



MUTUAL FUND STRATEGY

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Abstract

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. Hedge funds are not mutual funds; they cannot be sold to the general public and are subject to different government regulations. They are generally the most common investment vehicle for retirement plans, such as the 401(k) in the United States. Mutual funds have both advantages and disadvantages compared to direct investing in individual securities.

Introduction

The main advantage of mutual funds is they provide stock diversification and professional investors managing the account. The main disadvantage is the fees/expenses charged. There are three structures of mutual funds: open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange such as the New York Stock Exchange. Open-end funds that cannot be sold on an exchange can instead be sold back to the fund manager at the close of each business day. Mutual funds are generally classified by their principal investment strategy: money market funds, bond or fixed income funds, stock or equity funds, and hybrid funds. Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index or actively managed funds that try to beat other indexes but charge higher fees. Investors in a mutual fund must pay mutual fund fees and expenses, which reduce the fund's returns and performance and are usually expressed in the form of an expense ratio. Passively managed funds, such as index funds generally have a lower expense ratio than actively managed funds. Mutual funds may invest in many kinds of securities. The types of securities that a particular fund may invest in are set forth in the fund's prospectus, a legal document which describes the fund's investment objective, investment approach and permitted investments. The investment objective describes the type of income that the fund seeks. For example, a capital appreciation fund generally looks to earn most of its returns from increases in the prices of the securities it holds, rather than from dividend or interest income. The investment approach describes the criteria that the fund manager uses to select investments for the fund. A mutual fund's investment portfolio is continually monitored by the fund's portfolio manager or managers.

History

The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market until 1987, when a host of other government-controlled Indian financial companies established their own funds, including State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in 1993, as a result of the historic constitutional amendments brought forward by the then Congress-led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer, which later merged with Franklin Templeton. In 1996, SEBI, the regulator of mutual funds in India, formulated the Mutual Fund Regulation which is a comprehensive regulatory framework. Mutual funds are an under tapped market in India

Deposit being available in the market less than 10% of Indian households has invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work. There are 46 Mutual Funds as of June 2013. The primary reason for not investing appears to be correlated with city size. Among respondents with a high savings rate,



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close to 40% of those who live in metros and Tier I cities considered such investments to be very risky, whereas 33% of those in Tier II cities said they did not know how or where to invest in such assets.

Average assets under management

Assets under management (AUM) is a financial term denoting the market value of all the funds being managed by a financial institution (a mutual fund, hedge fund, private equity firm, venture capital firm, or brokerage house) on behalf of its clients, investors, partners, depositors, etc. The average assets under management of all mutual funds in India for the quarter Dec 2015 to Mar 2016.

Sr No	Mutual Fund Name	Total Schemes	QAAUM AUM (₹ Lakh.)	Prev QAAUM (₹ Lakh.)	Inc/Dec (₹ Lakh.)	Percentage
1	Axis Asset Management Company	263	3776454.37	3456348.88	320105	9%
2	Baroda Pioneer Asset Management Company	111	965630.33	925542.12	40132	4%
3	Birla Sun Life Asset Management Company	806	13678510.7	13684493.34	5312	0%
4	BNP Paribas Asset Management Company	114	509706.79	500795.21	9209	2%
5	BOI AXA Asset Management Company	76	238501.41	242767.91	2887	1%
6	CanaraRobeco Asset Management Company	142	804326.86	751779.86	52627	7%
7	Deutsche Asset Management Company	8	27698	17194	10504	61%
8	DHFL Pramerica Asset Management Company	491	2598683.24	216345	-80979	-37%
9	DSP BlackRock Asset Management Company	398	4015131.25	3918267.17	96865	2%
10	Edelweiss Asset Management Company	70	167774.29	163236.28	4538	3%
11	Escorts Asset Management Company	60	28559.18	29222.27	-663	-2%
12	Franklin Templeton Asset Management Company	200	6784076.49	7172216.54	-384257	-5%
13	HSBC Global Asset Management Company	155	790382.19	837762.82	-47151	-6%
14	HDFC Asset Management Company	1173	17608456.44	17866622.24	-256390	-1%
15	Goldman Sachs Asset Management Company	18	610139.99	685179.35	-75039	-11%
16	ICICI Prudential Asset Management Company	1529	17596397.6	17223699	390751	2%
17	IDBI Asset Management Company	92	689266.37	756428.17	-67162	-9%
18	IDFC Asset Management Company	453	5228379.46	5486421.83	-249600	-5%
19	IIFCL Asset Management Asset	1	35797.56	34293.89	1504	4%
20	IIFL Asset Management Company	18	48543.76	42203.84	6340	15%
21	IL & FS Infra Asset Management Company	12	92296.34	90029.5	2267	3%
22	Indiabulls Asset Management Company	56	528955.04	491675.45	37279	8%
23	JM Financial Asset Management	179	1616090.42	1586776.74	29313	2%



