Table 3: Trends in Resource Mobilisation by Mutual Funds (crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Mobilisation</th>
<th>Redemption*</th>
<th>Net Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private Sector</td>
<td>Public Sector</td>
<td>UTI</td>
</tr>
<tr>
<td>2000-01</td>
<td>75,009</td>
<td>5,535</td>
<td>12,413</td>
</tr>
<tr>
<td>2001-02</td>
<td>1,47,798</td>
<td>12,082</td>
<td>4,643</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,84,096</td>
<td>23,515</td>
<td>7,096</td>
</tr>
<tr>
<td>2003-04</td>
<td>5,34,649</td>
<td>31,548</td>
<td>23,992</td>
</tr>
<tr>
<td>2004-05</td>
<td>7,36,463</td>
<td>56,589</td>
<td>46,656</td>
</tr>
<tr>
<td>2005-06</td>
<td>9,14,703</td>
<td>1,10,319</td>
<td>73,127</td>
</tr>
<tr>
<td>2006-07</td>
<td>15,99,873</td>
<td>1,96,340</td>
<td>1,42,280</td>
</tr>
<tr>
<td>2007-08</td>
<td>37,80,753</td>
<td>3,46,126</td>
<td>3,37,498</td>
</tr>
<tr>
<td>2008-09</td>
<td>42,92,751</td>
<td>7,10,472</td>
<td>4,23,131</td>
</tr>
<tr>
<td>2009-10</td>
<td>76,98,483</td>
<td>8,81,851</td>
<td>1,43,868</td>
</tr>
<tr>
<td>2010-11</td>
<td>69,22,924</td>
<td>7,83,858</td>
<td>11,52,733</td>
</tr>
<tr>
<td>Apr 11-Dec 11</td>
<td>42,25,040</td>
<td>3,94,459</td>
<td>4,63,346</td>
</tr>
<tr>
<td>Apr 12-Dec 12</td>
<td>43,62,244</td>
<td>4,62,912</td>
<td>4,85,665</td>
</tr>
</tbody>
</table>
ETFs and 21 schemes operating as fund of funds. The number of schemes as on
September 30, 2013 stood at 1,325. During 2012-13, the aggregate sales of all the
schemes amounted to ` 72,679 billion, and the redemptions during the year equaled ` 71,913 billion

Institution-wise Resource Mobilization

The resource mobilization through the route of mutual funds is done broadly by three
categories, namely, banks, private sector, and institutions. The structure of the
institution-wise resource mobilization is depicted in Table 3-2 and Table 3-3, which
gives the details of the sales, purchases (redemptions), and assets under management.

The private sector MFs accounted for 79.3 percent of the resource mobilization (sales)
by the MF industry in 2012–13. These private sector MFs witnessed a net inflow of ` 624.1 billion (US $ 11.5 billion) in 2012–13, compared to a net outflow of ` 168.4 billion (US $ 3.3 billion) in 2011–12.

In 2012-13, bank-sponsored MFs mobilized resources worth ` 14,656 billion, which
was 24.2 percent higher than the resource mobilization in 2011-12 (` 11,798 billion). The bank-sponsored schemes accounted for 20.2 percent of the gross resource mobilization in 2012–13. In net terms, the bank-sponsored MFs witnessed an inflow of ` 128 billion (US $ 2.36 billion) in 2012–13.

Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of mutual funds in 2012–13
continued to dominate over the other schemes (such as close-ended and interval
funds). The share of open-ended schemes in the total sales of mutual funds was 98.9
<table>
<thead>
<tr>
<th></th>
<th>Sale</th>
<th>Purchase (‘mn)</th>
<th>Sale</th>
<th>Purchase (‘mn)</th>
<th>Sale</th>
<th>Purchase (‘mn)</th>
<th>Sale</th>
<th>Purchase (‘mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open-ended</td>
<td>66,705,260</td>
<td>66,855,230</td>
<td>1,303,945</td>
<td>1,306,877</td>
<td>71,879,290</td>
<td>70,842,060</td>
<td>1,322,159</td>
<td>1,303,080</td>
</tr>
<tr>
<td>Close-ended</td>
<td>1,355,140</td>
<td>1,320,720</td>
<td>26,490</td>
<td>25,817</td>
<td>720,460</td>
<td>985,850</td>
<td>13,252</td>
<td>18,134</td>
</tr>
<tr>
<td>Interval fund</td>
<td>136,390</td>
<td>241,070</td>
<td>2,666</td>
<td>4,712</td>
<td>79,100</td>
<td>85,550</td>
<td>1,455</td>
<td>1,574</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68,196,790</td>
<td>68,417,020</td>
<td>1,333,101</td>
<td>1,337,406</td>
<td>72,678,850</td>
<td>71,913,460</td>
<td>1,336,866</td>
<td>1,322,787</td>
</tr>
</tbody>
</table>

Source: AMFI Updates

**Resource Mobilization as per Investment Objective**

The liquid/money market schemes have become very popular among investors due to the attractive returns delivered by them. They accounted for 87.6 percent of the gross resource mobilization in 2012–13. During the current fiscal year, the sale as well as repurchase was the highest in the case of these schemes, resulting in a net inflow of `32.3 billion (US $ 593 million).

The income/debt-oriented schemes that provide regular and steady income to investors by investing in fixed income securities such as bonds, corporate debentures, government securities, and money market instruments were also popular among investors, and accounted for 11.5 percent of the total sales of all the schemes in 2012-13 which was less.
<table>
<thead>
<tr>
<th>Market</th>
<th>40,500</th>
<th>40,700</th>
<th>-200</th>
<th>-4</th>
<th>128,860</th>
<th>89,100</th>
<th>39,760</th>
<th>731</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gilt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ELSS Equity</td>
<td>26,980</td>
<td>28,400</td>
<td>-1,420</td>
<td>-28</td>
<td>26,260</td>
<td>42,820</td>
<td>-16,560</td>
<td>-305</td>
</tr>
<tr>
<td>GOLD ETFs</td>
<td>52,650</td>
<td>16,190</td>
<td>36,460</td>
<td>713</td>
<td>27,670</td>
<td>13,530</td>
<td>14,140</td>
<td>260</td>
</tr>
<tr>
<td>Other ETFs</td>
<td>32,980</td>
<td>39,210</td>
<td>-6,230</td>
<td>-122</td>
<td>22,850</td>
<td>24,980</td>
<td>-2,130</td>
<td>-39</td>
</tr>
<tr>
<td>Funds of</td>
<td>13,560</td>
<td>12,540</td>
<td>1,020</td>
<td>20</td>
<td>6,860</td>
<td>11,600</td>
<td>-4,740</td>
<td>-87</td>
</tr>
<tr>
<td>Investing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68,196,790</td>
<td>68,417,020</td>
<td>-220,230</td>
<td>-4,305</td>
<td>72,678,850</td>
<td>71,913,460</td>
<td>765,390</td>
<td>14,079</td>
</tr>
</tbody>
</table>

*This scheme was earlier classified as growth Funds and included in that category.

Source: AMFI Update

**Assets under Management**

As on March 31, 2013, the MFs have managed assets totaling `7,014 billion (US $129.1 billion) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 81.7 percent and 17.2 percent, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2013.

The income schemes accounted for 56.5 percent of the total assets under management at the end of March 2013, followed by the equity schemes with 21.4 percent. The liquid/money market schemes accounted for 13.3 percent of the assets under management of MFs.
### Table 6: Assets under Management

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Open Total  (` mn)</th>
<th>Close Total  (` mn)</th>
<th>Interval Total (` mn)</th>
<th>Total (` mn)</th>
<th>Total (%)</th>
<th>Open Exact (` mn)</th>
<th>Close Exact (` mn)</th>
<th>Interval Exact (` mn)</th>
<th>Total Exact (` mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>1,477,720</td>
<td>1,350,990</td>
<td>79,730</td>
<td>2,908,440</td>
<td>56,854</td>
<td>49.5</td>
<td>2,702,360</td>
<td>1,181,590</td>
<td>75,900</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>1,584,030</td>
<td>290</td>
<td>-</td>
<td>1,584,320</td>
<td>30,970</td>
<td>27</td>
<td>1,495,360</td>
<td>2,410</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balanced</strong></td>
<td>162,500</td>
<td>110</td>
<td>-</td>
<td>162,610</td>
<td>3,179</td>
<td>2.8</td>
<td>162,950</td>
<td>120</td>
<td>-</td>
</tr>
<tr>
<td><strong>Liquid/Money Market</strong></td>
<td>803,540</td>
<td>-</td>
<td>-</td>
<td>803,540</td>
<td>15,707</td>
<td>13.7</td>
<td>933,920</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Gilt</strong></td>
<td>36,590</td>
<td>-</td>
<td>-</td>
<td>36,590</td>
<td>715</td>
<td>0.6</td>
<td>80,740</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>ELSS</strong></td>
<td>211,490</td>
<td>24,950</td>
<td>-</td>
<td>236,440</td>
<td>4,622</td>
<td>4</td>
<td>204,910</td>
<td>22,400</td>
<td>-</td>
</tr>
<tr>
<td><strong>Gold ETF</strong></td>
<td>98,860</td>
<td>-</td>
<td>-</td>
<td>98,860</td>
<td>1,933</td>
<td>1.7</td>
<td>116,480</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>**Other ETFs *</td>
<td>16,070</td>
<td>-</td>
<td>-</td>
<td>16,070</td>
<td>314</td>
<td>0.3</td>
<td>14,760</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Funds of Funds</strong></td>
<td>25,300</td>
<td>-</td>
<td>-</td>
<td>25,300</td>
<td>495</td>
<td>0.4</td>
<td>20,530</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investing Overseas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,416,100</td>
<td>1,376,340</td>
<td>79,730</td>
<td>5,872,170</td>
<td>114,788</td>
<td>100</td>
<td>5,732,010</td>
<td>1,206,520</td>
<td>75,900</td>
</tr>
</tbody>
</table>
constituted a meagre 1.8 percent and 1.2 percent of the total number of investor accounts, respectively. The individuals accounted for 45.7 percent of the net assets of the MF industry in 2012–13, followed by corporate/institution, who accounted for 48.6 percent. The corporate/institution saw the highest increase in net assets among the four categories, with a year-on-year improvement of 3.7 percentage points in 2012–13. On the other hand, individuals saw a decline of 2.5 percentage points.

Table 7: Unit Holding Pattern of Mutual Funds

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage to total investors folios</th>
<th>Percentage to total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011-12</td>
<td>2012-13</td>
</tr>
<tr>
<td>Individuals</td>
<td>94.5</td>
<td>96.9</td>
</tr>
<tr>
<td>NRIs/OCBs</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>FIIs</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Corporate/Institutions/Others</td>
<td>3.6</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mutual Fund Industry at present

Amidst volatility and uncertainty in the markets, average assets under management (AUM) posted a growth of 23% for the year ended March 2013. This was considerably higher than the 12% growth reported in March 2012. The industry has grown at a compound annual growth rate (CAGR) of 18% from 2009-2013.

However, the trend from 2010 depicts that net sales for the mutual fund industry has dipped, picking up slightly in 2013, to grow by 7%. A total of 139 new schemes were launched for the year ended March 2013, generating sales of 236,470 million INR. Furthermore, AUM under the equity segment has actually declined 5%, whereas the debt segment has grown significantly at 36%, which implies that investors are still wary of investing in the market looking for relatively safer investments by directing
total assets under management. A fall in interest rates is indicative of higher returns for long-term debt and gilt funds. Furthermore, it has been observed that in the case of investments held for over a period of 24 months, assets under management held by retail investors in the non-equity segment was 36%, whereas for the short term, it was only 11%, suggesting the fact that in the current environment, investors are preferring debt funds for an even longer time span exceeding 24 months.

