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ASSET ALLOCATION OF MUTUAL FUNDS AT IIFL

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ABSTRACT

Choosing a few mutual funds to study for our "A project on Asset Allocation of Mutual Funds" will allow us to compare and contrast their investing styles, levels of risk and return, and approaches to portfolio diversification. The purpose of the research is to learn how mutual fund schemes' total performance is affected by asset allocation across different industries and financial instruments. Using statistical metrics like standard deviation, average returns, and the Sharpe Ratio, it assesses the risk and return of chosen funds. As part of its evaluation of diversification techniques, the study looks at how various asset classes are distributed among assets, such as stock, debt, money market instruments, and others. The importance of asset allocation in achieving financial goals, including minimising risk and maximising returns, is emphasised by the findings. The study highlights the importance of a diverse portfolio and making informed investing selections for improving mutual fund performance and creating wealth over the long term.

INTRODUCTION

Asset allocation:

An investor's risk tolerance, investing objectives, and time horizon all play a role in the precise allocation of a portfolio's holdings, which aims to strike a balance between risk and profit.

By dividing up a person's assets in a portfolio based on their objectives, risk tolerance, and time horizon, asset allocation seeks to achieve a risk-reward balance.

THE SIGNIFICANCE OF ASSET DISTRIBUTION:

Allocating one's assets among various broad categories like cash, bonds, stocks, real estate, and derivatives helps to diversify a portfolio and balance risk. The long-term performance of various asset classes will vary due to their unique risk and return profiles.

To invest in stocks, bonds, cash and cash equivalents, or other assets, a group of people with similar investing goals can form a mutual fund. Investors in mutual funds participate in the income, expenditures, and gains or losses of the fund in according to the number of shares they possess, while professional investment managers choose and oversee the assets held in the fund.

DIVIDING UP MUTUAL FUNDS

In the world of mutual funds, asset allocation is all the rage right now. Asset allocation, in its most basic definition, is the practice of balancing a portfolio's holdings across several asset types. The virtues of asset allocation are often taken at face value because to its widespread popularity. Its merits are grossly exaggerated in our opinion.

REVIEW OF LITERATURE

First published in 2025 by Rajas Nagrale and Pankaj Kumar Baag

With a focus on the years 2015–2024, "The Impact of Fund Size on Mutual Fund Performance in India" analysed the performance of equity mutual funds in India. Fund performance is heavily affected by factors such as asset allocation techniques and fund size, according to the experts. Diversification of holdings, increased long-term returns, and decreased investment risk were all outcomes of a well-allocated portfolio across several asset classes, including equities, debt, and others.

2. Vijay Maddikera, Senthil Arasu Balasubramanian, and Rajesh ADJ Jeyaprakash (2025)

The writers of a study on the topic of mutual funds examined the changes in investment styles and asset allocations in Indian mutual funds, as well as the intensity of factor-risk shifting in these funds. According to the study's findings, investors' returns and returns on investment are highly sensitive to changes in their risk exposure and portfolio allocation. The risk-adjusted returns of funds were higher when those funds' asset allocations were dynamically modified in response to market conditions.

3. Researchers in Asset Allocation Models (2025)

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"Asset Allocation Models: Evolution and Diversity - A Systematic Review" looked at how different investment funds' asset allocation techniques have evolved in the past. Equities, debt instruments, commodities, and alternative assets should all be diversified for optimal portfolio efficiency and lower total investment risk, according to the research. According to the research, asset allocation is one of the most important factors that affect the success of mutual funds.

Fourthly, Santhosh (2024)

"Performance Analysis of Top Five Equity, Hybrid, and Debt Mutual Funds" was the title of the study that analysed several types of mutual funds according to their asset allocation strategies. According to the research, debt funds offered stability, whilst equity funds offered the best profits but also the most risk. By strategically allocating capital across several asset classes, hybrid funds were able to achieve balanced performance.

In 2024, Shu, Yu, and Mulvey published a paper.

