

A comparative analysis between actual performance of mutual funds returns with benchmarking returns over the period of 10 years

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Abstract:

Mutual funds have gained a speedy momentum in the past years in a developing nation like India. This research paper indicates the overview of mutual fund schemes and their performance in returns. SEBI executed Categorization and rationalization of mutual fund schemes in 2017-18. Investments can be categorized into 4 various asset class – Equity, Debt, Commodity and Real Estate. Equity Mutual funds can be categorized into Large Cap, Mid Cap, Small Cap, Multi Cap, Flexi Cap, etc. This research focuses on the comparative study of the actual returns for selected multi-cap schemes with context to their benchmarking returns. This research covers the study of multi-cap schemes for past 10 years.

Key words: Multi-cap schemes, Actual returns, Benchmarking returns

Introduction:

The mutual fund industry started in India in the year 1963 with formation of UTI, a joint initiative of the GOI and RBI. Their first scheme was launched in 1964 which generated AUM of ₹ 6,700 crores. Initially the growth was slow which accelerated from the year 1987 when non-UTI players entered the industry. There after SEBI was formed in 1992 which governed and regulated the industry and market. In 1993, new economic policy of Liberalization and Privatization opened the gates for private sector for launching mutual funds. In 1995, a non-profit organisation was incorporated called Association of Mutual Funds in India - AMFI, which defines the industry standards in India. In October 2017, SEBI laid down the categories of schemes, describing each schemes characteristic. As on March, 2023 there were 44 registered fund houses in India. Together they offered more than 2,541 mutual fund schemes whose AUM stood up to ₹ 53,13,000 crores approx.

Literature Review:

- **John Broadent, Michael Palumbo, Elizabeth Woodman (2016)** in their research paper titled, “**Implication for Asset Allocation and Risk Management**” The analysis and conclusions set forth in this paper are those of the authors and do not indicate concurrence by other members of the research staff or the Board of Governors or any other officials in the Federal Reserve System or at the Federal Reserve Bank of Australia or at the Bank of Canada.
- **Dr. Kuberudu Burlakanti, Ravi Varma Chiruvuori (2022)** in their research paper titled, “**Performance Evaluation of Selecting Equity Funds in India**” There are many Asset Management Companies (AMC) offering mutual funds in India. All these fund houses have several mutual fund schemes in each segment like equity, debt, gilt and liquid funds. Out of which equity segment is flourished and most of the investors are attracted towards equity mutual fund schemes. Because of availability of wide range of equity MF schemes in each AMC, it would be difficult for the investor to choose the best scheme. It is appropriate to consider risk and return of each fund to yield better returns before taking investment decision. Hence Present study is an attempt of identifying risk and returns of equity funds and comparing the same with bench mark returns and peers to help mutual fund investors in choosing better funds as investment avenues.
- **Dr. V. Ramanujan, A. Bhuvaneswari (2020)** in their research paper titled, “**Growth and Performance of Indian Mutual Fund Industry during past Decades**” Mutual Funds entered the Indian Capital Market in 1964 with a view to provide the benefit of diversification of risk, assured returns, and professional management. A mutual fund is a special type of investment institution that acts as an investment conduit. It pools the savings, particularly of the relatively small investors, and invests them in a well-diversified portfolio of sound investment. Mutual fund issue securities to the investors in accordance with the quantum of money invested by them. The profit or losses are shared by the investors in proportion to their investments.

Statement of Problem:

- To Identify the actual returns of mutual fund schemes with respect to multi-cap funds.
- To analyse the benchmarking returns of mutual fund schemes with respect to multi-cap funds.

Research Objectives:

- To know the actual returns of mutual fund schemes with respect to multi-cap funds.
- To find out the benchmarking returns of mutual fund schemes with respect to multi-cap funds.
- To establish the relationship between actual returns and benchmarking returns of mutual fund schemes with reference to multi-cap schemes.
- To make comparative analysis and interpretation between benchmarking returns and actual returns of mutual fund schemes in context to multi-cap schemes.

