CHAPTER-1: INTRODUCTION

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1.1 Introduction

The economic development of any country greatly influences by economic expansion. The essential source of capital formation is the capital market which pools the capital resource of the country. Capital formation generates through mobilization of saving. Saving will be generating through investments. Investment is an activity that is engaged in by people who have savings, investments are made from savings. Financially meaning of investment is the commitment of a person fund to obtain future earnings in the form of premium, pension benefits, interest, dividend and growth in the value of their capital. Investors have two options to invest in capital and money market instruments. First option is that he can directly invest in equities, debts and other capital and money market instruments. Another option is investing his fund in capital and money market through the intermediates called mutual fund. Mutual fund organizations collect fund from investors by issuing units and collected fund invest in various capital and money market instruments and these investment returns and these returns will be distributed among the unit holder after deducting it expenses and commission as per industry norms.

The Indian banking equity market is third biggest after China and Hong Kong is the Asian region. Bombay stock exchange is one of Asia’s fastest growing stock exchange. It’s one of India’s leading exchange groups more than 5000 companies are listed on BSE. The total market capitalization of the BSE ltd was USD 1.49 Trillion as on June 2014. As per recent news the market capitalization of Bombay stock exchange is reach 1.6 trillion as of November 2014 and it makes place in top ten stock market of the world. It is also one of the fastest growing stock exchange markets in the world.

Indian economy is a conservative and consumable economy. Majority people do saving for their safe future. All investors are savers but all savers are not investors. Conservative economy creates saving and saving give birth to investments. Portfolio management provided guideline about investment.
Banking is a business of trust. In India majority people are do saving in bank in form of bank saving account, post office saving scheme, recurring deposit and fixed deposit etc. people are get easily ready to invest in bank in compared to any financial institution or companies. As per traditional psychology of people bank is safe place for money. Recent period technologies are spread over the world. Today banking facility are expanded it’s not limited only withdrawn and deposit. It’s including mutual fund, hedge fund, government security etc. increase investment in banking sector is create need of appropriate system of portfolio management.

In majority of the industrialized countries an important part of financial wealth is not managed directly by savers, but through a financial intermediary. This implies the existence of an Agency contact between the investors (the principal) and portfolio manager (the agent). Therefore, the portfolio management is possibly impact of financial market and economic development at a macro level.

Under the study specially focus on investor’s perception in Gujarat region. The economy of Gujarat has significant agricultural as well as industrial production within India. Gujarat Control some of the largest businesses in India. Gujarat sustains various of industries like electrical engineering, Textile hub, vegetables oils, chemicals, fertilizers and petrochemicals etc. it is one of India’s most prosperous state, having a per GDP significantly above India’s average. As matter of fact Gujarat one of the few states of India to have encouraged private sector investment and are already in operation. Gujarat has been ranked 1st as per the “economic freedom rankings for the state of India 2012” report. Gujarat state which one of the highest share (26% in 2012) in investments under implementation project in India. 30% Gujarat share in India’s stock market capitalization. Growth of the Gujarat state is result of availability of banking system. Different types of commercial, industrialization, co-operative, public sector, private sector and foreign bank are running in Gujarat. The
entire bank provided great investment opportunity. Hence, the portfolios of bank are expanded.

We all the dream of beating the market and being super investors and spend an inordinate amount of time and resources in this endeavor. Consequently, we are easy prey for magic bullets and the sector formulate offered by eager sales people pushing their wares. In spite of our best efforts, most of us fail in our attempts to be more than average investors. Portfolio management guide to investment converted into golden investment and provided chance of best return. It encompassed risk management, account management, portfolio reporting and monitoring and many other activities. Inappropriate portfolio management practices can create sizable risk for the bank, including credit risk, liquidity risk and other risk, it’s challenging because the goal is to offer the customer efficient service responsibility while internally controlling cost, appropriately managing risks and revenues and achieving corporate and regulatory compliance. Best portfolio management of bank is helps to better decision making, minimize risk, maximize resources, prove the value of stakeholders and enable repeatable success. But portfolio management is not easy task. Portfolio optimization is too hard. Portfolio optimizers suggest too many trading, expected return are needed, mean variance optimization input are noisy estimates, transaction cost are tricky, risk and alpha factor alignment trouble, constraints get in the way. The biggest component of personalization is the construction. Planning and Management of asset related to the customer inflow and outflow from the portfolio over time. The issue of portfolio including the ability to manage hundred of diverse segregated personal equity portfolio and the ability to relate all portfolio decisions and relationship as markets, relative prices and asset/ liability relationship change.

In India portfolio management still in its early stage, excepting a few Indian banks, foreign banks and UTI, no other agency had professional portfolio management until 1987. After the success of mutual funds in portfolio management a number of broker and investment consultants some of whom are also professionally qualified have become portfolio managers. They have
managed the fund of client of both discretionary and non discretionary basis. It was found that many of including mutual fund has guaranteed a minimum return or capital appreciation and adopted all kind of incentives which are now prohibited by SEBI. They resorted to approximate over trading and insider trading discount etc to achieve their targeted arrival to the clients which are also prohibited by SEBI. Hence the practice of portfolio management is needed for customer satisfaction, cost reduction, revenue growth, improved ROI, improved development cost, innovation, internal knowledge sharing, employee satisfaction, share of market, sustainability and supplier relation.

This research deal with the portfolio management system of the banking sector AMC. Economic and political stability also affect the decision making of portfolio management of banks. The limitation of operating large number of deposit, hedge fund, stock, mutual fund and other item of portfolio. The RBI are supervisory institution is provided rules and regulation for the investment and portfolio management.

