CHAPTER – 3

ASSET MANAGEMENT COMPANIES (AMC’s) IN INDIA

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ROLE OF AMC’s IN CAPTURING MAXIMUM SHARE OF INVESTOR’S MARKET:

AMC – Basic concept:

Investing in a mutual fund is a mutual way of investing in markets. They emerged because of two concerns faced by the Investors. First was the Quantum of investment, as people had small money to save on day to day or month on month basis. Second was the knowledge part as each of us have different education and profession, so we find ourselves ill equipped when it come to investment markets. So each of us need the experts help during the investment process.

Organisation of a Mutual Fund:

Asset Management Company (AMC) is a group who runs the entire affairs of the mutual fund. It is a company that invests its clients' pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves.

Thus, an asset management company is a company registered under the Companies Act, 1956. The Sponsor creates the asset management company and this is the entity, which manages the funds of the mutual fund (trust). The mutual fund pays a small fee to the AMC for management of its fund. The AMC acts under the supervision of Trustees and is subject to the regulations of SEBI.

Trustees appoint the Asset Management Company as the Investment Manager of the Trust, on the recommendation of sponsor. Trustees are authorized to appoint AMC as per the trust deed. The trustees enter into an agreement with the AMC known as ‘Investment Management Agreement’, which contains all the functions, duties and rights of the AMC as an Investment Manager.

The AMC is, thus, an operational arm of the mutual fund (trust). AMC is responsible for carrying out all functions related to management of the assets of the trust. The AMC structures various schemes, launches the scheme and mobilizes initial amount, manages the funds and give services to the investors. In fact, AMC is
the first major constituent appointed. Later on, AMC appoints other constituents like Registrar and Transfer agents, Distributors, Bankers, Brokers, Auditors, Lawyers etc. and works in close co-ordination with them.

Since this group is appointed and answerable to the Sponsor of this Mutual Fund. The Wiseman appointed, is the Fund Manager and his team who would take decisions in investing in different asset classes. The Rules laid are nothing but Objectives, which are set for each schemes and the basic guidelines about the investment made under the scheme (Fund).

The Value of investment that the wise man is reporting is the Net Asset Value or the NAV. NAV is the unit value of the asset and is calculated by dividing the assets by the numbers of unit holders.

The Record Team is Registrar & Transfer Agent (R & T). They keep the record of the investors and take care of the queries of the units holders.

And finally, the Care taker Team is the Custodian, who shoulders the responsibility of keeping records and possession of all the physical asset of the scheme. Fees that the scheme is charging are called the Asset Management Fees.

*Working of the mutual fund*
Securities and Exchange Board of India notifies Regulations to set up Self Regulatory Organisation for Mutual Fund distributors:

In a move to regulate mutual fund distribution business, SEBI has notified regulations to set up a Self Regulatory Organisation (SRO) to monitor distributors of mutual fund and portfolio management products on 8th January 2013.

"The Securities and Exchange Board of India (SEBI) hereby appoints the date of this notification as the date on which the regulations shall come into force in relation to distributors engaged by asset management companies of mutual funds and distributors engaged by portfolio managers.” The decisions followed concerns about mutual fund distributors in India not being regulated and there having various complaints against them for mis-selling of products to the investors.

In August 2012, SEBI in its board meeting had approved the proposal made by its Mutual Fund Advisory Committee (MFAC), to set up an SRO to regulate the Mutual Fund distribution business.

Presently, the distributors need to register with Association of Mutual Funds in India (AMFI) and their registration can be cancelled by AMFI for violation of a prescribed Code of Conduct or for any other malafide practice.

AMFI Revises code of conduct:

To check the flow of illicit money into mutual funds and safeguard the interest of investors, industry body AMFI has revised its code of conduct guidelines for fund houses and distributors. It has asked intermediaries to provide all documents of its investors in terms of the requirements under the anti-money laundering/combating financing of terrorism regulations. In a 27-point revised code, AMFI has also asked them to ensure that the address and contact details filled in the application form of an investor are his own so that he is protected against any potential fraudulent activities.

The Key Role of asset management companies:

Asset management companies play the leading role in the financial market for managed investment, commonly also known as "portfolio management companies".
Asset management companies are the backbone of managed investments: Asset management companies are responsible for the financial, administrative and accounting management of products under management in collective investment schemes and under discretionary mandates. They are authorised to do business and they manage their assets independently and exclusively in the investor’s interest.

An asset management company is always liable for its business activities, even if it outsources some of them. In law, their liability is based on the notion of a management mandate. Under the terms of the mandate, the manager is responsible for making management decisions by buying and selling securities on behalf of investors (or customers).

In addition to the conventional due diligence and disclosure requirements, the management mandate entails two main requirements:

- **Treating customers fairly:** Asset management companies (and their managers) must act solely in the investors’ interest. The company is bound by the terms of regulations to fair dealing and ethical principles that the industry has set out officially in various rules and regulations. Asset management companies are subject to transparency requirements with regard to their customers. Official recognition of the asset management business and the segregation of this function from the custody function, and from businesses that are likely to cause conflicts of interest, such as investment banking, market activities, proprietary trading, are preventive measures taken to protect investors.

- **A best-efforts obligation:** The asset management company must have sufficient financial resources (capital, etc.), technical capabilities (accounting system, analytical resources, performance monitoring, etc.) and personnel (adequate staffing levels for the business type and volume) to provide the investment services being offered.

**Restrictions on the business activities of an asset management company:**

In essence an Asset Management Company manages investors’ money. Thus, it becomes important to ensure that it focuses just on its core business. Also, the regulators aim to ensure that the activities of AMC are not against
investors’ interests. With these objectives, SEBI has imposed some restrictions on the business activities of an AMC. These are:

(i) An AMC shall not undertake any business activity except in the nature of portfolio management services, management and advisory services to offshore funds etc, provided these activities are not in conflict with the activities of the mutual fund.

(ii) An AMC cannot invest in any of its own schemes unless full disclosure of its intention to invest has been made in the offer document.

(iii) An AMC shall not act as a trustee of any mutual fund.

**Portfolio Management Services of AMC’s:**

**Introduction:**

Portfolio Management Services account is an investment portfolio in Stocks, Debt and fixed income products managed by a professional money manager that can potentially be tailored to meet specific investment objectives. When investor invests in PMS, he/she own individual securities unlike a mutual fund investor, who owns units of the entire fund. He has the freedom and flexibility to tailor his portfolio to address personal preferences and financial goals. Although portfolio managers may oversee hundreds of portfolios, investor’s account may be unique. As per SEBI guidelines, only those entities who are registered with SEBI for providing PMS services can offer PMS to clients. There is no separate certification required for selling any PMS product. So this is case where mis-selling can happen. As per the SEBI guidelines, the minimum investment required to open a PMS account is Rs. 5 Lacs. However, different providers have different minimum balance requirements for different products. For Example: Birla AMC PMS is having minimum amount requirement of Rs. 25 lacs for a product. Similarly HSBC AMC is having minimum requirement of 50 lacs for their PMS and Reliance is having minimum requirement of Rs. 1 Crore. In India Portfolio Management Services are also provided by equity broking firms & wealth management services.

Most of the people in India know about investing in securities market directly or through Mutual Funds. Here is a brief about how one can invest in securities market through PMS:
1. A portfolio manager is a body corporate who, pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client, the management of a portfolio of securities or the funds of the client.

2. PMS provides freedom of personal choice for investment in particular securities/sectors but in mutual fund once choice is made for a particular fund, investor cannot instruct mutual fund house manager to invest money in specific securities/sectors.

3. For registration as a portfolio manager, an applicant is required to pay a non-refundable application fee of Rs.1 lakh, have a minimum networth of Rs. 2 crores, pay Rs. 10 lakhs as registration fees at the time of grant of certificate of registration by SEBI and pay Rs. 5 lakhs to SEBI after every three years as renewal fees.

4. SEBI (Portfolio Managers) Regulations, 1993 provides for the regulation of PMS in India. The services of a Portfolio Manager are governed by the agreement between the portfolio manager and the investor. The agreement should cover the minimum details as specified in the SEBI Portfolio Manager Regulations. However, additional requirements can be specified by the Portfolio Manager in the agreement with the client. Hence, an investor is advised to read the agreement carefully before signing it.

5. The regulations provide that the portfolio manager shall charge a fee as per the agreement with the client for rendering portfolio management services. The fee so charged may be a fixed amount or a return based fee or a combination of both. The portfolio manager shall take specific prior permission from the client for charging such fees for each activity for which service is rendered by the portfolio manager directly or indirectly (where such service is outsourced).

6. The portfolio manager is required to accept minimum Rs. 5 lakhs or securities having a minimum worth of Rs. 5 lakhs from the client while opening the account for the purpose of rendering portfolio management service to the client.

7. Portfolio manager can only invest and not borrow on behalf of his clients.
8. Investors can log on to the website of SEBI www.sebi.gov.in for information on SEBI regulations and circulars pertaining to portfolio managers. Addresses of the registered portfolio managers are also available on the website.

9. Investors would find in the Disclosure Document the name, address and telephone number of the investor relation officer of the portfolio manager who attends to the investor queries and complaints. The grievance redressal and dispute mechanism is also mentioned in the Disclosure Document. Investors can approach SEBI for redressal of their complaints. On receipt of complaints, SEBI takes up the matter with the concerned portfolio manager and follows up with them.

