S&P CRISIL SPIVA

June 2012

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- Indices versus Active Funds Scorecard, India, June 2012

Key observations from the sixth edition of S&P CRISIL SPIVA for the period ended June 2012:

- Benchmark indices continued to outperform a majority of the equity oriented funds over the 5-year time frame, a trend consistently observed across past editions of the SPIVA scorecard. However, most debt oriented funds outperformed the benchmark indices over the same period.

- Over a shorter time frame of 1-year, a majority of the equity oriented funds (except for large cap equity funds) continued to outperform their respective benchmark indices.

- In the hybrid categories, the benchmark index (CRISIL Balanced Fund Index) outperformed majority of the equity oriented hybrid funds or balanced funds over 1- and 5-year time frames. Conversely, majority of the debt oriented hybrid funds or monthly income plans (MIPs) outperformed the benchmark index (CRISIL MIP Blended Fund Index) across 3-and 5-year time frames.

- Asset-weighted returns were higher than equal-weighted returns across categories (except for balanced funds over the 1-year period and gilt funds across all the timeframes). This indicates that funds with better performance had larger assets under management (AUM).

- Asset weighted returns of gilt funds continued to be lower than their equal weighted returns. This trend is being observed for the fifth consecutive edition of the S&P CRISIL SPIVA scorecard. This indicates that larger sized gilt funds continue to underperform their smaller sized peers.

- Funds outperformed benchmark indices on an asset weighted basis across categories and timeframes (except for balanced funds over the 1-year period and gilt funds across all the timeframes).

- Survivorship has been the lowest for diversified equity funds across categories and time frames (94%, 87% and 84% for 1-year, 3-years and 5-years, respectively). Balanced, MIPs, gilt and debt funds had 100% survivorship in the 1-year time frame indicating no mergers or fund re-positioning occurred in these categories over the past year.

Equity oriented funds – Benchmark indices continue to outperform majority of funds over the 5-year time frame

Majority of equity oriented funds continue to be outperformed by their respective benchmark indices over the 5-year period. This trend is being observed for the fourth consecutive edition of S&P CRISIL SPIVA. 53% (57% in December 2011) of equity oriented funds were outperformed by benchmark indices for the 5-year period ended June 2012. This is the lowest among all editions of the S&P CRISIL SPIVA scorecard. This declining trend in terms of percentage of funds being outperformed by the benchmark has been witnessed since December 2010.

Over a shorter time frame of 1-year, majority of equity oriented funds continued to outperform their respective benchmarks, except for large cap equity funds. While diversified equity and ELSS funds capitalised on the market rally in the beginning of 2012 owing to wider choice of stocks to invest across sectors and market caps, most of their large cap counterparts were unable to do so owing to their mandate to choose from the limited universe of only large cap stocks.

Asset weighted returns were higher than equal weighted returns across all categories and timeframes except for diversified equity (1 and 3-year period) and balanced funds (1-year period). This indicates that funds with better performance had larger assets under management (AUM). Further,funds outperformed benchmark indices on an asset weighted basis in all the three categories across time frames.

Diversified equity funds had the lowest survivorship of 94% over a 1-year period which fell to 87% and 84% over the 3-year and 5-year time frames, respectively. The primary reason for lower survivorship is the quantum of mergers witnessed by this category over a period of time. The large cap category had a survivorship of 100% for a 3-year time frame and 93% over a 5-year period. ELSS had a survivorship of around 97% across the 1-year, 3-year and 5-year time frames.

Hybrid funds – MIPs outperform benchmark on equal and asset weighted returns

Debt oriented hybrid funds (MIPs) outperformed their benchmark index (CRISIL MIP Blended Fund Index) across 1, 3 and 5-year time frames on both equal and asset weighted returns basis. Asset weighted returns were also higher than equal weighted returns for the category. Thus MIPs with better performance had larger assets under management (AUM). In case of balanced funds, asset weighted returns were higher than equal weighted returns for all time frames analysed except the 1-year period. Asset weighted returns of balanced funds were higher than those of equity oriented funds across 1, 3 and 5 year time frames as the former managed to control the downside in returns owing to its debt component.

