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Mutual Fund Industry in India
Deloitte Perspective

January 2016

Foreword

India has not been unaffected by the macro-economic factors that have been influencing the capital markets globally. Domestically as well, India Inc. awaits key reforms and successful implementation of a number of forward looking policies. However, despite all these factors, India's growth story remains strong. The prospect of capturing the economic activities fueled by the affluent households and a burgeoning middle class as well as prospects of economic uplifting of the vast mass market continues to attract global investments across sectors.

The Mutual Fund Industry recorded an AUM of INR 13,460 billion as of December 2015, a year on year growth of over 21%. The industry itself has been evolving over the years. Though, traditional primary contributor to AUM have been corporates, in 2015 retail segment emerged as the fastest growing segment in terms of contribution to AUM growth.

Despite the high growth in last couple of years, there is huge untapped market potential in Mutual Fund industry. Assets Under Management (AUM) as a per cent of GDP in India is still between 6 to 7 percent, significantly lower than some other emerging economies, for example, 42 per cent for Brazil and around 33 per cent for South Africa. Underlying the latent potential for growth of the Mutual Fund industry in the country.

While a large population, which is moving towards economic wellbeing, promises for a strong customer base for financial services, it also poses a challenge to service providers in tapping resources, a large proportion of which sit beyond major cities. Mutual funds face a double challenge – firstly, increasing their share of the pie in the urban markets that have seen crowding of products and vendors, and secondly, capturing the attention of investors in sub-urban and rural markets that have been largely averse to complex financial instruments, and are often unreachable through traditional distribution channels. Mutual funds will have to leverage technology to drive innovation in products, and adopt alternate distribution channels to be successful in the Indian market.

As the industry grows in size, it is expected to see increased attention from regulatory bodies, working towards protecting the interest of the customers. In addition to it, a larger push from the state towards financial inclusion and retail participation in the markets is expected to bring about changes in taxation pertaining to Mutual Fund products. These two factors together are expected to drive AUM growth across asset classes in the next few years.

In this report, we have brought together our expertise in the Indian regulatory and taxation landscape, and our experience of working on product innovation and distribution with Mutual Fund clients globally to address challenges faced by Indian Mutual Funds. We hope you find this report insightful and informative as you consider your firms strategic decision for 2016. Please share your feedback or insights with us. We welcome the opportunity to discuss the report with you.

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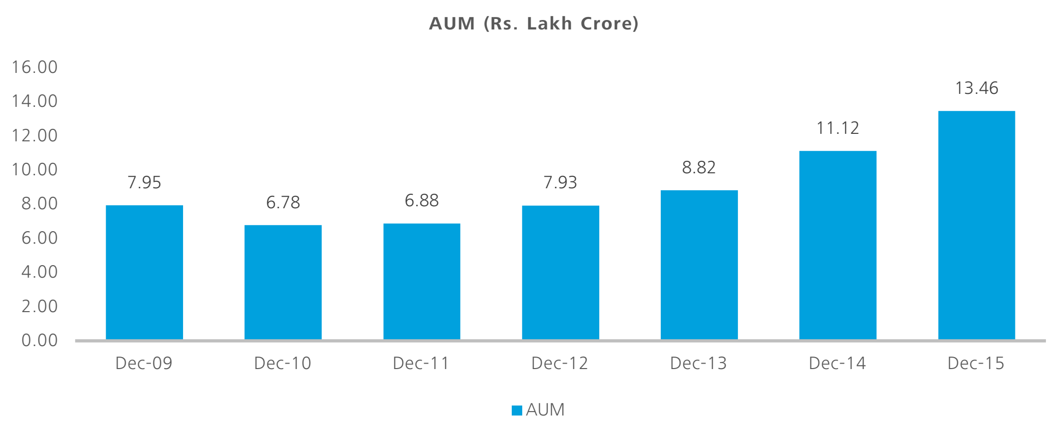
Introduction

Mutual fund industry in India dates back to 1963, when Unit Trust of India was formed at the initiative of the Government of India, and Reserve Bank of India. With the entry of numerous Mutual Fund players, and a number of products across asset classes, the industry has come a long way. As of December, 2015, investors in India had an option to choose from more than a thousand Mutual Fund schemes spread across 44 Mutual Funds with a total AUM value of Rs. 13.46 lakh Cr [1].

After a sluggish growth post the financial crisis of 2009, Mutual Fund industry has been seeing double digit growth since 2012. AUM for Mutual Fund industry in India saw a year-on-year growth of 21.04% in the year ending December, 2015 [2]

AUM grew by 21.1% in the year ending December 2015. However, AUM/GDP ratio of 6.5% indicates a large untapped market potential

Chart 1 : AUM growth in Indian Mutual Fund industry

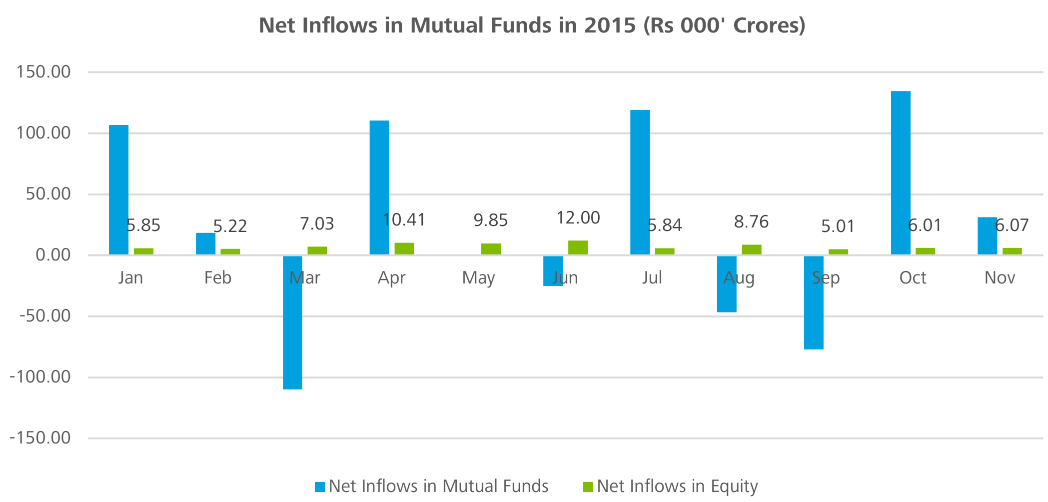


AUM for Mutual Fund industry in India saw a year-on-year growth of 21.04% in the year ending March, 2015 [2]

Source: AMFI

Mutual Fund industry saw net inflows of Rs. 2.62 lakh crores in 11 months starting from January, 2015 to November, 2015 [2]

Chart 2 : Net inflows of assets in Mutual Funds in 2015



Source: AMFI

2015 marked the first year in the history of Mutual Funds industry in India, when each month saw net inflows into equity funds [3]

Marked by a steady flow of funds in equity fund, significance of 2015 in Mutual Funds industry goes beyond just high growth numbers. It signifies a shift in broad investments patterns of individual investors who have started to see investments in Mutual Funds at a 3-4 year horizon while investing. Earlier, Mutual Funds used to see individual investors flocking in the Mutual Fund market as and when the equity markets went on a bull run. Short term view of the market led to investors entering the market at peaks and panic selling at dips. It left investors with a bad experience in the industry, discouraging them to re-enter.

