www.ijemr.net ISSN (ONLINE): 2250-0758, ISSN (PRINT): 2394-6962

Volume-7, Issue-3, May-June 2017

International Journal of Engineering and Management Research

Page Number: 206-209

Mutual Funds: Types, Analysis & Legal Framework

Bharat Khurana
University of Delhi, Delhi, INDIA

ABSTRACT

With sophistication of financial markets, arose the requirement of a financial intermediary with required knowledge & professional expertise on successful investing. From successful investing stemmed the aim of mutual funds - building a portfolio to minimize risk & maximize returns. Hence, Mutual Funds are the most sought after investment option for investors. This paper highlights the types, structure of mutual fund along with regulatory bodies. It also consists of the practical recommendations while investing in mutual funds.

Keywords **--** Mutual Fund, saving, investors, liquidity

I. INTRODUCTON

In the Indian scenario, mutual fund or Unit Trust is a comparatively new financial intermediary. Mutual Funds came into existence in when UTI (Unit Trust of India) was established. From the period ranging from 1964 to 1987, UTI was the only capital market intermediary in India. It was only in late 1987 that government allowed other sponsors to set up mutual funds.

Post 1992 with the disintegration of Controller of Capital Issues (CCI), free pricing of shares was introduced. This led to higher issue prices and as a result, greater volatility in the stock market. The investors realized that creating a diversified portfolio is a better way to succeed in Capital Markets and this required substantial capital.

II. STATEMENT OF THE RESEARCH PROBLEM

The Mutual Funds market has grown manifold in past one decade. However, a general investor, even today, prefers to invest in traditional form of investment options like government securities, fixed deposits, NSCs, etc., rather than investing in mutual funds, high return profile equity, etc.

Thus, an investor's perception about Mutual Funds and the parameters he takes into considerations before making an investment is not known and certain. Hence, the research problem lies in finding and analyzing these factors, aligning them in order to create the investment awareness of investors in Mutual Funds and so as to help the customers in tracking the fund that feeds their respective considerations and necessities.

III. OBJECTIVES

- To analyze the features of Mutual Fund products
- To study and analyze types of mutual funds
- To study the various classification of mutual funds
- To study the legal and regulatory framework of mutual funds in India

IV. MUTUAL FUNDS

MUTUAL FUNDS

It is a pool of savings in which investors having similar financial goals invest their savings. The fundsthat are collected are invested in various securities.

Income to Mutual Funds is from these investments and the appreciation in capital is then realized and shared by the unit holders in proportion of the number of units they own.

OBJECTIVES OF MUTUAL FUND INVESTMENTS

- **Preservation of Capital & Liquidity**-ByInvesting in very short term bonds leads to preservation of Capital & Liquidity.
- **Income**-Investing in bonds is source of Income.
- **Balanced Ratio**- A balanced ratio of investment in Bonds and Equities
- **Growth**- Majority of investments in Equities lead to high growth

V. ADVANTAGES ANAD DISADVANTAGES OF MUTUAL FUNDS

PROFESSIONAL MANAGEMENT

The Mutual Funds are maintained by professionals who are skilled and their investment decision are backed by strong research

DIVERSIFICATION

As the pool created brings big funds, there is a scope of making diversified investment, in various investment tools and opportunities

REDUCED COST OF INVESTMENT

As the scale of investment is big, the Fund Houses are able to make investments at a lower rcosts and the administrative costs are also reduced, hence Mutual Funds bear lower costs in its investors

LIQUIDITY

Certain Mutual Funds (Liquid Funds) investors are free to withdraw their funds at their discretion which provides flexibility to investors at the time when funds are required

RETURN POTENTIAL

The Mutual Funds carry high potential of high returns over mid and long term as these investment decisions are based on strong research high skill-sets of Fund Managers

DISADVANTAGES OF MUTUAL FUNDS

NO CONTROL OVER COSTS

Though the costs are comparatively lower in Mutual Funds, the investor does not have any control on these costs and hence are quite rigid

HIDDEN COSTS IN MUTUAL FUNDS

The return generated by investment is determined by cost involved in generating it. In the case of mutual funds, the daily volatility of NAVs dominates the news, but the costs are never adequately addressed nor fully understood. Such costs vary from scheme to scheme, just like NAVs and itseffect on various classifications of funds is different.

VI. CLASSIFICATION OF MUTUAL FUNDS

Classification of Mutual Funds on bases of its structure and investment objective is as follows:.

