

FUND CONSTITUTENTS

Mutual Fund Structure

- Mutual Funds in U.S are setup as investment companies
- Mutual Funds in U.K are either Unit Trusts (Trust) or Investment Trust (Companies)
- In India, Mutual Funds are Public Trusts under the Indian Trusts Act, 1882
- Mutual Fund has 7 constituents:
 - Sponsor
 - Trustee
 - AMC
 - Custodian
 - R&T Agent
 - Distributors
 - Bankers

Mutual Fund Structure

- Mutual Funds invest
 - in Capital market instruments
 - on behalf of investors
- All gains and losses of funds are shared by the unit holders
- MF is a **pass-through structure** and it has tax implications

Constituents of a Mutual Fund

- Sponsor
- Trustees
- Asset Management Company
- Custodian / Depository Participant
- R & T Agent
- Distributors
- Banker

Mutual Fund Structure

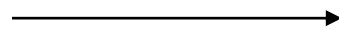
Sponsor

AMC

Trustee

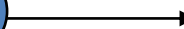
Investors

UNITS



MONEY

Mutual Fund



- Shares
- Debentures

Sponsor

- Sets up a Mutual Fund
- Settles the Trust and executes Trust Deed
- Contributes to the initial capital of the Trust
- Appoints the Board of Trustees
- Appoints Asset Management Company
- Contributes minimum 40% of net worth of AMC

Board of Trustees

- Trustees appointed by the Sponsor with SEBI approval
- At least two third Trustees must be Independent
- The Trustees have a FIDUCIARY responsibility towards unit holders
- Trustees oversee the functioning of AMC
- Trustees not liable for acts done in good faith and if they have exercised adequate due diligence
- The investments in MF's are held by the Trustees
- Trustees receive fees for their services

Eligibility to become a Trustee

Eligibility Conditions :

- Person of high repute and integrity
- Not guilty of moral turpitude
- Not convicted for economic offence under securities laws
- Not a part of AMC eg. Director, Employee or Officer of AMC
- One can be Trustee of two MF's if approved by Board of Trustees of both the Mutual Funds

Asset Management Company (AMC)

- AMC can do only the following businesses
 - Asset Management Services
 - Portfolio Management Services
 - Portfolio Advisory Services
- AMC can be terminated/changed with the consent of
 - Majority of Trustees or
 - At least 75% majority of Unit holders

Role of an AMC

- AMC is a Fund Manager for managing Mutual Fund Assets
- AMC is accountable to the Trustees
- AMC floats different MF schemes
- Asset Management Agreement between AMC and Trustee
- AMC charges Asset Management Fees subject to ceiling prescribed by SEBI

Obligations of an AMC

- Limit of 5% of aggregate purchase and sales of Securities under all its scheme per broker per quarter
- All Security transactions with a Sponsor and his associates to be disclosed
- As far as possible AMC to avoid services of its sponsor
- Disclosure of transactions with a company which has invested more than 5% of NAV in any scheme

Registrar & Transfer Agent

- Registrar & Transfer Agent:
 - Issues, redeems, transfers units of MF schemes
 - Keeps Unit Holders A/C's upto date
 - Registered with SEBI

Custodian / Depository Participant

- Custodian / DP:
 - Appointed by Board of Trustees
 - Keep record & account of Securities / Investments
 - Collects benefits under Securities
 - Sponsor & Custodian / DP cannot be the same entity
 - Registered with SEBI

Take Over of an AMC / Scheme of AMC

- Take over of AMC by new Sponsor
 - Trustees approval required
 - Consent of 75% Unit holder required
 - SEBI clearance required
- Merger of two schemes of different AMC's
 - Scheme of one Mutual Fund taken over by another Mutual Fund
 - Trustees approval required
 - Unit holders to be informed
 - SEBI's approval required

Merger of two AMC's

- Merger of 2 AMC's:
 - Approval of Trustees of both AMC's required
 - SEBI approval required
 - Approval of High Court also required
 - Unit holders are informed and given option to exit without load