Value Research Fund Classification

Value Research

Overview

Value Research classifies funds strictly based on their portfolio make-up. This is all there is to it. The following table provides the detailed rules as to how Value Research identifies the categories for all mutual funds based on their portfolio characteristics.

VR Fund category	Portfolio characteristics
Equity funds	
Large cap	Funds investing at least 80% in large cap stocks
Large & mid cap	Funds investing at least 35% each in large and mid caps
Multi cap	Funds investing at least 25% each in large, mid and small caps
Mid cap	Funds investing at least 65% in mid caps
Small cap	Funds investing at least 65% in small caps
Flexi cap	Funds investing at least 65% in equity with no particular cap on large, mid or small
Focused	Funds investing at least 80% in up to 30 equity stocks, with no particular cap on large, mid or small
Value-oriented	Funds following the value/contrarian investment strategy and grouped under 'Value' or 'Contra' categories as per SEBI classification
ELSS	Equity funds with a lock-in of three years and tax benefit under Section 80C
International	Funds investing predominantly in foreign equities
Sector/Thematic funds	
Banking	Funds investing at least 80% in the banking sector
Infrastructure	Funds investing at least 80% in the infrastructure sector
Pharma	Funds investing at least 80% in the pharmaceuticals sector
Technology	Funds investing at least 80% in the technology sector
Sectoral-Other	Funds investing at least 80% in a sector as specified in the fund's Scheme Information Document, and for which a separate fund category does not exist

Thematic-Other	Funds investing at least 80% in a theme as specified in the fund's Scheme Information Document, and for which a separate fund category does not exist
Dividend Yield	Funds investing majorly in dividend-yielding stocks
MNC	Funds investing at least 80% in stocks of multinational companies
Energy	Funds investing at least 80% in companies belonging to the energy sector, such as power, oil & gas, etc.
PSU	Funds investing at least 80% in public-sector companies
Consumption	Funds investing at least 80% in the consumption theme
ESG	Funds investing at least 80% in companies that score high on environmental, social and governance (ESG) factors
Factor-based	Funds investing in stocks selected based on one or more factors (Quality, Momentum, Alpha, Low Volatility)

Debt funds

Long duration	Funds with Macaulay duration of greater than 7 years at the portfolio level
Medium to long duration	Funds with Macaulay duration between 4 and 7 years at the portfolio level; under anticipated adverse situation - 1 to 7 years
Medium duration	Funds with Macaulay duration between 3 and 4 years at the portfolio level; under anticipated adverse situation - 1 to 4 years
Short duration	Funds with Macaulay duration between 1 and 3 years at the portfolio level
Money market	Funds investing in money-market instruments having maturity up to 1 year
Low duration	Funds with Macaulay duration between 6 and 12 months at the portfolio level
Ultra short duration	Funds with Macaulay duration between 3 and 6 months at the portfolio level

Liquid funds	Funds investing in debt and money-market securities with maturity of up to 91 days
Overnight funds	Funds investing in securities having maturity of 1 day
Dynamic bond	Debt funds investing across durations
Corporate bond	Funds investing at least 72% in AA+ and above-rated corporate bonds
Credit risk	Funds investing at least 58.5% in AA and below-rated corporate bonds
Banking and PSU Debt	Funds investing at least 72% in the debt instruments of banks, PSUs, public financial institutions and municipal bonds
Floater	Funds investing at least 58.5% in floating-rate instruments (including fixed rate ones converted to floating rate)
Gilt	Funds investing at least 80% in government securities
Gilt with 10-year constant duration	Funds investing at least 80% in government bonds such that the Macaulay duration of the portfolio is 10 years
FMP	Fixed maturity plans of pre-defined term
Target maturity	A debt scheme which has a specific maturity and invests in bonds whose maturity is in line with that of the underlying index
Others	Funds that do not classify under any existing debt category

Hybrid funds

Aggressive hybrid	Funds investing 65-80% in equity, and the rest in debt
Balanced hybrid	Funds investing at least 40-60% in equity, and the rest in debt
Conservative hybrid	Funds investing 10-25% in equity, and the rest in debt
Equity savings	Funds investing at least 65% in equity and equity related instruments, and at least 10% in debt
Arbitrage	Funds investing in arbitrage opportunities

Dynamic asset allocation	Funds which dynamically manage the asset allocation between equity and debt
Multi asset allocation	Funds investing in at least 3 different asset classes, with a minimum of 10% in each
Life Cycle	Funds following glide path strategy based investing across various asset classes such as Equity, Debt, Gold & Silver
Commodity funds	
Gold	Funds investing in gold
Silver	Funds investing in silver
Gold & Silver	Funds investing in gold and silver

In addition to these broad rules, there are a few caveats that we follow for fund classification:

1. We avoid creating new categories, particularly in the sectoral/thematic space, that typically have less than ten. This is because, for any meaningful comparison within a category, it needs to be of a certain minimum size. This avoids creation of multiple smaller categories which are not meaningful. All such funds are grouped in the 'Thematic-Other' or 'Sectoral-Other' category.
2. Some funds' basic portfolio characteristics change from time to time. In these cases, we move the fund to a different category based on whether the portfolio change has become consistent over a period, rather than a transitory one which may last only for a few months.
3. At times, the investment mandate of a fund is such that it does not fit into any existing fund category. Such a fund is classified as 'Thematic' if it is an equity-oriented fund, and as 'Others' if it is a debt-oriented fund. Given their unique investment mandates, funds in these categories may not be comparable with one another.

FAQs

1. Do Value Research fund categories differ from SEBI's classification?

Yes, they do. We have not followed SEBI's system precisely.

Broadly speaking, we classify SEBI's official Index/ETF, Funds of Funds, and 'Solution-Oriented' funds into whichever categories they fit in as per their portfolio. We believe this serves investors' needs much better.

2. Why does Value Research follow a different fund categorisation than the one standardised by SEBI for the industry's adoption?

SEBI's re-categorisation exercise in late 2017, brought in some kind of homogeneity within different fund categories. Prior to that, any fund or any category didn't have any formal definition as such.

Value Research, on the other hand, used to classify funds based on their portfolios since its inception. Following this principle, various funds could very well change their colour and complexion (in terms of their portfolio) and hence become part of a different peer set according to wherever they fit the best. So, for example, there could be a large-cap fund that could become a flexi-cap fund and on other occasions, could become a small-cap fund.

3. How does Value Research classification help you as an investor?

SEBI's re-categorisation has definitely brought about a consistency with which AMC's have to consistently follow a degree of style purity for funds in a given category. This helps investors know what they are getting into. In a way, the subsequent introduction of risk-o-meter by SEBI has enhanced this further as well.

However, if you want to unclutter your mind as to what will fulfill your needs, then you need to focus on your specific requirements. This is what Value Research's category helps you to do.

For example, assume that you, as a passive investor, want to invest in the small-cap space. Then the rational thing for you would be to see how a passive fund investing in S&P BSE 250 SmallCap TRI compares with all other funds in the small-cap space, rather than comparing them to only the passive funds in the segment.

Here, Value Research categorisation helps you to do that. With SEBI's categorisation, you would compare with only the passive funds in the space, which inherently assumes that they are superior to all active funds in that space, which may not necessarily turnout to be the case. And as an investor, you would prefer to choose the best from all that is comparable for your specific need.