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Performance Analysis of Indian Mutual Funds during Pandemic

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ABSTRACT

The outbreak situation of the COVID-2019 pandemic is an Unpredictable shock to the world economy. World Economy faces the slowdown of share market prices, especially the value of mutual fund value decreases. Companies and Businessmen primarily invested in the mutual funds to play a safer role, modify their risk into the return, and increase the Net Assets Value (NAV). This study attempts to describe the state of mutual funds in India during this COVID 2019 period. Thus the performance of mutual funds when compared with before and during COVID 2019, the proposed model specifies on testing the performance of mutual funds both in the public and private sectors and attains to access the impact of COVID 2019 on mutual funds. The author has used correlation for finding out the relation of COVID 2019 and Mutual Funds. This paper mainly addresses the causes of investors during economic fluctuation and the return of top mutual companies by comparing the return of 1 year and during these last three months. COVID 2019 is not only on particular sectors; it affects almost every sector like construction, manufacturing, business, agriculture. While all the sectors are affected by COVID 2019 pandemics, it hits the society and the economy; once the economy comes down, the inflation rate increase, the Forex rate will increase, and it affects our whole country. In this paper, the author included sectors that are affected and their performance now and how well the different types of funds are performing, which will be helpful for the reader to analyze the affected areas. The paper concluded with the help of a survey and statistical tools whether the investors can make a further payment and hold for some period or continue with the investment whatever situation crisis impacts our economy.

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KEYWORDS: *pandemic, COVID-19, inflation, sectors, economy, performance, mutual funds, Indian, survey*

INTRODUCTION

Mutual fund industry has experienced a drastic growth within the past twenty years. Increase within the number of schemes with increased mobilization of funds in the past few years provide benefits to the importance of the Indian mutual funds industry. Mutual funds have a number of schemes within it, such as large cap, Mid cap and Small cap funds, which makes it hard for the investors to choose the best scheme out of so many available options. This Study specifically focused on the performance analysis of mutual fund schemes based on the Large cap, Mid cap and Small cap, which helps investors to take decision based on risk and returns in current time. These mutual funds individually using different tools such as Annual returns, Standard Deviation, Beta, Sharpe's Ratio, Treynor's Ratio, Jensen's Alpha Ratio.[1,2]

Mutual Fund companies are financial intermediaries providing financial services to small investors through mobilization of funds, when the investors invest in a mutual fund; they are buying shares or units of the mutual fund and become a shareholder of the fund. Mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. Thus, the Rupee is generated in the form of big returns to promote financial excellence. In this research paper an attempt is made on a comparative performance analysis of the growth-oriented equity diversified schemes for 5 months prior to outbreak of Covid-19 and 5 months

during Covid-19 on the basis of return and risk evaluation. The analysis was achieved by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Standard Deviation and Beta. The used data is opening and closing NAVs for five months before Covid-19 effect and five months during Covid-19 pandemic. The source of data is the website of Association of Mutual Funds in India (AMFI) and Money Control and 12 schemes were used for analysis.

The COVID-19 pandemic has caused significant disruption in financial markets worldwide and impacted the performance of investment avenues like mutual funds. It has been a challenging scenario for all mutual funds to sustain the pre-pandemic performance. To understand the mutual fund investment scenario further, this study focused on examining the post-pandemic performance in the year 2021 of various categories of mutual funds, the significance of scheme characteristics in determining the performance, risk-adjusted performance, and outperformance of various categories of funds. Out of 4,305 mutual fund schemes, tax planning funds (58%), sectoral funds (57%), and equity diversified funds (55%) achieved better returns. Further, using the ordinary least squares (OLS) regression, the study estimated the effect of fund characteristics like scheme category, scheme type, scheme access type along with the fund's tracking error and corpus size on funds' return. The results show that tax planning, sectoral, and equity diversified funds significantly outperform. Tracking error significantly reduces the fund return by 4.52%. Scheme type, scheme access type, and corpus size were not significant. Equity, index, pension, and balanced category funds exhibit risk-adjusted performance, and only bond funds were able to outperform the respective benchmarks. [3,4]

