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A Study on Performance Evaluation of IPO-Based Dynamic Mutual Fund using FIFO Strategy

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ABSTRACT

This study examines the performance of IPO-based dynamic mutual funds managed using the First In, First Out (FIFO) strategy over a period from January 2024 to February 2025. The aim of the study is to assess how FIFO-based portfolio rotation impacts return generation and adaptability in volatile markets, particularly when investing in recently listed IPOs. The study constructs a dynamic mutual fund portfolio comprising IPOs listed on the National Stock Exchange (NSE), systematically applying the FIFO strategy to replace older holdings with newer entries. Through a descriptive research approach utilizing secondary data, key financial indicators such as Net Asset Value (NAV), unit valuation, and total return and the comparative analysis is conducted against major market indices including the Nifty 50, Nifty Midcap 150, Nifty Small cap 250, Nifty Micro cap and Nifty IPO Index. The findings reveal that the IPO Dynamic mutual fund NAV increased from ₹10 to ₹12.69 during the study period, indicating outperformance in growth phases relative to select market indices. The study highlights the potential of the FIFO strategy in enhancing portfolio agility, optimizing returns, and providing structured asset rebalancing. While dynamic funds offer the advantage of flexible allocation, the integration of IPOs using a FIFO approach further amplifies responsiveness to market conditions, offering valuable insights for fund managers and investors in volatile markets.

Keywords: Initial Public Offering (IPO), First In First Out (FIFO)strategy, Performance evaluation, Investment Strategy.

INTRODUCTION

Performance evaluation plays a pivotal role in the field of investment management as it serves as a vital tool to assess, monitor, and improve the efficiency of investment portfolios. In today's dynamic financial environment, investors are increasingly seeking investment avenues that not only offer attractive returns but also balance the associated risks in alignment with their financial goals. One such innovative and evolving investment option is mutual funds, which pool money from multiple investors and invest in a diversified set of securities. Among various categories of mutual funds, dynamic mutual funds have gained attention due to their flexible investment strategies, as they shift their portfolio allocations between equity, debt, and other asset classes are chosen depending on current market conditions, investment opportunities, and risk concerns. This flexibility enables fund managers to actively manage the portfolio and potentially enhance returns while controlling risks.

The performance evaluation of mutual funds involves a systematic assessment of how well a fund has performed over a given period, considering factors such as returns, risk, consistency, and comparison with market benchmarks or similar funds. It also helps in determining whether the fund manager's strategies have added value to the investors' wealth. Performance evaluation not only measures the absolute returns but also adjusts them based on risk factors, thus providing a more realistic and comprehensive analysis of the fund's performance.

In this study, the focus is specifically on dynamic mutual funds linked with Initial Public Offerings (IPOs), an area that has not been widely explored. IPO-based dynamic mutual funds invest in newly listed companies or adjust their portfolios by subscribing to IPOs and shifting holdings accordingly. This strategy can offer significant growth opportunities, as IPOs often carry the potential for substantial short-term returns, but at the same time, they come with inherent risks due to market volatility and the uncertainty are there with newly listed companies.

In this study, we utilize the FIFO (First In, First Out) strategy to manage IPO-based dynamic mutual funds The FIFO strategy states that the first stocks acquired in a fund are the first to be sold when liquidity is required. When a new IPO enters the fund's portfolio, the oldest investments are liquidated to maintain an optimal balance. This method ensures continuous portfolio renewal while capitalizing on emerging market opportunities. The FIFO strategy is particularly beneficial in maintaining the fund's agility, enabling fund managers to replace underperforming stocks with potentially high-yielding IPO investments.

For example, consider a dynamic mutual fund that initially invests in Company A, B, and C. When a new IPO, say Company D, becomes available and the fund manager sees potential growth, the oldest investment, Company A, is sold off to make room for Company D. As new IPOs emerge, the same process continues, ensuring the fund remains dynamic and responsive to market opportunities. This approach allows the fund to capture high-growth potential while systematically eliminating outdated or underperforming investments.

