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Performance Analysis of Top Five Equity, Hybrid, and Debt Mutual Funds in India: A Five-Year Study (2020-2025)

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ABSTRACT

This study analyzes the performance of the top five mutual funds in the equity, hybrid, and debt categories in India over the past five years (2020-2025). This study aims to provide insights into the risk-return dynamics, fund management strategies, and market trends that have influenced the performance of these funds. This study employs an analytical approach based on secondary data sourced from various financial databases and mutual fund websites. The top five funds in each category were selected based on their 5-year annualized returns as of March 2025. The analysis reveals that equity funds, particularly those focused on small-cap and sectoral/thematic investments, exhibited the highest returns (38-50%) but also carried significant risk. Hybrid funds, such as multi-asset allocation and aggressive hybrid funds, provide a balance between equity-like returns and reduced volatility (26-35%). Debt funds offered the lowest but most stable returns (7-13%), with performance influenced by interest rate cycles and credit risk. This study highlights the consistent outperformance of quantitative mutual funds across equity and hybrid categories, underlining the potential impact of quantitative and aggressive investment strategies. These findings emphasize the importance of understanding risk-return trade-offs, diversification, and aligning investments with individual financial goals and risk tolerance. This study provides valuable insights for investors, fund managers, and policymakers to navigate the Indian mutual fund landscape. However, it is crucial to consider that past performance does not guarantee future results, and a comprehensive investment approach should consider broader market and economic factors.

Keywords: Equity Funds, Hybrid Funds, Debt Funds, Risk-Return, Fund Performance, Market Trends, Quantitative Strategies, etc.

INTRODUCTION

Mutual funds within the equity, hybrid, and debt categories have garnered significant attention from both investors and researchers because of their impact on investment strategies. In India, over the past five years, mutual funds have gained prominence among individual and institutional investors, reflecting shifts in investment patterns and preferences. Analysing the top five mutual funds in these categories provides insights into their performance, risk-adjusted returns, and market efficiencies. Equity mutual funds primarily invest in stocks, and their performance is contingent on market conditions and economic cycles. They are evaluated based on their ability to generate positive alpha, which is indicative of a fund manager's proficiency in stock selection and market timing. However, only a limited number of funds consistently achieve positive alphas, with many failing to surpass benchmark indices (Cuthbertson et al., 2010). This underscores the necessity of understanding the determinants of a fund's success or failure. Hybrid mutual funds, which invest in both stocks and bonds, offer diversification and aim to optimize returns at a given level of risk. The assessment of these funds involves evaluating fund managers' market timing and security selection skills (Comer et al., 2007). Research indicates that incorporating bond indices into performance models can alter the conclusions regarding a fund's market timing abilities (Comer, 2006). Debt mutual funds, which invest in fixed-income securities, are perceived as lower-risk than equity funds. However, their performance is influenced by market conditions, such as interest rate fluctuations and credit risk. Studies suggest that larger bond funds may better manage costs and achieve superior risk-adjusted returns (Philpot et al. 1998). To evaluate the performance of these mutual funds in India over the past five years, it is essential to employ various performance evaluation

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models, such as data envelopment analysis (DEA). This approach accounts for scale efficiency and the influence of fund size on performance (Basso & Funari, 2016). These analyses provide investors with valuable insights to make informed decisions based on empirical evidence and market trends.

A Brief Overview of the Indian Mutual Fund Industry:

The Indian mutual fund industry, although not as established as those in developed nations, has demonstrated consistent growth. According to data available until the mid-2010s, the ratio of mutual fund assets under management to India's GDP was markedly lower than the global average, suggesting a relatively untapped market potential (Kaur & Kaushik, 2016). The industry is predominantly retail-oriented, with an impressive 98% of the folios owned by retail investors. However, these retail investors accounted for only 58% of total investments, indicating a concentration of investment among a smaller number of potentially institutional investors (Kaur & Kaushik, 2016). The mutual fund industry in India is significantly influenced by investors' awareness and socioeconomic characteristics. Research indicates that investment behaviour in this sector is associated with awareness, perceptions, and socioeconomic factors such as age, gender, occupation, income, and education. Increased awareness of mutual fund products can positively influence investment volume. Contrary to common concerns, risk perception does not significantly affect investment decisions in mutual funds (Kaur and Kaushik, 2016). Furthermore, the concept of socially responsible investing (SRI) is gaining prominence in the Indian mutual fund industry, in line with global trends. Environmental, Social, and Governance (ESG) funds are gaining momentum, providing new opportunities for growth and capital inflow. These funds are designed to meet investors' demands for ethical investment opportunities and have exhibited varied performance outcomes across different schemes (Vishali & Shafi, 2024). Overall, the Indian mutual fund market continues to evolve, with an increasing emphasis on enhancing investor base diversity and promoting awareness to effectively leverage untapped potential.

Importance of Performance Evaluation:

The significance of performance evaluation in assessing the performance of mutual funds in India over the past five years can be underscored by several key considerations.

Objective Measurement: Performance evaluation serves as an objective framework for assessing and comparing mutual fund returns. It facilitates the identification of funds that have genuinely outperformed their peers or benchmarks during a specified period (Peykani et al., 2022).

Risk and Return Analysis: Evaluating performance enables investors to comprehend the risk-adjusted returns of the mutual funds. This understanding is crucial, as mutual funds exhibit varying levels of risk, and performance metrics facilitate a comparative analysis on an equitable basis (Chen and Lin, 2006).

Managerial Skills Assessment: Assessing fund performance is instrumental in evaluating the proficiency of fund managers in terms of security selection and market timing. This evaluation can significantly impact investors' decisions regarding fund investments, particularly when considering historical performance (Chang & Lewellen, 1984).

Investment Strategy Insights: This analysis offers insights into the efficacy of active management strategies employed by mutual funds concerning the fees charged. Such an evaluation can determine whether active management yields returns that justify the costs associated with managing the funds (Henriksson, 1984).

Persistent Performance Tracking: Performance evaluations are instrumental in assessing whether funds demonstrate consistency in their performance, a factor that is essential for investors engaged in long-term decision-making. Consistently positive performance may indicate a fund's reliability (Shukla & Trzcinka, 1994).

Benchmarking: Evaluating mutual fund returns in comparison to benchmarks is essential for assessing fund performance within the market context. This process is crucial for understanding the influence of external factors and market conditions on fund performance (Matallín-Sáez, 2006).

Data-Driven Decision Making: A comprehensive performance evaluation facilitates data-driven investment decisions, thereby minimizing dependence on anecdotal evidence or conjecture and promoting a systematic approach to investing in mutual funds (Peykani et al., 2022).

In summary, performance evaluation serves as an essential instrument in the analysis of mutual funds, providing valuable insights into returns, risk management, managerial expertise, and performance. This ultimately facilitates informed investment decisions (Chang & Lewellen, 1984; Chen & Lin, 2006; Henriksson, 1984; Matallín-Sáez, 2006; Peykani et al., 2022; Shukla & Trzcinka, 1994).

Categorization of Mutual Funds by the SEBI:

The Securities and Exchange Board of India (SEBI) has implemented a classification system for mutual funds to enhance clarity and consistency in investment schemes. The categorization is outlined as follows.

Equity Funds: The primary investments are in stocks, with subcategories including large-cap, mid-cap, small-cap, multi-cap, and sector funds, among others.

Debt Funds: These investments are allocated to fixed-income securities, such as bonds and treasury bills. These categories encompass liquid, credit risk, gilt, and corporate bond funds.

Hybrid Funds: These funds allocate investments across a combination of equity and debt instruments. Examples of such funds include balanced, aggressive, and conservative hybrid funds.

Solution-Oriented Funds: These are specifically designed to achieve particular objectives, such as retirement or education. They generally include a lock-in period to align with the long-term financial goals.

Other Schemes: The category encompasses Index Funds, Exchange-Traded Funds (ETFs), and funds of funds, which allocate investments to other mutual fund schemes (Kaur & Kaushik, 2016; Paul et al., 2021).

