

Are PMS Schemes Actually Beating Mutual Funds and Their “TRUE” Benchmarks?

A few reports surfaced online suggesting that Portfolio Management Schemes (PMS) schemes beat their respective benchmarks and mutual funds (MFs) on average across all time frames.

We dug deeper to analyse this by extracting data from the disclosures given by PMSs to the Association of Portfolio Managers of India (APMI), covering 90% of the universe of discretionary equity PMS Asset Under Management (AUM).

We further analysed whether the benchmarking norms as per the prevailing SEBI Regulations governing PMS and mutual funds, respectively, are alike.

PMS vs MF PMS
MF Average AUM Funds
AUM PMS Schemes PMS MF
PMS vs MF Funds AUM PMS
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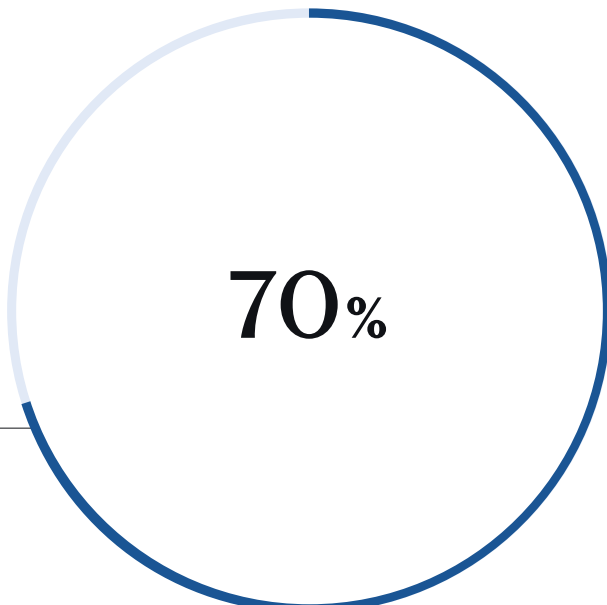
A. KEY OBJECTIVES

- a. To analyse the performance of PMS schemes against their respective benchmarks and assess the extent of outperformance / underperformance and
- b. To evaluate the reliability of benchmarks as indicators of PMS scheme quality.

B. EXECUTIVE SUMMARY

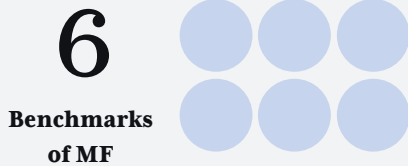
a. Are PMS Schemes Using the Right Benchmarks?

- i. **70% of the 40 identifiable PMS schemes out of 303** benchmarked against the Nifty 50 TRI employ non-Large Cap strategies, highlighting stark inefficiencies in true benchmarking norms for these funds.



70%

ii.



VS



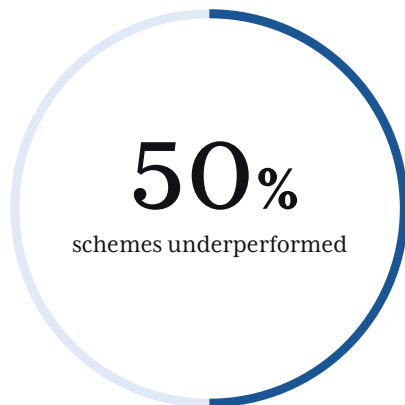
Equity mutual funds follow strict, strategy-specific benchmarking—with up to six distinct indices—while equity PMS schemes are broadly classified and almost entirely rely on just two benchmarks, with 32% of all

equity PMS schemes using the Nifty 50 TRI and 68% using the S&P BSE 500 TRI, complicating accurate performance assessment.

iii. Outperformance may be manipulative

Over the past five years, while 63% of PMS schemes benchmarked to the Nifty 50 beat the index, only 36% (or 51% of their AUM) outperformed average Flexi Cap mutual fund returns, highlighting a notable performance gap.

b. 3 Year Performance vs Flexi Cap MFs:



42% of PMS AUM and 50% of PMS schemes underperformed average Flexi Cap MFs returns*.

c. 5 Year Performance vs Flexi Cap MFs:

35% of PMS AUM and 47% of PMS schemes underperformed average Flexi Cap MFs returns*.

