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## **Review And Performance Of Select Mutual Funds Operated By Private Sector Banks: Axis Equity And Kotak 50 Funds – Growth Option**

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***Abstract:***

*The two mutual funds (i) Axis Equity (G) and (ii) Kotak 50 (G) are reviewed in detail with a brief introduction of the fund houses itself. The funds are then statistically evaluated by correlation with the benchmark, S&P CNX Nifty, standard deviation, Sharpe's Index, Treynor's Ratio, Jensen's alpha, Fama's Measure and  $M^2$ .*

***Keywords:*** *Review & Performance Evaluation, Axis Equity and Kotak 50 Mutual Funds.*

**1.Introduction**

The mutual funds organized by Axis bank, Axis Equity (G) and Kotak Mahindra, Kotak FMP - Series 50 (24 Months) – Growth are considered for review and statistical analysis since inception. A study of the available work relating to the statistical analysis of mutual funds indicate that the fund groups have not been explored so far.

Axis Mutual Fund was set up on September 4, 2009 and sponsored by Axis Bank Limited. Assets of Axis Mutual Fund are managed by Axis Asset Management Company Limited which January 13, 2009. Formerly known as UTI Bank, Axis Bank is one of the largest private banks of India and Axis AMC is a 100% subsidiary of Axis Bank which was incorporated on 13th January, 2009. Despite being new to the industry, it is one of the fastest growing asset management companies of India. Given the strong parentage of Axis Bank, quality skilled team, innovative investment products and distribution strategy, this investment company has evolved as a potential investment hub. This asset management company specializes in launching and executing various mutual fund schemes to cater to investor's needs both in equity as well as in fixed income space. This company is known for the wide variety of flexible investment schemes like Equity Schemes, Fixed Income Funds, Tax Saver and Hybrid Funds.

**2.Axis Equity Fund (G)**

Investment Objective: To achieve long capital appreciation by investing in a diversified portfolio predominantly consisting of equity and equity related securities including derivatives. However, there can be no assurance that the investment objective of the Scheme will be achieved. A diversified equity fund that invests primarily in the Indian equity markets provides the opportunity to capitalize on India's high paced growth Supported by a strong investment management team at Axis Mutual Fund Suitable for an investment horizon of 5 years or more. With no entry load.

**3.Liquidity**

The Scheme offers Units for Subscription and Redemption at NAV based prices on all Business Days on an ongoing basis, commencing not later than 30 days from the date of closure of NFO (New Fund Offer) period. Under normal circumstances the AMC shall dispatch the redemption proceeds within 10 business days from date of receipt of request from the Unit holder.

#### 4. Asset Allocation

Under normal circumstances, the asset allocation pattern will be.

Instruments	Indicative allocations (% of total assets)		Risk Profile
	Minimum	Maximum	High/Medium/Low
Equity and Equity Related Instruments#	82	100	High
Debt and Money Market Instruments*#	0	20	Low to Medium

Table 1

#### 5. Key Features

A diversified equity fund that invests primarily in the Indian equity markets

Provides the opportunity to capitalize on India's high paced growth

Supported by a strong investment management team at Axis Mutual Fund

Suitable for an investment horizon of 5 years or more.

With no entry load.

Easy Call facility available.

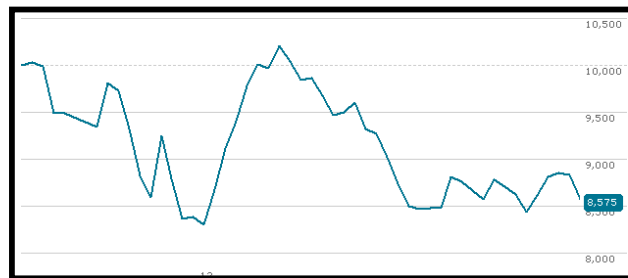


Figure 1: Growth Of 10,000 INR Since September, 2011

The Growth of 10,000 INR chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

The fund would spend 80 to 100% of its assets in equity and equity related instruments with high risk profile; and approximately up to 20% of its assets in debt and money market instruments with low to medium risk profile.

The minimum application amount for the scheme will be Rs 5,000. The scheme will charge an exit load of 1% if the units are redeemed within 1 year from the date of allotment.

The upcoming plan will be benchmarked against S & P CNX Nifty. Since it's the first equity fund by Axis mutual fund, they will try their best to achieve good performance for the fund. So, investors can invest in this fund with the little risk since fund house is yet to prove its ability.

