MFs SHONE IN FY25 DESPITE LATE MKT DIP

Driven by supportive market conditions, increased investor awareness, and a growing economy, the mutual fund industry is poised to attract more investors and assets, fuelling continued expansion and success

Most active equity funds beat benchmarks

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Mumbai, 18 April

Majority of equity fund managers were able to squeeze in some extra returns over their benchmarks in 2024-25 (FY25). While some managed to do so by delivering outsized returns during the equity market rally in the first half of the year (H1FY25), others succeeded by limiting the downside during the market downturn.

The performance, according to experts, depended on the sectoral allocation. Funds with higher exposure towards financials or lower ownership in information technology (IT) stocks benefited in recent months.

"Most active funds, especially largecap schemes, were overweight on financials while being underweight on IT. The market has played out according to expectations. The outperformance in quality stocks in the past six months also tilted the scale in favour of active funds," said Rahul Jain, senior vice-president (research), International Money Matters.

Largecap funds have also benefited from the outperformance of their midcap and smallcap allocation in recent years, said experts.

The other factor, which is key to active funds' performance, is the movement in top few stocks in the index. If the index is driven by its large few constituents, active funds struggle to match the performance.

"Performance is also subject to stock weightages, especially to the ones that have a large presence in the benchmark. Allocation towards different sectors also has a say in the comparative returns," said Vishal Dhawan, founder & chief executive officer (CEO) of Plan Ahead Wealth Advisors.

According to Rahul Jain, president & head, Nuvama Wealth Management, there were other factors at play as well.

"High beta stocks and concentrated portfolios raced ahead of the benchmarks in the first half of the year, creating enough alpha to withstand the volatility that followed. Many funds also held cash in their portfolios as they anticipated a significant market correction," he said.

While largecap schemes bucked the long-term trend with 55 per cent of them outperforming last year, the reverse was true in the case of midcap and smallcap schemes.

In FY25, only 56 per cent of midcap schemes managed to beat the Nifty Smallcap 250 TRI as against 69 per cent in the 10-year period.

In the case of midcap funds, 66 per cent schemes outperformed last year. In the 10-year period, all of the 20 schemes have beaten the benchmark.

The surge in underperforming schemes in the smallcap and midcap space in recent years is attributed to the underperformance of their largecap holdings and sharp rally in select stocks in the indices.

LARGECAP FUNDS HAVE ALSO BENEFITTED FROM THE OUTPERFORMANCE OF THEIR MID AND SMALLCAP ALLOCATION IN RECENT YEARS, BUT LONG-TERM PERFORMANCE REMAINS DISMAL

According to experts, the largecap space is a difficult terrain for fund managers due to limited stock universe and negligible pricing anomalies or information asymmetry.

The large investment universe in the midcap and smallcap space makes it a comparatively easier segment for fund managers.

Investment advisors say that the poor performance of active equity schemes across categories in the three- and five-year time frames makes a case for investors to invest across both active and passive funds.

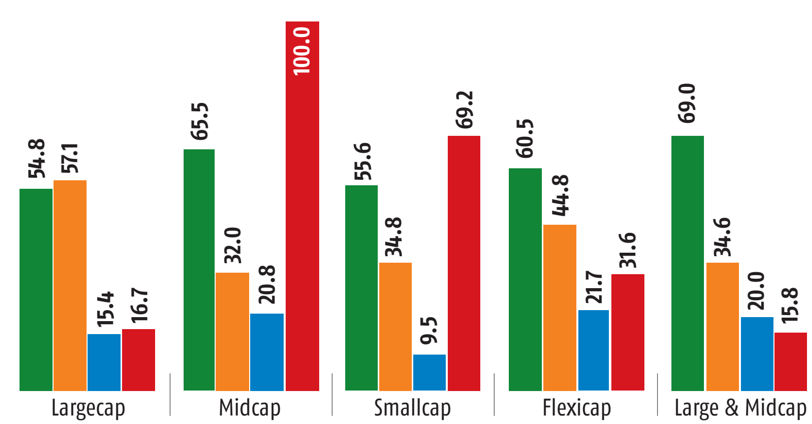
"It builds a very strong case for investors to have a mix of active and passive funds in their portfolio. Going by the data, it is very challenging to know in advance whether your selected active fund will actually outperform the index or not. At the same time, because there are also funds that are outperforming, you don't want to be left out without having any active funds in the portfolio," said Dhawan.

ILLUSTRATION: BINAY SINHA

RETURNS CONUNDRUM

Over a 10-year period, a majority of largecap, large & midcap and flexicap schemes failed to generate an alpha

% of schemes outperforming* 1-year 3-year 5-year 10-year



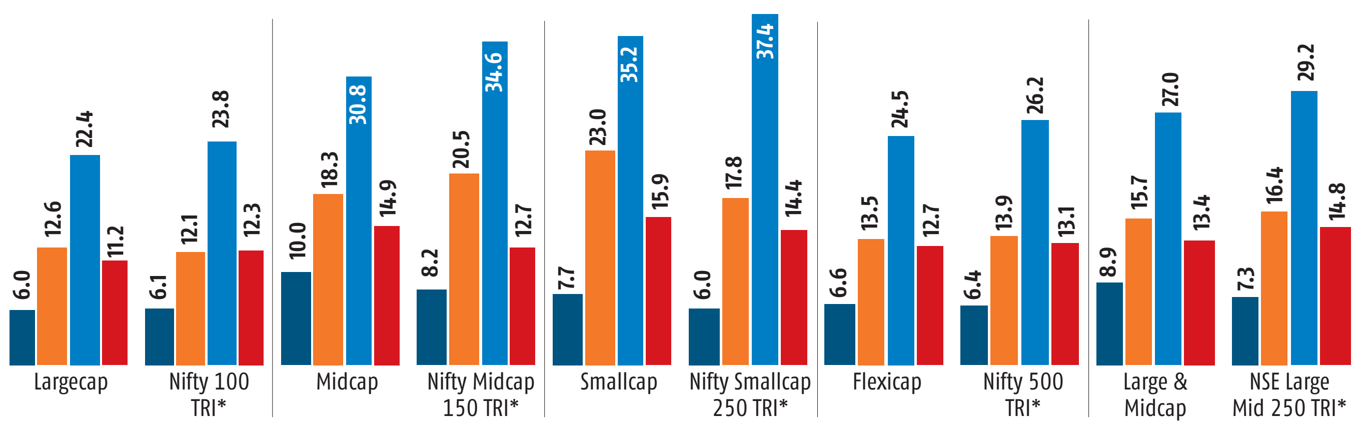
*vis-à-vis NSE benchmarks; data for regular plan as of March 31, 2025

Source: Value Research, Bloomberg

MIXED RESULTS

Most scheme categories have generated higher returns than the benchmark in the 1-year period

Average returns for the category vis-à-vis NSE benchmarks (in %) 1-year 3-year CAGR 5-year CAGR 10-year CAGR



*Benchmarks; Data as of March 31, 2025

Source: Value Research, Bloomberg