Data Collection Method:

Secondary data is used in this research from the official website of Association of Mutual Funds in India (AMFI)

Research Design:

Descriptive research design is taken into consideration for this research

Sampling Design:

Sampling Method: In this research non-probability convenient sampling method is taken into consideration.

Sampling Size: 6 multi-cap mutual fund schemes are been taken for the study that involves the time frame of past 10 years (from April 2011 to March 2021). This mutual fund schemes are

SR. NO.	MUTUAL FUND SCHEMES (MULTI-CAP) (REGULAR) (GROWTH)
1	Quant Active Fund
2	Invesco India Multicap Fund
3	Nippon India Multi Cap Fund
4	ICICI Prudential Multicap Fund
5	Baroda BNP Paribas Multi Cap Fund
6	Sundaram Multi Cap Fund

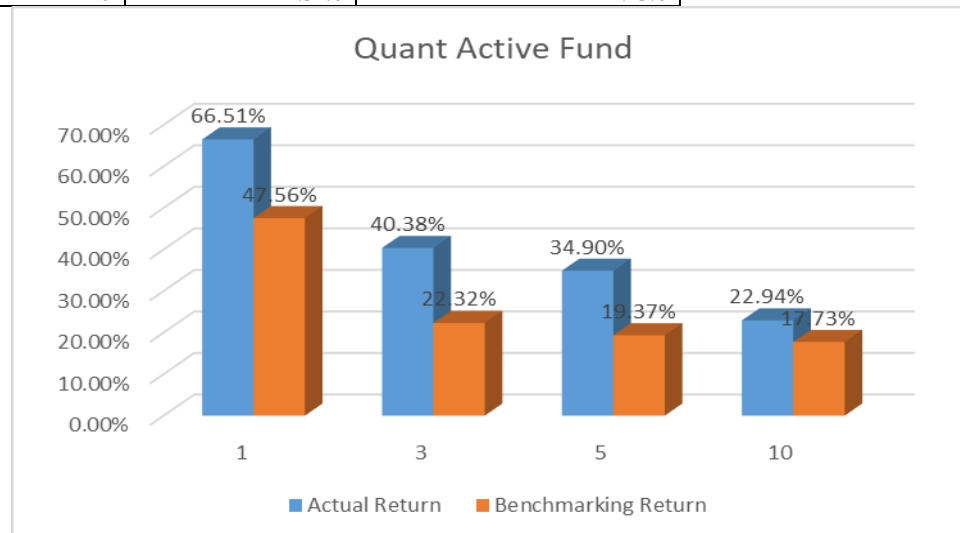
Data Analysis and Interpretation:

SR. NO.	MUTUAL FUND SCHEMES (MULTI-CAP) (REGULAR) (GROWTH)
1	Quant Active Fund
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5	Baroda BNP Paribas Multi Cap Fund
6	Sundaram Multi Cap Fund

The above table shows that multi-cap schemes are arranged on basis of their actual returns and performance

