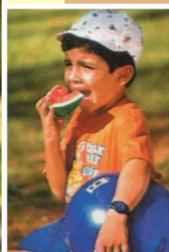
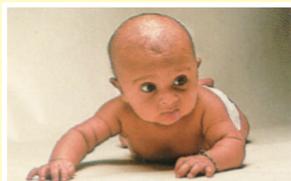


The
Investor's
Concise
Guide

MAKING MUTUAL FUNDS WORK FOR YOU





PREFACE

Association of Mutual Funds in India (AMFI) incorporated in August 1995, is the umbrella body of all the Mutual Funds registered with SEBI. It is a non-profit organisation committed to develop the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of Mutual Funds and their unitholders. Mutual Fund both conceptually and operationally is different from other savings instruments. Mutual Funds invest in instruments of capital markets which have different risk-return profile. It is very necessary that the investors understand properly the conceptual framework of Mutual Fund and its operational features. AMFI therefore thought it appropriate to produce a booklet in the form of an investor's concise guide that will explain in simple language the concept and working of Mutual Funds.

The then Chairman Mr. G. A. Shenai constituted a special committee with me as the Chairman and with Mr. Vivek Reddy, Mr. K. N. Atmaramani, Mr. S. K. Mitra, Mr. Ajai Kaul and Mr. A. N. Palwankar as members. This committee with the help of Price Waterhouse LLP/Financial Institutions Reform and Expansion (FIRE) Project funded by USAID brought out this booklet in April 1997.

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

So far we have distributed more than fifteen lakh copies of this booklet all over the country. This is the third edition with updated information and I hope this revised edition will be equally useful to the readers.

A. P. Kurian
Chairman
June 19, 2008

MUTUAL FUND – A GLOBALLY PROVEN INVESTMENT AVENUE

Worldwide, Mutual Fund or Unit Trust as it is referred to in some parts of the world, has a long and successful history. The popularity of Mutual Funds has increased manifold in developed financial markets, like the United States. As at the end of March 2008, in the US alone there were 8,064 mutual funds with total assets of about US\$ 11.734 trillion (Rs.470 lakh crores)*.

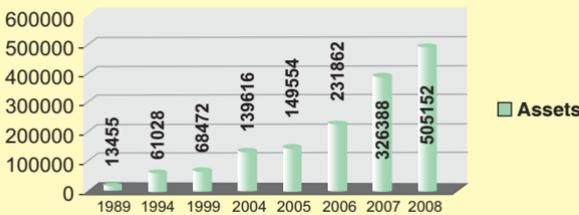
In India, the mutual fund industry started with the setting up of the erstwhile Unit Trust of India in 1963. Public sector banks and financial institutions were allowed to establish mutual funds in 1987. Since 1993, private sector and foreign institutions were permitted to set up mutual funds.

In February 2003, following the repeal of the Unit Trust of India Act 1963 the erstwhile UTI was bifurcated into two separate entities viz. The Specified Undertaking of the Unit Trust of India, representing broadly, the assets of US 64 scheme, schemes with assured returns and certain other schemes and UTI Mutual Fund conforming to SEBI Mutual Fund Regulations.

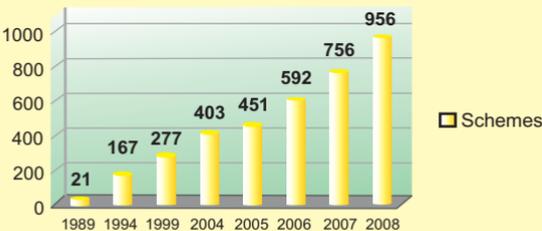
As at the end of March 2008, there were 33 mutual funds, which managed assets of Rs. 5,05,152 crores (US \$ 126 Billion)* under 956 schemes.

This fast growing industry is regulated by the Securities and Exchange Board of India (SEBI).

