

Critical analysis of Performance Evaluation of Mutual Fund with Special Reference to Indian Financial Market

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Abstract:

The secondary capital market on only the driven force of any nations economy and it was affected by many circumstances which were not regulated by economy, like pandemic, war, calamities etc. one of the very famous among the secondary market is mutual funds but they still came with all the fluctuations target by the above said external factor, and also subjected to market risk, so we organize this paper to some very famous mutual fund and their popularity among the persons and their performance evolution.

Keywords: mutual fund, risk analysis, performance evaluation

I. Introduction

Mutual fund comes to India in 1963 with the establishment of the unit trust of India. For many year its most popular scheme was unit 64. for the next 24 years UTI was the sole player in the mutual fund market in 1994 the foreign mutual fund come to India Margon Stanley and its IPO exceeded all initial estimates in financial market expectation of the investors plays a vital role. Every rational investor wants to maximise his return. So the study of different mutual fund performance evaluation is very important for investor. Without measuring the performance, a suitable in investor can not plan his investment in mutual fund scheme.

Objective of study

- To analyse the investor basic perception against the mutual fund investment.
- To know the different method of performance evaluation of mutual fund scheme.
- To identify suitable scheme of mutual fund on the basis of performance analysis.

II. Literature Review

Different types of mutual fund performance have been evaluated. Funds were evaluated on the basis of single index model and several multi index and several multi index and assets class factor models. Both maturity based indices were used to account for the risk and return characteristics of investment grade corporate bond funds.

Research methodology

This research study is an analytical and descriptive research. it is related to the investment toward mutual fund in India and its performance evaluation. The data were collected primary and as well as secondary sources.

Limitation of the study

Size of the sample selected may not represent whole population.

Major player in mutual fund scheme:-

Following are some of the major player in mutual fund scheme:-

- Sponsor : A company established under the companies act establishes mutual fund
- Trustee : The trust is headed by board of trustee. The trustee entity holds the property of the mutual fund in India for the benefit to the unit holders.
- Mutual fund : A mutual fund is established under the India trust act to raise moneys through the sale of units to the public for investment in the capital markets.
- Assets measurement company (AMC) : - This entity is registered under the companies act to manage the money invested in the mutual fund and to operate.

The scheme of the mutual fund in accordance with the governing regulation.

Unit holder : - Any person or entity holding a undivided share in the assets of a mutual fund scheme.

Discussion on theme : every investor wants to maximise his return and maximise his risk. So it is very important to analyse the performance of different mutual fund scheme, in this context two factors namely net assets value and cost of mutual fund is important to be discussed.

The NAV of a mutual fund is the amount which a unit holder would receive if the mutual fund were wound up today and investor in a MF is a part owner of all its assets & liabilities. It is the basis for assessing the return that an investor has earned.

Further cost in a mutual fund is the composition of two component like initial expenses which is attributable to establishing a scheme and second is ongoing resuming expense.

Expense Ratio = expense/(Avg.value of portolio.)

Analysis of study :-

There are difficult method for evaluating the performance of a mutual fund. It cannot be based on return along after all, one can earn a higher return by taking a higher risk. Similarly one can earn a lower return by taking a lower risk. Any performance evaluation should hence take both return and risk into account. It should adjust return for risk.

Some of the Models which are normally used in evaluating the performance of mutual fund are as follow.

1. Sharpe model : this model measures reward earned per unit of total risk

$$\text{Sharpe index} = (R_p - R_f) / SD_p$$

Higher the sharpe ratio, the better is the performance

2. Treynormodel : the model measures the reward per unit of non-diversified risk

$$\text{Treynor index} = (R_p - R_f) / \beta_p$$

Higer the treynor ratio, the better is the performance

3. Jensen model : the jensens models return earned by the fund which is in excess of that Mandated by the capital assets pricing model.

