A COMPARATIVE ANALYSIS OF PERFORMANCE OF MUTUAL FUNDS BETWEEN PRIVATE AND PUBLIC SECTOR IN AXIS BANK

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ABSTRACT:

A mutual fund is a scheme in which several people invest their money for a common financial cause. The collected money invests in the capital market and the money, which they earned, is divided based on the number of units, which they hold. The mutual fund industry started in India in a small way with the UTl Act creating what was effectively a small savings division within the RBI. Over a period of 25 years this grew fairly successfully and gave investors a good return, and therefore in 1989, as the next logical step, public sector banks and financial institutions were allowed to float mutual funds and their success emboldened the government to allow the private sector to foray into this area. The advantages of mutual fund are professional management, diversification, economies of scale, simplicity, and liquidity. The disadvantages of mutual fund are high costs, over-diversification, possible tax consequences, and the inability of management to guarantee a superior return. The biggest problems with mutual funds are their costs and fees it include Purchase fee, Redemption fee, Exchange fee, Management fee, Account fee & Transaction Costs. There are some loads which add to the cost of mutual fund. Load is a type of commission depending on the type of funds. Mutual funds are easy to buy and sell. You can either buy them directly from the fund company or through a third party. Before investing in any funds one should consider some factor like objective, risk, Fund Manager's and scheme track record, Cost factor etc. There are many, many types of mutual funds. You can classify funds based Structure (open-ended & close-ended), Nature (equity, debt, balanced), Investment objective (growth, income, money market) etc. A code of conduct and registration structure for mutual fund intermediaries, which were subsequently mandated by SEBI. In addition, this year AMFI was involved in a number of developments and enhancements to the regulatory framework. The most important trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players.The Indian financial system is based on four basic components like Financial Market, Financial Institutions, Financial Services, and Financial Instruments. All play important role in smooth activities for the transfer of the funds and allocation of the funds.

Keywords: Mutual Funds, Financial Markets, Financial Institutions.

REVIEW OF LITERATURE

Jill Leyland Economic Advisers (2005) to World Gold Council said that the unlimited potential of gold ETF is of high interest for those countries that have not yet introduced such products. He further pointed out that, in addition to insurance funds, other agencies such as public funds, sovereign wealth funds, and investment in gold ETFs also raise the demand for gold.

Gold ETF Index Fund is a kind of gold-based asset. It tracks the gold price and each share represents one-tenth of an ounce of gold. With transaction convenience, storage security, transaction costs, low liquidity, transparency of transactions, and many other investment advantages, gold ETF has become widely accepted.

Nedeljkovic (2005) described that Gold ETFs, compared to some other structured products, are very simple structures. He further, described that there is no credit risk and investment in Gold ETFs is inaccessible and simple. Gold ETFs are listed on a stock exchange, quoted in local currency, with no minimum investment. The other considerable characteristics of Gold ETFs are their cost effectiveness, security, and high liquidity.

Levin and Wright (2006) state that gold is prominent for its inverse relationship with the US dollar. During the drop in the currency rate of the US dollar recently, the gold price had shown a robust upward shift in the price. The currency factor contributes to investor decision-making framework in the adoption of gold investment The inflationary hedging ability of gold and currency rate volatility is the key independent variable in this research and it is widely studied by many professors.

Milonas and Rompotis (2006) conducted a study on the performance and the trading characteristics of ETFs. Gastineau (2001) described the origin, main types, and benefits of ETFs. Carty confers several characteristics of ETFs like flexibility, convenience, risk diversification, tax efficiency, and cost advantages. Gold ETF Index Fund is a kind of gold-based asset. It tracks the gold price and each share represents one-tenth of an ounce of gold. With transaction convenience, storage security, transaction costs, low liquidity, transparency of transactions, and many other investment advantages, gold ETF has become widely accepted.

Levin & Wright (2006) stated that gold etf is widely acceptable and investor can sell the gold whenever they need the liquidity of the fund.

Milonas and Rompotis (2006) conducted a study on the performance and the trading characteristics of the ETFs.

William A.Birdthistle (2007) studied the Exchange Traded Funds. He studied that Exchange-traded fund, a unit that provides the diversification of a mutual fund but trades on an exchange like a stock. Using a novel pricing mechanism that harnesses the utility of arbitrage, ETFs provide investors with accuracy, efficiency, tax advantages, and a range of investment choices, while insulating investors from the structural problems with mutual funds. This article argues that the mutual fund industry and its recent spate of dramatic scandals contributed to the growth of ETFs and concludes that mutual funds offer vivid warnings of the conflicts of interest that may come to afflict the ETF industry as it continues to grow.

