



A Study on Mutual Funds Performance in India-Performance of Balanced and Thematic

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ABSTRACT

Since the turn of the century, the mutual fund business in India has expanded rapidly, giving investors access to better options. The Association of Mutual Funds in India reports that as of the 30th of September, 2020, the total Assets Under Management (AUM) for all Indian Mutual Funds was Rs. 26.85 trillion. On September 30, 2010, the Indian mutual fund industry's AUM was estimated at 6.57 trillion Indian rupees. The Indian mutual fund business has increased in size by a factor of four during the last decade. The mutual fund sector in India has seen significant growth in recent years, both in terms of the number of companies and the variety and quality of the products and services they provide. To that end, the authors of this research attempted to examine the results of many different mutual fund strategies that invested in debt, equity, and hybrids.

INTRODUCTION

Mutual funds are managed investment pools that pool the savings of many individuals in order to buy assets such as stocks and bonds more cheaply than they could individually. When many investors pool their money to purchase a company's stock or bonds, they have created a mutual fund (MF). Mutual funds are pools of money invested collectively with the goal of maximizing returns via the efforts of a professional fund manager. Therefore, every stakeholder has the same say in the fund's success or failure. Mutual funds enable shareholders to reduce their exposure to systemic risk by investing in a broad range of equities across many industries. Mutual funds only face systematic risk, often known as market risk, as opposed to the unsystematic risk associated with investing in individual equities. Such results are influenced by both the choices made by the fund's management and the ebb and flow of the equities and debt markets. Portfolio securities are selected according to a methodology that is established and followed by all fund management teams. Mutual funds invest in many different securities, and their success is measured by the percentage change in their market capitalization as a result of the overall performance of those assets. This is the general procedure for mutual funds worldwide, not only in India. To ensure that investor interests are safeguarded, each mutual fund is registered with SEBI and operates in accordance with the rules of such legislation. The significance of the research lies in its ability to provide light on the variables influencing the returns of debt mutual funds. Assets under management, expenses, yield to maturity, modified and Macaulay duration, and asset allocation were all taken into account for the analysis.

Achievable Yield at Maturity Assuming no changes to the scheme portfolio, the yield to maturity (YTM) is the projected return before expenditures if all the assets in the scheme portfolio are held to their respective maturities. It's important for investors to understand that yield to maturity only provides a high-level impression of gross profits (before expenditures) provided the investor's holding period coincides with the average maturity outline of the debt scheme. Since the YTM can change over time if the fund manager makes active duration calls, dynamic bond funds, it is important to keep track of it over the period and form expectations accordingly, even for longer duration funds if your investment tenure ranges an entire interest rate cycle (three years or more).

AUM (Assets Managed) Assets under management, or AUM, refer to the entire market value of the assets managed by a company on behalf of its customers. Assets under management are the total value of a financial institution's holdings, including both investor funds and any funds held by the firm's owners. Investors should carefully consider a company's AUM before making any financial commitments, since this metric is a good proxy for its size and performance. As the returns on a mutual fund are included into the AUM, the worth of a company may be easily compared to its competitors. A bigger AUM suggests the fund is performing well, therefore an investor may want to put money into it. While the amount of AUM is certainly important, it should not be the primary consideration when deciding whether or not to invest in a fund. the Fund's expense ratio.

STATEMENT OF THE RESEARCH PROBLEM

When putting money into an investment, most people want to do it in a method that guarantees a high rate of return quickly, without putting their initial investment at danger. There are a number of plans available, each with its own set of perks. However, not every mutual fund scheme is profitable. This may be due to a number of reasons, including asset size, fee ratio, fund performance, etc. In addition, many people are wary of investing in mutual funds because of the significant risk involved and the fact that they aren't familiar with the many schemes on the market. Therefore, the purpose of this article is to examine the elements that affect the performance of debt mutual funds, but the research focuses mostly on such investments.

REVIEW OF LITERATURE

Financial measures such as average return, Sharpe Ratio, Treynor Ratio, Jensen Ratio, standard deviation, beta, and alpha are used to analyse the performance of mid-cap and small- cap funds within the context of a balanced mutual fund scheme (O.V.A.M. Sridevi, 2018). However, the research found that the strategies produced a wide range of outcomes.

