



International Journal of Innovative Research in Science Engineering and Technology (IJIRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.524

Volume 14, Issue 1, January 2025

Performance Evaluation Strategies of AMC's for Optimal Fund Performance in Volatile Markets: A Blended Study

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ABSTRACT: The evolution of Mutual funds has provided a hybrid solution in the financial market providing solutions to investors offering minimum assured rewards along with a managed portfolio. However, the performance of these investment avenues like other investment options depends on the volatile stock market, making them skeptical about the prospects of their investments. This makes it essential to explore and analyze the investor behavior and risk appetite of investors investing in mutual funds. With the help of explorative data, the study aims to understand the strategic perspectives of the AMCs to manage their investors' funds and how they are in a position to optimize their fund performance; and suggest such measures that can facilitate the investors as well as the AMCs in efficiently realizing the objectives behind such funds are created. The study is explorative; an attempt is made to understand the role of portfolio Management in AMC's financial performance.

KEY WORDS: Mutual Funds, Fund Performance, AMC's, Portfolio management, SIP

I. INTRODUCTION

A large number of the population in India fall into the category of small investor groups, having a preference for bank deposits, fixed deposits, and post-office deposits that fail to beat inflation and meet the expectation for return this is majorly because of a lack of information on financial markets.

In recent years, mutual funds have grown in popularity as the most preferred long-term investment instruments. This has become relevant to the study of the performance of mutual funds. The performance of a mutual fund portfolio is bound on the relationship between risk and return. Risk and return are the key indicators that differentiate outperformers from the underperformers. Given the substantial amount of AMC's functioning in India it is essential to review their performance to guide the investors select the best mutual fund.

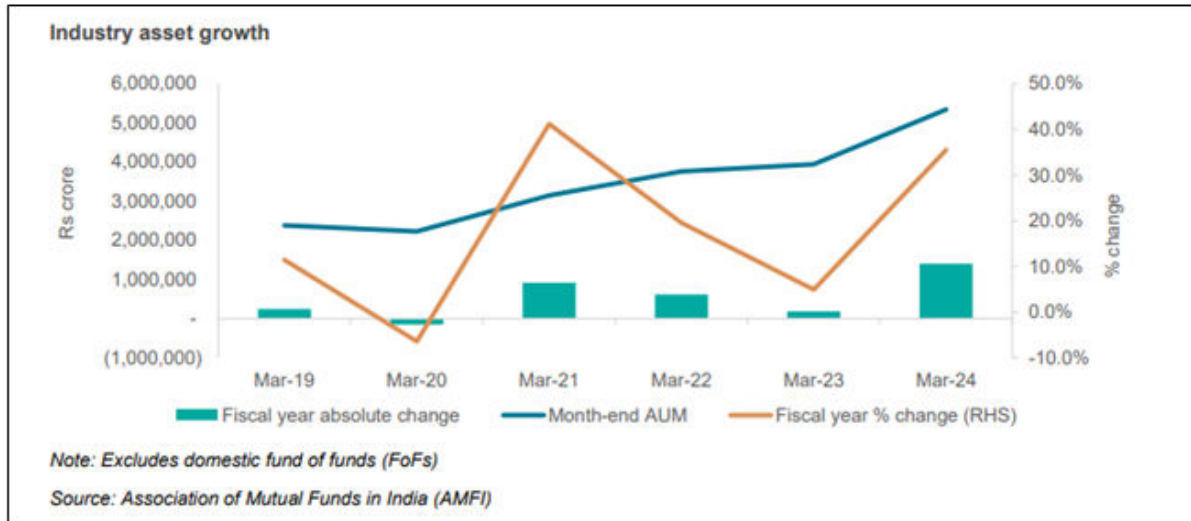
A mutual fund is a part of the capital market that comes under the financial market and it is managed by an asset management company (AMC) that pools money from individual investors, designs a portfolio, and invests in various classifications of schemes based on structure (open-end and closed-end), nature (equity, debt, hybrid, or solution-oriented funds), and the risk appetite of the investor (growth, income, money market, etc.). The selected schemes from the investors are then invested in portfolios that are aligned with the investment objectives cited in the prospectus of the scheme. A mutual fund is a product that is designed to provide greater growth and return on investment for investors who would rather not make direct stock market investments due to market volatility. Mutual funds have the advantages of expert management, a diversified portfolio, economies of scale, and accessibility. Mutual funds are backed by SEBI and the Association of Mutual Funds in India

(AMFI), which contribute to the improvements and regulatory structure, which helps in investor protection. Therefore, investors who choose long-term investments with stable, superior growth and returns under professional guidance are meant to use mutual funds.