COVID-19 carries unprecedented economic damage over natural disasters or nuclear war or climate change, or localised disasters .It has impacted almost all the economy's spheres, such as production, consumption, and accumulation. The financial markets and its included segments like equity, bond, and commodity markets (oil and gold) are severely affected by the globally declared pandemic's vicious hand. This year, the IMF forecasted a global growth at – 4.9%, which is 1.9 per cent below the World Economic Outlook (WEO) forecast for April 2020 . The same source cited a sharp decline of 4.5% for the Indian economy, a historic low rate, due to the pandemic impact of COVID-19. M. Nicolas Firzli, the Director of World Pension Council and the Member of the Advisory board at World Bank Global Infrastructure Facility, referred pandemic period as 'the greater financial crises' [46]. So far, a limited number of studies have addressed the issue empirically and focused on the angle of stock market performance, crude oil price fluctuation, and bit-coin return.

Mutual funds are the favourite avenue for risk-averse investors, and it was severely affected by recent health crises. The equity-oriented schemes have exhibited a negative return of about 25% and Franklin Templeton has announced a historic decision to wind up six debt fund schemes amidst the COVID-19 pandemic .[5,6] Even though the industry has witnessed a sharp increase in the number of new investors . It may be due to the common belief that the actively managed funds always beat the recession and generate a superior return to the investors . Pastor and Vorsatz examined the widely accepted market outperform concept during crises. Consistent with the literature, the present study intended to examine the outperformance of actively managed Indian equity Mutual Funds during the COVID-19 crisis period.

COVID-19 is an infectious viral disease diagnosed at Wuhan (a Chinese city) in late December 2019. Soon it began to spread all over the world along with travellers from China. On 11 March 2020, the World Health Organization (WHO) declared it a global pandemic and issued an advisory to take preventive measures. Globally, there were 20,687,815 confirmed cases of COVID-19, including 750,400 deaths (WHO statistics as of 10:42 am CEST, 14 August 2020). During the initial phase of the outbreak, Europe followed China for reported cases of mortality. Later, the virus spread to the USA with a notorious velocity. India, Brazil, Russia, and the Middle East were seriously affected in the later phase of June 2020. It has impacted almost all the sectors of financial markets such as banks, insurance, stock markets, and mutual funds.

In India, the first COVID-19 case was reported on 30th January 2020. Till now, there are 6, 61,595 (26.88%) active cases; 1,751,555 (71.17%) recovery with a 1.95% fatality rate (as on 14-08-2020, MHFA). To curb the disease contagion, the Govt. of India declared a lockdown on 24th March 2020. It has led to the rise of unemployment in the economy, and almost all the sectors were affected by the vicious cycle of COVID-19. However, the history of Indian MF began in 1963 with the Unit Scheme of Unit Trust of India (UTI). Their monopoly was curtailed by giving operational permission to the public sector MF's such as SBI Mutual Funds, Canara Bank Mutual Funds, and so on. Later, the industry was opened to the private sector and the foreign institutional investors. Presently, there are 43 asset

management companies (AMC's) in operation with an average Asset under management (AUM) of ≠27.12 Trillion (as of 31 July 2020).[7,8]

Actively managed funds are commonly believed for their beating capacity during the market downturn . The study here only considered 1271 equity schemes which are actively managed for a management fee. The managers commonly charge them for this widely believed beating capacity on account of their enhanced in formativeness than the market. The present study aimed to evaluate the performance of emerging Indian mutual funds' during the crisis period and tested for the superior return using asset pricing models' conditional version. The study's significant contribution comes in two ways: first, applying sys-GMM and LSDV models in measuring the mutual fund's performance. The conditional alphas are estimated using the publicly available instrumental variables after conducting the Relevance and Endogeneity test, and the Hausman statistics support for cross-sectional effects are fixed. Second, the study applied panel data analysis in Indian Mutual Funds' overall performance during the pandemic period. The results revealed that the emerging Indian market lacks the ability of superior return during the crisis period. The results of the study are useful to the investors for deciding the profitable investment opportunities.[9,10]

