Chapter 3

REVIEW OF LITERATURE
3.1 Introduction

Mutual funds are investments meant for small investors to accumulate savings over time and enhance their wealth. Mutual funds enable investors choose their investments depending upon the financial goals they intend to achieve. Mutual funds offer readymade portfolios to investors across the investment spectrum of risk and asset classes.

Mutual funds are looked at by the Government as a means of pooling risk capital and also as a means for small investors to invest into capital markets. To induce small investors to invest and to popularize the concept of mutual funds, tax benefits are provided by the Government on fund investment and returns. SEBI on its part, as a regulator, to protect the interest of small investors, and to promote the industry, has been continuously bringing changes in the industry regulations thereby empowering the small investor.

Indian mutual fund industry was opened up for private players in the year 1993 and from thereon has been a full-fledged industry for over 20 years. Although the industry AUM has been growing at a CAGR of 15 percentage over the last 13 years from 2000-01 to 2012-13, investor and geographical penetration leaves much to be desired. Mutual funds are still an emerging investment alternative in India and therefore is a subject of intense academic and industry research.

Academic research in mutual funds is seen consistently from the decade of 1960. Multi various studies have been conducted globally on mutual funds, across a number of areas like performance analysis, performance persistence, investment style analysis, return attribution, market timing, impact of fund expenses, fund flows, investor perception and behaviour etc.
The previous studies in mutual funds reviewed, has been classified into two sections:

a) Studies relating to mutual funds and Investment Performance; and

b) Studies relating to mutual fund Investor Perception

3.2 Studies related to Mutual Funds and Investment Performance

A study by Close (1952) discussed the distinction between close ended and open ended funds and also the trends in their AUM’s till 1950. It stated the reasons for the growth of open ended funds. The study also analysed the investment performance of 37 open ended funds and 11 close ended funds for the period 1937 to 1946. The study showed that the mean returns of close ended funds was in excess of the sample open ended funds. The author also indicated that fund expenses are an important aspect which needs to be considered by an investor before investing into the fund.

In another study, Brown and Vickers (1963) made a comparison among types of funds and also among individual funds within the type. The study pointed out the presence of relationship although varied, between changes in market index and net inflow into the funds. The study also stated that certain features of funds like portfolio turnover, portfolio structure, timing of security transactions affected performance of funds. The study noted that small size funds had the highest turnover rates and large size funds had lower turnover rates. The study observed that turnover rates rose when market prices rose. The study with regard to performance analysis stated that on an average fund’s performance was on par with the market for the period of study. The study did not find persistent relationship between annual portfolio turnover rates and return performance of the fund for both the current as well as the succeeding year. The study concluded that active portfolio management did not provide better results as compared to a static market portfolio.

In a path breaking work on mutual fund investment performance evaluation, Sharpe (1966) provided one of the most widely used measures of mutual fund portfolio performance evaluation criteria called ‘reward to variability ratio’ more popularly known as the ‘Sharpe Ratio’. This study applied the reward to variability measure and examined the performance of 34 open ended funds for the period 1954 to 1963. It found considerable variation in performance between funds. The reward to variability ratio varied from 0.78 to
0.43 for the sample funds. The study opined that the differences in performance could be due to the ability of the fund managers to find incorrectly priced stocks or due to differences in fund expense ratios.

The market timing abilities of mutual fund managers were studied in Treynor and Mazury (1966). The study tested the market timing ability of fund managers considering 57 open ended funds for the period 1953 to 1962. The study noted that the only way a fund manager can translate his timing ability into returns is to vary the fund volatility systematically. The study concluded that the investment managers on an averaged have no ability to successfully outguess the market and suggested that it is futile to attempt the same.

Yet another authoritative work in the area of mutual fund investment performance was Jensen (1968). The study provided an absolute measure of performance considering the risk undertaken by the portfolio. Hitherto, the measures available for fund evaluation were relative measures. The model adopted by the author for measuring absolute portfolio performance was a direct application of the well-known Capital Asset Pricing Model. The absolute measure of performance provided by this study termed as $\alpha$ (alpha) is considered to be a measure of portfolio managers ability to forecast future prices. If the portfolio manager has the ability, then $\alpha$ would be positive. If not the portfolio would have a negative $\alpha$. The study applied and tested this model on 115 open ended mutual funds for a period between 1955 to 1964. It concluded that on an average the sample fund’s managers were not able to predict the security prices so as to out-perform the market.

In his study Bauman (1968) tried to evaluate the factors which affect future performance and the methods that might be used to forecast performance. The factors that were considered are portfolio objectives, economic environment, security market conditions and investment management operations. The study compared the portfolio returns of 28 mutual fund returns with return of stock market for the period 1952 to 1966. It concluded that environmental conditions had a major effect on portfolio performance.
The interrelations between the composite portfolio performance measures of Sharpe, Treynor and Jensen which were used to evaluate and rank ex post performance of funds was done by Smith and Tito (1969). The study found that Treynor measure and Sharpe measure are equal for funds with no unsystematic risk. The ranking through Jensen alpha will be consistent with Treynor measure. The study also stated that the above measure assumed the risk free rate to be constant which however is not the case in the long run. So this study used a variable risk free rate for its analysis. The study also suggested a new measure in the form of $\alpha/\beta$ and called it modified Jensen measure. Using the above models, the study evaluated the performance of 38 funds for the period 1958-1967 using continuously compounded return. The study found that all the four measures were highly correlated.

