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A STUDY IN THE FINANCIAL PERFORMANCE OF SELECTED MUTUAL FUNDS SCHEMES

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ABSTRACT

In the current scenario, mutual funds as a means of investment are attaining immense popularity and drawing the attention of investors at large to invest in various securities through the expertise and knowledge of qualified professionals. The Mutual fund industry in India is more than five decades old. The year 1964 saw the birth of the first asset management company (AMC) in India: Unit Trust of India (UTI). Unit Scheme 1964 (US-64) was the first scheme launched by UTI in 1964 followed by Master share in 1986. As the mutual fund industry gained momentum, the Indian market witnessed the setting up of many public sector mutual funds from 1987. All fund managers are not successful in the formation of the portfolio and so the study also focuses on the empirically testing on the basis of fund manager performance and analysing data at the fund-manager and fund-investor levels. This study is based on to analyses the performance of equity mutual funds of India, to see pattern of performance of Mutual fund against stock market benchmark and which set of group of equity performing better than others. This study helpful to the investors, researchers and portfolio managements.

Key words: Net Asset Value (NAV), Asset Under Management (AUM), Equity, Mutual Fund

INTRODUCTION

Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. We have seen many of the investors across the world becoming billionaire within a short span of time by investing in share market, at the same time some investors lost amount in the same market also. In the year 1992, 2001 and 2008 reports reveals, few investors lost their wealth and some of them committed suicide because of share market scandals. The famous investor Mr Warren Buffet became the richest person because of his wise investment strategies, however it is not an alternative way to make money as it has huge amount of risk. An Investor has various investment options like debentures, shares, bank deposits, real estate etc. but choice of option is very essential. Mutual funds give higher returns because of professional management of fund. When we look at the risk and return pattern of investment, mutual funds have yielded good return over the past years compared to direct capital market.

The investment in stock market is increasing at a faster rate in the recent years because of Fl Is, FDIs, Stock market awareness etc. Investment in Debentures, Bank Deposits are not so attractive because of less amount of interest, as in real terms the value of money decreases over period of time. The other option is to invest money in stock market, but a common man is not much aware of market and he is not much competent enough to understand the functions of stock market and also it is an expansive proposal. The question to be answered is: what investment alternative should a small investor adopt? So obviously, mutual funds come to the rescue.

A mutual fund is a very simple concept which is combination of savings of investors. Mutual Funds are highly cost efficient and very easy to invest in. Considering the state of mind of the general investor, the research figures out to know how mutual fund is better than stock market, identify the most popular MF among individual investors and analyse how far the mutual fund schemes are able to win the confidence of the investors.

Why should one choose to invest in a mutual fund?

Mutual Funds are considered to be safer mode of investment; these are investment companies that pool money from investors at large and offer to sell and buy back its shares / units on a continuous basis and thus rose to invest in various securities in different companies. If you are considering investment in stock market and are

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scared of unpredictable market volatility, you can definitely consider investing in mutual funds because of professional management. Some of the reasons that go strongly in favour of mutual funds are like it lowers risk factors.

For the retail investor who does not have the time and experience to analyse and invest in stocks and bonds, mutual funds offer a feasible investment alternative. This is because:

1. Normally investment in mutual fund is financially viable for all the investors, as it provides the benefit of economical access to expensive stocks

2. Mutual funds diversify the risk by investing in a basket of assets

3. An expert team of specialized fund managers managing the fund, each scheme has a separate professional fund manager.

4. As mutual fund is an institutional investor, which may have enough bargaining power in markets, and has access to decisive corporate information which individual investors don't access.

Is investment in Mutual Fund Risk -Free?

Usually the risk depends on Fund Manager and Asset Allocation. Mutual fund investments are not totally risk free. In fact, investing in mutual funds contains the same risk as investing in the markets, the only difference being that is due to professional management of funds the controllable risks are substantially reduced.

RESEARCH OBJECTIVE

1. To analyse the performance of Selected Equity Mutual funds
2. To compare the performance of Mutual Funds with its benchmark index
3. To analyse the relation between mutual fund performance and benchmark index

REVIEW OF LITERATURE

Performance in terms of rate of return: absolute measure of performance. Financial performance of the portfolio depends on the aggregate performance of the individual stocks held in the portfolio. Rate of return is one of the measures to determine the performance of the portfolio. Rate of return has two components, cash inflows (dividend, interest etc.) and capital appreciation or depreciation.

