UNIT 5: MUTUAL FUND

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5.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the meaning of mutual fund
- discuss the objectives and features of mutual fund
- discuss the types of mutual fund
- describe the provisions of SEBI (Mutual Funds) Regulation

5.2 INTRODUCTION

Investing money in securities market is risky for the common people. It requires special knowledge and expertise to deal in securities market. To invest in the securities of big corporate houses the investor also must have a huge amount of investable fund. In such situations, investment in the

securities market becomes difficult for the common people. Here, the mutual fund plays an important role by giving the opportunity of investment in securities market to the small investors. It works on the principle of 'small drops of water make a big ocean'. Hence, a mutual fund is a form of collective investment.

In this unit we will discuss the concept of mutual fund, features and importance of mutual fund, different types of mutual funds, constituent and regulation of mutual fund.

5.3 MEANING AND DEFINITION OF MUTUAL FUNDS

Mutual fund is special types of investment institutions which pools the savings of investors for collective investment in a diversified portfolio of securities. It acts as financial intermediaries who collect the savings of investors and invest them in a large and well diversified portfolio of securities such as money market instruments, corporate and government bonds and equity shares of joint stock companies. It serves as a links between the investors and the securities market by mobilizing savings from the investors and investing them in the securities market to generate returns.

The Securities and Exchange Board of India (Mutual Funds) Regulation, 1996 defines mutual fund as 'a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instrument or real estate assets'

According to the above definition, a mutual fund in India can raise resources through sale of units to the public. It can be set up in the form of a trust under the Indian trust Act.

5.4 OBJECTIVES OF MUTUAL FUNDS

Mutual funds have specific investment objectives, which are stated in their prospectus. Growth funds strive for large capital gains, while growth-income funds seek both dividend income and capital gains from the

common stocks. The balanced fund generally holds a portfolio of diversified common stocks, preferred stocks and bonds with the hope of realising capital gains, dividend and interest income, while at the same time, conserving the principal. Income funds concentrate heavily on high interest and high dividend yielding securities. The industry specific mutual funds, obviously specialise in selected industries such as chemicals, petroleum or power stocks.

The main advantages of investing in mutual fund are:

1. **Professional management:** The investor can avail the service from dedicated investment research team. They analyze the performance of the companies and select the suitable investment to the investor.
2. **Diversification:** Diversification reduces the risk. The mutual fund helps in investing a number of companies across a broad cross-section of industries and sectors.
3. **Convenient Administration:** It reduces many problems like less paper work, delay payments, bad delivery etc.
4. **Return Potential:** It provide higher return as mutual fund invests in diversified securities.
5. **Low costs:** Mutual fund is relatively low expensive as it directly invests and does not require paying brokerage and other fees.
6. **Transparency:** The investment in mutual fund is more transparent as the investor can get regular information on the value of their investment, the proportion of investment in each class of assets etc.

   The mutual fund may face the following risks:

   1. The fund manager may not be accountable for poor result.
   2. Faulty planning of investment may result in minimum return.
   3. The different risks associated with the scheme may not be clearly identified.
   4. The Fund may be unable to focus on the securities of the key segments due to excessive diversification of portfolio.

5.5 FEATURES OF MUTUAL FUND INVESTMENT

The following features have made the mutual fund an attractive investment avenue -

(a) Funds for all reasons and seasons that include variety of products as per the suitability of investors.

(b) Aggressive investing that emphasizes on high profits with moderate risks.

(c) Focus on dividend yield with the help of equity income fund.

(d) Mobilization of savings from small investors to profitable avenues.

(e) Protection of investor's interest.

