- OUTLINE OF THE CHAPTER:-

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An investment can be described as perfect if it satisfies all the needs of all investors. Therefore, the starting point in searching for the perfect investment would be to examine investor needs. If all those needs are met by the investment, then that investment can be termed the perfect investment. Most investors and advisors spend a great deal of time understanding the merits of thousands of investment available in India. This chapter deals with profile of mutual fund which includes definitions given by different authors, advantages and disadvantages of mutual funds, history of mutual fund in foreign and in India, Structure of mutual fund and various schemes of mutual fund.

Savings form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the economy. Indian financial system presents a plethora of avenues to the investors. Though certainly not the best or deepest of markets in the world. It has reasonable options for an ordinary man to invest his saving like mutual fund.
2.1 MEANING OF MUTUAL FUND:
Mutual fund is a type of financial intermediary that pools the funds of investors who seek the same general investment objective and invests them in a number of different types of financial claims (e.g., equity shares, bonds, money market instrument). These pooled funds provide thousands of investors with proportional investment managers. The term ‘mutual’ is used in the sense that all its returns, minus its expenses, are shared by the funds unit holders.

Mutual fund is a special type of institution which acts as an investment conduit. It is essentially a mechanism of pooling together the savings of large number of investors for collective investments with an avowed objective of attractive yields and appreciation in their value. Such activities are undertaken on different terms by agencies popular as ‘unit trusts’ and ‘investment companies’ in U.K. & U.S.A.

Definitions:
- **According to Bharti V. Pathak,**
  “A Mutual Fund is a Financial Service Organization that receives money from shareholders, invests it, earns return on it, attempts to make it grow and agrees to pay the shareholders. Cash on demand for the current value of his investment”\(^1\)

- **According to Chandra Prasanna,**
  “Mutual Fund is called unit trust or open ended trust – a company that invests the fund of its subscribers in diversified securities and in turn issues units representing shares in those holdings. They make continuous offering of new shares at net asset value and redeem the shares on demand of net asset value determined daily by the market value of the securities they hold.”\(^2\)
• According to Jitendra Gala & Ankit Gala (Guide to Indian Mutual Fund),
  “Mutual fund is nothing but pooling of money collected from investors by issuing units to them and is invested in marketable securities according to the investment objective.”

• According to Sundar Sankaran,

Pooled Vehicle

A mutual fund (MF) is a vehicle to pool money from investors, with a promise that the money would be invested in a particular manner, by professional managers who are expected to honor the promise.

In India mutual funds are governed by the regulations of Securities and Exchange Board of India (SEBI).

Professional Management

The idea behind a mutual fund is that individual investors generally lack the time, the inclination or the skills to manage their own investments. Thus, mutual funds hire professional managers to manage the investments for the benefit of their investors in return for a management fee.

• According to Indian Institute of Banking & Finance,
  “A mutual fund is a type of financial intermediary that pools the funds of investors who seek the same general investment objective & invests them in number of different types of financial claims (e.g. equity shares, bonds, money market instruments)”
Hence, a mutual fund can be defined as a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested by the fund manager on behalf of the investors in different types of securities. The income earned through these investments and the capital appreciated realized by the scheme are shared by its unit holders in proportion to the number of units owned by them.

2.2 ADVANTAGES AND DISADVANTAGES OF MUTUAL FUND

2.2.1 ADVANTAGES

Investments in stocks, bonds and other financial instruments require considerable expertise and constant supervision, to enable an investor to take informed decisions. Small investors usually do not have the necessary expertise and the time to undertake any study that can facilitate informed decisions. While this is the predominant reason for the popularity of mutual funds, there are many other benefits that can accrue to small investors. Some of these advantages are listed below:
- **Diversification Benefits:**
  Diversified investment improves the risk-return profile of the portfolio. Small investors may not have the amount of capital that would allow optimal diversification. Since the corpus of a mutual fund is substantially big as compared to individual investments, optimal diversification becomes possible. As the individual investors' capital gets pooled into a mutual fund, all of them are able to derive the benefits of diversification.

- **Low—Transaction Costs:**
  The transactions of a mutual fund are generally very large. These large volumes attract lower brokerage commissions (as a percentage of the value of the transaction) and other costs, as compared to the smaller volumes of the transactions entered into by individual investors. The brokers quote a lower rate of commission due to two reasons. The first is competition for the institutional investors' business. The second reason is that the overhead, costs for executing a trade do not differ much for large and small orders. Hence, for a large order, these costs spread over a larger volume, enabling the broker to quote a lower commission rate.

- **Availability of Various Schemes:**
  Mutual funds generally offer a number of schemes to suit the requirements of the investors. Thus the investors can choose between regular income schemes and growth schemes, between schemes that invest in the money market and those that invest in the stock market, etc. Some schemes provide some added advantages. For example, automatic reinvestment schemes reinvest the distributed income automatically, thus making the management of funds easier. In case of direct investment in securities, the reinvestment of income in the same proportion as the assets held, is very difficult, and sometimes impossible. Funds that invest in overseas markets offer the additional advantage of international
diversification, which may otherwise not be feasible to the lay investor. (In India, mutual funds cannot invest in the overseas market.)

- **Professional Management:**

  Management of a portfolio involves continuous monitoring of various securities and the innumerable economic and non-economic variables that may affect the portfolio's performance. This requires a lot of time and effort on the part of the investor, along with in-depth knowledge of the functioning of the financial markets. Mutual funds are generally managed by knowledgeable, experienced professionals whose time is solely devoted to tracking and updating the portfolio. Thus, investment in a mutual fund not only saves time and efforts for the investor, it is also likely to produce better results.

- **Liquidity:**

  Liquidating a portfolio is not always easy. There may not be a liquid market for all the securities held. In case only a part of the portfolio is required to be liquidated, it may not be possible to sell all the securities forming part of the portfolio in the same proportion as they are represented in the portfolio. These problems can be solved by investing in a mutual fund. A mutual fund generally stands ready to buy and sell its units on a regular basis. Thus, it is easier to liquidate holdings in a mutual fund as compared to direct investment in securities.

- **Tax Benefit:**

  In India, dividend received by the investor is tax free. This enhances the yield on mutual funds marginally as compared to income from other investment options. Also, in the case of long-term (more than one year) capital gains, the investor need not to pay tax for all equity purchases after March 1, 2003.⁶
• **Flexibility:**

Mutual funds possess features such as regular investment plan (i.e., one can invest in installments), regular withdrawal plans and dividend reinvestment plan. Because of these features, one can systematically invest or withdraw funds according to one's needs and convenience.

• **Well Regulated**

All mutual funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interest of investors. The operations of mutual funds are regularly monitored by SEBI.

