

## MUTUAL FUNDS IN INDIA

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### ABSTRACT

Since small investors generally do not have adequate time, knowledge, experience and resources for directly accessing the capital market, they have to rely on an intermediary which undertakes informed investment decisions and provides the consequential benefits of professional expertise. Mutual funds are financial innovations of this century and helps small investors for having their investment especially in capital market. Mutual funds schemes are broadly classified into Open ended and Closed ended.

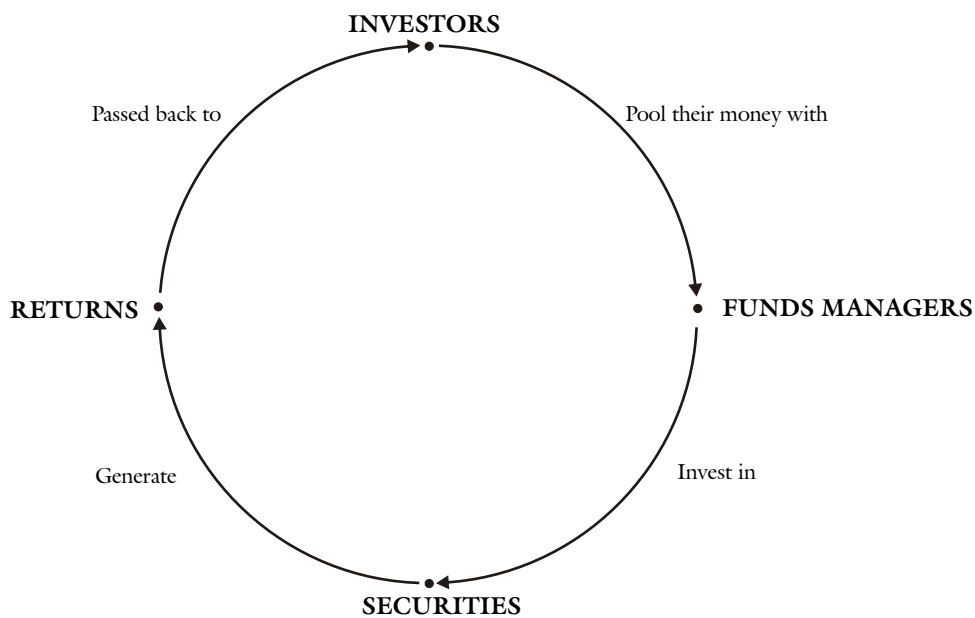
**Key Words:** Mutual funds , Classifications, and AUM.

### 1.1 INTRODUCTION

Mutual funds are financial intermediaries which collect the savings of investors and invest them in a large and well diversified portfolio of securities such as money market instruments, corporate and government bonds and equity shares of joint stock companies. Mutual funds are conceived as institutions for providing small investors with avenues of

investment in the capital market. Since small investors generally do not have adequate time, knowledge, experience and resources for directly accessing the capital market, they have to rely on an intermediary which undertakes informed investment decisions and provides the consequential benefits of professional expertise.

FIGURE 1.1 THE MUTUAL FUND OPERATION FLOW CHART



Source :AMFI

## 1.2 CLASSIFICATIONS OF MUTUAL FUND SCHEMES

Any mutual fund has the objectives of earning income for the investors and/or getting increased value of their investments. To achieve these objectives mutual funds adopt different strategies and accordingly offer schemes of investments. In India, UTI, the Public sector mutual funds and the Private sector mutual funds offer a variety of schemes to the investors. The mutual funds are broadly classified into open-ended scheme and close-ended scheme.

### 1.2.1 OPEN-ENDED SCHEME

The open-ended scheme offers its units on a continuous basis and accepts funds from investors continuously. Repurchase is carried out on a continuing basis thus helping the investors to withdraw their money at any time. In other words, there is an uninterrupted entry and exit into the funds. The open-end scheme has no maturity period and they are not listed in the stock exchanges. Investors can deal directly with the mutual fund for investment as well as redemption. The open-ended fund provides liquidity to the investors since the repurchase facility is available. Repurchase price is fixed on the basis of net asset value of the unit. In 1998 the open ended schemes have crossed 80 in number.