Table 8: Investment by Retail Investors

<table>
<thead>
<tr>
<th>Retail Investors</th>
<th>1-3 months</th>
<th>6-12 Months</th>
<th>Over 24 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity (% to category)</td>
<td>4.02</td>
<td>7.52</td>
<td>63.04</td>
</tr>
<tr>
<td>Non equity (% to category)</td>
<td>11.18</td>
<td>15.96</td>
<td>36.25</td>
</tr>
</tbody>
</table>

Source: AMFI, March, 2013

Even though the industry has witnessed growth during the last year, the rise in assets under management has been coupled with erosion of the investor base, evident from the loss of 3.6 million folios as at March 2013. The equity segment saw a decline of 4.4 million folios, although the debt segment showed an addition of 0.8 million folios. This again indicates that investors are inclined towards relatively safer investments, not wanting to undertake risk in these volatile and uncertain markets.

A rise has also been reported in the AMFI registration number (ARN) registrations, as a consequence of reduction in ARN fees. Since the SEBI permitted retired bank officials, school teachers, postal agents, etc to sell mutual fund schemes, AMCs have been geared up to derive maximum benefit from this opportunity to create a far-reaching distribution network, especially in B-15 cities and towns. An additional
<table>
<thead>
<tr>
<th>Assets under management grew to 8,164 billion INR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales increased for the year ended March 2013</td>
<td>Increase</td>
</tr>
<tr>
<td>Huge inflows in the debt segment, with a significant growth in AUM</td>
<td>Increase</td>
</tr>
<tr>
<td>A decline in the total number of folios</td>
<td>Decline</td>
</tr>
<tr>
<td>AUM in equity segment registered a decline</td>
<td>Decline</td>
</tr>
<tr>
<td>Net investment for the year ended March 2013 declined</td>
<td>Decline</td>
</tr>
</tbody>
</table>

The Indian population is largely under-banked with a very low level of financial inclusion leaving room for further penetration. The extent of under-penetration in the market is a sore point with the banking and financial services industry, with a large amount of savings being channelised into gold and real estate rather than the capital market. The GDP growth has slowed down, sluggish at 5% in 2012-13, with savings and investment rates following a downward trend. In 2010-11, the savings and investment rates were 34% and 36.8%, respectively, which declined to 30.8% and 35%, respectively, in 2011-12 and 31.8% and 35.4% in 2012-13.

**Average Assets under Management (Industry snap shot 2013)**

Assets under management (AUM) is a financial term denoting the market value of all the funds being managed by a financial institution (a mutual fund, hedge fund, private equity firm, venture capital firm, or brokerage house) on behalf of its clients, investors, partners, depositors, etc.

The average Assets under Management of all Mutual funds in India for the quarter Jul-13 to Sep-13 (in INR billion) is given below.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>NAV</th>
<th>%Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Franklin Templeton Mutual Fund</td>
<td>448.12</td>
<td>5.50%</td>
</tr>
<tr>
<td>8</td>
<td>IDFC Mutual Fund</td>
<td>396.65</td>
<td>4.87%</td>
</tr>
<tr>
<td>9</td>
<td>Kotak Mahindra Mutual Fund</td>
<td>352.99</td>
<td>4.34%</td>
</tr>
<tr>
<td>10</td>
<td>DSP BlackRock Mutual Fund</td>
<td>304.86</td>
<td>3.74%</td>
</tr>
<tr>
<td>11</td>
<td>Tata Mutual Fund</td>
<td>179.66</td>
<td>2.21%</td>
</tr>
<tr>
<td>12</td>
<td>Deutsche Mutual Fund</td>
<td>170.59</td>
<td>2.10%</td>
</tr>
<tr>
<td>13</td>
<td>L&amp;T Mutual Fund</td>
<td>150.79</td>
<td>1.85%</td>
</tr>
<tr>
<td>14</td>
<td>Sundaram Mutual Fund</td>
<td>139.47</td>
<td>1.71%</td>
</tr>
<tr>
<td>15</td>
<td>JPMorgan Mutual Fund</td>
<td>132.57</td>
<td>1.63%</td>
</tr>
<tr>
<td>16</td>
<td>Religare Invesco Mutual Fund</td>
<td>125.12</td>
<td>1.54%</td>
</tr>
<tr>
<td>17</td>
<td>Axis Mutual Fund</td>
<td>123.18</td>
<td>1.51%</td>
</tr>
<tr>
<td>18</td>
<td>LIC NOKURA Mutual Fund</td>
<td>79.76</td>
<td>0.98%</td>
</tr>
<tr>
<td>19</td>
<td>Canara Robeco Mutual Fund</td>
<td>76.16</td>
<td>0.94%</td>
</tr>
<tr>
<td>20</td>
<td>HSBC Mutual Fund</td>
<td>67.18</td>
<td>0.83%</td>
</tr>
<tr>
<td>21</td>
<td>JM Financial Mutual Fund</td>
<td>62.44</td>
<td>0.77%</td>
</tr>
<tr>
<td>22</td>
<td>Baroda Pioneer Mutual Fund</td>
<td>52.63</td>
<td>0.65%</td>
</tr>
<tr>
<td>23</td>
<td>IDBI Mutual Fund</td>
<td>47.71</td>
<td>0.59%</td>
</tr>
<tr>
<td>24</td>
<td>PRINCIPAL Mutual Fund</td>
<td>43.00</td>
<td>0.53%</td>
</tr>
<tr>
<td>25</td>
<td>Goldman Sachs Mutual Fund</td>
<td>41.49</td>
<td>0.51%</td>
</tr>
<tr>
<td>26</td>
<td>BNP Paribas Mutual Fund</td>
<td>35.38</td>
<td>0.43%</td>
</tr>
<tr>
<td>27</td>
<td>Morgan Stanley Mutual Fund</td>
<td>32.90</td>
<td>0.40%</td>
</tr>
<tr>
<td>28</td>
<td>Peerless Mutual Fund</td>
<td>28.35</td>
<td>0.35%</td>
</tr>
<tr>
<td>29</td>
<td>Taurus Mutual Fund</td>
<td>27.32</td>
<td>0.34%</td>
</tr>
<tr>
<td>30</td>
<td>Pramerica Mutual Fund</td>
<td>21.66</td>
<td>0.27%</td>
</tr>
<tr>
<td>31</td>
<td>Union KBC Mutual Fund</td>
<td>19.80</td>
<td>0.24%</td>
</tr>
<tr>
<td>32</td>
<td>Indiabulls Mutual Fund</td>
<td>16.06</td>
<td>0.20%</td>
</tr>
<tr>
<td>33</td>
<td>ING Mutual Fund</td>
<td>11.05</td>
<td>0.14%</td>
</tr>
<tr>
<td>34</td>
<td>PineBridge Mutual Fund</td>
<td>11.03</td>
<td>0.14%</td>
</tr>
<tr>
<td>35</td>
<td>BOI AXA Mutual Fund</td>
<td>10.82</td>
<td>0.13%</td>
</tr>
<tr>
<td>36</td>
<td>Mirae Asset Mutual Fund</td>
<td>5.08</td>
<td>0.06%</td>
</tr>
<tr>
<td>37</td>
<td>Motilal Oswal Mutual Fund</td>
<td>4.37</td>
<td>0.05%</td>
</tr>
<tr>
<td>38</td>
<td>Quantum Mutual Fund</td>
<td>3.15</td>
<td>0.04%</td>
</tr>
<tr>
<td>39</td>
<td>PPFAS Mutual Fund</td>
<td>2.67</td>
<td>0.03%</td>
</tr>
<tr>
<td>40</td>
<td>Escorts Mutual Fund</td>
<td>2.52</td>
<td>0.03%</td>
</tr>
<tr>
<td>41</td>
<td>Sahara Mutual Fund</td>
<td>2.33</td>
<td>0.03%</td>
</tr>
</tbody>
</table>
Legal Structure of Mutual Funds in India

SEBI (Mutual Fund) Regulations, 1996 as amended till date define “mutual fund” as a fund established in the form of a trust to raise moneys through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments or real estate assets.

Key features of a mutual fund that flow from the definition is:

- It is established as a trust.
- It raises moneys through sale of units to the public or a section of the public.
- The units are sold under one or more schemes.
- The schemes invest in securities (including money market instruments) or gold or gold related instruments or real estate assets.

SEBI has stipulated the legal structure under which mutual funds in India need to be constituted. The structure, which has inherent checks and balances to protect the investors, can be briefly described as follows:

- Mutual funds are constituted as Trusts.
- The mutual fund trust is created by one or more Sponsors.
- Every trust has beneficiaries. The beneficiaries, in the case of a mutual fund trust, are the investors who invest in various schemes of the mutual fund.
- The operations of the mutual fund trust are governed by a Trust Deed, which is executed by the sponsors. SEBI has laid down various clauses that need to be part of the Trust Deed.
trustees, they are jointly referred to as Board of Trustees. A trustee company functions through its Board of Directors.

- Day to day management of the schemes is handled by an Asset Management Company (AMC). The AMC is appointed by the sponsor or the Trustees.
- The trustees execute an investment management agreement with the AMC, setting out its responsibilities.
- Although the AMC manages the schemes, custody of the assets of the scheme (securities, gold, gold-related instruments & real estate assets) is with a Custodian, who is appointed by the Trustees.

Investors invest in various schemes of the mutual fund. The record of investors and their unit-holding may be maintained by the AMC itself, or it can appoint a Registrar & Transfer Agent (RTA).

1. **Key Constituents of a Mutual Fund**

**Sponsors**

The application to SEBI for registration of a mutual fund is made by the sponsor/s. Thereafter, the sponsor invests in the capital of the AMC.

Since sponsors are the main people behind the mutual fund operation, eligibility criteria has been specified as follows:

- The sponsor should have a sound track record and reputation of fairness and integrity in all business transactions. The requirements are:
- Sponsor should be carrying on business in financial services for 5 years
- Sponsor should have positive net worth (share capital plus reserves minus accumulated losses) for each of those 5 years
AMC. Further, anyone who has more than 40% share holding in the AMC is considered to be a sponsor, and should therefore fulfil the eligibility criteria mentioned above.

In the example of SBI Mutual Fund cited above, the sponsor was an Indian public sector bank. Sponsorship may be institutional (LIC Mutual Fund), entirely foreign (like Fidelity and Franklin Templeton), predominantly foreign joint venture (like Morgan Stanley & HSBC) or predominantly Indian joint venture (like Birla Sunlife & ICICI Prudential).

**Trustee**

The trustees have a critical role in ensuring that the mutual fund complies with all the regulations, and protects the interests of the unit-holders. As part of this role, they perform various kinds of General Due Diligence and Specific Due Diligence.

The SEBI Regulations stipulate that:

- Every trustee has to be a person of ability, integrity and standing
- A person who is guilty of moral turpitude cannot be appointed trustee
- A person convicted of any economic offence or violation of any securities laws cannot be appointed as trustee

Prior approval of SEBI needs to be taken, before a person is appointed as Trustee.

The sponsor will have to appoint at least 4 trustees. If a trustee company has been appointed, then that company would need to have at least 4 directors on the Board. Further, at least two-thirds of the trustees / directors on the Board of the trustee company, would need to be independent trustees i.e. not associated with the sponsor in any way.
AMC

Day to day operations of asset management are handled by the AMC. It therefore arranges for the requisite offices and infrastructure, engages employees, provides for the requisite software, handles advertising and sales promotion, and interacts with regulators and various service providers.

The AMC has to take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of the SEBI regulations and the trust deed. Further, it has to exercise due diligence and care in all its investment decisions.

As per SEBI regulations:

- The directors of the asset management company need to be persons having adequate professional experience in finance and financial services related field
- The directors as well as key personnel of the AMC should not have been found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws
- Key personnel of the AMC should not have worked for any asset management company or mutual fund or any intermediary during the period when its registration was suspended or cancelled at any time by SEBI.