### 2.2.2 DISADVANTAGES OF MUTUAL FUND

Investment in mutual funds has its disadvantages as well.

1. The investors cannot choose the securities they want to invest in, or the securities they want to sell.

2. The investors face the risk of the fund manager not performing well. Also, the fund manager's compensation is linked to the fund's performance, he may be tempted to show good results in the short-term without paying attention to the expected long-term performance of the fund. This would harm the long-term interests of the investor.

3. The management fees charged by the fund. It reduces the returns available to the investors.

4. While investors in securities can decide the amount of earnings they want to withdraw in a particular period, investors in a mutual fund have no such discretion as the amount of earnings that are to be paid out to the investors in a particular year is decided by the mutual fund.
The predominant reason for the popularity of mutual funds is that small investors usually do not have the necessary expertise and the time to undertake any study that can facilitate informed decision. Because investments in stocks, bonds and other financial instruments require considerable expertise and constant supervision, to enable an investor to take informed decision. The above stated are some of the advantages and disadvantages of investment in mutual funds.

2.3 STRUCTURE OF MUTUAL FUNDS IN INDIA
The SEBI (Mutual Funds) Regulations, 1993, later replaced by SEBI (Mutual Funds) Regulations, 1996\(^7\) prescribe the legal structure of mutual funds in India. There are other independent administrative entities like banks, registrar and transfer agents.
CHART: 2.2 STRUCTURE OF MUTUAL FUND

**Sponsor**
- Akin to the promoter of the company
- Establishes the fund
- Gets if registered with SEBI
- Forms a trust, and appoints board of trustees

**Trustee**
- Hold assets on behalf of the unit holders in the trust
- Appoint Asset Management Company and ensure that all the activities of the AMC are in accordance with the SEBI Regulations
- Appoint the custodian of the fund.

**Custodian**
- Holds the fund’s securities in safekeeping,
- Settles securities transactions for the fund,
- Collects interests and dividends paid on securities, and
- Records information on stocks splits and other corporate actions

**Asset Management Company**
- Floats schemes and manages them in accordance with the SEBI Regulations

**Distributors / Agents**
- Sell units on behalf of the fund

**Registrar and transfer agent**
- Maintains records of until holders’ accounts and transactions,
- Disburse and receives funds from unit holder transactions, prepares and distributes account statements and tax information, handles unit holder communication, and
- Provides unit holder transaction services.

**Bankers**
- Facilitates financial transactions
- Provides remittance facilities

Source: Indian Institute of Banking & Finance (Mutual Funds Products and Services)
In India, the structure of a mutual fund is determined by SEBI regulations. These regulations require a fund to be established in the form of a trust under the Indian Trusts Act, 1882\(^8\) to raise money from the public for investing in securities. For this purpose, money market instruments are also considered as securities. The money can be raised by the sale of units, either to the public in general, or to a particular section of the public. Further, they require a four-tier structure to be in place for every mutual fund. The table mentioned below summaries the existing structure of few mutual fund.

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Name of the Fund</th>
<th>Trustee</th>
<th>AMC</th>
<th>Custodians</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>SBI Mutual Fund</td>
<td>SBI Capital Market Ltd.</td>
<td>SBI</td>
<td>SBI</td>
</tr>
<tr>
<td>HDFC</td>
<td>HDFC Mutual Fund</td>
<td>HDFC Trustee Company Ltd.</td>
<td>HDFC. v AMC Ltd.</td>
<td>HDFC Bank Ltd.</td>
</tr>
<tr>
<td>LIC</td>
<td>LIC Mutual Fund</td>
<td>SHCI</td>
<td>LIC MF</td>
<td>SCHI</td>
</tr>
<tr>
<td>UTI</td>
<td>UTI</td>
<td>Own Board Trustee</td>
<td>UTI</td>
<td>SCHI/Citibank</td>
</tr>
</tbody>
</table>

Source: www.amfiindia.com

The four parties that are required to be involved are the Sponsor, Board of Trustees, the Asset Management Company (AMC), and the Custodians. The other market constituents are the transfer agent, and the distributors.

A brief discussion of the four is given below in accordance with the SEBI (Mutual Fund) Regulations.
• **Sponsor:**

The sponsor of a fund is the entity that sets up the mutual fund. The fund is governed either by a Board of Trustees, or the Directors of a Trustee Company. These are selected by the sponsor. The sponsors for a Mutual fund could be a company registered under the Companies Act, 1956. The company can be a public limited or private limited finance company as per the SEBI (Mutual Fund) Regulation 1996. One or more than one companies can join to sponsor a mutual fund. The sponsor should meet the following requirements: should have a sound track record and general reputation of fairness and integrity in all business transactions. SEBI (Mutual Fund). Regulation 1996 further elaborates the definition of a sound track record. The finance companies should be carrying on business in financial services for a period of not less than five years.

i. The net worth must be positive in all the immediately preceding five years; and

ii. The net worth in the immediately preceding year must be more than the capital contribution of the sponsor in the asset management company; and

iii. The sponsor earns profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year.

• **Asset Management Company:**

The sponsor also appoints the asset Management Company (AMC) for the investment and administrative functions. The AMC does the research, and manages the corpus of the fund. It launches the various schemes of the fund, manages them, and then / liquidates them at the end of their term. It also takes care of the other administrative work of the fund. It receives an annual management fee from the fund for its services.
The Asset Management Company (AMC) is required to fulfill the following conditions:

- It is required to be formed and registered under the Companies Act, 1956. It is also required to be approved as an AMC by SEBI.
- It should hold the approval of the board of trustees, or
- It shall have a minimum net worth of not less than Rs. 10 crore.
- An AMC, any of its directors, officers or employees shall not act as a trustee of any mutual fund or act as director in any other AMC.
- The board of directors of the AMC will consist of at least 50% directors who are not associates of, or associated in any manner with the sponsor or any of its subsidiaries or the trustees.

The appointment of the AMC can be terminated by majority of the trustees or by seventy five percent of the unit holders of the scheme.

An AMC has the following obligations:

- An AMC is responsible for floating schemes for the mutual fund and managing the funds mobilized under various schemes in accordance with the trust deed, SEBI regulations and the investment objectives stated in the offer document.
- The details of transactions in securities by the key personnel of the AMC, whether in their own name, or on behalf of the AMC, have to be reported by the AMC to the trustees on a half-yearly basis. This is to help the trustees ensure that there is no front running or self dealing by either the AMC, or its key personnel.
- The AMC is required to report to the trustees any securities transaction taken place with any of its associates. This requirement helps ensure that such transactions are not against the unitholders' interest.
- The AMC should inform the trustees and SEBI about the interest of its directors in other companies. This information should be
updated every six months. It also has to report about the transaction of dealing in securities on a quarterly basis. This is to ensure that the fund's corpus is not being utilized for the benefit of the sponsor, the AMC or its directors, in a way that is detrimental to the unit holder’s interest.

