A Study on Performance Evaluation of Selected Mutual Funds with special reference to Balanced Funds

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Abstract

In India the popularity of investing in mutual fund schemes is growing rapidly. Mutual fund is one of the most attractive financial investment instruments that plays a vital role in the economy of a country. Mutual fund Industry was introduced in India 1963 with the formation of Unit Trust of India initiated by the Government of India and Reserve Bank of India. Radical changes were observed in Mutual fund industry during the last ten years. There is dire need to analyse the performance of mutual fund schemes regarding outperforming or underperforming when compared to the benchmark and to check the scheme competencies to take a strong decision for investment. The investors are becoming more conscious about their investment and analyzing the performance in terms of periodic returns considering the scheme’s risk vis-a-vis with benchmark index. In India the popularity of investing in mutual fund schemes is growing rapidly.

The present study made an attempt to Study the performance of Select Balanced Funds in India, to measure the risk - return relationship, market volatility of the select mutual funds and to compare the performance of select balanced fund with BSE Index. The analysis was achieved, by using various financial tests like Rate of Return, Standard Deviation, Beta, Sharpe Ratio and Treyner Ratio. The data was collected from various websites of mutual fund schemes and from amfiindia.com. The analysis depicts that, majority of funds selected for the study have outperformed under Sharpe Ratio as well as Treyner Ratio.

Key Words

Small investors, Big Returns, Net Asset Value, Beta, Alpha, Financial Excellence, Financial Assets, Asset classes, Mutual Fund, Average Return, Standard Deviation, Beta, Coefficient of Determination, NAV,

Performance Evaluation, Sharpe Measure, Treyner Measure

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Introduction

Mutual fund is a fund that pools the savings of investors who share a similar investment objectives. There are various types of mutual funds like equity funds, bond funds, balanced funds, growth funds, income funds, tax saving funds, country funds, index funds, exchange traded funds etc.

Before making an investment, the investor has to consider many factors like risk associated with investment, tax benefits, liquidity and marketability. Investors who have similar investment goals will pool their savings in mutual funds as it contributes a wealthy part in mobilizing savings towards capital market. In order to enjoy the ease of investing in various securities mutual funds provides option even with little knowledge out of savings from household concerns. Mutual funds are considered as one of the best attractive investment options available to large and small investors because there are many profession financial service providers are available having own consultancies. For every investment whichever the type of funds, there involves some sort of risk attached. In order to minimize risk portfolio managers are trying by diversifying their portfolio.

Assets Under Management (AUM) of Mutual Fund Industry as on November 30, 2019 has crossed a milestone of ₹ 27 Lakh Crore and stood at ₹ 27,04,699 crore. Average Assets Under Management (AAUM) of Indian Mutual Fund in the month of November 2019 are at all time high at ₹ 26,94,385 crore. The AUM of the Indian Mutual Fund Industry has grownup from ₹ 8.22 trillion as on 30th November, 2009 to ₹27.05 trillion as on 30th November, 2019, in a span of 10 years.

The MF Industry’s AUM has full-grown from ₹ 10.90 trillion as on 30th November, 2014 to ₹27.05 trillion as on 30th November, 2019, in a span of 5 years. The Industry’s AUM had crossed the milestone of ₹10 Trillion (₹10 Lakh Crore) for the first time in May 2014 and in a short period of about three years, the AUM size had increased more than two folds and crossed ₹ 20 trillion (₹20 Lakh Crore) for the first time in August 2017. The Industry AUM raised at ₹27.05 Trillion (₹ 27.05 Lakh Crore) as on 30th November, 2019.

The investment decision regarding investing in equity schemes should be made after cautious analysis. The success of any scheme depends upon the capability of the management and its soundness.