These classifications assist investors in selecting mutual funds that align with their individual requirements, risk tolerance, and investment objectives.

Problem Statement:

This study plans to examine the performance of the top five mutual funds in India in the equity, hybrid, and debt categories over the last five years. Mutual funds are important in financial markets because they gather money from many investors and invest it in various portfolios. To understand how these funds perform, we need to look at real data because many factors affect their return. The research question is as follows: How do funds perform in different categories, such as equity, hybrid, and debt, in India’s changing mutual fund market? In the past five years, these funds have faced market fluctuations, new rules, and changing economic conditions. This study aims to fill the knowledge gap by examining important performance measures such as risk-adjusted returns, management efficiency, and how economic factors affect the top five mutual funds in each category. The goal is to provide useful information to investors, regulators, and policymakers about how well mutual funds work as investment options and whether they meet investor expectations in a complex market.

LITERATURE REVIEW

Numerous researchers have studied various aspects of mutual fund schemes, including equity, hybrid, and debt, in the Indian context. For the present study, some of the most pertinent and recent articles were reviewed, as outlined below.

Sharma and Joshi (2021) analyzed the performance of debt, equity, and hybrid mutual fund schemes in India (2016-2020) using Standard Deviation, Beta, Sharpe Ratio, Jensen's Alpha, and Treynor Ratio. The findings show that debt mutual funds outperform equity and hybrid funds in CRISIL rankings, indicating better stability. Most funds show average or below-average performance, with some achieving superior risk-adjusted returns. The study demonstrates that debt funds carry lower risk, while equity and hybrid funds show higher volatility with the potential for greater returns, making them suitable for risk-tolerant investors. This research helps investors make informed decisions by explaining the risk-return dynamics across fund categories.

Jesrani (2023) analyzed the performance of aggressive and conservative hybrid mutual funds in India from January 2020 to December 2023. Using NAVs and fact sheets, the study evaluated funds based on returns, standard deviation, beta, Sharpe ratio, Jensen's alpha, and Treynor's ratio. Among aggressive hybrid funds, the ICICI Prudential Equity & Debt Fund showed the highest returns, while the Kotak Debt Hybrid Fund led the conservative hybrid funds. This study emphasizes that investors should consider risk tolerance and past performance metrics when making investment decisions aligned with their financial goals.

Shukla et al. (2024) analyzed mutual fund schemes from India's top five AMCs: HDFC, SBI, ICICI Prudential, Aditya Birla Sun Life, and Kotak Mutual Funds, evaluating equity schemes based on financial metrics. This study analyzes risk variations, historical performance, and product innovation among AMCs using data from reports and financial databases. The findings show that equity schemes offer higher returns for higher risk. The ICICI Prudential Large and Mid-Cap Fund showed the highest Sharpe ratio among large-cap funds, while the HDFC Mid-Cap Opportunities Fund demonstrated strong performance among mid-caps. In small caps, HDFC Small-Cap Fund showed strong metrics, while SBI Small-Cap Fund suited volatility-conscious investors. The study concludes that mutual funds show better long-term growth potential than traditional investments, with investors needing to consider both risk and return metrics when making decisions.

Santhosh (2024) analyzed Hybrid, Equity, and Debt Mutual Funds using data from India's top five Asset Management Companies. The results show that equity funds yield the highest returns with maximum risk, while debt funds offer stable but lower returns. Hybrid funds provide a middle ground. Equity and hybrid funds show a high correlation, while debt funds have a slight positive correlation. The past performance of one fund type does not predict another's future returns. Debt funds suit low-risk preferences with 1-to-3-year horizons, equity funds suit high-risk tolerance with 5+ year horizons, and hybrid funds offer balanced returns. The choice of fund depends on individual financial goals and risk tolerance.