### 1.2.2 CLOSE-ENDED SCHEME

The close-ended schemes have a fixed maturity period. First time investments are made when the close end scheme is kept open for a limited period. Once closed, the units are listed on a stock exchange. Investors can buy and sell their units only through stock exchanges. The demand and supply factors influence the prices of the units.

The investor's expectation also affects the unit prices. The market price may not be the same as the net asset value. Sometimes mutual funds with the features of close-ended and open-ended schemes are launched, known as interval funds. They can be listed in the stock exchange or may be available for repurchase during specific periods at net asset value or related prices.

### 1.2.3 OTHER CLASSIFICATIONS

The mutual funds have numerous schemes. The schemes can be classified according to Investment objectives as follows - Growth Scheme, Income Scheme, or Balanced Scheme considering its investment objective.

#### **Growth/Equity Oriented Scheme**

The aim of growth funds is to provide capital appreciation over a medium to a long term. Such schemes normally invest a major part of their corpus in equities and have comparatively high risks.

#### **Income/Debt Oriented Scheme**

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, government securities and money market instruments and are considered less risky compared to equity schemes.

#### **Balanced Fund**

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents.

Over the years the mutual fund industry has seen the transformation and inception of a number of innovative schemes like the following:

#### **Money Market Mutual Fund ( MMMF )**

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, etc. UTI Money Market Fund was the first MMMF launched in April 1997.

#### **Gilt Fund**

Gilt fund invests exclusively in government securities and have no default risk. Kotak Mutual Fund was the first mutual fund that launched Gilt Plan in December 1998.

#### **Index Fund**

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weightage comprising of an

index. IDBI Index Fund launched the first Index Fund in 1999.

**Fund of Funds (FOF)**

A Fund of Funds scheme invests in other mutual fund schemes. FOF schemes invest in specific funds, which have more weightage of certain stocks and can exit from those schemes when growth prospects of those sectors are not good. Franklin Templeton launched the first fund of fund in 2003.

**Exchange Traded Funds (ETF)**

It is a security that tracks an index, a commodity or a basket of assets like an Index Fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold. By owning an ETF, one gets the diversification of an index fund as well as the ability to sell short, buy on margin and purchase as little as one share. The Nifty BeES (Benchmark Exchange Traded Scheme) launched by Benchmark mutual fund in January 2002 was the first EFT to be traded.

**Gold ETFs**

The Gold EFT is a new concept, an instrument that enables one to buy and sell gold in demat form. The gold is held by a mutual fund house which offers investors gold in units for as little as Rs. 100. The fund houses invest the money collected from investors in standard gold bullion and issue 'gold receipts'. Currently, there are two mutual funds, which offer Gold ETFs in India, Benchmark Mutual Fund launched India's first Gold Exchange-Traded Fund (ETF) on February 15, 2007 and listed as Gold BeES on NSE (National Stock Exchange) this year. Benchmark was soon followed by UTI Mutual Fund's gold scheme on March 1, which is listed on the NSE in April 2007.

**Contra Fund**

A fund with an investing strategy that seeks the stock of out of favor companies, with good fundamentals such as low debt or good potential earnings, with the belief that the stock will increase in value in the long run. SBI Mutual Fund launched the Magnum Contra Fund in August 1999. This is the first contra fund to be launched.

The following time line captures the inception of the various schemes in India.

**FIGURE 1.2  
TIME LINE DEPICTING INCEPTION OF SOME INNOVATIVE SCHEMES**



Source : Journal of Business Management, January -December 2009, P.No.86

Apart from these, there are sector specific funds/schemes, which invest in the securities of only those sectors, or industries as specified in the offer documents, e.g Pharmaceuticals, Software, Fast Moving Consumer Goods (FMCG), Petroleum stocks, etc. The returns in these funds are dependent on the performance of the respective sectors /industries.

**1.3 CONCEPT OF MUTUAL FUND**

A mutual fund is an investment company or a trust that pools the resources of thousands of its shareholders or unit holders and invest on behalf of them in diversified securities and a cross-section of companies to attain the objectives of the investors, which in return achieve income or growth or both.