The objectives as well as risk and return of 123 mutual funds using monthly returns for the period 1960-69 was done by McDonald (1974). The study found that funds with aggressive objectives produced better performance with regard to ratios of mean return to beta as well as mean returns to variability. Average returns were found to be increasing with risk. 67 of the 123 sample funds had a Treynor ratio greater than the market. Similarly 50 percentage of the sample funds had a positive Jensen’s alpha. 84 of the 123 funds had a Sharpe ratio less than the market. Overall the study concluded that the performance of the sample funds were neither superior nor inferior for the decade.

A study to know if the fund managers provided a differential performance by altering the risk composition of the portfolio anticipating market price movements was done by Chang and Lewellen (1984). The study tried to provide evidence of how market timing ability impacted the portfolio returns. The study considered 67 funds with different investment objectives for the period 1971 to 1977. The study applied parametric statistical procedure to test superior market timing and selection skills. The study concluded that fund managers did not possess market timing or security selection abilities in abundance and that the funds collectively could not outperform the passive market portfolio.

A study primarily intending to ascertain whether fund rankings of performance are sensitive to the benchmark chosen by done by Lehman and Modest (1987). The goal was to examine the efficacy of Security Market Line in evaluation of mutual fund performance. The study considered 130 funds over 15 years from 1968 to 1982. The study considered
alternative APT and CAPM benchmarks. The study concluded that choice of what constitutes normal performance is very important for evaluating the performance of funds.

The extent to which different performance measures provide different evaluations of performance when different benchmarks are used was studied by Grinblatt and Titman (1991). It examined the sensitivity of performance measures to the choice of benchmark. The study considered 109 passively constructed portfolios and a sample of 279 mutual funds. The study suggested that forming factor portfolios is better rather than return co-variances in implementing multi factor risk adjustment models.

Sharpe (1992) used factor models for performance measurement. The study stressed on the importance of fund classification based on asset classes invested into, as fund manager performance and his value addition can only be traced when compared against the variation in returns of major asset classes. The study used factor model on open ended funds for the period 1985 to 1989. The study stated that style analysis as a method can be used for constructing benchmarks for evaluation.

A study to prove that active selection of managed fund could be profitable was done by Hendricks et al. (1993). The study considered quarterly returns of 165 growth funds over the period of 1974 to 1988. The study stated that the strategy of selecting the top performers based on the last four quarters can significantly outperform average mutual fund. However this strategy is found to be marginally better than benchmark market indices. The study also found that funds that performed badly in most recent year, continued to be inferior performers in the near term. The study concluded that although superior performance is not sustained, underperformance is seen to be sustained.

Malkiel (1995) considered all the diversified equity mutual funds issued between 1971 to 1991to understand the survivorship bias, fund performance, fund return performance persistence and fund expense ratios. The study documented performance persistence. However it noted that persistence that existed in 1970’s did not exist in 1980’s. The study also did not find evidence of high beta funds providing higher returns. The study found that the dollar weighted average return for all funds including liquidated funds for the period was 15.69 percentage which was 150 basis points less than the average surviving funds.
The study concluded that funds underperformed the market and that the markets were remarkably efficient. The study suggested investment in passive funds as against active funds.

The aspect as to whether past performance can predict future performance was studied in Kahn and Rudd (1995). The study considered equity and fixed income funds. The study period consisted of 10 years staring from 1983. The study found evidence of persistence in fixed income fund performance and no evidence in equity fund performance. The study suggests that in the absence of basis for choosing future winners, investors should choose index funds as they have average performance, low selection risk, low fees, low turnover and low costs. This places the index funds above median of all funds of similar styles.

Another study on persistence in performance of equity mutual funds was done by Brown and Goetzmann (1995). The study considered data for the period 1977 to 1989. The study reported that persistence phenomenon is dependent upon the time period of study. A poor track record is a strong predictor for attrition. The study concluded that chasing positive alpha strategy is prone to high total risk.

A study to test the impact of mutual fund manager’s characteristics on fund performance, risk and fees was performed by Golec (1996). The study considered a sample of 530 funds for the period 1988 to 1990. The study stated that fund managers with MBA degree, outperform those without it. The study concluded that investors can expect better risk adjusted performance from fund managers who are less than 46 years old and have managed funds for a period of more than 7 years. The study also suggested investors to avoid funds with large operating expenses (excluding management fees). It stated that a fund’s beta, turnover, team size, age , asset size and managers years of education can significantly affect a funds risk adjusted return performance.

Gruber (1996) studied the aspect as to why mutual funds have been growing fast in the American economy in spite of the average performance being inferior to index funds. One of the reasons cited for the popularity is the fact that the management’s ability is not factored in the NAV. The study considered the measure of return relative to market, excess return from a single index model and excess return from four index model as measures of performance. The sample consisted of 270 funds for the period 1985 to 1994. The study
found that mutual funds underperformed market by 1.94 percentage per year. The single index model had a risk adjusted return of -1.56 percentage and as per the four index model, funds underperformed by 65 basis points per year.

