The Indian Mutual Fund Industry is more than four-decade-old and is a fast-growing industry in the financial sector. Mutual Fund schemes have become the most preferred investment avenue in the recent past. Considering the high returns, liquidity, safety, professional management and comparative low risk, investor's prefer the Mutual Fund route for their investment planning.

The present research is on determining the factors affecting the performance of Mutual Fund equity schemes. The Mutual Fund Industry in India has crossed the landmark figure of Asset Under Management (AUM) of Rs 4,00,000 Crores by the end of June, 2007 (as per AMFI) and has been continuously increasing. A year ago, during June, 2006 the AUM was approximately Rs 2,63,949 crores and the AUM has shown a growth of 41% during this period. The Mutual Fund industry had grown by mere 2.1% during the year 1992 to 1998 (Fernando Deepthi, Klapper Leora, Sulla Victor, Vittas Dimitri, May 2003). From a mere growth of 2.1% in a period of 5 years, the Indian Mutual Fund Industry is growing at a rate of 41% per annum over the years (As per Association of Mutual Funds of India (AMFI) Quarterly update - Issue IV (Jan - Mar 2007)). The Mutual Funds have the ability to grow 35% to 40% for the next 2 to 3 years (Financial Express dated 19th June, 2008). The growth in the AUM has been due to the favourable stock market prices
and more investors have been pumping their money in the Mutual Fund Industry.

AUM is likely to grow at the same rate in the future either due to the increase in the stock market prices and also due to the reason that the Mutual Fund industry is the most desired investment avenue for the Investors. The main perceived reasons for the Investors to invest in Mutual Fund schemes are Safety, Liquidity, Tax Benefit, Returns and Capital Appreciation on the investments. RBI data shows that Mutual Funds, which accounted for only 0.4% of the country’s savings in 2004-05, increased their share to 4.8% in 2006-07 (Business Outlook dated 28th June, 2008). The Per Capita Income in India is currently at USD 720 (source: http://www.ibef.org/download/IBEF_Presentation_on_Indian_Economy_Opportunities.ppt). The Per capita income has grown by 7% CAGR over the past decade and is projected to cross USD 1000 by the end of the decade (source: http://www.birlasunlifeonline.com/assettestims/images/equity%20fund/equitypresentationsep05.pdf).

This shows that there is a lot of potential for the Mutual Fund Industry to grow in the future.
Globalization of finance and expanding presence of large multinational financial groups in various countries added to the good performance of the equity and bond market has lead to the global growth of Mutual Funds.

The Mutual Fund Industry is a fast growing segment of the Indian Financial Market. It provides various schemes to the Investor to suit to their needs and risk return profile of different categories of investors. The Investors are kept informed regularly through periodical reports and statutory disclosures about the health of their schemes. SEBI has made it mandatory to give periodic reports and certain statutory disclosures by the Mutual Funds.

The biggest challenge to the Fund Manager today is the performance of the Mutual Fund Schemes. The main genesis of the performance of the Mutual Fund Scheme is to maximize the returns and minimize the risk involved in investing in securities. Investors are also very keen in evaluating the performance of their portfolios.

Today the Investor is confused about where to invest, which fund to invest, whether his capital is safe or not. Many sites, like www.crisil.com, www.myiris.com, www.mutualfundsindia.com, www.valueresearchonline.com etc which carry out the performance evaluation of various Mutual Fund schemes and publish their ranking of the schemes in various segments.
However, the crux of performance evaluation of Mutual Fund schemes is very
difficult and may require further studies to evaluate.

The CRISIL Composite Performance Ranking (CPR) is the most accepted
ranking by the Fund Houses, Distributors and the Investors. The
performance criterion covers the risks versus the returns and also the
assessment of the portfolio. The CRISIL Risk adjusted Return Ranking is
also a new ranking system assigned by CRISIL for Mutual Fund Schemes.
There is a shift of the ranking on the mere performance to the risk adjusted
performance of the schemes.

In India, the growth of Mutual Funds started in the third phase with the entry of
private sector funds in the year 1993. SEBI introduced the Mutual Fund
Regulations in 1996. By the end of January, 2003 there were 33 Mutual
Funds with the total Asset Under Management of Rs 1,21,805 crores. In
February 2003, the Unit Trust of India act was repealed by the Government of
India and the Total Asset Under Management went down drastically to Rs
87,190 crores. The Mutual Fund saw a new beginning and has reached
approximately Rs 4,00,000 crores till the end of June 2007. Considering the
same, the Indian Mutual Fund Sector is about a decade old unlike the Mutual
Funds in the developed countries. Along with the growth, the competition in
the industry is ever increasing. Apart from this, there are challenges being
faced by the Mutual Funds, the Asset Management Companies and the Fund Managers. Through this research, an attempt is being made to find out the **underlying reasons** for high or low performance of the Mutual Fund Schemes.

**Objective of the Research**

The Objective of the research is to give a direction to the Fund Managers to align their schemes from a low-performing scheme to a high-performing scheme. The other objective of the research is to give a direction to the Investors for investing in potential high-performing schemes.

**Reasons For Selecting the Present Problem.**

Extensive research have been done till date on the performance of the Mutual Fund Schemes. Secondly, many researches have been carried out on the performance evaluation of the Mutual Fund Schemes. Most of this research has been confined by taking one factor at a time. At present the Fund Managers are more interested to know the various factors, which will increase the returns of the Mutual Fund Schemes and decrease their portfolio risk. The Investor is more interested to know whether to keep his investment in the same scheme or look for a better performing scheme.
It appears that performance and performance measurement has been overdone on the Mutual Fund Schemes. Thus through this research, attempt is being made to find out the underlying reasons for high or low performance.

**Research Gap**

The earlier studies were focused on individual factors and interpreted the meaning and significance of each factor. Being univariate, it provides a partial view of the performance of the Mutual Fund, with one aspect at a time. The same will be useful to the experts and not to the common investor. The investor would like to have a single measure by which he would be able to classify the schemes into high performing or a low performing scheme. The investor would like to have a single score to have an idea of the future performance of the scheme and take a decision on his investment in the scheme.

At the same time, the single score will facilitate the Fund Manager to have the foresight on future performance and the corrective steps required to be taken, if any, to enhance the performance of the scheme.
Conclusion

The present study was concentrated on finding out the factors affecting the performance of Mutual Fund Schemes. It is also an attempt to develop a single score of the performance of Mutual Fund scheme. The Discriminant Analysis has been used to analyze this Research Gap and come out with a single score. This will help the Fund Managers to align their schemes with vital strategies and attempt to make it a high performing scheme. It will also help the investor to identify the potential High performing schemes.