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A Conceptual Framework of Mutual Funds in India

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Abstract:
A mutual fund is a pool of money managed by a professional Fund Manager. It is a trust that collects money from a number of investors who share a common investment objective and invests the same in equities, bonds, money market instruments and/or other securities. It is more reachable to the investors as the funds do not get invested in one sector but get diversified to many sectors. Investors today have access to a wide variety of investment opportunities thanks to the increasing competitive nature of the market. Mutual funds, out of the many other investment options available, are the one that are best suited for the average person since they provide the ability to invest in a portfolio that is both diversified and managed by professionals at a fee that is relatively modest. This paper primarily focuses in understanding the concept of mutual funds, its process, history, structure, types, categories, regulatory bodies, benefits and limitations.

Keywords: Mutual Funds, Fund Manager, Investors, Structure, Process, Securities, Diversification

INTRODUCTION TO MUTUAL FUNDS

A mutual fund is a collective investment vehicle that collects and pools money from a number of investors and invests the same in equities, bonds, government securities and money market instruments. Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.
The money collected from the savers is invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. The most important characteristics of a fund are that the contributors and the beneficiaries of the fund are the same class of people namely the investors.

Meaning of Mutual Funds

A mutual fund is an investment vehicle that pools money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities.
A mutual fund is a type of investment that pools money from many people to invest in a variety of assets like stocks, bonds, or other securities. This pooling allows individuals to diversify their investments and access a broader range of strategies or assets than they might be able to on their own.

OBJECTIVES OF THE STUDY: The overall aim is to understand the framework of mutual funds function in India

1. To understand the concept of mutual funds
2. To understand the process of mutual funds in India
3. To know the various mutual funds schemes available in India

HISTORY OF MUTUAL FUNDS IN INDIA

A strong financial market with broad participation is essential for a developed economy. With this broad objective India's first mutual fund was establishment in 1963, namely, Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India '**with a view to encouraging saving and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities'**.

In the last few years the MF Industry has grown significantly. The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

FIRST PHASE - 1964-1987

The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had ₹ 6,700 crores in assets under management by the end of 1988.

SECOND PHASE - 1987-1993 - ENTRY OF PUBLIC SECTOR MUTUAL FUNDS

The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987), Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LIC established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of ₹47,004 crores. It was discovered that the second stage not only provided the framework for industry growth but also inspired investors to put more of their money into mutual funds. As a result, India's mutual fund market was anticipated to grow more rapidly.

THIRD PHASE - 1993-2003 - ENTRY OF PRIVATE SECTOR MUTUAL FUNDS

The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market.

In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993. With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider choice of MF products. The initial

SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable.
The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFs with total AUM of ₹1,21,805 crores, out of which UTI alone had AUM of ₹44,541 crores.

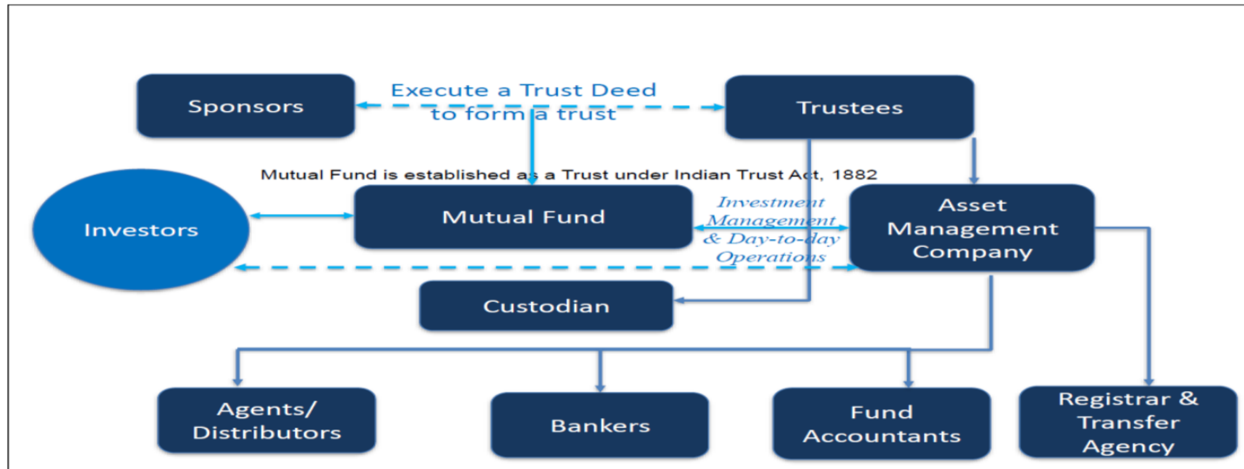
FOURTH PHASE - SINCE FEBRUARY 2003 – APRIL 2014