FIFO strategy in IPO-based dynamic mutual funds presents a structured and disciplined investment approach that can enhance portfolio performance and risk management. By ensuring that older stocks are replaced with new market entrants, the fund can stay aligned with evolving economic trends, corporate growth prospects, and investor expectations.

Need of the Study

- The study evaluates the performance of IPO-based mutual funds to understand their risk-return dynamics.
- The study examines the limitations of traditional mutual fund strategies in capturing IPO gains and explores how the FIFO strategy offers a new approach to optimize returns.
- The study provides insights for investors and fund managers to enhance decision- making and profitability.
- The study contributes to the financial industry by improving fund management strategies for IPO-based investments.

Objectives of the Study

- To evaluate the performance of IPO-based dynamic mutual fund using the First in First Out (FIFO) strategy.
- To understand how the FIFO strategy affects the fund's profitability and investment decisions.
- To assess the effectiveness of IPO allocations in enhancing fund performance
- To compare the FIFO strategy with other investment approaches to determine its effectiveness.
- To provide useful insights for investors and fund managers on managing IPO-based mutual funds.

Scope of the Study

- The study evaluates the performance of IPO-based mutual funds using the FIFO strategy, focusing on returns and overall fund efficiency.
- The study compares the fund's performance with market benchmarks like Nifty 50, Nifty IPO Index and relevant mutual fund to assess its effectiveness.
- The study aims to determine the viability of the FIFO strategy in IPO-based mutual funds and its impact on investor decision-making.

Limitation of the Study

- The study acknowledges that the performance of IPO-based mutual funds is influenced by external factors such as market volatility, economic conditions, and regulatory changes, which are beyond its scope.
- The study is limited by the availability of historical data for newly listed companies, which may restrict the depth of analysis and accuracy of results.
- The study focuses on the Indian market, limiting its applicability to other global markets with different regulatory frameworks and market conditions.
- The study evaluates only the FIFO strategy and does not compare it with other dynamic investment approaches that could yield better results.

LITERATURE REVIEW

Manel Kammoun & Habiba MrissaBouden (2025) conducted research on *"Does sustainability affect performance and systematic risk of IPO-focused mutual funds?"*Thisstudy examines the impact of environmental, social, and governance

(ESG) factors on mutual fund performance, particularly for funds investing ininitial public offerings(IPOs).Usingdatafrom 184 U.S. funds between 2015 and 2021, the study finds that ESG commitments negatively influence IPO fund performance but positively affect non-IPO funds. During crisis periods, low ESG-risk funds out perform their high-risk counterparts, indicating that investors demand a higher systematic risk premium for investing in high-ESG-risk funds.

Oskar Vigren & Jacob Åsberg (2024) conducted research on *"A Study on the Influence of Market Volatility on IPOPerformance. "*This study explore show market volatility impacts IPO returns in Sweden from 2019 to 2022, a period encompassing both low- and high-volatility years. The research examines short-term and long-term IPOperformance using a dataset of165 firms for short-term returns and162 for long-term returns. While some yearsshowstatistically significant differences, the study finds no consistent relationship between market volatility and IPOreturns, suggesting that investing inIPOsbasedonvolatilitylevelsdoesnotyieldsuperior results compared to other investment strategies.

Feifan Sun, Chen Yin, Sili Zhou, &Zijing Zhu (2023) conducted research on "IPO Underpricing and Mutual Fund Allocation: New Evidence from Registration Systems." This study examines how mutual fund allocations influence IPO pricing under China's new registration system. The presence of mutual fund bids raises IPO offer prices, leading to lower initial short-term returns and reduced underpricing. Stocks allocated to mutual funds exhibitlower volatility in subsequent weeks. Further analysis highlights that large investor net purchases amplify IPO after-market returns and volatility, with the impact being more pronounced during the COVID-19 pandemic. The study underscores the role of mutual funds in IPO price discovery and in reducing speculative trading behavior.

