Chapter V
Role of UTI and Various Financial variables.

The Fifth chapter deals with capital market, portfolio Management, equity market and its relation with UTI mutual funds like the major tasks of an equity portfolio manager, board types of equity instrument, portfolio management style. The chapter also highlights the various type of equity research done in mutual fund by the fund manager like the fundamental analysis, technical analysis, and quantitative analysis. It also gives the detail of debt market and mutual fund, government securities, corporate fixed income securities, the chapter discuss with the risk in investing and the portfolio management strategies used by fund manager. Trends in transactions on stock exchange by UTI mutual fund since January 2000 are also discussed in detail in this chapter.

UTI Mutual Fund- An Introduction

UTI AMC is one of the best Asset Management Company in India. Recently, Mr. U. K. Sinha has awarded as a best CEO of the year 2009 and Mr. Jaideep Bhattacharya has awarded as best Marketing Personality of the year 2009.

UTI AMC is a company incorporated under companies act 1956. In UTI AMC the investment agreement is executed between UTI Trustee Company Ltd and UTI AMC on December 9 2002 UTI AMC was registered by SEBI to act as Asset Management Company for UTI Mutual Fund vide its letter of January 2003.
The paid up capital of UTI AMC has been subscribed equally by four sponsors: State Bank of India, Life Insurance Corporation of India, Bank of Baroda and Punjab National Bank. UTI AMC, apart from managing the schemes of UTI Mutual Fund, also manages the schemes transferred/migrated from the erstwhile Unit Trust of India, in accordance with the provisions of the Investment Management Agreement, the Trust Deed, and the SEBI (Mutual Funds) Regulations.

**Current AUM of UTI Mutual Fund is Rs.78, 617 Crores* as on 31st May 2010 (source: [http://www.amfiindia.com/](http://www.amfiindia.com/))**

**Subsidiaries**

**UTI Venture**

UTI Venture is leading private equity firm. Focused on growth capital, they propel the ambitions of passionate Indian entrepreneurs, while unlocking superior returns for our investors. Our demonstrated track record of successful investments, led by an experienced management team, positions our funds among top performers in India.

**UTI International Ltd**

UTI International Ltd (UTI IL) is a 100% subsidiary of UTI Asset Management Company Ltd. (UTI AMC). UTI AMC is the largest retail Asset Management Company in India with more than 9 million investor accounts and Assets under Management of close to US$ 9.5bn (September 30, 2008). UTI International Ltd. is responsible for all international business activities of UTI AMC. The Assets under Management (AUM) of UTI International Ltd stands at USD 615 mn as on September 30, 2008.
**UTI RSL (Retirement Solutions Limited)**

UTI RSL has been set up to carry out the operations as Pension Fund as directed by the Board of Trustees of the New Pension System Trust, set up under the Indian Trust Act, 1882, and to undertake wholesale asset management as prescribed by the Government.

**Assets Under Management:**

UTIAMC presently manages a corpus of over Rs.78, 617 Crores* as on 31st May 2010. UTI Mutual Fund has a track record of managing a variety of schemes catering to the needs of every class of citizens. It has a nationwide network consisting 143 UTI Financial Centres (UFCs) and UTI International offices in London, Dubai and Bahrain.

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 qualitywise as well as quantitywise. 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 rose the AUM to Rs. 470 bn in March 1993 and till April 2004, it reached the height of 1,540 bn.

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.
The mutual fund industry is a lot like the film star of the finance business. Though it is perhaps the smallest segment of the industry, it is also the most glamorous – in that it is a young industry where there are changes in the rules of the game everyday, and there are constant shifts and upheavals. The mutual fund is structured around a fairly simple concept, the mitigation of risk through the spreading of investments across multiple entities, which is achieved by the pooling of a number of small investments into a large bucket. Yet it has been the subject of perhaps the most elaborate and prolonged regulatory effort in the history of the country.

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.

Mutual funds are an excellent way to invest in stocks, bonds and other securities. They are a good choice of investment because:

- They are managed by professional money managers, so most of the investment research is done for you. (Most investors don’t have the time or know-how to do all the necessary research.)
- You diversify your investment risk by owning shares in a mutual fund, instead of buying individual stocks or bonds directly.
- Transaction costs are often lower than what you would pay if you invested in individual securities (the mutual fund buys and sells large amounts of securities at a time).
For those who are not adept at understanding the stock market, the task of generating superior returns at similar levels of risk is arduous to say the least. This is where Mutual Funds come into picture.

Mutual Funds are essentially investment vehicles where people with similar investment objective come together to pool their money and then invest accordingly. Each unit of any scheme represents the proportion of pool owned by the unit holder (investor). Appreciation or reduction in value of investments is reflected in net asset value (NAV) of the concerned scheme, which is declared by the fund from time to time. Mutual fund schemes are managed by respective Asset Management Companies (AMC). Different business groups/ financial institutions/ banks have sponsored these AMCs, either alone or in collaboration with reputed international firms. Several international funds like Alliance and Templeton are also operating independently in India. Many more international Mutual Fund giants are expected to come into Indian markets in the near future.

Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI until the two were de-linked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years.

UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes
between 1981-84, Children's Gift Growth Fund and India Fund (India's first offshore fund) in 1986, Mastershare (India's first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 crores.

UTI MUTUAL FUNDS

Vision

To be the most Preferred Mutual Fund.

Our mission is to make UTI Mutual Fund:

- The most trusted brand, admired by all stakeholders
- The largest and most efficient money manager with global presence
- The best in class customer service provider
- The most preferred employer
- The most innovative and best wealth creator
- A socially responsible organisation known for best corporate governance

Genesis

Jan 14, 2003 is when UTI Mutual Fund started to pave its path following the vision of UTI Asset Management Company Limited, who has been appointed by the UTI Trustee Company Limited for managing the schemes of UTI Mutual Fund and the schemes transferred/migrated from the erstwhile Unit Trust of India.
The UTI Asset Management Company provides professionally managed back office support for all business services of UTI Mutual Fund (excluding fund management) in accordance with the provisions of the Investment Management Agreement, the Trust Deed, the SEBI (Mutual Funds) Regulations and the objectives of the schemes. State-of-the-art systems and communications are in place to ensure a seamless flow across the various activities undertaken by UTIMF.

UTI AMC is a registered portfolio manager under the SEBI (Portfolio Managers) Regulations, 1993 on 3rd February 2004, for undertaking portfolio management services and also acts as the manager and marketer to offshore funds through its 100% subsidiary, UTI International Limited, registered in Guernsey, Channel Islands.

**Assets under Management**

UTI Asset Management Company presently manages a corpus of over Rs. 56,854 Crores as on 31st Dec 2007 (source: www.amfiindia.com). UTI Mutual Fund has a track record of managing a variety of schemes catering to the needs of every class of citizenry. It has a nationwide network consisting of 79 UTI Financial Centres (UFCs) and UTI International offices in London, Dubai and Bahrain. With a view to reach to common investors at district level, 3 satellite offices have also been opened in select towns and districts.

They have well-qualified, professional fund management teams, who have been highly empowered to manage funds with greater efficiency and accountability in the sole interest of unit holders. The fund managers are ably supported with a strong in-house securities research department. To
ensure better management of funds, a risk management department is also in operation.

**Reliability**

UTIMF has consistently reset and upgraded transparency standards. All the branches, UFCs and registrar offices are connected on a robust IT network to ensure cost-effective quick and efficient service. All these have evolved UTI Mutual Fund to position as a dynamic, responsive, restructured, efficient and transparent SEBI compliant entity.

**Work culture :**

We believe in providing an environment that encourages employees to achieve and fulfil personal goals and that of the company. When the combined force of both, the employees and the company flow in one direction, there is ample amount of possibilities, opportunities and growth. The work culture at UTI Mutual Fund is simple – work is priority and the rest follows. Our relationship with our employees works both ways, they give their best and we give them the best, we strike the right balance at work.

**Employee Benefits**

- Competitive salaries
- Comfortable work environment
- Career opportunities
- Insurance benefits
• Recreational amenities

**UTI Asset Management Company Ltd. (UTI AMC)** has been promoted by State Bank of India, Life Insurance Corporation of India, Punjab National Bank and Bank of Baroda, each holding 25% of the paid up capital. UTI AMC is the investment manager to the schemes of UTI Mutual Fund. It also manages offshore funds and provides support to the Specified Undertaking of the Unit Trust of India.

