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Study on Reliance Mutual Fund Vs UTI Mutual Fund

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Abstract – Investments in Mutual Funds are expected to grow at the rate of 15%-25% in India in the coming years. Keeping that in the background it is important to know and analyze if the investments have performed below, above or as per expectations. Thus good investment performance tools and techniques are extremely important. Investment Performance Measurement methods quantify how much return the investment has earned, how was it earned and what were the risks taken. Typically performance evaluation of mutual funds is conducted using Sharpe's Measure, Treynor's Measure and Jensen's Measure. Each of these measures has limitations in terms of classification, composition and survivorship bias. This results in inconsistent results. It is observed that the same manager who appears successful in one peer group provider's classes is unsuccessful against a comparable peer group supplied by another provider.

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INTRODUCTION

A mutual fund is a scheme in which several people invest their money for a common financial cause. The collected money invests in the capital market and the money, which they earned, is divided based on the number of units, which they hold.

The mutual fund industry started in India in a small way with the UTI Act creating what was effectively a small savings division within the RBI. Over a period of 25 years this grew fairly successfully and gave investors a good return, and therefore in 1989, as the next logical step, public sector banks and financial institutions were allowed to float mutual funds and their success emboldened the government to allow the private sector to foray into this area.

The most important trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players. Reliance Mutual Fund, UTI Mutual Fund,

ICICI Prudential Mutual Fund, HDFC Mutual Fund and Birla Sun Life Mutual Fund are the top five mutual fund company in India. Reliance mutual funding is considered to be most reliable mutual funds in India. People want to invest in this institution because they know that this institution will never dissatisfy the mat any cost. You should always keep this into your mind that if particular mutual funding scheme is on larger scale then next time, you might not get the same results so being a careful investor you should take your major step diligently otherwise you will be unable to obtain the high returns.

OBJECTIVE

- ✓ To give a brief idea about the benefits available from Mutual Fund investment.
- ✓ To give an idea of the types of schemes available.
- ✓ To study some of the mutual fund schemes.
- ✓ To study some mutual fund companies and their funds.
- ✓ Observe the fund management process of mutual funds.
- ✓ Explore the recent developments in the mutual funds in India.
- ✓ To give an idea about the regulations of mutual funds.

LIMITATIONS

- ✓ The lack of information sources for the analysis part.
- ✓ Though I tried to collect some primary data but they were too inadequate for the purposes of the study.

- ✓ Time and money are critical factors limiting this study.
- ✓ The data provided by the prospects may not be 100% correct as they too have their limitations
- ✓ The study is limited to selected mutual fund schemes.

RELIANCE MUTUAL FUND Vs UTI MUTUAL FUND

RELIANCE MUTUAL FUND

Reliance Mutual Fund (RMF) was established as trust under Indian Trusts Act, 1882. The sponsor of RMF is Reliance Capital Limited and Reliance Capital Trustee Co. Limited is the Trustee. It was registered on June 30, 1995 as Reliance Capital Mutual Fund which was changed on March 11, 2004. Reliance Mutual Fund was formed for launching of various schemes under which units are issued to the Public with a view to contribute to the capital market and to provide investors the opportunities to make investments in diversified securities.RMF is one of India's leading Mutual Funds, with Average Assets Under Management(AAUM) of Rs. 88,388 Cr (AAUM for 30th Apr 09) and an investor base of over 71.53 Lac. Reliance Mutual Fund, a part of the Reliance - Anil Dhirubhai Ambani Group, is one of the fastest growing mutual funds in the country. RMF offers investors a well-rounded portfolio of products to meet varying investor requirements and has presence in 118 cities across the country. Reliance Mutual Fund constantly endeavors to launch innovative products and customer service initiatives to increase value to investors. "Reliance Mutual Fund schemes are managed by Reliance Capital Asset Management Limited, a subsidiary of Reliance Capital Limited, which holds 93.37% of the paid-up capital of RCAM, the balance paid up capital being held by minority shareholders."

The Main Objectives Of The Trust:

- ✓ To carry on the activity of a Mutual Fund as may be permitted at law and formulate and devise various collective Schemes of savings and investments for people in India and abroad and also ensure liquidity of investments for the Unit holders;
- ✓ To deploy Funds thus raised so as to help the Unit holders earn reasonable returns on their savings and
- ✓ To take such steps as may be necessary from time to time to realize the effects without any limitation.

SCHEMES

A). EQUITY / GROWTH SCHEMES:

The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

Reliance Infrastructure Fund (Open-Ended Equity):

The primary investment objective of the scheme is to generate long term capital appreciation by investing predominantly in equity and equity related instruments of companies engaged in infrastructure (Airports, Construction, Telecommunication, Transportation) and infrastructure related sectors and which are incorporated or have their area of primary activity, in India and the secondary objective is to generate consistent returns by investing in debt and money market securities.

Investment Strategy:

The investment focus would be guided by the growth potential and other economic factors of the country. The Fund aims to maximize long-term total return by investing inequity and equity-related securities which have their area of primary activity in India.

