CHAPTER - IV

MUTUAL FUND PRODUCTS
Mutual funds relieve the investor from the problems of weighing the pros and cons of investing in different types of instruments such as shares securities, bonds etc. The investor achieves diversification of his investments through mutual funds which invest in a broad spectrum of industries and sectors. This diversification reduces the risk because even when the economy is exposed to cycles. A diversified portfolio helps neutralising the downturn in one class of assets with the gains in the other. This is because all assets do not move in tandem. More over, mutual fund organisations offer a wide variety of products/schemes which cater to the varying needs of investors. Here too the investor can build up a portfolio of mutual fund product depending upon his circumstances and needs.

This Chapter proposes to discuss the preference of investments in mutual fund products, classification of mutual fund schemes on the basis of geographical position, function and objective (portfolio).
4.2 INVESTMENT IN MUTUAL FUND PRODUCTS

Following the collapse of many Non-Banking Financial Companies (NBFC's), a cut on the provident fund and bank deposit interest rates by Government of India, considering the safety, liquidity, tax advantage and reasonable returns mutual fund have become a preferred investment avenue for investors.

The mutual funds in India offer a wide variety of products/schemes to small investors in urban and rural areas. These products no doubt compete with other investment avenues such as shares, bonds, post office small savings schemes, bank deposits, insurance, NBFC's deposits etc., apart from competing among themselves. Depending upon the nature and characteristics of the product, its risk-return profile, investors can choose from a variety of products.

Through constant innovation in product variety, mutual fund organisations can build up a vast clientele and expand their investor base. Even with regard to various mutual fund schemes, the investor can build a diversified portfolio to achieve various financial goals with uneven appetite for risk. We therefore, discuss below the different types of mutual fund products with their distinguishing features and their capability to cater to the varying investment goals of the household investors.
### 4.3 CLASSIFICATION OF MUTUAL FUND SCHEMES (PRODUCTS)

There is a wide variety of mutual fund schemes that cater to the needs of various classes of investors according to their age, financial position, risk tolerance and returns expectations which aim at providing both capital appreciation and income by periodical distribution of dividend as per the choice of the investor.

The mutual fund schemes/products may broadly be classified into three categories based on the advantages and services offered to various sections of the society, Geographical, Functional and objective (portfolio). The exhibit 4.1 shows the classification of mutual fund schemes.

<table>
<thead>
<tr>
<th>Classification of Mutual Fund Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Geographical</strong></td>
</tr>
<tr>
<td>- On-shore (Domestic)</td>
</tr>
<tr>
<td>- Off-shore</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

4.4 GEOGRAPHICAL CLASSIFICATION

Geographically the mutual funds have been classified as domestic mutual funds and off-shore mutual funds. Domestic mutual funds are the savings schemes which are opened for mobilising the savings of the residents within the country. Eg. Unit Scheme 1964, Master Gain, Master Growth, Magnum, Balanced Fund, Cancigo, Canbonus, Ind-Ratna, Kothari Prime Fund, JM Basic Fund, Tata Income Fund etc. The off shore fund is meant to attract foreign capital for investment in the country. Eg. Indian Magnum Fund, Himalayan Fund, Common Wealth Equity Fund, Indian Investment Fund, Indian Liberalisation Fund, Jardin Fleming Indian Fund, Lazard Birla India Investment Fund etc.

In addition to the domestic funds, off-shore mutual funds are established with an aim to attract the investors residing outside India to invest their money in Indian mutual funds. The amount, collected from them can be invested in the Indian Capital Market as well as industry. Thus off-shore funds facilitate the flow of investible resources from surplus countries to the needy developing countries. In off-shore funds, there is no guarantee or assurance of a rate of return. Capital appreciation is the main objective of investment in such funds. The resources are therefore invested in growth oriented securities and projects which promise high returns. It was already stated that in 1986 India made first attempt with the launching of India Fund by UTI
in July. UTI launched another fund India Growth Fund in August 1988. Visualizing offshore funds as a potential source of mobilising resources, Dr. Manmohan Singh, the then Finance Minister, in his budget speech announced substantial tax benefits on dividend income received by off-shore funds.