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.
Following the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors who had entered the capital market during the peak, had lost money and their faith in MF products was shaken greatly. The abolition of Entry Load by SEBI, coupled with the after-effects of the global financial crisis, deepened the adverse impact on the Indian MF Industry, which struggled to recover and remodel itself for over two years, in an attempt to maintain its economic viability which is evident from the sluggish growth in MF Industry AUM between 2010 to 2013

FIFTH (CURRENT) PHASE – SINCE MAY 2014

To "re-energize" the Indian mutual fund industry and increase MFs' penetration, SEBI introduced a number of ambitious initiatives in September 2012. This was done in awareness of the low penetration of Mutual Fund, particularly in tier II and tier III cities, and the need for a better alignment of the interests of various stakeholders. After the worldwide meltdown, things began to turn around positively thanks to the measures, and things dramatically got better once the new government was established in the centre. AUM and the number of investor folios have both increased steadily since May 2014, and the industry has seen sustained inflows.
The growth in the size of the industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energizing the MF Industry in September 2012 and the support from mutual fund distributors in expanding the retail base.
Mutual Fund Distributors have been providing the much needed last mile connect with investors, particularly in smaller towns and this is not limited to just enabling investors to invest in appropriate schemes, but also in helping investors stay on course through bouts of market volatility and thus experience the benefit of investing in mutual funds.
MF distributors have also had a major role in popularizing Systematic Investment Plans (SIP) over the years. In April 2016, the no. of SIP accounts has crossed 1 crore mark and as on 31st January 2024 the total no. of SIP Accounts are 7.92 crore.

Structure of Mutual Funds



Tier 1: Fund Sponsor

In the three-tier **mutual fund structure** in India, the fund sponsor occupies the first layer. A sponsor can be an individual or entity with the authority to establish a mutual fund, aiming to generate income through fund management. This fund management may be executed through an associate company responsible for handling the fund's investments. Moreover, the sponsor can act as a promoter for the associate company.

To establish a mutual fund, the sponsor must seek approval from SEBI. However, the sponsor cannot operate independently; it must create a Public Trust under the Indian Trust Act, 1882, and subsequently register it with SEBI. As the primary entity driving the promotion of the mutual fund company and overseeing public funds, the sponsor plays a crucial role in the entire process.

Tier 2: Trust and Trustees

The second layer in the structure of Mutual Funds in India consists of the Trust and the trustees. The trustees, also known as the protectors of the fund, are typically appointed by the fund sponsor. As the name suggests, they play a crucial role in upholding investors' trust and monitoring the fund's growth. A trust is established by the fund sponsor in favour of the trustees through a document called a trust deed. The trustees manage the trust and are accountable to the investors, serving as the primary guardians of the fund and its assets.

Tier 3: Asset Management Companies (AMCs)

The Asset Management Company (AMC) or the Fund Management Firm serves as the operational investment manager of the trust, but it must first undergo registration with the Government of India.

The roles of AMCs encompass various responsibilities, such as introducing and initiating mutual fund schemes. They collaborate with founders and trustees to oversee the progress of these schemes. Additionally, AMCs are tasked with managing funds and engaging associate services from brokers, registrars, bankers, lawyers, and other relevant entities.

Other Participants in the Structure of Mutual Funds

The other participants in the **structure of mutual funds** in India are as follows:

Custodian

A Custodian is an entity entrusted with the secure storage of securities. These Custodians are registered with SEBI and hold the responsibility for facilitating the transfer and delivery of units and securities. Additionally, they play a crucial role in helping investors update their holdings at specific intervals and keep track of their investments. Apart from their primary task of safekeeping, Custodians also manage the collection of corporate benefits, including bonus issues, interest, dividends, and other related matters.

Registrar and Transfer Agent

RTAs (Registrar and Transfer Agents) serve as intermediaries connecting Fund Managers and Investors. These SEBI-registered entities are responsible for handling various tasks, including processing mutual fund applications, assisting with investor KYC (Know Your Customer), managing and providing periodic investment statements or reports, updating investor records, and processing investor requests.

Auditor

The auditor verifies AMC records to ensure proper use of collected funds and certifies the absence of fraud. The AMC can choose its auditor and determine their compensation, but it must adhere to appointment rules, publish the auditor's report, and fulfill other obligations under the Companies Act.

Broker

Brokers authorized by SEBI and licensed to manage trading accounts, act as intermediaries connecting investors to the stock market. AMCs rely on brokers to execute trades, and some brokers also provide research reports that AMCs use for due diligence purposes.