The Sharpe Index: The Sharpe ratio is a risk-adjusted measure developed by the Nobel Laureate William Sharpe. Markowitz (2009), the founder of Modern Portfolio Theory (MPT), suggested that investors choose optimum portfolios on the basis of their expected return and risk characteristics. As noted above, the overall risk of a portfolio is measured by the standard deviation of its returns. Sharpe used this concept to build a "reward to variability" ratio which has become known as the Sharpe Index. The metric is calculated using standard deviation and excess return (i.e. return above a risk free investment) to determine reward per unit of risk. The higher the Sharpe ratio, the better is the fund's historical risk-adjusted performance. In theory, any portfolio with a Sharpe index greater than one is performing better than the market benchmark.

Jensen's Alpha (2012) Jensen's Alpha is also a reward to risk measure. However, it uses a different concept of risk. This measure's framework is taken from the capital asset pricing model (CAPM). In this model, among the assumptions, it is taken that every investor holds a diversified portfolio. This allows investors to diversify away some of their investment risk, leaving them exposed only to 'systematic' or non-diversifiable market-related risk. Jensen's Alpha uses only systematic risk for scaling a portfolio's return. Alpha measures the deviation of a portfolio's return from its equilibrium level, defined as the deviation of return from the risk, adjusted expectation for that portfolio's return. For ranking purposes, the higher the alpha, the better is the performance. The fund beats the market, on a systematic risk adjusted basis, if Jensen's Alpha is greater than zero, and vice versa.

Treynor Index (2012) A third performance measure is the Treynor index. This is calculated in the same manner as the Sharpe index, using excess returns on the fund, but the excess return on the fund is scaled by the beta of the fund, as opposed to the funds' standard deviation of returns. Of these three traditional measures, the regression-based Jensen's Alpha is most commonly used in academic research. It provides a measure of whether a manager beats the market, as well as suggesting the magnitude of over/under performance (cited in FMRC Report, 2003 prepared for the Australian Securities & Investment Commission, Sydney)

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Treynor (2012) developed a methodology for evaluating mutual fund performance that is popularly referred to as reward to volatility ratio. This measure has been frequently used both by researchers and practitioners for performance evaluation of mutual funds. The approach developed by Treynor takes beta or systematic risk to assess the premium per unit of risk.

Sharpe (2011) who developed a composite measure that considers return and risk evaluated the performance of 34 open-ended mutual funds during the period 1944-63 by the measures developed by him. He concluded that the average mutual fund performance was distinctly inferior to an investment in the Dow Jones Industrial Average (DJIA)

Treynor and Mazuy (2010) evaluated the performance of 57 fund managers in terms of their market timing abilities and found that, fund managers had not successfully outguessed the market. The results suggested that, investors were completely dependent on fluctuations in the market. The study adopted Treynor's (1965) methodology for reviewing the performance of mutual funds.

Jensen (2011) developed a composite portfolio evaluation technique concerning risk-adjusted returns. He evaluated the ability of 115 fund managers in selecting securities during the period 1945-66. Analysis of net returns indicated that, 39 funds had above average returns, while 76 funds yielded abnormally poor returns. Using gross returns, 48 funds showed above average results and 67 funds below average results. Jensen concluded that, there was very little evidence that funds were able to perform significantly better than expected as fund managers were not able to forecast securities price movements.

Smith and Tito (2011) reviewed three widely used composite measures of investment performance and examined their inter-relationships and put forward another alternative measure which was then compared empirically. While ranking the funds on the basis of ex-post performance, the alternative measure produced little difference in performance. In contrast, when performance comparisons were made with the market, their conclusions differed significantly. In view of this, the alternative measure suggested by them was referred to as the modified Jensen measure.

Fama (2012) developed methods to distinguish between observed return due to the ability to pick up the best securities at a given level of risk from that of predictions of price movements• in the market. He introduced a multi-period model allowing evaluation on a period-by-period basis and also on a cumulative basis. He was of the opinion that, return on a portfolio constitutes of return for security selection and return for bearing risk. His contributions combined the concepts from modern of portfolio selection and capital market equilibrium with more traditional concepts of good portfolio management.

Leelamma M. in her Ph. D these titled 'Performance appraisal of SBI mutual funds with special reference to Kerala state' analysed with the objectives like the performance of SBI mutual fund and to know what extent mutual fund is effective. She has taken the performance of SBI mutual fund for 5 years and analysed the performance and compared with other mutual, the project also includes the various schemes and history of mutual fund in India and world. Finally the project concluded with SBI is the best mutual fund and suggested some points to improve the quality of executives working for SBI mutual fund and accelerate the grievance handling aspects.