Performance of funds for a short period cannot be considered as sufficient criteria for investment. Historical returns of the fund and standard deviation should be carefully analysed to reach at a conclusion

Future is uncertain nobody know what will be happen in future but every one wants to be safe from future uncertain events. Financial security is the most important factor for every
human beings life. Investment is to allocate money in the aim of some benefit in the future. It involves the decisions like, where to invest, when to invest and how much to invest. General publics are attracted by capital market but number of problems connected with it. It is very difficult to understand the complexities involved in the stock market operation and it is not so easy to judge the fluctuations in stock price. Mutual fund is a medium which helps to mobilize money from investors to invest in different financial instruments with the investment objectives agreed upon between the mutual fund and the investors when investors access to market, through mutual fund, they avail of the professional fund management services offered by an assets management company. They able to produce a desired amount of a desired effect.

The primary role of a mutual fund is to help the investors in earning return on building their wealth with low risk. Mutual fund seeks to activate money from all possible investors. The money that is pooled from investors ultimately profits government companies and other units, directly or indirectly to raise money to invest in various projects or pay various expenses.

The Mutual funds are one of the important investment option available for Indian small investors to make an investment, if thoroughly measured it may give big returns with little savings. The above performance ratios are much helpful for the assessor to assess the fund’s performance. As the Mutual Fund investment is subject tomarket situations, the risk averse investors needs to be cautious on any other investment alternatives available apart from the mutual funds, such as investment in other Financial-Assets (stock market, debentures, Bonds, Treasury bills etc) and other Non-Financial Assets (post office certificates, Bank deposits, Pension schemes, Real estate’s) to evade risk.

Literature Review

A study was conducted by Syed Yaseen and Suman Chakraborty (Year) on “Performance Evaluation of Equity Diversified Mutual Fund Schemes” with an objective to identify twelve independent variables which affects significantly the performance of NAV and to assess the information ration and its causal effect on the average yearly return of Net Asset Value (NAV). The study is completely based on secondary data collected for a period of ten years of selected open ended equity diversified mutual funds. By applying the techniques like Sharpe, Treyner and Jensen’s, it was found that Sharpe and Jensens’s risk adjusted performance evaluation techniques has given similar results in case of top
performing funds and low performing funds and both the public sector and private sector mutual funds have similar risk profile but the return of public sector fund sin comparatively low than that of private sector funds. This study was more significantly drew the attention of investors to invest in mutual funds.

A secondary data was used to study on “A study of performance Evaluation of Mutual Fund and reliance mutual fund” by Alka Solanki (2016) using broad 100 shared base BSE National Index and SENSEX as a proxy for market index during the period 2007 to 2016 to evaluate the performance of sample schemes and to compare the return and risk with benchmark. It was found from the study that all schemes showed an average return higher than in comparison to the market return except Eliance Focused Large Cap Fund.

A study was conducted by Manoj Kumar Dash and Gouri Shankar Lall, (2018) on Performance Evaluation of Equity based Mutual Funds in India” with on objective to measure the earnings of growth oriented mutual fund schemes, to evaluate the selected mutual fund schemes and to analyse the trends in returns of selected mutual funds. For this study daily data of Net Asset Value (NAV), Risk free rate of return and Market Index (SENSEX) from Thomson Reuter’s was collected from April 2011 to March 2016. For analysing the data Treyner’s Index and Sharpe’s Index was used. It was from the study that Sundaram Global Advant age Scheme showed the greater value of Sharpe ration compared to the other selected schemes and this implies the greater skills in managing the investment. The Kotak Global Emerging Market Opp. EgOffshare growth is less volatile as compare to selected schemes.

To examine the performance of mutual funds based on their fund return, risk and performance ratios, a study was conducted on “Performance evaluation of mutual funds in India with special reference to selected financial intermediaries” by Mohamed Zaheeruddin, Pinninti Sivakumar and K.Srinivas Reddy (2013). For the study three financial intermediaries i.e., HDFC Mutual Funds, Birla Sun Life Mutual Funds and ICICI Mutual funds were used and techniques like Calculation of Return, Standard Deviation, Beta, Sharpe ratio and Treyner’s ratio was used to analyse the performance of mutual funds. The present study found that ICICI Mutual fund is in the top position as per the performance ratio but the mutual fund investment is subject to market conditions.

