CHAPTER - VI

MUTUAL FUNDS IN INDIA
6.1 INTRODUCTION

Mutual fund is an institutional arrangement wherein savings of millions of investors are pooled together for investment in a diversified portfolio of securities comprising of bonds and equities to spread risk and ensure steady returns. These funds bring a wide variety of securities within the reach of the retail investors. It is a mechanism of pooling together savings of a large number of investors for collective investment with an objective of appreciation in value. Presently, in India there are number of schemes with different investment objectives and with varied risk – return combination. Investors those who are required to invest for short term, can invest in Fixed Maturity Plans (FMPs) or debt schemes. Investors those who are aggressive and willing to take more risk, invest in mid-cap fund or equity growth fund. The money thus collected by AMC from the unit holders is invested in capital and money market instruments such as shares, debentures, and other securities, depending on the fund’s objective.

The benefits of investing in equities and debt instruments are supposedly much rewarding if done through mutual funds because of the following reasons: Firstly, fund managers are more skilled. They are trained to identify the best investment options and to assess the portfolio on a continual basis, Secondly, they are able to invest in a diversified portfolio consisting of fifteen to twenty different stocks or bonds or a combination of both. For an individual investor, such diversification reduces the risk, but can demand a lot of effort and cost. Each purchase or sale involves a cost in terms of brokerage or transactional charges, securities transaction tax (STT) and service tax in India. Thirdly, an investor can sell their own mutual fund investments and receive payment on the same day with minimal transaction costs as compared to dealing with individual securities. These benefits of mutual funds contribute to superior portfolio returns with minimal cost and better liquidity. Fourthly, investors in mutual funds can track a diversified portfolio on a constant basis with lesser costs. In India there are number of websites, newspapers and magazines that publishes the daily net asset value (NAV) of a unit of a particular scheme.
6.2 OPERATION OF MUTUAL FUNDS ORGANISATION

Operationally, mutual fund pools the resources by issuing units to the investors (unit holders) and investing the funds accumulated in financial and real assets in accordance with objectives as disclosed in the offer document\(^\text{11}\). Money collected in this process is then invested in capital market instruments such as shares, bonds, debentures and other securities and assets such as bullion, real estate etc. Depending on the Investment objective as declared in the offer document, each mutual fund company attempts to diversify its investment across the asset class (such as stocks, bonds, gold, cash etc), across the various sectors and companies. Diversification reduces the risk because the value of all the assets may not depreciate or appreciate in conjunct with overall market. During adverse investment conditions, few assets may decline in market value and the remaining would appreciate thereby, maintaining the average return of the mutual fund. Modus operandi mutual fund companies are to issue units to the investors' in accordance with quantum of money invested by them. In India, investors have to invest minimum amount of five thousand rupees. Asset Management Companies (AMC)\(^\text{12}\) collects the funds from investors and invests in various assets. According to the investment objective, AMC distribute the current income from the fund (in the form of dividend arriving from the stocks) proportionately to the unit holders.

The mutual funds float number of schemes with different investment objectives from time to time. As per the regulations of Indian capital market regulator, a mutual fund is required to be registered with SEBI. In India, any company before issuing equity or preference shares, bonds, debentures or units of mutual funds to Indian investors or to foreign investors has to first comply with the regulations of SEBI and at the same time has to get approval of such public issue of securities. In India, mutual funds have entered into a world of exciting innovative products especially post 1990.

\(^{11}\) Offer document is a primary document issued by Asset Management Company of a mutual fund. It acts as a legal document that protects and governs the right of the investors to information. This document lists the asset allocation pattern and diversification policy. It also makes investors aware of risk factors and informed the investors (or unit holders) on the estimated expenses of the fund. Offer document also mention the procedures of NAV calculation, redemption process, redressal mechanism.

\(^{12}\) The company that manages a mutual fund is called an AMC. For all practical purposes, it is an organized form of a money portfolio manager. An AMC may have several mutual fund schemes with similar or varied investment objectives. The AMC hires a professional fund manager, who buys and sells securities in line with the fund's stated objective.
Fund house are giving lot of choices to investors out of their portfolio of schemes which addresses different section of people with different risk profiles. Post 1990 has seen mutual funds launched schemes such as commodity fund, schemes with insurance coverage and funds of fund are few to the list.

