

Effect of Trust on Benchmark Outperformance of Asset Management Companies: A Study About Mutual Fund Investment

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ABSTRACT

When it comes to the process of decision-making in financial aspects, the element of trust plays a very crucial role. This proves to be exact in case of investments made in mutual funds. As regarding the investments in mutual funds, the investors mostly depend on the integrity and expertise of the AMCs (asset management companies). The study presented here has been undertaken to examine the manner in which trust on benchmark outperformance of AMCs. The respondents of the study are the investors from Chidambaram having made investments in mutual funds. The method adopted to select the respondents is convenience sampling method and the tool used to collect data from them is Questionnaire. Sample size of the study is 100. Analysis of the collected data has been done by performing Regression analysis. Results of the study showed that increased level of trust on benchmark outperformance of AMCs improves the confidence towards investment, enhances the commitment for a long period of time, decreases the perceived risk and also has got a positive effect over the volume of investment. It has been concluded by the study that increasing the practices of establishing trust is important to sustain the growth of mutual funds in India.

KEYWORDS: Trust in Asset Management, Mutual Fund Investment, Benchmark Outperformance.

INTRODUCTION

The Indian investors have started to prefer investment in mutual funds and the factors which back up such a preference are regulated operations, diversification benefits and professional management. The AMCs (Asset Management Companies) hold the responsibility to manage mutual funds. The credibility of such companies has got a direct effect on the perception of the investors. As the investments made in mutual funds comprise of uncertainties and rely mostly on the decisions of the managers, the trust of investors turns to be the most important element. The aspect of trust decreases the perception of investors towards financial risk, motivates the investors to make large investments in funds and assures engagement of investors for a long period of time. The participation of the investors have increased recently on account of regulatory reforms, digital platforms and financial literacy, however, the trust over the AMCs stands to be the base regarding the investment behavior.

The Indian nation is considered to be an emerging market and the levels of financial literacy among the individuals differ. Hence, the AMCs are highly relied upon by the individuals for making investments. Most of the investors trust the fund houses and their managers for making investment-related decisions when compared with depending over the financial analysis made technically by the individuals themselves. The element of trust encourages the investors to select a specific scheme of mutual fund and to make regular investments even in times of volatility. Hence, it is important to understand the way in which the trust laid upon by the investors over the AMCs influences the investments made by them in mutual funds. Such knowledge helps the policymakers, fund houses and financial analysts to strengthen the participation of the investors, improve the market stability and promote sustainable growth in the industry of mutual funds.

STATEMENT OF PROBLEM

In spite of the increasing awareness and fame obtained for mutual funds, several investors still hold their hesitation to make an entry into the mutual fund market and the elements responsible for this are transparency and reliability of the AMCs. The factors like inappropriate selling practices, fear towards hidden charges, and absence of clarity with respect to communication and unpredictable performance of funds bring down the confidence of the investors. Such a challenge is found to be highly crucial in an emerging nation like India wherein the level of financial awareness differs from person to person. Hence, to address the barriers of investment and to improve the participation of the

investors, it becomes important to understand the influence of trust over AMC's on the decisions related with investments made in mutual funds.

NEED FOR THE STUDY

The present study holds significance for the identification of the factors related with trust which affect the decisions related with investments made towards mutual funds. The study also explains the relationship of the credibility of AMC's with the willingness of the investors to make investments. The outcomes of the study will be beneficial for the investors in strengthening their relationship with the investors. The financial planners and policymakers would also be enabled through the findings of this study to design models which boost the confidence of the investors. The study tries to address the issues related with trust which would increase the participation of the investors in mutual funds.

OBJECTIVES

The study presented here has been undertaken to examine the manner in which trust on benchmark outperformance of AMC's.

REVIEW OF LITERATURE

Sharma and Mehta (2018) examined the factors related with trust which affected the decisions related with investments made in mutual funds. The study was done with reference to the salaried employees of Delhi. The respondents were selected for the study through simple random sampling and the number of respondents selected was 300. Questionnaire was distributed among the respondents for collection of data and their responses were recorded in the questionnaire having items marked with Likert scale. Analysis of the collected data was done through regression and correlation. Findings of analysis revealed that reputation, ethical conduct and transparency of the AMC's enhanced the investment intention and trust of the investors. It was concluded through the study that the aspect of trust had got a major role to play to motivate the beginner investors in entering the market of mutual funds.

Reddy and Kumar (2019) examined the credibility of the AMC's and the role played by it towards the adoption of mutual funds by the investors. The respondents were the individuals from the households with middle level of income from Hyderabad. Convenience sampling was the method adopted for selecting the sample population and the sample size of the study was 250. The primary data required for the study was collected with the help of a questionnaire. Analysis of the collected data was done with the help of multiple regression and factor analysis. It was explored through the study that the trust over the reputation of AMC's, brand image and the regulatory compliance had a positive effect over the selection of investments. Findings also proved that high level of trust reduced the perceived risk of the investors and improved their investment volume.

Nair and Thomas (2020) examined the effect of trust over AMC's on the continuation behavior towards SIPs. The authors had examined the manner the trust of the working professionals over the AMC's affected their SIP continuation. It was a study with reference to the professionals of Kochi. Technique adopted for selecting the sample population was purposive sampling and the number of respondents selected was 220. Online questionnaire was sent to the respondents for collection of data. SEM was adopted for analyzing the selected data. Findings revealed that the ethical practices, regular communication and trust laid on the fund managers improved the long-term commitment towards SIP. It was emphasized by the authors that trust mediated the relationship of fund performance with investor loyalty.