It is the holding company for UTI Venture Funds Management Company which manages venture funds and UTI International Ltd., which markets offshore funds to overseas investors. UTI AMC is a SEBI registered **Portfolio Manager** bearing registration number **INP 000000860** and offers Discretionary, Non-Discretionary and Advisory services to High Net Worth clients, Corporate and Institution

Unit Trust of India was created by the UTI Act passed by the Parliament in 1963. For more than two decades it remained the sole vehicle for investment in the capital market by the Indian citizens. In mid-1980s public sector banks were allowed to open mutual funds. The real vibrancy and competition in the MF industry came with the setting up of the Regulator SEBI and its laying down the MF Regulations in 1993. UTI maintained its pre-eminent place till 2001, when a massive decline in the market indices and negative investor sentiments after Ketan Parekh scam created doubts about the capacity of UTI to meet its obligations to the investors. This was further compounded by two factors; namely, its flagship and largest scheme US 64 was sold and re-purchased not at intrinsic NAV
but at artificial price and its Assured Return Schemes had promised returns as high as 18% over a period going up to two decades..!!

Fearing a run on the institution and possible impact on the whole market Government came out with a rescue package and change of management in 2001. Subsequently, the UTI Act was repealed and the institution was bifurcated into two parts. UTI Mutual Fund was created as a SEBI registered fund like any other mutual fund. The assets and liabilities of schemes where Government had to come out with a bail-out package were taken over directly by the Government in a new entity called Specified Undertaking of UTI, SUUTI. SUUTI holds over 27% stake Axis Bank. In order to distance Government from running a mutual fund the ownership was transferred to four institutions; namely SBI, LIC, BOB and PNB, each owning 25%. Certain reforms like improving the salary from PSU levels and effecting a VRS were carried out UTI lost its market dominance rapidly and by end of 2005, when the new share-holders actually paid the consideration money to Government its market share had come down to close to 10%!

A new board was constituted and a new management inducted. Systematic study of its problems role and functions was carried out with the help of a reputed international consultant. Fresh talent was recruited from the private market; organizational structure was changed to focus on newly emerging investor and distributor groups and massive changes in investor services and funds management carried out. Once again UTI has emerged as a serious player in the industry. Some of the funds have won famous awards, including the Best Infra Fund globally from Lipper. UTI has been able to benchmark its employee compensation to the best in the market, has introduced Performance Related Payouts and ESOPs.
The UTI Asset Management Company has its registered office at: UTI Tower, Gn Block, Bandra - Kurla Complex, Bandra (East), Mumbai - 400051. It has over 70 schemes in domestic MF space and has the largest investor base of over 9 million in the whole industry. It is present in over 450 districts of the country and has 100 branches called UTI Financial Centers or UFCs. About 50% of the total IFAs in the industry work for UTI in distributing its products! India Posts, PSU Banks and all the large Private and Foreign Banks have started distributing UTI products. The total average Assets Under Management (AUM) for the month of June 2008 was Rs. 530 billion and it ranked fourth. In terms of equity AUM it ranked second and in terms of Equity and Balanced Schemes AUM put together it ranked FIRST in the industry. This measure indicates its revenue-earning capacity and its financial strength.

Besides running domestic MF Schemes UTI AMC is also a registered portfolio manager under the SEBI (Portfolio Managers) Regulations. It runs different portfolios for its HNI and Institutional clients. It is also running a Sharia Compliant portfolio for its Offshore clients. UTI tied up with Shinsei Bank of Japan to run a large size India-centric portfolio for Japanese investors.

For its international operations UTI has set up its 100% subsidiary, UTI International Limited, registered in Guernsey, Channel Islands. It has branches in London, Dubai and Bahrain. It has set up a Joint Venture with Shinsei Bank in Singapore. The JV has got its license and has started its operations.
In the area of alternate assets, UTI has a 100% subsidiary called UTI Ventures at Bangalore. This company runs two successful funds with large international investors being active participants. UTI has also launched a Private Equity Infrastructure Fund along with HSH Nord Bank of Germany and Shinsei Bank of Japan.

**PRODUCTS AVAILABLE**

**UTI Mutual Fund**

UTI Asset Management Company Ltd. manages the activities of UTI Mutual Fund in India. The mutual funds organization offers a variety of schemes to Indian customers. UTI Mutual Fund has several offices located across the country of India. The corporate head office of UTI Mutual Fund is situated in Mumbai.

**Subsidiaries:**

UTI Mutual Fund has 2 subsidiaries:

- UTI Venture Funds and
- UTI International Ltd.

**UTI Venture Funds:**

UTI Venture Funds is a private equity organization in India. The main focus area of UTI Venture Funds is growth capital. Many of the Indian entrepreneurs have benefited from their dealings with UTI Venture Funds.
UTI International Ltd:

UTI International Ltd. has significant presence in international locations like London, Dubai and Bahrain. UTI has plans to further develop its offshore mutual funds unit.

Awards:

Some of the important awards won by UTI Mutual Fund have been listed below.

- Lipper Fund Awards- 2008
- ICRA Mutual Funds Award- 2007
- Several ICRA 5 Star and 7 Star Awards

UTI Mutual Fund Sponsors:

Some of the biggest names in the financial and banking sector in India continue to sponsor UTI Mutual Fund. The sponsors of UTI Mutual Fund have been listed below.

- State Bank of India
- Bank of Baroda
- Punjab National Bank
- Life Insurance Corporation of India
**UTI Mutual Fund Schemes:**

UTI Mutual Fund offers a number of useful schemes to its customers. Some of the popular products launched by the mutual fund organization have been listed below.

- UTI Asset Fund
- UTI Index Funds
- UTI Balanced Fund
- UTI Contra Fund

**Products of UTI AMC**

**Equity Fund Category**

- Diversified Funds

**UTI Master Share:** An equity fund aiming to provide benefit of capital appreciation and income distribution through investing in equity.

**UTI Master Plus Unit Scheme:** Capital appreciation through investments in equities and equity related instruments, convertible debentures, derivate in India and also in overseas markets.

**UTI Equity Fund:** It is open ended equity scheme with an objective of investing at least 80% of its funds in equity and equity related instrument with medium to high risk profile and upto 20% in debt and money market instruments with low to medium risk profile.
**UTI Contra Fund:** To provide long term capital appreciation/ dividend distribution through investments in listed equities & equity related instruments. The fund offers an impact of non-rational investors that are currently undervalued because of emotional & behavioural patterns present in the stock market.

**UTI Wealth Builder:** The objective of the scheme is to achieve long term investing predominantly in a diversified portfolio of equity related instruments.

**UTI Top 100:** The fund aims to provide long term capital appreciation/ dividend predominantly in equity and equity related instruments of top 100 by market capitalisation.

- **Speciality/ Theme Based Fund**

**UTI Infrastructure Fund:** An open-ended equity fund with the objective to provide capital appreciation through investing in the stocks of the companies engaged in the sectors like Metals, Building materials, oil and gas, power, chemicals, engineering etc. The fund will invest in the stocks of the companies which from part of infrastructure industries.

**UTI Dividend Yield Fund:** An open-ended equity scheme. It aims to provide medium to long term capital gains and/or dividend distribution by investing predominantly in equity and equity related instruments, which offer high dividend yield.
**UTI Services Industries Fund:** An open-ended fund which invests in the equities of the services sector companies of the country. One of the growth sector fund aiming to provide growth of capital over a period of time as well as to make income distribution by investing the funds in stocks of companies engaged in service sector such as banking, finance, insurances, education, training, telecom, travel, entertainment etc.

**UTI Master Value Fund:** An open ended equity fund investing in stocks which are currently undervalued to their future earning potential and carry medium risk profile to provide Capital appreciation.

**UTI Mid Cap Fund:** An open ended fund with the objective to provide ‘Capital Appreciation’ by investing primarily in mid cap stocks.

**UTI Leadership Equity Fund:** The scheme seeks to generate capital appreciation and/ or income distribution by investing the funds in stocks that are ‘Leader” in their respective industries/ sectors/ sub sectors.

