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Impact on Fund Manager's Efficiency and Ability with Reference To Uti's Select Schemes

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ABSTRACT

The performance of mutual fund portfolios has been the subject of extensive examination in the literature of finance. Performance evaluation measures of this sort have typically employed a one parameter risk return benchmark like those developed by different scholars. Such investigations have effectively focused on fund managers' security selection skills, diversification etc which can rightly be grouped as micro security selection skills. Besides, portfolio managers' performance might attract greater insights in terms of return by engaging in successful macro market timing activities. Timing ability is the most welcoming feature expected from a fund manager where he has to be efficient enough to foresee these changes in the market, or enter into transactions in the market at the most appropriate time. This paper has made an attempt to evaluate the market timing ability of the fund managers of UTI with reference to its select schemes on the basis of Hendrickson and Merton method. For this purpose the models developed and tested by experts have been made use of.

Keyword: Unit Trust of India, Fund managers, Schemes, Market timing.

1. INTRODUCTION

The Indian capital market witnessed unprecedented growth and development since globalization and these developments relate to innovation of financial instruments and one such preferred investment option is mutual funds. Mutual fund is an investment vehicles created by asset management companies, specializing in pooling saving of both retail and institutional investors (Abdullah, Hassan & Mohamad, 2007). The asset management industry plays an important role in the financial intermediation of investible funds in the capital market. Stock selection and market timing are the two important components in the performance evaluation of Asset Management Company. Deb, Banerjee, & Chakrabarti (2007) had defined the market timing as a special skill that may help to assess correctly the direction of the market, whether bull or bear and positioning their portfolio.

Investors of Mutual Funds need not worry much about the returns as mutual funds are managed by professionally well trained and experienced Managers. The investments in mutual funds are well diversified and so the investors generally do not run the risk of keeping all the eggs in one basket. Performance evaluation measures of this sort have typically employed a one parameter risk return benchmark like those developed by different scholars. Such investigations have effectively focused on fund managers security selection skills diversification (or lack thereof) etc. These are referred to as micro security selection skills. Fama (1972) and Jensen (1972) had addressed these

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issues and pointed out the empirical measurement problems involved in evaluating properly by the constituents in investment performance when portfolio risk levels are non stationary. It may be possible that fund managers, in addition to using stock selection techniques, might also generate superior performance by timing the market correctly. In an active sense, market timing implies altering the beta of the portfolio return by balancing the bond and equity composition of the mutual fund. In a passive sense, it involves a shift in the allocation between debt securities and equity securities. This basically means, when the market is unfavourable or in the down trend, the fund managers should shift their positions from equity to debts securities and when the market is favourable or upward trend, it would be beneficial to liquidate debt and commit to equity. A keen observation into the functions of the market, ability to foresee changes and effective time management are the pre- requisites expected from a fund manager. A number of studies, as mentioned in the review of literature have established some evidence that mutual fund portfolios do not in fact maintain a constant risk posture over time and conclude that attempts at market timing may well be a dimension of fund manager's decision process.

2. STATEMENT OF THE PROBLEM

There has been a marked trend of increase in personal investment in general and capital market securities in particular. This is evidenced by the increasing value of investible funds in the hands of mutual funds. UTI is considered as an important player in mutual funds industry. Hence a study evaluating the performance of select schemes where investor's interest in terms of huge value of funds involved in the UTI would be of interest and use. The measures for assessing the performance of managed fund have been evolving and over a period of time several aspects of performance have been identified, isolated and measuring tools were developed. Particularly to evaluate the performance of fund managers of schemes of UTI, models were applied and identified to evaluate the efficiency of the market timing of schemes.

3. OBJECTIVES OF THE STUDY

Performance assessment of financial securities and mutual fund schemes is to be based on analyzing the return and risk on such securities. Several models have been suggested by financial researchers, which assess specific aspect of performance of funds. The specific objectives of the study are:

- To assess the performance of fund managers in terms of various abilities using appropriate models and by comparing against benchmark.
- To evaluate the scheme performance based on market timing ability by using Hendrickson and Merton method
- To draw conclusions based on the findings.

