

The Potential For Positive Performance Evaluation Of Selected Equity Mutual Funds

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Abstract- As a result of the vast number of investment opportunities that are available on the Indian stock market, investors are able to put their money into a diverse array of investment vehicles while still guaranteeing a satisfactory rate of return on their capital. One way to separate a mutual fund from another mutual fund is to look at how vulnerable the fund is to fluctuations in the market. In light of these circumstances, it is quite essential to investigate the track record of mutual funds. As a direct result of this, picking mutual funds that produce a profit is one of the most essential steps in the process of producing a profit from investments. The purpose of this study is to investigate the equity mutual funds that are available for investing in India from a range of fund providers. This study focuses primarily on the ways in which several large-cap stock mutual fund strategies interact with one another in terms of the relationship between risk and return. The major objective of this research is to evaluate the various financial metrics of a wide range of different mutual fund schemes by applying statistical criteria to the data.

Keywords: Equity mutual funds, Jensen's performance index, Net Asset Value, Sharpe index and Treynor index.

1. INTRODUCTION

Mutual fund investments are effective at fostering trust because they let a large number of participants to pool their resources and collaborate on the accomplishment of a predetermined monetary objective. Both acquiring individual stocks and shares of stock and investing in mutual funds are each associated with their own set of benefits and drawbacks. Mutual funds are a common kind of investment vehicle due to the economies of scale they provide, the enhanced diversification they provide, and the experienced management that they provide. Investors in mutual funds, on the other hand, are subject to a broad array of fees and charges, and the income that is produced by the mutual fund is unknown. Investors in exchange-traded funds (ETFs) do not face these same costs and charges. The portfolio manager of a mutual fund is responsible for trading the fund's underlying assets, creating capital gains or losses, and then reimbursing themselves with dividends or interest income. This responsibility includes the potential generation of both positive and negative returns. The net asset value per share (NAV) of a mutual fund is the standard by which its value is evaluated. Its value is calculated each day by dividing the entire value of the fund by the number of shares

that are currently issued and outstanding. This is how its value is determined.

There are now 44 Asset Managed Companies (AMCs) in India that provide mutual fund investments. Each of these fund providers provides investors with access to a comprehensive range of mutual fund schemes, which may include equities, debt, gilt, and liquid funds. Because of the positive impact that equity mutual fund schemes have on the performance of the stock market, the vast majority of investors are lured to these types of investments.

The Unit Trust of India (UTI), which was India's first ever mutual fund, was established by the government in the year 1963. In 1964, UTI was the first financial institution to provide a program for investing in mutual funds. Prior to 1987, UTI was the only firm in India that was engaged in the business of selling mutual funds. Despite this, they were compelled to give up their exclusive position. The fast growth of the Indian mutual fund industry may be ascribed to a number of causes, including the development of new infrastructure, an increase in the amount of foreign investment, and the acquisition of bigger personal wealth. The "Indian mutual fund industry" believes that even while mutual funds are a more popular investment choice in India and create relatively low returns when compared to other investment vehicles such as FDs (Fixed Deposits) and postal savings, they are not as successful as the other investment vehicles. This is despite the fact that mutual funds generate relatively low yields when compared to other investment vehicles. The fact that mutual funds are a more common form of investing in India does not change the reality that this is the case. In 1996, SEBI created a set of guidelines that all Indian mutual funds are required to adhere to. In order to enlighten and educate investors about the mutual fund industry, the Securities and Exchange Board of India

(SEBI) and the American Mutual Fund industry Association (AMFI) worked together to produce a variety of investor awareness initiatives. These projects were created in collaboration.

Around 700 closed-ended funds and 19 open-ended mutual funds were fighting for investors' money in 1929. Open-ended mutual funds numbered 19. The 1929 stock market crash completely wiped out the high-leverage closed-end funds, while the more conservative open-ended funds were able to weather the storm and continue operating. As a direct result of this, a change in the dynamic started to take place. Around one hundred open-ended funds were available to investors at the beginning of the year 1950. Since the 1960s, the ambitious growth fund has received contributions from more than a hundred new funds, bringing the total value of extra assets to tens of billions of dollars.

