UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series V-A

Mutual Fund Distributors

The licence to distribute mutual funds in India. Twelve units, taught as concepts, examples and traps.

100 QUESTIONS · 120 MINUTES · PASS 50% · 12 UNITS

UpperCrust Academy · ucwacademy.in · Free for every learner · Edition 2026

ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series V-A is the mandatory certification for anyone who sells or advises on mutual fund schemes in India as a distributor. This guide follows the official twelve-unit outline and turns each unit into short concept cards you can read, say aloud and test.

100	120 min	50%	None
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Aspiring and existing mutual fund distributors, relationship managers, bank staff, advisers and anyone who wants a complete grounding in how mutual funds work, are sold and are regulated in India.

How this guide works



Each unit opens with its exam weight, so you know where marks are. Each concept card gives the idea, a worked example, and the mistake the exam wants you to make. The same ideas power the five mock tests on the UpperCrust Academy app, which get harder one by one.

Keep this in mind

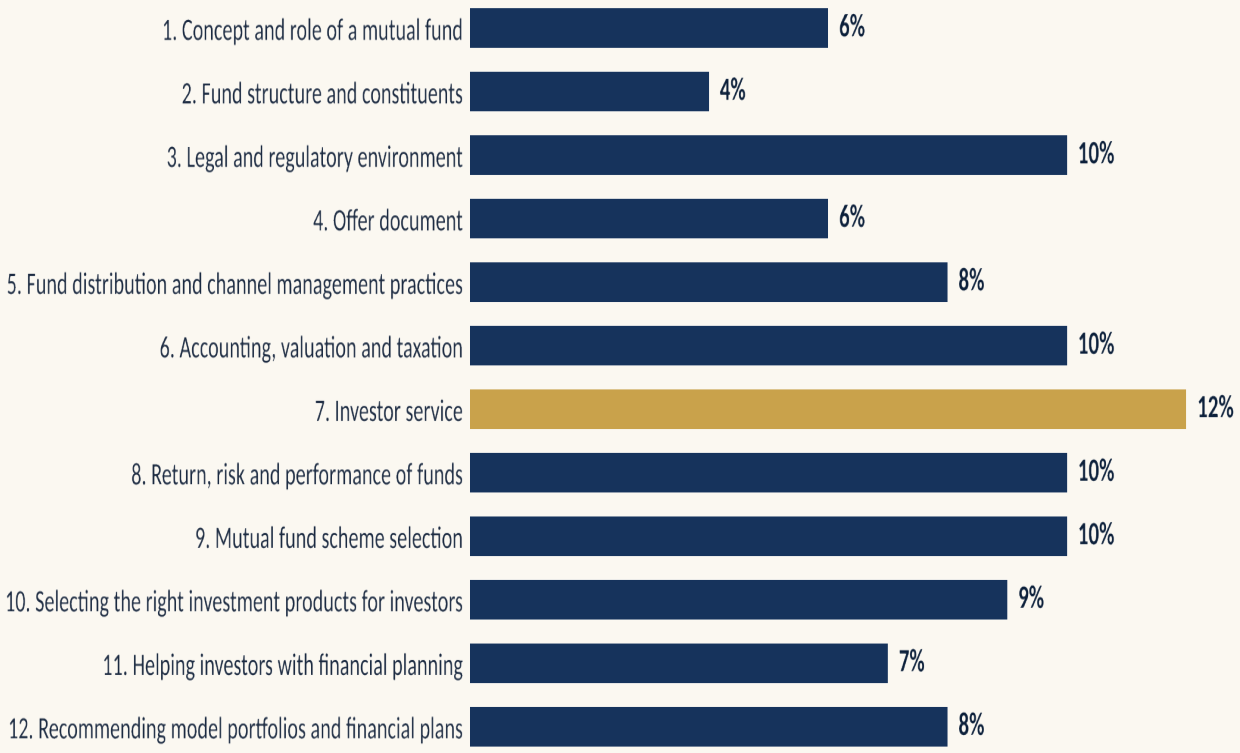
NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	Computer-based, multiple-choice questions
Questions and marks	100 questions, 1 mark each, 100 marks
Duration	2 hours
Passing score	50 marks (50%)
Negative marking	None. Always attempt every question.
Certificate validity	Three years; renew through NISM before it lapses
Where it leads	AMFI registration (ARN) to distribute mutual funds

Where the marks are



Read the chart like an examiner

Units above 10% decide most results. Master them first, then use the small units for easy marks. A unit worth 3% still supplies three marks at no extra effort once you have the concepts.

YOUR STUDY PLAN

Time follows marks.

The bar shows how the exam is split across units. Spend your hours in the same proportion.



Unit	Marks	Share of study time	Suggested days
1. Concept and role of a mutual fund	6	6%	1
2. Fund structure and constituents	4	4%	1
3. Legal and regulatory environment	10	10%	2
4. Offer document	6	6%	1
5. Fund distribution and channel management practices	8	8%	2
6. Accounting, valuation and taxation	10	10%	2
7. Investor service	12	12%	3
8. Return, risk and performance of funds	10	10%	2
9. Mutual fund scheme selection	10	10%	2
10. Selecting the right investment products for investors	9	9%	2
11. Helping investors with financial planning	7	7%	1
12. Recommending model portfolios and financial plans	8	8%	2
Revision and five mocks			7

The mock ladder

1 Mock 1 Foundation → 2 Mock 2 Core → 3 Mock 3 Applied → 4 Mock 4 Exam level → 5 Mock 5 Beyond exam

Take Mock 1 after your first pass through the guide. Move to the next mock only when you score 15 marks above the pass mark. Review every wrong answer in the app; each one links back to its unit.

UNIT 1 · 6% OF THE EXAM

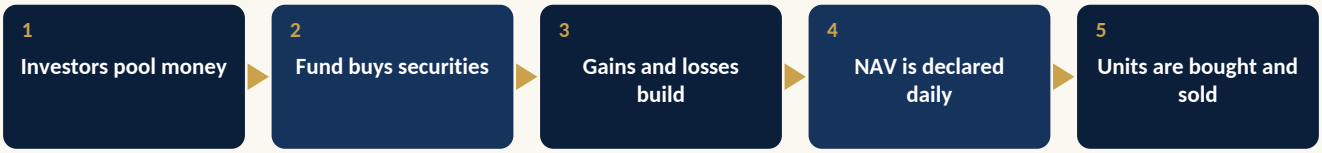
Concept and role of a mutual fund

A mutual fund pools money from many investors and invests it in securities under professional management. Unit 1 builds the vocabulary everything else rests on: units, NAV, diversification and why a fund is not a guarantee.

What the exam looks for

- Why pooling gives small investors access to diversified portfolios.
- How NAV changes and what it does not tell you.
- The difference between a mutual fund and a bank deposit.
- Types of funds by structure: open-ended, closed-ended, interval.

How a mutual fund works



Concept cards

01

Mutual fund

A mutual fund is a trust that pools money from many investors and invests it in securities such as shares and bonds, managed by professionals for the benefit of unit holders.

EXAMPLE Two hundred small investors put in ₹5,000 each and one team invests the combined sum across many companies.

WATCH OUT Not true: a mutual fund guarantees a fixed return to every investor.

02

Unit

A unit is the smallest share of a mutual fund scheme's portfolio that an investor owns. The number of units held shows the investor's proportional ownership.

EXAMPLE An investor puts in ₹10,000 when the NAV is ₹20 and receives 500 of these.

WATCH OUT Not true: each unit always stays worth ₹10.

03

Net Asset Value (NAV)

NAV is the per-unit value of a scheme: total market value of its assets less its liabilities, divided by the number of units outstanding.

EXAMPLE A scheme has assets of ₹520 crore, liabilities of ₹20 crore and 25 crore units, so this is ₹20.

WATCH OUT Not true: a fund with a low NAV is cheaper and therefore a better buy.

04

Diversification

Diversification means spreading investments across many securities, sectors or asset classes so that a fall in one has a limited effect on the whole portfolio.

EXAMPLE A scheme holds 50 stocks across many sectors, so one company's collapse barely moves its NAV.

WATCH OUT Not true: diversification removes all risk from a portfolio.

05

Professional management

Professional management means a qualified fund manager and research team select and monitor securities for the scheme, for a fee charged as part of the expense ratio.

EXAMPLE An investor with no time for research relies on a team that tracks companies full time.

WATCH OUT Not true: professional management guarantees returns above the market.

06

Open-ended scheme

An open-ended scheme accepts purchases and redemptions at NAV on every business day after launch and has no fixed maturity.

EXAMPLE An investor can buy more units or redeem on any working day long after the launch.

WATCH OUT Not true: an open-ended scheme can be redeemed only on maturity.

07

Closed-ended scheme

A closed-ended scheme has a fixed maturity and units are bought during the NFO only; investors exit at maturity or by selling on a stock exchange where listed.

EXAMPLE A scheme with a three-year maturity lets investors in only during the launch period.

WATCH OUT Not true: a closed-ended scheme allows fresh purchases daily from the fund house.

08

Interval scheme

An interval scheme combines open and closed features: units can be bought or redeemed only during specified intervals, and units are listed on exchanges.

EXAMPLE A scheme allows transactions only during two intervals each year.

WATCH OUT Not true: an interval scheme lets investors transact on any day.

09

Risk in mutual funds

Mutual fund investments are subject to market risk. The value of units can rise and fall, and past performance does not assure future results.

EXAMPLE An investor sees her equity fund fall 12% in a month during a market correction.

WATCH OUT Not true: mutual funds are as safe as a bank fixed deposit.

10

Liquidity

Liquidity in mutual funds means that units of open-ended schemes can be redeemed on any business day at the applicable NAV, subject to exit loads and settlement time.

EXAMPLE An investor needs cash and redeems units of an open-ended scheme, receiving payment in a few working days.

WATCH OUT Not true: all mutual fund units can be encashed instantly at any hour.

11

Transparency

Mutual funds disclose NAV daily, portfolios monthly and factsheets regularly, so investors can see where their money is invested.

EXAMPLE An investor reads last month's portfolio holdings published by the fund house.

WATCH OUT Not true: fund houses are not required to publish their holdings.

12

Economies of scale

Economies of scale mean that large pooled funds can buy securities in bulk and spread costs, lowering per-unit costs for investors.

EXAMPLE A big pooled fund pays lower dealing costs per rupee than a small individual investor.