Intermediaries

The intermediary can be anyone, such as agents, bankers, distributors, and more. They play a role as a bridge connecting retail investors and AMCs. These intermediaries recommend mutual funds to investors and receive commissions from the AMC as compensation. They shall be registered intermediaries only.

Process of Mutual Funds

- Pooling of Money from the investors
- Investing according to pre-specified investment objectives by the fund manager
- Fund manager chooses the securities to invest
- Benefits accrue to those that contribute to this pool.
- There is thus mutuality in the contribution and the benefit.

TYPES OF MUTUAL FUNDS

I. Based on the mutual fund structure

A mutual fund scheme can be classified as an open-ended, close-ended, or interval scheme depending on its maturity period. Let's understand:

1. Open-ended mutual funds

In open-ended mutual fund schemes, you can invest and redeem your investments whenever you want. There is no maturity tenure or a specific time for investment into the scheme. Open-ended mutual funds are, therefore, liquid in nature. Most types of mutual fund schemes are open-ended in nature. However, ELSS schemes and sometimes solution-oriented schemes are exceptions with lock-in. Redemption is not allowed while solution-oriented funds can have lock-in periods of up to 5 years.

2. Close-ended mutual funds

Close-ended mutual fund schemes have a set investment and maturity period, available during their New Fund Offer (NFO) launch. Investments can only be made during this period, and there's a fixed maturity date for redemptions. Some close-ended schemes get listed on stock exchanges post-NFO, allowing investors to trade them. Periodic repurchasing options are also available, where investors can sell units back to the mutual fund company. SEBI mandates that mutual fund companies must offer investors an exit route, either through stock exchange sales or selling back to the company.

3. Interval mutual funds

As the name suggests, interval mutual funds allow you to invest or redeem from them at intervals. These are essentially close-ended funds with some windows in between where you can enter or exit the fund.

II. Mutual fund types based on asset class

Depending on the asset class in which they invest, mutual fund schemes can be of the following types:

1. Equity Mutual Funds

Equity mutual funds are the type of mutual fund that invests in the stocks of different companies. The return of these funds is influenced by the performance of the invested stocks in the market. These funds take high risks, and they also have the potential to generate stunning returns.

As per SEBI guidelines, equity funds should invest at least 65% of their portfolio in equities. Equity funds invest in stocks of a specific type of market cap. Examples of such schemes include large-cap funds, mid-cap funds, large and mid-cap funds, and small-cap funds.

Similarly, some funds invest in a specific sector like technology or banking. These funds are called Sectoral Funds. And then, there are categories of funds that invest across market caps and sectors. It includes funds like Flexi Cap Funds, Focused Funds, and Multi Cap Funds, among others.

2. Debt funds

These mutual funds primarily invest in fixed-income instruments like corporate and government bonds. These funds generate income through capital appreciation and interest income.

The objective of these funds is to provide returns that outpace inflation, making it an attractive option for risk-averse investors seeking capital preservation with minimal fluctuations in value. Also, they are suitable for investors who want to invest for a short duration.

Typically, debt funds offer more stable returns than equity funds. Therefore, they are considered to be less risky than equity funds. But it doesn't mean there is no risk in the debt funds. They are exposed to credit risk and interest risk.

3. Hybrid mutual funds

These schemes primarily invest in a combination of debt and equity. So, hybrid funds offer the benefit of asset allocation and help you diversify your portfolio. Their goal is to provide long-term capital appreciation through equities investments while ensuring short-term stability and a steady income stream from debt holdings.

For example, allocation to equity increases the chances of higher returns, while allocation to debt helps to stabilize the investments against extreme market turbulence. As a result, the portfolio's overall risk is decreased. There are several categories of hybrid funds with different mixes of debt and equity such as multi-asset allocation funds, aggressive hybrid funds, balanced advantage funds, etc.

III. Based on Investment Objectives

Mutual funds are categorized based on their investment objectives, which define the fund's primary goal and the types of assets it invests in. Here are some common mutual fund types based on investment objectives:

1. ELSS

ELSS or Equity Linked Saving Schemes are the type of mutual funds that come with the dual benefit of equity market returns and tax saving. It comes with a lock-in period of 3 years, which means you can't redeem before 3 years.

As the name suggests, it invests in the stock market or equity with the aim of capital appreciation in the long term. It is the only type of mutual fund scheme eligible for tax deduction under Section 80C up to Rs 1.5 lakhs. It is suitable for investors looking to invest in mutual funds but also wants to avail of tax benefits.

2. Liquid Funds

Liquid funds are a type of debt funds that are focused on providing the safety of principal and steady returns. They invest in short-term debt securities such as government securities, certificates of deposit, commercial paper, treasury bills, etc. As per the SEBI guidelines, these funds can only invest in debt instruments with a maturity of up to 90 days.

