CHAPTER - 3

CONCEPT, GROWTH AND DEVELOPMENT OF MUTUAL FUND IN INDIA.

Synopsis

3.1 INTRODUCTION:

A competent, sound and developed financial system is a must to attained rapid economic development and growth of a country. The financial system is a set of an institutional arrangement through which financial resources in the economy are mobilized from surplus units to deficit spenders. The financial market makes it possible by performing a number of important and useful functions like diversification and reduction of risk, portfolio management etc.

A well-organized set-up of financial market plays an important role for the economic development of a country. Financial market includes various institutions which meet the safety, liquidity and profitability requirement of investor for short term as well as long term. Among the various institution, mutual fund is one, to perform above activities.

3.2 CONCEPT OF MUTUAL FUND:

"Mutual Fund" means a fund established in the form of trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments.

A Mutual Fund is trust, which invests money contributed by number of people in securities such as stocks, bonds, and money market investments. For this, Mutual Fund launches schemes, with investment goal.

A Mutual Fund is pooling of funds from different people for their mutual benefits. These funds are then invested in shares and securities depending on the line of investment and objective of the fund.

"A mutual fund is uniquely a democratic institution."[1] Mutual fund serves as a vehicle that gives access to many of the saving opportunities mentioned above. There are various categories of Mutual Fund to suit varying investor preference for returns, risks, time frame and convenience.

An investor buys a share in the assets of schemes. In India a mutual fund is organised as a trust and this trust in turn appoints an asset manager commonly called "Asset Management Company".

A Mutual Fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the

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1. Business Week guide to mutual funds, 5th Edition, 1995, McGraw Hill, Inc, USA.

provision of the Indian Registration Act, 1908[16 Of 1908] executed by the sponsor in favour of the trustees named in such instrument.

"Mutual Fund is a corporation that provides an investment service for its stockholders, organized under the state laws and subject to SEC as well as state regulation wherever its shares are sold, its operations are carried on through an affiliated management company whose officer are usually officers of the Fund[2]"

The process of liberalization, deregulation and restructuring of Indian economy has created necessity of efficient allocation of scare resources. Mutual funds play vital role as strong financial intermediaries in bringing stability to the financial system and efficiency to the resource allocation process. "Mutual funds are financial intermediaries which bring a wide variety of securities within the reach of the most modest of investors."[3] Mutual Fund is an institutional arrangement in which saving of people are pooled together for investment in a diversified portfolio of securities to spread risk and to ensure steady return. These funds bring a wide variety of securities within the reach of the most modest of investors. For an individual investor it is not possible to invest their savings in different securities because investor may not have updated market knowledge and they have to rely only on brokers. Mutual Fund provides financial service to the investors, they receive the money from the investors, invest it in diversified portfolio, earn on it, put attempt to grow it and agree to share prosperity with the unitholders. The gain or loss made by mutual fund is passed on to the investors after deducting the administrative expenses and investment management fees. The gains are distributed to the unit holders in the form of dividend or reinvested by the fund to generate further gains.

A mutual fund pools together the resources of like-minded investors. Professionals trained in the science and art of securities analysis and stock picking, a mutual fund may have just one professional money manager or, it may have a battery of money managers. Mutual funds channelize people's saving into investment. This money is put into a large diversified investment portfolio.

Many mutual funds own over 100 different scrip's and Bonds. But no single investor owns any particular asset in the portfolio. Instead, an investor who has purchased a certain percentage of the mutual funds totally owns that

2. W.W. Coper & Yuji Ijiri
3. Relly K. Frank, Investments, CBS College Publishing, 182.526-528.

percentage of every asset liability of the funds. An investor is a partial owner of Mutual Funds, he is not a lender. So he is not entitled to any interest on his investment as he is owns the mutual fund not a creditors.

No single investors owns any particular asset in portfolio, but an investor who has purchased certain percentage of total mutual fund owns that percentage of every asset and every liability of fund. An investor cannot demand that he would takeover his portion of the asset & liability of fund, if he does not wish to continue in. He can encash his share of M.F. by selling his units in the stock market or repurchase his share from the fund at a Net Asset Value [NAV] determined repurchase price.

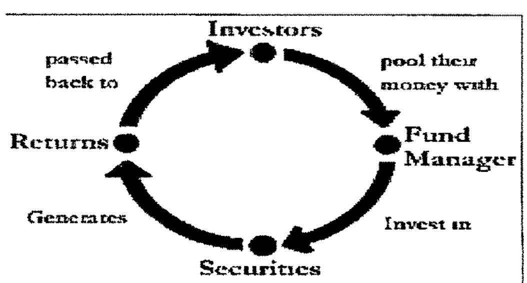
Mutual Funds must endeavor to provide instant liquidity. Liquidity refers to the speed and ease with which assets can be purchased or sold. Most open-ended mutual funds are highly liquid. Mutual funds must provide operational simplicity and convenience to the unit holders like automatic reinvestment of dividends and capital gain distribution; programs of regular additional investments and for systematic withdrawal facility, facility in investment through credit cards etc, should be there.

Mutual funds are regulated by the Securities and Exchange Board of India [SEBI]. That helps to protect the investor against the sort of inadequate disclosure, unethical behavior and fraud that often occurs in Dalal Street. Mutual Funds have to adopt four principles to be successful according to John C. Bogle,

1. Mutual Fund must be well diversified.
2. The fund must be managed by trained professionals.
3. The fund must provide liquidity.
4. Convenience and simplicity in investment dealing.

These principles remain as effective and valid as they were when the first U.S. Mutual fund was introduced.

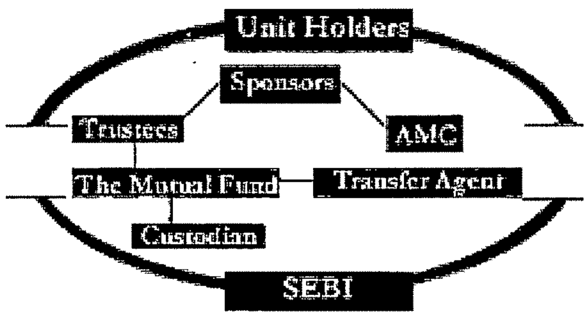
The flow chart below describes broadly the working of a mutual fund:



Mutual Fund Operation Flow Chart

There are many entities involved and the diagram below illustrates the organizational set up of a mutual fund:

Organisation of a Mutual Fund



(Source: AMFI)

3.2A BENEFITS FROM MUTUAL FUNDS:

Mutual fund is an investment vehicle that pools together funds from investors to purchase stocks, bonds or other securities. An investor can participate in the mutual fund by buying the units of the fund. Mutual fund is a safest way to invest one's money. Mutual Funds manage money in a better and safe manner. They offer various benefits to an investor as per his imaginations. Easy investment, good management, liquidity, diversification, safety and tax efficiency etc. are some of the benefits on offer. Investment goal vary from person to person. Somebody wants security, while other might give more weightage to returns alone. Else might want to plan for his child's education. While another might be saving for the proverbial rainy day or even life after retirement. Mutual Funds provide various schemes to cover all the type of investors with different objectives.

Moreover, the setup of a legal structure, which has enough teeth to safeguard investors' interest, ensures that the investors are not cheated out of their hard-earned money. All in all, benefits provided by them cut across the boundaries of investor category. Investors of all categories could choose to invest on their own in multiple options but opt for mutual funds for the sole reason is that all benefits come in a package. Mutual Fund put effort for minimum risk and getting maximum return on investment. Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

3.3 CONSTITUENT OF MUTUAL FUNDS

According to SEBI (Mutual Fund) Regulations, 1996, the constituent of Mutual Funds are as under

[1] Sponsor

[2] Trustee.

[3] Asset Management Company (AMC)

[4] Custodian.

[1] SPONSOR:

"A sponsor means any body corporate- who acting alone or in combination with another body corporate, establishes a Mutual Fund, after initiating and completing the formalities therefore."[4]

This means a sponsor could be:

a. A public limited company
b. A private limited company
c. A scheduled bank
d. Indian Financial Institutions
e. A state level Financial Institution
f. A combination of any two or more of the above.

[A] ELIGIBILITIES CRITERIA OF SPONSOR:

Certain conditions have to be meet for one to act as a sponsor.

Regulation 8 lays down the eligibility criteria as under:

1. "the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions." Sound track means,

(i) carrying on business in financial services for a period of not less than five years;

(ii) the net worth is positive in all the immediately preceding five years;

(iii)the net worth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and

4. Regulation 2(q) of the SEBI (Mutual Funds) Regulation, 1996 define as under;

(iv)the sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year.

(v) the " sponsor contributes at least 40 % to the networth of the Asset management fund, such fund is in the form of a trust and the trust deed has been approved by Company." [Regulation 8(d)]

1. In the case of an existing mutual the Board;
2. The sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud, has not been convicted of an offense involving moral turpitude, or has not been found guilty of any economic offence. The sponsor is required to appoint the following:
   - A. Trustees to act as trustees for the mutual fund.
   - B. Asset Management Company to manage the Mutual Funds.
   - C. Custodian in order to keep custody of securities and carry out the custodian activities as may be authonzed by the trustees.

2. TRUSTEE:

"Trustee" means a person who holds the property of the mutual fund in trust for the benefit of the unit holders and includes a trustee company and the directors of the trustee company'[5] .

[A] ELIGIBILITIES CRITERIA:

A mutual fund is managed by the board of trustee who held the property of mutual funds in trust for the benefit of the unit holders who invest in mutual funds. Following are the eligibility criteria as per regulation 15(2).

i] At least 50 % trustees should be independent persons who are not associated with the sponsors in any manner whatsoever.

ii] No person who is appointed as a trustee of a mutual fund can be appointed as a trustee of any other mutual fund unless he is an independent trustee and prior approval of the mutual fund of which he is a trustee has been obtained for such an appointment.

iii] The trustee are persons who have experience in financial services and are not found guilty of any economic offense.

iv] An AMC or any of its officers or employees are not eligible to act as a trustee of any mutual Fund

5. Substituted vide SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No 1223 (E) dated December 8, 1999

vi] A person who is appointed as trustee or director in one mutual fund then he/she can not be appointed in another mutual fund as trustee or director.

[B] RESPONSIBILITIES OF TRUSTEE:

Trustees are like a board of directors of a company. They are overall responsible for the management of fund. The trustees are responsible for ;

1] To ensure that the AMC has appointed all key person, auditors, registered etc. before the scheme launch.

2] Tto ensure that an AMC has been careful and conscious in empanelling and monitoring any securities transactions with brokers, so as to avoid any excessive concentration of business with any broker.

3] The Mutual Fund Regulations further mandates that the trustees should prevent any conflicts of interest between the AMC and the unit holders in terms of deployment of net worth.

4] The trustees shall be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in the mutual fund for the holders of the units of any scheme in accordance with these regulations and the trust deed.

5] To ensure that all the activities of the Asset Management Company are in accordance with the provisions of these regulations.

6] To ensure that the asset management company has not given any undue or unfair advantage to any associates or dealt with any of the associates of the asset management company in any manner detrimental to interest of the unit-holders.

7] The trustees shall ensure that the transactions entered into and all the activities of the asset management company are in accordance with these regulations and the scheme.

8] The trustees shall ensure that the asset management company has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or of other activities of the asset management company.

[C] DISQUALIFICATION FROM BEING APPOINTED AS TRUSTEES[6]

(1) A mutual fund shall appoint trustees in accordance with these regulations.

(2) No person shall be eligible to be appointed as a trustee unless -

(a) He is a person of ability, integrity and standing; and

(b) Has not been found guilty of moral turpitude; and

(c) Has not been convicted of any economic offence or violation of any securities laws; and

(d) Has furnished particulars as specified in Form C.

(3) An asset management company or any of its officers or employees shall not be eligible to act as a trustee of any mutual fund.

(4) No person who is appointed as a trustee of a mutual fund can be appointed as a trustee of any other mutual fund unless –

(a) such a person is an independent trustee referred to in sub-regulation (5); and

(b) prior approval of the mutual fund of which he is a trustee has been obtained for such an appointment.

(5) Two thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever [original clause substituted]

(6) In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

3. ASSET MANAGEMENT COMPANY(AMC):

"Asset management company means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved as such by the Board under sub-regulation (2) of regulation 21;" It means a company must be registered under the company act and approved by SEBI.

