

## INVESTOR PERCEPTION TOWARDS MUTUAL FUNDS AND FUND RELATED ISSUES

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### ABSTRACT

*A mutual fund is a special type of institution, a trust or an investment company which acts as an investment intermediary and invests the savings of large number of people to the corporate securities in such a way that investors get steady returns, capital appreciation and a low risk. It is essentially a mechanism of pooling together the savings of a large number of investor for collecting investment with objective of attractive yields and appreciation in their values. The concept of 'Mutual Fund' is a new feature in Indian capital market but not to international capital markets. A mutual fund in the most suitable investment for the retail investors as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. At the retail level, investors are unique and are highly heterogeneous groups. A large number of investment options are available to investors. Currently there are large numbers of schemes available and asset management companies (AMCs) compete against one another by launching new products or repositioning old ones. Unless mutual fund schemes are tailored to the changing needs, and the AMCs understand the fund selection behaviour of the investors, survival of funds will be difficult in future. With this significance this chapter made an attempt to study the impact of Qualities of Fund Management in the selection of mutual funds by mutual fund investors.*

**KEYWORDS:** *Online Trading, Value Disclosure, ECS system.*

### Introduction

The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus 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. Monthly Income Plans or MIPs invest maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These schemes rank slightly high on the risk-return matrix when compared with other debt schemes. There is considerable amount of research being done regarding investment in mutual funds. However very little research has been done to study the perception of investors regarding investment in mutual funds especially MIP funds.

### Organization of a Mutual Fund

In accordance with the provisions of the Indian Trust Act 1882, every mutual fund shall be constituted in the form of a trust. An attempt was made for the first time in the SEBI guidelines, 1992 to spell out in clear terms the established norms for mutual funds. The SEBI contemplated a four-tier system for managing the affairs of mutual funds. The four constituents are the sponsoring company, the trustees, the custodians and the assets management company (AMC). The SEBI (mutual funds) regulations, 1996 incorporated all the four constituents for the management of mutual funds.

### Sponsors

“Sponsor” is defined under the SEBI regulations as any person who, acting alone or in combination with another body corporate, establishes a mutual fund.

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The sponsor of a fund is akin to the promoter of a company as he gets the fund registered with SEBI. In other words, the promoter of the mutual fund is called a sponsor. The following are the eligibility norms for a Sponsor:

- The sponsor should have a sound track record and experience in the relevant field of financial services for a minimum period of five years.
- Sponsor has to contribute at least 40% of the net worth of the AMC.
- It is the sponsors who identify and appoint the trustees and the AMC.
- The sponsor either directly or acting through the trustees, will also appoint a custodian to hold the fund assets.

#### Literature Review

**Gavin Quill (2010)** examined the evidence that investor behavior is frequently detrimental to the achievement of investors' long-term goals. The picture that emerges from this analysis is one of investors who have lost a good portion of their potential returns because of the excessive frequency and poor timing of their trading activities.

**Dwyer et. al. (2011)** used data from nearly 2000 mutual fund investors and found that women take less risk than men in their mutual fund investments. Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation. Past experience of successful investment increases investor tolerance of risk. Kozup, John C., Elizabeth Howlett and Michael Pagan o (2012) explored whether a single page supplemental information disclosure impacts investors fund evaluations and investment intention s. Results indicated that while investors continue to place too much emphasis on prior performance, the provision of supplemental information, particularly in a graphical format, interacts with performance and investment knowledge to influence perceptions and evaluations of mutual funds.

#### Methodology

Research design is a master plan specifying the method and procedure for collection and analyzing needed data. The research design in this study is descriptive. Descriptive research includes surveys and fact-finding inquiries of different kinds. For this study, descriptive research design is used where the data is collected by administering the questionnaire.

#### Objectives

- To know investor preferences in mutual funds.
- To identify fund related issues verified by investors in MF'S.
- To evaluate fund qualities impact on investment.

#### Scope of the Study

The mutual fund investors in Greater Hyderabad Zone.

#### Data Collection

The secondary data collected from Publications of SEBI, RBI, AMFI and various Published Reports.

Primary Data: Primary data – Questionnaires - sample of 400 individual investors. Stratified random sampling method was used to collect data. Four Hundred respondents are taken from the convenient following investor service centers.

1	India Info line Ltd(IIFL)	100
2	Zenith Financial Services Ltd	100
3	SBI Mutual Fund Ltd	100
4	Religare Invesco MF	100
Total		400

### Analysis

Factor analysis was used to condense and analyze general perception towards mutual fund investment. The factor analysis helps in extracting the most influencing variables from the all the influencing factors in the selection of mutual fund schemes.