These funds are suitable for short-term investors seeking flexibility and better returns than bank deposits and also for those who want to park large sums of money temporarily.

3. Capital Protection Funds

Capital protection-oriented funds are the type of mutual funds that are focused on protecting the principal amount invested by the investors. They invest in a mix of debt and equity; however, most of the potion is invested in debts and only a small portion in equities.

This way, they provide protection against market downturns by investing in debts and simultaneously help in capital appreciation by investing in equity markets. These funds are suitable for low-risk appetite investors who do not want to lose their principal invested amount but also want to explore equity markets.

4. Fixed-Maturity Funds

A fixed maturity plan (FMP) is a type of mutual fund that comes with a fixed lock-in period. It invests in debt securities, which matures with the scheme's tenure. For example, if the scheme matures in 3 years, it will invest in debt securities that mature in only three years.

These are closed-ended funds; hence, you can only invest in these funds at the time of NFO (New Fund Offer). It is suitable for the investor looking to invest for the short term, with lower risk.

5. Pension Funds

Pension funds, or retirement funds, are launched by asset management companies as a retirement solution. These funds come with a lock-in period of at least five years or until retirement, whichever is earlier. These funds can be managed as equity, debt, or hybrid funds. So, the funds in this category often have multiple 'plans'. The primary goal of these funds is to build a substantial corpus for your retirement by investing in stocks and debt instruments.

6. Income Funds

Income funds are typically debt mutual funds that primarily invest in debt securities such as corporate bonds, government bonds, and money market instruments. It is considered a low-risk investment as it invests in fixed-income securities with higher credit ratings.

The main objective of this fund is to maximize your wealth through capital appreciation and regular dividend payments when there is a surplus.

7. Growth Funds

Growth funds are the type of mutual funds that invest in companies that have high potential for growth. The primary goal of these funds is to provide maximum capital appreciation to the investors.

As they invest in high-growth companies, the risk level in these funds is also high. Hence, they are suited for aggressive investors who are willing to take higher-risk investments.

8. Money Market Funds

Money market funds are debt funds that primarily invest in money market instruments for the short term, typically less than one year. These funds are considered a low-risk investment because they invest in short-term debt securities such as treasury bills, commercial papers, commercial bills certificates of deposit, etc.

These funds are ideal for investors who want to park their surplus funds for a short duration and want to earn a higher return than traditional FDs.

9. Funds of Funds

Fund of funds (FOF) is another type of mutual fund that invests in other mutual fund schemes instead of directly investing in equity, debts, or other securities. This approach to investing is commonly known as multi-manager investment. It allows investors to invest in multiple funds across different categories by investing in one scheme only. The underlying asset in this type of fund is the units of mutual funds, which can be of the same fund house or other fund houses.

10. Gold Funds

The gold funds invest in the gold ETF (Exchange Traded Funds). These funds aim to replicate the performance of gold prices in India, providing investors with an opportunity to invest in gold without physically owning the precious metal.

Historically, gold has acted as a hedge investment against inflation; hence, adding gold funds to your portfolio will protect you from inflation effects.

IV. Based on portfolio management

Mutual Funds can be categorized based on how the portfolio is managed. The two types are active and passive mutual fund schemes.

1. Active Mutual Funds

Actively managed mutual funds are those wherein the fund manager continuously keeps looking for ways to generate better returns. The fund manager sells and buys stocks whenever he sees an

opportunity.

2. Passive Mutual Funds

Passively managed funds are those wherein the fund manager does not actively manage the portfolio. The portfolio reflects a specific index, i.e., the money is allocated in the exact same way as it is done in the underlying index. Any change in the portfolio is done only if there is a change in the index composition.

V. Based on specialty

Mutual funds can also be categorized based on their specialty or focus on specific investment strategies. Here are some mutual fund types based on specialty:

1. Sectoral funds

This category of funds invests at least 80% of its corpus in businesses belonging to a particular sector of the economy. For example, a pharma fund will invest 80% of the assets in pharma companies like Sun Pharmaceutical, Cipla, Lupin, etc. While investors can earn good returns from sectoral funds that invest in well-performing companies from a sector, there is a flip side to this too. Unlike diversified equity funds, these funds lack diversification, which makes them one of the riskiest mutual funds available.

2. Index funds

Index funds are the type of mutual fund that match the performance of an underlying index. These funds hold the same shares of the chosen index in precisely the same proportion as the replicated index.

Index funds also come in many options, such as large-cap index, mid-cap index, small-cap index, etc. For instance, examples of a large-cap index fund include schemes that track large-cap indices like SENSEX, NIFTY 50, NIFTY 100, etc. Similarly, an example of a mid-cap index fund would be a scheme that tracks indices like NIFTY Midcap 150 or NIFTY Midcap 100.