A majority of balanced funds continue to be outperformed by their benchmark index (CRISIL Balanced Fund Index) across 1-year and 5-year time frames. Conversely, majority of debt oriented hybrid funds (MIPs) outperformed the benchmark index (CRISIL MIP Blended Fund Index) over the 3 and 5 year time frames. A similar trend was also observed in the previous edition of the S&P CRISIL SPIVA scorecard. Over the 1-year time frame, majority of hybrid funds underperformed their respective benchmarks due to the volatile equity market coupled with an uncertain interest rate environment over the past year.

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

In terms of survivorship, balanced funds had the lowest survivorship of 88% across hybrid categories in the 5-year time frame. This was mainly on account of fund mergers and fund re-positioning. Survivorship has been higher for MIPs than balanced funds across time frames analysed except for the 1-year period when both had a 100% survivorship. MIPs also had higher number of funds at the start of all time frames.

Fixed Income funds – Gilt funds – Asset weighted returns continue to be lower than equal weighted returns

Asset weighted returns of gilt funds continued to be lower than equal weighted returns. This trend is being observed for the fifth consecutive edition of the S&P CRISIL SPIVA scorecard. This indicates that larger sized gilt funds continue to underperform their smaller sized peers. Gilt funds underperformed their benchmark (CRISIL Gilt Index) on both equal and asset weighted basis across timeframes (1, 3 and 5 years).

In case of debt funds, asset weighted returns were higher than equal weighted returns across all time frames. Further, the category outperformed its benchmark index (CRISIL Composite Bond Fund Index) on both equal weighted returns and asset weighted returns across timeframes analysed. Majority of debt funds have dynamically managed their duration in response to the changing interest rates scenario. Typically, funds outperform if they lower their portfolio maturity when interest rates rise and vice versa.

A comparison of returns generated by gilt funds and debt funds revealed that the latter outperformed gilt funds on both equal and asset weighted basis across 1, 3 and 5-year time frames. While gilt funds have the highest credit quality as they invest largely in government guaranteed securities, debt funds are able to mitigate concentration risk as they can invest across diverse sectors, issuers and credit quality.

By number of funds, majority of debt funds outperformed the benchmark index across 1, 3, 5 year time frames while the same was true for gilt funds only for the 5-year period. Both debt and gilt funds continued to have 100% survivorship on a 1-year basis. On a 3-year basis, gilt and debt funds had a survivorship of 97% and 98%, respectively, and 88% and 93%, respectively, on a 5-year basis.

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

% of funds outperformed by the benchmark				
Fund category	Benchmark index	1-year	3-year	5-year
Large Cap	S&P CNX NIFTY	52.63	57.14	53.33
Diversified	S&P CNX 500 EQUITY INDEX	46.90	38.40	50.52
ELSS	S&P CNX 500 EQUITY INDEX	30.56	28.57	55.17
Balanced	CRISIL Balanced Fund Index	58.62	45.16	65.63
MIP	CRISIL MIP Blended Fund Index	50.88	36.17	45.65
Gilt	CRISIL Gilt Index	61.76	63.64	46.88
Debt	CRISIL Composite Bond Fund Index	32.14	38.30	46.51

Report 2: Survivorship

One-year

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large Cap	S&P CNX NIFTY	38	97.37
Diversified	S&P CNX 500 EQUITY INDEX	145	93.79
ELSS	S&P CNX 500 EQUITY INDEX	36	97.22
Balanced	CRISIL Balanced Fund Index	29	100.00
MIP	CRISIL MIP Blended Fund Index	57	100.00
Gilt	CRISIL Gilt Index	34	100.00
Debt	CRISIL Composite Bond Fund Index	56	100.00

