CHAPTER 1

Overview of Mutual Fund Industry in India

Contents

1.1 Introduction

Financial system of India is based on four elements namely, Financial Market, Financial Institutions, Financial Service and Financial Instruments, All these forms have significant role in smooth transfer and allocation of funds. The fundamental purpose of financial system of India is to serve effectively to the capital market. The capital market of India increased with greater pace during second generation. First generation reforms were initiated in 1991, based on LPG (Liberalization, Privation and Globalization).

In the year 2010, reforms of third generation were initiated, which are still in program, These reforms laid the emphasis in various sectors like, fiscal policy, FDI, EXIM policy, public sector, financial sector, banking sector and many more. The economic model of the country like India, after the independence, had been featured with mixed economy, keeping in mind the bigger contribution on of public sector and the role played by private sector, last 20 years have been very good for our financial system in the terms of geographical coverage.

The reach and spread of banking system has played a crucial role in the promotion and growth of financial intermediation and financial saving. Liberal policies of economy have given pace to the capital market, money market, and financial services industry which comprises, merchant banking, venture capital, hire purchases and leasing. Consistent growth has been witnessed in financial sector after the second-generation reforms, It is the right time to in cash the sector by giving effective and adequate saving opportunities to the investor when they have small funds for investment. In this situation mutual funds might play a significant role for small investors as well as to Indian capital market. The major aspects of analysis are to study the impact of mutual funds on Indian capital market and to measure the performance of mutual funds and role of investor perception towards mutual funds investment keeping in view risk and return.

1.2 Mutual Funds: The Concept

Mutual fund is considered to be the pool of money, which relies on the trust of investors who share multiple financial objectives such as capital gain and dividend incomes. The savings collected by this mechanism are invested in capital market instrument like share, debenture and bond as well as in international market. The investors whose funds are invested in mutual funds receive units as per the unit value, which is known as the net assets value. Mutual funds are known as the most preferred investment for every one because it offers wide range of opportunities for investment in various portfolios like Indian scripts and international markets. The prime objective of fund manager is take into account those stock which are underpriced and have of uprising in the future so that fund manager could sell out those stocks with profit. Fund manager empathizes on the principal of risk- return trade off, where there is minimum risk element involved and investor could maximize its return by investing in different kinds of portfolios. Mutual funds are characterized by least cost per unit. The most commonly used terminology in mutual funds is as follows:

- Asset under Management (AUM): Assets under management represent market value of total assets held by mutual funds.

- Net Asset Value (NAV): NAV is a unit value of net assets. It includes value that come after dividing the total assets after deducting the liabilities held by mutual funds on point of time by outstanding units.NAV is a best tool to measure the performance of mutual fund.
- Past performance (PP): the analysis use the data of six year returns from 2010 to 2016 and measure the performance of equity ,debt and balance fund by using Sharpe, Treynor and Jenson index. The calculated performance of same category in previous years represents the past performance.
- Persistence: continuous performance of mutual funds over a series of years known as persistence or hot hands.

Mutual funds are managed by board of trusties and assets management company with a single purpose of producing high rate of returns. The AMC collects saving of investors and eventually invest them in different shares, debentures, bonds and other instruments in different manner. Before making any kind of investment these company goes through proper investigation, carry out the assessment of market conditions and do the trend analysis of the price of bonds and shares. All such kind of studies helps the fund managers to speculate rightly about the future course of actions. Mutual fund investors receive the status of equity in their companies of mutual fund. After some time, be it a long run or short run, the investors come in the position of selecting the shares of such funds and get the return according to the market situations.

1.3 Genesis and Growth

A mutual fund is a kind of trust in which AMC collects funds from investors and finally invest these funds in share, bonds or in T-Bill, CD and CP. In the opinion of K. Geert Rouwenhost, the genesis of mutual fund was created to a French merchant and banker when he invested subscriptions from public with restricted means. As far as the materialization of investment pooling is concerned it took place in Britain close to United States shore. The rectification of British Laws namely Joint stock Companies Act 1862 and 1867 allowed the investors to distribute the profits of a firm and at the same time it limited the responsibility of investors up to the amount of invested capital committed to that firm. Especially in England, the mutual fund concept was introduced in Europe close to 19th Century also, it is evident by the support of some dates. The trust known as Foreign and Colonial Trust was established by Robert Fleming in 1868. The objective of setting up these trusts was to manage the funds of wealthy people of Scotland by covering a wide area of investment in different stocks. On February 1st 1873, Robert Fleming formed the Scottish American Investment Trust, which was invested in the economic potential of US, namely by US rail road bonds. Similar trust was formed in 1800 and early 1900, around the America with the purpose of investment. In the beginning of December 1925, all these funds were translated in open ended funds and had unique features of redemption. After all, it can said that these funds had all those characteristics which modern funds have. For example sound investment policy and restrictions, self liquidity features, a public portfolio, simple and sound capital structures professionally managed funds and diversification. Therefore, these funds are considered to be honored great parents of modern funds. Before it all funds were close ended, hence it can be inferred quite easily that the basis of mutual fund taken by American companies from European companies of investment, nevertheless creating of mutual fund is credited to US. The fund which was formed after it in England and America represent the features of today's close ended fund. The very first time trust which was established or set up on March 1924 belongs to US Massachusetts and was considered the first ever open ended mutual fund. Due to breakdown of II world war and depreciation in the economy, slow down was witnessed in mutual funds in 1939.Close to 1940 innovation in product and services again took speed which resulted in the popularity of mutual funds. All they gave birth to other international stock mutual funds in United States of America. The first tax exemption municipal bond was introduced in 1976, subsequently in the year 1979, first money market mutual fund and in 1990 arm funds were introduced. The trends are still continuing in mutual funds industry.

