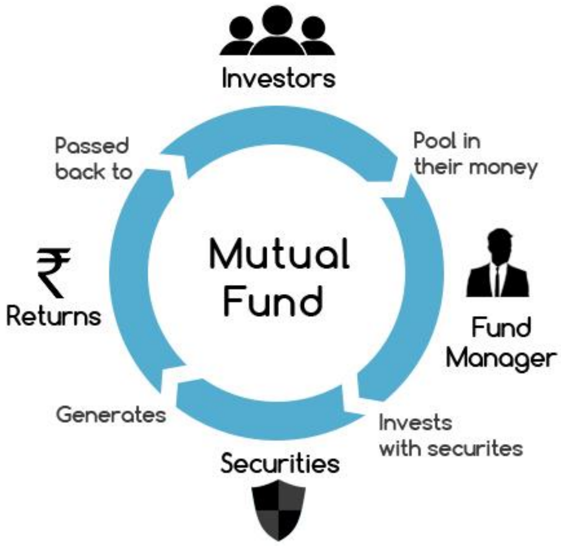
MUTUAL FUNDS

Meaning and Formation



A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested in capital market instruments such as shares, debentures, and other securities. The income earned through these investments is shared by its unit holders in proportion to the number of units owned by them. Thus, a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Praveen. N. Shroff defines a Mutual Fund as, “A portfolio of stock market shares and other financial instruments built with funds collected from small investors, whose primary concern is security of investment”.

A mutual fund raises money from public by issuing UNITS. Units are similar to Equity share in joint stock co. It represents the smallest denomination of ownership in a mutual fund.

Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments. A mutual fund is required to be registered with the Securities and Exchange Board of India (SEBI), which regulates securities markets before it can collect funds from the public.

History of Mutual Funds:

Prof K Geert Rouwenhorst in 'The Origins of Mutual Funds', states that the origin of pooled investing concept dates back to the late 1700s in Europe, when "a Dutch merchant and broker invited subscriptions from investors to form a trust to provide an opportunity to diversify for small investors with limited means." The emergence of "investment pooling" in England in the 1800s brought the concept closer to the US shores.

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI) at the initiative of the Reserve Bank of India (RBI) and the Government of India. The objective then was to attract small investors and introduce them to market investments. Every Mutual Fund in India is established under the Indian Trust Act,1882. In addition, as discussed earlier, a Mutual Fund should be registered with SEBI under SEBI (Mutual Funds) Regulations,1996.