Asset Management Company act as a investment advisor and administrator of Mutual Fund. According objective and policies of fund it select the investment portfolio in best possible manner means transaction are carried out at the best price and cost. So unitholders get maximum returns over their investments in funds. An Asset Management Company is also known as

6 [Vide SEBI(Mutual Fund) Amendment Regulations, 1998 , S O.No:32(E) dated January 12, 1998]

Investment Manager as it manages the funds raised by selling the units. Asset Management Company shall not act as a trustee of any mutual fund. It acts as per SEBI guidelines, the trustee deed and the investment management agreement entered between the trustees or Trustee Company and AMC. The AMC cannot undertake any other business activities except activities in the nature of portfolio management services, management and advisory services to offshore funds, pension funds, provident funds, venture capital funds, management of insurance funds, financial consultancy and exchange of research on commercial basis. Such activities should not be in conflict with the activities of the mutual fund;. However, the AMC itself or its subsidiaries undertake such activities only if it satisfies the Board that the key personnel of the asset management company, the systems, back office, bank and securities accounts are segregated activity wise and there exist systems to prohibit access to inside information of various activities.

[A] ELIGIBILITY CRITERIA:[7]

The sponsor or the trustees are required to appoint an Asset Management Company to regulate and manage the assets of Mutual Fund. Regulation 20 of the SEBI Mutual Fund Regulations laid down certain criteria to register with SEBI as an Asset Management Company which are as under:

i] The sponsor must have at least 40 % stake in the AMC.

ii] The directors of the AMC should be persons having adequate professional experience in finance and financial service related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;

iii] the directors of the AMC should be persons having adequate professional experience in finance and financial services

iv] the board of directors of such AMC has at least 50% directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees;

v] the AMC should have and must at all times maintain, a minimum net worth of Rs. 100 million;

vi] the Chairman of the AMC is not a trustee of any mutual fund.

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4. CUSTODIAN.

"Custodian" means a person who has been granted a certificate of registration to carry on the business of custodian of securities under the Securities and Exchange Board of India (Custodian of Securities) Regulations, 1996;

The mutual fund shall appoint a custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the custodian. No custodian in which the sponsor or its associates hold 50% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary company. The custodian must be totally delinked from the AMC and must be registered with SEBI(Custodian of Securities) Guidelines,1996. The mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses like the agreement, the service contract, terms and appointment of the custodian which are necessary to conduct the activities of the custodian effectively and in proper manner. A custodian shall keep the securities in safe custody and ensure availability of securities.

3.3 ADVANTAGES AND DISADVANTAGES OF MUTUAL FUNDS:

From the above concept of mutual fund we can now identify the advantages and disadvantages for investing savings in mutual funds.

[A] ADVANTAGES:

The investors get various advantages by investing in mutual fund which is discussed as under.

1. DIVERSIFICATION:

Diversification is the idea of spreading out investor's money across different types of investments. It means investment in a diverse range of securities and over many industries. Buy multiple stocks rather than just one stock i.e. all the eggs are not placed in one basket. Diversification of investment can help to reduce the adverse impact of a single investment.

Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. For an individual investor it is quite difficult to invest in various securities, as it requires large amount of funds as well as knowledge and understanding track record of number of investment portfolios, to achieve such objectives.

Mr. Meet Chavda wants to invest Rs. 50,000. With this amount he can not get meaningful diversification. He may pick just a few scripts of different companies because of high securities prices. But by buying units of mutual funds he becomes a part owner of all the securities in which mutual fund has invested. Let us assume, he purchases units of HDFC Balanced Fund then he will get diversification as under: Let us consider one example.

SECTOR	% of investment
Oil & Gas Refining and marketing	8.93
Banks	7.17
Pharmaceuticals	6.99
IT Consulting & Services	6.27
Heavy Electrical Equipment	6.07
Oil & Gas Exploration and Production	5.01
Household Products	4.24
Automobile Manufacturers	4.10
Tobacco	3.97
Contraction & Engineering	3.81
Commodity Chemicals	3.03
Motorcycle Manufacturers	2.97
Steel	1.87
Electric Utilities	1.64
Debt Instruments	30.78
Money Market Instruments	3.15

Sources: www.hdfcfund.com.

HDFC mutual fund invested their funds in above sector, so automatically, investor gets diversification and he will be the part owner of such securities. If one stock performs badly, its impact on the overall portfolio can be mitigated. Mutual funds carefully select securities through which investors automatically get a diversification which is matched with investor's investment style and risk capacity. In short, Mutual funds provide an opportunity to invest in many companies and sectors.

2. **PROFESSIONAL MANAGEMENT:**

Now a day, stock selection requires expertise knowledge regarding monitoring of data, analysis of companies result and performance etc. Small investors neither have time nor expertise knowledge to select good securities by themselves. Still, investor wants to get good return which is possible through Mutual Funds, without playing directly in the stock market.

Mutual Funds are managed by professionals. They are really expert having knowledge to check the performance of the funds that they are managing. Their work is supported by research team which continuously watches and monitors data and select appropriate securities. They work as full time and decide which securities to purchase and sell on behalf of investors based on their research. As economic situation change, the fund manages may adjust the mix of fund's investments to ensure it's continuity to meet the fund's objectives.

3. **CONVENIENT ADMINISTRATION:**

Mutual fund companies often offer an attractive free service to the investors which reduce their paper work like reinvestment of dividends and distributions, the ability to transfer between funds in a family, systematic investment or withdrawal plans to allow us to invest or sell on a monthly basis, detailed recordkeeping and tax reports. Mutual funds help in overcoming the problems relating to bad deliveries, delayed payments and unnecessary follow up with brokers and companies. Investment in mutual fund means reduction in botheration of keeping track of dividend, stock certificate, right issue etc. Mutual funds save our time and make investing easy and convenient.

4. **LIQUIDITY:**

Liquidity means the speed and ease with which the assets can be purchased or sold. Liquidity is the ability to convert investment in to cash. Mutual funds units are liquid investments that can be sold on any business day. Mutual fund provides liquidity in two ways.

i) In open–ended schemes, the investors can sell his units and get money back at any time at net asset value (NAV) related price from Mutual funds itself. Investors can invest at any time and withdraws at 48 hours notice. Investors can withdraw and invest any amount they want, also there are no restrictions that they must withdraw or invest in particular numbers.

ii) Close-ended fund, investors can sell the units through the stock exchange. Many mutual funds repurchase their own units and some mutual funds provide both the facilities of repurchase and listing in the stock.

If cash is needed urgently, an investor can always sell Mutual Fund's units and get that day's closing redemption price. There is no need to worry about finding a buyer or at what price the unit might sell.

5. VARIETY:

Within the broad categories of stock, bond and money market funds, investor can choose among a variety of investment approaches. It offers various schemes to suit varying needs of the investors. Investment objective vary from person to person. Somebody wants security, other might give more weightage to return, one may plan for his child's education and other may invest for retirement life. Indian mutual fund industry provides various schemes to cover all types of investors. Mutual fund have various products like equity fund, long term fund, liquid fund, med-term fund, gilt fund, balanced fund etc. Today, there are about "31 mutual funds with 450 schemes in the India at the end of 31st march 2005"[8], with goals and styles to fulfill most objectives and fit in to necessary circumstances.

6. LOW OPERATING COST:

Mutual funds usually hold many securities like stocks and bonds. They purchase and sale stock at large scale, so they can take advantages of economies of scale. They offer big amount to invest and have personal contact with brokerage firm, they are in a position to pass on relatively low brokerage and other costs.

When investors buy or sell shares through share broker, they pay brokerage up to 2 %. It means if a share is available at price of Rs.100, then investors have to pay Rs.102 and if sold on same day, there is a loss of Rs. 4.

Mutual funds manage stock at large scale, so they are able to pay less brokerage i.e. nearly 0.5 % and in some case it may be 0.25 %. Thus mutual funds are very cost efficient. By investing money in mutual funds, investors can purchase and sale stocks or bonds with lower trading costs than they do at their own.

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8. SEBI Annual report 2004-05, pp 63.

7. **RISK REDUCTION:**

By investing in mutual fund, investors get the services of experienced and skilled professionals, backed by dedicated investment research team. They analyze the performance and prospects of companies and select suitable investment options at right time. Also investors get advantages of economies of scale on transaction cost. Mutual funds are a route to manage one's money in a better and safe manner. They actively monitor the market movements and take calls accordingly. Mutual fund industry selects best possible option which reduced risk of investing in the stock market through mutual funds.

8. **TRANSPARENCY:**

Mutual funds provide all information of each scheme, investments made under schemes, entry and exit load, rate of return, the proportion invested in each class of assets and the fund manager's investment strategy and outlook. Net Asset Value [NAV] of funds is published in news paper every day.

9. **TAX BENEFITS :**

The investors of Mutual Funds get advantages of tax concessions. Investors get tax benefits as under:

Investors' gets 20 % tax saving on amount invested in Equity Linked Saving Scheme (ELSS) of mutual funds. Thus if we invest Rs.10,000 in Mutual Fund's tax saving scheme ELSS, the investor is entitled to a tax saving Rs.2000.

The dividend which unit holders receive from mutual funds is also exempted from tax overall limit of Rs.12,000 under Sec.80L. However, an individual investor investing in equity has to pay tax on dividend and profit on sale of shares.

Investor gets a saving of 20 %, when he invests in mutual fund. This is advantageous in reducing price period if the mutual fund company repurchases the units at par. Unit holders get double benefits, one tax rebate and face value of unit when market prices are down. For example, Ms. Riddhi invested Rs. 20,000 in ELSS of mutual funds, she gets 20 % tax saving that is Rs.4000. So here real outflow of cash is Rs.16,000. Now let us assume after 3 years market do not improve much and Mutual fund company repurchased units at least at par, she would get back Rs.20,000. Here Rs. 16,000 raised up to Rs.20 000 even without market improvement. (From 1 march 2006 sec.88 is withdrawn and investment up to Rs. 100000 became 100% tax free.)

10. FLEXIBILITY:

Most funds have regular investment plans, dividend reinvestment plans and regular withdrawal plans. Investors can invest or withdraw funds systematically according to their needs and convenience. Mutual funds provide facilities to switch off investment from one scheme to another scheme. For example, Mr. Deepak invested Rs. 25,000 and his investment classification as 70% in equity fund, 20 % in Balanced Fund and 10 % in Cash funds. Now suppose equity market is bearish, he may switch off his investment from equity to balanced fund or cash fund. After some time, if equity market bullish he may switch his investment towards equity funds from balanced fund or from cash funds.

11. WELL – REGULATED:

The Mutual funds are regulated, monitored and controlled by Stock Exchange Board of India. All Mutual funds are registered with SEBI and they function within the provision of strict regulation designed to protect the interest of investors.

[B] DISADVANTAGES OF MUTUAL FUNDS

Investing through mutual fund doesn't means exactly all well and glares. Investments in mutual funds also have drawbacks. Following are the disadvantages of mutual funds.

1. NO INSURANCE.

Mutual funds, although regulated by the government as well as by private fund companies, are not insured against losses. Only banks and other few deposits are insured up to Rs.1,00,000, not the mutual fund. . "Despite the risk-reducing diversification benefits provided by mutual funds, losses can occur, and it is possible (although extremely unlikely) that you could even lose your entire investment"[9].

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9. Douglas Gerlach, www.senvest.com/artges1.htm

2. **DILUTION.**

Although diversification reduces the amount of risk involved in investing in mutual funds, it can also be a disadvantage due to dilution. For example, if a single security held by a mutual fund doubles in value, the mutual fund itself would not double in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.

3. **FEES AND EXPENSES.**

Most mutual funds charge management and operating fees that pay for the fund's management expenses (usually around 1.0% to 1.5% per year). In addition, some mutual funds charge high sales commissions and redemption fees. And some funds buy and trade shares so often that the transaction costs add up significantly. Some of these expenses are charged on an ongoing basis, unlike stock investments, for which a commission is paid only when you buy and sell.

4. **POOR PERFORMANCE.**

Investment in mutual funds by no means guarantee of return. In fact, on average, around 75% of all mutual funds fail to beat the major market indexes, like the S&P 500, and a growing number of critics now question whether or not professional money managers have better stock-picking capabilities than the average investor. Billion

5. **LOSS OF CONTROL.**

The managers of mutual funds make all of the decisions about which securities to buy and sell and when to do so. This can make it difficult for investors when trying to manage their portfolio. For example, the tax consequences of a decision by the manager to buy or sell an asset at a certain time might not be optimal for investor. Investors also should remember that they trust someone else with their money when they invest in a mutual fund.

