Performance Evaluation of Mutual Fund Industry (A Study with Special Reference to Reliance and UTI Mutual Fund)

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***Abstract*- In today's competitive environment different kinds of investment avenues are available to the investors. An investment is a commitment of funds made with the expectation of some return in the form of capital appreciation. The investment such as fixed deposits, post office savings/ national savings certificate, insurance, gold/e-gold, bonds, real estate, shares, commodities, etc. This investment mode has both advantage and disadvantage. Among various investment mode, a mutual fund is one of the important vehicles for a common man that offer good investment prospects to the investors. A mutual fund is a trust that pools investment from various individuals by issuing units to them and then invest in various securities such as bonds, shares, debentures as per the stated objective of the scheme. Further, this investment avenue offers several benefits to the investors as liquidity, diversification, transparency, professional fund management, etc. Open-ended, Close-ended, Interval, Growth, Income, Balanced, Equity Linked Savings Schemes (ELSS) and Exchange Traded Funds (ETF), etc. are the schemes available for investors. These schemes are subject to the investor's needs, risk and return tolerance. This research mainly is to evaluate the performance of mutual fund schemes. The schemes selected for the study is UTI Mutual Fund schemes and Reliance Mutual Fund schemes.**

***Index Terms*- Mutual funds, debt schemes, open-ended schemes, ratio analysis.**

I. INTRODUCTION

The Securities and Exchange Board of India (SEBI) regulations 1993, defines a "mutual fund as a fund in the form of a trust by a sponsor, to raise money by the fund manager through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations". A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The collected money is then invested in capital market instruments such as shares, debentures and foreign market. The value of a share of the mutual fund, known as the Net Asset Value (NAV), is calculated daily based on the total value of the fund divided by the number of shares currently issued and outstanding. The researcher also observed that investors always get confused where to make an investment. Therefore, it was decided to conduct the research on Mutual Funds performance as one of the investment options because as *Robert Kiyosaki directed, "It's not how much money you make, but it is important how much money you keep, how hard it works for you, and how many generations you keep it for".*

The present paper investigates the performance of open-ended, income-oriented debt schemes. Open-ended mutual fund schemes are those which don't have a maturity period, not listed on the stock exchange and these schemes offer the new unit for sale and ready to buy anytime. The success of any scheme depends upon the competence of the management and its soundness.

II LITERATURE REVIEW

Prabakaran and Jayabal (2010) evaluated the performance of mutual fund schemes. The study conducted is on a sample of 23 schemes which were chosen based on the priority given by the respondents in Dharmapuri district in a survey and covers the study from April 2002 to March 2007. The study used the methodology of Sharpe and Jensen for the performance evaluation of mutual funds.

Prof. Kalpesh P Prajapati and Prof. Mahesh K Patel (Jul 2012), both done a Comparative Study On Performance Evaluation of Mutual Fund Schemes Of Indian Companies. In this paper, the performance evaluation of Indian mutual funds is carried out through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data used is daily closing NAVs. The study period is 1st January 2007 to 31st December 2011. The results of performance measures suggest that most of the mutual fund has given positive return during 2007 to 2011.

Dr. P.Kanchana Devi (Jan 2017), have done a performance evaluation of mutual fund with reference to HDFC mutual fund. In this paper, 5 different open-ended schemes are taken and evaluated. The result is that HDFC Company has to concentrate more on the floating rate income fund - long-term growth scheme because this scheme has no any highest value from the year 2010 to 2015.

Alka Solanki (May 2016) evaluated the performance of reliance open-ended equity schemes with growth option. The period of study spans from 1st April 2007 to 31st March 2016. The study conducted a sample of 10 schemes from reliance mutual fund. The result shows that all schemes showed an average return higher than in comparison to the market return i.e. BSE 100 and SENSEX.

Dr. R. Perumal and R. Kumar Gandhi (Mar 2016) evaluated the performance of selected bank mutual fund schemes impact in investors decision making. This paper focused on investor investment decision making towards mutual funds by using of statistical tools and ratio analysis of mutual fund schemes. The result concludes that among open-ended (tax saving schemes) the Canara Robeco equity tax saver schemes perform well in a particular scheme in the banking sector.

What is a mutual fund?

A mutual fund is a trust that pools money from investors and is invested according to certain investment options. The collections of money invested in stocks, short-term money market instruments, and other securities. Value of mutual fund known as Net Asset Value (NAV). This calculates based on total value of the fund divided by the number of shares currently issued.