In order to gauge investors' expectations for return on mutual funds, Devi (2017) investigates their attitudes regarding these investments. The same was comprehended via the usage of several data interpretation techniques and presentation approaches. The majority of investors like mutual funds, the average time horizon for an investment is between one and three years, and investors choose mutual funds for the potential for better returns and tax advantages.

According to Varun SagarSingal's (2018) analysis of the mutual fund industry, this kind of investment vehicle facilitates the placement of retail investors' capital in the hands of professional fund managers. The purpose of this article is to examine the influence of behavioural elements on an investor's investing choice with respect to mutual funds. The study also seeks to identify barriers to mutual fund investment. What these findings show is the importance of basic variables and investor perception in making investment decisions.

Knowledge of debt mutual funds is the subject of research by R. Uppily (2018). The purpose of the research was to evaluate the extent to which debt mutual fund investors are well- informed. According to the findings, investors have a number of debt mutual fund options to choose from depending on their risk tolerance and desired investment horizon.

Debt mutual funds are the focus of VijayaKittu Manda's (2019) research. This research was conducted to learn how common investors see debt mutual funds. The research found that the impact of a default incidence had a small effect on returns for investors who chose debt funds schemes with a solid mix of all sorts of debt securities and large AUM.

In order to help investors, decide which type of fund best suits their needs, Archana Goel (2015) conducted a study comparing the performance of debt and equity schemes at HDFC Mutual Funds to those at Birla Sun and ICICI Prudential Debt and Equity Mutual Funds by using the latter two firms' respective daily returns. Sharpe Ratio, beta, average, NAV, and standard deviation are only few of the methods utilized to evaluate the schemes in the study. The research confirmed that the strategies are very effective.

Open-ended debt mutual funds in India are the focus of Kamalpreet Kaur's 2018 research. A subset of schemes was chosen for this analysis in order to compare their weekly returns to those of a benchmark. Risk-adjusted performance metrics proposed by Treynor, Sharpe, Jensen, and Fama were used together with more basic statistical tools such as the average, standard deviation, beta, and coefficient of determination. According to the results, none of the schemes outperformed the market when measured by Sharpe and Jensen, and only a small percentage of the schemes did so when measured by Treynor.

According to a study by Bobade et al. (2020), most investors are familiar with mutual funds. People who want their money to be available quickly invest in mutual funds. Regular returns in the future, tax savings, and minimizing financial risk are all reasons investors are putting their money into mutual funds. In India, the mutual fund business is booming. According to KCN Rao (2020), most investors are aware of the numerous mutual fund programmes. The majority of Mutual Fund investors are between the ages of 19 and 55 and earn between Rs 30,000 and Rs 70,000 each year. Investors are drawn to mutual funds because of the tax advantages and diversification of their portfolios.

It seems that most mutual funds are doing well, according to Tripathi&Japee (2020). Large- cap funds, mid-cap funds, and small-cap funds were grouped together by the researcher. As a part of their research, they employed financial ratios. Mutual fund knowledge is not related to monthly income, according to the findings of J.K. Raju (2020).

Afza and Rauf (2019) used quarterly data from 1996-2006 to examine the performance of open-ended Pakistani mutual funds. The Sharpe ratio is used to assess the performance of the fund, which is based on several aspects, such as fund size, costs, age, turnover, and liquidity, and the pooled time-arrangement and cross-sectional data. The results showed a significant impact on the fund's performance.

Garg (2019) examined the performance of the top 10 mutual funds based on the previous year's return. The results were analysed using Treynor, Jensen, and Sharpe indexes, as well as return, standard deviation, and beta. Carhart's four-factor model was also used to examine mutual fund performance in the study. An examination of the final scores of one-year classes found that Reliance Regular Savings Scheme Fund got the highest last score and Canara Robeco Infra the lowest.

IDENTIFICATION OF RESEARCH GAPS

The extent to which debt mutual fund investors have a variety of debt mutual fund options to select from depending on their risk tolerance and desired investment horizon is shown by research gaps. It is to determine how common investors view debt mutual funds and how they select from them based on their level of risk tolerance and desired investment horizon. To examine how the tax benefits and portfolio diversity of mutual funds attract investors. To ascertain whether or not the mutual fund is tied to monthly revenue

RESEARCH METHODOLOGY

RESEARCH OBJECTIVES

- To promote mutual funds as the "productive path" for investment.
- To demonstrate the huge variety of investment alternatives available in Mutual Funds by describing each of its schemes.
- To evaluate the position of Mutual fund among investment avenues available for the investors in Indian market.

