



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 61 / 2015-16

September 14, 2015

AMFI Best Practice Guidelines Circular No.61 /2015-16

Standardization of Information in Factsheets.

Dear Members,

Mutual Funds have been issuing Factsheets of the schemes on a voluntary basis since past several years. Although, Factsheet is not mandated under SEBI MF Regulations, in the year 2007, SEBI had advised AMFI to standardise the contents of the factsheets, so that investors are not confused by different formats used by various fund houses.

Accordingly, AMFI had constituted a Committee to suggest standardisation of the Factsheet. Based on the Committee's recommendations, AMFI had issued Best Practice Guidelines circular No. 135/BP/14/07-08 dated October 25, 2007, suggesting standardisation of information to be provided in the Factsheets, with liberty to provide additional information as deemed necessary.

SEBI had observed that there was still lack uniformity in the information provided in the factsheets across the Industry, which could be confusing to the investors, and had therefore requested AMFI to review the matter.

Accordingly, the matter was referred to AMFI's Working Group which recommended the revised framework for product labelling of mutual fund schemes based on 'Riskometer'.

The Working Group has reviewed the matter and has recommended further standardisation of certain information in the Factsheets, as detailed in the Annexures hereto, and the same has been approved by the Board of AMFI at the Board Meeting held on August 13, 2015.

Members are advised to adopt the revised Guidelines contained herein for uniform implementation in respect of their Factsheets for the month of September 2015, which would be issued in the first week of October, 2015.

Members are also requested to confirm having noted the contents of this circular for due compliance and also to place this circular before their Trustees for information at the next meeting of the Trustees.

With regards

Sincerely,

H. N. Sinor
Chief Executive



Proposal for standardizing the information in Factsheets

Background:

Factsheet is voluntary disclosure made by Mutual Funds and not mandated by the regulations. In the year 2007, AMFI Committee was formed to review the information reflected in factsheet. The objective of the committee was not to make these disclosures mandatory but to standardize, whenever communicated. With that objective, parameters were classified in three categories:

- Mandatory
- Optional for AMCs to follow but in specified format and
- Optional for AMCs to follow in their own format/specifications

SEBI has observed there is no uniformity in the factsheets across the industry, and feels that this may cause confusion among investors. SEBI has therefore asked AMFI to review and recommend standardization of monthly factsheets issued by the AMCs.

At the meeting AMFI told SEBI that even though factsheets are not mandated in the Regulations, they are standardized by & large as per AMFI Best Practice Guidelines issued in October 2007 and Fund Houses were free to provide additional information. Fund Houses use different systems and technology. If a particular Fund House highlights an additional parameter based on their investment philosophy, it cannot become requirement for other Fund Houses (who may not have the systems to track it).

However, SEBI has requested AMFI to review the current factsheet format and examine if additional standardization can be done

Considering this, it was agreed in the AMFI meeting to review the factsheet contents and standardize the key information reflected in factsheet.

Objective:

Assist investors to make a meaningful and like to like comparison of schemes of different fund houses by standardizing the information in factsheet.

Criteria:

The information to be displayed in factsheet was reviewed and the data that are critical and need to be provided was determined in this exercise.

Proposition:

Review of factsheets published by different fund houses to see current level of standardization. Also review international factsheets to identify various information furnished as part of the standardization exercise. Filter out information that are non-standardized and define parameters for key information that currently differ in content/ formula/ presentation across different fund houses.

Changes/ Improvements:

The proposed changes bring out the following advantages over existing disclosure:

- Identifies key information which every fund house need to be reflect. Refer **Schedule 1**
- Standardize formulas for various key ratios/ information reflected and provide one liner definition to the ratios that are reflected. Refer **Schedule 2**
- Provides information to investors on "How to read Fact Sheet". Refer **Schedule 3**

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Schedule 1 - Data to be reflected in factsheet

Category	Recommendation Comments
Key Scheme Information	
Scheme Name	
Investment Objective	
Type of Scheme	
Name of FM/ Experience	
Date of Allotment	As mentioned in the New Scheme Report or SID
Average AUM	Monthly Average AUM
Latest AUM as on factsheet date	As on last working day of month/ month end AUM
Latest NAV per unit	
Load information	
Benchmark	
Expense Ratio	
TER Regular	Weighted Average for the month – Refer Schedule 2
TER Direct	
Dividend History – Other than Daily/ Weekly	
Dividend to be Published other than Daily/Weekly/ Fortnightly	<ul style="list-style-type: none"> - Past 3 dividend - Investors do look out the dividend history for funds prior to investing
Portfolio Data	
Investment in securities	Best practice to reflect total 100% portfolio. But should minimum reflect Top 10%.
Allocation by sector for equities	Tabular/Graphical representation preferred. 0.01% or less can be clubbed as others
Allocation – Asset as well as rating-class for debt	Graphical representation preferred
Quantitative/ Volatility Measures	
Standard Deviation for equity fund	<ul style="list-style-type: none"> - Industry to adopt standard formulas reflected in Schedule 2 - For Sharpe Ratio, the risk free return should be standard benchmark as reflected in Schedule 2
Beta for equity fund	
Sharpe Ratio for equity fund	
Portfolio turnover for equity fund	
Modified Duration for debt fund	
Average maturity for debt fund	
Portfolio Yield	
Tracking Error	
Fund Performance/ Returns	
Reflect Returns for both liquid and non-liquid funds	- Minimum requirement to adhere to the SEBI Advertisement Guidelines
SIP Returns	Should always be provided for Equity Oriented Funds @ Rs.10,000/-

A.