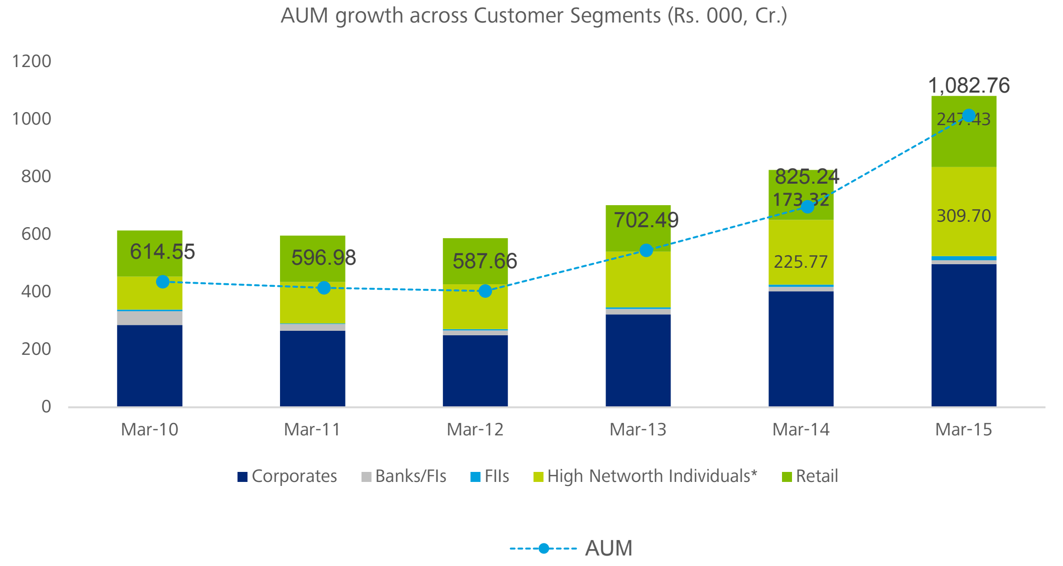
2015 saw the ownership base of the Mutual Fund industry increasing, with an ever larger number of Individual investors participating in the market

In the first eight month of 2015, 35 lakh new PAN card holders were added to the count of mutual fund investors, taking the total number of PAN numbers under which investment has been made to 1.7 Crore [4]

Looking at the AUM split across customer segment, we noticed Individual investor segment contributing a larger share of the pie.

Despite contributing to less than 50% of AUM in March, 2014, individual investors contributed to 61.37% of AUM growth from March, 2014 to March, 2015.

Chart 3 : AUM split across customer segment



Source: AMFI

Investments in equity funds in 2015 (despite a choppy equity market) were more than double that of 2008 which is often considered to be a gold standard in Mutual Fund investments.

Net annual inflows in equity funds in the year ending December, 2015 stood at Rs 96, 062 cores, which is more than double the annual inflows in the year ending March, 2008. [4]

Though reasons abound, growth in the individual investor segment has primarily been attributed to following factors:

- Steady increase in the number of investors who invest systematically and have built a track record of good investment
- Extensive promotion of Sips by investment advisors and media, which binds the customer to fund investing
- In addition, lower returns in gold, and real estate markets pushed people towards Mutual Funds

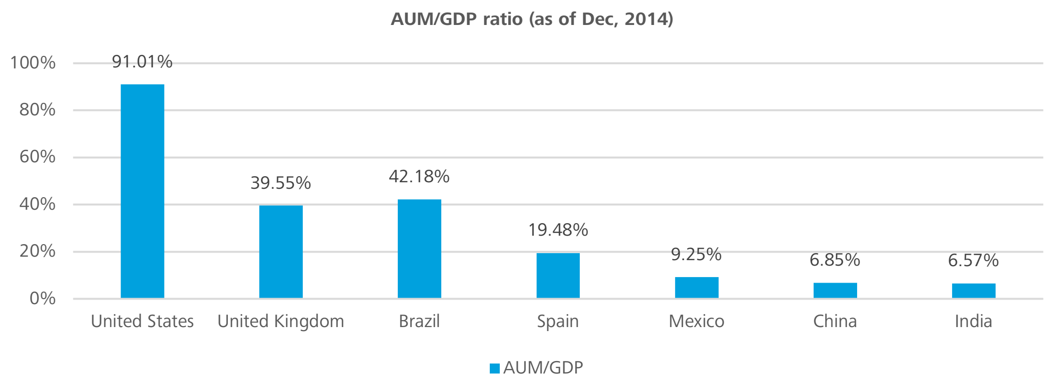
As we enter into 2016, growth in the Gold and Real Estate markets is expected to be sluggish, and investors are expected to continue to look at the Mutual Funds industry for higher returns. In addition to it, with inflation under-control, one can expect interest rates to come down. It will have a double effect of making the bond markets more lucrative and reducing the returns on bank deposits. Both of which, again are expected to drive growth in the Mutual Fund industry

However, this growth in the Mutual Fund industry needs to be seen in the context of two important data points:

1. AUM/GDP Ratio

Despite a 21.10% growth in AUM, AUM/GDP ratio remains at 6.5% which is far behind industry average[1]