5.6 IMPORTANCE OF MUTUAL FUNDS

The mutual fund industry has grown at a phenomenal rate in the recent past. The following are some of the important advantages of mutual funds industry:

a) Channelizing savings for investment: A number of schemes are being offered by mutual funds so as to meet the varied requirement of the investors and thus saving are directed towards capital investments directly. In the absence of mutual funds, these savings would have remained idle.

b) Offering wide portfolio investment: The investors can enjoy the wider portfolio of the investment held in the mutual fund. The fund diversified its risks by investing on large variety of shares and bonds which cannot be done by small and medium investors.

c) Rendering expertise investment service at low cost: The management of the fund is generally assigned to professionals who were well trained and have adequate experience in the field of investment. The investment decisions of these professionals are always backed by informed judgement and experience. Thus the investors are always assured of quality services in their best interest.

d) Offering tax benefit: Certain fund offer tax benefits to its customers. Under Section 80 c of the Income Tax Act, investment in equity mutual fund up to Rs. 1,50,000 is tax exempted. No tax is to be paid by the

investors on the dividend that is received from such mutual fund.

e) **Providing greater affordability and liquidity:** Even a very small investor can afford to invest in mutual funds. They provide an attractive and cost effective alternative to direct purchase of shares. In absence of mutual funds, small investors cannot think of participating in securities market.



CHECK YOUR PROGRESS

Q 1: What is meant by mutual fund?

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Q 2: Mention two features of mutual fund investment.

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5.7 TYPES OF MUTUAL FUNDS

1. **According to ownership:**
   - a) **Public sector mutual fund**: Mutual funds which are established by the Government of India or by public sector undertaking are known as public sector mutual fund.
   - b) **Private sector mutual fund**: Mutual fund set up by private sector companies are termed as private sector mutual fund. For example, Reliance Mutual Fund, Kotak Mahindra mutual fund, Escorts India Mutual Fund, etc.
2. **According to location:**
   - a) **Domestic fund**: Domestic mutual fund operates within the boundary of a country. This fund mobiles savings of the nationals within the country and invest only in the securities which are issued and traded in domestic financial markets. For example, in India, UTI Mutual Fund, SBI Mutual Fund, Can Bank mutual fund, etc.
   - b) **Offshore fund**: Offshore mutual fund facilitates cross border

fund flow. This fund attracts foreign capital for investment in the market of a specific country or countries. Offshore Mutual Fund opens up domestic markets to the international investment and global portfolio investments. This fund is regulated by the provisions of foreign countries where it is registered. India Investment Fund sponsored by Standard Chartered Bank, Common Wealth Equity fund sponsored by Canara Bank, etc. are examples of offshore fund.

3. According to portfolio:

a) Income fund: Income fund aims at maximising the current income of the investor from investment. There are two aspects of income fund, low risk with constant income and high risk with maximum income.

b) Growth fund: Growth fund invests major parts of its corpus in equities with the objective of capital appreciation over medium to long term period. It is a high risk investment fund with high capital gains potential and low current income assistance. This fund is best suited to young salaried and business people who have high risk bearing capacity and ability to defer liquidity of investment.

c) Balanced fund: This is income-cum-growth fund and its uses its corpus to invest in equities as well as fixed income securities in proportion indicated in the offer documents. The aim of balance fund is to provide regular income as well as capital appreciation. The fund's exposure to risk is moderate and it offers a reasonable rate of return.

d) Bond fund: Bond fund invests in various kinds of bonds so as to ensure regular and fixed income to investors. The main thrust of this fund is earning regular income rather than capital appreciation.