d. No Upper Limit on expenses in PMS

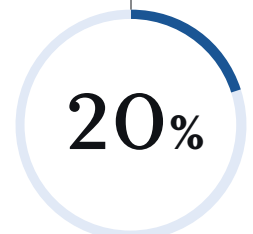
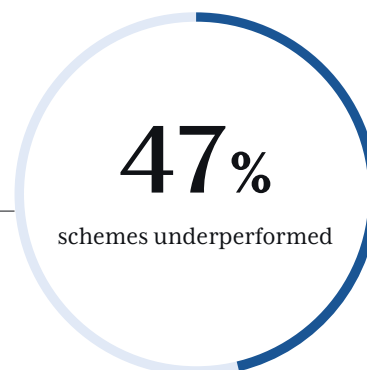
PMS schemes face no upper limit on fees—beyond their fixed and performance charges and additional fees—whereas mutual funds must adhere to strict TER caps that decrease with increasing AUM (from 2.25% on the first ₹500 crores to 1.05% for AUM above ₹50,000 crores), as mandated by the SEBI.

e. Tax Inefficiencies in PMS

Tax on every gain made within 1 year

PMS investments face higher tax inefficiencies due to transaction-level taxation at the investor level, whereas MFs benefit from deferred taxation, with long-term gains taxed only upon redemption by investors.

Churning by the MF manager is not taxed at either MF level or the investor level. While the investor faces taxation on gains for every churn that the PMS manager makes.



*AUM-weighted average Flexi Cap Returns

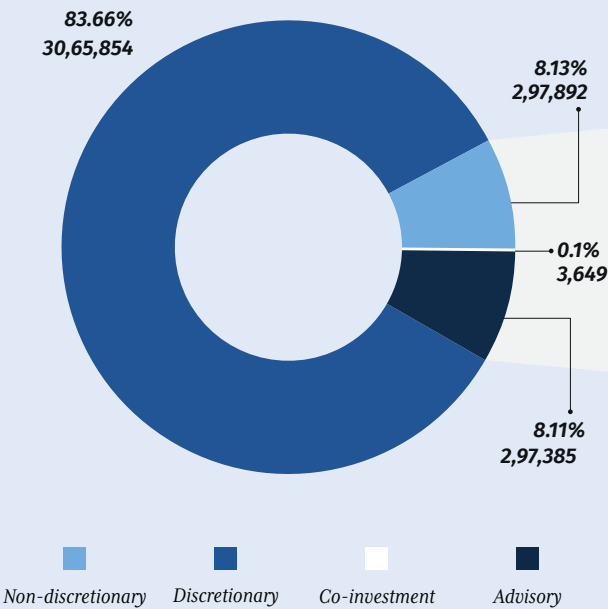
C. METHODOLOGY

a. PMS Schemes

PMS schemes can be bifurcated into the following:

- i. Discretionary,
- ii. Non-discretionary,
- iii. Co-investment and
- iv. Advisory.

Breakdown of AUM in PMS Schemes by Category (in ₹ Cr.)



Source: SEBI Disclosures. Data as at November 30, 2024

Within discretionary PMS schemes, 85% of the AUM is invested by the EPFO, managed primarily by UTI Asset Management Company and SBI Fund Management Limited.

Within discretionary non-EPFO PMS schemes, 82% is invested in direct equities and 8% in MFs.

The **equity shares (₹3.75 lakh crores)** and mutual funds (**₹0.38 lakh crores**) together make up all of the equity investments (**₹4.13 lakh crores**) of the PMS companies registered with the SEBI. For our analysis, we are going to consider this subcategory within discretionary PMS.

We extracted the latest data of PMS (as at December 31, 2024) through disclosures available on the **APMI** website for equity discretionary PMS schemes covering **932** schemes. These schemes had a total AUM of **₹4.03 lakh crores**, accounting for **98%** of the overall actual **equity discretionary AUM of ₹4.13 lakh crores**.

