CHAPTER III

MUTUAL FUNDS IN INDIA
GENESIS:

INVESTMENT COMPANIES

Investment company means a company whose gross total income consists mainly of income arising out of securities. Investment companies offer an alternative solution to investors to finance supply and management. Investment companies solve portfolio management by providing expert research and professional management of funds over which they have control. These type of companies invest their money in bonds, preferred stock and common stock of other corporations. The balance sheet of a typical investment company would list the securities owned on the assets side and on the liabilities side would be the shares that have been sold to investors. The earning assets of an investment company are the same as those of an individual investor who chooses to invest his money directly in securities. The earning assets produce income from two sources like dividend and interest and capital gains. The funds invested by investment companies are obtained in much at the same rate that capital is obtained by industrial corporations. Thus investment companies are based on clearly defined objectives. They combine the funds of large number of investors, invest judiciously to attain common objective and let the investors to share all incomes and expenses as well as profits and losses.

The business operations of investment companies comprise the investment of shareholders’ money in common stocks, preferred stocks, bonds or other investment media. As a matter of fact, an investment company is a single large investment account owned by many investors who share its incomes, expenses, profits and losses in proportion to their individual share in the account. One important characteristic of an investment company is that unlike banks, it has no liabilities to speak of and therefore cannot
become insolvent. The shares of an investment company are redeemable on demand at the current Net Asset Value. So, the risk of insolvency is virtually eliminated. The investment company is a unique corporation whose principal assets are the portfolio of marketable securities.

TYPES OF INVESTMENT COMPANIES

Investment companies can be classified into various categories. They can be broadly classified between Unit Investment Trusts and Management Companies. The management group is further divided between Open-end Companies and Closed-end companies. Figure 1 shows various types of investment companies.

MUTUAL FUND - A TRUST

Mutual fund means a fund established in the form of a trust by a sponsor to raise monies by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with Mutual Fund Regulations, 1993.

Mutual fund is a form of organisation sponsored by registered companies of sound track record. Mutual fund is to be established in the form of a trust under the Indian Trust Act. According to Section 3 of the Indian Trust Act, a Trust is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another or of another and the owner. The person who reposes or declares the confidence is called the author of the trust or the settlor. A person who accepts the confidence is called the trustee. The person for whose benefit the confidence is accepted is called the beneficiary. The subject matter of the trust is called trust property or trust money.
INVESTMENT COMPANIES

Unit Investment Trusts.

Open-end Companies or Mutual Funds

Closed-end Companies

No-load Load

Large Interest in few Companies

Diversified purpose

Bond Common Stock & Balanced

Money Market (no-load)

Diversification Objective

General Specialised Capital Gains or Income Growth Index Balanced

Fig 1
It is a mutual finance company. A company is called a mutual benefit finance company, which carries on as its principal business, the business of acceptance of deposits from its members and which is declared by the Central Government U/S 620 A of the Companies Act, 1956 to be a Nidhi or Mutual Benefit Society (2 (18)(ac)).

Varied Names

Mutual funds are popularly called by different names in different countries. The mutual funds, a special type of investment institutions are known as Unit Trusts or Investment Trusts in the U.K. and as mutual funds in the U.S.A.

TYPES OF MUTUAL FUNDS

Investment companies basically are of two types. They are:

1. Closed-end Investment Companies.
2. Open-end Investment Companies.

Mutual funds are allowed to start both closed-end and open-end schemes by raising at least Rs. 20 crores and Rs. 50 crores respectively. If the minimum amount or 60 per cent of the targeted amount is not collected, the entire amount is to be returned to the investors.

Closed-end Investment Companies:

The closed-end investment company is usually referred to as an investment trust company. This type of company operate in much the same way as any industrial company. It issues a fixed number of shares of common stock. The common stock may be listed on an exchange and may be bought and sold like any other corporation stock. When the stock
of a closed-end investment company is purchased through a broker, the broker will be paid commission. Usually, the number of shares of stock outstanding is constant in closed-end investment company. This type of company may issue additional common stock from time to time. It raises substantial portion of its capital with debt, which may be subject to wide fluctuations than the investment company with a relatively small amount of debt. A closed-end company which issues debt or preferred stock is said to have both asset leverage and earnings leverage. The reason is that preferred stock and bonds represent a fixed claim against the assets of the company.

