IMPACT OF MUTUAL FUND

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INTRODUCTION

A **mutual fund** is a professionally managed type of collective investment scheme that pools money from many investors to buy stocks, bonds, short-term money market instruments, and/or other securities.

Origin of the Indian Mutual Fund Industry:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly discussed below.

In the year 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. 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.

1987-1993 Entry of Public Sector Funds

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 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). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores.

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1993-2003 Entry of Private Sector Funds:

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

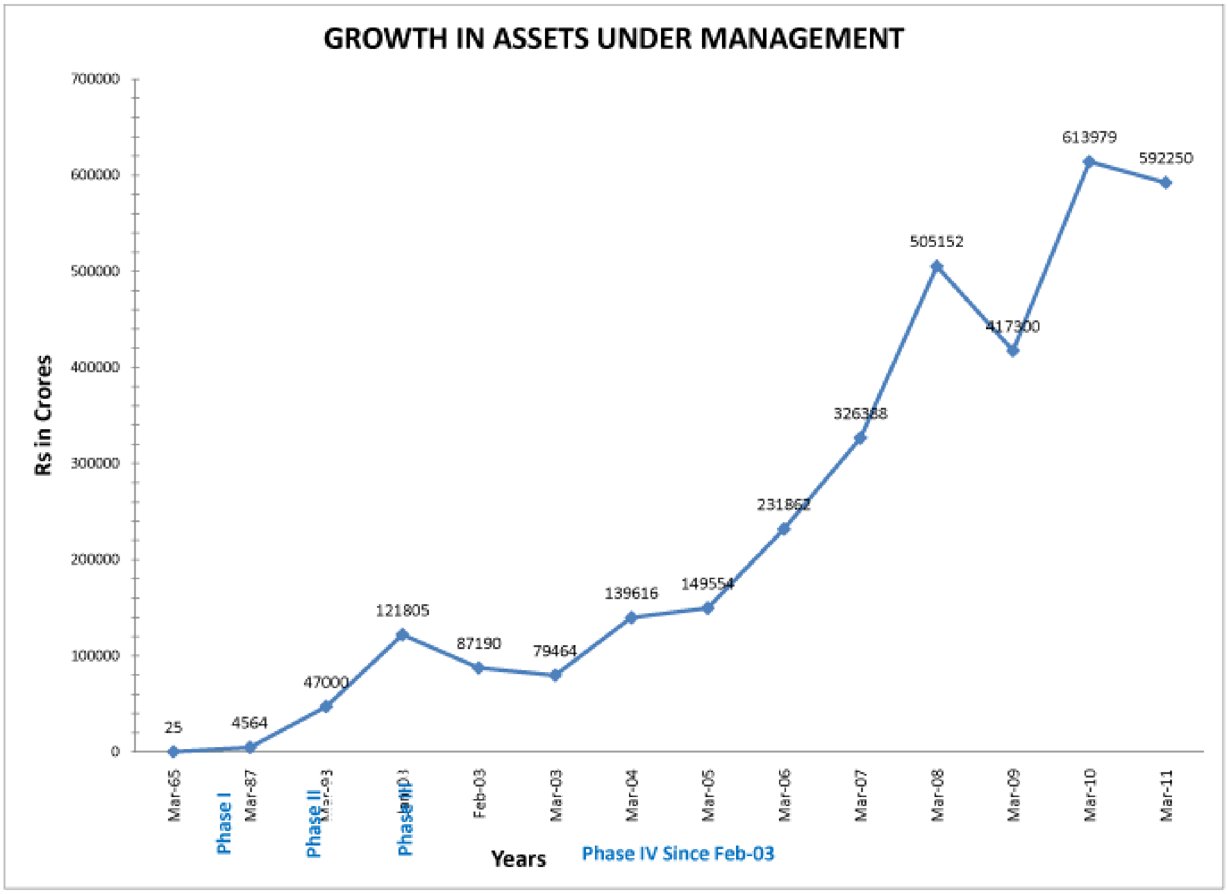
The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crores. The Unit Trust of India with Rs.44, 541 crores of assets under management was way ahead of other mutual funds.

Since February 2003

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.

