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**INDICES**



# S&P CRISIL SPIVA





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## - Indices Versus Active Funds Scorecard, India, December 2011

Key observations from the fifth edition of S&P CRISIL SPIVA for the period ended December 2011 are:

- Benchmark indices outperformed equity oriented funds over the longer 5-year time frame. Debt oriented funds, however, outperformed the indices over the same period. This trend is consistent with the past four editions of S&P CRISIL SPIVA.
- The percentage of equity funds outperformed by the benchmark indices over the 5-year period was 57%, the lowest in the five editions of S&P CRISIL SPIVA. This indicates that a higher proportion of funds are outperforming the benchmark compared to previous editions.
- Asset-weighted returns continued to be higher than equal-weighted returns across categories (except for gilt funds) over the 5-year time frame - a trend observed in all the previous editions of S&P CRISIL SPIVA. This indicates that funds with larger assets under management have performed better than their smaller counterparts over longer time frames.
- Majority of equity oriented funds outperformed their respective benchmarks in the one year period ended December 2011 when the markets witnessed a secular negative trend. Equity funds and indices witnessed the lowest 1-year returns as of December 31, 2011 across all editions of S&P CRISIL SPIVA.
- In the hybrid category, the majority of equity oriented balanced funds continued to be outperformed by their benchmark index (CRISIL BalanCEX) across all time frames. However, the majority of debt oriented hybrid funds (monthly income plans or MIPs) outperformed the benchmark (CRISIL MIPEX) over 3- and 5-year time frames.
- Among fixed income funds, gilt funds and long term debt funds outperformed the benchmark index (CRISIL Gilt Index and CRISIL CompBex) over 1- and 5-year time frames.
- Survivorship has been the lowest across categories for diversified equity funds (91% and 80%) in the 1- and 5-year time frames and for balanced funds (87%) in the 3-year time frame. Fixed income funds (gilt and debt funds) and large cap funds had 100% survivorship in 1 year time frame indicating no mergers or fund re-positioning occurred in these categories over the past year.

### Equity Oriented funds – Diversified funds had lowest survivorship over the five-year period

Among equity oriented funds, diversified funds had the lowest survivorship of 91% and 80% across categories over 1- and 5- year time frames. The primary reason for this being increase in the number of mergers in the diversified equity category over the past year. Large cap funds, on the other hand, had the highest survivorship of 100% over the 1-year time frame.

The majority of the equity oriented funds were outperformed by their respective benchmark indices over the 5-year period as per the latest edition of S&P CRISIL SPIVA. A similar trend was observed in all four earlier editions of the report. However, the percentage of equity funds outperformed by the benchmark indices over the 5-year period was 57%, the lowest in the five editions of S&P CRISIL

SPIVA. This reflects that a higher proportion of funds are outperforming the benchmark compared to the previous editions. Further, majority of equity oriented funds outperformed their respective benchmarks in the 1-year period ended December 2011 when the markets witnessed a secular negative trend. Equity funds and indices witnessed the lowest one-year returns as of December 31, 2011 across all editions of S&P CRISIL SPIVA.

Among the large cap funds, 59% and 53% of the funds were outperformed by their index - S&P CNX Nifty over 3- and 5-year time frames, respectively. While majority of the diversified funds were outperformed by their index - S&P CNX 500 over the 5-year time frame, they outperformed their index over the 1- and 3-year time frames. Generally, diversified funds actively manage their exposure to stocks across market capitalization compared to large cap funds that mainly invest in stocks with high market capitalization.

In the ELSS category, majority of the funds outperformed the index - S&P CNX 500 over the 1- and 3-year time frames. However, 59% of the funds were outperformed by the benchmark over the 5-year time frame. Majority of ELSS funds have been consistently outperformed by the S&P CNX 500 over the 5-year time frame in all the previous editions of S&P CRISIL SPIVA.

Asset-weighted returns were greater than equal-weighted returns across all the three periods of analysis for large cap and ELSS categories. In case of diversified equity funds, asset-weighted returns were higher than equal-weighted returns over the 5-year time frame. Further, asset-weighted returns have been higher than the benchmark returns in all the three categories across time frames. These facts indicate that funds with higher assets under management perform better than their smaller peers.