As of January 1, 2025, the SEBI has mandated that all PMS providers must register with the APMI. However, this requirement is relatively new, and some PMS providers may not have completed the registration process yet; thus, the availability of data is limited to 90% of the PMS AUM universe.

b. MF Schemes

Unlike other mutual fund categories, **Flexi Cap funds are actively managed**, allowing for investments across various equity categories, including large-cap, mid-cap and small-cap stocks. This aligns closely with the active management approach of PMS schemes.

For this reason, we understand that the correct barometer to evaluate the performance of PMS with mutual funds is by comparing the results of PMS schemes' performance with those of Flexi Cap funds.

The data of 39 Flexi Cap schemes was analysed through the **SEBI and AMFI disclosures**, which totalled an AUM of **₹4.27 lakh crores** as at November 30, 2024.

c. Time Frame

The data of SEBI PMS schemes has been compared with the Flexi Cap mutual fund schemes across the following time frames:

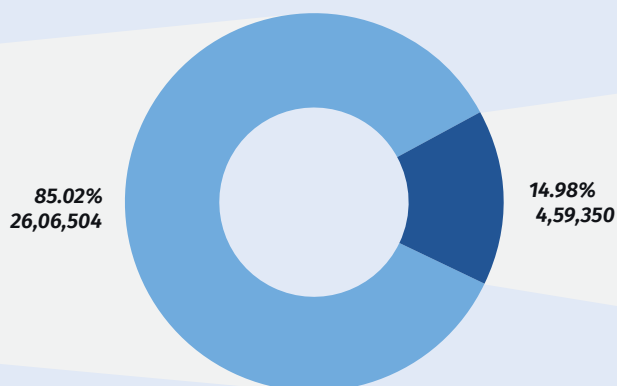
- i. 1 year,
- ii. 3 years and
- iii. 5 years

All the percentage figures in the report have been rounded off to the nearest whole number unless it was necessary for presentation and disclosure.

D. PERFORMANCE ANALYSIS

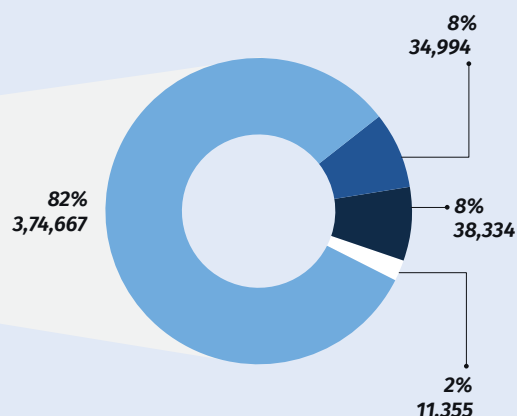
We compared each PMS scheme's performance with the AUM weighted average of all Flexi Cap mutual funds in the market for three periods, viz., 1-year, 3-years and 5-years. Taking the mean of their annualised returns of all Flexi Cap MFs is not a true measure of the overall category performance. Hence, we have taken AUM-weighted returns.

Breakdown of Discretionary AUM in PMS Schemes (In ₹ Crs.)



EPFO Non-EPFO

Breakdown of Discretionary Non-EPFO AUM in PMS Schemes (In ₹ Crs.)



Equity Debt Mutual funds Others

a. AUM Weighted Average Flexi Cap MF Performance

TIME FRAME	NUMBER OF SCHEMES	AUM-WEIGHTED RETURNS
1 Year	38	21%
3 Years	27	16%
5 Years	23	19%

b. PMS vs Flexi Cap – Returns' Analysis Based on Number of Schemes

PERFORMANCE PERIOD	TOTAL NUMBER OF PMS SCHEMES	NUMBER OF UNDERPERFORMING PMS SCHEMES	PERCENTAGE OF UNDERPERFORMING PMS SCHEMES
1 Year	804	452	56%
3 Years	582	290	50%
5 Years	452	213	47%

Note: The PMS number of schemes shown alongside represent schemes that have been managed for at least the duration of the respective performance period.

c. PMS vs Flexi Cap – Returns' Analysis Based on AUM

PERFORMANCE PERIOD	TOTAL PMS AUM (In ₹ Crs.)	UNDERPERFORMING PMS AUM (In ₹ Crs.)	PERCENTAGE OF UNDERPERFORMING PMS AUM
1 Year	3,97,144	2,21,445	56%
3 Years	3,51,269	1,46,025	42%
5 Years	2,93,678	1,03,923	35%

Note: The PMS AUM figures shown represent schemes that have been managed for at least the duration of the respective performance period. i.e., out of 932 schemes (₹4.03 lakh crores), 804 schemes (₹3.97 lakh crores) were at least 1 year old, 582 schemes (₹3.51 lakh crores) were at least 3 years old, and 452 schemes (₹2.94 lakh crores) were at least 5 years old.

