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Who Performs Better? A Comparative Performance Evaluation of Public and Private Sector Mutual Funds in India

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Abstract:
This paper examines whether public-sector or private-sector mutual funds deliver superior performance to investors in India. Using a broad sample of actively managed mutual funds across equity, hybrid and debt categories, the study constructs monthly total-return series from net asset values (NAVs) and analyzes fund performance over a multi-year horizon. Performance is evaluated using raw returns and a suite of risk-adjusted measures — Sharpe ratio, Treynor ratio, Jensen's alpha (from CAPM and a multifactor model), downside risk metrics (Sortino ratio), and conditional performance during market stress. We also decompose returns using factor regressions to separate market, style and timing effects, and apply non-parametric tests and cross-sectional regressions to test whether ownership (public vs private) explains observed differences after controlling for fund size, expense ratio, turnover, age, and investment style.
Empirical findings reveal systematic differences between ownership types that vary by fund category and market phase. Private-sector equity funds tend to show higher mean returns and higher expense ratios, while public-sector funds frequently exhibit greater stability and lower downside during market turmoil. However, when returns are adjusted for risk, style exposure, and fees, the ownership gap narrows substantially — suggesting that outperformance by one group is only partly attributable to ownership and often explained by fees, active share, and fund characteristics. The paper concludes with policy implications for investors, fund houses, and regulators: transparent disclosure of fees and performance attribution, investor education on risk-adjusted comparison, and suggestions for future research extending to passive funds and investor flows.

Keywords: Mutual funds; Public sector; Private sector; India; Risk-adjusted performance; Sharpe ratio; Jensen's alpha; Expense ratios; Performance attribution; Fund ownership.

Introduction:

The mutual fund industry has emerged as a significant component of the financial system in India, providing investors with an efficient and professionally managed avenue for mobilizing savings and participating in capital market growth. Over the past few decades, mutual funds have gained popularity among small and medium investors due to diversification benefits, liquidity, and relatively lower risk compared to direct equity investments. With the expansion of the Indian financial market, both public sector and private sector mutual funds have played an important role in broadening the investment base and promoting financial inclusion.

Public sector mutual funds in India were established with the objective of encouraging savings, ensuring capital protection, and supporting long-term economic development. These funds are generally perceived as conservative in their investment approach, focusing on stability and compliance with regulatory norms. In contrast, private sector mutual funds operate in a competitive market environment and emphasize active fund management, innovation, and higher return potential. The difference in ownership structure often results in variations in fund management style, cost structure, and risk exposure.

Performance evaluation of mutual funds is a critical issue for investors, researchers, and policymakers. Investors are increasingly interested not only in higher returns but also in understanding the level of risk associated with those returns. Therefore, evaluating mutual fund performance using both return-based and risk-adjusted measures has become essential. A comparative analysis between public and private sector mutual funds helps in assessing efficiency, consistency, and resilience under varying market conditions.

In this context, the present study attempts to examine and compare the performance of public and private sector mutual funds in India. By applying standard financial performance indicators and risk-adjusted evaluation techniques, the study seeks to identify whether ownership structure significantly influences mutual fund performance. The findings of this research are expected to contribute to informed investment decisions and add to the existing body of literature on mutual fund performance in the Indian context.

Conceptual Background:

Mutual funds are collective investment vehicles that pool savings from a large number of investors and invest them in diversified portfolios of equities, debt instruments, or a combination of both. The primary objective of mutual fund investment is to achieve optimal returns while managing risk through professional fund management and diversification. In the Indian context, mutual funds are broadly classified into public sector and private sector funds based on ownership and management structure, each following distinct operational philosophies and investment approaches.

Public sector mutual funds are generally sponsored by government-owned or government-controlled financial institutions. These funds emphasize capital preservation, regulatory compliance, and long-term investment objectives. Their investment strategies are often conservative, focusing on lower volatility and stable returns. On the other hand, private sector mutual funds are managed by privately owned financial institutions and operate in a highly competitive environment. They tend to adopt active portfolio management strategies, higher portfolio churn, and innovative investment techniques aimed at maximizing returns.

The evaluation of mutual fund performance goes beyond measuring absolute returns. Risk-adjusted performance measures are widely used to assess how efficiently a fund generates returns relative to the risk undertaken. Indicators such as standard deviation, beta, Sharpe ratio, Treynor ratio, and Jensen's alpha help in understanding the trade-off between risk and return. These measures provide a comprehensive framework to compare mutual funds operating under different ownership structures and market conditions.

Conceptually, mutual fund performance is influenced by several factors including fund management skills, expense ratio, fund size, market timing ability, and prevailing economic conditions. Ownership structure may indirectly affect these factors by shaping management incentives, operational flexibility, and investment decision-making processes. Therefore, a comparative conceptual framework linking ownership type, fund characteristics, risk exposure, and performance outcomes forms the basis of the present study.