Discussion

The outbreak of Covid – 19 Pandemic has deeply affected worldwide economic development. And economic growth of any country depends on the industry performance. This study helped to understand how mobilization of funds from household sector to corporate sector plays an important role in development of the industry as well as for economy. This study also provided performance evaluation of different equity mutual funds from different categories and their impact on investors mobilized saving or capital market participants considering different aspects such as sharpe ratio, beta and treynor ratio. This study covered the pre and post covid performance of mutual funds across different categories, namely; Small Cap, Mid Cap, Large Cap, Flexi cap, ElSS schemes, Thematic Schemes. It covers the return each fund has given over a period of time, their Sharpe ratio, treynor. At the same time, it provides analysis of additional return per unit of risk evidenced by specific mutual fund scheme. In this research paper an attempt is made on a comparative performance analysis of the growth-oriented equity diversified schemes for 5 months prior to outbreak of Covid-19 and 5 months during Covid-19 on the basis of return and risk evaluation. The analysis was achieved by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Standard Deviation and Beta. The used data is opening and closing NAVs for five months before Covid-19 effect and five months during Covid-19 pandemic. The source of data is the website of Association of Mutual Funds in India (AMFI). This study helped the mutual fund investor to comprehend the performance of different schemes of mutual funds prior period of covid, during covid and after the pandemic ended. For investors, mutual funds are one of the best investment options to get good returns. After the outbreak of Covid -19 Pandemic, global market went down and economy was affected badly.[11,12]

The increasing assets under management (AUM) and the number of funds and schemes over the years have shown an exemplary performance of the mutual fund industry. It has gained popularity among investors for parking their surplus funds much safer than the stock market. This research paper investigated the performance evaluation of large, mid, small, and multi-cap categories from equity diversified funds using statistical parameters like standard deviation, beta, Sharpe ratio, Treynor's index, and Jensen's measure for risk-return analysis. The correlation analysis for the time series along with Nifty 100 TRI as the benchmark was analyzed. The pandemic effect was studied using a multiple regression model, and the results were tested with residual diagnostics. A total of 93 open-ended schemes were selected from the four categories and studied for a period of 4 years from April 2017 – March 2021 with the outbreak of the COVID - 19 in December 2019. The study analyzed the pre and post-pandemic effect on the performance using a dummy variable. The results showed average performance in the case of large, mid, and multi-cap funds, but small-cap funds outperformed the benchmark. The dummy coefficient showing the pandemic effect was positive and statistically significant for the fund categories selected for the study. The pandemic effect did not find average negative performance for the period, and the model was found to be the best fit through the robustness check. However, the fund categories, on the whole, showed a high correlation and were in tandem with the market.

We continue to experience significant economic and social disruptions which give new urgency to the challenges facing mutual funds. In our publication Mutual fund outlook: the time to act is now (July 2019), we highlighted trends we expect to see from 2019 to 2025, such as slower growth, shrinking fees. These trends have all accelerated, and mutual fund

managers need to move even faster to maintain and improve their positions.

With the fast paced, geopolitical environment in mind, you may now be rethinking your forecasts and expectations for the near- and mid-term future. But this isn't just about playing defense: There are steps you can take now to help you prosper over the next four years.[13,14]

Organic growth in the US mutual fund industry has continued to slow, despite upside surprises in the overall market. The long-term outlook is under stress, too, from downward pressure on fees, reduced profit margins and changing investor preferences. Adding significant geopolitical events to the list deepens the challenges for asset managers trying to remain competitive.

The extra-ordinary progress of Indian mutual fund industry can be seen in the growth of its Asset under Management (AUM) from Rs.25 crores in 1964 to Rs.22.26 lakh crores in March 2020. But the outbreak of the pandemic COVID-19 has affected the mutual fund industry.

It was observed that the New Fund offers (NFO) has decreased insignificantly after the outbreak. The number of NFOs was six in February 2020, which further dropped to just one in March 2020 and nil in April 2020. This decline was due to weak market sentiments and declining investor confidence.

