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Evaluating the Performance of Selected Hybrid Mutual Funds

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Abstract

Though there are numerous financial assets in our capital market for the investors to invest their money for the attainment of more return, Mutual Funds play a predominant role in acting as a most favorable asset for investors to increase their wealth by offering numerous schemes. Investors who are eyeing on the mix of various assets in one single scheme can consider investing in hybrid funds. That is why we are conducting a study on selected hybrid mutual funds. Though there are various types of hybrid mutual funds we have taken 5 Hybrid Equity Mutual Funds with Regular Plan and Growth Option. The Financial ratio analysis is used for the performance evaluation of the fund, in that we are taking NAV (Net Asset Value) return of recent 5 years data. Finding Standard deviation, Beta, Sharpe ratio, Jensen ratio and Treynor's ratio based on the last five years' data. Performance Evaluation of hybrid mutual fund schemes is important both for the investors as well as for portfolio managers, which enables the investors to access how much return is generated by the portfolio manager and what risk and return have been assumed to the use of Hybrid mutual fund schemes. The study helps us to know about the various components of a mutual fund, knowledge about the hybrid mutual fund performance, its relationship with the capital market, growth, regulation, risk, and return involved. The existing study was supposed to be beneficial to the present and potential investors, managers of Mutual fund, agents of Mutual fund, present and future investors, and research scholars. This study will show you the calculations of NAV Return, Risk, risk-adjusted ratios like Sharpe's, Treynor's and Jensen's Ratio.

Introduction

Mutual fund is a monetary vehicle that is appropriate for investors who besides lack large sums for investment, or for individuals who neither have the preference nor the time to investigate the market, however want to develop their wealth. The money collected in mutual funds is invested through professional fund managers in line with the schemes according to the investor's objective. Mutual Fund Industry has grown-upby upswings and limits, mostly during the last 2 decades of the 20th century. Also, the entry of private mutual fund (since 1993) has vaccinated a sense of competition and the Diligence has been observing a structural metamorphosis from a public sector monopoly to monopolistic Diligence. A proper evaluation measure will eliminate confusion and help small investors to decide about the level of investment in various mutual fund schemes, to maximize the returns. Further, the mounting competition in the market forces the fund managers to work hard to fulfill investors & management. Hence, regular performance evaluation of mutual funds is essential for investors and fund managers. An enormous study on Equity and Debt Mutual fund schemes has been done when compared to Hybrid Mutual fund which is still maintaining a low profile comparatively. Against this backdrop, the present research is devoted to measuring the risk-adjusted performance of selected Hybrid Schemes in India.

Literature Reviews

The Performance Evaluation of Mutual Funds is not a novel theme as for the research is concerned. Formerly enormous scholars had presented their papers on the performance analysis of the mutual funds in Native as well as in overseas.

Ali, S. (2009). In the International Journal of Research in IT, Management and Engineering. Conducted an Experiential Study on Indian Mutual Funds Equity Diversified Growth Schemes and their Enactment Evaluation.s

Dr. Mayank Malviya, Dr. Prateek Khanna Associate Professor, from Shambhunath Institute of Engineering and Technology, Department of Business Administration, Prayagraj (U.P.), India Conducted a concentrate on "Execution of Mutual Fund Industry in India". Which was distributed in IJCIRAS | ISSN (O) - 2581-5334 April 2020 Vol. 2 Issue. 11.

Murugaiah, V. (2006) "The Analysis of varied components of investment performance- An empirical study of Mutual Funds in India.

Friend, et al (1962)1 "A Study on the Mutual Funds" U.S. Securities and Exchange Commission, USA..

Treynor and Mazuy (1966)5 "Can Mutual Funds Outguess the Markets" Harvard Business Review, Vol.44, PP. 131-136

Need of the Study

The study on the evaluation of Hybrid Mutual Fund Schemes in India is pretty needed as it gives or helps to have deep knowledge and understanding of performance analysis of selected Hybrid Mutual Funds, as the investors in mutual funds will be consistently looking for constant over their investment. Usually, investors are confused about picking the best scheme as well as this study will help them to know how the schemes are evaluated using various aspects. Which provides investors in taking a rational investment decision.