1.2 Meaning of Mutual Fund
Mutual Fund Investment Avenue allows several investors to pool their resources in order to purchase stock, bonds, and other securities. The small and medium investors do not make direct investment in secondary market or direct investment in shares or bond through public issue. They preferred the subscription to the corpus of mutual fund. The collective fund is invested by the expert manager appointed by the asset management company. Mutual fund is a professional fund managing organization, its managing the funds of individuals and institution who may not have sufficient time to cope with the complexities of different investors avenue legal provisions associated thereof, taxation provision and vagaries of the capital market. A mutual fund is Investment Company that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, other securities or assets, or some combination of these investments.

1.3 Scenario of the Mutual Fund in the World

Mutual fund is evaluated an investment vehicles. Initially the Mutual fund was started in the Netherland in the 18th century, its present status as a growing and international industry with fund holding accounting for trillion of dollar in the US only. Scenario began change as highly leveraged closed-end funds were wiped out and small open-end funds come in to force. The first mutual funds in the form of closed-end investment trusts appeared during the last quarter of the nineteenth century. The first open-end mutual fund was created in Boston in 1924. In 1929 there were 19 open-ended mutual funds running with nearly 700 closed-ended mutual schemes. Open ended and close ended mutual fund varieties experienced hectic growth in the 1920s, but they suffered a major setback from misconduct and scam as well as from the stock market crash of 1929. A major product innovation occurred in the 1970s with the launching of money market mutual funds. These specialized in investing in money market instruments and competed with banks by offering market-related returns and

1 http://www.charteredclub.com/debt-mutual-funds-vs-equity-mutual-funds/
lower spread than traditional bank deposits, while ensuring liquidity and ease of access. Money market mutual funds were launched in the United States in the 1970s in response to the regulatory restrictions that prohibited US banks from paying market rates of interest on their retail deposits at a time when high inflation was pushing market rates to very high levels compared to the ceilings imposed on banks. They also achieved high levels of development in other countries with rigid restrictions on bank deposit rates, such as France, Greece and Japan. Growth of equity and bond funds recommence in the early 1980s as macro economic performance and equity markets started to improve. Balanced fund is invested in both equities and debt instruments, may distort the relevance of these ratios. While in most countries like Morocco, India, the Czech Republic, Tunisia and several continental European countries balanced funds are heavily invested in bonds. Many countries they may be supplementary “balanced” or even “tilted” in favor of equities. Global mutual fund industry has boomed. While the 2003 mutual fund scandal of the end the global financial emergency of 2008-09. The story of the mutual fund is far from over. But the industry is still growing. More than 10000 mutual funds are there in US only and fund holding are measured in the millions of dollars. Recently above 14000 mutual funds available for the investors today. Even though the initiate of exchange trade fund, separate accounts and other competing product the mutual fund industry remains strong and fund ownership continues to develop.

1.4 Growth of the Mutual Fund Industry in India

In India first mutual fund began by unit trust of India in 1963. UTI is a first mutual fund house of the government of India and reserve bank of India. The UTI was born on 1st February 1964 under the unit trust of India act, 1963 (act 52 of 1963). In 1987 SBI mutual fund introduced first public sector mutual fund in India. Private sector mutual funds enter into the Indian mutual fund market and 1993 cure a new era in the industry. Later than Security Exchange Board of India act was passed in 1992. In 1996 SEBI mutual fund regulation
came into force. To the expansion of the mutual fund industry association of mutual fund of India was established in 1995. It main aim is to promote healthy and ethical marketing practices in Indian mutual fund industry. SEBI has made AMFI certificate mandatory for all those engage in marketing or selling mutual fund product.

Mutual fund industry is one of the fastest growing Industries in India. This industry has seen dramatic improvement in quantity, quality of product and service offering in recent year. In April 2008 the asset under management popularly known as AUM has increased from Rs.101565 crores in January 2000 To Rs.567601.98 crores. The growth path of mutual fund investment is attributed to the high saving pattern in India. This is a healthy status of the mutual fund industry in India when compared to china, Japan and France. This industry has a rapid growth as a result of infrastructure development, rise in personal financial assets and increase in foreign participation. In India mutual fund are preferred investment option compared to fixed deposit and postal saving that are considered safe and provided better return.

1.5 Phases of Mutual Fund in India

Indian mutual fund industries are proceeding in the following stages of the mutual fund.

First phase (1964 - 1987)
UTI was established in 1963 by an act of Parliament. UTI managed and control by RBI but in 1978 UTI was delinked from the RBI and after the period administrative and regulatory control taken over by industrial development bank of India (IDBI). At the end of the 1988 UTI has Rs. 6700 crores of assets under management during the initial period. The concept was very new to the investors. Investors knew only the share market and the debt market.

The Indian mutual fund industries view many public sector company incoming the market. Public sector mutual fund set up by public sector banks
and life insurance Corporation of India. SBI mutual fund was the first Non-UTI mutual was established in June 1987 followed by can bank mutual fund (Dec. 1987), Punjab national bank MF (Aug.89), Indian bank MF (Nov.89), bank of India (June 1990), Bank of Baroda MF (Oct.1992), LIC MF (June 1989), GIC MF (Dec. 1990). At the end on 1993 the mutual fund industry had assets under management of Rs. 47004 crores. However, UTI remained to be the leader with about 80% market share.

