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<td>FOF</td>
<td>Fund of Funds</td>
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<td>ETF</td>
<td>Exchange Traded Funds</td>
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<td>CAPM</td>
<td>Capital Asset Pricing Model</td>
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<td>RBI</td>
<td>Reserve Bank Of India</td>
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<td>NAV</td>
<td>Net Asset Value</td>
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<td>AUM</td>
<td>Assets Under Management</td>
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<td>NFO</td>
<td>New Fund Offering</td>
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<td>ELSS</td>
<td>Equity Linked Saving Schemes</td>
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<td>SIP</td>
<td>Systematic Investment Plan</td>
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<td>SWP</td>
<td>Systematic Withdrawal Plan</td>
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<td>NSE</td>
<td>National Stock Exchange</td>
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<td>BSE</td>
<td>Bombay Stock Exchange</td>
</tr>
<tr>
<td>AMFI</td>
<td>Association Of Mutual Funds of India</td>
</tr>
<tr>
<td>RBI</td>
<td>Reserve Bank Of India</td>
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<tr>
<td>SEBI</td>
<td>Stock Exchange Board of India</td>
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<td>UTI</td>
<td>Unit Trust of India</td>
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<td>LIC</td>
<td>Life Insurance Corporation of India</td>
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<td>NFO</td>
<td>New Fund Offer</td>
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<td>Statement of Additional Information</td>
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"Analysis of performance of Selected Public Sector and Private sector Mutual Funds"
Contents

1. Background of the study
2. Review of literature
3. Statement of the problem
4. Relevance of study
5. Objectives of study
6. Hypothesis
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markets and securities, in line with the investment objectives agreed upon between the mutual fund and the investors.

Mutual funds perform different roles for different constituencies: Their primary role is to assist investors in earning an income or building their wealth, by participating in the opportunities available in various securities and markets. It is possible for mutual funds to structure a scheme for any kind of investment objective. Thus, the mutual fund structure, through its various schemes, makes it possible to tap a large corpus of money from diverse investors. The money that is raised from investors, ultimately benefits governments, companies or other entities, directly or indirectly, to raise money to invest in various projects or pay for various expenses. As a large investor, the mutual funds can keep a check on the operations of the investee company, and their corporate governance and ethical standards. The projects that are facilitated through such financing, offer employment to people; the income they earn helps the employees buy goods and services offered by other companies, thus supporting projects of these goods and services companies. Thus, overall economic development is promoted. The mutual fund industry itself, offers livelihood to a large number of employees of mutual funds, distributors, registrars and various other service providers. Higher employment, income and output in the economy boost the revenue collection of the government through taxes and other means. When these are spent prudently, it promotes further economic development and nation building. Mutual funds can also act as a market stabilizer, in countering large inflows or outflows from foreign investors. Mutual funds are therefore viewed as a key participant in the capital market of any economy.

The mutual fund industry grew its assets by a healthy 11%, or Rs 85,000 crore, to Rs 8.78 lakh crore in 2013 from Rs 7.93 lakh crore a year earlier. This was the second consecutive yearly rise in the industry's assets, after a drop in asset base for two preceding years. Most of the gains in 2013 came on the back of strong inflows into liquid and debt funds since investors are only cautiously positive about investing in stocks. Fund houses are upbeat about 2014 on account of various measures initiated
industry as markets are moving up. The industry has seen inflows across debts, FMPs and liquid schemes. Interests of retail investors are also increasing in equities. Besides positive growth symptoms, all this is also happening because of investor education initiatives run by the industry and AMFI across the country.

Retail investors have an ample choice of both Public and Private Mutual Funds, to park their savings in India. This study analyses the performance of select Public and Private mutual funds in India using the Mutual Fund performance measures. The study also captures the customer preferences towards Public and Private mutual Funds through a survey.

2. Literature Review

The review of literature is to guide us in the methodologies to be used in the study, this chapter, therefore, focuses on both theoretical and empirical literature.

