

**AMFI**

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# UPDATE

A Newsletter of The Association of Mutual Funds in India

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## *From the Chairman's Desk*

The last quarter – January–March of the fiscal year is generally characterised by pre-budget expectations and post-budget analysis of impact and implications of budget proposals. For the mutual fund industry, having received substantial tax support in the 99 budget, there was not much of pre-budget expectations. However, the two measures of the current budget – the steep increase in the Income distribution tax from 11 percent to 22 percent and the withdrawal of sections 54EA and 54EB may have some negative impact.

With gross sales touching almost Rs. 60,000 crores and assets under management crossing the Rs. 1,00,000 crore mark and with a vast majority of equity schemes outperforming the market, the year 99-2000 witnessed new records for the mutual fund industry.

The new fiscal year has started with the market passing through extreme volatility and values have fallen rather steeply. It is one of the phases of the market and mutual funds have to take a medium to long-term view and pass through such phases, fine tuning their strategies as they go along. Having demonstrated its strength and ability to perform, let's look forward to yet another rewarding year for the industry.

Yours,

A.P. Kurian

19.5.2000



## SEBI UPDATE

### AMENDMENTS TO SEBI (MUTUAL FUNDS) REGULATIONS 96 :

SEBI has carried out certain amendments to SEBI (Mutual Funds) Regulations 96. The gist of the major amendments is given below for the benefit of the members.

#### A. Notification of 8<sup>th</sup> December 99

##### Details of dealing in Securities by Trustees

Each trustee shall file details of his transaction of dealing in securities, exceeding value of Rs. 1 lakh, with mutual funds on a quarterly basis – Regulation 18 (11)

##### Change in fundamental attributes

In the case of open ended schemes, the consent of the unit holder shall not be necessary if

1. Change in fundamental attributes is carried out after one year of allotment of units.
2. Unit holders are informed about proposed change through communication and advertisement and
3. Unit holders are given option to exit at prevailing NAV without any exit load – Regulation 18(15)(d).

##### Due Diligence by Trustees and liability of Trustees.

The general due diligence and specific due diligence to be complied by the Trustees have been given in detail - Regulation 18 (25).

According to the new sub-Regulation (26) “the Trustees shall not be held liable for the action done in good faith if they have exercised adequate due diligence honestly.” The new sub-Regulation (27) specifies the areas, which require special attention by independent Trustees/ Directors.

##### Definition of Networth of AMC

Under Regulation 21(1) the term networth has been defined clearly.

##### Change in control of AMC

In the case of open-ended schemes, the consent of unit holders shall not be necessary if change in control takes place after one year from the allotment of units and unit holders are informed through communication and advertisement and unit holders are given an option to exit at NAV without any exit load – Proviso to sub-clause (e) Regulation 22

##### Disclosure of half yearly and yearly results

Disclosure to include underwriting obligations/ devolvement if any, subscription to issues etc. – Regulation 25 (8).

##### Transactions in Derivatives

Mutual funds are permitted to enter into derivative transactions – a new proviso added to Regulation 45.

##### Trustee meeting and Quorum

Trustees to meet at least once in three months and at least four such meetings in every year. New Clause (20) in third schedule.

Quorum of Trustees to include one independent Trustee or Director. Minimum number of Trustees shall be four - New Clauses (21) and (22) in the third schedule.

##### Trustees and AMC to maintain high standard of integrity and fairness

New Clauses (8), (9) & (10) added in the fifth schedule.

##### Changes in the advertising code

In the sixth schedule following clauses have been added:

1. Advertisement that makes claim about performance of funds shall be supported by relevant figures – Clause (6).
2. Any advertisement containing information regarding performance, NAV, yield or returns shall give such data for the past three years, wherever applicable. – Clause (12).
3. Disclosure of full facts based on offer document. – Clause 14A.
4. No celebrity shall be a part of the advertisement. - Clause 14B.

##### Restrictions on investment

Not more than 15 percent of NAV in debt instruments issued by a single issuer, which should be rated not below investment grade. This limit can be extended to 20 percent with prior approval of the Board of Trustees and Board of AMC. Investment in Government securities and money market instruments exempted from this limit. – Clause 1 of the seventh schedule.