**Table 1.1 Asset Mobilization in UTI and Public sector**  
(All figures in Crores)

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<th>Amount mobilized</th>
<th>Asset under management</th>
<th>Mobilization as % of gross domestic saving</th>
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<td>UTI</td>
<td>11057</td>
<td>38247</td>
<td>5.2%</td>
</tr>
<tr>
<td>Public sector</td>
<td>1964</td>
<td>8757</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>13021</td>
<td>47004</td>
<td>6.1%</td>
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Source: [www.indiamirror.com](http://www.indiamirror.com)

**Third phase (1993-2003: Enter private sector mutual fund)**

The permission given to private sector funds including foreign management companies to enter the mutual fund industry was in the year 1993. The Kothari pioneer was the first private sector Mutual fund registered in July 199 now it’s merged with Franklin Templeton. For the period mutual fund industry has witnessed several mergers and acquisitions. The UTI with Rs.44541 crores of assets under management was way ahead of the mutual fund. As on January 2003 nearby 33 mutual funds were there with total assets of Rs.121805 crores. SEBI and government offer tax benefits to the investors in order to safeguard of investors. During this segment different investment awareness programmed were launched both by SEBI and AMFI. Their main objective to educate investors and make them informed about the mutual fund industry. The union budget in 1999 exempted all dividend income in the hand of investors from income tax.
Fourth phase (since February 2003) in fourth phase UTI was separated into two split entities. First one is the specified undertaking of the UTI with AUM of Rs. 29835 crores as on January 2003. The first one UTI managed and control by GOI and does not come under the purview of the mutual fund regulation. The second one is the UTI MF sponsored by SBI, BOB, LIC and PNB. It is registered with SEBI and mutual fund regulation. With the split of the previous UTI which had in March 2000 more than Rs.76000 crores of AUM and with the setting up of a UTI mutual fund, conforming to the SEBI mutual fund regulation. As the end of Sep. 2004 there were 29 fund housed, which manage assets of Rs.153108 crores under 421 schemes.

1.6 Structure of Mutual Fund in India

SEBI provided legal structure of mutual funds as per mutual fund regulation act, 1996. Mutual fund are constituted by trust as per Indian trusts act 1882. The structure of mutual fund is given below.

**Figure 1.1** Structure of Mutual Fund
1) **Sponsors**

Sponsors are the person who invests in the capital of the AMC. Who are the main people behind the mutual fund Business? Sponsors are may be one or more than one. They play role like promoters of the company. Sponsor sets up a mutual fund to make profit by doing fund management through its ancillary company which acts as Investment manager of the fund. As per mutual fund regulation act 1996 sponsors must be fulfilled the require criteria. Criteria consist like sound track record, firm carrying the financial service up to 5 years and earn profit, sponsor contribute at least 40% of the net worth of the AMC etc.

2) **Trustees**

Trustees are answerable for the mutual fund complies with all the regulations and protect the interest of the unit holders. All schemes suggest by the AMC have to be approved by the trustees. Trustees review and make sure that the net worth of the AMC is as per the regulatory norms. The sponsor will appoint at least four trustees and two-thirds of the trustees/Directors on the board of the trustee company need to be independent trustees (they not connected with sponsor.)

3) **Asset management company**

Day to day operations of asset management is held by the AMC. Sponsor creates the AMC & it’s managing the fund of the mutual fund (trust). The mutual fund reimburses a small fee to the AMC for management of its fund. The AMC makeup a choice of schemes, launches the scheme and mobilizes initial amount, manages the funds and provide services to the investors. Any person appoints as director of the board prior approval of trustees must be needed. 50% of the directors should be Independent it’s not associate with trustees or sponsor. If any change in the AMC is subject to prior approval of SEBI and unit holders. AMC required investing seed capital of 1% the amount increase subject to a maximum of Rs. 50 lack in all open ended schemes of the mutual fund through the lifetime of the scheme.
4) Other Service Providers

1. Custodian

The assets of the mutual fund are held by custodian. They settle all dealings on behalf of the mutual fund schemes. Custodian accepts and gives delivery of securities for the purchase and sale transactions of the different schemes of the fund. They collect and account for the dividends and interest receivables on mutual fund investments. They also keep follow of various corporate actions like right issue, bonus issue, and stock opening, buy back offers and open offer etc and act on these as per instructions of the Investment manager.

2. Registrar and Transfer Agent

RTA plays the essential role in handling and documentation of investors. The duty of RTA include processing investors’ application, recording the details of investors, purchase and redemption transaction of the investors, sending them account statements and other reports on periodical basis, processing dividend payouts, making changes in investor details and keeping investor records updated by adding details of new investors and by removing details of investors who withdraw their funds from the mutual funds. Appoint RTA is not compulsory but the AMC can choose to handle activity in house or appoint RTA.

3. Auditors

The separate books of account are prepared for each scheme of the mutual fund and individual annual report for the unit holders. Auditors are accountable for the audit of accounts. Scheme auditor is appointed by the trustees and AMC auditor assign by the AMC.

4. Distributors

Distributors require passing the prescribed certificate test and registered with AMFI. A Distributor can sell appropriate types of units to their clients. Distributors may be individual or institutions like banks, broking or distributors companies.
5. Fund Accountants
The fund accountant play role for calculating the NAV using the information like assets and liabilities of each scheme. A fund accountant has no need to register with SEBI.

6. Collecting bankers
Investors invest money go to bank account of the scheme and bank accounts are maintained with collection bankers who allotted by AMC.

7. KYC Registration Agency
As per SEBI rule KYC is mandatory for the securities market through KYC registration Agencies registered with SEBI. Any new investors, joint unit holders, Donors & Guardian and power of attorney holder need to comply with the KYC formalities. In person verification (IPV) by SEBI registered intermediary is mandatory for all investors.

