NCDEX Nidhi
Next-Gen Mutual Fund Platform

MUTUAL FUNDS

AN INVESTOR'S GUIDE

A beginner-friendly Mutual Fund brochure for first-time investors

Welcome to a simple guide to mutual funds, designed to help new investors understand the basics with confidence. The brochure explains how mutual funds work, the main scheme categories, ETF basics, investment routes like SIP and lumpsum, and the key rules that protect investors in India.

This brochure has been prepared basis guidelines and data available on AMFI (amfiindia.com) and SEBI (sebi.gov.in).

WELCOME TO MUTUAL FUNDS

A practical way to start investing without needing to pick every stock yourself.

This guide has been written for new investors in simple English and aligned with AMFI (Association of Mutual Funds in India) and SEBI (Securities and Exchange Board of India) educational material.

It invites you to explore mutual funds with confidence, while understanding both opportunities and risks.

Note: This brochure has been prepared basis guidelines and data available on AMFI (amfiindia.com) and SEBI (sebi.gov.in)

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What is a Mutual Fund?

A mutual fund pools money from many investors and invests that money in assets such as shares, bonds, government securities, and money market instruments.

It gives a small investor access to a professionally managed portfolio, even with a modest amount.

Official definition (AMFI): "A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments."

(AMFI: Mutual Funds)

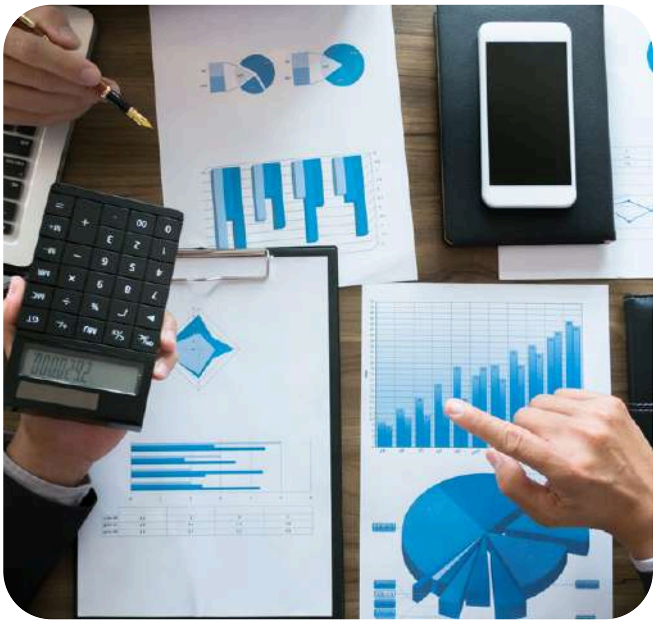
Think of it like a group of friends pooling money to buy a basket of investments together. The investment grows or falls based on the market value of the portfolio, and each investor owns units in proportion to the amount invested.

Role	Responsibility
AMC	Asset Management Company — runs the mutual fund and handles operations, compliance, and reporting.
Fund Manager	Studies the market and decides what the scheme should buy or sell.
Trustee	Supervises the AMC and protects the interest of investors.

Flow: Investor → AMC → Market instruments (equity / debt / money market) → Portfolio performance → Investor

Categories & Schemes of Mutual Funds

SEBI officially categorised mutual funds to bring uniformity, transparency, and easier comparison across schemes. Each category has defined investment rules so that the name of the fund tells the investor something useful about its portfolio.



The table below will help investors understand how SEBI's scheme names map to portfolio style, risk level, and ideal holding period. A category is not automatically good or bad; it simply tells you what kind of assets the scheme is built to hold.

Match the category to your goal and risk comfort. Long-term growth goals usually fit equity or hybrid funds, while short-term parking often fits liquid or overnight debt funds.

Reference: SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6 October 2017 on "Categorization and Rationalization of Mutual Fund Schemes", and current (Mar 2026) SEBI Master Circular for Mutual Funds.

Description and Suitability match for each Category and Scheme of Mutual Funds

Category	Sub-category	Brief Description	Suitable For
Equity	Large Cap Fund	Invests predominantly in the largest companies by market capitalisation. These funds usually aim for relatively stable long-term growth compared with smaller-company funds.	Long-term investors seeking lower volatility among equity funds
	Large & Mid Cap Fund	Invests in both large-cap and mid-cap companies, creating a balance between stability and growth.	Investors who want a balanced equity portfolio
	Mid Cap Fund	Focuses on mid-sized companies with growth potential. Returns can be attractive, but price swings are usually higher than in large-cap funds.	Investors with moderate-to-high risk appetite
	Small Cap Fund	Invests in smaller companies that may grow quickly but can also be very volatile in the short term.	Aggressive investors with long horizons
	Multi Cap Fund	Invests across large-cap, mid-cap, and small-cap stocks. SEBI requires portfolio diversification across market-cap segments.	Investors who want broad equity exposure
	Flexi Cap Fund	A flexible equity fund where the manager can invest across market-cap segments without fixed caps on each segment.	Investors wanting flexibility in stock selection

