CHAPTER 12

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12.13 Conclusion
12.1 Introduction

The Indian Mutual Fund Industry has witnessed unprecedented developments and innovations since its inception in 1966. This research work aims at evaluating the performance of Indian Mutual Fund industry with special reference to Franklin Templeton, HDFC and ICICI Prudential Mutual Funds. A good research work has to draw valid conclusions and findings of the study in a systematic manner.

In a broader sense, this chapter presents the conclusions and findings of the study based on the examination that was carried out to find the growth and the development of the Indian mutual fund industry in terms of resources mobilised, assets under management and the different products existing in the country. The researcher has also made a sincere attempt to examine the profile of Franklin Templeton, HDFC and ICICI Prudential Mutual Funds, their products and performance. The conclusions and the findings based on the performance evaluation of the sample schemes using Sharpe ratio and the observations made from the investors and distributors’ survey is presented in the following paragraphs in a logical and systematic manner.
### 12.2 Objective-Wise Conclusions

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<th>Sr.No.</th>
<th>Objectives</th>
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| 1.     | To understand and examine the growth of the Indian mutual fund industry. | a. This study observes that the Indian mutual fund industry has witnessed major transformation and has evolved out of four distinctive phases. Initially the industry started with UTI as its only player. However, with the entry of public, private and global players, India has not only emerged as a major investment destination but also has some of the best international practices in terms of performance and investor services.  

b. The Indian financial market is now becoming more sophisticated and complex and the industry has started opening up many exciting investment opportunities for Indian investors. |
c. The industry has not only grown in terms of number of funds but also in terms of number of schemes, investor base and the range of products offered to the investors, which has eventually made them emerge as a strong financial intermediary and the fastest growing segment of the financial services sector in India.

d. The study also observes that many average middle income investors have relied on mutual funds as the one place in the securities industry where their interests were likely to get fair consideration.

2. To study the organisation, management and regulation of Mutual Funds in India.

a. This study observes that in India, Mutual funds can be set up as trust only and the legal structure is mandated by the Securities Exchange Board of India. As per these regulations, mutual funds are required to have a three-tier structure of
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<td>Sponsor, Trustee and Asset Management Company.</td>
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<td>b.</td>
<td>The Asset Management company manages the money of the unit holders and the custodian holds the funds securities in safe keeping. The units are then sold to the investors by the distributors.</td>
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<td>c.</td>
<td>The regulatory framework is very comprehensive and matches with other countries in terms of standards, practices and procedures. It is also observed that there is wide innovation in the different categories of mutual funds and they offer a wide variety of schemes to suit the various needs of investors. The government has also liberalised the policies relating to the setting up of mutual funds.</td>
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<td>3.</td>
<td>To study the services offered by mutual funds.</td>
<td>a. The present study observes that the mutual funds offer a wide variety of</td>
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services to the investors. Investors have benefited greatly over the years from the opportunity mutual funds offer by gaining broad diversification and professional fund management.

b. Some of the leading companies also offer specialised services like Portfolio Management Services, Redemption of units within 24 – 48 hours, switching between units and plans and options. Investor statements, web based services, phone services, call centres, online calculators, and online account servicing.

| 4. | To examine the development of Indian Mutual Funds in terms of resource mobilisation and assets under management. | a. The present study which examined the Indian mutual fund industry found that during the study period, the mutual fund industry registered a significant growth and grew in size in terms of both resource mobilisation and assets under management. Overall the study reveals that the development was found to be |
The study has found that new avenues have been opened up and the industry is witnessing a transition to a better future.

The industry is also witnessing consolidation and aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by smaller private sector players and nationalized banks.

The study observes that Franklin Templeton, HDFC mutual fund and ICICI Prudential mutual funds were launched during different phases of the industry. From the time of their launch, these companies have grown significantly in terms of assets under management and variety of products, superior technology and a powerhouse of the best talent in the Industry and have generated long term returns for their investors.
The study reveals that in terms of size of the funds, among the sample companies, ICICI Prudential is in the first position, followed by HDFC mutual fund and Franklin Templeton mutual fund.

6. To evaluate the performance of the sample schemes of Franklin Templeton, HDFC mutual fund and ICICI Prudential mutual using Sharpe's ratio.

- From this study it is found that performance evaluation of sample schemes using the technique of Sharpe's ratio is a better technique than the Average Rate of Return measure as it considers the risk adjusted rate of returns. It also provides an unbiased look into the sample schemes performance. All mutual fund schemes have different objectives and therefore their performance also varies. This resulting measure helps to identify the most "efficient" fund, namely the one with the highest return per unit of risk.
This study has found out that top 5 performing funds on the basis of Sharpe ratio method are:

1. ICICI Prudential Short Term Plan
2. ICICI Prudential MIP
3. HDFC MIP Long Term Plan
4. FT India Monthly Income Plan
5. Templeton India-STIP

A look at the top ranking funds during the study period shows that ICICI Prudential Short Term Plan has emerged as the best performer among all the sample schemes.

12.3 General Conclusions of the Study

1. The present study observes that mutual funds are collective investments which gather money from different investors to invest in stocks, short-term money market financial instruments, bonds and other securities and distribute the proceeds as dividends. The mutual funds in India has grown tremendously in terms of number of funds, number of schemes, resources mobilised, range of products being offered to the investors and service offerings in recent years.

2. The present study has found the following as the advantages of mutual funds:
In India the mutual funds offer flexibility by means of dividend reinvestment, systematic investment plans and systematic withdrawal plans.