1.7 Types of the Mutual Fund Schemes
The mutual fund industry of India is continuously evolving. Along the way, several industry bodies are also investing towards investor education. Yet, according to a report by Boston Analytics, less than 10% of our households consider mutual funds as an investment avenue. It is still considered as a high-risk option. In fact, a basic inquiry about the types of mutual funds reveals that these are perhaps one of the most flexible, comprehensive and hassle free modes of investments that can accommodate various types of investor needs. Various types of mutual funds categories are designed to allow investors to choose a scheme based on the risk they are willing to take, the investable amount, their goals, the investment term etc.
1. BASED ON MATURITY

I. Open-Ended mutual fund schemes

An open ended fund is available and repurchase on continues basis. It’s open for investors to enter or exit at any time, even after the NFO. The main feature of the schemes is liquidity and schemes do not have fixed maturity period. Investors will generally purchase shares in the fund directly to buy or sell units at any in time. Investors any time can invest. When existing investors acquire additional units or new investors acquire units from the open-ended scheme is called as a Sale transaction. Investors return any of their units to the scheme (investors sale the mutual fund units) and get back their value is called re-purchase transaction.
II. Closed-Ended schemes

The fund is open for subscription only during specific period at the time of launch period known as the new fund offer (NFO). Close - ended fund has fixed maturity. Under the close ended schemes Investor can invest in the scheme at the time of the initial public issue only. After that they can buy or sell the units of the schemes on the stock exchange only where the units are listed. SEBI regulation stipulates that at least one of the two exit routes is provided to the investors. The fund makes arrangements for the units to be traded, post-NFO in a stock exchange. Close ended schemes disclose NAV generally on weekly basis.

III. Interval schemes

This scheme Consist the combine feature of both the open ended and close ended fund. Its largely close ended but become open ended at pre specified period. For example, interval scheme might become open ended between January 1 to 15, and July 1 to 15, each year. The main benefit of the scheme is investors not depend on stock exchange for the sale and purchase of units. The period when an interval scheme become open ended is called transaction period. Period between the close of a transaction period and the opening of the next transaction period is called interval period. Under such scheme minimum period of transaction period is 2 days, and minimum duration of interval period is 15 days.

2. ACTIVELY MANAGED FUNDS AND PASSIVE FUNDS

Under the Active managed schemes where the fund manager has the flexibility to choose the investment portfolio within the broad parameter of the investment objective of the scheme. This fund performs better than the market. Fund manager play vital role under such scheme and expenses of running the fund turn out to be high.

Passive fund invest in specified index, whose performance it seeks to track passive. Suppose a passive fund track the BSE Sensex would buy only they are part of the composition of the BSE Sensex. The part of each share in the
scheme’s portfolio would same as the weight age assigned to the share in the computation of the BSE Sensex. The Performance of active fund same mirror of the concerned index. It’s not performing better than the market. The fund manager has no role in deciding on investment hence its incurred low running cost.

3. DEBT FUNDS
Debt fund schemes invest in treasury bills, corporate bonds, money market instruments, Government securities, corporate bonds and other debt securities of different time horizons. The risk and return of the securities will vary based on the tenor and issuer.

On the basis of issuer
I. Corporate bond fund
Such a scheme invests in debt securities issued by Public Sector Units and companies. The credit risk associate with the issuer and it’s denoted by the credit rating assigned to the security. Higher risk associated bond pay high return.

II. Gilt fund
Gilt fund invest in Government securities and treasury bills only. Short term gilt fund invest in Treasury bill its provided liquidity. Long term Gilt fund very sensitive to interest rate change and it’s invest in medium and long term tenure.

On the basis of tenor
I. Liquid schemes
Liquid scheme is also known as money market schemes. Liquid funds are simply debt mutual funds that invest money in very short-term market instruments such as treasury bills, government securities and call money that hold the least amount of risk. They can invest short term debt securities of up to 91 days maturity.
II. Short term debts schemes
These schemes invest in short tenure that has low interest rate risk of significant change in the value of the securities. This covered short term debt fund, ultra short term plan and Short term gilt fund.

III. Ultra short term plans
The main aims of the scheme it to generate a steady return, mostly coming from accrual of interest income with minimum NAV volatility. It’s also called treasury management funds or cash management fund. They invest in short term security maturity up to 365 days and money market instruments.

On the basis of investment strategy

I. Diversified debt funds or income fund
It’s invested in mix of government and non-government debt securities such as debenture, corporate bond and commercial paper. Corporate bond associate with risk and provide higher coupon income.

II. Dynamic debt fund
Dynamic debt fund do not focus on any particular category of issuer or long or short term securities but look for opportunity to earn income and capital gains across segments of the debts market.

III. Junk bond schemes
High risk bond schemes invest in securities held that have a lower credit rating indicating poor credit quality.

IV. Fixed maturity plans
The kind schemes debt funds where the investments’ portfolio is closely aligned to the maturity of the scheme. Its close ended schemes they do not accept money post NFO.

V. Floating rate fund
Debt securities pay by issuer change with the line of market. Suppose debt security where interest payable is described as 5 year government security yield plus 1%, issuer pay 7% interest if 5 year government security yield is 6%.
4. EQUITY FUNDS

I. Diversified equity fund

This fund invests across companies and sector with varied market capitalization. Most investors preferred such category. The risk of the fund’s performance being considerably affected by the poor performance of one sector to segment is low.

II. Sector funds

This fund invests in specific sector only. Example like, banking sector invest in shares of banking companies only. Gold sector fund invest in only gold related companies. This scheme is more risky than diversified scheme.

III. Market segment based funds

Equity fund invest in segmented based on market capitalization like, Large –cap funds, Mid-cap funds and small cap funds.

IV. Thematic funds

This investment funds more broad than sector fund but narrow than a diversified equity fund and still has the risk of concentration. E.g. infrastructure thematic fund may invest in shares of companies that are into infrastructure construction, infrastructure toll collection, cement, telecom, steel and power etc.

V. Equity linked savings schemes (ELSS)

Its diversified equity funds that offer tax benefits to investors under section 80 C of the income tax act up to an investment limit of Rs. 150000 a year. ELSS is required to hold 80% of its portfolio in equity instruments. The lock in period of investment is 3 years and investors cannot redeem, pledged or transfer units.

