



The hidden cost of blindly chasing MF leaderboards and past returns

How market cycles and styles keep reshaping mutual fund rankings, and why recent performance rarely repeats

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Chasing last year's best-performing mutual funds may feel sensible—but the data shows it is one of the most unreliable ways to build a portfolio. A new analysis by PGIM India Mutual Fund exposes how quickly top-ranked equity funds lose their edge, often sliding down performance charts within a year or two. The findings challenge a deeply ingrained investor habit: trusting recent returns as a shortcut to future gains.

The study tracked the top 10 equity mutual funds of 2014 and mapped their rankings year by year through 2025. It also examined whether using three-year return rankings offered greater stability. The answer was unambiguous: even slightly longer performance windows failed to deliver consistency.

What emerges is a clear pattern. Funds that dominate one period rarely stay there. Many fall sharply in subsequent years, with several dropping into the bottom quartile. The data underlines why investors must move beyond headline returns and evaluate funds across cycles, styles, and risk metrics before making allocation decisions.

What the data shows

The study does not disclose fund names, instead tracking rank movements over time. For instance, Fund A, which topped equity fund rankings in 2014 in terms of annual returns, retained the top position in 2015. However, fell sharply to the 128th rank in 2016.

Fund B, which was ranked second in 2014, slipped to 37th place in 2015 and further to 141st in 2016. Fund C, the third-ranked fund in 2014, improved to second place in 2015 and then fell to seventh in 2016, before dropping to 46th position in 2017.

By 2018, every single top-performing fund had moved to the bottom quartile. Within categories, too, the story is similar. The study considered the mid-cap category and the top-ranked funds in the category in 2018.

The top-performing mid-cap fund in 2018 remained in the same spot in 2019, but slipped to the sixth spot in 2020 and the 17th spot in 2021. The fund remained outside the top 10 for the rest of the period.

The study also looked at rankings based on three-year returns. Did the slightly longer period give more consistency to the rankings? However, the results were similar. Of the funds that were in the top quartile between 2014 and 2017, only 12.5% stayed in the top quartile in 2018. Of the funds that were in the top quartile between 2015 and 2018, just 8.3% remained in the top quartile in 2019. Of the funds that were in top-quartile between 2018-2021, only 11.1% remained in top-quartile in 2022.

What drives divergence

A fund's position at the top of performance charts is not always a reflection of superior investment skills alone. Certain investment styles tend

Mutual funds: go beyond past year's winners

Mutual fund investors often look at the top performing funds of previous year when building their portfolio. A recent study showed how this approach can backfire.

How equity funds' rankings change year-on-year

Fund name (anonymized)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*
Fund A	1	1	128	1	164	105	12	39	27	182	87	270
Fund B	2	37	141	9	170	174	26	16	184	11	156	208
Fund C	3	2	7	46	169	152	13	18	138	22	73	229
Fund D	4	69	34	7	168	178	108	107	86	16	166	221
Fund E	5	7	67	3	156	167	21	3	48	5	67	266
Fund F	6	12	111	14	115	80	32	85	169	196	66	182
Fund G	7	46	93	56	149	159	14	53	155	115	100	231
Fund H	8	25	26	40	159	173	77	21	88	3	102	273
Fund I	9	29	22	44	132	78	50	40	60	98	18	143
Fund J	10	60	77	52	124	161	68	46	92	81	60	14
Total schemes analysed	147	152	161	162	170	180	196	208	225	244	266	281

*2025 data is as of 30 November 2025; cells are shaded blue when the fund has fallen outside the top-100

Source: Data compiled and analysed by PGIM India MF, funds were analysed across large-caps, mid-caps, small-caps, large & mid-cap, flexi caps, multi cap, contra, value and equity-linked savings scheme

If funds were picked based on 3-year return rankings

Three-year periods	Quartile 1 funds	Funds in Q1 after 3-year period	Persistency (in %)
2014-2017→2018	38	5	12.5
2015-2018→2019	40	4	8.3
2018-2021→2022	45	5	11.1
Average	41	5	10.6

Top-quartile funds are funds in top 25% of returns

Source: Data compiled and analysed by PGIM India MF

Important takeaways for investors

- Point-to-point recent returns can mislead
- Markets favour certain styles in certain periods
- Check rolling returns over long time-frames
- Rolling returns are based on long-term daily averages
- Look at fund manager, team, investment process
- Track fund manager's outlook; gauge investment philosophy
- Look at risk ratios such as Sharpe ratio, Sortino ratio*

*Sharpe ratio: Measures how much return a fund delivers for the risk it takes; Sortino ratio: Measures how much return a fund delivers for downside risk only.



to perform well during specific phases of the market.

