CHAPTER – II

INDUSTRY PROFILE
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INTRODUCTION

The Indian mutual fund industry has gained immense experience and continues to reinvent itself gradually, exhibiting steady growth over the last decade. A compound annual growth rate of 28% has been recorded by assets under management over the period 2006-10. In today’s volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, attracting a substantial amount of investor attention. The industry is undergoing rapid transformation, with multiple developments taking place on the regulatory front, all ostensibly with the primary objective of protecting the investor and streamlining trading practices to bring in more efficiency. The market participants are in a watchful mood, waiting to see how the industry adapts to these changes. Asset management companies are restructuring their business models in order to sustain the growth momentum of the industry, and provide for increased levels of operating efficiency and investor satisfaction. The industry continues to battle with the challenges of increasing investor awareness, low retail participation, high dependence on the corporate sector and increasing cost of operations. Mutual funds need to play an anchor role in directing the household savings into capital markets.

Assets under Management as % of GDP are below 5% in India as compared to 70% in the US, 61% in France and 37% in Brazil. To increase penetration levels of mutual funds, the focus on inclusive growth has taken centre-stage, with all efforts by the regulator and fund houses being concerted in this direction. It is therefore necessary to reach out to people in Tier II and Tier III cities, which are a daunting proposition considering costs of distribution and outreach and hence planned steps need to be taken to attain some of the long term objectives of financial inclusion. The rising incomes in Tier II and Tier III cities would indicate the latent potential in these cities. It is a matter of channelising their savings appropriately into mutual fund investments, for which investor education is a necessary first step. This report seeks to discuss mutual funds as a mature asset class and
stresses on the need to spread awareness of this product as a good investment option, especially.

*Saving Attitude* Indian have been traditionally savers and invested money in traditional savings instruments such as bank deposits. Against this background, if we look at approximately Rs 7 Lakh crores which Indian mutual funds are managing, then it is no mean an achievement. A country traditionally putting money in safe, risk-free investment like Bank FDs, post office and insurance, has started to invest in stocks, bonds and shares-thanks to the mutual fund industry. However, there is still a lot to be done. The Rs. 7 Lakh crores stated above includes investments by the corporate sector as well. Going by various reports, not more than 5% of household’s savings are channelized into the markets, either directly or through the mutual fund route. Not all parts of the country are contributing equally into the mutual fund corpus. 8 cities account for over 60% of the total assets under management in mutual funds. These are an issue which needs to be address jointly by all concerned mutual fund industry. Market dynamics are making industry player look at smaller cities to increase penetration. Competition is ensuring that costs incurred in managing the fund are kept low and fund houses are trying to give more value for money by increasing operational efficiencies and cutting expenses. As of today there are around 40 mutual funds in the country. Together they offer around 1051 schemes to the investors. Many more mutual funds are expected to enter inida in the next few years. All these developments will lead to far more participation by the retail investors and ample of job opportunity for young Indians in the mutual fund industry. This module is designed to meet the requirements of both the investors as well as industry professionals, mainly those proposing to enter the mutual fund industry and therefore require a foundation in the subject. Investors needs to understand the nuances of mutual funds, the working of various schemes before they invest, since their money is being invested in risky assets like stocks/bonds (bonds also carry risk). The language of the module is kept simple and explanation is peppered with concept clarifiers’ and examples.

**Sustaining Growth in Emerging Markets**

In the smaller towns and cities. It emphasises the need to reinforce and sustain investor confidence in these times of uncertainty, through enhanced transparency and flexibility in
the process of buying or selling these instruments. The report also touches upon the emerging markets which have been attracting global and domestic investors alike on the need to invest safely, keeping in mind the various risk factors. The section on regulations, encapsulates the numerous regulatory changes which have been formulated recently to supplement the protection of investor rights impacting the industry as a whole.

**Investor Education as First Step towards Investor Protection**

The financial services sector seems to be chanting the mantra of financial inclusion, with all types of financial intermediaries trying to focus on bringing a larger number of people under the net of financial services products. The benefits arising out of the high growth story of India deserves to percolate to the smaller towns and cities, where people have the investible surplus to channelise into appropriate financial instruments. The younger generation seems to be more comfortable with the concept of investment vehicles such as mutual funds and insurance directed towards wealth management. This is likely to result in financial service providers enhancing their revenue base. India is backed by a relatively impressive savings and investment rate, which moderated around 32.5% and 34.9% in 2008-09. Net financial savings of the household sector have been estimated to touch 11.9% in 2009-10, higher than 10.2% in 2008-09. Inspite of this, the savings of the economy are not adequately channelised into financial instruments. The prime reason for this is attributed to lack of investor awareness, low levels of financial literacy and people in smaller towns and cities not aware of the combination of savings and attractive returns that investment in mutual funds can generate. This section of the population continues to follow the conservative approach of putting their savings in bank deposits, land or property and even gold. To mobilise new household savings, asset management companies need to reach out to the Tier II and Tier III cities. The gross mobilisation of resources by all mutual funds during 2009-10 was Rs.100,190 billion as compared to Rs.54,264 billion during the previous year indicating an increase of 84.7% over the previous year (Fig 1).
**Fig 2.1** *Gross Mobilisation of funds by MFs (in Rs Crore) and Growth of Assets under Management (%)*

**Awareness** Some of the ways in which greater awareness about mutual funds is being brought includes organising investor meets, using multiple vernaculars, aided by the technology of mobile phones, use of advanced business models etc. To improve connectivity in remote areas, steps need to be taken by telecom operators to establish public telephones, common service centers etc. Extensive investor campaigns are being rolled out by fund houses to educate the investor about the various schemes and build an understanding of investment options over the short term as well as the long term. These campaigns and programs should be designed to aid the investor in formulating his investment goal and planning to achieve it over a defined time horizon. Concepts of financial planning should be introduced and newer opportunities should be created to distribute mutual funds in the rural and semi-urban areas.

AMFI has reported that in the current financial year till July 2010, 24 AMCs have conducted 798 Investor Awareness Programs covering 136 cities and 29,430 participants. Having said this, it is just not enough to educate investors and create awareness. In these times of uncertainty and high volatility, it is equally vital that advisors and agents are
transparent in their dealings and impart all necessary and relevant details to the investor, to help him make an informed investment decision. For mutual funds to gain popularity, it is important for advisors to cultivate the faith of the investors on a continuous basis. Lifting investor awareness will also provide a boost to multiple distribution channels, fuelling further growth of the industry. Tier II and Tier III cities have limited presence of asset management companies, and investors in these cities can leverage the online trading platforms to invest in mutual funds. Spreading investor awareness in these areas is a slow process which entails a lot of endurance. Creating awareness about gold exchange traded funds, where investors do not need to bother about keeping their gold safe or lose money on resale of physical gold, will help tap the existing potential from a class of investors who have the lure of the yellow metal. Initially, the target group should include the middle and upper – middle class income group who are not familiar with or accustomed to the dynamics of the capital market. They in turn, could act as “opinion makers” for the lower income groups after gaining confidence in this asset class and ease of investments.

Transparent and flexible products, simplified documentation procedures and relatively low cost and size of initial investments, are some of the aspects which can make mutual funds an attractive proposition for the uninitiated. Over time, riding on strong macro-economic fundamentals, increasing levels of disposable income and a vibrant stock market, will continue to make the avenue of investment in mutual funds, attractive. Since protection of investor rights is uppermost in the minds of all stakeholders in the mutual fund industry, investor education is seen as a huge step forward in this direction. Educating the customer will make the customer capable of making an informed investment decision and strategies his long-term investment plan. Building an understanding of the mutual fund product, and outlining the risk attached will help the customer to put his money in the right pockets. It will also help the investors to take the necessary precautions while dealing with market intermediaries, so that they are not waylaid in any manner.

This kind of a scenario will automatically lead to protection of the investor on a very broad level. Investors should therefore leverage the various programs and initiatives launched by AMFI and the fund houses on investor protection and awareness campaigns.
SEBI acclaims investors to be the backbone of the capital market, and plans to push the agenda of investor protection further to the forefront. Apart from awareness campaigns, workshops to familiarise the investors with the working of the capital markets, advertisements, standardised reading materials, messages through radio, television, website etc have been rolled out in the interest of the investors.

The Need to Sustain Retail Investor Confidence in Mutual Funds
Though the appetite of retail investors in India for participating in the country’s growth story remains to be satiated in a big way on the part of investors, over a medium to long term horizon, the investors are well aware of the equity markets showing signs of having good potential for capital appreciation. Participation in the mutual fund industry remains skewed towards the corporate investors, involving low participation from the retail sector. As of March 2010, the corporate sector contributes around 51% of the total assets under management, while the retail segment contributes only around 27% of the total assets under management, which is a slight increase from 21% reported in the previous year. Investor confidence in the securities market took a beating during the downturn, and since the course of the mutual funds shadows that of the capital market, investors also lost faith in mutual funds, leading to a lot of redemption pressures for fund houses. Investors should be encouraged to migrate to mutual funds from other traditional modes of investment and should be prepared adequately to take measured risks. One of the reasons why mutual funds have failed to cultivate the confidence the investor is that most often, the risk attached to the product is “under wraps”. Thus, the long term benefits of remaining invested in these funds over a long term horizon are lost on the investor. The result is that, a product designed for a small investor fails to foster a market for itself. Implementing disclosure practices is likely to lead to increased transparency, which may result in increased confidence of the investor.