### *5.1.Kotak 50 Fund*

Kotak Mahindra Asset Management Company Limited is a wholly owned subsidiary of Kotak Mahindra Bank Ltd. Kotak Mahindra Finance Limited (KMFL) was set up in 1985 with a capital base of Rs. 3 million and a single product. From those beginnings, KMFL has grown into a highly diversified financial services company with a net worth of over Rs. 59 billion. The Group currently offers financial services of every kind, including loans, lease and hire purchase, consumer finance, car finance, investment banking, stock broking and primary market distribution of equity and debt products, business information services and more. The Group has offices across 370 cities in India as well as in Dubai, Mauritius and London. Kotak Mahindra (UK) Ltd, a subsidiary of KMFL, is the first company owned from India to be registered with the Securities and Futures Authority in London.

### *5.2.Kotak Mahindra Mutual Fund*

<b>Number of schemes</b>	81
<b>Number of schemes including options</b>	184
<b>Equity Schemes</b>	16
<b>Debt Schemes</b>	139
<b>Short Term Debt Schemes</b>	11
<b>Equity &amp; Debt</b>	1
<b>Money Market</b>	0
<b>Gilt fund</b>	7

*Table 2: Kotak 50 – Growth*

## 6.Objective

The investment objective of the scheme is to generate capital appreciation from a portfolio of predominantly equity and equity related securities. The portfolio will generally comprise of equity and equity related instruments of around 30 companies which may go up to 39 companies, and that these companies may or may not be the same which constitute the BSE Sensitive Index or NSE Fifty (S&P CNX Nifty) Index. Review and rebalancing will be conducted if the investment in companies exceed above 39.

## 7.Portfolio Action

The portfolio has a defensive stance due to current global uncertainty. We continue to remain overweight in the Pharma sector, which has contributed positively to the portfolio in the recent past. The sector has shown good growth in challenging times for the economy and continues to have reasonable valuations. We remain overweight in the Oil & Gas sector with falling crude prices will benefit downstream companies. However, we remain underweight in banking and finance sector on account of slower growth and continued NPA problem. Albeit, we have increased allocation in private sector banks and decreased weight in PSU banks. We also remain underweight on Capital Goods & Engineering since the performance in these sectors continues to remain largely lackluster due to high interest rates, dearer capital & material costs, and moderating economic growth. Point to Point (PTP) returns in INR show the value of 10,000/- invested at the beginning of a 12 month period as at the end of that period scheme performance.

Fund Features	Axis Equity Fund (G)	Kotak 50 (G)
Statistics & Profile Fund Category Fund Type	Equity Open- Ended	Equity: Large Cap Open End
Fund Info Launch Date Latest NAV Price 52-Week High 52-Week Low Fund super mart Risk	January 5, 2010 ₹. 10.86 (September 11, 2012) 10.91 (21/08/12) 9 (20/12/11) Rating 6-Moderately High Risk	December 1998 103.045 (14/09/12) 103.045 (14/09/12) 87.614 (20/12/11) Rating 5
Initial Investment (min.)	₹. 5,000 / -	₹. 5,000 / -
Net Assets (Cr) * Benchmark	₹. 604.57 (30/06/12) S&P CNX Nifty	781.74 (30/06/12) S&P CNX Nifty

Fund Features	Axis Equity Fund (G)	Kotak 50 (G)
Entry load	Nil	Nil
Exit load	1% If redeemed within 1 year	1% If redeemed within 1 year

