Chapter-2

Public and Private Sector
Mutual Funds
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PUBLIC AND PRIVATE SECTORS MUTUAL FUND

PUBLIC MUTUAL FUNDS:

With the opening up of the economy, many public sector banks and financial institutions were allowed to establish mutual funds. 1987 marked the entry of non-UTI, Public Sector Mutual Funds bringing in competition. The State Bank of India established the first non-UTI Mutual Fund – SBI Mutual Fund – in November 1987. This was followed by Canbank Mutual Fund (Dec 1987), LIC Mutual Fund (1989), and Indian Bank Mutual Fund (1990) followed by Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund.

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 public sector funds. Quite significantly, foreign fund management companies were also allowed to operate mutual funds, most of them coming into Indian through their joint ventures with Indian promoters. These private funds brought in with them the latest product innovations, investment management techniques and investor servicing technology that make the Indian mutual fund industry today a vibrant and growing financial intermediary.

During the year 1993-94, five private sector mutual funds launched their schemes followed by six others in 1994-95. Initially, the mobilization of funds by the private mutual funds was slow. But this segment of the fund industry now has been witnessing much greater investor confidence in them. One influencing factor has been the development of SEBI driven regulatory framework for mutual funds.
But another important factor has been the steadily improving performance of several funds themselves. Investors in India now clearly see the benefits of investing through mutual funds started becoming selective.

**SCHEMES AND FUNDS OFFERED BY THE PUBLIC AND PRIVATE SECTOR COMPANIES**

There are wide varieties of Mutual Fund schemes that cater to investor needs, whatever the age, financial position, risk tolerance and return expectations. The mutual fund schemes can be classified according to both their investment objective (like income, growth, tax saving) as well as the number of units. If these are unlimited then the fund is an open-ended one while if there are limited units then the fund is close-ended.
Open-ended Schemes

These funds are sold at the NAV based prices, generally calculated on every business day. These schemes have unlimited capitalization, open-ended schemes do not have a fixed maturity – i.e. there is no cap on the amount you can buy from the fund and the unit capital can keep growing. These funds are not generally listed on any exchange.

Open-ended funds are bringing in a revival of the mutual fund industry owing to increased liquidity, transparency and performance in the new open-ended funds promoted by the private sector and foreign players. Open-ended funds score over close-ended ones on several counts. Some of these are listed below:

a) Any time exit option: The issuing company directly takes the responsibility of providing an entry and an exit. This provides ready liquidity to the investors and avoids reliance on transfer deeds, signature verifications and bad deliveries.

b) Tax advantage: Though Budget 2004 proposals envisage a tax rate of 20.91% (Corporate investors) and 13.06875% (Non-Corporate investors) on divided distribution made by the Debt funds, the funds continue to remain attractive investment vehicles. In equity plans there is no distribution tax.

c) Any time entry option: An open-ended fund allows one to enter the fund at any time and even to invest at regular intervals.

Close-ended Schemes

Schemes that have a stipulated maturity period, limited capitalization and the units are listed on the stock exchange are called close-ended schemes. These schemes have historically seen a lot of subscription. This popularity is estimated to be on account of firstly, public sector
MFs having floated a lot of close-ended income schemes with guaranteed returns and secondly easy liquidity on account of listing on the stock exchanges.

CLASSIFICATION ACCORDING TO INVESTMENT:

Mutual funds have specific investment objectives such as growth of capital, safety of principal, current income or tax-exempt income. In general mutual funds fall into three general categories:

- Equity Funds invest in shares or equity of companies;
- Fixed-Income funds invest in government or corporate securities that offer fixed rates of return;
- Balanced Funds invest in a combination of both stocks and bonds.

i) Growth Funds

These funds seek to provide growth of capital with secondary emphasis on dividend. They invest in shares with a potential for growth and capital appreciation. Because they invest in well-established companies where the company itself and the industry in which it operates are thought to have good long-term growth potential, growth funds provide low current income. Growth funds generally incur higher risks than income funds in an effort to secure more pronounced growth.