These funds are available in small units, so they are affordable to the small investors.

The fees charged for custodial, brokerage and other services are very low in case of mutual funds in India.

These funds have the option of redeeming or withdrawing money at any point of time.

The mutual funds in India are managed professionally.

3. The market regulator, Securities and Exchange Board of India, has already brought about sweeping changes regarding disclosure norms for the industry. As the regulatory framework moves towards a platform of greater transparency, in a move to safeguard the integrity and viability of this industry, investors would increasingly have a greater degree of comfort.

4. After examining the Indian Mutual Fund industry, this study has found that the industry has evolved over four distinct phases. There was a period when investor confidence in mutual funds eroded but now with a stable government in place and a conducive investing atmosphere, the growth seems to be satisfactory.

5. With the entry of more and more mutual funds, the number of mutual fund schemes has increased tremendously and competition has also intensified. This
has forced product innovation and the private sector mutual funds and foreign mutual funds are coming forward with tailor made products to meet the needs of the investors.

6. The present study has found that the industry has designed variety of schemes to suit the needs of the investors. They are:

- Open-ended scheme that does not have fixed units and which is not listed on stock exchanges.
- Close-ended scheme with limited capitalisation and a fixed number of units which are traded at a stock exchange.

On the basis of investment objectives, there are two basic types of schemes:

- Equity funds which primarily invest in listed equity to give a higher rate of return.
- Debt fund which invest in the fixed income securities like bonds and debentures to provide a reasonable rate of return to investors at minimal risk.

Some of the popular schemes tailored to meet varying investor needs are:

- Income schemes which seek to maximise yearly income
- Growth schemes which try to achieve both, capital and income growth.
- Tax-saving schemes which contain various options like income, growth or capital appreciation.
- Balanced schemes that attempt to earn an acceptable return with a low-risk strategy of investing in a mix of equity and debt.
Money market mutual funds are funds that operate in short-term money market securities like certificates of deposits, commercial papers and government short-dated securities and call money markets.

Gilt fund is a debt fund investing in government-specified gilt securities.

On the basis of charges levied on investors, load schemes are ones which charge a fee to cover various expenses like commission.

7. The study found that the robust growth in mobilisation by mutual funds has been due to the following factors:

- The private sector mutual funds generated good returns.
- Increased liquidity as industry players have focused on product innovation.
- The industry players have devised innovative channels of delivery to gain and strengthen their market share.
- The tax incentives offered by the government have helped mutual funds gain popularity with investors.
- Growing risk appetite, rising income and high savings rate.
- An appropriate regulatory environment.

8. The study observes that financial assets show a clear declining trend. More and more investors are shifting towards mutual funds.
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9. The fund houses have also launched many new innovative schemes such as power, energy, natural resources and Gold ETFs. Another long-standing innovation – global funds, also debuted in the industry.

10. The study observes that technology has made the mutual fund industry more efficient, cost effective and transparent so the companies are trying to build technology, infrastructure and quality control processes to provide convenience and customer satisfaction. The mutual fund companies have also developed Portfolio Management Services.

11. The close-ended schemes were always the preferences of the fund managers until three years back. Now the growth pattern shows that the scenario has completely changed. Open-ended schemes that provide liquidity to the investors and their easy entry and exit options have become very popular among the investors.

12. Fund managers are now offering schemes that have features of re-investment plans, systematic withdrawal plans and switchover facilities between the schemes that suit the preferences of the investors.

13. The Asset Management Companies have come out with sector specific schemes also targeting sectors such as information technology, pharmaceutical, brand value and fast moving consumer goods. These innovations are widely being accepted by the investors.
14. Another long-standing innovation - global funds, debuted in the industry. Fund houses adopted different strategies. Some invested directly in global equities; others opted for the Fund of Funds (FoF) route by investing in global funds.

15. Gilt fund envisaging 100 percent investment in government securities were launched making the gilt market accessible to small investors.

16. Another innovative product was to invest solely in dematerialized securities and exchange of any security in dematerialized segment, instead of cash, for the units of the scheme.

17. Just as individual investors in India have started to accept mutual funds as viable saving options, mutual funds have started warming up to an unorthodox category of bulk investor, the foreign institutional investor.

18. The fund managers find it very difficult to understand the expectations, perceptions, beliefs and the sources of motivation of the individual investors since it varies from one person to the other. This is where the fund managers fail miserably.

19. The Association of Mutual Funds in India (AMFI) which sets the industry standards for all funds operating in India has a certification process and SEBI
Chapter 12 has made it mandatory for anyone engaged in selling mutual funds — agents as well as those employed in distribution companies and banks to obtain this AMFI Registered Mutual Fund Advisor (ARMFA).

20. The study observes that expectations of the investors play a vital role. These expectations of the investors are influenced by their “perceptions” and humans generally relate perceptions to action.

21. The role of investors is also changing as they become more selective about schemes. This new breed of customers could be called e-customers. Technology advancement via the internet has reduced distribution and transaction costs and speeded up document processing online. The internet also provides instantaneous access to information and enables a switchover in investment decisions, and handling of investors' grievances and so on. As a result, it will improve efficiency and decrease costs.

22. The study reveals that the pattern of investment in India has changed tremendously. The growth oriented schemes and tax saving schemes are increasingly becoming popular among the investors.

23. Many mutual funds organisations believe that the agent’s play an important role in influencing the investor.
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24. The future of Indian mutual fund market depends to a large extent on the various initiatives taken and the policies framed by the government and the regulators towards the development of this market, but one thing is sure that in future mutual funds are here to stay, sustain and grow.

