

# Performance Analysis of Mutual Funds: Selected Reliance Mutual Fund Schemes

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## ABSTRACT

*Indian Financial System was rejuvenated with the introduction of multiple financial institutions, financial services and financial instruments in the post LPG era. This process has opened doors to the private business entities also to start new financial institutions and offer various financial services and instruments. One such institution was mutual funds. Many a number of private corporate houses have started mutual funds immediately after government / SEBI permission. Among the first entrants Reliance Mutual Funds is one and it has significant contributions to the Mutual Fund services. In the current study 10 top performing schemes offered by Reliance Mutual Funds are selected to make a comparative study on the risk and return offered by these funds. From the study it is observed that among the selected funds Reliance Small cap fund is considered as a fund with moderate risk as well as moderate returns, against which the Reliance Bank Fund is considered as high risk with high returns.*

**Key Words :** Mutual Funds , Reliance , Risk, Return, Jensen , Sharpe, Treynor,

## INTRODUCTION

The Indian financial system is based on four basic components Financial Market, Financial Institutions, Financial Service, and Financial Instruments. All play important role for smooth activities for the transfer of the funds and allocation of the funds. All the four components are inter connected. To boost the economic system intermediation of these four

components are vital. Mutual funds as a Financial Institution offer financial services as well as financial instruments to the investors and helps in boosting the financial markets. The contribution of mutual funds for the growth and development of directly financial markets and indirectly for the boost of economy cannot be undermined. Though mutual fund as a institution started

working way back from 1964 with the formation of UTI, the real growth of the institution and becoming as a major player in the economy can be seen only after 1990 economic reforms

**Need for the Study:**

- To understand the contribution of mutual funds for the growth and development of economy in general .
- To understanding the risk and return relationships for each mutual fund scheme under consideration.
- To study and make a comparative analysis of the mutual fund schemes offered by reliance mutual fund and identify the best.

**Objective of the Study:**

- To evaluate the past performance of selected open ended Equity mutual fund schemes of Reliance.
- To carry out the risk return analysis of the sample funds selected.

**Research Methodology:**

To examine the mutual fund schemes performance, 10 schemes were selected which were offered by Reliance Mutual Fund. Daily NAVs of these schemes are collected for period of five years i.e., August 2009 to July 2014 (5 years) from [www.amfiindia.com](http://www.amfiindia.com) website.

For benchmarking and comparison purpose BSE-Sensex and NSE-Nifty is used. To consider risk free return yield on 91-day Treasury bills is accepted which 8.52% , during my study period.

**Scope of the study:**

- The Schemes were categorized and selected for evaluating their performance and relative risk.
- The scope of the project is mainly concentrated on the top performing schemes of the Reliance mutual fund such as Reliance Small Cap Fund, Reliance Long Term Equity Fund, Reliance Growth Fund, Reliance Vision Fund, Reliance Top 200 Fund, Reliance Equity Opportunities Fund, Reliance Banking Fund, Reliance Pharma Fund, Reliance Diversified power Sector Fund and Reliance Tax Saver Fund

**Limitations:**

- There are more than 30 funds and huge number of schemes offered by various financial as well as non financial companies. It is not possible to compare all the funds

**Literature Review:**

Literature available on mutual funds is tremendous. Over the Years, mutual funds have attracted a lot of attention of academicians, researchers and investors and have been a focus of research. It has also led to the development of various measures and models to evaluate the Performance.

Debasish (2009) studied the performance of selected schemes of mutual funds based on risk and return models and measures. The study covered the period from April 1996 to March 2005 (nine

years). The study revealed that Franklin Templeton and UTI were the best performers and Birla Sun life, HDFC and LIC mutual funds showed poor performance.

Prabakaran and Jayabal (2010) evaluated the performance of mutual fund schemes. The study conducted is on a sample of 23 schemes which were chosen basing on the priority given by the respondents in Dharmapuri district in a survey and covers the study from April 2002 to March 2007. The study used the methodology of Sharpe and Jensen for the performance evaluation of mutual funds. The results of the study found that 13 schemes out of 23 schemes selected had superior performance than the benchmark portfolio in terms of Sharpe ratio, 13 schemes had superior performance of Treynor ratio and 14 schemes had superior performance according to Jensen measure.