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24	J.P. Morgan Asset Management Company	141	641451.9	750109.43	-107986	-14%
25	Kotak Mahindra Asset Management Company	431	5873108.27	5513383.02	362464	7%
26	L&T Asset Management Company	246	2594480.1	2505850.82	89990	4%
27	LIC Nomura Mutual Fund Asset Management Company	176	1315562.4	1238408.04	92942	8%
28	Mirae Asset Management Company	55	313272.14	280239.04	33101	12%
29	MotilalOswal Asset Management Company	31	468921.13	455222.64	14103	3%
30	Peerless Asset Management Company	57	98524.1	102441.7	-3917	-4%
31	PPFAS Asset Management Company	1	61357.1	62931.88	-1575	-3%
32	Principal Asset Management Company	123	528106.02	587875.66	-59770	-10%
33	Quantum Asset Management Company	15	66093.04	65531.63	561	1%
34	Reliance Asset Management Company	1015	15936949.34	15787817.36	152561	1%
35	Religare Global Asset Management Company	267	1959617.91	1988459.31	-28622	-1%
36	Sahara Asset Management Company	68	9929.16	11002.32	-758	-7%
37	SBI Asset Management Company	652	10732737.36	10058453.69	672760	7%
38	Shriram Asset Management Company	4	3716.98	3711.53	5	0%
39	Sundaram Asset Management Company	479	2366370.94	2187696.57	185302	8%
40	Tata Asset Management Company	324	3186223.17	3155590.09	26752	1%
41	Taurus Asset Management Company	65	394858.04	350334.19	44524	13%
42	Union KBC Asset Management Company	60	290228.21	273213.25	17015	6%
43	UTI Asset Management Company	1220	10630921.82	10612903.52	16124	0%

SL.NO	SELLER	ACQUIRED BY	YEAR
1	Alliance Capital MF	Birla Sunlife	2005
2	Standard Chartered	IDFC	2008
3	AIG Global Investment Group MF	PineBridge MF	2011
4	Benchmark Mutual Fund	Goldman Sachs	2011
5	Fidelity	L&T Finance	2012
6	Morgan Stanley's	HDFC	2013
3	PineBridge MF	Kotak MF	2014

Advantages of investing in mutual funds

Increased diversification: A fund normally holds many securities; diversification decreases risk.



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Daily liquidity: Shareholders of open-end funds and unit investment trusts may sell their holdings back to the fund at the close of every trading day at a price equal to the closing net asset value of the fund's holdings. **Professional investment management:** Open-and closed-end funds hire portfolio managers to supervise the fund's investments. **Ability to participate in investments that may be available only to larger investors.** For example, individual investors often find it difficult to invest directly in foreign markets.

Service and convenience: Funds often provide services such as check writing. **Government oversight:** Mutual funds are regulated by a governmental body **Ease of comparison:** All mutual funds are required to report the same information to investors, which makes them easy to compare.

Disadvantages of investing in mutual funds

- Subject to mutual fund fees and expenses
- Less control over timing of recognition of gains
- Less predictable income
- No opportunity to customize

Classification of funds by fund structure

There are three structures of mutual funds: open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange such as the New York Stock Exchange. Open-end funds that cannot be sold on an exchange can instead be sold back to the fund manager at the close of each business day.