Siti Suhaila Abdul Rahman &Norliza Che-Yahya (2019) conducted research on "Initial and Long-Term Performance of IPOs: Does Growth Opportunity of Issuing Firm Matter?" This study explores how issuing businesses' development potential affect IPO performance in the short and long run.Analyzing 403 IPOs listed on Bursa Malaysia from 2000 to 2014, the research finds that firms allocating higher IPO proceeds to growth-related activities attract more investors, leading to higher demand and improved aftermarket performance. The study suggests that growth opportunities serve as a critical signal for potential investors, impacting IPO valuation and returns.

Chuan-Yang Hwang, Sheridan Titman, & Yuxi Wang (2018) conducted research on "Is It Who You Know or What You Know? Evidence from IPO Allocations and Mutual Fund Performance." This study examines the role of fund managers' elite university affiliations in securing allocations to underpriced IPOs. The research finds that mutual funds managed by elite graduates outperform their peers, primarily due to their connections with IPO underwriters. The study demonstrates that mutual fund performance surges in months when managers receive IPO allocations, suggesting that network advantages significantly impact fund success**.**

RESEARCH METHODOLOGY

Research Design

This study follows a quantitative research approach, leveraging historical market data to design and evaluate an IPO-based dynamic mutual fund. It incorporates statistical analysis and benchmarking techniques to measure the effectiveness of investing in IPO-based dynamic mutual fund using a FIFO- Strategy. The research utilizes descriptive statistics to assess fund performance. By comparing returns with benchmark indices like Nifty 50, Nifty IPO, and other mutual funds, the study aims to provide insights into returns and market trends. The findings aim to determine whether this IPO-focused mutual fund can outperform conventional market indices and serve as a strategic investment option.

Research Approach

This study adopts a descriptive and analytical research approach to examine the performance of IPO based mutual fund by using FIFO strategy.

DATA COLLECTION METHODS

Secondary Data Collection

Secondary data refers to information already collected and published by others. It includes sources like research papers, journals, company reports, magazines, and other sources**.**For this study, Historical price and return data for selected IPO fromthe financial data bases of NSE.

Time Period of the Study

The study covers the period from 1st January 2024 to 28th February 2025, analyzing the performance trends of IPO-based mutual funds. This timeframe captures market fluctuations, growth phases, and volatility, providing a comprehensive assessment of fund dynamics. The selected period ensures a detailed evaluation of investment patterns and risk-reward characteristics.

Selection Criteria for the Study

This research considers all IPOs listed on the NSE in 2023 and groups them into a portfolio, which is then launched as a New Fund Offer (NFO) on January 1, 2024. Throughout the year 2024 and till February 2025, every newly listed company on the NSE is added to the portfolio using a First In First Out (FIFO) strategy.

TOOL USED FOR DATA ANALYSIS

Mutual Fund Units

$$\textit{Number of Units} = \frac{\textit{Index point on the day / Sum of all the stock price on the day}}{\textit{NAV Per Unit}}$$

Net Asset value (NAV)

$$\textit{NAV per unit} = \frac{\textit{Index point on the day / Sum of all the stock price on the day}}{\textit{Total Number of Units Outstanding}}$$

Total return

$$\textit{Total Return}(\%) = \left(\frac{\textit{Ending NAV} - \textit{Beginning NAV}}{\textit{Beginning NAV}}\right) \times \mathbf{100}$$

DATA ANALYSIS AND INTER PRETATIONS

Table showing the Calculation of Units and NAV Of the IPO Based Dynamic Mutual Fund

Date	Sum Price	Units	NAV	No of Stock
01-Jan-24	26054.4	2605	10.00	47
28-Feb-25	33048.79	2552	12.69	75

The IPO-based dynamic mutual fund exhibited notable NAV volatility, starting at ₹10, dipping to ₹8.11 in March, and steadily rising to ₹12.69 by year-end, reflecting strong recovery and growth potential. The portfolio showed active rebalancing, with stock holdings increasing from 47 to 75, indicating a strategic diversification aligned with emerging IPO opportunities. Periodic NAV declines coincided with broader market corrections, yet the fund's rebound underscores effective risk management. This dynamic approach suggests the fund is well-positioned for long-term investment with promising growth prospects.

