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A FEW WINNERS Only 14-21% of such schemes managed to outperform benchmarks over the past 5 years; large-cap category returned 21.93% on average, finds an ET study

Risk Adjusted, Majority of Equity Funds Fail to Beat Benchmarks

Prashant Mahesh

Mumbai: A risk-adjusted parameter measuring the performance of equity mutual funds shows that the majority of these schemes are struggling to beat their benchmarks. According to an ET study of the Information Ratio, which evaluates the skill of a money manager to consistently generate returns above a benchmark, of flexi-cap, large-cap, mid-cap and small-cap product categories, 14-21% of the schemes have outperformed the benchmark in the past five years.

A higher information ratio, typically above 0.5, suggests a fund manager is consistently generating returns above the benchmark. A negative information ratio, shows that the fund has failed to beat its benchmark for the risk it has taken, meaning investors would be better off with passive funds. Of the 23 flexi-cap schemes, five have posted a positive information ratio for 5 years. In large-cap space, 4 out of 25 schemes, while in the mid- and small-cap space, 4 out of 24 and 3 out of 21 schemes have a positive information ratio.

"Investors shouldn't be satisfied with just the absolute returns of their schemes, especially in a market that has largely moved in one direction over the past five years," says

Risking It All In

Top performing funds by information ratio for 5 years

LARGE CAP	BENCHMARK TRI	RETURN 5 YEAR (%)	INFORMATION RATIO 5 YEAR	DAILY AUM (₹ CR)
Nippon India Large Cap	BSE 100	27.1	0.6	39,457
ICICI Pru Bluechip	Nifty 100	25.3	0.5	67,345
HDFC Large Cap Fund	Nifty 100	24.6	0.3	37,252
AB Sun Life Frontline	Nifty 100	23.2	0.1	29,101
Tata Large Cap Fund	Nifty 100	22.8	0.0	2,544
MIDCAP FUND				
Motilal Oswal Midcap	Nifty Midcap 150	36.5	0.2	26,870
Quant Mid Cap	Nifty Midcap 150	34.1	0.1	8,648
Edelweiss Mid Cap	Nifty Midcap 150	33.8	0.0	9,105
Nippon India Growth	Nifty Midcap 150	33.8	0.0	34,590
SMALL CAP FUNDS				
Quant Small Cap	Nifty Smallcap 250	48.2	0.8	26,098
Nippon India Small Cap	Nifty Smallcap 250	39.2	0.3	58,551
Bandhan Small Cap	BSE 250 Smallcap	36.2	0.1	10,251
FLEXICAP FUNDS				
Quant Flexi Cap	Nifty 500	35.3	0.7	6,976
HDFC Flexi Cap	Nifty 500	31.3	0.7	73,355
Franklin India Flexi Cap	Nifty 500	28.7	0.5	18,083
JM Flexi Cap	BSE 500	28.6	0.4	5,263
Parag Parikh Flexi Cap	Nifty 500	28.3	0.2	96,802

As on April 22, 2025. Note: data for regular plans

Source: AMFI

ys Niranjana Avasthi, senior vice-president, Edelweiss Mutual Fund. "What matters more is how those returns compare to the benchmark, and whether they justify the level of risk being taken."

Data compiled by ET showed that over five years, the large-cap scheme category returned 21.93% on average, flexi-caps returned 23.80%, while mid-caps returned 29.8%, and small-caps earned 34.17% on average. Yet, on a risk-adjusted basis, they have not beaten the benchmark, if the information ratio is to go by. Fund houses have been directed by Sebi to disclose information ratio from April 1.

"Information ratio should not be seen in isolation while choosing an active fund, but should be seen in conjunction with market cycles, fund manager skills and style of management to get better outcomes," says Nirav Karkera, head (research) of brokerage Fisdor.

Karkera said a higher number of equity schemes have posted a positive information ratio if 1-year returns are assessed. In case of large-cap funds, information ratio for one year was positive for 14 out of 31 and in the case of flexi-caps, it was in 26 out of 38 schemes. With mid- and small-caps, the ratio was positive in 14 out of 29 schemes and 19 out of 27 small-cap funds in the past year.