The VNR Dictionary of Business and Finance defines mutual fund as "an investment fund that pools

the invested funds of others and invests those funds on their behalf, usually in a specific kind of investment, such as money market instruments, municipal bonds or common stock".

It is clear from the above definition that mutual fund is a financial intermediary established in the form of a trust sponsored by banks, financial companies and other industrial concerns with an objective to mobilize savings (mostly household) by launching various

schemes and investing the pooled savings in various instruments of capital and money markets.

The success of mutual funds is due to their relative merits over other savings instruments. An individual investor compares the relative returns, safety, liquidity and volatility of various available financial instruments before taking a decision. The comparative advantages of various financial instruments are presented in Table 3.1

**TABLE 1.1**  
**COMPARATIVE ADVANTAGES OF VARIOUS FORMS OF SAVINGS**

Particulars	Return	Safety	Liquidity	Volatility	Convenience
Equity	High	Low	High or Low	High	Moderate
FI Bonds	Moderate	High	Moderate	Moderate	High
Corporate Debentures	Moderate	Moderate	Low	Moderate	Low
Company Fixed Deposits	Moderate	Low	Low	Low	Moderate
Bank Deposits	Low	High	High	Low	High
PPF	Moderate	High	Moderate	Low	High
Life Insurance	Low	High	Low	Low	Moderate
Gold	Moderate	High	Moderate	Moderate	Low
Real Estate	High	Moderate	Low	High	Low
Mutual Funds	High	High	High	Moderate	High

Source: AMFI Mutual Fund Test - Work Book - 2000, P. 150.

The above table provides a qualitative evaluation of various financial products, and the comparison also serves as a useful guide towards determining the best option. It is evident from the table that the growing acceptability of mutual funds is because of its return, safety, liquidity and capital appreciation. No doubt the performance of mutual funds scheme is equally good in comparison to industrial securities. The public response is also encouraging. It appears in future, the mutual funds will be a very important source of industrial finance. 1.4 GROWTH OF MUTUAL

## FUNDS IN INDIA

Financial Association of India and China was the first investment trust formed in India in 1869. However, the growth of investment trust business started only after 1930.

The need for the establishment of Unit Trust type of institution was felt in 1931 by the Indian Central Banking Enquiry Committee.

As opined by the committee, unit trusts were not formed, but the investment trusts were established. In 1933, industrial investment trust was established by

Premchand Roychand at Bombay. Almost all the large industrial concerns established investment trusts and transferred their surplus funds to them. During World War II and afterwards, the growth of investment trusts or companies gained greater momentum. These trusts were formed under the companies act. These organizations provided an opportunity for greater diversification of investment, and the risk was minimized because of vigilance of the management. However, these investment companies failed to mobilize household savings and savings of the small investors.

The committee on finance for private sector in India, (1954) popularly called as the Shroff Committee, reiterated the desirability of introducing unit trusts in the Indian capital market.

The committee observed that in order to increase the capital available for industries, small savings have to be drawn into the investment market. For mobilization of such small savings it felt, unit trusts are suitable. Therefore, the committee suggested introduction of unit trusts in both the public and private sectors. A study by RBI on investment trusts, criticized the functioning of investments trusts

The Recommendations of the Shroff Committee, and the criticism on investment trusts by RBI stressed the need for an alternative to investment trusts<sup>4</sup>.

In 1963, the then Finance Minister Shri T.T. Krishnamachari had passed the bill on the Unit Trust of India (UTI) in the Parliament. He stated that the establishment of UTI is an adventure in small savings. The objective of UTI is to provide an opportunity for middle and lower income groups to participate in the capital market. As an incentive to the investors, the government also announced certain exemptions under the provisions of Income Tax Act. The history of mutual funds in India can be broadly divided into three

distinct phases.

#### **Phase I- 1964-1987**

In 1963, UTI was established by an Act of Parliament. Operationally, UTI was set up by the Reserve Bank of India, but was later de linked from the RBI. The first, and one of the largest schemes, launched by UTI was Unit Scheme, 1964.