A closed-end investment company after the initial public offering may offer a new security to public. As a matter of fact, the capitalization generally remains unchanged. The common economic principle of relative forces of demand for and supply of stocks determine the Net Asset Value of the shares. The closed-end funds are known as public traded funds. Just as a corporation, most of the closed-end funds however sell at discount to Net Asset Value. The main reasons for selling at discount are: lack of sales effort, market risk, investors’ attitudes etc.

A special feature of closed-end mutual fund is that this type of fund does not constantly issue shares or units or redeem them from time to time. Therefore, after its initial public offering, participation can only be in a secondary market, usually a stock exchange. Examples of closed-end mutual fund schemes are, Canbank’s Canshare and Canstock.

The closed-end schemes are open for only 45 days and they are listed on stock exchanges. Each closed-end scheme generally has a fixed duration, number of years at the end of which it will wound up or the duration may be extended with the permission of the SEBI.
Open-end Investment Companies (Mutual Funds):

The open-end investment company is usually referred to as a mutual fund. It offers new issues of shares continuously. In contrast to that of closed-end company, the stock of open-end investment company is not traded on an exchange. It is traded in the Over the counter market by specific dealers who handle its purchase and sale. The concept of mutuality is that there is only one class of owners who share the gains or losses of the fund with all the other owners.

The open-end investment company raises money from the sale of shares which is in turn invested directly in the securities of other companies.

FEATURES OF MUTUAL FUNDS

In the case of open-end funds, the investor is permitted to join or withdraw from the fund at anytime after a specified lock-in period. When the shareholder or unitholder gives notice of his intention to redeem his investment in the fund, the fund will be redeemed at a price determined on the market value of securities. The mutual fund from time to time announces the sale value or repurchase value of the units issued by it under its various schemes. The Unit Scheme, 1964 of the Unit Trust of India is an open-end mutual fund scheme.

Thus mutual fund is a special type of investment institution which acts as investment conduit. The primary activity of a mutual fund is to collect the savings of the community and to invest the large funds in a large and well-diversified portfolio of sound investment. The fund is managed by professionally qualified and well experienced investment consultants. The fund managers invest the pooled money in a variety of selected blue chip companies, with the objective of maximising return or income on investments.
These special type of investment institutions that collectively manage the funds have commonly come to be known as mutual funds. The mutual fund, an important form of capital market, provide the benefits of diversified portfolio and expert management to a large number of investors.

The small investors face many handicaps in the share market. These investors with their limited financial resources and lack of professional expertise cannot invest in a balanced and diversified portfolio. To mention, they cannot buy the shares of certain blue chip companies, by sitting at home. Therefore, they are forced to buy the shares through share brokers who are the members of stock exchange. Besides, they face number of inconveniences like time factor, expensive transaction, limited access to sensitive price information etc. Therefore, mutual funds are beneficial to the small investor and they are a suitable investment vehicle which in turn strengthens the capital market.

For open-end schemes first 45 days of the subscription period is considered for determining the target figure or minimum size. In open-end scheme, the units are sold and repurchased on predetermined prices based on the Net Asset Value and they are published periodically. The open-end scheme shall be wound up if the total number of units outstanding after repurchases at a point of time falls below 50 per cent of originally issued units.

MUTUAL FUNDS IN OTHER COUNTRIES

The concept of mutual fund is new to the Indian capital market but not to the International Capital World. The origin of mutual funds could be traced to the U.K. in the nineteenth century, which spread to the U.S. in the beginning of the twentieth century. In the U.K., the original home of
mutual funds, 80 per cent of investments in securities is institutionalised, mostly in Mutual Funds. In the U.S. there were 1,531 mutual funds, with 30 million fund investors and $ 252 billion in assets at the end of 1985. Subsequently, hundreds of mutual funds, both open-end and closed-end have been developed and expanded in Latin America, Far East and Europe. The U.S-based Pioneering Management Corporation of 65 year old Pioneer Group is the oldest fund in the U.S, which manages funds worth $ 8 billion. The member corp of the U.S. which claims to be that country’s 8th largest fund managing the assets worth more than $ 70 billion. The other department funds are: International Finance Corporation of Washington, Edinburgh fund Manager of the U.K., European Commission of Brussels, Lazard, Freres and Company of New York.