A number of off-shore funds (called country funds or international funds) have been launched either independently as a client of a domestic mutual fund or jointly with a foreign Asset Management Company/foreign institutional investors (FII). The example of off-shore funds as client of a domestic mutual fund (which make investment through local mutual funds) are the India Fund, Himalayan Fund (Canbank Mutual Fund), India Magnum fund (SBI Mutual Fund) etc. The examples of Foreign Institutional Investors sponsored funds (which invest directly) are Indian Liberalisation Fund (Alliance Capital Management Corporation), Govt. of India Fund Ltd., (John Govett Management (Jersy Ltd.), Bombay Fund (Barchays de Zocete Investment Management) etc.

Before 1993 most of the off-shore funds were launched by the public sector mutual funds and most of them were open-ended. The year 1993 was a turning point for off-shore funds, since seven funds were launched in that single year. In a decade commencing from 1986, twenty off-shore funds were launched of which ten are open-ended and the remaining ten are close-ended.
4.5 FUNCTION - WISE CLASSIFICATION

Mutual fund schemes may broadly be classified on the basis of their nature and function into Open-ended and Close-ended schemes. An open-ended scheme is one which sells and buys units on a daily basis. It has therefore a perpetual existence and a flexible and ever changing corpus. The investors are free to buy and sell any number of units at any point of time at prices linked to the Net Asset Value (NAV) of the units. The unit holders, of course, can disinvest only after the expiry of the stated lock-in period. This feature imparts instant liquidity. The fund announces sale and repurchase price from time to time. These schemes are not listed in the stock exchange. Eg. US-64, ULIP, Cangilt, Magnum equity, Alliance-95, Tata income fund, LIC bond fund, Birla Cash plus, etc.

A close-ended scheme is one, in which the subscription period remains only for a specified period, called the redemption period. At the end of the period, the entire corpus is dis-invested and the proceeds are distributed to the unit holders. The scheme ceases to exist after the distribution of the proceeds. The schemes are listed on the stock exchanges for dealing in the secondary market, within six months from the closure of subscription.

Eg : Master Share, Can Share, Cancigo, GIC Balanced Fund, IDBI-NIT 95, Ind Ratna, Master Growth, Taurus Genshare etc.
There are certain plus and minus factors of the close-ended and open-ended schemes. In the secondary market, the shares of the close-ended schemes usually sell at discount over their Net Asset Value. Hence the unit holder may or may not realize the fair value. As against this, the unit holder in an open-ended scheme gets a value close to the NAV. If the investments in close-ended schemes are to be liquidated in an adverse market situation, the full value of the investment may not be realized and if there is capital appreciation, the tax liability of the unit holder increases.

Despite certain drawbacks close-ended funds have some advantages. They allow fund managers to think long. An open-ended fund manager is under constant pressure to perform. For instance, since March 31, 1997 ITC Top 200 has divested completely three stocks and more or less moved out of seven others. Top 200 is just over a year old. On the contrary, the holdings of Master-plus have more or less remained constant for the past 4 years. The fund has been the top performing equity fund since its launch.

Moreover, in a close-ended fund the investors do not have to worry about what other investors are doing with their investments in the fund. In an open-ended fund, a major redemption request or investment can change the entire risk-return complexion of the fund affecting the interests of a long-term investor.
In India, presently the open-ended schemes have become the order of the day. But their close-ended counterparts are as charming as ever for investors. They trade like stocks and earn good returns. They do not have instant liquidity as the open-ended schemes, and the investor has to forego the merits of the systematic investment and withdrawal plans and dividend reinvestment. But if the investor pursues a reasonable close-ended scheme, he is most likely to be doubly benefited.