Dr. S G Gurusamy in Financial Services and System (2004) in Chapter 22 of Thomson Publication; The Money Market Mutual Fund scheme was introduced by RBI, in April 1972, for providing additional short-term avenues to individual investors with a view to bringing money market instruments within their reach. MMMF can be set up by scheduled commercial banks and public financial institutions, as defined under section 4A of the companies Act, 1956. In addition, private sector Mutual Funds may also set up MM MFs with the prior approval of RBI.

MMMFs can be set up either as Money Market Deposit Account or as Money market Mutual Funds. There is o ceiling prescribed for the MMMFs in raising resource. The MMMFs are primarily intended to serve as a vehicle for individual investors to participate in the money markets. The resources so mobilized should be invested exclusively in various money market instruments. RBI is th authority that gives approval for setting up MMMFs.

Dr. K Ravichandran in his Research Article titled "A study on Investors preference towards various Derivatives market, published in the Journal of Contemporary Research in Management a Quarterly journal, Vol3, Sept.-2008. The objective of the study was to know the various investment avenues and the investors risk preference towards it and to find out the preference level of investors on various capital market instruments. The research

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article found few things like; 44% of investors are between age group of 31 - 40, and they are influenced by their friend and relatives. It is concluded with the point that, though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent.

Mr. Sandeep Srivastav of Ernst and Young, Dubai - 'Derivative Trading in Indian Stock Market; Brokers7 perception published in MMB Management Review Journal for September, 2008 - has made survey on brokers perception in the derivatives markets in India. The objective of the survey was to understand the derivative market form the perspective of market participants. The study covered the strengths, weaknesses, present status and future direction. Finally he has concluded with findings and some opinion that, derivative securities have definitely penetrated into the Indian stock market and investors are using these securities for different purposes namely risk management.

Rajeswari Krishnan - Professor SNS Business Scholl of Coimbatore in her article titled 'Stock Market Investments in 2009 - Can the Threats be Transformed into Opportunities?' published in ICFAI Publication's PORTFOLIO ORGANIZER of February, 2009 magazines opined as follows;

The year 2008 was painful to the investors as stock markets collapsed across the globe. The Indian stock markets fallen a victim to the financial global turmoil. The author forecasts what could be the performance of the markets in 2009. She concluded with, a stock market crash world-wide is considered to be an after-effect of the global financial crises and 2008 has been a disappointing year for many of stock market investors. The investor should reframe his strategies keeping in mind his long-term goals rather than short-term benefits and attach more importance to fundamentals to make his investment decisions. For a rational investor who would be ready to exploit the current situation to his benefit, 2009 is the best time to invest in the stock market. So the author tried to focus on forecasting what could be the performance of the markets in 2009.

RESEARCH METHODOLOGY

Having established rational of the study and the research gap and in the preceding chapters, an appropriate methodology is essential to carry out the study. The chapter presents the ‘Research framework’ and each aspect of the methodology adopted. Further, it illustrates the methodology of analysing mutual fund performance.

DATA SOURCES

The study is based on secondary sources. All the required data is sourced from the websites of the following

1. AMFI: www.amfiindia.com

2. Bombay Stock Exchange: www.bseindia.com

3. National stock Exchange: www.nseindia.com

4. Websites of Asset Management Companies

5. Websites of companies of stocks included in the portfolio of equity mutual funds

TIME PERIOD

The study consider 10 years period commencing from 2008 to 2018. The reason for choosing this time are that during the fiscal years 2008 to 2018, the mutual fund industry in India registered impressive compounded annual growth rate of 45.20 percent and had witnessed boom, global recession and recovery in synchronous with the economy and stock markets in India.

