

# Performance Analysis of Mutual Funds: A Study of Balanced Schemes

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**Abstract:** A mutual fund is a pool of money invested by investors and further invests the pooled money in the financial market. The mutual fund industry has grown satisfactorily in the past decade and mutual funds play a key role in the inflow of capital to the financial market. Besides to analyze the growth of the mutual fund industry during the year 2018 by using trend of AUM, sales and redemption, the present paper makes an attempt to evaluate the performance of public & private sector mutual funds in respect to selected balanced fund schemes by using Sharpe's Ratio, Treynor's & Jensen's measures. Overall, SBI Magnum balanced fund performance has been found best as per different measures.

**Keywords:** Mutual Fund, Net Asset Value, Assets under Management, Performance

## 1. Introduction

Mutual funds play a major role in emerging financial sector, which are new to Indian investors. It is known to the investors that mutual funds give them the benefits of diversification, easy reach to equity and debt markets at low transactions and liquidity. As financial market evolves in recent times the mutual fund industry has acquired a very important place in our economy. In present dynamic environment, mutual fund attracts the investor attention due low cost & low risk option and growth of mutual fund industry is remarkable. Mutual fund is enormous interested topic to the researchers and academicians all over the

world. Small investors use to prefer mutual funds a suitable investment option. The choice of fund & fund schemes are based on Sponsor's reputation and fund performance. Indian mutual fund industry has two types of sector i.e. private sector & public sector. The numbers of schemes are working in these two sectors. One of them is balanced funds, which are geared towards investors who are looking a combination of safety, income & moderate growth. Balanced funds are ideal for investors who are medium risk appetite. The present paper made an attempt to assess the performance of balanced funds of selected public and private companies.

**Table 1:** Trend of Indian Mutual Fund Industry from January 2018 to December 2018 (Rs. in crore)

Month	Sales	Redemption	AUM
January 2018	2055349	1949190	2241275
February	1656763	1644671	2220326
March	1890612	1941364	2136036
April	1718328	1580900	2325505
May	1938427	1988427	2259578
June	2068450	2021975	2286401
July	2201406	2234034	2305538
August	1979779	1805131	2520430
September	1692981	1923139	2204423
October	2332979	2297450	2223560
November	1939580	1797221	2403134
December, 2018	2041741	2178692	2285912

Source: Monthly reports of AMFI

Table 1 shows the trend of sales, redemption & AUM of mutual funds during the selected period. It evidences not much increasing trend in the year 2018. Maximum amount of AUM is observed in the months of July and October and in case of sales also. Unlike the change in sales and redemption amount of mutual fund schemes, the value of AUM has shown satisfactory. It is overall view of fluctuations in main corners of mutual fund industry and main aspect of this work deals with the appraise the performance of select schemes.

## 2. Review of Literature

**Baral and Das (2016)** evaluated the growth of the mutual fund industry in India and found that there has been increasing trend in private sector mutual funds by resource mobilization and asset under management with decreasing trend of public sector in asset under management in terms of sector wise analysis. Overall, their study indicated that private sector mutual funds played dominant role in mutual fund industry. **Dhanabhakym and Bhat (2016)** presented the overview of mutual fund industry in terms of growth & key issues and challenges. Their study revealed that mutual fund industry was in its growing stage and presented a lot of scope for development in mutual fund

industry in near future. Also suggested that all asset management firms need to overcome the challenges faced by investors and to understand the investor's behavior towards mutual funds.

**Alekhyia and Saritha (2016)** examined the growth and development of the mutual fund industry in India. They found that mutual fund industry provided ample opportunities to the investors and attracting investors towards investing in mutual funds. Overall, it was found that there has been high growth of mutual fund industry in terms of number of mutual fund schemes, number of products and sales of products of mutual funds. **Pandow (2017)** also examined the growth performance of mutual fund industry. Significant growth of mutual fund industry by analyzing the Asset Under management, growth in mutual funds their schemes was observed. The study also revealed that the industry also faced many challenges like low penetration ratio, lack of product differentiation, lack of investor awareness and lack of interest of retail investors towards mutual funds etc. It was also stated that the mutual fund industry has not been used its full potential till now and needs to overcome the hurdles to explore further.

