



S&P CRISIL SPIVA



S&P CRISIL SPIVA

- Indices Versus Active Funds Scorecard, India, June 2011

Key observations of the fourth edition of S&P CRISIL SPIVA for the period ended June 2011 are:

- The benchmark indices outperformed equity-oriented funds vis-à-vis debt-oriented funds. This trend was also observed in the three prior editions S&P CRISIL SPIVA.
- Asset-weighted returns were higher than equal-weighted returns across categories in longer time frames of 3 and 5 years (except in the case of gilt funds), indicating funds with larger assets under management performed better than smaller funds.
- Among equity-oriented funds, majority of large cap and diversified equity funds underperformed their benchmark indices, viz, the S&P CNX Nifty and the S&P CNX 500, respectively, in all three time periods of analysis (1, 3 and 5 years).
- In case of equity-linked saving schemes (ELSS), majority of funds have underperformed the benchmark S&P CNX 500 over the 3 and 5 year time frames.
- In the hybrid category, majority of the equity-oriented balanced funds underperformed the benchmark (CRISIL BalanCEX), while majority of the debt-oriented monthly income plans (MIPs) outperformed the benchmark (CRISIL MIPEX) across all time frames.
- Among pure debt funds, most of the gilt funds underperformed their benchmark (CRISIL Gilt Index) in the 3 and 5-year time frame, while majority of long-term debt funds outperformed their benchmark (CRISIL CompBEX) across all three time frames.
- Across categories, large cap equity funds had the lowest survivorship over 5 years (75%), MIPs had the lowest survivorship over 3 years (90%) and balanced funds had the lowest survivorship over a 1 year period (93%). ELSS is the only category to have witnessed 100% survivorship in all three time frames across all four editions of S&P CRISIL SPIVA.

Equity funds - Indices outperform majority of funds across time periods

In the latest edition of S&P CRISIL SPIVA for the half year ended 2011, majority of large cap and diversified equity funds underperformed their benchmark indices viz, the S&P CNX Nifty and the S&P CNX 500, respectively, across the 1, 3 and 5 year time periods. Within these two categories, a higher proportion of large cap equity funds underperformed their benchmark vis-à-vis in the diversified equity funds category. The level of outperformance is highest for the 5-year time frame.

Typically, large cap equity funds are restricted to stocks that have a higher market capitalisation. Diversified funds, in contrast, have a wider choice than large cap funds as they can take exposure across market capitalisation. Therefore, diversified equity funds offer a greater probability of generating excess returns.

In the ELSS category, investments in which are intended for tax saving and typically have a 3-year lock-in

period, 57% and 65% of the funds underperformed the benchmark S&P CNX 500 over the 3 and 5 year time frames, respectively. However, ~62% of the funds outperformed the benchmark over a 1 year period.

Asset-weighted returns were greater than equal-weighted returns for all three categories of equity funds across all time periods, except for the ELSS category in the 1 year period. This highlights the fact that funds with higher assets under management performed better than smaller peers.

Within the equity funds category, large cap funds had the lowest survivorship across 5 years, at 75%, followed by the diversified equity funds at 81.43%. This was mainly on account of scheme mergers and consolidation by fund houses. The ELSS category was the only category to witness 100% survivorship across all three time frames (1 year, 3 years and 5 years). This was mainly on account of the 3-year lock-in period prescribed in these funds.

Hybrid funds - Majority of equity-oriented balanced funds underperform benchmark

In the hybrid category, majority of the equity-oriented balanced funds underperformed their benchmark (CRISIL BalanCEX), while majority of the debt-oriented MIPs outperformed their benchmark (CRISIL MIPEX) across all time frames. This proves that majority of funds with a higher equity component (balanced funds) underperformed their benchmark, while most funds with a lower equity component (MIPs) outperformed theirs. While both these categories vary their equity component within a specified range, the higher volatility (risk) in the equity component of balanced funds has not generated commensurate returns for majority of these funds.

Asset-weighted returns continued to be higher than equal-weighted returns across the 1, 3 and 5 year time frames for balanced funds. A similar trend existed for MIPs across the 3 and 5 year time periods, indicating that funds with higher assets under management performed better than smaller peers.

The hybrid funds category had a survivorship of ~90% over a 5 year time frame, lower than the 94% survivorship in the previous edition of the S&P CRISIL SPIVA. This was mainly on account of scheme mergers during this period.

Hybrid funds provide investors a unique way of investing in a blend of stocks and bonds. Based on their risk appetite, investors can decide their allocation to stocks and bonds and accordingly choose between balanced funds and MIPs. Balanced funds have a relatively higher exposure to equities, while MIPs have a relatively lower exposure to equities.

