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MUTUAL FUNDS PERFORMANCE ANALYSIS: A SELECTION CRITERIA FOR INVESTOR

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ABSTRACT

Mutual funds are pooled financial entities that offer an alternative to direct investing. A mutual fund is a company that creates and manages investment portfolios for the general public. A mutual fund is a type of investment vehicle that pools modest sums of money from a large number of individuals with similar investing goals. The funds are pooled and invested in a portfolio of assets based on the investment goal to be met. Investors put money in and get units based on the unit price, which is referred to as the NAV (Net Assets Value). After subtracting investment management fees, the returns obtained from the invested pool of assets are split among the investors based on the amount they invested. The research is based on the performance of mutual funds and takes into account various journal papers that have been published. As a result, from the investor's perspective, it is essential to understand more how portfolio managers perform, but also investment policies. Similarly, at the macro level, it is worthwhile to examine the performance of fund managers as a whole to determine whether they add value to portfolios or simply reap full benefits from investors. Furthermore, achievements in the past does not guarantee that it will continue in the future. This is because high performance can be attributed to either a manager's ability or good fortune. As a result, it is interesting to understand the characteristics of funds as well as their performance, which helps investors understand how to choose their schemes.

Keywords: *Mutual Fund, Fund Manager, Fund Scheme, NAV, Investors.*

Introduction

Securities and Exchange Board of India (SEBI) defines mutual fund as a "fund established in the form of a trust to raise money from the public or a portion of the public through one or more than one schemes for investing in securities, including money market instruments." The Mutual funds raised money from investors or public and invested that money in various securities such as stocks, bonds, money markets, and commodities. Each mutual fund has a common financial goal, and the money is invested to achieve that goal. A professional fund manager is in charge of implementing a fund's investing strategy and managing its portfolio trading activities. Each mutual fund investor shares in the fund's profit or loss proportionally (based on the number of units owned). An investor can invest a small amount and diversify their portfolio across industries based on their interests and risk tolerance.

The household sector is the main provider of savings in the economy. Hence, the direction into which such savings are channelized determines the direction of growth of the financial sector. (Ramesh Babu, 2010) 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).

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The paper studied the investors' preference for mutual funds. Private employees and Government employees are found to be interested while the least interested investors are from the agricultural sector. For the reason, the researchers advise for the proper formal training of Individual financial advisors. It is also suggested to target all fixed salaried people as they can invest in SIP on regular basis. Chaudhury and Pattnaik (2014)

Mutual Fund Conceptual Framework

An Asset Management Company (mutual fund) is a trust that pools the reserve funds of several investors who have a similar monetary fund goal. Following that, the funds are invested in capital market instruments such as shares, debentures, and a variety of other assets. Profit from these bets, as well as capital appreciation, are distributed to unit holders in proportion to the number of units owned. In this regard, an Asset Management Company is the best option for the average investor because it allows them to invest in a diverse, professionally managed wicker bag of securities at a reasonable cost.

Mutual Fund Development Phases

The Republic of India's investment firm industry began in 1963, with the foundation of the Unit Investment Trust of India (UTI), on the initiative of the Indian government and banking firms. In general, the history of mutual funds in Asian countries may be divided into five major periods.

- **The first segment spans the years 1964 through 1987**

In 1963, the Unit Trust of Asian Country (UTI) was founded by an Act of Parliament. It had operated under the Reserve Bank of India's stringent and intrusive control. UTI was de-linked from run batted in in 1978, and the Asian Development Bank (IDBI) assumed control of the restriction and body management in place of run batted in.

- **The second half spans the years 1987 through 1993. (Entry of Public Sector Funds)**

In the year 1987, public sector mutual funds were launched by public sector banks, the Insurance Corporation of Republic of India (LIC), and the General Insurance Corporation of India (GIC), marking the birth of non-UTI mutual funds. The SBI investment firm, which was founded in the Gregorian calendar month of 1987, was the first non-UTI investing firm.

- **1993-2003 is the third segment (Entry of personal Sector Funds)**

In July 1993, the former Kothari Pioneer (now Franklin Templeton) was the first non-public sector investment business to be registered.

In 1996, the SEBI (Mutual Fund) rules were replaced by a slew of new and amended investment business guidelines. The company is currently governed by the SEBI (Mutual Fund) Rules of 1996.

- **Since the Gregorian calendar month of 2003, the fourth portion has been active**

Following the abolition of the Unit Investment Trust of Asian Country Act 1963 in Gregorian calendar month 2003, UTI was split into two independent corporations. One such venture is that of an Asian country unit investment trust with assets under management of Rs.29, 835 crores.

The UTI investment firm, which is backed by SBI, PNB, BOB, and LIC, is the second.