Investment in unrated debt securities issued by a single issuer not to exceed 10 percent of the NAV and total such investments not to exceed 25 percent of NAV- prior approval of Board of Trustees and Board of AMC required. Clause (1A) seventh schedule.

Investment in equities of a single company not to exceed 10 percent of NAV – Index funds, sector and industry specific funds exempted. - Clause (10) seventh schedule.

In respect of unlisted equity or equity-related investment, the limit is 5 percent of NAV in the case of open-ended schemes and 10 percent in case of close-ended schemes. – Clause (11) of seventh schedule.

The above restrictions are applicable at the time of making investment.

#### **B. Notification dated 14<sup>th</sup> March 2000**

##### **Despatch of redemption and repurchase proceeds**

AMC liable to pay interest to the unit holders at such rate as may be specified by the Board for delay in despatch of redemption and repurchase proceeds. Also the AMC may be liable for penalty for such a default. – New sub-clause(c) and (d) Regulation 53.

##### **Disclosure of portfolio**

Mutual fund to send to all unit holders complete statement of scheme portfolio before expiry of one month from closure of each half year i.e. 31<sup>st</sup> March and 30<sup>th</sup> September. This statement may not be sent to the unit holders if it is published by way of advertisement– Regulation 59A

#### **C. Proposed Amendment**

##### **Investment in Mortgage Backed Securities by Mutual Funds**

Mutual funds permitted to invest in mortgage backed securities having credit rating of not below the investment grade and representing investments in real estate mortgage. Amendment to the Regulation to be notified by the Government.

#### **COMMITTEE UPDATE**

##### **Committee on Best Practices.**

The observations of the Committee on Best Practices relating to issues such as sales practices, performance advertisement, system of charging load

etc were discussed at the General membership meeting held on 9<sup>th</sup> March 2000. It was unanimously decided not to adopt any unhealthy practices while promoting the sale of units and all promotional programmes should maintain and uphold high professional standards.

##### **Committee to review implications of credit policy measures.**

The report submitted by the committee was considered by the Board of AMFI. AMFI has taken up the matter with RBI requesting them to maintain the current status of mutual funds being lenders in the Call Money market until an alternate system is put in place. As per the Monetary and Credit policy announced on 27<sup>th</sup> April 2000, the status quo has been maintained till December 2000.

With regard to the cheque writing facility extended to Mutual funds, AMFI has requested RBI to allow the freedom to write third party cheques subject to necessary safe guards.

#### **TRAINING PROGRAMME**

Three more sessions of half day training were conducted on Mutual funds for the executives of Stock Holding Corporation of India at Belapur, Mumbai. For the Citibank executives also programmes were conducted at Mumbai and Calcutta.

#### **INVESTOR EDUCATION**

The Sixth Annual Financial Services Convention was organised by Bombay Management Association at, Mumbai on 4<sup>th</sup> and 5<sup>th</sup> February 2000 which was co-sponsored by AMFI alongwith other associations. The keynote address was given by Mr. P.S. Subramanyam, Chairman Unit trust of India and the sessions on Mutual fund were taken by Mr. K.N. Atmaramani of Tata Mutual, Mr. S.K. Mitra of Birla Mutual, Mr. S.V. Prasad of Zurich India Mutual and Mr. A.P. Kurian Chairman AMFI.

AMFI congratulates Mr. D.R. Mehta Chairman SEBI who was conferred with the Award of Finance Man of the Year 2000 at the convention.

#### **NEWS UPDATE**

**Welcome to Mr. Ajai Kaul, President and Country Head, Alliance Capital Mutual Fund.** Mr. Ajai Kaul, President and Country Head, Alliance Capital Mutual fund has joined the Board of AMFI with effect from 9<sup>th</sup> March 2000 in the

place of Mr. K.N. Vaidyanathan, formerly of Morgan Stanley who has resigned for personal reasons. AMFI gratefully acknowledges the valuable contribution of Mr. Vaidyanathan. He continues to be of great help to the organisation.