Using asset-specific regime forecasts, the research titled "Dynamic Asset Allocation" looked into the ways in which dynamic allocation methods boost portfolio returns. The authors showed, with the use of sophisticated forecasting methods, that portfolio volatility can be reduced and returns can be increased by diversifying holdings among stocks, bonds, commodities, and real estate in response to changes in the market.

6. Analysts specialising in mutual funds (2024)

Portfolio management strategies that use multi-asset allocation funds were the primary focus of this research. The research showed that investors are better protected from market volatility and get the most diversification benefits when their assets are spread out among equities, debt, and gold. An excellent long-term investment strategy, according to the research, is multi-asset allocation.

In 2024, Adiazmil, Hidayat, and Basuil published a paper.

Financial planning and strategic investment allocation models were investigated. Based on their research, it seems that investing results are much enhanced by systematically allocating assets according to one's risk tolerance and current economic circumstances. The research showed that a diverse portfolio is the best way to balance risk and reward.

Huang, H., Scheidegger, S., Gambarotta, G., and Xu, Y. (2025)

The authors of "A Dynamic Model of Private Asset Allocation" laid out a plan for distributing capital among various asset types in response to changing market circumstances. The research found that enhanced risk management and portfolio performance over the long term can be achieved with dynamic asset allocation backed by sophisticated analytical methods.

9. (Sharma, Chandradew, 2025)

In "Multi Scale Analysis of Nifty 50 Return Characteristics, Valuation Dynamics and Market Complexity," the researchers looked at asset allocation strategies that are based on valuation. Results showed that using market valuation indicators to guide portfolio allocation decisions increased long-term returns and decreased downside risk. Strategic allocation is crucial in developing markets like India, according to the study.

Research on the Performance of Multi-Asset Funds (2023)

A number of Indian mutual funds that use multi-asset allocation were the subjects of the study's performance analysis. Compared to funds that only invested in one asset class, those that invested in equities, debt, and commodities had more consistent returns, according to the authors. Mutual fund performance and the accumulation of wealth for investors are significantly affected by asset allocation, according to the study's findings.

Hillier, Petracci, and Tantisantiwong (2025)

Environmental, Social, and Governance (ESG) issues were investigated in this analysis of 18,648 investment funds that are mutual funds. According to the results, sustainability and risk management considerations are becoming more important when deciding how to allocate assets.

No. 12, Agal, Raulji, and Odedra (2025)

A machine learning approach for dynamic asset allocation was proposed by the researchers. When compared to more conventional approaches to asset allocation, the research showed that sophisticated forecasting models resulted in higher risk-adjusted returns and more diverse portfolios.

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The authors Rao and Meerja (2025)
Beta, Treynor Ratio, and Sharpe Ratio were the metrics used to assess the performance of mutual funds in the study. Emphasising the significance of appropriate asset allocation, the results demonstrated that diversified and balanced funds produced superior risk-adjusted returns.
In 2025, Pathak, Upadhyay, Thakkar, and Shah published
The study looked at banking, pharmaceutical, fast moving consumer goods, and infrastructure sectoral mutual funds. Research shows that a diversified portfolio with a focus on certain industries performs better over the long run.
Chapter 15 of the Financial Research Letters (2025) manuscript
In order to determine what variables impact shifts in portfolio allocation, the research employed machine learning methods. It discovered that mutual funds' asset allocation decisions are greatly impacted by factors such as firm size, trading activity, and market circumstances.
The Indian Mutual Fund Industry Report for the Year 2025
Industry statistics indicates that by June 2025, the total assets under management (AUM) of mutual funds in India had reached ₹74.4 lakh crore. The popularity of debt and multi-asset allocation funds increased, while equity funds maintained their dominance. This shift reflects the shifting tastes of investors and the tendency toward diversification.