Capital markets in India, perceived as part of one of the fastest growing economies, have caught the attention of global investors. Foreign investments have poured into the country, with around $20 billion ploughed into the capital markets in the period January 2010 to November 2010. In March 2010, the number of SEBI registered FIIs went up to
1,713 from 1,635 a year ago. Their net purchase in equities was $23 billion in 2009-10 against net sales of $10 billion in the previous year. The total net inflow of FII was Rs.1,427 billion ($ 31 billion) as against an outflow of FII of Rs.458 billion ($10 billion) in 2008-09.

**Fig 2.2 Net Investment by Mutual Funds and FIIs (in Rs Crore)**

![Net Investment by Mutual Funds and FIIs](source: SEBI)

The decline in investments by both FIIs and mutual funds during 2008-09 is evident in Fig 2 above, emanating primarily from a massive decline in equity investments. Investments of mutual funds in equity was Rs 163 billion in 2007-08, and witnessed a fall of 57% in 2008-09 to stand at Rs 70 billion. FII investment in equity also exhibited a similar trend, with outflows of Rs 477 billion of equity investments from the market. These statistics clearly reflect the plummeting confidence of the investor in the equity markets. The year 2009-10 saw a bounce back to some extent of the faith of the global investor, as FIIs resumed investing in the Indian market with equity inflows witnessing a surge, recording Rs 1,102 billion. However, mutual fund investments failed to pick up the positive notes with 2009-10 seeing an outflow of Rs 105 billion from the equities market.
Fig 2.3 below illustrates the flow of equity investments by Mutual funds clearly indicating that the low levels of investor confidence need to be boosted in this segment.

**Fig 2.3 Flow of Equity Funds by MFs and FIIs (in Rs Crore)**

This said, although equity investments by mutual funds declined, the investments in debt proved attractive during the downturn, attracting a large number of takers. This asset class can also therefore seek to increase retail participation at the aggregate level. SEBI, realising the important role investor confidence plays in driving market sentiments positively, has taken various regulatory stances to assert the faith of the investor. Some of these are, introducing the concept of an anchor investor, disclosure in rights issue offer documents, listing of unlisted firms, reduction in fees, and issue of shares with superior voting rights.

“Transparency in the load regime and payment of commission has been introduced to incentivise the customer to stay invested over a longer term.”

In August 2009, restriction on entry loads was announced for mutual funds, where commission was to be paid directly by the investor to the distributor, depending on the
service rendered. It is expected that this would segregate the streams of payment for the two roles of distributor, as a point of sale for the asset management company and an advisor to the investor. Many mutual fund investors leverage the services of the distributor acting as a financial advisor who is expected to assist investors in choosing schemes that suit their respective risk-return appetite besides assisting him in the application procedure. To protect the mutual fund industry from a frequent churn and safeguard the interest of investors, a step to restrict entry loads was undertaken. This is likely to result in empowering the investor to decide the commission to be paid to the distributor, ensuring transparency in commissions paid, based on the quality of service received.

Curtailing Malpractices in Trading to Nurture Investor Confidence

The mutual funds, as per the regulations, are set up as trusts and thereby have a fiduciary duty towards their investors. The responsibility of these trustees involves ensuring that the trading of mutual funds are aligned to the regulations and interests of investors are duly protected. Regulations have been devised to prevent fraudulent activities and digressions from deceptive and manipulative practices by insiders associated with personal securities transactions and any Mutual Fund, which indulges in unfair trade practices in securities, shall be dealt with in the manner provided under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. Characteristically, the nature of unfair trade practices is predominantly that of market manipulation, and price rigging. Some of the other irregularities may be that of insider trading, takeover violations, and violation of norms in capital issues, non-disclosures under SEBI regulations and illegal carry forwards.

Fig 2.4 shows the number of cases investigated by SEBI over a period of almost the last two decades, indicating that with the growth of the mutual fund industry several gaps and loopholes in trading practices have been revealed, instigating unfair trading practices. Although technology acts as a huge facilitator to efficient trading mechanisms, it also
adds to the burden of fraudulent activities as newer methods are being used to violate laws and regulations. During the year 2009-10, about 62% of the cases taken up for investigation pertain to market manipulation and price rigging, as against about 68% of such cases in the previous year. It has been observed that the reason behind market manipulation is on most occasions a large network of front entities that trade with unfair means.

Fig 2.5 illustrates the most pertinent cases of investigation which occurred during 2008-10, suggesting that miscellaneous cases included investigations pertaining to GDR conversions, trading pattern in the market after public issue, illegal carry forwards, non-disclosures under SEBI Regulations, Fit and Proper Regulations, etc. To protect investors from these unfair means, the need to have a sound Customer Due Diligence (CDD) regime, a comprehensive “In-Person” verification process and ongoing monitoring of transactions by the registered intermediaries is well recognised. To ensure that trading practices are in order and investor’s rights are duly protected, it has been established in a
SEBI directive on responsibility for all documentation involving the investor or customer will rest on the shoulders of the asset management company. The trustees have been entrusted to take action in cases where they find the documentation details to be incomplete or unavailable. Mutual funds also need to ensure compliance with the investor’s instructions to change his distributor or trade directly, without obtaining a NoC from the existing distributor.

REGULATIONS FACILITATING INVESTOR PROTECTION
Evolving Regulations Impacting Governance
Securities Exchange Board of India (‘SEBI’) as a Mutual Fund (‘MF’) regulator has primarily focused itself on protecting investors’ interest. This has been clearly evident in the reforms and from the amendments in the MF regulations in recent times. In all its circulars, SEBI has time and again reiterated that the changes sought to be made are to enhance transparency, uniformity and accountability in the industry. Some of the key amendments are briefly discussed below.
Amendments to the Expense Structure Charged by the Fund of Fund Schemes

In an effort to further regulate management expenses, the Regulator has amended the expense structure charged by Fund of Fund (‘FoF’) Schemes. SEBI had restructured the total expense, including management fees, charged from investors in a FoF scheme to 0.75 percent of either the daily or weekly average net assets. Alternatively, the fund houses should cap management expenses at 0.75 percent and fix their own fee for administrative expenses, provided the total charge does not exceed 2.5 percent of the daily or weekly average net assets. However, the fund houses offering FoF schemes need to clearly spell out the expense structure that they will be adopting and change the expense structure after giving the unit holders an option to exit.

In the past, Asset Management Companies (‘AMCs’) had been entering into revenue sharing arrangements with offshore funds in respect of investments made on behalf of FoF schemes. SEBI has issued directions prohibiting AMCs from entering into any revenue sharing arrangement with the underlying funds in any manner.

Regulation of Distributors

Distributors of MF units were required to obtain certification from the Association of Mutual Funds in India (‘AMFI’) by passing a certification examination and to obtain registration with AMFI. In order to improve their efficiency, the Regulator felt the need to overhaul the certification process of MF advisors. SEBI decided that the certification examination for distributors of MF would be conducted by the National Institute of Securities Markets (‘NISM’).

Entry Load

SEBI had prohibited charging of initial issue expenses, which were permitted for closed-ended schemes, and mandated that such MF schemes shall recover sales and distribution expenses through entry load only. These steps were aimed at creating more transparency in fees paid by investors and helping investors in making informed investment decisions. Subsequently, with effect from 1 August 2009, SEBI banned the entry load that was deducted from the invested amount, and instead allowed customers the right to negotiate
and decide commissions directly with distributors based on the investor’s assessment of various factors including quality of services rendered. The objective was to bring about more transparency in commissions.

Trading Through Stock Exchange Platforms
To broaden the distribution network and to facilitate ease in transaction, units of schemes are now permitted to be transacted through registered stock brokers of recognised stock exchanges. Subsequently, the Bombay Stock Exchange and National Stock Exchange have launched trading platforms enabling investors to invest by availing the services of stock brokers. The intention behind this move appears to make investments in MF more accessible to investors.

Unrestricted Transfer of Mutual Fund Units
In order to make investing a smooth process for investors, SEBI has instructed mutual fund houses to clarify by way of an addendum that units of mutual fund held in a demat form will be freely transferable from the date of the issue of the addendum.

Dividend only from Realised Gains
SEBI has barred fund houses from tapping the unit premium reserve to distribute dividends. Instead, it has directed MFs to pay dividends only from realised gains. MFs and distributors have used dividend declaration as a promotion tool to attract investors. The revised norm will protect investors’ interest and curb mis-selling.

