BAJAJ MUTUAL FUND

BER V/S TER

THE EQUITY COMPASS | EDITION 17

Understanding the base cost and the total cost of a mutual fund scheme.

Think of booking a flight.

The base fare reflects the airline's charge for providing the journey, while the final ticket price may also include statutory taxes, airport charges and other applicable levies.
Similarly, a mutual fund's Base Expense Ratio (BER) represents the core expenses charged for managing and operating the scheme. The Total Expense Ratio (TER) includes the BER along with other permitted charges, taxes and statutory levies, as applicable.

WHAT IS AN EXPENSE RATIO?

A mutual fund incurs expenses for managing the portfolio, administering the scheme, maintaining investor records, communicating with investors, and distributing the product.

These expenses are charged to the scheme and reflected in its Net Asset Value (NAV). They are not generally collected from investors through a separate bill. The expense ratio expresses these expenses as a percentage of the scheme's average daily net assets.

A higher expense ratio simply means that the scheme is incurring relatively higher expenses. Over time, even a small difference in costs may influence the returns received by investors.

WHAT IS BER?

The Base Expense Ratio represents the permitted expenses involved in managing and operating a mutual fund scheme.

This includes:
Investment management and advisory fees | Administration, audit, custodian and registrar expenses
Investor communication expenses | Distribution commission in regular plans

The maximum permitted BER depends on the scheme category and, for specified open ended schemes, its AUM. In general, the permitted rate reduces progressively as the scheme's AUM increases.

OPEN ENDED SCHEMES

DAILY NET ASSETS	EQUITY ORIENTED SCHEMES (EARLIER TER→NEW BER)	OTHER THAN EQUITY ORIENTED SCHEMES (EARLIER TER→NEW BER)
First ₹500 crore	2.25%→2.10%	2.00%→1.85%
Next ₹250 crore	2.00%→1.90%	1.75%→1.65%
Next ₹1,250 crore	1.75%→1.60%	1.50%→1.40%
Next ₹3,000 crore	1.60%→1.50%	1.35%→1.25%
Next ₹5,000 crore	1.50%→1.40%	1.25%→1.15%
Next ₹40,000 crore	Reduction of 0.05% for every additional ₹5,000 crore of daily net assets or part thereof	
Balance above ₹50,000 crore	1.05%→0.95%	0.80%→0.70%

Name of MF – Bajaj Finserv Mutual Fund | Registration no. – MF/078/23/04

OTHER SCHEME CATEGORIES

SCHEME CATEGORY	EARLIER TER → NEW BER
Index funds and ETFs	1.00% → 0.90%
FoFs investing in liquid schemes, index funds and ETFs	1.00% → 0.90%
Equity oriented FoFs	2.25% → 2.10%
Other FoFs	2.00% → 1.85%
Close ended equity schemes	1.25% → 1.00%
Close ended other than equity schemes	1.00% → 0.80%

Note: Earlier TER limits are prescribed under the erstwhile SEBI (Mutual Funds) Regulations, 1996. New BER limits are prescribed under the SEBI (Mutual Funds) Regulations, 2026. Figures represent a percentage of the daily net assets.

WHAT IS TER?

The Total Expense Ratio represents all expenses charged to the scheme and reflected in its NAV.

TER = BER + Brokerage Cost + Transaction Cost + Statutory Levies

Transaction cost includes applicable regulatory levies and charges imposed by stock exchanges, clearing corporations, and clearing houses.

Statutory levies refer to applicable levies imposed by the Central Government or a State Government and may include GST, Securities Transaction Tax, Commodity Transaction Tax and stamp duty, as applicable.

Since some of these expenses depend on trading activity and prevailing statutory rates, the TER may vary even when the BER remains unchanged.

HYPOTHETICAL EXAMPLE

Assume an equity mutual fund has the following expense components:

EXPENSE COMPONENT	ANNUAL RATE
Base Expense Ratio	1.50%
Brokerage Cost	0.04%
Transaction Cost	0.02%
Statutory Levies	0.03%
Total Expense Ratio	1.59%

In this example, the scheme's BER is 1.50%, but its TER is 1.59% after including the other permitted expenses.

For illustrative purposes only.

WHAT CHANGED IN RECENT TIMES?

Under the earlier framework, the prescribed expense limits were referred to as Total Expense Ratio limits, with different expenses and statutory levies receiving different regulatory treatment.

The revised framework brings a clearer separation between the base expenses of the scheme and certain other costs that are charged separately.

This framework came into effect from April 1, 2026 under the SEBI (Mutual Funds) Regulations, 2026.

The revised framework introduced three important changes:

- The regulated expense limit is now called the Base Expense Ratio, excluding statutory levies.
- TER is now clearly presented as the sum of BER, brokerage, transaction costs, and statutory levies.
- Brokerage may be charged over and above BER up to 6 bps for cash market transactions and 2 bps for derivatives. Any excess forms part of the BER limit.

Under the revised expense framework, BER provides investors with a clearer measure of the scheme's core operating cost, making it more relevant when understanding and comparing the cost of managing different mutual fund schemes.

WHAT SHOULD INVESTORS REMEMBER?

A lower BER does not necessarily mean that the total cost has fallen by the same amount, since some expenses are now shown separately.

The key is to compare like with like: BER with BER, and TER with TER, while also considering the scheme category, direct or regular plan, investment strategy, portfolio characteristics and performance consistency.

BER represents the base expenses of operating the scheme. TER represents the total expenses charged to the scheme and reflected in its NAV.