Later in 1970s and 1980s, UTI started innovating and offering different schemes to suit the needs of different classes of investors. Unit Linked Insurance Plan (ULIP) was launched in 1971. Six new schemes were introduced between 1981 and 1984. During 1984-1987, new schemes like Children's Gift Growth Fund (1986) and Master Share (1987) were launched. Master Share could be termed as the first diversified equity investment scheme in India. The first Indian off shore fund, India Fund, was launched in August 1986. During 1990s, UTI catered to the demand for income-oriented schemes by launching Monthly Income Schemes, a somewhat unusual mutual fund product offering "assured returns".

The mutual fund industry in India not only started with UTI, but still counts UTI as its largest player with the largest corpus of investible funds among all mutual funds currently operating in India. Until 1980s, UTI's operation in the stock market often determined the direction of market movements. Now, many Indian investors have taken to direct investing on the stock markets. Foreign and other institutional players have been brought in. So direct influence of UTI on the markets may be less than before, though it remains the largest player in the fund industry. In absolute terms, the investible funds corpus of even UTI was still relatively small by about Rs. 600 crores in 1984. But at the end of this phase I, UTI had grown large with the amount mobilized being Rs.2175 crores and assets under its management being Rs. 6700 crores.

In 1985-1986, the Indian stock market witnessed a boom which attracted a large number of small investors. However, this boom proved to be short-lived and many companies which mobilized huge resources from the small investors disappeared from the market; this made the investors feel disgruntled, and brought in feeling of the lack of protection for them in the stock market.

The observers of the capital market felt that there was a need for an institution which could mobilize savings from the household sector and invest mainly in stock markets and provide the benefit of diversification to the investors. The funds so mobilized should be managed by professionals who are experts in the technicalities of the stock market investment. To fill this gap, in 1986, former Finance Minister Sri Viswanath Pratap Singh, stated that UTI should float mutual fund schemes to provide a channel for the small investors to participate in the growth of capital market. In June 1987, the Government of India issued a notification permitting commercial banks to do mutual fund business, and in July 1987, RBI worked out the modalities for the establishment of mutual funds.

Phase II - 1987-1993 (Entry of Public Sector Funds)

The monopoly of UTI came to an end in 1987 when the government of India by amending Banking Regulation Act enabled commercial banks in public sector to set up subsidiaries operating as trusts to perform the functions of mutual funds. First of all State Bank of India got the nod from RBI and established SBI Mutual Fund in 1987. Later, Canara Bank found the Can Bank Mutual Fund and started different types of mutual fund schemes, in December 1987. Following this, the Bank of India, the Indian Bank and the Punjab National Bank sponsored mutual fund institutions in 1990. In 1994, the Bank of Baroda promoted a mutual fund. In addition to banks, certain

other institutions entered the mutual fund arena. In June 1989, the LIC Mutual Fund and in 1991 the GIC Mutual Fund formed trusts and launched mutual fund schemes. These mutual funds helped enlarge the investor community and the investible funds. From 1987 to 1992-93, the mutual fund industry expanded nearly seven times in terms of assets under management as could be seen in the following figures.

**TABLE 1.2**  
**ASSETS UNDER MANAGEMENT (1992-1993)**  
(Rs. in crores)

Type of Mutual Funds	Amount mobilised	Assets under Management	Mobilisation as % of Gross Domestic Savings
UTI	11,057	38,247	5.2%
Public Sector	1,964	8,757	0.9%
Total	13,021	47,004	6.1%

Source : AMFI

This is when investors were shifting away from bank deposits to mutual funds, as they started allocating larger part of their financial assets and savings (6.1%) to fund investments. UTI was still the largest segment of the industry, because its total fund mobilized was Rs.11,057 crores (84.92%) out of total fund mobilization (Rs.13,021 crores).(Table 3.2)

The monopoly of the UTI and other public sector mutual funds ended by the new economic policy spearheaded by Dr.Manmohan Singh from 1991. The process of economic liberalization threw the doors open to players in the private sector to provide the much needed competitive edge and a wider scope of options to the investors.

Phase III. 1993-1996 (Emergence of Private Funds)

A new era in the mutual fund industry began with the permission granted for the entry of private sector funds in 1993, giving the Indian investors a broader choice of 'fund families' and increasing competition for the existing public sector funds. Quite significantly, foreign fund management companies were also

allowed to operate mutual funds, most of them coming into India through their joint ventures with Indian promoters. These private funds have brought in with them the latest product innovations, investment management techniques and investor servicing technology that have made the Indian mutual fund industry today a vibrant and growing financial intermediary.