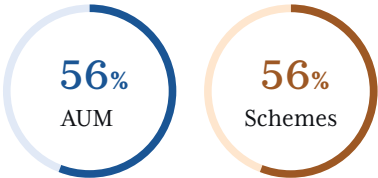
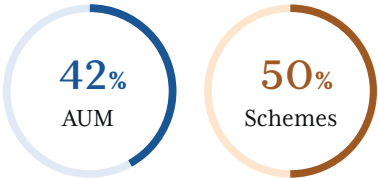
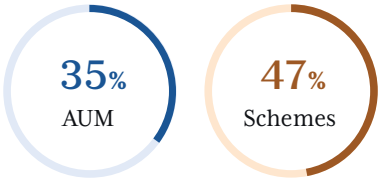
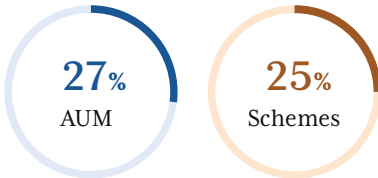
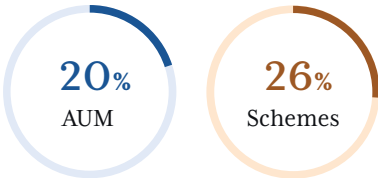
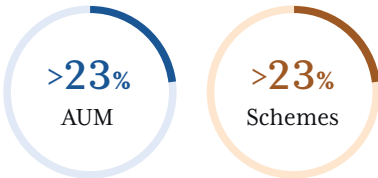
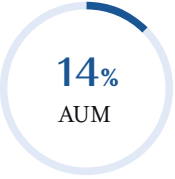
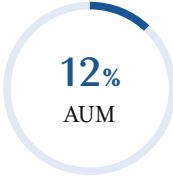
d. PMS vs Average Flexi Cap Returns Performance Results:**i. AUM Distribution by Performance Buckets and Period**

PERFORMANCE INDICATOR	ANNUALISED MARGIN OF UNDER/ OUTPERFORMANCE	1 YEAR		3 YEARS		5 YEARS	
		AUM (In ₹ Crs.)	% OF TOTAL AUM	AUM (In ₹ Crs.)	% OF TOTAL AUM	AUM (In ₹ Crs.)	% OF TOTAL AUM
Underperformance	More than -25%	219	0%	12	0%	12	0%
Underperformance	-10 to -25%	55,558	14%	5,543	2%	765	0%
Underperformance	-3 to -10%	1,07,630	27%	71,639	20%	65,197	22%
Underperformance	0 to -3%	58,039	15%	68,831	20%	37,949	13%
Outperformance	0 - 3%	51,929	13%	78,910	22%	77,669	26%
Outperformance	3 to 10%	68,707	17%	83,573	24%	52,191	18%
Outperformance	10 to 25%	42,682	11%	40,053	11%	56,829	19%
Outperformance	25 to 50%	12,182	3%	2,693	1%	2,344	1%
Outperformance	More than 50%	198	0%	16	0%	721	0%
Total		3,97,144	100%	3,51,269	100%	2,93,678	100%

ii. Number of Schemes Distribution by Performance Buckets

PERFORMANCE INDICATOR	ANNUALISED MARGIN OF UNDER / OUTPERFORMANCE	1 YEAR		3 YEARS		5 YEARS	
		AUM (In ₹ Crs.)	% OF TOTAL AUM	AUM (In ₹ Crs.)	% OF TOTAL AUM	AUM (In ₹ Crs.)	% OF TOTAL AUM
Underperformance	More than -25%	5	1%	2	0%	2	0%
Underperformance	-10 to -25%	154	19%	31	5%	26	6%
Underperformance	-3 to -10%	199	25%	152	26%	104	23%
Underperformance	0 to -3%	94	12%	105	18%	81	18%
Outperformance	0 - 3%	92	11%	85	15%	72	16%
Outperformance	3 to 10%	121	15%	123	21%	96	21%
Outperformance	10 to 25%	110	14%	76	13%	61	14%
Outperformance	25 to 50%	27	3%	7	1%	6	1%
Outperformance	More than 50%	2	0%	1	0%	4	1%
Total		804	100%	582	100%	452	100%

