

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.
- The SPIVA India Scorecard reports on the performance of actively managed Indian mutual funds compared with their respective benchmark indices over one-, three-, and five-year investment horizons. In this scorecard, we have studied the performance of three categories of actively managed equity and two categories of actively managed bond funds over one-, three- and five-year periods ending in December 2015.
- The Indian capital market remained volatile in 2015. Macroeconomic factors such as falling inflation and the current account deficit showed improvements. On the other hand, the slowing Chinese economy, the fear of the U.S. Fed increasing the funds rate, and other factors caused concern among investors. The Reserve Bank of India also adopted a monetary policy framework to focus on CPI inflation targeting. The bank reduced the repo rates four times as inflation fell due to falling crude prices, among other factors.
- The [S&P BSE 100](#) ended in the red at -1.95% over the one-year period ending December 2015. On the other hand, the mid-cap segment, as measured by the [S&P BSE MidCap](#), ended at 8.72% over the same period. Standard & Poor's Ratings Services kept India's rating at BBB-, with a stable outlook. The [S&P BSE India Government Bond Index](#) delivered a total return of 8.33% over the one-year period ending December 2015.
- In 2015, the net investment by domestic mutual funds in the Indian equity and debt market was significantly higher than the net investment by foreign investors. The domestic mutual fund invested INR 721.98 billion and 4340.99 billion in equity and debt markets respectively. Foreign investors added INR 178.08 billion and 458.57 billion respectively in the equity and debt markets.

- **Indian Large-Cap Equity Funds:** Over the one-, three-, and five-year periods ending December 2015, 36%, 47%, and 57% of large-cap equity funds in India underperformed the [S&P BSE 100](#), respectively. Over the five-year period studied, the survivorship rate was low, at 70%, the asset-weighted fund return was 103 bps higher than the equal-weighted fund return, and the return spread between the first and the third quartile break points of the fund performance was 4.59%.
- **Indian Equity-Linked Saving Schemes (ELSS):** Most of the actively managed funds in this peer group outperformed the [S&P BSE 200](#) over all of the observation periods. Over the five-year period ending December 2015, the survivorship rate was high, at 97%, the asset-weighted fund return was 42 bps higher than the equal-weighted fund return, and the return spread between the first and the third quartile break points of the fund performance was 4.08%.
- **Indian Mid-/Small-Cap Equity Funds:** Over the one-year period ending December 2015, 58% of the funds in this category lagged the [S&P BSE MidCap](#). Over the five-year period studied, 38% of the funds underperformed the benchmark, the survivorship rate was low, at 66%, the asset-weighted fund return was 13 bps higher than the equal-weighted fund return, and the return spread between the first and the third quartile break points of the fund performance was 5.25%.
- **Indian Government Bond Funds:** The majority of actively managed funds in this peer group underperformed the [S&P BSE Indian Government Bond Index](#) over all observed periods. Over the five-year period ending December 2015, 78% of the funds underperformed the benchmark, the survivorship rate was low, at 69%, the asset-weighted fund return was 7 bps higher than the equal-weighted fund return, and the return spread between the first and the third quartile break points of the fund performance was 1.74%.
- **Indian Composite Bond Funds:** In the one-year period ending in December 2015, 63% of actively managed funds in this category lagged the [S&P BSE India Bond Index](#). Over the five-year period ending December 2015, 70% of the funds underperformed the benchmark, the survivorship rate was 86%, the asset-weighted fund return was 42 bps higher than the equal-weighted fund return, and the return spread between the first and the third quartile break points of the fund performance was 1.68%.
- **Fund Survivorship:** Over the one-year period ending December 2015, Indian ELSS, Indian Equity Mid-/Small-Cap, and Indian Composite Bond funds had a 100% survivorship rate. Over the three-year period studied, only Indian ELSS funds had a 100% survivorship rate, while over the five-year period ending December 2015, none of the categories had a 100% survivorship rate.
- **Average Fund Returns:** Over the five-year period ending December 2015, Indian Equity Large-Cap, Indian ELSS, and Indian Mid-/Small-Cap funds had higher equal- and asset-weighted returns than their respective benchmarks. In contrast, the Indian Government Bond and Indian Composite Bond funds delivered lower equal- and asset-weighted returns than their respective benchmarks over the same five-year period.

