PERFORMANCE OF MUTUAL FUND INDUSTRY IN INDIA

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Abstract

Mutual fund industry has experienced a drastic growth within the past twenty years. Increase within the number of schemes with increased mobilization of funds in the past few years provide benefits to the importance of Indian mutual funds industry. To satisfy the expectations of many retail investors, the mutual funds are required to function as successful institutional investors. Proper assessment of varied fund performance and their comparison with other funds helps retail investors for creating investment decisions. This paper examines the performance of mutual fund schemes ranked 1 by CRISIL and compares these returns with SBI domestic term deposit rates. While considering the interest of retail investors simple statistical techniques like averages and rate of returns are used. The results obtained from the study clearly depicts that, in most of the cases the mutual fund schemes have failed even to supply the return of SBI domestic term deposits.

Keyword: Performance, Mutual Funds, CRISIL, Credit Rating Agency

1. INTRODUCTION

Mutual fund is trust that pools the savings of variety of investors who share a standard financial goal. This pool of money is invested in accordance with a given objective. The joint ownership of the funds are thus ‘Mutual’, i.e. the fund belongs to all or any investors. The money thus collected is then invested in capital market instruments like shares, debentures and other securities. The income earned through these mutual fund investments and therefore the capital appreciations realized are shared by its unit holders in proportion the amount of units owned by them. Thus mutual fund is that the best suited investment for the commoner because it offers a chance to take a position during a diversified, professionally managed basket of securities at a comparatively low cost. A mutual Fund is an investment tool that permits small investors to access a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates within the gain or loss of the fund. Units are issued and may be redeemed as required. The fund’s Net Asset Value (NAV) is decided every day. These securities are spread across a huge cross-section of industries as well as the sectors and thus the risk is reduced. Diversification of investment reduces the risk because all stocks might not move in the same direction in the same proportion at an equivalent time. Mutual fund issues units to the investors according to the amount of money invested by them. Mutual fund investors are referred to as unit holders. When the investors subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund within the same proportion as his contribution amount put up with the total amount of the fund. Mutual Fund investors are additionally referred to as a mutual fund shareholders or unit holders. Any change in the value of the mutual fund investments directly effected by the Net Asset Value (NAV) of the scheme. NAV is defined as the market price of the mutual fund scheme’s assets net of its liabilities. NAV of a scheme calculated by dividing the market value of scheme’s assets by the total number of units issued to the investors.

‘Mutual funds are collective savings and investments where savings of small or sometimes big investors are pooled together to take a position for his or her mutual benefit and returns distributed proportionately’.

‘A mutual fund is an investment that pools your money with the money of a vast number of other investors. In return, you and therefore the other investors each own shares of the fund. The fund’s asset is invested according to an investment objective into the fund’s portfolio of investments. Aggressive growth funds seek future capital growth by investing primarily in stocks of fast
growing smaller companies or market segments. Aggressive growth funds are also called as capital appreciation fund’.

