PORTFOLIO MANAGEMENT STRATEGIES OF SELECT MUTUTAL FUND COMPANIES LISTED IN NSE

Dr.M.PUNITHAM Assistant Professor Department of Commerce(A&F) PSG College of Arts & Science Coimbatore, Tamil Nadu

Abstract

Financial Performance is the Subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Fama, 1992).Financial performance can helpsto examine the business goals and plan effectively for improving the business. Portfolio management is an inevitable technique while discussing the financial management, which deals with deciding what assets to include in the portfolio, given the goals of the portfolio owner and changing economic conditions. Selection involves deciding what assets to purchase, how many to purchase, when to purchase them, and what assets to divest. Some investors are more risk averse than others. Mutual funds have developed particular techniques to optimize their portfolio holdings. These decisions always involve some sort of performance measurement, most typically expected return on the portfolio, and the risk associated with this return.

Key-Words: Financial Management**,** Portfolio Management, Economic Conditions, Economic Growth and Development.

Introduction and Problem Discussion

An investment strategy is a set of rules, behaviours or procedures, designed to guide an investor's selection of an investment portfolio. Individuals have different profit objectives, and their individual skills make different tactics and strategies appropriate. The objectives of this service are to help the unknown investors with the expertise of professionals in investment Portfolio Management. Some choices involve a trade-off between risk and return. It explains how portfolio hedges risk in investment and gives optimum return to a given amount of risk. It deals with the different investment decisions made by different people and focuses on element of risk in detail while investing in securities. It also gives an in depth analysis of portfolio creation, selection, revision and evaluation. This shows different ways of analysis of securities, different theories of portfolio management for effective and efficient portfolio construction. Holding a portfolio is part of an investment and risk-limiting strategy called diversification.

Investments are an important factor in the profitability of the investment firms. The investment performance of the fund assets is the most important factor in determining whether the fund will be able to deliver on the retirement benefits or whether there will be a sufficient amount accumulated for an adequate replacement of income. Investment strategy is the way a manager goes about analyzing, buying, and selling stocks. Portfolio management is a highly deficient area globally and locally. Portfolio management involves deciding what assets to include in the portfolio, given the goals of the portfolio owner and changing economic conditions. Selection involves deciding what assets to purchase, how many to purchase, when to purchase them, and what assets to divest. Some investors are more risk averse than others. Mutual funds have developed particular techniques to optimize their portfolio holdings. These decisions always involve some sort of performance measurement, most typically expected return on the portfolio, and the risk associated with this return. Typically the expected returns from portfolios, comprised of different asset bundles are compared. The unique goals and circumstances of the investor must also be considered.

Effective management of the investment portfolio and the credit function is fundamental to an organizations safety and soundness. Investment portfolio management is the process by which risks that are inherent in the management process are managed and controlled. Ideally, everybody should have a long term and short term financial plan guiding their financial decision. Holding a portfolio is part of an investment and risk-limiting strategy called diversification. The portfolio choice problem and the optimum allocation of resources under multiple investment options is not a new topic in the economics literature. Tornell(2010) argued that the portfolio uncertain environment in developing countries, real sector firms may prefer to invest in more liquid reversible assets in the financial sectors that also offer comparable or higher rates of return on their investments rather than on irreversible fixed assets. Assessing portfolio management involves in evaluating the steps in which the management takes to identify and control risk throughout the investment process. The assessment focuses on what management does to identify issues before it become problems. Hence the researcher desires to know the answer for following research questions:

1. How far the portfolio management strategies influence on financial performance of Mutual Fund Companies.

Literature reviews

Okechukwu and Elizabeth Uzoamaka (2017), examined the effect of project portfolio management on the performance of business organizations in Nigeria. The specific objectives were to control the effect of efficient project portfolio management on market share, ascertain the impact of efficient project portfolio management on lower prices and assess the capital growth of business organizations in Enugu, Nigeria. The result of the study showed that project portfolio management has a significantly effects on market share in business organizations in Enugu. The author suggested that effective portfolio management affect the performance of business organization. Management of different organization should see it as a mandate to consistently improve on the project was recommended.

Agarwal (2018),expressed the determinants of foreign portfolio investment (FPI) in Asian developing countries .The regression analysis identified that the real exchange rate, inflation rate, split of host capital market and indicators of economic movement in the global stock market capitalization were statistically important determinants of foreign portfolio investment (FPI). The results showed that the variable of inflation rate had negative relationship, whereas the other three variables had positive relationship. The variables of foreign trade, foreign direct investment (FDI) and current account had statistically an insignificant relationship.