A study to evaluate two growth oriented funds Master Gain and Magnum Express on the basis of monthly returns and to compare their performance with the benchmark was done by Jayadev (1996). Risk adjusted performance measures of Sharpe, Treynor and Jensen were used. The study period consisted of 21 months from June 1992 to March 1994. The study analysed that the funds underperformed the benchmark. The study stated that Magnum Express was highly diversified whereas Master Gain had low diversification. Both funds are found to have poor ability of market timing and selectivity.

Elton et al. (1996) studied fund predictability for equity funds using a sample with no survivorship bias and measured performance using risk adjusted returns. The sample consisted of all equity funds which had $15million and more in net assets at the end of 1976. About 188 funds were followed from 1977 till 1993. The funds risk adjusted performance was evaluated based on $\alpha$ using a four factor index model. The study concluded that the past carries information about the future and that there is longer persistence in performance.

The short term persistence in mutual fund returns were studied in Carhart (1997). The study considered diversified equity funds for the period 1962 to 1993. The sample included 1892 diversified equity funds. The study employed the CAPM and Carhart four factor model. The study observed that by buying the last year’s top decile and selling the last year’s bottom decile funds, yielded a return of 8 percentage per year. The study found that expense ratio, portfolio turnover and load fees are negatively related to performance. The study found that funds with high returns last year have higher than average returns next year but not subsequently. The study also evidenced that costs including transaction and load have a direct and negative impact on performance.

Another study on persistence of fund performance was by White and Miles (1999). The study was to understand if average investors can adopt the trading rule of picking winners and generate excess returns. The study considered the winner fund’s annual return for the succeeding year in which the fund was top performer. The study was carried out for the
period 1963 to 1994. The study found that the previous year’s winner would out-perform the market the following year. The study concluded that “winners follow winners” 65 percentage of the times. The trading rule of picking previous year’s winner per se as a strategy could be adopted but cautiously.

A study to decompose the portfolio performance of funds into different components to evaluate the style of active fund management was done in Wermers (2000). The study considered 1788 funds for the period 1975 to 1994. The result was that, fund held gross return basis and of this, 70 basis points is attributed to the characteristics of the stock held and 60 basis points for talent in picking stocks. However the net performance of the funds was lower by 230 basis points. Of this 160 basis points were attributed to expense ratio and transaction costs of the fund. The study noted that the holdings of cash by the fund for the purposes of liquidity was a drag on the net returns of the fund. The study also pointed that higher turnover funds hold stocks that provide higher average returns.

Chan et al. (2002) studied the investment approaches of equity fund managers. As funds were generally classified based on market capitalization and value-growth orientation, the study wanted to evaluate whether this provided a meaningful description of the fund managers behaviour. The study also intended to expand the style classification. The study considered 3336 funds as at the end of year 1997. The study found that funds overall were consistent in following their fund styles. Style shifts were seen in case of poorly performing funds. It summed up that styles generally do not deviate notably from widely followed benchmark. When funds deviated from the index, they favour growth over value and choose high past return stocks over low past return stocks. The study considered that size and book-to-market are good descriptors of fund styles.

A study to evaluate the returns provided by mutual funds and the understand the risk undertaken by them as against market index and risk free instruments was performed by Sapar and Madava (2003). The aim of the study was also to identify the outperformer funds by using measures relative performance index, Sharpe ratio, Jensen measure, Fama’s measure, Treynor ratio. The study was performed on 269 open ended funds for the period September 1998 to April 2002. The study observed that medium term debt funds are the best performers. Out of 269 funds, 118 funds were out performers, 49 under performed and 102 funds had performance on par. Of the 58 sample schemes considered for further
evaluation, 32 had positive Treynor. Of them only 30 had positive Sharpe. Of the 58 schemes 35 had positive Jensen measure. The study also found that the unsystematic risk of the funds is high as the beta values were low and the correlation with the index was poor.

The effect of scale of operation on fund performance was examined in Chen et al. (2004). The study was intended to know how economies of scale worked in active money management industry and whether investment performance depended upon the size of the fund. The study was conducted considering the data pertaining to the period 1962 to 1999 of only diversified equity mutual funds. The study adopted cross sectional variation to study how performance varied with fund size. The study claimed that there was a strong evidence that fund size erodes performance. This is more pronounced in small cap funds. The study found liquidity as an important factor why size erodes performance. The study found that organizational diseconomies affected relationship between fund size and performance.

A study to evaluate selectivity skills, market timing abilities of fund managers of different schemes, taking a sample of 12 funds over April 1997 to March 2003 was done by Dhar (2004). The study also tried to study the correlation between market timing and selectivity skills. Selectivity skill is studied using Jensen and Fama criteria. Market timing is studied using Treynor and Mazuy measure. The study concluded that majority of fund managers possess superior selectivity skills based on Fama criterion. However this was not the case when Jensen criteria was used. The study also found that open end schemes are superior performers than close end schemes. Regarding market timing, the study stated that most of the managers are good market timers.