The establishment of the Unit Trust of India and its subsequent growth between the years 1964 and 1987.

ii. The Second Stage (1987–1993), Also Known as the Entry of Funds from the Public Sector

The Third Stage, also known as the Emergence of Private Sector Funds, the Fourth Stage, also known as Growth and Consolidation, and the Fifth Stage, also known as Growth and Consolidation, all occurred between 1993 and 2003. Due to the fact that February 2003

2. OBJECTIVES OF THE STUDY

- i. To analyze the results of a variety of equity mutual funds investing in Indian companies.
- ii. To do research on the dynamic that exists between risk and return.
- iii. To assist investors in mutual funds in selecting higher-quality funds as potential vehicles for their

investments.

3. STATEMENT OF THE STUDY

Mutual funds that invest in large-cap companies are often financed by major corporations. Companies are considered to be of a significant size if their market value is higher than 20,000 crores. These are well-known companies that have a significant portion of the market share. When compared to the volatility of big stock mutual funds, the volatility of small and midcap equity mutual funds is much greater. Investors need to have a solid understanding of the different asset management companies in order to maximize their returns. They should also speak with financial advisors to determine whether or not there is a good probability that the funds will provide a return on investment.

4. SCOPE OF THE STUDY

The research looks at 10 distinct large cap stock mutual fund schemes, each of which was given by a significant organization in the private sector investing industry. These strategies were chosen after careful consideration. The selected strategy's net asset value was computed by applying an annual return over a period of five years commencing on January 1, 2013, and finishing on December 29, 2017. This period began on the first day of the year. This study analyzes the various equity schemes with regard to their associated risks and potential returns. In addition, the performance of these schemes is evaluated by using the funds' return on investment that is comparable to the benchmark return in order to determine how well the schemes performed.

5. LITERATURE REVIEW

William F. Sharpe conceived developed a set of performance standards for portfolios

in the year 1966. An innovative indicator for estimating the performance of mutual funds based on the outcomes of portfolio studies has been established by the economist Jack L. Treynor. This predictor is distinct from almost all others since it analyzes the degree to which a fund's returns are volatile in a manner that is both clear and meaningful.

In the year 1968, Michael Jensen developed a method for assessing composite portfolios that takes into account the risk-adjusted returns of the investments. Between the years 1945 and 1966, he studied the skills of 115 different fund managers to make sound investment decisions. An analysis of net returns found that 39 funds had returns that were much greater than the average, while 76 funds generated returns that were significantly lower than the average. In terms of gross returns, there were 48 funds that did better than the average, while there were 67 funds that did worse. Jensen came to the conclusion that there was little evidence to support the hypothesis that the funds performed much better than anticipated. This was caused by the inability of fund managers to accurately predict changes in the prices of underlying securities.

In 1972, as a result of Fama's ability to identify the stocks that performed the best given a certain degree of risk, he devised techniques for separating observed return from changes in market price. These approaches are still in use today.

M. Vijay Anand (2000) focused his study on Birla Sunlife as well as the marketing methods used by the company's competitors. Using a literature review and the Delphi method, the author conducted an analysis of the strengths, weaknesses, opportunities, and threats faced by Birla Sunlife, as well as the performance of equity funds over a period of three years.

Academics and business experts were interested in the findings of a thorough study on the performance of mutual funds that was conducted by Agarwal, R. K., et al. (2010). It is reasonable to assume that Indian investors are interested in acquiring further knowledge about profitable fund managers given the size and scope of the Indian financial sector as a whole. Finding competent fund managers is a particularly exciting academic aim since it encourages the development and use of novel models and concepts.

