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B.Com Honours | Semester II | Calicut University

Essentials of Investment

Course Code: COM2MN105 • Module 3 Notes

1. Mutual Funds: Structure, Types, and Investment Methods

Mutual funds are the most popular vehicle for retail wealth building, offering instant diversification and professional management. This module covers the concept and structure of mutual funds, core fund classifications, investment methods (Lumpsum vs. SIP), Net Asset Value (NAV), and factsheet analysis.

Trust Structure of Mutual Funds

Under SEBI guidelines, mutual funds operate using a four-tier trust structure to protect investor capital:

1. **Sponsor:** The promoter who establishes the mutual fund trust.
2. **Trustees:** Independent directors who ensure the fund house complies with regulations.
3. **Asset Management Company (AMC):** The professional company that manages the investments and charges a management fee (Expense Ratio).
4. **Custodian:** An independent bank that holds the physical/digital securities, preventing fraud.

Classification of Funds

Equity vs. Debt Funds

- **Equity Funds:** Invest primarily in corporate shares. High risk, high long-term return potential.
- **Debt Funds:** Invest in government bonds and corporate debentures. Low risk, steady interest income.

Direct vs. Regular Plans

- **Direct Plan:** Bought directly from the AMC. No broker commissions, leading to a lower expense ratio and higher returns.
- **Regular Plan:** Bought through a distributor or agent, whose commissions are deducted from the NAV.

Systematic Investment Plan (SIP) vs. Lumpsum

- **Lumpsum:** Investing a large sum of capital at a single point in time. Risky if market prices are high.
- **SIP:** Investing a fixed amount (e.g., ₹5,000 monthly) automatically. Offers **Rupee Cost Averaging** (buying more units when prices are low) and utilizes the **Power of Compounding**.
- **Net Asset Value (NAV):** The market value of a single unit of a mutual fund scheme, updated daily after market close.

Reading a Mutual Fund Factsheet

Founders and investors must review the monthly **Factsheet** before selecting a fund:

- **AUM (Assets Under Management):** The total size of the fund.
- **Expense Ratio:** The annual operational fee charged. Lower expense ratios are better.
- **Risk-o-meter:** Visual gauge showing risk levels (Low to Very High).
- **Portfolio Disclosure:** Lists the specific stocks or bonds the fund owns.