#### **General Membership Meeting.**

A General Membership meeting of all the members was held on 9<sup>th</sup> March 2000 at Mumbai. Several issues concerning Mutual fund industry such as unhealthy marketing practices, selling units as IPOs, discrimination in charging of load etc. were discussed at the meeting. In the light of the discussion, AMFI has written a letter to all members requesting them to desist from the unhealthy practices for promoting sale of the units and to position mutual funds in the proper slot and to maintain and uphold the status and dignity of the industry.

#### **FIFTH ASIA OCEANIA REGIONAL MEETING OF INTERNATIONAL INVESTMENT FUNDS CONFERENCE (IIFC).**

The Asia Oceania Regional meeting of IIFC is an annual meeting of the fund industry which serves as a platform for discussion and exchange of ideas and views of the mutual fund industry of the region. For the first time the Indian mutual fund industry was invited for the meeting which was sponsored by the Federation of Malaysian Unit Trust Managers at Kuala Lumpur in the third week of April 2000. The delegation from India constituted of Mr. A.P. Kurian Chairman AMFI, Mr. S. K. Mitra of Birla Mutual, Mr. Niamatullah of SBI Mutual and Mr. M. Parameshwaran of Unit Trust of India. In addition to India and Malaysia, Unit Trust Associations from Singapore, Taiwan, Korea, Japan, Hong Kong and Sri Lanka attended the meeting. It was an extremely useful conference, which gave the participants an insight into the working of Unit Trusts in these regions as well as the promotional and regulatory role played by the respective authorities. Malaysia has a tradition of celebrating Unit Trust week and the Indian delegates participated in the inaugural function and the launching of Unit Trust week by the Prime Minister of Malaysia. The next year's conference will be in Seoul in Korea and thereafter it would be the turn of AMFI to host the conference.

#### **BUDGET 2000**

The Union Budget 2000 has the following features concerning the mutual fund industry:

##### **1. Tax on Income Distribution.**

The Income Distribution Tax imposed in 1999 at the rate of 11% (including surcharge) has been increased to 22% from 1<sup>st</sup> June 2000 in respect of Income Distribution made by Unit Trust of India/Mutual Funds under all the schemes except open-ended equity oriented schemes as defined in the Act.

##### **2. Capital Gains on transaction, sale, redemption of units of Unit Trust and Mutual funds.**

AMFI's request to consider units of Unit Trust of India/Mutual funds eligible for 10 percent tax on long term capital gains was accepted and as per the Budget 2000 the option for paying tax with benefit of indexation at 20 percent or at 10 percent without the benefit of indexation is now available in respect of long term capital gains on units. This is effective from the accounting year 1999-2000.

##### **3. Withdrawal of sections 54 EA and 54EB of the income Tax Act.**

Sections 54EA and 54EB of the Income Tax Act under which units of Unit Trust of India/Mutual funds were eligible for investment of capital gains for claiming exemption from Capital gain tax has been withdrawn effective from April 1, 2000.

##### **4. AMFI's response to the budget.**

In the light of the discussion with members in the General Membership meeting held on 9<sup>th</sup> March 2000, AMFI had represented to the Government bringing out the adverse effects of the increase in the rate of distribution tax on income schemes of mutual funds particularly for assured return category and the regressive nature of the tax.

AMFI has suggested that the proposal may be made prospectively for the schemes to be launched from April 2000 onwards so that mutual funds could factor the increased tax incidence while designing the schemes.

AMFI's proposal to launch Individual Retirement Schemes (IRS) on a tax deferment basis is pending with the Government.

## AMFI IN OTHER COMMITTEES

1. Reserve Bank of India has constituted an Informal Group to study the role of Bank deposits in saving mobilisation. Mr. A. P. Kurian Chairman AMFI is the Chairman of the study group and Dr. P.P. Shastri of Unit Trust of India is one of the members.
2. Indian Institute of Bankers has constituted a Task Force to broadbase the syllabus of Unit Trust of India certification exam to cover Indian mutual fund industry. This Task Force has Mr. Niamatullah of SBI Mutual as the Chairman and Mr. A.P. Kurian - Chairman AMFI and Smt. Anita Madan of Unit trust of India as members.