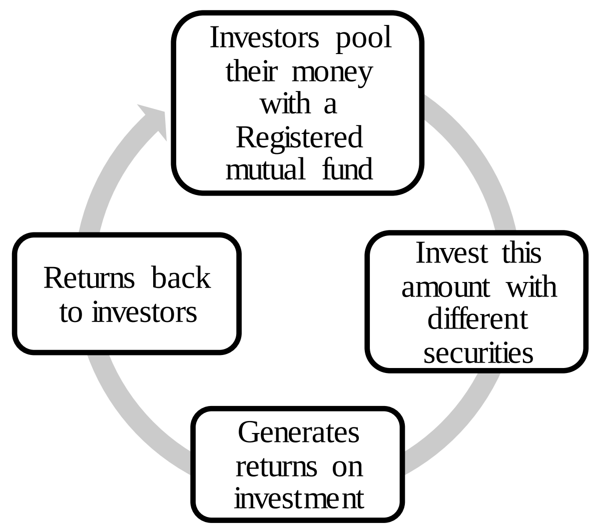
Advantages of investing in mutual fund

Diversification

Mutual funds reduce the volatility of returns through diversification by investing in a number of companies across a broad section of industries and sectors. It prevents an investor from "keeping all eggs in one basket". This inherently minimizes risk.

Liquidity

Open-ended mutual funds are valued daily and are always willing to buy back units from investors. Mutual funds are typically very liquid investments. Normally funds take a couple of days for returning your money to you. In the case of other investment avenues like stocks and bonds, buyers are not necessarily presented and therefore these investment avenues are less liquid compared to open-ended schemes of mutual funds.



Working of mutual funds.

Types of mutual fund schemes in India

1. Open-ended schemes
2. Close-ended schemes
3. Interval schemes

1. Open-ended schemes

An open-ended scheme is a collective investment scheme. Investors can easily buy and sell the shares at any time. This type of schemes doesn't have fixed maturity period. The key feature of open-end schemes is liquidity.

2. Close-ended schemes

A close-ended scheme is opposite to open-ended scheme. It has a specified maturity period ranging from 3 to 15 years. The fund is open for subscription only during a specific period. After the commencement of initial public issue the investors can invest in this scheme and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed. Some close-ended funds give a possibility of selling back the units to the mutual fund through periodic repurchase at NAV related prices for the exit path of the investor.

3. Interval schemes

Interval schemes combine the features of both open-ended and close-ended schemes. This will help to make the fund open for either sale or redemption during specified intervals at NAV related price.

III .PERFORMANCE ANALYZE TOOLS

Sharpe ratio

Nobel Laureate Bill Sharpe developed the Sharpe ratio to measure risk-adjusted performance. It is determined by the difference between the risk-free rate of return and portfolio average return and dividing the result by the standard deviation of the portfolio returns.

Sharpe ratio = Portfolio Average Return (Rp) -Risk-free rate of return (RF)

Standard deviation of the portfolio Return

Treynor ratio

Treynor ratio evaluates the performance of a portfolio based on the systematic risk of a fund. Treynor ratio is based on the statement that unsystematic or specific risk can be diversified and hence, only incorporates the systematic risk (beta) to measure the portfolio's performance.

Treynor ratio = Portfolio Average Return (Rp) – Risk-free rate of return (RF) Beta coefficient of portfolio

Jensen’s Alpha ratio

A risk-adjusted performance measure that represents the average return on a portfolio over and above the predicted by the capital asset pricing model (CAPM), given the portfolio’s beta and the average market return. This is the portfolio’s alpha. In fact, the concept is sometimes referred to as “Jensen’s alpha”.

Alpha (α) = Rp – [Rf + βp (Rm-Rf)]

Where,

Rp = Expected portfolio return

Rf = Risk-free rate

Bp = Beta of the portfolio

Rm = Expected market return

IV. CONCLUSION

A mutual fund is one of the most highly growing products in the financial services market. It is appropriate for all types of investors from risk averse to risk bearer. Mutual funds have many options of return like risk-free return, constant return, market associated return etc. It is suitable for all age of investors, business person, salary person etc. Investors need not be expert in the market but mutual fund satisfies their need because it is professionally managed by the fund manager who is expert in this area and invest in a well-diversified portfolio with high return and low risk using performance evaluation measurement ratio. The investors in India are generally confused, regarding their choice of investing in mutual funds to innumerable schemes available in the market. Various statistical tools were used to analyze the performance of Open-ended Debt schemes such as (Sharpe, Jensen, and Treynor) and suggest to the investor for better performance of mutual fund schemes in selected mutual fund concern.

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