During the year 1993-1994 the first private sector mutual fund (Kothari-Pioneer Mutual Fund) was launched and four other private sector mutual funds launched their schemes followed by six others in 1994-1995. Initially, the mobilization of funds by the private mutual funds was slow. But, this segment of the fund industry is now witnessing much greater investor confidence in them. One influencing factor has been the development of a SEBI driven regulatory framework for mutual funds, but another important factor has been the steady improving performance of several funds themselves. Investors in India now clearly see the benefits of investing through mutual funds and have become selective too.

#### Phase IV - Since February 2003

This phase had a bitter experience for UTI. It was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with AUM (Assets Under Management) of Rs. 29,835 crores (as on January 2003). The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by government of India and does not come under the purview of the Mutual Fund Regulations. The second is the UTI mutual fund ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the mutual fund regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of AUM and with

the setting up of a UTI Mutual Fund, conforming to the SEBI mutual fund regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. As at the end of September 2004 there were 29 funds, which manage assets of Rs. 1,53,108 crores under 421 schemes.

### 1.5 MAJOR MUTUAL FUND COMPANIES IN INDIA

By the end of March 2008, there were 33 mutual funds, which managed assets of Rs.5,05,152 crores under 956 schemes. Following are the most familiar mutual funds. Unit Trust of India Mutual Fund Unit Trust of India is a pioneer in the mutual fund industry. The setting up of the Unit Trust of India (UTI) in 1963 heralded the birth of the Indian mutual fund industry. In 1964, UTI mutual fund launched its scheme US-64 and went on to become a generic term for the mutual fund sector till the government allowed public sector banks to start mutual funds in 1987. UTI Asset Management Company Private Limited, established in January 14,2003 is now managing the UTI Mutual Fund with the support of UTI Trustee Company Private Limited. The sponsors of UTI mutual fund are Bank of Baroda (BOB), Punjab national Bank (PNB), State Bank of India (SBI) and life Insurance corporation of India (LIC). The schemes of UTI Mutual Fund are liquid funds, income funds, index funds, equity funds and balanced funds.

#### State bank of India Mutual Fund

State Bank of India Mutual Fund is the first bank sponsored mutual fund. In November 1987, SBI mutual fund from the state Bank of India became the first non - UTI mutual fund of the nation. Today it is the largest bank sponsored mutual fund in India. They have already launched 35 Schemes out of which 15

have already yielded handsome returns to investors. State Bank of India Mutual Fund has more than Rs.5,500 crores as AUM. Now it has an investor base of over eight lakhs spread over 18 schemes. Canbank Mutual Fund Canbank Mutual Fund was setup on December 19, 1987 with canara bank acting as the sponsor. Canbank Investment Management Services Limited incorporated on March 2, 1993 is the AMC. The corporate office of the AMC is in Mumbai.

#### **LIC Mutual Fund**

Life Insurance Corporation of India Setup LIC Mutual Fund on 19th June 1989. It contributed Rs.2 Crores towards the corpus of the fund. LIC mutual fund was constituted as a trust in accordance with the provisions of the Indian Trust Act, 1882. The company started its business on 29th April 1994. The Trustees of LIC Mutual Fund have appointed Jeevan Bima Sahayog Asset Management Company Limited as the investment Managers for LIC mutual fund.

#### **GIC Mutual fund**

GIC Mutual Fund, sponsored by General Insurance Corporation of India (GIC), a government of India undertaking and the four public sector General Insurance companies, viz. National Insurance Company limited (NIC), The New India Assurance Company Limited (NIA), The Oriental Insurance Company Limited (OIC) and United India Insurance Company Limited (UTI) and is constituted as a Trust in accordance with the provisions of the India Trusts Act, 1882.

#### **Bank of Baroda Mutual Fund**

Bank of Baroda Mutual Fund was setup on October 30, 1992 under the sponsorship of Bank of Baroda. BOB Asset Management Company Limited is the AMC of BOB mutual fund and was incorporated on November 5, 1992. Deutsche Bank AG is the custodian.