Fiscal 2024 turned out to be one of the best years for the domestic mutual funds industry as assets under management (AUM) spurted by nearly Rs 14 lakh crore to a record Rs 53.40 lakh crore as of March 2024 compared with Rs 39.42

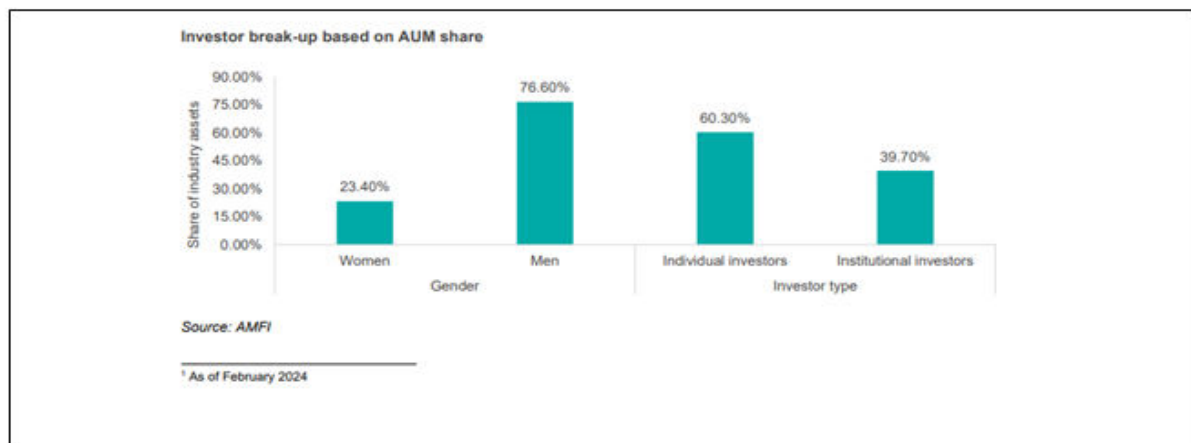
lakh crore as of March 2023. At over 35%, the percentage gain was the highest since fiscal 2021 when the industry had grown 41%.

Figure 1.1: Figure Showing Industry Asset Growth as on March 2024.



The strong gain in industry assets was also replicated in the growth of investors in mutual funds, with the number of folios closing at a record high of 17.78 crore, converting into an investor base of around 4.46 crore.

Figure 1.2: Showing Investor Break-up Based on AUM Share.



Women comprised 23% of the investors based on their share of the Asset Under management (AUM) and men 77%, while individual investors comprised 60% as against institutional investors 40%. Research indicates that men generally have more risk tolerance compared to women, this also means that men are more inclined to invest in assets with higher potential returns.

II. STATEMENT OF THE PROBLEM

The lack of expertise of investors in financial markets thus raises concerns about risk, return, and performance of mutual funds in India. The study focuses on analyzing the fund performance of the top five AMCs to assist investors in choosing the best mutual fund on the basis of risk appetite.

III. OBJECTIVES

- 1) To analyze the performance of mutual funds offered by the top five AMCs.
- 2) To study the strategic perspectives and approaches followed by selected AMCs to assist investor appetite.

IV. SCOPE OF THE STUDY

The study is restricted to analyzing the last 5-year performance reports of mutual funds offered by selected AMCs in India.

V. RESEARCH METHODOLOGY

5.1: Method of Analysis:

The study focuses on evaluating the stated objectives, a detailed literature review was carried out to explore the various mutual fund performance that are influenced by strategic perspectives and approaches employed by AMCs. The Study is both explorative cum descriptive in nature. The data collected is analyzed through various quantitative and volatility measures.

5.2: Source of Data

The research study used secondary data. The data is fetched from AMFI reports on mutual funds, the website of SEBI, the company website, journals, and Magazines.

VI. REVIEW OF LITERATURE

Desiana and Isnurhadi (2012) carried out a study comparing the performance of sharia equities mutual funds and conventional equity mutual funds on the Indonesia stock exchange. Based on three distinct approaches to evaluating mutual fund performance—Sharpe, Treynor, and Jensen—the findings indicated that conventional equities mutual funds beat sharia equity funds in terms of performance.

