

## Indian MF- present trend and plausible future prospects

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### Abstract

Mutual funds contribute to the vibrancy of economical activity of a country. Decision making on investing in Mutual funds is largely dependent on social interactions, as individual exchange, information and discuss money matters with friends and fund managers. Good fund managers may also satisfy sociological needs and remove psychological fear of the investor in terms of the risk. Mutual funds are becoming preferred investment avenues for individuals with the intent of diversifying investment for reasonable period and returns. The mutual fund schemes have brought in with them product innovations, investment management techniques and investor-serving technologies.

**KEYWORDS:** Mutual fund, Investment, Assets Under Management, Return on Investment, Portfolio managers.

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#### Introduction:

Mutual funds are becoming preferred investment avenues for individuals with the intent of diversifying investment for reasonable returns. The activities and decision making on MF is mainly dependent on a system of human interactions, as individual exchange information, discuss money matters with friends, and fund managers. A study revealed that factors that control investment decisions are economical, sociological and psychological. Good fund managers satisfy sociological and psychological needs. Mutual funds these days are managed by fund managers who are in know of things of the market dynamics and are adept at optimizing returns. In the present context, one can easily locate portfolio managers to select appropriate mutual funds for higher returns than many other investment options<sup>1,2</sup>. It is a fact that return on all types of investments are dependent on various economical factors prevailing in a country. So is the case with mutual funds. The functioning of the mutual funds involves investing money collected from individuals in capital market instruments such as shares, debentures, and other securities. The income earned through these investments is diverted to unit holders in proportion to the number of units owned by them as well as by the by-laws of the schemes. The mutual fund schemes have brought in with them product innovations, investment management techniques and investor-servicing technologies. Since the dynamics of MF are market-related, the returns on investment depend on the market performance of the funds. As a result, one must consider the extent of investment and expected goals before selecting from the range of investment plans. The journey of mutual trust based financial venture so far can be terms as successful in terms of the number of available schemes, volume of money involved and clientage it attracted.

#### Background:

a) International:

Amsterdam-based businessperson Adriaan van Ketwich is credited for forming a prototype of the first MF with a motto 'unity creates strength' (Eendragt Maakt Magt) with the objective of providing opportunity to diversify funds to small investors in 1773–1774<sup>3</sup>. The concept soon took root in Great Britain and France. The British Government permitted investors to share the profits earned by the investment company by the Joint Stock Companies Acts of 1862 and 1867 and created the Foreign and Colonial Government Trust in London in 1868. Thereafter the concept of MF entered the U.S. market. The first mutual or 'open-ended' fund was introduced in Boston, USA in March 1924. The Year 1928 is considered as a memorable year in the history of the mutual fund with the launching of Wellington Fund in USA. It included stocks and bonds, as opposed to direct merchant-bank style of investments in business and trade those days. Currently an estimated 76,200 mutual fund companies or perhaps more, worldwide control about \$30 trillion in assets under management<sup>4</sup>.

b) National:

Capital markets provide long-term resources for investment in various economic sectors, and can be a major factor in the economic development of countries. Activities related to mutual fund in India began by the formation of the Unit Trust of India (UTI) in 1963, at the initiative of the Reserve Bank of India and the government of India Government of India with the objective of attracting small investors and introduce them to market investments. The subsequent development and working of the Unit Trust of India, the entry of Public Sector Funds and the emergence of private funds, growth and their regulation by SEBI has been divided into four phases between 1964 and 1996<sup>5</sup>.

The mutual fund investment hit record high in the 1980s and 1990s as investors gained high returns. However, a recent report on Mutual Fund Investments published by research and analytics firm, Boston Analytics<sup>6</sup>, indicated that investors in India are shying away from investing money into mutual funds due to their perceived high risk as well as insufficient information the working of mutual funds. Notwithstanding these relatively negative sentiments, various options are present under MF scheme that include a periodic investment, regular withdrawal and dividend reinvestment plan that allows investors to systematically invest or withdraw funds according to the needs and convenience. Certain mutual funds have brought in various innovations, investment management techniques and investor-servicing technologies<sup>7</sup>.