➢ It is the AMC's responsibility to appoint registrars and share transfer agents for the fund. It has to ensure that these parties are registered with SEBI.

➢ It has to submit a report on the functioning of the schemes of the mutual fund to the trustees on a quarterly basis, or as at such intervals as required by the trustees.

- **Board of Trustees**

  The Board of Trustees is responsible for protecting the investors' interests. Under the SEBI (Mutual Fund) Regulation 1996, Trustee means a person who holds the property of the mutual fund in trust, for the benefit of the unit holders. The word "trustee" can be used to denote the Board of Trustees. In case the trust is governed by a trustee company, it can be used to denote either the trustee company or its directors.

  The trustees have the following major rights and obligations:

➢ While the sponsor appoints the AMC, the trustees should enter into an investment management agreement with the latter, with the prior approval of SEBI.

➢ They should ensure that the AMC has all the required systems and personnel (like auditors, registrars, etc.) in place before any scheme is launched.

➢ The trustees have to ensure that the AMC enters into only those transactions that conform to the SEBI Regulations and to the specifics of the scheme.
They have to make sure that the AMC does not benefit any of its associates at the cost of the unit holders. An "associate" means a person -
- Who exercises control over the AMC, either directly or indirectly, alone or together with some relative; or,
- On whom the AMC exercises control; or,
- Who has a common director, officer, or employee with the AMC.

They have to ensure that the interests of the unit holders are not being compromised in any manner.

Each trustee has to file the details of his transaction of dealing in securities on a quarterly basis.

The trustees have to review the net worth of the AMC every quarter and ensure that any shortfall is made up by the latter.

The trustees have to periodically review the contracts with the custodians, transfer agents, etc., to make sure that they are in conformity with the interest of the unit holders.

The trustees need to make sure that the AMC does not deploy its net worth in a manner that gives rise to a conflict between the AMC's interest and the unit holders' interest.

They have to see that the AMC is properly redressing investor complaints.

The trustees have to satisfy themselves that there is no instance of self dealing or front running by any of the trustees, directors or key personnel of the AMC, and should certify the same to SEBI on a half-yearly basis.

The trustees are required to pass on any information to the unit holders that may have an adverse impact on their investments.
The trustees have the right to obtain any relevant information from the AMC.

- **Custodians**
  
  The custodians are appointed by the sponsor to look after the transfer and storage of securities. Only a registered custodian under the SEBI (Custodian of Securities) Regulation can act as a custodian of a mutual fund. The functions of custodian cover a wider range of services like safe keeping of securities, bid settlement, corporate action, and transfer agent. In addition, they may be contracted to perform administrative functions like fund accounting, cash management and other similar functions. The salient features of these functions are given below:

  **Safe Custody**

  Safe custody includes scheme wise segregation of assets and regular checking and verification of securities, reconciliation of assets, registration of securities for proper verification etc.

  **Trade Settlement:**

  The custodian is responsible for timely receipt and delivery of cash and securities i.e securities will be delivered on receipt of cash and payment will be made after receipt of securities.

  **Transfer Agents:**

  The transfer agent is contracted by the AMC and is responsible for maintaining the register of investors/ unit holders and every day settlements of purchases and redemption of units/certificates. The role of a transfer agent is to collect data from distributors relating to daily purchases and redemption of units. Based on the current scheme's NAV, the number of units in issue, the number of units to be redeemed, the transfer agent allocates the number of units to a new entrant in case of a
purchase/ switch-ins and determines the amount of capital to be paid out in the case of redemption/switch-outs.

In India, the structure of mutual fund is given by SEBI (Mutual Fund) Regulations. As per these regulations, mutual funds are required to have a three – ties structure of sponsor – trustees, AMC. The mutual fund, which is the trust, acts through a trust company or a board of trustees. In this topic the qualifications, obligations & rights of trustees, obligations of AMC etc. are discussed.

2.4 HISTORY OF MUTUAL FUND:
History of mutual fund has been discussed under two broad heads:

2.4.1 History of Mutual Fund in foreign countries

2.4.2 History of Mutual Fund in India

2.4.1 History of Mutual Fund in foreign countries

Although historians may differ on the exact of mutual funds, the origin of mutual funds can be traced back to a little more than one & half century ago. In 1822, King William of the Netherlands formed “SocieteGenerale de Belique”, at Brussels, which appears to be the first mutual fund.\textsuperscript{10}It was intended to facilitate small investments in foreign government loans, which then offered more security and returns than the home industry. Later on, another similar company was started with an objective to make cooperative investments, to protect investors against loss by wide undertakings, and to secure larger returns through investing in industries. While the mutual funds had its origin in Belgium, it did not take firm root in continental soil but flourished when transplanted in UK and USA surroundings.
2.4.1.1 MUTUAL FUND INDUSTRY IN UK

The very first investment trust, Foreign & Colonial, set out its investment aims "to give investors of moderate means, the same advantage as the large capitalist" in its prospectus of 1868. 1880s was the period of boom for this innovative investment opportunity in UK. Though some investment trusts failed during the British crash of 1890, most of them survived. By 1900 there were more than 100 investment trusts, many of them are still around.\textsuperscript{11} These investment trust are close-ended funds.

During the first period of its operation (till mid-1920s) mutual funds were informative and experimental conditions. They were incorporated under the Companies Act. Investment managers enjoyed huge powers about the sale and purchase of securities. The years from 1900 to 1914 were marked by an increasing tendency on the part of British investment manager to invest their clients' funds in American securities, especially in stocks and bonds of American railways. With the advent of the first world war, this situation changed drastically. From 1914-1918, British mutual funds sold a large proportion of their American investments, and a large part of the money obtained from the sale of American stocks and bonds was promptly invested in the war loans of the British government. Though less remunerative, yet this strategy enabled the survival of the industry.

UNIT TRUSTS

In United States many small investors lost their fortunes in the years following the Wall Street crash of 1929. But not even one investment trust failed during those troubled years (1890s) in UK. However, some structural changes started taking place in the industry. The most important one was the emergence of unit trusts. Unit trusts are created by a trust deed. The first unit trust appeared in 1931, shortly after
the Wall Street crash. It was a period when income was much more
important consideration than growth. Unit trusts conform to the basic
pattern of open-ended investment funds in UK.

