

Mutual Funds

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What are Mutual Funds?

- **A mutual fund is an investment tool where large number of people invest their money to earn returns on their capital over a period. In other words it is a trust that collects money from a number of investors who share a common investment objective. Each investor owns units, which represent a portion of the holdings of the fund.**

Mutual Funds...

This collective fund is managed by an investment professional known as a fund manager or portfolio manager. It is fund manager's job to invest the collected fund in different securities such as bonds, stocks, gold, money market instruments and other assets and seek to provide significant returns

Mutual Funds...

The Income/ gains on the investment are shared by the investors in proportion to their contribution to the fund after deducting certain expenses, by calculating a scheme's "Net Asset Value" or NAV. A Mutual Fund is one of the most feasible investment options for the common man as it gives an opportunity to invest in a diversified, professionally managed bunch of securities at a comparative low cost.

Types of Mutual Funds

Broadly there are three types mutual funds:

- 1) Equity or Growth Funds**
- 2) Income or Bond or Fixed Income Funds**
- 3) Hybrid Funds**

Equity or Growth Funds

- **An Equity Fund is a Mutual Fund Scheme that invests largely in shares of companies. They are also known as *Growth Funds*.**
- **The prime objective is wealth creation or capital appreciation. Equity funds have the potential to generate higher return and are best for long term investments.**

Equity or Growth Funds

- **Equity Funds can also be divided as per Market Capitalisation like Large Cap, Mid Cap, Small or Micro Cap Funds.**
- **Equity Funds can be classified as Diversified or Sectoral / Thematic. In the Diversified the scheme invests in stocks across the entire market spectrum, while in the Sectoral it is restricted to only a particular sector or theme, say, Infrastructure or electronics.**

Equity or Growth Funds...

- **So, an equity fund fundamentally invests in company shares, and plans to provide the benefit of professional management and diversification to common investors.**

Income or Bond or Fixed Income Funds

- **Fixed Income Funds invest in Fixed Income Securities like Government Securities, Treasury Bills, Commercial Papers, Debentures, Bank Certificates of Deposits etc.**
- **Fixed Income Funds are comparatively safer investments and are appropriate for Income Generation.**

Hybrid Funds

- Hybrid Funds invest in both Equities and Fixed Income, so offering the best of both, Growth opportunities as well as Income Generation.
- These hybrid schemes, earlier known as Balanced Funds. There are different types of hybrid funds in the Indian Mutual Fund industry. There are certain schemes that invest in two assets, like equity and debt, or debt and gold. There may be schemes that invest in equity, debt and gold. However, majority of the popular hybrid schemes invest in equity and debt assets.

Organisational Structure of Mutual Funds in India

All mutual funds operates in India under SEBI guidelines. It is the Sponsors or promoters who first initiates the idea of starting a mutual fund business. Then they approach to SEBI for *registration* of the business. If the sponsors has the necessary eligibility, SEBI will issue the "Certificate of Registration" to the sponsors.