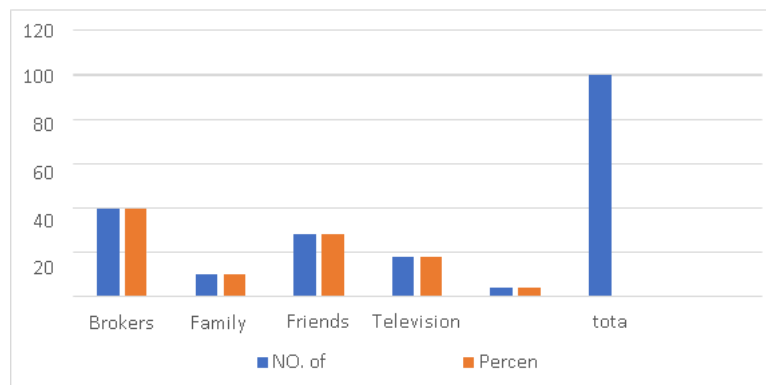
H0: The proportions of respondents in the categories (STP, SWP, SIP) are equal.

H1: At least one proportion of respondents in the categories (STP,SWP, SIP) is different from the others.

DATA INTERPRETATION

1. How did you come to know about mutual funds?

Graph 3.3.1



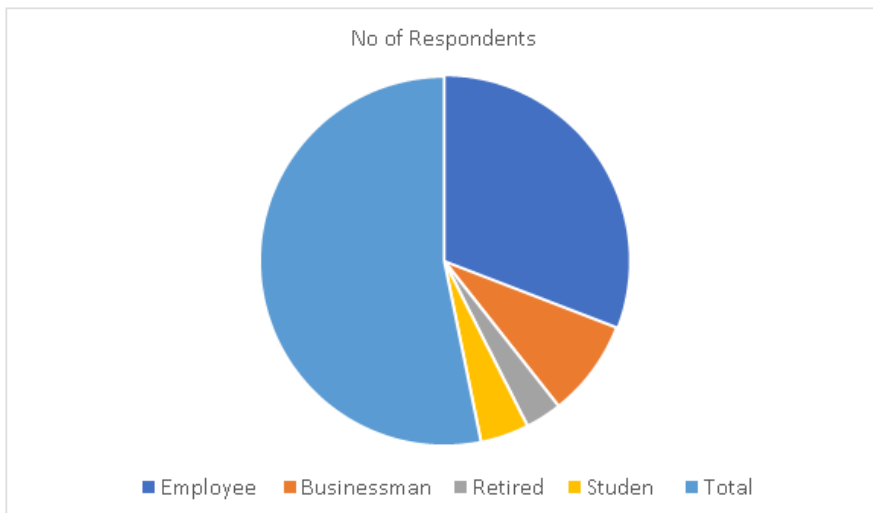
1. Age of the investors

Graph 3.3.2

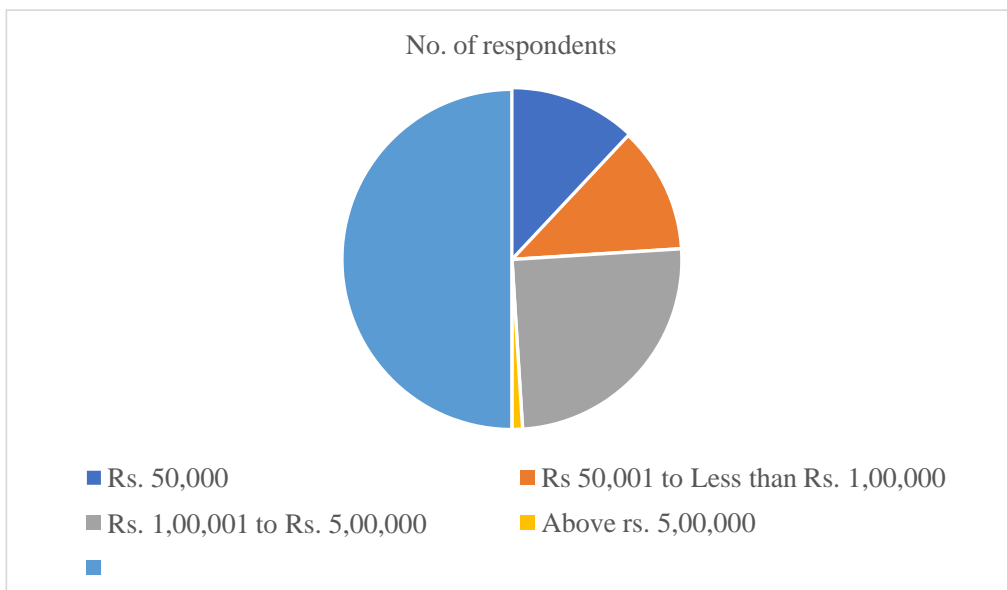


Below 25 Years 26 To 30 Years 31 To 40 Years 40 Years & Above

Occupation of the Investors Table 3.3.3

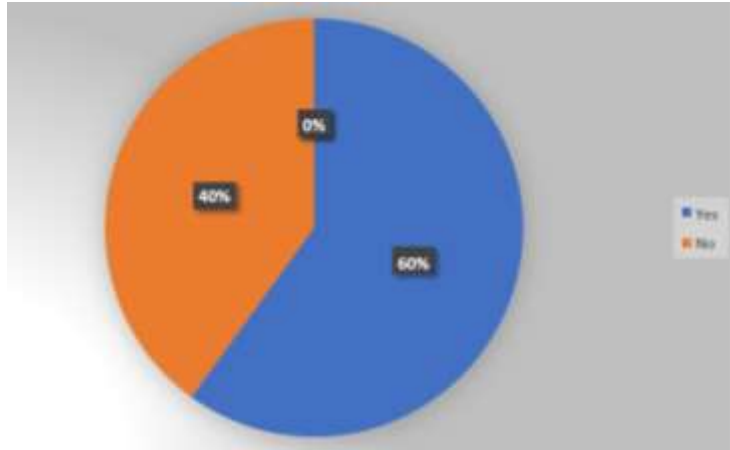


Annual income of the Investors Graph 3.3.4



Have you ever invested in Mutual funds?

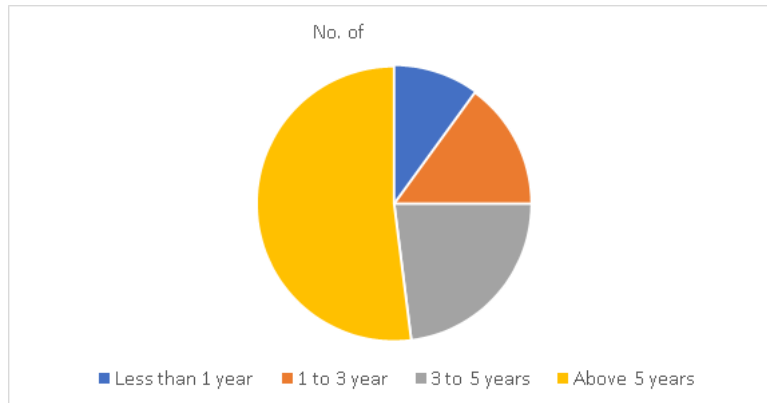