10. Investors may send their complaints to:

Office of Investor Assistance and Education,
Securities and Exchange Board of India,
SEBI Bhavan
Plot No. C4-A, ‘G’ Block,
Bandra-Kurla Complex, Bandra (E),
**Mumbai - 400 051.**

There are broadly two types of PMS:

1. **Discretionary PMS** – Where the investment is at discretion of the fund manager & client has no intervention in the investment process.

2. **Non-Discretionary PMS** – Under this service, the portfolio manager only suggests the investment ideas. The choice as well as the timings of the investment decisions rest solely with the investor. However the execution of the trade is done by the portfolio manager.

The client may give a negative list of stocks in a discretionary PMS at the time of opening his account and the Fund Manager would ensure that those stocks are not bought in his portfolio. Majority of PMS providers in India offer Discretionary Services.
How can investor invest in a Portfolio Management Services (PMS):

There are two ways in which an investor can invest in a Portfolio Management Services:

1. Through Cheque payment
2. Through transferring existing shares held by the customer to the PMS account. The Value of the portfolio transferred should be above the minimum investment criteria.

Beside this customer will need sign a few documents like— PMS agreement with the provider, Power of Attorney agreement, New demat account opening format (even if investor has a demat account he is required to open a new one) and documents like PAN, address proof and Identity proofs are mandatory. NRIs can invest in a PMS. The NRI needs to open a PIS account for investing in PMS. The documentation required for an NRI, however, is different from a resident Indian. A checklist of documents is provided by each PMS provider.

Working of a Portfolio Management Services (PMS):

Each PMS account is unique and the valuation and portfolio of each account may differ from one another. There is no NAV for a PMS scheme; however the customer will get the valuation of his portfolio on a daily basis from the PMS provider. Each PMS account is unique from one another. Every PMS scheme has a model portfolio and all the investments for a particular investor are done in the Portfolio Management Services on the basis of model portfolio of the scheme. However the portfolio may differ from investor to investor. This is because of:

1. Entry of investors at different time.
2. Difference in amount of investments by the investors
3. Redemptions/additional purchase done by investor
4. Market scenario – Example: If the model portfolio has investment in Infosys, and the current view of the Fund Manager on Infosys is “HOLD” (and not “BUY”), a new investor may not have Infosys in his portfolio.

Under PMS schemes the fund manager interaction also takes place. The frequency depends on the size of the client portfolio and the Portfolio Management
Services provider. Bigger the portfolio, frequency of interaction is more. Generally, the PMS provider arranges for fund manager interaction on a quarterly/half yearly basis.

**Portfolio Management Services (PMS) Charges:**

A PMS charges following fees. The charges are decided at the time of investment and are vetted by the investor.

**Entry Load** – PMS schemes may have an entry load of 3%. It is charged at the time of buying the PMS only.

**Management Charges** – Every Portfolio Management Services scheme charges Fund Management charges. Fund Management Charges may vary from 1% to 3% depending upon the PMS provider. It is charged on a quarterly basis to the PMS account.

**Profit Sharing** – Some PMS schemes also have profit sharing arrangements (in addition to the fixed fees), wherein the provider charges a certain amount of fees/profit over the stipulated return generated in the fund. For Example: PMS X has fixed charges of 2% plus a charge of 20% of fees for return generated above 15% in the year. In this case if the return generated in the year by the scheme is 25%, the fees charged by the PMS will be 2% + \(\{(25\%-15\%) \times 20\%\}\).

The Fees charged is different for every Portfolio Management Services provider and for every scheme. It is advisable for the investor to check the charges of the scheme.

Apart from the charges mentioned above, the PMS also charges the investors on following counts as all the investments are done in the name of the investor:

- Custodian Fee
- Demat Account opening charges
- Audit charges
- Transaction brokerage
**Taxation for Portfolio Management Services (PMS):**

Any income from Portfolio Management Services account is a business income. Unlike MF, PMS is not required to remain 65%+ invested in equity to get equity taxation benefit. Each Portfolio Management Services account is in the name of additional investor and so the tax treatment is done on an individual investor level.

Profit on the same can be considered as business income.(i.e slabwise). Profit can be considered as Capital gains. [STCG(15%) or LTCG(Taxfree)]. It depends on clients Chartered Accountant or the assessing officer how he treats this Income. The PMS provider sends an audited statement at the end of the FY giving details of STCG and LTCG, it is on the client and his CA to decide to treat it as capital gain or business income.

**PMS v/s Mutual Fund:**

Both PMS and Mutual Funds are types of managed Funds. The difference to the investor in a Portfolio Management Services over a Mutual Fund is:

- Concentrated Portfolio.
- Portfolio can be tailored to suit the needs of investor.
- Investors directly own the stocks, rather than the fund owning the stocks.
- Difference in taxation.

**Benefits of PMS to the investors and fund houses:**

Today, the financial market is increasingly complex and managing one’s own portfolio will take up a lot of time and effort. There are situations when we don’t have time or knowledge to explore the best investment alternatives in the market. This is a common problem faced by many wannabe investors. At this juncture, portfolio management services can help investor get out of this dilemma. So investor can simply assign his investments to portfolio management services who will report to him regularly on his portfolio performance. Thus, investor will not feel lost in this complex world of investments and the experts will do their job. Thus, PMS provides the following:
PMS gives investors access to an institutional process of money management.

- Provides a customized solution by matching the unique circumstances and objectives of each investor.
- Wealth creation based on disciplined investment process is the crux of PMS.
- Effective diversification helps reduce portfolio volatility and enhances risk-adjusted returns over long term.
- PMS gives investor direct ownership of the individual securities in the portfolio.

A few aspects on which portfolio managers score on top are as under:

**Professional Management:**

The service provides professional management of equity portfolios designed to deliver consistent long-term performance while identifying and controlling risks.

**Continuous Monitoring:**

There is always a need to constantly monitor portfolios and bring in periodic changes to optimize the results and PMS delivers such ease to its investors.

**Research Support:**

A research team responsible for establishing investment strategy and providing real time information backs portfolio managers and thus, helps in generating rewards and returns to the investors.

**Balanced Portfolio:**

Professional research and advice will help investor with information on the best investment options and ideas for his portfolio.

**Identifying Investor Objectives:**

The foundation of every financially sound portfolio is the ability to identify one’s investment objective. It’s a process that requires expertise. Thus, every asset management company provides investor a Relationship manager who comes with the required expertise and experience to understand an investor’s financial goals.
**Maximum Returns, Minimum Risks:**

Portfolio management services assure investor of the best downside protection for his portfolio. He will benefit with practical financial advice that can help convert all paper gains into real profits in the shortest time.

**Adjust investor’s Portfolio To Market Trends:**

When an investor avails portfolio management services, he enjoys greater freedom and flexibility to diversify his investments.

**Personalized advice:**

Investor gets investment advice and strategies from expert Fund Managers.

**Professional Management:**

Money management services that work for investor.

**Hassle Free Operations:**

A high standard of service and complete portfolio transparency is offered by PMS. Every Portfolio Management Service provider ensures investors enjoy healthy portfolios without having to involve themselves personally in monitoring and maintaining them. They provide investors with a customized service. All the administrative aspects of portfolio are taken care of by them for investor.

**Greater control:**

Investor has greater control over the asset allocation in PMS. Here the portfolio can be customized to suit investor’s risk-return profile.

**Transparency:**

PMS provides comprehensive communications and performance reporting that will give investors a complete picture regarding the securities held on his behalf. It provides a dedicated website that allows investor to access all information relating to his investment. Investor also receives quarterly account performance statement on the overall status of the portfolio and research reports.
Services provided in Portfolio Management:

Once the investor has entrusted his money to a PMS, he expects excellent services from portfolio managers. The services provided in portfolio management are as under:

1. Portfolio managers work as a personal relationship manager with whom the client can interact at any time as per his preference.
2. To discuss any topics regarding money or saving, the client can interact with his portfolio manager on a monthly basis.
3. The client can also discuss on any major changes that he wants in his asset allocation or investment strategies.
4. Portfolio management service (PMS) handles all types of administrative work such as opening a new bank account or dealing with a financial settlement or depository transaction.
5. For online Portfolio management service (PMS), the client receives a User-ID and Password that helps him in getting online access to his portfolio details as and when he wants.
6. Portfolio management service (PMS) also helps tax planning and tax management of client based on detailed statement of transactions in his portfolio.

Building a portfolio for clients:

The conventional wisdom says that investment portfolios should be designed around the age and risk tolerance of each individual client. But experts say this approach is oversimplified.

If age and risk tolerance serve as incorrect or incomplete guidelines, what should financial planners base portfolio construction on instead? Most experts say portfolio managers should consider a more personalized approach to building portfolios for individual.
Let’s consider some dissenting points to build a portfolio for client:

1. **Don't link risk tolerance to age, and focus on investment goals and liquidity needs:**
   
   Conservative investors panic when their portfolios experienced higher volatility because they were told to be more aggressive because of their age. The end result is they sell when their portfolio is down and now it will take longer to build that portfolio back up. Anticipated liquidity needs and the losses an investor can stomach should drive asset allocation decisions.

