

**MOBILISATION OF SAVINGS THROUGH MUTUAL FUNDS  
A STUDY WITH SPECIAL REFERENCE TO KERALA**

*Thesis submitted to the University of Calicut  
for the award of the Degree of  
**Doctor of Philosophy**  
in Commerce*

By  
**Joseph M. A.**

Under the guidance of  
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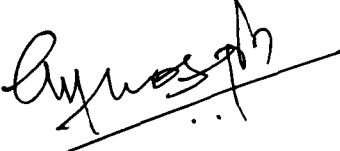
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February 2002

## DECLARATION

I, Joseph M. A., part time research scholar for Ph.D. course of the University of Calicut, hereby declare that the thesis entitled " Mobilisation of Savings through Mutual Funds: A study with special reference to Kerala" has been prepared by me under the guidance of Dr. K.C. Vijayakumar, Professor (on leave), Department of Commerce and Management Studies, University of Calicut.

I also declare that the dissertation has not been submitted by me fully or partly for the award of any degree, diploma, title or recognition before.

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## CERTIFICATE

This is to certify that this dissertation entitled "**Mobilisation of Savings through Mutual Funds: A Study with special reference to Kerala**" is prepared by **Mr. Joseph M.A.** under my guidance and supervision for the award of the degree of Doctor of Philosophy in Commerce.

He is allowed to submit this dissertation to the University.

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## **LIST OF ACRONYMS**

<b>AMC</b>	Asset Management Company
<b>AMFI</b>	Association of Mutual Funds in India
<b>BSE NI</b>	Bombay Stock Exchange National Index
<b>CLB</b>	Company Law Board
<b>DCA</b>	Department of Company Affairs
<b>IDBI</b>	Industrial Development Bank of India
<b>LIC</b>	Life Insurance Corporation of India
<b>MF</b>	Mutual Fund
<b>MMMF</b>	Money Market Mutual Fund
<b>NAV</b>	Net Asset Value
<b>PBFI</b>	Private Banks and Financial Institutions
<b>PF</b>	Provident Fund
<b>POS</b>	Post Office Schemes
<b>RBI</b>	Reserve Bank of India
<b>SEBI</b>	Securities and Exchange Board of India
<b>ULIP</b>	Unit Linked Insurance Plan
<b>UTI</b>	Unit Trust of India
<b>UTI-ICM</b>	UTI Institute of Capital Markets

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# ***Introduction***

# **Chapter I**

## **INTRODUCTION**

- 1.0 Introduction
- 1.1 A brief history of Mutual Funds
- 1.2 Mutual Fund Industry of India
- 1.3 Significance of the study
- 1.4 Statement of the problem
- 1.5 Objectives
- 1.6 Hypotheses
- 1.7 Variables used
- 1.8 Scope of Study
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  - 1.10.1 Secondary data
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  - 1.10.3 Survey design
- 1.10 Limitations of the study
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## **1.0 Introduction**

Mutual Funds or Unit Trusts are specialized investment institutions, which pool the savings of many individual investors and combine them into a fairly large and well-diversified portfolio of investments. They try to optimise risk and reward and to combine growth and income for achieving their basic investment objectives. In effect, a mutual fund is a single or large investment organization owned by many individual investors who share its profits or losses, its capital appreciation and growth, in proportion to their holdings. Mutual Funds have internationally proven to be a popular retail investment alternative. It has been recognized that direct participation in capital market is a full time profession or vocation, which is not possible for the common man. It also involves collection and analysis of various data relating to the performance of the economy, industry as well as various companies in which people wish to invest. There is also a growing acceptance of mutual funds as an appropriate medium of investing household savings.

## **1.1 A brief history of Mutual Funds**

The origin of Mutual Funds may be traced back to the Nineteenth Century European merchant bankers, experts in investments, who started attracting funds from the rich for managing their funds. This led to the floatation of investment trusts wherein a large number of small investors could purchase the share of these trusts, which in turn would invest in a wide variety of financial instruments. Gradually the investment trusts were spread to the colonial America; but there finance houses set up the investment trusts. The Societe Generale de Belgique of Germany established in 1822 by King William I is considered as the first mutual fund of the world. The Foreign and Colonial Government Trust of London organised in 1868 was the first mutual fund of England and was the real pioneer in the field of modern concept of mutual fund. The Boston Personal Property Trust set up in 1893 is treated as the first mutual fund of America. The first true open-ended mutual fund in the U.S. was the Massachusettes Investors' Trust, formed in 1924.

The investment trusts of both the UK and the US suffered huge losses in the stock market crash of 1929. Consequently, an innovation was introduced in the form of unit trust as small savers' means of access to professional investment. After the Second World War the concept of mutual funds gained popularity especially in the US and in many other nations.

### **1.2 Mutual Fund Industry of India**

In India, Mutual Fund Industry started with the setting up of Unit Trust of India (UTI) in 1964 under the Unit Trust of India Act, 1963. Public sector banks and financial institutions began to establish mutual funds in 1987, which were brought under the control of the RBI and Finance Ministry. Private sector and foreign institutions were allowed to set up mutual funds in 1993 as part of the liberalisation policy initiated by the Government of India in the year 1991. The Securities and Exchange Board of India (SEBI) issued guidelines on mutual funds in the year 1993 and were made applicable to all mutual

funds except UTI. Hence, we have four broad categories of mutual funds:

1. The Unit Trust of India
2. Mutual funds sponsored by commercial banks and insurance companies
3. Mutual funds sponsored by financial institutions
4. Private sector mutual funds
  - a) Indian
  - b) Joint Venture-predominantly Indian
  - c) Joint Venture-predominantly foreign

Today the mutual fund business has grown to an enormous level of 34 mutual funds with about 390 schemes and an asset size of Rs.90587 crores<sup>1</sup>. The Unit Trust of India (UTI) is the country's largest mutual fund company with an asset size of Rs.58017 crores<sup>2</sup>. The second largest group consists of private sector joint venture mutual funds predominantly of foreigners, which control a corpus of Rs.13740 crores<sup>3</sup>. The third position is for the joint venture mutual funds predominantly of Indians with an asset size of Rs.8620 crores<sup>4</sup>.

### **1.3 Significance of the Study**

Mutual Fund Industry is of recent origin in India and is growing very fast to emerge as a major player in mobilisation of savings. Investors have been showing keen interest by subscribing to various mutual fund schemes anticipating higher returns and capital gains. At the same time some of the schemes are failing due to some or other reasons. Investors as well as the public are curious about the performance of various mutual fund schemes. Almost all of the Business Dailies have regular articles and columns on the functioning and evaluation of various mutual funds and there are umpteen numbers of academic researches and publications. But no comprehensive study was made on the Mutual Fund Industry of Kerala till date. This study is intended to fill this gap and help the investor public, whose saving potentials are increasing, to invest their savings, which may help mobilising resources for the economic development of the country.

#### **1.4 Statement of the problem**

Being a recent entrant to the capital market how much acceptance mutual fund schemes could attain from the investors and whether this financial asset is worth investing is the main problem before the common individual investors. They are eagerly waiting to get a clear and real picture of the growth and success dimensions of the industry. How did the funds perform in the past? Did the industry flourish or perish with the erratic share market conditions? They also want to know the aftermath of the advent of the private sector and allied mutual funds. Besides, they want to hear how far it succeeded in mobilising savings and whether those schemes could satisfy the requirements of the investors.

#### **1.5 Objectives**

The main purpose of the study is to assess the extent and magnitude of the growth of the mutual fund industry and its impact on the investors, especially of the State of Kerala. Specific objectives set are:

1. To examine the structure and growth pattern of Mutual Fund Industry in India.
2. To assess the role of mutual funds in the mobilisation of savings.
3. To evaluate the performance of mutual funds.
4. To assess the awareness and adoption levels of mutual funds among household investors of Kerala.
5. To examine the attitudes of the investors towards mutual funds in relation to other investment schemes.
6. To analyse the challenges faced by the industry.
7. To make suitable suggestions and recommendations on the basis of the findings of the study.

### **1.6 Hypotheses**

On the basis of the above objectives the following hypotheses have been formulated and tested:

1. The acceptance of mutual fund schemes is growing and will become the much-preferred one in the future.
2. The past performance and reputation of schemes are the critical factors, which attracted the investors.

3. Mutual fund schemes are well accepted by the individual investors in Kerala, especially among senior investors than younger ones.
4. The awareness level about mutual fund schemes is higher among urban people than rural people in Kerala.
5. Occupation-wise, mutual fund schemes are more popular among the professionals and businessmen.
6. The main motives of resorting this alternative are tax planning and to earn regular income on retirement.
7. Investors of Kerala give first preference to income schemes followed by balanced and growth schemes.
8. Among the schemes and organisations, the investors prefer the UTI.
9. The investors who have a regular saving habit prefer mutual fund schemes.
10. The transparency and disclosure of affairs are needed for protecting the interests of investors.

11. The information sources for investors are newspapers and agents, friends and colleagues.

### 1.7 Variables used for the study

The variables used for the study are tabulated in the Table 1.1

Table 1.1 Variables used

<b>Purpose</b>	<b>Number of variables</b>	<b>Name of the variable</b>
To evaluate performance of mutual funds	3	1.NAV after adjusting dividend, bonus and rights 2. BSE National Index 3.Other similar evaluations
To examine the structure and growth pattern of mutual funds in India	3	1.Growth pattern and trend analysis. 2.Scheme-wise analysis. 3.Organisation structure-wise analysis.
To assess the role of mutual funds in mobilisation of savings	4	1.Growth of savings. 2.Pattern of savings. 3.No. of account holdings. 4.Net assets held.
To analyse the background of sample investors.	12	1.Age 2.Sex 3.Marital status 4.Education 5.Occupation 6.Residential location 7.Family size 8.Religion 9.Income groups 10.Annual income 11.Annual expense

To examine the attitudes of the investors towards mutual funds in relation to other investment schemes	16	<b>12. Annual savings</b> 1. Nature of savings habit. 2. Savings experience and pattern. 3. Awareness of investors. 4. Preferences of investors 5. Adoption level. 6. Criteria of selection 7. Motives/ purposes 8. Chance of future investment. 9. Awareness of mutual funds. 10. Participation in mutual funds. 11. Factors influencing the selection of mutual funds. 12. Reasons of preferences of mutual funds. 13. Savings and mutual fund investment. 14. Expectations from mutual funds. 15. Mutual fund organisation preference. 16. Sources of mutual fund information.
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### **1.8 Scope of Study**

The scope of the study is limited to India and accordingly it covers only the Indian Mutual Fund Industry. It covers the

performance evaluation of mutual funds at macro level and an empirical analysis at the micro level.

### **1.9 Period of Study**

Data relating to mutual fund industry were collected from the very inception of it in 1964 to the financial year ended 31 March 2000. The data for performance evaluation of mutual fund schemes have been collected for five financial years from 1995-96. The survey was conducted during the period of six months from January 2001 to June 2001.

### **1.10 Methodology**

The present study has been designed as empirical one based on both secondary and primary data. Both deductive and inductive logic have been applied to draw meaningful conclusions.

#### **1.10.1 Source of secondary data**

The data from the published sources like RBI publications, SEBI publications, AMFI publications, reports and publications of mutual fund institutions and organisations, journals and periodicals, books available, etc. have been collected from the institutions, documentation centres and

libraries throughout the country. The National Social Science Documentation Centre, New Delhi, libraries of the institutes like UTI Institute of Capital Markets, New Mumbai, Society for Capital Market Research and Development, Delhi, Indian Institute of Finance, Delhi, Indian Council of Social Science Research, New Delhi, the Federation of Indian Chambers of Commerce and Industry, New Delhi, Indian Institute of Public Administration, New Delhi, SEBI, Mumbai, AMFI, Mumbai, UTI, Mumbai, etc. have also been visited and the required information has been gathered. Websites of various mutual fund and investment organisations and institutions have also been consulted.

Secondary data in the form of stock market indices, NAVs etc. of mutual fund schemes, over the period of five years from 1995-96 to 1999-2000, have been collected from various business dailies and periodicals have been put into use for the evaluation of performance of the schemes in a risk-return framework. The measures such as Treynor's reward to volatility ratio, Jensen's differential ratio, Sharpe's reward to variability ratio and Fama's ratio of decomposition of total return have been used for the purpose.

### 1.10.2 Primary data

Primary data on mutual funds, about the investors of the various mutual fund schemes and the public opinion have been collected through a detailed survey, using structured and pre-tested questionnaire. A good deal of special information on mutual fund organisations and its functioning have been collected through direct undisguised personal interviews made with the top most authorities of the mutual fund organisations. The officials of the Association of Mutual Funds in India (AMFI), the Securities and Exchange Board of India (SEBI) and the Unit Trust of India (UTI) at their head quarters have also been consulted. Discussions have been conducted with the scholars and experts who are in the field of capital market and mutual fund.

### 1.10.3 Survey Design

#### 1.10.3.1 Sampling

The survey has been conducted among the investors of mutual fund schemes of Kerala. As the population of the study is quite large spread throughout the state of Kerala, sampling technique has been used. In the first stage of sampling the

entire state is divided into two geographical regions, Northern and Southern regions comprising seven districts each in a region. A district has been selected at random each from a region. The selected districts were Ernakulam from the Southern region and Calicut from the Northern region.

In the second stage, the respondents have been selected randomly by lottery method from the lists of subscribers of mutual fund schemes of the two districts. Lists of subscribers have been collected from the branch offices and agents/franchisees of various mutual fund organisations functioning in the two districts.

The survey has been conducted mostly by direct enumeration method with the help of a few investigators whom have been given proper training and instructions. Some of the respondents have been reluctant to reveal all the information required as per the questionnaire, despite the assurance given that the data would be kept confidential and used only for the study purpose. As a result quite a large number of respondents have been contacted so as to get the required number of responses. The responses, which have been found incomplete while editing, were willed out and substituted, by equal number of completed responses. Finally, 424 responses

have been chosen as completely filled pertaining to the two districts equally.

#### 1.10.3.2 Questionnaire and pre-testing

The draft of the questionnaire has been consulted with the experts both in the field of mutual funds and statistical analysis and proper modifications were made accordingly. The modified draft has been pre-tested by conducting a pilot study and necessary changes have been made before finalising it. The format of the final questionnaire is given as Appendix I.

#### 1.10.3.3 Scaling technique

Likert Scale of Summated Rating has been used for measuring the intensity of the attitudes expressed by the respondents for some of the items in the questionnaire. The scale values of 2, 1, 0, -1 and -2 have been assigned for the five-point scale, while computing the scores of the respondents. In cases other than five-point scale, similar suitable scale values have been assigned.

#### 1.10.3.4 Tools of data analysis

The primary data collected have been analysed using various arithmetical techniques like percentages, averages, and ratios, statistical tool multiple regression were used. The data so analysed were interpreted and arrived at unbiased and true inferences.

#### **1.11 Limitations of the Study**

The lack of Kerala specific statistical data on mutual fund is the major constraint of the study. In order to have an effective evaluation of an industry, especially which is in its nascent stage, a longer period must be taken. But due to the time constraint and the non-availability of the data in the required form a five-year term and a particular category of fund has been selected for the performance evaluation is another short-coming of the study. Generally, almost all the individual respondents do not have the practice of maintaining records of the financial data regarding income, expenses and savings. They have filled the questionnaire by recollecting from their memory and as a result the analysis suffers from recall error.

Some of the respondents have been reluctant to provide the required data. However, the researcher has taken due care to rule out all such errors and sincere efforts have been taken to elicit true and correct information.

### **1.12 Presentation of the report**

The report of this study is presented in seven chapters. The first chapter gives a brief account of mutual funds and its history in India along with the significance of the study. It also introduces the problem, objectives, hypotheses formulated and tested, variables used, scope, period of study, methodology, presentation of the report, and the limitations of the study.

The second chapter reviews the existing literature on mutual funds and mobilisation of savings separately in two different sections. The studies are arranged in the chronological order.

The third chapter has two parts. The first part discusses the mutual fund concepts, principles, and type of schemes, classification, advantages and disadvantages of mutual funds. The second part explains the structure, working and procedures of mutual funds. It also discusses the regulatory environment in brief.

The fourth chapter explains the evolution, history and present position of the mutual fund industry of India. It also looks into its role in the mobilisation of savings.

The fifth chapter evaluates the performance of mutual funds. It has three parts. The first part describes the various performance evaluation measures. The second part is an empirical analysis and the third part evaluates generally the mutual fund industry.

The sixth chapter analyses empirically the position of the mutual fund industry and the investor awareness of the state of Kerala.

The seventh and final chapter contains the summary of the study, findings conclusions and recommendations derived there from.

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**Notes**

<sup>1</sup> AMFI Monthly, March, 2001

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

# ***Review of Literature***

**Chapter II**  
**REVIEW OF LITERATURE**

2.0 Introduction

2.1. Mutual Funds

2.2 Mobilisation of Savings

2.3 Conclusion

## **2.0 Introduction**

Literature relating to mutual funds encompasses literature on capital markets and financial intermediaries including commercial banks, insurance and financial institutions. However, the present review is limited to literature on mutual funds and the mobilisation of savings and is arranged in the chronological order. The review of the existing literature is presented in two major heads, viz., those relating to (1) Mutual funds and those relating to (2) Mobilisation of resources.

### **2.1. Mutual Funds**

There are a number of studies on the mutual fund industry of India during the first phase of its growth and origin, during 1964 to 1987, which mainly analysed critically the role of the UTI as a developmental financial institution providing industrial finance. The important among them are Vadilal Dagli (1981)<sup>1</sup>, M.Y. Khan (1983)<sup>2</sup>, J.S. Uppal (1984)<sup>3</sup>, R.S. Bhatt (1996)<sup>4</sup>, etc. These studies cannot be considered as

research works on the mutual funds of India rather than case studies.

During the second phase, the number of articles in the financial dailies and periodicals and research papers in professional journals had increased considerably. Almost all of these works tried to explain the basic concepts of mutual funds, their characteristics, and their importance to the development of capital market and evaluated the trend of its growth. The important among those studies are of Sudeep Ghosh (1988)<sup>5</sup>, Madan Gopal (1990)<sup>6</sup>, Vidyasanker (1990)<sup>7</sup>, Batra (1991)<sup>8</sup>, Sunil Garodia (1991)<sup>9</sup>, Sarkar (1991)<sup>10</sup>, Agrawal (1992)<sup>11</sup>, Kulshreshtha (1994)<sup>12</sup>, etc. Some of the studies highlighted the issues related to the need and importance of regulatory measures. The notable studies in this context are of Narayan M. Bhatt (1990)<sup>13</sup>, Barua (1991)<sup>14</sup>, Bhanu (1991)<sup>15</sup>, Lal and Sharma (1992)<sup>16</sup>, Bhatt (1992)<sup>17</sup>, Jaiswal (1994)<sup>18</sup>, Baur and others (1995)<sup>19</sup>, Sarkar (1997)<sup>20</sup>, Mukhopadhyay (1998)<sup>21</sup>, Dewan (1998)<sup>22</sup>, etc.

Quite another group of works/articles are on the valuation of investments and the related aspects such as of Shermila Kumar (1994)<sup>23</sup>, Jayadev (1995)<sup>24</sup> Kably Lubna (1995)<sup>25</sup>, etc.

A few articles are on portfolio management and other aspects. Important among in this area are Sengupta (1991)<sup>26</sup>, Sharma (1991)<sup>27</sup> and Saha and Murthy (1994)<sup>28</sup>. The rest of the works are empirical ones evaluating performance of various funds and other allied areas. The maiden attempt was of Madan Sabnavis (1989)<sup>29</sup>. He had discussed the dilemma faced by commercial banks because of their entry into the mutual fund business. It was stated that mutual funds were more attractive than fixed deposits to the investors in terms of their returns, tax benefits, growth protection against inflation and hence, an individual would have a definite preference for a mutual fund. The result was the shifting out from bank deposits to mutual funds. However, Sabnavis had argued that the banks might not be severely affected by this shift, as the investments made

in companies by the mutual funds could flow back into the banking system in the form of current deposits.

Sasidharan (1990)<sup>30</sup> had observed that about 23 percent of the population covered was aware of the Mutual Fund schemes but the awareness level was very low. The traditional savings eclipsed mutual fund schemes' promises like high returns, capital growth and liquidity. Out of 23 percent of the population only 18 percent had adopted mutual fund schemes. The main objective in choosing mutual fund schemes by respondents who were aware of the schemes was capital growth followed by future needs, tax savings and minimisation of risk.

Gupta (1991)<sup>31</sup> had found that mutual fund units were perceived as safe by a great majority of household investors. But despite the image of high safety and also higher returns than bank fixed deposits, mutual fund schemes had not been as popular among the lower income groups of investors as

among the higher income groups of investors. Such investment was less popular than both bank fixed deposits and equity shares in every income group. The majority of respondents were not willing to invest in mutual fund schemes unless there was the promise of a minimum return, as they consider schemes without such promise not very safe. The highest preference among investors was for income funds and the least preferred was the unit linked insurance schemes. Among the upper income groups growth schemes and tax saving schemes were much-preferred schemes.

Renjith (1991)<sup>32</sup> had compared the investment pattern of the different income groups for the period 1987-1989. He had pointed out that while the lower income segment preferred investment in fixed assets, the medium income segment deposited 35 percent of their savings in banks and 29 percent in UTI schemes, shares, debentures and other mutual fund schemes. The higher income group invested 49 percent of their savings in mutual funds, shares and debentures. He had

concluded that the fall in bank deposits was due to the competition from alternative financial instruments with attractive returns and other allied privileges.

Barua and others (1991)<sup>33</sup> had evaluated the performance of 'Master Share Scheme' of the UTI for the period 1987-1991 from the investor point of view. The study had concluded that 'Master Share' performed better in systematic risk, but not in terms of total risk.

Sharad Shukla (1991)<sup>34</sup> had evaluated the performance of 'Canshare' and 'Master Share' for the period January 1988 to June 1991. The conclusion was that the performance of Master Share was better than the Canshare.

Sriram (1992)<sup>35</sup> had observed that the growing acceptability of mutual funds had changed the pattern of household savings. The comparison made with the growth rate of time deposits, it was found that mutual funds could be perceived as a

competing instrument. It was concluded that though for every Rs.100 growth in time deposits, mutual funds mobilised Rs.22 in 1987-88 and Rs.38 in 1990-91. However, it did not mean that bank deposits would be substituted by mutual funds, for bank deposits had certain advantages like liquidity, a high degree of safety and convenient access provided by the neighbourhood bank branch.

Chander and Mahajan (1992)<sup>36</sup>, in their investigation among the members of a number of investment clubs in the City of Amritsar, had observed that the most important factors in the choice of a mutual fund organisation among the investors were the strong possibility of capital appreciation and the past record of the mutual fund organisation. Equity schemes were more popular among investors followed by tax savings schemes. The least preferred one was the regular income scheme.

Bansal and Gupta (1992)<sup>37</sup> had highlighted the importance of the fund management due to the reasons that it was the public money they had to manage and had to meet the diverse needs of return in the form of dividend or capital appreciation. They suggested giving importance to profit distribution and the segregation of the dividend income into current income and capital gains so as to attract more medium and large investors to invest in mutual funds for tax planning.

The survey conducted by Sahu and Jena (1992)<sup>38</sup> had revealed that the different users according to their requirements perceive mutual fund schemes differently and that most of them adopt these schemes to avail themselves of maximum tax savings, followed by the benefits of profitability, safety and liquidity. If the institutions could introduce different mutual fund schemes to provide all the benefits, they would get a better response.

The study conducted by the Corporate Economic Research Centre (1993)<sup>39</sup> had revealed that the income schemes have been the most popular among all the options, although their average annual real rate of return has only been 13 percent. On the other hand, the growth schemes have topped in terms of return, followed by the tax saving schemes. The listed schemes earn a better return when compared to the non-listed schemes.

Gupta's (1993)<sup>40</sup> survey conducted to study the changes in investor preference between 1990 and 1992, had revealed that the average Indian Investor is still conservative, avoids risk and prefers to deposit his savings only with UTI. It is the middle class, which go for the other mutual funds. The survey revealed that ownership in all mutual fund schemes has risen from 37 percent in mid 1990 to 65.1 percent in mid 1992, implying that over one fourth of the middle class households have become investors of mutual fund schemes within only a couple of years and that all the income groups show a marked

rise in the mutual fund investors and that bank deposits have fallen out of favour.

The survey conducted by Sobhana Subramanian (1993)<sup>41</sup> had found out that there was very little awareness about the concept of mutual funds by the public. The mutual fund schemes were considered safer than shares of new companies, but riskier than bank deposits. Schemes are chosen on the criteria in the order of return, safety, promoter's reputation and service.

Saha and Murthy (1993)<sup>42</sup> had given a brief overview of the changing needs of the Indian households, as reflected in their pattern of investment in shares and debentures over the years and its linkage with the growth of mutual funds and their performance. They had observed that in the eighties, and that too towards the second half of the decade, individual investors were becoming more and more conscious of factors like return and capital appreciation, in addition to liquidity and safety.

Raju (1993)<sup>43</sup> had observed that the awareness level of mutual funds was very poor among the rural population. Though advertisements were the main sources of information, they evoke very little response from the public. He had suggested that special efforts should be made by the concerned agencies to propagate the mutual fund schemes, especially in the rural and semi-urban areas to increase the awareness and adoption levels.

Ajay Shah and Susan Thomas (1994)<sup>44</sup> had studied the performance evaluation of 11 mutual fund schemes, on the basis of market price data. The weekly returns were computed for these schemes since their commencement to April 1994. They concluded that except UGS 2000 of UTI, none of the schemes earned superior returns than the market in general. The risk of these schemes was very high and funds might be inadequately diversified.

Sarkar and Majumdar (1994)<sup>45</sup> had evaluated the performance of five growth schemes for the period February 1991 to August 1993. They had also evaluated the boom period performance of the schemes during the first quarter of 1992. They concluded that the selected schemes have not offered superior returns during the study period than the market in general. However, the funds performed well during the boom period.

Dhar (1994)<sup>46</sup> had evaluated the performance of the available funds using average monthly growth rate computed using their NAVs.

Kaura and Jayadev (1995)<sup>47</sup> had evaluated the performance of 5 growth-oriented schemes in the year 1993-94. According to them, 'Master Gain 91', 'Canbonus', and 'Ind Sager' have performed better than the market in terms of systematic but not in terms of total risk.

The Social Audit Committee of UTI, chaired by Justice M. H. Kania, submitted its report in October 1994 evaluated the performance of UTI from various dimensions, such as return, investor services and satisfaction of employees and agents of UTI. The report found out that the performance, especially after 1992 was poor and the units were quoted much below their NAV in the market. The deterioration in the services rendered to the investors, lack of transparency, etc was other defects detected by the report.

Panigrahi (1996)<sup>48</sup> had examined why mutual funds prospered in the last few years, what was the extent of growth and whether the regulatory framework for their operation reflected the changing environment.

Sahadevan and Thiripalraju (1997)<sup>49</sup> had compared the performance of various funds using three parameters viz. high total return, consistent return performance and low volatility. The monthly average raw return and standard deviation of

each fund were compared with that of the market index. The schemes were evaluated by classifying them into three categories, private sector mutual funds, public sector funds and UTI funds.

Sadak (1997)<sup>50</sup> had studied the marketing and investment aspects of mutual funds. The study highlighted the need for strengthening market research and market analysis activities of mutual funds. He had suggested some important and urgent measures to be taken like independent credit rating for mutual fund schemes, rapid expansion of overseas operation, developing a dynamic management style, etc.

Thiripalraju and Basra (1997)<sup>51</sup> had evaluated various tax-saving schemes launched during the period from 1990-91 to 1994-95 and found out that both the long run and short run performance of those schemes were not satisfactory.

Jayadev (1998)<sup>52</sup> had analysed the investment policies and performance of public sector mutual funds for the period of 1987 to 1995. The study also reviewed the SEBI (Mutual fund) Regulations and suggested areas to be strengthened and to be relaxed. It also evaluated the practices of mutual funds in the valuation and pricing of mutual fund units. The average rate of return computed using the technique of Internal Rate of Return was 20.18 percent on the basis of NAV, but the average realisable return was only 16.25 percent per annum.

Rao (1998)<sup>53</sup> had observed in his study the investors' perceptions on mutual funds and the various mutual fund products. The top most popular mutual funds amongst investors in Unit Trust of India and the most popular financial asset were UTI products. In regard to geographical spread of investors, highest concentration was seen in metropolis followed by mega cities.

Jayadev (1998)<sup>54</sup> had empirically evaluated the performance of 44 selected schemes by comparing scheme return with benchmark portfolio and risk free return. He also calculated the average monthly return of mutual fund schemes is 1.29 percent and the average risk is 7.5 percent.

Financial Express Value Research (1998)<sup>55</sup> had identified the best and worst performing funds and had ranked about 54 schemes category-wise based on their NAV Return.

Gangadharan (1998)<sup>56</sup> had analysed the mutual fund mobilisations over a period of 5 years from 1990-91 to 1994-95 and had compared it with vis-à-vis bank deposit. He also pointed out the negative growth trend shown in the mutual fund mobilisation during 1995-96 and 1996-97.

Financial Express Value Research (2000)<sup>57</sup> had identified the best performing funds and had ranked about 300 schemes based on their NAV Return over five time periods.

Chakarabarti and Rungta (2000)<sup>58</sup> had evaluated the performance of mutual funds with focus on private sector equity funds and have probed into the causes of its failure. They also analysed the trends in competition and have assessed the future prospects of the industry.

Amitabh Gupta (2000)<sup>59</sup> had empirically examined the investment performance of 73 mutual fund schemes for a 5 year period from April 1994 to March 1999 in terms of seven various performance measures. He came to the conclusion that the performances of those schemes were below the benchmarks except some private sector funds.

Chawla and Batra (2000)<sup>60</sup> had examined the positioning of SBI Mutual Fund vis-à-vis other competitors and have analysed investors' perception towards mutual fund as a mode of investment. The study indicated that SBI Mutual Fund was not favourably placed in comparison to other competitors like

UTI, private sector mutual funds and public sector mutual funds. The aggregate net asset value of all 16 schemes of SBI MF had been below par value of the corpus of all the schemes taken together. The causes of poor performance were associated with large exposure to B-2 group scripts, high percentage of NPAs and high cost of initial investment. The competitors were better placed because of aggressive marketing, better product mix, prompt delivery in case of redemption and transparency. The turnaround strategy suggested that fund should stress on cost reduction techniques, deliver products in line with expectations of investors and develop distinct market network.

Shakunthalamani (2001)<sup>61</sup> had evaluated the performance of 24 growth schemes in terms of five performance measures using two-year mutual fund data. She came to the conclusion that mutual funds could not offer superior returns of selectivity and none of the funds were well diversified.

## **2.2 Mobilisation of Savings**

The Study group under the chairmanship of Mr. T.A. Pai (1969)<sup>62</sup> has studied the aspects of mobilisation of deposits by commercial and co-operative banks.

A workshop on Deposit Mobilisation organised by NIBM (1969)<sup>63</sup> has concluded that mobilisation of savings is one facet, and that an important one, of the various services performed by banks. Banks should attract savings through suitable media of publicity and extended personalised services.

Bhatt (1970)<sup>64</sup> has examined the saving variable as a tool for financial planning in India. A larger ratio of saving to income is beneficial to economic growth because it is only higher saving that can be used as a source of capital in a capital scarce country like India. Hence, mobilisation of saving is a crucial function of the planning process, just like using the available capital in the most efficient way is also its major responsibility.

Paniker (1970)<sup>65</sup> has recognised the importance of saving in economic development process and the importance of rural sector in the Indian economy.

The Banking Commission, chaired by Mr. S.G. Saraya (1972)<sup>66</sup> has reported that the increasing trend in placing deposits in banks help to bring to the organised market the savings that might have remained idle or might have been wasted or used in creating assets which are low in the scale of plan priorities.

Jain (1972)<sup>67</sup> has, in his study, concluded that by mobilising domestic savings on the one hand and diverting appropriate channels on the other, banks play a pivotal role in fostering economic growth.

Hukku (1977)<sup>68</sup> has, in his study, observed that the savings-income ratio of rural households is still low and the rural household income is still invested in an unproductive manner.

In an interesting paper of defining financial assets for rural households, Krishnamurthy (1977)<sup>69</sup> refers to certain items as claims on financial institutions and others such as government, joint stock companies, etc. mostly in the form of deposits and shares. The amount of savings rural households are willing to make in financial assets is dependent upon (a) the surplus available with the households, (b) willingness to save in these assets and (c) awareness about and easy accessibility to the various types of financial investment avenues.

The Report of the RBI Committee under the chairmanship of Mr. James S. Raj (1978)<sup>70</sup> has evaluated the functioning of the public sector banks and found that the banking networks has contributed to the growth of household savings.

Shetty and Narayana (1987)<sup>71</sup> have, in their study, concluded that deposits in commercial banks, in spite of slower growth in

deposit mobilisation in the first half of the eighties compared with the seventies, continue to occupy a prominent place in total financial assets, because of their basic features like safety, liquidity and proximity.

Saxena (1988)<sup>72</sup> has, in his study, concluded that the savings instruments are not competing with bank deposits. As each saving instrument aims at satisfying one or the other motive for saving and is different in nature, instruments of one group are not likely to affect others.

Panikar (1992)<sup>73</sup> has observed that a high proportion of the savings are in unproductive or less productive assets especially in high-cost residential buildings and consumer durables.

Mathew (1997)<sup>74</sup> has divided saving into several forms and studied them separately. It is seen that the saving in India has

been growing in absolute amount as well as in relation to the GDP.

Kulkarni and Talele (1999)<sup>75</sup> has found out that the real deposit rate has been either very low or negative which provides little incentive for voluntary saving in banking institutions on the part of people. A wide-ranging policy alternative that frees up the capital market seems to be necessary to have a breakthrough in this persistent financial crisis in India. The area in which major breakthrough has to come is the stock and bond market that serve as the alternatives to the traditional modes of saving.

### **2.3 Conclusion**

Now it is apparent that from the review of literature that quite a lot of studies have been made on various aspects of mutual funds and mobilisation of savings. But only few studies have attempted a detailed analysis of the mobilisation of funds through mutual funds focussing a state of the country like Kerala. The present study is suggested in this background.

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***Mutual Fund Concepts  
and Working***

## **Chapter III**

### **MUTUAL FUND CONCEPTS AND WORKING**

- 2.0 Introduction
- 2.A.1 Concept of mutual fund
- 2.A.2 Definitions
- 2.A.3 Principles
- 2.A.4 Types of Mutual Fund Schemes
- 2.A.5 Advantages of mutual funds
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- 2.B.0 Introduction
- 2.B.1 Structure of mutual funds in India
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- 2.B.5 Conclusion
- 2.1 Conclusion

## **2.0 Introduction**

Financial markets have become more complex and sophisticated. In order to be successful, investors need an intermediary who provides the required knowledge and professional expertise. The concept of mutual fund emerged to play this role of intermediary. In the previous chapter, we have reviewed the available literature on mutual funds and mobilisation of savings. In continuation of that chapter, in this chapter, an attempt is made to explain the fundamental concepts of mutual funds in general and its working and regulation in the Indian context. This chapter has two parts, Part A and Part B. Part A is comprised of the mutual fund basics like the concept, types, advantage and disadvantages. Part B is meant to explain the working of mutual funds and its underlying rules and regulations. This is considered essential for getting a clear picture of the environment in which the mutual funds are working.

## **Part A: Mutual fund concepts**

### **2.A.1 Concept of mutual fund**

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal<sup>1</sup>. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. [The combined holdings of shares, debentures and securities and assets the fund owns are known as its portfolio.<sup>2</sup>] Thus, the fund is owned jointly by all of the unit-holders. The income earned through these investments and the capital appreciation realised are shared by them in proportion to the number of units owned by them. The word 'mutual' in a 'mutual fund' signifies that such benefits accrue pro rata to all the investors in proportion to their investment; they share mutually the benefits arising there from. Thus a 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.

## **2.A.2 Definitions**

Different scholars have defined Mutual Fund differently. Frank K. Reilly has defined mutual fund as an investment company, which pools funds belonging to many individuals that is used to acquire a collection of individual investments such as stocks, bonds, other publicly traded securities.<sup>3</sup> John A. Halin defines it as a major type of investment-company that pools the funds of investors who are seeking some general investment objective and invest them in a number of frequently traded different types of securities.<sup>4</sup> Mutual fund is the institution, which collectively manages the funds from different small investors. It mobilises savings from the public and provide them attractive returns, security and liquidity by investing in capital market. It is a fund established in the form of a Trust by a sponsor to raise monies by the Trustees through the sale of units to the public under one or more schemes for investing in securities.<sup>5</sup> It is a diversified portfolio of stocks, bonds, or other securities run by a professional money manager or, in some cases, a management team.<sup>6</sup> It

provides instant diversification in a given area within objectives laid. These offer a variety of diversified options for investments looking into varied risks and returns.<sup>7</sup> Regulation 2(q) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 defines a mutual fund as a “fund established in the form of a trust to raise monies 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”. Thus a mutual fund is an institutional device or an investment vehicle through which, the investors pool their funds under the direction of an investment manager. These funds are invested in wide variety of portfolios of securities in such a way as to minimise risk, while ensuring safety and steady return.<sup>8</sup>

### **2.A.3 Principles**

There are four time-honoured principles of mutual fund investing which are (1) broad diversification, (2) professional management, (3) liquidity, and (4) convenience.<sup>9</sup>

Diversification is essential to eliminate risk. It reduces and can even eliminate the specific risk that comes with the ownership of just a few individual shares and securities. Mutual funds provide two types of diversification: diversification within a portfolio and diversification among portfolios. The second principle of mutual fund investing is professional management. Managing an investment portfolio means selecting and supervising the funds in accordance with the fund's investment objectives and policies. The fund managers have the obligation to add value over and above the returns generally received from the markets. The third principle of mutual fund investing is liquidity. The mutual fund units may be purchased or sold at a moment's notice at the fund's net asset value without incurring any cost or loss. The fourth basic principle provides for simplicity and convenience for the mutual fund transactions. A major reason for the remarkable growth in the mutual fund industry has been the diverse classes of financial assets to which its principles have been successfully applied.

## 2.A.4 Types of Mutual Fund Schemes

There are a variety of mutual fund products coming to the market so as to cater to the requirements of different classes of investors. Figure 3.1 depicts the classification. These schemes can be classified on the basis of

1. Structure/constitution: a) Open – ended schemes  
b) Close – ended schemes
2. Charges on investors: a) Load fund schemes  
b) No-load fund schemes
3. Investment Objectives: a) Income schemes  
b) Growth schemes  
c) Balanced schemes  
d) Tax saving schemes or  
ELSS  
e) Index fund schemes  
f) Sector fund schemes  
g) Assured Return schemes  
h) Miscellaneous schemes
4. Nature of investment a) Financial asset fund  
schemes  
b) Physical asset fund schemes
5. Geography: a) Domestic schemes  
b) Offshore schemes or Global  
schemes

### 2.A.4.1 Open-ended Schemes

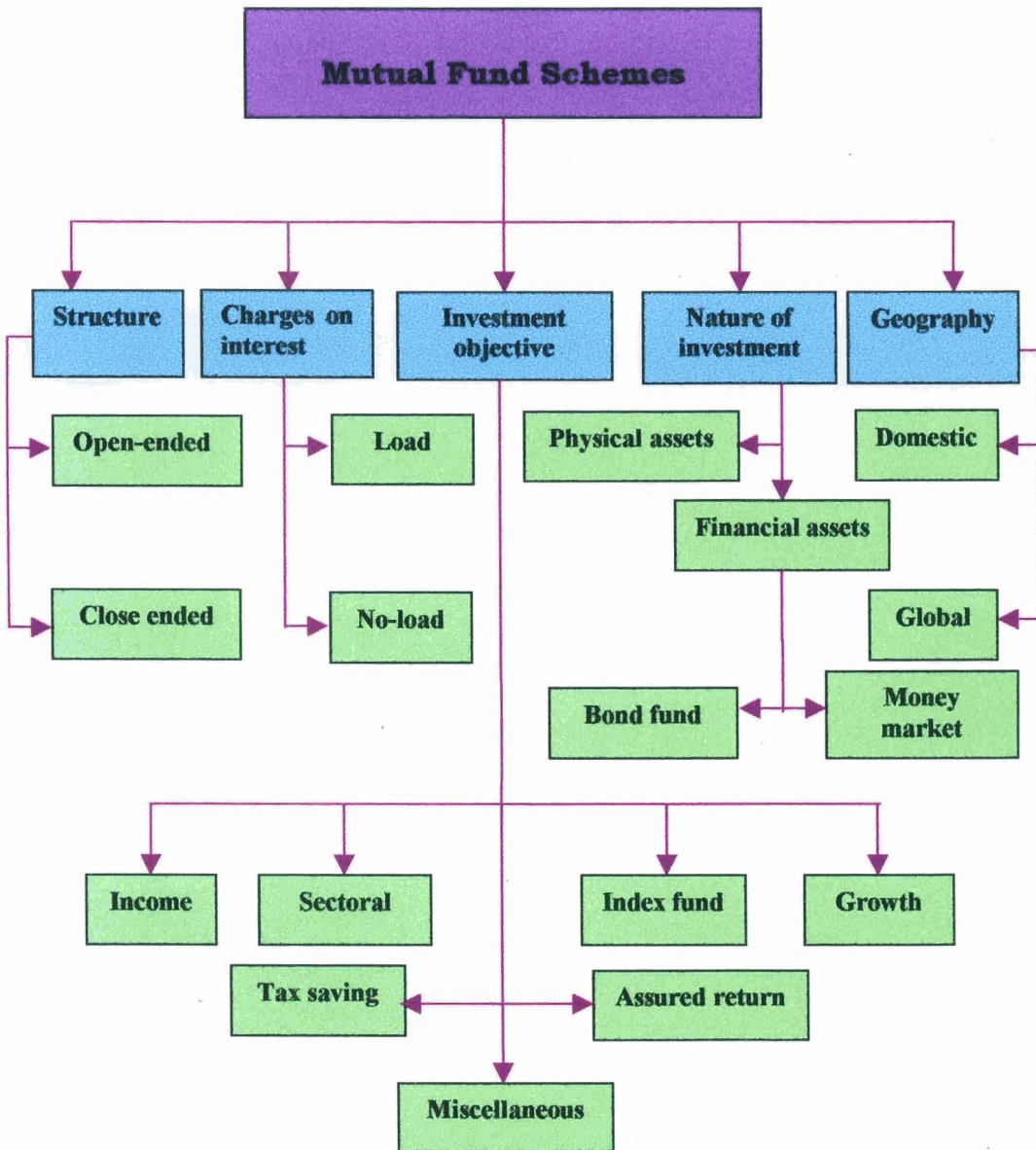
Funds available for subscription all the year round excluding the period of book closing are open-ended schemes. These schemes do not have a fixed maturity and the units can be

sold or bought on any day at a price calculated based on the NAV (Net Asset Value). NAV is the per unit market value of the assets of the scheme minus its liabilities. The most popular example is Unit 64 of the UTI. SBI Magnum, Birla Tax Plan, Reliance Growth, Sundaram Tax Saver, LIC Dhanasahayog, etc are other examples.

#### 2.A.4.2 Close-ended Schemes

Schemes have a stipulated maturity period are close ended schemes. Direct investment in such schemes can be done at the time of the initial issue and thereafter buying or selling can be done through the stock exchanges where the scheme is listed. The maturity period may range between 2 to 15 years. The market prices are expected to be equal to the NAV, but for obvious reasons they are seldom equal to the NAV, and most of the units are quoted much below to the NAV. Kothari Pioneer Taxshield, UTI Market Equity Plan 99, Morgan Stanley Growth Fund, Sundaram Tax Saver etc are examples of close-ended schemes.

Figure 3.1 Classification of mutual funds



#### 2.A.4.3 Load fund schemes

Mutual fund schemes that collect charges from the investors at the time of entry, exit or both are called load fund schemes. If the charge is collected at the time of entry it is front -end load and if it is collected at the time of exit it is called repurchase or back-end load.

#### 2.A.4.4 No-load fund schemes

Schemes that do not collect any such charges are no-load fund schemes.

#### 2.A.4.5 Income Schemes

Income schemes seek to provide regular and steady returns in the form of dividends. These schemes invest in fixed debt securities as well as money market instruments. These schemes are ideal for investors who need some regular income to supplement their earnings. Alliance Monthly Income Plan, HDFC Income Fund, Escorts Income Plus, Kothari Income Builder, Templeton India Income Fund etc are examples.

#### 2.A.4.6 Growth Schemes

Growth schemes aim to provide capital appreciation over the period of investment. These schemes normally invest a majority of its funds in equities and convertible debentures. These schemes are meant for investors seeking growth over the long term. Can Expo, Franklin India Growth Fund, HDFC Growth Fund, ING Growth Portfolio, Kotak Mahindra K 30, Zurich Capital Builder, etc are examples.

#### 2.A.4.7 Balanced Schemes

These schemes aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. They invest in both shares and fixed income securities in the proportion stated in their offer documents. These schemes are ideal for investors looking for a combination of income and moderate growth. Cantriple, DSP Merrill Lynch Balance Fund, Dundee Balance Fund, Kothari Balanced Fund, Tata Balance Fund, etc are examples.

#### 2.A.4.8 Tax Saving Schemes or ELSS

These schemes offer tax incentives to the investors under the Income Tax Act, 1961. Previously deduction of income under Section 80CCB were allowed in respect of the investment made in ELSS. However, various pension schemes, unit-linked insurance schemes, etc are other schemes, which can be categorised under this category. Alliance Tax Relief, BOB ELSS 96, Escorts Tax Plan, Kothari Pioneer Taxshield, Tata Tax Savings, UTI Equity Tax Savings Plan etc. are examples.