**UTI MNC Fund:** The investments of funds under the scheme will be predominantly in stocks of multinational corporations and other Liquid stocks.

**UTI Opportunities Fund:** The scheme seeks to generate capital appreciation and/ or income distribution by investing the funds of the scheme in the equity shares and equity related instruments. The focus of the scheme is to capitalise on opportunities arising in the market by responding
to the dynamically changing Indian economy by moving its investments amongst different sectors as prevailing trends change.

**UTI Wealth Builder Fund Ser- II:** To achieve long term capital appreciation by investing predominantly in a diversified portfolio of equity and equity related instruments along with investments in GOLD ETF’s and Debt and Money Market Instruments.

- **Sector Funds:** These funds invest primarily in equity shares of companies in a particular business sector or industry. These funds are targeted at investors who are bullish or fancy the prospects of a particular sector.

**UTI Banking Sector Fund:** open ended fund with the objective to provide ‘Capital Appreciation through investment in stocks of companies/ institutions engaged in the banking and financial services activities.

**UTI Energy Fund:** Investment will be made in stocks of these companies engaged in the following areas: (a) Petro sector, (b) Power Generation Companies, (c) Energy Storage Companies, (d) Companies which makes parts for energy generation, (e) Consulting and Finance Companies.

**UTI Pharma and Health Care Fund:** An open-ended fund which exclusively invest in the equities of the Pharma and Healthcare sector companies.
UTI Transportation and Logistics Fund: An open-ended Equity fund with the objective to provide Capital appreciation through investment in the stocks of the companies engaged in the Transportation and Logistics sector.

- Tax Planning Funds

UTI Equity Tax Saving Plan: An open ended fund investing a minimum of 80% in equity and related instruments. It aims at enabling members to avail tax rebate under section 80C of the IT act and provide them with the benefit of growth.

UTI Spread Fund: The investment objective of the scheme is to provide capital appreciation and dividend distribution through arbitrage opportunities arising out of price differences between the cash and derivative market by investing predominantly in equity and related securities, derivatives and the balance portion in debt securities.

2. Index Fund Category: These funds invest in the same pattern as popular market indices like S&P CNX Nifty or CNX Midcap 200. The money collected from the investors is invested only in the stocks, which represent the index.

UTI Master Index Fund: The principle investment objective of the scheme is to invest in securities of companies comprising the SENSEX and endeavour to achieve return equivalent to SENSEX by passive investment.
**UTI Nifty Index Fund:** The principle investment objective of the scheme is to invest in stock of companies comprising the Nifty and endeavour to achieve return equivalent to Nifty by passive investment.

**UTI Sunder:** Investment objective of the fund is to endeavour to provide returns that, before expenses, closely track the performance and yield of basket of securities underlying S&P CNX Nifty Index.

3. **Asset Fund Category**

**UTI Variable Investment Scheme:** This is an open-ended scheme aiming to make dividend distribution periodically. The scheme will, as part of the investment objective take a contrarian outlook on the equities.

4. **Balanced Fund Category:** These funds invest both in equity shares and fixed-income-bearing instruments (debt) in some proportion. They provide a steady return and reduce the volatility of the fund while providing some upside for capital appreciation. They are ideal for medium to long-term investors who are willing to take moderate risks.

**UTI Balanced Fund:** The scheme aims to invest in a portfolio of equity/equity related securities and fixed income securities with a view to generating regular income together with capital appreciation.
**UTI Unit linked Insurance Plan:** Investment objectives of the scheme are primarily to provide return through growth inters NAV or through dividend distribution and reinvestment thereof.

**UTI CRTS:** Investment objectives of the scheme are the primarily provide regular income to unit holders of the scheme.

**UTI Children Career Balanced Plan:** Funds collected under the plan will be invested in equities, convertible and nonconvertible debentures/ bonds of companies/ corporates etc. and others capital and money market instrument subject to the condition that (1) non less than 60% of the funds will be invested in debt instruments of law to medium profile having a rating of A+ and above or equivalent at the time of investment and (2) not more than 40% of the funds in equities and related instruments.

**UTI Retirement Benefit Pension Plan:** Investment objective and policies of the scheme are primarily to provide pension in the form of periodical income / cash flow to the unit holders to the extent of redemption value of their holding after they complete 58 years of age.

**UTI Mahila Unit Scheme:** Investment objectives of the scheme is to invest in portfolio of equity/ equity related securities and debt and money market instrument with a view to generating reasonable income with moderate capital appreciation.
**UTI CCP Advantage Fund:** Equity and related instruments minimum-70% to 100%, debt and money market instruments including securitized debt* minimum- 0% to maximum 30%* investment in securitized debt will not normally exceed 20% of the net assets of the scheme.

**UTI Monthly Income Scheme:** An open-ended debt oriented scheme with no assured returns. The scheme aims at distributing income, if any, periodically.

**UTI MIS Advantage Plan:** The investment objective of the scheme is to generate regular income through investment in fixed income securities and capital appreciation/ dividend income through investment of a portion of a net asset of the scheme in equity and related instruments so as to endeavour to make periodic income distribution to unit holders.

**5. Income Fund Category:** These funds invest predominantly in high-rated fixed-income-bearing instruments like bonds, debentures, government securities, commercial paper and other money market instruments. They are best suited for the medium to long-term investors who are averse to risk and seek capital preservation. They provide a regular income to the investor.

**UTI Bond Fund:** The scheme will retain the flexibility to invest in the entire range of debt and money market instruments. The flexibility is being retained to adjust the portfolio in response to a change in the risk to return equation for asset classes under investment, with a view to maintain risks within manageable risks limits.
**UTI Treasury Advantage Fund:** The scheme will endeavour to generate an attractive return for its investors consistent with capital preservation and liquidity by investing in a portfolio of quality debt securities, money market instruments and structured obligations.

**UTI G-Sec Investment Plan- STP:** The investment objective of the scheme is to generate credit risk-free return by way of income or growth by investing in central Government securities, treasury bills, call money and repos.

**UTI Gilt Advantage Fund:** To generate credit risk-free return through investment in sovereign securities issued by the central Government and/or a State Government and/or any security unconditionally guaranteed by the central Government and/or a State government for repayment of principle and interest.

**UTI Short Term Income Fund:** To Generate Steady and Reasonable income, with low risk and high level of liquidity from a portfolio of money market securities and high quality debt.

**UTI Floating Rate Fund:** The investment objective of the scheme is to generate regular income though investment in a portfolio comprising substantially a floating rate debt/ money market instruments, fixed rate debt/ money market instrument swapped for floating rate returns.
**UTI G-Sec STP:** The investment objective of the scheme is to generate credit risk-free return by way of income or growth by investing in Central Government securities, treasury bills, call money and repos.

6. **Liquid Fund Category:** These funds invest in highly liquid money market instruments. The period of investment could be as short as a day. They provide easy liquidity. They have emerged as an alternative for savings and short-term fixed deposit accounts with comparatively higher returns. These funds are ideal for corporate, institutional investors and business houses that invest their funds for very short periods.

**UTI Money Market Fund:** To provide highest possible current income consistent with preservation of capital and providing liquidity from investing in a diversified portfolio of short term money market securities.

**UTI Liquid Fund Cash Plan:** The investment objective of the scheme is to generate steady and reasonable income, with low risk and high level of liquidity from a portfolio of money market securities and high quality debt.

**SIP (Systematic Investment Plan):**

SIP is an investment program that allows you to contribute a fixed amount (as low as Rs.1000) in mutual funds at regular intervals.

**Build your future:** To meet largest expenses of your life like marriages, education or a house you need to start investing early. Save a small amount every month/quarter and look forward to a bright future.
**Relax and accumulate wealth:** With SIP you don’t require investing a huge sum of money and start with an amount as little as Rs. 500. You can accumulate wealth over long-term.

**Reduce risk:** For efficient participation in this highly volatile market, SIP helps you average out your cost by generating superior returns in the long run. It reduces risk associated with lump sum investments.

**Enjoy the ease:** Set yourself free from cumbersome paperwork. Just identify the amount and scheme you wish to invest in and then choose from options like Auto Debit/ECS. The amount will automatically get debited on a date of your choice. You can also give monthly/quarterly post-dated cheques for the amount you wish to invest.