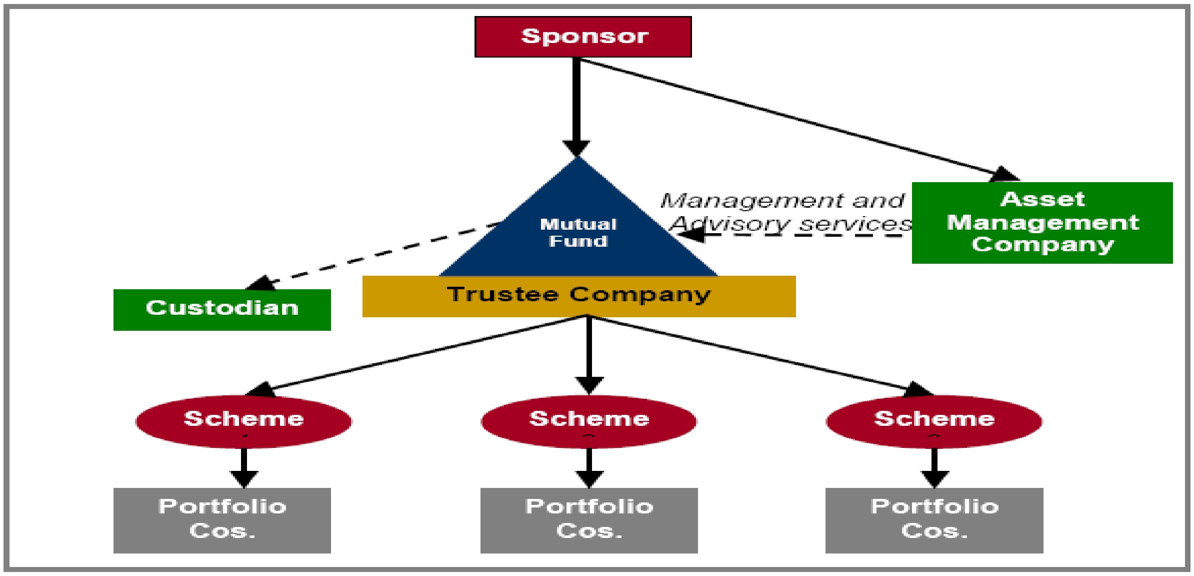
1.4 Organization Structure of Mutual Funds

The organization structure of mutual funds constitutes sponsor, trusty, assets management company and custodian. The sponsor is promoter of mutual funds and set up a trust to start the operation of mutual funds. The sponsor appoints the trustees and trustees hold the property of mutual funds and safeguard the investors' interest.

The mangers that are responsible to manage the fund and AMC are registered with SEBI. The AMC is responsible to manage the assets of mutual funds. The custodian is a bank that keeps the records of securities in custody also registered with SEBI. The trustees are having all power to monitor and control the AMC. The trustees takes necessary action regarding complains as per SEBI regulation.

A graphical presentation of Indian mutual funds structure is given bellow:

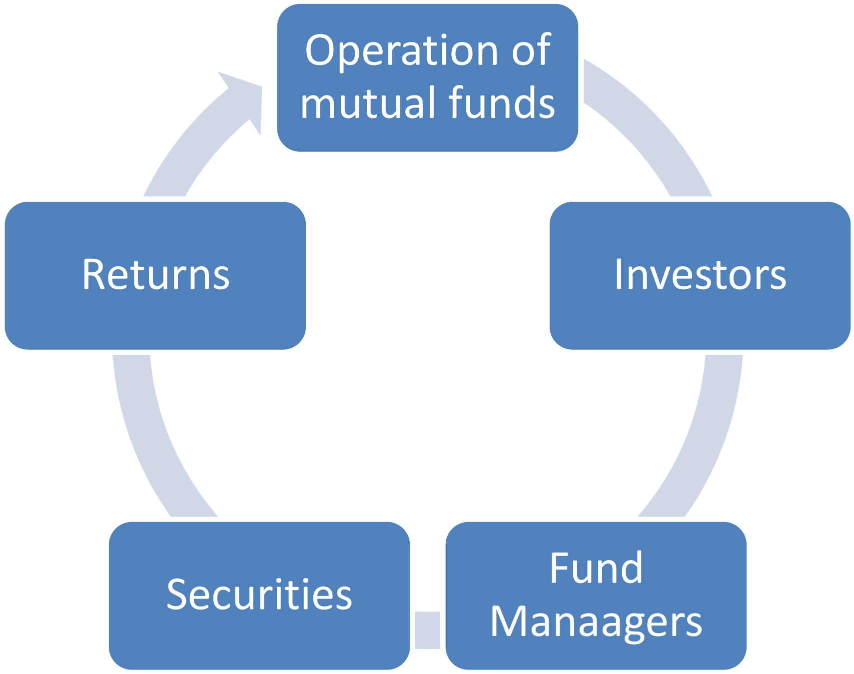
Figure.1.1 Mutual Fund Structure



Source: Nishith Desai Associates

In India a mutual fund is set up in trust format that pools the funds of investors by selling the units of mutual funds to the public or group of investors through various schemes of funds and invest all collected funds in shares, debentures, bonds and money market instruments. The SEBI regulates the mutual funds operation in India. A person can set up mutual funds under SEBI regulation, 1996 by registering with SEBI and can start operation of mutual funds.

