COMPARATIVE STUDY ON PERFORMANCE EVALUATION OF MUTUAL FUND SCHEMES

DISSERTATION PROJECT REPORT

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CERTIFICATE FROM THE INSTITUTE

This is to certify that the Project Report titled **“COMPARATIVE STUDY ON PERFORMANCE EVALUATION OF MUTUAL FUND SCHEMES”** is a bonafide work carried out by **Mr. Gaurav Agarwal** of MBA 2012-14 and submitted to Delhi School Of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfillment of the requirement for the award of the Degree Of Masters of Business Administration.

Signature of Project Guide **Signature of Head (DSM)**

Place:

Date:

DECLARATION

I, **Gaurav Agarwal**, student of MBA 2012-14 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 declare that Dissertation Report on **"COMPARATIVE STUDY ON PERFORMANCE EVALUATION OF MUTUAL FUND SCHEMES"** submitted in partial fulfillment of Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This report is not being submitted to any other University for award of any other Degree, Diploma and Fellowship.

ACKNOWLEDGEMENT

I take this opportunity to express my profound gratitude and deep regards to my faculty guide Dr. Archana Singh (Assistant Professor at Delhi School of Management, DTU) for their constant guidance, monitoring and encouragement throughout the course of this project. I express my thanks to our Prof. P.K. Suri for extending his support.

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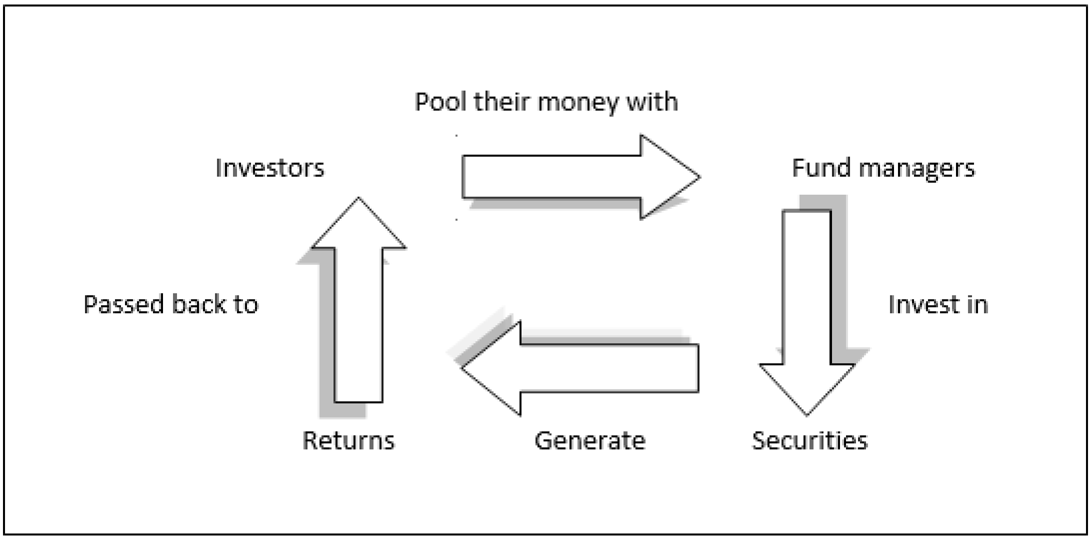
INTRODUCTION

1.1 INTRODUCTION OF MUTUAL FUND



Mutual fund is a buzz in the market these days. The mutual fund industry is burgeoning, it is completely untapped market. Only few % of total potential of this industry has been grabbed. Hence this industry has a lot of opportunities in it. That's why it is so much interactive.

The Indian stock market and companies have become lucrative for foreign investors. More and more fund is pouring in our country. This is increasing liquidity in the market and hence increasing the money in the hands of people and thus investment. As the future prospects for Indian companies are bright, they have lots of opportunities to expand their business worldwide, the investment in Indian companies.

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them (pro rata). 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 portfolio at a relatively low cost. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in faraway places. A typical individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implications and act speedily. An individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions etc.

A mutual fund is the answer to all these situations. It appoints professionally qualified and experienced staff that manages each of these functions on a full time basis. The large pool of money collected in the fund allows it to hire such staff at a very low cost to each investor. In effect, the mutual fund vehicle exploits economies of scale in all three areas - research, investments and transaction processing. While the concept of individuals coming together to invest money collectively is not new, the mutual fund in its present form is a 20^{th} century phenomenon. In fact, mutual funds gained popularity only after the Second World War. Globally, there are thousands of firms offering tens of thousands of mutual funds with different investment objectives. Today, mutual funds collectively manage almost as much as or more money as compared to banks.

A draft offer document is to be prepared at the time of launching the fund. Typically, it pre specifies the investment objectives of the fund, the risk associated, the costs involved in the process and the broad rules for entry into and exit from the fund and other areas of operation. In India, as in most countries, these sponsors need approval from a regulator, SEBI (Securities exchange Board of India) in our case. SEBI looks at track records of the sponsor and its financial strength in granting approval to the fund for commencing operations.

A sponsor then hires an asset management company to invest the funds according to the investment objective. It also hires another entity to be the custodian of the assets of the fund and perhaps a third one to handle registry work for the unit holders (subscribers) of the fund.

In the Indian context, the sponsors promote the Asset Management Company also, in which it holds a majority stake. In many cases a sponsor can hold a 100% stake in the Asset Management Company (AMC). E.g. Birla Global Finance is the sponsor of the Birla Sun Life

Asset Management Company Ltd., which has floated different mutual funds schemes and also acts as an asset manager for the funds collected under the schemes.

