

“Decoding Excellence in the Portfolio Management Services (PMS) Industry of India through the QRC (Quality, Risk, Consistency) Framework pioneered by PMS AIF World”

Introduction:

The Indian investment ecosystem has witnessed a paradigm shift with the rise of the PMS schemes, attracting a discerning investor base seeking tailored wealth management solutions. As the demand for PMS grows, the need for an in-depth examination of the return ratios becomes increasingly pertinent for investors and industry stakeholders.

This report delves into a comprehensive analysis of the performance exhibited by India's top 30 Portfolio Management Services using the return ratios and a QRC (Quality, Risk, Consistency) Framework crafted by PMS AIF WORLD.

While return metrics provide insight into profitability, the quality of a portfolio hinges on the selection of assets and diversification strategy. Effective risk management, reflected in metrics like standard deviation, is paramount to gauging a PMS's ability to navigate market volatility. Consistency over various market cycles is indicative of a robust investment strategy, contributing to investor confidence. Additionally, assessing how well a PMS adheres to stated investment objectives ensures alignment with investor goals. Thus, a comprehensive evaluation, considering these factors in tandem with return ratios, provides a holistic understanding of a PMS's performance and suitability for investors seeking a balanced and sustainable investment approach.

Through a meticulous examination of historical data ranging over various periods, risk-adjusted metrics, and performance indicators, this report aspires to be a comprehensive resource for those seeking a deeper understanding of the return ratios in the realm of Portfolio Management Services in India. The findings presented herein aim to empower investors, fund managers, and industry analysts with actionable insights to navigate the complexities of the market and make informed investment decisions.

Methodology:

1. Data Collection (As of June 30, 2023):

The research encompassed a comprehensive data collection process, covering over 100 Portfolio Management Services (PMS) schemes in India under the guidance of PMS AIF WORLD and through the Securities and Exchange Board of India's website sebi.gov.in.

2. Return Ratio Calculation:

Return ratios were computed for various time horizons – 1 month, 3 months, 6 months, 1 year, 2 years, 3 years, 5 years, 10 years, and Since Inception, based on the returns data submitted by respective Asset Management Companies (AMCs) to PMS AIF WORLD.

This exhaustive analysis aims to capture the short-term and long-term performance trends of the PMS schemes.

3. Fund Categorization:

PMS schemes were categorized into segments such as Large Cap, Multi Cap, Mid Cap, and Small Cap. This classification provides a granular understanding of the performance within different market segments.

The benchmarks used were as under:

<u>CATEGORY</u>	<u>CATEGORY BENCHMARK CONSIDERED</u>
Large Cap	Nifty 50
Multi Cap	Nifty 500
Mid Cap	Nifty Midcap 100
Small Cap	Nifty Smallcap 100

Risk-free rate assumed for calculations: 7.23%

4. Key Ratio Calculation:

Key performance ratios, including Alpha, Beta, Standard Deviation, Sharpe Ratio, Information Ratio, and Consistency Ratio, were calculated. These ratios offer insights into risk-adjusted returns, volatility, and the fund manager's ability to generate alpha.

5. Data Filtering:

To ensure robust analysis, the following filters were applied:

- 1) Min 1 Year of track record
- 2) Assets Under Management (AUM) of \geq Rs.1.5 Billion
- 3) Information Ratio \geq 0.5

This ensures that the selected data set comprises schemes with a meaningful track record and a certain level of market presence.

6. Conclusions:

The Top 30 PMS schemes with the highest Information Ratio were selected and arranged in descending order. Insights were drawn highlighting the correlation between return ratios, risk metrics, and fund categorization.

Reasons for using Information Ratio (IR) as a key determinant of Ranks

The Information Ratio (IR) is a financial metric used to assess the risk-adjusted performance of an investment portfolio or fund manager. It provides insights into the ability of the portfolio manager to generate excess returns over a benchmark while considering the level of risk involved. The formula for Information Ratio is expressed as:

$$\text{IR} = \text{Excess Portfolio Return} / \text{Tracking Error}$$

Where:

- Excess Portfolio Return is the difference between the portfolio return and the benchmark return.
- Tracking Error is a measure of the volatility of this difference, representing the standard deviation of the excess returns.

Benefits of Using Information Ratio for Analysis:

1. **Risk-Adjusted Performance Assessment:**

IR adjusts returns for the level of risk taken to achieve those returns. This is crucial in evaluating whether a portfolio's outperformance is a result of skillful investment and management decisions or simply by taking on excessive risk. A higher IR suggests better risk-adjusted returns.

2. **Consistency Measurement:**

IR provides a measure of a portfolio manager's consistency in generating excess returns. A higher and more consistent IR indicates a manager's ability to outperform the benchmark across various market conditions.

The utilization of the IR within PMS AIF WORLD's proprietary Quality, Risk, and Consistency (QRC) Framework, aims to provide a comprehensive and streamlined approach to structuring ranks and highlighting the top 30 well-performing portfolios. While the Information Ratio (IR) is a pivotal metric in evaluating a fund's performance, it should not be used as the sole criterion for assessment. This approach is rooted in the recognition of the fact that employing a myriad of complex ranking mechanisms can be cumbersome. Since these PMS schemes belong to different categories (like large cap, multi cap, mid cap and small cap), they often offer different risk parameters too.

Top 30 PMS Schemes

Strategy	AUM	Category	Relative Alpha (1Y)	% of +ve Months	Alpha (1Y)	Beta (1Y)	Standard Deviation (1Y)	Sharpe Ratio (1Y)	Alpha (SI)	Information Ratio (SI)	Consistency Ratio
	In Billions (Rs.)										
Carnelian Capital Shift	4.94	Small Cap	19.61%	64.71%	18.02%	0.90	17.81%	2.40	17.98%	1.54	61.76
SageOne Investment Small Cap Portfolio	9.10	Small Cap	-8.34%	69.64%	-5.18%	0.98	18.68%	1.04	16.39%	1.50	62.50
UNIFI Blended Fund-	81.36	Small Cap	-0.90%	64.86%	-2.49%	0.62	12.19%	1.82	14.67%	1.33	56.76
Nine Rivers capital Aurum Small Cap	2.67	Small Cap	9.30%	64.57%	12.46%	0.90	19.05%	1.95	17.80%	1.27	58.27
Abakkus Asset Manager Emerging Opportunities Approach	14.22	Small Cap	13.46%	71.43%	11.87%	0.91	16.75%	2.18	11.83%	1.13	62.86
Equirus Long Horizon Fund	7.48	Small Cap	-2.42%	62.96%	0.74%	0.90	19.38%	1.31	14.65%	1.10	59.26
Ambit Investment Advisors Emerging	3.48	Small Cap	8.97%	58.82%	12.13%	0.73	15.56%	2.37	13.28%	1.07	60.29
360 ONE Multicap	38.24	Multi Cap	-0.80%	65.00%	0.99%	0.89	13.68%	-0.36	7.28%	1.07	62.00
SageOne Investment Core Portfolio	23.00	Mid & Small Cap	-14.97%	65.96%	-20.00%	0.89	16.49%	0.70	10.95%	0.98	53.19
AccuraCap PicoPower	5.36	Small Cap	-10.22%	66.67%	-7.06%	0.71	13.58%	1.30	12.11%	0.98	58.87
AlfAccurate Advisors	11.42	Multi Cap	2.11%	66.46%	3.90%	0.93	14.28%	1.61	7.46%	0.95	58.54
Green Portfolio Special	2.09	Multi Cap	1.83%	61.67%	3.62%	1.04	18.57%	1.22	13.51%	0.90	53.33
Electrum Laureate	1.79	Small Cap	4.75%	66.67%	7.91%	0.83	15.76%	2.07	11.43%	0.87	60.61
Stallion Asset Core Fund	7.09	Multi Cap	9.58%	66.67%	11.37%	0.95	17.31%	1.76	8.78%	0.78	56.14
ICICI Prudential PMS Contra Strategy	19.04	Multi Cap	9.56%	69.49%	11.35%	1.13	18.34%	1.66	6.23%	0.78	52.54
Valentis Advisors Rising Star Opportunity Fund	5.60	Small Cap	5.93%	60.49%	9.09%	0.67	12.45%	2.71	11.19%	0.76	55.56
Valentis Advisors Multi-	2.05	Multi Cap	5.09%	74.14%	6.88%	0.82	13.03%	1.99	8.16%	0.72	56.90
Sameeksha Capital	7.21	Multi Cap	9.23%	67.05%	11.02%	0.74	11.70%	2.37	7.13%	0.71	64.77
Girik Capital Multicap Growth Equity Strategy	8.83	Multi Cap	0.67%	64.42%	2.46%	0.53	12.65%	1.70	9.14%	0.71	60.12
ASK Indian Entrepreneurship	201.88	Multi Cap	-2.71%	64.81%	-0.92%	1.20	19.43%	0.93	6.75%	0.69	54.32