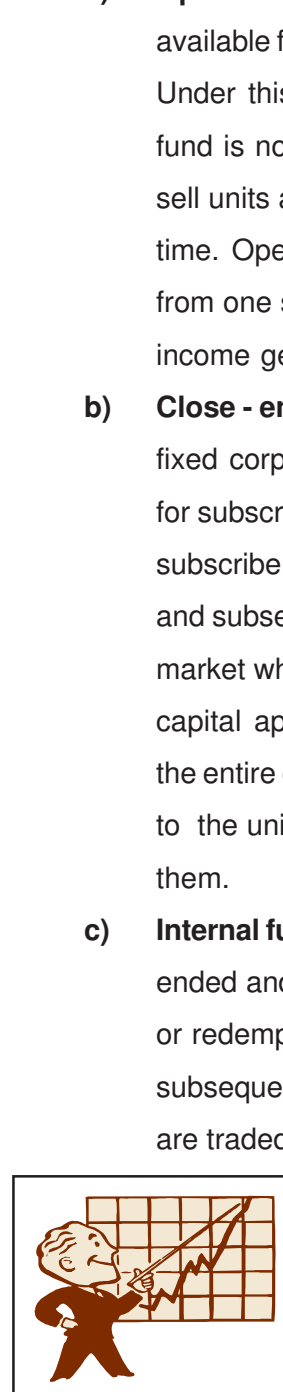
e) Equity fund: Equity fund invests in equity shares of companies. Such funds are for those investors who are willing to take risk in the hope of very high returns.

4. According to operation:

a) **Open - ended mutual fund**: An open - ended mutual fund is available for subscription and repurchase on a continuous basis. Under this scheme, the size of the fund or the period of the fund is not pre-determined. The investors are free to buy and sell units at Net asset Value (NAV) related price at any point of time. Open- ended schemes enable investors to switch over from one scheme to another. The main objective of this fund is income generation for investors.

b) **Close - ended mutual fund**: A close - ended mutual fund has a fixed corpus and a definite maturity period. The fund is open for subscription only during a specified period. The investor can subscribe directly to the scheme only at the time of initial issue and subsequently a person can buy or sell the units in the stock market where they are listed. The main objective of this fund is capital appreciation. After the expiry of the stipulated period the entire corpus is disinvested and the proceeds are distributed to the unit holders in proportion to the number of units held by them.

c) **Internal fund**: Internal fund is one that has features of both open-ended and close-ended funds. The fund remains open for sale or redemption for a specific interval at NAV related prices and subsequently it operates as a close-ended fund and the units are traded in the stock markets.



Net Asset Value: NAV is value per share of a mutual fund.

CHECK YOUR PROGRESS

Q 3: What is income fund?

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Q 4: What is domestic fund?

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Distinguish between open-ended and close-ended fund

The difference between open-ended and close-ended fund is as follows:

Open-ended fund	Close-ended fund
i) Open-ended fund do not have a fixed corpus.	i) In Close-ended fund corpus is fixed.
ii) Open-ended fund are open for public subscription on a continuing basis. The investors can join and come out from the fund as and when they desire.	ii) Close-ended fund are open for public subscription only during a specific period at the time of launch of the fund.
iii) The units of open-ended funds are not publicly traded. The units are repurchases by the fund at NAV related prices.	iii) The unit of close-ended fund is traded at the stock market.
iv) Open-ended fund do not have a definite maturity period.	iv) Close-ended fund have a definite maturity period.
v) The main objectives of open-ended fund are income generation.	v) The main objective of close-ended fund is capital application.

5. Miscellaneous Mutual funds:

a) **Gilt fund**: It is a fund that exclusively deals with government securities. It is usually risk free because government securities have no default risk.

b) **Sectoral fund**: The Sectoral fund invest in specific sectors like power, telecommunications, information technology, natural resources, entertainment, etc.

c) **Index fund**: It is a mutual fund which invests in securities that represent a specific index, e.g., Bombay Stock Exchange, Sensex, etc.

d) **Leveraged fund**: Leveraged fund is common stock fund which aims at maximising capital appreciation of the unit holders by the use of borrowed funds.

e) **Taxation funds**: Taxation fund is designed to provide tax exemption benefits to the investor. The investor in such a fund gets some concession in income tax. These funds are growth oriented and invest predominantly in equities and are suitable for salaried people who wish to avail of tax rebates.