In India, a mutual funds company launches new schemes with different investment objectives after getting approval from SEBI. Whenever new schemes are offered to investors for the first time, these are called new fund offerings (NFO). When new schemes are floated for the first time and target particular segment of investors, they designs tailor-made schemes. This is done after considering the investor’s risk profile and their expected return potential so that specific needs of investors can be addressed. In India, market is flooded with numerous mutual funds products especially 2005 onwards which have compounded the competition for both public sector and private sector mutual funds companies. Professional managers are thus forced to bring innovation in designing mutual funds products. Thus, mutual funds industry has been liberal in offering schemes like equity and growth fund, debt or liquid funds, balanced funds, sector specific funds, index funds etc with added features. Besides issuing traditional schemes, asset management companies have also introduced specific funds targeting a segment within the family such as children plans, education plans, insurance linked plans, and exchange traded funds. This has resulted in shifting Indian investors towards mutual funds instead of traditional small saving instruments (such as government sponsored small savings schemes).

The concept of mutual funds had been on the financial landscape of world for a long time in a primitive form. In India, the mutual fund industry started in 1963 with the formation of Unit Trust of India (UTI) at the initiative of the Government of India (GOI) and Reserve Bank of India (RBI). Risk-averse investors are interested in schemes with tolerable capital risk and higher return over bank deposits, which always restrict mutual fund companies to launch more risky equity based products in the Indian capital market. But this strategy of the mutual fund industry has changed over the decades. For many years, funds were more of a service than a product, the service being professional money management. Since 2007, mutual funds have evolved as a major financial product and accepted not only by the retail investors but also by corporate investors.
Acceptance of mutual funds as an investment option in India picked up gradually due to one of its primary feature, that is, diversification benefit. AMC invests the unit holder’s money in diversified financial assets such as stocks/bonds/debentures etc. Since, all the assets where the fund has invested cannot generate negative returns at the same time, therefore such diversification help the fund to reduce its total risk.

Mutual funds organisations appoint AMC blessed with proficient and expert in investment activities to manage the corpus of the fund. Further, AMC hire fund manager who are well qualified and experienced in money and capital market. Fund managers have the skill of timing the market and use their knowledge to invest unitholders’s money to book profit. To achieve optimum diversification, AMC exploits automated approach designed by new technology and data mining techniques. These modern technologies helps the AMC’s in strategic planning and investment decision making by uncovering the hidden patterns and predicting future trends and behaviour in financial markets and in invested assets. Due to intensive global competition and application of latest information technology, investing community is demanding real returns from the fund managers. To satisfy the needs of investors, mutual funds have designed lucrative and innovative tools considering the risk appetite of retail investors. While designing these innovative fund schemes, AMCs consider risk-return trade off. After completely evaluating the individual securities on various risk parameters, new fund scheme is launched that can quench the thirst of every investor to maximize the returns. Although risk and return are the two prime concerns for any mutual fund investment but before investing in a mutual fund scheme, investors also considers factors such as sale charges, fund manager’s reputation, fund history, objective of the fund, management fees, clarity in disclosure, and recommendation from the media before investing. Haslem, H. Kent baker, and David M. Smith (2007), on their research paper titled “Identification and Performance of Equity Mutual Funds with High Management Fees and Expense Ratios”, concluded that management fees have a mixed association with each of the performance measures. Higher performance is seen with higher management fees charged by the specific fund. On the contrary, they identified that expense ratios have the expected general negative associations with each of the performance measures. That is, performance of the fund is inversely related to the
expenses ratio of the fund. These findings are consistent with previous studies by Jensen [1968].

Market regulator (SEBI) has been proactive to identify areas where investors can be encouraged for retail participation in equities. SEBI has banned entry load in all kinds of mutual funds from 1st August 2009. Entry load being one of the major constituent of overall expenses, so this step of SEBI has benefitted the investing community but had an adverse affect on the brokers, agents, sellers of mutual funds, as their commission had a beating. To conclude on the objective of fund managers or of AMC is to generate higher annualised real returns above than the benchmark returns\(^\text{13}\) so as to attract more investors and to retain existing investors.