#### 2.A.4.9 Index Funds

Schemes that attempt to replicate the performance of a particular stock market index such as the BSE Sensex or the NSE 50. The returns offered are linked with the changes in the index. These schemes are ideal for investors who are satisfied with an equivalent return that of an index. These schemes gather importance now a days due the present capital market position. UTI Master Index Fund, UTI Nifty Index Fund, Franklin India Index Fund etc are examples.

#### 2.A.4.10 Sector funds

These schemes invest in securities of a specified sector of an industry or market. The risk and potentiality of the specific sector would be reflected in these funds. Sector fund schemes are ideal for investors who have already decided to invest in a particular sector or segment. Alliance Basic Industries, Kothari Pioneer Infotech, Kothari Pioneer FMCG Fund, Tata Life Sciences and Technologies, Internet Opportunities Fund, UTI Growth Sectors Fund, etc are some examples.

#### 2.A.4.11 Assured Return Schemes

SEBI allows only those mutual funds that have a track record of 5 years to launch guaranteed return funds. The guarantee of return can be given only for one year at a time with post-dated cheques.

#### 2.A.4.12 Financial asset fund schemes

Generally mutual funds are investing their funds in the financial assets like shares, bonds and government securities. The broad classifications are equity funds, bond funds and money market funds.

#### 2.A.4.13 Bond Fund or Gilt Fund Schemes

Schemes to pass the advantages of debt markets to the investors by investing in a variety of bonds and debentures are Bond Schemes. These carry less risk as compared to funds that have equity shares in their portfolio. Magnum Bond Fund, UTI Bond Fund, Birla Gilt Plus, etc are examples.

#### 2.A.4.14 Money Market Schemes

Funds invest wholly in money market instruments such as treasury bills, certificates of deposits, commercial papers and bill discounting. These funds aim to provide easy liquidity, preservation of capital and moderate income. These schemes are meant for corporate and individual investors to invest their surplus funds for a short period. IDBI Principal Money Market Fund, Kothari Pioneer MMF, UTI Money Market Fund, etc are examples.

#### 2.A.4.15 Physical asset or commodity fund schemes

Mutual Funds can also invest the funds in physical assets, which specialise in investing in different commodities directly or through shares of commodity companies or through

commodity futures contracts. Common examples are gold funds, other precious metals or real estates funds.

#### 2.A.4.16 Domestic Mutual Fund Schemes

Schemes launched with a view to mobilise savings of citizens of the country are domestic schemes. Almost all the schemes offered by the mutual funds other than the offshore schemes are domestic schemes.

#### 2.A.4.17 Offshore Schemes

Mutual fund schemes launched with a view to mobilise the savings of foreign countries for the purpose of investment in the Indian securities are offshore securities. The amount shall be mobilised in foreign currencies. These schemes are the doors to the Indian capital market to the foreign investors. India Fund of UTI, Morgan Stanley India Investment Fund, Jardine Fleming India Fund, LG India Fund, etc are examples. The list of schemes offered by different mutual funds as on March 31,2000 is given as Appendix IV.

### **2.A.5 Advantages of mutual funds**

A mutual fund is generally seen as a portfolio manager, managing the funds of the unit holders. An investor of mutual

fund scheme can automatically reap the benefits of research and a wider range of low cost information services. The major advantages of investing in mutual funds are as follows:

#### 2.A.5.1 Professional Management

One of the most important benefits is the availability of low cost, highly professional management services. Mutual funds are managed by highly skilled managers with sound knowledge of the market and wide experience in investment. Further the cost to the investor is proportionate to investment because management fees are distributed pro rata basis, with smaller investors have to pay less than big investors.

#### 2.A.5.2 Portfolio Diversification

Individual investors have to face company-related risks and market-related risks. Company-related risks arise due to wrong selection of investments, non-performance of the company, lack of monitoring of the performance, etc. Market related risk arise due to the volatility of the market caused by economic and political factors. Higher returns, however, depend on the higher level of risk. This risk can be dispersed

and reduced through diversification of portfolio. For a small investor appropriate portfolio diversification may not be possible due to shortage of minimum required funds, but when a small investor invests in mutual fund, his portfolio automatically gets diversified.

#### 2.A.5.3 Higher return

Mutual funds have the potential to provide a comparative higher return as they invest in a diversified portfolio.

#### 2.A.5.4 Easy Liquidity

Liquidity is an important consideration for any investor. Mutual fund investment offers enough liquidity to investors. In the case of open-ended schemes money invested can be received back from the mutual fund itself at NAV related prices. In the case of listed close-ended schemes the units can be either sold at the prevailing market prices or avail of the facility of direct repurchase at NAV related prices fixed by the mutual fund.

#### 2.A.5.5 Transparency

Regular and periodical information on value of investment can be received by the investors in addition to disclosure on the specific investments made by the scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

#### 2.A.5.6 Flexibility

Many mutual funds allow investors to switch from one fund to another. Investors can switch from growth to income funds and vice versa, and accordingly their objective from capital gains to income and vice versa. The investor can also systematically invest or withdraw funds through the facilities like regular investment plans and dividend reinvestment plans.

#### 2.A.5.7 Choice of schemes

Mutual funds are floating different schemes with a variety of investment objectives. This creates an opportunity among investors to choose the schemes on the basis of their objectives, motivations, and requirements.

#### 2.A.5.8 Investment Protection

All mutual funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of mutual funds are regularly monitored by SEBI from the reports submitted by the mutual funds. Funds must publish details of their operations for public information. However, no guarantee of investment or return can be provided by SEBI or any similar agencies.

#### 2.A.5.9 Tax Benefits

Mutual funds as well as investors can enjoy certain tax benefits. Any income of a notified mutual fund is fully exempt from tax under Section 10 (23D) of the Income Tax Act, 1961. Income of mutual funds by way of dividends, interests, etc on investment or capital gains will be exempt from payment of Income Tax. The UTI is also not liable to pay any tax in respect of any income, profits or gains. The tax benefits enjoyed by the mutual funds will be automatically passed on to the investors. The investors of mutual fund schemes can enjoy income tax benefits both in the form of deduction from income under

Section 80 L and as tax relief under Section 88. Income received on units of mutual funds are qualified for a deduction up to Rs.12000 along with other specified securities and deposits under Sec. 80L. Further an additional deduction of Rs.3000 is also available on dividends from mutual funds investments. Twenty percent of the amount invested in mutual funds along with other investments is deductible from the tax payable subject to a maximum of Rs.2000.

#### 2.A.5.10 Convenient Administration and Record keeping

Record keeping is simplified and is handled by the fund, which avoid many problems such as bad deliveries, delayed payments and unnecessary follow-up with brokers and companies. Hence, time is saved and made investing easy and convenient.

#### 2.A.5.11 Reduced transaction costs

Investors have to bear all the costs of brokerage and custodian charges. Through mutual funds advantages of economies of scale can be enjoyed. Mutual funds need to pay a lesser cost than individual investors.

## **2.A.6 Disadvantages of mutual funds**

Mutual funds have certain disadvantages also. The main among them are as follows:

### **2.A.6.1 Higher risk**

All mutual funds are subject to risks and those that depend primarily to stock markets have higher risks. Of course the potential for higher returns is also higher than in funds that invest in debt markets and government securities, where there is lower risk profile with steady income.

### **2.A.6.2 Our fund managed by others**

An investor in a mutual fund has any type of control over the portfolio management. Investor loses the right of building his own portfolio of shares and securities as it is delegated to the fund managers and just rely on the due diligence of the fund managers.

### **2.A.6.3 No control over costs**

Investors absolutely have no control over the overall costs of investing. Besides, they have to pay investment management

fees and fund distribution costs only for the sake of obtaining the mutual fund services.

#### 2.A.6.4 Difficulty of choosing from

As a large number of mutual fund schemes are available the investor has to make a correct choice. He may need advice of experts on how to select a fund, which satisfies his investment objectives, which is quite similar in the case of direct investing in the share market.

#### **2.A.7 Conclusion**

In this part, we made an attempt to review the basic concepts of mutual funds. In the succeeding part an effort is made to explain the structure and legal structure in which mutual funds work in India.

## **Part B: Working and regulation of mutual funds in India**

### **2.B.0 Introduction**

The structure of mutual funds differs from country to country. The structure followed in countries like the USA, the UK, Japan and India differ in its workings and structures. The regulatory environment also differs from country to country. The structure, working and the regulatory environment of the mutual funds specific to India are discussed in this part.

### **2.B.1 Structure of mutual funds in India**

Mutual funds have a special structure unlike a joint stock company or a partnership firm. All the mutual funds (except money market mutual funds, foreign financial institutions and the UTI) are regulated by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, which is given as Appendix II (the annexure part is excluded). As per the regulations a mutual fund is comprised of four separate

participants or constituents, namely the sponsor, the mutual fund trust, the asset management company (AMC) and the custodian. There are some more additional entities like depository participant, bankers, brokers and registrars or transfer agents. The structure of the UTI is quite unique where the activities of the trustee, the AMC and the custodian are combined. The pictorial representation of the structure is given in Figure 3.2.

#### 2.B.1.1 Sponsor

The sponsor can be any person who, acting alone or in combination with another body corporate, establishes the mutual fund and gets it registered with SEBI<sup>10</sup>. He must have a sound track record and general reputation of fairness and integrity and is required to contribute at least 40% of the net worth of the asset management company.

#### 2.B.1.2 Mutual fund

The mutual fund shall be constituted in the form of a registered trust under the Indian Trusts Act, 1882. It is the Board of Trustees who manages the mutual fund<sup>11</sup>. The Board

of Trustees may be either a body of individual or a corporate body. Most of the funds in India are managed by Boards of Trustees. While Board of Trustees are governed by the provisions of the Indian Trusts Act, where the Trustee is a corporate body, it is required to comply with the provisions of the Companies Act, 1956.

#### 2.B.1.3 Asset Management Company (AMC)

The Board or the Trustee Company protects the investors' interests. Instead of managing by them, Trustees appoint an Asset Management Company (AMC) to manage the portfolio of securities as per the defined objectives, Trust Deed and SEBI Regulations. AMC is required to be approved and registered with SEBI. Chapter IV of the SEBI (MF) Regulations, 1996 contains the regulations regarding the appointment, obligations, and the related aspects of an AMC. The Trust is created by the execution of the Trust Deed. The sponsor does the execution of the deed in favour of the Trustees. The Trust Deed should be stamped and registered under the provisions of the Indian Registration Act and registered with the SEBI.

Trust Deed contains clauses relating to the establishment of the trust, the appointment of Trustees, their powers, duties and obligations, etc. <sup>12</sup>

#### 2.B.1.4 Custodian

The custodian is responsible for safe keeping of assets of the fund, which may mainly be in large volumes of securities. He has to get a certificate of registration to carry on the business of custodian of securities under the SEBI (Custodian of Securities) Regulations, 1996<sup>13</sup>. The Board of Trustees appoints the custodian and enters into a custodian agreement<sup>14</sup>.

#### 2.B.1.5 Depository Participant

Instead of having physical certificates of securities they can be dematerialised with a depository. It is through a Depository Participant mutual funds hold its dematerialised securities.

#### 2.B.1.6 Bankers

Financial dealings of mutual funds like buying and selling units, paying for investments made, receiving the proceeds on

sale of investments and paying the operational expenses are done through banks.

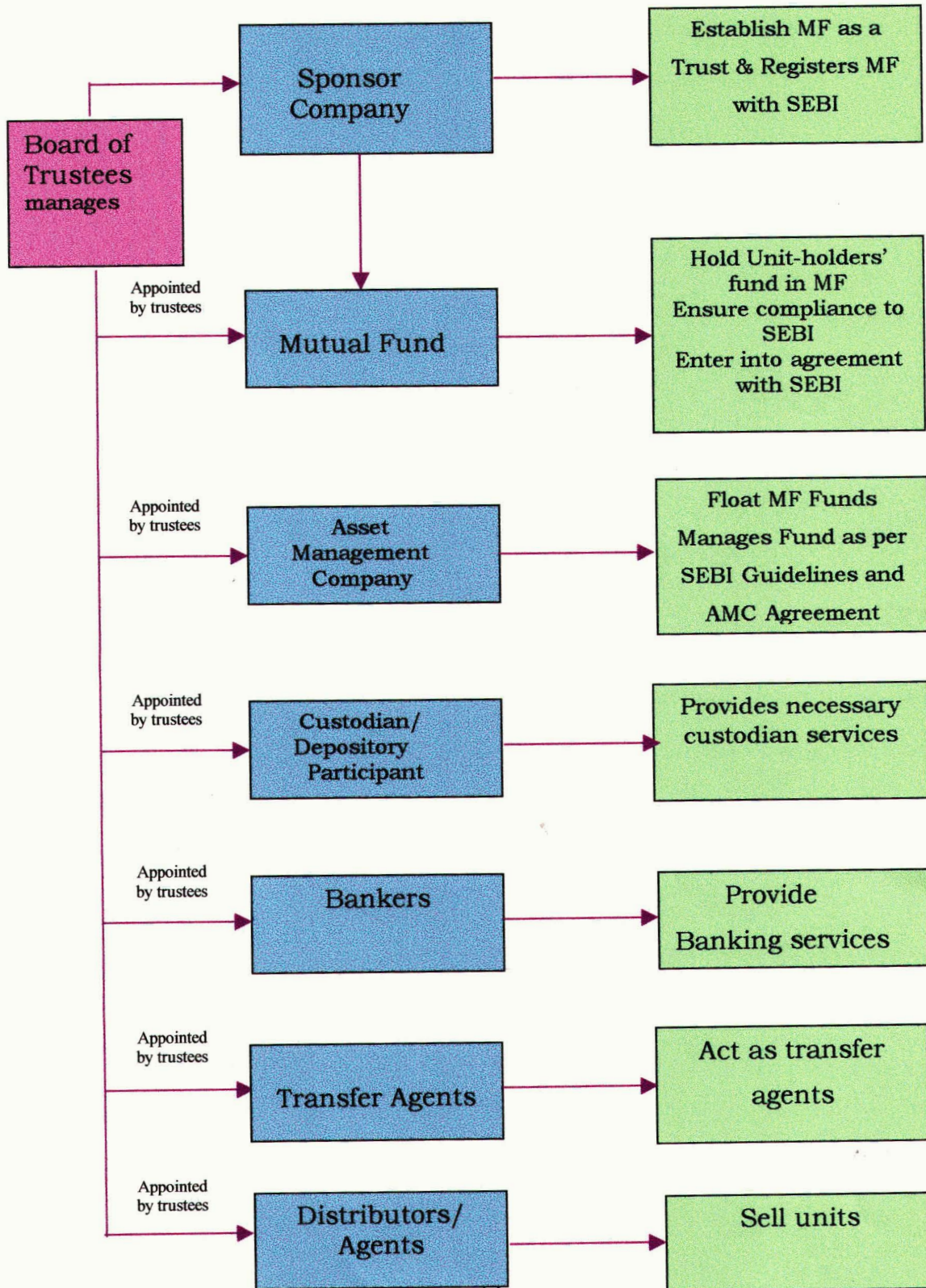
#### 2.B.1.7 Brokers

It is through brokers, agents and distributors the units of mutual funds are sold. A broker usually acts on behalf of several mutual funds simultaneously and may have several sub-brokers and agents under him.

#### 2.B.1.8 Registrar/ transfer agent

The registrar/ transfer agent's duty is to handle the registry related work of the unit holders. They are responsible for issuing and redeeming units of mutual funds and other related services.

Figure 3.2<sup>15</sup> Structure of Mutual Funds



### **2.B.2 Working of Mutual Funds**

The mutual fund raises money through sale of units under one or more schemes abiding the SEBI guidelines. The trustees see that the schemes floated and managed by the AMC are in accordance with the trust deeds and SEBI guidelines. The trustees have the right to obtain relevant information and quarterly reports from the AMC. They can also dismiss the AMC under specific conditions. The trustees are required to submit half yearly reports to SEBI on the activities of the mutual fund. The AMC is appointed by the trustees to float the mutual fund schemes and manage the funds raised by selling units under a scheme. The AMC must act as per SEBI guidelines, the trust deeds and the management agreement between the trustees and the AMC.

### **2.B.3 Procedures and functions**

The various functional procedures, in detail, like registration of mutual funds, registration of trust deed, appointment of trustees, AMC, custodian etc. are discussed here.

### 2.B.3.1 Registration of mutual fund<sup>16</sup>

For registering a mutual fund the sponsor has to submit an application to the SEBI in the prescribed form (Form A) accompanied by the prescribed fee of Rs.25000. On receipt of such an application SEBI can require the sponsor to furnish any further information or clarifications as may be required by it. Incomplete applications can be rejected only after giving an opportunity to complete the required formalities. SEBI may register the mutual fund and a certificate in the prescribed form (Form B) will be issued only if the applicant pays the registration fee of Rs.25,00,000 and fulfils all of following eligibility criteria:

1. The sponsor should have not less than five years' experience in carrying on business in financial services with positive net worth in all the years and profit for the last three years including the last year.
2. The sponsor should have contributed at least 40% to the net worth of the asset management company.

3. The sponsor or any of its directors should not have been guilty of fraud or has not been convicted of any economic offence or any offence involving moral turpitude.
4. The modes of appointing trustees and asset managing company should be in accordance with the provisions of the Regulations.
5. The trustees should have authorised the appointment of the custodian and the custodian activities.

A registered mutual fund is of the obligation

1. To comply all the provisions of the Regulations, and
2. To pay the yearly service fee of Rs.2,50,000.

Besides, mutual fund has to make a filing fee for offer documents of Rs.25,000 along with the lounging of every new scheme.

#### 2.B.3.2 Registration of Trust Deed<sup>17</sup>

Mutual fund shall be constituted in the form of a trust and the Trust Deed should be registered under the provisions of the Indian Registration Act, 1908. Such a trust deed should

contain all the clauses mentioned in the Third Schedule annexure to the Regulations.

#### 2.B.3.3 Appointment of Trustees<sup>18</sup>

Trustees of mutual funds can be appointed only with the prior approval from the SEBI and in accordance with the provisions of the Regulations. The eligibility criteria to be fulfilled for getting appointed as a trustee are as follows:

1. A person should be of ability, integrity and standing
2. He has not been found guilty of moral turpitude
3. He has not been convicted of any economic offence or violation of any securities laws
4. He has furnished all particulars as specified in Form C, and
5. He should not be an officer or employee of the asset management company.

An appointed trustee of any other mutual fund can be appointed as a trustee only if such a person is an independent trustee and has obtained prior approval from the mutual fund of which he is a trustee. Two thirds of the

trustees should be independent persons and should not be related or associated with the sponsors. A company can also be appointed as a trustee and in that case the directors of the company can act as trustees.

The trustees and the asset management company, with the prior approval from SEBI, then enter into an investment management agreement. Such an agreement should contain all the clauses mentioned in the Fourth Schedule of the Regulations. The trustees can enjoy all the rights and are liable for the obligations as per the Regulation 18.

#### 2.B.3.4 Appointment of an AMC<sup>19</sup>

It is the sponsor who appoints an AMC, which has been approved by SEBI under sub-regulation (2) of regulation 21. The trustee can also appoint the AMC if the trust deed so authorises. The application for approval of the AMC should be made in Form D. The eligibility criteria for getting the appointment as an AMC are as follows:

1. In case the AMC is an existing AMC it should have a sound track record, general reputation and fairness in transactions.
2. The AMC should be a fit and proper person.
3. The directors of the AMC must be persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws.
4. The key personnel of the AMC have not been found guilty of moral turpitude or convicted of economic offence or violation of securities laws or worked for any AMC or mutual fund or any intermediary during the period when its registration has been suspended or cancelled at any time by SEBI.
5. The board of directors of such AMC should have 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.

6. The chairman of the AMC must not be a trustee of any mutual fund.
7. The AMC should have a net worth of not less than Rs.10 crores.

The approvals of AMCs are granted on the following conditions:

1. Any director of the AMC shall not hold the office of the director in another AMC unless such person is an independent director referred to in clause (d) of sub-regulation (1) of regulation 21 and approval of the board of AMC of which such person is a director, has been obtained.
2. The AMC shall forthwith inform SEBI of any material change in the information or particulars previously furnished, which have a bearing on the approval granted by it.
3. No appointment of a director of an AMC shall be made without prior approval of the trustees.

4. The AMC must undertake to comply with the SEBI (MF) Regulations.
5. Any change in the controlling interest of the AMC shall be only with the prior approval of trustees, SEBI and the unit holders (in the case of close ended schemes), and
6. The AMC shall furnish such information and documents to the trustees as and when required by the trustees.

There are certain restrictions on business activities of the AMC, which are as follows:

1. The AMC should not act as a trustee of mutual fund
2. It should not undertake any other business activities except activities in the nature of portfolio management services 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 if any

of such activities are not in conflict with the activities of the mutual fund, and

3. It should not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents.

The obligations of an AMC are varied which are as follows:

1. It should take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations and the trust deed.
2. It should exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.
3. It should be responsible for the acts of commissions or omissions by its employees or the persons whose services have been procured by the AMC.
4. It should submit to the trustees quarterly reports of each year on its activities and the compliance with these regulations.

5. The trustees at the request of the AMC may terminate the assignment of the AMC at any time, provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the AMC.
6. Notwithstanding anything contained in any contract or agreement or termination, the AMC or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omissions, while holding such position or office.
7. An AMC, should not through any broker associated with the sponsor, purchase or sell securities, which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes.
8. It should not utilise the services of the sponsor or any of its associates, employees or their relatives, for the

purpose of any securities transaction and distribution and sale of securities.

9. It should file with the trustees the details of transactions in securities by the key personnel of the AMC in their own name or on behalf of the AMC and should also report to SEBI, as and when required by SEBI.
10. In case the AMC enters into any securities transactions with any of its associates a report to that effect should be sent to the trustees at its next meeting.
11. In the case any company has invested more than 5% of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries should be brought to the notice of the trustees by the AMC and be disclosed in the half yearly and annual accounts of the respective schemes with justification for such investment provided the latter investment has

been made within one year of the date of the former investment calculated on either side.

12. It should file with the trustees and SEBI detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment and any change in the interests of directors every six months. A quarterly report must also be submitted to the trustees giving the details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the AMC as the case may be, by the mutual fund during the said quarter.
13. A statement of holdings in securities of the directors of AMC should be filed with the trustees with the dates of acquisition of such securities at the end of each financial year.
14. It should not appoint any persons as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

15. It should appoint registrars and share transfer agents who are registered with the SEBI.
16. It should abide by the Code of Conduct as specified in the Fifth Schedule.

#### 2.B.3.5 Appointment of Custodian<sup>20</sup>

A mutual fund can appoint a custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to SEBI within 15 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 should act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary company. The mutual fund should enter into a custodian agreement, which should contain the clauses, which are necessary for the efficient and orderly conduct of the affairs of the custodian.

#### 2.B.3.6 Procedure for launching of schemes<sup>21</sup>

AMC can launch a scheme only after getting approval for the scheme from the trustees and after having filed a copy of the offer document along with the filing fee of Rs.25,000 with SEBI. The offer document should contain disclosures, which are adequate in order to enable the investors to make informed investment decision including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor. Advertisements in respect of every scheme should be in conformity with the Advertisement Code as specified in the Sixth Schedule and should be submitted to SEBI within 7 days from the date of issue. The offer document and advertisement materials should not be misleading or contain any statement or opinion, which are incorrect or false.

#### 2.B.3.7 Listing of close-ended schemes<sup>22</sup>

Every close-ended scheme should be listed in a recognised stock exchange within six months from the closure of the subscription. Listing is not mandatory in the following cases:

1. If the scheme provides for periodic repurchase facility to all the unit-holders with restriction, if any, on the extent of such re-purchase, or
2. If the scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals, or,
3. If the details of such repurchase facility are clearly disclosed in the offer document, or
4. If the said scheme opens for repurchase within a period of six months from the closure of subscription.

#### 2.B.3.8 Repurchase of close-ended schemes

The AMC can at its option repurchase or reissue the repurchased units of a close-ended scheme. The units of close-ended scheme can also be converted into open-ended scheme if the offer document of such scheme discloses the option and the period of such conversion or the unit-holders are provided

with an option to redeem their units in full. It can also be redeemed at the end of the maturity period.

#### 2.B.3.9 Allotment of units<sup>23</sup>

The AMC should issue to the applicant whose application has been accepted, unit certificates or a statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than six weeks from the date of closure of the initial subscription list and from the date of receipt of the request from the unit holders in any open-ended scheme. The maximum period for which an initial offer can be kept open is 45 days.

#### 2.B.3.10 Transfer of units<sup>24</sup>

Unless and otherwise restricted or prohibited under the scheme, all unit certificates are freely transferable. Within 30 days of receipt of the application the AMC should register the transfer and return the unit certificate to the transferee.

#### 2.B.3.11 Guaranteed return<sup>25</sup>

Guaranteed return can be provided in a scheme only if the following conditions are satisfied:

1. Such returns are fully guaranteed by the sponsor or the AMC.
2. A statement indicating the name of the person, who will guarantee the return, is made in the offer document.
3. The manner in which the guarantee to be met has been stated in the offer document.

#### 2.B.3.12 Winding up procedure<sup>26</sup>

The following are the occasions in which mutual fund schemes are wound-up:

1. A closed-ended scheme can be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled-over for a further period under sub-regulation (4) of regulation 33.
2. A scheme of mutual fund can be wound up, after repaying the amount due to the unit-holders on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound, if 75% of the unit holders of a scheme pass a resolution that the

scheme be wound up, or if SEBI so directs in the interest of the unit-holders.

3. Where a scheme is to be wound up under sub-regulation (2), the trustees should give notice disclosing the circumstances leading to the winding up of the scheme to SEBI and in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

On and from the date of the publication of the notice the trustee or the AMC, as the case may be, may cease to carry on any business activities in respect of the scheme so wound up, cease to create or cancel units in the scheme and cease to issue or redeem units in the scheme.

The procedure and manner of winding up are as follows:

1. The trustees should call a meeting of the unit holders to approve by simple majority of the unit holders present and voting at the meeting resolution for authorising the trustees or any other person to take

steps for winding up of the scheme, provided that a meeting of the unit holders should not be necessary if the scheme is wound up at the end of maturity period of the scheme.

2. The trustees or the person authorised should dispose of the assets of the scheme concerned in the best interest of the unit holders of that scheme.
3. The proceeds of sale realised should be first utilised towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance should be paid to the unit holders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.
4. On completion of the winding up, the trustee should forward to SEBI and the unit holders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps

taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

After the receipt of the report, if SEBI is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

#### **2.B.4 Regulatory Environment of Mutual Funds of India**

The business of mutual funds are regulated by a number of legal bodies such as SEBI, RBI, Ministry of Finance, CLB, DCA, Registrars of Companies, Office of the Public Trustees, and the Unit Trust of India and some self-regulatory bodies such as stock exchanges and the AMFI.

##### **2.B.4.1 SEBI**

SEBI was constituted in 1992 as the apex capital market regulator. It requires all mutual funds to be registered with it. It issues guidelines for all mutual fund operations like where they can invest, limits and restrictions of investments, how

they should account for income and expenses and how they should make disclosures of information to the investors. It acts as the protector of the investors' interests. SEBI also controls the other mutual fund constituents, custodians, bankers, stock exchanges, brokers, etc.

#### 2.B.4.2 RBI

RBI being the money market regulator of the country governs the bank-owned mutual funds and money market mutual funds. The bank-owned mutual funds, thus, come under the joint control of the SEBI and the RBI. All the market-related and investor-related activities are supervised by the SEBI and the RBI looks after issues concerning the ownership of the AMC. Money market mutual funds are regulated by the RBI guidelines dated 23-11-1995.

#### 2.B.4.3 Ministry of Finance

Being the executive body of the government Ministry of Finance controls both the SEBI and the RBI. It is the supreme policy making and supervising body of the mutual funds in

India. It also acts as the Appellate Authority for any disputes over any of the guidelines.

#### 2.B.4.4 CLB, DCA and Registrars of Companies

Since the asset management companies and corporate trustees are come under the purview of the Companies Act of 1956, mutual funds are under the control of the authorities like Registrars of Companies, the DCA the CLB and the Ministry of Law and Justice. All the companies are primarily answerable to the Registrars of Companies. The Registrars of Companies are supervised by the DCA, which is a part of the CLB under the Ministry of Law and Justice of the Government of India.

#### 2.B.4.5 Office of the Public Trustees

Mutual funds registered as public trusts, which are governed by the Indian Trust Act, 1882 and accountable to the Office of the Public Trustees.

#### 2.B.4.6 The UTI

The UTI was set up by a special enactment, the Unit Trust of India Act, 1963. All the schemes and the functioning of the

UTI had being controlled by the provisions of the Act until recently. Now, all schemes except US 64 have brought under the purview of SEBI (MF) Regulations, 1996.

#### 2.B.4.7 Self-regulatory bodies

An entity, which is empowered to exercise authority over the regulation of their members, is called a self-regulatory body. A stock exchange can regulate its member-brokers under the overall regulatory supervision of SEBI. The Association of Mutual Funds in India (AMFI) was incorporated in 1995 so as to assume the role of a self-regulatory body gradually by promoting the interests of both the funds and investors.

#### **2.B.5 Conclusion**

In this chapter we made an attempt to understand the theoretical and legal framework in which the mutual funds of India work. In the succeeding chapters an effort is made to evaluate the mutual fund industry in terms of its mobilisations and investor acceptance both in the country as a whole and in the state of Kerala.

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**Notes:**

<sup>1</sup> [www.amfiindia.com](http://www.amfiindia.com)

<sup>2</sup> [www.sec.gov](http://www.sec.gov)

<sup>3</sup> Reilly, Frank K, *Investments*, The Dryden Press, The USA, 1982,pp 525-526.

<sup>4</sup> Halin, John A, *Investors' Guide to Mutual Funds*, The Prentice-Hall, The UK, 1985, p.3.

<sup>5</sup> Krishnamurthy, S, *Mutual Funds in India*, The Institute of Cost & Works Accountants of India, Calcutta, 1996, p 1

<sup>6</sup> Fredman, Albert J and Russ Wiles, *How Mutual Funds Work*, Prentice-Hall of India, New Delhi, 1997,p 6

<sup>7</sup> Agrawal, Peeush Ranjan, *Mutual Funds: A Comprehensive Approach*, Orient Law House, New Delhi, 1996, p1.

<sup>8</sup> Rao, P. Mohana, *Working of Mutual Fund Organisations in India*, Kanishka Publishers, New Delhi, 1998, p 31.

<sup>9</sup> Bogle, John C, *Mutual Funds: New Perspectives for the Intelligent Investor*, Dell Publishing, New York, 1994, p 50.

<sup>10</sup> Regulations 2(x) and 7 of the SEBI (MF) Regulations, 1996.

<sup>11</sup> Regulation 2(q) of the SEBI (MF) Regulations, 1996.

<sup>12</sup> Third Schedule to the SEBI (MF) Regulations, 1996 stipulates the contents of a trust deed.

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- <sup>13</sup> Regulation 2(h) of the SEBI (MF) Regulations, 1996.
- <sup>14</sup> Regulation 27 of the SEBI (MF) Regulations, 1996.
- <sup>15</sup> Sadhak, H, Mutual Funds in India: Marketing Strategies and Investment Practices, Response Books, New Delhi, 1997.
- <sup>16</sup> Regulations 3 –13 of the SEBI (MF) Regulations, 1996.
- <sup>17</sup> Regulation 14 of the SEBI (MF) Regulations, 1996.
- <sup>18</sup> Regulations 16-18 of the SEBI (MF) Regulations, 1996.
- <sup>19</sup> Regulations 19-25 of the SEBI (MF) Regulations, 1996.
- <sup>20</sup> Regulations 26-27 of the SEBI (MF) Regulations, 1996.
- <sup>21</sup> Regulations 28-31 of the SEBI (MF) Regulations, 1996.
- <sup>22</sup> Regulation 32 of the SEBI (MF) Regulations, 1996.
- <sup>23</sup> Regulations 35-36 of the SEBI (MF) Regulations, 1996.
- <sup>24</sup> Regulation 37 of the SEBI (MF) Regulations, 1996.
- <sup>25</sup> Regulation 38 of the SEBI (MF) Regulations, 1996.
- <sup>26</sup> Regulations 39-42 of the SEBI (MF) Regulations, 1996.

***Mutual Fund Industry of India  
and Mobilisation of Savings***

## **Chapter IV**

# **MUTUAL FUND INDUSTRY OF INDIA AND MOBILISATION OF SAVINGS**

4.0 Introduction

4.1 Evolution and Growth of mutual funds

4.2 History of mutual funds in India

4.3 Savings profile

4.4 Role of mutual funds in the financial markets

4.5 Mobilisation of savings by Mutual Funds

4.6 Conclusion

## **4.0 Introduction**

The theoretical and legal framework in which the mutual funds of India work was examined in the earlier chapter. In this chapter an effort is made to trace the evolution and history of the mutual fund industry of India and to evaluate its role in mobilising savings of the households.

### **4.1 Evolution and growth of Mutual Fund**

The origin of mutual funds may be traced back to the Nineteenth Century London merchant bankers, experts in investments, who started attracting funds from the rich for managing their funds. This led to the floatation of investment trusts wherein a large number of small investors could purchase the share of these trusts, which in turn would invest in a wide variety of financial instruments. The Foreign and Colonial Government Trust of London, formed in 1868, was the pioneer of mutual funds.<sup>1</sup> Gradually the mutual funds, in the form of investment trusts were spread to the colonial

America. The first of the kind started in America was the investment trust created by King William I of Netherlands in 1822.<sup>2</sup> In 1930's, 920 mutual funds were formed in the United States of America most of which were close ended. Subsequently, hundreds of mutual funds, both open and close ended have been developed and expanded in many countries in Europe, the Far East, Latin America and Canada. It has originated as a fourth largest source of financial services in the USA in 1924 after banks, insurance companies and pension funds.<sup>3</sup>

The investment trusts of both the UK and the US suffered huge losses in the stock market crash of 1929. Consequently, an innovation was introduced in the form of unit trust as small savers' means of access to professional investment. After the Second World War the concept of mutual funds gained popularity especially in the US and to many other nations. With the increasing inflation and interest rates during 1970's and 1990's, individual and institutional customers became

extremely sensitive as to the true cost of money. The shift there started resulting in growth of mutual funds.<sup>4</sup> Now, it has become the most important segment of financial intermediaries. The most developed mutual fund industry is in the USA. The total market capitalisation there is US \$ 4 trillion.<sup>5</sup>

#### **4.2 History of mutual funds in India**

In India, Mutual Fund industry started with the setting up of Unit Trust of India (UTI) in 1964 under the Unit Trust of India Act, 1963. During the period the Indian Economy was adversely affected by the war in 1962<sup>6</sup>. Resources were scarce while allocation had to be increased for defence. This all the more pointed to the need for stepping up resource mobilisation for economic and industrial growth. In this context, the then economic and defence minister Sri. T. T. Krishnamachari introduced the Unit Trust of India bill in the Indian Parliament, which passed as the Act. The objective of setting up was to attract the small investors and introduce them to

market investments. The RBI, LIC, SBI and its subsidiaries and other banks and financial institutions were the contributors to the initial capital of the UTI, which was Rs.5 crores. It was in July 1964 the first open-ended mutual fund scheme of the UTI Unit Scheme 1964 (US 64) started, which could mobilise a subscription of Rs. 17.5 crores from 125000 investors<sup>7</sup>.

Since the setting up of the UTI the history of Mutual Funds in India can be divided into four different stages or phases such as:

I Stage: UTI monopoly period - 1964 to 1987

II Stage: Public sector and UTI period - 1987 to 1993

III Stage: Private sector, public sector and UTI period-1993 to 1996

IV Stage: SEBI regulated period – since 1996

4.2.1 I Stage: UTI monopoly period

This period from 1964 to 1987 was the monopoly period of the UTI. It was RBI who controlled UTI from its inception. By an

amendment to the UTI Act in 1971 the initial contribution of RBI and all the powers had to the IDBI. Till the launching of the second plan Children's Gift Plan UTI had only the US 64 and its Reinvestment Plan. In 1971 ULIP was introduced. During 1981-84 it launched six new schemes. New schemes like Children's Gift Growth Fund (1986), India Fund (1986) and Mastershare (1987) were launched during the period 1984-87. Mastershare was the first diversified equity investment scheme and India Fund was the first Indian offshore fund. During this stage the total assets value under the management of UTI came to Rs. 3218.34 crores and the outstanding unit holding accounts of 20.38 lakhs. The number of schemes launched till 1986-87 was 20. The Table 4.1 shows the assets under management of UTI over a period 1964-86 and the outstanding unit-holding accounts. The graphical presentation of the same is shown in Figure 4.1 and 4.2.

Table 4.1 Assets under management during 1964 to 1986

( Rs. in crores)

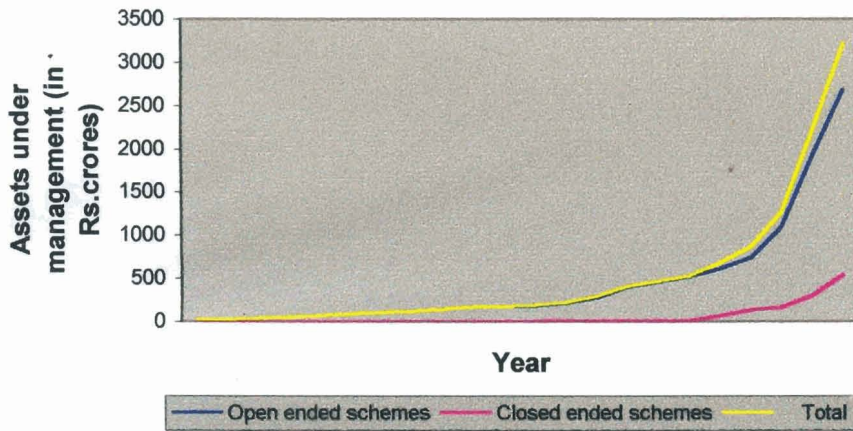
Year	Open ended schemes	Closed ended schemes	Total	Outstanding unit-Holding Accounts (in lakhs)
1964-65	24.67	--	24.67	1.32
1965-66	25.94	--	25.94	1.35
1966-67	33.86	--	33.86	1.70
1967-68	48.70	--	48.70	2.19
1968-69	65.40	--	65.40	2.69
1969-70	88.18	--	88.18	3.35
1970-71	105.14	--	105.14	3.84
1971-72	119.26	--	119.26	4.35
1972-73	141.96	--	141.96	5.08
1973-74	172.09	--	172.09	5.97
1974-75	169.95	--	169.95	6.01
1975-76	176.66	7.91	184.57	6.37
1976-77	206.84	7.57	214.41	6.81
1977-78	279.91	8.27	288.18	7.70
1978-79	393.70	8.73	402.43	9.04
1979-80	455.30	11.74	467.04	9.86
1980-81	513.97	9.25	523.22	10.47
1981-82	611.70	67.54	679.24	12.23
1982-83	736.66	133.58	870.24	13.66
1983-84	1093.27	168.06	1261.33	14.92
1984-85	1912.51	297.10	2209.61	17.01
1985-86	2683.36	534.98	3218.34	20.38

Source : Bhatt, R.S., *Unit Trust of India and Mutual Funds: A Study*, UTI-ICM, Mumbai, 1996.

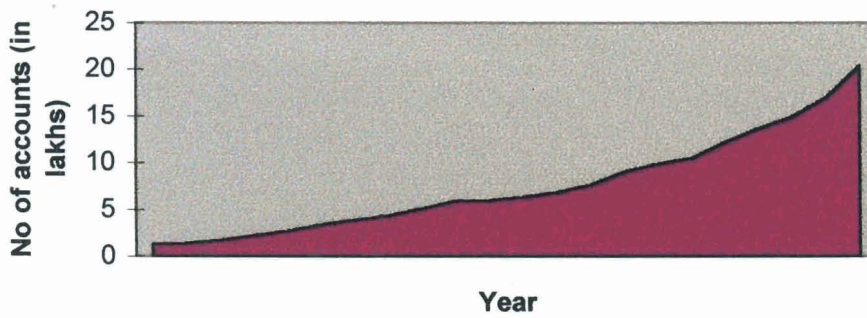
#### 4.2.2 II Stage: Public sector and UTI period - 1987 to 1993

In 1987 public sector banks insurance companies and financial institutions set up mutual funds. The first non-UTI mutual fund established was SBI Mutual Fund by the State Bank of India. In the same year Canbank Mutual Fund was

**Figure 4.1 Assets under management of UTI - 1964-86**



**Figure 4.2 Unit-holding Accounts of UTI 1964-86**



also launched. The other mutual funds established during the period were LIC MF (in 1989), PNB MF (1989), Indian Bank MF (in 1990), Bank of India MF (1990), and GIC MF (1990). In this stage of development of mutual funds UTI lost its hitherto enjoyed monopoly and brought in competition. However, the UTI remained as the largest fund with 498 lakhs unit holding accounts. Investors started investing in mutual funds allocating larger part of their financial assets and savings. Table 4.2 shows the details of assets under management of UTI over the period 1986-95 and Figure 4.3 and 4.4 are the graphical representation of the same. Table 4.3 shows the details of assets under management of mutual funds, sector-wise over the period 1990-91 to 1992-93 and Figure 4.5 is its graphical presentation.

Table 4.2 Assets under management of UTI – 1986-95

(Rs. in crores)

Year	Open Schemes	Closed Schemes			Total	Outstanding Unit-holding Accounts (in Lakhs)
		Income Schemes	Growth Schemes Domestic	Off-shore		
86-87	3295.78	927.02	183.67	157.21	4563.68	29.79
87-88	4772.56	1615.22	182.73	168.30	6738.81	38.56
88-89	8582.88	2482.82	391.69	377.26	11834.65	48.58
89-90	12684.88	4072.64	386.95	506.45	17650.92	65.12
90-91	14118.99	5759.94	928.72	568.83	21376.48	102.73
91-92	14814.92	8218.19	8065.43	707.15	31805.69	235.73
92-93	18703.84	9554.63	9991.32	727.02	38976.81	300.32
93-94	28006.91	11562.53	11275.48	864.01	51708.93	380.00
94-95	34338.47	12132.84	12482.96	664.37	59618.64	498.00

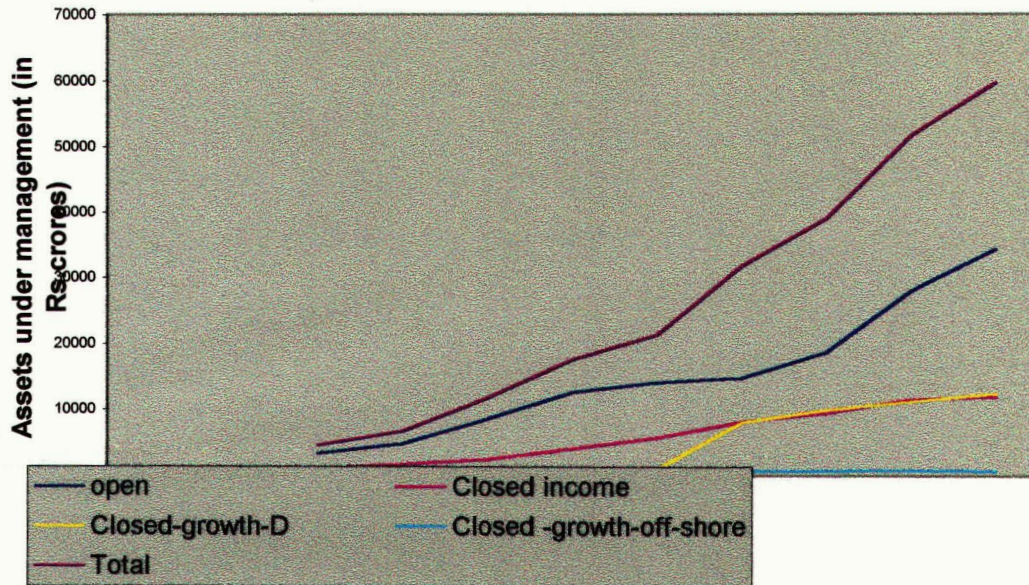
Source: Bhatt, A.S., *Unit Trust of India and Mutual Funds: A Study*, UTI ICM, New Mumbai, 1996, p. 16.

Table 4.3 Assets under management of Mutual Funds – Sector-wise - 1990 to 1993

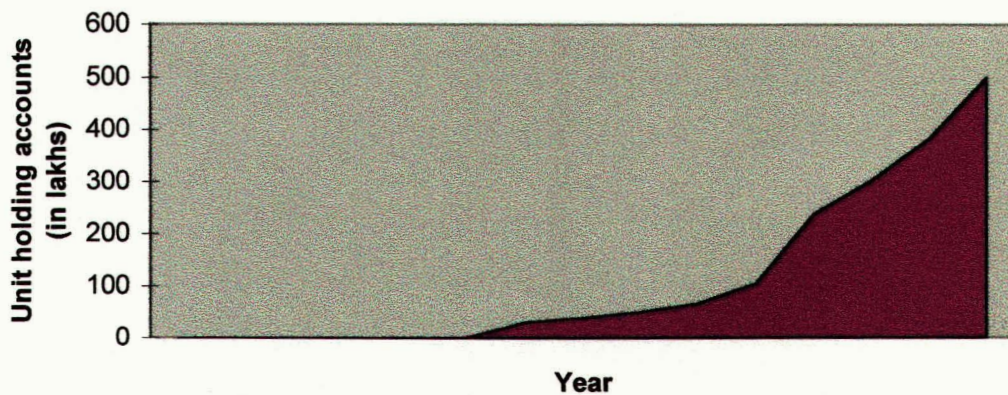
Year	UTI	Public Sector MFs	Private Sector MFs	Total
90-91	16176.51	1683.97	NA	17860.48
91-92	24606.40	5508.94	NA	30115.34
92-93	30440.49	7794.57	NA	38235.05

Source: Sahadevan, K.G. and M. Thiripalraju, *Mutual Funds: Data, Interpretation and Analysis*, Prentice-Hall of India Pvt. Limited, New Delhi, 1997, p 7.