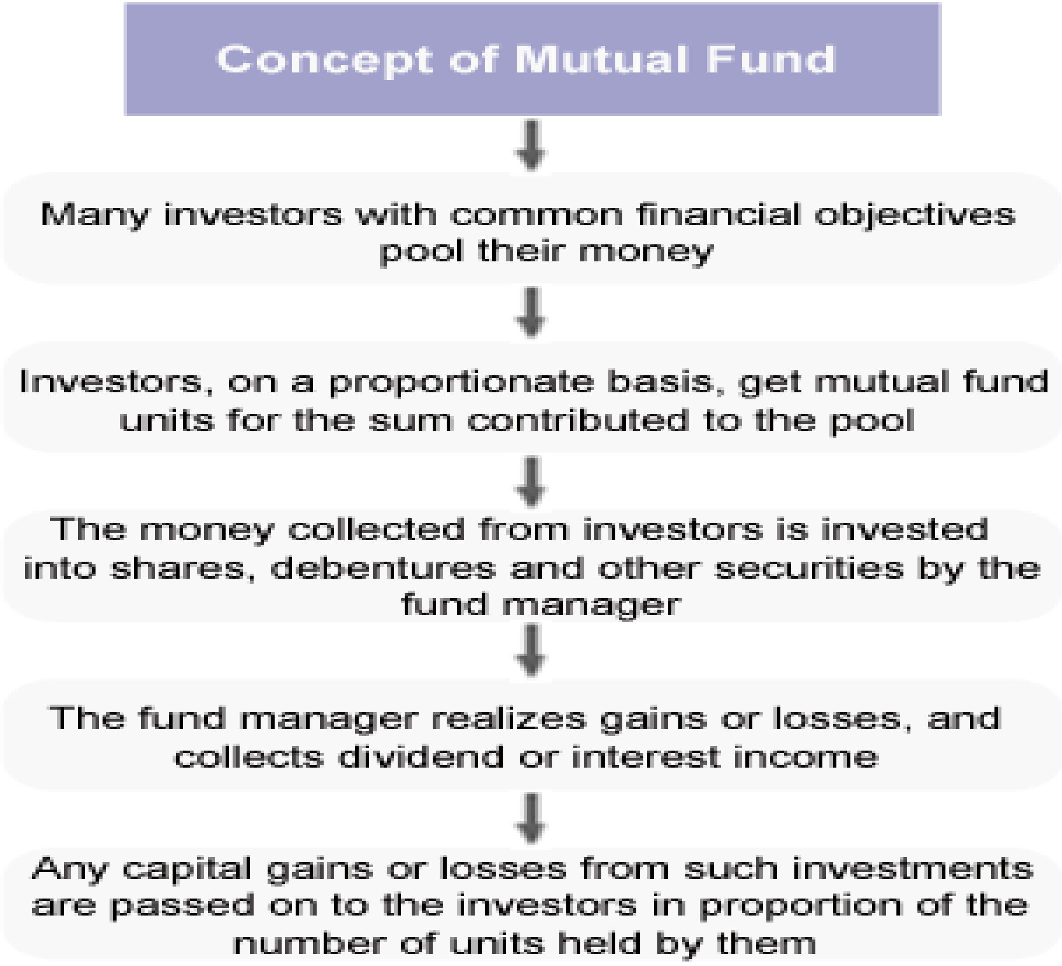
1.2 WHY COMAPARATIVE ANALYSIS OF MUTUAL FUNDS?

All over the world, mutual fund is one of the most popular instruments for investment. Its popularity with consumer has dramatically increased over the last couple of years worldwide; the mutual fund has a long and successful history. The popularity of mutual fund has increased manifold. In developed financial market like United States, mutual has almost overtaken bank deposits and total assets of insurance funds.

The mutual fund industry in India is regulated by Association of Mutual Funds in India (AMFI). The mutual fund industry in India is of 493,287 crores approx. A total of over 4.6 million investors have reposed their faith in the wealth generation expertise of the Mutual Fund.

Schemes of the Mutual fund have consistently outperformed benchmark indices and have emerged as the preferred investment for millions of investors and HNI's.

The project entitled "**Comparative Study on Performance Evaluation of Mutual Fund Schemes*"*** gives me an opportunity to enhance my knowledge of mutual funds industry and gives me an insight of business processes of different types of client.



When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution amount put up with the corpus (the total amount of the fund). Mutual Fund investor is also known as a mutual fund shareholder or a unit holder.

Any change in the value of the investments made into capital market instruments (such as shares, debentures etc) is reflected in the Net Asset Value (NAV) of the scheme. NAV is defined as the market value of the Mutual Fund scheme's assets net of its liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

1.3 TYPES OF MUTUAL FUND SCHEMES

Mutual fund schemes may be classified on the basis of its structure and its investment objective.

By Structure:

Open-ended Funds:

An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

Closed ended Funds:

A closed-end fund has a stipulated maturity period which generally ranging from 3 to 15 years. The fund is open for subscription only during a specified period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor. .

Interval Funds:

Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices

By Investment Objective:

Growth Funds:

The aim of growth funds is to provide capital appreciation over the medium to long term. Such schemes normally invest a majority of their corpus in equities. It has been proved that returns from stocks, have outperformed most other kind of investments held over the long term. Growth schemes are ideal for investors having a long term outlook seeking growth over a period of time.

Income Funds:

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities. Income Funds are ideal for capital stability and regular income.

Balanced Fund:

The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

Money Market Funds:

The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money. Returns on these schemes may fluctuate depending upon the interest rates prevailing in the market. These are ideal for Corporate and individual investors as a means to park
their surplus funds for short periods.

Other Schemes:

Tax Saving Schemes:

These schemes offer tax rebates to the investors under specific provisions of the Indian Income Tax laws as the Government offers tax incentives for investment in specified avenues. Investments made in Equity Linked Savings Schemes (ELSS) and Pension Schemes are allowed as deduction u/s 88 of the Income Tax Act, 1961. The Act also provides opportunities to investors to save capital gains u/s 54EA and 54EB by investing in Mutual Funds.

Special Schemes:

Industry Specific Schemes:

Industry Specific Schemes invest only in the industries specified in the offer document. The investment of these funds is limited to specific industries like InfoTech, FMCG, and Pharmaceuticals etc.

Index Schemes

Index Funds attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50.

Sectoral Schemes

Sectoral Funds are those which invest exclusively in a specified sector. This could be an industry or a group of industries or various segments such as 'A' Group shares or initial public offerings.

1.4 MAJOR MUTUAL FUND COMPANIES IN INDIA

ABN AMRO MUTUAL FUND

ABN AMRO Mutual Fund was setup on April 15, 2004 with ABN AMRO Trustee (India) Pvt. Ltd. as the Trustee Company. The AMC, ABN AMRO Asset Management (India) Ltd. was incorporated on November 4, 2003. Deutsche Bank AG is the custodian of ABN AMRO Mutual Fund.

BIRLA SUN LIFE MUTUAL FUND

Birla Sun Life Mutual Fund is the joint venture of Aditya Birla Group and Sun Life Financial. Sun Life Financial is a global organization evolved in 1871 and is being represented in Canada, the US, the Philippines, Japan, Indonesia and Bermuda apart from India. Birla Sun life Mutual Fund follows a conservative long-term approach to investment. Recently it crossed an AUM of Rs.10000 crores.

