Chapter-1

Mutual Fund-An Overview
MUTUAL FUND AN OVERVIEW:

Mutual Funds are associations of trust of public members who wish to make investments in the financial instruments or assets of the business sector or corporate sector for the mutual benefit of its members. With the help of MFs they (investor) can reduce their risk. The fund collects the money of these members from their savings and invests them in a diversified portfolio of financial assets with a view to reduce risk and to maximize their income and capital appreciation for distribution to its members on a pro-rata basis.

It is a non-depository financial intermediary. MF's are mobilizer of savings, particularly from the small and household sectors, for investments in stock and money market. Basically these institutions are professional fund managers, managing funds of individuals and institutions who may not have such high degree of expertise or may not have time sufficient to cope up with the complexities of different investment avenues legal provisions associated therewith and vagaries and vicissitudes of capital markets.

Thus MFs provide an alternative to the investors who instead of making direct investments in shares or bonds through public issues or through secondary market, subscribe to the corpus of MFs. MFs mobilize funds by selling their own shares also known as units. Share of a MF actually represents a part share in many securities that it has purchased.

Thus MFs are investment intermediaries which pool investor's funds to acquire individual investments and pass on the returns thereof to fund investors.
HISTORY OF MUTUAL FUNDS IN INDIA:

Unit Trust of India was the first mutual fund set up in India in the year 1963. In early 1990s, Government allowed public sector banks and institutions to set up mutual funds.

In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objectives of SEBI are to protect the interest of
investors in securities and to promote the development of and to regulate the securities market.

As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI notified regulations for the mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were fully revised in 1996 and have been amended thereafter from time to time. SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors.

Mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Reserve Bank and the Government of India. Since then, the history of mutual funds in India can be broadly divided into three distinct phases.

**Phase 1 – 1964-87 (UTI):**

In 1963, UTI was established by an Act of Parliament and given a monopoly. Operationally UTI was set up by RBI, later de-linked from RBI. The first and still one of the largest schemes launched by UTI was Unit Schemes 1964. It was partially open-ended scheme. In 1970’s and 1980’s UTI started innovating and offering different schemes to suit needs of different classes of investors.

**Phase 2 – 1987-1993 (Entry of Public Sector Fund):**

1987 marked the entry of non-UTI, Public Sector Mutual Funds, bringing in competition. With the opening up of the economy many public sector banks and financial institutions were allowed to establish mutual fund. The State Bank of India established the first non-UTI mutual funds – SBI Mutual Fund in November 1987, followed by

During this period, investors were shifting away from bank deposits to mutual funds, as they started allocating larger part of their financial asset and saving (5.2% in 1992, 3.1% in 1988) to funds investors.

Phase 3 – 1993-1996 (Emergence of Private Funds):

A new era in the mutual fund industry began with the permission granted for the entry of Private Sector Funds in 1993, giving the Indian investors a broader choice of fund families and increasing competition for the existing

STRUCTURE OF MUTUAL FUNDS IN INDIA:

Like any other countries, India has a legal framework within which mutual fund must be constituted. In U.K., where two distinct 'trust' and 'corporate' structures are followed with separate regulations but In India, open and closed-end funds operate under the same regulatory structure, and are constituted along one unique structure – as unit trusts. There are sponsor, trustee and AMC form an structure for Mutual Fund

The Fund Sponsor

“Sponsor” is defined under SEBI regulations as any person who, acting alone or in combination with another body corporate, establishes a mutual fund. The sponsor of a fund is akin to the promoter of a company as he gets the fund registered with SEBI. The sponsor will form a trust and appoint a board of trustees.

As per the existing SEBI regulations, for a person to qualify as a sponsor, he must contribute at least 40% of the net worth of the AMC
and possess a sound financial track record over five years prior to registration.

Mutual Funds as Trusts

A mutual fund in India constituted in the form of a Public Trust created under the Indian Trusts Act, 1882. The fund sponsor acts as the settler of the Trust, contributing to its initial capital and appoints as a Trustee to hold the assets of the Trust for the benefit of the unit-holders, who are the beneficiaries of the trust. The fund then invites investors to contribute their money in the common pool, by subscribing to "units issued by various schemes established by the trust, units being the evidence of their beneficial interest in the fund.

Trust or the Fund has no independent legal capacity itself, rather it is the Trustee or Trustees who have the legal capacity and therefore, all acts in relation to the trust are taken on its behalf by the Trustees. Being public trusts, mutual funds can invite any number of investors as beneficial owner in their investment schemes.