4. REVIEW OF LITERATURE

SOUMYA GUHA DEB, ASHOK BANERJEE, AND CHAKRABARTI B.B (2007), in their study entitled, "Market Timing and Stock Selection Ability of Mutual Funds in India: An Empirical Investigation", examined the market timing and stock selection ability of the Indian Mutual Funds managers with a sample of 96 Indian equity Mutual Fund schemes. The study had used unconditional and conditional measures. The results of the study indicated that the Indian mutual

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fund managers had lack of market timing ability and presence of stock selection ability in both models during the study period.

SUBHA AND BHARATHI (2007) study had carried out for open end mutual fund schemes and 51 schemes were selected by convenient sampling method. NAV's were taken for a period of one year from 1st October 2004 to 30th September, 2005. Out of the 51 funds as many as 18 schemes earned higher returns than the market return. The remaining 33 funds however generated lower returns than the market.

SHANKAR (2008) In his study had examined that the present turmoil in mutual fund industry is mostly caused by over-reaction of regulatory authorities. Non-equity assets under management were about 4, 00,000 crores in April, 2008 declined to 2, 50,000 crores in October, 2008. This was due to environmental issues caused by events outside India. Even corporate investors of liquid plus and fixed maturity investment are opted for redemptions.

SATHYA SWAROOP DEBASISH (2009) studied the performance of 23 schemes offered by six private sector mutual funds and three public sectors mutual funds based on risk-return relationship models and have measured it over a time period of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean return, beta risk, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The overall analysis concludes Franklin Templeton and UTI being the best performers and Birla Sun Life, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models.

DHUME AND RAMESH (2011) Conducted a study to analyze the performance of the sector funds. The sectors considered were Banking, FMCG, Infrastructure, Pharma and Technology. The study used different approaches of performance measures. Findings of study revealed that all the sector funds have outperformed the market except infrastructure funds.

ELEONORA G. (2012) In their research evaluated the performance of 220 open ended equity mutual funds of European countries (from weak and strong economies) for a period of 8 years from January 2004 to December 2011. He split the study period in two four year sub periods in order to examined their performance prior to global financial crisis and after its brunt in 2008. He found that fund managers reported absence of market timing, no mutual fund showed abnormal returns and information ratio indicated that only Italian fund managers had stock picking abilities.

ANGELIDIS T. ET AL. (2013) Introduced a new factor exposure based approach for measuring the static and dynamic timing capabilities of asset managers. The research suggested that evaluating stock selection skill and market timing ability in a way that was consistent with common asset management practices. They concluded that earlier studies were failed to measure skill stock selection and market timing because they ignore the manager's self-reported benchmark in the performance evaluation process.

Skrinjaric T. (2013) attempted to find evidence of market timing abilities of Croatian funds estimating He selected the sample of ten funds based on highest assets in 2010 and 2011 in Croatia and monthly data was collected from December 2002 to November 2011 for analysis. The result had indicated a lack of market timing abilities of selected funds and the reason was lack of good forecasting abilities and presence of defensive behavior.

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Deepak Agarwal (2014), Mutual fund contributes to globalization of financial markets and is one among the main sources for capital formation in emerging economies. He analyzed the pricing mechanism of Indian Mutual Fund Industry, data at both the fund-manager and fund-investor levels. There has been incredible growth in the mutual fund industry in India, attracting large investments from domestic and foreign investors. Tremendous increase in number of AMCs providing ample of opportunity to the investors in the form of safety, hedging, arbitrage, limited risk with better returns than any other long-term securities has resulted in attracting more investors towards mutual fund investments.

R. Anitha, et. al., (2016), in their study evaluated the performance of public-sector and private sector mutual funds for the period from 2005 to 2007. Selected funds were analyzed using Statistical tools like Mean, Standard Deviation and Co-efficient of Variation. The performance of all funds has shown volatility during the period of study making it difficult to earmark one particular fund which could outperform the other consistently.

