International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 08 Issue: 01 | January - 2024 SJIF Rating: 8.176 ISSN: 2582-3930

A Research Perspective on Mutual Funds

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Abstract –

This research explores mutual funds, which are investment pools where many people combine their money to buy a diversified portfolio of stocks, bonds, or other securities. The study investigates how mutual funds work, their benefits, and potential risks. By understanding these aspects, investors can make informed decisions about participating in mutual funds to achieve their financial goals. This research aims to provide a straightforward overview to help individuals navigate the world of mutual fund investments. However, a long-term investor has to consider other factors associated with such mutual funds (like asset under management, expenses ratio, number of stocks, and experience of the management) to finalise the selection of mutual funds. In this research paper, an attempt has been made to identify the relationship among the performance of selected equity mutual funds and the parameters considered by the investors for selecting the fund. 't-statistic' has been used to identify such relationship. This research shows that there is no relationship between trailing return of any kinds of Equity mutual funds and the selected parameters by the investors. However, number of stocks and experience of management have a little impact on the rolling return of equity large cap mutual funds and Assets under management has a little impact on rolling return in case of mid-cap mutual fund only.

Key Words: Investment Pools, Asset management companies, Mutual Funds, Trailing Return,

1.INTRODUCTION

Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.A mutual fund is like a big pot of money collected from many people who want to invest. This money is managed by experts who make smart choices about buying stocks, bonds, or other things. When these investments make money, everyone who put money into the pot gets a share of the profits. It's a way for people to invest together and have professionals handle the tricky part of choosing where to invest. It is a type of financial investment. A group of investors pool their money and purchase securities including stocks. This group of securities is called a portfolio and it is professionally managed based on the objectives of the group. A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments. The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual fund charges a small fee.

In short, mutual fund is a collective pool of money contributed by several investors and managed by a professional Fund Manager.

In the financial landscape, mutual funds stand out as versatile and accessible investment vehicles. A mutual fund is essentially a collective investment scheme where individuals pool their money to form a substantial fund. This fund is then professionally managed by experts, known as fund managers, who make decisions on behalf of the investors to buy a diversified portfolio of stocks, bonds, or other securities.

The primary objective of mutual funds is to provide a convenient and well-managed way for individuals to invest, even with relatively small amounts of money. By combining resources, investors gain access to a diversified portfolio that spreads risk across various assets. This diversification is a key aspect of mutual funds, helping to mitigate the impact of poor-performing investments and potentially enhance overall returns. Investors in mutual funds purchase shares, representing their ownership in the collective pool of assets. The value of these shares is known as the Net Asset Value (NAV), which is calculated based on the total value of the fund's assets minus its liabilities.

One of the distinctive features of mutual funds is the professional management provided by experienced fund managers. These individuals analyze market conditions, economic trends, and specific investment opportunities to make informed decisions on behalf of the fund's investors. This professional oversight aims to optimize returns while considering the risk tolerance and objectives of the fund's shareholders.

2. The history of mutual funds in India can be broadly divided into four distinct phases

1-**First Phase**-1964-1987 Unit Trust of India (UTI) was established in 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 crore of assets under management

2-**Second Phase**-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 Can bank 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 crore.

3-**Third Phase**-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. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crore. The Unit Trust of India with Rs. 44,541 crore of assets under management was way ahead of other mutual fund

4-**Fourth Phase**-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 crore 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 crore 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

2- Types of Mutual Fund based on Asset Class

1-**Debt funds**-Debt funds (also known as fixed income funds) invest in assets like government securities and corporate bonds. These funds aim to offer reasonable returns to the investor and are considered relatively less risky. These funds are ideal if you aim for a steady income and are averse to risk

2.**Equity funds**-In contrast to debt funds, equity funds invest your money in stocks. Capital appreciation is an important objective for these funds. But since the returns on equity funds are linked to market movements of stocks, these funds have a higher degree of risk. They are a good choice if you want to invest for long term goals such as retirement planning or buying a house as the level of risk comes down over time.

3.**Hybrid funds**- What if you want equity as well as debt in your investment? Well, hybrid funds are the answer. Hybrid funds invest in a mix of both equity and fixed income securities. Based on the allocation between equity and debt (asset allocation), hybrid funds are further classified into various subcategories

3-SEBI GUIDELINES ON MUTUAL FUNDS

Mutual funds in India are now governed under the Securities and Exchange Board of India(mutual fund) Regulations,1996. SEBI has provided a four tier system for managing the affairs of mutual funds. The four constituents in the organization of a mutual funds are: **1.The sponsoring company, called Sponsor:** SEBI(mutual funds) Regulations define Sponsor as any person who acting alone or in combination with another body corporate, establishes a mutual fund. SBI Mutual fund is sponsored by State Bank of India, LICMF is sponsored by Life Insurance Corporation (LIC) of India. Sponsors have to comply with the following regulations laid down by SEBI.

(a) Application and fee: a sponsor has to file an application for registration of a mutual fund in the prescribed form along with an application with fee of Rs.100000. the sponsors must furnish all information and give clarifications as may be required by the board.

(b) Eligibility criteria: the sponsor may be granted a certificate of registration provided following conditions are satisfied.

