Value Research

Mutual Fund Insight

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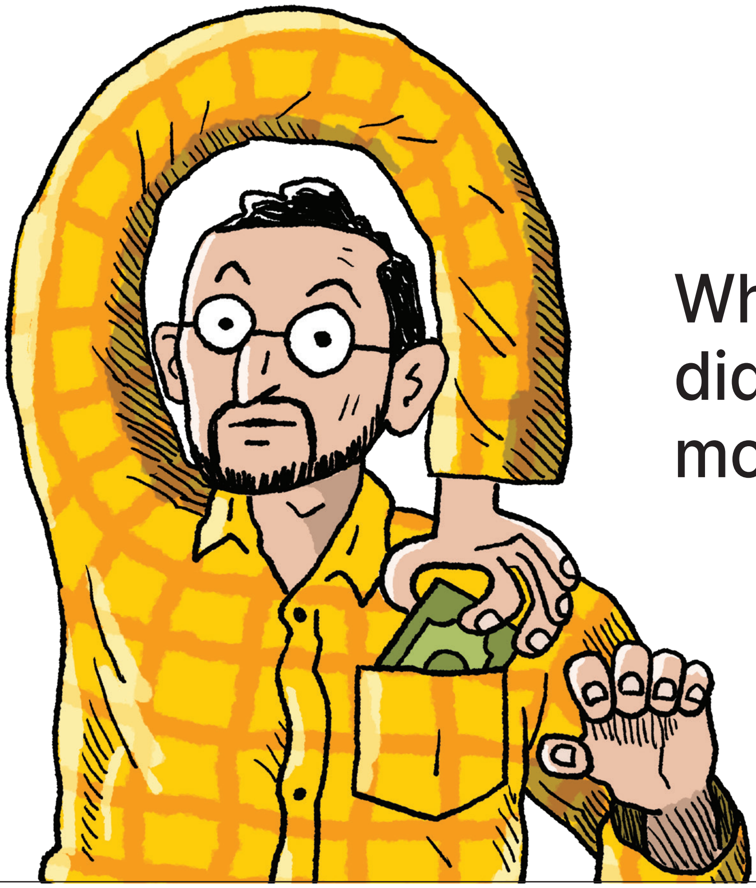
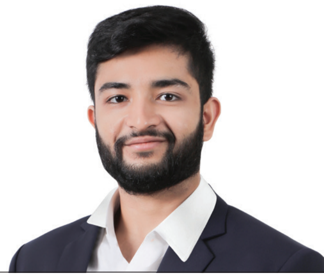
Complete Personal Finance Guide

Your fund made 18%
You made 8%



Where did the money go?



NIRMAY CHOKSI

Smart-beta mutual funds vs smart-beta ETFs

How similar-sounding strategies can deliver different outcomes

Over the past few years, 'smart beta' has become one of the most talked-about innovations in investment management. It promises the best of both worlds – the discipline of passive investing and the targeted performance of active strategies. And for good reason – investors increasingly realise that while traditional active funds struggle with consistency, pure passive funds don't always optimise for performance.

Smart beta seeks to bridge that gap. At its core, smart beta is a rules-based investment strategy that selects and weighs stocks using factors such as value, momentum, quality, size or low volatility – rather than just market capitalisation. Unlike traditional passive funds, which simply follow the market, smart-beta funds apply intelligent filters to build more efficient portfolios. The result is a strategy that remains transparent and disciplined, like indexing, but with the potential to outperform, much like active management – only without the guesswork.

However, two very different approaches have emerged under this umbrella: passive smart beta and active smart beta. While they share a foundation in factor investing, their structure, philosophy and performance potential vary significantly. Understanding the differences is key to making the right choice.

Passive smart-beta funds have seen a massive surge, with the number of such schemes growing from just five in 2019 to 78 in 2025

Understanding passive smart beta

Passive smart-beta funds are index funds or ETFs that track pre-defined smart-beta indices, like the Nifty200 Momentum 30 or Nifty100 Quality 30. These funds have no human discretion; they follow the index rules strictly, rebalancing only when the index does.