WATCH OUT Not true: pooling increases the cost per unit for every investor.

Unit recap · one line each

Mutual fund · Unit · Net Asset Value (NAV) · Diversification · Professional management · Open-ended scheme · Closed-ended scheme · Interval scheme · Risk in mutual funds · Liquidity · Transparency · Economies of scale

UNIT 2 · 4% OF THE EXAM

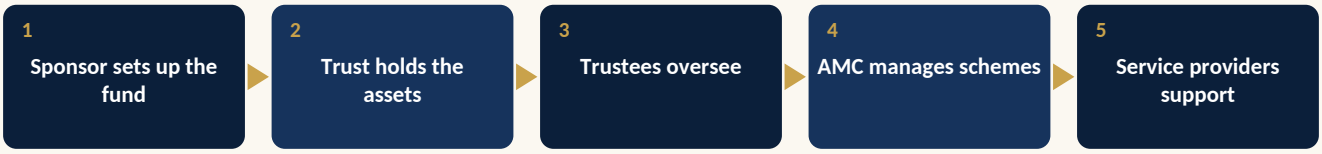
Fund structure and constituents

In India a mutual fund has a three-tier structure of sponsor, trust and asset management company, supported by service providers. This unit teaches who does what, and who checks whom.

What the exam looks for

- The role of the sponsor, trustees and AMC.
- Custodian, registrar and transfer agent duties.
- Why independence of trustees and directors matters.

Three-tier structure



Concept cards

01

Sponsor

The sponsor is the person or entity that sets up the mutual fund and establishes the trust. It must meet SEBI's track-record and net-worth conditions.

EXAMPLE A bank group creates a new fund house and registers its trust with SEBI.

WATCH OUT Not true: the sponsor manages the investments of each scheme day to day.

02

Trustees

Trustees hold the fund's property in trust for unit holders and supervise the AMC. At least two-thirds of the trustees must be independent of the sponsor.

EXAMPLE A board looks after investor interests and reviews the AMC's compliance reports.

WATCH OUT Not true: trustees decide which stocks the schemes buy.

03

Asset Management Company (AMC)

The AMC is appointed by the trustees to manage the schemes' investments and operations. At least half of its directors must be independent of the sponsor.

EXAMPLE A company runs the fund's portfolios and employs the fund managers.

WATCH OUT Not true: the AMC holds the securities of the schemes.

04

Custodian

The custodian safekeeps the securities and settles the trades of the schemes, and is independent of the sponsor.

EXAMPLE An institution holds the scheme's shares in its safekeeping and handles delivery.

WATCH OUT Not true: the custodian selects which securities the fund buys.

05

Registrar and Transfer Agent (RTA)

The RTA maintains unit holders' records, processes purchases and redemptions, and sends statements on behalf of the AMC.

EXAMPLE An agency updates investor folios and dispatches account statements.

WATCH OUT Not true: the RTA calculates the portfolio's investment strategy.

06

Fund accountant and auditor

The fund accountant maintains the scheme's books and computes NAV, while auditors independently audit the accounts.

EXAMPLE A firm prepares the scheme's accounts and an independent firm audits them.

WATCH OUT Not true: the AMC may appoint the sponsor's auditor to the scheme.

07

Sponsor's contribution

The sponsor must contribute at least 40% of the net worth of the AMC.

EXAMPLE A sponsor holds 40% of the AMC's net worth when the fund house is set up.

WATCH OUT Not true: the sponsor need not contribute to the AMC's net worth.

08

Mutual fund as a trust

In India a mutual fund is constituted as a public trust under the Indian Trusts Act, and the trust is registered with SEBI.

EXAMPLE A fund house sets up its mutual fund as a registered public trust.

WATCH OUT Not true: a mutual fund in India is incorporated as a company.

Unit recap · one line each

Sponsor · Trustees · Asset Management Company (AMC) · Custodian · Registrar and Transfer Agent (RTA) · Fund accountant and auditor · Sponsor's contribution · Mutual fund as a trust

UNIT 3 · 10% OF THE EXAM

Legal and regulatory environment

Mutual funds are among the most regulated products in India. This unit covers SEBI, AMFI, the rules distributors must follow, the scheme categories, disclosures and investor grievance routes.

What the exam looks for

- SEBI's role and the SEBI (Mutual Funds) Regulations.
- AMFI, ARN, EUIN and the Code of Conduct.
- SEBI's scheme categorisation and riskometer.
- Disclosures, KYC and grievance redressal.

Who regulates what

Body	Role
SEBI	Statutory regulator of mutual funds and the securities market
AMFI	Industry body; issues ARN, sets Code of Conduct, publishes NAVs
NISM	Runs the certification examinations
RBI	Regulates banks and some money-market instruments

Concept cards

01

SEBI

The Securities and Exchange Board of India is the statutory regulator that registers and regulates mutual funds and protects investors under the SEBI (Mutual Funds) Regulations, 1996.

EXAMPLE A fund house must obtain a certificate of registration before launching schemes.

WATCH OUT Not true: aMFI is the statutory regulator of mutual funds.

02

AMFI

The Association of Mutual Funds in India is the industry body of AMCs. It sets best practices, issues the ARN to distributors, and publishes the daily NAVs.

EXAMPLE A distributor applies for a registration number through the industry association.

WATCH OUT Not true: aMFI makes the laws that bind mutual funds.

03

ARN

The AMFI Registration Number is a unique number issued to a distributor who has passed the NISM certification and follows the Code of Conduct. It must be renewed periodically.

EXAMPLE A certified distributor quotes her unique registration number on every application.

WATCH OUT Not true: a distributor needs no registration to sell mutual funds.

04

EUIN

The Employee Unique Identification Number identifies the individual employee or relationship manager who advises on a transaction, even when an ARN of the firm is used.

EXAMPLE A bank's relationship manager's own code is entered on the investor's form.

WATCH OUT Not true: an EUIN is allotted to every investor on investing.

05

Scheme categorisation

SEBI groups schemes into equity, debt, hybrid, solution oriented and other categories with defined definitions, and each AMC may offer only one scheme per category, with a few exceptions.

EXAMPLE A fund house cannot launch two large-cap schemes that differ only in name.

WATCH OUT Not true: aMCs can name and define scheme types as they like.

06

Riskometer

The riskometer shows a scheme's risk on six levels: low, low to moderate, moderate, moderately high, high and very high, and is updated based on portfolio risk.

EXAMPLE A scheme's cover page displays a dial pointing to very high.

WATCH OUT Not true: the riskometer has only three levels: low, medium and high.

07

Fundamental attribute change

A change in a scheme's fundamental attributes needs a written notice to unit holders and an exit option at the prevailing NAV without exit load for at least 30 days.

EXAMPLE A fund house changes a scheme's investment objective and gives holders a window to leave free of exit load.

WATCH OUT Not true: fund houses can change fundamental attributes without informing investors.

08

Portfolio disclosure

Mutual funds publish portfolios of all schemes monthly on their websites and with AMFI, and publish the half-yearly financial results.

EXAMPLE An investor checks last month's holdings on a fund house's site.

WATCH OUT Not true: portfolios are disclosed once a year only.

09

Cash investment limit

An investor can invest in cash in a mutual fund up to ₹50,000 per investor per mutual fund per financial year.

EXAMPLE A person tries to invest ₹80,000 in cash in one fund house in a year.

WATCH OUT Not true: there is no limit on investing in cash.

10

KYC

Know Your Customer is mandatory for all mutual fund investors. It verifies identity and address, and the records are kept with a KYC registration agency.

EXAMPLE A first-time investor is asked for PAN, address proof and a photograph.

WATCH OUT Not true: kYC is required only for investments above ₹10 lakh.

11

Stamp duty on units

Stamp duty is charged at 0.005% on the purchase of mutual fund units, including switches and SIP instalments.

EXAMPLE An investor sees a tiny deduction at the time units are allotted.

WATCH OUT Not true: stamp duty is charged on units only when redeemed.

12

SEBI SCORES / ODR

Investors can file complaints against AMCs and intermediaries through SEBI's complaint system, and use the online dispute resolution platform if not satisfied.

EXAMPLE A holder whose redemption was delayed lodges a complaint online with the regulator.

WATCH OUT Not true: complaints against AMCs can be made only to the sponsor.

13

Code of Conduct

AMFI's Code of Conduct requires distributors to act honestly, disclose commissions, give suitable advice, and not mislead investors.

EXAMPLE A distributor tells the client the commission he earns on the scheme.

WATCH OUT Not true: the Code of Conduct allows promising assured returns.

14

Product labelling

Each scheme's cover and advertisements must describe the product in plain language: what the scheme is, suited for whom, and what risk level applies.

EXAMPLE A scheme's documents say it is suited to investors seeking long-term growth and carries very high risk.

WATCH OUT Not true: product labels are optional for equity schemes.

Unit recap · one line each

SEBI · AMFI · ARN · EUIN · Scheme categorisation · Riskometer · Fundamental attribute change · Portfolio disclosure · Cash investment limit · KYC · Stamp duty on units · SEBI SCORES / ODR · Code of Conduct · Product labelling

UNIT 4 · 6% OF THE EXAM

Offer document

Before investing, an investor should read the scheme's offer document. This unit teaches the SID, SAI, NFO process and what each contains.

What the exam looks for

- SID, SAI and what each contains.
- NFO rules: price, period, allotment.
- Where the scheme's risk factors, load and asset allocation are found.

Concept cards

01

Scheme Information Document (SID)

The SID contains scheme-specific details: investment objective, asset allocation, strategy, risk factors, load structure, benchmark and fees.

EXAMPLE An investor wants to know the scheme's asset allocation and exit load before investing.

WATCH OUT Not true: the SID contains only the fund house's history.

02

Statement of Additional Information (SAI)

The SAI holds information common to the fund house and all its schemes: constitution, sponsor, trustees, AMC, service providers and legal details.

EXAMPLE A reader wants the sponsor's and trustees' details, not any one scheme's.

WATCH OUT Not true: the SAI contains details of only a single scheme.

03

Key Information Memorandum (KIM)

The KIM is a short summary of the SID and SAI given with the application form so investors see the essentials first. SEBI has since moved towards a standard scheme summary document with the same purpose.

EXAMPLE A short summary document is attached to the application form.