Table 3: Funds Characteristics

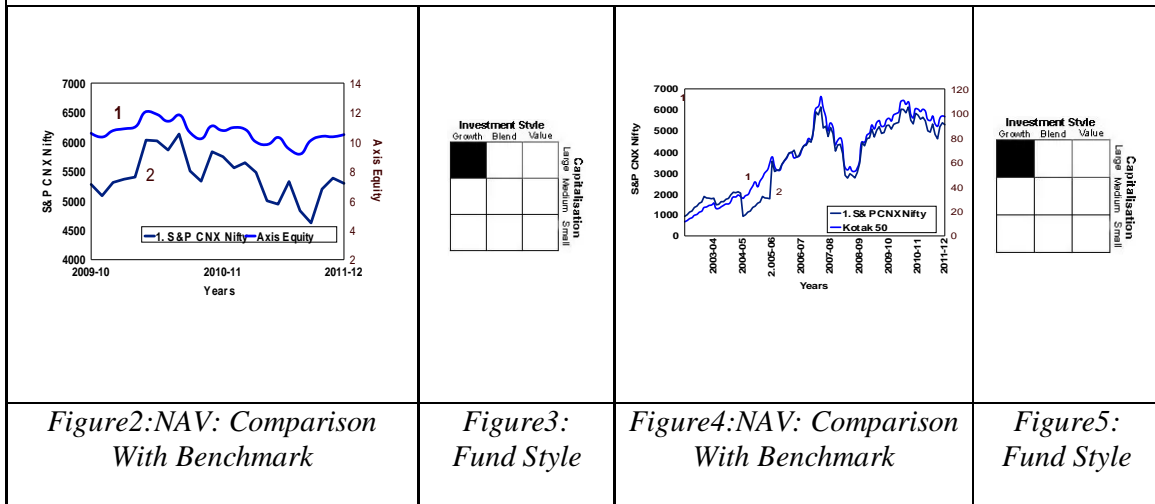


Figure2:NAV: Comparison With Benchmark

Figure3: Fund Style

Figure4:NAV: Comparison With Benchmark

Figure5: Fund Style

Portfolio Characteristics As on 31/08/12 (Average Mkt Cap (₹. Cr) 62,215.35)

6 & 7 Relative Figure performance ( Fund Vs Category )