Scope of the Study

The contemporary study attempts to provide an idea of the performance of selected Hybrid mutual fund schemes. This study was assumed with the cause to compare the funds depending on the designated scheme. This studyis largelyfocused on the evaluation of Hybrid funds of selected schemes and their return for a period of five year.

Objective of the Study

- To study the risk and return component amongst the selected Hybrid Mutual funds.
- To evaluate the performance of selected mutual funds (hybrid) by means of risk- adjusted performance measures specifically Sharpe's, Treynor's and Jensen Model.

Research Methodology- Aimed population

There are 44 mutual fund companies in India till date. From these companies, Hybrid Mutual funds are selected for the accomplishment of objective of the study.

Sampling Method

For the assortment of Hybrid Mutual funds, purposive sampling method is used.

Sampling Size

Subsequently the purposive sampling method,5 schemes of each Equity and Debt combined Hybrid Mutual fund are selected for a period of 5 years from 2017-22.

Nature and Sources of Data

This study is purelye rected on secondary data. The data was collected from the historical NAV which was collected from the fact sheets of the selected companies and websites of www.amfindia.com and www.mutualfundindia.co

Statistical Tools Used

For the exploration of data, the scholar has used measurement of rate of return, measurement of risk (Beta β and Standard Deviation), risk-adjusted performance measures (Sharpe measure, Treynor's measure, Jensen measure).

NIFTY 50 Hybrid Composite Debt 65:35 Index		
Financial Year	Min Close	Max Close

Tool	Formula	Result
Rate of Return	Closing price-opening price/opening price*100	Measure Average return of selected funds
Standard Deviation (S.D)	$\sqrt{\sum} (R^{-} R)$ 2 /N	Measure Variance and risk
Beta Value	Covariance/ σm×σm	Measures excess return earned on fund per unit of total risk
Sharpe's ratio	[(return from the fund- risk free rate of return)/total risk of the fund]	Measures the excess return earned on fund per unit of total risk.
Jenson's ratio	Portfolio return- [risk free rate+ portfolio beta*(market return-risk free rate)]	Measures the abnormal return of a security or portfolio of securities over the theoretical expected return.
Treynor's ratio	[(return from the fund- risk free rate of return)/ Beta]	Measures the excess return earned per unit of systematic risk that is beta.

Table 1 Values of Nifty 50 Hybrid Composite Debt 65:35 Index

Year		
2018	6603.6695	7178.971
2019	7252.8335	8216.671
2020	8246.78	6338.458
2021	6111.8	10344.8095
2022	10458.7325	12177.741

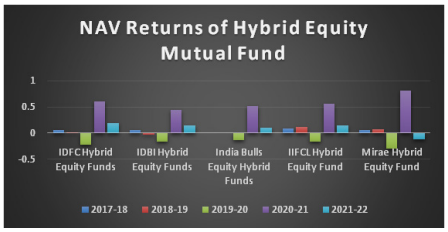

Chart 1 NAV Returns of Hybrid Equity Mutual Fund

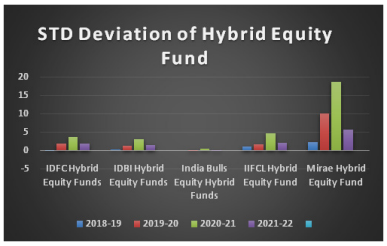

Chart 2 Standard Deviation of Hybrid Equity Mutual Fund

Table 2 NAV Return of the Selected Hybrid Equity Mutual Funds

years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	0.0652	0.06489904		0.08774546	0.05999807
2018-19	0.0191	-0.0296095		0.11488527	0.07488616
2019-20	-0.2231	-0.1644215	-0.1290917	-0.1685105	-0.3036283
2020-21	0.602	0.44994404	0.5208744	0.55900158	0.81925834
2021-22	0.1865	0.15260492	0.09817402	0.14962541	-0.1183003