Quant Active Fund

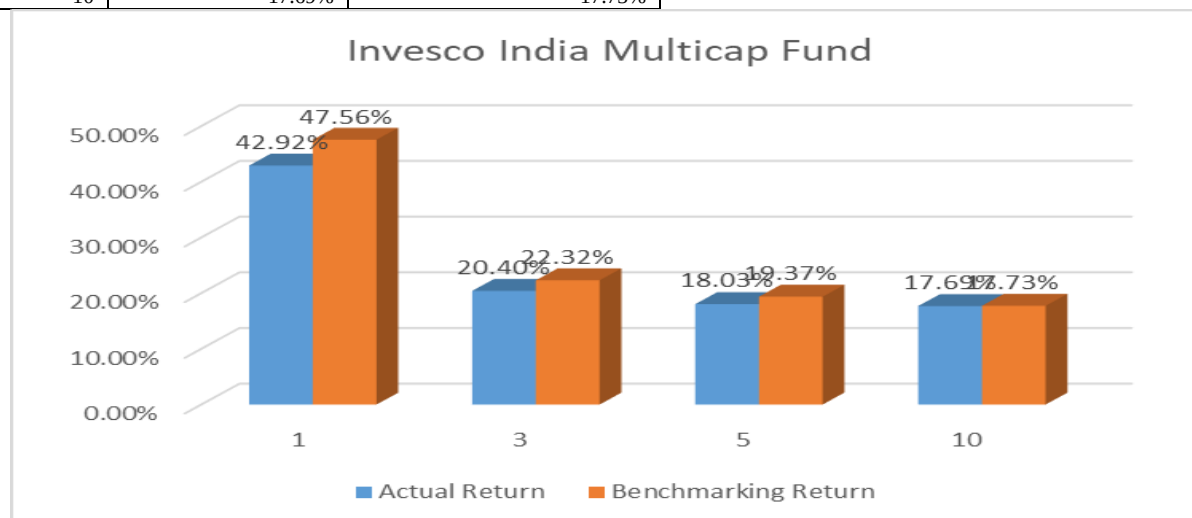
Years	Actual Return	Benchmarking Return
1	66.51%	47.56%
3	40.38%	22.32%
5	34.90%	19.37%
10	22.94%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 66.51%, 40.38%, 34.90% and 22.94% respectively of Quant Active Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that this particular fund has outperformed the benchmarking return in each of the phase and had succeeded to generate Alpha.

Invesco India Multicap Fund

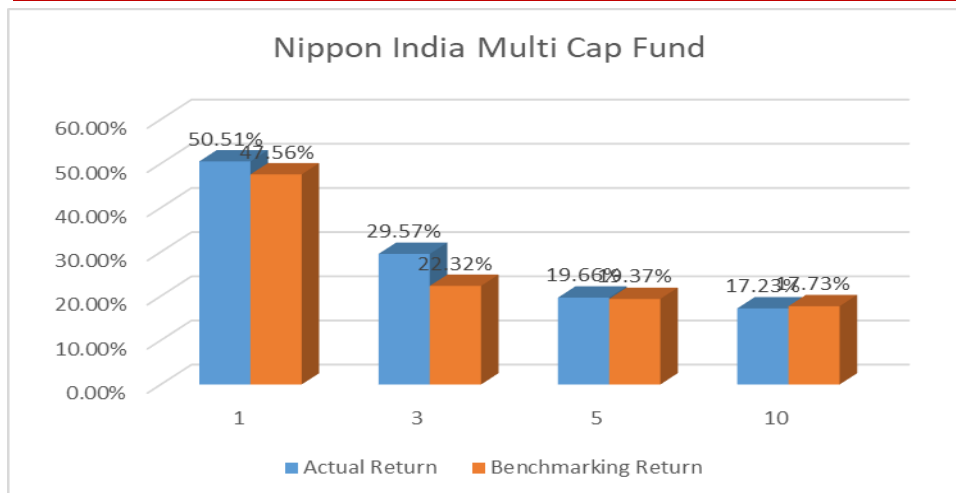
Years	Actual Return	Benchmarking Return
1	42.92%	47.56%
3	20.40%	22.32%
5	18.03%	19.37%
10	17.69%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 42.92%, 20.40%, 18.03% and 17.69% respectively of Invesco India Multicap Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that this particular fund has failed to outperformed the benchmarking return in each of the phase and has not succeeded to generate Alpha.