Mutual Fund as a taxonomy is a retail product intended to target retail investors, who are intimidated by the mysteries of stock market but are yet likely to reap the benefits of stock market investing. At the retail level, investors are unique and highly heterogeneous group. Hence, investor's fund/scheme selections also widely differ and are very much related to personal lifecycle stages. This necessitates the AMCs to understand the scheme selection and switching (from one fund to another) behavior of the investors so as to design suitable products to meet the changing financial needs of the investors. For a retail mutual fund investor, before investing in mutual funds, should understand the investment objective of the selected fund and should invest only if it matches with the investor's financial goals. It is necessary to evaluate the performance of fund managers in terms of returns generated commensurate with the past tract record. AMFI and various websites of financial market participants and media, including SEBI, periodically publish various performance reports, which reflect the true investment performance of the funds. Various studies have been undertaken to highlight the true competence of fund managers and to augment the existing framework for identifying successful fund managers. A study conducted by Thomas P. Gehrig (2008) titled "Bonus Payments and Fund Managers' Behavior: Trans-Atlantic

\(^{13}\) Benchmark returns for mutual funds: Capital market regulator SEBI (Securities and Exchange Board of India) has made it mandatory for fund houses to declare a benchmark index. A scheme’s benchmark is an index that is decided by its fund house to serve as a standard for the scheme’s returns. Some well-known benchmarks are the BSE Sensex and NSE Nifty for funds that invest in large-company stocks. A benchmark gives investors an opportunity to compare the performance of their investments with that of the broader market.
Evidence concluded that higher bonus payment to fund manager working for mutual fund companies, enhances their performance and make them more disciplined and motivate them to take more risk for higher returns. However, higher returns per unit in terms of net asset value may not indicate superior performance. The higher return may arise due to higher exposure to risk on investments, or may be attributed to luck or general market boom, rather than pure skill. This aspect is particularly worrying in case of India because of the less mature capital market conditions, which is infected with wild fluctuations of the equity market, and lesser awareness among common investors.

In India one can gain additional benefit by investing through tax savings mutual funds. Investment in certain types of funds such as Equity Linked Savings Schemes (ELSS) allows for certain amount of income tax benefits under section 80C of Income Tax Act 1962.

6.3 LAUNCH OF NEW MUTUAL FUND SCHEMES

Whenever a new fund is launched by asset management companies, it is known as New Fund Offer (NFO). Units are offered to investors at the par value of ten rupees per unit. In case of open ended schemes, investors can buy the units at market rate even after the NFO period is over. If the investor wishes to redeem the units, the fund repurchases the units from the investor. This can be done after the NFO is closed. The buy / sell of units take place at the market rate of NAV declared by the fund at the end of each day. The freedom to invest after the NFO period is not allowed in case of close ended schemes. Once the NFO for a closed ended mutual fund scheme closes, new investors cannot enter into the fund, nor can exit from the fund, till the term of the scheme comes to an end. However, in order to provide entry and exit option, close ended mutual funds list their schemes on stock exchanges. This provides an opportunity

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14 Net Asset Value (NAV) is the market value of the assets of the scheme minus its liabilities. Per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.

15 Open-ended mutual fund schemes: A type of mutual fund that does not have restrictions on the amount of units the fund will issue. If demand is high enough, the fund will continue to issue units no matter how many investors there are. Open-end funds also buy back units when investors wish to sell.

16 Close ended schemes: It is collective investment scheme that has a fixed number of units. Unlike open-end funds, no new units are issued by fund managers to meet demand from investors. Instead, the units can be purchased (and sold) only through a recognised stock exchange. This is the original design of the mutual fund which predates open-end mutual funds but offers the same actively managed pooled investments.
for investors (those who have DEMAT account\textsuperscript{17} to trade electronically) to buy and sell the units through a stock exchange with the help of a stock broker.

6.4 STRUCTURE OF MUTUAL FUNDS IN INDIA

In India, the mutual fund industry is highly regulated with a view to imparting operational transparency and protecting the investor's interest. The structure of a mutual fund is determined by SEBI regulations. These regulations require a fund to be established in the form of a trust under the Indian Trust Act, 1882. A mutual fund is externally managed and relies upon third parties (AMCs) to carry out its investing activities such as buying and selling of securities. A mutual fund operates through a four-tier structure. The four parties that are required to be involved are a sponsor, board of trustees, an asset management company and a custodian.

i) Unit Holders: Individual or institutional investors those who invest their funds by purchasing the units of a mutual fund scheme.

ii) Sponsor: A sponsor is a body corporate who establishes a mutual fund. It may be one person acting alone or together with another corporate body. According to the SEBI regulations, sponsors are expected to contribute at least forty percent to the net worth of the AMC. If any person holds forty percent or more of the net worth of an AMC, he shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in the mutual fund regulation.

iii) Board of Trustees: As per the SEBI regulations, a mutual fund house should comprise of independent board of trustees, where two-thirds of the trustees should be independent persons who are not associated with the sponsors in any manner. The board of trustees holds the property of the mutual fund in the trust for the benefit of the unit-holders. They are responsible for protecting the unit-holder's interest.