Tripathy (2005) evaluated the return risk situation of tax planning schemes to examine the market timing abilities of fund managers. The study considered 31 tax planning schemes for a period en 1994-95 to 2002-03. The study adopted Treynor and Mazuy and Henriksson and Merton models for evaluating the market timing ability. The study found that based on Treynor and Mazuy, only two of the schemes were able to time the market. The study also found that the fund managers timed the market in the wrong direction. Based on Henriksson and Merton model only only scheme was showed market timing ability. The paper concluded that Indian fund managers were unable to time the market.
A study to examine the components of investment performance so as to attribute the same to specific activities of the fund manager was performed by Anand and Murugaiah (2006). The study was for a period starting from April 1999 to March 2003 considering 113 select schemes pertaining to 25 fund houses. The components of performance included overall performance, selectivity, net selectivity and diversification and risk. The study reported that majority of funds underperformed risk free return. Diversification undertaken by the fund manager had not provided any additional return. It also stated that the forecasting and stock selectivity skills were lacking for the period. It observed that market risk and market return factors have closer correlation with fund returns.

Bhattacharjee and Roy (2006) replicated the study of Grinblatt and Titman for 50 Indian mutual funds over a period of 26 months by using the Performance Change Measure. The study observed that there were positive signals of information asymmetry with fund managers having superior information. The PCM model indicated that on an average fund provided above average returns but with a longer time period.

In their study Dabbeeru (2006) tried to classify open ended fund schemes into different investment styles and study their performance and ascertain whether the differences in performance is statistically significant. The study covered open ended equity schemes for the period April 2005 to March 2006. The study found that approximately 80 percentage of the growth plans are better than dividend plans in terms of superior return and 70 percentage had lesser risk too. Only 5 out of the 42 plans studied outperformed the market. The study concluded that growth plans are more likely to reward the investors than dividend plans.

The differences in fund characteristics, portfolio diversification and investment performance of public sector and private sector sponsored funds were studied in Panwar and Madhumathi (2006). The study sample consisted of 6 public sector sponsored funds and 12 random private sector sponsored funds. The term selected for the study was May 2002 to May 2005. The study concluded that there is no statistical difference between public sector and private sector sponsored mutual funds in terms of mean percentage return. However there is a difference in average standard deviation. The study did not find differences in portfolio characteristics.
Sehgal and Jhanwar (2007) studied the persistence in fund performance in the short run considering 59 open ended fund schemes for the period 2000 to 2004. The study used one factor CAPM model, three factor Fama-French model and four factor Carhart model to find abnormal returns. The study found that the persistence results on monthly data were weaker as compared to daily data. The winners provide significant positive return using the three factor criteria and using one factor benchmark. Persistence was not visible on the basis of four factor benchmark. The study also stated that better performing schemes charge a higher entry load and this is not the case with management fees.

A study to classify Indian mutual funds based on investment styles and market capitalization was done by Sidana and Acahrya (2007). Ten criteria are used to perform a cluster analysis which included mean return, alpha, beta, R square, Sharpe ratio etc. The data used pertained to the period 2002-2006. The study found some inconsistency between style and objective classification and actual performance across sectors, styles and objectives.

Debashish (2009) studied the performance of 23 schemes offered by 6 private sector funds and three public sector funds over the period April 1996 to March 2009. The analysis was made based on mean return, beta, coefficient of determination, Sharpe ratio, Treynor ratio and Jensen alpha. The study stated that UTI and Frankin Templeton schemes were best performers. Birla Sun Life, HDFC and LIC mutual funds showed below average performance.

A study to evaluate the performance of growth mutual funds floated by private and public sector fund houses was performed by Bawa and Brar (2011). The period of study was from the year 2000 to 2010 with two schemes of public sector and three private sector funds. The tools used included Sharpe, Trenor and Risk adjusted CAGR. The study observed that private sector funds outperformed the public sector funds with regard to growth of AUM, total return, beta and risk adjusted CAGR. However public sector funds performed in terms of lesser standard deviation, Sharpe, Treynor and expense ratio.
Bhuvaneshwari and Selvam (2011) was a study to evaluate the performance of equity funds based on risk and return relationship and compare it with the benchmark. The study considered 12 fund houses for the period 2002 to 2007. The study concluded that 50 percentage of the sample dividend option funds outperformed the benchmark.

The funds sensitivity to market fluctuations in terms of beta was examined by Kumar (2011). The study also appraised the performance of funds with regard to Sharpe, Treynor and Jensen measures. The study considered 20 open ended schemes of 5 mutual fund houses. The period of study was from 2000 to 2009. The study found that of the 20 sample funds 25 percentage showed average returns higher than the benchmark BSE 100 index. The risk involved in those 25 percentage of the schemes was lesser than the market. These schemes also performed better in terms of Sharpe, Treynor and Jensen measures.

A study to judge the performance of select schemes on the basis of risk and return was done by Bahl and Rani (2012). The study also made a comparison of performance with benchmark index to test under and out performance. The study considered 29 schemes for the period April 2005 to March 2011. The results of the study showed that of the 29 schemes, 14 had outperformed the benchmark returns. Based on Treynor, 19 schemes had outperformed the benchmark. The Sharpe ratio was positive for all schemes. Jensen measure too showed that 19 funds had a positive alpha.