Mutual fund schemes were randomly selected offered by HDFC to compare the performance of ten open ended mutual fund schemes and to examine the performance
evaluation of selected schemes in HDFC, a study was conducted by S.P.Dhandayuthapani and S.Arunpratheep (2018) on “A study on performance evaluation of select mutual fund schemes in HDFC”. Data was collected for the period from April 2017 to April 2018 to analyse the collected data Sharpe ratio, Treyner ratio and Jenson ratio techniques were used and found that Sharpe ratio and Treyner ratio was positive for all schemes which indicates that the funds were given that incomes bigger than risk free rate.

A study was conducted on “Diversified Mutual Funds in India” by Mamta & Satish Chandra Ojha (2017) by collecting the data various websites of Mutual Fund Schemes and Amfinidia.com to evaluate the performance of Indian equity diversified mutual funds and to analyse the relationship between risk and return of these funds. To analyse the objectives by using various tests like Average return, Sharpe ratio, Treyner Ratio, Standard Deviation, Beta and Coefficient of Determination (R2). The study revealed that thirty percent of the diversified fund schemes have shown high and superior return and remaining have shown inferior returns, seven funds out of ten funds have beta less than one and positive which implies that less risk than market portfolio with regard to coefficient of determination (R2).

To compare the performance and balanced mutual fund schemes between mid cap and small cap fund on the basis of return and risk evaluation, a study was directed on “Performance Analysis of Mutual Funds – A study on selected Mid Cap and Small cap Funds” by O.V.A.M. Sridevi (2018). Secondary data was collected from journals, websites for a period of March 31st 2016 to April 1st 2017 and for analysis techniques like SD, Beta, Alfa applied and the study revealed that out of two schemes of both mid cap and small cap funds have evidences of outperforming the benchmark return, however the study depicts that the schemes have diversified results.

Scope of the Study

The present study attempts to provide an idea into the performance of select mutual funds schemes. This study was undertaken with the motive to analyze the funds depending on the scheme. The study is mainly concentrated on open ended schemes & their returns involved in select balanced funds for a period of five years.

Need of the study

Performance evaluation aids the investors and also the fund managers in taking healthier investment decisions. Performance evaluation of mutual fund scheme has gained a
wide range of attention from both investors and academicians. Most of the common people are less conscious about evaluating the performance of the mutual fund schemes. Mutual fund schemes provides new opportunities for investors. Therefore, the present study is very much needed due to the changed environment it becomes important to investigate the mutual fund performance to make investment decisions by the investors.

**Objectives**

Research objectives formulated for the study are as follows:

1. To measure the risk - return relationship and market volatility of the select mutual funds.
2. To compare the performance of select balanced fund with BSE Index,
3. To study the performance of select schemes using risk adjusted performance measures namely Sharpe and Treyner’s index.

**Research Methodology**

To examine the performance of Balanced fund schemes, UTI Balanced Funds, Reliance Regular Saving Balanced Funds, Tata Balanced Funds, SBI Magnum Balanced Fund, Franklin Templeton India Balanced Fund, L & T Balanced Funds were randomly selected for a period of five years i.e, 2013-2018 and data regarding NAV were obtained from the web site of www.mutualfundindia.com, website of Bombay Stock Exchange (BSE) and www.amfiindia.com. The study is purely based on secondary data. The data was collected from the previously done projects, researches, thesis, and websites.

**Techniques used** : The tools used for the present study are Rate of Return (RoR), Standard Deviation (SD), Beta, Sharpe Ratio and Treyner Ratio.

The following statistical tools was used for the study:

<table>
<thead>
<tr>
<th>SL.No.</th>
<th>Technique</th>
<th>Formula</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rate of Return</td>
<td>Closing price – Opening Price / Opening Price * 100</td>
<td>Average Return</td>
</tr>
<tr>
<td>2.</td>
<td>Standard Deviation</td>
<td>√∑(R - R¯)^2/N</td>
<td>Variance and Risk</td>
</tr>
<tr>
<td>3.</td>
<td>B (Beta Value)</td>
<td>Covariance/σm×σm</td>
<td>Measures the level of volatility associated with the fund compared to the benchmark</td>
</tr>
<tr>
<td>4.</td>
<td>Sharpe’s Ratio</td>
<td>[(Return from the Fund - Risk-free Rate of Return) /Total Risk of Fund] i.e. [(Rp-Rf)/σp]</td>
<td>Measures the excess return earned on fund per unit of total risk (standard deviation)</td>
</tr>
</tbody>
</table>
5. Treyner’s Ratio

\[(\text{Return from the Fund} - \text{Risk-free Rate of Return})/\beta_p\] i.e. \[((R_p - R_f)/\beta_p)\]

Measures the excess returns earned per unit of systematic risk (beta)

Limitations of the Research

The present study is limited to five years of select balanced funds. These schemes have selected randomly. Though financial instruments like average return, Treyner’s ratio and Sharpe ratio was used to analyse risk return relationship, mutual fund is subject to market risk. It is difficult to ascertain the performance of balanced funds only with help of average return

Analysis and Interpretation

The performance of selected funds is analysed by using Average return, Standard Deviation and Beta. Investor cannot make decision on performance of the fund only with the help of average return. To strengthen this, performance evaluation ratios such as Sharpe ratio method and Treyner’s ratio method were calculated to analyse the performance by using Beta and Standard deviation. In the study the volatility of the funds have been analysed based on the beta of various select balanced funds which reveals that the percentage of risk and return relationship.

Table 1: showing Standard Deviation, Beta and Avg. Return

<table>
<thead>
<tr>
<th>SL.No</th>
<th>Company Name</th>
<th>SD</th>
<th>Beta</th>
<th>Avg. Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UTI Balanced Fund</td>
<td>29.81</td>
<td>1.94</td>
<td>24.9</td>
</tr>
<tr>
<td>2</td>
<td>Reliance Regular Saving Balanced Funds</td>
<td>22.30</td>
<td>1.20</td>
<td>18.74</td>
</tr>
<tr>
<td>3</td>
<td>Tata Balanced Funds</td>
<td>22.34</td>
<td>1.05</td>
<td>20.36</td>
</tr>
<tr>
<td>4</td>
<td>SBI Magnum Balanced Fund</td>
<td>17.86</td>
<td>0.89</td>
<td>16.23</td>
</tr>
<tr>
<td>5</td>
<td>Franklin Templeton India Balanced Fund</td>
<td>12.16</td>
<td>0.61</td>
<td>14.08</td>
</tr>
<tr>
<td>6</td>
<td>L&amp;T Balanced Fund</td>
<td>14.17</td>
<td>0.68</td>
<td>13.25</td>
</tr>
<tr>
<td></td>
<td>BSE Index</td>
<td>13.18382</td>
<td>1</td>
<td>7.866</td>
</tr>
</tbody>
</table>
From the above table it is clear that the average return of all the selected funds are above the market index. Similarly Standard Deviation which measures risk shows that the risk of almost all the selected schemes are more than the market index except Franklin Templeton India Balanced fund. On the other hand it is clear that Beta depicts systematic risk is more for UTI, Reliance and Tata Balanced funds. With this, it can be inferred that the above balanced funds are highly volatile than SBI, FT India and L&T Balanced fund.

**Table 2: Calculation of Sharpe’s Ratio and Ranking**

Sharpe ratio measures the excess return earned on fund per unit of total risk (standard deviation). Sharpe index is based on the schemes total risk which measures the performance adjusted for risk.