Sondhi and Jain (2010) examined the market risk and investment performance of equity mutual funds in India. The study used a sample of 36 equity fund for a period of 3 years. The study examined whether high beta of funds have actually produced high returns over the study period. The study also examined that open-ended or close ended categories, size of fund and the ownership pattern significantly affect risk-adjusted investment performance of equity fund. The results of the study confirmed with the empirical evidence produced by fama (1992) that high beta funds (market risks) may not necessarily produced high returns. The

study revealed that the category, size and ownership have been significantly determined the performance of mutual funds during the study period.

Garg (2011) examined the performance of top ten mutual funds that was selected on the basis of previous years return. The study analyzed the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart's four-factor model for analyze the performance of mutual funds. The results revealed that Reliance Regular Saving Scheme Fund had achieved the highest final score and Canara Robeco Infra had achieved the lowest final score in the one year category.

## COMPANY PROFILE

Reliance Capital Ltd, a part of the Reliance Anil Dhirubhai Ambani Group, is one of India's leading and most valuable financial services companies in the private sector. The company has interests in asset management and mutual fund; life and general insurance; consumer finance and industrial finance; stock broking; depository services; private equity and proprietary investments; exchanges, asset reconstruction; distribution of financial products and other activities in financial services.

Reliance Capital Ltd was incorporated in year 1986 at Ahmedabad in Gujarat with the name Reliance Capital & Finance Trust Ltd. The company entered the capital market with the maiden

issue in the year 1990. In the year 1993, the company diversified their business in the areas of portfolio investment, lending against securities, custodial services, money market operations, project finance advisory services, and investment banking. In January 5, 1995, the company changed its name from Reliance Capital & Finance Trust Ltd to Reliance Capital Ltd. In December 1998, they obtained their registration as a Non-banking Finance Company (NBFC). During the year 2001-02, the company took a new strategic initiative by entering into the life insurance and general insurance business. They made investments in Reliance General Insurance Company Ltd and Reliance Life Insurance Company Ltd, by virtue of which the said two companies became the subsidiaries of the company.

### Performance :

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RSCF	19.3797	4.27%	38.50%	61.93%	110.28%	24.04%	N.A	18.73%

## 2. RELIANCE LONG TERM EQUITY FUND (RLTEF):

**Investment Objective :** The primary investment objective of the scheme is to seek to generate long term capital appreciation & provide long-term growth

### Performance :

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RLTEF	26.624	5.82%	31.23%	52.16%	78.99%	19.18%	19.26%	13.79%

Reliance Mutual Fund ('RMF'/ 'Mutual Fund') is one of India's leading Mutual Funds, with Average Assets Under Management (AAUM) of Rs. 1,03,542 Crores (Jan to Mar '14 Quarter) and 55.08 Lakh folios. (31st Mar 14)

### PRODUCTS UNDER STUDY

The following ten reliance funds were selected for the purpose of evaluation

#### 1. RELIANCE SMALL CAP FUND (RSCF)

**Investment Objective :** The primary investment objective of the scheme is to generate long term capital appreciation by investing predominantly in equity and equity related instruments of small cap companies and the secondary objective is to generate consistent returns by investing in debt and money market securities.

opportunities by investing in a portfolio constituted of equity & equity related securities and Derivatives and the secondary objective is to generate consistent returns by investing in debt and money market securities.

**3. RELIANCE GROWTH FUND (RGF)**

**Investment Objective:** The primary investment objective of the scheme is to

achieve long term growth of capital by investing in equity and equity related securities through a research based investment approach.

**Performance :**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RGF	663.4041	2.34%	24.10%	36.71%	54.49%	13.32%	13.89%	24.99%

**4. RELIANCE VISION FUND (RVF):**

**Investment Objective:** The primary investment objective of the scheme is to achieve long term growth of capital by

investing in equity and equity related securities through a research based investment approach.

**Performance :**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RVF	373.8341	3.20%	24.39%	43.07%	57.01%	11.13%	12.58%	21.24%

**5. RELIANCE TOP 200 FUND (RT200)**

**Investment Objective:** The primary investment objective of the scheme is to seek to generate long term capital appreciation by investing in equity and equity related instruments of companies

whose market capitalization is within the range of highest & lowest market capitalization of S&P BSE 200 Index. The secondary objective is to generate consistent returns by investing in debt and money market securities.

