The present study intends to focus on performance evaluation of mutual fund schemes and investors’ perceptions towards mutual funds. Hence, the researcher reviewed the existing literature in order to obtain a detailed insight on the theme. Mutual funds have been originated and strongly developed in U. S. A. and other developed countries. Their long standing in foreign countries has led many researchers there to contribute towards performance evaluation of funds and many other aspects of mutual fund. The institutions like SEBI-NCAER, The Wharton, The Dalal Street Journal, The Express Investment Week, Value Research India and Business Today and The World Bank have conducted studies on mutual funds. One of the earliest attempts was made in India by SEBI-NCAER in the years 1964, 1996 and 2000. SEBI-NCAER conducted the first survey of households to understand the attitude towards and motivation for saving of individuals. In 1996, SEBI-NCAER conducted another study and analyzes the structure of capital market and presented the views and attitudes of individual shareholders. There are many other studies undertaken in India. The review of literature is, therefore, grouped as (I) Institutional Research Studies and (II) Other Studies (i.e. Non-Institutional Research Studies). The review includes both Indian as well as foreign studies.

(I) Institutional Studies

*Wharton Study*(1962), one of the oldest study, found that there existed only a weak positive relationship for common stock funds. The methodology used was a two-by-two contingency table that compared the lower half of a particular sample in performance with the lower half in growth and conversely.

*Dalal Street Journal (1993)* analyzed the published performance ranking of 122 mutual fund schemes floated by different mutual fund houses. It considered 26 growth schemes, 28 income schemes, 35 hybrid schemes and 33 tax planning schemes. For the study only those schemes which closed on or before March 1992 were considered. The study employed following method to measure the performance of these schemes (i) Relative Performance Percentage Growth in NAV Index (ii) Percentage change in National Index, and (iii) Compounded Annual Growth Rate (CAGR) Accordingly, MF schemes having high Relative Performance Index and high

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The percentage of CAGR were rated as ‘Top Performers’ and vice versa. The comparative fund performance category-wise was presented. It also evaluated the change based on BSE National Index during the period April 1993 to June 1993. Further an investment strategy was suggested to the potential investors based on the overall performance of various funds.

**Capital Market Research Bureau (1993)** found that all schemes of Punjab National Bank (PNB) mutual funds performed well and all schemes and the Canbank Mutual Fund were the worst performers (-57 %) under ‘Growth Fund’ category, while BOI Mutual Funds (5% rise in NAV) was the Top Performer and the PNB Mutual Fund (-22% fall) was the worst performer under ‘Income Fund’ category, and LIC MF was the top performer (-12% fall in NAV) and the Canbank Mutual Fund (-31% fall) was the worst performer under ‘Hybrid Fund’ category and BOI MF showed -7% fall in NAV and was rated as the best performer and the Indian Bank Mutual Funds (-66% fall) was the worst performer in ‘Tax Planning Fund’ category. Further, based on the analysis, the study recommended Top 10 Schemes for prospective investors, which primarily included Masterplus-91, Mastergain 92, Mastergrowth UGS 5000 and UGS 2000 launched by UTI.

**Express Investment Week (1994)** studied in all 113, which included growth (34), income (23), hybrid (24) and tax-planning (32) schemes, using BSE National Index Relative Factor (NRF) as a performance indicator. NRF was calculated as a measure of the percentage change in NAV of a particular scheme over a specific period of time and the percentage change in the 100-share BSE National Index over the same period. The findings were: Growth schemes such as BOI FBGS-1991 (+25 points) best performer while UTI’s Mastershare (-75 points) was the worst performer with -75 points, The Income schemes namely Canstar - (80L) was the best performer with (+2 points) LIC Mutual Fund's Dhanaraksha 89 was the worst performer. The ‘Hybrid’ schemes like Canstock (+ 2 points) was the best performer with and LIC’s Dhanasahayog (-49 points) was the worst performer and under ‘Tax-Planning’ category, PNB’s Equity Growth Fund EX 93 (+17) was the best performer and IndBank’s India-Tax Shield (A) was the worst performer , which showed +4 point.

**World Bank Survey (1995)** studied 68 close-ended mutual funds of emerging markets and ranked them according to their performance. The average returns of 13 close-ended funds of mutual funds of Latin America (16), Thailand (13), Indonesia (10), Phillipines (05) and Brazil (03), In Asia, the performance of mutual funds of
South Korea (03), Malaysia (14), China (13) and Vietnam (05) was better than that of India.

**National Insurance Academy, Pune, India, (1995)** studied 77 schemes managed by 8 mutual funds operating in India and revealed that the growth schemes yielded an average of 47% CAGR, Tax-Planning Schemes yielded an average of 30% CAGR, followed by Balanced Schemes with 28% CAGR and Income Schemes with 18% CAGR.

**Value Research India (1996)** examined 83 growth, 15 income and 15 balanced schemes. It was conducted during June, 1994 to December, 1995, when Indian stock market was experiencing the bearish phase, with the loss of more than 450 points in BSE Sensex. The study revealed that Indian mutual funds are safe avenues for investment and especially income and balanced schemes are entirely risk free; even some growth schemes are also safe.