2. REVIEW LITERATURE

John G. McDonald (1974) examined performance of 123 mutual funds relating it to the given objective of every fund. The results indicate a positive relationship between objective and risk measures, i.e., risk increasing with the target becoming more aggressive. Rate of return generally with aggressiveness and needless to say, there is a positive relationship between return and risk. The relationship between objective and risk-adjusted indicates that funds that are more aggressive experienced better results, although only one-third of the funds do better that aggregate market [1]. A. R. Ippolito (1992) concluded that the investors prefer mutual funds which have a record of positive return within the past [2]. Sapar Rao Narayan & Madava Ravindran (2003) analyzed the performance of 269 mutual fund schemes during a market using relative performance index, risk-return analysis, Treynor’s ratio, Sharp’s ratio, Sharp’s measure, Jensen’s measure, and Fama’s. The results obtained expressed that the majority of the mutual fund schemes within the sample extraordinary performed the investor’s expectations by giving excessive return over expected return supported premium for systematic risk and total risk [3]. Sathya Swaroop Debasish (2009) analyzed the overall performance of 23 mutual fund schemes offered by six private sector mutual funds and three public sectors mutual funds supported as risk-return relationship models and help to measure it over the period of time of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean, beta, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The general analysis finalize that Franklin Templeton and Unit Trust of India are become the best performers and Birla Sun Life, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models [4]. Madhusudhan V. Jambodekar (1996) conducted a study to measure the awareness of MFs among investors to identify the knowledge influencing the buying decision and therefore the factors effecting the selection of a specific fund. The study finds out that the Income Schemes and Open Ended Schemes of mutual funds are more preferred than Growth Schemes and Close Ended Schemes during the prevailing market conditions. Investors search for safety of Principal, Liquidity and Capital appreciation in the order of importance. Newspapers and Magazines are the primary source of data through which investors get to understand about MFs and Schemes and investor service maybe a major differentiating factor about the selection of mutual fund schemes [5]. Garg (2011) analyzed the performance of top ten mutual funds that was selected on the basis of previous years return. The study found the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart’s four-factor model to examine the performance of mutual funds. The results reveal that Reliance Regular Saving Scheme Fund has achieved the best final score [6]. Deepak Agarwal (2011), Mutual fund contributes to provide growth of financial markets to the global level and it is also one of the major sources for capital formation in growing economies. He analyzed the price mechanism of Indian Mutual Fund Industry, data related to the fund-manager as well as fund-investor levels. There has been incredible growth within the mutual fund industry in India, attracting large investments from domestic and foreign investors. Marvelous increase in number of AMCs providing huge opportunity to the investors in the form of safety, hedging, arbitrage, limited risk with better returns in comparison to the other long-term securities which has resulted in attracting more investors towards mutual fund investments [7]. R. Anitha, et. al., (2011), in their study evaluated the performance of public-sector and private sector mutual funds for the period of time from 2005 to 2007. Selected funds had been analyzed by using some statistical tools like mean, standard deviation and co-efficient of variance. The performance of all the funds has shown volatility during the time of study making it difficult to earmark one particular fund which could be extraordinary perform the opposite consistently [8]. Selvam et. al. (2011) analyzed the risk-return relationship of Indian mutual fund schemes. The study determined that out of thirty five sample mutual fund schemes, eleven schemes show significant t values and all other twenty four sample schemes don’t prove efficient relationship between the risk and return. Consistent with t-alpha values, thirty two of the sample schemes returns aren’t significantly different from their market returns and small numbers of sample schemes.
returns are significantly different from their market returns during the study period [9]. Guha Deb (2008) centered on return-based style analysis of Indian equity mutual funds in India using quadratic simultaneous optimization of an asset class factor model proposed by William Sharpe. The study found the “Style Benchmarks” of every sample of equity funds as optimum exposure to 11 passive asset class indexes. The study also analyzes the relative performance of the funds with reference to their style benchmarks. The results of the study show that the funds haven’t been able to beat their style benchmarks on the average [10]. Kalpesh P Prajapati and Mahesh K Patel (2012) analyzed the Indian mutual funds performance using performance index, risk-return analysis, Treynor’s measure, Sharpe measure, Jensen’s measure, and Fama’s measure. The relevant data used is daily closing NAVs from 1st January 2007 to 31st December, 2011 and concluded that the majority of the mutual funds have given positive return during the period of study [11]. Shivani Inder and Shikha Vohra (2012), analyzed the long term performance of the chosen mutual fund fund schemes and make comparative analysis of the performance of these funds on the basis of the risk-return for the time period of 6 years (January, 2005 to December, 2011). The results indicate that index A COMPARATIVE ANALYSIS OF RETURNS OF MUTUAL FUND SCHEMES RANKED 1 BY CRISIL Tactful Management Research Journal • Volume 2 Issue 1 • Oct 2013 2 funds are just the follower of market. They try to capture market sentiments, good as well as bad, and thus perform same as the market performs [12]. P Alekhya (2012), undertaken the study to analyze the comparative performance of public and private sector mutual fund schemes. The paper targeted on the performance of mutual fund equity scheme for past 3 years from 2009 to 2011. Funds were ranked according to Sharpe, Treynor and Jensen performance measure [13]. Prabakaran and Jayabal (2010) analyzed the performance of mutual fund schemes. The study conducted a sample of 23 mutual fund schemes were chosen as per the priority given by the respondents in Dharmapuri district covered a period from April 2002 to March 2007. The analysis used the method of Sharpe, Jensen and Fama for the evaluation of performance of mutual funds. The results found out that 13 out of 23 mutual fund schemes selected had highest performance in terms of Sharpe ratio, 13 schemes had highest performance of Treynor ratio and 14 schemes had highest performance according to Jensen Measure. The Fama’s measure indicates the returns out of diversification are less. Thus the India Mutual funds aren’t properly diversified [14]. Singh and Jha (2009) conducted a research on awareness and acceptability of mutual funds and found out that buyers basically prefer mutual fund due to return potential, liquidity and safety and that they weren’t totally aware of the systematic investment plan. The investors will also consider various factors before investing in mutual fund [15].