Vasani and Rachchhh (2020) analyzed top-rated equity, debt, and hybrid mutual fund schemes in India, examining risk-return trade-offs for middle-class investors. They evaluated 4- and 5-star large-cap equity, long-term debt, and conservative hybrid funds ranked by CRISIL, using data from valueresearch.com and moneycontrol.com (2015-2019). The five-year returns were as follows: Axis Bluechip Fund - D (G) at 9.7% (equity), IDFC Bond Fund- LTP - D (G) and Nippon Income Fund - Direct (G) both at 10% (debt), and CR Income Saver Fund - D (G) at 8.20% (hybrid). Debt funds outperformed equity, which was attributed to data collection during the COVID-19 pandemic. The study suggests debt for short-term, equity for long-term, and hybrid for moderate long-term goals, noting that equity risk decreases over time.

Meera and Venkataramaraju (2020) analyzed India's top five mutual funds' equity schemes, examining daily Net Asset Values from 2013-2018 against the NSE SENSEX benchmark. ICICI PruExp & Other Services-RP (G) achieved the highest return of 82.5%, followed by ICICI PruExp & Other Services-DP (G) at 45.0%, ICICI Pru US Bluechip - Direct (G) at 42.9%, ICICI Pru US Bluechip Equity (G) at 42.3%, and Birla SL Intl. Equity A -Direct (G) was 30.7%. While ICICI funds performed strongly, Birla showed a lower risk. Investors shifted from equity to debt funds, with equity schemes seeing Rs. 4,713 crore redemptions, while debt schemes received Rs. 43,804.7 crore. The study concludes that debt suits short-term goals, while equity serves long-term investments as risk decreases over time.

Chaudhari (2020) evaluated ten Indian hybrid mutual funds from July 2017 to 2019 and analyzed their risk and return profiles using NAV data. The study used Standard Deviation, Beta, Sharpe Ratio, and Jensen's alpha for performance assessment. Aggressive Hybrid Funds with over 60% equity show higher risk and negative returns. Conservative Hybrid Funds with higher debt allocations demonstrate lower risk and better risk-adjusted returns. The study concluded that conservative funds provided better risk-return trade-offs, while aggressive funds showed higher risk exposure and negative returns.

Singh et al. (2024) looked at Indian Mutual Funds to give investors insights by checking 3-year and 5-year returns. They studied past performance, strengths, and weaknesses and provided advice using existing data. Key findings were as follows: In Equity Funds, Quant Small Cap Fund and Nippon India Small Cap Fund were the top performers, while Axis Small Cap Fund was steady. For debt funds, Aditya Birla's medium-term plan was stable, and ICICI Prudential's credit risk fund had higher returns but with risks. In the Hybrid Funds, the Quant Multi Asset Fund performed well with variety, and the HDFC Balanced Advantage Fund was good at dynamic allocation. The study suggests diversifying portfolios, aligning with investment goals and risk tolerance, and regular monitoring of investments. Success requires matching funds with personal goals and market changes.

Research Gap:

There are several gaps in the current mutual fund research. Most studies only examine fund performance up to 2020-2023. Studies that cover 2020-2025 to see recent trends. There is not enough comparison between equity, hybrid, and debt funds during this period. Research on the best-performing funds is, however, limited. We should study the top five funds in each category to determine why they perform well. We also need to consider more than just returns. We should include other measures, such as the Sharpe ratio, Treynor ratio, and Jensen's alpha. We need to study fund characteristics, such as size, expense ratio, and manager experience, to see how they relate to top performance. Most studies focus on numbers and miss the strategies of top funds. There is insufficient research on whether top funds continue to perform well over the years. We also need to examine how different sectors contribute to returns. We should explore how investors think and make decisions regarding top funds. Most studies have examined past performance and have not predicted future performance. Filling these gaps will help us better understand mutual fund performance.

