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A Study on Performance on Diversified Equity Mutual Funds with reference to Birla Sun Life Mutual Fund

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ABSTRACT

Mutual funds are a good investment option to medium and small investors who do not excel at stock market due to lack of professional knowledge, limited resources and failure to diversity. Though the industry has been operational so long, it still not able to win the trust of investors. The performance evaluation of mutual funds in influences the investors to allocate their resources into different mutual funds. The present study is an attempt to analyze the financial performance of diversified equity mutual funds in the framework of risk- return dimensions .(i.e. from the year 2008 to the year 2013).Funds which have been operating during the period of study are selected for the present research. There sample for the study consists of 5diversified equity fund, standard deviation ,risk/return, Sharpe ratio, Treynorratio,and Jenson ratio. Benchmark comparison is also made as it indicates to what extent the fund managers were able to produce better performance of portfolio compared to the market or index portfolio.

1. INTRODUCTION

A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests it in stocks, bonds, short-term money market instruments and other securities. Mutual funds have a fund manager who invests the money on behalf of the investors by buying / selling stocks, bonds etc. Currently, the worldwide value of all mutual funds totals more than $US 26 trillion.There are various investment avenues available to an investor such as real estate, bank deposits, post office deposits, shares, debentures, bonds etc. A mutual fund is one more type of Investment Avenue available to investors. There are many reasons why investors prefer mutual funds. Buying shares directly from the market is one way of investing. But this requires spending time to find out the performance of the company whose share is being purchased, understanding the future business prospects of the company, finding out the track record of the promoters and the dividend, bonus issue history of the company etc. An informed investor needs to do research before investing. However, many investors find it cumbersome and time consuming to pore over so much of information, get access to so much of details before investing in the shares. Investors therefore prefer the mutual fund route. They invest in a mutual fund scheme which in turn takes the responsibility of investing in stocks and shares after due analysis and research. The investor need not bother with researching hundreds of stocks. It leaves it to the mutual fund and its professional fund management team. Another reason why investors prefer mutual funds is because mutual funds offer diversification. An investor’s money is invested by the mutual fund in a variety of shares, bonds and other securities thus diversifying the investor’s portfolio across different companies and sectors. This diversification helps in reducing the overall risk of the portfolio.

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CURRENT SCENARIO

The mutual fund industry, today presents a picture of opportunity and challenges. As the industry sensitizes itself to the changing regulatory landscape, business strategies are endeavbsling to respond to these developments. Amidst this changing business and regulatory environment, asset management companies and all service providers, including distributors, have to re-examine their business models and embrace the changing business landscape. Gautam Mehra, Leader - Asset Management, PwC India, said, "At present, the Indian mutual fund industry is facing interesting times. The last few years have seen a series of events, both within and outside the Indian economy, which have impacted the industry. Additionally, investors appear to have adopted a more cautious approach. The present scenario demands vigorous innovation and reinvention. Among others, the purpose may be served by adopting a cluster of key initiatives in the areas of cost efficiency, product design and positioning, alternative distribution models, revenue diversification and capacity creation."The mutual fund industry, beset by net redemptions by investors and adverse global and local market conditions, shrank by 1.6% in terms of assets under management during the year FY2011-2012. The benchmark BSE Sensex and the assets under management (AUM) for the mutual fund industry have risen in tandem. Booming markets in 2006 saw increased investor participation in the industry, leading to fund inflows enabling the AUM to grow at a pace greater than the Sensex. However, volatile market conditions in the last two years have led to net withdrawals by investors to the tune of 49,406 crore INR in FY 2010-11 and 22,023 crores INR in FY 2011-12, leading to a further drop in AUM, in addition to the drop caused by adverse market movements. The mutual fund industry is primarily debt-oriented with debt funds (including liquid funds) forming 64% of the AUM. As in the past, increased equity participation is the need of the bsl for the mutual fund industry.The period from 2006 to 2012 saw a number of major events, a very significant one being the global meltdown in the banking and financial services industry (BFSI), which had knock-on effects on almost all business sectors. Considering that we now live in a connected world, India faced its own share of consequences although companies in the BFSI segment remained relatively unaffected by the turmoil seen in the Western world.

TABLE SHOWING ON RISK, RETURN AND RISK ADJUSTED PERFORMANCEMEASURES STATISTICS OF DIVERSIFIED EQUITY FUNDS

S.NO	R_p	σ_p	RISK PREMIUM	β	S_p	T_p	A
Birla Sun Life	18.5987	1.749	8.2445	0.55002	13.1698	15.9973	16.243
UTI	17.62059	0.187813	9.8706	0.77097	11.3612	12.3624	12.68713
HDFC	19.564	1.6578	10.7865	0.6678	17.897	14.876	13.7632
TATA	11.5643	0.5764	9.6758	0.7567	12.6757	11.7654	12.7698
RELIANCE	11.8765	0.5438	8.5435	0.88054	16.986	15.475	15.980
Mean	15.8447	0.94296	9.42418	0.72520	13.72972	13.49522	13.48742

TABLE NO 1

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2. FINDINGS

The average returns of above 5 selected funds 15.8447%and the total risk of all funds was 0.94296. 0ut of 5 funds 3 funds have above average return with risk less than average and 2 of funds have below average return with higher risk. According to Sharpe measure all funds have a positive return and 2 of fund only outperformed the market in terms of total risk and have shown better reward to volatility over benchmark portfolio reliance mutual fund had largest ratio. According to Treynor ‘s performance measure 5 funds have a positive return and 2 of funds have better reward to volatility than the market and UTI fund had largest ratio. According to Jenson ‘s performance measure 5 funds have a positive return and of funds have better reward to volatility than the market and UTI sun life fund had largest ratio.

INTERPRETATION

Birla sun life mutual funds was the top perform based on risk and return with comparing to all other funds.

3. CONCLUSION

To conclude, based on the analysis carried over on the various category of schemes shows that the performance where varying over the period of time. If market condition is performing well obviously the fund’s performance will also positively respond towards it. It clearly states that Mutual fund past performance is no way indicator for the future benefits. Since the investment style is to earn high return associating with high risk. If the market condition seems to be active and prospering then it can be a motivated situation for the investors to reap high benefits through investing in such a boom period.

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