There is more than one way to pick up close-ended schemes. One can buy units trading at a tangible discount. The second source is to buy a discounted fund which stands up a chance of being converted into open-ended fund (subject to SEBI regulations). The simplest way to choose a close-ended scheme is to look for discounted funds which are closed to redemption or repurchase. Although the funds with longer maturity with their substantial discounts appear attractive, they may not be all that rewarding. The reason being the discounts continue to persist in the absence of any dramatic event. However, if the investor has bought a fund in the initial public offer and the fund is trading at the substantial discount to the par value, then he can benefit by the technique of averaging. He has to simply buy more units when prices are lower to bring down the average cost of acquisition and optimum return on investment.

The classification of the Mutual fund products can be made on the basis of their objective, risk-return, profile and their investment portfolio presents in exhibit 4.2.

### Exhibit 4.2:
**Objectives and Investment Basis of the Mutual Fund Schemes**

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Objectives (Investors Risks, Return, Profile)</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Fund (I) (Debt Fund)</td>
<td>To provide fixed interest, regular income/dividend</td>
<td>Invest in debt instruments, bonds, debentures, fixed deposits of corporate &amp; PSU, new shares etc.</td>
</tr>
<tr>
<td>Growth Fund (G) (Equity Fund)</td>
<td>Aim to provide capital appreciation</td>
<td>Invest more than 90 per cent of the funds in equity shares.</td>
</tr>
<tr>
<td>Balanced Fund (Income - cum - Growth)</td>
<td>Mix of income and growth schemes objectives</td>
<td>50 per cent to 60 per cent in equity and the balance in debt instruments.</td>
</tr>
<tr>
<td>Tax Saving Fund (ELSS)</td>
<td>Permitted by the Government of India</td>
<td>Invest in approved investment avenues eligible for tax exemption.</td>
</tr>
<tr>
<td>Other (special) Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Gilt Fund</td>
<td>Absolute security, safety, higher returns and protection of the principal</td>
<td>Invest only in Government securities and treasury bills.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Schemes</th>
<th>Objectives (Investors Risks, Return Profile)</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Liquid Fund</td>
<td>Parking temporary surplus of money for few days.</td>
<td>Invest in call money market, liquid bonds, short-term treasury bills, commercial papers, certificate of deposits etc.</td>
</tr>
<tr>
<td>c. Money Market Mutual Fund</td>
<td>Aimed to provide easy liquidity preservation of capital, moderate return and low risk.</td>
<td>Invest in the short term debt instruments, treasury bills, commercial papers, inter bank call money etc.</td>
</tr>
<tr>
<td>d. Index Fund</td>
<td>The performance of fund will be in line with index</td>
<td>Invests in the index scripts, senses stocks with the same proportion and weight age as that of the index.</td>
</tr>
<tr>
<td>e. Bond Fund</td>
<td>Safety, fixed return and study income</td>
<td>Invest in Government Securities bonds etc.</td>
</tr>
<tr>
<td>f. Stock Fund (Common stock fund)</td>
<td>Who are willing to accept risks in the hope of a high return.</td>
<td>Investment in blue chips, high risk stocks</td>
</tr>
<tr>
<td>g. Sectoral Fund</td>
<td>Carry more risk due to lack of diversification</td>
<td>Invest in Securities of certain industries/specific sectors.</td>
</tr>
<tr>
<td>h. Specific Purpose Fund</td>
<td>Long term capital growth and provide large dividend and income</td>
<td>Invest in equity shares of top rated companies.</td>
</tr>
</tbody>
</table>

**Sources:**

I. INCOME (DEBT) SCHEMES

Income schemes also known as debt oriented schemes invest bulk of their funds in fixed income securities like debentures/bonds of private and public sector companies, government securities and money market instruments (60-80 per cent usually) and the balance in equity shares. The mix of investments is chosen to ensure that there is a flow of income stream which matches with the disbursement of the income of the scheme. The objective of these schemes is to provide regular and steady income monthly/quarterly/half-yearly to the investors. Post-dated income warrants are sent to unit holders in the beginning under this scheme. Some schemes have other variants.

