CHAPTER I
INTRODUCTION

The Prologue

This chapter provides the basic premise for the research study. The chapter begins with a prologue where concepts of UTI mutual fund are discussed in brief. This chapter also explains the various importance, advantages and disadvantages of mutual fund, generic choices available to the mutual fund investors, overview of the global mutual fund industry, comparative analysis of mutual fund industry of globe and India, Indian mutual fund industry at a glance like the geographical distribution of the investor in India, income distribution of the investor in India. The chapter also highlight the assets under management of mutual fund industry in India, financial infrastructure of Maharashtra is also discussed in brief in this chapter. It also includes objectives of the study, hypothesis tested, methods and tools of data collection and, analysis of data.

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.

The Indian capital market has witnessed unprecedented developments and innovations particularly during the decades of 80s and 90s. These innovations, *inter-alia*, relate to new financial instruments, new financial institutions such as mutual funds, and a variety of financial services like merchant banking, credit rating, factoring etc. In the changed environment the mutual funds are playing a vital role in financial intermediation, development of capital markets and the growth of the corporate sector. Despite the fact that Indian mutual fund industry
is relatively new, it has grown at a rapid speed, influencing various sectors of the financial market and the national economy. In fact, mutual funds have now become an important medium of investment for the average Indian investor. By enabling the investor to indirectly participate in the capital markets and to reap the gains of adequate diversification and professional management, mutual funds have become an important constituent of the Indian financial system.

Conceptually, a mutual fund is a single large professionally managed investment organization that combines the money of many individual investors having similar investment objectives. It invests this money in a wide variety of securities and individual investors share its income and expenses, its profits and losses, its capital appreciation and growth in proportion to their shareholdings. In other words, a mutual fund is a type of an Investment institution, which mobilizes savings of individuals and institutions and channelizes these savings in corporate securities to provide investors a steady stream of returns and capital appreciation. Thus, the two prime advantages of investment in mutual funds is diversification and professional investment management is being recognized by the investors.

Historically, the mutual fund industry in India has been in existence since 1964 when the Government of India established the Unit Trust of India (UTI) under a special Act of Parliament. Since then, UTI has been offering various schemes to the investors to suit their requirements for almost 23 years the various schemes offered of by the UTI where the only options available for the investors for investment in mutual funds in India.

The monolithic structure of mutual fund industry was however broken in the year 1987 when the government of India permitted commercial banks and insurance corporations to launch their own funds
the first bank to enter the field was the state bank of India (SBI) in 1987 sponsoring (SBI) mutual funds followed by can bank mutual funds setup by Canara Bank in the same year the other banks to enter the mutual fund industry where the Punjab National Bank (PNB) Bank of India (BOI) Bank of Baroda (BOB) and Indian bank. The insurance corporation such as life insurance corporation of India (LIC) and general insurance corporation of India (GIC) also entered the mutual fund business in 1989 and1990 respectively later in the wake of policy of liberalization and globalizations the government also permitted other public sector financial institution and the private sector too enter in the mutual fund business in 1993 thus at presently the industry has three types of players viz (A) public sector (B) financial institutions (C) private sector of the total 35 player 5 are in public sector including the UTI while the remaining 30 are in the private sector the total asset under management of the industry stood at Rs 6,64,450 Crore as on May 31st 2009 while the share of public sector finance funds is Rs 1,09,414 Crore the remaining resources of Rs. 5,55,036 Crore are with private sector funds. As on May 31st 2009 the total no. of schemes offered by all the funds stood at 920 of which 595 are open ended, while the remaining 263 are closed ended and 62 are interval scheme in nature. During the past three and a half decades, the industry has grown several folds in terms of size and operations. Therefore, it is vital for both the fund managers as well as investors to know to how they have performed over the years.

The investment performance of mutual funds has been extensively examined for the developed capital markets such as those of the US (1), UK(2), Australia (3), UK (2), Australia (3), and to a much lesser degree for other capital markets such as those of Singapore (4), Japan (5) and other developing countries. As for as India is concerned, it
is only in recent years that some efforts have been made to examine the performance of Indian mutual funds. The major contributors to this research were Obaidullah, M. and Ganesha, Sridhar, [1991], Kale and Uma [1995], Gupta and Sehgal [1998], Jayadev [1998], Ramesh Chander [1999], G.Sethu [2001] Mathew, J. [2002] Renu and Josephat [2003] and Tamal Datta Chaudhuri [2007]. 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 Bhattacharyya 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/))**
Table No: - 1.1  
Gross Fund Mobilisation from 1998 to 2011 (Rs. Crores)

<table>
<thead>
<tr>
<th>From Date</th>
<th>To Date</th>
<th>UTI Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 April-98</td>
<td>31-March-99</td>
<td>11,679</td>
<td>1,732</td>
<td>7,966</td>
</tr>
<tr>
<td>01 April-99</td>
<td>31-March-00</td>
<td>13,536</td>
<td>4,039</td>
<td>42,173</td>
</tr>
<tr>
<td>01 April-00</td>
<td>31-March-01</td>
<td>12,413</td>
<td>6,192</td>
<td>74,352</td>
</tr>
<tr>
<td>01 April-01</td>
<td>31-March-02</td>
<td>4,643</td>
<td>13,613</td>
<td>1,46,267</td>
</tr>
<tr>
<td>01 April-02</td>
<td>31-March-03</td>
<td>5,505</td>
<td>22,923</td>
<td>2,20,551</td>
</tr>
<tr>
<td>01 April-03</td>
<td>31-March-04</td>
<td>*</td>
<td>7,259*</td>
<td>58,435</td>
</tr>
<tr>
<td>01 April-04</td>
<td>31-March-05</td>
<td></td>
<td>36,662</td>
<td>1,03,000</td>
</tr>
<tr>
<td>01 April-05</td>
<td>31-March-06</td>
<td>96,235</td>
<td>1,35,672</td>
<td>2,31,862</td>
</tr>
<tr>
<td>01 April-07</td>
<td>31-March-08</td>
<td>97,452</td>
<td>2,28,936</td>
<td>3,26,388</td>
</tr>
<tr>
<td>01 April-08</td>
<td>31-March-09</td>
<td>98,124</td>
<td>3,91,176</td>
<td>4,17,300</td>
</tr>
<tr>
<td>01 April-09</td>
<td>31-March-10</td>
<td>1,01,851</td>
<td>5,12,128</td>
<td>6,13,979</td>
</tr>
<tr>
<td>01 April-10</td>
<td>31-March-11</td>
<td>98,954</td>
<td>4,93,296</td>
<td>5,92,250</td>
</tr>
</tbody>
</table>

Source: - Compiled from AMFI yearly publication (1998-2011)

Note: - * UTI was re-organised into tow parts: one, the specified Undertaking; two, The UTI Mutual fund. In the above table, UTI
Mutual fund data is included under “public Sector”

The Above table shows the gross fund mobilization of mutual fund industry from 1998 to 2011. It can be seen from the above table that during the period of 98-99 the UTI has dominated the mobilisation of fund with Rs. 11,679 Crore coming from it while the public sector fund got Rs. 1,732 Crore, the private sector mutual fund has a well established market in the year 98-99 it has mobilised an amount of Rs.7,966 Crore. Till the year 2002-2003 private sector has a full dominance in industry as can be seen from the above table that it has almost Rs. 2,20,551 Crore (89 %) of the fund mobilised during the year 2002-2003 with UTI having Rs. 5,505 Crore and public sector having raised an amount of Rs. 22,923 Crore.

