A STUDY ON PERFORMANCE OF MUTUAL FUNDS IN INDIA

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Abstract- **Mutual Fund is a diversified investment; it refers to a trust which pools the savings of a huge number of investors who share a common financial goal. The money collected from the investors is invested in the securities based on the fund's objective. Wrong investment of fund manager may put the investors in financial crisis, sometimes leading to their bankruptcy. The study is based on the performance of mutual fund by considering various published journal papers. As a result, from the investor's point of view, it is important not only to know how the portfolio managers perform, but also to understand investment policies. Similarly, at the macro level it is worth examining the performance of fund managers as a whole to see whether they provide value added to portfolio or they are just full benefits from investors. And the superior performance in the past does not necessarily mean that it will continue into the future. This is because superior performance may be due to either a manager's skill or good luck. Therefore, it is interesting to understand the characteristics of funds and to know the performance and this helps investors to understand how to select their schemes.**

Index Terms- **Mutual fund, Sharp ratio, fund manager decision**

I. INTRODUCTION

Mutual Fund is a trust that pools money from investors by selling shares of the fund like any other type of company that sells stock to the public. The raised money is used in different securities like stocks, bonds, money markets & commodities. Each mutual fund has common financial goal and the money is invested in accordance with the objective. Fund is managed by a professional fund manager, who is responsible for implementing a fund's investing strategy and managing its portfolio trading activities. Each investor in the mutual fund participates proportionally (based upon the number of shares owned) in the gain or loss of the fund. Any investor can invest minimum amount that is affordable and diversify their portfolio in different sectors depending upon their interests and risks.

1.1. MUTUAL FUNDS

A mutual fund is a professionally-managed firm of collective investments that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. Dr.R.Narayanasamy, v.rathnamani, (2013)

A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests it in stocks, bonds, short-term money market instruments and other securities. Sahiljain (2012).

A mutual fund pools together the savings of such small investors and invests the same in the capital market and passes the benefits to the investors. Dr.Vikas kumar (2011).

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. Deepak Agarwal (2014).

Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while muting risk characteristics by spreading the investment across different types of securities, also known as diversification. Prof. Kalpesh Prajapti (2015).

A mutual fund is a pool of money collected from many small investors which is professionally managed by the portfolio managers. It is a type of collective investment scheme and invests it various securities such as in stocks, bonds and short-term money market instruments. The performance of the fund depends upon the economic condition of the country and the world as a whole. Dr.S.Vasanthal, Uma maheswari (2014).

Small investors look at mutual funds as safest avenue to enter equity markets. They expect that the fund management with large Assets under Management (AUM), professional managers, low transaction fees, access to information, and ability to forecast the markets will fetch them more returns than a naïve investment strategy. These expectations of small investors lead to large volumes of research on performance of mutual funds. Dr. Y.Rama Krishna (2011).

A mutual fund is a professionally-managed firm of collective investments that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. In a mutual fund, the fund manager, who is also known as the portfolio manager, trades the fund's underlying securities, realizing capital gains or losses, and collects the dividend or interest income. Suchita Shukla (2013).

Mutual fund industry today is one of the most attractive investment avenues in India. Mutual fund is a good investment option for the medium and small investors who have limited resources and do not have professional knowledge about stock market and other investment opportunities. Mutual funds are the significant financial intermediary collecting funds mainly from small investors and investing them in financial market securities. A mutual fund is an investment company or trust that pools the resources of thousands of its shareholders or unit holders and invest it on behalf of these diversified securities and a cross section of companies to attain the objectives of the investors. Dr. S. Narayana Rao(2012)

A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). An investor while investing in mutual funds buys units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund. Dr. R. Karrupasamy.

1.2. HISTORY OF MUTUAL FUND IN INDIA

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase - 1964-1987

It was started in 1963 with UTI, Govt. Of India & RBI. In 1978, UTI was de-linked from RBI and functioned under the regulatory and administrative control of RBI.First scheme launched by UTI was Unit Scheme 1964.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

In 1987, public sector banks and LIC & GIC got the entry in MF Industry. SBI was the first non-UTI fund establishment in June 1987.LIC established its MF in June 1989 while GIC in Dec 1990.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

In 1993, first MF regulation came into being under which all MF, except UTI were to be registered and governed. Kothari Pioneer (now merged with Franklin Templeton) was the first private sector MF registered in July 1993. 1993 SEBI Regulations were substituted by a more comprehensive and revised regulations in 1996- SEBI (Mutual Fund) Regulations 1996.