For example, the divergence between the top-performing and worst-performing mid-cap fund in 2024 was 45 percentage points. "This was because the markets were dominated by momentum and value style," pointed out Abhishek Tiwari, chief executive officer of PGIM India Mutual Fund.

"These data points highlight the importance of diversification when building a mutual fund portfolio. When the market cycle changes, the leaderboard changes too. Because categories and styles rotate, the safer choice is to diversify across both," he added.

Retail investors looking purely at recent returns of a fund, may end up entering the fund when returns are peaking out. The top-ranked mid-cap fund in 2024 attracted an unusually

large share of mid-cap category inflows—between roughly 22% and 53%—only to slip sharply from the top spot to 259th in terms of year-to-date returns.

Experts advise investors to examine a fund's past performance more closely. Putting too much emphasis on recent returns and point-to-point performance metric may not offer full picture.

"Since trailing returns tend to be the most commonly available and published information, they tend to be the most used metric when investors are deciding on which fund to invest in,"

said Vishal Dhawan, founder of Plan Ahead Wealth Advisors.

Point-to-point returns are biased by the start and end points. For example, if 2020 post-covid returns were looked at, value-oriented funds did well as value style tends to do well at the early stage of economic recovery.

Investors should start by examining risk-adjusted performance across rolling periods rather than point-to-point returns, said Kaustubh Belapurkar, director-manager research, Morningstar Investment Research. "Since most retail investors invest through SIPs, analysing SIP returns is also useful. Ultimately, the ability to perform steadily across cycles matters more than short-term outperformance, hence looking at long-term returns is the better approach."

Rolling returns are more comprehensive, as returns are rolled daily across the specified time period. For example, looking at one-year return will involve looking at the average of daily one-year returns across the time period.

Similarly, examining three-year rolling returns would mean looking at the average of daily three-year returns across the time period. It is advisable to examine longer time periods—10 years or 20 years—spanning multiple market cycles. Longer

time frames capture a wider set of observations, making rolling return analysis more useful.

Beyond returns

You also need to look beyond returns. Returns are the culmination of a strong team and a well-defined investment process, which can be consistently applied to achieve repeatable results. It is unlikely that a fund can consistently deliver excellent returns without a good team and process," said Bealpurkar.

"Look at risk ratios in addition to rolling returns tends to make the selection process more robust" said Dhawan. For example, a Sharpe ratio of a fund gives an indication of how much return a fund has generated per unit of risk. Sortino ratio measures the performance of an investment with respect to downward deviation.

Most mutual fund distributors usually advise retail investors to try and understand the fund manager's investment philosophy.

"You can get a sense of the investment philosophy by tracking the fund manager's media commentary, investment notes, fund factsheets, etc.," explained Deepak Chhabria, the founder of Axiom Financial Services.

"You must also look for fund managers that stick to their philosophy despite the market noise. Keeping track of the fund manager's commentary and underlying investments in different market phases helps in understanding this. Eventually, the fund's performance depends on the fund manager's conviction and philosophy, which drives the fund's overweight or underweight stance versus its category and benchmark."

According to Surya Bhatia, financial adviser at Asset Managers, new funds are only worth considering if they offer something unique to the investor. "Unless that's the case, we prefer funds with long-term track record across market cycles. It gives an indication of how the fund manager navigates different phases of markets," he said.

This shows the importance of long-term track record as both mutual fund distributors and registered investment advisors tend to shy away from funds lacking a track record.

The takeaway

Recent returns get a lot of eyeballs because that's what usually gets advertised, but chasing fund returns is not the best approach when it comes to building your mutual fund portfolio. You need to look at historical rolling returns, ideally over 7-10 year investment cycles, if not more, and that should be the starting point.

If you are putting money in a fund month after month and that becomes the foundation of your financial health, don't stop at returns. Invest the time to assess the investment team and look at ratios that extend beyond returns.



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