Trustees

The trust – the mutual fund – may be managed by a Board of Trustees – a body of individuals, or a trust company - a corporate body. Most of the funds in India are managed by Board of Trustees. While the Board of Trustees is governed by the provisions of the Indian Trust Act, where the Trustee is a corporate body, it would also be required to comply with the provisions of the Companies Act, 1956. The Board or the Trustee company, as an independent body, acts as protector of the unit-holders' interests. The Trustees do not directly manage the portfolio of securities. For this specialist function, they appoint an Asset Management Company. They ensure that the fund is managed by the AMC as per the defined objectives and in accordance with the Trust Deed and SEBI Regulations.
The trust is created through a document called the Trust Deed that is executed by the Fund Sponsor in favour of the Trustees. The Trust Deed is required to be stamped as registered under the provisions of the Indian Registration Act and registered with SEBI. Clauses in the Trust Deed, inter-alia, deal with the establishment of the Trust, the appointment of Trustees, their powers and duties and the obligations of the Trustees towards the unit-holders and the AMC. These clauses also specify activities that the fund/AMC cannot undertake. The Third Schedule of the SEBI (MF) Regulations, 1996 specifies the contents of the Trust Deed.

The Trustees being the primary guardians of the unit-holders’ funds and assets, a Trustee has to be a person of high repute and integrity. SEBI has laid down a set of conditions to be fulfilled by the individuals being proposed as trustees of mutual funds — both independent and non-independent. Besides specifying the “disqualifications”, SEBI has also set down the Rights and Obligations of the Trustees. Broadly, the Trustees must ensure that the investors’ interests are safeguarded and that the AMC’s operations are along professional lines. They must also ensure that the management of the fund is in accordance with SEBI Regulations. Some important rights and obligations are listed below. For details, please refer to Chapter III L of the SEBI (MF) Regulations, 1996.

**Rights of Trustees**

- The Trustees appoint the AMC with the prior approval of SEBI.

- The Trustees may take remedial action if they believe that the conduct of the fund’s business is not in accordance with SEBI and in accordance with the regulations.
• They also approve each of the schemes floated by AMC.

• They have the right to request any necessary information from the AMC concerning the operations of various schemes managed by the AMC as often as required, to ensure that the AMC is in compliance with the Trust Deed and the regulations.

• The Trustees have the right to ensure that, based on their quarterly review of the AMC’s net worth any shortfall in the net worth is made up by the AMC.

Obligations of Trustees

• The Trustees must enter into an Investment Management Agreement with AMC. This Agreement must be in accordance with the Fourth Schedule of SEBI (MF) Regulations, 1996.

• They must ensure that the fund’s transactions are in accordance with the Trust Deed.

• The Trustees are responsible for ensuring that AMC has proper systems and procedures in place and has appointed key personnel including Fund Managers and a Compliance Officer, besides other constituents such as the auditors and registrars.

• The Trustees must ensure due diligence on the part of the AMC for empanelment of broker.

• The Trustees must ensure that the AMC is managing schemes independent of other activities and that the interests of unit-holders of one scheme are not compromised with those of other schemes/activities.
The Trustees must furnish to SEBI on a half-yearly basis, a report on the fund's activities.

**Asset Management Company (AMC)**

An Asset Management Company (AMC) is involved in the daily administration and also acts as investment advisor for the fund. An Asset Management Company is promoted by a sponsor which usually is a reputed corporate entity with sound track record of profitability.

An AMC typically has three departments:

(A). Fund management which comprises Fund Manager, Research Analysts and Dealers.

(B). Sales and Marketing, which is involved in generating sales through brokers, agents and financial planners.

(C). Operations and Accounting which oversees back office and operational activities. It consists of Funds Accountants and Compliance Officer.

Role of an AMC is to act as the Investment Manager of the Trust. The sponsor, or the Trustees, if so authorized by the Trust Deed, appoints the AMC. The AMC so appointed is required to be approved by SEBI. Once approved, the AMC functions under the supervision of its own Board of Directors and also under the direction of the Trustees and SEBI. The Trustees are empowered to terminate the appointment of the AMC by majority and appoint a new AMC with the prior approval of SEBI and unit-holders.

AMC of a mutual fund must have a net worth of at least Rs.10 cores at all times. Directors of the AMC, both independent and non-independent, should have adequate professional experience in
financial services and should be individuals of high moral standing, a condition also applicable to other key personnel of the AMC. The AMC cannot act as a Trustee of any other mutual fund. Besides its role as the Fund Manager, it may undertake specified activities such as advisory services and financial consulting, provided these activities are run independently of one another and the AMC’s resources are properly segregated by activity. The AMC must always act in the interest of the unit-holders and report to the Trustees with respect to its activities.