The overall industry AUM has decreased by 6.91% in April 2020 compared to April 2019 and Individual investors hold 52.1% of industry assets in April 2020 compared to 54.7% in April 2019. The value of assets held by individual investors has decreased by 11.35% in April 2020 compared to April 2019. Much of the damage was because of outflows in the debt segment that saw the highest outflows in the Indian Debt Mutual Fund segment in a single financial year. Equity investment base managed by Mutual Funds also got cut by a quarter. Nevertheless, the Indian mutual fund industry has the spirit to overcome the situation . Mutual Fund is a trust that collects money from a number of investors who share a common investment objective and then this gathered money is invested by the fund manager into specific securities i.e., stocks or bonds or any other financial instrument. A professional fund manager, who is not only responsible for implementing a fund's investing strategy but also managing its portfolio trading activities, manages the fund thus pooled. Each investor in the mutual fund participates in the gain or loss of the fund based upon the number of shares owned by him .[15,16]

Mutual fund schemes provide excellent opportunities to people to invest a small amount, which will ultimately grow like anything in the period of 15 to 20 years of their investments. The value of a share of the mutual fund is known as the net asset value per share (NAV) which is calculated daily based on the total value of the fund divided by the number of shares currently issued and outstanding by the company .

Equity funds: Also Known as Growth funds, these funds allow the investor to participate in stock markets. The primary objective of this fund is wealth creation or capital appreciation. They have the potential to generate higher return and are best for long term investments.

Debt Funds: These invest in Fixed Income Securities, like Government Securities or Bonds, Commercial Papers and Debentures, Bank Certificates of Deposits and Money Market instruments like Treasury Bills, Commercial Paper, etc. Debt funds are relatively safer investments and are suitable for Income Generation.

Hybrid Funds: These invest in both Equities and Fixed Income, thus offering the best of both, Growth Potential as well as Income Generation[17,18]

Results

If you are new to stock markets and have made your first investment in equity mutual funds during the pandemic, you have most likely earned attractive returns over the last 15-18 months. But here are some words of caution: don't get swayed and set unrealistic return expectations. Many of you may not have seen prolonged bearish market phases.

In the year 2022, if you are hoping to see a double-digit return from equity as an asset class and your equity mutual funds, the Indian equity markets are likely to disappoint you.

I don't want to frighten you with a bearish commentary, but it's important for you to have the right assessment of the macroeconomic situation and that of markets. If you want to sail through 2022, you need to have realistic return expectations.[19,20]

Table 1: Historical Annual Returns clocked by various sub-categories of equity mutual funds

Category	Category Average Returns (Absolute %)							
	2014	2015	2016	2017	2018	2019	2020	2021
Small cap Fund	79.1	11.3	6.8	51.4	-16.4	-0.3	31.9	65.1
Mid Cap Fund	71.7	8.6	4.8	43.8	-10.6	4.2	25.8	46.3
Multi Cap Fund	57.6	5.3	2.9	41.6	-6.1	8.2	16.4	44.5
Dividend Yield Fund	46.0	-3.5	7.7	37.4	-7.3	4.4	20.5	39.8
Large & Mid Cap Fund	52.7	5.5	7.4	39.8	-6.2	9.7	17.2	39.1
Contra Fund	51.3	1.4	6.8	42.3	-3.9	6.1	23.6	38.1
Value Fund	61.4	3.9	7.8	41.2	-8.9	2.8	16.2	37.2
Flexi Cap Fund	51.3	2.7	4.8	36.5	-3.2	11.3	17.5	33.3
Focused Fund	53.7	3.8	6.5	38.5	-5.5	12.6	17.4	33.1
Large Cap Fund	42.3	1.9	4.4	32.0	-0.8	12.9	15.2	27.3
NIFTY 50 - TRI	32.9	-3.0	4.4	30.3	4.6	13.5	16.1	25.6
NIFTY 500 - TRI	39.3	0.2	5.1	37.7	-2.1	9.0	17.9	31.6

Data as of December 31, 2021
(Source: ACE MF, Personal FN Research)

In Table 1 seen above, the highlighted categories have been the top performers in the respective years. For instance, Small-cap Funds outperformed all other sub-categories of equity mutual funds in 2020 and 2021. During the COVID-19 pandemic, as ultra-accommodative fiscal and monetary policies were followed across the globe and that caused unprecedented rallies in global equities; small-caps emerged to be the biggest beneficiaries of this trend.