TYPE AND CATEGORY OF MUTUAL FUNDS

Multi Capital Mutual Funds, Growth Oriented Mutual Funds, Large-Capital Mutual Funds, Mid-Capital Mutual Funds and Small-Capital Mutual Funds taken under study

SAMPLE SIZE

40 Open-ended Equity Mutual Funds offered by 8 Assets Management Companies are considered as the sample size for the study

MUTUAL FUNDS CATEGORY	NO. OF MUTUAL FUNDS

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Multi Capital Mutual Funds	12
Growth Oriented Mutual Funds	16
Large-Capital Mutual Funds	8
Mid-Capital Mutual Funds	2
Small-Capital Mutual Funds	2

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DATA ANALYSIS TECHNIQUES

To analyse the performance of the mutual funds equity return techniques has been analysed and performance will be compared with the bench mark index

SIGNIFICANCE OF THE STUDY

This study will help investors, researchers, industry experts, policy makers, bankers, portfolio managers to see how mutual funds are performing against their benchmark, which set of mutual fund performing well than others

DATA ANALYSIS

FUND	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
MULTI-CAP											
Birla Sunlife Equity fund	44.14	54.29	42.84	69.91	-56.62	89.25	14.16	-29.38	35.74	7.11	56.61
Birla Sunlife India Opportunity fund	20.61	42.11	32.42	21.19	-62.01	109.61	16.97	-30.11	28.92	24.86	54.43
franklin India Prima fund	36.41	58.31	23.17	47.65	-62.46	107.46	19.11	-22.06	44.42	7.4	78.14
Franklin India prima plus	27.15	47.61	49.36	54.9	-47.71	73.1	19.48	-16.42	31.04	5.55	56.79
HDFC Capital Builder Fund	47.71	47.6	21.58	68.65	-54.89	92.91	28.44	-23.64	28.42	10.37	51.95
HDFC Equity fund	27.53	62.7	35.86	53.61	-49.68	105.57	29.22	-26.72	34.14	3.82	53.77
HDFC Premier Multi cap fund	-	-	29.48	49.03	-52.71	94.55	23.79	-22.6	19.5	-0.11	52.07
ICICI Prudential Dynamic Plan	15.7	58.51	58.31	40.78	-44.79	79.93	21.26	-20.32	30.58	16.33	37.05
ICICI Prudential Focused Bluechip Equity Fund	-	-	-	-	-	91.19	27.07	-16.41	26.79	10.21	41.1
Kotak Classic Equity	-	-	26.05	51.79	-50.73	80.38	15.62	-23.81	33.2	7.44	39.31

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Kotak Select Focus Equity	-	-	-	-	-	-	20.05	-22.29	33.45	6.13	57.87
SBI Magnum multiplier plus schemes	31.34	70.17	49.83	64.89	-55.19	87.53	19.3	-25.75	32.47	10.54	48.26
GROWTH-ORIENTED											
Birla Sunlife Frontline Equity Fund - Growth	21.46	41.77	47.7	62.26	-48.5	90.45	18.7	-22.93	36.07	9.25	44.72
Franklin India Bluechip fund-Direct Growth	-	41.2	45.52	47.41	-48.14	84.49	22.96	-18.25	26.79	4.08	37.22
HDFC Growth fund	25.64	39.71	44.14	66.43	-48.31	75.26	27.71	-21.24	27.83	-1.4	42.85
HDFC Top 200 - GROWTH	27.52	55.25	37.44	54.46	-45.35	94.46	25.05	-24.3	32.43	4.05	46.52
ICICI Prudential Discovery Fund - Growth	-	63.74	28.69	39.65	-54.56	134.32	27.71	-23.73	46.01	8.31	73.76
ICICI Prudential MidCap Fund - Growth	-	69.74	40.3	62.34	-67.8	100.74	19.56	-32.6	40.47	7.5	86.96
Kotak Mid-Cap-Growth	-	-	30.98	56.07	-62.92	88.43	28	-26.9	50.23	-4.91	74.02
Reliance Equity Fund	-	-	-	52.01	-44.85	54.72	0.28	-30.11	41.28	9.25	37.33
Reliance Equity Opportunities Fund	-	-	51.28	47.32	-55.87	108.75	30.45	-21.63	47.35	4.56	59.67
Reliance Growth Fund	42.57	68.73	41	76.85	-54.11	97.4	17.18	-27.4	37.82	-2.47	54.87
Reliance Top 200 Fund	-	-	-	-	-49.16	73.43	19.36	-26.45	40.97	4.15	54.65
Reliance Vision Fund	19.81	53.47	45.8	56.62	-51.92	82.13	15.26	-28.55	29.98	-0.31	60.94
SBI Magnum Global Fund	68.59	78.02	56.63	52.37	-66.65	119.56	18.1	-14.21	35.98	9.71	66.56
Sundaram Growth Fund-Growth	28.09	42.07	42.61	71.77	-57.49	73.33	17.59	-27.17	29.19	0.09	32.93
Sundaram Select Midcap Growth	35.72	61.36	60.77	63.14	-58.34	114.63	20.76	-23.67	38.02	4.64	75.03
Templeton India Growth Fund	19.77	34.93	30.52	63.11	-51	104.7	21.96	-29.57	35.9	-0.6	49.15
LARGE CAP											
Birla Sunlife Top 100 fund	-	-	38.55	46.86	-49.44	75.33	18.04	-21.6	36.36	9.15	48.91