**Figure 4.3 Assets under management of UTI - 1986-95**



**Figure 4.4 Unit holding accounts of UTI -1986-95**



#### 4.2.3 III Stage: Private sector, public sector and UTI period - 1993 to 1996

In this stage private sector funds were began to operate, which added to the competition among the funds. Foreign funds were also allowed to operate as joint venture concerns. With the advent of foreign capital and the allied technology the mutual fund industry became a vibrant and growing financial intermediary. Five private sector mutual funds were started during the year 1993-94 followed by another six funds in the year 1994-95. Morgan Stanley MF, Kothari Pioneer MF, Prudential ICICI MF, Taurus MF are some of them. Hence, there emerged four broad categories of mutual funds viz.,

1. The Unit Trust of India
2. Mutual funds sponsored by commercial banks and insurance companies
3. Mutual funds sponsored by financial institutions
4. Private sector mutual funds
  - a) Indian
  - b) Joint Venture-predominantly Indian

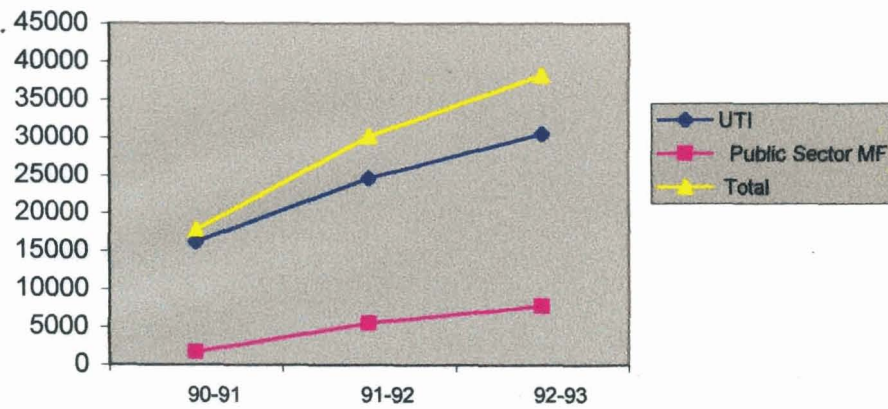
c) Joint Venture-predominantly foreign

It was during this period SEBI<sup>8</sup> and the Government issued comprehensive guidelines for the mutual funds, which helped the industry in the form of investor protection and confidence. Besides, the steadily improving performance showed by the funds then also encouraged the industry. Table 4.4 shows the sector-wise distribution of assets under management of mutual funds over the period of 1993 to 1996. Figure 4.6 is the graphical presentation of the same. It is the year 1994-95 which gave a breakthrough to growth of the industry especially by the private sector.

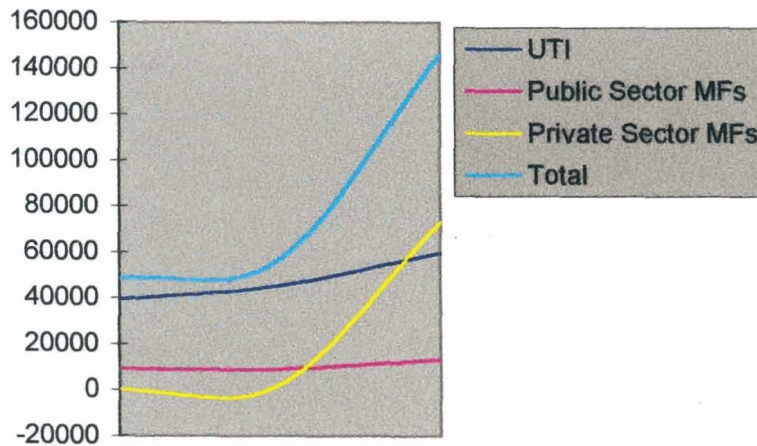
Table 4.4 Assets under management of Mutual Funds – Sector-wise - 1993-96

Year	UTI	Public Sector MFs	Private Sector MFs	Total
93-94	39119.94	9190.19	147.36	48456.77
94-95	45268.66	9160.85	2369.57	56799.09
95-96	59618.64	13348.53	72967.17	145934.34

**Figure 4.5 Assets under management of mutual funds - Sector-wise 1990-93**



**Figure 4.6 Assets under management of Mutual Funds - Sector-wise 1993-96**



#### 4.2.4 IV Stage: SEBI regulated period – since 1996

The comprehensive set of regulations of the mutual funds of India came into force with effect from December 9, 1996 which was called the Securities and Exchange Board of India (Mutual Fund) Regulations 1996 repealing the earlier one Securities and Exchange Board of India (Mutual Fund) Regulations 1993. It provided a set of uniform regulations for the different players in the field like foreign, private, and public. The UTI has been voluntarily abiding the regulations. This gave an impetus to the growth of the industry to a certain height and this phase can be considered as a significant one in the history of the industry. The other factor, which helped the industry, was the tax incentives offered to the investors.

Despite the favourable conditions, the industry faced a slow down and losses to some of the equity schemes due to the stock market depression during this period. It felt a drifting of funds in search of safer investments from the part of investors. Again the US 64 crisis in 1998 also affected the industry

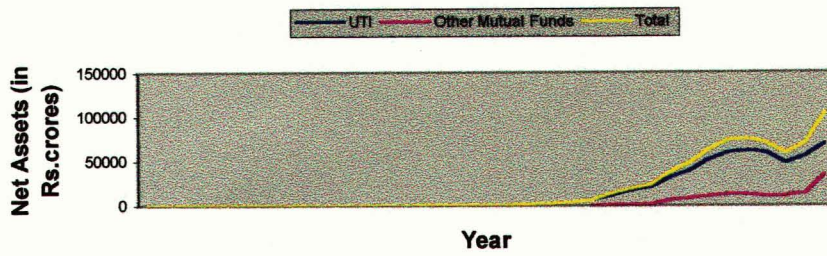
adversely. But the year 1999-2000 showed a smart recovery which can be seen in the Table 4.5 (see Figure 4.7 for its graphical presentation). The increase of net assets over previous year for the years 1998-99 and 1999-2000 show positive figures such as 19.87% and 46.49%.

By the end of 1999-2000 the mutual fund business has grown to an enormous level of 34 mutual funds with about 326 schemes and an asset size of Rs.103452.98 crores. The Unit Trust of India (UTI) is the country's largest mutual fund company with an asset size of Rs.68524 crores. A list of mutual funds registered with SEBI is given as Appendix III.

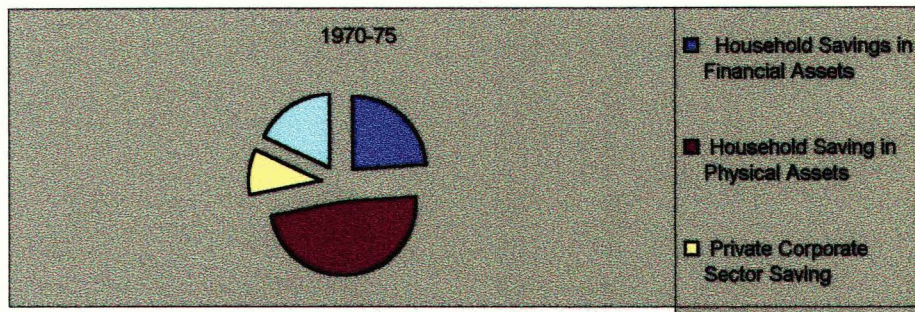
### **4.3 Savings Profile**

Only by relating the savings and investment pattern of the people of the country the real size, magnitude and significance of the mutual fund industry can be assessed. The role of mutual funds in mobilising savings of the household should also be verified by analysing the proportion of mutual fund

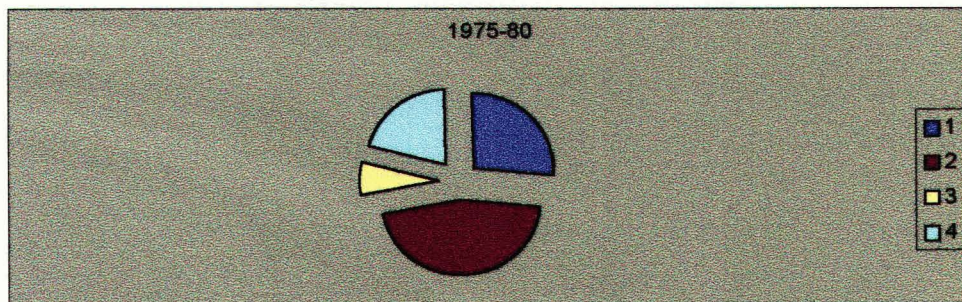
**Figure 4.7 Net Assets of Mutual Funds 1965-2000**



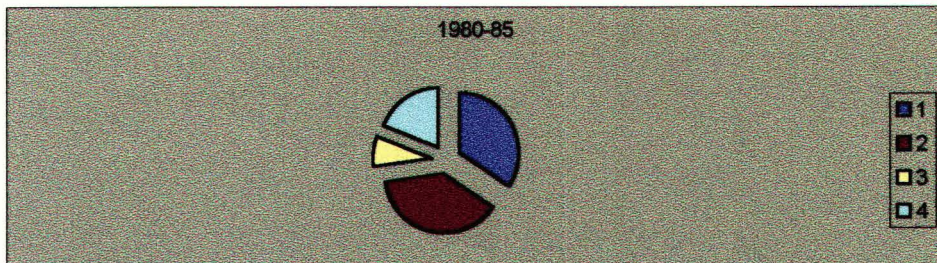
**Figure 4.8 (a)**



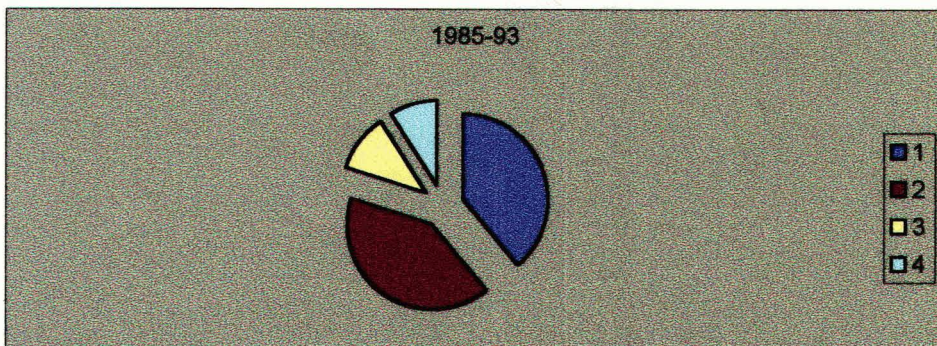
**Figure 4.8 (b)**



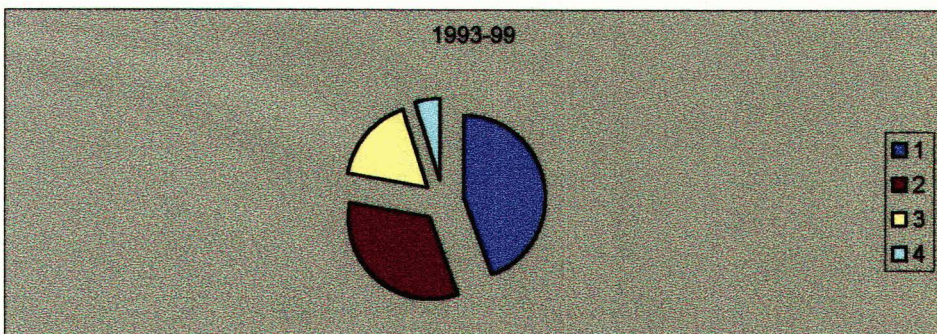
**Figure 4.8 (c)**



**Figure 4.8 (d)**



**Figure 4.8 (e)**



mobilisation to the total savings. Therefore the growth and development of savings market is analysed here.

Savings is one of the factors influence financial development. The primary mode through which this occurs is financial savings and in particular, intermediated financial savings.<sup>9</sup> India is one of the few countries today to maintain a steady growth rate in domestic savings. Savings being the prime mover of economic development, Indian planners have always focussed on this aspect of economic development.<sup>10</sup> The Indian saving experience during the period 1970-71 to 1998-99 was marked by a simultaneous secular increase in the rate of Gross Domestic Saving (GDS, as a percentage of GDP at current market prices) and the rise in the rate of financial saving of the household sector and private corporate sector (Table 4.6).

Table 4.5 Net Assets of the Indian Mutual Fund Industry

(Rs.Crore)

Year	UTI	Other Mutual Funds	Total	Year on Year Growth Rate %	Net Accretion to Funds
1965	24.67		24.67	-	-
1966	25.94		25.94	5.15	1.27
1967	33.86		33.86	30.53	7.92
1968	48.70		48.70	43.83	14.84
1969	65.40		65.40	34.29	16.70
1970	88.30		88.30	35.02	22.90
1971	105.14		105.14	19.07	16.84
1972	119.26		119.26	13.43	14.12
1973	141.96		141.96	19.03	22.70
1974	172.09		172.09	21.22	30.13
1975	169.95		169.95	-1.24	-2.14
1976	176.66		176.66	3.95	6.71
1977	206.84		206.84	17.08	30.18
1978	279.91		279.91	35.33	73.07
1979	393.70		393.70	40.65	113.79
1980	455.30		455.30	15.65	61.60
1981	513.97		513.97	12.89	58.67
1982	679.24		679.24	32.16	165.27
1983	870.24		870.24	28.12	191.00
1984	1261.33		1261.33	44.94	391.09
1985	2209.61		2209.61	75.18	948.28
1986	3218.34		3218.34	45.65	1008.73
1987	4563.68		4563.68	41.80	1345.34
1988	6738.81	132.00	6870.81	50.55	2307.13
1989	11834.65	1621.00	13455.65	95.84	6584.84
1990	17650.92	1480.00	19130.92	42.18	5675.27
1991	21376.48	1784.99	23161.47	21.07	4030.55
1992	31805.69	6167.78	37973.47	63.95	14812.00
1993	38976.81	8756.69	47733.50	25.70	9760.03
1994	51708.88	10721.17	62430.05	30.79	14696.55
1995	59618.64	13348.53	72967.17	16.88	10537.12
1996	61528.39	12786.92	74315.31	1.85	1348.14
1997	59341.26	10856.15	70197.41	-5.54	-4117.90
1998	47611.69	11306.53	58918.22	-16.07	-11279.19
1999	56010.15	14613.35	70623.50	19.87	11705.28
2000	68524.00	34928.98	103452.98	46.49	32829.48

Source: Mutual Fund Year Book 2000, p 30

Table 4.6 Trends in Gross Domestic Saving

(as Percent of GDP at current market prices)

Item	1970-71 to 1974-75	1975-76 to 1979-80	1980-81 to 1984-85	1985-86 to 1992-93	1993-94 to 1998-99
1	2	3	4	5	6
<b>1. Household Sector</b>	12.0	15.2	14.1	17.1	18.6
a) Financial Saving	4.0	5.7	6.7	8.4	10.6
b) Saving in Physical Assets	8.0	9.5	7.4	8.8	8.0
<b>2. Private Corporate Sector</b>	1.7	1.5	1.6	2.4	4.1
<b>3. Public Sector</b>	3.0	4.5	3.7	2.0	1.2
<b>Gross Domestic Saving (1+2+3)</b>	16.7	21.2	19.4	21.5	23.9

Note: Data for the period 1970-71 to 1992-93 are based on 1980-81 series and data for the period 1993-94 to 1998-99 are based on 1993-94 series.

Source: RBI Report on Currency and Finance, 1999-2000

GDS as a percentage of GDP in India is one of the highest in the world. 16.7% of the period 1970-75 went up to 21.2% during 1975-80 and later went down to 19.4% in 1980-85. In the period 1985-93 it increased to 21.5% and further to 23.9% in 1993-99. The share of household sector has been showing an increasing trend over time. In the period 1970-75 to 1993-99, the share of the household sector went up from 12% to 18.6%, while in respect of the private corporate sector the

increase was from 1.7% to 4.1%. The share of public sector declined from 3% to 1.2%.

The healthy growth of savings in India has been boosted by the household sector, which has contributed a substantially high percentage to total domestic savings. The contribution of this sector went up from 72.1% in 1970-75 to 79.4% in 1985-93 but declined to 77.8% in 1993-99 (see Table 4.7). A significant trend in savings has been the decline of public sector savings over time. The contribution of the public sector savings was 17.9% in 1970-75, declining to 9.7% in 1985-93 and 5.1% in 1993-99. The share of private corporate sector in GDS decreased from 10.1% in 1970-75 to 7.3% in 1975-80, but increased to 8.4% in 1980-85, and further to 10.9% in 1985-93 and 17.1% in 1993-99.

During the 90's household financial saving has emerged as the single most important contributor to GDS. The performance of the corporate sector improved during the 90's, while the public

sector experienced a notable downturn in its saving performance. The significant growth in the financial savings of the household is depicted through the pie diagrams of Figure 4.9. The rate of 4% of the GDP during the period 1970-75 has increased to 5.7% during 1975-80 followed by 6.7%, 8.4% and 10.6% respectively for the periods 1980-85, 1985-93 and 1993-99. Since the early 90's there has been a downward drift in the share of physical saving in favour of financial savings. The percentages of the financial assets on the total savings work out as 23.7 for 1970-75, 26.9 for 1975-80, 34.9 for 1980-85, 38.8 for 1985-93 and 44.5 for 1993-99, which denote a constant growth (See Table 4.7).

The structural composition of the financial saving is also analysed. Within the financial assets, savings pattern of the household sector has been shifted from bank deposits to shares and debentures, and units of UTI and mutual funds<sup>11</sup>. The percentage of savings in shares, debentures and mutual funds on GDS calculated for the period 1970-75, 75-80, 80-

85, 85-93 and 93-99 were 0.8, 0.9, 2.1, 5.8, and 3.9 respectively (see Table 4.7), which shows that a considerable growth has attained but a slighter downward trend is felt in the period 1993-99. The reason for the decrease is the depressed stock market conditions felt during the period.

Table 4.7 Composition of Gross Domestic Saving (Percent)

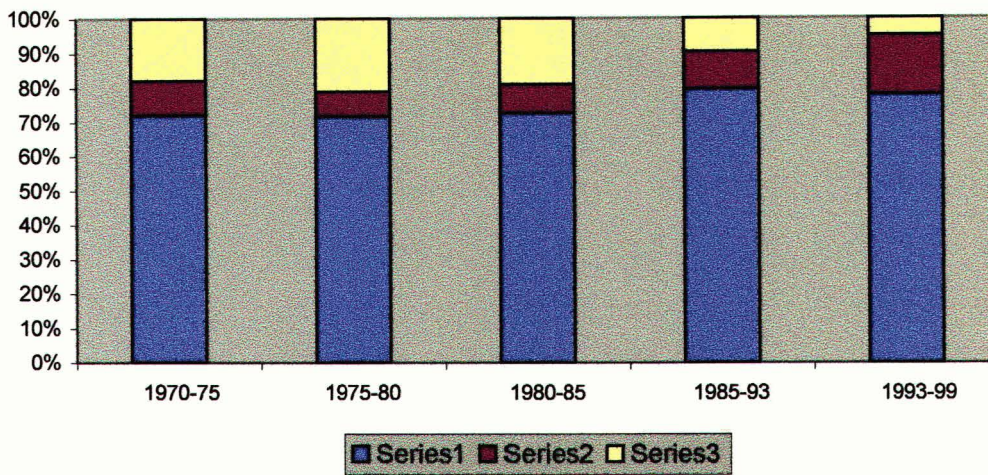
Item	1970-71 to 1974-75	1975-76 to 1979-80	1980-81 to 1984-85	1985-86 to 1992-93	1993-94 to 1998-99
<b>1 Household sector</b>	<b>72.1</b>	<b>71.5</b>	<b>72.6</b>	<b>79.4</b>	<b>77.8</b>
1.1 Financial Saving	23.7	26.9	34.9	38.8	44.5
Currency	5.1	4.7	5.7	5.5	5.3
Net deposits	8.1	10.0	11.3	9.8	16.3
Shares and debentures *	0.8	0.9	2.1	5.8	3.9
Net Claims on Govt.	-0.6	1.7	4.5	4.9	4.6
Life Insurance Funds	2.9	2.7	3.2	3.9	4.9
Provident and pension funds	7.4	6.9	8.0	9.0	9.6
1.2 Saving in Physical Assets	48.4	44.6	37.8	40.6	33.3
<b>2 Private Corporate Sector</b>	<b>10.1</b>	<b>7.3</b>	<b>8.4</b>	<b>10.9</b>	<b>17.1</b>
<b>3 Public Sector</b>	<b>17.9</b>	<b>21.2</b>	<b>19.0</b>	<b>9.7</b>	<b>5.1</b>
<b>4 Gross Domestic Saving (1+2+3)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: \* includes mutual funds and UTI units

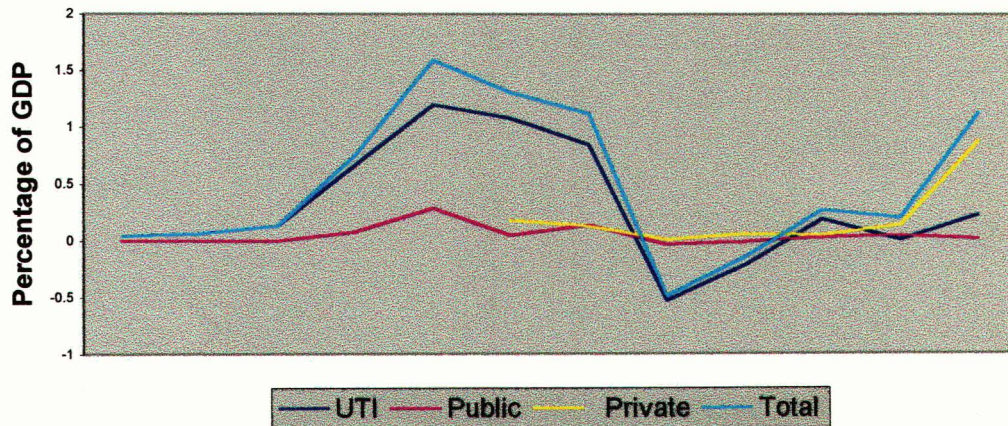
Data for the period 1970-71 to 1992-93 are based on 1980-81 series and data for the period 1993-94 are based on 1993-94 series.

It is the development of the financial intermediaries, which influenced the household saving pattern. They assist the transfer of savings to the real sector of the economy through

**Figure 4.9 Composition of GDS**



**Figure 4.10 Trend & Composition of Mutual Fund mobilisations ( as % of GDP)**



the formation of financial assets.<sup>12</sup> They through either their contractual or non-contractual (discretionary) saving schemes mobilises savings. Contribution to pension and provident fund, premiums to insurance funds are examples of contractual savings. Bank deposits, shares and securities and mutual fund units are non- contractual financial assets. On an average 65% of the household financial savings have been in non-contractual. But an increasing trend can be traced in favour of contractual savings. The percentage of contractual saving on household financial saving calculated for the year 1980-81 has steadily increased from 34.6% to 37.5% in 1998-99 and correspondingly the non-contractual savings has decreased from 65.4% to 62.5%. The percentage of contractual saving on the GDP calculated for the year 1980-81 has also increased similarly from 2.2% of 1980-81 to 4.1% of 1998-99 (Table 4.8) whereas, instead of showing a corresponding decrease the non-contractual savings rate of 4.1% in 1980-91 has increased to 6.8% in 1998-99. Besides, out of the non-contractual alternatives bank deposits are showing a negative

growth rate. The annual growth rate calculated for the period 1990-91 to 1994-95 is 18.3% whereas the rate for the period 1995-96 to 1999-2000 is only 16.0%, which shows a decline.<sup>13</sup> Hence, it is evident that it is the contribution of shares, securities and mutual funds, which have contributed to the increase.

Table 4.8 Contractual and Non-contractual Saving

Year	As % of GDP		As % of House hold financial Saving	
	Contractual	Non-contractual	Contractual	Non-contractual
1980-81	2.2	4.1	34.6	65.4
1985-86	2.2	4.8	31.4	68.6
1990-91	2.9	5.8	33.2	66.8
1995-96	3.0	5.9	34.1	65.9
1998-99	4.1	6.8	37.5	62.5

Source: RBI Report on Currency and Finance, 2000

Such a development in the savings pattern, especially in the household sector, is mainly due to the development of the institutional intermediaries in the financial markets. These intermediaries also assist the transfer of savings to the real sector of the economy through the formation of financial assets. In this process of development Indian mutual funds

have emerged as strong financial intermediaries and are playing a very important role in bringing stability to the financial system and efficiency to resource allocation. In this process, commercial banks have lost their position. In this context it is appropriate to analyse the present role of mutual funds in the financial markets.<sup>14</sup>

#### **4.4 Role of Mutual Funds in the financial market**

Mutual funds have assumed the important role as a financial intermediary mainly due to the complex and risky environment of the stock market. They have to play a two-fold role in the financial market, viz.,

1. Promoter of capital market, and
2. Intermediary of household savings

##### **4.4.1 Promoter of capital market**

A developed financial market is a necessary pre condition for the overall economic development and mutual funds play an active role in promoting a healthy capital market. Mutual funds increase liquidity in the money market. Mutual funds could change the proportion of financial assets in the total

annual savings, which increased from 23.7% in 1970-75 to 34.9% in 1980-85 and to 44.5% in 1993-99 (see Table 4.7 and Figure 4.9). Mutual funds in India have created awareness among investors about equity-oriented investment and its benefits.

#### 4.4.2 Intermediary of household savings

Mutual funds are the fastest growing institutions in the household savings sector. The share of mutual funds in household savings is one indicator of the importance of mutual funds in the savings markets. The size and magnitude of the mobilisation of savings is explained in the next section.

### **4.5 Mobilisation of Savings by Mutual Funds**

Table 4.9 shows the rate of mobilisations of savings of the mutual funds over the GDP for the period from 1970-75 to 1999-2000. The rate in 1970-75 was only 0.04%, which was increased to 1.59% in 1990-93 and came down to 0.27% in 1997-98 followed by an increase to 1.13% in 1999-2000. The table also show the sector-wise contribution details. The UTI

could mobilise 1.2% of the GDP in the year 1990-93 which came down to 1.08% in 1993-94, followed by a decrease to 0.85% in 1994-95, 0.19% in 1997-98 and 0.23% in 1999-2000. There is considerable increase in the rate relevant to the private sector mutual funds. In 1993-94 it was 0.18% increased to 0.88% in 1999-2000. Figure 4.10 is the graphical presentation of the mobilisations.

Table 4.9 Trend and Composition of Resources Mobilised by Mutual Funds (as percentage of GDP at current market prices)

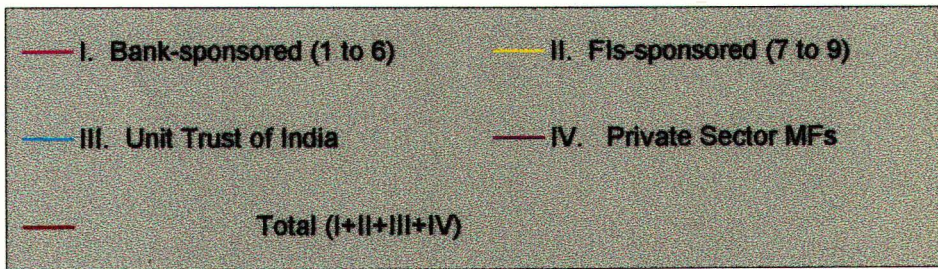
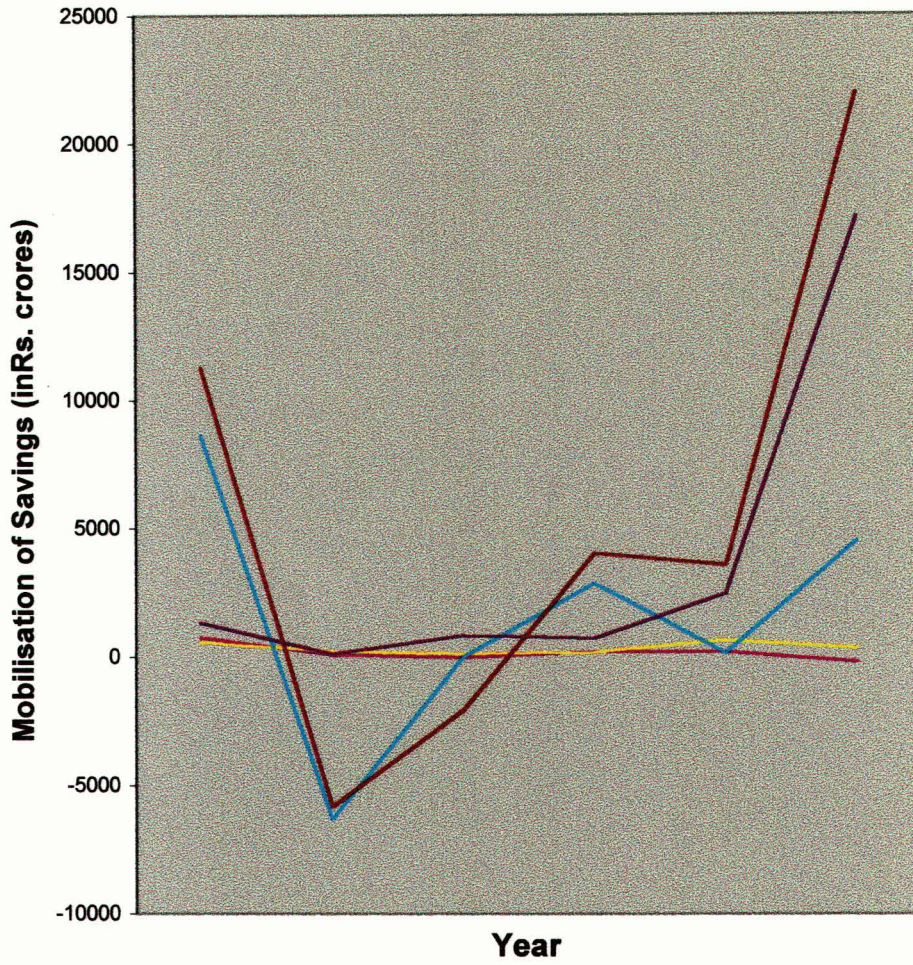
Period / Year	Public		Private	Total
	Total	of which UTI		
1	2	3	4	5
1970-71 to 1974-75	0.04	0.04		0.04
1975-76 to 1976-80	0.06	0.06		0.06
1980-81 to 1984-85	0.13	0.13		0.13
1985-86 to 1989-90	0.75	0.67		0.75
1990-91 to 1992-93	1.59	1.20		1.59
1993-94	1.13	1.08	0.18	1.31
1994-95	0.99	0.85	0.13	1.12
1995-96	-0.50	-0.53	0.01	-0.49
1996-97	-0.21	-0.22	0.06	-0.15
1997-98	0.22	0.19	0.05	0.27
1998-99	0.06	0.01	0.14	0.20
1999-2000	0.25	0.23	0.88	1.13

Source: RBI Report on Currency and Finance 1999-2000

Table 4.10 exhibits the details of mobilisations of mutual funds sector wise over a period from 1994 to 2000 and Figure 4.11 is its graphical presentation. The total mobilisation by all mutual funds during the year 1994-95 was Rs. 11274.57 crores. After two consecutive years of subdued performance, resource mobilised by mutual funds witnessed a turnaround during 1999-2000. Net resource mobilisation at Rs. 21971.38 crores registered a more than five-fold increase as against Rs. 3610.67 crores mobilised during 1998-99.

Growth in resource mobilisation during 1999-2000 was led mainly by the private sector funds, which witnessed an inflow of the order of Rs. 17170.8 crores as compared with Rs. 2518.65 crores during the previous year. There was a considerable decrease in the mobilisations by the UTI over the period. Rs. 8611.00 crores in 1994-95 has come down to Rs. 4548.00 in 1999-2000. Bank-sponsored mutual funds' collections have been on decrease. Their collection during the year 1994-95 was Rs. 765.49 crores, came down to a negative

**Figure 4.11 Mobilisations by Mutual Funds Sector-wise 1994-2000**



value of Rs. 141.00 crores in 1999-2000. The collections of financial institution-sponsored mutual funds are also on a decreasing trend. In the year 1994-95 their mobilisation was Rs. 576.29 crores which came down to Rs. 393.58 crores in 1999-2000.

Several fiscal incentives have had favourable impact on the resource mobilisation by the mutual fund industry. For instance, the Union Budget 1999-2000 exempted all income received by the investors from UTI and other mutual funds from income tax. Further, the US-64 Scheme and all open-ended equity oriented schemes were exempted from dividend tax for three years. Generally, buoyant stock market during the larger part of the year was another contributory factor.<sup>15</sup>

Table 4.10 Resources Mobilised by Mutual Funds: 1994-95 to 1998-99 (April – March) (Rs. Crores)

Mutual Funds	1994-95	1995-96	1996-97	1997-98	1998-99
I Bank-sponsored (1 to 6)	765.49	113.30	5.90	236.89	231.49
1. SBI MF	218.26	76.00	2.61	190.11	248.04
2. Canbank MF	205.55	2.71	1.69	46.78	-16.55
3. Indian Bank MF	94.40	-	-	-	-
4. BOI MF	53.49	-	-	-	-
5. PNB MF	155.95	10.32	-	-	-
6. BOB MF	37.84	24.27	1.60	-	-
II FIs-sponsored (7 to 9)	576.29	234.81	136.85	203.39	690.53
7. GIC MF	319.68	64.88	-32.40	-19.20	16.36
8. LIC MF	68.97	116.51	169.25	99.75	463.75
9. IDBI MF	187.64	53.42	-	122.84	210.42
III Unit Trust of India	8611.00 (6800.00)	-6314.00 (-2877.00)	-3043.00a (-855.00)a	2875.00 (2592.00)	170.00 (1300.00)
IV Private Sector MFs	1321.79	133.03	863.58	748.62	2518.65
Total (I+II+III+IV)	11274.57	-5832.86	-2036.67	4063.90	3610.67

Notes: 1. P Provisional \_ Not available -- Nil or negligible a Excludes re-investment sales

2. For UTI, the figures are gross value (with premium) of net sales under all domestic schemes and for other mutual funds, figures represent net sales under all on-going schemes.

3. Figures in brackets in case of UTI pertain to net sales at face value.

4. Data exclude amounts mobilised by off-shore funds and through roll-over schemes.

Source: Report on Trend and Progress of Banking in India 1999-2000, Reserve Bank of India, December, 2000.

## 4.6 Conclusion

It is seen that mutual funds have emerged as an important investment conduit for investors at large<sup>16</sup> and it helps directly or indirectly the capital and financial markets in mobilising

resources for the development of the economy. Thus, in this chapter, we made an attempt to review the Indian Mutual Fund Industry and its role in the mobilisation of savings of household. In the succeeding chapters an effort is made to evaluate its performance.

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**Notes:**

<sup>1</sup> Lal, C. & Sharma, *Mutual Fund – A Buoyant Financial Instrument*, Finance India, Vol. VI, No.4, pp 811-818.

<sup>2</sup> Baur, M.M, et al, *Mutual Funds: The U.S. Experience*, Finance India, Vol. IX, No. 4 pp. 947.

<sup>3</sup> Jaiswal, G.C.R, *Money Market Mutual Funds (MMMFs) Initiative in India*, Finance India, Vol. VIII, No.2, p 371.

<sup>4</sup> Ibid. p.814.

<sup>5</sup> Roy, Somnath, *Mutual Fund Industry in the Nineties*, The Merchant Banker Update, April, 1996, p. 10.

<sup>6</sup> Bhat, R.S., *Unit Trust of India and Mutual Funds*, UTI Institute of Capital Markets, New Mumbai, 1996. p 16.

<sup>7</sup> Ibid. p 19.

<sup>8</sup> Securities and Exchange Board of India (Mutual Fund) Regulations, 1993.

<sup>9</sup> Report on Currency and Finance 2000-01, RBI ([www.rbi.org](http://www.rbi.org))

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<sup>10</sup> Sadak, H, *Mutual Funds in India: Marketing Strategies and Investment Practices*, Response Books, New Delhi, 1997, p 28.

<sup>11</sup> Sahadevan, K.G. and Thiripalraju, *Mutual Funds: Data, Interpretation and Analysis*, Prentice-Hall of India, New Delhi, 1997, p3.

<sup>12</sup> Sadak, H, op cit. p 30

<sup>13</sup> Report on Trend and Progress of Banking in India 1999-2000, RBI, Dec.2000, p.140-141.

<sup>14</sup> Sadak, H, op cit. p 40

<sup>15</sup> Ibid. p 142, 144.

<sup>16</sup> Report on Trend and Progress of Banking in India 1999-2000, RBI, Dec.2000, p. 142.

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# ***Performance Evaluation of Mutual Funds***

## **Chapter V**

### **PERFORMANCE EVALUATION OF MUTUAL FUNDS**

5.0 Introduction

5.A.1 Introduction

5.A.2 Measures of evaluating fund performance

5.A.3 Monitoring mutual fund performance

5.A.4 Conclusion

5.B.1 Introduction

5.B.2 Methodology

5.B.3 Performance Evaluation Measures

5.B.4 Empirical Analysis

5.B.5 Conclusion

5.C.1 Introduction

5.C.2 General Evaluation

5.C.3 The Present Scenario

5.C.4 The Challenges before the M F Industry

5.C.5 Conclusion

5.1 Conclusion

## **5.0 Introduction**

In the previous chapter, we have reviewed the role and position of the mutual fund industry in India. In continuation of that, in this chapter, an attempt is made to evaluate the performance of the industry both theoretically and empirically. This chapter has three separate sections, Part A, Part B and Part C. Part A is a theoretical one, explains the various performance evaluation measures. Part B is the empirical evaluation of the mutual fund schemes of India. And Part C is the general evaluation of the industry as a whole.

### **Part A Performance Evaluation Measures**

#### **5.A.1 Introduction**

Investors need to evaluate the performance of the funds both before and after investing in a mutual fund schemes. In order to make intelligent investment decisions at appropriate time continuous evaluation of mutual fund schemes is inevitable. The various measures for evaluating fund performance and

the fundamentals of monitoring fund performance are discussed here in brief.

### **5.A.2 Measures of evaluating fund performance**

There are many measures of evaluating fund performance. The important among them are Change in NAV method, Total Return, Return on Investment, Expense Ratio, Income Ratio, Portfolio Turnover Rate, Transactions Costs, Fund Size, Cash Holdings and the Benchmark method.

#### 5.A.2.1 Change in NAV

This is the most simple and most common measure of performance of mutual fund. The change in NAV is calculated by deducting the Per Unit NAV at the beginning from the Per Unit NAV at the end. The change can also be calculated in terms of percentage using the following formula:

$$\text{Percentage change in NAV} = \frac{(\text{NAV}_t - \text{NAV}_{t-1})}{\text{NAV}_{t-1}} * 100$$

Where  $\text{NAV}_t$  = Per Unit Net Asset Value at the end, and

$\text{NAV}_{t-1}$  = Per Unit Net Asset Value at the beginning

The annualised change in NAV, in the case of the period covered is more than or less than a year, can be calculated as follows:

Annualised percentage change in NAV

$$= \left\{ \left[ \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}} \right] / N \right\} * 12 * 100$$

Where N= Number of months

NAV<sub>t</sub> = Per Unit Net Asset Value at the end and

NAV<sub>t-1</sub> = Per Unit Net Asset Value at the beginning

It is suitable for evaluating growth funds and accumulation plans of debt and equity funds and not suitable for income schemes and schemes with withdrawal options.

#### 5.A.2.2 Total Return

Total Return is calculated after adjusting the distributed dividend to the Change in NAV. The dividend is added to the Net Change in NAV and the return is calculated thus:

$$\text{Total Return} = \left[ \frac{(NAV_t - NAV_{t-1}) + D}{NAV_{t-1}} \right] * 100$$

Where D = Dividend/ distributions

NAV<sub>t</sub> = Per Unit Net Asset Value at the end and

NAV<sub>t-1</sub> = Per Unit Net Asset Value at the beginning

This measure is suitable for all types of mutual fund schemes. It is also more accurate than the Change in NAV because it considers the dividends/distributions made during the period.

#### 5.A.2.3 Return on Investment

Return on Investment (ROI) is the Total Return calculated with reinvesting the dividends in the fund itself at the NAV on the date of distribution. It is the appropriate measure of the growth of an investor's mutual fund holdings. ROI is calculated using the following formula:

$$ROI = \left\{ \left[ U + \left( \frac{D}{NAV_d} \right) \right] * NAV_t \right\} - NAV_{t-1} \Big/ NAV_{t-1} * 100$$

Where U = Number of units held

D = Dividend/ distributions

NAV<sub>d</sub> = NAV on the date of distribution of dividend

NAV<sub>t</sub> = Net Asset Value at the end and

NAV<sub>t-1</sub> = Net Asset Value at the beginning

ROI is the method widely used to evaluate performance of accumulation plans, monthly or quarterly income schemes and debt funds that distribute interim dividends. The Annualised Average Return on Investment is calculated if the

returns over a long period are given on cumulative basis. If the period is less than one year, it should not be annualised.

#### 5.A.2.4 The Expense Ratio

It is the ratio of total expenses to average net assets of the fund. It indicates the fund's efficiency and cost effectiveness. Brokerage commissions on the fund's transactions are not included in the fund expenses figures. This ratio is most important in case of Bond Funds or Debt Funds.

#### 5.A.2.5 The Income Ratio

The Income Ratio is calculated by dividing net investment income by its net assets for the period. This ratio is useful for evaluating income-oriented funds. It is not used by funds concentrate on capital appreciation.

#### 5.A.2.6 Portfolio Turnover Rate

Portfolio Turnover Rate measures how many times the fund manager turns over his portfolio by buying and selling in the market. A 100 percent turnover indicates that the manager replaced his entire portfolio during the period. This rate indicates the extent to which fund is active in terms of its

dealing on the market. This ratio is most relevant to analyse equity and balanced funds.

#### 5.A.2.7 Transaction Costs

Transaction Costs include all expenses related to trading such as the brokerage, stamp duty on transfers, registrar/custodian fees etc. Funds with small size or small returns have to be judged more on their expense ratios and transaction costs.

#### 5.A.2.8 Fund Size

Fund size can have an effect on the performance. Small funds are flexible and can achieve their objectives. Large funds benefit from economies of scale. While making comparison of two or more funds their corpus must also be compared.

#### 5.A.2.9 Cash Holdings

The percentage of a fund's portfolio held in cash equivalents is important in the performance of funds. Large cash holding allows the fund to strengthen its position in preferred securities without liquidating its other portfolios. Cash also

allows the fund a cushion against decline in the market prices of shares or bonds.

#### 5.A.2.10 Benchmark method

A fund's performance should be judged by relating the investor's expectations. A benchmark is an indicator of performance of funds in relation with the investor expectations. For example, an investor's expectations of returns from an equity fund should be judged against the overall stock market performance, measured by a stock market index. BSE Sensex 30, S&P CNX Nifty, Junior Nifty, BL 250, BSE National Index, etc are some of the stock market indices, which can be used as benchmarks. The appropriate index must be selected before the evaluation. It must be based on the investment objectives of the fund and the asset class it invests in.

#### 5.A.2.10 (a) Equity Funds

**Index Funds:** Index funds invest only in the stocks of the benchmark index (called as Base Index) and expect a return similar to the index. These funds are managed passively. The

Base Index must be decided in advance while making the issue itself and may not be changed. For example, IDBI Mutual Fund's Index Fund is based on S&P CNX Nifty Index and UTI's fund is based on BSE SENSEX Index.

Active Equity Funds: Most of the equity schemes other than Index Funds are 'actively' managed schemes. There may not be predetermined benchmark index. The investor can choose an appropriate index and compare its return with the return of the fund for evaluating the performance. The selection of the benchmark is based on the size of the fund's portfolio; a fund with larger portfolio should select a broader market index like BSE 100 or 200 or NSE 100 or BL 250. Smaller portfolio-funds can use indices like S&P CNX Nifty, Junior Nifty or BSE Sensex 30. Similarly, indices for sector funds, small-cap funds and growth funds should be selected.

#### 5.A.2.10 (b) Debt Funds

A debt market index must be used as the benchmark for evaluating a debt fund. But, it must be selected considering the size of the portfolio; a broad based fund should select a

broad based index and vice versa. Generally, I-SEC's I-BEX index is used by bond funds due to the non-availability of appropriate indices.

#### 5.A.2.10 (c) Money Market Funds

Money Market Funds invest in short term funds and usually, benchmarked against the government securities of the appropriate maturity. T Bill Index and NSE's "mibid/mibor" rates are the better benchmarks for MM Funds.

### **5.A.3 Monitoring mutual fund performance**

The continuous and regular monitoring of fund performance is the next requirement after choosing the appropriate measures and benchmarks. This is certainly inevitable to take wise and prompt decisions by an investor. The relevant information on NAV, expenses, cash flow, appropriate indices etc should be gathered from the available sources. The common sources of information are:

- a) Annual and periodic reports of mutual funds

Annual and periodic reports of mutual funds provide financial data necessary for the performance evaluation. It includes portfolio holdings at market value, statement of revenue and expenses, changes in net assets, transaction costs, brokerage paid, custodian/registrar's fees etc. Income and expense ratios, Total Return, Return on Investment etc. can be calculated using the data. Using the data investors can assess the quality of fund management and can review the performance of all the schemes of the mutual fund.

b) Financial dailies and periodicals

Financial Dailies like the Economic Times, Financial Express, Business line provide daily-NAV data of open-ended schemes and share prices of closed ended-listed schemes. There are so many dedicated and other periodicals rendering information on fund performance. They also give occasional and periodic analytical reports and information on fund performance.

#### c) Fund Evaluation Agencies

Agencies like Credence, Value Research, etc. provide information for mutual fund performance, data and evaluation.