12.4 Specific Conclusions about the profile of ICICI Prudential Mutual Fund, HDFC Mutual Fund and Franklin Templeton Mutual Fund

1. This study observes that ICICI Prudential Asset Management Company Limited is a joint venture between ICICI Bank and Prudential Plc. set up with the key objective of providing mutual fund products to suit a variety of investment needs of Indian investors.

2. ICICI Prudential Asset Management Company is the largest asset management company in the private sector and the second largest in the mutual fund industry in India.

3. ICICI Prudential Asset Management Company has forged a position of pre-eminence in the Indian Mutual Fund industry as one of the largest companies in the country with its consistent long term performance, innovative products, superior technology and a powerhouse of the best talent in the Industry and has generated long term returns for its investors.
4. The study observes that ICICI Prudential’s bottom up and rigorous process driven approach to managing funds coupled with strict control measures has ensured consistent product performance over the years.

5. The study reveals that ICICI Prudential mutual fund has emerged as the most popular brand in the country. The advertisement campaign launched by the company on several well-known and popular channels of television has also been well acknowledged by the investors, and its advertising in the past has won numerous accolades and mentions, such as the 2001 Abby Award for Best Internet Advertising.

6. The study reveals that ICICI Prudential mutual fund has established a multi-channel approach in order to distribute its various products and the company’s operations have been fine-tuned to meet competition. The company also educates and trains the agents and distributors to understand customer requirements and counsel them accordingly.

7. The study also reveals that ICICI Prudential mutual fund follows the customer-centric approach and for this the company gives more importance to understand customer requirements. The company also commenced the Portfolio Management Services (PMS) on a discretionary and non-discretionary basis.

8. The company has institutionalized real time brand awareness monitors and has undertaken usage and attitude studies on investment options. Using various
media effectively has been the hallmark of ICICI Prudential’s advertising campaigns.

9. ICICI Prudential AMC has announced Long Term Incentive Plan (LTIP) to certain employees of the company. The objective is to provide long term incentives to the performing employees.

10. The company is also tapping new investor segments to boost business such as daily wage earners and other unorganized sector workers — by offering them SIPs for very nominal amounts in their debt and liquid fund schemes.

11. This study observes that HDFC Limited and Standard Life Investments Limited are the sponsors of HDFC Mutual Fund and is one of the dominant players in the mutual funds space recognized for its high level of ethical and professional conduct and a commitment towards enhancing investors’ interest.

12. The study reveals that HDFC Mutual Fund has solid infrastructure and the company also does the required research and analysis, based on which the investors can invest profitably and need not worry about the market swings.

13. From the examination of the profile of HDFC Mutual Fund, it is observed that HDFC Mutual fund is called as a Star Performer. It has been a consistent performer and the age-old brand image has helped them find trustworthiness in the minds of the investors.
14. The study reveals that the company also commenced portfolio management activities and believes that the employees are important stakeholders in the growth and development of the organization.

15. The study observes that HDFC Mutual Fund recognizes their distributors as the most important link between the investors and the company. It has also launched country’s first-ever mutual fund service to enable investors to buy and sell mutual fund units through automatic teller machines (ATMs). The company has also tied up with Union Bank of India to distribute its products across India.

16. HDFC Mutual Fund has witnessed significant growth in the past few years. An important reason for HDFC Mutual fund’s success is that the company always tries to give the investors long-term benefits by constantly reviewing the markets for new trends and by identifying new growth sectors and by offering innovative products.

17. This study which examined the profile of Franklin Templeton Asset Management Company sponsored by Templeton International Inc., has found that even though this company is not among the top five best funds of the country, it is very popular among the investors because of the consistent returns delivered by their schemes.
18. It has been found that after acquiring Pioneer-ITI, to expand its operations, Franklin Templeton has been launching new schemes and it is also one of the biggest players on the equity side in the Indian mutual fund industry.

19. Franklin Templeton follows a rigorous risk management process, which includes a dedicated risk manager who works closely with the investment teams in monitoring and evaluating the performance of the schemes.

20. Templeton mutual fund has also established a multi-channel approach to the distribution of its various products it has been regularly tying-up with banks for the distribution of its mutual fund products. This has given the company products accessibility across the country.

21. The study reveals that most important reason for the success of Franklin Templeton can be attributed to the talented local management across all functions of the organisation in India. Not only that it has adapted its international products, processes and practices to suit Indian investors.

22. Another important observation of sample schemes of the companies shows that sector allocation plays a major role. The fund managers who have cautiously selected the sectors have shown good performance.
23. On examination of the profile of the sample schemes in chapter 5, 6 and 7, the following interesting observations were made by the researcher.

- ICICI Prudential Dynamic Plan - A look at the allocation strategy clearly indicates that the strategy is generally based on liquidity in the market, return potential and market valuation at that time.

- ICICI Prudential Growth plan - Due to high inflation and volatility, the schemes performance was not satisfactory.

- ICICI Prudential Index fund - Serves the investors by holding a portfolio comprised of well-managed diversified equity funds with proven track records across parameters and time frames.

- ICICI Prudential Tax plan has under-performed its category only few times and during those times it has also recovered very quickly.

- ICICI MIP has continuously outperformed its bench mark and has shown a satisfactory performance.

- ICICI STP has shown remarkable performance since its inception.

- ICICI Balanced Fund has consistently been delivering an above average return.