e. Observations

i. 1-Year Performance:	ii. 3-Year Performance:	iii. 5-Year Performance:
Underperformance in the average Flexi Cap MF return:	Lagging behind Flexi Cap MFs:	Underperformance:
		
Underperformance in Flexi Cap by 3-10%, a significant gap:	In the -3 to -10% category	In the -3 to -10% category
		
Outperformance in Flexi Cap returns by more than 10%	Generation of over 10% returns	
		

E. REGULATIONS COMPARISON: PMS VS MUTUAL FUNDS

MFs and PMS are two popular options, each with distinct regulatory structures that impact their operations and investor outcomes. The benchmarking practices in PMS have raised questions about their effectiveness in reflecting true performance, prompting a closer look at how these benchmarks compare to those used by mutual funds.

Seeing that in our performance analysis above comparing PMS to Flexi Cap MFs, the results were not in favour of PMS, we further evaluated whether this was true.

We looked at PMS schemes' performance against their own benchmarks to get a better picture.

Out of 932 PMS schemes in our analysis, 99.7% use either the Nifty 50 TRI or the S&P BSE 500 TRI.

BENCHMARK	NUMBER OF PMS SCHEMES	% OF TOTAL
MSEI SX 40 TRI	3	0%
Nifty 50 TRI	303	33%
S&P BSE 500 TRI	626	67%
Total	932	100%

The MSEI SX 40 Index is the flagship index of the Metropolitan Stock Exchange of India (MSEI), formerly known as MCX Stock Exchange (MCX-SX). It is a free-float-based index that consists of 40 large-cap, liquid stocks representing various sectors of the Indian economy.

We did not consider the schemes using the MSEI SX 40 TRI index since they were just 3 in number out of a total of 932.

a. Is Nifty 50 the True Benchmark?

The use of the Nifty 50 TRI as a benchmark by PMS schemes raises questions about its appropriateness.

Among 303 schemes benchmarked against the Nifty 50 TRI, only 40 were identifiable by their investment approach (IA) as small-, mid-, large-, or multi-cap.

Notably, just 30% of these (12 schemes) were classified as Large Cap, which is the primary composition of the Nifty 50. The remaining 70% are non-Large Cap schemes, which should ideally not use the Nifty 50 TRI, as it doesn't accurately reflect their performance considering their investment strategy is named otherwise.

This highlights the inefficacy of current benchmarking norms for PMS schemes, suggesting that the Nifty 50 TRI may not be a true benchmark for many of these funds.

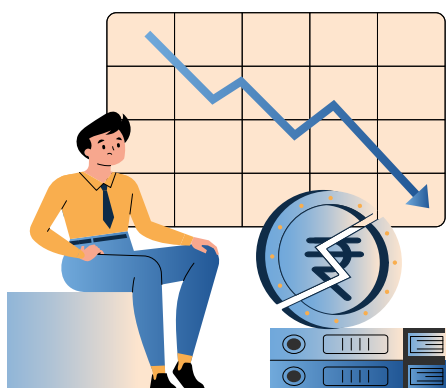
Long-term performance does not improve significantly

- Over a 5-year period, **63%** of Nifty 50-benchmarked PMS schemes outperformed their benchmarks; however, against Flexi Cap mutual funds, just 36% of Nifty 50-based PMS outperformed.

- Only 51% of AUM in Nifty 50-based PMS schemes outperformed Flexi Cap funds in 5 years**, despite 78% of the number of schemes beating the Nifty 50 index itself.

These results are in line with the idea that PMS strategies are shown to be competitive against passive indices but less so when compared to actively managed Flexi Cap MFs, both in the long and short term. Additionally, while many PMS schemes are shown beating their respective benchmarks, a smaller proportion of the AUM outperformed, meaning larger PMS investments may not be delivering their “true-benchmark” beating returns.