f) **Money market mutual fund**: Money market mutual fund is set up to invest exclusively in short term money markets instruments like treasury bills, commercial paper, certificate of deposits, etc. The main objective of this fund is generation of income and provides easy liquidity. A money market fund invests in a pool of short-term, interest-bearing securities. Money market funds are most appropriate in situations where you seek to preserve the value of your investment while still earning income. After the remarkable success of mutual funds set up by the banks and financial institutions in India, the Reserve Bank of India (RBI) permitted the establishment of the Money Market Mutual Funds (MMMF) in the year 1992. The basic idea is the deployment of mutual funds' surplus funds in the money market. MMMF ensures high liquidity, adequate surety and high returns. What distinguishes the money market mutual funds from the existing mutual funds is the difference in their investment portfolios. A money market mutual fund invariably and exclusively invests its resources in high quality money market instruments, whereas, a mutual fund largely invests in capital market securities and "parks" its surplus funds in money market instruments for short period.

5.8 CONSTITUENTS OF MUTUAL FUNDS

Mutual funds in India are governed under the Securities and Exchange Board of India (Mutual Fund) Regulation, 1996. The four tier system of managing mutual funds as designed by the SEBI is discussed below:

(a) **The Sponsor**: Any corporate body which initiates the launching of mutual fund is referred to as the "sponsor". According to SEBI norms, the sponsor should have professional competence, financial soundness and a general reputation for fairness and integrity in business transactions. The sponsor appoints trustee, an asset management company and custodian in compliance with the regulations.

(b) **The trustees**: Persons who hold the property of mutual fund in trust for benefit of the unit holders are called "trustees". Trustees look after the mutual fund, which is constituted as a trust under the provision of the Indian Trust Act, a company is appointed as a trustee to manage the mutual fund with prior approval from SEBI.

(c) **Asset Management Company (AMC):** The investment manager of mutual fund is technically known as the "Asset Management Company" and is appointed by the sponsor or trustees. The AMC is a company formed and registered under the Companies Act, 1956, the AMC is responsible for operating all the schemes of the fund, one company can act as the AMC of only one mutual fund. An Investment Company Management Agreement is executed between the trustee and the asset management company to manage the mutual fund. It charges a fee for the services it renders to the Mutual fund trust. It acts as the investment manager to the trust under the supervision and direction of the trustees.

(d) **Custodians**: An agency that keeps custody of the securities that are brought by the mutual fund managers under the various schemes is called the custodian. The custodian should in no way be associated with the AMC and cannot act as sponsor or trustee to any mutual fund. A custodian is supposed to act only for a single mutual fund unless otherwise approved by SEBI.

5.9 SYSTEMATIC INVESTMENT PLAN (SIP)

An investor may invest a lump sum in a particular scheme of mutual fund. But he needs to correctly predict the movement of market, which is

difficult even for professionals. If the investment is done when the market is at high level, his risk increase on account of volatility of markets. There is an alternative mode of investment available known as “systematic investment plan” (SIP).In SIP, Instead of making one lump sum investment, a fixed sum of money is invested periodically in equality and equity oriented mutual fund schemes. This plan avoids the problem of market timing and usually gives high returns if the investor has a long term investment horizon. Systematic investment plan is, thereby, a popular investment strategy employed by a large number of investors.



CHECK YOUR PROGRESS

Q 5: Who is a trustee?

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Q 6: What is meant by SIP?

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5.10 SEBI (MUTUAL FUNDS) REGULATION, 1996

SEBI announced the amended mutual fund regulations on Dec 9, 1996 covering registration of mutual funds, constitution and management of mutual funds and operation of trustees, constitution and management of Assets Management Committees (AMCs) and custodian schemes of MF’s, investment objectives and valuation policies, general obligations, inspection and audit. The revision has been carried out with the objective of improving investor protection, imparting a greater degree of flexibility and promoting innovation.

