



A Comparative Analysis of Mutual Fund Fee Structure, Investor Cost and Returns of Selected Mutual Fund Schemes

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Abstract

Every rupee a scheme spends on expenses is a rupee that does not reach the investor, which makes cost an important driver of what investors actually earn. This study compares the fee structure, investor cost and returns of selected set of mutual fund schemes, observing how direct and regular plans differ. The study considers indicators such as total expense ratio, compound annual growth rate CAGR over 1-year, 3-year, and 5-year periods. The sample spans equity, hybrid, index, debt and ELSS categories and pairs direct and regular plans respectively. TER link grows stronger for 3-year CAGR ($R^2 = 0.0954$) and 5-year CAGR ($R^2 = 0.1563$).

Keywords: *Mutual Funds; Total Expense Ratio; Direct Plan; Regular Plan.*

1. Introduction

In the recent past, mutual funds have transformed ordinary savers reach the stock and bond markets. A mutual fund pools money from many investors and hands it to a professional fund manager, who spreads it across shares, bonds and other securities according to the scheme's stated objective. A person with a modest monthly sum holds a diversified portfolio that would be hard to build alone. This convenience is the reason for the product's popularity, but it comes with a price that investors do not always take note of. Running a scheme involves fund management, record keeping, custody, audit, marketing and, commission paid to the distributor who sold the scheme. These costs are not billed to the investor separately. They are

deducted from the scheme's assets on a daily basis, as a small percentage of net assets, and the Net Asset Value (NAV) that the investor sees is after this deduction. The same charge is applied every year, on the whole corpus, whether the market has gone up or down, and over long holding periods the accumulated effect on final wealth are considered.

Direct plans were introduced on 1st January 2013. An investor who bought a scheme paid the same expense ratio, which included a built-in distribution commission, whether any advice had been received. Direct plans removed that commission, so the same portfolio, run by the same manager, now exists in two versions that differ only in cost. The Direct plan carries the lower expense ratio, while the regular plan carries the higher one because distribution expenses are embedded in it. This pairing provides a clean context for examining cost as the underlying holdings are identical and the difference in outcome can be attributed to the fee. The regulatory environment in relation to these costs has also been shifting. The Securities and Exchange Board of India (SEBI) approved the SEBI (Mutual Funds) Regulations, 2026 in December 2025 to replace the 1996 regulations, and the revised expense framework came into force from 1 April 2026. Under it, the total expense ratio is described as the sum of a base expense ratio, permitted brokerage, and regulatory and



statutory levies, so that investors see what part of the charge pays for management and what part goes to markets and taxes. Such changes alter the cost that investors face and deserve to be evaluated with actual scheme data.

Indian investors buy funds making the cost question pressing. Many of them invest through Systematic Investment Plan (SIP), putting in a fixed amount every month for years. Each instalment buys units that then stay in the scheme and bear the daily expense for as long as they are held, so the earliest instalments carry the charge for the longest time. An investor who continues a SIP for ten or fifteen years is exposed to the expense ratio for a large part of that period, even though the figure may never be looked at again after the first month. Many first-time investors enter through a bank relationship manager or an online platform, and it is not always obvious whether they have been placed in a regular or a direct plan. For such investors the difference is to overlook and to measure unless they go looking for it. This lack of visibility is the reason why a study that observes cost and awareness together. When investors compare schemes, they start with past returns and look at risk, category and the objective of the fund. Cost is one of the few elements of an investment that is known in advance, while returns and risk can be estimated. A low expense ratio does not guarantee a better outcome, but it does leave more of whatever the market delivers in the investor's hands. A higher expense ratio does not automatically mean poorer returns, since fund categories differ widely. An index fund that follows the Nifty 50 and a small cap fund that depends on active stock selection cannot be expected to cost the same. This study compares selected mutual fund schemes. Fifteen scheme-plan combinations drawn from equity, hybrid, index, and debt and ELSS categories are studied, with direct and regular plans paired where both are available. Total expense ratio is taken as the measure of cost and compound annual growth rate over one, three and five years as the measure of return. The study compares the cost of direct and regular plans, then tests how cost and returns move together using correlation and R^2 , and uses a ranking framework to bring cost and return into a single view.

2. Background and Motivation

2.1 The Indian Mutual Fund Setting

Mutual funds in India are set up as trusts, managed by an Asset Management Company (AMC) and supervised by SEBI. Each scheme belongs to a category defined by its investment mandate, such as large cap equity, flexi cap, index, hybrid, debt or tax-saving ELSS. The category shapes both the style of management and the level of cost. Passive index funds, follow a benchmark without active stock selection, are cheaper to run than actively managed mid cap or small cap funds that rely on research and frequent portfolio decisions. Debt funds and equity funds differ in how much expense they can reasonably bear, given that their expected returns are of different sizes. Investors reach these schemes through two routes. In the first, they approach the AMC, or a platform that only transacts in direct plans, and invest without an intermediary. In the second, they invest through a distributor, bank or adviser, and the scheme is bought in its Regular plan. The two plans of a scheme share one portfolio but keep separate NAVs, because the daily expense charged to each is different.

