

# **INDIAN FINANCIAL SYSTEM**

**M.COM SEMESTER II**

## **MUTUAL FUNDS**

**Dr. GEETIKA T. KAPOOR**  
**Department Of Commerce**

# MUTUAL FUNDS

## MEANING

A mutual fund is an instrument of investment that uses money from a large number of investors to invest in stocks , bonds or other types of investment.

# CHARACTERISTICS OF MUTUAL FUNDS

THE TOP 7 CHARACTERISTICS OF THE BEST MUTUAL FUNDS.

- \*Low expenses
- \*Strong fund management
- \*Strong parent company
- \*Strong relative performance
- \*Size of the fund
- \*Difference from the benchmark.

# HISTORY OF MF'S

- History of MF's can be discussed in two parts:
  1. Emergence through public players; and
  2. Emergence through private players.
- ❑ PHASE 1 – 1964-87: In 1963 , UTI was set by parliament under UTI act and given a monopoly . The first equity fund was launched in 1986.
- ❑ PHASE 2- 1987-93: Non-UTI , public sector mutual funds. Like- SBI mutual fund , LIC mutual fund , PNB mutual fund etc.

- ❖ PHASE 3 1993-96: Introducing private sector funds as well as open ended funds
- ❖ PHASE 4-1996- Investor friendly regulatory measures action taken by SEBI to protect the investor , and To enhance investor's returns through tax benefits.

# TYPES OF MUTUAL FUND

## BY STRUCTURE

- Open ended funds.
- Close ended funds

## BY INVESTMENT OBJECTIVE

- Growth funds
- Income funds

## SPECIAL SCHEMES

- Industry specific schemes
- Sectoral schemes

# ON THE BASIS OF STRUCTURE

## OPEN ENDED SCHEMES

\* Open ended schemes are schemes which offers unit for sale without specifying any duration for redemption.

## CLOSE ENDED SCHEMES

\*These are the schemes in which redemption period is specified.

# ON THE BASIS OF INVESTMENT OBJECTIVES

## ❑ GROWTH FUNDS:

- The aim of growth funds is to provide capital appreciation over the medium to long-term.

## ❑ INCOME FUNDS:

- Funds that invest in medium to long-term debt investments issued by private companies, banks, financial institutions, governments and other entities belonging to various sectors are known as debt or income funds.



## □ BALANCED FUND

- These funds provide both growth and regular income as these schemes invest in debt and equity.
- The NAV of these schemes is less volatile as compared pure equity funds.

## □ MONEY MARKET FUNDS

- Money market/ liquid funds invest in short-term interest bearing debt instruments . These securities are highly liquid and provide safety of investment, thus making money market the safest investment option when compared with other mutual fund types.

# ON THE BASIS OF SPECIAL SCHEMES

## ❑ INDUSTRY SPECIFIC SCHEMES:

- Industry specific schemes invest only in the industries specified in the offer document.

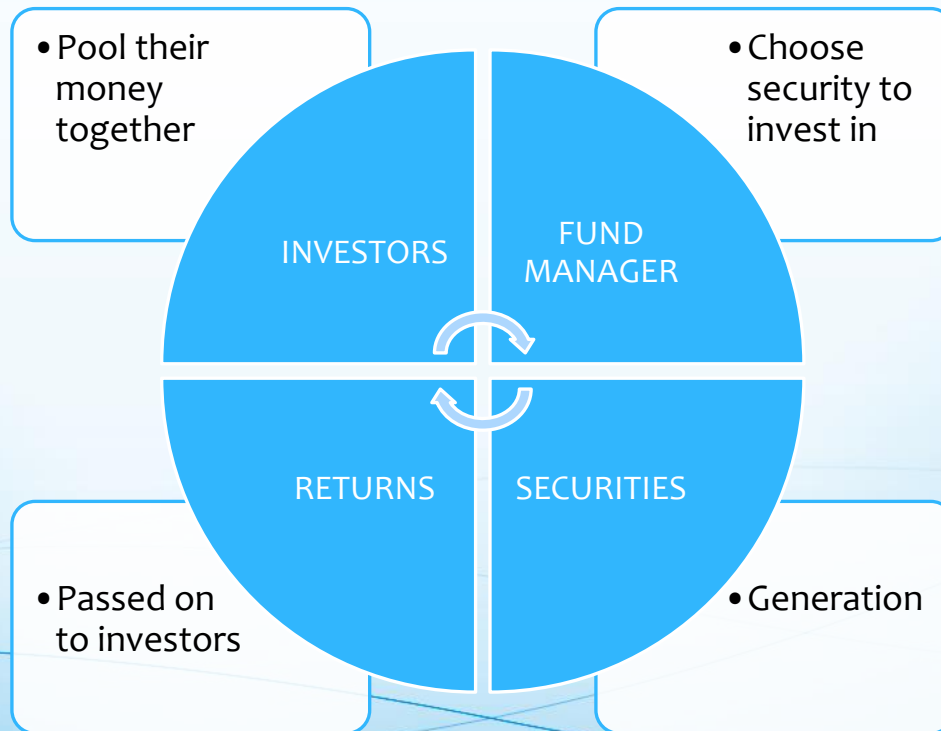
## ❑ INDEX SCHEMES:

- In this schemes , the funds collected by mutual funds are invested in shares forming the stock exchange index.

## ❑ SECTORAL SCHEME:

- Sectoral funds are those mutual funds which invest in particular sector of the market , e.g. Banking , information technology etc.

# MUTUAL FUND



# Working of Mutual Funds in India

- \* The working of mutual funds in India is the same as that of the USA. These funds are regulated by SEBI in India.
- \* In order to start funding, the starters need to have at least 5-year experience in the financial industry.
- \* He should have maintained a net worth for 5 years after he gets registered.
- \* A minimum start-up capital of about Rs. 500 million and Rs. 200 million is required for open-ended and close-ended schemes respectively.

# Working of Mutual Funds in India(contd.)

- \* SEBI registration is compulsory. After it, the sponsor should form a trust to hold all the assets of the fund either by appointing a new company or by choosing any existing Asset Management Company (AMC).
- \* The trust's job is to overlook the funds and it should be done considering the best interests of the shareholders.
- \* The Asset Management Company manages the portfolio of the fund and then shares the information with the shareholders.
- \* The funds are invested in various sectors like IT, real estate, etc.

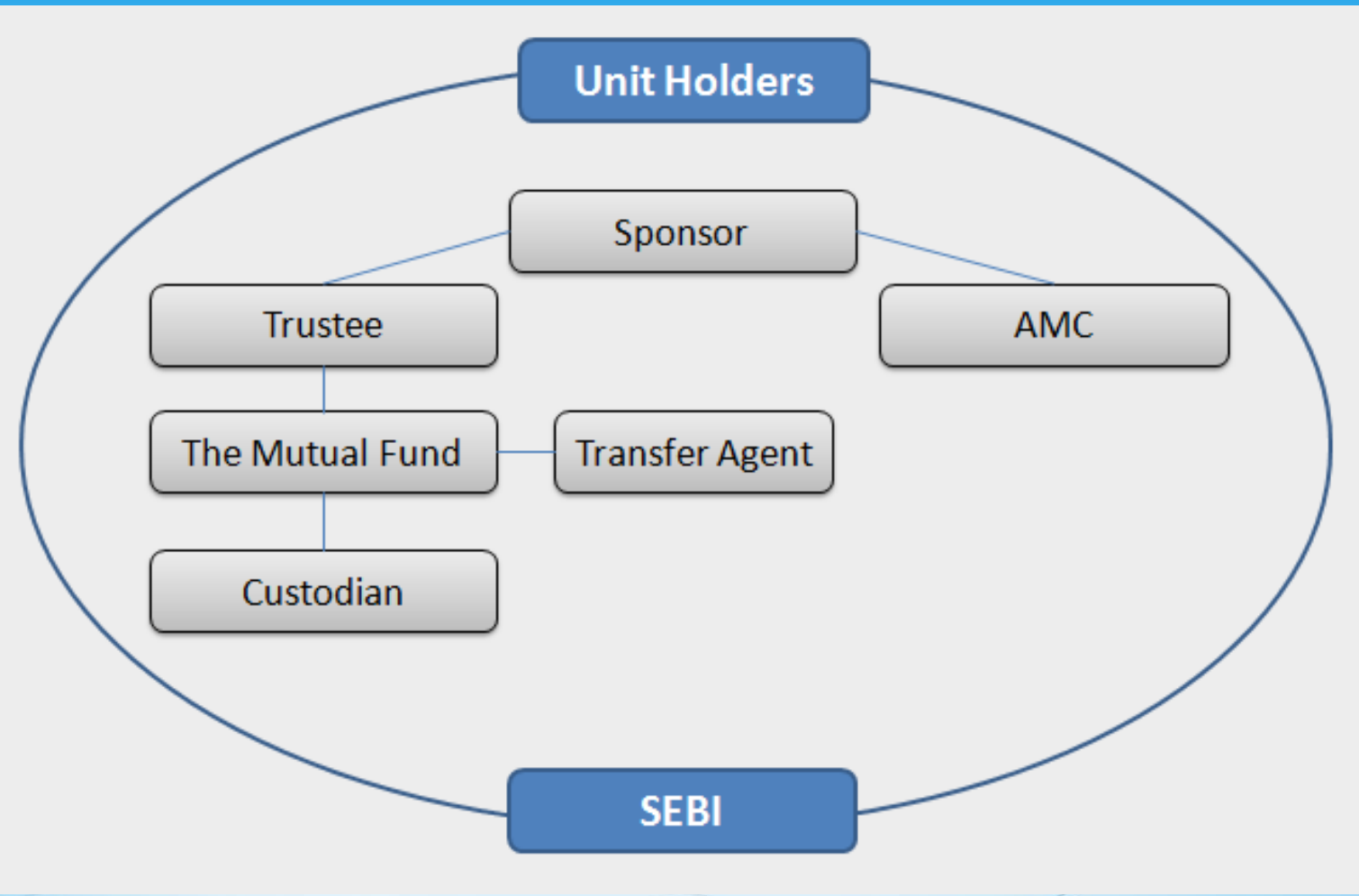
# Working of Mutual Funds in India(contd.)

- \* In case one sector is unable to perform well then the others will compensate for it and average out the loss suffered.
- \* The fund managers will send the account statements quarterly to the investors. The financial reports of the fund are also sent to the investors so that they can monitor how the fund is performing.
- \* Mutual fund investment is flexible in nature and it can be done in many ways as the minimum investment amount is Rs. 500.
- \* An investor can invest offline, online, directly or through fund managers.



