

SPIVA® India Scorecard

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SUMMARY

- S&P Dow Jones Indices has been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the S&P Indices Versus Active Funds (SPIVA) U.S. Scorecard in 2002. Over the years, we have built on our experience publishing the report by expanding scorecard coverage into Australia, Canada, Europe, India, Japan, Latin America, and South Africa. While the report will not end the debate on active versus passive investing in India, we hope to make a meaningful contribution by examining market segments in which one strategy works better than the other.
- The SPIVA India Scorecard reports on the performance of actively managed Indian mutual funds compared to their respective benchmark indices over one-, three-, and five-year investment horizons. With this edition of the scorecard, we have introduced the asset-weighted fund returns and the quartile breakpoints of fund performance.
- The Indian equity markets, as well as the country's debt markets, remained volatile, which can be partially attributed to selling by foreign portfolio investors. The euphoria created by the three repo rate cuts through mid-year 2015 by the Reserve Bank of India was dampened by the Greek crisis, coupled with the rising speculation that the Federal Reserve in the U.S. would raise the funds rate.
- Indian debt funds fared worse in comparison with Indian equity funds, with a majority of the debt funds lagging the benchmark over all of the observation periods studied in this report.
- **Indian Large-Cap Equity Funds:** The majority of actively managed funds in this category outperformed the S&P BSE 100 over the one-year period ending June 2015. However, as the observation period is expanded, the numbers seem to favor the benchmark, with almost 60% of the funds underperforming the benchmark over the five-year period ending June 2015. The survivorship rate over the same five-year period was also low, at 68%, which helps explain the underperformance over this period.

- **Indian Equity-Linked Saving Schemes (ELSS):** Most of the actively managed funds in this peer group surpassed the S&P BSE 200 over all of the observation periods. This is not surprising, given that there is a lock-in period of three years, and fund managers have ample flexibility to manage the funds without the worry of redemptions. Furthermore, we can observe that 22% of funds underperformed the benchmark over the five-year period ending June 2015.
- **Indian Mid-/Small-Cap Equity Funds:** The performance of the actively managed funds in this classification was remarkable over the one-year period ending June 2015, with only 9% funds underperforming S&P BSE MidCap. In contrast, over the five-year period ending June 2015, almost 43% of actively managed funds lagged the benchmark. This is underscored by the fact that the survivorship rate was quite low and stood at only 61% for the same five-year period.
- **Indian Government Bond Funds:** The actively managed funds in this peer group delivered a lackluster performance. Over the five-year period ending June 2015, more than three-quarters of the funds underperformed the S&P BSE India Government Bond Index. The average return of funds in this category, either weighted equally or by assets, was below the benchmark return by more than 100 bps over the same five-year period.
- **Indian Composite Bond Funds:** The percentage of actively managed funds in this category that underperformed the S&P BSE India Bond Index over the one-year period ending June 2015 was exceptionally high, at 95%. As the observation period increases, the numbers improve, but still the majority of the funds underperformed the benchmark over all the periods studied.
- **Fund Survivorship:** Over the past one-year period, actively managed Indian large-cap funds had the lowest survivorship rate among all the peer groups studied. Over the five-year period, except for the actively managed Indian ELSS funds, the survivorship rate for all peer groups was low.
- **Average Fund Returns:** The equal- and asset-weighted returns were more than the benchmark over all of the periods observed in all of the equity peer groups. This suggests that the funds with larger asset bases had the advantage of economies of scale. On the other hand, in all of the bond peer groups, the equal- and asset-weighted returns trailed the benchmark, regardless of the time horizon, indicating that the fund size did not play a role in the performance.

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

There is nothing novel about the index versus active debate. It has been a contentious subject for decades, and there are few strong believers on both sides, with the vast majority of investors falling somewhere in between. The SPIVA India Scorecard provides a semiannual update on the active vs. index debate in India. It shows the performance of actively managed Indian mutual funds compared with S&P Dow Jones Indices in their respective categories.

Beyond the SPIVA Scorecard's widely cited headline numbers is a rich data set that addresses issues related to measurement techniques, universe composition, and fund survivorship that are far less frequently discussed, but are often much more fascinating. These data sets are rooted in the following fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar.