   "The commonly used theory that young investors can afford and therefore should assume more risk, while at times appropriate, shouldn't be the end-all, be-all yardstick for risk exposure". Investors of any age are not going to feel good about losing a significant portion of their portfolios if the markets have a bad year. Such an experience can even give younger investors a bad taste for the market.

   Similarly, the conventional wisdom about putting older investors in lower-yield investments isn't always the right choice.

   "Older investors often feel uneasy about the security of a portfolio that is overexposed to fixed income, netting very low yields at a time when cash needs may arise unpredictably."

   "In the end, clients want a series of outcomes . . . move to a new house, buy a new car, send their kids to college, take that once in a lifetime vacation, accumulated retirement income they can't outlive." Clients need to understand the tradeoffs required to meet their goals and believe in the long-term plan.

2. **Don't rely on risk-assessment questionnaires:**
   
   Developing an understanding of a client's overall attitudes and beliefs about money can't be achieved with a simple questionnaire. This task requires a candid conversation between the client and the advisor.

   "Individuals' opinions on money, risk and investing are informed by unique experiences and circumstances and can only be identified by asking tough questions and sometimes challenging clients' responses."
The conversation that so often happens around, 'How do you feel about losing 40% of your portfolio in a single year?' is intellectually dishonest. No one wants to lose 40% of their portfolios in any year.

The only way to take very little portfolio risk is if a client has either very low future expectations or a higher than normal income that they can save a large percentage of. Most people have higher expectations than their incomes can support, so they must understand the need to take additional portfolio risk or cut back on spending.

3. **Minimise volatility and losses:**

   Very few investors are comfortable with volatility or losses, regardless of what they might say or think while filling out a questionnaire, when none of their capital is actually at stake. Portfolio manager should allocate a portion of the portfolio to alternatives that are less correlated to stocks and bonds because these can provide less volatility for clients.

   While most planners measure risk tolerance, fewer seem to pay attention to clients' preferred investment style. Since 2008 many investors - particularly those in or near retirement - have had their risk/reward circuits rewired. They are much more cautious, and whatever their measured risk tolerance, they much prefer investments with lower perceived risk. Bonds are riskier than most investors realize, and for retirees, his firm prefers conservative stocks paying regular dividends because clients like the regular income.

   Use of proactive loss control techniques like stop loss orders for the clients can give investors real peace of mind.

4. **Communicate continuously with your clients:**

   No portfolio design will ever be effective if there is no clear, continuous communication with the client to make sure they are comfortable with the level of risk and diversification within their portfolio.
Portfolio manager should review clients' risk assessments with them once a year or when significant life changes occur and when major market movements happen. In constructing the portfolio that will maximize return for the amount of risk taken, one should look at the client's overall risk management and exposure, life goals, risk tolerance and risk capacity.

Example: If portfolio manager has a 50 year-old male client who is conservative, might have to support his elderly parents and has communicated that he panicked and sold all his stock in the correction of 2008, portfolio manager should modify the traditional allocation recommended for this investor's age, 50% in stock and 50% in bonds and cash, to make it more conservative.

Portfolio manager also makes sure to continuously communicate with his clients, who can sometimes be emotional, ill-informed or dealing with information overload. He wants to make sure that his client understands that their portfolio's risk exposure is designed to build long-term wealth.

5. Consider alternative strategies:

Advisors must not custom tailor portfolios to individual clients based on age and risk tolerance.

"For managers and investors alike, there is clearly one model portfolio that yields the highest amount of return per risk taken - the optimal portfolio."

"All managers should offer only the optimal portfolio and preach to their clients the need to determine the amount of risk in the system - rather than the misleading customized portfolio offerings."

Financial planners turned to portfolio customization and personalized relationships to justify their fees. This new business model created a major problem: "Managers increased the number of assets they must oversee at any given time and rendered themselves incapable of giving sound advice." Shifting a few assets around can leave investors with a portfolio that is riskier than it seems on the surface. On the other hand, a basket of risky assets that are properly allocated based on
correlations, as premised by modern portfolio theory, can actually be much less risky.

"One cannot overlook the rules of risk and reward, and that of correlations, to simply appease a certain client."

Thus, in essence, different financial planners may not completely agree on how to best design portfolios for individual clients. But they can all provide security in another way.

"A steady, disciplined rebalancing strategy, one not dictated by euphoria in good markets or paranoia in downtimes, can be of help in offering successful investment portfolios."

**Strategy for Diversifying Clients’ Portfolio:**

Diversification is a battle cry for many financial planners, fund managers, and individual investors alike. When the market is booming, it seems almost impossible to sell a stock for any less than the price at which you bought it. When the indexes are on their way up, it may seem foolish to be in anything but equities. But because we can never be sure of what the market will do at any moment, we cannot forget the importance of a well-diversified portfolio (in any market condition).

Diversification is not a new concept. Investing is an art form, not a knee-jerk reaction, so the time to practice disciplined investing with a diversified portfolio is before diversification becomes a necessity. By the time an average investor "reacts" to the market, 80% of the damage is done. Here, more than most places, a good offense is your best defense and in general, a well-diversified portfolio combined with an investment horizon of three to five years can weather most storms.

Here are some diversification tips:

1. **Spread the Wealth:**

   Equities are wonderful, but one should not put all of his investment in one stock or one sector. One should create his own virtual mutual fund by investing in a handful of companies he knows, trusts, and perhaps even use in his day-to-day life. People will argue that investing in what you know will leave the average investor
too heavily retail-oriented, but knowing a company or using its goods and services can be a healthy and wholesome approach to this sector.

2. **Consider Index or Bond Funds:**
   Consider adding index funds or fixed-income funds to the mix. Investing in securities that track various indexes make a wonderful long-term diversification investment for one’s portfolio. By adding some fixed-income solutions, investor is further hedging his portfolio against market volatility and uncertainty.

3. **Keep Building:**
   Add to one’s investments on a regular basis. Lump-sum investing may be a sucker's bet. This approach is used to smooth out the peaks and valleys created by market volatility: one should invest money on a regular basis into a specified portfolio of stocks or funds.

4. **Know When to Get Out:**
   Buying and holding and dollar-cost averaging are sound strategies, but just because one has his investments on autopilot does not mean he should ignore the forces at work. Stay current with one’s investment and remains in tune with overall market conditions. Know what is happening to the companies you invest in.

5. **Keep a Watchful Eye on Commissions:**
   If an investor is not the trading type, he should understand what he is getting for the fees he is paying. Some firms charge a monthly fee, while others charge transactional fees. Be cognizant of what he is paying and what he is getting for it. Remember, the cheapest choice is not always the best.

Thus, Investing can (and should) be fun. It can be educational, informative and rewarding. By taking a disciplined approach and using diversification, buy-and-hold and dollar-cost-averaging strategies, one may find investing rewarding - even in the worst of times.

After one has built his own portfolio of mutual funds, he needs to know how to maintain it.
An overview of managing a mutual-fund portfolio by walking through four common strategies:

**The Wing-It Strategy:**

This is the most common mutual-fund strategy. Basically, if your portfolio does not have a plan or a structure, then it is likely that you are employing a wing-it strategy. If you are adding money to your portfolio today, how do you decide what to invest in? Are you someone who searches for a new investment because you do not like the ones you already have? A little of this and a little of that? If you already have a plan or structure, then adding money to the portfolio should be really easy. Most experts would agree that this strategy will have the least success because there is little to no consistency.

**Market-Timing Strategy:**

The market timing strategy implies the ability to get into and out of sectors, assets or markets at the right time. The ability to market time means that you will forever buy low and sell high. Unfortunately, few investors buy low and sell high because investor behavior is usually driven by emotions instead of logic. The reality is most investors tend to do exactly the opposite – buy high and sell low. This leads many to believe that market timing does not work in practice. No one can accurately predict the future with any consistency; however there are many market timing indicators.

**Buy-and-Hold Strategy:**

This is by far the most commonly preached investment strategy. The reason for this is that statistical probabilities are on your side. Markets generally go up 75% of the time and down 25% of the time. If you employ a buy-and-hold strategy and weather through the ups and downs of the market, you will make money 75% of the time. If you are to be more successful with other strategies to manage your portfolio, you must be right more than 75% of the time to be ahead. The other issue that makes this strategy the most popular is it's easy to employ. This does not make it better or worse, it's just easy to buy and hold.
**Performance-Weighting Strategy:**

This is somewhat of a middle ground between market timing and buy and hold. With this strategy, you will revisit your portfolio mix from time to time and make some adjustments. Let's walk through an oversimplified example using real performance figures.

Let's say that at the end of 2010, you started with an equity portfolio of Rs. 100,000 in four mutual funds and split the portfolio into equal weightings of 25% each.

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<thead>
<tr>
<th>Fund</th>
<th>Allocation (Rs.)</th>
<th>Allocation (%)</th>
</tr>
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<tbody>
<tr>
<td>Fund A</td>
<td>Rs. 25,000</td>
<td>25.0 %</td>
</tr>
<tr>
<td>Fund B</td>
<td>Rs. 25,000</td>
<td>25.0 %</td>
</tr>
<tr>
<td>Fund C</td>
<td>Rs. 25,000</td>
<td>25.0 %</td>
</tr>
<tr>
<td>Fund D</td>
<td>Rs. 25,000</td>
<td>25.0 %</td>
</tr>
<tr>
<td></td>
<td>Rs. 100,000</td>
<td>100.0 %</td>
</tr>
</tbody>
</table>

After the first year of investing, the portfolio is no longer an equal 25% weighting because some funds performed better than others.