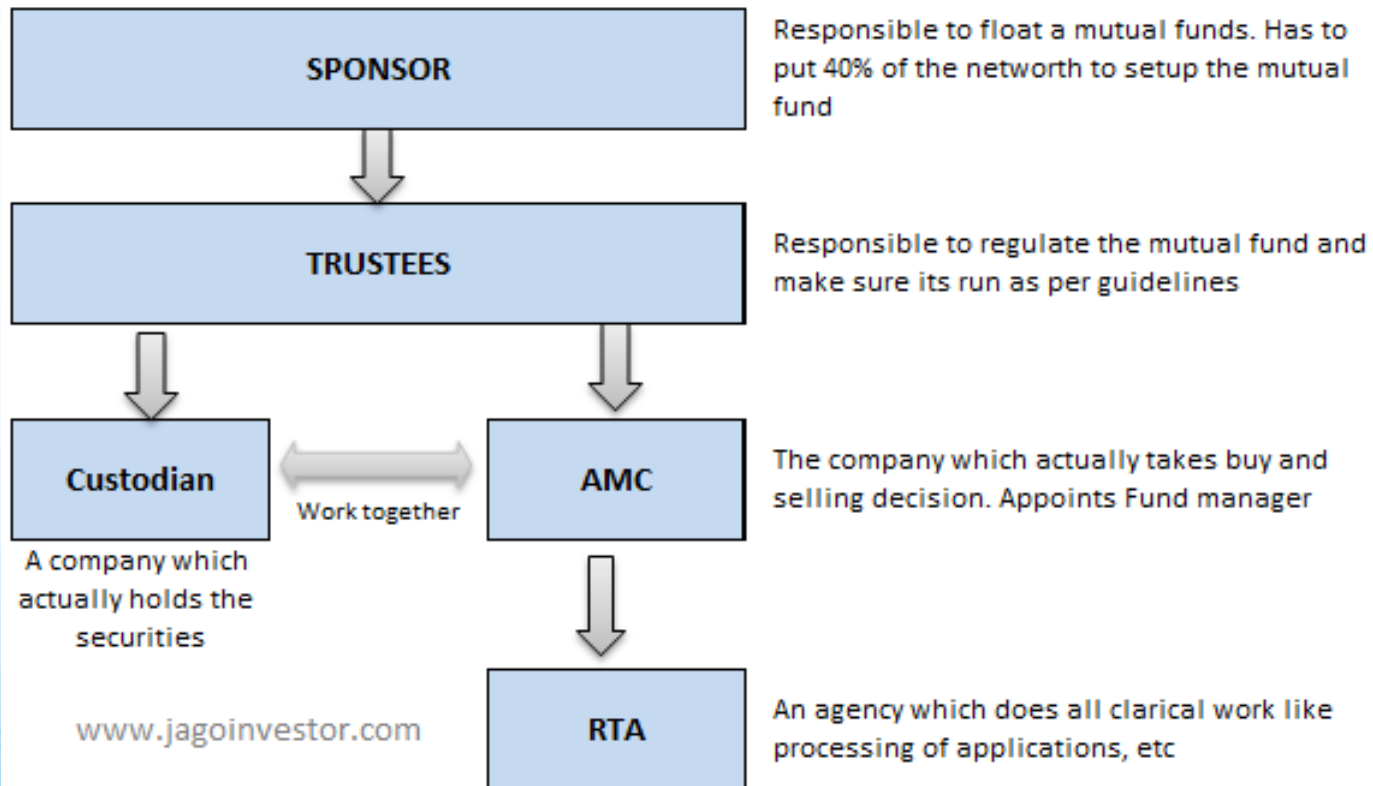
# Working of Mutual Funds in India(contd.)

- \* It provides easy liquidity to investors as one can easily encash the money at the time of need.
- \* There is a transparency in the investment making since it is under the SEBI guidelines.
- \* A monthly report is shared by investors to make the investment more transparent.
- \* A load fund charges commission on the purchase and sometimes at the time of sale. But no-load funds are free from commissions.