Table No: - 1.2

Assets under Management from 1999 to 2006 (Rs. 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>31-March-99</td>
<td>53,320</td>
<td>8,292</td>
<td>6,860</td>
<td>68,472</td>
</tr>
<tr>
<td>31-March-00</td>
<td>76,547</td>
<td>11,412</td>
<td>25,046</td>
<td>113,005</td>
</tr>
<tr>
<td>31-March-01</td>
<td>58,017</td>
<td>6,840</td>
<td>25,730</td>
<td>90,587</td>
</tr>
<tr>
<td>31-March-02</td>
<td>51,434</td>
<td>8,204</td>
<td>40,956</td>
<td>100,594</td>
</tr>
<tr>
<td>31-March-03</td>
<td>44,541</td>
<td>12,228</td>
<td>65,036</td>
<td>121,805</td>
</tr>
<tr>
<td>31-March-04</td>
<td>*</td>
<td>23,942*</td>
<td>55,522</td>
<td>79,464*</td>
</tr>
<tr>
<td>31-March-05</td>
<td>34,624</td>
<td>1,04,992</td>
<td></td>
<td>1,39,616</td>
</tr>
<tr>
<td>31-March-06</td>
<td>50,348</td>
<td>1,81,514</td>
<td></td>
<td>2,31,862</td>
</tr>
</tbody>
</table>

Source: - Compiled from AMFI yearly publication (1998-2007)
Note: * UTI was re-organised into two parts: one, the specified Undertaking; two, The UTI Mutual fund. In the above table, UTI Mutual fund data is included under “public Sector”

The above table shows the Assets under management of the Indian mutual fund industry from the year 1999 to 2006. It can be seen from the above table that UTI has dominated the Indian mutual fund industry in the year 1999. UTI has the share of almost 78% of the total AUM of the mutual fund industry i.e Rs. 53,320 Crore and that of public sector was Rs 8,292 Crore and private sector of Rs. 6,860 Crore. After the crisis of UTI in the year 2002 the dominance of the UTI has declined with private sector mutual fund started to dominate the industry from this year the AUM of the UTI in the 2003 was Rs. 44,541 Crore i.e only 37% of the total AUM of the mutual fund industry of the year 2003, the AUM of the private sector mutual fund industry in the year 2003 was Rs. 65,036 Crore i.e 53% of the total AUM of the mutual fund industry. After the year 2003 the AUM of the mutual fund industry has been dominated by the private sector with the AUM of the private sector mutual fund has been gone to 78% i.e Rs. 1,81,514 Crore in the year 2006.
Table No:- 1.3
Cumulative Positions of Net Assets of Mutual Fund
Between 1999 to 2003 (RsCrores)

<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>March 31st</td>
<td>53,145.27 (77.94)</td>
<td>8,250.62 (12.09)</td>
<td>6,797.16 (9.97)</td>
<td>68,193.08 (100)</td>
</tr>
<tr>
<td>March 31st</td>
<td>72,333.43 (67.0)</td>
<td>10,144.78 (9.68)</td>
<td>25,167.89 (23.32)</td>
<td>107,646.1 (100)</td>
</tr>
<tr>
<td>March 31st</td>
<td>58,016.72 (64.04)</td>
<td>6,628.01 (37.32)</td>
<td>25,942.104 (28.64)</td>
<td>90,586.87 (100)</td>
</tr>
<tr>
<td>March 31st</td>
<td>51,433.61 (51.13)</td>
<td>7,701.6 (7.66)</td>
<td>41,458.98 (41.21)</td>
<td>100,594.19 (100)</td>
</tr>
<tr>
<td>March 31st</td>
<td>45,786.78 (44.72)</td>
<td>8,219 (8.03)</td>
<td>48,378.80 (47.26)</td>
<td>102,393.55 (100)</td>
</tr>
</tbody>
</table>

Source: - Compiled from AMFI yearly publication (1998-2004)
Note: - Figures in bracket indicate market share of various players.
The above table shows the Cumulative Positions of Net Assets of Mutual Funds Between 1999 to 2003. It is seen from the above table that UTI has dominated the mutual fund industry in India since it existence from the year 1963 to 2002 the share of the Net assets of mutual fund of UTI was 77.94 % in the year 1999 which was also continued in the coming year like 67 % in the year 2000, 64 % in the year 2001, 51% in the year 2002. As compared to UTI the share of private sector mutual fund has been progressed form the year 2000 onwards that can be seen from the above table that the share of private sector mutual fund was 23 % in the year 2000 which has gone up to 47 % in the year 2003.
Table No:- 1.4
Amount Mobilised &
Assets Under management for the year 1992 to 1993

<table>
<thead>
<tr>
<th></th>
<th>Amount Mobilised (Rs. Crores)</th>
<th>Assets Under Management (Rs. Crores)</th>
<th>Mobilisation as % of Gross Domestic Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>11,057</td>
<td>38,247</td>
<td>5.2%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>1,964</td>
<td>8,757</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>13,021</td>
<td>47,004</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: - AMFI

The above table shows the AUM of the mutual fund industry for the year 1992 to 1993. We can see from the above table that UTI has mobilised an amount of Rs. 11,057 i.e 85 % of the total amount mobilized for that year with public sector raising only Rs. 1,964 Crore for that year. The AUM of UTI in the year 1992-1993 was Rs. 38,247 i.e 81 % of the total AUM of mutual fund industry and the AUM of public sector was only Rs. 8,757 Core in the year 1992-1993.

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 than 5 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.

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.

Concept and Role of Mutual Fund

A mutual fund is a pool of money, collected from investors, and is invested according to certain investment objective. A mutual fund is created when investors put their money together. It is therefore a pool of the investors’ funds. The most important characteristic of a mutual fund is that the contributors and the beneficiaries of the fund are the same class of people, namely the investors. The term mutual means that investors contribute to the pool, and also benefit from the pool. There are no other claimants to the funds. The pool of funds held mutually by investors in the mutual fund.

