

## **Chapter-V**

# **PERFORMANCE AND DISCLOSURE**

Disclosure plays an important role in helping investors both make sound investment decisions and evaluate the investments they own. Even investors who do not themselves read disclosures can benefit indirectly if improved transparency leads to beneficial market competition<sup>1</sup>. It is often argued that strict disclosure requirements lead to liquid and efficient markets in financial securities and reduce the cost of capital of firms<sup>2</sup>. The need for disclosure regulations has been highlighted by Grossman and Milgrom among others where the scholars showed that lack of disclosure is taken to be bad news, forcing thereby the responsive fund houses to reveal its information.

However, full voluntary disclosure rarely seems to occur in reality, and firms typically do not disclose more than what regulations require. One possible reason for the lack of full disclosure is that disclosure is costly to firms. Previous research on financial disclosure recognizes that mandatory disclosure has both costs and benefits<sup>3</sup>. The costs include direct expenses associated with producing and disseminating information on investment position and also a range of potential costs that a disclosure may lead to when private information becomes publicly available. The benefits of disclosure emanate from the potential improvements in investor choice that result from detailed information availability.

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<sup>1</sup> Recommendation of the Investor Advisory Committee Regarding Mutual Fund Cost Disclosure (April 14, 2016)

<sup>2</sup> Admati, Anat and Paul Pfleiderer (2000), "Forcing Firms to Talk: Financial Disclosure Regulation and externalities," *Review of Financial Studies* 13, 479-519.

<sup>3</sup> Myers et al. (2001)

Both the costs and benefits of disclosure are typically very difficult to quantify. Some fund managers voluntarily disclose their fund positions more frequently than the regulator requires. They presumably believe that investors are more likely to invest in a fund that provides timely portfolio information, and they value the associated increase in their fund's assets. A potential benefit of disclosure is that it may convey information on a firm's successful past investments to prospective investors and thereby attract them to the fund. Besides, voluntary disclosure of product innovations or other research results may increase firm value by convincing the investors about the firm's research acumen. Moreover, to the extent disclosure reduces information asymmetries; it can increase the liquidity of stocks and reduce trading costs incurred by investors trading among themselves. The literature on window dressing by mutual funds and other investment managers, including the ones by Carhart, Kaniel, Musto and Reed (2002), Lakonishok, Shleifer, Thaler and Vishny (1991) and O'Neal (2001), suggest that investors normally foresee the prospects of good performance in future by analysing a fund manager's past performance. It seems logical, in the above context, to infer that the better performing fund houses are likely to be more responsive to investors' needs and hence go for higher levels of disclosure; while the improved visibility via adequate disclosure may have a bearing on investors' confidence and trust and thereby may pave the way for higher performance levels of fund houses via enhanced resource mobilisation and accretion to average asset under management. The possibility of existence of a modest degree of association between the two variables – disclosure levels of fund houses and their performance levels – cannot be logically ruled out.

Given the possibility as noted above, the Chapter dedicates itself to examining the two questions-

- i. Whether those of the selected fund houses that had better performance ranking also had better disclosure levels?

- ii. Whether, for the selected fund houses, any association could be found between their performance and disclosure levels? To place it differently, whether at least in majority of the cases (say, in three out of four cases, if not in all), an association between the two variables – performance and disclosure levels – can be statistically inferred?

In what follows, the above questions are examined in detail.

### 5.1 CORRELATION BETWEEN PERFORMANCE AND DISCLOSURE LEVEL

The performance of the selected fund houses were measured in terms of (i) net accretion to AAUM and (ii) net resources mobilised by the fund houses during 2007-2015. Accordingly, the fund houses were ranked both in terms of their total net accretion to AAUM and total net resources mobilised. Based on the ranks so obtained, the composite performance rank of the fund houses was ascertained.