Strategy	AUM	Category	Relative Alpha (1Y)	% of +ve Months	Alpha (1Y)	Beta (1Y)	Standard Deviation (1Y)	Sharpe Ratio (1Y)	Alpha (SI)	Information Ratio (SI)	Consistency Ratio
	In Billions (Rs.)										
2Point2 Capital Long Term Value Fund	9.28	Multi Cap	22.44%	61.90%	24.23%	0.91	16.36%	2.65	7.59%	0.68	57.14
Sundaram Alternates	2.97	Multi Cap	-3.61%	65.25%	-1.82%	1.07	17.41%	0.99	7.36%	0.67	55.32
First Global The India	2.90	Multi Cap	-0.66%	61.90%	1.13%	0.75	11.48%	1.76	8.64%	0.65	50.00
Abakkus Asset Manager All Cap Approach	19.53	Multi Cap	4.73%	64.71%	6.52%	0.83	14.04%	1.82	7.40%	0.65	58.82
ValueQuest Platinum	4.69	Multi Cap	11.67%	68.81%	13.46%	0.95	17.45%	1.86	8.35%	0.61	55.05
Sundaram Alternates	11.65	Multi Cap	-0.41%	62.73%	1.38%	0.95	15.52%	1.32	6.61%	0.61	54.04
Buoyant Capital Opportunities Multi-cap	9.68	Multi Cap	16.45%	67.44%	18.24%	1.00	15.63%	2.39	8.56%	0.61	62.79
ICICI Prudential PMS PIPE Strategy	17.39	Small Cap	1.49%	65.96%	4.65%	0.63	13.17%	2.23	6.44%	0.59	48.94
ValueQuest Growth Scheme	9.28	Multi Cap	11.71%	66.88%	13.50%	0.80	16.21%	2.01	8.10%	0.56	53.25
Quest Investment Flagship PMS	5.85	Multi Cap	-3.90%	63.49%	-2.11%	1.00	17.29%	0.98	7.27%	0.55	57.14

Conclusions

From the table above, we can derive some general insights that apply across the board:

1. **Small Cap Focus:**

The funds featured in the TOP 30 slot are primarily focused on the small-cap category, which typically involves investing in companies with smaller market capitalizations. This suggests a trend or preference among these PMS schemes towards potentially higher growth but higher risk investments.

2. **Variability in Risk and Return Profiles:**

The metrics like Alpha, Beta, and Standard Deviation vary significantly among these funds, indicating a diverse range of risk and return profiles. This diversity allows investors to choose a fund that aligns with their individual risk tolerance and investment objectives.

3. **Consistency vs. High Performance:**

Some funds show a higher percentage of positive months, indicating consistency in performance, while others have higher Sharpe Ratios or Alphas, indicating potentially higher returns but possibly with more volatility. This highlights a common trade-off in investment management between consistency and high performance.

4. **Risk-Adjusted Performance:**

The varying Sharpe Ratios and Information Ratios across these funds suggest differing levels of success in delivering risk-adjusted returns. Higher ratios indicate better performance per unit of risk, which is a crucial consideration for risk-averse investors.

5. **Market Sensitivity:**

The range of Beta values shows that these PMS schemes have different levels of market sensitivity. A lower Beta indicates a fund less sensitive to market movements, which might appeal to investors seeking stability, especially in volatile markets.

6. **Size and Scale Considerations:**

The differences in Assets Under Management (AUM) among these funds could reflect their market reputation, investor trust, and operational scale. A larger AUM might indicate established trust and resources, while a smaller AUM could suggest more specialized or niche strategies.

7. **Alpha Generation Capability:**

The variation in Alpha across different funds, both for 1 Year and Since Inception, indicates the differing capabilities of these PMSs to generate excess returns independent of market movements, which is a critical skill in active fund management.

Summary:

- ❖ There is no one-size-fits-all in these PMS offerings, as they cater to a range of investment styles and risk appetites.
- ❖ Investors need to balance their desire for high returns against their tolerance for risk and volatility.
- ❖ The performance of these PMS schemes also underscores the importance of looking at multiple metrics (not just returns) to assess the suitability of a fund for an investor's specific needs.
- ❖ The focus on small-cap investments across these PMSs suggests an inclination towards tapping into high-growth potential sectors, albeit with inherent risks associated with smaller, less established companies.

