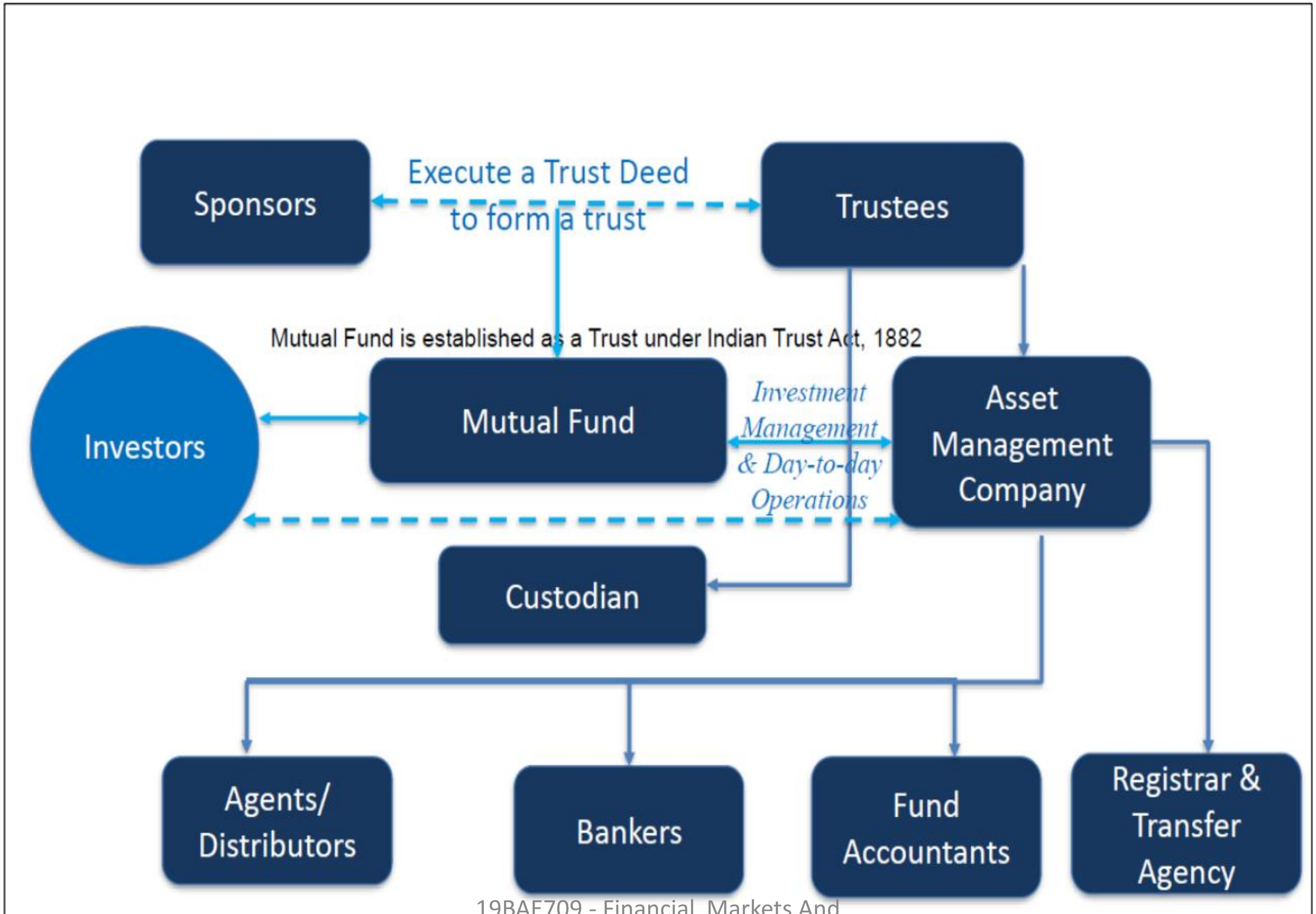
Mutual Funds

- A mutual fund is a pool of money managed by a professional Fund Manager.
- It is a trust that collects money from a number of investors who share a common investment objective and invests the same in equities, bonds, money market instruments and/or other securities.

Structure of Mutual Funds In India



3-Tier Structure Of Mutual Fund

- The three-tier structure of a mutual fund includes the **sponsor, trustees, and AMC**.
- All the mutual funds are formed as trusts under **“The Indian Trust Act, 1882**,” and they are regulated under the “SEBI (Mutual Funds) Regulations 1996”.
- The **trustees are the most important players in the three-tiered structure**, followed by the sponsor, who is the creator, and the AMC, who is the fund manager.

Custodian

- Custodians play a critical role in the operation of mutual funds.
- They are responsible for safeguarding the assets of the fund and ensuring that the fund's transactions are executed accurately and in **compliance** with regulatory requirements.
- There are several key entities involved in the operation of a mutual fund, including:

Sponsor

- The sponsor is the entity that establishes the mutual fund and obtains regulatory approval to operate it.
- The sponsor may be a financial institution, an asset management company, or another organization.
- The sponsor is responsible for setting up the fund and appointing the trustees and the asset management company (AMC).

Trust

- Trusts play a fundamental role in the structure and operation of mutual funds.
- a trust is a legal entity that holds and manages the assets on behalf of investors.
- **Formation of the Trust**: A mutual fund is typically structured as a trust.
- The trust is established by a sponsor, which could be a financial institution, an asset management company, or another entity.
- The trust is created by a trust deed or an indenture, which outlines the rules and regulations governing the operation of the fund.

Asset Management Company

- An Asset Management Company (AMC), also known as an **Investment Management Company** or Fund Management Company, plays a central role in the operation of mutual funds.
- The Asset Management Company is a critical entity in the mutual fund ecosystem, responsible for **managing the fund's investments, ensuring regulatory compliance, and facilitating the distribution of fund units.**
- Investors rely on the expertise of the AMC's professionals to achieve their investment goals within the framework of a mutual fund.

Schemes According To Maturity Period

- Open Ended Fund Scheme
- Close Ended Fund Scheme

Schemes According To Investment Objective-

- Growth / Equity Oriented Scheme
- Income / Debt Oriented Scheme
- Balanced Fund
- Money Market or Liquid Fund
- Gilt Fund
- Index Funds

Schemes According To Maturity Period

- Open Ended Fund Scheme

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close Ended Fund Scheme

A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

Schemes According To Investment Objective

- Growth / Equity Oriented Scheme

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. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences.

• Income / Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets

• Balanced Fund

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments.

• Money Market or Liquid Fund

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds.

- ## Gilt Fund

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

- # Index Funds

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors known as "tracking error" in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme.