ABSTRACT

An investment is a commitment of funds made with the expectation of some return in the form of capital appreciation. Different investment avenues are available to the investors such as fixed deposits, insurance, post office savings/national savings certificate, gold/e-gold, bonds, public provident fund (PPF), real estate, shares, commodities, etc. Mutual fund is one of the important investment vehicle that offer good investment prospects to the investors. Mutual fund is a trust that pools the savings of various individuals by issuing units to them and then invests it in various securities such as shares, debentures and bonds as per the stated objectives of the scheme. Further, this investment avenue offers several benefits to the investors as diversification, professional fund management, liquidity, transparency etc. Today a wide variety of mutual fund schemes are available for the investors such as Open-ended, Close-ended, Interval, Growth, Income, Balanced, Equity Linked Saving Schemes (ELSS) and Exchange Traded Funds (ETF), etc. These schemes are catering to the investors’ needs, risk and return tolerance.

In spite of the wide variety of mutual fund schemes available and large potential investors’ base, Indian mutual fund industry is still lacking far behind in terms of total assets with respect to other developed nations as it manages only 0.5 percent of the total mutual fund assets worldwide. The swift growth of Indian mutual fund industry and low investors base necessitates the investigation of some crucial issues of the performance of mutual fund schemes in terms of their efficiency. It is of paramount importance for policy makers, governing bodies and mutual fund companies to analyse that how many Indian mutual fund schemes have been performing efficiently.

The present study adds to the existing literature by studying the performance of mutual funds in India in terms of their efficiency. Data Envelopment analysis (DEA) has been employed by taking Sharpe ratio and Jensen’s Alpha as outputs and load status, expense ratio, minimum initial investment required and risk associated with the mutual fund scheme in terms of beta as inputs. It has been found that a large number of mutual fund schemes have been performing inefficiently. Also, the reason for the inefficient performance by the mutual fund schemes and various means for improving their efficiency have been identified and presented. This study also analyses the performance efficiency of equity, income, balance and ELSS mutual fund schemes. It has also been found that, when analysed separately within their
investment styles, efficiency of mutual fund schemes is much better as compared to when all
the mutual fund schemes have been analysed together.

Further, the present research explores the relationship between the performance of
mutual funds with their attributes such as past performance, asset size, asset ratio, age of the
mutual fund scheme and the risk associated in terms of standard deviation by employing
Logistic Regression Model. It has been found that past performance is positively related to the
performance of mutual fund schemes whereas, asset ratio, age and risk are negatively related
to their performance. Asset size is not significantly related to the performance of mutual fund
schemes. Also, a framework for performance measure of mutual funds in India has been
developed. This aspect is very important for the investors as there are a plethora of schemes
available for them and they might consider these factors or attributes before any investment in
mutual funds.

The present study further adds to the existing literature by exploring the behaviour of
Indian individual investors towards the investment of their savings and their perception
towards investment in mutual funds. Also, various steps or measures, needed to be taken by
the mutual fund companies and policy makers for motivating investors towards mutual fund
investment, have been explored. It is very essential for mutual fund companies, governing
bodies and policy makers to be familiar with the perception of investors towards mutual funds
and other investment options for recognizing as where the mutual funds stand with respect to
other investment options and due to which factors they adopt this position. Thus, the present
study undertakes the measure and analyse these critical issues by applying various tools and
techniques as Analysis of Variance (ANOVA), factor analysis and ranking method.

A sample of 119 open-ended mutual fund schemes have been analysed during the
period 01 April, 2006 to 31 March, 2012. Data has been gathered from the official website of
Association of Mutual Funds in India, Reserve Bank of India, Security and Exchange Board
of India, Bombay Stock Exchange, Value Research and mutual fund companies. Further 440
questionnaires (218 from mutual fund investors and 222 from non mutual fund investors),
filled by the investors in National Capital Region, have been analysed to judge the perception
of investors towards various investment options and mutual funds. In this way, the present
study is vast and holistic one that might be helpful for mutual fund companies, policy makers,
governing bodies and investors.