Schedule 2

Total Expense Ratio:

Weighted Average i.e. Total Expense of the month / Average Asset / number of days in month * days in a year

Sharpe Ratio (refer note a, b & c)

$(R_i - R_f) / \text{Stdev}$

R_i = Fund Return

R_f = Risk-Free Return, MIBOR

Portfolio Turnover for equity securities

Beta Ratio (refer note a, b & cb)

CO-VARIANCE of NAV vs. Index returns / Variance of Index returns

Modified Duration

Weighted Average Modified Duration of the Portfolio

Security MD = Duration / (1 + Annualized Yield)

Duration = $\sum (T * PV_t) / V$

T is time of cashflow

PV_t is the Present Value of the Cashflow at time T

V = value of the bond at its yield

Average Maturity

Weighted Average Maturity of the assets

Portfolio Yield

Weighted Average valuation yield of the assets

Standard Deviation of Returns (refer note a, b & c)

Standard Deviation should reflect for the Fund as well as the relevant benchmark

\bar{X} is the mean of the return series

X is the return series

N is the no of values

S_N = Standard Deviation

$$s_N = \sqrt{\frac{1}{N} \sum_{i=1}^N (x_i - \bar{x})^2}$$

Also since this is not a sample but the total population N-1 is not required and we can use N as the denominator

Risk Free Return

MIBOR



Tracking Error (refer Note (a) below)

Step 1:	Obtain the NAV values and the TR Index values for each day of the total time period required
Step 2:	Calculate the percentage change in the NAV and TR Index for each day over its previous day Percentage change in the NAV = $\frac{\text{NAV as on day (t)} - \text{NAV as on day(t-1)}}{\text{NAV as on day (t -1)}}$
Step 3:	Calculate the difference between the percentage change in the NAV and the percentage change in the TR Index for each day
Step 4:	Calculate the Standard Deviation of the difference obtained from day(1) to day(n) in Step 3
Step 5:	Calculate the annualised tracking error as per the formula given below : Annualised Tracking Error = Standard Deviation obtained (Step 4) * sqrt (250)

Note

- Standard Deviation, Beta and Tracking Error should be computed taking similar data points.
- Applicable if a Scheme has completed 3 years. For 4 – 6 years, 4 year data point may be considered. For more than 6 years, 6 years' data point may be considered for these measures.
- For Fund of Funds and International Equity Funds, these measures are not required to be reflected.



Schedule 3

Fund Manager

An employee of the asset management company such as a mutual fund or life insurer, who manages investments of the scheme. He is usually part of a larger team of fund managers and research analysts.

Application Amount for Fresh Subscription

This is the minimum investment amount for a new investor in a mutual fund scheme.

Minimum Additional Amount

This is the minimum investment amount for an existing investor in a mutual fund scheme.

Yield to Maturity

The Yield to Maturity or the YTM is the rate of return anticipated on a bond if held until maturity. YTM is expressed as an annual rate. The YTM factors in the bond's current market price, par value, coupon interest rate and time to maturity.

SIP

SIP or systematic investment plan works on the principle of making periodic investments of a fixed sum. It works similar to a recurring bank deposit. For instance, an investor may opt for an SIP that invests Rs 500 every 15th of the month in an equity fund for a period of three years.

NAV

The NAV or the net asset value is the total asset value per unit of the mutual fund after deducting all related and permissible expenses. The NAV is calculated at the end of every business day. It is the value at which the investor enters or exits the mutual fund.

Benchmark

A group of securities, usually a market index, whose performance is used as a standard or benchmark to measure investment performance of mutual funds, among other investments. Some typical benchmarks include the Nifty, Sensex, BSE200, BSE500, 10-Year Gsec.

Entry Load

A mutual fund may have a sales charge or load at the time of entry and/or exit to compensate the distributor/agent. Entry load is charged at the time an investor purchases the units of a mutual fund. The entry load is added to the prevailing NAV at the time of investment. For instance, if the NAV is Rs. 100 and the entry load is 1%, the investor will enter the fund at Rs. 101.

Note: SEBI, vide circular dated June 30, 2009 has abolished entry load and mandated that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.

Exit Load

Exit load is charged at the time an investor redeems the units of a mutual fund. The exit load is deducted from the prevailing NAV at the time of redemption. For instance, if the NAV is Rs. 100 and the exit load is 1%, the redemption price would be Rs.99 per unit.

Modified Duration

Modified duration is the price sensitivity and the percentage change in price for a unit change in yield.

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Standard Deviation

Standard deviation is a statistical measure of the range of an investment's performance. When a mutual fund has a high standard deviation, it means its range of performance is wide, implying greater volatility.

Sharpe Ratio

The Sharpe Ratio, named after its founder, the Nobel Laureate William Sharpe, is a measure of risk-adjusted returns. It is calculated using standard deviation and excess return to determine reward per unit of risk.

Beta

Beta is a measure of an investment's volatility vis-à-vis the market. Beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 implies that the security's price will be more volatile than the market.

AUM

AUM or assets under management refers to the recent / updated cumulative market value of investments managed by a mutual fund or any investment firm.

Holdings

The holdings or the portfolio is a mutual fund's latest or updated reported statement of investments/securities. These are usually displayed in terms of percentage to net assets or the rupee value or both. The objective is to give investors an idea of where their money is being invested by the fund manager.

Nature of Scheme

The investment objective and underlying investments determine the nature of the mutual fund scheme. For instance, a mutual fund that aims at generating capital appreciation by investing in stock markets is an equity fund or growth fund. Likewise, a mutual fund that aims at capital preservation by investing in debt markets is a debt fund or income fund. Each of these categories may have sub-categories.

Rating Profile

Mutual funds invest in securities after evaluating their creditworthiness as disclosed by the ratings. A depiction of the mutual fund in various investments based on their ratings becomes the rating profile of the fund. Typically, this is a feature of debt funds.

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