Figure.1.2 Mutual fund investment process



Source: AMFI

Organization of mutual funds set up, as per SEBI regulation, is necessary for smooth functioning of mutual funds and to attain the expected goals. Apart from Sponsor, trustees and AMC the custodian and transfer agents also play significant responsibility of keeping units of funds in dematerialized form in own custody and prepare unit holders statement. The SEBI lead the regulation for mutual funds and specify the eligibility guidelines for sponsors who have sound track record, well reputation, high integrity and fair in all business transactions. SEBI also notify that a sponsor will contribute more than 40 percent in net worth of AMC and should follow the eligibility conditions led by SEBI mutual fund regulation. The people, who act as sponsor, director or officer in mutual fund should not be convicted, not indulge in fraud, and should not be guilty of any economic affair. It is mandatory that mutual funds have an independent board of trustees and 2/3 of trustee of the board will be represented by independent persons and they have no association with sponsor in any kind. Any mutual fund will not appoint AMC and its officers as trustee in board. If a mutual fund appoints a company as a trustee the directors of such company can act as trustee in other trust but both trusts have no conflict in goal of mutual funds.

A trustee company is governed by a board of directors as per Indian Trust Act 1882. Appointment of AMC and custodians are done by board of directors with a necessary agreement. An offer document is issued after the lunching of the scheme to invite the investors for investment.

The necessary requirements to set up mutual funds are us under:

I. The Sponsor of mutual funds must register the mutual fund to Security Exchange Board of India.
II. The Sponsor has a sound track record, reputation, fairness in work and integrity in all kinds of business transactions.

Sound Track Record Refers

I. The incorporated body engaged from last five years in financial services.
II. The corporate body generating positive net worth from last five years immediately preceding the year of registration with SEBI.
III. Contribution in capital of AMC is not less than net worth immediately in the preceding years.
IV. Showing the profit in at least 3 out of 5 preceding years, including the 5th year.

V. Contribution of sponsor in net worth of AMC should be at least 40 percent.

VI. The body holding less than 40 percent in net worth of AMC will not be eligible to become a sponsor.

VII. The responsibility of sponsor is to appoint trustees, AMC and custodian.

VIII. The appointed trustees and trust deed are must approved by SEBI.

IX. Assets Management Company, employee of AMC and officers of AMC cannot be appointed as trustee of mutual funds.

X. Independent trustee may be appointed as a trustee in more than one mutual fund but prior approval from mutual fund from where he currently act as a trustee is required.

Launching of a Schemes

Approval of schemes before its launching is necessary to be approved by trustee and approved copy of scheme filed with Security Exchange Board of India is required. The following procedure may be adopted:

I. The application form of unit must contain the key information of memorandum of scheme.

II. The adequate information in offer document is necessary so that investor gets full information about scheme and can take investment decision.

III. The advertisements are related with scheme deposits in seven days to SEBI from the date of issue.

IV. Objectives of investment related with scheme fully explained in advertisement.

V. Avoid misleading information, incorrect statements or opinions in offer document and advertisement.

VI. Except equity linked saving schemes initial offering period will not exceed beyond 45 days for rest of mutual funds schemes.

VII. Advertisement only contains accurate information. Do not provide information based on assumptions.

VIII. Comparison of two or more schemes is not allowed to show in advertisement unless schemes are compared with necessary information.

IX. The detailed information of sponsor, trustees and AMC of mutual funds are necessary to be given in advertisement.

X. Risk associated with schemes is needed to disclose in advertisement.

XI. The advertisement specifies that objectives of fund cannot be achieved with certainty and mutual fund investment is subject to market risk.

XII. After opening of subscription, mutual funds are not allowed to advertise the over subscription of issue.

1.5 Growth of Mutual Funds in India

Mutual fund came into existence in India in 1963 with the establishment of Unit Trust of India (UTI) and first scheme of mutual funds was launched in 1964.The UTI holds monopoly on mutual funds from its inception in 1987. In 1987, government allowed public sector funds to operate in mutual funds and in 1993 the private sector and foreign sector funds were allowed to do business in mutual funds. The journey of mutual funds started with one fund in 1964 with AMU of 25 crore (AMFI, 2016) and increased to 46.6

billion dollars (AMFI, 2016) in 1970 with 361 funds (AMFI, 2016). After 1970, due to market volatility, high inflation, rising interest rates and investor preference for profitability the growth of mutual funds was badly affected. To overcome bad impact and increasing the growth, mutual fund offers new kinds of funds with customized feature that are called innovative funds. These innovative funds are designed in such an efficient way that meet the changing expectation of investors and compete with dynamic financial environment. After 1970, a number of innovative funds came into existence and in year 1971, first money market mutual fund and reserve funds were created. In year 1977 most success “no load fund” an innovative fund was offered by Vanguard Funds. The innovation indicated a radical transformation in mutual fund industry. The important aspects of transformation was that it gave birth to creativity in mutual funds and industry success in adding new, small and individual investor for investment in mutual funds.