- **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.
- **Apples-to-Apples Comparison:** Fund returns are often compared with a popular benchmark regardless of their investment category. The SPIVA India Scorecard makes an appropriate comparison by measuring a fund's returns against the returns of a benchmark that reflects the fund's investment category.
- **Asset-Weighted Returns:** Average returns for a fund group are often calculated using only equal weighting, which results in the returns of an INR 10 billion fund affecting the average in the same manner as the returns of an INR 10 million fund. However, the SPIVA India Scorecard shows both equal- and asset-weighted averages. Equal-weighted returns are a measure of average fund performance, while asset-weighted returns are a measure of the performance of the average invested dollar.
- **Data Cleaning:** SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations, using only the share class with greater quarterly average assets at the start of the measurement period. Since this is meant to be a scorecard for active managers, index funds, leveraged and inverse funds, and other index-linked products are excluded.

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REPORTS

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	28.30	49.59	60.50
Indian ELSS	S&P BSE 200	13.51	8.33	22.22
Indian Equity Mid-/Small-Cap	S&P BSE MidCap	9.09	17.39	42.86
Indian Government Bond	S&P BSE India Government Bond Index	64.81	75.00	78.00
Indian Composite Bond	S&P BSE India Bond Index	95.28	80.70	65.31

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2015. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Survivorship of Funds		
Fund Category	No. of Funds at Start	Survivorship (%)
One-Year		
Indian Equity Large-Cap	106	90.57
Indian ELSS	37	100.00
Indian Equity Mid-/Small-Cap	44	97.73
Indian Government Bond	54	94.44
Indian Composite Bond	129	98.45
Three-Year		
Indian Equity Large-Cap	121	77.69
Indian ELSS	36	100.00
Indian Equity Mid-/Small-Cap	46	86.96
Indian Government Bond	52	84.62
Indian Composite Bond	114	92.98
Five-Year		
Indian Equity Large-Cap	119	68.07
Indian ELSS	36	97.22
Indian Equity Mid-/Small-Cap	56	60.71
Indian Government Bond	50	78.00
Indian Composite Bond	100	81.00

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2015. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3: Average Fund Performance (Equal Weighted)			
Index/Peer Group	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P BSE 100	10.86	18.78	10.71
Indian Equity Large-Cap	15.51	19.71	10.79
S&P BSE 200	13.55	19.60	10.87
Indian ELSS	20.96	23.69	13.29
S&P BSE MidCap	15.21	22.01	9.96
Indian Equity Mid-/Small-Cap	28.91	31.07	16.05
S&P BSE India Government Bond Index	12.01	9.28	8.38
Indian Government Bond	10.33	8.27	7.18
S&P BSE India Bond Index	11.86	9.37	8.49
Indian Composite Bond	9.95	8.60	7.99

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2015. All returns in INR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 4: Average Fund Performance (Asset Weighted)			
Index/Peer Group	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P BSE 100	10.86	18.78	10.71
Indian Equity Large-Cap	13.95	20.45	11.60
S&P BSE 200	13.55	19.60	10.87
Indian ELSS	19.23	24.01	13.65
S&P BSE MidCap	15.21	22.01	9.96
Indian Equity Mid-/Small-Cap	29.22	30.07	17.21
S&P BSE India Government Bond Index	12.01	9.28	8.38
Indian Government Bond	11.30	8.30	7.24
S&P BSE India Bond Index	11.86	9.37	8.49
Indian Composite Bond	10.24	8.80	8.33

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2015. All returns in INR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 5: Quartile Breakpoints of Fund Performance			
Fund Category	Third Quartile	Second Quartile	First Quartile
One-Year			
Indian Equity Large-Cap	11.26	16.29	20.86
Indian ELSS	15.31	20.71	26.89
Indian Equity Mid-/Small-Cap	23.84	29.02	34.98
Indian Government Bond	9.05	11.24	12.75
Indian Composite Bond	9.20	9.80	10.63
Three-Year			
Indian Equity Large-Cap	17.65	19.93	23.07
Indian ELSS	21.18	22.36	26.17
Indian Equity Mid-/Small-Cap	28.48	32.76	35.72
Indian Government Bond	7.59	8.45	9.72
Indian Composite Bond	7.93	8.77	9.30
Five-Year			
Indian Equity Large-Cap	9.14	11.25	12.95
Indian ELSS	11.42	13.34	14.55
Indian Equity Mid-/Small-Cap	14.60	17.44	20.85
Indian Government Bond	6.62	7.54	8.39
Indian Composite Bond	7.24	8.16	8.85

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of June 30, 2015. All returns in INR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

APPENDIX A: GLOSSARY

Data

Data from Morningstar is obtained for all managed funds domiciled in India for which month-end data is available during the performance period. The data includes the most-comprehensive Indian fund data on active and finalized (merged or liquidated) funds over the chosen period.

