CHAPTER 7

SUMMARY, CONCLUSIONS AND LIMITATIONS

7.1 Summary
7.2 Conclusions
7.3 Limitations of the Study
7.1 SUMMARY

The report is divided into seven chapters. The chapter one titled \textit{Introduction} deals with the introductory part of the study. It primarily covers history and origin of mutual funds in various countries like US, UK, Canada, Pakistan and India. It discusses in detail how mutual funds originated in Europe and how they spread to US., UK and other countries. It then discusses history of mutual funds in India since 1960’s divided into five phases. The Chapter also covers the definition and concept of mutual funds, the types of mutual funds and the benefits and limitations of investing in mutual funds. The last part covers the details about the present status of mutual fund industry in India. Through various reports and data, it covers various aspects of the Indian mutual fund industry like Industry Characteristics, AUM base and growth relative to global industry, growth, profitability, operations, present status challenges and issues faced by the industry.

The second chapter titled \textit{Conceptual Framework} deals with the explanation of theory aspects used in the study. It discusses in detail the concept of style, style investing, the importance of fund manager’s style in asset allocation, Style Analysis, the two approached to style Analysis viz returns based style analysis and portfolio based style analysis and the concept of asset class factor model. The second part of the chapter clearly outlines the rationale of the study. The growing importance of mutual fund Industry and the role of fund of fund manager in it have made it imperative for researchers and practitioners to study about its role in the
performance of mutual funds. The chapter has ended with a clear focus in terms of objectives of the study.

The third chapter titled *Review of literature* covers research work carried out by various researchers in the area of style. The chapter is divided into three parts. The first part covers the studies on determinants of fund performance. The second part covers the role of a fund Manager. The third part covers studies on investment style and lastly the chapter concludes with work on Style analysis and its Applications. The fourth chapter titled methodology describes the nature of study, sample size, sampling technique and tools used for data collection and analysis.

The fifth chapter titled *Results and Findings* deals with the results of the study. Firstly it discusses the results of the descriptives of the asset class factor model constructed. Thereafter the second part covers the result of the study fundwise divided into twenty five parts. Each part discusses the details of the fund and the results of style analysis i.e. multiple regression conducted in the study. The third section of the chapter deals with summary of results derived through style analysis. The last part presents the consolidated summary of results obtained in a tabular format.

The chapter six deals with *Discussion* of the obtained results. The chapter attempts to establish a link between the results of the present study and available literature. The results of the study are discussed under three main heads viz. role of fund style in performance of mutual funds, the role of fund manager and lastly the performance of balanced mutual funds in India. The chapter seven is divided into
three parts—Summary Conclusions and Limitations. The summary of the complete report is presented in this chapter. The conclusions have been drawn in the light of the objectives of the study and salient findings. The suggestions have been made to take care of the observations based on the experiences gathered during the work. The propositions have been made to explore all those dimensions of the field of study which could not be covered under the scope of the present work.

The chapter eight deals with Implications of the study for the Investors, fund managers, AMC’s and researchers in the area of mutual funds, particularly mutual fund performance reporting. The references have been presented in a standard format followed by an appendix showing the excel values of monthly returns as captured by the study of twenty five funds and those of the asset classes.

7.2 THE CONCLUSIONS
In view of macro level changes in Indian economy mutual funds have emerged as one of the preferred choices of investment. The present study attempted to augment a new approach of mutual funds performance reporting which is different from conventional approaches and is called style analysis. Through this approach the study tried to analyse the performance of balanced mutual funds from 2008-13, thereby trying to find what role did the fund manager and fund style had in determining the performance. It also tried to analyse the stock selection skills of the fund manager and its role in generating. The objective-wise conclusions are presented hereunder for more clarity and precision.