Chart 4 : AUM / GDP ratio comparison



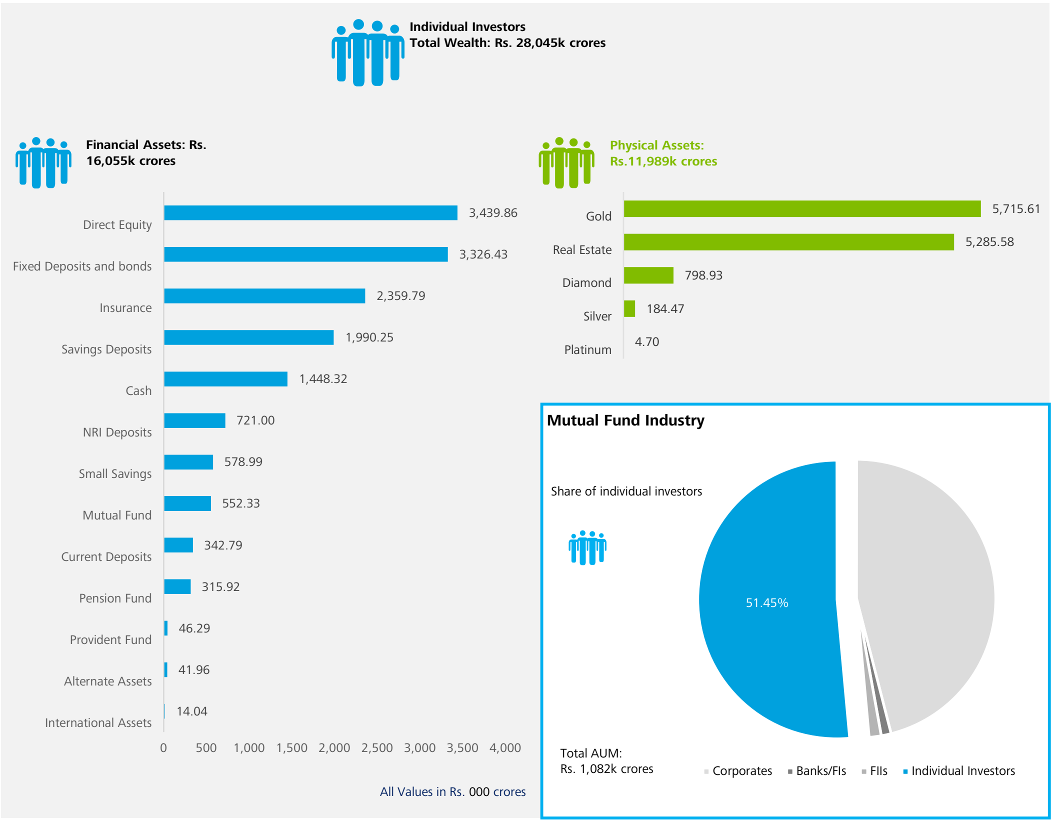
Source: ICI Fact book, GDP Data

Mature economies like United States and United Kingdom have developed a high AUM/GDP ratio over the years. However, India is far behind the global average and a number of developing countries like Brazil, Spain and Mexico in terms of AUM/GDP ratio which is considered to be a key mutual fund penetration indicator. It clearly indicates that there is a huge scope of diverting wealth from physical assets to financial assets in India.

1. Calculations based on ICI fact book

2. Share of Mutual Funds of the total individual wealth

Figure 1 : Break up of individual wealth (as of March, 2015)



Source: India Wealth Report, Karvy

Investment in Mutual Fund are close to 3% of the total investment by individual investors in financial assets.

Despite increased participation from the individual segment, Mutual Funds are still far from being an investment vehicle of choice for the larger Indian investment population – signaling a huge market potential

As the Mutual Funds industry in India grows, riding on strong macroeconomic parameters, there is a lot of investor wealth lying untapped.

Mutual Funds will have to use a combination of product innovation, distribution channel optimization and cutting edge technology to stay ahead in the highly competitive industry so as to have a larger share of the pie.

Bottom Line

Despite high growth in last couple of years, there is huge untapped market potential in Mutual Fund industry. However, addressing this segment is riddled with its own challenges. In the next sections, we'll discuss, how emerging trends in Products, Distribution Channels and Regulatory framework are affecting this space.

We'll also study trends in the Global Mutual Fund industry, and how they can be adopted to the Indian industry.

Mutual Fund industry in India has a strong outlook in near term and is expected to continue its growth story for coming years. We are expected to see growth in market size and more retail investors turn to Mutual Funds seeking exposure to a diversified portfolio.

Chart 6 : Distribution of Individual wealth in India
Source: India Wealth Report, Karvy

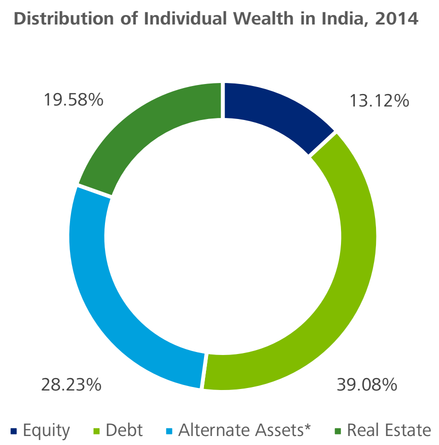
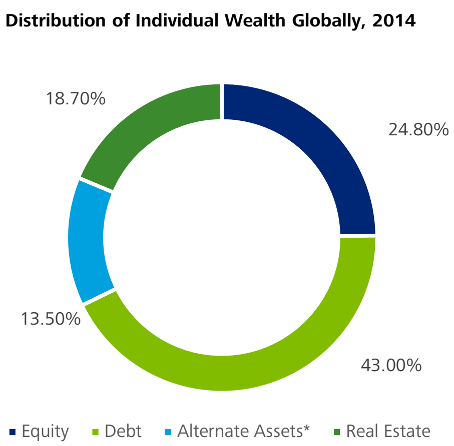


Chart 5 : Distribution of individual wealth globally
Source: India Wealth Report, Karvy



Innovation in product strategy will enable Mutual Fund managers to increase their share in the pie as new capital flows in

Investment pattern of an Indian individual investor is similar to that of its global counterpart in terms of real estate, however, the major difference arises in the investment in alternate assets such as gold instead of financial assets such as equity and debt instruments. As financial literacy grows, and masses get better access to financial services, it is expected that the individual investor will follow an investment pattern similar to the one seen globally.

In next few years, we might see a reshuffle at the leaderboard, as new capital flows in. Mutual Fund managers who are able to innovate in their product strategy are expected to increase their share of the pie. We have identified five key themes that are expected to affect product strategy growing forward.

* Alternate Assets include gold & other precious metals and gems, high yield debt, structured products, PE, Hedge fund, Film Fund, Infra Fund etc.

Emerging Product Trends

Product Messaging

A large proportion of the Indian investors have limited understanding of complex financial instruments, and jargon throws them of. They are able to better associate themselves with terms like "share market" and "byaaz" rather than "equity", "interest", "small caps", "mid-caps" and so on. In this context, it becomes extremely important that product messaging is right. We have seen insurance industry leveraging the appeal of messaging in the past. It might just be easier to relate to "Zindagi ke saath bhi, zindagi ke baad bhi" and "Roti, kapda aur zeevan beema"

Case Study

Axis recently launched a fund called "Axis Children's Gift Fund". Through a survey conducted by Nielsen Axis found out that while more than 75% parents mentioned that they are likely to support their kids pursing what they want to do, they still prefer that their children pursue 'conventional' career choices. 3/4 of the parents surveyed realize that the education cost is rising but are unsure of what to do about it.

Axis conducted interactive exercises with parents to drive the point thru. In addition, Axis realized that grandparents often make investments for their grandchildren's education. Axis worked with SEBI to get an exemption for third party cheques.

Gold Standard

Indians who have been ruled by multiple rulers over the ages, have realized that gold holds value across generations, across governments and across borders. Indians over the ages have believed gold to be the absolute standard of wealth and this wisdom has been passed on from generation to generation. Appreciation of gold prices until a few years back has rewarded Indians for their affection to gold.

In order to increase the pie in mid to long term, it is imperative that Mutual Funds tap on assets invested in Gold. To be able to do that, Mutual Funds will be required to make investments in proxies for gold hassle free for an Individual investor in a tier 3 city or a town.

Case Study

Gold ETFs without DEMAT account

The industry came up with a product which allowed investors to use the mutual fund route to invest in gold, even if they did not have a demat account. Such funds collect money from investors and act in the same way as a feeder fund does, investing on behalf of the investors into the ETF. The investors put their money into these 'Gold Savings Funds' and are issued units of the fund. The fund in turn holds the units issued by the ETFs.

Returns along with Protection

Having grown up through the Hindu growth rate, a large population in India had to carefully plan their financial assets. That coupled with a strong family fabric, made insurance products popular in the Indian market. Though, a large proportion of the working population of India is young and has seen the fruits of capitalism, they still seek financial advice within the house. Mutual funds should be able to seek a higher inflow from individual investors if they are able to address the need for insurance. LIC alone has AUM of Rs 15 lakh crore which is greater than the mutual fund industry in India as a whole.

Case Study

SIP with insurance

Provides insurance pay out which could be used to continue investments or paid to nominee in case of the demise of the original investor.

Investment advisory

Often individual investors are not able to time the investments in Mutual Funds. In the past, a rise in stock market has met with heavy inflows in equity funds and vice versa. Even investors, entering the market through SIP have been known to redeem/ reduce investments at the time of slump in the market. Mutual Funds are bound to gain, if they are able to tweak the investment on behalf of thee investors, earning maximum returns for them.

Case Study

Innovative variants of SIP

Fund houses are offering variants such as Value SIP, Power SIP against plain vanilla SIPs to improve returns and avoid losses caused due to scheduled investments of lump sum amounts. Instead, these will help them time and manage investments as per different strategies to outperform the market

Distribution of Mutual Funds in India

Mutual Fund distribution in India has been undergoing transformation to cope up with mounting pressure on distribution margins, and increasing push for advisory revenues. With individual investments in Mutual Funds amounting to just 3% (India Wealth Report, Karvy) of the total individual wealth in financial assets, Mutual Funds continue to be a "Push" product rather than a "Pull" product.

Majority of investors in India, invest through the distributor route. Therefore distribution channels are extremely critical in the Mutual Fund industry value chain.

"41% of households in India have no access to banking services" – CMIE. A large population is inaccessible.

Direct Selling is less important as compared to indirect selling with the former contributing to 37% of total AUM.

Direct selling is relatively less important today. It primarily comprises of big ticket investments from institutional investors, and online sales. A look at data from Association of Mutual Funds in India (AMFI) reinforces our hypothesis:

Figure 2: Share of direct vs indirect channels across investor types [9]

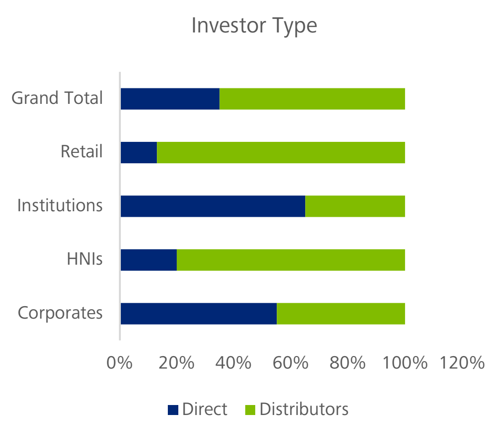
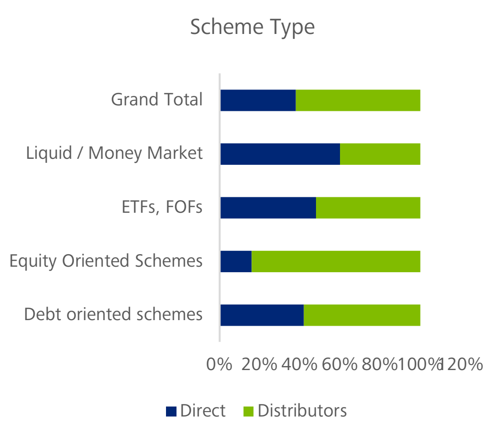


Figure 3: Share of direct vs indirect channels across scheme type [9]



Most of the mutual fund sales happens indirectly through banks and independent financial advisors (IFA). IFAs happen

Demand for Mutual Funds in India is highly skewed towards a small proportion of districts. A study conducted by SEBI [5] divided Indian districts into deciles based on domestic product and studied AUM/GDP ratio across these deciles. The results were highly skewed in the favor of the first decile:

Region	AUM/GDP
1st Decile	29.53%
2nd Decile	2.82%
3rd Decile	3.72%
4th Decile	1.89%
5th to 10th Decile	Less than 1.00%

While the ratio in the 1st decile is comparable to developed economies like the UK (40%) and EU member nations (41%), the ratio is abysmally low for the rest of the deciles.

Contrary to popular belief, there is a weak correlation between banking penetration and penetration of Mutual Funds in any region in India [5].

"Most damagingly, there are several districts in which over two-thirds of the households have saving accounts but still have little (or no) access to mutual funds." [5]

It can be safely assumed that a large number of saving bank accounts imply surplus income for savings and investment that can be channeled into Mutual Funds. Banks can act as touch points for mutual fund customer for marketing and selling schemes.

Hence, a weak correlation between bank penetration and AUM suggest that banking channel is underutilized and can be leveraged to tap potential Mutual Fund market.

While we talk about financial inclusion and increasing the size of the pie, Mutual Fund industry sees a limited participation even from urban investors.

Key Issues

In the light of above trends, we analyzed issues with distribution of Mutual Funds in India. We divided the issues in supply side versus demand side issues.

Supply Side Issues

Inefficient distribution channels

Concentration of AUM in a select number of cities has led to disproportional concentration of mutual funds distributors in these cities, leading to higher competition and lower return on investments made, in developing distribution channels [5].

No incentive to expand

Mutual Funds face a challenge of inadequate distribution network beyond T-15 cities. It has been observed that often investment from Tier-2/Tier-3 cities in a short term is not able to offset the cost of building a distribution network in these cities leading to a longer breakeven, which affects the fund's performance. Mutual fund houses need to leverage technology enabled low cost solution to surpass this entry barrier.

Unattractive commission for distribution agents

Commission paid to Mutual Fund agents is less when compared to that paid to agents selling insurance. While for an insurance agent, first year commission may be as high as 35% and around 7.5% for 2nd and 3rd years, Mutual Fund agents may earn 0% to 4% as a one-time brokerage and 0.50% to 0.75% as trail commission.

Demand Side Issues

Access

A large population of country is underserved or unserved in terms of financial services. A whopping 41% of the population doesn't have access to basic service like banks and credit [6]. Even in regions with high household income, penetration of financial products beyond basic deposits with bank and post office is minimal, creating unmet demand.

Awareness

Lack of awareness amongst majority of potential individual investors is a major cause of lack of participation in the Mutual Fund market. This lack of awareness is three pronged:

- **Ignorance:** Lack of information about Mutual Funds and associated risk makes investor choose physical assets like gold and real estate
- **Risk-aversion:** A lot of investor still hold the age old view of investment in equity and similar products being tantamount to gambling
- **Mutual Fund complexity:** A large number of products to choose from confuse the investor and they turn to simpler options like bank deposits

Innovation in distribution models will have to address awareness and access issues while addressing the supply side issues through technology

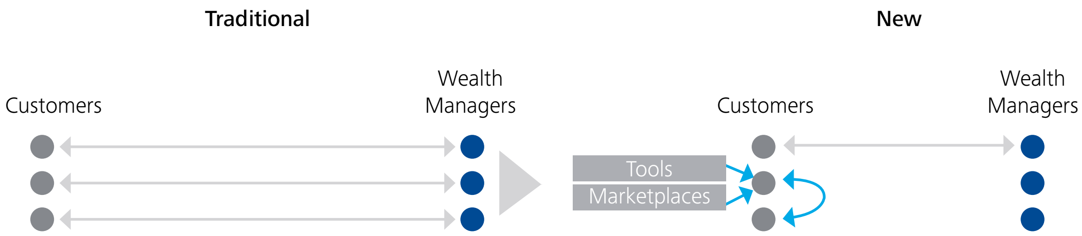
Educating customers

Efforts to increase awareness will be distributed along two customer segments. Firstly, urban investors who have access to technology and financial services, however are threatened by mutual fund complexity or are ignorant towards investment avenues. Second, rural investors who have minimum access to technology and might gain access to financial products through alternate channels like mobiles phones.

Urban investors

We are expected to see an increase in prominence of online platforms where key information and advisory is available online at ease

Figure 4 : Lowering bars to act as investment experts



Semi-Urban and Rural investors

Mutual funds will have to partner with government bodies and explore distribution along the lines of other saving schemes.

Developing alternate distribution channels

Mutual funds will have to leverage alternate channels like Indian Post and mobile phones to increase reach. India post offices has been a distributor of financial services like money order and banking service and have a very good reach.

At the same time mobile penetration in India is very high and it can be leveraged to distribute Mutual Funds through Mobile Wallets, and Payment banks.

Case Study

5nance.com – They call themselves Personal Automated Advisor.

As of now they allow investors to but Mutual Funds and a number of another financial products online. In addition, one can link their bank accounts, demat accounts and credit and cards, and they will be able to provide financial advice

Case study

SMS based transactions through mobile phones

Investors are issued unique PIN on registration with funds which they can use in an SMS to transact on various schemes of mutual funds and also to switch between different schemes

Regulatory Landscape

SEBI, with AMFI's support, has been actively monitoring as well as promoting the mutual fund industry. Recent regulations and guidelines are focused to facilitate the industry's growth as well as protect the interests of the investors. We have captured important regulations and taxation changes that will affect the Mutual Fund industry going forward

Regulatory and Tax Related Factors that are affecting the Industry

Key Regulatory changes

Limits on exposure to debt market

SEBI has, on 11 January 2016, approved amendment to SEBI (Mutual Fund) Regulations, 1996 ("Regulations") in order to mitigate the risk on account of high level of exposure to credit downgrade, put mutual funds in better position to handle credit risk and provide investors with enhanced diversification benefits. These amendments are applicable to all fresh investments of new scheme or existing scheme. AMCs will be given appropriate time to align their portfolio with revised limits.

Following amendments are approved to Regulations:

- Merge credit exposure limits for single issuer of money market instruments and non-money market instruments at the scheme-level
- Single issuer limit is reduced to 10% of NAV extendable to 12% of NAV after trustee approval
- Reduce exposure limit to a single sector to 25% of NAV
- Reduce additional exposure limit provided for Housing Finance Companies (HFCs) in finance sector to 5% of NAV
- Introduce group level limits for debt schemes through issuance of appropriate circular and the ceiling be fixed at 20% of NAV extendable to 25% of NAV after trustee approval. Government PSUs, PFIs and PSU Banks are excluded in group level limits. Group shall have the meaning assigned in Regulations.
- More duty cast on Trustee to review exposure across all schemes of mutual fund and confirm compliance with SEBI on half-yearly basis.

FATCA might limit investments from US residents

FATCA which came into effect from November 01 2015, an anti-tax evasion law, has led to a few mutual funds to refuse fresh investment from US residents.

Expect gating guidelines from SEBI

SEBI may come out with gating guidelines to restrict redemption in short term debt schemes. SEBI is reviewing exigency clauses of various debt funds and is likely to issue guidelines on this practices in the coming months.

Build internal credit risk evaluation capability

Amidst increasing worries about excessive credit risks, SEBI has intensified its vigilance with increasing incidence of high exposure to some low-quality papers. Fund houses are expected to develop credit rating expertise on their own considering that mutual fund industry had an exposure of Rs.4000 crore to downgraded paper as on July 2015 which went up to Rs.13,000 crore in August 2015.

Executive compensation might be linked to fund size

SEBI recently examined compensation structure of key AMC personnel including fund managers operating from abroad for the last three years to ascertain if the fund houses are over compensating the executives at the expense of fund profitability and hence investor interests. Although, fund officials believe that compensation levels do not affect investors since the total expense ratio (TER) is regulated by SEBI. If the compensation is regulated as per the fund size or profitability it might affect the growth of smaller AMCs.

Any regulation / curb on the ceiling limit of remuneration would adversely affect getting right talent especially for small players and newly floated mutual funds.

Mandating uniform commission structure might hurt the smaller AMCs

Although, AMFI has capped upfront commission at 1% it has not been adhered to universally since smaller AMCs feel that it will restrict them from competing with larger fund houses.

Increasing reach to small investors

SEBI, Government and AMFI may come up with a product to tap very small investors say persons holding bank account under Jan Dhan Yojana to start habit of investing in stock market. This can be achieved by way of minimum debit say ` 100 per month depending on choice of account holder which will be collected and aggregated by designated AMCs and on a monthly basis such collected amount will be invested in securities which can be combination of debt and equity and managed by AMCs. Such scheme will allow very small investors to reap the benefits of collective and systematic investment through mutual fund. This will also help in broad basing the reach of mutual fund industry to small investors.

Easing application processing through e-KYC

Linkages with databases for verification of Passport, Aadhar, etc. to verify KYC may help in verifying authenticity of documents avoid fraudulent falsification of documents by investor.

E-KYC may be permitted by SEBI. Further the process for KYC may be unified with other industry norms like banking, insurance etc.

Taxation related challenges faced by mutual fund industry

Tax exemption for ELSS will make them more popular

In its Budget 2016 wish list sent to the Ministry of Finance, AMFI has sought an additional tax exemption of Rs.50,000 for ELSS which would be over and above the deduction claimed under Section 80 C i.e. Rs.1.50 lakh. AMFI has also requested the Ministry of Finance to introduce Mutual Fund Linked Retirement Plans (MFLRP). However, both (ELSS and MFLRP) have been pending with the Finance Ministry since a long time. If implemented, fund houses could launch these products by getting approval from SEBI directly instead of taking approval of Central Board of Direct Tax (CBDT) on a case-to-case basis.

Unavailability of CENVAT credit

Taxability of services provided by a mutual fund agent or distributor under reverse charge mechanism possess a challenge as CENVAT credit is not available to such agent/distributor.

Maharashtra Value Added Tax

Issues under Maharashtra VAT exist for Mutual funds operating schemes pertaining to Gold Exchange Trading. Maharashtra VAT Rules include provisions where the gross receipts of a dealer on account of sales is less than 50% of the total receipts in any year, then set off is available on such sales in respect of which the corresponding purchase has been done within a period of six months prior to the sale. VAT authorities have interpreted the 'total receipts' to comprise all receipts pertaining to the Mutual funds business as against restricting the same to only the sales of gold/ commodities. This has resulted in the benefit of the set off not being extended to the fullest extent.

No recourse to bad debts

Bad debts incurred in the Mutual Fund industry do not have any recourse in terms of Indian service tax laws. Service tax deposited on revenue transpiring into bad debts still remains a concern for the sector.

Receipts based income vs accrual based taxes

Mutual fund sector is largely a receipt based industry, however, basis of taxation primarily under Service tax laws are based on accrual of income. The imbalance between receipt based income and accrual based taxation prevails.

Swachh Bharat Cess

New levy i.e. Swachh Bharat Cess ('SBC') is, sometimes, not reimbursed by service receivers as the same is not creditable against service tax liability. Consequently, the SBC component becomes a cost to the industry operators.

Tax challenges faced by Mutual Funds & AMCs – Marketing expenses

As per Mutual Fund regulations, only a portion of the expenses incurred by the AMC's can be charged to the Mutual Fund. One of the challenges faced by AMC's is with respect to the deductibility of marketing expenses incurred on behalf of the Mutual Fund. The tax authorities allege that this expenditure is not incurred for the purpose of the business of the AMC's thus denying a tax deduction. Though the Bombay High Court has issued a ruling in the case of Templeton Asset Management in favor of the AMC, clarification from the CBDT on this issue will provide much needed clarity and avoid further litigation on this issue.

Extended period of holding made debt-fund less attractive

The change in the period of holding for debt oriented mutual funds for qualification as 'long-term capital asset' from 12 months to 36 months has resulted into higher rate of tax in the hands of investors. This has made debt funds less popular and unattractive for investors with short term horizon.

Filing of annual tax return by Mutual Funds

Earlier the Mutual Funds were required to furnish a statement giving details of the nature of the income paid or credited during the previous year and such other relevant details as may be prescribed. From assessment year 2015-16, the Mutual Funds are required to file their annual tax return if their total income (without claiming exemption) exceeds the maximum amount which is not chargeable to income-tax. It is however not clear if such Mutual Funds are also required to furnish the traditional statement giving details of income paid or credited.

Tax neutrality on merger of similar schemes of Mutual Funds

Transfer of units held by an investor in a consolidating scheme of mutual funds will be treated as an exempt transfer in case the consolidation of two or more schemes of an equity oriented fund or two or more schemes of a fund other than an equity oriented fund. Further, the cost of the transferred units will be the cost of acquisition of the units in the consolidating scheme. Similarly, the date of purchase of the transferred units will be considered for calculating the holding period of units in the consolidating scheme. This has facilitated consolidation of Mutual Funds schemes in the interest of investors.

Budget 2016 Expectations

- To have a level playing field with ULIP, switching between different plans of a mutual fund should not be taxed as capital gains in the hands of an investor
- Fund of Funds investing mostly in Equity Oriented Funds should also be treated as Equity Oriented Funds. This will avoid dual levy of Dividend Distribution Tax and availability of lower capital gains tax rate for investors in Fund of Funds
- Since mutual funds have been allowed to invest in foreign securities including ADRs/GDRs, there is a need to expand the definition of Equity Oriented Funds to include foreign securities.
- Securities Transaction Tax (STT) should not be levied at the time of redemption of units under equity schemes of mutual funds. This will avoid double levy of STT since such mutual funds also pay STT at the time of purchase and sale of equity shares.
- To increase the penetration of mutual fund industry, investment in mutual funds should be added in the eligible list of investment under section 54EA/54EB of the Income-tax Act, 1961.

Global Trends

Mutual Funds globally are trying to accelerate growth with continuation of a number of current trends – such as focus on product development, regulation, and risk management. The difference going forward will be the redirection toward expansion and the speed at which growth-oriented strategies are executed.

Acceleration of innovation by investment managers will be a critical driver of the movement toward growth, as firms work to cut through the complexity of distribution channels and product development. To make this happen, targeted sales, product differentiation, response to regulatory events, and operational innovation will need to happen at a faster and more efficient pace to gain competitive advantage.

We expect the following to be key focus areas going forward:

- Distribution and Technology
- Governance and Conflicts
- Operational Innovation

Leveraging technology

Years ago investment managers were able to grow their businesses by launching attractive, differentiated, high performing products and having a strong direct or intermediated distribution strategy. That is no longer the case in a multitrillion-dollar marketplace. Now, winning the game requires increased distribution efficiency by leveraging the most advanced tools: data and technology.

Growing complexity of distribution poses following challenges to investment managers:

- Rising global influence - Developing countries such as China and India, and their emerging wealth, may provide opportunities for fund managers to benefit both from global distribution and rising domestic demand through wealth managers. Fund managers need to gain a deeper understanding of how international influences affect fund distribution and how to take advantage of emerging opportunity.
- Commoditized marketplace - A plethora of products in the marketplace creates a true challenge for managers seeking assets. With multiple products and investment options there seems a limited amount of room left for managers to get the attention of advisers and investors.

Globally, Mutual Fund managers are leveraging technology for advanced analytics to improve reach and optimize operations

- Fragmented approach - The combination of channel convergence and global expansion creates a kaleidoscope of challenges for investment managers. Investment managers will need to focus resources on areas of greatest return on sales efforts across the intermediary, institutional, retirement, and direct channels. At the same time, investment managers will continue growing assets by offering product structures outside their traditional lines, such as insurance-linked retirement income products.