**Financial Express Investment Magazine and Value Research (1997)**, the joint study, showed that the bond funds had flared well compared to equity funds. The study identified that the steeper falls among equity funds was mainly on account of their portfolio spread in small and mid-cap stocks. For the purpose of the study, total return was calculated by taking the change in NAV, assuming the reinvestment of all dividends, issue of bonus and rights units and dividing it by the initial NAV. Returns for periods longer than one year were expressed in terms of their compounded average annual returns (CAGR). The performance of individual fund was compared with various benchmarks over different time periods. For growth funds, the 30-Scrips Mumbai Stock Exchange Sensex and the 100-Scrips BSE National Index (Natex) were used. For Income Funds, I-Bex Total Return Index and I-Bex Principal Return Index were used as benchmarks. While for Balanced Funds, I-Bex Total Return Index was combined with BSE Natex. The study reported that (i) An average return of the Bond Funds was 16.31% while the average growth fund lost 14.31% , (ii) During January to April 1997, the average bond fund yielded a return of 3.92% against an average equity fund return of 2.28%, (iii) Out of 28, nearly 14 funds, ranked on the basis of return during one year, were above average performers , (iv) Income funds, which had invested more than 50% of their resources in equities against its objective, had hit the rock bottom, (v) The CanStock Scheme suffered the maximum and its NAV gone down by over 50% during the period under study, (vi) Only 4 out of the 51 growth funds ranked for the one-year period had posted positive gains, (vii) In a bear
market the balanced funds had generated good returns and successfully guarded investor's money. The average balanced funds posted the highest gain, among all objective categories; the only exception was of Dhanashree-90 and Canganga, which posted the dismal picture.

*Business Today and Value Research (1998)* prepared Mutual Fund Score Board by evaluating mutual fund schemes on the basis of their risk-adjusted performance for which the risk-adjusted return ($R_a$) was compared with its peers. The study used the risk of loss (RoL) i.e potential for losing money as a tool for analysis, which was computed by deducting Risk-free return ($R_f$) from monthly return generated by the scheme. If a scheme’s returns were lower than this $R_f$ the difference was noted as a negative figure, the sum of all negative numbers was averaged over its life in months to arrive at the RoL. In the same way, the RoL of the 100 Scrip Index was computed and against it each scheme’s performance was rated. Next, the risk adjusted performance of the scheme and of the index were calculated by subtracting the RoL of each scheme from its compounded monthly returns, and finally, the Risk-adjusted Performance ($R_p$) of the Index was subtracted from the $R_p$ of the scheme to arrive at the figure on the basis of which the scheme's star-rating was calculated, and classified as high-risk category, average risk category and low risk category. The study found that: (i) The risk adjusted equity funds have been improving consistently, but the average risk-adjusted return of the 113 growth schemes remained negative, (ii) The risk adjusted returns of the 39 income funds declined from 26.28% on December 31, 1997 to 24.88% on March 31, 1998; however, the picture changed dramatically in May 1999, (iii) The annualized returns of the income schemes had dropped to just 7.20%, (iv) Balanced composition hybrid schemes continued to retain their position at the top in terms of both risk-adjusted and absolute terms(v) 32 balanced schemes gained 15.15% and a risk-adjusted return of 27.12%.

*SEBI-NCAER (2000)* surveyed 3,00,000 geographically dispersed rural and urban households to estimate the number of households, the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other saving instruments and found that: (i) The investors' choice of investment instruments matched the risk perceived by them, (ii) Bank Deposit was the most preferred investment avenue across all income class; (iii) 43% of the non-investor households (approx. 60 million) apparently lack awareness about stock markets, (iv) higher income group has a greater share of investments in
mutual funds compared to low income groups. The study concluded that mutual funds
have not still truly become investment vehicle for small investors.

with a prime objective to help investors to choose the funds that best suited their
needs. The study considered 3 months return and 1 year return was computed by
taking the percentage change in NAV, adjusted for rights and bonus units and
dividends and annualized and schemes were ranked accordingly. Sharpe Ratio was
used for analysis and compared peer group-wise. The study revealed that out of 85
rising equity funds only 33 could beat the S&P CNX 500. Though sector funds
flourish well in bullish trend which is evident from fantastic performance of UTI
Software (52%, growth), Magnum IT Fund (109% growth) and Kothari Pioneer
InfoTech (475%. Growth) However, they could be risky at the top of the market.
Bond funds gained more than return on bonds. The average return of a close-ended tax
saving fund earned about 81%. However, out of 65 close-ended funds only 29 funds
could beat the S&P500 Index. Gilt funds being fairly new were excluded from the
study.

**(II) Other Studies (Non-institutional)**

**Markowitz Harry (1952)**[^12] propounded a theory about how investors should
select securities for their investment portfolio and argued that rational investors
consider higher expected return as good and high variability of those returns as bad.
He stressed on diversification among all securities, securities which give the
maximum expected returns. His rule recommended the portfolio with the highest
return is not the one with the lowest variance of returns and that there is a rate at
which an investor can increase return by increasing variance.

**William Sharpe (1964)**[^13] extended Markowitz’s work and argued that investors
only need to be concerned with systematic risk indicated as by Beta (β), not the total
risk as proposed by Markowitz. That gave birth to the ‘Security Market Line’ (SML).
The difference between the Capital Market Line (CML) and SML is the measure of
risk used for the horizontal axis. The CML uses the variance of returns, whereas the
SML uses the systematic risk termed as Beta (β), which is defined as the covariance
between a security or portfolio of securities and the market as a whole, divided by the
variance of the market. The market as a whole is considered the point of tangency
between the SML and the efficient frontier, which is the foundation for the Capital
Asset Pricing Model (CAPM). In 1994 Sharpe suggested the ‘Sharpe-
Ratio’ technique for the measurement for the performance of the mutual funds. The Sharpe Ratio is used to characterize the return on investment with the level of risk taken by the investor. He advised investors to pick investments with high Sharpe Ratios.

The approach to calculate portfolio’s return in excess of the risk-free return and divide the excess return by the portfolio’s standard deviation was one approach developed by William Sharpe and known as Sharpe Ratio. This measure is also known as Reward to Variability.

