

# A STUDY OF IMPACT ON BOND MUTUAL FUNDS DUE TO NATIONAL POLITICAL EVENT

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## ABSTRACT

The study is designed to find the alliance between the two factors; Mutual fund and a National Political Event held on 26th May 2014 when Mr Narendra Modi took oath as India's 15<sup>th</sup> Prime Minister on May 26<sup>th</sup>, 2014. BJP won maximum seats after the General Elections ended, and Mr Narendra Modi was unanimously elected as the new Indian PM. The fight, which Modi and BJP carried through the first half of 2014, and the way they managed to clean sweep the seats in Parliament was definitely one of the most talked about news event in 2014. The paper explains the concept of Mutual fund and the importance of their existence according to SEBI. Covering Importance of saving in the form of mutual funds, which benefits to small investors, who cannot easily invest in the capital market in reference to Organization Structure of Mutual Funds of Public Sector Banks and Mutual fund Companies. The Research lays platform to explore if there would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event or NOT. Using various tools for the secondary data obtained by Mutual fund fact sheets and Mutual funds magazines which is carried out to help Investors in taking decision where and what to invest in and formulate their strategies to make the best use of their savings in Mutual funds.

**Keywords Mutual Fund Companies, Mutual Funds, Public Sector Banks Mutual Funds.**

## I. INTRODUCTION

A mutual fund is an investment company or trust that pools the resources from thousands of its shareholders or unit holders who share the common investment goal and then diversifies its investments into different types of securities in order to provide potential returns and reasonable safety. In the period of globalization rapid price fluctuations are occurring for the assets like equity shares, bonds, real estate, derivatives, etc., Secondly, an individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions, etc. In this context, a mutual fund is the solution to all these situations. Mutual funds will help the small and medium size investors to participate in today's complex and modern financial state. Investors can take part in the mutual fund by buying the units of the fund. The income received through these investments and the capital appreciation realized by the schemes is shared by its unit holders in proportion to the number of units owned by them. Mutual funds play a vital role in mobilizing of resources and their useful allocation. These funds play a significant role in financial inter-mediation, growth of capital markets and development of the

financial sector as a whole. The active participation of mutual funds in economic development can be seen by their dominant presence in the money and capital market.

**Organization Structure of Mutual Fund Company:** The mutual funds can be organized in two ways. One, the Trust structure and the other, the Company structure. In each these structures, there is an entity, that undertakes the designing and selling of schemes, raises cash from the general public under the schemes and manages the money on behalf of its owners. This entity is that the fund manager or an Asset Management Company (AMC) to segregate the collected funds from this entity's own funds, the corpus is situated in a legal vehicle. It is the nature of this legal vehicle that determines the character of the Fund itself.

### **Organization Structure of Indian Mutual Funds**

There are four constituents of a mutual fund in India

1. The Sponsor
2. The Board of Trustees or Trustee Company
3. The Asset Management Company
4. The Custodian

The sponsor is the Settler of the Trust, which holds Trust property on behalf of investors who are the beneficiaries of the Trust. The sponsor is additionally needed to contribute at least 40% of the capital of the asset management company, which is to make for managing the assets of the trust. The assets of the Trust comprise of the properties of the schemes, which are floated by the asset management company with the approval of the Trustees. Schemes may have different uniqueness - they may be open, closed ended, or may have a particular investment focus or portfolio structure. Finally, the safe custody of assets of the Trust is entrusted to one or more additional custodians.

**Organization Structure of Mutual Funds of Public Sector Banks :** When the public sector banks were allowed to set up mutual funds, the first mutual fund was set up by the State Bank of India in 1987 prior to the establishment of SEBI. State Bank of India preferred to take the Trust route and fix up the mutual fund as a Trust under the Indian Trust Act 1882. Other mutual funds followed suit and thus Trusts set up under the Indian Trusts Act came to be the adopted legal form of mutual funds in India. The author or Settler of the Trust came to be Principal Trustee and functioned as the fund manager. These mutual funds combined the role of Trustee, fund manager and custodian in the sponsoring bank. Other mutual funds that were set up later adopted the same pattern and thus, over time, Trusts set up under the Indian Trusts Act became the accepted legal form for establishment of Mutual Funds in India. The author or Settler of the Trust became the principal Trustee and functioned as the fund manager. With the establishment of SEBI under the SEBI Act, 1992, mutual funds other than the UTI, were for the first time brought under the regulatory purview of SEBI. SEBI, while framing the Mutual Fund Regulations, gave plenty of thoughts to two major factors, one, that mutual funds collect large amounts of money from the public for investment in a dynamic market place which require specialization on the part of persons performing these functions. Secondly, there could arise potential conflicts of interest, which were to be avoided by ensuring the arm's length relationship between various functionaries

### **Literature Review**

The capital asset pricing model has been used to compare risk-adjusted returns of funds with that of a benchmark market portfolio. Hence, savings are the important part of life & due care should be taken whenever

we are thinking of investment. Therefore, proper analysis should be done whenever a person is investing in a market. (1).