Fourth Phase - since February 2003

In February 2003, following the repeal of UTI Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of UTI (SUUTI). This undertaking is functioning under the rules framed by the Government of India and does not come under the purview of the Mutual Fund Regulations. Second is the UTI Mutual Fund, sponsored by SBI, PNB, and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations.

1.3. PARTIES INVOLVED IN MUTUAL FUNDS

SEBI	It is the governing authority of stock market. Mutual funds legal framework is regulated by SEBIs guidelines.
INVESTOR	Investor is neither a speculator (who takes on high risks for high rewards) but one whose primary objectives are to safeguard the principle investment, a

	steady income and capital appreciation.
TRUSTEES	The mutual fund has been formed as a public trust and trustees manage the trust. They are primarily accountable for protecting the interest of mutual fund investors.
ASSET MANAGEMENT COMPANY	SEBI approved Asset Management Company (AMC) manage the funds by making investments in various types of securities. It manages the investment portfolios of the schemes and handles various other routine activities incidental to the mutual fund business. Its income comes from the management fees it charges for the schemes it manages.
DISTRIBUTORS	They earn commission for bringing in investors into the schemes of a mutual fund. This commission is an expense for the scheme.
REGISTRARS	An investor holding in mutual fund schemes is typically followed by the schemes RTA (Registrar and Transfer Agent). Some AMCs' prefer to handle it in house.
CUSTODIAN/DEPOSITORY	As the name suggests, a custodian of the securities preserves the custody of the securities in which the scheme invests. Therefore, for an investment transaction of mutual fund, custodian receives or gives delivery.

II. TYPES OF MUTUAL FUNDS

(Source: Ms. Pooja Chaturvedi Sharma and Dr. Anoop Pandey, 2014)

Types of mutual funds can be classified based on structure and asset class.

2.1. BASED ON STRUCTURE:

2.1.1. Open Ended Schemes

This scheme allows public to buy/sell at any point of time. In this,funds are invested in debt shares, Bonds, Money Market, Equities and Index market. The structure doesn't state any fixed maturity date. This scheme is directly proportional to the market volatility.

2.1.2. Closed Ended Schemes

It has stipulated maturity period and investors can buy only during the initial launch also called as New Fund Offer (NFO). This involves very low risks and gives a passive protection to the principal amount.

2.2. BASED ON ASSET CLASS:

2.2.1. Equity Schemes

This category of schemes invests only into shares of companies. It can be further categorized as

a. Diversified funds

These funds invest in equity of companies across market capitalizations (the market value of a company's shares) and sectors. The objective of the schemes is to provide long term capital appreciation while reducing risk by diversifying investment

b. Sector funds

These funds invest in a particular sector, which present opportunities for high capital appreciation in the medium to long term horizon.

c. Index funds

Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index.

2.2.2. Debt Schemes

These funds invest in fixed income bearing instruments like corporate bonds, debentures, government securities, commercial paper and other money market instruments. These funds are relatively low-risk-low-return schemes. The returns from debt funds include interest receipts and capital gains. If you desire relatively stable performance, these schemes are right for you. Debt funds can be further categorized into

a. Money market or liquid income schemes

Liquid or money market funds invest in highly liquid money market instruments for very short investment periods such as a few days. These funds are suitable for parking surplus money for a very short period of time.

b. Gilt funds

Gilt funds invest in sovereign securities like central and state government bonds. These carry no credit risk but are subject to interest rate risks. The prices of these securities fluctuate with interest rate movements. These funds have varying investment periods to suit investor needs.

c. Income funds

These funds invest in government securities, corporate bonds and debentures apart from money market instruments. These funds carry a slightly higher risk than gilt funds as they are exposed to credit risk. Income funds come with various investment horizons like ultra-short term, short term, medium term and long term funds to suit varying investor needs.

d. Fixed Maturity Plans (FMP)

These have a fixed tenure like deposits, though no return is promised or guaranteed. These funds invest in securities that mature in line with the fund's maturity.