2.1 Theories of Risk Measurement

The purpose of this section is to identify the alternate approaches to risk. In the traditional portfolio models an investor is assumed to maximize expected utility of the portfolio. This is a proposition of securities such as to minimize risk while holding the mean return constant at a level. Markowitz (1952) was the first to propose the mean-variance analysis of portfolio decisions. He discussed the concept of efficiently diversified portfolios which maximized expected returns for a given amount of risk measured by variance. In 1959, Markowitz elaborated further and provided means for calculating efficient portfolios when the means, variances and covariance's of return of the securities were available.
portfolio for any investor is a combination of the optimal portfolio of risky assets and a portfolio of risk free securities. This speaks of investor’s ability to separate the decision about investment proportions among risky assets separate from the decision with respect to investment proportion between risky and risk-free assets. This property is termed as monetary-separation normally distributed. The real investor does not perceive returns above a certain acceptable minimum as a risk. It is, therefore, the downside risk that is more important and the true risk.

Markowitz (1959) himself, proposed the 'semi-variance' rather than variance as a measure of risk as it captured only adverse deviations. Semi variance can also be described as below-mean target semi variance or in other words returns below the mean return is taken for measuring risk.

Hogan and Warren (1974) developed a CAPM using a below target semi variance risk measure also termed as the ES-CAPM. This corrects for the symmetric distribution approach of the traditional CAPM.

Bawa (1975) generalizes the semi-variance measure of risk to reflect a less restrictive class of decreasing absolute risk averse utility function known as the Lower Partial Movement (LPM). The M-V approach was restrictive as it ensured an optimal portfolio only if the utility function was quadratic.

2.2 Empirical Review

2.2.1 Review of Empirical Studies on Mutual Fund Costs and Fees

There have been several studies on the existence of economies of scale and scope in the financial sector in general and mutual fund industry in specific.
when assets per account (with the assumption that the number of accounts grow in
the same proportion as assets) are taken as hedonic variables. Further they also find
significant economies of scope within the fund complexes implying that buying into
funds which are a part of a large complex should give more net returns other things
remaining the same. Their findings clearly shows that not all funds can be treated
alike regarding the assumption of persistence of economies of scale as hedonic
variables can cause differences.

A study of US funds by Rea, Brian and Reid (1999), for the year 1998 shows, again,
strong inverse relationship between operating expense ratios and asset size of similar
funds. Further, funds with asset increases over time have also shown decreases in
expense ratios depending on the extent of increase.

While the presence of economies of scale seems to be the general norm, Latzko
(1998), tries to go beyond this and establish the source of economies of scale. It could
be due to management fee reduction or due to 'other administrative expenses.
Economies of scale are found to originate substantially from 'other administrative
expenses'.

Regarding price competition amongst funds there exist divergent views. Elton,
Gruber and Busse (2004), find no substantial importance given to even expenses by
investors when choosing S&P index funds. This could be possible in a time when
most funds are performing well thereby causing investors to neglect the expenses. In a
survey conducted by Capon, Fitzsimons and Prince (1996) only one fourths of
investors give importance to management fees. On the other hand, Christofferson
(2001) shows that money market fund managers have been willing to be flexible with
respect to management fees given the convex relation between fund inflows and
lagged performance. A similar convex relation has been presented by Chevalier and
Ellison (1997) in equity funds.
While there have been a few important contributions in the area of size and performance they are not specific to India.


Perold and Solomon (1991), on the other hand, found diseconomies of scale arising out of increased price impact of large transactions. Such impact costs are found to be larger for larger trades by Gallagher and Looi (2003) as well for a sample of institutions in the Australian markets.

Chen et al (2003), after accounting for various benchmarks find that return lined with lagged fund size for the period 1962 to 1999 in the US. The main reasons for this are found to be investments in small illiquid stocks and also organizational diseconomies.

On the contrary, Gallagher and Martin (2005) find no statistically significant difference in the returns of large and small funds in Australia.

The opinion among Indian fund managers on the issue of size is diverse. Some feel that there are ample opportunities for investment while others feel that investment choices are drying up.

2.2.3 Fund Style and Fund Returns

Fama and French (1992) had pointed out the tendency of small cap stocks giving better returns than large cap stocks. But small-cap stocks are also riskier as their prices are more volatile.
Grinblatt, Titman and Wermers (1995) analyzed the quarterly holding of 155 mutual funds for the period 1975-1984. Using multiple cross-sectional regressions of fund performance on fund characteristics they found that 77 percent of mutual funds tended to be momentum investors. This meant that funds tended to buy past winners and sell past losers. Momentum investing gave funds better returns than contrarian investors and the index.