These funds may invest in a broad range of industries or concentrate on one or more industry sectors. Growth funds are suitable for investors who can afford to assume the risk of potential loss in value of their investment in the hope of achieving substantial and rapid gains. They are not suitable for investors who must conserve their principal or who must maximize current income.
ii) **Growth and Income Funds**
Growth and income funds seek long-term growth of capital as well as current income. The investment strategies used to reach these goals vary among funds. Some invest in a dual portfolio consisting of growth stocks and income stocks, or a combination of growth stocks, stocks paying high dividends, preferred stocks, convertible securities or fixed-income securities such as corporate bonds and money market instruments. Others may invest in growth stocks and earn current income by selling covered call options on their portfolio stocks.

Growth and income funds low to moderate stability of principal and moderate potential for current income and growth. They are suitable for investors who can assume some risk to achieve growth of capital but who also want to maintain a moderate level of current income.

iii) **Fixed-Income Funds**
The goal of fixed income funds is to provide current income consistent with the preservation of capital. These funds invest in corporate bonds or government-backed mortgage securities that have a fixed rate of return. Within the fixed-income category, funds vary greatly in their stability of principal and in their dividend yields. High-yield funds, which seek to maximize yield by investing in lower-rated bonds of longer maturities, entail less stability of principal than fixed-income funds that invest in higher-rated but lower-yielding securities.

Some fixed-income funds seek to minimize risk by investing exclusively in securities whose timely payment of interest and principal is backed by the full faith and credit of the Indian Government. Fixed-income funds are suitable for investors who want to maximize current income and who can assume a degree of capital risk in order to do so.

iv) **Balanced Funds**
The balanced fund aims to provide both growth and income. These funds invest in both shares and fixed income securities in the proportion indicated in their offer documents. Ideal investors who are looking for a combination of income and moderate growth.

v) **Money Market Funds/Liquid Funds**

For the cautious investor, these funds provide a very high stability of principal while seeking a moderate to high current income. They invest in highly liquid, virtually risk-free, short-term debt securities of agencies of the Indian Government, banks and corporations and Treasury Bills. Because of their short-term investments, money market mutual funds are able to keep a virtually constant unit price; only the yield fluctuates.

Therefore, they are an attractive alternative to bank accounts. With yields that are generally competitive with – and usually higher than – yields on bank savings account, they offer several advantages. Money can be withdrawn any time without penalty. Although not insured, money market funds invest only in highly liquid, short-term, top-rated money market instruments. Money market funds are suitable for investors who want high stability of principal and current income with immediate liquidity.

vi) **Specialty/Sector Funds**

These funds invest in securities of a specific industry or sector of the economy such as health care, technology, leisure, utilities or precious metals. The funds enable investors to diversify holdings among many companies within an industry, a more conservative approach than investing directly in one particular company.

Sector funds offer the opportunity for sharp capital gains in cases where the fund's industry is "in favour" but also entail the risk of capital losses when the industry is out of favour. While sector funds restrict holdings to a particular industry, other specialty funds such as index
funds give investors a broadly diversified portfolio and attempt to mirror the performance of various market averages.

Index funds generally buy shares in all the companies composing the BSE Sensex or NSE Nifty or other broad stock market indices. They are not suitable for investors who must conserve their principal or maximize current income.

A summary is presented in the table below of the various funds and their investment objectives:

<table>
<thead>
<tr>
<th>Scheme Type</th>
<th>Time Horizon</th>
<th>Risk Profile</th>
<th>Typical Investment Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Open Close</td>
<td>Equity (%)</td>
<td>Debt (%)  Money Market Inst./Others (%)</td>
</tr>
<tr>
<td>Money Market</td>
<td>Yes No</td>
<td>Short-Term</td>
<td>Low        0 0-20 80-100</td>
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<tr>
<td>Income</td>
<td>Yes Yes</td>
<td>Medium-Large Term</td>
<td>Low to Medium</td>
</tr>
<tr>
<td>Growth</td>
<td>Yes Yes</td>
<td>Long Term</td>
<td>High       80-100 0-20 0-20</td>
</tr>
<tr>
<td>Balanced</td>
<td>Yes Yes</td>
<td>Long Term</td>
<td>Medium to High</td>
</tr>
<tr>
<td>Tax Saving</td>
<td>Yes Yes</td>
<td>Long Term</td>
<td>High       80-100 80-100 0-20</td>
</tr>
</tbody>
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**TYPES OF PUBLIC AND PRIVATE SECTOR MUTUAL FUND:**