HISTORY AND GROWTH OF MUTUAL FUNDS IN INDIA

The year 1964 witnessed the operation of mutual funds in India by the Unit Trust of India, which is in Public Sector. Subsequently, some financial institutions and commercial banks have set up mutual funds. At present, there are 8 mutual funds operating in India - U.T.I., S.B.I. Mutual Fund, Canbank Mutual Fund, LIC Mutual Fund, Ind Bank Mutual Fund, Bank of India Mutual Fund and Punjab National Bank Mutual Fund. The only public sector mutual fund with a semblance of an open-end fund is the Unit Trust of India’s unit-64 scheme. The Prima fund is the second pure private open-end scheme after the Unit-64. A number of changes have taken place in the Indian economy during this decade. To recall, due to the first whiff of liberalization in 1985 budget, mutual funds have become an integral part of the Indian financial scene. Many financial experts now believe that nineties will be the decade of mutual funds. The private sector entry in mutual funds would lead to increased competition resulting in better performance. It is
estimated that the total assets of mutual funds will increase to Rs. 80,000 crores at the end of Eighth Plan.

The total resources of mutual funds put together in equity account less than 15 per cent of market capitalization. For the fiscal year 1992-93 the estimated target is Rs. 10,000 crores for the mutual funds.

There are 108 mutual fund schemes in India, of those Unit Trust of India (UTI) has launched 50 schemes (46%); public sector banks introduced 40 schemes (37%); General Insurance Company (GIC) schemes (3%); and LIC Mutual Fund 15 Schemes (14%). Table 3.1. indicates details of Indian Mutual Funds.

**TABLE 3.1**

**INDIAN MUTUAL FUNDS AS IN DECEMBER 1991**

<table>
<thead>
<tr>
<th>Mutual fund Institutions</th>
<th>No.of Schemes</th>
<th>Percentage to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>50</td>
<td>46</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>40</td>
<td>37</td>
</tr>
<tr>
<td>GIC MF</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>LIC MF</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>108</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**SOURCE:** Southern Economist, Annual Number, Vol. 33, No.1 May 1, 1994 p.36.

Earlier to 1987, the only institution in mutual funds is the UTI. The amount raised by mutual funds by various agencies is indicated in Table 3.2. The analysis of the table reveals that 83.9 per cent of the total amount was accounted by UTI alone, and 13.5 p.c. by public sector banks' mutual funds.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>4563.7</td>
<td>6738.8</td>
<td>11834.6</td>
<td>17650.9</td>
<td>21376.5</td>
<td>31805.7</td>
<td>83.9</td>
</tr>
<tr>
<td>SBI MF</td>
<td>131.0</td>
<td>211.0</td>
<td>422.0</td>
<td>712.0</td>
<td>1383.0</td>
<td>1590.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Canbank MF</td>
<td>119.7</td>
<td>211.9</td>
<td>296.6</td>
<td>1500.7</td>
<td>2331.7</td>
<td>2331.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Ind Bank MF</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>271.0</td>
<td>375.0</td>
<td>400.0</td>
<td>1.1</td>
</tr>
<tr>
<td>BOI MF</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>591.7</td>
<td>661.7</td>
<td>693.7</td>
<td>1.8</td>
</tr>
<tr>
<td>PNB MF</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>63.3</td>
<td>80.7</td>
<td>80.7</td>
<td>0.2</td>
</tr>
<tr>
<td>LIC MF</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>292.7</td>
<td>511.7</td>
<td>573.6</td>
<td>1.5</td>
</tr>
<tr>
<td>GIC MF</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>411.2</td>
<td>411.2</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4814.4</td>
<td>7161.7</td>
<td>12845.9</td>
<td>21301.3</td>
<td>27193.4</td>
<td>37886.6</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Growth Rate</strong></td>
<td>-</td>
<td>48.76</td>
<td>79.37</td>
<td>65.82</td>
<td>27.66</td>
<td>39.32</td>
<td></td>
</tr>
<tr>
<td><strong>No. of Investors (in lakhs)</strong></td>
<td>31.01</td>
<td>40.5</td>
<td>52.95</td>
<td>81.65</td>
<td>117.5</td>
<td>248.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Mutual Fund Operations in India - Seema valid
Mobilisation of Savings by Mutual Funds in India
Excluding UTI, the performance of Canbank Mutual Fund and SBI Mutual fund in respect of resource mobilization has been better compared to other mutual funds. The number of investors as in 1992 are 248.5 lakhs as against a mere 31.01 lakhs in 1987.