Significance of the Study:

Studying the top five mutual funds—equity, hybrid, and debt—over five years in India is important for several reasons. For investment decisions, looking at how these funds perform helps investors make smart choices by checking past returns (Shukla & Trzcinka, 1994). For market insights, this study shows trends in the Indian mutual fund market and finds good management practices that others can use (Grinblatt & Titman, 1993; Kothari & Warner, 2001). For benchmarking, this study helps set performance standards for other mutual funds (Kothari & Warner, 2001). For risk management, the study shows how top funds handle risk and maintain performance in different market conditions, helping cautious investors make informed decisions (Bauer et al., 2006). For policy-making, the study can point out areas that need oversight to keep the market fair (Shukla & Trzcinka, 1994). To compare funds, this study examines different types of mutual funds to help investors choose the right ones for their risk levels and goals (Indro et al., 1999; Jiang et al., 2023). This analysis makes the market clearer and more efficient, thereby helping the financial sector grow.

Objectives of the Study:

The primary aims of this study are as follows: (i) to assess and compare the performance of selected equity mutual fund schemes; (ii) to assess and compare the performance of selected hybrid mutual fund schemes; (iii) to assess and compare the performance of selected debt mutual fund schemes; and (iv) to compare the performance across equity, debt, and hybrid mutual fund schemes.

RESEARCH METHODOLOGY

This study adopts an analytical approach and is exclusively based on secondary data. Performance evaluation relies on secondary data sourced from various related articles, journals, papers, research-based publications, and electronic resources. For this study, the top five mutual fund schemes (equity, hybrid, and debt) as of March 2025 were selected from www.groww.in, covering the past five years. Performance data were obtained from www.groww.in as of March 2025. The analysis of mutual fund schemes' performance is based on the 5-year annualized average returns of the equity, hybrid, and debt schemes.

ANALYSIS AND DISCUSSION

The analysis section is structured into four distinct subsections: best-performing equity mutual funds in India (based on 5-year Annualized Returns) as of March 2025, best-performing hybrid mutual funds in India (based on 5-year annualized returns) as of March 2025, best-performing debt mutual funds in India (based on 5-year annualized returns) as of March 2025, and a comparative analysis among the best-performing equity, hybrid, and debt mutual funds in India (based on 5-year annualized returns) as of March 2025. These subsections are comprehensively examined and discussed below.

Best Performing Equity Mutual Funds in India (Based on 5-year Annualized Returns) as on March 2025

Table-1

Fund Name	*Category*	*5-year Annualised Returns*
Quant Small Cap Fund Direct Plan Growth	Equity	50.18%
Quant Infrastructure Fund Direct Growth	Equity	44.20%
Quant ELSS Tax Saver Fund Direct Growth	Equity	39.18%
Nippon India Small Cap Fund Direct Growth	Equity	38.93%
ICICI Prudential Infrastructure Direct Growth	Equity	38.87%

(Source: https://groww.in/blog/best-performing-mutual-funds-in-india-in-last-5-years)

Observation and Analysis:

Dominance of high-risk categories: Small-cap funds: Two out of the five funds are classified under the small-cap category. These funds invest in smaller companies that exhibit high growth potential but are characterized by significant volatility. Although returns exceeding 38% are noteworthy, they are accompanied by considerable risk. Sectoral/Thematic Funds (Infrastructure): Another prominent category is infrastructure. These funds focus on a single sector, specifically infrastructure. Their performance is significantly affected by government policies, economic cycles, and the overall performance of the infrastructure sector, which introduces substantial risks.

Strong Performance of Quant Mutual Fund: The fund house Quant is represented three times among the top five, reflecting the success of its investment strategy over the past five years. They are noted for employing quantitative and aggressive investment approaches. Important Note: The historical performance of a fund house does not guarantee future results. Their aggressive strategy may yield high returns in bull markets but could also result in significant underperformance in different market conditions.

Inclusion of an ELSS Fund: The Quant ELSS Tax Saver Fund is the only tax-saving fund on this list. While its primary objective is to provide a tax deduction under Section 80C, it has also achieved impressive growth, closely competing with pure small-cap and sectoral funds in terms of returns. This indicates that some ELSS funds can be aggressively managed.

Direct Plan: All funds listed are "Direct Plans," which have a lower expense ratio compared to "Regular Plans" (which involve a distributor). Lower costs directly contribute to higher returns for investors.