But the two years preceding 2020 belonged to Large-cap Funds and during this time period, the Small-cap Funds remained at the bottom of the return tally. In 2016, Value Funds outperformed. So in short, no single category has managed to outperform consistently throughout the 8-year period.

And if you delve deeper and analyse the reasons for outperformance, you will see a pattern. If you remember, between 2011 and 2013, the markets were under pressure for various reasons-sovereign debt crisis in Europe, falling Indian rupee, rising Non-Performing Assets (NPAs) in the Indian banking system, and so on. As a result, the small and mid-caps stocks received mighty blows in those three years and valuations became cheap.

In 2014 after the Modi-led-NDA government came to power with a thumping majority, the market sentiment improved substantially and the overall stability in the global markets helped those smaller companies triumph, i.e. the mid-cap and small-cap category outperformed in 2014 and 2015.[21]

The U.S. Federal Reserve (Fed) started increasing the interest rates in December 2015 for the first time after the 2008 global financial crisis. Due to this, the market sentiment turned weak in 2016 and the valuations of small-caps suddenly started appearing expensive. This caused the growth momentum to decelerate. Needless to say, Value Funds outperformed in 2016.

In December 2016, the Fed initiated another rate hike, despite which markets rallied in 2017. Back home, factors such as demonetisation nudged conventional investors to turn towards financial assets, which in a way helped the Indian markets. But with Fed raising rates thrice in 2017, the markets became jittery.

In 2018, the Fed went with four rate hikes, thereby the rates of Fed funds effectively went up from 0.25% in 2015 (before the first rate hike) to 2.5% by December 2018. During this difficult phase, the market rallies became narrower.

Speaking about the Indian economy, the double speed-breakers in the form of demonetisation and the challenges in GST affected the pace of economic growth. Only the big companies managed to sail through, while the informal economy suffered miserably. That's one of the reasons why Large-cap Funds outperformed in 2018 and 2019.

And in the last two years, we all know what happened: we saw a broad-based rally across the large-caps, mid-caps, and small-caps, as people chose to save and invest in equities amidst the pandemic supported by favourable liquidity conditions due to accommodative monetary policy stance followed by major central banks of the world. The extraordinary performance of equities attracted lots of new investors to the equity markets. Those who selected equity mutual funds made striking double-digit returns in 2021, particularly in Small-cap Funds.

You see, small-caps were cheaper at the start of the COVID-19 pandemic, but now these look expensive compared to large caps despite the correction since the peak. The P/E multiple of the S&P BSE Midcap and S&P BSE Small Cap Index is around 28x and 47x, respectively -- not offering enough margin of safety.

Currently, the equity markets are likely to experience certain headwinds. The Fed has hinted at aggressively rolling back its bond-buying programmes and raising interest rates at least three times in 2022. This is likely to make the year 2022 a tricky one for the equity markets.

Also, please do not underestimate the threat of a surge in COVID-19 cases (Delta + the Omicron variant) across India. The current vaccines are not holding up against the new Omicron variant. Also, the uneven distribution of vaccines has been creating disparities globally in the fight against coronavirus. As of January 10, 2022, India's active case count touched 7.24 lakh and the daily new caseload was over 1.3 lakh. As a precautionary step, the Indian government has rolled out a booster dose for healthcare and frontline workers, as well as for senior citizens with co-morbidities.