WATCH OUT Not true: the KIM replaces the need for any offer document.

04

New Fund Offer (NFO)

An NFO is the initial offer of a new scheme's units to the public. The offer period cannot exceed 15 days.

EXAMPLE A fund house opens subscription for a newly launched scheme for two weeks.

WATCH OUT Not true: an NFO can stay open for six months.

05

NFO price

Units in an NFO are typically offered at ₹10 each, with no assurance that this is a better price than existing schemes' NAV.

EXAMPLE An investor assumes a ₹10 unit is cheaper than a ₹50 unit in another scheme.

WATCH OUT Not true: a scheme at ₹10 is cheaper in value than one at ₹50.

06 Allotment timeline

Units must be allotted and refunds, if any, paid within five working days from the closure of the NFO.

EXAMPLE The NFO closes and units are allotted a few working days later.

WATCH OUT Not true: allotment can be made after two months.

07 Asset allocation pattern

The SID states the proportion of the scheme's assets to be held in each asset class and the permissible ranges, which are binding on the fund manager.

EXAMPLE A debt scheme's document says at least 80% will be in a certain type of paper.

WATCH OUT Not true: the fund manager can ignore the stated asset allocation.

08 Scheme-specific risk factors

The offer document lists the risks specific to the scheme, such as credit risk for debt schemes, so that investors make informed decisions.

EXAMPLE A debt fund's document warns about downgrade of issuers' ratings.

WATCH OUT Not true: risk factors are required only for equity schemes.

Unit recap · one line each

Scheme Information Document (SID) · Statement of Additional Information (SAI) · Key Information Memorandum (KIM) · New Fund Offer (NFO) · NFO price · Allotment timeline · Asset allocation pattern · Scheme-specific risk factors

UNIT 5 · 8% OF THE EXAM

Fund distribution and channel management practices

Distributors are the bridge between investors and AMCs. This unit covers channels, plans, commissions, mis-selling and the practices expected of a professional.

What the exam looks for

- Direct versus regular plans.
- Trail commission and how distributors are paid.
- Mis-selling, churning and suitability.

Direct versus regular plan

	Direct plan	Regular plan
Route	Directly with the AMC	Through a distributor
Commission	None	Paid to distributor from the scheme
Expense ratio	Lower	Higher by the commission
NAV	Higher over time	Lower over time

Concept cards

01

Direct plan

A direct plan is bought directly from the AMC without a distributor, so no commission is paid and the expense ratio is lower.

EXAMPLE An investor buys directly from the fund house's website and pays no distributor commission.

WATCH OUT Not true: a direct plan always earns higher returns than a regular plan in every period.

02

Regular plan

A regular plan is bought through a distributor, who is paid a commission from the scheme's expense ratio, making its expense ratio higher than the direct plan's.

EXAMPLE An investor buys through an adviser who is paid from the scheme's costs.

WATCH OUT Not true: a regular plan has the same expense ratio as the direct plan.

03

Trail commission

Trail commission is paid to a distributor as long as the investor stays invested, usually as a percentage of the assets he has brought in.

EXAMPLE A distributor earns a small percentage every year on the client's holding.

WATCH OUT Not true: trail commission is paid only once, on the day of investing.

04

Upfront commission

SEBI has banned upfront commission to distributors; commissions are now paid on a trail basis, to align the distributor's interest with the investor's.

EXAMPLE A distributor cannot take a lump sum at the time of purchase.

WATCH OUT Not true: distributors can still take a large upfront commission.

05

Mis-selling

Mis-selling is selling a product that is unsuitable for the client or by misrepresenting its features, risk or returns.

EXAMPLE A distributor sells a high-risk equity fund to a retired client who needs safety by promising assured returns.

WATCH OUT Not true: mis-selling happens only when the product is illegal.

06

Churning

Churning is persuading an investor to frequently switch schemes mainly to earn the distributor more commission, with little or no benefit to the investor.

EXAMPLE A distributor shifts a client's money between schemes every month without any reason.

WATCH OUT Not true: churning benefits the investor through lower costs.

07

Suitability

Suitability means recommending a product that fits the client's goals, risk profile, time horizon and financial situation.

EXAMPLE A distributor checks a client's horizon and risk tolerance before suggesting a scheme.

WATCH OUT Not true: suitability is determined only by the scheme's past return.

08

Disclosure of commission

A distributor must disclose to the investor all commissions received from the AMC for the transaction, in a transparent manner.

EXAMPLE A distributor tells the client how much she will earn on the recommended scheme.

WATCH OUT Not true: commissions are confidential and need not be disclosed.

09

Distributor channels

Mutual fund distribution channels include independent financial advisers, national distributors, banks, and online platforms and direct AMC routes.

EXAMPLE A client may invest through a bank branch, an independent adviser or an app.

WATCH OUT Not true: the only channel to buy mutual funds is a bank branch.

10

Segregation of roles

A person cannot be both a registered investment adviser and a distributor for the same client; roles and fees must be kept clearly separate to avoid conflicts of interest.

EXAMPLE An adviser charging fees to a client cannot also earn distribution commission from the same client.

WATCH OUT Not true: an adviser can charge a fee and also take commission from the same client.

11

Know Your Distributor

AMCs carry out due diligence on distributors and check that their ARN, certification and code compliance are valid before accepting business.

EXAMPLE An AMC checks that the distributor's registration is valid before paying commission.

WATCH OUT Not true: aMCs pay commissions without checking the distributor's registration.

Unit recap · one line each

Direct plan · Regular plan · Trail commission · Upfront commission · Mis-selling · Churning · Suitability · Disclosure of commission · Distributor channels · Segregation of roles · Know Your Distributor

UNIT 6 · 10% OF THE EXAM

Accounting, valuation and taxation

How is NAV worked out, what costs are charged to investors, and how are gains taxed? This unit mixes formulas with rules and is heavily tested.

What the exam looks for

- NAV calculation and valuation of securities.
- Expense ratio and exit load.
- Taxation of equity, debt and hybrid funds.

FORMULA · NAV

NAV = (Market value of investments + other assets − liabilities and expenses) ÷ number of units outstanding

20%	12.5%	₹1.25L	12 mo
STCG EQUITY	LTCG EQUITY	LTCG EXEMPT	EQUITY LT

Concept cards

01 NAV calculation

NAV equals the market value of the scheme's assets less its liabilities, divided by units outstanding, and is declared every business day.

EXAMPLE A scheme's net assets are ₹1,000 crore and it has 50 crore units outstanding, so the value per unit is ₹20.

WATCH OUT Not true: nAV is declared once a week.

02 Equity valuation

Listed equity shares are valued at the closing price on the principal stock exchange on the valuation day.

EXAMPLE A scheme values its holding of a listed company at the exchange closing price.

WATCH OUT Not true: shares are valued at the price at which they were bought.

03 Debt valuation

Debt securities are valued at prices provided by SEBI-approved valuation agencies appointed by AMFI, to ensure uniform valuation across funds.

EXAMPLE Two fund houses holding the same bond use the same price from an independent agency.

WATCH OUT Not true: each AMC values bonds as it sees fit.

04 Total expense ratio (TER)

TER is the annual percentage of a scheme's average assets charged for management, distribution and operating costs, and it is reflected in the daily NAV.

EXAMPLE A scheme's NAV is net of annual running charges that fund investors never see as a bill.

WATCH OUT Not true: tER is deducted separately from the investor's bank account.

05

Slab-wise TER

SEBI sets maximum TER slabs that fall as a scheme's assets under management grow, so larger schemes charge a lower percentage.

EXAMPLE A very large scheme is permitted a lower maximum expense ratio than a small one.

WATCH OUT Not true: the maximum TER rises as the scheme grows.

06

Exit load

Exit load is a charge levied when units are redeemed within a stated period. It is credited to the scheme, not kept by the AMC.

EXAMPLE An investor redeems within a year and has 1% deducted from the proceeds, which is returned to the scheme.

WATCH OUT Not true: exit load is paid to the distributor.

07

Entry load

SEBI has abolished entry load; no fee can be deducted from the investor's money at the time of purchase.

EXAMPLE An investor invests ₹10,000 and all of it is invested, with none deducted as load.

WATCH OUT Not true: entry load of 2.25% is still allowed on purchases.

08

STCG on equity funds

Gains on equity-oriented funds sold within 12 months are short-term and taxed at 20%.

EXAMPLE An investor sells an equity fund after eight months and pays the short-term rate.

WATCH OUT Not true: short-term equity gains are exempt from tax.

09

LTCG on equity funds

Gains on equity-oriented funds held over 12 months are taxed at 12.5% on the amount above ₹1.25 lakh in a financial year.

EXAMPLE An investor's long-term gain in a year is ₹3 lakh and only the portion above the exemption is taxed.

WATCH OUT Not true: long-term equity gains are taxed from the first rupee.

10

Equity-oriented fund

For tax purposes, an equity-oriented fund invests at least 65% of its assets in equity shares of domestic companies.

EXAMPLE A scheme holding 70% in domestic shares qualifies for equity tax treatment.

WATCH OUT Not true: a scheme with 40% equity is equity-oriented.

11

Specified mutual fund

A specified mutual fund invests more than 65% in debt and money-market instruments. Gains on units bought from April 2023 are taxed at the investor's slab rate regardless of holding period.

EXAMPLE A debt fund bought in 2024 and held for four years is taxed at the investor's slab rate.

WATCH OUT Not true: a debt fund held beyond three years gets indexation benefit.

12

IDCW taxation

Income distribution cum capital withdrawal payouts are added to the investor's income and taxed at the slab rate, with TDS where applicable.

EXAMPLE An investor receives a dividend from a scheme and adds it to total income.

WATCH OUT Not true: iDCW is tax-free in the hands of all investors.

13

STT

Securities Transaction Tax is levied on the redemption of equity-oriented fund units; there is no STT on purchase, and none on debt funds.

EXAMPLE An investor sells equity fund units and a small tax is deducted on the sale value.

WATCH OUT Not true: sTT is charged on every purchase of mutual fund units.

14

Ex-dividend NAV effect

When an IDCW is paid, the scheme's NAV falls by the amount paid, so the investor's wealth is unchanged before tax.

EXAMPLE A scheme pays ₹2 per unit and its NAV drops by ₹2 the same day.

WATCH OUT Not true: iDCW is extra money that does not reduce NAV.