**Objective 1-To identify the style exhibited by a fund**

The study identified the style of all twenty five funds under study. The $R^2$ values obtained were very good. It may be recalled that $R^2$ quantifies the degree to which the benchmark portfolio can explain the long term behavior of the fund. A high $R^2$ value shows that the analysis captures most of the fund’s characteristics. Hence we can deduce that the regression model we applied was a good fit as twenty one funds had $R^2$ values more than .5. It also found that although balanced funds are a mix of debt and equity, the funds under study mainly replicated largecap equity style during the period of study. This is more so striking when fourteen of the twenty five mutual fund’s sample of funds were mainly debt oriented.

**Objective 2 To identify that the style exhibited by the fund is identical to the one disclosed by Fund managers in prospectus**
The study found out that eleven funds out of twenty five funds (44 percent) exhibited style that was not identical to the one disclosed by fund managers in prospectus and also was not in line with their portfolio composition. This clearly indicates that these funds suffered from style drift. Out of these eleven funds six could not beat their benchmarks which shows that style consistent funds performed better than non style consistent ones. However the style drift phenomenon was more evident in debt oriented funds (eleven out of fourteen) and not evident in equity oriented funds (only one out of eleven).

**Objective 3 To calculate the total returns generated by a fund and find out how much of the returns are attributed to style and selection skills of a Fund manager.**

The study clearly pointed out that style was a more predominant factor in performance of mutual funds during the period of study. Overall there were 17 funds out of 25 funds where the style of the fund accounted for more than 75 percent of the funds performance and only 5 funds had performance attributed to manager’s selection skills more than 40 percent, which shows that it is the style of a fund which is the main determinant of a mutual funds performance. Selection skills are secondary to it. However since the fund’s style in itself is selected by fund manager, the results highlight the role of fund manager in a fund’s performance. Most funds exhibited a very good $R^2$. A good $R^2$ also exhibits somewhat low level of “active management” and more of tracking a passive benchmark. Thus it can be deduced that most of the good results achieved by the funds are attributed to their style and it is the dominating factor in determining a mutual funds performance.
Sub objective 1: To analyse the performance of balanced funds in India based on our sample during the period of study

The study points out that overall the balanced funds performed well during the period of study. Nineteen funds out of twenty five (67 percent) beat their benchmarks, hence proving that their performance was very good. This can be attributed to changing customer preferences and overall good performance of stock market in general and mutual fund industry in particular.

7.3 LIMITATIONS OF THE STUDY

The study suffers from some limitations.

- The first issue is of survivorship bias in the results, as the study only included those funds that survived though the study period and had reported monthly returns. The survivorship bias stems from the truncation of data set due to disappearance of fund from the sample. Studying only funds that survived might overstate measured performance. Survivorship bias is the tendency for mutual funds with poor performance to be dropped by mutual fund companies, generally because of poor results or low asset accumulation. This phenomenon, which is widespread in the fund industry, results in an overestimation of the past returns of mutual funds. (http://www.investopedia.com/terms/s/survivorshipbias.asp)

- The limitations of RBSA also cannot be ignored. Since it is based on past data the results are historic and not futuristic. RBSA is most accurate when the correlations between the benchmark indices are low. If the indices chosen perform in a highly correlated fashion,
attributions may oscillate between two closely correlated asset classes. Barring few exceptions the correlations of the study are more or less on the lower side. Further as quoted by Sharpe(1992) if correlations are high amongst the asset classes RBSA could still be carried out if standard deviations are different, which exists in our case.

- Also using RBSA, changes in fund styles are not quickly identifiable because the return series used for style estimates spanned up to 60 months, and a drift in the stated style in the last six months, for instance, would be overwhelmed by the remaining four and a half years of data.

- The study did not use twelve class asset model as developed by Sharpe. Two classes ‘mortgage related securities’ and ‘large cap value’ had been avoided for absence of adequate benchmark for them.

- Mutual fund industry is a very dynamic industry where hundreds of funds are launched every year and hundred others are discontinued. This is done to make mutual funds more suited to market trends and tastes of the investor. In the study we took only those funds which had their inception before 31\textsuperscript{st} Dec 2000. This elimination was done in order to study the performance of only those funds which were at least ten years older thereby having sufficient presence and visibility in the market and were popular enough in the minds of investors.