N.Bhagyasree, (2016) Analyze the performance of open ended growth oriented equity schemes. Daily closing NAV of different schemes have been used to calculate the returns of the mutual funds schemes. The result showed which mutual fund scheme is underperformed and which scheme providing return greater than risk free rate.

Solanki, (2016) Evaluate the performance of reliance open-ended equity schemes with growth option. The period of study is 1stApril 2007 to march 2016. To evaluate the schemes monthly returns are compared with benchmark of BSE and SENSEX returns. This paper analysis the scheme is performed well in the reliance mutual fund.

5. METHODOLOGY

The total number of schemes selected for the study is 50. They are classified as open and closed end schemes. It is seen that the maximum number of schemes outstanding at any point of time during the study period was 90 since it was felt that the data requirement for the type of analysis to be under taken would not be fulfilled with reference to the (MIP) Monthly Income Plan schemes completely excluded from the analysis. Hence out of 90 schemes 50 schemes were considered. Since performance assessment would be fruitful only if based on time series data, the schemes which were in operation during a major part of the period of the study only were considered for the purpose of analysis. The schemes satisfying these criteria numbered 26. These 26 schemes were taken for analysis. The schemes selected for the study is shows in Table No.1 as per nature and its classification i.e. Equity, Debt and Balanced. For that 15 and 11 schemes were taken from open ended and closed end schemes respectively. Out of 26 schemes 15 open ended schemes and 11 closed end schemes were only fulfilled the criteria .

TABLE – 1 SCHEME SELECTED FOR THE ANALYSIS

Types of schemes	No of Schemes	Equity	Debt	Balanced
Open ended	**15**	**5**	**5**	**5**
Close ended	**11**	**7**	**-**	**4**
Total	**26**	**12**	**5**	**9**

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Computed Annual Reports of UTI

DATA COLLECTION

The study is based on secondary data. The data were collected from published documents and the annual reports of the UTI schemes. The NAV resale prices and repurchased prices announced by the institution and published widely from time to time were the basic data. Other necessary information was also collected from the Center for Monitoring Indian Economy Reports and dailies like The Hindu, Business Line and the Economics Times and also from Association of Mutual funds Industry (AMFI) newsletters. The relevant literature was collected from related books, journals and magazines. The collected data were analysed to measure the performance of UTI, applying the models developed by experts.

TOOLS OF ANALYSIS

In the process of measuring performance of the schemes statistical tools as suggested by earlier researchers have been used. The analysis is made categorizing the data and applying the recommended tools. Particularly to analyse the market timing ability of fund managers and schemes Hendrickson and Merton model is applied.

RISK FREE RETURN

The yield on 91 days T bills has been used as a surrogate for risk free return as has been the accepted practice in most of the studies at the national and international level.

MARKET RETURN AND RISK

For calculating market return and risk the Bombay stock exchange index is treated as the Benchmark portfolio for use in the models. There are many other indices, which are also eligible to be considered as equivalent. But since this index covers securities compatible with mutual funds, this is considered as more appropriate and used as the bench mark measure.

SCOPE AND LIMITATIONS OF THE STUDY

Performance in general is multi faceted with reference to UTI. Performance may be dealt with regard to many aspects. They are first, managerial efficiency involving the functional efficiency of the managers like finance, marketing, personal etc. Secondly another aspect with specific reference to UTI is its mobilization of funds through sale of units or schemes. The third aspect is with regards to the portfolio management efficiency of the fund managers. This study is confined to the third aspect namely assessing the performance related to portfolio management.

