Focused Funds vs. Large-Cap Funds: A Comparative Analysis of Risk, Return, and Performance Metrics

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Abstract:

This study provides a comparative analysis of Focused and large cap funds based on the key financial metrics like 3 year CAGR, expense ratio, Beta, Standard Deviation, Sharpe Ratios and Turnover Ratios. Focused funds known for their concentrated portfolio of selected stocks exhibits higher volatility with greater potential for higher return. The researcher considered the top 10 mutual fund houses offering both large cap funds and focused funds based on the asset under management. Notably, HDFC Focused 30 fund delivered the highest 3-years return (24.15%) and Sharpe ratio (1.63), reflecting superior Risk adjusted Return. However, some focused funds, like Axis Focused 25 Fund, with Sharpe ratio (-0.01) underperformed, with negative risk-adjusted returns.

Large-cap funds, which invest in a broader set of well-established companies with higher market capital, with higher diversification, offered more stable returns with relatively lower volatility. ICICI prudential Blue-chip fund and HDFC Top 100 Fund demonstrated strong performance in this category, with moderate risk adjusted return and lower beta values, indicating reduced risk. Expense ratios were generally lower for focused funds, benefiting long-term returns, while turnover ratios varied significantly, impacting transaction costs.
Overall, the analysis underscores the trade-off between potential higher returns and increased risk for focused funds, whereas large-cap funds offer more consistent and stable returns for risk-averse investors.

Keywords: Focused Funds, Large cap Funds, Risk, Return, and Performance metrics

Introduction:

The mutual fund industry in India has shown strong growth trends in recent years, largely driven by retail and institutional investor interest. In the fiscal year 2024, mutual fund assets under management (AUM) increased by an impressive 35%, reaching approximately ₹53.4 lakh crore by March 2024, the highest annual growth rate since 2021. This surge, which added nearly ₹14 lakh crore in AUM, reflects rising investor interest and growing market participation by households through mutual funds.

The share of equity-oriented schemes has seen particular growth, with individual investors (including retail and high-net-worth individuals) contributing a significant portion of new inflows. By September 2024, equity-oriented schemes comprised 61% of the mutual fund industry's total assets, up from 54.1% a year prior. Much of this growth is attributed to retail investors, whose holdings in mutual funds spiked nearly 50% year-over-year, highlighting a shift toward equity investments over traditional savings methods.

Institutional investors, meanwhile, dominate categories such as liquid, money market, and debt-oriented schemes. As of September 2024, institutional assets accounted for 38.1% of industry assets, with most investments directed toward more conservative schemes, like debt and ETFs.

This study seeks to provide a comprehensive comparison of focused and large-cap funds by analyzing these metrics and evaluating their relative performance. By focusing on quantitative measures of risk and return, this research aims to aid investors in making more informed decisions aligned with their financial goals. The findings will contribute to the broader understanding of how fund structure impacts performance, offering valuable insights for both individual and institutional investors.

Objectives:

1. To compare the performance of focused funds and large-cap funds over a 3-year period using key financial metrics such as CAGR, expense ratio, beta, standard deviation, Sharpe ratio, and turnover ratio.
2. To identify investment strategies best suited for different types of investors, focusing on the trade-offs between higher potential returns in focused funds and the more stable, risk-averse nature of large-cap funds.

Review of Literature:

1. (Subramaya Nayak and Sushil Kumar pradan, 2024) has reviewed the ten selected large cap mutual funds in India in the time span of 2019 -2024. Their study employed critical performance metrics, including the Sharpe Ratio, Standard Deviation, Beta, and Expense Ratio, to evaluate each fund's risk management and return generation effectiveness. The analysis reveals that while all funds provided positive returns, significant disparities existed in their risk-adjusted performance. ICICI Prudential Blue-chip Fund seems to be the best option overall because of its low expenses, moderate risk, and impressive risk-adjusted returns. The most minor volatile fund is Franklin India Blue-chip Fund, which is appropriate for cautious investors. Although Nippon India Large Cap Fund has a high return potential, its risk-adjusted efficiency is lower. This comparative analysis provides valuable insights into large-cap mutual funds' investment strategies and portfolio characteristics, highlighting the importance of cost efficiency and risk management in achieving superior returns. The findings serve as a crucial guide for investors seeking to optimize their investment portfolios, offering practical recommendations based on fund performance and market conditions. The study concludes by discussing the implications for mutual fund investors and potential areas for future research in the context of evolving market dynamics.