Unit recap · one line each

NAV calculation · Equity valuation · Debt valuation · Total expense ratio (TER) · Slab-wise TER · Exit load · Entry load · STCG on equity funds · LTCG on equity funds · Equity-oriented fund · Specified mutual fund · IDCW taxation · STT · Ex-dividend NAV effect

UNIT 7 · 12% OF THE EXAM

Investor service

This is the practical heart of the exam: how transactions work. Cut-off times, applicable NAV, SIP, STP, SWP, nomination, transmission and statements are all in here.

What the exam looks for

- Cut-off times and applicable NAV.
- SIP, STP, SWP and switch.
- Nomination, joint holders, minors and transmission.
- Account statements and redemption timelines.

Cut-off times (typical)

Transaction	Cut-off	NAV applied
Equity/debt purchase, funds available before cut-off	3:00 pm	Same-day NAV
Equity/debt purchase after cut-off	After 3:00 pm	Next business day NAV
Liquid and overnight purchase, funds available before cut-off	1:30 pm	Previous business day NAV
Redemption	3:00 pm	Same-day NAV if before cut-off

Concept cards

01

Cut-off time

The cut-off time is the time of day by which a valid application with funds must be received to get that day's NAV. For most schemes it is 3:00 pm.

EXAMPLE An investor submits an application at 2:30 pm with funds available and gets that day's NAV.

WATCH OUT Not true: applications received at 6 pm get the same day's NAV.

02

Applicable NAV

The NAV applied to a transaction depends on the cut-off time and when the funds are available for use by the scheme, not just when the application is made.

EXAMPLE A purchase made before cut-off but with funds credited next day takes the later day's NAV.

WATCH OUT Not true: the NAV applied is always the one on the day of the cheque.

03

SIP

A Systematic Investment Plan invests a fixed amount at regular intervals, which averages the purchase cost and builds discipline.

EXAMPLE An investor invests ₹5,000 on the 5th of every month into the same scheme.

WATCH OUT Not true: a SIP guarantees profit at the end of the term.

04

Rupee cost averaging

Rupee cost averaging means a fixed amount buys more units when NAV is low and fewer when it is high, lowering the average cost per unit over time.

EXAMPLE A SIP buys more units during a fall in the market.

WATCH OUT Not true: rupee cost averaging ensures there will never be a loss.

05

STP

A Systematic Transfer Plan transfers a fixed amount at regular intervals from one scheme to another within the same fund house.

EXAMPLE An investor moves ₹10,000 monthly from a liquid fund to an equity fund of the same AMC.

WATCH OUT Not true: an STP moves money to the investor's bank account.

06

SWP

A Systematic Withdrawal Plan redeems a fixed amount of units at regular intervals, giving the investor a regular cash flow.

EXAMPLE A retiree redeems units worth ₹20,000 on the first of every month for expenses.

WATCH OUT Not true: an SWP is a plan to buy units regularly.

07

Switch

A switch is moving investment from one scheme to another, or between plans or options in the same scheme; it is treated as redemption and fresh purchase.

EXAMPLE An investor shifts from a large-cap fund to a debt fund of the same AMC.

WATCH OUT Not true: a switch has no tax or load implications.

08

Nomination

Nomination lets a holder name a person who will receive the units on the holder's death. Nominees are not the legal owners; they hold the proceeds for the legal heirs.

EXAMPLE An investor names her spouse so the units pass on smoothly if she dies.

WATCH OUT Not true: a nominee becomes the permanent legal owner of the units.

09

Joint holding modes

In 'anyone or survivor' mode, any holder can operate the folio; in 'joint', all must sign. On a holder's death the units go to the survivors.

EXAMPLE A couple opens a folio where either can redeem alone.

WATCH OUT Not true: in 'anyone or survivor' mode all holders must sign each redemption.

10

Minor investor

A minor's folio is operated by a guardian, and when the minor turns 18 a fresh KYC is needed, and the guardian's operation stops.

EXAMPLE A father invests on behalf of his twelve-year-old daughter.

WATCH OUT Not true: a minor can redeem without a guardian.

11

Lien

A lien is a charge marked on units, for example when pledged as security for a loan, so they cannot be redeemed until the lien is removed.

EXAMPLE An investor's units are marked as security for a loan, and cannot be sold.

WATCH OUT Not true: a lien means the units have been sold.

12

Transmission

Transmission is the transfer of units to the legal heirs or surviving holders on the death of a holder, supported by documents like the death certificate.

EXAMPLE After the death of a sole holder, the nominee submits the death certificate to claim the units.

WATCH OUT Not true: transmission is the same as a switch.

13

Redemption timeline

Redemption proceeds must generally be paid within three working days of the transaction date for most schemes; liquid funds may be quicker.

EXAMPLE An investor sells units today and expects to receive money in a few working days.

WATCH OUT Not true: redemption proceeds can take two months.

14

Consolidated Account Statement (CAS)

A single statement covering all of an investor's mutual fund holdings across AMCs, sent monthly if there were transactions, otherwise half-yearly.

EXAMPLE An investor receives one statement showing all her funds from different fund houses.

WATCH OUT Not true: the CAS covers only one fund house's schemes.

15

Demat mode

Mutual fund units can be held in dematerialised form with a depository participant, in addition to a statement of account from the AMC.

EXAMPLE An investor holds units in the same account as her shares.

WATCH OUT Not true: mutual fund units can never be held in demat form.

16

Folio

A folio is the account number allotted by an AMC to an investor, under which all that investor's units in that fund house are recorded.

EXAMPLE An investor quotes her account number with a fund house to check her units.

WATCH OUT Not true: a folio is a type of scheme.

17

Dividend or IDCW payout timeline

Payout of IDCW must be dispatched within seven working days of the record date.

EXAMPLE An investor expects IDCW proceeds a few days after the declared date.

WATCH OUT Not true: iDCW can be dispatched any time within six months.

18

Change of bank details

A change of bank details needs a written request with proof of the new bank and is checked by the RTA; some schemes impose a cooling-off for large redemptions.

EXAMPLE An investor updates the registered bank account with supporting proof.

WATCH OUT Not true: bank details cannot be changed after the first investment.

Unit recap · one line each

Cut-off time · Applicable NAV · SIP · Rupee cost averaging · STP · SWP · Switch · Nomination · Joint holding modes · Minor investor · Lien · Transmission · Redemption timeline · Consolidated Account Statement (CAS) · Demat mode · Folio · Dividend or IDCW payout timeline · Change of bank details

UNIT 8 · 10% OF THE EXAM

Return, risk and performance of funds

Measuring what an investment has earned and at what risk. Unit 8 is where formulas such as CAGR, standard deviation, beta and Sharpe ratio live.

What the exam looks for

- Absolute return, CAGR and XIRR.
- Standard deviation, beta, alpha, Sharpe.
- Duration, yield to maturity and credit risk in debt funds.
- Benchmarks and total return indices.

FORMULA · CAGR

CAGR = (Ending value ÷ Beginning value) ^ (1 ÷ years) − 1

FORMULA · Sharpe ratio

Sharpe = (Portfolio return − Risk-free return) ÷ Standard deviation

Concept cards

01

Absolute return

Absolute return is the percentage change in value over a period, ignoring how long it took. It is (end value − start value) ÷ start value.

EXAMPLE A ₹10,000 investment grows to ₹12,000 in total, and the gain is expressed as 20%.

WATCH OUT Not true: absolute return already adjusts for the length of time.

02

CAGR

Compound Annual Growth Rate is the constant yearly rate at which an investment would have grown to reach its final value, used for periods over one year.

EXAMPLE ₹1 lakh becomes ₹1.21 lakh in two years, which is 10% a year compounded.

WATCH OUT Not true: cAGR is the simple average of each year's return.

03

XIRR

XIRR is the annualised return when there are multiple cash flows on different dates, such as SIP instalments.

EXAMPLE An investor wants the true annual return on a SIP made across many months.

WATCH OUT Not true: xIRR can be used only for lump-sum investments.

04

Standard deviation

Standard deviation measures how much a fund's returns vary around its average. A higher figure means more volatility.

EXAMPLE Two funds earn the same average return, but one swings far more from year to year.

WATCH OUT Not true: a higher standard deviation means lower risk.

05

Beta

Beta measures a fund's sensitivity to the market. A beta of 1.2 means it is expected to move 20% more than the market.

EXAMPLE A fund tends to rise 12% when the market rises 10%.

WATCH OUT Not true: beta measures the fund's absolute return.

06

Alpha

Alpha is the excess return of a fund over what its risk (beta) would predict, showing the value added by the fund manager.

EXAMPLE A fund earns 3% more than a CAPM-based expectation for its risk.

WATCH OUT Not true: a negative alpha shows outperformance.

07

Sharpe ratio

The Sharpe ratio is the excess return over the risk-free rate per unit of standard deviation. A higher ratio means better risk-adjusted performance.

EXAMPLE Two funds have the same return, but one takes less volatility to achieve it and has the higher ratio.

WATCH OUT Not true: the Sharpe ratio uses beta as its risk measure.

08

Tracking error

Tracking error is the standard deviation of the difference between an index fund's return and its benchmark's. A lower figure means closer replication.

EXAMPLE An index fund drifts a little from its index return every year.

WATCH OUT Not true: a high tracking error is desirable for index funds.

09

Total Return Index (TRI)

A TRI reflects both price changes and reinvested dividends of the index constituents, and is the proper benchmark for comparison with a fund's returns.

EXAMPLE A fund's return is compared with an index that includes dividends.

WATCH OUT Not true: a price index is the preferred benchmark because it includes dividends.

10

Modified duration

Modified duration estimates the percentage change in a bond's price for a 1% change in yield. A higher duration means more interest-rate sensitivity.

EXAMPLE A bond fund with a duration of 5 falls about 5% if yields rise 1%.

WATCH OUT Not true: duration measures the credit rating of the bond.

11

Yield to maturity (YTM)

YTM is the annualised return earned if a bond is held to maturity and all coupons are reinvested at the same rate.

EXAMPLE A bond's expected return if held until it matures is called its yield.

WATCH OUT Not true: yTM is the coupon rate printed on the bond.

12

Credit risk

Credit risk is the chance that a bond issuer fails to pay interest or principal on time. Lower-rated issuers carry higher credit risk.

EXAMPLE A fund holding a low-rated company's bonds suffers when the company defaults.