The disclosure level of the selected fund houses were assessed on the basis of the disclosure scores as indicated by their actual disclosures against statutory requirements (in terms of percentage) and based on these disclosure scores, the composite disclosure ranks of the fund houses were determined.

Table E-1 presents the comparison between performance rank and disclosure rank.

**Table E-1: Comparison between Performance Rank and Disclosure Rank of Fund Houses**

Fund House	Rank in terms of Net Accretion to AAUM during 2007-2015	Rank in terms of Total of net Resources mobilised during 2007-2015	Composite Performance Rank	Composite Disclosure Rank
HDFC Mutual Fund	1	1	1	2
Birla Sun Life Mutual Fund	2	2	2	1
UTI Mutual Fund	3	4	3	4
Franklin Templeton Mutual Fund	4	3	4	5
Tata Mutual Fund	5	6	5	6
JM Financial Mutual Fund	6	5	5	7
Baroda Pioneer Mutual Fund	7	7	7	3
LIC Nomura Mutual Fund	8	8	8	8

*Source:* Compiled on the basis of data furnished in Table C-7 and Table D-11

To examine whether there exist any relationship between the performance and the disclosure level of the fund houses, the Spearman's rank correlation coefficient is applied between-

- i. composite performance ranks of the select fund houses and their composite disclosure ranks;
- ii. the ranks of the fund houses' in terms of net accretion to AAUM and their respective composite disclosure ranks, and;
- iii. the ranks of the fund houses' in terms of total Net resource mobilised and their respective composite disclosure rank.

The result of the rank correlation analysis is summarised below:

(i)	Correlation between <i>Composite Performance Rank</i> and <i>Composite Disclosure Rank</i>	<b>0.70</b>
(ii)	Correlation between <i>Net Accretion to AAUM Rank</i> and <i>Composite Disclosure Rank</i>	<b>0.74</b>
(iii)	Correlation between <i>NRM (Total Net Resources Mobilised) Rank</i> and <i>Composite Disclosure Rank</i>	<b>0.69</b>

From the above analysis, it is observed that there exists a relatively high correlation (+0.7) between the performance ranks and the disclosure ranks of the fund houses which is indicative of existence of a modest relation between the two variables examined i.e., performance of the fund houses and their disclosure levels.

Table E-2 presents the comparison between performance and disclosure level of the selected fund houses.

**Table E-2: Performance and Disclosure by the select Fund Houses**

Name of the Mutual Fund	Total Net Accretion to AAUM during 2007-2015 (₹ in lakhs)	Total net Resources mobilized during 2007-2015 (₹ in crores)	Average Disclosure Level (%) during 2007-15
Baroda Pioneer Mutual Fund	706647	1639	81.86
Birla Sun Life Mutual Fund	9822356	65692	90.51
Franklin Templeton Mutual Fund	4729604	26228	80.06
HDFC Mutual Fund	12979829	77201	88.56
JM Financial Mutual Fund	844961	6687	68.45
LIC Nomura Mutual Fund	-227311	88	56.63
Tata Mutual Fund	1300254	6158	70.43
UTI Mutual Fund	5450508	12790	80.09

*Source:* Compiled on the basis of data furnished in Table C-4, C-6 and D-11.

Carl Pearson coefficient of correlation is also measured for the following:

- i) the correlation between the total net accretions to AAUM and average disclosure levels of fund houses, and;
- ii) the correlation between total net resources mobilised by the fund houses and their average disclosure levels.

The obtained coefficient of correlating is shown below:

(i) Correlation between Total Net Accretion to AAUM and Average Disclosure Level of Fund Houses	<b>0.80</b>
(ii) Correlation between Total Net Resources mobilised and Average Disclosure Level of Fund Houses	<b>0.75</b>

The obtained correlation coefficient between total net accretion to AAUM and average disclosure levels of the fund houses; and total net resources mobilised and average disclosure levels of the fund houses are also found to be positive and high in both the cases (0.8 and 0.75 respectively) and provides a further confirmation to the results obtained from the analysis of rank correlation between the two variables, i.e., performance and disclosure level of the selected fund houses.