Bogle (1998) uses the mine box mutual fund rating system. He explains that US fund style evolved from a homogenous form in the 1970s to a more heterogeneous form during the 1990s. He very significantly finds that expenses are the prime differentiator between actively managed equity fund returns. Further he finds that index funds delivered better average risk weighted returns compared to actively managed equity funds.

The importance of fund style in explaining fund returns cannot be denied. Indian mutual funds although not as diverse, in terms of style have, in the recent times, adopted Growth value and Large/Mid or small cap oriented styles. We, therefore, factor this in our study its impact on mutual fund size and performance.

2.3 Empirical studies on Indian Mutual Funds

While empirical studies of mutual funds in India are not comparable to sheer volume of studies conducted in the US it is picking up with the growth of the industry and more importantly with the availability of more frequent data.

Sahadevan and Thiripalraju (1997) attempted to compare the performance of funds using total return, consistency and volatility. They did not attempt to use any CAPM single or multifactor models. Their study covered private and public sector mutual
Panigrahi (1996) in his study of Indian Mutual funds selected a sample of four growth funds for the time period October 93 to December 95 and divided them into two periods to capture their performance in boom and bear phases separately.

Jonne M. Hill and Barbara Mueller (2001) made a research on ETFs and they concluded that Tracking errors and returns based on fund NAV relative to the index reflect characteristics of the product structure. In addition, price-to-index returns and tracking error reflect ETF prices that are captured at a different time from the underlying index and the short-supply and demand factors relevant to the ETF, as well as the hedging instruments used by the market makers. NAV tracking error is much lower than price-to-index tracking error and is the most useful measure in assessing the long-term characteristics of an ETF relative to its underlying index.

Philippe Jorion (2003) in his article explored the risk and return relationship of active portfolios subject to a constraint on tracking-error volatility (TEV), which can also be interpreted in terms of value at risk. Such a constrained portfolio is the typical setup for active managers who are given the task of beating a benchmark. The problem with this setup is that the portfolio manager pays no attention to total portfolio risk, which results in seriously inefficient portfolios unless some additional constraints are imposed. The study reflected that TEV-constrained portfolios are described by an ellipse on the traditional mean–variance plane. This finding yields a number of new insights. Because of the flat shape of this ellipse, adding a constraint on total portfolio volatility can substantially improve the performance of the active portfolio. In general, plan sponsors should concentrate on controlling total portfolio risk.

Sapar& Narayan(2003) examines the performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure with a sample
Kuo Li-Chun (2006) studied the financial performance of mutual fund schemes for the period 1st April 2005 - 31st March 2006 pertaining to the two dominant investment styles and tested the hypothesis whether the differences in performance are statistically significant. The analysis indicated that growth plans have generated higher returns than that of dividend plans but at a higher risk studied classified the 419 open-ended equity mutual fund schemes into six distinct investment styles.

Agrawal Deepak & Patidar Deepak (2009) studied the empirically testing on the basis of fund manager performance and analyzing data at the fund-manager and fund-investor levels. The study revealed that the performance is affected by the saving and investment habits of the people and at the second side the confidence and loyalty of the fund Manager and rewards- affects the performance of the MF industry in India.

Selvam et. al (2011) studied the risk and return relationship of Indian mutual fund schemes. The study found out that out of thirty five sample schemes, eleven showed significant t-values and all other twenty four sample schemes did not prove significant relationship between the risk and return. According to t- alpha values, majority (thirty two) of the sample schemes' returns were not significantly different from their market returns and very few number of sample schemes' returns were significantly different from their market returns during the study period.

2.4 Comparative studies of private and public mutual funds in India

Sharma G. Rajiv (2013), in his comparative study of public and private mutual fund in India concludes that investors usually get confusion while investing as he has plenty of opportunities like stock market, mutual fund, provident fund, real estates, etc. The mutual fund is proved to be a safer mode of investment and has been giving good returns compared to other investments and it is highly cost efficient and very easy to invest in, however it has got same kind of risk like direct capital market.