Background of Mutual Funds

The literature supported that origin of mutual funds took place before two century but experts were not certain about exact genesis. The evidence found that first mutual fund was created in year 1822 by William king of Netherland at Brussels and named the mutual fund “societegenerale de belique”. The objectives behind creating mutual fund were to take benefits of foreign government loan by investing small funds and providing more security in compare to investment in home industry. Further a second company was started on similar notion and collected funds for cooperative investment to provide higher return and safeguard investor from losses by investing in industry. Mutual fund industry was started working in India after establishment of UTI. The government of India was set up UTI in 1964 under UTI act 1963. From 1964 UTI was single player in mutual funds market holding monopoly till 1987. UTI was established as biggest mutual funds in India and it motivated small investors participation in share market and UTI units offered high return on low risk in compare to SENSEX.

Public sector banks and insurance companies were allowed by government of India to establish mutual fund in 1987 that broaden the participation in mutual fund industry. Therefore, six public sector banks and two insurance companies (LIC and GIC) set up mutual fund. Security Exchange Board of India was set up in 1992 as a regulator of mutual funds by government of India. SEBI formulated Mutual Fund regulation 1993 that was the first regulation for mutual funds industry permitting private sector and foreign sector to establish mutual fund. But participation in mutual funds by foreign funds and Assets Management Company were allowed on case to case basic. Working of mutual funds is regulated by SEBI and it’s necessary that mutual funds work as a trust and registered with Indian Trust Act. The mutual fund will appoint assets management company for manage the assets and manger who will act as AMC must have net worth of Rs.50 million. The SEBI may impose penalty on mutual fund if the funds are not registered. But money market mutual are also required to register with RBI and other offered schemes required to register with SEBI. After permission given by RBI in 1995 the private sector institutions are established money market funds. Funds collected by MMMFs invested in money market instrument like T-Bill, CD, commercial paper and government dated securities with maturity of one year. The UTI had monopoly on mutual funds industry in India till 1987 at the end of UTI monopoly the assets under management increases to Rs.4564crore (AMFI, 2016).The government was opened the mutual fund industry for public sector and private sector that increases the AMU to Rs.47733crore (AMFI, 2016) in March 1993 and increased to 1082757crore (AMFI, 2016) at the end of March 2015. The rising trend in AMU shows the mutual fund industry is growing at a faster rate but when AMU compared with bank deposits it found the growth rate in AMU is less then bank deposits that indicate relative poor growth of mutual funds. The reason lies behind the relative poor growth that mutual funds were new in India and awareness about mutual funds is very less. So the responsibility of mutual funds companies to make aware the investors related to mutual funds schemes that insure comparative high growth in mutual funds investment. The mutual fund companies are putting all efforts to make investor aware and improving the quality and quantity of funds. The growth and development of mutual funds are divided in four phases and each phase is explained as under:

Phase-I (1964-87)

Establishment and Growth of Unit Trust of India

The journey of mutual funds started in India after establishment of Unit trust of India in year 1963 by an Act of Parliament. Unit Trust of India had monopoly in mutual fund industry from its inception till 1987. Reserve Bank of India set up UTI and holds the control on its operation till the separation of UTI and after that control was transferred to Industrial Development Bank of India in 1978. Unit Scheme 1964 (US 64) was the first scheme lunched by UTI in 1964 and the investment in only single scheme were done by large number of investors.

UTI introduced very innovative funds during 1970 to 1980 to meet the investors' expectations. The innovative schemes were designed as per the need of investors by UTI. UTI introduced Unit Link Investment Plan in 1971 and during 1981 to 1984 six other schemes were lunched. The other schemes like Children's Gilt Growth Fund in 1986, Master Share (Equity diversified fund) in 1987 and Monthly Income Scheme in 1990 were also lunched. By the end of 1987, UTI's assets under management grew from Rs.25 crores (AMFI, 2016) to Rs. 4564 crores in 1964 (AMFI, 2016).

Phase II (1987-1993)

Entry of Public Sector Funds

Indian mutual funds industry was opened by government for public sectors in 1987 and the monopoly of UTI ended. Public sector players entered in mutual fund market and in November 1987 State Bank of India offered first non UTI mutual fund called SBI mutual fund after that Canbank issued Canbank mutual fund, LIC issued LIC mutual funds, Indian bank issued Indian bank mutual fund, bank of India issued bank of India mutual fund, GIC issued GIC mutual funds and Punjab national bank issued PNB mutual funds. So by end of 1993 the AUM of mutual funds increases to Rs.47004crore (AMFI, 2016) in comparison to AUM of Rs.4564crore (AMFI, 2016) in 1987. The Table.1.1 shows the assets under management of UTI and Public Sectors in relation to gross domestic saving and UTI remain market leader with 80 present holding in AMU.