3. Real Estate Funds

These are a type of sector fund and investment in companies from the real estate sector. In essence, these funds invest mainly in the equities of real estate developers. Thus, returns from these funds depend upon the real-estate sector growth.

4. Asset Allocation Funds

Asset allocation funds also known as Balance Advantage Funds invest in a mix of stocks and debt instruments. These funds dynamically manage their allocation based on market conditions. The aim is to provide investors with optimal returns and minimal risk.

Now, each fund house's asset allocation fund has a unique asset allocation technique that they use. Each strategy has its pros and cons and is suited to different investment needs and risk profiles. But overall asset allocation funds can be ideal for investors who seek exposure to equity and debt asset classes with a balanced approach.

5. International Funds

International funds or foreign or overseas mutual funds are schemes that invest in companies listed on foreign stock exchanges. These funds offer geographical diversification that helps investors reduce the investment risks associated with their home country.

These types of investments allow investors to participate in the growth of international companies. However, one needs to have a high-risk appetite and must be willing to stay invested for the long term.

6. Global Funds

Global funds are a category of mutual funds that invest in companies from all over the world. However,

they are different from international funds.
The names could be confusing. But unlike international funds that invest in all countries except the country that the investor resides in, global funds invest in all countries around the globe with no exception.

7. Exchange-Traded Fund (ETF)

ETFs are a type of mutual fund that can be traded on the stock exchange in real time just like stocks. ETFs belong to the index funds family and while the majority of ETFs are passively managed, there are actively managed ETFs as well.
Passively managed ETFs can be structured to track anything like an index or a group of stocks from a specific industry or business. For example, a NIFTY 50 ETF will replicate the portfolio and performance of the NIFTY 50 TRI Index in the same proportion. ETFs may also track an index representing a sector like NIFTY Pharma, or a commodity like gold, which tracks the physical gold price.

VI. Based on Risk Appetite

Investors may also choose to invest in mutual funds depending on their risk appetite. Broadly, this categorization based on risk can be of the following types:

1. Low-Risk Funds

Low-risk funds invest in high-quality bonds over a shorter period can be considered low-risk mutual fund schemes. These funds typically take an extremely low risk and have the potential to grow an inventor's money gradually. However, low-risk mutual funds are unlikely to beat inflation by a huge margin.

Examples of such funds can include liquid funds, overnight funds, ultra-short duration funds, etc.

2. Medium Risk

Mutual funds that aim to strike a balance between their risk and return are medium-risk or moderate-risk schemes. Examples of such funds include various hybrid schemes that include multiple asset classes like equity and debt.
Due to equity allocation, these funds have the potential to beat inflation by a decent margin. But they also provide better downside protection than pure equity funds because of the allocation to debt instruments. So these funds are ideal for those who are willing to take a moderate risk with their investments.

3. High Risk

Investments under this category of mutual funds can be extremely volatile, which can result in big gains but also land the investor in serious losses during a market crash. Therefore, these funds are suitable for those investors who are willing to take higher risks with their money. Examples of high-risk mutual funds include pure equity funds and debt funds that take high credit or interest risk.

SEBI CATEGORIZATION OF MUTUAL FUND SCHEMES

As per SEBI guidelines on Categorization and Rationalization of schemes issued in October 2017, mutual fund schemes are classified as –

1. EQUITY SCHEMES

An equity Scheme is a fund that primarily invests in equities and equity related instruments and seeks long term growth but could be volatile in the short term. It is suitable for investors with higher risk appetite and longer investment horizon.

The objective of an equity fund is generally to seek long-term capital appreciation. Equity funds may focus on certain sectors of the market or may have a specific investment style, such as investing in value or growth stocks

2. DEBT SCHEMES

A debt fund (also known as income fund) is a fund that invests primarily in bonds or other debt securities. Debt funds invest in short and long-term securities issued by government, public financial institutions, companies, Treasury bills, Government Securities, Debentures, Commercial paper, Certificates of Deposit and others

Debt funds have potential for income generation and capital preservation. Debt funds can be categorized based on the tenor of the securities held in the portfolio and/or on the basis of the issuers of the securities or their fund management strategies, such as

- Short-term funds, Medium-term funds and Long-term funds
- Gilt fund, Treasury fund, Corporate bond fund, Infrastructure debt fund
- Floating rate funds, Dynamic Bond funds, Fixed Maturity Plans