A study to examine the risk return performance of select open ended schemes in relation to BSE 30 and also its ability to provide superior reward to variability and reward to volatility was made by Dhanda et al. (2012). The study considered 10 open ended growth schemes for period between April 2009 to March 2010. The study found that all select schemes failed to provide a superior reward to variability as compared to benchmark. Only four schemes of the sample provided higher reward to volatility than the benchmark.

Kaur (2012) examined the comparative performance of open ended tax oriented growth and dividend schemes of mutual funds. The study considered 18 schemes based on monthly returns and compared the same with the benchmark for the period 2005 to 2010. The study considered average, standard deviation, beta, co-efficient of determination, systemic and un systemic risk and risk adjusted measures of Treynor, Sharpe, Jensen and Fama. The study found that the performance of growth schemes is better compared to
dividend schemes with later being more volatile than the former. However both the schemes were found to be more volatile than the market. Four growth schemes was stated to have performed based on Sharpe, Treynor and Jensen. Based on Fama’s model, the fund managers were poor in terms of stock selectivity. The study concluded that except for four schemes, others had underperformed the market.

The performance of open ended Equity Linked Savings Schemes was studied by Kaur and Gupta (2012). The study considered 20 schemes on the basis of monthly returns. Evaluation was made based on average, standard deviation, beta, coefficient of determination, systemic and un-systemic risk and performance measures of Treynor, Sharpe, Jensen and Fama. The study found that most of the schemes underperformed the benchmark. The standard deviation of fund returns was seen to be more than the market. Only 20 percentage of the funds fared better based on Sharpe, Treynor and Jensen models. The study concluded that the funds were poor in selecting under priced securities.

A study to evaluate and compare the performance of equity diversified schemes pertaining to select fund houses, relative to the market was done by Prajapati and Patel (2012). Top 5 fund houses were selected of which five funds schemes were considered. The study pertained to the period 2007 to 2011. The fund evaluation was based on mean returns, standard deviation, beta, Sharpe ratio, Treynor ratio, Jensens alpha and Fama value. The study concluded that HDFC and Reliance mutual funds have outperformed the benchmark. ICICI and UTI funds had lower level of risk compared to HDFC and Reliance funds. HDFC funds had the highest Sharpe ratio. Treynor ratio of HDFC and Reliance were better compared to ICICI, UTI and Birla Sun Life mutual funds.

Poornima and Theivanayaki (2012) studied the correlation between performance of fund and the market indexes. The study considered top 5 growth funds and 10 index funds for the years 2007-08 to 2011-12. The study showed that the correlations of the funds were almost perfect positive in most cases. The study observed that funds yielded higher returns and grown at a faster rate as compared to market.
A study to evaluate the performance of growth oriented open ended ELSS funds was carried out by Santhi and Gurunathan (2012). The study considered 32 schemes for the period 2006-07 to 2011-12. The benchmark considered was NSE Nifty. Performance evaluation was carried out using Sharpe, Treynor and Jensen models.

Another study to evaluate the performance of equity growth schemes and to rank them based on Sharpe, Treynor and Jensen models was done by Zafar et al. (2012). The data considered were of 13 funds for a period of 2007-08. The study reported that a linear relationship between risk and return does not hold good as they reported less return for a higher element of risk undertaken.

Muruganandan and Padmasani (2013) in their study tried to assess the performance of Fund of Fund (FOFs) managers performance by adopting the Treynor and Mazuy model. The sample consisted of 25 domestic and 15 overseas FOFs for the period of April 2004 to March 2011. The study concluded that fund managers do not possess market timing ability and their selection abilities were negative.

3.3 Studies related to Mutual Fund Investor Perception

The factors influencing mutual fund selection were studied by Rajeshwari and Moorthy (2001). The sample considered 350 investors. The study revealed that the most preferred investment avenue for investors was bank deposits and mutual funds ranked 4th among eight investment alternatives. Investors preferred open ended growth schemes. Investors looked at safety, returns and tax benefits as three important factors that influence investment. Most of the respondents selected the fund to invest on their own. The study stated that investors are more influenced by intrinsic qualities of the scheme, efficient fund management and image of fund house while selecting mutual fund investments.

A study was done to understand the perception of investors towards mutual funds by Singh and Chander (2004). The study also analysed the reasons for withdrawal or non-investment. The study covered 400 investors from Punjab, Delhi and Mumbai. The study found that salaried investors, professionals and those in the age group of 25 to 35 preferred
day to day disclosure of NAV. As per the study investors perceive better returns from mutual funds and also preferred listing of funds on stock exchanges. Low return’s is cited as one of the reasons for salaried class pulling out of mutual fund investments. Poor regulations, underperformance and inefficient management of funds are cited as the reasons for withdrawal.

Walia and Kiran (2009) was a study to evaluate the perception of the investor towards the risk and return of mutual funds, in comparison to other financial avenues and also to identify the gaps. The sample size consisted of 100 respondents from different regions of Punjab. The study found that age is a determinant in setting investment objectives. Investors considered mutual funds as relatively risky. As per the study, understanding investor’s expectation is necessary for the mutual fund industry to grow at a faster rate. Mutual funds can be a preferred investment provided it is put forth in front of the investor with suitable products and at the same time also enhance the quality of existing service.