B). DEBT / INCOME SCHEMES:

The aim of income funds is to provide regular and steady income to investors. Suchschemes generally invest in fixed income securi ties such as bonds, corporate debentures,Governme nt securities and money market instruments. Such funds are less risky compared toequity schemes. These funds are not affected beca use of fluctuations in equity markets.However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

1. Reliance Monthly Income Plan :

(An Open Ended Fund, Monthly Income is not assured & is subject to the availability of distributable surplus) The Primary investment objective of the Scheme is to generate regular income in order to make regular dividend payments to unit holders and the secondary objective is growth of capital.

2. Reliance Gilt Securities Fund-Short Term Gilt Plan & Long Term Gilt Plan :

(Open-ended Government Securities Scheme) The primary objective of the Scheme isto generate optimal credit risk-free returns by investing in a portfolio of securities issued and guaranteed by the central Government and State Government.

3. Reliance Income Fund :

(An Open-ended Income Scheme) The primary objective of the scheme is to generate optimal returns consistent with moderate levels of risk. This income may be complemented by capital appreciation of the portfolio. Accordingly, investments shall predominantly be made in Debt & Money market Instruments.

4. Reliance Medium Term Fund :

(An Open End Income Scheme with no assured returns) The primary investment objective of the Scheme is to generate regular income in order to make regular dividend payments to unit holders and the secondary objective is growth of capital.

5. Reliance Short Term Fund :

(An Open End Income Scheme) The primary investment objective of the scheme is to generate stable returns for investors with a short investment horizon by investing in Fixed Income Securities of short term maturity.

UNIT TRUST OF INDIA MUTUAL FUND

Unit Trust of India

UTI was created by the UTI Act passed by the Parliament in 1963. For more than two decades it remained the sole vehicle for investment in the capital market by the Indian citizens. In mid- 1980s public sector banks were allowed to open mutual funds. The real vibrancy and competition in the MF industry came with the setting up of the Regulator SEBI and its laying down the MF Regulations in 1993.UTI maintained its pre-eminent place till 2001,when a massive decline in the market indices and negative investor sentiments after Ketan Parekh scam created doubts about the capacity of UTI to meet its obligations to the investors.

In order to distance Government from running a mutua l fund the ownership wastransferred to four institutions; namely SBI, LIC, BOB and PNB, each owning 25%. UTI lost its market dominance rapidly and by end of 2005, when the new share-holders actually paid the consideration money to Government its market share had come down to close to 10%.A new board was constituted and a new management inducted. Systematic study of its problems role and functions was carried out with the help of a reputed international consultant. Once again UTI has emerged as a serious player in the industry. Some of the funds have won famous awards, including the Best Infra Fund globally from Lipper. UTI has been able to benchmark its employee compensation to the best in the market. Besides running domestic MF Schemes UTI AMC is also a registered portfolio manager under the SEBI (Portfolio Managers) Regulations.

This company runs two successful funds with large international investors being active participants. UTI has also launched a Private Equity Infrastructure Fund along with HSH Nord Bank of Germany and Shinsei Bank of Japan.

Sponsor:

- ✓ State Bank of India
- ✓ Bank of Baroda
- ✓ Punjab National Bank
- ✓ Life Insurance Corporation of India

SCHEMES

1. EQUITY FUND1.UTI Energy Fund (Open Ended Fund):

Investment will be made in stocks of those companies engaged in the following are:

a) Petro sector - oil and gas products & processing.

b) All types of Power generation companies.

c) Companies related to storage of energy.

d) Companies manufacturing energy development equipment related (like petro and power).

e) Consultancy & Finance Companies.

2. UTI Transportation And Logistics Fund (Auto Sector Fund) (Open Ended Fund):

Investment Objective is “capital appreciation” through investments in stocks of the companies engaged in the transportation and logistics sector. At least 90% of the funds will be invested in equity and equity related instruments. At least 80% of the funds will be invested in equity and equity related instruments of the companies principally engaged in providing transportation services, companies principally engaged in the design, manufacture, distribution, or sale of transportation equipment and companies in the logistics sector. Upto10% of the funds will be invested in cash/money market instruments.

3. UTI Banking Sector Fund (Open Ended Fund):

An open-ended equity fund with the objective to provide capital appreciation through investments in the stocks of the companies/institutions engaged in the banking and financial services activities.

4. UTI Infrastructure Fund (Open Ended Fund):

An open-ended equity fund with the objective to provide Capital appreciation through investing in the stocks of the companies engaged in the sectors like Metals, Building materials, oil and gas, power, chemicals, engineering etc. The fund will invest in the stocks of the companies which form part of Infrastructure Industries.

5. UTI Equity Tax Savings Plan (Open Ended Fund):

An open-ended equity fund investing a minimum of 80% in equity and equity related instruments. It aims at enabling members to avail tax rebate under Section 80C of the IT Act and provide them with the benefits of growth.

6. UTI Growth Sector Fund – Pharma (Open Ended Fund):

An open-ended fund which exclusively invests in the equities of the Pharma & Healthcare sector companies. This fund is one of the growth sector funds aiming to invest in companies engaged in business of manufacturing and marketing of bulk drug, formulations and healthcare products and services.