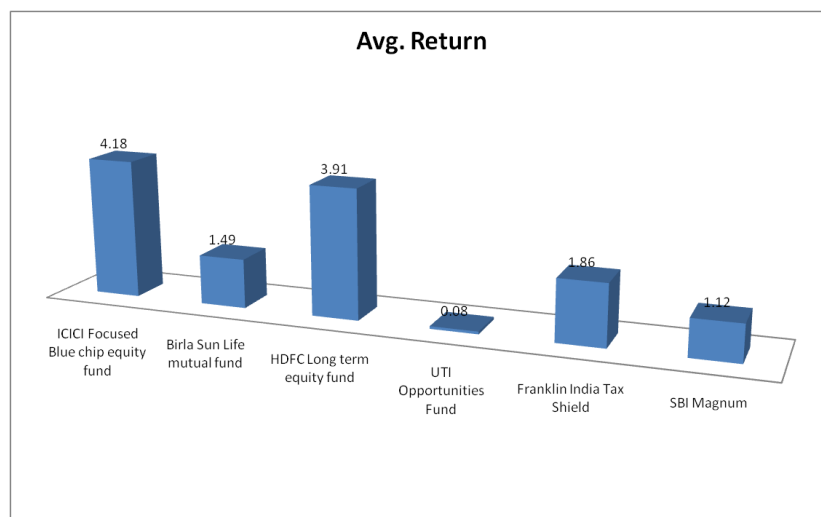
$$J - \text{Alpha} = R_p - R_f + \beta (R_m - R_f)$$

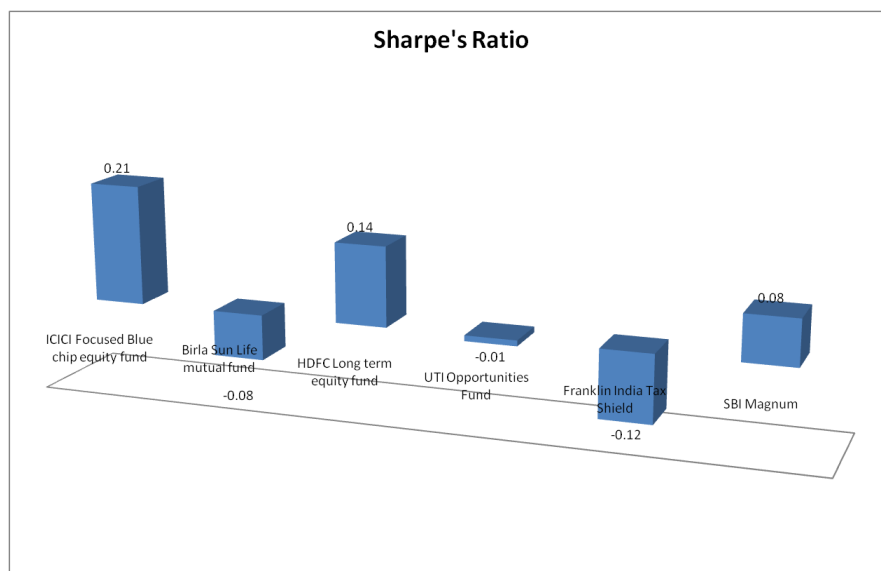
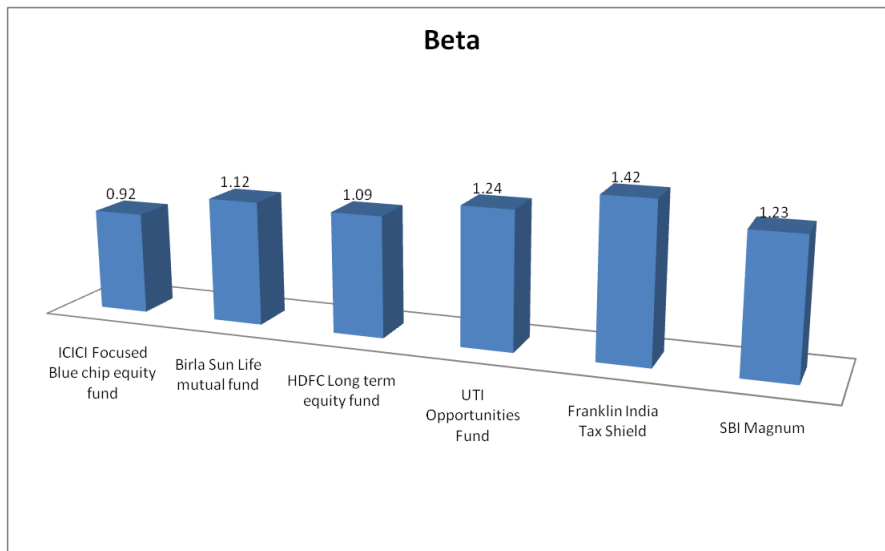
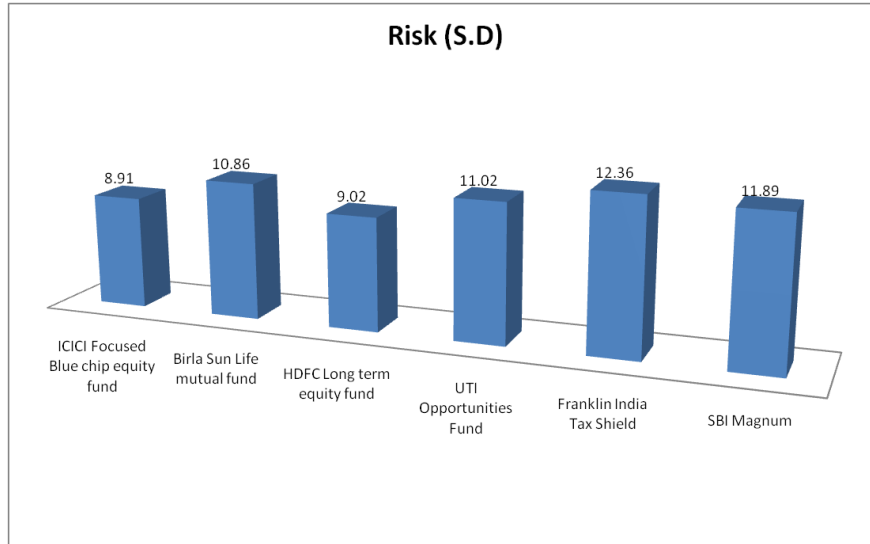
Higher the Jensen alpha, the better is the performance.