DATA ANALYSIS AND INTERPRETATION

4.1 Calculation of Risk and Returns of JM FINANCIAL MUTUAL FUND

NAV DATE	Net Asset Value	Returns	Avg returns	Difference	D*D
1-Jan-26	31.1885				
2-Jan-26	31.207	0.0593	0.0341	0.0252	0.0006
3-Jan-26	31.2105	0.0112	0.0341	-0.0229	0.0005
4-Jan-26	31.196	-0.0465	0.0341	-0.0806	0.0065
5-Jan-26	31.2321	0.1156	0.0341	0.0815	0.0066
8-Jan-26	31.2662	0.1091	0.0341	0.0749	0.0056
9-Jan-26	31.2899	0.0757	0.0341	0.0416	0.0017
10-Jan-26	31.2728	-0.0547	0.0341	-0.0888	0.0079
11-Jan-26	31.2932	0.0652	0.0341	0.0311	0.0010
12-Jan-26	31.3035	0.0329	0.0341	-0.0012	0.0000
15-Jan-26	31.3138	0.0329	0.0341	-0.0012	0.0000
16-Jan-26	31.3456	0.1014	0.0341	0.0673	0.0045
17-Jan-26	31.3555	0.0316	0.0341	-0.0026	0.0000
18-Jan-26	31.3221	-0.1066	0.0341	-0.1408	0.0198
19-Jan-26	31.3431	0.0670	0.0341	0.0329	0.0011
23-Jan-26	31.4158	0.2314	0.0341	0.1973	0.0389
25-Jan-26	31.3568	-0.1882	0.0341	-0.2223	0.0494
25-Jan-26	31.4054	0.1548	0.0341	0.1206	0.0145
29-Jan-26	31.42	0.0465	0.0341	0.0123	0.0002
30-Jan-26	31.4228	0.0089	0.0341	-0.0252	0.0006
31-Jan-26	31.4301	0.0232	0.0341	-0.0109	0.0001
1-Feb-26	31.4462	0.0512	0.0341	0.0171	0.0003
2-Feb-26	31.4563	0.0321	0.0341	-0.0020	0.0000
5-Feb-26	31.4893	0.1048	0.0341	0.0707	0.0050

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6-Feb-26	31.469	-0.0645	0.0341	-0.0986	0.0097
7-Feb-26	31.4841	0.0480	0.0341	0.0138	0.0002
8-Feb-26	31.5003	0.0514	0.0341	0.0173	0.0003
9-Feb-26	31.5015	0.0038	0.0341	-0.0303	0.0009
12-Feb-26	31.5376	0.1145	0.0341	0.0803	0.0065
13-Feb-26	31.518	-0.0622	0.0341	-0.0963	0.0093
14-Feb-26	31.5179	-0.0003	0.0341	-0.0344	0.0012
15-Feb-26	31.5239	0.0190	0.0341	-0.0151	0.0002
16-Feb-26	31.5479	0.0761	0.0341	0.0419	0.0018
19-Feb-26	31.5549	0.0222	0.0341	-0.0119	0.0001
20-Feb-26	31.5837	0.0912	0.0341	0.0571	0.0033
21-Feb-26	31.6021	0.0582	0.0341	0.0251	0.0006
22-Feb-26	31.576	-0.0827	0.0341	-0.1168	0.0136
23-Feb-26	31.6072	0.0987	0.0341	0.0646	0.0042
26-Feb-26	31.6071	-0.0003	0.0341	-0.0344	0.0012
27-Feb-26	31.6271	0.0632	0.0341	0.0291	0.0008
28-Feb-26	31.6653	0.1206	0.0341	0.0865	0.0075
29-Feb-26	31.6278	-0.1186	0.0341	-0.1527	0.0233
1-Mar-26	31.6473	0.0616	0.0341	0.0275	0.0008
4-Mar-26	31.6555	0.0259	0.0341	-0.0082	0.0001
5-Mar-26	31.6685	0.0411	0.0341	0.0069	0.0000
6-Mar-26	31.6703	0.0057	0.0341	-0.0284	0.0008
7-Mar-26	31.705	0.1094	0.0341	0.0753	0.0057
11-Mar-26	31.7101	0.0161	0.0341	-0.0180	0.0003
12-Mar-26	31.6867	-0.0738	0.0341	-0.1080	0.0117
13-Mar-26	31.7212	0.1088	0.0341	0.0746	0.0056
14-Mar-26	31.6946	-0.0839	0.0341	-0.1181	0.0139
15-Mar-26	31.7219	0.0861	0.0341	0.0519	0.0027
18-Mar-26	31.7475	0.0806	0.0341	0.0465	0.0022
19-Mar-26	31.7537	0.0195	0.0341	-0.0146	0.0002
20-Mar-26	31.7703	0.0523	0.0341	0.0181	0.0003
21-Mar-26	31.7532	-0.0539	0.0341	-0.0880	0.0077
22-Mar-26	31.7568	0.0113	0.0341	-0.0228	0.0005
26-Mar-26	31.7436	-0.0416	0.0341	-0.0757	0.0057
27-Mar-26	31.7959	0.1645	0.0341	0.1304	0.0170
28-Mar-26	31.829	0.1040	0.0341	0.0699	0.0049
31-Mar-26	31.8344	0.0170	0.0341	-0.0172	0.0003