2. (Arivetullatif and Sulastri, 2023) determined the differences in the performance of Islamic stock mutual funds with the performance of conventional stock mutual funds. The Research is a descriptive statistical analysis with a sample population of Islamic stock mutual funds and conventional stock mutual funds that are actively listed on the IDX for the 2016-2020 period. The sample was selected based on the purpose sampling technique. They have used the Independent Sample T Test.The mutual funds tested were the performance of sayriah stock mutual funds and the performance of conventional stock mutual funds based on the value of return and risk of mutual funds using the Sharpe, Treynor, Jensen and MM methods. The results of this study indicate that there is a significant difference between the performance of Islamic stock mutual funds and the performance of conventional stock mutual funds. Based on the results of the discussion of this research regarding the comparison of the performance of Sharia stock mutual funds with conventional stock mutual funds, it can be concluded as follows:
   In average return, the highest return obtained by mutual funds share conventional with acquisition mark of 0.17869 whereas For mark mutual funds share sharia obtain mark of 0.09956. So that difference average value of mutual funds share conventional with mutual funds share Sharia is of 0.07913. From earnings results average value for 5 years period on seen that performance mutual funds share conventional more Good from on performance mutual funds share sharia , though difference the No Enough big

3. (Sumant L. Wachasundar 2022) has studied the top 10 performing large cap mutual funds to make a comparative study on the risk and return offered by the selected funds. From the study he observed that, among the selected funds Edelweiss Exchange traded scheme- RP is considered as a fund with moderate returns, while the Birla Sun Life top 100 fund – direct plan is considered as high risk with high return

4. (Abdelkader Derbali, Ahmed K Elnagar 2020) compared the performance of prominent multi-capital and large-capital funds and examined the performance of 10 prominent funds under both the selected categories analyzed during the study period from 2013 to 2018. Their performance has also been compared against India's two most diversified benchmark indices, BSE 200 and Nifty 500. He had also attempted to determine whether there is any considerable difference in the performance of the two categories of funds or not. To do so, He employed a One-way Analysis of Variance (ANOVA) for the comparison of mutual funds as an econometric methodology for a period of study from 2013 to 2018 for a sample of 20 Indian mutual funds. From the empirical findings, we find that the mutual fund schemes under both categories, such as Multi Capital Funds and Large Cap Funds, have generated good returns over the period, with reasonable risk. Therefore, it is safe to conclude that they are a good investment option for an investor. Regarding the performance of these

mutual funds, the average monthly returns generated by the funds in each category are numerically different. However, this difference has not been found statistically significant. At the same time, there is no significant difference between these funds and NIFTY 500, as well as these funds and BSE 200 in terms of their returns.

5. (Dr. M M Goyal, 2015) has evaluated the performance of Top 10 mutual funds as per CRISIL September, 2014 ranking and also compares it with the benchmark index i.e. S&P CNX Nifty. Various absolute and relative performance measures like sharp measure, Treynor measure and Jensen Alpha is being used to compare the performance. The study finds that overall all the schemes provide higher and better average return than the market. Franklin India Opportunities Fund is the best performer with higher average return, lower risk which is good for investors who wants to reap higher returns at a lower risk.

6. (Shyu Jonchi, Lin Jia-Chi and Chang Chi-Chong, 2014) had examined the effects of the number of stock holdings and industry concentration on Taiwan's equity fund performance. The quadratic regression model is applied to explore the optimal number of stock holdings for mutual funds. The empirical results suggest that funds with a smaller number of stock holdings and with a higher level of industry concentration achieve better performance. They also found that mutual fund performance and the number of stock holdings have an inverted U-shaped relationship, and funds that hold twenty-four to twenty-eight stocks can generate superior performance.

7. (Sap and Travis, 2008) had examined gross fund returns based on the number of securities held and find no evidence that focused funds outperform diversified funds. After deducting expenses, focused funds significantly underperform. Controlling for various fund characteristics, fund performance is positively related to the fund's number of holdings both before and after expenses. They found evidence linking focused fund underperformance to agency and liquidity problems. Finally, the attrition rate of focused funds is higher than that of diversified funds. These results do not support the view that managers holding focused portfolios have superior stock-picking skills or that focused funds provide value to investors.

Research Methodology:

This study makes use of secondary data, which have been obtained from AMFI website and fund fact sheets. During the period of three years (September 2021-September 2024), Focused Funds and large-cap mutual fund performance comparison is based on key performance metrics— 3 year CAGR, standard deviation, beta, Sharpe ratio, Expense ratio and Turnover Ratio. The analysis involves the top 10 Funds based on the Asset under management, offering both Focused and large-cap funds.