Table.1.1 Phase II of Mutual Fund Industry

1992-93	Amount Mobilized (Rs.)	Assets Under Management	Mobilization as % of Gross Domestic Savings
UTI	11057	38247	5.2
Public Sector	1964	8757	.9
Total	13021	47004	6.1

Source: AMFI 2016

Phase III (1993-96)

Emergence of Private Sector Funds

The third phase of expansion of mutual funds started with entry of private sector and foreign sector funds. The Government allowed private players and foreign funds in year 1993 to participate in mutual fund market. Private and foreign fund offered innovative schemes, new technology with a wide range of instrument that created competition in the market and investors had more option for investment. During 1994 and 1995 eleven private sector funds offered schemes in market. At the end of 1996 the AUM rose to the level of Rs.74315 crore (AMFI, 2016) in compression to Rs.47004 crore (AMFI, 2016) in 1993.

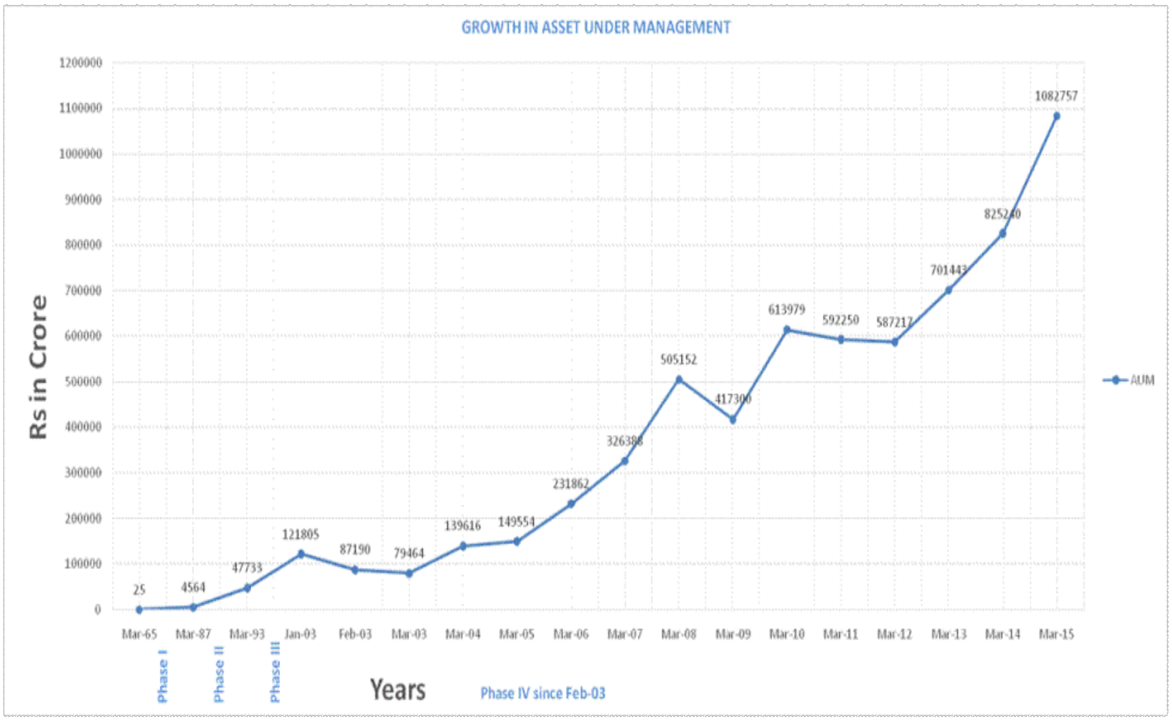
Phase IV. (1996 onwards)

Growth and SEBI Regulation

After third phase of development mutual fund industry was eyewitness of very high rate of growth in AMU and SEBI regulation after 1996. Investors were showing more confidence in mutual funds investment because a SEBI like regulatory body were standing behind and they feel their investments are safe. Increasing number of players and investor' confidences boost the investments. The government gave the benefits of tax saving which also motivated the investors. The SEBI introduced same standard for all Indian mutual funds and union budget also exempted tax on income from dividend which motivated the investors. AMFI and SEBI jointly indicated the investors' awareness campaign to educate the investors and make them aware about mutual funds. The UTI special status was withdrawn in 2004 to make all mutual funds in same class and UTI was divided in two parts; first was special undertaking and second was UTI mutual fund. By the end of 2006 AMU increased to Rs.139616 crore (AMFI, 2016) in comparison to Rs.74315 crore (AMFI, 2016) in 2004. As per the record of SEBI, there are 45 funds registered in India at the end of 2016. By 2016, the assets under management of the industry increased from Rs. 139616 crore (AMFI, 2016) in 2004 to Rs. 1760000 crore (AMFI, 2016). After this also mutual funds industry is growing at a fast rate and number of private and foreign players are also increasing.