Open-end funds

Most mutual funds, and all mutual funds in 401(k) retirement accounts in the United States, are open-end funds. Open-end mutual funds must be willing to buy back their shares from their investors at the end of every business day at the net asset value (NAV) computed that day based upon the prices of the securities owned by the fund. Most open-end funds also sell shares to the public every business day; these shares are also priced at NAV. A professional investment manager oversees the portfolio, buying and selling securities as deemed appropriate. The total amount of assets in the fund will vary based on share purchases, share redemptions and fluctuation in market valuation. There is no legal limit on the number of shares that can be issued.

Closed-end funds

Closed-end funds generally issue shares to the public only once, when they are created through an initial public offering. Their shares are then listed for trading on a stock exchange. Investors who want to sell their shares must sell their shares to another investor in the market; they cannot sell their shares back to the fund and the price they receive may be significantly different from NAV. It may be at a "premium" to NAV (i.e., higher than NAV) or, more commonly, at a "discount" to NAV (i.e., lower than NAV). A professional investment manager oversees the portfolio, buying and selling securities as deemed appropriate.

Unit investment trusts

Unit investment trusts (UITs) can only issue to the public once, when they are created. UITs generally have a limited life span, established at creation. Investors can redeem shares directly with the fund at any time (similar to an open-end fund) or wait to redeem them upon the trust's termination. Less commonly, they can sell their shares in the open market. Unit investment trusts do not have a professional investment manager; their portfolio of securities is established at the creation of the UIT and does not change.

Exchange-traded funds

Exchange-traded funds (ETFs) are structured as open-end investment companies or UITs. ETFs combine characteristics of both closed-end funds and open-end funds. ETFs are traded throughout the day on a stock exchange. An arbitrage mechanism is used to keep the trading price close to net asset value of the ETF holdings.



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Classification of funds by types of underlying investments Mutual funds are normally classified by their principal investments, as described in the prospectus and investment objective. The four main categories of funds are money market funds, bond or fixed income funds, stock or equity funds, and hybrid funds. Within these categories, funds may be sub classified by investment objective, investment approach or specific focus.

The SEC requires that mutual fund names be consistent with a fund's investments. For example, the "ABC New Jersey Tax-Exempt Bond Fund" would generally have to invest, under normal circumstances, at least 80% of its assets in bonds that are exempt from federal income tax, from the alternative minimum tax and from taxes in the state of New Jersey. Bond, stock, and hybrid funds may be classified as either index (passively managed) funds or actively managed funds.

Money market funds

Money market funds invest in money market instruments, which are fixed income securities with a very short time to maturity and high credit quality. Investors often use money market funds as a substitute for bank savings accounts, though money market funds are not insured by the government, unlike bank savings accounts. Money market funds sold to retail investors strive to maintain a \$1.00 per share net asset value, meaning that investors earn interest income from the fund but do not experience appreciation and capital gains or losses. If a fund fails to maintain that \$1.00 per share because its securities have declined in value, it is said to "break the buck". In the United States, only two money market funds have ever broken the buck—Community Banker's U.S. Government Money Market Fund in 1994 and the Reserve Primary Fund in 2008, which owned securities backed by failed Lehman Brothers.

In the United States, funds that are sold to institutional investors are required to maintain a floating NAV and not maintain a fixed \$1.00 per share price.

Bond funds

Bond funds invest in fixed income or debt securities. Bond funds can be sub-classified according to the specific types of bonds owned (such as high-yield debt (junk bonds), investment-grade corporate bonds, government bonds or municipal bonds) and by the maturity of the bonds held (short-, intermediate- or long-term). Bond funds are classified based on the type of bond issuer of the bonds in which it invests, i.e. the country, credit level, or tax treatment of the interest.

Stock funds

Stock, or equity, funds invest in common stocks. Many stock funds focus on a particular area of the stock market, such as stocks from only a certain country or industry. Stock funds sometimes also specialize in a type of company such as a *growth* stock, a stock that the managers deem to be a good *value*, or stocks that pay high dividends and provide *income*. Funds may also focus on companies of a certain market capitalization, or total equity value, an indicator of the size of the company.

