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MUTUAL FUNDS - A INVESTMENT AVENUE

Mr. C. Srinath,
Junior Lecturer in Commerce (Contract),
Government Junior College,
Makthal, Narayanpet Dist.
srinathchittampally@gmail.com

ABSTRACT
Mutual funds were established in the Dutch Republic and it became a popular in western country in 19 century. In India mutual funds were introduced in 1963 and now became a best alternative investment avenue to the small investors to invest in stocks with risk diversification and maximizing the returns. Now a day mutual fund houses also introducing numerous plans similar to the investor's objectives. Hence the present paper aims to disclose types of Indian Mutual Funds with help of AMFI.

Keywords: Mutual funds, Types and Advantages.

INTRODUCTION
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. 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. The fees and expenses charged by the mutual funds to manage a scheme are regulated and are subject to the limits specified by SEBI.

Mutual funds are ideal for investors who –
1. lack the knowledge or skill / experience of investing in stock markets directly.
2. want to grow their wealth, but do not have the inclination or time to research the stock market.
3. wish to invest only small amounts.

OBJECTIVE OF THE STUDY
- To study the types of funds available to investors in mutual funds in India.
- To understand the benefits associated with the Indian mutual funds.

SCOPE OF THE STUDY

This paper provides information about types of Mutual Funds industry as well as benefits associated with the Indian Mutual Funds to educate the investors to give the first preference to investment. This study helps to the general people who can understand the importance and explore the new option for investment in Mutual Funds. Different financial institutions provide services that are both complementary to and competitive with each other. A well-built financial system directly contributes to the growth of the country.

TYPES OF MUTUAL FUND SCHEMES

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on

1. **ORGANISATION STRUCTURE** – OPEN ENDED, CLOSE ENDED, INTERVAL

- **Open-ended** schemes are perpetual, and open for subscription and repurchase on a continuous basis on all business days at the current NAV.

- **Close-ended** schemes have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide exit route before maturity and can be sold/traded on the stock exchanges.

- **Interval schemes** allow purchase and redemption during specified transaction periods (intervals). The transaction period has to be for a minimum of 2 days and there should be at least a 15-day gap between two transaction periods. The units of interval schemes are also mandatorily listed on the stock exchanges.

2. **MANAGEMENT OF PORTFOLIO** – Actively or Passively

Active Funds

In an Active Fund**,** the Fund Manager is 'Active' in deciding whether to Buy, Hold, or Sell the underlying securities and in stock selection. Active funds adopt different strategies and styles to create and manage the portfolio.

- The investment strategy and style are described upfront in the Scheme Information document (offer document)
- Active funds expect to generate better returns (alpha) than the benchmark index.
- The risk and return in the fund will depend upon the strategy adopted.
- Active funds implement strategies to 'select' the stocks for the portfolio.

Passive Funds

Passive Funds hold a portfolio that replicates a stated Index or Benchmark e.g. –

- Index Funds
- Exchange Traded Funds (ETFs)

In a Passive Fund, the fund manager has a passive role, as the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager / dealer merely needs to replicate the same with minimal tracking error.

ACTIVE V/S PASSIVE FUNDS

Active Fund

- Rely on professional fund managers who manage investments.
- Aim to outperform Benchmark Index
- Suited for investors who wish to take advantage of fund managers' alpha generation potential.

Passive Funds –

- Investment holdings mirror and closely track a benchmark index, e.g., Index Funds or Exchange Traded Funds (ETFs)
- Suited for investors who want to allocate exactly as per market index.
- Lower Expense ratio hence lower costs to investors and better liquidity

3. **INVESTMENT OBJECTIVE** – Growth, Income, Liquidity

Mutual funds offer products that cater to the different investment objectives of the investors such as –

a. Capital Appreciation (Growth)
b. Capital Preservation
c. Regular Income
d. Liquidity
e. Tax-Saving
f. Mutual funds also offer investment plans, such as Growth and Dividend options, to help tailor the investment to the investors' needs.

