

Funds ka Funda **An Easy Guide to** **Invest in Mutual** **Funds**

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Lesson

1.

Investors in Mutual Funds

1.1 Individual and Institutional Investors

At a broad level, investors can be classified as individual and institutional Investors. Individual investors are large in number, have a small ticket-size (amount invested per transaction) and are spread out geographically. Mutual funds reach out to individual or retail investors through distribution channels such as individual agents, advisors, banks and brokers.

Institutional investors such as companies, banks, institutions, trusts and societies, are large in terms of ticket size, but smaller in number. They generally prefer to deal directly or work with a fewer number of large intermediaries.

Most individual investors invest and transact on their own (except minors, HUFs and investors operating through power of attorney); institutional investors follow a formal process for making and executing investment decisions. The charter of the institution and the laws governing it should enable investments as a permitted activity. The apex governing body of the institutional investor, usually the Board has to approve the investment decision Institutional investors transact through authorized signatories, who are designated to execute the documentation pertaining to investment decisions, on behalf of the institution.

1.2 Records for Individual Investors

Individual investors are required to provide basic information when they have to make investments in a mutual fund. An application form (widely available and usually downloadable from websites) is used by investors to provide such information. Typically, investment advisors and intermediaries collect basic information required to be provided while investing in mutual funds, and fill up the application forms for investors.

Information provided by the investors is used to create and maintain records for each investor. The registrar and transfer agent (R & T agent) of the mutual fund is usually responsible for creating and maintaining investor records. In a mutual fund the account of the investor is also called a folio. Folio is the common name used to identify an investor, and typically holds the details provided by the investor and the investments made. A single investor, a group of investors (maximum of three investors) may hold multiple folios in a mutual fund.

The details to be provided by individual investors are name, address for correspondence, signature and permanent account number (PAN). The bank account details are compulsory in a mutual fund investment as redemption and dividend pay-outs cannot be made without the bank details. In a mutual fund, the beneficiary is the person who is holding the folio. Pay-outs cannot be made to third parties. In a post office MIS for example, it is possible for the first holder to indicate a third party who could collect the periodic interest payments.

Address

The address of the investor is used to enable physical identification of the investor's location. Demat accounts cannot

be opened unless the depository participant has sent a representative to personally verify the address. Post box numbers are not accepted for issuing mutual fund units. In case of an NRI investor, overseas address is required.

Signature

The signature of the investor is the identity of the investor in the records of the issuer. It is verified for every transaction. All valid transactions should carry the signature of the investor. Banks, depository participants and R&T agents usually scan the signatures from the application forms and use them to verify and approve subsequent transaction requests from investors.

Mode of Operation

The mode of operation is about how an account or folio will be operated, if there are multiple investors. Mutual funds allow three joint holders in a folio.

If there is only one investor, known as the first or sole holder, it is operated on a single basis. A mutual fund folio with joint holders can be operated on 'joint' OR 'either or survivor' basis. A folio that is operated on joint basis requires all the joint holders' signatures for every transaction. If it is operated on either or survivor basis it can be operated by any of the joint holders or a surviving holder. While applying for the first time, all joint holders must sign the application form irrespective of the mode of operation. Any change to the mode of operation, or addition or deletion of joint holders can be done only with the signatures of all holders.

Permanent Account Number (PAN)

PAN is an identification number issued by the Income Tax authorities. To apply for PAN, one should use the prescribed form (Form 49A) and provide proof of identity and proof of