The market capitalization of a company is calculated as the number of shares outstanding times the market price of the stock. They are typically divided into the following categories:

Mega cap - companies worth \$200 billion or more

- Big/large cap - companies worth between \$10 billion and \$200 billion
- Mid cap - companies worth between \$2 billion and \$10 billion
- Small cap - companies worth between \$300 million and \$2 billion
- Micro cap - companies worth between \$50 million and \$300 million
- Nano cap - companies worth less than \$50 million

Hybrid funds

Hybrid funds invest in both bonds and stocks or in convertible securities. Balanced funds, asset allocation funds, target date or target risk funds and lifecycle or lifestyle funds are all types of hybrid funds.

Hybrid funds may be structured as funds of funds, meaning that they invest by buying shares in other mutual funds that invest in securities. Many funds of funds invest in affiliated funds (meaning mutual funds managed



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by the same fund sponsor), although some invest in unaffiliated funds (i.e., managed by other fund sponsors) or some combination of the two.

Expenses

Investors in a mutual fund pay the fund's expenses. These expenses fall into five categories: distribution and service charges (sales loads and distribution and services fees - sometimes referred to as 12b-1 fees in the United States), the management fee, securities transaction fees, shareholder transaction fees, and fund services charges. Some of these expenses reduce the value of an investor's account; others are paid by the fund and reduce net asset value.

Recurring fees and expenses—specifically the distribution and services fee, the management fee and other fund expenses—are included in a fund's total expense ratio (TER), often referred to as simply the "expense ratio". Because all funds must compute an expense ratio using the same method, investors can easily compare costs across funds.

Management fee

The management fee is paid by the fund to the Management Company or sponsor that organizes the fund, provides the portfolio management or investment advisory services and normally lends its brand to the fund. The fund manager may also provide other administrative services. The management fee often has breakpoints, which means that it declines as assets (in either the specific fund or in the fund family as a whole) increase. The fund's board reviews the management fee annually. Fund shareholders must vote on any proposed increase, but the fund manager or sponsor can agree to waive some or all of the management fee in order to lower the fund's expense ratio.

Distribution charges

Mutual fund investments are sourced both from institutions (companies) and individuals. Since January 2013, institutional investors have moved to investing directly with the mutual funds since doing so saves on the expense ratio incurred. Individual investors are, however, served mostly by Investment advisor and banks. Since 2009, online platforms for investing in Mutual funds have also evolved. Distribution charges pay for marketing, distribution of the fund's shares as well as services to investors. There are three types of distribution charges. A no-load fund does not charge a front-end load or back-end load under any circumstances and does not charge a distribution and services fee greater than 0.25% of fund assets

- Front-end load or sales charge. A front-end load or sales charge is a commission paid to a broker by a mutual fund when shares are purchased. It is expressed as a percentage of the total amount invested or the "public offering price", which equals the net asset value plus the front-end load per share. The front-end load often declines as the amount invested increases, through breakpoints. The front-end load is paid by the investor; it is deducted from the amount invested.
- Back-end load. Some funds have a back-end load, which is paid by the investor when shares are redeemed. If the back-end load declines the longer the investor holds shares, it is called a contingent deferred sales charges (CDSC). Like the front-end load, the back-end load is paid by the investor; it is deducted from the redemption proceeds.
- Distribution and services fee. Some funds charge an annual fee to compensate the distributor of fund shares for providing ongoing services to fund shareholders. In the United States, this fee is sometimes called a 12b-1 fee, after the SEC rule authorizing it. The distribution and services fee is paid by the fund and reduces net asset value.

Securities transaction fees incurred by the fund

A mutual fund pays expenses related to buying or selling the securities in its portfolio. These expenses may include brokerage commissions. Securities transaction fees increase the cost basis of investments purchased and reduce the proceeds from their sale. They do not flow through a fund's income statement and are not included in



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its expense ratio. Instead, purchases and sales of assets are recorded net of the transaction costs. There is no easy way to identify a fund's total transaction costs from publicly available data.