GROWTH FUNDS

A growth fund is a diversified portfolio of stocks that has capital appreciation as its primary goal, with little or no dividend payouts. The portfolio mainly consists of companies with above-average growth that reinvest their earnings into expansion, acquisitions, and/or research and development

- Growth Funds are schemes that are designed to provide capital appreciation.
- Primarily invest in growth oriented assets, such as equity
- Investment in growth-oriented funds require a medium to long-term investment horizon.
- Historically, Equity as an asset class has outperformed most other kind of investments held over the long term. However, returns from Growth funds tend to be volatile over the short-term since the prices of the underlying equity shares may change.
- Hence investors must be able to take volatility in the returns in the short-term.

INCOME FUNDS

Income funds are mutual funds or ETFs that prioritize current income, often in the form of interest or dividend paying investments. Income funds may invest in bonds or other fixed-income securities as well as preferred shares and dividend stocks.

- The objective of Income Funds is to provide regular and steady income to investors.

- Income funds invest in fixed income securities such as Corporate Bonds, Debentures and Government securities.
- The fund's return is from the interest income earned on these investments as well as capital gains from any change in the value of the securities.
- The fund will distribute the income provided the portfolio generates the required returns. There is no guarantee of income.
- The returns will depend upon the tenor and credit quality of the securities held.

LIQUID / OVERNIGHT /MONEY MARKET MUTUAL FUNDS

Liquid Schemes, Overnight Funds and Money market mutual fund are investment options for investors seeking liquidity and principal protection, with commensurate returns.

- The funds invest in money market instruments* with maturities not exceeding 91 days.
- The return from the funds will depend upon the short-term interest rate prevalent in the market.

These are ideal for investors who wish to park their surplus funds for short periods.

- Investors who use these funds for longer holding periods may be sacrificing better returns possible from products suitable for a longer holding period.

* Money Market Instruments includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.

4. **UNDERLYING PORTFOLIO** – Equity, Debt, Hybrid, Money Market Instruments, Multi Asset
A fund of funds (FOF)—also known as a multi-manager investment—is a pooled investment fund that invests in other types of funds. In other words, its portfolio contains different underlying portfolios of other funds. These holdings replace any investing directly in bonds, stocks, and other types of securities.

Mutual fund products can be classified based on their underlying portfolio composition

- The first level of categorization will be on the basis of the asset class the fund invests in, such as equity / debt / money market instruments or gold.
- The second level of categorization is on the basis of strategies and styles used to create the portfolio, such as, Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/Small-cap Equity fund, Value fund, etc.
- The portfolio composition flows out of the investment objectives of the scheme.

5. **THEMATIC / SOLUTION ORIENTED** –
Solution Oriented Partnerships develops dual themes. The main theme concerns the building up of patterns of collaboration between different social players resulting in the co-production of sustainable solutions. Given their nature, these solutions are known as Partner Based Solutions.

Tax Saving, Retirement Benefit, Child Welfare, Arbitrage

6. **EXCHANGE TRADED FUNDS**
An exchange traded fund (ETF) is a type of security that tracks an index, sector, commodity, or other asset, but which can be purchased or sold on a stock exchange the same as a regular stock.

7. **OVERSEAS FUNDS**
International mutual funds are those funds that invest in foreign companies. These funds are also referred to as overseas or foreign funds. Investing in these can be of higher risk exposure, but also chances of higher returns. People usually prefer it as an alternative and (or) long-term investment

8. **FUND OF FUNDS**
A fund of funds (FOF)—also known as a multi-manager investment—is a pooled investment fund that invests in other types of funds. In other words, its portfolio contains different underlying portfolios of other funds. These holdings replace any investing directly in bonds, stocks, and other types of securities.

SEBI CATEGORIZATION OF MUTUAL FUND SCHEMES

As per SEBI guidelines on Categorization and Rationalization of schemes issued in October 2017, mutual fund schemes are classified as –

EQUITY SCHEMES
An equity fund is a mutual fund that invests principally in stocks. It can be actively or passively (index fund) managed. Equity funds are also known as stock funds. Stock mutual funds are principally categorized according to company size, the investment style of the holdings in the portfolio and geography.

