toward realty fund. The wide variety of schemes offered by the Indian mutual fund industry provides several options of investment to common man. What is noteworthy is that bulk of the mobilization has been by the private sector mutual funds rather than bank sponsored mutual funds. The fund mobilization by mutual funds in the current year indicates that money is going to mutual funds in a big way.

End Note

1. Unit Trust of India (UTI) was established on 1963 by an Act of Parliament and given a monopoly under the Regulatory and administrative control of the RBI. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. Over the years, US-64 attracted the investors and was emerged the largest number of investors and investment corpus scheme. Until 1980 UTI's operations in the stock market often determined the direction of market movements. Now, many Indian and foreign and other institutional layers have been investing in the Indian stock market. At the end of this phase, amount mobilized was ₹ 2,175 and assets under management was ₹ 6,700.

   The year 1987 marked the entry of non-UTI, Public sector mutual fund, bringing in competition. With the opening up of the economy, many public sector banks and financial institutions were allowed to establish mutual funds. These mutual funds helped to enlarge the investor base and the investible funds. The end of 1993 marked ₹ 47,004 as assets under management out of which ₹ 38,247 crore were in UTI's portfolio. This accounts 81.36 percent to UTI's credit. During this period, investors were shifting away from bank deposits to mutual funds, as they started allocating larger part of their financial assets and saving to mutual fund investments. UTI was the largest segment of the industry.

   With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. The year 1993 was the year in which the first mutual fund regulations came into being, under which all mutual funds, (except UTI) were to be registered and governed. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised mutual fund Regulations in 1996. The industry then functions under the SEBI (Mutual Fund) Regulations, 1996. The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. The Unit Trust of India with ₹ 44,541 crore of assets under management was working in the mutual fund market.

Deregulation and liberalisation of the Indian economy has introduced competition and provided impetus to the growth of the mutual fund industry. Finally, most investors small or large have started shifting towards mutual funds as opposed to banks or direct market investments. More investor friendly regulatory measures have been taken both by SEBI to protect the investor and by the Government to enhance investor's growth through tax benefits. A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996. These regulations set uniform standards for all funds and will eventually be applied in full to Unit Trust of India, even though UTI is governed by its own UTI Act. In fact, UTI had been voluntarily adopting SEBI guidelines for most of its schemes. Similarly, the 1999 Union Budget took a big step in exempting all mutual fund dividends from income tax in the hands of investors. Both the 1996 regulations and 1999 Budget must be considered of historic importance, given their far-reaching impact on the fund industry and investors.

2

International and Indian Studies on Mutual Funds

2.1 Introduction

The review of earlier studies guides us in the methodologies to be used, estimation procedures and interpretation of results. The review of previous study helps to state the objectives clearly and concisely. By review of previous study we can avoid unfruitful effort. The review is made to assess the research ability and to find out the gap in the concerned research subject. The purpose of review of related previous study is as follows:

1. To study the background of research topic.
2. To identify appropriate methodology, research design, techniques of analysis related to research subject.
3. To identify useful data sources of other researcher.
4. To learn the gap and how other researcher structured the report.

There are few studies which seek to examine the management of UTI Mutual Fund. For identification, selection and formulation of research problem, encyclopaedia, text-books, and reference books, bibliography of doctoral dissertations published by association of Indian universities, research papers and thesis in the mutual fund discipline are reviewed. Purpose of review of previous study is to gain preliminary orientation, to know how the earlier research work has been done on the subject, and to become familiar with appropriate methodology and research technique useful for the proposed research subject. This chapter focuses on empirical literature to understand the need for regulation. The first subsection reviews the international studies. The second subsection examines the national studies. Following are some citation of previous study.

2.2 International Studies

Irwin, Brown, and F.E. (1965) analyzed issues relating to investment policy, portfolio turnover rate, performance of mutual funds and its impact on the stock markets. Their identification was that mutual funds had a significant impact on the price movement in the stock market. The study concludes that, on an average, funds did not perform better than the composite markets and there was no persistent relationship between portfolio turnover and fund performance.