(I) BY STRUCTURE

OPEN-END FUNDS

The funds which are available for subscription and repurchase on a continuous basis are called open-ended funds

- Maturity period is not fixed for these funds.
- Liquidity is key feature of open ended scheme.
- The net Asset Value plays and important role in valuation of shares in an open end fund.

CLOSED-END FUNDS

Funds which are opened for subscription for a specified period are called Close-ended funds. They are available for subscription generally via IPOs

- The investments in these funds are made only via IPOs but they can be traded on the indices they are listed on
- These funds are generally of 3-5 years' of period but there are some funds which provide buy-back option by the funds houses

Market demand influences and determines price of shares in closed ended funds..

INTERVAL FUNDS

Certain close-ended funds which are available for sale and redemption at pre-fixed interval are called Interval Funds. They provide features of both open-ended and close-ended funds.

(II) BY INVESTMENT OBJECTIVE

Other type of schemes are growth scheme, income scheme, or balanced scheme, based on the theirinvestment objective. Such schemes are of two typesopen-ended or close-ended schemes as described earlier. Such schemes may be classified mainly as follows:

GROWTH / EQUITY ORIENTED SCHEME: providing capital appreciation in medium and long term is aim of such schemes. These type of schemes are relatively riskier

DEBT ORIENTED SCHEME: Regularity and stability in income of investor is aim of such schemes.Thee funds invest majority of their funds in Debts / Bonds so that the principle money is safe. These funds' values are quite dependent on interest rates as they are mostly invested in Interest-carrying instruments.

BALANCED FUND

Balanced Funds are those funds which take a mid-path and invest funds almost equally in Debt instruments and Equities. The aim is to keep safe theprinciple as much as it can and still gain Growth, though not as much as Growth Funds. The ratio of investments in Equity / Debt is generally 60%/40% or closer.

MONEY MARKET OR LIQUID FUND

These funds are also called **income funds** and providing liquidity, preservation of capital and moderate level income is their aim. These funds are mostly invested in Treasury Bills, Certificates of Deposits, etc. The return on these schemes is relatively but ensures capital safety

(III) BY MARKET CAPITALISATION

The Mutual Funds are also classified basis the size of the companies they make investment in.

LARGE CAP FUNDS

These are those funds which make investment in companies have large capital base. These funds are generally safe as these large companies are quite known and have stabled themselves in the market over longer periods of time. The returns also are lower as compared to Midcap Funds.

MID CAP FUNDS

These funds make investment in companies having a market capitalization that is comparatively lower than that of the large caps. These companies are riskier if compared to large cap funds. In fact, if a mid cap gives good returns to investor on his investment then it has good potential of becoming a large cap.

SMALL CAP FUNDS

Funds which invest in companies that have smaller market capitalization are called Small Cap Funds. Small caps companies carry chances of returning high growth but are relatively high risk as these companies also have high chances of failing also.

(IV) OTHERS

TAX SAVING FUNDS

These are invested for a minimum of 3 years and provide tax rebates to its investors on the investment made. Investment made in Equity linked saving schemes (ELSS) and Pension Schemes are allowed as deduction u/s 88 of the Income Tax Act, 1961.

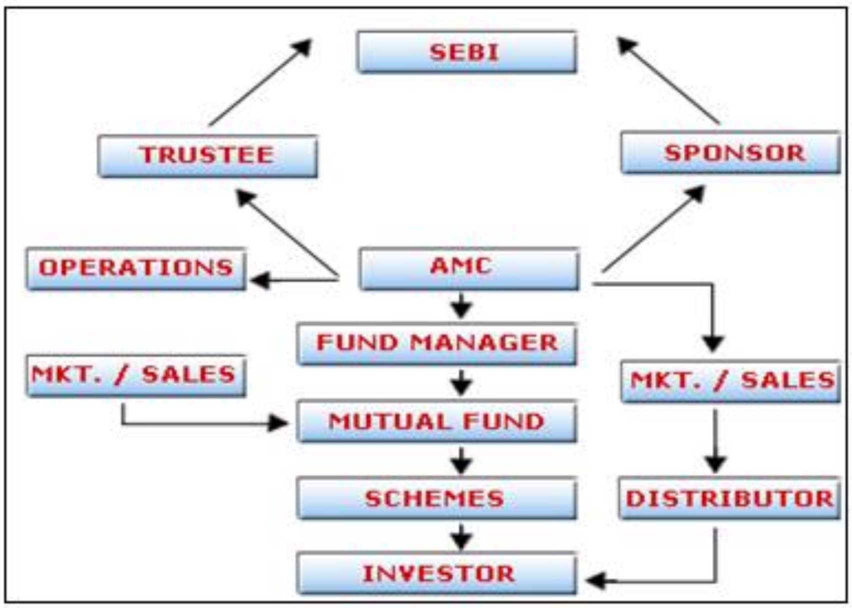
INDEX FUNDS

Thesereplicate the portfolio of a particular Index such as the BSE sensitive index, NSE 50 index nifty etc.