Growth of Assets (Rs. in Crores)



NUMBER OF SCHEMES



*US \$ = Rs. 40.02





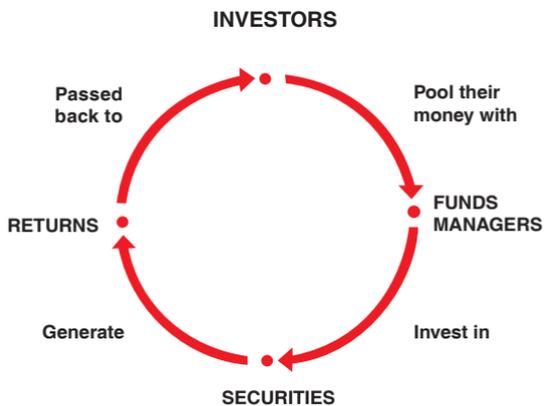
What you should expect from a Mutual Fund depends on what stage of life you are in.

WHAT IS A MUTUAL FUND?

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Anybody with an investible surplus of as little as a few hundred rupees can invest in Mutual Funds. These investors buy units of a particular Mutual Fund scheme that has a defined investment objective and strategy.

The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme's stated objectives. The income earned through these investments and the capital appreciation realised by the scheme are shared by its unitholders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

THE MUTUAL FUND OPERATION FLOW CHART



TYPES OF MUTUAL FUND SCHEMES

There are a wide variety of Mutual Fund schemes that cater to your needs, whatever your age, financial position, risk tolerance and return expectations. Whether as the foundation of your investment programme or as a supplement, Mutual Fund schemes can help you meet your financial goals?

(A) By Structure

Open-Ended Schemes

These do not have a fixed maturity. You deal with the Mutual Fund for your investments and redemptions. The key feature is liquidity. You can conveniently buy and sell your units at Net Asset Value (NAV) related prices, at any point of time.

Close-Ended Schemes

Schemes that have a stipulated maturity period (ranging from 2 to 15 years) are called close-ended schemes. You can invest in the scheme at the time of the initial issue and thereafter you can buy or sell the units of the scheme on the stock exchanges where they are listed. The market price at the stock exchange could vary from the scheme's NAV on account of demand and supply situation, unitholders' expectations and other market factors. One of the characteristics of the close-ended schemes is that they are generally traded at a discount to NAV; but closer to maturity, the discount narrows.

Some close-ended schemes give you an additional option of selling your units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations ensure that at least one of the two exit routes are provided to the investor under the close ended schemes.





Interval Schemes

These combine the features of open-ended and close-ended schemes. They may be traded on the stock exchange or may be open for sale or redemption during predetermined intervals at NAV related prices.

(B) By Investment Objective

Growth Schemes

Aim to provide capital appreciation over the medium to long term. These schemes normally invest a majority of their funds in equities and are willing to bear short term decline in value for possible future appreciation.

These schemes are not for investors seeking regular income or needing their money back in the short term.

Ideal for:

- Investors in their prime earning years.
- Investors seeking growth over the long term.

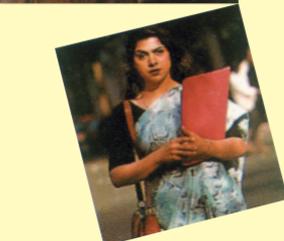
Income Schemes

Aim to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures.

Capital appreciation in such schemes may be limited.

Ideal for:

- Retired people and others with a need for capital stability and regular income.
- Investors who need some income to supplement their earnings.



*Starting out in life?
Invest in funds that will give
you lump sum returns after
a few years.*

Balanced Schemes

Aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. They invest in both shares and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace or fall equally when the market falls.

Ideal for:

- Investors looking for a combination of income and moderate growth.

Money Market / Liquid Schemes

Aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short term instruments such as treasury bills, certificates of deposit, commercial paper and interbank call money.

Returns on these schemes may fluctuate, depending upon the interest rates prevailing in the market.

Ideal for:

- Corporates and individual investors as a means to park their surplus funds for short periods or awaiting a more favourable investment alternative.