Jennifer Chaung (2008) studied that ETFs replacing the Mutual Funds? The answer is, Flows to an Open-Ended Mutual Fund (OEF) can significantly hamper its subsequent performance due to flow-induced trading costs. An

Exchange-Traded Fund (ETF)is designed notto have this cost and hence is advertised as the more efficient index vehicle. He found that the overall transaction costs incurred for any given trading needs are actually identical. What differs, is the allocation and the reporting of those transaction costs - they are equally shared by all investors in an OEF and reduce the reported OEF performance, whereas, they are incurred only by those ETF investors with liquidity needs and do not affect the reported ETF performance. Thus, the OEF structure can be viewed as providing a partial insurance against individual liquidity needs and is actually beneficial for risk averse investors. The research empirically confirmed that the growth of ETFs is more concentrated in selected indexes.

Rompotis (2009) was the first to compare the performance of active ETFs with passive ETFs.Therefore we will give a brief review of the most significant papers in the field of performance evaluation of etf and some major analyses on ETFs. The existing literature can be divided into several distinctive subjects. Some studies compare active and passive management and they, except Rompotis, focus primarily on mutual funds. There are studies which investigate index mutual funds and (passive) ETFs . Furthermore, some research focuses on the characteristics of ETFs or analyses their performance with their corresponding benchmark or the market index.

World Gold Council (2009), the investor is keeping demand for gold as a haven, and the demand is continuously supported by the active investor who seeking effective portfolio diversifiers in the financial crisis. It is the globalization and liberalization of the financial market which increases the correlation of the investment instrument.

Baur and Lucey (2009), gold is said to be uncorrelated with other types of assets even when globalization increases the correlation among the asset. This special feature contributes to the importance of gold investment. Thus gold poses the haven, diversifier, and hedging characteristics to the investment portfolio.

According to the world gold Council (2009), the liquidity risk of gold is relatively low as compared to other investment vehicles, especially during economic hardship.

Bang (2009) gold ETF is an open-ended mutual fund that invests in standard gold bullion as its underlying asset. It is also known as paper gold. These instruments are listed on the stock exchanges and, hence, can be bought and sold just like buying and selling of

shares.

Vinay Acharya(2009) Gold ETFs can be bought and sold like any other share or security on the stock market through a broker. You need to have a Demat account in a bank or a depository partner, and a trading account with the broker. One benefit of gold ETF is the lower tax rate it attracts compared with that of physical gold. If gold ETFs are sold within one year of purchase, the profits are added to the income and taxed at normal rates. But if the holding period exceeds one year, the profits are treated as long-term gains and taxed at a flat rate of 10% or 20% after the indexation benefit. In comparison, physical gold has to be held for at least three years for the profits to qualify as long-term capital gains. Incidentally, there is no tax on gains made from the sale of jewelry bought for personal use.

RESULTS AND DISCUSSION

MEASURING MUTUAL FUNDS RETURN

The first step in mutual fund evaluation is calculation of the rate of return earned over the holding period. Return may be defined to include changes in the value of the mutual fund over the holding mutual fund plus any income earned over the period. However, in the case of mutual funds, during the holding period, Cash inflows into the fund and cash withdrawals from the fund may occur. The unit-value method may be used to calculate return in this case.

The one period rate of return, r, for a mutual fund may then be defined as the change in the per unit net asset value (NAV), plus it's per unit cash disbursements (D) and per unit capital gains disbursements (C) such as bonus shares, it may be calculated as.

$$Rap = \frac{(NAV_t - NAV_{t-1}) + DT + C}{NAV_{t-1}}$$

Were

NAVt   = NAV per unit at the end of the holding period

NAVt-1 = NAV per unit at the beginning of the holding period

Dt   = Cash disbursements per unit during the holding period

Ct   = Capital gains disbursements per unit during the holding period

This formula gives the holding period yield or rate of return earned on a mutual fund. This may be expressed as a percentage.

RISK ADJUSTED RETURNS

Risk free rate of interest is the return that an investor can earn in a risk less security, i.e., without bearing any risk. The return earned over and above the risk free rate is the risk premium that is the reward for bearing risk.

THE SHARPE's MEASURE:

In this model, performance of fund is evaluated on the basis of Sharpe ratio, which is ratio of returns generated by the fund over and above risk free return and the total risk associated with it. According to Sharpe it is the total disk of the fund that the investors are concerned about. So, this model evaluates funds on the basis of reward per unit of total risk

$$Sharpe\ index = \frac{Portfolio\ average\ return - Risk\ free\ rate\ of\ return}{Standard\ deviation\ of\ the\ portfolio\ return}$$

Symbolically, it can be written as:

$$\textbf{Sp} = \frac{(\textbf{R}_\textbf{p} \; - \; \textbf{Rf})}{\delta \textbf{p}}$$

Where

Sp = Sharpe index

Rp = Portfolio average return

Rf = Risk free rate of return

δp = Standard deviation of the portfolio return

While a high and positive Sharpe ratio shows a superior risk adjusted performance of a fund, a low and negative Sharpe ratio is an indication of unfavorable performance.