## **Hybrid funds – majority of equity oriented balanced funds outperformed by index**

In the hybrid category, the majority of equity oriented balanced funds continued to be outperformed by their benchmark index (CRISIL BalanCEX) across time frames in the past three editions of S&P CRISIL SPIVA. Majority of debt oriented hybrid funds (MIPs) outperformed the benchmark (CRISIL MIPEX) over the 3 and 5 year time frames. Over the 1-year time frame, the majority of both balanced funds and MIPs have underperformed their respective benchmarks. This is the outcome of the volatile equity markets coupled with a higher interest rate environment over the past year.

Asset-weighted returns were higher than equal-weighted returns across the 3- and 5-year time frames. They were also higher than benchmark returns over the same time period. This clearly indicates that funds with higher assets under management performed better than their smaller peers. Further, MIPs outperformed their benchmarks CRISIL MIPEX even on equal weighted basis across the time frames.

Hybrid funds offer a unique way of investing in equity and debt asset classes simultaneously. Investors can decide their extent of exposures towards stocks and bonds based on their risk appetite. Those with a higher risk appetite can choose to invest in balanced funds as they have a higher proportion of equity component. Those with a lower risk appetite can choose to invest in MIPs as they have a lower exposure to equities and hence are relatively less risky.

In terms of survivorship in the 3-year time frame, balanced funds had the lowest survivorship of 87% across categories. This was mainly on account of fund mergers and fund re-positioning. Survivorship has been higher for MIPs than balanced funds across time frames in the latest edition of the S&P CRISIL SPIVA. Over a 5-year time frame, 84% of the balanced funds have survived vis-a-vis 89% of the MIPs.

## Fixed Income funds – majority of gilt funds and debt funds outperform indices over one and five years

Within fixed income funds, majority of both gilt funds and debt funds outperformed their benchmarks viz., CRISIL Gilt index and CRISIL CompBEX respectively over the 1-year and 5-year time frame. Over the past year, these funds have dynamically managed their duration in response to the changing interest rate scenario. Typically funds outperform if they reduce their portfolio maturity when interest rates rise and vice versa. Over the medium term of 3 years, majority of the funds in both categories have been outperformed by their respective benchmarks.

While gilt funds have the highest credit quality due to investment in only government guaranteed securities, debt funds mitigate concentration risk as they can invest across different sectors, issuers and credit quality.

In the gilt category, 38%, 55% and 47% of the funds were outperformed by the CRISIL Gilt Index over the 1-, 3- and 5-year periods ended December 2011, respectively. This was also the only category where the asset-weighted returns were lower than both benchmark and equal-weighted returns across all time frames. While 100% of the funds survived the 1-year time frame, 97% and 88% of the funds survived in the 3- and 5-year time frames, respectively.

In case of debt funds, the category outperformed the benchmark CRISIL CompBEX over 1- and 5-year time frames both on equal and asset weighted basis. This was also observed in all the four earlier editions of the S&P CRISIL SPIVA for longer time frame of 5 years. Asset-weighted returns of the category were higher than equal-weighted returns across all time frames. In terms of survivorship, debt funds saw a 100% survivorship over the 1-year period while the same for the 3- and 5-year periods was 96% and 93%, respectively.

## A unique scorecard for the active versus passive debate

The S&P CRISIL SPIVA Scorecard presents the performances of actively managed mutual funds in India compared to the benchmark indices. The report covers equity, hybrid and fixed income categories of funds. S&P CRISIL SPIVA builds upon the reputation and success of the SPIVA (Standard & Poor's Indices versus Active Funds Scorecard) in countries like the US, Australia and Canada, where it has been widely recognised among financial advisors, institutional investors and the media. SPIVA's global popularity stems from unique attributes:

- **Survivorship bias correction:** Several funds might be liquidated or merged during a period of the study; however, for an investor making an investment decision at the beginning of the period, these funds are part of the opportunity set. Hence, unlike commonly available comparison reports, S&P CRISIL SPIVA removes this survivorship bias.
- **Apples-to-apples comparison:** Fund returns are often compared to popular benchmarks such as the S&P CNX Nifty, regardless of size or style classification. An appropriate comparison would be to measure a fund's returns against the returns of a benchmark for that particular style and size category. S&P CRISIL SPIVA does this type of comparison.