Figure.1.3 Growth in Assets under management

Growth in Assets under Management



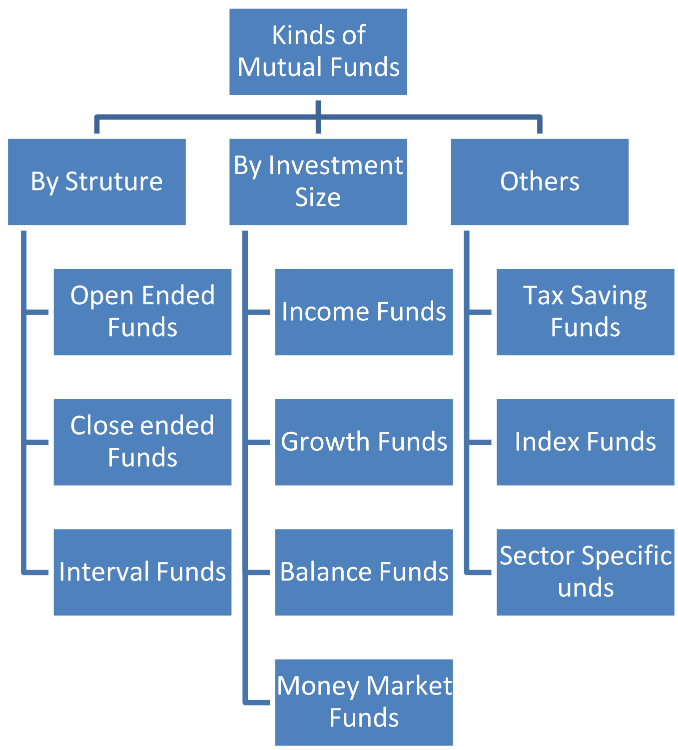
Source: AMFI, 2016

Figure 1.2 shows the growth in Assets Under Management of Indian mutual fund industry from March 1965 to March 2016. In first phase, the AUM was Rs.25 crore till March 1965 and it grew up to 4564 crore in March 1987 at the end of second phase. AUM became more than tenfold in 1996 at the end of third phase with an amount of Rs.74315 crore and shown continuous growth trend till January 2003 and reached to Rs.121805 crores The fourth phase witnessed declining in AUM in 2003 and 2009 but these small decline could not stop the climbing of AUM and its reached to Rs.1760000 crores in December 2016 (AMFI, 2016).

1.6 Kind of Mutual Funds

Diversified range of mutual fund schemes is available in market that serves the need of investors. The figure given below provides detailed information about types of mutual funds.

Figure.1.4 Kinds of Mutual Funds



Source: Develop by Researcher

1.7 Advantages of Mutual Funds

The Purpose of mutual funds is to maximize the benefits of investors. The fund managers formulate the scheme in such a manner that leads to achieve the goal of the investors. Mutual funds have many kinds of sector specific schemes that require strategic planning and efficient way of investment which generally yield maximum return from market. The advantages imparted to investors are given bellow:

- ***Diversified Investment***

  The funds are collected by selling the units of mutual funds invested in a well diversified portfolio. Portfolio is the combination of financial and real assets.

- ***Professional Management***

  Investment of collected funds of investor is done by professional managers and team of researchers. They generally have specific skills related to capital market and exposure to international financial markets. Fund managers are also having vast experience in funds investment that assures good return from mutual funds.

- ***Low Risk***

  Investment in mutual funds is done by professionals having good knowledge of financial markets and invests the pool of fund in diversified assets that minimize the risk.

- ***Minimum Transaction Costs***

  Collected funds of mutual funds are invested in various assets in bulk and bulk investment provides economies of scale that minimize the transaction cost.

- ***Liquidity***

  Mutual funds are traded in well regulated market where investor can buy and sell the units of mutual funds. The investor can sell their units very easily and quickly and get cash that provide liquidity to investor.

- ***Need Based Funds***

  Mutual funds cater tailor made financial services to investors. Mutual funds offer schemes as per investor's need that provides option to investor. Availability of options in funds selection helps investor to invest their funds as per their need and expected return.

- ***Full Discloser of Information***

  Mutual fund provides scheme related all information to the investors on regular basis. The offer document of scheme discloses all rule and regulation which required by investors.

- ***Options in Investment***

  Investors have option to convert their investment from equity scheme to debt scheme or select balance schemes. Investor also invests in systematic investment plan and sells their units in market on any point of time.

- ***Security***

  Mutual funds are regulated by SEBI and managed by trustee board that protects the interest of investors. Funds are also managed by AMC represented by a team of professionals that safe guard the investors funds and insure the return on investment.

1.8 Disadvantages of Mutual Funds

Mutual funds are managed by professionals or a team of professionals that insure maximum return to investors and safeguard the investments apart from these advantages of mutual funds it also have many disadvantages. The Disadvantages of mutual funds are given bellow:

- ***High Cost of Investment***

  Entry and exit load related with buying and selling of units apart from these expanses management fee and distribution fee are also borne by the investor. The investor pay the fee to mutual fund and control on fees are not in the hand of investor. Increasing in expanses increases the cost of investment that is not good for investors.

- ***Absence of Tailor Made Funds***

  Schemes are designed by mutual funds and managed by funds mangers. The investors have no role in designing and fund management as they only invest their fund and mange themselves as per funds structure. The schemes are created in keeping view to mass investors that may not fit for an individual investor's need and expectations.