The increase in the number of MFs and the types of schemes offered by them necessitated uniform norms for valuation of investments and accounting practices in order to enable the investors to judge their performance on a comparable basis. The mutual fund regulations issued in Dec, 1996 provide for a scheme – wise report and justification of

performance, disclosure of large investments which constitute a significant portion of the portfolio and disclosure of the movements in the unit capital. The existing assets management companies are required to increase their net worth from Rs. 5 Crores to Rs. 10 Crores within one year from the date of notification of the amended guidelines. AMCs are also allowed to do other fund based business such as providing investment management services to offshore funds, other mutual funds, venture capital funds and insurance companies. The amended guidelines retained the former fee structure of the AMCs weekly average NAV up to Rs. 100 crores and 1% of NAV.

The consent of the investors has to be obtained for bringing about any changes in fundamental attributes of the scheme on the basis of which the unit holders had made initial investments. The amended guidelines require portfolio disclosure, standardization of accounting policies, valuation norms for NAV and pricing. The regulations also sought to address the areas of misuse of funds by introducing prohibitions and restrictions on affiliate transactions and investment exposure to companies belonging to the group of sponsors of mutual funds. The payment of early bird incentive for various schemes has been allowed provided they are viewed as interest payments for early investment with full disclosure.

The various mutual funds are allowed to mention an indicative return of schemes for fixed income securities. In 1998-99 the Mutual Funds Regulations were amended to permit mutual funds to trade in derivatives for the purpose of hedging and portfolio balancing. SEBI registered mutual funds and fund managers are permitted to invest in overseas markets, initially within an overall limit of US $ 500 million and a ceiling for an individual fund at US $ 50 million.

In October, 1999 SEBI made investment guidelines for MFs more stringent. The new guidelines restrict MFs to invest not more than than 10% of NAV of a scheme in share or share related instruments of a single company. MFs investment in rated debt instruments of a single issuer is restricted to 15% of NAV of the scheme (up to 20% with prior approval of Board of Trustees or AMC). The new norms also specify a maximum limit

of 25% of NAV of any scheme for investment in listed group companies as against an umbrella limit of 25% of NAV for all schemes taken together earlier. SEBI increased (June 7, 2000) the maximum investment limit for MFs in listed companies from 5% to 10% of NAV in respect of open – ended funds. Changes in fundamental attributes of a scheme was also allowed without the consent of three fourths of unit holders provided the unit holders are given the exit option at NAV without any exit load. MFs are also not to make assurance or claim that is likely to mislead investors. They are also banned from making claims in advertisement based on past performance.

ASSET MANAGEMENT COMPANY (AMC)

A mutual fund is managed by an Asset Management Company that is appointed by the sponsored company or by the trustees. The asset management company has to be registered under the Companies Act and has to be approved by the SEBI. The AMC manages the affairs of the mutual funds and its schemes. AMCs are registered by the Registrar of Companies only after a draft memorandum and articles of association are cleared by the SEBI. An AMC has to follow a number of obligations. They are as follows:

- The AMC shall take all the steps and exercise due diligence to ensure that any scheme is not contrary to the provisions of the trust deed and provisions of investment of fund pertaining to any scheme is not contrary to the provisions of resolution and trust deed.
- The AMC shall exercise due diligence and care in all its investment decision. The AMC shall be responsible for the acts of commission or omissions by its employees or the person whose services have been procured.
- An AMC shall submit reports to the trustees quarterly.
- The trustees at the request of an AMC can terminate the assignments of the AMC.
- An AMC shall not deal in securities through any broker associated with a sponsor or a firm which is an associated of sponsor beyond 5 per cent of the daily gross business of the mutual fund.