VI. Rajiv Gandhi Equity savings schemes (RGESS)

Its offer Tax benefits to first time investors. Investments are subject to a fixed lock in period of 1 year and flexible tax lock in period of 2 years.
VII. Strategy-based schemes
In strategy based schemes portfolio that are managed and create according to a state strategy or style. **Value schemes** invest in shares of fundamentally well-built companies that are currently under value in the market with the expectation of benefiting from an increase in price as the market recognizes the true value. **Focused fund** hold portfolios concentrated in a limited number of stocks. **Dividend yield/income schemes** invest in securities whose shares fluctuate less and dividend represents a bigger part of the returns on those shares. **Growth fund** portfolio invest companies whose earnings are expected to grow at a higher than the average rate.

5. HYBRID FUNDS
Hybrid fund is a combination of equity, debt and Gold. The risk and return in the scheme will depend upon the distribution to each asset class and the type of securities in each asset class that are including in the portfolio. Balance fund is very popular equity oriented fund. Such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. They generally invest 40% to 60% in equity and debt instruments. Hybrid mutual funds have been around since the late 1920s. They are funds that are invested in common stock, preferred stock, bonds, and may have an international or a cash component as well. One type of hybrid mutual fund is called a "balanced fund." The ratio of stocks to bonds is determined by the fund's objectives and the fund manager. Funds with "balanced" or "income" in the name normally have a fixed ratio from which they can't deviate. On average, their ratio of stocks to other investments is approximately 60:40. Managers of balanced funds can, however, shift this ratio one way or the other to take benefit of high interest rates or stock market growth. These funds may be equity-oriented and skewed toward stocks, or income-oriented and skewed toward bonds. "Asset allocation funds," however, have some freedom to change their mix depending on the
manager's evaluation of market conditions. One type of hybrid mutual fund is called a "balanced fund."

I. Debt-oriented hybrid scheme funds
Such scheme invest in equity allocation can 5% to 30% according to offer document and remain invest in debt.

II. Capital protection schemes
Its close ended schemes ensured that investors get their money back irrespective of anything happens to the market. Such schemes invest in high-quality fixed income securities and subsidiary coverage to equities related securities it’s mature along with the maturity period of the scheme.

III. Monthly income plan
Debt oriented hybrid fund declare a dividend every month. But there is no guarantee dividend will be paid every month.

IV. Arbitrage fund
Buying a share in BSE and simultaneously selling the same share in the NSE as higher price that is an Arbitrage. Mostly arbitrage fund take opposing position between the equity market, future market and option market.

6. REAL ESTATE FUNDS
These close ended schemes listed with stock exchange invest in real estate in the form of physical property or shares of the companies engaged in the real estate business. As per SEBI regulation at least 30% portfolio hold in physical assets and assets of funds will be valued by every 90 days by two values accredited by credit rating agency.

7. COMMODITY FUNDS
Commodity fund including assets like food crop like wheat & gram, fibers like cotton, Spices like pepper, turmeric, energy like Oil & natural gases, industrial metals like aluminum, copper and precious metals covered gold and silver.
I. Gold funds
Gold fund invest in gold and gold related securities.

II. Gold exchange traded fund
These funds invest in gold, gold receipt and gold deposit schemes of the banks to a limit of 20% of the net assets of the scheme. Each ETF unit basically represent one gram of gold.

III. Gold sector funds
These funds will invest in shares of the companies engaged in gold mining and processing. The Flexibility of gold price influence share price.

8. INTERNATIONAL FUNDS
International funds hold certain foreign securities in their portfolio. Eligible securities under this fund covered equity shares & debt companies listed in foreign, ADRs and GDRs of Indian companies units of index funds in other countries and managed mutual funds in other companies.

9. FUND OF FUNDS
FOF is a mutual fund that invests in other mutual funds. FOF invest in mutual fund belong to the same fund house or belong to other fund houses. These fund hold other funds in portfolio its can be debt or equity, depend upon the schemes objectives. Its specialized analyzed fund their performance strategy add or remove funds based on such analysis.

10. EXCHANGE TRADE FUNDS
ETF are open ended fund investors directly open unit only during the NFO and units are trade in a stock exchange. Purchase and sales transactions in the units are conducted on the stock exchange where the units are listed. The major benefit of the market maker is to provide liquidity in the units of the ETFs to the investors.
11. INFRASTRUCTURE DEBT SCHEMES

There are close ended schemes with a period of at least 5 years that invest in debt securities and securitized debt of infrastructure companies. 10% portfolio invests in equity share of infrastructure companies and 90% portfolio held by specified securities. The minimum investment allow Rs. 1 crore and the minimum face value of each unit shall be Rs. 10 lakh. Close ended scheme the units will be listed on stock exchange.²

1.8 Common Features of Mutual Funds

The common characteristics of mutual fund are specified below. Its features connected with pros and cons will depend on your unique circumstances.

I. Professional Management

In India mutual funds schemes are managed by fund manager who are authorized person by AMC.

II. Diversification

Distribution investments across a wide range of companies or industry sectors can help lower risk. If a company or sector fails diversification provide protection against loss. Mutual funds diversify the portfolio across different types of investments, multiple companies and sectors. Equity mutual funds invest in shares of various companies whereas debt funds invest in government securities, NCD, CDs, CPs bonds and other fixed income securities.

III. Low Minimum Investment

Mutual funds provide investment facilities to the investors who don’t have a lot of money to invest (small investors) by SIP and also provide lump sum Investments facilities. It’s provided best investments platform to the small and middle class investments for the purpose of enter in the capital market. Minimum amounts of investment range from as low as Rs. 500, with no upper

² NISM-series-V-A: Mutual fund Distributors certification examination. Workbook Version: August 2015
limit. You can invest online, offline, directly with the fund house or through an intermediary.

IV. Transparency
There is an element of uncertainty when an investor hands over his savings. The comfort is higher if you trust the person and know how exactly your money is going to be used. In the case of Mutual Funds, your money is handed over to a professional fund manager, whose entire job is to keep track of markets and look out for the best opportunities for you, that fits in line with the schemes objective. Basically the NAV is published daily on AMFI and on each of the fund company websites. The fund house also publishes a monthly fact sheet which basically lists out all the important facts you need to know about the scheme you’ve invested in.