2.2.3. Hybrid Schemes

These funds invest in a mix of equity and debt securities.

a. Balanced Schemes

Balanced schemes invest in a mix of equity and debt. The debt investments ensure a basic interest income, which the fund manager hopes to top with a capital gain from the investment in equities. However loses can eat into basic interest income and capital.

b. Monthly Income Plans

MIPs are suitable for conservative investors who along with an exposure to debt do not mind a small exposure to equities. These funds aim to provide consistency in returns by investing a major part of their portfolio in debt market instruments with a small exposure to equities. Thus an MIP would be suitable for conservative investors who along with protection of capital seek some capital appreciation as MIPs have an exposure to equities. However the monthly income is not assured.

III. ADVANTAGES OF MUTUAL FUND

1. Mutual fund can reduce the anxiety of investing.
2. Mutual fund shares can be purchased in such small amount so its easy to get started.
3. Mutual fund decrease risk through diversified.
4. Price movement of mutual fund are more conventional than those of individual stock.
5. Mutual fund provides full time professional management.
6. Mutual fund provides a secure place for you investment money.

IV. PERFORMANCE EVALUATION OF MUTUAL FUND

An investor has given money to a fund manager to invest on his/her behalf;he/she should have the right to know what sort of performance they have obtained. Does thefund manager offer superior or inferior performance? How does the fund manager

performcompared to peers? And what sort of strategy is used?

Performance evaluation measures the skill of an asset manager and its principal ideais to compare the returns with an alternative appropriate portfolio to that which was obtainedin a particular case. The emergence of modern portfolio theory (MPT) by Markowitz (1952),who quantifies how rational investors make decisions based on expected return and risk, hasbrought much development to portfolio performance measurement. It moves performancemeasurement from crude measures toward more precise, risk-adjusted measures. Up to now,many researchers have proposed various methods for evaluating portfolio performance inorder to find a model which could give a precise and reliable measure.

Although these researchers use different methods to evaluate portfolio performance,they all aim to provide an appropriate method by which to distinguish superior managersfrom others. However, it is difficult for a user to decide which model is the best suited for theperformance evaluation is a given case. Therefore, while many researchers have proposeddifferent methods for performance evaluation, some researchers also enquire which modelgives the best evaluation technique.

The two main sources are the Association of Mutual Fund in Indian(AMFI) and The Moneycontrol.com. AMFI supplies data on mutualfunds, such as net asset values (NAVs).The SEBI(Securities Exchange Board of India) provides other relevant data, such as stock market returns, stock characteristicsand other economic data.

4.1. TOOLS AND TECHNIQUES:

Analysis has been done by using followingstatistical tools.

1. Sharpe ratio: It indicates the risk-return performance of portfolio.

$$\text{Sharpe Index} = \frac{\text{Portfolio Average Return (Rp) – Risk Free Rate of Return (Rf)}}{\text{Standard Deviations of the Portfolio Return}}$$

2. Treynor ratio : It measure the returns earned in excess of that which could have been earned on investment that has no diversifiable risk.

$$\text{Treynor Index} = \frac{\text{Portfolio Average Return(Rp) - Risk Free Rate of Return (Rf)}}{\text{Beta Coefficient of Portfolio}}$$

3. Jensen ratio : It measures the risk-adjusted performance of a security or portfolio in relation to the expected market return .

