ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 11| Issue: 4| April 2025|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2025: 8.691|| ISI Value: 1.188

PERFORMANCE ANALYSIS OF MUTUAL FUNDS

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ABSTRACT

This research examines the performance of mutual funds, aiming to assess their risk-adjusted returns and stability over time. By employing essential performance indicators such as the Sharpe Ratio, Alpha, Beta, and Standard Deviation, the study evaluates acurated selection of mutual fund schemes across various categories, including equity, debt, and hybrid funds. An analysis of historical net asset value data alongside benchmark indices is conducted to gauge fund performance in relation to market benchmarks.

Additionally, the research investigates how economic variables and fund manager strategies influence returns. The results offer significant insights for investors looking to make informed fund selections and achieve portfolio diversifications, highlighting the necessity of aligning investment decisions with individual risk tolerance and financial objectives.

INTRODUCTION

1.1 Background

Mutual funds have become one of the most favored investment options within the contemporary financial landscape, providing investors with a diversified portfolio overseen by professional fund managers. These funds aggregate capital from a multitude of investors and distribute it across various asset categories, such as stocks, bonds, and money market instruments.

The attractiveness of mutual funds stems from their straight forward nature, ease of access, and the potential for stable returns, making them especially appealing to retail investors who wish to enhance their wealth without requiring extensive market knowledge.

1.2 Historical Data

The origins of mutual funds can be traced back to 18th- century Europe; however, the industry experienced substantial growth during the 20th century, particularly in the United States and subsequently in emerging markets such as India and Southeast Asia. In India, the mutual fund sector commenced with the founding of the Unit Trust Of India (UTI) in 1963 and has since transformed into a vibrant and regulated industry, with contributions from both public and private financial entities. Over the past twenty years, mutual funds have witnessed remarkable growth in Assets Under Management (AUM), the variety of schemes offered, and investor engagement, reflecting a rise in financial literacy and supportive regulatory changes.

1.3 Definition And Key Terms

- Mutual fund: An investment instrument that aggregates capital from various investors to acquire a diversified portfolio of securities.
- Net Asset Value (NAV): The value per unit of a mutual fund, determined by dividing the total value of the fund's assets, less liabilities, by the number of units outstanding.
- Sharpe Ratio: A metric for assessing risk-adjusted returns, indicating the excess return earned per unit of risk taken
- Alpha: A performance indicator that measures the extent to which a fund has outperformed its benchmark.

1.4 Research Design

The research design employed for the evaluation of mutual fund performance is predominantly quantitative, descriptive, and comparative in nature. This approach entails a thorough assessment of mutual fund performance over a defined timeframe, utilizing various financial metrics and statistical methodologies.

Key Elements:

1. Objective: The primary aim is to evaluate and contrast the performance of selected mutual funds, focusing on returns, risk, and risk-adjusted returns.
2. Sample selection: A group of mutual funds, such as the top 10 equity funds, is chosen from reputable sources like AMFI and Morningstar.
3. Data collection: Secondary data, including net asset value, returns, and risk indicators, is gathered from official fund websites and financial databases.
4. Time frame: The analysis typically spans a period of 3 to 5 years to ensure the data's consistency and reliability.
5. Performance metrics:

Returns: compound annual growth rate, average return
Risk: standard deviation, beta
Risk-adjusted returns: sharpe ratio, treynor ratio, jensen's alpha

6. Analytical tools: Data analysis and visualization are conducted using software such as excel, SPSS, or python.
7. Outcome: The analysis culminates in a comparison of fund performances, aimed at identifying the top-performing and most reliable mutual funds.

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1.5 Research Objectives

- Contrast Actively managed and passively managed funds:

This goal examines whether fund managers of actively managed funds consistently achieve better results than index funds, which are passively managed, after accounting for fees and risk factors.

- Evaluate performance across different market conditions:

This analysis investigates how mutual funds perform under varying market environments-such as during periods of economic growth or decline-to gauge their resilience and adaptability.

- Investigates the relationship between fund size and age:

Certain research examines whether larger or more established funds outperform their smaller or newer counter parts, aiding investors in making well-informed decisions.

MATERIALS AND METHODS

2.1 Materials (Data Sources)

1. Mutual fund data
   - NAV (Net Asset Value): daily, weekly, or monthly NAV's for selected mutual funds.
   - Fund type: categories such as equity, debt, hybrid, sector-specific, etc.
   - Additional metrics: expense ratios, fund size, inception date, among others
2. Benchmark indices
- Returns from indices (eg, Nifty 50, S&P 500) utilized for comparative performance analysis.
3. Risk free rate:
- Generally derived from treasury bills (T-Bills) or yields on government bonds (eg, 91-day T-Bills)
4. Economic indicstors:
- Factors such as inflation rate, interest rates, and GDP growth, particularly if the macroeconomics influence is under examination.
5. Data sources:
- AMFI (India), Morningstar, yahoo finance, moneycontrol etc.

2.2 Methods (Analytical Tools and Techniques)

1. Descriptive statistics
   - Metrics including mean, standard deviation, and the range of returns (minimum and maximum)
2. Performance ratios
   - Sharpe ratio: measures return per unit of total risk
   - Treynor ratio: assess return per unit of systematic risk
   - Jensen's alphs: evaluates excess return as per the CAPM.
   - Sortino ratio: similar to sharpe, but emphasizes downside risk.
3. Risk analysis
   - Beta: indicates the sensitivity of a fund's returns to market returns
   - Standard deviation: represents the overall volatility of returns
4. Regression analysis
   - Employed to examine the relationship between fund returns And market/index returns (CAPM Model)
   - Multifactor models such as Fama-French for more sophisticated analysis

FINDINGS AND RESULT

3.1 Importance

The importance of performance analysis lies in several key areas

- First, aids investors in making informed decisions by helping them select mutual funds that match their risk tolerance and return goals.
- Additionally, it allows for the evaluation of fund manager's, offering insights into the effectiveness of their strategies and whether they are truly adding value.
- Performance analysis also facilitates objective comparisons among different mutual funds using standard metrics such as sharpe ratio, alpha, and beta.
- It plays a vital role in risk assessment, enabling investors to grasp the volatility and potential downsides of various funds.
- It provides valuable insights for regulators and policymakers, helping them identify trends, enhance transparency and safeguard investor's interests.

3.2 Impact

- The impact of performance analysis is significant as well
- It leads to better portfolio management, allowing investors to optimize and diversify their investments, by choosing funds with consistent, strong performance.
- It enhances transparency and accountability within mutual fund operations, ensuring that fund managers are responsible for their results
- This reliable analysis fosters market confidence, attracting both retail and institutional investors to the mutual fund sector.
- The competitive nature of performance analysis encourages fund companies to innovate and improve their offerings.

CONCLUSIONS

Mutual funds represent a flexible investment options that enables investors to generate returns and accumulate wealth by leveraging market opportunities. They provide a range of plans tailored to accommodate both short term and long term objectives for diverse investors. Key advantages of mutual funds include diversification, the ability to invest modest sums, and access to professional fund management, all of which contribute to their appeal among investors.

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