Obligations of the AMC and its Directors

- Investment of funds is in accordance with SEBI Regulations and the Trust Deed.

- They take responsibility for the acts of its employees and others whose services it has procured.

- They are answerable to the Trustees and must submit quarterly reports to them on AMC activities and compliances with SEBI Regulations.

- If the AMC uses the services of a sponsor, associate or employee, it must make appropriate disclosure to unit-holders, including the amount of brokerage or commissions paid.

- They do not undertake any other activity conflicting with managing the fund.

- They will float schemes only after obtaining the prior approval of the Trustees and SEBI.

- They will make the required disclosure to the investors in areas such as calculation of NAV and repurchase price.
• They file the details of securities transactions by AMC Directors with the Trustees on a quarterly basis. As in the case of Trustees, they may report only those transactions which exceed the value of Rs.1 lac.

• Any ongoing open-end scheme proposing to launch additional plans, other than dividend and growth plans, will launch these plans as separate schemes, if they differ from the main scheme in terms of portfolio, maturity or any other characteristic. They may however be launched as a part of the existing offer document by issuing and addendum subject to each Plan following all disclosure requirements prescribed by the Regulations.

OTHER FUND CONSTITUENTS:

Custodian and Depositories

Mutual funds are in the business of buying and selling of securities in large volumes. Handling these securities in terms of physical delivery and eventual safe keeping is therefore a specialized activity. The custodian is appointed by the Board of Trustees for safekeeping of physical securities or participating in any clearing system through approved depositing companies on behalf of the mutual fund in case of dematerialized securities. A custodian must fulfill its responsibilities in accordance with its agreement with registrar with SEBI.

Bankers

A fund’s activities involve dealing with money on a continuous basis primarily with respect to buying and selling units, paying for investments made, receiving the proceeds on sale of investments and discharging its obligations towards operating expenses. A fund’s
bankers therefore play a crucial role with respect to its financial dealing by holding its bank account and providing it with remittance services.

Transfer Agents

Transfer agents are responsible for issuing and redeeming units of the mutual fund and provide other related services such as preparation of transfer documents and updating investor records. A fund may choose to carry out this activity in-house and charge the scheme for the service at a competitive market rate. Where an outside transfer agent is used, the fund investor will find the agent to be an important interface to deal with, since all of the investor services that a fund provides are going to be dependent on the transfer agent.

Distributors

Mutual funds operate as collective investment vehicles, on the principle of accumulating funds from a large number of investors and then investing on a big scale. For a fund to sell units across a wide retail base of individual investors, an established network of distribution agents is essential.
GRAPHICAL PRESENTATION OF STRUCTURE OF MUTUAL FUND:

- Sponsor company
  (E.g. Prudential, ICICI)
  - Establishes the MF as a trust
  - Registers the MF with SEBI

- Managed by a Board of Trustees

- Mutual Fund
  (E.g. Prudential ICICI Mutual Fund)
  - Hold unit-holders funds in MF
  - Enter into an agreement with SEBI and ensure compliance

- AMC (e.g. Prudential ICICI Asset Management Company)
  - Float MF funds
  - Manages the fund as per SEBI guidelines and AMC Agreement

- Custodian
  - Provides custodial services

- Registrar
  - Provides registrar and transfer services

- Distributors
  - Provides the network for distribution of the schemes to the investors.
ADVANTAGE OF MUTUAL FUNDS:

A mutual fund is an entity that pools the money of many investors – its unit-holders – to invest in different securities. Investments may be in shares, debt securities, money market securities or a combination of these. Those securities are professionally managed on behalf of the unit-holders, and each investor holds a pro-rata share of the portfolio i.e. entitled to any profits when the securities are sold, but subject to any losses in value as well.

i) Professional investment management

Mutual funds hire full-time, high-level investment professionals. Funds can afford to do so as they manage large pools of money. The managers have real-time access to crucial market information and are able to execute trades on the largest and most cost-effective scale.

ii) Diversification

Mutual funds invest in a broad range of securities. This limits investment risk by reducing the effect of a possible decline in the value of any one security. Mutual fund unit-holders can benefit from diversification techniques usually available only to investors wealthy enough to buy significant positions in a wide variety of securities.

iii) Low Cost

A mutual fund lets you participate in a diversified portfolio for as little as Rs.5, 000/-, and sometimes less. And with a no-load fund, you pay little or no sales charges to own them.