6. **TRADING LIMITATIONS.**

Although mutual funds are highly liquid in general, most mutual funds like open-ended funds cannot be bought or sold in the middle of the trading day. Investors can only buy and sell funds at the end of the day, after calculating the current value of their holding by mutual funds companies.

7. SIZE.

Some mutual funds are too big to find enough good investments. This is especially true of funds that focus on small companies, given that there are strict rules about how much of a single company a fund may own. If a mutual fund has Rs.50 crore to invest and is only able to invest an average of Rs.50 lakh in each, then it needs to find at least 100 such companies to invest in; as a result, the fund might be forced to lower its standards when selecting companies to invest in.

8. INEFFICIENCY OF CASH RESERVES.

Mutual funds usually maintain large cash reserves as protection against a large number of simultaneous withdrawals. Although this provides investors with liquidity, it means that some of the fund's money is invested in cash instead of assets, which tends to lower the investor's potential return.

9. TIRESOME WORK:

The advantages and disadvantages listed above apply to mutual funds in general. However, there are so many mutual funds in operation, and these funds vary greatly according to investment objective, size, strategy, and style. Mutual funds are available for every investment strategy (e.g. value, growth), every sector (e.g. biotech, Internet), and every country or region of the world. So the process of selecting a fund can be tiresome work.

3.4 CLASSIFICATION OF FUNDS

Mutual Funds can be classified in many ways. It can be classified according to investment objectives, style of investment, level of risk tolerance, structure of mutual funds, level of diversification, load or no load, specific industries etc. Investment objective(s) may vary from investor to investor like few people invest their money to earn regular present income, others intention is to invest in mutual fund because of capital appreciation, some may want both regular income as well as capital appreciation. Level of Risk can be high, medium or low. Equity Fund carries highest risk because it depends on market behavior. Income funds have low risk due to investment in Government Securities and corporate bond, while medium or average risk is carried by balanced funds. Open-ended and close-ended funds are structural funds. Open-ended funds are available for purchase and sales throughout the year, whereas closed ended fund remain close for specific period but listed fund can be sold through the stock exchange. Certain mutual fund schemes invest only specific industries only it known as Sector Funds or Special Funds. A particular fund will be classified under each one of the following classifications. These classifications are only illustrative.

A. Portfolio classification of funds

B. Functional classification of Funds

C. Geographical classification of funds

D. Ownership classification of funds

[A] PROTFOLIO CLASSIFICATION OF FUNDS:

Investors have a various requirement for their investment in Mutual Funds. Mutual fund which provides various instruments in which the money has been invested as per the interest of investors is known as portfolio. Each mutual fund developed their portfolio so they can meet the different objective of investors. This fund can be classified into Equity Funds, Bond Funds, Special Funds and Asset allocation Funds.

1. EQUITY FUNDS:

The primary objective to invest into equity stock is known as equity funds. Main aim of this fund is to generate high return over the medium to long term by investing in equities. These funds carry a high risk with high potential returns. Most of Mutual Funds will have some portion invested in equity schemes of companies. However, the percentage of the investment in equity is depending on kind of scheme. In equity scheme, 75 % to 95 % of total corps is invested in equity. Such funds further may be classified as growth fund, income fund, balanced fund and combination of the two.

i) GROWTH FUNDS:

Growth funds are a type of stock fund structured to appreciate overtime. These funds invest primarily in common stock of corporations that show high potential or growth. Growth funds do not pay dividend but instead reinvest their profit and allowing investors higher redemption value. Growth funds may realize their objectives by choosing businesses with a particular capitalization. This fund is suitable investments for investors who is looking for long term capital appreciation and not rely on dividend and regular current income. UTI Sunder, IL&FS Dynamic Equity Fund, BOB Growth Fund, Canequity Diversified, Reliance Growth Fund, Alliance Buy India Fund etc. are the growth funds. "Asset managed under growth schemes was Rs.36711 crores at the end of March 2005 which is 25% of total assets of mutual funds industry in India"[10].

ii) AGGRESSIVE GROWTH FUNDS:

Aggressive growth funds are similar to growth funds. The major difference is that aggressive-growth portfolios are more strongly growth-oriented. The Objective of this fund is maximum capital appreciation. It invests in less researched or speculative shares. They may use investing techniques like options writing and frequent trading to maximize their growth possibilities. They may also use speculative strategies to achieve objective of high returns. This fund involves high risk with better potential return.

The prices of aggressive growth funds can fluctuate greatly. They are popular among those who tolerate volatility well and who want to leave their money in their funds for a long time. Like growth funds, aggressive-growth funds often may not pay dividends but they can invest their earnings back into the companies they hold. Pru ICICI very Aggressive Plan (G), Risk Gaurdian Fund. etc are Aggressive Growth Funds.

iii) INCOME FUNDS:

Income funds are developed to provide regular income dividends to their investors. The main objective is to pay regular dividends to investors and do not emphasize the growth in value of their investment. Income funds invest a large percentage of their funds into preferred stocks and bonds which provide relatively stable current income. They may also invest in cash and money market securities. It is popular among investors who want stable income from their mutual funds. These funds considered safety first and then return. By the nature of investment, it carry a low risk which is compensated with regular returns. Pru ICICI Income

10. Amfi Update January-March 2005 Vol· IV. Issue: IV Pg 10. Assets of Mutual Fund Company which are member of AMFI.

Multiplier- Regular Plan(G), Taurus Libra Bond Fund-FMP II, SBI MDFS-180 day- Series1, HDFC Children's Gift Fund (Seven Plan), Kotak Income Plus etc are the income funds.

iv) BALANCED FUNDS:

Balanced fund is a combination of equity and income funds. These funds provide dividends as well as the potential of stock appreciation. The main aim of these funds is to generate high return compared to Income funds but lower that equity scheme. The fund manager tries to balance between risk and return. They are more diversified than other types of funds. Balanced funds invest in common stock, preferred stock, bonds and cash equivalents to provide both current income and growth with a minimum of volatility. On an average, their ratio of investment in stock and income funds is about 60:40. Fund manager may shift this ratio according to market condition to take advantages of high interest rates or stock market. This fund is popular among the investors who wish current income and growth potential both. BOB Balance Fund, HDFC Prudence Fund, Tate Balanced Fund, Birla AAF- Moderate Plan, Alliance 95 Fund etc are the balanced fund.

2. BOND FUNDS:

Bond is a written promise by the company or Government to repay borrowed money after a specified period at predetermined interest rate. Bond Fund invests in primarily in Government and Corporate securities. The main aim of these funds is to provide current, steady income and create cash flow to investors. Generally retired person and conservative investors prefer to invest in this type of funds. Bond fund pay higher return than deposit in a bank and investment in money market. It has less risk compared to other funds. It is also called Fixed income Bonds. These bond funds are not popular in India like other funds. As interest rates rise, bond fund prices will fall as the bonds in the fund have lower rates than an investor could purchase on a new issue and Interest rates fall which lead to improvement in bond fund price. Types of bond funds are:

i) Corporate Bond Funds.

ii) Government Bonds Funds.

iii) Municipal Bond Funds.

iv) Zero-Coupon Bond Fund.

v) International Bond Fund.

vi) Convertible Securities Funds.

Bond funds are often classified by maturity, or the date the borrower (whether it be the bank, the government, a corporation or an individual) must pay back the money borrowed. Using this classification bonds are often called short-term bonds, intermediate-term bonds, or long-term bonds.

i) **Corporate bond funds** provide steady interest income. High graded bonds offer low rate of interest and low graded bond funds offer high rate of interest with high credit risk.

ii) **Government bond** funds invest maximum in treasury bonds. Credit risk of government bond fund is zero however this bond funds are subject to market risk.

ii) **Municipal Bond Funds** are of Central, state and local government. These funds are non-taxable. These bond funds are issued to finance public project. e.g. Konkan Railway Bond.

iv) **Zero-Coupon bond** funds do not pay interest but sold at discount to their face value. Suppose face value of each unit is Rs.100 and it offers to investors at Rs.80. Here investors pay Rs.20 less than the face value. When it matures, the investor receives the face value of the bond i.e.Rs.100. Therefore Rs. 20 is one kind of coupon for investors. Difference between face value and purchase price at discount is considered as interest.

v) **International Bond Funds** invest in abroad bond funds and get advantages of interest rate that may be higher than local market. With less foreign currency investors buy more when rupee is strong and Vice-versa.

vi) **Convertible Security Bond funds** invest in convertible bonds. These bonds can be converted after specific period. This allows fund to convert into stock.

3. SPECIAL FUNDS:

Special fund is a fund which generally concentrates on specific field or segment of economy. These funds do not have diversification facilities like other funds. The rate of return of special funds depends on the performance of industry in which investment is made by fund manager. This kind of Mutual fund invest their all corpus only in specific industries mentioned in scheme brose. Performance of all specific industry in which mutual fund has invested, downfall or poor than return over special funds also decreases. Performance of companies is well or improved which bring price of such schemes mutual funds.

Following are some special funds:

i) Index Fund,

ii) Sectoral fund,

iii) International funds,

iv) Utility fund,

v) Money Market Mutual fund,

vi) Equity Link Service Schemes

i) INDEX FUNDS:

Index funds are made up of the securities that comprise major market indices. They do not try to beat the market. Instead, tries to match an index that would hold the same securities that are in that index. These funds take only the overall market risk. Most of index funds are managed passively, management expenses are lower compared to actively managed mutual funds. BSE Sensex, the BSE National Index, The ER 100 , Benchmark Nifty BeES, UTI Master Index Fund, Magnum Index Fund etc are index funds in India.

ii) SECTOR FUNDS:

Sector funds invest whole money in a one industry only. They may choose industries such as health care, the automobile industry, biotechnology or pharmaceuticals, financial service, Environment, Housing, Technology, Export, Media and Entertainment, Power industry etc. JM Healthcare Sector Fund, UTI Auto Sector, Reliance Pharma Fund, Tata Select Sector Fund(Service), Reliance Diversified Power Sector Fund, Reliance Media & Entertainment Fund etc are the sector funds,

iii) INTERNATIONAL SECTOR FUNDS:

International Sector funds track a group of stocks from a specific country or region. This fund raises money from local market and invests out side the country i.e. in foreign market.

iv) UTILITY FUNDS:

Utility funds invest in utility sectors like power, natural gas, Communication field etc. Utility funds are more stable than typical sector funds. ICICI power fund, UTI petro funds, Magnum IT fund, Franklin Infotech Fund etc are Utility funds.

v) MONEY MARKET MUTUAL FUNDS [MMMF]:

Money market funds invest in short-term debt instrument and offer double interest rate than what a bank can offer. Saving for short-term, emergencies or looking for a way to put cash from the sale of an investment, money market funds are a safe place to invest. With a small initial investment investor can participate in money market investments. Money market instruments provide high-yields on short-term investments. The funds pull money from large numbers of investors and use it to buy these securities. Investment in MMMF is the safe even sometimes safer than bank account because of their low volatility and creditworthiness of the issuers. However these funds have a inflation risk. Real returns are affected or even overcome by inflation. The returns on money market funds depend on the yields of their individual holdings and will fluctuate due to the short term of money market instruments. Money market mutual funds tend to have low overhead costs. Here are some money market instruments: Treasury Bills, Call Money, Gilt-edged securities, Certificates of deposits, Commercial papers, Repurchase agreement etc. "Money Market Mutual Funds can also advertise simple annualized returns of cash/liquid/ Money market schemes are based on a period of 15 days."[11] UTI Money Market Fund (G), HSBC Cash Fund, Tata Liquid Fund, etc. are the MMMF.

vi) EQUITY LINK SERVICE SCHEMES [ELSS]:

Equity Link Service Schemes provide tax saving under section 88c of the Income Tax Act. Those who want income tax benefit can invest in such type of funds. Magnum Tax Gain, HDFC Tax Saver 96, Prudential ICICI Tax Plan, Tata Infrastructure Fund, UTI Equity Tax Saving Plan etc are the Equity Link Service Schemes of mutual fund.