**Performance:**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RT200	20.1361	3.38%	21.22%	35.80%	52.42%	15.28%	14.19%	10.57%

**6. RELIANCE EQUITY OPPORTUNITIES FUND (REOF):**

**Investment Objective:** The primary investment objective of the scheme is to seek to generate capital appreciation & provide long term growth opportunities by

investing in a portfolio constituted of equity securities & equity related securities and the secondary objective is to generate consistent returns by investing in debt and money market securities.

**Performance :**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
REOF	61.5267	3.33%	21.47%	35.26%	56.81%	17.97%	23.49%	21.52%

**7. RELIANCE BANKING FUND (RBF)**

**Investment Objective:** The primary investment objective of the scheme is to seek to generate continuous returns by

actively investing in equity and equity related securities of companies in the Banking Sector and companies engaged in allied activities related to Banking Sector.

**Performance:**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RBF	150.8796	1.31%	23.23%	45.78%	51.86%	12.60%	19.53%	27.50%

**8. RELIANCE DIVERSIFIED POWER SECTOR FUND (RDPSF)**

**Investment Objective:** The primary investment objective of the scheme is to

generate long term capital appreciation by investing predominantly in equity and equity related securities of companies in the power sector.

**Performance :**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RDPSF	76.1288	0.86%	33.32%	61.23%	74.06%	3.46%	2.80%	21.98%

**9. RELIANCE PHARMA FUND (RPF)**

**Investment Objective :** The primary investment objective of the scheme is to seek to generate consistent returns by

investing in equity and equity related or fixed income securities of Pharma and other associated companies.

**Performance :**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
RPF	98.9552	6.83%	10.95%	17.34%	36.67%	18.74%	29.11%	25.36%

**10. RELIANCE TAX SAVER (ELSS) FUND**

**Investment Objective:** The primary objective of the scheme is to generate long

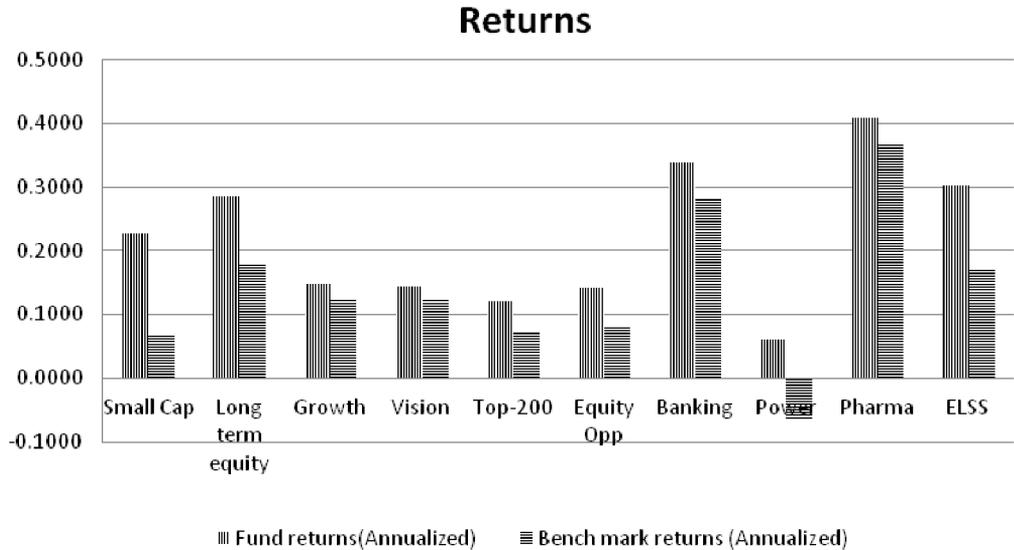
term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.