Investment trusts continued to be popular with private investors
right up until the middle of 1960s. The unit trust industry expanded
rapidly till October 1987 crash. By January, 1988 there were almost 1200
unit trusts managed by more than 160 groups. These trusts became
popular mainly because of the range of investment opportunities they
made available to the investors. The stock market crash at the end of 1987
brought significant changes to the unit trust industry. The other main
event affecting the unit trust industry during and after post 1988 is the
implementation of the Financial Services Act. The Financial Services Act
brought the investors' greater protection and larger number of restrictions
on the industry.

By the end of 1997 there were $237 billion of assets managed by
1455 open-ended funds. The chart below gives the break-up of assets
under management as on Dec. 31, 1997:

**DOMINANCE OF EQUITY FUNDS**

*Chart 2.3 Assets allocation (in %)*

The chart clearly indicates the dominance of equity funds in the
industry. In the last decade, lots of changes have been observed in the
industry. Increased investor sophistication, wealth and power have led to
significant influence on the growth of mutual fund market. Investors are demanding better levels of services, transparency in prices and more product variety. On the political front there is a drive for lower costs and standardization to encourage savings. The competition in UK fund industry has increased due to low entry barriers encouraging new players. The increased level of competition is putting pressures on prices. There has been a trend in the industry to focus on core activities and outsource the rest.

The pace of changes is very rapid, resulting in steep increase in volumes. New products are launched, and newer distribution methods are explored.

The mutual fund industry in UK is witnessing a restructuring wave and the outcome is powerful brand leaders.

2.4.1.2 MUTUAL FUND INDUSTRY IN US

The origin of mutual funds in the USA could be traced to the private trustee system in Boston during the second half of 19th century. One of the first investment trusts, the Boston Personal Property Trust, was organized in 1893\textsuperscript{13}. It advertised that it "was organized for the purpose of giving persons of small means an opportunity to invest in diversified lists of securities held by a trust which was managed by professional trustees which is a regular line of business in Boston."\textsuperscript{14} It was the Alexander Fund established in Philadelphia in 1907 by W. Wallace Alexander that seems to have originated many of the ideas adopted by mutual funds. Like 1924s M.I.T. and State Street Investors mutual funds, the Alexander fund began as an investment vehicle for a small circle of friends and eventually expanded to include the general public. As the United States economy grew, investment companies were formed in Boston, New York and many other states.
In the USA, mutual fund industry evolved in three phases:

♦ Pre-1940
♦ 1940-1970, and
♦ 1970 to the present.

The first stage i.e. period before 1940 was the stage of infancy of the mutual fund industry. Mutual funds, in those days, were small and dissimilar to the extent that these entities were not even given the status of a separate industry. Close-ended funds were the dominant form of mutual funds to mobilize money (in 1929 assets mobilized under close ended schemes accounted for 95% of the total assets of the industry). However, by the end of 1940s the share of close-ended funds started shrinking in favour of open-ended fund.

In the second stage, assets managed by mutual funds witnessed rapid and steady growth and mutual fund evolved into an established industry.

Assets under management were $450 mn. In 1940, it rose to $47.6 bn. by the end of 1970 (see Baumol, et al., 1970). During this phase open-ended funds became the dominant form of mutual funds.15

The most striking feature of the phase (1970 to present) has been the innovation in the investment objectives. Till this phase, most of the money was mobilized under the objective of providing the benefit of diversification in equity investing. While there were five types of funds offered in 1970, there were 22 different types in 1987. The money market mutual fund is considered the most innovative launch of that time, as this product was quite different in contrast with the then existing equity products and was, in many respects very close to the products offered by banks. It widened the scope of competition for mutual funds with banks on account of similarity in the product. Another important happening of that time was the innovative steps taken by the funds to improve the
quality of investor servicing. An example can be given of the exchange privilege given to the investors to shift from one fund to another. Another significant development post-1970s has been the reduction or elimination of sales loads, thereby increasing the mobility of investors.

The total assets under management by the end of 1997 were $4465 billion managed by 6900 funds. The break up of assets as on 31st Dec. 1997 is shown in the chart below:

**Dominance of Equity funds**

**Asset allocation in %**

![Chart showing asset allocation](chart.png)

The decade 1990-2000 was particularly favourable to mutual fund industry in USA as by the end of 2000, the assets managed by the industry increased to $7 trillion. The increased demand for mutual funds in the 1990s led to the creation of a large number of new mutual funds. The number rose from around 2900 at the beginning of the decade to about 8200 by the end of 2000. As stocks and other financial assets earned relatively high returns in 1990s, households shifted their asset allocation away from real estates and other tangible assets to financial assets. During this shift, households showed an increasing preference to investment through mutual funds than buying securities directly. The number of households owning mutual funds reached to 50.6 million in 2000 as against 23.4 million in 1990. World equity funds were also an important element in the growth of mutual funds, as investors increasingly sought to diversify their financial assets through overseas
investments. With the rising demand for mutual funds in the 1990s, fund companies and distribution companies developed new outlets for selling mutual funds and expanded traditional sales channels. Many funds primarily marketed directly to investors turned increasingly to third parties and intermediaries for distribution. Funds that were traditionally sold through a sales force of brokers shifted increasingly to non-traditional sources of sales such as employee-sponsored pension plans, banks and life insurance companies in the 1990s

2.4.2 HISTORY OF MUTUAL FUNDS IN INDIA

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry.

In the past decade, Indian mutual fund industry had seen a dramatic improvement, both qualities wise as well as volume (quantity wise). Before, the monopoly of the market had seen an ending phase; the Assets under Management (AUM) was Rs. 67bn. The private sector entry to the fund family raised the AUM to Rs. 470 bn in March 1993 and as on March 2007; total mutual funds are around 38 in no. with approximately in Rs.3, 26,388 corers as Assets under Management.16

Putting the AUM of the Indian mutual funds industry into comparison, the total of it is less than the deposits of SBI alone, constitute less than 11% of the total deposits held by the Indian banking industry.17

The main reason of its poor growth is that the mutual fund industry in India is new in the country. Large sections of Indian investors are yet to be intellectuated with the concept. Hence, it is the prime responsibility of all mutual fund companies, to market the product correctly abreast of selling.
The mutual fund industry can be broadly put into four phases according to the development of the sector. Each phase is briefly described as under.

**First Phase – 1964-87 (Establishment & Growth of UTI):**

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was delinked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

**Second Phase -1987-1993 (Entry of Public Sector Funds):**

Entry of non-UTI mutual funds. SBI Mutual Fund was the first followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47,004 as assets under management. 18

**Third Phase –1993 to 1996 (Introduction of Private Sector Funds)**

In the history of mutual funds a new era was started with the entry of Private Sectors in the mutual funds industry during 1993 - 1996. During this period private domestic and foreign players were allowed in the mutual fund industry. Finally, in the year 1992-93, the Government allowed Private sector player to set up the Mutual Fund. As a result, a number of private sector mutual funds came up. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund family.
Some of them are Kothari Pioneer Mutual Fund, ICICI Mutual Fund, Birla Mutual Fund, Morgan Stanly Mutual Fund etc. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer which is now merged with Franklin Templeton, was the first Private Sector mutual fund registered in July 1993.

