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Factor Indices vs Benchmark: 5-Year Performance Analysis

This report compares the **5-year performance** of selected **Nifty500 factor indices** against the **Nifty 500 benchmark**. The analysis highlights whether these factor-based indices have outperformed or underperformed the broader market, helping investors understand the relative strength of different investment factors over time.

Factor Indices Explained:

- **Nifty500 Value 50 Index:** Focuses on stocks trading at relatively low valuations. Tends to benefit investors looking for potentially undervalued opportunities.
- **Nifty500 Momentum 50 Index:** Includes stocks with strong recent price trends. Designed to capture growth in stocks exhibiting upward price momentum.
- **Nifty500 Quality 50 Index:** Selects companies with strong financial health and consistent profitability. Emphasizes stability and long-term reliability.
- **Nifty500 Low Volatility 50 Index:** Comprises stocks with lower price fluctuations. Ideal for conservative investors seeking reduced risk.

Why Choose Factor Indices Over Other Indices?

Factor indices are designed not just to track the market, but to **target specific investment objectives** by selecting stocks based on measurable characteristics (factors) like value, momentum, quality, or volatility. This gives them advantages over traditional broad-market indices:

1. **Potential for Superior Returns**

- Traditional market-cap indices (like Nifty 500 or Sensex) weight stocks based on size, meaning larger companies dominate the index.
- Factor indices, such as Value or Momentum, select stocks based on their **performance attributes** rather than just size, which can lead to **higher long-term returns**.
- Example: Over the past 5 years, Nifty500 Value 50 outperformed the Nifty 500 benchmark by a significant margin (as shown in table below).



2. Risk Management

- Market-cap indices reflect the overall market, including highly volatile stocks, which can increase risk during downturns.
- Low Volatility factor indices specifically focus on stocks with **lower price fluctuations**, helping investors **manage risk** without completely missing market gains.
- This makes factor indices particularly appealing to **conservative investors** who want more stability.

3. Enhanced Diversification

- Factor indices combine stocks across sectors and styles based on **specific factors**, not just market capitalization.
- This allows investors to **complement existing portfolios**, reducing concentration risk in any single sector or stock.
- Unlike some sectoral or thematic indices, factor indices maintain exposure across the broader market while still targeting specific investment objectives.

5-Year Performance vs Benchmark

Index Name	5 Year	Performance Relative to Benchmark
Nifty500 Value 50 index	38.87%	Outperformed
Nifty500 Momentum 50 Index	27.79%	Outperformed
Nifty500 Quality 50 Index	22.19%	Outperformed
Nifty500 Low Volatility 50 Index	21.42%	Underperformed
Benchmark: Nifty 500 Index		21.71%

Returns as on 31st July, 2025.

Data Source: NSE Website



Conclusion:

Over the past 5 years, most Nifty500 factor indices—**Value, Momentum, and Quality**—have **outperformed the Nifty 500 benchmark**, *suggesting that targeted factor-based strategies can deliver superior returns compared to the broad market.* The **Low Volatility factor, however, slightly underperformed the benchmark**, *reflecting its conservative nature aimed at risk reduction rather than maximizing returns.* This highlights that different factors serve different investment objectives—some focus on growth, while others prioritize stability.

Hence, we can conclude that over the past 5 years, most factor indices outperformed the benchmark, highlighting their potential to enhance returns, manage risk, and diversify portfolios. Investors can select factor indices based on their financial goals, risk appetite, and investment horizon.

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* Mutual funds are subject to market risks. Please read all scheme-related documents carefully before investing. Past performance does not indicate future results. Investments are subject to market fluctuations, and there is no assurance of returns.