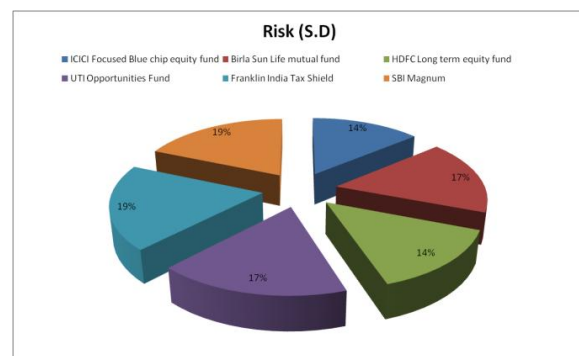
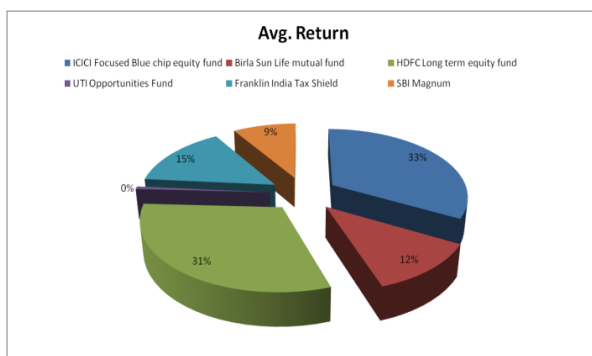
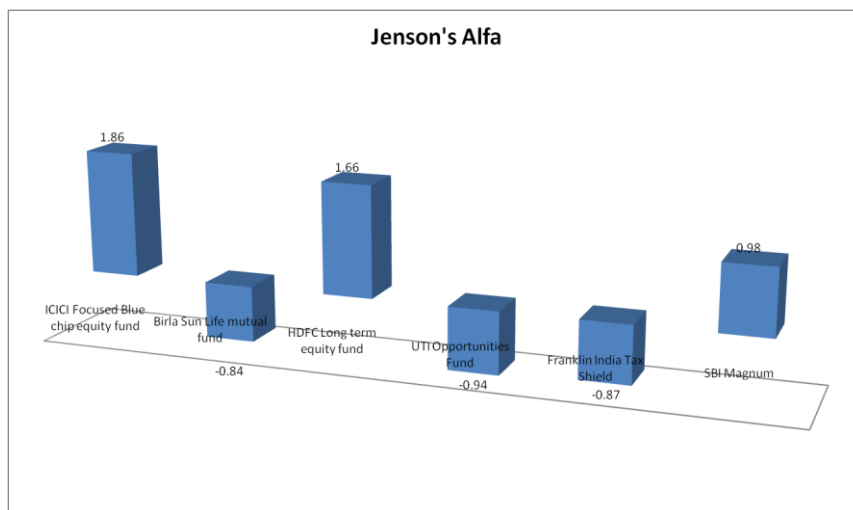
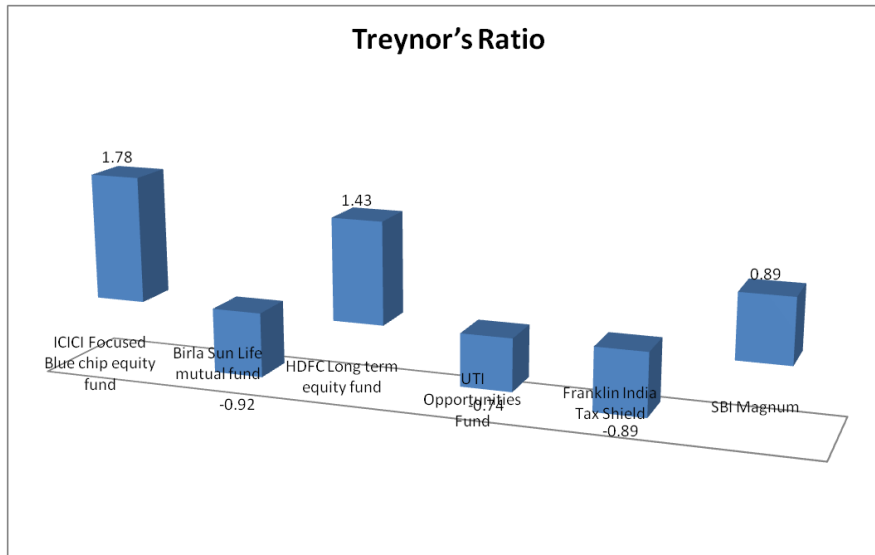
In the above Para both Sharpe and Treynor models are ratios while jensen model are measures of excess return.