These results indicated potential misalignment between PMS benchmarks and their actual portfolio composition,



leading us to investigate the regulatory frameworks governing benchmarking practices for PMS and mutual funds. By understanding these differences, we tried to understand how regulatory standards influence performance reporting and investor transparency.

b. Strategy Flexibility: PMS Is Too Broad

PMS: SEBI classifies PMS strategies into just four broad categories—equity, debt, hybrid and multi-asset—without mandating subcategories within equity. In our analysis, **only 129 (~14%) out of 932 PMS schemes are explicitly identified by their IA name as small-, mid-, large-, or multi-cap**, leaving most **unaligned with specific benchmarks**, making performance assessment difficult. 33% and 67% PMS schemes, as per APMI data, are benchmarked to Nifty 50 TRI and S&P BSE 500 TRI, respectively.

Mutual Funds: In contrast, **SEBI mandates strict categorisation**, e.g., small-cap funds must hold **65%+ in small-cap stocks**, and requires **aligned benchmarks** like Nifty Smallcap 250, ensuring **clearer performance evaluation**. For the ten non-sector/theme-focused equity-oriented MF schemes, they are benchmarked to six different indices.

c. Total Expense Ratio (TER) Norms for PMS Vis-à-Vis MFs

Theoretically, there is no upper cap on the fee that a PMS scheme can charge to its investors for the AUM / returns generated. While PMS schemes may portray that they charge, say, 2% of AUM as a fixed fee or, say, 20% as a performance fee, they can charge other charges such as brokerage, etc., on top of these expenses.

However, the “Total” Expense Ratio or TER, of MFs is capped strictly. The SEBI mandates that, it reduces as the AUM of a fund increases.

d. Maximum TER as a Percentage of Daily Net Assets

AUM (In ₹ Crs.)	TER FOR EQUITY FUNDS
On the first ₹500 Crs.	2.25%
On the next ₹250 Crs.	2%
On the next ₹1,250 Crs.	1.75%
On the next ₹3,000 Crs.	1.6%
On the next ₹5,000 Crs.	1.5%
On the next ₹40,000 Crs.	Total Expense Ratio reduction of 0.05% for every increase of ₹5,000 Crs. of daily net assets or part thereof.
Above ₹50,000 Crs.	1.05%

e. Tax Inefficiencies in PMS vs MFs

In India, the tax treatment of PMS and MFs reveals significant differences that impact investor returns. PMS investments are taxed at the individual transaction level, with short-term capital gains (STCG) taxed at 20% and long-term capital gains (LTCG) at 12.5% beyond ₹1.25 lakh in a financial year. This frequent taxation can erode returns due to higher tax outflows.



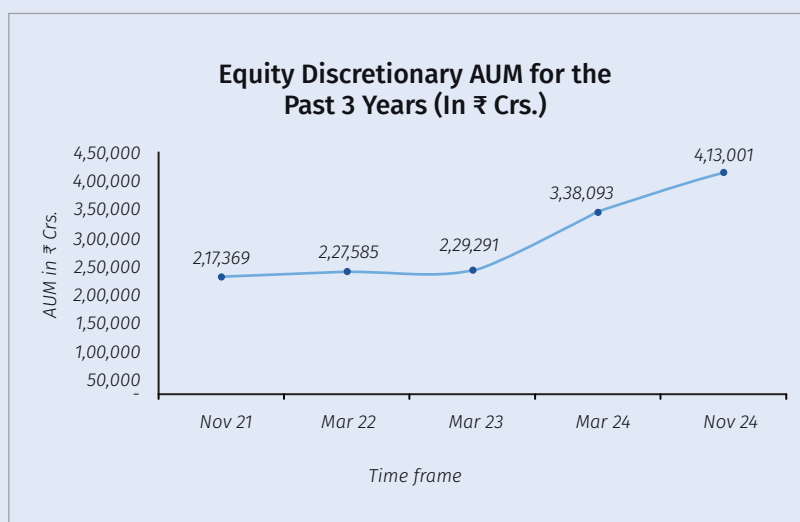
In contrast, Mutual Funds operate under a pass-through structure, where taxes are levied only upon redemption. For equity-oriented MFs, LTCG is taxed at 12.5% on gains exceeding ₹1.25 lakh, allowing for deferred taxation and better compounding of returns. This tax deferral advantage in MFs results in higher post-tax returns compared to PMS, where taxes are incurred on every transaction.