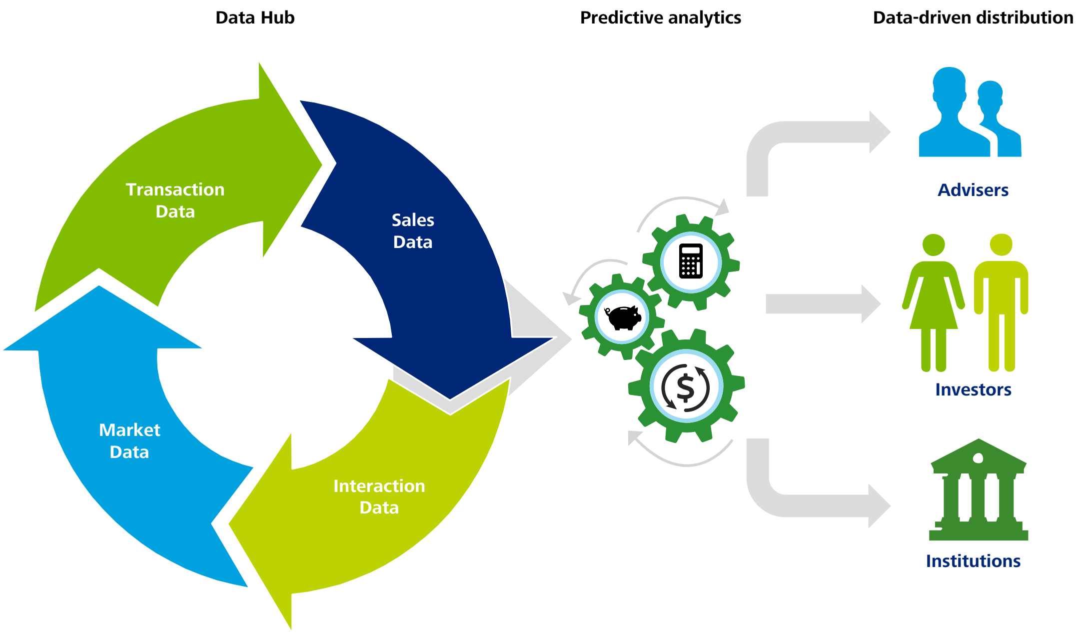
Globally, technology is supporting sales and service targeting by segments

While specifics will vary across managers, data-driven distribution is generally headed toward enhanced use of data hubs and predictive analytics.

- Data hubs - Fund managers are planning to completely revitalize CRM capabilities, which, in legacy form are often basic and superficial. For many, the answer is cloud-based platforms that offer significant extended capabilities. Going forward, it is likely that CRM systems will provide the underpinning of data-driven distribution, particularly for intermediary channels, which need a 360-degree view of the financial adviser.
- Predictive analytics: With data hubs answering the “what is" question, the "what might be”· question is next on the radar. Predictive analytics, the statistical analysis of historic data to make predictions, is already widely used for both product analysis and wholesaling.

The bottom line

Analysis before action characterizes the future of mutual fund distribution, and managers that start down this path early may gain a competitive edge.



Managing reputation risk through growth in governance

Protecting a growing organization from risk-oriented events requires continuous evolution in identifying what these might be and facing them head-on. Over the past few years, investment managers have spent considerable resources in building general compliance and risk expertise, while addressing regulatory risk at large. Going forward, the risk focus will be targeted toward the integration of risk and compliance, governance and conflicts of interest, and how these issues influence firms' reputation overall.

Key challenges

- Rising reputational risk - A quick perusal of a newspaper or industry websites will highlight one of the most important issues investment managers face today: reputation risk. Eighty-seven percent of the global executives responding to Deloitte's Reputation@Risk survey rate reputation risk as more important or much more important than other strategic risks their companies face. In addition, 88 percent say their companies are explicitly focusing on managing reputation risk.

Mutual Funds will have to take an integrate approach to manage reputational risk and conflict of interests.

- Top-down risk management centers on governance and conflicts - In 2014, corporate governance and conflicts of interest risk oversight were among the SEC's highest priorities. These priorities will likely carry over in future as well. Managing such a sweeping agenda requires fund leaders to focus first on growth in governance as an umbrella of protection - because, in essence, strong governance instills and monitors processes that protect an organization from risk.
- Multiyear evolution begins toward well-defined risk - Looking forward, a different, even more complex risk profile is anticipated to emerge, accompanied by a multiyear risk evolution. Drivers for risk escalation include the intricacy and sheer volume of laws and regulations around the world, the intensifying scrutiny of enforcement officials and the public, the rising cost of compliance breaches, and the underlying risk of reputation damage. To manage this shift, managers should consider focusing on two key components: talent management and risk culture, and infrastructure.

The bottom line

Acceleration toward growth is requiring fund companies to become increasingly creative in their risk-management strategies. Implementing new product structures, forming different business partnerships, and a changing external environment all have immediate impact on the types of risks fund managers must face and the speed at which they need to address these risks. To add to the complexity, external market risks are increasing rapidly at the same time as media attention has remained focused on investment managers' activities. As a result, risk management and regulatory oversight will focus on managing a firm's reputation, primarily through ensuring that governance measures are firmly in place and continuously monitored -and that these measures start with a clear risk vision and supporting tone at the top.

Targeting growth through operational innovation

Classical themes are still top of mind for operations teams. Trying to do more with less, simplifying operations,increasing productivity. and remaining competitive are overarching goals that will still resonate going forward. But there is change under way. As with other areas of the business, operational goals are moving toward supporting growth objectives, following a multiyear retrenchment. Keythemes that will evolve over the next year include data management, cyberrisk, extended enterprise management worldlow analysis, books of record, and customer experience.

Emerging risks demand a fresh approach

- Cybersecurity Risk - Mutual fund managers are challenged to respond to the rising threat of cyberrisk and how it may impact both reputation and investments. Infact,managers should take cues from the OCIE Cybersecurity Initiative in order to gauge how seriously regulators are taking it. The risk of cyberthreats is intensifying,and investment managers also need to take this threat more seriously.
- Extended-enterprise management risk - The connections between manufacturer, distributor; and serviceprovider have become so dose that risk to one is fast becoming risk to all. To prevent the domino effect of the potential reputation risk events discussed earlier,operations teams need to understand and enhance EEM risk management measures.

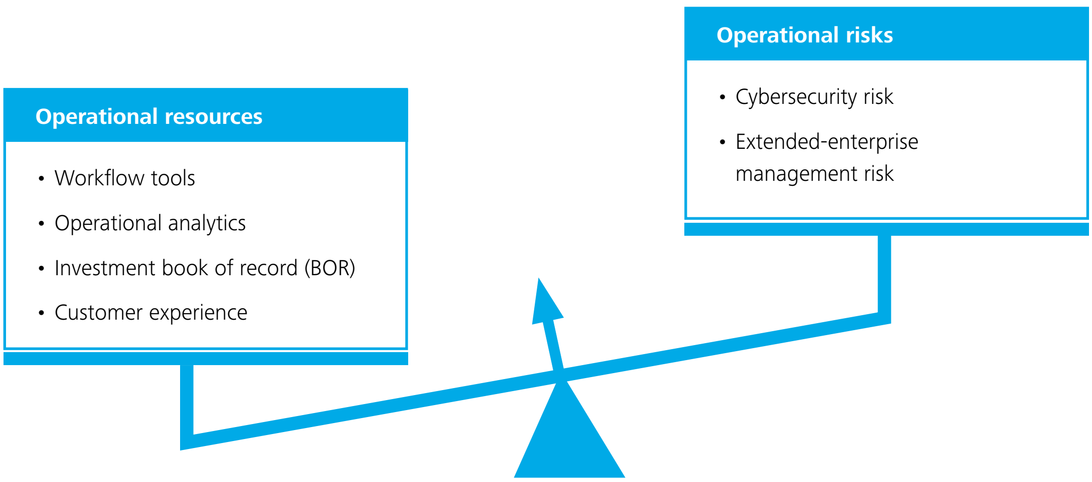
Data and tools deliver innovative edge and enhance customer experience

