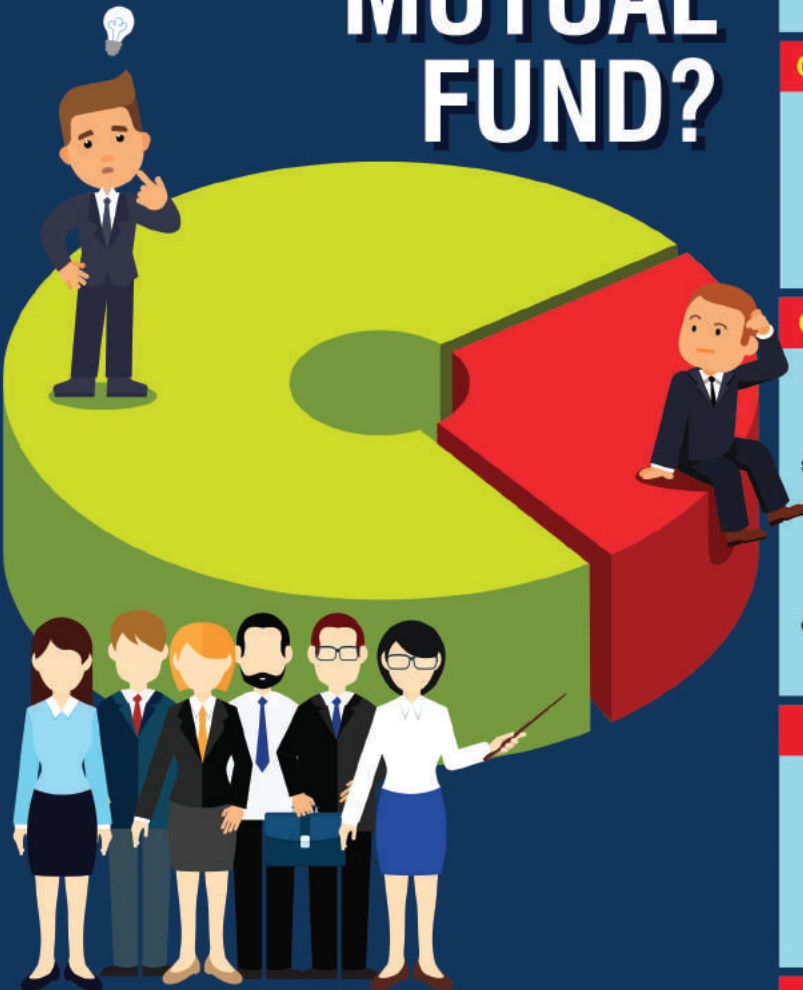


DO YOU HAVE THE RIGHT MUTUAL FUND?



The market regulator, Securities and Exchange Board of India (SEBI) came up with a set of rules that affect all Mutual Fund (MF) Schemes and investors, including you. Here's a look:

CHANGE 1: REDUCING NUMBER OF MF SCHEMES

BEFORE

There are over 2,000 schemes in the industry belonging to a variety of confusing categories.

NOW

SEBI announced that there will be 5 key categories and sub-categories of Mutual Funds based on the asset allocation. This includes:

EQUITY MFs: 10 types of Equity Schemes

DEBT SCHEMES: 16 types of Debt Schemes

HYBRID FUNDS: 6 types of Hybrid Schemes

SOLUTION-ORIENTED FUNDS: 2 types – Retirement and Children's Fund

OTHER FUNDS: 2 types – Index Funds/ETFs and Fund of Funds

CHANGE 2: FIXING ASSET ALLOCATION FOR ALL FUND TYPES

BEFORE

Funds could invest as much as they wanted in Equity and Debt irrespective of the type of Scheme. For example, a Balanced Fund could invest over 70% in Stocks to aggressively earn returns.

NOW

Depending on the Type of Fund, each Scheme has to invest a minimum/maximum amount of money in particular types of assets.

So now, a Balanced 'Hybrid' Fund has to invest 40-60% of its total portfolio in either Equity or Debt. It cannot invest more than 60% in either Equity or Debt.

CHANGE 3: LIMITING INVESTMENTS IN LARGE, MID AND SMALL CAP STOCKS

BEFORE

There was no clear rule on how much each Fund will invest in specific type of Stocks like Large Cap, Mid Cap, Small Cap, etc. So, there was no uniformity in allocation. For example, a few Large Cap Funds may invest 70% in Large Cap Stocks, while other Large Cap Schemes would invest 80%. In addition to this,

NOW

SEBI has mandated the minimum or maximum investment limit in a certain type of Stock as below:

LARGE CAP FUNDS:

Minimum 80% investments in Large Cap companies

LARGE AND MID CAP FUNDS:

Minimum 35% investments in Large Cap and minimum 35% in Mid Cap companies

MID CAP FUNDS: Minimum 65% investments in Mid Cap companies

SMALL CAP FUNDS: Minimum 65% investments in Small Cap companies

SECTORAL FUNDS: Minimum 80% investments in particular sector/ themed companies

MULTI CAP FUNDS: Minimum 65% investments need to be in Equities

CHANGE 4: ASSIGNING LABELS TO STOCKS

BEFORE

While there was more or less uniformity in identifying a Large Cap Stock, each Fund had a different yardstick for identifying Mid and Small Cap Stocks.

NOW

SEBI has clearly classified Stocks into three categories using their market capitalisation:

LARGE CAP: The 100 largest companies

MID CAP: The 101st-250th company in terms of full market capitalisation

SMALL CAP: All other companies

HOW THE CHANGES AFFECT YOU

- It will be easier to select a Fund from amongst the 5 key categories and fixed sub categories
- All Schemes in a Fund category will have fixed allocation, style purity, similar risk and return characteristics, and stick to the investment objective mentioned in the Scheme Information Document
- This can help you choose Funds that are perfectly suited to your risk-return profile