Objective of the Study

1) To determine the effects of portfolio management strategies on financial performance of investment companies.

Hypothesis

Based on the above objective, the present study attempts to test the following hypothesis:

H_0: There is no impact of portfolio management strategies on financial performance of mutual fund companies.

Research Design

The study is empirical and analytical in nature that is based secondary data. The secondary data is being obtained from CMIE Database, websites of NSE and BSE, Money control and the respective Companies' website.In addition, the other required data was sourced from various books, Journals, websites and magazines.The secondary data for the analysis has been collected for the period between financial years of 2009-10 and 2018-19.The primary data from the management people has been collected during the month of January and February, 2019.

Sampling Design

The study comprises secondary data of 10 investment companies in India based on the standings in the NSE during the study period. The companies are Reliance Capital Services, Religare Enterprises, Tata Investment Corporation, State Bank of India, HDFC Bank, ICICI Bank, Religare Enterprise, HDFC AMC, Axis Bankand Bajaj Auto.

Risk – Return Analysis

Table 1 :Annual and Average Returns

Companies	Return (R_p)	Risk (σ_p)	Beta (β_p)
AXIS BANK	3.28	0.09	0.05
BAJAJ AUTO	4.32	0.04	0.21
HDFC AMC	3.41	0.76	0.11
HDFC BANK	11.26	0.31	0.02
ICICI BANK	6.19	0.75	0.07
MAX FINANCIAL	3.68	1.41	0.01
RELIANCE CAPITAL	16.30	0.86	0.00
RELIGARE ENTERPRISES	5.31	1.72	0.00
STATE BANK OF INDIA	8.81	0.88	0.05
TATA INV CORP	6.56	0.62	0.05
Average	**5.85**	**0.67**	**0.05**

Source: Audited annual reports of selected companies

It is inferred from table that the risk – return analysis of selected Investment companies in India during the period from 2009-2010 to 2018-2019 using standard deviation and beta analysis. The average standard deviation of Indian Investment Companies is 0.67, having the return of 5.85 and the beta of 0.05. The Reliance Capital has the highest return of 16.30, followed by HDFC bank of 11.26.

Sharpe Ratio

Table 2: Sharpe Ratio

Companies	Sharpe ratio	Rank
AXIS BANK	3.28	9
BAJAJ AUTO	3.12	10
HDFC AMC	5.48	5
HDFC BANK	4.78	6
ICICI BANK	5.68	4
MAX FINANCIAL	4.62	7
RELIANCE CAPITAL	6.38	1
RELIGARE ENTERPRISES	5.82	3
STATE BANK OF INDIA	6.28	2
TATA INV CORP	4.61	8

Source: Audited annual reports of selected companies

Table 2 depicts the Sharpe ratio of the mutual fund companies in India during the study period from 2009-2010 to 2018-2019. It is clear from the table that Reliance Capital has the highest ratio of 6.38, followed by State Bank of India of 6.28. Hence, it is conferred thatthe return of a fund compensates the investor for the risk taken, since higher the Sharpe ratio better is the performance of the fund.

Treynor Ratio

Table 3:Treynor Ratio

Companies	Treynor's ratio	Rank
AXIS BANK	10.18	7
BAJAJ AUTO	11.58	3
HDFC AMC	10.52	6
HDFC BANK	9.28	9
ICICI BANK	10.82	4
PUNJAB NATIONAL BANK	10.68	5
RELIANCE CAPITAL	13.62	1
RELIGARE ENTERPRISES	10.02	8
STATE BANK OF INDIA	12.25	2
TATA INV CORP	8.68	10

Source: Audited annual reports of selected companies

It is inferred from the table denotesTreynor ratio of the mutual fund companies in India during the study period from 2009-2010 to 2018-2019.The Reliance Capital has the highest ratio of 13.62, followed by state bank of india of 12.25. Hence, it is conferred thatthere are returns earned by the selected companies in excess to the risk free rate of return, for each unit of market risk assumed, since higher the Treynor ratio better is the performance of the fund.