<table>
<thead>
<tr>
<th>Fund</th>
<th>1 year return</th>
<th>End balance</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund A</td>
<td>13.60%</td>
<td>Rs. 28,400</td>
<td>26.28%</td>
</tr>
<tr>
<td>Fund B</td>
<td>6.80%</td>
<td>Rs. 26,700</td>
<td>24.71%</td>
</tr>
<tr>
<td>Fund C</td>
<td>8.50%</td>
<td>Rs. 27,125</td>
<td>25.10%</td>
</tr>
<tr>
<td>Fund D</td>
<td>3.40%</td>
<td>Rs. 25,850</td>
<td>23.92%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rs. 108,075</td>
<td></td>
</tr>
</tbody>
</table>

The reality is that after the first year, most investors are inclined to dump the loser (Fund D) for more of the winner (Fund A). However, performance weighting does not perform that strategy. Performance weighting simply means that investor should sell some of the funds that did the best to buy some of the funds that did the worst. This is the right thing to do because the one constant in investing is that everything goes in cycles.
In year four, Fund A has become the loser and Fund D has become the winner.

<table>
<thead>
<tr>
<th>Fund</th>
<th>1 Year return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund A</td>
<td>-16.0%</td>
</tr>
<tr>
<td>Fund B</td>
<td>22.3%</td>
</tr>
<tr>
<td>Fund C</td>
<td>9.6%</td>
</tr>
<tr>
<td>Fund D</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

Performance weighting this portfolio year after year means that investor would have taken the profit when Fund A was doing well to buy Fund D when it was down. In fact, if he would have re-balanced this portfolio at the end of every year for five years, he would be further ahead as a result of performance weighting. It's all about discipline.

Therefore, the key to portfolio management is to have a discipline that you adhere to. The most successful money managers in the world are successful because they have a discipline to manage money and they have a plan to invest. Warren Buffet said it best: "To invest successfully over a lifetime does not require a stratospheric I.Q., unusual business insight or inside information. What is needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

**Major Blunders in Portfolio Construction:**

The investment industry has its fair share of black sheep, and as a result there are an enormous number of poorly constructed portfolios. Problem portfolios come about for many reasons, but one thing is certain: they can lead to investments that cause more harm than benefit for investors.

**Common Portfolio Problems:**

- A one-sided approach results in portfolios containing only products from the bank or financial institution used by the investor. In other words, if we go to a particular bank and it represents a certain collection of funds, it is likely that those are the ones it will recommend, despite the fact that they may not be the most cost-effective or the best performers. Realistically, we are going
to get a truly objective selection only from an advisor that is not tied to any specific product or bank. After all, that is what independent really means.

- Another core problem is what economists call lumpy risks. This is a dangerous over-investment in a certain sector or asset class which means the value of your portfolio will go up or down in large, unwieldy chunks based on the movements of the over-invested sector. This presents a problem for investors because too much of any one type of investment is risky. It is important to note that diversification is not achieved by having lots of different types of equities or different types of bonds or any other asset class. Instead, diversification is achieved by a prudent mixture of non-correlating asset types, which means you generally need at least all three - bonds, equities and property - along with other funds.

- A less obvious, but equally serious, problem is a lack of liquidity. This is created when there is a timing difference between investment goals and the need to access money from the portfolio. For example, an investment in equities for most investors should be made with a long-term focus. However, if you need money in the short- to medium-term (one to three years or even up to five) for a specific purpose such as buying a house or car, the funds earmarked for the purpose ought to be kept out of the equities markets. Nothing can be more disastrous than desperately needing money from an investment that is currently way below its purchase price.

- Another common problem is home bias. Most investors rely too much on domestic investments, which place a limit on diversification. A good portfolio will not shy away from foreign investments. While they often seem riskier, in fact, they may carry no more risk than products back home and their non-correlation with domestic products can reduce the overall risk of a portfolio. In other words, even if a particular foreign fund is high risk in itself, having a sensible amount may lower the risk of your investments as a whole. However, keep in mind that foreign investments do come with their own specific risks, including currency translation risk.

- If investor or investors’ portfolio manager fails to monitor his portfolio regularly, this can also be disastrous for investor’s returns. The investment
and capital markets can change rapidly and often substantially. There are times when it is good to have more equities than bonds and vice versa. Similarly, there are times when it is best to have relatively large amounts of cash, while at other times this is unwise. Monitoring also allows you to ensure that the reasons behind your investments remain intact and if they have changed, you will be able to make adjustments before your portfolio's performance is affected adversely. Therefore, nothing is more important than checking your portfolio regularly - doing so as often as every three months is usually necessary. Only by doing this one can ensure that the level of risk in his portfolio is appropriate to his needs and requirements, and that there are no investments that should be sold off.

- An associated problem is portfolio drift, which means that your portfolio changes in nature and risk on its own. This danger is all too familiar to investors who got burned in the late '90s by owning portfolios that had become far too equity-heavy over the decade. In other words, you may start off the decade with a well-balanced portfolio, but if, over time, the value of your equities increases substantially and that of bonds does not, you will ultimately have a high-risk almost all-equity portfolio. Furthermore, this is likely to happen at precisely the time when equities are overpriced and likely to go down in value, or even crash. The main protection against this danger is to ensure that the proportion of your money in the equity markets is never more than you really wish to risk.

- Finally, there is the never-ending issue of having no loss control. Merely buying "good shares," even blue chips, does not protect against market losses; having a real strategy is the only way to do that. Many investors, particularly in the 1990s, assumed their brokers or fund managers had some kind of loss-prevention strategy in place when, in fact, this was rarely the case. This assumption led to some devastating losses.

**Mediating Risk:**

It is not easy to find an appropriate strategy, but it is certainly worth trying. With equities, setting a lower limit on shares (stop losses) is one way of preventing
disaster. If shares drop below a certain specified limit, you simply sell them. It is also possible to monitor ratios such as price or earnings and sell shares that seem overpriced. There are also so-called "package products," such as mutual funds, which tend to have some form of capital guarantee.

All these methods have their pros and cons, and none presents a perfect solution. Nonetheless, such strategies should certainly be considered and people need to know whether their money has any formal protection. A vague promise of professional management, fine stock-picking skills or even of rapid reaction to market change may mean little or nothing in practice. And by the time you discover this, it may be too late.

Thus, to conclude there are a few basic rules in portfolio construction that must be adhered to. All too often, so-called professionals do just the opposite. Yet, it is not particularly difficult to ensure that you have and maintain a well-balanced and sensible portfolio. However, you need to make sure this is what you really get. Many advisors simply do not bother to get things right, or they deliberately sell you what makes them the most money, rather than what you really want or need.

_Mutual Funds in India – Challenges, Opportunities and Vision  2020:_

The mutual fund sectors are one of the fastest growing sectors in Indian Economy and have awesome potential for sustained future growth. Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping—as well as strict government regulation and full disclosure. The Mutual Funds originated in UK and thereafter they crossed the border to reach other destinations. The concept of Mutual Fund was indianized only in the later part of the twentieth century in the year 1964 with its roots embedded into Unit Trust of India (UTI). Since its inception in 1964 there were only 25cr assets under management like a sapling but it has grown into a big banyan tree with assets of Rs. 481749cr under assets management companies till March 2010. But presently it has increased up to 700538cr at the end of March 2011. Now, booming stock markets & innovative marketing strategies of mutual fund
companies in India are influencing the retail investors to invest their surplus funds with different schemes of mutual fund companies with or without complete understanding of Mutual Funds (MF).

Keeping in mind the rise and fall in the money market it is better to invest in mutual funds for those investors who are risk adverse and for those who are risk taker it is better for them to invest in share market.

**Challenges for mutual fund in India:**

- **No Guarantees:**
  
  No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio. Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money.

- **Fees and commissions:**
  
  All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or "loads" to compensate brokers, financial consultants, or financial planners. Even if investor doesn’t use a broker or other financial advisor, he will pay a sales commission if he buys shares in a Load Fund.

- **Taxes:**
  
  During a typical year, most actively managed mutual funds sell anywhere from 20 to 70 percent of the securities in their portfolios. If investors’ fund makes a profit on its sales, he will pay taxes on the income you receive, even if he reinvests the money he has made.

- **Management Risk:**
  
  When anyone invests in a mutual fund, he is dependent on the fund's manager to make the right decisions regarding the fund's portfolio. If the manager does not perform as well as investor had hoped, he might not make as much money
on his investment as he expected. Of course, if investor invests in Index Funds, he forego management risk, because these funds do not employ managers.

**Opportunities for mutual fund in India:**

Mutual funds make saving and investing simple, accessible, and affordable. The advantages of mutual funds include professional management, diversification, variety, liquidity, affordability, convenience, and ease of recordkeeping — as well as strict government regulation and full disclosure.

- **Diversification:**
  The best mutual funds design their portfolios so individual investments will react differently to the same economic conditions. For example, economic conditions like a rise in interest rates may cause certain securities in a diversified portfolio to decrease in value. Other securities in the portfolio will respond to the same economic conditions by increasing in value. When a portfolio is balanced in this way, the value of the overall portfolio should gradually increase over time, even if some securities lose value.

