PREFACE

It is well established fact that in India, the household savings have a dominant role to play in capital formation in the country. Channelising the household savings to capital markets has been successfully done by mutual funds in India.

A Mutual Fund is a pure intermediary which performs a basic function of buying and selling securities on behalf of its unit holders, which the latter also can perform but not as easily, conveniently, economically and profitably. The Indian MFs industry has not performed well in gaining the small individual investor confidence and better products, better processes, and better services, MFs are popular mainly with the urban, high, and middle income groups only, They are yet to penetrate the rural areas in a big way, many investors have low opinion about the investment efficiency of MFs, which are often seen as momentum chasers rather than true professional investment managers. They do not have a good set-up to reach the retail and to collect money from small towns. They have lacked in a systematic evaluation of investor requirements. They have become a kind of trading instruments rather than investment vehicles. There has been a proliferation of fixed maturity schemes tailored for the corporate sector to get fund management expertise and tax benefits. Fixed maturity plans are those in the case of which MFs choose to invest in securities whose maturity coincides with specific time period indicated in advance by the fund. These are said to be essentially short-term inter corporate deposits routed through MFs. Many MFs schemes invest in a single security that matures at a particular date, which again are a negation of the concept of MF. A major part of
subscriptions of unit capital has been made by the corporates, they held 86 per cent and 64 per cent of capital of US-1964 at the end of 1990 and 1992-93, respectively. The practice of firm/proportionate allotment of equity of issues of the corporates to MFs has also worked to the disadvantage of small individual investors.

The MF business is highly concentrated fund-wise and scheme-wise. The dominant position of the UTI in the industry has already been referred to. Similarly, a handful of schemes account for a major part of the unit capital. There has been a proliferation or a mushroom growth of MFs and their schemes. The ordinary investor is likely to get bewildered or lost in too many products of the MFI. It also acts as a drag on the administrative resources of the industry, contributing to poor or inferior fund management which actually characterizes the working of many MFs. Many MFs are sponsored by public sector banks and financial institutions, and so investors are assured of some security in their investments, MFs had been able to inspire confidence among investors. However, with the proliferation of MFs, this is changing. Various studies on risk-return analysis of MFs have shown that many schemes are characterized by high risk. The documents of MFs are often not sound and their operations are characterized by secrecy, lack of accountability, unwillingness to furnish required information, and so on. Notwithstanding many guidelines from the SEBI, there is little transparency in the working of MFs. Both sale and repurchase prices in the case of certain OEFs, and the repurchase price in the case of CEFS, have often been much lower than the NAVs of the respective schemes, for example, UTI repurchased its units under US-1964 in 1992 at ₹ 14.85 when their NAV was ₹ 28.63. Such a thing has been more widespread in the case of CEFs. The pricing of units
should be close to their NAVs. As on July 31st 2012, there were 42 Mutual Fund Companies, 4381 schemes which are currently operating and AUM of ₹690213 crore.

MFs are being used for creating non-competitive markets. The earlier phenomenon of interlocking operations is becoming widespread now. It is because of such developments that the SEBI issued certain guidelines in September 1997 regarding investments by MFs in group/associate companies. It has been observed that companies are using MFs for parking funds, portfolio funds management, stage-managing treasury operations, consolidation of holdings, and to prop up private ambitions. There is a view that MFs have become corporate portfolio schemes offering fixed returns to corporate investors, investing in crucial issues of the corporates, and helping to rig up share prices of companies that MFs have been hijacked by corporate houses. The Securities and Exchange Board of India (SEBI) has undertaken a number of initiatives and brought in new regulations for the mutual fund industry in the last five years, the most important change being the abolition of entry load for selling mutual fund products since August 2009. The effect of this rule change has been widely debated. Some argue the impact of this change has not been significant as fund flows have registered year on year growth in 2009, while others argue that in absence of upfront commission distributors are now less motivated to sell mutual funds. Year 2009 has been an interesting year. On the one hand, the investment markets have done wonderfully well, and investors have recovered all the money that they had lost. Moreover, those who had kept investing in their SIPs without a break have actually gained tremendously out of the crash. However, 2009 also saw some more complex events, whose eventual impact can be seen. SEBI
abolished entry load for all mutual funds. This has drastically brought down the money that found distributors make from selling funds. While this change was intended to be beneficial to investors, the law of unintended consequences cannot be thwarted. It seems that small independent financial advisors have lost interest in the business.

Mutual Funds over the last decade have emerged as a popular investment option as they offer a wide array of products aimed at investors with varied risk appetites and investment objectives. Since long the performance of mutual funds has been receiving a great deal of attention from both practitioners and academics. From an academic perspective, the goal of identifying superior fund managers is interesting as it encourages development and application of new models and theories.

The idea behind performance evaluation is to find the returns provided by the individual schemes especially growth funds and the risk levels at which they are delivered in comparison with the market and the risk free rates. It is also our aim to identify the out-performers for healthy investments. We have also ranked the investment opportunities for better evaluation of these funds based on various adjusted ratios like Sharpe Ratio, Jensen Measure, Treynor's ratio and few others. Financial literature has very little studies which concentrate on multiple measures of mutual fund performance evaluation. Therefore, an attempt has been made to capture the critical measures of performance evaluation of mutual funds.

The present study has been undertaken to know also the perceptions of small investors, who are the most exploited lot in the Indian Capital Market, about the tall claims of mutual fund managers as regards only they being
dependable guardian for small investors on one hand and role of SEBI on the other. The study also examines, whether the claim of mutual funds as the media for providing diversified portfolio of securities to earn better return in justified.

The present study is organized in six chapters. **Chapter 1** introduces the concept of mutual funds. It highlights the structure of Indian capital market in India and its regulation by SEBI besides discussing growth milestones of mutual funds industry in India. It also lists out various schemes and plans offered by major mutual fund players in India to date.

The enormous growth has been shown by this industry in India since its inception in 1963 starting with the introduction of US-64 scheme by UTI. This along with the swelling corpus of mutual funds to date has been outlined in **Chapter 2** compartmentalizing it into pre-liberalization and post-liberalization era.

In **Chapter 3**, an attempt has been made to analyse the important issues confronting the investor like, preference for different investment avenues, factor influencing choice of a mutual fund, different schemes preferred for investment, their performance appraisal criteria, sources which provide effective information about funds and the like.

Investment of hard earned savings by general investors into mutual funds is done with the sole idea of safety and good returns on it. To choose the best mutual fund out of the lot, certain ratios given by Sharpe, Treynor and Jenson were being applied to evaluate the performance of various mutual fund schemes. These ratios along with certain other important parameters of performance evaluation have been discussed in **Chapter 4**.
Mutual funds invest the pooled money in securities. To predict the stock market movement is herculean task, only estimates can be made and nothing can be predicted with certainty. However, certain economic indicators like expected GDP, industrial performance, downpour of monsoon in a given year along with the past trend shown by mutual funds in resource mobilization in Indian market do help to impart certain objectivity to the predictions as regards future prospects of mutual funds performance. In Chapter 5 an attempt has been made to predict the unpredictables based on certain indicators.

Chapter 6 summarizes the major observations and conclusions of this study. It also indicates the suggestive measures to be taken and the role to be played by controlling body like SEBI that can work as a light house for the healthy growth of mutual fund industry in India.

Thus the study attempts to discuss and analyse performance evaluation of mutual funds and their prospects. The findings and conclusion drawn will help and serve the objectives, the study has tried to achieve.

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