Hayati and Haruman (2006) have performed a study comparing the performance of Islamic and Conventional mutual funds as the foundation for information needed to make investment decisions in the Indonesian capital market. The study assessed noteworthy findings based on its hypothesis testing concerning the distinctions between mutual fund risk and return. These results include: (a) The performance levels of equities funds and fixed income funds differ from balanced funds (b) The rate of return of sharia balanced funds and sharia fixed income mutual funds is the same; (c) The level of risk varies amongst equity funds, fixed income funds, and balanced funds; and (d) There is no risk difference between sharia balanced funds and sharia fixed income mutual funds.

Ramadya and Isyнуwardhana, (2012) carried out a study in 2009–2010 utilizing the Sharpe, Treynor, and Jensen methodologies to compare the performance equity mutual funds of Sharia and conventional mutual funds. According to the findings, sharia mutual funds perform better when using the Jensen and Treynor techniques. Conventional mutual funds get better returns in the Sharpe technique.

Shanmugham (2000) conducted a survey among individual investors with the goal of determining the information sources that investors rely on. The findings clarified how economic, social, and psychological factors influence people's decisions to make investments.

Madhusudhan v jambodekar (1996) He put his research to assess investors' perceptions of mutual funds and to pinpoint variables that affect their choice to invest in mutual funds. According to the survey, income plans that are open-ended are more popular than growth and closed-ended schemes. However, income schemes are still preferred above other schemes. When investing in mutual funds, the safety of the main amount, investor services, and newspapers are the primary information sources.

Anjan Charkabothi and Harsha Rangta (2000) highlighted how crucial a company's brand is in determining how competent an asset management company is. Shankar (1996) stated that asset management firms need to work and direct the consumer product distribution model in order to deeply embed the mutual fund culture in society.

Raja Ranjan (1997) highlighted the division between investors and mutual fund products in order to boost the acceptance of mutual funds.

Dr. Bhadrappa Haralayaa (2022) in his research paper titled “Performance evaluation of mutual funds” attempted to use a few Indian diversified stock mutual funds. This study examines the performance of a few chosen Indian diversified equity mutual funds. Based on secondary data, the computation is done on both the Treynor and Sharpe ratios. ANOVA and the Chi-square test are necessary tools, and the study methodology is qualitative.

Sireesha Nanduri (2021) in her research paper “A Study on Performance Evaluation of Equity Mutual Fund Scheme & quote; is to identify the different inputs and output variables that affect the performance of particular equity mutual funds with large and small capitalization. Examine how effective the mutual funds you have chosen are. Analyse the chosen mutual fund schemes’ performance variance under continuous returns to scale and tools. Chi-square, data type, and methodology of the study supplementary data and the practical sampling technique.

VII. DATA COLLECTION AND ANALYSIS

Key Financial Performance Indicators Used:

- AUM (Assets Under Management): The total market value of the funds managed by the AMC.
- NAV (Net Asset Value): The per-unit value of the fund’s underlying assets.
- Expense Ratio: The annual fee charged by the AMC to manage the fund.
- Profit Margin: The percentage of revenue that turns into profit for the AMC.
- Debt-to-Equity Ratio: Indicates the AMC’s financial leverage (debt compared to equity).