**Performance**

Schemes	NAV (24-Jul-14)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
ELSS	38.4882	4.59%	32.65%	59.35%	81.39%	20.96%	20.77%	16.53%

## ANALYSIS

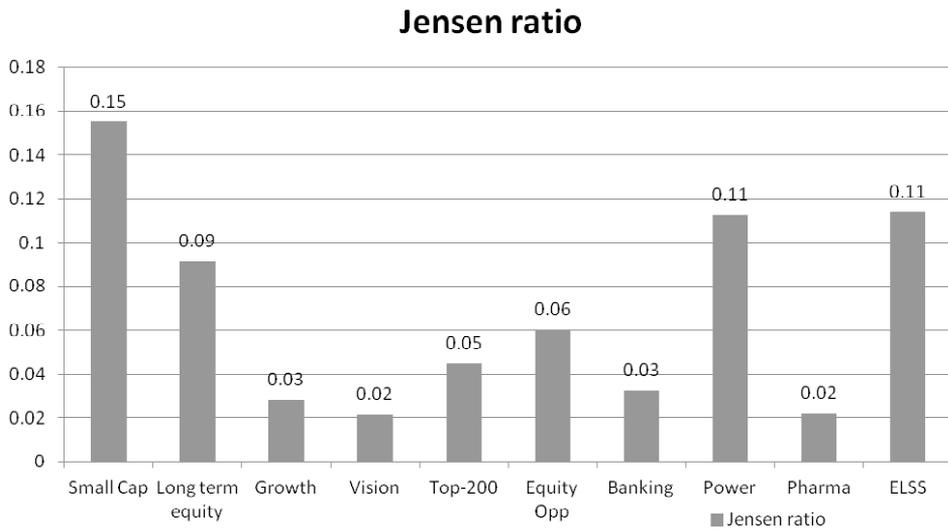
FIGURE -1



It is clear from the figure 1, that all 10 sample mutual fund schemes had outperformed the benchmark return. It shows competency of these schemes to make out

a strong case for investment. The maximum return was from Reliance Pharma Fund and minimum return was from Reliance diversified Power Sector Fund.

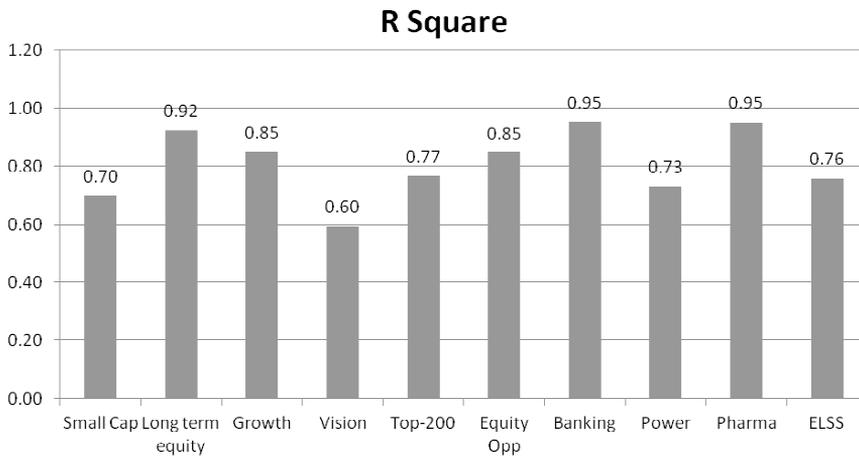
FIGURE - 2



Results of Jensen measure revealed that all the 10 schemes were showed positive alpha which indicated superior performance of the schemes over their benchmarks. The highest value of Alpha is of Reliance Small Cap fund which is

0.15. On the other hand, the lowest value of Alpha is of Reliance Vision fund which is 0.02. It means that Reliance small cap fund has been outperforming against its benchmark and Reliance vision fund is also outperforming its benchmark but relatively less to its contenders.

**FIGURE – 3**



The highest value of R-Square is of Reliance Pharma fund as well as Reliance Banking Funds which is 0.95. It shows that this fund is closely correlated with its respective benchmark. The lowest value

is of Reliance vision fund which has a 0.60 value of R-square, which indicates that this fund performance is relatively less correlated with that of its benchmark.