Documentation
SEBI had observed that AMCs do not maintain all documents of investors, thereby restricting the rights of the investors to approach the AMCs directly and investors are forced to depend on the distributors for executing transactions. With this in mind, SEBI had made it mandatory for all AMCs to maintain a copy of full investor documentation including Know Your Customer i.e. KYC details. Such documentation was earlier maintained by the respective MF distributors who have now been asked to give a copy of the same to the fund houses. In this regard, SEBI directed all MFs to ensure complete
documentation as per the prescribed KYC. In order to ensure that investors have unrestricted access to AMCs and to enable AMCs to provide prompt investor service including execution of investors’ financial or non-financial transactions, the Regulator has directed all MFs/AMCs to:

- Open new folios/accounts only after ensuring that all investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signatures are available with AMCs/Registrar and Transfer Agents and not just with the distributor.
- Update investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature for existing investors by 15 November 2010.

**Disclosure of Investor Complaints**

MFs should disclose on their websites, on the AMFI website and in their annual reports, details of investor complaints received by them from all sources. SEBI has issued a Circular that requires MFs to include details of investor complaints in their Annual Report as part of the Report of the Trustees, beginning with the annual report for the year 2009-108. The disclosure would show how effectively a fund house is servicing its investors and would also helps investors in their decision making.

**Reduction of New Fund Offer Period**

The earlier new fund offer (NFO) subscription period of 30 days (open-ended schemes) and 45 days (closed-ended schemes) is now reduced to 15 days (except Equity linked Saving Schemes). Mutual funds should allot units/refund money and dispatch statements of accounts within five business days from the closure of the NFO.

**ASBA Facility Extended to MF Investors**

SEBI has instructed mutual fund houses to mandatorily provide Applications Supported by Blocked Amount (‘ASBA’) facility to investors investing in NFOs launched on or after October 1, 20109. The move would help investors save interest cost on borrowing and help get rid of the hassles associated with refunds.
Exposure to Derivatives
With effect from 1 October 2010, SEBI has banned funds from writing options or purchase instruments with embedded written options. Also, MFs should have cumulative gross exposure through equity; debt and derivative positions of not more than 100 per cent of the scheme’s asset size. SEBI also instructed funds to restrict the options exposure to 20 per cent of scheme’s net assets. Furthermore, the regulator has also specified the format for MFs to disclose their derivative holding in their half yearly portfolio disclosure reports. The new regulation has come about with the intention of preventing unlimited downside risk a writer faces when an Option is assigned to him. The move, therefore, has resulted in alteration in the derivative exposure of MF products. The primary aim of these changes is to protect investors from the volatile derivative market.

Emerging Global Market Opportunities – Attracting Global Investor Attention to Mutual Funds.
All the action seems to be concentrated in the region of the emerging markets as a surge in demand makes these economies attractive with a vast potential for growth. Investors are moving out of saturated markets like US, UK and Europe, characterised by their increasing levels of debt and looking towards emerging markets such as India, China, Brazil, Turkey to give a new direction to growth. World Economic Outlook projects that growth of output in emerging nations will be 7.1% in 2010 and 6.4% in 2011. A report from Euro monitor which is aligned to the world economic outlook projections, says that by 2020 there will be a major shift in the global balance of economic power compared to 2010. Emerging economies will rise in importance and China will overtake US to lead the list of the world’s top ten largest economies by GDP measured in Purchasing power parity (PPP) terms. Consumer markets in emerging economies offer tremendous opportunities but their rapid growth also poses a challenge to the global environment. Emerging economies are catching up with the advanced world, and signs of change in the global balance of power are already visible. China’s share in world total GDP in PPP terms has increased from 7.1% in 2000 to 13.3% in 2010. Euro monitor also suggests that by 2020, it will reach 20.7%. China will overtake US to become the world’s largest
economy as early as 2017. Emerging markets represent 37% of the world’s gross domestic product, and Goldman Sachs is estimating that they will represent 49% by 2020, hence signifying steady growth in years to come. The steady stream of FII inflows are evidence to the high growth story of India, offering better returns as compared to advanced economies.

**Fig 2.6 Real GDP Growth (%) Projections of Emerging Economies Vs Advanced Economies**

![Real GDP Growth (%) Projections of Emerging Economies Vs Advanced Economies](image)

**Source - World Economic Outlook**

In Fig 2.6 the growth rate of emerging nations is mapped against that of advanced economies like US, UK, and Japan, and reflects clearly the high expectations from the emerging markets of India, China and Brazil. With a huge population and steadily rising household incomes, the consumer goods and service markets in emerging economies will provide enormous opportunities for businesses. In 2010, the total population of BRIC countries stood at 2,856 million people, compared to 737 million people in the G7. Jumping onto the growth bandwagon, a variety of financial instruments like mutual funds, exchange traded funds, hedge funds and derivatives have mushroomed to tap the investor needs and create a larger base of customers. Although investing in individual stocks is an alternative, it is a more lucrative option to invest in mutual funds of emerging
nations, especially BRIC. It diversifies the risk and ensures returns not limited to the growth of any one company. With the global commodity markets buzzing with activity, the offering of commodity focused mutual funds is also seen as a good alternative to diversify investment portfolios and reduce risk levels. Advanced financial sector reforms are required to add fuel to the growth triggered by huge consumption and investment demand. Improving access to credit and channelising household savings into lucrative investment avenues are some of the focus areas of these emerging markets. Apart from boosting per capita income, the challenge for emerging economies is to improve social security and environmental protection, in order to achieve a living standard comparable to that of advanced economies.

Technology

The advent of technology and the adoption of new technological standards in the emerging markets have been proclaimed as a catalyst for growth and progress for these vibrant economies. Interest rate differentials have also brought in an incentive to encourage investors to channelise their investments into these high growth economies. Turning away from US stocks, a buoyant equity market has encouraged investors to shift their attention to emerging market investments. Emerging markets as of 2010, contributes around 13.1% to the Morgan Stanley Capital International (MSCI) index, which in 2002 was an insignificant 3.8%.

As per MSCI, components of the MSCI Emerging Markets Index have indicated a major shift over time. The allocations to BRIC countries have grown from around 25.6% of the total index in 2000 to around 49.1% as of July 2010.

Emerging Market Funds Catapult Investor Attention

The year 2009 witnessed an inflow of $80 billion in emerging market funds, while simultaneously dealing with a withdrawal of $60 billion from developed economies like US, Europe and Japan. In 2010, investment into emerging market funds has aggregated $40 billion. An analysis by Goldman Sachs states that it is likely that the market value of emerging markets may increase to $80 trillion over the next 20 years from $14 trillion in 2010. Market researcher EPFR Global, says that the $68.5 billion invested in emerging market funds until October 2010 is quite likely to exceed the record level of $83.2 billion
of 2009. Bloomberg reports, that the Morgan Stanley Capital International (MSCI) World index generated returns on average 3.5% a year over the past five years till the end of March 2010, while the MSCI Emerging Market index generated returns of 15.7% a year. Although most of the attention is centered towards the BRIC nations, there are the other emerging economies which also deserve attention like South Africa, Egypt, Turkey, Mexico, South Korea and Poland. These economies also boast of a high growth agenda with an investor – friendly environment.

**Potent Risks Attached to Investing in Emerging Economies**

Although emerging countries boast of treading a high growth path, there is an attached baggage of risks which comes along with this package. These economies are vulnerable to business cycles, currency upheavals, uncertainty in social environment, and protectionism prone to cyclical growth patterns. Emerging markets being flooded by funds, is actually worrisome for their policymakers, who anticipate the risk of appreciating currencies having an adverse impact on domestic exports, which could result in a slowdown of economic growth. Moreover, creation of any asset bubbles in the securities and real estate markets, will lead to more complications in formulating fiscal and monetary policy. Each emerging market, which is in a developing state has its own set of specific challenges; for instance while India is continually dealing with its characteristic volatile equity markets, Brazil is bogged down by an unsteady political situation, with a continued threat of inflation in China.

**More Pertinent Challenges in the Emerging Economies**

Lack of liquidity in these developing markets is quite often a burning concern for these economies. There is clear anecdotal evidence that in an illiquid market, a deluge of stock sales can send asset prices tumbling down. Since these economies are prone to over-investment, a situation in which prices crash can be a distinct possibility. Such instances prove quite harmful to the investor and succeed in further dampening investor confidence in the long run. Another issue is that very few shares based in these developing countries are listed in US or are traded as American depositary receipts (ADRs). This creates a problem in buying dollar stocks, especially those aligned to the Securities & Exchange
Commission reporting guidelines. An alternative solution to this challenge is the option of investing in emerging-market mutual funds or exchange-traded funds (ETFs), some of which target specific regions or countries. Other key issue which may add to the risk of investing in emerging economies is the interplay of political influences which may affect certain key financial decisions. A well governed prudential framework is required to guide the financial markets towards best investment practices. It is also speculated that an excessive spill-over of dollars into emerging markets may create a weakening of the US dollar and appreciate the domestic currency. Also, low cost of borrowing and active stock markets paves the way for creating asset bubbles, thereby increasing the vulnerability of these emerging nations. A longer-term risk would be the lack of ‘trickle down’ effect in emerging economies. As rapidly developing economies such as China and India grow, it is important that an increasing proportion of the population benefit from this growth. If wealth in these countries is not distributed quickly and equitably enough, there is a risk of social unrest. Although this remains a longer term concern for several emerging economies efforts are being made to address this concern. The Chinese government in particular, is aware of this issue and is trying to tackle it with, for example, increased government spending in rural areas. In India also, efforts towards financial inclusion are being revved up.