**Treynor (1965)** used ‘characteristic line’ for relating expected rate of return of a fund to the rate of return of a suitable market average. He coined a fund performance measure taking investment risk into account. Further, to deal with a portfolio, ‘portfolio-possibility line’ was used to relate expected return to the portfolio owner’s risk preference. Treynor adjusts the excess return for systematic risk (Beta). Treynor gave an idea about scheme rating and fund managers’ investment styles and argued that the fund manager’s success lies in his selection of the scrip and the fund provided first-rate return.

**Treynor and Mazuy (1966)** found that the Fund Managers had not successfully outguessed the market and the investors were completely dependent on fluctuations in the market. They studied the performance of 57 Fund Managers especially in terms of their market-timing abilities by applying Treynor’s Index.

**Jensen (1967)** derived a risk-adjusted measure of portfolio performance, popularly known as Jensen’s Alpha (α), which estimates how much a fund manager’s forecasting ability contributes to fund’s returns. He conducted another study in 1968 and developed a composite portfolio evaluation technique concerning risk-adjusted returns. He evaluated the ability of 115 Fund Managers in selecting securities during the period 1945-66. Analysis of net returns indicated that, 39 funds had above average returns, while 76 funds yielded abnormally poor returns. Using gross returns, 48 funds showed above average results and 67 funds below average results. Jensen concluded that, there was very little evidence that funds were able to perform significantly better than expected as Fund Managers were not able to forecast securities price movements.

**Smith and Tito (1969)** suggested a fourth alternative after examining the inter-relationships between the above three composite measures of investment performance. They identified some aspects of differentiation in the process. They
found that if the funds are ranked on the basis of past performance, the alternative measures produced little differences. But when performance is compared with the market, the conclusions differ widely. Therefore they suggested modified Jensen’s measure based on estimating equation and slope coefficient.

Spitz (1970) related mutual fund growth to performance of the fund. For the purpose of the study growth was measured by net cash inflows which were computed by deducting the redemption of capital shares from sales of capital shares. Then the fund’s performance was measured by adding realized and unrealized capital gains with gross income minus expenses, inclusive of management expenses. In this manner, he examined 20 mutual funds over the time period from 1960 to 1967. Using time series correlations, two models were tested. The first was a contemporaneous model that related performance and growth in the same period. The second model related growth in time period ‘t’ with performance in period ‘t-1’. He concluded that the results were generally insignificant.

Fama (1972) combined the concepts from modern theories of portfolio selection and capital market equilibrium with more traditional concepts of good portfolio management. He introduced a multi-period model allowing evaluation on a period-by-period and on a cumulative basis. He concluded that the return on a portfolio constitutes of return for security-selection and return for bearing risk.

Fama and McBeth (1973) jointly examined 3 testable implications of the CAPM, namely the relationship between risk and return is linear, beta is a complete measure of risk, and the higher risk should be associated with higher return and concluded that none of these can be rejected.

Fama and French (1992) in their joint study, found that the combination of market-to-book value and size explains returns and that the beta is insignificant in a regression that includes all three variables. They used factor analysis to determine the relationship between factors thought to affect security return and actual return, including non-fundamental factor such as investor sentiment. They concluded that CAPM beta to dead.

Williamson (1972) compared ranks of 180 mutual funds between 1961-65 and 1966-70 and found that there was no correlation between the rankings of the two periods and the investment abilities of most of the Fund Managers were identical.

Klemosky (1973) examined the performance of 40 funds for the period 1966-1971 considering quarterly returns and advocated that biases in Sharpe, Treynor, and
Jensen’s measures could be removed by using \textit{mean absolute deviation} and \textit{semi-standard deviation} as risk surrogates compared to the composite measures derived from the CAPM.

\textbf{Smith (1978)}\textsuperscript{24} found positive relationships between mutual fund growth to fund performance, after adjusting for risk by using Jensen’s Alpha. He recognized that the growth of AUM may be the result of both new money flowing into the fund and the successful investment performance. He argued that a large amount of new money may not flow into a fund despite its recent performance improvement.

\textbf{Shetti, C.S. (1979)}\textsuperscript{25} found that mobilization of rural savings is still a difficult task. In order to attract the small investors towards UTI and divert their savings towards mutual fund units he suggested that investment habit among the rural householders should first be encouraged, and simultaneously awareness of investment in their minds should be created. This is, no doubt, a long process. Before that the UTI for time being should concentrate on landlords and agriculturists with the help of Sales Officer and Agents in each district. Similarly, in village where the benefits of development are accruing most, much progress can be made through popularizing and intensifying the sale of units.

He further opined that to popularize units among salaried persons, the Trusts should introduce a salary based unit scheme. Not only that but the Trust, in collaboration with other institutions concerned with savings and investments, like the L.I.C., banks and Small Saving Board should organize a study of saving habits and investment preferences of people in various income groups in all the regions which would help the Trust to formulate schemes which may evoke maximum response from the small savers. Similarly, survey about ‘awareness of units’ should be taken in all the regions. This will help the Trust to know the areas and persons where knowledge of units has not reached and accordingly the Trust would take positive steps. The UTI should send personal letters to employees in good and reputed companies in private sector and there should be follow-up action. A list of employees to whom such letters are sent should be provided to Agents in the concerned area immediately, so that when agent approaches them some effective sale of units would take place.

He advised UTI to publish figures about the number of units sold to rural buyers and urban buyers every year, possibly a state-wise break up so that it would be
easy to find how much of the new rural income has been tapped by the UTI. It would also help to encourage prospective rural investors to invest in units.