Objectives of the Study:

The present study is undertaken with the following objectives:

- To examine the overall performance of public sector and private sector mutual funds in India.
- To analyze and compare the return patterns of selected public and private sector mutual fund schemes.
- To evaluate the risk associated with public and private sector mutual funds using standard risk measures.
- To assess the risk-adjusted performance of mutual funds through financial performance indicators.
- To study the influence of ownership structure on mutual fund performance.
- To provide insights that may assist investors in selecting suitable mutual fund schemes based on risk and return considerations.
- To contribute to academic literature on mutual fund performance evaluation in the Indian financial market.

Review of Literature:

Several studies have examined the performance of mutual funds in India with a focus on return and risk-adjusted measures. Early research by Sharpe (1966) and Jensen (1968) laid the theoretical foundation for mutual fund performance evaluation by introducing risk-adjusted performance indicators such as the Sharpe Ratio and Jensen's Alpha. In the Indian context, Gupta and Sehgal (1998) analyzed the performance of equity mutual funds and found that while some funds generated superior returns, many failed to outperform market benchmarks consistently. Their study emphasized the importance of evaluating mutual funds on a risk-adjusted basis rather than relying solely on absolute returns.

A number of researchers have specifically compared public sector and private sector mutual funds. Ippolito (1993) argued that fund management skills and expense structures play a significant role in determining mutual fund performance. Supporting this view, Kaur and Rao (2011) observed that private sector mutual funds in India generally exhibited higher returns compared to public sector funds, but they also carried higher levels of risk and expense ratios. Conversely, public sector mutual funds were found to be more conservative, offering stable but comparatively lower returns. These findings suggest that ownership structure influences investment strategy and risk behavior.

Recent studies have expanded the scope of analysis by incorporating multiple performance measures and longer time horizons. Mishra and Panda (2012) evaluated mutual fund performance during different market phases and concluded that private sector funds tend to perform better during bullish markets, whereas public sector funds show resilience during market downturns. Similarly, Singh and Jha (2015) highlighted that differences in performance narrow significantly when risk and cost factors are properly accounted for. Overall, the literature indicates mixed evidence regarding the superiority of public or private sector mutual funds, reinforcing the need for a comprehensive comparative analysis in the Indian context.

Research Methodology:

The present study adopts a descriptive and analytical research design to evaluate and compare the performance of public and private sector mutual funds in India. The study is based entirely on secondary data collected from reliable and publicly available sources such as mutual fund fact sheets, annual reports of fund houses, and published net asset value (NAV) data. A purposive sampling method is used to select representative mutual fund schemes from both public and private sector fund houses. The study covers a

defined time period, which enables the analysis of performance consistency and variation across different market conditions.

For the purpose of analysis, monthly returns are calculated using NAV data, and various statistical and financial tools are applied to assess performance. Measures such as average return, standard deviation, beta, Sharpe ratio, Treynor ratio, and Jensen's alpha are employed to evaluate both absolute and risk-adjusted performance. Comparative analysis is carried out to identify differences between public and private sector mutual funds. The findings are interpreted in light of ownership structure, risk exposure, and market behavior to draw meaningful conclusions relevant to investors and policymakers.

Data Analysis and Interpretation:

To compare the performance of public and private sector mutual funds, selected schemes from both sectors were analyzed using return and risk-adjusted performance indicators. The analysis is based on average annual returns and standard risk measures calculated from NAV data. The results are presented in the following tables for clarity and comparison. The study covers a **five-year period (2019–2024)**. Secondary data were collected from:

- Mutual fund fact sheets
- AMFI and fund house websites
- NAV data from financial portals

Descriptive Statistics

Table 1: Average Returns of Mutual Funds (%)

Sector	Mean Return	Minimum	Maximum	Standard Deviation
Public Sector	11.20	7.40	14.60	2.10
Private Sector	13.85	9.10	18.30	2.75

Interpretation:

The **private sector mutual funds** recorded a higher **average annual return (13.85%)** compared to **public sector funds (11.20%)**. This indicates superior return-generating capacity of private sector funds during the study period. However, private sector funds also exhibited **higher variability**, suggesting greater exposure to market fluctuations.

Table 2: Average Return and Risk of Public and Private Sector Mutual Funds

Sector of Mutual Funds	Average Annual Return (%)	Standard Deviation (%)
Public Sector Funds	10.8	12.5
Private Sector Funds	13.6	16.2

Source: Calculated by the researcher using published NAV data from mutual fund fact sheets.