- No AMC shall utilise services of the sponsor of any or any of its associates, employees, or their relatives for the purpose of any securities transaction and distribution and sale of securities, unless disclosure is made to unit holders and brokerage/ commission paid is disclosed in half-yearly account of the mutual fund.
- No person, who has been found guilty of any economic offence or involved in violation of securities law, should be appointed as key personal.
- The AMC shall abide by the code of conduct specified in fifth schedule.
- The asset management company shall not carry out its operations including trading desk, unit holder servicing and investment operations outside the territory of India, Provided that the asset management company having any of its operations outside India shall wind up and bring them within the territory of India within a period of one year from the date of notification of Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2011.
- The AMC has to make a continuous effort to remind the investor thought letters to take unclaimed amounts. The information on amount unclaimed and number of such investors for each scheme is required to be disclosed in the annual reports of mutual funds. The unclaimed redemption and dividend amounts can be deployed by the mutual funds in call money market or money market instruments and the investors who claim this amount during a period of three years from the due date shall be paid at the prevailing net assets value. After a period of three years, the amount can be transferred to a pool account and the investors can claim the amount at NAV prevailing at the end of the three year. The income earned on such funds can be used for the purpose of investor education.

5.11 GROWTH OF MUTUAL FUNDS IN INDIA

The Indian mutual fund industry has evolved over distinct stages. The growth of the mutual fund industry in India can be divided into four phases: phase I (1964-87), phase II (1987-92), Phase III (1992-97) and Phase

IV (beyond 1997).

- **Phase I** - The mutual fund concept was introduced in India with the setting up of UTI in 1963. The Unit Trust of India (UTI) was the first mutual fund set up under the UTI Act, 1963, a Special act of the parliament. It became operational in 1964 with a major objective of mobilising savings through the sale of units and investing them in corporate securities for maximising yield and capital appreciation. This phase commenced with the launch of the unit scheme 1964 (US-64), the first open-ended and the most popular scheme. Master share, the equity growth fund launched in 1986, proved to be a grand marketing success. Master share was the first real close-ended scheme floated by UTI. It launched the India Fund in 1986- the first Indian off shore fund for overseas investors, which was listed on the London Stock Exchange (LSE). UTI maintained its monopoly and experienced a consistent growth till 1987.
- **Phase II**: The second phase witnessed the entry of mutual fund companies sponsored by nationalised banks and insurance companies. In 1987, SBI Mutual Fund and Can bank Mutual Fund were set up as trusts under the Indian Trust Act, 1882. In 1988, UTI floated another off shore fund, namely, The India Growth Fund which was listed on the New York Stock Exchange (NYSE). By 1990, the two nationalised insurance giants, LIC and GIC, and nationalised banks, namely, Indian Bank, Bank of India and Punjab National Bank had started operations of wholly-owned mutual fund subsidiaries. The assured return type of schemes floated by the mutual funds during this phase was perceived to be another banking product offered by the arms of sponsor banks. Subsequently the Government of India issued comprehensive guidelines in June 1990 covering all mutual funds. These guidelines emphasised compulsory registration with the SEBI and a close relationship be maintained between the sponsor and asset management company (AMC). With the entry of public sector funds, there was a tremendous growth in the size of the mutual fund industry.

- **Phase III**: The year 1993 marked a turning point in the history of mutual funds in India. The Securities and Exchange Board of India (SEBI) issued the Mutual Fund Regulations in January 1993. The SEBI notified regulations bringing all mutual funds except UTI under a common regulatory frame work. Private domestic and foreign players were allowed entry in the mutual fund industry. The Kothari group of companies, in joint venture with pioneer, a US fund company, set up the first private mutual fund, the Kothari pioneer Mutual Fund, in 1993. Kothari Pioneer introduced the first open-ended fund Prima in 1993. Several other private sector mutual funds were set up during this phase. UTI launched a new scheme, Master-gain, in May 1992, which was phenomenal success with a subscription of Rs.4, 700 crore from 63 lakh applicants. The industry's investible funds at market value increased to Rs. 78,655 crore and the number of investor accounts increased to 50 million. However, the year 1995 was the beginning of the sluggish phase of the mutual fund industry. During 1995 and 1996, unit holders saw erosion in the value of their investments due to a decline in the NAVs of the equity funds. Moreover, the service quality of mutual funds declined due to a rapid growth in the number of investor accounts and the inadequacy of service infrastructure. A lack of performance of the public sector funds and miserable failure funds like Morgan Stanley eroded the confidence of investors in fund managers. Investor's perception about mutual funds gradually turned negative. Mutual funds found it increasingly difficult to raise money. The average annual sales declined from about Rs. 13,000 crore in 1991-94 to about Rs. 9,000 crore in 1995 and 1996.
- **Phase IV** : During this phase, the flow of funds into the kitty of mutual funds sharply increased. This significant growth was aided by a more positive sentiment in the capital market, significant tax benefits, and improvement in the quality of investor service. Investible funds, at market value, of the industry rose by June 2000 to over Rs. 1, 10,000 crore with UTI having a 68 percent of the market share. During 1999-