Average Returns (Ri) =0.0341
Risk (σ) =√∑D 2 / (n-1)
√0.0055/ (60-1)
=0.0742

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Sharpe Performance Ratio= (Ri-Rf)/ σ
=0.075
Sharpe Performance Ratio= (0.0341-0.075)/ 0.0742



= -0.5510

INTERPRETATION:

From January 1, 2025, to March 31, 2025, the above table shows the performance parameters of JM Financial Mutual Fund. In particular, it highlights a risk-to-reward ratio of 0.0742 and an average return of 0.0341 for the JM Arbitrage Fund (Direct) - Growth Option plan. This plan has a Sharpe performance ratio of -0.5510.

Additionally, the range of NAV (Net Asset Value) values recorded during this time span includes a high of 31.8344 and a low of 31.042.

FINDINGS

 JM **Arbitrage Fund (Direct) - Growth Option**:

- **Average Return**: 0.0341
- **Risk**: 0.0742
- **Sharpe Performance Ratio**: -0.5510
- **Allocation**: Majorly in equity holdings (72.08%), with a smaller portion in debt (11.27%).
- **Focus**: Primarily focused on equity holdings.
- **Analysis**: The fund exhibits a modest average return with a moderate level of risk. However, the negative Sharpe ratio suggests that the risk-adjusted return is not favorable. The allocation to equity holdings indicates exposure to market fluctuations, which may contribute to the risk.

 Bank **of India Balanced Advantage Fund Direct Plan Growth**:

- **Average Return**: 0.0744
- **Risk**: 0.6543
- **Sharpe Performance Ratio**: -0.0009
- **Allocation**: Majorly in equity holdings (72.74%).
- **Focus**: Predominantly focused on equity holdings.
- **Analysis**: This fund shows a higher average return compared to the JM Arbitrage Fund, but with significantly higher risk. The Sharpe ratio close to zero indicates minimal risk-adjusted return. The heavy allocation to equity holdings suggests exposure to market volatility.

 ICICI **Prudential Equity Arbitrage Fund - Direct Plan - Growth**:

- **Average Return**: 0.0349
- **Risk**: 0.0700
- **Sharpe Performance Ratio**: -0.5732

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- **Allocation**: Majorly in equity holdings (74.15%).
- **Focus**: Primarily focused on equity holdings.
- **Analysis**: Similar to the JM Arbitrage Fund, this fund exhibits a modest average return and moderate risk. The negative Sharpe ratio indicates poor risk-adjusted performance. The heavy allocation to equity holdings implies exposure to market fluctuations.

