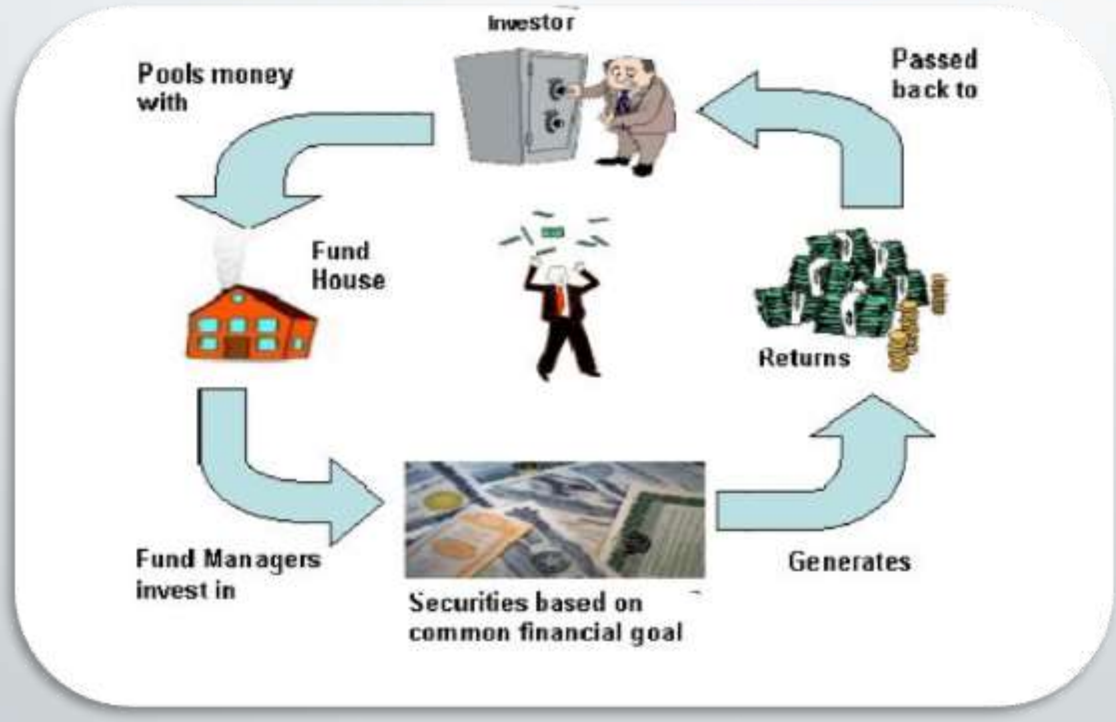

Mutual Funds

CONCEPT

- A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal.
- The money thus collected is then invested in capital market instruments such as shares, debentures and other securities.
- The income earned through these investments and the capital appreciation released are shared by its unit holders in proportion to the number of units owned by them.

Mutual Fund Operation Flow Chart



HISTORY OF MUTUAL FUND

First Phase – 1964-87 -Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. . The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700 crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds) -SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92)

- **<u>Third Phase – 1993-2003 (Entry of Private Sector Funds)</u>** Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crores.
- **<u>Fourth Phase – since February 2003</u>** -In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities.

- One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations
- The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations

<table>
<tr><th>MYTHS</th><th>FACTS</th></tr>
<tr><td>➢ Mutual Fund invest only in shares</td><td rowspan="2">➢ Equity Instruments like shares are only a part of the securities held by mutual funds Mutual funds also invest in debt securities which are relatively much safer</td></tr>
<tr><td>➢ Mutual Funds are prone to very high risks</td></tr>
<tr><td>➢ Mutual Funds are very new in financial market</td><td>➢ Mutual Funds are there in India since 1964. Mutual Funds market has evolved in U.S.A and is there for the last 60 years</td></tr>
<tr><td>➢ Mutual Funds are not reliable and people rarely invest in them</td><td>➢ Mutual Funds are the best solution for people who want to manage risks and get good returns.</td></tr>
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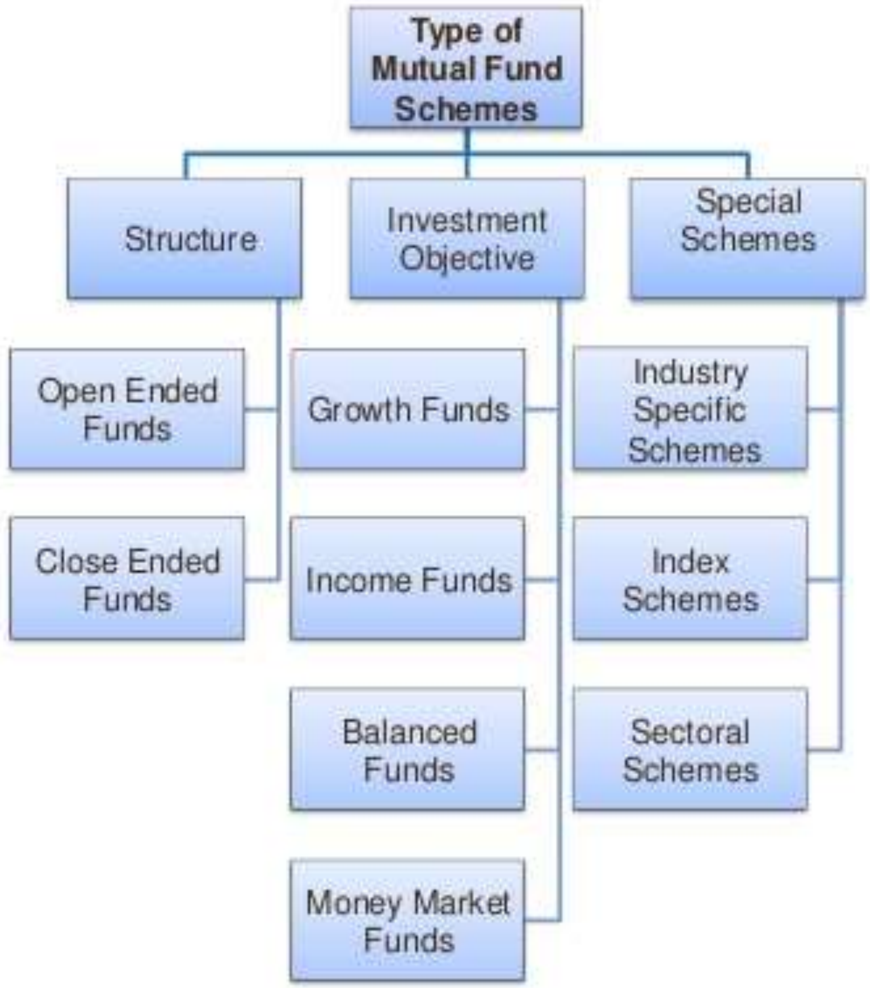
Birla Sun Life Mutual Fund
HDFC Mutual Fund
ICICI Prudential Mutual Fund
Reliance Mutual Fund
UTI Mutual Fund

TYPES OF MUTUAL FUNDS



On the basis of Structure

➢ <u>**OPEN ENDED SCHEMES:**</u>

- Open ended Schemes are schemes which offers unit for sale without specifying any duration for redemption.
- They sell and repurchase schemes on a continuous basis.
- The main feature of such kind of scheme is liquidity

➢ CLOSED ENDED SCHEMES:

- These are the schemes in which redemption period is specified.
- Once the units are sold by mutual funds, then any transaction takes place in secondary market only i.e stock exchange.
- Price is determined by forces of market.

On the basis of investment objectives

- **Growth Fund:**

- The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks

➢ **INCOME FUNDS:**

- Funds that invest in medium to long-term debt instruments issued by private companies, banks, financial institutions, governments and other entities belonging to various sectors (like infrastructure companies etc.) are known as Debt / Income Funds

➢ **BALANCED FUND**

- These funds provide both growth and regular income as these schemes invest in debt and equity.
- The NAV of these schemes is less volatile as compared pure equity funds.

➢ MONEY MARKET FUNDS

- Money market / liquid funds invest in short-term (maturing within one year) interest bearing debt instruments. These securities are highly liquid and provide safety of investment, thus making money market / liquid funds the safest investment option when compared with other mutual fund types.