Equity	ELSS (Equity Linked Savings Scheme)	Equity-linked tax-saving fund with a mandatory lock-in period of 3 years. It may help investors claim deduction under the prevailing tax law.	Tax-saving investors with long-term horizon
	Focused Fund	A concentrated equity portfolio that holds a limited number of stocks. It can generate strong returns, but concentration risk is higher.	Investors who understand higher risk
	Sectoral / Thematic Fund	Invests in one sector or theme such as banking, pharma, or consumption. Performance depends heavily on that sector or theme.	Investors who want a specific market view
	Dividend Yield Fund	Invests in companies that have relatively high dividend yield. Such firms may be mature businesses with stable cash flows.	Income-oriented equity investors
	Value Fund / Contra Fund	Value funds invest in undervalued stocks, while contra funds take positions against prevailing market sentiment. Both require patience.	Investors who can wait through cycles
Debt	Overnight Fund	Invests in securities that mature in one business day. It is one of the lowest-interest-rate-risk debt options.	Very short parking of money
	Liquid Fund	Invests in short-term money market and debt instruments, usually with low duration and high liquidity.	Short-term parking of surplus funds
	Ultra Short Duration Fund	Invests in instruments with slightly longer maturity than liquid funds, seeking modest returns with limited risk.	Conservative investors
	Low Duration Fund	Invests in debt and money market instruments with a low duration profile.	Investors seeking a bit more return than liquid funds
	Short Duration Fund	Invests in debt instruments where portfolio Macaulay duration is typically within a short range. It may be suitable for a holding period of a few years.	Medium-short term investors
	Medium Duration Fund	Invests in debt instruments with a longer duration profile than short-duration funds and can be more sensitive to interest-rate changes.	Investors with moderate horizon
	Long Duration Fund	Invests in longer-duration debt securities. Interest-rate movements can strongly affect returns.	Investors who understand duration risk

Debt	Dynamic Bond Fund	Actively changes portfolio duration depending on the manager's interest-rate view.	Investors comfortable with active debt management
	Corporate Bond Fund	Invests mainly in high-quality corporate bonds, with at least 80% in top-rated corporate debt under SEBI norms.	Investors seeking relatively steady income
	Credit Risk Fund	Invests in lower-rated corporate debt and carries higher credit risk in exchange for potentially higher yield.	Higher-risk debt investors
	Banking & PSU Fund	Invests mainly in debt instruments issued by banks, public sector undertakings, and public financial institutions.	Conservative debt investors
	Gilt Fund	Invests primarily in government securities and has no credit risk from corporate default, but interest-rate risk remains.	Risk-conscious investors
	Gilt Fund with 10-year constant duration	Maintains a portfolio with duration around 10 years, making it sensitive to interest-rate movements.	Investors with a strong view on rates
	Floater Fund	Invests mainly in floating-rate debt instruments, which can help reduce interest-rate sensitivity.	Investors seeking rate protection
	Money Market Fund	Invests in money market instruments with short maturity and high liquidity.	Short-term cash management
Hybrid	Conservative Hybrid Fund	Invests mostly in debt with a smaller equity allocation. It tries to balance income and growth.	Conservative investors
	Balanced Hybrid Fund	Maintains a balanced mix of equity and debt within SEBI's prescribed allocation norms.	Moderate-risk investors
	Aggressive Hybrid Fund	Has a higher equity allocation than debt and therefore a higher growth orientation.	Investors seeking growth with some stability
	Dynamic Asset Allocation / Balanced Advantage Fund	The equity-debt mix changes dynamically based on market conditions or a model. This helps manage volatility.	Investors who want automatic rebalancing

Hybrid	Multi Asset Allocation Fund	Invests in at least three asset classes, such as equity, debt, and gold/commodities, to spread risk.	Diversification-focused investors
	Arbitrage Fund	Takes advantage of price differences between cash and derivative markets. It is often treated as a relatively lower-volatility hybrid product.	Short-term investors seeking tax-efficient parking
	Equity Savings Fund	Uses a mix of equity, arbitrage, and debt to seek lower volatility than pure equity funds.	Moderate investors and first-timers
Solution Oriented	Retirement Fund	Designed to help investors build a corpus for retirement and generally carries a lock-in / minimum investment horizon under SEBI norms.	Long-term retirement planners
Solution Oriented	Children's Fund	Designed for long-term goals such as a child's education or marriage, with a long lock-in / horizon.	Parents or guardians planning for children
Other	Index Funds / ETFs	Passive products that track a benchmark index such as Nifty 50, Sensex, or a sector index.	Investors who prefer low-cost passive investing
Other	Fund of Funds (Domestic / Overseas)	Invests in other mutual funds or ETFs instead of investing directly in stocks or bonds.	Investors seeking easy access to multiple funds/markets

Types of Mutual Fund Schemes

A Fund's type refers to its structure, while its category refers to what it invests in. For example, a fund may be open-ended and equity-oriented at the same time.