BANK OF BARODA MUTUAL FUND

Bank of Baroda Mutual Fund or BOB Mutual Fund was setup on October 30, 1992 under the sponsorship of Bank of Baroda. BOB Assets Management Company Limited is the AUM of BOB Mutual Fund and was incorporated on November 5, 1992. Deutsche Bank AG is the custodian.

HDFC MUTUAL FUND

HDFC Mutual Fund was setup on June 30, 2000 with two sponsors namely Housing Development Finance Corporation Limited and Standard Life Investments Limited.

ING VYSYA MUTUAL FUND

ING VYSYA Mutual Fund was setup on February 11, 1999 with the same named Trustee Company. It is a joint venture of VYSYA and ING. The AMC, ING Investment Management (India) Pvt. Ltd. was formed on April 6, 1998.

PRUDENTIAL ICICI MUTUAL FUND

The mutual fund of ICICI is a joint venture with Prudential Plc. Of America, one of the largest life insurance companies in the US of A. Prudential ICICI Mutual Fund was setup on 13 October, 1993 with two sponsors, Prudential Plc. and the AMC is Prudential ICICI Asset Management Company Limited incorporated on 22 June, 1993.

SAHARA MUTUAL FUND

Sahara Mutual Fund was setup on July 18, 1996 with Sahara India financial Corporation Ltd. as the sponsor. Sahara Assets Management Company Private Limited incorporated on August 31, 1995 works as the AMC of Sahara Mutual Fund. The paid up capital of the AMC stands at Rs.25.8 crore.

STATE BANK OF INDIA MUTUAL FUND

State Bank of India Mutual Fund is the first Bank sponsored Mutual Fund to launch offshore fund, the India Magnum Fund with a corpus of Rs.225 crore approximately. Today it is the largest Bank sponsored Mutual Fund in India. They already launched 35 schemes out of which 15 have already yield handsome returns to investors. State Bank of India Mutual Fund has more than Rs.5, 500 crores as AUM. Now it has an investor base of over 8 lakhs spread over 18 schemes.

TATA MUTUAL FUND

TATA Mutual Fund is a Trust under the Indian Trust Act, 1882. The sponsors for Tata Mutual Fund are Tata Sons Ltd., and Tata Investment Corporation Ltd. the investment manager is Tata management Limited is one of the fastest in the country with more than Rs.7703 Crores (as on 2005) of AUM.

KOTAK MAHINDRA ASSTE MANAGEMENT COMPANY

Kotak Mahindra Asset Management Company is a subsidiary of KMBL. It is presently having more than 1, 99,818 investors in its various schemes. KMAMC stared its operations in December 1998. Kotak Mahindra Mutual Fund offers schemes catering to investors with varying risk return profiles. It was the first company to launch to dedicated gilt scheme investing only in government securities.

UNIT TRUST OF INDIA MUTUAL FUND

UTI Asset Management Company Private Limited, established in Jan 24, 2003 manages the UTI Mutual Fund with the support of UTI Trustee Company Private Limited. UTI Asset Management Company presently manages a corpus of over Rs.20, 000 crore. The sponsors of UTI Mutual Fund are Bank of Baroda, Punjab National Bank, State Bank of India, and Life Insurance Corporation of India. The schemes of UTI Mutual Fund are Liquid Funds, assets Management Funds, Index Funds and Balanced Funds.

RELIANCE MUTUAL FUND

Reliance Mutual Fund was established as trust under Indian Trusts Act, 1882.The sponsor of RMF is Reliance Capital Limited and Reliance Capital Trustee Co. Limited is the Trustee. It was registered on June 30, 1995 as Reliance Mutual Fund which was changed on March 11, 2004. Reliance Mutual Fund was formed for launching of various schemes under which, units are issued to the public with a view to contribute to the capital market and to provide investors the opportunities to make investments in diversified securities.

STANDARD CHARTERED MUTUAL FUND

Standard Chartered Mutual Fund was setup on March 13, 2000 sponsored by Standard Chartered Bank. The Trustee is Standard Chartered Trustee Company Pvt. Ltd. Standard Chartered Asset Management Company Pvt. Ltd is the AMC which was incorporated with SEBI on December 20, 1999.

FRANKLIN TEMPLETON MUTUAL FUND

The group, Franklin Templeton investment is a California based company with a global AUM of US $409.2(as on 2005). It is one of the largest financial service group in the world. Investors can buy or sell the Mutual Fund through their financial advisor or through mail or through their website. They have open end Diversified Equity schemes, Open end Sector Equity schemes, Open end Hybrid schemes, Open end tax saving schemes, Open end income and liquid schemes, closed end Income schemes and Open end Fund of Funds schemes to offer.

MORGAN STANLEY MUTUAL FUND

Morgan Stanley is a worldwide financial services company and is leading the market in securities, investment management and credit services. Morgan Stanley investment management was established in the year 1975. It provides customized asset management services and products to governments, corporations, pension funds and non-profit organizations. Its services are also extending to high net worth individuals and retail investors. In India it is known as Morgan Stanley investment management Private Ltd. and its

AMC is Morgan Stanley Mutual Fund. This is the first closed end diversified equity scheme serving the needs of Indian retail investors focusing on the long term capital appreciation.

ESCORT MUTUAL FUNDS

Escort Mutual Funds was set up on April 15th, 1996 with Escorts Finance Ltd. as its sponsor. The Trustee Company is Escorts Investments Trust Ltd. Its AMC was incorporated on Dec 1st, 95 with the name Escorts Asset Management Ltd.

ALLIANCE CAPITAL MUTUAL FUND

Alliance Capital Mutual Fund was set up on December 30, 1994 with Alliance Capital Management Corp. of Delaware (USA) as sponsor. The Trustee is ACAM Trust Company Pvt. Ltd. and AMC, the Alliance Capital Asset Management India Pvt. Ltd. with the corporate office in Mumbai.

BENCHMARK MUTUAL FUND

Benchmark Mutual Fund was setup on June 12, 2001 with Niche Financial Services Pvt. Ltd. as the sponsor and Benchmark Trustee Company Pvt. Ltd. as the trustee Company. It was incorporated on October 16, 2000 and headquartered in Mumbai, Benchmark Assets Management Company Pvt. Ltd. is the AMC.

CAN BANK MUTUAL FUND

Can Bank Mutual Fund was setup on December 19, 1987 with Canara Bank acting as the sponsor. Canara bank investment Management Service Ltd. incorporated on March 2, 1993 is the AMC. The Corporate Office of the AMC is in Mumbai.