The tax inefficiency in PMS is further exacerbated by the immediate taxation of dividends at the investor's slab rate, unlike MFs where dividends can be reinvested, allowing for compounding benefits. Overall, PMS investors face higher tax burdens and reduced returns due to frequent tax outflows, making Mutual Funds a more tax-efficient option for many investors.

F. BREAKDOWN OF PMS DATA FROM APMI

The following are the trends of equity discretionary AUM for the past 3 years:

As we can see, the AUM of Equity Discretionary alone has increased by ₹1.95 lakh crores in the last 3 years, from ₹2.17 lakh crores to ₹4.13 lakh crores. That is a 90% increase for this category alone. It sounds like rapid growth, so we tried to understand how much of it is because of returns and how much is there because of actual money inflow.



PMS Inflows – Past 3 Years

S NO.	PARTICULARS	AMOUNT (In ₹ Crs.)
A	Equity discretionary AUM as at November 30, 2021	2,17,369
B	Equity discretionary AUM as at November 30, 2024	4,13,001
C	AUM weighted average 3-year returns for PMS (Annualised)*	15.77%
D= A* (1+C)^3	PMS AUM as at November 30, 2024, based on pure returns	3,37,288
E= B-D	Inflow over past 3 Years	75,713
A	Equity discretionary AUM as at November 30, 2021	2,17,369

Note: All AUM figures in ₹ crores
*In our analysis, we had 581 PMS schemes at least 3 years old (as at Nov'24),

with varying AUM and returns; hence, we took an AUM-weighted average of the returns to get a more accurate benchmark

Calculation Explanation:

Starting Point: The AUM for Equity Discretionary PMS as of November 2021 was ₹2,17,369 crore. By November 2024, this figure had grown to ₹4,13,001 crore.

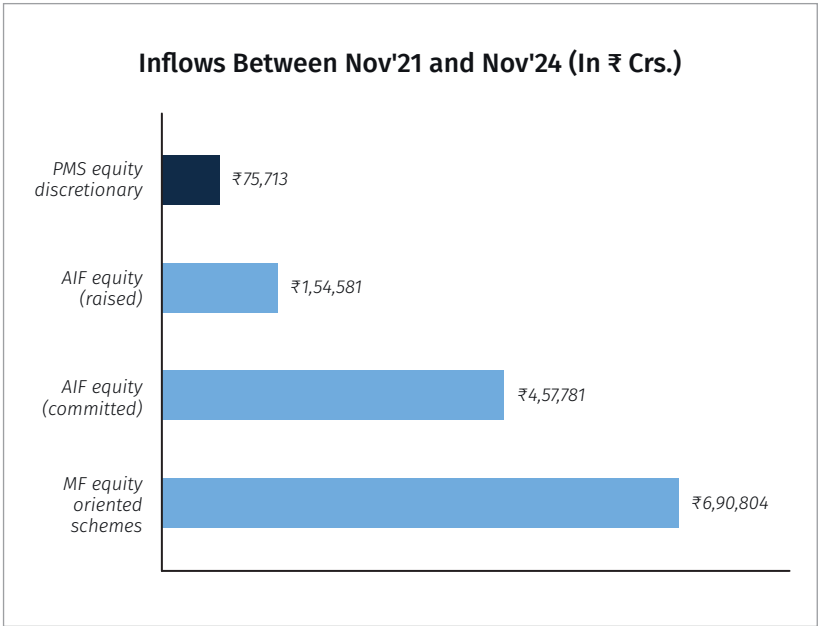
Average Returns: The average annualised return for PMS schemes that have been operational for three years or more is 15.77% on an AUM weighted basis. This figure is essential because it helps us gauge how much the existing investments

would have grown purely from returns over this period.

Finding Net Inflows: To determine the net inflows, we subtracted the calculated AUM based on returns from the actual AUM as of November 2024:

- Net inflow = Actual AUM (₹4,13,001 crore) - AUM based on annualised AUM weighted (₹3,37,288 crore) = ₹75,713 crore.