3. HYBRID FUNDS

Invest in a mix of equities and debt securities. They seek to find a ‘balance’ between growth and income by investing in both equity and debt. The regular income earned from the debt instruments provides greater stability to the returns from such funds. The proportion of equity and debt that will be held in the portfolio is indicated in the Scheme Information Document Equity oriented hybrid funds (Aggressive Hybrid Funds) are ideal for investors who are looking for growth in their investment with some stability. Debt-oriented hybrid funds (Conservative Hybrid Fund) are suitable for conservative investors looking for a boost in returns with a small exposure to equity. The risk and return of the fund will depend upon the equity exposure taken by the portfolio - Higher the allocation to equity, greater is the risk

4. Solution-oriented & other funds

Retirement Fund	Lock-in for at least 5 years or till retirement age whichever is earlier
Children’s Fund	Lock-in for at least 5 years or till the child attains age of majority whichever is earlier
Index Funds/ ETFs	Minimum 95% investment in securities of a particular index
Fund of Funds (Overseas/ Domestic)	Minimum 95% investment in the underlying fund(s)

5. Index Funds

Index funds create a portfolio that mirrors a market index. The securities included in the portfolio and their weights are the same as that in the index. The fund manager does not rebalance the portfolio based on their view of the market or sector. Index funds are passively managed, which means that the fund manager makes only minor, periodic adjustments to keep the fund in line with its index. Hence, Index fund offers the same return and risk represented by the index it tracks. The fees that an index fund can charge is capped at 1.5%

Investors have the comfort of knowing the stocks that will form part of the portfolio, since the composition of the index is known.

6. Exchange Traded Funds (ETFs)

An ETF is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an

index fund. ETFs are listed on stock exchanges.
Unlike regular mutual funds, an ETF trades like a common stock on a stock exchange. The traded price of an ETF changes throughout the day like any other stock, as it is bought and sold on the stock exchange. ETF Units are compulsorily held in Demat mode
ETFs are passively managed, which means that the fund manager makes only minor, periodic adjustments to keep the fund in line with its index because an ETF tracks an index without trying to outperform it, it incurs lower administrative costs than actively managed portfolios.

7. Fund of Funds (FoF)

Fund of funds are mutual fund schemes that invest in the units of other schemes of the same mutual fund or other mutual funds. The schemes selected for investment will be based on the investment objective of the FoF

8. Gold Exchange Traded Funds (FoF)

Gold ETFs are ETFs with gold as the underlying asset. The scheme will issue units against gold held. Each unit will represent a defined weight in gold, typically one gram. The scheme will hold gold in form of physical gold or gold related instruments approved by SEBI. Schemes can invest up to 20% of net assets in Gold Deposit Scheme of bank. The price of ETF units moves in line with the price of gold on metal exchange. After the NFO, units are issued to intermediaries called authorized participants against gold or funds submitted. They can also redeem the units for the underlying gold

9. International Funds

International funds enable investments in markets outside India, by holding in their portfolio one or more of the following:

- Equity of companies listed abroad.
- DRs and GDRs of Indian companies
- Debt of companies listed abroad.
- ETFs of other countries
- Units of passive index funds in other countries
- Units of actively managed mutual funds in other countries

Mutual Fund Regulations in India:

Before the establishment of the Securities Exchange Board of India ("SEBI"), Unit Trust of India was created in order to bring the savings from the household to industries and protect the interests of the investors. However, with the growth of industrialization, there was a need to amend the initial mutual fund regulations. This eventually paved way for the establishment of SEBI. Although the mere establishment of SEBI was not going to complete the mutual fund regulations matrix. Because of the involvement of transactions, the regulations came under the purview of other regulatory authorities as well. Currently, all the mutual fund regulations are controlled by following entities:

Securities Exchange Board of India ('SEBI")

To start with, no mutual fund can be launched unless the scheme is registered with SEBI. The Securities Exchange Board of India (Mutual Fund) Regulations 1996, is the Bible under which all the mutual funds are regulated. The mutual fund regulations are amended from time to time to bring in consonance with the ever-increasing needs of investors in light of their protection. Further, SEBI Regulations are universal in nature with an objective of bringing greater transparency, stability, and a common

governing structure. The registration process involves numerous disclosures, to provide precise information about the facts of the mutual fund. A mutual fund scheme can be launched only when SEBI is satisfied with the parameters such as the integrity of the Asset Management Company ('AMC'), infrastructure, net worth as specified under regulation etc. After reviewing all the filters, the mutual funds are registered under SEBI, thus minimizing the risk of fraud or misuse of funds.

Ministry of Finance ("MoF")

Ministry of Finance is the body that helps both the SEBI and Reserve Bank of India ("RBI") in formulating the policies for mutual fund regulations. SEBI and RBI – though quasi-legislative bodies (Quasi-meaning being partly or almost; Legislative meaning law enacting body) – have a limited lawmaking power. Hence, they both require the MOF to legislate on certain critical matters. Ministry of Finance through their notifications or circulars, regulate the mutual funds and aid in protecting the investors.