*Woerheide (1982)* said that the success of the fund may be well determined in the terms of the selection of fund by investors. It is measured by the Net Sales Ratio, which is obtained by deducting redemption from gross sales and by dividing by total assets at the inception year. He advocated two groups of success, one is ‘efficient market criteria’, under which investors would prefer funds that were managed so as to maximize the fund's return while minimizing its risk. It includes all sensitive variables that may the risk and return. The second success group is called ‘other factors’, under which, the explanatory variables were included such as the items that may influence an investor's selection of a particular mutual fund, but which were not directly related to the risk and return characteristics of the fund. For example, size of mutual fund, marketing strategy of the institution and the like. The study covered for 15 to 44 mutual funds and the time period from 1972 to 1976. He found that there was no statistical significance for any of the ‘efficient market’ variable and under ‘other factors’ only two namely mutual fund size and prior return performance had weak statistical support. Finally he concluded that the variables like turnover ratio, brokerage ratio and the marketing program had a positive relationship.

*Vidhyashankar S (1990)* found that the Bank/ Company Deposits have moved to mutual funds because of its superiority. It is as a result of ensuring a healthy and orderly development of capital market with adequate investor protection through SEBI mechanism. He identified that mutual funds in the Indian capital market have a bright future as one of the predominant instruments of savings by the end of 2000.

*Bansal L. K. (1991)* found that in India Mutual Fund, as an investment vehicle, was preferred since 1985-86 due to its unique benefits of liquidity, safety and assured reasonable appreciation. The study found that majority of the funds floated by commercial banks gave an impression that the responsibility of funds laid with the respective banks and their investment was secured.

*Gangadhar V (1992)* identified that mutual funds ensure triple benefits of steady-return, capital-appreciation and low-risk. The study found that open-end schemes were very popular in India due to its size, economies of operations and for its liquidity and the investors opted for mutual funds with the expectation of higher return for a given risk, greater convenience and liquidity.
Batra and Bhatia (1992) found that UTI, LIC and SBI Mutual Funds have excelled in the market and declared dividends within the range of 11 to 16 percent. He argued that the performance of many public sector mutual fund schemes was equally good compared to corporate securities. Especially, the performance of Canbank Mutual Fund, Indian Bank Mutual Fund and PNB Mutual Fund was highly commendable.

Ansari (1993) concluded his article by recommending that there is a need for Mutual Funds to bring in innovative schemes suitable to the varied needs of the small savers in order to become predominant financial service institution in the country.

Sahu and Panda (1993) found that out of total financial savings in India, around 15 percent goes to equities market, 11 to 12 percent to bank deposits and only 5 to 6 percent to mutual funds. They suggested that the mutual funds should develop strategies with an eye on savings potentials, growth prospects of investment outlets and national priorities and policies.

Shashikant Uma (1993) revealed that the money market mutual funds, with low-risk and low-return, offered conservative investors a reliable investment avenue for short-term investment.

Shome (1994) examined the performance of Indian Mutual Funds Industry for the period 1993 to March 1994 in relation to the market using BSE Sensitive Index. His study covered 17 growth schemes comprised of UTI (6), Canbank MF (3), Indian BankMF (3), SBI MF (2), BOI MF (2) LIC (1). The average rate of return of the MF industry was found 5.16 percent as against market returns of 5.78 percent. Ten schemes’ average rate of return was marginally lower than the market return while the standard deviation was higher than the market. He concluded that there exists no association between fund’s performance and its size.

Vaid, Seema (1994) found that Indian Mutual Fund Industry showed a continuous growth in savings mobilization and the number of unit holders during 1987 to 1992. 58.40 percent of resources were mobilized through income schemes and UTI accounted for 83.90 percent of industry’s total resource mobilization. The growth schemes displayed a sound investment pattern with 81.80 percent of portfolios in equity shares. The study revealed Mutual Funds have not adequately tapped semi-urban and rural areas despite their satisfactory returns.

Shah and Thomas (1994) evaluated performance of 11 mutual fund schemes on the basis of market prices, using Jensen and Sharpe measures and based on weekly
returns computed since their inception and concluded that only one schemes out of sample namely UTI UGS 2000 earned superior returns than the market. For this state of affair, they put forth that it was due to inadequate diversification and high degree of risk.

_Trippathy, Nalini Parva (1996)_ found that the household sector accounted for about 80 percent of country’s gross savings, however only about 1/3rd these were available for the corporate sector. In order to attract maximum savings towards mutual funds, she stressed that mutual funds have to build investors confidence. For those innovative schemes meeting the varied needs of investors should be evolved, the information should be provided speedily, transparency in operation should be brought about, benefits of professionalism should be assured and better customer service should be provided.

_Yadav and Mishra (1996)_ evaluated the performance of 14 close-ended schemes for the period of April 1992 to March 1995, against the BSE National Index—the benchmark. They found that around 57% of sample schemes had a mean return higher than market return, which was shown by their positive ‘Alpha.’ They, therefore, concluded that timing ability of fund managers was appropriate. Further, they revealed that the schemes performed well in terms of diversification and total variability of returns but failed to provide adequate risk-premium per unit of systematic risk. Fund Managers of growth schemes adopted a conservative investment policy and maintained a low portfolio beta ($\beta_p$) to diminish the potential losses due to falling stock market.

_Jayadev M (1996)_ compared the performance of UTI MasterGain 1991 and SBI Magnum Express for the period of 1992-94 with 13% return offered by Post Office Monthly Income Deposits as risk-free return and found that MasterGain earned an average return of 2.89 percent as against market earnings of 2.84 percent. MasterGain showed superior performance than ET-Ordinary Share Price Index, its benchmark. The performance of SBI Magnum Express was very volatile. They argued that the reason behind poor performance was the lack of selectivity on the part of the Fund Managers, which indicated that investors were not benefitted by the professionalism.

_Jambodekar, M.V. (1996)_ probed the awareness about mutual funds among the investors residing in Bangalore city and reported that there is an urgent need for
educating investors to enhance their knowledge about mutual funds and to remove misconceptions about mutual funds.