**A: Public Sector Mutual Fund**

1. UTI Asset Management Company (p) Ltd.
2. BOB Asset Management Co.Ltd
3. Canbank Investment Management Services Ltd.
4. PNB Asset Management Co Ltd.
5. SBI Funds Management Ltd.
6. GIC Asset Management Co .Ltd.
7. IL& FS Asset Management Co.Ltd.
8. Jeevan Bima Sahayog asset Management Co.Ltd

B : Private Sector Mutual Fund

1. Cholamandlam Assets Management Co.pvt .Ltd
2. Escorts Assets Management Ltd
3. J. M Capital Management PVT.Ltd
4. Kotak Mahindra Assets Management co Ltd
5. Reliance Capital Assets Management Ltd
6. Sundram Assets Management co Ltd

Private sector in Joint Venture - Pre dominantly Indian

1. Birla Sun Life Asset Management co. Ltd
2. DSP Merrill inch Fund Management Ltd
3. H.D.F.C Asset Management Co Ltd
4. Tata TD Water house Assets Mgt Pvt.Ltd.

Private sector in Joint Venture - Predominantly Foreign

1. Deutsche Asset Management ( India ) Pvt .Ltd
2. HSBCAsset Management ( India ) private Ltd
3. ING investement Management ( India ) Ltd
4. Prudential ICICI Asset Management co. Ltd
5. Standard Chartered Asset Management co Pvt Ltd
6. Sun F & C Assets Management (India) Pvt Ltd
7. Templeton Assets Management (India) Pvt Ltd
Most of the investor invests in public sector MF because they feel comfortable with MF house backed by govt. with huge capital base, and infrastructure. It covers almost 42% of the investment by individual in public sector mutual fund. 36% investor prefers investment in private sector mutual funds though private companies provide very attractive offers for investment and they are also giving neck to neck challenges to public sector mutual funds undertaking. From the total population 22% investors have no idea about the investment in mutual funds.
Most of the investors feel average rate of return from investment in public sector. It is upto 72% due to fund house employee's having public sector mindset; they don't give proper attention and care to the expectation of Investors because of which they loose the investor faith. 22% public sector mutual fund offer very low rate of return. Only 6% PSU provide a high rate of return.
Near about 78% investor feels average risk from public sector Mutual Fund. Since the public sector mutual funds have conservative mind set, they give more emphasis on safer return rather than risky return. 14% investor having low risk in mutual funds and 8% public sector mutual funds are very risky.
More than 50% of investor invest equity related mutual fund. They would like to get higher return and have proper faith on the private fund house. 22% investor preferred investment in balanced fund and equity/debt funds. Only 2% investors invest in debt fund. The private sector companies are offering various offers for equity and balanced funds.
Most of the investors feel higher return from investment in private sector mutual fund. Private sector mutual funds give high return due to continuous research of market behavior, adequately professional work force, hard work and freedom to take timely decision. They try to give the optimal return to the investors and like to enhance the brand of fund house. Total 46% (including 16% very high and 30% high) investor get high and above return on mutual funds.44% investor get average return only 10% get very low rate of return from private sector mutual funds.
LEVEL OF RISK IN INVESTING IN PRIVATE SECTOR MUTUAL FUNDS:

44% Investors generally get average risk with private sector MF. There are pre defined measures taken by SEBI to control the Fund houses. All Fund houses are mandatory to submit the financial statement and portfolio of the scheme and return of the scheme. 30% investor get high risk in investing in mutual funds. 16% investors feel very high risk in investment in mutual fund.
Most of the investor rate the competency of the person managing private sector Mutual fund is good. It is near about 50% due to the fact that Pvt Mutual fund houses take the services of qualified professionals who have good experience and capabilities of analyzing market forces in advance so that timely and effective measure could be taken in advance. 18% fair enough in the competency in managing private sector mutual funds and 20% of the opinion that the capacity in managing private sector mutual funds is very bad.
Most of the investor rate the competency of the person managing public sector Mutual fund is good. It covers almost 52% of the total population. Public sector mutual fund houses have conservative mind set and hire the services of qualified professional with good experience. 40% managers are fair competent enough to manage the public sector mutual funds. 4% investor share very good and bad about the competency of managers of PSU.