THE SCANNER

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Looking beyond Returns:

Decoding Mutual Fund Selection Through QVM

In today's investment landscape, investors are confronted with an overwhelming abundance of choice. Hundreds of mutual fund schemes span categories, styles, and market capitalisations, offered by a growing roster of asset management companies. The real challenge, therefore, is no longer access to products, it is discernment. With performance tables, star ratings, and marketing narratives competing for attention, selecting the right fund requires more than scanning trailing returns. It demands a deeper understanding of what truly shapes future performance: the underlying portfolio.

This is where Multi-Act differentiates itself. Rather than relying solely on conventional NAV-based analysis, which captures what a fund has delivered historically, Multi-Act applies a far more rigorous and forward-looking lens. Past returns reveal outcomes; they do not adequately explain portfolio construction, embedded risks, or the sustainability of those outcomes. To bridge this gap, Multi-Act developed its Mutual Fund Portfolio Analytics (MFPA), a framework built on deep, constituent-level analysis powered by its proprietary QVM model: Quality, Valuation and Momentum.

Anchored in over two decades of research, supported by the Global Rational Analysis Framework (GRAF) and Multi-Act's proprietary Research Management System (RMS), MARKAS, QVM systematically evaluates every company within a mutual fund portfolio.

It asks three fundamental questions:

1. Is the business high quality?
2. Is the valuation justified?
3. Is the timing supported by both fundamental and technical momentum?

Quality (Q)

Assesses business durability - return ratios, cash flow resilience, balance sheet strength, competitive positioning, governance standards, and the risk of permanent capital loss.

Valuation (V)

Measures whether market pricing offers a margin of safety relative to intrinsic business value, identifying vulnerability during corrections.

Momentum (M)

Integrates earnings trajectory and technical trends to avoid exposure to deteriorating fundamentals or weakening price conviction.

Together, QVM enables informed mutual fund selection. In this edition of the Scanner, we present to you our key historical recommendations across categories and underscore their subsequent performance.

While we have presented the outcome as a yearly performance tracker exercise, we would like to emphasise that our advisory views remain etched from a medium to longer term perspective and our recommendations and outcomes should be seen in that context. For e.g., Nifty 50 Value 20 Index which has underperformed in last 1 year (due to its sectoral positioning) has been a consistent outperformer over the medium term and is still our pick in large cap category given its attractive valuation on relative basis.

