

A Study on the Performance of Mutual Funds of Indian AMCs

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ABSTRACT

A mutual fund is a pool of money managed by an Asset Management Company (AMC) that collect funds from different individuals as well as institutional investors, and invest those funds in various securities, capital assets such as bonds, real estates, stocks as well as in mutual funds. Most of the Asset Management Companies have different categories of equity mutual funds depending upon the risk associated with such investments. In this case, trailing return and rolling return indicate the performance of a mutual fund. However, a long-term investor has to consider other factors associated with such mutual funds (like asset under management, expenses ratio, number of stocks, and experience of the management) to finalise the selection of mutual funds.

In this research paper, an attempt has been made to identify the relationship among the performance of selected equity mutual funds and the parameters considered by the investors for selecting the fund. 't-statistic' has been used to identify such relationship.

This research shows that there is no relationship between trailing return of any kinds of Equity mutual funds and the selected parameters by the investors. However, number of stocks and experience of management have a little impact on the rolling return of equity large cap mutual funds and Assets under management has a little impact on rolling return in case of mid-cap mutual fund only.

Keywords: asset management companies, mutual funds, trailing return, rolling return, asset under management, expenses ratio

I. INTRODUCTION

India has seen a huge boom in the asset management industry in recent years with a growth of 1400 percent over the last 15 years, and it is only going to pick up its pace to expansion with impetus from the growth of other investment funds. The asset management industry has hit a record of \$126trillion in total assets in the year 2022. The asset management industry has observed a remarkable achievement in the market of profitability, revenue growth, however the industry is facing certain challenges from various angles. For the last decade, asset management industry has substantial growth in net assets and has provided higher margins, growing capital requirement, and high historical growth. It is observed that globally the ten largest listed asset management companies (AMCs) account for 90% of total assets.

Considering today's economic scenario and the dynamic economic conditions, people believe in transparency when it comes to their investment decisions. They are investing in different kinds of Mutual funds (MFs), which happens to be managed by AMCs. All the AMCs are in turn regulated by SEBI who keeps a close watch of their objections and workings. Thus, people find AMCs more reliable and trustworthy, with SEBI acting as their watchdog. After change in regulations of SEBI, customers are more attracted towards AMCs for investing their funds as these companies are bound to work in the interest of the investors complying the guidelines laid down by SEBI. The RBI also plays an essential role in regulating AMCs. People nowadays are very concern about managing their funds and taking right investment decisions, but have very little knowledge about the functioning of stock markets. This is when, they need a financial expert or say AMC to do their task. On this backdrop, we will make an analysis on the performance of some of the topmost MFs of AMCs.

II. LITERATYRE REVUEW

The literature review is an important part of any research work. It helps to identify the research gap and thus to frame research objectives. In the last few decades, there are several studies on MFs in different perspectives in India and abroad. Following is a brief presentation of the existing literature on earnings management:

A MF is an actively manageable investment company that pools money from institution as well as individuals and compile their funds and invest the same in securities portfolio as mentioned by the investment manager will help them to achieve their objectives as said by *Samsul* (Samsul, 2015).

“Other terms commonly used to describe this process are investment management, portfolio management, and money management. Accordingly, the individual who manages a portfolio of investments is referred to as an asset manager, investment manager, portfolio manager, or money manager as per *Sim*” (Sim. B, 2020).

According to *Irene Roda*, asset management companies play the role to facilitate bank restructuring, and collect funds from people both in individual level as well as institutional level dealing with cross country experience. It also deals with assets that are impaired during the period of financial crisis and helps in managing and disposing impaired assets based on the factors like the size and type of the asset, the banking system structure and so on (Irene Roda, 2018).

As per *Kozhevnikov*, it is stated that asset management companies are said to be that part of MFs which check on its investments and operations. When an investor invests its funds in any AMC’s, he actually buys a portfolio of assets offered by such AMCs and it is the decision of the investor whether it will be beneficial or not for the investor (Kozhevnikov, 2019).