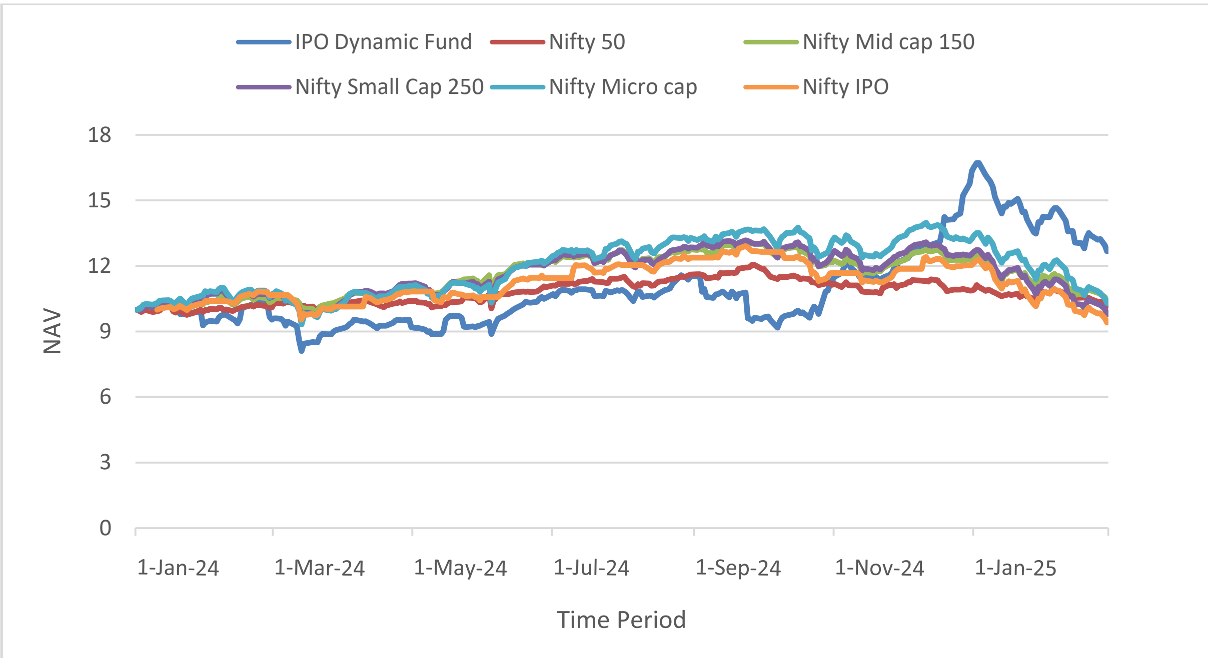
Table showing the Calculation of Units of the Selected Index Funds

Benchmark	Index Point 0n 01-01-20225	Index Point On 28-02-2025	NAV On Starting Date	Units
Nifty50	21,741.90	22,124.70	₹10	2,174.19
NiftyMid-cap 150	17,174.00	17,750.55	₹10	1,717.40
Nifty Small-cap 250	14,129.70	13,844.55	₹10	1,412.97
NiftyMicro cap	18,885.40	19,479.15	₹10	1,888.54
NiftyIPO	1,850.07	1,741.55	₹10	185.01

Table Showing the Comparative Performance Analysis of IPO Dynamic Fund and Selected Index Funds