Income Tax Regulations

These mutual fund regulations deal with the income or liquidation of an investment in mutual fund units. As part of the source of revenue generation for the government, these regulations are very thorough and pinpoint in their application. Stuff like Securities Transaction Tax ("STT") or Capital Gain Tax or Tax Deducted at Source ("TDS") are a part of these regulations. These mutual fund regulations help investors in their tax planning regime, and since tax saving mutual funds have lock-in period, it eventually paves way for a longer investment period. The capital gain tax also deters investments of a shorter period, since it will not only attract heavy tax but also significantly reduce the actual profit. In addition to that, longer the mutual fund investments remain the more stability it achieves.

Reserve Bank of India ("RBI")

Although RBI is the apex body in banking governance, it has a major role in framing the mutual fund regulations. All the money market instruments such as treasury bills, certificate of deposits, call and notice money etc., are governed by the RBI. Therefore, any mutual fund scheme that invests in the money market instruments requires to be registered under the RBI. The Reserve Bank of India also plays a direct and vital role in foreign investment in India. For example, if an NRI wishes to regularly invest in mutual funds in India, then according to the RBI regulation, he/she must have a Non-Resident External Account. Another important mandate formulated by RBI is the Know Your Customer ('KYC") information. Without complying with the KYC norms, no investor can invest in mutual funds. The KYC norms are nothing but a deterrent to the money laundering or un-named/un-authorized transactions.

Association of Mutual Funds ("AMFI"):

It is basically a Non-Profit Organization, established with an objective of protecting the interests of investors creating more awareness about investment. Association of Mutual Fund of India is a collaboration of the Asset Management Companies registered under SEBI. AMFI works to formulate mutual fund regulation policies and for maintaining ethical and healthy standards of operation of schemes. It acts as a link between the mutual fund industry (investor + scheme floater) and the regulators (SEBI, RBI, Income tax authorities).

Investor Association/ Self Regulatory Organization ("SRO")

These entities are not governed by any government regulations. The stock exchanges are a prime example of SRO. The stock exchange is governed by SEBI. However, they implement their own regulations in addition to the SEBI regulations, which the mutual fund schemes have to adhere. Depository Participants also play a part in SRO and govern the demat accounts.

Role of RBI and Other Regulatory Bodies:

- The KYC norms of RBI are very strict. This indirectly helps in reduction of money laundering. It helps in identifying the true beneficial owner and thereby avoiding the insertion of black money transactions into the economy.
- The association of mutual funds plays a major role as the regulatory body in terms of generating investor awareness. This awareness helps educate investors to take more informed decisions to avoid loss of their funds.
- The Income tax department caters to the influx of funds by promoting investment in mutual funds and providing tax benefits to investors. They also help in increasing government revenue by imposing taxes on short-term investments. This regulatory body helps in tax and investment planning of the investors.
- The regulatory bodies and their regulations are the brains of the whole mutual fund system. Without these bodies, the industry will be ineffective and inadequate. However, this is just one side of the coin. The other side is significantly influenced by SEBI in formulating its regulations. SEBI plays the role of the apex body in the functioning of the mutual fund schemes.

Primary Role of SEBI as Regulatory Body

- Protect the financial interests of investors
- Examining the prospects of the asset management company and other players related to floating of Mutual fund
- Uninterrupted review of the functioning of mutual fund leading to minimization of fraud and loss of innocent investors.

This role of SEBI not only helps in the protection of investors but also in becoming a stable source of funds for the economy due to the rise in investor confidence. Some important steps of SEBI in mutual funds can be seen below:

1. **Registration:** Registration of mutual funds is mandatory, it helps the apex body to understand and study the situation of the sponsor, its track record and overall viability of the scheme.
2. **Privatization:** Until SEBI the investors did not have many options of investment, In February 1993, SEBI cleared six private sector mutual funds viz. 20th Century Finance Corporation, Industrial Credit & Investment Corporation of India, Tata Sons, Credit Capital Finance Corporation, Ceat Financial Services, and Apple Industries.
3. **Advertisement**: This is an important part as investors sometimes fail to understand the genuineness of the scheme or product. SEBI regulations prescribe a certain code while designing an advertisement, which is to be strictly adhered to.
4. **Minimum amount to be collected:** It is like a minimum subscription to mutual funds. SEBI states a minimum of 50 Cr for open-ended schemes and 20 Cr. for close-ended schemes, otherwise, the

money is to be refunded. The objective behind this is that the risk is shared between small investors to large investors, if not large investors then underwriters.