Types of Mutual Fund Schemes

Type	Definition	Key Feature	Example
Open-Ended Schemes	Units can be bought or redeemed on any business day at the prevailing NAV (Net Asset Value). The scheme is perpetual and keeps accepting inflows.	High liquidity	Most regular equity and debt funds
Close-Ended Schemes	The scheme has a fixed maturity date. Units are issued during the offer period and are listed on a stock exchange to provide an exit route before maturity.	Fixed tenure	Fixed maturity plans
Interval Schemes	Purchase and redemption are allowed only during specified transaction windows. The scheme sits between open-ended and close-ended structures.	Limited transaction periods	Interval debt schemes
Actively Managed Funds	The fund manager actively selects securities using research, valuation, and market judgment. The goal is to outperform the benchmark.	Manager-driven portfolio	Flexi cap / sector funds
Passively Managed Funds (Index Funds)	The portfolio replicates a benchmark index such as Nifty 50 or Sensex. The fund tries to match the index rather than beat it.	Low-cost benchmark tracking	Nifty 50 Index Fund

Modes of Investment in Mutual Funds

Mutual funds can be invested through AMFI-registered distributors, direct platforms, AMC websites, and registered investment advisers. The mode you choose depends on whether you prefer one-time investing, regular investing, or gradual movement between schemes.

AMFI describes SIP (Systematic Investment Plan) as a fixed-amount investment at fixed intervals, often with bank standing instructions, and notes that SIP supports disciplined investing and rupee cost averaging.

A. Lumpsum Investment

A Lumpsum investment means putting the full amount into a mutual fund in one single payment, instead of spreading it out over time through installments. In mutual fund terms, this is simply a one-time investment made at the time of purchase. A different Lumpsum order has to be made everytime investment is done in Lumpsum mutual fund. It is often used when an investor receives a bonus, sells an asset, or has idle savings to deploy.

How it works: The entire amount is invested at once, and the investor receives units at the applicable NAV (Net Asset Value). The final outcome depends on where the market moves after the investment date.

Best suited for: Investors with surplus cash, a clear long-term horizon, and the ability to stay invested through market cycles.

Market timing risk: If the market falls soon after the investment, the portfolio value may temporarily decline. Because of this, many investors prefer spreading the entry through SIP (Systematic Investment Plan) or STP (Systematic Transfer Plan).

B. Systematic Investment Plan (SIP)

A SIP is a method of investing a fixed amount in a mutual fund scheme at regular intervals, such as daily or monthly. AMFI explains that SIP is a convenient method in which the amount can be debited from a bank account through standing instructions.

How SIP works: the investor chooses a fund, fixes an amount and date, and authorizes automatic debit from the bank account. Units are allotted on the applicable NAV of the transaction day subject to cut-off time and payment receipt rules. The investor buys more units when prices are low and fewer when prices are high. SIPs help investors invest in a disciplined way and reduce the impact of timing decisions by spreading purchases over time.

- Rupee Cost Averaging — buys more units when NAV is low and fewer when NAV is high.
- Power of Compounding — gains can be reinvested and grow over time.
- Discipline — encourages regular investing instead of emotional market timing.
- Flexibility — SIPs can usually be started, paused, increased, or stopped depending on the fund house rules.
- Convenience — the bank auto-debits the chosen amount on the chosen date.

Description and Key Benefits of each SIP Type

SIP Type	Description	Key Benefit
Regular SIP	A fixed amount is invested at a fixed interval.	Simple and disciplined
Step-Up / Top-Up SIP	The SIP amount increases periodically.	Helps investors grow contributions with income
Trigger SIP	Investments start or change when a defined market event happens.	Useful for rule-based investors
Perpetual SIP	No end date is selected at the start.	Avoids repeated renewal
Flexible SIP (Flex SIP)	The amount can vary within a chosen range.	Adapts to changing cash flow

Minimum investment: Recent SEBI consultation papers, circulars/letters note that SIP instalments can be as little as ₹100 or ₹250 per month. Minimums can differ by scheme and distributors. Following are the SEBI references which can be referred for minimum micro-SIP investments.

Reference 1: SEBI Letter No. OW/16541/2012 dated 24 July 2012, as reproduced in "Policy related Letters and Emails issued by SEBI as on March 20, 2026"

Reference 2: SEBI letter no. OW/16541/2012 dated 24 July 2012 regarding "Micro Systematic Investment Plan (Micro SIP) / PAN Exempt Investments" as referenced in SEBI-hosted Scheme Information Documents.

B (i). Step-Up SIP / Top-Up SIP

A Step-Up SIP increases the contribution amount at a chosen interval, usually every year. This is useful when income rises over time.

For example, a ₹5,000 SIP that rises by 10% each year can build a larger corpus than a flat SIP, because new money is added as the investor's earnings grow.

B (ii). Trigger-Based Investment

Trigger-based investing starts or changes an investment when a specific NAV, index level, or event occurs. It is a rule-based approach and is not the same as guaranteed investing.

It can be useful for experienced investors who already have a plan and want automatic action when a market condition is met.