6. METHODOLOGY

The purpose of this research is to investigate and assess the top 10 best-performing Indian equity mutual funds, as chosen by CRISIL. These investments were selected because of how well they have performed in the long run. This study covers the period beginning in January 2013 and ending in December 2017 and focuses on mutual funds throughout that time. Data from secondary sources, such as websites, journals, magazines, and other publications, were used to compile this report. Its foundation lies on secondary research. In order to conduct an accurate analysis of the performance of these mutual fund schemes, a number of statistical and financial approaches will need to be used. Measurements like as alpha, beta, correlation, Sharpe, Treynor, and Jensen are only few of the instruments and processes that are used.

CRISIL I, India's best-performing mutual fund that invests in large-cap companies, has made public its results. Aditya Sun Life Birla Top 100 Fund

The following companies may be included on this list: Invesco India Dynamic Equity Fund, Kotak Select Focus Fund, Aditya Birla, ICICI Prudential Focused Bluechip Equity Fund, Sun Life Frontline Equity

Fund, ICICI Prudential Top 100 Fund, Reliance Top 200 Fund, and item viii SBI Blue Chip Fund. The mutual fund known as the DSP BlackRock Focus 25 Fund x is managed by DSP BlackRock. The BNP Paribas Equity Fund is one of the numerous funds that BNP Paribas manages as its administrator.⁸⁵

LargeCapFunds

Investors who want to put more of their money into companies that have a large market capitalization could be interested in large-cap funds (also known as big cap funds). When compared to the volatility of big stock mutual funds, the volatility of small and midcap equity mutual funds is much greater. Large-cap funds, in comparison to their mid-size and small-cap counterparts, are known to provide more stable returns while taking on a substantially lower level of risk. Large-cap funds are the way to go for investors who want to reduce the amount of risk they are taking on.

PerformanceEvaluationTechniques:

- **Sharpe'sPerformanceIndex**

The Sharpe ratio is an essential component to consider when doing a risk-adjusted return analysis. The annualized rate of return in excess of the risk-free rate is often expressed as a percentage of the portfolio's total risk or volatility. In order to aid investors in picking an investment that provides a better return while accepting a lower degree of risk, the Sharpe ratio conducts an analysis that takes both risk and return into consideration. This analysis may be used to help investors choose investments.

After deducting the return on a risk-free investment from the average return on an investment fund, the standard deviation is then used to determine the overall level of risk associated with the portfolio.

In mathematics, the shape ratio is calculated by dividing the standard deviation by the difference between the average return on a portfolio of assets and the return on an investment with no risk. This difference is referred to as the risk-adjusted return.

$$S(P) = (R_p - R_f) / \sigma(p)$$

Where, R_p = Average return of portfolio, R_f = Risk free rate and σ = Standard deviation of portfolio.

- **Treynor's Performance Index**

The Treynor ratio and the Sharpe ratio both come out to the same value. The difference between these two assessments is that the volatility metric is utilized to gauge risk, rather than the standard deviation metric, which measures overall risk. When calculating the Treynor ratio, it is necessary to make the assumption that the market has an innate degree of risk denoted by beta.

To get a fund's Treynor ratio, just compute the difference in return between the return on a normal fund and the return on an investment with no risk and divide that number by the fund's beta. The risk premium is impacted by the total amount of systematic risk that is assumed by a portfolio.

$$T_n(P) = (R_p - R_f) / \beta(p)$$

Where, R_p = Average return of portfolio, R_f = Risk free rate and β = Measure of systematic risk

- **Jensen's Performance Index**

The Jensen's measure, also known as the risk-adjusted performance measure, is used to determine whether the average return on a portfolio or investment is higher or lower than what the CAPM (capital asset pricing model) predicts given the beta of the portfolio or investment and the average return on the market as a whole. This is

determined by comparing the average return of the portfolio or investment to the return on the market as a whole. The answer to this question may be found by comparing the return on the portfolio or investment with the average return on the market. Because it begins with a predetermined point of reference and then evaluates performance in relation to that standard, this metric is referred to as an absolute performance measure. The ability of management to produce accurate projections is one of the conditions that must be met. If you scroll down, you could find some further information on Jensen's primary model. R_m minus R_f equals R_p plus β .