- HDFC Growth fund despite having a decent corpus size, active fund management style and a good brand name has failed to match the expectations of the investing people.

- HDFC Index fund has underperformed its benchmark returns. Even the peer average has been very unsatisfactory. During the study period, the five year return has continuously shown underperformance which reflects the market scenario.
❖ HDFC Equity has not only outpaced the indices, but also a host of peer funds. This remains one of the best performing funds in its category. The portfolio is characterized by concentrated stock and sectoral holdings.

❖ HDFC MIP has always stood on the top across all selected time frames.

❖ Templeton India Growth Fund has outperformed its benchmark for two years during 2004 and 2005. But 2006 and 2007 has not been a satisfactory year because of the sudden fall in returns.

❖ Franklin India Tax shield is an average performer and has consistently outperformed its benchmark.

❖ Templeton India Government Securities Fund has under performed the benchmark and has not matched the expectations of the investors.

❖ The fund manager of FT India Balanced Fund has succeeded in striking an optimum balance between growth and stability, by maintaining a diversified portfolio of equities and managing interest rate movements and credit risk on the fixed income component.

24. On examination of the ICICI Prudential, HDFC and Franklin Templeton’s sample schemes which includes four equity schemes, four debt schemes and one balanced scheme from each company, where only the growth options were considered, the performance of the schemes on the basis of Rate of Return method in comparison with its benchmark without considering risk differed
from the results that was computed on the basis of Sharpe ratio which considered risk adjusted returns.

25. On examination of the performance of the sample companies on the basis of simple comparison of average returns against their average benchmark returns, where the risk factor is not considered during the five year study period, the following results are observed across the different categories of schemes.

- An observation of the sample schemes from the equity category shows that ICICI Prudential Tax Saver is the topper and has outperformed its benchmark consistently.
- The worst performer in the Equity category is HDFC Index fund.
- An observation of the sample schemes from the Debt category shows that ICICI Prudential Short Term Plan is the best performer.
- The worst performer in the Debt category is ICICI Prudential Gilt Fund.
- An observation of the sample schemes from the balanced scheme category shows that all the three schemes of the sample companies have performed satisfactorily.

2.5 Specific Conclusions relating to the Sharpe’s performance evaluation technique

1. Higher returns or a rapidly appreciating NAV do not necessarily mean that the fund is a good performer. A well-managed fund should be a consistent performer and it should have the ability to outperform the peers and the benchmarks over different periods of time.
2. This study observes that a good performance evaluation technique for mutual funds should always consider the risk adjusted returns and not the returns alone. For this purpose the performance evaluation of the sample schemes were carried out using the Sharpe Ratio in this study and it was observed that on an average the risk adjusted return computed on the basis of Sharpe ratio for majority of the sample schemes outperformed their benchmark ratios.

3. This study observes that the speciality of Sharpe ratio is that it brings different schemes on an even level, and it helps the investors to find out whether the excess returns earned are due to smart investment decisions, or due to excess risk undertaken by the fund manager. If investors only look at the return and volatility figures given by the standard deviation of the scheme, the decision-making process becomes tough, as it is difficult to interpret how the various schemes stand with respect to each other.

4. This study has found that by using the technique of Sharpe’s ratio, when the performance of the sample schemes was computed ICICI Prudential Short Term Plan surfaced to the top position.

5. The study observes that there is no statistical difference in performance of the Sharpe ratios of the sample schemes and Sharpe ratios of their respective benchmarks.
6. Out of the 27 sample schemes, the best five performers based on Sharpe’s measure on the basis of their ranks are:

   a. ICICI Prudential Short Term Plan
   b. ICICI Prudential MIP
   c. HDFC MIP Long Term Plan
   d. FT India Monthly Income Plan
   e. Templeton India-STIP

6. The Monthly Income Plans of all the three sample companies have also performed very satisfactorily and the Sharpe ratios of these funds have outperformed their benchmark ratios with a decent margin.

7. Among the 27 sample schemes, the schemes that showed margins of huge difference and displayed poor performance against their benchmarks are:

   1. HDFC Income Fund
   2. ICICI Prudential Gilt fund
   3. Templeton India Growth Fund
   4. HDFC Index Fund
   5. Templeton India Govt. Sec. Fund TP – Growth
   6. HDFC Gilt fund

7. ICICI Prudential Growth Fund and HDFC Growth Fund have outperformed their benchmark ratios in the growth fund category. Templeton India Growth fund has underperformed in this category when compared to its competitors and the Sharpe ratio is below its benchmark ratio when compared to its peers.
8. HDFC equity fund is the best performer in the Equity category followed by ICICI Prudential Dynamic plan. Templeton India equity income fund is in the third place but still has managed to outperform its benchmark. So it can be concluded that this category on the whole has performed reasonably well.

9. ICICI Prudential Index Fund and Franklin India Index fund have managed to outperform their benchmark ratios in Index fund category. HDFC Index fund has underperformed in this index category when compared to its competitors.

8. ICICI Prudential Tax saver fund has excelled in the Tax saver category and this scheme has managed not only to time its market effectively but also has allocated its sector very carefully to get good returns.

9. The monthly income plans are supposed to be a reasonably safe option with most of its corpus being invested in debt securities and the remaining in stocks. The Sharpe ratios of all the schemes have outperformed the benchmark ratios of the schemes in this category and ICICI Prudential Monthly Income Plan which is a conservatively managed fund is in the first place.