2000 sales mobilisations reached a record level of Rs. 73,000 crore as against Rs. 31,420 crore in the preceding year. The effect of these problems was felt strong in India also. Pioneer ITI, JP Morgan and Newton Investment Management pulled out from the Indian market. The Bank of India MF liquidated all its schemes in 2002.

5.12 CHALLENGES FACED BY THE MUTUAL FUNDS IN INDIA

Mutual funds in India have not been able to perform up to the desired level and in many cases have expressed their financial inability to repay the invested capital along with promised rate of returns. The following are some of the main problems that are being faced by the Indian mutual funds.

(a) **Lack of innovation**: Mutual funds in India have not been able to provide innovative schemes in terms of risk, liquidity and choice of the investors.

(b) **Conventional pattern of investment**: Mutual funds in India have been following conservative pattern of investment. They have not been able to diversify the risk to a large extent, which has caused low return in investment.

(c) **Poor risk management**: As per the recent survey, about 50% of mutual funds are not managing the risk properly and another 50% do not have documented risk procedures or dedicated risk managers.

(d) **Liquidity crises**: Mutual funds in India face liquidity problems. Investors are not able to draw back some of the scheme, there is no easy exit route.

(e) **Lack of transparency**: Mutual funds in India are not providing adequate information and materials to the investors. Unfortunately, most of the funds are not able to send even quarterly report to their members. For the success of mutual funds it is very essential that they should create a good rapport with the investors by declaring their holdings to them.

(f) **Delay in service**: Mutual funds in India have not been able to provide

quick and adequate services to the investors. Mutual funds have failed to build up investor- confidence by rendering poor services.



5.13 LET US SUM UP

In this unit we have discussed the following points:

- Mutual fund is special types of investment institutions which pools the savings of investors for collective investment.
- A number of schemes are being offered by mutual funds so as to meet the varied requirement of the investors and thus saving are directed towards capital investments directly.
- A money market mutual fund invariably and exclusively invests its resources in high quality money market instruments
- A mutual fund is managed by an Asset Management Company that is appointed by the sponsored company or by the trustees.



5.14 FURTHER READINGS

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5.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Mutual fund is special types of investment institutions which pools the savings of investors for collective investment in a diversified portfolio of securities.

Ans to Q No 2: Two features of mutual fund are -

(a) Funds for all reasons and seasons that include variety of products as per the suitability of investors.

(b) Aggressive investing that emphasizes on high profits with moderate risks.

Ans to Q No 3: Funds which aims at maximising the current income of the investor from investment are called income fund.

Ans to Q No 4: Mutual fund operates within the boundary of a country are called domestic fund.

Ans to Q No 5: Persons who hold the property of mutual fund in trust for benefit of the unit holders are called “trustees”.

Ans to Q No 6: In SIP, Instead of making one lump sum investment, an investor may put in a fixed sum of money, over a period of time regardless of the mutual fund’s unit price.



5.16 MODEL QUESTIONS

Q 1: Define mutual fund.

Q 2: What is SIP?

Q 3: Discuss the different types of mutual fund.

Q 4: Discuss the constituent of mutual fund.

Q 5: Discuss the obligations of Asset Management Company.

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