The quality of financial institutions providing investment expertise and its impact on mutual fund investments and on investors perception and satisfaction was studied by Meena (2011). The sample size was of 144 respondents from western Rajasthan. The study opined that financial institutions need continuous improvement. The mutual fund industry needs to innovate investment products so that investors have more choices. The study states that awareness needs to be built among investors. Advisors need to focus on investment objectives and risk tolerance of investors.

A study to understand the knowledge levels of mutual fund investors was done by Nihar (2011). The study and also tried to examine the relationship between risk and knowledge. The study consisted of 436 investors form the city of Visakhapatnam. The study showed that there was average to poor awareness levels among investors. Preferred savings avenue of the respondents was post office savings and safest investment avenue cited was post office savings and bank savings accounts. The study concluded that lack of knowledge brings about resistance to the investment and therefore low level of awareness need to be tackled by the industry.
Saini et al. (2011) analysed mutual fund investor behaviour, opinion and perception towards issues including type of fund, objective of investment, role of financial advisors, factors that attract them to mutual fund investing, sources of information, deficiency in services etc. The study considered 200 respondents from the city of Chandigarh. The study opined that tax benefits, high returns and safety are the main motives behind investment into funds. Investors focus on past performance including past dividend record. Newspapers are considered by majority as their main source of information followed by advisors and internet. The study states that demographic variables have no significant relationship with criteria for evaluating funds. The study concludes that new and innovative schemes need to be launched by funds to win back investor’s confidence.

A study undertaken by Saha and Dey (2011) to gauge the factors that are considered by a mutual fund investor before investing and also know the level of awareness among investors about mutual fund investments. The study considered a sample of 100 investors of mutual funds from Kolkata. As per the study, bank deposits were given the first preference by investors followed by insurance and then mutual funds with regard to saving instruments. Mutual funds were ranked one in the category of financial instruments in comparison with shares, debentures and bonds. 56 percentage of the respondents had an inclination to invest in future through mutual funds. Investors favoured growth schemes and open ended schemes. Investors preferred safety, good return and liquidity in that order as three factors that induce them towards mutual funds. With regard to information sources, investors had high priority for reference groups followed by print media. 67 percentage of the respondents preferred mutual funds to direct equity investing. 72 percentage of the sample had awareness about mutual funds. The study stated that awareness of investors with regard to mutual funds is independent of age. The study concluded that investor’s behaviour needs to be identified and products designed to meet their expectations of risk and return.

A study to understand the investor perception of Tax Saving funds in the state of Tamil Nadu was done by Santhi and Gurunathan (2011). The study opined that investor’s income and age is a determinant in investment for tax savings. The study states that 78 percentage of the respondents made regular investments into ELSS funds through systematic investment plans. The study concludes that there is an association between age.
and satisfaction of investors in ELSS which does not exist with marital status and educational qualification.

**Das (2012)** was a study aimed at finding the attitude of small investors towards investment in mutual funds in the state of Assam. 250 respondents from different towns in the state were chosen. The study stated that there is significant relationship between satisfaction level of male and female respondents with investment in mutual funds. The same does not exist for different age groups, educational status and occupation. The study also states that tax benefits, high returns and safety are the main motives behind mutual fund investing.

A study to know the preferences of mutual fund investors and to understand the role of demographics in mutual fund investments was done by **D’Silva et al. (2012)**. The study also tried to find the factors that could help increase the mutual fund interest. The study was conducted with a sample size of 101 respondents from Mumbai. The study opined that investors choose equity funds for risk diversification and to avail tax benefits. Educational background of investor’s do not significantly influence the purpose of investment. The study concludes that funds need to be customer centric that not only satisfies investors but also increases their loyalty towards the fund.

**Jain and Rawal (2012)** was a study aimed at identifying the preference pattern in mutual funds and to analyse the factors influencing the selection. The study was based on a sample size of 123 respondents of Delhi and Gurgaon. The study states that there is relation between age, savings and preference towards financial instruments. However there is no significant relation between gender and preference for mutual fund schemes. The study observed that most investors choose tax saving schemes and growth schemes. It also brought to light the fact that there is financial illiteracy among educated respondents and that there is an increasing shift towards investment in gold.

The impact of demographic factors on investment decisions were examined in **Jain and Mandot (2012)**. The study considered a sample of 200 investors from different cities of Rajasthan. The results of the study showed that there is a relation between marital status, age, income, education and occupation and the level of risk undertaken. There was no relation between investor’s gender and risk undertaken.
Murugan (2012) studied the impact of different demographic variables on the attitude of mutual fund investors. The study considered 300 respondents from Chittoor region. The results of the study show that there is significant association between age, gender, income, occupation and their attitude towards mutual funds. Return potential and liquidity were ranked one and two as factors responsible for investment.

A study to identify the needs of fund investors and their preferences was done by Mehta and Shah (2012). For this purpose they carried out a survey with 100 educated investors of Ahmedabad and Vadodara cities. The investors ranked mutual funds as their second preferred investment choice. The study showed that investors under age 30 are attracted to high returns followed by low risk, liquidity and company reputation. Investors aged above 50 preferred low risk more than other factors. The study stated that annual income and annual investment into mutual funds are independent of each other. The academic qualifications and knowledge about mutual funds are dependent on each other. More than 50 percentage of the sample preferred growth in NAV rather than dividend pay-out or dividend reinvestment option.

