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Performance Evaluation of Selected Equity Mutual Fund Schemes

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Abstract: *Mutual fund is one of the fastest growing sectors in India and it plays a significant role in the Indian capital market. The common investors are facing the problem in choosing the suitable product among the multiple institutions offering a variety of products and multiple options attached with each product. This research is an attempt to evaluate the performance of selected schemes of different mutual funds in India. The sample consist of 10 schemes from the selected asset management companies over a study period of 1 years spanning from July 2017 to August 2018. The performance of selected funds is evaluated by using the statistical tools like standard deviation, beta and risk adjusted techniques are used by using the Sharpe ratio, Treynor ratio and Jensen ratio has also done for the purpose of analysis. Study covers the investor's preference on various investment opportunities in general and mutual fund in particular. The study also measures the perception and the satisfaction of investors towards mutual fund. An attempt was also made to analyze the factors influencing investors in selecting the mutual fund and identify the problems faced by the investors of mutual fund. The article suggests recommendations for the mutual fund companies and suggestions for future research.*

Keywords: *Institution, Investors, Preference, Investment*

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I. Introduction

The Indian financial market is going through an enthralling phase. Mutual funds are trusts, which accept savings from investors and invest the same in diversified financial instruments in terms of objectives set out in the trusts deed with a view to reduce the risk and maximize the income and capital appreciation for distribution for the members. In India every mutual fund has team of professionals and inducted fund managers who possess requisite experience and expertise in the stock market, money market, debt market and government security market to invest the funds of investors and reap benefits which are distributed as per the offer document. A mutual fund is a corporation and the fund manager's interest is to professionally manage the funds provided by the investors and provide a return on them after deducting reasonable management fees. The volatility of the stock market, global financial crisis, mushrooming growth of asset management companies, numerous schemes, and the inherent risk in the mutual fund industry brought unexpected changes in the risk-return profile of the investment in mutual fund. The common investors are not highly aware of the means to select the right schemes for investing their money. The vulnerability of the problems faced by the mutual fund investors in recent years turned out their perception towards mutual fund. In spite of the SEBI regulations and AMFI norms many investors are affected badly by the poor performance of the mutual fund industry. Thus, the researcher felt it is important to study the perception of individual investor towards mutual fund, the factors influencing selection of mutual fund schemes, the level of satisfaction on mutual fund investment, and the various problems faced by the investors.

II. Review Of Literature

S. Narayan Rao (2002) state that Open ended mutual funds have provided better returns than others and some of the funds provided excess returns over expected returns both on premium for systematic risk and total risk.

R. Nithya (2004) state that the values of mutual funds to the target people by identifying Asset Management Company that is performing well and identifying the top schemes such as equity, balanced, monthly income plan & income in the Asset Management Company(AMC) and it is performed well and met the expectations.

Prashanth R H (2009) in Anna University emphasizes the core values of mutual fund investment, benefit of mutual funds and types of mutual funds and before choosing the mutual fund scheme and NAV calculations are the best alternative to assess the best performance.

Carhart, Mark M. 1997 state that the persistence of mutual fund performance, journal of finance on the determination of the fund performance need to identification risk and measures fund return.The paper demonstrate how to identified scheme and diversification of the portfolio. The portfolio need to adjustment risk.
Vanita (2012) found that most of the investors still holding public sector mutual funds due to high volatility in the schemes, it is risky but they think there is a high chance of better capital appreciation by keeping UTI Schemes. But they also mentioned large number of investor invested in private mutual funds in comparison to UTI schemes.

Identified Problem

There are so many funds and schemes are available in mutual fund market. Investors know that how much risk they can take. Investors have to define his expectations in relation to certain indicators on what is possible to achieve or moderate this with comparable investment alternatives available in the market. These indicators of performance can acts against investors fund performance. It is very important to select the right benchmark to evaluate a fund's performance.

Need For The Study

Generally investors are expecting more returns for their investments. But high returns are always having high risk whereas return on investment from mutual fund schemes is comparatively low. Hence, the investors are much discontent with the returns. But certain mutual fund scheme fetches a better return, which are not aware fully by the investors. Many times the investors are blinking to select an appropriate and right scheme. Uninformed deductions like risk coverage fee charged against the investment take away a good chunk of their returns.

Objectives Of The Study

- ❖ To analyse the risk of selected equity mutual funds
- ❖ To analyse the factors influencing the investors in selection of mutual funds.
- ❖ To identify the problems faced by investors in mutual fund investment.
- ❖ To evaluate the risk and return of selected equity mutual funds.
- ❖ To analyse the performance of selected equity mutual funds

Scope Of The Study

This study covers the investor's preference on various investment opportunities in general and mutual fund in particular. The study also measures the perception and the satisfaction of investors towards mutual fund. An attempt was also made to analyse the factors influencing investors in selecting the mutual fund and identify the problems faced by the investors of mutual fund.