Deferred Income

Schemes that do not pay any dividend during initial 2-3 years but pay higher incomes, say 20-22 per cent, from 3rd and 5th years.

Growing Income

It is an income scheme in which income increases every year. There are also certain income schemes with cumulative option in which income is made available to the investor only after they attain certain age. Generally, apart from distributing income, these schemes may offer some capital appreciation. For example, GIC's Big Value scheme targeted a minimum return of 15 per cent with additional 1 per cent rise
for every increase in 100 points in BSE National Index above 1600 points, subject to a maximum of 5 per cent payable every quarter for quarterly income option-holders. For the cumulative income option holders, the scheme assured a minimum repurchase price on a specified date.

**Duration:** The duration is generally of 5-7 years but may be extended up to 10 years at times. Sometimes, a roll-over facility is also provided under which the scheme can be continued beyond its redemption period, provided the trustees agree for such a roll-over and more than 50 per cent of investors give their consent. For example, in August 1993, SBIMFs monthly income schemes (MIS-89) was rolled over for 3 more years. Lateral shifts are also allowed. It means the unit holder is allowed to shift from one income fund to its other family fund without any sales charge.

**Eg:** Templeton India Income Fund, Chola Triple Ace Fund, Kothari pioneer Guaranteed Income Plan, Alliance Liquid Income Fund, Tata Income Fund, Birla Income Fund etc.

Apart from the above, there are some income schemes which aims at distribution of income regularly after retirement. For example, under the UTI Retirement Benefit Plan, an investor between the age of 18 and 52 can invest a
minimum of Rs.10000 in a maximum 20 annual installments. The annual rate of return which is declared is converted into additional units at the prevailing sale price and on the completion of the age of 58 years, regular income is provided by means of post-dated monthly warrants. The investors can claim rebate under Section 88 of the Income Tax Act.

II GROWTH (EQUITY) SCHEMES

The main objectives of the growth scheme are to provide long-term capital gain to investors. The focus is more on giving returns on initial investment through capital appreciation rather than through distribution of income by way of dividend. The trustees, however, may reserve the right to declare dividends, or issue rights/bonus units.

The possible options under growth schemes are (i) Option-I: Dividend (if declared) payable to investors, (ii) Option II: Accumulated units (dividends declared but not paid), (iii) Option III: Dividends not declared at all. The entire appreciation is due to the capital gains.

Generally options I and II are provided together in a scheme, i.e., if the investor wants accumulation of dividends, he has to explicitly state while applying for
units. The example is Birla Advantage Fund (open-ended) growth scheme of Birla MF launched on February 17, 1995.

The issue price is generally Rs.10 per unit. The minimum subscription is generally Rs.1000 initially and in multiples of 100 units thereafter. In Centurion Open-ended scheme, the subsequent amounts were in multiples of Rs.500 or more.

Usually the duration of the growth scheme is 5 to 10 years, although there are a few exceptions. For instance Taurus Genshare has duration of 2 years and Morgan Stanley Growth Fund has duration of 15 years.

**Other Features:** Bank of India MF offered free membership of India-Card for the first year on investment of Rs.20,000 more in its BIO Bonanza Growth Scheme. The scheme also offered a loan against Bonanzas (units) by Bank of India and Bank of Maharashtra. The units are also eligible for collateral security for housing loans from HDFC and GIC Housing Finance Ltd. Insurance facilities are also provided by some MFs. For instance 20th Century Quantum Growth fund offered specified insurance facilities. It provided insurance cover to the initial investors at no cost who fall within the age group of 10-65 under group Janata Personal Accident Insurance Policy of New India Assurance Co. Ltd., for a period of 5 years whether the units certificates are retained or not. There is a provision for regular withdrawal. The investor can
withdraw a specified amount every month.

The Centurion Open-ended fund specified that unit holders can avail of the regular withdrawal plan whereby a fixed amount can be withdrawn every month subject to a minimum of Rs.500 for a minimum period of 12 months. Kothari Pioneer's Prima Fund also offered such a facility. The scheme made a provision of rupee cost averaging without sales charge, whereby an investor can invest in the fund every month like a recurring deposit.