The level of gap that existed between equity investor’s expectation and experience were studied in Paul and Garodia (2012). The study was conducted in the city of Guwahati. The study was based on 4C’s consisting of customer solution, customer cost, customer convenience and customer communication. A sample size of 164 investors were considered. The study found that there existed a gap between equity investor expectation and experience. The study points out that factors like lack of knowledge, complexity and fear of losing money are some of the reasons for investor indifference towards markets. The study also stresses on the need to popularize equity investment through marketing campaigns.

Pawar and Kumar (2012) in their study tried to identify investor’s perception towards risk and return. The study considered a sample of 1200 investors across Warangal district. As per the study investors rated shares as most risky investment followed by mutual funds. Majority of investors considered mutual funds as highly risky on a relative scale. The study opined that mutual funds can become a preferred financial avenue if it is placed in front of the investors in their desired form for which mutual funds need to be innovative and also increase their quality of service.
A study to understand the influence of demographic variables on investments in mutual funds was done by *Purohit and Sharma (2012)*. The sample of the study was 524 investors. The study revealed that age is a factor in risk taking decision. The study opined that gender does play a vital role in investment decisions and more so with regard to risk orientation.

*Vipparthi and Margam (2012)* studied the investor perception towards mutual funds and also whether any relation existed between demographic profile of investor and selection of mutual fund from public and private sector fund houses. The sample size was 400 investors from different regions of Warangal. The study revealed that mutual funds are more prevalent with men and that there is no significant difference of opinion of gender on investments in public and private sector. Majority of fund investors belonged to age 20-30 and 51-60 in both public and private funds. Investors in the age group of 41-50 had investments in public sector and not in private sector funds.

A study to know the investment preference, knowledge of risk and the holding period of investment of mutual fund investors was carried out by *Vyas (2012)*. The sample considered were 363 respondents from the city of Indore. As per the study, mutual funds were ranked 6th by investors out of the nine investment options. Gold and Fixed deposits were the preferred investments. Investors mainly chose lump sum mode of investment into funds as compared to SIP mode. 73 percentage of the investors knew the risk factors in mutual funds. Most investors preferred mutual funds as compared to direct investment into equity. The study showed that investors took advice from brokers followed by friends and relatives. 69 percentage of the investors preferred to hold mutual funds for a period of 1 to 3 years.

An attempt to study the investment preference of investor’s pertaining to Mathura, in particular about mutual fund investments was made by *Agarwal and Jain (2013)*. The sample size was 300 investors. The study found that 96 percentage of the investors are aware about mutual funds. The investors ranked returns and tax benefits as the most important factors influencing investments. 23 percentage of the investors showed investment preference for mutual funds. The study concluded that mutual funds as a concept is yet to reach the small investor and therefore is not a preferred avenue of investment.
Bhuvaneshwari (2013) studied the investor perception towards equity tax saving mutual funds. The study considered a sample size of 120 respondents. The study showed that there is no significant relationship between age and opinion towards facilities provided by mutual funds. Also that grievance handling mechanism adopted by funds is independent of the age of the respondent. The study found significant difference between opinions of respondents towards service facilities provided by the funds and investors experience. With regard to rate of return, the opinion of respondents was seen to be independent of the experience.

The impact of different demographic variables on the attitude of investors towards mutual funds were analysed in Kothari and Mindargi (2013). The study had a sample of 200 respondents of Solapur city. Asper the study, 42 percentage of the respondents invested for tax benefits followed by 33 percentage for higher returns. Of the sample, 50 percentage of the investors were not interested in investing in mutual funds. 33 percentage stated that they have an imperfect knowledge of funds. 80 percentage of the investors had a short term duration for investment. The source of information was mainly through print media. The study opined that there is need to create awareness among customers about mutual funds.

A study undertaken by Khan and Kotishwar (2013) to test whether the choice of public and private sector mutual funds is independent of demographic profile and also the identity factors that affect the investors perception and selection of funds. The sample size of the study was 500 investors from Telangana region. The study stated that the factors influencing investments into funds in the order of importance are liquidity, flexibility, tax savings, service quality and transparency. There was no significant difference in perception of investors on these factors for both public and private sector funds. For factors like management fees, returns, security, there is significant difference in perceptions. The study also revealed that investor’s perception is dependent upon demographic profiles like gender, age and education.

Nandan and Thomas (2013) was a study to understand the investment pattern of college teachers at Bangalore more particularly of mutual fund investments. The study considered a sample size of 100 teachers. The study showed that the most preferred investment option was fixed deposits. Growth of investment was an important factor for choosing the
investment. 60 percentage of the sample did not invest in mutual funds. The study observed that there is no significant relation between subjects taught by a teacher and the presence of mutual funds in his portfolio.

A study to understand the behavioural elements of investors, in order to identify their attitude towards mutual funds was carried out in Rakesh and Srinivas (2013). The study considered a sample of 400 investors from three districts of Andhra Pradesh. The study stated that investors in the age group of less than 35 years prefer to take more risk and anticipate more returns.