As mutual funds industry in India has got satisfactory attention of investor in fact savers for the investment

purpose but for a retail investor, selecting suitable mutual fund scheme is still time consuming and in some cases, investor has to pay cost for getting advice. That is why researchers need to work on these issues regularly and offer the results for particularly for small retail investor. The present attempt also serves the same.

### 3. Purpose of the Study

Primary purpose of the paper is to examine the performance of selected public and private sector mutual funds particularly for their balanced schemes during the study period.

### 4. Research Methodology

To examine the mutual fund schemes' performance, two public & two private mutual funds were selected. NAVs (Net Asset Value) by taking their average value on monthly basis of the selected schemes have been used in this study for the period from January 2018 to December 2018. As usual, Ninety one (91) days Treasury bill (monthly yield) has been taken as risk free rate. Following mutual fund schemes along their proxy indices i.e. benchmark were selected for the study:

Fund Name	Scheme Name	Benchmark/proxy index
<b>Private Sector Funds</b>		
1. HDFC Balanced Fund	a) Growth Option Plan b) Growth Direct Plan	CRISIL Balanced Fund Aggressive Index
2 ICICI Prudential Balanced Fund	a) Growth Option Plan b) Growth Direct Plan	CRISIL Balanced Fund Aggressive Index
<b>Public Sector Funds</b>		
1. SBI Magnum Balanced Fund	a) Growth Option Plan b) Growth Direct Plan	CRISIL Balanced Fund Aggressive Index
2. UTI Balanced Fund	a) Growth Option Plan b) Growth Direct Plan	CRISIL Balanced Fund Aggressive Index

### Balanced Mutual Fund Scheme

These are hybrid instruments for investors and considered less risky having unique feature of allocation of funds to equity and debt securities. As compared to money market, they offer higher returns and cover more holdings.

### Sources and analysis of Data

This work is undertaken mainly by taking data from secondary sources and the official websites of AMFI, CRISIL and RBI. For analyzing the performance of selected schemes, mean return, standard deviation & beta are applied and like to other studies, Sharpe's, Treynor's &

Jensen's measures have also been applied to assess the performance of these schemes.

### Limitations

Only four mutual funds have been considered and it is quite difficult to generalize and predict these schemes only on the basis of one year results.