10. The performance of the sample income schemes is not satisfactory. Templeton India Income fund has generated lower returns per unit of risk than their benchmark and HDFC Income fund has shown a very poor performance.
11. Prudential AMC has delivered a sustained outperformance on a risk-adjusted basis across the fund line-ups in the short term plan category followed by Templeton India Short term income plan and HDFC short term plan which has also managed to adjust risk successfully and outperform their benchmark ratios with their consistent performance.

12. Gilt funds are considered to be in the low risk category as they are invested in government securities but the study observes that Sharpe ratios of all the funds under this category have underperformed their benchmark ratios. This shows a negative picture on these funds.

13. All the balanced schemes have performed extremely well after adjusting risk according to the method of Sharpe ratios and have outperformed their benchmark ratios. HDFC prudence fund is the topper in this category, followed by ICICI Prudential balanced fund and FT India Balanced fund.

14. The study also found that there is difference in results of performance of schemes based on Sharpe’s reward to variability method and Average Rate of Return method.

15. Some of the important reasons for underperformance of funds are:
   - Tools
   - High cost
   - Incentives and
Investment style limitations.

12.6 Specific Conclusions based on the Investors response

In order to identify and understand the perceptions, behaviour, preferences among mutual fund organisations and preferences among scheme types etc. with regard to the sample schemes (ICICI Prudential mutual funds, HDFC mutual funds and Franklin Templeton mutual funds), a comprehensive survey was carried out by the researcher and the conclusions drawn based on the observations made are presented below:

1. The present study observes that a mutual fund should satisfy the investor’s “needs and expectations”. Generally an individual investor looks for the basic things, they are – growth of funds invested, liquidity, tax benefits, and safety. These expectations of the investors are influenced by their “perceptions” which in turn influence their decision making.

2. The investors play a very important role and their investment decision making affects the returns of the fund. They also respond differently to fund performance across fund types.

3. The survey reveals that the investors are very cautious about their investment decisions. They have diversified their investments and the most preferred investment vehicles are bank deposit and mutual funds.
4. The survey reveals that investors give importance to fund qualities so the fund managers must keep in mind the following qualities which the investor expects while designing the products:

- Fund's performance record
- Fund's reputation or brand name
- Scheme's portfolio of investment
- Withdrawal facilities
- Favourable rating by a rating agency
- Innovation of the scheme
- Products with tax benefits
- Entry and exit load
- Minimum initial investment

5. Investors in mutual funds are generally motivated by different sources to make investment decisions. This survey reveals that a majority of investors are influenced by the financial publications and the mutual fund distributors in making investment decisions.

6. With respect to investment objectives, it was observed that a majority of the respondents invest in growth and income schemes only. Next they give importance to preservation of principal. Keeping in mind the investors objective of investing, the mutual fund companies can launch schemes to match their expectations.
7. Investors give importance to brand image so the fund managers must always keep in mind that brand image and market goodwill generated out of past performance of mutual fund should be maintained at the same level if the company wants to be successful all the time. This study observes that HDFC mutual fund has a good brand image.

8. This study observes that mutual fund investors seem to have extrapolative expectations. They are optimistic in bull markets and pessimistic in bear markets. They always expect the continuation of past returns. However, many times their expectations are not matched. They do not get the desired returns.

9. When the hypothesis “Individual investor’s selection of mutual funds is based on his perception about the funds in terms of brand image” was put to statistical testing, the following results were observed:

❖ The results support the hypothesis in case of HDFC Mutual Fund.
❖ The results do not support the hypothesis in case of ICICI Prudential Mutual Fund and Franklin Templeton Mutual Fund.

10. A majority of the investors are of the view that ICICI Prudential Mutual Fund, HDFC Mutual fund and Franklin Templeton Mutual Fund are better performers than other private, public and foreign mutual funds.
12.7 Specific Conclusions based on the Distributors response

In order to identify and understand the distributors influence and their perceptions about investor behaviour with regard to the sample schemes (ICICI Prudential mutual funds, HDFC mutual funds and Franklin Templeton mutual funds), a comprehensive survey was carried out by the researcher and the conclusions drawn based on the observations made are presented below:

1. The present study observes that the agent or distributor assumes the role of a financial advisor and is the key channel for bringing mutual funds to a large number of investors all over the country. A mutual fund distributor is responsible for selling the mutual fund shares directly to the public. He helps the mutual fund companies to reach a larger number of investors by providing them a large wholesale market.

2. SEBI has made it mandatory for distributors to register themselves with AMFI.

3. Distributors have a large degree of influence over the investors. They are considered to be the middlemen who connect the investors and the mutual fund organisations. Distributors are the ones who explain the features, advantages and disadvantages of the funds. This survey reveals that distributors influence the investors to a great extent.
4. The present study reveals that the agents do not use just one method to attract the clients. They use two or more methods not only to attract but also to retain the customers.

5. The methods generally followed by the distributors are given below:

- Cold calls
- Telemarketing
- Personal newsletters
- Corporate newsletters
- Seminars
- Advertising
- Media
- Direct mail
- E-mail
- Community involvement
- Referrals

Among the methods given above, the most popular method used by the distributors to attract the investors is advertising.

6. This study reveals that in addition to being the main purchase channel for the investors; distributors are a widely consulted source for advice.

7. This study also reveals that distributors recommend funds to the investors.

Infact the investors even consult the distributors for buying, selling and
switching between funds. Thus we can conclude that distributors have considerable influence in inducing them to make investment decisions.

8. This study observes that a majority of the distributors are of the view that ICICI Prudential Mutual Fund, HDFC Mutual fund and Franklin Templeton Mutual Fund are better performers than other private, public and foreign mutual funds.