Sahadevan and Thiripalraju (1997) found that the household sector savings constituted more than 75% of the Gross Domestic Savings and there was a shift in the preference from ‘physical assets’ to ‘financial assets. The study revealed that savings pattern of households has shifted from bank deposits to shares, debentures, and mutual funds and advocated that mutual funds have provided opportunity for the middle and lower income groups to acquire shares through indirect mode.

Gupta and Sehgal (1998) evaluated performance of 80 MF Schemes for the period of 4 years from 1992 to 1996. They tasted the variables relating to fund diversification, consistency of performance, parameter of performance and risk-return relationship and found that the existence of inadequate portfolio diversification and consistency in performance among the sample schemes. The study concluded that mutual fund industry faired reasonably well during the study period.

Rao, Mohana (1998) found that UTI Mutual Fund and LIC Mutual Fund jointly dominated the market with 54 and 15 schemes respectively. He interviewed 120 respondents comprising of 50 percent shareholding and 25 percent of unit-holding from metro-cities. The study revealed that 96 percent of respondents invested in UTI MF Schemes due to better service and return. The respondents were found to have considered services provided by MF institution, options offered (growth-cum-income) and capital appreciation as very important aspects while choosing a fund. Further, the close-ended schemes were found very popular among investors. The study concluded with recording that private sector funds should improve the service quality, mitigate fraud and mismanagement and build investors’ confidence as respondents’ expectations.

Irissappane (2000) conducted an extensive study on investment pattern and performance of 34 close-ended schemes from 1988-98 and hauled out the views of investors and managers residing in four metro cities namely Chennai, Mumbai, Pune and Delhi. His study revealed the following facts:

- The investors desired a return equivalent to market
- 16 schemes reported greater risk than the market volatility
- Majority of the schemes had a lower ‘beta’
• Negative values in the case of Treynor and Sharpe index among many schemes indicated the mockery of the market

• Fund Managers of 26 schemes had missed the chance of gaining from scheduling with response to changes in the market

_Agrawal, Ashok Motilal (2000)_\(^{45}\) found that Indian Mutual Fund industry had made a remarkable progress especially during 1987-95, which was evident from the fact that the cumulative investible funds of the industry recorded a growth of Rs.8,059 crores by December 31, 1995 from Rs.4,564 crores during 1986-87.

_Ramesh Chander (2000)_\(^{46}\) evaluated the performance of 34 mutual fund schemes for the period of January 1994 to December 1997 and found that

• NAVs of many Schemes were superior and highly volatile compared to BSE Sensex

• Open-ended schemes outperformed close-ended schemes in terms of return and income funds outsmarted growth and balanced schemes

• UTI and public sector banks sponsored schemes performed fairly well

• The average annual return of sample schemes was 7.34 percent due to diversification and 4.1 percent due to stock selectivity

_Vedulla Shekhar (2007)_\(^{47}\) explained how the Fund Manager’s role followed the active investment strategies. The study showed that returns are affected by Fund Managers’ active and passive investment strategies, diversification of investment in different sector as mentioned in the Fact Sheet, of Mutual Funds.

_Bodla B.S. and Bishnoi Sunita (2008)_\(^{48}\) analyzed the growth of mutual funds in India across category, sector and type of portfolio for the period of 1998-2006. They applied tools like year-on-year percent change, CAGR and proportionate market share for analyzing growth in number of schemes, assets under management and resources mobilized. The study was concluded by mentioning the following emerging dimensions of mutual funds in India.

• Open-end schemes have emerged more favourable than close-end funds in some recent years.

• Growth, Income and Liquid funds are more popular than the other schemes.

• Private sector mutual funds have snatched a lion’s share of market from UTI and other public sector mutual funds both in terms of number as well as AUM.
Both domestic private sector and foreign dominated (Joint Venture) MFs have performed better than public sector mutual funds in recent years in all dimensions of analysis.

Mutual funds are adding a lot to the India shining story by ensuring a significant CAGR in cumulative funds mobilization.

Rajarajan (2000) empirically proved the significant relationship between expected rate of return on investments and demographic variables such as age, income, occupation, employment status and life-cycle-phase etc. He collected data from 405 investors through questionnaire incorporating 12 different variables and through multiple regressions analysis examined the relationship between investors’ expected rate of return and their demographics. The study concluded that the rate of return was not strongly related to any socio-economic variable except ‘age.’ The study found positive association between rate of return and factors like investment size, portfolio choice and risk bearing capacity but the locus of control was inversely related to it.

Shanmugham (2000) conducted a survey of 201 individual investors to understand the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions and reported that psychological and sociological factors dominated the economic factors in share investment decisions.

Gupta Amitabh (2001) examined NAV of 73 close-ended and open-ended schemes launched by public and private sector for the period of April 1994 to March 1999 using Market Index and Fundex and concluded that the sample schemes were not adequately diversified, risk and return of schemes were not in conformity with their objectives and there was no evidence of market timing abilities of mutual fund industry.