Fixed income funds - CRISIL Gilt Index continues to outperform gilt funds

Within fixed income funds, gilt funds (which mainly invest in sovereign-guaranteed securities) underperformed the benchmark CRISIL Gilt Index across 1, 3 and 5 year time periods on an asset-weighted basis. This trend was also observed in almost all periods in the past three editions of the S&P CRISIL SPIVA. In terms of number of funds, 41%, 65% and 53% of gilt funds underperformed the index over a 1, 3 and 5 year period ended June 2011, respectively. The performance of such funds is largely based on

duration calls taken by the fund manager, based on his/ her interest rate views. A gilt fund is likely to outperform if its average maturity falls in a rising interest rate scenario. Gilt funds was also the only category where asset-weighted returns were lower than equal-weighted returns. In terms of survivorship, gilt funds saw a 100% survivorship over a 1 year period, while only 87.5% survived over 5 years.

In case of debt funds (which mainly invest in corporate debt), the category outperformed the benchmark CRISIL CompBEX over the 1, 3 and 5 year periods ended June 2011. A review of the past three editions of the S&P CRISIL SPIVA reveals that majority of the debt funds have consistently outperformed the CRISIL CompBEX over the longer time frames of 3 and 5 years. Further, the category's asset-weighted returns were higher than equal-weighted returns, indicating the dominance of larger funds in the returns tally. The outperformance of debt funds was largely a factor of active duration calls in a volatile interest rate environment. In terms of survivorship, debt funds saw a 100% survivorship over a 1 year period, while 93% survived over a 5 year tenor.

A key difference between the above two categories of funds is that while gilt funds have a higher asset quality due to their investment in government securities, debt funds offer diversification across sectors, issuers and instruments.

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 as compared with their 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	60.61	60.00	65.00
Diversified	S&P CNX 500 EQUITY INDEX	53.62	51.28	55.71
ELSS	S&P CNX 500 EQUITY INDEX	37.84	56.67	65.38
Balanced	CRISIL BalanCEX	60.00	51.61	50.00
MIP	CRISIL MIPEX	49.06	46.94	44.68
Gilt	CRISIL Gilt Index	41.18	64.52	53.13
Debt	CRISIL CompBEX	28.00	46.67	41.46

Report 2: Survivorship

One Year

Fund Category	Benchmark index	No. of funds at start	Survivorship (%)
Large Cap	S&P CNX NIFTY	33	100.00
Diversified	S&P CNX 500 EQUITY INDEX	138	96.38
ELSS	S&P CNX 500 EQUITY INDEX	37	100.00
Balanced	CRISIL BalanCEX	30	93.33
MIP	CRISIL MIPEX	53	96.23
Gilt	CRISIL Gilt Index	34	100.00
Debt	CRISIL CompBEX	50	100.00

Three Year

Fund Category	Benchmark index	No of funds at start	Survivorship (%)
Large Cap	S&P CNX NIFTY	25	96.00
Diversified	S&P CNX 500 EQUITY INDEX	117	94.02
ELSS	S&P CNX 500 EQUITY INDEX	30	100.00
Balanced	CRISIL BalanCEX	31	93.55
MIP	CRISIL MIPEX	49	89.08
Gilt	CRISIL Gilt Index	31	93.55
Debt	CRISIL CompBEX	45	93.33

Five Year

Fund Category	Benchmark index	No of funds at start	Survivorship (%)
Large Cap	S&P CNX NIFTY	20	75.00
Diversified	S&P CNX 500 EQUITY INDEX	70	81.43
ELSS	S&P CNX 500 EQUITY INDEX	26	100.00
Balanced	CRISIL BalanCEX	32	90.63
MIP	CRISIL MIPEX	47	89.36
Gilt	CRISIL Gilt Index	32	87.05
Debt	CRISIL CompBEX	41	92.68

Report 3: Average fund performance (equal-weighted)

Category wise equal-weighted returns v/s benchmark returns			
	1 Year	3 Year	5 Year
Large cap			
Equal-weighted	8.98%	14.36%	13.45%
S&P CNX NIFTY	7.48%	13.11%	13.90%
Diversified equity			
Equal-weighted	2.57%	13.26%	12.77%
S&P CNX 500 EQUITY INDEX	3.46%	13.59%	13.47%
ELSS			
Equal-weighted	4.65%	13.34%	12.52%
S&P CNX 500 EQUITY INDEX	3.46%	13.59%	13.47%
Balanced			
Equal-weighted	4.96%	11.83%	10.78%
CRISIL BalanCEX	6.04%	11.39%	11.15%
MIP			
Equal-weighted	7.46%	8.89%	8.24%
CRISIL MIPEX	5.03%	8.21%	7.56%
Gilt			
Equal-weighted	4.44%	7.18%	6.61%
CRISIL Gilt Index	4.17%	8.54%	7.26%
Debt			
Equal-weighted	5.42%	6.97%	6.52%
CRISIL CompBEX	4.58%	6.78%	5.99%

Report 4: Average fund performance (asset-weighted)