#### d) Newsletters

Mutual fund agents, stockbrokers, banks, non-banking firms publish their own newsletters and circulate among the retail investors or subscribers fund performance data and recommendations.

#### e) Prospectus

As per the requirements of SEBI Regulations, along with the offer documents of new schemes the concerned AMC must disclose performance data relating to the existing schemes through a prospectus. The prospectus is a valuable source of information for monitoring fund performance.

### **5.A.4 Conclusion**

In the preceding paragraphs the various measures and methods for evaluating mutual fund performance along with

the way in which the performance can be monitored are discussed. In the succeeding parts, using the afore-mentioned theories, the performances of funds are evaluated.

## **Part B Empirical Evaluation**

### **5.B.1 Introduction**

The performance of various mutual fund schemes during the last five years from 1995-96 to 1999-2000 is critically evaluated here by using a benchmark index. The constraints forced to restrict the selection to some growth schemes only.

### **5.B.2 Methodology**

#### 5.B.2.1 Sample

The study is made among 47 open-ended growth schemes. Growth schemes are schemes, which offer returns mainly in the form of capital gains. The main objective of the fund is capital appreciation; often they may distribute dividends also. The investments of the funds are to be made mostly in equity shares of growth-oriented companies, which pay better

dividends, and /or in actively traded scrips, which offer high capital appreciation.<sup>i</sup> As most of the schemes are of this type and the objective of these funds are akin to the general objective of mutual funds, growth schemes have been selected for the study.

The five-year term, 1995-2000 has been divided into two spells one from 1995-96 to 1997-98 and the other from 1998-99 to 1999-2000 because most of the schemes prevailed prior to 1995 have completed their terms during 1997-98. In the first batch 29 schemes have been selected and in the second batch the number selected is 18.

#### 5.B.2.2 The Data

The weekly NAV (Net Asset Value) data published in the Business Line Daily for the period of five-year period, 1995-96 to 1999-2000 have been used.

#### 5.B.2.3 Benchmark Index

In order to have a meaningful evaluation it is done in a risk return framework relating the return with the stock market

risks. Here in this study the broad based 100-share Bombay Stock Exchange National Index (BSENI) has been used as the benchmark market index.

#### 5.B.2.4 Risk free return

Average bank fixed deposit interest rate for the period 1995-2000 is taken as the risk free return, which is 12%.

#### 5.B.2.5 Estimation

From the weekly NAV data published in the Business Line Daily rates of returns are calculated using the following formula:

$$R_p = [(NAV_t - NAV_{t-1}) + D_1] / NAV_{t-1}^{ii}$$

Where  $R_p$  = portfolio return

$NAV_t$  = NAV per unit at the end of the holding period

$NAV_{t-1}$  = NAV per unit at the beginning of the holding

Period, and

$D_1$  = dividend distributed per unit during the holding period.

Similarly, weekly returns for the benchmark index have been computed. The systematic risk or Beta has been calculated using the following formula:

$$\beta_i = [ R_{im} \sigma_i \sigma_m ] / \sigma_m^2$$

where  $R_{im}$  = the correlation coefficient between the returns of stock i and the returns of the market index.

$\sigma_i$  = the standard deviation of returns of stock i

$\sigma_m$  = the standard deviation of returns of the market index

$\sigma_m^2$  = the variance of the market returns

As beta measures the volatility of a fund's returns relative to the market, the larger the beta, and the more volatile the security. A beta of 1.0 indicates average risk and greater than 1.0 indicates above average risks.

### **5.B.3 Performance evaluation measures**

The four measures such as Jensen's differential return measure, Treynor's reward to volatility ratio, Sharpe's reward to variability ratio and Fama's decomposition measure have been used in the study to evaluate the performance of the

selected schemes. A brief description of these measures are given below:

### 5.B.3.1 Jensen's Differential Return Measure

Jensen's ratio measures the differential between the actual return earned on a portfolio and the return expected from the portfolio given its level of risk. The differential return is calculated as follows:

$$\alpha_p = R_p - E(R_p)$$

where  $\alpha_p$  = the differential return

$R_p$  = the actual return earned on the portfolio

$E(R_p)$  = the expected return

Using the CAPM model, the expected return of the portfolio can be calculated as follows:

$$E(R_p) = R_f + \beta_p [ R_m - R_f ]$$

Where  $E(R_p)$  = the expected portfolio return

$R_f$  = the risk free rate

$\beta_p$  = the systematic risk of the portfolio, and

$R_m$  = the return on market index

The systematic risk  $\beta_p$  is calculated thus,

$$\beta_p = [R_{im} \sigma_i \sigma_m] / \sigma_m^2$$

where  $\beta_p$  = the systematic risk

$R_{im}$  = the coefficient between the returns of stock i and  
the returns of the market index

$\sigma_i$  = the standard deviation of returns of stock i

$\sigma_m$  = the standard deviation of returns of the market  
index

$\sigma_m^2$  = the variance of the market returns

A positive value of  $\alpha_p$  indicates a greater average return than the benchmark, which means a superior performance whereas a negative value indicates that the return is less than the benchmark.

### 5.B.3.2 Treynor's Reward to Volatility Ratio

The portfolio Beta measures this ratio of the reward or risk premium to the volatility of return. The ratio can be calculated using the following formula:

$$\text{Treynor Ratio (TR)} = [R_p - R_f] / \beta_p$$

Where  $R_p$  = the realised return on portfolio

$R_f$  = the risk free rate of return, and

$\beta_p$  = the portfolio Beta

A higher Treynor ratio indicates a better performance and a negative ratio a poor performance.

### 5.B.3.3 Sharpe's reward to variability ratio

This measure compares the risk premium to the total amount of risk in the portfolio. It summarises the risk and return and measure the performance on a risk adjusted basis. The formula for calculating Sharpe ratio may be stated as:

$$\text{Sharpe Ratio (SR)} = [R_p - R_f] / \sigma_p$$

Where  $R_p$  = the realised return on the portfolio

$R_f$  = the risk free rate of return, and

$\sigma_p$  = the standard deviation of portfolio return

A larger SR indicates a better performance and vice versa.

### 5.B.3.4 Fama's Decomposition Measure

Fama's decomposition measure divides the total return on a portfolio into four components, risk less rate, return from market risk, return from diversifiable risk and return from pure selectivity. The return from pure selectivity is the additional return obtained by a portfolio manager for his stock

selection ability. It is the return earned over and above the return mandated by the total risk of the portfolio as measured by standard deviation. The net return from the selectivity is measured by Fama's Net Selectivity Measure, the formula that is given as follows:

$$\text{Fama's Net Selectivity} = R_p - [R_f + (\sigma_p / \sigma_m) (R_m - R_f)]^{\text{vii}}$$

Where  $R_p$  = the actual return on portfolio

$R_f$  = the risk free rate

$\sigma_p$  = the standard deviation of portfolio return

$\sigma_m$  = the standard deviation of market index

$R_m$  = the return on market index

A positive high value indicates that the fund has achieved superior returns and investors are benefited by the selectivity exercised by the fund manager.

All calculations are shown in the tables annexed to this chapter.

TABLE 5.1

Performance Evaluation of Mutual Fund Schemes  
(1995 April 1 to 1998 March 31)

ITEM	MEAN	SD	BETA	JENSEN	TREYNOR	SHARPE	FAMA
<b>BSE-NI</b>	<b>-0.01</b>	<b>0.1224</b>	<b>1</b>	<b>NA</b>	<b>-12.01</b>	<b>-98.17</b>	<b>NA</b>
1 MASTERSHARE	-0.06	0.1111	0.1881	-9.80	-64.12	-108.60	-1.12
2 UGS2000	-0.07	0.0865	0.1469	-10.31	-82.19	-139.65	-3.54
3 UGS-2000(RO)	-0.07	0.0865	0.1469	-10.31	-82.19	-139.65	-3.54
4 UGS-5000	-0.08	0.1357	0.6227	-4.60	-19.39	-89.02	1.31
5 UGS-5000(RO)	-0.08	0.1357	0.6227	-4.60	-19.39	-89.02	1.31
6 MASTER PLUS-91	-0.02	0.1172	0.6953	-3.67	-17.29	-102.58	-0.51
7 MASTER GAIN-92	-0.06	0.0902	0.4779	-6.32	-25.24	-133.64	-3.17
8 MASTER GROWTH	-0.02	0.1369	0.7467	-3.05	-16.09	-87.79	1.42
9 GRAND MASTER	-0.07	0.1081	0.6461	-4.31	-18.68	-111.67	-1.41
10 MAGNUM MULT.	-0.10	0.0897	0.5281	-5.76	-22.91	-134.95	-3.23
11 MAGNUM EXP.	-0.06	0.0911	0.5758	-5.14	-20.94	-132.34	-3.08
12 MAGNUM MULT-PLUS	-0.04	0.1002	0.3690	-7.60	-32.62	-120.07	-2.18
13 CANBONUS	-0.09	0.1480	0.6163	-4.69	-19.62	-81.69	2.53
14 CANSTAR(CG)	-0.12	0.0625	0.0915	-11.02	-132.35	-193.85	-5.93
15 IND RATNA	-0.11	0.1364	0.6536	-4.26	-18.52	-88.74	1.39
16 IND MOTI	-0.12	0.1100	0.6406	-4.42	-18.91	-110.11	-1.22
17 IND SAGAR	-0.08	0.1474	-0.1109	-13.42	108.92	-82.00	2.47
18 IND NAVRATNA	-0.10	0.1581	-0.0548	-12.76	220.71	-76.53	3.53
19 BOI DOUBLE SQ-PA	-0.05	0.0445	0.1629	-10.09	-73.96	-270.95	-7.67
20 BOI DOUBLE SQ-PB	-0.05	0.0445	0.1629	-10.09	-73.96	-270.95	-7.67

21 FEST BOINANZA-A	-0.19	0.3983	-0.6896	-20.47	17.68	-30.60	27.48
22 FEST BOINANZA-B	-0.26	0.3417	-0.4182	-17.28	29.31	-35.87	21.97
23 DHAN VIKAS	-0.07	0.0944	-0.2361	-14.90	51.11	-127.78	-2.76
24 GIC GROWTH P2	-0.03	0.0837	0.1682	-10.01	-71.56	-143.75	-3.80
25 KP-PRIMA	-0.06	0.1376	0.4500	-6.66	-26.81	-87.66	1.50
26 MS-GROWTH FUND	-0.02	0.1291	0.7073	-3.53	-17.00	-93.09	0.66
27 ICICI-PREMIER	-0.03	0.1576	0.2041	-9.58	-58.94	-76.33	3.46
28 CENTURION QUANTUM	-0.06	0.1398	0.5746	-5.16	-20.99	-86.27	1.72
29 TAURUS THE STARSHARE	-0.13	0.1348	0.3582	-7.82	-33.86	-89.96	1.23

TABLE 5.2

Performance Evaluation of Mutual Fund Schemes  
(1998 April 1 to 2000 March 31)

ITEM	MEAN	SD	BETA	JENSEN	TREYNOR	SHARPE	FAMA
<b>BSE-NI</b>	<b>0.12</b>	<b>0.11</b>	<b>1.00</b>	<b>NA</b>	<b>-11.88</b>	<b>-112.41</b>	<b>NA</b>
1 MASTERGAIN 92	0.03	0.14	0.80	-2.45	-14.95	-86.91	3.62
2 GRANDMASTER	0.06	0.21	0.94	-0.82	-12.76	-57.09	11.67
3 UTI UNIT SCHEME 95	0.10	0.18	0.52	-5.66	-22.67	-66.31	8.30
4 UTI PRIMARY EQUIT FUND	0.11	0.20	1.21	2.53	-9.80	-58.68	10.90
5 KOTHARI PRIMA	0.21	0.30	1.68	8.16	-7.02	-39.52	21.49
6 GIC FORTUNE 94	0.02	0.12	0.75	-3.09	-16.02	-102.54	1.26
7 GIC GROWTH PLUS II	0.15	0.19	0.87	-1.48	-13.57	-62.34	9.45
8 JM EQUITY (DIVIDEND)	0.10	0.20	0.93	-0.88	-12.83	-58.15	11.14
9 JM EQUITY (GROWTH)	0.16	0.30	1.14	1.71	-10.38	-39.41	21.82
10 BRILA ADVANTAGE FUND	0.30	0.30	1.87	10.54	-6.25	-38.71	21.76
11 RELIANCE VISION FUND	0.12	0.15	0.98	-0.23	-12.12	-78.85	5.05
12 TEMPLETON INDIA G. FUND	0.09	0.14	1.04	0.41	-11.49	-83.53	4.15
13 DSP MERRILL LYNCH E. FUND	0.15	0.17	0.69	-3.60	-17.06	-69.17	7.36
14 TEMPLETON INDIA I. (GROWTH)	0.04	0.02	-0.05	-12.55	241.61	-613.49	-9.75
15 KOTHARI BLUECHIP	0.21	0.21	1.40	4.89	-8.40	-56.60	11.44
16 MAGNUM MULTIPLIER 93	0.17	0.30	1.93	11.14	-6.12	-39.78	21.42
17 DHAN VIKAS	0.04	0.10	0.57	-5.23	-21.10	-118.33	-0.52
18 SUN F&C VALUE FUND	0.18	0.15	0.47	-6.20	-24.98	-78.25	5.07

## **5.B.4 Empirical Analysis**

### 5.B.4.1 Evaluation using the benchmark

The Table 5.1 and 5.2 show the details of the calculations of various ratios of the 47 growth schemes operated during the five year-period 1995-2000. The average BSE NI for the first spell is -1%, which shows a loss and not even a single scheme in the sample could attain a profit or a loss less than the average. The general market depression may be the reason for the same.<sup>viii</sup> The average return earned by the sample schemes is -7.93%. But, in the second period the average BSE NI came to 12% level and 9 out of 18 (50%) could attain a profit more than or equal to this level. The schemes can be ranked as follows:

#### Ranks

- 1 Birla Advantage Fund
- 2 Kothari Prima Fund
- 3 Kothari Bluechip
- 4 Sun F&C Value Fund

- 5       Magnum Multiplier 93
- 6       JM Equity Growth Fund
- 7       GIC Growth Plus II
- 8       DSP Merrill Lynch Equity Fund
- 9       Reliance Vision Fund

The average return earned by the sample schemes during the second period is 15.27%. Six out of eighteen schemes (33.33%) of the sample schemes performed above average level.

#### 5.B.4.2 Evaluation by Beta

In the first spell the entire beta calculated were less than 1, which means a below average risk environment in which a lesser return could be expected. In the second spell, for seven schemes the beta calculated were more than the value 1.0 which indicated a higher volatility. The schemes were UTI Primary Equity Fund, Kothari Prima Fund, JM Equity Growth Fund, Birla Advantage Fund, Templeton India Growth Fund, Kothari Bluechip Fund and Magnum Multiplier 93. Hence,

15% of the schemes had faced above average risk. The ranking of the schemes based on their risk are as follows:

Ranks

- 1 Magnum Multiplier 93
- 2 Birla Advantage Fund
- 3 Kothari Prima Fund
- 4 Kothari Bluechip Fund
- 5 UTI Primary Equity Fund
- 6 JM Equity Growth Fund
- 7 Templeton India Growth Fund

5.B.4.3 Evaluation by Jensen's Differential Return Measure

Using the measure of Jensen it can be seen that out of the 47 schemes 40 schemes (85%) had returns lesser than the benchmark. The seven schemes came to the forefront in the returns were UTI Primary Equity Fund, Kothari Prima Fund, JM Equity Growth Fund, Birla Advantage Fund, Templeton India Growth Fund, Kothari Bluechip Fund and Magnum Multiplier 93. The ranking of the funds is as follows:

Ranks

- 1 Magnum Multiplier 93
- 2 Birla Advantage Fund
- 3 Kothari Prima Fund
- 4 Kothari Bluechip Fund
- 5 UTI Primary Equity Fund
- 6 JM Equity Growth Fund
- 7 Templeton India Growth Fund

#### 5.B.4.4 Evaluation by Treynor's Ratio

Only six schemes performed well as denoted by the Treynor ratio. The ranking of the schemes are as follows:

##### Ranks

- 1 Templeton India Growth Fund
- 2 Ind Navratna
- 3 Ind Sagar
- 4 Dhan Vikas
- 5 Festival Boinanza B
- 6 Festival Boinanza A

#### 5.B.4.5 Evaluation by Sharpe Ratio

While evaluating the schemes using the Sharpe ratio it can be seen that all the funds were poor performers.

#### 5.B.4.6 Evaluation by Fama's Net Selectivity Measure

Thirty out of forty-seven schemes have got positive values as the Fama's Net Selectivity ratio, which means that 64% of the funds were managed well with superior returns from the portfolio selection. The ranking is as follows:

##### Ranks

- 1 Festival Boinanza A
- 2 Festival Boinanza B
- 3 JM Equity Growth Fund
- 4 Birla Advantage Fund
- 5 Kothari Prima Fund
- 6 SBI Magnum Multiplier 93
- 7 Grandmaster
- 8 Kothari Bluechip
- 9 JM Equity Dividend Fund
- 10 UTI Equity Primary Fund

- 11 GIC Growth Plus II Fund
- 12 UTI Unit Scheme 95
- 13 DSP Merrill Lynch Equity Fund
- 14 Sun F&C Value Fund
- 15 Reliance Vision Fund
- 16 Templeton India Growth Fund
- 17 Mastergain 92
- 18 Ind Navratna
- 19 ICICI Premier
- 20 Canbonus
- 21 Ind Sagar
- 22 20<sup>th</sup> Century -Centurian Quantum Fund
- 23 Kothari Pioneer Prima Fund
- 24 Mastergrowth
- 25 Ind Ratna
- 26 UGS -5000
- 27 UGS -5000 (Repurchase Option)
- 28 GIC Fortune 94
- 29 Taurus The Starshare

### **5.B.5 Conclusion**

In this part we have been evaluating the performance of mutual fund schemes in terms of four performance measures such as Jensen's differential return measure, Treynor's reward to volatility ratio, Sharpe's reward to variability ratio and Fama's decomposition measure. It is revealed that sample schemes during the period were not performed remarkably. But, some of the schemes, especially private sector mutual funds had superior performance over the other categories.<sup>ix</sup> Further, sample schemes were not found to be adequately diversified and were not in conformity with their stated objectives.

## **Part C General Evaluation**

### **5.C.1 Introduction**

This part is intended to make an evaluation of the overall performance of the mutual fund industry of India. An attempt

is also made to analyse the present challenges faced by the industry.

### **5.C.2 General Evaluation**

During the last few decades the global financial scenario has witnessed several significant developments. The phenomenal growth of the global capital market has been accompanied by the advent of the equity cult among the household sector. The household sector does possess the surplus funds, but psychologically it is risk-neutral or risk-averse. Therefore, institutional shields have been created, whose main role is to act as intermediaries between the people, who have been created, whose main role is to act as intermediaries between the people, who have the ability and propensity to save, and those who require money. This is a historical necessity, which has given rise to the concept of mutual funds.<sup>x</sup>

In India, mutual fund concept took root only in sixties with the setting up of the UTI. As the UTI was regulated by a special

enactment, no other mutual fund could emerge during the period. The period between 1964 and 1993 was very crucial and actually laid a strong foundation for popularising mutual fund philosophy. The spectacular performance of the UTI especially during eighties has given the investors rich experience of the operations of a mutual fund. The public sector mutual funds floated during later eighties had given the impression that they are backed by the sponsored banks and the insurance companies. Due to this confidence created among the investors there was overwhelming faith in mutual funds during the period. Besides, the tax concessions under sections 80CC & 80CCB and the added attraction of the UTI schemes, the assured minimum return, made mutual fund a popular one.

As the popularity was on increase and the mutual funds were operating in an unregulated environment, firstly, RBI came with a set of guidelines to control bank-sponsored mutual funds in 1989. Government of India issued a new set of

guidelines in June 1990. Later, in 1991 SEBI was entrusted with the duty of regulating mutual funds. Subsequently, Dave Committee was appointed to evolve a comprehensive set of guidelines for their operation in order to safeguard the interest of investors. As a result, mutual fund industry was thrown open to private and joint sector. SEBI issued guidelines to control them. Despite all these regulations, mutual funds were involved in a big way in securities scam. Thus SEBI, in order to protect investors, issued fresh guidelines in 1993.<sup>xi</sup>

The induction of the private and joint sector opened a competitive environment and gave a boost to the mutual fund industry in early 1990's but such boost was short-lived.<sup>xii</sup> Very soon, the industry faced a slowdown in mobilisation. The public sector had to face severe competition from the private sector counterparts. The prolonged stock market depression since 1995 meant losses for investors' interests in equity schemes diminished.

From 1995-96 to 1998-99, the UTI experienced substantial net outflows, i.e. redemptions/ repurchases exceeded fresh sales. The UTI, being an old institution, had several closed-ended schemes some of which matured during this period, resulting in negative net mobilisation. The net mobilisation by the newer mutual funds was positive but it was only about one-third of their mobilisation during preceding four years. It appears that the household investors during these years were seeking safer investment alternatives, like government savings schemes and bank fixed deposits.

The mobilisation during 1998-99 was particularly affected by the crisis, which hit the US-64, the largest scheme, not only among all UTI schemes but also, in the whole MF industry in India. About two-third's of the US-64 portfolio was in equities. This equity holding depreciated by over 20% during May-June 1998 following the collapse of the Indian capital market. The US-64, right from its inception in 1964, had been regarded as an income scheme but, for various reasons, its portfolio came

to be dominated by equity holdings since 1995-96. A substantial part of such equity holdings comprised PSU shares. The reserves of the US-64 became negative due to depreciation of the equity portfolio. When this fact became public in October 1998 through adverse press reports, there was a kind of panic. It led to large-scale withdrawal of money from the scheme. The Government of India had to step in to resolve the crisis.

A special package of measures was worked out on the basis of recommendations of the Deepak Parekh Committee for helping the UTI to come out of the crisis. The package included the creation of a Special Unit Scheme (SUS) to take over at cost the US-64 portfolio of PSU shares against the issue of GOI securities. This wiped out the loss of over Rs. 2000 crores which the US-64 had suffered on the PSU investment. The Government also granted liberal tax incentives to the entire mutual fund industry.

In the year 1999-2000 there was a smart recovery in the net mobilisation by the mutual fund industry, creating a record of nearly Rs. 18970 crores. Such sharp increase was attributable to the tax concessions given to the MF industry in the 1999 Budget. Of the net mobilisation, during 1999-2000, the UTI accounted for 24.0% and the other mutual funds for 76.0%.

According to the AMFI, the net mobilisation by the Indian mutual fund industry for the 9 months (April- December 2000) was Rs. 6852 crores i.e. an annualised mobilisation of about Rs. 9136 crores which is only one-half compared to the level achieved in 1999-2000 (see Table 5.3).

As a vehicle for savings mobilisation, the Indian mutual fund industry played only a weak role. The RBI Annual Report, 1999-2000 has brought out the picture clearly. The UTI and other MFs together accounted for 16.4% of gross financial savings in 1991-92 and 8.6% in 1992-93, falling steadily to only 1.0% by 1998-99. The net mobilisation during the year

1999-2000 increased suddenly to about 3-4%, which is less than one-half of the 1992-93 level. According to AMFI data, the mobilisation by MFs during April-December 2000 declined to Rs.6852 crores from Rs. 12027 crores in the corresponding period last year. Such decline would have pushed down the percentage share of MF industry in financial savings back to almost the same level as in 1998-99.

Table 5.3 Mobilisation by the various categories of Mutual Funds (April-December,2000) (Rs. crores)

Mutual Fund Category	Sales	Redemptions/ repurchases	Net mobilisations
1. Joint Venture (predominantly Foreign) MFs	22384 (36.9%)	17853 (33.2%)	4531 (66.1%)
2. Joint Venture (predominantly Indian) MFs	13479 (22.2%)	11486 (21.4%)	1993 (29.1%)
3. Private sector Indian MFs	11665 (19.2%)	9844 (18.3%)	1821 (26.6%)
4. Unit Trust of India	9789 (16.1%)	9310 (17.1%)	479 (7.0%)
5. Financial-Institution sponsored MFs	1963 (3.2%)	1530 (2.8%)	433 (6.3%)
6. Bank-sponsored MFs	1343 (2.2%)	3748 (7.0%)	-2405 (-35.1%)
Total (April- December 2000)	60623 (100.0%)	53771 (100.0%)	6852 (100.0%)

April-December 1999	33628	21601	12027
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Source: AMFI Monthly

### **5.C.3 The Present Scenario**

Even though the year 1999 witnessed a heavy growth, mutual fund business in India is still in a nascent stage.<sup>xiii</sup> The first reason of this situation is the governmental interference itself. In the early stages only the UTI was permitted to do the business. Even though, the public sector banks and financial institutions and later the private sector were permitted to enter the business, government discouraged competition. While the public and private sectors were allowed the proper rules and regulations were delayed.<sup>xiv</sup> All these hindered the popularity of mutual funds.

Secondly, many of the schemes failed in attaining the objectives offered to the investors. Even the unsustainable promises of minimum assured returns or return at high rates were lead fund failures.

Thirdly, mutual fund schemes offered especially during the pre 1993 period were close-ended schemes except the US 64 of the UTI. The investor has to wait till the redemption date or had to sell in the stock exchange in the case of listed schemes. Even if a scheme could be sold the investor never got value for his money. He got a price, which was substantially lower than the prevailing NAV of the units. Besides, he had to pay the brokers' commission. There were a lot of paper works associated with the closed-ended schemes like share certificates and transfer deeds. All these problems made the mutual fund schemes investor un-friendly.

And lastly, mutual funds were sold by the intermediaries as instruments for making quick money instead of being looked upon as a long-term product. The intermediaries ignored to provide to the investors individual investor-counselling, concept selling and after sales services. This helped loosing investor-confidence towards mutual funds.

#### **5.C.4 The Challenge before the Mutual Fund Industry**

The future of mutual funds is very bright. There are two reasons, one, it develops an equity culture in millions of Indians spread over even in small towns and villages which were normally untapped in capital formation process. The second is that, since, more and more institutions are coming to the area of mutual funds, it has elicited competition among them and thereby ensured more efficient use of the fund and better returns to investors.<sup>xv</sup> It is a sound tax saving device for common investors. Moreover, mutual funds are considered as stabilising factors, which could introduce correlations in the stock market by purchasing or selling script at appropriate time to prevent violent fluctuations in share prices.

The biggest challenge before mutual fund is to develop a mechanism for bringing about a change in the investors' expectations regarding the mutual fund industry. Industry-specific rather than company specific approach should be

taken to bring forth the lost credibility to the industry. A concerted effort of all mutual funds together is inevitable to popularise the mutual fund concept. AMFI can play the lead role in this regard.

### **5.C.5 Conclusion**

The above part evaluated the performance of mutual fund industry and analysed the present scenario. It also probed into the challenges before the industry and seen that the main challenge is to present it to the investors in its right perspective by a concerted effort of the industry as a whole.

### **5.1 Conclusion**

In this chapter, we made an attempt to review the measures available for the performance evaluation and monitoring of funds and made evaluations accordingly. The next chapter is intended to empirically analyse the mutual fund investors of the state Kerala.

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## Notes

<sup>i</sup> Kaura, Mohinder N and M Jayadev, *Performance of Growth Oriented Mutual Funds: An Evaluation*, The ICFAI Journal of Applied Finance, Vol. 1, No. 1, pp. 1-14.

<sup>ii</sup> Kevin, S, *Portfolio Management*, Prentice-Hall of India Pvt. Ltd., New Delhi, 2001, p. 153.

<sup>iii</sup> Ibid., p 25

<sup>iv</sup> Ibid. pp 155-156.

<sup>v</sup> Ibid. pp 154-155.

<sup>vi</sup> Ibid. pp 153-154.

<sup>vii</sup> Ibid. pp 156-159.

<sup>viii</sup> Sakunthalamani, P, *Performance Evaluation of Selected Growth Oriented Mutual Funds in India*, Indian Commerce Bulletin, Vol. 5, No. 1, pp 60-70.

<sup>ix</sup> Amitabh Gupta arrived at a similar conclusion in his study, *Investment Performance of Indian Mutual Funds: An Empirical Study*, Finance India, Vol. XIV, No. 3, pp. 833-866.

<sup>x</sup> Chawla, G.S and G.S. Batra, *Mutual Fund Evaluation: A Study of SBI MF in relation to its Competitors*, Indian Management Studies Journal, Vol.4, No.1, pp 81-89.

<sup>xi</sup> Ibid.

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<sup>xii</sup> Gupta, L.C. and Utpal K. Choudhury, *How good are Mutual Funds*, Society for Capital Market Research and Development, Delhi, 2001, p 76-105.

<sup>xiii</sup> Singh, H.K, and Meera Singh, *Mutual Funds and Indian Capital Market: Performance and Profitability*, Kanishka Publishers, New Delhi, 2001, p.197.

<sup>xiv</sup> Chakarabarti, Anjan and Harsh Rungta, *Mutual Funds Industry in India: An In-depth Look into the Problems of Credibility, Risk and Brand*, The ICFAI Journal of Applied Finance, Vol. 6, No. 2, pp. 26-46.

<sup>xv</sup> Op.cit. Singh.

## ANNEXURE I

NAV ON MF/BSE-NI (1995-98).

ITEM	94-SEPT	95-MARCH	95-SEPT	96-MARCH	96-SEPT	97-MARCH	97-SEPT	98-MARCH
BSE-NI	2094	1613	1586	1549	1395	1585	1704	1806
1 MASTERSHARE	33.38	31.92	23.2	23.09	21.36	22.57	23.31	20.68
2 UGS2000	25.18	21.96	19.82	19.84	18.85	19.98	15.95	14.28
3 UGS-2000(RO)	25.18	21.96	19.82	19.84	18.85	19.98	15.95	14.28
4 UGS-5000	32.61	25.44	23.3	16.53	16.1	17.23	18.28	17.47
5 UGS-5000(RO)	32.61	25.44	23.3	16.53	16.1	17.23	18.28	17.47
6 MASTER PLUS-91	28.21	21.48	20.08	19.95	20.24	22.98	24.37	23.29
7 MASTER GAIN-92	19.92	15.36	14.16	13.54	12.94	12.34	13.31	12.64
8 MASTER GROWTH	21.74	16.12	15.11	15.4	15.93	18.62	20.01	18.24
9 GRAND MASTER	21.32	16.49	14.2	13.69	11.93	12.04	13.26	12.68
10 MAGNUM MULT.	23.3	18.63	15.6	14.61	11.96	12.45	12.18	10.76
11 MAGNUM EXP.	18.48	15	12.99	12.61	11.02	11.35	11.88	11.83
12 MAGNUM MULT-PLUS	17.02	15.15	13.69	13.2	12.39	12.93	14.82	12.73
13 CANBONUS	21.07	17.98	13.57	13.43	9.5	9.65	10.84	9.94
14 CANSTAR(CG)	23.39	21.24	17.26	15.66	12.66	11.09	10.99	9.72
15 IND RATNA	26.11	21.23	15.48	13.53	10.43	10.4	11.55	11.13
16 IND MOTI	19.29	14.27	11.14	10.51	8.27	7.9	7.76	7.76
17 IND SAGAR	21.69	24.3	18.35	16.33	12.36	12.08	13.05	10.95
18 IND NAVRATNA	10	10.84	7.08	6.59	4.94	4.84	5.07	4.26
19 BOI DOUBLE SQ-PA	307.42	282.17	251.56	252.31	229.78	224.82	212.02	211.41
20 BOI DOUBLE SQ-PB	307.42	282.17	251.56	252.31	229.78	224.82	212.02	211.41
21 FEST BOINANZA-A	16.66	16.56	13.93	12.83	11.2	8.33	10.83	0
22 FEST BOINANZA-B	17.99	15.28	11.02	9.44	8.18	7.07	7.42	0
23 DHAN VIKAS	13.73	14.37	11.32	11.05	9.96	8.51	8.81	8.19
24 GIC GROWTH P2	13.38	10.93	10.02	10.22	10.09	10.83	10.95	10.34
25 KP-PRIMA	18.52	17.67	15.9	14.14	9.98	10.64	9.58	10.85
26 MS-GROWTH FUND	11.7	9.38	8.22	8.17	7.75	8.41	10.02	9.58
27 ICICI-PREMIER	10.13	11.31	8.4	7.49	6.04	6.82	7.5	7.5
28 CENTURION QUANTUM	12.74	11.43	8.64	7.5	6.14	6.29	6.91	7.68
29 TAURUS THE STARSHARE	11.94	9.45	7.93	7.07	5.72	4.8	5.61	4.39

**Annuxure 2**  
*NAV ON MF/BSE-NI (1998-2000).*

ITEM	98JUN	98SEPT	98DEC	99MAR	99 JUN	99SEPT	99DEC	2000MAR
BSE-NI	1392	1425	1359	1590	1728	2172	2624	2902
1 MASTERGAIN 92	12.63	10.27	10.14	11.13	11.83	14.98	15.29	14.86
2 GRANDMASTER	12.12	9.74	9.65	11.41	11.55	11.6	16.99	16.51
3 UTI UNIT SCHEME 95	109.87	117.13	100.6	110.31	112.44	123.97	136.2	198.44
4 UTI PRIMARY EQUIT FUND	10.83	8.91	9.27	12.96	12.67	16.78	19.84	20.33
5 KOTHARI PRIMA	9.75	10.84	11.94	17.1	15.11	24.26	35.63	30.09
6 GIC FORTUNE 94	6.58	6.37	5.87	6.12	6.3	7.83	8.33	7.4
7 GIC GROWTH PLUS II	8.42	9.14	8.99	11.73	12.23	17.87	16.86	21.07
8 JM EQUITY (DIVIDEND)	8.91	10.75	9.06	12.68	10.91	12.35	15.21	15.33
9 JM EQUITY (GROWTH)	8.84	13.27	8.28	11.82	10.92	12.96	16.29	19.33
10 BRILA ADVANTAGE FUND	13.63	14.55	16.33	26.21	25.01	37.81	64.73	71.94
11 RELIANCE VISION FUND	11.07	10.4	10.58	13.11	14.56	20.25	22.2	23.31
12 TEMPLETON INDIA G.FUND	9.05	7.88	7.53	8.31	9.15	11.94	14.13	15.75
13 DSP MERRILL LYNCH E.FUND	11.78	13.12	13.33	19.59	18.81	20.99	26.57	28.83
14 TEMPLETON INDIA I.(GROWTH)	11.32	12.27	12.69	13.07	13.45	14	14.45	14.94
15 KOTHARI BLUECHIP	16.7	18.53	18.51	27.32	26.51	37.39	51.68	57.99
16 MAGNUM MULTIPLIER 93	11.64	10.83	10.23	15.82	14.93	20.64	31.63	29.74
17 DHAN VIKAS	8.55	7.58	7.45	8.47	9.08	10.75	10.71	10.72
18 VALUE FUND	9.93	11.95	12.88	18.95	18.55	21.88	26.02	30.08

### Annuxure 3

#### CALCULATIONS FROM NAV/INDEX 1995-98.

ITEM	31-MAR	30-SEP	31-MAR	30-SEP	31-MAR	30-SEP	31-MAR	TOAL	COV	R <sub>m</sub>	E. RETURN
BSE-NI	-0.23	-0.02	-0.02	-0.10	0.14	0.08	0.06	-0.10	-0.10		
1 MASTERSHARE	-0.04	-0.27	0.00	-0.07	0.06	0.03	-0.11	-0.42	0.0028	0.2073	9.7412
2 UGS2000	-0.13	-0.10	0.00	-0.05	0.06	-0.20	-0.10	-0.52	0.0022	0.2080	10.2356
3 UGS-2000(RO)	-0.13	-0.10	0.00	-0.05	0.06	-0.20	-0.10	-0.52	0.0022	0.2080	10.2356
4 UGS-5000	-0.22	-0.08	-0.29	-0.03	0.07	0.06	-0.04	-0.53	0.0093	0.5617	4.5219
5 UGS-5000(RO)	-0.22	-0.08	-0.29	-0.03	0.07	0.06	-0.04	-0.53	0.0093	0.5617	4.5219
6 MASTER PLUS-91	-0.24	-0.07	-0.01	0.01	0.14	0.06	-0.04	-0.14	0.0104	0.7262	3.6490
7 MASTER GAIN-92	-0.23	-0.08	-0.04	-0.04	-0.05	0.08	-0.05	-0.41	0.0072	0.6481	6.2609
8 MASTER GROWTH	-0.26	-0.06	0.02	0.03	0.17	0.07	-0.09	-0.11	0.0112	0.6677	3.0317
9 GRAND MASTER	-0.23	-0.14	-0.04	-0.13	0.01	0.10	-0.04	-0.46	0.0097	0.7318	4.2404
10 MAGNUM MULT.	-0.20	-0.16	-0.06	-0.18	0.04	-0.02	-0.12	-0.71	0.0079	0.7208	5.6575
11 MAGNUM EXP.	-0.19	-0.13	-0.03	-0.13	0.03	0.05	0.00	-0.41	0.0086	0.7735	5.0844
12 MAGNUM MULT-PLUS	-0.11	-0.10	-0.04	-0.06	0.04	0.15	-0.14	-0.25	0.0055	0.4505	7.5684
13 CANBONUS	-0.15	-0.25	-0.01	-0.29	0.02	0.12	-0.08	-0.64	0.0092	0.5096	4.5983
14 CANSTAR(CG)	-0.09	-0.19	-0.09	-0.19	-0.12	-0.01	-0.12	-0.81	0.0014	0.1793	10.9006
15 IND RATNA	-0.19	-0.27	-0.13	-0.23	0.00	0.11	-0.04	-0.74	0.0098	0.5864	4.1501
16 IND MOTI	-0.26	-0.22	-0.06	-0.21	-0.04	-0.02	0.00	-0.81	0.0096	0.7125	4.3066
17 IND SAGAR	0.12	-0.24	-0.11	-0.24	-0.02	0.08	-0.16	-0.58	-0.0017	-0.0921	13.3324
18 IND NAVRATNA	0.08	-0.35	-0.07	-0.25	-0.02	0.05	-0.16	-0.71	-0.0008	-0.0424	12.6585
19 BOI DOUBLE SQ-PA	-0.08	-0.11	0.00	-0.09	-0.02	-0.06	0.00	-0.36	0.0024	0.4484	10.0430
20 BOI DOUBLE SQ-PB	-0.08	-0.11	0.00	-0.09	-0.02	-0.06	0.00	-0.36	0.0024	0.4484	10.0430
21 FEST BOINANZA-A	-0.01	-0.16	-0.08	-0.13	-0.26	0.30	-1.00	-1.33	-0.0103	-0.2119	20.2823
22 FEST BOINANZA-B	-0.15	-0.28	-0.14	-0.13	-0.14	0.05	-1.00	-1.79	-0.0063	-0.1498	17.0227
23 DHAN VIKAS	0.05	-0.21	-0.02	-0.10	-0.15	0.04	-0.07	-0.47	-0.0035	-0.3059	14.8353
24 GIC GROWTH P2	-0.18	-0.08	0.02	-0.01	0.07	0.01	-0.06	-0.23	0.0069	0.6765	9.9805
25 KP-PRIMA	-0.05	-0.10	-0.11	-0.29	0.07	-0.10	0.13	-0.45	0.0067	0.4002	8.5952
26 MS-GROWTH FUND	-0.20	-0.12	-0.01	-0.05	0.09	0.19	-0.04	-0.15	0.0106	0.6704	3.5053
27 ICICI-PREMIER	0.12	-0.26	-0.11	-0.19	0.13	0.10	0.00	-0.21	0.0031	0.1585	9.5484
28 CENTURION QUANTUM	-0.10	-0.24	-0.13	-0.18	0.02	0.10	0.11	-0.43	0.0088	0.5030	5.0990
29 TAURUS THE STARSHARE	-0.21	-0.16	-0.11	-0.19	-0.16	0.17	-0.22	-0.88	0.0054	0.3252	7.6986

## Annuxure 4

### CALCULATIONS FROM NAV/INDEX 1998-2000.

ITEM	30- SEP	31- DEC	31- MAR	30- JUN	30- SEP	31- DEC	31- MAR	TOTAL	COV	R <sub>IM</sub>	E. RETURN
BSE-NI	0.02	-0.05	0.17	0.09	0.26	0.21	0.11	0.81	0.80515	NA	NA
1 MASTERGAIN 92	-0.19	-0.01	0.10	0.06	0.27	0.02	-0.03	0.22	0.0090	0.61487	2.486222
2 GRANDMASTER	-0.20	-0.01	0.18	0.01	0.00	0.46	-0.03	0.43	0.0105	0.473076	0.883998
3 UTI UNIT SCHEME 95	0.07	-0.14	0.10	0.02	0.10	0.10	0.46	0.70	0.0059	0.30929	5.763075
4 UTI PRIMARY EQUIT FUND	-0.18	0.04	0.40	-0.02	0.32	0.18	0.02	0.77	0.0136	0.633234	-2.41725
5 KOTHARI PRIMA	0.11	0.10	0.43	-0.12	0.61	0.47	-0.16	1.45	0.0188	0.595161	-7.95355
6 GIC FORTUNE 94	-0.03	-0.08	0.04	0.03	0.24	0.06	-0.11	0.16	0.0084	0.676787	3.116877
7 GIC GROWTH PLUS II	0.09	-0.02	0.30	0.04	0.46	-0.06	0.25	1.07	0.0098	0.485653	1.629878
8 JM EQUITY (DIVIDEND)	0.21	-0.16	0.40	-0.14	0.13	0.23	0.01	0.68	0.0104	0.479349	0.974965
9 JM EQUITY (GROWTH)	0.50	-0.38	0.43	-0.08	0.19	0.26	0.19	1.11	0.0128	0.401454	-1.55544
10 BIRLA ADVANTAGE FUND	0.07	0.12	0.61	-0.05	0.51	0.71	0.11	2.08	0.0209	0.654929	-10.2466
11 RELIANCE VISION FUND	-0.06	0.02	0.24	0.11	0.39	0.10	0.05	0.84	0.0110	0.688053	0.351788
12 TEMPLETON INDIA G.FUND	-0.13	-0.04	0.10	0.10	0.30	0.18	0.11	0.63	0.0116	0.768675	-0.31486
13 DSP MERRILL LYNCH E.FUND	0.11	0.02	0.47	-0.04	0.12	0.27	0.09	1.03	0.0078	0.428818	3.743741
14 TEMPLETON INDIA I. (GROWTH)	0.08	0.03	0.03	0.03	0.04	0.03	0.03	0.28	-0.0006	-0.26847	12.58805
15 KOTHARI BLUECHIP	0.11	0.00	0.48	-0.03	0.41	0.38	0.12	1.47	0.0157	0.712686	-4.68062
16 MAGNUM MULTIPLIER 93	-0.07	-0.06	0.55	-0.06	0.38	0.53	-0.06	1.22	0.0216	0.687619	-10.9687
17 DHAN VIKAS	-0.11	-0.02	0.14	0.07	0.18	0.00	0.00	0.26	0.0063	0.592948	5.264628
18 SUN F&C VALUE FUND	0.20	0.08	0.47	-0.02	0.18	0.19	0.16	1.26	0.0053	0.331251	6.377274

# ***Mutual Funds in Kerala***

## **Chapter VI**

### **MUTUAL FUNDS IN KERALA**

6.0 Introduction

6.1 Kerala: General

6.2 The economic profile of Kerala

6.3 Mutual Fund Industry of Kerala

6.4 The Empirical Analysis

6.5 Conclusion

## **6.0 Introduction**

In the preceding chapters, we have analysed the Indian Mutual Fund Industry as a whole. In the present chapter, an amplified study of the Mutual Fund Industry and its investors of Kerala are attempted. Here, the emphasis is given to the empirical analysis of mutual fund investors, their perception and adoption levels.

### **6.1 Kerala**

#### **6.1.1 General**

Kerala is a South Indian State looks small both in its geographic size and population. As a political entity, Kerala State came into existence in 1956 by integrating the Malayalam speaking former princely states of Travancore and Cochin with the Malabar District of the former British colonial province of Madras. It has an area of 38,863 square kilometres and a population of 2,90,98,518<sup>1</sup> as per 1991 census and 3,18,38,619 as per 2001 census. It occupies 1.18% of the total land area of the country and has 3.44% of the total population of the country at the 1991 census.<sup>2</sup> It is the only state in India

that has been declared fully literate.<sup>3</sup> Kerala also has the lowest infant mortality (13 per 1000) and highest life expectancy rates of all the Indian states. It is the only state where females outnumber males in the population. Kerala has the largest per-capita circulation of newspapers and magazines in India. Kerala's indicators of social development are comparable to many so-called developed nations, although its per capita income is a mere fraction of theirs.<sup>4</sup> It has rich natural resources like minerals, marine products and agro-spice products<sup>5</sup>. It has an excellent communication network.

#### 6.1.2 People

A state with 100% literacy, world standards of health, and a hard working, determined, dedicated population is always setting standards in all most all the spheres of its activity. In more modern times the Keralites have migrated in large numbers in search of employment to several foreign countries like United States, Malaysia and Singapore in South East Asia as well as to several countries of Africa and West Asia. The

professionals of Kerala are among the most wanted experts in the fields of medicine, Information Technology etc.

### 6.1.3 Religion

Kerala is known for its communal harmony and it is achieved by Kerala's interaction with varied cultures and ways of life, both indigenous and foreign. Originally its people followed the Dravidian way of life and religious practice. In due course many indigenous religions and philosophical systems from North India made their appearance on Kerala soil and competed with one another for the loyalties of the people. The story of the synthesis of Dravidian and Aryan cultures and the rise and fall of religions like Jainism and Buddhism in ancient Kerala is of particular interest to those engaged in the study of the story of cultural synthesis. At the same time Kerala's commercial contacts with foreign countries, world religions like Christianity, Judaism and Islam were also introduced in the land and they helped considerably in shaping the composite culture of the land.

