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# SPIVA<sup>®</sup> India Scorecard

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## SUMMARY

- The index versus active debate has been a contentious subject for decades, and there are strong opinions on both sides. The SPIVA India Scorecard is the de facto scorekeeper of this debate as it pertains to India. The SPIVA India Scorecard reports on the performance of actively managed Indian mutual funds versus that of their benchmarks, showing equal-weighted peer averages.
- Last year was phenomenal for the Indian capital market. Foreign institutional investors pumped almost USD 16.2 billion in the country's equity market and USD 26.2 billion into its debt market. The Indian rupee remained in the range of 58.42 to 63.75 per U.S. dollar and the interest rate was high, at 8%.
- Over the five-year period, the S&P BSE 100, the S&P BSE 200, and the S&P BSE Mid Cap posted double-digit, annualized returns of 10.97%, 11.10%, and 12.91%, respectively. Over the same period, the S&P India Government Bond Index and the S&P India Bond Index gave an annualized return of 8.50% and 8.62%, respectively.
- Among all the peer groups, only Indian Equity-Linked Saving Schemes (ELSS) and Indian Equity Mid-/Small-Cap outperformed their respective benchmarks over the five-year period.
- **Indian Equity Large-Cap:** Less than 25% of the active funds in this category underperformed the S&P BSE 100 over the one-year period. But over the three- and five-year periods, 58% and 53% of the active funds underperformed the benchmark, respectively.
- **Indian ELSS:** The majority of the active funds in this category outperformed the S&P BSE 200 over all of the time periods observed. The percentage of active funds that underperformed the benchmark over the one-, three-, and five-year periods, was 5%, 14%, and 31%, respectively.
- **Indian Equity Mid-/Small-Cap:** The majority of the active funds in this category also outperformed the S&P BSE Mid Cap over all the time periods observed. The percentage of active funds that underperformed the benchmark over the one-, three-, and five-year periods, was 11%, 22%, and 36%, respectively.
- **Indian Government Bonds:** The active funds in this category underperformed the S&P India Government Bond Index over all the time periods observed. The percentage of active funds that underperformed the benchmark increased as the time period increased, with 61%, 62%, and 76% of funds underperforming over the one-, three-, and five-year time periods, respectively.
- **Indian Composite Bonds:** The active funds in this category also underperformed the S&P India Bond Index over all the time periods observed. The percentage of active funds that underperformed the benchmark was 94%, 81%, and 76% over one-, three-, and five-year time periods, respectively.

- **Fund Survivorship:** Over the five-year period, active funds in the Indian ELSS and Indian Composite Bond peer groups maintained a healthy survivorship rate of 97% and 94%, respectively. Close to 20% of the active funds could not survive in the Indian Equity Large-Cap and Indian Government Bond peer groups over the same period. Also for the five-year period, the survivorship rate in the Indian Equity Mid-/Small-Cap category was the lowest, at 70%.
- **Equal-Weighted Average Funds Return:** Active funds in the Indian Equity Large-Cap group posted the same equal-weighted average returns as the benchmark for the five-year period. Active funds in the Indian ELSS and Indian Equity Mid-/Small-Cap peer groups consistently delivered higher equal-weighted average returns than their benchmarks across the one-, three-, and five-year periods. On the other hand, active funds in the Indian Government Bond and Indian Composite Bond peer groups consistently delivered lower equal-weighted average returns than their respective benchmarks across the one-, three-, and five-year periods.

## A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

The SPIVA India Scorecard provides a semiannual update on the active versus index debate in India. The SPIVA India Scorecard shows the performance of actively managed Indian mutual funds compared with S&P Dow Jones Indices in their respective categories. Although many such reports are available, the SPIVA Scorecards are unique in that they offer the following.

