Nippon india Mutual Fund

Wealth sets you free

Exchange Traded Funds

To know more, contact your Mutual Funds Distributor.

Good gets better

Learning Academy

An Investor Education & Awareness Initiative of

Nippon india Mutual Fund

Helpful information for investors

All Mutual Fund investors have to go through a one-time KYC (know your Customer) process. Investors should deal only with registered mutual funds, to be verified on SEBI website under 'Intermediaries/ Market Infrastructure Institutions'. For redressal of your complaints, you may please visit www.scores.gov.in . For more info on KYC, change in various details & redressal of complaints, visit https://mf.nipponindiaim.com/InvestorEducation/what-to-know-when-investing.htm. This is an investor education and awareness initiative by Nippon India Mutual Fund.

Disclaimer

The information provided in this booklet is solely for creating awareness about mutual funds and for general understanding. The views expressed herein constitute only the opinions and do not constitute any guidelines or recommendations on any course of action to be followed by the reader. Many of the statements and assertions contained in this booklet reflects the belief of Nippon Life India Asset Management Limited, which may be based in whole or in part on data and other information. Nippon Life India Asset Management Limited (formally known as Reliance Nippon Life Asset Management Limited) does not guarantee the completeness, efficacy, accuracy or timelines of such information. This information is not intended to be an offer or solicitation for the purchase or sale of any financial product or instrument. Readers of this booklet are adviced to seek independent professional advice, verify the contents and arrive at an informed investment decision. Neither the Sponsor, the Investment Manager, Mutual Fund, the Trustee, their respective Directors, nor any person connected with it accepts any liability arising from the use of this information.

PREFACE

The Mutual Fund industry has grown fast to become an important component of the Indian economy, helping channelise household savings into the capital market. Moreover, Mutual Funds investment has become an important way for citizens' private investment and wealth management. In light of this, investor education is an important aspect to keep the investor well informed, as well as protect their legitimate rights and interests, particularly for small and medium investors.

This booklet is a specific exhibition of Nippon India Mutual Fund's efforts to spread awareness and continue building the investors' knowledge. It explains investment related information in simple language and in a lively and vivid manner. I am sure, investors of all kinds will find value in this booklet and be encouraged to use this as a stepping stone towards practicing financial prudence.

All the very best and happy reading.

Sundeep Sikka

Sundeep Sikka
Executive Director & CEO
Nippon Life India Asset Management Limited
(Formely known as Reliance Nippon Life
Asset Mangement Limited)

Ravi wants to start saving for his daughter's higher education over a 10-year period. He believes that fund managers and analysts trying to forecast and predict performance of stocks may be akin to betting. They may underperform! He is looking for an investment product which will minimise the effort, time and costs, ultimately helping him avoid forcasting and prediction risk.

Sunita wants to create an all-rounder portfolio of various asset classes, such as gold, fixed income and equity, such that she gets the benefit of appreciation and income. She is exploring a low cost option which allows her such exposure.

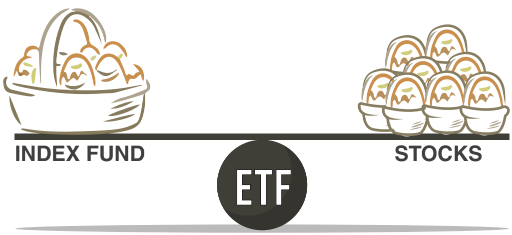
Sumeet is a seasoned speculator in the equity F&O market, but is wary of inflexibility, complex margin requirements, high costs etc. Is there a suitable alternative available in the market?

What is an ETF?

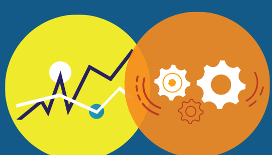
Ravi, Sunita and Sumeet can use an Exchange Traded Fund (ETF). ETF is a Mutual Fund scheme which is listed and traded through the stock market platform. But let us begin with understanding what an ETF is.