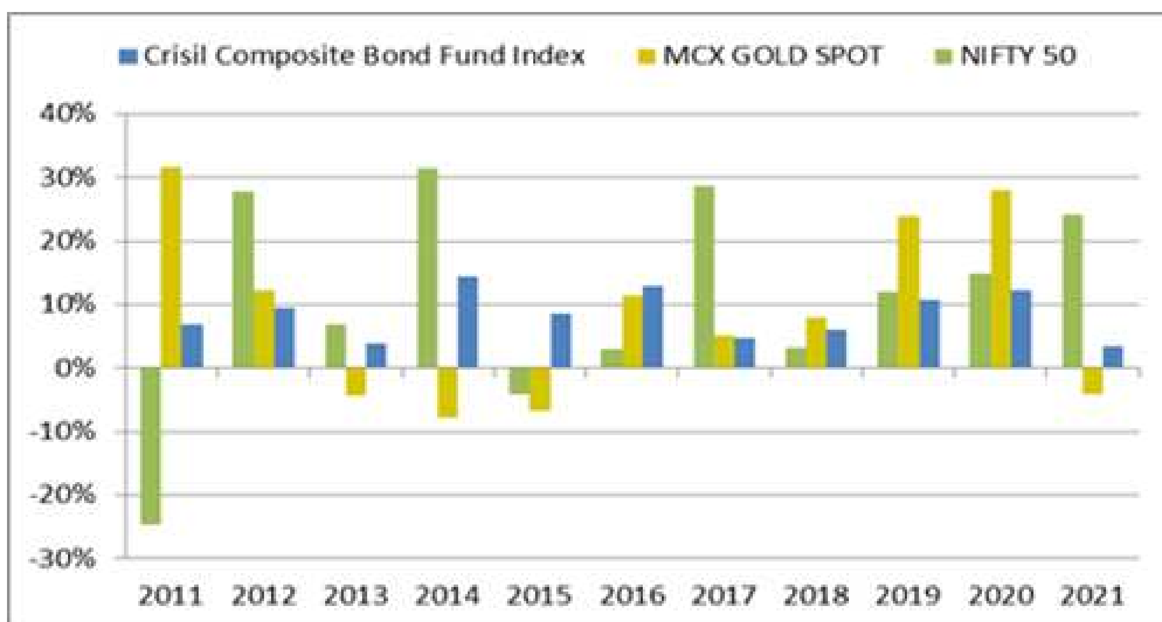
The coronavirus pandemic poses a potential risk to economic activity and may have a bearing on corporate earnings if further restrictions or localised lockdowns are imposed. After the state assembly plus municipal elections conclude, India could witness a spike in daily new cases; this could weigh down on business and consumer sentiments.

The RBI's Financial Stability Report released in December 2021 warns of loss in GDP growth because of Omicron threat and clouded near term outlook. It is very likely that the RBI may revise India's full-year FY22 GDP growth projections downwards from 9.5%. The National Statistical Office (NSO) has already pared India's GDP growth estimate to 9.2% in FY22 from 9.5% projected earlier, indicating that consumption (which comprises 55% of the GDP) may take a hit.[22]

Under such circumstances, overheated equity markets might find it difficult to justify high valuations, thereby posing a threat to the potential stock market returns. In 2022, the Indian equity markets are expected to move in a pro-cyclical manner rather than in a counter-cyclical way as witnessed in 2021 and 2020.

Striking the right asset allocation mix is the best way to mitigate the impact of uncertain and volatile market conditions. This involves investing across equity, debt, and gold, etc. based on your risk profile, investment objectives, the financial goals you are addressing, and the time in hand to achieve those goals.

If a particular asset class performs poorly in a year, a sensible allocation to other asset classes would help lower the risk of the investment portfolio, provide freedom from timing the market (as long as you have made the best investments), earn efficient inflation-adjusted returns, and ensure adequate liquidity of the portfolio. The graph below depicts that not all asset classes perform well at all times. There have been instances where equities have failed to deliver returns.



Graph 1: Annual performance of various asset classes
Data as of December 31, 2021
(Source: ACE MF, Personal FN Research)

"It is the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket," wrote the Spanish writer, Miguel de Cervantes, in the novel Don Quixote. Thus, take care to ensure that your portfolio is well-diversified in 2022 and beyond.

