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Impact of COVID-19 on Mutual Funds in India

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Abstract

The global impact of the COVID-19 pandemic has left an indelible mark on various sectors, resulting in a significant downturn across most industries, with the notable exception being the pharmaceutical sector. This widespread economic turbulence has created a period of considerable uncertainty for investors in mutual funds. This research endeavours to conduct a comprehensive and in-depth analysis of the prevailing market conditions in the aftermath of the COVID-19 pandemic, with a particular focus on the mutual fund landscape. The primary objective is to scrutinize the circumstances faced by both individual investors and mutual fund trusts. Specifically, this article seeks to delve into the extent to which the pandemic has influenced the Mutual Funds Industry in India. It aims to draw comparisons between the situations that prevailed before the outbreak of Covid-19 and those that emerged in its wake. To collect and evaluate the necessary data for this analysis, the study has carefully selected the time frame spanning from December 2019 to June 2021. This period encompasses critical phases of the pandemic and its economic repercussions. The research relies on secondary data obtained from the official website of AMFA (Association of Mutual Funds in India), which offers a chronological record of Net Asset Management values. The results of this study aim to provide precise, insightful, and comparative information within the specified study period, shedding light on the impact of the pandemic on mutual fund investments in India.

Keywords: **Asset Management, Behavioral Finance, COVID-19, Investors' Sentiment, Mutual Funds, Mutual Fund Investments**

JEL Classification Code: G20

1. Introduction

The inception of mutual funds traces back to Europe in the year 1774, courtesy of a visionary Dutch merchant named ***Adriaan Van Ketwich***. Ketwich's groundbreaking concept aimed to aggregate investments from numerous individuals, and he set in motion a trust known as '***Eendragt Magt***', which translates to "Unity Creates Strength" (Rouwenhorst, 2004). This innovative approach encouraged small-scale investors to participate in diversified portfolios, marking the birth of the first-ever closed-end fund. However, 'Eendragt Magt' had a finite lifespan and was eventually liquidated in 1824. Yet, Ketwich's pioneering idea did not fade into obscurity. Bankers in Dutch and Utrecht town seized upon it and redefined it as the 'Profitable and Prudent' fund. This transformation paved the way for the modern concept of mutual funds that we recognize today. Over time, the mutual fund industry has evolved and grown into one of the most rapidly expanding sectors worldwide, offering a diverse array of investment opportunities to a broad spectrum of investors.

In India, the Reserve Bank of India took a significant step in the development of mutual funds by establishing a company known as the 'Unit Trust of India' in 1963. This move was made as a joint venture with the objective of facilitating mutual fund investments, particularly targeting small and less knowledgeable investors. The aim was to encourage these individuals to pool their funds into diversified portfolios, thereby fostering financial inclusion and wealth creation for a broader segment of the population.

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1.1 What is a Mutual Fund Investment?

A mutual fund investment is a financial vehicle that pools the funds of multiple small investors who share common investment objectives. This pooling of funds is typically managed by a company, trust, agency, or a group of individuals. The collected funds are then invested in a diversified portfolio of assets, which may include equities, bonds, securities, or other financial instruments. Each investor in the mutual fund owns a portion of the overall holdings of the fund. The returns generated from the investments are distributed proportionately among all the investors after deducting expenses. This distribution is based on the Net Asset Value (NAV) of the mutual fund.

The Net Asset Value represents the value of the mutual fund in the share market. It is calculated by taking the total value of cash and securities held by the fund and subtracting any liabilities (if applicable). This result is then divided by the total number of investors in the fund to determine the NAV per share. One common type of mutual fund is an **"Open-Ended Mutual Fund**." In open-ended mutual funds, investors have the flexibility to buy or sell shares of the fund at any time. These funds do not have a fixed maturity date, and their key feature is liquidity, allowing investors to enter or exit their investments as needed, unlike systematic investment plans, which may have fixed investment periods.

2. Review of Literature

Venkatesha (2021) In this paper, the primary emphasis of derivatives lies in risk management rather than the complete elimination of risk. In the realm of regular business operations, financial equity derivatives serve as a potent tool for investors to mitigate risks. Derivative investors need to stay attuned to market trends, regulatory changes, government policies, and other factors that influence derivative investments. This awareness, coupled with factors like return potential and investment opportunities, enables investors to make informed and prudent decisions. The current study explores investor perceptions regarding derivatives investments in the Karnataka region. Data gathered from 322 respondents through a questionnaire survey reveals a heightened interest among investors in understanding the equity derivatives market segment. To further enhance investor understanding, the study recommends that companies provide seminars and workshops related to the market, thereby enriching investor knowledge and appreciation.

Corbet *et al.* (2020) At the onset of the global COVID-19 pandemic in 2020, Chinese financial markets played a central role in both the physical and financial aspects of the contagion. The findings of this paper reveal that several features typically associated with a "flight to safety" were evident during the analyzed period. Notably, the volatility relationship between the primary Chinese stock markets and Bitcoin underwent significant changes amidst this intense financial turmoil. This paper offers various insights into the reasons behind this phenomenon, and these shifting correlations in times of financial stress offer additional evidence supporting the cautious integration of Bitcoin into mainstream portfolio strategies, highlighting its potential diversification benefits.