An Index Fund is an open-ended mutual fund that endeavours to replicate the performance of it's underlying index (subject to expense ratio and tracking error). In other words, it's portfolio tends to mirror it's underlying index constituents by holding the securities in the similar propotion as their weightage in that index.

ETFs are also open-ended funds and can also be traded like stocks on the exchange(s).



For example, there may be an ETF on Nifty or S&P BSE Sensex, whose portfolio will be exactly the same as the index. It will hold all the securities in the same weightage as in the index.



ETF has the best of both worlds, i.e. it trades like a stock and is structured like an open-ended index fund.

Active Investing Vs Passive Investing

Even the experts have come to believe that over the long term, trying to 'beat' the market by picking 'multi-baggers' and 'out-performers' is like gazing into a crystal ball. In essence, it is similar to gambling – taking a call on what the company's sales, expenses and profits are likely to be!

Percentage of Funds				
Fund Category	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (10%)
Indian Equity Large-Cap S&P BSE 100	80.65	88.14	87.95	67.57

Source: SPIVA India Scorecard as on December 31, 2020

Past performance may or may not be sustained in future.

> "All the time and effort people devote to picking the right fund, the hot hand, the great fund manager, have in most cases led to no advantage."

The legendary Fund Manager

> "Active management is zero sum game, and that's before costs. That's not opinion, that's math."

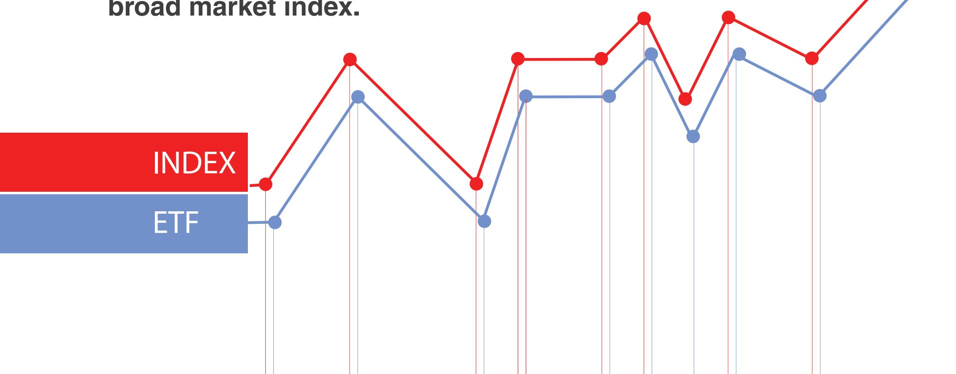
Nobel Laureate in Economics

Trust the market index to potentially generate good returns over the long term and let it be your fund manager!

ETF Scheme Return = Market Return*
(*subject to ETF expense ratio and tracking error)

Since the ETF mirrors the performance of the index, it makes no attempt at forecasting and analysis of companies and stocks. This is called passive investing. Thus, the performance of ETF would rise or fall in accordance with the rise or fall in the benchmark index. No more and no less.

An Equity ETF, therefore, serves Ravi's purpose of consciously avoiding the risks of active investing, where the returns will depend on the fund manager's ability and timing to pick stocks/sectors. While it will provide equity-oriented returns using the index, the risk of underperformance is minimised vis-a-vis the broad market index.



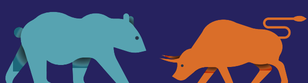
ETF is a sensible choice if you want to avoid taking the risk of forecasting and predicting in investments.

Trades Like a Stock

As opposed to a conventional mutual fund, ETF is listed and traded like shares on a stock exchange through a trading account. Just like a stock, an ETF has a ticker symbol and follows the same settlement cycle.

It has an indicative real-time NAV (market price) as compared to only a single end-of-day NAV for traditional mutual fund schemes. The indicative NAV of an ETF changes in tandem with the change in its benchmark index value.

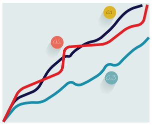
In order to ensure that the ETF price closely tracks its respective Index's movement at all times, the AMC appoints authorised participants (essentially stock brokers), to provide liquidity on the stock exchange.