III. Research Methodology

The present study is based on secondary data which is collected from various sources like published annual report of the agencies, journal books, magazines, broachers, newspapers and other published and online material.

Type of Research : Analytical Research
SAMPLE DESIGN:
Sampling Frame – Various Equity Mutual Funds
Sample Size – 10 Equity Mutual Funds
Method – Random Sampling
Period of the Study - The period of the study is taken from July 2017 to August 2018
Type of Data – Secondary Data

Tools For Analysis

Different statistical and financial tools are used to evaluate the performance of these mutual fund schemes under the present study. These tools and techniques include Standard deviation, Alpha, Beta, Sharpe and Treynor's ratio.

Alpha: Alpha basically is the difference between the returns an investor expects from a fund. A positive alpha means the fund has outperformed its benchmark index. Whereas a negative alpha indicates an underperformance of the fund. The more positive an alpha the healthier for investors.

Beta : Beta is a measure of the volatility of a particular fund in comparison to the market as a whole, that is, the extent to which the fund's return is impacted by market factors. Beta is calculated using a statistical tool called ‗regression analysis.' By definition, the market benchmark index of Sensex and Nifty has a beta of 1.0.Conservative investors should focus on mutual funds schemes with low beta. Aggressive investors can opt to invest in mutual fund schemes which have higher beta value for higher returns taking more risk

Standard Deviation : The total risk (market risk, security-specific risk and portfolio risk) of a mutual fund is measured by ‗Standard Deviation' (SD). In mutual funds, the standard deviation tells us how much the return on a fund is deviating from the expected returns based on its historical performance. In other words can be said it evaluates the volatility of the fund. The standard deviation of a fund measures this risk by measuring the degree to which the fund fluctuates in relation to its average return of a fund over a period of time. In other words, it is a measure of the consistency of a mutual fund's returns. A higher SD number indicates that the net asset value (NAV) of the mutual fund is more volatile and, it is riskier than a fund with a lower SD.

Sharpe Ratio : Sharpe ratio (SR) is another important measure that evaluates the return that a fund has generated relative to the risk taken. Risk here is measured by SD. It is used for funds that have low correlation with benchmark index. This ratio helps an investor to know whether it is a safe bet to invest in this fund by taking the quantum of risk. The higher the Sharpe ratio (SR), the better a fund's return relative to the amount of risk taken. In other words, a mutual fund with a higher SR is better because it implies that it has generated higher returns for every unit of risk that was taken. On the contrary, a negative Sharpe ratio indicates that a risk-free asset would perform better than the fund being analyzed.

Treynor Ratio : Treynor's ratio is a measurement of the returns earned in excess of what could have been earned on a riskless investment. Higher the Treynor Ratio is meant the better portfolio.

