BHARAT SCHOOL OF BANKING

Mutual Funds (MF)

Suppose you have surplus money after your monthly expenses. Now you want to **invest** those money to earn a **good profit**. But the problem is you don't know **where** and **how much** to **invest**, and you don't know the **risks** involved in buying **shares**. Even you may not know which **company** is better than other and **less riskier** to **invest**. In general, you may not have **sufficient expertise** in **investment.**

So it is better to seek help of some **expert**, than taking **risk** of self investment. Here comes the **job** of a **Mutual Fund (MF)**. **MF**s are managed by **professionals**, who know very well **where** and **how much** to **invest** (as they are experienced in this field, but you are not, your expertise is elsewhere).

Mutual Fund pools money from several **investors** and then **invests** those money categorically to several **investment securities**, like **stocks, bonds,** short-term **money market instruments, precious** metals (e.g., gold), etc.

You will **invest** in a **Mutual Fund (MF)**, and will forget about it. **Professionals** will manage the **investments**, and you will get your **return** after a certain period of time. You don't require to pay **constant attention**, you just let the **portfolio manager (professional)** make **essential decisions** for you.

Also, note that there is another reason for you to **invest** in **MF** - you have **tax saving options** on **return amount,** if you **invest** in a **Mutual Fund**.

MFstructure

An **MF** is set up in the form of a **trust** that has a **Sponsor, Trustees, Asset Management Company (AMC)**.

- **Sponsor -** The **trust** is established by a sponsor (you can think it, like a **promoter** of a company). The **Trust** needs to be **registered** with **SEBI** (regulator of **Capital Market**).
- **Trustees -** Trustees **hold property** of **MF** for the benefit of **unit holders** (you are one of those unit holders)
- **Asset Management Company (AMC)** - AMCs manage the **fund** and makes **investment** in various types of **securities** (you don't need to take decisions, they will). AMCs should be **approved** by **SEBI**.

Note that, the **trustees** have the **authority** to provide direction over the **AMC**, and they **monitor** the **performance** and **compliance** of SEBI rules and regulations by the **mutual fund**.

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Mutual Funds (MF)

Net Asset Value (NAV)

NAV is the **total** value of **fund assets**, excluding **liabilities**, **per unit** of the **fund**, which is calculated by the **Asset Management Company (AMC)** after every business day. This is also known as **bid value**. It represents an MF's **per share market value**. **Investors** buy **fund shares** at this price (**bid price,** or NAV).

NAV = (Current market value of all **Assets** - all **Liabilities**) / no. of **unit** outstanding shares

For an example, suppose an **MF** has **assets** of **Rs. 100 lakh** and **liabilities** of **Rs. 20 lakh,** and has total **4 lakh** shares outstanding. Then the **NAV** or **bid price** (**price per share value**) would be (100 - 20) / 4 = Rs. 20 per share