(c)

A. The sponsor has a sound track record and general reputation of fairness and integrity in all his business transactions for not less than 5 years.

B. The sponsor has contributed atleast 40% of the worth of AMC.

C. A trustee has been appointed by the sponsors who will act as trustee for the mutual fund.

D. An AMC is appointed to manage and operate the scheme of such funds.

E. A custodian is appointed to keep custody of the securities and carry out the custodian activities.

2-The trustees: SEBI(mutual fund) Amendment regulations. 1999 defines trustee as “a person who holds the property of the mutual fund in trust for benefit of the unit-holders and includes a trustee company and the directors of the trustee company.” SEBI (mutual fund) regulatons, 1996 from 16to 18 contain guidelines with regard to operation of trustees

3-Asset management company (AMC): SEBI regulations require that mutual funds be managed by a separate body orporate. The sponsor or the trustee shall appoint an AMC. The application for the approval of AMC has to be made in Form D. The appointment of AMC can be terminated by majority of the trustees or by 75% of the unit-holders of the scheme. Any change in the appointment of AMC requires the prior approval of the Board and the unit- holders.

4-Custodian: custodian is defined under SEBI (mutual funds) Regulations.1996 as “ a person who has been granted a certificate of registration to carry on the business of custodian of securities under the securities and Exchange Board of India (custodian of securities) Regulations, 1996. Custodian provides custodial services and ensures safe- keeping of securities. He performs the followingfunctions

1. Maintains accounts of securities of a client.
2. Collects the benefits or rights accruing to the client in respect of securities.
3. Maintains and reconciles the records of securities.
4. Helps in transfer of the securities in the name of trust.
5. Prevents any manipulation of records and documents

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4-Benefits Of Mutual Funds

1-Diversification

When you invest in mutual funds, your fund manager will invest your money in different securities including equity, stocks, debt funds and other money market instruments. Logic dictates that there is little chance of all instruments not growing to their potential. It is also possible that if one instrument doesn't perform as well as the other, they balance each other out, thereby netting off your risks and making your investment safer.

2-Professional Management

Mutual funds are monitored and managed by professional fund managers who are responsible for deciding where and when they should invest the pooled funds. Investments are made by closely following market trends and exhaustive research.

3-Liquidity

Liquidity means the ability of an asset to be converted into liquid cash. Imagine if you have an emergency and need cash but don't have enough funds in your bank. It's not possible to sell property or avail of a loan instantly. But with mutual funds, you have the freedom to withdraw your money instantly. Mutual fund investments are known to be highly liquid assets and can easily convert to cash whenever you need some liquid funding. That being said, you need to ask your fund manager if your mutual fund can be cashed out on an immediate basis as some funds can have a lock-in period.

4-Smaller, Disciplined Investments

With mutual funds, you can start investing with an amount as minimal as Rs.500. If you don't have the discipline to invest regularly, a Systematic Investment Plan(SIP) can help you inculcate the habit. This means you are not constantly worried about investing large sums and you can also ensure that you are cultivating a routine for investing periodically.

5-Convenience And Simplicity

Unlike stock market investments, which can be quite a complicated affair, investing in mutual funds is relatively simpler. All you must do is approach a bank or a non-banking financial institution and they will be able to set up a mutual fund account for you instantly. You can also set up a mutual fund account from the comfort of your own home. Once your Know Your Customer (KYC) documents are verified, you can start investing using online accounts or even mobile applications.

Despite the benefits, mutual funds are subject to market risks and you must always read the offer documents carefully before making any investments.

5-CONCLUSION –

The conclusion of the study that the Mutual Funds as an investment option have displayed growth potential market and performed much better than the traditional market options in the long term helps investor to think about that investment. It is the importance that investors do not make a rash decision simply by looking at the return figures generated by an individual fund, they should compare funds based on the risk and return analysis and find out which fund is giving better returns equivalent to the risk taken. Statistical analysis helps investors make a correct decision looking at facts based on numbers instead of just going by their gut feeling. Also compared to the traditional options, mutual funds provide a more professional approach towards investment and some amount of diversification. A thorough analysis clubbed with timely investments might prove Mutual Funds to be an excellent form of investment. The analysis is based on not only the return but also their other instruments like Standard Deviation, Sharpe Ratio, Beta and Alpha. The difference between the fund actual return and its expected return is its Alpha.

The comparisons of all equity and debt fund schemes the all schemes are having their own perspective.

The all equity schemes are provide better return but the return is less compare to the benchmark return except small cap and multi cap fund. In the debt schemes the ABSL are provide better return in all schemes expects Medium to Long term duration fund. The net asset value is higher in the HDFC asset management fund. The highest asset under management is having ABSL fund management. The investor who thinks about the return without risk so they can invest in debt schemes in different duration or period of time. Theinvestor who think about the more gain from the market and also they have taken risk for the highly or better return in future. The risk and return are onthe basis of their AUM and NAV value of the particular schemes. The Sharpe ratio are given the information about the risk adjusted return and measure the return of the fund for every unit of risk as measured by the Standard Deviation. The all schemes are the open ended schemes and also theyare having the growth in nature.

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