11. AMFI Update April- June, 2003 Vol: III. Issue: I Pg.2

4. ASSET ALLOCATION FUNDS:

It is a fund which does not invest in asset form. These funds invest in equities, gold stock, real estate, bonds etc. The main objective of this fund is to provide a combination of safety, income and capital appreciation to the investors. These funds have two type of funds one, stable asset allocation fund and second, flexible asset allocation fund.

i) STABLE ALLOCATION FUND:

Stable allocation fund tries to keep its proportion of investment in various assets less or more constant. These funds are more likely balanced funds. It is suitable for investors who prefer low risk and regular income.

ii) FLEXIBLE ALLOCATION FUNDS:

Flexible allocation funds weighting are not predetermined but depend on the fund manager's outlook and market situation. For example, fund invested in 25 % in equities, 30 % in real estate, 25% in stock and 20 % in bond. Now if fund manager find that equity market will go up then the fund manager may shift their investment from real estate or bond or gold to equity. It carries high risk and high potential return because of flexibility

[B] STRUCTURAL CLASSIFICATION OF FUNDS:

According to structure or function funds are classified into two [1] Open-ended funds and [2] Close–ended funds.

1. OPEN-ENDED FUNDS:

The funds which are available for through out the year for purchase and sale is called open-ended funds. Investor can purchase this fund or we can say enter in fund at any time as and when he wishes. Investor remains in, as long as he wants. Normally this fund has no redemption period so investor can be out at any time during business day. Investor can buy and sell conveniently at NAV which declared on a daily basis. Now a day most of the schemes are open-ended schemes. Open-ended fund put more pressure on fund manager to perform as compared to close-ended fund because investor can redeem their money at any time. This would force him to sell his portfolio at a wrong time which makes them lower profit or incur loss. Any participants withdrawing funds from the fund that day receive this unit value for their funds withdrawn. Any new purchases are made at the same unit value.

Open-ended mutual funds keep some portion of their assets in short-term and money market securities to provide funds available for redemptions. A large portion of most open-ended mutual funds is invested in highly "liquid securities". Funds also have the ability to borrow money for short periods of time to fund redemptions. Thus these funds possess high liquidity. This type of fund is valued by the fund company or an outside valuation agent. This means that the investments of the fund are valued at "fair market" value, which is the closing market value for listed public securities. "There are 403 open-ended schemes in India as 31st march 2005.at present"[12].

2. CLOSED- ENDED FUNDS:

The funds which have a fixed maturity period or which remain open for specific period only are known as Close-ended Fund {CEF}.Close-ended mutual funds are financial securities that are traded on the stock market. A sponsor, a mutual fund company or investment dealer, will create a "trust fund" that raises funds through an underwriting to be invested in a specific fashion. The fund remains with fund manager for specific period to manage the fund assets in the manner specified. So it puts less pressure on the fund manager to perform compared to open-ended fund. Once underwritten, closed mutual funds trade on stock exchanges like stocks or bonds. Their value is what investors will pay for them. Normally close-ended mutual funds trade at discounts to their underlying asset value. For example, if the price of the fund assets less liabilities divided by the outstanding units is Rs.10, the fund might trade on the stock market at Rs.9. This fund would be said to be trading at a "10% discount to its net asset value". The reason for this discount is debated by academics, but is due in large part to the lack of liquidity of the fund units and the presence of the management fee. Most of the investors of close-ended fund schemes sale their units at the maturity period, therefore fund manager can take a long term view of investing and invest in that securities which have a potential attractive return over a long period.

12. AMFI update quarterly, pp.73, January – March -2005.

"There are 48 close–ended schemes as on 31st march 2005"[13] in India which are very less compared to open-ended funds schemes. Some mutual fund companies may allow surrendering their closed ended units to Mutual Funds Company directly. At the end of maturity period, close-ended fund may convert into open-ended by fulfilling certain regulation and condition laid down by SEBI.

[C] GEOGRAPHICAL CLASSIFICATION:

According to this classification, funds are split by geographical area or territorial restriction. Mutual funds are operated within the restricted territory. As per this kind of classification, mutual fund have two type one, Domestic Funds and second, Off-Shore Funds.

1. DOMESTIC FUNDS:

Domestic funds are available to buy and sell or operated within the nation's boundary in which Mutual Fund Company belongs. These funds may have functional, portfolio and ownership classification. All the kind of mutual funds which may be open-ended or close-ended, income fund, bond fund, stock funds, load funds and no-load funds whose company belong to India and buy and sell only in India are considered as Domestic funds.

2. OFF-SHORE FUNDS:

Off-shore fund collect the fund from outside the country and invest it in own country. It starts to obtain foreign fund without political domination of issuer country. By this kind of mutual funds, country gets the foreign currency and uses that for the development of industries by investing in it of home country. Off-share fund make possible to get foreign risk fund i.e. no payment of interest is compulsory, no guarantee to return, and no condition for remittance inflow. However, this fund create problem of outflow of funds at maturity period and it may cause inflation in the value of good stock. There is an additional risk like the Foreign Exchange Rate Risk. Off-shore funds started coming to India before public sector mutual funds. Indian Growth Fund of UTI is the first Off-share fund which is listed on the London Stock Exchange. It was launched in 1986 by UTI and Merrill Lynch of the United States jointly. It was a close-ended mutual fund. It was followed by Can Bank- Himalaya Fund, SBI - India Magnum Fund etc.

13 AMFI update quarterly, January – March 2005, pp 73.

[D] OWNERSHIP CLASSIFICATION OF FUND:

Every Mutual fund has a sponsor company which raises the funds by various schemes from the investors. Here funds are classified on the basis of who owns the sponsor company. Ownership funds have three categories of funds. They are ;

1. Public Sector Funds
2. Private Sector Funds
3. Foreign Funds.

1. PUBLIC SECTOR FUNDS:

Public sectors funds are sponsored and managed by a public sector's company only. First mutual fund established in India by UTI in 1964 it was public sector mutual fund. In public sector fund UTI held monopolistic position upto 1986. In 1987, mutual fund industry opened for public sector other than UTI. The period 1986-1993 can be known as the period of public sector mutual funds Bank and Insurance companies were allowed to set up mutual fund. In the response of this in 1987, State Bank of India launched its first public sector mutual fund in June 1987 after 23 years of UTI established. This was followed by other public sector banks and other financial institutions like Can Bank Mutual Fund (Dec.87), Punjab National Bank Mutual Fund (Aug.89), Indian Bank Mutual Fund (Nov.89), Bank of India Mutual Fund (Oct.92), LIC established its Mutual Fund in June 1989 while GIC had set up its Mutual Fund in Dec.1990 joined the race.

2. PRIVATE SECTOR FUNDS:

Private sector mutual funds means fund sponsored by company belonging to private sector. Kothari Pioneer Mutual Fund is the first private sector mutual funds established by Kothari Pioneer in 1993(now merged with Franklin Templeton). Maximum private sector fund collaborated with foreign fund because it was believed that they had vast experience to manage the funds so they can mange funds skillfully, Indian mutual funds will enter in global preview, make possible to import art of investor service technique in India and foreign name could help mutual funds better.

3. **FOREIGN FUNDS:**

Foreign Mutual funds are funds which are sponsored by foreign company. These funds raise funds from Indian living in India and invest in Indian capital market. First foreign mutual fund started in India Morgan Stanley by Morgan Stanley Asset Management Company. Today there are 7 foreign Predominant Mutual fund in India.

3.5 HOW TO CHOOSE MUTUAL FUND:

At present, as per SEBI annual report 2004-05 there are 31 mutual funds company in India with 451 different schemes. They have varying objectives, carry a wide range of risk, different investment style. It becomes very difficult for individual investor to recognize and to find proper fund which meet their investment objective(s). Generally, investor has two questions that, which Mutual Fund is right for me? And Which should I buy? Here are some criteria given for choosing a mutual fund for investment.

1. **INVESTORS GOAL:**

This is the most important and first & foremast criteria for selecting the right mutual fund. The goal of individual investor investing their money in mutual fund varies in nature. Investor's goal may be classified in many ways like short term, long term. Also classified by risk tolerance level, steady income, capital appreciation, safety, liquidity, regular income & cumulative income etc.

If there is short-term goal than it is better to invest in fund which provide safety & available within 1–2 years. e.g. money market instrument . Money market instruments including short-term government paper, treasury bills, commercial paper, bills rediscounting and the call money market. For long term goal, invest money in fund which pays more and will not easily available up to certain period like closed ended schemes.

The investor whose goal is to get liquidity and moderate rate of interest for them Money Market fund is suitable. But who want to get high return and ready to bear risk than stock funds are appropriate for them. If the goal of investors is capital appreciation as well regular income, balanced funds are convenient.

2. INVESTMENT OBJECTIVE:

Each and every mutual fund has their investment objective and trying to achieve that objective. Goals of investment of mutual fund include Steady income, growth, capital appreciation or a combination of income and growth. The investors should select only that schemes whose objective matched with his objective. So it is very important to match the objective that is with objective of mutual fund.

3. LEVEL OF RISK:

It is important for taking a decision of selection of fund to know the risk associated with fund and the degree of risk which can affect investment. There are three levels of risk, high-level risk, moderate level risk and low-level risk. An Investor who is willing to take high risk for him Equity Fund is suitable because equity funds are totally depending on market. Balanced funds invest almost equal portions of their corpus in equity and income bond. Equity funds carry high risk whereas fixed income bearing securities carry low risk, hence average risk can be moderate. Therefore, balanced fund is suitable for a person who does not like to bear high risk.

Debt fund carries low risk because it invests almost in fixed income securities like debenture, bond, and govt. Security etc. These securities are not affected by market behaviors. One who wants regular income, safety and security should invest in Debt funds.

4. CONSISTENCY OF PERFORMANCE:

If there is good consistency of past performance of mutual fund and fund manager than it advisable to invest in such schemes because it is shows ability, skill and vision of fund manager to operate fund in a profitable manner. Investor should check the performance of fund against the market index like the BSE Sensex or NSE Nifty for a particular period say 2–3 years.

5. COMPARISON OF PERFORMANCE:

It is true that past performance is not perfect indicators of future performance but have some correlation of future. "Do not totally dismiss past performance. Compare with funds in the top third with a similar investment style."[14] It means that investor can not totally neglect past performance. Investor need to compare performance of schemes with similar categories schemes available in the market i.e. similarity of objective, level of risk, volatility, types, load, no-load etc. Do not compare equity schemes with debt schemes or balanced schemes. Compare debt schemes with debt schemes, balanced schemes with balanced schemes etc. of different mutual fund. Also comparison of NAV, rate of return, dividend etc. of schemes with same categories schemes of different mutual fund.

6. MANAGEMENT FEES AND EXPENSES:

All Asset Management Company of Mutual fund charge management fee on an average 1 to 1.25 % of total fund managed and not on the basis of performance of company. It is charged because AMC marketing the fund to the public invest and manage the fund colleted. A management fee is the highest expenses incurred by mutual fund.

There are some other expenses which mutual funds has to pay like staff salary, Printing expenses , postage expenses,, publicity, bank expenses, etc. These expenses are deducted from the profit before declaring the rate of return i.e. dividend. Certain amount of expense is charged from new investor when they enter in fund and exit permanently in case of load fund. Investor must be keeping in mind fees and cost factors before investing in any fund. If all other thing being equal, choose low-cost stock fund and bond fund.

7. CUSTOMER SERVICES:

Customer services are important part of mutual fund's day to day work because mutual fund has to maintain the trust of its members constantly. Services like Check writing, Daily NAV, regular statement, switch of fund facility, newsletter etc. allowed by mutual funds. One can access his account information by internet. Mutual Funds shall provide information in prospectus about name and address of officer to whom investors can approach at any time for any quarry, information etc. Investors should check whether services offered in

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14. "A Self-Study Resource Guide" by Denise M. Matejic, New Brunswick, New Jersey February 1999.

offer documents are provided or not, if provided then it is satisfactory or not for that asked other person who has invested in such schemes.

8. STUDY OF OFFER DOCUMENT:

Offer document includes various information about schemes as well Asset Management Company. It contain investment objective of schemes, past performance of 3 to 4 years, dividend, Name and address of Fund Manager, sponsor of fund, directors, trustees, If load fund, then percentage of entry load and exit load, risk factors etc.

Therefore, offer document is important tools to access or predict the probability of success of investment schemes. Investors should be going through such offer document before investing their money.

9. LIQUIDITY:

Mutual funds can be differentiated on the basis of liquidity. Open-ended and listed funds can be considered as liquid funds. Money market instruments posses high liquidity which return our money within 2 working days whereas equity schemes takes 4 to 5 days. Many investors do not take liquidity seriously. If the mutual funds portfolio consists less illiquid securities then there is a chance to get less price than NAV declared in daily newspapers. Illiquid securities are less-known such as municipal bonds, equities in small companies trading over the counter, stock from emerging market etc. Suppose fund manger get large order from investor to redeem their units, fund manager may need to sell their securities even at low price than the value mention as NAV in prospectus or daily newspapers. Thus a lack of liquidity may result into a greater fall in the price of mutual fund schemes. Liquidity affects investment largely. Therefore, one should not be neglect liquidity as well as do not give more weightage but consider other indicators e.g. Cost, Volatility and Risk. "Spend as much or more time investigating and studying indicators that influence performance and predict future achievement. These are Cost, Volatility and risks."[15]

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15. "Use Costs, Risk as Map to Mutual Funds Picks " Jonathan Clements, The Wall Street Journal, CI, August 26, 1994.

