A Comparative Performance Evaluation Between Large-Cap and Mid-Cap Mutual Fund Returns

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Abstract
In Indian capital market provide various investment avenues to the investors, to help them to invest in various industries and ensure the profitable return. Among various financial products, a mutual fund ensures minimum risks and maximum return to the investor. Mutual fund industry has grown extensively in the last five years and has become a popular mode of investment. There are umpteen numbers of schemes available to the investor based on capitalisation of the company such as large cap, mid cap and micro cap funds. This study attempts to measures the risk adjusted performance of large cap and mid cap funds based on several parameters and know which fund has performed better and led to better wealth creation for an investor in the last five years. For this purpose, five different Asset Management Companies have been chosen for the study and under each Asset Management Company, two funds- one large cap fund and one midcap fund have been studied. Based on the study conducted , it is clear that Mid cap funds have shown better performance than Large cap funds in the last five years and it is likely that the same trend will continue in the next five years.
Keywords: Large-cap and Mid-cap mutual funds, Absolute returns, Performance, Risk.

1. Introduction:

"Mutual funds are collective savings and investment vehicles where savings of small or big investors are pooled together for their mutual benefit and returns distributed proportionately". Mutual funds are a professionally managed investment trust that pool the money of several investors and uses the collected money for investment in different avenues such as stocks, bonds, money market instruments etc. The income earned through these investments and the capital appreciated realized by the scheme are shared by its unit holders in proportion to the number of units owned by them.

Mutual funds are invested in several investment avenues which enables the investor achieve a well-diversified portfolio, optimize his risks and achieve a balanced growth.

In the case of mutual funds, professional fund managers manage funds on behalf of the investor's in exchange for a certain fee. The fund managers regularly analyse the market and have sound knowledge of when and where to invest and make investment decisions on behalf of investors. This allows passive management of funds and reduces the need for investor to pay constant attention to the market and thus serves as an ideal investment avenue especially for new investors.

This study is mainly focused on the analysis of Large cap and Mid cap mutual funds since majority of the investors invest in Large cap companies are those companies with a market capitalisation greater than 10,000 crores, which have been in existence for many years and have good reputation and have been able to generate stable returns and even pay-out dividends regularly to the investors, making it an ideal option for those investors with moderate risk appetite and who seek regular income. However the scenario has changed and investors today have a higher risk appetite and investing in mid cap companies which are basically companies with a market capitalisation ranging from 5000 to 10000 crores. These companies are still growing and capable of generating much better returns in comparison to large cap funds. Hence these two types of funds have been chosen for the study and their performance for 5 years has been studied to know which fund has performed better and resulted in better wealth creation for an investor.

The study is attempting to choose the right schemes for equity investors based on data collection, analysis and evaluation through various statistical parameters that gives a good indicator to choose the well performing mutual funds. This study would help investors to look at various parameters while choosing the right fund to invest and aid in the process of wealth creation.

2. Literature Review:

A few studies in Literature highlights that the level of awareness about Mutual funds has increased to a great extent in the last 5 years. It offers multiple benefits such as professional management, risk diversification, low costs and good returns. Age and gender of the investors have been the chief demographic variables that have influenced investment in mutual funds. At the time of global financial crisis during 2007, there was a huge drop in mutual fund investment and many investors who invested in mutual fund moved from equity to debt scheme to reduce their risks. However the last 2 year trend has again indicated more inflows in mutual fund equity schemes. Mann-whitney test which was used to compare the performance of Private and Public sector funds showed that Private sector mutual funds performed better. Literature also indicates that factors like mutual fund size, age of fund, management experience etc affect mutual fund returns and parameters such as Sharpe's ratio, Treynor's ratio ,Jensen's alpha and CAGR have to be taken into account to evaluate mutual funds and to enable an investor in making the right choice of fund based on his objectives and risk appetite.