Mittal (2018) This paper provides a concise and informative overview of the concept of investment, emphasizing its fundamental distinction from speculation or gambling. It underscores the importance of making investment decisions based on a thorough analysis of economic, industry, and company factors. The diverse range of investment opportunities available to individuals, catering to their varying risk tolerance levels are highlighted by the author. It mentions examples such as bank deposits, bonds, shares, money market instruments, mutual fund schemes, insurance policies, real estate, precious objects, and derivatives as avenues for potential investment. This paper effectively introduces the subject matter of the paper, which is the exploration and evaluation of different investment avenues in India. It sets the stage for readers by defining investment and its principles.

Arora and Marwaha (2014) The article present a valuable exploratory study that delves into the awareness of stock market investments and the financial literacy of individual stock investors, with a particular focus on the demographic factors of age, income, occupation, and qualification. The methodology, which involves administering a structured questionnaire to 100 individual stock investors in Punjab, provides a solid foundation for the research. One of the strengths of the study is its use of both quantitative and qualitative data analysis techniques, including frequencies, percentages, weighted average scores, and the application of the Chi-square test to examine differences in financial literacy across demographics. This comprehensive approach adds depth and reliability to the findings. The results shed light on the varying levels of awareness among investors regarding different investment options, with a notable emphasis on equities. The identification of areas where investors exhibit high, moderate, or low levels of knowledge regarding stock market traits provides a nuanced understanding of financial literacy. Furthermore, the article's implications for financial service providers are significant. By recognizing the gaps in investor knowledge, providers can tailor their educational efforts to enhance investor awareness and guide them toward suitable investment choices. This research ultimately contributes to the broader discussion on financial literacy and its impact on individual investment decisions.

Murithi *et al.* (2012) This study focuses on analyzing investor behavior to identify optimal investment avenues in India. It underscores the significance of an investment strategy, which serves as a blueprint guiding investors in selecting the most suitable investment portfolio to attain their financial objectives within a defined timeframe. Investment not only contributes to personal wealth growth but also plays a pivotal role in fostering overall economic growth and prosperity. Furthermore, the process of investing supports companies by enabling them to raise capital through financial markets, thereby facilitating business expansion and development. Specific types of investments offer various advantages to investors, corporations, and society at large. The study highlights that Indian investors exhibit a strong awareness of portfolio allocation concepts and the relationship between risk and return in investment decisions. The guiding principle of this investment approach can be summarized as "Prevention is better than Cure," emphasizing the importance of proactive risk management while seeking to enhance income. This prudent strategy aligns with the goal of achieving higher returns with lower associated risks.

3. Research Methodology

This exploratory research study aims to conduct an in-depth analysis of the impact of the COVID-19 pandemic on the Indian Mutual Fund Industry. It leverages secondary sources of information to derive relevant insights and conclusions, ultimately serving as an informative resource for retail investors seeking a better understanding of the situation. The study relies on secondary data collected from a variety of sources, including newspaper articles, magazine articles, reports, and web materials. By aggregating and analyzing information from these diverse sources, the research seeks to provide a comprehensive overview of how the Mutual Fund Industry in India has been affected by the challenges posed by the COVID-19 pandemic.

The primary objective of this study is to offer valuable insights and knowledge to retail investors, enabling them to make informed decisions in the context of the Mutual Fund Industry amidst the ongoing global health crisis. By distilling and presenting relevant information, the study serves as a tool to enhance the understanding of the situation and its potential implications for investors, thus empowering them to navigate these challenging times more effectively.

3.1 Objectives of the Study

1. To study the financial variations faced by the Mutual fund trust during Covid-19.
2. To make a comparative study on the Mutual fund investments pre and post Covid-19

4. Analysis and Interpretation

The term "Asset Under Management" (AUM) pertains to the collective market value of assets that a mutual fund holds at a specific point in time. Table 1 provides an overview of the Total Net Assets Under Management (NAUM) at semi-annual intervals across various investment categories. Upon examining the table, it becomes apparent that the Total Net Asset Under Management in June 2020 experienced a decline of 6.46% when compared to the figures from December 2019. However, there was a notable upturn in NAUM by December 2020, witnessing a substantial increase of 21.23% in comparison to June 2020. Furthermore, by June 2021, the surge in NAUM continued, rising by 12.46% compared to December 2020.

These fluctuations in Total Net Assets Under Management highlight the dynamic nature of mutual fund investments and the changes in the market conditions over the specified time periods. Such data can be crucial for investors and analysts in assessing the performance and growth of mutual fund assets, enabling them to make more informed investment decisions.