Other Schemes

Tax Saving Schemes (Equity Linked Saving Scheme - ELSS)

These schemes offer tax incentives to the investors under tax laws as prescribed from time to time and promote long term investments in equities through Mutual Funds.

Ideal for:

- Investors seeking tax incentives.





Special Schemes

This category includes index schemes that attempt to replicate the performance of a particular index such as the BSE Sensex, the NSE 50 (NIFTY) or sector specific schemes which invest in specific sectors such as Technology, Infrastructure, Banking, Pharma etc.

Besides, there are also schemes which invest exclusively in certain segments of the capital market, such as Large Caps, Mid Caps, Small Caps, Micro Caps, 'A' group shares, shares issued through Initial Public Offerings (IPOs), etc.

Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index.

Sectoral fund schemes are ideal for investors who have already decided to invest in a particular sector or segment.

Fixed Maturity Plans

Fixed Maturity Plans (FMPs) are investment schemes floated by mutual funds and are closed-ended with a fixed tenure, the maturity period ranging from one month to three/five years. These plans are predominantly debt-oriented, while some of them may have a small equity component.

The objective of such a scheme is to generate steady returns over a fixed-maturity period and protect the investor against market fluctuations. FMPs are typically passively managed fixed-income schemes with the fund manager locking into investments with maturities corresponding with the maturity of the plan. FMPs are not guaranteed products.

Exchange Traded Funds (ETFs)

Exchange Traded Funds are essentially index funds that are listed and traded on exchanges like



*Married ?
invest in funds that will give
you regular income to
supplement your salary to
match your growing needs.*

stocks. Globally, ETFs have opened a whole new panorama of investment opportunities to retail as well as institutional investors. ETFs enable investors to gain broad exposure to entire stock markets as well as in specific sectors with relative ease, on a real-time basis and at a lower cost than many other forms of investing.

An ETF is a basket of stocks that reflects the composition of an index, like S&P CNX Nifty, BSE Sensex, CNX Bank Index, CNX PSU Bank Index, etc. The ETF's trading value is based on the net asset value of the underlying stocks that it represents. It can be compared to a stock that can be bought or sold on real time basis during the market hours. The first ETF in India, Benchmark Nifty Bees, opened for subscription on December 12, 2001 and listed on the NSE on January 8, 2002.

Capital Protection Oriented Schemes

Capital Protection Oriented Schemes are schemes that endeavour to protect the capital as the primary objective by investing in high quality fixed income securities and generate capital appreciation by investing in equity / equity related instruments as a secondary objective. The first Capital Protection Oriented Fund in India, Franklin Templeton Capital Protection Oriented Fund opened for subscription on October 31, 2006.

Gold Exchange Traded Funds (GETFs)

Gold Exchange Traded Funds offer investors an innovative, cost-efficient and secure way to access the gold market. Gold ETFs are intended to offer investors a means of participating in the gold bullion market by buying and selling units on the Stock Exchanges, without taking physical delivery of gold. The first Gold ETF in India, Benchmark GETF, opened for subscription on February 15, 2007 and listed on the NSE on April 17, 2007.





Quantitative Funds

A quantitative fund is an investment fund that selects securities based on quantitative analysis. The managers of such funds build computer-based models to determine whether or not an investment is attractive. In a pure "quant shop" the final decision to buy or sell is made by the model. However, there is a middle ground where the fund manager will use human judgment in addition to a quantitative model. The first Quant based Mutual Fund Scheme in India, Lotus Agile Fund opened for subscription on October 25, 2007.

Funds Investing Abroad

With the opening up of the Indian economy, Mutual Funds have been permitted to invest in foreign securities/ American Depository Receipts (ADRs) / Global Depository Receipts (GDRs). Some of such schemes are dedicated funds for investment abroad while others invest partly in foreign securities and partly in domestic securities. While most such schemes invest in securities across the world there are also schemes which are country specific in their investment approach.