3.6 GROWTH AND DEVELOPMENT OF MUTUAL FUND:

UTI commenced its operation from July 1964 with a view to encourage retail savings and investing these saving in the capital market and passing the benefits to the small investors. Till 1986 Mutual Fund industry was of one player industry with only 5 schemes in India. There was no much more development during period from 1964 to 1986 in this industry.

After the entry of Public Sector mutual funds and private sector mutual funds, Indian mutual fund industry grew from infancy to adolescence stage. It has grew from with number of schemes, players, schemes with different objective which cover all kind of investor having different investment objective. Mutual fund industry started providing various facilities to the investor, so it became easy and convenient to inventors for investing in mutual funds. Services like automated telephone, internet services, cheque book facilities, electronic clearing services of dividends, news letters etc. provided to investors.

"During the first quarter of 1999-00, mutual funds assets went up by 115 % whereas bank deposits roses by only 17 %."[1] Mutual fund is now competing with commercial bank to attract retail investor's saving and corporate float money. Growth of Mutual Fund can be measured by

[A] Growth in fund mobilized

[B] Growth in Assets Under Management

[C] Growth in Number of Schemes.

[D] Growth in number of players.

[A] GROWTH IN FUND MOBILIZED BY MUTUAL FUND:

The mutual fund industry came in India before four decades. The ride through these 40 years had not been smooth. Investor's opinion is still divided. Some stand for mutual fund and some against it. The foundation of the mutual fund operation was laid by Parliament in 1963 with the enactment of Unit Trust of India. Mr. T.T.Krishnamachari took initiative to make Act and he made it clear to the Parliament that "Unit Trust of India would provide an opportunity for the middle and lower income groups to acquire property in the form of shares without much difficulty. This initiation was intended to cater mainly the needs of the individual investors whose means are small. With this goal and mission UTI has issued its first an Open-end fund "US-64" in 1964.

UTI was set up in 1963 as a statutory body under the chairmanship of Mr. R.S.Batt. The incentive for establishing a formal institution came from the desire to increase the inclination of the middle and lower groups to save and to invest. UTI commenced its operations from July 1964 "with a view to encourage savings and investment and participation in the income, profit and gains accruing to the corporation from the acquisition, holding management and disposal of securities." UTI industry is considered an ascent, because almost for 25 years, it was the sole player in the fund market. Growth rate in mutual fund industry provides reasonable options for an ordinary man to invest his savings. Investment goals vary from person to person. While somebody wants security, others might give more weightage to returns alone, somebody else might want to plan for his child's education while somebody might be saving for the proverbial rainy day or even life after retirement. With objectives defying any range, it is obvious that the products required will vary as well. Though at a beginning stage, Indian Mutual fund industry offered a number of schemes and served broadly all type of investors. The range of products includes equity funds, debt, liquid, gilt and balanced funds. There are also funds meant exclusively for young and old, small and large investors. Moreover, the setup of a legal structure, which has enough provision to safeguard investors' interest, ensures that the investors are not cheated out of their hard-earned money. All in all, benefits provided by them cut across the boundaries of investor category and thus create for them, a universal appeal. Investors of all categories could choose to invest on their own in multiple options but opt for mutual funds for the sole reason that all benefits come in a package. And so UTI launched various open-end & close-end schemes. Growth in fund mobilized by mutual funds in India discussed below in four phase.

1. PHASE – I [1964-87]

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and Function under the Regulatory & administrative control of the RBI. The first scheme launched by UTI was Unit Scheme 1964(US-64). In 1978 UTI was di-Linked from the RBI and the Industrial Development Bank of India (IDBI) took over the Regulatory and administrative control in place of RBI. UTI alone managed the show with five open-end funds. UTI came in to existence during a period marked be great political & economic uncertainty in India. With war on the borders and economic turmoil that depressed the financial market, entrepreneurs were hesitant to enter capital market. The existing companies found it difficult to raise fresh capital, as investors did not respond enough to new issues, capital market still at primary level. The financial institutions were the major suppliers of long term finance securities and markets were not as relevant to industrial growth. Earnest efforts were required to channelize savings of the middle class people and corporate into productive uses in order to speed up the process of industrial growth. UTI has mobilised retail saving and investing these saving in the capital market and passing of the benefit to the small investors. UTI did mobilise both household saving and corporate resources. UTI often deployed them more like a financial institution not as an investment company. In fact investors themselves perceived the UTI only as a public sector institution and not a mutual fund. UTI hold the monopoly with an investable fund of Rs.25 crores in June 1965 to Rs.4,563.68 by June 87.

2. PHASE-II -1987-93 [Entry of Public Sector Funds]

The period 1986-1993 is known as the period of public sector mutual funds. The industry was one-institution show till 1986. Monopoly of UTI was broken when Mr. Rajiv Gandhi government allowed public sector to enter in arena of mutual fund. Commercial banks and other public sector financial institutions entered in the mutual fund industry. Because of these, capital market became more relevant to industrial growth. The corporate sector began to depend on mutual fund industry to meet their need for long term capital. In the response of this in 1987, State Bank of India launched its first public sector mutual fund in June 1987 after 23 years of UTI established. This was followed by other public sector bank and other financial institutions like Can Bank Mutual Fund (Dec.87) , Punjab National Bank Mutual Fund (Aug.89) , Indian Bank Mutual Fund (Nov. 89) , Bank of India Mutual Fund (Oct.92) , LIC established its Mutual Fund in June 1989 while GIC had set up its Mutual Fund in Dec.1990 were joined the race.

Table: 3.1 Cumulative Resources Mobilised by Public Sector Mutual Funds {Rs Crore}

Year	UTI	Public sector M. F.	Total Amount	Total Growth (%)
Up to 87	4,563.68	-	4,563.68	
1987-88	6,738.81	-	6,738.81	47.66
1988-89	11,834.65	1,621.00	13,455.65	75.62
1989-90	17,650.92	1,460.00	19,110.92	49.15
1990-91	21,376.48	1,683.97	23,060.45	21.11
1991-92	31,805.69	5,674.51	37,480.20	48.79

Source: SEBI, Mutual Funds 2000 report,

Total capital raised through the market increased from Rs.1,474 crores in 1988 to Rs.54,749 crores in 1992. The investible resources which stood at Rs.4,564 crores by the end of June 1987 grew to Rs. 37,480 crores by the ending of June 1992. Compounded rate of Growth was 55 % p.a. The data indicate that UTI still maintained monopolistic position. It has mobilized 84.86 % of total fund mobilized by mutual fund industry. Public sector's funds have mobilized only 15.14 % of total funds.

3. PHASE – III -1993 - 2003 [Entry of Private Sector Funds]

The post period is the most crucial phase in which Rao Government, as part of the economic reforms mechanism opened up the capital market and allowed private sector to enter the mutual fund industry. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also , 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds , except UTI were to be registered and governed. During this period, major domestic as well as foreign mutual fund managers viz Morgan Stanley and Kothari Pioneer (now merged with Franklin Templeton), Industrial Credit and Investment Corporation of India, Industrial Development of India and powerful industrial houses like Tata's and Birla's set up their mutual funds. Private sector's funds offered an alternative to UTI and local bank sponsored funds. Slowly mutual fund became a serious competitor of commercial bank in the race for investor's savings and for corporate money. That kicked off the gold rush e.g. one, between 1991-92 and December 1995, mutual funds raised Rs.57,530, through 113 schemes. Two, the number of mutual funds have grown to 27, the number of schemes increased to 196 and the asset managed under them have jumped to 80,600 crores. And three, beginning with 1993 foreign asset management companies began to set up domestic asset management companies as joint ventures with Indian firm.

The 1993 SEBI (Mutual Fund) Regulation was substituted by a more comprehensive and revised Mutual Fund Regulation in 1996. The industry now functions under the SEBI (Mutual Fund) Regulation 1996.At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The UTI with Rs. 44,541 crores of assets under management was on the first position, followed by private sector and public sector mutual funds.

Table: 3.2 Cumulative Resources Mobilised By Mutual Funds {Rs. Crores }

Years	Public sector M. F.	Private Sector M. F.	UTI	Total
1992-93	8,011.21	-	38,976.81	46988.02
1993-94	8,407.21	916.00	51,978.00	61301.21
1994-95	10,550.21	3,000.00	61,500.00	75050.21
1995-96	10,667.00	3,223.00	66,700.00	80590.00
1996-97	151.00	346.00	9,600.00	10097.00
1997-98	10954.51	5399.75	80,873.74	97228.00
1998-99	1671.34	7846.500	13,192.89	22710.73
1999-00	3817.13	43725.66	13,698.14	61241.23
2000-01	5535.28	75009.11	12,413.00	92957.39
2001-02	12081.91	147798.26	4,643.00	164523.17
2002-03	23514.88	284095.49	7095.82+	314706.19

Source: SEBI, Mutual Funds report,

+ Since the division of the UTI into UTI M.F {under SEBI purview}and UTI-I.{up to Jan. 2003}

The total resources mobilised by all mutual funds, including the UTI , till the end of march 2003 stands at Rs.3,14,706.19 crores of which the public sector mutual funds account for a whopping Rs.3,06,107 crores with the UTI itself mobilised Rs. 7,095.82 crores. Unit Trust of India remained the largest mobiliser of funds up to 98-99 having collected Rs.13,192.89 crores. However, the amount raised by UTI declined from Rs.80,873.74 crores in 97-98 to Rs. 13,192.89 crores in 1998-99.

The year 1999 saw great potential and developments in this sector. This year the budget brought a large number of changes. It provided centre stage to the mutual funds, made them more attractive and provides acceptability among the investors. The Union Budget exempted mutual fund dividend given out by equity-oriented schemes from tax, both in the hands of the investors as well as the mutual funds. No longer were the mutual funds interested in selling the concept of mutual funds they wanted to talk business which would mean to increase asset base, and to get asset base and investor base they had to be fully armed with a whole lot of schemes for every investors. So new funds for new IPO's (Initial Public Offers) were invited. The quest to attract investors extended beyond just new schemes. The funds started to regulate themselves and were all out on winning the trust and confidence of the investors under the aegis of the Association of Mutual Funds of India. (AMFI).One can say that the industry was moving from infancy to adolescence, the industry was maturing and the investors & funds were frankly and openly discussing difficulties opportunities and compulsions.

Several mobilization were undertaken during 2002-03 to improve the operations and governance of the mutual funds like discloser of performance of benchmarks, guidelines for valuation of unlisted equity shares, emphasis on the code of conduct and inside trading regulations. Resources mobilization by mutual funds declined sharply during 2002-03 mainly due to the substantial net outflow of funds from UTI(-7284 was in 2001-02 to -9434 in 2002-03) which was restructured during the year. Private sector mutual funds also recorded a declined in mobilization of funds while public sector funds (other than UTI) recorded a modest increase. However, resources mobilsated by mutual funds witnessed a sharp increase during April-September 2003. While UTI registered net inflow as compared to outflow during 2002-03, the private sector mutual funds also recorded huge mobilization.

During the last few years, several measures have been undertaken to contain the fallout of the events of UTI, which adversely affected investor's perception. The Unit Trust of India Act 1963 was repealed through an ordinance on October 30,2002. The ordinance also sought to restructure the UTI by splitting into two parts, viz UTI-I comprising US-64 and assured return schemes to be placed under a Govt. appointment Administrator and UTI-II (UTI Mutual Fund-UTIMF) consisting of NAV based schemes, professionally managed and brought under the regulatory purview of SEBI.

