Case Study:

Performance of Indian Mutual Funds vs. Global Mutual Funds Over the Last 10 Years

This case study analyses the performance of Indian mutual funds compared to mutual funds in other major economies from 2013 to 2023. It covers performance metrics, risk-adjusted returns, market influences, and key takeaways, providing insights into the potential of the Indian mutual fund industry relative to its global counterparts.

Overview

Over the past decade, Indian mutual funds have gained considerable traction, driven by economic growth, regulatory support, and a burgeoning middle class with growing awareness of investment opportunities. Meanwhile, global mutual funds in developed markets have faced varied challenges, including lower GDP growth rates, fluctuating interest rates, and market volatility. Despite global volatility, Indian funds have demonstrated a positive performance trend, driven by factors such as a young workforce, expanding domestic consumption, and technological growth.

Key Performance Metrics

1. Average Annual Returns

Indian Mutual Funds:

- Over the past decade, Indian equity mutual funds have delivered average annual returns of 12-15%, particularly driven by sectors such as technology, banking, and consumer goods.
- Debt mutual funds have shown steady returns of around 6-8%, with fluctuations influenced by RBI interest rate policies and inflation trends.

Global Mutual Funds:

- U.S. mutual funds have shown mixed performance with equity funds averaging returns of about 8-10%, while bond funds yielded around 3-5%.
- European mutual funds, especially in the eurozone, have been challenged by lower growth, yielding around 5-7% on average for equity funds.
- Emerging markets mutual funds, including those in China and Brazil, have seen high volatility, yielding returns in the range of 6-12%, impacted by currency fluctuations and geopolitical uncertainties.

2. Risk-Adjusted Returns (Sharpe Ratio)

Indian Mutual Funds:

- Indian equity funds have maintained Sharpe ratios around 0.6-0.8 over the past decade, indicating relatively strong risk-adjusted returns compared to global averages, driven by steady economic growth and a favorable regulatory environment.
- Debt funds in India have posted lower Sharpe ratios (0.4-0.6) due to moderate returns amidst rising inflationary pressures and interest rate hikes by the Reserve Bank of India.

Global Mutual Funds:

- U.S. mutual funds generally report Sharpe ratios of 0.5-0.7 for equity funds, while bond funds post lower ratios due to subdued yields.
- European funds have lower Sharpe ratios (around 0.3-0.5), reflecting the economic stagnation and regulatory uncertainties affecting the region.
- Emerging markets exhibit higher volatility, with Sharpe ratios fluctuating between 0.3 and 0.6, reflecting both high potential returns and risks.

3. Expense Ratios

Indian Mutual Funds:

- The Indian mutual fund industry has benefited from regulatory interventions by the Securities and Exchange Board of India (SEBI) to cap expense ratios, currently averaging around 1.5% for actively managed funds and 0.5% for passive funds.

Global Mutual Funds:

- U.S. mutual funds have lower expense ratios, averaging around 1% for actively managed funds and 0.1-0.5% for passive funds.

- European funds maintain slightly higher expense ratios, around 1.2-1.8%, due to regulatory and operational costs.
- Emerging markets show higher expense ratios, especially in less mature markets, where operational and transaction costs remain high.

Factors Influencing Performance

Economic Growth:

- India has maintained a robust GDP growth rate (averaging around 6-7%) over the past decade, supporting the performance of equity mutual funds. Comparatively, developed markets, including the U.S. and Europe, have experienced slower growth.

Regulatory Environment:

- SEBI's initiatives, such as capping expense ratios and promoting transparency, have enhanced investor confidence and fund performance in India.
- Developed markets have also seen regulatory measures aimed at reducing fees and enhancing transparency, but stringent rules in Europe, for example, have impacted fund performance negatively in some cases.

Market Dynamics:

- The Indian market is characterized by high retail investor participation and increased financial literacy, which has fuelled inflows into mutual funds.
- Global markets, especially in emerging economies, remain volatile due to currency fluctuations and geopolitical issues.

Sectoral Drivers:

- In India, sectors like IT, financials, and consumer goods have driven mutual fund performance, while sectors like infrastructure and energy also show promise.
- U.S. funds have been buoyed by technology and healthcare, while European funds are influenced by industrials and consumer goods.

Comparison Summary

Metric Indian Mutual Funds Global Mutual Funds (U.S Europe,

Emerging Markets)

Average 12-15% (Equity), 6-8% 8-10%
(U.S. Equity), 5-7% (Europe Equity),
(Debt) 6-
12%(Emerging Markets)

Annual Returns Sharpe Ratio: 0.6-0.8 Sharpe
Ratio: 0.5-0.7 (U.S.),
(Equity) 0.3-0.5
(Europe), 0.3- 0. 6(Emerging)

Risk-Adjusted 1.5% (Active), 0.5% 1% (U.S.
Active), 0.1-0.5% (U.S.
(Passive) Passive),
1.2-1.8% (Europe)

Expense Ratios 1.5% (Active), 0.5% 1% (U.S.
Active), 0.1-0.5% (U.S. Passive),
(Passive) 1.2-1.8%
(Europe)
Sectoral IT, Financials, Tech,
Healthcare (U.S.),Industrials,
Performance Consumer Goods Consumer
Goods (Europe)

Key Takeaways

Higher Returns with Higher Volatility in Indian Mutual Funds:

Indian mutual funds have shown higher returns on average, but also face high volatility. With strong economic fundamentals, they are positioned favorably compared to many global markets, especially given India’s demographic advantages and growing middle class.

Regulatory Impact:

Regulatory measures in India have helped cap expenses and enhance investor confidence, improving performance consistency. In contrast, stringent regulations in Europe have at times limited returns, though U.S. funds have adapted well to regulatory changes.

Portfolio Diversification and Growth Potential:

For global investors, Indian mutual funds offer diversification benefits and exposure to one of the world's fastest-growing economies. However, global macroeconomic factors, including currency risks and inflation, remain challenges.

Conclusion :

Indian mutual funds have delivered compelling returns over the past decade, often outperforming their global peers. Although they present higher volatility, the growth potential driven by economic expansion and supportive regulations has made them an attractive asset class. Global investors looking for diversification and high-growth markets may find the Indian mutual fund industry promising. Conversely, investors should consider local economic conditions and regulatory stability when investing in global funds, especially those in more volatile emerging markets.

Information Source: ChatGPT, Complied and presented by Thirumurugan J C, MFD

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Our mailing address is:
Wcms Investment Solutions Pvt. Ltd. Unique Sterling Apartment 8/17 3rd Cross Street, Sterling Road, Nungambakkam Chennai, Tamil Nadu 600034 India