V. Flexibility
There are various types of Mutual Funds from which investors can choose to invest starting with a time frame of a day to years. These investments could range from investments in money market instruments, G Secs to equities or even a hybrid combination of instruments. Minimum investment amount allow in mutual fund is low as Rs. 500 and maximum having no upper limit. Investors can invest directly, online and offline with the fund house or through an intermediary.

VI. Liquidity and Trading Convenience
Many investors look for easy liquidity, so that if a need arises or there is an emergency they can encase easily. In the case of open ended funds, redemption request can be submitted on any. Once such a request is place, you can get your money back in a time frame of 1 to 5 working days. There are some specific schemes in money manager funds, where investors can withdraw up to 2 lakhs, instantaneously throughout the year. Mutual fund investors can readily redeem their shares at the next calculated NAV—minus any fees and charges assessed on redemption—on any business day. Payment for the Share of Mutual funds send within seven days but many funds provide payment earlier.
VII. Costs despite Negative Returns
Investors in mutual funds must pay sales charges, annual fees, management fees and other expenses as per industries norms. Investors may also have to pay taxes on any capital gains distribution they receive.

VIII. Lack of Control
Investors in mutual funds cannot directly influence which securities are included in the funds’ portfolios.

IX. Potential Price Uncertainty
In Mutual fund the price at which an investor purchases or redeems shares will depend on the fund’s NAV, which the fund might not calculate until many hours after an order has been placed.

1.9 Factors to Consider Before Selecting in Mutual Fund

I. Determine your financial goals and risk tolerance
When it comes to investing in mutual funds, investors have thousands of choices. Before you invest in any mutual fund investors must decide whether the investment strategy and risks are a good fit for them. Investors should also consider more generally whether the unique style of investing of the mutual fund’s sponsor is a good fit for them. The first step to successful investing is to figure out your current financial goals and risk tolerance—either on your own or with the help of an investment professional.

II. Beware of risk
Every investment carries some level of risk. Investors can lose some or all of the money they invest because securities held by a fund goes up and down in value. Dividend payments may also fluctuate as market conditions change. Mutual funds carry risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

III. Consider the sponsor’s investing style
Before invest investors may want to research the sponsor of the mutual fund they are considering. Each mutual fund schemes has its own style of
investing that will affect how it manages its mutual fund. It is helpful to understand each sponsor’s style of investing, so you can better choose the right investment for you.

IV. Ask and check
Before you engage an investment professional or purchase shares of a mutual fund make sure you research and verify relevant information to determine which option is best suited for you.

1.10 Advantages of Mutual Fund

I. Instant diversification:
A mutual fund will provide you with a basket of stocks that will provide diversification in your portfolio.

II. Wide choice to suit risk returns profile:
Investors can choose the fund based on their risk tolerance and expected return.

III. Effective for smaller accounts:
Since a mutual fund provides exposure to hundreds or thousands of stocks, you don't need to go out and buy hundreds or thousands of stocks on your own, which could be very prohibitive for you if you have a smaller-sized investment account and limited capital to invest with.

IV. Reduction of risk:
The potential loss is also shared with other investors.

V. Professional management:
Mutual funds are run by investment managers who would likely be considered experts in their field. Mutual fund companies have resources that are above and beyond what one may have as an individual, retail investor.

VI. Reduction of transaction cost:
The investor has benefits of economic of scale; the funds pay less cost because larger volume and it is passed on to the investors.
VII. Liquidity:
In mutual fund investment investors can cash their investment at any time by selling the units to the fund if it is open-ended and get the intrinsic value. Sell the units in the market in close ended schemes.

VIII. Flexibility and convenience:
Holding in mutual fund easily transfer from one scheme to other, disclosure of the information and so on. It’s also offer benefits like systematic investment plan, monthly income plan and tax benefits etc.

IX. Transparency:
Fund provided regular information regarding value of investment, disclosure of NAV, portfolio of the scheme, fund manager investment strategy through scheme information document and factsheet.

1.11 Disadvantages of Mutual Fund

I. No intraday - trading on mutual funds
If you want to make a trade on your mutual fund, you'll likely not know what the NAV price will be when you lock in the trade. That is because the NAV (Net Asset Value) is settled at the end of each trading day. If you don't lock your trade in before the end of the stock market close, you'll receive the NAV as of the close of business the following day. This makes it difficult and/or impossible to capitalize on sudden movements in the market (if that is something you're trying to do).

II. Not tax-efficient
In a non IRA account, mutual funds will process capital gain distributions about once per year, which you will then be taxed on, even if you did not take any capital gains that year. The end investor has little impact or say on how much a fund will decide to spit out in capital gain distributions. The funds have the freedom to delay capital gain distributions in some years, essentially kicking the can down the road for later years. This could adversely impact you as the end investor.
III. Subject to the herd

If you are a disciplined investor and you know not to buy high and sell low, then you won't panic when volatility occurs in the marketplace. However, when investing in a large mutual fund, chances are that many of your fellow investors will not have the same discipline. They will sell at a low point, causing the fund to sell positions in order to account for the redemption requests. In other words, your performance may suffer because of the lack of discipline of other investors that also own the same fund.

IV. Impersonal connection

When investing in a mutual fund, you do not usually have easy access to the one making the investment decisions. There may be quarterly investor calls and updates, but there will be a significant lack of interpersonal communication with the main folks in charge of the fund.

V. No control over Cost

Mutual funds always carry some kind of costs. In all cases, costs will decrease your overall rate of return. That is why it is important to limit the annual expenses of mutual funds, the potential front-end or back-end loads, and turnover costs. It takes more than a novice investor to navigate these issues, but this is one of the most important downsides to using mutual funds and thus, should certainly be evaluated and address by all investors.