A mutual fund’s business is to invest the funds thus collected, according to the wishes of the investors who created the pool. Usually, the investors appoint professional investment managers, to manage their funds. The same objective is achieved when professional investment managers create a “product” and offer it for investment to the investor. This product represents a share in the pool and pre state investment objectives. For example, a mutual fund, which sells a “money market mutual fund,” is actually seeking investors willing to invest in a pool that would invest predominantly in money market instruments.
Chart 1.1 Working of Mutual Fund

Source: - AMFI India 2007

Importance of mutual funds

The mutual funds route has unique characteristics that make it significant to investors. Small investors face a lot of problem in the stock markets. Limited resources, lack of professional advice, Lack of information, etc. Mutual funds come with a much-needed help for these investors. It is a specialized type of institutional device or investment vehicle through which investors pool their savings, which are to be invested under the guidance of a team of experts. A Variety of portfolios in such a way as to minimize risks. While ensuring Safety and steady returns on investment, they form an important Part of the capital market, providing the benefits of diversified portfolio and expert management a large number of particularly small investors. Now days, they are gaining popularity due to the following reasons.
• Recent financial sector reforms emphasize enhancing generation of the domestic resources by reducing the dependence on outside funds, creating a need for a market-based institution. Which can tap the vast potential of domestic savings and channelize them for profitable investments. These make mutual funds only suitable for the purpose but also capable of meeting the challenge.

• Create investor confidence regarding a firm allotment of shares. Unlike ordinary investors applying for shares in a public issue of any company.

• Since professional, who are considered to have better knowledge of market behaviors manage them, they bring certain competence of their job. They also maximize gains by proper selection and timing to investment.

• Another importance is that dividends and capital gains are re-invested automatically in MFs and hence are not retted away, this feature is a form of forced saving and can make a big difference in the long run.

• They create awareness among urban and rural middle-class people about the benefits of investments in capital markets through profitable and safe avenues. They could not be able to make large amount of surplus available without these people.

• This channel attracts foreign capital flow into the country and secures profitable investment avenues abroad for domestic savings through the opening of offshore funds for various foreign investors.

• Another notable aspect is that they are controlled and well
regulated and hence considered safe. Due to the Difference in perceptions and viewpoints, this can be contended especially in times when investors loose lots of money in scams.

• One can invest in any scheme at any time and take out money whenever they want without losing out.

• New and more flexible rules allow investors the Freedom to withdraw part of their money invested with mutual funds without closing the amount as quickly as 24 hours of applying. This is a great Option for sudden emergencies.

• There is an increasing Role of mutual funds in recent years playing an active role in capital market. This largely explains why mutual funds shake the Indian capital market and also their role in the Recovery of other world economies like US from recession.

Characteristics of a mutual fund:

• A mutual fund actually belongs to the investors who have pooled their funds. The ownership of the mutual funds is in the hands of the investors.

• A mutual fund is managed by investment professionals and other service providers, who earn a fee for their services, from the fund.

• The pool of funds is invested in a portfolio of marketable investments. The value of the portfolio is updated every day.

• The investor’s share in the fund is denominated by “unit.” The
value of the units changes with change in the portfolio’s value, 
every day. The value of one unit of investment is called as the 
Net Asset Value or NAV.

- The investment portfolio of the mutual fund is created according 
to the started investment objectives of the funds.

**Reasons for Investing Through Funds**

Objects of mutual fund investment are:-

- Risk management /control- this is given top priority, MFs should 
classify the Assets in the market into different categories and 
should have a constant Monitoring of those stocks in terms of risk 
and return.

- To allow small savers/household investors to participate in and 
hold shares in big and giant companies otherwise unreachable by 
some individuals.

- To provide a wide range of choice to small investors as MFs can 
introduce innovative schemes around their regular services their 
Professionalism.

**Mutual funds and their aptness in the emerging scenario**

MFs play an important role in developing the capital markets by 
providing a lot of capital information. The MF can enhance the 
liquidity and stability of India’s stocks and bond investors in the 
appeal and participation of all Indian investors in their own securities 
market and ultimately the personal stake all the investors in the 
growth of Indian economy with the help of regulatory authorities will
ensure that local capital do evolve successfully in order to play an important role in the countries economic future.

For growing economy with great demand for infrastructure and technology will require enormous sums of capital. The days of World Bank loans to build factories in rural areas are not the paradigm for the next generation of economic expansion. Thus the emerging of the world such as India, Kenya, South Africa will increasingly rely on private capital sources either through direct investment capital, project Finance of domestic capital markets. All these are essential for long-term success of providing funds for capital market activity.

The Indian economy and the Indian capital market in particular have Recorded unprecedented growth and dynamism during the decade of 90s Capital market channelized the long term funds directly through securities Market and indirectly through MFs. The last few years MFs have picked up significantly and given a new dimension to Indian capital market. The Industrial liberalization and financial liberalization of past decade gave a new trend to the MFs, an excellent instrument for the mobilization of saving of middle class. Blending professional management portfolio diversification with investor value addition.

As HSBC AMC puts it, it’s not about how many baskets you put your Eggs in to it’s about putting your eggs in the right basket. “The thrill of high Return must be anchored to wise investment decisions.”

Meaningful comparisons can only be made between funds that are like Needs accurate and ever finer classification and
categorization of funds. However there are many types of investors and the kind of classification. The financial Goals are better served by smaller selection of funds divided among fewer Categories.

For cash funds to become a drop-in-replacement to bank saving deposits. Instant liquidity including ATM access and ability to issue third party cheques against cash fund account, limited ATM is already available and it’s feasible. It’s notable that cheques writing is a common feature among all types of fund. In the US and has contributed significantly to the industry’s growth there. Smart investors should not eschew MFs altogether as MFs came with a clutch that few other investment instruments can match a diversified portfolio, an expert fund manager and tax benefits. Diversifying widely i.e. investing in a thousands companies instead to twenty, this cannot rely on managers picking ability. Rather seeking Strategies not ideas as good ideas are based on what is popular is now and what will sell.

Advantages of mutual funds to investors:

If the mutual is emerging as the favorite investment vehicle, it is because of the many advantages it has over other forms and avenues of investing, particularly for the investor who has limited resources available in terms of capital and ability to carry out detailed research and market monitoring.

Portfolio diversification:

Mutual funds normally invest in well –diversified portfolio of securities. Each investor in a fund is a part owner of all of the funds
assets. This enables him to hold a diversified investment portfolio even with a small amount of investment, which would otherwise require big capital.

**Professional management:**
Even if an investor has a big amount of capital available to him, he benefits from the professional management skills brought in by the fund in the management of the investor portfolio. The investment management skills, along with the needed research into available investment options, ensure a much better return than what an investor can manage on his own. Few investors have the skills and resources of their own to succeed in today’s fast moving global and sophisticated markets.

**Reduction of Risk:**
Mutual funds invest in a portfolio of securities. This means that all funds are not invested in the same investment avenue. It is well known that risk and returns of various investment options do not move uniformly or in sympathy with one another. If a pharmacy company share is going down, an InfoTech company’s shares could be moving up; if the equity market is moving down, the debt markets may be moving up. Therefore, holding a portfolio that is diversified across investment avenues is a wise way to manage risk. When such a portfolio is liquid and marked to market, it enables investors to continuously evaluate the portfolio and manage their risks more efficiently.

**Reduction of transaction costs:**
Mutual funds provide the investor the benefit of economies of scale, by virtue of their size. Though the individual investor’s
contribution may be small, the mutual fund itself is large enough to be able to reduce costs in its transaction. This enables investors to enjoy a high level of liquidity on their investments.