III. Data And Result:

Sno	Name of Funds	Avg. Return	Risk (S.D)	Beta	Sharpe's Ratio	Treynor's Ratio	Jenson's Alfa
1	ICICI Focused Blue chip equity fund	4.18	8.91	0.92	0.21	1.78	1.86
2	Birla Sun Life mutual fund	1.49	10.86	1.12	-0.08	-0.92	-0.84
3	HDFC Long term equity fund	3.91	9.02	1.09	0.14	1.43	1.66
4	UTI Opportunities Fund	0.08	11.02	1.24	-0.01	-0.74	-0.94
5	Franklin India Tax Shield	1.86	12.36	1.42	-0.12	-0.89	-0.87
6	SBI Magnum	1.12	11.89	1.23	0.08	0.89	0.98







IV. Findings and conclusion: -

The Mutual funds are one of the best investment source available for Indian small investors to make an investment, if thoroughly assessed it may give big returns with little savings. The above performance ratios are very much helpful for the evaluator to assess the fund's performance. As the Mutual Fund investment is subject to market conditions, therefore for the risk averse investors there are so many other investment alternatives available apart from the mutual funds, such as investment in other Financial Assets (stock market, debentures, Bonds, Treasury bills etc) and other Non Financial Assets (post office certificates, Bank deposits, Pension schemes, Real estate's) to avoid risk. The low risk funds attract the investors in mutual fund schemes. the mutual fund investors consider the liquidity of fund schemes as also an important factor for investment in stock. The high risk is associated with high risk ratio and low Sharpe's Ratio, Treyner's Ratio, Jenson's Alfa so the

ratio of choosing the best plan is ICICI Focused Blue chip equity fund > HDFC Long term equity fund > SBI Magnum > UTI Opportunities Fund > Franklin India Tax Shield > Birla Sun Life mutual fund. Every investor has to take into account while investing in mutual fund the following key factor must be taken into account like:

- Rate of return
- Low risk
- Analysing the ratio inter pretention. finally the research paper gives a desirable view about understanding the performance of selected mutual fund.
- The present performance analysis will be helpful to managers and investor to get a clear image of selected mutual fund scheme.

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