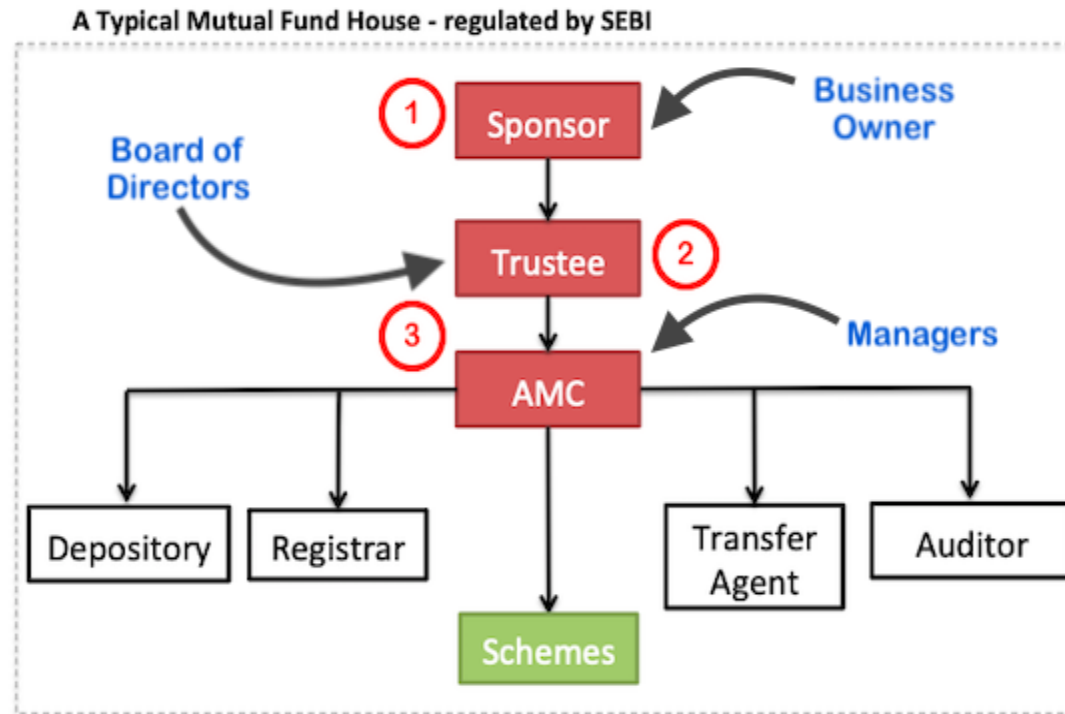
Three Tier Structure of Fund House

The three tier structure of a mutual fund house consist of the following heads:

- **Sponsor.**
- **Trustee.**
- **AMC.**

Fund House Organisation Structure

(Picture Courtesy: getmoneyrich.com)



Mutual Fund Organisation...

Once the certification is received, further steps are taken to start a mutual fund activity. Next Steps are

- Formation of Trust.**
- Appointment of AMC.**
- Appointment of Depository, Registrar, Transfer Agent, and Auditor.**

1. Trust Formation

- **The sponsors of mutual fund creates a Trust. The Trust must have a “Board of Trustees”. The minimum strength of the board must be four members. The idea of the creation of a Trust is to have a management. The prime priority of this management will be like this:**
- **“Protect the interest of the unit-holders and their invested money”**
- **It is also the responsibility of the Trustee to make sure that, mutual fund administers as per the regulations of SEBI.**

2. AMC (The Asset Management Company)- Manager of Mutual Fund

- After Trustees, the most important body in the mutual fund is its AMC. AMC of a mutual fund is created as per the "Companies Act 2013". The Asset Management Company must also be registered with the Government of India accordingly. After an AMC is registered, it start working as a full fledged company.**

The Role of The Custodian (Depository)?

- **A mutual fund scheme purchases different types of financial assets like Stocks of companies, Government bonds, Company deposits, Cash etc.**
- **It is the responsibility of the depository (custodian) to keep all financial assets safely in its custody.**

Transfer Agent's Work

The Asset Management Company(AMC) appoints a transfer agent. The transfer agent does the following:

- **contact with investors.**
- **preserve investors data.**
- **Process all transactions of units (purchased or redeemed).**

The Role of a Registrar

The Asset Management Company appoints the Registrar for its mutual funds. Nowadays the role of Transfer Agent and Registrar is performed by the same company. In India CAMS and Karvy are the most common registrar used by mutual fund companies.

Registrar does the following main tasks:

- **Data Entry.**
- **Sending Account Statements to Investors etc.**

Auditor's Role

- **As per companies act, all companies must get their accounts book audited by an external financial auditor. Certified chartered accountants can become Auditors.**
- **All financial transactions performed by a mutual fund company must be submitted to the auditors for scrutiny. At the end of the financial year, the auditors also examines and certifies the financial reports submitted by the mutual fund companies.**

Conclusion

- **After organising the 3 tier structure by a mutual fund house as per SEBI's guidelines, the Asset Management Company is ready to launch their new schemes. At this stage**
- **the mutual fund house is ready to appoint a skilled fund manager.**
- **As per current practice, a single fund manager can operate two or more mutual fund schemes at a time.**

Thank You
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