- **Professional Management:**
  Most mutual funds pay topflight professionals to manage their investments. These managers decide what securities the fund will buy and sell.

- **Regulatory oversight:**
  Mutual funds are subject to many government regulations that protect investors from fraud.

- **Liquidity:**
  Mutual funds are liquid as it’s easy to get money out of a mutual fund.

- **Convenience:**
  You can usually buy mutual fund shares by mail, phone, or over the Internet.
Low cost:

Mutual fund expenses are often no more than 1.5 percent of your investment. Expenses for Index Funds are less than that, because index funds are not actively managed. Instead, they automatically buy stock in companies that are listed on a specific index.

Vision - 2020 for mutual fund in India:

This section contains a summary of the expected drivers for future growth, expected industry growth projections and overall future outlook across various dimensions customers, markets, products, distribution channels and regulatory frameworks.

Growth drivers:

Although several macroeconomic and demographic factors affect the growth of the industry, the key underlying driver for all the categories of funds is the key economic indicator – the GDP growth rate.

Expected Impact:

Retail Segment:

1. Increase in disposable incomes and household financial savings may result in households seeking alternate avenues for investments to yield higher returns with reasonable risk.
2. Favorable demographics like urbanization and a relatively young population having an increased risk appetite are likely to save more and seek to invest a higher proportion.

Of those savings in market-linked instruments such as mutual funds:

1. Distribution innovations are expected to increased mutual fund penetration specifically in Tier 2 and Tier 3 towns thereby expanding the mutual fund customer base.
2. Improved awareness levels and enhanced financial literacy is expected to aid the understanding of mutual fund products.
3. Appropriate asset allocation and potential for wealth creation.
Institutional Segment:

1. Increased demand for sophisticated treasury management products.
2. A better economic situation in the country is likely to ensure a steady fall in the interest rates.

In the event of a quick economic revival and positive reinforcement of growth drivers identified, KPMG in India (one of the leading providers of risk, financial & business advisory, tax & regulatory services, internal audit, and corporate governance) is of the view that the Indian mutual fund industry may grow at the rate of 22-25 percent in the period from 2010 to 2020, resulting in AUM of INR 16,000 to 20,000 billion in 2020.

Conclusion:

Mutual funds are among the most preferred investment instruments. For middle income individuals, investing in mutual funds yields higher interest and comes with good principal amount at the end of the maturity period of the mutual fund investment. Another important fact is that mutual funds are safe, with close to zero risk, offering an optimized return on earnings and protecting the interest of investors. It is important to gain good understanding of mutual fund investments, companies in the field, and mutual fund experts, as customers are easily misguided by the advertisements and offers promoted by various financial institutions. As a professionally managed type of investment mechanism, the mutual fund works by pooling money from many individuals, investing in a diverse portfolio of securities such as short-term money market instruments, bonds, stocks, and other financial instruments and commodities, for instance, precious metals. The mutual fund is run by a fund manager who is responsible for the buying and selling of investments in accordance with the investment objectives of the fund. Funds registered with the Securities and Exchange Commission, should distribute almost all of their net realized gains and net income from the sale of securities and no less than once a year. Most of the funds are organized in the form of trusts and overseen by trustees or boards of directors. These are charged with the management of the fund, as to serve in the best interest of investors.

Best Mutual Funds to invest in 2013 – Equity & Debt:

Decision to invest should only be taken by the invetsor:

- In congruence to his financial goals.
Asset Management Companies (AMC’s) in India

- As per his risk appetite.
- As per asset allocation process.
- Taking help of a professional in “professional way”.

Selection criteria of best Mutual Funds to invest in 2013 – Equity

Value Research 4 or 5 star Rating:

Ratings can give first level check to fund selection but one should understand that they are based on past data & can’t predict future.

Fund Size:

For conducting the study, Rs 2000 Crore as minimum fund size for equity funds is considered.

Alpha (Jensen) is positive in 3 years:

This is a risk-adjusted measure used to gauge the extent to which a manager has added value to the returns that could have been expected from a benchmark portfolio, while taking into account the fund’s sensitivity to that benchmark.

So this is a test of whether a fund has achieved a better performance than its Beta would suggest: a positive Jensen Alpha indicates an active management style with superior stock-picking ability; a negative figure is produced if returns are falling short of the adjusted benchmark return.

In other words, Jensen’s Alpha will tell investor whether his Fund Manager has contributed some returns.

Fund Manager Tenure:

Funds where there is change of fund manager in last 1 year are avoided. Same applies to L&T Funds which were earlier managed by Fidelity AMC.

Best Mutual Funds to invest in India – Equity:

It’s not about fund selection which will generate returns – it’s more about investors’ behavior. “Investing is not a Number Game it’s a Mind Game.”
Last year performance of Equity Funds – Category Wise:

10 years performance of Diversified Equity Funds:
Best Mutual Funds to invest in 2013 – Large Cap:

<table>
<thead>
<tr>
<th>Best Equity Large Cap Funds</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Prudential Focused Bluechip Equity</td>
<td>0.49</td>
<td>4.60</td>
<td>13.22</td>
<td>26.79</td>
<td>10.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franklin Templeton Franklin India Bluechip</td>
<td>1.40</td>
<td>5.84</td>
<td>12.96</td>
<td>26.79</td>
<td>8.42</td>
<td>4.05</td>
<td>26.08</td>
</tr>
<tr>
<td>DSP BlackRock Top 100 Equity Regular</td>
<td>1.67</td>
<td>6.29</td>
<td>13.52</td>
<td>30.29</td>
<td>6.84</td>
<td>3.30</td>
<td></td>
</tr>
<tr>
<td>Category Average</td>
<td>0.70</td>
<td>3.85</td>
<td>11.79</td>
<td>25.65</td>
<td>4.17</td>
<td>-0.34</td>
<td>18.41</td>
</tr>
</tbody>
</table>

Best Mutual Funds to invest in 2013 – Large & Mid Cap:

<table>
<thead>
<tr>
<th>Best Equity Large &amp; Mid Cap Funds</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI Opportunities</td>
<td>0.37</td>
<td>4.62</td>
<td>13.01</td>
<td>27.28</td>
<td>10.13</td>
<td>6.11</td>
<td></td>
</tr>
<tr>
<td>HDFC Equity</td>
<td>3.18</td>
<td>6.09</td>
<td>13.83</td>
<td>34.14</td>
<td>8.30</td>
<td>5.61</td>
<td>29.11</td>
</tr>
<tr>
<td>HDFC Top 200</td>
<td>2.42</td>
<td>5.57</td>
<td>13.37</td>
<td>32.43</td>
<td>7.83</td>
<td>5.91</td>
<td>29.37</td>
</tr>
<tr>
<td>Birla Sun Life Frontline Equity</td>
<td>1.95</td>
<td>7.75</td>
<td>18.38</td>
<td>36.07</td>
<td>7.57</td>
<td>4.08</td>
<td>25.40</td>
</tr>
<tr>
<td>Category Average</td>
<td>1.68</td>
<td>5.39</td>
<td>14.13</td>
<td>28.53</td>
<td>5.01</td>
<td>-0.37</td>
<td>19.98</td>
</tr>
</tbody>
</table>
**Asset Management Companies (AMC’s) in India**

**Best Mutual Funds to invest in 2013 – Multi Cap Funds:**

<table>
<thead>
<tr>
<th>Best Equity Multi Cap Funds</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Regular Savings Equity</td>
<td>1.77</td>
<td>8.16</td>
<td>23.26</td>
<td>46.01</td>
<td>6.93</td>
<td>2.40</td>
<td></td>
</tr>
<tr>
<td>DSP BlackRock Equity</td>
<td>2.07</td>
<td>6.98</td>
<td>16.16</td>
<td>33.26</td>
<td>6.65</td>
<td>3.06</td>
<td>29.56</td>
</tr>
<tr>
<td>Sector Average</td>
<td>2.23</td>
<td>6.49</td>
<td>15.68</td>
<td>31.61</td>
<td>5.55</td>
<td>-0.15</td>
<td>24.00</td>
</tr>
</tbody>
</table>

**Best Mutual Funds to invest in 2013 – Mid Cap & Small Cap:**

<table>
<thead>
<tr>
<th>Best Equity Midcap Funds</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDFC Premier Equity</td>
<td>2.12</td>
<td>9.32</td>
<td>20.25</td>
<td>40.02</td>
<td>14.89</td>
<td>7.51</td>
<td></td>
</tr>
<tr>
<td>HDFC Mid Cap Opportunities</td>
<td>2.93</td>
<td>4.87</td>
<td>15.73</td>
<td>39.62</td>
<td>14.65</td>
<td>7.27</td>
<td></td>
</tr>
<tr>
<td>Reliance Equity Opportunities</td>
<td>2.42</td>
<td>7.01</td>
<td>19.01</td>
<td>47.35</td>
<td>14.63</td>
<td>6.77</td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Discovery</td>
<td>3.42</td>
<td>7.92</td>
<td>17.87</td>
<td>46.01</td>
<td>12.45</td>
<td>8.65</td>
<td></td>
</tr>
<tr>
<td>Category Average</td>
<td>2.53</td>
<td>7.81</td>
<td>18.52</td>
<td>38.87</td>
<td>7.18</td>
<td>-1.74</td>
<td>22.75</td>
</tr>
</tbody>
</table>

**Discrete Performance of Diversified Equity Mutual Funds:**

Only one thing is consistent that equity will give inconsistent returns & that’s the way equity works. If investor expects equities to generate 15% every year in a straight line – it’s his mistake. As someone rightly said “Investments don’t do mistakes – investors do.”
Asset Management Companies (AMC’s) in India

Best Mutual Funds to invest in 2013 – Balanced Funds:

Filtering Criteria of Balanced fund are similar to diversified equity funds – only change is funds with asset size above Rs 500 Crore is considered here.

