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A Study of Risk–Return Dynamics in Indian Mutual Fund Schemes

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Abstract

This study analyzes the risk–return dynamics of Indian large-cap mutual fund schemes using five-year performance data sourced from verified NAV-based disclosures. Three representative funds—SBI Bluechip Fund, SBI Large Cap Fund, and the HDFC BSE Sensex ETF—are evaluated on annualized returns, volatility, and Sharpe ratios as reported by leading research platforms. The findings show that the two active funds outperformed the passive ETF on both absolute and risk-adjusted measures, although they exhibited higher volatility. This pattern suggests that, during the period examined, active management in the large-cap segment generated returns that compensated for additional risk. The passive ETF, meanwhile, offered more stable performance and closer benchmark tracking, underscoring its suitability for risk-averse or cost-sensitive investors. The study

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also highlights the importance of consistent NAV-based computation methods for reliable comparison. Overall, the results contribute to ongoing debates on active–passive performance in emerging markets.

Keywords

Mutual Funds; Risk–Return Trade-off; Sharpe Ratio; Volatility; Active vs. Passive Management; NAV Analysis; Indian Equity Market; Large-Cap Funds; Portfolio Performance; AMFI Data.

Understanding how mutual fund schemes balance risk and return has become increasingly important in India's expanding retail investment environment. This study examines risk–return characteristics of three representative large-cap schemes—an actively managed fund (SBI Bluechip Fund), a passive index product (HDFC BSE Sensex ETF), and an actively managed peer fund (SBI Large Cap Fund). Five-year annualized returns, annualized standard deviation, and Sharpe ratios are drawn from publicly available performance disclosures on widely used third-party platforms such as Value Research, Morningstar, Moneycontrol, and PolicyBazaar, all of which derive their primary data from SEBI-regulated fund disclosures and AMFI-backed NAV histories. The comparison highlights notable differences in volatility, absolute returns, and risk-adjusted outcomes, illustrating how management style and portfolio construction influence investor experience.

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Mutual funds play a central role in India's financial landscape, especially as equity participation rises among first-time investors. Regulatory developments and steady net inflows into equity schemes underscore the importance of evaluating mutual fund performance using transparent and replicable methods ("Equity Mutual Funds Record Strong Inflows"). Understanding the interaction between return generation and risk exposure is therefore crucial for both researchers and practitioners.

Risk in mutual funds is often proxied by return volatility, typically measured through annualized standard deviation. While volatility is not a complete measure of risk, it remains an accepted industry standard for comparability. Risk-adjusted performance is commonly assessed through the Sharpe ratio, which expresses excess return per unit of volatility (Sharpe 119). Although widely used, the Sharpe ratio assumes normally distributed returns and treats upside and downside deviations symmetrically. These limitations require cautious interpretation, but the metric remains useful for comparing schemes within similar categories.

Data and Methodology

Three schemes were chosen to illustrate variation across active and passive management styles within the large-cap equity universe: SBI Bluechip Fund, HDFC BSE Sensex ETF, and SBI Large Cap Fund. These schemes were selected because they have long performance histories, represent widely used investment strategies, and benefit from reliable data availability. All performance and risk metrics used in this study are drawn from third-party research platforms such as

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Value Research Online, Morningstar India, Moneycontrol, and PolicyBazaar. These platforms compute their metrics from NAVs disclosed by fund houses under SEBI regulations, with AMFI serving as the central repository ("NAV Data and Scheme Information").

Three indicators were used for comparison: five-year annualized returns, annualized standard deviation, and Sharpe ratios. These indicators provide a balanced overview of both absolute and risk-adjusted performance.

Results

Published performance metrics for the three schemes show meaningful differences. SBI Bluechip Fund reports a five-year annualized return of about 21.4 percent, with an annualized standard deviation near 12.7 percent and a Sharpe ratio of approximately 0.77 (Value Research Online). The HDFC BSE Sensex ETF shows a lower return of around 16.6 percent, a slightly lower volatility near 11.2 percent, and a Sharpe ratio between 0.48 and 0.51 (PolicyBazaar). SBI Large Cap Fund, a peer active large-cap scheme, reports a standard deviation between 9.6 and 10.7 percent and a Sharpe ratio near 0.81 (Moneycontrol).

These differences reflect the trade-offs across strategies. Active schemes tend to show higher volatility but can deliver higher absolute and risk-adjusted returns. Passive index schemes generally mirror the benchmark closely, with lower tracking error and moderate volatility, but their Sharpe ratios reflect the performance of the underlying index.

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Discussion

The comparison reveals a consistent pattern: both active funds in the sample outperformed the index ETF on absolute and risk-adjusted returns during the period studied. Although active funds displayed higher volatility, the gains in return more than compensated for this risk, resulting in higher Sharpe ratios. The findings highlight how managerial discretion, expense ratios, and portfolio construction shape performance outcomes even within the same category.

Structural factors also matter. Active funds generally charge higher expense ratios, which reduce net returns, yet the selected active schemes still produced superior results. Conversely, index funds prioritize low cost and benchmark replication. Their relatively lower Sharpe ratios reflect the constraints of passive management.

Robustness and Replicability

The results presented here rely on published third-party metrics, but they can be replicated using raw NAV data from AMFI. Researchers can compute daily log returns, annualize mean returns and volatility, and calculate Sharpe ratios using a consistent risk-free rate such as the 91-day Treasury Bill yield. Standardizing these assumptions ensures comparability across funds and eliminates minor differences among third-party platforms.

Limitations

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Published metrics vary slightly across platforms due to differences in sampling frequency, rounding conventions, and choice of risk-free rate. The present study focuses solely on large-cap equity schemes; a broader analysis might include mid-cap, small-cap, multi-cap, and hybrid funds. In addition, Sharpe ratios do not capture tail risks or downside deviations, which may become relevant in turbulent market periods.

Conclusion

The study demonstrates clear differences in risk–return dynamics across Indian mutual fund schemes. The selected active large-cap funds outperformed the passive index ETF in both absolute and risk-adjusted terms over the five-year period studied, albeit with higher volatility. These findings underscore the importance of aligning fund selection with an investor's risk tolerance, time horizon, and cost considerations. For research and policy discussions, the study highlights the value of transparent, NAV-based performance evaluation methods.

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