

Structure of Mutual Funds_1

You like a professional to manage your money for you. But you are worried about trusting others with your hard earned money. Your biggest fear is that someone could run away with your money. You also worry that you may not know what is being done with your money. Your search for a secure choice could end with a mutual fund.

A mutual fund enables you to get professional expertise to manage your money, while the money is always held in your beneficial interest. In a mutual fund structure prescribed by SEBI, your money is not handed over to anyone else. It is kept in a trust, where you are the beneficiary, and whose operations are supervised by the trustees in your interest. The trustees appoint a professional manager, the asset management company (AMC) to manage your money. The AMC never really accesses your money. Then how do they make the investments? The trustees appoint a custodian, usually a large bank, who holds the funds and the securities. The AMC makes the investment decisions, but the custodian implements it. A mutual fund is structured for the protection of your money from misuse. |

What else is done? Regulation ensures that at least two-thirds of the trustees are independent. An independent trustee is one who does not receive any other monetary consideration from the mutual fund, other than the trustee fee. The trustee appoints the AMC to manage the funds, and the AMC is accountable to the trustees. The AMC runs the mutual fund business under the supervision and guidance of the trustees. The trustees are responsible for ensuring that all activities undertaken by the mutual fund are in the interests of the investors who have invested in the fund. Trustees are appointed with the approval of SEBI and they ensure that operational systems and procedures are in place so that no action of the AMC or any other constituent could be detrimental to the investors' interest. Important decisions relating to the fund, such as launching a new product, can be taken only with the approval of the trustees.

And there is more. The custodian, who actually holds the investor's funds in the bank account and the securities that have been bought for the mutual fund portfolio, has to be independent as well. The AMC who is the investment manager, is created by a sponsor. Such sponsor can also have a bank that offers custodial services. But regulations do not allow the sponsor and the custodian to be owned by the same entity. This ensures that the custody of your money and securities is even safer. The custodian is appointed not by the AMC, but by the trustees themselves.

Regulation also requires that investors know what is being done with their money. The investors' money is kept scheme-wise in separate accounts. The entire portfolio of investments of a scheme has to be disclosed to the investors at least every six months. Mutual funds make this disclosure voluntarily on a monthly basis. The scheme accounts are published and publicly available for investors to see the expenses that are being charged to them. The extent of expenses that can be charged, and the heads under which they can be charged are also subject to regulation. Mutual funds are subject to detailed regulations by SEBI, and are inspected periodically for compliance.

The structure of a mutual fund is robust, well-thought out and regulated to protect investors' interest. To the informed investors who is willing to look beyond 'guarantees' that are tough to keep anyway in the modern world, mutual funds offer the best choice in financial structure.

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<p>Mutual fund investments are subject to market risks. Please read the scheme information document carefully before investing.</p>	