Risk Disclaimers

Investments are subject to market-related risks. The data mentioned here is of June 2023 and is as collected from different fund houses by PMS AIF WORLD. The data, content, and analysis on the report are meant for general information purposes and are not to be construed as any recommendation or advice. The investors must make their analysis and decision depending upon risk appetite. Only those investors who have an aptitude and attitude to risk should consider the space of Alternates (PMS & AIFs). Past Performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. Please read the disclosure documents of the investment products carefully before investing. PMS & AIF products are market-linked and do not offer any guaranteed/assured returns. These are riskier investments, with a risk to principal amount as well. Thus, investors must make informed decisions.

Glossary

1. Portfolio Management Service (PMS):

A Portfolio Management Service (PMS) is a financial service where professional portfolio managers manage and optimize investment portfolios on behalf of individual investors, tailoring strategies to align with the investor's financial goals and risk preferences.

2. Relative Alpha (1 Year):

The Relative Alpha is the difference between the fund's 1Y alpha and the average of 1Y alpha of all the funds in the same category (Large Cap, Multi Cap, Mid & Small Cap).

A higher value indicates better performance relative to the benchmark. For instance, 'Carnelian Capital Shift' shows a relatively high Relative Alpha of 0.1961, indicating strong performance against its benchmark.

3. % of Positive Months:

It is a measure of the frequency with which the portfolio demonstrated profitability within a specified timeframe.

Percentage of Positive Months = (Number of Positive Months/ Total Number of Months) × 100

Where:

- Number of Positive Months is the count of months where the portfolio had positive returns.
- Total Number of Months is the total number of months considered in the analysis.

A higher value indicates better performance relative to the benchmark. For instance, 'Carnelian Capital Shift' shows a relatively high Relative Alpha of 0.1961, indicating strong performance against its benchmark.

4. Alpha (1 Year):

This measures the fund's ability to generate excess returns independent of the benchmark's performance. Higher alpha values, like that of 'Carnelian Capital Shift' (0.1802), suggest better performance.

5. Beta (1 Year):

Beta indicates the fund's volatility relative to the benchmark index.

$\beta = \text{Covariance (Portfolio Returns, Benchmark Returns)} / \text{Variance (Benchmark Returns)}$

Where:

- Covariance ({Portfolio Returns, Benchmark Returns}) is the covariance between the returns of the portfolio and the benchmark.
- Variance ({Benchmark Returns}) is the variance of the benchmark returns.

A beta less than 1 suggests lower volatility than the market, as seen with 'UNIFI Blended Fund-Rangoli' (0.62), implying lower risk.

6. Standard Deviation (1 Year):

This is a statistical measure to assess the volatility or risk of the portfolio.

$$\sigma = \sqrt{\frac{1}{N} \sum_{i=1}^N (x_i - \mu)^2}$$

Where:

- N is the number of data points.
- x_i represents each individual data point.
- μ is the mean (average) of the data points.
- \sum is the summation taken over all data points

A higher standard deviation indicates greater variability, suggesting a wider range of potential outcomes and, consequently, higher risk. A lower standard deviation, like that of 'UNIFI Blended Fund-Rangoli' (0.1219), indicates lower risk.

7. Sharpe Ratio (1 Year):

The Sharpe Ratio is a financial metric that measures the risk-adjusted return of a portfolio. It assesses the excess return generated per unit of risk, using the standard deviation of the investment's returns.

Sharpe Ratio = (Portfolio Return–Risk-Free Rate) / Portfolio Standard Deviation

Where:

- Portfolio Return is the expected or actual return of the portfolio.
- Risk-free rate is the rate of return on a risk-free investment (e.g., Treasury bills).
- Portfolio Standard Deviation is the standard deviation of the portfolio returns.

A higher Sharpe ratio indicates better performance for the same level of risk. 'Carnelian Capital Shift' stands out with a Sharpe ratio of 2.4.

8. **Alpha (SI) and Information Ratio (SI):**

These are calculated in the same way as 1-year metrics but show the performance over the fund's entire life. 'Carnelian Capital Shift' and 'Nine Rivers Capital Aurum Small Cap Opportunities' have high values in these categories, indicating strong overall performance.

9. **Consistency Ratio:**

This ratio evaluates the stability and reliability of a portfolio's performance over time and measures how consistently a portfolio manager delivers returns, providing insights into the reliability of achieving a certain level of performance over various market conditions. 'Sameeksha Capital' leads the pack with a consistency ratio of 64.77.

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