The overall returns on the investment portfolio would hinge on the asset allocation best suited for you, the type of mutual fund schemes you hold and the performance of their underlying portfolios.

To invest in equity mutual funds in 2022 and beyond, follow a time-tested 'Core & Satellite' approach. Many experienced successful equity investors have adopted this investment strategy and benefited from it. The Core & Satellite approach allows you to take advantage of the higher margin of safety and stability large-caps offer while simultaneously capitalising on the potential high growth opportunities of small and midcaps.

The term 'Core' applies to the more stable, long-term holdings of the portfolio, whereas the term 'Satellite' applies to the strategic portion that would help push up the overall returns of the portfolio across market conditions. The 'Core' holding should comprise around 65-70% of your equity mutual fund portfolio and consist of a Large-cap Fund, Flexi-cap Fund, and Value Fund/Contra Fund. Whereas the 'Satellite' holdings of the portfolio can be around 30%-35%, comprising of a Mid-cap Fund, an Aggressive Hybrid Fund, and maybe a tiny portion in a Small-cap Fund (if you have a time horizon of at least 8 to 10 years and the stomach for high risk).

By wisely structuring and timely reviewing the Core and Satellite portions and the holdings therein, you would be able to add stability to the equity mutual fund portfolio while strategically boosting your portfolio returns at the same time.[19,20]

The 'Core & Satellite Investment Strategy' would facilitate optimum diversification across market capitalisation and investment styles to gradually build wealth in the long run. But take care to select the best equity mutual funds for investments for the long term.

Here are a few ground rules to follow to build a portfolio of equity mutual fund schemes based on the Core & Satellite strategy:

1. Consider equity mutual funds that have a strong track record of at least 5 years and have been amongst the top performers in their respective categories.
2. The schemes should be diversified across investment styles and fund management.
3. Ensure that each equity mutual fund selected scheme abides with its stated objectives, indicated asset allocation, and investment style.
4. You should not only invest across investment styles (such as growth and value), but also across fund houses.
5. The equity mutual fund schemes should be managed by experienced and competent fund managers and belong to fund houses that have well-defined investment systems and processes in place.
6. Not more than two equity mutual fund schemes managed by the same fund manager should be included in the portfolio.
7. Not more than two equity mutual fund schemes from the same fund house shall be included in the portfolio.
8. Each equity mutual fund scheme that is to be included in the portfolio should have seen an outperformance over at least three market cycles.
9. You should restrict the count of equity mutual schemes in your portfolio to seven.

Since the markets are expected to remain volatile as the liquidity dries up, it would be wise to take the Systematic Investment Plan (SIP) route to build a portfolio of the best equity mutual fund schemes following the 'Core and Satellite' approach.[21]

Conclusions

A mutual fund invests in a basket of securities (stocks and bonds) depending on the fund’s asset allocation and investment objective. Since the fund invests in specific securities, the fund’s performance is based on how well these securities do. A fund’s investment objective can be to invest 65% of assets in equity and equity-related instruments and the remaining in debt securities. Thus, the fund’s portfolio that heavily invests in equity can take a hit in case of market turmoil. However, fund managers can diversify their investments across sectors, market capitalisations, geographies, and so on, depending on the economic outlook. If the fund portfolio is well-diversified and hedged well, the impact of the market downturn can be minimal. Therefore, the performance of the funds will largely depend on the performance of the securities in its portfolio. In mutual fund investments, one of the most important things to keep in mind is how well the fund invests in a certain sector or industry. This is because some policy changes made by the government can have a significant impact on different parts of the economy in different ways. For instance, during the covid-19 pandemic, the healthcare industry wasn’t hit as much as the other sectors. The stocks prices were more or less stable and have performed well compared to other industries. Similarly, one sector can perform well during a period and sometime may witness some

stiffness. If a mutual fund has high exposure to one sector, a positive trend will help the fund generate good returns. At the same time, if a policy change hurts a sector or industry, the fund performance will have a negative impact.[22]

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