As reflected by *Mathur* (2020) “a structured Asset management system provides detailed data about the various effects of investing in different levels of fund and also the effect of investing more in one type while investing less in another. A structured asset management system provides information about short-term as well as long-term impacts of allocation of resources like finance, equipment, materials, etc., among various activities. It shows the impact of limitations on the different types of resources which can be expressed as performance measures”.

Nandy (2019) mentioned that “AMCs provide people with information that puts a direct impact on their MF holdings”. “It is responsible to provide regular updates on repurchases, sales, portfolio details, return and so on to their investors. AMCs look after the interest of their investors and are answerable to them”.

Wachasunder, S.L (2018) in his research showed us the performance of small cap equity MFs available in India. His study covered a period of 5 years data of top 10 small cap MFs. He used parameters like “Standard Deviation, Beta, Alpha, R-Squared and Sharpe Ratio etc. to determine the performance of the selected MFs” Finally, he concluded that “all small cap MFs performed well”.

Thakur. S. (2019) mentioned that in his research he made a comparative performance analysis on selected MFs schemes dedicating to fulfil the post retirement needs of the investor. His study covered a period of 5 years data of 4 selected retirement MF schemes. He performed his research by following “CAGR, Average Return, sharpe Ratio, Treynor Ratio, Jensen’s Alpha, etc”.

Sanjana et. al. (2020) studied and researched on the “Large cap, Mid cap and Small cap MFs available in India”. They used different statistical tools like Sharpe Ratio, Treynor Ratio, Jensens Ratio, etc. for the purpose of analysing the performance of the MFs.

The review of the above-mentioned literatures shows that “although many research works have been conducted worldwide, including India, the study on the performance of equity MFs of Indian AMCs is untouched”. Therefore, there is a research gap, which induces us to take up the study.

III. OBJECTIVES OF THE STUDY

As discussed earlier, there is a considerable literature (apart from the issues discussed above) on the various facets of MFs. This study specifically seeks:

- To get an overview of Equity MFs
- To analyse the performance of the top “Equity Large-cap, Mid-cap and Small-cap MFs”.
- To identify the relationship between different kinds of return of MFs (viz. trailing return and rolling return) with different parameters associated with MFs (like Assets under management, expenses ratio, experience of management, number of stocks involved in MFs).

IV. RESEARCH METHODOLOGY

Nature of study	The study is analytical and descriptive in nature.
Data source	<ul style="list-style-type: none"> • The data has been collected only from the secondary sources. • The secondary data has been obtained from the website of Asset management Companies and other URLs like Advisorkhoj, Money control.com, Value Research etc.
Study Period	The study period is for 5 years only.
Number of companies	It is based on the rank of first quartile from the list of Trailing returns of selected “MFs” viz. “Large Cap”, “Mid Cap” and “Small Cap”.
Methods of presentation and analysis	<ul style="list-style-type: none"> • The data has been presented in tabular form. • Correlation Coefficient has been used to identify the relationship between different kinds of returns (trailing and rolling returns) with other independent variables like assets under management, expense ratio, experience of management, number of stocks.

V. OVER VIEW OF MFS

5.1 Concept of MFS

“A MF is an investment scheme, which has been managed by a professional body. In most of the cases, it has been run by an asset management company, which brings a group of people and other institution and invests their money in stocks, bonds, other securities and other forms of assets like Gold etc. It is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. The professional money managers are responsible to handle the MFs”. “They allocate the fund’s assets and attempt to produce capital gains or income for the fund’s investors. A MF’s portfolio is structured and maintained to match the investment objectives states in the prospectus. MFs give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. MFs invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund – derived by the aggregating performance of the underlying investments”. “MFs give small or individual investors access to professionally managed portfolios of equities, bonds and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. MFs invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund derived by the aggregating performance of the underlying investments. On the basis of underlying portfolio composition, MFs can be classified into two basis viz. Pure equity MFs and Non-equity MFs” (viz. Debt MFs, Bond MFs, liquid MFs etc.).