\textsuperscript{17} In India, the term "demat", refers to a dematerialized account for individual Indian citizens to trade in listed stocks, debentures, bonds or listed mutual funds in electronic form rather than paper, as required for investors by the SEBI. In a demat account, shares and securities including mutual funds are held electronically instead of the investor taking physical possession of certificates. A demat account is opened by the investor while registering with an investment broker (or sub-broker). The demat account number is quoted for all transactions to enable electronic settlements of trades to take place.
iv) **Asset Management Company (AMC):** The role of an AMC is highly significant in the overall mutual fund operation. AMCs invest investor’s money in various securities (equity, debt and money market instruments) after conducting research on market conditions and the performance of specific securities in the effort to beat average market return and analysis. They also look after the administrative functions of a mutual fund.

v) **Custodian:** The mutual fund is required by law to place their portfolio securities with a custodian. All mutual funds use SEBI approved custodians. Only a registered custodian under the SEBI regulation can act as a custodian to a mutual fund in India.

vi) **Transfer Agent:** A transfer agent is employed by a mutual fund to conduct record-keeping and documentation related functions. Transfer agents maintain records of shareholder’s accounts and calculate to disburse the dividends, prepare unit holder’s account statements, income tax information, etc. Transfer agents also mail statements to unit holders under the instructions of board of trustees.

### 6.5 TYPES OF MUTUAL FUND SCHEMES

Wide varieties of mutual fund schemes exist to cater to the needs of investors such as risk tolerance, return expectations etc. The details of types of schemes are explained below.

a) **Open-ended Funds:** These schemes offer units for subscription on a continuous basis. In other words, the units of these schemes can be purchased or redeemed at any point of time at NAV based prices. There is no fixed maturity period for these schemes and an investor can redeem the units anytime. Presently, listed open ended and close ended schemes mutual funds schemes can be traded through major stock exchanges in India.

b) **Closed-ended Funds:** A closed-ended fund has a stipulated maturity period which generally ranging from three to fifteen years. These funds are open for subscription only during a specified period after it is open for subscription. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed. In order to provide an
exit route to the investors, some close-ended funds repurchase the units from investors at the rate of NAV.

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheme-wise Yearly Resource Mobilisation by Mutual Funds</th>
<th>Asset Under Management at the end of each financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Open-ended Schemes</td>
<td>Close-ended Schemes</td>
</tr>
<tr>
<td>2000-01</td>
<td>13218</td>
<td>-3,190</td>
</tr>
<tr>
<td>2001-02</td>
<td>9,220</td>
<td>-2,044</td>
</tr>
<tr>
<td>2002-03</td>
<td>12,187</td>
<td>-7,991</td>
</tr>
<tr>
<td>2003-04</td>
<td>46,033</td>
<td>775</td>
</tr>
<tr>
<td>2004-05</td>
<td>-3,972</td>
<td>6,173</td>
</tr>
<tr>
<td>2005-06</td>
<td>25,783</td>
<td>26,996</td>
</tr>
<tr>
<td>2006-07</td>
<td>23,900</td>
<td>70,085</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,33,453</td>
<td>20,348</td>
</tr>
<tr>
<td>2008-09</td>
<td>28,128</td>
<td>-34,191</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,06,627</td>
<td>-36,132</td>
</tr>
<tr>
<td>2010-11</td>
<td>-1,23,218</td>
<td>71,658</td>
</tr>
<tr>
<td>2011-12</td>
<td>-1,49,117</td>
<td>3,441</td>
</tr>
<tr>
<td>2012-13</td>
<td>1,60,186</td>
<td>-34,749</td>
</tr>
</tbody>
</table>