Category-wise asset-weighted returns vs benchmark returns			
	1 Year	3 Year	5 Year
Large cap			
Asset-weighted	9.40%	16.12%	14.64%
S&P CNX NIFTY	7.48%	13.11%	13.90%
Diversified equity			
Asset-weighted	3.13%	14.97%	14.85%
S&P CNX 500 EQUITY INDEX	3.46%	13.59%	13.47%
ELSS			
Asset-weighted	4.30%	15.43%	13.36%
S&P CNX 500 EQUITY INDEX	3.46%	13.59%	13.47%
Balanced			
Asset-weighted	8.37%	18.26%	14.96%
CRISIL BalanCEX	6.04%	11.39%	11.15%
MIP			
Asset-weighted	7.19%	12.31%	9.99%
CRISIL MIPEX	5.03%	8.21%	7.56%
Gilt			
Asset-weighted	4.12%	6.49%	6.51%
CRISIL Gilt Index	4.17%	8.54%	7.26%
Debt			
Asset-weighted	5.74%	7.88%	7.20%
CRISIL CompBEX	4.58%	6.78%	5.99%

Understanding before investing

Like all forms of investing, managed fund investing must start with understanding not only the funds but also the fund categories being considered. The S&P CRISIL SPIVA reports go beyond providing simple performance data for each fund category to 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 need to make their own judgments on where to invest, and equally important, where not to invest.

The 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, 2002¹

¹www.stanford.edu/~wfsarpe/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 24 months on a consistent basis. Four equal periods of 6 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 6 month period. Funds having more than or equal to 75% of their investments in CRISIL-defined large cap stocks for at least 4 out of each 6 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 94.92% of the free float market capitalisation and about 91.68% of the total turnover on the NSE, India's leading equity exchange, as on June 30, 2011.

S&P CNX Nifty:

S&P CNX Nifty is a well-diversified 50-stock large cap index, comprising 24 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 last 6 months of all Nifty stocks is approximately 52.75% of the traded value of all stocks on the NSE. S&P CNX Nifty stocks represent about 63.94% of the free float market capitalisation as on June 30, 2011.

CRISIL Gilt Index:

CRISIL Gilt Index tracks the performance of government securities, across maturities, since January 1997. It seeks to provide a reliable and accurate measure of market movements in a portfolio of government securities across maturities. The index is based on a portfolio of the 12 most liquid government securities selected on the basis of trading pattern of the previous one month. The index seeks to capture interest return and price return of the underlying government securities on a daily basis using 'CRISIL Gilt Valuation'.

CRISIL CompBEX:

CRISIL CompBEX tracks the performance of a composite debt portfolio that includes corporate bonds, commercial papers (CP), certificates of deposit (CD), government securities and collateralised borrowing and lending obligations (CBLO). The index is a realistic estimate for a fund that seeks to invest in all of the aforementioned instruments to maximise returns at a particular level of risk.

CRISIL BalanCEX:

CRISIL BalanCEX is used for benchmarking the performance of balanced funds in the Indian financial market against an index that is representative of the universe of balanced funds. The index is used to track returns on a equity-oriented hybrid portfolio that includes equity instruments and debt Instruments like corporate bonds, CPs, CDs, government securities and CBLOs.

CRISIL MIPEX:

CRISIL MIPEX is used 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 index is used to track the returns on MIP portfolios that include equity instruments and debt Instruments like CPs, CDs, government securities, corporate bonds and CBLOs.

The complete SPIVA scorecard for India is available at www.spiva.standardandpoors.com and www.crisil.com.

Contact Details:

CRISIL

Tarun Bhatia

+91 22 3342 3226

tbatia@crisil.com**S&P Indices**

Koel Ghosh

+91 22 2659 8359

koel_ghosh@standardandpoors.com

Disclaimer:**Standard & Poor's**

Standard & Poor's does not guarantee the accuracy and/or completeness of any Standard & Poor's index, any data included therein, or any data from which it is based, and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. Standard & Poor's makes no warranties, express or implied, as to results to be obtained from use of information provided by Standard & Poor's and used in this service, and Standard & Poor's expressly disclaims all warranties of suitability with respect thereto. While Standard & Poor's has obtained information believed to be reliable, Standard & Poor's shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages, even if it is advised of the possibility of same. These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. Standard & Poor's makes no representation with respect to the accuracy or completeness of these materials, the content of which may change without notice. The methodology involves rebalancings and maintenance of the indices that are made periodically during each year and may not, therefore, reflect real time information. Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process.

CRISIL Limited

CRISIL Research, a division of CRISIL Limited (CRISIL), has taken due care and caution in preparing this Report. Information has been obtained by CRISIL Research from sources that it considers reliable. However, CRISIL Research does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information / Report. This Report is not a recommendation to buy, sell or hold any security. CRISIL is not liable for any investment decisions, which may be based on the views expressed in this Report. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Rating Division, which may, in its regular operations, obtain information of a confidential nature, which is not available to CRISIL Research. No part of this Report may be published/reproduced in any form without CRISIL Research's prior written approval.

CRISIL Privacy Notice:

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfill your request and service your account and to provide you with additional information from CRISIL and other parts of The McGraw-Hill Companies, Inc. you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view McGraw-Hill's Customer Privacy Policy at http://www.mcgrawhill.com/site/tools/privacy/privacy_english.

Last updated: 31 March, 2011