Working and Organization of Mutual Fund Company
Roshan Shukla and Shikha Gupta*
Research Scholar, Banaras Hindu University, Varanasi, UP.

Abstract
A mutual fund is an eccentric of professionally contended corporate investment fomite that collects money from many investors to leverage securities and like invests it in stocks, bonds, short-term money market instruments and other securities. The financial gain earned via these investments, and the capital discernment accomplished, are shared by its unit holders in proportion to the number of units owned by them. Mutual Funds in our country accompany a three stage structure namely Sponsor, Trustees, Asset Management Company.

Keywords: Portfolio, Mutual Funds, Sponsor, Trustees.

Introduction
Today we are barely ignore the words that Mutual funds are subjected to market risk and with ending sentence our whole soul courage to invest in the mutual funds are drown. Today it becomes very important to share the real face of the mutual funds to a common man which always relies on the fixed deposit of his money rather than investment in mutual fund un-awakening that by fixing his amount in bank the bank himself put his money in mutual funds and equity funds. Mutual fund is nonentity supplementary than a collection of stocks and/or bonds(1). People and invests their money in stocks, bonds, and other securities. Each investor fesses up shares, which a segment of the holdings of the fund(2).

You can make money from a mutual fund in three ways:

1. Income is gathered from dividends on stocks and interest on bonds. A fund pays out almost all of the income it encounters over the year to fund owners in the form of a distribution.
2. If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution(3).
3. If fund holdings increase in price but are not sold by the fund manager, the fund's shares gain in price. You can then sell your mutual fund shares for a net income.

Mutual funds have a fund manager who invests the money on behalf of the investors by buying / selling stocks, bonds etc. Currently, the worldwide value of all mutual funds totals more than $US 26 trillion(4).
There are various investment avenues available to an investor such as real estate, bank deposits, post office deposits, shares, debentures, bonds etc. A mutual fund is one more type of Investment Boulevard uncommitted to investors. There are many reasons why investors prefer mutual funds. Buying shares directly from the market is one way of investing (5).

But this requires spending time to find out the performance of the company whose share is being purchased, understanding the future business prospects of the company, determining the track record of the promoters and the dividend, bonus issue history of the company etc. An informed investor demands to do research ahead investing.

Nevertheless, many investors find it awkward and time consuming to pore over so much of information, get admittance to so much of details before investing in the shares. Investors therefore prefer the mutual fund route (6).

They invest in a mutual fund scheme which in turn takes the responsibility of investing in stocks and shares after due analysis and research. The investor need not bother with researching hundreds of stocks. It leaves it to the mutual fund and it’s professional fund management team.

Another reason why investors prefer mutual funds is because mutual funds offer diversification. An investor’s money is invested by the mutual fund in a variety of shares, bonds and other securities thus diversifying the investor’s portfolio across different companies and sectors [3,4]. This diversification helps in reducing the overall risk of the portfolio.

It is also less expensive to invest in a mutual fund since the minimum investment amount in mutual fund units is fairly low (Rs. 500 or so). With Rs. 500 an investor may be able to buy only a few stocks and not get the desired diversification. These are some of the reasons why mutual funds have gained in popularity over the years. All these developments will lead to far more participation by the retail investor and ample of job opportunities for young Indians in the mutual fund industry (7).

This module is designed to meet the requirements of both the investor as well as the industry professionals, mainly those proposing to enter the mutual fund industry and therefore require a foundation in the subject. Investors need to understand the nuances of mutual funds, the workings of various schemes before they invest; since their money is being invested in risky assets like stocks/ bonds (bonds also carry risk). The language of the module is kept simple and the explanation is peppered with concept clarifiers and examples.

**Organization of Mutual Fund Company**

Mutual fund industry has shown a remarkable growth in performance over the last few years and is still enduring to do so. It is considered to be the safest investment avenues because of its well-diversified portfolio and strict follow up by SEBI (8).