Nippon India Multi Cap Fund

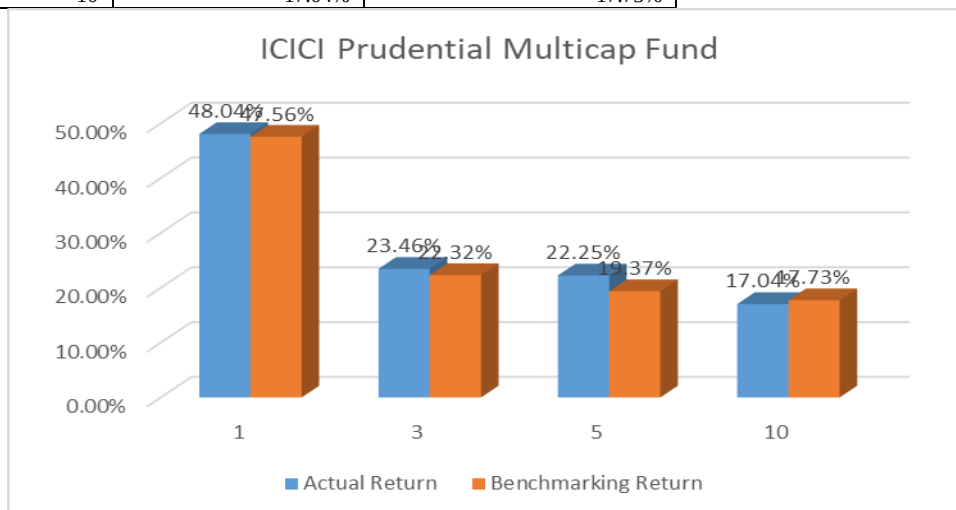
Years	Actual Return	Benchmarking Return
1	50.51%	47.56%
3	29.57%	22.32%
5	19.66%	19.37%
10	17.23%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 50.51%, 29.57%, 19.66% and 17.23% respectively of Nippon India Multi Cap Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that except for a 10-year phase wherein the fund has failed to beat benchmarking returns, whereas in all other phase this particular fund has outperformed the benchmarking return and had succeeded to generate Alpha.

ICICI Prudential Multicap Fund

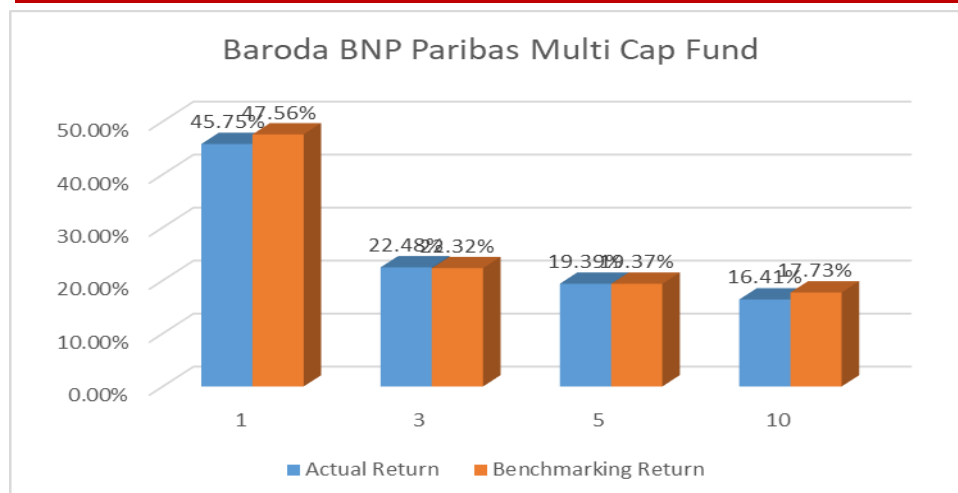
Years	Actual Return	Benchmarking Return
1	48.04%	47.56%
3	23.46%	22.32%
5	22.25%	19.37%
10	17.04%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 48.04%, 23.46%, 22.25% and 17.04% respectively of ICICI Prudential Multicap Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that except for a 10-year phase wherein the fund has failed to beat benchmarking returns, whereas in all other phase this particular fund has outperformed the benchmarking return and had succeeded to generate Alpha.