**Table 1: Analysis of Fund Related Qualities**

S. No.	I. Fund Related Qualities	Mean	Rank	Correlation
1	Fund performance record	3.34	1	.378**
2	Funds reputation or brand name	2.94	3.5	.146**
3	Scheme's expense ratio	2.70	5	.135**
4	Scheme's portfolio of investment	3.24	2	.312**
5	Reputation of the Fund Manager/Scheme	1.62	8	.131**
6	Withdrawal facilities	2.37	6	.132**
7	Favorable rating by a rating agency	1.44	9	.121**
8	Innovativeness of the scheme	2.94	3.5	.146**
9	Products with tax benefits	1.93	7	.128**
10	Minimum initial investment	1.42	10	0.92

Source: Primary Data, \*\* Significant at 0.01 per cent level

They also grouped these variables into three heads namely fund quality, fund sponsor quality and investor services. For the present study, three more variables were identified under the head investor services namely electronic clearing services, online trading and immediate settlement, after the discussion with experts in the field of mutual fund industry. The result is presented in the Table 1. From the analysis of data presented in Table 1 it is clear that investors were more curious about the past performance of the fund (mean score 3.34) followed by the scheme's portfolio of investment (mean score 3.24). They were given least preference to minimum initial investment while making investment decisions on mutual funds. From the correlation, it is clear that the most influencing variable on fund quality is past performance of the fund (correlation coefficient 0.378) followed by Scheme's portfolio of investment (correlation coefficient 0.312). The investors were giving more importance to the fund performance record. According to the SEBI Master Circular for Mutual Funds dated 11.5.2012, an AMC can charge a maximum of one per cent as exit load. Exit loads are levied to reduce the unnecessary withdrawal from the funds. Product with tax benefits, schemes' expense ratio, innovativeness of the scheme etc. will influence more on the funds quality.

**Table 2: Analysis of Fund Sponsor Qualities**

S.No.	Fund Sponsor Qualities	Mean	Rank	Correlation
1	Reputation of sponsoring firm	1.25	6	.121**
2	Sponsor has a recognized brand name	2.85	1	.397**
3	Sponsor has a well developed agency & network	1.32	5	.125**
4	Sponsor's expertise in managing money	2.47	3	.192**
5	Sponsor has a well developed research & infrastructure	1.44	4	.138**
6	Sponsor's past performance in terms of risk and return	2.74	2	.393**

Source: Primary Data, \*\* Significant at 0.01 per cent level

To identify which of the sub variable was more important, mean score was computed and ranked based on the magnitude of the rank of each variable. Correlation of these sub variables with fund sponsor quality was done by using Spearman rank coefficient. This will enable us to identify which sub variable is mostly influence the fund sponsor quality.

### Investors' Service Related Issues

Investor Services are the services provided by the AMCs to the investors. Disclosure of investment objectives, methods and periodicity of valuation, disclosure of the method and periodicity of the schemes' sale and repurchase in Statement of Additional Information and scheme Offer Document, disclosure of NAV on every trading day, disclosure of deviation from the original pattern, disclosure of the scheme's investments on every trading day, investors' redressal machinery, fringe benefits like free insurance, free credit card, loans on collateral, tax benefits etc, online trading, electronic services and immediate settlement were the variables under investor services. To identify which of the sub variable is more important, mean score was computed and ranked based on the magnitude of the rank of each variable. Correlation of these sub variables with investor services was done by using Spearman rank

coefficient. This will enable us to identify which sub variable is mostly influencing the investor services. The result is presented in Table 3.

**Table 3: Analysis of Service Related Issues**

S. No	Statements on Service Related Issues	Mean	Ranking	Correlation
1	Disclosure of investment objective in the advertisement	1.82	6	.512**
2	Disclosure of periodicity of valuation in the advertisement	2.19	5	.550**
3	Disclosure of the method and the periodicity of the schemes sales and repurchases in the offer documents	1.49	7	.490**
4	Disclosure of NAV on every trading day	2.23	4	.563**
5	Disclosure of deviation of investments from the original pattern	1.24	9	.468**
6	MF' s Investors grievance redressal machinery	1.30	8	.472**
7	Fringe benefits i.e., free insurance, credit cards, loans on collateral, tax benefits etc.	1.21'	10	.384**
8	Preferred MF to avoid problems, i.e., bad deliveries, and unnecessary follow up with brokers and companies.	1.18	11	.354 **
9	Electronic clearing services	2.38	3	.62**
10	Online trading	2.54	2	.65**
11	Immediate settlement	2.84	1	.73**