*Global Savings* The global surplus savings should be channelised into the emerging economies to balance the demand in the world economy. Risks arising in these economies need to be curtailed with policies for monetary tightening and marginal exchange rate appreciation. Further, the fiscal policies should be formulated to address exchange rate concerns and moderate the pressure on interest rates. It is imperative to have adequate regulatory intervention and establish capital control measures to guard against excessive capital inflows.

**Impact of the Global Financial Crisis**

Deepening of the global financial crisis during September 2010, which resulted in liquidity crunch world-over, had dampening impact of the Indian Mutual fund industry. With the drying up of credit inflows from banks and external commercial borrowings
route, mutual funds witnessed redemption pressure from corporate. Although the mutual funds promised immediate redemption, their assets were relatively illiquid. Besides, mutual funds faced problems such as maturity mismatches between assets & liabilities of mutual funds, shift from mutual funds to bank deposits in view of the comparatively higher interest rates being offered by banks and freezing up of money markets due to lack of buyers for assets like certificates of deposits of private sector banks.

During Apr-Sep 10, net mobilisation of funds by mutual funds declined sharply by 97.7% to Rs 24.8 bn due to uncertain conditions prevailing in the domestic stock markets. The redemption pressures witnessed by mutual funds led to net outflows under both the income/debt-oriented schemes and growth/equity-oriented schemes. Further, the AUM of Mutual fund industry contracted by 20.7% from Rs 5,445.4 bn as on August 31, 2010 to Rs 4,319.0 bn as on October 31, 2010. During the same period, liquid and debt schemes which contribute more than 65% to the total AUM witnessed a decline of 19% in AUM.

In an endeavour to ease liquidity pressures in the system and restore stability in the domestic financial markets, the RBI announced a slew of measures. The key measures announced by the RBI include:

- The RBI decided to conduct a special 14 day repo at 9% per annum for a notified amount of Rs 200 bn from October 14, 2010 with a view to enable banks to meet the liquidity requirements of mutual funds.
- Scheduled Commercial Banks (SCBs) and All India term lending and refinancing institutions were allowed to lend against and buy back CDs held by mutual funds for a period of 15 days.
- As a temporary measure, banks were allowed to avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5% of their net demand and time liabilities (NDTL). Accordingly on November 1, 2010, it was decided to extend this facility and allow banks to avail liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of up to 1.5% of their NDTL. This relaxation in SLR was provided for the purpose of meeting the funding requirements of NBFCs and mutual funds.
• The borrowing limit prescribed in Regulation 44(2) of SEBI (Mutual Fund) Regulations, 1996 was enhanced from 20% of net asset of the scheme to 40% of net asset of the scheme to those mutual funds who approached SEBI. This enhanced borrowing limit was made available for a period of six months and could be utilised for the purpose of redemptions/ repurchase of units.

• In order to moderate the exit from close ended debt schemes and in the interest of those investors who choose to remain till maturity and with a view to ensure that the value of debt securities reflects the current market scenario in calculation of NAV, the discretion given to mutual funds to mark up/ mark down the benchmark yields for debt instruments of more than 182 days maturity was enhanced from 150 basis points to 650 basis points.

The significant reduction in CRR & SLR, net injection of Rs 9,279 Billion through the repo window during Oct-10, the repurchase of MSS bonds worth Rs 200 bn along with the earlier mentioned liquidity augmentation measures helped to ease liquidity pressures for domestic mutual funds. The data reveals that about 18 mutual funds borrowed from banks. Further, the increase of borrowing limits enabled the mutual funds to meet redemption pressures without engaging in a large scale sale of assets which could have caused systemic instability. As on November 10, 2010, 15 mutual funds had been extended the enhanced borrowing limit as per their requests made to SEBI.

However, with some recovery in the Indian financial markets as well as improvement in the liquidity conditions, the RBI in its Q2 FY10 review of monetary policy withdrew some liquidity boosting measures that were introduced as a part of monetary stimulus in FY10. The special term repo facility for SCBs, for funding to NBFCs, mutual funds, and housing finance companies was terminated.

**COMPANY PROFILES**

**HDFC Fund**

Housing Development Finance Corporation Limited HDFC Asset Management Company Ltd (AMC) was incorporated under the Companies Act, 1956, on December 10, 1999,
and was approved to act as an Asset Management Company for the HDFC Mutual Fund by SEBI vide its letter dated July 3, 2000. The registered office of the AMC is situated at Ramon House, 3rd Floor, H.T. Parekh Marg, 169, Back bay Reclamation, Church gate, Mumbai - 400 020. In terms of the Investment Management Agreement, the Trustee has appointed the HDFC Asset Management Company Limited to manage the Mutual Fund. The paid up capital of the AMC is Rs. 25.169 crore. The present equity shareholding pattern of the AMC is as follows: Particula % of the paid up equity capital Housing Development Finance Corporation Limited 59.98 Standard Life Investments Limited 39.99 Other Shareholders (shares issued on exercise of Stock Options) 0.03. Zurich Insurance Company (ZIC), the Sponsor of Zurich India Mutual Fund, following a review of its overall strategy, had decided to divest its Asset Management business in India. The AMC had entered into an agreement with ZIC to acquire the said business, subject to necessary regulatory approvals. On obtaining the regulatory approvals, the following Schemes of Zurich India Mutual Fund have migrated to HDFC Mutual Fund on June 19, 2003. These Schemes have been renamed as follows.

**Trustees**
HDFC Trustee Company Limited, a company incorporated under the Companies Act, 1956 is the Trustee to HDFC Mutual Fund vide the Trust deed dated June 8, 2000, as amended from time to time. HDFC Trustee Company Ltd is wholly owned subsidiary of HDFC

**Sponsors**
HDFC Ltd. was incorporated in 1977 as the first specialised Mortgage Company in India. HDFC provides financial assistance to individuals, corporate and developers for the purchase or construction of residential housing. It also provides property related services (e.g. property identification, sales services and valuation), training and consultancy. Of these activities, housing finance remains the dominant activity. HDFC has a client base of around 13 lac borrowers, over 11 lac depositors, over 2.09 lac shareholders and over 25,000 deposit agents, as at March 31, 2012. The Company has a total asset size of Rs.1, 67,250 crore as at March 31, 2012 and cumulative approvals and disbursements of
housing loans of Rs.4, 63,400 crore and Rs.3, 73,646 crore respectively as at March 31, 2012.

HDFC had raised funds from international agencies such as the World Bank, IFC (Washington), USAID, DEG, ADB and KFW, international syndicated loans, domestic term loans from banks and insurance companies, bonds and deposits. HDFC has received the highest rating for its bonds and deposits program for the Seventeenth year in succession. HDFC Life Insurance Company Limited, promoted by HDFC was the first life insurance company in the private sector to be granted a Certificate of Registration (on October 23, 2000) by the Insurance Regulatory and Development Authority to transact life insurance business in India. With global assets under management of approximately US$240.7 billion (£154.9 billion) as at December 31, 2011, Standard Life Investments Limited is one of the world's major investment companies, operating in the UK, Canada, Hong Kong, China, Korea, Ireland, Australia and the USA, and is responsible for investing money on behalf of five million retail and institutional clients worldwide. In order to meet the different needs and risk profiles of its clients, Standard Life Investments Limited manages a diverse portfolio covering all of the major markets world-wide, which includes a range of private and public equities, government and company bonds, property investments and various derivative instruments. The company's current holdings in UK equities account for approximately 1.8% of the market capitalisation of the London Stock Exchange. For more information log on to the

**PRODUCTS & SCHEMES**

1. **Children Gift Fund:**
   - *HDFC Children's Gift Fund - Savings Plan* The primary objective of the Scheme is to generate long term capital appreciation. However, there can be no assurance that the investment objective of the Scheme / Plans will be achieved.
   - *HDFC Children's Gift Fund - Investment Plan* The primary objective of the Scheme is to generate long term capital appreciation. However, there can be no assurance that the investment objective of the Scheme / Plans will be achieved.
2. Debt or Income Fund

- **HDFC Debt Fund for Cancer Cure** To protect the capital and generate income through investments in high quality fixed income securities like Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the Scheme. However, there can be no assurance that the investment objective of the scheme will be realized.

- **HDFC Short Term Opportunities Fund** To generate regular income through investments in Debt/Money Market Instruments and Government Securities with maturities not exceeding 30 months.

- **HDFC Gilt Fund - Long Term Plan** The primary objective of the Scheme is to generate credit risk-free returns through investments in sovereign securities issued by the Central Government and/or State Government.

- **HDFC High Interest Fund** The investment objective of HDFC High Interest Fund is to generate income by investing in a range of debt and money market instruments of various maturity dates with a view to maximising income while maintaining the optimum balance of yield, safety and liquidity.