CHOLA MUTUAL FUND

Chola Mutual Fund under the sponsorship of Cholamandalam Investment & Finance Company Ltd. was setup on January 3, 1997. Cholamandalam Trustee Co. Ltd. is the Trustee Company and AMC is Cholamandalam AMC Limited.

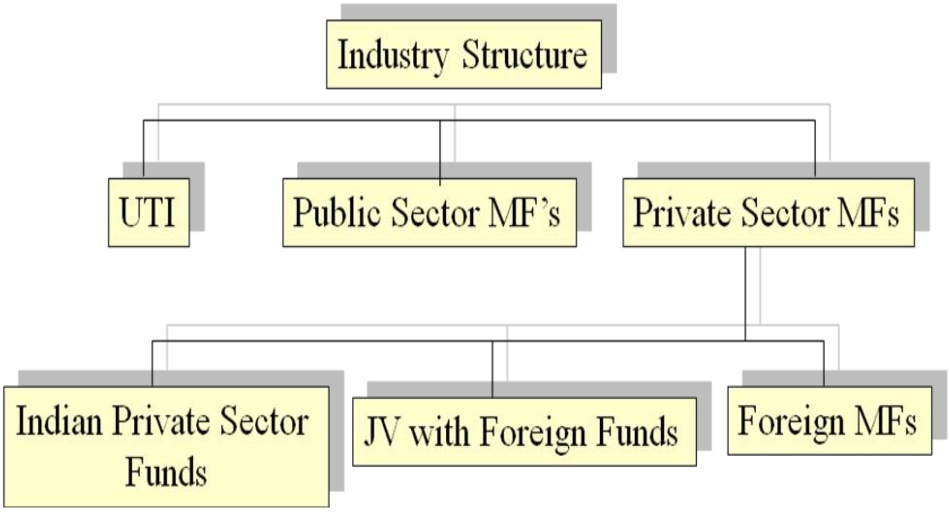
LIC MUTUAL FUND

Life Insurance Corporation on India setup LIC Mutual Fund on 19th June 1989. It contributed Rs.2 crore towards the corpus of the Fund. LIC Mutual Fund was constituted as a trust in accordance with the provisions of the Indian trust Act, 1882. The Company started its business on 29th April 1994. The Trustees of LIC Mutual Fund have appointed Jeevan Bima Sahayog Asset Management Company Ltd. as the Investment Managers for mutual fund.

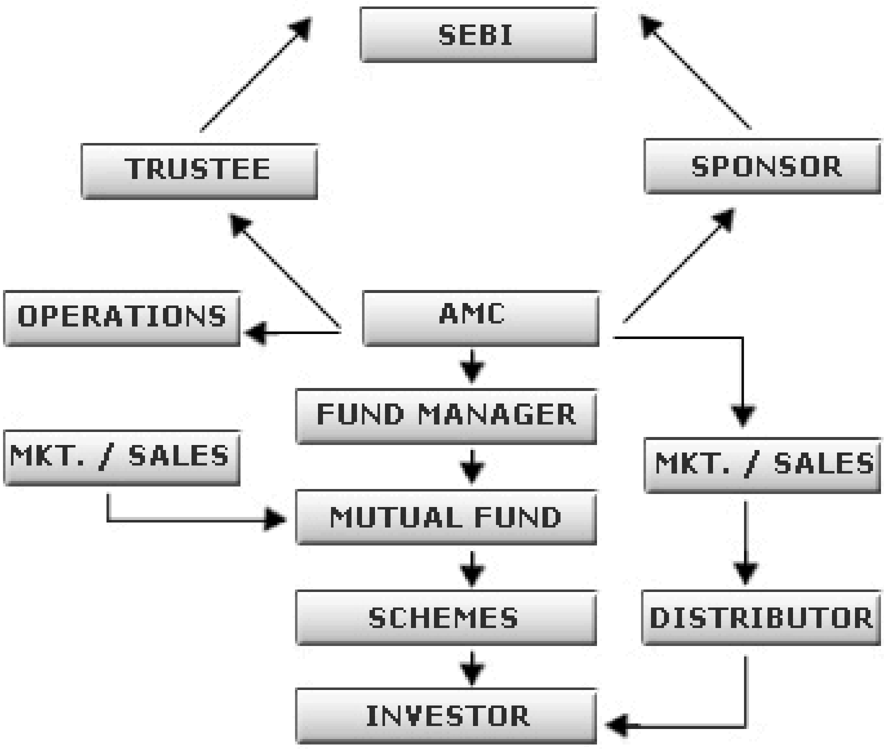
GIC MUTUAL FUND

GIC Mutual Fund, sponsored by General Insurance Corporation of India, a government of India undertaking and the four Public Sector General Insurance Companies, viz. National Insurance Co. Ltd, the New India Assurance Co. Ltd. the Oriental Insurance Co. Ltd and United India Insurance Co. Ltd and is constituted as a Trust in Accordance with the provisions of the Indian Trusts Act, 1882.

INDUSTRY PROFILE



2.1 STRUCTURE OF MUTUAL FUNDS IN INDIA



Like other countries, India has a legal framework within which mutual funds must be constituted. In India, open and close – end funds operate under the same regulatory structure, i.e. in India, all mutual funds are constituted along one unique structure – as unit trust. A mutual fund in India is allowed to issue open – end and close – end schemes under a common legal structure. The structure, which is required to be followed by mutual funds in India, laid down under SEBI (Mutual Fund) Regulations, 1996.

The Fund Sponsor

'Sponsor' is defined under SEBI Regulations as any person who, acting alone or in combination with another body corporate establishes a mutual fund. The sponsor of a fund is akin to the promoter of companies he gets the fund registered with SEBI. The sponsor will form a Trust and appoint a Board of Trustees. All these appointments are made in accordance with the SEBI Regulations. As per the existing SEBI Regulations, for a person to qualify as a sponsor, must contribute at least 40% of the net worth of the AMC and issues a sound financial track over five years prior to registration.

Mutual Funds as Trusts

Mutual Fund in India is constituted in the form of a Public Trust under the Indian Trust Act 1882. The fund invites investors to contribute their money in the common pool by subscribing to units issued by various schemes established by the Trust as evidence of their beneficial interest in the fund. The Trust or Fund has no legal capacity itself rather it is the Trustee(s) who have legal capacity and therefore the trustees take all acts in relation to the Trust itself.