12.8 General Findings about the Indian Mutual Fund Industry

1. This study observes that the Indian mutual fund industry which started with UTI as its only player in 1964, officially called as the first phase had 8 funds during its second phase and now has 32 funds comprising of Public sector mutual funds, private sector mutual funds and joint ventures predominantly both Indian and foreign.

2. The industry has not only grown in terms of number of funds but also in terms of Assets Under Management which stood at Rs. 1,00,594 crores during 2002 rose to Rs. 3,26,292 crores as on December, 2007.


4. Resource mobilisation in the private placement market stood at Rs. 1,45,866 crores during the year 2007.
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5. The Total Net resources mobilised by mutual funds which stood at Rs. 6 crores during 1972 touched Rs.13, 021 crores during 1992-93 and reached Rs.1,83,917 crores during 2007-2008.

6. The Category Wise Assets under management as on December 31, 2007 stood as follows:

- Income: Rs.1,97,342 crores
- Growth: Rs.1,92,129 crores
- Balanced: Rs.19,937 crores
- Liquid/Money Market: Rs.1,12,349 crores
- Gilt: Rs.1,975 crores
- ELSS: Rs.19,063 crores
- Gold ETFs: Rs.467 crores
- Other ETFs: Rs.6,674 crores

7. During 1993 the first Mutual Fund regulation came into existence. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

8. The Association of Mutual Funds in India (AMFI) which was incorporated in 1995 reassures the investors in units of mutual funds that the mutual funds function within the strict regulatory framework.
Chapter 12

9. With mergers taking place among different private sector funds, the mutual fund industry has entered the phase of consolidation and growth. There were totally 32 funds as on December 31, 2007.

10. During the last few years, India's position as a market having potential for long-term growth has really been noteworthy as the Indian economy is being ranked among the top 10 globally (in terms of GDP), and as the fourth-largest (in terms of purchasing power parity (PPP)].

11. Another good thing to note about Indian mutual funds industry is that it has grown at a rapid pace of 16.4 percent during the last 8 years as compared to global growth rate of 13 percent during the same period and the trend is expected to go up further.

12. SEBI's involvement in the financial sector has been a great boost for investor confidence which has resulted in an increase in the total number of individual investors but according to Invest India Economic Foundation survey, there are around 34 million people with the potential and capacity to invest in mutual funds and over 57 percent of such people live in rural areas and this segment is yet to be tapped.

13. However, when it comes to AUM of the global mutual fund industry, India's rank is only 19 which is not very satisfactory. AS per AMFI figures at the end of November '06, India forms just 0.4 percent of the world's global Mutual
funds assets under management which is very less as compared to other
developed countries.

12.9 Specific Findings relating to ICICI Prudential Mutual Fund, HDFC Mutual Fund and Franklin Templeton Mutual Fund

1. ICICI Prudential Mutual Fund began in the year 1998, with an AUM of Rs. 160 crores, has since expanded its Assets Under Management to Rs. 56772.58 crores as on December 31, 2007 spread over 40 funds thus making the Company the largest asset management company in the private sector and the second largest in the mutual fund industry in India.

2. ICICI Prudential Mutual Fund has a wide range of schemes in order to meet the different investment objectives of the investors. The total number of schemes of the company as on December 31, 2007 stood at 358 including options.

3. ICICI Prudential mutual fund has established a multi-channel approach to the distribution of its various products and has today an extensive network of customer service centres in 26 cities and over 12,000 customer contact points.

4. ICICI Prudential mutual fund has been allowed by SEBI to spend up to 6% of a scheme as marketing expense, and the company typically spends part of this allocation on distributors.
5. ICICI Prudential AMC is the first private MF player in the country — and the second overall in the MF industry — to cross the five figure mark (Rs 10,000 crores) in terms of AUM.

6. The total asset under management of HDFC mutual funds on December 31, 2007 stood at Rs.48560.60 crores, and is one among the top three mutual funds of the country.

7. HDFC mutual fund has a wide range of schemes and the total number of schemes stood at 287 including plans and options in order to meet the different investment objectives of the investors.

8. HDFC mutual fund is one of the largest mutual funds in India with an investor base of over 25 lakh.

9. As per SEBI rule HDFC mutual fund is allowed to spend up to 6 percent of a scheme as marketing expense, and the company typically spends part of this allocation on distributors.

10. The total assets under management of Franklin Templeton AMC stood at Rs.31175.54 crores as on December 2007 and over the years, Franklin Templeton has emerged as one of the largest and renowned mutual funds in the country.
11. Franklin Templeton AMC has a wide range of schemes in order to meet the different investment objectives of the investors. The total number of schemes of the company as on December 31, 2007 stood at 201 including options.

12. An overwhelming majority of 86 percent investors believed that the sample companies HDFC, ICICI Prudential and Franklin Templeton are better performers than the other mutual fund companies.

12.10 Specific Findings relating to Performance evaluation of Mutual Funds based on Sharpe ratios

1. The study observes that by using Sharpe’s Ratio method of performance evaluation, 21 sample schemes have outperformed their respective benchmark ratios and 3 schemes have shown negative performance.

2. The average rate of return of all the sample equity schemes shows that out of 12 equity schemes, 11 schemes have out-performed their benchmark indices. The only scheme that has under-performed is HDFC Index fund.

3. The average rate of return of all the debt schemes shows that out of 12 debt schemes, 11 schemes have out-performed their benchmark indices. The only scheme that has underperformed is ICICI Prudential Gilt Fund.