Information as shown in table no - 6.1 depicts that Indian mutual fund investors prefers open-ended schemes rather than close ended funds till 2009-10. For the financial year 2010-11 and 2011-12, investors relied more on close ended funds as net inflow is positive as compared to open-ended schemes. Apart from 2008-2009 and 2009-10 there is no major negative flow from close ended schemes. In 2012-13 investors again started relying again on open ended schemes as secondary stock market showing bullish trends.

c) Interval Funds: These schemes are mix of open-ended and a close-ended structure. These schemes are open for both purchase and redemption during pre-specified intervals (viz. monthly, quarterly, annually etc.) at the prevailing NAV based prices. Interval funds are very similar to close-ended funds, but differ on the following points.
1. They are not required to be listed on the stock exchanges, as they have an in-built redemption window.
2. They can make fresh issue of units during the specified interval period, at the prevailing NAV based prices.
3. Maturity period is not defined.
d) **Equity Growth Fund**: These funds invest a major part of their corpus in equities. The composition of the fund may vary from scheme to scheme and the fund manager’s outlook on various individual stocks from time to time. The Equity Funds are subclassified depending upon their investment objective, as follows:

i) **Diversified Equity growth Funds**: These are generally initiated with the objective to achieve capital appreciation by investing in growth stocks. The rise of the Growth Funds in later part of the 2012 can be attributed to the rise in value of growth stocks in the Indian securities market. Growth funds basically invest in diversified portfolio of stocks. These finds pays no dividend. Investing in growth funds requires a tolerance for risk and a holding period with a time horizon of more than five years.

ii) **Equity Balanced Funds**: Balanced Funds provide the best of both worlds i.e. equity and debt. The aim of the balanced funds is to provide both capital appreciation and stability of income in the long run. The proportion of investment made into equities and fixed income securities is pre-defined and mentioned in the offer document of the scheme. This type of scheme is a good alternative for pure equity-oriented products and provides an effective asset allocation tool. These schemes are suitable for investors looking for moderate growth. NAVs of such funds are generally less volatile in nature compared to pure equity funds.

iii) **Sector Specific Funds**: These Funds invest exclusively in the dated securities issued by the government. These funds carry a very minimal risk because they are free of any default or credit risk. However, they do carry an interest rate risk as is the case with other debt products.

iv) **Tax Savings Funds**: Equity Linked Saving Scheme (ELSS) is an open-ended equity growth scheme that is offered by mutual funds in line with existing ELSS guidelines. As per the Indian income tax regulations, investments under this type of scheme are subject to a lock-in period of 3 years and, as per the Finance Act 2005, are allowed the benefit of income deduction up to Rs 1, 00,000 under section 80C of Income Tax Act 1961.
e) **Debt Fund**: These Funds invest a major portion of their corpus in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

f) **Gilt Funds**: These funds are safer as they invest exclusively in the government dated securities issued by the central or state governments. However, they do carry an interest rate risk same as other debt products. These Funds carry zero Default risk but are associated with Interest Rate risk.

g) **Income Funds**: Such fund invests in interest bearing securities, mainly in government securities and rated corporate bonds. These funds earn returns for its investors from interest income on its investments and profits on trading securities. These funds are considered to be less risky.

h) **Monthly Income Plans (MIP)**: MIPs are suitable for conservative investors those who are not willing to expose to risk of equity investing. MIP schemes invest majority of their corpus in debt instruments while minor portion is invested in equities. Thus an MIP would be suitable for conservative investors who along with protection of capital seek some capital appreciation as MIPs have an exposure to equities.

i) **Short-Term Plans (STPs)**: These funds are designed for investors with an investment horizon of three to six months. STP primarily invests in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures to enhance the return potential.

j) **Liquid Funds**: Liquid funds are also known as money market schemes. These funds are meant to provide easy liquidity and preservation of initial capital invested. These schemes invest in short-term instruments such as treasury bills, inter-bank call money market, commercial papers and certificate of deposits. Generally banking companies invest in these funds with an object to manage their short-term cash with an investment horizon of one day to three months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds.
6.6 NEW PRODUCT CATEGORIES

a) Capital Protection Oriented Schemes: These funds are launched to protect the capital invested therein through suitable orientation of its portfolio structure. The orientation towards protection of capital originates from the portfolio structure of the scheme and not from any bank guarantee or insurance cover. SEBI stipulations require these types of schemes to be close-ended in nature, listed on the stock exchange and the intended portfolio structure would have to be mandatory rated by a credit rating agency. A typical portfolio structure could be to set aside major portion of the assets for capital safety and could be invested in highly rated debt instruments. The remaining portions are invested in equity or equity related instruments to provide capital appreciation. Capital protection oriented schemes are a recent entrant in the Indian capital markets.