iv) Convenience and Flexibility

You own just one security rather than many yet enjoy the benefits of a diversified portfolio and a wide range of services.
managers decide what securities to trade, collect the interest payments, and see that your dividends on portfolio securities are received and your rights exercised. It also uses the services of a high-quality custodian and registrar in order to make sure that your convenience remains at the top of our mind.

v) **Personal Service**

One call puts you in touch with a specialist who can provide you with information you can use to make your own investment choices. They will provide you personal assistance in buying and selling your fund units, provide fund information and answer questions about your account status. Our Customer service centers are at your service and our Marketing team would be eager to hear your comments on our schemes.

vi) **Liquidity**

In open-ended schemes, you can get your money back promptly at net asset value related prices from the mutual fund itself. Often, investors hold shares or bonds they cannot directly, easily and quickly sell. Investment in a mutual fund, on the other hand, is more liquid. An investor can liquidate the investment by selling the units to the fund if open-end, or selling them in the market if the fund is closed-end and collect funds at the end of a period specified by the mutual fund or the stock market.

vii) **Transparency**

You get regular information on the value of your investment in addition to disclosure on the specific investments made by the mutual fund scheme.

viii) **Portfolio Diversification:**

Mutual funds invest in a well diversified portfolio or securities. Each investor in a fund is a part owner of all of the funds asset.
ix) **Professional Management:**
Even if an investor has a big amount of capital available to him, he benefits from the professional management skills brought in by the fund in the management of the investor's portfolio.

x) **Reduction/Diversification of Risk:**
An investor in a mutual fund acquires a diversified portfolio, no matter how small his investment. Diversification reduces the risk of loss, as compared to investing directly in one or two shares or debentures or other investment.

xi) **Reduction of Transaction Cost:**
What is true of risk is also true of the transaction cost. Direct investors bear all the costs of investing such as brokerage or custody of securities. When going through a fund, he has the benefit of economies of scale; the funds pay lesser cost because of larger volumes a benefit passed on to its investors.

xii) **Convenience and Flexibility:**
Mutual fund management companies offer many investor services that a direct market investor cannot get. Investors can easily transfer their holding from one scheme to the others; get updated market information, and so on.

**DISADVANTAGE OF INVESTING THROUGH MUTUAL FUND:**

i) **No Control over Cost:**
An investor of a mutual fund has no control over the overall cost of investing. He pays investment management fees as long as he remains with the fund, albeit in return for the professional management and research. Fees are usually payable as a percentage of the value of his investment whether the fund value is rising or declining.
ii) **No Tailor-made Portfolios:**
Investors who invest on their own can build their own portfolios of shares, bonds and other securities he delegates this decision to the fund manager.

iii) **Managing a Portfolio of Funds:**
Availability of large number of funds can actually mean to much choice for the investor. He may need advice on how to select a fund to achieve his objective quite similar to the situation when he has to select individual shares or bonds to invest in.

**OBJECTIVES OF THE STUDY:**

Objective of study is to make critical evaluation of factor affecting investment pattern of public and private sector mutual fund. The following objectives have been framed to accomplish the main purpose of study:

- To analyze the performance of various categories of Indian Mutual Fund issued by public and private sectors
- To evaluate the mutual fund investment in financial terms
- To analyze the returns on mutual funds issued by public and private sector.
- To find out the factors effecting mutual funds investment.
- Investment patterns in developed countries VIS a VIS India.

**SIGNIFICANCE OF STUDY:**

Mutual funds are said to provide a number of advantages for investors in terms of financial benefits. They have also succeeded in mobilizing large amounts of money from investors. This study aims to examine
mutual funds in terms of return the very basis claim of mutual funds being beneficial to invest on among financial securities.

SCOPE OF THE STUDY:

They study covers public and private sector mutual funds, issued by the various company. The aspect covered under the study are: investment, market capitalisation, performance appraisal of mutual fund and global mutual fund.

COLLECTION AND ANALYSIS OF DATA:

The data has been collected through primary and secondary sources both. The primary data collected through structure questionnaire by personal interview from the investors. Secondary data will be used for the study regarding declaration and corresponding ex-dividend dates will be collected from new papers, magazines, and annual reports of different mutual funds, pamphlets, brochures other material published by different mutual funds providing companies information available on SEBI and AMFI websites are also used.

PLAN OF THE STUDY:

The research work has been arranged in eight chapters. The first chapter covered the introduction of mutual fund. The second chapter provides information related to public and private sector mutual fund. The third chapter give details about the investments in mutual fund, the fourth chapter discuss the market capitalization and fifth, chapter related with performance evaluation of mutual funds. The sixth chapter discuss about the global mutual fund the seventh chapter contributed to analyses the critical factor affecting investment pattern, the last chapter is concluding observation.