DATE	IPO Dynamic Fund	Nifty50	Nifty Midcap150	Nifty Small Cap 250	Nifty Micro cap	NiftyIPO
01-Jan-24	10.00	10.00	10.00	10.00	10.00	10.00
28-Feb-25	12.68	10.18	10.34	9.80	10.31	9.41

Chart Showing the Performance of IPO Dynamic fund and Selected Index Funds



As observed from the above table and chart, The IPO Cyclic Fund demonstrated superior performance, rising from ₹10 to a peak of ₹16.31 before closing at ₹12.69, significantly outperforming key market benchmarks. In contrast, indices like the Nifty Midcap 150, Microcap, and Small Cap 250 showed modest or declining trends, with the IPO Index reflecting instability. Despite increased market volatility from late December 2024 to February 2025, the IPO Dynamic Fund maintained higher returns prior to correction, emphasizing its high-risk, high-reward profile. This outperformance underscores the fund's potential for strong gains in IPO-driven investments relative to traditional indices.

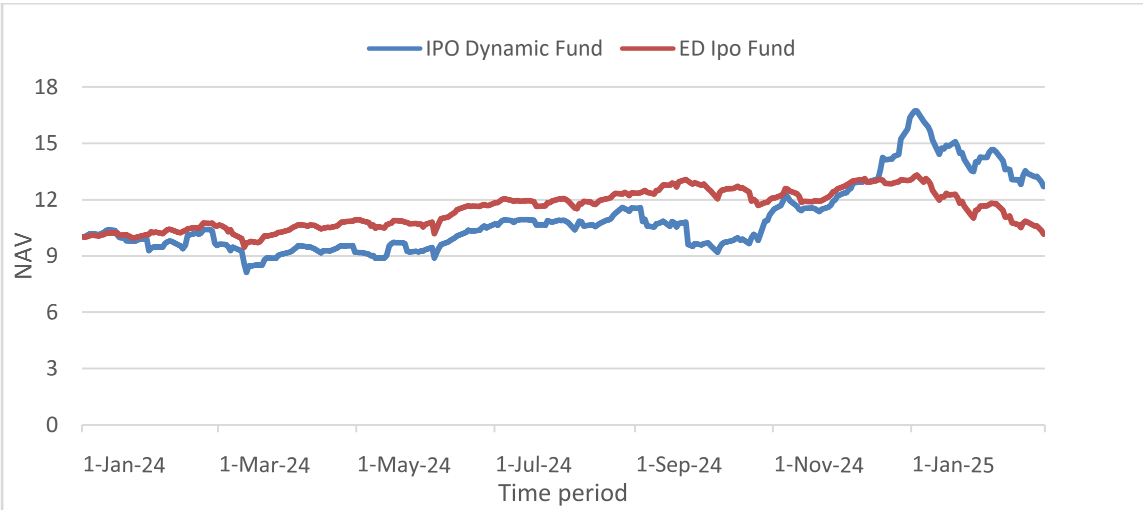
Table showing the Calculation of Units of the IPO Dynamic Fund and Edelweiss IPO Fund

Fund	Index Point/ Sum of All the Stock Price 0n 01-01-20225	IndexPoint/Sumof All the Stock Price On 28-02-2025	NAV On Starting Date	Units
IPO Dynamic Fund	26,054.40	33,048.79	₹10	2605
Edelweiss IPOFund	23.35	23.71	₹10	2.34

Table showing the Comparative Performance Analysis of IPO Dynamic Fund and Edelweiss IPO Fund

Date	IPO Dynamic Fund	Edelweiss IPO Fund
01-Jan-24	10.00	10.00
28-Feb-25	12.68	10.15