Sharpe index = [(Return from the Fund - Risk-free Rate of Return) /Total Risk of Fund] i.e. [(Rp-Rf)/σp]

Risk free rate of return for the study is considered as 8.00.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Company name</th>
<th>Sharpe’s Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UTI Balanced Fund</td>
<td>0.57</td>
<td>I</td>
</tr>
<tr>
<td>2</td>
<td>Reliance Regular Saving Balanced Funds</td>
<td>0.48</td>
<td>IV</td>
</tr>
<tr>
<td>3</td>
<td>Tata Balanced Funds</td>
<td>0.55</td>
<td>II</td>
</tr>
<tr>
<td>4</td>
<td>SBI Magnum Balanced</td>
<td>0.46</td>
<td>V</td>
</tr>
</tbody>
</table>
From the above table 2, it was found that as per Sharpe’s Ratio higher the ratio better the performance. Among the select balanced fund, UTI Balanced Fund ranks I followed by Tata Balanced fund, Franklin Templeton India Balanced fund, Reliance, SBI Magnum and L&T Balanced Fund.

**Table3 : Calculation of Treyner’s Ratio:**

According to Treyner’s performance index, beta is the appropriate measure of risk suggested by capital asset pricing model. It reflects excess return earned per unit of systematic risk (beta).

Treyner Index = [(Return from the Fund - Risk-free Rate of Return)/Beta] i.e. [(Rp-Rf) / βp]

Ranks were given on the basis of higher Treyner’s index. Higher Treyner’s index gets 1st rank.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Company name</th>
<th>Treyner’s Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UTI Balanced Fund</td>
<td>8.711</td>
<td>V</td>
</tr>
<tr>
<td>2</td>
<td>Reliance Regular Saving Balanced Funds</td>
<td>18.72</td>
<td>I</td>
</tr>
<tr>
<td>3</td>
<td>Tata Balanced Funds</td>
<td>11.77</td>
<td>II</td>
</tr>
<tr>
<td>4</td>
<td>SBI Magnum Balanced Fund</td>
<td>9.24</td>
<td>IV</td>
</tr>
<tr>
<td>5</td>
<td>Franklin Templeton India Balanced Fund</td>
<td>9.96</td>
<td>III</td>
</tr>
<tr>
<td>6</td>
<td>L&amp;T Balanced Fund</td>
<td>7.72</td>
<td>VI</td>
</tr>
</tbody>
</table>

From the above table 3, it was found that Reliance Regular Saving Balanced Fund ranks I followed by Tata, Franklin Templeton India, SBI Magnum, UTI and L&T Balanced funds.

**Findings:**

- It is found from the study that the average return of all the selected funds are above the market index.
• Standard Deviation which measures risk shows that the risk of almost all the selected schemes are more than the market index except Franklin TempletonIndia Balanced fund.

• It is clear that Beta which is systematic risk is more for UTI, Reliance and Tata Balanced funds which shows that they are highly volatile than SBI, Franklin Templeton India and L&T Balanced fund.

• Based on the performance ratios of the select balanced funds UTI Balanced fund stood 1st based on Sharpe’s Ratio and Reliance Regular saving Balanced Fund ranks 1st as per Treyner’s Ratio.

Suggestions:

• From the study it is suggested that UTI, Reliance and Tata Balanced Funds are high volatile in nature. If the investor is a Risk taker it is suggested to select these portfolios.

• Investors who are risk averters can go for SBI Magnum, Franklin TempletonIndia, and L & T Balanced fund.

• As per the performance evaluation ratios, it is suggested to invest in UTI Balanced Fund, reliance Regular Saving Funds and Tata Balanced Funds.

Conclusion:

The Mutual funds are one of the best investment source available for Indian small investors to make an investment, if thoroughly assessed it may give high returns with little savings. The performance ratios like Sharpe’s Ratio and Treyner’s Ratio are very much helpful for the evaluator to assess the fund’s performance.

References:


8. https://www.amfiindia.com/indian-mutual