SECTORAL SCHEME

There are funds which invest in companies in similar industry basis certain potential which Funds Managers see in those industries. Example – funds which are invested in Real Estate companies, basis the potential that fund manager see in Real-estate sector are called Real-estate Mutual Funds.

VII. MUTUAL FUND STRUCTURE



SPONSOR

The person or a body corporate that establishes the Mutual Fund is a Sponsor. They are required by SEBI regulations to contribute minimum of 40% of the net worth in addition to other eligibility criteria.

TRUST

The Mutual Fund is established as a trust under the provisions of the Indian Trusts Act, 1882 by the Sponsor.

TRUSTEE

As Mutual Fund is established as a trust, it has Trustees whose main objective is to protect the interest of the unit-holders of the fund / investors.

ASSET MANAGEMENT COMPANY (AMC)

AMC is the appointed by the trustees to manage the funds. This body is the one who takes the investment decisions and manages them.

CUSTODIANS

Custodians are appointed by the sponsor to take care of the storage of the securities. The custodian has to be registered with SEBI for providing these services.

VIII. LEGAL AND REGULATORY FRAMEWORK

ROLE OF REGULATORS

SECURITIES & EXCHANGE BOARD OF INDIA (SEBI)

It was created by the Government of India under an Act of Parliament in 1992, as a separate regulator of all bodies that make investment in the capital markets in India. Mutual funds is also invests money on behalf of unit holders in the capital markets, hence comes under SEBI's perview.

RESERVE BANK OF INDIA (RBI)

The RBI supervises the following two:

- Mutual Funds which are owned / floated by the banks
- Investments made by all type of Mutual Funds in Money Markets

MINISTRY OF FINANCE (MOF)

The MOF is a part of Government body under which the above two bodies work.

STOCK EXCHANGES

Stock Exchanges are independent bodies where securities are traded, either I Primary market or Secondary market. There are certain close-ended Mutual Funds which are also traded on the Stock Exchange. Such funds are regulated by the Stock Exchanges as other securities.

OFFICE OF THE PUBLIC TRUSTEE

The trustees of the Mutual Fundsare governed by the Indian Trust Act, 1882. The board of Trustees or the Trustee Company is answerable to Office of the PublicTrustee, which in further turn is answerable to the Charity Commissioner.

ASSOCIATION OF MUTUAL FUNDS IN INDIA (AMFI)

AMFI is a non-profit organization that represents that Mutual Funds houses and takes care of their interests.
The major objectives of AMFI are:

- To take care of the interests of the Mutual Fund houses
- To come out with industry regulations and best practices
- To promote the Mutual Funds as an investment vehicle
- To create best practices in advertisement of the products, such as declarations at the end of advertisements, etc.

IX. RULES GOVERNING MUTUAL FUNDS

There are various rules and regulations that Mutual Fund companies are required adhere to – a few of them are:

- The schemes shall be launched only post approval from board of the trustees
- There should be a proper filing of the offer document with the board of trustees
- All the details – charges, lock-in periods, etc should be mentioned on this document
- Mutual Funds cannot advertise their products with assured returns and shall call out the disclaimer that these products are market linked, hence carry risk
- Mutual Funds cannot give loans for any purpose to anyone
- All funds are required to maintain proper books of records as any other business
- Information, such as NAVs, shall be made public within the required timeline for investors' use.

X. CONCLUSION

Mutual funds are a great investment vehicle which allows small investors to get benefits of big investments. This study has attempted to bring a general awareness about the Mutual Funds and how they work.

REFERENCES

[1] WEBSITES

- www.mutualfundsindia.com
- www.amfiindia.com
- www.moneycontrol.com/mutualfundindia
- www.valueresearchonline.com
- www.investor.sebi.gov.in/faq/mutualfundfaq.html
- www.karvy.com/articles/archmf.htm
- https://www.nseindia.com/
- http://www.bseindia.com/

[2] RESEARCH PAPERS

- How does the Indian mutual fund industry compare vis-a-vis global standards and what should be our future expectations from it?
- An Empirical Study on Factors Influencing the Mutual Fund/Scheme Selection by Retail Investors