Trustees

A Board of Trustees – a body of individuals, or a trust company – a corporate body, may manage the Trust. Board of Trustees manages most of the funds in India. The Trust is created through a document called the Trust Deed that is executed by the Fund Sponsor in favors of the trustees. They are the primary guardian of the unit holder's funds and assets. They ensure that AMC's operations are along professional lines.

Right of Trustees

a) Appoint the AMC with the prior approval of SEBI
b) Approve each of the schemes floated by the AMC
c) Have the right to request any necessary information from the AMC concerning the operations of various schemes managed by the AMC

Obligations of the AMC and its Directors

They must ensure that:

a) Investment of funds is in accordance with SEBI Regulations and the Trust Deed
b) Take responsibility for the act of its employees and others whose services it has procured
c) Do not undertake any other activity conflicting with managing the fund

Asset Management Company

The role of an Asset Management Company (AMC) is to act as the investment manager of the trust under the Board supervision.

Transfer Agents

Transfer Agents are responsible for issuing and redeeming units of the mutual fund and provide other related services such as preparation of transfer documents updating investor's records. A fund may choose to opt this activity in-house or by an outside transfer agent.

Distributors

AMCs usually appoint distributors or brokers, who sell units on behalf of the fund. Some funds require that all transactions to be routed through such brokers.

Bankers

A fund's activities involved dealing with the money on a continuous basis primarily with respect to buying and selling units, paying for investment made, receiving the proceeds from sale of investment and discharging its obligations towards operative expenses. A fund's banker therefore plays a crucial role with respect to its financial dealings.

Custodian and Depository

The custodian is appointed by the Board of Trustees for safekeeping of securities in terms of physical delivery and eventual safe keeping or participating in the clearing system through approved depository companies.

2.2 ASSOSIATION OF MUTUAL FUNDS IN INDIA

With the increase in mutual fund players in India, a need for mutual fund association in India was generated to function as a non-profit organisation. Association of Mutual Funds in India (AMFI) was incorporated on 22nd August, 1995.

AMFI is an apex body of all Asset Management Companies (AMC) which has been registered with SEBI. Till date all the AMCs are that have launched mutual fund schemes are its members. It functions under the supervision and guidelines of its Board of Directors.

Association of Mutual Funds India has brought down the Indian Mutual Fund Industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principle of both protecting and promoting the interests of mutual funds as well as their unit holder.

THE OBJECTIVES OF ASSOCIATION OF MUTUAL FUNDS IN INDIA

The Association of Mutual Funds of India works with 30 registered AMCs of the country. It has certain defined objectives which juxtaposes the guidelines of its Board of Directors. The objectives are as follows:

- This mutual fund association of India maintains high professional and ethical standards in all areas of operation of the industry.
- It also recommends and promotes the top class business practices and code of conduct which is followed by members and related people engaged in the activities of mutual fund and asset management. The agencies who are by any means connected or involved in the

field of capital markets and financial services also involved in this code of conduct of the association.

- AMFI interacts with SEBI and works according to SEBIs guidelines in the mutual fund industry.
- Association of Mutual Fund in India does represent the Government of India, the Reserve Bank of India and other related bodies on matters relating to the Mutual Fund Industry.
- It develops a team of well qualified and trained Agent distributors. It implements a program of training and certification for all intermediaries and other engaged in the mutual fund industry.
- AMFI undertakes all India awareness programmed for investor's in order to promote proper understanding of the concept and working of mutual funds.
- At last but not the least association of mutual fund of India also disseminate information's on Mutual Fund Industry and undertakes studies and research either directly or in association with other bodies

2.3REGULATORY AUTHORITIES

To protect the interest of the investors, SEBI formulates policies and regulates the mutual funds. It notified regulations in 1993 (fully revised in 1996) and issues guidelines from time to time. MF either promoted by public or by private sector entities including one promoted by foreign entities is governed by these Regulations.

SEBI approved Asset Management Company (AMC) manages the funds by making investments in various types of securities. Custodian, registered with SEBI, holds the securities of various schemes of the fund in its custody.

According to SEBI Regulations, two thirds of the directors of Trustee Company or board of trustees must be independent.

The Association of Mutual Funds in India (AMFI) reassures the investors in units of mutual funds that the mutual funds function within the strict regulatory framework. Its objective is to increase public awareness of the mutual fund industry.

AMFI also is engaged in upgrading professional standards and in promoting best industry practices in diverse areas such as valuation, disclosure, transparency etc.

2.4 RISK ASSOCIATED WITH MUTUAL FUNDS

The most important relationship to understand is the risk-return trade off. One of the most basic economic principles is that risk and reward are directly correlated. In other words, the greater the potential risk the greater the potential return. The different types of risks involved with Mutual Funds are:

Market Risk

Market risk exposes one to a potential loss of principal. In all likelihood the market value of a stock will fluctuate based on factors such as developments affecting the company's financial status, earnings of the company or impact of economic slowdown on the company. Likewise, debt funds too are subject to market risk. Prices of bonds and government securities fluctuate with change in interest rates. One can minimize market risk by diversifying among a variety of instruments rather than investing your money in one or two stocks. Diversification helps minimize risks. Thus, when one asset class is adversely affected by market or other conditions, another class may be less affected. Because mutual funds invest in a lot of companies, they are the best way to diversify.

Credit Risk

The debt servicing ability of a company through its cash flows determines the Credit Risk faced by you. This credit risk is measured by independent rating agencies like CRISIL who rate companies and their paper. A ‘AAA’ rating is considered the safest whereas a ‘D’ rating is considered poor credit quality. A well – diversified portfolio might help mitigate this risk.

Inflation Risk

Inflation is the loss of purchasing power over a time. A lot of times people make conservative investment decisions to protect their capital but end up with a sum of money that can buy less than what the principal could, at the time of investment. A well–diversified portfolio with some investment in equities might help mitigate this risk.

Interest Rate Risk

In a free market economy interest rates are difficult and not impossible to predict. Changes in interest rates affect the prices of bonds as well as equities. If interest rates rise, the prices of bonds will fall and vice versa. Equity might be negatively affected as well in a rising interest rate environment. A well-diversified portfolio might help mitigate this risk.

Political Risk

Changes in government policy and political decision can change the investment environment. They can create a favourable environment for investment or vice versa.