**Key terms:**

**NAV:** NAV or Net Asset Value of the fund is the cumulative market value of the assets of the fund net of its liabilities. NAV per unit is simply the net value of assets divided by the number of units outstanding. Buying and selling into funds is done on the basis of NAV-related prices. The NAV of a mutual fund are required to be published in newspapers. The NAV of an open end scheme should be disclosed on a daily basis and the NAV of a close end scheme should be disclosed at least on a weekly basis.

**Exit/Entry load:** Is a charge collected by a scheme when it sells the units is exit load. Is a charge collected by a scheme when it buys back the units from the unit holders is entry load.
Open/Close Ended: Whenever investor invest in any open ended scheme then he can make entry and exit at any time but in close ended scheme he can exit at the time of maturity.

Sales Price: Is the price you pay when you invest in a scheme, also called Offer Price. It may include a sales load.

Re-purchase Price: Is the price at which units under open-ended schemes are repurchased by the Mutual Fund. Such prices are NAV related.

FUND PERFORMANCE

Fund Performance is an exclusive section wherein the data quoted represents past performance of the various funds offered by UTI Mutual Funds. The data is collated and represented right from the inception of the fund to the funds previous 3 and 2 years performance hence. The performance figures are represented by the percent of the investment returns the funds have generated.
## Table 5.1

**Fund Performance of UTI Mutual Funds as on March 2011**

<table>
<thead>
<tr>
<th>Fund performance</th>
<th>Since launch</th>
<th>Last 3 yrs</th>
<th>Last 1 yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI Mastershare¹</td>
<td>18.61%</td>
<td>32.91%</td>
<td>35.49%</td>
</tr>
<tr>
<td>UTI Master Plus (Equity)</td>
<td>16.83%</td>
<td>38.16%</td>
<td>25.11%</td>
</tr>
<tr>
<td>UTI Equity Fund</td>
<td>12.45%</td>
<td>30.85%</td>
<td>24.16%</td>
</tr>
<tr>
<td>UTI Contra Fund</td>
<td>8.19%</td>
<td>-</td>
<td>17.21%</td>
</tr>
<tr>
<td>UTI Wealth Builder</td>
<td>34.29%</td>
<td>-</td>
<td>34.74%</td>
</tr>
<tr>
<td>UTI India Lifestyle Fund</td>
<td>0.7%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>UTI Infrastructure Fund</td>
<td>47.49%</td>
<td>52.21%</td>
<td>37.51%</td>
</tr>
<tr>
<td>UTI Dividend Yield Fund</td>
<td>31.97%</td>
<td>-</td>
<td>31.07%</td>
</tr>
<tr>
<td>UTI Services Industries Fund</td>
<td>34.1%</td>
<td>34.99%</td>
<td>21.5%</td>
</tr>
<tr>
<td>UTI Master Value Fund</td>
<td>27.31%</td>
<td>26.4%</td>
<td>27.61%</td>
</tr>
<tr>
<td>UTI Mid Cap Fund</td>
<td>32.65%</td>
<td>28.65%</td>
<td>13.35%</td>
</tr>
<tr>
<td>UTI Leadership Equity Fund</td>
<td>26.29%</td>
<td>-</td>
<td>25.87%</td>
</tr>
<tr>
<td>UTI Mastergrowth (Equity)</td>
<td>17.18%</td>
<td>32.84%</td>
<td>29.11%</td>
</tr>
<tr>
<td>UTI MNC Fund</td>
<td>17.71%</td>
<td>21.67%</td>
<td>6.09%</td>
</tr>
<tr>
<td>UTI Opportunities Fund</td>
<td>32.51%</td>
<td>-</td>
<td>41.44%</td>
</tr>
<tr>
<td>UTI Software Fund</td>
<td>11.57%</td>
<td>16.01%</td>
<td>-33.02%</td>
</tr>
<tr>
<td>UTI Banking Sector Fund</td>
<td>36.68%</td>
<td>39.34%</td>
<td>53.11%</td>
</tr>
<tr>
<td>UTI Pharma &amp; Healthcare Fund</td>
<td>12.19%</td>
<td>7.84%</td>
<td>-9.16%</td>
</tr>
<tr>
<td>UTI Auto Sector Fund</td>
<td>13.28%</td>
<td>10.35%</td>
<td>-18.02%</td>
</tr>
<tr>
<td>UTI Equity Tax Saving Plan</td>
<td>25.2%</td>
<td>30.29%</td>
<td>25.95%</td>
</tr>
<tr>
<td>Fund Name</td>
<td>1 Year</td>
<td>3 Year</td>
<td>5 Year</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>UTI Long Term Advantage Fund</td>
<td>28.37%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>UTI Master Equity Plan Unit Scheme</td>
<td>44.76%</td>
<td>35.15%</td>
<td>21.85%</td>
</tr>
<tr>
<td>UTI Spread Fund</td>
<td>8.64%</td>
<td>-</td>
<td>9.44%</td>
</tr>
<tr>
<td>UTI Master Index Fund (Equity-Index)</td>
<td>19.47%</td>
<td>39.32%</td>
<td>24.62%</td>
</tr>
<tr>
<td>UTI Nifty Index Fund (Equity Index)</td>
<td>16.05%</td>
<td>35.8%</td>
<td>24.62%</td>
</tr>
<tr>
<td>UTI Index Select Fund</td>
<td>20.31%</td>
<td>35.46%</td>
<td>23.18%</td>
</tr>
<tr>
<td>UTI Sunder</td>
<td>43.98%</td>
<td>36.16%</td>
<td>26.69%</td>
</tr>
<tr>
<td>UTI Variable Investment Scheme</td>
<td>15.91%</td>
<td>12.95%</td>
<td>7.88%</td>
</tr>
<tr>
<td>UTI Balanced Fund (Balanced)</td>
<td>21.2%</td>
<td>23.79%</td>
<td>19.83%</td>
</tr>
<tr>
<td>UTI Children's Career Plan (Balanced)</td>
<td>12.77%</td>
<td>15.14%</td>
<td>11.53%</td>
</tr>
<tr>
<td>UTI Mahila Unit Scheme</td>
<td>18.32%</td>
<td>24.29%</td>
<td>15.59%</td>
</tr>
<tr>
<td>UTI CRTS</td>
<td>15.46%</td>
<td>19.19%</td>
<td>18.53%</td>
</tr>
<tr>
<td>UTI ULIP</td>
<td>11.31%</td>
<td>18.03%</td>
<td>20.76%</td>
</tr>
<tr>
<td>UTI Retirement Benefit Pension Fund</td>
<td>13.09%</td>
<td>15.67%</td>
<td>15.87%</td>
</tr>
<tr>
<td>UTI G-Sec Fund (Debt) (IP)</td>
<td>8.92%</td>
<td>5.48%</td>
<td>8.01%</td>
</tr>
<tr>
<td>UTI G-Sec Fund (Debt) (STP)</td>
<td>5.22%</td>
<td>5.92%</td>
<td>6.54%</td>
</tr>
<tr>
<td>UTI GILT Advantage Fund</td>
<td>8.69%</td>
<td>6.65%</td>
<td>8.27%</td>
</tr>
<tr>
<td>UTI Bond Fund (Debt)</td>
<td>9.21%</td>
<td>7.74%</td>
<td>9.24%</td>
</tr>
<tr>
<td>UTI Liquid Plus Fund</td>
<td>8.62%</td>
<td>5.9%</td>
<td>8.09%</td>
</tr>
<tr>
<td>UTI Children's Career Plan (Bond)</td>
<td>4.24%</td>
<td>5.87%</td>
<td>6.79%</td>
</tr>
<tr>
<td>UTI Monthly Income Scheme</td>
<td>8.36%</td>
<td>9.57%</td>
<td>11.07%</td>
</tr>
</tbody>
</table>
The above table shows the fund performance of UTI mutual fund in last three years we can see that UTI Infrastructure Fund has given good amount of return of 52.21% in last three years, next in the list is UTI Master Index Fund (Equity-Index) which has given 39.32% in last three years. The lowest return given by fund is UTI Children's Career Plan (Bond) i.e only 5. % return in last three years.