SEBI, the market regulator, has outlined clearly the role, responsibilities and duties of each entity, which form a mutual fund. In India, the entities which are involved in a mutual fund operation are specified as under.

1. Sponsor
2. Trust
3. Asset management company
4. Custodian and depositories
5. Bankers
6. Transfer agent
7. Distributors
8. Registrar
Sponsor
What a promoter is to a company, a sponsor is to a mutual fund. In clear terms a sponsor is a person who initiates the idea of establishing a mutual fund company. The sponsor could be a financial services company, a bank or a financial institution. The sponsor will form a trust and appoint the board of trustees(9). The sponsor will also generally appoint an Asset Management Company as fund managers.

The sponsor, either directly or through the trustees, will appoint a Custodian to hold the fund assets. All these appointments are made in accordance with SEBI Regulation. The sponsor takes big-picture decision related to the Mutual Fund. In order to establish a Mutual Fund in India, the sponsor is required to obtain a license from SEBI.

A. Eligibility Norms for Sponsor
1. The sponsor’s contribution must be a minimum of 40% of the net worth of AMC.
2. The sponsor is also required to have carried on business in financial services for a period of not less than five years.
3. It is desirable that the sponsor should have positive net worth in all the immediate preceding five years of functioning.
4. The net worth of the immediately preceding year should more than the capital contribution of the sponsor in AMC and the sponsor should show profit after providing depreciation, interest, and tax for the three out of the immediate preceding five years.
5. The sponsor and any of the directors or principal officers to be employed by the mutual fund, should not have been found guilty of fraud or convicted of an offence involving moral turpitude or guilty of economic offences.
6. Those who qualify the above mentioned criteria are granted permission by the SEBI to establish a mutual fund.

Trustees
The Mutual Fund Company should have board of trustees and trust deed. The trustees of the mutual fund are appointed by the sponsor. The mutual fund is managed by the Board of Trustees, who could be a body of individuals, or a trust company- a corporate body. The trust is determined through a...
document called the Trust Deed that is accomplished by the Fund Sponsor in favor of the trustees. It should be kept in mind that the trustees do not manage the portfolio of securities forthwith. This function is executed by the Asset Management Company (AMC), appointed by the trustees or the sponsor, as per the authorization specified by the Trust Deed(10).

The trustees are the primary guardian of the unit holder’s funds and assets, a trustee is required to be a person of high reputation and integrity. The trustees can be compared as internal regulator in a Mutual Fund. The responsibility assigned to trustees is to protect the interests of unit holders. They ensure that the fund is managed by the AMC according to the defined objectives and in compilation with the Trust Deed and SEBI Regulation. It is made mandatory by the SEBI that out of the total number of trustees two-third of the trustees should be independent- that is, not have any association with the sponsor, to ensure they are impartial and fair in their dealings(11).

A. Rights of Trustees
• The trustees appoint the AMC with the prior approval of SEBI

• They also approve each of the schemes floated by the AMC

• They have the right to request any necessary information from the AMC concerning the operations of various schemes managed by the AMC as often as required, to ensure that the AMC is in compliance with the Trust Deed and the regulations The trustees may take remedial action if they believe that the conduct of the fund’s business is not in accordance with SEBI Regulations. In certain specific events, the Trustees have the right to dismiss the AMC, with the

• approval of SEBI and in accordance with the regulations

• The trustees have the right to ensure that, based on their quarterly review of the AMCs net worth, any shortfall in the net worth is made up by the AMC(12).

B. Obligations of Trustees
• The trustees must enter into an investment management agreement with the AMC. This agreement must be in accordance with the Fourth Schedule of SEBI (Mutual Fund) Regulations, 1996.

• They must ensure that the fund’s transactions are in accordance with the Trust Deed.

• The trustees are responsible for ensuring that the AMC has proper systems and procedures in place and has appointed key personnel including Fund Managers and a Compliance officer, besides other constituents such as the auditors and registrars(13).