### AMFI Website.

AMFI website has been receiving compliments from the users. During the quarter 2465 persons visited the website of which 58 percent were from abroad.

## INDUSTRY UPDATE

- Tata Asset Management Company has re-structured the Tata Twin Option fund by merging balance option with Tata Balanced fund and renamed equity option as Tata Pure Equity fund.
- The name of IDBI Investment Management Co. Ltd. has been changed to IDBI – Principal Asset Management Co. Ltd. consequent on Principal Financial Services, US acquiring 50 percent stake in the AMC.
- Chola Freedom Growth scheme has been renamed as Chola Freedom Technology with effect from 6<sup>th</sup> March 2000.

### New member

AMFI welcomes ANZ Grindlays AMC, our youngest member.

## MUTUAL FUND INDUSTRY DATA

### A. Fourth quarter January – March 2000

The fourth quarter, January – March 2000 data is

given in tables 1, 2, 3 & 4. The following are the highlights

- The total number of new schemes launched during the quarter was 19 of which 9 schemes were growth schemes, 1 was liquid and 3 schemes each of Income, Balanced and Gilt. The total amount mobilised by the new schemes was Rs. 3,186 crores.
- Existing schemes mobilised Rs. 22,925 crores. The total amount thus mobilised during the quarter was Rs. 26,111 crores, the highest amount mobilised in a single quarter so far.
- Redemptions were Rs. 19,603 crores
- The Assets under management at the end of March 2000 were Rs. 1,13,005 crores. The industry has thus not only crossed the milestone of Rs. 1,00,000 crores but also registered a growth of 65 percent over the last year.

### B. Annual Data April 99 - March 2000

Annual data for the year 1999-2000 is given in table 5

- Total gross amount mobilised during the year was Rs. 59,748 crores registering growth of 179.50 percent over the last year's amount of Rs. 21,377 crores.
- Total redemption during the year was Rs. 41,204 crores as against Rs. 21,032 crores during last year
- The net inflow was thus Rs. 18,544 crores as against Rs. 345 crores last year.

### C. Performance of Equity Funds

Performance statistics of Equity funds in relation to the movement of BSE sensex is given in table 6.

All the 117 Equity funds which have completed one year and more have shown increase in their NAV for the year 99-2000 and more significantly 86 percent of the funds have outperformed the BSE sensex, with many funds posting increase of above 100 percent.

### MUTUAL FUND DATA FOR THE FORTH QUARTER JANUARY- MARCH, 2000

#### TABLE - 1

(Rs. In crores)

	No of Schemes Launched	Sales - All Schemes				Redemptions All Schemes		Total Assets Under Mgmt. as on 31.03.2000
		During the Quarter	From New Schemes	From Existing Schemes	Total for the Quarter	Total for the year	Total for the Quarter	
A Unit Trust of India	1	32	3886	3918	13536 11679	3487	9663 13364	76547 53320
B Bank Sponsored (6)	1	127	641	768	1828 420	858	1744 722	7842 5481
C Institutions (4)	1	187	1162	1349	2211 1312	622	1864 512	3570 2811
D Private Sector								
I Indian (5)	-	-	2441	2441	6688 2739	2427	5718 2636	2331 1016
II Joint Ventures - Predominantly Indian (7)	5	894	6626	7520	15548 3019	5838	10641 2290	9724 3040
III Joint Ventures - Predominantly Foreign (9)	11	1946	8169	10115	19937 2208	6371	11574 1458	12991 2804
Total(I+II+III)	16	2840	17236	20076	42173 7966	14636	27933 6384	25046 6860
Grand Total (A+B+C+D)	19	3186	22925	26111	59748 21377	19603	41204 21032	113005 68472

Notes: 1) Assets under management of Unit Trust of India also at Market Price. 2) Unit Trust of India figures are inclusive of Venture capital, Offshore Funds & Developments Reserve Fund. 3) Figures in brackets denote number of funds. 4) Data is provisional & hence subject to change. 5) "Figures in Red denote amount for corresponding period, last year.