b) Gold Funds: The objective of these funds is to track the performance of gold prices. The unit of these funds represents the value of gold or gold related instruments held in the scheme. Gold funds which are generally in the form of an Exchange Traded Fund (ETF) are listed on the stock exchange and offer investors an opportunity to participate in the bullion market without having to take physical delivery of gold.

c) Real Estate Mutual Funds (REMF): Real estate mutual funds or realty funds as they are popularly known are the latest addition to the mutual fund offerings in India. SEBI recently paved way for the launch of such products, by making amendments in its existing regulations. However, real estate mutual funds are yet to be introduced in India by any asset management company. These schemes invest in real estate properties and earn income in the form of rentals, capital appreciation from developed properties. Also some part of the fund corpus is invested in equity shares or debentures of companies engaged in real estate assets or developing real estate development projects. REMFs are required to be close-ended in nature and listed on a stock exchange.

Mutual funds of both the categories equity and debt schemes offer three main Investment options to investors such as: a) Growth Option - under growth option, dividends are not paid out to the unit holders. Income attributable to the Unit holders continues to remain invested in the Scheme and is reflected in the NAV of units under this option. Investors can realize capital appreciation by way of an increase in NAV of their units by redeeming them. b) Dividend Payout Option - Dividends are paid out to
the unit holders under this option. However, the NAV of the units falls to the extent of the dividend paid out and applicable statutory levies. c) Dividend Re-investment Option
- The dividend that accrues on units under option is re-invested back into the scheme at ex-dividend NAV. Hence investors receive additional units on their investments in lieu of dividends.

6.7 BENEFITS OF INVESTING IN MUTUAL FUND SCHEMES

Mutual funds are well known for their benefits to its investors. When considering investment opportunities, the first challenge that almost every investor faces is a plethora of options such as stocks, bonds, shares, money market securities. However, every option presents its own set of challenges and benefits. A mutual fund allows investors to pool in their money for a diversified selection of securities, managed by a professional fund manager. It offers an array of innovative products like fund of funds, exchange-traded funds, fixed maturity plans, sectoral funds and many more.

6.7.1 Professional Expertise: Investing in equity stocks requires skill and at the same time one needs to be updated about the latest developments in India and abroad. It requires a constant study of the dynamics of the markets and of the various industries and companies within it. An investor who has surplus capital and willing to parked as investments always need to someone to manage their hard earned money, since it is not possible for one to track the trends of market price of stocks. Investors lacking in investing skills need to find a qualified fund manager. Mutual funds help investors by providing them with a qualified fund manager.

6.7.2 Diversification: There is an old saying: "Do not put all your eggs in one basket". There is a mathematical and financial basis to this. If an investor invests most of her/his savings in a single security or a single type of security, then investors are exposed to risk that is attached to those investments. In order to reduce this risk, investor needs to invest in different types of securities because market prices of all assets do not move in a similar fashion. From earlier research it has been proved that when equity markets perform, debt markets do not yield good returns and vice versa.
6.7.3 **Low Initial Investment:** A retail investor can invest in mutual funds with as low as five hundred rupees a month or with five thousand rupees one time investment. So, mutual funds unlike other investments such as futures and options, gold, real estate, bank fixed deposit, Insurance schemes, can be very encouraging since small income group investors can also start a discipline investing with high degree of diversification benefit.

6.7.4 **Low Cost of Asset Management:** Since mutual funds collect money from millions of investors, they achieve economies of scale. The cost of running a mutual fund is divided between larger pools of money and hence mutual funds are able to offer investors a lower cost alternative of managing funds. Equity funds in India charges 2.25% of initial money invested and 1.5% to 2% of the fund value invested every year as annual charges (as on 31st July 2014). Investment in debt funds in India costs even less than the equity funds.

6.7.5 **Liquidity:** Mutual funds as a nomenclature are liquid investments except the close ended mutual funds where in average lock-in period is three to five years. Since mutual funds are very well integrated with the banking system, most funds send redemption money directly to unit holders banking account.