That said, an investor can get some idea of the size of these fees in a fund in two ways. First, the amount of securities transaction fees paid by a fund is normally positively correlated with its trading volume or "turnover", which is required to be reported by the SEC. The second way is to examine the size of the brokerage fees paid by the fund sponsor by looking at SEC Form N-SAR.

Shareholder transaction fees

Shareholders may be required to pay fees for certain transactions, such as buying or selling shares of the fund. For example, a fund may charge a flat fee for maintaining an individual retirement account for an investor. Some funds charge redemption fees when an investor sells fund shares shortly after buying them (usually defined as within 30, 60 or 90 days of purchase); redemption fees are computed as a percentage of the sale amount. Shareholder transaction fees are not part of the expense ratio.

Fund services charges

Larger Indian Mutual Fund Industry has benefited from outsourcing the activity of servicing their investors to two of the leading Registrar and Transfer Agents (RTAs) in India namely CAMS and Karvy. While CAMS commands close to 65% of the Assets servicing, rest is with Karvy. Franklin Templeton Mutual Fund services its investors through its own in-house RTA set up.

Both the RTAs have vibrant network of their local offices which enable the Mutual Fund Investors to transact locally. These touch points (or) Customer Service Centers (CSCs), provide a wide range of servicing including, financial transaction acceptance & processing, non-financial changes, KYC fulfillment formalities, nomination registration, transmission of units apart from providing statement of accounts etc.

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- Board of directors or trustees fees and expenses
- Custody fee: paid to a custodian bank for holding the fund's portfolio in safekeeping and collecting income owed on the securities
- Fund administration fee: for overseeing all administrative affairs such as preparing financial statements and shareholder reports, SEC filings, monitoring compliance, computing total returns and other performance information, preparing/filing tax returns and all expenses of maintaining compliance with state blue sky laws
- Fund accounting fee: for performing investment or securities accounting services and computing the net asset value (usually every day the New York Stock Exchange is open)
- Professional services fees: legal and auditing fees
- Registration fees: paid to the SEC and state securities regulators
- Shareholder communications expenses: printing and mailing required documents to shareholders such as shareholder reports and prospectuses
- Transfer agent service fees and expenses: for keeping shareholder records, providing statements and tax forms to investors and providing telephone, internet and or other investor support and servicing
- Other/miscellaneous fees

The fund manager or sponsor may agree to subsidize some of these other expenses in order to lower the fund's expense ratio (called a fee waiver).

Controversies

Critics of the fund industry argue that fund expenses are too high. They believe that the market for mutual funds is not competitive and that there are many hidden fees, so that it is difficult for investors to reduce the fees that they pay. They argue that the most effective way for investors to raise the returns they earn from mutual funds is to invest in funds with low expense ratios. Fund managers counter that fees are determined by a highly competitive market and, therefore, reflect the value that investors attribute to the service provided. They also note that fees are clearly disclosed. An additional critique of mutual funds is their potential role in herd behavior



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during asset bubbles. Australian researchers Preston Teeter and Jorgen Sandberg argue that the explosive growth of mutual funds during the 1990s resulted in a large number of rookie mutual fund managers, many of whom were quick to follow industry trends as opposed to carving out their own unique investment strategies. As a result, funds started to closely mimic one another, and stock prices, particularly of internet companies, quickly surpassed fundamental valuations.

Definitions of key terms

A fund's net asset value (NAV) equals the current market value of a fund's holdings minus the fund's liabilities (sometimes referred to as "net assets"). It is usually expressed as a per-share amount, computed by dividing net assets by the number of fund shares outstanding. Funds must compute their net asset value according to the rules set forth in their prospectuses. Funds compute their NAV at the end of each day that the New York Stock Exchange is open, though some funds compute NAVs more than once daily.

Valuing the securities held in a fund's portfolio is often the most difficult part of calculating net asset value. The fund's board typically oversees security valuation.

Expense ratio

The expense ratio allows investors to compare expenses across funds. The expense ratio equals the distribution and services fee plus the management fee plus the other mutual fund fees and expenses divided by average daily net assets. The expense ratio is sometimes referred to as the total expense ratio (TER).