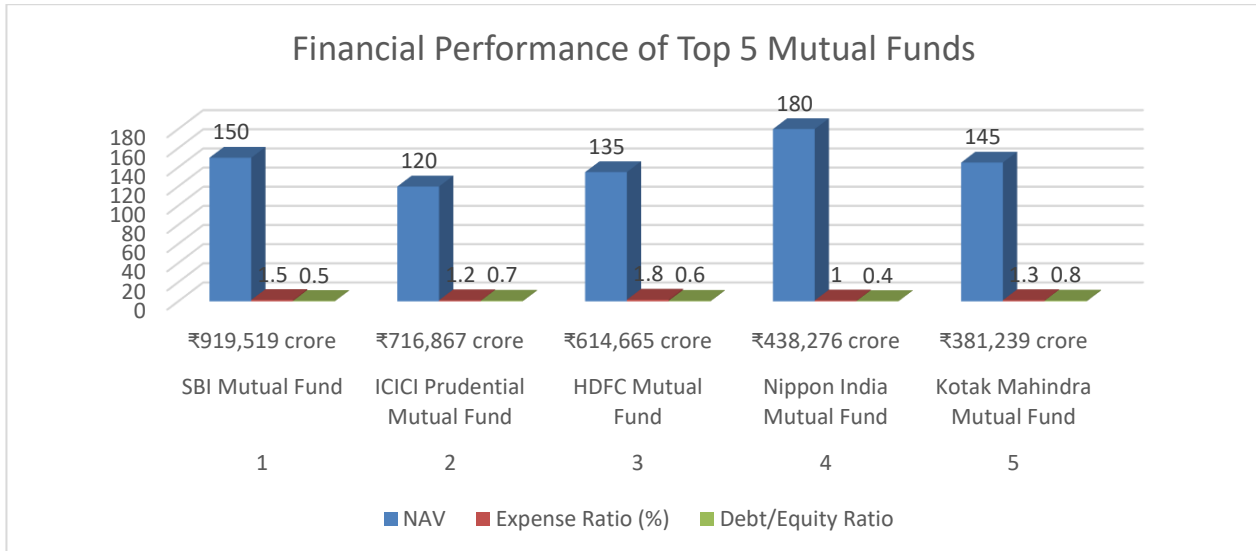
Table No 7.1: Top 5 Mutual Fund Key Financial Performance Indicators Used

SL No	AMC	AUM (approx.)	Strong Funds	Key Strengths
1	SBI Mutual Fund	₹919,519 crore	Large-cap, Hybrid	Cost-effective, Wide range
2	ICICI Prudential MF	₹716,867 crore	Equity, Debt	Diversified, Strong distribution
3	HDFC Mutual Fund	₹614,665 crore	Equity, Hybrid	Long-term performance, Research-focused
4	Nippon India MF	₹438,276 crore	Equity, Debt	Disciplined approach, Risk management
5	Kotak Mahindra MF	₹381,239 crore	Equity, Thematic	Active management, Research-driven

Table No 7.2: Financial Performance of Top 5 Mutual Funds

SL.No	AMC	AUM (Cr)	NAV	Expense Ratio (%)	Debt/Equity Ratio
1	SBI Mutual Fund	₹919,519 crore	150	1.5	0.5
2	ICICI Prudential M F	₹716,867 crore	120	1.2	0.7
3	HDFC Mutual Fund	₹614,665 crore	135	1.8	0.6
4	Nippon India M F	₹438,276 crore	180	1	0.4
5	Kotak Mahindra M F	₹381,239 crore	145	1.3	0.8

Figure 7.1 Showing Financial Performance of Top 5 Mutual Funds.



Interpretation of The Above Data

Assets Under Management (AUM): This indicates the total amount of money invested in the fund. A higher AUM generally suggests a more established fund.

- SBI Mutual Fund has the highest AUM at ₹919,519 crore.

Net Asset Value (NAV): This represents the current price per unit of the fund. A higher NAV indicates better performance.

- Nippon India Mutual Fund has the highest NAV of ₹180.

Expense Ratio: This is the annual fee charged by the fund to manage your investment. A lower expense ratio means more of your money stays invested.

- Nippon India Mutual Fund has the lowest expense ratio of 1%.

Debt/Equity Ratio: This ratio shows the proportion of debt and equity investments in the fund. The interpretation depends on the fund's category (debt, equity, or balance).

- For Debt Funds, a higher ratio indicates more investment in bonds, which are generally considered less risky.
- For Equity Funds, a higher ratio suggests more investment in stocks, which can be riskier but offer potentially higher returns.
- Balanced Funds typically have a mix of debt and equity, and the ideal ratio depends on your risk tolerance.

With the above analysis, it is clear that Nippon Individual Mutual fund when compared to the ideal debt-equity ratio of 2:1, has a low debt ratio compared to equity, which is a positive sign for the company as well as investors.

VIII. FINDINGS/SUGGESTIONS/RECOMMENDATIONS

8.1: Balancing AUM Growth with Fund Performance

Below are a few key points, that will enable you to combine both the performance of Fund and AUM growth:

- It Starts with Disciplined Investing Approaches that are important in keeping things scalable without sacrificing returns.
- Holistic Risk Analysis through a detailed risk analysis makes it easier to manage the AUM on performance.
- Despite fluctuations in AUM, firms need to be able to allocate assets strategically so that they can adhere to the performance standards.