Summary of differences between SIP & Lumpsum Investment Plans

Parameter	SIP	Lumpsum	Comment	Typical Use
Investment style	Regular small amounts	One-time large amount	SIP spreads entry; lumpsum deploys capital immediately	Both can work for long-term investing
Risk	Lower timing risk through staggered entry	Higher timing risk at entry	SIP does not remove market risk, but smooths purchase timing	SIP often suits cautious investors
Rupee cost averaging	Yes	No	SIP can average purchase cost across different market levels	Useful in volatile markets
Ideal market condition	Volatile / uncertain markets	Attractive valuations with surplus cash	Neither is guaranteed to outperform	Depends on investor discipline
Suitable for	Monthly earners	Investors with surplus money	Use the mode that matches cash-flow and comfort	Goal-based planning

(C). Systematic Transfer Plan (STP)

An STP moves money from one mutual fund scheme to another in a planned and periodic way. It is often used to move money from a lower-risk scheme, such as a liquid fund, into a higher-risk scheme like equity.

How it works: An investor parks money in a safer scheme and transfers a fixed amount at regular intervals to the target scheme. This helps reduce the stress of entering the market in one large step.

Fixed STP transfers a fixed amount, **Flexible STP** allows the amount to vary, and Capital Appreciation STP transfers only the appreciation portion. STP is useful for investors who want gradual exposure without sudden market-entry risk.

(D). Systematic Withdrawal Plan (SWP)

An SWP allows an investor to withdraw a fixed amount regularly from a mutual fund scheme. The remaining corpus stays invested and continues to participate in market growth.

How it works: The scheme redeems enough units to pay the chosen withdrawal amount on the chosen date. The investor can therefore create a regular cash flow from an existing corpus.

- Provides a regular cash flow from investments.
- May help manage retirement income needs.
- Can be more structured than ad hoc withdrawals.
- The remaining investment continues to stay invested.

Ideal use case: SWP is often used in retirement income planning, where the goal is to withdraw money in a controlled way while allowing the balance to remain invested. It can also be used for periodic expenses such as rent, education, or living costs.

SWP vs dividend option: SWP is a planned withdrawal chosen by the investor, while IDCW (Income Distribution cum Capital Withdrawal plan, earlier used to be called as Dividend plan) depends on distributable surplus and the scheme's distribution decision. SWP gives the investor more control over cash flow.

(E). Growth vs IDCW (Income Distribution cum Capital Withdrawal)

Growth Plan: Income earned by the scheme is not paid out periodically. Instead, it stays invested and adds to the scheme's NAV, which supports compounding over time.

IDCW (Income Distribution cum Capital Withdrawal) Plan: The scheme may distribute income or capital to unit holders if distributable surplus is available and the trustees approve the distribution. Investors should understand that IDCW is not a guaranteed payout.

SEBI changed the naming convention from 'Dividend' to 'IDCW' under its review of dividend options in mutual fund schemes, as reflected in circular SEBI/HO/IMD/DF3/CIR/P/2020/194 dated October 05, 2020.

Summary of Modes of Investment, how they work, whom are they best for, minimum amount required and frequency at which you can invest in them.

Mode	How It Works	Best For	Minimum Amount	Frequency Options
Lump Sum	One-time full investment at the applicable NAV.	Investors with surplus cash	One-time	Any day subject to cut-off
SIP	Fixed amount at regular intervals through auto-debit.	Salaried investors and disciplined savers	₹500 in many schemes	Monthly / quarterly
Step-Up SIP	SIP amount increases periodically.	Growing incomes and long goals	Scheme-specific	Usually yearly
Trigger-Based	Action happens when pre-set conditions are met.	Experienced investors	Scheme-specific	Event-based
STP	Money moves from one scheme to another in instalments.	Investors shifting from liquid to equity	Scheme-specific	Daily / weekly / monthly
SWP	Fixed amount is redeemed periodically from a corpus.	Retirees and income planners	Scheme-specific	Monthly / quarterly / yearly

Net Asset Value (NAV) — What It Is & How It Is Calculated

A. What is NAV?

NAV stands for Net Asset Value. In simple terms, it is the price of one unit of a mutual fund scheme on a given day.

Official description: NAV is computed by dividing the net assets of the scheme by the number of units outstanding on the valuation day.

NAV rises or falls as the market value of the underlying portfolio changes. It is not a fixed rate like a bank deposit interest rate.

B. How is NAV Calculated?

NAV = (Total Assets of the Fund – Total Liabilities) / Total Number of Outstanding Units

- Total Assets include the market value of securities, receivables, and accrued income.
- Total Liabilities include expenses payable, management fees, and other obligations.
- Outstanding Units are the units held by all investors in the scheme.

NAV is normally declared on business days after market close, based on valuation norms specified by SEBI.

Example: If a fund has ₹100 crore of assets, ₹2 crore of liabilities, and 5 crore units outstanding, then NAV = (100 – 2) / 5 = ₹19.60.