**Liquidity:**

Most of the funds being sold today are open-ended. That is, investors can sell their existing units, or buy new units, at any point of time, at prices that are related to the NAV of the fund on the date of the transaction. This enables investors to enjoy a high level of liquidity on their investment. Since investors continuously enter and exit funds, funds are actually able to provide liquidity to investors, even if the underlying market, in which the portfolio is invested, may not have the liquidity that the investor seeks. For example, the debt markets are wholesale markets, where minimum trade lots are Rs.25,000 upwards. However, investors in debt funds can invest as little as Rs.500, and withdraw the same at NAV related prices, at any time.

**Convenience and flexibility:**

Mutual funds management companies offer many investor services that a direct market investor cannot get. Within the same fund family, investor can easily transfer/switch their holdings form one scheme to another. They can also invest or withdraw their money at regular investor in most open end schemes. Mutual funds investment process has been made further more convenient with the facility offered by funds for investor to by or sell their units through the internet or email or using other communication means.

**Well Regulated:**
All Mutual Funds are registered with Securities and Exchange Board of India (SEBI) and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI.

**Disadvantages of investing through mutual funds:**
While the benefits of investing through mutual fund far outweigh the disadvantages, an investor and his advisor will do well to be aware of a few shortcoming of using the mutual fund as an investment vehicle.

**No control over costs:**
Since investors do not directly monitor the fund’s operations they cannot control the costs effectively. Regulators therefore usually limit the expenses of mutual funds.

**No tailor-made portfolio:**
Mutual fund portfolios are created and marketed by AMCs, into which investors invest. They cannot create tailor made portfolios.

**Managing a portfolio of funds:**
As the number of mutual funds increases, in order to tailor a portfolio for him, an investor may be holding a portfolio of funds with the costs of monitoring them and using them, being incurred by him.
Generic choices to the mutual fund investor:

Nature of participation:

Open-ended funds:
There are two ways in which investor participation in a mutual fund can be structured. In an open-ended fund, investors can buy and sell units of the funds, at NAV related prices, at any time, directly from the fund. This is called an open-ended fund because, the pool of funds is open for additional sales and repurchases. Therefore both the amount of funds that the mutual funds manages and the number of units, vary everyday. The price at which investors buy or sell units is linked to the NAV. Open-ended funds have to balance the interests of investors who come in, investors who go out and investors who stay invested. Open-ended funds are offered for sale at a pre-specified price, say Rs.10, in the initial offer period. After a pre-specified period, say 30 days, the fund is declared open for further sales and repurchased. These transactions happen at the computed NAV related price. An investor is an open-ended fund can liquidate his investments by repurchasing the units from the fund.

Closed end funds:
A closed end funds is open for sale to investors for a specific period, after which further sales are closed. Any further transaction for buying the units or repurchasing them, happen in the secondary market, where closed end funds are listed. Therefore new investors buy from the existing investors, and existing investors can liquidate their units by selling them to other willing buyers. In closed-ended funds, thus, the pool of funds can technically be kept constant. The
AMC however, can buy out the units from the investors, in the secondary markets, thus reducing the amount of funds held by outside investors. Investors in closed end funds receive either certificates depository receipts, for their holdings in a closed end mutual fund.

**Interval Funds:**
Interval funds are combinations of open-ended and close-ended Fund. The unit of an interval scheme may be listed in a stock exchange or they may be open for sale or redemption at net asset value related during the predetermined intervals.

**Options for structuring returns to an investor in a mutual fund:**
Mutual funds offer a variety of options to investors, in the manner in which the returns from the investments are structured. At a broad level, the investors have three options: Dividend option, growth option and reinvestment options.

**Dividend option:**
Investors, who choose a dividend option on their investments, will receive dividends from the mutual fund, as and when such dividends are declared. Dividends are paid in the form of warrants or are directly credited to the investors’ bank accounts.

**Growth option:**
Investors who do not require periodic income distributions can choose the growth option, where the incomes earned are retained in the investment portfolio, and allowed to grow, rather than being distributed.
to the investors. Investors with longer-term investment horizons, and limited requirements for income, choose this option. The return to the investor who chooses a growth option is the rate at which his initial investment has grown over the period for which he was invested in the funds. The NAV of the investor choosing this option will vary with the value of the investment portfolio, while the number of units held will remain constant.

**Re-investment option:**

Mutual funds also provide another option to investors in the form of re-investment. Investors re-invest the dividends that are declared by the mutual fund, back into the fund itself, at NAV that is prevalent at the time of re-investment. In this option, the number of units held by the investor will change with every re-investment. The value of the units will be similar to that under the dividend option.

The choice of income option depends not only on the investor’s requirement for income and growth, but also on his tax status. The differential tax treatment of dividend and capital gains will also impact the choice made by the investor.

**Products types available with respect to investment objectives:**

All mutual funds would be either close – end or open – end or either Load or no – load. These classifications are general. For example all open-end Funds operate the same way; or in case of a load fund a deduction is made from investors’ subscription or redemption and only the net amount used to determine his number of share purchased or sold. Once we have reviewed the fund classes, we are ready to discuss more Specific fund types. Funds are generally distinguished from each other by their Investment objectives and types of securities they invest in. we
now look at the major types of funds that are available under the general classifications as discussed above. It may be noted some of the following fund types are not yet available/popular in India at present.

- Money market mutual fund
- Gilt Funds
- Debt Funds
- Equity Fund
- Hybrid Funds
- Others

1. Money market mutual funds:

The money market consists of short-term debt instruments, mostly T-bills. This is a safe place to park your money. You won't get great returns, but you won't have to worry about losing your principle. A typical return is twice the amount you would earn in a regular checking/savings account and a little less than the average certificate of deposit (CD).

2. Gilt funds:

A gilt fund invests only in securities that are issued by the government, and therefore does not carry any credit risk. These funds invest in short and long-term securities issued by the government. These funds are enabling retail investors to participate in the market the government securities, which is otherwise a large-ticket wholesale market.
3. Debt Funds (or Income Funds):

Next in the order of risk level. We have the general category debt funds. Debt funds invest in debt instruments issued not only by governments, but also by private companies, banks, and financial institutions and other entities such as infrastructure companies/utilities. By investing in debt, these funds target low risk and stable income for the investor as their key objectives. However, as compared to the money market/Liquid funds, they do have a higher price fluctuation risk, since they invest in longer-term securities. Similarly, as compared to Gilt Funds, general debt funds do have a higher risk of default by their borrowers. Debt funds are largely considered as Income Funds as they invest primarily in fixed income generating debt instruments. They do not target capital appreciation but look for current income, and therefore distribute a substantial part of their surplus to investors. Income funds that target high returns can face more risks even within the broad category of debt investment; different investment objectives can be set. Each would result in a different risk profile. Let us see Debt Funds in this light.