- **HDFC MF Monthly Income Plan - Long Term Plan** The primary objective of Scheme is to generate regular returns through investment primarily in Debt and Money Market Instruments. The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme`s assets in equity and equity related instruments. However, there can be no assurance that the investment objective of the Scheme will be achieved.

- **HDFC Floating Rate Income Fund - Short Term Plan** To generate regular income through investment in a portfolio comprising substantially of floating rate debt / money market instruments, fixed rate debt / money market instruments swapped for floating rate returns and fixed rate debt securities and money market instruments.

- **HDFC Short Term Plan** The primary objective of the HDFC Short Term Plan is to generate regular income through investment in debt securities and money market instruments.
- **HDFC Multiple Yield Fund** The primary objective of the Scheme is to generate positive returns over medium time frame with low risk of capital loss over medium time frame.

- **HDFC Medium Term Opportunities Fund** To generate regular income through investments in Debt/Money Market Instruments and Government Securities with maturities not exceeding 60 months.

- **HDFC Floating Rate Income Fund - Long Term Plan** To generate regular income through investment in a portfolio comprising substantially of floating rate debt / money market instruments, fixed rate debt / money market instruments swapped for floating rate returns, and fixed rate debt securities and money market instruments.

- **HDFC High Interest Fund - Short Term Plan** The investment objective of HDFC High Interest Fund - Short Term Plan is to generate income by investing in a range of debt and money market instruments of various maturity dates with a view to maximising income while maintaining the optimum balance of yield, safety and liquidity.

- **HDFC Multiple Yield Fund - Plan 2005** The objective of the Scheme is to generate positive returns over medium time frame with low risk of capital loss over medium time frame.

- **HDFC Cash Management Fund-Treasury Advantage Plan** To generate regular income through investment in debt securities and money market instruments.

- **HDFC Gilt Fund - Short Term Plan** The primary objective of the Scheme is to generate credit risk free returns through investments in sovereign securities issued by the Central Government and/or a State Government.

- **HDFC Income Fund** The primary objective of the Scheme is to optimise returns while maintaining a balance of safety, yield and liquidity.

- **HDFC MF Monthly Income Plan - Short Term Plan** The primary objective of Scheme is to generate regular returns through investment primarily in Debt and Money Market Instruments. The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme's assets in
equity and equity related instruments. However, there can be no assurance that the investment objective of the Scheme will be achieved.

3. Equity / Growth Fund

- **HDFC Mid-Cap Opportunities Fund** To generates long-term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of Small and Mid-Cap companies.
- **HDFC Prudence Fund** The investment objective of the Scheme is to provide periodic returns and capital appreciation over a long period of time, from a judicious mix of equity and debt investments, with the aim to prevent/minimise any capital erosion.
- **HDFC Index Fund - Nifty Plan** The objective of this Plan is to generate returns that are commensurate with the performance of the Nifty, subject to tracking errors.
- **HDFC Capital Builder Fund** The Investment Objective of the Scheme is to achieve capital appreciation in the long term.
- **HDFC Infrastructure Fund** To seek long-term capital appreciation by investing predominantly in equity and equity related securities of companies engaged in or expected to benefit from the growth and development of infrastructure.
- **HDFC Long Term Advantage Fund (ELSS)** The primary objective of the Scheme is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.
- **HDFC Index Fund - SENSEX Plus Plan** The objective of this Plan is to invest 80 to 90% of the net assets of the Plan in companies whose securities are included in SENSEX and between 10% & 20% of the net assets in companies whose securities are not included in the SENSEX.
- **HDFC Core and Satellite Fund** The primary objective of the Scheme is to generate capital appreciation through equity investment in companies whose shares are quoting at prices below their true value
• **HDFC Growth Fund** The primary investment objective of the Scheme is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.

• **HDFC TaxSaver (ELSS)** The investment objective of the Scheme is to achieve long term growth of capital.

• **HDFC Arbitrage Fund** To generate income through arbitrage opportunities between cash and derivative market and arbitrage opportunities within the derivative segment and by deployment of surplus cash in debt securities and money market instruments.

• **HDFC Premier Multi-Cap Fund** The primary objective of the Scheme is to generate capital appreciation in the long term through equity investments by investing in a diversified portfolio of Mid Cap and Large Cap `blue chip` companies.

• **HDFC Equity Fund** The investment objective of the Scheme is to achieve capital appreciation.

• **HDFC Focused Large-Cap Fund** To achieve long term capital appreciation.

• **HDFC Balanced Fund** The primary objective of the Scheme is to generate capital appreciation along with current income from a combined portfolio of equity and equity related and debt and money market instruments.

• **HDFC Index Fund - SENSEX Plan** The objective of this Plan is to generate returns that are commensurate with the performance of the SENSEX, subject to tracking errors.

• **HDFC Top 200 Fund** To generate long term capital appreciation from a portfolio of equity and equity-linked instruments primarily drawn from the companies in BSE 200 index.

4. Exchange Traded Funds

• **HDFC Gold Exchange Traded Fund** The investment objective of the Scheme is to generate returns that are in line with the performance of gold, subject to tracking errors.
5. Fund of Fund Schemes

- **HDFC Gold Fund** The investment objective of the Scheme is to seek capital appreciation by investing in units of HDFC Gold Exchange Traded Fund.

6. Fixed Maturity Plans

- **HDFC FMP 366D April 2013 (2)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).

- **HDFC FMP 370D April 2013 (2)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).

- **HDFC FMP 366D April 2013 (1)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).

- **HDFC FMP 403D March 2013 (1)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).

- **HDFC FMP 384D March 2013 (1)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).

- **HDFC FMP 400D March 2013 (1)** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the maturity date of the respective Plan(s).
7. Liquid Funds

- **HDFC Cash Management Fund - Savings Plan** The investment objective of the Scheme is to generate optimal returns while maintaining safety and high liquidity.
- **HDFC Liquid Fund Premium plus Plan** The primary objective of the Scheme is to enhance income consistent with a high level of liquidity, through a judicious portfolio mix comprising of money market and debt instruments.
- **HDFC Liquid Fund** The primary objective of the Scheme is to enhance income consistent with a high level of liquidity, through a judicious portfolio mix comprising of money market and debt instruments.
- **HDFC Cash Management Fund - Call Plan** The investment objective of the Scheme is to generate optimal returns while maintaining safety and high liquidity.
- **HDFC Liquid Fund Premium Plan** The primary objective of the Scheme is to enhance income consistent with a high level of liquidity, through a judicious portfolio mix comprising of money market and debt instruments.

8. Quarterly Interval Funds

The primary objective of the Scheme is to generate regular income through investments in Debt / Money Market Instruments and Government Securities.

- **HDFC Rajiv Gandhi Equity Savings Scheme** To generate long term capital appreciation from a portfolio of Eligible Securities as specified in Rajiv Gandhi Equity Savings Scheme. There is no assurance that the investment objective of the Scheme will be realized.
- **HDFC Annual Interval Fund - Series 1** The investment objective of the Plan(s) under the Scheme is to generate income through investments in Debt / Money Market Instruments and Government Securities maturing on or before the opening of the immediately following Specified Transaction Period.

**RELIANCCE FUND - Reliance Mutual Fund**

Reliance Mutual Fund (RMF) is one of India’s leading Mutual Funds, with Average Assets under Management (AAUM) of Rs. 1, 0412.17 Cr. (as on 31st March 2010.) and
an investor base of over 71.51 lakhs. Reliance Mutual Fund, a part of the Reliance - Anil Dhirubhai Ambani Group, is one of the fastest growing mutual funds in the country. RMF offers investors a well-rounded portfolio of products to meet varying investor requirements and has presence in 118 cities across the country. Reliance Mutual Fund constantly endeavors to launch innovative products and customer service initiatives to increase value to investors. "Reliance Mutual Fund schemes are managed by Reliance Capital Asset Management Limited., a subsidiary of Reliance Capital Limited, which holds 93.37% of the paid-up capital of RCAM, the balance paid up capital being held by minority shareholders."Reliance Capital Ltd. is one of India’s leading and fastest growing private sector financial services companies, and ranks among the top 3 private sector financial services and banking companies, in terms of net worth. Reliance Capital Ltd. has interests in asset management, life and general insurance, private equity and proprietary investments, stock broking and other financial services.

**STATUTORY DETAILS**

**Sponsor:** Reliance capital Limited.

**Trustee:** Reliance Capital Trustee Company Limited

**Investment Manager:** Reliance Capital Asset Management Limited. The Sponsor, the Trustee and the Investment Manager are incorporated under the Companies Act 1956.

**General Risk Factors:** Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets. Past performance of the Sponsor/AMC/Mutual Fund is not indicative of the future performance of the Scheme. The Sponsor is not responsible or liable for any loss resulting from the operation of the Scheme beyond their initial contribution of Rs.1 lakh towards the setting up of the Mutual Fund and such other accretions and additions to the corpus. The Mutual Fund is not guaranteeing or assuring any dividend/bonus. The Mutual Fund is also not assuring that it will make periodical dividend/bonus distributions, though it has every intention of doing so. All dividend/bonus distributions are subject to the availability of the distributable surplus in the Scheme.
I. EQUITY

The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

1. Diversified Large Cap

- **Reliance Quant plus Fund** A Moderate Large-cap Oriented Fund. It is actively managed Quant based fund focusing on constituents of S&P CNX Nifty Index. It is this fund is suitable for those investors who are seeking capital appreciation and growth vis-à-vis the benchmark index in all market conditions by investing in a concentrated active portfolio of frontline stocks which is constructed on the basis of a mathematical model. The fund can be viewed as an additional asset allocation option by the investors.