- **Apples-to-apples comparison:** Fund returns are often compared to popular benchmarks, regardless of size or style classification. SPIVA Scorecards avoid this pitfall by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.
- **Survivorship bias correction:** Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set—not just the survivors—thereby eliminating survivorship bias.
- **Data cleaning:** The SPIVA India Scorecard avoids double counting by removing multiple share classes of the same fund. It includes the share class with the longest available history.
- **Equal-weighted returns:** The SPIVA India Scorecard shows equal-weighted averages. Equal-weighted returns are a measure of average fund performance.

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## SCORECARD RESULTS

### Indian Equity Large-Cap Funds: Active Funds Underperform

Large-cap stocks displayed momentum in the past year. Almost 76% of Indian large-cap equity active funds outperformed the S&P BSE 100 over the one-year period. This drastically reduced to 42% and 47% over the three- and five-year periods, respectively (see Report 1). Close to 9% of active funds were either merged or liquidated over the one-year period, which increased to 15% and 20% over the three- and five- year periods (see Report 2). The equal-weighted asset return was 8% more than the benchmark return for the one-year time period, but it was less than the benchmark return for the three-year period and equal to the benchmark for the five-year period (see Report 3).

The actively managed funds in this peer group tended to invest in the large-cap stocks in the Indian market that were sufficiently liquid. Since the S&P BSE 100 is designed to measure the performance of the top 100 companies in India based on size and liquidity, it is the index of choice for benchmarking this segment of the Indian stock market.

### Indian ELSS: Strong Active Performance

Almost 95% of Indian ELSS active funds outperformed the S&P BSE 200 over the one-year period, which reduced to 86% and 69%, respectively over the three- and five-year periods (see Report 1). The survivorship rate was 100% over the one- and three- year periods, and it was more than 97% over five-year period (see Report 2). The equal-weighted asset return was 12% more than the benchmark return over the one-year period, and it remained higher than the benchmark over the three- and five-year periods, as well (see Report 3).

The equity-linked saving schemes are eligible for tax benefits under Section 80C of the Income Tax Act in India. They have a lock-in period of three years, which explains the survivorship rate of this peer group. Unlike regular equity schemes, these have a lower investment threshold for the investors and, therefore, remain a popular option for saving on taxes. The S&P BSE 200 is designed to measure the performance of the top 200 companies based on size and liquidity, and it is diversified across sectors. The top 200 companies include the large- and mid-cap companies in which the funds in this peer group are invested; therefore, the S&P BSE 200 is the most appropriate benchmark for this peer group.

### Indian Equity Mid-/Small-Cap Funds: Low Survivorship Rate

More than 89% of active funds in this category outperformed the S&P BSE Mid Cap over the one-year period. Over the three- and five-year periods, 78% and 64% of the active funds outperformed the benchmark, respectively (see Report 1). The survivorship rate over the one- and three-year periods was close to 91%, but it reduced drastically to 70% over the five-year period (see Report 2). The equal-weighted asset return was 27% more than the benchmark return over the one-year period, and it was almost 5% higher than the benchmark over the three- and five-year periods (see Report 3).

The funds in this peer group invested mostly in the mid-cap segment of the market. Because the S&P BSE Mid Cap is designed to be a broad representation of the mid-cap segment of the Indian market, it is the benchmark chosen for this peer group.

### Indian Government Bond Funds: Active Funds Underperform

The active funds in this peer group could not outperform the S&P India Government Bond Index. For the one-year period, 61% of the active funds underperformed the benchmark, whereas over the three- and five-year periods, almost 62% and 76% of the funds underperformed the benchmark, respectively (see Report 1). The survivorship rate over the one- and three-year periods was 96% and 94%, respectively, but it reduced drastically to 82% during the five-year period (see Report 2). As shown in Report 3, the equal-weighted fund return was less than the benchmark return over all the periods observed.

The Indian bond market is dominated by government bonds, in terms of the number, size, and liquidity of the issues. The S&P India Government Bond Index is designed to measure government bonds that meet size thresholds. This index is designed to provide a broad representation of the government bond market in India, and it aims to serve as an appropriate benchmark for this peer group. All the bonds in the index are market-value weighted.