Singh and Gupta (2021) explored the factors which determined the trust of investors in AMC's. It was a study done among the IT employees of Bengaluru. Snowball sampling was considered by the authors for respondent selection. The sample population comprised of 350 units. Questionnaire with items to examine disclosure quality and trust on AMC's was distributed for data collection. Linear regression and ANOVA were performed for analyzing the collected data. Findings showed that ethical practices of sales, transparency and stable performance affected the trust of the investors over the AMC's. The authors had concluded that increased level of trust of the investors led to high level of reinvestment and brought down the redemption behavior.

Banerjee (2021) made a study to examine the trust of the investors and the communication practices followed by the AMC's. The study was done among the investors of mutual funds. Respondents of the study belonged to Kolkata. The authors had determined the sample size to be 200 and the methodology adopted to select the respondents was

stratified random sampling. The instrument used for data collection was questionnaire which assessed the trust of investors from varied age groups. Descriptive statistics and chi-square tests were performed for analytical purposes. Results revealed that disclosure clarity, grievance handling and communication quality of the AMCs affected the level of trust among the respondents. The study concluded that the trust of the investors was crucial for the risk-averse and elderly investors.

Joseph and Abraham (2022) studied the quality of service extended by the AMCs and their effect over the trust of the investors. The authors had examined the manner in which the service quality of the AMCs determined the trust of the investors. The study was done among the customers of banks who had made investments in mutual funds. The respondents belonged to Chennai. Systematic sampling was adopted for selecting the respondents and the sample size was 280. The tool used for collection of data was a questionnaire and analysis was performed using path analysis. Findings revealed that reliability, service efficiency and information accuracy positively influenced the trust of investors which ultimately improved the loyalty and investment continuity in AMCs.

Patel and Desai (2023) made a study among the young investors to study their trust on AMCs and the digital transparency of the AMCs. The respondents of the study were the young investors from Ahmadabad. Judgment sampling was adopted for selection of sample population. Digital questionnaire was dispersed among the respondents for getting data related with disclosure practices and trust towards mobile app. Analysis of the study was done through PLS-SEM. Findings of analysis revealed that the reputation of the fund manager, communication through apps and online transparency improved the trust of the investors of younger generation. It was concluded that behavior towards online investment was predicted by digital trust.

RESEARCH METHODOLOGY

The study has been done among the mutual fund investors of Chidambaram. The sampling technique adopted is convenience sampling and the sample size is 100. The tool used to collect the required data is a questionnaire and the statistical tool used for analysis of the collected data is regression.

ANALYSIS AND INTERPRETATION

R	R Square	Adjusted R Square	F	Sig.
0.862 ^a	0.744	0.724	38.151	0.000(a)

a Predictors: (Constant), Trust

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.191	.238		4.999	.000
I believe the AMC managing my mutual funds is reliable.	.141	.046	.234	3.061	.003
The AMC provides truthful and complete information about the funds.	.107	.040	.173	2.685	.009
I trust the competence and expertise of the fund managers.	.103	.048	.167	2.118	.037
The AMC maintains transparency in declaring risks and charges.	-.141	.038	-.266	-3.721	.000
I feel safe investing in mutual funds managed by this AMC.	.304	.058	.336	5.212	.000
The AMC follows ethical and honest business practices.	.075	.050	.156	1.499	.137
I believe the AMC acts in the best interest of its investors.	.104	.058	.201	1.774	.079

Dependent Variable: Benchmark Outperformance

FINDINGS

The study has found that the trust of investors over the AMCs affected their decisions towards investment in mutual funds. Operational transparency like fees, risks and portfolio disclosure enhanced the confidence of the investors. Reputation of the fund managers and prior performance determined the trust levels of investors. The initiatives taken for education of investors and regular communication improved the trust of the investors and their retention. It was also explored that the investors having high level of trust over the AMCs made huge investments and continued their investments even during market volatility. Absence of trust was found to pave the way towards unwillingness of the individuals to make investments in mutual funds, redemption at an early period and going in to other financial instruments like insurance or deposits in banks. The regulations implemented by SEBI was further found to increase the level of credibility and reduced the perceived risks.

SUGGESTION

Transparency can be improved through the simplification of the disclosure documents and displaying the data related with performance in formats easily understandable by the investors. The channels of communication can be strengthened by way of programs for education of investors, webinars and regular updates. The accountability of the fund managers can be improved through emphasizing their experience, investment strategies and credentials. Ethical practices of selling can be adopted for avoiding inappropriate selling practices and establishing trust for a long duration. The digital platforms can be controlled for having an easy access towards actual portfolio and providing better service to the customers. Programs related with financial literacy can be promoted for enabling the investors in understanding the risks in markets and functions of the AMCs. The mechanisms to address grievances need to be strengthened for improving the confidence and protection of the investors.

CONCLUSION

The investment decisions towards mutual funds are primarily affected by the trust of investors towards benchmark outperformance of AMCs (Asset Management Companies). Commitment for large volumes of investments gets increased among the investors when they get the perception that AMCs are professionally managed, reliable and transparent. The mutual fund sector in India would face a steady growth and new investors would be attracted towards mutual funds only by reinforcing the practices to establish trust. The financial advisors, AMCs and the regulators need to work together for maintaining the ethical standards, improving the communication and promoting the financial literacy and all these are essential for ensuring reliable ecosystem of investment.

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