**Statistical profile of the Unit Trust of India**

Indian financial markets were jolted by the resignation of Unit Trust of India chairman P S Subramanyam following UTI's announcement that it had suspended for the remainder of the year redemptions from its biggest fund. A statistical profile of the state-run UTI, the single largest investor in Indian markets, follows:

UTI manages Rs 600 billion in assets -- about two-thirds of the mutual fund industry's total assets. It services 41 million investor accounts through 54 branch offices, 266 chief representatives, 119 chief agents and over 67,000 agents who sell the fund's schemes door-to-door in a country with a population of one billion. It offers domestic and non-resident Indian investors 87 schemes covering a gamut of investment options. Of these, 46 of are income or debt schemes. Since its inception, UTI has launched 147
schemes, mobilised over Rs 1,500 billion, returned Rs 200 billion to investors by redeeming 60 schemes and distributed over Rs 530 billion in dividends. For the past year to June, its total redemptions stood at Rs 119.59 billion and sales in all schemes totaled Rs 101.43 billion. UTI was created in 1964 through an act of parliament to channel small savings of citizens both to speed up the country's industrial growth and offer citizens better returns than other investment options. It enjoys a special status since, unlike other mutual fund schemes, UTI's schemes launched before 1994 are not required by law to follow the market watchdog's regulations. All schemes launched after that, however, must comply with the regulations. Except US-64, however, UTI has voluntarily made all other pre-1994 schemes compliant with the Securities and Exchange Board of India's rules, the main ones are as follows:

- All schemes must periodically declare the net asset value of their units. The NAV represents the current market value of the unit's investment portfolio. Closed-ended funds need to report their NAV once a week and open-ended must do so every day.
- No mutual fund scheme can own more than 10 per cent of any firm's paid-up capital which carries voting rights.
- No mutual fund can invest more than 10 per cent of its net assets in equity shares or equity-related instruments. Index and industry-specific funds are exempt from this limit.
- An open-ended scheme cannot invest more 5 five per cent and a close-ended scheme not more than 10 per cent of its net assets in unlisted equity shares or equity-related instruments.
Unit Scheme-64

By far UTI's most popular and the biggest fund, US-64 accounts for about 25 per cent of UTI's assets and close to a fourth of the domestic industry's assets.

The fund has about 20 million unit holders.

This flagship fund was set up in 1964 and mobilised Rs 190 million that year. The first year's dividend was 6.1 per cent compared with the then bank deposit rates of between 3.75-to-6.0 per cent. US-64's initial Rs 50-million capital was subscribed to by India's central bank, other domestic financial institutions and the State Bank of India, India's largest commercial bank. US-64 enjoys the longest history of uninterrupted dividend payout in the domestic fund industry. Dividends rose continuously since inception to peak at 26 per cent growth in 1993, which was maintained for two years. But for the past year to June, the funds' performance has reflected the decline in global and domestic equity prices. As a result, US-64 redeemed units worth Rs 59.62 billion in the past year to June -- including Rs 41.51 billion in April and May alone -- compared with yearly sales of Rs 26.61 billion, which were 26 per cent of all total sales. To stem the rising redemption tide, UTI on July 2 banned sales and repurchases from the US-64 fund until December 31. The fund also slashed its dividend to 10 per cent from 13.75 per cent the previous year, as its income plunged 41.3 per cent to Rs 15.24 billion. US-64's unit capital as of June 30, 2001 stood at Rs 127.78 billion, down 15.6 per cent from Rs 151.46 billion last year.

US-64 is not benchmarked against any index as the fund does not declare its net asset value. During the same period the 30-issue benchmark Bombay Stock Exchange index
slumped 28.65 per cent and the wider 500-share S&P CNX 500 plunged 33.78 per cent. At the start of each month US-64 announces a monthly sale and repurchase price. Both values showed a small increase each month until the end of UTI's financial year to June 30. Its repurchase price for May 2001 was Rs 14.25 and the sale price stood at Rs 14.55. For July 2000, US-64's repurchase price was Rs 13.20 and the sale price was Rs 13.50. Of the fund's equity portfolio, 88.29 per cent has been invested in old economy stocks this year. Of these, 28.44 per cent are invested in petrochemical firms, 15.79 per cent in consumer non-durable companies and 12.13 per cent in refinery stocks. US-64 also slashed its exposure to the software industry to 7.41 per cent of its equity portfolio from 21.70 per cent the previous year.

**Table 5.2**

**List of Awards won by UTI mutual fund**

<table>
<thead>
<tr>
<th>Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI MF CNBC Award 2009.</td>
</tr>
<tr>
<td>UTI Mutual Fund sweeps ICRA mutual fund Award 2009.</td>
</tr>
<tr>
<td>UTI MF wins the Best Debt Fund House Award.</td>
</tr>
<tr>
<td>Lipper Fund Awards09-UTI Mahila Unit-5 yrs.</td>
</tr>
<tr>
<td>Lipper Fund Awards09-UTI Mahila Unit-3 yrs.</td>
</tr>
<tr>
<td>Reader’s Digest Trusted Brand 2008.</td>
</tr>
<tr>
<td>Top Performing Infrastructure Fund - Income.</td>
</tr>
<tr>
<td>Brand loyalty Awards 2008.</td>
</tr>
<tr>
<td>Four ICRA 7 Star Gold Award.</td>
</tr>
<tr>
<td>Award</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Four ICRA 5 Star Award.</td>
</tr>
<tr>
<td>ICRA Mutual Fund Award 2006.</td>
</tr>
<tr>
<td>Lipper Fund Awards.</td>
</tr>
<tr>
<td>CNBC-TV18-BNP Par-ibas Mutual Fund of the year Award 2006.</td>
</tr>
<tr>
<td>CNBC-TV18-BNP Par-ibas Mutual Fund of the year Award 2004</td>
</tr>
<tr>
<td>ICRA online Mutual Fund Award: UTI NIFTY INDEX FUND won the award</td>
</tr>
<tr>
<td>for the year 2004.</td>
</tr>
<tr>
<td>CNBC India Mutual Fund of the Year Award 2003.</td>
</tr>
<tr>
<td>UTI Nifty Index Fund wins Gold at ICRA Online 2005.</td>
</tr>
<tr>
<td>UTI Dynamic Equity Fund wins Silver at ICRA Online 2005.</td>
</tr>
<tr>
<td>UTI Growth Value Fund has been ranked by CRISIL 2004.</td>
</tr>
</tbody>
</table>

Source:- UTI mutual fund annual report 2011

The main objective of mutual funds is to invest the saved money into securities under the respective schemes so that the investment is safe, earns reasonable returns and appreciates in value. The securities in which mutual fund money is invested are marketable and carry assured liquidity with least risk and other maximum tax savings to the investor. In view of the above background, investment portfolio is understood by two words i.e., investment and portfolio. Investment is a commitment of funds made in
expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes. So it involves three elements i.e., return, relationship of return and risk and time factor. On the other hand, portfolios are the combination of asset holdings in a diversified manner to reduce the risk and ensure maximum returns. So the selection of financial assets for investment purposes to achieve the objectives of risk reduction and return maximisation involves expertise in the decision process. The mutual fund executes the decision of reducing risks and achieves higher returns through their fund managers, familiarly known as portfolio management. Thus, portfolio management involves selection, acquisition and management of financial assets.

**Time and Investing**

There are two dimensions of capital market, i.e., time and investing. The first begins with savings and when saved, the money is invested. Similarly, if the investments are held for longer periods, the long-run benefits of investing will be realized. Generally, investments are made in markets. The motivation of all participants in financial markets is to earn a return as least commensurate with the level of risk assumed. But it should be noted that markets are not efficient as they were once thought to be. So efficient markets are those in which the expected return from investing commensurate with the risks assumed and no more or no less. But Indian stock markets cannot be considered efficient in a strong sense as there are many instances of inside information leading to abnormal gains.
In the past decade, significant changes have taken place in the investment climate in India. Portfolio management is becoming a rapidly growing area serving a broad array of investors both individual and institutional with investment portfolio ranging in asset size from thousands to crores of rupees. Ideally, an individual’s portfolio should be tailor-made to fit one’s individual needs.

**Major tasks of an equity portfolio manager:**
Constructing a portfolio of equity shares or equity-linked instruments that is consistent with the investment objectives of the fund. Managing and constantly re-balancing the portfolio to produce capital appreciation and earnings that would reward the investors with superior returns.

