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Factor funds based on value strategy have outperformed NIFTY 50 significantly.

Here's a 5-year return comparison of one such index:

Nifty 50 ■ 15.7%
NIFTY 50 Value 20 ■ 20.2%

The returns are too attractive to ignore value-based factor funds.

Should you invest in them? A ■

Currently, you can invest in 2 value-based factor indices.

1. NIFTY 50 Value 20 (or NV20)
2. S&P BSE Enhanced Value

There are 5 schemes based on NV20. 3 of them were launched over 6 years ago.

S&P BSE Enhanced Value has one fund by @MotilalOswalAMC, launched a few days back.

As NV20 has a longer history of funds, let's look at it in detail.

It comprise 20 'value' stocks from the NIFTY 50 (large cap stocks)

To pick these value stocks, metrics like ROCE, PE, PB and Dividend Yield are used.

So far, the factor index has done well (see table) ■

NIFTY 50 VS NIFTY 50 VALUE 20		
Period	NIFTY 50 Returns (%)	NIFTY 50 Value 20 Returns (%)
3 years	17.7	19.8
5 years	15.7	20.2
7 years	14.9	17.1

Data as of Sep 14, 2022. We couldn't check data for longer periods, as the NV20 index was launched in March 2014.

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NV20 has outperformed the NIFTY 50 index.

But what about fund managers doing active stock picking?

We compared NV20 with actively managed schemes in the value fund category.

And what did we find?

In the last 5 and 7 years, no active fund could beat the NV20 index.

NIFTY 50 VALUE 20 INDEX VS ACTIVELY-MANAGED VALUE FUNDS			
Scheme Name	3 Years (%)	5 Years (%)	7 Years (%)
NIFTY 50 Value 20	19.8	20.2	17.1
IDFC Sterling Value Fund	27.35	11.78	15.41
Tata Equity P/E Fund	18.13	9.35	14.45
JM Value Fund	20.41	9.81	14.36
Nippon India Value Fund	22.96	13.44	14.01
L&T India Value Fund	21.27	10.55	14.00
Templeton India Value Fund	24.96	11.42	13.66
ICICI Pru Value Discovery Fund	24.46	14.06	13.39
HDFC Capital Builder Value Fund	18.57	10.71	12.99
UTI Value Opp Fund-Reg	21.46	13.43	12.75
Quantum Long Term Equity Value Fund	15.29	9.35	11.94
Aditya Birla SL Pure Value Fund	17.85	4.43	10.43
Indiabulls Value Fund	17.75	6.04	8.32
IDBI Long Term Value Fund	18.04	NA	NA
Union Value Discovery Fund	21.09	NA	NA
Data as of Sep 14, 2022			ET Money

Options to invest

First, let's look at the NV20 index.

Four fund houses offer NV20 ETFs. These include @NipponIndiaMF, @KotakMF, @ICICIPruMF, @hdfcmf.

Only @NipponIndiaMF offers an index fund option at present.

The other option: BSE Enhanced Value index.

It picks 30 value stocks from large and mid-cap space.

And selects stocks based on P/B, P/E and sales-to-price ratios.

Currently, only @MotilalOswalAMC offers an ETF and an index fund based on this index (launched a few days back).

The performance of NV20 makes a strong case.

But it's not guaranteed that it will perform consistently.

In fact, past data show that strategies like Value, Momentum, and Quality perform in different market conditions

See table.■

PERFORMANCE OF VARIOUS FACTORS IN DIFFERENT PHASES OF THE STOCK MARKET

Market Cycle	Value	Quality	Low Vol	Momentum
Bull	26.5	24.7	26.2	37.4
Bear	-48.9	-27.1	-25.6	-38.5
Recovery	45.1	41	37.8	38.6

NOTE: All fig in %
Source - Motilal Oswal AMC; Data from 31-Jan-07 to 30-Jun-22. A bear market is defined as a >20% fall from peak to trough. Recovery is defined as the recovery from trough to the previous peak. A bull market is defined as a rising market after a recovery.

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Even calendar year returns show a similar trend.

Different factors or strategies have emerged as top-performing in different years.

CALENDAR YEAR RETURNS OF DIFFERENT FACTORS

RANK	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
1	Value 42.3%	Mom. 12.9%	Mom. 49.6%	Low Vol. 13.5%	Value 16.6%	Mom. 57.5%	Low Vol. 8.7%	Mom. 10.6%	Low Vol 26.8%	Value 56.9%	Quality -6.5%
2	Mom. 38.8%	Quality 11.6%	Quality 44.9%	Quality 13.2%	Mom. 9.6%	Value 46.0%	Mom. -1.7%	Low Vol 5.3%	Quality 26.0%	Mom. 53.8%	Value -6.7%
3	Quality 32.8%	Low Vol 11.0%	Low Vol 42.9%	Mom. 10.8%	Quality 7.4%	Quality 39.7%	Quality -3.9%	Quality 3.9%	Mom. 20.0%	Quality 19.4%	Low Vol -8.7%
4	Low Vol 32.3%	Value -7.0%	Value 40.0%	Value -15.8%	Low Vol 4.4%	Low Vol 30.2%	Value -26.9%	Value -7.3%	Value 12.8%	Low Vol 19.3%	Mom. -20.9%

Source - Motilal Oswal AMC; Data as of Jun 30, 2022.

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As the performance of factors or strategies varies based on market conditions, keeping a combination of factors could help optimise returns.

For example, you can complement value with momentum.

Factor funds are at a nascent stage.

Until 2020, there were only eight of them.

NV20-based schemes were among the first factor funds launched by fund houses.

Therefore, you won’t find a long-term track record for these funds.

■Understand the risks before you invest.

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