Table 3 Standard Deviation of Hybrid Equity Mutual Fund

years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	0.487479415	0.504520688		0.748826081	1.755039031
2018-19	0.153654304	0.24819448		1.076216521	2.325674203
2019-20	1.831406563	1.338623847	-0.1290917	1.766352739	10.11869804
2020-21	3.754737008	3.013406259	0.5208744	4.766606812	18.58983728
2021-22	1.880904038	1.491288202	0.09817402	2.005354831	5.615488503

Table 4 Beta of Hybrid Equity Fund

years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	0.000599	0.00062		0.00092	0.002157
2018-19	0.000113	-0.00018		0.00079	0.001706
2019-20	0.000679	0.000496	0.000339	0.000654	0.003749
2020-21	0.000627	0.000503	0.000527	0.000796	0.003105
2021-22	0.000774	0.000613	0.000375	0.000825	-0.00231

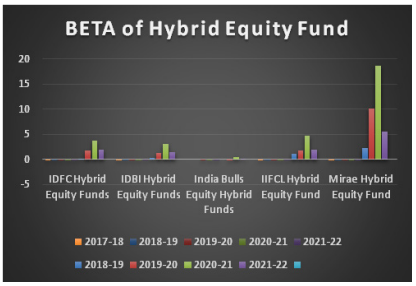

Chart 3 Beta of Hybrid Equity Fund

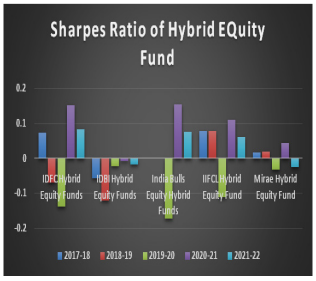

Chart 4 Sharpes Ratio of Selected Hybrid Equity Fund

Table 5 Sharpes Ratio of Selected Hybrid Equity Fund

Years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	0.072143	-0.05818		0.077115	0.017093
2018-19	-0.07067	-0.12207		0.078874	0.0193
2019-20	-0.13819	-0.02364	-0.17367	-0.11238	-0.03297
2020-21	0.152352	-0.00846	0.155466	0.110981	0.042456
2021-22	0.083224	-0.01909	0.074686	0.059653	-0.02641

Table 6 Treynors Ratio of Selected Hybrid Equity Fund

Years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	58.68997	56.27378		62.7348	13.90523
2018-19	-96.3321	327.3725		107.5106	26.30767
2019-20	-372.947	-391.971	-468.699	-303.302	-88.9829
2020-21	912.0354	834.2533	930.6769	664.3728	254.1603
2021-22	202.3208	199.8665	181.5662	145.0193	64.20194

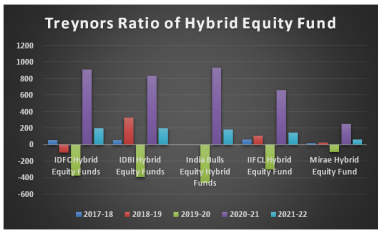

Chart 5 Treynors Ratio of Selected Hybrid Equity Fund

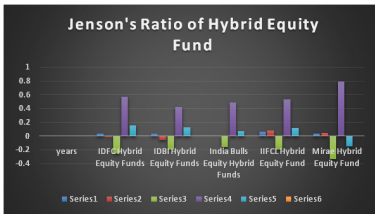

Chart 6 Jenson's Ratio of Selected Hybrid Equity Fund

Table 7 Jenson's Ratio of Selected Hybrid Equity Fund

years	IDFC Hybrid Equity Funds	IDBI Hybrid Equity Funds	India Bulls Equity Hybrid Funds	IIFCL Hybrid Equity Fund	Mirae Hybrid Equity Fund
2017-18	0.0351	0.034864		0.057693	0.030063
2018-19	-0.0109	-0.05959		0.084804	0.044937
2019-20	-0.2529	-0.19429	-0.159	-0.19834	-0.33352
2020-21	0.5716	0.419611	0.490525	0.528474	0.789351
2021-22	0.1564	0.122522	0.068124	0.119515	-0.14837