C. NAV and Investment — What Investors Should Know

A lower NAV does not mean that a fund is cheaper or better. A scheme with a NAV of ₹10 and another with ₹100 can deliver the same percentage return if both portfolios grow at the same rate.

What matters is the percentage growth in NAV and the quality of the underlying portfolio, not the absolute NAV number. This is why comparing funds only on the basis of NAV can be misleading.

Advantages of Mutual Funds

Mutual funds are popular because they bring professional management, diversification, and ease of investing into one product. They are also flexible enough to suit short-term, medium-term, and long-term goals.

Advantage	Description
Professional Management	Fund managers and research teams decide what to buy and sell, which helps investors who do not want to research every security themselves.
Diversification	A fund usually holds many securities, which reduces the impact of one poor investment on the overall portfolio.
Affordability / Low Minimum Investment	Many schemes allow small ticket sizes through SIPs, so investors can begin with modest amounts and build habits early.
Liquidity	Open-ended schemes can usually be redeemed on business days, giving investors access to their money when needed.
Regulatory Oversight	SEBI regulates mutual funds, disclosures, and investor protections. This creates a stronger framework than unregulated saving options.
Transparency	Most mutual funds disclose NAV regularly and publish portfolio details and factsheets, helping investors review performance and holdings.
Tax Efficiency	ELSS (Equity Linked Savings Scheme) can offer tax deduction under the applicable law, while listed equity-oriented fund gains are taxed under sections 111A and 112A. The Income Tax Department states that, for transfers on or after 23 July 2024, short-term gains under section 111A are taxed at 20% and long-term gains under section 112A are taxed at 12.5% above ₹1,25,000.
Flexibility	Investors can choose equity, debt, hybrid, passive, or solution-oriented funds, and can also use SIP, STP, or SWP based on their needs.
Goal-Based Investing	There are products for emergency cash, short-term parking, medium-term accumulation, and long-term wealth creation.
Power of Compounding	When returns are reinvested, the corpus can grow faster over time. For example, a ₹5,000 monthly SIP at 12% annualised return for 20 years can grow into a significantly larger corpus because each year's gains also start earning returns.

Risks in Mutual Funds

Following table summarizes the risks associated with investing in Mutual Funds.

Risks Associated with Mutual Funds

Risk	Explanation
Market Risk / Systematic Risk	All market-linked funds can rise or fall when equity, bond, or broad market conditions move. Diversification helps, but it does not remove market risk.
Credit Risk	In debt funds, the issuer may delay or fail to pay interest or principal. This risk is more important in lower-rated debt funds.
Liquidity Risk	Some securities are hard to sell quickly at a fair price. This can matter more in stressed markets or niche bond segments.
Interest Rate Risk	Bond prices move opposite to interest rates. Longer-duration debt funds are usually more sensitive to rate changes.
Currency Risk	International funds can be affected by exchange-rate movements. Even if the foreign asset price is stable, currency changes can affect returns in rupees.
Concentration Risk	Funds that hold a small number of stocks or a single sector can be hit harder by one bad move. Focused and sectoral funds usually carry this risk.

Riskometer: SEBI product labelling uses a six-step Risk-o-meter from Very Low to Very High, and the risk label must appear in scheme disclosures. A Riskometer illustration is provided below for your reference.

Common Myths & Facts About NAV and Mutual Funds

Many investing myths come from comparing mutual funds with shares or fixed deposits. The facts become clearer once you understand how NAV, risk, and portfolio composition actually work.

AMFI's own investor education page explains several of these misconceptions, including the idea that low NAV means better returns and that large money is needed to begin investing.

Myths and Facts on NAV and Mutual Funds

#	Myth	The Truth
1	A fund with a lower NAV is cheaper and gives better returns.	NAV is only the per-unit price. A fund with lower NAV is not automatically better because returns depend on percentage growth, portfolio quality, and costs.
2	Mutual funds are only for the rich / you need a large amount to start.	That is false. Many funds allow small SIPs, and SEBI explains that SIP instalments can be as little as ₹100 or ₹250 in micro-SIP schemes.
3	Mutual funds always give guaranteed returns.	Mutual funds are market-linked investments, so returns can rise or fall. No honest brochure should promise guaranteed returns.
4	You need a Demat account to invest in mutual funds.	A Demat account is usually not needed for regular mutual fund schemes. It is commonly required for ETFs because they trade on the exchange.
5	ELSS (Equity Linked Savings Scheme) and mutual funds are the same thing.	ELSS is only one type of mutual fund. It is an equity fund category with a 3-year lock-in and possible tax benefit under the law.
6	High NAV means the fund is overpriced and should be avoided.	High NAV simply means the scheme has been around longer or has grown more. NAV alone does not show whether the fund is good or bad.
7	You must stay invested for a very long time; short-term investing is useless.	Mutual funds can be used for short, medium, and long horizons depending on the scheme. Liquid and overnight funds are specifically designed for short-term parking.
8	Mutual funds are only for equity/stock market investment.	Mutual funds also invest in debt, money market instruments, gold, silver, and overseas assets. Hybrid funds combine more than one asset class.
9	The fund that performed best last year will always perform best this year.	Past performance is useful information, but it is not a promise. Markets change, so a star performer in one year may not repeat next year.
10	SIP guarantees profit and eliminates all risk.	SIP is only a method of investing, not a guarantee of returns. It can reduce timing risk through averaging, but market risk remains.