$$\text{Alpha } (\alpha) = (Rx - Rf) - \beta(Rm - Rf)$$

4. Beta : It measures the volatility or systematic risk of a security with comparison to the market as a whole.

   Beta is calculated as,

$$\beta = \frac{\text{Covariance (Rx, Rm)}}{\text{Variance (Rm).}}$$

5. Standard deviation : It shows the historical volatility.

$$\sigma x = \frac{\sqrt{\Sigma(Rx-\bar{Rx})^2}}{N}$$

A Study of performance of mutual fund has become more controversial. Conversely Rajesh Kumar, Rituraj Chandrakar(2012)evaluates the performance of 29 open-ended, growth-oriented equity schemes for the period from April 2005 to March 2011 (six years) of transition economy. The study revealed that 14 out of 29 (48.28 percent) sample mutual fund schemes had outperformed the benchmark return. The results also showed that some of the schemes had underperformed; these schemes were facing the diversification problem. Dr.R.Narayanasamy, v.rathnamani, (2013) evaluate the performance of selected equity large cap mutual funds schemes in terms of risk- return relationship . The performance analysis of the selected five equity large cap funds. The study may conclude that all the funds have performed well in the high volatile market movement expect Reliance vision.Dr.S.Narayanrao,(2003) evaluate the performance evaluation of Indian mutual funds in a bear market is carried out through relative performance index. The results of performance measures suggest that most of the mutual fund schemes in the sample of 58 were able to satisfied investor’s expectations by giving excess returns over expected returns based on both low-grade for systematic risk and total risk.Suchitashukla(2015) analyzed the financial performance in terms of risk –return relationship of selected mutual fund schemes (5 categories ×3 mutual fund= 15 schemes). The study reveals thatOverall the mutual funds have given better returns than the benchmark in the above period subject to infrastructure fund in year 2013. Sahiljain (2012) evaluatethe performance of equity based mutual funds. A total of 45 schemes offered by 2 private sector companiesand 2 public sector companies, have been studied over the period April 1997 to April 2012 (15 years). The analysis has been made using the risk-return relationship and Capital Asset Pricing Model (CAPM). The overall analysis finds that HDFC and ICICI have been the best performers, UTI an average performer and LIC the worst performer which gave below- expected returns on the risk-return relationship. Dr.Shriprakashsoni, Dr.Deepalibankapue,Dr.maheshbhutada, (2015)comparative analysis of mutual fund schemes available at kotak mutual fund and HDFC mutual fund. The study conclude that Kotak Mutual Fund schemes are more destructive in Large Cap Equity schemes and HDFC Mutual Fund schemes are more destructive in Mid Cap Equity schemes where as both the companies schemes are very well managed in debt market. Kotak Select Focus is the best scheme in Large cap Equity, HDFC Mid-Cap is the best scheme in Mid-Cap sector and HDFC Balanced Fund is the best scheme in Balanced Fund for investment. Dr.R.karrupasamy,Mrs.v.vanaja, (2014)This study reveals that majority of the public sector schemes selected for the study outperformedthe category average and also benchmark indices and majority of the diversified schemesperformed well on the basis of performance index. Dr.Vikaskumar (2011) analysed of the open ended schemes shows that out of twenty five schemes namely Reliance Growth Fund, Reliance Vision Fund, ICICI Prudential Tax Plan, HDFC Top 200 and Birla Sun Life Equity Fund, performs better in comparison to benchmark index BSE-100 index in terms of monthly average return and risk involved in these schemes less then benchmark. Kalpesh.p.prajapati,mahesh.k.patel(2012) It evaluate the Indian mutual funds is carried out through relative performance index, risk-return analysis, Sharp's measure, Jensen's measure, and Fama's measure. All selected mutual fund companies have positive return during 2007 to 2011. HDFC and Reliance mutual fund have performed well as compared to the Sensex return. ICICI prudential and UTI Mutual fund has lower level of risk compare to HDFC and Reliance mutual fund.Tej singh,priyanka(2014) analysed the private sector of mutual funds are gaining more in terms of scale of mobilization of funds compared to that of public sector mutual funds. The study reveals that the private sector mutual funds are gaining more in terms of scale of mobilization of funds compared to that of public sector . The gap is reaching up to 81 percent in 2003-04 from 31 percent in 1998-99 and finally settled at 54 percent in 2009-10

V. CONCLUSION

This paper presents a review of literature in performance of mutual funds.The above study concludes that the mutual funds were performing very safe for the investors. The mutual fund investments in stocks, bonds and other securities require significant expertise and stable supervision to allow an investor to take the right decision.

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