5.2 Types of Equity MFS

Equity MFs can be classified into different categories on different basis. However, based on the companies where the fund manager has invested their fund, it can be classified into the following three categories:

- **“Large-cap MFs”:** “Large-cap MFs are the equity MFs that are invested in the larger proportion on total assets in companies with a large market capitalization”. “SEBI has considered, the large-cap companies fall under the top 100 in the list of companies depending on the market capitalization”. Large-cap funds thus help in generating regular dividends and compound wealth. In many cases, large caps generate steadier returns with a relatively low risk and a long-term investment horizon. (Source: <https://groww.in/p/equity-funds/large-cap-mutual-funds>)
- **“Mid-cap MFs”:** Mid-cap MFs are the funds, which invest primarily in the mid-cap companies. SEBI has considered, the mid-cap companies fall between 101 and 250 in the list of companies depending on the market capitalization. Certain mid-cap MFs have the potential to generate greater return as compared to large-cap funds. The SEBI allows midcap funds at least 65% of total assets in equity. These mid-cap funds are considered as more risky than large cap but less risky than small-cap ones.
- **“Small-cap MFs”:** Small-cap MFs are the funds, which invest primarily in the small-cap companies. SEBI has considered, the small-cap companies starts from 251st ranked in the list of companies depending on the market capitalization. They are actually the sub-category of equity MFs whose performance is impacted by the market fluctuation. The best small-cap funds are considered to be potential to generate substantial returns in the long run. According to SEBI, small cap funds are observed to allocate 65% of their investment corpus to small-cap stocks. It has been seen that small cap funds generate substantial returns over the long term. (Source: <https://groww.in/p/equity-funds/large-cap-mutual-funds>)

5.3 Measurement of Return of Equity MFS

The performance of MFs can be measured in different ways. For this research, we have considered the trailing return and rolling return, which are discussed here under:

Trailing return: Trailing return is calculated by annualising the return between two dates (i.e. point-to-point). Thus, it is also known as point-to-point return. It measures the performance of a MF for the past specific periods (viz. one year, two years etc.). For example, a five-year trailing return of a MF is the annualised difference between the NAV of today and the NAV which was five years ago. In case of equity MFs, five years or more trailing returns reflect a better picture about the performance of MFs as volatility of market is comparatively less in long-term condition.

Rolling Return: On the other hand, a rolling return is an average annualised return taken from a specific period. They are the trailing returns calculated on a chosen frequency such as daily, weekly, monthly or yearly. This helps us measure the fund's performance clearly at different points in time and makes it more indicative of the actual performance of the fund. "Due to different periods, the return consistency of the fund over the period can be analysed as it considers both upside and downside market trends". If it shows more downsize in return, it implies such fund is more volatile than other funds having less downsize return.

5.4 Associated Factors of Equity MFS

There are several factors affecting the performance of MFs. However, for our study we have considered only four factors, which are discussed hereunder:

- **“Asset under Management (AUM)”:** In the context of MF, assets under management (AUM) refers the total market value of all the investments that an AMC handles on behalf of investors. As the value of securities changes daily, the AUM also fluctuates daily. Moreover, the changes reflect the flow of money in and out of a particular fund and the price performance of the MF. Funds with larger AUM denotes investors' preference of such fund as compare to other funds.
- **Expenses Ratio:** The expenses related to a MF includes both the management fees and operating expenses. It is very much important while considering the factors of selection of MF as this amount is to be borne by the investor. The ultimate return get by the investor is after deducting the said expenses. It has a huge impact on net return of the fund. The expense ratio for a fund is ascertained by dividing the total fund fees by the total value of the AUM.
- **Experience of Management:** Each fund managed by a manager(s) of an AMC. Their experience have a positive impact on the generation of return by the fund. More the experience, the utilisation of fund will be more effective. It may have a positive relation with the return of the fund.
- **Number of Stocks:** Depending upon the category of MFs, fund manager has to select the number of companies, where the funds are to be invested. Lesser the selected stocks, higher is the chance to diversify the portfolio in future.

VI. PRESENTATION OF DATA AND ANALYSIS

The study has been made on three categories of equity MFs viz. Large cap, Mid-cap and Small cap MFs. To identify the relationship between different kinds of returns and the different parameters associated with MFs t-statistic has been used.