THE TREYNOR's MEASURE:

It was developed by Jack Treynor. Treynor's Index is a ratio of return generated by the fund over and above risk free return (i.e. Government securities, Treasury bills), during the given period of time and systematic risk associated with beta.

$$\textbf{Tenor's Index} = \frac{(\textbf{R}_\textbf{ap} - \textbf{F}_\textbf{ro})}{\beta \textbf{p}}$$

Where

R_p = represent the return of fund

R_f = represents the risk free rate

βp = represent beta of funds

All risk-averse investors would like to maximize this value. While a high and positive treynor's index shows a superior risk adjusted performance of fund, a low and negative treynor's index is an indication of unfavorable performances

JENSENs MODEL:

Jansen's model proposes another risk adjusted performance measure. Michael Jenson developed this measure and is something referred as the differential return method. This measure involves evaluation of returns that the fund has generated Vs the return actually out of the fund given at that level of systematic risk. The surplus between the two returns in called Alpha, which measures the performance of a fund compared with the actual returns over the period. Required rate of return on fund at a given level of Beta

Can be calculated as:

$$R_p = \frac{\square_p}{\square_p}$$

Where

$\square_p \quad = R_p \; - \; \overline{R_p}$

$\overline{R_p} \quad = R_f + \; \square_p \; (\; R_m \; - \; R_f)$

Jp = Jensen's Ratio

αp = The intercept

βp = A measure of systematic risk

Rp = Average return of portfolio

Rf = Risk free rate of return

Rm = Average market return

R_m is average market return during the given period. F_{ro} is the risk free rate of return

Table 1.1: **Equity Fund Dividends**

Year	Percentage of return				
	SBI	**UTI(AXIS)**	**HDFC**	**JM financial**	**Market Index**
2019	9.70	6.65	13.25	4.18	9.60
2020	9.15	2.35	5.00	0.692	11.41
2021	12.93	10.70	8.70	11.40	10.10
AVG	10.40	6.57	8.98	5.43	10.37

Source: www.mutualfundsindia.com

www.bseindia.com

The average return of SBI is 10.40% and highest is 12.93% and lowest is 9.15% it is concluded that the return is increased trend.

The return of UTI fund shows that it has earned highest return of 10.70 % on its investments in the year 2021. It has, on an AVG generated a return of 6.57% for the period from 2019-2021.

Table1.2: **Equity fund growth**

Year	Percentage of return				
	SBI	UTI	HDFC	JM financial	Market Index
2019	9.70	11.20	13.22	11.25	9.60
2020	10.83	3.33	5.10	10.05	11.41
2021	11.68	7.07	11.65	11.65	10.10
AVG	10.73	7.20	9.99	10.98	10.37

Source:www.mutualfundsindia.com

The above table reveals that SBI made a highest return of 11.68% on its investment year 2021.and lowest is in 2005 is decreased 9.70%. However it has earned on an average 10.73% return on investment for the period 2019-21. The UTI fund made highest return of 11.20% on its investment in the year 2019 and lowest is in 2020 is decreased 3.33%.on an average the fund made a return 7.20% in period 2019-21.

Table 1.3: **Balanced Fund Dividend**

Years	Percentage of return				
	SBI	UTI	HDFC	JM financial	Market Index
2019	6.3	8.93	-1.73	11.43	9.60
2020	8.13	19	3.375	5.65	11.41
2021	9.45	5.58	12.42	10.30	10.10
AVG	7.98	11.17	4.69	9.13	10.37

Source : www.mutualfundsindia.com,:www.bseindia.com

For the above can be concluded that SBI fund made highest return of 9.45% on it investment for the year 2021 and lowest return of 6.30%,in 2019. However the fund made on an AVG 7.98% for period 2019-21,

The return of UTI fund shows that it has earned a highest return of 19.00% on its investment in year 2020 and lowest return of 5.58% in 2021. it has on an AVG a return of 11.17% for period 2019-21. In this fund also the return of HDFC fund also following the same trend. It has made highest return 12.42% on its investment in the year 2021. it has also incurred lose of 1.73%n in year 2019. it has on an average generated a return of 4.69% for the period 2019-21..

CONCLUSION

Hopefully, this study creates awareness that mutual funds are worth investment practice. The various schemes of mutual funds provide investors with a wide range of investment options according to their risk-bearing capacities and interests. Besides they also give a handy return to the investors. The project analyses various schemes of Different Companies.

In India, Mutual funds are playing an important role. Mutual fund companies pool the savings of small investors and invest those collected huge amounts of funds in different sectors of the economy. They are performing like an intermediary between small investors and the Indian capital market. In recent years many mutual fund companies are established. Through this competition is increased among the companies. To encounter the competition the different companies are introducing different types of mutual fund schemes with attractive returns and low risk. So it is an advantage to the investors,

For deciding to invest in mutual funds, the evaluation plays a greater role. The rankings given to the mutual funds attract investment by the investors in the respective funds. To rank the performance of various mutual funds the methods such as Sharpe. Trey and Jensen were applied to the various funds in different schemes. It is hoped that the ranks provided for the fund in this chapter explain the relative performance of the schemes. The relative performance of different types of funds according to different types of performance measurements is explained on the next page.

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