

**RESEARCH PAPER**

Project –

IMPORTANCE MUTUAL FUND INVESTMENT

SUBMITTED BY:

JAY GUPTA

21GSOB1110020 SECTION:9 BBA (BFSI)

SUBMITTED TO: DR.JAIDEEP SHARMA

**DECLARATION**

I, Jay Gupta do here project work on the topic mutual fund. It is submitted by me in partial fulfilment of requirement for the award of

bachelors degree in Business Administration, Galgotia’s university ,Greator Noida

Date :

Signature :

# CERTIFICATE

This is certify that the **MR. JAY GUPTA** student of Bachelor of Business Administration

prepared a project titled “**IMPORTANCE OF INVESTING IN MUTUAL FUND”** under the

guidance of Mr. Jagdeesh and also my guidance in partial fulfilment of degree of

Bachelor’s degrees in business management.

Date :

Signature :

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**History of HDFC Mutual Fund:**

HDFC Mutual Fund was established in the year 2000 as a joint venture between HDFC Ltd. and Standard Life Investments Limited. The company has been providing mutual fund services to its customers for more than two decades now. HDFC Mutual Fund has a strong presence in India, with a wide network of branches and distributors spread across the country.

# INTRODUCTION

*A mutual fund is an investment vehicle that pools funds from investors and invests in equities, bonds, government securities, gold, and other assets. Companies that qualify to set up mutual funds,*

*create* ***Asset Management Companies (AMCs)*** *or Fund Houses, which pool in the money from investors, market mutual funds, manage investments, and enable investor transactions.*

*Mutual funds are managed by sound financial professionals known as fund managers, who have the expertise in analyzing and managing investments. The funds collected from investors in mutual funds are invested by the fund managers in different financial assets such as stocks, bonds, and other assets, as defined by the fund’s investment objective. Where and when to invest are some of the things taken*

*care of by the fund managers.*



***How mutual fund works***

*To understand how mutual funds work, let us first understand the concept of* ***NAV (Net Asset Value)****. NAV per unit is the price at which investors can buy or redeem their mutual fund investments.*

*Investors in mutual funds are allotted units proportional to their investments and this is calculated on the basis of the NAV. For example, if you invest Rs 500 in a mutual fund with an NAV of Rs 10, you will get (500/10), 50 units of the mutual fund.*

*Now, the NAV of the mutual fund changes every day on the basis of the performance of the assets in the mutual fund is invested in. If a mutual fund invests in a particular stock whose price goes up tomorrow, the same will reflect in the NAV of the mutual fund and vice versa. So, in the above example, if the NAV of the mutual fund goes up to Rs 20, then your 50 units that amounted to Rs 500 earlier will now amount to Rs 1000 (500 units x Rs 20). Hence, the mutual fund’s performance is driven by its underlying assets, which generate its returns to investors.*

*So, if you redeem your mutual fund units, you shall receive Rs 1000 against the Rs 500 you originally paid. This gain of Rs 500 is known as a capital gain. The market value of the mutual fund portfolio is not fixed but varies every day; consequently, NAV also tends to change daily, based on the valuation of the fund portfolio. Hence, this gain of Rs 500 can be a loss also, depending on how the NAV moves and the underlying assets perform. Since mutual fund investments are market-linked, the returns are not guaranteed and are also, dynamic in nature.*

*Mutual fund returns (capital gains) are subject to tax, known as* ***capital gains tax****. Capital gains tax will impact when you choose to redeem your investment; like in the example above you will be liable to pay a tax on the Rs 500 you have earned. Bear in mind two things though:*

* *The capital gains tax is applicable only if you redeem the investment and not if you stay invested.*
* *The extent of capital gains tax will depend on the types of mutual funds and your investment holding.*

*Mutual funds are subject to short-term capital gain*

*x (STCG) and long-term capital gains tax (LTCG). The periods of short-term and long-term capital gains tax are defined differently for mutual funds.*

*Types of mutual funds*

*There are multiple ways in which mutual funds can be categorized, for example, the way they are structured, the kind of securities they hold, their investment strategies, etc. The Securities and Exchange Board of India (SEBI) has classified mutual funds based on where they invest, some of which we have listed below.*

*Based on the structure:*

1. ***Open-ended funds*** *are mutual funds that allow you to invest and redeem investments at any time, i.e. they are perpetual in nature. They are liquid in nature and don’t come with a specific investment period.*
2. ***Close-ended*** *schemes have a fixed maturity date. You can only invest at the time of the new fund offer and redemption can only be done on maturity. You cannot purchase the units of a close-ended mutual fund whenever you please*.