Costs & Charges

Costs matter because even a small annual difference can grow over many years. Investors should always check the scheme's expense ratio, load structure, and plan type before investing.

Costs Related to Mutual Funds

Charge	What It Means
Expense Ratio / TER (Total Expense Ratio)	The annual cost charged by the scheme for management, administration, and distribution. SEBI prescribes category-wise TER limits in the mutual fund framework. Reference: SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/137 dated 22 October 2018
Exit Load	A charge applied if units are redeemed before a specified period. Equity funds often use a 1% exit load for redemptions made before one year, but the exact rule depends on the scheme. The maximum cap on Exit Load has recently been reduced from 5% to 3%. Reference 1: SEBI Master Circular for Mutual Funds dated 20 March 2026 Reference 2: SEBI Circular No. HO/24/13/15(2)2026-IMD-RAC4/I/5764/2026 dated 26 February 2026 Reference 3: SEBI Board Meeting PR No. 62/2025 dated 12 September 2025
Transaction Charges	For eligible investments routed through MFDs/distributors, SEBI permits a transaction charge framework rather than an entry load. Current SEBI rules allow it only within the prescribed structure and not for direct plans.
Direct vs Regular	Direct plans generally have lower expenses because there is no distributor commission. That difference can compound over time and may improve long-term investor returns.

Illustration: If two otherwise similar funds differ in TER (Total Expense Ratio) by 1%, the direct plan can end up with a noticeably larger corpus over 10 years because lower costs leave more money invested.

SEBI's transaction charge framework was amended again in 2025 for distributor-paid transaction charges, so investors should always check the latest scheme and distributor documentation.

How to Start Investing in Mutual Funds

This section highlights the most important practical points that Investors and Mutual Fund Distributors (MFDs) should keep in mind before investing, advising, or distributing mutual funds. These points help ensure disciplined, informed and compliant mutual fund investing.

A. 10 Most Important Points for Investors

Point	Guidance
1. Start with Clear Financial Goals	Always decide why you are investing before selecting a fund. Goals such as emergency savings, child education, retirement, or wealth creation require different types of mutual funds.
2. Understand Your Risk Appetite	Choose schemes according to your comfort with market fluctuations. Investors who panic during market falls should generally avoid very high-risk schemes initially.
3. Complete KYC Properly	Before investing, complete KYC (Know Your Customer) using PAN, Aadhaar, bank account details, and valid identity proof. Ensure the registered mobile number and email are active for OTPs, statements, and transaction alerts.
4. Choose the Right Fund Category	Match the investment horizon with the correct category. Equity funds are generally more suitable for long-term goals, while debt or liquid funds are often better for short-term needs.
5. Begin with Small Investments if You Are a Beginner	New investors often benefit from starting through SIP because it spreads investments over time and reduces pressure of market timing. SIPs also help create disciplined investing habits.
6. Invest Only Through Regulated Platforms	Use AMC websites, SEBI-registered distributors/platforms, RIAs, banks, or regulated investment apps. Avoid investing through unverified agents or unknown links.
7. Keep Emergency Money Separate	Do not invest all savings into market-linked products. Maintain an emergency fund in safer instruments such as savings accounts or liquid funds before taking equity exposure.
8. Check Expense Ratio and Exit Load	Before investing, review the scheme's expense ratio, exit load, and taxation rules. Even small annual costs can affect long-term returns significantly.
9. Review Portfolio Periodically	Track investments every six months or annually instead of checking NAV daily. Review whether the scheme still matches your goal, risk profile, and time horizon.
10. Avoid Emotional Investing	Do not panic during temporary market declines or invest aggressively after short-term rallies. Long-term discipline and patience are among the most important habits for mutual fund investors.

B. 10 Most Important Points for Mutual Fund Distributors (MFDs)

Point	Guidance
1. Understand the Investor First	MFDs should first understand the investor's goals, income, liabilities, risk appetite, and investment horizon before suggesting any product.
2. Complete KYC and Documentation Correctly	Ensure investor KYC, nominee details, bank information and FATCA (if applicable) (Foreign Account Tax Compliance Act) are completed accurately. Proper documentation smoothens the process, removes future hassles and any compliance risks arising due to improper documentation.
3. Explain Risk in Simple Language	Every mutual fund carries market risk. MFDs should clearly explain volatility, Risk-o-meter levels, and possible downside scenarios to investors in easy language.
4. Recommend Suitable Schemes Only	Recommendations should match the investor's needs and not only recent top-performing funds. Unsuitable schemes may create dissatisfaction and compliance risks.
5. Educate Investors About Types of Transactions	Distributors should help investors understand the practical use of SIP, STP, SWP, and lumpsum investing based on cash flow and goals.
6. Explain Costs and Taxation Clearly	Investors should understand expense ratio, exit load, IDCW taxation, capital gains tax, and the difference between direct and regular plans before investing.
7. Promote Goal-Based and Long-Term Investing	Encourage investors to align investments with long-term financial goals rather than chasing short-term returns or market rumours.
8. Maintain Transparency and Ethical Conduct	MFDs should disclose commissions wherever applicable and avoid unrealistic return promises or misleading performance claims.
9. Provide Periodic Portfolio Reviews	Regular reviews help investors rebalance portfolios, track progress toward goals, and understand changes in market conditions or scheme performance.
10. Stay Updated with SEBI and AMFI Rules	Distributors should regularly update themselves on SEBI circulars, AMFI guidelines, taxation changes, transaction rules, and compliance requirements.