- **Fifth (Current) Phase – Since May 2014**

SEBI introduced several progressive measures in September 2012 to "re energize" the Indian Mutual Fund industry and increase MF penetration, recognising the lack of MF penetration, particularly in tier II and tier III cities, and the need for greater alignment of the interests of various stakeholders.

Types of Mutual Funds

A wide selection of Mutual Fund Schemes are available to meet various requirements, such as financial constraints, risk tolerance, and return expectations, among others. The details below provides an overview of the many types of plans now available in the industry.

- **By Structure**
  - **Open-Ended Schemes**

There isn't much of a pattern to these. For your initiatives and reclamations, you negotiate directly with the Mutual Fund. Liquidity is the most important factor. You can save money by buying and selling units at net resource value ("NAV") prices.

- **Close-Ended Schemes**

Close-ended schemes are those that have a predetermined maturity period (usually between two and fifteen years). You will invest directly in the theme at the time of its initial offering, and you will then buy or sell the theme's units on stock markets around the world. Because of demand and supply scenarios, unit holder expectations, and other market considerations, the market value at the securities market may differ from the scheme's NAV.

- **Interval Schemes**

These plans combine the characteristics of both open-ended and closed-ended schemes. They may be traded on a stock exchange or be available for sale or redemption at NAV-related prices at pre-determined periods.

- **By Investment Objective**
  - **Growth Schemes**

Intend to increase capital over the medium to long term. These plans typically invest a higher portion of their assets in values and will bear a current loss in the hopes of future appreciation.

Ideal for:

- Investors in their peak acquisition years.
- Investors aiming for long-term growth.

- **Income Schemes**

Expect to pay financial experts a stable and long-term compensation. The majority of these programmes invest in settled pay securities, such as securities and corporate debentures. In such arrangements, capital gratitude may be limited.

Ideal for:

- Retired people and others who seek capital stability and regular pay;
- Investors who require a wage to augment their income.

- **Balanced Schemes**

Aim to provide both growth and income by distributing a portion of their earnings and capital gains on a regular basis. In the proportions specified in their offer documents, they invest in both shares and fixed income assets.

Ideal for:

- Investors searching for a balanced portfolio of income and moderate growth.

- **Money Market Schemes**

The goal is to achieve simple liquidity, capital preservation, and moderate financial gain. Treasury bills, certificates of deposit, cash equivalents, and inter-bank decision cash are common investments in these systems. Returns on these schemes may fluctuate depending on current interest rates in the market.

Ideal for:

- Corporations and individual investors looking to lodge excess funds for a short period of time or wait for a more suitable investment opportunity.

- **Other Schemes**
  - **Tax Saving Schemes**

These schemes offer tax rebates to investors in accordance with current tax legislation. This is typically made possible because the government provides tax incentives for investment in such channels. Equity-linked Savings Schemes (ELSS) and Pension Schemes, are examples.

Ideal for:

- Investors looking for a tax break.

- **Sector Funds**

Sector funds are those that invest primarily in the equities of firms that operate in a very specialised industry, as defined in the fund's prospectus. There are other funds that invest in fundamental industries and sectors such as cement, steel, and petrochemicals.

- **Index Funds**

Index funds try to replicate the performance of a given index, such as the Sensex or the NSE fifty, by investing in it. Index funds can only invest in stocks that correspond to a specified index. This scrip's investment is also formed in proportion to each stock's weight in the index.

- **Exchanged Traded Funds**

ETFs are a new product that adds a lot of liquidity to a market that already has a lot of liquidity. They're passively managed funds that invest in the equities of a particular benchmark index. ETFs are the most straightforward open-end and closed-end fund solutions. They are units of beneficial interest in Unit Investment Trusts that hold the representative index's component stocks.

Tools and Techniques

Analysis has been done by using following statistical tools.

- **Sharpe Ratio**: It indicates the risk-return performance of portfolio.

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

- **Treynorratio:** It measure the returns earned in excess of that which could have been earned on investment that has no diversifiable risk.

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

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

  Alpha ( ) = (Rx - Rf) - (Rm - Rf)

- **Beta:** It measures the volatility or systematic risk of a security with comparison to the market as a whole. Beta is calculated as,

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

- **Standard Deviation:** It shows the historical volatility.

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

Conclusion

Each mutual fund scheme carries its own level of risk. As a result, investors must select schemes based on their risk tolerance. Investors can contrast the fund's performance with that of the industry average and benchmark indices. Investing in a fund that outperforms both the market average and benchmark indices is an option. A fund that is less volatile and has a track record of consistent returns can also be preferred for investment. This paper presents a mutual fund performance. According to the findings of the preceding study, mutual funds performed extremely well for investors. Mutual fund investments in stocks, bonds, and other securities necessitate significant expertise and consistent oversight to allow an investor to make the best decision.

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