6.1 Analysis of Large Cap MFs

Data of Large Cap MF

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5 years' trailing return	Rolling return
1	Canara Robero Bluechip	8,832.26	0.42	July, 2016	46	14.24	-16.25
2	Axis Blue chip	36,890.65	0.55	Nov., 2016	37	12.54	-12.84
3	Edelweiss Large cap	391.65	0.93	May, 2017	66	12.35	-24.11
4	Sundaram Large cap	3,172.19	0.55	May, 2022	50	12.17	-28.34
5	Kotak Bluechip	5,427.09	0.69	Jan, 2014	58	12.03	-25.37
6	IDBI India	643.41	1.25	Aug, 2021	56	11.77	-21.42
7	ICICI Prudential Blue-chip	35,929.4	1.07	Jan, 2021	71	11.68	-28.43
8	UTI Master Share	11038.9	0.98	Sep., 2022	50	11.48	-26.13

Source: <https://www.advisorkhoj.com/>

Values of t of Large Cap MFs

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.0266	-0.1945	-0.1802	1.7614
Rolling Return	0.54832	1.18	2.9191	4.139

Source: Computed through excel

Acceptance of hypothesis

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted
Rolling Return	Null accepted	Null accepted	Alternative accepted	Alternative accepted

Interpretation

- The tabulated value of mod t at 5% level of significance for 8 degrees of freedom is 2.306.
- It is observed that there is no relationship between trailing return of large cap MF and asset under management, expense ratio, number of stocks and experience of management as null hypothesis has been accepted.
- However, while finding the relationship between rolling return with number of stocks and experience of management, we have observed that these two calculated value is more than the tabulated value, which reflects alternative hypothesis showing that there is some relationship between them.

6.2 Analysis of Mid Cap Mfs

Data of Mid Cap MF

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5 years' trailing return	Rolling return
1	Quant Midcap	1272.71	0.63	May 2020	33	21.5	-26.77
2	PGIM India midcap Opportunities	7576.62	0.39	April 2018	47	18.1	-22.18
3	Axis Midcap	19741.37	0.54	Nov 2016	67	15.8	-11.18
4	Kotak Emerging Equity Scheme	23223.54	0.49	Jan 2013	71	14.35	-25.74
5	Motilal Oswal Midcap Fund	3657.17	0.87	Mar 2018	29	14.21	-26.82
6	Invesco India Midcap	2694.35	0.72	Mar 2018	60	14.02	-21.00
7	Edelweiss Midcap	2477.71	0.48	Oct 2021	59	13.41	-24.80
8	Nippon India Growth Fund	13860.86	1.0	Jan 2023	89	13.37	-27.65

Source: <https://www.advisorkhoj.com/>

Values of t of Mid Cap MFs

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.6520	0.0878	1.6161	0.1062
Rolling Return	2.3475	1.0954	0.406	0.8575

Source: Computed through excel

Acceptance of hypothesis				
Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted
Rolling Return	Alternative accepted	Null accepted	Null accepted	Null accepted

Interpretation

- The tabulated value of mod t at 5% level of significance for 8 degrees of freedom is 2.306.
- It is observed that there is no relationship between trailing return of large cap MF and asset under management, expense ratio, number of stocks and experience of management as null hypothesis has been accepted.
- However, while finding the relationship between rolling return with asset under management, we have observed that the calculated value is more than the tabulated value, which reflects alternative hypothesis showing that there is some relationship between them.