On the basis of Special Schemes

- **<u>INDUSTRY SPECIFIC SCHEMES:</u>**

- Industry Specific Schemes invest only in the industries specified in the offer document. The investment of these funds is limited to specific industries like Infotech, FMCG, Pharmaceuticals etc

INDEX SCHEMES:

- In this schemes, the funds collected by mutual funds are invested in shares forming the Stock Exchange Index.
- Example- Nifty Index Scheme of UTI Mutual Fund and Sensex Index Scheme of Tata Mutual Fund

➢ <u>**SECTORAL SCHEMES**</u>

- Sectoral funds are those mutual funds which invest in a particular sector of the market, e.g. banking, information technology etc. Sector funds are riskier than equity diversified funds since they invest in shares belonging to a particular sector which gives them fewer diversification opportunities

Advantages of Mutual Funds

- **Diversification**
- **Professional management**
- **Convenience and Flexibility**
- **Affordability**
- **Liquidity**
- **Transparency**
- **Tax Benefit**

Disadvantages of Mutual Funds

- **No control over costs**
- **The investor cannot choose the securities they want to invest in or the securities they want to sell**
- **The investors face the risk of fund manager not performing well.**

TYPES OF RISK	DESCRYPTION
MARKET RISK	At times the prices or yields of all the securities in a market rise or fall due to broad outside influences. This change in price is due to 'market risk'
INFLATION RISK	Sometimes referred to as 'loss of purchasing power'. Whenever the rate of inflation exceeds the earnings on investment, you run the risk that you'll actually be able to buy less, not more
CREDIT RISK	In short, how stable is the company or entity to which you lend your money when you invest? How certain are you it will be able to pay the interest you are promised, or your principal when the investment matures?
INTEREST RATE RISK	Interest rate movements in the Indian debt markets can volatile leading to the possibility of large price movements up or down in debt and money market securities and to possibly large movements in the NAV.

SYSTEMATIC INVESMENT PLAN

A Rupee a Day , Keeps Worries away…………………

- Systematic investment plan is an effective way to do financial planning that allows you to invest a fixed amount regularly at a specified frequency say, weekly, monthly or quarterly according to your convenience.

- Systematic investment plans work best for investors who are seeking for long term goals, such as children higher education or for their retirement plans.

- You can choose any plan according to your convenience and achieve your financial goals, systematically.

ADVANTAGES

- Encourages Regular Investments (just like recurring deposit schemes)
- A Convenient way to invest regularly
- Lower initial investment without cutting into regular expense
- Long term perspective
- Meet investment objective with investment needs

MAJOR BENEFITES

RUPEE-COST AVERAGING

POWER OF COMPOUNDING

RUPEE-COST AVERAGING

	1st Month
Net Asset Value	25
Investment	2500
Units	100

	1st Month	2nd Month
Net Asset Value	25	30
Investment	2500	2500
Units	100	84

	1st Month	2nd Month	3rd Month
Net Asset Value	25	30	18
Investment	2500	2500	2500
Units	100	84	139

	1st Month	2nd Month	3rd Month	End of 3rd Month
Net Asset Value	25	30	18	
Investment	2500	2500	2500	7500
Units	100	84	139	323

	1st Month	2nd Month	3rd Month	End of 3rd Month
Net Asset Value	25	30	18	23
Investment	2500	2500	2500	7500
Units	100	84	139	323

POWER OF COMPOUNDING

SIP of Rs. 1000 invested per month @ 8% pa till the age of 60.

STARTING AGE	TOTAL AMOUNT SAVED	VALUE AT THE AGE OF 60
25	4,20,000	23,09,175
30	3,60,000	15,00,295
35	3,00,000	9,57,367
40	2,40,000	5,92,947

Day	Option1(Rs.)	Option2(paisa)
1	1,000,00	0.01
2	1,000,00	0.02
3	1,000,00	0.04
4	1,000,00	0.08
5	1,000,00	0.16
6	1,000,00	0.32
7	1,000,00	0.64
8	1,000,00	1.28
9	1,000,00	2.56

10	1,000,00	5.12
11	1,000,00	10.24
12	1,000,00	20.48
13	1,000,00	40.96
14	1,000,00	81.92
15	1,000,00	163.84
16	1,000,00	327.68
17	1,000,00	656.36
18	1,000,00	1310.72
19	1,000,00	2621.44
20	1,000,00	5242.88

21	1,000,00	10485.76
22	1,000,00	20971.52
23	1,000,00	41943.04
24	1,000,00	83886.08
25	1,000,00	167772.16
26	1,000,00	335544.32
27	1,000,00	671088.64

28	1,000,00	1342177.28
29	1,000,00	2684354.56
30	1,000,00	5368709.12
31	1,000,00	10737418.24
Total Amount	31,000,00	2,14,74,836.47

ONE,
WHO FAILS TO PLAN,
PLANS TO FAIL

THANK YOU !