Exhibit: Performance tracking

Shortlisted Funds	Report Date	Category	Returns (Till Dec 2025)			Comments
			Fund	Category	Nifty 500	
Nippon India Nifty 50 Value 20 Index Fund-Reg(G)	31-Dec-24	Smart Beta (Value)	0.0%	12.1%	7.8%	Both NV20 and Alpha Low Vol have significantly underperformed.
UTI Nifty200 Momentum 30 Index Fund-Reg(G)	31-Dec-24	Smart Beta (Momentum)	-5.5%	-6.3%	7.8%	
DSP Nifty Top 10 Equal Weight Index Fund-Reg(G)	31-Dec-24	Smart Beta (Large)	8.4%	7.3%	7.8%	
Nippon India Nifty Alpha Low Volatility 30 Index Fund(G)	31-Dec-24	Smart Beta (Large)	-0.9%	7.3%	7.8%	
UTI Nifty200 Quality 30 Index Fund-Reg(G)	31-Dec-24	Smart Beta (Quality)	3.6%	0.5%	7.8%	
Bandhan Nifty100 Low Volatility 30 Index Fund-Reg(G)	31-Dec-24	Smart Beta (Low Vol)	10.2%	9.0%	7.8%	
ICICI Pru Multi-Asset Fund(G)	28-Feb-25	Multi Asset	19.1%	22.1%	21.1%	ICICI has underperformed the category whereas DSP has outperformed
DSP Multi Asset Allocation Fund-Reg(G)	28-Feb-25	Multi Asset	24.5%	22.1%	21.1%	
ICICI Pru Nifty 50 Index Fund-Reg(G)	30-Apr-25	Large	8.2%	7.3%	9.2%	ICICI outperformed category average of active funds and DSP underperformed. Both the index funds in-line with category.
SBI Nifty Next 50 Index Fund-Reg(G)	30-Apr-25	Large	7.7%	7.3%	9.2%	
ICICI Pru Large Cap Fund(G)	30-Apr-25	Large	8.4%	7.3%	9.2%	
DSP Large Cap Fund-Reg(G)	30-Apr-25	Large	5.3%	7.3%	9.2%	
ICICI Pru Dynamic Asset Allocation Active FoF(G)	30-Apr-25	Asset Allocator	7.0%	5.8%	9.2%	ICICI Pru Passive Multi Asset has underperformed whereas ICICI Pru Dynamic Asset Allocation has outperformed
Kotak Multi Asset Omni FoF(G)	30-Apr-25	Asset Allocator	15.0%	14.1%	9.2%	
ICICI Pru Passive Multi-Asset FoF(G)	30-Apr-25	Asset Allocator	11.5%	14.1%	9.2%	
HDFC Balanced Advantage Fund(G)	31-Jul-25	BAF/DAAF	3.9%	2.7%	4.5%	Shortlisted funds have fared better than peers. Parag Parikh is debt oriented one and hence, compared with Conservative Hybrid category.
ICICI Pru Balanced Advantage Fund(G)	31-Jul-25	BAF/DAAF	5.4%	2.7%	4.5%	
Edelweiss Balanced Advantage Fund-Reg(G)	31-Jul-25	BAF/DAAF	4.8%	2.7%	4.5%	
Parag Parikh Dynamic Asset Allocation Fund-Reg(G)	31-Jul-25	BAF/DAAF	0.9%	1.8%	4.5%	
UTI Aggressive Hybrid Fund-Reg(G)	31-Jul-25	Aggressive Hybrid	4.3%	2.6%	4.5%	Edelweiss has performed in-line with peers whereas other two outperformed.
Edelweiss Aggressive Hybrid Fund-Reg(G)	31-Jul-25	Aggressive Hybrid	2.8%	2.6%	4.5%	
ICICI Pru Equity & Debt Fund(G)	31-Jul-25	Aggressive Hybrid	5.2%	2.6%	4.5%	

Source: ACE MF

Above 'Returns' are from the respective report date till 31st Dec 25

Nearly 2/3rd of the shortlisted funds in different categories / advisory reports did better than their respective category averages.

Smart Beta:

Performance was mixed. Three factor strategies outperformed, one was in line with its category, while two - Nifty 50 Value 20 and Nifty Alpha Low Volatility 30 - underperformed meaningfully, prompting deeper attribution analysis.

Multi Asset:

DSP fund outperformed due to global diversification and lower Indian equity exposure. ICICI Multi Asset Allocation Fund lagged, largely owing to under-allocation to gold and silver.

Large Cap:

Passive funds performed in line with active peers. Among actives, ICICI Large Cap Fund led, while DSP trailed.

Asset Allocator & Hybrids:

ICICI Pru Dynamic Asset Allocation FoF outperformed. Precious metals exposure aided Kotak; its absence hurt ICICI's passive variant. Balanced Advantage funds outperformed; Aggressive Hybrids were largely in line or better.

Within this ecosystem, there are also select funds that have been actively recommended due to higher conviction.

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Exhibit: 1Y performance of actively recommended funds

Shortlisted Funds	Category	Returns	
		Fund	Category
ICICI Pru Large Cap Fund(G)	Large	11.3%	7.3%
DSP Large Cap Fund-Reg(G)	Large	8.4%	7.3%
DSP Nifty Top 10 Equal Weight Index Fund-Reg(G)	Smart Beta (Large)	8.4%	7.3%
Nippon India Nifty 50 Value 20 Index Fund-Reg(G)	Smart Beta (Value)	0.0%	12.1%
UTI Nifty 500 Value 50 Index Fund-Reg(G)	Smart Beta (Value)	15.7%	12.1%
Parag Parikh Flexi Cap Fund-Reg(G)	Flexi	7.8%	3.0%
ICICI Pru India Opp Fund(G)	Value	13.0%	5.0%
SBI Banking & Financial Services Fund-Reg(G)	Banking	20.4%	16.9%
ICICI Pru Passive Multi-Asset FoF(G)	Multi Asset	18.2%	16.5%
Nifty 500		7.80%	