a) Diversified Debt Funds

A debt fund that invests in all available types of debt securities, issued by entities across all industries and sectors is a properly diversified debt fund. While debt funds offer high income and less risk than equity funds, investors need to recognize that debt securities are subject to risk of default by the issuer on payment of interest or principal. A diversified debt fund has the benefit of risk reduction through diversification. Hence a diversified debt fund is less risky than a narrow-focus fund that invests in debt securities of a particular sector or industry. In addition,
all debt mutual funds lead to risk reduction for the individual investor as any losses by a debt issuer are shared by a large number of investors in the fund.

b) Focused Debt Funds

Some debt funds have a narrower focus, with less diversification in its investment. Examples include sector, specialized and offshore debt funds. They have a substantial part of their portfolio invested in debt instruments and are therefore more income oriented and inherently less risk than equity funds. However, the Indian financial markets have demonstrated that debt funds should not be automatically considered to be less risky than equity funds, as there have been relatively large defaults by issuers of debt and many funds have non-performing assets in their portfolios. It should also be recognized that market values of debt securities will also fluctuate more as Indian debt markets witness more trading and interest rate volatility in the future. The central point to note is that all these narrow-focus funds have greater risk than diversified debt funds. Other examples of focused funds include those that invest only in Corporate Debentures and Bonds or only in Tax Free Infrastructure or Municipal Bonds. While these funds are entirely conceivable now, they may take some time to appear as a real choice for the Indian investor. One category of specialized funds that invests in the housing sector, but offers greater security and safety than other debt instruments, is the Mortgage Backed Bond Funds that invest in special securities created after securitization of (and thus secured by) loan receivables of housing finance companies. As the Indian financial markets witness the growth of securitization, such funds may appear on the mutual fund scene soon.
c) High Yield Debt Funds

Usually, Debt Funds control the default risk by investing in securities issued by borrowers who are rated by credit rating agencies and are considered to be of “investment grade”. There are, however, High Yield debt Funds that seek to obtain higher interest returns by investing in debt instruments that are considered “below investment grade”. Clearly, these funds are exposed to higher default risk. In the U.S.A., funds that invest in debit instruments that are not backed by tangible assets and rated below investment grade (popularly known as junk bonds) are called Junk Bond Funds. These funds tend to be more volatile than other debt funds, although they may earn at times higher returns as a result of the higher risks taken.

d) Assured Return Funds – an Indian Variant

Fundamentally, mutual funds hold assets in trust for investors. All returns and Risks are assumed by the investor. The role of the fund manager is to provide Professional management service and to ensure the most favorable risk- return Profile consistent with the investment objective of the fund. The fund manager, the trustees or the sponsors do not guarantee minimum return to the investors. However, in India, historically, UTI and other funds had offered “assured return “schemes to investors. The most popular variant of such schemes was the monthly Income Plans of UTI. Returns were indicated in advance for all of the future years of these closed- end schemes. In assured returns schemes the shortfall, if any, is borne by the sponsors/AMCs. Assured Return or Guaranteed Monthly Income Plans are essentially Debt/Income Funds. Assured return debt funds certainly reduce the risk to the investor as compare to all other debt or equity Funds, but only to the extent that the
guarantor has the required financial strength. Hence, the market regulator SEBI permits only those funds whose sponsors have adequate net-worth to offer assurance of returns. If an assured return scheme is offered, explicit guarantee is required from a guarantor whose name has to be specified in advance in the offer documents of the scheme. The risk that investor faces was clearly demonstrated when the assured return schemes of UTI faced large shortfalls in their payment obligations. In case of UTI, the Government bailed it out and took over the scheme obligations on itself. Assured return scheme are no longer offered by AMCs, through possible. While Assured Return Scheme may certainly be considered to be the lowest risk type within the debt funds category, they are still not entirely risk-free, as investors have to normally lock in their funds for the term of the scheme or at least a specified period such as three years. During this period, changes in the financial markets may result in the investors losing the opportunity to obtain higher returns later in other debt or equity funds. Besides, the investor is faced with the credit risk of the guarantor who must remain solvent enough to honors his guarantee during the lock-in-period.

e) Fixed Term Plan Series – Another Indian Variant

A mutual fund scheme would normally be either open-end or close-end. However in India, mutual funds have developed an innovative middle option between the two, in response to investor needs. If scheme is open-end, the fund issue new units and reduced them at all times. The fund does not have stated maturity or fixed term of investment as such. Fixed Term Plan Series offer a combination of both these features to investors, as a series of plans are offered and units are issued at frequent
intervals for short plan durations. Fixed Term Plans are essentially closed-end in nature, in that the mutual fund AMC issues a fixed number of units for each series only once and closes the issue after an initial offering period, like a close-end scheme offering. However, a closed-end scheme would normally make a non-time initial offering of units, for a fixed duration generally exceeding one year. Investors have to hold the units until the end of the stated duration, or sell them on a stock exchange if listed. Fixed Term Plans are closed-end, but usually for short term-less than a year. Being of short duration, they are not listed on a stock exchange. Of course, like any closed-end fund, each plan series can be wound be earlier, under certain regulatory conditions.

It is also important to bear in mind that actual structure of the umbrella scheme under which a Fixed Term Plan Series is offered can be either closed-end or open-end. Some funds in India use a closed-end structure, while others the open end structure, to offer Term Plans. In any case, one can think of Fixed Term Plans as series of closed-end plans with in a scheme. Like the closed-end funds fixed Term Plan also make only a one-time offering of units, but such offering are made in a series of plans under one offer document. No separate offer document is issued each time a new series is launched. The scheme under which such Fixed Term Plan Series are offered is likely to be an Income Scheme, since the objective is clearly for the AMC to attempt to reward investors with an expected return within a short period. Mutual Funds AMCs in India usually offering such plans do not guarantee any returns, but the product has clearly been designed to attract the short term investor who would otherwise place money as fixed term bank deposits or inter-corporate deposits.
4. Equity Funds:

As investors move from Debt Fund category to Equity Funds, they face increased risk. However, there is a large variety of Equity Funds each with a slightly different risk profile. Investors and their advisors need to sort out and select the right equity fund that suits their risk appetite. Before we look at the types of Equity Fund in term of their risk, we must understand where the risk of equity funds comes from and how they are different from the debt funds. Equity Funds invest a major portion of their corpus in equity shares issued by companies, acquired directly in initial public offering or through the secondary market. Equity Funds would be exposed to the equity price fluctuation risk at the market level, at the industry or sector level and at the company-specific level. Equity Funds’ Net Asset Values fluctuate with all these price movement. These price movement caused by several external factors like political, social as well as economic. The issue of equity shares offers no guaranteed repayment as in case of debt instruments. Hence, Equity Funds are generally considered at the higher end of the risk spectrum among all funds available in the market. On the other hand, unlike debt instruments that offer fixed amounts of repayments, equities can appreciate in value in line with the issuer’s earnings potential, and so offer the greatest potential for growth capital. Equity funds adopt different investment strategies resulting in different levels of risk. Hence, they are generally separated into different types in terms of their investment styles. Below we discuss some of the major types of equity funds, arranged in descending order in risk.
a) Aggressive Growth Funds