3. RESEARCH METHODOLOGY

3.1. Objectives

The basic objectives of this study are to find out the past performance of the varied mutual fund schemes on the basis of their historical Net Asset Values (NAV’s) and application of statistical tool on the same. This helps in understanding the performance of mutual schemes in terms of both risk as well as return involved.

3.2. Methodology

A sample of 3 schemes each from 5 different types of funds is being taken. Types of Funds taken are follows:
- Large cap funds
- Mid cap funds
- Small cap funds

An analysis has been done by using the following statistical tools:
- **Annualized Return**: It indicates the return over the time periods.
- **Standard Deviation**: It shows the historical volatility.
- **Beta**: It measures the volatility or systematic risk of a security or a portfolio as compared to the market as a whole.
- **Sharpe Ratio**: It shows the risk-return performance of portfolio.

3.3. Limitations:
- Sample size is limited factor, only last five years of data has been taken.
• Past performance may not be the guarantee of the future return.
• Micro level data have been taken in analysis; Macro level data may affect returns.

4. THREE WAYS TO MEASURE MUTUAL FUND RISK

There are three major indicators of investment risk that apply to the analysis of stocks, bonds and mutual fund portfolios. They are standard deviation, beta and Sharpe ratio. These statistical measures are the historical forecasters of investment risk/volatility and are all major components of modern portfolio theory. The modern portfolio theory may be a standard financial benchmark and academic methodology used to assess the performance of equity, fixed-income and mutual fund investments by comparing them to benchmarks of the market. All of these risk measurement tools are mean to assist investors determine the risk-reward parameters of their investments.

4.1. Standard Deviation

Standard deviation helps to measure the dispersion of data from its mean. In simple, the more that data is spread apart, the greater the difference is from the norm. In finance, standard deviation is applied to the annual rate of return of an investment to find out its volatility (risk). A volatile stock would always be a high standard deviation. With mutual funds, the standard deviation tells us what proportion the return on a fund is deviating from the expected returns supported its historical performance.

4.2. Beta

Beta, also referred as the ‘beta coefficient,’ helps to measure the volatility, or systematic risk, of a security or a portfolio as compared to the market as a whole. Beta is calculated using regression analysis, and you will consider it as the tendency of an investment’s return to respond to swings in the market. By definition, the market features a beta of 1.0. Individual security and portfolio values are measured consistent with how they deviate from the market.

A beta of 1.0 indicates that the investment’s price will move towards lock-step with the market. A beta of less than 1.0 indicates that the investment is going to be less volatile than the market, and, correspondingly, a beta of more than 1.0 indicates that the investment’s price is going to be more volatile than the market. For instance, if a fund portfolio’s beta is 1.2, it’s theoretically 20% more volatile than the market.

Materialistic investors looking to save capital will specialize on securities and fund portfolios with low betas, whereas those investors willing to take more risk in search of higher returns will look for high beta investments.