- **Asset-weighted returns:** Average returns for a fund group are often calculated using only equal-weighting. This results in the returns of a Rs 10-billion fund affecting the average category returns in the same manner as the returns of a Rs 10 million fund. A more accurate representation of how investors fared in a particular period can be ascertained by calculating asset-weighted average returns where each fund's return is weighted by net assets. S&P CRISIL SPIVA reports show both equal-weighted and asset-weighted averages to address this issue.
- **Data cleaning:** S&P CRISIL SPIVA avoids double counting of multiple plans by selecting funds with unique portfolios. Index funds and funds with sectoral bias are excluded since this is a scorecard for truly active funds.

Like its global counterparts, S&P CRISIL SPIVA does not make investment recommendations or offer comments on the suitability of either index or active investing. The scorecard simply reports periodic data according to the SPIVA methodology and provides a brief analysis. Furthermore, we advise reading the methodology at the end of the report in order to better understand how the numbers are derived.

### Report 1: Percentage of funds outperformed by the benchmark

Percentage of funds outperformed by the benchmark				
Fund category	Benchmark index	1-year	3-year	5-year
Large Cap	S&P CNX Nifty	35.29	59.26	52.63
Diversified	S&P CNX 500	46.26	45.83	57.83
ELSS	S&P CNX 500	27.78	48.48	59.26
Balanced	CRISIL BalanCEX	68.97	51.61	68.75
MIP	CRISIL MIPEX	55.56	40.43	48.94
Gilt	CRISIL Gilt Index	38.24	54.55	46.88
Debt	CRISIL CompBeX	32.69	70.21	41.86

### Report 2: Survivorship

#### One-year

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large cap	S&P CNX Nifty	34	100.00
Diversified	S&P CNX 500	147	91.16
ELSS	S&P CNX 500	36	97.22
Balanced	CRISIL BalanCEX	29	93.10
MIP	CRISIL MIPEX	54	96.30
Gilt	CRISIL Gilt Index	34	100.00
Debt	CRISIL CompBex	52	100.00

**Three-year**

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large cap	S&P CNX Nifty	27	96.30
Diversified	S&P CNX 500	120	88.33
ELSS	S&P CNX 500	33	96.97
Balanced	CRISIL BalanCEX	31	87.10
MIP	CRISIL MIPEX	47	93.62
Gilt	CRISIL Gilt Index	33	96.97
Debt	CRISIL CompBex	47	95.74

**Five-year**

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large cap	S&P CNX Nifty	19	84.21
Diversified	S&P CNX 500	83	79.52
ELSS	S&P CNX 500	27	96.30
Balanced	CRISIL BalanCEX	32	84.38
MIP	CRISIL MIPEX	47	89.36
Gilt	CRISIL Gilt Index	32	87.50
Debt	CRISIL CompBex	43	93.02

**Report 3 & 4: Average fund performance (equal-weighted & asset-weighted)**

<b>Category-wise Equal-weighted &amp; Asset-weighted returns vs Benchmark returns (%)</b>			
	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>Large Cap</b>			
Equal-weighted	-22.61	16.52	3.41
Asset-weighted	-21.46	18.53	4.72
S&P CNX Nifty	-23.81	17.28	4.27
<b>Diversified Equity</b>			
Equal-weighted	-25.41	17.92	2.62
Asset-weighted	-26.00	17.88	4.10
S&P CNX 500	-26.40	17.45	2.99
<b>ELSS</b>			
Equal-weighted	-23.96	18.10	2.89
Asset-weighted	-23.84	19.21	3.35
S&P CNX 500	-26.40	17.45	2.99
<b>Balanced</b>			
Equal-weighted	-16.40	13.93	4.03
Asset-weighted	-16.06	19.18	7.12
CRISIL BalanCEX	-14.39	13.06	5.33
<b>MIP</b>			
Equal-weighted	2.06	7.72	6.77
Asset-weighted	0.97	9.56	8.24
CRISIL MIPEX	1.72	7.14	6.40
<b>Gilt</b>			
Equal-weighted	5.90	1.50	6.49
Asset-weighted	5.03	0.19	6.17
CRISIL Gilt Index	5.05	1.46	6.56
<b>Debt</b>			
Equal-weighted	7.76	4.65	6.84
Asset-weighted	8.53	4.95	7.64
CRISIL Compbex	6.90	5.11	6.26

## Understanding before investing

Like all forms of investing, managed fund investing must start with understanding not only the funds but also the fund categories. The S&P CRISIL SPIVA reports go beyond providing simple performance data for each fund category and offer detailed apples-to-apples comparison corrected for survivorship bias, as well as asset-weighted and equal-weighted peer averages.