Best Performing Hybrid Mutual Funds in India (Based on 5-year Annualized Returns) as on March 2025

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Table-2

Fund Name	*Category*	*5-year Annualised Returns*
Quant Multi Asset Fund Direct Growth	Hybrid	35.24%
JM Aggressive Hybrid Fund Direct Growth	Hybrid	28.84%
ICICI Prudential Equity & Debt Fund Direct Growth	Hybrid	28.15%
ICICI Prudential Multi Asset Fund Direct Growth	Hybrid	27.45%
HDFC Balanced Advantage Fund Direct Plan Growth	Hybrid	26.89%

(Source: https://groww.in/blog/best-performing-mutual-funds-in-india-in-last-5-years)

Observations and Analysis:

Lower Returns with Reduced Risk: The returns observed in this context, ranging from 26% to 35%, are notably lower than those associated with the pure equity funds previously discussed, which range from 38% to 50%. This outcome is expected, as hybrid funds mitigate risk by incorporating a portion of debt instruments, such as bonds, and occasionally other asset classes, within their portfolios. The trade-off for reduced volatility is a diminished return potential compared to pure equity funds during a strong bull market.

Prevalence of Multi-Asset and Aggressive Hybrid Categories Multi-Asset Allocation Funds (Quant, ICICI Prudential): These funds are mandated to invest in a minimum of three asset classes, with at least 10% allocated to each, typically encompassing Equity, Debt, and Gold. This diversification strategy facilitates risk management under diverse market conditions. Quant's methodology has demonstrated particular efficacy in the past five years.

Aggressive Hybrid Funds, such as those offered by JM and ICICI Prudential, allocate between 65% and 80% of their assets to equities, with the remaining portion invested in debt instruments. These funds are the most equity-centric within the hybrid category, generating returns that closely resemble those of pure equity funds while benefiting from the additional stability afforded by debt investments.

The HDFC Balanced Advantage Fund (BAF) utilizes a dynamic asset allocation model, which strategically acquires equities when they are assessed as undervalued and reallocates to debt instruments when equities are perceived as overvalued. This approach aims to mitigate risks during market peaks while capitalizing on market troughs. The presence of this fund indicates a risk-managed strategy that consistently delivers substantial returns. Furthermore, the Quant Mutual Fund continues to demonstrate superior performance, maintaining its position at the top of the rankings. This consistent outperformance underscores the efficacy of their quantitative and aggressive management approach across both Equity and Hybrid categories over the past five years.

Best Performing Debt Mutual Funds in India (Based on 5-year Annualized Returns) as on March 2025

Table-3

Fund Name	*Category*	*5-year Annualised Returns*
Aditya Birla Sun Life Medium Term Plan Direct Growth	Debt	13.07%
Aditya Birla Sun Life Credit Risk Fund Direct Growth	Debt	10.39%
UTI Dynamic Bond Fund Direct Growth	Debt	10.14%

JM Low Duration Fund Direct Plan Growth	Debt	9.90%
UTI Medium to Long Duration Fund Direct Growth	Debt	9.61%

(Source: https://groww.in/blog/best-performing-mutual-funds-in-india-in-last-5-years)

Observations and Analysis:

The risk-return trade-off in investments is clearly demonstrated by the characteristics of debt funds, which are associated with lower risk levels. These funds predominantly invest in bonds and money market instruments issued by governmental and corporate entities, thereby reducing their direct exposure to stock market volatility. Consequently, the potential for returns is lower and more predictable than that of equities. For example, a 13.07% return from a leading debt fund is considered high within this category, yet it remains less than half of the return achieved by the top equity fund.

It is essential to comprehend these categories and their associated risks. Medium-duration and medium-to long-duration funds, such as those provided by Aditya Birla and UTI, invest in bonds with extended maturities and exhibit high sensitivity to interest rate fluctuations. These funds typically perform well during periods of declining interest rates, as evidenced over the past five years, which included a rate-cutting cycle. The notable 13.07% return can likely be attributed to this factor.