The rising number of mutual and increasing competition in the industry offers investors a wide choice as a result they began to give investors improved services. The Private sector funds provided an added benefit to the investor as these were generally setup as partnership or the joint venture with foreign mutual funds. The latter provided the technology and experience in managing the funds.

Thus, it was the phase of Private Sector funds entering in Mutual Fund Market thereby affecting investors, providing sufficient choice of fund, numerous managers as well as a big flow of funds.

**Fourth Phase –1996 to 2003(Era of SEBI Regulations)**

Although, in the year 1993 the Securities Exchange Board of India (SEBI) notified regulations bringing all Mutual Funds except UTI under a common regulatory frame work by issuing the Mutual Fund Regulations, but the Mutual Fund industry observed strong growth & strict regulation from SEBI after 1996 only. The number of operators of Mutual fund & thereby mobilization of funds increased as investors started investing more in Mutual funds. Due to these, protecting the investor's interest became an urgent need which has been catered by SEBI by introducing SEBI (Mutual Funds) Regulations, 1996.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations
The number of Mutual Fund houses went on increasing, with many foreign Mutual Funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. At the end of January 2003, there were 33 Mutual Funds with total assets of Rs. 1, 21,805 crores. However, the Unit Trust of India with Rs. 44,541 crores of AUM - Assets under Management was the leading one with all other mutual funds.\textsuperscript{19}

**Fifth Phase – Since 2004 (Consolidation – Mergers - Schemes)**

After the year 2003, during this phase, the flow of funds into the mutual funds industry considerably increased. This was due to tax benefits and improvement in quality of investor service which has resulted into a positive growth in the mutual fund industry in India. However, in the year 2003, due to the revocation of the Unit Trust of India Act, 1963, UTI was bifurcated into two separate entities.

This Phase is known for division of UTI into separate entities. The phase had harsh experience for UTI. It was divided into two separate entities. One is the Specified Undertaking of the Unit Trust of India; running under the supervision & the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The Second is the UTI Mutual Fund Ltd, sponsored by SBI State Bank of India, PNB- Punjab National Bank, BOB - Bank of Baroda, and LIC (Life Insurance Corporation) of India. It is registered with SEBI and function under the Mutual Fund Regulations. With the division of the former UTI which had in March 2000 more than Rs. 76,000 crores of AUM (Asset Under Management) and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.\textsuperscript{20}
As at the end of September, 2004, there were 29 funds, which manage (AUM) assets of Rs. 1,53,108 crore under 421 schemes which increased to Rs. 3,26,388 crore at the end of financial year 2006-2007 and further increased to Rs. 4,17,300/- crores up to the year 2009 and Rs. 6,75,000/- crores up to the year 2010. These occupies major portion of the Indian economy. Thus, mutual funds industry as a whole provides many advantages due to its nature & size of the business.

2.5 SCHEMES OF MUTUAL FUND

Mutual funds differ from each other on the basis of various factors like their term, investment objectives, the type of investors and the load. The various classes of funds are:

2.5.1 Term of the fund – Open – ended and close-ended

2.5.2 Investment objective – Growth funds, income funds, balanced funds, specialized funds, tax savings etc.

2.5.3 Types of investors – Offshore funds, pension funds, etc.

2.5.4 Management style – Managed funds, index funds

2.5.5 Load-Load funds, no load funds, etc.

2.5.6 Other Pooled funds – Hedge funds, Fund of funds ETFS
2.5.1 CLASSIFICATION BASED ON THE TERM OF THE FUND

On the basis of term of the funds mutual funds can be classified into two types.

1. Open Ended
2. Close Ended
1) **Open Ended:**

An open-ended fund remains open for issue and redemption of its shares throughout its unlimited duration. Some examples of open-ended mutual funds schemes are Alliance-95, Birla Advantage, Canganga, Unit scheme 64, etc.

2) **Close Ended:**

A close-ended fund can issue shares of mutual fund only in the beginning, and cannot redeem them or reissue them till the end of their fixed investment duration. Some examples of close-ended mutual funds schemes are UTI Master Equity Plan 98, Reliance FTS dividend, BOB EISS-9S, Canpep-9S, ICICI Power, etc.

As an open-ended fund is required to redeem its shares any time the investors wish to liquidate their holdings, a relatively higher portion of its assets needs to be highly liquid. There would be situations where, in a given period, the redemptions would be more than the purchases by new shareholders, forcing the management to liquidate some of the fund's assets to meet the shortfall. Due to this possibility, an open-ended fund needs to invest in highly marketable securities.

A close-ended fund does not face this problem as it does not require redeeming its shares before the maturity of the fund. Hence, it has more flexibility as compared to an open-ended fund for investing in less readily marketable securities. However, the shares of a close-ended fund generally quote at a discount, for which investments in less marketable securities are partly responsible. However, now-a-days, this distinction is becoming blurred with close-ended funds being allowed in some countries to redeem a part of their shares before the end of the duration, with the redemption being periodic in some cases. In some places, close-ended funds are even allowed to reissue these redeemed shares. Further,
internationally, unit trusts offer both open-ended and close-ended schemes, while certain close-ended funds offer their schemes again and again to the investors, making them virtually open-ended. New types of funds are coming up in the international market. One such fund is the interval fund, which is basically an open-ended fund with redemptions allowed only after pre-specified intervals. An extended-payment fund allows an open-ended fund more days for making payment to the investors on redemption of shares. Both these kinds of funds can manage their liquidity better as compared to an ordinary mutual fund.

2.5.2 CLASSIFICATION BASED ON INVESTMENT OBJECTIVES

On the basis of investment objectives mutual funds can be classified into

1) Growth Fund
2) Income Fund
3) Balanced Fund
4) Specialized Fund
5) Tax Saving Fund

1) Growth Fund

The objective of a growth fund scheme is to provide capital appreciation over the medium to long term. A major portion of their funds in equities and are willing to bear short-term decline in value for possible future appreciation in the net asset value of the scheme. These schemes are not for investors seeking regular income or needing their money back in the short-term. They are suitable for investors in their prime earning years or investors seeking growth over the long-term. Some examples of growth funds are Alliance Basic Industries, Reliance Growth, Tata GSF-G, etc.
2) **Income Fund**

The aim of such funds is to provide regular and steady income to investors. These funds or schemes generally invest in fixed incomes such as bonds and corporate debentures. Capital appreciation in such schemes may be limited. These are suitable for retired people and others with a need for capital stability and regular income. Some examples of income fund are Birla Income Plus-D, Chola Freedom Income-D, HDFC Income, etc.