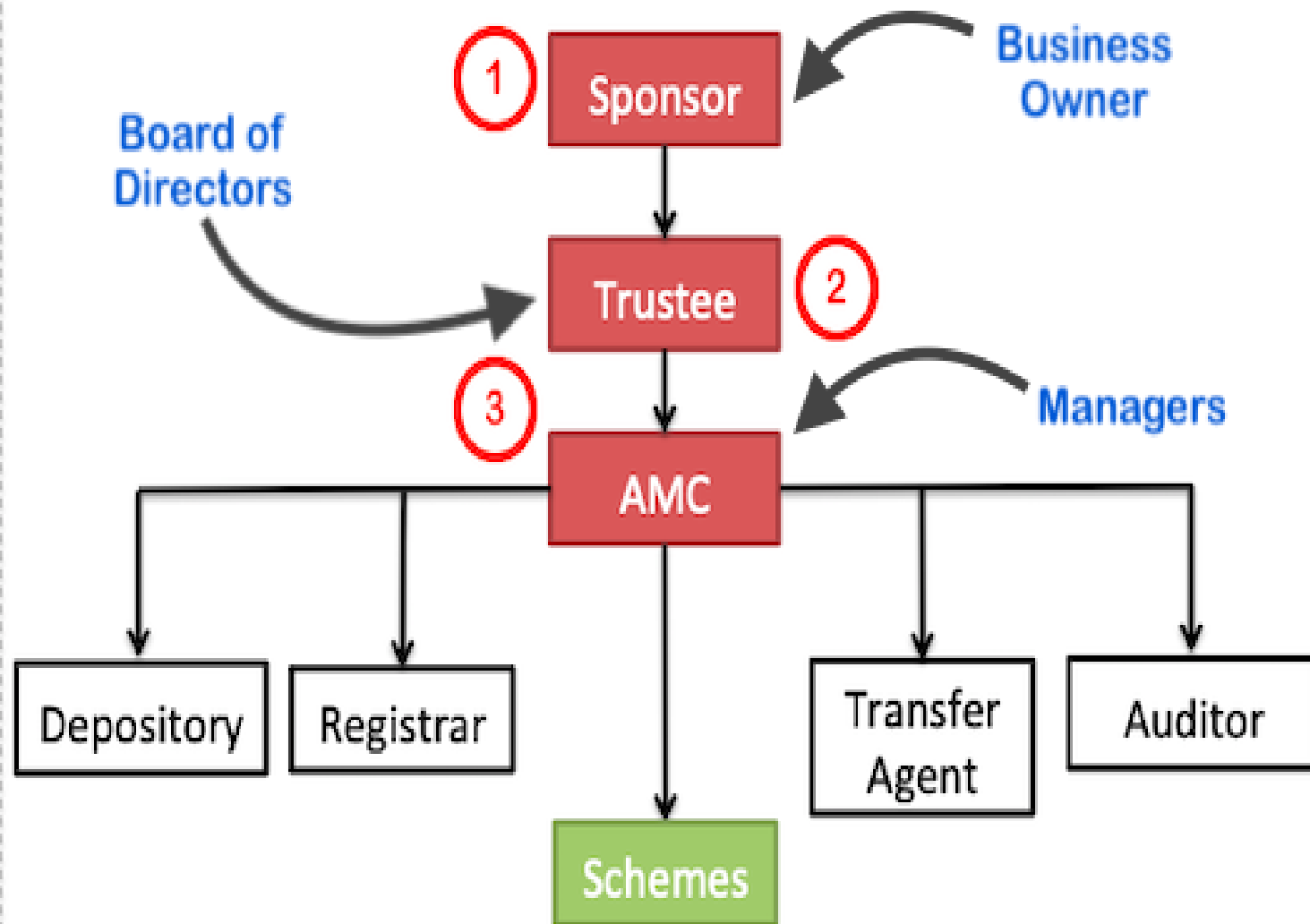




# Structure of Mutual Funds in India



## A Typical Mutual Fund House - regulated by SEBI



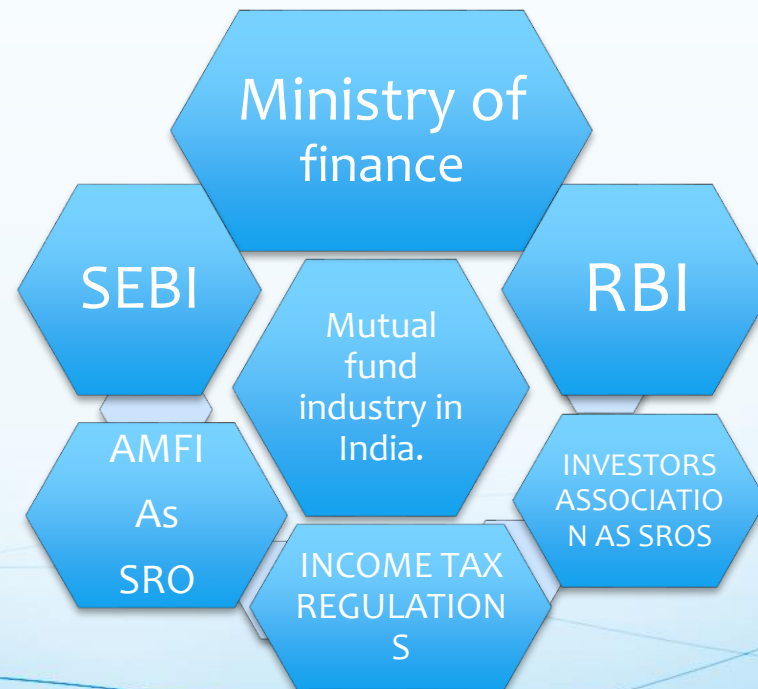
# Utility of Mutual Funds in India

- \* MF Utility (MFU) is an application that connects investors to banks, fund houses, KYC registration agencies, registrars, etc.
- \* MF Utility is a shared service initiated by Amfi subsidiary MF Utilities India. It's a transaction aggregation portal that enables consumers to invest in multiple schemes in the fund market. It's a free-of-cost service for those who sign up with the utility.
- \* The existing investments of investors will not be migrated. After the creation of Common Account Number (CAN), MFU will map the existing folios of investors across all the fund houses to the CAN, based on their Permanent Account Number (PAN) and the pattern.
- \* All the transactions submitted through Mutual Fund Utility are then forwarded to the respective Asset Management Company (AMC). No charge is there in its processing or brokerage.
- \* For availing the facilities of MF Utility, an investor needs to get himself a CAN number by submitting the CAN registration form. Then, the investors will be provided the login access to MF Utility. KYC compliance is required for CAN creation. In order to avail the MF Utility facilities, a CAN number is required. The CAN is not transferable and in case of eventualities, the holders have to request the transmission with MFU India.