Credit Risk Funds, such as those managed by Aditya Birla, engage in higher-risk investment strategies by allocating capital to corporate bonds with credit ratings below AA+. These funds offer elevated returns, referred to as "credit spread," to offset the heightened risk of default associated with borrowing entities. The 10.39% return is indicative of the risk premium.

Dynamic Bond Funds, such as those managed by UTI, can actively modify the portfolio maturity profile in accordance with interest rate projections. The fund manager's expertise in accurately forecasting rate fluctuations is essential for the fund's performance.

Low-duration funds, such as those provided by JM, constitute a category characterized by relatively lower risk. These funds invest in bonds with very short maturities, typically ranging from 6 to 12 months, which results in reduced sensitivity to fluctuations in interest rates. Consequently, while the returns are comparatively lower, they demonstrate enhanced stability.

Comparison among the Best-Performing Equity, Hybrid, and Debt Mutual Funds in India (Based on 5-year Annualized Returns) as of March 2025:

The three tables above effectively demonstrate the core principle of investing, that is, the correlation between risk and return. As one transitions from Equity to Hybrid to Debt funds, the potential returns diminish, but so do the associated risk and volatility. This enables investors to select assets that align with their financial objectives, time horizons, and risk tolerance.

Table-4

Feature	Equity Funds	Hybrid Funds	Debt Funds
Primary Objective	Capital Appreciation (Growth)	Growth with Risk Management	Capital Preservation & Stable Income
Risk Level	Very High	Moderately High to High	Low to Moderate
Volatility	High	Moderate	Low
Primary Driver of	Stock Market Growth &	Mix of Stock and Bond	Interest Rate

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Returns	Company Earnings	Market Performance	Movements & Credit Quality of Bonds
Ideal Investor Profile	Aggressive, with a long-term horizon (7+ years), can tolerate large swings.	Moderate, with a medium-term horizon (5-7 years), seeking a balance.	Conservative, with a short-to-medium-term horizon (1-3 years), prioritizes safety.
Role in a Portfolio	Wealth Creator (Growth Engine)	Core Portfolio (All-in-one balanced solution)	Stabilizer / Safety Net
Volatility	High	Moderate	Low

(Source: Compiled by author)

Observation and Analysis:

Equity funds represent a high-performance investment mechanism, primarily allocating over 90% of their assets to stocks. These funds predominantly focus on high-risk sectors, including those managed by Quant and Nippon. They target the smallest companies, which, despite offering substantial growth potential, are characterized by their significant volatility. Additionally, funds such as those managed by Quant and ICICI Prudential involve concentrated investments within a single sector, rendering them riskier than diversified funds. A key takeaway is that the highest returns are correlated with the highest risk. The 40-50% returns observed are exceptional and unsustainable in the long term, reflecting a specific bull market period for high-risk segments.

Hybrid funds constitute a balanced investment vehicle characterized by a pre-constructed portfolio that includes both equities and fixed-income securities. An examination of the top-performing funds reveals diverse balancing strategies. Notably, multi-asset and aggressive hybrid funds demonstrate superior performance owing to their substantial equity exposure (65-80% or more), enabling them to capitalize on significant stock market gains while utilizing debt instruments to mitigate potential downturns. The Balanced Advantage Fund (BAF) exemplifies a dynamic strategy that adjusts equity-to-debt allocation to minimize risk, illustrating that a risk-managed approach can still yield robust returns. The primary insight is that hybrid funds offer an optimal solution for investors seeking equity-like returns without the volatility associated with pure equity funds, thereby providing automatic diversification for investors.

Debt funds serve as a stabilizing anchor within investment portfolios by allocating resources to interest-bearing instruments such as government and corporate bonds. The returns on these funds are influenced by factors that are distinct from those affecting equities. For instance, funds categorized as "Medium Term" and "Medium to Long Duration" have demonstrated strong performance, likely attributable to periods of declining interest rates. In such scenarios, existing bonds with higher interest rates will appreciate. Conversely, funds labelled as "Credit Risk" engage in lending to companies with lower credit ratings, thereby assuming additional risk to achieve higher interest returns, as evidenced by the 10.39% return, which includes this "risk premium." The primary takeaway is that debt fund returns are more closely aligned with income and interest rate cycles than with rapid growth. Their principal function is to preserve the capital and provide stability.