In this equation, R_f represents the risk-free rate, while R_p stands for the average return on portfolio. The measure of systematic risk is denoted by the term "Intercept," and R_m is shorthand for "average market return."

Correlation

The purpose of the statistical technique known as correlation analysis is to indicate how closely two variables are related with one another in the form of a linear pattern. The term "correlation" implies that there is a relationship between the two sets of data that may be used to increase the value of the data. Studies of correlation are required in order to evaluate whether or not certain data fits with a hypothesis, to anticipate one variable based on knowledge of the others, to combine variables in order to give a restricted interpretation of the data, and to isolate the effect of factors. Correlation studies may also be used to determine whether or not one variable influences another variable.

A positive correlation may be found between $r = 0$ and 1, a weak positive correlation can be found between $r = 0$ and 0.3, a moderate positive correlation can be found between $r = 0.3$ and 0.7, and a

strong positive correlation can be found between $r = 0.7$ and 1. When r equals exactly one, we may say that there is a perfect positive correlation between the two variables.

when the value of r is between -0.3 and -0.7 , there is a moderate negative correlation; and when the value of r is between 0 and -0.3 , there is a weak negative correlation.

When the value of r is between -0.7 and -1 , there is a strong negative connection;

A connection with an absolute negative value has a r value of -1 .

7. DATA ANALYSIS AND INTERPRETATION:

Table 1: Correlation Matrix

Interpretation

	Aditya Birla Sun Life Top 100 Fund	Invesco India Dynamic Equity Fund	Kotak Select Focus Fund	Aditya Birla Sun Life Frontline Equity Fund	ICICI Prudential Focused Bluechip Equity Fund	ICICI Prudential Top 100 Fund	Reliance Top 200 Fund	SBI Blue Chip Fund	BNP Paribas Equity Fund	DSP BlackRock Focus 25 Fund
Aditya Birla Sun Life Top 100 Fund	1.00									
Invesco India Dynamic Equity Fund	0.89	1.00								
Kotak Select Focus Fund	0.12	0.10	1.00							
Aditya Birla Sun Life Frontline Equity Fund	0.99	0.89	0.12	1.00						
ICICI Prudential Focused Bluechip Equity Fund	0.97	0.87	0.12	0.98	1.00					
ICICI Prudential Top 100 Fund	0.94	0.82	0.11	0.94	0.95	1.00				
Reliance Top 200 Fund	0.96	0.86	0.11	0.96	0.95	0.92	1.00			
SBI Blue Chip Fund	0.14	0.12	-0.06	0.14	0.12	0.12	0.13	1.00		
BNP Paribas Equity Fund	0.94	0.89	0.12	0.94	0.93	0.89	0.91	0.16	1.00	
DSP BlackRock Focus 25 Fund	0.85	0.78	0.08	0.85	0.83	0.79	0.84	0.22	0.82	1.00

Every equities mutual fund has a high

positive connection with one another, with two notable exceptions: the Kotak Select Focus Fund and the SBI Blue Chip Fund. These two funds are the only ones that are still available. There is a very strong indication of a positive association between the Aditya Birla Sun Life Top 100 Fund, the Aditya Birla Sun Life Frontline Equity Fund, the ICICI Prudential Focused Bluechip Equity Fund, and the Reliance Top 200 Fund since all of these funds have r values that are more than 0.99. The Aditya Birla Sun Life Frontline Equity Fund is in a better position as a result of the positive correlation that exists between the ICICI Prudential Focused Bluechip Equity Fund and the Reliance Top 200 Fund ($r = 0.98$ and 0.96 , respectively). Both the Kotak Select Focus Fund and the SBI Blue Chip Fund have a negative coefficient of correlation of -0.06 , which indicates that the two funds are not associated with one another positively.