# EXPENSES IN MF's

- **MANAGEMENT FEE-** The management fee is paid by the fund to the management company or sponsor that organised the fund , provides the portfolio management or investment advisory services and normally lends its brand to the fund.
- **DISTRIBUTION CHARGES** – Front-end load or sales charge . It is a commission paid to a broker by a mutual fund when shares are purchased.
- **SHAREHOLDER TRANSACTION FEES.**
- **SECURITIES TRANSACTION FEES INCURRED BY THE FUND .** And many more expenses...,

# REGULATORY FRAMEWORK OF MUTUAL FUND



# WHO REGULATES MUTUAL FUNDS IN INDIA

- \* The term “**regulation**” means a rule or directive made and controlled by an authority. Mutual funds are regulated by the **Securities and Exchange Board of India (SEBI)**. In 1996, SEBI formulated the Mutual Fund Regulation. SEBI is additionally the apex regulator of capital markets and its intermediaries. The issuance and trading of capital market instruments also come under the purview of SEBI.
- \* Along with SEBI, mutual funds are regulated by RBI, Companies Act, Stock exchange, Indian Trust Act and Ministry of Finance. RBI acts as a regulator of Sponsors of bank-sponsored mutual funds, especially in the case of funds offering guaranteed returns.
- \* In order to provide a guaranteed returns scheme, a mutual fund needs to take approval from RBI.