The savings mobilized by mutual funds under different types of schemes are depicted in Table 3.3. The table reveals that mutual funds have mobilised more than half of their resources through income schemes. This indicates that the Indian investors are conservative and prefer investment avenues which offer reasonable returns with lower risk. The income schemes accounted for 58.4 p.c. Growth schemes and Income cum-Growth schemes accounted 18.9 p.c and 17.4 p.c respectively. The contribution of Tax-planning schemes has been less and it represents only 5.3 p.c. This may be because, these schemes are aimed at a specific and comparatively smaller section of potential investors.

PRIVATE SECTOR MUTUAL FUNDS

The recent unshaking of the Indian economy has necessitated structural changes in the financial sector in general and the Capital Market in particular. One of the major developments in this respect has been the opening of mutual funds to private sector in early 1992. The Government has permitted the private sector organizations for establishment of mutual funds and vested SEBI with powers to regulate mutual funds. Accordingly, SEBI has laid down detailed guidelines relating to the formation and regulation of mutual funds along with investment norms. Soon after the announcement, a number of industrial groups and financial majors evinced keen interest in setting up of mutual funds.
<table>
<thead>
<tr>
<th>Types of Mutual Fund Schemes</th>
<th>Mobilisation of Savings during 1987-1992 (Rs. in Crores)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income schemes</td>
<td>22,125.8</td>
<td>58.4</td>
</tr>
<tr>
<td>2. Growth Schemes</td>
<td>7,160.6</td>
<td>18.9</td>
</tr>
<tr>
<td>3. Income-cum-growth schemes</td>
<td>6,592.3</td>
<td>17.4</td>
</tr>
<tr>
<td>4. Tax-savings schemes</td>
<td>2,007.9</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>37,886.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Scheme-Wise Mobilisation of Savings

1. Income Schemes
2. Growth Schemes
3. Income-Cum-Growth Schemes
4. Tax Saving Schemes
The credit for launching the first private sector mutual fund goes to Madras-based H.C.Kothari group. The 47 year old Investment Trust of India of the H.C.Kothari group in collaboration with U.S-based Pioneering Management Corporation of the 65 year old Pioneer group Inc., floated the Kothari Pioneer Mutual Fund. If offered two schemes in November 1993 namely:

1. Kothari Pioneer Prima Fund
2. Kothari Pioneer Blue-chip Fund

This was followed by number of other funds. Such as:

- ICICI Premier
- Twentieth Century’s Centurion Growth Fund
- Centurion Prudence Fund
- Credit Capital’s Taurus and
- Morgan Stanley’s Growth Fund.

Some of the private mutual funds have tied up with foreign partners. For instance, Kothari with Pioneer, ICICI with J.P. Morgan, Twentieth Century with Kemper and Credit Capital Finance with Lazard Brothers. The foreign partners have financial stake in the Asset Management Companies that manage their respective funds.

Most of the mutual funds operating in India today have been promoted by institutions/finance companies with satisfactory track record.

SEBI in principle granted approval to 15 aspirants to set up mutual funds.³

1. Credit Capital Finance
2. Investment Trust of India
3. Tata Sons
At the end of March 1994, SEBI's approval to private mutual funds raised to 20. Though permission has been given to many private mutual funds, some of them are yet to come out with mutual fund schemes.