Eg: Birla Advantage Fund, Tata Equity Growth Fund, Sriram Mutual Funds Risk Guardian 1995, Sundaram Growth Fund, DSP Merrill Lynch Equity Fund etc.

III BALANCED (INCOME-CUM-GROWTH) SCHEMES

The general features of income-cum-growth schemes are described below along with some of the variations/innovations/exceptions.

Objective

The general objective of such schemes is long-term capital appreciation and current income. They aim at providing stable and periodic returns and also to maximise the total returns (divides and capital appreciation to their investors).

Typically these schemes have a clause that "the AMC, at its discretion subject to the approval of trustees, may decide to pay dividends at an annual, or such other
intervals as may be deemed appropriate. The capital appreciation, which is likely to accrue from the investment, would be distributed at the termination of the scheme. However, no guarantee can be given about the quantum or periodicity of dividends payable, or about the likely capital appreciation".

The schemes can also be structured in such a way to give more options to the investors. LICMF Dhanavarsha offers four options:

**Option 1**: Offers immediate monthly income under which the unit holder receives advance warrants for monthly payment of assured return.

**Option 2**: Allows the holder a deferred monthly income based on an assured return per annum.

**Option 3&4**: These two options are similar in all respects except for the technical difference, under which the income under Option 3 is treated as accumulated income, while the income under 4 takes the form of the capital gains.

Open-ended schemes may go beyond the above and offer various options. For example, LICMF's Dhanasahyog is a multi-option, open-ended income growth scheme.

Under plan 'A' dividend is declared and remitted every year. Under plan 'B' dividend declared after the end of each accounting year will be reinvested under the
scheme at the prevailing selling price and certificates will be issued to enable the investors to claim benefits under Section 80 L. Under Plan 'C', no dividend is declared every year. The plan is purely growth-oriented and the growth is reflected in repurchase prices. The difference between the amount received at the time of termination of the plan and the amount originally invested will be treated as the capital gain. The duration of the scheme is generally 5-7 years.

* Initial Offer

The unit price is generally Rs.10. However, some schemes have different offer prices. For example, in Canganga of Canbank MF, while it is priced at Rs.10 to the public, it is Rs.9.50 to (1) the existing investors of other schemes of Canbank MF upto a maximum and (2) the directors and employees of CIMS, the AMC of the fund, the employees of Canara Bank, the promoter and employees of the group companies of Canara bank upto a maximum limit of 1,000 units per individual.

Can Premium is also a balanced income-cum-growth scheme launched in March 19991 by Canbank Mutual Fund and redeemed in June 1996.

* Additional Features

1. Loan Facility: Some funds provide loan facility on the pledge of units. For example, Centurion Prudence Fund, 1993, a close-ended income-cum-growth
scheme of 4 years duration, promoted by 20-Century MF, offers a loan upto 75 per cent of the face value of units invested under the scheme by individual investors, subject to the availability of funds.

2. **Insurance Facility:** Some mutual funds tie up with the insurance companies and provide accident insurance cover to the unit holders of the scheme. For example, Century Prudence Fund, 1993, offers this facility to individual investors under the scheme, who come under the age group of 10-65, would be covered under Group Janata Personal Accident Insurance Policy of New India Assurance Company for a period of 5 years at no additional charge. The premium on this insurance policy would be borne by the scheme fund and would become a part of permissible issue expenses limit allowed by the SEBI. The facility of automatic nomination of the second applicant in case of death of the first applicant is also available under the scheme.

The Unit Linked Insurance Plan 1991 of UTI, (ULIP), a 10/15 year contractual saving plan (open-ended scheme) combines savings in units with the advantage of life and accident insurance covers. Out of the contributions of the members a small amount is paid to LIC by way of insurance premium and the balance is invested in unit. Accident insurance cover is provided at free of cost. ULIP is an open-ended recurring investment scheme.
3. **Switch over Facility:** The investor under this facility can move from one scheme to another of the same MF without sales charge. Canbank MF provides such facility. Similarly, JM Triple offer allows lateral shift of investors from one scheme to another without any sales charge.