#### **Prudential ICICI Mutual Fund**

The mutual fund of ICICI is a joint venture with Prudential Plc. of America, one of the largest life insurance companies in the USA. Prudential ICICI mutual fund was setup on 13th of October, 1993 with two sponsorers, Prudential Plc. and ICICI Ltd. The trustee company formed is Prudential ICICI trust ltd. and the AMC is Prudential ICICI asset management company limited incorporated on 22nd of June, 1993.

#### **Birla Sun Life Mutual Fund**

Birla Sun Life Mutual Fund is the joint venture of Aditya Birla Group and Sun Life Financial established in 1994 in India. Sun life financial is a global organization evolved in 1871 and is being represented in Canada, United States, Philippines, Japan, Indonesia and Bermuda apart from India. Birla sun life mutual fund follows a conservative long-term approach to investment.

#### **Morgan Stanley Mutual Fund**

Morgan Stanley is a worldwide financial service company and it is leading in the market in securities, investment management and credit services. Morgan Stanley Investment Management was established in the year 1975. In 1994, Morgan Stanley launched its first domestic fund, Morgan Stanley Growth Fund in India. It provides customized asset management services and products to government, corporations, pension funds and non-profit organizations. Its services are also extended to high net worth individuals and retail investors. In India it is known as Morgan Stanley Investment Management Private Limited (MSIM India) and its AMC is Morgan Stanley Mutual Fund (MSMF). This is the first close end diversified equity scheme serving the needs of Indian retail investors focusing on a long - term capital appreciation.

#### **Alliance Capital Mutual Fund**

Alliance Capital Mutual Fund was setup on December 30, 1994 with Alliance Capital Management



Corporation of Delaware (USA) as its sponsorer. The Trustee is ACAM Trust Company Private Limited, and AMC, the Alliance Capital Asset Management India Private Limited with the corporate office in Mumbai.

#### **Tata Mutual Fund**

Tata Mutual fund (TMF) was setup on June 30, 1995. The sponsors are Tata Mutual Fund are Tata Sons Ltd., and Tata investment Corporation Ltd. The AMC of Tata mutual fund is Tata asset management limited incorporated on March 15, 1994. The trustee is Tata trustee company private limited. Tata Asset Management Limited is one of the fastest in the country with more than Rs.7,703 crores (as on April 30, 2005) of AUM.

#### **Reliance Mutual Fund**

Reliance Mutual Fund (RMF) was established as trust under Indian Trusts Act, 1882. The sponsor of RMF is Reliance Capital Limited. Reliance Capital Trustee Company Limited is the Trustee. It was registered on June 30, 1995 as Reliance Capital Mutual Fund which was changed on March 11, 2004. Sahara Mutual Fund

Sahara Mutual Fund was set up on July 18, 1996 with Sahara India Financial Corporation Ltd., as the sponsor. Sahara Asset Management Company Private Limited incorporated on August 31, 1995 works as the AMC of Sahara Mutual Fund. Escorts Mutual Fund

Escort Mutual Fund was setup on April 15, 1996 with Escorts Finance Limited as its sponsor. The Trustee Company is Escorts Investment Trust Limited. Its AMC was incorporated on December 1, 1995 with the name Escorts Asset Management Limited.

Franklin Templeton India Mutual Fund Franklin Templeton mutual funds are managed by Franklin Templeton Investments - a global investment

management. Franklin Templeton started their operations in India in 1996 as Templeton asset management India private limited. It flagged off the mutual fund business with the launch of Templeton India Growth Fund in September 1996. The group, Franklin Templeton Investments is a California (USA) based company with a global AUM of US\$ 409.2 billion (as of April 30, 2005). It is one of the largest financial services groups in the world..

#### **Chola Mutual Fund**

Chola Mutual Fund functions under the sponsorship of Cholamandalam Investment and Finance Company Limited. It was Setup on January 3, 1997. Cholamandalam Trustee Company Limited is the Trustee Company and AMC is Cholamandalam AMC Limited.