Table 1. Net assets under management *(In Crores)*

Type of Funds/ Period	July - Dec 2019	Jan - June 2020	July - Dec 2020	Jan - June 2021
Open-ended	47,37,565.36	44,35,523.46	54,77,316.21	62,72,243.36
Close-ended	3,64,000.61	3,38,767.49	3,10,395.15	2,37,160.64
Interval funds	3,295.55	760.35	746.08	236.00
Total	51,04,861.52	47,75,051.30	57,88,457.44	65,09,639.99

Source: (AMFI, 2020)

Table 2. Funds mobilized *(In Crores)*

Type of Funds/ Period	July - Dec 2019	Jan - June 2020	July - Dec 2020	Jan - June 2021
Open-ended	94,37,400.22	59,92,637.92	38,99,761.34	40,53,019.61
Close-ended	1,671.89	1,098.19	-	1,925.93
Interval funds	0.60	1.67	2.09	1.30
Total	94,39,072.71	59,93,737.78	38,99,763.43	40,54,946.84

Source: (AMFI, 2020)

Table 2 provides an overview of the total funds mobilized during each half-year period, commencing from June to December 2019 and extending through January to June 2021. The data in Table 2 reveals some notable trends in fund mobilization. In particular, it is evident that the total value of funds mobilized into financial markets in June 2020 witnessed a substantial decrease of 36.50% when compared to the figures from December 2019. This suggests a significant shift in investor sentiment or market conditions during that period.

Furthermore, by December 2020, there was a continued decline, with a further reduction of 34.94% compared to June 2020. However, there is a positive note in the data as well. In June 2021, the mutual funds mobilized into various productive purposes in financial markets amounted to Rs. 40,54,946.84, representing a growth of 3.98% when compared to the sum of mobilized funds in December 2020. These fluctuations in fund mobilization reflect the dynamic nature of financial markets and the response of investors to changing economic and market conditions. Such data can be invaluable for financial analysts and investors in understanding the trends in fund flows and their implications for investment strategies.

Table 3 vividly illustrates the significant impact of the Covid-19 pandemic on the mutual fund investment

Table 3. Comparison of Pre-COVID and Post-COVID scenarios *(In Crores)*

Category	Asset Under Management			Funds Mobilized		
Type of Funds/ Period	July 2019 – June 2020	July 2020 - June 2021	%	**July 2019 – June 2020**	**July 2020 - June 2021**	%
Open-ended	91,73,088.82	1,17,49,559.57	+28.08	1,54,30,038.14	79,52,780.95	-48.46
Close-ended	7,02,768.10	5,47,555.79	-22.08	2,770.08	1,925.93	-30.47
Interval funds	4,055.90	982.08	-75.79	2.26	3.39	+50%
Total	98,79,912.83	1,22,98,097.43	-24.46	1,54,32,810.48	79,54,710.27	-48.46

Source: (AMFI, 2020)

landscape. The data highlights a substantial shift in investment patterns in the post-pandemic period. Specifically, it is evident that the Assets Under Management (AUM) have experienced a noteworthy decrease of 24.26% after the onset of the pandemic. This decline in AUM indicates a significant reduction in the total market value of assets held by mutual funds during this period.

Moreover, the data shows that the total sum of funds mobilized through mutual fund investments has declined by a staggering 48.46%. This sharp decrease in funds mobilization underscores a substantial drop in investor confidence and activity in the mutual fund sector, reflecting the uncertainty and economic challenges brought about by the Covid-19 pandemic.

Table 4.3 serves as a clear indicator of the pandemic's profound influence on the mutual fund industry, with both AUM and funds mobilization experiencing significant declines. These findings underscore the need for investors and financial professionals to adapt their investment strategies and risk assessments in response to changing market conditions and external factors.

5. Discussion and Conclusion

In line with our first objective, the Covid-19 pandemic has had a significant setback on the Mutual Funds Industry, leading to a 24.26% reduction in the sector's asset holdings. At the onset of the pandemic, when the nation was under lockdown, all types of mutual fund investments experienced a downturn as trading activities came to a complete halt. However, as trading gradually resumed to normal conditions with some restrictions after July 2020, open-ended funds showed a remarkable recovery, surging by 28.08%. Conversely, during the same period, mobilized funds witnessed an overall decline of 48.46%, although interval funds managed to rise by 50%. This overall decrease in fund mobility underscores the pandemic's impact on the financial circumstances of people in India. The analysis findings indicate that concerning asset accumulation, interval funds and close-ended funds were negatively affected, whereas open-ended funds displayed an upward trajectory amidst the pandemic, recording a notable increase of 28.08%.

In summary, the Covid-19 pandemic significantly impacted the Mutual Funds Industry, causing a 24.26% reduction in asset holdings. The initial lockdown resulted in a downturn in all mutual fund investments, but open-ended funds rebounded by 28.08% after trading resumed. Mobilized funds, however, declined by 48.46%, with interval funds being a notable exception, rising by 50%. This overall drop reflects the pandemic's financial impact in India. The analysis highlights open-ended funds' resilience during the pandemic, contrasting with negative effects on interval and close-ended funds.

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