4.3. Sharpe Ratio

This ratio was developed by a Nobel Prize winner economist William Sharpe, this ratio measures risk-adjusted performance. It is measured by subtracting the risk-free rate of return from the rate of return for an investment and dividing the result by the investment’s standard deviation of its return.

This ratio tells investors whether an investment’s returns are due to smart investment decisions or the results of excess risk. This measurement is extremely useful because although one portfolio or security can reap higher returns than its peers, it is only the best investment if those higher returns do not accompany an excessive amount of additional risk. The greater an investment’s Sharpe ratio, the higher its risk-adjusted performance.

5. TYPES OF FUNDS TAKEN FOR ANALYSIS

5.1. Large Cap Funds:
These are those types of funds which invest their money in Large Blue chip Companies, having with a market capitalization of more than ₹ 1000 crores. Investing in large cap fund may be a low risk return proposition because such funds are widely research and information available. One among the advantage of large cap funds are that they are less volatile than mid cap and small cap funds because investors are investing in this types of fund for a long term prospective and help to stay these fund away from the volatility of the markets.

**Top performer under this category**

I. **Franklin India Blue Chip**: Its Compounded Annualized Returns of last 5 years is 13.13%.
II. **L&T Equity fund growth**: Its Compounded Annualized Returns of last 5 years is 15.0%.
III. **SBI Blue-chip Fund Regular Growth**: Its Compounded Annualized Returns of last 5 years is 18.8%.
IV. **ICICI Prudential Top 100 Fund Growth**: Its Compounded Annualized Returns of last 5 years is 15.8%.
V. **UTI Equity Fund Growth**: Its Compounded Annualized Returns of last 5 years is 17.4%.

### 5.2. Mid Cap Funds:

This type of funds invest their money in medium sizes companies. Companies having market capitalization between ₹ 500 crores to ₹ 1000 crores are come under the mid-cap companies. Mid-cap funds are very volatile and tend to fall if the market is fall in bad times. But this provides good return in short term.

**Top performer under this category:**

I. **ICICI Prudential Mid-cap fund**: Its Compounded Annualized Returns of last 5 years is 22.9%.
II. **Sundaram Select Mid-cap fund**: Its Compounded Annualized Returns of last 5 years is 24.9%.
III. **Birla Sun life Mid-cap fund**: Its Compounded Annualized Returns of last 5 years is 21.4%.
IV. **L & T Mid-cap fund**: Its Compounded Annualized Returns of last 5 years is 25.7%.

V. **SBI magnum Mid-cap fund**: Its Compounded Annualized Returns of last 5 years is 27.5%.

### 5.3. Small Cap Funds:

These types of funds are investing their money in small sizes companies. Companies having market capitalization up to ₹ 500 crores come under the categories of small-cap companies. Small-cap funds are more flexible than Mid-cap & Large-cap Funds. Its risk-return matrix is very high.

**Top performer under this category:**

I. **Reliance Small cap fund**: Its Compounded Annualized Returns of last 5 years is 29.7%.
II. **DSP Black rock Small cap fund**: Its Compounded Annualized Returns of last 5 years is 23.5%.
III. **Edelweiss Small cap fund**: Its Compounded Annualized Returns of last 5 years is 25.2%.
IV. **Mirae Asset Emerging Blue chip fund**: Its Compounded Annualized Returns of last 5 years is 28.7%.
V. **Kotak Emerging Equity Scheme- Regular Plan**: Its Compounded Annualized Returns of last 5 years is 24.3%.

### 6. STATISTICAL TOOLS

#### 6.1. Large Cap Funds:

<table>
<thead>
<tr>
<th>Year/Scheme</th>
<th>Franklin India Blue chip Fund</th>
<th>L&amp;T Equity Fund Growth</th>
<th>SBI Blue-chip Fund Regular Growth</th>
<th>ICICI Prudential Top 100 Fund Growth</th>
<th>UTI Equity Fund Growth</th>
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</tr>
<tr>
<td>Last 5</td>
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<td>0.19</td>
<td>0.16</td>
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</tr>
</tbody>
</table>

#### 6.1.2 Standard Deviation
In comparison to the relation of risk and return to last 3 years and 5 years as compared to last 1 year, I analyze that the return is more in comparison to risk. In the 3rd and 5th years the risk is increased in comparison to 1st year and the return is going to be reduced. So it is find out that the investment in this fund in the initial stage is beneficial and if the fund holds for future prospects the return may be reduced.