Liquidity Risk

Liquidity risk arises when it becomes difficult to sell the securities that one has purchased. It can be partly mitigated by diversification, staggering of maturities as well as internal risk controls that lean towards purchase of liquid securities. It simply means that you must spread your investment across different securities (stocks, bonds, money market instruments, real estate, fixed deposits etc.). This kind of a diversification may add to the stability of your returns, for example, during one period of time equities might underperform but bonds and money market instruments might do well enough to offset the effect of a slump in the equity Markets.

Manager Risk

This risk arises from the possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively, resulting in the failure of the stated objectives.

Industry Risk

This risk arises from the possibility that a group of stocks in a single industry will decline in price due to developments in that industry.

Exchange risk

A number of companies generate revenues in foreign currencies and may have investments or expenses also denominated in foreign currencies. Change rates may, therefore, have a positive or negative impact on companies which in turn would have an effect on the investment of the fund.

Investment risks

The sectoral fund schemes, investments will be predominantly in equities of select companies in the particular sectors. Accordingly, the NAV of the schemes are linked to the equity performance of such companies and may be more volatile than a more diversified portfolio of equities.

2.5 EMERGING ISSUES IN MUTUAL FUND

Rating of Mutual Fund Schemes:

Total returns has been the criteria for measuring the performance of mutual fund. Therefore, CRISIL has development a composite performance ranking which measures performance for each of the open- ended schemes. According to CRISIL, this measures is applicable only to those schemes, which are at least two years old and disclose 100% of their portfolios.

Changes in Mutual Fund due to the Advent of Net:

As per SEBI regulations, bond funds and equity funds can charge a maximum of 2.25% and 2.5% as administrative fees, respectively. Mutual Funds could bring down their administrative costs to 0.75%, if trading is done online and consequently improves the return potential of their schemes. Mutual Funds could provide better advice or service to their investors through the Net.

New Norms on NPA Classification:

The Malegan committee has made important recommendations regarding norms on classification of NPAs in debt securities and norms for valuation of liquid securities in a mutual fund schemes. The committee has recommended that debt securities held by mutual fund in their portfolio can be classified as NPA, if the principal or interest is not received for six months. The mutual funds will have to disclose the NPAs to unit holders in a half-yearly basis.

INFLUENCE OF TECHNOLOGY:

A majority of the mutual fund have their own websites providing basic information relating to the schemes. Mutual Fund have begun to use electronic fund transfer method top remit their dividends and redemption proceeds. However, the most significant influence of technology is seen in servicing investors. So technology can bridge the gap between investor education and products positioning.

PRODUCT INNOVATION:

Product innovation is an emerging feature in the mutual fund industry in India. Most of the products offered by mutual fund can be divided among three classes of cash funds, income funds and equity funds. Templeton India launched a debt fund that would invest predominantly in floating rate bonds.

INDICES FOR MUTUAL FUNDS:

The AMFI has recently launched four indices for gilt funds and another set of indices for balanced funds, bond funds, monthly income plans and liquid funds. The indices, which have been developed and will be maintained by ICICI securities and finance companies and CRISIL.com, respectively and has been mandated for use by mutual funds to enable the comparison of performance.

FUNDS OF FUNDS:

The SEBI may soon permit mutual funds to float a new category of funds called "funds of funds", which will invest in other mutual fund schemes. These scheme will enable people to invest in different mutual funds schemes through a single find.

REVIEW OF LITERATURE

Review of previous studies provides the need and justification for the research work to be undertaken, and research methodology explains the research process. Researcher and practitioners have produced literature covering different aspects of mutual funds. A variety of technical and quantitative measures have been developed to assess and compare the financial performance of mutual fund schemes as well as the performance of funds managers. These measures provide the methods of comparing risk-adjusted returns of a portfolio with other portfolios or with benchmarks.

Treynor and Mazuy (1966) found no statistical evidence that investment managers of any of the 57 funds had successfully outguessed market. The results suggested that an investor in mutual funds was completely dependent on fluctuations in the general market. This is not to say that a skilful fund management cannot provide investors with a rate of return that is higher in both bad and good times than the one provided by market averages. But it did suggest that improvement in the rate of return was due to the fund manager's ability to identify under-priced industries and companies, and not because of their ability to outguess turns in the level of market as a whole. These findings were based on the earlier developed methodology for reviewing the performance of fund management (Treynor's, 1965).

Wermers (2000) in his study used two databases in the analysis of mutual fund returns. The first database contains quarterly portfolio holding for all US equity mutual funds existing at any time between January 1975 and December 1994. The second mutual fund database is available from CRSP and used by Carhart (1997). The study found that funds which hold stocks outperform the market by 1.3 % per year, but their returns under-perform by 1 %. Of the 2.3 % difference between these results, 0.7% is due to the underperformance of non-stock holdings, whereas 1.6% is due to expenses and transaction costs. Thus, the funds pick stocks well enough to cover their costs.

Rajeeva Sinha and Vijay Jog(2003), the authors examine the performance of Canadian mutual fund managers, and find that their performance is lacklustre when compared with some well-recognized benchmarks such as the TSE 300 and the 90-day T-Bill rates, and is even lower when one accounts for the timing of entry and exit by mutual fund investors. They attribute this to the lack of performance persistence. However, unlike some US studies, they do not find evidence suggesting that Canadian mutual fund investors chase winners, and are reluctant to exit from losing funds; while investors do allocate funds based on past performance, the allocations do not favour star funds disproportionately. Poor performers experience significant fund withdrawals. They attribute this to the differences in the tax treatment of retirement-related savings– the principal source of mutual funds asset growth.

Kshama Fernandes (2003) evaluated index fund implementation in India. In this, tracking error of index funds in India is measured. The consistency and level of tracking errors obtained by some well-run index fund suggest that it is possible to attain low levels of tracking error under Indian conditions. At the same time, there do seem to be periods when certain index funds appear to depart from the discipline of indexation.

Sathya Swaroop Debasish (2009) studied the performance of 23 schemes offered by six private sector mutual funds and three public sector of mutual funds based on risk-return relationship models and measures it over the time period of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean return, beta risk, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The overall analysis concludes Franklin Templeton and UTI being the best performers and Birla Sun Life, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models.

Dhume and Ramesh (2011) conducted a study to analyse the performance of the sector funds. The sectors considered were Banking, FMCG, Infrastructure, Pharma and Technology. The study used different approaches of performance measures. Findings of study revealed that all the sector funds have outperformed the market except infrastructure funds.

Shivani Inder and Shikha Vohra (2012), the paper evaluates the long run performance of the selected index fund schemes and make comparative analysis of the performance of these funds on the basis of the risk-return for the period of 6 years (January ,2005 to December,2011). The results indicate that index funds are just the follower of market. They try to capture market sentiments, good as well as bad, and thus perform as the market performs.