Descriptive Statistics

Table 2: Summary of basic descriptive statistics parameters

	Aditya Birla Sun Life Top 100 Fund	Invesco India Dynamic Equity Fund	Kotak Select Focus Fund	Aditya Birla Sun Life Frontline Equity Fund	ICICI Prudential Focused Bluechip Equity Fund
Mean	0.07	0.06	0.07	0.06	0.06
Standard Error	0.03	0.02	0.03	0.03	0.03
Median	0.11	0.09	0.10	0.11	0.09
Standard Deviation	0.90	0.73	0.89	0.89	0.88

Sample Variance	0.81	0.53	0.79	0.79	0.78	0.82
Minimum	-6.29	-4.82	-6.50	-6.45	-6.52	-6.31
Maximum	3.25	2.95	2.94	3.24	3.04	3.64

➤ Interpretation

The descriptive statistics will provide an overview of the several avenues available for financial support. According to the figure that was just shown, the average return on all funds is higher than the benchmark, which is the Sensex index's return on the market. The standard error of the Invesco India Dynamic Equity Fund is bigger than that of the Sensex. On the other hand, the standard errors of the Aditya Birla Sun Life Top 100 Fund, the Kotak Select Focus Fund, the Aditya Birla Sun Life Frontline Equity Fund, and the ICICI Prudential Focused Bluechip Equity Fund are practically identical. In contrast to the dispersion, the median value is far higher than what the Sensex offers.

All of the following funds have lower standard deviation (SD) risks than the market risk (0.91), including Aditya Birla Sun Life Top 100 Fund, Invesco India Dynamic Equity Fund, Kotak Select Focus Fund, and Aditya Birla Sun Life Frontline Equity Fund. ICICI Prudential Focused Bluechip Equity Fund also has lower SD risks than the market risk. All of the funds meet both the minimum and maximum return standards established by the market (Sensex). Nevertheless, the dangers are almost equal in scale.

➤ Interpretation

The descriptive statistics will provide an overview of the many options for receiving financial assistance at a high level. The number that was only just made public indicates that the return on average across all funds is higher than the

benchmark, which is the return on the market as measured by the Sensex index. The Sensex standard errors for the Reliance Top 200 Fund and the DSP BlackRock Focus 25 Fund are virtually identical to those for the ICICI Prudential Top 100 Fund, SBI Blue Chip Fund, and BNP Paribas Equity Fund. When compared to the standard deviation, the median value is much larger than what is provided by the sensex. When contrasted with the risk posed by the market (0.91), the standard deviations of risk for the ICICI Prudential Top 100 Fund, the SBI Blue Chip Fund, and the BNP Paribas Equity Fund are all lower. On the other hand, the standard deviations of risk are higher for the Reliance Top 200 Fund and the DSP BlackRock Focus 25 Fund. The Reliance Top 200 Fund and the DSP

8. CONCLUSION

The outcomes of the research indicate that investing in mutual funds is a risk-free method to put money to work. Mutual funds are a kind of financial vehicle that enable investors to diversify their holdings via the purchase of shares.

When deciding how to divide up the funds, it is necessary to take into account the performance indicator of the portfolio. These tools provide investors with the information they need to decide whether or not their money has been invested successfully in the past or will be invested successfully in the future. It is quite unlikely that an investor could evaluate the whole investment environment without taking into account the risk-adjusted returns, since doing so might result in the formulation of inaccurate conclusions.

According to the findings of study conducted, the aspects of risk and return are the most important considerations to make when choosing an investing plan, followed by safety and liquidity. After

doing research on the several investment techniques offered by mutual funds, we came to this conclusion. Investors who want to lower the amount of risk they are taking on can decide to opt for funds that have better Treynor ratings. A higher Sharpe rating is something that investors should strive for if they want their money to be more diversified and if they want to enjoy a better rate of return on their investment. The Jensen performance metric is the one that investors need to utilize in order to assess both the performance of the portfolio manager and the funds.

Investors who have a fundamental grasp of money are the ideal candidates for investing in mutual funds. Because investors will have a wide variety of shares from which to choose, it will be up to them to choose the one that will bring them the most return on their investment while maintaining a close eye on their financial situation. In order for investors to optimize their returns, they need to familiarize themselves with the many asset management companies that are at their disposal. They may also contact advisory securities in order to determine which funds provide a rate of return on investment that is acceptable.

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