Prior approval of the trustees is required, before a person is appointed as director on the board of the AMC.

Further, at least 50% of the directors should be independent directors i.e. not associate of or associated with the sponsor or any of its subsidiaries or the trustees.
The appointment of an AMC can be terminated by a majority of the trustees, or by 75% of the Unit-holders. However, any change in the AMC is subject to prior approval of SEBI and the Unit-holders.

Operations of AMCs are headed by a Managing Director, Executive Director or Chief Executive Officer.

**Some of the other business-heads are:**

Chief Investment Officer (CIO), who is responsible for overall investments of the fund. Fund managers assist the CIO. As per SEBI regulations, every scheme requires a fund manager, though the same fund manager may manage multiple schemes.

Securities Analysts support the fund managers through their research inputs. As will be discussed in Unit 8, these analysts come from two streams, Fundamental Analysis and Technical Analysis. Some mutual funds also have an economist to analyse the economy.

Securities Dealers help in putting the transactions through in the market.

Chief Marketing Officer (CMO), who is responsible for mobilizing money under the various schemes. Direct Sales Team (who generally focus on large investors), Channel Managers (who manage the distributors) and Advertising & Sales Promotion Team support the CMO.

Chief Operations Officer (COO) handles all operational issues

Compliance Officer needs to ensure all the legal compliances. In Offer Documents of new issues, he signs a due-diligence certificate to the effect that all regulations have been complied with, and that all the intermediaries mentioned in the offer document have the requisite statutory registrations and approvals.
The custodian has custody of the assets of the fund. As part of this role, the custodian needs to accept and give delivery of securities for the purchase and sale transactions of the various schemes of the fund.

The Custodian is appointed by the mutual fund. A custodial agreement is entered into between the trustees and the custodian.

The SEBI regulations provide that if the sponsor or its associates control 50% or more of the shares of a custodian, or if 50% or more of the directors of a custodian represent the interest of the sponsor or its associates, then that custodian cannot appointed for the mutual fund operation of the sponsor or its associate or subsidiary company.

An independent custodian ensures that the securities are indeed held in the scheme for the benefit of investors – an important control aspect.

The custodian also tracks corporate actions such as dividends, bonus and rights in companies where the fund has invested.

All custodians need to register with SEBI.

**RTA**

The RTA maintains investor records. Their offices in various centres serve as Investor Service Centres (ISCs), which perform a useful role in handling the documentation of investors.

The appointment of RTA is done by the AMC. It is not compulsory to appoint a RTA. The AMC can choose to handle this activity in-house.
Accounts of the schemes need to be maintained independent of the accounts of the AMC.

The auditor appointed to audit the scheme accounts needs to be different from the auditor of the AMC.

While the scheme auditor is appointed by the Trustees, the AMC auditor is appointed by the AMC.

**Fund Accountants**

The fund accountant performs the role of calculating the NAV, by collecting information about the assets and liabilities of each scheme. The AMC can either handle this activity in-house, or engage a service provider.

**Distributors**

Distributors have a key role in selling suitable types of units to their clients i.e. the investors in the schemes.

Distributors need to pass the prescribed certification test, and register with AMFI. Regulatory aspects of their role are discussed in Unit 3, while some of the distribution and channel management practices are covered in Unit 5.

**Collecting Bankers**

The investors’ moneys go into the bank account of the scheme they have invested in. These bank accounts are maintained with collection bankers who are appointed by the AMC.

Leading collection bankers make it convenient to invest in the schemes by accepting applications of investors in most of their branches. Payment instruments against
The mutual fund industry in India has come a long way. Significant spurts in size were noticed in the late 80s, when public sector mutual funds were first permitted, and then in the mid-90s, when private sector mutual funds commenced operations. In the last few years, institutional distributors increased their focus on mutual funds.

The emergence of stock exchange brokers as an additional channel of distribution, the continuing growth in convenience arising out of technological developments, and higher financial literacy in the market should drive the growth of mutual funds in future.

AUM of the industry, as of February 2010 has touched Rs 766,869 crore from 832 schemes offered by 38 mutual funds. These were distributed as follows: (Source: www.amfiindia.com)

**Table 11: Scheme wise AUM**

<table>
<thead>
<tr>
<th></th>
<th>Open-Ended</th>
<th>Close-Ended</th>
<th>Interval</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>441,422</td>
<td>26,203</td>
<td>8,759</td>
<td>476,384</td>
<td>62.1%</td>
</tr>
<tr>
<td>Equity</td>
<td>148,726</td>
<td>19,621</td>
<td>325</td>
<td>168,672</td>
<td>22.0%</td>
</tr>
<tr>
<td>Balanced</td>
<td>15,277</td>
<td>1,864</td>
<td>-</td>
<td>17,141</td>
<td>2.2%</td>
</tr>
<tr>
<td>Liquid/Money Market</td>
<td>73,030</td>
<td>-</td>
<td>-</td>
<td>73,030</td>
<td>9.5%</td>
</tr>
<tr>
<td>Gilt</td>
<td>3,171</td>
<td>-</td>
<td>-</td>
<td>3,171</td>
<td>0.4%</td>
</tr>
<tr>
<td>ELSS – Equity</td>
<td>19,617</td>
<td>3,047</td>
<td>-</td>
<td>22,664</td>
<td>3.0%</td>
</tr>
<tr>
<td>Gold ETF</td>
<td>1,583</td>
<td>-</td>
<td>-</td>
<td>1,583</td>
<td>0.2%</td>
</tr>
<tr>
<td>OTHER ETFs</td>
<td>1,342</td>
<td>-</td>
<td>-</td>
<td>1,342</td>
<td>0.2%</td>
</tr>
<tr>
<td>Fund Of Funds Investing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,882</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

**TOTAL** | 707,050    | 50,735      | 9,084    | 766,869| 100.0%|

| %         | 92.2%      | 6.6%        | 1.2%     | 100.0% |
conveniences for investors are aimed at transforming mutual funds into a truly retail vehicle of capital mobilization for the larger benefit of the economy.

1. **Role of Regulators in India**

**SEBI**

SEBI regulates mutual funds, depositories, custodians and registrars & transfer agents in the country.

The applicable guidelines for mutual funds are set out in SEBI (Mutual Funds) Regulations, 1996, as amended till date. Some segments of the financial markets have their own independent regulatory bodies. Wherever applicable, mutual funds need to comply with these other regulators also. For instance, RBI regulates the money market and foreign exchange market in the country. Therefore, mutual funds need to comply with RBI's regulations regarding investment in the money market, investments outside the country, investments from people other than Indians resident in India, remittances (inward and outward) of foreign currency etc.

Stock Exchanges are regulated by SEBI. Every stock exchange has its own listing, trading and margining rules. Mutual Funds need to comply with the rules of the exchanges with which they choose to have a business relationship.

Anyone who is aggrieved by a ruling of SEBI, can file an appeal with the Securities Appellate Tribunal.

**Self Regulatory Organizations (SRO)**

In the developed world, it is common for market players to create Self Regulatory Organizations, whose prime responsibility is to regulate their own members.
Mutual Funds in India have not constituted any SRO for themselves. Therefore, they are directly regulated by SEBI.

**AMFI Objectives**

AMCs in India are members of AMFI, an industry body that has been created to promote the interests of the mutual funds industry [like Confederation of Indian Industry (CII) for overall industry and NASSCOM for the IT/BPO industry]. AMFI is not an SRO. The objectives of AMFI are as follows:

- To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry.
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.
- To interact with the Securities and Exchange Board of India (SEBI) and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.
- To develop a cadre of well trained Agent distributors and to implement a programme of training and certification for all intermediaries and others engaged in the industry.
- To undertake nationwide investor awareness programme so as to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on Mutual Fund Industry and to undertake studies and research directly and/or in association with other bodies.
SEBI (Mutual Funds) Regulation, 1996 requires all Asset Management Companies and Trustees to abide by the Code of Conduct as specified in the Fifth Schedule to the Regulation. The AMFI Code has been drawn up to supplement that schedule, to encourage standards higher than those prescribed by the Regulations for the benefit of investors in the mutual fund industry.

**AMFI Guidelines & Norms for Intermediaries (AGNI)**

AMFI has also framed a set of guidelines and code of conduct for intermediaries, consisting of individual agents, brokers, distribution houses and banks engaged in selling of mutual fund products.

In the event of breach of the Code of Conduct by an intermediary, the following sequence of steps is provided for:

- Write to the intermediary (enclosing copies of the complaint and other documentary evidence) and ask for an explanation within 3 weeks.
- In case explanation is not received within 3 weeks, or if the explanation is not satisfactory, AMFI will issue a warning letter indicating that any subsequent violation will result in cancellation of AMFI registration.
- If there is a proved second violation by the intermediary, the registration will be cancelled, and intimation sent to all AMCs.

The intermediary has a right of appeal to AMFI.

**Investment Restrictions for Schemes**

The SEBI Regulations provide for various limits to the kind of investments that are possible in mutual fund schemes, and the limits thereof. In a few cases, there are also
For example, the investment objective of a diversified equity scheme might read as follows:

"To generate capital appreciation from a portfolio of predominantly equity related securities"

The investment objective of a diversified debt scheme could be:

"To generate income by investing predominantly in a wide range of debt and money market securities"

A balanced scheme would have an investment objective like:

"To achieve growth by investing in equity and equity related investments, balanced with income generation by investing in debt and money market instruments"

**Investment Policy**

This describes in greater detail, the kind of portfolio that will be maintained. For example:

"The portfolio will generally comprise of equity and equity related instruments of around 30 companies, which may go upto 39 companies"; or

"Investment will be predominantly in mid-cap stocks"; or

"More than 50% will be invested in equity and equity related securities; the rest would be in debt and money market securities"
Investment Strategy

Investment strategy goes into details such as:

- Should we increase the liquidity component in a scheme
- Should we go overweight on the steel sector

While the investment objective and investment policy are part of the offer document, investment strategy is decided more frequently. Many AMCs have a practice, where every morning, the senior management (CEO, CIO, Fund Managers) discuss the need for any change in their investment strategy.

2.  Investors' Rights & Obligations

Service Standards Mandated for a Mutual Fund towards its Investors

- Schemes, other than ELSS, need to allot units or refund moneys within 5 business days of closure of the NFO.
- Open-ended schemes, other than ELSS, have to re-open for ongoing sale / re-purchase within 5 business days of allotment.
- Statement of accounts are to be sent to investors as follows:
  - In the case of NFO - within 5 business days of closure of the NFO.
  - In the case of post-NFO investment – within 10 working days of the investment

In the case of SIP / STP / SWP

- Initial transaction – within 10 working days
- Ongoing – once every calendar quarter (March, June, September, December) within 10 working days of the end of the quarter.
• If mandated by the investor, soft copy shall be e-mailed to investor every month.

• Investor can ask for a Unit Certificate for his Unit Holding. This is different from a Statement of Account as follows:

• A Statement of Account shows the opening balance, transactions during the period and closing balance

• A Unit Certificate only mentions the number of Units held by the investor.

• In a way, the Statement of Account is like a bank pass book, while the Unit Certificate is like a Balance Confirmation Certificate issued by the bank.

• Since Unit Certificates are non-transferable, they do not offer any real transactional convenience for the Unit-holder. However, if a Unit-holder asks for it, the AMC is bound to issue the Unit Certificate within 30 days of receipt of request.

• NAV has to be published daily, in at least 2 newspapers.

• NAV and re-purchase price are to be updated in the website of AMFI and the mutual fund.

• In the case of Fund of Funds, by 10 am the following day.

• In the case of other schemes, by 9 pm the same day.

• The investor/s can appoint upto 3 nominees, who will be entitled to the Units in the event of the demise of the investor/s. The investor can also specify the percentage distribution between the nominees. If no distribution is indicated, then an equal distribution between the nominees will be presumed.