3) **Balanced Fund**

They aim to provide both growth and income by periodically distributing a part of the income and capital appreciation to the investors or reinvesting (in case of reinvestment scheme) such income and capital appreciation to enhance the net asset value of the fund. They invest in both shares and fixed income securities in the proportion indicate in their offer document. Such funds are suitable for those investors, who are willing to take some risk and seek both income and capital appreciation. Some examples of balanced fund are DSPML Balanced-G, HDFC Balanced-G, JM Balanced-G, etc.

4) **Specialized Fund**

These funds invest in particular industries, instruments, sectors or markets. Different types of specialized fund are:

- **Sectoral Fund**

  There are funds which invest in specific industries like Alliance Basic Industries fund, Kothari Pioneer (KP) Internet Opportunities Fund, Prudential-ICICI Technology fund, etc. Then there are funds which invest largely in equity instruments i.e., equity funds like JM Equity, or in the debt instruments i.e., bond funds like Kotak Bond Deposit.
• **Money Market Funds**

Money Market Funds generally invest in short-term liquid assets like treasury bills, banker’s acceptances, negotiable certificates of deposit, repurchase agreements, Certificate of Deposit (CDs) or commercial papers. Capital is raised by selling shares to the investing public at a price equal to the asset value of the then existing shares outstanding plus a loading fee or service charge. This is known as high liquid assets funds with very low risk and virtually no capital loss. Interest income fluctuates because of volatile interest rates but investors get better yield than saving accounts. Examples of money market funds are Reliance liquid plan, IDBI-PRINCIPAL Money Market Fund 1997, UTI Money market fund, BOB liquid fund.

• **Gilt Fund**

These funds invest in different types of long and medium term government securities and highly rated corporate debt. Gilt funds stick to high quality – low risk debt, mainly government securities.

• **Real Estate Funds**

Real estate funds primarily invest in real estate ventures. These funds are of close-end type because of long-term investment in real estate. Such funds are of various types depending upon real estate transactions.

5) **Tax Savings Funds**

These funds offer tax rebates to the investors under tax laws as prescribed from time to time. This is possible because the Government offers tax incentives for investment in specified avenues.
2.5.3 CLASSIFICATION BASED ON TYPES OF INVESTORS

On the basis of types of investors mutual funds can be classified into two types

1) Offshore Funds
2) Pension Funds

1) Offshore Funds

Funds that invest solely in foreign markets are referred to as international funds (also called offshore funds). Some examples of offshore funds in India are India Magnum Fund, LG India Fund, India Liberalization Fund, etc. The majority of these funds have been routed through Mauritius. Fund that invests both in domestic markets and international markets are referred to as global funds.

2) Pension Funds

Some categories of funds are different from other funds because of their investor profile. An example of such funds is pension funds. These funds manage the pension moneys from their clients. For example, Kothari Pioneer Pension Plan Fund.

2.5.4 CLASSIFICATION BASED ON MANAGEMENT STYLE

On the basis of the management style mutual funds can be classified into two types:

1) Managed Funds
2) Index Funds

1) Managed funds:

Funds can also be classified on the basis of the way they are managed. The corpus of the fund may be managed either actively or passively. Active management of funds involves gathering of security specific information, analyzing it, and selecting those securities that are
most expected to fulfill the investment objectives. This process entails a heavy cost that is charged to the scheme. Funds which manage their corpus actively are called managed funds.

2) Index funds:

Index funds seek to have a position that replicates an identified index, say, BSE Sensex or NSE Nifty. Such a position can be created through either of two methods:

It can either be done by maintaining an investment portfolio that replicates the composition of the chosen index. Thus, the stocks in such a fund’s portfolio would be the same as are used in calculating the index. The proportion of each stock in the portfolio too would be the same as the weight of the stock in the calculation of that index.

This replicating style of investment is called passive investing. Index funds are therefore often called passive funds. Funds that are not passive, on the other hand, are often called managed funds.

Index schemes are also referred to as unmanaged schemes (since they are passive) or tracker schemes (since they seek to track a specific index).

Passive investment places lower demands on the time and efforts of the AMC. All that is required is a good system that would integrate the valuation of securities (from the market) and information of sales and repurchases of units (from the registrar) and generate the requisite buy and sell orders. Management fees for Index funds are, therefore, lower than for managed schemes.

Alternately, a mutual fund, through its research can identify a basket of securities and / or derivatives whose movement is similar to that of the index. Schemes that invest in such baskets can be viewed as active index funds.
2.5.5 CLASSIFICATION ON THE BASIS OF LOAD

On the basis of load mutual funds can be classified into two types

1) Load Funds
   - Front Load
   - Back Load

2) No Load funds

A fund incurs two types of costs - marketing costs and operating costs. While the operating costs of the scheme are charged to the scheme's earnings, the marketing costs may not be so charged. On the basis of chargeability of marketing costs to the scheme, funds can be classified into load funds and no-load funds. Load funds charge the marketing costs to the scheme, while the no-load funds do not. The no-load funds recover the marketing costs as part of the management fee.

Load funds are of two types - front load and back load. In a front load fund, the load is charged at the time the investors invest in the fund. In the case of back load fund, investors are required to pay the load charges while exiting from the fund.

2.5.6 OTHER POOLED INVESTMENT

In addition to the above discussed types of mutual funds, some others are famous due to their special investment strategy or diversification strategy. These other pooled investments are

1. Hedge Funds
2. Fund of Funds
3. Exchange Traded Funds
1) **Hedge Funds**

More and more investors, private as well as institutional, are seriously looking at hedge funds as a new alternative asset class.

A hedge fund is typically defined as 'a pooled investment vehicle that is privately organized, administered by professional investment managers, and not widely available to the public' investor normally invests in hedge fund due to two reasons - high rate of return and more diversification. As they are private in nature, they have less restriction on borrowing, short-selling, and the use of derivatives, than more regulated vehicles such as mutual funds. This allows for investment strategies that differ significantly from the long-only, non-leveraged strategies traditionally followed by investors. So what is the typical strategy followed by hedge funds? It is here where the confusion starts, as there is no typical hedge fund strategy. Nowadays, every non-traditional investment strategy tends to be referred to as a hedge fund strategy. Even particular long-only, non-leveraged funds, such as emerging market funds for example, are sometimes classified as hedge funds. This means that hedge funds are an extremely heterogeneous group, with two important consequences. First, it is dangerous to make general claims regarding hedge funds. Second, many hedge funds are not 'hedged' at all, i.e. hedge funds can be a lot more risky than the name suggests.
2) **Fund of Funds**

Fund of Funds is a mutual fund that does not invest directly into equity or debt market; instead it invests in other mutual funds schemes. Fund managers of fund of funds focus only on allocation of specific scheme. A 'fund of funds' which allocates the fund in a debt and equity mix is called a balance fund. However, this is almost similar to the assets allocation funds, and seems to have lower risk compare to balance funds. The expense ratio of this fund is higher than the existing category. As per regulation Fund of funds to charge maximum 0.85 percent expense. If this is added to the 2.5 percent, the maximum expenses ratio that an equity fund can change, then the total cost of this offer can be as 3.35 percent.  