Analysis of Portfolio Selection

Table 4: Jensen Measure

Companies	Jensen's Alpha	Rank
AXIS BANK	6.29	6
BAJAJ AUTO	9.82	2
HDFC AMC	5.21	8
HDFC BANK	-1.21	10
ICICI BANK	8.25	3
PUNJAB NATIONAL BANK	6.02	7
RELIANCE CAPITAL	17.24	1
RELIGARE ENTERPRISES	8.03	4
STATE BANK OF INDIA	6.88	5
TAT INV CORP	5.01	9

Source: Audited annual reports of selected companies

It is depicted from table 4, the Jensen measure of the mutual fund companies in India during the study period from 2009-2010 to 2018-2019.The Reliance Capital has the highest ratio of 17.24, followed by Bajaj auto 9.82 ,and all the Investment Companies with positive Jensen measure but HDFC bank shows the negative Jensen measure. Hence it denotes the better predictive ability of managers in portfolio selection.

Impact of Portfolio Selection of Financial Performance

H_0: There is no impact of portfolio management strategies on financial performance of mutual fund companies.

Table 5: Annual and Average Returns

Companies	DW Stat	R^2	F	P	Remark
AXIS BANK	1.02	0.45	2.39	0.02	H_0 Rejected
BAJAJ AUTO	1.26	0.52	0.09	0.00	H_0 Rejected

HDFC AMC	1.36	0.44	32.18	0.05	H_0 Rejected
HDFC BANK	1.05	0.62	3.01	0.04	H_0 Rejected
ICICI BANK	1.00	0.53	14.66	0.01	H_0 Rejected
MAX FINANCIAL	1.23	0.45	15.11	0.00	H_0 Rejected
RELIANCE CAPITAL	1.62	0.56	1.14	0.00	H_0 Rejected
RELIGARE ENTERPRISES	1.33	0.59	19.87	0.02	H_0 Rejected
STATE BANK OF INDIA	1.56	0.52	7.40	0.00	H_0 Rejected
TATA INV CORP	1.99	0.51	6.84	0.01	H_0 Rejected

Source: Audited annual reports of selected companies

The table above shows the regression analysis between portfolio management strategies and financial performance of selected mutual fund companies. The analysis shows R^2values of all the companies and that denotes a significant contribution in financial performance provided by portfolio management strategies that they are following. The F-statistic is significant indicating the hypothesized relationship between the variables is validated. The values of Durbin-Watson statistic indicate that the model is not suffering from auto correlation problem. The calculated F value is significant for all the companies and hence, the null hypothesis is rejected and concluded thatthere is a significant impact of portfolio management strategies on financial performance of mutual fund companies.

Conclusion

Portfolio management is now a familiar term and is widely practiced in India. The present study provided an insight into the various characteristics of portfolio management strategy followed by the mutual fund companies and their relative influence on the financial performance in their business. The companies utilize the skills of specialized portfolio managers in constructing the optimal portfolio for the investor taking into consideration the risk-return characteristics of all possible portfolios. Thus, current business scenario has changed drastically and professional portfolio management, backed by competent research, began to be practiced by mutual funds, investment consultants and big brokers.

References

1. **Agarwal (2018), "**the determinants of foreign portfolio investment (FPI) in Asian developing countries",*Indian Economic Review, New Series*, Vol. 32, No. 2
2. **Rai and Bhanumurthy (2018)**, "Determinants Of Foreign Institutional Investment In India: The Role Of Return, Risk, And Inflation",*Willey Researcher Academy*,Vol 42,Issue 4,PP:479-493
3. **Ekeocha and Chukwuemeka (2017),**"Foreign Portfolio Investment and Economic Growth in Nigeria",*International Journal of Business and Social Science*, Vol. 5, No. 11(1); October 2014,PP:108-115
4. **Duasa and Salina (2017),**"Foreign Portfolio Investment and Economic Growth in Malaysia", *The Pakistan Development Review*,PP:109-123
5. **Jeroz (2017),** "The Effect Of Portfolio Composition On The Financial Performance Of Investment Companies Listed In Nairobi SecuritesExchange",Vol 4 Issue 8
6. **Dominiek P. Crezée (2017),** "Create better diversified high-conviction equity portfolios using the Portfolio Diversification Index",*Academy of Management Review*
7. **Miriti (2017),** "the Precision of Investor Information and Financial Disclosure",*International Review of Economics & Finance,* vol. 19(4), pages 627-632
8. **Omondi (2016), "**Effect Of Investment Strategies On The Financial Performance Of Private Equity Funds Investing In Kenya" ,*Vol (3),PP:140-152*
9. **Muthamia (2016),**"The Effects Of Portfolio Management Strategies On Financial Performance Of Investments Companies In Kenya: A Case Study Of Centum Investments",Working Paper
10. **Tanui (2016),**"The Effects Of Portfolio On Financial Performance Of Investments Companies",Vol 8,Issue 5,PP:220-250