6.3 Data of Small Cap MF

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5 years' trailing return	Rolling return
1	Quant Small Cap	2580.22	0.62	May 2020	65	24.82	-41.58
2	Axis Small Cap	11358.11	0.51	Oct 2016	80	18.65	-14.62
3	Kotak Small Cap	8498.23	0.59	Jan 2013	74	16.07	-28.11
4	Nippon India Small Cap	23765.05	0.86	Jan 2017	161	15.66	-33.65
5	SBI Small Cap	15335.11	0.72	Nov 2013	52	14.28	-22.90
6	ICICI Prudential Small Cap	4591.47	0.81	Nov 2018	56	13.94	-30.34
7	HDFC Small Cap	14688.97	0.82	June 2014	68	12.99	-42.20
8	Union Small Cap	725.54	1.29	Oct 2016	55	12.38	-24.89

Source: <https://www.advisorkhoj.com/>

Values of the of Small Cap MFs

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.5223	1.8362	0.1632	1.6115
Rolling Return	0.0559	0.1968	0.3173	0.6194

Source: Computed through excel

Acceptance of hypothesis				
Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted
Rolling Return	Null accepted	Null accepted	Null accepted	Null accepted

Interpretation:

- The tabulated value of mod t at 5% level of significance for 8 degrees of freedom is 2.306.
- It is observed that there is no relationship between trailing return of small cap MF and asset under management, expense ratio, number of stocks and experience of management as null hypothesis has been accepted.
- Moreover, However, while finding the relationship between rolling return and asset under management, expense ratio, number of stocks and experience of management, we have observed that they satisfies null hypothesis which depicts that there is no relation between them.

VII. FINDINGS AND CONCLUSION

A. Relating to performance of MFs:

1. In case of Large cap MF:

- Canara Robero Bluechip provides the highest trailing return even though Axis Blue-chip Funds has the maximum assets under its management.
- Moreover, Axis Blue-chip Funds has the maximum assets under its management as it's rolling return (i.e. measured the lowest fluctuation in return in a year) is the best compared to other funds. It also influenced by the second least expense ratio, experience of the management and involvement of less number of stocks.

2. In case of Mid-cap MF:

- Quant Midcap Fund provides the highest trailing return even though it is far behind the other funds regarding assets under management.
- Moreover, Axis Midcap and Kotak Emerging Equity Scheme have the maximum assets under its management in the case of Midcap category. But it has not been used effectively because their returns are not maximum compare to other funds.

3. In case of Small-cap MF category:

- Quant Small Cap MF provides the highest trailing return even though it is far behind the other Funds regarding assets under management.
- For the small cap MFs, Axis small-cap Funds has the lowest rolling return. Due to this, it has substantial assets under its management compare to other funds. It has also been influenced by the second least expense ratio, experience of the management and involvement of number of stocks.

B. Relating to the relationship between performance of MFs and other parameters:

1. In case of Large cap MF:

- 5 years' trailing return of the large cap MFs has not been influenced by the other parameters (considered in our study), which are considered by the investors while selecting the funds.
- However, the rolling return of large-cap MFs has been influenced little bit by the number of stocks and experience of the management.
- Hence, it can be concluded that as the large-cap MFs invest primarily in large-cap companies, their return has not been controlled by the other factors, rather the return is primarily depending upon the return generated by the selected stocks only.

2. In case of Mid-cap MF:

- 5 years' trailing return of the mid-cap MFs has not been influenced by the other parameters (considered in our study), which are considered by the investors while selecting the funds.
- However, the rolling return of mid-cap MFs has been influenced little bit by the assets under management only.
- Hence, it can be concluded that even in case of mid-cap MFs invest primarily in mid-cap companies, their return has not been controlled by the other factors, rather the return is primarily depending upon the return generated by the selected stocks only.

3. In case of Small-cap MF category:

- 5 years' trailing return as well as the rolling return of the small-cap MFs have not been influenced by the other parameters (considered in our study), which are considered by the investors while selecting the funds.
- Hence, it can be concluded that even in case of small-cap MFs invest primarily in small-cap companies, their return has not been controlled by the other factors, rather the return is primarily depending upon the return generated in the long-term by the selected stocks only.

VIII. LIMITATIONS OF THE STUDY

The study has the following limitations:

- The research work analysed the performance of active funds only, passive funds' performance has not been considered.
- The return of direct MFs have been considered only. However, the return of regular MFs have been ignored for this study.
- The study is limited only for equity MFs. Debt and Hybrid MFs are not considered in the research.
- As the study is limited only to secondary data, the investors' perception about the factors considered for selection of MFs have not been considered.

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