7. UTI Growth Sector Fund – Services (Open Ended Fund):

An open-ended fund which invests in the equities of the Services Sector companies of the country. One of the growth sector funds aiming to provide growth of capital over a period of time as well as to make income distribution by investing the funds in stocks of companies engaged in service sector such as banking, finance, insurance, education, training, telecom, travel, entertainment, hotels, etc.

8. UTI Growth Sector Fund – Software (Open Ended Fund):

An open-ended fund which invests exclusively in the equities of the Software Sector companies. One of the growth sectors funds aiming to invest in equity shares of companies belonging to information technology sector to provide returns to investors through capital growth as well as through regular income distribution.

9. UTI Master Equity Plan Unit Scheme (Close Ended Fund):

The scheme primarily aims at securing for the investors capital app recitation by investing the funds of the scheme in equity shares of companies with good growth prospects.

OPEN ENDED FUNDS:

1. UTI Master Plus Unit Scheme (Open Ended Fund):

An open-ended equity fund with an objective of long-term capital appreciation through investments in equities and equity related instruments, convertible debentures, derivatives in India and also in overseas markets.

2. UTI Balanced Fund (Open Ended Fund):

An open-ended balanced fund investing between 40% to 75% in equity/equity related securities and the balance in debt (fixed income securities) with a view to generate regular income together with capital appreciation

3. UTI Retirement Benefit Pension Fund (Open Ended Fund):

The objective of the scheme is to provide pension to investors particularly self-employed persons after they attain the age of 58 years, in the form of periodical cash flow up to the extent of repurchase value of their holding through a systematic withdrawal plan.

4. UTI Unit Link Insurance Plan (Open Ended Fund):

To provide return through growth in the NAV or through dividend distribution and reinvestment thereof.

5. UTI CCP (Children Career Plan) Advantage Fund (Open Ended Fund):

An open ended balanced fund with 70-100% investment in Equity. Investment can be made in the name of the children up to the age of 15 years so as to provide them, after the yattain the age of 18 years, a means to receive scholarship to meet the cost of higher education/ or help them in setting up a profession, practice or business or enabling them to set up a home or finance, the cost of other social obligations.

LIQUID FUND (DEBT FUND)

1. UTI Liquid Cash Plan (Open Ended Fund):

The scheme seeks to generate steady & reasonable income with low risk & high level of liquidity from a portfolio of money market securities & high quality debt.

2. UTI Money Market Fund (Open Ended Fund):

An open-ended pure debt liquid plan seeking to provide highest possible current income by investing in a diversified portfolio of short-term money market securities.

LITERATURE REVIEW

William Sharpe [1964] suggested the Sharpe's Measure for measuring portfolio performance, which is basically a reward to risk ratio. Reward is equal to the excess return over and above the risk free rate and risk is the standard deviation of return.

Treynor[1966] proposed the Treynor's Measure, which is basically a reward to risk ratio. Reward is equal to the excess return over and above the risk free rate and risk is the Beta measure, which is a relative measure of risk.

Chen, Roll & Ross [1986] have conducted study related to macro-economic factors that affect portfolio performance. They considered various factors like industrial production, Crude Oil Prices, Inflation, Term Structure and market indices in a multi factor model. They found several variables to be significant in explaining expected stock returns notably industrial production and changes in risk premium of assets.

Jayadev. M, [1996] have conducted studies on a few funds which indicated that the growth funds studied did not outperform the benchmark market. Conventional measures were used for this study. However the sample size chosen was too small.

Madhumathi R & Panwar, conducted a study on a sample of private sector and public sector funds. It concluded that in terms of mean returns percentage no significant difference was found between private sector and public sector funds. However, in terms of standard deviation and average coefficient of variation there is a significant difference. Data used was 2002-2005.

CONCLUSION

Mutual Funds now represent perhaps most appropriate investment opportunity for most investors. As financial markets become more sophisticated and complex, investors need a financial intermediary who provides the required knowledge and professional expertise on successful investing. As the investor always try to maximize the returns and minimize the risk. Mutual fund satisfies these requirements by providing attractive returns with affordable risks. The fund industry has already overtaken the banking industry, more funds being under mutual fund management than deposited with banks. With the emergence of tough competition in this sector mutual funds are launching a variety of schemes which caters to the requirement of the particular class of investors. Risk takers for getting capital appreciation should invest in growth, equity schemes. Investors who are in need of regular income should invest in income plans. The stock market has been rising for over three years now. This in turn has not only protected the money invested in funds but has also to helped grow these investments. This has also instilled greater confidence among fund investors who are investing moreinto the market through the MF route than ever before. Reliance India mutual funds provide major benefits to a common man who wants to make his life better than previous. India's largest mutual fund, UTI, still controls nearly 80 per cent of the market. Also, the mutual fund industry as a whole gets less than 2 per cent of household savings against the 46 per cent that go into bank deposits. Some fund managers say this only indicates the sector's potential. "If mutual funds succeed in chipping away at bank deposits, even a triple digit growth is possible over the next few years.

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