#### SALES DURING THE QUARTER JANUARY - MARCH, 2000.

#### TABLE 2

##### 2.1 New schemes launched during the quarter

(Rs. in crores)

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	3	201	-	-	-	-	3	201
Growth	9	2279	-	-	-	-	9	2279
Balanced	3	363	-	-	-	-	3	363
Liquid	1	28	-	-	-	-	1	28
Money Market	-	-	-	-	-	-	-	-
Gilt	3	315	-	-	-	-	3	315
ELSS	-	-	-	-	-	-	-	-
Total	19	3186	-	-	-	-	19	3186

##### 2.2 Existing schemes

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	40	5405	29	-	41	1073	110	6478
Growth	57	7380	39	74	-	-	96	7454
Balanced	14	1801	6	-	-	-	20	1801
Liquid	14	4108	-	-	-	-	14	4108
Money Market	3	851	-	-	-	-	3	851
Gilt	10	2079	-	-	-	-	10	2079
ELSS	11	137	54	17	-	-	65	154
Total	149	21761	128	91	41	1073	318	22925



**2.3 Total of all schemes**

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	43	5606	29	-	41	1073	113	6679
Growth	66	9659	39	74	-	-	105	9733
Balanced	17	2164	6	-	-	-	23	2164
Liquid	15	4136	-	-	-	-	15	4136
Money Market	3	851	-	-	-	-	3	851
Gilt	13	2394	-	-	-	-	13	2394
ELSS	11	137	54	17	-	-	65	154
<b>Total</b>	<b>168</b>	<b>24947</b>	<b>128</b>	<b>91</b>	<b>41</b>	<b>1073</b>	<b>337</b>	<b>26111</b>

**REDEMPTION / REPURCHASE DURING THE QUARTER JANUARY - MARCH 2000****TABLE - 3**

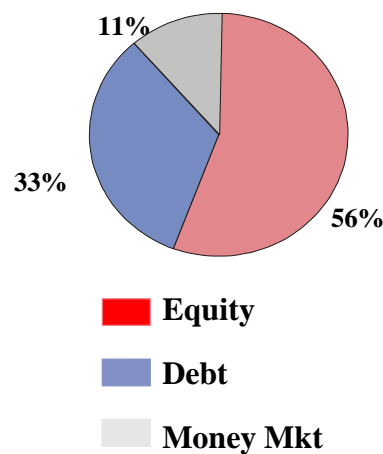
(Rs. in crores)

	Open End	Close End	Assured Return	Total
Income	5028	45	857	5930
Growth	4842	629	-	5471
Balanced	1804	9	-	1813
Liquid	4225	-	-	4225
Money Market	508	-	-	508
Gilt	1500	-	-	1500
ELSS	46	110	-	156
<b>Total</b>	<b>17953</b>	<b>793</b>	<b>857</b>	<b>19603</b>

**ASSETS UNDER MANAGEMENT AS ON 31st March, 2000****TABLE - 4****Type & Categorywise Analysis**

(Rs. in crores)

	Open End	Close End	Assured Return	Total
Income	20472	4968	22564	48004
Growth	17478	13133	-	30611
Balanced	25534	1223	-	26757
Liquid	1529	-	-	1529
Money Market	698	-	-	698
Gilt	2370	-	-	2370
ELSS	752	2284	-	3036
<b>Total</b>	<b>68833</b>	<b>21608</b>	<b>22564</b>	<b>113005</b>

**ASSET ALLOCATION**

\*Change in classification of US-64 from Open end-Income to Open end-Balanced, from April '99

**ANNUAL DATA****TABLE - 5****5.1 New schemes launched during the year April 1999 - March 2000**

(Rs. in crores)