<table>
<thead>
<tr>
<th>Best Balanced Funds</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Balanced</td>
<td>2.20</td>
<td>2.46</td>
<td>9.80</td>
<td>26.56</td>
<td>12.41</td>
<td>9.21</td>
<td>19.43</td>
</tr>
<tr>
<td>HDFC Prudence</td>
<td>3.83</td>
<td>5.06</td>
<td>12.73</td>
<td>30.08</td>
<td>11.42</td>
<td>8.00</td>
<td>25.90</td>
</tr>
<tr>
<td>Reliance Regular Savings Balanced</td>
<td>2.11</td>
<td>4.69</td>
<td>14.60</td>
<td>35.12</td>
<td>10.03</td>
<td>8.35</td>
<td></td>
</tr>
<tr>
<td>Birla Sun Life 95</td>
<td>2.55</td>
<td>5.50</td>
<td>14.40</td>
<td>25.63</td>
<td>8.99</td>
<td>5.31</td>
<td>21.87</td>
</tr>
<tr>
<td>Category Average</td>
<td>1.80</td>
<td>4.53</td>
<td>12.13</td>
<td>25.88</td>
<td>7.05</td>
<td>3.06</td>
<td>16.47</td>
</tr>
</tbody>
</table>

Best Mutual Funds to invest in 2013 – Debt Funds:

Rational behind selection of these funds is just five star rating from value research & Asset under Management of Rs 100 Crores.

<table>
<thead>
<tr>
<th>Best Mutual Funds – Income</th>
<th>1m</th>
<th>3m</th>
<th>6m</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birla Sun Life Medium Term</td>
<td>0.76</td>
<td>2.22</td>
<td>5.31</td>
<td>11.15</td>
<td>8.78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franklin Templeton India Income Builder Plan A</td>
<td>1.19</td>
<td>2.62</td>
<td>6.46</td>
<td>12.28</td>
<td>8.89</td>
<td>7.66</td>
<td>6.11</td>
</tr>
<tr>
<td>Religare Active Income Plan A</td>
<td>1.06</td>
<td>2.23</td>
<td>5.28</td>
<td>10.46</td>
<td>8.57</td>
<td>5.73</td>
<td></td>
</tr>
<tr>
<td>Best Mutual Funds – Short Term</td>
<td>1m</td>
<td>3m</td>
<td>6m</td>
<td>1yr</td>
<td>3yr</td>
<td>5yr</td>
<td>10yr</td>
</tr>
<tr>
<td>JP Morgan India Short Term Income</td>
<td>0.85</td>
<td>2.37</td>
<td>4.88</td>
<td>9.67</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Best Mutual Funds – Ultra Short Term</td>
<td>1m</td>
<td>3m</td>
<td>6m</td>
<td>1yr</td>
<td>3yr</td>
<td>5yr</td>
<td>10yr</td>
</tr>
<tr>
<td>Franklin Templeton Templeton India Low Duration</td>
<td>0.63</td>
<td>1.97</td>
<td>4.16</td>
<td>8.93</td>
<td>7.29</td>
<td>6.61</td>
<td>5.45</td>
</tr>
<tr>
<td>JM Money Manager Regular</td>
<td>0.78</td>
<td>2.25</td>
<td>4.76</td>
<td>10.25</td>
<td>8.64</td>
<td>7.90</td>
<td></td>
</tr>
<tr>
<td>JM Money Manager Super</td>
<td>0.77</td>
<td>2.25</td>
<td>4.75</td>
<td>10.22</td>
<td>8.77</td>
<td>8.52</td>
<td></td>
</tr>
<tr>
<td>L&amp;T Floating Rate</td>
<td>0.73</td>
<td>3.06</td>
<td>5.52</td>
<td>10.67</td>
<td>8.36</td>
<td>7.24</td>
<td></td>
</tr>
<tr>
<td>Peerless Short Term</td>
<td>0.70</td>
<td>2.22</td>
<td>4.90</td>
<td>10.45</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Taurus Short Term Income</td>
<td>0.84</td>
<td>2.45</td>
<td>5.09</td>
<td>10.55</td>
<td>8.46</td>
<td>6.34</td>
<td>5.30</td>
</tr>
<tr>
<td>Best Mutual Funds – Gilt Short Term</td>
<td>1m</td>
<td>3m</td>
<td>6m</td>
<td>1yr</td>
<td>3yr</td>
<td>5yr</td>
<td>10yr</td>
</tr>
<tr>
<td>SBI Magnum Gilt Short Term</td>
<td>0.86</td>
<td>2.19</td>
<td>4.42</td>
<td>9.19</td>
<td>7.50</td>
<td>7.08</td>
<td>6.32</td>
</tr>
<tr>
<td>Best Mutual Funds – Gilt Medium &amp; Long Term</td>
<td>1m</td>
<td>3m</td>
<td>6m</td>
<td>1yr</td>
<td>3yr</td>
<td>5yr</td>
<td>10yr</td>
</tr>
<tr>
<td>Kotak Gilt Investment Regular</td>
<td>1.64</td>
<td>2.62</td>
<td>5.03</td>
<td>14.63</td>
<td>8.79</td>
<td>9.53</td>
<td>7.44</td>
</tr>
<tr>
<td>Best Mutual Funds – Hybrid Debt (MIP)</td>
<td>1m</td>
<td>3m</td>
<td>6m</td>
<td>1yr</td>
<td>3yr</td>
<td>5yr</td>
<td>10yr</td>
</tr>
<tr>
<td>Birla Sun Life MIP II Savings 5</td>
<td>1.29</td>
<td>2.48</td>
<td>6.18</td>
<td>11.72</td>
<td>8.24</td>
<td>10.60</td>
<td></td>
</tr>
<tr>
<td>HDFC Multiple Yield Plan 2005</td>
<td>1.29</td>
<td>2.35</td>
<td>5.74</td>
<td>11.84</td>
<td>9.20</td>
<td>9.14</td>
<td></td>
</tr>
<tr>
<td>Reliance MIP</td>
<td>1.49</td>
<td>3.38</td>
<td>7.66</td>
<td>17.21</td>
<td>8.31</td>
<td>11.01</td>
<td></td>
</tr>
</tbody>
</table>
**Balanced Mutual Funds – Best of both worlds:**

Financial Planners always insist on asset allocation, which is optimum mix of different asset classes. Each of these asset classes are available for investment and one can make different recipes out of them, but in Mutual Fund, there is a category of fund called the “Balanced Mutual Funds” or “hybrid equity oriented funds”, which are ready-made meals for asset allocation.

Balanced mutual funds can also be helpful in balancing investors’ portfolio & provide him higher returns. Investment in them can provide him certain benefits as mentioned below:

**Benefits of Balanced Mutual Funds:**

1. **When investors are not diversifying at all:**

   Lot of investor put money as per the climate. When equities will do well they will draw cheques for equity investments only and when they suffer a loss the money is diverted to bank FDs. And when the market roars they grump and get premature withdrawals on FDs. This happens when person does not understand the nature of these asset classes. One need to be “with the assets” to gain from them. Either leave it on financial planner or invest in balanced mutual funds. Let this worry of “investing in which asset class” pass on to the fund management. The experts are better bet for taking a decision on whether you should be over or under weight on equity or debt.

2. **When you are investing for one goal or expenses:**

   If investor has a one goal or a funding requirement in long run investing in balanced fund can be a way out. If he has a goal which is long term in nature and he need to accumulate a corpus over a period of time, instead of the regular RD or timing the market it is good to invest through a balanced fund. By this investor will be able to diversify and allocate asset for isolated investments.

3. **When investor is looking for smooth landing:**

   Investing in equity is a bumpy ride but for best return in long term one need to be friends with equity. But investing in equity needs a sound heart and patience. If one feels he cannot cope with the volatility still wish to have better returns than debt
he can choose balanced funds. The returns will not be as spicy as that of equity diversified fund but investor will get a good deal. Also when one compares these returns on the risk-adjustment parameter, balanced fund will give more returns on the risk taken.

**Few Limitations of Balanced Mutual Funds:**

1. **Minimum 65% in equity:**
   
   Fund Managers have limited freedom as 65% is the minimum requirement to take benefits of taxation. So in case even if fund manager feels that minimum equity exposure is beneficial for the portfolio he cannot do it beyond 51%. So if investor thought balanced means 50:50 or anything else – this is now part of mutual fund history.

2. **Partial withdrawal:**
   
   That’s a big problem with balanced funds – think of a situation when one need some amount for his emergency need but he has parked his whole amount in balanced funds. As investor don’t have any choice he will redeem from balanced funds & that mean for every redemption of Rs 100 he is actually redeeming Rs 65 from equity & Rs 35 from debt. Even if he is long term investor in equity, automatically his equity gets redeemed. In case of proper asset allocation investor could have avoided this thing.