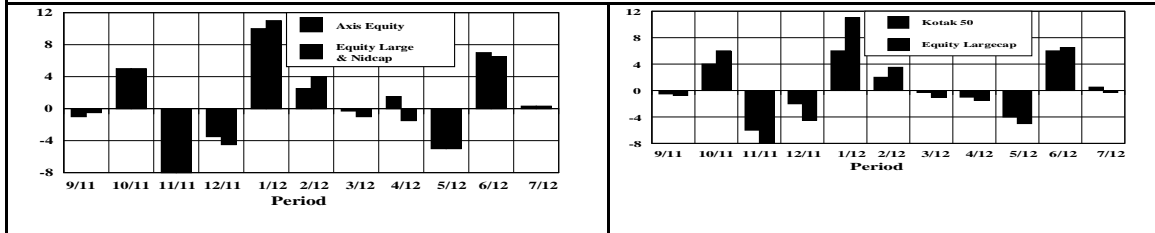


Figure 6

Figure 7

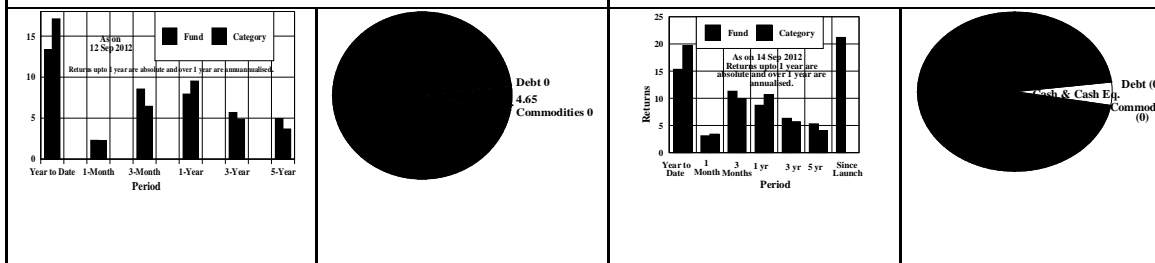
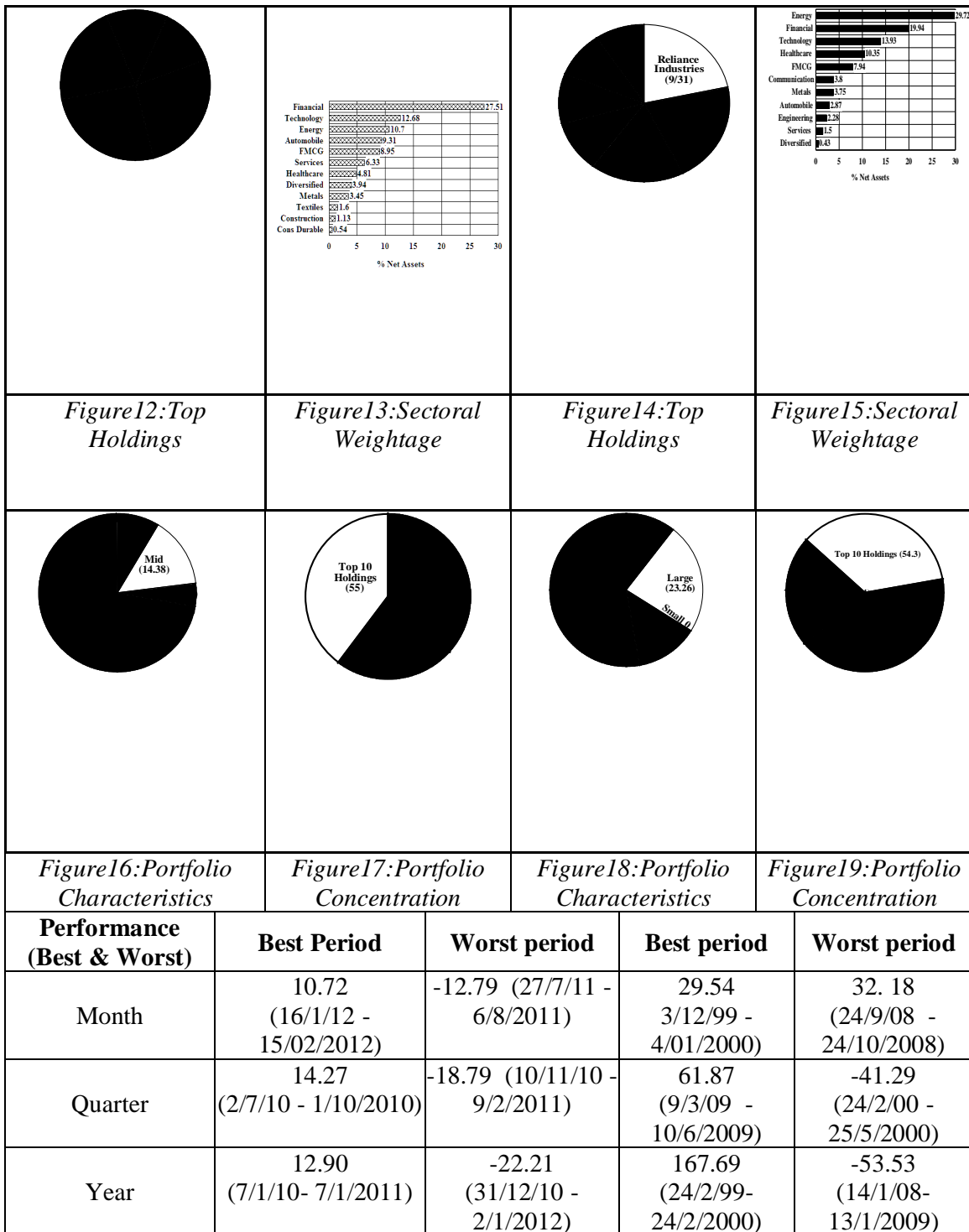


Figure8:Trailing Returns

Figure9:Asset Allocation

Figure10:Trailing Returns

Figure11:Asset Allocation



### 8.Methodology

With the review of the selected schemes presented above, the analysis of the performance is taken up. The period of study included from the very early days of the

funds, starting with the financial year 2002-2003 to the financial year 2011-12. The NAV values of the selected schemes were compiled on monthly basis and compounded to annual returns. ( $R_P$ ). Similarly the annual returns of the market index, S&P CNX Nifty ( $R_M$ ) were also obtained. The risk free index ( $R_F$ ) was taken as the Savings Bank Account Interest Rate offered by state Bank of India, which is 4% for the years 2002 and 2012 and 3.2% for the rest of the years, corresponding to 0.330 and 0.292% respectively. The statistical evaluation parameters, correlation, standard deviation ( $\sigma$ ), Treynor's Index ( $T_f$ ), Sharpe's Index ( $S_t$ ), Jensen's Alpha ( $\alpha_j$ ), Fama's Measure ( $F_P$ ) and  $M^2$  Measure were computed and the funds were appraised from these observations.

### *8.1. Methodological Limitations Of The Study*

The NAV values used in the study are obtained from AMFI's website, which in turn is supplied by the members. Members in turn have not followed any uniform rule in its computation due to the flexibilities offered under SEBI regulations.

