

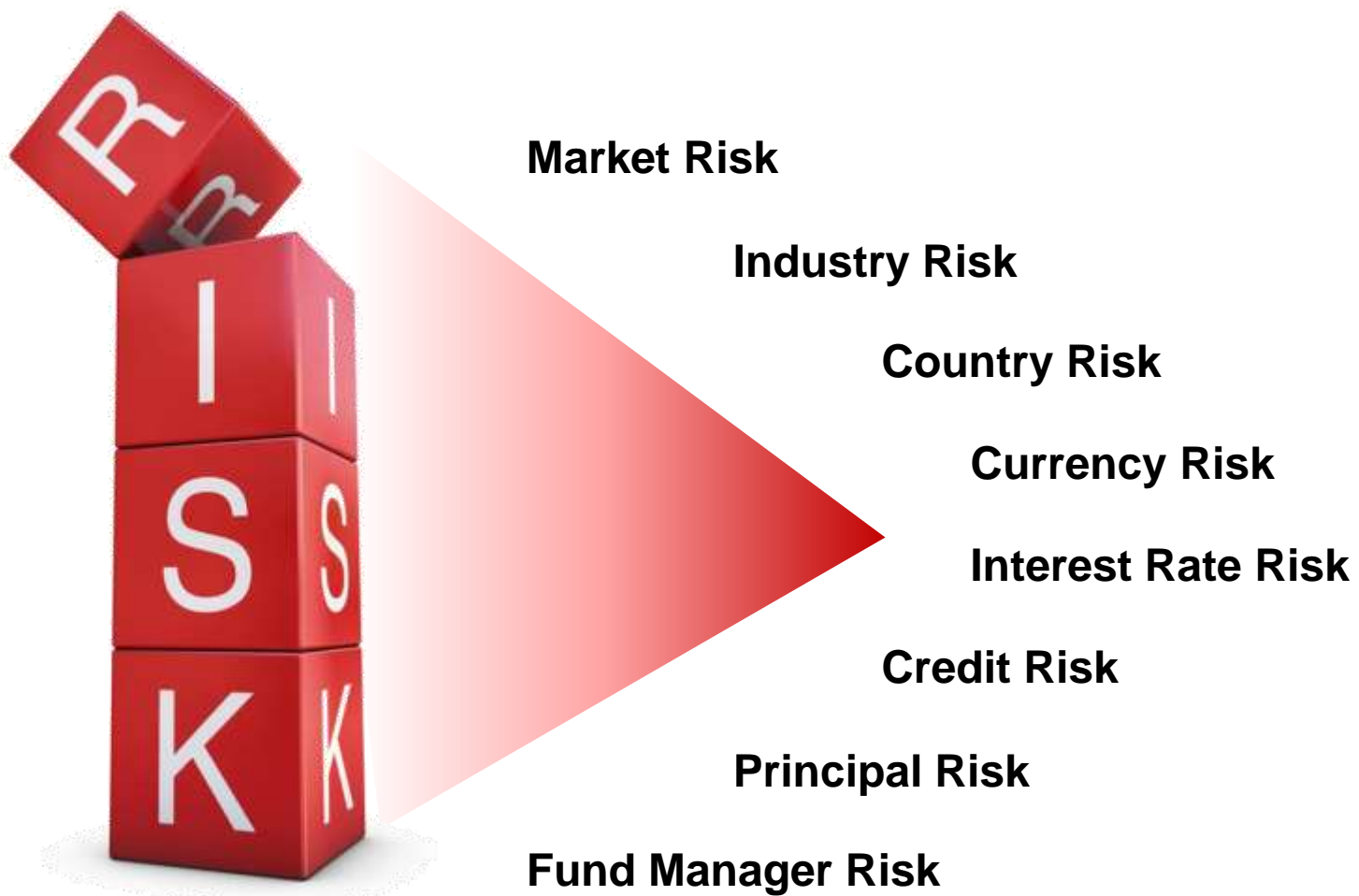


Analysing Risk Return and Performance of Mutual Funds

An Investor Education & Awareness Initiative By Franklin Templeton Mutual Fund



Risks Associated With Mutual Funds



Indicators for Measuring Mutual Fund Risk



Standard Deviation (SD)

is the measure of risk taken by, or volatility borne by, the mutual fund



Beta

is a measure of the volatility of the scheme in comparison to the market indices



R-Squared

It measures the correlation between the scheme's beta and its benchmark index and ranges between 0 and 1



Duration

It measures a bond's sensitivity to changes in interest rates

Calculating Mutual Fund Returns

Absolute Returns
are the simple returns

$$\frac{(\text{End Value} - \text{Initial Value}) \times 100}{\text{Initial Value}}$$

Annualised Return

shows the average annual return on investment over a period of time

Compounded Annual Growth Rate—CAGR
can show you the year-on-year growth rate of your investment over a period of time

$$\text{CAGR} = \left\{ \frac{\text{Ending Value}}{\text{Beginning Value}} \right\}^{\left\{ \frac{1}{\# \text{ of years}} \right\}} - 1$$

Dividend Payout and **Distribution of Bonus**

Things to Consider While Transacting in a Mutual Fund Scheme



While Buying

- Fresh Purchase or Additional Purchase in a Mutual Fund Scheme
- Lump sum or SIP in a Mutual Fund scheme
- You can pay through Cheque / DD / ECS
- Submit Investment form to POA before Cut-off Time
- Collect Acknowledgement Slip