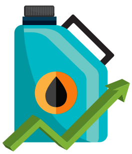
Trading flexibility of ETFs gives investors the benefit of making timely investment decisions taking advantage of high market volatility on real-time basis.

Diversify Across Asset Classes

Sunita can easily create a diversified portfolio using ETFs across asset classes and the best part is that she need not be an expert to be able to achieve that. All she needs is to buy the different ETFs and let each one replicate its respective market index or asset classes.



Equities
Replicating the composition and performance of an equity index.
(e.g. Nifty 50, Dow Jones, Nifty Bank)



Commodities
Tracking the domestic price of commodity.
(e.g. gold)

Fixed income
Earning regular income by investing in a basket of bonds (e.g. long-term government bonds or money market instruments and CBLO)

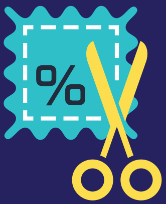
With ETFs, Sunita will find it is easy to move money between specific asset classes such as equity, commodities and fixed income.

ETFs offer the individual investor a cost-effective approach to enhance portfolio diversification due to their ability to cover indices, sectors, themes, countries and asset classes.

Don’t Overlook Costs

The cost of running an ETF is usually lower than a conventional mutual fund. This is mainly because unlike the other mutual funds, the fund manager doesn't actively manage the ETF, and thus takes a smaller fee. This helps to keep the costs down for Ravi, Sunita as well as Sumeet. Operational and client servicing costs are lower as they are handled by the demat service provider or the broking house. Further, there is no exit load levied by an ETF.

Having said that, they must realise that brokerage will be payable for buying/selling through their Demat accont (brokerage charges similar to any other stocks) and STT @0.001% will be payable on delivery based trades and @0.025% wil be payable on intra-day based trades. STT is applicable only at the time of ETF redemptions of equity oriented schemes.



ETF is a low cost investment option, when compared to other mutual funds.

Alternative to Futures

Speculative investors, who want to bet on the performance of the index, love ETFs for their flexibility and convenience. ETFs can be purchased in smaller sizes. They also don't require special documentation, special accounts, rollover costs or margin. Furthermore, some ETFs cover benchmarks where there are no futures contracts.

ETFs can be short-sold intra day and squared off like a stock. Additionally, ETFs can be short-sold for a longer duration by borrowing ETF units in Securities Lending and Borrowing (SLB) scheme.

Therefore, because of ETFs ability to be traded on real-time basis, Sumeet may want to prefer them over futures as his objective of investing in futures can be achieved with ETFs, albeit with greater flexibility and convenience.

ETFs provide speculative investors the opportunity to bet on an entire market as a single stock, taking advantage of market volatility.

Different Kinds of ETFs

Type	Equity ETF	Gold ETF	Fixed Income ETF
Underlying	Equity Index	Gold	Fixed Income Instruments
Tracking	Tracks the performance of benchmark index	Tracks the domestic price of physical gold	Tracks the performance of benchmark index
Benefits	Lower expense ratio as compared to active equity fund	An efficient method to take exposure to Gold	Lower expense ratio as compared to active debt fund
	Transparent	Convenient dealing through demat account	In case of Liquid ETF, to park cash between traders
	Trading flexibility-intraday on the stock exchange	No storage & security concerns for investors	In case of Liquid ETF, it can be used as cash equivalent margin for derivatives segment with a 10% hari cut
	Real time pricing	Transparent pricing	STT - NIL on buy and selling of Units
	STT - NIL on buy and 0.001% on sell through stock exchange	No STT-classified as debt fund	

The combination of passive investing, low cost and trading flexibility that ETFs offer, makes these instruments one of the most useful innovations and attractive investment options.

Nippon india Mutual Fund

Wealth sets you free

SMS 'EDU' to '561617'

Visit https://mf.nipponindiaim.com/InvestorEducation/home.htm