3. Legal structure of MF in India
4. Key Constituents of a MF
5. Key developments in MF Industry over years
6. Role of regulatory authorities in India in MFs
7. Investors rights and obligations
8. Offer document
9. Distribution channels
10. Taxability of a MF investor
11. Trends in MF industry
12. Best Mutual funds 2012-2013
13. Regulatory updates in Indian MF Industry
14. Key policy announcements in union Budget 2013
15. Future of Indian mutual fund industry
16. SEBI endeavours to re-energize MF industry
17. Study in depth the inception, the investment pattern of Private Sector Mutual Fund (ICICI Mutual Fund & Kotak Mutual Fund) & pattern of Public Sector Mutual Fund (SBI Mutual Funds & LIC Mutual Fund).

This chapter discusses the Global and Indian Mutual Fund Industry performance. The sources of funds in Indian MF Industry and the competition in the Industry are featured in this chapter. The chapter also discusses the regulatory structure & support for functioning of Mutual Fund Industry & the problems faced by MF Companies in India. In the latter section, the chapter also includes, in depth, the inception, the investment pattern of Private Sector Mutual Fund (ICICI Mutual Fund & Kotak Mutual Fund) & pattern of Public Sector Mutual Fund (SBI Mutual Funds & LIC Mutual Fund).
company to finance investment in national industry under the name of 'SocieteGenerale de Belgique' considering the concept of risk sharing. In 1822, King William I, of Netherlands came up with a close end fund. In 1860 this idea was seen in England. The first mutual fund outside the Netherlands was the Foreign & Colonial Government Trust, which was established in London in 1868. It is now the Foreign & Colonial Investment Trust and trades on the London stock exchange. In 1873 'The Scottish American trust' was established. Mutual funds were introduced into the United States in the 1890s. They became popular during the 1920s. These early funds were generally of the closed-end type with a fixed number of shares which often traded at prices above the value of the portfolio, Fink, Matthew P. (2008), The Rise of Mutual Funds, Oxford University Press p 9. The first American investment trust was close end BOSTON Personal Property Trust created in 1893. After World War II, Mutual Funds grew throughout world. In Japan it is known as Investment Trusts, it dates back to 1973. In India it was introduced in the later part of the twentieth century in the year 1964 with its roots embedded into Unit Trust of India (UTI). Since 1964 there was only 25 corers Asset Under Management but since than it has grown as banyan tree with assets of Rs. 1,13,005 crore by the end of the year 31st March 2000. Till the end of year 31st March 2012 it grew uptoRs. 5,87,217. While there is no legal definition of the term "mutual fund", it is most commonly applied only to those collective investment vehicles that are regulated and sold to the general public. They are sometimes referred to as "investment companies" or "registered investment companies."


The Global Fund Investor Experience report was designed to encourage a dialogue about global best practices for mutual funds from the perspective of fund shareholders. This biennial report measures the experiences of mutual fund investors
Taxation, Disclosure, Fees & Expenses, and Sales & Media. For each topic, Morningstar grades a country on the A to F scale. Each country’s four topic grades are then combined to form an overall grade. In Morningstar’s view, while none of the GFIE’s 24 countries can claim universal best practices, it is also true that none fails outright in providing a home for prospective fund investors.

The highest-scoring country, in this report as well as the two previous editions, is the United States, which receives the top grade of A. The United States is not a leader on Regulation & Taxation, earning only a middling score for that section, but U.S. disclosure is clearly the world’s best, U.S. fund expenses are the world’s lowest, and the country’s media do a fine job of emphasizing a long-term perspective and low costs.

A new entrant to the survey, Korea, comes in with an above-average grade of B+. Funds in Korea are required to disclose the name of the portfolio manager along with their prior three years’ experience. Additionally, Korean investors face a favorable tax regime.

Several countries come next with overall grades of B. They get there via several paths. The East Asian entrants, Taiwan, Thailand, and Singapore, have favorable tax regimes and thus score well for Regulation & Taxation. The Netherlands garners a B with slightly better Disclosure and Sales & Media practices.

Most countries are graded at B- or C+. Almost all European countries land in this range, with only small differences occurring between markets. The Undertakings for Collective Investments in Transferable Securities directive (UCITS; recently updated to the fourth revision known as UCITS IV) and the Markets in Financial Instruments Directive (MiFID) ensure that fund regulations, disclosure, and marketing meet...
China, are more distinctive. Australia has low-cost funds and a robust distribution model but is poor at disclosure. Canada does well across the board but is hampered by having the world’s highest total expense ratios. China, too, fares well in most areas but is hampered by one weakness—in its case, the restrictions it places on both funds and shareholders in purchasing foreign securities.