**Broad types of equity instrument:**

**Ordinary equity shares:**
Equity shares represent part-ownership in a company, and are risk instruments by nature. There is no guarantee of returns. Equity shareholders are entitled voting rights and can participate indirectly in major decision of the company. They are also entitled to dividends declared from time to time by the company. Since equity shares are listed and trade the prices of the shares move in accordance with expected future performance of the company. Significant component of return for equity investors is capital gain, if price appreciates. If price depreciate, equity investors are exposed to large capital loss.
**Preference shares:**
Preference shares enjoy a preference over equity shares in the payment of dividends and in the receipt of liquidation proceeds if the company is wound up. Dividends are paid according to a pre-determined rate. If the preference shares are issued as cumulative, dividends are accumulated in the year when they are not paid, and paid to preference shareholders in a year when distributable profits are available. Preference shareholders do not have voting rights.

**Equity Warrants:** Warrants represent a right to purchase a fixed number of shares at a determined price, within a specified period. An equity warrant issued with a debenture example, entitles the owner to acquire equity shares of the company at pre-specified term Warrants are detachable and are traded separately.

**Portfolio management style:**
The fund managers of choose securities with certain characteristics though fund managers may be investing in the equity markets, it can be seen that each one them shows a preference for certain kind of stocks. For example, some funds tend to focus on and liquid companies. Some tend to be primarily invested in smaller companies with greater promise of appreciation, but limited liquidity. These preferences, is called "style". Fund management styles are the important differentiates in the performance of funds.
The term portfolio refers to a basket of investments or assets held by an individual or a corporate body with the objective of maximising return and minimising risk.

Prior to the publication of the work of Harry M. Markowitz, it was commonly believed that the best way to reduce risk through diversification was to hold a fairly large number of securities in a portfolio, preferably securities from different industries. By choosing securities of firms in different industries, the assets would be subject to different influences. So poor performance by some of the securities would be offset by the good performance of others. This causes the total portfolio performance to show less variability over time than it would, if all the securities were from the same industry. This would eliminate most of the unsystematic risk of a portfolio, if the number of securities in the portfolio is sufficiently large, but will not reduce portfolio risk below the systematic risk level. At this stage, Markowitz could develop a mechanism to reduce portfolio risk below the systematic level.

**Dividend yield:**

The dividend paid out by the company, is usually a percentage of the face value of a share. For example, if a company declares a dividend of 20% the payout is Rs.2 per share of Rs.10 However, a 20% return accrues to the investor only if he has bought the share at Rs.10. If the market price were different from Rs.10, the return to the investor would also be different. For example, if the share is trading in the market for Rs.100, the rate of return to the investor is only 2% (2/100). This number is called as dividend yield, and is computed as the ratio between the dividend paid and the market price of a
share. If the market prices are higher, dividend yields are lower. If market prices are lower, dividend yield are higher.

**Relationship between dividend yield and P/E multiple:**
Both these measures are sensitive to market price per share. But market price is the numerator P/E multiple, and denominator for dividend yield. Therefore, if market prices are higher, multiple will be higher, but dividend yield will be lower, and vice versa.

**Cyclical stocks:**
If the earnings of a company are subject to ups and downs over years, caused mostly due cyclical changes in economic variables, such stocks are called as cyclical stocks. For example cement is a cyclical stock. When demand moves up, additional capacities are set up since it time for these capacities to come up, by the time the new supplies are ready, prices are do leading to a glut situation. The P/E ratios of cyclical stocks tend to below.

**Growth stocks:**
Growth stocks belong to those sectors which have the potential for higher earnings. These typically sectors which are new, and therefore have a potential for high profits to the early entrails Growth stocks tend to command higher P/Es because it anticipate that their year-on-earnings growth would be much higher then the market averages. Information technology companies were posting over 100% growths in earnings in 1999-2000, that they were valued in market at P/Es. of 200 and 250.
**Value stocks:**
Value stocks are those that have an established earnings history, but tend to be undervalued market for brief periods. These periods represent windows of opportunity to fund managers, look for undervalued stocks, whenever new information alters the profit potential of companies’.

**Various types of equity research done in mutual funds:**
Research teams of mutual funds examine the characteristics of stocks and make recommendations to the fund managers. They usually do the following:

- Fundamental analysis
- Technical analysis
- Quantitative analysis

**Fundamental analysis:** It is the examination of the future earnings potential of the company, by looking into various factors that impact the performance of the company.

**Technical analysis:** It is the study of the historical price and volume traded data of a company, to recognize patterns in the behavior of prices, which can be used to try and predict the future course of the share prices.

**Quantitative analysis:** It involves the use of mathematical models in arriving at valuation of companies, and the inter-play of various factors impacting the performance of a company.
Debt Markets and UTI Mutual Funds

Fixed income securities:
Fixed income securities are securities that pay the investor, income at a rate that is determined at the beginning of the transaction, and are designed to be tradable in the securities markets. For example, a bank fixed deposit is also a fixed income product. But it is not a security, only a transaction between the bank and the customer. The bank pays the interest only to the customer and repays the principal only at the end of the deposit period.

Difference between fixed income securities and equity shares, to an investor:

Fixed income securities represent a promise by the borrowing entity to provide the investor a predetermined stream of income, on a periodic basis, and return the amount invested at the end of a specified period. (This repayment is also called redemption, and the amount repaid is also called maturity value). The periodic payments are called interest payments (also called coupons).

In the case of equity shares the investor receives income in the form of dividend if and when the company decides to pay dividends. There is no obligation on the company to make periodic dividend payments and the rate of dividend is also not known in advance. The principal amount in the case of equity shares is not returned by the company. The investor can instead sell the shares in the stock market. The price he will get on such sale is also not known in advance and the sale may result in loss or gain of capital.
**Difference between bonds and debentures:**
These two words can be used interchangeably. In the Indian markets, we use the word bonds to refer to debt securities issued by government, semi-government bodies and public sector financial institutions and companies. We use the word debenture to refer to the debt securities issued by private sector companies.

**General principles applicable to interest rates:**
Longer the term of the fixed income security, higher the interest rate. If an investor has to part with the money for a longer period, then he is expected to be paid a higher rate. There have been some exceptions to this rule (for example, there are times when rates for borrowing overnight are higher than the rates for longer periods.), but these distortions do not last very long.

Higher the risk, higher the interest rates. If investors are of the view that a borrower is risky, in the sense that there is lower confidence in his ability to pay the interest and principal amounts in time, the rates they will demand will be higher. To put this in a different perspective, when the government borrows money, investors will be willing to lend at lower rates, than they would to any other borrower, for a comparable term. On the other hand, rates offered by finance companies will be very high, reflecting the risk. Such borrowers have to offer higher interest, in order to get borrowers to lend to them. Therefore for the same term, higher interest is paid by the riskier borrower.
**Real rate and nominal rate:**

The nominal rate of interest is the rate that is paid to us by the borrower. The real rate is the nominal rate less the rate of inflation. If an investment provides us 6% interest, when the inflation rate is 8%, the real rate is negative. This means that we are actually losing in terms of the value of investment to us. In the least, the interest on an investment should be higher that the rate of inflation. Otherwise, such investments do not make sense.

**What is yield?**

Yield is a terms used to signify the actual rate earned on an investment. Interest rate is specified in terms of the face value of bond. Therefore, the yield to us is the same as the interest rate, or the coupon rate, provided we buy the security at its face value. If we bought 1 year bond worth Rs.100 (8% coupon), at Rs.110, the yield to us has to be calculated using the practice we paid and the face value Rs.8 is payable as interest (8% on the face value of Rs.100/-) we have the Rs.110 to earn this interest. Therefore yield to us is 7.27% (8/110). The called as the current yield of a bond computed as (coupon /market price) 100 current yield is a simple measure of the yield on a bond. But it considers only one cash flow, and ignores futures cash flows as well as the redemption value of the bond.
Relationship between price and yield of bonds:

Price and yield are inversely related. If interest rates fall after a bond was bought, the future cash flows of the bond will now be valued at lower rates. Therefore price of the bond will go up with fall in yields. Similarly, if interest rates fall, cash flows of existing bonds will be discounted at higher rates, leading to a fall in the value of the bond.