According to data available, the mutual funds mobilised a gross amount of Rs.92,957 crores during the financial year 2000-01 compared to an amount of Rs.61,241 crores (USD 13.31billion) during the previous year 1999-2000, showing a rise of 51.8 per cent. After adjustment of repurchases and redemptions, there was an inflow of funds of Rs.9,128 crores (USD 1.99 billion) during the financial year 2000-01 as compared to a net inflow of Rs.18,969 crores (USD 4.12 billion) during the financial year 1999-2000. The year of 1999-2000 had performed extraordinarily well in comparison to the year 1998-99 during which all mutual funds together had recorded net outflows of the order of Rs. 950 crores. Thus, the good performance of 1999-2000 could not be sustained by the mutual fund industry inspite of the fact that the fiscal incentives continued during the financial year under review. The analysis of data shows that there was a net inflow of funds of Rs.9,849 crores in case of private sector mutual funds compared to net inflow of Rs.15,166 crores during the previous year of 1999-2000. The net inflow of UTI declined sharply to Rs.323 crores as compared to net inflow of Rs.4,548.32 crores during the previous year. Public sector mutual funds continued to show net outflow of funds this year also - there was a net outflow of Rs.1,044.50 crores in 2000-01 as against net outflow of Rs.744 crores during the previous year. During the year 2000-01, the SEBI received 75 offer documents as against 96 offer documents received during the year 1999-2000. The decline in number of offer documents might be due to the reason that most of the mutual funds have already launched various open-ended schemes for different investment objectives. A total of 394 mutual funds schemes were in operation as on March 31, 2001, out of which 252 schemes were open-ended schemes. The mutual funds have mobilised a gross amount of Rs.3,14,706.2 crores during the financial year 2002-03 as against Rs.1,64,523.2 crores during the previous year 2001-02. 53 new schemes were launched during the year 02-03, which includes 49 new schemes and 4 schemes which were converted from close-ended to open-ended schemes.

4. **PHASE –IV since February 2003.**

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the UTI with assets under management of Rs.29,835 crores as at the end of January 2003,representing broadly, the assets of US 64 Scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under as 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 SEBI, PNB, BOB, and LIC. It is registered with SEBI and functions under the Mutual Fund Regulation. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management 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 31-10-2003, there were 31 funds, which manage assets of Rs.1,26,726 crores under 386 schemes.

At the end of year 03-04, private sector has managed assets of Rs.107087.44 crores which is 76.70 % of the total assets managed by all the Mutual Funds. Public sectors assets were Rs.11911.89 crores against Rs.9367.96 crores of the previous year which is 8.53 % of the total assets managed by Mutual Funds. Private sectors, bank & financial sponsored mutual funds assets increased whereas assets of UTI decline. It was 20616.96 crores in the year of 03-04 against Rs.43350.84 crores of 02-03. UTI had 39.66 % assets in 02-03 which is 14.77 % in the year of 03-04.

Table: 3.3 Cumulative Resources Mobilised By Mutual Funds {Rs Crore}

Years	Public sector M. F.	Private Sector M. F.	UTI	Total
2003-04	31,548.19	5,34,649.28	23,992.40	5,90,189.87
2004-05	56,589.00	7,36,463.00	46,656.00	89,39,662.00

Source: SEBI annual report 2004-05.

Total fund mobilised by all the Mutual Funds were Rs. 5,90,189.87 crores in the year of 03-04, out of this Public sectors mutual fund has mobilised Rs.31,548.19 crores, private sectors mutual fund has mobilised Rs. 5,34,649.28

crore and UTI has mobilised Rs.23,992.40 crore fund. Public sectors mutual fund is the largest mobiliser of fund by 90.59 % of the total fund mobilised during the year 03-04. Total fund mobilised during the year 2004-05 were of Rs.8,39,662 crore as against Rs. 5,90,189.87 crore in the last year. "Net resources mobilised by mutual funds declined by 95.3 % to Rs. 2,200 crore in 2004-05 as compared with Rs. 46,808 crore in the previous year. The UIT and other public sector mutual funds witnessed net outflows Rs. 2,722 crore and Rs. 2,677 crore, respectively in 2004-05."[16] The net resources mobilisation by private sector mutual funds came down in 2004-05. The major reason behind such is redemption pressures mainly on income and gilt schemes.

Competition and a continuous improvement to fund regulation have been the driving forces behind a strong process of assets growth. 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. The growth of mutual fund industry can be recognized globally due to increase in the investment opportunity worldwide and privatisation of the pension and insurance systems.

Table : 3.4 Microscopic View Of Growth Of Resources Mobilised By Mutual Funds India. (Rs. Crore)

Phase	Public sector MF	Private Sector MF	UTI	Total
I (1964-87)	N.A.	N.A.	4,563.68	4,563.68
II (1987-93)	10,439.48	N.A.	89,406.55	99,846.03
III (1993-03)	95,361.68	5,71,359.77	3,60,671.40	10,27,392.85
IV (2003-05)	88,137.19	12,71,112.28	70,648.40	95,29,851.87

Sources: Compile from data given in four phases. N.A. = Not applicable.

The above table shows that growth in resources mobilised during the period from 1964 -1987 is very less. Total resources mobilised during the period of 23 years were Rs. 4,563.68 crore. After the entry of public sectors mutual funds within the six years it climbed up to Rs.99,846.03 crore. It is about 22 times increased. UTI remain predominate institution for mobilising the funds up to end of second phase. The entry of private sector mutual funds changes the preference of investor for investing their funds. It brought fast growth in fund mobilization.

16 .SEBI annual report 2004-05, pp 61.

Table: 3.5 Year Wise Growth Of Assets Under Management (Rs. Crores)

Year	UTI	Other MF	Total	Net Accretion to Funds	Growth Rate
1964-65	24 67		24 67		
1965-66	25.94		25.94	1.27	5.15
1966-67	33.86		33 86	7.92	30 53
1967-68	48.70		48.70	14.84	43.83
1968-69	65 40		65 40	16.70	34.29
1969-70	88.30		88.30	22.90	35.02
1970-71	105.14		105.14	16.84	19.07
1971-72	119.26		119.26	14.12	13.43
1972-73	141.96		141.96	22.70	19.03
1973-74	172.09		172.09	30.13	21.22
1974-75	169.95		169.95	-2.14	-1.24
1975-76	176.66		176.66	6.71	3.95
1976-77	206.84		206.84	30.18	17.08
1977-78	279.91		279.91	73.07	35.33
1978-79	393.70		393.70	113.79	40.65
1979-80	455.30		455.30	61.60	15.65
1980-81	513.97		513.97	58.67	12.89
1981-82	679.24		679.24	165.27	32.16
1982-83	870.24		870.24	191.00	28.12
1983-84	1261.33		1261.33	391.09	44.94
1984-85	2209.61		2209.61	948.28	75.18
1985-86	3218.34		3218.34	1008.73	45.65
1986-87	4563.68		4563.68	1345.34	41.80
1987-88	6738.81	132.00	6870.81	2307.13	50.55
1988-89	11834.65	1621.00	13455.65	6584.84	95.84
1889-90	17650 92	1480.00	19130.92	5675.27	42.18
1990-91	21376.48	1784.99	23161.47	4030.55	21.07
1991-92	31805.69	6167.78	37973.47	14812.00	63.95
1992-93	38976.81	8756.69	47733.50	9760.03	25.70
1993-94	51708.88	10721.17	62430.05	14696.55	30.79
1994-95	59618.64	13348.53	72967.17	10537.12	16.88
1995-96	61528.39	12786.92	74315.31	1348.14	1.85
1996-97	59341.26	10856.15	70197.41	-4117.90	-5.54
1997-98	47611.69	11306.53	58918.22	-11279.19	-16.07
1998-99	53320.00	15152.00	68472.00	9553.78	16.22
1999-00	76547.00	36458.00	113005.00	44533.00	65.04
2000-01	58017.00	32570.00	90587.00	-22418.00	-19.84
2001-02	51434.00	49160.00	100594.00	10007.00	11.05
2002-03	13516.00	65948.00	79464.00	-21130.00	-21.01
2003-04*	20616.96	118999.33	139616.29	60152.29	75.70
2004-05	20740.00	128814.00	149554.00	9937.71	7.12

Sources: Mutual Fund Year Book 2000.From 1964 to 1997-98.
*Sebi Annual Report 2003-04.
Amfi Quarterly up date 1998-99 to 2002-03, 2004-05.
Data contains only UTI Bank and data of Specified Undertaking of the Unit Trust of India has been excluded from the 2002-03

In February 2003, the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of

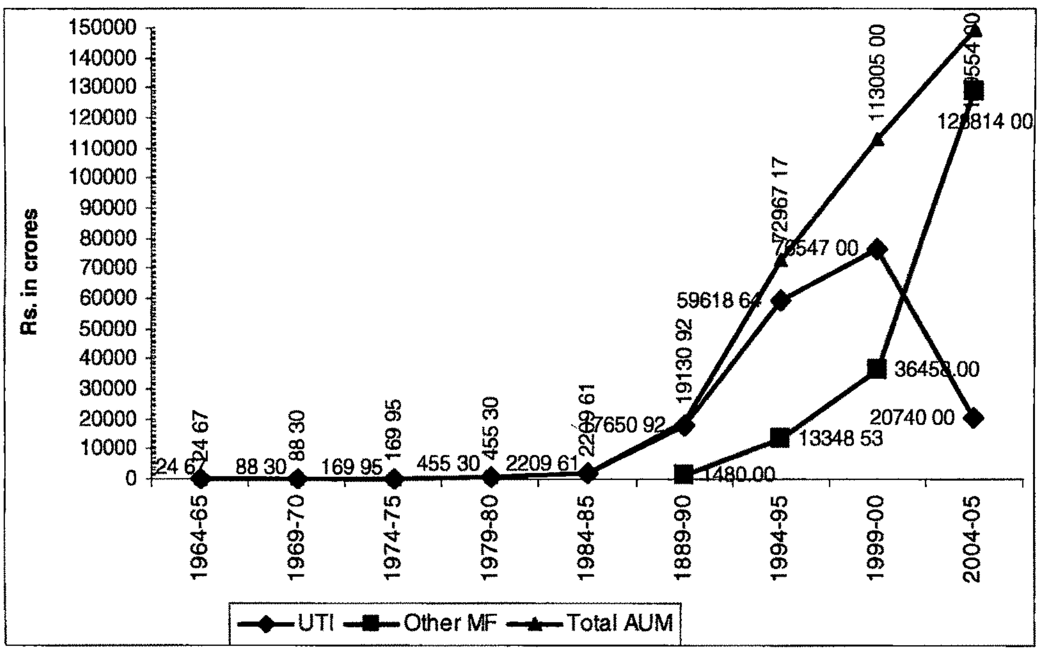
Investors put more faith in private sectors mutual fund and public sectors mutual funds instead of UTI.

[B] GROWTH OF ASSETS UNDER MANAGED.

Assets Under Management is also a tool through which growth of mutual funds in India can be measured. Assets Under Management means the market value of assets, an investment company manages on behalf of investors. UTI remained a sole player in the market until 1987, net asset of UTI had grown over the period 1964 to 1987 from Rs 24.67 crores to Rs. 4563.68 crores. During the First phase from 1964-1987, 75.18% growth was achieved in the year 1974-75 and total assets stood at Rs.4563.68 crores. In the Second phase(1987-1993) Public sector's fund mangers entered in the market. The Assets Under the Management of public sectors funds at the end of march 1988 were Rs. 132 crores and it was lower than Rs. 1621 crores at the end of March 1989. Net growth of asset under management jumped from 47.66 % to 75.62% from the years 1987-1988 to 1988-89 because the assets under public sector's funds increased rapidly, nearly 11.20 times. Net assets of UTI' began to grow quickly. It may be combination of market push & pull, advantages of monopolistic position, public sector's funds were not strongly promoted. In 1993, SEBI was established with a goal, among the other things, to formulate a legal framework of funds. In 1996, SEBI published the Mutual Funds Regulation, which established a comprehensive legal and regulatory framework for the mutual funds industry. In 1994, private sectors and foreign fund managers came into the market. UTI's market share began to decrease from 1999. Investors began to feel more comfortable with private asset mangers who used their know-how in equity investments. The year 1999-2000 which was the industry's best year in term of total assets gathering, this may be due to majority of equity schemes outperforming the market. The assets under management at the end of march 2000 were Rs. 1,13,005 crores. The industry crossed the milestone of Rs.1,00,000 crores as well as achieved growth rate of 65 % over the last year. The net assets under management declined about 20 % to Rs.90587 crores in the year 2000-01. Decline in total asset under management was however due to equity segment only. Equity index declined by 28 %.