Baroda BNP Paribas Multi Cap Fund

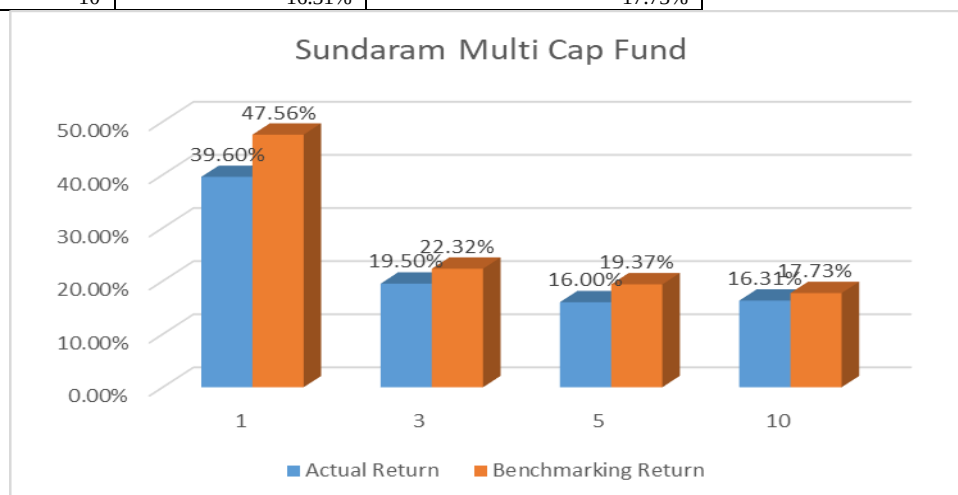
Years	Actual Return	Benchmarking Return
1	45.75%	47.56%
3	22.48%	22.32%
5	19.39%	19.37%
10	16.41%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 45.75%, 22.48%, 19.39% and 16.41% respectively of Baroda BNP Paribas Multi Cap Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that except for phase of 1 year and 10-year wherein the fund has failed to beat benchmarking returns, whereas in other two phase this particular fund has outperformed the benchmarking return and had succeeded to generate Alpha.

Sundaram Multi Cap Fund

Years	Actual Return	Benchmarking Return
1	39.60%	47.56%
3	19.50%	22.32%
5	16.00%	19.37%
10	16.31%	17.73%



The above graph shows that the actual returns for past year 1, 3, 5 and 10 years is 39.60%, 19.50%, 16.00% and 16.31% respectively of Invesco India Multicap Fund, which as compared to benchmarking standards is 47.56%, 22.32%, 19.37% and 17.73% respectively. Further it can also be concluded that this particular fund has failed to outperformed the benchmarking return in each of the phase and has not succeeded to generate Alpha.

Testing of Hypothesis:

H0: There is no significant difference between actual returns for the selected multi-cap funds and benchmarking returns set by SEBI

H1: There is significant difference between actual returns for the selected multi-cap funds and benchmarking returns set by SEBI

1. Quant Active Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	41.1825	26.745
Variance	338.1282917	196.1685667
Observations	4	4
Pooled Variance	267.1484292	
Hypothesized Mean Difference	0	
Df	6	
t Stat	1.249196281	
P(T<=t) one-tail	0.129058794	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.258117588	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of Quant Active Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H0 is rejected and H1 is accepted. Which means that there is significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

2. Invesco India Multicap Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	24.76	26.745
Variance	148.0243333	196.1685667
Observations	4	4
Pooled Variance	172.09645	
Hypothesized Mean Difference	0	
Df	6	
t Stat	-0.21398807	
P(T<=t) one-tail	0.418821538	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.837643076	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of Invesco India Multicap Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H0 is rejected and H1 is accepted. Which means that there is significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

3. Nippon India Multi Cap Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	29.2425	26.745
Variance	229.5127583	196.1685667
Observations	4	4
Pooled Variance	212.8406625	
Hypothesized Mean Difference	0	
Df	6	
t Stat	0.24209911	
P(T<=t) one-tail	0.408383003	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.816766005	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of Nippon India Multi Cap Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H1 is rejected and H0 is accepted. Which means that there is no significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