There are many types of stock/shares available in the market; Blue chips that are recognized market leaders, less researched stock that are considered to have future growth potential, and even some speculative stocks of somewhat unknown or unproven issuers. Funds managers seek out and invest in different types of stocks in line with their own perception of potential returns and appetite for risk. As the name suggests, aggressive growth funds target maximum capital appreciation, invest in less reached or speculative shares and may adopt speculative investment strategies to attain their objective of high returns for the investor. Consequently, they tend to be more volatile and riskier than other funds.

b) Growth Funds

Growth funds invest in companies whose earnings are expected to rise at an above average rate. These companies may be operating in sectors like technology considered having a growth potential, but not entirely unproven and speculative. The primary objective of Growth Funds is capital appreciation over a three to five years span. Growth funds are therefore less volatile than funds that are target aggressive growth.

c) Specialty Funds

These funds have a narrow portfolio orientation and invest in only companies that meet pre-defined criteria. For example, at the height of the South African apartheid regime, many funds in the U.S. offered plans that promised not to invest in South African companies. Some funds may build portfolios that will exclude tobacco companies. Funds that invest in particular region such as the Middle East or the ASEAN countries are also an example of specialty funds. Within the specialty
funds category, some funds may be broad-based in terms of the types of investments in the portfolio. However, most specialty funds tend to be concentrated funds, since diversification is limited to one type of investment. Clearly, concentrated specialty funds tend to be more volatile than diversified funds.

d) Sector Funds

Sector funds’ portfolios consist of investment in only one industry of sector of the market such as Information Technology, Pharmaceuticals or Fast Moving Consumer Goods since sectors and company specific risk than diversified Equity funds.

e) Foreign Securities Funds

These funds invest in equities in one or more foreign countries thereby achieving diversification across the country’s borders. However they have additional risks such as foreign exchange rate risk- and their performance depends on the economic condition of the countries they invest in foreign Securities Equity Funds may invest in a single country (hence riskier) or many countries (hence more- diversified).

f) Mid–Cap or Small-Cap Equity Funds

These funds invest in shares of companies with relatively lower market capitalization than that of big, blue chip companies. They may thus be more volatile than other funds, as mid-size or smaller companies’ shares are not very liquid in the markets. We can think of these funds as a segment of specialty funds. In terms of risk characteristics, small company funds may be aggressive growth type. In terms of investment style, some of these funds may also be “value investors “
g) Option Income Funds

These funds do not yet exist in India, but Option Income Funds write options on a significant part of their portfolio. While options are viewed as risky instruments, they may actually help to control volatility, if properly used. Conservative option funds invest in large, dividend paying companies, and then sell options against their stock positions. This ensures a stable income stream in the form of premium income through selling options and dividends. Now that options on individual shares have become available in India, such funds may be introduced.

h) Diversified Equity Funds

A fund that seeks to invest only in equities, except for a very small portion in liquid money market securities, but is not focused on any one or few sectors or shares, may be termed a diversified equity fund. While exposed to all equity price risks, diversified equity funds seek to reduce the sector or stock specific risks through diversification. They have exposure to the equity market risk. Such general purpose diversified funds are clearly at a lower risk level than growth funds.

i) Equity Linked Savings Schemes: an Indian Variant

In India, investors have been given tax concessions to encourage them to invest in equity market through these special schemes. Investment in these schemes entitles the investor to claim an income tax rebate, but usually has a lock-in period. As the name suggests, there are no specific restrictions on the investment objectives for the fund managers. Investors should clearly look for where the Fund Management Company proposes to invest and accordingly judge the level of risk involved. Generally, such funds would be in the Diversified Equity Fund category.
j) Equity Index Funds

An index fund tracks the performance of a specific stock market index. The objective is to match the performance of the stock market by tracking an index that represents the overall market. The fund invests in shares that constitute the index and in the same proportion as the index. These funds take only the overall market risk, while reducing the sector and stock specific risks through diversification. However, there are index funds that track a narrow sectoral index, such as Pharma Index or Bank Index. These will be less diversified and more risky, although they will still be less risky compared to individual stocks in that industry/sector.

k) Value Funds

The Growth Funds we reviewed above hold shares of companies with good or improving profit prospects, and aim primarily at capital appreciation. They concentrate on future growth prospects, may be willing to pay high price/earning multiples for companies considered to have high growth potential. In contrast to the growth investing, some funds follow value investing approach. Value Funds try to seek out fundamentally sound companies whose shares are currently under-priced in the market. Value Funds will add only those shares to their portfolios that are selling at low price-earnings ratios, low market to book value ratios and are believed to be undervalued compared to their true potential. Value Funds take equity market risks, but stand often at a lower end of the risk Spectrum in comparison with the Growth Funds. Value stocks may be from a large number of sectors and therefore diversified. However, value stocks often come from cyclical industries. The one example of Value Funds in India is Templeton Fund, which has
in its portfolio shares of Cement/Aluminum and other cyclical industries. Prices of such shares may fluctuate more than the overall market in both bull and bear markets, making such value funds more risky than diversified funds in the short-term. However, proponents of the value Investing recommend it as a long-term approach. In the long-term, Value Funds ought to be less risky than Growth Funds or even Equity Diversified funds.

1) Equity Income or Dividend Yield Funds

Usually income funds are in the Debt Funds category, as they target fixed income investments. However, there are equity funds that can be designed to give the investor a high level of current income along with some steady capital appreciation, investing mainly in shares of companies with high dividend yields. As an example, an equity Income Fund would invest largely in Power/Utility companies shares of established Companies that pay higher dividends and whose prices do not fluctuate as much as other shares. These equity funds should therefore be less volatile and less risky than nearly all other equity funds. Recently many fund houses have launched such schemes.

5. Hybrid Funds – Quasi Equity/Quasi Debt:

We have seen that in terms of the nature of financial securities held, there major mutual fund types: money market, debt and equity. Many mutual funds mix these different types of securities in their portfolios. Thus, most funds, equity or debt, always have some money market securities in their portfolios as these securities offer the much-needed liquidity. However, money market holdings will constitute a lower proportion in the overall portfolio of debt or equity funds. There are funds that, however, seek to have a relatively balanced holding of debt
and equity securities in their portfolios. Such funds are termed “hybrid funds” as they have a dual equity-bond focus. Some of the funds in this category are described below.

**a) Balanced Funds**

A balanced fund is one that has a portfolio comprising debt instruments, convertible securities, and preference and equity shares. Their assets are generally held in more or less equal proportions between debt/money market securities and equities. By investing in a mix of this nature, balanced funds seek to attain the objectives of income, moderate capital appreciation and preservation of capital, and are ideal for investors with a conservative and long-term orientation.

**b) Growth-and-Income Funds**

Unlike income-focused or growth-focused funds, these funds seek to strike a balance between capital appreciation and income for the investor. Their portfolios are a mix between companies with good dividend paying records and those with potential for capital appreciation. These funds would be less risky than pure growth funds, though more risky than income funds.