OBJECTIVES OF THE STUDY

The present study focuses on the performance evaluation of selected mutual fund schemes of various mutual funds operating in the country. The specific objectives of the study are as follows:

1. To evaluate the performance of mutual funds with special reference to Sharpe model.
2. To compare the performance of mutual funds on the basis of benchmark index and bring out which scheme is outperforming or underperforming.

RESEARCH METHODOLOGY

As many researchers conducted to evaluate the performance of the mutual funds have proved that this is a matter of concern for the researcher, academicians, fund managers and financial analysts. These researches are the matter of criticism on the various grounds such as number of samples, time period of the research or the selection of a particular scheme.

This study is an effort of its own kind to contribute to this field and may open up avenues for further intensive research on its different related aspects of portfolio management practices. In order to achieve the investment objective mutual funds are adopting various types of strategies. The study is entirely based on the secondary data. The scope of the study is kept limited to the time period of 4 years (April 2010 to March 2014). The sample consists of 11 mutual fund schemes, which are chosen at random basis. It is important to point out that NAVs have been taken on monthly basis. The data regarding the NAV's and return of these 11 mutual fund schemes have been noted from www.amfindia.com. The BSE Sensex was used as the proxy for market index and each scheme has been evaluated with respect to this benchmark.

Return alone should not be considered the basis of measurement of performance of a mutual fund schemes, it should also include level of risk undertaken and diversification of funds. The excess of portfolio return, over the risk less return is an indication of the overall portfolio performance. The study considered interest rate on treasury bills as risk-less return in view of the average yield being 5 percent during the study period. Microsoft Excel has been used for calculations.

SOURCE OF DATA

The data for this study is mainly collected from Secondary Sources like Books, Journals, Magazines, and various websites like www.bseindia.com , www.amfiindia.com , www.mutualfundsindia.com , www.sebi.gov.in and www.moneycontrol.com .

NAV has been obtained from the different sources such as:

1. SEBI annual reports
2. www.mutualfundsindia.com
3. www.amfindia.com
4. Companies Annual Reports

LIMITATIONS OF THE STUDY

Mutual fund schemes are considered for the period of April 2010- March 2014. Hence, the findings of this study may not be generalized upon the other mutual fund schemes and for the same schemes for different periods.

The performance of a scheme can be evaluated on various parameters, in this the average return of the schemes and Sharpe's ratio has been calculated to compare the different schemes.

ANALYSIS & INTERPRETATION

NET ASSET VALUE

The portfolio return calculated on the basis of NAV does not consider any change in the market price but considers the change in the net asset value of mutual funds units during the period.

Portfolio's return (Rn) is calculated by using the following formula:

$$R_P = \frac{(NAV_t - NAV_{t-1})D_t + C_t}{NAV_{t-1}}$$

Where,

Rp = Portfolio return

NAV_t= Net asset value in time period t

NAV_{t-1} = Net asset value in the period t-l

Dt= dividend in the form of bonus distributed in the period t

Ct = cash dividend distributed in the time period t

Year-wise returns have been calculated for all mutual funds' schemes since their commencement of the study period i.e. from April 2010. The portfolio return Rp was computed in the manner prescribed above on a monthly basis. The holding period return has been computed with the process of geometric mean of monthly NAV based returns. The formula for the geometric mean has been used as follows:

$$\text{Holding period return (HPR)} = [\{R_{pt+1} + R_{p\,t+2} + \ldots\ldots\ldots R_{p\,t+n}\}]$$

The same procedure is adopted to calculate the benchmark portfolio return.

This is to study the performance of selected mutual fund schemes on the basis of analysis tools meant for Return Analysis, Risk Analysis and specific model meant for performance analysis.

SHARPE'S MODEL

In this model, performance of a fund is evaluated on the basis of Sharpe ratio, which is the ratio of returns generated by the fund over the risk free rate of return and the total risk associated with it. According to Sharpe, it is the total risk of the fund that investors are more concerned about. So, the model evaluates funds on the basis of reward per unit of total risk. Symbolically, it can be written as:

$$S_p = (\bar{R}_P - R_F)/\sigma_P$$

Sp= Sharpe's index

Rp = Portfolio average return

Rf = Risk free rate of return

σp = Standard deviation of the return

Here, the benchmark is the ratio of market portfolio returns over the risk free rate of return with market portfolio's standard deviation and can be calculated as follows:

$$S_M = (R_M - R_F)/\sigma_M$$

Sm = Sharpe index of benchmark portfolio

Rm = Market average return

Rf = Risk free rate of return

σm = Standard deviation of market

While high and positive ratios show a superior risk- adjusted performance of a fund, a low and negative ratio is an indication of unfavourable performance.

Here, 11 Mutual Fund have been taken for the study. The table 1.1 shows the year wise return on sample schemes and Market return on BSE SENSEX for a time period of 4 years (April 2010 – March 2014). The table 1.2 shows the average return, standard deviation and Sharpe's Index for the selected sample schemes. The market standard deviation (risk) is 0.210. The result shows that all the selected mutual fund schemes have less standard deviation than market index. It means that these schemes are less risky than market portfolio. While the lowest deviation in return indicated by HDFC Liquid Fund. All the selected mutual fund schemes shows positive value of Sharpe Index that indicates a superior risk- adjusted performance of the fund. Sharpe's Index of HDFC Mutual fund is higher than the other, so it shows good performance compared to other funds. Thus, it appears from the predominance of positive as that the funds were able to forecast future security prices well enough to recover their research expenses, management fees and commission expenses i.e. there is abundance of funds where the managers have been able to add value to the portfolio over the returns of any random selection of securities.