Exchange Traded Funds (ETFs)
(Not traded on Mutual Funds Platform)

An ETF is a mutual fund-like product that trades on the stock exchange like a share. It usually tracks an index, commodity, or basket of assets and can be bought or sold during market hours.

ETFs are part of the broader passive investing family and are useful when an investor wants low cost, transparency, and exchange-traded convenience.

ETF units are bought and sold through a broker during market hours, while regular mutual funds are usually bought and sold at the fund's NAV (Net Asset Value).

AMFI notes that passive funds hold portfolios that replicate an index or benchmark, including index funds and ETFs.

Differences between Mutual Funds and ETFs

Feature	ETF	Regular Mutual Fund
Trading	Bought and sold on a stock exchange during market hours.	Purchased / redeemed with the AMC (Asset Management Company) / platform at NAV.
Price	Trades at market price during the day (intraday changes seen).	Priced at end-of-day NAV.
Demat/Folio account	Usually needs Demat account for exchange trading.	Demat not required for most schemes, can work with Folio accounts.
Liquidity	Depends on exchange trading and market spread.	Open-ended funds are typically redeemed with the fund house.
Cost	Typically lower expense ratio	May have slightly higher expenses compared to ETFs, but are easy to invest in using Folio accounts.

ETFs are useful when the investor wants exchange-traded convenience and low-cost passive exposure. Regular mutual funds are usually easier for systematic investing and do not require market orders.

Types of ETFs in India

ETF Type	Description
Equity ETFs	Track equity indices such as Nifty 50, Sensex, Nifty Next 50, or sector indices. They are commonly used by investors who want broad market exposure at low cost.
Debt ETFs	Invest in fixed-income baskets; Bharat Bond ETF is a widely known example in India. They are useful for investors who want bond exposure in an exchange-traded format.
Gold ETFs	Provide exposure to gold prices without needing to hold physical gold.

Silver ETFs	Work similarly like Gold ETFs, but track silver prices instead.
International ETFs	Track foreign indices, themes, or overseas baskets. They allow Indian investors to access global diversification through a domestic exchange-listed product.

How to Invest in ETFs

To buy an ETF, an investor usually needs a Demat and trading account. Orders are placed on the exchange through a broker, just like a stock.

Advantages of ETFs

- Low expense ratio compared with many active funds.
- Can be bought and sold during market hours.
- Transparent holdings and benchmark tracking.
- Useful for passive investors who want simple diversification.

Who Should Invest in ETFs?

They are often attractive for long-term passive investors, especially those who prefer low-cost index exposure.

Key Regulatory Information (SEBI & AMFI)

Role of SEBI: SEBI regulates mutual funds under the SEBI (Mutual Funds) Regulations, 1996 and its later amendments. It sets rules for scheme categorization, disclosure, valuation, and investor protection so that mutual fund products are not sold in an opaque way.

Role of AMFI: AMFI is the industry body of mutual funds in India. It supports investor education, coordinates industry practices, and uses the ARN (AMFI Registration Number) framework for distributors.

Investor grievance redressal: Investors can raise complaints through AMC investor service centres, registrar and transfer agents (RTAs), and SEBI's SCORES platform. Escalating unresolved complaints through formal channels helps protect investor rights.

Disclaimer note: AMFI's standard warning is, "Mutual Fund investments are subject to market risks, read all scheme related documents carefully." Mutual fund brochures, factsheets, SIDs, and KIMs should always be read before investing.

Glossary of Key Terms

Term	Simple Definition
AMC	Asset Management Company. The company that manages mutual fund schemes and investment operations.
Arbitrage	A strategy of buying in one market and selling in another to profit from the price difference.
AUM	Assets Under Management. The total market value of money invested in a fund or fund house.
Benchmark	A reference index used to compare a scheme's performance.
CAGR	Compounded Annual Growth Rate. A way to show average annual growth over multiple years.
Close-ended Fund	A fund with a fixed maturity date and limited subscription period.
Corpus	The total pool of money collected and invested in a scheme.
Custodian	An institution that holds and safeguards the securities owned by the mutual fund.
Direct Plan	A plan where the investor invests directly with the fund house, without a distributor commission.
Distributor	An intermediary who helps investors choose and invest in mutual funds.
Diversification	Spreading money across different assets to reduce concentration risk.
ELSS	Equity Linked Savings Scheme. An equity fund category that may provide tax benefits under the law.
Entry Load	A charge taken when money is invested into a scheme. It is generally not levied in many current retail mutual fund schemes.
Exit Load	A charge applied when units are redeemed within a specified period.
Expense Ratio	The annual fee charged by the fund for managing the scheme.
Fund Manager	The person responsible for selecting and managing the portfolio.
IDCW	Income Distribution cum Capital Withdrawal. A distribution option where the scheme may distribute income or capital, subject to availability.