The mutual funds in private sector have been mobilising large amounts. Already 3 institutions like ICICI, 20th Century Financial Corporation and H.C. Kothari group have mobilised over Rs. 320 crores through 5 schemes. Only the Kothari Pioneer Mutual Fund has an open-end scheme, while the remaining schemes are closed-end.

**Taurus Mutual Fund's Closed-end Scheme:**

Taurus Mutual Fund (TMFL) is the latest fund managed by Credit Capital Asset Management Company Limited in which credit Capital Finance Corporation has a stake of 60 per cent, International Finance Corporation 20 per cent; Edinburgh Fund Managers Plc., of U.K. 10 per cent and Peerless General Finance and Investment Company 10 per cent. Credit
Capital Finance Corporation which has formed the AMC has financial participation in its equity capital by Lazard Brothers & Co. of London (40 per cent); the Udayam Bose group (40%); and other shareholders (20 per cent). Credit Capital Finance Corporation, however is a closely held company and the equity shares are not listed in the stock exchanges. But by virtue of Credit Capital Finance Corporation's association with Lazard Brothers & Co, who have world-wide interests and whose assets exceeded $ 40 billions, the mutual fund will have the benefit of the vast experience of the British financial institution. The TMFL has floated a closed-end scheme.

MONEY MARKET MUTUAL FUND

Money market is a set of financial institutions, conventions, and practices to facilitate lending and borrowing money on a short-term basis. This market is quite different from capital market which deals with funds for long term. Thus money market includes a range of assets that can be turned into cash at a shorter notice such as short-term government securities, bills of exchange and bankers' acceptance. The Money Market Mutual Fund (MMMF) in the United States is the most developed and the largest in the world. Such institutions are also found working in U.K. and other countries. The situation that led to their establishment in the U.S.A. has been the same as they are in India.

The Reserve Bank of India announced its credit policy on 12th April 1991 through two radical measures: 1. Allowing the entry of any entity with bulk lendable resources to the money market; 2. Allowing banks and their subsidiaries to set up Money Market Mutual Funds. The MMMF invests in short-term money market instruments like government securities such as 182 days treasury bills, commercial papers, certificate of deposits, call money funds, usance bills and passes on the benefit of maximum returns on these
instruments to shareholders consisting mainly of individual and small investors. The funds collected by the MMMF would be invested in Money Market instruments of high quality and of short maturities and which ensure to maintain a high level of liquidity. Mutual funds of this type are the open-end market funds that trade only in short-term debt instruments.

**ASSET MANAGEMENT COMPANY**

Asset Management Company means a company formed and registered under the Companies Act, 1956 and approved by the Board. Sponsor takes lead in the formation of an Asset Management Company. Sponsor means any body corporate who acting alone or in combination with another body corporate establishes a mutual fund after initiating and completing formalities thereunder. The sponsor or the trustee may appoint an Asset Management Company. The appointment of an Asset Management Company can be terminated by majority of the trustees or by 75 per cent of the unit holders of the scheme. Asset Management Company has professionals with adequate experience in the management of mutual funds. No director of an Asset Management Company shall hold the position of a director in another Asset Management Company or of a trustee in any mutual fund. Similarly no Asset Management Company shall act as a trustee of any mutual fund. Similarly, no Asset Management Company shall act as an Asset Management Company for any other mutual fund. Regulations 1993 impose obligation on the Asset Management Company to take and exercise all due diligence and ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of the regulations and trust deed.

The SEBI grants approval of the Asset Management Company. The SEBI may take into account all matters and in particular the following:
1. The existing Asset Management Company has a sound track record, general reputation and fairness in transactions.

2. The Directors of Asset Management Company are persons of high repute and standing having at least 5 years of professional experience in the relevant fields, such as portfolio management, investment analysis, financial administration.

3. The Board of Directors of the Asset Management Company has at least fifty per cent directors, who are not affiliate of, or associated in any manner with the sponsor or any of its subsidiaries or the trustees.

4. The Chairman of the Asset Management Company should not be the director of a Trustee Company or Trustee of Board of Trustees.

5. The Asset Management Company shall have a minimum networth of Rs. 5 crores. Networth means the paid up capital of the company and free reserves.

