

What is a Mutual Fund? Features and Benefits of Mutual Funds

A mutual fund is an investment vehicle that pools money from multiple investors and allocates it across equities, bonds, government securities, and money market instruments. Professional fund managers oversee these investments to ensure they align with the scheme's objectives.

The asset allocation depends on the type and objective of the particular mutual fund. When you invest in mutual funds, you own units issued against the funds collected. Mutual funds are a simple and convenient way to enter the markets. You get the benefit of flexibility, transparency & diversification, along with professional management all with minimum effort.

Features of Mutual Funds:

1. Diversification

- Invests in a mix of assets (stocks, bonds, etc.) to spread risk.

2. Professional Management

- Managed by experienced fund managers who make investment decisions on behalf of investors.

3. Liquidity

- Easy to buy and sell mutual fund units, especially open-ended funds.

4. Affordability

- Allows small investments (Systematic Investment Plans (SIPs) start as low as ₹100–₹500 in India).

5. Variety of Fund Types

- Options include equity funds, debt funds, hybrid funds, index funds, etc., catering to different risk appetites and goals.

6. Regulated Investment

- In many countries, including India and the U.S., mutual funds are regulated by bodies like SEBI or the SEC, ensuring transparency.

7. NAV-Based Pricing

- Units are bought or sold based on the Net Asset Value (NAV) at the end of each trading day.

8. Transparency

- Regular updates, disclosures, and performance reports are provided to investors.

Benefits of Mutual Funds:

1. Risk Reduction

- Diversification helps reduce the impact of poor performance of a single asset.

2. Convenience

- Easy to invest, monitor, and redeem. Ideal for investors who lack the time or expertise to manage portfolios.

3. Tax Benefits (Varies by region)

- Certain funds like ELSS (Equity Linked Savings Scheme) in India offer tax deductions under Section 80C.

4. Potential for Higher Returns

- Especially with equity mutual funds, over the long term.

5. Systematic Investment

- SIPs promote disciplined investing and rupee-cost averaging.

6. Reinvestment of Earnings

- Dividends and capital gains can be reinvested automatically for compounding benefits.

7. Accessibility

- Suitable for all types of investors—from beginners to seasoned professionals.

What is e-mandate?

E-mandate allows you to enable auto-transfer of funds from your bank account to your SIP investments. You can easily set up an e-mandate facility on the:-

- **Web platform:** Go to the Mutual Fund menu and select '**Mandate Registration**' > Enter the E-mandate amount, select the linked bank account and Submit.

- **Mobile App:** GO to Mutual Fund > Click on right side option > Mandate registration > create mandate> Enter Amount >Click on CREATE MADATE

You will receive a mandate registration for approval from BSE on your registered email ID. e-Mandate registration usually takes up to 2-3 trading days.

What is Folio number?

Folio number is the unique number generated for a particular client who has invested in a particular scheme.

What is KRA?

KRA means KYC Registration Agency, which registers the KYC of the clients who want to invest in mutual funds. KYC should be registered to invest in mutual funds failing which the transactions will be rejected. You can check your KYC status here: <https://camskra.com/>

What is NAV?

NAV (Net Asset Value) is mutual fund price per unit. NAV per share is computed once a day based on the closing market prices of the securities in the fund's portfolio. All mutual funds buy and sell orders are processed at the NAV of the trade date.

What is redemption price?

Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the unit holders. It may include exit load, if applicable.

What is STP?

STP stands for Systematic Transfer Plan. A systematic transfer plan or STP is a facility that allows you to transfer money from one mutual fund scheme to another, it could be from equity to debt or debt to equity. For example, suppose you want to slowly move your money out of your debt fund and into an equity fund; you can simply set up an STP. That way, you'll be able to conveniently and systematically move a certain amount out of the debt fund and into the equity fund at regular intervals (monthly, quarterly, etc.).

What is SWP?

SWP stands for systematic withdrawal plan. A systematic withdrawal plan (SWP) is a feature offered by mutual funds that allows you to withdraw a fixed amount or units at regular intervals (monthly, quarterly, etc.) from your investment. You choose the amount or unit and how often you want to withdraw, and the fund house automatically redeems the underlying units to meet your request, essentially giving you a predictable income stream from your investments.

What is the cut-off time for NAV?

NAV at which the units are allotted will be of the day when clear funds are received by RTA/AMC in their bank account before 3PM.

What is the cut off time to place MF-SIP?

You can place MF SIP orders up to 1:30 PM on all business days. Post this timing, all orders will be treated as off-market orders and placed on the next business day.

What is the maximum period of SIP?

SIP can be selected for time periods ranging from 1 month to a maximum of 999 months.

What is the payout TAT after redemption?

After redemption, T+3 is the normal TAT for payout of funds, which is directly processed by RTA for equity-oriented schemes.

What is income distribution cum capital withdrawal(IDCW)?