We believe that planners, brokers, and investors should be aware of the overall objectives and costs of their actively managed funds, and understand the experience, investment styles and strategies of their fund managers. They should also understand the strengths and weaknesses of the funds' performance benchmarks and available passive investment vehicles. The S&P CRISIL SPIVA reports serve as clean, unbiased scorecards of the ongoing active versus passive debate. Readers will have to make their own judgments on where to invest, and equally important, where not to invest.

Nobel-winning professor, William F Sharpe, best sums up our view on this debate: "Should everyone index everything? The answer is resoundingly "no". In fact, if everyone indexed, capital markets would cease to provide the relatively efficient security prices that make indexing an attractive strategy for some investors. All the research undertaken by active managers keeps prices closer to values, enabling indexed investors to catch a free ride without paying the costs. Thus there is a fragile equilibrium in which some investors choose to index some or all of their money, while the rest continue to search for mispriced securities.

Should you index at least some of your portfolio? This is up to you. I only suggest that you consider the option. In the long run this boring approach can give you more time for more interesting activities such as music, art, literature, sports, and so on. And it very well may leave you with more money as well

William F. Sharpe, 2002<sup>1</sup>

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<sup>1</sup>[www.stanford.edu/~wfsarpe/art/talks/indexed\\_investing.htm](http://www.stanford.edu/~wfsarpe/art/talks/indexed_investing.htm)

## Appendix 1: S&P CRISIL SPIVA Methodology

### S&P CRISIL SPIVA fund categorisation

#### Equity funds

Equity funds shortlisted for the purpose of the performance evaluation are classified using CRISIL's proprietary fund categorisation model. Actively managed funds are considered for classifying funds under the large cap and diversified equity categories. Sector funds and index funds are excluded from the analysis.

#### Large cap funds

Large cap funds are defined as funds investing at least 75% of their portfolios in CRISIL-defined large cap stocks for the preceding 24 months on a consistent basis. Four equal periods of six months are considered for the 24 months period. The top 100 stocks on the basis of market cap are defined as large cap stocks. Large cap stocks are identified at the beginning of each six month period. Funds having more than or equal to 75% of their investments in CRISIL-defined large cap stocks for at least four out of each six month period are classified as large cap funds.

#### Debt funds

Debt funds are categorised based on their investment objectives, stated benchmark indices and stated asset allocations.

### Fund categories and benchmark indices

Fund Category	Sub Category	Benchmark Index
Equity	Diversified equity	S&P CNX 500
Equity	Large cap equity	S&P CNX Nifty
Equity	ELSS	S&P CNX 500
Fixed Income	Gilt	CRISIL Gilt Index
Fixed Income	Long term debt	CRISIL CompBEX
Hybrid	Balanced	CRISIL BalanCEX
Hybrid	Monthly income plans	CRISIL MIPEX

## Reports

### Report 1: Percentage of active funds outperforming indices

This report is corrected for any survivorship bias and illustrates the percentage of funds that have been outperformed by the comparison benchmark over year-to-date, 1-year, 3-year, and 5-year time periods. We start off with the funds in a category at the beginning of the period. At the end of the period, we report the percentage of funds that have survived and outperformed the index. The category of the fund at the end of the period is not considered, since the category of interest is the category at the beginning of the holding period. Therefore, any potential fund category changes do not unduly impact the results in this report.

This report essentially shows what percentage of funds in the opportunity set at the beginning of the period survived and beat the benchmark.

Most reports that purport to show the percentage of active funds outperforming an index start off with the funds in a category at the end of the period, and then compare their historical returns to the benchmark. S&P CRISIL SPIVA corrects for this survivorship bias by starting with the funds at the beginning of the period.

### **Report 2: Survivorship**

This report shows the count of funds that existed in a particular category at the beginning of year-to-date, 1-year, 3-year and 5-year time periods, and how many survived at the end of the period. Once again, the category of the fund at the end of the period is not considered, since the category of interest is the category at the beginning of the holding period.

This report essentially shows what percentage of funds in the opportunity set at the beginning of the period has survived at the end of the period.