While Selling

- Check Folio Number and Scheme Name
- Mention the No. of Units or Amount you wish to Redeem
- Signature of the Unit Holders should be as per the Mode of Holding
- Check Bank Details for Payment of Sales Proceeds
- Submit Redemption form to the POA before Cut off Time
- Collect Acknowledgement Slip

How to keep a Track of Your Mutual Fund Scheme

- Refer Monthly Fact sheets
- Track Fund Manager details
- Check Holdings in Schemes Investment Portfolio
- Check Funds performance
- Refer Quantitative Indicators
- Consider Fund NAV for Your Portfolio Valuation
- Refer Exit Load Period
- Fund Expenses can be Crucial



Calculation of Returns

	Value (Rs)	Absolute Return (%)	Annualised Return (%)	CAGR (%)
Year 0	1,00,000			
Year 1	1,10,000	10.0	10.0	10.0
Year 2	1,20,000	20.0	10.0	9.5
Year 3	1,30,000	30.0	10.0	9.1
Year 4	1,40,000	40.0	10.0	8.8
Year 5	1,50,000	50.0	10.0	8.4

Source: Investopedia.com

[This return calculation table is for illustration purpose only]

Indicators for Measuring Mutual Fund Performance based on Risk Return Parameters



Sharpe Ratio

A measure developed to calculate risk-adjusted returns

$$\text{Sharpe Ratio} = \frac{(\text{Portfolio Return} - \text{RiskFree Return})}{\text{Standard Deviation of the Portfolio}}$$

Treynor Ratio

It measures risk-adjusted return based on systematic risk

$$\text{Treynor Ratio} = \frac{(\text{Portfolio Return} - \text{RiskFree Return})}{\text{Beta of the Portfolio}}$$

Jensen's Alpha

Represents the difference between actual returns of the scheme vis-à-vis the expected returns of the scheme, over a period of time

Some Key Takeaway Points!

- Mutual Funds Carry Risk
- Interest rates and bond prices are inversely related
- Process driven fund houses are well placed to avoid fund manager risk for their investors
- Standard Deviation measures the risk taken by the mutual fund scheme
- Beta shows the extent to which the return of the scheme is impacted by market factors
- Longer the duration, higher will be the sensitivity of the bond
- Compounded Annual Growth Rate (CAGR) is a better method to calculate long term growth of a mutual fund scheme
- Always compare returns by applying the same method of calculation.
- Sharpe Ratio is an important Ratio to measure risk-adjusted returns
- Treynor Ratio measures risk-adjusted return based on systematic risk
- A scheme with a higher Sharpe Ratio or a higher Treynor Ratio should be preferred for investment
- Alpha indicates the ability of the fund manager to generate additional returns for investors

Some Key Takeaway Points!



- Mutual Funds Carry Risk
- Interest rates and bond prices are inversely related
- Process driven fund houses are well placed to avoid fund manager risk for their investors
- Standard Deviation measures the risk taken by the mutual fund scheme
- Beta shows the extent to which the return of the scheme is impacted by market factors
- Longer the duration, higher will be the sensitivity of the bond
- Compounded Annual Growth Rate (CAGR) is a better method to calculate long term growth of a mutual fund scheme
- Always compare returns by applying the same method of calculation.

Some Key Takeaway Points!



- Sharpe Ratio is an important Ratio to measure risk-adjusted returns
- Treynor Ratio measures risk-adjusted return based on systematic risk
- A scheme with a higher Sharpe Ratio or a higher Treynor Ratio should be preferred for investment
- Alpha indicates the ability of the fund manager to generate additional returns for investors



**We now invite you to test your learning by taking up this simple quiz
(And win exciting prizes!)**



Thank You For Participating!

Quick Quiz

- 1) When Interest rates move up the bond prices _____
 - A. Move up
 - B. Move Down
 - C. Remain unchanged
 - D. None of the above

- 2) A risk that arises when a bond issuer fails to meet his obligation of timely interest payment is called _____
 - A. Interest Rate Risk
 - B. Credit Risk
 - C. Currency Risk
 - D. Industry Risk

- 3) _____ measures the correlation between the scheme's beta and its benchmark index
 - A. Standard Deviation
 - B. Sharpe Ratio
 - C. Alpha
 - D. R-Squared

Quick Quiz



- 4) CAGR shows the year-on-year growth rate of your investment over a period of time
- A. True
 - B. False
- 5) A positive Alpha means the fund manager has managed to _____
- A. Generate returns equivalent to the benchmark index
 - B. Generate returns lower than the benchmark index
 - C. Generate returns in addition to the benchmark index
 - D. None of the above



Mutual Fund Investments Are Subject
To Market Risks, Read All Scheme
Related Documents Carefully.



FRANKLIN TEMPLETON
INVESTMENTS

Franklin Templeton Asset Management (India) Pvt. Ltd.

Indiabulls Finance Centre, Tower 2,
12th and 13th floor, Senapati Bapat Marg,
Elphinstone (W)

Mumbai 400013

Tel (91-22) 6751 9100

Fax (91-22) 6639 1281

www.franklintempletonindia.com



Caveat (Arial Narrow 10pt.)

© 2014 Franklin Templeton Investments. All rights reserved.

For Internal Use Only / Not for Distribution to the Public

FTI PPT 4:3 01/14