Yield curve:
If the rates at which bonds of similar risk (typically government bonds) of various tenors are traded on a given point in time are plotted in graph, we have the terms structure of interest rates, which is also known as the yield curve. The yield curve shows the rates that are prevalent in the market for various tenors. The yield curve will be upward sloping if investors demand higher rates for lending money for higher tenors.

Classification of Fixed Income Securities:-

- **Based on the type of borrower:** The major borrowers are government, public sector units, public financial institutions, private sector companies, banks, and non-banking finance companies. The risk in lending to these various entities is vastly different.

- **Based on the tenor of the instrument:** Fixed income securities are issued for varying periods, ranging from a few days to many years. Since interest rates are different for different periods and since demand and supply
of securities in all periods are not equal, terms of a security is an important differentiator.

- **Based on the periodicity of interest payment**: Borrowers can pay interest in a variety of ways interest can be paid daily, weekly, monthly, quarterly, half yearly (more common), annually or at maturity. When we receive interest and how frequently, impacts our total yield on the investment and we have to differentiate securities on the basis of periodicity of interest payment. There are securities which do not pay any interest or coupon, but pay only a lump sum amount on maturity. These securities are called zero coupon bonds. If the maturity value is the face value of the bond then these securities are issued at a discount, and redeemed at face value. When such securities are issued over a long period, the issue price is at a deep discount to the redemption value.

**Government securities:**

The government is the largest issuer of fixed income securities. The government issues short term fixed income securities which have a maturity of less than a year. These instruments are called treasury bills. Treasury bills are issued for tenors of 91 days and 364 days. Longer term bonds are issued by the government for periods over a year, up to 30 years.

The Reserve Bank of India issues these securities on behalf of the government, through treasury auctions, where buyers can bid for them. The auction process is to enable issuing the securities at market determined rates, rather than RBI unilaterally pricing the government issues. These securities
are mostly purchased by banks and other large institutional buyers. There is also a class of buyers called primary dealer, who buy these securities in the auctions. These buyers then trade the government securities in the secondary markets.

Government securities are popularly called treasury securities - treasury bills and treasury bonds. Government securities are also called gilt edged securities of gilts. This is because; in olden times the British Government securities had a gilt edge, to highlight the quality of the investment. Though no one actually plates the edges of these securities with gold any more, the name has stuck government securities are also called sovereign bonds).

**Corporate fixed income securities:**
Companies in the public and private sectors, also issue fixed income securities, which are of two kinds. The short term fixed income securities, with maturity less than a year are usually issued as commercial paper. The most common maturity choice for commercial paper is 90 days.

Longer term fixed income securities issued by companies are in the form of debentures or bonds. Companies have been giving these instruments a variety of innovative names, like triple –option bonds, million ate bonds etc. but all these are in reality, fixed income securities with some variations in the terms of how interest and principal are paid. Some of these debentures come with the additional features in the form of equity warrants attached to them which enable the investors to buy equity shares of the company on a later date and some provide an option to covert the debentures partly or fully into equity.
**Government bonds called risk–free:**

A sovereign Government has the highest creditworthiness in any market and is not expected to default on its payment obligations. A government can meet its payment obligations, been during difficult times, as it has international revenue raising and borrowing capabilities, and as a last option can print notes to pay up (though this will have extreme inflationary implications), Therefore government borrowings are considered safe from default risk. In extreme situations, as it happened in Russia in 1997, a government can default.

**RISK AND UNCERTAINTY**

Risk and uncertainty go together. Risk suggests that the decision-maker knows that there is some possible consequence of an investment decision, but uncertainty involves a situation where the outcome is not known to the decision-maker. Therefore, the word ‘risk’ is used to comprise all the elements of variability of return, and uncertainty of the outcome. Some risk can be controlled by investors and some by the issuers of securities by planning. Others cannot be so controlled and they are to be borne compulsorily by investors.

An investment risk is categorised according to the two sources of investment return: a macro pervasive factor such as the national economy and micro localized factors such as the company itself. The risk associated with macro factors is called systematic risk. The micro risks associated with factors particular to a company are called unsystematic risk or unique risks.
• **Systematic Risk**

Systematic risk is associated with the movement of an overall market. If the overall market declines, the value of the portfolio is likely to decline. Systematic risk factors cannot be diversified or dissipated completely. This is because these factors affect the entire market in a certain direction. There are many kinds of risk factors. Most of these risks are independent but come under the systematic risk segment:

**Market Risk:** Market risk arises out of changes in demand and supply pressure in the market. The market risk of a security represents that portion of its total risk, which is attributable to the fluctuations in the market as a whole. If the stock market declines, most stocks decline with it and vice versa. Market risk is also called non-diversifiable risk.

**Interest Rate Risk:** It refers to the uncertainty of future market values and of the size of future income, caused by fluctuations in the general level of interest rates. It generally occurs due to variability caused in return by changes in the level of interest rates. As the interest rate goes up, the market price of existing fixed income securities falls and vice versa. This happens because the buyer of a fixed income security would not buy it at its par value or face value, if its fixed interest rate is lower than the prevailing interest rate on a similar security. While the changes in interest rate have a direct bearing on the prices of fixed income securities, they affect equity prices too. Therefore, interest rate risk is the main type of risk for bond holders but only a minor risk for stock holders.
**Purchasing Power Risks:** It is also known as inflation risk. This risk arises due to decline in purchasing power on account of inflation. Inflation rates vary over time and investors are caught unawares when rate of inflation changes unexpectedly, causing divergence in realised rate of return and the expected returns, the purchasing power risks are higher in bonds and fixed income securities in inflationary times. It is desirable to invest in such securities during a deflationary period.

- **Unsystematic Risk**

The unsystematic risk of a security represents that portion of its total risk, which is independent of the general market movement. It arises from firm-specific factors like the manufacture of a new product, a plant breakdown, etc. These factors primarily affect a specific firm and not all firms in general. It is also called avoidable risk because it is possible to eliminate or diversify this component of risk to a considerable extent by investing in a large portfolio. The following risks come under this category:

**Credit/Company Risk:** The most basic and potentially divesting danger, which most mutual fund investors happily avoid, is company-specific or random risk. There is a real threat that a serious misfortune will afflict an individual company, leading perhaps to bankruptcy. Credit risk is associated with the ability of the firm that issues securities to meet the promise on these securities. Thus, the credit risk analyzed is the ability to deliver returns that are consistent with the risk assumed.

**Sector/Industry Risk:** Sector or industry risk threatens firms that provide similar products or services. Sectors can have extreme ups and downs.
Individuals who invest in specialized equity portfolios must recognize their greater potential volatility. The prospectus will warn that these types of funds are risky and do not constitute a complete investment program. Industry risk may also be present in diversified funds that take big positions in certain industries.

**Default or Insolvency Risk:** Default risk is that portion of an investment’s total risk, which results from changes in the financial integrity of the investment. It arises because firms may eventually go bankrupt. The variability of return that investors experience as a result of changes in creditworthiness of a firm that issues investment securities is their default risk. Default risk may be further divided into two components. They are business risks and financial risks. Business risk can accrue from the assets side of the issuing firms’ balance sheet while financial risk can emanate from the liability side of the issuing firm’s balance sheet. Generally, defaults increase during hard times namely economic recessions and depressions.

**Political Risk:** It is that portion of an asset’s total variability of return caused by changes in political environment that affect the asset’s market value. The danger of debt repudiation or failure to meet debt service, appropriation of assets, difference in taxes, restrictions on repatriating funds and prohibition against exchanging foreign currency into domestic currency are typical political risks.

**Management Risk:** Management risk arises due to errors or inefficiencies of management, causing losses to the company.
**Marketability Risk:** Marketability risk involves loss of liquidity or loss of value in conversions from one asset to another, from stocks to bonds or vice versa. Such risk may arise due to some features of securities, such as lack of sinking fund or debenture redemption reserve fund attached to the security, which may become adverse to the investors.

**Liquidity Risk:** Liquidity risk is that position of an asset’s total variability of return, which results from price discounts given, or sales commissions paid in order to sell the asset without delay. Perfectly liquid assets are highly marketable and suffer no liquidation costs. Liquid assets are not readily marketable—either price discounts must be given or sales commission must be paid in order to find a new investor for a liquid asset. The more liquid an asset is, the larger the price discounts and/or commissions which must be given up by the seller in order to affect a quick sale.