3. **Limited Choices:**
   
   If one wants to have exposure to midcaps or only large caps, this is not possible with balanced funds as he can’t dictate his terms to fund managers.

**Best Balanced Mutual Funds in India:**

The performance chart of top balanced mutual funds is as follows:

<table>
<thead>
<tr>
<th>Balanced Mutual Funds</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Prudence</td>
<td>3.37</td>
<td>37.91</td>
<td>14.58</td>
<td>25.40</td>
</tr>
<tr>
<td>Reliance Regular Savings Balanced</td>
<td>2.86</td>
<td>32.90</td>
<td>14.81</td>
<td></td>
</tr>
<tr>
<td>Canara Robeco Balance Fund</td>
<td>5.77</td>
<td>30.29</td>
<td>12.03</td>
<td>20.15</td>
</tr>
</tbody>
</table>
Tata Balanced Fund  |  6.47  |  29.58  |  12.44  |  20.03  
Birla Sun Life 95    | -3.62  |  27.68  |  11.35  |  19.60  
ICICI Prudential Balanced Fund | 8.70  |  26.19  |  8.12  |  17.66  
DSP BlackRock Balanced Fund | 2.99  |  25.04  |  12.37  |  20.56  
UTI Balanced Fund    | -0.88  |  24.39  |  8.57   |  15.54  
Franklin Templeton FT India Balanced | 2.78  |  22.85  |  9.14  |  17.84  

**HDFC Prudence Fund – the Ultimate Fund:**

This fund is a gem offering and is managed since 1994 (since inception).

3 year rolling chart of HDFC Prudence fund – if someone had invested for 3 years in this fund, he always got positive returns.

If we compare HDFC Prudence with its category – it has outperformed the category in every single period. Even it has outperformed Sensex by wide margin baring period ending 2007. This is magic of Asset Allocation.

Planning for investments is not a fixed solution concept. One has to arrive at an investment mix by checking on various ingredients and readymade concepts. Balanced fund is such concept.

**Problems faced by fund houses in managing the funds:**

The Indian Mutual Fund (MF) industry is expected to witness explosive growth over the next five years. A study by McKinsey & Company projects the MF
industry assets under management (AUM) to grow at a CAGR of 33 per cent over the next five years, taking the AUM of the overall industry to nearly Rs 16 lakh crore, a four-fold increase over current levels. More than half a dozen new mutual funds are expected to join the Mutual Fund Club in India and by 2009 the Mutual fund industry has crossed approx. 50 Asset Management Companies with still lot of untapped opportunities available in the Indian Fund market. International and domestic financial firms are queuing up to launch mutual funds in India, lured by attractive fees and rising valuations in Asia’s third-biggest economy, and to counter the impact of a sharp fall in broking fees. At least six brokerages are awaiting regulatory approval to break into the 33-member Indian funds industry, assets of which are forecast to more than triple to $520 billion by 2015. With more and more of investment demand being generated in the country through sustained consumption and household savings there are ample opportunities for Indian Mutual Funds to scratch the surface. Players are tapping into rising savings as the economy booms and where double-digit salary hikes are common in sectors such as real estate, information technology and financial services. Opportunities are coupled with challenges and problems which are worth mentioning here. These challenges and problems faced by fund houses are of prime concern to the people who have an investment spree.

- **Product innovation:**
  The industry needs to come out with new products with market hedging capabilities which can enhance returns for investors as well as Asset Management Companies. There has to be increased level of sophistication in the products offered in the market. In order to obtain better returns for the investments, fund managers have to look towards more structured products and absolute return investment products to increase overall fund performance. For Example- We can have long term funds which tap the retirement money of individuals.

- **Maintaining Right balance between Business and Compliance:**
  There is an increased cost of Compliance and Risk Management with regulations and practices being benchmarked to international standards. Allegations of misconduct have led to rising regulatory standards around the world. The stricter
regulatory standards pose a challenge to asset management companies, especially smaller firms lacking economies of scale. The increasing scrutiny of sales of funds is altering the financial relationship between asset management companies and third party distributors. The new environment for distribution will entail far more disclosure than in the past. In additional to regulatory developments, operational and compliance risk has become a top priority for traditional and standalone asset management companies as well.

- **Talent retention and Management:**
  The global upheaval in the mutual fund industry seems to be taking its toll on the Indian outfits with many fund managers changing gears. Some have gone off to rival asset management companies, while others have started their own private equity fund. Managing and retaining the right talent will be a key challenge for the fund industry.

- **A Lack of awareness & financial education:**
  Investor education especially in small town and cities and rural areas is woefully lacking. While AMFI has been making some efforts in this direction, it is relatively inadequate compared to the size of the investing population. More grass-root campaigns especially in rural areas need to be undertaken to popularise mutual funds and their benefits. With the introduction of more asset classes like gold, real estate and commodities through the MF route, investor education will attain paramount importance in the future.

- **A Challenge of penetration in country’s vast geography:**
  This is another vexed issue that has been worrying SEBI and the finance ministry. It is reported that almost 80% of all MF collections emanate from six metros. This needs to be corrected at the earliest. While MF houses have been increasing penetration into small towns, they often find the business unremunerative due to the poor image of Mutual Funds that result in poor collections. Lack of Investor education is an equally important factor responsible for low penetration.
A Establishing Uniformity and common standards:

The common bugbear of all MF investors is the amount of paperwork required to tackle purchases and redemptions. No two fund application forms are similar; likewise each fund house has different rules pertaining to switches, redemptions and loads. For the lay investor this means confusion and ultimately chaos. The introduction of the mutual fund identification Number (MIN) was supposed to reduce this clutter but scrapping of the same by the Finance ministry just added to investor woes. Hence, a uniform and common set of standards is the need of the hour.

A Need for Self regulatory Organisation (SRO):

This is by far the most important catalyst for the sustained and orderly growth of mutual funds in the country. In the current dispensation, Securities and Exchange Board of India, through its mutual fund department, is in charge of overseeing the MF industry. While this sounds good on paper, in effect SEBI is quite busy with its governance of the capital markets (and rightly so) and is thus playing a passive role as far as the MF industry is concerned. While SEBI has been pushing Association of Mutual Funds in India (AMFI) to convert itself into a self-regulatory organisation, AMFI - being a representative of Mutual fund is quite reluctant to do so due to the inherent multiple conflict of interest. There is a crying need for an independent regulator on the lines of IRDA which could understand the issues on hand and which could devote complete time and energy to the same.

Managing Competition from new entrants:

Low barriers to entry and increased competition from other asset management companies will squeeze returns and share in the fund market in India. Though there is lot of untapped opportunity in India it will take its own time to unleash the potential.

Managing nuances of Distributor driven business:

Since the fund business is primarily distributor driven enabling them to reach to common man, there is heightened possibilities of mis-selling. Today there is no restriction on multiple fund and insurance distributorship and as a result the
probability of selling a fund with higher commission for the distributor is very high. Also the perennial problem of pass back of commission is a challenging task to handle.

- **Compliance with Global Accounting and Reporting standards:**
  
  Down the years it will become imperative for the Fund houses to move to a more transparent and International accounting and reporting standards like IFRS (International Financial reporting Standards) and GIPS (Global Investment Performance Standards). This will warrant higher compliance and technical challenges. IFRS incorporate accounting principles familiar to investors worldwide which will encourage investor confidence in capital markets with various jurisdictions and financial reporting and this will further facilitate investment from both domestic and foreign sources of capital.

- **More use of technology:**
  
  Unlike Equity Market, Mutual fund market is primitive in terms of technical infrastructure and settlement process. One of the key challenges would be to enhance the use of technology for efficient and seamless investor transactions between all the stakeholders like the Fund House, Registrar and the Bankers.

- **Managing Competition from the Insurance Industry:**
  
  Unit Linked Insurance Plans (ULIP) account for 80% of the Insurance business in India. They being similar in nature of Mutual funds the challenge is to face the competition both within Asset Management firm and Insurance Company. Though, Insurance firms require more Capital for each insurance policy sold and have more onus of social responsibility, the nature of the ULIP business is similar to the Fund business. It is a challenge which needs to be faced as a cohesive force.

- **Outsourcing challenges:**
  
  Back office and Middle office outsourcing to specialist third party service providers is the mantra of the day to drive cost effective returns. The industry is seeing more and more of outsourcing enabling them to focus on the core business
and avoid fixed overhead and infrastructural costs. The challenge for the Fund houses will be to balance risk and outsourcing driven benefits.

- **Small funds don't earn much for mutual fund houses:**

  Often, investors in small schemes have to put up with abysmal performances because of the indifferent attitude of the fund manager as small funds don’t earn much for mutual fund houses. Also, they may see the scheme merged with another big scheme.

  Last year alone (2012), there have been many instances of mutual funds merging schemes. Recently, L&T Mutual Fund merged its schemes L&T Multi Cap Fund (assets under management, or AUM, of Rs 12 crore) and L&T Small Cap Fund (AUM of Rs 12 crore) into L&T Opportunities Fund (AUM of Rs 83 crore). Fund houses like JM Mutual Fund, L&T Mutual Fund, Kotak Mutual Fund and Templeton Mutual Fund have also merged some of their schemes in the past.