**Present Position:**

Until recently, investors were rather skeptical about putting money in to fund schemes mostly because of lack of proper information on mutual funds. Things are changing now and there seems to have large opportunity for the MF industry to grow further<sup>8,9</sup>. In spite of a significantly lower level of Indian mutual fund penetration ratio (i.e. Assets Under Management (AUM) to the percentage of the GDP) of about 11% compared to world average of 55%, the Industry's AUM had crossed the milestone of rupees 10 Trillion for the first time in May 2014. In addition, in a short span of three years after 2014, the AUM size has crossed 20 trillion in August 2017<sup>5,10</sup>. The Industry AUM stands at rupees 26.86 Trillion (26.86 Lakh Crore) as on September 30, 2020. However, the mutual fund assets worldwide stood at \$54.9 trillion, (~ 4096 trillion rupees) at the end of 2019, according to the Investment Company Institute. The USA occupies the first position with \$26.7

trillion worth MF industry in 2020<sup>11</sup>. In terms of growth in mutual fund AUM however, India stands second to China during the last 5 years.

#### The CORONA Impact:

It is known that during 2019 Indian economy was fast moving and had become the fifth largest economy of the world, when ranked by nominal GDP, as well as was one of the fastest growing economies around the world. This situation generated sufficient economic activities including investment in mutual funds. However, Indian economy slipped to 7<sup>th</sup> rank in 2020 due to impediment in various economic sectors caused by the COVID-19 crisis in terms of nominal GDP, and reached to lowly 17<sup>th</sup> position in terms of mutual fund assets under management. In a country of 1.3 billion people, having 27% Insurance policy holders and approximately 9 percent taxpayers only about 2% invests in mutual funds<sup>10</sup>. Indian MF industry has a capacity for much higher growth if the potential is harnessed by creating innovative products and effective marketing strategies. As per the Bain and Company South Asia, there will be about 44% population of India (about 168M) in the upper middle class by 2030 indicating expected high potential for investment in MF. If one has a horizon of five to six years for relative good return, it is an appropriate time to opt for investing in mutual funds with diverse asset allocation. Diverse allocation along with duration and the objectives of investment are important factors that are to be taken into consideration while opting for the mutual funds. Initiatives taken by AMFI in recent years are to increase investor's interest in mutual funds. As a result, the AMU in India has grown 4 times in the last decade and expected to scale further by 2025.

#### Plausible Solutions:

Portfolio managers are in direct contact with the prospective individuals interested in investing money, and can be a strong motivating factor that can help drive and revive the industry. They have a network of clients built overtime by sheer hard work, inducting knowledge of fund schemes to the investors, their benefits, and probable but near sure returns based on a bond of mutual trust. Investor is likely to repose trust on fund managers by virtue of their tireless working and continual and easy access and availability. Gradually the investors are also gaining confidence by virtue of better return and low risk associated in mutual funds and is opting for it. This bonding may be maintained and furthered using IT and digital technologies with lesser efforts. As per a report, there are more than 40 AMU and twenty five hundred mutual fund schemes available to an investor in mutual fund market<sup>12</sup>. It is rather difficult to select an appropriate mutual fund, unless one is actively involved in the market for a long period. Once the period of an investment is planned, along with the value of investment it is rather simple for the fund manager to select a scheme that is likely to fulfill the aspirations. Thus, a knowledgeable, sincere, conscientious, person is what, one should be fortunate to have as fund manager who can guide and encourage the investor. It is expected that these qualities will go a long way in infusing a new dimension to the mutual fund industry. It is estimated that Indians save approximately Rs. 20-30 lakh crore annually and if we Indians started parking a higher percentage of their savings in MFs the Indian mutual fund industry may grow immensely<sup>11</sup>.

### Conclusion:

Economic development of a country depends on the investment objective and its management and mutual fund can play an important role in it. With the change economic scenario where options are available in the market for safe investment, mutual funds are gaining strong footholds in urban area. Until recent time prospective investors were shying away from putting their money into mutual funds perhaps due to their perceived high risk and a lack of information on how mutual funds work. With the spread of information by various sources, confident investors are joining the MF bandwagon. Indian MF industry has a capacity for much higher grow if the potential is harnessed by creating innovative products and effective marketing strategies. It is observed that if one has a horizon of five to six years for the investment, relatively good returns are ensured. Indian MF industry has a capacity for much higher grow if the potential is harnessed by improving and creating innovative products and using effective marketing strategies.

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