It is further emphasized that the proper evaluation of various essential factors, that puts impact on the operation of mutual fund industry, should be done. Mutual fund analysis has become a thrust area of research for various researchers and academicians. Many researchers have contributed towards exploration of this area of research. Still, many questions arise in the mind of an analyst or researcher as to why do different mutual funds under the same asset management company has varying NAV? (2)

The focus should be on proper evaluation techniques for evaluating various schemes to obtain the best possible return with less risk. Only through full and complete evaluation techniques can unit holders feel confident that the mutual fund in which they have invested their hard-earned money is being operated with their best interests in mind. (3)

The investment performance of India's first seven years closed equity mutual fund master share reveals the same impact with reference to the evaluation of performance of mutual fund industry in India. There are significant changes in the economic environment, political environment, rapid technological innovation, changes in the business economics of audit firms and financial analysts, and the globalization of capital markets. These changes have the potential to alter the performance of mutual fund, creating new opportunities for research (4)

Financial performance of five close-ended growth funds for the period February 1991 to August 1993 concluded that the performance was below average. Day by day the concept of investment in mutual fund and its performance are also changing. Now, emphasis is laid on the qualitative aspect of event base performance of mutual fund, which is relevant to capital market volatility and mutual fund asset under management. (5)

The performance of two schemes during the period, June 1992 to March 1994 in terms of returns/benchmark comparison, diversification, selection and market timing skills. Researcher founded that the schemes failed to perform better than the market portfolio. Event wise performance analysis allows a mutual fund to demonstrate how it meets the challenge of sustainability and to show the improvement it has made on specific events. (6).

The mutual fund industry performed well during the period 1992-1996. The performance was evaluated in terms of benchmark comparison, performance from one period to the next and their risk-return characteristics. (7).

Various studies had been conducted on the performance evaluation of different mutual fund schemes in India. (8, 9, 10, 11, 12, 13, 14)

The above studies have pinpointed on the performance of the mutual funds in a very general way. Till date, no study has been seen in the event wise evaluation and performance of mutual fund in relation to Asset under Management and NAV.

**Research Design & Methodology** This research will aim on the evaluation of growth and performance of mutual funds through evaluating Net Asset Value.

**Hypothesis: H<sub>0</sub>**-There would be no significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event

**H<sub>1</sub>**-There would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the event.

**Research Problem** The general intend of this study is to investigate the effect of an event that interns influences the Mutual Fund.

**Approaches** The study is based on the empirical investigation on the performance of Mutual Fund schemes as the research is data based and the researcher will investigate on the pre-defined hypothesis and thereafter will draw conclusion and predictions. Data for such analyses will be collected through Mutual Fund Fact sheets and magazines related to Mutual Funds (Mutual Fund Insight). Further, the data will be analysed and evaluated through tools mentioned in Research Methodology.

**Type of Research** The study is based on the empirical investigation on the performance of Mutual Fund schemes.

**Types of data:** - As per the purpose and scope of evaluation, availability of time and statistical tools required the type of data selected for the research is Secondary type

**Source List:-** The data are collected based on secondary sources. It includes the mutual fund fact sheets and magazine the —Mutual Fund Insight. In addition to these, others journals, magazines, articles, books and the published and unpublished documents related to the mutual funds is considered in the research.

**Significance of Research:-** Mutual funds offer tailor-made solutions like systematic investment plans and systematic withdrawal plans to investors, which is very convenient for investors. Investors also do not have to worry about investment decisions; they do not have to deal with brokerage or depository, etc. for buying or selling of securities. Mutual funds also offer specialized schemes like retirement plans, children’s plans, industry specific schemes, etc. to suit personal preference of investors. These schemes also help small investors with an asset allocation of their corpus. This study tries to shed some light on how economic factors contribute to the Mutual Fund NAV dynamics in national markets. We propose the hypothesis. There would be a significant difference between average performance of various five star mutual funds NAV before and after the occurrence of the economic national event.

### Schemes to be selected for analysis

- 1) ICICI Prudential Income Opportunities Fund – Growth
- 2) HDFC Income Fund-Growth Option
- 3) DSPBR Government Securities Fund - Regular – Growth
- 4) Baroda Pioneer Income Fund - Plan A Growth

### Analysis of the MF Schemes through SPSS

#### 1) ICICI Prudential Income Opportunities Fund - Direct Plan – Growth

T-TEST PAIRS= icicibeforeevent WITH iciciafterevent (PAIRED) /CRITERIA=CI(.9500)  
/MISSING=ANALYSIS.