### 6.1.3 Beta

<table>
<thead>
<tr>
<th>Year/Scheme</th>
<th>Franklin India Bluechip Fund</th>
<th>L&amp;T Equity Fund Growth</th>
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<tr>
<td>Last 1</td>
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<td>0.19</td>
<td>0.21</td>
<td>0.19</td>
<td>0.22</td>
</tr>
<tr>
<td>Last 2</td>
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<td>0.22</td>
<td>0.23</td>
<td>0.22</td>
<td>0.24</td>
</tr>
<tr>
<td>Last 5</td>
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<td>0.27</td>
<td>0.28</td>
<td>0.27</td>
<td>0.31</td>
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</table>

### 6.1.4 Sharpe Ratio

<table>
<thead>
<tr>
<th>Year/Scheme</th>
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<th>UTI Equity Fund Growth</th>
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<td>1.05</td>
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<td>1.01</td>
<td>0.88</td>
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<tr>
<td>Last 5</td>
<td>1.22</td>
<td>1.17</td>
<td>1.38</td>
<td>1.22</td>
<td>1.13</td>
</tr>
</tbody>
</table>

### 6.2 Graphical Representation on Performance of Mutual Fund in Large Cap Funds

In comparison to the relation of risk and return to the last 1 year and 5 years to last 3 years, I analyze that the return is more in comparison to risk. In the 1st and 5th years the risk is increased in comparison to 3rd years and the return is going to be reduced. So it is find out that the investment in this fund in the mid-term is beneficial and if the fund holds for shorter period and longer period the return may be reduced.

#### L&T Equity Fund Growth

- Standard Deviation
- Beta
- Sharpe Ratio

#### SBI Bluechip Fund Regular Growth

- Standard Deviation
- Beta
- Sharpe Ratio

In comparison to the relation of risk and return to last 3 years and 5 years as comparison to last 1 year, I analyze that the return is more in comparison to risk. In the 3rd and 5th years the risk is increased in comparison to 1st year and the return is going to be decreased. So it is find out that the investment in this fund in the short term is more beneficial if the fund holds for long run the return may be reduced.
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### 6.3.1 Compound Annual Growth Rate (CAGR)

<table>
<thead>
<tr>
<th>Year/Scheme</th>
<th>ICICI Prudential Midcap Fund</th>
<th>Sundaram Select Midcap Fund</th>
<th>Birla Sunlife Midcap Fund</th>
<th>L&amp;T Midcap Fund</th>
<th>SBI Magnum Midcap Fund</th>
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<tbody>
<tr>
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<td>0.32</td>
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<tr>
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<td>0.32</td>
<td>0.36</td>
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<td>0.37</td>
<td>0.31</td>
</tr>
<tr>
<td>Last 5</td>
<td>0.22</td>
<td>0.24</td>
<td>0.21</td>
<td>0.25</td>
<td>0.27</td>
</tr>
</tbody>
</table>

### 6.3.2 Standard Deviation

<table>
<thead>
<tr>
<th>Year/Scheme</th>
<th>ICICI Prudential Midcap Fund</th>
<th>Sundaram Select Midcap Fund</th>
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<td>0.19</td>
<td>0.19</td>
<td>0.17</td>
<td>0.17</td>
</tr>
<tr>
<td>Last 2</td>
<td>0.19</td>
<td>0.19</td>
<td>0.19</td>
<td>0.17</td>
<td>0.17</td>
</tr>
<tr>
<td>Last 5</td>
<td>0.23</td>
<td>0.23</td>
<td>0.23</td>
<td>0.21</td>
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</tr>
</tbody>
</table>

### 6.3.3 Beta

<table>
<thead>
<tr>
<th>Year/Scheme</th>
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<tr>
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### 6.3.4 Sharpe Ratio