Fund of Funds (FOFs)

Fund of Funds are schemes that invest in other mutual fund schemes. The portfolio of these schemes comprise only of units of other mutual fund schemes and cash / money market securities/ short term deposits pending deployment. The first FOF was launched by Franklin Templeton Mutual Fund on October 17, 2003.

Fund of Funds can be Sector specific e.g. Real Estate FOFs, Theme specific e.g. Equity FOFs, Objective specific e.g. Life Stages FOFs or Style specific e.g. Aggressive/ Cautious FOFs etc.

Please bear in mind that any one scheme may not meet all your requirements for all time. You

Before investing in Mutual Fund Schemes, you should know which scheme suits your requirements.

need to place your money judiciously in different schemes to be able to get the combination of growth, income and stability that is right for you.

Remember, as always, higher the return you seek higher the risk you should be prepared to take.

A few frequently used terms are explained here below:

Net Asset Value (NAV)

Net Asset Value is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.

Sale Price

Is the price you pay when you invest in a scheme. Also called Offer Price. It may include a sales load.

Repurchase Price

Is the price at which units under open-ended schemes are repurchased by the Mutual Fund. Such prices are NAV related.

Redemption Price

Is the price at which close-ended schemes redeem their units on maturity. Such prices are NAV related.

Sales Load

Is a charge collected by a scheme when it sells the units. Also called, 'Front-end' load. Schemes that do not charge a load are called 'No Load' schemes.

Repurchase or 'Back-end' Load

Is a charge collected by a scheme when it buys back the units from the unitholders.





WHY SHOULD YOU INVEST IN MUTUAL FUNDS?

The advantages of investing in a Mutual Fund are:

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

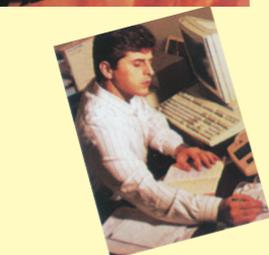
2. Diversification: Mutual Funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. You achieve this diversification through a Mutual Fund with far less money than you can do on your own.

3. Convenient Administration: Investing in a Mutual Fund reduces paperwork and helps you avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies. Mutual Funds save your time and make investing easy and convenient.

4. Return Potential: Over a medium to long-term, Mutual Funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.

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

6. Liquidity: In open-ended schemes, you can get your money back promptly at Net Asset Value (NAV) related prices from the Mutual Fund itself. With close-ended schemes, you can sell your



Before committing to invest in any Mutual Fund scheme, understand the advantages of investment in Mutual Funds.

units on a stock exchange at the prevailing market price or avail of the facility of repurchase through Mutual Funds at NAV related prices which some close-ended and interval schemes offer you periodically.

7. Transparency: You get regular information on the value of your investment in addition to disclosure on the specific investments made by your scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

8. Flexibility: Through features such as Systematic Investment Plans (SIP), Systematic Withdrawal Plans (SWP) and dividend reinvestment plans, you can systematically invest or withdraw funds according to your needs and convenience.

9. Choice of Schemes: Mutual Funds offer a variety of schemes to suit your varying needs over a lifetime.

10. Well Regulated: All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI.

UNDERSTANDING AND MANAGING RISK

All investments whether in shares, debentures or deposits involve risk: share value may go down depending upon the performance of the company, the industry, state of capital markets and the economy; generally, however, longer the term, lesser the risk; companies may default in payment of interest/principal on their debentures /bonds/ deposits; the rate of interest on an investment may fall short of the rate of inflation reducing the purchasing power.

While risk cannot be eliminated, skillful management can minimise risk. Mutual Funds





*Parenthood?
Invest in funds that give
you growth now and
regular income later in line
with your children's needs.*

help to reduce risk through diversification and professional management. The experience and expertise of Mutual Fund managers in selecting fundamentally sound securities and timing their purchases and sales, help them to build a diversified portfolio that minimises risk and maximises returns.

HOW TO INVEST IN MUTUAL FUNDS

Step One - Identify your investment needs.