### **Report 3: Equal-weighted fund returns**

This report shows the equal-weighted average returns of funds in a particular category for year-to-date, 1-year, 3-year and 5-year time periods, with the level of granularity for determining the eligible population in that category being monthly. For every month in the time period, we take all funds that are in existence in a category and calculate the simple average return through a geometric averaging process. We then compound the returns from all the months in the time period. These returns are compared to the benchmark returns. Note that the funds used in the averaging process one month might not be the same as those used the next month, since some funds would have merged or liquidated, new funds would have been formed, and some might have switched categories.

Most reports that purport to show average active fund performance start off with the funds in a category at the end of the period, and then take the average of their historical returns. S&P CRISIL SPIVA presents a more accurate picture of active fund performance in a category by calculating the average performance of the active funds in existence in a category each month.

### **Report 4: Asset-weighted fund returns**

This report shows the asset-weighted average returns of funds in a particular category for year-to-date, 1-year, 3-year and 5-year time periods, with the level of granularity for determining the eligible population in that category being monthly. For every month in the time period, we take all funds that are in existence in a category and calculate the average return by weighting each fund's return by its month-end assets. We then compound the returns geometrically from all the months in the time period. These returns are compared to the benchmark returns. Note that the funds used in the averaging process one month might not be the same as those used the next month, since some funds would have merged or liquidated, new funds would have been formed, and some might have switched categories.

Most fund reports do not show asset-weighted returns. S&P CRISIL SPIVA presents an accurate picture of asset-weighted active fund performance in a category by calculating the asset-weighted average performance of the active funds in existence in a category each month.

## Appendix B: Glossary of indices

### **S&P CNX 500:**

The S&P CNX 500 is a broad-based benchmark of the Indian equity markets, which represents about 95.78% of the free float market capitalization and about 95.73% of the total turnover on the NSE, India's leading equity exchange, as on December 30, 2011.

### **S&P CNX Nifty:**

S&P CNX Nifty is a well-diversified 50 stock large cap index, comprising 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index-based derivatives and funds. The total traded value for the past six months of all Nifty stocks is approximately 56.58% of the traded value of all stocks on the NSE. S&P CNX Nifty stocks represent about 66.90% of the free float market capitalisation of the stocks listed on NSE as on December 30, 2011.

### **CRISIL Gilt Index:**

CRISIL Gilt Index is a total return index that seeks to track the performance of government securities, across maturities, since January 1997. Its objective is to provide a reliable and accurate measure of market movements in a portfolio of government securities across maturities. The index constituents are valued on a daily basis using CRISIL Gilt valuation services. The index weights are rebalanced on the first day of every month.

### **CRISIL CompBEX:**

CRISIL CompBEX is a total return index for benchmarking the performance of the debt funds in the Indian financial market against an index that is representative of the investment pattern of debt funds. The CRISIL CompBEX is an index to track the return on a composite portfolio that includes collateralised borrowing and lending obligations (CBLO), commercial paper (CP), certificates of deposit (CD), government securities as well as corporate bonds. This is a realistic estimate for a fund that tends to invest in all of the instruments mentioned above to maximise returns at a particular level of risk.

### **CRISIL BalanCEX:**

CRISIL BalanCEX is a total return index for benchmarking the performance of the balanced funds in the Indian financial market against an index that is representative of the universe of balanced funds. The balanced fund index is constructed to track the returns on a portfolio that includes equity and debt instruments like CBLOs, CPs, CDs, government securities and corporate bonds. This is a realistic estimate for a fund that tends to invest in all of the instruments mentioned above to maximise returns at a particular level of risk.

### **CRISIL MIPEX:**

CRISIL MIPEX is a total return index for benchmarking the performance of monthly income plan (MIP) funds in the Indian financial market against an index that is representative of the universe of MIP funds. The CRISIL MIPEX is designed to track the returns on a MIP portfolio that includes equity and debt Instruments like CBLOs, CPs, CDs, government securities as well as corporate bonds. This is a realistic estimate for a fund that tends to invest in all of the instruments mentioned above to maximise returns at a particular level of risk.

The complete SPIVA scorecard for India is available at [www.spiva.standardandpoors.com](http://www.spiva.standardandpoors.com) and [www.crisil.com](http://www.crisil.com).

**Contact Details:****CRISIL**

Tarun Bhatia

+91 22 3342 3226

[tbatia@crisil.com](mailto:tbatia@crisil.com)**S&P Indices**

Koel Ghosh

+91 22 2659 8359

[koel\\_ghosh@standardandpoors.com](mailto:koel_ghosh@standardandpoors.com)

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