Findings

From the randomly selected Hybrid Equity Funds

- The NAV return of the selected schemes is influenced by the market Index value, as there is a fall in the Market Index value in the year 2019-2020 we could notice that all the schemes NAV return has dipped drastically, as there is a rise in the Market Index Value the NAV return of all the selected schemes has raised gradually which can be noticed in the above table and charts.
- But despite of this though the India Bulls Schemes is launched in recent years ithas performed well compared with other schemes which were started earlier than this scheme.
- All the above selected Hybrid Equity Fund scheme's beta has a lower value which is lesser than 1 which carries less volatility.
- Sharpe's ratio acts as a popular metric for comparing funds that belong to the same category. Sharpe's ratio helps to understand the return-yielding capacity of a fund for every unit of risk it takes. IIFCL indicates a higher value with an average of 4.28 higher the Sharpe's ratio implies a better risk-adjusted return. Whereas, IDBI has a negative Sharpe's ratio on an average of -4.628 depicts it is not a risk-free adjusted return. Whereas all the other schemes show a positive Sharpe's ratio.
- Treynor's ratio of India Bulls Equity Hybrid Funds, IDFC Hybrid Equity Funds, IDBI Hybrid Equity Funds all the above funds depicts the higher Treynor's ratio which will produce a better risk-adjusted return. Whereas the other two funds IIFCL Hybrid Equity Fund and Mirae Hybrid Equity Funds have lower Treynor's ratio.
- Jensen's ratio of all the selected funds moves as per the market movement where all the funds has outperformed and showed a higher Jensen ratio in the year 2020-21 as there is an increase in the overall market index performance. Whereas the Mirae Hybrid Fund 0.78 and IDFC Equity Hybrid Fund with 0.57 both funds are outperformed the market compared to other selected funds. Whereas all the selected funds have shown a negative value in the year 2019-20.

Conclusion

In the present scenario, Hybrid mutual funds are some of the suitable investment avenues available for small or retail investors by means of low risk to invest. The study has endeavored to analyze the performance of hybrid schemes of select mutual fund companies. The sample consists of 5 hybrid mutual fund schemes and its daily observations have been taken from different asset management companies to analyze its performance. Daily observations have been gathered during the period 2015 to 2022. Namely, Namely, IDFC Hybrid Equity Funds, IDBI Hybrid Equity Funds, India Bulls Equity Hybrid Funds. IIFCL Hybrid Equity Fund, Mirae Hybrid Equity Fund. The performance of these schemes has been measured through a portfolio evaluation model.

According to the reward variability ratio, all five selected schemes have performed well and provided positive returns against the benchmark index during the period followed by 2017-18, 2018-19, 2020-21, and 2021-22. Whereas, all the five schemes does not perform well and also depicted negative returns during the year 2019-20.

The study concluded that the majority of the selected hybrid mutual fund has been performing well against the benchmark index and provided similar results as per the Sharpe's, Treynor's, and Jensen's Ratio during the above-mentioned period.

On the other hand, the same fund has underperformed during the above-mentioned period as there is fall in benchmark index. With regard to beta value of hybrid schemes, all the fund has been provided less than one which indicates less volatility of the fund against the market index. Since its hybrid schemes, all the selected funds have been less volatile. This means that the price of the security can change dramatically over a short period time in either direction. A lesser volatility means that a security's value does not change intensely, and inclines to be steadier.

Limitations of the Study

The contemporary learning is restricted to five years of carefully chosen Hybrid Equity funds. These schemes are selected unsystematically. The Schemes under Hybrid Equity funds are not more in number. Financial ratios like Treynor's, Sharpe's, and Jenson's measures are used to evaluate the risk and performance of selected funds while the mutual fund is subject to market risk. So, it is challenging to determine the comparison of the performance of selected funds merely with the help of average return.

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