By taking (i) total net accretion to AAUM and (ii) total net resources mobilised as the performance parameters, the association between performance and disclosure levels of fund houses was examined. For this, the Chi-square based Cramer's V test was applied which is elaborated in the following sections:

## 5.2 ASOCIATION BETWEEN PERFORMANCE AND DISCLOSURE LEVEL

For confirming whether a modest association exists between performance and disclosure, the Chi-square based Cramer's V test is applied. Two sets of data are used for the purpose. The first set relates to-

- i. Total net accretion to AAUM during 2007-2015,
- ii. Total Net resource mobilisation during 2007-2015,

The other set of data relates to the disclosure scores of fund houses as indicated by their actual disclosures against statutory requirements (in terms of percentage).

Given that, performance of fund houses was being assessed in terms of the two parameters- (i) net accretion to AAUM of the fund house; and (ii) net resources mobilised by the fund house, by means of the Cramer's V test, the question that is sought to be examined is:

Whether a modest association can be presumed at least in majority of the cases, if not in all, between (a) net accretion to AAUM of the fund houses and their disclosure levels and also between (b) net resources mobilised by fund houses and their disclosure levels?

The test results are presented below by means of Tables E-3 and E-4.

**Table E-3: Association between net accretion to AAUM of the fund houses and their disclosure levels: Results of Cramer's V test**

Fund House	Total Net accretion to AAUM during 2007-2015 (₹ in lakhs)	Average Disclosure Level (₹ in crores)	Cramer's V Value	p-value of Cramer's distribution
Baroda Pioneer Mutual Fund	706647	81.86		
Birla Sun Life Mutual Fund	9822356	90.51		
Franklin Templeton Mutual Fund	4729604	80.06		
HDFC Mutual Fund	12979829	88.56	1.00	0.229
JM Financial Mutual Fund	844961	68.45		
LIC Nomura Mutual Fund	-227311	56.63		
Tata Mutual Fund	1300254	70.43		
UTI Mutual Fund	5450508	80.09		

*Source:* Compiled on the basis of data furnished by Tables C-4 of Chapter III and D-11 of Chapter IV.

**Table E-4: Net resources mobilised by fund houses and their disclosure levels: Results of Cramer's V test**

Fund House	Total Net Resources Mobilised during 2007-2015	Average Disclosure Level	Cramer's V Value	p-value of Cramer's distribution
Baroda Pioneer Mutual Fund	1639	81.86		
Birla Sun Life Mutual Fund	65692	90.51		
Franklin Templeton Mutual Fund	26228	80.06		
HDFC Mutual Fund	77201	88.56		
JM Financial Mutual Fund	6687	68.45	1.00	0.229
LIC Nomura Mutual Fund	88	56.63		
Tata Mutual Fund	6158	70.43		
UTI Mutual Fund	12790	80.09		

*Source:* Compiled on the basis of data furnished by Tables C-6 of Chapter III and D-11 of Chapter IV.

Noticeably, in both Table E-3 and Table E-4, the obtained Cramer's V value is 1 which is indicative of a straight association between performance and disclosure levels. Though, the confidence level for making such an assertion is eroded by the obtained p-values. The overall message coming out from the tests points broadly to the possibility of an association between the two variables – performance and disclosure levels. Though such an association should not be inferred *a priory* in all cases.

The obtained test results are plausible as a firm's performance eventually is the function of a number of other variables (like, management efficiency or prudence of investment-decisions, among others). It might be too sweeping in the given context to view disclosure level as the only determining variable of performance; neither should it be presumed that a fast growing mutual fund



house will always behave in an ethical and responsive manner showing thereby high disclosure levels.

Nonetheless, the test results demonstrate that at least for the cases considered, the better performing firms could show higher degree of responsiveness in terms of better disclosure.

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