#### **Kotak Mahindra Mutual Fund**

Kotak Mahindra Asset Management company (KMAMC) is a subsidiary of KMBL. KMAMC started its operations in December 1998. Kotak Mahindra Mutual Fund offers schemes catering to investors with varying risk- return profiles. It is the first company to launch dedicated gilt scheme investing only in government securities.

#### **ING Vysya Mutual Fund**

ING Vysya Mutual Fund was setup on February 11, 1999 with the same named Trustee Company. It is a joint venture of Vysya and ING. The AMC, ING Investment Management (India) Pvt. Ltd was incorporated on April 6, 1998.

#### **Standard Chartered Mutual Fund**

Standard Chartered Mutual Fund was set up on March 13, 2000 sponsored by Standard Chartered Bank. The Trustee is Standard Chartered Trustee Company

Private Limited. Standard Chartered Asset Management Company Private Limited is the AMC which was incorporated with SEBI on December 20, 1999.

**HDFC Mutual Fund**

HDFC mutual Fund was setup on June 30, 2000 with two sponsorers namely Housing Development Finance Corporation Limited and Standard Life Investments Limited.

**Benchmark Mutual Fund**

Benchmark Mutual Fund was setup on June 12, 2001 with Niche Financial Services Private Limited as the Sponsorer and Benchmark Trustee Company Private Limited as the Trustee Company incorporated on October 16, 2000 and headquartered in Mumbai. Benchmark Asset Management Company Private Limited is the AMC.

**HSBC Mutual Fund**

HSBC Mutual Fund was setup on May 27, 2002 with HSBC Securities and Capital Markets (India) Private Limited as the sponsor. Board of Trustees, HSBC Mutual Fund acts as the Trustee Company of HSBC Mutual Fund.

**ABN AMRO Mutual Fund**

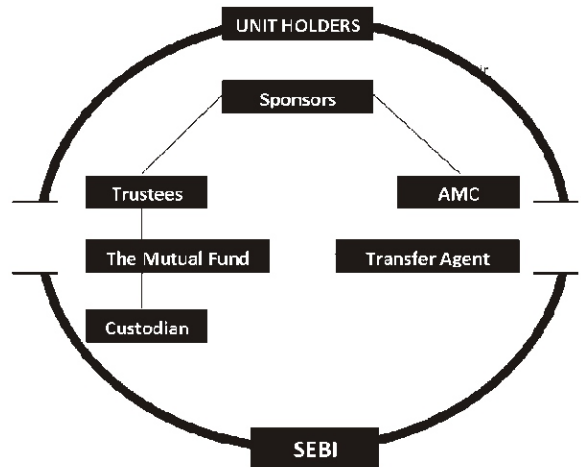
ABN AMRO Mutual fund was setup on April 15, 2004 with ABN AMRO Trustee (India) Pvt. Ltd. as the trustee Company. The AMC (Asset Management Company), ABN AMRO Asset Management (India) Ltd. was incorporated on November 4, 2003. Deutsche Bank A G is the custodian of ABN AMRO Mutual Fund.

**1.6 MUTUAL FUNDS - ORGANISATION**

There are many entities involved and the figure 3.7 below illustrates the organizational set up of

a mutual fund:

**FIGURE 3.7  
ORGANISATION OF A MUTUAL FUND**



Source : AMFI

**1.7 ADVANTAGES OF MUTUAL FUNDS**

Some advantages of investing in a mutual fund are given below

**Diversification:** The best mutual funds design their portfolios in a diversified way. Hence individual investments will react differently to the same economic conditions. For example, economic conditions like a rise in interest rates may cause certain securities in a diversified portfolio to decrease in value. Other securities in the portfolio will respond to the same economic conditions by increasing in value. When a portfolio is balanced this way, the value of the overall portfolio should gradually increase over time, even if some securities lose value. Professional Management: Most mutual funds pay topflight professionals to manage their investments. These managers decide securities they have to buy and sell.

**Regulatory oversight:** Mutual funds are subject to many government regulations that protect investors

from fraud. Liquidity : It's easy to get the money out of a mutual fund. Convenience: Investor can usually buy mutual fund shares by mail, phone, or over the internet Low cost: Mutual fund expenses are often not more than 1.5 percent of investment. Expenses for Index Funds are less than that, because index funds are not actively managed. Instead, they automatically buy stock in companies that are listed on a specific index.