1. Data Collection

- **Source of Data**: Obtain historical data from credible financial sources, such as mutual fund databases, asset management companies, or financial platforms (e.g., Morningstar, Value Research, etc.).
- **Dataset**: Collect the following metrics for each fund type over the past three years:

- **3-Year Return (CAGR)**: To measure the annualized return.
- **Expense Ratio**: To analyze fund costs.
- **Beta**: To measure market sensitivity.
- **Standard Deviation**: To assess total risk.
- **Sharpe Ratio**: To measure risk-adjusted return.
- **Turnover Ratio**: To gauge fund trading frequency.

3. **Sample Selection**

- **Focused Funds**: Select mutual funds that follow a focused strategy, typically investing in a limited number of stocks.
- **Large-Cap Funds**: Select mutual funds focused on investing in large-cap companies.
- **Time Horizon**: Limit the analysis to a 3-year period, to focus on recent fund performance.
- **Sample Size**: There are 44 asset management companies operating in India, among them top ten AMCs based on the AUM were considered for this study.

Sample:

S.No	Focused Mutual Fund	Large Cap Mutual Fund
1	SBI Focused Equity Fund	SBI Blue Chip Fund
2	HDFC Focused 30 Fund	HDFC Top 100 Fund
3	Axis Focused 25 Fund	Axis Bluechip Fund
4	Franklin India Focused equity Fund	Franklin India Bluechip Fund
5	ICICI Prudential Focused Equity Fund Direct Growth	ICICI Prudential Bluechip fund
6	Nippon India Focused Equity Fund	Nippon India Large cap Fund
7	Mirae Asset Focussed Equity Fund	Mirae Asset Large cap Fund
8	Aditya Birla Sun Life Focused Equity Fund	Aditya Birla Sun Life Frontline Equity Fund
9	Canara Robico Focused Equity Fund	Canara Robico Focused Equity Fund
10	Kotak Focused Equity Fund	Kotak Bluechip Fund

3. Data Analysis Techniques

- **Descriptive Statistics**:
  - Compute mean and median of Focused funds and Bluechip funds for each metric (CAGR, Expense Ratio, Beta, Standard Deviation, Sharpe Ratio, Turnover Ratio).
- **Comparative Analysis**:
  - **Risk-Return Comparison**:
    - Compare the average 3-year CAGR and other metrics for focused vs. large-cap funds.
  - **Expense Ratio Impact**:
    - Analyze the correlation between 3-year CAGR and other metrics to understand their impact on fund performance.

4. Limitations

- **Market Conditions**: Note that returns are subject to market fluctuations, and a 3-year period may not capture long-term performance accurately.

- **Sample Bias**: The selected funds are based on available data and may not fully represent the entire market.
- **External Factors**: Macro-economic events or AMC-specific strategies may influence fund performance and are not isolated in this study.

Data Analysis:

This is the data collected from various sources like fund factsheets and AMFI

Fund Type	Fund Name	3 year Return(CAGR)	Expense Ratio (Direct)	Beta	Standard Deviation	Sharpe Ratio	Turnover Ratio
Bluechip Funds	SBI Blue Chip Fund	13.71%	0.79	0.9	11.50%	0.72	0.4
	HDFC Top 100 Fund	17.39%	0.99	0.92	12.05	1.03	0.14
	Axis Bluechip Fund	8.44%	0.67	0.95	12.45%	0.29	0.41
	Franklin India Bluechip Fund	11.94%	1.07	0.86	3.35%	0.63	0.72
	ICICI Prudential Bluechip fund	17.70%	0.86	0.86	11.29%	1.09	0.22
	Nippon India Large cap Fund	20.07%	0.68	0.94	12.41%	1.19	0.2
	Mirae Asset Large cap Fund	11.37%	0.53	0.85	11.42%	0.58	0.38
	Aditya Birla Sun Life Frontline Equity Fund	14.34%	0.96	0.92	11.81%	0.83	0.36
	Canara Robico Focused Equity Fund	14.08%	0.9	0.88	11.12%	0.73	0.27
	Kotak Bluechip Fund	14.39%	0.86	0.94	20.73%	0.81	0.21
Focused funds	SBI Focused Equity Fund	11.94%	0.73	0.69	11.61%	0.54	0.31
	HDFC Focused 30 Fund	24.15%	0.53	0.81	11.63%	1.63	0.37
	Axis Focused 25 Fund	5.06%	0.81	1.02	15.01	-0.01	0.73
	Franklin India Focused equity Fund	17.89%	0.94	0.85	3.47%	1.12	0.19
	ICICI Prudential Focused Equity Fund Direct Growth	21.38%	0.55	0.92	12.64%	1.19	0.91
	Nippon India Focused Equity Fund	14.72%	1.14	0.93	13.44%	0.82	0.39
	Mirae Asset Focussed Equity Fund	9.20%	0.59	0.79	11.42%	0.31	0.31
	Aditya Birla Sun Life Focused Equity Fund	14.95%	0.85	0.93	12.35%	0.76	0.19
	Canara Robico Focused Equity Fund	18.20%	0.84	0.83	11.45%	1.02	0.57
	Kotak Focused Equity Fund	15.43%	0.5	0.93	13.84%	0.7	0.36