Findings of the Study:

Based on the above analysis and discussion, the key findings of this study are as follows:

Equity Mutual Funds:

- The top-performing equity funds showed very high returns, ranging from 38% to 50% over five years.
- Small-cap and sectoral/thematic funds (infrastructure) dominated the top performers.

- The Quant Mutual Fund had three of the top five performing equity funds.
- All the top funds were direct plans with lower expense ratios.
- High returns come with significant risk and volatility.

Hybrid Mutual Funds:

- Returns ranged from 26% to 35%, lower than pure equity funds but with reduced risks.
- Multi-asset-allocation and aggressive hybrid funds were prevalent among the top performers.
- The Quant Mutual Fund continued to show strong performance in this category.
- Hybrid funds provide a balance of equity-like returns with lower volatility than pure equity.

Debt Mutual Funds:

- Returns were much lower at 7-13%, reflecting a lower risk profile.
- Medium-duration, credit risk, dynamic bond, and low-duration funds featured among the top performers.
- Performance is influenced by interest rate cycles and credit risk premiums.

Comparison Across Categories:

- A clear risk-return trade-off is observed when moving from equity to hybrid to debt funds.
- Equity funds showed the highest returns but also the highest risk.
- Hybrid funds provide a middle ground with moderate returns and risks.
- Debt funds offer the lowest but most stable returns with the least risk.

Overall Insights:

- The fund performance was strongly influenced by market conditions and asset allocation strategies.
- Aggressive, high-risk approaches yielded the highest returns during the analyzed period.
- Past performance does not guarantee future results, particularly for high-risk strategies.
- Investors should choose funds that align with their risk tolerance and investment goals.

This study highlights the importance of understanding risk-return dynamics and diversification when investing in mutual funds across different categories.

CONCLUSION

Several critical conclusions can be drawn from examining the performance of leading equity, hybrid, and debt mutual funds in India over the past five years. The risk-return trade-off is evident, underscoring the fundamental investment principle that higher potential returns are associated with increased risk. Equity funds exhibited the highest returns (38-50%) but also entailed the greatest risk, followed by hybrid funds (26-35%), and finally debt funds (7-13%), which presented the lowest risk and returns. In terms of equity fund performance, small-cap and sectoral/thematic funds dominated the top-performing category, suggesting that higher-risk strategies yielded superior returns in this period. However, these returns may not be sustainable in the long term and may involve significant volatility risks. Regarding hybrid fund balances, leading hybrid funds successfully balance equity-like returns with reduced volatility through diverse strategies, such as multi-asset allocation and dynamic asset allocation, offering a compelling option for investors seeking growth with managed risk. Concerning debt fund stability, while providing lower returns, debt funds play a crucial role in portfolio stabilization, with performance influenced by factors such as interest rate cycles and credit risk rather than equity market movements. In terms of fund house performance, the Quant Mutual Fund consistently outperformed equity and hybrid categories, highlighting the potential impact of quantitative and aggressive investment approaches in favourable market conditions. The importance of fund selection is underscored by the wide range of returns within each category, emphasizing the need for careful fund selection based on investment objectives, risk tolerance, and market conditions. The impact of market cycles is evident in the exceptional returns, particularly in the equity and hybrid categories, reflecting a specific market cycle that is favourable to high-risk strategies. Investors should exercise caution when extrapolating these results to future periods. The benefits of diversification are reinforced by this study, which underscores the value of diversification across asset classes to balance risk and return in investment portfolios. This analysis provides valuable insights for investors, fund managers, and policymakers to understand mutual fund performance trends and make informed decisions. However, it is crucial to remember that past performance does not guarantee future results, and a comprehensive investment strategy should consider individual financial goals, risk tolerance, and broader economic factors.

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