Graph 3.3.5



Interpretation: According to graph and table shows that 60% respondents have invested in Mutual funds, 40% respondents have not invested in Mutual funds.

1. How long have you invested in mutual funds?

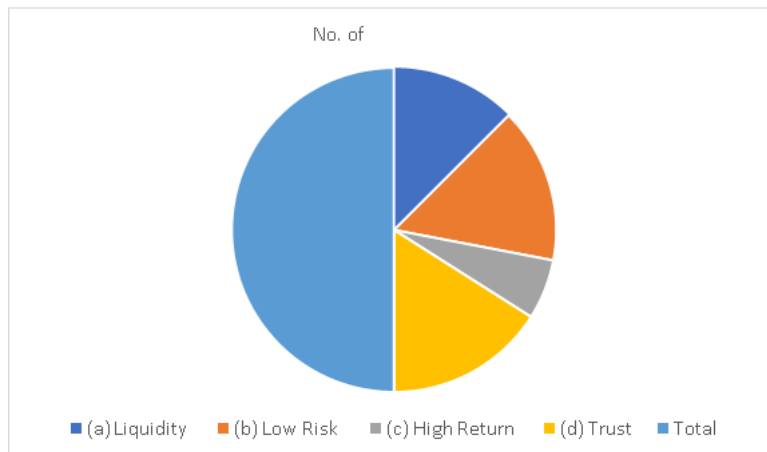
Graph 3.3.6



Interpretation: Investors with less than a year of mutual fund experience make up the majority, while those with three to five years of experience make up 10% of the total. The graph above demonstrates that most investors have cut down on their investments after the stock market's recent downturn. When the stock market peaked at 21,000 points, there were many fewer investors in Mutual Funds to invest with.