4. **Safety Net Facility:** Under this facility, the MFs initially guarantees a specific performance by undertaking to purchase a specified maximum amount of units from investors after specific period of time. For example, IDBI's NIT 95 promised to buy back units at the original price after one year from the original holder's upto maximum of 5000 units. The same scheme offered encashment facility for one week, every 6 months in the first year and every 3 months thereafter. The investor can get cash across the counter from any one of the 100 specified bank branches for sale upto 50,000 units.

5. **Guarantee of Returns:** As per SEBI Regulations (38) no guaranteed returns shall be provided in a scheme.

   a. unless such returns are fully guaranteed by the sponsor of AMCO.

   b. unless a statement indicating the name of the person who will guarantee the returns, is made in the offer documents.

   c. the manner in which the guarantee to be met has been stated in the offer document.
*Investment Mix*

The schemes invest both in shares and fixed income securities in proportions indicated in the offer document. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when market falls. The investment mix will be generally equity investments 40-60 per cent and fixed income securities and money market instrument 60-40 per cent. The investment mix varies depending upon the prevailing market conditions. The scheme is ideal for investors looking for a combination of income and moderate growth.

**IV. TAX SAVING/EQUITY - LINKED SAVING SCHEMES (ELSS)**

These schemes are formulated as specified under ELSS 92, Ministry of Finance Gazette notification dated December 28, 1992. The notification stipulates norms of investments, repurchase, transferability etc. Just before the end of every financial year (January to March), most of the mutual funds launch the tax saving schemes which are close-ended growth schemes. So that tax payers in high tax brackets can take advantage of tax rebate.

Under the scheme, investment of Rs.500 and in multiple thereof, but with a maximum limit of Rs.10000 made by the individuals and HUFs, is entitled to a tax rebate. In order to induce investors to invest early, the mutual funds offer early bird
incentives to tax saving mutual funds schemes. The schemes provide long term capital growth. There are no restrictions on minimum corpus to be raised by Mutual Fund Organisation. After three years, the schemes are listed on the major stock exchanges. There is also a provision for repurchases (after the lock-in period) with a discount to NAV, the discount varying from fund to fund. The schemes possess some additional features: Cancer insurance cover, Personal accident insurance cover. Loan facilities are provided by some Mutual Funds after 3 year, subject to certain conditions.

Eg: Master Equity Plans, Magnum Equity Linked Schemes, Ind-Shelter, Birla Tax Plan'98, JM Tax Cover, Sundaram, Tax Saver etc.

V. OTHER (SPECIAL) SCHEMES

(i) Gilt Funds: Gilt schemes invest their entire corpus in sovereign securities issued by the Central Government and a very small portion in inter-bank, call money market. All of these instruments carry the highest rating thereby giving absolute security of investment. The default risk is nil in these instruments. The recent change in regulation allows Non-Government PFs. Superannuation Fund and Gratuity Funds to invest in 100 per cent Gilt schemes floated by mutual funds. These funds generally provide higher returns and are a good option for investors who seek protection of the principal amount. During the years 2000-2001 only one gilt scheme is launched which mobilised Rs.253 crores.
Eg: Kotak I.S.K Gilt, Birla Gilt Plus, Prudential ICICI Gilt Fund, Tata Gilt Securities Fund, Chola Gilt Scheme etc.

(ii) **Liquid Funds:** The liquid fund manager invests all his money in very liquid instruments like the call money market, bridge loan markets, short term treasury bills, commercial papers and certificates of deposits or any other instrument from which he can exit within, say 24 hrs. Such money market mutual funds are meant for corporate, business people and high net worth individual who might have excess cash for a few days or weeks. Parking temporarily of their surplus money for a few days.