PORTFOLIO CLASSIFICATION OF MUTUAL FUNDS

Every mutual fund is a different one. They serve to meet various objectives of different types of investors. On the basis of their objectives and portfolios mutual funds can be classified as under:

1. *Equity Funds*: Invested only in equity shares of companies.
2. *Income Funds*: Invested in securities which will earn high income for the fund.
3. *Growth Funds*: Invested in growth-oriented securities which will assure appreciation in their value in the long run.
4. *Tax-exempt Funds*: Invested in such investments, which receive tax benefit and/or enjoy exclusive tax-free treatment.
5. *Liquid Funds*: Invested in short-term money market instruments like certificates and deposits. The emphasis is on liquidity with low rate of return.
6. **Special Funds**: Invested only in specialised channels like gold, silver, specific category of companies like technology fund.

7. **Real-estate Funds**: Invested in real estate ventures which may be of various types depending upon the real-estate transactions.

8. **Off-shore Funds**: Invested in foreign companies or Corporations.

**FLOATING A MUTUAL FUND**

Only authorised institutions are expected to float mutual funds. Under the present set up, Government allowed private sector, public sector and joint sector to establish mutual funds. A limited company can sponsor a mutual fund provided it has a sound track record, general reputation and fairness in all its business transactions. Scheduled banks, All India Financial Institutions, State Level Financial Institutions are also eligible to sponsor a mutual fund in India. Any of the eligible financial institutions desirous of setting up a mutual fund should establish the fund as a trust under the Indian Trust Act. It should then establish an Asset Management Company. The Asset Management Company should have a networth of not less than Rs. 5 crores.

**OPERATION OF FUNDS**

Like a corporation, mutual funds offer units or shares to the public by issuing an offer document or prospectus. It will contain particulars like face value of each unit, objectives of the scheme, investment details of funds collected, duration of the scheme, eligibility criterion to apply for the fund etc.

Each scheme of the mutual fund should be registered with the SEBI and get its approval. Mutual funds are permitted to operate both open-end and closed-end schemes. The subscription list for any scheme cannot be kept open for more than 45 days. The units issued under closed-end schemes should be listed on the stock exchanges after the initial lock-in
period is over. In case of open-end schemes mutual funds should sell and repurchase units at pre-determined prices based on the Net Asset Value of its securities and such prices should be published at least once in a year.

Mutual funds generally invest in wide range of securities in different industries with a view to spreading the investment risk. The funds can invest only in transferable securities either in capital market or in the money market. Similarly, they can invest in privately placed debentures or securitised debts. CRISIL or any other approved credit agency will rate investment grade in respect of all debt instruments in which mutual funds are invested. Mutual funds should not engage in short-selling or carry forward transactions or badla finance. Mutual funds in respect of which SEBI has approved, which have been granted tax-redemption by the government, the funds are required to distribute at least 90 per cent of their income by way of dividend to unit holders. The mutual funds should get their accounts audited once in a year by a qualified Chartered Accountant or by a firm of Chartered Accountants and submit the audited accounts to SEBI and publish the abridged version of balance sheet, income & expenditure statement etc., in newspapers for the benefit of investing public.

**BENEFITS OF MUTUAL FUNDS TO INVESTORS**

Investors may derive a number of advantages by investing their money in mutual funds. The following are some of the advantages accruing to the investor:

1. **Expertise Management:**

   The expertise professionals watch the funds' portfolio. Thus investors get the advantage of professional money management.
2. Portfolio diversification:

The funds are invested in a large basket of shares of money of different companies. The investors derive the benefits of diversification of portfolio.

3. Reinvestment:

A special feature of investment in mutual funds is that, reinvestment of dividends and capital gains. The automatic reinvestment feature of mutual fund is a form of formal saving for the investor.

4. Safety of Funds:

Mutual Funds are governed by the guidelines issued by the Ministry of Finance. On the other hand, funds are controlled and regulated by the SEBI. The SEBI acts as a watch dog and tries to protect the interests of the investors.

5. Tax benefits:

Investors will get tax shelter by investing in schemes permitted by the Government by way of tax relief or tax rebate.

REFERENCES:


