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# IMPACT OF ECONOMIC CYCLE ON MUTUAL FUND INVESTMENT: LOOKING THROUGH A DIFFERENT LENS

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## ABSTRACT:

Mutual funds have evolved into a key pillar of modern investing through a fascinating journey of growth fueled by collaboration and innovation. Early on, asset management companies, regulators, and investors each played a role that helped demystify the industry, turning a once arcane concept into an accessible instrument for wealth creation. Today, mutual funds aren't just financial products—they're an evolving narrative of trust, transparency, and opportunity.[1] Marketing strategies have been at the heart of this transformation. By crafting messages that resonate with everyday investors, industry players have widened their outreach into even the most geographically remote areas. Yet, despite these efforts, challenges persist. Retail penetration remains modest, and when you compare assets under management (AUM) to a country's GDP—like in India—the potential for growth is strikingly clear. Macroeconomic conditions, fluctuating interest rates, business cycles, and even geopolitical tensions all contribute to the performance of these funds, underscoring the complex interplay between global events and local investment behaviour. On a more personal note, the influence of diverse investor groups is reshaping the mutual fund landscape. The household sector forms the backbone of investments, while an empowering surge in women investors, increased retail participation, and the rise of direct and passive plans are all contributing new dimensions to this field. However, not all is perfect. Over-diversification can dilute returns, frequent changes in tax rules and regulatory frameworks may unsettle investors, and high expense ratios continue to be a drag—especially for those seeking straightforward, less volatile alternatives like government-backed schemes.[2]

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[1] Drishtiias, AMC Repo Clearing Limited (last visited March 20, 2025).

[2] WahrRE, The Impact of Inflation on Reinsurance: Strategies to implement going forward – Wahr Re (last visited March 20, 2025).

Ultimately, when compared to other investment strategies, mutual funds offer a balanced blend of risk and reward. Their evolution is a testament to the power of visionary marketing, regulatory progress, and the collective efforts of diverse investors—all converging to make investing a more inclusive and empowering experience.

**INTRODUCTION:**

The financial system is a sophisticated yet closely knitted highly complex network, comprising broadly the markets, intermediaries, institution and services wherein the money is exchanged and flows from the investor who is looking to invest their saving money for a return on their investment while on the other side the same fund is circulated throughout the network system and utilized for facilitation of growth of the nation.[3] The principle of investment followed by every participant in the market is "commitment" with a goal to realize an impressive return from the various financial elements. The onus falls eventually on the investors to be financially sound of the market performance and based on their risk appetite and return opt for such financial services which are best suited for them. In the past few decades, the Indian financial market has witnessed a revolution that is manifold, backed by changing economic circumstances, and has undoubtedly attracted attention from new investors across all sectors, including public, private, household, and others. However, it is also prevalent that due to lack of knowledge and proficiency, everyday investors are still reluctant to invest their hard-earned money in securities, apprehending it to be emotionally stressful and challenging.

There are various ways by which an investor can pool investments, and the most typical structure is mutual funds. It not only provides an opportunity to diversify one's investment but also offers professional management, which comparatively lowers the risk of investing directly in stocks and other securities, all at a moderately lower rate. The reason underlying such operation involves mixed investment options which balances out the losses incurred by one bond or performance of one stock which, if in case drops, are neutralized by another.[4] A mutual fund is a trust that offers investors who share common financial goals to pool their resources to gain financial profit. Such investors are traditionally the ones who do not have any time and have zero knowledge of the functionality of the financial market. Likewise, in return for their

[3] NCBI, The Role of Nurses in Improving Health Care Access and Quality - The Future of Nursing 2020-2030 - NCBI Bookshelf (last visited March 20, 2025).

[4] Dr. Sunita Bishnoi, Marketing Mix and Promotional Strategies of Mutual Funds, Oaj (March 20, 2025, 8:00 P.M.) Microsoft Word - abstract.docx.

investment, they gain the income which is sourced from the various investments and capital appreciations from where they earn up to the proportion of the number of units owned by them. Hence, the unit holders are spared from the intensive analysis, market speculations, and research, which is done on their behalf by the fund manager for a fee. It is pertinent to mention that there is a symbiotic relationship that is shared in a mutual fund scheme. Moreover, in the scheme of mutual funds, there are some prominent organs that work in a hierarchy and perform within the framework of the financial system. The mutual fund also offers the opportunity of wealth creation for investors through its dynamic techniques, which makes it interesting, but despite that, there are certain bottlenecks of investing in the mutual funds such that it carries inherent risk of losing money because overdiversification, tax regulations, and cost explodes the losses.[5] It is believed that the mutual fund industry is supposed to be the most lucrative market for the common mass, yet in practice, it fails to be a primary choice for investment to Indian investors, which makes it necessary to study the mutual fund investments from a different angle. This article deals with the study of the mutual fund market from the investor's perspective and considers the impact of economic cycles and how different sectors have influenced their growth.

**Development/History of Mutual funds:**

The Indian Mutual fund industry has majorly transmuted in the six decades of its existence from a single-player model to a heterogeneous network, constituting more than 40 assets management companies, various schemes, and more than 2 lakh active intermediaries as well as over 22.9 crore investor accounts.[6]. This has not only contributed to the expansion of the sector but also signifies the profound rethinking of the Indian economic framework. There are fifth phases of growth and development of mutual funds in India[7].

- The concept of mutual funds emerged in the Netherlands in the 18th century and was introduced in India by the unit trust of India 1960s.
- **First Phase (1964-1987) – UTI Era**: The Unit Trust of India (UTI), which was first controlled by the Reserve Bank of India (RBI) and founded in 1963 by a parliamentary

[5] Tax2 win, Understanding Section 80CCG Deduction: Rajiv Gandhi Equity Savings Scheme (RGESS) and Tax Benefits - Tax2win (last visited March 20, 2025).
6PricewaterhouseCoopers Pvt. Ltd., The Mutual Funds Route to Viksit Bharat @2047, PWC (March 20, 2025, 8:00 P.M.) https://www.pwc.in/assets/pdfs/the-mutual-funds-route-to-viksit-bharat-2047.pdf..
[7] Bankers Daily, Banking and Financial Reforms in India: A Comprehensive Overview of Transformations and Challenges (last visited March 20, 2025).

act, was the country's first mutual fund company. With the advent of Unit Scheme 1964 (US '64) and subsequent scheme expansions, UTI increased AUM steadily. As evidenced by the early success and expansion of the mutual fund sector in India, AUM reached ₹6,700 crores by 1988.

- **Second Phase (1987-1993):** Mutual funds began to diversify beyond UTI in 1987, with SBI Mutual Fund emerging as the first non-UTI fund. Canara Bank, PNB, LIC, GIC, and other public sector banks and insurers came next. By 1993, the mutual fund sector had become diversified, with AUM rising to ₹47,004 crores.
- **Third Phase (1993-2003):** In the 1990s, economic liberalization made private sector mutual funds possible. To protect investors, SEBI, which was founded in 1992, introduced the Mutual Fund Regulations (1993, amended 1996). The first private fund in India was Kothari Pioneer (1993). 33 mutual funds handled ₹1,21,805 crores by 2003, which promoted industry expansion and competition.[8]
- **Fourth Phase (2003-2014):** UTI was divided into SEBI-regulated UTI Mutual Fund and SUUTI (guaranteed return schemes) in 2003. Investor trust was damaged by the 2008–09 financial crisis, which resulted in losses. Slowing inflows, SEBI's 2009 entry load elimination decreased distributor incentives. Due to investor caution and market difficulties, AUM growth stalled between 2010 and 2013.
- **Fifth Phase (Since 2014):** India's mutual fund market has had robust AUM growth since 2014, going from ₹10 trillion in 2014 to ₹30 trillion in 2020(pre-Covid era). AUM reached ₹39.34 trillion in 2022 to ₹64.53 trillion in 2025(post-Covid era). Investor folios increased, SIPs became more well-liked, and SEBI-AMFI's educational initiatives increased involvement.

**Mutual fund constituents:** A mutual fund scheme follows a hierarchical structure consisting of a sponsor, trust, custodian, and asset management company/fund managers, all following the same line of order. Briefly speaking, sponsors are the promoters of the mutual fund bearing a soundtrack, and they have to abide by the qualifications as prescribed by the SEBI regulation, which describes it as a legal personality that can either alone or along with another body

[8] Marg ERP Ltd, The Impact of Interest Rates on Mutual Funds: What You Need to Know, Margcompusoft (March 20, 2025, 8:00 P.M.) The Impact of Interest Rates on Mutual Funds: What You Need to Know - Marg ERP Blog.

corporate establish the mutual fund.[9] Grading down comes the trust, which is nothing but a notional entity wherein it comprises a board of trustees who hold a fiduciary relationship with the unit holders and act as a beneficiary, eligible to enter into a contract representing the trust as well as invest in such schemes as promoted by the mutual fund. In the third tier are the fund managers or the asset management companies, which, under the supervision of the trust, are required to operate the money of the investors. Unlike the trust, they are not qualified to charge any fee. It is pertinent to mention here that there is another organ, which acts independently and has custody of all the securities and assets of the mutual fund, the custodian, which is regulated by the SEBI (Custodian of Securities) Regulations, 1996.[10]

**Contribution of participants in the growth of Mutual Fund:**

The expeditious growth of the mutual fund industry in India has been very prominent since its debut. More so, it has skyrocketed in the past few years, but having said that, the rate of participation of new participants in this sector is extremely sluggish, especially from the tier-2 and tier-3 cities, while the growth factor remains concentrated to a few hands like the institutional investors. Generally speaking, in spite of financial inclusion, which has long remained a priority for lawmakers, it is critical to note that there is still room for growth and that there exist regional differences.

**Impact of Marketing strategies adopted by mutual funds:**

The competitive atmosphere has catalyzed the transformations in mutual funds, particularly towards identifying distinctive economic requirements as well as creating competition among the providers to constantly find ways to provide low-cost products. In this regard, the marketing strategies come in handy to stand out in the longstanding queue. The trick lies in understanding the target audience.[11] Adopting simple strategies such as education marketing not only boosts the confidence of their potential investors but also spreads awareness about financial education.

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[9] Rakesh Swami, Inclusive Development and Mutual Funds: Roadmap and Hurdles, SSRN (March 20, 2025, 8:00 P.M.) Inclusive Development and Mutual Funds: Roadmap and Hurdles by Rakesh Swami, Trilok Kumar Jain :: SSRN.

[10] Sundar Sankaran, *The Indian Mutual Funds Handbook - A Guide for Industry Professionals and Intelligent Investors*, Vision (March 20, 2025, 8:00 P.M.) Indian Mutual Funds Handbook (5th Edition) : Sundar Sankaran : Vision Books : Book (ISBN: 9386268191)

[11] Neha & Dr. Mohan Singh Naik, Exploring Unique Marketing Approaches Used By Mutual Funds to Attract Investors, Int'l Advance J. Eng'g, Sci. & Mgmt., Fdhge (March 20, 2025, 8:00 P.M.) Dr. Neha Singhal - Google Scholar.

It is poignant to mention that for a long time, they specifically targeted urban areas while leaving behind the semi-urban and rural areas untapped. In the realm of the report by SEBI, it is observed that the financial literacy level stands at 27% in the present financial year.[12]. With a 1.5x surge, the passive mutual fund assets under management have shown significant growth but at a slower pace. The existing disparity has led to a division between regions, with one flourishing at the expense of another. This inequality risks a future where even the same socioeconomic classes within these regions will be starkly divided into haves and have-nots. The long-term implications of such imbalanced growth might deepen the division fueled by geopolitical tensions, which is a growing concern. Taking into account the behavioral finance perspective, purchasing decisions are often found to be biased. The reason is how well the product can grab one's attention, and how well it is marketed, as well as its performance, are duly noted by the investors. In short, these returns on mutual funds are not generated exclusively, rather, it is often improved when they are combined with various marketing strategies. Traditionally speaking, marketing was mainly through print media and television, as contrasted to this digital age wherein it is conducted by using modern techniques such as advertising, brand recognition, personalization, robo-advisors, among others.[13] Nevertheless, the present scenario of the mutual funds market is not in parity with the digital age as it lacks to nourish the potential investors to build up risk-taking abilities and despite efforts being made to foster brand new product innovations, these are having limited reach, especially only confined to the institutional investors and retail investor. As the competition increases, there have been innovations in pricing to address these gaps, such as front-end and back-end loads, with the rise of no-load or low-load funds. Trust-building and brand value also speak volumes. In this regard, commercial banks can play a bigger role by offering financial products alongside banking services and promoting awareness programs. When a mutual fund company works transparently, it becomes a potent option, especially among rural and semi-urban investors.[14] By focusing on these areas, mutual funds can contribute to inclusive development and help reduce the divide between urban and rural India.

In addition to this, the digitalization era has witnessed that algorithms have become a powerful tool in shaping public perception. This presents an opportune movement to harness social

[12]Only 27% Indians are financially literate: Sebi's Garg, Nat'l Ctr. for Fin. Educ., NCFE (March 20, 2025, 8:00 P.M.), https://ncfe.org.in/news/only-27-indians-are-financially-literate-sebis-garg/.

[13] Funds europe, Retail flows drive global AUM upwards - Funds Europe (last visited March 20, 2025).

[14] Springer Link, The Mutual Fund Industry: Structure and Conduct | SpringerLink (last visited March 20, 2025).

media marketing as a means of educating the audience about the tax benefits designed to incentivize investments such as exemption on mutual fund returns and further how credit rating agencies like CRISIL, CARE and ICRA are playing vital role in equipping investors with the information needed to make the prudent decisions. Notably, for sustained growth, mutual fund agents and distributors must intensify efforts to spread awareness about mutual fund investments and make an effort to focus on reaching the underserved regions.

**Investor's perspective:**

In most of the parts of India, the **household sector** is apparently conservative when it comes to investing their savings, and they tend to choose safe assets, such as fixed deposits, gold assets, etc, where they can invest their hard-earned money.[15] There are several factors influencing this behavioral pattern. It is primarily due to the scattered distribution of the **financial literacy** rate across the country, which at present is merely 27%. With this quarter's percentage of the financial literacy level of the country, most parts of the suburbs and rural areas are untapped as well, and the financial aspirants from these areas are not brought to the surface. The reason is that for a long time, the focus area of the AMC and the regulators has been on only the urban folk. One way to improve the financial inclusion can be by linkage with the Aadhaar and direct cash transfers. This will also help to mitigate the risk of mis-selling of the schemes by the emerging IFAs. In India, the population is diverse with different strata of the economy, in the light of which it is complicated to identify and compartmentalise all the investors in one box. In this perspective, the second most important variable that has influenced the investor's perspective is the **wealth factor**. The former variable is plausible at times because not all literate people will have enough money to invest because of the income disparity, as 48% of the population finds it difficult to cover up their monthly expenses.[16] Instead of the above, a sharp contrast in the investment habits of Indian investors are surging- from panic to patience, as they are seeing the market downturns as an opportunity to further invest, focusing mainly in long term wealth creation which has inflated from 6.5% in March

[15] Roshini Pranjana N.V., A Study on Investors Perception Towards Mutual Fund with Special Reference to Vellore District, Sathyabama Inst. of Sci. & Tech., SIST (March 20, 2025, 8:00 P.M.), https://sist.sathyabama.ac.in/sist_naac/documents/1.3.4/mba-mba-batchno-171.pdf.

[16] Uma Shankar, Financial Literacy in India - Data & Policy, Reserve Bank of India, RBI (March 20, 2025, 8:00 P.M.), https://www.rbi.org.in/rbioecdflc2017/Downloads/Conference%20PPTs/08th%20Nov%202017/5.%20Session%201.3%20-%20Uma%20Shankar%20-%20Financial%20literacy%20in%20india%20-%20data%20and%20policy.pdf.

2019 to 15.7% in March 2024 and strategizing disciplined investment options- like the SIPs and passive funds. For instance, when the market dropped in Nifty 50 TRI in March 2008, there was a reduced mutual fund influx, while in 2020, despite the market sinking 23%, it swelled.

**Accessibility and outreach in geographically dispersed areas:** It is possible to make a deduction that, in respect of some of the districts, they appear extremely rich and are looking for investment opportunities, as well as the presence of agents and distributors, which could lead to a high mutual fund penetration.

**Retail penetration challenges:**

Traditionally, focusing on the institutional investors. This has left room for retail AUM in the Indian Mutual Fund Industry to remain underdeveloped for a long time. It is only in the recent times that efforts has been made to increase the branches in tier two and tier three cities the driving factors such as large ticket sizes tax benefits for corporates to invest their money in mutual fund a better accessibility and institutional clients in tier one cities what the sum of the factors which driving the institutional focus. This has, however, posed a challenge because it is exposed to high risks such as sudden redemption pressures, which severely impacted its performance. In the growing times, the need for retail AUM expansion has been felt by the asset management companies. This would require robust distribution channels and a widespread footprint.[17] In the recent data, however, there is a disparity that is revealed that as of November 2024, the assets in T30 cities reached ₹5,561,000 crores, whereas B30 cities accounted for only ₹1,244,000 crores.[18]—a difference of 77.6%, which underscores the necessity for more attention to retail penetration in small towns. In furtherance, the mutual fund industry has been largely product-oriented rather than customer-focused. The prevalence of new fund offers (NFOs) has led to the oversupply of undifferentiated schemes and merely focused on innovation or development of products which were tailor-made to satisfy the customers' life needs such as education, marriage, or housing.

**AUM-to-GDP ratio:**

[17] **Rajesh Prabhakar Kaila & Sandeep Singhal, A Study on the Indian Mutual Fund Industry, Globus** (March 20, 2025, 8:00 P.M.), **https://globusjournal.com/wp-content/uploads/2018/07/615Rajesh.pdf**

[18]**T30 vs B30, Ass'n of Mut. Funds in India, Amf india** (March 20, 2025, 8:00 P.M.), **https://www.amfiindia.com/Themes/Theme1/downloads/home/B30vsT30.pdf**.

While achieving 18.2% of the AUM/GDP ratio as of 2024, driven by an influx of retail penetration, SIPs, and several other factors, it has, however, fallen short as compared to other developed economies, reflecting its untapped potential. With a greater rate of 175%, from INR 24.78 trillion in April 2019 to INR 68 trillion in January 2025, mutual fund AUM represents approximately 15 to 20% of the GDP a relatively low figure when compared to the developed markets like that of the USA, where the ratio exceeds 150 to 200%. According to the Viksit Bharat report[19]. The country aims to increase retail penetration by 15% by 2027 from ~3.6% as of 2025. This has raised concern mainly because, with India promising to become the world's third-largest economy by 2030, it is still in the nascent stages of development, and the market is extremely limited to a fraction population. One of the many unique challenges is that nearly half of the population, except for T30 cities, does not formally have a bank account. It is also a matter of consideration that the blend of limited knowledge, risk-averse attitude, and the intricate nature of the mutual fund poses significant difficulties for Indian Asset Management companies to strive and expand their retail participation. Additionally, the investors need to address this and encourage them to explore the investment options beyond the traditional choices through focused campaigns, awareness programs, and educational efforts to make them look more appealing and recognize their potential investors. This metric highlights the considerable growth opportunities in India's underdeveloped regions, representing a path for the growth of this industry to expand its reach and relevance.[20] In addition to this, to bridge the gap, the AMFI has taken initiatives to empower smaller towns and villages, to embrace financial inclusion with a growth rate of 178.5% increase from March 2019 to March 2024 in B30 cities, while observing a slight decline of 81% in T30 cities from 84% since 2019[21].

**GDP growth and relationship with mutual fund returns:** In the journey of growth and expansion of the mutual fund sector, the major factor that has catalyzed its scope as well as intensely diversified the nation's economy is the diversified investment options. These factors are interdependent on one another. To support this contention, tracing down the origin of the mutual funds in India, it can be found that it was born as a reaction to the economic challenges

[19] PwC, *Supra note 1*, at 2196.
[20]Penetration of Mutual Funds in India: Opportunities and Challenges, Sec. & Exch. Bd. of India, SEBI (March 20, 2025, 8:00 P.M.), https://www.sebi.gov.in/sebi_data/DRG_Study/OpportunitiesChallenges.pdf.
[21]AMFI, *Supra note 8, at 2199.*

in the 1960s when the market was largely agrarian and the latter largely contributed to the GDP as well as most of the people were engaged in this sector. At that point, there was a hike in saving money through bank deposits, but the inflation rate was as high as 6% to 8%, whereas the interest on such deposits was merely half as low as 4%, which made the value of their savings shrink over time. There is a direct relationship between the two, as the gross domestic savings and investment rate, which is a part of GDP, has been declining, with household savings constituting a significant part of it.. It has seen a decline, moving from around 34% in 2011-12 to just above 30% in 2022-23, and in 2024-25 was measured at 30.7% 2024 2025. Though mutual funds are an essential element of investment management among the people residing in metro cities, investors residing in Tier 2 and Tier 3 are slowly adapting to the idea of investing in mutual funds. As a response to protect the public interest, mutual funds were designed to make investing options easier and more rewarding for everyday people. With economic progress, investment has grown, establishing mutual funds as a tool to channel household savings into the formal financial sector and supporting capital generation.

**Impact of Economic and regulatory factors on Mutual Funds returns:**

1. **Macroeconomic and market conditions**

Macroeconomic challenges posed by inflation resulted in a spike to 13.1% in 1991,[22] and a severe balance of payments crisis led to the undertaking of rigorous economic reforms. Apart from stabilizing the economy, the measures taken paved the way for the mutual fund industry to set a critical path for mobilizing retail savings. For example, the industry's assets under management (AUM) surged from INR 6,700 crore in 1987 to INR 47,000 crore by 1995—a period during[23] which the investor base grew from 1.5 million to 6 million accounts, demonstrating the sector's rapid expansion under regulatory oversight. Empowered with enhanced regulatory measures—such as the regulator's statutory powers granted in 1992 and the establishment of the Association of Mutual Funds in India (AMFI) in 1995—the industry was able to ensure transparency, reduce operational costs (through initiatives like eliminating entry loads and capping expense ratios), and expand its distribution network across over 8,000 branches, reaching both urban and rural investors. These efforts have contributed to economies

[22] R. Nagaraj, What Has Happened Since 1991? Assessment of India's Economic Reforms, Indira Gandhi Inst. of Dev. Res, IGIDR (March 20, 2025, 8:00 P.M.), ,http://www.igidr.ac.in/faculty/nag/What%20has%20Happened%20Since%201991%20%20An%20Assessment%20of%20Economic%20Reforms.pdf.

[23] Sebi, Sebi Report Final Vol1.qxd (last visited March 20, 2025).

of scale that bolster net returns for investors. By 2014, the total AUM had surged to INR 10 lakh crore, with retail investors accounting for 50% of this figure. This transformation has not only made mutual funds a mainstream investment choice but also helped secure stronger, more rewarding returns through cost efficiencies and wider market participation.[24]

2. **Business cycle**

Business cycle mutual funds use the expansion, peak, contraction, and trough of the economy to strategically modify their portfolios to maximize profits and control risks. [25]These funds usually boost investments in growth-oriented industries, such as consumer discretionary and technology, during expansion in order to take advantage of growing demand and business profitability. On the other hand, they might redirect their attention to defensive industries like utilities and healthcare during contractionary times, as these sectors are typically more resilient to economic downturns. This dynamic allocation matches investments with industries that are expected to do well in the present economic climate to improve risk-adjusted returns. For example, the real estate and banking sectors frequently drive expansion during economic recovery, whereas the healthcare and consumer staples sectors may provide stability during downturns. Fund managers keep an eye on market movements and macroeconomic data to predict changes in the business cycle and modify the portfolio appropriately. With this proactive strategy, possible losses from economic swings are minimised, and new chances are capitalised on. However, the manager's ability to correctly read economic signals and carry out sector rotations on time determines how effective these funds are.

Due to active management and potential for increased volatility, investors contemplating business cycle funds should evaluate their investment horizon and risk tolerance. Comprehending the fund's approach and the manager's proficiency is essential to guarantee congruence with your financial objectives and anticipations.

3. **Interest Rates**

The performance of mutual funds is greatly impacted by inflation since it reduces actual returns and has varying effects on different asset classes. Growing inflation in the equity mutual fund industry may result in higher operational expenses for businesses, which could lower profit margins and investor returns. For example, the real rate of return is negative at 2% if a stock

[24] PwC, *Supra note 1, at 2196.*

[25]Business Cycle Investment Strategy for Long-Term Growth, Econ. Times, Economic (March 20, 2025, 8:00 P.M.), https://economictimes.indiatimes.com/wealth/invest/business-cycle-investment-strategy-for-long-term-growth/articleshow/118356853.cms.

fund has an 8% return during a period of 10% inflation. Bonds and other fixed-income investments are the focus of debt funds, which are especially vulnerable to inflation. Central banks may raise interest rates to combat rising inflation. Higher interest rates drive bond prices to decline, which lowers the value of debt funds because bond prices and interest rates move in the opposite direction.

Diversification across asset classes, including debt, commodities, and stocks, is recommended to lessen the impact of inflation on mutual fund investments. Maintaining buying power can be achieved by including equity funds that have the potential to outperform inflation in the long run. A hedge against inflation can also be obtained by investing in inflation-protected securities, such as Treasury Inflation-Protected Securities (TIPS), which modify their principal value in accordance with inflation rates. Maintaining real returns in an inflationary environment requires regular portfolio assessments and modifications to guarantee alignment with financial objectives and current economic realities.[26]

### 4. Geopolitical Tensions

By raising market volatility, interfering with international trade, and influencing investor attitudes, geopolitical tensions have a substantial impact on mutual funds. Market sell-offs and falling asset values are frequently the result of investors becoming risk-averse during conflicts, such as trade wars, armed conflicts, or diplomatic disputes. Due to the unpredictable fluctuations in stock values, equity-based mutual funds are directly impacted by this volatility. Geopolitical unrest can also affect inflation and interest rates, which can have an effect on bond mutual funds. For example, a crisis that raises oil prices might cause inflation, which would then force central banks to raise interest rates, which would lower bond prices.[27] Additionally, emerging market funds are especially at risk since political unrest can cause currency devaluations and slowdowns in the economies of impacted areas. Depending on how geopolitical events play out, sector-specific funds like those that concentrate on energy or defense may enjoy gains or losses. The market for risky mutual funds is typically diminished when investors gravitate towards safer assets like gold or government bonds. It may be necessary for fund managers to move assets into less volatile industries or geographical areas in order to rebalance portfolios. Long-term investors could find chances in the midst of the

[26] Business Connect, Why Every Investor Needs An SWP Calculator And SIP Calculator For Smart Financial Planning - Business Connect Magazine (last visited March 20, 2025).
[27] SEBI, Sebi Report Final Vol1.qxd (last visited March 20, 2025).

uncertainty, even though short-term volatility is typical. Thus, geopolitical tensions impact mutual fund performance in a variety of ways by generating both opportunities and hazards.

5. **Fintech supremacy**

The investment world has seen the influence of fintech, and it reveals that, as people become more comfortable with technology, user-friendly mobile apps are making it easier to trade directly in the capital markets. The example of Grow—reporting 6.63 million active investors as of September 2023—further underscores the rapid expansion of the retail investor base facilitated by fintech innovations. Essentially, the passage suggests that technology is democratizing access to financial markets and significantly boosting investor engagement.

6. **Regulatory milestones - Strengthening investor protection and market transparency in mutual funds**

Over the years, the mutual fund business in India has undergone a remarkable transition, with a notable rise in the involvement of ordinary investors. In order to maintain investor confidence as the business grows,[28] SEBI has been closely monitoring it. The industry is continuously being watched by the regulator, which is also implementing new policies to increase openness and safeguard the interests of investors. A risk management framework was required for mutual funds by SEBI in 2020. To guarantee that investors have timely and accurate information about their investments, the regulator has implemented a number of measures. These include requiring mutual funds to reveal their investment strategies, monthly portfolio, daily NAVs, risk management procedures, and fees and expenses. By standardizing disclosures and enhancing transparency, SEBI has also assisted in lowering the likelihood of industry malpractices like mis-selling. The regulator has one of the strongest disclosure requirements for MFs in the world.[29] Additionally, the regulatory environment for foreign securities investing has given mutual funds additional chances to participate in international markets. All things considered, investor confidence in the mutual fund sector has grown dramatically as a result of regulatory changes that have fostered a culture of openness, equity, and accountability. More people are currently investing in mutual funds than ever before as a result of the mutual fund industry's tremendous expansion.

[28] Esapllc, Is a Trust a Legal Entity? If Not, What is It? - ESA Law (last visited March 20, 2025).

[29] Indian, Indian Mutual Funds Handbook - A Guide for Industry Professionals and Intelligent Investors: Buy Indian Mutual Funds Handbook - A Guide for Industry Professionals and Intelligent Investors by Sankaran Sundar at Low Price in India | Flipkart.com (last visited March 20, 2025).

**1996-2003: Strengthening Regulations:**

A structured framework for mutual funds in India was established by the SEBI (Mutual Fund) Regulations, 1996, which stipulate sponsor eligibility under Regulation 7 and require mandatory registration under Regulation 3. Global diversification was made possible in 2000 when mutual funds were allowed to invest in international assets under Regulation 43. In order to increase responsibility and transparency in fund management, SEBI required that all investment decisions be recorded by 2003.[30]

**2012: Structural and Transparency Enhancements:**

SEBI created the single-plan structure to standardize investment options and avoid having different NAVs for the same scheme. For the convenience of investors, cash investments in mutual funds were allowed up to a certain amount. Regulation 52(4) required that exit loads be refunded back to the scheme rather than to AMCs. Additionally, SEBI permitted TER's fungibility, guaranteeing effective cost control. To promote retail investing, the Rajiv Gandhi Equity Savings Scheme (RGESS) was introduced. In order to improve openness, SEBI also mandated monthly portfolio disclosures (Regulation 59).[31]

**2013:**

In order to make transactions more economical, the Securities Transaction Tax (STT) was lowered for equity funds. A consistent 25% Dividend Distribution Tax (DDT) was applied to all mutual funds with debt. Benchmarking equity programs against the Total Return Index (TRI) was imposed by SEBI. A 10% index-free Long-Term Capital Gains (LTCG) tax was imposed on equity-oriented funds with annual gains of more than ₹1 lakh. The mutual fund penetration city classifications were changed from T15/B15 to T30/B30, and fund house websites were required to disclose TER.

**2019:**

With the implementation of a full trial approach for distributor payments, SEBI outlawed upfront commissions. TER slabs were lowered by 0.25%, and rates were linked to AUM. Side-pocketing was permitted for assets with downgraded debt. They lowered sectoral limitations to

[30] IJERBT, v3i1-ijerbt-paper-4-2.pdf (last visited March 20, 2025).

[31] BING, Sundar Sankaran, The Indian Mutual Funds Handbook - A Guide for Industry Professionals and Intelligent Investors, (March 20, 2025, 8:00 P.M.) - Search (last visited March 20, 2025).

20% and implemented stricter cybersecurity standards. A minimum of 20% of cash, receivables, and government securities had to be held in order to improve liquidity.

**2021:**

SEBI created the Limited Purpose Clearing Corporation (LPCC) to facilitate corporate debt repo operations. Aligning the interests of investors and AMC workers, introducing swing pricing, strengthening risk management, requiring RFQ platform trades, updating AMC control transition procedures, enhancing investor disclosures, and establishing standards for silver ETFs were among the major reforms.

**2022:**

SEBI strengthened investor protection and mutual fund governance by requiring two-factor authentication for mutual fund transactions, introducing credit risk-based single issuer limits, defining the roles of the AMC audit committee, revising portfolio rebalancing timelines, establishing standards for debt ETFs and index funds, and updating dividend and redemption transfer timelines.[32]

**2023:**

To facilitate retail participation, SEBI allowed e-wallet investments up to ₹50,000 (Regulations 4 & 28). Liquidity in the debt market was improved by mutual funds' involvement in repo transactions (Regulations 44 and 46). Regulations 49L and 49M, which mandate disclosures, were implemented for ESG mutual fund schemes. Regulations 77 and 78, known as Execution-Only Platforms, simplified digital investments in direct plans.[33]

**2024:**

SEBI strengthened the digital security of AMCs by implementing the Cybersecurity and Cyber Resilience Framework (Regulations 27 & 37). Insider trading regulations were applied to mutual fund units (Regulation 18, SEBI PIT Regulations, 2015). Regulations for passive schemes were loosened by MF Lite (Regulations 49A & 49B). Better risk management was

[32] Upstox, More money in PPF and mutual funds: How household savings shifted from bank deposits in 3 years (last visited March 20, 2025).
[33] Flybynight, History - Mutual Fund Industry in India (2025) (last visited March 20, 2025).

made possible by the relaxation of regulations about Credit Default Swaps (Regulations 44 and 45).

**Franklin Templeton Asset Management (India) Pvt. Ltd**.[34] Declared on April 24, 2020, that six debt mutual fund schemes would be wound up because of their poor performance, large exposure to hazardous debt instruments, and extreme liquidity stress made worse by the COVID-19 epidemic. Many of the low-rated debt securities that the funds had made significant investments in were associated with financially distressed companies such as DHFL and Yes Capital. The corporation was compelled to sell illiquid assets due to the redemption pressure brought on by the pandemic, which ultimately resulted in the shutdown. The company's investment activities were the subject of an inquiry by SEBI, which caused serious problems for the mutual fund sector in India. A number of significant flaws in the mutual fund industry were brought to light by the Franklin Templeton case, including incorrect debt fund classification, excessive investment in low-rated, risky bonds, and poor liquidity risk management. Short-term schemes that used perpetual and floating rate bonds deceived investors, and side-pocketing and complicated disclosures added to the opacity and confusion. Share of mutual funds in net savings of Indian households remains consistent- In India, households' savings in physical assets and financial assets stood at 71.5% and 28.5%, respectively, as of March 2023. As for the trend in constituents of financial savings in India, bank deposits and currency have seen a decline, while the share of other investment products such as life insurance funds, mutual funds, and PPF have seen an increase over the same period.

**Impact of various groups on investment in mutual funds:**

1. **Household sector**

The household sector is the backbone of the Indian economy. The agriculture sector, which contributes a significant portion, is mainly because most of the people make their bread and butter through this sector. The HH sector serves as a vital provider for investment and surpasses the combined contribution from both private and public sectors in driving the growth of the nation. The past 10 years have witnessed that nearly 64% of the total domestic savings was made by this sector.[35] The presence of a strong GDP and so forth is beneficial as it helps in

[34] 2021 SCC OnLine SEBI 839
[35] India's Wallet: Insights into Household Sector Finances, 360 ONE, 360 (March 20, 2025, 8:00 P.M.), https://www.360.one/asset-management/reports/360ONESpotlight_HouseholdFinances-May2024.pdf.

improving the income from households, which ultimately attracts new investors as well as accelerating the market. Taking the insights from 2023, it is observed that India's saving dynamics reveal a mix of progress and challenges. Though the GDP has improved to 29.3 percent from 28.4 percent as of 2022, it signifies an economic rebound and better income levels. As compared to the global average of 27%, India has secured a favorable position. Relying on household savings, it has also grown at a compound annual growth rate of 8.3% from the fiscal year 2012 to 2023, reaching 49.62 lakh crore in absolute terms. Despite this, challenges persist as the household saving as a percentage of GDP saw a steep decline from 23.6% in the financial year 2012 to nearly 18% in financial year 23, that reflects that rising financial pressure and inflation is a significant concern where about 57% of the population is worried about its impact and 34% is struggling to meet the daily expenses. On one hand, the per capita net national income is growing at 9% annually the private consumption outpaced its growth at 10%, intensifying financial strain on households. The trend is an indicator that, despite progress made in savings and economic recovery, inflation and increasing consumption are straining household finances. In addition to this, in terms of health care, where the global average is 17%, individuals are paying 50% of the cost out of pocket, besides keeping millions of people unsecured. Thus, long-term financial planning will be hit adversely as in the next 5 years, 88% of people are expected to bear instability and 80% lacking retirement plans. This can be mitigated with proper tax planning. Mutual funds come as a rescue as the recent growth witnesses that there is an increase in the allocation of mutual funds wherein options like SIP are on the steady rise along with a larger proportion of both retail and HNI investors within the total mutual fund AUM. It is to be highlighted that the geographic reach of equity-oriented funds investment has expanded beyond the top 110 cities, leaping from 8% to 18% between 2018 to 2023, which is a positive sign that the base of investment has widened across the country.[36]

2. **Women investors in Mutual funds:**

Defying conventional expectations and forging a path towards financial independence the Indian women have not only made it possible to reach the financial literacy rate at 12%. Their participation in mutual fund assets under AUM has also doubled in 2024 to 4.29 lakhs crore.

[36] Hari K. Nagarajan et al., How Households Save and Invest: Evidence from NCAER Household Survey, Nat'l ouncil of Applied Econ. Res., IGIDR (March 20, 2025, 8:00 P.M.), http://www.igidr.ac.in/faculty/nag/What%20has%20Happened%20Since%201991%20-%20An%20Assessment%20of%20Economic%20Reforms.pdf.

In recent times, female investors' participation has increased, as now the women are making up one in every four investors. This is a remarkable achievement in advancing women's empowerment and spreading financial awareness. This is especially evident in the northeastern region where the matrilineal traditions are fostering more active involvement in the decision making processes recent statistics from 2024 indicates that over 20.3% of women are opting for direct investment schemes underscoring their commitment to self manage mutual fund investments in addition there is a noticeable preference for long term strategies which reflect a patient and dedicated approach toward the sustainable wealth creation among the women investors.[37]

3. **Retail investor participation:**

The paradigm shift toward retail participation has increased from 19.8% in March 2019 to 27.9% by March 2024, as the progress of financial awareness has taken place. The mutual fund provides a platform for retail investors to gain experience and confidence in equity markets. This appeals to participation from many, making mutual funds a popular choice among the retail investors who are willing to enter and explore the world of investing.[38] Moreover, improved access to mutual fund investments, financial education through campaigns, and financial education in geographically affected cities have boosted the participation rate. Since the mid-2010s, fintech brokers have rapidly risen in prominence, fueled by the surge in internet and smartphone usage. Their digital-first, low-cost models have transformed the brokerage landscape by slashing onboarding costs and enabling scalable operations, thanks to India's robust digital public infrastructure. Moreover, the growing financial literacy among India's tech-savvy youth, combined with their ease in transacting digitally, further amplifies the technology-driven shift in retail investing, ultimately boosting market participation.[39].

4. **Direct plans**

In 2012, SEBI required mutual fund companies to offer products directly to the investors alongside the intermediaries, prompting asset managers to roll out direct plans from January 2013. By March 2024, direct plans accounted for 41.2% of the total industry AUM, up from 37.4% in March 2019. In the direct plan segment, the investors dominated with a 60.4% share,

[37]The Sahi Journey AMFI - CRISIL Factbook 2024, Ass'n of Mut. Funds in India, AM (March 20, 2025, 8:00 P.M.), https://www.amfiindia.com/Themes/Theme1/downloads/AMFIFactbook%202024.pdf.

[38] C. P. Chandrasekhar, Sarat Malik & Akriti, The Elusive Retail Investor: How Deep Can (and Should) India's Stock Markets Be?, Sec. & Exch. Bd. of India, SEBI (March 20, 2025, 8:00 P.M.), https://www.sebi.gov.in/sebi_data/DRG_Study/elusiveretailinvestor.pdf.

[39] The Sahi, *Supra note 18*, at 2203.

while HNIs and the retail investors trailed. Conversely, regular plants were chiefly driven by HNIs Which was approximately 41.6%, followed by retail investors comprising of 36.8% and the corporates accounting for 18.1%, indicating a stronger reliance on advisors and distributors in that space however when focusing solely on individual investors that is HNIs, retail and NRIs, HNIs Denotes a clear tilt towards direct plants due to their financial expertise, though many still invest via intermediaries. Meanwhile, retail investors continue to lean more toward regular plans, suggesting they often offer the convenience and guidance provided by traditional channels.[40]

6. **Passive funds surge**

Between March 2019 and March 2024, the passive funds in India have undergone explosive growth, clocking a compound annual growth rate of about 44.4% in AUM. This depicts that more investors approached the cost efficiency and straightforward investment options. In particular, index funds have seen a significant rise, expanding their share from a small portion to 23.5% of the passive fund market, and systematic investments in these funds have multiplied nearly 29 times. High-net-worth individuals have especially embraced passive funds, with their contributions increasing 56-fold, while the share of retail investors in passive funds has dropped dramatically. In simple terms, the shift toward passive funds indicates that more experienced and financially savvy investors are moving to low-cost, direct investment avenues, driven by the products' affordability and simplicity, which is reshaping the overall investment landscape in India.[41]

**Opportunities and challenges of the Mutual Fund sector in India:**

By taking an investor-centric strategy, the mutual fund sector in India has a lot of room to develop. Using technology, raising financial literacy, and using banks and IFAs to enter B-15 cities are important motivators. While awareness campaigns can increase the popularity of mutual funds outside of equities, digital platforms can improve accessibility and lower costs. Asset management firms may guarantee sustainable growth, raise assets under management (AUM), and promote financial inclusion throughout India by matching products with investor demands and streamlining distribution channels.

[40] The Sahi, *Supra note 18*, at 2214.
[41] The Sahi, *Supra note 18*, at 2214..

**Opportunities:**

1. **Systematic Investment Plan (SIP) Flexibility, Systematic Withdrawal Plan (SWP), and Systematic Transfer Plan( STP)**

   The introduction of SIPs has been a trademark achievement in the period between 2013-2023. The core idea behind this is cost averaging, wherein investors can buy units regularly, reducing the risk as well as ensuring a steady accumulation irrespective of the market ups and downs. Considering the above, the asset management companies have launched variations like the value SIPs, power SIPs, top-up SIPs, and prepaid SIPs to ease the tension of the investors. In February 2025, Systematic Investment Plan (SIP) inflows totaled ₹25,999 crore.[42], demonstrating the continued strength of SIPs. By allowing investors to modify their contributions in response to market conditions, SIP enables them to accumulate more units when prices decline. Investors can gradually increase their wealth by using this rupee-cost averaging approach, which lessens the effects of market volatility.