DEBT SCHEMES
A debt fund is a Mutual Fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation. Debt funds are also referred to as Fixed Income Funds or Bond Funds.

HYBRID SCHEMES
Hybrid mutual funds are types of mutual funds that invest in more than one asset class. Most often, they are a combination of Equity and Debt assets, and sometimes they also include Gold or even Real estate. Portfolio risk can be reduced by combining assets that have a low correlation.

Solution Oriented Schemes – For Retirement and Children

Solution-oriented mutual **funds** facilitate investment for preservation of corpus or capital appreciation to **fund** specific expenses in the future, such as **retirement**, marriage or education of **children**, etc.

OTHER SCHEMES – Index Funds & ETFs and Fund of Funds

An **index fund** is a portfolio of stocks or bonds designed to mimic the composition and performance of a financial market **index**. **Index funds** have lower expenses and fees than actively managed **funds**. **Index funds** follow a passive investment strategy.

An **ETF** is an **Exchange Traded Fund**, which unlike regular Mutual **Funds** trades like a common stock on a stock exchange. The units of an **ETF** are usually bought and sold through a registered broker of a recognised stock exchange. The units of an **ETF** are listed in stock exchanges and the NAV varies as per market movements.

A fund of funds (FOF)—also known as a **multi**-manager **investment**—is a pooled **investment** fund that invests in other types of funds. In other words, its portfolio contains different underlying portfolios of other funds. These holdings replace any **investing** directly in bonds, **stocks**, and other types of securities.

Balanced Advantage Funds (Baf)

Invests in debt and equities. Combines stocks, debt and arbitrage in one portfolio. Hybrid funds aim for capital appreciation in the long-run and regular income in the short-run through a balance of debt and equity. less risky as compared with plain vanilla balanced fund.

Multi Asset Funds

A multi-asset fund offers exposure to a broad number of asset classes, often offering a level of diversification typically associated with institutional investing. Multi-asset funds may invest in a number of traditional equity and fixed income strategies, index-tracking funds, financial derivatives as well as commodity like gold. This diversity allows portfolio managers to potentially balance risk with reward and deliver steady, long-term returns for investors, particularly in volatile markets.

Arbitrage Funds

"Arbitrage" is the simultaneous purchase and sale of an asset to take advantage of the price differential in the two markets and profit from price difference of the asset on different markets or in different forms. Arbitrage fund buys a stock in the cash market and simultaneously sells it in the Futures market at a higher price to generate returns from the difference in the price of the security in the two markets. The fund takes equal but opposite positions in both the markets, thereby locking in the difference. The positions have to be held until expiry of the derivative cycle and both positions need to be closed at the same price to realize the difference. The cash market price converges with the Futures market price at the end of the contract period. Thus it delivers risk-free profit for the investor/trader. Price movements do not affect initial price differential because the profit in one market is set-off by the loss in the other market. Since mutual funds invest own funds, the difference is fully the return.

Index Funds

An index fund is a portfolio of stocks or bonds designed to mimic the composition and performance of a financial market index. Index funds have lower expenses and fees than actively managed funds. Index funds follow a passive investment strategy.

Index funds create a portfolio that mirrors a market index.

- The securities included in the portfolio and their weights are the same as that in the index
- The fund manager does not rebalance the portfolio based on their view of the market or sector
- Index funds are passively managed, which means that the fund manager makes only minor, periodic adjustments to keep the fund in line with its index. Hence, Index fund offers the same return and risk represented by the index it tracks.
- The fees that an index fund can charge is capped at 1.5%

- Investors have the comfort of knowing the stocks that will form part of the portfolio, since the composition of the index is known.

Gold Exchange Traded Funds (FoF)

Gold Exchange Traded Funds (ETFs) combine the features of stock trade and gold investments. Gold ETFs are based on the price of gold, and investments are made in gold bullion. Gold ETF transactions are made through stock brokers, who will use the money you give them to invest, to buy gold at market rates.

