involves selling or liquidating mutual fund units to convert investment into cash. Channels for redemption include online forms or phone calls.
- A lien in banking is a legal right over a borrower's property for loan security. Clients can use only a portion of units as collateral, and removal of lien requires a request to the fund house.
- A nominee facilitates the smooth transfer of mutual fund units to legal heirs in case of the investor's demise. Choosing a nominee involves careful consideration, and documentation is required for nominee registration.
- Upselling involves recommending superior or premium mutual fund versions aligned with client goals. Cross-selling suggests complementary financial products to enhance the overall financial strategy.
- Building strong client relationships requires consistent and proactive communication.
- Tax implications are analysed, and adjustments are made to enhance tax efficiency.
- NFOs are the launch of new mutual fund schemes akin to IPOs for stocks.
- Market risk is inherent in mutual fund investments, influenced by economic conditions and market sentiment. Key risk indicators include alpha, beta, standard deviation, R-squared, and the Sharpe ratio.
- Mitigation strategies include diversification, systematic investment plans (SIPs), and maintaining a long-term perspective.
- Distributors navigate changing market dynamics by monitoring trends and economic indicators.
- Assessing client risk tolerance and investment goals informs suitable adjustments.
- Reallocating portfolios may involve rebalancing asset classes based on market conditions.

Exercise

Multiple-choice Question:

1. What is the purpose of marking a lien on mutual fund units?
 - a. Direct inheritance by the nominee
 - b. Accessing liquidity without selling investments
 - c. Blocking units for a fixed period
 - d. Cancelling mutual fund holdings

2. What is the primary purpose of a nominee in mutual funds?
 - a. Direct inheritance of funds
 - b. Facilitating a seamless transfer of units to legal heirs
 - c. Managing the investment portfolio
 - d. Selling mutual fund holdings

3. Which document serves as a comprehensive guide to a specific mutual fund scheme?

a. Statement of Additional Information (SAI)	b. Key Information Memorandum (KIM)
c. Fund Factsheet	d. Scheme Information Document (SID)

4. What does the Sharpe ratio assess in mutual fund performance?

a. Market volatility	b. Risk-adjusted performance
c. Correlation with the benchmark index	d. Standard deviation

5. How can market risk be mitigated in mutual fund investments?
 - a. Ignoring market trends
 - b. Concentrating investments in a single sector
 - c. Implementing a Systematic Investment Plan (SIP)
 - d. Short-term focus and impulsive decision-making

Descriptive Questions

1. Explain the steps involved in the top-up process for mutual funds. Highlight the channels available and the requirements for initiating a top-up.
2. Elaborate on the different types of KYC in the mutual fund industry. How does the Central KYC Registry (CKYC) streamline the KYC process?
3. Describe the concept of marking a lien on mutual fund units. Explain when and why investors might opt for a lien and the steps involved in the lien marking process.
4. Describe the types of New Fund Offers (NFOs) and the role of offer documents in the mutual fund investment process.
5. As a mutual fund distributor, how would you adjust a client's portfolio during market swings? Discuss the steps involved and the importance of effective communication in this process.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Scan the QR codes or click on the link to watch the related videos



<https://youtu.be/1YJtyKWYnNg?si=qfiCAhJ8W0rOZpgb>



<https://youtu.be/0rUb6Vr3JkY?si=WoWv055nLbsOoLVe>

SIP Stop & Redeem/Switch are two Different Action

What is KYC?



https://youtu.be/pDOXbn_AC88?si=qinJkickQpz9EAf0

Cross Selling & Up Selling



4. Employability Skills



Employability Skills is available at the following location



<https://www.skillindiadigital.gov.in/content/list>

Employability Skills



5. Annexure



Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
Intro- duc-tion to the Banking Sector and the Job Role of Mutual Fund Dis- tributor	Unit 1.1: Banking Industry and its Sub-Sec- tors in India	1.1.1 Bank-ing Sector Land- scape in India	28	https://youtu.be/3ZCOz-BQmzo4?si=Aq10iF6AX-K78GBKX	 Scheduled Banks and Non Scheduled Banks
		1.1.5 Basic Terminolo-gies Used in Bank- ing Services	28	https://youtu.be/st3uGllk-fy0?si=Cf99bTR6EHypI6-j	 Full Forms of Banking Terms You Should Know
	Unit 1.2: Introduc-tion to Mu-tual Fund	1.2.1 Mutu-al Funds	28	https://youtu.be/rsFBpGUAZ-WA?si=9aTR24OnjiWpZJu6	 Mutual Fund for Beginners
	Unit 1.3: Introduc-tion to Skill India Mis-sion	1.3.1 Over- view of the Skill India Mission	28	https://youtu.be/FYnu6N1TJxI?si=KanAsNgh8s_XyoGw	 What is Skill India Scheme?
Conduct Market Re-search and Sell the Prod-ucts	Unit 2.1: Founda- tions of Invest-ment Deci-sions	2.1.1 In- tro-duction to Regulatory Authorities	67	https://youtu.be/RKVD0G-bh5LI?si=2vw3ar4UW9XJpNJ3	 Underground Mine methods Financial Regulatory Bodies in India

Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
		2.2.2 In-tro-duction to SENSEX and NIFTY	67	https://youtu.be/D7YNShON6hk?si=bVY-vo1AReNUmj8u	 What is SENSEX and NIFTY?
	Unit 2.2: Client-Centric In-vestment Strategies	2.2.3 Documents Required for Mutual Fund Transac-tions	67	https://youtu.be/NQQkqjb-mnI0?si=f1MJ3_8dq1qMT3EC	 Documents required for mutual funds investment
Perform After-Sales Activi-ties	Unit 3.1: Op-erational Procedures in Mutu-al Fund Man-age-ment	3.1.1 Top-Up, Switch, and Re-demption of Mutual Fund	96	https://youtu.be/1YJtyKWYn-Ng?si=qfICAhJ8W0rOZpgb	 SIP Stop & Redeem/Switch are two Different Action
		3.1.3 Know Your Cus-tomer (KYC)	96	https://youtu.be/0rUb6Vr-3JkY?si=WoWv055nLbsOoLVe	 What is KYC?
	Unit 3.2: Customer Relation-ship Man-age-ment and Market Awareness	3.2.1 Con-cept of Up-Selling and Cross-Sell-ing	96	https://youtu.be/pDOXbn_AC88?si=qinJkickQpz9EAf0	 Cross Selling & Up Selling







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