   Systematic withdrawal plans are essentially the rivers of systematic investment plans; here, the investors can withdraw a fixed amount. It also allows them to manage their profit and losses more steadily. Though they don't eliminate the possibility of losses, it is particularly beneficial for individuals requiring a constant income to cover regular expenses.[43]

   A systematic transfer plan combines the features of SIP and SWP. Suppose an investor receives a windfall like winning a lottery or an ear-end bonus; they can invest the lump sum into a debt scheme and systematically transfer a portion into an equity scheme. These transfer functions like an SIP enabling the gradual investment into equities on the flip side, withdrawing funds from the equity scheme would mirror the mechanism of an SWP.

2. **Diversification of Investment & Risk**

   In order to achieve diversification, mutual funds distribute assets among a variety of instruments, such as stocks, bonds, and commodities. This method lessens the effect of

[42] The Sahi, *Supra note 18, at 2215.*

[43] Manoj Singh, What is Mutual Fund? Definition, Types, Advantages, Disadvantages, Parties, Myths, Investor to night (March 20, 2025, 8:00 P.M.), What is Mutual Fund? Definition, Types, Advantages, Disadvantages, Parties, Myths.

subpar performance in a single asset. Mutual funds are a safer and more reliable investing choice since they optimize rewards while reducing risks for investors.

3. **Professional Management**

   Investors can profit from their experience without having to be well-versed in finance. Active portfolio management relieves investors of the burden of stock selection and market research while ensuring prompt rebalancing and risk assessment, which maximizes return.

4. **Higher Liquidity**

   Due to their high liquidity, mutual funds enable investors to redeem their units at any time. Investments in mutual funds can be sold at current net asset values (NAVs) without requiring a long processing time, unlike fixed deposits or real estate.

5. **Potential for Good Returns-**

   Profitable investment possibilities are found by fund managers who balance risk and reward. In the long run, mutual funds may beat conventional savings options by making investments in steady fixed-income securities and high-growth stocks.

6. **Equity Ownership**

   Investors in mutual funds acquire indirect ownership of the underlying equities in the portfolio. By diversifying, this reduces risks and exposes investors to stock market profits. Returns are contingent on the state of the market at the time of withdrawal; long-term investors profit from compound interest and capital growth.[44]

7. **Risk Reduction Through Diversification**

   Gains from performing equities frequently outweigh losses from subpar ones. This risk-spreading approach makes mutual funds a safer investment than direct stock investments since it shields investors from severe market downturns while guaranteeing consistent portfolio growth.

8. **Introduction of registered investment advisors-** This framework was introduced in 2013, setting up the fiduciary standards, a reaction to the need for tailored financial planning services, resulting in around 1000 RIAs to date. It has gained prominence mainly for the reason that they align with the interest of the investors and help them in making smarter financial choices, hence escalating their financial stability.[45]

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[44] Income Tax, Legal Structure of Mutual Funds in India (last visited March 20, 2025).
[45] FasterCaptital, Inflation Rate: Inflation Rate and Its Subtle Impact on NAV Return - FasterCapital (last visited March 20, 2025).

**Challenges:**

1. **Excessive diversification**

   It can dilute returns and make it harder for fund managers to make sizable gains, even when it lowers risk. An excessive number of assets might cause inefficiencies and impede the best possible performance.

2. **Regulation challenges**

   Capital gains tax and dividend distribution tax are two examples of taxation regimes that are subject to frequent regulatory changes that affect investor returns and breed uncertainty. The mutual fund industry may deter prospective investors due to complicated tax procedures.

3. **Expenses**

   Despite years of losses, management fees and expense ratios stay the same. When mutual funds don't make money, these expenses put more strain on investors, making their losses worse and lowering total profitability.

4. **Casual Investor's challenges**

   The mutual funds are hit by unstable market prices and unpredictable returns while overloading the regular investors with management fees and commissions. Additionally, there are safer options available, such as Public Provident Funds, which are backed by the government and offer better returns than fixed deposits, making them attractive to risk-averse people.

**Comparison of mutual funds and other investment strategies [46]:**

Different investor types are served by mutual funds, fixed deposits (FDs), and direct stocks, each of which has its advantages and disadvantages. The safest choice is a fixed deposit, which carries no risk and offers a guaranteed return over a predetermined time frame. They work well for cautious investors who value capital preservation over large profits. Although they might not always outperform inflation, FDs often provide lower interest rates.[47]

[46] Groww, "Fixed Deposits vs Mutual Funds: A Comparative Analysis," Groww (March 20, 2025, 8:00 P.M.), https://groww.in/blog/fixed-deposit-vs-mutual-funds-comparative-analysis.

[47] Faster Captial, Market Trends: Analyzing the Popularity of New Fund Offers - FasterCapital (last visited March 20, 2025).

On the contrary, mutual funds provide a balance between risk and return. They invest in varied assets like stocks, debt, and hybrid securities by pooling the funds of multiple individuals. Although they are riskier, equity mutual funds provide superior long-term growth, whilst debt mutual funds are more stable and yield moderate returns. Systematic Investment Plans (SIPs) average out market movements to further lower risk. For individuals who don't have the time or experience to manage direct stock investments but want higher returns than FDs, mutual funds are the best option. Mutual funds offer a professionally managed and diversified approach, while direct stocks offer high-return prospects with active management, and FDs give security. The investor's financial objectives, investment horizons, and risk tolerance all influence their decision.

**CONCLUSION:**

The mutual fund industry in India stands at a pivotal juncture, with the potential to significantly enhance financial inclusion and well-being. While progress has been made, there remains a vast opportunity to increase participation among the population. By aligning with global standards, improving operational efficiency, and fostering a competitive market, the industry can better serve investors. Emphasizing inclusiveness, innovation, and education will be key to integrating mutual funds into everyday financial decisions. With collaborative efforts and a focus on leveraging digital advancements, the industry can achieve a more equitable and resilient financial landscape, making financial well-being a reality for all.