Source: ACE MF

1Y Performance (as of Dec 2025); 'Category' means category average performance

Key Observations:

- **The Parag Parikh Flexi Cap Fund** may face absorption challenges given its large AUM and overseas investment limits, potentially constraining future outperformance, though the fund manager(s) remains confident in the current strategy.
- **The SBI Banking & Financial Services Fund** offers diversified financial exposure but carries elevated valuation risk within the banking theme.
- The **DSP Nifty Top 10 Equal Weight** and the **Nippon India Nifty 50 Value 20 Index Funds** are significantly tilted toward the technology sector, making medium-term returns closely linked to IT stocks' performance.
- **The ICICI India Opportunities Fund** retains its value-oriented, contrarian approach, currently overweight banks, NBFCs, and technology.

In an environment defined by choice and complexity, disciplined portfolio analysis becomes indispensable. By looking beyond surface-level returns and into the structural drivers of performance, our QVM-led approach seeks to align conviction with clarity, reinforcing that enduring outcomes are built not on short-term trends, but on quality, valuation discipline, and informed positioning.

Q&A

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Why is portfolio analytics important, and how does it add value?

MF level Portfolio analytics is important because it moves the focus from just outcomes to understanding the underlying drivers of performance. Most prevailing MF advisory /analysis is NAV-based - returns, rolling returns, Sharpe ratio, alpha, which are useful, but they are ultimately outputs of the process and doesn't really carry any insightful edge (with everyone looking at almost the same parameters).

The real value perhaps lies in understanding the process with the help of portfolio-based analysis, which looks at what the fund's factor positioning is. By evaluating each holding and then taking a weighted view, you begin to understand the true character of the fund; whether it is structurally quality-oriented, valuation-led, or momentum-driven. This is far more insightful than simply classifying a fund by category and past returns.

It also helps in answering deeper questions - why did a fund outperform or underperform? Was it due to sector positioning, stock selection, style headwinds, or short-term cycles?

How do you get a view on funds?

We look at equity mutual funds through two broad lenses.

The first is NAV-based analysis, which is what most public rankings focus on - returns, rolling returns, Sharpe ratio, alpha etc. These are useful indicators, but they only tell you what has already happened.

The second, and more important, is portfolio-based analysis. This is where our proprietary analytical framework (RA/RI) comes in.

Leveraging our company/stock level research coverage, we apply the QVM Framework to equity mutual fund portfolios. Every stock in a portfolio is evaluated across three dimensions: Quality, Valuation, and Momentum (QVM). When you aggregate at portfolio level, you get a much clearer picture of the fund's positioning and style. This allows us to see through beyond labels and understand how the fund is actually constructed/managed.

Importantly, our evaluation horizon is medium to long term. Short-term performance is used as a tracking tool, but not a decision trigger. Processes should not change because of one difficult year, but if the fund's investment process itself changes, that warrants a review.

Apart from QVM, what are the other factors to be considered in the MF analysis?

QVM is the core of our framework, but it is not the end of the analysis. We layer this with additional analytics to get a more complete view. These include:

- Active Share / Active Bet to understand how different the portfolio is from its benchmark. If a fund is largely hugging the index, it raises the question of why one should pay active fees.
- Concentration vs Over-diversification. For example, a small-cap fund holding 200+ stocks is not very different from an index, which can dilute the intended strategy.
- Overlap Analysis as a deep dive. For example, if a client already owns Fund A, does adding Fund B actually improve diversification, or does it lead to duplication?
- Return Attribution to understand whether outperformance was driven by one-off sector tailwinds or by consistent positioning and stock selection.
- Hygiene Factors- Fund Manager Review (Experience, Past Performance, Fund Management Span, Walk the Talk etc.), Costs, AUM Size (absorption capacity) to name a few.

Finally, we overlay our broader house view. If valuations in a particular segment appear stretched, that influences how we position funds within that category.

Together, these layers ensure that fund selection is not driven by past rankings, but by a structured, forward-looking, and disciplined process.

Statutory Disclosure and Disclaimer:

Statutory Details: Multi-Act Trade and Investments Private Limited ("MATI") (SEBI Registered Investment Adviser – Registration No. INA000008589)

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