

A Study of Trend in Asset Allocation among Public and Private Sector Sponsored Mutual Funds in India and its Impact on Performance of Open-Ended Equity Funds

Ms. Pooja Gupta

Asst. Professor, Jagran Lakecity University, School of Management (SoM), Bhopal

Abstract

Indian Mutual Funds industry has an existence over 5 decades in the Indian markets, with US-64 scheme of Unit Trust of India (UTI) during 1964-87 as an introduction to the Indian investor to the concept of mutual fund. This industry has ever since, seen tremendous changes till date; with the entry of public sector bank sponsored mutual funds during 1987-1993 and private sector joining then after. The MF industry had shown a remarkable growth with the existence of both public sector and private sector players, post-liberalization. Among all others, one of the mutual fund peculiarities is the fund manager's ability of asset allocation which reflects the fund manager's inclination for positive returns from the sectoral performance which shall directly affect the returns generated by the funds. This paper attempts to study the impact of asset allocation on the performance of the open-ended equity funds of AMC's under study.

Key Words: Mutual Funds, Asset Allocation, financial management, performance.

I. Introduction

The Indian Mutual Funds industry has marked its' presence in the country as 50 years industry. MF entered the Indian market through Unit Trust of India (UTI) during 1964-87; later the public sector bank sponsored mutual funds joined during 1987-1993. The MF industry had shown a remarkable growth with the existence of both public sector and private sector players, post-liberalization, when the regulations were framed and SEBI was made the

regulatory authority. It is however, strongly believed that the performance of the any mutual fund scheme is dependent on the financial management by the fund manager, by the asset allocation of the fund. The sectors chosen by fund managers indicate their inclination for positive returns from the sectoral performance which shall directly affect the returns generated by the funds. This paper attempts to study the impact of asset allocation on the performance of the open-ended equity funds of AMC's under study.

II. Literature Review

The present study aims to understand through prudent examination, the state of sector preference by the top ranked AMC's in the country.

Grubber (1996) attempted to study the puzzle relating to the fast growth of mutual funds inspite of inferior performance of actively managed portfolios. Study revealed that, mutual funds had negative performance compared to the market and provided evidence of persistence of underperformance.

Sarkar A K (1991) critically examined mutual fund evaluation methodology and pointed out that Sharpe and Treynor performance measures ranked mutual funds at par inspite of their differences in terms of risk.

Elango's (2004) analytical results indicate that, private funds had a high positive association between the past and current year NAV compared to public sector.

Sondhi H J and Jain P K (2005) examined 17 public and 19 private sector mutual fund equity schemes. The mean and median returns for the aggregate period (1993-2002) were lower than the returns on 364 days treasury bills, and higher than the BSE 100 index.

The above review motivated to carry the study to understand the belief that the asset allocation plays a vital role in the performance of the scheme.

III. Research Methodology

The 5 AMC's have been selected based on the market share enjoyed by them in the industry. These include UTI and SBI from public sector sponsored funds and Reliance, ICICI and HDFC from private sector sponsored funds.

Objectives

This paper aims to study the mutual fund industry with the following objectives:

1. To understand the trend of asset allocation of the market leaders in the MF industry.
2. To understand the impact of the asset allocation on the performance of schemes.

Hypothesis

There is no significant difference in the performance of the Public and Private sector companies based on sector preferred for asset allocation.

Nature and Source of Data

This paper is based on the secondary data on asset allocation of AAuM under the AMC's collected from the Association of Mutual Funds in India (AMFI) and the website of the AMCs.

Data Analysis and Interpretation

For the purpose of better understanding the data has been tabulated. Beta calculation, identify the aggressiveness or conservativeness of the scheme in relation to market risk. A beta above 1 indicates aggressiveness and that below 1 is considered as conservativeness. Jensen's Alpha also known as Jensen's differential return is calculated as the excess of actual scheme return over expected scheme return as per CAPM to interpret whether the performance of the scheme was below, equal to or above the expected returns as per CAPM. Jensen's alpha is compared to Sharpe's differential

return, to measure the ability of the fund manager for security selection and diversification of portfolio, to evaluate the diversification efficiency of the scheme under study. Chi-Square test has been applied for testing of hypothesis. The data in Table.1 indicates the percentage asset allocation of AAuM available with UTI.