The population distribution according to religion is: 57% Hindus, 23% Muslims, 19% Christians, and the rest Sikhs, Jains, Buddhists, and others who didn't reveal religion (see Table 6.1 and Figure 6.1). With a population density of 740 persons per square kilometre, Kerala is one of the most densely populated regions in the world. It has the most advanced society with 100% literate workforce, highest number of skilled and productive manpower, and highest density of science and technology personnel.

Table 6.1 Population of Kerala as per 1991 Census – Religion-wise

Religion	Population	Percentage
Hindus	1,66,68,587	57.28
Muslims	67,88,364	23.33
Christians	56,21,510	19.32
Others	9,363	0.03
Religion not stated	10,694	0.04
Total	2,90,98,518	100.00

Source: *Statistics since Independence*, Department of Economics and Statistics, Government of Kerala, 1998, p.40.

## 6.2 The economic profile of Kerala

Kerala is a poor state with a low per capita income. But in most of the human development parameters Kerala ranks with

the developed countries, which shows that it is possible to achieve a high level of human development with much less per capita income.<sup>6</sup> Table 6.2 compares the achievements of Kerala with those of a few developed countries and some oil rich countries. It can be seen that the status of Kerala is even higher than that of many developed countries.

Table 6.2 Per Capita Income and Human Development Indicators

Country	Per Capita Income \$	Life expectation (Years)	Literacy %	Under 5 mortality
The USA	23,760	76.0	99.0	9
Switzerland	22,580	78.0	99.0	6
Japan	20,520	79.5	99.0	5
Qatar	22,380	70.5	78.5	20
The UAE	21,830	73.8	73.8	20
Oman	11,710	69.6	35.0	20
KERALA	300	72.0	93.0	15

Source: Oommen, M.A, (Ed.), *Kerala Development Experience Vol.I*, Institute of Social Sciences, Concept Publishing Co., New Delhi, 1999, p. 208.

#### 6.2.1 State Income

The state income, at 1993-94 prices, is estimated at Rs.31,240 crores in 1998-99 as against Rs.29,586 crores in 1997-98, registering a growth rate of 5.6 %. At current prices, the state income in 1998-99 is estimated at Rs.56,563 crores as

compared to Rs.47,924 crores in 1997-98. The per capita income at current prices is estimated at Rs.17,756 in 1998-99 as against Rs.15,195 in 1997-98. The per capita income in 1998-99 at constant prices is estimated at Rs.9,807 as compared to Rs.9381 in 1997-98 registering a growth rate of 4.5% (see Table 6.3 and Figure 6.2). Thus, now the per capita income of the state exceeds the all India per capita income.<sup>7</sup>

#### 6.2.2 Prices

Regarding the price situation, it has been observed that the inflation rate in Kerala has been higher than that experienced at the national level. Other indicators of the state's development are given in Table 6.4.

Table 6.3 State Income and Per Capita Income (in Rs.crores)

Year	State Income at current prices	State Income at 1980-81 prices	Per Capita Income at current prices	Per Capita Income at constant prices
1970-71	1255	1255 ⊗	594 ⊗	594 ⊗
1980-81	3823	3823	1508	1508
1985-86	6503	4086	2398	1507
1989-90	10668	4862	3718	1705
1990-91	12173	5262	4200	1815
1991-92	15102	5365	5140	1826
1992-93	17175	5752	5768	1932
1993-94	23401	23401 @	7788	7788

1994-95	28697	25608 @	9432	8417
1995-96	35087	26887 @	11390	8728
1996-97	40819	28189 @	13089	9039
1997-98	47924 (P)	29586 @ (P)	15195 (P)	9381 (P)
1998-99	56563(Q)@	31240 (Q)	17756 (Q)	9807 (Q)
1999-'00	66637#	32988 @ #	20730 #	10262 @ #

⊗ At 1970-71 prices @ Base year 1993-94 P Provisional

Q Quick estimate # Anticipated

Source: Economic Review 1999, State Planning Board, Govt. of Kerala.

Table 6.4 Kerala – Some indicators

Item	Reference	Unit
	Year	
Area	1991	38863sq km
Population	1991	29038000
„	2001	31838619
Density of population	1991	749 persons/sq km
„	2001	819 „ „
Sex ratio	1991	1036 females/1000 males
„	2001	1058 „ „
Birth rate	1997	17.9/1000 persons
Death rate	1997	6.2/1000 persons
Infant mortality rate	1997	12/1000 persons
Life expectancy –male	2001	68.23 years
„ - female	2001	73.62 „
Literacy rate	2001	90.92%
Electricity generated	97-98	5189.02 MU
Airports	--	3
Major ports	--	1 Cochin
Intermediate ports	--	3
Minor ports	--	12
Total length of road network	1997	219805 km
No. of post offices	1999	5051
Telephone exchanges	1999	850
No. of Telephone connections	1999	1355084

”	”	1999	35 / sq km
”	”	1997	47 / 1000 persons
No. of railway stations		2001	188

Source: 1. Official website of Kerala Government, [www.keralagov.com](http://www.keralagov.com)  
2. Economic Review 1999, State Planning Board, Govt. of Kerala,  
and,  
3. Manorama Year Book, 2002

### **6.3 Mutual Fund Industry of Kerala**

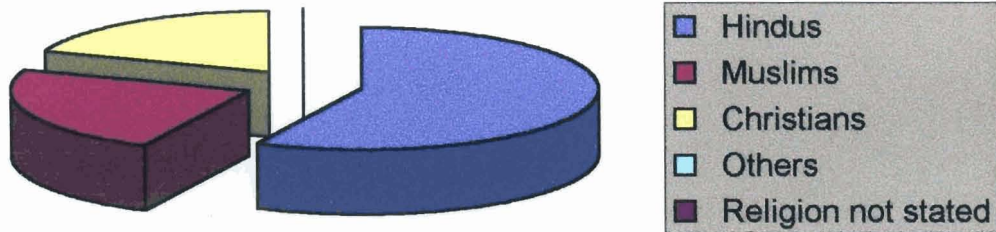
There are no mutual funds with their head offices in Kerala. But, all of the mutual funds of India have operation in Kerala through either their own branches or agents. The main business of these offices is concentrated in the major cities of Kerala, Cochin, Trichur, Trivandrum and Calicut. The UTI itself has three main branches in Kerala, in Cochin, Trichur and Trivandrum and many franchisee offices and agents spread throughout the state. No organisation collects statistics about mutual fund mobilisations from Kerala. The Government of Kerala don't have any statistics since there are no governmental agencies directly or indirectly involved in the mobilisations of units of mutual funds. Mutual funds

including the UTI are not willing to share the information with the researcher in spite of the repeated appeals and visits to their regional/head offices. Similar is the situation with the published data, all of which compelled to limit the study to an empirical one.

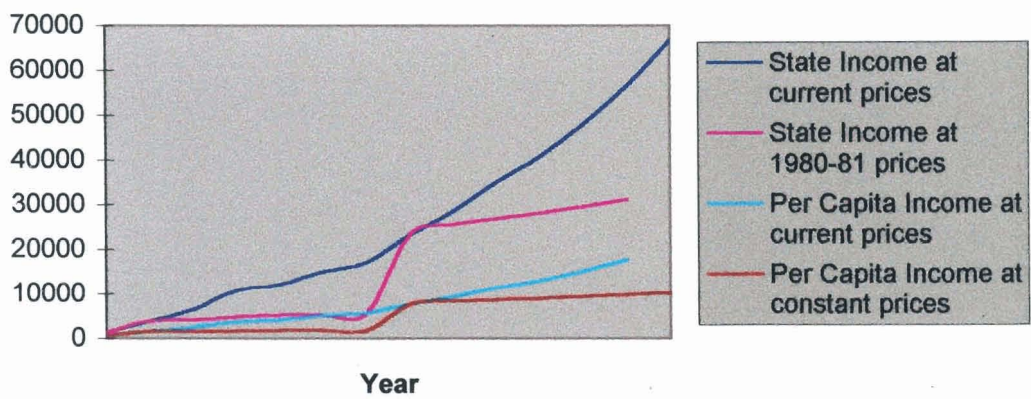
#### **6.4 The Empirical Analysis**

One of the major components of the present study is the survey conducted among the investors of mutual fund schemes in Kerala. The survey enquired mainly about the experience of the respondents in investing in mutual fund schemes, their preferences, expectations and suggestions. It also sought to get information about their awareness and adoption level of mutual funds and their perception of mutual funds in relation to other investment schemes. A due note of caution should be made in this respect is that the survey could be completed just before the collapse of the industry on the UTI Scam revealed somewhere in July 2001.

**Figure 6.1 Population of Kerala as per 1991 Census - Religion-wise**



**Figure 6.2 State Income and Per Capita Income 1970-2000 (in Rs.crores)**



#### 6.4.1 Primary data

Primary data have been collected from 424 individual investors of various mutual fund schemes from the two districts of Kerala, Calicut and Ernakulam, which represented the northern and southern parts of the state respectively. The political map of Kerala is given as Map 1.

#### 6.4.2 Sample Districts

Ernakulam and Calicut are two important districts of Kerala in which the two cities, Cochin and Calicut are located. Both the districts represent urban and rural population. Ernakulam is one of the industrial centres of Kerala and have the important Cochin Port. It has the highest per capita income among the districts of Kerala. Calicut District is also one of the industrially advanced areas of the state with many small-scale industries flourishing from early days. Table 6.5 gives the important facts about the districts.

MAP 1 KERALA

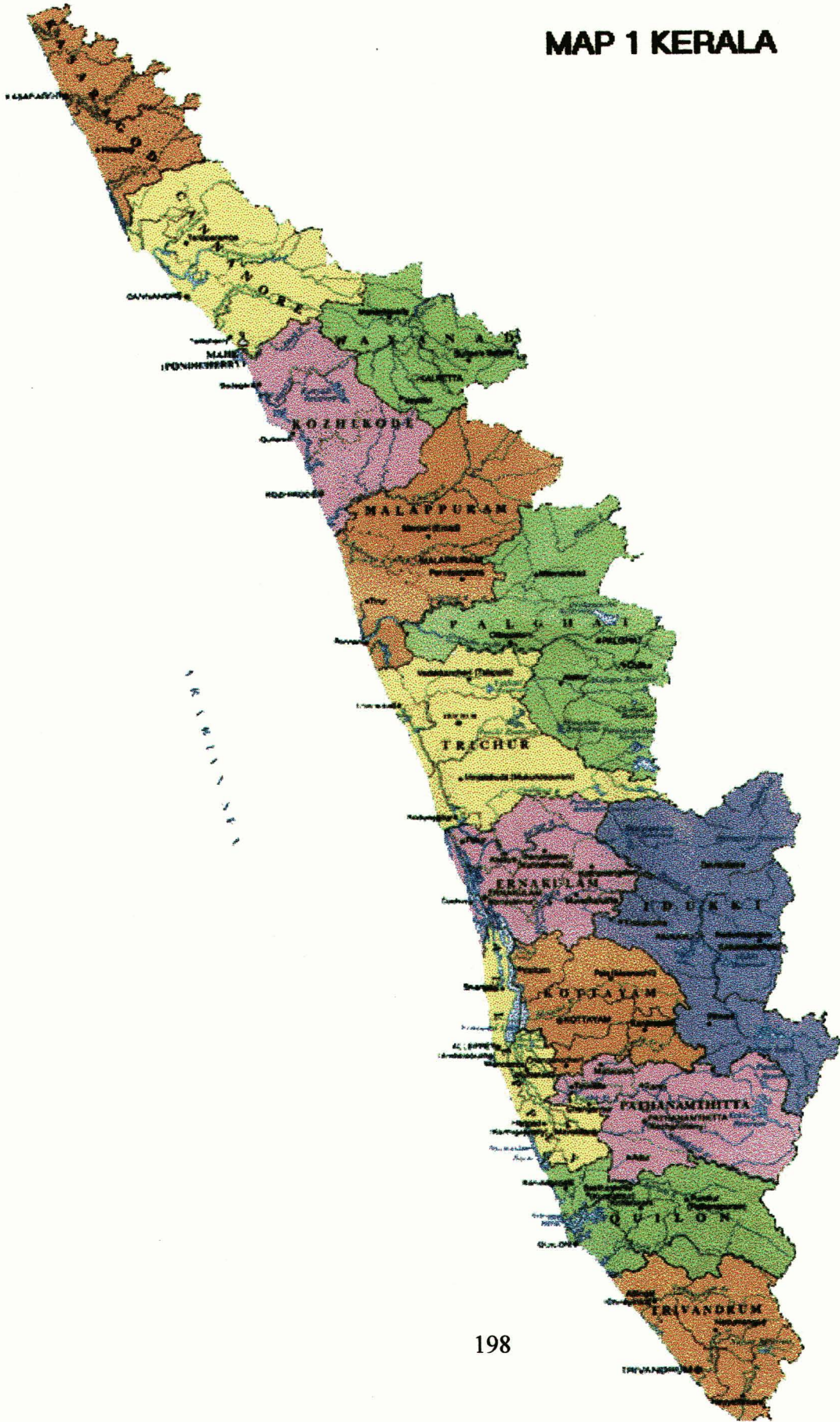


Table 6.5 Sample Districts – Some facts

<b>Facts</b>	<b>Ernakulam</b>	<b>Calicut</b>
Area	2407sq km	2344 sq km
Population (2001)	30,98,378	28,78,498
Male	15,35,881	13,98,674
Female	15,62,497	14,79,824
Population Density	1050/ sq km	1228 /sq km
Female Ratio	1017	1058
Literacy	93.42%	92.45%
Population (1991)	28,17,236	26,19,941
Per Capita Income	Rs.23,020	Rs.18,105
Post offices	384	419
Phone connections	2,75,203	1,13,519
Vehicles	3,33,022	1,54,301
Road length	2,177 km	1,387 km
Households (1991)	5,49,268	4,51,627

Source: Manorama Year Book 2002

#### 6.4.3 Profile of the respondents

The profiles of the survey respondents are arranged in terms of their age, sex, marital status, education, occupation, residential location, family size, annual income, expense and savings for the last three years, etc. which are discussed below in the following sections.

##### 6.4.3.1 Age

Table 6.6 shows the age distribution of the respondents. 29.72 % of the respondents are in the age group of 46-55 followed by

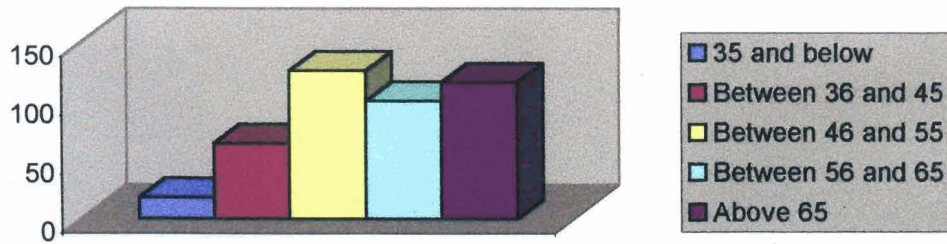
the group of above 65, which has 27.36%. Age group 56-65 is in the third position with 23.58%, 36-45 with 15.09% and group of age below 35 with a meagre 4.25%. About 80% of the respondents are of the age more than 45. Table 6.7 gives the age-wise holdings of mutual fund investment over the last three years. On an average, 36% of the total investments of each year are held by the respondents in the category of the age above 65 followed by category 46-55 with 27%. It is to be noted here that mutual fund investments are accepted much by the aged- investors rather than by the youngsters (see Figure 6.4 for the graphical representation of the same).

Table 6.6 Age-wise distribution of respondents

<b>Age</b>	<b>No.of respondents</b>	<b>Percentage to total</b>
35 and below	18	4.25
Between 36 and 45	64	15.09
Between 46 and 55	126	29.72
Between 56 and 65	100	23.58
Above 65	116	27.36
Total	424	100.00

Source: Survey Data

**Figure 6.3 Age-wise distribution of respondents**



**Figure 6.4 Average age-wise holdings of mutual fund schemes**

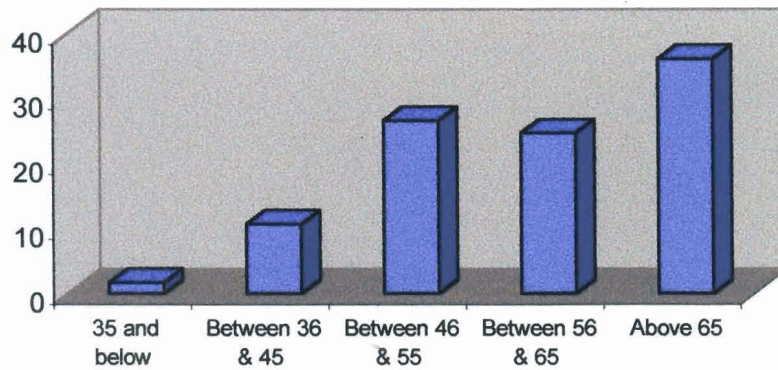


Table 6.7 Age-wise distribution of investment in mutual fund schemes

Age	Last year		Year preceding last		Two years preceding last		Average % of holdings
	Rs.	%	Rs.	%	Rs.	%	
35 and below	5,58,000	3	2,45,600	1	2,38,400	1	1.7
Between 36 & 45	23,38,000	13	16,03,000	10	13,88,200	9	10.7
Between 46 & 55	40,02,000	21	41,44,000	26	52,32,000	33	26.7
Between 56 & 65	52,52,800	28	42,22,000	26	30,95,002	20	24.7
Above 65	<u>65,77,000</u>	<u>35</u>	<u>60,34,000</u>	<u>37</u>	<u>59,43,002</u>	<u>37</u>	<u>36.2</u>
	<u>1,87,27,800</u>	<u>100</u>	<u>1,62,48,600</u>	<u>100</u>	<u>1,58,96,604</u>	<u>100</u>	<u>100.0</u>

Source: Survey Data

#### 6.4.3.2 Sex

Table 6.8 classifies the respondents sex-wise. 86.8% of the respondents are male investors and only 13.2% are female.

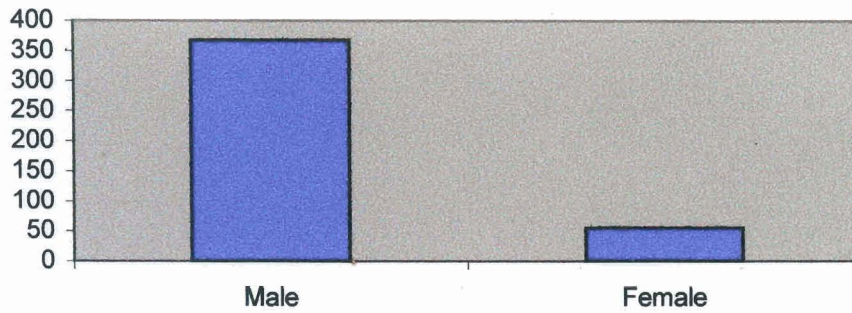
This may be because of the fact that most of the investments are done by the male members of the family.

Table 6.8 Distribution of the respondents - Sex-wise

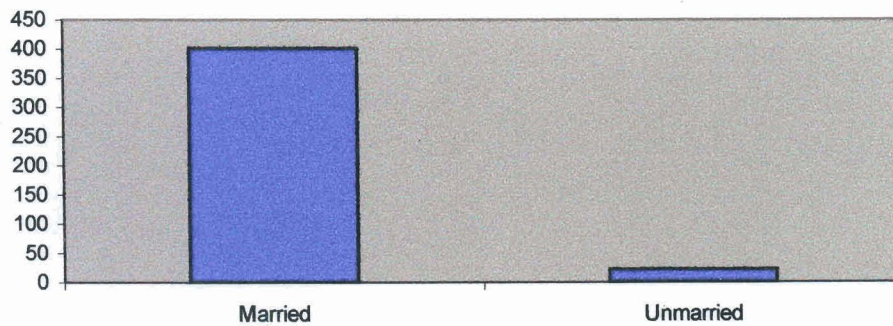
Sex	No. of respondents	Percentage
Male	368	86.8
Female	56	13.2
Total	424	100.0

Source: Survey Data

**Figure 6.5 Sex-wise distribution of respondents**



**Figure 6.6 Marital Status-wise distribution of respondents**



#### 6.4.3.3 Marital Status

Marital status-wise distribution of the respondents is shown in the Table 6.9. 94.81% of them are married persons and the rest, 5.19% are unmarried.

Table 6.9 Distribution of the respondents - Marital status-wise

<b>Marital Status</b>	<b>No.of respondents</b>	<b>Percentage</b>
Married	402	94.81
Unmarried	22	5.19
Total	424	100.00

Source: Survey Data

#### 6.4.3.4 Education

Education-wise, 28.06% of the respondents have professional qualifications; 25.24% have bachelor degrees; 19.81% have postgraduate degrees, followed by 14.15% technically qualified persons (see Table 6.10). The reason is that only highly qualified individuals are well aware of investment alternatives like mutual fund schemes. The same factor can be verified from Table 6.11 in which the education-wise distribution of the mutual fund investment over the last three years were

given. The average investment of the professionals in mutual fund schemes is the highest, which is 34%.

Table 6.10 Distribution of the respondents - Education-wise

Education	No. of respondents	Percentage
SSLC	34	8.02
PDC	20	4.72
Degree	107	25.24
PG	84	19.81
Technical	60	14.15
Professional	119	28.06
<b>Total</b>	<b>424</b>	<b>100.00</b>

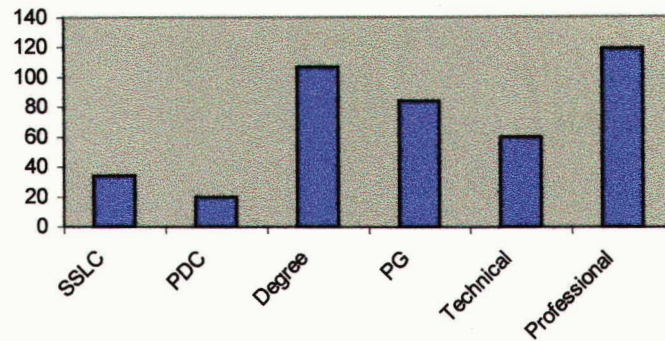
Source: Survey Data

Table 6.11 Distribution of respondents' investment in mutual funds - Education-wise

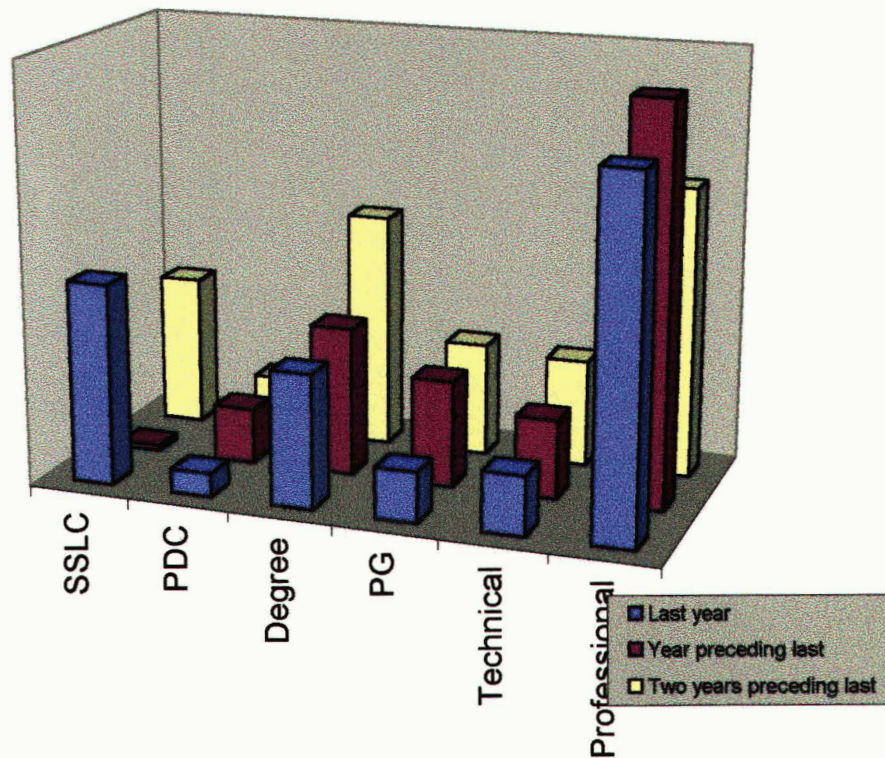
Education	Last year		Year preceding last		Two years preceding last		Average % of holdings
	Rs.	%	Rs.	%	Rs.	%	
SSLC	3347800	18	094000	19	2520000	16	18
PDC	392000	8	923600	6	933400	6	7
Degree	2242000	12	2484000	15	3914000	25	17
PG	843000	10	1782000	11	1897000	12	11
Technical	994000	21	1334000	8	1792000	11	13
Professional	5909000	31	6631000	41	4840204	30	34
	<u>18727800</u>	<u>100</u>	<u>6248600</u>	<u>100</u>	<u>5896604</u>	<u>100</u>	<u>100</u>

Source: Survey Data

**Figure 6.7 Education-wise distribution of respondents**



**Figure 6.8 Distribution of respondents' investment in mutual fund schemes- Education-wise**



#### 6.4.3.5 Occupation

Occupation-wise, 19.34% of the respondents are retired persons, 16.98% businessmen, 12.26% professionals followed by 8.96% private sector employees and 7.07% agriculturists/planters. The remaining occupational categories have a representation of 5% each in the sample (see Table 6.12 and Figure 6.9). The given Table 6.13 (Figure 6.10) shows the occupation-wise distribution of the last three-year investments of the respondents in mutual fund schemes. The average investments of businessmen are the highest, 37% followed by professionals, 16% and retired with 14%.

Table 6.12 Occupation-wise distribution of respondents

<b>Occupation</b>	<b>No. of respondents</b>	<b>Percentage</b>
Central Govt. employees	22	5.19
State Govt. employees	22	5.19
Quasi-govt. employees	24	5.66
Co-operative employees	18	4.25
Private sector employees	38	8.96
Public sector employees	22	5.19
Business	72	16.98
Profession	52	12.26
Agriculture/ plantation	30	7.07

Employed / returned from abroad	22	5.19
Retired	82	19.34
Others	20	4.72
<b>Total</b>	<b>424</b>	<b>100.00</b>

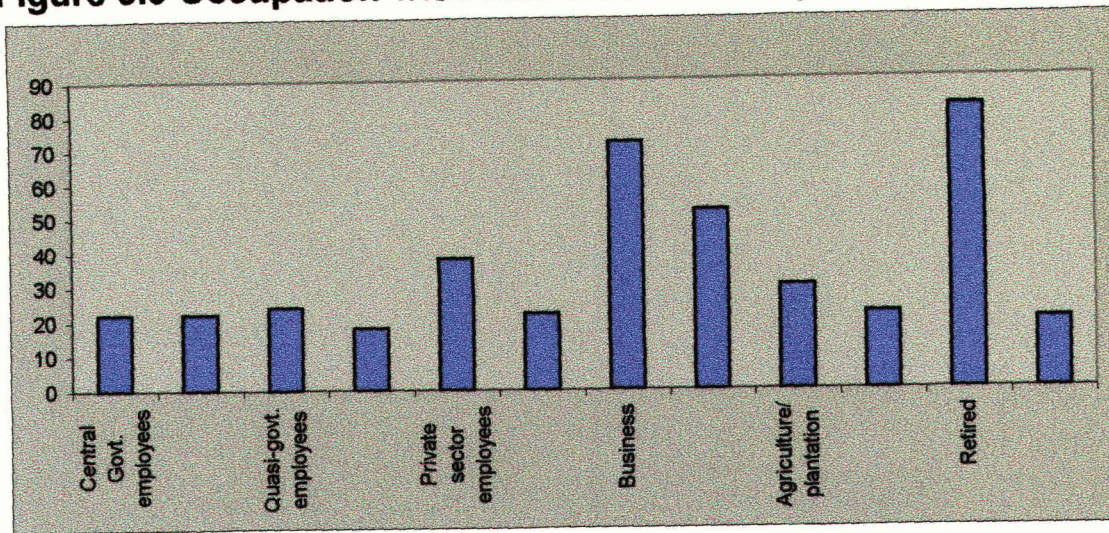
Source: Survey Data

Table 6.13 Occupation-wise distribution of the respondents' mutual fund investments

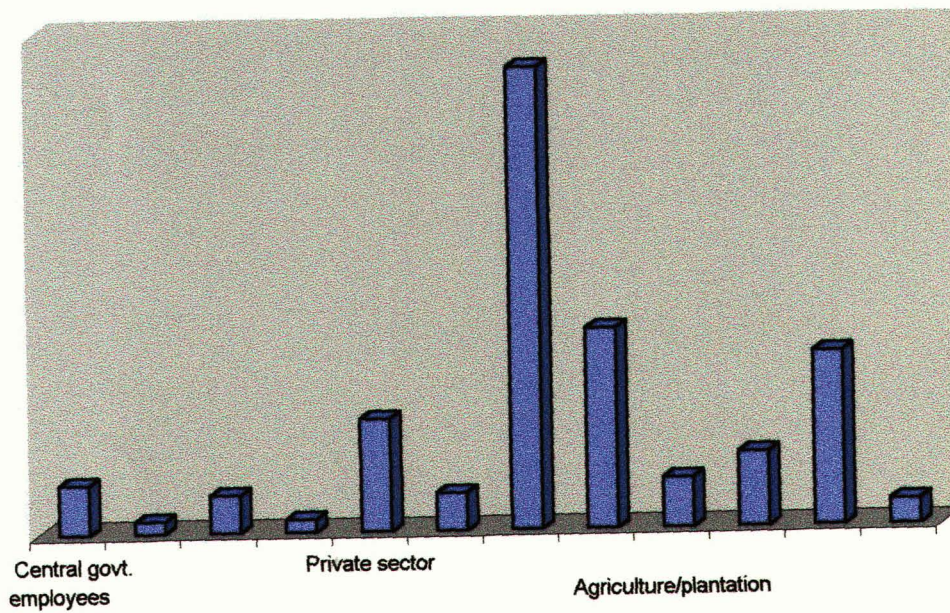
Occupation	Last year		Year preceding last		Two years preceding last		Average % of holdings
	Rs.	%	Rs.	%	Rs.	%	
Central govt. employees	9,28,000	5	3,90,000	3	4,08,000	3	<b>4</b>
State Govt. employees	2,30,000	1	1,78,000	1	3,10,000	2	<b>1</b>
Quasi " "	1,64,000	1	7,56,000	5	4,31,000	3	<b>3</b>
Co-operative	2,34,000	1	1,86,000	1	1,66,000	1	<b>1</b>
Private sector	12,15,000	7	16,44,000	10	16,14,000	10	<b>9</b>
Public sector	5,08,800	3	3,86,000	3	5,00,000	3	<b>3</b>
Businessmen	71,11,000	38	55,97,600	34	63,12,400	39	<b>37</b>
Professionals	27,99,000	15	28,95,000	18	23,19,200	14	<b>16</b>
Agriculture/ plantation	10,90,000	6	6,16,000	3	5,08,000	3	<b>4</b>
Employed/ returned from abroad	3,64,000	2	15,84,000	10	11,44,002	7	<b>6</b>
Retired	38,00,000	20	16,52,000	10	17,68,002	11	<b>14</b>
Others	2,84,000	1	3,64,000	2	4,16,000	4	<b>2</b>
	<u>187,27,800</u>	<u>100</u>	<u>162,48,600</u>	<u>100</u>	<u>158,96,604</u>	<u>100</u>	<u><b>100</b></u>

Source: Survey Data

**Figure 6.9 Occupation-wise distribution of respondents**



**Figure 6.10 Average occupation-wise holdings of mutual fund schemes**



#### 6.4.3.6 Residential location

Majority of the respondents are residents of urban places (71.7%) and the representation of the rural population is only to the extent of 28.3% (see Table 6.14).

Table 6.14 Residential Location-wise distribution of respondents

<b>Residence location</b>	<b>No.of respondents</b>	<b>Percentage</b>
Rural	120	28.3
Urban	304	71.7
Total	424	100.0

Source: Survey Data

#### 6.4.3.7 Family Size

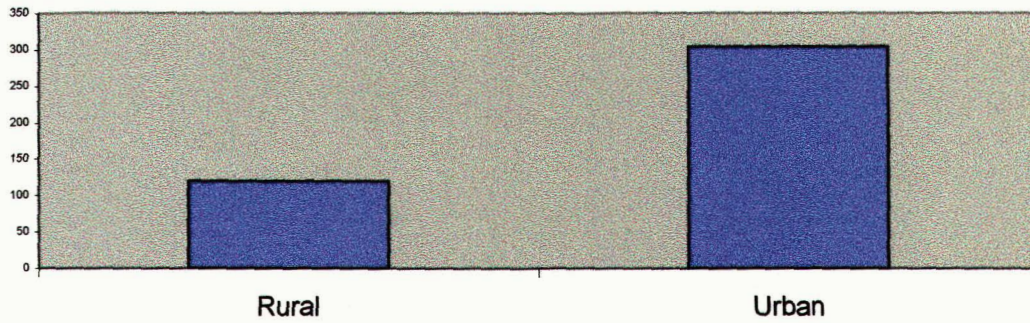
Table 6.15 states the sizes of the families supported by the respondents. 61.79% of the respondents belong to the medium family size of 4 or 5 members followed by small category of 3 members, 30.66%.

Table 6.15 Family size-wise distribution of respondents

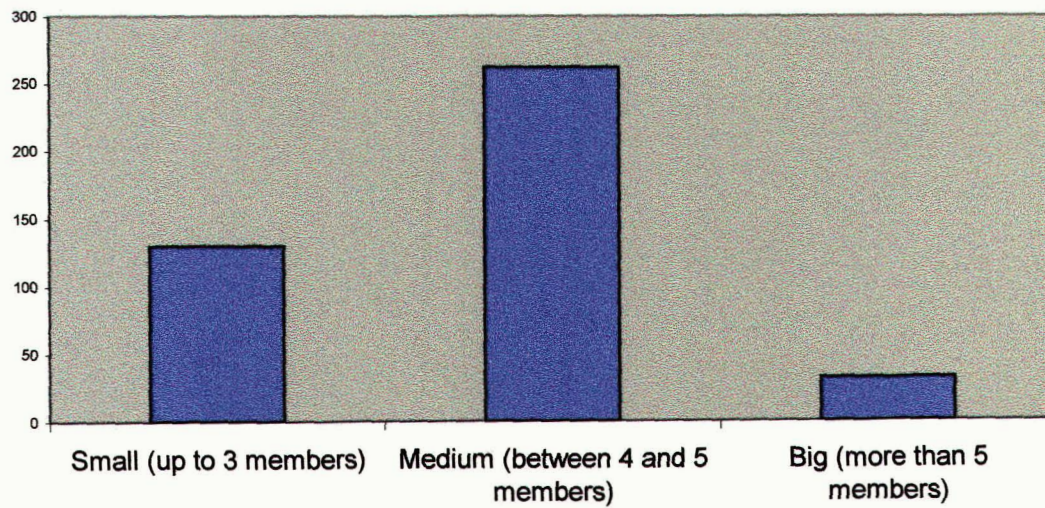
<b>Family size</b>	<b>No. of respondents</b>	<b>Percentage</b>
Small (up to 3 members)	130	30.66
Medium (between 4 and 5 members)	262	61.79
Big (more than 5 members)	32	7.55
Total	424	100.00

Source: Survey Data

**Figure 6.11 Residential location-wise distribution of respondents**



**Figure 6.12 Family size-wise distribution of respondents**



#### 6.4.3.8 Religion

Religion-wise, 49.06% of the respondents are Hindus; 33.01% Christians, 16.51% Muslims and a negligible 1.42% are other religions (see Table 6.16).

Table 6.16 Religion-wise distribution of respondents

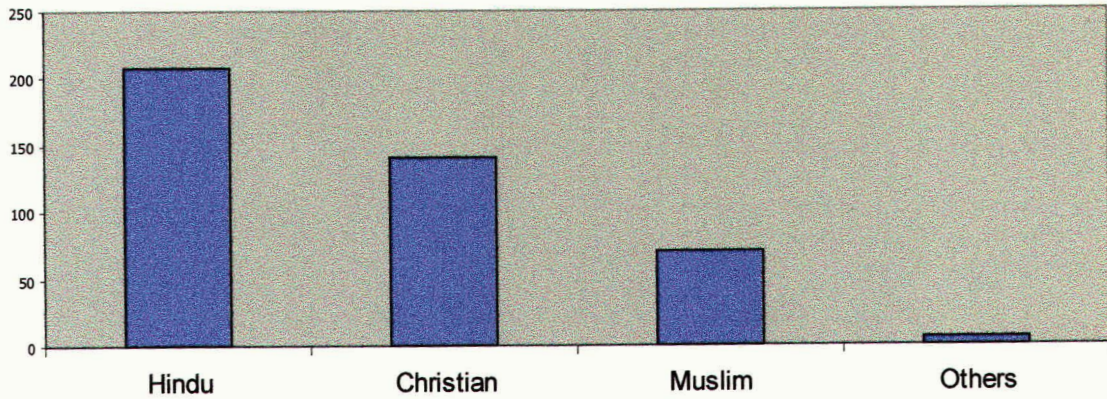
<b>Religion</b>	<b>No. of respondents</b>	<b>Percentage</b>
Hindus	208	49.06
Christians	140	33.01
Muslims	70	16.51
Others	6	1.42
Total	424	100.00

Source: Survey Data

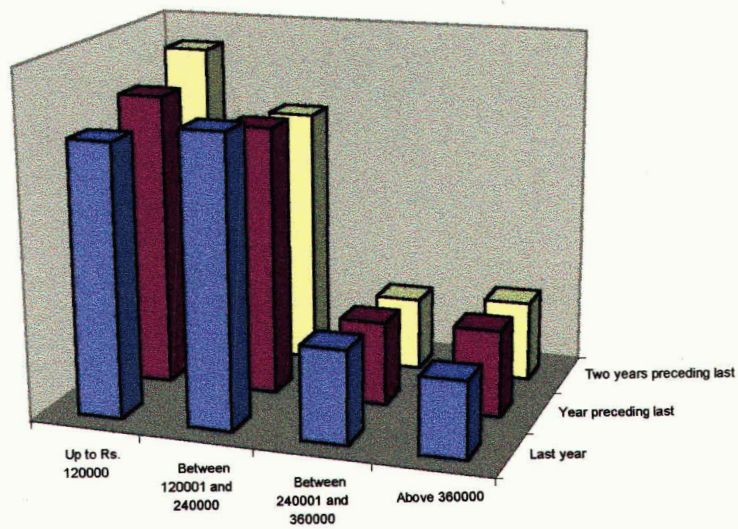
#### 6.4.3.9 Income Groups

The respondents are classified into four groups based on their annual income for three years. The groups are Up to Rs.120000, Between Rs.120001 & Rs.240000, Between Rs.240001 & Rs.360000 and Above Rs.360000. Based on their last year income 39.6% are belong to Between Rs.120001 & 240000. 40% of the respondents are from the Up to Rs.120000 class based of their income of the year preceding last. The highest percentage of respondents based on their income of the year preceding two years is 43.9%. On an average, 77.7%

**Figure 6.13 Religion-wise distribution of respondents**



**Figure 6.14 Income Group-wise distribution of respondents**



of the respondents, based on their three-year income are from the first two lower classes.

#### 6.4.4 Saving habits and purposes

51.42% of the respondents have the habit of saving regularly.

2.83% of the respondents, mainly the retired persons who have any surplus earnings so as to save, but they hold mutual fund investments as their present source of income. The remaining persons have saved occasionally. See Table 6.17.

Table 6.17 Income group-wise distribution of respondents

Income	No. of respondents					
	Last year		Year preceding last		Two years preceding last	
	No.	%	No.	%	No.	%
Up to Rs.120000	158	37.3	170	40.0	186	43.9
Between Rs.120001 and 240000	168	39.6	156	36.8	150	35.4
Between Rs.240001 and 360000	54	12.7	48	11.4	42	9.9
Above Rs.360000	44	10.4	50	11.8	46	10.8
Total	424	100.0	424	100.0	424	100.0

Source: Survey Data

The respondents were asked to rank their purposes or motives, which are analysed using the Likert's Summated

Scale, and the final ranking is represented in the Table 6.18. (A detailed table showing the calculations is given as Annexure 6.1.) The purpose of Meeting contingencies/emergencies has got the first rank, followed by Saving tax, Earning income on retirement, Meeting education expenses of children/dependents and Supplementing of earnings got the second, third, fourth and fifth ranks respectively.

Table 6.18 Saving habit-wise distribution of respondents

<b>Nature of Saving Habit</b>	<b>No. of respondents</b>	<b>Percentage to total</b>
Regular	218	51.41
Occasional	194	45.75
No saving/not relevant	12	2.83
Total	424	100.00

Source: Survey Data

Table 6.19 Ranking of motives/ purposes of saving

<b>Motives /Purposes</b>	<b>Rank</b>
To meet emergencies/contingencies	1
To meet educational expenses of children /dependents	4
To meet marriage expenses	6
To buy land, house, consumer durables	7
To save tax	2
To earn income on retirement	3
To supplement earnings	5
To expand / start business	9
Other purposes	8

Source: Survey Data

#### 6.4.5 Saving Experiences

Respondents were asked to rank the various savings / investment alternatives with respect to the profitability, safety, liquidity, and convenience based on their past experience. They were asked to respond in terms of five degrees of agreement such as A for Very much satisfied, B for Moderately satisfied, C for No opinion, D for Marginally dissatisfied and E for Dissatisfied. Such rankings were processed by the Likert's Summated Scaling Technique by assigning the score values of 2, 1, 0 -1 and -2 respectively for A, B, C, D and E respectively so as to arrive at the final ranking.

##### a) Saving experience with respect to profitability

The detailed calculation of the ranking of investment alternatives with respect to profitability by the Likert's Summated Scaling technique is shown as Annexure 6.2, and the final ranking is given in Table 6.20. UTI units got the first rank followed by Provident fund, Bank deposits, PO schemes,

Private Banks and Financial Institutions which got second, third, fourth, and fifth ranks respectively.

Table 6.20 Ranking of investment alternatives with respect to profitability

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	3
Provident fund	2
LIC	12
Post office schemes	4
Chit funds	7
Private banks and financial institutions	5
Shares and debentures	11
UTI units	1
Other mutual fund schemes	6
Real estate	9
Gold, silver, etc.	10
Others	8

Source: Survey Data

b) Saving experiences with respect to safety

Respondents' rankings of the various savings / investment alternatives with respect to the safety based on their past experience were processed by the Likert's Summated Scaling technique, the details of which are shown as Annexure 6.3, and the final ranking is given in Table 6.21. UTI units got the first rank followed by Bank deposits, LIC, Provident fund, and PO schemes which got second, third, fourth, and fifth ranks respectively.

Table 6.21 Ranking of investment alternatives with respect to safety

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	2
Provident fund	4
LIC	3
Post office schemes	5
Chit funds	11
Private banks and financial institutions	10
Shares and debentures	12
UTI units	1
Other mutual fund schemes	6
Real estate	7
Gold, silver, etc.	8
Others	9

Source: Survey Data

c) Saving experiences with respect to liquidity

Respondents' rankings of the various savings / investment alternatives with respect to liquidity based on their past experience were processed by the Likert's Summated Scaling technique, the details of which are shown as Annexure 6.4, and the final ranking is given in Table 6.22. Bank deposits got the first rank followed by UTI units, Gold, PBF, and Shares and debentures which got the second, third, fourth, and fifth ranks respectively.

Table 6.22 Ranking of investment alternatives with respect to liquidity

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	1
Provident fund	6.5
LIC	11
Post office schemes	8
Chit funds	9
Private banks and financial institutions	4
Shares and debentures	5
UTI units	2
Other mutual fund schemes	10
Real estate	12
Gold, silver, etc.	3
Others	6.5

Source: Survey Data

d) Saving experiences with respect to convenience

Respondents' rankings of the various savings / investment alternatives with respect to convenience were processed by the Likert's Summated Scaling technique, the details of which are shown as Annexure 6.5, and the final ranking is given in Table 6.23. Bank deposits got the first rank followed by UTI units, Provident fund, PBF, and LIC, which got the second, third, fourth, and fifth ranks respectively.

Table 6.23 Ranking of investment alternatives with respect to convenience

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	1
Provident fund	3
LIC	5
Post office schemes	6
Chit funds	7
Private banks and financial institutions	4
Shares and debentures	11
UTI units	2
Other mutual fund schemes	9
Real estate	12
Gold, silver, etc.	8
Others	10

Source: Survey Data

#### **6.4.6 Future Expectations about the Savings / Investment Alternatives**

Question number 15 in the questionnaire was related to the respondents' future expectations about the various investment alternatives. Respondents were asked to rank the various savings / investment alternatives based on the future expectations with respect to profitability, safety, liquidity, and convenience. The respondents were asked to respond in terms of five degrees of agreement such as A for Very good, B for Good, C for No opinion, D for Bad and E for Very bad. Such rankings were processed by the Likert's Summated Scaling

Technique by assigning the score values of 2, 1, 0 -1 and -2 respectively for A, B, C, D and E respectively so as to arrive at the final ranking.

a) Future expectation with respect to profitability

The detailed table showing the ascertainment of the final ranking of investment alternative with respect to profitability is given as Annexure 6.6 and the Table 6.24 below explains the final ranking. The first rank was given to UTI units. Bank deposits, Provident fund, PO Schemes, and Other Mutual Fund Schemes are got the second, third, fourth, and fifth rank respectively. It was expected that, the UTI units would be the alternative, which would give the maximum profit in the ensuing year also.

Table 6.24 Ranking of future expectation about the investment alternatives with respect to profitability

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	2
Provident fund	3
LIC	12
Post office schemes	4
Chit funds	7
Private banks and financial institutions	6
Shares and debentures	10
UTI units	1
Other mutual fund schemes	5

Real estate	8.5
Gold, silver, etc.	11
Others	8.5

Source: Survey Data

b) Future expectation with respect to safety

The detailed table showing the ascertainment of the final ranking of investment alternative with respect to safety is given as Annexure 6.7 and the Table 6.25 below explains the final ranking. The first rank was given to UTI units. Bank deposits, LIC, Provident fund, and PO Schemes were got the second, third, fourth, and fifth rank respectively. It was expected that, the UTI units would be the safest alternative in the ensuing year also.

