

Mutual Fund Insight

May 2026

₹200

Complete Personal Finance Guide



**ONE
FUND
for all seasons**

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International funds that are open for investment, now

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Aggressive hybrid funds



NIRMAY CHOKSI

Compatibility beats popularity

Pick factor funds that match your profile, not the latest leaderboard

Most investors pick factor funds the way they pick stocks: by looking at what worked last year. This is a reliable method for buying yesterday's winner and inheriting tomorrow's disappointment.

Factor funds come in two broad forms. Passive smart-beta funds track factor-based indices like the Nifty 500 Momentum 50 index and have the potential to outperform traditional market-cap weighted benchmarks like the Nifty 500. Active smart-beta funds go further, aiming to outperform passive factor-based benchmarks by applying the same factors more dynamically. The mistake lies not in choosing between them, but in choosing based on recent performance rather than personal fit. Investors tend to make two

errors: chasing what just worked, and abandoning what has temporarily lagged. The antidote to both is self-awareness, not a sharper eye for recent performance.

Know your type before picking a factor

Not every investor is the same. Knowing your type is the first step to choosing the right factor.

The return-seeker - Momentum: Sid is aggressive, trend-following and wants to ride the market's current winners. Momentum backs stocks with strong recent price performance and rewards investors who accept that leadership rotates, sometimes sharply, leading to steep temporary drawdowns.

The patient contrarian - Value: Yuvraj is comfortable buying what the market has temporarily discarded, convinced that mispricing eventually corrects. Value demands most investors cannot supply on demand: the willingness to wait and to look wrong in the interim.

The resilience-focused - Quality: Shaurya prefers durable businesses over flashy narratives. Strong return on equity, stable earnings, low leverage, healthy cash flows. Such businesses tend to fall less and recover faster under stress. He accepts that in a momentum-driven bull run, Quality may sit out the party, a trade-off he considers reasonable.

The stability-seeker - Low Volatility: Nitin dislikes sharp drawdowns above all else. He is not chasing alpha. Low Volatility focuses on

Same factors, different times, very different pictures

Today's winner was once yesterday's laggard

| Indices | 5 yr point-to-point CAGR as on Mar 31, 2026 | 5 yr point-to-point CAGR as on Mar 31, 2020 | 5 yr median rolling returns as on Mar 31, 2026 |
|------------------------------------|---|---|--|
| Nifty 500 Value 50 TRI | 28.5 | -6.7 | 14.3 |
| Nifty 500 Momentum 50 TRI | 16.5 | 4.7 | 22.0 |
| Nifty 500 Low Volatility 50 TRI | 14.9 | 5.4 | 15.8 |
| Nifty 500 Quality 50 TRI | 12.8 | 1.8 | 16.8 |
| Nifty 500 Multifactor MQVLV 50 TRI | 17.5 | 3.9 | 19.2 |
| Nifty 500 TRI | 11.9 | 1.3 | 13.6 |

Source: NJ AMC's Internal Research, CMIE, NSE, NJ AMC's Proprietary SmartBeta Research Platform. The start date for the data is April 01, 2005. Past performance may or may not be sustained and is not indicative of future returns.

stocks with smaller price swings, improves the investability of equity for cautious investors and accepts lower long-term returns relative to other factors in exchange for a smoother ride.

The cost of single-factor conviction

Every factor has rewarded investors over the long run. None has done so in a straight line.

For instance, as of March 2026, Value delivered a five-year CAGR of 28.5 per cent, the strongest in the table. Six years earlier, the same factor had produced the weakest -6.7 per cent per annum. The factor did not change. The time did. Hence, it is better to look at long-term rolling return than a single point-to-point return, and by that measure, every single factor and Multifactor strategy has outperformed Nifty 500 TRI.

The question every single-factor investor must honestly answer is whether they can endure stretches of underperformance, sometimes five years or more, without exiting. A poorly-timed exit does not just cost patience. It erases the very return they were waiting for. Kenneth French, Co-Creator of the Fama-French Factor Model said, “Given enough time, the factor premium is as close to a certainty as markets allow. The only way to lose it is to leave before it arrives.”

This is where Multifactor earns its place. By blending all four factors, it softens the extremes of each. As seen in the table “Same factors, different times, very different pictures”, Multifactor was not the highest; it never fell to the bottom either, hence delivering more

consistent compounding and a smoother journey that most investors can actually stay in.

Choosing your factor in two steps

The selection process is straightforward. First, can you tolerate short- to medium-term underperformance, potentially for five years or more? If yes, proceed to step two. If not, Multifactor deserves serious consideration.

Step two asks what kind of investor you are. Aggressive and trend-following points to Momentum. Contrarian and patient points to Value. Resilience-focused and long-term points to Quality. Conservative and drawdown-averse points to Low Volatility.

Stay the course, or choose consistency

The real question in factor investing is not which factor will perform best. It is, which factor will you actually stay invested in when it inevitably underperforms temporarily? A well-matched factor and a committed investor are a compounding machine. A mismatched factor and an impatient investor is a cycle of buying high and exiting low.

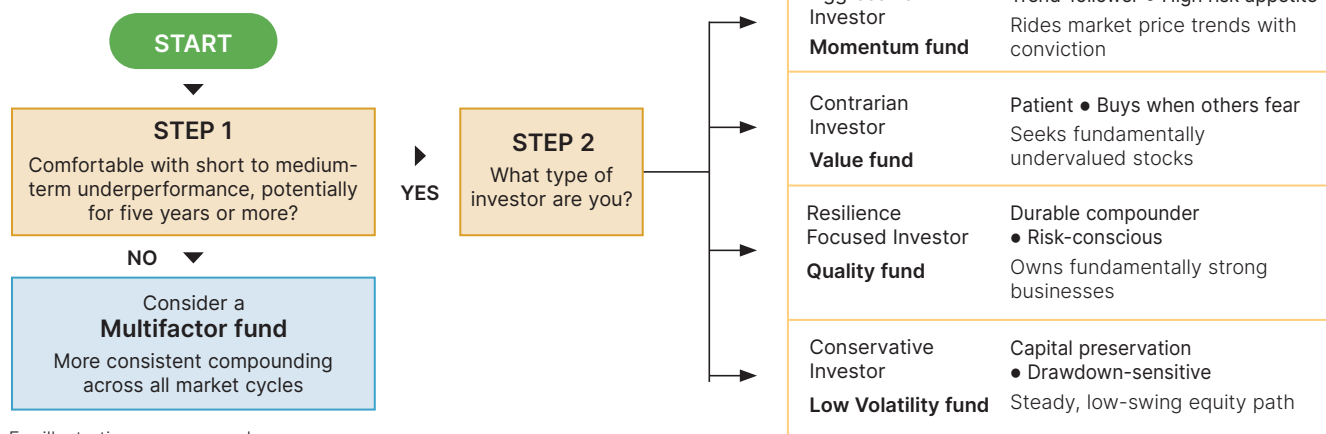
For those who cannot commit with genuine conviction, Multifactor is the pragmatic answer: no factor-timing required, no single factor’s bad patch to endure alone. In the end, the best factor for you is the one you will not abandon.

Nirmay Choksi is the Executive Director - Research at NJ Asset Management Private Limited. The views expressed above are his own.

Every factor has rewarded investors over the long run. None has done so in a straight line.

The right factor fund is the one that fits you

A step-by-step guide for your right factor fund



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