# WHO REGULATES MUTUAL FUNDS IN INDIA(contd.)

- \* The Ministry of Finance acts as a supervisor of RBI and SEBI and appellate authority under SEBI regulations.
- \* The Association of Mutual Funds in India (AMFI) has been made to develop this Mutual Fund Industry of India on professional and ethical lines and to enhance and maintain standards in all areas with a view to protect and promote the interests of mutual funds and their unitholders.
- \* AMFI is a Non profit organization incorporated in the year 1995 and is a nodal agency for Mutual funds in India. As per AMFI total AUM in the month of March 2020 was Rs 24.71 lakh crores.

# Leading Mutual Funds In India

- \* ICICI Prudential Equity & Debt **Fund.**
- \* Mirae Asset Hybrid Equity **Fund.**
- \* Axis Bluechip **Fund.**
- \* ICICI Prudential Bluechip **Fund.**
- \* L&T Midcap **Fund.**
- \* HDFC Mid-Cap Opportunities **Fund.**
- \* L&T Emerging Businesses **Fund.**
- \* HDFC Small Cap **Fund.**



## Status of Mutual Funds in India from 01/04/19 to 31/03/2020 (SEBI)

Open ended Schemes		Rs in Crores	Rs in Crore-Net
Income/Debt Oriented	No.of Schemes	Funds Mobilized	Assets under Mngmnt
Overnight Fund	30	3104154.07	80174.19
Liquid Fund	39	14430056.33	334725.32
Ultra Short Duration Fund	29	185685.09	72226.36
Low Duration Fund	26	127452.33	81371.19
Money Market Fund	20	193476.64	57016.64
Short Duration Fund	28	60309.59	93444.34



THANK YOU