Table 6.25 Ranking of future expectation about the investment alternatives with respect to safety

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	2
Provident fund	4
LIC	3
Post office schemes	5
Chit funds	11
Private banks and financial institutions	10
Shares and debentures	12
UTI units	1
Other mutual fund schemes	6
Real estate	7
Gold, silver, etc.	8
Others	9

Source: Survey Data

c) Future expectation with respect to liquidity

The detailed table showing the ascertainment of the final ranking of investment alternative with respect to liquidity is given as Annexure 6.8 and the Table 6.26 below explains the final ranking. The first rank was given to Bank deposits followed by UTI units, Gold, PBF, and Chit funds which got the second, third, fourth, and fifth rank respectively.

Table 6.26 Ranking of future expectation about the investment alternatives with respect to liquidity

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	1
Provident fund	7
LIC	12
Post office schemes	6
Chit funds	5
Private banks and financial institutions	4
Shares and debentures	8
UTI units	2
Other mutual fund schemes	9
Real estate	11
Gold, silver, etc.	3
Others	10

Source: Survey Data

d) Future expectation with respect to convenience

The detailed table showing the ascertainment of the final ranking of investment alternative with respect to convenience is given as Annexure 6.9 and the Table 6.27 below explains

the final ranking. The first rank was given to Bank deposits followed by UTI units, PF, PO Schemes and PBFI, which got the second, third, fourth, and fifth rank respectively.

Table 6.27 Ranking of future expectation about the investment alternatives with respect to convenience

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	1
Provident fund	3
LIC	6
Post office schemes	4
Chit funds	7
Private banks and financial institutions	5
Shares and debentures	11
UTI units	2
Other mutual fund schemes	9
Real estate	12
Gold, silver, etc.	8
Others	10

Source: Survey Data

#### **6.4.7 Likely Investment in the year followed**

By another question in the questionnaire, the respondents were asked to respond to the possibility of making investment in any of the alternatives in the next year. They had to respond in terms of five degrees of agreement such as A for Yes, very likely, B for Yes, likely, C for Uncertain, D for Not likely and E for Remotely. Such rankings were processed by the Likert's Summated Scaling Technique by assigning the score values of

2, 1, 0, -1 and -2 respectively for A, B, C, D and E respectively so as to arrive at the final ranking. (The detailed calculation of the same is given in the Annexure 6.9.) Table 6.28 shows the final ranking. Bank deposits got the first rank followed by UTI units, PF, Other investments and PO Schemes

Table 6.28 Ranking of the next year investment possibility

<b>Savings / investment alternatives</b>	<b>Rank</b>
Bank deposits	1
Provident fund	3
LIC	6
Post office schemes	5
Chit funds	9
Private banks and financial institutions	12
Shares and debentures	11
UTI units	2
Other mutual fund schemes	7
Real estate	10
Gold, silver, etc.	8
Others	4

Source: Survey Data

#### **6.4.8 Annual Income**

From the total yearly income for the last three years as revealed by the 424 respondents, the average income per individual calculated is Rs.1,95,367. Table 6.29 shows the details of the calculation.

Table 6.29 Average annual income of the respondents

<b>Annual income</b>	<b>Last year Rs</b>	<b>Year preceding last Rs</b>	<b>Two year preceding last Rs</b>	<b>Average annual income per respondent Rs</b>
Total income of 424 respondents together	8,36,20,400	8,30,83,000	8,18,03,000	-----
Average yearly income per respondents	1,97,218	1,95,950	1,92,932	1,95,367

Source: Survey Data

#### 6.4.9 Annual Expense

The average annual expenses per respondent calculated from the 424 responses are shown in the table, Table 6.30. Rs. 1,08,617 is the average annual expenses.

Table 6.30 Average annual expenses of the respondents

<b>Annual expense</b>	<b>Last year Rs</b>	<b>Year preceding last Rs</b>	<b>Two year preceding last Rs</b>	<b>Average annual income per respondent Rs</b>
Total expenses of 424 respondents together	4,75,68,200	4,60,33,080	4,45,59,460	-----
Average yearly expense respondents	1,12,189	1,08,569	1,05,093	1,08,617

Source: Survey Data

#### 6.4.10 Annual Savings

The average annual savings per respondent calculated is Rs. 86,750; the calculation of the average is shown in Table 6.31.

Table 6.31 Average annual savings of the respondents

<b>Annual Savings</b>	<b>Last year Rs</b>	<b>Year preceding last Rs</b>	<b>Two year preceding last Rs</b>	<b>Average annual income per respondent Rs</b>
Total savings of 424 respondents together	3,60,52,200	3,70,49,920	3,72,43,540	-----
Average yearly savings per respondents	85,029	87,382	87,839	86,750

Source: Survey Data

#### 6.4.11 Savings and Mutual Fund Investment

Table 6.32 shows the relationship between total savings and mutual fund investment over the last three years. The proportion of mutual fund savings to the total savings has increased to a significant size of 51.95% last year from 43.86% of the year preceding last; the proportion for the year two years preceding is 42.68%. The proportion of the UTI units also has increased to 35.21% last year from 25.47% of the previous year.

Table 6.32 Savings and mutual fund investment

	Last year amount Rs.	Year preceding last amount Rs.	2 years preceding last amount Rs.
Aggregate savings of 424 respondents	<u>3,60,52,200</u>	<u>3,70,49,920</u>	<u>3,72,43,540</u>
Investments in UTI Units	1,26,92,800	94,36,600	1,09,71,600
Investments in other MFs	<u>60,35,000</u>	<u>68,12,000</u>	<u>49,25,004</u>
Total	<u>1,87,27,800</u>	<u>1,62,48,600</u>	<u>1,58,96,604</u>
Percentage on savings:			
UTI investments	35.21	25.47	29.46
Other MFs	<u>16.74</u>	<u>18.39</u>	<u>13.22</u>
Total	<u>51.95</u>	<u>43.86</u>	<u>42.68</u>

Source: Survey Data

The relationships between income, saving and other mutual fund considerations are also verified and significance are tested using multiple regression analysis. Multiple regression coefficients (R) and co-efficient of determination (R<sup>2</sup>) are calculated and the regressions are tested by t at 5% significance level. The components taken here income, savings and other considerations, which can be represented as follows:

Preferences for mutual funds = F (Y, S, T)

Where Y = income, S = savings and T = other considerations

Output MF =  $\alpha + \beta_1 Y + \beta_2 S + \beta_3 T$

The results are tabulated in Table 6.33. From the values of R we can arrive at the relationship between the elements, and from  $R^2$  the contribution of independent variables to the total variance in the dependent variable can be determined.<sup>8</sup>

Table 6.33 Results of multiple regression analysis

Relation	R	SE	t	R <sup>2</sup>	Significance
$MF = \alpha + \beta_1 Y$	2012+0.13Y	(0.002)	65	0.86	Significant
$MF = \alpha + \beta_1 T$	1013+0.002Y	(0.05)	0.04	0.424	Not significant
$MF = \alpha + \beta_3 T$	916+0.002T	(0.07)	0.028	0.374	Not very significant
$MF = \alpha + \beta_1 Y + \beta_3 S$	2316+0.13Y+0.27S	(0.006)(0.46)	(21.66)(0.0058)	0.664	Significant
$MF = \alpha + \beta_1 Y + \beta_2 S + \beta_3 T$	1019+0.96Y+2.188+3.84T	(0.38)(2.34)(1.76)	(2.52)( 0.93) (2.18)	0.564	Significant

Source: Survey data

It is seen that income is the sole determinant for demand for mutual fund schemes.

#### 6.4.12 Factors influenced in the selection of mutual funds

Respondents were asked to express the various factors, which influenced in the selection of mutual fund as an investment. They were asked to rank some of the factors given in the questionnaire according to their order of preference. Such preferences are summarised using the Likert's Summated Scaling technique and the final ranking is arrived at, which is shown in the following table, Table 6.34. The details of the ascertainment are given in Annexure 6.10. Reputation of the

available schemes about its profitability, past performance of some of the mutual fund organisations, recommendations of friends or colleagues, massive and repeated advertisement and propaganda, special campaigns etc are the factors identified by the respondents in the same order of preference.

Table 6.34 Factors influenced in the selection of mutual funds

<b>Factors</b>	<b>Ranks</b>
Reputation	1
Past performance of the organisation	2
Suggestion/recommendation of friends/colleagues	3
Advertisement	4
Campaigns	5
Others	6

Source: Survey Data

#### **6.4.13 Investors' Expectations from Mutual Fund Schemes**

In another question the respondents were asked to express their expectations from the mutual fund investments. They have ranked their expectations by assigning ranks 1,2,3,... to the expectations given in the questionnaire. Annexure 6.11 gives the computation details. The ranked expectations are maximum yearly profit, regular income, maximum tax savings, capital appreciation, safe return of capital, liquidity, minimum risks, etc. Table 6.35 has details.

Table 6.35 Investors' expectations from mutual fund schemes

<b>Expectations</b>	<b>Rank</b>
Maximum yearly profit	1
Maximum tax savings	3
Capital appreciation	4
Regular income	2
Loan facility	9
Liquidity	6
Insurance benefits	10
Minimum risks	7
Future needs	8
Safe return of capital	5
Others	11

Source: Survey Data

#### **6.4.14 Investors' Preference among Mutual Fund Schemes**

Investors have also expressed their choice among mutual fund schemes. The processed final preferences are shown in the Table 6.36. Income schemes are the much preferred ones followed by Balanced schemes, Growth schemes, Income and growth schemes, and Tax saving schemes with the second, third, fourth and fifth positions.(See Annexure 6.12 for the details of summation.)

Table 6.36 Investors' preference among mutual fund schemes

<b>Mutual fund Schemes</b>	<b>Preference rank</b>
Income schemes	1
Growth schemes	3
Income and growth schemes	4
Balanced schemes	2
Tax saving schemes	5
Insurance linked schemes	6
Money market schemes	7

Source: Survey Data

#### **6.4.15 Investors' information sources about Mutual Funds**

Newspapers and newsletters are the foremost source of information about mutual fund schemes and organisations. The second source is the agents and brokers of mutual fund companies; Friends, relatives and colleagues are the third source followed by magazines, TV, etc. The details of the processing of the responses are given in Annexure 6.14 and Table 6.37 gives the entire ranking.

Table 6.37 Investors' information sources about Mutual Funds

<b>Sources of information</b>	<b>Ranking</b>
Newspapers / newsletters	1
Magazines	4
TV	5
Agents	2
Internet	6
Friends, relatives and colleagues	3
Direct information	7

Source: Survey data

#### **6.4.16 Investors' Choice among Mutual Fund Organisations**

Yet another question asked was to choose the mutual fund organisations in the order of preference by the respondents. They have chosen the doyen UTI as their first choice; Institution sponsored Mutual funds have got the second preference followed by Bank sponsored mutual funds. Table 6.38 have more details and Annexure 6.13 have the details of its computation.

Table 6.38 Investors' Choice among Mutual Fund Organisations

<b>Mutual Fund Organisations</b>	<b>Preference rank</b>
Unit Trust of India	1
Bank sponsored mutual funds	3
Institution sponsored mutual funds	2
Private sector Indian mutual funds	4
Private sector joint venture mutual funds	5

Source: Survey Data

#### **6.4.17 Investors' suggestions to improve the working of Mutual Funds**

The final question of the questionnaire was to make suggestions to improve the present functioning of mutual fund organisations. The responses in the form of rankings to the given suggestion list which was processed and final rankings are arrived at in Table 6.39. (See Annexure 6.15 for the processing). The first and foremost suggestion is to have more transparency and disclosure of more information regarding the schemes. The other suggestions, according to the preferences are, timely payment of annual payments, quick payment of

repurchase price, more propaganda and advertisements, easy and prompt transferability etc.

Table 6.39 Investors' suggestions to improve the working of Mutual Funds

<b>Suggestions</b>	<b>Preference rank</b>
Timely payment of annual payments	2
Quick payment of repurchase price	3
Easy and prompt transferability	5
Transparency and disclosure of accounts	1
Quick mailing of certificates	6
Propaganda and advertisement campaigns	4
Others	7

Source: Survey Data

#### **6.4.18 SWOT Analysis of Mutual Funds**

Four open questions were included in the questionnaire so as to get the respondents' opinions for a SWOT Analysis about the mutual fund scheme as an investment alternative. They have shared their experiences in the form of strengths, weaknesses, opportunities and threats of the industry. The much repeated and seemed to be important among them are listed and shown as Appendix V. The summarised grid of strengths, weaknesses, opportunities, and threats is presented in Table 6.40.

Table 6.40 SWOT Grid

<p><b>STRENGTHS</b></p> <p>Highest returns, especially while interest rates are reducing</p> <p>Tax advantages-capital gains and income tax</p> <p>Safety and minimum risks</p> <p>Features of growth and capital appreciation</p>	<p><b>OPPORTUNITIES</b></p> <p>Domestic savings canalised to capital market</p> <p>Bridges the gap between investors and capital market</p> <p>A preferred alternative for the middle class investors</p>
<p><b>WEAKNESSES</b></p> <p>Uncertainty of return and rate of return</p> <p>Dependence on volatile capital market</p> <p>Unrealised offers and failures</p>	<p><b>THREATS</b></p> <p>Probable stock market scams or collapses</p> <p>Foreign finance and insurance companies</p> <p>Corruptions and frauds by fund managers</p>

## 6.5 Conclusion

From the foregoing discussion on the perception of investors of mutual fund schemes the following conclusions can be drawn out:

1. The acceptance of mutual fund schemes is growing and will become the much-preferred one in the future.
2. The past performance and reputation of schemes are the critical factors, which attracted the investors.
3. Mutual fund schemes are well accepted by the investors in Kerala, especially among senior investors than younger ones.
4. The awareness level about mutual fund schemes is higher among urban people than rural people in Kerala.
5. Income is the sole determinant for demand for mutual fund schemes.
6. Occupation-wise, mutual fund schemes are more popular among the professionals and businessmen.
7. The main motives of resorting this alternative are tax planning and to earn regular income on retirement.
8. Investors of Kerala give first preference to income schemes followed by balanced and growth schemes.

9. Among the schemes and organisations, the investors prefer the UTI.
10. The investors who have a regular saving habit prefer mutual fund schemes.
11. The transparency and disclosure of affairs are needed for protecting the interests of investors.
12. The information sources for investors are newspapers and agents, friends and colleagues.

### **Notes**

1 Census of India 1991 – Kerala – Final Population Totals.

2 Parayil, Govindan, (Ed.), *Kerala: The Development Experience*, Zed Books, London, 2000, p 3-4.

3 Ibid., p. vii.

4 Ibid., p 3-4.

5 Parameswaran, M.P., *Kerala Model Prospects and Problems*, Kerala's Development Experience, Vol.I, M.A. Oommen (Ed.), Institute of Social Sciences, Concept Publishing Co., New Delhi, 1999, pp. 205-220.

6 The official website of the Kerala Government, [www.keralagov.com](http://www.keralagov.com)

7 Economic Review 1999, State Planning Board, Govt. of Kerala, p.4

8 Krishnaswami, O.R., *Methodology of Research in Social Sciences*, Himalaya Publishing House, Mumbai, 2001, p. 403.

ANNEXURE 6.1

Experience with respect to Profitability

	BD	PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Ot		
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F		
A - Very much satisfied	86	172	119	238	6	12	104	208	44	88	56	112	12	24	240	480	27	54	7	14	6	12	2	4
B - Moderately satisfied	128	128	46	46	60	60	37	37	49	49	39	39	58	58	122	122	118	118	38	38	17	17	2	2
C - No opinion	145	0	234	0	231	0	254	0	299	0	297	0	270	0	30	0	225	0	347	0	336	0	418	0
D - Slightly dissatisfied	40	-40	20	-20	70	-70	14	-14	17	-17	15	-15	34	-34	10	-10	32	-32	10	-10	16	-16	0	0
E - Dissatisfied	24	-48	4	-8	56	-112	14	-28	14	-28	16	-32	49	-98	21	-42	22	-44	22	-44	49	-98	2	-4
Total of SV.F		212		256		-110		203		92		104		-50		550		96		-2		-85		2
Final Rank		3		2		12		4		7		5		11		1		6		9		10		8

ANNEXURE 6.2

Experience with respect to Safety

	BD	PF	LIC	POS	CF	PBFI	SD	UTI	MF	RE	G	Ot												
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F												
A - Very much satisfied	230	460	165	330	175	350	156	312	9	18	12	24	4	8	221	442	22	44	32	64	25	50	2	4
B - Moderately satisfied	65	65	31	31	36	36	11	11	30	30	41	41	42	42	154	154	99	99	29	29	31	31	2	2
C - No opinion	128	0	223	0	202	0	253	0	316	0	301	0	279	0	26	0	238	0	343	0	322	0	418	0
D - Slightly dissatisfied	0	0	4	-4	10	-10	0	0	46	-46	41	-41	42	-42	10	-10	50	-50	6	-6	23	-23	0	0
E - Dissatisfied	0	0	0	0	0	0	3	-6	22	-44	28	-56	55	-110	13	-26	15	-30	14	-28	22	-44	2	-4
Total SV.F		525		357		376		317		-42		-32		-102		560		63		59		14		2
Final rank		2		4		3		5		11		10		12		1		6		7		8		9

ANNEXURE 6.3																								
Investment Experience with respect to Liquidity																								
	BD		PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Ot	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
A - Very much satisfied	164	328	25	50	13	26	24	48	10	20	36	72	20	40	89	178	17	34	1	2	50	100	2	4
B - Moderately satisfied	106	106	58	58	45	45	37	37	48	48	40	40	62	62	150	150	72	72	7	7	30	30	0	0
C - No opinion	134	0	250	0	236	0	284	0	313	0	313	0	274	0	38	0	232	0	350	0	324	0	417	0
D - Slightly dissatisfied	19	-19	70	-70	93	-93	66	-66	30	-30	14	-14	42	-42	130	-130	88	-88	28	-28	11	-11	2	-2
E - Dissatisfied	0	0	20	-40	36	-72	12	-24	22	-44	20	-40	25	-50	17	-34	15	-30	38	-76	9	-18	2	-4
Total SV.F		415		-2		-94		-5		-6		58		10		164		-12		-95		101		-2
Final Rank		1		6.5		11		8		9		4		5		2		10		12		3		6.5

Annexure 6.4																								
Investment Experience with respect to Convenience																								
	BD	PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Ot		
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F		
A - Very much satisfied	162	324	62	124	51	102	45	90	25	50	43	86	13	26	59	118	15	30	4	8	18	36	2	4
B - Moderately satisfied	114	114	60	60	78	78	56	56	58	58	57	57	54	54	181	181	76	76	12	12	38	38	2	2
C - No opinion	135	0	240	0	228	0	268	0	308	0	303	0	280	0	55	0	244	0	354	0	331	0	418	0
D - Slightly dissatisfied	12	-12	53	-53	47	-47	48	-48	18	-18	8	-8	54	-54	116	-116	76	-76	24	-24	23	-23	0	0
E - Dissatisfied	0	0	8	-16	19	-38	5	-10	14	-28	12	-24	21	-42	13	-26	13	-26	30	-60	13	-26	2	-4
Total of SV.F		426		115		95		88		62		111		-16		157		4		-64		25		2
Final rank		1		3		5		6		7		4		11		2		9		12		8		10

ANNEXURE 6.5 Future Investment Preference w.r.t. Profitability																								
	BD		PF		LIC		POS		CF		PBF1		SD		UTI		MF		RE		G		Ot	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
A - Very much satisfied	100	200	114	228	2	4	93	186	41	82	57	114	28	56	209	418	18	36	10	20	8	16	2	4
B - Moderately satisfied	135	135	56	56	74	74	67	67	49	49	37	37	58	58	133	133	124	124	34	34	24	24	4	4
C - No opinion	140	0	238	0	246	0	257	0	302	0	293	0	255	0	44	0	243	0	349	0	349	0	415	0
D - Slightly dissatisfied	34	-34	12	-12	60	-60	3	-3	22	-22	24	-24	39	-39	24	-24	20	-20	10	-10	12	-12	0	0
E - Dissatisfied	14	-28	4	-8	42	-84	4	-8	10	-20	13	-26	44	-88	14	-28	19	-38	21	-42	31	-62	3	-6
Total of SV.F		273		264		-66		242		89		101		-13		499		102		2		-34		2
Final Rank		2		3		12		4		7		6		10		1		5		8.5		11		8.5

ANNEXURE 6.6

Future Investment Preference with reference to Safety

	BD		PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Ot	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
A	216	432	156	312	160	320	152	304	10	20	10	20	1	2	197	394	13	26	28	56	28	56	6	12
B	82	82	36	36	47	47	28	28	34	34	53	53	47	47	158	158	107	107	30	30	34	34	2	2
C	120	0	228	0	210	0	241	0	316	0	292	0	281	0	42	0	241	0	344	0	329	0	412	0
D	2	-2	4	-4	4	-4	1	-1	50	-50	46	-46	48	-48	16	-16	48	-48	7	-7	20	-20	0	0
E	4	-8	0	0	3	-6	2	-4	14	-28	23	-46	47	-94	11	-22	15	-30	15	-30	13	-26	3	-6
Total SV.F		504		344		357		327		-24		-19		-93		514		55		49		44		8
Final Rank		2		4		3		5		11		10		12		1		6		7		8		9

ANNEXURE 6.7																								
Future Investment Preference with reference to Liquidity																								
	BD		PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Ot	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
A - Very much satisfied	166	332	23	46	6	12	23	46	8	16	34	68	19	38	67	134	13	26	3	6	36	72	2	4
B - Moderately satisfied	112	112	73	73	53	53	57	57	61	61	47	47	59	59	169	169	74	74	12	12	36	36	4	4
C - No opinion	128	0	236	0	242	0	268	0	312	0	302	0	274	0	57	0	250	0	354	0	341	0	411	0
D - Slightly dissatisfied	16	-16	76	-76	102	-102	66	-66	29	-29	21	-21	50	-50	120	-120	74	-74	20	-20	2	-2	4	-4
E - Dissatisfied	2	-4	16	-32	21	-42	10	-20	14	-28	20	-40	22	-44	11	-22	13	-26	35	-70	9	-18	3	-6
Total SV.F		424		11		-79		17		20		54		3		161		0		-72		88		-2
Final Rank		1		7		12		6		5		4		8		2		9		11		3		9

ANNEXURE 6.8																								
Future Investment Preference with reference to Convenience																								
	BD		PF		LIC		POS		CF		PBF1		SD		UTI		MF		RE		G		Ot	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
A - Very much satisfied	170	340	67	134	44	88	44	88	20	40	44	88	12	24	51	102	11	22	5	10	17	34	4	8
B - Moderately satisfied	114	114	63	63	85	85	73	73	65	65	54	54	51	51	185	185	83	83	18	18	36	36	3	3
C - No opinion	130	0	244	0	240	0	263	0	315	0	300	0	277	0	69	0	251	0	354	0	343	0	412	0
D - Slightly dissatisfied	8	-8	44	-44	40	-40	38	-38	12	-12	16	-16	63	-63	106	-106	68	-68	20	-20	14	-14	2	-2
E - Dissatisfied	2	-4	6	-12	15	-30	6	-12	12	-24	10	-20	21	-42	13	-26	11	-22	27	-54	14	-28	3	-6
Total SV F		442		141		103		111		69		106		-30		155		15		-46		28		3
Final Rank		1		3		6		4		7		5		11		2		9		12		8		10

ANNEXURE 6.9 Next year Investment Possibility																								
	BD	PF		LIC		POS		CF		PBFI		SD		UTI		MF		RE		G		Oth		
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F		
Yes, very likely	66	132	86	172	52	104	20	40	17	34	12	24	17	34	46	92	26	52	8	16	5	10	5	10
Yes, likely	161	161	57	57	53	53	103	103	33	33	23	23	45	45	141	141	70	70	22	22	48	48	4	4
Uncertain	100	0	73	0	82	0	80	0	98	0	81	0	71	0	69	0	80	0	137	0	139	0	321	0
Not likely	49	-49	65	-65	80	-80	98	-98	110	-110	134	-134	84	-84	74	-74	100	-100	87	-87	60	-60	24	-24
Remotely	48	-96	142	-284	157	-314	123	-246	166	-332	174	-348	207	-414	94	-188	148	-296	170	-340	169	-338	68	-136
Total of SV.F		148		-120		-237		-201		-375		-435		-419		-29		-274		-389		-340		-146
Final Rank		1		3		6		5		9		12		11		2		7		10		8		4

ANNEXURE 6.10 Factors influenced in the selection of MFs.												
	Reputation		Perform		Recommendatic		Ads	Camp		Ot		
	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F
Rank I	144	864	166	996	70	420	8	48	8	48	40	240
Rank II	156	780	106	530	48	240	10	50	6	30	2	10
Rank III	14	56	22	88	116	464	38	152	18	72	8	32
Rank IV	0	0	4	12	24	72	56	168	36	108	0	0
Rank V	0	0	0	0	10	20	26	52	60	120	4	8
Rank VI	0	0	0	0	4	4	8	8	4	4	22	22
Sum of SV*f	314	1700	298	1626	272	1220	146	478	132	382	76	312
Final Rank		1		2		3		4		5		6

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ANNEXURE 6.11

Your Expectations from Mutual Fund Schemes

	Profit		Tax		Appn		Income		Loan		Liquid		Insurance		Min. risk		Future		Safe		Ot	
	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F
Rank 1	180	1980	72	792	58	638	78	858	2	22	12	132	2	22	14	154	6	66	34	374	6	66
Rank 2	92	920	76	760	72	720	84	840	10	100	38	380	8	80	10	100	18	180	36	360	2	20
Rank 3	28	252	58	522	68	612	34	306	10	90	54	486	10	90	30	270	26	234	28	252	0	0
Rank 4	14	112	40	320	22	176	54	432	14	112	28	224	4	32	22	176	12	96	44	352	0	0
Rank 5	6	42	14	98	16	112	22	154	30	210	36	252	2	14	32	224	18	126	22	154	0	0
Rank 6	6	36	6	36	4	24	8	48	48	288	28	168	8	48	12	72	20	120	14	84	0	0
Rank 7	0	0	2	10	6	30	4	20	2	10	2	10	24	120	18	90	22	110	32	160	2	10
Rank 8	0	0	0	0	0	0	0	0	14	56	4	16	12	48	32	128	22	88	14	56	2	8
Rank 9	2	6	0	0	0	0	2	6	0	0	0	0	22	66	18	54	30	90	12	36	2	6
Rank 10	0	0	0	0	2	4	2	4	0	0	0	0	26	52	12	24	14	28	20	40	0	0
Rank 11	0	0	0	0	0	0	0	0	2	2	0	0	2	2	0	0	2	2	2	2	18	18
Total		3348		2538		2316		2668		890		1668		574		1292		1140		1870		128
Final Rank		1		3		4		2		9		6		10		7		8		5		11

ANNEXURE 6.12

Table showing Choice among Mutual Fund Schemes

	Income		Growth		Inc& Grow		Balanced	Tax save		Insurance		MMMFs		Total SV*F	
	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F	
Rank 1	130	910	64	448	46	322	132	924	54	378	2	14	4	28	
Rank 2	100	600	60	360	74	444	38	228	50	300	14	84	4	24	
Rank 3	42	210	58	290	38	190	30	150	32	160	22	110	12	60	
Rank 4	22	88	8	32	38	152	32	128	26	104	16	64	4	16	
Rank 5	10	30	12	36	4	12	46	138	26	78	20	60	12	36	
Rank 6	2	4	6	12	10	20	18	36	4	8	56	112	18	36	
Rank 7	6	6	2	2	0	0	8	8	2	2	16	16	70	70	
Total SV*F	312	1848	210	1180	210	1140	304	1612	194	1030	146	460	124	270	7540
Final Rank		1		3		4		2		5		6		7	
%		24.51		15.65		15.12		21.38		13.66		6.1		3.58	100
(SV stands for scale value which is taken as 7, 6, 5, 4, 3, 2, and 1 for ranks 1, 2, 3, 4, 5, 6 and 7 respectively)															

ANNEXURE 6.13 Choice among Mutual Fund Organisations										
	UTI		BSMF		ISMF		PSIMF		PSJVMF	
	F	SV*F	F	SV*F	F	SV*F	F	SV*F	F	SV*F
Rank 1	364	1820	10	50	10	50	24	120	8	40
Rank 2	20	80	96	384	80	320	44	176	24	96
Rank 3	2	6	46	138	76	228	46	138	36	108
Rank 4	8	16	30	60	22	44	42	84	24	48
Rank 5	18	18	14	14	14	14	18	18	58	58
Total		1940		646		656		536		350
Rank		1		3		2		4		5

ANNEXURE 6.14 Source of Information regarding Mutual Funds															
	Newspaper		Magazines		TV		Agents		Internet		Friends		Direct		
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	
Rank 1	240	1680	18	126	6	42	106	742	4	28	50	350	10	70	
Rank 2	86	516	74	444	28	168	68	408	4	24	108	648	0	0	
Rank 3	34	170	78	390	32	160	78	390	12	60	50	250	0	0	
Rank 4	2	8	30	120	50	200	28	112	18	72	22	88	0	0	
Rank 5	0	0	8	24	26	78	24	72	16	48	34	102	2	6	
Rank 6	0	0	0	0	8	16	8	16	56	112	18	36	0	0	
Rank 7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	362	2374	208	1104	150	664	312	1740	110	344	282	1474	12	76	
Final Rank		1		4		5		2		6		3		7	

ANNEXURE 6.15 Suggestions to improve the working of mutual funds														
	Timely Pay		Quick Price		Transferability		Transparency		Quick mails		Propoganda		Others	
	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F	F	SV.F
Rank 1	134	938	50	350	24	168	106	742	12	84	76	532	28	196
Rank 2	46	276	92	552	44	264	66	396	20	120	46	276	4	24
Rank 3	42	210	46	230	64	320	30	150	42	210	20	100	2	10
Rank 4	22	88	22	88	46	184	56	224	32	128	10	40	4	16
Rank 5	12	36	4	12	28	84	26	78	90	270	18	54	0	0
Rank 6	2	4	6	12	8	16	12	24	12	24	106	212	0	0
Rank 7	0	0	0	0	2	2	4	4	2	2	2	2	26	26
Total		1552		1244		1038		1618		838		1216		272
Final Rank		2		3		5		1		6		4		7

***Summary, findings,  
Conclusions and Suggestions***

## **Chapter VII**

### **SUMMARY, FINDINGS, CONCLUSIONS**

#### **AND SUGGESTIONS**

7.0 Introduction

7.1 Summaries of chapters

7.2 Findings

7.3 Conclusions

7.4 Suggestions

7.5 Scope for further research

## **7.0 Introduction**

This chapter is an attempt to recapitulate the major findings of the study titled “Mobilisation of Savings through Mutual Funds: A Study with special reference to Kerala”. It also presents summaries of chapters, conclusions of the study, suggestions emanating from the study and concludes with pointing out areas of further research.

### **7.1 Summaries of chapters**

#### 7.1.1 Introduction

The first chapter begins with a brief history of mutual funds and its origin in India. It states the problem and highlights the significance of the study, its objectives, and the formulated and tested hypotheses. It also describes the variables used, scope and methodology of the study, its limitations, and the scheme of presentation of the report.

##### 7.1.1.1 Problem

Being a recent entrant to the capital market how much acceptance mutual fund schemes could attain from the

investors and whether this financial asset is worth investing is the main problem before the common individual investors. They are eagerly waiting to get a clear and real picture of the growth and success dimensions of the industry. They also want to hear how far it succeeded in mobilising savings and whether those schemes could satisfy the requirements of the investors.

#### 7.1.1.2 Objectives

The main objective of the study is to assess the extent and magnitude of the growth of the mutual fund industry and its impact on the investors of Kerala. The specific objectives set are:

1. To examine the structure and growth pattern of Mutual Fund Industry in India.
2. To assess the role of mutual funds in the mobilisation of savings.
3. To evaluate the performance of mutual funds.
4. To assess the awareness and adoption levels of mutual funds among household investors of Kerala.

5. To examine the attitudes of the investors towards mutual funds in relation to other investment schemes.
6. To analyse the challenges faced by the industry.
7. To make suitable suggestions and recommendations on the basis of the findings of the study.

On the basis of the objectives certain hypotheses are formulated and tested.

#### 7.1.1.3 Period and scope of study

The scope of the study is limited to Indian Mutual Fund Industry. It covers the performance evaluation of mutual funds at macro level and an empirical analysis at the micro level. Data for the macro level analysis were collected for the period from 1964 to the financial year ended 31 March 2000. But for the performance analysis data were collected for five financial years from 1995-96. The survey was conducted during the period of six months from January 2001 to June 2001.

#### 7.1.1.4 Data

The study is designed as empirical one based on both secondary and primary data. Both deductive and inductive logic are applied to draw meaningful conclusions. The secondary data from the published sources like RBI publications, SEBI publications, AMFI publications, reports and publications of mutual fund institutions and organisations, journals and periodicals, books available, etc. are collected from the institutions, documentation centres and libraries throughout the country. Websites of various mutual fund and investment organisations and institutions are also consulted.

Secondary data in the form of stock market indices, NAVs etc. of mutual fund schemes, over the period of five years from 1995-96 to 1999-2000, are collected from various business dailies and periodicals put into use for the evaluation of performance of the schemes in a risk-return framework. The measures such as Treynor's reward to volatility ratio, Jensen's differential ratio, Sharpe's reward to variability ratio and Fama's ratio of decomposition of total return are used for the purpose.

Primary data on mutual funds and investors of the various mutual fund schemes are collected through a detailed survey, using structured and pre-tested questionnaire. A good deal of special information on mutual fund organisations and its functioning have been collected through direct undisguised personal interviews made with the top most authorities of the mutual fund organisations. Discussions are also conducted with the scholars and experts who are in the field of capital market and mutual fund.

#### 7.1.1.5 Survey design

The survey is conducted among the investors of mutual fund schemes of Kerala using sampling techniques and direct enumeration method using a pre-tested questionnaire. 424 investors from two districts are selected at random. Likert Scale of Summated Rating is used for measuring the intensity of the attitudes of the respondents. Tools like percentages, averages, ratios, multiple regression etc. are used for the analysis and interpretation and arriving at unbiased and true inferences.

#### 7.1.1.6 Limitations of the Study

The main limitation of the study is the non-availability of Kerala specific statistical data on mutual fund. Limiting the performance evaluation of mutual funds to a five-year period is another shortcoming. The possible recalling errors are the other limitation.

#### 7.1.1.7 Presentation of the report

The report is presented in seven chapters. The first chapter gives a brief account of mutual funds and its history in India along with the significance of the study, problem, objectives, hypotheses, variables used, scope, period of study, methodology, presentation of the report, and the limitations of the study. The second chapter reviews chronologically the existing literature on mutual funds and mobilisation of savings separately in two different sections. The third chapter discusses the mutual fund concepts, principles, and type of schemes, classification, advantages, disadvantages, structure,

working and procedures, and the regulatory environment in brief. The fourth chapter is on the mutual fund industry of India and its role in the mobilisation of savings. The fifth chapter evaluates the performance of mutual funds. The sixth chapter examines empirically the mutual fund industry and the investor awareness of the state of Kerala. The seventh and final chapter contains the summary, findings, conclusions and recommendations of the study.

#### 7.1.2 Review of Literature

The literature relating to mutual funds and mobilisation of savings are reviewed in the second chapter. The review is presented in two major heads such as, literature relating to mutual funds and those relating to mobilisation of resources and is arranged in the chronological order.

The review made in this chapter brings out that there are a number of studies on various aspects of mutual funds and mobilisation of savings. But very few studies have attempted a detailed analysis of mobilisation of savings by mutual funds

from the state of Kerala. The present study is important and significant in this context.

### 7.1.3 Mutual Fund Concepts and Working

The third chapter explains the fundamental concepts of mutual funds in general and its working and regulation in the Indian context. Part A of the chapter is comprised of the mutual fund basics like the concept, types, advantages and disadvantages. Part B explains the working of mutual funds and its underlying rules and regulations.

#### 7.1.3.1 Concept of mutual fund

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. Thus, the fund is owned jointly by all of the unit-holders. The income earned through these investments and the capital appreciation realised are shared by them in proportion to the number of units owned by them. Thus a 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.

#### 7.1.3.2 Definitions

Different authors have defined mutual funds distinctly which are explained in the first part of this chapter. The one given by Regulation 2(q) of the SEBI (Mutual Funds) Regulations, 1996 is as follows: A mutual fund is a “fund established in the form of a trust to raise monies 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”. Thus a mutual fund is an institutional device or an investment vehicle through which, the investors pool their funds under the direction of an investment manager. These funds are invested in wide variety of portfolios of securities in such a way as to minimise risk, while ensuring safety and steady return.

#### 7.1.3.3 Principles

The time-honoured principles of mutual fund investing are diversification, professional management, liquidity, and

convenience. A major reason for the remarkable growth in the mutual fund industry has been the diverse classes of financial assets to which its principles have been successfully applied.

#### 7.1.3.4 Types

Mutual fund products are classified mainly into the following categories:

1. Structure/constitution:
  - a) Open – ended schemes
  - b) Close – ended schemes
2. Charges on investors:
  - a) Load fund schemes
  - b) No-load fund schemes
3. Investment Objectives:
  - a) Income schemes
  - b) Growth schemes
  - c) Balanced schemes
  - d) Tax saving schemes or ELSS
  - e) Index fund schemes
  - f) Sector fund schemes
  - g) Assured Return schemes
  - h) Miscellaneous schemes
4. Nature of investment
  - a) Financial asset fund schemes
  - b) Physical asset fund schemes
5. Geography:
  - a) Domestic schemes
  - b) Offshore schemes or Global schemes

#### 7.1.3.5 Advantages

The main advantages of mutual fund schemes are professional management, portfolio diversification, higher return, easy

liquidity, transparency, flexibility, choice of schemes, investment protection, tax benefits, convenient administration and record keeping, and reduced transaction costs.

#### 7.1.3.6 Disadvantages

The major disadvantages are higher risk, funds of investors managed by others, no control over costs, and the difficulty of choosing from.

#### 7.1.3.7 Structure of mutual funds in India

All the mutual funds (except money market mutual funds, foreign financial institutions and the UTI) are regulated by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, and as per the regulations a mutual fund is comprised of four separate participants or constituents, namely the sponsor, the mutual fund trust, the asset management company (AMC) and the custodian. There are some more additional entities like depository participant, bankers, brokers and registrars or transfer agents. The structure of the UTI is quite unique where the activities of the trustee, the AMC and the custodian are combined.

#### 7.1.3.8 Working of Mutual Funds

The mutual fund sells units abiding the SEBI guidelines. The trustees see that the schemes floated and managed by the AMC are in accordance with the trust deeds and SEBI guidelines. The trustees have the right to obtain relevant information and quarterly reports from the AMC. They can also dismiss the AMC under specific conditions. The trustees are required to submit half yearly reports to SEBI on the activities of the mutual fund. The AMC is appointed by the trustees to float the mutual fund schemes and manage the funds raised by selling units under a scheme. The AMC must act as per SEBI guidelines, the trust deeds and the management agreement between the trustees and the AMC.

#### 7.1.3.9 Procedures and functions

The various functional procedures, in accordance with the provisions of SEBI (MF) Regulations, like registration of mutual funds, registration of trust deed, appointment of trustees, AMC, custodian etc. are discussed in detail.

#### 7.1.3.10 Regulatory environment

The regulatory environment of mutual funds are controlled by the legal bodies such as SEBI, RBI, Ministry of Finance, CLB, DCA, Registrars of Companies, Office of the Public Trustees, and the Unit Trust of India and some self-regulatory bodies such as stock exchanges and the AMFI.

#### 7.1.4 Mutual Fund Industry of India and Mobilisation of Savings

The fourth chapter traces the evolution of mutual funds and the history of the mutual fund industry of India. It also evaluates its role in mobilising savings of the households.

##### 7.1.4.1 Evolution and growth of Mutual Fund

The kind of mutual fund ever started was the investment trust, The Society Generale de Belgique of Germany established in 1822 by the King William I of Netherlands. The Foreign and Colonial Government Trust of London, formed in 1868, was the pioneer of mutual funds of the modern concept. The Boston Personal Property Trust set up in 1893 is treated as the first mutual fund of America. In 1930's, 920 mutual

funds were formed in the United States of America most of which were close ended. Subsequently, hundreds of mutual funds, both open and close ended have been developed and expanded in many countries in Europe, the Far East, Latin America and Canada. It has originated as a fourth largest source of financial services in the USA in 1924 after banks, insurance companies and pension funds. Now, it has become the most important segment of financial intermediaries. The most developed mutual fund industry is in the USA. The total market capitalisation there is US \$ 4 trillion.

#### 7.1.4.2 History of mutual funds in India

The history of mutual funds in India begins with the setting up of Unit Trust of India (UTI) in 1964 under the Unit Trust of India Act, 1963. The objectives were the mobilisation of small savings of investors and to introduce them to market investments. The first open-ended mutual fund scheme of the UTI Unit Scheme 1964 (US 64) was started in July 1964, which could mobilise a subscription of Rs. 17.5 crores from 125000 investors.

Since the setting up of the UTI the history of Mutual Funds in India can be divided into four different stages or phases such as UTI monopoly period (1964 to 1987), Public sector and UTI period (1987 to 1993), Private sector, public sector and UTI period (1993 to 1996) and the SEBI regulated period (since 1996). Through these phases the industry have grown to an enormous level of 34 mutual funds with about 326 schemes and an asset size of Rs.103452.98 crores by the end of 1999-2000. The Unit Trust of India (UTI) is the country's largest mutual fund company with an asset size of Rs.68524 crores.

#### 7.1.4.3 Savings

Savings is one of the factors influence financial development. The primary mode through which this occurs is financial savings and in particular, intermediated financial savings. India maintains a steady growth rate in domestic savings. GDS as a percentage of GDP in India is one of the highest in the world, which was 23.9% in 1993-99. The healthy growth of savings in India has been boosted by the household sector,

which has contributed a substantially high percentage to total domestic savings. The contribution of this sector went up to 79.4% in 1985-93 but declined to 77.8% in 1993-99. A significant trend in savings has been the decline of public sector savings over time. The share of private corporate sector in GDS was 17.1% in 1993-99.

The percentage of savings in shares, debentures and mutual funds on GDS shows that a considerable growth has attained but a slighter downward trend is felt in the period 1993-99. The reason for the decrease is the depressed stock market conditions felt during the period.

It is the development of the financial intermediaries, which influenced the household saving pattern. They assist the transfer of savings to the real sector of the economy through the formation of financial assets. Such a development in the savings pattern, especially in the household sector, is mainly due to the development of the institutional intermediaries in

the financial markets. These intermediaries also assist the transfer of savings to the real sector of the economy through the formation of financial assets. In this process of development Indian mutual funds have emerged as strong financial intermediaries and are playing a very important role in bringing stability to the financial system and efficiency to resource allocation. In this process, commercial banks have lost their position.

#### 7.1.4.4 Role of Mutual Funds in the financial market

Mutual funds have assumed the important role as a financial intermediary mainly due to the complex and risky environment of the stock market. They have to play the roles of both the promoter of capital market as well as the intermediary of households. As a promoter mutual funds play an active role in promoting a healthy capital market. It increases liquidity in the money market and creates awareness among investors about equity-oriented investment and its benefits. Mutual funds are the fastest growing intermediary of household savings. The share of mutual funds in household

savings is one indicator of the importance of mutual funds in the savings markets.

#### 7.1.4.5 Mobilisation of Savings by Mutual Funds

The total mobilisation by all mutual funds during the year 1994-95 was Rs. 11274.57 crores. After two consecutive years of subdued performance, resource mobilised by mutual funds witnessed a turnaround during 1999-2000. Net resource mobilisation at Rs. 21971.38 crores registered a more than five-fold increase as against Rs. 3610.67 crores mobilised during 1998-99.

Growth in resource mobilisation during 1999-2000 was led mainly by the private sector funds, which witnessed an inflow of the order of Rs. 17170.8 crores as compared with Rs. 2518.65 crores during the previous year. There was a considerable decrease in the mobilisations by the UTI over the period. Rs. 8611.00 crores in 1994-95 has come down to Rs. 4548.00 in 1999-2000. Bank-sponsored mutual funds' collections have been on decrease. Their collection during the

year 1994-95 was Rs. 765.49 crores, came down to a negative value of Rs. 141.00 crores in 1999-2000. The collections of financial institution-sponsored mutual funds are also on a decreasing trend. In the year 1994-95 their mobilisation was Rs. 576.29 crores which came down to Rs. 393.58 crores in 1999-2000.

#### 7.1.5 Performance Evaluation of Mutual Funds

The fifth chapter is an attempt to evaluate the performance of the industry both theoretically and empirically. It has three separate sections. The first part explains the various fund evaluation measures. In the second part empirical evaluation of the mutual fund schemes of India are made. And the last part is the general evaluation of the industry as a whole.

##### 7.1.5.1 Performance evaluation measures

The important fund performance measures are Change in NAV method, Total Return, Return on Investment, Expense Ratio, Income Ratio, Portfolio Turnover Rate, Transactions Costs, Fund Size, Cash Holdings and the Benchmark method.

#### 7.1.5.2. Benchmark method

A benchmark is an indicator of performance of funds in relation with the investor expectations. Investor's expectations of returns from an equity fund can be judged against the overall stock market performance, measured by a stock market index. The appropriate index must be selected based on the investment objectives of the fund and the asset class it invests in.

The continuous and regular monitoring of fund performance is the next requirement after choosing the appropriate measures and benchmarks. This is certainly inevitable to take wise and prompt decisions by an investor. The relevant information on NAV, expenses, cash flow, appropriate indices etc should be gathered from the available sources.