Landing at the bottom are Japan with a C, Hong Kong and New Zealand with C-grades, and South Africa at a D. It is no coincidence that none of those countries are in Europe; if they were, and were therefore subject to pan-European practices and legislation, they would most likely be pushed up to average grades. South Africa earns its lowest-rank status primarily through its poor disclosure practices.

**Indian Mutual Fund Industry**

Mutual funds are considered a good route to invest and earn returns with reasonable safety. Some of the other major benefits of investing in them include the options of investing in various schemes, diversification, professional management, liquidity, effective regulations, transparency, tax benefits, and affordability.

The Unit Trust of India (UTI) that was created in 1964 was the first MF in India. It enjoyed complete monopoly in MFs until 1986. Other public sector mutual funds were set up by public sector banks and the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) in 1987. SBI Mutual Fund was the first non-UTI mutual fund established in June 1987. The MF business was progressively opened to competition after 1988. This move gathered momentum in India after economic liberalization in 1991, and the establishment of the SEBI in 1992.
<table>
<thead>
<tr>
<th></th>
<th>85.5</th>
<th>85.9</th>
<th>89.3</th>
<th>86.3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed income investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deposits</strong></td>
<td>41.9</td>
<td>45.6</td>
<td>57.4</td>
<td>56.2</td>
</tr>
<tr>
<td><strong>Insurance/Provident &amp; Pension Funds</strong></td>
<td>39.3</td>
<td>36.3</td>
<td>34.2</td>
<td>31.0</td>
</tr>
<tr>
<td><strong>Small Savings</strong></td>
<td>4.3</td>
<td>4.0</td>
<td>-2.3</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>Securities Market</strong></td>
<td>4.2</td>
<td>-0.3</td>
<td>-1.0</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Mutual Funds</strong></td>
<td>3.3</td>
<td>-1.2</td>
<td>-1.1</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Government Securities</strong></td>
<td>0.0</td>
<td>0.0</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Other Securities</strong></td>
<td>0.9</td>
<td>0.9</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The MF vehicle is quite popular with investors who are wary of directly investing in the securities markets. The popularity of MFs as an investment avenue is clearly visible from the data presented in Table 3-1. The MFs in India have primarily been sponsored by government, banks, and FIs. Thus, the MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received. The boom continued into the 90s with liberalization evoking positive responses from the investors. The net resource mobilizations by MFs remained steady during 1992–95, with the annual net resource mobilization of nearly ` 437 billion per annum during the period. However, the MFs were hit severely by the bearish sentiments in the secondary market since October 1994.

The years 1995–96 and 1996–97 witnessed net outflows of funds from MFs. The MF industry managed to mobilize modest sums during the next two financial years. It was in the late 90s and first few years of the next decade that the MF industry witnessed a sharp turnaround. Tax sops announced in the Union Budget 1999–00 and the emergence of bullish trends in the secondary market fuelled the recovery. The year 2000–01 witnessed a slowdown once again, with the net resource mobilization by all MFs taken together aggregating ` 111 billion, which could be attributed to a slump in the secondary market and the increase in the tax on income distributed by debt-
the net resources mobilized were `525 billion. The performance of the private sector MFs was also consistent as compared to the previous year—they mobilized `416 billion.

The maximum resource mobilization ever was witnessed in 2007–08, which saw net resources mobilization worth `1,485 billion from mutual fund industry, compared to `941 billion attracted by the industry in 2006–07. Due to the global crisis, the resources mobilized by the industry have been quite volatile for the last couple of years. The fiscal year 2008–09 witnessed a sharp drop in the net resources mobilized compared to the previous year, aggregating `-246 billion, as private sector MFs witnessed a net outflow of `314 billion. The trend was reversed in 2009–10; the net resources mobilized were `785 billion. The year 2010–11 witnessed a slowdown once again, with the net resource mobilization by all the MFs taken together aggregating `-488 billion. The mutual fund industry continued to see the decline in net resources mobilization at `-437 billion in 2011-12. Encouragingly, the trend reversed once again in 2012-13, with the net resource mobilization by all the MFs taken together aggregating `825 billion.