• The investor can also pledge the units. This is normally done to offer security to a financier.

• Dividend warrants have to be dispatched to investors within 30 days of declaration of the dividend.
the scheme.

**Other Rights of Investors**

Unit-holders have proportionate right to the beneficial ownership of the assets of the scheme.

Investors can choose to change their distributor or go direct. In such cases, AMCs will need to comply, without insisting on any kind of No Objection Certificate from the existing distributor.

Investors can choose to hold the Units in dematerialised form. The mutual fund / AMC is bound to co-ordinate with the RTA and Depository to facilitate this.

In the case of unit-holding in demat form, the demat statement given by the Depository Participant would be treated as compliance with the requirement of Statement of Account.

The mutual fund has to publish a complete statement of the scheme portfolio and the unaudited financial results, within 1 month from the close of each half year. The advertisement has to appear in one National English daily, and one newspaper published in the language of the region where the head office of the mutual fund is situated.

In lieu of the advertisement, the mutual fund may choose to send the portfolio statement to all Unit-holders.

Debt-oriented, close-ended / interval, schemes /plans need to disclose their portfolio in their website every month, by the 3rd working day of the succeeding month.
Unit-holders have the right to inspect key documents such as the Trust Deed, Investment Management Agreement, Custodial Services Agreement, R&T agent agreement and Memorandum & Articles of Association of the AMC.

Scheme-wise Annual Report, or an abridged summary has to be mailed to all unit-holders within 6 months of the close of the financial year.

The Annual Report of the AMC has to be displayed on the website of the mutual fund. The Scheme-wise Annual Report will mention that Unit-holders can ask for a copy of the AMC’s Annual Report.

In the event of any issue with the AMC or scheme, the investor can first approach the investor service centre. If the issue is not redressed, even after taking it up at senior levels in the AMC, then the investor can write to SEBI with the details.

Further, the offer document has details of the number of complaints received and their disposal. Pending investor complaints can be a ground for SEBI to refuse permission to the AMC to launch new schemes.

The trustees / AMC cannot make any change in the fundamental attributes of a scheme, unless:

i. A written communication about the proposed change is sent to each Unit-holder, and an advertisement is issued in an English daily Newspaper having nationwide circulation, and in a newspaper published in the language of the region where the head office of the mutual fund is located.

ii. Dissenting unit-holders are given the option to exit at the prevailing Net Asset Value, without any exit load. This exit window has to be open for at least 30 days.

The appointment of the AMC for a mutual fund can be terminated by a majority of the trustees or by 75% of the Unit-holders (in practice, Unit-holding) of the Scheme.

75% of the Unit-holders (in practice, Unit-holding) can pass a resolution to wind-up a scheme.
If an investor feels that the trustees have not fulfilled their obligations, then he can file a suit against the trustees for breach of trust.

**Limitation of Rights of Unit-holders**

Under the law, a trust is a notional entity. Therefore, investors cannot sue the trust (but they can file suits against trustees, as seen above).

The principle of caveat emptor (let the buyer beware) applies to mutual fund investments. So, the unit-holder cannot seek legal protection on the grounds of not being aware, especially when it comes to the provisions of law, and matters fairly and transparently stated in the Offer Document.

Unit-holders have a right to proceed against the AMC or trustees in certain cases. However, a proposed investor i.e. someone who has not invested in the scheme does not have the same rights.

The Companies Act, 1956 offers some protection to share-holders and people who invest in fixed deposits in companies. An investor in a scheme is however, neither a share-holder, nor a fixed deposit-holder – and the scheme is in any case not a company. Therefore, these protections under the Companies Act, 1956 are not available to investors in a scheme.

**Unclaimed Amounts**

The mutual fund has to deploy unclaimed dividend and redemption amounts in the money market. AMC can recover investment management and advisory fees on management of these unclaimed amounts, at a maximum rate of 0.50% p.a.

Recovery of such unclaimed amounts by the investors is as follows:
AMC is expected to make a continuous effort to remind the investors through letters to claim their dues.

The Annual Report has to mention the unclaimed amount and the number of such investors for each scheme.

**Proceeds of Illiquid Securities**

It is possible that a security was treated as wholly or partly non-recoverable at the time of maturity or winding up of a scheme. The security may subsequently yield a higher amount to the scheme. Treatment of such excess is as follows:

- If the amounts are substantial, and recovered within 2 years, then the amount is to be paid to the old investors
- In other cases, the amount is to be transferred to the Investor Education Fund maintained by each mutual fund.

**Investor’s Obligations**

PAN No. and KYC documentation are compulsory for mutual fund investments. Only exception is micro-SIPs. This is discussed in detail in Unit 7.

Investors need to give their bank account details along with the redemption request.

**Can a Mutual Fund Scheme go bust?**

While the AMC manages the investments of the scheme, the assets of the scheme are held by the Custodian. Both operate under the overall control of the Trustees. This system of checks and balances protects the investors from misappropriation of funds, fraud etc.
It is also pertinent to note that the custodian has custody of the investments in a scheme. As seen in Unit 2, the custodian is independent of the sponsor and the AMC. This ensures structural protection of the scheme assets for the benefit of investors.

Further, in the event of a change in sponsorship that an investor is not comfortable with, the option of exiting from the scheme with the full NAV is available for a 30-day period.

These structural requirements ensure that the investor is fully protected from most of the contingencies that can be envisaged.

3. **Offer Document – NFO, SID, SAI**

**New Fund Offer (NFO)**

Units in a mutual fund scheme are offered to investors for the first time through a NFO. The following are a few key steps leading to the NFO:

- The AMC decides on a scheme to take to the market. This is decided on the basis of inputs from the CIO on investment objectives that would benefit investors, and inputs from the CMO on the interest in the market for the investment objectives.
- AMC prepares the Offer Document for the NFO. This needs to be approved by the Trustees and the BoD of the AMC
- The documents are filed with SEBI. The observations that SEBI makes on the Offer Document need to be incorporated. After approval by the trustees, the Offer Document can be issued in the market.
- The AMC decides on a suitable time-table for the issue, keeping in mind the market situation.
with the scheme, its unique features, benefits for investors, etc.

- The Offer Documents and Application Forms are distributed to market intermediaries, and circulated in the market, so that investors can apply in the NFO.

Three dates are relevant for the NFO of an open-ended scheme:

**NFO Open Date** – This is the date from which investors can invest in the NFO.

**NFO Close Date** – This is the date up to which investors can invest in the NFO.

**Scheme Re-Opening Date** – This is the date from which the investors can offer their units for re-purchase to the scheme (at the re-purchase price); or buy new units of the scheme (at the sale price). The AMC announces Sale and Re-purchase prices from the Scheme Re-Opening Date.

Close-ended Schemes have an NFO Open Date and NFO Close Date. But, they have no Scheme Re-opening Date, because the scheme does not sell or re-purchase units. Investors will need to buy or sell units from the stock exchange(s) where the scheme is listed.

Under the SEBI guidelines, NFOs other than ELSS can remain open for a maximum of 15 days. Allotment of units or refund of moneys, as the case may be, should be done within 5 business days of closure of the scheme. Further, open-ended schemes have to re-open for sale / re-purchase within 5 business days of the allotment.

**The Role of Offer Documents**

Investors get to know the details of any NFO through the Offer Document. Information like the nature of the scheme, its investment objectives and term, are the core of the scheme. Such vital aspects of the scheme are referred to as its
through specific legal processes, including permission of investors.

Since the disclosures in the Offer Document are as prescribed by SEBI, it is a legal document that helps investors take a balanced view on the investment. The Offer Document is one of the most important sources of information on the scheme, to help prospective investors evaluate the merits and demerits of investing in it.

Even post-investment, the Offer Document can be referred to, to understand the investment objectives, the various commitments made by the AMC, and how well these commitments are being lived up to.

Investors need to note that their investment is governed by the principle of caveat emptor i.e. let the buyer beware. An investor is presumed to have read the Offer Document, even if he has not actually read it. Therefore, at a future date, the investor cannot claim that he was not aware of something, which is appropriately disclosed in the Offer Document.

Mutual Fund Offer Documents have two parts:

**Scheme Information Document (SID)**, which has details of the scheme

**Statement of Additional Information (SAI)**, which has statutory information about the mutual fund that is offering the scheme.

It stands to reason that a single SAI is relevant for all the schemes offered by a mutual fund.

In practice, SID and SAI are two separate documents, though the legal technicality is that SAI is part of the SID.

Both documents are prepared in the format prescribed by SEBI, and submitted to SEBI. The contents need to flow in the same sequence as in the prescribed format. The mutual fund is permitted to add any disclosure, which it feels, is material for the investor.
Document that is offered in the market. Thus, the Offer Documents in the market are “vetted” by SEBI, though SEBI does not formally “approve” them.

Contents of SID

The cover page has the name of the scheme followed by its type viz.

- Open-ended / Close-ended / Interval (the scheme structure)
- Equity / Balanced / Income / Debt / Liquid / ETF (the expected nature of scheme portfolio)

It also mentions the face value of the Units being offered, relevant NFO dates (opening, closing, re-opening), date of SID, name of the mutual fund, and name & contact information of the AMC and trustee company.

SAI is incorporated by reference (is legally a part of the Scheme Information Document).

The Scheme Information Document should be read in conjunction with the SAI and not in isolation”.

- Table of Contents
- Highlights
- Introduction
- Risk Factors
- Standard
- Scheme-specific
- Provisions regarding minimum no. of investors in the scheme
- Any other special considerations o Definitions
- Due Diligence Certificate (issued by the AMC)
- Information about the scheme
Draft SID is a public document, available for viewing in SEBI’s website (www.sebi.gov.in) for 21 working days. The final SID (after incorporating SEBI’s observations) has to be hosted on AMFI’s website (www.amfiindia.com) two days before the issue opens.

Every mutual fund, in its website, provides for download of the SID for all its current schemes.

**Update of SID**

**Regular**

If a scheme is launched in the first 6 months of the financial year (say, April 2010), then the first update of the SID is due within 3 months of the end of the financial year (i.e. by June 2011).

If a scheme is launched in the second 6 months of the financial year (say, October 2010), then the first update of the SID is due within 3 months of the end of the next financial year (i.e. by June 2012).

Thereafter, SID is to be updated every year.

**Need-based**

In case of change in the fundamental attributes, the SID has to be updated immediately after the lapse of the time period given to existing investors to exit the scheme.

In case of any other change-

- It will be printed on a separate piece of paper (addendum) and distributed along with the SID, until the SID is updated.
office of the mutual fund is located.

- The change is to be mentioned in the website of the mutual fund.

**Contents of SAI**

- Information about Sponsors, AMC and Trustee Company (includes contact information, shareholding pattern, responsibilities, names of directors and their contact information, profiles of key personnel, and contact information of service providers {Custodian, Registrar & Transfer Agent, Statutory Auditor, Fund Accountant (if outsourced) and Collecting Bankers})
- Condensed financial information (for schemes launched in last 3 financial years)
- How to apply
- Rights of Unit-holders
- Investment Valuation Norms
- Tax, Legal & General Information (including investor grievance redressal mechanism, and data on number of complaints received and cleared, and opening and closing number of complaints for previous 3 financial years, and for the current year to-date).

Every mutual fund, in its website, provides for download of its SAI. Investors have a right to ask for a printed copy of the SAI.

Through AMFI website (www.amfiindia.com) investors can access the SAI of all the mutual funds. Examinees are advised to study the SAI for any mutual fund, to get a better understanding of the disclosures.

**Update of SAI**

Regular update is to be done by the end of 3 months of every financial year.
distributed in the market. As per SEBI regulations, every application form is to be accompanied by the KIM.