Three-year

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large cap	S&P CNX NIFTY	28	100.00
Diversified	S&P CNX 500 EQUITY INDEX	125	87.20
ELSS	S&P CNX 500 EQUITY INDEX	35	97.14
Balanced	CRISIL Balanced Fund Index	31	90.32
MIP	CRISIL MIP Blended Fund Index	47	95.74
Gilt	CRISIL Gilt Index	33	96.97
Debt	CRISIL Composite Bond Fund Index	47	97.87

Five-year

Fund category	Benchmark index	No. of funds at start	Survivorship (%)
Large cap	S&P CNX NIFTY	15	93.33
Diversified	S&P CNX 500 EQUITY INDEX	97	83.51
ELSS	S&P CNX 500 EQUITY INDEX	29	96.55
Balanced	CRISIL Balanced Fund Index	32	87.50
MIP	CRISIL MIP Blended Fund Index	46	91.30
Gilt	CRISIL Gilt Index	32	87.50
Debt	CRISIL Composite Bond Fund Index	43	93.02

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

Category-wise Equal & Asset weighted returns vs Benchmark returns (%)			
	1 Year	3 Year	5 Year
Large Cap			
Equal Weighted	-6.40	8.03	4.61
Asset Weighted	-4.68	9.92	5.86
S&P CNX NIFTY	-5.34	8.43	5.27
Diversified Equity			
Equal Weighted	-5.69	9.23	3.73
Asset Weighted	-6.17	9.00	5.13
S&P CNX 500 EQUITY INDEX	-6.71	7.55	4.07
ELSS			
Equal Weighted	-5.35	9.75	3.76
Asset Weighted	-3.85	10.83	4.84
S&P CNX 500 EQUITY INDEX	-6.71	7.55	4.07
Balanced			
Equal Weighted	-1.09	8.27	5.15
Asset Weighted	-1.35	11.90	8.14
CRISIL Balanced Fund Index	-0.99	7.20	6.19
MIP			
Equal Weighted	6.53	7.08	7.37
Asset Weighted	6.85	8.11	9.05
Crisil MIP Blended Fund Index	6.35	6.40	7.02
Gilt			
Equal Weighted	8.52	5.33	7.25
Asset Weighted	8.06	4.63	6.97
CRISIL Gilt Index	9.12	5.52	7.62
Debt			
Equal Weighted	9.24	6.47	7.35
Asset Weighted	9.53	6.77	7.95
CRISIL Composite Bond Fund Index	8.69	5.97	6.82

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[1]

[1]www.stanford.edu/~wfsharpe/art/talks/indexed_investing.htm

Appendix A: 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 36 months on a consistent basis. Four equal periods of nine months are considered for the 36 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 nine month period. Funds having more than or equal to 75% of their investments in CRISIL-defined large cap stocks for at least six out of each nine 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 Composite Bond Fund Index
Hybrid	Balanced	CRISIL Balanced Fund Index
Hybrid	Monthly income plans	CRISIL MIP Blended Fund Index

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 96.01% of the free float market capitalization and about 96.44% of the total turnover on the NSE, India's leading equity exchange, as on June 29, 2012.

S&P CNX Nifty:
S&P CNX Nifty is a well-diversified 50 stock large cap index, comprising 23 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 56.07% of the traded value of all stocks on the NSE. S&P CNX Nifty stocks represent about 66.96% of the free float market capitalisation of the stocks listed on NSE as on June 29, 2012.

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 Composite Bond Fund Index:
CRISIL Composite Bond Fund Index 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 Composite Bond Fund Index 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 Balanced Fund Index:
CRISIL Balanced Fund Index 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 MIP Blended Fund Index:
CRISIL MIP Blended Fund Index 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 MIP Blended Fund Index 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.spindices.com/spiva and www.crisil.com.

Contact Details:

CRISIL
Jiju Vidyadharan +91 22 3342 8091 jiju.vidyadharan@crisil.com

S&P Indices
Koel Ghosh +91 22 2659 8359 koel_ghosh@spdji.com

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