Take, for instance, a fund tracking the Nifty 100 Low Volatility 30 Index. It will hold the 30 least volatile stocks from the Nifty 100 universe, weighted according to the index's rules. It's systematic, low cost and free from manager bias.

According to ICRA, the number of equity passive smart-beta schemes in India has grown from just five in 2019 to 77 in 2025. Their AUM has surged from ₹58 crore to over ₹31,300 crore over the same period, reflecting rising investor appetite for factor-based exposure.

Pros

- Low cost and transparent
- Rules-based and emotion-free
- Easy to understand and access

Cons

- No flexibility to adapt to market conditions
- Completely dependent on the index design and methodology
- Performance is capped by the index tracked

Best suited for: Cost-sensitive investors, ETF investors and those looking for a simple yet smart upgrade from traditional indexing.

Passive vs Active smart beta: A side-by-side view

Feature	Passive Smart Beta	Active Smart Beta
What it tracks	A pre-defined factor index (Nifty200 Momentum 30)	An in-house, proprietary factor model
Manager discretion	None – completely rules-based	Limited – within a systematic, factor-driven framework
Flexibility	Low – changes only when the index changes	High – adaptable rebalancing and factor definitions
Transparency	High – constituents and methodology are public	Moderate – depends on AMC disclosures
Costs	Low (ETF/index fund structure)	Slightly higher (mutual fund structure with analytics overhead)
Performance aim	To outperform traditional market-cap indices	To outperform both traditional and standard smart beta indices
Best suited for	Cost-sensitive, DIY investors	Long-term investors seeking innovation with data-driven models

Growth of active equity smart-beta funds

Particulars	No. of schemes	AUM (₹ cr)
Feb 2019	1	26
Feb 2020	4	368
Feb 2021	5	914
Feb 2022	8	8,266
Feb 2023	8	6,606
Feb 2024	14	10,982
Feb 2025	22	21,242

Source: ICRA. Only open-ended equity-oriented funds have been considered. Based on the proprietary scheme classification of NJ Asset Management. Different plans or series of a scheme are counted as a scheme only.

What is active smart beta?

Active smart beta goes one step further. Rather than tracking a public index, these funds use proprietary factor models to select and weigh stocks–blending academic rigour with real-world adaptability.

A good example is the NJ Flexi Cap Fund. It doesn't follow an external index. Instead, it uses an internal quality focused scoring model that combines quality with value, low volatility, momentum and forensic and governance related parameters to build and rebalance its portfolio. This approach allows for greater nuance and flexibility – while staying true to its systematic DNA.

According to our proprietary fund classification, the number of active equity smart-beta mutual fund schemes in India has grown from just one in 2019 to 22 in 2025. Their AUM has surged from ₹26 crore to over ₹17,000 crore over the same period, with the majority of the growth coming in the last two years, reflecting more AMCs are adopting this strategy to offer investors a smarter alternative to traditional active or passive approaches.

Active smart beta uses proprietary factor models to pick stocks. It is ideal for investors seeking superior returns with model-driven insights.

Pros

- More customisation and flexibility
- Adaptive to changing market cycles
- Created with the help of in-house research and innovation

Cons

- Slightly higher costs than passive smart beta
- Less transparent (due to proprietary models)
- Requires stronger execution and data quality

Best suited for: Investors seeking enhanced performance through model-driven insights and not manager instincts.

Smarter investing, better outcomes

The evolution of investing is clear: from active to passive and now to smart beta. Passive smart beta has made factor investing accessible to the masses. But it's active smart beta that's redefining what's possible.

At NJ AMC, we are proud to be among the pioneers in this space. Our NJ Smart Beta platform allows us to back-test, analyse and construct multi-factor portfolios with unmatched efficiency. This isn't just theory – it is investing, upgraded.

Smart beta is the future. Active smart beta is how we get there faster. ☑

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