Finding this delicate balance between preserving fund performance and building AUM is essential, it necessitates a thoughtful approach, strategic risk management, and active monitoring that allows one to navigate market shifts while keeping clients happy.

8.2: Strategies Adopted for AUM Growth & Management in Mutual Fund.

1. Mutual fund Benefits Strategic Communication

Highlight the benefits of mutual funds - pay less for long-term-disciplined investing, rupee cost averaging and generate wealth over long-term investing.

2. Consistent Performance

Make sure that funds provide uniform returns year on end so that the top-notch performance of a product is an essence to keep and bring more investors into the range.

3. Gaining trust by educating.

Inform investors about market movements, Mutual fund behavior during different market scenarios, and the benefits of long-term engagement which instills trust & confidence.

4. The Role of Technology in Improving Accessibility

It will encourage participation from tech-savvy retail investors as user-friendly platforms and apps make it convenient for them to start or modify their investment schemes.

5 Focus on Multi-Bagger Long-Term Wealth Creation

Mutual fund as a weapon to achieve their long-term financial goals which leads investor holding for longer period and investing on an ongoing basis that results AUM Growth.

Execution of these strategies within mutual funds are essential in order to attract and retain Investors, build credibility towards the process and ensure a long-term participation which will eventually built up an increase in Assets Under Management through SIPs.

IX. QUALITATIVE FINDINGS

In this research, the performance of Sharia and conventional equity mutual funds listed on the Indonesia Stock Exchange was compared using the Sharpe, Treynor, and Jensen methods. The result indicated that the conventional equity mutual funds performed better than Sharia equity mutual funds in terms of all three methods of performance evaluation.

The research examined the performance differences between Islamic and conventional mutual funds in the Indonesian capital market. Some of the findings are as follows:

- Performance in equity funds, fixed-income funds, and balanced funds is characterized by different levels.
- Rates of return for Sharia balanced funds and Sharia fixed income mutual funds are nearly the same.
- The risk levels are different for all equity, fixed-income, and balanced funds.
- Sharia balanced funds and Sharia fixed income mutual funds: No significant risk difference.

In this research, for the years 2009–2010, the Sharpe, Treynor, and Jensen methodologies were used, from which it was observed that according to Jensen and Treynor techniques, Sharia mutual funds performed better, while according to the Sharpe ratio, conventional mutual funds had superior returns.

The survey of individual investors showed that the economic, social, and psychological factors in investment decisions are very important, and it also pointed out the diversity of information sources on which investors may rely.

Investor preference for mutual fund schemes lies in open-ended income plans overgrowth or closed-ended schemes. It also obtained the results on the safety of principal amounts, investor services, and newspapers as the prime factors for investment information.

He has been eyeing a company's brand as something that gives an insight into the proficiency of an asset management company. The other was that an asset management company needs to assimilate mutual fund culture in society with a proper distribution model.

It was convergent to connect the gap between investors and mutual fund products so that mutual funds are accepted and popular.

In the selected literature review, Indian diversified equity mutual funds were evaluated for their performance using Treynor and Sharpe ratios, with the support of ANOVA and Chi-square tests in the qualitative research methodology. An attempt was made to evaluate the performance of open-ended equity mutual fund schemes based on different input and output variables and analysis of variance in the performance under continuous returns to scale. It has used chi-square tests with practical sampling to analyze the effectiveness of large and small capitalization mutual funds applying these techniques.

X. CONCLUSION

In conclusion, Assets Under Management (AUM) holds great power over how investment strategies are decided and market positions set. This demands careful attention to the nuances in juggling AUM growth and fund performance while risking strategic planning. A dynamic market requires an adaptable approach, as trends in AUM will continue to demonstrate across a range of asset classes. Growth not only depends on communication, performance, and technology but is also crucial to follow tailored strategies within different schemes of mutual funds.

The aim of the study was to assess the performance of various private-sector equity funds. The conclusions of the study show that mutual funds perform well and have contributed considerably towards the growth of the mutual fund sector. Mutual funds can offer decent investment avenues to investors. They also have certain risks, as with any other investments. The investor should compare the expected return and risk of various instruments after considering the tax implications. Before making a choice for investment. Investors may seek advice from experts and advisors like Mutual Fund distributors and agents while choosing what to invest in.

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