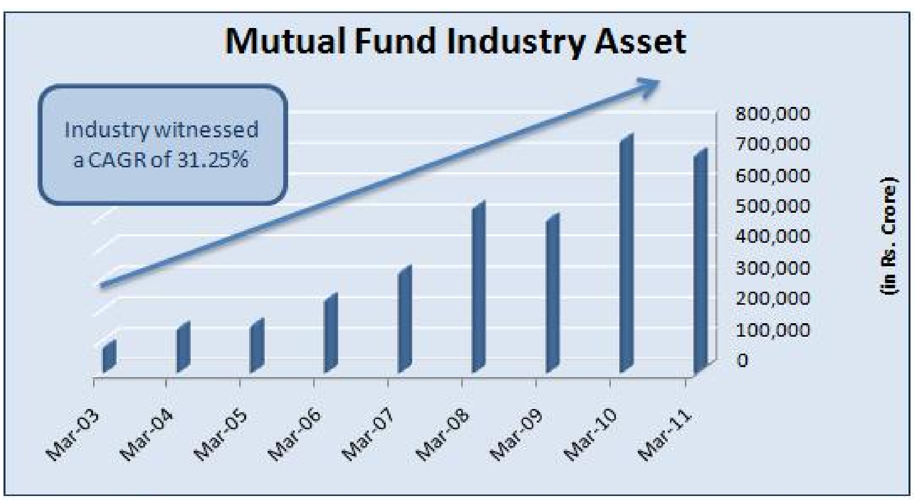
The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The graph indicates the growth of assets over the years.



Source: Amfiindia

Over view of Indian Mutual Fund Industry Asset:



Source: MFI Explorer

Mutual Funds are right way to invest into because it provides affordability, liquidity, tax benefits, and professional management and most importantly it helps in maximizing returns by effectively utilizing hard earned money. It also allows investor to systematically invest in equities and debt markets through Systematic Investment Plan. Through this mode investor can take exposure with as little as Rs. Five hundred and by investing regularly for a longer period can benefit from cost averaging and can built a large corpus to meet future commitments.

Types of mutual funds:

There are three basic types of registered investment companies defined in the Investment Company Act of 1940: open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds are open-end funds or unit investment trusts that trade on an exchange.

Open-end funds:

Open-end mutual funds must be willing to buy back their shares from their investors at the end of every business day at the net asset value computed that day. Most open-end funds also sell shares to the public every business day; these shares are also priced at net asset value. A professional investment manager oversees the portfolio, buying and selling securities as appropriate. The total investment in the fund will vary based on share purchases, share redemptions and fluctuation in market valuation. There is no legal limit on the number of shares that can be issued.

Closed-end funds:

Closed-end funds generally issue shares to the public only once, when they are created through an initial public offering. Their shares are then listed for trading on a stock exchange. Investors who no longer wish to invest in the fund cannot sell their shares back to the fund (as they can with an open-end fund). Instead, they must sell their shares to another investor in the market; the price they receive may be significantly different from net asset value. It may be at a "premium" to net asset value

Unit investment trusts

Unit investment trusts or UITs issue shares to the public only once, when they are created. Investors can redeem shares directly with the fund or they may also be able to sell their shares in the market. Unit investment trusts do not have a professional investment manager. Their portfolio of securities is established at the creation of the UIT and does not change.

Exchange-traded funds

The exchange-traded fund or ETF is often structured as an open-end investment company, though ETFs may also be structured as unit investment trusts, partnerships, investments trust, grantor trusts or bonds. ETFs combine characteristics of both closed-end funds and open-end funds.

Mutual fund expenses

Investors in mutual funds pay fees. These falls into four categories: distribution charges (sales loads and 12b-1 fees), the management fee, other fund expenses, shareholder transaction fees and securities transaction fees. Some of these expenses reduce the value of an investor's account; others are paid by the fund and reduce net asset value. Recurring expenses are included in a fund's expense ratio.

Distribution charges

Distribution charges pay for marketing and distribution of the fund's shares to investors.

Management fee

The management fee is paid to the fund manager or sponsor who organizes the fund, provides the portfolio management or investment advisory services and normally lends its brand name to the fund. The fund manager may also provide other administrative services. The management fee often has breakpoints, which means that it declines as assets increase. The management fee is paid by the fund and is included in the expense ratio.

Which also include the following service charges

- Board of directors' (or board of trustees') fees and expenses
- Custody fee: paid to a bank for holding the fund's portfolio in safekeeping
- Fund accounting fee: for computing the net asset value daily
- Professional services fees: legal and accounting fees
- Registration fees: when making filings with regulatory agencies
- Shareholder communications expenses: printing and mailing required documents to shareholders
- Transfer agent services fee: keeping shareholder records and responding to customer inquiries.

CONCLUSION:

Critics of the fund industry argue that fund expenses are too high. They believe that the market for mutual funds is not competitive and that there are many hidden fees, so that it is difficult for investors to reduce the fees that they pay.

The researcher has suggested that the most effective way for investors to raise the returns they earn from mutual funds is to reduce the fees that they pay. To look for no-load funds with low expense ratios.