4. The average five year annualised yield shows the average risk free rate which is 5.4 in this study.
5. Out of the 12 equity funds, the standard deviations of 10 equity funds are very high. Only Templeton India equity income fund with a percentage of 12.70 has shown very low standard deviation when compared to the other equity funds. This means this scheme is less risky when compared to the other schemes.

6. The study observes that Templeton India Growth Fund has a very high standard deviation of 60.28 which shows the volatile nature of the scheme.

7. By using the Sharpe ratio method of performance evaluation technique, it was found that ICICI Prudential Short term plan has emerged as the best performing scheme with a Sharpe ratio of 0.92 against its benchmark ratio of -0.09.

8. The study found that ICICI Prudential MIP has emerged as the second best performer among the schemes with a Sharpe ratio of 1.38 as against 0.63 benchmark ratio.

9. By using the Sharpe ratio method of performance evaluation technique, the study observes that HDFC MIP Long Term Plan ranks third with a Sharpe ratio of 1.36 as against 0.68 benchmark ratio.
10. It was found in this research that HDFC Gilt fund has emerged as the worst performing scheme with a Sharpe ratio of -1.13 against its benchmark ratio of 0.38.

11. The study observes that there is a huge difference in performance of the schemes in both the methods. According to Sharpe’s method, ICICI Prudential Short Term Plan stands in the first place whereas ICICI Prudential Tax Saver Plan has secured the first rank in the Average Rate of Return method. This explains the difference in results.

12. The researcher made an attempt to test the first hypothesis of the study. The statistical computation of t-test shows that the scheme-index (0.7326) is higher than the benchmark index (0.6046). However, the difference is not significant as the P-value is 0.083 (1-tail). In view of the above computed values the hypothesis of the study, Sharpe ratios of the sample schemes have outperformed the Sharpe ratios of the benchmark is rejected.

12.11 Specific Findings based on the Investors' response

1. In order to study the behaviour pattern of the investors, both men and women were selected as samples. Out of the total respondents 101 were men and 24 were women.

2. The investor survey carried out covered all age groups and it was found that 46 percent of the investors belong to the service class, 13 percent from business
class, 23 percent were professionals, 13 percent from the retired class and rest from other classes.

3. It has been found out that 8 percent of investors have been investing in mutual funds for more than 10 years, 32 percent of investors for a period of more than 5 to 10 years and 29 percent for a period 1 to 3 years. These figures also show the period of their holdings in mutual funds.

4. When questioned about their investment experience in mutual funds, it was found that 52 percent of investors had good experience in investing in mutual funds while 37 percent had extensive investment experience in mutual funds. 29 percent agreed that their knowledge was very limited and they rely on other sources. Three percent of investors were very new had virtually nil experience in mutual funds and had to depend on brokers.

5. The investment behaviour of the young investors was very different from that of the older ones. The young investor’s investment objective was mostly current income or aggressive income and about 30 percent of investors who belong to the middle age group preferred growth and income.

6. The survey also shows that contrast to the old belief, investing starts at a younger age. About 3 percent of the respondents were between the age group 19 and 20.
7. The investors were asked about their perception of safety of mutual fund investments and it was found that 71 percent investors feel that mutual funds are reasonably safe.

8. Since the respondents believe in diversification, only the investors who have invested in the sample companies are taken into consideration. 75 percent of respondents have invested in Franklin Templeton, 77 percent in ICICI and 72 percent in HDFC.

9. When the hypothesis "Individual investor's selection of mutual funds is based on his perception about the funds in terms of brand image" was put to statistical testing, the following results were observed:

   ❖ The calculated value of Chi-Square is 26.74 and the value of P is < 0.001. In view of the above values it can be concluded that the difference is statistically significant and the results support the hypothesis in case of HDFC Mutual Fund.

   ❖ The calculated value of Chi-Square is 1.002 and the value of P is 0.317. It is observed that there is no significant difference between investors and non-investors about their opinion on ICICI Prudential mutual fund. So the hypothesis stands rejected.

   ❖ The calculated value of Chi-Square is 2.97 and the value of P is 0.172. It is observed that there is no significant difference between investors and non-investors about their opinion on Franklin Templeton mutual fund. So the hypothesis stands rejected.
10. From this survey, it has been found out that the investors use multiple sources to gain awareness about investing in mutual funds. About 73 percent of the respondents have used multiple sources like financial publications, newspapers; internet etc. 15 percent have relied only on family and friend’s advice.

11. With regard to the qualities, which affect the mutual funds/scheme selection the response from the investors, was mixed. 88 percent felt that fund’s performance record is “Highly important”, while 68 percent felt that the funds brand name is important. Innovation of the scheme stood at 47 percent for “Highly important” and 46 percent for “Some what” important respectively. But withdrawal facilities and favourable rating by an agency were considered as only “Some what important”.

12. With respect to consistency in the performance of the sample companies, 59 percent of the respondents in the case of HDFC mutual fund, 69 percent in the case ICICI Prudential AMC and 51 percent in the case of Franklin Templeton felt that these companies perform consistently only sometimes.

13. About 32 percent of investors prefer Online Investment.

14. About 62 percent Investors view the current state of the mutual fund industry in India as excellent.

15. As regards the professional fund management services offered by the sample companies, 49 percent of the respondents in the case of HDFC mutual fund, 53
percent in the case of ICICI Prudential AMC and 46 percent in the case of Franklin Templeton felt that these companies offer very good services.