4. ICICI Prudential Multicap Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	27.6975	26.745
Variance	191.6770917	196.1685667
Observations	4	4
Pooled Variance	193.9228292	
Hypothesized Mean Difference	0	
Df	6	
t Stat	0.096730963	
P(T<=t) one-tail	0.463045106	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.926090213	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of ICICI Prudential Multicap Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H0 is rejected and H1 is accepted. Which means that there is significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

5. Baroda BNP Paribas Multi Cap Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	26.0075	26.745
Variance	179.3709583	196.1685667
Observations	4	4
Pooled Variance	187.7697625	
Hypothesized Mean Difference	0	
Df	6	
t Stat	-0.07611394	
P(T<=t) one-tail	0.470901475	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.941802949	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of Baroda BNP Paribas Multi Cap Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H0 is rejected and H1 is accepted. Which means that there is significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

6. Sundaram Multi Cap Fund

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	22.8525	26.745
Variance	127.1596917	196.1685667
Observations	4	4
Pooled Variance	161.6641292	
Hypothesized Mean Difference	0	
Df	6	
t Stat	-0.43294904	
P(T<=t) one-tail	0.340091027	
t Critical one-tail	1.943180281	
P(T<=t) two-tail	0.680182055	
t Critical two-tail	2.446911851	

The above table shows the t-test of actual returns of Sundaram Multi Cap Fund form each of the selection phase 1, 3, 5 and 10-years horizon as compared with its benchmarking returns. The result show that the t critical value is more than that of t stat value, hence H0 is rejected and H1 is accepted. Which means that there is significant difference between actual returns for the selected multi-cap funds and benchmarking returns.

Findings:

- There are only 6 schemes which reveals the data (actual returns) for past 10 years, these mutual funds are Quant Active Fund, Invesco India Mutlicap Fund, Nippon India Multicap Fund, ICICI Prudential Multicap Fund, Baroda BNP Paribas Multi Cap Fund, Sundaram Multi Cap Fund.
- The CAGR of Quant Active Fund for past year 1, 3, 5 and 10 years is 66.51%, 40.38%, 34.90% and 22.94% respectively which is more than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI.
- The CAGR of Invesco India Multicap Fund for past year 1, 3, 5 and 10 years is 42.92%, 20.40%, 18.03% and 17.69% respectively which is less than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI.
- The CAGR of Nippon India Multi Cap Fund for past year 1, 3, 5 and 10 years is 50.51%, 29.57%, 19.66% and 17.23% respectively which is more than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI, except the 10-year phase where the returns are less than benchmarking standard.
- The CAGR of ICICI Prudential Multicap Fund for past year 1, 3, 5 and 10 years is 47.04%, 23.46%, 22.25% and 17.04% respectively which is more than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI, except for the 1 and 10-year phase where the returns are less than benchmarking standard.
- The CAGR of Baroda BNP Paribas Multicap Fund for past year 1, 3, 5 and 10 years is 45.75%, 22.48%, 19.39% and 16.41% respectively which is more than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI, except for the 1 and 10-year phase where the returns are less than benchmarking standard.
- The CAGR of Sundaram Multi Cap Fund for past year 1, 3, 5 and 10 years is 39.60%, 19.50%, 16.00% and 16.31% respectively which is less than the standard benchmarking returns of 47.56%, 22.32%, 19.37% and 17.73% laid by SEBI.

Suggestions for Future Research

- The horizon taken into study is of 10 years from April 2011 ending March 2021.
- The switch in and switch out of fund managers during the selected period is not taken into consideration.
- SEBI scheme re-categorization done in 2017-18 eliminates many other schemes who were forced to rename and switch the category.
- This size of the fund is not taken into consideration, only their CAGR return is taken into consideration along with its benchmarking returns.

Conclusion

Thus, it can be concluded that the Multicap schemes has been re-categorized by SEBI in the year 2017-18, wherein the circular clarifies that 25% of large cap, 25% of Mid-cap and 25% of small cap is must to make the fund categorized as Multicap. The study emphasis on the returns earned by particular mutual fund with compared to its benchmarking returns, and based upon which tests has been conducted and the results have been mentioned above.

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