- ❖ Ashraf Husain Syed and Sharma Dhanraj (2014) in his paper "Performance Evaluation of Indian Equity Mutual Funds against Established Benchmarks Index" has intended to evaluate and analyze the performance of equity mutual funds against risk free rate and benchmark returns over past 5 years. For the purpose of the research a sample of 10 growth orientated-open ended-equity mutual funds were selected out of which 5 funds belonged to Public Companies and 2 belonged to Private Companies. The results were evaluated on the basis of risk-return analysis, Coefficient of Variation, Treynor's ratio, Sharp's ratio, Jensen's measure, Fama's measure and Regression analysis. The risk return analysis showed that out of the 10 schemes, 3 were underperformers, 7 had lower total risk than market, and all schemes had given returns higher than the risk free rate. Treynor's Ratio revealed that all schemes performed better than the benchmark index and Sharpe Ratio revealed that 3 schemes underperformed the benchmark index.
- ❖ Jonathan Lewellen (2014) in his paper "Cross Section of Expected Stock Returns" has studies cross-section of return forecasts derived from Fama-Macbeth Regression. For the purpose of the study data of all the stocks listed on New York Stock Exchange (NYSE) was selected between the periods of 1965-2013 and was divided into Large Stocks & Tiny Stocks. On the basis of the cross-section model of Firm's characteristics & FamaMacbeth Slope future returns of the stock are estimated & compared with actual returns. The results of the research revealed that estimated returns should be adjusted y 20-30% for monthly returns & 20-50% for annual returns to get an accurate estimate of expected returns.
- ❖ Shilpi Pal (2013) in her paper "A Critical Analysis of Selected Mutual Funds in India" analyzed and compared performance of 10 Equity Mutual Funds on the basis of Sharpe Ratio, Beta, Expense Ratio, Standard Deviation & R-Square Value. For the purpose of the study Daily NAV of Mutual Funds are taken for the time period of 2007-2012. The study revealed that out of the selected data HDFC Midcap Opportunities Fund (G), Birla Sun Life MNC Fund (G) & Quantum Long Term Equity Fund (G) are best performing funds on the basis of 3 Years & 5 Years CAGR. On the basis of Expense Ration HDFC Midcap Opportunities Fun (G) & Quantum Long Term Equity Fund (G) are the best performers & on the basis Standard Deviation HDFC Midcap Opportunities Fund (G) is the best performing Fund.
- ❖ Khan AH & Agarwal(2017) The study was conducted to know the investors view towards mutual fund investment avenue and their preference in making investments and their level of awareness regarding investing in various schemes. The study is descriptive in nature and the primary data collection was done using a structured questionnaire from a sample of 100 investors using convenience sampling method and the percentage analysis tool was used for data analysis. It was found that majority of them were not fully aware and have various misconceptions and it was concluded that they feared making investments due to the risk associated with the schemes and due to partial knowledge and awareness which created confusion in the minds of investors.
- ❖ Deepti Sahoo, Naresh Kumar Sharma (2017), The objective of this paper was to conduct empirical analysis of select mutual funds. Five categories of funds was chosen based on the nature and objective of the mutual fund. Secondary data was used and analysis of 94 schemes was done using risk adjusted factors. Results indicated that many schemes did better than the index and few schemes underperformed in comparison to the index. The paper concluded that overall the schemes showed mixed performance.
- ❖ Kavitha Arora (2015), The author tries to study the Risk-adjusted Performance Evaluation of various Indian Mutual Fund Schemes like Balanced funds, Growth oriented funds, tax saving funds etc. The author uses the standard risk adjusted performance ratios like Sharpe's ratio, Treynor's ratio and Jenson's alpha. The growth of mutual fund industry in the last 15 years has been significant due to increased awareness among investors and good performance of many of the existing funds. The author has studied some earlier literature and takes in to account the empirical formulae derived by Mr. Sharpe, Mr. Trey nor and Mr. Jenson. The author has collected NAV data on 100 mutual funds covering Growth schemes, Tax planning schemes, balanced schemes and income schemes for the period 1st April 2000 to 31st March 2008. The author concludes mixed performance during the study period.
- ❖ Rakesh Kumar (2012), The objective of this paper was to study how the market timing and selection of stocks affected the performance of mutual funds. Data used for the study comprises of monthly data of 28 equity mutual funds schemes from January 2007 to June 2011. Risk adjusted returns have been computed by calculation of beta, standard deviation, Sharpe's ratio and Treynor's ratio. In order to assess the market timing skills of fund managers, Treynor and Mazuy model has been used. The results of the study indicated that nearly 60% of the mutual fund schemes had performed better than the benchmark index and such funds

were less affected by market risks although they showed a higher degree of volatility. The study revealed that about 58% of fund schemes were capable of outperforming market returns. The negative coefficients arrived at, after applying Treynor and Mazuy model showed that fund managers have not been efficient in market timing activities. The findings also indicate that a majority of the fund schemes showed reasonable diversification. Contrary to the literature discussion, Indian mutual fund industry has grown and become more mature contrary to what was spoken about in the old literary discussions.