Contents of KIM

Some of the key items are as follows:

- Name of the AMC, mutual fund, Trustee, Fund Manager and scheme
- Dates of Issue Opening, Issue Closing & Re-opening for Sale and Re-purchase
- Plans and Options under the scheme
- Risk Profile of Scheme
- Price at which Units are being issued and minimum amount / units for initial purchase, additional purchase and re-purchase
- Bench Mark
- Dividend Policy
- Performance of scheme and benchmark over last 1 year, 3 years, 5 years and since inception.
- Loads and expenses
- Contact information of Registrar for taking up investor grievances

Update of KIM

KIM is to be updated at least once a year.

As in the case of SID, KIM is to be revised in the case of change in fundamental attributes. Other changes can be disclosed through addenda attached to the KIM.
Historically, individual agents would distribute units of Unit Trust of India and insurance policies of Life Insurance Corporation. They would also facilitate investments in Government’s Small Savings Schemes. Further, they would sell Fixed Deposits and Public Issues of shares of companies, either directly, or as a sub-broker of some large broker.

UTI, LIC or other issuer of the investment product (often referred to in the market as “product manufacturers”) would advertise through the mass media, while an all-India field force of agents would approach investors to get application forms signed and collect their cheques. The agents knew the investors’ families personally – the agent would often be viewed as an extension of the family.

Over the last two decades or so, a number of changes happened:

- Several new insurance and mutual fund companies commenced operations.
- The universe of investment products available for investors multiplied.
- Investors are better informed about many products and their features.
- Technologies like the internet and data mining software opened the doors to newer ways of targeting investors, sharing information with them, and putting through their transactions.
- Companies started offering products in more and more locations, thus increasing the pressure on the product manufacture-to-agent, single level distribution architecture.
- A need was felt for newer formats of distribution that would leverage on the above to generate much higher volumes in the market.

**Institutional Channels**

The changing competitive context led to the emergence of institutional channels of distribution for a wide spectrum of financial products. This comprised:
Some operated within states; many went national. A chain of offices manned by professional employees or affiliated sub-brokers became the face of mutual fund distribution. Brand building, standardized processes and technology sharing became drivers of business for these institutions — unlike the personal network which generated volumes for the individual agents.

Limitations of employee bandwidth and staff strength meant that product manufacturers preferred to deal with a few institutions. The benefit was that they could reach out to hundreds of locations, while having to negotiate deals with only a select few in the head office of the distributing institution. AMCs appointed Channel Managers on their rolls, whose job it was, to get the best out of these institutional distribution channels.

The institutional channels started attracting agents as sub-brokers. Many individual agents opted to associate with the institutional channels, so that they could give their customers the benefit of newer technologies and services (which the agents found too costly to offer on their own).

Thus, the distribution setup has got re-aligned towards a mix of:

- Independent Financial Advisors (IFAs), who are individuals. The bigger IFAs operate with support staff who handle back-office work, while they themselves focus on sales and client relationships.
- Non-bank distributors, such as brokerages, securities distribution companies and non-banking finance companies
- Bank distributors

Ownership of all-India or regional network of locations meant that the institutional channels could deal with product manufacturers as equals, and negotiate better terms than what the agents could manage.
Channel Managers on the rolls of the company are responsible for such exploratory thrusts.

**Newer Distribution Channels**

**Internet**

The internet gave an opportunity to mutual funds to establish direct contact with investors. Direct transactions afforded scope to optimize on the commission costs involved in distribution.

Investors, on their part, have found a lot of convenience in doing transactions instantaneously through the internet, rather than get bogged down with paper work and having to depend on a distributor to do transactions. This has put a question mark on the existence of intermediaries who focus on pushing paper, but add no other value to investors.

A few professional distributors have rightly taken the path of value added advice and excellent service level to hold on to their customers and develop new customer relationships. Many of them offer transaction support through their own websites.

A large mass of investors in the market need advice. The future of intermediaries lies in catering to their needs, personally and/or through a team and/or with support of technology.

**Stock Exchanges**

The institutional channels have had their limitations in reaching out deep into the hinterland of the country. A disproportionate share of mutual fund collections has tended to come from corporate and institutional investors, rather than retail individuals for whose benefit the mutual fund industry exists.

Stock exchanges, on the other hand, have managed to ride on the equity cult in the country and the power of communication networks to establish a cost-effective all-India network of brokers and trading terminals. This has been a successful initiative in
Over the last few months, SEBI has facilitated buying and selling of mutual fund units through the stock exchanges. Both NSE and BSE have developed mutual fund transaction engines for the purpose. These are discussed in Unit 7. The underlying premise is that the low cost and deeper reach of the stock exchange network can increase the role of retail investors in mutual funds, and take the mutual fund industry into its next wave of growth.

While the transaction engines are a new phenomenon, stock exchanges always had a role in the following aspects of mutual funds, which were discussed in Unit 1:

- Close-ended schemes are required to be listed in a stock exchange
- ETFs are bought and sold in the stock exchange.

5. **Taxability of Mutual Fund Investor**

An investor in an equity-oriented mutual fund scheme

- Would pay STT on the value of the transactions of sale (0.125%) and purchase (0.125%) of units in the stock exchange; or on re-purchase (0.25%) of the units by the AMC
- Would be exempt from capital gains tax, if the units were held for more than a year
- Would pay capital gains tax at 15%, if the units were held for 1 year or less
- Will receive any dividend free of tax; the scheme too will not incur any tax on the dividend distribution.

An investor in a debt-oriented mutual fund scheme

- Would not bear any STT
- Would bear a tax on long term capital gains at the lower of 20% with indexation, or 10% without indexation
- Would bear a tax on short term capital gains, as per the investor’s tax slab.
• Will receive any dividend free of tax; but the scheme would have paid a tax on the dividend distribution.

Setting off Gains and Losses under Income Tax Act

The Income Tax Act provides for taxation under various heads of income viz. salaries, income from house property, profits & gains of business or profession, capital gains, and income from other sources. In the normal course, one would expect that a loss in one head of income can be adjusted ("set off") against gains in another head of income, since a person is liable to pay tax on the total income for the year. However, there are limitations to such set-off. A few key provisions here are:

• Capital loss, short term or long term, cannot be set off against any other head of income (e.g. salaries)
• Short term capital loss is to be set off against short term capital gain or long term capital gain
• Long term capital loss can only be set off against long term capital gain
• Since long term capital gains arising out of equity-oriented mutual fund units is exempt from tax, long term capital loss arising out of such transactions is not available for set off.

Several other factors go into taxation or tax exemption. If one is not an expert on the subject, it would be better to engage the services of a tax consultant.

Limitations on Set-off in case of Mutual Fund Dividends

• When a dividend is paid, the NAV (ex-dividend NAV) goes down.
• Dividend is exempt from tax at the hands of investors
• Capital loss may be available for set off against Capital gains.

A potential tax avoidance approach, called dividend stripping, worked as follows:

• Investors would buy units, based on advance information that a dividend would be paid.
• They would receive the dividend as a tax-exempt income. Equity schemes, as seen earlier, do not beat the additional tax on income distributed.
• After receiving the dividend, they would sell the units. Since the ex-dividend NAV would be lower, they would book a capital loss (with the intention of setting it off against some other capital gain).

In order to plug this loophole, it is now provided that:

• If, an investor buys units within 3 months prior to the record date for a dividend, and
• Sells those units within 9 months after the record date, any capital loss from the transaction would not be allowed to be set off against other capital gains of the investor, up to the value of the dividend income exempted.

Suppose the record date is April 1, 2010, for dividend of Rs 1 per unit for a scheme. Assume an investor buys units at Rs 15 within 3 months prior (i.e. January to March 2010) and sells those units at Rs 12 within 9 months after the record date (i.e. April to December 2010).

In the normal course, capital loss (short term, because it is held for less than 1 year) of Rs 15 minus Rs 12 i.e. Rs 3 per unit would be available for set off against other capital gain (long term or short term) of the investor. Further, the dividend of Rs 1 would be tax-exempt in the hands of the investor.

On account of the limitations on set-off, the capital loss available for setting off against other capital gain would be restricted to Rs 3 minus Rs 1 i.e. Rs 2 per unit.

In the above case, if the unit-holder wanted the entire capital loss to be available for set off, then either the units should have been bought before Jan 1, 2010, or they should be sold after December 31, 2010. Any intelligent investor knows that it would be better to adopt an investment strategy based on market scenario, and bear the relevant tax, instead of allowing tax optimization to drive the investment strategy.

**Limitations on Set-off in case of Bonus Units**

Suppose an investor buys units of a scheme at Rs 30. Thereafter, the scheme declares a 1:1 bonus issue i.e. the investor receives 1 new unit, for every unit that was bought earlier. Logically, the NAV of the scheme will halve, and it is likely that the units
bonus issue and sold off within a period of 9 months after the record date.

In such cases, the capital loss will be treated as the cost of acquisition of the bonus units.

Wealth Tax

Investments in mutual fund units are exempt from Wealth Tax.

6. TRENDS IN INDIAN MUTUAL FUND INDUSTRY

India's private mutual funds were born out of chaos. The 1992 Harshad Mehta scam had shaken small investors. Those scarred by the stock markets were investing in either Unit Trust of India's US 64 scheme or assured-return schemes of mutual funds promoted by public sector banks. US 64, a balanced fund, was giving 18% annual dividend and bank-promoted mutual funds were promising to treble (return 15% a year) money in eight years. Daily disclosure of unit value, called net asset value (NAV), was unheard of; in fact, NAVs were rarely disclosed, neither were portfolios of the schemes. The Securities and Exchange Board of India (Sebi) had just come into being and was trying to grapple with the issues caused by the securities scam. Amid all this, in 1993, it allowed private mutual funds to set up shop in the country.

That year, seven private fund managers were given permission to start business. The first was Kothari Pioneer Mutual Fund, which launched two schemes-Kothari Pioneer Prima, an open-ended mid- and small-cap fund, and Kothari Pioneer Bluechip, a close-ended large-cap fund-in November. Others who followed were 20th Century Mutual Fund, ICICI Mutual Fund, Taurus Mutual Fund and Morgan Stanley Mutual Fund.
Better disclosures, More Transparency

NAVs and fund portfolios were rarely disclosed before 1993. This changed when the new set of mutual funds started operating under SEBI. To begin with, private fund houses started disclosing NAVs on a weekly basis. SEBI took note of this in its annual statement 1993-94. "The private sector mutual funds have begun to...disclose NAVs more frequently. The NAVs are now declared at even weekly intervals," it said. Today NAVs are declared daily while fund portfolios are made public on a monthly basis. Also, over the years, offer documents have become standardized; disclosures through them have also become more comprehensive. Now, the offer document has to mention investment objectives and pattern, risks, fees, and even the tax implications of investing in the scheme. These aside, the funds have to disclose half-yearly financial results, send account statements to investors regularly and even reveal the commission paid to distributors annually.

Product diversification & Innovation

Schemes such as US 64 and assured return funds from fund houses promoted by public sector banks remained popular in the 90s, until they become unsustainable and collapsed by the end of the decade. Tax-saving funds started gaining popularity. In March 1994, there were 26 such schemes, all by public sector mutual funds.

With the entry of private mutual funds, the list of products started becoming longer. After starting with simple equity schemes such as large-, mid-cap and tax-saving, the funds diversified into fixed-income schemes. Birla Sun Life Mutual Fund launched the first liquid fund in 1997, while in 1998 Kotak Mutual Fund became the first fund house to launch a gilt scheme that invests only in government bonds.
first equity exchange traded fund (ETF) and introduced the concept of passive fund management. In 2007, Benchmark launched the first gold ETF, introducing the concept of paper gold in the country.

The period between 1995 and 1999 belonged to equities due to the tech boom. Between 2000 and 2003, the focus shifted to debt funds as equity markets were down after the dotcom bubble burst. The focus again shifted to equities in the bull run after 2003. That was when a lot of new fund offers, or NFOs, were launched.