- **Workflow tools** - Workflow management tools and processes provide investment managers with trade support, exception monitoring, and batch-cycle monitoring processes. Perfected on the investor side, but not yet on the investment-servicing side, the use of workflow tools needs to be prioritized.
- **Analytics** - Both asset servicers and large fund managers sit at the intersection of unique and proprietary data sets, which, if effectively analysed, could allow them to deliver actionable demographics to product teams, as well as to client and distribution channels to win and retain business. This supports intelligent management of a product portfolio and decision making. Fund managers need to translate the same data capabilities that are used in the front office tor portfolio construction and alpha generation to bridge the gap to the back office.
- **Customer experience** - One of the best indicators that the fund industry has turned the corner toward growth is the repurposing of resources toward customer experience. To be successful, operational and back-office support is imperative. Leading global organizations are focusing on the following objectives: automation of lower-value transitional processes to free up time for the customer-facing staff to focus on experience, operations acting as customer consultant, and dialogue-based interactions using next-best-action insight.

The bottom line

When operations teams begin to align activities with growth as an objective along with the rest of the organization, it can be a true sign that the industry is turning the corner from cost containment toward expansion. As a result, fund managers will be reassessing their global operating models accordingly.

Operational objectives shift to favour growth – oriented resources



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ICC Profile

INDIAN CHAMBER OF COMMERCE
Serving the Nation Since 1925

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India. ICC is the founder member of FICCI, the apex body of business and industry in India. ICC's forte is its ability to anticipate the needs of the future, respond to challenges, and prepare the stakeholders in the economy to benefit from these changes and opportunities. Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr B M Birla, Sir Ardeshir Dalal, Sir Badridas Goenka, Mr S P Jain, Lala Karam Chand Thapar, Mr Russi Mody, Mr Ashok Jain, Mr.Sanjiv Goenka, among many others, have led the ICC as its President. Currently, Mr. Shiv Siddhant Kaul is leading the Chamber as it's President.

The Chamber has proven capabilities in business development across geographical boundaries and capacity building. ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada. Also, ICC was selected as one of the top finalists at the 2013 World Chambers' Congress in Doha, Qatar. ICC was selected for it's innovative project - the 'Better Calcutta Contest for Schools', which is run by ICC Calcutta Foundation, a charitable trust set up with the objective of promoting the well-being of Calcutta. In 2014, ICC was the only Chamber from India to have bid for the World Chambers' Congress to be held in 2017, and was one of the 4 Chambers to give the bid presentation in Tokyo.

The ICC also has a very strong focus upon Economic Research & Policy issues - it regularly undertakes Macro-economic Surveys/Studies, prepares State Investment Climate Reports and Sector Reports, provides necessary Policy Inputs & Budget Recommendations to Governments at State & Central levels.

While the ICC has grown rapidly over the last few years, and expanded it's operations with the goal of serving Industry better across regions & states, and effectively addressing issues related to sub-national growth, the Chamber's major focus will continue to be on the East & North-East of India. Being headquartered in Kolkata, the Indian Chamber has worked closely with all the State Governments in the region, and particularly, has been the Govt. of West Bengal's partner in progress over the years. The ICC is recognized by the Ministry of DoNER, Govt. of India as the "Nodal Chamber" for the North-East, and has worked relentlessly for the progress of the North-East region which has unparalleled and majorly untapped economic opportunities. The Indian Chamber, along with the Ministry of DoNER, has been organizing the 'North-East Business Summit' , the largest and most prestigious Summit cum Exposition on India's North-East region over the years. Till now, 10 Summits have been organized between 2002 and 2014 in places including New Delhi, Guwahati, Kolkata, Mumbai, Dibrugarh and the Conferences have been able to address key developmental issues of the NER by bringing together all relevant stakeholders from across sectors & regions. Apart from being the Partner Chamber in all previous North-East Business Summits organized by the Ministry, the Indian Chamber has also organized mega trade & investment shows on the North-East abroad, particularly in South & South-East Asian countries, which, the ICC feels, can be natural trade partners of the North-East region because of the latter's strategic location and proximity to these countries. Several high-profile Delegation Exchanges with South & South-East Asian countries like Bangladesh, Bhutan, Myanmar, Thailand, Vietnam & Singapore to foster trade through the NER have been organized quite frequently by the Chamber over the last few years, in sync with the Govt. of India's erstwhile 'Look East' , and now 'Act East' Policy. The ICC strongly believes that if India has to 'Act East', the Eastern & the North-Eastern States have to play a significant role in connecting the whole of India with South & South-East Asia, and will gain tremendously through the various backward & forward linkages , in the process.

The Indian Chamber has set it's Theme for 2015-'16 as - "Make India", which refers to the overall development, both social and economic, of the country through substantial and sustained improvements in infrastructure & connectivity, manufacturing, healthcare, higher education & skill development. Further, a comprehensive legal framework (covering labour, the establishment, governing and closing of companies, environmental rules and quick enforcement of contracts) is essential to enable entrepreneurial risk-taking and hence development. The Chamber's Theme is complementary with the Govt. of India's 'Make in India' campaign. To boost Manufacturing, an appropriate physical & social infrastructure has to be established. Skill development, education and healthcare is essential to ensure there is adequate human capital while physical infrastructure ensures that large supply-chain ecosystems develop.

The ICC headquartered in Kolkata, over the last few years has truly emerged as a National Chamber of repute, with full-fledged offices in New Delhi, Mumbai, Guwahati, Patna, Bhubaneshwar & Ranchi functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.

For a Chamber which started in Kolkata and played an inspiring role in India's Freedom struggle by bringing indigenous businesses together, it has been a long and eventful journey. Today, as the Chamber continues to grow across states and regions, it is adhering more strongly to it's primary aim of creating a conducive and sustainable environment to enable social, industrial and economic growth of the country.

ICC's flagship Annual Conferences include the North-East Business Summit, India Energy Summit, Convergence India Leadership Summit, Agro Protech, ICC Insurance Summit, ICC Mutual Fund Summit, to name a few. These Summits take place all across India and abroad, and address key strategic issues in important sectors like Agriculture, Infrastructure & Energy, Environment, MSME , Capital Markets & Finance, etc.

As a pro-active Industry Association , thus ICC is directly involved in impacting Policy Making in the country by bringing Industry & key Regulatory Bodies together , and these Conferences & Exhibitions go a long way in creating the necessary forward & backward linkages required for industrial & economic growth. The networking opportunities that the ICC Conferences provide to the participants, are also significant, and these Forums create newer business opportunities in the process.

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