- **Reliance Top 200 Funds** A Conservative Large cap Oriented Fund. The Scheme will invest in equity or equity related instruments of companies whose market capitalization is within the range of highest & lowest market capitalization of BSE 200 Index. The selection of the companies will be done so as to capture the growth in the Indian economy. The fund will be focusing on companies having good liquidity in the stock market.

- **Reliance NRI Equity Fund** A Conservative Large cap Oriented Fund. It is an exclusive offering for NRIs having a large cap oriented portfolio with focus on stable companies. It is reliance NRI Equity Fund is suitable for NRI investors who are seeking exposure to diversified equity space to participate in the strong trajectory of India growth story.

- **Reliance Equity Fund** A Moderate Large-cap Oriented Fund. It is large-cap Fund that aims to capitalise on long and short opportunities. It is a useful product in
every investor's portfolio as it intends to reduce volatility and reduce downside risks by using innovative P/E based hedging/shorting strategies.

- **Reliance Vision Fund**: A Moderate Large-cap Oriented Fund. It is large-cap fund with a small exposure to mid cap stocks. It is the fund is ideal for those investors who are seeking a higher exposure to liquid large-cap stocks for capital appreciation & growth and considerably lower exposure to debt markets for consistent returns.

2. **Diversified Multi Cap**

- **Reliance Equity opportunity fund**: A Moderate Multi cap Oriented Fund. It is multi-cap, trend based with the flexibility to be overweight in a particular sector or market caps depending on the potential & opportunities as they arise. It is the fund is suitable for those investors who want “added” diversification to portfolio by investing across sectors and m – caps with a medium term investment horizon.

- **Reliance Regular Savings Fund - Equity Plan**: An Aggressive Multi cap Oriented Fund. It is an aggressive multi-cap oriented portfolio. It is the fund is ideal for those investors who seek long term capital growth by investing in a portfolio having the flexibility to capitalize on market trends in volatile situations by adopting a multi-cap strategy.

3. **Diversified Mid Cap & Small Cap**

- **Reliance Growth Fund**: A Moderate Mid cap Oriented Fund. It is mid-cap Fund with small exposure to large cap stocks. It is the fund is ideal for those investors who are seeking a higher exposure to mid-cap stocks for capital appreciation & growth and considerably lower exposure to debt markets for consistent returns.

- **Reliance Long Term Equity Fund**: An Aggressive Mid cap and small-cap Oriented Fund. It is poised to Take Benefits of Opportunities in Mid Caps and Small Caps. It is ideal for those investors who want to capitalize on opportunities in small and mid cap space with a long term investment horizon of more than 3 years.

- **Reliance Small Cap Fund**: A Very Aggressive small-cap oriented fund. It is a relatively high risk/high return oriented fund which shall predominantly invest in small cap companies/stocks with an objective to maximize the returns and at the
same time trying to minimize the risk by reasonable diversification. Small Cap stocks for the purpose of the Fund are stocks whose market capitalization is in between the highest and lowest market capitalization of companies on BSE Small Cap Index at the time of investment. Reliance Small Cap Fund will be a vital part of an investor's core portfolio that aims to create an alpha for his/her investments.

4. Reliance Index Fund Nifty Plan
   - *Reliance index fund sensex plan* A Conservative Large Cap Oriented Index Linked Fund. It is passively managed fund which aims to mirror BSE SENSEX so as to commensurate with the performance of the underlying Index, subject to tracking errors. It is ideal for those investors who would like to participate in the India growth story by investing in well-diversified portfolio of well known large cap companies.
   - *R Shares CNX 100 Fund* The investment objective of the scheme is to provide investment returns that, before expenses, closely correspond to the total returns of the securities as represented by the CNX 100 Index, subject to tracking errors. However, there can be no assurance or guarantee that the investment objective of the Scheme will be achieved.

5. Banking
   - *R shares Banking Exchange Traded fund* The investment objective of Reliance Banking Exchange Traded Fund (RBETF) is to provide returns that, before expenses, closely correspond to the total returns of the securities as represented by the CNX Bank Index. However, the performance of Scheme may differ from that of the underlying index due to tracking error.

6. Diversified Theme Based
   - *Reliance Infrastructure Fund* A Moderate Multi cap Oriented Fund. It is the fund aims to invest in companies operating & listed in India engaged in infrastructure & infrastructure related activities. It follows a multi cap strategy with a medium to
long term investment horizon. It is a product for those investors who want to take exposure in India's infrastructure growth story with a medium to long term investment horizon.

- **Reliance Natural Resources Fund** An Aggressive Large Cap Oriented Fund. It is a large cap oriented fund that allows the investor to participate in Indian and Global stocks of issuers in natural resources industries. The fund does not invest in natural resources themselves. It is the fund is ideal for those investors who want to invest in those sectors which are scarcely available in Indian & Global Markets.

7. Sector

- **Reliance Banking Fund** A Moderate Multi cap Oriented Fund. It is the fund aims to generate consistent returns by investing in equity / equity related or fixed income securities of companies belonging to the Banking Sector. The fund follows an active strategy of management with endeavor to generate alpha and outperform the Banking Index.

- **Reliance Diversified Power Sector Fund** A Moderate Multi cap Oriented Fund. It is the fund focuses on companies related to power sector. It provides opportunity to diversify within the sector, with focused approach and flexibility to invest in power distribution, transmission and generation related companies.

- **Reliance Media Entertainment Fund** A Moderate Multi cap Oriented Fund. It is a sector specific fund which focuses on investing in companies related to media & entertainment sector.

- **Reliance Pharma Fund** A Moderate Multi cap Oriented Fund. It is a dynamic asset allocation sector fund which aims to generate consistent returns by investing in all important segments of the pharmaceutical industry.

8. Tax Saver

- **Reliance Tax Saver (ELSS) Fund** Reliance Tax Saver Fund is an equity-linked savings scheme (ELSS) that invests into equity and equity-related instruments to provide long-term equity growth potential to investors. The scheme has a
mandatory lock-in period of 3 years and offers tax benefit under Sec 80 C of the Income Tax Act, 1961.

- **Reliance Equity Linked Saving Fund Series 1** (A 10 year close-ended Equity Linked Savings Scheme) the primary objective of the scheme is to generate long-term capital appreciation from a portfolio that is invested predominantly in equities along with income tax benefit.

9. **Arbitrage**

- **Reliance Arbitrage Advantage Fund** A Conservative Arbitrage Fund. It is the fund aims to generate income through arbitrage opportunities arising out of pricing mismatch in a security between cash and derivative segment and with derivatives segment along with investments in debt securities and money market instruments. It is reliance Arbitrage Advantage Fund would prove to be an apt product for those investors who want to remain conservative and invest in relatively less risky portfolio.

II. **BALANCED**

- **Reliance Regular Saving funds –Balanced plan** A Conservative Large & Mid cap Oriented Fund A hybrid equity oriented portfolio focusing on well managed, high quality large cap stocks as well as mid cap stocks Ideal for those investors who have a balanced approach towards risk taking ability.

III. **DEBT**

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the
country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

1. Ultra Short Term

- **Reliance Money Manager Fund** This fund belongs to the family of ultra short term debt funds with very low exposure to MTM instruments. The fund is managed with a relatively conservative approach to credit risk and duration as compared to Reliance Medium Term Fund & Reliance Floating Rate Fund - Short Term Plan. As a result of having a higher credit profile and a low MTM component, the returns may be less volatile than Reliance Medium Term Fund & Reliance Floating Rate Fund - Short Term Plan. The fund portfolio is designed to generate a moderate yield pick up over liquid funds and is suitable for investors with investment between 1 week to 1 month. It is suitable for investors with investment between 1 week to 1 month.

- **Reliance Medium Term Fund** This fund belongs to the family of ultra short term debt funds, with moderate exposure to MTM assets. The portfolio is positioned at the shorter end of the yield curve but has a leeway to take marginal exposure to securities up to 1 year maturity in case value is identified at that part of the curve. This fund can marginally enhance the credit risk profile of the portfolio to enhance returns. The NAV of the fund may be a little more volatile than a liquid fund because of a higher MTM component in the fund. The fund is suitable for investors with an investment horizon of 1 month or more. It is suitable for investors with an investment horizon of 1 month or more.