Average annual total return

Mutual funds in the United States are required to report the average annual compounded rates of return for one-, five- and ten year-periods using the following formula:

$$P(1+T)^n = ERV$$

Where:

P = a hypothetical initial payment of \$1,000

T = average annual total return

n = number of years

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the one-, five-, or ten-year periods at the end of the one-, five-, or ten-year periods (or fractional portion)

Turnover

Turnover is a measure of the volume of a fund's securities trading. It is expressed as a percentage of average market value of the portfolio's long-term securities. Turnover is the lesser of a fund's purchases or sales during a given year divided by average long-term securities market value for the same period. If the period is less than a year, turnover is generally annualized.

Regulations

In the United States, a mutual fund must be registered with the Securities and Exchange Commission (SEC). Open-end and closed-end funds are overseen by a board of directors, if organized as a corporation, or by a board of trustees, if organized as a trust. The Board must ensure that the fund is managed in the best interests of the fund's investors and the board hires the fund manager and other service providers to the fund. Mutual funds are subject to an extensive and detailed regulatory regime set forth in the Investment Company Act of 1940. Mutual funds are not taxed on their income and profits if they comply with certain requirements under the U.S. Internal Revenue Code; instead, the taxable income is passed through to the investors in the fund.

The sponsor or fund management company, often referred to as the fund manager, trades (buys and sells) the fund's investments in accordance with the fund's investment objective. A fund manager must be a registered investment adviser. Funds that are managed by the same company under the same brand are known as a fund family or fund complex.

Mutual funds are not taxed on their income and profits if they comply with certain requirements under the U.S. Internal Revenue Code; instead, the taxable income is passed through to the investors in the fund. Funds are



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required by the IRS to diversify their investments, limit ownership of voting securities, distribute most of their income (dividends, interest, and capital gains net of losses) to their investors annually, and earn most of the income by investing in securities and currencies. However, net losses incurred by a mutual fund are not distributed or passed through to fund investors but are retained by the fund to be able to offset future gains.

The characterization of a fund's income is unchanged when it is paid to shareholders. For example, when a mutual fund distributes dividend income to its shareholders, fund investors will report the distribution as dividend income on their tax return. As a result, mutual funds are often called "pass-through" vehicles, because they simply pass on income and related tax liabilities to their investors.

European Union

In the European Union, funds are governed by regulations in the Undertakings for Collective Investment in Transferable Securities Directive 2009 (UCITS). Funds are regulated by both the Securities and Futures Commission (SFC) and the Mandatory Provident Funds Authority (MPFA).

Hong Kong

Hong Kong has the most restrictive regulations. Regulations include restrictions on a fund's investment in unrated or below-investment grade, securities and unlisted securities. Bond mutual funds are required to sell any bond that is downgraded below investment grade, even if it was investment grade at the time of purchase.

Taiwan

In Taiwan, mutual funds are regulated by the Financial Supervisory Committee (FSC).

History

The first mutual funds were established in Europe. One researcher credits a merchant from the Netherlands with creating the first mutual fund in 1774. Mutual funds were introduced to the United States in the 1890s, and they became popular in the 1920s.

Funds in the United States

These early U.S. funds were generally closed-end funds with a fixed number of shares that often traded at prices above the portfolio net asset value. The first open-end mutual fund with redeemable shares, called the Massachusetts Investors Trust (now managed by MFS Investment Management) was established on March 21, 1924. However, closed-end funds remained more popular than open-end funds throughout the 1920s. In 1929, open-end funds accounted for only 5% of the industry's \$27 billion in total assets. After the Wall Street Crash of 1929, Congress passed a series of acts regulating the securities markets in general and mutual funds in particular. The Securities Act of 1933 requires that all investments sold to the public, including mutual funds, be registered with the SEC and that they provide prospective investors with a prospectus that discloses essential facts about the investment. The Securities and Exchange Act of 1934 requires that issuers of securities, including mutual funds, report regularly to their investors; this act also created the Securities and Exchange Commission, which is the principal regulator of mutual funds. The Revenue Act of 1936 established guidelines for the taxation of mutual funds, while the Investment Company Act of 1940 governs their structure.