Treynor (1965) used 'characteristic line' for relating expected rate of return of a fund to the rate of return of a suitable market average. He coined a fund performance measure taking investment risk into account. Further, to deal with a portfolio, 'portfolio-possibility line' was used to relate expected return to the portfolio owner's risk preference.

The most prominent study by Sharpe, William F. (1966) developed a composite measure of return and risk. He evaluated 34 open-end mutual funds for the period 1944-63. Reward to variability ratio for each scheme was significantly less than Dow John Industrial Average (DJIA) and ranged from 0.43 to 0.78. Expense ratio was inversely related with the fund performance, as correlation coefficient was 0.05. The results depicted that good performance was associated with low expense ratio and not with the size. Sample schemes showed consistency in risk measure.

Treynor and Mazuy (1966) evaluated the performance of 57 fund managers in terms of their market timing abilities and found that, fund managers had not successfully outguessed the market. The results suggested that, investors were completely dependent on fluctuations in the market. Improvement in the rates of return was due to the fund managers' ability to identify under-priced industries and companies. The study adopted Treynor's (1965) methodology for reviewing the performance of mutual funds.

Smith and Tito (1969) examined the inter-relationships between the three widely used composite measures of investment performance and suggested a fourth alternative, identifying some aspects of differentiation in the process. While ranking the funds on the basis of ex-post performance, alternative measures produced little differences. However, conclusions differed widely when performance were compared with the market. In view of this, they suggested modified Jensen's measure based on estimating equation and slope coefficient.

Friend, Blume and Crockett (1970) compared the performance of 86 funds with random portfolios. The study concluded that, mutual funds performed badly in terms of total risk. Funds with higher turnover outperformed the market. The size of the fund did not have any impact on their performance.

Carlson (1970) examined mutual funds emphasizing the effect of market series (S&P 500, NYSE composite, DJIA) during the period 1948-67. All fund groups outperformed DJIA but for a few which had gross returns better than that of S&P 500 or NYSE composite. Though there was consistency in risk and return, there was no consistency between risk-adjusted performance measures over the time period. Carlson's analysis of performance exposed relationship between cash inflows into funds and not with the size or expense ratio.

Arditti (1971) found that Sharpe's conclusion got altered when annual rate of return was introduced as a third dimension. He found that, contrary to Sharpe's findings the average fund performance could no longer be judged inferior to the performance of DJIA. Fund managers opted higher risk for better annual returns.

Williamson (1972) compared ranks of 180 funds between 1961-65 and 1966-70. There was no correlation between the rankings of the two periods. The investment abilities of most of the fund managers were identical. He highlighted the growing prominence of volatility in the measurement of investment risk.

Fama (1972) developed methods to distinguish observed return due to the ability to pick up the best securities at a given level of risk from that of predictions of price movements in the market. He introduced a multi-period model allowing evaluation on a period-by-period and on a cumulative basis. He branded that, return on a portfolio constitutes of return for security selection and return for bearing risk. His contributions combined the concepts from modern theories of portfolio selection and capital market equilibrium with more traditional concepts of good portfolio management.

Klemosky (1973) analysed investment performance of 40 funds based on quarterly returns during the period 1966-71. He acknowledged that, biases in Sharpe, Treynor, and Jensen's measures, could be removed by using mean absolute deviation and semi-standard deviation as risk measures compared to the composite measures derived from the CAPM.

McDonald and John (1974) examined 123 mutual funds and identified the existence of positive relationship between objectives and risk. The study identified the existence of positive relationship between return and risk. The relationship between objective and risk-adjusted performance indicated that, more aggressive funds experienced better results.

Gupta (1974) evaluated the performance of mutual fund industry for the period 1962-71 using Sharpe, Treynor, and Jensen models. All the funds covered under the study outperformed the market irrespective of the choice of market index. The results indicated that all the three models provided identical results. All the mutual fund subgroups outperformed the market using DJIA while income and balanced groups under performed S&P 500. Return per unit of risk varied with the level of volatility assumed and he concluded that, funds with higher volatility exhibited superior performance.

Meyer's (1977) findings based on stochastic dominance model revalidated Sharpe's findings with the caution that it was relevant for mutual funds in the designated past rather than for the future period.