- **Reliance Floating Rate Fund Short Term Plan** The fund belongs to the category of Ultra Short Term Funds. A significant portion of the fund is mandated to invest in a combination of debt securities, money market instruments and floating rate instruments with a maturity profile of three months and up to 2 years. This fund may have a slightly more aggressive credit and duration profile compared to Reliance Money Manager fund and Reliance Medium Term Fund and therefore would be suitable for investors with minimum 3 months holding period. It is suitable for investors with minimum 3 months holding period.
2. Short Term Fund

- **Reliance Dynamic Bond Fund** The fund has a dynamic asset allocation structure enabling complete flexibility in investment in debt instruments which may include investments in corporate and PSU bonds, Government Securities, money market instruments, securitized debt etc of varying tenors and the quantum of investments in any of the above mentioned categories is also flexible. Therefore, the fund intends to take medium term calls on interest rates and take significant bets on the same. A significant portion of the fund’s pie shall be invested in higher rate corporate bonds, money market instruments and gilts. Credit call, if at all, will be taken on low duration securities. It is suitable for investors with minimum 6 months holding period.

- **Reliance Short Term Fund** The fund belongs to the family of income funds. It is suitable for investors with short to medium term investment horizon of 6 – 9 months and medium appetite for risk. The fund predominantly invests in various debt instruments like Government and Corporate bonds, Securitized Debt, Money Market Instruments etc and normally maintains a moderate maturity of the portfolio between 1- 2 years. It is suitable for investors with short to medium term investment horizon of 6 – 9 months medium appetite for risk.

3. Monthly Income Plan

- **Reliance Monthly Income Plan** This is a hybrid fund with marginal allocation to equity which may go up to maximum 20%. This is ideal for a predominantly fixed income investor with a marginal appetite for equity risk. The investment horizon in this fund should typically be 2 years or more so that the long term benefit of having a marginal exposure to equity pays off. The fund intends to offer a predominantly fixed income investor the power of equity along with the stability of debt. It is suitable for investors with 2 years holding period.

4. MONEY MARKET FUNDS - *Liquid Funds*
• **Reliance Liquid Fund- Cash Plan** This fund also belongs to the family of Liquid Funds. The fund is managed with a relatively conservative approach to credit risk as compared to other liquid funds. Large part of the portfolio will be invested in the banks/financial institution space to achieve this objective. The fund is suitable to park very short term investment surplus for a duration ranging from a day to a month. It is suitable to park very short term investment surplus for a duration ranging from a day to a week.

• **Reliance Liquid Fund - Treasury Plan** This fund belongs to the family of Liquid Funds. It is targeted towards varied investor categories like retail/SMEs/HNIs due to which the minimum investment amount in the fund is Rs 5000. Since the fund is targeted towards a diverse investor base, the AUM of the fund is relatively more stable in nature. This is reflected in its portfolio wherein there is a relatively lower allocation to relative cash and cash like instruments. Also because of a more diversified investor base, the marketing expenses on an average are slightly higher than Reliance Liquidity Fund resulting in relatively higher expense charged. It is meant for short term cash management & is suitable investors with investment horizon between 1 day to 1 month.

• **Reliance Liquidity Fund** - The fund belongs to the family of Liquid Funds. It is designed to handle extremely large ticket size investments with the minimum application amount being Rs. 1 crore. Since the fund is meant for large ticket size investors, therefore, on an average maintains low total expense ratio resulting from low marketing expense. The portfolio endeavors to maintain a larger proportion of assets in liquid, cash and near cash instruments to handle the possibility of larger volatility in a smooth manner. It is meant for short term cash management for corporate & is suitable investors with investment horizon between 1 day to 1 month.

5. **Long Term Funds**

• **Reliance Regular Savings Fund Debt Option** - This fund belongs to the family of income funds. This fund is positioned towards the retail/HNI/SME kind of fixed income investors. The fund has a limit on the amount that the investor can invest
in a month. The fund basically seeks to benefit from any opportunity available in the debt market space at different points in time. Therefore, this fund invests based on short to medium term interest rate view and shape of the yield curve. It typically maintains a moderate duration between 1 - 2 years and invests in well researched credits/structures for yield enhancement. The fund is intended towards ensuring that the investors have a healthy holding period return over 1 - 2 years. It is suitable for investors with 1-2 years holding period

- **Reliance Income Fund** - This fund belongs to the family of income funds. It is suitable for investors with medium to longer term investment horizon of 12 months and more and medium to high appetite for risk. Income funds mainly invest in debt securities of varying maturity periods, i.e. both in short term and long term debt instruments like Government and Corporate bonds, Securitized Debt, Money Market Instruments etc, depending on the fund manager’s view of the market. Suitable for investors with medium to longer term investment horizon of 12 months and more and medium to high appetite for risk

- **Reliance Gilt Securities Fund** - This fund belongs to the family of Gilt Funds. It predominantly invests in a portfolio comprising of securities issued and guaranteed by the Central Government and State Government, hence has a higher credit profile. It has a very low credit risk profile. However, it can run extremely long durations and therefore, have a higher interest rate risk profile. It is suitable for investors with an investment horizon of 12 months and longer who have a positive view on falling interest rates. Suitable for investors with an investment horizon of 12 months and longer who have a positive view on falling interest rates?

**SBI MAGNUM MUTUAL FUND**

**SBI Mutual Fund** - one of the country’s premier fund houses, with over 20 years of rich experience in fund management, is a joint venture between the State Bank of India, India’s largest bank and Society General Asset Management, one of the world’s leading fund management companies. Today SBI Mutual Fund is one of the largest AMC in the country managing assets over Rs. 37,417 crores (as on 31st March 2010. Source:
www.mutualfundsindia.com). The fund house serves its vast family of over 5.5 million investors (Calculated on the basis of live folios as on 28/02/2009) by reaching out to them through a network of over 200 points of contact.

**Proven Skills in Wealth Generation** - SBI Mutual Fund is India’s largest bank sponsored mutual fund and has an enviable track record in judicious investments and consistent wealth creation. The fund traces its lineage to SBI - India’s largest banking enterprise. The institution has grown immensely since its inception and today it is India's largest bank, patronised by over 80% of the top corporate houses of the country. SBI Mutual Fund is a joint venture between the State Bank of India and Société General AssetManagement, one of the world’s leading fund management companies managing over US$ 500 Billion worldwide.

**Exploiting Expertise, Compounding Growth** - In twenty years of operation, the fund has launched 38 schemes and successfully redeemed fifteen of them. In the process it has rewarded its investors handsomely with consistent returns. A total of over 5.4 million investors have reposed their faith in the wealth generation expertise of the Mutual Fund. Schemes of the Mutual fund have consistently outperformed benchmark indices and have emerged as the preferred investment for millions of investors and HNI’s. Today, the fund manages over Rs.39, 826.35 crores of assets and has a diverse profile of investors actively parking their investments across 114 total schemes. The fund serves this vast family of investors by reaching out to them through network of over 130 points of acceptance, 28 investor service centers, 46 investor service desks and 56 district organisers. SBI Mutual is the first bank-sponsored fund to launch an offshore fund – Resurgent India Opportunities Fund. Growth through innovation and stable investment policies is the SBI MF credo. The investments of these schemes will predominantly be in the stock markets and endeavor will be to provide investors the opportunity to benefit from the higher returns which stock markets can provide. However they are also exposed to the volatility and attendant risks of stock markets and hence should be chosen only by such investors who have high risk taking capacities and are willing to think long term. Equity Funds include diversified Equity Funds, Sectoral Funds and Index Funds.
Diversified Equity Funds invest in various stocks across different sectors while sectoral funds which are specialized Equity Funds restrict their investments only to shares of a particular sector and hence, are riskier than Diversified Equity Funds. Index Funds invest passively only in the stocks of a particular index and the performance of such funds move with the movements of the index.

1. Equity or Growth Funds

- **SBI Magnum Equity Fund** - SBI Magnum Equity Fund seeks capital appreciation through investment in diversified portfolio of equities of high growth companies, along with liquidity of an open ended scheme.

- **SBI Magnum Global Fund** - SBI Magnum Global Fund is an open-ended equity scheme which makes well researched investments in stocks and securities of companies from selected industries with high growth potential.

- **SBI Blue Chip Fund** - SBI Blue Chip Fund invests in stocks of blue chip companies i.e. in stocks of companies with market capitalization equal to or more than the least market capitalized stock of BSE 100 Index. These companies have large business presence, good reputation and are possibly market leaders in their industries. The fund comprises of a well diversified portfolio of predominantly large cap companies, with steady growth potential opportunity.

- **SBI Magnum Multicap Fund** - SBI Magnum Multicap Fund would invest the monies in a diversified basket of equity & equity related instruments, debt and money market instruments. Investments in equity instruments would span the entire market capitalization spectrum covering large cap, mid cap and small cap stocks.

- **SBI Magnum Multiplier Plus 1993** - SBI Magnum Multiplier Plus 1993 (SBI MMPS) is a diversified equity fund – which invests across market capitalization ie. in large, mid and small cap stocks, with an Endeavour to generate long term capital appreciation through investment in equities of high growth companies.

- **SBI Magnum Midcap Fund** - SBI Magnum Mid Cap Fund invests in a basket of equity stocks of midcap companies. Midcap companies are those companies
whose market capitalization at the time of investment is lower than the last stock in the S&P CNX Nifty Index less 20% (upper range) and above Rs. 200 crores.