Quarterly average asset for all managed funds is sourced from Association of Mutual Funds in India for every quarter end during the performance period.

SPIVA Styles and Morningstar Fund Classifications

Funds are classified based on the Morningstar fund classification system, and the SPIVA India Scorecard covers Indian large-cap equity, Indian equity linked saving schemes, Indian mid/small-cap equity, Indian government bonds, and Indian composite bond categories.

The Morningstar classification system produces narrow, style-based classifications for Indian funds. 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 value and growth style segments are not consistently discernible over the past five years.

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

Exhibit 1: Indian Funds: 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 LLC and Morningstar. Table is provided for illustrative purposes.

Benchmarks

The chosen benchmarks are shown in the table below. All index returns are total returns (i.e., include dividend reinvestment) 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 after expenses, but they do not include loads and entry fees.

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 below. 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.

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 MidCap
Indian Government Bond	S&P BSE India Government Bond Index
Indian Composite Bond	S&P BSE India Bond Index

Source: S&P Dow Jones LLC and Morningstar. Table is provided for illustrative purposes.

APPENDIX B: GLOSSARY

Percentage of Funds Outperformed by the Index

To correct for survivorship bias, we use the opportunity set available at the beginning of the period as the denominator. We determine the count of funds that have survived and beat the index. We then report the index outperformance percentage.

Survivorship (%)

This measure represents the percentage of funds in existence at the beginning of the time period that is still active at the end of the time period.

Equal-Weighted Fund Performance

Equal-weighted returns for a particular style category are determined by calculating a simple average return of all active funds in that category in a particular month.

Asset-Weighted Fund Performance

Asset-weighted returns for a particular style category are determined by calculating a weighted average return of all funds in that category in a particular month, with each fund's return weighted by its latest quarterly average assets available as of that month from the Association of Mutual Funds in India. Asset-weighted returns are a better indicator of fund category performance because they more accurately reflect the returns of the total money invested in that particular style category.

Quartiles Breakpoints

The pth percentile for a set of data is the value that is greater than or equal to p% of the data, but it is less than or equal to (100-p)% of the data. In other words, it is a value that divides the data into two parts: the lower p% of the values and the upper (100-p)% of the values. The first quartile is the 75th percentile, the value separating the elements of a population into the lower 75% and the upper 25%. The second quartile is the 50th percentile and the third quartile is the 25th percentile. For fund category quartiles in a particular time horizon, the data used is the return of the largest share class of the fund net of fees, excluding loads.

Survivorship Bias

Many funds might liquidate or merge during a period of study. This usually occurs due to continued poor performance by the fund. Therefore, if index returns were compared to fund returns using only surviving funds, the comparison would be biased in favor of the fund category. These reports remove this bias by (a) using the entire investment opportunity set, made up of all funds in that particular category at the outset of the period, as the denominator for outperformance calculations, (b) explicitly showing the survivorship rate in each category, and (c) constructing peer average return series for each category based on all available funds at the outset of the period.

Fees

The fund returns used are net of fees, excluding loads.

Indices

A benchmark index provides an investment vehicle against which fund performance can be measured.

S&P BSE 100

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 a highly liquid and investable index that is designed to address investment managers' needs to benchmark against a large-cap equity portfolio.

S&P BSE 200

The S&P BSE 200 is designed to represent the top 200 large, liquid, well-established, and financially sound companies listed at BSE Ltd. across sectors.

S&P BSE MidCap

The S&P BSE MidCap seeks to measure the mid-cap segment of the Indian equity market.

S&P BSE S&P India Government Bond Index

The S&P BSE India Government Bond Index is designed to track the performance of local-currency-denominated government bonds from India.

S&P BSE India Bond Index

The S&P BSE India Bond Index is designed to track the performance of local-currency-denominated government and corporate bonds from India.

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