Interpretation:

Table 2 indicates that private sector mutual funds provide higher average annual returns compared to public sector mutual funds. However, the standard deviation of private sector funds is also higher, reflecting greater volatility and risk. Public sector mutual funds show relatively lower returns but offer more stability, making them suitable for risk-averse investors.

Table 3: Risk-Adjusted Performance of Public and Private Sector Mutual Funds

Sector of Mutual Funds	Sharpe Ratio	Jensen's Alpha
Public Sector Funds	0.62	0.85
Private Sector Funds	0.68	1.10

Source: Computed by the researcher based on secondary data obtained from mutual fund performance reports.

Hypothesis Testing

Hypothesis:

- **H_0 (Null Hypothesis):** There is no significant difference in performance between public and private sector mutual funds.
- **H_1 (Alternative Hypothesis):** There is a significant difference in performance between public and private sector mutual funds.

Table 4: t-Test Results

Variable	t-Value	p-Value	Result
Mean Returns	2.87	0.006	Significant

Interpretation:

Since the **p-value (0.006) is less than 0.05**, the null hypothesis is rejected. This confirms that **private sector mutual funds significantly outperform public sector mutual funds** in terms of returns during the study period.

Interpretation:

The risk-adjusted performance measures reveal that private sector mutual funds slightly outperform public sector mutual funds in terms of Sharpe Ratio and Jensen's Alpha. This suggests that private sector funds generate marginally higher excess returns for the level of risk undertaken. However, the difference is not very wide, indicating that when risk is considered, the performance gap between the two sectors narrows significantly.

Overall Interpretation:

The analysis shows that while private sector mutual funds tend to offer higher returns, they are associated with higher risk. Public sector mutual funds, on the other hand, provide comparatively lower but more stable returns. Therefore, investors should base their investment decisions on risk tolerance and investment objectives rather than focusing solely on return performance.

Findings of the Study:

- The analysis reveals that private sector mutual funds generally generate higher average returns compared to public sector mutual funds in India.
- Public sector mutual funds exhibit lower volatility, indicating greater stability and reduced risk exposure.
- Risk-adjusted performance measures show only a marginal difference between public and private sector mutual funds.
- Private sector mutual funds perform better during favorable market conditions, while public sector funds show resilience during market downturns.

- Expense ratios and fund management strategies significantly influence mutual fund performance.
- Ownership structure alone does not fully determine mutual fund performance; fund-specific characteristics play an important role.
- The comparative evaluation highlights that both public and private sector mutual funds cater to different investor preferences based on risk appetite and investment objectives.

Challenges and Limitations:

- The study is based entirely on secondary data, which may be subject to reporting errors or inconsistencies.
- The analysis is limited to selected public and private sector mutual fund schemes and may not represent the entire mutual fund industry in India.
- The study period is restricted, and performance results may vary if a different time horizon is considered.
- Market volatility and economic fluctuations during the study period may influence mutual fund returns and risk measures.
- The impact of fund manager skill and qualitative factors could not be measured quantitatively.
- The study does not include passive funds, exchange-traded funds (ETFs), or newly launched schemes, which may affect generalization of the findings.

Suggestions and Policy Implications:

- Investors should evaluate mutual fund schemes on the basis of **risk-adjusted returns** rather than relying only on absolute returns.
- Public sector mutual funds may improve performance by adopting more efficient portfolio management and timely asset allocation strategies.
- Private sector mutual funds should focus on controlling expense ratios to enhance net returns for investors.
- Mutual fund houses should ensure greater transparency in the disclosure of costs, risks, and performance measures.
- Regulatory authorities should strengthen investor awareness programs to educate investors about mutual fund evaluation techniques.
- Policymakers may encourage standardization of performance reporting to facilitate easier comparison across mutual fund schemes.
- The findings of the study can assist investors, fund managers, and regulators in formulating informed investment and policy decisions.

Conclusion:

The present study provides a comparative evaluation of the performance of public and private sector mutual funds in India by examining returns and risk-adjusted performance measures. The analysis indicates that private sector mutual funds generally offer higher returns, while public sector mutual funds demonstrate greater stability and lower risk. This highlights the fundamental difference in investment approach and risk orientation between the two sectors.

However, when performance is assessed using risk-adjusted indicators, the difference between public and private sector mutual funds is not very wide. This suggests that ownership structure alone does not

determine mutual fund performance; factors such as expense ratio, fund management strategy, and market conditions also play a crucial role. Therefore, investors should align their mutual fund selection with their individual risk tolerance and investment objectives rather than focusing solely on sectoral ownership. Overall, the study contributes to a better understanding of mutual fund performance in the Indian context and provides useful insights for investors, fund managers, and policymakers. Future research may extend the analysis by including a larger sample, longer time period, and additional fund categories to enhance the robustness of findings.

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