Yearly Return of selected schemes:

Scheme Name	2010-11	2011-12	2012-13	2013-14
FT India Monthly Income Plan	0.047	0.059	0.096	0.091
Birla Sun Life MNC Fund	0.152	0.119	0.037	0.282
Franklin India Blue chip Fund	0.124	-0.027	0.053	0.152
HDFC Liquid Fund	0.062	0.091	0.091	0.094
Kotak Gilt	0.057	0.089	0.131	-0.004
ICICI Prudential Balanced Fund	0.118	0.050	0.109	0.213
Tata Ethical Fund	0.060	0.007	0.077	0.233
Axis Long Term Equity Fund	0.135	0.008	0.120	0.352
Reliance Equity Opportunities Fund	0.139	0.018	0.121	0.206
SBI MAGNUM GILT FUND	0.048	0.065	0.123	0.054
UTI - nifty Index Fund	0.099	-0.093	0.074	0.177
BSE Sensex	-0.246	0.257	0.090	0.054

Table 1.1 source: calculated data

RETURN, STANDARD DEVIATION AND SHARPE'S INDEX OF THE SAMPLE SCHEMES

Scheme Name	Avg. Return	Std. Deviation	Sharpe's Index
FT India Monthly Income Plan	0.073	0.024	0.970
Birla Sun Life MNC Fund	0.148	0.102	0.957
Franklin India Blue chip Fund	0.076	0.080	0.319
HDFC Liquid Fund	0.085	0.015	2.290
Kotak Gilt	0.068	0.057	0.321
ICICI Prudential Balanced Fund	0.123	0.067	1.075
Tata Ethical Fund	0.094	0.097	0.455
Axis Long Term Equity Fund	0.154	0.144	0.721
Reliance Equity Opportunities Fund	0.121	0.078	0.913
SBI MAGNUM GILT FUND	0.073	0.034	0.654
UTI - nifty Index Fund	0.064	0.114	0.125
BSE Sensex	0.039	0.210	-0.054

Table 1.2 Source: calculated data

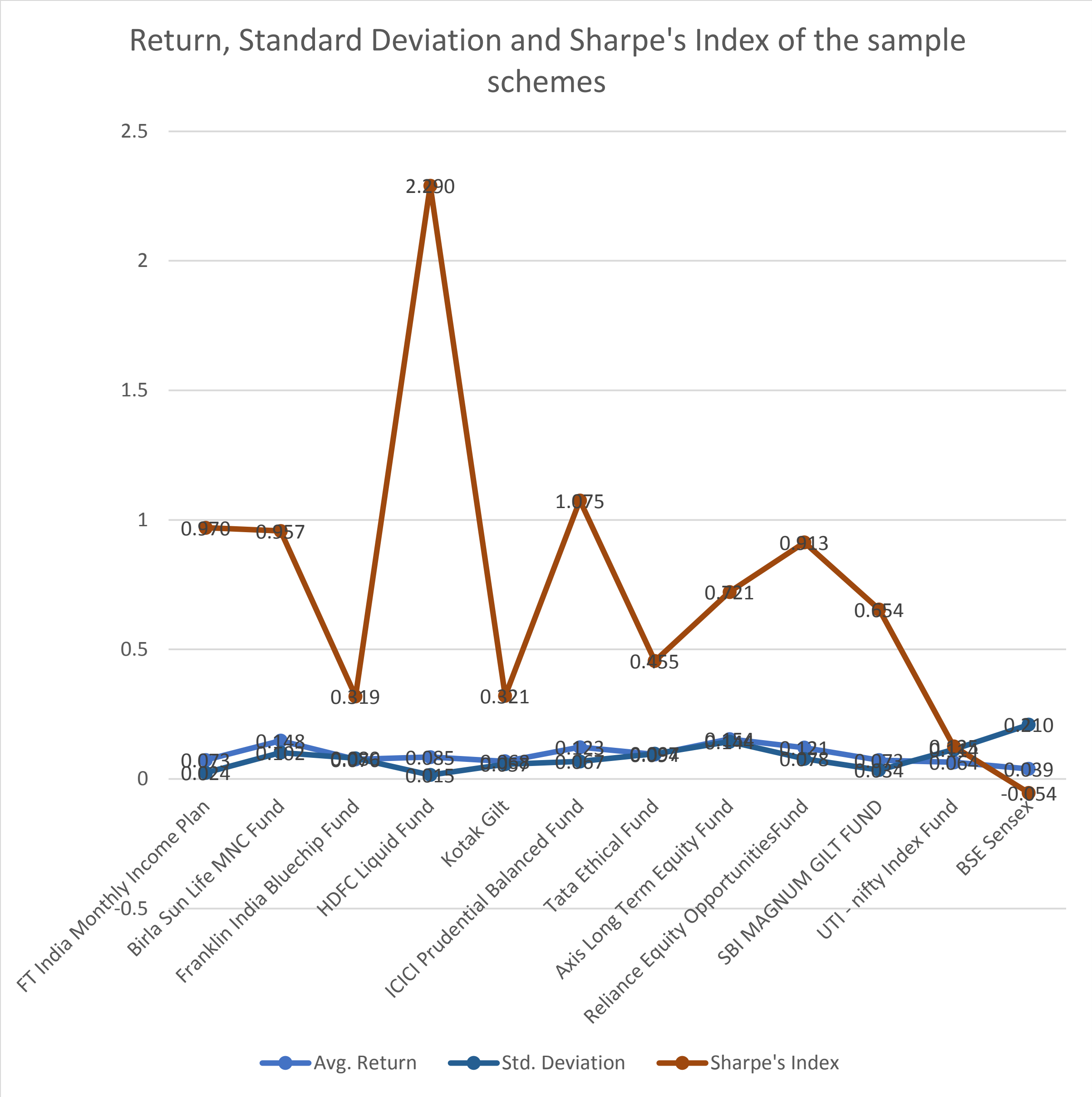

Return, Standard Deviation and Sharpe's Index of the sample schemes
2.5
2
1.5
1
0.5
0
-0.5
FT India Monthly Income Plan
Birla Sun Life MNC Fund
Franklin India Bluechip Fund
HDFC Liquid Fund
Kotak Gilt
ICICI Prudential Balanced Fund
Tata Ethical Fund
Axis Long Term Equity Fund
Reliance Equity OpportunitiesFund
SBI MAGNUM GILT FUND
UTI - nifty Index Fund
BSE Sensex
Avg. Return
Std. Deviation
Sharpe's Index

Chart 1

CONCLUSION

The future of primary market is growing at a very high pace. Taking this thing into consideration, there are lots of opportunities for the Mutual Funds companies to tap the golden opportunities from the Indian market.

Investors invest in mutual funds due to the following advantages: they have professional management, diversification, convenient administration, return potential, low cost and liquidity.

By comparing the above mentioned schemes I came to know the risk return relation between the specified schemes. Therefore investors before investing in any mutual funds schemes they should study the risk and return relation. And if the risk and return is being matched with their planning, then only the investor should go for Mutual Fund schemes.

On the basis of the study it can be safely concluded that most of the selected mutual fund schemes during the study period are performing well and are going to play a very crucial and decisive role in the capital market in the times to come.

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