Transparency: Investor get regular information on the value of investment in addition to disclosure on the specific investments made on schemes, the proportion invested in each class of assets and the fund manager's investment strategy and outlook. Flexibility: Through features such as Systematic investment Plans (SIP), Systematic Withdrawal Plans (SWP) and dividend reinvestment plans, investors can systematically invest or withdraw funds according to their needs and convenience.

**Choice of Schemes:** Mutual Funds offer a variety of schemes to suit varying needs of investor over a lifetime.

**Well Regulated:** All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI. 1.8 DRAWBACKS OF MUTUAL FUNDS Mutual funds have their drawbacks and may not be for everyone.

**No Guarantees :** No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down. Investors encounter a fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money.

**Fees and commissions :** All funds charge administrative fees to cover their day-to-day expenses.

Some funds also charge sales commissions or "loads" to compensate brokers, financial consultants, or financial planners. Even in absence of a broker or other financial adviser, investors will pay a sales commission if you buy shares in a Load Fund.

**Taxes :** During a typical year, most actively managed mutual funds sell anywhere from 20 to 70 percent of the securities in their portfolios. If the fund makes a profit on its sales, investors will pay taxes on the income received from that sales, even if they re-invest. Management risk: Investors depend on the fund's manager to make the right decisions regarding the fund's portfolio. If the manager does not perform well as much as the investors had hoped, they might not make as much money on investment as they expected. Of course, if they invest in Index Funds, they forego management risk, because these funds do not employ managers.

## 1.9 ASSOCIATION OF MUTUAL FUNDS IN INDIA (AMFI)

With the increase in mutual fund players in India, a need for mutual fund association in India was generated to function as a non - profit organization. Association of Mutual Funds in India (AMFI) was incorporated on 22nd August, 1995.

AMFI is an apex body of all Asset Management Companies (AMC) which has been registered with SEBI. Till date all the AMCs that have launched mutual fund schemes are its members. It functions under the supervision and guidelines of its Board of Directors.

Association of Mutual Funds India has brought down the Indian Mutual Fund Industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principle of both protecting and promoting the interests of mutual funds as well as their unit holders.

## 1.10 THE SPONSORERS OF ASSOCIATION OF MUTUAL FUNDS IN INDIA

### BANK SPONSORED

- ☛ SBI Fund Management Limited
- ☛ BOB Asset Management Company Limited
- ☛ Canbank Investment Management Services Limited
- ☛ UTI Asset Management Company Private Limited.

### INSTITUTIONS

- ☛ GIC Asset Management Company Limited
- ☛ Jeevan Bima Sahayog Asset Management Company Limited

### PRIVATE SECTOR

#### Indian

- ☛ Bench Mark Asset Management Company Private Limited
- ☛ Cholamandalam Asset Management Company Limited
- ☛ Credit Capital Asset Management Company Limited
- ☛ Escorts Asset Management Limited
- ☛ JM Financial Mutual Fund
- ☛ Kotak Mahindra Asset Management Company Limited
- ☛ Reliance Capital Asset Management Limited
- ☛ Sahara Asset Management Company Private Limited
- ☛ Sundaram Asset Management Company Limited
- ☛ Tata Asset Management Private Limited

#### Predominantly India Joint Ventures

- ☛ Birla Sun Life Asset Management Company Limited
- ☛ DSP Merrill Lynch Fund Managers Limited
- ☛ HDFC Asset Management Company Limited

#### Predominantly Foreign Joint Ventures

- ☛ ABN AMRO Asset Management (India) Limited
- ☛ Alliance Capital Asset Management (India) Private Limited.
- ☛ Deutsche Asset management (India) Private Limited
- ☛ Fidelity Fund Management Private Limited
- ☛ Franklin Templeton Asset Management India Private Limited
- ☛ HSBC Asset Management (India) Private Limited
- ☛ ING Investment Management (India) Private Limited
- ☛ Morgan Stanley Investment Company Private Limited
- ☛ Principal Asset Management Company Private Limited
- ☛ Prudential ICICI Asset Management Company Limited
- ☛ Standard chartered Asset Management Company Private Limited

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