Income Distribution cum Capital Withdrawal (IDCW) refers to the amount that is disbursed and distributed as a dividend. SEBI changed the term “dividend option” to IDCW so it is clarified that this distributed income is coming out of the investor’s earned capital, i.e., it is a capital withdrawal. IDCW is treated as regular income for investors and is added to their total income for the financial year. The tax on IDCW depends on the investors income tax slab. Different slabs have varying tax rates, and the applicable rate is determined by the investors total income, including IDCW. TDS is applicable on IDCW.

Are there any charges applied while investing in MF?

There are no charges applied for investing in mutual funds through canmoney Securities platforms.

Are there any risk involved in investing in mutual funds?

As mutual funds invest in the various investment instruments available, they are subject to market risk.

Auto debit facility available for SIP?

Yes, but only if you have linked bank A/c and submitted your application with us. E-Mandate registration usually takes up to 5 working days, in contrast to physical mandates which take about a month.

Can NRI invest in mutual fund?

Yes, Non-Resident Indians can also invest in mutual funds. The offer documents of the schemes contain all the necessary details.

Can we merge two different folio of same AMC?

Yes, you can merge two different folios of the same AMC but it is subject to conditions, and you have to give consolidation request form to AMC or registrar.

How can i transfer existing physical MF units to my demat account?

Submit the Conversion Request Form (CRF), along with the Statement of Account (SOA), which enlists your MF holdings.

How to check the mutual fund holdings?

Here's how you can check your mutual fund holdings post login:

- CANMONEY Web Platform: Mutual Funds > New Holding Report
- CANMONEY Mobile App: Mutual Funds > Holdings

How to redeem dematerialised mutual funds?

All units bought through Canara Securities can be redeemed through our Mobile App or Web Platform. If MF units are not bought through Canara Securities then you need to submit Redemption form to the nearest Canara Securities branch.

How to rematerialised mutual funds?

Client has to submit Remat request form to the nearest Canara Securities Branch.

Is it mandatory to redeem units immediately after SIP Expiry?

No, it is not.

What are the different types of mutual funds?

Mutual funds come in various types based on **investment objective**, **structure**, and **asset class**. Here's a categorized list of the **different types of mutual funds**:

Based on Investment Objective:

1. Growth Funds (Equity Funds):

- Invest mainly in stocks.
- Aim for capital appreciation.
- Suitable for long-term investors with higher risk tolerance.

2. Income Funds (Debt Funds):

- Invest in fixed-income securities like bonds, government securities.
- Aim for regular income and capital preservation.
- Suitable for conservative investors.

3. Balanced or Hybrid Funds:

- Invest in a mix of equity and debt.
- Balance risk and return.
- Suitable for moderate-risk investors.

4. Tax-Saving Funds (ELSS – Equity Linked Savings Scheme):

- Equity-oriented funds with tax benefits under Section 80C (India).
- Lock-in period of 3 years.

Based on Structure:

1. Open-Ended Funds:

- Units can be bought/sold anytime at NAV.
- No fixed maturity date.

2. Close-Ended Funds:

- Units can only be bought during the initial offer period.
- Fixed maturity.
- Traded on stock exchanges.

3. Interval Funds:

- Combine features of open and close-ended funds.
- Purchase/redemption allowed at specific intervals.

Based on Asset Class:

1. Equity Funds:

- Invest in shares of companies.
- High risk, high return.

- Types include:
 - Large-cap funds
 - Mid-cap funds
 - Small-cap funds
 - Multi-cap funds
 - Sector/thematic funds

2. Debt Funds:

- Invest in fixed-income instruments.
- Lower risk, steady returns.
- Types include:
 - Liquid funds
 - Short-term funds
 - Long-term funds
 - Gilt funds
 - Credit risk funds

3. Hybrid Funds:

- Mix of equity and debt (can be equity-heavy or debt-heavy).
- Examples:
 - Aggressive hybrid funds
 - Conservative hybrid funds
 - Dynamic asset allocation funds

4. Money Market Funds:

- Invest in short-term money market instruments.
- Very low risk and high liquidity.

5. Index Funds:

- Track a specific market index (e.g., Nifty 50, S&P 500).

- Passive management, lower expense ratios.

6. Fund of Funds (FoF):

- Invest in other mutual funds.
- Diversified exposure across asset classes or geographies.

7. International or Global Funds:

- Invest in overseas markets or global companies.

Special-Purpose Mutual Funds:

1. Children's Funds:

- Goal-specific funds for a child's education or future needs.

2. Retirement Funds:

- Long-term funds aimed at retirement savings, may have lock-in periods.

What does the term NFO mean in mutual fund?

NFO is short for New Fund Offer. A new fund offer (NFO) is the first ever offer made by an asset management company (AMC) for subscription to a new fund. This means that, similar to IPOs, when an AMC launches a new fund, there is an initial sale of fund units for a limited period where investors are invited to buy fund units at a relatively low initial price which is Rs.10. The launch of NFO raises money for the fund, that the fund managers allocates to various assets based on the fund's objective. All the information regarding the NFO is provided by the AMC before the NFO opens. This includes the scheme's objective, investment objective, and the assets the company plans to invest in for the fund.