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 versus index debate in India. It shows the performance of actively managed Indian mutual funds compared with S&P DJI 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	35.79	46.79	56.52
Indian ELSS	S&P BSE 200	21.62	2.86	11.43
Indian Equity Mid-/Small-Cap	S&P BSE MidCap	58.14	17.78	37.93
Indian Government Bond	S&P BSE India Government Bond Index	88.68	75.51	77.55
Indian Composite Bond	S&P BSE India Bond Index	62.79	80.00	70.00

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of Dec.31, 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	95	93.68
Indian ELSS	37	100.00
Indian Equity Mid-/Small-Cap	43	100.00
Indian Government Bond	54	83.33
Indian Composite Bond	132	100.00
Three-Year		
Indian Equity Large-Cap	109	78.90
Indian ELSS	35	100.00
Indian Equity Mid-/Small-Cap	45	88.89
Indian Government Bond	49	77.55
Indian Composite Bond	117	94.87
Five-Year		
Indian Equity Large-Cap	115	69.57
Indian ELSS	35	97.14
Indian Equity Mid-/Small-Cap	58	65.52
Indian Government Bond	49	69.39
Indian Composite Bond	102	86.27

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of Dec. 31, 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	-1.95	12.28	7.09
Indian Equity Large-Cap	-0.65	13.62	7.53
S&P BSE 200	-0.18	13.32	7.49
Indian ELSS	3.27	18.10	10.53
S&P BSE MidCap	8.72	17.86	8.98
Indian Equity Mid-/Small-Cap	8.61	25.44	15.08
S&P BSE India Government Bond Index	8.33	9.14	8.91
Indian Government Bond	6.37	8.19	8.01
S&P BSE India Bond Index	8.40	9.22	8.95
Indian Composite Bond	7.56	8.45	8.23

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of Dec. 31, 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	-1.95	12.28	7.09
Indian Equity Large-Cap	-1.58	14.45	8.57
S&P BSE 200	-0.18	13.32	7.49
Indian ELSS	1.89	18.25	10.95
S&P BSE MidCap	8.72	17.86	8.98
Indian Equity Mid-/Small-Cap	8.33	24.57	15.22
S&P BSE India Government Bond Index	8.33	9.14	8.91
Indian Government Bond	6.06	8.43	8.08
S&P BSE India Bond Index	8.40	9.22	8.95
Indian Composite Bond	7.86	8.53	8.64

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of Dec. 31, 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	-2.87	-0.15	2.82
Indian ELSS	0.39	2.90	6.24
Indian Equity Mid-/Small-Cap	6.00	7.92	13.06
Indian Government Bond	5.49	6.46	7.38
Indian Composite Bond	6.40	7.95	8.77
Three-Year			
Indian Equity Large-Cap	11.36	13.61	16.72
Indian ELSS	15.50	16.50	20.12
Indian Equity Mid-/Small-Cap	22.86	26.60	29.55
Indian Government Bond	7.32	8.49	9.48
Indian Composite Bond	7.69	8.67	9.16
Five-Year			
Indian Equity Large-Cap	5.42	8.22	10.01
Indian ELSS	8.50	9.48	12.58
Indian Equity Mid-/Small-Cap	14.06	16.24	19.31
Indian Government Bond	7.68	8.39	9.43
Indian Composite Bond	7.47	8.44	9.15

Source: S&P Dow Jones Indices LLC, Morningstar, and Association of Mutual Funds in India. Data as of Dec. 31, 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 assets for all managed funds are sourced from the 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 (ELSS), Indian Mid-/Small-Cap Equity, Indian Government Bond, 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 previous five-year period.

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 Indices LLC and Morningstar. Table is provided for illustrative purposes.

Benchmarks

The chosen benchmarks are shown in Exhibit 2. 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 Indices 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 beaten 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.

Quartile Breakpoints

The p th 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 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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