In spite of high expense ratio one of the biggest benefit that fund of funds have is the tax advantage. It is very tax friendly from asset rebalancing point of view. If an investor tries to rebalance his own fund or stock holding then he is liable to pay the capital gain tax that is applicable, and if the gains are short-term then the tax can be as high as 30%. But the FoF by virtue of being a mutual fund scheme is exempted from capital gain tax on its internal transaction. So, when a FoF rebalances to maintain its stated allocation between equity and debt there is no element of capital gain tax.

3) **Exchange Traded Fund**

An exchange traded fund, or ETF, is a type of investment company whose investment objective is to achieve the same return as a particular market index. An ETF is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index. An ETF will invest in either all of the securities or a representative sample of the securities included in the index. An ETF invests in a basket of stocks which blindly mimics a chosen market index (say, the S&P,
CNX, Nifty, or the BSE Sensex). For convenience, the Net Asset Value (NAV) of the ETF is usually represented as a fraction of its underlying index. For instance, the Benchmark Nifty ETF has an NAV that is one-tenth of the prevailing Nifty value. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock.

An exchange traded fund is different from an open-end index fund. In an open-end index fund, an investor purchases the units from the fund itself and to redeem them sells the units back to the fund. Therefore, each entry or exit from the fund expands or shrinks its corpus.

Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks, one must pay a brokerage to buy and sell ETF units, which can be a significant drawback for those who trade frequently or invest regular sums of money.

The total market in India for ETF is very small at less than Rs.300 crore, compared to Rs.1, 55,845 crore of assets in mutual funds. In US the overall ETF assets totaled $150.98 billion, towards the end of 2003 compared to $7.4 trillion in mutual funds.23

There are three players in the market today. UTI has an ETF called SUNDERS, Prudential ICICI has SPICE, but the most focused player is a little-known fund house called Benchmark Mutual Fund with several products on offer.

2.6 RESOURCES MOBILIZATION BY INDIAN MUTUAL FUND INDUSTRY

The researcher has tried to prepare various tables, presenting data about total resources, mobilization by Indian Mutual Fund Industry over the time period of 2006 to 2012. The study further focuses upon sector-wise, nature-wise and category-wise resource mobilization and percentage-wise share of each sector in total resource mobilisation. The
study also attempts to calculate growth rates to show trends in total resource mobilisation and no. of schemes of mutual fund industry under various types.

Table-2.2
Total No. of schemes under mutual funds

<table>
<thead>
<tr>
<th>Year</th>
<th>ELSS</th>
<th>Income</th>
<th>Balanced</th>
<th>Gilt</th>
<th>Lia/mm</th>
<th>Gold ETFs</th>
<th>Other ETFs</th>
<th>Equity</th>
<th>Fund of funds investing overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
<td>37</td>
<td>251</td>
<td>36</td>
<td>29</td>
<td>45</td>
<td>-</td>
<td>-</td>
<td>194</td>
<td>(32.77)</td>
<td>592 (100)</td>
</tr>
<tr>
<td>March 2007</td>
<td>40</td>
<td>365</td>
<td>38</td>
<td>28</td>
<td>55</td>
<td>1 (0.13)</td>
<td>-</td>
<td>227</td>
<td>(30.11)</td>
<td>754 (100)</td>
</tr>
<tr>
<td>March 2008</td>
<td>42</td>
<td>506</td>
<td>37</td>
<td>30</td>
<td>58</td>
<td>5 (0.52)</td>
<td>8</td>
<td>270</td>
<td>(28.24)</td>
<td>956 (100)</td>
</tr>
<tr>
<td>March 2009</td>
<td>47</td>
<td>509</td>
<td>35</td>
<td>34</td>
<td>56</td>
<td>5 (0.49)</td>
<td>12</td>
<td>293</td>
<td>(29.27)</td>
<td>1001 (100)</td>
</tr>
<tr>
<td>March 2010</td>
<td>48</td>
<td>367</td>
<td>33</td>
<td>35</td>
<td>56</td>
<td>7 (0.79)</td>
<td>14</td>
<td>307</td>
<td>(34.81)</td>
<td>882 (100)</td>
</tr>
<tr>
<td>March 2011</td>
<td>48</td>
<td>591</td>
<td>32</td>
<td>37</td>
<td>51</td>
<td>10</td>
<td>18</td>
<td>328</td>
<td>(29.10)</td>
<td>1131 (100)</td>
</tr>
<tr>
<td>March 2012</td>
<td>49</td>
<td>775</td>
<td>30</td>
<td>42</td>
<td>55</td>
<td>14 (1.07)</td>
<td>21</td>
<td>303</td>
<td>(23.15)</td>
<td>1309 (100)</td>
</tr>
<tr>
<td>Overall Growth rate</td>
<td>32.43%</td>
<td>208.76%</td>
<td>-16.67%</td>
<td>44.83%</td>
<td>22.22%</td>
<td>1300%</td>
<td>162.5%</td>
<td>56.19%</td>
<td>100%</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Complied and calculated from the data presented in AMFI publication.

Note: (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.
Table: 2.2 shows

(1) Gold ETF schemes have been introduced in 2007 and it grows speedily from 2007 to 2012 with the overall growth rate of 1300%.

(2) Other ETF schemes and fund of funds investing overseas have also introduced recently i.e. 2008 and 2009 respectively and get tremendous overall growth rate of 1625% and 100% respectively.