16. About 81 percent of the investors in the case of HDFC mutual fund, 85 percent in the case of ICICI Prudential AMC and 76 percent in the case of Franklin Templeton have said that there is mismatch between expectations and reality in the sample companies. This shows us that the fund managers are not able to match the investor’s expectations.

17. When the respondents were asked whether they would invest in the sample companies in spite of a bad investment experience, 59 percent of the respondents in the case of HDFC mutual funds, 69 percent in the case of ICICI Prudential AMC and 51 percent in the case of Franklin Templeton have said they will invest.

18. About 34 percent of the investors in the case of HDFC mutual funds, 42 percent in the case of ICICI Prudential Mutual fund and 61 percent in the case of Franklin Templeton have said that they would choose to invest again in the schemes of these companies even after a bad investment experience.

12.12 Specific Findings based on the Distributors response

1. It was observed from the study that 94 percent of the investors convey their objectives very clearly to the distributors. Only 73 percent of the investors ask
for the background of the company before investing. This shows that the remaining investors have confidence in their distributors.

2. Further mutual fund distributors were asked to indicate the funds that are popular among their clients and it was found out that Reliance was the most popular fund house, which was very closely followed by ICICI, Franklin Templeton, Fidelity and HDFC mutual funds.

3. When the distributors were asked about their idea of a good performance evaluation 84 percent distributors have said that all variables are important. The variables that were considered for a good performance evaluation framework are as follows:

   a. The horizon of the investment

   b. The benchmark for the evaluation

   c. Avenues of investment and associated risks

   d. The disclosure polices and the objectives of the investment

4. About 92 percent of the respondents have segmented their client base by segregating their clients on the basis of different criteria like commission potential, centre of influence, level of attention required and affinity.

5. The present study observes that 19 respondents were in the age group of 41-60 years. These distributors seem to possess good knowledge about the different schemes, market timing and the investor’s expectations.
6. The present study observes that in addition to being the main purchase channel for the investors, distributors are a widely consulted source for advice. In fact when the distributors were asked whether investors consult them for investment, it was found that about 80 percent of the investors who purchased mutual funds through the distributor consulted them for their advice.

7. This study reveals that only 4 percent of distributors have said that the investor never invests again in all the three companies after a bad investment experience.

8. The study shows that 52 percent of the distributors have said that the investors always invest in sample funds, 46 percent have said that they invest only sometimes invest and only 2 percent respondents have said that they never invest based on their recommendations in the case of ICICI Prudential mutual fund. In the case of HDFC mutual fund 51 percent respondents have said investors always invest, 46 percent have said the investors sometimes invest and 2 percent respondents have said they never invest and the figures are 48 percent, 50 percent and 2 percent respectively in the case of Franklin Templeton mutual fund.

9. 42 percent in the case of ICICI Prudential mutual fund, 45 percent in the case of HDFC mutual funds and 46 percent in the case of Franklin Templeton mutual funds are the group of distributors who have an influence over the investors and are able to convince the investors and they have greater influence over them.
10. The study shows that 76 percent distributors feel that comparatively HDFC mutual fund has a very good brand image and is very popular among the investors.

11. When the distributors were asked whether the funds offer high returns, 79 percent of the distributors in the case of ICICI Prudential mutual fund, 78 percent of the distributors in the case of HDFC mutual fund and 75 percent of the distributors in the case of Franklin Templeton mutual fund have said that the funds do not offer high returns but reasonable returns that match the expectations of the investors.

12. Almost 82 percent of the distributors in the case of ICICI Prudential mutual fund, 80 percent in the case of HDFC Mutual funds and 76 percent in the case of Franklin Templeton Mutual funds have said that the companies reasonably offer fair professional fund management services and the investors are in general satisfied with this aspect of the company.

13. About 92 percent distributors both in the case of HDFC mutual fund and ICICI mutual fund are of the opinion that these companies are better performers than other private, public and foreign mutual funds. Franklin Templeton is only slightly behind the above two companies with 89 percent.

14. When the respondents were asked to express their view on the current state and future state of mutual fund industry, 90 percent and 88 percent of the
respondents respectively have expressed full satisfaction and foresee a very bright future for Indian mutual funds.

12.13 Conclusions

It is evident from this chapter that with the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles. It can also be said that mutual funds have opened up a different dimension of investment opportunities that lead to wealth creation for investors.

There are mutual funds sponsored by public sector banks, institutions, private sector (including wholly foreign owned) and joint sector with foreign participation. The regulatory framework is very comprehensive and matches with the best in terms of standards, practices and procedures. The industry is passing through a phase of consolidation. AMFI, which is a trade body, supports these developments and on its own takes several initiatives in putting in place best standards and practices. The regulator plays a very active role in promoting and ensuring strict compliance of the regulations as well as in developing the industry on healthy lines. The industry also registered a significant growth and grew in size in terms of both resource mobilisation and assets under management. On examination of the performance of ICICI Prudential Mutual Fund, HDFC Mutual Fund and Franklin Templeton Mutual Fund, it can be well concluded that these companies follow a disciplined approach to investing with a strong process orientation that serves as a common thread running through their schemes. Competition has also intensified with the entry of new players. Tailor made products to meet the needs of the investors are being designed by the AMC’s. Sector/Specialised funds have become the main attraction of mutual funds.
On the whole it is found that in terms of performance also most funds have provided market related returns, many schemes have outperformed benchmark indices and investors started appreciating the performance record of mutual funds.