Chart showing the Performance of IPO Dynamic fund and Edelweiss IPO Fund

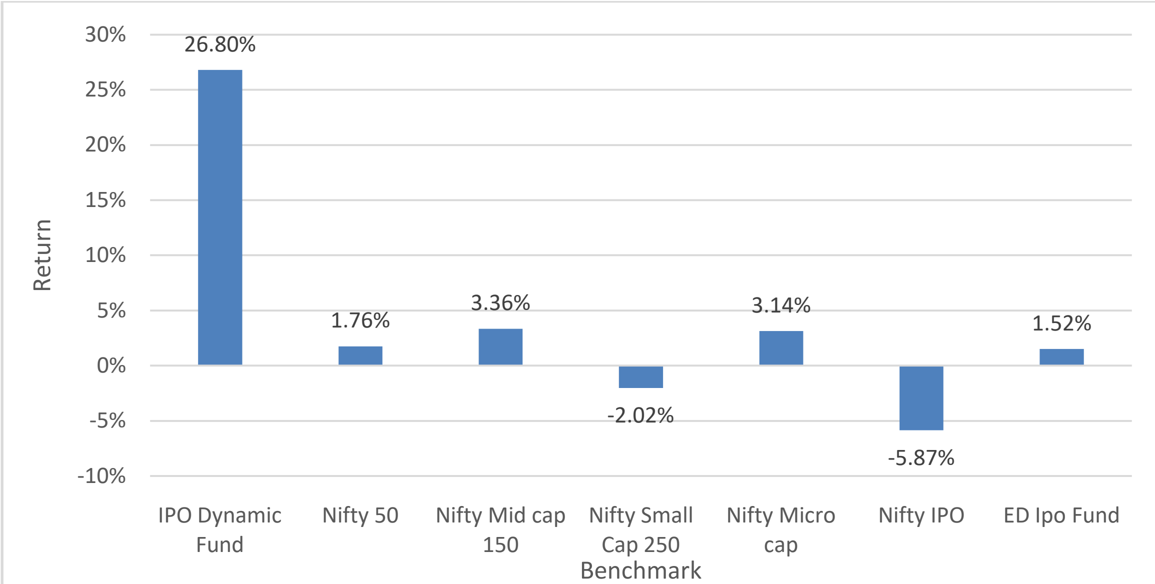


As observed from the above table and chart, The IPO Dynamic Fund showcased a high-volatile and also growth-oriented trajectory, starting at ₹10 and initially tracking the steadier Edelweiss IPO Fund. While the IPO Dynamic Fund declined sharply to ₹8.11 by mid-March, Edelweiss maintained short-term stability. From April onward, the IPO Dynamic Fund rebounded strongly, surpassing Edelweiss and peaking at ₹16.72 in January 2025, compared to Edelweiss's peak of ₹13.31. Despite market-driven corrections between December 2024 and February 2025, the IPO Dynamic Fund ended at ₹12.68 -outperforming Edelweiss's ₹10.15-highlighting its higher risk-reward potential and stronger long-term returns in IPO-based investments.

Table Showing the Performance Measurement of the IPO Dynamic Mutual Fund, Selected Index Funds and Edelweiss IPO Fund

	Nav On 01 Jan 2024	Nav On 28Feb 2025	Investment Amount On 01 Jan 2024	Units	FinalValue	Return Percentage
IPO Dynamic Fund	₹10	₹12.68	₹1,00,000	10,000	₹1,26,800.00	26.80%
Nifty50	₹10	₹10.18	₹1,00,000	10,000	₹1,01,760.66	1.76%
Nifty Mid-cap 150	₹10	₹10.34	₹1,00,000	10,000	₹1,03,357.11	3.36%
Nifty Small Cap250	₹10	₹9.80	₹1,00,000	10,000	₹97,981.91	-2.02%
Nifty Micro cap	₹10	₹10.31	₹1,00,000	10,000	₹1,03,143.96	3.14%
Nifty IPO	₹10	₹9.41	₹1,00,000	10,000	₹94,134.28	-5.87%
EDIPO Fund	₹10	₹10.15	₹1,00,000	10,000	₹1,01,517.05	1.52%