Your financial goals will vary, based on your age, lifestyle, financial independence, family commitments, level of income and expenses among many other factors. Therefore, the first step is to assess your needs. Begin by asking yourself these questions:

1. What are my investment objectives and needs?

Probable Answers: I need regular income or need to buy a home or finance a wedding or educate my children or a combination of all these needs.

2. How much risk am I willing to take?

Probable Answers: I can only take a minimum amount of risk or I am willing to accept the fact that my investment value may fluctuate or that there may be a short term loss in order to achieve a long term potential gain.

3. What are my cash flow requirements?

Probable Answers: I need a regular cash flow or I need a lump sum amount to meet a specific need after a certain period or I don't require a current cash flow but I want to build my assets for the future.

By going through such an exercise, you will know what you want out of your investment and can set the foundation for a sound Mutual Fund Investment strategy.

Step Two - Choose the right Mutual Fund.

Once you have a clear strategy in mind, you now have to choose which Mutual Fund and scheme you want to invest in. The offer document of the scheme tells you its objectives and provides supplementary details like the track record of other schemes managed by the same Fund Manager. Some factors to evaluate before choosing a particular Mutual Fund are:

- the track record of performance over the last few years in relation to the appropriate yardstick and similar funds in the same category.
- how well the Mutual Fund is organised to provide efficient, prompt and personalised service.
- degree of transparency as reflected in frequency and quality of their communications.

Step Three - Select the ideal mix of Schemes.

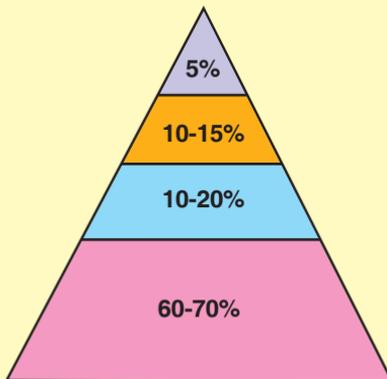
Investing in just one Mutual Fund scheme may not meet all your investment needs. You may consider investing in a combination of schemes to achieve your specific goals.

The following charts could prove useful in selecting a combination of schemes that satisfy your needs.



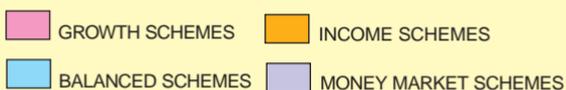


AGGRESSIVE PLAN

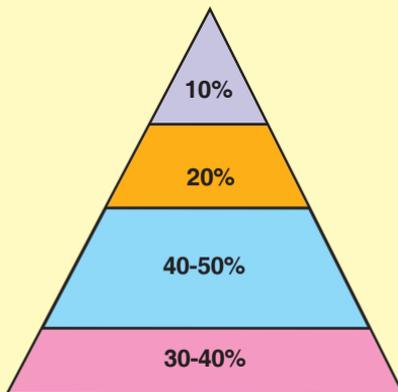


This plan may suit:

- Investors in their prime earning years and willing to take more risk.
- Investors seeking growth over a long term.



MODERATE PLAN



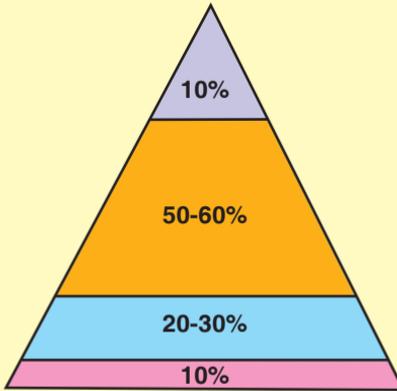
This plan may suit:

- Investors seeking income and moderate growth.
- Investors looking for growth and stability with moderate risk.



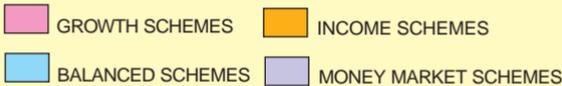
*Children's higher education ?
Invest in funds that will give you lump sum returns when your children enter college.*

CONSERVATIVE PLAN



This plan may suit:

- Retired and other investors who need to preserve capital and earn regular income.