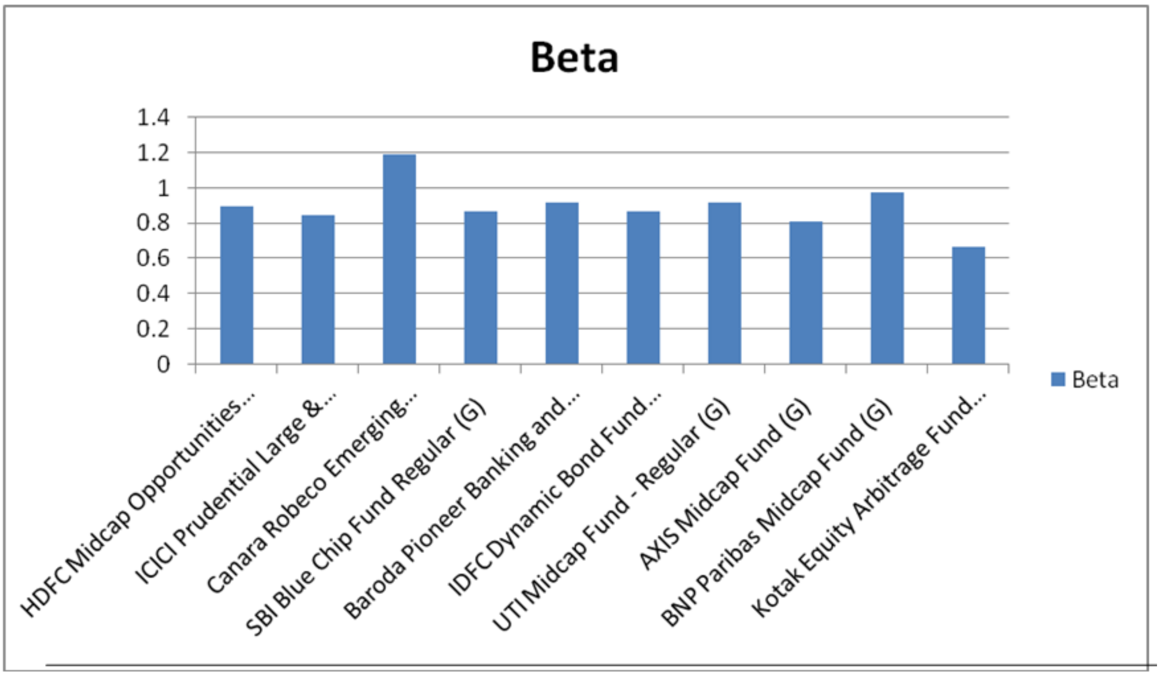
Limitations Of The Study

- This study presently focuses on the equity mutual fund growth scheme.
- The sample consists of only individual investors.
- The study is confined to ten main mutual fund schemes irrespective of numerous schemes available in the market.
- The period of the study is confined to one year.
- Due to less time research focuses only on the ten equity mutual fund schemes.

Data Analysis

1. BETA OF EQUITY MUTUAL FUNDS

Mutual Fund Scheme	BETA
HDFC Midcap Opportunities Fund (G)	0.90
ICICI Prudential Large & Midcap Fund (G)	0.85
Canara Robeco Emerging Equities Fund- Reg (G)	1.19
SBI Blue Chip Fund Regular - Growth	0.87
Baroda Pioneer Banking and Financial Service Fund (G)	0.92
IDFC Dynamic Bond Fund Regular- (G)	0.87
UTI Midcap Fund – Regular (G)	0.92
Axis Midcap Fund (G)	0.81
BNP Paribas Midcap Fund (G)	0.98
Kotak Equity Arbitrage Fund (G)	0.67



Beta value is less than 1 means the fund reacts less than market reaction. All the funds has beta less than 1, which indicates that the security price will be less volatile than the market except Canara Robeco Emerging Equities Fund has beta value more than 1 means more risky and higher returns.

Analysis Of Mutual Fund Performance For Treynor Ratio, Sharpe Ratio And Jensen's Alpha

Treynor, Sharpe and Jensen ratio to evaluate the mutual funds and rank accordingly. Composite portfolio performance measures have the flexibility of combining risk and return performance into a single value. While Treynor measures only the systematic risk summarized by beta, Sharpe concentrates on total risk of the mutual fund

Treynor Ratio Formula

The Treynor ratio formula is calculated by dividing the difference between the average Portfolio return and the average return of the risk-free rate by the beta of the portfolio.

$$\text{Treynor Ratio} = \frac{Rp-Rf}{Bp}$$

Where

Rp = The portfolio's actual return

Rf = The risk free rate of return

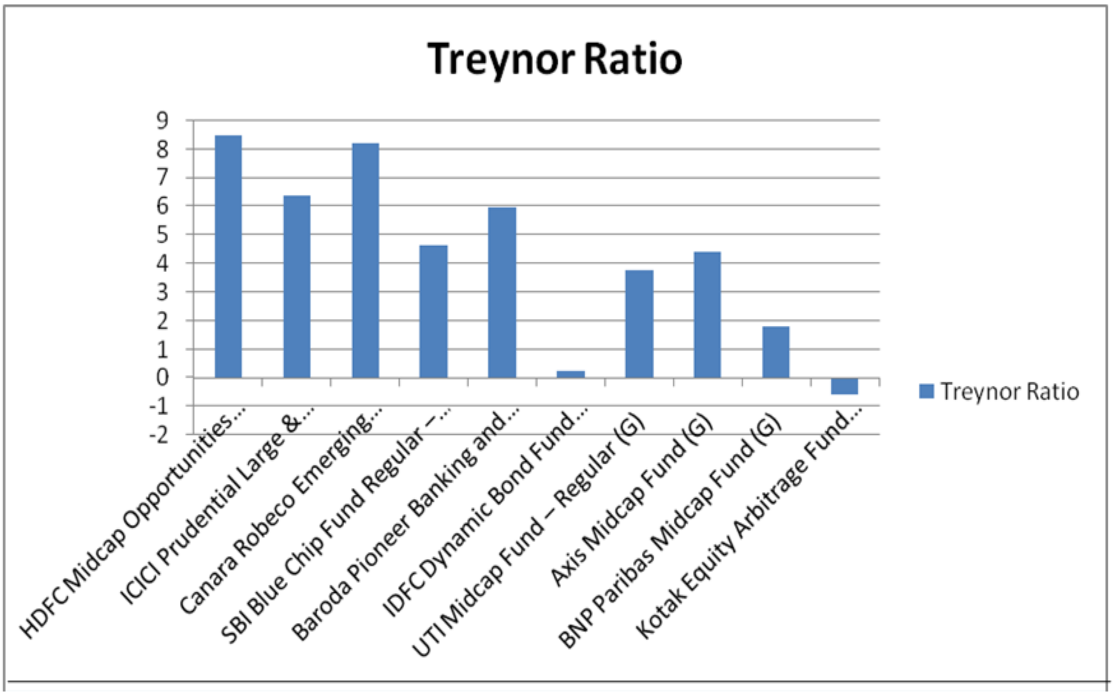
Bp = Beta of the portfolio.