Source: Primary Data, \*\* Significant at 0.01 per cent level

From the analysis of data presented in above Table, it is clear that investors were giving more importance to immediate settlement (mean score 2.84), online trading (mean score 2.54), electronic clearing services (mean score 2.38), Disclosure of NAV on every trading day (mean score 2.23) and followed by Disclosure of periodicity of valuation in the advertisement is also influencing their investment decisions. From the analysis of data presented in the above Table, it is also clear that immediate settlement is the most influencing variable on investor services (correlation coefficient 0.73) followed by online trading (correlation coefficient 0.65), So AMCs should give importance to go modern technology and immediate solution to their grievances in dealing with the investors. In order to know the relation between with its sub dimension, correlation was carried out and the result is presented in the Table 3. From the Table 2 it is clear that investors were looking for Sponsor has a recognized brand name (mean 2.85) followed by Sponsor' s past performance in terms of risk and return (2.74). Sponsor has a recognized brand name and Sponsor's expertise in managing money also influenced the investors while investment decisions were made. From the correlation, it is clear that Sponsor has a recognized brand name has great influence in the fund sponsor quality (correlation coefficient 0.397) followed by Sponsor' s past performance in terms of risk and return and Sponsor' s expertise in managing money (correlation coefficient 0.393 & 0.192).

#### Findings

- **Fund Related Qualities:** The study found that investors were more curious about the past performance of the fund (mean score 3.34) followed by the scheme's portfolio of investment (mean score 3.24). They were given least preference to minimum initial investment while making investment decisions on mutual funds. From the correlation, it is clear that the most influencing variable on fund quality is past performance of the fund (correlation coefficient 0.378) followed by Scheme's portfolio of investment (correlation coefficient 0.312).
- **Fund Sponsor Qualities:** The study found that investors were looking for Sponsor has a recognized brand name (mean 2.85) followed by Sponsor' s past performance in terms of risk and return (2.74) Sponsor has a recognized brand name and Sponsor's expertise in managing money also influenced the investors while investment decisions were made. From the correlation, it is clear that Sponsor has a recognized brand name has great influence in the fund sponsor quality (correlation coefficient 0.397) followed by Sponsor' s past performance in terms of risk and return and Sponsor' s expertise in managing money (correlation coefficient 0.393 & 0.192).
- **Investor Service Related Issues:** The study found that investors were giving more importance to immediate settlement (mean score 2.84), online trading (mean score 2.54), electronic clearing services (mean score 2.38), Disclosure of NAV on every trading day (mean score 2.23) and followed by Disclosure of periodicity of valuation in the advertisement is also influencing their investment decisions. From the correlation, it is clear that immediate settlement is the most influencing variable on investor services (correlation coefficient 0.73) followed by online trading (correlation coefficient 0.65) is also influencing their investment decisions.

The study found that the perceptions towards mutual fund investment based on factor analysis communalities. It is inferred that the top four major factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. Fund performance record, Scheme's portfolio of investment, innovativeness of the scheme, Funds reputation or brand name. The minor factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. Minimum initial investment, Favorable rating by a rating agency, Reputation of the Fund Manager/Scheme, Products with tax benefits.

The study found that the perceptions towards mutual fund investment based on factor analysis communalities. It is inferred that the top four major factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. immediate settlement, Online trading, Electronic clearing services and Disclosure of NAV on every trading day. The study also found that Investor Services (correlation coefficient 0.749) is the most influencing quality of fund management followed by fund quality (correlation coefficient 0.724). So if the Asset Management Companies can provide better investor services with modern technology, they can attract more investments in mutual funds.

### Conclusion

From the analysis of data presented in above analysis, it is clear that the perceptions towards mutual fund investment based on factor analysis communalities. It is inferred that the top four major factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. immediate settlement, Online trading, Electronic clearing services and Disclosure of NAV on every trading day. The minor factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. bad deliveries, Fringe benefits, Disclosure of deviation of investments from the original pattern Minimum initial investment. The minor factors which influenced the investors' perceptions towards mutual funds are listed in the order of preference i.e. bad deliveries, Fringe benefits, Disclosure of deviation of investments from the original pattern Minimum initial investment.

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