An investor education initiative by LIC MUTUAL FUND

Introduction to Passive Funds

I WISH TO INVEST IN STOCK MARKET…

I am a Millennial…

I am new to the stock market & looking for economical way of investing in equities.

I am a Middle Aged Man…

I have no time for stock selection.

I am an Informed Investor…

I don't want fund manager bias & would like to diversify my investment across stocks in Index/ Sector.

Passive Fund could be the solution for all the above.

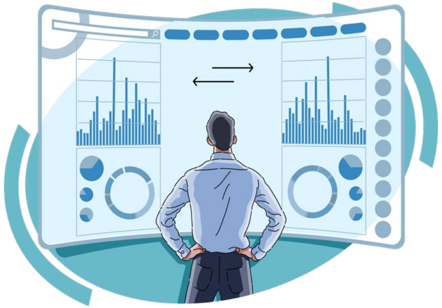
WHAT ARE PASSIVE FUNDS?

Passive funds

- Passive funds are the funds which invests in a particular Index in similar proportion to generate returns similar to the Index.
- A passive fund is a type of fund that religiously tracks a market index to allow a fund to deliver returns similar to index.
- Its an investment style of mirroring the Index.

HOW DOES PASSIVE FUND WORK?

Select a suitable market index. → **Replicate the portfolio in same proportion.** → **Track index and keep making necessary changes.**



- The entry and exit of a particular stock in the portfolio is determined by its weightage in the underlying index.
- Since the stocks are similar to that in index, there is no stock selection process involved in here, that's why these funds are called passive funds.

HOW ARE PASSIVE FUNDS DIFFERENT FROM ACTIVE FUNDS ?

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PASSIVE FUND	BASIS	ACTIVE FUND
May generate return similar to the benchmark Index/asset class.	Objective	May outperform the market/benchmark index.
To mirror the benchmark index/asset class.	Strategy	Selection of stocks, asset class, sectoral allocation & timing.
Relatively lower	Expense Ratio	Relatively higher
Cost of trading and management fees.	Costs involved	Cost of research, Fund management fees, trading costs, etc.
Relatively lower tax due to limited alteration in the portfolio.	Tax	Higher taxes due to frequent portfolio alteration.
Market Volatility.	Risks Involved	Timing of entry and exit, Concentration risk, Sectoral risk, stock selection risk, change in fund manger and market volatility.

WHAT ARE THE BENEFITS OF PASSIVE FUNDS?

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1. Low cost

2. No Fund Managers bias

3. Diversification within Index/ Sector

4. No stock selection risk

WHO SHOULD INVEST IN PASSIVE FUNDS?

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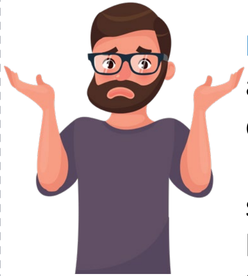
1

Millennials
who are inexperienced should start investing in equities through Passive funds.

2



New investors generally are unaware of the risks and dynamics of equity markets. Hence it is advised to start with passive investment before getting actively involved.

3

New to equity market
Any investor who is new to equity market, may invest in passive funds.

4

Opportunistic investors
who is bullish on particular sector or Index.

5

Seasoned Investor
who wants no fund manager bias in stock selection of his portfolio.

6

Investors who wants to invest for a really long term (over 10 years) but does not want to actively manage his portfolio.
That way investor remain unaffected from short term volatility.

WHAT ARE THE TYPES OF PASSIVE FUNDS?

Index Funds

Index Funds are open-ended schemes which tracks the underlying benchmark where investors can buy and redeem units of Mutual Fund at the end of the day NAV.

Exchange Traded Funds (ETFs)

ETFs are listed on the stock exchange and investors can buy and sell units (similar to stocks) at real-time prices on the secondary market.
ETFs can also be bought /sold directly from AMC with a minimum lot size.

INDEX FUND vs ETFs

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Index Fund	Particulars	Exchange Trade Funds (ETFs)
Low	Minimum Investment	High due to lot system
Relatively High	Tracking Error	Relatively Low
Relatively High	Expense Ratio	Relatively Low
May or may not have Exit Load	Entry or Exit Load	No Entry or Exit Load
Day End	NAV	Real-Time
Not Possible	Intra-Day Trading	Possible at Low Cost
Physical or Demat Mode	Mode of Holding	Only Demat Mode
Yes	SIP/SWP/STP Option	No

TO RECAP :

What are Passive Funds?

- Passive funds are the funds which invests in a particular Index in similar proportion to generate returns similar to the Index.

How Passive Fund works?

- Passive investment involves selecting a market index.
- Then creating a replica of the index by investing in similar stock in same proportion as in index.
- Then religiously tracking it and adjusting the portfolio for any changes in the underlying index to keep it as identical to the index as possible.

Why Passive Funds?

- Passive fund is a product which is suitable for all type of investors. It is standardize, simple and easy to manage as there is no stock selection risk. Fund manager intervention is limited and hence there is no bias.

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For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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