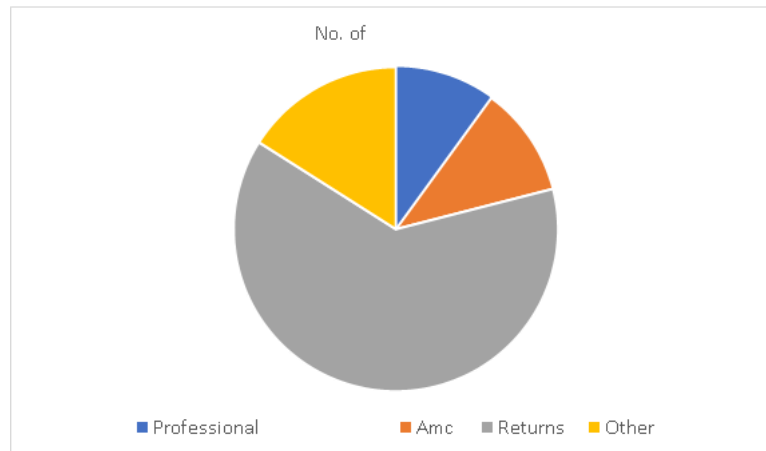
2. Factors that you consider before investing.

Graph 3.3.7



Interpretation: Most people choose to invest in high-return, low-risk investments (32%) over low-risk investments (30%) over easy liquidity (20%) over trust (18%).

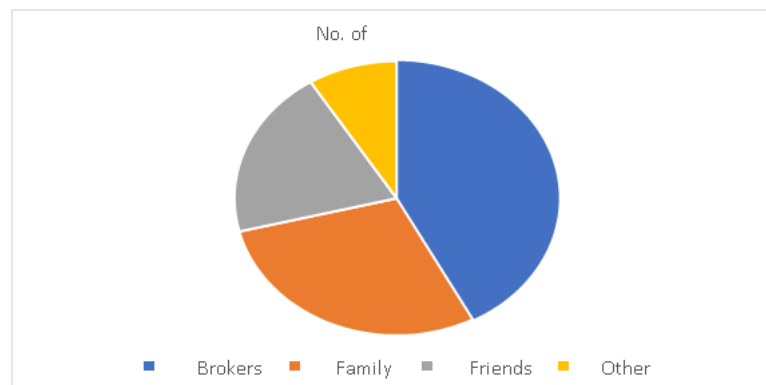
3. Factors that investors take into account when dealing with Graph 3.3.8



Interpretation: The majority of investors look at returns, while 4% each look at Hedging and Arbitrage when investing in derivatives. While investing in Derivatives, it's clear to consider return as a criterion because investors' primary goal is to profit.

4. From whom do you seek financial advice.

Graph 3.3.9



Interpretation: Investing in derivatives, the majority of investors seek advice from brokers, 6% of investors seek advice from relatives, and 2% of investors seek advice from friends and others. The findings show that brokers can effectively educate clients about derivatives investments.

CHI-SQUARE TEST

Observed frequencies: Brokers: 38

Family: 26

Friends: 18

Others: 8

Total respondents: 100

Let's proceed with the analysis:

1. State the hypotheses:

Null Hypothesis (H₀): There is no association between the category and the number of respondents.

Alternative Hypothesis (H₁): There is an association between the category and the number of respondents.

2. Set the significance level (α):

Let's assume a significance level of $\alpha=0.05$.

3. Calculate the expected frequencies:

We'll calculate the expected frequency for each category assuming no association between the category and the number of respondents.

Expected frequency for each category = (Total number of respondents / Total number of categories)

Expected frequency = $1004 \div 25 = 40.16$

Calculate the chi-square statistic:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

where O_i is the observed frequency and E_i is the expected frequency for each category. Observed frequencies:

Brokers: 38

Family: 26

Friends: 18

Others: 8

Total respondents: 100

Let's proceed with the analysis:

4. State the hypotheses:

Null Hypothesis (H_0): There is no association between the category and the number of respondents.

Alternative Hypothesis (H_1): There is an association between the category and the number of respondents.

