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A SIMPLE GUIDE TO
INVESTMENT CHARGES

Understanding the costs associated with your investments helps you make more informed decisions and build wealth with clarity and confidence.

MUTUAL FUND CHARGES

1. EXPENSE RATIO (TER – TOTAL EXPENSE RATIO)

The annual fee charged by the fund house for managing and operating the mutual fund.

- Fund management expenses
- Administrative & record keeping expenses
- Marketing expenses
- Customer support
- Regular plans include distribution & service costs; direct plans have a lower TER.

EXAMPLE:

If a fund has a 2% expense ratio and you invest ₹1,00,000, around ₹2,000 is charged annually. This amount is deducted from the fund's NAV.

2. STAMP DUTY

A government charge applied when mutual fund units are purchased.

0.005%

of the investment amount

EXAMPLE:

If you invest ₹1,00,000, approximately ₹5 is deducted as stamp duty.

3. SECURITIES TRANSACTION TAX (STT)

A government tax applicable on redemption of equity mutual fund units.

0.001%

of the redemption amount

EXAMPLE:

If you redeem ₹2,00,000 from an equity mutual fund, approximately ₹2 is deducted as STT.

4. EXIT LOAD

A charge applied when investments are withdrawn before a specified holding period.

The exit load structure differs across schemes and is mentioned in the scheme documents.

EXAMPLE:

If a mutual fund charges a 1% exit load and you redeem ₹1,00,000 before the applicable period, ₹1,000 may be deducted as exit load.

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CHARGES IN PMS, AIFS & OTHER INVESTMENT PRODUCTS

1. MANAGEMENT FEE

A fee charged for managing the investment portfolio and making investment decisions.

Generally ranges between **1% – 3%** annually depending on the product structure.

2. OPERATING EXPENSES

Expenses towards administration, operations, audit, custody and maintenance of the investment structure.

SEBI rule is to charge not more than **0.50%** of the client's average AUM annually.

3. PERFORMANCE FEE

An additional fee charged when returns exceed a predefined benchmark or hurdle rate.

The purpose of this fee is to align the fund manager's interests to generate higher returns for investors.

EXAMPLE:
Suppose an investor invests in a PMS which has a hurdle rate of 10% but generates returns of 15%, on the additional 5% returns, performance fee is charged by the fund manager.

4. HIGH WATER MARK PRINCIPLE

Ensures performance fees are charged only on new gains above the portfolio's previous highest value.

EXAMPLE:
If the portfolio rises from ₹10 lacs to ₹15 lacs and performance fee is charged, then later falls to ₹12 lacs and returns to ₹15 lacs, no additional performance fee is charged until the value exceeds ₹15 lacs.

CHARGES WHICH SHOULDN'T BE TAKEN, ACCORDING TO SEBI

- **Account Fee:** A fee is the charge taken by a mutual fund company to maintain and manage an investor's account.
- **Distribution and service fee:** A fee is charged to cover marketing, advertising, and distribution costs of the mutual fund.
- **Switch Price:** The fee charged when an investor transfers money from one mutual fund scheme to another within the same fund house.
- **Entry Load:** A fee charged when investors buy mutual fund units, although it has now been removed by SEBI in India.
- **Recurring charges:** Regular fees deducted from the fund for managing and operating the mutual fund continuously.
- **One-time charges:** One-time charges are fees paid only once while buying or redeeming mutual fund units.

KEY THINGS TO REMEMBER

- Different investment products have different cost structures.
- Some charges are fixed, while others depend on performance or holding period.
- Many charges are adjusted within the investment product and may not appear as separate deductions.
- Understanding charges helps investors evaluate investments more effectively over the long term.

A clear understanding of investment costs is an important part of long-term wealth creation.

If you have any questions or would like help understanding fee structures across different investment products in more detail, our team would be happy to assist you.