Table 1 Comparative Analysis of schemes Beta, Jensen's Alpha and Sharpe's Differential returns

S. No.	FUNDS	Beta	Remarks	Jensen's Alpha	Remarks	Sharpe's Differential	Remarks
1	UTI Banking Sector Funds	0.264	conservative	-0.00116	B. E.	0.00145	N. W.D.
2	UTI Contra Funds	0.342	conservative	-0.00121	B. E.	0.00046	N. W.D.
3	UTI Dividend Yield	0.452	conservative	-0.00134	B. E.	-0.00032	N. W.D.
4	UTI Energy Fund	0.329	conservative	-0.00116	B. E.	0.00050	N. W.D.
5	UTI Equity Fund	0.453	conservative	-0.00136	B. E.	-0.00035	N. W.D.
6	UTI Equity Tax Saving	0.529	conservative	-0.00133	B. E.	-0.00041	N. W.D.
7	UTI India Lifestyle Fund	0.526	conservative	-0.00137	B. E.	-0.00056	N. W.D.
8	UTI Infrastructure Fund	0.326	conservative	-0.00081	B. E.	0.00097	N. W.D.
9	UTI Leadership equity fund	0.453	conservative	-0.00144	B. E.	-0.00014	N. W.D.
10	UTI Long Term Advantage Plan	-0.016	W.V.	-0.00277	B. E.	-0.00056	N. W.D.
11	UTI Long term Advantage S II	0.100	conservative	-0.00267	B. E.	-0.00113	N. W.D.
12	UTI Long term Master Index Funds	0.028	conservative	-0.00269	B. E.	0.00021	N. W.D.
13	UTI Master Plus Unit Scheme	0.021	conservative	-0.00191	B. E.	0.00006	N. W.D.
14	UTI Master Share Unit	0.016	conservative	-0.00152	B. E.	0.00057	N. W.D.
15	UTI Mid cap	0.020	conservative	-0.00205	B. E.	-0.00017	N. W.D.
16	UTI MNC fund	-0.093	W.V.	-0.00218	B. E.	-0.00064	N. W.D.
17	UTI Nifty Index fund	-0.021	W.V.	-0.00216	B. E.	0.00008	N. W.D.
18	UTI Opportunity Fund	-0.004	W.V.	-0.00201	B. E.	-0.00018	N. W.D.
19	UTI Pharma & Health Fund	-0.029	W.V.	-0.00255	B. E.	-0.00093	N. W.D.
20	UTI Service Industries Fund	0.021	conservative	-0.00239	B. E.	-0.00021	N. W.D.

21	UTI Spread Fund	0.076	conservative	-0.00273	B. E.	-0.00254	N. W.D.
22	UTI Top 100 Fund	-0.036	W.V.	-0.00164	B. E.	0.00171	N. W.D.
23	UTI Transportation and Logistics Fund	0.030	conservative	-0.00154	B. E.	0.00036	N. W.D.
24	UTI Wealth Builder fund	0.102	conservative	-0.00243	B. E.	-0.00052	N. W.D.
25	UTI Wealth Builder Series II Fund	0.026	conservative	-0.00185	B. E.	0.00008	N. W.D.

Source: Tabulation. Calculations and Analysis based on the data from www.utmj.com

*W.V. = Widely Volatile diversified

**B.E. = Below Expectation

*** N.W.D. = Not well

Table 2 indicates the comparison of UTI schemes Beta, Jensen's Alpha and Sharpe's differential.

The comparison indicates the relationship between the beta, which reflects the volatility, aggressiveness or conservativeness of the scheme. A beta above 1 means the scheme is aggressive and beta below 1 means the scheme is conservative. However, a negative beta indicates that the scheme is widely volatile. A conservative scheme means that the scheme return is less elastic to market risk and an aggressive scheme means that the scheme return has high elasticity to market risk. A widely volatile scheme reflects the unstable return and high scheme risk when compared to market risk.

Jensen's alpha indicates the scheme's performance ability to achieve expected returns as compared to required return calculated by CAPM. A positive alpha means above expected returns and a negative Jensen's alpha means below expected returns.

Sharpe's differential indicates the fund manager's ability of portfolio selection and diversification in comparison to Sharpe's expected return. The Sharpe's differential is then compared with the Jensen's alpha. If the Jensen's alpha is greater than or equal to

Sharpe's differential, the scheme is well diversified. However, in case where the Jensen's alpha is less than Sharpe's differential, the scheme is said to be well diversified.