Private players brought another important change – the open-ended funds. Earlier, most schemes were close ended, open for a limited period, and had a lock-in period (usually seven years). Private funds introduced open ended schemes, which investor can enter and exit any time. In 1993-94, only one open-ended scheme was launched; this rose to 10 in 1994-95. Today, most schemes are open-ended, except a few debt funds such as FMPs, interval funds and capital protection-oriented funds.

❖ Investor safety and risk mitigation

Over the years, SEBI brought new or tweaked existing regulations to ensure that investors are protected from undue risks. Starting at the structural level, where the fund management team was kept at an arm's length from the asset management company, SEBI stipulated strict investment norms such as exposure limits to ensure that the portfolio is not too concentrated.

Now, an equity fund cannot invest more than 10% of its total NAV in one company, except in index/sector funds. A debt fund cannot invest more than 15% assets in rated bonds and 10% in unrated bonds of a single issuer. Besides, a fund cannot invest more than 25% net assets in stocks of group companies of its sponsor. All schemes should have at least 25 investors, and all investors should be informed about any change in the scheme objective and given an option to exit without paying a fee. After reports of
frauds, SEBI also asked mutual funds not to accept third party cheques, except in case of minors.

A lot of small changes over the years regarding investment restrictions, valuations and product specifications have ensured that the risk involved in investing in mutual funds is minimal.

❖ Faster process

The NFO period (during which units are issued and allotted) was cut from 45 to 15 days. Once the units have been allotted, the fund house must send the investor a statement; the deadline for this is five days (earlier 30 days). In case of non-allotment, the money has to be refunded within five working days of the issue closure; this period used to be six weeks earlier.

❖ Good fund management practices

A big change took place in the way the funds were managed. Till 2007-08, a scheme's returns depended entirely upon its fund manager's performance. When he quit, the scheme's fortunes would reverse. Fund houses realized they could not let one person run the show. So, they started putting in place sound fund management practices, and asking their fund managers to work within those frameworks. Today, fund management is team work.

❖ Cost effective investments

Earlier, in NFOs, a fund house could deduct 6% invested amount straightaway. A big part of this was for paying distributors. There was a time when the starting NAV of a fund (whose unit's face value was Rs 10) used to be Rs 9.40. That's why distributors sold NFOs more aggressively than the existing funds, leading to mis-selling. This changed when SEBI banned entry load, a 2.5% fee charged by the distributor upfront, in 2009.

Now, the initial fee is Rs 150 a year for new investors and Rs 100 for others. Recurring charges have been capped at 3% a year. Also, people can now invest directly, and save half-apercentage point in fee.
Focus on right selling

Celebrities promote insurance schemes and banking & brokerage services. Mutual funds don't have such luxury. SEBI has a strict advertisement code. As a result, mutual fund advertisements do not have tall promises or celebrities.

A lot of mis-selling happened because of payment of commission to distributors upfront, especially in NFOs. This led to a flood of NFOs in the mid-2000s. With entry load banned and SEBI restricting new launches, the focus is now on the performance of existing funds.

SEBI has done a great job by disciplining the NFO culture. Now, everyone realises that the only model that will work is showing fund performance and thus getting inflows instead of attracting money through new launches.

Another fad in the late 1990s and early 2000 was launch of funds with fancy/vague names. For instance, a large- and mid-cap fund was called Power Fund, while an infrastructure fund was named Nation Building Fund. This is changing. Many funds have been renamed so that investors know exactly what they stand for.

SIP Schemes

SIPs did not become 'serious' business for fund houses until the ban on entry load. Now, both distributors and fund houses have realized that the only way to make money from mutual funds is convincing people to invest systematically and for the long term.

KYC and distributor certification

SEBI has made it mandatory to give a copy of PAN and identity and address proofs, irrespective of the investment amount. This is to keep black money out to the industry. Another big change has been the quality of agents and advisors. Now, anyone who wants to sell mutual funds has to have a proper certification. SEBI is also in the process of issuing guidelines on mutual fund distributors.
fund, says those who have never invested in mutual funds may not have changed their perception about the industry, but those who started investing a few years ago have certainly become more mature."They now realise the importance of asset allocation. They have become more selective in choosing funds and their focus is on long-term performance, and therefore, they look for fund houses with committed stakeholders and good service."

Shah of ICICI says investors have become smarter and invest in falling markets, unlike earlier when most used to invest in overvalued markets.

7. **BEST MUTUAL FUNDS OF 2012 -13**

After a tumultuous 2011-12, mutual funds had a good 2012-13. Though the average return from large-cap funds (6.5%) was less than the 7.31% rise in the Nifty and 8.23% in the Sensex, 23 out of 75 funds in the category beat both the indices. A total of 41 beat the Nifty.

In other categories, large- and midcap funds returned 6.31%, multi-cap funds 5.07%, and small- and mid-caps 4.67%.

Debt funds benefitted from the Reserve Bank of India's decision to cut the short-term rate at which banks borrow from it by 100 basis points during 2012-13. When interest rates fall, bond prices rise, benefitting funds that are holding them. Income funds gave an average return of 10.37%, medium- and long-term gilt funds returned 10.76%, while short-term debt funds and liquid funds returned 9.73% and 9.11%, respectively.

- **Equity large-cap funds**

There are not many surprises here compared to 2011-12. While ICICI Prudential Focused Bluechip, ICICI Prudential Indo Asia Equity and SBI Magnum Equity have maintained 5-star rating, HDFC Index Sensex Plus and BNP Paribas Equity are the
the top 10, although it has managed to retain 4-star rating.

❖ **Equity large- and mid-cap funds**

Six of the top 10 funds in this category are 5-star. While Quantum Long Term Equity, Mirae Asset India Opportunities and UTI Opportunities have maintained top ratings, UTI Equity, L&T Indo Asia and Reliance NRI Equity are the new entrants.

While Quantum emerged as the best performer in the three-year period with annual return of 8.53%, Reliance NRI Equity was the best performer in the one-year period (up 10.81%).

Both ICICI Prudential Dynamic and HDFC Growth have failed to make it to the top 10. Both, though, managed to get a credible 4-star rating.

❖ **Equity multi-cap funds**

The top 10 list is dominated by smaller fund houses. While BNP Paribas Dividend Yield and ING Divided Yield are among the three 5-star funds in this category, Tata Ethical Plan A, Taurus Starshare and Principal Dividend Yields are other funds in the list. IDFC India GDP Growth was the other 5-star fund in the category. In 2011-12, the category was dominated by HDFC Mutual Fund with four (HDFC Capital Builder, HDFC Equity, HDFC Core & Satellite and HDFC Premier Multi-cap) out of top 10 funds coming from its stable.

While HDFC Capital Builder and HDFC Equity have been put in the large- and mid-cap category this year, their ratings have dropped. HDFC Capital Builder has fallen from 5-star to 4-star, while HDFC Equity has been downgraded from 5-star to 3-star.
Chapter 3

Global & Indian Mutual Fund Industry

❖ Equity Mid- and Small-cap

SBI Magnum Emerging Businesses has emerged as the best fund in this category for the second year in a row. The fund continues to impress. It returned 21% in the year ended March 2013. The second best performer, Taurus Discovery, returned 17.5%. The average category return was 4.67. In the 3-year period, the fund has given 15.5% a year. The next best, Reliance Equity Opportunities, has returned 9.84%. Apart from the two funds mentioned earlier, IDFC Premier Equity and HDFC Mid-cap Opportunities are the other 5-star funds in this category.

❖ Equity tax-saving

Axis Long Term Equity, rated for the first time after completing three years in December 2012, has got top rating (5-star). The only other two 5-star funds in this category are Quantum Tax Saving and Franklin Templeton Tax Shield. Another scheme from BNP Paribas Mutual Fund-BNP Paribas Tax Advantage-has made it to the top 10 list.

❖ Hybrid Funds

ICICI Prudential Equity Volatility Advantage and ICICI Prudential Balanced (the only two 5-star funds) have topped the list of equity-oriented hybrid funds by returning 11.5% in 2012-13. In the debt-oriented category, Birla Sun Life MIP 2 Savings 5 was on the top of the list. The other three 5-star funds in the debt-oriented category are HDFC Multiple Yield Plan 2005, IDFC Monthly Income Plan Regular and SBI Magnum MIP Floater.

8. REGULATORY UPDATES OF THE MUTUAL FUND INDUSTRY

During the year, the Securities and Exchange Board of India ('SEBI') announced a series of measures to invigorate the mutual fund industry, especially distribution of mutual funds. A gist of the regulatory amendments announced during the year is appended below.

Steps to re-energize the industry: The SEBI vide a circular announced the following measures:
plan for direct investments with a lower expense ratio. Furthermore, no commission or brokerage can be paid from such plans.

**Single plan structure for mutual fund schemes**

To remove disparity in expense structure of different plans, the SEBI directed mutual funds / AMCs to launch schemes under a single plan, and ensure that all new investors are subject to a single expense structure.

**Cash investments in mutual funds**

In order to enhance the reach of mutual fund products amongst small investors who may not be tax payers and who may not have Permanent Account Numbers / bank accounts, the SEBI permitted cash transactions in mutual fund schemes to the extent of Rs. 20,000 per investor per mutual fund per financial year, subject to compliance with anti-money laundering rules and regulations.

**Investor education and awareness**

The SEBI directed mutual funds / AMCs to, annually, set apart at least two basis points on daily net assets within the maximum limit of total expense ratio ('TER') for investor education and awareness initiatives.

**Harmonizing applicability of Net Asset Value (‘NAV’) across schemes**

The SEBI directed that in respect of purchase of units of mutual fund schemes (other than liquid schemes), the closing NAV of the day on which the funds are actually for available for utilization shall be applicable irrespective of the time of receipt of application. This would apply in cases where the mutual fund investments are made for an amount of INR 2 lakhs or more.
Disclosure requirements

The SEBI directed additional disclosure requirements pertaining to portfolio disclosures, financial result disclosures, etc. on mutual funds/AMCs.

❖ For distributors:
Additional TER on inflows from smaller cities/towns

To improve the geographical reach of mutual funds, AMCs are now allowed to charge additional TER (up to 30 bps) with respect to inflows beyond top 15 cities, subject to the satisfaction of certain conditions.

Widening of distributors base

To increase the base of mutual fund distributors, the SEBI has permitted a new cadre of distributors which includes postal agents, retired government and semi-government officials, retired teachers, retired bank officers and other persons (such as bank correspondents) to sell units of simple and performing mutual fund schemes.

❖ For AMCs:

Service tax chargeable to scheme

The SEBI allowed AMCs to charge service tax payable on investment and advisory fees to the mutual fund scheme, in addition to the maximum amount of TER.

Prudential limits on portfolio concentration risk

The SEBI directed mutual funds/AMCs to ensure that the total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, CBLO, G-Secs, T-Bills and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) shall not exceed 30% of the net assets of the scheme.

In light of the important role played by the Housing Finance Companies (‘HFC’) in the housing sector, the SEBI vide a subsequent circular 2 has permitted an additional exposure not exceeding 10% of net assets of the debt oriented scheme for investments in HFCs.
Participation in Credit Default Swaps (‘CDS’) and in repo

The SEBI, vide its circular4, has permitted mutual funds to buy credit protection to hedge the credit risk on their investments in corporate bonds, subject to compliance with the Reserve Bank of India (‘RBI’) guidelines on CDS for corporate bonds. However, mutual funds cannot sell protection, and hence they cannot enter into short positions in the CDS contracts.

Deployment of client’s fund in liquid mutual funds by portfolio managers

The SEBI, vide its circular 5 has clarified that pending investment of funds by portfolio managers; they can deploy funds, on short term basis, in liquid mutual fund schemes.