Sources: AMFI and respective AMC fund factsheets

Statistical Summary Comparison:

Parameter	Focused Funds (Mean)	Large-Cap Funds (Mean)	Focused Funds (Median)	Large-Cap Funds (Median)
CAGR (3-Year)	15.29%	14.34%	15.19%	14.21%
Expense Ratio	0.748	0.831	0.770	0.860
Beta	0.870	0.902	0.885	0.910
Standard Deviation	11.69%	11.81%	11.99%	11.66%
Sharpe Ratio	0.808	0.790	0.790	0.770
Turnover Ratio	0.433	0.331	0.365	0.315

Insights:

1. **Returns (CAGR)**:
   - Focused funds have a slightly higher average and median CAGR compared to large-cap funds.
2. **Expense Ratio**:
   - Large-cap funds have a higher average and median expense ratio, indicating they may be slightly more costly.
3. **Beta**:
   - Large-cap funds show slightly higher market sensitivity (Beta) than focused funds.
4. **Risk (Standard Deviation)**:
   - Both categories have similar average volatility, but the median suggests large-cap funds might have slightly less dispersion.
5. **Risk-Adjusted Performance (Sharpe Ratio)**:
   - Focused funds have a marginally higher Sharpe ratio, indicating better risk-adjusted returns.
6. **Turnover Ratio**:
   - Focused funds exhibit more frequent trading activity than large-cap funds.

Correlation Analysis Comparison

Parameter	Focused Funds (CAGR Correlation)	Large-Cap Funds (CAGR Correlation)
Expense Ratio	-0.217	0.198
Beta	-0.186	0.099
Standard Deviation	-0.315	0.167
Sharpe Ratio	0.987	0.992
Turnover Ratio	0.028	-0.647

Key Observations:

1. **Expense Ratio**:
   - Expense ratio negatively correlates with CAGR for focused funds but positively correlates for large-cap funds, though both are weak.

2. **Risk (Standard Deviation)**:
   - Focused funds show a negative correlation between risk and return, while large-cap funds exhibit a weak positive correlation.
3. **Sharpe Ratio**:
   - Both categories strongly correlate Sharpe Ratio with CAGR, highlighting the importance of risk-adjusted performance.
4. **Turnover Ratio**:
   - Turnover Ratio has a weak positive correlation with CAGR in focused funds but a strong negative correlation in large-cap funds.

Summary of Differences:

Aspect	Focused Funds	Large-Cap Funds
Portfolio	Concentrated (20-30 stocks)	Broad (mostly large companies)
Volatility (Beta)	Higher (more exposed to single stocks)	Lower (due to diversification)
CAGR	Potentially higher returns, especially in bull markets	More stable returns
Risk (Std Dev)	Higher volatility	Lower volatility
Risk-Adjusted Return (Sharpe)	Higher for top performers, but can vary widely	Steadier, generally moderate Sharpe ratio
Expense Ratios	Typically lower	Slightly higher
Turnover Ratios	Higher (more active management)	Lower (long-term, stable investments)

Conclusion:

Ideal Investor Profiles:

Though Focused Funds have outperformed the large cap funds on average, they exhibit a slight higher risk. So,

- Focused Funds: Suitable for investors with a higher risk tolerance who want potentially higher returns from concentrated bets.
- Large-Cap Funds: Ideal for conservative investors seeking steady growth and lower volatility, especially those who prefer stable, blue-chip companies.

Investment Strategy:

 Combine focused and large-cap funds in a portfolio to benefit from the growth potential of focused funds and the stability of large-cap funds.

 Tailor the allocation to your risk appetite and investment horizon:

- **Aggressive**: 70% focused funds, 30% large-cap funds.
- **Moderate**: 50% focused funds, 50% large-cap funds.
- **Conservative**: 30% focused funds, 70% large-cap funds.

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