Chart Showing the Performance of the IPO Dynamic Mutual Fund, Selected Index Funds and Edelweiss IPO Fund



From the above table and chart shows, The IPO Dynamic Fund delivered the highest performance among all compared indices, generating an investment value of ₹1,26,800 with a strong return of 26.80%. In contrast, the Nifty IPO Index recorded the weakest outcome, declining to ₹94,134 with a negative return of -5.87%. Traditional benchmarks like Nifty 50, Nifty Midcap 150, and Nifty Microcap showed modest gains ranging from 1.76% to 3.36%, while the Edelweiss IPO Fund offered a minimal return of 1.52%. This analysisunderscores the superior return potential of IPO-based dynamic strategies over conventional market indices.

FINDINGS

- It is found that the comparative performance analysis of IPO Dynamic mutual fund and selected index funds shows that the Nifty 50 index yield rate at 1.76%, while the Nifty IPO index underperformed with a negative return of -5.87%.
- Similarly, the Nifty Midcap 150 delivered a 3.36% return, while the Nifty Small Cap 250 saw a decline of -2.02%, and the Nifty Micro Cap gained 3.14%.
- The Edelweiss IPO Fund had a Net Asset Value (NAV) of ₹10.15 and a return of 1.52%. However, it also experienced periodic declines.
- The IPO Dynamic Fund, which follows the FIFO strategy, generated a strong return of 26.80%, with a NAV of ₹12.68. This fund outperformed the Edelweiss IPO Fund due to its active reallocation strategy, enhancing its profitability.
- In comparison the IPO Dynamic Fund outperformed the Edelweiss IPO Fund by 25.28% in terms of return. While it delivered higher gains than other benchmark.
- The NAV trend analysis showed that the Edelweiss IPO Fund faced declines, reflecting a moderate performance. In contrast, the IPO Dynamic Fund exhibited sharper movements, quickly responding to changing market conditions.
- IPO Dynamic Funds deliver higher returns but come with greater volatility, making them suitable for investors with a high-risk appetite. On the other hand, the Edelweiss IPO Fund experiences fluctuations but follows a moderate growth trajectory.

SUGGESTION

- Investors should assess their risk tolerance before choosing the IPO Dynamic Funds and other funds, as the former provides higher returns but comes with greater volatility.
- It is suggested that the FIFO strategy in IPO Dynamic Funds can be optimized further to capitalize on market trends while reducing downside risks.
- Fund managers should enhance risk management strategies, such as setting predefined exit points in fluctuating market conditions. They can also consider FIFO investment strategies to potentially yield higher returns compared to other

mutual fund investment strategies, thereby enhancing overall performance growth.

- Continuous evaluation of IPO stock entry and exit timing is important to maintain the effectiveness of the reallocation strategy.
- Based on the study it recommends that Investors should adopt a long-term perspective while investing in IPO Mutual Funds to counter balance short-term fluctuations.

CONCLUSION

In today's dynamic financial market, investing in mutual funds is a popular way to achieve financial growth while managing risks through diversification. Among various mutual fund types, dynamic mutual funds are gaining attention for their flexible investment strategies, adjusting based on market trends. This study evaluated the performance of an IPO-based Dynamic Mutual Fund managed using the FIFO (First In First Out) strategy. The results showed that the fund achieved a return of 26.80%, outperforming the Edelweiss IPO Fund and major indices like Nifty 50, Nifty Midcap 150, and the Nifty IPO Index. The FIFO strategy allowed the fund to actively replace older stocks with new IPOs, allowing it to respond quickly to market opportunities and that can increase its agility and profitability. Although it involved higher volatility, the fund demonstrated better growth potential compared to other mutual funds and these are suitable for investors with a higher risk appetite. The study concludes that IPO-based Dynamic Mutual Funds using the FIFO approach can be a smart and effective option for maximizing returns, provided investors are prepared for market fluctuations and adopt a long-term perspective.

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