• The trustees must ensure due diligence on the part of the AMC for empanelment of brokers.

• The trustees must ensure that the AMC is managing schemes independent of other activities and that the interests of unit-holders of one scheme are not compromised with those of other schemes/activities. For example, the trustees must ensure that AMC has not given any undue advantage to any associates.

• The trustees must furnish to SEBI on a half-yearly basis, a report on the fund’s activities and a certificate stating that the AMC has been managing the schemes independently of other activities.
Asset Management Company
An AMC is registered under the Companies Act, 1956, thus giving it a legal entity. The asset management company also known as Investment Manager is appointed by the Sponsor, or the trustees, if so authorized by the Trust Deed. To form an AMC the approval of SEBI is also required. It should have a certificate from SEBI to act as a portfolio manager under SEBI (portfolio managers) Rules and Regulations, 1993. It is the responsibility of AMC to recruit fund managers and analysts and other personnel to implement the decision taken by the sponsor.

The AMC has to manage all operational matters which includes from designing schemes to launching schemes to efficient handling of investments to communicating with investors. AMC mobilizes the investment of the investors by making investment in various types of securities. It acts as the investment manager to the trust under the supervision and guidance of the trustees(14).

Minimum required net worth for the AMC is Rs. 10 crore at all times and this net worth should be in the form of cash. At least 50% of the directors of the board should be independent, that is, they should not be associated with the sponsor or its subsidiaries or the trustees. The AMC cannot act as an AMC/Trustee to any other Mutual Fund. No person can be a director of more than one AMC or Director of Trust company operated by same AMC(6, 15).

In return for rendering services, the AMC charges investment management fees and advisory fess, on an annual basis, according to the size of the scheme launched by the mutual fund. At present the fees is having the limit as prescribed by SEBI: on the first Rs 100 crores of the weekly average net assets – 1.25%; on the balance of net assets – 1.00%.

Custodian
The custodian is appointed by the board of trustees. A custodian is responsible for the maintenance of back office of a Mutual Fund. The custodian should be registered with SEBI, to be eligible to become a custodian of Mutual Fund. The custodian of the mutual fund company holds the physical securities of various schemes of the fund in its custody(15).

The duties performed by the custodian can be summed as receipt and delivery of securities, collection of income, distribution of dividends, and segregation of assets between schemes. It is important to note here that the sponsor of a Mutual Fund cannot act as a custodian to the fund, so as to ensure that the assets of mutual fund are not in the hands of its sponsor. Some famous Custodians are:

1. HDFC Bank
2. SHCIL
3. Citi Bank
4. Deutsche Bank
5. ABN AMRO
6. IIT Corporate Services
7. SBI India
8. Standard Chartered Bank

Bankers
Mutual funds activities involve dealing with money on a continuous basis primarily with respect to buying and selling of units, paying for investment made, receiving the proceeds on sale of investment and discharging its obligation towards operating expenses. A fund’s banker therefore plays a crucial role with respect to its financial dealings by holding its bank accounts and providing it with remittance services(16).
Figure 2: Organizational Structure of AMC.

**Distributor**
Mutual fund operates on the principle of accumulating funds from a large number of investors and then investing on a big scale. For a fund to sell units across a wide retail base of individual investors, an established network of distribution agents is essential. Distributors are given agency to sell the products of Mutual Fund Company in return of a commission (17).

**Registrar / Transfer Agent**
The registrar is assigned with task of maintaining the accounts of investors for the purpose of investment as well as disinvestments.

The responsibility undertaken by the registrar includes issuing and redeeming units, sending fact sheets and annual reports. It depend upon the respective fund house to manage such purpose in house or outsource it to SEBI- approved registrars and transfer agents for example Karvy, CAMS etc (18). Some renounced R & TA of India are:
1. CAMS
2. Karvy
3. MCS Limited
4. Datamatics
5. MN Dastoor & Co.
6. IIT Corporate Services
7. MN Dastoor & Co.
8. Computeronics
9. Tata Consultancy Services
10. CanBank Computer Services
11. ICICI Infotec
12. MCS Software Solution Ltd.
13. PCS Industries Ltd.
14. Tata Share Registry
15. UTI ISL.