Eg: Tata Liquid Fund, Templeton India Liquid Fund, DSP Merrill Lynch Liquidity Fund, Alliance Liquid Fund, Dundee Liquid Fund, HDFC Liquid Fund etc.

(iii) **Money Market Mutual Funds (MMMFs)**

Another excellent opportunity for small investors is participating in MMMFs. These funds portfolio consists of money market instruments like treasury bills, gilt edged securities of the government, money at call and short notice, certificates of deposits, commercial paper, treasury bills, promissory notes of commercial banks and blue chip companies. As such, these are the most liquid funds with the lock-in period of 14 days.
Investment in MMMFs is considered more rewarding than savings deposits in banks which bring in return of 4 to 5 per cent interest per month on minimum average balance for a month. But savings deposits are highly liquid; at a moment’s notice the depositor can withdraw money. They are maintained to keep cash ready for expenditure at any time.

This fund is an alternative to savings account for high bracket savers. If a person wants to park his/her short term surplus money, chooses a money market method fund instead of the normal SB account in a bank as he is likely to get about 7 or 8 per cent return compared to 4 or 5 per cent in the SB account. They are short term in tenure, highly, liquid and safe for the investors.

Eg: Kothari Money Market Fund, IDBI Money Market Fund 97, UTI Money Market Fund 1997 etc.

(iv) **Index Funds**: Index Funds are funds which invest in shares in the same proportion as that of a stock market index. The aim of an index fund is to try and match the returns of the index which it tracks.²

A stock market index is like a portfolio of stocks (in case of BSE Senses and NSE-50 there are 30 stocks and 50 stocks respectively). The weight age of the

stock in the index are in the proportion to their respective market capitalizations (i.e., total number of shares outstanding multiplied by the price of the share). The shares which included in an index are based on a certain criteria (company performance, liquidity, market capitalisation, etc.) decided by the stock exchange.

Eg: UTI Master Index Fund. 1998, Nifty Index Fund (NIF) 2000, IDBI's Index 1-Nit 99 etc.

(v) **Bond Funds**: They provide fixed returns for those who desire safety and steady income. The fund is invested in government securities and bonds. It is a more liquid, diversified and conservative investment with regular income and moderate capital gains. The price of units of mutual fund fluctuates with the changing interest rates.

Eg: DSP Merill Lynch Bond Fund, Dundee Bond Fund, ILFS Bond Fund, K.Bond Unit Scheme 1999.

(vi) **Stock (Common Stock) Funds**: They are mainly for those who are willing to accept risks in the hope of a high returns. These are called common stock fund. They are two types i.e., growth fund and go-go fund. The former consists of investment in blue chips and the latter high risk stocks.

Eg: Kothari Pioneer Blue Chip, Can Stock etc.
(vii) **Sectoral Fund**: The new development in the mutual fund industry in India has been the evolution of sectoral funds in specific sectors like infotech, pharma, media, FMCG, basic industries like Steel, Cement etc. Generally these funds should do well as long as these sectors do well. Hence the risk associated is greater than a normal equity fund which can swap shares from any industry or their choice. However, runaway success story of the infotech, pharma, media sectors keep these funds in good cheer.


(viii) **Specific Purpose Schemes**

Before ending the discussion on mutual fund schemes, mention has to be made about some specific schemes intended for senior citizens, such as income schemes, pension schemes and also schemes for children.

* **UTI Children's Gift Growth Fund 1986**: The CGGI 1986 is designed for people who want to give a special gift to the children below 15 years of age. The child gets money when he or she needs it most to pay for higher education, to set up a business, or practice or to help set up a home. Units can be gifted to any child below 15 years of age by the parent, grand parent or friend or any
other person. The gift matures when the child attains 21 years. However, the child has the option to withdraw either wholly or partially, after attaining the age of 18 years. There is an assured dividend of 14 per cent per annum, which is automatically reinvested in further units, so that the investment grows at a compound rate. Units can be gifted in multiples of 100 subject to a minimum of 200.