- ***Trouble in Selection of Fund***

  In India mutual funds are having more than 2100 schemes and all are closely related to each other which create problem for investors. The investors are in big problem related to fund selection because funds are of similar category and in large number.

1.9 Mutual Funds and Capital Market

In Indian capital market where all financial claims are traded have a significant role in growth and development of financial intuitions and financial instruments like; mutual funds and other institutions. Primary and secondary market are two major parts of Indian capital market where primary market is concerned to deal with fresh issue of securities called IPO (Initial Public Offering) and fresh issue of mutual funds called NFO (New Fund Offering). In mutual funds new funds are offered by assets management companies in the form of NFO and each NFO has special goal, way of investment and specified venue for investment and it depends upon funds managers.

Secondary market, where existing securities are traded, increase the liquidity and as for as mutual funds are concerned, secondary market facilitates trading in existing units. The investor buys the units when market is in bullish trend and sells the units when marker is in bearish trend. Indian capital market also established Indian institute of capital market (IICM) that is engaged in creating awareness among investors and to develop professionals to meet the demand of Indian security market. IICM also provides research, development and consultancy services related to capital market.

1.10 Securities Exchange Board of India and its Role

The Security Exchange Board of India (SEBI) was established in April 1988 with a limited power to regulate the Indian security market under control of Ministry of Finance and on January 30, 1992 SEBI got statutory status and full administrative power by SEBI Act, 1992 with the objectives of investor protection and healthy growth of security market. SEBI acts as market regulator and control the unethical practices of financial market and protect the investor interest. The preamble of SEBI explains the fundamental objectives of security exchange of India.

SEBI's preamble describes its core functions as: '...to protect the interests of investors in securities and to promote the development of, and to regulate securities markets and for matters connected therewith or incidental thereto.'

The Government of India vide notification dated February 17, 2017 notified that Shri Ajay Tyagi will be chairman of SEBI. Shri Ajay Tyagi Started working as a Chairman of SEBI from March 01, 2017 after retirement of U.K. Sinha. Currently SEBI have two whole time members Shri G.Mahalingam and Ms.Madhabi Puri Buch.

SEBI formulates policies related to mutual funds and regulate the working of mutual funds in order to safeguard the investors' interest. In year 1993, SEBI notified regulation for mutual funds and after the notification entry of private players was allowed in mutual funds industry. The 1993 SEBI regulation was revised in 1996 and amended time to time. Apart from SEBI notification in 1993 and 1996, SEBI circulated guidelines for mutual funds to safeguard the investor's interest. SEBI regulates all the mutual funds whether they are promoted from public sector, private sector or foreign sponsors with same set of rules and regulations. SEBI never discriminate any mutual fund in monitoring, regulating and inspection work.

1.11 Association of Mutual Funds in India and its Role

The AMFI is created with a special role for mutual fund industry to insure the growth and development, creating professional practices, healthy environment and motivating ethical practices in mutual funds industry. AMFI is also responsible to maintain a standard and safeguard the interest of investors and promote mutual fund industry. Now 45 assets management companies (AMFI, 2016) are registered with AMFI and SEBI working as a nonprofit making organization.

Objectives of AMFI

- To insure and sustain the professional practices and ethical values in overall functional area of mutual funds.
- To suggest and develop excellent business working conditions and rule and regulation adopted by those who indulge in mutual funds and AMCs comprising agencies working in financial market in India.
- To represent all the functioning of mutual funds at the front of SEBI.
- To interact with central and state governments, RBI, and other statutory bodies in relation to mutual funds operations.
- Promoting and creating awareness among investors to impart knowledge related notion and functioning of mutual funds.
- AMFI indulge in research work itself or with the help of independent bodies and impart information related to mutual funds.
- To take disciplinary actions against violation of code of conduct on regular basic.

Figure.1.5 Assets Management Companies

Name of the Asset Management Company	Website
AEGON Asset Management Company Pvt. Ltd.	N/A
AIG Global Asset Management Company (India) Pvt. Ltd.	www.aiginvestments.co.in
Axis Asset Management Company Ltd.	www.axismf.com
Baroda Pioneer Asset Management Company Limited	www.barodapioneer.in
Benchmark Asset Management Company Pvt. Ltd. Bharti AXA Investment Managers Private Limited	www.benchmarkfunds.com www.bhartiaxa-im.com
Birla Sun Life Asset Management Company Limited	www.birlasunlife.com
Canara Robeco Asset Management Company Limited	www.canararobeco.com
DBS Cholamandalam Asset Management Ltd.	www.dbscholamutualfund.com
Deutsche Asset Management (India) Pvt. Ltd.	www.dws-india.com
DSP Black Rock Investment Managers Private Limited	www.dspblackrock.com
Edelweiss Asset Management Limited	www.edelweissmf.com
Escorts Asset Management Limited	www.escortsmutual.com
FIL Fund Management Private Limited	fidelity.co.in
Fortis Investment Management (India) Pvt. Ltd.	www.fortisinvestments.in
Franklin Templeton Asset Management (India) Private Limited	www.franklintempletonindia.com
Goldman Sachs Asset Management (India) Private Limited	www.gsam.in
HDFC Asset Management Company Limited	www.hdfcfund.com
HSBC Asset Management (India) Private Ltd.	www.assetmanagement.hsbc.com/in
ICICI Prudential Asset Mgmt.Company Limited	www.icicipruamc.com
IDFC Asset Management Company Private Limited	www.idfcmf.com
ING Investment Management (India) Pvt. Ltd.	www.ingim.co.in
JM Financial Asset Management Private Limited	www.JMFinancialmf.com
JPMorgan Asset Management India Pvt. Ltd.	www.jpmorganmf.com
Kotak Mahindra Asset Management Company Limited(KMAMCL)	www.kotakmutual.com
LIC Mutual Fund Asset Management Company Limited	www.licmutual.com
Mirae Asset Global Investments (India) Pvt. Ltd.	www.miraeassetmf.co.in
Morgan Stanley Investment Management Pvt. Ltd.	www.morganstanley.com/indiamf
Peerless Funds Management Co. Ltd.	www.peerlessmf.co.in
Principal Pnb Asset Management Co. Pvt. Ltd.	www.principalindia.com
Quantum Asset Management Co. Private Ltd.	www.QuantumAMC.com