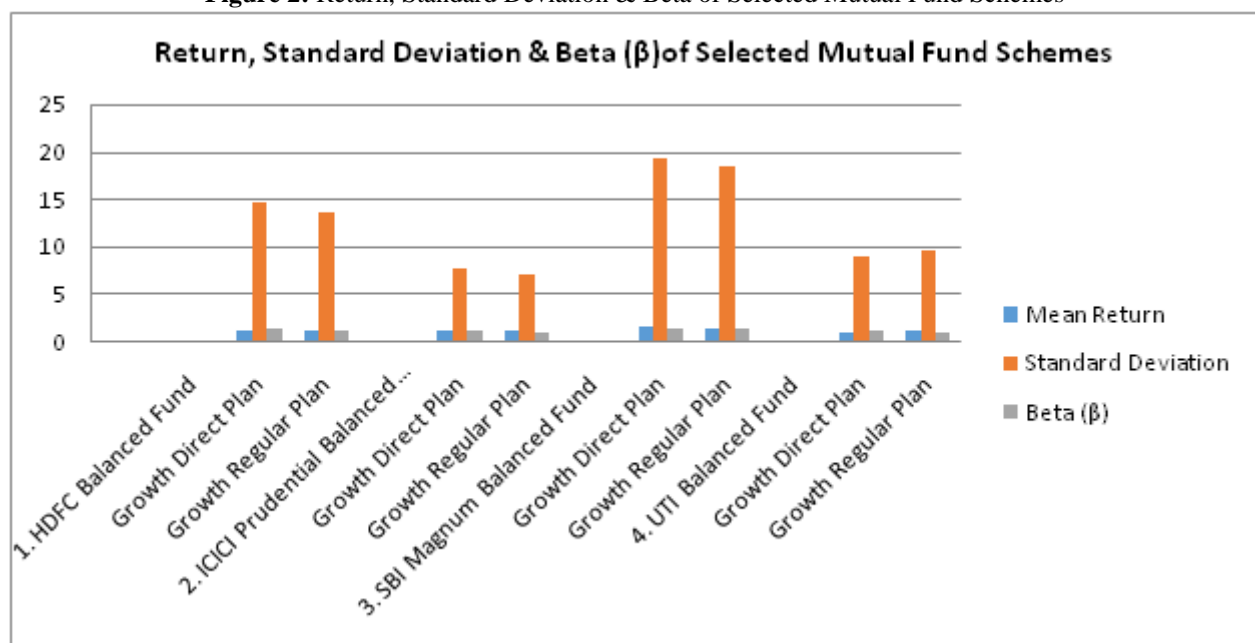
### 5. Data Analysis & Results

Following deals with basics quantitative results of selected schemes such as ex-post mean return and risk in total and systematic as well ( $\beta$ ).

**Table 2:** Performance of Select Mutual Fund Schemes: Results regarding Mean Return, Standard Deviation and Beta ( $\beta$ )

Scheme Name	Return (Average)	S.D.	$\beta$
<b>Private Fund</b>			
1. HDFC Balanced Fund			
Growth Direct Plan	1.92	1.21	0.10
Growth Regular Plan	1.83	1.17	0.10
2. ICICI Prudential Balanced Fund			
Growth Direct Plan	1.75	1.11	0.16
Growth option Plan	1.63	1.13	0.18
<b>Public Fund</b>			
3. SBI Magnum Balanced Fund			
Growth Direct Plan	1.98	1.06	0.08
Growth option Plan	1.90	1.06	0.08
4. UTI Balanced Fund			
Growth Direct Plan	1.75	1.30	0.14
Growth option Plan	1.67	1.11	0.12

Source: AMFI (Calculated by author by using Daily NAV)

**Figure 2:** Return, Standard Deviation & Beta of Selected Mutual Fund Schemes

From Table 1, the researcher has tried to present competitive picture of selected mutual fund schemes to take investment decision. In this, SBI Balanced fund indicates high return among the selected funds and in case of market risk, it has low risk factor while ICICI Prudential Balanced fund has yielded low return with high risk. In the context of beta, it is observed that beta values of all schemes are less than one which means they belong to the category of low risk mutual fund schemes. Overall, SBI Magnum Balanced fund has performed best according to these parameters and ICICI Prudential Balanced fund performance has been at low with high risk. If sector wise

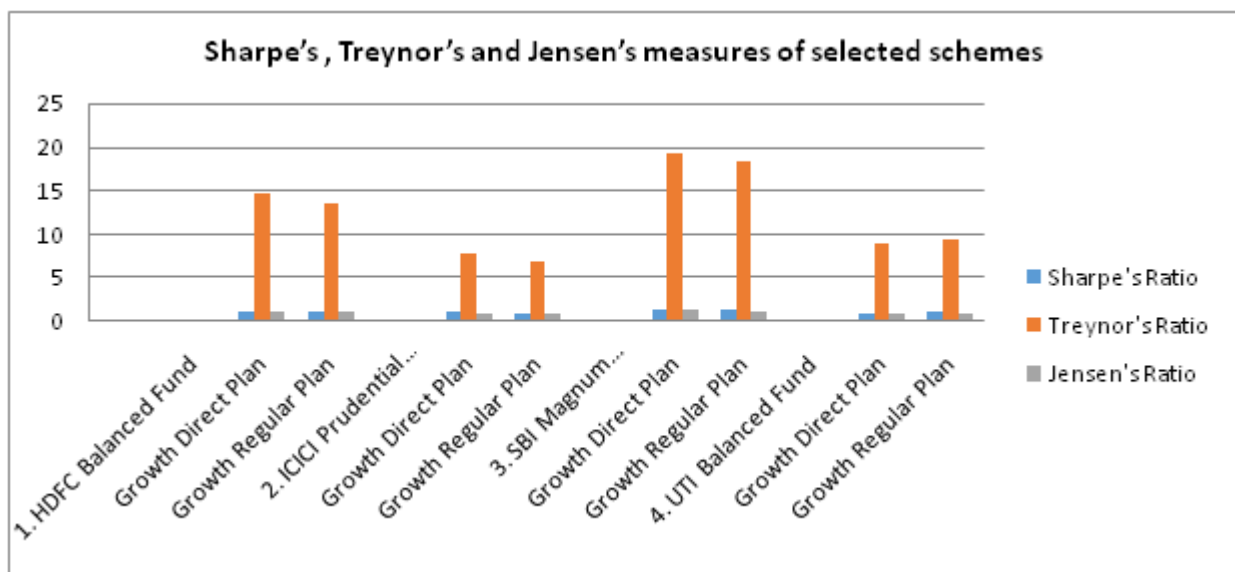
picture is seen, HDFC balanced fund from private and SBI Magnum Balanced fund from public sector schemes have remarked higher performance and more or less, both have performed at same level. Moreover, figure 2 also provides good view for making further comparison.