Initially all mutual fund schemes were directly linked to stock market. In the recent 2 years numerous schemes which are independent of stock market (debt & money market funds) are introduced and such schemes' returns need not have correlation with index, and the index is not adjusted for dividends.

The study revolves around open ended Growth schemes.

Banks are free to accept deposits at any interest within the ceilings fixed by Reserve Bank of India and interest rates can vary from client to client. Hence, there can be an inaccuracy in the risk-free rates.

The analysis is not free from the limitations of non-identical time periods and unequal sample observations.

The study excludes the effect of entry and exit loads of the mutual funds.

## **9. Observations And Findings**

The  $R_P$  values and the corresponding  $R_M$  values and the  $\sigma$  values are included in Table 4. for comparison and correlation. Table 2. depicts the statistical evaluation parameters.



Fund Year	$R_P$				$R_M$
	Axis Equity (G)		Kotak 50 – Growth		S&P CNX Nifty
	$R_P$	$\Sigma$	$R_P$	$\sigma$	$R_M$
2011-12	-0.4419	0.05252	-0.0001	0.04093	-0.0120
2010-11	-0.7363	0.05028	0.0029	0.04912	0.0058
2009-10			0.0414	0.08224	0.0047
2008-09			-0.0370	0.10319	-0.0383
2007-08			0.0236	0.11885	0.0179
2006-07			0.0064	0.6472	0.0100
2005-06			0.0463	0.06383	0.0439
2004-05			0.0146	0.07348	0.0116
$Corr_{(R_P, R_M)}$	-1.0000		0.09829		

Table 4: Portfolio Return, Market Return, And Correlation Coefficient Of The Selected Schemes

Fund	Year	$S_t$	$T_f$	$\alpha_j$	$F_P$	$M^2$
Axis Equity (G)	2011-12	-8.06	0.1993	-0.1252	0.21	0.4507
	2010-11	-5.95	-0.0172	-0.0809	-0.0495	0.6434
	Overall	-7.50	0.0910	-0.1031	0.0803	0.5471
Kotak 50 – (G)	2011-12	-8.06	0.1993	-0.1252	0.21	0.4507
	2010-11	-5.88	-0.0040	-0.0865	-0.05588	0.6512
	2009-10	-3.05	-0.0039	-0.0445	-0.4017	0.748
	2008-09	-3.19	0.00154	-0.0532	-0.0202	0.6098
	2007-08	-2.26	0.02514	-0.2066	0.0902	0.8127
	2006-07	-4.41	-0.0040	-0.0321	0.0045	0.7323
	2005-06	-3.85	0.00	-0.0485	-0.0010	0.7948
	2004-05	-3.77	0.00357	-0.0383	0.0132	0.7439
	2003-04	-4.33	-0.00048	4.9883	-1.4528	1.1559
Overall	-5.58	0.0409	0.3370	-0.1144	0.6950	

Table 5: Statistical Evaluation Parameters

**10. Analysis Of The Results**

Much cannot be pronounced about Axis Equity Fund owing to recent origin. The positive Treynor index, indicates the short term performance of the fund. However, one has to keep a close watch for the long term performance. It is worth mentioning that Treynor is not a good indicator for long term performance. The negative alpha for Axis Equity might get a feel that the fund is under valued. The overall  $M^2$  value for Kotak 50 is quiet encouraging.

**11. Kotak 50 - Growth Fund**

The long term outlook continues to remain positive for Indian equities as the economic growth momentum remains healthy. At the Jackson Hole meet Bernanke reiterated that the Fed is ready to act to boost the economy if needed. The Fed meet later in September 2012 will give further clarity on the Fed's proposed actions. We expect some action from the ECB in the first half of September. The ECB has proposed to intervene in markets so as to set limits to the yields of countries like Spain and Italy. This will be a hugely positive step like the QE1 of the US. However strict conditionality is being proposed and we need to see if the stricken countries will agree to the conditions. Overall it is a very strong and drastic step to acknowledge and rectify the problems in the Eurozone. The slackness in global trade is hurting the Indian economy too. While the growth rate differential between the developed markets and India may be more or less constant at around 4-5%, the slowdown across the world has cost India at least 1-2% in GDP growth. The 2G auctions in November could bring some relief to the fiscal. The monsoon seems to have improved in recent times, which bodes well for the economy. For the most part now, the growth of the economy is dependent on the RBI and its stance.

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