J D Women's College

Department of Management Study

Course Name- MBA (PG professional)

(3rd semester)

Subject- Security Analysis and Portfolio Management

Topic- Mutual Fund (part-1)

Faculty Name – Anjali

(Faculty member)

Department of MBA

Mutual Fund

(PART- 1)

Mutual Fund are institutional device where by investor pool in their so as to investment in a diversified. Mutual fund refers to the trust that pools the savings of investors and forms a common fund. The fund is then invested in financial market instruments like shares, debentures and other securities which also include government securities. The income earned through these investments and the capital appreciation realized are shared among the unit holders in proportion of the units held by them.

Investments in securities are spread over a wide range of industries and sectors, so that risk reduction to take place. Diversification reduces the risk because all stocks and instruments may not move in the same direction and in the same proportion and at the same time.

Type of Mutual fund

a) Open ended scheme

When a fund is accepted and liquidated on a continuous basis by a mutual fund manager, it is called open ended scheme‘. These schemes do not have a fixed maturity and entry to fund is always open to investors who can subscribe it at any time. Similarly, the investors have an option to get their holdings redeemed at any time. Under this scheme the capitalization of the fund will constantly change, since it is always open for the investors to sell or buy the units. The scheme provides an excellent liquidity facility to investors. The value of the unit is based upon the net asset value of the unit.

b) Close ended scheme

A close ended scheme, in which the period of maturity of the scheme is specified. Unlike open ended funds, the corpus of the close ended scheme is fixed and an investor can subscribe directly to the scheme only at the time of initial issue. After the initial issue is closed, a person can buy or sell the units of the scheme in the secondary market i.e. the stock exchanges. The price in the secondary market is determined on the basis of demand and supply.

c) Interval schemes

It is a kind of close ended scheme with a peculiar feature that it remains open during a particular part of a year for the benefit of the investors, either to offload their holdings or to undertake purchase of units at their NAV. An interval scheme is a scheme of mutual fund which is kept open for a specific interval and after that it operates as a closed scheme. Thus, it combines the features of both open ended as well as close ended schemes. Interval schemes have been permitted by the SEBI in recent years only. The scheme is open for sale or repurchase at a fixed pre-determined intervals which are disclosed in the offer document. The units of this scheme are also traded in the stock exchanges.

d) Income Fund Scheme

The scheme that is tailored to suit the needs of investors who are particular about regular returns is known as income fund scheme. The scheme offers maximum current income, whereby the income earned by the units is distributed periodically. Such funds are offered in two forms. The first scheme earns a target constant income at a relatively low risk. While the second scheme offers the maximum possible income. This obviously implies that the higher expected returns come with the higher potential risks of the investment.

e) Growth Fund Scheme

It is a mutual fund scheme that offers the advantage of capital appreciation of the underlying investment. Such funds investment is made in growth oriented securities that are capable of appreciating in the long run. The investment is made in equity, which have above average growth potential.

f) Equity Fund Scheme

Scheme that aims is providing a reasonable rate of return, protecting the value of the investment. A conservative mutual fund is an investment portfolio managed by a professional who invests in financial securities fitting the low-risk profile. Conservative stocks are equity securities that are issued by financially stable companies and trade in the public stock market.

g) Conservative Fund Scheme

A kind of mutual whose strength is derived from equity-based investment is called equity fund scheme‘. They carry a very high degree of risk. The assets in fund are entirely the equity stock of diversified lists of industries. Such funds do well in periods of favorable capital market trends. Equity mutual funds invest at least 60% of their assets in equity shares of numerous companies in suitable proportions.