2.2 Components of Investor Cost

The components of a mutual fund investment cost have multiple facets. The expense ratio incorporates management, administrative, and, for regular plans, distribution costs. Schemes impose an exit load for redemptions made in a set period, and investors in certain categories of schemes incur taxes. Transaction costs within the portfolio, such as brokerage and statutory levies on trades, also detract. Following the 2026 regulations, these items are reported more separately, with the total expense ratio revealed as the sum of the base expense ratio, brokerage and regulatory and statutory levies. This study employs the TER as reported for each scheme and plan, as it is the single figure that investors view and compare.



Table 1: Comparison between Direct Plans and Regular Plans of Mutual Funds

Aspect	Direct Plan	Regular Plan
Route of Investment	Through the AMC or a direct-only investment platform	Through a distributor, bank, or investment adviser
Distribution Commission	Not included in the expense ratio	Included in the expense ratio
Expense Ratio (TER)	Lower	Higher
Portfolio	Same as the regular plan of the scheme	Same as the direct plan of the scheme
Net Asset Value (NAV)	Separate NAV, which may benefit from lower daily expenses.	Separate NAV, which reflects the higher daily expenses.
Advice and Service	The investor independently makes investment decisions and monitors the investment.	The distributor may provide investment guidance and related services.

Source: Compiled from various sources from SEBI and AMF

2.3 Regulatory Context

SEBI has set limits on the expenses that a scheme can charge, which decreases as the size of assets increases. The SEBI (Mutual Funds) Regulations, 2026, approved by the SEBI Board on 17 December 2025, replace the Regulations of 1996 and restructure this framework. The ceiling is expressed as a base expense ratio that excludes statutory levies, while brokerage and levies on trades are charged on actuals within specified limits. Brokerage caps were reduced, and the regulator indicated that average charges are expected to decrease. As a result, the figures that investors will see after April 2026 are not strictly of the same nature as those previously seen, and this must be borne in mind when reading any comparison across time.

2.4 Motivation for the Study

This study arises out of a practical need to evaluate costs against returns. In direct and regular plans, different expense structures come into play that have changed the picture of what an investor would have paid over a long period of time. The analysis tries to find if increasing or lowering expenses correlates with historical returns of selected schemes. Equity, hybrid, index, debt and ELSS schemes are included in the selection to get a wide perspective at the scheme level. It is not necessary that all discrepancies are due to charges.

3. Literature Review

There is a broad literature on the costs of mutual funds categorized into a few strands. One of the strands compares the characteristics of direct and regular plans and asks how big the cost advantage of the direct route. The second strand considers whether low expense funds perform better. The third strand examines the Indian investor behaviour and the persistence of performance after expenses. The final strand takes a long-term view and aligns how small recurring costs accumulate to make large differences in wealth.

3.1 Direct and Regular Plan Comparisons

Barik and Viswanath (2021) examined 61 equity schemes in India over 1, 3 and 5 years and found that direct plans had lower expense ratios, with an asset-weighted mean difference of about 0.94% during 2018–19. Jain and Goswami (2026) covered 2015–2025 and reported higher returns and better risk-adjusted performance for Direct plans using Sharpe, Treynor and Jensen's Alpha. Matha Pathi and Chidananda (2026) used CRISIL data on liquid funds and reported higher direct-plan returns over several horizons, suggesting that the cost gap is visible even in a low-risk category. Bubalos et al., (2009) examined Greek equity funds and found performance to be negatively related to expenses, while investor flows were not directly affected.



3.2 Indian Investor Behaviour and Performance Persistence

Singh *et al.* (2021) used regression on 144 Indian open-ended equity and balanced regular funds, covering 2014–2018, and found that fund flows were related to recent performance, with expense ratio and other fund characteristics also examined. This shows that investor decisions rest on multiple factors and are not driven by cost alone. N. R. *et al.* (2019) looked at 263 actively managed Indian equity funds and examined whether performance persisted after controlling for expenses and other factors. The finding that the expense ratio is only one of several performance factors is important for the present study, as it warns against over-interpreting any single cost-return relationship.

3.3 Long-term Effect of Costs

Singh (2026) analysed the long-term effect of fees and transaction costs on investor wealth and reported an inverse relationship between fees and net returns, along with a compounding effect. The conclusion that small recurring costs can affect long-term wealth explains why even a gap of a few tenths of a percentage point between direct and regular plans is worthy of attention. Taken together, the studies reviewed indicate a consistent direction of evidence in one question and a mixed direction in another. In terms of the question about whether costs reduce what investors hold. In terms of the question about whether higher-cost funds deliver worse gross performance, the evidence is conditional on fund type, period and market, hence it is not possible to reduce this to a single rule. Expenses charged to a scheme reduce the net returns to investors. Direct Plans typically cost less than Regular Plans. Earlier studies have largely focused on expense ratios, returns and comparisons between Direct and Regular. Few of the examined studies address expense implications across different styles of mutual funds schemes.