Narasimhan and Vijayalakshmi (2001) analyzed portfolio of 76 schemes for the period of January 1998 to March 1999 and revealed that only 26 companies have provided positive gains, out of 62 companies whose stocks were held in portfolio of several schemes. The top holdings represented more than 90 percent of the total corpus in the case of 11 mutual funds, which showed higher risk level compared to the return. The correlation between portfolio stocks and diversification benefits was significant at 0.01 level for 30 pairs and at 0.05 level for 53 pairs.
T.S. Rajeshwari and V.E. Rama Moorthy (2001) measured the awareness level of 350 potential investors from Puttaparthi in Andhra Pradesh about MF concept and analyzed their perception level of the future performance of MF industry. They revealed that the potential investors’ awareness level was not very satisfactory even in cities, where the awareness level is supposed to be reasonably good. The study found nearly 35 percent of the respondents reporting that the functioning of MFs was not clear and nearly 33 percent of the respondents considered the MF investment to be risky and that is the reason for their not investing in MFs. The study revealed the interesting fact that among the professionals, the awareness level of the doctors was very poor and mostly they preferred bank deposits and postal savings than other avenues. The study stressed on the need of creating greater investor awareness through education programmes. They found the existing efforts of AMFI in this direction are not substantial. Therefore, the content, the message and the quality of educative material of AMFI should be reviewed and its efforts should be directed towards proper target though appropriate communication modes.

Further, they argued that as the certain variables like income level, occupation and savings level play significant role in shaping the awareness and perception of the respondents, the special efforts should be made to attract investors from different income levels and occupational classes and suitable MF products should be developed to suit their needs. Further, they cleared that AMFI, AMC and Sponsors should collectively design proper investor education programmes to reach out to different segments i.e. literates, illiterates, different age groups, income groups, etc. and MF products should be developed to meet the unique needs of each segment on these lines.

Roshni Jayam (2002) advised the investors to correctly judge their investment objective and risk appetite before picking schemes and held that the diversified equity funds were typically safer than others and index funds were the best when market movements were not certain. Systematic Withdrawal Plan (SWP) with growth-option was more suitable for investors in need of regular cash-inflows, she added.

Singh, Jaspal and Subhash Chander (2003) found that the choice of MF schemes by investors was influenced by the past performance record and future growth prospects. They argued that the investors expected repurchase facility, prompt service and adequate information from MF industry. They advocated that mutual
funds may be well appraised with reference to return, portfolio selection and NAV as important criterion. The study revealed that the demographic variables like ‘occupational status’ and ‘age’ had insignificant influence on the choice of scheme and ‘salaried’ and ‘retired’ people had priority for past record and safety in their decisions about mutual fund investment.

Saha, Tapas Rajan (2003) found that Prudential ICICI Balanced Fund, Zurich (I) Equity Fund as the best among the equity funds and Pioneer ITI Treasury scheme was the best among debt schemes and concluded that the efficiency of Fund Managers was the key in the success of mutual funds.

Elango, R. (2004) compared performance of mutual fund schemes of both Public and Private Sector Institutions found that Private Sector MF Schemes outperformed Public Sector MF Schemes in terms of NAV range value, innovative products and in deployment of funds. Further, the Public Sector MFs showed low volatility than Private Sector MFs. The Student ‘t’ Test was applied as analytical tool which revealed that there was a high significant difference between the mean NAV of Private Sector Mutual Funds and Public Sector Mutual Funds with a high statistical significance of -5.95.

Jaspal Singh (2004) found that the majority of investors belonging to salaried category and those in the age group of 20-35 years intend not to invest in mutual funds anymore. The age of the investor does have impact on a decision to invest in mutual funds. The respondents in the salaried category and in the age group of 35-50 years consider only the return provided on investment by the fund to be the best criteria of performance appraisal of a fund. The investors belonging to salaried category and in the age group of 20-35 years showed inclination towards close-ended, growth (equity) oriented schemes over other schemes types. Even the objective of investment for availing any tax rebate is not on investor’s agenda. Investment in fund units is done for earning good return. As regards choice of a mutual for investment, people are moving away from UTI and prefer to invest in private sector mutual funds, despite the fact these are presumed to be more risky.

He suggested that the mutual funds, too, can earmark and try to improve upon their weak areas regarding the factors that influence investors decision making as regards choice of a mutual fund, the facilities or options they expect from a mutual fund, the criteria they generally believe to be the best for performance appraisal of a fund, their general perceptions towards mutual funds at present and the problems
which they encountered that resulted in development of aversion towards mutual funds in the minds of investors. Mutual funds should extend full support to the investors in terms of, investment advisory service, participation in investment decision-making of the concerned fund, ensuring full disclosure of relevant information to investors by the fund, consultancy regarding understandability of terms of issue of different schemes etc. So to help common investors to regain confidence in this channel of investment that is most dependable reservoir of funds required for development of Indian capital market. As seen, the enormous growth of mutual fund industry, if controlled effectively, could be channelized for achieving better economic growth.

Mehru, K.D. (2004) opined that the problems related to the investors are: lack of awareness and poor after sales service to the investors. The investors believed, so far, that the mutual funds promoted by UTI, LIC and nationalized banks are guaranteed by the Central Government. The majority of the new investors don’t understand the concept, operations and advantages of investment in mutual funds before investing. There are several problems related to UTI such as non-disclosure of portfolio, inter scheme transfer of funds, lack of professional fund managers, sale and repurchase of units of US-64 at prices not related to its NAV, bureaucratic working, etc. The schemes are framed and conceptualized by the top management of the mutual funds and marketed by their branches and through the agents. The agents and the sales executives of the mutual funds assure higher returns to the investors and paint a rosy picture about the mutual funds while marketing schemes. The mutual funds in our country have been quite wrongly promoted as an alternative to equity investing and created very high expectations in the minds of the investors. The ignorance of the investors about mutual funds coupled with aggressive selling by promising higher returns to the investors have returns. All mutual funds set a higher target for mobilization of savings from the investor by launching new schemes and expanding and investor base. The agents or distributors of mutual funds are more governed by the commissions and incentives they get for selling the schemes and not by the requirements of the investors and quality of the products. They share commissions with the investors and don’t explain the risk factors to them. The greater transparency, increased innovations, better services to the investors, liquidity and higher returns will make mutual fund schemes more popular and investor friendly.
Satish D (2004)\(^6\) found that investors from 7 major cities in India preferred mutual funds to bank deposits and insurance policies. The study found that investors had the same level of confidence towards shares and mutual funds, and expected moderate return and accepted moderate risk. The study revealed that 60 percent investors preferred growth schemes and the image of AMC was the major factor in the choice of schemes.