6.7.6 **Ease of Process:** According to SEBI, an investor should have one bank account and a permanent account number (PAN) card, for investing in mutual funds. An investor has to fill in the application form mentioning their PAN for transactions of greater than fifty thousand rupees and write a cheque equivalent to the amount to be invested. This is the basic process of investing in a mutual fund. The process of investing is very simple because the distribution network is very strong. Mutual funds have many distributors and collection points, which make it easier for fund houses to collect money and application form from the investors.

6.7.7 **Well Regulated:** Indian mutual funds are regulated by the SEBI, which helps to provide comfort to the investors. SEBI forces transparency on the mutual funds, which helps the investor make an informed choice. SEBI regulation requires the mutual funds to disclose their portfolio status and performance semi-annually. This helps the investors to keep a track of the fund’s performances and updates.
6.8 REGULATIONS ON MUTUAL FUNDS

The Securities and Exchange Board of India announced a series of measures to invigorate the mutual fund industry, especially distribution of mutual funds. To have a better controlling of the mutual fund organisation, SEBI has issued and amended certain important regulatory measures for mutual fund investors, mutual fund distributors, and asset management companies is appended below:

6.8.1 SEBI Regulations for Mutual Fund Investors

a) Separate plan for direct investor: To promote direct investment by the investors in the existing and new schemes, the SEBI has directed AMCs to provide a separate plan for direct investments with a lower expense ratio. Furthermore, no commission or brokerage can be paid from such plans. Following are few initiatives taken by SEBI for the benefit of investors:

b) Single plan structure for mutual fund schemes: To remove disparity in expense structure of different plans, the SEBI directed mutual funds / AMCs to launch schemes under a single plan, and ensure that all new investors are subject to a single expense structure.

c) Cash investments in mutual funds: In order to enhance the reach of mutual fund products amongst small investors who may not be tax payers and who may not have Permanent Account Numbers / bank accounts, the SEBI permitted cash transactions in mutual fund schemes to the extent of twenty thousand rupees per investor per mutual fund annually, subject to compliance with anti-money laundering rules and regulations.

d) Investor education and awareness: The SEBI directed mutual funds / AMCs to, annually, set apart at least two basis points on daily net assets within the maximum limit of total expense ratio (TER) for investor education and awareness initiatives.

e) Harmonising applicability of NAV across schemes: The SEBI directed that in respect of purchase of units of mutual fund schemes (other than liquid schemes), the closing NAV of the day on which the funds are actually for available for utilisation shall be applicable irrespective of the time of receipt of application. This would apply in cases where the mutual fund investments are made for an amount of two lakhs rupees or more.
Disclosure requirements: The SEBI has directed for additional disclosure requirements pertaining to portfolio disclosures, financial result disclosures, etc. on mutual funds/AMCs.

6.8.2 SEBI Regulations for Mutual Fund Distributors

i) Additional TER on inflows from smaller cities/towns: To improve the geographical reach of mutual funds, AMCs are now allowed to charge additional TER (upto 30 bps) with respect to inflows beyond top fifteen cities, subject to the satisfaction of certain conditions.

ii) Widening of distributor's base: To increase the base of mutual fund distributors, the SEBI has permitted a new cadre of distributors which includes postal agents, retired government and semi-government officials, retired teachers, retired bank officers and other persons (such as bank correspondents) to sell units of simple and performing mutual fund schemes.

6.8.3 SEBI Regulations for Asset Management Companies

a) Service tax chargeable to scheme: The SEBI allowed AMCs to charge service tax payable on investment and advisory fees to the mutual fund scheme, in addition to the maximum amount of TER.

b) Prudential limits on portfolio concentration risk: The SEBI directed mutual funds/AMCs to ensure that the total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, G-Secs, T-Bills and AAA rated securities issued by public financial institutions and public sector banks) shall not exceed thirty percent of the net assets of the scheme. In light of the important role played by the Housing Finance Companies ('HFC'), the SEBI vide a subsequent circulars has permitted an additional exposure not exceeding ten percent of net assets of the debt oriented scheme for investments in HFCs.
REFERENCES
http://www.sebi.gov.in [accessed on 28th December’2013]
http://www.amfiindia.com [accessed on 10th November’2013]