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</tr>
</thead>
<tbody>
<tr>
<td>Last 1</td>
<td>1.30</td>
<td>1.41</td>
<td>1.28</td>
<td>2.17</td>
<td>1.95</td>
</tr>
<tr>
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<td>1.43</td>
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<td>1.86</td>
</tr>
<tr>
<td>Last 5</td>
<td>1.59</td>
<td>1.72</td>
<td>1.57</td>
<td>2.58</td>
<td>2.32</td>
</tr>
</tbody>
</table>
6.4. GRAPHICAL REPRESENTATION ON PERFORMANCE OF MUTUAL FUND IN MID CAP FUNDS

In comparison to the relation of risk and return to last 1 year and 5 years as comparison to last 3 year, I analyze that the return is somehow more in comparison to risk. In the 1\textsuperscript{st} and 5\textsuperscript{th} years the risk is little increased in comparison to 3\textsuperscript{rd} year and the return is going to be decreased. So it is find out that the investment in this fund in the mid-term is more beneficial if the fund holds for short-term and long-term the return may be reduced.

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### 6.5. Small Cap Funds:

#### 6.5.1 Compound Annual Growth Rate (CAGR)

<table>
<thead>
<tr>
<th>Year/ Scheme</th>
<th>Reliance Small-cap Fund</th>
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<tbody>
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<td>0.48</td>
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<tr>
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#### 6.5.2 Standard Deviation

<table>
<thead>
<tr>
<th>Year/ Scheme</th>
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#### 6.5.3 Beta

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<th>DSP Blackrock Small-cap Fund</th>
<th>Edelweiss Small-cap Fund</th>
<th>Mirae Asset Emerging Blue-chip Fund</th>
<th>Kotak Emerging Equity Scheme</th>
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#### 6.5.4 Sharpe Ratio

<table>
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<th>Reliance Small-cap Fund</th>
<th>DSP Blackrock Small-cap Fund</th>
<th>Edelweiss Small-cap Fund</th>
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<th>Kotak Emerging Equity Scheme</th>
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### 6.6. Graphical Representation on Performance of Mutual Fund in Small Cap Funds

In comparison to the relation of risk and return to last 1 year and 5 years as comparison to last 3 years, I analyze that the return is more in comparison to risk. In the 1st and 5th years the risk is little changed in comparison to 3rd years and the return is going to be increased. So it is find out that the investment in this fund in the midterm...
and long term is more beneficial if the fund holds for short term the return may be reduced.

In comparison to the relation of risk and return to last 1 year and 5 years as comparison to last 3 years, I analyze that the return is more in comparison to risk. In the 1st and 5th years the risk is changed in comparison to 3rd years and the return is going to be increased. So it is find out that the investment in this fund in the midterm is more beneficial if the fund holds for short term and long term the return may be reduced.

In comparison to the relation of risk and return to last 1 year and 3 years as comparison to last 5 years, I analyze that the return is more in comparison to risk. In the 1st and 3rd years the risk is increased in comparison to 5th years and the return is going to be increased. So it is find out that the investment in this fund in the short term is more beneficial if the fund holds for mid-term and long term the return may be reduced.

7. CONCLUSION

The results showed that in large cap fund the investors get better return in the initial stage as comparison to long term but the future prospects in the large cap funds is not beneficial for the shorter period so the investors
can hold funds for the long term i.e. minimum 3 years. In mid cap fund the investors get better return in the mid-term period as comparison to short-term but the future prospects in the mid cap funds is not beneficial for the mid-term so the investors can hold for the long term (5 years). In the small cap fund the investors get better return in the mid-term and long term but the risk is high and the future prospects in the small cap funds is beneficial in the long term period.

At last it has been find out that the unawareness of the investment factors of the Mutual Fund in the different time perspective the investor can invest for wrong period and the opportunity to earn return cannot be achieved. This research is vital to help those investors who want to invest in mutual funds rather than directly in instruments i.e. equity shares and debentures.

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