When confidence in the stock market returned in the 1950s, the mutual fund industry began to grow again. By 1970, there were approximately 360 funds with \$48 billion in assets. The introduction of money market funds in the high interest rate environment of the late 1970s boosted industry growth dramatically. The first retail index fund, First Index Investment Trust, was formed in 1976 by The Vanguard Group, headed by John Bogle; it is now called the "Vanguard 500 Index Fund" and is one of the world's largest mutual funds.

Fund industry growth continued into the 1980s and 1990s. According to Pozen and Hamacher, growth was the result of three factors: a bull market for both stocks and bonds, new product introductions (including funds based on municipal bonds, various industry sectors, international funds, and target date funds) and wider distribution of fund shares. Among the new distribution channels were retirement plans. Mutual funds are now the preferred investment option in certain types of fast-growing retirement plans, specifically in 401(k) and



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other defined contribution plans and in individual retirement accounts (IRAs), all of which surged in popularity in the 1980s. Total mutual fund assets fell in 2008 as a result of the financial crisis of 2007–2008.

In 2003, the mutual fund industry was involved in a scandal involving unequal treatment of fund shareholders. Some fund management companies allowed favored investors to engage in late trading, which is illegal, or market timing, which is a practice prohibited by fund policy. The scandal was initially discovered by former New York Attorney General Eliot Spitzer and led to a significant increase in regulation.

Mutual funds play an important role in U.S. household finances; in 2016, 44% of U.S. households held mutual funds. Their role in retirement planning is particularly significant. Roughly half of the assets in individual retirement accounts and in 401(k) and other similar retirement plans were invested in mutual funds. Mutual funds now play a large and decisive role in the valuation of liquid assets such as stocks and bonds.

Largest mutual fund companies in the United States

The largest open-end fund managers in North America are:

1. The Vanguard Group
2. Fidelity Investments
3. American Funds (Capital Group)
4. JPMorgan Chase
5. T. Rowe Price
6. BlackRock
7. Franklin Templeton Investments
8. PIMCO
9. Dimensional Fund Advisors

Share classes (United States)

A single mutual fund may give investors a choice of different combinations of front-end loads, back-end loads and distribution and services fee, by offering several different types of shares, known as share classes. All of them invest in the same portfolio of securities, but each has different expenses and, therefore, a different net asset value and different performance results. Some of these share classes may be available only to certain types of investors.

Funds offering multiple classes often identify them with letters, though they may also use names such as "Investor Class", "Service Class", "Institutional Class", etc., to identify the type of investor for which the class is intended. The SEC does not regulate the names of share classes, so that specifics of a share class with the same name may vary from fund family to fund family.

Typical share classes for funds sold through brokers or other intermediaries are as follows:

- Class A shares usually charge a front-end sales load together with a small distribution and services fee.
- Class B shares usually do not have a front-end sales load; rather, they have a high contingent deferred sales charge (CDSC) that gradually declines over several years, combined with a high 12b-1 fee. Class B shares usually convert automatically to Class A shares after they have been held for a certain period.
- Class C shares usually have a high distribution and services fee and a modest contingent deferred sales charge that is discontinued after one or two years. Class C shares usually do not convert to another class. They are often called "level load" shares.
- Class I am usually subject to very high minimum investment requirements and am, therefore, known as "institutional" shares. They are no-load shares.
- Class R is usually for use in retirement plans such as 401(k) plans. They typically do not charge loads, but do charge a small distribution and services fee.

No-load funds often have two classes of shares:

- Class I shares do not charge a distribution and services fee



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- Class N shares charge a distribution and services fee of no more than 0.25% of fund assets
- Neither class of shares typically charges a front-end or back-end load

Main aims

- Fund derivative
- Global assets under management
- Lipper average
- List of mutual-fund families in Canada
- List of mutual-fund families in the United States
- List of U.S. mutual funds by assets under management
- Money fund
- Mutual funds in India
- Mutual-fund scandal (2003)
- Operation Perfect Hedge
- Retirement plans in the United States
- Separately managed account
- Value investing

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