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	11	581	-	-	3	2794	14	3375
Growth	25	3190	-	-	-	-	25	3190
Balanced	8	1084	-	-	-	-	8	1084
Liquid	2	45	-	-	-	-	2	45
Money Market	-	-	-	-	-	-	-	-
Gilt	12	897	-	-	-	-	12	897
ELSS	3	56	-	-	-	-	3	56
<b>Total</b>	<b>61</b>	<b>5853</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>2794</b>	<b>64</b>	<b>8647</b>

**5.2 Total sales during the year April 1999-March 2000**

	Open End		Close End		Assured Return		Total	
	No.of schemes	Amount	No.of schemes	Amount	No.of schemes	Amount	No.of schemes	Amount
Income	43	12403	29	117	41	5187	113	17707
	-	-	-	-	-	-	100	13738
Growth	66	14825	39	195	-	-	105	15020
	-	-	-	-	-	-	83	1923
Balanced	17	5717	6	-	-	-	23	5717
	-	-	-	-	-	-	17	161
Liquid	15	12037	-	-	-	-	15	12037
	-	-	-	-	-	-	13	3224
Money Market	3	3888	-	-	-	-	3	3888
	-	-	-	-	-	-	3	2083
Gilt	13	5132	-	-	-	-	13	5132
	-	-	-	-	-	-	1	240
ELSS	11	222	54	25	-	-	65	247
	-	-	-	-	-	-	60	8
<b>Total</b>	<b>168</b>	<b>54224</b>	<b>128</b>	<b>337</b>	<b>41</b>	<b>5187</b>	<b>337</b>	<b>59748</b>
	<b>102</b>	<b>14314</b>	<b>146</b>	<b>1490</b>	<b>29</b>	<b>5573</b>	<b>277</b>	<b>21377</b>

**5.3 Total redemption during the year April 1999 - March 2000****(Rs. in crores)**

	Open End	Close End	Assured Return	Total
Income	7931	155	953	9039
				12904
Growth	8250	1920	-	10170
				2672
Balanced	4151	53	-	4204
				248
Liquid	10415	-	-	10415
				2933
Money Market	3762	-	-	3762
				1704
Gilt	2997	-	-	2997
				110
ELSS	91	526	-	617
				461
<b>Total</b>	<b>37597</b>	<b>2654</b>	<b>953</b>	<b>41204</b>
	<b>14961</b>	<b>4094</b>	<b>1977</b>	<b>21032</b>

**TABLE 6**  
**PERFORMANCE OF EQUITY SCHEMES FOR YEAR ENDED 31<sup>st</sup> MARCH, 2000**  
**MOVEMENT OF INDEX (BSE SENSEX):- 31/03/2000 (5001) & 31/03/1999 (3683) Increase of 36 %**

	PARTICULARS	OPEN END SCHEMES	CLOSE END SCHEMES	EQUITY LINKED SAVING SCHEMES
1.	Number of schemes	<b>42</b>	<b>16</b>	<b>59</b>
2.	No. of schemes which outperformed the Index:-			
a.	37 - 50 percent	2	1	10
b.	51 - 75 percent	6	6	3
c.	76 - 100 percent	6	5	10
d.	101 - 150 percent	8	2	11
e.	151 - 200 percent	5	2	9
f.	Above 200 percent	2	-	13
	<b>SUB TOTAL</b>	<b>29</b> ( 69 %)	<b>16</b> ( 100 %)	<b>56</b> ( 95 %)
3.	No. of schemes which underperformed the Index:-			
a.	20 - 35 percent	7	-	2
b.	Less than 20 percent	6	-	1
	<b>SUB TOTAL</b>	<b>13</b> ( 31 %)	<b>-</b>	<b>3</b> ( 5 %)

\* In the aggregate, 101 out of 117 equity schemes, ie. 86 % outperformed the Index and none of the others recorded negative growth.

**Association of Mutual Funds in India**

1218-B Wing, Dalamal Towers, Free Press Journal Marg, Nariman Point, Mumbai 400 021.

Tel.: 2324524 / 2324525. Fax : 2831163

E-mail : amfi@bom5.vsnl.net.in. Website : <http://www.amfiindia.com>