India and the second is UTI Mutual Fund Ltd. Assets Under Management of the specified Undertaking of the Unit Trust of India were Rs.29,835 crores as at the end of January 2003, which represented broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India, does not come under the purview of the Mutual Fund Regulations. UTI Mutual Fund Ltd. was sponsored by SBI, PNB, BOB and LIC. It functions under the mutual fund regulation and is registered with SEBI. The share of UTI in total assets increased up to the year 1999-2000 and afterwards declined. Whereas, the Assets Under management of private sectors continuously increased. At the end of march 2005, the assets under management were Rs.1,39,616 crores; an increase at 75.50 % over last year's level of Rs. 79,464 crores. Competition and a continuous improvement in fund regulation have been the driving force behind a strong process of assets growth.

Graph No. 3.1 Growth In Asset Under Management



The UTI shows trend of rising assets under management from 1964-65 to 1999-00, and after having down trend. Whereas in case of other mutual fund shows continuous increasing trend since 1987-88 except in the year 1996-97.

Table: 3.6 Scheme Wise Assets Under Management: (Rs Crore)

Years	Income	Growth	Balance	Liqu./MM	Gilt	ELSS	Total
1998-99	48600 (70.98)	14622 (21.35)	1909 (2.79)	724 (1.06)	140 (0.20)	2477 (3.62)	68472 (100)
1999-00	49859 (44.12)	26927 (23.83)	26757 (23.68)	2227 (1.97)	2370 (2.09)	4865 (4.31)	113005 (100)
2000-01	48863 (53.94)	13483 (14.88)	19273 (21.28)	4128 (4.56)	2317 (2.56)	2523 (2.79)	90587 (100)
2001-02	55788 (55.46)	13852 (13.77)	16954 (16.85)	8069 (8.02)	4163 (4.14)	1768 (1.76)	100594 (100)
2002-03	47564 (59.86)	9887 (12.44)	3141 (3.95)	13734 (17.28)	3910 (4.92)	1228 (1.55)	79464 (100)
2003-04	62524 (44.78)	23613 (16.91)	4080 (2.92)	41704 (29.87)	6026 (4.32)	1669 (1.20)	139616 (100)
2004-05	47605 (31.83)	36711 (24.55)	4867 (3.25)	54068 (36.15)	4576 (3.06)	1727 (1.15)	149554 (100)

Source: AMFI Quarterly Update from year 98-99 to 04-05.
The figures in brackets are percentage of total assets.

The above data indicates that growth of AUM of income oriented schemes in absolute form remains more or less same since 1998-99 to 2004-05 but percentage wise share in total assets is continuously declining. In the year 2004-2005, its contribution towards assets under management were Rs.47605 crores accounting for 31.83 % of the total assets of Rs.149554, declined by 39.15 % over the year 1998-99. In the year 2001-02 and 2003-04, growth rate of AUM of income schemes over the year was found 14.17 % and 31.45 % respectively. Except these two years, growth rate of AUM of income schemes declined. Highest net assets were held by income schemes in the year 2003-04 with Rs. 62524 crores. In this year, mutual fund industry had the highest net mobilization of funds. 29 new income oriented schemes were launched which collected 70 % of total collection.

Net AUM of growth schemes were Rs.14622 crores (21.35 %) as on 31st March 1999 as against Rs. 36711 (24.55 %) in the year 2004-05. Its share in total AUM increased by 3.2 % over a period of seven years. In the year 2003-04, growth rate of AUM of growth schemes were 138.83% which is highest so far. It may be due to emerging popularity of equity schemes. Equity oriented schemes outperformed at 86 %.

Net asset of Balance fund schemes rapidly increased from Rs.1909 in 1998-99 to Rs.26757 in the year 1999-2000 due to more new balanced schemes were launched during this year compared to other years. Another, equity oriented schemes have outperformed at 86 %.Growth rate of AUM of balanced schemes was found to be negative from 2001 to 2003. It showed that asset of this scheme decreased over the years. An asset of balanced schemes goes up in the year 2003-04 and 2004-05 at 29.89 % & 19.20 % over the last year.

Tremendous growth was found in liquid & Money Market Schemes. Total net assets under these schemes were Rs.724 crore at 1.06 % of total assets which jumped and reached up to Rs. 54068 crore in the year 2004-05. It increased by 35.09 % over the year 1989-99. Growth rate over the year 2004-05 is very high compared to other schemes. Only liquid & money market oriented schemes' assets continuously increased. From this trend, we can say that Indian investors became more risk aware and became more rational and cautious. Investors seek diversification and more stable investments having less risk. Corporate sectors invest their money in liquid schemes rather than bank because now mutual fund provides fast withdrawal facility.

The share of Gilt schemes' assets as compared to total assets also increased but at a very low rate by nearly 1 % over the years. Highest growth rate of AUM of gilt schemes increased in the year 1999-2000 at 1592.86 % over the last year. Its assets increased at 16.92 times compared to the year 1998-99.

Growth of AUM of ELSS remains more or less same because no new schemes were launched from 2001 to 2005. It held assets only between 1.15 % to 4.31% of total assets during the last seven years periods. Only 11 new schemes of ELSS were launched during 7 years period from 1998-99 to 2004-05. Mutual Fund Company did not launch new ELSS due to not getting sufficient investors in such schemes. Mutual fund company did not get sufficient investors may be due to tax benefit on such investment were limited to Rs.10,000 and the limitation of the scheme as it is a close ended scheme. Because of above reasons assets of ELSS continuously declined.

Table: 3.7 Schemes Wise Growth Rate Of AUM (Percentage)

Years	Income	Growth	Balance	Liqud./MM	Gilt	ELSS
1999-00	2.59	84.15	1301.62	207.60	1592.86	96.41
2000-01	-2.00	-49.93	-27.97	85.36	-2.24	-48.14
2001-02	14.17	2.74	-12.03	95.47	79.67	-29.92
2002-03	-14.74	-28.62	-81.47	70.21	-6.08	-30.54
2003-04	31.45	138.83	29.89	203.66	54.12	35.91
2004-05	-23.86	55.47	19.29	29.65	-24.06	3.48

The above table indicates that in the year 2000-01 and 2002-04, growth rate of assets under management has negative except in case of liquid and money market schemes. Highest growth rate of assets was observed in 2003-04 in case of income schemes (31.45%), Growth schemes (138.83%) and liquid & money market schemes (203.66%). The growth rate of assets under management of all schemes fell down in the year 2004-05.

[C] GROWTH OF MUTUAL FUND'S SCHEMES:

Another important means to measure the growth of mutual fund industry in India is development in number of schemes. This analysis has been carried out according to the nature of schemes, sector wise and scheme's objective wise.

Table: 3.8 Growths Of Mutual Funds Schemes

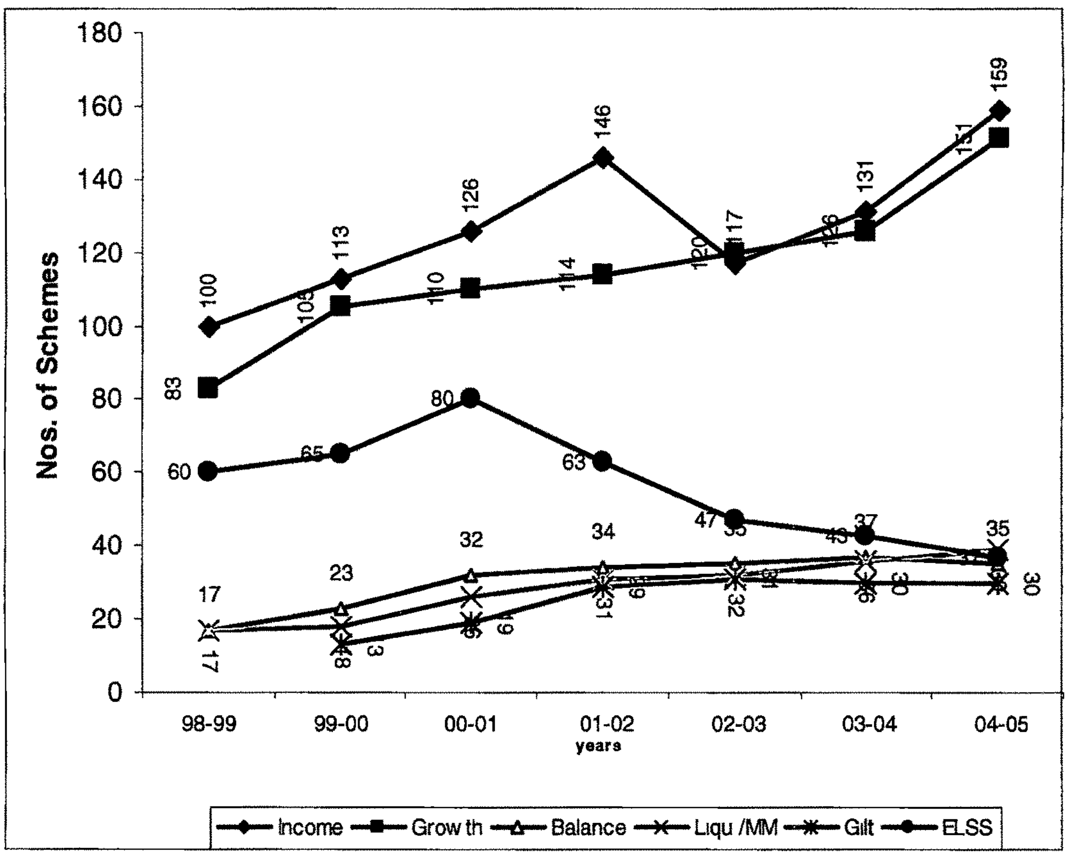
Schemes	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Income	100	113	126	146	117	131	159
Growth	83	105	110	114	120	126	151
Balance	17	23	32	34	35	37	35
Liqud./MM	17	18	26	31	32	36	39
Gilt		13	19	29	31	30	30
ELSS	60	65	80	63	47	43	37
Total	277	337	393	417	382	403	451

Note: The number of schemes represents the net number, where multiple options provided by schemes have not been counted as separate schemes

Number of schemes has increased tremendously from 277 to 451 as on 31-3-05. At the end of March 1999, income oriented schemes were 100 with first position, followed by growth oriented schemes (83), ELSS (60) and Balance &

money market (17). Income oriented schemes held 36.10 % of total schemes as on March 1999 and 35.25 % with 159 schemes as on March 2005. Number of growth-oriented schemes also goes up from 83 at the end of March 1999 to 151 at the end of March 2005. It is important to note that number of growth schemes continuously increased from 1998-1999 to 2004-05. Among the five years period from 1999 to 2005, highest 22 new growth schemes launched in the year 1999-2000. Balance schemes increased every year but at a lower rate compared to other schemes. It increased continuously up to 2003-04 from 17 to 37 schemes in 2004 and decreased in the year 2005 by 2 schemes. Within seven year, Liquid and Money Market schemes became more than double. Gilt schemes increased from 13 in 1999-2000 to 30 in 2004-05. Tax saving schemes declined from 63 as on 2001-2002 to 37 as on 2004-05. Decline in number of schemes of ELSS may be due to maturity of certain schemes and no new schemes were launched since 2002.

Graph No. 3.2 Growth Of Mutual Fund's Schemes.



The income schemes shows trend of rising number of schemes from

1998-99 to 2001-02 similar trend is also shown by growth scheme and ELSS schemes. However, the ELSS schemes shows down fall since the year 2001-02 whereas the growth schemes shows a continuous increase during the period of study from 1998-99 to 2004-05. The other schemes that is balance schemes, money market schemes and gilt schemes shows more or less a similar trend of rising during the period of study.

Table: 3.9 Year -Wise Growth Of Schemes (% Of Total Schemes)

Year	Income	Growth	Balance	Liqud./MM	Gilt	ELSS	Total
1998-1999	36.10	29.96	6.14	6.14	N.A.	21.66	100
1999-2000	33.53	31.16	6.82	5.34	3.86	19.29	100
2000-2001	32.06	27.99	8.14	6.62	4.83	20.36	100
2001-2002	35.01	27.34	8.15	7.43	6.95	15.11	100
2002-2003	30.63	31.41	9.16	8.38	8.12	12.30	100
2003-2004	32.51	31.27	9.18	8.93	7.44	10.67	100
2004-2005	35.25	33.48	7.76	8.65	6.65	8.20	100

Source: Compile from data given in above table.