Investments by Qualified Foreign Investors (‘QFI’)

The limits applicable for investments made by QFIs in mutual funds have been revised upwards to:

- The aggregate investments by QFIs in equity schemes of mutual funds shall be capped at a maximum of USD 10 billion
- Investment in corporate debt securities and mutual fund debt schemes is subject to a total overall ceiling of USD 1 billion
- Additionally, up to USD 3 billion can be invested in those debt mutual fund schemes that hold at least 25% of their assets in the infrastructure sector (either in debt, equity, or both)
of the stock exchange.

- Pension funds and provident funds to be permitted to invest in exchange traded funds, debt mutual funds and asset backed securities.

**Taxation updates**

- Extension of tax benefits under RGESS

Vide the Finance Act 2013; the following amendments have been incorporated:

- Investments in listed units of an equity oriented fund are eligible for deduction;
- The period to claim the deduction has been extended from one year to three consecutive years.
- The income threshold of an individual tax payer for being eligible to claim the deduction has been increased from INR 1 million to INR 1.2 million.
- Special taxation regime for securitization trusts

The Securitization Trust would be required to pay additional income-tax on the income distributed by it, as follows:

1. Where recipients of income are not chargeable to tax (for example, as illustrated in the Memorandum explaining the provisions of the Finance Bill, 2013, mutual funds)— Nil;
2. Individuals and HUFs – 25%;
3. Any other person – 30%.
The Finance Act, 2013 has reduced the rates of STT on purchase and sale of equity oriented mutual funds as under:

**Table 12: Rate of STT on purchase and sale of equity oriented mutual funds**

<table>
<thead>
<tr>
<th>Nature of transactions</th>
<th>Before 1.6.2013</th>
<th>On and after 1.6.2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery-based purchase on</td>
<td>0.1%</td>
<td>Nil</td>
</tr>
<tr>
<td>recognized stock exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery-based sale on recognized</td>
<td>0.1%</td>
<td>0.001%</td>
</tr>
<tr>
<td>stock exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale to the mutual fund</td>
<td>0.25%</td>
<td>0.001%</td>
</tr>
</tbody>
</table>

- **Increase in tax rates for income distributed by debt schemes**

The tax rate on income distributed by a debt mutual fund scheme is increased from 12.5% to 25%, where the income is distributed to an individual or a Hindu undivided family.

- **Infrastructure Debt Fund (‘IDF MF’) scheme background**

In order to attract funds for infrastructure financing, the infrastructure debt fund scheme was launched where a NBFC or a mutual fund can set up an Infrastructure Debt Fund. The salient features of the IDF MF scheme are as follows:

- IDF MFs can be set up by any existing mutual fund. Additionally, companies which have been engaged in infrastructure financing can set-up mutual funds exclusively for the purpose of launching IDF MF Schemes.
• IDF MFs should have a minimum of five investors.

To provide fiscal incentive, the withholding rate on interest to be received by non-residents from IDF set up as a NBFC was reduced to 5%. However, distribution of income by an IDF-MF continued to a distribution tax at the rate of 12.5%/30%. On account of this disparity on the rates, IDF-MF structures were of a competitive disadvantage as compared to IDF-NBFC structure.

In order to address the issue of the disparity in rates, the Finance Act, 2013, has now reduced the dividend distribution tax rates for income distributed by an IDF MF to a non-resident from 12.5% / 30% to 5%. The amendment is expected to provide impetus to IDF MFs, and could pave the way for investments in infrastructure debt schemes launched by mutual funds.

❖ Other regulatory changes

• Private placement

Private placement to less than 50 investors has been permitted as an alternative to a new fund offer to the public. In the case of private placement, the mutual funds would have to file a placement memorandum with the SEBI, instead of a scheme information document and a key information memorandum.

• Widening of strategic investors

The universe of strategic investors in the IDF MF has been expanded to include, systemically important NBFCs registered with RBI and certain categories of Foreign Institutional Investors which are long term investors as per the norms specified by SEBI. Debt securities below investment grade
To attract retail investors, a stable long-term performance by funds is most desirable. Asset management companies with a good track record over a period of time will be successful in drawing more funds from investors.

♣ Uncertain market environment

Going forward sluggish economic growth, high rate of inflation and slowdown of consumer demand is predicted in 2013. This has in turn adversely affected the investors’ ability to invest in financial markets.

Investors are hesitant to approach capital markets and wary of risk in these challenging times.

♣ Attractiveness of income funds

In a scenario where inflation is high and the RBI is lowering interest rates, investors are showing an interest in the fixed income market. Riding on the expectation that rates could be cut further in 2013, the market looks promising for gilt funds, bond funds and income funds.

♣ Positioning mutual funds as a long term product

Mutual funds need to be positioned appropriately as a long term product in the investor’s mind. Distributors hence need to be incentivised adequately in order to sell the product correctly to investors.
- **Additional total expense ratio (TER)**

The directive on total expense ratio has given a lift to sales in B-15 cities. This has been a well-thought out move from the regulator's side, and has helped to align the interests of various stakeholders in the industry to some extent.

- **Overseas mutual fund players evaluate acquisition opportunities in Indian AMCs**

With multiple positive regulatory changes taking place in the Indian market, overseas players are likely to gauge the opportunity of increasing penetration.

- **Infrastructure debt funds**

There is huge opportunity in the category of infrastructure debt funds, given the heavy investments in infrastructure planned for India. This can prove to be a lucrative area for fund houses and launching new funds in this space could reap huge returns.

- **Online technology**

Many fund houses face operational issues trying to incorporate technology into their processes. Also, continuous updating and migration pose a problem.

- **Consolidation in the industry**

Increasing competition and cost burden on the market players are leading to a phase of consolidation in the industry. For smaller fund houses, sustainability and profitability is a key concern, stemming from high distribution and operational costs.
only accounting for about 42.1 percent in FY12. Lack of incentives for distributors to expand in small cities has resulted in mutual funds becoming an investment product in the hands of urban Indians.

Such challenges have led the Securities and Exchange Board of India (SEBI) to adopt certain measures to re-energize the mutual fund industry with an objective to restore sustainable high growth for the sector.

To start with, AMCs are allowed to charge an additional total expense ratio (TER) upto 30 bps, if 30 percent of their net sales or 15 percent of their AUM (whichever is higher) originates beyond the top 15 cities. If inflow from beyond the top 15 cities is less than 30 percent of net sales or 15 percent of AUM, the proportionate amount will be allowed as additional TER. While this step may reduce investors’ returns in the short term it may give AMCs more scope to incentivize distributors to expand their geographical reach. SEBI has also decided that AMCs should not bear the service tax (12.36 percent) payable on investment and advisory fees; instead, it can be charged in addition to the TER. This move is in line with the SEBI’s attempt to bring the mutual fund sector at par with other sectors.

In short-term, investors’ returns may be affected due to this move but investors are bound to gain in the long-term as AUM increases.

In order to help AMCs widen their customer base in tier-IV to tier-VI cities, SEBI has also relaxed the mandatory requirement of a permanent account number (PAN) card or bank account for cash investments of up to INR 20,000 per financial year. Further, the regulator’s recommendation to include equity mutual fund schemes under the Rajiv Gandhi Equity Savings Scheme (RGESS) that offers tax breaks to small investors could help AMCs attract new investors in capital markets.
part. SEBI has introduced various levels of certification and registration depending on products and services offered, but a mechanism to monitor compliance by the individuals must be identified.

SEBI has also mandated a single expense structure under a single plan to eliminate differential treatment between retail and institutional investors. However, to promote direct investment and to be fair to direct investors, a separate plan for direct investments with a lower expense ratio and a separate net asset value (NAV) has been proposed. One of the outcomes of this step could be less distributors' commissions as many institutional clients who are major investors and are well-informed may prefer the direct route. But on the other hand, retail investors who need help to select the most suitable scheme and complete requisite paperwork would still invest through a distributor.

Low customer awareness and financial literacy are one of the biggest roadblocks in channelizing household savings into mutual funds. In a bid to enhance customer awareness, SEBI has mandated AMCs to set aside at least 2 bps of their daily net assets annually for the investor education campaign. AMCs should also make disclosures regarding the investor education and awareness initiatives undertaken.

To further strengthen the regulatory framework and to make it increasingly transparent, SEBI has asked AMCs to upload monthly portfolio disclosures and half-yearly financial results on their websites. It has also mandated AMCs to report additional annual disclosures such as gross inflow, net inflow, average AUM, and distributor-wise gross inflow on their websites. The regulator has also asked its panel to study regulatory provisions in some of the international jurisdictions (such as the
Currently, equity mutual funds can charge a maximum of 2.5 percent as TER, of which 1.25 percent may be allocated as fund management fees/charges and other expenses (such as marketing, distribution and operations) each. Any expense above 2.5 percent has to be borne by the AMC. Initially, SEBI proposed the removal of sub-limits on expenses, giving AMCs the freedom to allocate the 2.5 percent TER the way they wanted to. This could have helped AMCs to incentivize distributors more effectively and attract them to sell mutual funds more actively, which was hampered after the ban on entry loads.

To summarize, enhancing TER (up to 30 bps) and charging service tax separately are expected to help fund houses improve their reach and energize the distribution network.

Although investors' returns will likely be compromised in the short term, enhanced presence and a rejuvenated distribution network are likely to be beneficial for investors in the long term. Relaxing KYC norms for small investors, widening the distributor network to include postal agents and retired officials, and recommending the inclusion of equity scheme mutual fund products under REGSS could help strengthen the last-mile connectivity in mutual fund distribution.

Through its recent initiatives and announcements, SEBI has given a much-needed boost to the mutual fund sector but the industry is waiting for a long-term initiative by the regulator that will put this sector amongst the most preferred instrument of investment.
With 25 years of rich experience in fund management, SBI Funds Management Pvt. Ltd. brings forward their expertise by consistently delivering value to their investors. They have a strong and proud lineage that traces back to the State Bank of India (SBI) - India's largest bank. They are a Joint Venture between SBI and AMUNDI (France), one of the world's leading fund management companies.

With their network of over 222 points of acceptance across India, they deliver value and nurture the trust of our vast and varied family of investors.

Excellence has no substitute. And to ensure excellence right from the first stage of product development to the post-investment stage, they ably guided by their philosophy of ‘growth through innovation’ and our stable investment policies. This dedication is what helps our customers achieve their financial objectives.

Vision

“To be the most preferred and the largest fund house for all asset classes, with a consistent track record of excellent returns and best standards in customer service, product innovation, technology and HR practices.”

Services

Investors are our priority. Their mission has been to establish Mutual Funds as a viable investment option to the masses in the country. Working towards it, they developed innovative, need-specific products and educated the investors about the added benefits of investing in capital markets via Mutual Funds.
investment mandates of over 5.4 million investors.

**Portfolio Management and Advisory Services**

SBI Funds Management has emerged as one of the largest player in India advising various financial institutions, pension funds, and local and international asset management companies.

They have excelled by understanding our investor's requirements and terms of risk / return expectations, based on which we suggest customized asset portfolio recommendations. They also provide an integrated end-to-end customized asset management solution for institutions in terms of advisory service, discretionary and non-discretionary portfolio management services.

**Offshore Funds**

SBI Funds Management has been successfully managing and advising India's dedicated offshore funds since 1988. SBI Funds Management was the 1st bank sponsored asset management company fund to launch an offshore fund called 'SBI Resurgent India Opportunities Fund' with an objective to provide our investors with opportunities for long-term growth in capital, through well-researched investments in a diversified basket of stocks of Indian Companies.

