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A Study on Performance Indicators of Mutual Funds

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ABSTRACT: The mutual fund industry in India has witnessed substantial growth over the past two decades, emerging as a preferred investment avenue for retail as well as institutional investors. With increasing product variety and competition among Asset Management Companies (AMCs), evaluating mutual fund performance has become critical for informed investment decision-making. This study examines the performance indicators of selected mutual fund schemes in India, namely Kotak Banking & Financial Services Fund, Invesco India Financial Services Fund, Bandhan Financial Services Fund, Mahindra Manulife Aggressive Hybrid Fund, and ICICI Prudential Banking and Financial Services Fund. Using daily Net Asset Value (NAV) data for the period January 2024 to April 2024, the study evaluates returns, risk, variance, standard deviation, and Sharpe performance ratios. The research adopts a quantitative and descriptive research design relying on secondary data sources. Comparative analysis is undertaken to understand the risk–return trade-off across selected schemes. The findings reveal variations in performance efficiency, with none of the schemes delivering positive risk-adjusted returns during the study period. The study provides valuable insights for investors regarding fund selection and offers recommendations to improve investment strategies in the Indian mutual fund market.

KEYWORDS: Mutual Funds, Performance Indicators, Risk and Return, Sharpe Ratio, Indian Mutual Fund Industry

I. INTRODUCTION

Mutual funds have become one of the most significant instruments in the Indian financial system, offering investors an opportunity to participate in capital markets with professional management and diversification benefits. The rapid expansion of the Indian mutual fund industry, supported by regulatory initiatives from the Securities and Exchange Board of India (SEBI), digital platforms, and increasing financial awareness, has led to a surge in Assets Under Management (AUM).

Despite their popularity, selecting appropriate mutual fund schemes remains a complex task for investors due to varying investment objectives, risk profiles, and performance outcomes. Therefore, systematic evaluation of mutual fund performance using reliable indicators becomes essential. Performance indicators such as returns, variance, standard deviation, beta, alpha, and Sharpe ratio help investors assess not only profitability but also the risk associated with mutual fund investments.

This study focuses on analyzing and comparing the performance indicators of selected Indian mutual funds belonging to the financial services and hybrid categories. By evaluating these schemes, the study attempts to contribute to investor awareness and academic literature on mutual fund performance evaluation in India.

II. NEED FOR THE STUDY

The growing dependence of investors on mutual funds as long-term wealth creation tools necessitates a clear understanding of their performance dynamics. Many retail investors focus solely on returns without adequately considering risk-adjusted performance. This study is required to bridge this gap by providing a comprehensive analysis of both risk and return indicators, thereby helping investors make rational investment decisions.

III. SCOPE OF THE STUDY

The study is confined to five selected mutual fund schemes operating in India. The analysis covers a four-month period from January 2024 to April 2024. Performance is evaluated using statistical measures such as average returns, variance, risk (standard deviation), and Sharpe performance ratio. The study relies entirely on secondary data.

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IV. REVIEW OF LITERATURE

1. **Markowitz (1952)** introduced Modern Portfolio Theory, emphasizing diversification to minimize risk for a given level of return.
2. **Sharpe (1966)** developed the Sharpe Ratio to measure risk-adjusted performance of investment portfolios.
3. **Jensen (1968)** proposed Jensen's Alpha to evaluate mutual fund managers' ability to generate excess returns.
4. **Fama (1972)**analyzed mutual fund performance and concluded that most funds fail to outperform the market consistently.
5. **Fama and French (1993)** expanded CAPM into a three-factor model explaining stock returns more effectively.
6. **Carhart (1997)** added the momentum factor to performance evaluation and highlighted short-term persistence in returns.
7. **Treynor (1965)** introduced the Treynor Ratio to assess returns relative to systematic risk.
8. **Grinblatt and Titman (1989)** examined mutual fund performance persistence and managerial skills.
9. **Gupta and Sehgal (1998)** studied Indian mutual funds and found mixed evidence on superior performance.
10. **Mishra (2011)**analyzed Indian equity mutual funds and observed underperformance after expenses.
11. **Bodie, Kane, and Marcus (2014)** emphasized the importance of risk-adjusted measures in portfolio analysis.
12. **Sathya and Natarajan (2015)** evaluated selected Indian mutual funds and observed significant risk–return variations.
13. **Pandow (2017)** studied mutual fund efficiency in India using Sharpe and Treynor ratios.
14. **Kumar and Bansal (2020)** highlighted the role of expense ratios and fund size in determining mutual fund performance.
15. **SEBI (2022)** reports emphasized transparency and standardized performance disclosure in the Indian mutual fund industry.

V. RESEARCH QUESTIONS

1. How do selected Indian mutual funds perform in terms of risk and return?
2. Is there a significant difference in risk-adjusted performance among selected schemes?
3. Which mutual fund offers relatively better investment efficiency during the study period?

VI. RESEARCH OBJECTIVES

1. To evaluate the performance indicators of selected mutual funds.
2. To analyze the risk–return trade-off of selected schemes.
3. To compare the risk-adjusted performance using Sharpe ratio.
4. To provide recommendations to investors based on findings.

Hypotheses

- **H0:** There is no significant difference in the risk-adjusted performance of selected mutual funds.
- **H1:** There is a significant difference in the risk-adjusted performance of selected mutual funds.