**FIGURE - 4**

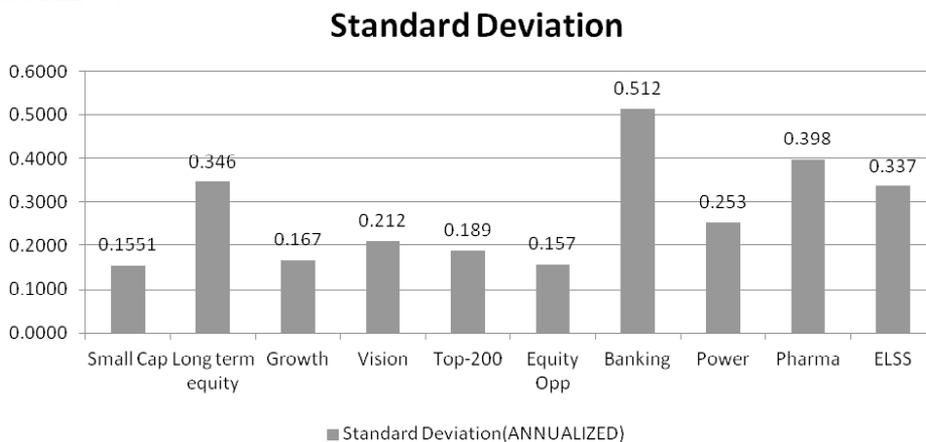
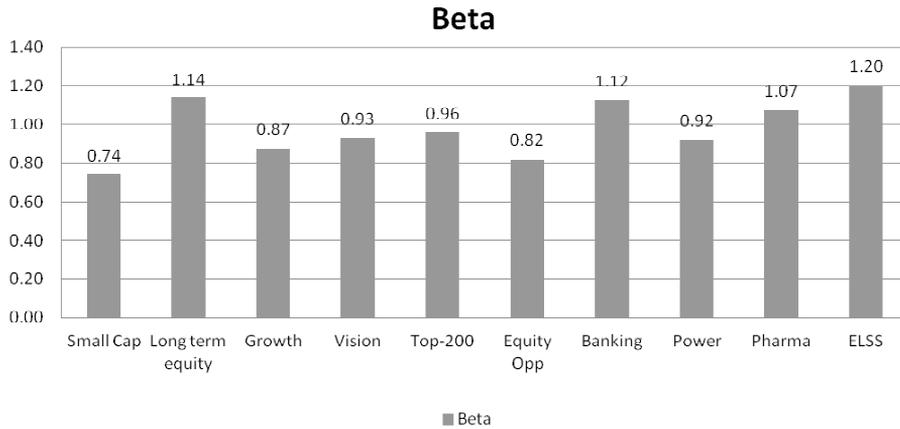


Figure-4 shows the highest value of standard deviation is of Reliance Banking fund which is 0.512 where as the lowest value is of Reliance Small Cap fund which is 0.1551. This means that the most volatile

fund amongst them is Reliance Banking Fund, i. e. it has the highest amount of risk associated with it. On the other hand the Reliance small cap fund has least amount of risk involved.

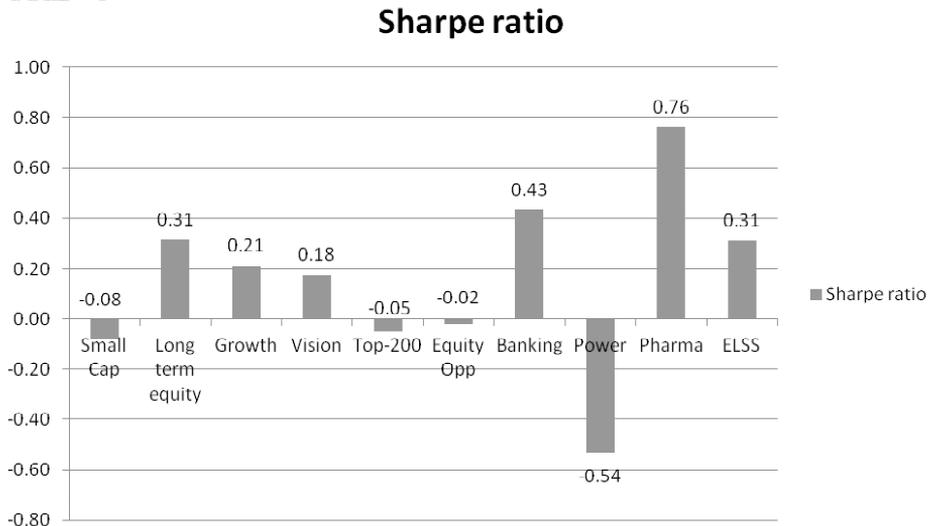
**FIGURE - 5**



From the Beta calculation it is observed from the figure- 5 that out of 10 schemes, only 4 schemes have registered a Beta value of greater than one indicating that they are more risk

category. The remaining 6 schemes have registered Beta of less than one which indicates that they are of low risk category. Lowest risk is for small cap and highest risk is for ELSS fund.