#### 7.1.5.3 Empirical Evaluation

The performance of 47 open-ended growth schemes during the five years from 1995-96 to 1999-2000 is evaluated by using a benchmark index (BSENI), the weekly NAV data and the

average bank fixed deposit interest rate of 12% as the risk free return. The four measures such as Jensen's differential return measure, Treynor's reward to volatility ratio, Sharpe's reward to variability ratio and Fama's decomposition measure are also used.

#### 7.1.5.4 Empirical Analysis

It is revealed that sample schemes during the period were not performed remarkably. But, some of the schemes, especially private sector mutual funds had superior performance over the other categories. Further, sample schemes were not found to be adequately diversified and were not in conformity with their stated objectives.

#### 7.1.5.5 General Evaluation

Mutual fund concept took root only in sixties with the setting up of the UTI. As the UTI was regulated by a special enactment, no other mutual fund could emerge but laid a strong foundation for popularising mutual fund philosophy. The spectacular performance of the UTI especially during eighties has given the investors rich experience of the

operations of a mutual fund. The public sector mutual funds floated during later eighties had given the impression that they are backed by the sponsored banks and the insurance companies. Due to this confidence created among the investors there was overwhelming faith in mutual funds during the period. Besides, the tax concessions under sections 80CC & 80CCB and the added attraction of the UTI schemes, the assured minimum return, made mutual fund a popular one.

The induction of the private and joint sector opened a competitive environment and gave a boost to the mutual fund industry in early 1990's but such boost was short-lived. Very soon, the industry faced a slowdown in mobilisation. The public sector had to face severe competition from the private sector counterparts. The prolonged stock market depression since 1995 meant losses for investors' interests in equity schemes diminished.

From 1995-96 to 1998-99, the UTI experienced substantial net outflows, i.e. redemptions/ repurchases exceeded fresh sales. The UTI, being an old institution, had several closed-ended schemes some of which matured during this period, resulting in negative net mobilisation. The net mobilisation by the newer mutual funds was positive but it was only about one-third of their mobilisation during preceding four years. It appears that the household investors during these years were seeking safer investment alternatives, like government savings schemes and bank fixed deposits.

The mobilisation during 1998-99 was particularly affected by the crisis, which hit the US-64, the largest scheme, not only among all UTI schemes but also, in the whole MF industry in India. The Government of India had to step in to resolve the crisis.

In the year 1999-2000 there was a smart recovery in the net mobilisation by the mutual fund industry, creating a record of

nearly Rs. 18970 crores. Such sharp increase was attributable to the tax concessions given to the MF industry in the 1999 Budget.

#### 7.1.5.6 The Challenge before the Mutual Fund Industry

The biggest challenge before mutual fund is to develop a mechanism for bringing about a change in the investors' expectations regarding the mutual fund industry. Industry-specific rather than company specific approach should be taken to bring forth the lost credibility to the industry. A concerted effort of all mutual funds together is inevitable to popularise the mutual fund concept. AMFI can play the lead role in this regard.

#### 7.1.6 Mutual Funds of Kerala

Sixth chapter is an amplified study of the Mutual Fund Industry and its investors of Kerala giving emphasis to the empirical analysis of mutual fund investors, their perception and adoption levels.

#### 7.1.6.1 Economic profile of Kerala

Kerala is a poor state with a low per capita income. But in most of the human development parameters Kerala ranks with the developed countries, which shows that it is possible to achieve a high level of human development with much less per capita income. The per capita income at current prices is estimated at Rs.17,756 in 1998-99, which exceeds the all India per capita income. The inflation rate in Kerala has been higher than that experienced at the national level.

#### 7.1.6.2 Mutual Fund Industry of Kerala

There are no mutual funds with their head offices in Kerala. But, all of the mutual funds of India have operation in Kerala through either their own branches or agents. The main business of these offices is concentrated in the major cities of Kerala, Cochin, Trichur, Trivandrum and Calicut. The UTI itself has three main branches in Kerala, in Cochin, Trichur and Trivandrum and many franchisee offices and agents spread throughout the state. No organisation collects statistics about mutual fund mobilisations from Kerala.

### 7.1.6.3 Empirical analysis

The survey conducted among the investors of mutual fund schemes in Kerala enquired mainly about the experience of the respondents in investing in mutual fund schemes, their preferences, expectations and suggestions. It also sought to get information about their awareness and adoption level of mutual funds and their perception of mutual funds in relation to other investment schemes.

Primary data have been collected from 424 individual investors of various mutual fund schemes from the two districts of Kerala, Calicut and Ernakulam. The findings of the discussion can be summarised as this alternative was recognised only among well-educated urban senior salary earners and businessmen. The investors are becoming more and more aware of this alternative and there is ample scope to emerge very fast as an avenue of the middle class individual investors of Kerala.

7.1.7 This seventh and last chapter gives the summaries of all the chapters, a summary of all findings, conclusions and suggestions.

## **7.2 Findings**

The findings of the study are summarised as follows:

- Largely the urban people subscribe mutual funds schemes and the investment by the rural people is very negligible.
- The offices and agents of mutual funds are located only in the cities and the UTI controls the Kerala mutual fund industry.
- Generally senior male investors rather than youngsters have accepted mutual fund schemes.
- Professionals and businessmen are the main contributors to the mutual fund schemes.
- The schemes are popular among investors, who have the habit of saving regularly.
- The main purpose of saving is to meet emergencies/contingencies. The other purposes are to

save tax, to earn income on retirement, to meet educational expenses of children, etc.

- UTI units are the highest profitable alternative available in the market followed by provident fund schemes and bank deposits.
- UTI units are the safest alternative available in the market followed by bank deposits and LIC schemes.
- As far as the liquidity is concerned UTI units are in the second position after bank deposits.
- UTI units are in the second position after bank deposits with respect to convenience.
- UTI units will continue as the alternative, which would give the maximum profit in the ensuing year also.
- UTI units will continue as the safest alternative in the ensuing year also.
- With regard to liquidity and convenience UTI units will continue in the second position after bank deposits in the ensuing year also.

- The average annual income, expense and savings of the respondents are Rs.195367, Rs.108617 and Rs.86750 respectively.
- The proportion of mutual fund savings to total savings has increased considerably, especially during the preceding year.
- The proportion of savings in UTI units to total savings has also increased considerably.
- Income is the sole determinant for the demand for mutual fund investment.
- The reputation and the past performance are the main factors, which led the investors to choose mutual fund investment.
- What investors expect from mutual funds are maximum profit, regular income, maximum tax saving, capital appreciation, safe return of capital, liquidity etc.
- Income schemes are the much preferred mutual fund scheme. The other preferences are balanced schemes,

growth schemes, income and growth schemes, tax savings scheme etc.

- Newspapers and newsletters are the main source of information about mutual funds. The other sources are agents, friends, relatives and colleagues etc.
- The first choice of mutual fund organisation is UTI followed by institution-sponsored mutual funds, bank-sponsored funds and private sector mutual funds.
- The important areas suggested for the improvement of the working of the funds are transparency and disclosure of accounts, timely payment of annual payments, quick payment of re-purchase price, propaganda and advertisement campaigns etc.
- The strengths of the industry are highest returns, tax advantages, safety and features of growth and capital appreciation.
- The opportunities of the industry are canalisation of domestic savings and bridging of the gap between investors and capital market.

- The main weaknesses are uncertainty of return and rate of return, dependence on volatile capital market and unrealised offers and failures.
- The threats before the industry are the probable stock market scams or collapses, entry of foreign companies and the possible corruptions and frauds of the fund managers.

### **7.3 Conclusions**

From the foregoing findings on the perception of investors of mutual fund schemes about the mutual funds it can be concluded that this alternative is recognised only among well-educated urban senior salary earners and businessmen. The investors are becoming more and more aware of this alternative and there is ample scope to emerge very fast as an avenue of the middle class individual investors of Kerala.

### **7.4 Suggestions**

Based on the above findings and conclusions, the following suggestions are offered.

## To the Government and the regulators

- Government should encourage mutual fund savings both for the rectification of the erratic capital market and for mobilising savings for the capital formulation. Income tax-linked incentives will get much acceptance from the public.
- Given that the Indian mutual fund industry is still in a nascent stage, with a large majority of investors being new to the product, there is a case for greater regulatory protection.
- The research and analysis functions of SEBI must be made vibrant and the provisions of the regulations must be made proactive rather than reactive.
- Regular and periodic disclosure of both NAVs and portfolio details must be initiated.
- The organisation like AMFI should expand their service of creating awareness about the various schemes of mutual funds and should evaluate the performances. The inefficiencies or mismanagement of funds are to

be brought to the investors through its publications. They should also encourage researches and studies especially for the evaluations of fund performances.

- Mutual fund scheme vendors dealing with schemes of different mutual funds are necessary so as to enable the investor to choose from. Investors should get the services of the well-trained middlemen in the field of mutual fund retailing including investment counselling. The certification programmes meant for the agents and employees conducted by AMFI should be extended on a large scale.
- Mutual fund awareness programmes of AMFI should be fortified and spread throughout the country both in the urban and rural areas.

#### To the Mutual Funds

- Since no assured return schemes are possible, mutual funds should offer only pure mutual fund schemes for the pure mutual fund investors. Investors should also be given education on the right direction.

- Schemes to attract small investors and lower income groups must be introduced. Non-salaried persons should also be attracted to mutual fund schemes. Easy instalment investment schemes or contractual obligatory schemes must also be introduced.
- Online buying and selling through the Internet should be encouraged by the mutual funds.
- The defeated investors of the capital markets and the potential investors who are hesitant to enter the capital market should be attracted through the schemes like index fund schemes.
- Investor-friendly approach should be created by the mutual funds.
- Mutual funds should go only for healthy competition and should offer wide range of schemes to enable the investors to balance their investment objectives in a better way.

### To the Investors

- The investors should diversify their mutual fund holdings among several mutual fund organisations.
- The investors should not trust any of the organisations blindly. Constant and continuous monitoring is essential and should take decisions accordingly.

### **7.5 Scope for further research**

There are potential areas in which researches can be undertaken further which are as follows:

- Evaluation of investment policy, portfolio structure, portfolio turnover, and operating performance of mutual fund schemes
- Scheme-wise and category-wise evaluations of mutual funds in the risk-return framework
- Size, structure, regulation and competition of mutual fund organisations.
- Impact of mutual fund transactions on the stock market.

If this study helps the future researchers in any way to pursue further studies in the area suggested above, the researcher will feel amply rewarded.

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## ***Appendices***

**Appendix I**  
**Mobilisation of Savings through Mutual Funds**  
**A Study with special reference to Kerala**

**Interview Schedule for Investors of Mutual Fund Schemes**

**General Information**

1. Age (please tick)  35 and below  
 Between 36 and 45  
 Between 46 and 55  
 Between 56 and 65  
 Above 65
2. Sex  Male  Female
3. Marital Status  Married  Unmarried
4. Education  SSLC  PDC  Degree  PG  
 Technical  Professional
5. Occupation  Central Govt. Employee  
 State Govt. Employee  
 Quasi-Govt. Employee  
 Co-op. Sector Employee  
 Private Sector Employee  
 Public Sector Employee  
 Business  
 Profession  
 Agriculture/Plantation  
 Employed/returned from abroad  
 Retired  
 Others
6. Residence location  Rural  Urban
7. Size of the family  Small (upto 3 members)  
 Medium (between 4 and 5 members)  
 Big (more than 5 members)
8. Religion  Hindu  
 Christian  
 Muslim  
 Others
9. Annual income for the last three years :
- |                        |   |                                  |
|------------------------|---|----------------------------------|
| Last Year Income       | : | <input type="text" value="Rs."/> |
| Year preceding last    | : | <input type="text" value="Rs."/> |
| 2 years preceding last | : | <input type="text" value="Rs."/> |

## 10. Annual expenses for the last three years :

Last Year	:	Rs. <input type="text"/>
Year preceding last	:	Rs. <input type="text"/>
2 years preceding last	:	Rs. <input type="text"/>

## 11. Composition of the last three year savings

	Items	Last year Amount (Rs.)	Year preceding last Amount (Rs.)	2 years preceding last year Amount (Rs.)
(a)	Bank deposits			
(b)	Provident Fund			
(c)	LIC			
(d)	PO Schemes			
(e)	Chit Funds			
(f)	Private banks and financial institutions			
(g)	Shares and debentures			
(h)	UTI units			
(i)	Other mutual fund schemes			
(j)	Real estate			
(k)	Gold, silver, etc.			
(l)	Any other (specify)			

12. Nature of savings habit  Regular  Occasional  Not Applicable13. Motives/purposes of savings/investment  
(rank in the order of importance by assigning 1, 2, 3, ...)

	Ranking
(a) To meet emergencies/contingencies	<input type="text"/>
(b) To meet educational expenses of children or dependents	<input type="text"/>
(c) To meet marriage expenses of children or dependents	<input type="text"/>
(d) To buy land, house, consumer durables, etc.	<input type="text"/>
(e) To save tax	<input type="text"/>
(f) To earn income on retirement	<input type="text"/>

- (g) To supplement earnings
- (h) To expand/start business
- (i) Other purposes (please specify)

14. How was your experience of investing in the following investment alternatives (Please choose any one of the alphabets A, B, C, D or E to denote your choice; A for Very much satisfied; B for Moderately satisfied; C for No opinion; D for Marginally satisfied E for Dissatisfied).

	With respect to Profitability	With respect to Safety	With respect to Liquidity	With respect to Convenience
Bank deposits	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Provident Fund	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
LIC	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
PO Schemes	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Chit Funds	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Private banks and financial institutions	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Shares and debentures	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
UTI Units	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other mutual fund schemes	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Real Estate	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Gold, silver, etc.	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Any other (specify)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

15. In which category would you place the following investment alternatives in the future? (Please choose any one of the alphabets A, B, C, D or E to denote your choice; A for Very Good; B for Good; C for No opinion; D for Bad and E for Very Bad).

	With respect to Profitability	With respect to Safety	With respect to Liquidity	With respect to Convenience
Bank deposits	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Provident Fund	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
LIC	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
PO Schemes	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Chit Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private banks and financial institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shares and debentures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UTI Units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other mutual fund schemes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gold, silver, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any other (specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. Are you likely to invest in the following forms during the next one year?  
(please tick the relevant rectangle)

	Yes Very likely	Yes Likely	Un-certain	Not likely	Remotely
Bank deposits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provident Fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LIC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PO Schemes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chit Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private financial institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shares and debentures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UTI units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other mutual fund schemes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Real estate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gold, silver etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any other (specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Mutual Funds and Investments**

17. Factors influenced in the selection of Mutual Funds  
(rank in the order of preference by assigning 1, 2, 3, .....)

(a) Reputation	<input type="checkbox"/>
(b) Past performance of the organisation	<input type="checkbox"/>
(c) Suggestion/recommendation of friends/colleagues	<input type="checkbox"/>
(d) Advertisement	<input type="checkbox"/>
(e) Campaigns	<input type="checkbox"/>
(f) Others (please specify )	<input type="checkbox"/>

18. Your expectations from Mutual Fund Schemes  
(rank in the order of preference by assigning 1, 2, 3, ....)

- (a) Maximum profit/year
  - (b) Maximum tax savings
  - (c) Capital appreciation
  - (d) Regular income
  - (e) Loan facility
  - (f) Liquidity
  - (g) Insurance benefits
  - (h) Minimum risks
  - (i) Future needs
  - (j) Safe return of capital
  - (k) Others (please specify)
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19. Your choice among mutual fund schemes (rank in the order of preference by assigning 1, 2, 3, ....)

- (a) Income schemes
  - (b) Growth schemes
  - (c) Income and growth schemes
  - (d) Balanced schemes
  - (e) Tax saving schemes
  - (f) Insurance linked schemes
  - (g) Money market schemes
- |  |
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20. Your choice among mutual fund organisations  
(rank in the order of preference by assigning 1, 2, 3, ....)

- Unit Trust of India
  - Bank sponsored Mutual Funds
  - Institutions sponsored Mutual Funds
  - Private Sector India Mutual Funds
  - Private Sector Joint Venture MF
- |  |
|--|
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|  |

21. Which are the factors influenced for the above preference?

22. Your source of information regarding mutual funds  
(rank in the order of preference)

- Newspapers/newsletters
  - Magazines
  - TV
  - Agents
  - Internet
- |  |
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|  |

Friends, relatives and colleagues  
Direct information/ experience


23. Please write the strongest points in favour of investment in mutual funds.

24. Specify the weakest points of mutual funds.

25. State the opportunities you see for the mutual funds.

26. Note down the threats to the growth and flourishing of mutual funds.

27. Your suggestions to improve the working of mutual funds  
(rank in the order of preference)

Timely payment of annual payments  
Quick payment of repurchase price  
Easy and prompt transferability  
Transparency and disclosure of accounts  
Quick mailing of certificates  
Propaganda and advertisement campaigns  
Any other/s


*Thank You*

## Appendix II

### SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS, 1996

#### CHAPTER I PRELIMINARY

Short title, application and commencement

1. (1) These regulations may be called the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

(2) They shall come into force on the date of their publication in the Official Gazette.

#### Definitions

2. In these regulations, unless the context otherwise requires:-

(a) "**Act**" means the Securities and Exchange Board of India Act 1992, (15 of 1992);

(b) "**advertisement**" includes every form of advertising, whether in a publication, by display of notices, signs, labels or by means of circulars, catalogues or other documents, by an exhibition of pictures or photographic films, by way of sound broadcasting or television, or in any other manner;

(c) "**associate**" includes a person -

(i) who directly or indirectly, by himself, or in combination with relatives, exercises control over the asset management company or the trustee as the case may be, or

(ii) in respect of whom the asset management company or the trustee, directly or indirectly, by itself, or in combination with other persons exercises a control or

(iii) whose director, officer or employee is a director, officer or employee of the asset management company;

(d) "**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;

(e) "**broker**" means a stock broker as defined in Securities & Exchange Board of India (Stock Broker) Rules, 1992;

(f) "**close-ended scheme**" means any scheme of a mutual fund in which the period of maturity of the scheme is specified;

(g) "**control**" means, -

(i) in case of a company any person or combination of persons who directly or indirectly own, control or hold shares carrying not less than 10% of the voting rights of such company; or

- (ii) as between two companies, if the same person or combination of persons directly or indirectly, own control or hold shares carrying not less than 10% of the voting rights of each of the two companies; or
- (iii) majority of the directors of any company who are in a position to exercise control over the asset management company.
- (h) "**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;
- (i) "**depository**" means a body corporate as defined in the Depositories Act, 1996 (22 of 1996);
- (j) "**economic offence**" means an offence to which the Economic Offences (Limitation of Prosecution) Act, 1974 (12 of 1974) applies for the time-being;
- (k) "**enquiry officer**" means any person appointed as such by the Board under Chapter IX;
- (l) "**form**" means any of the forms specified as such in the First Schedule;
- (m) "**fraud**", for the purpose of these regulations has the same meaning as is assigned to it in section 17 of the Indian Contract Act, 1872 (9 of 1872);
- (m m) "*group*" means a group as defined in clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969)<sup>1</sup> ;
- (n) "**inspecting officer**" means any person appointed as such by the Board under Chapter VIII;
- (o) "**money market instruments**" includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time;
- (p) "**money market mutual fund**" means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments;
- (q) "**mutual fund**" means a fund established in the form of a trust to raise monies 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;
- (r) "**offer document**" means any document by which a mutual fund invites public for subscription of units of a scheme;
- (s) "**open-ended scheme**" means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;
- (t) "**relative**" means a person as defined in section 6 of the Companies Act, 1956 (1 of 1956);
- (u) "**scheme**" means a scheme of a mutual fund launched under Chapter V;

(v) "**schedule**" means any of the schedules annexed to these regulations;

(w) "**securities laws**" means the Securities & Exchange Board of India Act, 1992 (15 of 1992), the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996) including their amendments and such other laws as may be enacted from time to time;

(x) "**sponsor**" means any person who, acting al one or in combination with another body corporate, establishes a mutual fund;

(y) "**trustee**" means the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders.<sup>2</sup>

(z) "**unit**" means the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme;

(z)(i) "**unit holder**" means a person holding unit in a scheme of a mutual fund.

## **CHAPTER II REGISTRATION OF MUTUALFUND**

### **Application for registration**

3. An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor.

### **Application fee to accompany the application**

4. Every application for registration under regulation 3 shall be accompanied by non-refundable application fee as specified in the Second Schedule.

### **Application to conform to the requirements**

5. An application, which is not complete in all respects, shall be liable to be rejected.

Provided that, before rejecting any such application, the applicant shall be given an opportunity to complete such formalities within such time as may be specified by the Board.

### **Furnishing information**

6. The Board may require the sponsor to furnish such further information or clarification as may be required by it.

### **Eligibility criteria**

7. For the purpose of grant of a certificate of registration, the applicant has to fulfil the following, namely:-

(a) the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions;

Explanation: For the purposes of this clause "sound track record" shall mean the sponsor should,-

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

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

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

(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.

*(aa) the applicant is a fit and proper person<sup>3</sup>*

(b) in the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board;

(c) the sponsor has contributed or contributes at least 40% to the net worth of the asset management company;

Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in these regulations;

(d) 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 or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence.

(e) appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;

(f) appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;

(g) appointment of a custodian in order to keep custody of the securities and carry out the custodian activities as may be authorised by the trustees.

#### **Consideration of application**

8. The Board, may on receipt of all information decide the application.

#### **Grant of Certificate of Registration**

9. The Board may register the mutual fund and grant a certificate in Form B on the applicant paying the registration fee as specified in Second Schedule.

#### **Terms and conditions of registration**

10. The registration granted to a mutual fund under regulation 9, shall be subject to the following terms and conditions:-

(a) the trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of these regulations;

(b) the mutual fund shall forth with inform the Board, if any information or particulars previously submitted to the Board was misleading or false in any material respect;

(c) the mutual fund shall forth with inform the Board, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it;

(d) payment of fees as specified in the regulations and the Second Schedule.

**Rejection of application**

11. Where the sponsor does not satisfy the eligibility criteria mentioned in regulation 7, the Board may reject the application and inform the applicant of the same.

**Payment of service fee**

12. A mutual fund shall pay before the 15th April each year a service fee as specified in the Second Schedule for every financial year from the year following the year of registration.

Provided that the Board may, on being satisfied with the reasons for the delay permit the mutual fund to pay the service fee at any time before the expiry of two months from the commencement of the financial year to which such fee relates.

**Failure to pay service fee**

13. The Board may not permit a mutual fund who has not paid service fee to launch any scheme.

**CHAPTER III  
CONSTITUTION AND MANAGEMENT OF MUTUALFUND  
AND OPERATION OF TRUSTEES, ETC.**

**Trust Deed to be registered under the Registration Act**

14. 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 provisions of the Indian Registration Act, 1908 (16 of 1908) executed by the sponsor in favour of the trustees named in such an instrument.

**Contents of trust deed**

15. (1) The trust deed shall contain such clauses as are mentioned in the Third Schedule and such other clauses, which are necessary for safeguarding the interests of the unit holders.

(2) No trust deed shall contain a clause, which has the effect of-

- (i) limiting or extinguishing the obligations and liabilities of the trust in relation to any mutual fund or the unit holders; or
- (ii) indemnifying the trustees or the asset management company for loss or damage caused to the unit holders by their acts of negligence or acts of commissions or omissions.

**Disqualification from being appointed as trustees**

16.(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]<sup>4</sup>

(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.

#### **Approval of the Board for appointment of trustee**

17. (1) No trustee shall initially or any time thereafter be appointed without prior approval of the Board. [*Proviso to Regulation deleted*]<sup>5</sup>

(2) The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

#### **Rights and obligations of the trustees**

18.(1) The trustees and the asset management company shall with the prior approval of the Board enter into an investment management agreement.

(2) The investment management agreement shall contain such clauses as are mentioned in the Fourth Schedule and such other clauses as are necessary for the purpose of making investments.

(3) The trustees shall have a right to obtain from the asset management company such information as is considered necessary by the trustees.

(4) The trustees shall ensure before the launch of any scheme that the asset management company has; -

(a) systems in place for its back office, dealing room and accounting;

(b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the trustees, within 15 days of their appointment;

(c) appointed auditors to audit its accounts;

(d) appointed a compliance officer to comply with regulatory requirement and to redress investor grievances;

(e) appointed registrars and laid down parameters for their supervision;

(f) prepared a compliance manual and designed internal control mechanisms including internal audit systems;

(g) specified norms for empanelment of brokers and marketing agents.

(5) The trustees shall ensure that an asset management company has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

(6) The trustees shall 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 by 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.

(9) The trustees shall ensure that all the activities of the asset management company are in accordance with the provisions of these regulations.

(10) Where the trustees have reason to believe that the conduct of business of the mutual fund is not in accordance with these regulations and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the Board of the violation and the action taken by them.

*[(11) Each trustee shall file the details of his transactions of dealing in securities with the Mutual Fund on a quarterly basis.]<sup>6</sup>*

(12) The trustees shall be accountable for, and be the custodian of, the funds and property of the respective schemes and shall hold the same in trust for the benefit of the unit holders in accordance with these regulations and the provisions of trust deed.

(13) The trustees shall take steps to ensure that the transactions of the mutual fund are in accordance with the provisions of the trust deed.

(14) 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.

(15) The trustees shall obtain the consent of the unit-holders -

(a) whenever required to do so by the Board in the interest of the unit-holders; or

(b) whenever required to do so on the requisition made by three-fourths of the unit holders of any scheme; or

(c) when the majority of the trustees decide to wind up or prematurely redeem the units; or

*[15A. The trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unit holders, shall be carried out unless,*

*-(i) a written communication about the proposed change is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and*

*(ii) the unit holders are given an option to exit at the prevailing Net Asset Value without any exit load.]<sup>7</sup>*

(16) The trustees shall call for the details of transactions in securities by the key personnel of the asset management company in his own name or on behalf of the asset management company and shall report to the Board, as and when required.

(17) The trustees shall quarterly review all transactions carried out between the mutual funds, asset management company and its associates.

(18) The trustees shall *quarterly*<sup>8</sup> review the net worth of the asset management company and in case of any shortfall, ensure that the asset management company make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21.

(19) The trustees shall periodically review all service contracts such as custody arrangements, transfer agency of the securities and satisfy itself that such contracts are executed in the interest of the unit holders.

(20) The trustees shall ensure that there is no conflict of interest between the manner of deployment of its net worth by the asset management company and the interest of the unit holders.

(21) The trustees shall periodically review the investor complaints received and the redressal of the same by the asset management company.

(22) The trustees shall abide by the Code of Conduct as specified in the Fifth Schedule.

(23) The trustees shall furnish to the Board on a half yearly basis, -

(a) a report on the activities of the mutual fund;

(b) a certificate stating that the trustees have satisfied themselves that there have been no instances of self dealing or front running by any of the trustees, directors and key personnel of the asset management company;

(c) a certificate to the effect that the asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 have been undertaken by the asset

management company and has taken adequate steps to ensure that the interest of the unit holders are protected.

*[(24) The independent trustees referred to in sub-regulation (5) of regulation 16 shall give their comments on the report received from the asset management company regarding the investments by the mutual fund in the securities of group companies of the sponsor.]<sup>9</sup>*

(25) Trustees shall exercise due diligence as under:

General Due Diligence:

(i) the Trustees shall be discerning in the appointment of the directors on the Board of the asset management company.

(ii) Trustees shall review the desirability of continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes.

(iii) The trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.

(iv) The trustee shall ensure that all service providers are holding appropriate registrations from the Board or concerned regulatory authority.

(v) The Trustees shall arrange for test checks of service contracts.

(vi) Trustees shall immediately report to Board of any special developments in the mutual fund.

B. Specific Due Diligence:

The Trustees shall :

(i) obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees.

(ii) obtain compliance certificates at regular intervals from the asset management company.

(iii) hold meeting of trustees more frequently.

(iv) consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action.

(v) maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings.

(vi) prescribe and adhere to a code of ethics by the Trustees, asset management company and its personnel .

(vii) communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.

(26) Notwithstanding anything contained in sub-regulations (1) to (25), the trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly.

(27) The independent directors of the trustees or asset management company shall pay specific attention to the following, as may be applicable, namely:-

- (i) the Investment Management Agreement and the compensation paid under the agreement.
- (ii) service contracts with affiliates - whether the asset management company has charged higher fees than outside contractors for the same services.
- (iii) selection of the asset management company's independent directors
- (iv) securities transactions involving affiliates to the extent such transactions are permitted.
- (v) selecting and nominating individuals to fill independent directors vacancies.
- (vi) code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions.
- (vii) the reasonableness of fees paid to sponsors, asset management company and any others for services provided.
- (viii) principal underwriting contracts and their renewals.
- (ix) any service contract with the associates of the asset management company.]<sup>10</sup>

#### **CHAPTER IV**

##### **CONSTITUTION AND MANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN**

###### **Application by an asset management company**

19.(1) The application for the approval of the asset management company shall be made in Form D.

(2) The provisions of regulations 5, 6 and 8 shall, so far as may be, apply to the application made under sub-regulation (1) as they apply to the application for registration of a mutual fund.

###### **Appointment of an asset management company**

20.(1) The sponsor or, if so authorised by the trust deed, the trustee shall, appoint an asset management company, which has been approved by the Board under sub-regulation (2) of regulation 21.

(2) The appointment of an asset management company can be terminated by majority of the trustees or by seventy five per cent of the unit-holders of the scheme.

(3) Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unit holders.

###### **Eligibility criteria for appointment of asset management company**

21.(1) For grant of approval of the asset management company the applicant has to fulfil the following: -

(a) in case the asset management company is an existing asset management company it has a sound track record, general reputation and fairness in transactions;

Explanation: For the purpose of this clause sound track record shall mean the Net worth and the profitability of the asset management company.

*(aa) the asset management company is a fit and proper person.<sup>11</sup>*

(b) the directors of the asset management company are persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;

(c) the key personal of the asset management company *have not been found* guilty of moral turpitude or convicted of economic offence or violation of securities laws<sup>12</sup> [or worked]<sup>13</sup> for any asset management company or mutual fund or any intermediary [during the period when its]<sup>14</sup> registration has been suspended or cancelled at any time by the Board;

(d) the board of directors of such asset management company has at least fifty percent directors, who are not associate of, or associate d in any manner with, the sponsor or any of its subsidiaries or the trustees;

(e) the Chairman of the asset management company is not a trustee of any mutual fund;

(f) the asset management company has a net worth of not less than rupees ten crores:

Provided that an asset management company already granted approval under the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 shall within a period twelve months from the date of notification of these regulations increase its networth to rupees ten crores.

Provided that the period specified in the first proviso may be extended in appropriate cases by the Board upto three years for reasons to be recorded in writing.<sup>15</sup>

Provided further that no new schemes shall be allowed to be launched or managed by such asset management company till the net worth has been raised to Rupees ten crores.<sup>16</sup>

Explanation: For the purpose of this clause, "net worth" means the aggregate of the paid up capital and free reserves of the asset management company after deducting therefrom miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets and accumulated losses.<sup>17</sup>

(2) The Board may, after considering an application with reference to the matters specified in sub-regulation (1), grant approval to the asset management company.

**Terms and conditions to be complied with**

22. The approval granted under sub-regulation (2) of regulation 21 shall be subject to the following conditions, namely:-

(a) any director of the asset management company shall not hold the office of the director in another asset management company unless such person is an independent director referred to in clause (d) of sub-regulation (1) of regulation 21 and approval of the board of asset management company of which such person is a director, has been obtained;

(b) the asset management company shall forth with inform the Board of any material change in the information or particulars previously furnished, which have a bearing on the approval granted by it;

(c) no appointment of a director of an asset management company shall be made without prior approval of the trustees;

(d) the asset management company undertakes to comply with these regulations;

*[(e) no change in the controlling interest of the asset management company shall be made unless, -*

*(i) prior approval of the trustees and the Board is obtained;*

*(ii) a written communication about the proposed change is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and*

*(iii) the unit holders are given an option to exit on the prevailing Net Asset Value without any exit load]<sup>18</sup>*

(f) The asset management company shall furnish such information and documents to the trustees as and when required by the trustees.

#### **Procedure where approval is not granted**

23. Where an application made under regulation 19 for grant of approval does not satisfy the eligibility criteria laid down in regulation 21, the Board may reject the application.

#### **Restrictions on business activities of the asset management company**

24. The asset management company shall

(1) not act as a trustee of any mutual fund;

(2) not undertake any other business activities except activities in the nature of *[portfolio management services]<sup>19</sup>* 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 if any of such activities are not in conflict with the activities of the mutual fund;

Provided that the asset management company may itself or through its subsidiaries undertake such activities 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.

Provided further that asset management company shall meet capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulations.

(3) the asset management company shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents *[in case of schemes launched after the notification of these regulations.]*<sup>20</sup>

Provided that an asset management company shall not be entitled to charge any fees on its investment in that scheme.

#### **Asset Management Company and its obligations**

25.(1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of these regulations and the trust deed.

(2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.

(3) The asset management company shall be responsible for the acts of commissions or omissions by its employees or the persons whose services have been procured by the asset management company.

(4) The asset management company shall submit to the trustees, quarterly reports of each year on its activities and the compliance with these regulations.

(5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time:

Provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.

(6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omissions, while holding such position or office.

*[(7) (a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes.*

*Provided that for the purpose of this sub-regulation, aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund.*

*Provided further that the aforesaid limit of 5% shall apply for a block of any three months.*

*(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5% and reports of all such investments are sent to the trustees on a quarterly basis.*

*Provided that the aforesaid limit shall apply for a block of three months.*

*[original sub-regulation (7) substituted]<sup>21</sup>*

*(8) An asset management company shall not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities:*

*Provided that an asset management company may utilise such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half yearly annual accounts of the mutual fund.*

*[Provided further that the mutual funds shall disclose at the time of declaring half-yearly and yearly results;*

*(i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of securities associate companies,*

*(ii) devolvement, if any,*

*(iii) subscription by the schemes in the issues lead managed by associate companies*

*(iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager].<sup>22</sup>*

*(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.*

*(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall be sent to the trustees [at its next meeting]<sup>23</sup> [\*\*\*]<sup>24</sup>*

*(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half yearly and annual accounts of the respective schemes with justification for such investment [provided the latter investment has been made within one year of the date of the former investment calculated on either side].<sup>25</sup>*

(12) The asset management company shall file with the trustees and the Board –

(a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment; and

(b) any change in the interests of directors every six months.

*[(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company as the case may be, by the mutual fund during the said quarter.]<sup>26</sup>*

(13) A statement of holdings in securities of the directors of the asset management company shall be filed with the trustees with the dates of acquisition of such securities at the end of each financial year.

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board.

Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

#### **Appointment of Custodian**

26. (1) 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.

(2) 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.

#### **Agreement with Custodian**

27. The mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses, which are necessary for the efficient and orderly conduct of the affairs of the custodian.

Provided that the agreement, the service contract, terms and appointment of the custodian shall be entered into with the prior approval of the trustees.

**CHAPTER V**  
**SCHEMES OF MUTUAL FUND**

**Procedure for launching of schemes**

28.(1) No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the Board.

(2) Every mutual fund shall along with the offer document of each scheme pay filing fees as specified in the Second Schedule.

**Disclosures in the offer document**

29.(1) The offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision *[including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor].*<sup>27</sup>

(2) The Board may in the interest of investors require the asset management company to carry out such modifications in the offer document as it deems fit.

(3) In case no modifications are suggested by the Board in the offer document within 21 *[working]*<sup>28</sup> days from the date of filing, the asset management company may issue the offer document.

*[ (4) No one shall issue any form of application for units of a mutual fund unless the form is accompanied by the memorandum containing such information as may be specified by the Board.]*<sup>29</sup>

**Advertisement material**

30. (1) Advertisements in respect of every scheme shall be in conformity with the Advertisement Code as specified in the Sixth Schedule and shall be submitted to the Board within 7 days from the date of issue.

(2) The advertisement for each scheme shall disclose *[investment objective for each scheme]*<sup>30</sup>

**Misleading statements**

31. The offer document and advertisement materials shall not be misleading or contain any statement or opinion, which are incorrect or false.

**Listing of close ended schemes**

32. Every close-ended scheme shall be listed in a recognized stock exchange within six months from the closure of the subscription.

Provided that listing of close-ended scheme shall not be mandatory -

(a) if the said scheme provides for periodic repurchase facility to all the unit holders with restriction, if any, on the extent of such repurchase; or

(b) if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children,

widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or

(c) if the details of such repurchase facility are clearly disclosed in the offer document; or

(d) if the said scheme opens for repurchase within a period of six months from the closure of subscription.

#### **Repurchase of close-ended schemes**

33. (1) The asset management company may at its option repurchase or reissue the repurchased units of a close ended scheme.

(2) The units of close-ended schemes referred to in the proviso to regulation 32 may be open for sale or redemption at fixed pre-determined intervals if the maximum and minimum amount of sale or redemption of the units and the periodicity of such sale or redemption have been disclosed in the offer document. ~~[words "without listing" deleted]~~<sup>31</sup>

(3) The units of close-ended scheme may be converted into open ended scheme,-

(a) if the offer document of such scheme discloses the option and the period of such conversion; or

*[(b) the unit holders are provided with an option to redeem their units in full.]*

*[original clause substituted]*<sup>32</sup>

(4) A close-ended scheme shall be fully redeemed at the end of the maturity period. ~~[words "unless a majority of the unit holders otherwise decide for its roll over by passing a resolution" deleted]~~<sup>33</sup>

*[Provided that a close ended scheme may be allowed to be roll ed over if the purpose, period and other terms of the roll over and all other material detail s of the scheme including the likely composition of assets immediately before the roll over, the net assets and net asset value of the scheme, are disclosed to the unit holders and a copy of the same has been filed with the Board.*

*Provided further, that such roll over will b e permitted only in case of those unit holders who express their consent in writing and the unit holders who do not opt for the roll over or have not given written consent shall be allowed to redeem their holdings in full at net asset value based price.]*

*[Original proviso substituted]*<sup>34</sup>

#### **Offering Period**

34. No scheme of a mutual fund other than the ~~[initial]~~<sup>35</sup> offering period of any equity linked savings schemes shall be open for subscription for more than 45 days.

#### **Allotment of Units and refunds of moneys**

35.(1) The asset management company shall specify in the offer document, -

(a) the minimum subscription amount it seeks to raise under the scheme; and

(b) in case of over subscription the extent of subscription it may retain.

Provided that where the asset management company retains the over subscription referred to in clause (b), all the applicants applying up to five thousand units shall be given full allotment subject to the over subscription mentioned in clause (b).

(2) The mutual fund and asset management company shall be liable to refund the application money to the applicants,-

(i) if the mutual fund fails to receive the minimum subscription amount referred to in clause (a) of sub-regulation (1);

(ii) if the moneys received from the applicants for units are in excess of subscription as referred to in clause (b) of sub-regulation (1).

(3) Any amount refundable under sub-regulation (2) shall be refunded within a period of six weeks from the date of closure of subscription list, by Registered A.D and by cheque or demand draft marked "A/C. Payee" to the applicants.

(4) In the event of failure to refund the amounts within the period specified in sub-regulation (3), the asset management company shall be liable to pay interest to the applicants at a rate of fifteen percent per annum on the expiry of six weeks from the date of closure of the subscription list.

#### **Unit certificates or Statement of Accounts**

36. The asset management company shall issue to the applicant whose application has been accepted, unit certificates or a statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than six weeks from the date of closure of the *initial* subscription list and *or from the date of receipt of the request from the unit holders in any open ended scheme*.<sup>36</sup>

Provided that if an applicant so desires, the asset management company shall issue the unit certificates to the applicant within six weeks of the receipt of request for the certificate.

#### **Transfer of units**

37. (1) A unit certificate unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.

(2) The asset management company shall, on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee within thirty days from the date of such production.

Provided that if the units are with the depository such units will be transferable in accordance with the provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.

#### **Guaranteed returns**

38. No guaranteed return shall be provided in a scheme, -

- (a) unless such returns are fully guaranteed by the sponsor or the asset management company;
- (b) unless a statement indicating the name of the person who will guarantee the return, is made in the offer document;
- (c) the manner in which the guarantee to be met has been stated in the offer document.

### **Winding up**

39.(1) A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled-over for a further period under sub-regulation (4) of regulation 33.

(2) A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders,-

(a) on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or

(b) if seventy five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or

(c) if the Board so directs in the interest of the unit-holders.

(3) Where a scheme is to be wound up under *[words " sub-regulation (1) or" deleted]*<sup>37</sup> sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme:-

(a) to the Board; and

(b) in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

### **Effect of winding up**

40. On and from the date of the publication of notice under clause (b) of sub-regulation (3) of regulation 39, the trustee or the asset management company as the case may be, shall -

(a) cease to carry on any business activities in respect of the scheme so wound up;

(b) cease to create or cancel units in the scheme;

(c) cease to issue or redeem units in the scheme.

### **Procedure and Manner of winding up**

41. (1) The trustee shall call a meeting of the unit holders to approve by simple majority of the unit holders present and voting at the meeting resolution for authorising the trustees or any other person to take steps for winding up of the scheme.

Provided that a meeting of the unit holders shall not be necessary if the scheme is wound up at the end of maturity period of the scheme.

(2)(a) The trustee or the person authorised under sub-regulation (1) shall dispose of the assets of the scheme concerned in the best interest of the unit holders of that scheme.

(b) The proceeds of sale realised under clause (a), shall be first utilised

towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unit holders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.

(3) On the completion of the winding up, the trustee shall forward to the Board and the unit holders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the unit holders and a certificate from the auditors of the fund.

(4) Notwithstanding anything contained in this regulation, the provisions of these regulations in respect of disclosures of half yearly reports and annual reports shall continue to be applicable *[until winding up is completed or the scheme ceases to exist.]*<sup>38</sup>

#### **Winding up of the scheme**

42. After the receipt of the report under sub-regulation (3) of Regulation 41, if the Board is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

## **CHAPTER VI INVESTMENT OBJECTIVES AND VALUATION POLICIES**

#### **Investment objective**

43. The moneys collected under any scheme of a mutual fund shall be invested only in transferable securities in the money market or in the capital market or in privately placed debentures or securitised debts. Provided that moneys collected under any money market scheme of a mutual fund shall be invested only in money market instruments in accordance with directions issued by the Reserve Bank of India; Provided further that in case of securitised debts such fund may invest in asset backed securities *[and]*<sup>39</sup> mortgaged backed securities.

#### **Investment, borrowing, restriction, etc.**

44.(1) Any investments to be made under regulation 43 shall be invested subject to the investment restriction specified in the Seventh Schedule.

*[(1A) The mutual fund having an aggregate of securities which are worth Rs.10 crores or more, as on the latest balance sheet date, shall subject to such instructions as may be issued from time to time by the Board settle their transactions entered on or after January 15, 1998 only through dematerialised securities.]*<sup>40</sup>

(2) The mutual fund shall not borrow except to meet temporary liquidity needs of the mutual funds for the purpose of repurchase,

redemption of units or payment of interest or dividend to the unit holders.

Provided that the mutual fund shall not borrow more than 20% of the net asset of the scheme and the duration of such a borrowing shall not exceed a period of six months.

(3) The mutual fund shall not advance any loans for any purpose.

*[(4) The mutual fund may lend securities in accordance with the Stock Lending Scheme of the Board.]<sup>41</sup>*

#### **Option Trading, etc.**

45. The funds of a scheme shall not in any manner be used in option trading or in short selling or carry forward transactions.

*[Provided that mutual funds shall enter into derivatives transactions in a recognised stock exchange for the purpose of hedging and portfolio balancing, in accordance with the guidelines issued by the Board].<sup>42</sup>*

#### **Underwriting of Securities**

46. Mutual funds may enter into underwriting agreement after obtaining a certificate of registration in terms of the Securities and Exchange Board of India (Underwriters) Rules and Securities and Exchange Board of India (Underwriters) Regulations, 1993 authorising it to carry on activities as underwriters.

Explanation:(1) For the purpose of these regulations, the underwriting obligation will be deemed as if investments are made in such securities.

(2) The capital adequacy norms for the purpose of underwriting shall be the net asset of the scheme.

Provided that the underwriting obligation of a mutual fund shall not at any time exceed the total net asset value of the scheme.

#### **Method of valuation of investments**

47. Every mutual fund shall compute and carry out valuation of its investments in its portfolio and publish the same in accordance with the valuation norms specified in Eighth Schedule.

#### **Computation of Net Asset Value**

48.(1) Every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date.

(2) The Net Asset Value of the scheme shall be calculated and published at least in two daily newspapers at intervals of not exceeding one week:

Provided that the Net Asset Value of any scheme for special target segment or any monthly income scheme which are not mandatorily required to be listed in any stock exchange under Regulation 32, may publish the Net Asset Value at monthly or quarterly intervals as may be permitted by the Board.

#### **Pricing of Units**

49.(1) The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors.

(2) The mutual fund, in case of open-ended scheme, shall at least once a week publish in a daily newspaper of all India circulation, the sale and repurchase price of units.

(3) While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93% of the Net Asset Value and the sale price is not higher than 107% of the Net Asset Value.

Provided that the repurchase price of the units of a close ended scheme shall not be lower than 95% of the Net Asset Value:

Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7% calculated on the sale price.

(4) The price of units shall be determined with reference to the last determined Net Asset Value as mentioned in sub-regulation (3) unless,

(a) the scheme announces the Net Asset Value on a daily basis; and

[(b) *the sale price is determined with or without a fixed premium added to the future net asset value which is declared in advance.*]<sup>43</sup>

## **CHAPTER VII GENERAL OBLIGATIONS**

### **To maintain proper books of accounts and records, etc.**

50.(1) Every asset management company for each scheme shall keep and maintain proper books of accounts, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of accounts, records and documents are maintained.

(2) Every asset management company shall maintain and preserve for a period of *eight*<sup>44</sup> years its books of accounts, records and documents.