WATCH OUT Not true: government securities carry the highest credit risk.

13

Interest rate risk

When interest rates rise, the prices of existing bonds fall and vice versa, which affects debt fund NAVs, especially of longer-duration funds.

EXAMPLE A long-duration gilt fund loses value when the central bank raises rates.

WATCH OUT Not true: bond prices rise when interest rates rise.

14

Risk-return trade-off

Higher potential return generally comes with higher risk. Investors who want higher returns must accept greater volatility.

EXAMPLE An investor wanting equity-like returns must accept bigger swings in value.

WATCH OUT Not true: high returns can be earned without any additional risk.

15

Liquidity risk

Liquidity risk is the chance a fund cannot sell securities quickly without a price discount, such as in thinly traded bonds.

EXAMPLE A fund finds it hard to sell a bond that few people trade, except at a lower price.

WATCH OUT Not true: liquidity risk affects only equity funds.

Unit recap · one line each

Absolute return · CAGR · XIRR · Standard deviation · Beta · Alpha · Sharpe ratio · Tracking error · Total Return Index (TRI) · Modified duration · Yield to maturity (YTM) · Credit risk · Interest rate risk · Risk-return trade-off · Liquidity risk

UNIT 9 · 10% OF THE EXAM

Mutual fund scheme selection

How to choose among thousands of schemes. This unit is mostly about SEBI's categories and what each is permitted to hold, plus the criteria a good distributor uses.

What the exam looks for

- Equity, debt, hybrid and solution-oriented categories.
- Market-cap definitions.
- Criteria for selecting a scheme.

Debt fund categories by duration

Category	Macaulay duration
Overnight	1 day
Liquid	Up to 91 days
Ultra short	3 to 6 months
Low duration	6 to 12 months
Short duration	1 to 3 years
Medium duration	3 to 4 years
Long duration	More than 7 years

Concept cards

01

Large cap fund

A large cap fund invests at least 80% of its assets in the top 100 companies by market capitalisation.

EXAMPLE A scheme holds 85% in the 100 biggest listed companies.

WATCH OUT Not true: a large cap fund invests mainly in companies ranked 251 onwards.

02

Mid cap fund

A mid cap fund invests at least 65% in companies ranked 101 to 250 by market capitalisation.

EXAMPLE A scheme keeps 70% in stocks ranked 101 to 250.

WATCH OUT Not true: a mid cap fund invests mainly in the top 100 companies.

03

Small cap fund

A small cap fund invests at least 65% in companies ranked 251 and below by market capitalisation.

EXAMPLE A scheme invests mostly in companies outside the top 250.

WATCH OUT Not true: a small cap fund must hold at least 80% in the top 100.

04

Multi cap fund

A multi cap fund must invest at least 25% each in large, mid and small cap stocks, and at least 75% in equity overall.

EXAMPLE A scheme must hold a quarter in each of three market-cap bands.

WATCH OUT Not true: a multi cap fund can invest everything in large caps.

05

Flexi cap fund

A flexi cap fund invests at least 65% in equity with no restriction on market-cap allocation, so the manager can move across large, mid and small cap.

EXAMPLE A scheme can shift freely between large and small companies.

WATCH OUT Not true: a flexi cap fund must hold 25% in each market-cap band.

06

Focused fund

A focused fund invests in a maximum of 30 stocks and at least 65% in equity, taking concentrated positions.

EXAMPLE A scheme holds just 25 stocks in its portfolio.

WATCH OUT Not true: a focused fund holds more than 100 stocks.

07

ELSS

An Equity Linked Savings Scheme invests at least 80% in equity and has a three-year lock-in, and qualifies for the old tax regime deduction under Section 80C.

EXAMPLE An investor locks money in for three years to claim a deduction.

WATCH OUT Not true: eLSS has a lock-in of one year.

08

Sectoral/thematic fund

A sectoral or thematic fund invests at least 80% in a particular sector or theme, such as banking or technology, and carries concentration risk.

EXAMPLE A scheme puts 85% of its money in a single industry.

WATCH OUT Not true: a thematic fund is well diversified across all sectors.

09

Value and contra funds

A value fund follows a value strategy, and a contra fund follows a contrarian one, each investing at least 65% in equity; a fund house can offer only one of these two.

EXAMPLE A scheme buys out-of-favour stocks believing they are undervalued.

WATCH OUT Not true: a value fund buys only stocks at record highs.

10

Overnight fund

An overnight fund invests in securities with a maturity of one day, so interest-rate and credit risk are very low.

EXAMPLE A scheme holds paper that matures the next day.

WATCH OUT Not true: an overnight fund holds bonds of ten years' maturity.

11

Liquid fund

A liquid fund invests in debt and money-market securities with a maturity of up to 91 days.

EXAMPLE A scheme holds only paper maturing within three months.

WATCH OUT Not true: a liquid fund holds securities of up to three years.

12

Gilt fund

A gilt fund invests at least 80% in government securities across maturities, so credit risk is negligible but interest-rate risk can be high.

EXAMPLE A scheme holds mostly central and state government bonds.

WATCH OUT Not true: a gilt fund invests mainly in low-rated corporate bonds.

13

Credit risk fund

A credit risk fund invests at least 65% in corporate bonds rated AA and below, seeking higher yields at higher credit risk.

EXAMPLE A scheme chases higher yield by lending to lower-rated companies.

WATCH OUT Not true: a credit risk fund holds only AAA-rated bonds.

14

Corporate bond fund

A corporate bond fund invests at least 80% in the highest-rated (AA+ and above) corporate bonds.

EXAMPLE A scheme holds mostly bonds of top-rated companies.

WATCH OUT Not true: a corporate bond fund holds mostly AA-rated and below paper.

15

Aggressive hybrid fund

An aggressive hybrid fund invests 65% to 80% in equity and 20% to 35% in debt.

EXAMPLE A scheme keeps about 70% in equity and the rest in debt.

WATCH OUT Not true: an aggressive hybrid fund holds less than 40% in equity.

16

Conservative hybrid fund

A conservative hybrid fund invests 10% to 25% in equity and 75% to 90% in debt.

EXAMPLE A scheme keeps 20% in equity and 80% in debt.

WATCH OUT Not true: a conservative hybrid fund keeps 70% in equity.

17

Arbitrage fund

An arbitrage fund invests at least 65% in equity and equity-related instruments and profits from price differences between cash and futures markets; it is taxed as equity.

EXAMPLE A fund buys a share in the cash market and sells its future at a higher price.

WATCH OUT Not true: an arbitrage fund takes a large one-sided view on stocks.

18

Index fund and ETF

An index fund or ETF replicates a market index, investing at least 95% in the index's securities, with low cost and no stock picking.

EXAMPLE A scheme mirrors the Nifty 50 with very low costs.

WATCH OUT Not true: an index fund tries to beat its index through stock picking.

19

Solution-oriented funds

Retirement and children's funds have a lock-in of five years or until retirement age or the child turns 18, whichever is earlier.

EXAMPLE A scheme designed for a child's education has a five-year lock-in.

WATCH OUT Not true: solution-oriented funds have no lock-in.

20

Selection criteria

A good selection looks at risk-adjusted return, consistency over several periods, expense ratio, portfolio quality, fund manager continuity and fit with the investor's profile.

EXAMPLE A distributor compares funds on several measures, not just last year's return.

WATCH OUT Not true: last year's top performer is always the best choice.

Unit recap · one line each

Large cap fund · Mid cap fund · Small cap fund · Multi cap fund · Flexi cap fund · Focused fund · ELSS · Sectoral/thematic fund · Value and contra funds · Overnight fund · Liquid fund · Gilt fund · Credit risk fund · Corporate bond fund · Aggressive hybrid fund · Conservative hybrid fund · Arbitrage fund · Index fund and ETF · Solution-oriented funds · Selection criteria

UNIT 10 · 9% OF THE EXAM

Selecting the right investment products for investors

Mutual funds are not the only product. This unit places them beside deposits, bonds, PPF, NPS, gold and insurance, so a distributor can recommend the right tool for the goal.

What the exam looks for

- Comparing mutual funds with other products on risk, return, liquidity and tax.
- Matching products to goals and horizons.

Quick comparison

Product	Capital safety	Liquidity	Typical use
Savings account	High	Instant	Everyday cash
Fixed deposit	High	Moderate; penalty on early exit	Short-term safe goals
Debt mutual fund	Moderate	High	Stable returns, 1 to 3 years
Equity mutual fund	Low	High	Long-term growth
PPF	Government-backed	Low; 15-year lock-in	Long-term tax-efficient savings

Concept cards

01

Fixed deposit

A bank fixed deposit pays a fixed rate for a fixed term; interest is taxable at slab rates, and premature withdrawal usually attracts a penalty.

EXAMPLE An investor places money for two years at a known rate.

WATCH OUT Not true: a fixed deposit offers returns linked to the stock market.

02

PPF

The Public Provident Fund is a government-backed savings scheme with a 15-year tenure and tax-free interest, with limited liquidity.

EXAMPLE A saver locks money for fifteen years with government-backed safety.

WATCH OUT Not true: pPF can be withdrawn in full at any time.

03

NPS

The National Pension System is a pension scheme regulated by PFRDA where contributions are invested in equity, corporate bonds and government securities and annuity is purchased on retirement.

EXAMPLE A salaried person builds a retirement corpus with regulated pension fund managers.

WATCH OUT Not true: nPS is a mutual fund regulated by SEBI.

04

Bonds and debentures

Bonds and debentures are debt securities paying periodic interest and returning principal at maturity; the issuer's credit rating drives their risk.

EXAMPLE An investor lends to a company in return for coupons and the principal at maturity.

WATCH OUT Not true: bonds make the holder an owner of the company.

05

Gold

Gold is held as a hedge against inflation and uncertainty; it can be owned through physical gold, gold ETFs, sovereign gold bonds or gold funds.

EXAMPLE An investor buys a gold ETF to avoid storage and purity worries.

WATCH OUT Not true: gold pays regular interest on holdings.

06

Real estate

Real estate offers potential for appreciation and rental income but is illiquid, needs large capital and has high transaction costs.

EXAMPLE An investor finds it hard to sell a flat quickly at the right price.

WATCH OUT Not true: real estate is highly liquid and needs little capital.

07

Life insurance versus investment

Pure term insurance protects against loss of life; it should be separated from investment, and mutual funds are not insurance products.