2. TREYNOR RATIO OF EQUITY MUTUAL FUNDS

Mutual Fund Schemes	Treynor Ratio
HDFC Midcap Opportunities Fund (G)	8.48
ICICI Prudential Large & Midcap Fund (G)	6.39
Canara Robeco Emerging Equities Fund- Reg (G)	8.24
SBI Blue Chip Fund Regular – (G)	4.64
Baroda Pioneer Banking and Financial Service Fund (G)	5.96
IDFC Dynamic Bond Fund Regular- (G)	0.26

UTI Midcap Fund – Regular (G)	3.76
Axis Midcap Fund (G)	4.42
BNP Paribas Midcap Fund (G)	1.82
Kotak Equity Arbitrage Fund (G)	-0.56

Mutual Fund Schemes	**Treynor Ratio**	**Rank**
HDFC Midcap Opportunities Fund (G)	8.48	1
Canara Robeco Emerging Equities Fund- Reg (G)	8.24	2
ICICI Prudential Large & Midcap Fund (G)	6.39	3
Baroda Pioneer Banking and Financial Service Fund (G)	5.96	4
SBI Blue Chip Fund Regular – (G)	4.64	5
Axis Midcap Fund (G)	4.42	6
UTI Midcap Fund – Regular (G)	3.76	7
BNP Paribas Midcap Fund (G)	1.82	8
IDFC Dynamic Bond Fund Regular- (G)	0.26	9
Kotak Equity Arbitrage Fund (G)	-0.56	10



The treynor ratio measures the HDFC Midcap Opportunities Fund gives the highest treynor ratio (8.48%), Canara Robeco Emerging Equities Fund (8.24%) followed by all other funds except Kotak Equity Aritrage Fund (-0.56) gives the negative treynor ratio.

Summary Of Findings

The Canara Robeco Emerging Equities Fund growth has the highest average annual return which shows (50.4%) for the last year performance and thereafter HDFC Midcap Opportunities Fund growth recorded as

(41.2%). Kotak Equities Arbitrage Fund shows (5.9%) and IDFC Dynamic Bond Fund Regular growth shows that Annual return as (3%) and these funds are not performed well in the last year. Out of 10 Schemes, 5 Schemes have outperformed well in the highest Sharpe Ratio Canara Robeco Emerging Equities Fund (0.53%), HDFC Midcap Opportunities Fund (0.48%), ICICI Prudential Large & Midcap Fund (0.41), SBI Blue Chip Fund (0.32%) and Baroda Pioneer Banking and Financial Service Fund (G) (0.30). Out of 10 Schemes, 5 Schemes well performed in the Treynor Ratio HDFC Midcap Opportunities Fund, Canara Robeco Emerging Equities Fund, ICICI Prudential Large & Midcap Fund, Baroda Pioneer Banking and Financial Service Fund. Out of 10 Schemes, the Canara Robeco Emerging Equities Fund have well performed in the risk and return.

Suggestions

The fund manager or portfolio manager should select the schemes in mutual fund according to the investors profiling. Every investor before they go for investment decision, they should analyze the mutual funds in terms of fund performance. The people who are interested to invest in mutual fund schemes they may invest in Canara Robeco Emerging Equities Fund. The investor has to monitor the performance on daily basis and it will get knowledge about the fund performance. The investor has to analyze the best mutual funds based on the fund performance. The fund manager should carefully select the scheme based on the market timing. The portfolio manager should disclose all the information to the investors which is related to mutual fund as well as the company performance so that the investors can easily understand the company performance.

IV. Conclusion

This study is carried out to evaluate the performance of 10 equity mutual fund schemes between the August 2017 to July 2018 and the performance of these schemes analyzed in terms of risk and return. Various risk adjusted performance is done in this analysis. Canara Robeco Emerging Equities fund growth has the highest return. The value of beta is less than one indicating that all the mutual funds are less risky and Less volatile. In terms of standard deviation of all the funds analyzed in the study have Lower risk. Treynor Ratio indicated that HDFC Midcap Opportunities Fund, Canara Robeco Emerging Equities Fund, ICICI Prudential Large & Midcap Fund,Baroda Pioneer Banking and Financial Service Fund, SBI Blue Chip Fund. Over all Canara Robeco Emerging Equities Fund have performed well in the last year.

The awareness level of mutual fund among the investors are very low because of only having the little knowledge about the mutual fund which prevent them to invest in mutual funds

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