### Indian Composite Bond Funds: Active Funds Underperform

Almost 94% of the active funds in this peer group underperformed the S&P India Bond Index in the one-year period. Over the three- and five-year periods, 82% and 76% of the funds underperformed the benchmark, respectively (see Report 1). The survivorship rate was high, with more than 94% of the funds surviving over all the periods observed (see Report 2). The equal-weighted asset returns were lower than the benchmark for all the periods observed (see Report 3).

The actively managed funds in this peer group consist of both government and corporate bonds. The S&P India Bond Index is a composite bond index that is designed to measure government and corporate bonds that meet size thresholds, making it a prime benchmark choice for comparison. All the bonds in the index are market-value weighted.

### REPORT 1: PERCENTAGE OF FUNDS OUTPERFORMED BY THE INDEX

This report shows the percentage of funds that were outperformed by the benchmark index over the one-, three-, and five-year periods. We begin with the funds listed in a category at the beginning of the period and report the percentage of funds that have underperformed the benchmark index. The fund's category at the end of the period is not considered, since the category of interest is the one at the beginning of the holding period. Therefore, fund category changes do not unduly affect the results in this report.

Report 1: Percentage of Funds Outperformed by the Index				
Fund Category	Comparison Index	One-Year (%)	Three-Year (%)	Five-Year (%)
Indian Equity Large-Cap	S&P BSE 100	23.81	57.94	52.94
Indian ELSS	S&P BSE 200	5.41	13.89	30.56
Indian Equity Mid-/Small-Cap	S&P BSE Mid Cap	10.87	22.22	35.85
Indian Government Bond	S&P India Government Bond Index	60.78	61.70	75.51
Indian Composite Bond	S&P India Bond Index	94.17	81.13	76.14

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

## REPORT 2: SURVIVORSHIP

This report shows the number of funds that existed in a particular category at the beginning of the period in question, as well as the percentage of funds that survived until the end of the period. Once again, the fund's category at the end of the period is not considered, because the category of interest is the one at the beginning of the holding period.

Report 2: Survivorship		
Fund Category	No. of Funds at Start	Survivorship (%)
<b>One-Year</b>		
Indian Equity Large-Cap	105	91.43
Indian ELSS	37	100.00
Indian Equity Mid-/Small-Cap	46	91.30
Indian Government Bond	51	96.08
Indian Composite Bond	120	97.50
<b>Three-Year</b>		
Indian Equity Large-Cap	107	85.05
Indian ELSS	36	100.00
Indian Equity Mid-/Small-Cap	45	91.11
Indian Government Bond	47	93.62
Indian Composite Bond	106	98.11
<b>Five-Year</b>		
Indian Equity Large-Cap	102	80.39
Indian ELSS	36	97.22
Indian Equity Mid-/Small-Cap	53	69.81
Indian Government Bond	49	81.63
Indian Composite Bond	89	94.38

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

## REPORT 3: EQUAL-WEIGHTED FUND RETURNS

This report shows the equal-weighted average returns of funds in a particular category for the one-, three-, and five-year periods. The eligible population in a given category is determined on a monthly basis.

For every month in the period, we calculated the simple average return of all the existing funds in each category. We then compounded the returns from all the months in the period. These returns are compared to the respective benchmark index returns. It should be noted that the population of funds used in the averaging process one month might differ from that used the next month because some funds could have merged or liquidated, new funds may have been formed, and some funds might have switched categories.

Most reports that purport to show an average active fund performance report for funds in a category at the end of the period, and then they take the average of their historical returns. The SPIVA methodology offers a more accurate picture of active fund performance by calculating the average performance of the active funds in existence in a given category each month—not just at the end of the period.