Table: 3.10 Year Wise - Growth Rate Of Mutual Funds Schemes: (%)

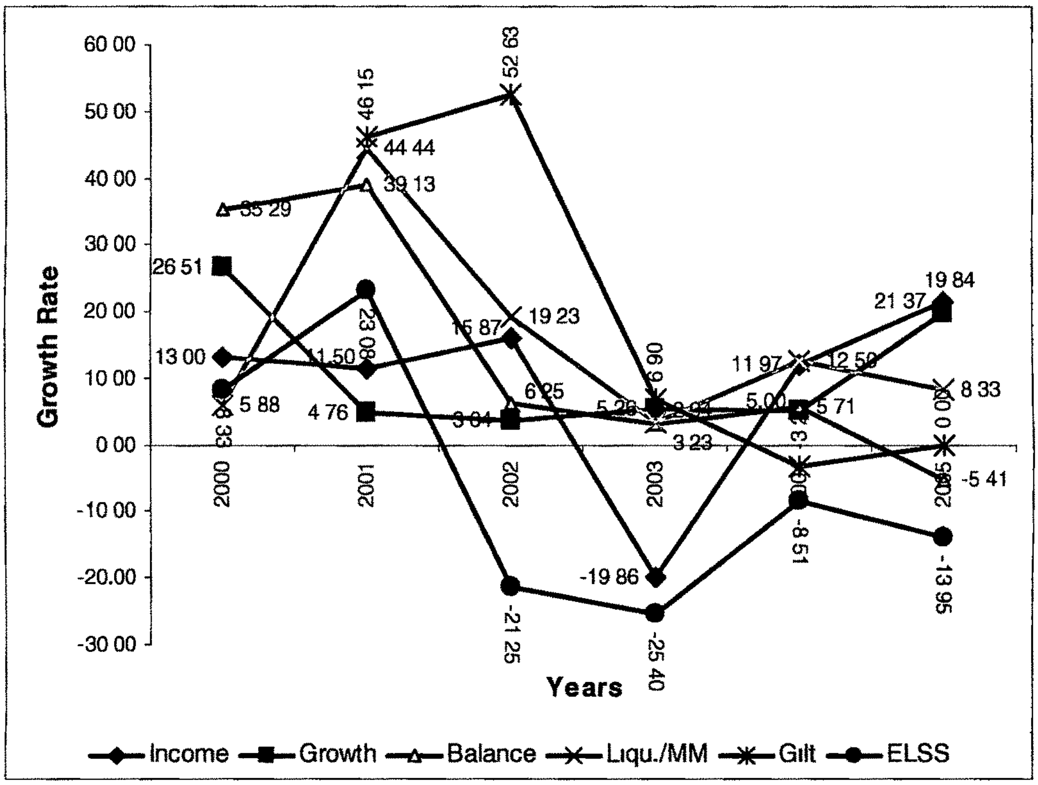
Schemes	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Income	13.00	11.50	15.87	-19.86	11.97	21.37
Growth	26.51	4.76	3.64	5.26	5.00	19.84
Balance	35.29	39.13	6.25	2.94	5.71	-5.41
Liqud./MM	5.88	44.44	19.23	3.23	12.50	8.33
Gilt	-	46.15	52.63	6.90	-3.23	0.00
ELSS	8.33	23.08	-21.25	-25.40	-8.51	-13.95

Source: Compile from data given in above table

The above table3.9 & 3.10 reveals that income oriented schemes held 36.10 % of total schemes as on March 1999 and 35.25 % schemes as on March 2005. In the year 2002-03, income oriented schemes decreased by 19.86. % compared to previous years. Highest growth rate is registered in the year 1999-2000 at 26.51 % over the previous years in case of growth schemes. Balance schemes increased at a lower rate compared to other schemes. It decreased in the year 2005 by 5.41 % compared to year 2004. The money market schemes held

6.14 % schemes of total schemes that increased up to 8.65 % in the year 2005. Gilt schemes increased at 52.63 % in 2002 compared to the year 2001. It is highest growth rate among the all schemes from the year 1998-99 to 2004-05. The share of tax saving schemes to total number of schemes declined continuously. It declined from 21.66% in 1998-99 to 8.20 % in 2004-05. Since 2002, growth rate of tax saving fund observed negative.

Graph : 3.3 Growth Rate Of Mutual Fund's Schemes.



The income schemes shows rising trend of growth rate up to 2002. Similar trend observed incase of gilt schemes. Very sharp down trend observed in the year 2001 in case of growth rate of growth schemes and after this it raised at low rate. Incase of ELSS not only continuous down trend observed but also negative growth rate seen. The growth rate of all schemes shows down trend in the year 2002.

Table: 3.11 Scheme Wise New Schemes Launched

Schemes	Years							Total
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	
Income	19	14	17	53	32	29	52	216
Growth	11	25	8	17	17	10	36	124
Balance		8	6	2	1	2	4	23
Liqu./MM	8	2	5	9	2	3	5	34
Gilt		12	1	9	1	2		25
ELSS	2	3	4					9
Total	40	64	41	90	53	46	97	431

Source: AMFI quarterly update from 98-99 to 04-05.

Table 3.11 reflects objective wise new schemes launched from the year 1998-99 to 2004-05. Income oriented schemes stood in the first position with highest new schemes launched during seven years period except in 1999-2000. In these years, 25 growth oriented new schemes were launched. Number of new schemes launched rapidly increased from 40 in the year 1998-99 to 97 in the year 2004-05. No new schemes of ELSS were launched since 2002-03.

From the year 1998-99, total 431 new schemes were launched by Indian mutual fund industry. Out of 431, 216 of income oriented, 124 of growth oriented, 23 of balance oriented, 34 of Liquid & Money Market, 25 of Gilt and 9 of ELSS were launched. Income oriented remains dominant in the past seven years. It may be because of new schemes launched compared to other schemes. Preference of investors changes with time and accordingly changes in pattern of schemes launched by mutual funds.

The impact of private sector asset managers, particularly foreign asset managers, have played an important role in the rapid transformation of the Indian mutual fund industry from close-ended fund to an open-ended fund market. In the year 1999, out of 277 schemes 102 schemes were of Open-ended Schemes, 146 of Close-ended Schemes and 29 of Assured Return Schemes. Close-ended Schemes represented 52.71 % of total schemes at the end of March 1999. By 2005, it accounted only 10.64 % of the total schemes. Also the schemes of Assured Return decreased year after year except in the year 1999-2000.Whereas number of Open-ended Schemes continuously rise from 168 as on March 1999 to 403 as on March 05.Change in number of schemes is because of new schemes as well as reclassification of existing schemes by some of the funds.

Table: 3.12 Sector Wise Quarterly New Schemes Launched

years	UTI					Public Sector					Private Sector					Grand Total
	Apr. Jun	July Sep	Oct Dec	Jan Apr	Total	Apr Jun	Jul Sep	Oct Dec	Jan Apr	Total	Apr Jun	Jul Sep	Oct Dec	Jan Apr	Total	
2000	4	1	2	1	8	5	4	2	2	13	9	8	10	16	43	64
2001	1	1		2	4	0	0	2	4	6	10	8	9	4	31	41
2002	0	0	0	0	0	0	2	13	3	18	6	17	15	34	72	90
2003	0	0	3	0	3	3	3	0	1	7	13	8	8	14	43	53
2004	1	1	0	0	2	1	6	1	3	11	6	5	8	14	33	46
2005	6	0	0	0	6	1	3	4	5	13	9	23	18	28	78	97
Total	12	3	5	3	23	10	18	22	18	68	53	69	68	110	300	391

Source: AMFI quarterly update from 1999-2000 to 04-05.

From the year 1999-2000 to 2004-05, there were total 391 new schemes launched by mutual fund companies in India. Out of 391, UTI has launched only 23 new schemes. It may be due to that it has already launched many schemes since 1964. Private Sector has launched the highest new schemes. 300 schemes were launched only by private sectors. It shows that investor put more and more faith in private sector mutual funds. Public sector mutual fund launched 68 new schemes. It is very less compared to the private sector. It may be due to number of less player of public sector.

[D] GROWTH IN NUMBER OF PLAYER IN MUTUAL FUND INDUSTRY

Table: 3.13 Sector Wise Numbers Of Players

SECTOR	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05
UTI	1	1	1	1	1	1	*	*
Bank Sponsored	6	6	6	6	5	4	5	4
Institutional	3	3	4	4	4	4	3	2
Private Sector								
Indian	6	7	5	6	7	7	8	10
Joint Venture-Predominant-Indian	7	7	7	8	8	6	5	3
Joint Venture-Predominant-foreign	8	8	9	10	10	11^{+}	10^{+}	10
	31	**32**	**32**	**35**	**35**	**33**	**31**	**29**

Source: AMFI Quarterly Update from 1997-98 to 2004-05.

* UTI Classified as Bank sponsored Mutual Fund.

\+ included foreign Mutual Fund (Principal AMC Pvt. Ltd.)

From above data it is clear that sector wise mutual funds as well as total number of mutual funds were fluctuating. It may be due to entry of new mutual funds, merger of one mutual fund company with another, winding up of all schemes by particular mutual funds, change in shareholding pattern by mutual fund, take over business by one mutual fund of other mutual fund company etc. Tata Mutual Fund classified as private sector Indian mutual funds from private sector Joint venture - predominant Indian and Principal AMC has been classified as private sector (Foreign) on account of change in shareholding pattern. Principal AMC remained foreign private mutual fund for the year 2002-2003 to 2003-2004 and once again its shareholding pattern change and it has been classified as Joint Venture - Predominant foreign. Shriram Mutual Fund winded up their all schemes in the year 2002-2003. Bank sponsored mutual fund had gone down due to liquidation of all schemes by Bank of India Mutual Fund & PNB Mutual Fund took over by Principal AMC w.e.f. 13-4-04. Since 2003-2004 UTI has been classified as Bank Sponsored Mutual Funds.

From the year 1997-98 to 2005, there were 11 new mutual funds came in to Indian Mutual Fund industry. Out of 11, 3 were Indian private sector M.F., 1 of Joint Venture-predominant Indian and 6 were Joint Venture- predominant Foreign. They are

1) Cholamandalam M.F.(1997-98),
2) Kotak Mahindra M.F.(1998-99),
3) ING Vysya M.F.(1999-00),
4) Standard Chartered M.F. (1999-00)
5) HDFC M.F.(2000-01),
6) Benchmark M.F.(2001-02),
7) Deutsche M.F.(2002-03),
8) HSBC M.F.(2002-03),
9) UTI M.F*. (2003-04).
10) ABN Amro M.F.(2004-05),
11) Fidelity M.F.(2004-05),

Table: 3.14 Microscopic View Of Growth Of Mutual Funds In India. (Rs Crore)

Phases	Period	No. of M. Fs.	No. of Schemes	Resources Mobilized
Phase-I	1964-87	1	5	4,563.68
Phase-II	1987-92	9	116	99,846.03
Phase-III	1992 -03	33	406	10,27,392.85
Phase-IV	2003-05	29	451	95,29,851.87

Source: SEBI, Mutual Funds 2000 report, till December 31, 1995 (Phase I & II)
AMFI Update (Phase –III up to January- 03, Phase –IV up to march 05)
Total Resources mobilized during each phase.

UTI as a monopolist mutual fund mobilized only 4,563.68 crores with 5 schemes during its 22 years of operation since inception. The main reason is that the investor perceived UTI as a public sector financial institution and not different from other financial institution like commercial bank. During 1987-92, public sector financial institutions entered in the mutual funds industry. During this period a total of 9 mutual funds were set up, out of which 7 by the public sector banks and 2 by the investment institutions. Because of public sector's funds, mobilization of fund rapidly increased by 37000 crore and at 55 % growth rate. Also number of schemes increased from 5 to 116 during this period. Total resources mobilized at Rs. 37480.20 crore.

With the entry of private sector in mutual funds industries, Indian investors got wide choice for investment. At the end of January 2003, there were total 33 mutual funds set up through 406 schemes. Total resources mobilized during this period at Rs.3,14,706.19 crore and up to January 2003 Rs.4,76,434.50 crore by 31 mutual fund through 400 schemes. At the end of March 2005, there were total 29 M.F. in India, out of 29, 4 of bank sponsored, 2 institutions, 10 Indian private sector, 3 Joint Venture-predominant Indian and 10 of Joint Venture-predominant Foreign. Total fund mobilized during the year 2004-05 were of Rs.8,39,662 crore as against Rs. 590189.87 crore in the last year.

Mutual funds are also constantly developing and offering new products, services and distribution channels to meet consumer demand. Mutual fund ensuring strong regulation, educating investors and promoting opportunities for long term investing. After nearly 41 years, the Indian mutual fund industry has reached to adolescence stage. Especially in the five to six years, the mutual fund industry has become an important and dominant sector of the Indian capital market.

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