5. **Net Asset Value:** It is essential for all mutual fund schemes to derive and state the true and easy to know net asset value to investors.

Benefits of Mutual Funds

Mutual funds are managed by professionals organised firm called AMC (Asset Management Company) through professional fund managers who actively manage investment portfolio of various mutual fund schemes which deliver following benefits to investors:

- **Portfolio Diversification:** Mutual Funds invest in a diversified portfolio of financial instruments which enables a small investor to hold a diversified investment portfolio even if the amount of investment is small.
- **Low Risk:** Even with a small amount of investment, Investors can acquire a diversified portfolio of financial instruments. The risk in a diversified portfolio of mutual fund scheme is lesser than investing directly in only 2 or 3 shares or bonds.
- **Low Transaction Costs:** Due to the economies of scale mutual funds incur lesser transaction costs. These benefits are shared with the investors.
- **Liquidity:** Units of a mutual fund can be redeemed easily with the funds being credited directly to the investors account though ECS payment.
- **Choice:** Mutual funds offer investors with variety of schemes with diverse investment objectives. Investors, therefore, have a plenty of investing in a scheme matching their financial goals. These schemes further provide various plans/options e.g. dividend option or growth option or reinvestment option etc.
- **Transparency:** Funds provide investors with latest information related to the markets and the schemes. All material facts are revealed to investors as per the guidelines of SEBI and AMFI. They provide on a daily basis latest NAV to investors.
- **Flexibility:** Investors are also provided flexibility by Mutual Funds. Investors can transfer their units from a debt scheme to an equity scheme or a balanced scheme through systematic transfer plan option (STP). Option of systematic investment through monthly/quarterly installments (SIP) and systematic withdrawal at regular intervals (SWP) is also offered to the investors in open-ended schemes.
- **Safety**: Mutual Fund industry is fully regulated under SEBI rules where the interests of the investors are safeguarded. All funds have to be registered with SEBI and complete compliance with the rules and transparency is ensured.
- **Professional Management:** Mutual funds portfolios are managed by expert professional managers possessing skills and qualifications to analyze the performance and prospects of companies. They actively manage portfolios through close monitoring on a daily basis, which is not possible for a retail investor.

Limitations of Mutual Funds

1. Entry or Exit Load

Some mutual funds may charge either entry or exit load or both. They levy this charge primarily to maintain their operations and pay staff salaries. Sometimes, the charge may go up to a high 3% of the

net investment amount. However, it mostly remains around 1%.

While the load might seem one of the significant disadvantages of mutual funds, funds charging a high load usually offer much higher returns than the average mutual funds. Hence, while the load certainly eats into your profit, you must analyze the funds past performance before deciding.

2. Diversification Might Cause Lower Profits

While diversification might significantly reduce the risks, it may also reduce the profit margin. This may become more prominent if we invest in balanced or hybrid mutual funds. Since these funds invest a part of the capital in equity and the other part in debt, any profit in one might be muted due to a loss in the other.

3. Lock-in Period:

Some mutual fund investments, such as ELSS (Equity Linked Saving Scheme), have a three-year lock-in term, which means investor won't be able to redeem the money until the period expires. On the other hand, other funds want you to stay invested for a year. If the investor wants to withdraw a fund before the lock-in period, they'll have to pay an Exit Load fee.

4. Over-Diversification

Diversification is the most important benefit of a mutual fund, but there may be over-diversification, which will increase the fund's operating charges. This will reduce the chances of earning a stable return from a single stock.

5. Capital Gains Tax

Both short-term and long-term capital gains from mutual funds are taxable. If the investor withdraws their profits before one year from the investment date, they may have to pay a 15% to 20% tax. And, if they withdraw it after a year, they may have to pay a 10% capital gains tax. Investors may also need to understand the concept of indexation to calculate the taxes efficiently.

Conclusion:

A mutual fund is a versatile investment choice that can help investors gain profits and build wealth by tapping into the opportunities presented by the markets. Mutual funds offer plans for every investor to meet varied short-term and long-term goals

Investing in the right mutual funds not only helps the investor gain profits but also helps in securing their financial situation. Investor should consider their financial goals and risk-taking ability before making an investment.

In this article, we have discussed the mutual funds, history, regulating authorities, types, benefits and limitations. Individuals can invest in a professionally managed investment portfolio with built-in diversification through the top mutual funds. This is advantageous since investors do not have to worry about purchasing and selling shares. There are several disadvantages of mutual funds in India. Some mutual funds have hefty fees and commissions and can only be traded once daily. However, by carefully selecting mutual funds and seeking low-cost solutions, you can avoid or at least alleviate the worst of these problems.

It's best to hear both sides of a story since it provides the investor with a better idea and allows them to make a better decision.

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