(3) Income schemes have shown the overall growth rate of 208.76% and balanced schemes have shown the negative overall growth rate of 16.67%. 
Table-2.3  
Sector wise total Resources Mobilised by Mutual Fund Industry  
(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>UTI</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in Rs.)</td>
<td></td>
<td></td>
<td>(in Rs.)</td>
</tr>
<tr>
<td>March 2006</td>
<td>29519</td>
<td>20829</td>
<td>181514</td>
<td>231862</td>
</tr>
<tr>
<td></td>
<td>(12.73)</td>
<td>(8.98)</td>
<td>(78.29)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2007</td>
<td>37613</td>
<td>32205</td>
<td>289279</td>
<td>359097</td>
</tr>
<tr>
<td></td>
<td>(10.47)</td>
<td>(8.97)</td>
<td>(80.56)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2008</td>
<td>48983</td>
<td>46583</td>
<td>442942</td>
<td>538508</td>
</tr>
<tr>
<td></td>
<td>(9.10)</td>
<td>(8.65)</td>
<td>(82.25)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2009</td>
<td>48754</td>
<td>55351</td>
<td>389180</td>
<td>493285</td>
</tr>
<tr>
<td></td>
<td>(9.88)</td>
<td>(11.22)</td>
<td>(78.90)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2010</td>
<td>80218</td>
<td>92515</td>
<td>574792</td>
<td>747525</td>
</tr>
<tr>
<td></td>
<td>(10.73)</td>
<td>(12.38)</td>
<td>(76.89)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2011</td>
<td>67189</td>
<td>66804</td>
<td>566545</td>
<td>700538</td>
</tr>
<tr>
<td></td>
<td>(9.59)</td>
<td>(9.54)</td>
<td>(80.87)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>March 2012</td>
<td>58922</td>
<td>66554</td>
<td>539316</td>
<td>664792</td>
</tr>
<tr>
<td></td>
<td>(8.86)</td>
<td>(10.01)</td>
<td>(81.13)</td>
<td>(100.00)</td>
</tr>
<tr>
<td>Overall Growth Rate</td>
<td>99.61%</td>
<td>219.53%</td>
<td>197.12%</td>
<td>186.72 (100.00)</td>
</tr>
</tbody>
</table>

Source: Complied and calculated from the data presented in AMFI publication.

Note: (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.
Table 2.3 shows,

(1) Public sector has shown the highest overall growth rate of 219.53% while UTI has shown the lowest overall growth rate of 99.61%.

(2) Total resources mobilized in private sector have shown the highest in all the years from 2006 to 20012. But in overall growth rate it ranked 2\textsuperscript{nd} with 197.12%.
Table-2.4
Category wise Resources Mobilization by Mutual Funds
(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>ELSS</th>
<th>Income</th>
<th>Balanced</th>
<th>Gilt</th>
<th>Lia/mm</th>
<th>Gold ETFs</th>
<th>Other ETFs</th>
<th>Equity</th>
<th>Fund of funds investing overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
<td>6589</td>
<td>60278</td>
<td>7493</td>
<td>3135</td>
<td>61500</td>
<td>-</td>
<td>-</td>
<td>92867</td>
<td>(40.06)</td>
<td>231862</td>
</tr>
<tr>
<td>March 2007</td>
<td>10211</td>
<td>119322</td>
<td>9110</td>
<td>2257</td>
<td>72006</td>
<td>96</td>
<td>-</td>
<td>113386</td>
<td>(34.74)</td>
<td>326388</td>
</tr>
<tr>
<td>March 2008</td>
<td>16020</td>
<td>220762</td>
<td>16283</td>
<td>2833</td>
<td>89402</td>
<td>483</td>
<td>2647</td>
<td>156722</td>
<td>-</td>
<td>505152</td>
</tr>
<tr>
<td>March 2009</td>
<td>12427</td>
<td>197343</td>
<td>10629</td>
<td>6413</td>
<td>90594</td>
<td>736</td>
<td>660</td>
<td>95817</td>
<td>(22.96)</td>
<td>417300</td>
</tr>
<tr>
<td>March 2010</td>
<td>24066</td>
<td>311715</td>
<td>17246</td>
<td>3395</td>
<td>78094</td>
<td>1590</td>
<td>957</td>
<td>174054</td>
<td>(28.35)</td>
<td>613979</td>
</tr>
<tr>
<td>March 2011</td>
<td>25569</td>
<td>291975</td>
<td>18445</td>
<td>3409</td>
<td>73666</td>
<td>4400</td>
<td>2516</td>
<td>169754</td>
<td>(28.66)</td>
<td>592250</td>
</tr>
<tr>
<td>March 2012</td>
<td>23644</td>
<td>290844</td>
<td>16261</td>
<td>3659</td>
<td>80354</td>
<td>9886</td>
<td>1607</td>
<td>158432</td>
<td>(26.98)</td>
<td>587217</td>
</tr>
<tr>
<td>Overall Growth rate</td>
<td>258.84%</td>
<td>382.50%</td>
<td>117.02%</td>
<td>16.71%</td>
<td>30.66%</td>
<td>10197.92%</td>
<td>- 39.29%</td>
<td>70.60%</td>
<td>-5.63%</td>
<td>153.26%</td>
</tr>
</tbody>
</table>

Source: Complied and calculated from the data presented in AMFI publication.

Note: (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.

Table 2.4 shows,

(1) Gold ETF schemes have been introduced in 2006 and it has shown the tremendous overall growth rate of 10197.92% from the year 2007 to 2012.

(2) From the year 2006 to 2012 Income schemes have shown the overall growth rate of 382.50%.
(3) Other ETF schemes which were introduced in 2008 and fund of funds investing overseas which were introduced in 2009 have shown negative overall growth rate of 39.29% and 5.63% respectively.

Thus it may be said at the end that Gold ETFs schemes which have been started from the year 2007 has started growing rapidly during the period. After the Gold ETFs schemes Income schemes have undoubtedly emerged as the most popular schemes among the investors.

Over the period from 2006 to 2012 among various sectors operating in mutual fund industry, public sector mutual funds have become the most prominent players in the industry. UTI mutual funds have on the other hand, have emerged as the least preferred ones.

2.7 CONCLUSION:

Mutual fund is a trust that pools the savings of a number of investors and invests them in diversified portfolios. The income generated from these investments, after meeting expenses of a mutual fund trust, is distributed among unit holder as divided. Due to mutual funds, investors become free from selecting good portfolios for investment, can get benefit of an expert professional management and moreover a mutual fund provides liquidity investment. But mutual fund does not give guarantee for regular return on investment and investors cannot choose themselves the securities.

The structure of a mutual fund consists of sponsor, trustee, custodian and asset management company.

The concept of mutual fund had its origin in Belgium, but picked up in USA and UK. The origin of mutual fund in India was formed by unit trust of India in 1964.
There are various schemes of mutual fund in order to attract investors of different nature. With reference to total numbers of schemes of mutual funds, Gold ETF Scheme has shown the tremendous growth which is followed by Income Schemes during 2006 to 2012.

During the year 2006 to 2012, the overall growth rate of sector wise total resources mobilized by mutual funds is highest in public sector and category wise resources mobilization by mutual fund is highest in Gold ETFs and the lowest is funds of funds investing overseas. Overall growth rate of many schemes of mutual fund has shown an upward trend during the year 2006 to 2012.
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