**Investor**
The people who invest in Mutual Fund Company are known as investors. The following persons are eligible to buy mutual fund units:

1. **Residents including:**
   a. Adult individuals (or minors through their parents or guardians) holding singly or jointly (not exceeding three in all);
   b. Hindu Undivided Families through their respective Kartas
c. Companies, corporate bodies, merging or corporate partnership, associations of persons or bodies of individuals, religious and charitable trusts and other societies registered under the Societies Registration Act, 1860 (so long as the purchase of units is permitted under their respective constituent documents);

d. Religious and charitable trust and private trusts, subject to receipt of necessary approvals as “public Securities” wherever required

e. Association of persons or body of individuals.

f. Mutual funds registered with SEBI.

g. Army/ Air Force/ Navy and other paramilitary units and bodies created by such institution besides other eligible institution.

2. Foreign Institutional Investors registered with SEBI

3. Multilateral funding agencies/bodies corporate incorporated outside India with permission of Government of India/Reserve Bank of India.

4. Overseas financial organizations which have entered into an arrangement for investment in India, inter-alia with a Mutual fund registered with SEBI and which arrangements are approved by Central Government.

5. NRIs, OCBs, FIIs and persons of Indian origin residing abroad, on a full repatriation basis/non-repatriation basis.

6. Other schemes of same mutual fund subject to the conditions and limits prescribed by SEBI Regulations.

7. The Trustees/Trust, AMC or Sponsor or their affiliates, their associate companies and subsidiaries.

8. Provident / pension / Gratuity / Superannuation and such other retirement and employee benefit and other similar funds.

Taxation
Taxation in case of Mutual Funds must be understood, primarily, from Capital Gains, Securities Transaction Tax (STT) and Dividends point of view [8]. Tax rules differ for equity and debt schemes and also for Individuals, NRIs, OCBs and corporate. Investors also get benefit under section 80C of the Income Tax Act if they invest in a special type of equity scheme, namely, Equity Linked Savings Scheme(19).

Advantages of Mutual Funds
Investors may not have resources at their disposal to do detailed analysis of companies. Time is a big constraint and they may not have the expertise to read and analyse balance sheets, annual reports, research reports etc. A mutual fund does this for investors as fund managers, assisted by a team of research analysts, scan this data regularly.

Investors can enter / exit schemes anytime they want (at least in open ended schemes). They can invest in an SIP, where every month, a stipulated amount automatically goes out of their savings account into a scheme of their choice. Such hassle free arrangement is not always easy in case of direct investing in shares(20).

Disadvantage
Professional Management - Many investors debate whether or not the professionals are any better than you or I at picking stocks. Management is by no means infallible, and,
even if the fund loses money, the manager still gets paid. Costs - Creating, distributing, and running a mutual fund is an expensive proposition. Everything from the manager’s salary to the investor’s statements costs money. Those expenses are passed on to the investors.

Since fees vary widely from fund to fund, failing to pay attention to the fees can have negative long-term consequences. Remember, every dollar spent on fees is a dollar that has no opportunity to grow over time(21). (Learn how to escape these costs in Stop Paying High Mutual Fund Fees.)

Conclusion
A mutual fund is an eccentric of professionally contended corporate investment fomite that collects money from many investors to leverage securities and like invests it in stocks, bonds, short-term money market instruments and other securities. The financial gain earned via these investments, and the capital discernment accomplished, are shared by its unit holders in proportion to the number of units owned by them.

References
14. Sarkar J, Sarkar S. Large shareholder activism in corporate governance in


Corresponding Author Information
Shikha Gupta, Research Scholar, Banaras Hindu University, Varanasi, UP