As can be seen in table 2, among the 25 UTI schemes, 6 schemes have been widely volatile and no scheme is able to give positive alpha, which means that the schemes have been underperforming. Also, no scheme's alpha could achieve Sharpe's differential return, which means the schemes are not well diversified by the fund managers, reflecting incompetency of fund manager to select the sector for deployment of scheme funds available.

SBI is the second oldest Mutual Fund house after UTI, and was the first mutual fund established in 1987 as a result of permission granted by Government of India to LIC, GIC and 5 six public sector banks viz., Canara Bank, Punjab National Bank, Indian Bank, Bank of India and Bank of Baroda to enter the mutual fund market.

As can be seen in Table 4 that among 20 SBI schemes, 1 scheme has been widely volatile and 1 scheme is able to give positive alpha, which means that the schemes have shown above expected performance, although its' alpha could not achieve Sharpe's differential return, which means the scheme is insufficiently diversified by the fund managers reflecting incompetency of fund manager to select the sector for deployment of scheme funds available.

Reliance Mutual Fund has been one of India's leading Mutual Funds among the private players in the market, with Average Assets Under Management of Rs. 1,02,487 Crores (Oct to Dec '13 Quarter). In Table 5, the data represents the preference for sectors such as Financial Services and Banking, Information technology, Consumer goods, oil, gas and

energy, Industrial manufacturing and Pharmaceuticals which has been able to attract more than 70%-80% of the total asset allocation of the funds available. However, Reliance AMC has shown keen interest of investment in Banking and Financial Services industry which has captured nearly 70-75% of the funds deployment.

ICICI Prudential Asset Management Company is one of the largest asset management companies in the country with average assets under management of Rs. 69,754.78 Crore (as of September 30, 2010). As per Table 7, ICICI AMC has shown keen interest of investment in Banking & Financial Services, Information Technology and Oil, gas & Power sectors which has captured nearly 80-85% of the funds deployment. The fund manager has been optimistic while making the selection for these sectors.

As can be seen in table 8, that among 25 ICICI schemes, 2 scheme has been widely volatile and 10 schemes are able to give positive alpha, which means that the schemes have shown an above expected performance, although its' alpha could not achieve Sharpe's differential return, which means the schemes are insufficiently diversified by the fund managers reflecting incompetency of fund manager to select the sector for deployment of scheme funds available. Among these 10 schemes, 3 schemes have highest Beta reflecting the aggressive of the schemes in relation to market price movements.

According to Table 9, HDFC has shown the preference has been made for sectors such as Financial Services and Banking, Information technology, Consumer goods, oil, gas and energy, Industrial manufacturing and Pharmaceuticals which has been able to attract more than 75%-85% of the total asset allocation of the funds available.

As can be seen in table 10, that among 19 HDFC schemes, only 1 scheme has been widely volatile and 5 schemes have been able to give positive alpha, which means that

the schemes have shown above expected performance, and out of these 5 schemes, 3 schemes have achieved the Sharpe's differential returns and thus are considered to be well-diversified reflecting the fund manager's ability to make a prudent judgment in selecting the sector for fund deployment, while the other 2 schemes that could not achieve Sharpe's differential return are considered to be insufficiently diversified by the fund managers reflecting incompetency of fund manager to select the sector for deployment of scheme funds available.

Table.2: (%) of Average Asset Allocation in Six Top Preferred Sector by Market Leaders

AMC	Banking & Financial Services	I.T .	Consumer goods	Oil, Gas and Energy	Industrial manufacturing	Pharmaceutical	Total
Public Sector	22	10	11	12	3	9	67
Private sector	22	10	7	8	5	8	60
Total	44	20	18	20	8	17	127

Source: Data of % of Asset Allocation given in tables 1, 3, 5, 7 and 9

Ho1: There is no significant difference in the performance of the Public and Private sector companies based on sector preferred for asset allocation.

Hence, the hypothesis stands true that there is no significant difference between performances of mutual funds based on the sector preferred for asset allocation. The choice of the sector for deployment of the funds by the AMCs under study, have been more or less same and it does not act as the important factor for difference in the performance of the AMC's belonging to public and private sector.

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