2. Thematic Fund

- **SBI Magnum COMMA Fund** - SBI The Magnum COMMA Fund seeks to generate opportunities for growth along with possibility of consistent returns by investing in a portfolio of stocks of companies engaged in the commodity business within the following sectors: Oil & Gas, Metals, Materials, Agriculture. The companies included in respective spaces include Petrochemicals, Power and Gas etc. under Oil and Gas sector; Zinc, Copper, Aluminum, Bullion, and Silver etc. under Metals Sector; Paper, jute, cement etc. under Materials sector and Sugar, Edible Oil, Soya, Tea and Tobacco etc. under Agriculture sector. The scheme could also invest in companies providing inputs to commodity manufacturing companies.

- **SBI Infrastructure Fund** - The fund invests in stocks of companies which are involved in infrastructural growth in Indian economy. The scheme will be managed as a thematic "multi-sector" fund and not as a diversified equity fund. The scheme will invest in companies broadly within the following areas/sectors of the economy namely- Airports, Banks, Financial Institutions & Term lending Institutions, Cement & Cement Products, Coal, Construction, Electrical & Electronic components, engineering Energy including Coal, Oil & Gas, Petroleum & Pipelines, Industrial Capital Goods & Products, Metals & Minerals, Ports, Power and Power equipment, Road & Railway initiatives, Telecommunication Transportation. The scheme has no sectoral or market capitalization bias and investments will be considered only in companies that are directly or indirectly involved in the infrastructure growth.

- **SBI PSU Fund** - SBI PSU Fund invests in stocks of Public Sector Enterprises (PSE). As the reform process progresses over the next few years, PSUs are likely to emerge as more robust and vibrant players across various sectors.
3. Index Fund

- **SBI Nifty Index Fund** - SBI Nifty Index Fund is an open-ended passively managed index fund, investing in all the stocks comprising the CNX Nifty in the same proportion as their weightage in the index.

4. Sectoral Fund

- **SBI Emerging Businesses Fund** - This scheme focuses on the theme of emerging businesses. So they invest in companies showing promise based on the growth potential arising out of export/outsourcing opportunities or global competitiveness. It also focuses on emerging domestic themes. Investment in equities would be well diversified across various emerging sectors with exposure to a particular business restricted to 25% of the total investment portfolio under normal market conditions. SBI Nifty Index Fund endeavors to replicate CNX Nifty index.

- **SBI Contra Fund** - A contrarian approach in investing is putting money in companies which are fundamentally good but whose share prices are not reflecting the true potential.

- **SBI FMCG Fund** - The economic growth in India is bringing lifestyle changes to common Indian life. Therefore the demand for basic consumables like tooth power or tooth paste, food material, washing soap or washing power, bathing soap etc are rising. These products are manufactured by FMCG (fast moving consumer goods companies). The scheme seeks maximum growth opportunities by investing in these FMCG companies.

- **SBI IT Fund** - IT (Information Technology) has given significant boost to Indian economy. This scheme seeks to provide maximum growth opportunities through investments in IT stocks.

- **SBI Pharma Fund** - The large population in India is pushing up the demand for medicine. The Indian pharmaceutical companies are benefiting from this rising demand. Also there is a demand for Indian medicines outside the country. The scheme seeks maximum growth opportunities by investing in Pharma companies.
5. ELSS Fund

- **SBI Magnum Tax gain Scheme 1993** - SBI Magnum Tax Gain Scheme is an open-ended ELSS (equity linked saving scheme) wherein investment up to Rs. 1,00,000 are eligible for deduction from the gross total income u/s 80C of Income Tax Act.

- **SBI Tax Advantage Fund - Series I** - The investment objective of the scheme is to generate capital appreciation over a period of ten years by investing predominantly in equities of companies across large, mid and small market capitalization, along with income tax benefit.

- **SBI Tax Advantage Fund - Series II** - The investment objective of the scheme is to generate capital appreciation over a period of ten years by investing predominantly in equities & equity-related instruments of companies across large, mid and small market capitalization, along with income tax benefit.

6. Market Neutral Strategy

- **SBI Arbitrage Opportunities Fund** - The fund adopts a market neutral trading strategy. Arbitrage opportunities arise due to market inefficiencies. Fund seeks to exploit such inefficiencies that will manifest as mispricing in cash (stock) and derivative markets. Fund Manager will lock into such arbitrage opportunities seeking to generate tax efficient risk free returns.

**Debt / Income Schemes**

The schemes in this asset class generally invest in fixed income securities such as bonds, corporate debentures, government securities (gilds), money market instruments, etc. and provide regular and steady income to investors.

- **SBI Magnum Children's Benefit Plan** Investments in the scheme can be made on behalf of children less than 15 years of age. The scheme will provide group accident insurance cover to the Magnum holders / Unit holders or either parent against accidental death or permanent total disability relating to these accidents. In addition to this, on the accidental death of either parent the Magnum holder /
Unit holder will stand to receive an additional 10% of the claim amount towards educational expenses. The cost of providing the insurance cover would be borne by the AMC. SBI Magnum Children's Benefit Plan (SBI MCBP) is hybrid debt oriented scheme which invest in equity, government debt, corporate debt and money market instruments. SBI Magnum Children's Benefit Plan (SBI MCBP) invests the equity portion across market capitalization and aims to optimize returns through a well diversified portfolio.

- **SBI Magnum Income Fund - Floating Rate Plan - Savings Plus Bond Plan** - The investment objective of these schemes is to Endeavour to mitigate interest rate risk and seek to generate regular income along with opportunities for capital appreciation through a portfolio investing in Floating rate debt securities, fixed rate securities, derivative instruments as well as in Money Market instruments. The scheme endeavour to generate returns by maintaining a superior quality credit portfolio but with limited duration risk. Investment in Corporate Bonds and Debentures in the Floating Rate – Short Term Plan will be in securities with maturities not exceeding 3 years.

- **SBI Magnum Income Fund - Floating Rate Plan - Long Term Plan** - The investment objective of these schemes is to endeavor to mitigate interest rate risk and seek to generate regular income along with opportunities for capital appreciation through a portfolio investing in Floating rate debt securities, Fixed rate securities, derivative instruments as well as in Money Market instruments. SBI Magnum Income Fund Floating Rate Plan - Long Term (SBI MIF-FRL) endeavours to generate returns by maintaining a superior quality credit portfolio but with limited duration risk as these are floating rate schemes. SBI Magnum Income Fund Floating Rate Plan - Long Term (SBI MIF-FRL) has two sub-plans, Regular Plan & Institutional Plan.

- **SBI Magnum Income Fund** - The investment objective of SBI Magnum Income Fund (SBI MIF) is to provide the investors an opportunity to earn, in accordance with their requirements, through capital gains or through regular dividends, returns that would be higher than the returns offered by comparable investment avenues through investment in debt & money market securities. The portfolio
switches actively among government and corporate debt depending on the market conditions.

- **SBI Dynamic Bond Fund** - The investment objective of the scheme is to actively manage a portfolio of good quality debt as well as Money Market Instruments so as to provide reasonable returns and liquidity to the Unit holders. SBI Dynamic Bond Fund is a fund investing in G-sec, corporate bond and money market instruments.

**Hybrid Schemes**
These schemes invest in a mixture of debt and equity securities in different proportions as prescribed in the Scheme Information Document.

- **SBI Edge Fund** - SBI Edge Fund, an open ended hybrid scheme, helps you to take advantage of diversification by investing in a mix of Equity, Debt and Gold ETF. The Equity component provides an opportunity for wealth creation, Debt provides safety and stability, and Gold acts as a hedge against the inflation.

- **SBI Magnum Balanced Fund** - This Fund invests in a mix of equity and debt investments. It provides a good investment opportunity to investors who do not wish to be completely exposed to equity markets, but are looking for relatively higher returns than those provided by debt funds.

- **SBI Regular Savings Plan** - The investment objective of the scheme is to provide attractive returns through periodic dividends or through capital appreciation through an actively managed portfolio of debt, equity and money market instruments. The portfolio switches actively among government securities and corporate debt and in a limited way into money market instruments depending on the market conditions. SBI Regular Savings Fund invests the equity portion in BSE-100 stocks and aims to optimised returns through a well-diversified portfolio along with strictly defined internal guidelines.

- **SBI Magnum Monthly Income Plan** - SBI Magnum Monthly Income Plan (SBI MMIP) invests in government securities, corporate debt and money market
instruments as well as a small portion in equity. The equity portion is invested across market stocks.

- **SBI Magnum Monthly Income Plan – Floater** - The investment objective of SBI Magnum Monthly Income Plan (SBI MMIP) - Floater is to provide regular income, liquidity and attractive returns to investors in addition to mitigating the impact of interest rate risk through investing in floating rate and fixed rate debt instruments, equity, money market instruments and derivatives. On the debt side, SBI Magnum Monthly Income Plan (SBI MMIP) - Floater endeavours to provide income by investing in floating rate securities, money market instruments and fixed rate debt securities. SBI Magnum Monthly Income Plan (SBI MMIP) - Floater invests the equity portion across market capitalization.

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