Source: AMFI 2016

1.12 Tax Planning and Mutual Funds

Income Tax Act 1961 provides exemption to investment in specific mutual fund schemes under section 88. Investors of mutual fund given preferences to invest in tax saving schemes of mutual funds because tax savings increase the savings of investors. So mutual funds companies also understand the investor preferences and offers tax saving scheme or equity link schemes to attract the investment and investors also invest in tax saving schemes to increases the return and save tax.

1.13 NISM (National Institute of Securities Market)

NISM is a branch of NSE (National Stock Market). NSE created as a special arm that deals with functions of Indian capital market. The components of NISM are given bellow:

I. Investors
II. Regulation
III. Intermediaries
IV. Opinion Market
V. Knowledge Generation
VI. Issuer

There are six schools under NISM that are as follows:

I. School of certificate of Intermediaries (SCI)
II. School of Regulatory Studies and Supervision (SRSS)
III. School of Corporate Governance (SCG)
IV. School of Investors Education and Financial Literacy (SIEFL)

V. School of Securities Education (SSE)

VI. School of Securities Information and Research (SSIR)

1.14 NICM (National Institute of Capital Market)

NICM is another arm of NSE and engage in providing the knowledge to investor related Indian capital market. NICM organize workshops and seminars related to buying and selling activities and conduct research and development activities to update the technology that are essential for the development of Indian capital market.

1.15 Recent Trends of Mutual Funds

Indian financial system is changing rapidly after 1991 and achieved first step of revolution and trying to reach at the level of U.S financial system that already. The Assets under management in U.S. is very high as compare to its bank savings. But in India assets under management of mutual funds is very less as compare to its bank savings. Now trends are changing and the investors are preferring mutual fund than bank deposits due to more benefits offered by mutual funds. Table.1.3 provides a comparison between investment in mutual funds and banks and is given bellow:

Table.1.2 Comparison of investment in Banks V/S Mutual Funds

Particulars	***Banks***	***Mutual Funds***
Returns	Low	Better
Admin Expenses	High	Low
Risk	Low	High
Investment Option	Les	More
Network	High Penetration	Low but improving
Liquidity	At a cost	Better
Quality of Assets	Not Transparent	Transparent
Interest Calculation	Minimum balance calculation between 10^{th}& 30^{th} of every month.	Eveready

Source: Developed by Author

Indian banking system is following the narrow banking and invests their deposits in liquid assets and money market instrument that increases the liquidity and minimize the risk. Indian banks neither can stop this practice nor can fully ignore it. But practices of mutual fund are changing the trends of Indian banking.

In comparison to Indian banking, mutual funds provide higher return and its assets under management are rising rapidly. The investment in income fund raising and the AUM increased from Rs.423 billion in December 2015 (AMFI 2016) to Rs 600 billion at year ended 2016 (AMFI 2016) showing a shifting paradigm from banking to mutual funds.

Reserve bank of India is also helping the mutual funds by easing the monetary policy and slashing the repo shift investors to bank deposits to investment in mutual fund.

Summary

Indian financial market is the witness of ups and downs in mutual fund industry and mutual funds industry also faces many changes. The journey of mutual funds started in India with the establishment of UTI followed by entry of public sector players. Entry of private and foreign funds were also allowed to setup mutual fund and regulation of SEBI shaped the mutual funds. Growth in mutual funds are reflecting in the form AUM , number of funds, innovation in funds, diversification , return, risk and customer oriented financial services. As on March 31, 2017, 45 mutual funds (SEBI, 2016-17) are registered with SEBI with 2281 mutual funds schemes (AMFI, 2017) out of which 1,675 are income / debt oriented schemes, 484 are growth/equity oriented schemes, and 30 are balanced schemes. In addition, there are 63 ETFs, out of which 12 are gold ETFs, and 51 are non-gold ETFs .There are also 29 schemes operating as Fund of Funds. In terms of the investment objectives, as on March 31, 2017, there are 829 open-ended schemes (AMFI, 2017), 1,388 close-ended schemes and 64 interval schemes are available in mutual funds industry. Hence the first objective of the study is achieved.