#### T-Test

#### Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 icicibeforeevent	17.2056	18	.07130	.01681

**Paired Samples Statistics**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	icicibeforeevent	17.2056	18	.07130	.01681
	iciciafterevent	17.5570	18	.11217	.02644

**Paired Samples Correlations**

		N	Correlation	Sig.
Pair 1	icicibeforeevent & iciciafterevent	18	-.825	.000

**Paired Samples Test**

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	icicibeforeevent - iciciafterevent	-.35145	.17567	.04141

**Paired Samples Test**

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	icicibeforeevent - iciciafterevent	-.43881	-.26409

**Paired Samples Test**

		t	df	Sig. (2-tailed)
Pair 1	icicibeforeevent - iciciafterevent	-8.488	17	.000

**2) HDFC Income Fund-Growth Option**

T-TEST PAIRS=hdfcbeforeevent WITH hdfcafterevent (PAIRED) /CRITERIA=CI(.9500) /MISSING=ANALYSIS.

**T-Test**

**Paired Samples Statistics**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	hdfcbeforeevent	27.9277	18	.13485	.03178
	hdftafterevent	16.5000	18	5.33854	1.25831

**Paired Samples Correlations**

	N	Correlation	Sig.
Pair 1 hdfcbeforeevent & hdftafterevent	18	.922	.000

**Paired Samples Test**

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	hdfcbeforeevent - hdftafterevent	11.42771	5.21448	1.22906

**Paired Samples Test**

		Paired Differences	
		95% Confidence Interval of the Difference	
		Lower	Upper
Pair 1	hdfcbeforeevent - hdftafterevent	8.83461	14.02081

**Paired Samples Test**

		t	df	Sig. (2-tailed)
Pair 1	hdfcbeforeevent - hdftafterevent	9.298	17	.000

**3) DSPBR Government Securities Fund - Regular – Growth**

T-TEST PAIRS=dspbrbeforeevent WITH dspbrafterevent (PAIRED) /CRITERIA=CI(.9500)

/MISSING=ANALYSIS.

**T-Test**

**Paired Samples Statistics**

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 dspbrbeforeevent	39.1220	18	.20101	.04738
dspbrafterevent	39.9797	18	.22582	.05323

**Paired Samples Correlations**

	N	Correlation	Sig.
Pair 1 dspbrbeforeevent & dspbrafterevent	18	-.635	.005

**Paired Samples Test**

	Paired Differences		
	Mean	Std. Deviation	Std. Error Mean
Pair 1 dspbrbeforeevent - dspbrafterevent	-.85764	.38611	.09101

**Paired Samples Test**

	Paired Differences	
	95% Confidence Interval of the Difference	
	Lower	Upper
Pair 1 dspbrbeforeevent - dspbrafterevent	-1.04965	-.66564

**Paired Samples Test**

	t	df	Sig. (2-tailed)
	Pair 1 dspbrbeforeevent - dspbrafterevent	-9.424	17

**4) Baroda Pioneer Income Fund - Plan A Growth**

T-TEST PAIRS=bobbeforeevent WITH bobrafterevent (PAIRED) /CRITERIA=CI(.9500)

/MISSING=ANALYSIS.

T-Test

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 bobbeforeevent	19.3658	18	.09025	.02127
bobrafterevent	19.7978	18	.12469	.02939

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 bobbeforeevent & bobrafterevent	18	-.639	.004

Paired Samples Test

	Paired Differences		
	Mean	Std. Deviation	Std. Error Mean
Pair 1 bobbeforeevent - bobrafterevent	-.43207	.19513	.04599

Paired Samples Test

	Paired Differences	
	95% Confidence Interval of the Difference	
	Lower	Upper
Pair 1 bobbeforeevent - bobrafterevent	-.52910	-.33503

Paired Samples Test

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	t	df	Sig. (2-tailed)
Pair 1 bobbeforeevent - bobrafterevent	-9.394	17	.000

## Findings

In the table-1, the P value (.000) is less than the level of significance, so Null Hypothesis is rejected, an alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the political event.

In the table-2, the P value (.000) is less than the level of significance, so Null Hypothesis is rejected, an alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the political event.

In the table-3, the P value (.000) is less than the level of significance, so Null Hypothesis is rejected, an alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the political event.

In the table-4, the P value (.000) is less than the level of significance, so Null Hypothesis is rejected, an alternative hypothesis is accepted, and we can conclude that the impact on the NAV is affected by the political event.

## CONCLUSION

The study will definitely help the investors in deciding the various schemes of mutual funds with regard to investors and it will help in knowing the various important factors affecting the performance of mutual fund industry. Hence, the study shows a significant difference between average performance of the mutual fund NAV before and after occurring of the event.

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