VII. RESEARCH DESIGN

Type of Research

Descriptive and analytical research design.

Data Sources

Secondary data collected from mutual fund fact sheets, AMFI, and financial websites.

Sample Size

Five mutual fund schemes.

Period of Study

January 2024 to April 2024.

Variables

- Dependent Variable: Mutual fund performance
- Independent Variables: Returns, Risk, Variance

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Tools for Analysis

- Average Return
- Variance
- Standard Deviation (Risk)
- Sharpe Performance Ratio

VIII. DATA ANALYSIS AND INTERPRETATION

To ensure clarity and academic readability, the data analysis is presented in summarized tables highlighting key performance indicators of each selected mutual fund scheme. The calculations are based on daily NAV data from January 2024 to April 2024.

Table 1: Performance Indicators of Kotak Banking & Financial Services Fund

Indicator	Value
Average Return	0.0589
Variance	0.7864
Risk (Standard Deviation)	0.8868
Risk-Free Rate (%)	7.5
Sharpe Ratio	-0.6384
Highest NAV	13.43
Lowest NAV	12.772

Interpretation: Kotak Banking & Financial Services Fund recorded moderate returns with relatively high risk. The negative Sharpe ratio indicates inefficient risk-adjusted performance during the study period.

Table 2: Performance Indicators of Invesco India Financial Services Fund

Indicator	Value
Average Return	0.1215
Variance	0.742
Risk (Standard Deviation)	0.8614
Risk-Free Rate (%)	7.5
Sharpe Ratio	-0.5845
Highest NAV	136.16
Lowest NAV	123.92

Interpretation: Invesco India Financial Services Fund delivered the highest average return among selected funds but also carried higher volatility. The negative Sharpe ratio suggests returns were insufficient to compensate for risk.

Table 3: Performance Indicators of Bandhan Financial Services Fund

Indicator	Value
Average Return	0.0897
Variance	0.942
Risk (Standard Deviation)	0.9705
Risk-Free Rate (%)	7.5

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Sharpe Ratio	-0.5515
Highest NAV	12.642
Lowest NAV	11.722

Interpretation: Bandhan Financial Services Fund showed the highest risk and relatively high return. Although returns were attractive, high volatility resulted in a negative Sharpe ratio.

Table 4: Performance Indicators of Mahindra Manulife Aggressive Hybrid Fund

Indicator	Value
Average Return	0.1148
Variance	0.3799
Risk (Standard Deviation)	0.6163
Risk-Free Rate (%)	7.5
Sharpe Ratio	-0.8277
Highest NAV	25.7917
Lowest NAV	23.5647

Interpretation: Mahindra Manulife Aggressive Hybrid Fund exhibited comparatively lower risk due to diversification into debt instruments, but still failed to generate positive risk-adjusted returns.

Table 5: Performance Indicators of ICICI Prudential Banking & Financial Services Fund

Indicator	Value
Average Return	0.0439
Variance	0.4805
Risk (Standard Deviation)	0.6931
Risk-Free Rate (%)	7.5
Sharpe Ratio	-0.8384
Highest NAV	123.7
Lowest NAV	119.2

Interpretation: ICICI Prudential Banking & Financial Services Fund recorded the lowest average return among the selected schemes with moderate risk, resulting in the weakest risk-adjusted performance.

Table 6: Comparative Performance of Selected Mutual Funds

Mutual Fund Scheme	Average Return	Risk (SD)	Sharpe Ratio
Kotak Banking & Financial Services Fund	0.0589	0.8868	-0.6384
Invesco India Financial Services Fund	0.1215	0.8614	-0.5845

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Bandhan Financial Services Fund	0.0897	0.9705	-0.5515
Mahindra Manulife Aggressive Hybrid Fund	0.1148	0.6163	-0.8277
ICICI Prudential Banking & Financial Services Fund	0.0439	0.6931	-0.8384

Overall Interpretation: Among the selected schemes, Invesco and Bandhan funds generated relatively higher returns but at higher risk levels. However, all schemes reported negative Sharpe ratios, indicating underperformance relative to the risk-free rate during the study period.

IX. RESULTS AND DISCUSSION

The analysis indicates that higher returns are associated with higher risk, supporting the risk–return trade-off theory. However, negative Sharpe ratios across all schemes suggest inefficient risk-adjusted performance during the study period, possibly due to market volatility and sector-specific fluctuations in financial services stocks.

Findings of the Study

- None of the selected funds generated positive risk-adjusted returns.
- Bandhan Fund exhibited the highest volatility and return.
- Mahindra Manulife showed moderate risk with stable performance.
- ICICI Prudential fund delivered the lowest average return.

Recommendations

- Investors should consider risk-adjusted returns rather than absolute returns.
- Portfolio diversification across fund categories is essential.
- Long-term investment horizons may help mitigate short-term volatility.
- Fund managers should focus on expense control and portfolio efficiency.

X. CONCLUSION

The study concludes that mutual fund performance evaluation using systematic indicators is essential for rational investment decisions. Although selected funds demonstrated varying levels of returns and risk, none outperformed the risk-free benchmark during the study period. Investors should adopt a cautious and informed approach while selecting mutual funds, emphasizing long-term objectives and risk tolerance.

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