EXAMPLE A family buys a term plan for protection and invests separately for growth.

WATCH OUT Not true: a mutual fund provides life cover.

08

Risk profiling

Risk profiling assesses a client's capacity and willingness to take risk through questions on age, income, dependants, goals and past behaviour, and guides product choice.

EXAMPLE A distributor asks a client how he would feel if his investment fell 20%.

WATCH OUT Not true: risk profile is the same for every client of the same age.

09

Inflation

Inflation is the rise in prices over time, which erodes the purchasing power of money; investments must beat it to grow real wealth.

EXAMPLE A saver's fixed return of 5% leaves little real gain when prices rise 6%.

WATCH OUT Not true: inflation increases the real value of cash.

10

Time horizon

The time horizon is the period for which money will be invested before it is needed; longer horizons can support more equity.

EXAMPLE A client needing money in 6 months should avoid a high-equity scheme.

WATCH OUT Not true: time horizon has no effect on product choice.

11

Tax efficiency

The after-tax return matters more than the headline return; different products are taxed differently, so compare after-tax outcomes.

EXAMPLE Two products with the same return leave different amounts after tax.

WATCH OUT Not true: only pre-tax returns matter in a comparison.

12

Capital protection

Mutual fund schemes do not protect capital; only specific instruments like bank deposits (up to the insured limit) and some government schemes offer greater safety.

EXAMPLE A client wants assured safety of principal and is shown a deposit instead of an equity fund.

WATCH OUT Not true: mutual funds provide guaranteed capital protection.

Unit recap · one line each

Fixed deposit · PPF · NPS · Bonds and debentures · Gold · Real estate · Life insurance versus investment · Risk profiling · Inflation · Time horizon · Tax efficiency · Capital protection

UNIT 11 · 7% OF THE EXAM

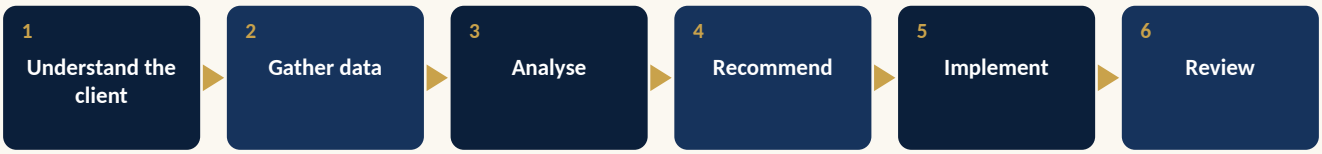
Helping investors with financial planning

Financial planning turns a product sale into a client relationship. This unit covers the planning process, goals, life stages, emergency funds and the discipline of reviewing.

What the exam looks for

- The financial planning process.
- Goal-based planning.
- Life stages and risk capacity.

The planning process



Concept cards

01

Financial plan

A financial plan is a documented roadmap that links the client's goals, resources, risk profile and time horizon to a set of actions.

EXAMPLE A distributor prepares a written plan showing how each goal will be funded.

WATCH OUT Not true: a financial plan is a list of schemes with last year's returns.

02

Goal-based planning

Goal-based planning sets investments against specific goals, such as a child's education, with a target amount, date and priority.

EXAMPLE A client earmarks a separate investment for a house purchase in seven years.

WATCH OUT Not true: goal-based planning ignores timelines.

03

Emergency fund

An emergency fund is money kept in safe and liquid assets, usually three to six months of expenses, for unexpected needs.

EXAMPLE A client keeps six months of living costs in a liquid fund.

WATCH OUT Not true: an emergency fund should be invested in small-cap equity.

04

Life-cycle stage

A client's life stage, such as starting a career, raising a family or nearing retirement, shapes goals, risk capacity and asset allocation.

EXAMPLE A 28-year-old and a 58-year-old need different mixes for the same sum.

WATCH OUT Not true: life stage has no effect on investment choices.

05

Risk capacity versus tolerance

Risk capacity is the ability to bear loss financially, while risk tolerance is willingness to bear it emotionally; advice should respect the lower of the two.

EXAMPLE A wealthy client who panics at small losses has high capacity but low tolerance.

WATCH OUT Not true: risk tolerance and capacity are the same.

06

Time value of money

Money today is worth more than the same sum in the future because it can earn returns; planning must discount future needs and compound savings.

EXAMPLE A client needs ₹50 lakh in 15 years and works out what to invest today.

WATCH OUT Not true: a rupee today has the same value as a rupee in ten years.

07

Retirement planning

Retirement planning estimates the corpus needed to meet expenses after earning stops, allowing for inflation and longevity.

EXAMPLE A client works out how much he must save each month to retire at 60.

WATCH OUT Not true: retirement planning needs no allowance for inflation.

08

Step-up SIP

A step-up SIP increases the instalment amount at regular intervals, usually yearly, in line with rising income.

EXAMPLE An investor raises her SIP by 10% every year as her salary grows.

WATCH OUT Not true: a step-up SIP reduces the instalment each year.

09

Periodic review

A plan should be reviewed at least once a year and on major life events, and rebalanced to the target allocation.

EXAMPLE A client's portfolio is reviewed every year and after the birth of a child.

WATCH OUT Not true: once made, a plan never needs revisiting.

Unit recap · one line each

Financial plan · Goal-based planning · Emergency fund · Life-cycle stage · Risk capacity versus tolerance · Time value of money · Retirement planning · Step-up SIP · Periodic review

UNIT 12 · 8% OF THE EXAM

Recommending model portfolios and financial plans

The final unit brings it together: building asset allocations for typical clients, using model portfolios, rebalancing and documenting advice responsibly.

What the exam looks for

- Strategic and tactical asset allocation.
- Model portfolios by risk profile.
- Rebalancing and documentation.

Illustrative model portfolios

Profile	Equity	Debt	Gold/other
Conservative	20%	70%	10%
Moderate	50%	40%	10%
Aggressive	75%	15%	10%

Illustration only

These mixes show how allocation moves with risk. Real recommendations depend on the client's goals, horizon, capacity and tax position.

Concept cards

01

Asset allocation

Asset allocation is the division of a portfolio among asset classes such as equity, debt and gold, and is the main driver of risk and return over time.

EXAMPLE A client's portfolio is split 60% equity, 30% debt and 10% gold.

WATCH OUT Not true: asset allocation matters less than picking the best fund.

02

Strategic asset allocation

Strategic asset allocation sets long-term target weights based on the client's profile, which are maintained by periodic rebalancing.

EXAMPLE A client's plan says 60% equity for the next ten years, whatever the news.

WATCH OUT Not true: strategic allocation changes with every market move.

03

Tactical asset allocation

Tactical allocation makes short-term deviations from the strategic weights to take advantage of market conditions.

EXAMPLE A manager temporarily raises debt above target because equities look expensive.

WATCH OUT Not true: tactical allocation means never deviating from target.

04

Rebalancing

Rebalancing means bringing the portfolio back to its target allocation by selling what has grown too large and buying what has fallen behind.

EXAMPLE Equity has risen to 70% of the portfolio against a 60% target, so some is sold.

WATCH OUT Not true: rebalancing means adding only to the best performer.

05

Core and satellite

A core and satellite approach holds the bulk of the portfolio in stable, low-cost funds and a smaller satellite part in higher-conviction ideas.

EXAMPLE A portfolio holds 70% in index funds and 30% in a thematic fund.

WATCH OUT Not true: core and satellite means holding only satellite ideas.

06

Age-based rule of thumb

A rough guide sets equity at 100 minus the investor's age, adjusting for risk profile; it is a starting point, not a rule.

EXAMPLE A 40-year-old starts discussing about 60% equity.

WATCH OUT Not true: the rule fixes the exact equity percentage for everyone of a given age.

07

Glide path

A glide path gradually reduces equity and raises safer assets as a goal date approaches, to protect accumulated gains.

EXAMPLE As a child's education nears, a family shifts from equity to debt funds.

WATCH OUT Not true: a glide path raises equity as the goal date approaches.

08

Documenting advice

The distributor should record the client's profile, the recommendation and the reasons, and obtain the client's acknowledgement to show suitability.

EXAMPLE A distributor files a signed risk profile and rationale for the recommended funds.

WATCH OUT Not true: no written record of advice is needed.

09

Model portfolio

A model portfolio is a pre-defined allocation for a risk profile, used as a template and customised for the client.

EXAMPLE A distributor shows a typical moderate-risk allocation as a starting point.

WATCH OUT Not true: a model portfolio guarantees returns.

10

Conflict of interest

A conflict of interest arises when the distributor's earnings could bias the advice; it must be disclosed and managed in the client's favour.

EXAMPLE A distributor discloses that one scheme pays him more but recommends the better fit for the client.

WATCH OUT Not true: conflicts of interest need not be disclosed.

Unit recap · one line each

Asset allocation · Strategic asset allocation · Tactical asset allocation · Rebalancing · Core and satellite · Age-based rule of thumb · Glide path · Documenting advice · Model portfolio · Conflict of interest

QUICK REFERENCE

Numbers and formulas.