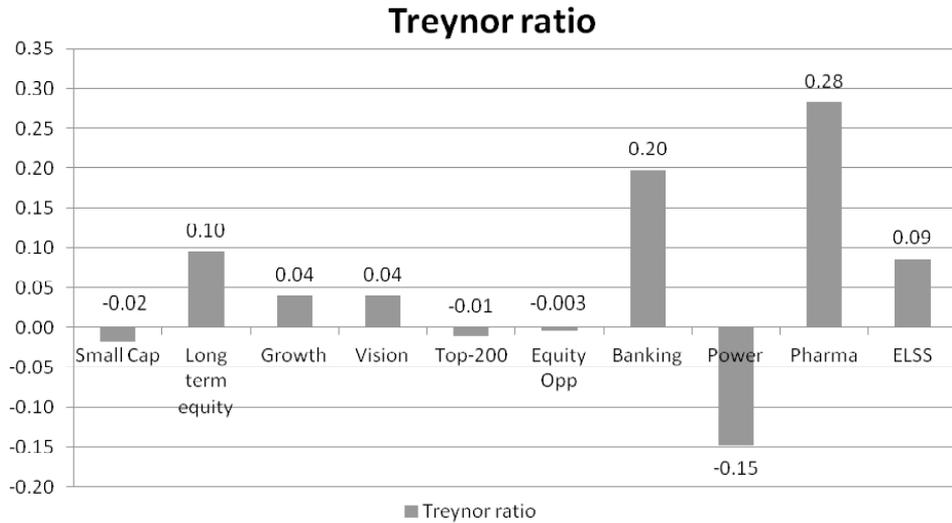
**FIGURE - 6**



The highest value of Sharpe Ratio is of Reliance Pharma fund which is 0.76 whereas the lowest value is of Reliance Diversified Power Sector fund which is (-) 0.54. High value of Sharpe indicates

that the fund is performing well in respect to the risk associated with it. On the other hand the lowest amount of Sharpe Ratio shows that the fund is not performing well in response to the risk involved herein.

**FIGURE - 7**



The highest value of Treynor is of Reliance Pharma fund which is 0.28 whereas the lowest value is of Reliance Diversified Power Sector fund which is (-) 0.15. High value of Treynor indicates

that the fund’s performance in accordance to systematic risk is high. On the other hand the lowest values can be interpreted that the fund’s performance is low when calculated in respect of systematic risk.

**5. FINDINGS AND CONCLUSION**

Selected Reliance Mutual Funds Ranking Table (2009 to 2014)								
Sl. No.	Fund	Returns from Inception	JENSEN ALPHA	R-SQUARE	SD	BETA	SHARPE	TREYNOR
1	RSCF	7	1	7	1	10	8	8
2	RLTEF	9	3	2	8	2	3	3
3	RGF	3	6	3	3	8	4	5
4	RVF	6	7	8	5	6	5	5
5	RT200	10	5	4	4	5	7	7
6	REOF	5	4	3	2	9	6	6
7	RBF	1	6	1	10	3	2	2
8	RDPSF	4	2	6	6	7	9	9
9	RPF	2	7	1	9	4	1	1
10	ELSS	8	2	5	7	1	3	4

1. Investors who wish to take a higher risk for higher returns can choose Reliance Banking Fund
2. If the Investors is with a moderate risk profile and interested in normal / near to bench market returns can choose Reliance Small Cap Funds
3. Similarly if the Investor is with a low risk profile and ready to accept normal returns can opt for Tax saver ELSs

From the study, it can be concluded that all the selected 10 reliance funds are performing above the selected bench mark return and managed by the fund satisfactorily. There are funds suitable for every type of an investor and can choose the fund basing on the investors choice like risk , returns etc.

There are multiple researches on mutual fund related areas and this is not the end of it. There is scope for future research on the same topic, with a different combinations, periods etc.

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