6. ANALYSIS AND DISCUSSION

There are two model to analyses the performance of fund managers of schemes i.e. Treynor and Mazuy (1966) & Henrickson and Merton (1981) The second model slightly different from first one and suggested different methodology for testing market timing ability of fund managers. This test

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enables the separation of the gains of market timing skills from the gains of micro stock selection skills.

$$(R_{pt} - R_{ft}) = \alpha + \beta (R_{mt} - R_{ft}) + \gamma + e_{it}$$

Where R_{pt} is the return on fund period t
R_{mt} is the return on the market index in period t
R_{ft} is the return on the risk less asset in period t
E it is the residual return in period t
$\gamma_t = \max (0, R_{mt} - R_{ft})$
α, β and γ are constants.

TABLE – 2 NUMBER OF SCHEMES AS PER Γ VALUES OF HENDRICKSON AND MERTON MODEL

CATEGORY	OPEN ENDED		CLOSED ENDED		TOTAL	
OBJECTIVE	$\gamma > 0$	$\gamma = 0$	$\gamma > 0$	$\gamma = 0$	$\gamma > 0$	$\gamma = 0$
EQUITY	4	1	7	-	11	1
DEBT	3	2	-	-	3	2
BALANCED	4	1	4	-	8	1
TOTAL	11	4	11	-	22	4

Source: Appendix

γ is the measure of the funds timing ability and will be zero if there is no market timing. If it is positive it means that market timing ability exists. The calculated data was used to fit the quadratic function of the above model and the γ values arrived at, relating to the 26 schemes. The data has been classified as number of schemes with positive and zero γ values. It could be seen from the table that, a total of 22 schemes shows positive gamma values of which 11 each are open ended schemes and closed end schemes respectively. Out of 11 open ended schemes 4 are equity, 3 are debt and 4 are balanced schemes. Out of 11 closed end schemes 6 are equity, 1 is debt and 4 are balanced schemes. Out of 26 schemes 4 schemes shows equal to 0 γ values. All 4 schemes are open ended schemes. Out of the 4 schemes 1 each are equity and balanced schemes and 2 are debt schemes.

A performance during the study periods shows that there has been good timing ability exhibited by the fund managers. During the study period 84% of the schemes show good market timing ability. The fund managers have shown good timing ability in the case of open ended schemes, but there had been a decline in efficiency with regard to equity schemes. What the results of the application of these models indicate is that the fund managers, though have shown good timing ability it had been lesser during the latter period. It is a partly good sign of fund managers of the UTI.

7. SUMMARY

Unit Trust of India established in 1964 was the first institution in India in the form of mutual fund. It launched its first scheme US-64 and was followed by many schemes with varied objectives and contents in more than decades of functioning. These were started with the main objectives of collecting the widely scattered small savings throughout the investor point of view UTI offers a

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good avenue for their savings. It was to be seen whether the objectives with which UTI was established and various schemes started were fulfilled. The statement of the problem, objectives of the study and scope had been detailed. A review of literature relevant to the study is made. Most of the studies on performance evaluation had made use of the model developed particularly to find the ability of market timing of fund managers.

8. FINDINGS

Out of the total, 22 schemes shows positive γ values, which constitute 84% and shows good timing ability during the study period.

- Out of 26 schemes 22 schemes shows positive γ values and remaining 4 schemes show equal to γ values.
- Out of 22 schemes 11 are open ended and 11 are closed ended schemes.
- Out of 11 open ended schemes 4 are equity, 3 are debt and 4 are balanced schemes.
- Out of 11 closed end schemes 7 are equity and 4 are balanced schemes.
- Out of 26 schemes 4 schemes are shows equal to γ values. All 4 schemes are open ended schemes and out of 4 schemes 1 each are equity and balanced schemes and 2 are debt schemes.

9. CONCLUSION

From the foregoing analysis a good conclusion could be arrived at. What the results of the application of these models indicate is that the fund managers show good timing ability. Better performance has been shown by the market timing ability of fund managers. Though the number of schemes shows positive value the dividend declared by some of the schemes are negative. But the fact remains that investor's trust had not been honoured which does not speak well about the institution. With regard to these schemes the basic ability of analyzing the market and acting swiftly, which is expected to be acquired from out of experience in the stock market on the part of the fund managers, has been exhibited.

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