3. Objectives:

- ✓ To analyse the last 5 year performance of large cap and mid cap funds
- ✓ To calculate and compare the risk and return of Large cap and Mid cap funds
- ✓ To evaluate the performance of 5 AMC'S

4. Research Methodology :

For the purpose of study, Five Asset Management Companies have been considered namely SBI, HDFC, ICICI, Kotak and UTI. Two schemes has been chosen under each AMC and totally 10 schemes have been analysed (5 Large cap scheme and 5 Midcap scheme). Secondary data for a period of 5 years from the year 2013 to 2017 has been collected from the website for the purpose of study. Growth of funds has been measured by calculating CAGR and risk adjusted performance has been measure through ratios such as Sharpe's ratio, Treynor's ratio and Jensen's alpha. The funds have been compared against their benchmark index- Nifty 50 for Large cap funds and S&P BSE 500 for Mid cap funds.

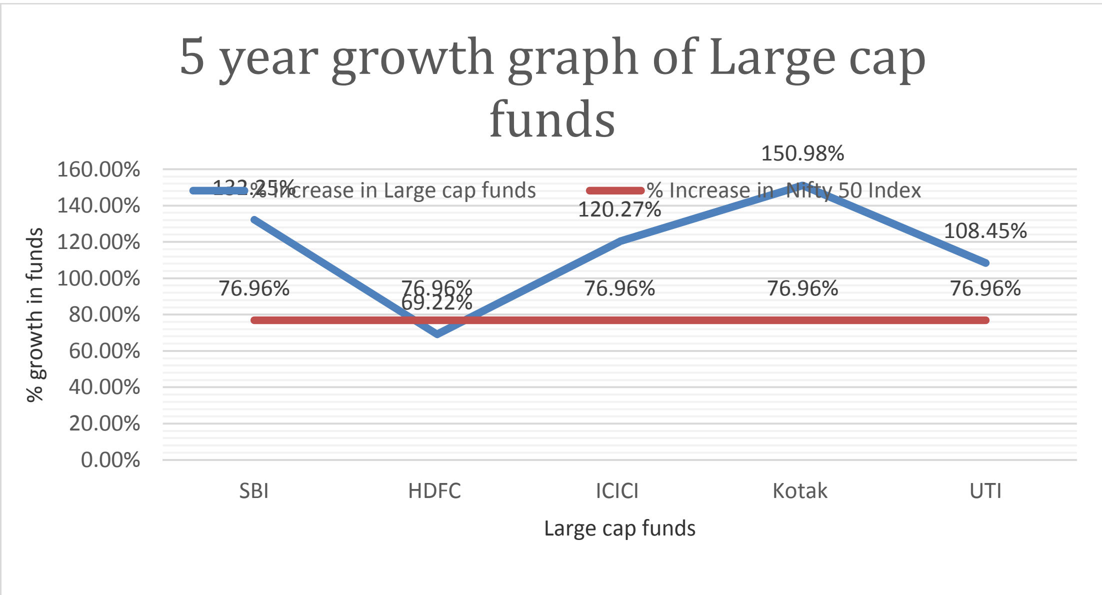
Mutual Fund Agencies and Schemes Chosen For Study