Rajyalakshmi Unit Scheme (RUS - 92) The scheme was introduced in October 2, 1992 in order to meet the financial needs of a girl at the most critical phase of her life, around the age of 21 when she encounters challenges of marriage, entry and adjustment in a new household, motherhood and economic independence. This is an exclusive scheme for the benefit of women. Though suspended on 1.11.1993, it was re-launched RUP-II on 1.9.1994. The plan provides for an investment that would grow 14 times in 20 years. The donor can be parent, relative or a friend.

UTI : Senior Citizens Unit Plan (SCUP) : This plan launched on May 3, 1993 is a unique medical plan formulated by UTI in collaboration with New India Assurance Company Ltd., The primary objective is providing hospitalisation benefits to the senior citizens on investing a certain amount specified as per age. One can approach any of the selected hospitals after 58
years with which UTI has a tie up and have treatment at free of cost. This facility is available for both the applicant and spouse. All resident and non-resident Indians in the age group of 18 to 54 years can join the plan.

* UTI's Children's Career Plan (CCP): (formerly known as children college and career fund unit plan 1993). It is an open-ended plan open for investment by resident individuals or an NRI Child upto the age of 15 years to provide to beneficiary children scholarships or funds to set up a profession, practice business or home when they attain majority. The plan offers two options (i) scholarship option-payment of scholarship made periodically to the beneficiary on his/her attaining 18 years of age. Payment of scholarship is tax free under current tax laws (ii) growth option. Partial or full repurchase after 18 years of age of the beneficiaries.

* UTI's Retirement Benefit Unit Plan (RBUP): This plan has been specified as pension fund in the Notification issued on 1.9.1994 by the Central Board of Direct Taxes. Contributions under the plan would qualify for tax rebate with an overall limit of section 88 of I.T. Act. The plan aims at meeting the need of self-employed people for a monthly income after attaining the age of 58 year or on the completion of five years lock-in period as the case may be. Any resident individual in the age group of 18-60 years can join the plan singly.
* **Industry Specific Funds**: In recent years, many schemes describe their investment plans in offer documents in detail. They are coming forward with industry-specific funds. For example, Canbank MF’s Canexpo launched in March 1994 specific that funds would be invested exclusively in export-oriented units. The ICICI Power floated in August 24, 1994 specific that investment would be made predominantly in equities, convertible and non-convertible debentures and other capital market instruments of companies falling under the core sector and the associated feeder industries. The core sector broadly comprises of energy, communications, transportation, construction, tourism, financial services and software.

**Eg**: Alliance Basic Industries Fund

* **Tata Young Citizens Fund**: It is a close ended growth oriented scheme. The objective of the scheme is to provide Funds to the children by the parents or grand-father, relative or friend etc. The units under the scheme mature when the donee child completes the age of 18 years. In addition, on maturity the donee child has the option of withdrawing the units at any time upto his or her attaining the age of 21 years or in annual withdrawals spread over four years i.e., the year of maturity and the subsequent maturity after three years. The resident donee child will be covered under an accidental insurance for death by
accident from the minimum age of 3 months till the units mature or redeemed under exceptional circumstances. The scheme is launched in August 30, 1995.

*Kothari Pioneer Pension Scheme*: Under this plan, Investment has to be a minimum of Rs.10000 in lump sum or in installments of at least Rs.500. The options available are either income or growth plan. After 58 years, three choices are available under the income plan. The options are regular income leaving the corpus intact, partial withdrawal and still receive income on holdings or full withdrawal. The growth option offers complete withdrawal at the age of 58 years. It is an open-ended fund launched on April 1, 1997. Currently, Mutual Fund Pension Schemes offer benefit under section 88 of the I.T. Act. subscription made out of chargeable income will qualify for deduction from income tax at 20 per cent upto a maximum subscription of Rs.60,000. Besides, there are benefits for Mutual Funds like capital gains Tax and benefits under Section 80 L.