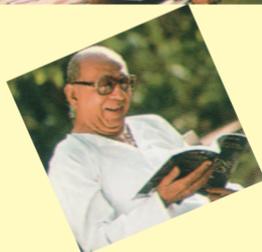
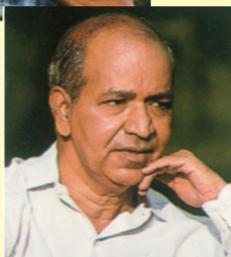
Step Four - Invest regularly

For most of us, the approach that works best is to invest a fixed amount at specific intervals, say every month. By investing a fixed sum each month, you get fewer units when the price is high and more units when the price is low, thus bringing down your average cost per unit. This is called rupee cost averaging and is a disciplined investment strategy followed by investors all over the world. With many open-ended schemes offering systematic investment plans, this regular investing habit is made easy for you.

Step Five - Keep your taxes in mind

As per the current tax laws, Dividend/Income Distribution made by mutual funds is exempt from Income Tax in the hands of investor. However, in case of debt schemes Dividend/Income Distribution is subject to Dividend Distribution Tax. Further, there are other benefits





*Ready to retire?
Invest in funds that will
supplement your pension.*

available for investment in Mutual Funds under the provisions of the prevailing tax laws. You may therefore consult your tax advisor or Chartered Accountant for specific advice to achieve maximum tax efficiency by investing in mutual funds.

Step Six - Start early

It is desirable to start investing early and stick to a regular investment plan. If you start now, you will make more than if you wait and invest later. The power of compounding lets you earn income on income and your money multiplies at a compounded rate of return.

Step Seven - The final step

All you need to do now is to get in touch with a Mutual Fund or your advisor and start investing. Reap the rewards in the years to come. Mutual Funds are suitable for every kind of investor—whether starting a career or retiring, conservative or risk taking, growth oriented or income seeking.

YOUR RIGHTS AS A MUTUAL FUND UNITHOLDER

As a unitholder in a Mutual Fund scheme coming under the SEBI (Mutual Funds) Regulations, you are entitled to:

1. Receive unit certificates or statements of accounts confirming your title within 30 days from the date of closure of the subscription under open-ended schemes or within 6 weeks from the date your request for a unit certificate is received by the Mutual Fund.
2. Receive information about the investment policies, investment objectives, financial position and general affairs of the scheme.
3. Receive dividend within 30 days of their declaration and receive the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase.

**Mutual Funds are truly
investments for a lifetime.**

4. Vote in accordance with the Regulations to:
 - a. change the Asset Management Company;
 - b. wind up the schemes.
5. Receive communication from the Trustees about change in the fundamental attributes of any scheme or any other changes which would modify the scheme and affect the interest of the unitholders and to have option to exit at prevailing Net Asset Value without any exit load in such cases.
6. Inspect the documents of the Mutual Funds specified in the scheme's offer document.

In addition to your rights, you can expect the following from Mutual Funds:

- To publish their NAV, in accordance with the regulations: daily, in case of open-ended schemes and once a week, in case of close-ended schemes.
- To disclose your schemes' entire portfolio twice a year, unaudited financial results half yearly and audited annual accounts once a year. In addition many mutual funds send out newsletters periodically.
- To adhere to a Code of Ethics which require that investment decisions are taken in the best interest of the unitholders.

*This guide can be obtained directly from:
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Mumbai 400 021.
E-mail: amfi@bom5.vsnl.net.in.
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3rd Edition 2008*



TEN ADVANTAGES OF INVESTING IN MUTUAL FUNDS

▲ *Professional Management*

▲ *Diversification*

▲ *Convenient Administration*

▲ *Return Potential*

▲ *Low Costs*

▲ *Liquidity*

▲ *Transparency*

▲ *Flexibility*

▲ *Choice of Schemes*

▲ *Well Regulated*