(3) The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the scheme wise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unit-holder in a fair and true manner.

### **Financial year**

51. The financial year for all the schemes shall end as of March 31 of each year.

Provided that, for a new scheme commenced during a financial year, the disclosure and reporting requirements would apply for the period beginning from the date of its commencement and ending on March 31st of the *[that financial year]*<sup>45</sup>.

**Limitation on fees and expenses on issue of schemes**

52.(1) All expenses should be clearly identified and appropriated in the individual schemes.

(2) The Asset Management Company may charge the mutual fund with investment and advisory fees which are fully disclosed in the offer document subject to the following namely:-

(i) One and a quarter of one per cent of the weekly average net assets outstanding in each accounting year for the scheme concerned, as long as the net assets do not exceed Rs.100 crores, and

(ii) One per cent of the excess amount over Rs.100 crores, where net assets so calculated exceed Rs.100 crores.

(3) For schemes launched on a no load basis, the asset management company shall be entitled to collect an additional management fee not exceeding 1% of the weekly average net assets outstanding in each financial year.

(4) In addition to the fees mentioned in sub regulation (2), the asset management company may charge the mutual fund with the following expenses namely:-

(a) initial expenses of launching schemes.

(b) recurring expenses including:-

(i) marketing and selling expenses including agents' commission, if any;

(ii) brokerage and transaction cost;

(iii) registrar services for transfer of units sold or redeemed;

(iv) fees and expenses of trustees;

(v) audit fees;

(vi) custodian fees; and

*[(vii) costs related to investor communication;*

*(viii) costs of fund transfer from location to location;*

*(ix) cost of providing account statements and dividend/redemption cheques and warrants;*

*(x) insurance premium paid by the fund;*

*(xi) winding up costs for terminating a fund or a scheme;*

*(xii) costs of statutory advertisements; ]<sup>46</sup>*

*[ (xiii) such other costs as may be approved by the Board.]<sup>47</sup>*

(5) Any expense other than those specified in sub-regulation (2) and (4) shall be borne by the asset management company *[or trustee or sponsors]*<sup>48</sup>.

Provided that initial expenses of floating the scheme shall not exceed six percent of the initial resources raised under that scheme and such expenses shall be accounted in the books of accounts of the scheme as specified in the Tenth Schedule.

*[Provided further that any excess over the 6% initial issue expense shall be borne by the asset management company].<sup>49</sup>*

(6) The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be subject to the following limits:-

- (i) On the first Rs.100 crores of the average weekly net assets 2.5%
- (ii) On the next Rs.300 crores of the average weekly net assets 2.25%
- (iii) On the next Rs.300 crores of the average weekly net assets 2.0%
- (iv) On the balance on the assets 1.75%

Provided that such recurring expenses shall be lesser by at least 0.25% of the weekly average net assets outstanding in each financial year in respect of a scheme investing in bonds.

(7) Any expenditure in excess of the limits specified in sub-regulation (6) shall be borne by the asset management company *[or by the trustee or sponsors]*<sup>50</sup>.

(8) The provisions of sub-regulations (3), (4), (5) and (6) will come into effect from 1st April, 1997 [substituted for " after three months from the date of notification of these regulations" by Gazette Notification dated 15.4.97]<sup>51</sup> for those schemes of mutual funds which have been launched prior to notification of these regulations.

#### **Despatch of warrants and proceeds**

53. Every mutual fund and asset management company shall,

(a) despatch to the unit holders the dividend warrants within 42 days of the declaration of the dividend.

(b) despatch the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase.

[(c) In the event of failure to despatch the redemption or repurchase proceeds within the period specified in sub-clause (b), the asset management company shall be liable to pay interest to the unit holders at such rate as may be specified by Board for the period of *such delay*.

*(d) Notwithstanding payment of such interest to the unit holders under sub-clause (c), the asset management company may be liable for penalty for failure to despatch the redemption or repurchase proceeds within the stipulated time.]<sup>52</sup>*

#### **Annual Report**

54. Every mutual fund or the asset management company shall prepare in respect of each financial year an annual report and annual statement of accounts of the schemes and the fund as specified in Eleventh Schedule.

#### **Auditor's Report**

55.(1) Every mutual fund shall have the annual statement of accounts audited by an auditor who is not in any way associated with the auditor of the asset management company.

Explanation: For the purposes of this sub-regulation and regulation 66 "auditor" means a person who is qualified to audit the accounts of a company under section 224 of the Companies Act, 1956 (1 of 1956).

(2) An auditor shall be appointed by the trustees.

(3) The auditor shall forward his report to the trustees and such report shall form part of the Annual Report of the mutual fund.

(4) The auditor's report shall comprise of the following:-

(a) a certificate to the effect that:-

(i) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of the audit;

(ii) the balance sheet and the revenue account give a fair and true view of the scheme, state of affairs and surplus or deficit in the Fund for the accounting period to which the Balance Sheet or, as the case may be the Revenue Account relates;

(iii) the statement of account has been prepared in accordance with accounting policies and standards as specified in the Ninth Schedule.

#### **Publication of Annual Report and summary thereof**

56.(1) The scheme wise Annual Report of a mutual fund or an abridged summary thereof shall be published through an advertisement *[and an abridged scheme wise annual report shall be mailed to all unit holders]*<sup>53</sup> as soon as may be but not later than six months from the date of closure of the relevant accounts year.

(2) The Annual Report and abridged summary thereof shall contain details as specified in the Eleventh Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund.

[Provided that the abridged scheme wise annual report mailed to unit holders need not contain full portfolio disclosure but must contain details on group company investments such as the name of the company, the amount of investment made in each company of the group by each scheme and the aggregate investments made by all schemes in the group companies of the sponsor.

*Provided further that portfolio disclosure is not required if the accounts are published in newspapers].*<sup>54</sup>

(3) The report if published in summary form shall carry a note that *[for unit holders of a scheme]*<sup>55</sup> full Annual Report shall be available for inspection at the Head Office of the mutual fund and a copy thereof shall be made available to the unit holder on payment of such nominal fees as may be specified by the mutual fund.

#### **Annual Report to be forwarded to the Board**

57. Every mutual fund *[\*\*\*]*<sup>56</sup> shall within six months from the date of closure of each financial year forward to the Board a copy of the Annual Report and other information including details of investments and deposits held by the mutual fund so that the entire scheme wise portfolio of the mutual funds is disclosed to the Board.

### **Periodic and continual disclosures**

58.(1) The mutual fund, the asset management company, the trustee, custodian, sponsor of the mutual fund shall make such disclosures or submit such documents as they may be called upon to do so by the Board.

(2) Without prejudice to the generality of sub-regulation (1), the mutual fund

[\*\*]\*<sup>57</sup> shall furnish the following periodic reports to the Board namely

:- (a) copies of the duly audited annual statements of accounts including the balance sheet and the profit and loss account for the fund and in respect of each scheme, once a year;

(b) a copy of six monthly un-audited accounts;

(c) a quarterly statement of movements in net assets for each of the schemes of the fund;

(d) a quarterly portfolio statement, including changes from the previous periods, for each scheme.

(3) No sale of units of any scheme of a mutual fund shall be made by the trustees or an asset management company unless accompanied by documents, which contain information, which is adequate for the investors to take an informed decision.

### **Half Yearly disclosures**

59. A mutual fund and asset management company shall before the expiry of two months from the close of each half- year that is on 31st March and on 30<sup>th</sup> September, publish its un-audited financial results in one English daily newspaper circulating in the whole of India and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated.

Provided that the half-yearly un-audited report referred in this sub-regulation shall contain details as specified in Twelfth Schedule and such other details as are necessary for the purpose of providing a true and fair view of the operations of the mutual fund.

*[59A. A mutual fund shall before the expiry of one month from the close of each half year (i.e. 31 st March and 30 th September), send to all unit holders a complete statement of its scheme portfolio.*

*Provided that statement of scheme portfolio may not be sent to the unit holders, if the statement is published, by way of an advertisement, in one English daily circulating in the whole of India and in a newspaper published in the language of the region where the head office of the mutual fund is situated.]<sup>58</sup>*

### **Disclosures to the investors**

60. The trustees shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

## **CHAPTER VII INSPECTION AND AUDIT**

### **Board's right to inspect and investigation**

61.(1) The Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of accounts, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and asset management company for any of the following purposes, namely:

(a) to ensure that the books of accounts are being maintained by the mutual fund, the trustees and asset management company in the manner specified in these regulations;

(b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and asset management company;

(c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate;

(d) to ascertain whether the provisions of the Act or any rules or regulations made there-under have been violated;

(e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management company;

(f) to suo-motu ensure that the affairs of the mutual fund, trustees or asset management company are being conducted in a manner which are in the interest of the investors or the securities market.

### **Notice before inspection and investigation**

62. (1) Before ordering an inspection or investigation under regulation 61 the Board shall give not less than ten days notice to the mutual fund, asset management company or trustees as the case may be.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection or investigation be taken up without such notice.

(3) During the course of inspection or investigation, the mutual fund, trustees or asset management company against whom the inspection or investigation is being carried out shall be bound to discharge his obligations as provided in regulation 63.

### **Obligations on inspection and investigation**

63. (1) It shall be the duty of the mutual fund, trustees or asset management company whose affairs are being inspected or investigated, and of every director, officer and employee thereof, to produce to the inspecting officer such books, accounts, records, and other documents in its custody or control and furnish him such statements and information relating to the activities as mutual funds, trustees or asset management company, as the inspecting officer may

require, within such reasonable period as the inspecting officer may specify.

(2) The mutual fund, trustees or asset management company shall allow the inspecting officer to have a reasonable access to the premises occupied by it or by any other person on its behalf and also extend reasonable facility for examining any books, records, documents, and computer data in the possession of the mutual fund, trustees and asset management company or such other person and also provide copies of documents or other materials which in the opinion of the inspecting officer are relevant for the purpose of the inspection.

(3) The inspecting officer, in the course of inspection or investigation, shall be entitled to examine or record the statements of any director, officer, or employee of the mutual fund, trustees and asset management company.

(4) It shall be the duty of every director, officer, or employee of the mutual fund, asset management company or trustee to give to the inspecting officer all assistance in connection with the inspection or investigation, which the inspecting officer may reasonably require.

#### **Submission of report to the Board**

64. The inspecting officer shall, as soon as possible, on completion of the inspection or investigation submit a report to the Board:

Provided that if directed to do so by the Board, he may submit interim reports.

#### **Communications of findings, etc.**

65.(1) The Board shall, after consideration of the inspection report or investigation report referred to in regulation 64, communicate the findings of the inspecting officer to the mutual fund, trustees or asset management company as the case may be, and give him an opportunity of being heard:

Provided that if any proceedings under Chapter VIII are initiated the procedure under Chapter VIII shall be followed.

(2) On receipt of the reply if any, from the mutual fund, trustees or asset management company, as the case may be, the Board may call upon the trustees or asset management company to take such measures as the Board may deem fit in the interest of the investors, securities market and for due compliance with the provisions of these regulations.

#### **Appointment of Auditor**

66. Without prejudice to the provisions of regulation 55, the Board shall have the power to appoint an auditor to inspect or investigate, as the case may be, into the books of accounts or the affairs of the mutual fund, trustee or asset management company:

Provided that the Auditor so appointed shall have the same powers of the inspecting officer as stated in Regulation 61 and the obligation of the mutual fund, asset management company, trustee, and their

respective employees in regulation 63, shall be applicable to the investigation under this regulation.

**Payment of inspection fees to the Board**

67. The Board shall be entitled to recover such expenses including fees paid to the auditors as may be incurred by it for the purposes of inspecting the books of accounts, records and documents of the mutual fund, the trustees and the asset management company.

**CHAPTER IX  
PROCEDURE FOR ACTION IN CASE OF DEFAULT**

**Suspension of certificate**

68. The Board may suspend a certificate granted to a mutual fund if such mutual fund:-

- (a) contravenes any of the provisions of the Act and these regulations;
- (b) fails to furnish any information or furnishes wrong information relating to its activity as a mutual fund as required under these regulations;
- (c) fails to submit periodical returns as required under these regulations;
- (d) does not co-operate in any inquiry or inspection conducted by the Board;
- (e) fails to comply with any directions of the Board issued under the provisions of the Act or the regulations;
- (f) fails to resolve the complaints of the investors or fails to give a satisfactory reply to the Board in this behalf;
- (g) indulges in unfair trade practices in securities;

Explanation: For the purpose of this clause "unfair trade practices" has the same meaning as in Securities & Exchange Board of India (Fraudulent and Unfair Trade Practices in Securities Market) Regulations, 1995;

- (h) is guilty of misconduct or improper or unbusinesslike or unprofessional conduct which is not in accordance with the Code of Conduct specified in the Fifth Schedule;
- (i) asset management company fails to maintain the net worth in accordance with the provisions of regulation 21;
- (j) fails to pay any fees;
- (k) violates the conditions of registration;
- (l) mutual fund, asset management company or trustees of that mutual fund does not carry out its obligations as specified in these regulations.

**Cancellation of certificate**

69. The Board may cancel the certificate of registration granted to a mutual fund, if such mutual fund -

- (a) is guilty of fraud, or has been convicted of an economic offence;

(b) has been guilty of repeated defaults of the nature specified in regulation 68;

(c) the mutual fund, asset management company, trustee of that mutual fund indulges in price manipulation or price rigging or cornering activities affecting the securities market and the investors interest;

(d) the financial position of the mutual fund deteriorates to such an extent that the Board is of the opinion that its continuance is not in the interest of unit holders and other mutual funds.

**Manner of making order of cancellation or suspension**

70. No order of suspension or cancellation of certificate or the approval, as the case may be, shall be made by the Board against a mutual fund, trustees, asset management company except after holding an enquiry in accordance with the procedure specified in regulation 71.

**Manner of holding enquiry before suspension or cancellation**

71.(1) For the purpose of holding an enquiry, under regulation 70 the Board may appoint one or more enquiry officers.

(2) The enquiry officer shall issue to the mutual fund, asset management company or the trustee, as the case may be, at its registered office or the principal place of its business, a notice setting out the grounds on which action is proposed to be taken against it and calling upon it to show cause against such action within a period of fourteen days from the date of receipt of the notice.

(3) The mutual fund, asset management company or trustee shall within fourteen days of the date of receipt of such notice, furnish to the enquiry officer a written reply, together with copies of documentary or other evidence relied on by it or sought by the Board from the mutual fund, trustees, or asset management company.

(4) The enquiry officer shall give a reasonable opportunity of hearing to the mutual fund, trustees, or asset management company, to enable it to make submissions in support of its reply made under sub-regulation (3).

(5) Before the enquiry officer, the mutual fund, trustees or asset management company may either appear in person or through any person duly authorised by the mutual fund, trustees or asset management company.

Provided that no lawyer or advocate shall be permitted to represent the mutual fund, trustees or asset management company at the enquiry:

Provided further that where a lawyer or an advocate has been appointed by the Board as a presenting officer under sub-regulation (6), it shall be lawful for the mutual fund, asset management company or trustee to present its case through a lawyer or advocate.

(6) The enquiry officer may if he considers it necessary, ask the Board to appoint a presenting officer to present its case.

(7) The enquiry officer shall, after taking into account all relevant facts and submissions made by the mutual fund, trustees or asset management company submit a report to the Board and recommend the action, if any, to be taken against the mutual fund, trustees or asset management company as also the grounds on which the penal action is justified.

**Show cause notice and order**

72.(1) On receipt of the report from the enquiry officer, the Board shall consider the same and issue to the mutual fund, trustees or asset management company, a show-cause notice.

(2) The mutual fund, asset management company or trustee, shall within fourteen days of the date of the receipt of the show-cause notice, send a reply to the Board.

(3) The Board, after considering the reply of the mutual fund, trustees or asset management company, if any, shall as soon as possible pass such order as it deems fit.

(4) The Board shall send to the mutual fund, trustees, or asset management company, a copy of the order made under sub-regulation (3).

**Effect of suspension or cancellation of certificate of registration**

73. (1) On and from the date of the suspension of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company, shall cease to carry on any activity as a mutual fund, trustee or asset management company, during the period of suspension, and shall be subject to the directions of the Board with regard to any records, documents, or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(2) On and from the date of cancellation of the certificate or the approval, as the case may be, the mutual fund, trustees or asset management company shall with immediate effect, cease to carry on any activity as mutual fund, trustees or asset management company, as the case may be.

(3) The Board may in the interest of the unit holders issue directions with regard to the transfer of any records, documents or securities that may be in its custody or control, relating to its activities as mutual fund, trustees or asset management company.

(4) The Board may in order to protect the interest of the unit holders order the transfer of records, document, securities, etc. to any person specifically appointed for the purpose or to any other trustee or asset management company.

Provided that the Board shall while appointing such a person determine the terms and conditions of such an appointment.

**Publication of order of suspension or cancellation**

74. The order of suspension or cancellation passed under sub-regulation (3) of regulation 72, may be published by the Board in two newspapers.

**Action against intermediaries**

75. The Board may initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration under section 12 of the Act who fails to exercise due diligence or to comply with the obligations under these regulations:

Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in the regulations applicable to such intermediary is complied with.

**Adjudication, etc.**

76.(1) The Board may for the offences specified in sections 15 A to 15 E of the Act initiate action under section 15 I of the Act and in case of violation of any of the provisions of the Act or the regulations, initiate action under sections 11, 11B or section 24 of the Act.

2) The Board may in addition to suspension or cancellation of certificate, order suspension of launching of any scheme of a mutual fund for a period not exceeding one year for violation of any of the provisions of these regulations after following procedure under this Chapter.

(3) The Board may during the pendency of any proceeding of suspension or cancellation under this Chapter also order suspension for launching of any scheme not exceeding three months without following procedure under this Chapter.

Provided that no order shall be passed without giving an opportunity of hearing.

**CHAPTER X  
MISCELLANEOUS**

**Power of the Board to issue clarifications**

77. In order to remove any difficulties in the application or interpretation of these regulations, the Board shall have the power to issue clarifications and guidelines in the form of notes or circulars which shall be binding on the sponsor, mutual funds, trustees, asset management companies and custodians.

**Repeal and Saving**

78.(1) The Securities & Exchange Board of India (Mutual Funds) Regulations, 1993 are hereby repealed.

(2) Notwithstanding such repeal :

(a) anything done or any action taken or purported to have been done or taken, including registration or approval granted, fees collected, scheme announced, registration or approval, suspended or cancelled, any inquiry or investigation commenced under the said regulations.

shall be deemed to have been done or taken under the corresponding provisions of these regulations;

(b) any application made to the Board under the said regulations and pending before it shall be deemed to have been made under the corresponding provisions of these regulations;

(c) any appeals preferred to the Central Government under the said regulations and pending before it shall be deemed to have been preferred under the corresponding provisions of these regulations.

F.NO SEB/LE/23/96

D.R. Mehta  
Chairman

Securities and Exchange Board of India

Notes:

- <sup>1</sup> Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, S.O.No:32 (E) dated January 12, 1998.
- <sup>2</sup> Substituted vide SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No 1223 (E) dated December 8, 1999 for the earlier definition for "trustee" which read as follows:  
"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'
- <sup>3</sup> Inserted vide SEBI(Mutual Fund) Amendment Regulations, 1998 , S.O.No:32(E) dated January 12, 1998
- <sup>4</sup> Vide SEBI (Mutual Fund) Amendment Regulations, 1998 , S.O.No:32(E) dated January 12, 1998
- <sup>5</sup> Vide SEB I (Mutual Fund) Amendment Regulations, 1998 , S.O.No:32(E) dated January 12, 1998
- <sup>6</sup> Substituted vide SEBI(Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification .O.No: 1223 (E) dated December 8, 1999
- <sup>7</sup> Inserted vide SEBI (Mutual Fund) (Second Amendment) Regulations, 2000 vide Gazette Notification S.O.No: 484(E) dated May 22, 2000.
- <sup>8</sup> The word 'quarterly' substituted for the word 'continuously' vide SEBI (Mutual Fund) Amendment Regulations, 1998 vide Gazette Notification S.O.No: 32 (E) dated January 12, 1998.
- <sup>9</sup> Inserted by SEBI (Mutual Fund) Amendment Regulations, 1998 vide Gazette Notification S.O.No: 32 (E) dated January 12, 1998
- <sup>10</sup> Inserted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999
- <sup>11</sup> Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, S.O.No:32 (E) dated January 12, 1998
- <sup>12</sup> Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, S.O.No:32 (E) dated January 12, 1998
- <sup>13</sup> Substituted for the words "has not been working" vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- <sup>14</sup> Substituted for the word "whose" vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- <sup>15</sup> Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- <sup>16</sup> Substituted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999
- <sup>17</sup> Clause (e) as given below inserted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999 substituted by the new clause vide SEBI (Mutual Fund) (Second Amendment) Regulations, 2000 vide Gazette Notification S.O.No: 484(E) dated May 22, 2000.  
*"(e) any change in controlling interest of the asset management company shall be only with prior approval of trustees, the Board and the unit holders.  
[Provided that in case of an open ended scheme, the consent of the unit holders shall not be necessary if:  
i) the change in control takes place after one year from the date of allotment of units.  
ii) the unit holders are informed about the proposed change in the controlling interest of asset management company by sending individual communication and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the head office of the mutual fund is situated.  
iii) the unit holders are given an option to exit at the prevailing Net Asset Value without any exit load]*
- <sup>18</sup> Inserted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999
- <sup>19</sup> Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998 , S.O.No:32(E) dated January 12, 1998 supra n.1

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- 20 Substituted for the earlier sub regulation (7) vide SEBI(Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 21 Inserted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999.
- 22 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 23 The word 'immediately' omitted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 24 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 25 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 26 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 27 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 28 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 29 Substituted for the words "in addition to the investment objective, the method and periodicity or valuation of the investment, the method and periodicity of sales and repurchases" vide SEBI(Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 30 Vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 31 Vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 32 Vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 33 Vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 34 Vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 35 Substituted for the words "subscription list" vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 36 Deleted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 37 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 38 Substituted for the word "excluding" vide SEBI (Mutual Fund) (Second Amendment) Regulations, 2000, notified vide S.O. 484 (E) dated May 22, 2000.
- 39 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 40 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 41 Inserted by SEBI (Mutual Fund) Amendment Regulations, 1999 vide Gazette Notification S.O.No: 1223 (E) dated December 8, 1999.
- 42 Original clause substituted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 43 Substituted for the words "ten years" vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 44 Substituted for the words "following year" vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 45 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 46 Earlier clause (vii) renumbered as sub clause (xiii) vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 47 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 48 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 49 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 50 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 51 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 2000, notified vide S.O. 235 (E) dated March 14, 2000.

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- 52 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 53 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 54 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 55 The words "and asset management company" deleted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 56 The words "and asset management company" deleted vide SEBI (Mutual Fund) Amendment Regulations, 1998, notified vide S.O. 32 (E) dated January 12, 1998.
- 57 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 2000, notified vide S.O. 235 (E) dated March 14, 2000.
- 58 Inserted vide SEBI (Mutual Fund) Amendment Regulations, 2000, notified vide S.O. 235 (E) dated March 14, 2000.

### Appendix III

#### NAME AND ADDRESSES OF SEBI REGISTERED MUTUAL FUNDS

1. Canbank Mutual Fund

Orient House  
Adi Marzban Path  
Mangalore Street  
Ballard Estate  
Mumbai 400038

2. SBI Mutual Fund

191, Maker Towers "E"  
Cuffe Parade  
Mumbai 400005

3. GIC Mutual Fund

Universal Insurance  
Building  
2nd Floor, Sir P. M. Road  
Mumbai 400001

4. Taurus Mutual Fund

0-I, DCM Building,  
Barakhamba Road,  
New Delhi 110 001.

5. Kothari Pioneer Mutual  
Fund

Century Centre, II Floor,  
39, TTK Road, Alwarpet  
Chennai - 600 018.

6. Prudential ICICI  
Mutual Fund

Contractor, Building, 3<sup>rd</sup>  
Floor, 41, R.Kamani Marg,  
Ballard Estate, Mumbai -  
400038

7. Morgan Stanley  
Mutual Fund

Forbes Building,  
Charanjit Rai Marg,  
Mumbai - 400 001.

8. Zurich India Mutual  
Fund

Atmaram Harchandrai  
Business & Service Centre,  
4<sup>th</sup> Floor, Harchandrai House,  
81, Maharashi Karve Road,  
Mumbai 400 002.

9. CRB Mutual Fund  
(Suspended)

"CRB Mansion, 3<sup>rd</sup> Floor,  
90, Chandanwadi Cross Lane,  
Near Marine Church,  
Maharishi Karve Road,  
Mumbai 400 002.

10. Indian Bank Mutual  
Fund

1st Floor, D.G. Chambers,  
100/104, Nanak Motwani  
Marg, Fort, Mumbai 400 023

11. LIC Mutual Fund  
Industrial Assurance Bldg.,  
4th Floor, Opp Churchgate  
Stn., Mumbai 400 020.

12. PNB Mutual Fund  
4<sup>th</sup> Floor, PNB Bldg., 5, Sansad  
Marg,  
New Delhi 110 001.

13. BOI Mutual Fund  
Jeejeebhoy Towers  
24th Floor  
Dalal Street  
Mumbai 400023

14. J.M. Mutual Fund  
112, Jolly Maker II,  
Nariman Point  
Mumbai 400 021.

15. BOB Mutual Fund  
Maneckji Wadia Bldg.,  
II Floor, Nanik Motwani Marg,  
Opp. Mumbai University,  
Fort, Mumbai 400 023.

16. Shriram Mutual Fund  
106, Shiv Chambers, 1st Floor,  
'B' Wing Sector -  
11, C.B.D. Belapur,  
Navi Mumbai 400 614.

17. IDBI Mutual Fund  
2<sup>ND</sup> Floor, Bajaj Bhavan,  
Nariman Point,  
Mumbai 400 021.

18. Birla Mutual Fund  
2<sup>nd</sup> Floor, Ahura Centre,  
Tower B,  
96 A-B, Mahakali Caves Rd.,  
Andheri (East),  
Mumbai 400 093.

19. Alliance Capital  
Mutual Fund,  
Indage House,  
82, Dr. Annie Besant Road,  
Worli, Mumbai 400 018.

20. Reliance Capital  
Mutual Fund  
1203-06, Arcadia,

Nariman Point,  
Mumbai - 400 021

21. Tata Mutual Fund,  
Mulla House, 4<sup>th</sup> Floor,  
51, M.G. Road  
Fort, Mumbai 400 001.

22. Sun F&C Mutual Fund  
Apeejay Chambers, Ground Floor,  
5 Wallace Street, Fort,  
Mumbai 400 001.

23. Jardine Fleming Mutual  
Fund  
Amerchand Mansion,  
16, Madame Cama Road,  
Mumbai 400 001.

24. Templeton Mutual Fund  
Sakar Bhavan, 1<sup>st</sup> Floor,  
Nariman Point,  
Mumbai 400 021.

25. Escorts Mutual Fund,  
N-1, B.M.C House,  
4<sup>th</sup> Floor, Connaught Circus,  
New Delhi 110 001.

26. First India Mutual Fund,  
Unit A, B & D, 8<sup>th</sup> Floor,  
'Riaz Garden',  
12&13, Kodambakkam High Road,  
Chennai 600 034.

27. Anagram Wellington Mutual  
Fund,  
Neptune House, 1<sup>st</sup> Floor, S.V. Road,  
Bandra (W), Mumbai 400 050.

28. Sundaram Newton  
Asset Management Co.

Ltd., 46, Whites Road,  
Royapettah,  
Chennai 600 014.

29. Cholamandalam  
Cazenove Mutual Fund,  
602/603, Regent Chambers,  
Nariman Point,  
Mumbai 400 021.

30. DSP Merrill Lynch  
Mutual Fund  
514, Raheja Chambers,  
Nariman Point,  
Mumbai 400 021.

31. IL & FS Mutual Fund,  
IL&FS Financial Centre,  
7<sup>th</sup> Floor  
Plot No. C-22, 'G' Block Bandra-  
Kurla Complex  
Bandra East,  
Mumbai 400 051.

32. Kotak Mahindra  
Mutual Fund,  
Bhaktawar, 5<sup>th</sup> Floor,  
229, Nariman Point,  
Mumbai 400 21.

33. Dundee Mutual  
Funds,  
50 B, 3rd Floor, Tower Block,  
Annexe Bldg.,  
Ashok Hotel, Chanakyapuri,  
New Delhi 110 021

34. ING Savings Trust,  
Hoechst House, 6th Floor,  
Nariman Point,  
Mumbai 400 021.

35. KJMC Mutual Fund  
1201/1202, Maker Chamber  
V, 12th Floor,  
Nariman Point  
Mumbai 400 021

36. ANZ Grindlays Mutual  
Fund  
132, Mint Road,  
1st Floor, Fort,  
Mumbai 400 001.

37. ICICI Securities Fund  
ICICI Towers,  
Dealing Room , II Floor,  
C-15, 'G' Block,  
Bandra-Kurla Complex  
Mumbai 400 051.

38. HDFC Mutual Fund,  
Ramon House,  
169, Backbay Reclamation,  
Churchgate,  
Mumbai 400 020.

39. Benchmark Mutual  
Fund,  
602, 6th Floor,  
Maker Bhavan No. 3,  
New Marine Lines  
Mumbai 400 020.

Mutual Fund Not  
Registered with SEBI

Unit Trust of India  
13, Sir Vithalddhas Thackersey  
Marg, Mumbai 400 020

**Appendix IV**  
**Mutual Funds and Schemes**  
as on 31 March 2000

1. Alliance Capital Mutual Fund

1. The Alliance '95 Fund
2. Alliance Buy India Fund
3. Alliance Basic Industries Fund
4. Alliance Cash Manager
5. Alliance Capital Tax Relief '96
6. Alliance Equity Fund
7. Alliance Government Securities Fund
8. Alliance Liquid Income
9. Alliance Monthly Income
10. Alliance New Millennium Fund

2. Birla Mutual Fund

1. Birla Advantage Fund
2. Birla Balance Fund
3. Birla Cash Plus
4. Birla Equity Plan
5. Birla Gilt Plus
6. Birla Income Plus
7. Birla IT Fund
8. Birla MNC Fund
9. Birla Tax Plan '98

3. BOB Mutual Fund

1. BOB ELSS '95 Scheme
2. BOB ELSS '96 Scheme
3. BOB ELSS '97 Scheme
4. BOB Growth 95 Scheme

4. BOI Mutual Fund

1. Boinanza 80CCB Growth cum Tax Saving Scheme 1992
2. BOI Double Square Plus (1990)
3. Boinanza Exclusive Growth Scheme
4. Boinanza Equity Linked Saving Scheme 1993

5. Canbank Mutual Fund

1. Canbonus
2. Cancigo
3. Canexpo
4. Canganga
5. Cangilt 1988
6. Cangilt PGS
7. Canglobal
8. Canpep91
9. Canpep92
10. Canpep93 (Canequity Tax Saver)
11. Canpep94
12. Canpep95
13. Canpremium

14. Canstar CG
15. Canstar (Satellite)
16. Cantriple

6. Cholamandalam Cazenove Mutual Fund

1. Chola Amity Scheme
2. Chola Freedom Income Scheme
3. Chola Freedom Technology Scheme
4. Chola Gilt Scheme
5. Chola High Income '99
6. Chola Monthly Income '98
7. Chola Triple Ace

7. DSP Merrill Lynch Mutual Fund

1. DSP Merrill Lynch Balance Fund
2. DSP Merrill Lynch Bond Fund
3. DSP Merrill Lynch Equity Fund
4. DSP Merrill Lynch Government Securities Fund
5. DSP Merrill Lynch Liquidity Fund

8. Dundee Mutual Fund

1. Dundee Balance Fund
2. Dundee Bond Fund
3. Dundee Liquidity Fund
4. Dundee Sovereign Trust
5. Dundee Tax Saver Fund

9. Escorts Mutual Fund

1. Escorts Income Bond Scheme
2. Escorts Income Plan Scheme
3. Escorts Tax Plan

10. First India Mutual Fund

1. First India Tax Gain 97

11. GIC Mutual Fund

1. GIC Balanced Fund
2. GIC D'Mat
3. GIC Fortune '94
4. GIC Growth Plus
5. GIC Growth Plus II
6. GIC Rise 1991
7. GIC Suraksha '96
8. GIC Tax savers '95
9. GIC Tax savers Growth Plan

12. HDFC Mutual

1. HDFC Growth Fund
2. HDFC Balanced Fund
3. HDFC Income Fund
4. HDFC Liquid Fund

13. IDBI Mutual Fund

1. Child I-Nit '97
2. Deposit I-Nit '97

3. IDBI Money Market Fund '97
4. Index I-Nit '99
5. I-Nit '95
6. Tax I-Nit '96

14. IL & FS Mutual Fund

1. ILFS Bond Fund
2. ILFS eCom Fund
3. ILFS Growth & Value Fund

15. Indian Bank Mutual Fund

1. Ind Navratna
2. Ind Ratna
3. Indsagar
4. Ind Shelter (Plan A and Plan B)
5. Ind Tax shield (Plan A and Plan B)

16. ING Saving Trust

1. ING Growth Portfolio
2. ING Income Portfolio
3. ING Treasury Portfolio

17. Jardine Fleming Mutual Fund

1. Jardine Fleming India Bond Fund
2. Jardine Fleming Personal Tax Saver '96

18. JM Mutual Fund

1. JM Basic Fund
2. JM Balanced Fund
3. JM Equity Fund
4. JM G-Sec Fund
5. JM High Liquidity Fund
6. JM Liquid Fund
7. JM Tax Cover 96
8. JM Tax Cover 97
9. JM Tax Cover 98

19. Kotak Mahindra Mutual Fund

1. Kotak Mahindra K Gilt Unit Scheme
2. Kotak Mahindra K 30 Unit Scheme
3. Kotak Mahindra K Balance Unit Scheme '99
4. Kotak Mahindra K Bond Unit Scheme '99

20. Kothari Pioneer Mutual Fund

1. Kothari Pioneer Balanced
2. Kothari Pioneer Childrens' Asset Plan
3. Kothari Pioneer FMCG Fund
4. Kothari Pioneer Infotech Fund
5. Kothari Pioneer Internet Opportunities Fund
6. Kothari Pioneer Guaranteed Income Plan
7. Kothari Pioneer Income Builder Account
8. Kothari Pioneer Money Market Fund
9. Kothari Pioneer Bluechip Fund
10. Kothari Prima Fund

7. PNB Equity Growth Fund – 1996
8. PNB Balanced Growth Fund
9. PNB Debt Fund

#### 24. Prudential ICICI Mutual Fund

1. Prudential ICICI Balanced Fund
2. Prudential ICICI FMCG Fund
3. Prudential ICICI Growth Plan
4. Prudential ICICI Gilt Fund
5. Prudential ICICI Income Plan
6. Prudential ICICI Liquid Plan
7. ICICI Power
8. ICICI Premier
9. Prudential ICICI Technology Fund
10. Prudential ICICI Tax Plan

#### 25. Reliance Capital Mutual Fund

1. Reliance Growth Fund
2. Reliance Income Fund
3. Reliance Liquid fund
4. Reliance Vision Fund

#### 26. Standard Chartered Mutual Fund

1. Grindlays Super Saver Income Fund  
( as on December 31,2000)

#### 27. SBI Mutual Fund

1. Magnum Balanced Fund
2. Magnum Equity Fund
3. Magnum Equity Linked Scheme 1991
4. Magnum Equity Linked Scheme 1996
5. Magnum Equity Linked Savings Scheme, 1995
6. Magnum Global Fund Scheme, 1994
7. Magnum Growing Investments From Tax Saving Scheme, 1992 (Plan A & B)
8. Magnum Insta Cash Fund (Cash & Div.)
9. Magnum Liquibond Income Fund Scheme
10. Magnum Monthly Income Scheme, 1991
11. Magnum Monthly Income Scheme, 1997
12. Magnum Monthly Income Scheme, 1998 (I)
13. Magnum Monthly Income Scheme, 1998 (II)
14. Magnum Multiplier Plus Scheme, 1993
15. Magnum Rising Income Scheme, 1993
16. Magnum Sector Fund Umbrella-Contra
17. Magnum Sector Fund Umbrella-FMCG
18. Magnum Sector Fund Umbrella-IT
19. Magnum Sector Fund Umbrella-Pharma
20. Magnum Taxgain Scheme, 1993
21. Magnum Tax Profit Scheme, 1994

#### 28. Shriram Mutual Fund

1. Shriram Interval Fund '97
2. Shriram Risk Guardian '95

3. Shriram Tax Guardian '95
  4. Shriram Tax Guardian '96
  5. Shriram Tax Guardian '97
29. Sundaram Mutual Fund
1. Sundaram Bondsaver
  2. Sundaram Growth Fund
  3. Sundaram Money Fund
  4. Sundaram Tax-saving Scheme- Open ended
  5. Sundaram Tax-Saver 97
  6. Sundaram Tax-Saver 98
30. Sun F&C Mutual Fund
1. Sun F&C Balanced Fund
  2. Sun F&C Emerging Technologies Fund
  3. Sun F&C Money Value Fund
  4. Sun F&C Value Fund
31. Tata Mutual Fund
1. Tata Gilt Securities Fund
  2. Tata Income Fund
  3. Tata IT Sector Fund
  4. Tata Liquid Fund
  5. Tata Life Sciences & Technologies Fund
  6. Tata Pure Equity Fund
  7. Tata Tax Saving Fund
  8. Tata Young Citizen's Fund
  9. Tata Balanced Fund
32. Taurus Mutual Fund
1. Taurus The Discovery Stock Fund
  2. Taurus Libra Leap
  3. Taurus Libra Tax Shield 1996
  4. Taurus The Star Share
33. Templeton Mutual Fund
1. Franklin India Growth Fund
  2. Templeton India Growth Fund
  3. Templeton India Government Securities Fund
  4. Templeton India Income Fund
  5. Templeton India Liquid Fund
  6. Templeton Monthly Income Plan
34. Unit Trust of India
1. Unit Scheme 1964 (US 1964)
  2. Unit Scheme 1971 (ULIP 1971)
  3. Unit Scheme for Charitable and Religious Trusts and Registered Societies 1981 (CRTS 1981)
  4. Children's Gift Growth Fund -1986
  5. Children's Gift Growth Fund Unit Scheme 1999 (CGGF 1999)
  6. Unit Scheme 1995 (US 1995)
  7. PEF Unit Scheme 1995
  8. Senior Citizens Unit Plan (SCUP 1993)
  9. Children's College and Career Fund Unit Plan (CCCF 1993)

10. Rajalakshmi Unit Plan -II 94 (RUP -II 1994)
11. Rajalakshmi Unit Plan -99 (RUP 1999)
12. Grihalakshmi Unit Plan 1994 (GUP 1994)
13. Retirement Benefit Unit Plan 1994 (RBUP 1994)
14. Omni Unit Plan 1991
15. UTI Bond Fund 1998
16. Money Market Fund 1997
17. Deferred Income Plan 1991 (DIP 1991)
18. Monthly Income Plan 1991 (DIP 1991)
19. Monthly Income Plan 1995 (MIP 1995)
20. Monthly Income Plan 1995 III (MIP 95 III)
21. Monthly Income Plan 1996 (MIP 1996)
22. Monthly Income Plan 1996 II (MIP 96 II)
23. Monthly Income Plan 1996 IV (MIP 96 IV)
24. Monthly Income Plan 1997 (MIP 1997)
25. Monthly Income Plan 1991 II (MIP 97 II)
26. Monthly Income Plan 1997 III (MIP 97 III)
27. Monthly Income Plan 1997 IV (MIP 97 IV)
28. Monthly Income Plan 1997 V (MIP 97 V)
29. Monthly Income Plan 1998 (MIP 1998)
30. Monthly Income Plan 1998 II (MIP 98 II)
31. Monthly Income Plan 1998 III (MIP 98 III)
32. Monthly Income Plan 1998 IV (MIP 98 IV)
33. Monthly Income Plan 1998 V (MIP 98 V)
34. Monthly Income Plan 1999 (MIP 99)
35. UTI NRI Fund 1998
36. Master Equity Plan 1991 (MEP 1991)
37. Master Equity Plan 1992 (MEP 1992)
38. Master Equity Plan 1993 (MEP 1993)
39. Master Equity Plan 1994 (MEP 1994)
40. Master Equity Plan 1995 (MEP 1995)
41. Master Equity Plan 1996 (MEP 1996)
42. Master Equity Plan 1997 (MEP 1997)
43. Master Equity Plan 1998 (MEP 1998)
44. Master Equity Plan 1999 (MEP 1999)
45. The Mutual Fund (Subsidiary) Unit Scheme 1986 (Mastershare 1986)
46. Mastershare Plus Unit Scheme 1991 (Mastershare Plus 1991)
47. Mastergrowth Unit Scheme 1993 (Mastergrowth 1993)
48. Grandmaster Unit Scheme 1993 (Grandmaster 1993)
49. Capital Growth Unit Scheme 1992 (CGUS Mastergain 1992)
50. Equity Opportunity Fund 1996
51. Housing Unit Scheme 1992 (HUS 1992)
52. Unit Scheme 1992 (US 1992)
53. Unit Growth Scheme 2000 (UGS 2000)
54. Unit Growth Scheme 5000 (UGS 5000)
55. Unit Growth Scheme 10000 (UGS 10000)
56. Master Value Unit Plan (MVUP 1998)

57. Master Index Fund 1998 (MIF 1998)
58. Growing Corpus Growing Income Plan 1994 (GCGIP 1994)
59. Index Select Equity Fund 1997 (IEF 1997)
60. Institutional Investors Special Fund Unit Scheme 1996 (IIFUS'96)
61. Institutional Investors Special Fund Unit Scheme 1997 (IIFUS'97)
62. Institutional Investors Special Fund Unit Scheme 1997 II (IIFUS'97 II)
63. Institutional Investors Special Fund Unit Scheme 1998 (IIFUS'98)
64. Institutional Investors Special Fund Unit Scheme 1998 (II) (IIFUS'98 (II))
65. UTI Small Investors Fund (SIF) 1998
66. Bhopal Gas Victims Monthly Income Plan 1993 (BGVMIP 1993)
67. Growth Sector Fund --(Brand Value)
68. Growth Sector Fund --(Pharma & Healthcare)
69. Growth Sector Fund --(Software)
70. Growth Sector Fund --(Petro)
71. Growth Sector Fund --(Services)
72. G-Sec Fund 1999
73. Monthly Income Plan 1999 II (MIP 99 II)
74. Monthly Income Plan 2000 (MIP 2000)
75. Equity Tax Savings Plan (ETSP) - 1999
76. Nifty Index Fund (NIF) -2000
77. Special Unit Scheme 1999

35. Zurich India Mutual Fund
1. Zurich India Capital Builder Fund
  2. Zurich India Equity Fund
  3. Zurich India High interest Fund
  4. Zurich India Liquidity Fund
  5. Zurich India Prudence Fund
  6. Zurich India Sovereign Gilt Fund
  7. Zurich India Top 200 Fund
  8. Zurich India Tax saver

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## **Appendix V**

### **Summarised Strengths, Weaknesses, Opportunities and Threats pointed out by the respondents**

#### **Strengths**

- Mutual fund schemes provide the highest income than any other investment alternatives.
- It has tax advantages both in the form of capital gains tax and income tax rebate.
- The investment is considered to be safe.
- The risk involved in it is very much minimal.
- Adequate liquidity is there for the units of mutual funds.
- It has features of growth and capital appreciation.
- It gives regular and steady income.
- Useful, attractive and convenient schemes cater to the investor-requirements.
- Past efficient performance of some of the organisations.
- Government backing extended to some of the companies.
- Reliability.
- Assured return.
- Indirect participation in the stock market is enabled and takes the advantages of it avoiding the apparent risks.
- Helps the confused and ignorant ones to choose from different alternatives.
- The only possible way to enter the capital market, which is restricted and controlled by the foreign financial institutions.
- Diversification of investment can be done so as to reduce the losses incurred in holding some of the assets.

- Unbiased, expert, professional management of funds supported by equity research can produce the best results, which may not be possible in the case of individual investors.
- Suitable both for long term and short term investments.
- Income is not in the form of interest, relished by a particular religion.
- An appropriate alternative suitable for even small and dismal investors.
- Suitable for those who are reluctant to take risks.
- SEBI's regulations and controls over the companies protect the investors' interests.
- Stability of prices unlike shares and less prone to the vagaries of the share market.

### ***Weaknesses***

- Uncertainty about the dividend and the rate of dividend.
- Reducing rate of dividend.
- Risk factors.
- Uncertainty about the maturity value.
- Mismanagement of funds and the resultant failures, even liquidations.
- Under qualified and inexperienced personnel.
- Unscrupulous and insincere fund management with selfish motives.
- Lack of insurance and loan facilities.
- Industry is still in its nascent stage and all faces all the related problems.
- No assured or guaranteed returns.
- Comparatively low and irregular returns.
- Poor liquidity.
- Blocking of funds for a longer period.
- Limited choices and absence of attractive schemes.
- No monthly savings schemes suitable for the salary earners.

- Slow redemption procedure.
- Even regional offices/ centres are in far off places.
- Hard selling by agents/ brokers suppressing real risk factors.

### ***Opportunities***

- A bright future ahead if the capital market is made a vibrant one.
- A preferred alternative for the middle class investors in the context of a developing country.
- Bridges the gap between the investors and the capital market.
- Domestic savings can be canalised to the capital market.
- The interest rates of other alternatives are falling.

### ***Threats***

- Falls or further declines in the return rates.
- Probable stock market scams or collapses.
- Economic recessions or market irregularities.
- Foreign finance and insurance companies with fund strength.
- Miserable failures.
- Corruptions and frauds by the unscrupulous fund managers.
- Fast growing private and new generation banks.
- Insincere media.
- Poor discipline of capital market.
- Ineffective controlling mechanism.
- Adverse or inadequate government policies.
- Political instability and inconsistent policies.
- Competition from other alternatives with or without assured returns.