Report 3: Equal-Weighted Fund Returns			
Index/Peer Group	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P BSE 100	34.19	24.04	10.97
Indian Equity Large-Cap	42.36	23.83	10.97
S&P BSE 200	37.44	24.76	11.10
Indian ELSS	49.73	27.95	13.63
S&P BSE Mid Cap	48.63	31.72	12.91
Indian Equity Mid-/Small-Cap	76.29	37.67	17.88
S&P India Government Bond Index	15.72	10.05	8.50
Indian Government Bond	13.79	9.34	7.72
S&P India Bond Index	15.42	10.14	8.62
Indian Composite Bond	11.84	9.34	8.25

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. All returns in INR. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

## APPENDIX: SPIVA METHODOLOGY

### Data

We obtain a feed of monthly fund data from Morningstar® India for all managed funds for which data are available for a given month-end date during the performance period. The data feed includes the most comprehensive data on active, closed, and finalized (merged or liquidated) funds in India over the chosen period. S&P Dow Jones Indices applies the following filters to ensure that an equitable comparative analysis is made.

- Only open-end unlisted retail unit trusts are selected.
- We retain only one version, or share class, of a fund by selecting the oldest share class.

The following identifiers are available on a monthly basis:

- Fund name,
- Fund identifier,
- Month and year,
- Fund returns for the month, including distributions,
- Fund categorization in that month, and
- Management type, i.e., whether the fund is indexed or actively managed.

We then limit our subset using the following filters:

- We choose funds that are actively managed, excluding index and leveraged funds; and
- While calculating the percentage of funds outperformed by the index, we remove funds that lack information on one-year returns from one-year periods, three-year returns from three-year periods, and five-year returns from five year periods.

### Fund Categories

We choose funds that have, at any point in the previous 60 months, been classified in at least one of the following five categories.

- Indian Equity Large-Cap
- Indian ELSS
- Indian Equity Mid-/Small-Cap
- Indian Government Bond
- Indian Composite Bond

These categories, we believe, represent the primary categories of interest for Indian fund investors, and they are derived from the Morningstar Indian fund classification policy. The Morningstar classification system produces narrow, style-based classifications for funds, particularly in relation to Indian equities. S&P Dow Jones Indices has consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks. A narrow, style-based comparison would yield a limited sample size given that distinct value and growth style segments have not been consistently discernible over the past five years.

Morningstar categories have been mapped to SPIVA peer groups in the following manner.

Exhibit 1: SPIVA and Morningstar Categories	
SPIVA Category	Morningstar Category
Indian Equity Large-Cap	India OE Large Cap
Indian ELSS	India OE ELSS (Tax Saving)
Indian Equity Mid-/Small-Cap	India OE Small/Mid Cap
Indian Government Bond	India OE Long Term Government Bond
	India OE Intermediate Government Bond
	India OE Short Term Government Bond
Indian Composite Bond	India OE Intermediate Bond
	India OE Short Term Bond

Source: S&P Dow Jones Indices LLC. Charts and tables are provided for illustrative purposes only.

It is unlikely that funds will change from one category to another due to the broad nature of the groups that have been selected, which allows the SPIVA Scorecards to provide consistent comparisons over time.

## Benchmarks

The chosen benchmarks are shown in Exhibit 2. All index returns are total returns (i.e., include dividend reinvestment) measured in Indian rupees. There has been no deduction from index returns to account for fund investment expenses. It is important to note that active fund returns are shown after expenses, but they do not include loads and entry fees.

Exhibit 2: SPIVA Categories and Their Benchmarks	
SPIVA Category	Benchmark Index
Indian Equity Large-Cap	S&P BSE 100
Indian ELSS	S&P BSE 200
Indian Equity Mid-/Small-Cap	S&P BSE Mid Cap
Indian Government Bond	S&P India Government Bond Index
Indian Composite Bond	S&P India Bond Index

Source: S&P Dow Jones Indices LLC. Charts and tables are provided for illustrative purposes only.

The benchmarks chosen are the most commonly adopted benchmarks for funds that fall into the respective fund peer groups. In some instances, a fund may not adopt the benchmarks stipulated above. However, a vast majority do set their performance hurdle based on the assigned benchmarks in this report, ensuring that the study is robust and fair.

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