5. Set the significance level (α):

Let's assume a significance level of $\alpha = 0.05$.

6. Calculate the expected frequencies:

We'll calculate the expected frequency for each category assuming no association between the category and the number of respondents.

Expected frequency for each category = (Total number of respondents / Total number of categories)

Expected frequency = $1004 \div 25 = 40.16$

7. Calculate the chi-square statistic:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

where O_i is the observed frequency and E_i is the expected frequency for each category.

Substituting the values: $\chi^2 = \frac{(38-40.16)^2}{40.16} + \frac{(26-40.16)^2}{40.16} + \frac{(18-40.16)^2}{40.16} + \frac{(8-40.16)^2}{40.16}$

8. Determine the critical value:

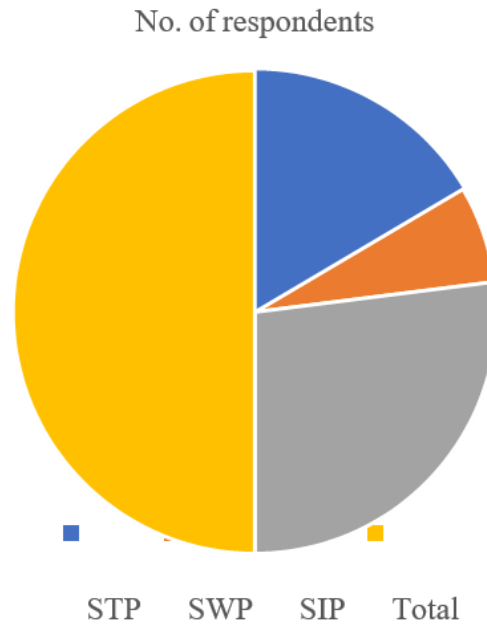
We need to determine the critical value from the chi-square distribution table with 33 degrees of freedom (since we have 4 categories, degrees of freedom = $4 - 1 = 3$) at $\alpha = 0.05$.

9. Compare the chi-square statistic with the critical value:

If the calculated chi-square value exceeds the critical value, we reject the null hypothesis.

10. Which mutual fund system do you favour?

Graph 3.3.10



Interpretation: A sip plan is the preferred investment vehicle for most people. In the derivatives market, 54% STP, 33% of investors trade daily, and SWP percent of investors trade weekly.

RESEARCH OUTCOME AND FINDINGS

Mutual funds are one of the best ways for investors to put their money to work. There are mutual funds for every type of investor, but each person needs to think about their needs and risk level before choosing one.

FINDINGS

1. Brokers are often regarded to be the most effective means of teaching investors about mutual funds while investing in mutual funds. More over 10% of investors get financial advice from family members, 2% of investors get financial advice from friends, and only 4% of investors get financial advice from strangers.
2. Between the ages of 26 and 30 years old, the majority of investors are involved in the stock market. Respondents under the age of 25 showed little interest in investing, which might be explained by the fact that many of them are either students or workers.
3. Employees, businessmen, and then others account for the vast majority of investors. There is a surprising amount of investing activity among students, retirees, and others, and even kids are interested in conserving their money.
4. Between Rs. 1,00,000 and Rs. 5,00,000, the majority of investors' yearly income falls, followed by below Rs. 50,000 and between Rs. 50,000 and Rs. 1,00,000. Investors with an annual income of more than Rs. 5,00,000 make up just a small fraction of investors.
5. Most people choose to invest in high-return, low-risk investments (32%) over low-risk investments (30%) over easy liquidity (20%) over trust (18%).
6. The majority of investors look at returns, while 4% each look at Hedging and Arbitrage when investing in derivatives. While investing in Derivatives, it's clear to consider return as a criterion because investors' primary goal is to profit.

CONCLUSIONS

This study investigated the factors influencing the performance of debt mutual funds in India. While the initial aim was to explore balanced and thematic funds, the research delved deeper into debt instruments. The findings can empower investors to make informed decisions when choosing debt mutual funds. Factors such as asset size, credit quality of holdings, expense ratio, and interest rate movements were identified as significant influences on returns.

The study acknowledges the inherent risk aversion of many investors towards mutual funds. To address this, further research could explore risk-adjusted return metrics specific to debt funds, allowing investors to compare potential returns with associated risks. Additionally, educating investors about the various debt fund categories and their risk-return profiles can bolster confidence and encourage participation in the Indian mutual fund market.

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