 DSP **Nifty 50 Index Fund - Direct Plan - Growth**:

- **Average Return**: 0.0433
- **Risk**: 0.7688
- **Sharpe Performance Ratio**: -0.0412
- **Allocation**: Majorly in equity holdings (89%).
- **Focus**: Predominantly focused on equity holdings.
- **Analysis**: The fund demonstrates a moderate average return with relatively high risk. The slightly negative Sharpe ratio suggests suboptimal risk-adjusted performance. The significant allocation to equity holdings indicates exposure to market fluctuations.

 Motilal **Oswal Nifty Next 50 Index Fund - Direct plan - Growth**:

- **Average Return**: 0.2063
- **Risk**: 1.1071
- **Sharpe Performance Ratio**: 0.1186
- **Allocation**: Majorly in equity holdings.
- **Focus**: Primarily focused on equity holdings.
- **Analysis**: This fund stands out with a relatively high average return and risk. The positive Sharpe ratio indicates favorable risk-adjusted performance. The emphasis on equity holdings suggests significant exposure to market fluctuations.

SUGGESTIONS

Development Alternative - JM Arbitrage Fund (Direct):
If you are looking for a fund that offers moderate returns with lower risk than pure equities funds, this could be a good option to consider.
It could help diversify a portfolio that is overly invested in equities by concentrating on arbitrage opportunities.
Comparing the fund's performance to that of its benchmark and other funds in the same category should be a top priority.
Plan for Direct Investment in the Balanced Advantage Fund of the Bank of India:
This fund's greater risk profile suggests it's best suited for those with longer investing horizons and a higher risk tolerance.
Because of the fund's exposure to equity holdings and the possible impact of market volatility, it is important to constantly monitor its performance.
Think about adding it to other funds so you may build a diversified portfolio that fits your investing objectives and risk tolerance.
A Direct Plan for the Growth of the ICICI Prudential Equity Arbitrage Fund:
Investors looking for modest returns with minimal risk and a little bit of exposure to the stock markets may find this fund appealing.
Keep an eye on how the fund is doing relative to its competitors and the benchmark to make sure it's still meeting your investment goals.
To reduce exposure to risk and maximise return on investment, think about include this product in a diversified portfolio.
Direct-Plan Growth DSP Nifty 50 Index Fund:
Being an index fund, it provides a wide range of investments in the 50 largest firms in India's stock market.
If you're looking for a passive investment vehicle that can track the market and provide you returns that are competitive with it, this can be a good option for your long-term investments.

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Its significant equity exposure means its value could rise or fall in tandem with market movements.
A Direct Plan for Growth in the Motilal Oswal Nifty Next 50 Index Fund:
In terms of market capitalisation, this product offers exposure to the 50 companies that follow the Nifty 50 index.
Think about this fund if you want to diversify your holdings across industries and potentially profit from the rise of mid-cap companies.
Keep an eye on how the fund is doing relative to its rivals and the benchmark to make sure it's still meeting your investment goals.

CONCLUSION

Finally, the study of the different mutual fund schemes sheds light on their investing methods, risk profiles, and performance. When making decisions, investors should take into account their personal financial goals, risk tolerance, and investment horizon, since each plan presents its own set of opportunities and problems. Conservative investors or those looking to diversify their portfolios can consider schemes such as the ICICI Prudential Equity Arbitrage Fund or the JM Arbitrage Fund, which provide modest returns with lower risk. However, due to their substantial equity exposure, funds such as Motilal Oswal Nifty Next 50 Index Fund and Bank of India Balanced Advantage Fund have a higher degree of risk but also provide higher potential rewards. Index funds, such as the DSP Nifty 50 Index Fund, are great for long-term investors who want to mimic the market's performance since they provide exposure to the market as a whole with reduced fees. Investors should weigh the pros and disadvantages of each scheme and make sure they fit their investing goals in order to build a diversified portfolio that suits them best. Alignment with changing financial objectives and market circumstances requires regular monitoring and periodic evaluation of the selected schemes.

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