ASSET MANAGEMENT COMPANY

Context

- India's Securities and Exchange Board is calling for asset management companies to set up surveillance and internal control systems as part of measures against market abuse and fraudulent transactions.

About Asset Management Company

- An Asset Management Company (AMC) is a firm that invests the funds pooled from individual investors in securities with the objective of optimal return for investors in exchange for a fee.

- AMC maintains the diversity of its portfolio by investing in both high-risk and low-risk securities such as stock, debt, real- estate, shares, bonds, pension funds, etc.

How are the funds managed by an AMC?

- Market Research and Analysis: To build a portfolio for an investor the asset manager needs to do a lot of research on the market trends, macroeconomic and microeconomic factors, and political aspects.

- Asset Allocation: On the basis of market research and the investor's financial objective, the asset manager allocates the funds to different assets.
  - For example, a debt-oriented investor would invest just 20% in equity-oriented funds to keep the risk levels low.
  - However, an equity-oriented fund would invest more than 70% in equity and the rest in debt.
  - A balanced fund would end up with just 60% in equity and 40% in debt to balance out return and risk.

- Creating a Portfolio: After research and analysis and the decision of asset allocation is done, the asset manager on the basis of market findings creates a portfolio.

- Review of Performance: Since the fund of an investor is at stake, the performance measurement of the portfolio becomes very important.

Factors for Investment

1. Factors such as industry risk, market risk, return risk, and political risk are considered before selecting any security to meet the return-on-investment targets.
2. For example, a debt fund invests in bonds and risk-free Government bonds to maintain the minimum risk.
3. On the other side, an equity-oriented fund will invest in shares and stocks with high risk and high return.

How do Asset Management Companies function?

- An AMC collects funds from different investors having different financial objectives.
- Now it invests such a large pool of funds in a very diversified portfolio and enjoys economies of scale, getting discounts on purchases.

  The return earned by the portfolio is then distributed among all the small retail investors.
- The services provided by an AMC are charged either on a fixed basis or a commission basis.

Bodies Governing AMC's Operations

- AMC performs under the supervision of the board of trustees. All the Asset Management Companies are governed by SEBI and AMFI.
- Securities and Exchange Board of India (SEBI) is the Indian Capital Market Regulator which governs and controls every AMC in India.
- The Association of Mutual Funds in India (AMFI) is a statutory body formed by mutual fund companies.
  - AMFI was formed with the vision of a transparent and ethic-driven financial industry.
- Banks being sponsors are governed by RBI as well along with SEBI and AMFI.
- Lastly, all the regulatory bodies SEBI, AMFI, and RBI are governed by RBI.

Reliability of AMC compared to Banks

- Mutual fund companies are not as reliable as Banks and the schemes offered by AMC are not as secure as a Fixed Deposit Interest.
- However, AMC acts under the supervision of trustees who are governed by SEBI and AMFI. This ensures transparency, accountability, and objectivity.