Besides assessing the basic indicators of investment performance – return and risk, finance literature recommends application of following three measures regarding appraisal of mutual funds. For this, table 3 exhibits the values of these three popular ratios.

**Table 3:** Sharpe's, Treynor's & Jensen's measures of Select Mutual Funds Schemes

Scheme Name	Sharpe's Measure	Treynor's Measure	Jensen's Measure
<b>Private Fund</b>			
1. HDFC Balanced Fund			
Growth Direct Plan	1.16	14.71	1.23
Growth Regular Plan	1.12	13.47	1.13
2. ICICI Prudential Balanced Fund			
Growth Direct Plan	1.11	7.72	0.96
Growth option Plan	0.99	6.89	0.84
<b>Public Fund</b>			
1. SBI Magnum Balanced Fund			
Growth Direct Plan	1.38	19.20	1.32
Growth option Plan	1.30	18.40	1.24
2. UTI Balanced Fund			
Growth Direct Plan	0.94	8.95	0.99
Growth option Plan	1.05	9.45	0.95

Source: Compiled by author from NAVs of the selected schemes

**Figure 3:** Sharpe's, Treynor's and Jensen's measures of selected schemes

As per Sharpe measure, SBI Magnum Balanced Fund is found to be top scheme followed by HDFC Balanced Fund, ICICI Prudential Balanced Fund & UTI Balanced Fund respectively. Corresponding table and figure reveal that among the selected funds, UTI Balanced Fund has at low level in this regard. In the study, all schemes attain the positive Sharpe's ratio which depicts that funds have yielded returns greater than risk free rate. Next, in terms of Treynor ratio, it is observed that SBI Magnum Balanced Fund has again been found at top followed by HDFC Balanced Fund & UTI Balanced Fund respectively while ICICI Prudential Balanced Fund has shown low Treynor's ratio compared to other funds. As per Jensen's measure, all these schemes are providing positive values which indicate superior performance of the schemes. Among the all selected funds maximum value of Jensen ratio is found for SBI Magnum Balanced Fund followed by HDFC Balanced Fund & UTI Balanced Fund. This time also, ICICI Prudential Balanced fund has got lowest value of Jensen's ratio.

## 6. Conclusion

Unlike stocks, investment in mutual funds is considered safe and reliable for investor particularly small retail investors. Much focus particularly by SEBI and mutual funds themselves are being given to aware people to park their savings in mutual funds instead of simple fixed deposits etc. This study provides brief view of the performance of overall mutual fund industry of India during the year of 2018 and specifically the performance of selected balanced fund schemes of two public sector mutual fund viz. SBI Magnum Balanced Fund and UTI Balanced Fund and two private sector mutual fund- HDFC Balanced Fund and ICICI Prudential Balanced fund. As per stringent evaluation, SBI Magnum Balanced Fund has attained highest performance and ICICI Prudential Balanced fund performance is low with high risk comparatively. Turn to sector wise picture, HDFC balanced fund from private and SBI Magnum Balanced fund from public sector schemes have remarked higher performance. Moreover, the performance of growth direct plans of all schemes has been higher than that of growth regular/option schemes in this regard. Further, it may be

suggested that more studies need to be undertaken to give detailed analysis by taking other schemes or plans of mutual funds and applicability of use of other measure of performance of mutual funds such as  $m^2$  and FAMA's model may be assessed.

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