Equity and hybrid category limits

Category	Minimum rule
Large cap	80% in the top 100 stocks by market capitalisation
Mid cap	65% in stocks ranked 101 to 250
Small cap	65% in stocks ranked 251 onwards
Large and mid cap	35% large cap and 35% mid cap
Multi cap	25% each in large, mid and small cap
Flexi cap	65% in equity, any market cap
Focused	Maximum 30 stocks, 65% equity
ELSS	80% equity; 3-year lock-in

Taxation snapshot (resident individuals, as at writing)

Item	Rule
Equity-oriented fund, held up to 12 months	Short-term gain taxed at 20%
Equity-oriented fund, held over 12 months	Long-term gain above ₹1.25 lakh a year taxed at 12.5%
Specified debt-oriented funds (bought from April 2023)	Gain taxed at the investor's slab rate
IDCW (dividend)	Taxed at the investor's slab rate; TDS may apply
STT	Charged on equity fund redemption, not on purchase

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Absolute return	Absolute return is the percentage change in value over a period, ignoring how long it took. It is (end value − start value) ÷ start value.	8
Age-based rule of thumb	A rough guide sets equity at 100 minus the investor's age, adjusting for risk profile; it is a starting point, not a rule.	12
Aggressive hybrid fund	An aggressive hybrid fund invests 65% to 80% in equity and 20% to 35% in debt.	9
Allotment timeline	Units must be allotted and refunds, if any, paid within five working days from the closure of the NFO.	4
Alpha	Alpha is the excess return of a fund over what its risk (beta) would predict, showing the value added by the fund manager.	8
AMFI	The Association of Mutual Funds in India is the industry body of AMCs. It sets best practices, issues the ARN to distributors, and publishes the daily NAVs.	3
Applicable NAV	The NAV applied to a transaction depends on the cut-off time and when the funds are available for use by the scheme, not just when the application is made.	7
Arbitrage fund	An arbitrage fund invests at least 65% in equity and equity-related instruments and profits from price differences between cash and futures markets; it is taxed as equity.	9
ARN	The AMFI Registration Number is a unique number issued to a distributor who has passed the NISM certification and follows the Code of Conduct. It must be renewed periodically.	3
Asset allocation	Asset allocation is the division of a portfolio among asset classes such as equity, debt and gold, and is the main driver of risk and return over time.	12
Asset allocation pattern	The SID states the proportion of the scheme's assets to be held in each asset class and the permissible ranges, which are binding on the fund manager.	4
Asset Management Company (AMC)	The AMC is appointed by the trustees to manage the schemes' investments and operations. At least half of its directors must be independent of the sponsor.	2
Beta	Beta measures a fund's sensitivity to the market. A beta of 1.2 means it is expected to move 20% more than the market.	8
Bonds and debentures	Bonds and debentures are debt securities paying periodic interest and returning principal at maturity; the issuer's credit rating drives their risk.	10
CAGR	Compound Annual Growth Rate is the constant yearly rate at which an investment would have grown to reach its final value, used for periods over one year.	8
Capital protection	Mutual fund schemes do not protect capital; only specific instruments like bank deposits (up to the insured limit) and some government schemes offer greater safety.	10
Cash investment limit	An investor can invest in cash in a mutual fund up to ₹50,000 per investor per mutual fund per financial year.	3
Change of bank details	A change of bank details needs a written request with proof of the new bank and is checked by the RTA; some schemes impose a cooling-off for large redemptions.	7
Churning	Churning is persuading an investor to frequently switch schemes mainly to earn the distributor more commission, with little or no benefit to the investor.	5
Closed-ended scheme	A closed-ended scheme has a fixed maturity and units are bought during the NFO only; investors exit at maturity or by selling on a stock exchange where listed.	1

Term	Meaning	Unit
Code of Conduct	AMFI's Code of Conduct requires distributors to act honestly, disclose commissions, give suitable advice, and not mislead investors.	3
Conflict of interest	A conflict of interest arises when the distributor's earnings could bias the advice; it must be disclosed and managed in the client's favour.	12
Conservative hybrid fund	A conservative hybrid fund invests 10% to 25% in equity and 75% to 90% in debt.	9
Consolidated Account Statement (CAS)	A single statement covering all of an investor's mutual fund holdings across AMCs, sent monthly if there were transactions, otherwise half-yearly.	7
Core and satellite	A core and satellite approach holds the bulk of the portfolio in stable, low-cost funds and a smaller satellite part in higher-conviction ideas.	12
Corporate bond fund	A corporate bond fund invests at least 80% in the highest-rated (AA+ and above) corporate bonds.	9
Credit risk	Credit risk is the chance that a bond issuer fails to pay interest or principal on time. Lower-rated issuers carry higher credit risk.	8
Credit risk fund	A credit risk fund invests at least 65% in corporate bonds rated AA and below, seeking higher yields at higher credit risk.	9
Custodian	The custodian safekeeps the securities and settles the trades of the schemes, and is independent of the sponsor.	2
Cut-off time	The cut-off time is the time of day by which a valid application with funds must be received to get that day's NAV. For most schemes it is 3:00 pm.	7
Debt valuation	Debt securities are valued at prices provided by SEBI-approved valuation agencies appointed by AMFI, to ensure uniform valuation across funds.	6
Demat mode	Mutual fund units can be held in dematerialised form with a depository participant, in addition to a statement of account from the AMC.	7
Direct plan	A direct plan is bought directly from the AMC without a distributor, so no commission is paid and the expense ratio is lower.	5
Disclosure of commission	A distributor must disclose to the investor all commissions received from the AMC for the transaction, in a transparent manner.	5
Distributor channels	Mutual fund distribution channels include independent financial advisers, national distributors, banks, and online platforms and direct AMC routes.	5
Diversification	Diversification means spreading investments across many securities, sectors or asset classes so that a fall in one has a limited effect on the whole portfolio.	1
Dividend or IDCW payout timeline	Payout of IDCW must be dispatched within seven working days of the record date.	7
Documenting advice	The distributor should record the client's profile, the recommendation and the reasons, and obtain the client's acknowledgement to show suitability.	12
Economies of scale	Economies of scale mean that large pooled funds can buy securities in bulk and spread costs, lowering per-unit costs for investors.	1
ELSS	An Equity Linked Savings Scheme invests at least 80% in equity and has a three-year lock-in, and qualifies for the old tax regime deduction under Section 80C.	9
Emergency fund	An emergency fund is money kept in safe and liquid assets, usually three to six months of expenses, for unexpected needs.	11
Entry load	SEBI has abolished entry load; no fee can be deducted from the investor's money at the time of purchase.	6

Term	Meaning	Unit
Equity valuation	Listed equity shares are valued at the closing price on the principal stock exchange on the valuation day.	6
Equity-oriented fund	For tax purposes, an equity-oriented fund invests at least 65% of its assets in equity shares of domestic companies.	6
EUIN	The Employee Unique Identification Number identifies the individual employee or relationship manager who advises on a transaction, even when an ARN of the firm is used.	3
Ex-dividend NAV effect	When an IDCW is paid, the scheme's NAV falls by the amount paid, so the investor's wealth is unchanged before tax.	6
Exit load	Exit load is a charge levied when units are redeemed within a stated period. It is credited to the scheme, not kept by the AMC.	6
Financial plan	A financial plan is a documented roadmap that links the client's goals, resources, risk profile and time horizon to a set of actions.	11
Fixed deposit	A bank fixed deposit pays a fixed rate for a fixed term; interest is taxable at slab rates, and premature withdrawal usually attracts a penalty.	10
Flexi cap fund	A flexi cap fund invests at least 65% in equity with no restriction on market-cap allocation, so the manager can move across large, mid and small cap.	9
Focused fund	A focused fund invests in a maximum of 30 stocks and at least 65% in equity, taking concentrated positions.	9
Folio	A folio is the account number allotted by an AMC to an investor, under which all that investor's units in that fund house are recorded.	7
Fund accountant and auditor	The fund accountant maintains the scheme's books and computes NAV, while auditors independently audit the accounts.	2
Fundamental attribute change	A change in a scheme's fundamental attributes needs a written notice to unit holders and an exit option at the prevailing NAV without exit load for at least 30 days.	3
Gilt fund	A gilt fund invests at least 80% in government securities across maturities, so credit risk is negligible but interest-rate risk can be high.	9
Glide path	A glide path gradually reduces equity and raises safer assets as a goal date approaches, to protect accumulated gains.	12
Goal-based planning	Goal-based planning sets investments against specific goals, such as a child's education, with a target amount, date and priority.	11
Gold	Gold is held as a hedge against inflation and uncertainty; it can be owned through physical gold, gold ETFs, sovereign gold bonds or gold funds.	10
IDCW taxation	Income distribution cum capital withdrawal payouts are added to the investor's income and taxed at the slab rate, with TDS where applicable.	6
Index fund and ETF	An index fund or ETF replicates a market index, investing at least 95% in the index's securities, with low cost and no stock picking.	9
Inflation	Inflation is the rise in prices over time, which erodes the purchasing power of money; investments must beat it to grow real wealth.	10
Interest rate risk	When interest rates rise, the prices of existing bonds fall and vice versa, which affects debt fund NAVs, especially of longer-duration funds.	8
Interval scheme	An interval scheme combines open and closed features: units can be bought or redeemed only during specified intervals, and units are listed on exchanges.	1

Term	Meaning	Unit
Joint holding modes	In 'anyone or survivor' mode, any holder can operate the folio; in 'joint', all must sign. On a holder's death the units go to the survivors.	7
Key Information Memorandum (KIM)	The KIM is a short summary of the SID and SAI given with the application form so investors see the essentials first. SEBI has since moved towards a standard scheme summary document with the same purpose.	4
Know Your Distributor	AMCs carry out due diligence on distributors and check that their ARN, certification and code compliance are valid before accepting business.	5
KYC	Know Your Customer is mandatory for all mutual fund investors. It verifies identity and address, and the records are kept with a KYC registration agency.	3
Large cap fund	A large cap fund invests at least 80% of its assets in the top 100 companies by market capitalisation.	9
Lien	A lien is a charge marked on units, for example when pledged as security for a loan, so they cannot be redeemed until the lien is removed.	7
Life insurance versus investment	Pure term insurance protects against loss of life; it should be separated from investment, and mutual funds are not insurance products.	10
Life-cycle stage	A client's life stage, such as starting a career, raising a family or nearing retirement, shapes goals, risk capacity and asset allocation.	11
Liquid fund	A liquid fund invests in debt and money-market securities with a maturity of up to 91 days.	9
Liquidity	Liquidity in mutual funds means that units of open-ended schemes can be redeemed on any business day at the applicable NAV, subject to exit loads and settlement time.	1
Liquidity risk	Liquidity risk is the chance a fund cannot sell securities quickly without a price discount, such as in thinly traded bonds.	8
LTCG on equity funds	Gains on equity-oriented funds held over 12 months are taxed at 12.5% on the amount above ₹1.25 lakh in a financial year.	6
Mid cap fund	A mid cap fund invests at least 65% in companies ranked 101 to 250 by market capitalisation.	9
Minor investor	A minor's folio is operated by a guardian, and when the minor turns 18 a fresh KYC is needed, and the guardian's operation stops.	7
Mis-selling	Mis-selling is selling a product that is unsuitable for the client or by misrepresenting its features, risk or returns.	5
Model portfolio	A model portfolio is a pre-defined allocation for a risk profile, used as a template and customised for the client.	12
Modified duration	Modified duration estimates the percentage change in a bond's price for a 1% change in yield. A higher duration means more interest-rate sensitivity.	8
Multi cap fund	A multi cap fund must invest at least 25% each in large, mid and small cap stocks, and at least 75% in equity overall.	9
Mutual fund	A mutual fund is a trust that pools money from many investors and invests it in securities such as shares and bonds, managed by professionals for the benefit of unit holders.	1
Mutual fund as a trust	In India a mutual fund is constituted as a public trust under the Indian Trusts Act, and the trust is registered with SEBI.	2
NAV calculation	NAV equals the market value of the scheme's assets less its liabilities, divided by units outstanding, and is declared every business day.	6