**c) Assets Allocation Funds**

Normally, an Equity Fund would have its primary portfolio in equities most of the time. That is, the assets are primarily equity holdings. Similarly, a Debt Funds would have allocated much of its money to debt instruments. The proportion of money to be involved in a particular class of assets is predefined. In other words, their “assets allocation” is predetermined to a large extent. However, there do exist funds that follow variable asset allocation policies and move in and out of an asset
class (equity, debt money market, or even non-financial assets) depending upon their outlook for specific markets. The fund manager is given the flexibility to shift towards equity when equity market is expected to do well and to shift towards debt when the debt market is expected to do well. The success of such strategy would depend on the skill of the fund manager in anticipating market trends. For that reason, Asset Allocation Funds could be riskier.

6. Others:

a) Commodity Funds

While all of the debt/equity/liquid funds invest in financial assets, the mutual Fund vehicle is suited for investment in any other-for example-physical assets. Commodity funds specialize in investing in different commodities directly or through commodity companies or through commodity futures contracts. Specialized funds may invest in a single commodity or a commodity group such as edible oils or grains, while diversified commodity funds will spread their assets over many commodities. A most common example of commodity funds is the so-called Precious Metals Funds. Gold Funds invest in gold, gold futures or shares of gold mines Others precious metals funds such as Platinum or Silver are also available In other countries. They may take exposure to more than one metal to get some benefit of diversification. In India, the Union Finance Minister Recently announced a Gold Linked Unit Scheme-like a Gold Funds. These Schemes hold a good potential, given the large public holding and interest in Gold. Similarly, a large number of commodity futures contracts are now available for trading on commodity exchange, making it possible to launch Commodity funds.
b) Real Estate Funds

Specialized Real Estate Funds would invest in real estate directly, or may Fund real estate developers, or lend to them, or buy shares of housing finance companies or may even buy their securitized assets. The funds may have a growth orientation or seek to give investors regular income.

c) Exchange Traded Funds

An Exchange Trade Fund (ETF) is a mutual fund scheme, which combines the best features of open end and closed end structures. It tracks a market index and trades like a single stock on the Stock Exchange. Its pricing is linked to the index and units can be bought/sold on the Stock Exchange. ETF offers investor the benefits of flexibility of holding a single share as well as the diversification and cost efficiency of an index. These funds are popular abroad and have recently been introduced in India. Although based on an index, ETFs should not be confused with index funds. Investors can buy index funds units directly from the assets management company at a unique Net Asset Value that will be applicable to all investors. ETFs trade on the exchanges and thus its unit price is determined in the market place and will keep changing from time to time. ETFs are bought and sold through intermediaries who are generally market-makers-buying and selling the units with two-ways price quotes. These market makers allow investors to exchange ETF units for underlying shares. This is not possible in the case of index mutual funds. Funds distributors should note that ETF AMCs usually do not pay any Commissions to intermediaries, not recovery any loads from investors. Market makers keep their margin in the form of difference in bid and asked prices. For the investors, therefore, ETFs are less costly.
and more efficient in terms of tracking the index performance. They can even ask for delivery of underlying shares.

d) Fund of Funds

A Fund of Funds invests in other mutual funds. Just as normal mutual fund invests in a portfolio of securities such as debt or equity, a fund of funds invests in a portfolio of the units of other mutual fund schemes. Availability of a fund of the funds to an investor helps him select the right funds from a wide variety of schemes offered by different asset management companies. It is also helps the investor diversify his risk not only in terms of the types of securities held in the portfolio, but also in the term of schemes of different fund managers and investment styles, for example, a fund of a funds can invest in top performing equity funds of different AMCs and offer the most widely diversified portfolio to the investor. It can also invest in equity and income schemes of other AMCs simultaneously offering the investor balanced or diversified portfolio across assets classes. The risk level associated with this type of fund is generally lower than that of conventional mutual fund schemes. Investment in such funds also enjoys the advantage of diverse management styles. A fund of funds could, however, result in higher expenses as the expenses of the AMC that manages the fund of funds get added to the expenses of the schemes it invests in.
Global Mutual Fund Industry an Overview:

Chart 1.2
Mutual Fund Industry at a Glance in the World

Source: - Investment company Institute June 2008

The size of the world mutual fund industry is over US$22 trillion. Globally the mutual fund industry grew by 22.47 in 2008. USA holds the biggest mutual fund market in the world and account for over 50 % if the world market. Major players in Europe are France and Luxembourg based fund, with US$1.8 trillion and US$2.2 trillion respectively ( till 2008) compared to this the Indian mutual fund industry has grown by 41 % in 2006-2007 and 77 % in last five years.
Graph 1.3
Mutual Fund Industries as % of GDP around the world

Source: - Investment company Institute June 2008

The Indian MF AUM representing just 10% of GDP as compared to US (74%), Australia (110%) and UK (30%). Indian mutual fund AUM account for 11% of the combined market capitalization of BSE and NSE indices. Top 10 US AMCs hold about 49% of total AUM while in India, 70% of the total AUM is held by the top ten AMCs. AUM in the MFs in India represents 14% of bank deposits.
Different investor enters the world of investment with varied objective in mind. However for convenience and analysis of the responses the main objectives have been limited to safety of capital, growth and capital gains, seeking both growth and regular income befitting for tax savings, speculation and getting high liquidity.

**Source:** - Investment company Institute June 2008

Graph 1.2 provides a comparative study of the asset composition of US and Indian MFs. It shows that the share of equity investment has increased in India as compared to US which is 71 % in India with 51 % in US. That shows the investor prefer more return and are ready to take risk if they are provided with handsome return. Only 21 % of investment is made in money market instrument in India as compared to 25 % in the US.
Graph 1.5
Comparative study of the US and Indian Mutual Fund Industries according to Investors

The above graph provides the comparative status of Indian and US MFs investors, it shows that the retail investor constitute 87% in US as compared to 42% of India that shows that even being in the growing economy the mutual fund industry has not grown properly in India and still retail investor think of traditional of bank deposit, AUM of mutual fund in India represent 14% of bank deposit in India. The corporate constitute 58% of Indian mutual fund investor as compared to 13% in US.

Source: - Investment company Institute June 2008
Indian Mutual Fund Industry at a Glance

Graph 1.6
Geographical distribution of Mutual fund investor in India

The above pie chart shows the geographical distribution of mutual fund investors in India. The reason behind low rate of growth in AUM in Indian as compared to some other countries is evident from the above chart. It shows that MFs in India have concentrated on large cities and Class 1 towns and these constitute around 77% of total investors. A large part of Indian economy has not been tapped yet and there has been lack of penetration by the MFs in the rural and semi-urban areas. The representation of the investor from the rural and small town is very low with only 12.46% of investor are from rural and 10.58 from small town.