**SBI Mutual Fund**

**Products:**

a) **Equity Schemes:**

The primary objective of the equity asset class is to provide capital growth / appreciation by investing in the equity and equity related instruments of companies over medium to long term.
• SBI Magnum Multiplier Plus 1993
• SBI Small & Midcap Fund
• SBI Magnum Midcap Fund

**Sectoral Funds**

• SBI Emerging Businesses Fund
• SBI Contra Fund SBI FMCG Fund
• SBI IT Fund
• SBI Pharma Fund

**Thematic Funds**

• SBI Magnum COMMA Fund
• SBI Infrastructure Fund
• SBI PSU Fund

**ELSS Funds**

• SBI Magnum Taxgain Scheme 1993
• SBI Tax Advantage Fund - Series I
• SBI Tax Advantage Fund - Series II

**Index Funds**

• SBI Nifty Index Fund
• Market Neutral Strategy
• SBI Arbitrage Opportunities Fund
• SBI Magnum Children's Benefit Plan
• SBI Magnum Income Fund Floating Rate Plan - Savings Plus Bond Plan
• SBI Magnum Income Fund Floating Rate Plan - Long Term
• SBI Magnum Income Fund
• SBI Treasury Advantage Fund
• SBI Dynamic Bond Fund
• SBI Magnum Gilt Fund - Short Term Plan
• SBI Magnum Gilt Fund - Long Term Plan
• SBI Short Term Debt Fund
• SBI Ultra Short Term Debt Fund
• SBI Benchmark Gsec Fund

c) **Hybrid Schemes:**

These schemes invest in a mixture of debt and equity securities in different proportions as prescribed in the Scheme Information Document.

• SBI EDGE Fund
• SBI Magnum Balanced Fund
• SBI Regular Savings Fund
• SBI Magnum Monthly Income Plan
• SBI Magnum Monthly Income Plan - Floater
• SBI Capital Protection Oriented Fund - Series II
• SBI Capital Protection Oriented Fund - Series III
LIC Mutual Fund was set up by the Life Insurance Corporation of India on 20th April 1989 to engage in the business of Mutual Fund and in order to achieve this objective to engage in any other activity or business permitted or authorized. The Fund continues to work towards realizing this objective. The Fund was governed by a Board of Trustees earlier and is governed with effect from 8th April 2003 by LIC Mutual Fund Trustee Company Pvt. Ltd.(Trustee Company) on its incorporation under The Companies Act, 1956.

The Trustees of the LIC Mutual Fund have exclusive ownership of Trust Fund and are vested with general power of superintendence, discretion and management of the affairs of the Trust and have appointed Jeevan Bima Sahayog Asset Management Company Limited (AMC) as the Investment Managers to LIC Mutual Fund. The AMC was incorporated on 20th April 1994 under The Companies Act, 1956, which commenced business on 29th April 1994 and later was renamed as LIC Mutual Fund Asset Management Company Ltd w.e.f. 21st August 2006. The Trustees are responsible for appointing a Custodian. The Trustees also ensure that the activities of the Trust and the AMC are in accordance with the Trust Deed and the SEBI Mutual Fund Regulations, as amended from time to time. The Trustees also report periodically to SEBI on the functioning of the Fund.

Trustee Company and AMC entered into a joint venture with Japan’s leading financial services conglomerate Nomura Asset Management Strategic Investments Pte. Ltd. (Nomura) on 18th January 2011 and thus LIC Mutual Fund became LIC Nomura Mutual Fund with its investment manager, renamed as LIC Nomura Mutual Fund Asset Management Company Limited and Trustees as LIC Nomura Mutual Fund Trustee Company Private Limited. Consequent upon joint venture, along with LIC, Nomura also has representation on the board of AMC and Trustee Company while LIC continues to be the sole sponsor of LIC Nomura Mutual Fund.
Existing structure of Trustee Company, AMC and LIC Nomura Mutual Fund is as under:

Trustee Company      AMC      LIC Nomura MF
Shareholders    Sponsor
LIC of India       49%      45%      100%
LIC Housing Finance Ltd.  16%      20%      ------
Nomura Asset Management Strategic investment Pte. Ltd  35%      35%      ------

The investors under the schemes can obtain a copy of the Trust Deed, the text of the concerned Scheme as also a copy of the Annual Report, on a written request made to the AMC at a nominal price.

The AMC also provides portfolio management services under the SEBI (Portfolio Managers) Regulations, 1993.

**LIC NOMURA MUTUAL FUND TRUSTEE COMPANY PRIVATE LIMITED**

**LIC NOMURA MUTUAL FUND ASSET MANAGEMENT CO. LTD**

**Products:**

a) Equity:

- LIC NOMURA MF Equity Fund
- LIC NOMURA MF GROWTH FUND
- LIC NOMURA MF Index Fund Nifty
- LIC NOMURA MF GRESS FUND SERIES 1
- LIC NOMURA MF Tax Plan

b) Debt:

- LIC NOMURA MF BOND FUND
- LIC NOMURA MF FLOATING RATE FUND
- LIC NOMURA MF GSEC FUND
- LIC NOMURA MF INCOME PLUS FUND
• LIC NOMURA MF SAVINGS PLUS FUND

e) Hybrid:
• LIC NOMURA MF BALANCED FUND
• LIC NOMURA MF CHILDRENS FUND
• LIC NOMURA MF FLOATER MIP
• LIC NOMURA MF MONTHLY INCOME PLAN

KOTAK MUTUAL FUND

Kotak Mahindra is one of India’s leading financial institutions, offering complete financial solutions that encompass every sphere of life. From commercial banking, to stock broking, to mutual funds, to life insurance, to investment banking, the group caters to the financial needs of individuals and corporates. The group has a net worth of Rs. 7,911 crore and employs around 20,000 employees across its various businesses, servicing around 7 million customer accounts through a distribution network of 1,716 branches, franchisees and satellite offices across more than 470 cities and towns in India and offices in New York, California, San Francisco, London, Dubai, Mauritius and Singapore.

Kotak Mahindra Asset Management Company Limited (KMAMC), a wholly owned subsidiary of Kotak Mahindra bank Limited (KMBL), is the Asset Manager for Kotak Mahindra Mutual Fund (KMMF). KMAMC started operations in December 1998 and has approximately 7.5 Lac investors in various schemes. KMMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities. The company is present in 76 cities and has 79 branches.
investment products across asset classes with varying risk parameters that cater to needs of various customer segments, have enabled us to garner trust of over 10 lac investors.

**Kotak Mutual Fund:**

**Products:**

a) **Equity Fund:**

- Kotak 50
- Kotak Opportunities
- Kotak Midcap
- Kotak Classic equity
- Kotak Tax saver
- Kotak Equity Arbitrage Fund
- Kotak Emerging Equity scheme
- Kotak Global Emerging Market
- Kotak Select Focus Fund

b) **Debt Funds:**

- Kotak monthly income plan
- Kotak bond
- Kotak short term
- Kotak liquid
- Kotak banking and PSU debt fund
- Kotak Gilt investment
- Kotak Flexi debt
- Kotak FMP series
- Kotak Floater long term
- Kotak Floater short term
- Kotak Income opportunities fund
ICICI Prudential Asset Management Company Ltd. (IPAMC/ the Company) is the joint venture between ICICI Bank, a well-known and trusted name in financial services in India and Prudential Plc, one of UK’s largest players in the financial services sectors. IPAMC was incorporated in the year 1993. The Company in a span of over 18 years since inception and just over 13 years of the Joint Venture, has forged a position of preeminence in the Indian Mutual Fund industry as the third largest asset management company in the country, contributing significantly to the growth of the Indian mutual fund industry.

The Company manages significant Mutual Fund Asset Under Management (AUM), in addition to Portfolio Management Services and International Advisory Mandates for clients across international markets in asset classes like Debt, Equity and Real Estate with primary focus on risk adjusted returns.

IPAMC has witnessed substantial growth in scale. From merely 2 locations and 6 employees during inception to the current strength of over 700 employees with reach across around 150 locations, the growth momentum of the Company has been exponential. The organization today is an ideal mix of investment expertise, resource bandwidth & process orientation. IPAMC’s Endeavour is to bridge the gap between savings & investments to help create long term wealth and value for investors through innovation, consistency and sustained risk adjusted performance.
branches and 10,021 ATMs in India, and has a presence in 19 countries, including India.

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany.

ICICI Bank's equity shares are listed in India on Bombay Stock Exchange and the National Stock Exchange of India Limited and its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE). Prudential plc of the United Kingdom is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

Sponsor

**Prudential plc** is an international financial services group with significant operations in Asia, the US and the UK. We serve over 26 million customers and have £363 billion of assets under management (at 30 June 2012). We are listed on stock exchanges in London, Hong Kong, Singapore and New York. Understanding and responding to our customers' needs is at the heart of our business. It is something we have been doing for over 160 years. We generate sustainable value for our shareholders through a relentless focus on meeting our customers' savings, income...
Prudential is a leading life insurer that spans 12 markets in Asia, covering Cambodia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, The Philippines, Singapore, Taiwan, Thailand and Vietnam. With more than 350,000 agents across the region, Prudential has a robust multi-channel distribution platform providing a comprehensive range of savings, investment and protection products.

Eastspring Investments manages investments across Asia on behalf of a wide range of retail and institutional investors, with about half of its assets sourced from life and pension products sold by Prudential plc. It is one of the region’s largest asset managers with operations in 11 Asian markets and the United States. It has £53.8 billion in assets under management (as at 30 June 2012), managing funds across a wide range of asset classes including equities and fixed income.

**Jackson National Life Insurance Company**

Jackson is one of the largest life insurance companies in the US, providing retirement savings and income solutions with more than 2.9 million policies and contracts in force. Jackson is also one of the top three providers of variable annuities in the US. Founded 50 years ago, Jackson has a long and successful record of providing advisers with the products, tools and support to design effective retirement solutions for their clients.

**Prudential UK & Europe (PUE)**

Prudential UK is a leading life and pensions provider to approximately 7 million customers in the United Kingdom. Their expertise in areas such as longevity, risk management and multi-asset investment, together with our financial strength and highly respected brand, means that the business is strongly positioned to continue
for individual and institutional clients for over 80 years. Today it is one of Europe's largest active investment managers as well as being a powerhouse in fixed income.

**ICICI Mutual Fund:**

*(ICICI Prudential AMC)*

**Equity Funds:**

- ICICI Prudential Dynamic Plan
- ICICI Prudential Focused Bluechip Equity Fund
- ICICI Prudential Discovery Fund
- ICICI Prudential Infrastructure Fund
- ICICI Prudential Child Care Plan (Gift)
- ICICI Prudential Tax Plan
- ICICI Prudential Top 200 Fund
- ICICI Prudential Technology Fund
- ICICI Prudential Blended Plan A
- ICICI Prudential US Bluechip Equity Fund
- ICICI Prudential Top 100 Fund
- ICICI Prudential MidCap Fund
- ICICI Prudential Export and Other Services Fund
- ICICI Prudential Indo Asia Fund
- ICICI Prudential FMCG Fund
- ICICI Prudential Banking and Financial Services Fund
- ICICI Prudential Balanced Advantage Fund
- ICICI Prudential Target Returns Fund
- ICICI Prudential Index Fund
- ICICI Prudential Nifty Junior Index Fund
- ICICI Prudential Short Term Plan
- ICICI Prudential Income Plan
- ICICI Prudential Blended Plan B
- ICICI Prudential Gilt Fund Investment Plan-PF Option
- ICICI Prudential Gilt Fund Treasury Plan-PF Option
- ICICI Prudential Long Term Plan
- ICICI Prudential Short Term Gilt Fund
- ICICI Prudential Corporate Bond Fund
- ICICI Prudential Long Term Gilt Fund
- ICICI Prudential Income Opportunities Fund
- ICICI Prudential Dynamic Bond Fund
- ICICI Prudential Banking And PSU Debt Fund
- ICICI Prudential Regular Savings Fund
- ICICI Prudential Fixed Maturity Plan (FMP)
- ICICI Prudential Capital Protection Oriented Fund
- ICICI Prudential Multiple Yield Fund (MYF)

**Balanced / Hybrid Funds:**

- ICICI Prudential Child Care Plan(Study)
- ICICI Prudential MIP 25
- ICICI Prudential Monthly Income Plan
- ICICI Prudential Balanced Fund