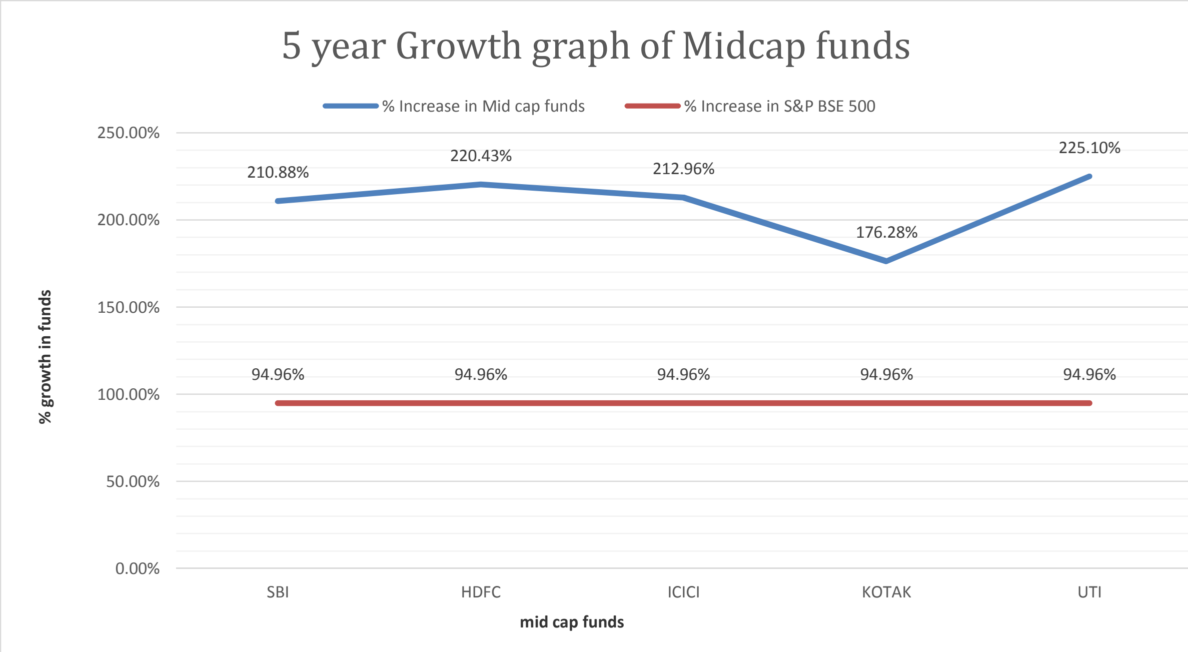
Mutual fund agency	Large cap fund	Mid cap fund
SBI Mutual Fund	SBI Large cap fund (G)	SBI Midcap fund (G)
HDFC Mutual Fund	HDFC Large cap fund (G)	HDFC Midcap opportunities fund (G)
ICICI Mutual Fund	ICICI Pru Focused Bluechip fund (G)	ICICI Pru Midcap fund (G)
Kotak Mutual Fund	Kotak Select Focus fund (G)	Kotak Midcap fund (G)
UTI Mutual Fund	UTI Equity fund (G)	UTI Midcap fund (G)

5. Data analysis and Interpretation

Table: 1 CAGR OF LARGE AND MIDCAP FUNDS

Large cap fund	CAGR	Mid cap fund	CAGR
SBI Bluechip	18.36%	SBI Midcap	25.46%
HDFC Large cap	11.12%	HDFC Midcap	26.52%
ICICI Bluechip	17.12%	ICICI Midcap	25.63%
Kotak Select Focus	20.40%	Kotak Midcap	22.54%
UTI Large cap	15.82%	UTI Midcap	26.60%





CAGR (Cumulative Annualised growth rate) is a term that measures the growth rate of an investment across a specific time period under assuming the investment to be compounding over that time period, without considering the risk factor. It is observed that among the Large cap funds, Kotak Select Focus fund has shown the highest CAGR and among the Mid cap funds UTI Midcap fund has shown the highest CAGR.

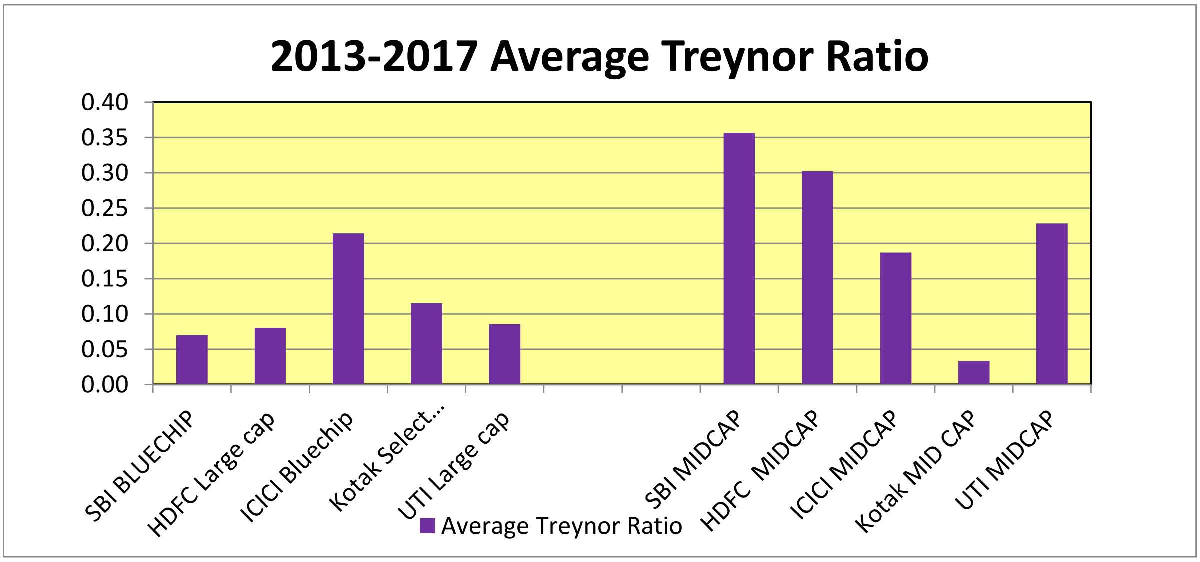
Table 2 : AVERAGE SHARPE RATIO OF LARGE AND MID CAP FUNDS