*Based on asset classes:*

1. ***Equity Mutual Funds*** *invest at least 65% of their assets in stocks of companies listed on the stock exchange. They are more suitable as long-term investments (> 5 years) as stocks can be volatile in the short term. They have the potential to offer*

*hi*[*gher returns but al*](https://www.etmoney.com/learn/mutual-funds/debt-mutual-fund)*so come with high risk.*

1. ***Debt Mutual Funds*** *primarily invest in fixed- income instruments like Government securities, corporate bonds, and other debt instruments. They are not affected by stock market volatility and hence, can offer more stable returns compared to equity mutual funds. The types of*

*debt mutual funds are differentiated on the basis of the maturity period of the securities they hold.*

1. ***Hybrid Mutual Funds*** *invest in both equity and debt in varying proportions depending on the investment objective of the fund. Thus, hybrid funds give you diversified exposure to various*

*asset classes. Hybrid funds are categorized on the basis of their allocation to equity and debt.*

## How to in[vest in mutual f](https://www.etmoney.com/learn/mutual-funds/how-to-invest-in-mutual-funds/)und

*Broadly there are three* ***ways to invest in mutual*** *fund schemes:*

* *Through a Mutual Fund company’s website*
* *Through a Mutual Fund distributor*
* *Through the ET Money*

If you want to invest through a mutual fund company’s website, you will need to sign up and create an account. Then follow the ensuing steps. However, there’s a major challenge with this route.

Most likely, you will find schemes of different fund houses attractive. To invest in them, you have to sign up with each fund house. And that could be a huge hassle. It would also be challenging to track your investments and analyze them.

The second option is to invest via a mutual fund distributor. But this isn’t a cost-effective way. You will pay a higher expense ratio, and, as a result, your returns will be lower.

A much simpler, more efficient, and effective way of investing in mutual fund schemes is the third option – through the ET Money platform.

*All you need to do is sign up once and start investing in schemes from different AMCs. You can choose from various schemes of various Mutual Fund companies. More importantly, you will be able to do it at a lower expense ratio because ET Money is a direct investment platform.*

*You can also track your existing portfolio on ET Money. You can view all your old and new investments in one place, making it much simpler to track them and make better-informed decisions.*

*In addition to the above, the ET Money investment platform also offers valuable details like the fund’s past performance, returns consistency, downside protection, fund history, expense ratio****, exit l***[***oad****,*](https://www.etmoney.com/learn/mutual-funds/what-is-exit-load/) *and other essential information.*

***Features and benefits of mutual fund***

Now that we know what mutual funds are and how they work along with their types, let us look at the advantages of investing in mutual funds.

1. ***Diversification:*** *The saying ‘do not put all your eggs in one basket’ perfectly fits mutual funds as spreading investment across multiple securities and asset categories lowers risk. For example, compared to direct equity investing, where your funds are deployed in individual company stocks, equity mutual funds invest in a basket of stocks across sectors, thereby reducing risk.*
2. ***Professional management:*** *Mutual funds are managed by full-time, professional fund managers who have the expertise, experience, and resources to actively buy, sell, and manage investments. A fund manager continuously monitors investments and rebalances the portfolio accordingly to meet the scheme’s objectives.*
3. ***Transparency:*** *Every mutual fund has a Scheme Information Document readily available on the fund house’s website that can give you all the details about its holdings, fund manager, etc. In addition, the portfolio investment value (NAV) is published daily on the AMC site, and AMFI site for investors to track the portfolio of the mutual fund.*
4. ***Liquidity:*** *You can redeem your investments on any business/working day at the NAV of the day of your redemption. So, depending on the type of mutual fund you have invested in, you will receive your invested funds in your bank account in 1-3 days.*

However, close-ended funds allow redemption only at the time of the maturity of the mutual fund. Similarly, ELSS mutual funds have a lock-in period of three years.

1. ***Tax Savings:*** *Investment of up to Rs. 1,50,000 in ELSS mutual funds qualifies for tax benefit under section 80C of the Income Tax Act, 1961. Mutual fund investments, when held for a long er term, are tax-efficient*

***Advantages of investing in HDFC Mutual Fund:***

* 1. ***Professional Management****: HDFC Mutual Fund is managed by a team of experienced fund managers who have a strong track record of delivering consistent returns to its customers.*
  2. ***Diversification:*** *HDFC Mutual Fund offers a wide range of investment options that provide diversification to its customers. Diversification helps in reducing the overall risk of the investment portfolio.*
  3. ***Convenience:*** *HDFC Mutual Fund provides various online and offline options for investing in mutual funds, making it convenient for its customers to invest in mutual funds.*
  4. ***Tax Benefits:*** *HDFC Mutual Fund offers various tax-saving mutual funds that provide tax benefits under Section 80C of the Income Tax Act, 1961.*