1.12 Concept of the Portfolio Management

A Portfolio means a collection of different kind of investments owned by the same person or association. Such investments include stocks, bonds, debentures and other securities. In mutual fund pools of money from many investors that are invested by professional fund manager or according to scheme objectives.

A portfolio refers to a collection of investment tools such as stocks, shares, gold, silver, real estate, building, insurance policy, post office certificate, mutual funds, bonds and cash and so on depending on the investor’s income,
budget and convenient time frame. There are two types of portfolio included market portfolio and zero investment portfolios.

**Portfolio management**

All the investors having dream of beating the market and being super investors and spend an unreasonable amount of time and resources in this enterprise. Consequently, we are easy prey for the magic bullets and the secret formulae offered by eager sales people pushing their wares. In spite of our best efforts, most of us fail in our attempts to be more than average investors. However, investors always keep trying the investing legends. Portfolio management guide investors to convert they investment into golden investment and provided chance of the greatest return.

Portfolio management is the skill of selecting the correct investment alternative for the investors with minimization of risk and maximize of return. Portfolio management refers to managing an individual’s investments in the form of bonds, shares, cash, mutual funds etc so that he earns the maximum profits within the stipulated time frame. The types of the portfolio management consist of the active portfolio management, passive portfolio management, discretionary portfolio management and non-discretionary portfolio management. Phase of portfolio management including security analyses, portfolio analyses, portfolio selection, portfolio revision and portfolio evaluation.

**Markowitz and Adesota (1995) model** identify factors that considered for the efficiency of portfolio selection theory is as below.

A. Expected future return of each candidate security.
B. Expected return from each candidate security.
C. The extent to which securities risk correlated with other security.

**Erye Methue (1970)** identify the reason for diversification of assets including,

A. To save money for future needs.
B. To achieved return from long term savings.
C. To make available return is adequate to reimburse for the fall in purchasing power of money.
1.13 Meaning of Perceptions

Perception means how peoples respond to the information. It means peoples recognition and interpretation regarding sensory information. Perception is a process where people take sensory information from their environment and use that information in order to interact with their environment. A perception allows peoples to take the sensory information in and make it into something meaningful.³ Perception means to notice or become aware of something or the ability to become aware of something or act of perceiving by means of the senses or the mind.

The above image shows two persons having different perception for the glass partially filled with water as the one person says glass is half full and the other person says glass is half empty.⁴ This image indicates the different perception of peoples towards same thing or glass.

1.14 Mutual fund Regulation by SEBI

Regulation applicable in case of mutual fund is known as the security and exchange board of India (Mutual fund) regulations 1996. Mutual fund schemes follow the regulation while determine the price of units.

Regulation for Pricing of Units

I. In open ended mutual fund The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors.

II. In case of open-ended Mutual fund scheme sale and repurchase price of units shall publish at least once a week in a daily newspaper of all India.

III. While deciding the prices of the mutual fund units its ensure that the repurchase price is not lower than 93 per cent of the NAV and the sale price is not higher than 107 per cent of the NAV.

IV. The price of units shall be determined with reference the scheme announces the Net Asset Value on a daily basis.

1.15 PEST Model for Mutual Fund Industry

Figure 1.3 PEST Model for Mutual Fund industry
I. POLITICAL FACTOR

In India mutual fund running under the SEBI (Mutual fund) regulation act, 1996. Government stability play essential role in economy development. Growth of the economy and capital market both are running parallel. The Political factor influence mutual fund investment. As per FACTA (Foreign Account Tax compliance Act) come in to place many fund houses stop taking investment from USA and Canada because of the complexity associated with the compliance.

II. ECONOMIC FACTOR

Indian economy is a six largest country in the world according to Gross domestic product and third largest by purchasing power parity. Indians population is young with more than 50% of its population below the age of 25 and more than 65% below the age of 35 years. Hence, percentage of working people increasing day by day. Young working people may be move towards the investment. BSE Sensex crossed 30000 and Indian capital market reach nearly up to $2 Trillion and it’s also raise in upcoming years. Asset of the mutual fund industry has increased from Rs. 10.7 Lack crore in October 2014 to Rs. 14.5 Lack crore in May 2016. Out of total assets 83% (Rs. 12.1 Lack crore) of the assets top 15 locations. While remaining 17% (Rs. 2.31 Lack crore) has come from Non-T15 locations.

III. SOCIAL FACTOR

In India living standard of the people constantly trend to be improved. Literacy level among the population is also increased. Through to meet the future fund need, to meet contingencies and to maintain the living standard more people divert towards investment. In India majority population belong from middle and lower class and mutual fund provide best platform for the small and middle class investors hence the prospect of the mutual fund expansion in India in very bright.

IV. TECHNOLOGICAL FACTOR

The technological development made it possible for the foreign companies to look for Indian market and returns associated with it.
1.16 Some Difficulties in Portfolio Management

More in depth research has probed these issues regarding difficulties faced in portfolio management and has identified below main challenges or problem areas in portfolio management.

A. **Resource balancing**: many times in portfolio difficult to manage excess Resource with available resources. Demands regularly exceed supply, as management has difficulty balancing the resource needs of projects with resource availability.

B. **Prioritizing projects against each other**: under the portfolio many projects are good in early stage but too many projects extend that time critical to select most profitable option. Management seems to have difficulty discriminating between the Go, Kill and Hold projects.

C. **Making Go/Kill decisions in the absence of solid information**: The sincere homework is often substandard in projects, the result being that management is required to make significant investment decisions, often using very unreliable data. No wonder so many of their decisions are questionable!

D. **Too many minor projects in the portfolio**: There is an absence of major revenue generators and the kinds of projects that will yield significant technical, market and financial breakthroughs.