Graph 1.7
Income distribution of the Mutual fund investor in India


The above chart shows that income distribution of the mutual fund investor in India we can see that majority of the mutual fund investor 73 % of the investor has income of more then 2lakh to more than 5lakh that shows that there is lack in product variety in India for small investor and also like the awareness of SIP is not there to the small investor today, also many investor feel that they are too small to invest in mutual fund only 27 % of the mutual fund investor has income of less than 2lakh.
The above graph shows the comparative study of the year 2003 & 2008 AUM According to Nature of Investment made by the investor it shows that the investor interest has increased in the year 2008 in investing in equity with more then 71% investment are made in equity and balanced scheme as compared to only 21% in the year 2003 the rate of investment in money market investment as also declined with only 21% of the investment is there as compared to 25% in the year 2003. The above chart also shows that the periodicity of MF holding by the investor in India is approximately 2-3 years as compared to an average of 5 years in the US.
OBJECTIVES OF THE STUDY

Following are the broad objectives of the present study

(1) To know the conceptual logic of saving and investment and the consequent role of financial and non-financial intermediaries in the mobilization of people’s fund.

(2) To know the role of various types of Trust company’s in the light of their active participation in the mobilization of finds.

(3) To, Undertake the review of various UTI’s investment schemes and highlighting their appropriateness.

(4) Measuring and evaluating the role and the scope of UT! in the light of its various financial variables like Employment of funds, collection of funds, Revenue income and expenditure, balance sheet components etc.

HYPOTHESIS TESTED

- UTI Mutual funds are safe option for investor in investing money in capital market as it is invested through proper guidance of professional fund manger.

- SEBI has enacted the SEBI (Mutual Funds) Regulations, which provides the scope of the regulation of mutual funds in India.

- UTI Investors are more concerned about the regular growth of mutual funds in comparison to dividend and net assets value (NAV) of mutual funds in investing money.
RESEARCH METHODOLOGY
The UTI Mutual funds industry in Marathwada region has been in existence since 1964 when the government of India established the unit trust of India (UTI) under a special act of parliament. At present the mutual industry has 3 types of players Viz; (A) public sector banks (B) Financial institution and (C) private sector. of the total 34 players 4 are in the public sector while remaining 30 are the private sector. There are 133 AMFI registered brokers with over more than 34430 (App) investor of mutual funds in Marathwada region. Overall 25 % of the broker and 10 % of the investors were selected by the help of random sampling method for the purpose of the study.

COLLECTION OF DATA
This study depends upon both the types of data i.e. primary as well as secondary data.

PRIMARY DATA:-

To get the first hand information and data is collected by visiting to various AMFI registered brokers and there clients. A well structured questionnaire is used to get the primary level information by the help of personal Interview.

SECONDARY DATA:-

The secondary data required for this study is collected from different sources viz., Govt. published bulletins, Annual Reports, Share Market reports, Journals, Magazines and other related Published data of mutual funds Market. Different websites was also used as a source of information.
Selection of samples

Table No. 1.5
Mutual Fund Industries at a Glance in Marathwada Region as on
31st December 2008

<table>
<thead>
<tr>
<th>SR.NO</th>
<th>Name of District</th>
<th>Number of AMFI Broker</th>
<th>Total Number of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aurangabad</td>
<td>84</td>
<td>21600</td>
</tr>
<tr>
<td>2</td>
<td>Nanded</td>
<td>14</td>
<td>4191</td>
</tr>
<tr>
<td>3</td>
<td>Latur</td>
<td>15</td>
<td>4810</td>
</tr>
<tr>
<td>4</td>
<td>Parbhani</td>
<td>8</td>
<td>1640</td>
</tr>
<tr>
<td>5</td>
<td>Jalna</td>
<td>6</td>
<td>1149</td>
</tr>
<tr>
<td>6</td>
<td>Beed</td>
<td>4</td>
<td>510</td>
</tr>
<tr>
<td>7</td>
<td>Osmanabad</td>
<td>1</td>
<td>270</td>
</tr>
<tr>
<td>8</td>
<td>Hingoli</td>
<td>1</td>
<td>260</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>133</td>
<td>34430</td>
</tr>
</tbody>
</table>

Source: - Compiled from AMFI’s and other AMC’s websites.

The table No. 1 highlights on the overall AMFI registered broker from Marathwada Region. The Marathwada Region consists of eight districts; the total No. AMFI registered broker is shown in table No. 1 we can see that Aurangabad district has the highest number of AMFI registered broker i.e 84 as awareness regarding mutual funds is more in this district followed by Latur (15) Nanded (14) there are only single broker in Hingoli and Osmanabad this shows the awareness of mutual fund is low in this region.
Table No. 1.6
Selection of Samples for the study purpose

<table>
<thead>
<tr>
<th>SR.NO</th>
<th>Name of District</th>
<th>Number of AMFI Broker selected</th>
<th>Total No of Investor</th>
<th>Number of respondents 10% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aurangabad</td>
<td>21</td>
<td>5400</td>
<td>540</td>
</tr>
<tr>
<td>2</td>
<td>Nanded</td>
<td>3</td>
<td>898</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>Latur</td>
<td>3</td>
<td>962</td>
<td>96</td>
</tr>
<tr>
<td>4</td>
<td>Parbhani</td>
<td>2</td>
<td>410</td>
<td>41</td>
</tr>
<tr>
<td>5</td>
<td>Jalna</td>
<td>2</td>
<td>383</td>
<td>38</td>
</tr>
<tr>
<td>6</td>
<td>Beed</td>
<td>2</td>
<td>255</td>
<td>25</td>
</tr>
<tr>
<td>7</td>
<td>Osmanabad</td>
<td>1</td>
<td>270</td>
<td>27</td>
</tr>
<tr>
<td>8</td>
<td>Hingoli</td>
<td>1</td>
<td>260</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35 (25%)</td>
<td>8838</td>
<td>883 (10%) 900(App)</td>
</tr>
</tbody>
</table>

The table No.1 shows the total number of samples selected for the study purpose, Due to time and cost constraints it was not possible to deal with all the brokers and there clients so by the help of convenience sampling method 25% of the sample i.e 35 AMFI registered broker and 10% of there clients were selected for the study purpose.

Data Analysis
In this study data is analysed by using Statistical software SPSS latest version was undertaken to draw inferences and arrive at suitable conclusions.
LIMITATIONS OF THE STUDY

1. As mutual funds are subject to market risk there are various changes in it according to changes in stock market during the period of research.

2. The reliability of the study depends on the authenticity of the information supplied by the respondents.

SCOPE OF THE STUDY

For the purpose of data collection and study, mainly the duration of 2002 to 2011 was considered. Wherever necessary reference were made to the previous and current circumstances. The observation period in some cases, was extended as far back as early 60’s.

CHAPTER SCHEME

The entire study is summarized in following seven chapters:

1. Introduction.
2. Review of literature.
3. Historical development of UTI.
4. Legal regulatory frame work and fund structure of UTI mutual funds.
5. Role of UTI and Various Financial variables.
6. Data Collection and Analysis.
7. Summary, Conclusion and suggestions.
Concluding Remark:-

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.

References:-


**Website:-**

- [www.moneycontrol.com](http://www.moneycontrol.com)
- [www.invesmentfaq.com](http://www.invesmentfaq.com)
- [www.saharasamy.com](http://www.saharasamy.com)
- [www.business-standard.com](http://www.business-standard.com)