**Call Ability Risk:** That portion of a security’s total variability of return which derives from the possibility that the issue may be called is the call ability risk. Call ability risk commands a risk premium that comes in the form of a slightly higher average rate of return. This additional return should increase the risk.

**Convertibility Risk:** It is that portion of the total variability of return from a convertible bond or a convertible preferred stock which reflects the possibility that the investment may be converted into the issuer’s common stock at a time or under terms harmful to the investors’ best interests.
Portfolio management strategies used by fund managers:

- **Buy and hold:** Fund managers who invest in high yielding securities and hold these to maturity with a view to earning the compound interest on them, follow a buy and hold strategy. These fund managers will choose good credit quality and avoid bonds with call options, so that the coupon can be locked in. This strategy will fail to pay off if interest rates increase.

- **Duration management:** Fund managers can actively manage their portfolios by using duration as a tool. Fund managers may take an interest rate view, and accordingly alter the duration of the portfolio, for maximizing gains. If a fund manager expects interest rates to fall, he may increase the duration of the portfolio. When rates do fall, the gains in his portfolio value will be higher, because of the higher duration.

- **Credit selection:** Fund managers may create strategies that hinge on expected changes in credit quality of borrowers. If credit upgrades are expected, investing into lower grade bonds at lower prices will provide scope for appreciation and better credit quality, if the credit rating is upgraded.

- **Pre-payment and option features:** Fund managers may take positions in bonds based on their expectation of a put or call option for a bond being exercised.
Building portfolio with mutual funds

When compared with investing in individual stocks or bonds, mutual funds can provide distinct advantages. Mutual funds invest in a broad portfolio that include stocks, bonds, money market instruments, and other investments. Hence they enable you to create a diversified portfolio much more easily than if you attempted to achieve the same level of diversification by investing in stocks and bonds on your own.

A mutual fund portfolio is the sum of all of your different investments made in mutual funds. Building a portfolio is dependent on a number of factors, but it is important to remember that your portfolio should be designed according to your needs and goals. For that reason, your portfolio may not be the same as another investor's portfolio.

When building a portfolio there are three main considerations: Liquidity, Income and Growth. Stock funds generate higher returns but they also carry the highest risk. Income funds are good for income but they are not risk-free. A well-planned portfolio should include investments to meet these three considerations and the flexibility to move easily between them as circumstances change.

The following points have to be kept in mind in order to ensure a well-built portfolio.
Investment objectives and time horizon:

First establish your investment objective. Do you want steady income or an increase in your capital. Income funds provide steady income, whereas equity funds are designed to provide an increase in capital. Choose a mutual fund, which satisfies that objective. A person could be saving for retirement or for an unforeseen expense. Time plays a part as well. You can classify your time horizon as short (one to three years), intermediate (three to ten years), or long-term (over ten years). If your goal is to retire in 25-30 years, you might be more willing to take on risk. Because the longer your money is invested, the more chance you'll have to recover from any market downturns. But if your goal is just 5 years away, taking on risk might not be a good idea.

Risk Tolerance:

Everyone has a different tolerance for risk. Your risk tolerance will be influenced by age, income, the amount you are willing to invest, job security, time horizon, goals, and temperament. There is a tradeoff between risk and reward. The higher the investment risk, the higher the potential return and the better suited it is for long-term time horizons.

Generally, risk tolerance decreases with age. If you are approaching retirement, your time horizon is shortened. At this point, it makes sense to switch to more conservative funds such as income funds, as they have a lower volatility than equity funds.

Determine the appropriate asset mix for your portfolio: Your asset allocation refers to the way in which you will divide your investments amongst the
three basic asset classes: cash, bonds (fixed-income) and equities. Devising an asset allocation plan is the first step toward diversifying a portfolio. As each asset class generally has different levels of return and risk, it also behaves differently. Different classes of investments move up and down in value at different times. Hence combining these groups in a portfolio can produce more stable returns and enhanced investment results in the long run. For each investor, the key to constructing a portfolio is to find the balance between an acceptable rate of return with an acceptable level of risk.

Choosing the right fund:

Once you have determined your appropriate asset mix, you have to choose the right mutual fund. For example, you could decide to invest 60% of your portfolio in equities, and in addition to diversifying across asset classes, you may choose to diversify amongst investment styles. You would like to buy one equity fund with a growth investment focus and another equity fund with a value focus.

Apart from this, also ensure that the fund's investment objective is aligned with your own investment objectives. Secondly, examine the fund's past performance, its performance compared to its benchmarks and its ranking against similar funds.

Avoid Portfolio Overlap:

When you buy several funds of one type you end up owning roughly the same set of stocks. Make sure you don not end up buying mutual funds investing in the same sectors. One of the problems you may face is having similar investment styles, or sectors over-represented in your portfolio.
Remember that successful investing requires discipline. It requires a plan. Develop yours and then stick with it.

**Table No: - 5.3**

**Trends in Transactions on Stock Exchanges by Mutual Funds**

*(Since January 2000)*

<table>
<thead>
<tr>
<th>SR. NO</th>
<th>PERIOD DEBT/EQUITY</th>
<th>GROSS PURCHASES (RS CRORES)</th>
<th>GROSS SALES (RS CRORES)</th>
<th>NET INVESTMENT (RS CRORES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JAN 2000-MAR 2000</td>
<td>EQUITY</td>
<td>11070.54</td>
<td>11492.19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>2764.72</td>
<td>1864.29</td>
</tr>
<tr>
<td>2</td>
<td>APRIL 2000-MAR 2001</td>
<td>EQUITY</td>
<td>11375.78</td>
<td>20142.76</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>13512.17</td>
<td>8488.68</td>
</tr>
<tr>
<td>3</td>
<td>APRIL 2001-MAR 2002</td>
<td>EQUITY</td>
<td>12098.11</td>
<td>15893.99</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>33583.64</td>
<td>22624.42</td>
</tr>
<tr>
<td>4</td>
<td>APRIL 2002-MAR 2003</td>
<td>EQUITY</td>
<td>14520.89</td>
<td>16587.59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>46663.83</td>
<td>34059.41</td>
</tr>
<tr>
<td>5</td>
<td>APRIL 2003-MAR 2004</td>
<td>EQUITY</td>
<td>36663.58</td>
<td>35355.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>63169.93</td>
<td>40469.18</td>
</tr>
<tr>
<td>6</td>
<td>APRIL 2004-MAR 2005</td>
<td>EQUITY</td>
<td>45045.25</td>
<td>44597.23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEBT</td>
<td>62186.46</td>
<td>45199.17</td>
</tr>
<tr>
<td>7</td>
<td>APRIL 2005-MAR</td>
<td>EQUITY</td>
<td>100435.90</td>
<td>86133.70</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DEBT</td>
<td>109804.91</td>
<td>73003.67</td>
<td>36801.24</td>
</tr>
<tr>
<td>8</td>
<td>APRIL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006-MAR</td>
<td>EQUITY</td>
<td>135948.16</td>
<td>126885.82</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** - NSE India April 2007.

The above table shows the trends in transactions on stock exchange by mutual funds since Jan 2000 its shows the gross purchases and gross sales of each year. We can see from the above table that transaction of mutual fund on stock exchange has grown really fast in the last 5-6 years, we can see that the gross purchase of mutual fund in the year 2000 was Rs.11070.54 crore in equity and Rs. 2764.72 in debt which has grown to Rs. 86133 and Rs. 73003.67 crore respectively. The net investment of mutual fund in stock exchange which is negative in the year 2000 and 2003 in equity investment has grown to Rs.9062.34 crore in the year 2007.

**Concluding Remark:**

UTI MFs have variable income products, variability ensures that each time you open your window it’s a different picture you see a small portion of the big picture. The point of exit and entry determines ones return there may be people who lose lots of money even when the underlying instrument is doing very well. Which products are chosen from the basket of choices, selection based on consistency not past performance or returns applicably to ones investment objectives, underlying risk of product and time horizon.
References:-


**Websites:**

- www.amfi.com
- www.sebi.com
- www.nseindia.com
- www.valueresearch.com
- www.fundinsight.com