A study to understand the investment pattern and preference of investors towards mutual funds was done by Rathnamani (2013). For the purpose of the study 100 respondents were considered in the city of Trichy. The study states that investors prefer mutual funds in order to earn high returns at low level of risk and for liquidity. The investors risk taking ability is stated to be moderate to low. The study concludes that investor awareness programs can bring about the benefits of mutual fund investing.

A study to probe the attitude of investors towards mutual funds which could help marketing of funds by performed by Subramanya and Murthy (2013). The research was carried out with a sample size of 150 investors from Chikkamagalore district in Karnataka state. The study observed that there is significant association between age, gender, education, income, occupation and attitude towards mutual funds. The study concluded that safety of invested amount is a prime concern of the investor. The researcher also opined that investor education could play a big role in increasing the fund flows into mutual funds.

Zafar et al. (2013) analysed the investor perception, buying behaviour, and awareness of mutual funds among investors and also the factor influencing their preference for a brand. The study was conducted on sample size of 125 respondents in the city of Lucknow. The study stated that majority of the respondents were aware of the benefits of mutual funds and that investor’s purchase mutual funds for tax benefits and return potential. As per the study, the top preferred brands included ICICI, Reliance, SBI, UTI and HDFC mutual funds. The study states that variables considered by investors while investing included fund performance, fund size and age of the fund.
A study to understand the fund buying behaviour of individual investors was made by Chawla (2014). The study also tried to identify the attributes that are considered important for investing. The study considered a sample size of 431 respondents though an online survey. As per the study, the most important factor for considering a scheme for investment is the performance record, followed by recommendation from friends and relatives. Most of the respondents of the study took their own investment decisions. The most preferred funds were growth funds and tax saving funds. The most important reason cited for investment into mutual funds was tax savings, followed by higher returns and capital appreciation.

A study to analyse investors perception towards mutual funds with regard to it being safe and secure was made by Kumar (2014). The sample consisted of 160 respondents from Sirsa district. The study revealed that there is no significant difference in opinion of various income groups and gender regarding investment in mutual fund being safe and secure. The study concludes that most investors have negative perception regarding investment in mutual funds.

The factors considered by investors before making investment decisions, their sources of information, methods used to evaluate the performance and deficiencies in functioning of funds were studied by Kumar and Goel (2014). The study was conducted with a sample of 200 investors within the state of Punjab. The study states that growth, regular income, liquidity were the important objectives for investment ranked in that order. Past performance of the fund is considered as the most important criteria for selection of a fund followed by the brand. Newsletters followed by broker recommendations are considered to be the main sources of investor information. Absolute return is the most important parameter for performance evaluation. Investors have service dissatisfaction as a major deficiency of mutual funds.

Sehdev and Ranjan (2014) studied the preference and perception of investors towards mutual funds including the factors responsible for the preference. The study was conducted in Delhi with a sample size of 160 respondents. The study stated that balanced debt funds are more preferred by investors. Savings, security for future, regular income and capital appreciation are the reasons cited for fund investments. The investors preferred bank
deposits as compared to mutual funds. The study states that internet and visual media are the preferred sources of investor information with magazines are least preferred.

Investor awareness and perception towards mutual funds were examined by Kumar and Goel (2014). The study was done with a sample size of 200 investors belonging to the city of Delhi. The study observed that there is a strong relation between age, education and awareness of mutual funds. However there is no relation between occupation and awareness of mutual funds. The study found strong relation between gender, age and rationale for investing in mutual fund. The study also stated that investors ranked tax benefit and flexibility as two important benefits of mutual funds. Internet and newspapers are two widely used sources of information. Investors who did not invest in mutual funds stated lack of knowledge as the prime reason.

A study aimed at identifying behavioural dimension of investors in ELSS funds, to evaluate the components that influence investor preferences, to analyse customer satisfaction, its role in investment decision making and preparing a model defining customer satisfaction was undertaken by Sharma (2015). The study observed that grievance redressal, after sales service and transparency affect customer satisfaction and increase perception towards ELSS funds.

3.4 Conclusion

Mutual Funds have been a topic dear to researchers for quite some time. As can be seen from the review, researchers have touched all facets of mutual fund activity be it performance evaluation, persistence of performance, performance attribution, impact of size, fund expenses, manager characteristics etc. Abundant research is also available on investor perception and preferences towards mutual funds.

Indian researchers mostly focussed on performance appraisal of funds, individual as well as category wise and also have done a number of comparative studies. There have been numerous studies on region wise investor attitudes, preferences and perception towards mutual fund
investments in general. The studies pertaining to Equity Linked Savings Scheme mutual funds as an independent and distinct category of mutual funds are few, be it on investment performance or investor perception.

In order to make available a vehicle for small investors to invest their savings into equity markets, the Government introduced Equity Linked Savings Schemes in the year 1991 and provided it with tax benefits so as to incentivize the investors. With over two decades of existence, it is high time to make an assessment of the investment scheme, in terms of its performance as well as its popularity. This present study is an effort in this direction. This study endeavours to fill the research gap by evaluating the investment performance of ELSS funds as a category and also study the investor perception and preference for ELSS funds in comparison to other tax saving investment alternatives.