Large cap Fund name	Average Sharpe ratio	Mid cap Fund name	Average Sharpe ratio
SBI BLUECHIP	1.16	SBI Midcap	1.94
HDFC Large cap	0.50	HDFC Midcap	1.66
ICICI Bluechip	1.00	ICICI Midcap	1.52
Kotak Select Focus	1.28	Kotak Midcap	1.46
UTI Large cap	0.99	UTI Midcap	1.63

The above analysis signifies that average Sharpe's ratio of Micap funds is much higher than the average Sharpe's ratio of Largecap funds for all 5 AMC's chosen for the study. Among the Large cap funds, Kotak Select Focus fund has a high Sharpe's ratio indicating good returns per unit of risk undertaken. Among Midcap funds SBI Midcap fund has the highest Sharpe's ratio. It can be said that Midcap funds have generated more returns for every unit of risk undertaken by the investor in comparison to large cap funds. SBI Midcap shows the highest average Sharpe's ratio

Table : 3 AVERAGE TREYNOR'S RATIO OF LARGE ANF MID CAP FUNDS

Large Cap Fund	Average Treynor Ratio	Mid Cap Fund	Average Treynor Ratio
SBI Bluechip	0.07	SBI Midcap	0.36
HDFC Large cap	0.08	HDFC Midcap	0.30
ICICI Bluechip	0.21	ICICI Midcap	0.19
Kotak Select Focus	0.12	Kotak Midcap	0.03
UTI Large cap	0.09	UTI Midcapp	0.23



The above analysis signifies that the average Treynor's ratio of Mid cap funds is much higher than Treynor's ratio of Large cap funds indicating that Mid cap funds generate higher returns per unit of market risk in comparison to Large cap funds. Among Large cap funds ICICI Bluechip fund has a higher Treynor's ratio compared to other Large cap funds indicaing higher returns. Among Mid cap funds,SBI Midcap fund and HDFC Midcap have a high Treynor ratio signifiying good returns.

6. CONCLUSION

During the period covered it can be inferred that annual growth rate graph of Large and Mid-cap funds indicate that Large cap fund have shown a growth rate that is approximately 1.5 times that of index growth rate whereas the Midcap funds have shown a growth rate that is approximately 2.2 times that of index growth rate. Midcap funds show higher beta values and standard deviation in comparison to Large cap funds which indicates higher volatility of Midcap funds and higher deviation from mean returns which signifies that greater degree of risk is involved in Mid cap funds compared to Large cap funds. The average Sharpe's ratio graph for large cap and Midcap funds shown that the average Sharpe's ratio of Midcap funds is higher than that of large cap funds for all the 5 AMC's chosen for the study. This indicates that Midcap funds generate higher returns per unit of risk undertaken by the investor than large cap funds. The average Treynor's ratio graph for Large and Midcap funds indicates that the Treynor's ratio is higher in case of mid cap funds than large cap funds. This signifies that Midcap funds yield higher returns per unit of market risk in comparison to large cap funds. The average Jensen's alpha of Midcap funds is higher than the average Jensen's alpha of large cap funds which indicates mid cap funds have generated higher returns than that predicted by the CAPM model in comparison to large cap funds. Among the 5 Large cap mutual funds chosen for the study, Kotak Select Focus fund has performed better in comparison to the other 4 large cap funds after taking into consideration the risk adjusted returns and the Cumulative annualized growth rate. Among the 5 Midcap funds chosen for the study, SBI Magnum Midcap fund has performed well in comparison to the other 4 Midcap funds after taking into consideration the risk adjusted returns and Cumulative annualized growth rate.

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