Sharath Jutur (2004)\(^6\) examined the performance of 58 mutual fund schemes during the bear period of September 1998 to April 2002 and found that: 37 schemes had low, 11 schemes had below average risk and 10 schemes had average risk. 46 schemes showed positive return, out of which 30 schemes yielded above 5%. 32 schemes had positive Treynor ratio, 30 schemes had positive Sharpe ratio, 35 schemes had positive Jensen measure due to the bearish market with low CAPM returns.

Venkateshwarlu M (2004)\(^6\) attempted to understand the investors’ perceptions about Mutual Funds spread over the twin cities of Hyderabad and Secunderabad. For analysis Chi-square test was adopted and found that:

- Investors preferred to invest in open-ended schemes with growth objectives
- The size of income class was independent of preference pattern, and dependent on the choice of fund floating institution Reasonable returns and long-term strategy adopted by the scheme were the criteria of scheme selection
- Investors perceived that too many restrictions led to the average performance of mutual funds in India.

Krishnan Aarati (2005)\(^6\) reported that by 2003, Private Sector Mutual Funds had wrested a lion’s share of the mutual fund assets from the UT1 and the PSU bank sponsored funds. By the end-December, 2003 the mutual fund industry was managing Rs. 1, 40,000 crore of assets, with 80 percent of it in private sector funds.

Bansal, Manish (2005)\(^6\) revealed the fact that unfortunately, in Indian market, all MFs have been chasing the same set of investors with the same set of products and inducements. There seems to be very little differentiation in their product offerings. He argued that market participants should use strategic product differentiation as a tool to create competitive advantage. Indeed, they should become the opportunity seeking missiles exploring opportunities across different dimensions of the economy. He suggested that MFs should practically become the manufacturing unit for the financial products. They should create innovative structures to cater to the wide range of investor preferences.
of investors’ base in the market; segmentize the market and tailor the products to fit in the specific requirement of the people in those segments.

_Sondhi H J and Jain P K (2005)_65 examined 36 MFs comprising of 17 Public Sector and 19 Private Sector mutual fund equity schemes and found that (i) The mean and median returns for the aggregate period (1993-2002) were lower than the returns on 364-days T-Bills, and higher than the BSE 100 Index (ii) Alliance Equity Fund was the top performer and CanBonus and LIC Dhanvikas (I) were the worst performers (iii) Private Sector Equity Schemes had superior performance due to its popularity; fund management practices, well-researched stock selection and timing skills (iv) More than 3/4th of Public Sector MF Schemes were unable to achieve better returns in spite of higher investor confidence associated with high safety, and further the funds did not show consistency in performance.

_Muthappan P K and Damodharan E (2006)_66 evaluated the performance of 40 MF schemes for the period April 1995 to March 2000 and revealed that majority schemes earned returns higher than the market but lower than 91-days T-Bill rate and the average risk of the schemes was higher than the market. Out of 40, 15 schemes had an above average monthly return, 23 schemes outperformed both in terms of total risk and systematic risk and 19 schemes showed superior performance as indicated by positive alpha values. Further, the study found that the risk and return of the schemes were not always in conformity with their stated investment objectives and the sample schemes were not adequately diversified, as the average unique risk was 7.45 percent with an average diversification of 35.015.

_Sanjay Kant Khare (2007)_67 argued that as the retail investors have been gradually keeping out of the primary and secondary market there is a tremendous scope for Mutual Fund Industry to develop in India, where savings rate is very high. He stressed that mutual funds have to penetrate into rural areas with diversified products, better corporate governance and through introduction of financial planners.

_B. Phaniswara Raju and K. Mallikarjuna Rao (2008)_68 revealed that the private sector growth schemes have earned on an average, return of 2.40 per cent per month, with an average risk of 15.13 per cent. On the other hand, public sector growth schemes have earned and average return of 1.74 per cent per month with an average risk of 14.19 per cent. On the other hand, public sector income schemes have earned and average return of 0.52 per cent per month with a risk of 2.20 per cent. The performance of the public sector income schemes is relatively better than the private
sector. In case of balanced schemes, private sector schemes have earned an average return of 1.15 per cent with a risk of 8.01 per cent. Whereas, public sector schemes have earned an average return of 0.87 per cent with a risk of 8.03 per cent. The Sharpe Ratios for the sample schemes and also for the benchmark portfolio. Of the 60 schemes, 23 schemes (38.33 per cent) have better ratios in comparison to the relevant benchmark portfolios and that they have outperformed the market. The top five performers are BoB Balanced Growth Fund, HDFC Income-G, Birla MIP-Plan Monthly Payment, LIC Bond fund (G) and SBI Magnum Monthly Income- G. In case of growth schemes, 13 schemes out of 28 schemes have higher values than the market. On the other hand, out of 18 income schemes, only five schemes have outperformed the market. Out of 18 income schemes 5 schemes have higher ratio than the market portfolios. Thus, it can be concluded that the performance of growth schemes is much better than the balanced and income schemes. In terms of Treynor Ratio, the top five performers are Prudential ICICI Growth Plan-G, Can D mat, Birla MIP-Plan Monthly Payment, LIC Bond fund-G and Kotak Bond Deposit G. In The top five schemes three schemes represented private sector and two public sector. Out of 60 schemes selected for study, 39 schemes have positive alpha values indicating superior performance. Of the 60 schemes, 23 schemes, (38 per cent) reflect positive differential returns, indicating fund managers superior performance. Out of 23 schemes, 15 schemes were in private sector. The remaining 37 schemes (62 per cent) shows negative differential returns indicating that they could not generate returns commensurate with the risk they assumed due to their poor diversification.

