

ELECTIVE PAPER 6B: FINANCIAL SERVICES AND CAPITAL MARKET PAPER

SUGGESTED SOLUTION

Case Study 3

Note: Please note these solutions are for guidance purpose only.

Solution to (A)

Source	Name of the Scheme as per the exhibit	Proposed Recategorization		Reasons for such recategorization
Exhibit No.		Scheme	Category of Scheme	
2	Dream Venue Focused 25 Fund Regular Plan	Equity	Dream Focused Fund	It is a scheme focused (restrict) its holdings to not more than 30 companies. Furthermore, the fund has minimum investment in equity and equity related instruments upto 65%

Source	Name of the Scheme as per the exhibit	Proposed Recategorization		Reasons for such recategorization
Exhibit No.		Scheme	Category of Scheme	
3	Dream Venue Ultra Short Term Bond Fund - Regular Plan	Debt	Dream Ultra Short Duration Fund	It is an Open Ended Ultra-Short Scheme seeks to generate optimal returns consistent with moderate levels of risk and liquidity by investing in debt securities and money market securities such that the Macaulay Duration of the portfolio is between 6 – 12 months. However, in order to get itself Recategorized as per the SEBI circular, Macaulay Duration of the portfolio shall be between 3 – 6 months.

Source	Name of the Scheme as per the exhibit	Proposed Recategorisation		Reasons for such recategorisation
Exhibit No.		Scheme	Category of Scheme	
4	Dream Venue Dynamic Equity Fund - Regular Plan	Hybrid	Dynamic Asset Allocation or Balanced Advantage	As it is already given in the exhibit that the scheme seeks to generate long term capital appreciation by investing in equity and equity related instruments including equity derivatives as well as debt

				instruments. Further, the basic purpose of the scheme is to invest in equity/debt that is managed dynamically. In other words, it is an open ended dynamic asset allocation fund.
Source	Name of the Scheme as per the exhibit	Proposed Recategorisation		Reasons for such recategorisation
Exhibit No.		Scheme	Category of Scheme	
5	CFDH RSF	Solution Oriented Schemes	Retirement Fund	It is specifically given in the exhibit that it is a retirement funds. Further, it is mentioned that the main advantage of mutual funds' retirement products is that you don't have to buy an annuity, as is the case with the NPS or pension plans from insurance companies. Instead, you can opt for a systematic withdrawal plan to meet your regular cash flow needs. Since a part of the withdrawal is your principal, it will be more tax-efficient as well.

Source	Name of the Scheme as per the exhibit	Proposed Recategorisation		Reasons for such recategorisation
Exhibit No.		Scheme	Category of Scheme	
6	ITU Nifty Index Funds	Other Schemes	Index Funds/ETFs	The principal investment objective of this scheme is to invest in stocks of companies comprising S&P CNX Nifty Index and endeavour to achieve return equivalent to Nifty by passive investment. The scheme is managed by replicating the index in the same weightage as in the S&P CNX Nifty-Index with the intention of minimizing the performance differences between the scheme and the S&P CNX-Nifty Index in capital terms, subject to market liquidity, costs of trading, management expenses and other factors which may cause tracking error.

Solution to (B)

	Amount in Rs. lakhs	Amount in Rs. lakhs	Amount in Rs. lakhs
Opening Bank (150-140-8)	2.00		
Add: Proceeds from sale of securities	48.00		
Add: Dividend received	<u>2.00</u>	<u>52.00</u>	
Deduct: Cost of securities purchased	42.40		
Fund management expenses paid (6.0 - 0.5)	5.50		
Capital gains distributed = 80% of (48.00 - 45.75)	1.80		
Dividend distributed =80% of 2	<u>1.60</u>	<u>51.30</u>	
Closing Bank			0.70
Closing market value of portfolio			<u>148.75</u>
			149.45
Less: Arrears of expenses			<u>0.50</u>
Closing Net Assets			148.95
Number of units (Lakhs)			15.00
Closing NAV per unit			9.93

Rate of Earning

	Amount
Income received (1.8+1.6)/15	0.23
Loss: Loss on disposal (10 - 9.93)	0.07
Net earning	0.16
Initial investment	10.00
Rate of earning (monthly)	1.6%
Rate of earning (Annual)	19.2%

Note: Alternatively, Rate of earning can also be computed on the basis of 1000 units. However, the final answer shall remain the same.

Solution to (C)**Answers to Multiple Choice Questions**

- (i) (b)
- (ii) (a)
- (iii) (d)
- (iv) (d)
- (v) (a)
- (vi) (a)
- (vii) (c)
- (viii) (a)
- (ix) (d)
- (x) (b)