***Disadvantages of Mutual fund***

1. ***Exit Load:*** *Mutual funds generally levy an exit load (fee) for redeeming investments within a specified period, for example, one year from the date of investment. This is done to refrain the investor from exiting the scheme too early, as it impacts both the fund’s performance and the investor’s goal achievement. When investing directly in stocks, say, you do not face any exit load and in comparison, this may seem like an added expense. However, this has been introduced in the investors’ interest.*
2. ***High cost:*** *SEBI has defined the maximum limit of expense ratios that mutual fund houses can charge and they depend on the mutual fund’s size. As the size grows, the expense tends to come down. The maximum expense ratio that is chargeable for an equity-oriented mutual fund is 2.25%. And you have to bear this charge irrespective of the performance of the fund. When compared to another mode of investment, say, direct stocks, you may find the expense ratio to be higher than the brokerage you pay. But then it is being paid for the convenience and expertise, so, it is a balance that you need to achieve.*
3. ***Over-diversification:*** *In the quest to diversify your investments, you may invest in mutual funds, which invest in a vast number of stocks, leading to over- diversification. Not all the stocks of a portfolio would deliver high returns all the time. You may end up investing in two mutual funds holding similar portfolios which may then lead to over-diversification. It is advisable to study the mutual fund portfolio before you invest.*
4. ***Risk:*** *Investments in mutual funds are subject to market risk. The risk of losses faced by all types of securities in the financial markets cannot be reduced by diversification. Market risks may occur due to many macro and microeconomic factors. For example, equity mutual funds are subject to volatility risk owing to fluctuations in the stock market whereas debt mutual funds are subject to interest rate risk which is caused by fluctuations in the interest rates and so on.*

## Functions of mutual fund

1. ***New fund offer (NFO) release:*** *An AMC can start a mutual fund scheme by launching its NFO. It creates and shares the strategy of the scheme before its launch. Investors can then decide whether and how much they should invest. NFO units are often priced at a low ticket, such as Rs 10.*
2. ***Pooling money****: After the NFO, fund houses receive funds from interested investors to purchase shares in stocks, bonds, and other assets. Investors who didn’t participate in the NFO can still buy the units of the fund after it gets operational.*
3. ***Investments in securities****: The scheme’s strategy determines how the fund manager will invest the funds. The fund manager does extensive research on the economy, industries, and companies before making an investment decision. He then buys the most appropriate securities that will generate optimum returns for unitholders.*
4. ***Return of funds:*** *As mutual funds generate returns, the gains can be distributed among investors or retained in the scheme for further growth. Investors receive payouts if they choose the IDCW option (income distribution cum capital withdrawal). If they choose the growth option, the gains are retained in the scheme and allowed to grow further.*

### Objectives of mutual funds

* ***Diversification:*** *It is usually advised not to put all your eggs in one basket. Doing so can disproportionately increase your risk. Mutual funds are inherently diversified. They diversify across securities, assets, and even geographies. Hence, they help lower the risk.*
* ***Capital protection:*** *Some mutual funds, such as money- market funds and liquid funds, aim to protect your capital. However, while they are relatively safer, they also have lower returns.*
* ***Capital growth:*** *Certain mutual funds, such as equity funds, focus on growth to protect your investment against inflation. These funds invest in stocks and have higher returns but also come with higher risks.*
* ***Saving tax:*** *A certain class of mutual funds, called*

*equity-linked savings schemes (ELSS) or tax-saving funds, also provide income-tax deductions up to Rs 1.5 lakh in a financial year in the old income-tax regime.*

### Conclusion

HDFC Asset Management Company Limited is the Investment Manager of all HDFC Mutual Fund schemes. It is one of the most trusted mutual fund houses in India. With Assets Under Management (AUM) of over INR 4.4 Trillion, it is also among the country’s largest and richest mutual fund houses. The fund house was founded in 1999 as a joint venture between Housing Finance Development Corporation or HDFC and abroad Investment Management Limited (erstwhile Standard Life Investments Limited).

While HDFC holds a 52.6% stake in the AMC, abroad Investment Management Limited holds 16.2% shares. The HDFC group is a leading financial conglomerate in sectors like banking, housing finance, insurance, real estate funds, asset management, and education finance. Abroad Investment Management Limited manages assets worth UK Pound 532 billion of over 1 million shareholders. The company launched an Initial Public Offering (IPO) in 2017-18 and was listed on 6th August 2018. Its current share price is INR 2,201 (as of 11th February 2022).