Term	Meaning	Unit
Net Asset Value (NAV)	NAV is the per-unit value of a scheme: total market value of its assets less its liabilities, divided by the number of units outstanding.	1
New Fund Offer (NFO)	An NFO is the initial offer of a new scheme's units to the public. The offer period cannot exceed 15 days.	4
NFO price	Units in an NFO are typically offered at ₹10 each, with no assurance that this is a better price than existing schemes' NAV.	4
Nomination	Nomination lets a holder name a person who will receive the units on the holder's death. Nominees are not the legal owners; they hold the proceeds for the legal heirs.	7
NPS	The National Pension System is a pension scheme regulated by PFRDA where contributions are invested in equity, corporate bonds and government securities and annuity is purchased on retirement.	10
Open-ended scheme	An open-ended scheme accepts purchases and redemptions at NAV on every business day after launch and has no fixed maturity.	1
Overnight fund	An overnight fund invests in securities with a maturity of one day, so interest-rate and credit risk are very low.	9
Periodic review	A plan should be reviewed at least once a year and on major life events, and rebalanced to the target allocation.	11
Portfolio disclosure	Mutual funds publish portfolios of all schemes monthly on their websites and with AMFI, and publish the half-yearly financial results.	3
PPF	The Public Provident Fund is a government-backed savings scheme with a 15-year tenure and tax-free interest, with limited liquidity.	10
Product labelling	Each scheme's cover and advertisements must describe the product in plain language: what the scheme is, suited for whom, and what risk level applies.	3
Professional management	Professional management means a qualified fund manager and research team select and monitor securities for the scheme, for a fee charged as part of the expense ratio.	1
Real estate	Real estate offers potential for appreciation and rental income but is illiquid, needs large capital and has high transaction costs.	10
Rebalancing	Rebalancing means bringing the portfolio back to its target allocation by selling what has grown too large and buying what has fallen behind.	12
Redemption timeline	Redemption proceeds must generally be paid within three working days of the transaction date for most schemes; liquid funds may be quicker.	7
Registrar and Transfer Agent (RTA)	The RTA maintains unit holders' records, processes purchases and redemptions, and sends statements on behalf of the AMC.	2
Regular plan	A regular plan is bought through a distributor, who is paid a commission from the scheme's expense ratio, making its expense ratio higher than the direct plan's.	5
Retirement planning	Retirement planning estimates the corpus needed to meet expenses after earning stops, allowing for inflation and longevity.	11
Risk capacity versus tolerance	Risk capacity is the ability to bear loss financially, while risk tolerance is willingness to bear it emotionally; advice should respect the lower of the two.	11
Risk in mutual funds	Mutual fund investments are subject to market risk. The value of units can rise and fall, and past performance does not assure future results.	1
Risk profiling	Risk profiling assesses a client's capacity and willingness to take risk through questions on age, income, dependants, goals and past behaviour, and guides product choice.	10

Term	Meaning	Unit
Risk-return trade-off	Higher potential return generally comes with higher risk. Investors who want higher returns must accept greater volatility.	8
Riskometer	The riskometer shows a scheme's risk on six levels: low, low to moderate, moderate, moderately high, high and very high, and is updated based on portfolio risk.	3
Rupee cost averaging	Rupee cost averaging means a fixed amount buys more units when NAV is low and fewer when it is high, lowering the average cost per unit over time.	7
Scheme categorisation	SEBI groups schemes into equity, debt, hybrid, solution oriented and other categories with defined definitions, and each AMC may offer only one scheme per category, with a few exceptions.	3
Scheme Information Document (SID)	The SID contains scheme-specific details: investment objective, asset allocation, strategy, risk factors, load structure, benchmark and fees.	4
Scheme-specific risk factors	The offer document lists the risks specific to the scheme, such as credit risk for debt schemes, so that investors make informed decisions.	4
SEBI	The Securities and Exchange Board of India is the statutory regulator that registers and regulates mutual funds and protects investors under the SEBI (Mutual Funds) Regulations, 1996.	3
SEBI SCORES / ODR	Investors can file complaints against AMCs and intermediaries through SEBI's complaint system, and use the online dispute resolution platform if not satisfied.	3
Sectoral/thematic fund	A sectoral or thematic fund invests at least 80% in a particular sector or theme, such as banking or technology, and carries concentration risk.	9
Segregation of roles	A person cannot be both a registered investment adviser and a distributor for the same client; roles and fees must be kept clearly separate to avoid conflicts of interest.	5
Selection criteria	A good selection looks at risk-adjusted return, consistency over several periods, expense ratio, portfolio quality, fund manager continuity and fit with the investor's profile.	9
Sharpe ratio	The Sharpe ratio is the excess return over the risk-free rate per unit of standard deviation. A higher ratio means better risk-adjusted performance.	8
SIP	A Systematic Investment Plan invests a fixed amount at regular intervals, which averages the purchase cost and builds discipline.	7
Slab-wise TER	SEBI sets maximum TER slabs that fall as a scheme's assets under management grow, so larger schemes charge a lower percentage.	6
Small cap fund	A small cap fund invests at least 65% in companies ranked 251 and below by market capitalisation.	9
Solution-oriented funds	Retirement and children's funds have a lock-in of five years or until retirement age or the child turns 18, whichever is earlier.	9
Specified mutual fund	A specified mutual fund invests more than 65% in debt and money-market instruments. Gains on units bought from April 2023 are taxed at the investor's slab rate regardless of holding period.	6
Sponsor	The sponsor is the person or entity that sets up the mutual fund and establishes the trust. It must meet SEBI's track-record and net-worth conditions.	2
Sponsor's contribution	The sponsor must contribute at least 40% of the net worth of the AMC.	2
Stamp duty on units	Stamp duty is charged at 0.005% on the purchase of mutual fund units, including switches and SIP instalments.	3
Standard deviation	Standard deviation measures how much a fund's returns vary around its average. A higher figure means more volatility.	8

Term	Meaning	Unit
Statement of Additional Information (SAI)	The SAI holds information common to the fund house and all its schemes: constitution, sponsor, trustees, AMC, service providers and legal details.	4
STCG on equity funds	Gains on equity-oriented funds sold within 12 months are short-term and taxed at 20%.	6
Step-up SIP	A step-up SIP increases the instalment amount at regular intervals, usually yearly, in line with rising income.	11
STP	A Systematic Transfer Plan transfers a fixed amount at regular intervals from one scheme to another within the same fund house.	7
Strategic asset allocation	Strategic asset allocation sets long-term target weights based on the client's profile, which are maintained by periodic rebalancing.	12
STT	Securities Transaction Tax is levied on the redemption of equity-oriented fund units; there is no STT on purchase, and none on debt funds.	6
Suitability	Suitability means recommending a product that fits the client's goals, risk profile, time horizon and financial situation.	5
Switch	A switch is moving investment from one scheme to another, or between plans or options in the same scheme; it is treated as redemption and fresh purchase.	7
SWP	A Systematic Withdrawal Plan redeems a fixed amount of units at regular intervals, giving the investor a regular cash flow.	7
Tactical asset allocation	Tactical allocation makes short-term deviations from the strategic weights to take advantage of market conditions.	12
Tax efficiency	The after-tax return matters more than the headline return; different products are taxed differently, so compare after-tax outcomes.	10
Time horizon	The time horizon is the period for which money will be invested before it is needed; longer horizons can support more equity.	10
Time value of money	Money today is worth more than the same sum in the future because it can earn returns; planning must discount future needs and compound savings.	11
Total expense ratio (TER)	TER is the annual percentage of a scheme's average assets charged for management, distribution and operating costs, and it is reflected in the daily NAV.	6
Total Return Index (TRI)	A TRI reflects both price changes and reinvested dividends of the index constituents, and is the proper benchmark for comparison with a fund's returns.	8
Tracking error	Tracking error is the standard deviation of the difference between an index fund's return and its benchmark's. A lower figure means closer replication.	8
Trail commission	Trail commission is paid to a distributor as long as the investor stays invested, usually as a percentage of the assets he has brought in.	5
Transmission	Transmission is the transfer of units to the legal heirs or surviving holders on the death of a holder, supported by documents like the death certificate.	7
Transparency	Mutual funds disclose NAV daily, portfolios monthly and factsheets regularly, so investors can see where their money is invested.	1
Trustees	Trustees hold the fund's property in trust for unit holders and supervise the AMC. At least two-thirds of the trustees must be independent of the sponsor.	2
Unit	A unit is the smallest share of a mutual fund scheme's portfolio that an investor owns. The number of units held shows the investor's proportional ownership.	1
Upfront commission	SEBI has banned upfront commission to distributors; commissions are now paid on a trail basis, to align the distributor's interest with the investor's.	5

Term	Meaning	Unit
Value and contra funds	A value fund follows a value strategy, and a contra fund follows a contrarian one, each investing at least 65% in equity; a fund house can offer only one of these two.	9
XIRR	XIRR is the annualised return when there are multiple cash flows on different dates, such as SIP instalments.	8
Yield to maturity (YTM)	YTM is the annualised return earned if a bond is held to maturity and all coupons are reinvested at the same rate.	8

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Re-read the unit 3, 6, 7 and 9 concept cards (highest weight with regulation).
- [ ] Redo every wrong answer from Mocks 1 to 4.
- [ ] Say the six riskometer levels and the SEBI equity market-cap bands from memory.
- [ ] Revise tax rates and holding periods on a single page.
- [ ] Take Mock 5 in one sitting, two hours, no breaks.

Exam-day tips

- There is no negative marking. Never leave a question blank.
- Read all four options before choosing. Distractors are often half right.
- For scenario questions, find the rule being tested first, then match the option.
- Flag long numerical questions and return to them after the easy marks.
- Keep your photo ID and admit card ready; log in early.

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