International Funds

International mutual funds are those, which predominantly invest in the equity, equity related instruments and debt securities of companies/entities listed outside India. Many of these funds are actually fund of funds schemes, whose underlying foreign funds invest in foreign markets.

International funds enable investments in markets outside India, by holding in their portfolio one or more of the following:

- Equity of companies listed abroad.
- ADRs and GDRs of Indian companies.
- Debt of companies listed abroad.
- ETFs of other countries.
- Units of passive index funds in other countries.
- Units of actively managed mutual funds in other countries.

International equity funds may also hold some of their portfolios in Indian equity or debt and they can hold some portion of the portfolio in money market instruments to manage liquidity. International funds gives the investor additional benefits of

- Diversification, since global markets may have a low correlation with domestic markets.
- Investment options that may not be available domestically.
- Access to companies that are global leaders in their field.
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- There are risks associated with investing in such funds, such as –
  - Political events and macro-economic factors that are less familiar and therefore difficult to interpret

- Movements in foreign exchange rate may affect the return on redemption
- Countries may change their investment policy towards global investors.

ADVANTAGES OF INVESTING IN MUTUAL FUNDS

1. Professional Management

Investors may not have the time or the required knowledge and resources to conduct their research and purchase individual stocks or bonds. A mutual fund is managed by full-time, professional money managers who have the expertise, experience and resources to actively buy, sell, and monitor investments. A fund manager continuously monitors investments and rebalances the portfolio accordingly to meet the scheme's objectives. Portfolio management by professional fund managers is one of the most important advantages of a mutual fund.

2. Risk Diversification

Buying shares in a mutual fund is an easy way to diversify your investments across many securities and asset categories such as equity, debt and gold, which helps in spreading the risk - so you won't have all your eggs in one basket. This proves to be beneficial when an underlying security of a given mutual fund scheme experiences market headwinds. With diversification, the risk associated with one asset class is countered by the others. Even if one investment in the portfolio decreases in value, other investments may not be impacted and may even increase in value. In other words, you don't lose out on the entire value of your investment if a particular component of your portfolio goes through a turbulent period. Thus, risk diversification is one of the most prominent advantages of investing in mutual funds.

3. Affordability & Convenience (Invest Small Amounts)

For many investors, it could be more costly to directly purchase all of the individual securities held by a single mutual fund. By contrast, the minimum initial investments for most mutual funds are more affordable.

4. Liquidity

You can easily redeem (liquidate) units of open ended mutual fund schemes to meet your financial needs on any business day (when the stock markets and/or banks are open), so you have easy access to your money. Upon redemption, the redemption amount is credited in your bank account within one day to 3-4 days, depending upon the type of scheme e.g., in respect of Liquid Funds and Overnight Funds, the redemption amount is paid out the next business day.

However, please note that units of close-ended mutual fund schemes can be redeemed only on maturity. Likewise, units of ELSS have a 3-year lock-in period and can be liquidated only thereafter.

5. Low Cost

An important advantage of mutual funds is their low cost. Due to huge economies of scale, mutual funds schemes have a low expense ratio. Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc. The limits of expense ratio for various types of schemes has been specified under Regulation 52 of SEBI Mutual Fund Regulations, 1996.

6. Well-Regulated

Mutual Funds are regulated by the capital markets regulator, Securities and Exchange Board of India (SEBI) under SEBI (Mutual Funds) Regulations, 1996. SEBI has laid down stringent rules and regulations keeping investor protection, transparency with appropriate risk mitigation framework and fair valuation principles.

7. Tax Benefits

Investment in ELSS upto ₹1,50,000 qualifies for tax benefit under section 80C of the Income Tax Act, 1961. Mutual Fund investments when held for a longer term are tax efficient.

CONCLUSION

The mutual fund industry is tremendously growing. A large number of plans have come up from different financial resources in India. Hence, this study tried to give the information to educate the investors about plans and benefits to choose as a best investment avenue. And also found that, there is a huge scope for all the financial intermediaries to have mutual fund awareness program as an investment avenue and provide proper education about mutual funds. So that, pooling of small investors towards mutual funds investment is likely possible.

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