This **net inflow of ₹75,713 crores** represents the additional funds that investors contributed to these equity discretionary PMS schemes over the past three years. Below, we compare this with the corresponding inflows of **actively managed equity mutual funds** and **alternative investment funds (investments and commitment)** to get a better picture:



The inflow data highlights a concerning trend for PMS in comparison to MFs and Alternative Investment Funds (AIFs):

- The total inflow into PMS equity discretionary schemes over the past three years was **₹75,713 crores**. This figure pales in comparison to the inflows seen in equity-oriented and actively managed equity mutual funds, which attracted **₹6,90,804 crores**, and AIFs, which raised **₹1,54,581 crores**.
- Notably, AIFs, which also cater primarily to high-net-worth individuals (HNIs) but require a higher minimum investment of ₹1 crore, raised nearly **double the inflows than those raised by PMS despite their higher entry barriers**.
- The fact that AIFs received **2x the inflows** and actively managed equity mutual funds received **10x the inflows**, respectively, of PMS schemes over the same time period indicates a clear preference among investors for alternative investments and mutual funds over PMS, both among common retail investors (MFs) and HNIs (AIFs).

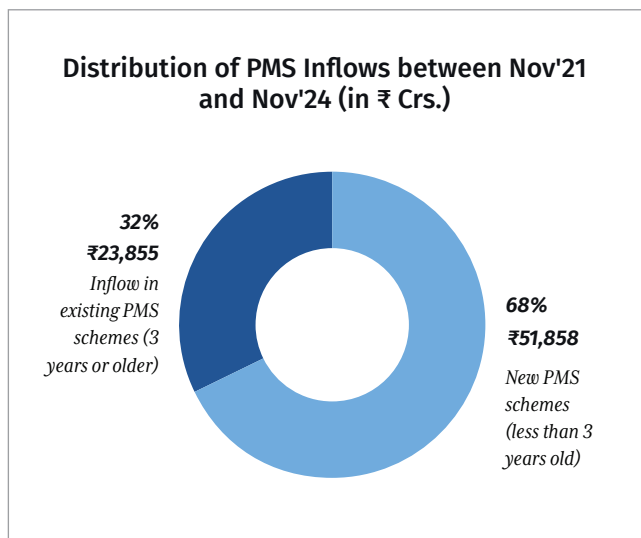
Note: In AIFs, inflows are categorised into two types:

-Committed Inflows: Funds pledged by investors through agreements

-Raised Inflows: Actual funds received by the AIF from investors

Committed inflows are often larger than the actual funds raised because not all committed funds are immediately drawn down by the fund manager. Since our focus is on Equity PMS schemes, comparing them with AIF equity inflows—both committed and raised—serves as a relevant benchmark.

Having a broad idea of the overall inflows in PMS schemes over the past 3 years, we then looked at where these inflows were being directed:



Over the past 3 years, out of total inflows of ₹75,713 crores, 68% of inflows (₹51,858 crores) that went into PMS schemes that are less than 3 years old.

Only 32% (₹23,855 crores) flowed into established PMS schemes that have existed for over 3 years.

Ideally, one would expect investors to flock to established, proven schemes based on strong historical performance. The fact that inflows are heavily skewed toward newer schemes indicates that factors other than performance could be driving investment decisions.

We calculated the AUM-weighted commission expense-to-income ratio for four PMS companies covering ₹38,272 crores (around 10% of total AUM in our analysis) and found that an overwhelming 43% of revenue in these schemes was being paid to distributors as commissions.

CONCLUSION

The findings indicate that PMS schemes may not consistently justify their higher fees, tax inefficiencies and perceived exclusivity when compared to actively managed Flexi Cap MFs. While PMS strategies may outperform broad indices like Nifty 50 TRI and BSE 500 TRI, their edge diminishes when compared to Flexi Cap mutual funds, which similarly engage in active management but with stricter benchmarking and lower costs.



Overall, the data suggests that while PMS may work for certain niche investors, its broader positioning as a superior alternative to mutual funds is not strongly supported when viewed through the lens of long-term returns and cost efficiency.