Patil S.R. (2010) found that only seven mutual funds out of 37 were known to investors in Bijapur city and they used to invest their money repeatedly in the same MF schemes as advised by their Investment Advisers. He suggested that Mutual Funds should focus on investors in rural areas, agents should be provided detailed information about mutual fund schemes and enough training, investors’ education should be conducted through Investors’ Meet, the speed of grievances redressal should be increased, and delay in dispatching receipt Unit Certificates as well as refund may be avoided. Further he suggested that MF houses should do aggressive sales promotion through advertisements, and launch more Investors’ Service Centres and improve efficiency of Fund Managers. Nonetheless, he advised investors not to invest all money in same fund, and carefully study the scheme before parking hard-
earned money in it and above all to prepare mind to take risk to earn return on mutual fund schemes.

Agrawal Deepak (2011)\(^7\) opined that no investment is risk free. If the entire stock market declines in value of mutual fund will go down as well, no matter how balanced the portfolio. Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money. He further added that when you invest in a mutual fund, you depend on the fund’s manager to make the right decisions regarding the fund’s portfolio. If the manager does not perform as well as you had hoped, you might not make as much money on your investment as you expected. Of course, if you invest in Index Funds, you forego management risk, because these funds do not employ managers.

The study concluded that there has been a tremendous growth in the mutual fund industry in India, attracting large investments not only from the domestic investments but also from the foreign investors. Increasing number of asset based management companies providing opportunity to the investors in the form of safety, hedging and arbitrage. With the growing middle-class household families with limited risk bearing capacity, it provides better returns than any other long-term securities. India’s high rate of savings and a rapid-liberalizing economy is expected to elevate the mutual fund sector to new hikes.

Crosnan and Gneezy (2011)\(^7\) extensively reviewed various studies on gender differences about the issues relating to investment over a period of time, and highlighted that there was a vast difference as to how men or women perceived the areas of risk taking, social behavior and competition behavior. The study found that women took less risk than men and various factors that might be responsible for such a difference in preferences may be age, marital status, number of children and culture. The study finally concluded that women are risk averse than men as far as investment decision involving risk was concerned.

Punjwani, Kavita (2011)\(^2\) found that Mutual Fund Industry has grown up in leaps and bounds particularly during the two decades of the 20\(^{th}\) century. Moreover, the entry of the Private Funds has injected a sense of competition ad the industry has been witnessing a structural transformation from a public sector monopoly to monopolistic industry. She observed that on the basis of liquid funds LIC MF Liquid Fund-Growth, Sahara Liquid Fund - Fixed pricing option - Growth, HDFC cash
management fund - Savings plan - Growth, were the top three funds on the basis of comparison to the industry average for the last five years. All the selected schemes had underperformed the Crisil Liquid Fund Index. Over the period of last 5 years only 2 schemes - Sahara liquid fund - fixed pricing option growth, HDFC Cash Management Fund-Saving Plan - growth, DWS Instra-Cash Plus Fund-Growth had over-performed the Benchmark Indices over the last 5 years. Forties overnight Fund – Growth is relatively more volatile with highest standard deviation, Sharpe ratio. It was observed that Forties Overnight Fund-Growth was more aggressive mutual fund. Fortis Overnight Fund-Growth had the highest Beta with 0.31. Fortis Overnight Fund-Growth showed highest degree of correlation. A positive Alpha indicated that the Fund Manager reported return greater than expected for the risk taken. IDFC Liquidity Manager Fund - Growth has clearly underperformed with 0.09 Alpha Ratio.

Saini, Simran et.al. (2011) found that mostly the investors had positive approach towards investing in mutual funds. In order to maintain their confidence in mutual funds they should be provided with timely information relating to different trends in the mutual fund industry. For achieving heights in the financial sector, the mutual fund companies should formulate the strategies in such a way that helps in fulfilling the investors’ expectations. Today the main task before Mutual Fund Industry is to convert the potential investors into the real investors. New and more innovative schemes should be launched from time to time so that investor’s confidence should be maintained. All this would lead to the overall growth and development of the mutual fund industry.

B. Murali Krishna et. al. (2012) found that while the industry faced several challenges during its evolution, its key challenge in the current phase is to mobilize a large pool of investments available in the country. In the equity segment there is a huge amount of volatility. Another important challenge for the industry is to increase awareness levels and take the industry to the masses. Mutual funds are generally perceived as investments in equity markets and hence, investors expect a return which is much superior to the normal return that other comparable instruments yield. It is the industry’s responsibility to educate the investors and remove any pre-convinced notions about investing in mutual funds. This has to be done through a broad-based campaign either by the mutual funds themselves or by AMFI or both.
They concluded that since the financial environment has been more educated, the investors’ have a better opinion on the services and other terms that there are some unavoidable risk which cannot be overcome, but it was the advice for the investors to have a clear watch environmental factors which affect your investments.


Many of the aforementioned studies have focused on performance evaluation of mutual fund schemes, some of growth and problems of mutual fund industry and studies on investors’ preferences and perceptions are scanty. Such studies are also urban-focused and confined to metro cities. A few Indian studies have attempted to rank the performance of public sector mutual funds. They have used the data only for a period of five years or less and failed to give any definite clues based on strong statistical significance. Moreover, the study incorporating both performance evaluation and perception analysis of investors’ in small cities and rural areas is not available.

The study of performance of public sector mutual fund schemes since their inception and the analysis of preferences and perceptions of investors in Kolhapur district has not been done. The present study has therefore been undertaken to fill up this research gap.

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