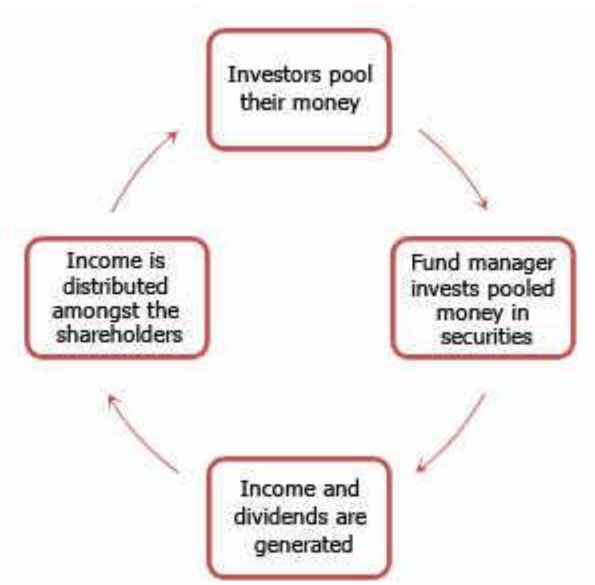
Mutual funds and AMCs:

As the name suggests, a ‘mutual fund’ is an investment vehicle that allows several investors to pool their resources in order to purchase stocks, bonds and other securities.



These collective funds (referred to as Assets Under Management or AUM) are then invested by an expert fund manager appointed by a mutual fund company (called Asset Management Company or AMC).

The combined underlying holding of the fund is known as the ‘portfolio’, and each investor owns a portion of this portfolio in the form of units.

History

The mutual fund industry in India began in **1963** with the formation of the Unit Trust of India (UTI) as an initiative of the Government of India and the Reserve Bank of India. Much later, in 1987, SBI Mutual Fund became the first non-UTI mutual fund in India.

Subsequently, the year 1993 heralded a new era in the mutual fund industry. This was marked by the entry of private companies in the sector. After the Securities and Exchange Board of India (SEBI) Act was passed in 1992, the SEBI Mutual Fund Regulations came into being in 1996. Since then, the Mutual fund companies have continued to grow exponentially with foreign institutions setting shop in India, through joint ventures and acquisitions.
As the industry expanded, a non-profit organization, the Association of Mutual Funds in India (AMFI), was established on 1995. Its objective is to promote healthy and ethical marketing practices in the Indian mutual fund Industry. SEBI has made AMFI certification mandatory for all those engaged in selling or marketing mutual fund

products.

Why should one invest in a mutual fund?

1. MFs are managed by professional fund managers, responsible for making wise investments according to market movements and trend analysis.

2. MFs allow you to invest your savings across a variety of securities and diversify your assets according to your objectives, and risk tolerance.

3. MFs provide investors the freedom to earn on their personal savings. Investments can be as less as Rs. 500.

4. MFs offer relatively high liquidity.

5. Certain mutual fund investments are tax efficient. For example, domestic equity mutual funds investors do not need to pay capital gains tax if they remain invested for a period of above 1 year.

What are the different types of mutual funds?

Each mutual fund scheme has its own objective that determines its assets allocation and investment strategy.

These are classified according to their maturity period, or investment objective. One can also classify mutual funds as 'open ended funds' - where investors may invest or redeem at any point in time and 'close ended funds' - where investors can invest only during the initial launch period known as the NFO (New Fund Offer) period.

Mutual funds classified according to their investment objective range from Equity Funds (with substantial risk), to Money Market Funds (which are very safe). Other types include debt schemes, index funds, balanced funds, etc.

How does one earn returns in a mutual funds?

After investing your money in a mutual fund, you can earn returns in two forms:

1. In the form of **dividends** declared by the scheme

2. Through **capital appreciation** - meaning an increase in the value of your investment.