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Franklin India opportunities fund	-	48.03	56.09	53.79	-58.04	73.68	14.52	-23.32	27.51	2.14	58.58
ICICI Prudential Top 100 Fund	13.35	49.53	42.77	44.4	-47.74	74.61	17.54	-20.33	32.83	11.38	38.29
KOTAK 30(50)	36.76	49.37	43.61	66.56	-50.35	66.71	16.29	-18.46	23.41	4.26	42.46
Kotak Opportunities Fund	-	58.74	38.7	91.01	-56.77	80.13	18.5	-22.85	30.14	4.23	49.95
SBI Bluechip fund	-	-	-	42.78	-55.02	87.9	11.89	-24.23	38.23	7.58	47.86
SBI Magnum equity fund	18.42	42.77	51.47	71.28	-56.29	87.94	18.32	-19.71	29.89	5.54	42.65
Sundaram BNP Paribas Select Focus	23.86	45.04	49.24	79.2	-52.44	65.52	12.53	-23.67	21.64	3.64	34.34
MID-CAP											
Birla Sunlife Mid cap fund	32.97	54.96	35.09	78.08	-58.41	119.79	13.3	-26.45	36.15	-2.02	72.58
SBI Magnum Midcap Fund	-	-	46.69	70.69	-71.74	104.11	14.7	-25.79	47.98	13.57	71.94
SMALL-CAP											
Sundaram BNP Paribas Equity Multiplier	-	-	-	-	-55.55	67.79	11.26	-23.26	33.13	-3	48.88
Sundaram S.M.I.L.E Fund	-	-	30.92	81.12	-57.62	120.44	10.19	-32.72	44.77	-5.02	108.74
CNX Nifty	**10.7**	**36.3**	**39.8**	**54.8**	**-51.8**	**75.76**	**18**	**-24.6**	**27.7**	**6.76**	**31.39**

Based on the above Mutual Funds VS Benchmark Index tables it can be concluded that Multi-Cap mutual funds group giving higher return compare to benchmark index CNX Nifty taken under study. Negative return of Multi-Cap mutual funds and CNX Nifty can be observed during the year 2012 and 2015. Despites of having negative return on 2008 all Multi-Cap mutual funds performer best in 2013 and resulted highest return compare all time. Growth-Oriented mutual funds also performing well compare to benchmark CNX Nifty index. Similar to Multi-Cap mutual funds, negative performance of Growth-Oriented mutual funds can be observed during year 2012 and 2014. There are many Growth-Oriented mutual funds who performed outstanding compare to CNX Nifty during the 11 years taken under study. Not much difference in performance between Large-Cap mutual funds and CNX Nifty can be observed throughout all time period. Mid-Cap mutual funds performed best in the year 2013, 2011 and latest year 2018. Negative performance of Small-Cap mutual funds can be seen during the year 20117 while CNX Nifty performed positive during the same year.

LIMITATIONS OF THE STUDY

1. Sample size is restricted to 40 equity mutual funds
2. Present study is just restricted to chosen equity funds
3. Performance of 40 mutual funds can’t represent the whole mutual fund industry
4. CNX Nifty benchmark has been taken to as a benchmark of all 40 mutual funds

CONCLUSION

In most of the year performance of Multi-Cap is better than CNX Nifty. Growth Oriented mutual funds performed better than CNX Nifty. Based on the average performance of Large Cap mutual funds and CNX Nifty performance, it can be observed that performance of the both moving in similar pattern. During year 2010

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and 2013 CNX Nifty performing better than average performance of Mid Cap mutual funds. Average performance of Small Cap mutual funds is better than benchmark index CNX Nifty in most of the years.

SUGGESTIONS

- Self-evaluation is requirements, which means that investor need to be careful while investing money it should goes in right places and in right hand.
- No need to be in surge while selecting any Mutual Funds schemes. Investors to follow their investment goals by taking help of experts.
- Don't be Excessive investor in any mutual fund schemes; It has to be avoided, as they say don't put all eggs in one basket. Investments ought to be diversified. Any investment should lead to growth only.

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