

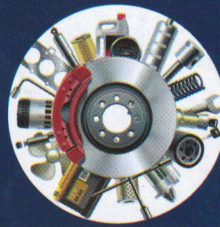
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DEMOCRATIZING WEALTH CREATION

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## Analysis

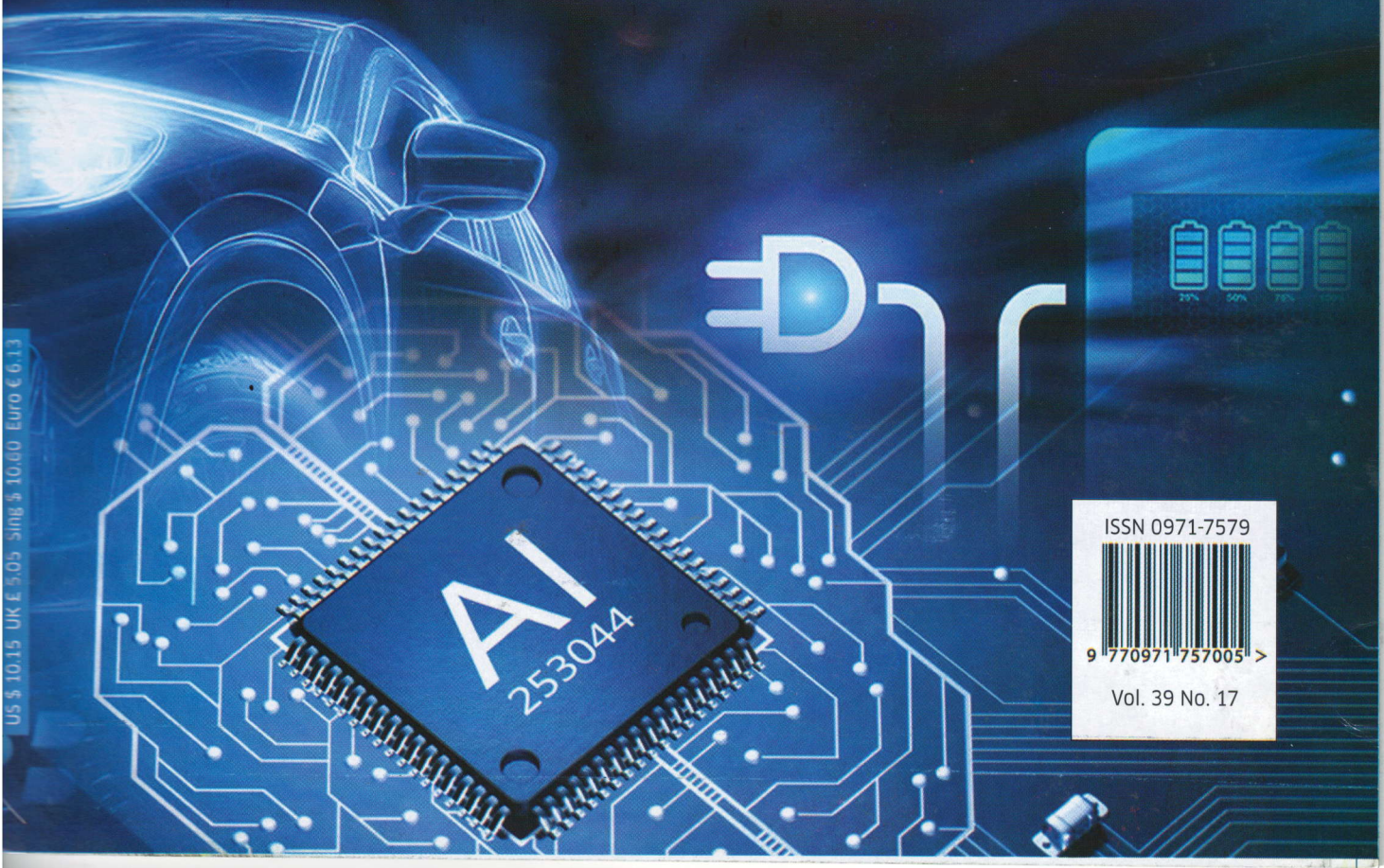
Texmaco Rail And Engineering



## Special Feature Auto Ancillary

## Cover Story

# Invest Today in Tomorrow's Emerging Themes



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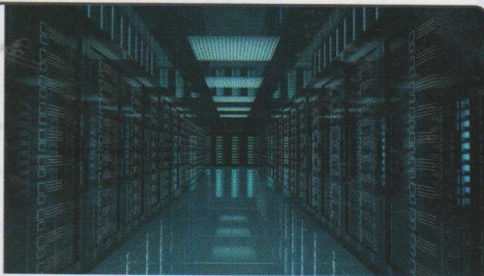
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## How Informative is Information Ratio?

**E**quity indices in India have been reaching new all-time highs regularly over the past few weeks. One reason for this performance is the strong support from domestic institutions, especially mutual funds. The latest data for June mutual funds shows that net inflows into equity mutual funds surged 17 per cent sequentially to a record high of ₹40,608 crore, bolstered by an inflow of ₹14,370 crore from 11 new equity fund offerings.

Additionally, gross inflows from systematic investment plans reached a new high of ₹21,262 crore, further boosting the net inflows. Investor trust in mutual funds has been driven by high-decibel promotions from the industry body and proactive regulations. To enhance decision-making for investors, on June 28, the Securities and Exchange Board of India proposed a new measure to improve transparency in mutual fund performance: the mandatory disclosure of risk-adjusted returns using the information ratio (IR).

This aims to provide investors with a clearer picture of fund performance. IR essentially tells you how much excess return (return above the benchmark) you are getting relative to the amount of risk you are taking. The key question is whether this new metric will genuinely help investors make better-informed decisions or complicate the landscape further. The IR varies over time and across different fund categories and so its effectiveness as a performance measure for mutual fund managers is still not very clear.

Because the IR encourages managers to closely follow the benchmark, it should be supplemented with measures like 'active share' to control the portfolio's activity level. Lastly, a long-term track record is essential to distinguish skilled managers from lucky ones, as luck is generally not persistent over time. Therefore, I believe that it is a step in the right direction but needs to be supplemented with other metrics to make it more informative for investors.

*Shashikant*

**Shashikant Singh**  
Executive Editor

## Multi-cap funds for Conservative Investor

With multi-cap funds gaining popularity in India, how should a conservative investor like me approach this investment avenue?

- Avinash Juneja

**Editor Responds :** Multi-cap funds are gaining popularity in India and for good reason. They offer the potential for growth and diversification by allowing investment across large, mid, and small-cap companies. However, for a conservative investor like yourself, there are some important things to consider before diving in.

The inherent risk of multi-cap funds is a key factor. Because they invest in mid and small-cap stocks, they are more susceptible to market volatility. These segments can experience larger price swings compared to large-cap companies. To mitigate this risk, a long-term investment horizon (ideally 7-10 years or more) is crucial. This allows the market to even out fluctuations and potentially lead to better returns in the long run.

Recent trends show that multi-cap funds have performed well. However, remember that past performance is not a guarantee of future results. The Indian stock market, like any market, experiences ups and downs. Be prepared for potential volatility.

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