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Performance Evaluation of Equity Mutual Funds : A Data Envelopment Analysis Approach

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Abstract

Mutual Funds are the financial institutions which play a crucial role in mobilizing savings and investing them in the capital market. This study attempts to indentify the efficiency of the selected mutual fund schemes within growth and income schemes and for all selected mutual fund schemes. The DEA technique helps to identify the efficient unit in a given set of identical or homogenous business units. It compares the observed outputs and inputs, identifies the relatively best practice units to define the efficient frontier and then measure the degree of inefficiency of the other units relative to the efficient frontier. The researcher has used different attributes of mutual funds viz., total Risk and Expenses ratio as input and Asset Under Management and 10 year mean annual return as output variables. From this analysis, 54% of growth schemes are found efficient, 58% of Dividend schemes are found efficient. As a whole only 32% of the schemes are found efficient.

I. Introduction

MUTUAL FUNDS ARE the financial institutions which play a crucial role in mobilizing savings and investing them in the capital market. Thus they establish a link between savings and the capital market. They sell units to the public and invest the proceeds in a large number of market securities. They are expected to reduce risk through diversification and provide the ordinary investors with expert selection and professional monitoring of investment backed by excellent customer service. In general, mutual funds turn to be an important investment vehicle of risk-averse investors who want to reap the benefits of buoyant stock markets, but do not have enough time and resources to enter in to the capital market.

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acquiring a particular set of inputs, called the virtual input set or target values. The virtual inputs or target values for all the (17) inefficient mutual fund schemes have been depicted in Table IV.2.

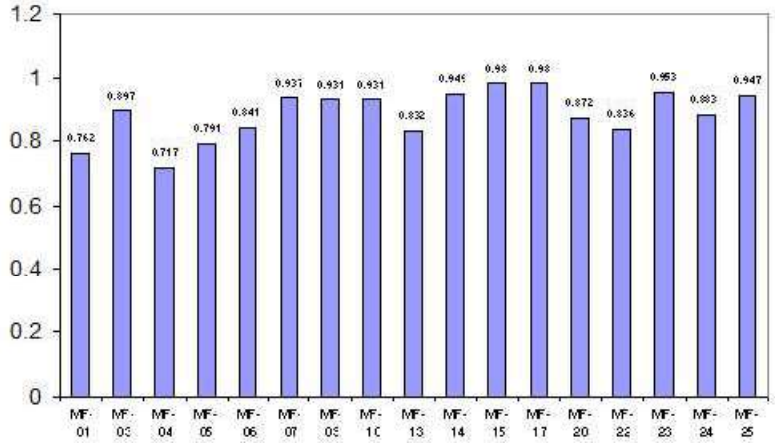

Figure 3.1

XI. Conclusion

From the DEA analysis, the researcher has found the efficiency levels for different DEA RUN'S applied. From this analysis, it is clear that when growth schemes are evaluated, 54 per cent of the growth schemes is found efficient. 58 per cent of the Dividend schemes are efficient when the dividend option schemes are compared. As a whole when the total schemes are evaluated, only 32 per cent of the schemes are found efficient. Therefore, the null hypothesis, H_{01} that the select mutual fund schemes do not perform efficiently has been rejected partially.

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