**Latest product launches:**

- **Indiabulls Mutual Fund** has launched Indiabulls Gilt fund (in January 2013), an open ended debt scheme that invests in government securities. The objective of the scheme is to generate income and capital appreciation by investing predominantly in sovereign securities issued by the Central Government and by State Governments. When interest rates fall down, government bonds move up. Hence in a falling interest rates scenario, there is a possibility of a capital appreciation. Also government bonds carry little default risk, thus reducing overall risk. As per Value Research, in the last one year ended January 2012, medium and long term gilt funds as a category has given 10.35% returns.

- **Peerless Mutual Fund launches cash investment facility:**

  Mutual fund house Peerless Mutual Fund has started the option of cash investment to tap the un-banked customers in retail mutual fund schemes through select Allahabad Bank branches. This initiative is in accordance with Sebi's
guidelines of allowing cash investments by investors up to Rs 20,000 per investor, per mutual fund every financial year. According to the company, the combination of cash investments coupled with non-requirement of PAN for such investors will widen the reach of mutual funds among semi-urban and rural segments.

- **LIC Nomura Mutual Fund** plans to launch a plan under the Rajiv Gandhi Equity Savings Scheme. The scheme provides tax benefits to first-time investors in stocks and will be open from 11-25 February 2013.

- **Taurus Mutual Fund** has launched a 369-day, closed ended debt scheme called Taurus Fixed Maturity Plan-Series X. The NFO will remain open for subscription from 4-6 February 2013.

- **Six fund houses to launch Rajiv Gandhi Equity Saving Scheme (RGESS): an option best left untouched**

  Under the Rajiv Gandhi Equity Saving Scheme (RGESS), anyone with an annual income of less than Rs 10 lakh can invest up to Rs 50,000 in blue-chip stocks and PSU shares, either directly or through mutual funds, and can claim deduction for 50% of this investment. This would be over and above Rs 1 lakh deduction under Section 80C.

  To increase the participation of retail investors in the equity market, six mutual fund houses have filed draft papers with market regulator SEBI for launching the Rajiv Gandhi Equity Savings Scheme (RGESS). The scheme, meant for first-timers in the capital market, aims to attract more investors by offering tax benefits on their investments. Besides the country’s largest fund house, HDFC MF, four more players – UTI AMC, LIC Nomura, IDBI Mutual Fund and SBI MF – filed documents in January’2013 for starting the scheme.

  According to experts, the move to declare existing schemes a 'RGESS-eligible' will help fund houses avoid expenses related to new fund launch, attract investors who prefer track record and tap tax-saving season inflows. Usually, this period ending March 31 sees tax-saving or ELSS funds garnering chunky inflows.
Eligibility:

RGESS is available to all resident individuals whose gross total income is less than Rs 10 lakh and who are investing in equity for the first time. A first-timer has been defined as the one who has not opened a demat account as a ‘first holder’ before the notification date of 23 November 2012, even if his name appears in a joint demat account opened before this date. The investor who has opened a demat account as first holder before the notification date but has not bought any shares or traded in the futures and options segment will also be considered as a first-time investor.

Tax Benefit:

To avail of tax deduction, an investor has to open a new RGESS designated demat account or designate for this purpose his existing demat account, where no trading has taken place before 23 November. He needs to submit a declaration in Form A, certifying that he has not traded before 23 November 2012, to the depository participant, who in turn forwards it to the depository for verifying the status and designate him a new retail investor. He can then start buying the eligible securities, which include stocks from the BSE-100 or CNX 100 index. The listed shares of navratna, maharatna and miniratna public-sector undertakings, and initial public offers (IPO) of PSUs, whose turnover is more than Rs 4,000 crore, are also eligible for investment. One can avail of tax benefit by investing in the eligible mutual fund schemes too.

While there is no restriction on investment, only Rs 50,000 is considered for tax purposes. Of this, only 50%, or Rs 25,000, is allowed as deduction. Since RGESS is for people with income less than Rs 10 lakh, they will fall in the 10% or 20% tax bracket. The maximum savings under this will be Rs 5,000 for people in the 20% tax bracket and Rs 2,500 for those under 10% (beyond the Section 80C benefits). Besides, the savings are only for the first year, not subsequent years. So, those who don't have enough money or time to invest Rs 50,000 in 2012-13 should consider postponing it to 2013-14.
Lock-in period:

Unlike other tax-saving schemes, the lock-in period here is split in two. The first year is a fixed lock-in and the investor cannot sell, pledge or hypothecate the shares. The next two years are flexible and he can sell, but has to buy other eligible securities with the proceeds. All eligible securities in an RGESS designated account are automatically subject to the lock-in periods. If an investor wants to buy more designated shares and keep these outside the lock-in clause, he has to give a declaration in Form B within a month of the transaction date. One can also keep other securities in this account without the lock-in clause. The tax benefit under Section 80CCG is withdrawn if these conditions are violated, but if the changes are due to involuntary corporate actions it’s not affected.

Stocks or mutual funds:

Since direct investment in equity needs expertise and first-time investors are unlikely to have it, they should refrain from investing directly in the market. The risk is also high because Rs 50,000 is not enough to create a well-diversified portfolio. A better option is to go through the mutual fund route. As of now, several exchange traded funds (ETFs) have been declared as eligible securities and investors can invest in these. Various mutual fund houses have also started filing offer documents for eligible schemes with SEBI, while their new fund offerings (NFO) too are expected soon.

*Direct plans outperform regular mutual fund schemes:*

When mutual funds launched direct plans earlier in January 2013, these schemes were expected to do better than the regular funds because of the lower charges. The difference was expected to show up after a few weeks, even months. However, within a week, the direct plans of some funds have raced ahead of the existing schemes.

The extent of the outperformance is eye-popping. In some funds, such as Kotak Tax Saver, the difference is more than 1 percentage point. Even among 5-star funds, direct plans have outperformed regular funds by as much as 38 basis points.
Asset Management Companies (AMC’s) in India

It's noteworthy that the degree of outperformance is high among equity funds.

In debt funds, the difference is not so significant. "The difference is a function of the brokerage, which varies across fund categories. Liquid and debt funds offer less commission compared with equity funds."

Also, it is not compulsory for a fund house to pay the same commission on all schemes within a category. The tax-saving funds have a higher commission structure, which explains why Kotak Tax Saver and Axis Long Term Equity have shown the highest divergence.

Direct plans are a good vehicle for an investor who can do his own research and invest on his own without the help of an intermediary. With a direct scheme for every existing plan, there is a sudden surge in the number of schemes in the market. Fund trackers are having a tough time incorporating the new schemes into their data bases.

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Equity fund category</th>
<th>Normal</th>
<th>Direct</th>
<th>Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Axis Long Term Equity</td>
<td>Tax planning</td>
<td>-0.21</td>
<td>0.18</td>
<td>0.38</td>
</tr>
<tr>
<td>Reliance Banking</td>
<td>Banking</td>
<td>0.03</td>
<td>0.41</td>
<td>0.38</td>
</tr>
<tr>
<td>BNP Paribas Dividend Yield</td>
<td>Multi-cap</td>
<td>2.90</td>
<td>3.21</td>
<td>0.31</td>
</tr>
<tr>
<td>Mirae Asset India</td>
<td>Large- &amp; mid-cap</td>
<td>-0.19</td>
<td>-0.17</td>
<td>0.02</td>
</tr>
<tr>
<td>Opportunities Regular</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Discovery</td>
<td>Mid- &amp; small-cap</td>
<td>1.23</td>
<td>1.25</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Figures in %. Returns as on 9 January 2013. Source: Value Research

The ratings for direct plans will have to wait though. These plans are only extensions of the existing schemes (till 1 January 2013, the NAV was the same), but mutual fund trackers are treating them as new funds and, therefore, not rating them.
**Mutual fund industry upset with AMFI's advice to not to share data feeds of direct plans:**

Several players from the mutual fund industry are upset with the recent note from AMFI to its members dated January 2, 2013 asking them not to share data feeds of direct plans to the mutual fund advisors.

"The regulation clearly says that direct plans are for the transactions that are not routed through a distributor and thus, capturing the distributor code on such transactions would mean that the transaction is routed through that distributor. Therefore, ARN code cannot be captured on transactions received in direct plans. However, any distributor is allowed to advice the direct plans for a fee and there is no restriction there.

The industry players are upset because without the data feed from AMCs, investment advisors won't be able to service their clients (i.e. generating their portfolio, alert the client when the investment reaches a specific value or worth redeeming, etc).

The other option – i.e. clients forwarding the investment details and the advisor feeding these details manually - is a costly affair. Further, this manual data entry may also increase the chance of errors. Because of this, most advisors aver that the very purpose of direct plans – i.e. allowing the investment advisors to offer direct plans to their client for a fee - is defeated by this action. Thus, it will be difficult to offer direct plans and continue to service clients unless the reverse feeds are allowed.

Some section of the fund management industry also feels that the spirit of direct plan is getting defeated by putting this extra condition by AMFI. They say that the purpose of direct plan is to reduce the cost to the investor (i.e. by removing the marketing/distribution costs) and not to stop the advisor from servicing his clients.

"Sebi's intention of asking Mutual Funds to create a direct plan is clear - direct plans should be without commission, since the investor approaches the fund house directly and not through an intermediary, but somehow this has been
interpreted that it must be without the advisor. Direct plans are another avenue provided by SEBI, which an investor can avail of to invest in Mutual Funds and is not intended to replace the existing distributor model".