These four problems are clearly interlinked. For example, the inability to discriminate between projects invariably leads to a resource balancing problem. Insufficient resources on key projects in turn results in project teams short-cutting key activities.

1.17 Background of the Study

Traditional method of structuring portfolio within a limited 1 to 3 year multi-period, it’s clear that this may not be an efficient allocation of assets. Harry Markowitz (1952) introduced the concept of efficient portfolio, which either optimized the return of an asset or minimized the risk of the asset for given level or return. The management of assets within liabilities space requires a different way of modeling and managing the relationship between assets and
liabilities over time. The integration of the management of assets and the management of liabilities over time is a solution of portfolio problem. (15\textsuperscript{th} July 2009 TAMRIS consultancy).

A maintaining a fixed level of systematic risk upon portfolio repositioning, portfolio return inferior to the benchmark is justified as the benchmark demand higher systematic risk in order to generate higher return. Active portfolio systematic risk exceeds benchmark systematic risk portfolio return is in such case positively significant. In that regard portfolio management adds value to the investor (2012 Johan Christian Hilsted). Banking sector play the essential role in the economy growth. Hence, its play the key role to the created of ideal capital resource and optimum used of resource with creation of maximum productivity (Sharma 2003). Under the Indian economy banking business is strongly present but it’s very risky. Financial institution also takes the risk but them working more consciously (carey, 2001). Modern portfolio theory lacks the liability component needed to plan and managed structure and cannot manage short term risk and Return. It only has a rational within the one period model. Yet modern portfolio theory underlies practically all modern retail portfolio construction.

1.18 Research Problem

Despite the passage of over 25 years since economic liberalization mutual fund are still not popular among the masses. After the liberalization of the 1990 develop the financial securities market in India. Many investment alternatives available in the market and mutual funds evolved as a new instrument for investors in the post-liberalization era. Financial awareness holds the key to greater market penetration. The mutual fund sector, up to 1986, was monopolized by UTI. The association of mutual funds or India (AMFI) has 44 registered AMCs operating in the country as on March 2015. Mutual funds are not free from criticism. Agents and distribution house play a vital role to build fund corpus because mutual fund are a collective investment vehicles. Active investment by the distribution house could cause loss to the
investors. Indian AMC’s often face such operational difficulties in fund mobilization. Mutual fund, irrespective of their categories, cannot generate common returns on investments nor have an equal degree of risk. Higher risks are usually involved in equity funds compared to debts or bond funds. Nowadays no specific class or type of mutual funds is universally suited for all investors. Equity investors have wider choice in large-cap, mid-cap and small cap fund families. Mutual fund considered as ideal investment for the small and medium investors. A 2013 SEBI study revealed that 85% of the total AUM of the AMCs is contribution by Mumbai, Delhi, Chennai, Kolkata and bangalore. The gross AUM is just 6.99 percent of India’s GDP, and nothing in comparison to developed nations like UK (40 %), EU (42%) and US (83). India faced lack of financial literacy and awareness among the investors regarding mutual fund. This study had made an attempt to analysis the performance of balanced mutual fund scheme of the by ICICI, HDFC, SBI and BOI mutual fund and evaluate the investor’s perception towards mutual funds.

1.19 The Main Objectives of this Research

1. To evaluate the performance of balanced mutual fund scheme offered by ICICI prudential mutual fund, HDFC mutual fund, SBI mutual fund and Baroda pioneer mutual fund. To evaluate the performance of selected mutual fund schemes with respect to different performance attributes.

2. To identify the socio - economic profiles of the mutual fund investors of Ahmadabad, Surat and Baroda.

3. To study the mutual fund investment details of investors in the study areas.

4. To evaluate the investors perception towards mutual funds investments.

5. To identify the factors influence Investors perceptions towards mutual fund investments.
1.20 Research Gap

In Indian context much research carried out on investors’ perceptions and behaviors towards mutual fund and performance evaluation of mutual fund schemes available in India. Mutual fund industry is one of essential part of Indian capital market. Moreover, existing research carried on mutual fund are based on financial performance of various schemes, awareness or perceptions of investors regarding mutual fund. Much existing research carried out on open ended schemes, close ended schemes, Growth schemes, private sector mutual fund and public sector mutual fund. Research gap find that no studied focus on balance mutual fund schemes. Hence, present study focus on evaluate the performance of balance mutual fund schemes of the selected public and private sector AMC. Balance schemes consisting investment in both Equity and Debt funds. As per basic sense market grows up increase investment in Equity fund under portfolio and market goes down raise investment in debt fund. Under the circumstances of market volatility balance schemes maintain balance between Equity and Debt. Present study focus on performance appraisal selected balance schemes.

In India mainly in the state of Gujarat few of the research carried out on mutual fund investor’s investment perception towards mutual fund. Chapadia (January 2014) thesis attempts to better understand explain how emotions and cognitive errors influence behavior and the decision making process from new insight of behavior finance in Gujarat. Mehta (2012) studies shows that the investor’s perception towards mutual fund investments consisted investment alternatives and factor impact it, investors expectation and preference of various mutual fund schemes in Gujarat. In Gujarat few studied focus on investor’s perception towards mutual fund investments. Recent research covered investors’ perceptions towards mutual fund in Surat, Ahmedabad and Baroda cities of Gujarat Region.
1.21 Organization of the Study

The Thesis consists of six chapters.

Chapter one consist introduction of the study, research problem, research gap etc.

Chapter two based on review of literature related to mutual fund and portfolio management are discussed.

Under the Chapter three discuss the research methodology.

Chapter four represents the history of selected sample size.

Chapter five explains the data analysis and interpretation on perception of mutual fund investors and evaluates the performance of balanced schemes using Sharpe index model.

Chapter six represents finding, suggestion and conclusion.