Glossary of Key Terms

Index Fund	A passive fund that tries to replicate a benchmark index.
KYC	Know Your Customer. Identity verification required before investing.
Lumpsum	A one-time investment of a larger amount.
NAV	Net Asset Value. The per-unit price of a mutual fund scheme.
NFO	New Fund Offer. The initial period when a new scheme is offered to investors.
Open-ended Fund	A fund that can be bought or redeemed on business days at NAV.
Portfolio	The collection of securities held by a fund.
Redemption	Selling mutual fund units back to the scheme to get money out.
Registrar & Transfer Agent (RTA)	The agency that processes investor records, transactions, and statements.
Regular Plan	A plan where investments are routed through a distributor or intermediary, with distribution costs included.
Risk-o-Meter	A visual risk indicator used to show the risk level of a scheme.
SEBI	Securities and Exchange Board of India, the regulator of India's securities market.
SIP	Systematic Investment Plan. A method of investing fixed amounts at regular intervals.
STP	Systematic Transfer Plan. A method of moving money periodically from one scheme to another.
SWP	Systematic Withdrawal Plan. A method of withdrawing fixed amounts from a scheme regularly.
TER	Total Expense Ratio. The total annual cost charged by a scheme as a percentage of assets.
Trustee	The entity that supervises the AMC and protects unitholders' interests.
Unit	A fractional ownership claim in a mutual fund scheme.
Volatility	The extent to which prices move up and down over time.

Disclaimer & Sources

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

This brochure is for educational purposes only and does not constitute investment advice.

Content verified as per information available on AMFI (amfiindia.com) and SEBI (sebi.gov.in) as of 2026-05-16.

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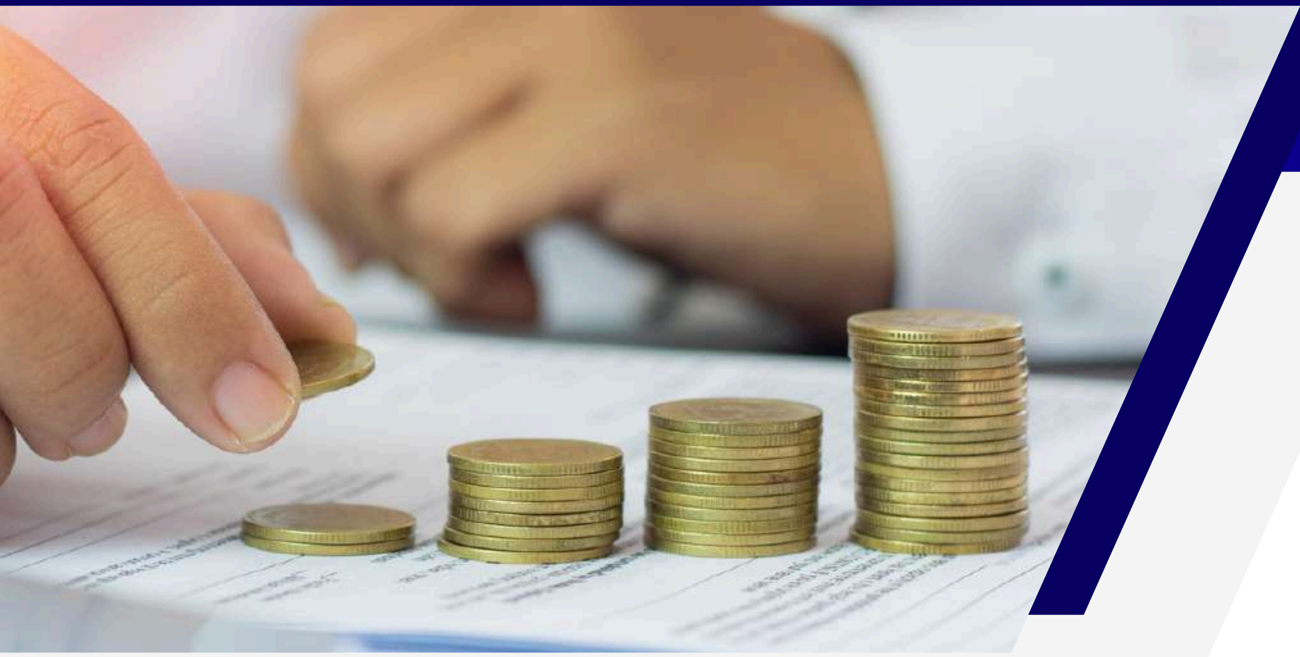

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