Table 2: Literature Review Synthesis

No.	Author / Year	Research Focus	Method	Key Finding	Conclusion	Limitation	Critical Appraisal
1	Barik & Viswanath (2021)	Direct vs Regular expense ratios	Secondary data; 61 equity schemes; 1, 3 and 5 years	Direct plans had lower expense ratios; asset-weighted mean difference about 0.94% during 2018–19.	Lower costs create a potential cost advantage.	Earlier period; selected equity schemes.	Highly relevant to plan-level cost comparison.
2	Singh <i>et al.</i> (2021)	Fund flows, performance, risk and expense ratio	Regression; 144 Indian open-ended equity regular funds	Flows related to recent performance; expense ratio and other characteristics also examined.	Investor decisions reflect multiple fund characteristics.	Regular plans; 2014–2018.	Useful for investor-behaviour context.
3	Deb (2019)	Performance persistence after expenses	263 actively managed Indian equity funds	Performance persistence examined after controlling for expenses and other factors.	Expense ratio is one of several performance factors.	Focused on actively managed equity funds.	Supports controlling for fund characteristics.
4	Babalos <i>et al.</i> , (2009)	Expense policies, performance and flows	Empirical analysis of Greek equity funds	Performance negatively related to expenses; flows were not directly affected.	Cost-performance and investor-flow effects differ.	Greek market.	Provides international evidence.
5	Jain & Goswami (2026)	Direct vs Regular risk-adjusted performance	2015–2025; returns, Sharpe, Treynor, Jensen's Alpha	Reported higher returns and risk-adjusted performance for Direct Plans.	Lower expenses contribute to improved returns when strategies are comparable.	Selected equity funds; not entire fee framework.	Not an independent test of the 2026 framework.



No.	Author / Year	Research Focus	Method	Key Finding	Conclusion	Limitation	Critical Appraisal
6	Mathapathi & Chidananda (2026)	Direct vs Regular liquid funds	CRISIL data; descriptive statistics and paired tests	Reported higher Direct-plan returns over several horizons.	Plan-level cost differences associated with returns.	Liquid funds and specific period.	Broader categories are needed.
7	Singh (2026)	Long-term effect of fees and transaction costs	Long-term cost/wealth analysis	Reported inverse fee-net return relationship and compounding effect.	Small recurring costs can affect long-term wealth.	Depends on assumptions.	Supports scheme-level empirical testing.

Table 3: Thematic summary of the reviewed literature

Theme	Studies	Broad direction of evidence
Direct vs Regular cost gap	[Barik & Viswanath (2021); Jain & Goswami (2026); Mathapathi & Chidananda (2026)]	Direct plans carry lower expense ratios and are reported to show higher returns or efficiency, including in equity and liquid funds.
Expenses and fund performance	Hooks (1996); Babalos et al. (2009); Downen & Lynch (2004)	Higher expenses are linked with weaker performance in several markets, but the relationship varies by fund type.
Investor behaviour and persistence	Singh et al. (2021); Deb (2019)	Flows follow recent performance; expense ratio is one of several factors that matter and should be controlled for.
Long-term wealth effect	Singh (2026)	Small recurring costs compound into a meaningful difference in long-term wealth.

.Source: Compilation from various sources.

Several observations arise from reading these studies together. Firstly, much of the work on Direct and Regular plans is confined to a particular category, either equity or liquid funds, and hence may not be generalizable to hybrid, index, debt or tax-saving schemes. Secondly, the international studies are useful in establishing the relevance of expenses, but their regulatory regimes and investor populations vary from India. Thirdly, the more recent Indian studies report an advantage for direct plans, but none is presented as an independent test of the 2026 fee framework. Finally, even the studies that report a negative relationship between cost and performance caution that other fund characteristics should be considered, so any simplistic relationship between TER and returns should be read with care. There is gap linking mutual fund fee differences to scheme-level cost and return measures across categories, while taking investor awareness and fund selection into account. This study addresses this research gap by considering direct and regular plans of several categories in one sample, so that cost differences are appreciated across types of funds. It looks at the association between TER and CAGR across three horizons instead of one period.



The analysis is framed around the following questions:

1. How do mutual fund fee differences affect the cost borne by investors?
2. What relationship are observed between costs and investor returns across schemes?
3. How aware are investors of mutual fund fees and their impact?

The first question is answered by comparing the total expense ratio of direct and regular plans. The second is addressed by the correlation and R^2 analysis of TER against CAGR, with scheme-wise rankings.

Aim and Objectives

1. To investigate the effect of fee structures of mutual funds on the cost of investors and returns.
2. To investigate the cost structure of selected mutual fund schemes under the revised SEBI fee regime.
3. To compare the differences in cost and returns between direct and regular plans of selected mutual fund schemes.
4. To investigate the relationship between mutual funds' expenses and returns.

Scope of the Study

The scope of this study is limited and clearly defined, covering a selected set of schemes. It covers selected mutual fund schemes of major categories including direct and regular plans where comparable, considering cost-related measures and historical returns. Findings are specific to the selected schemes, study period and respondents. The study does not rank fund managers, forecast returns or recommend any scheme. It covers the cost and return characteristics of the selected schemes and their implications for understanding fees.

4. Methodology

Research Design

This study followed a descriptive and comparative research design. Scheme-level total expense ratio data and NAV-based historical returns were compiled for the selected schemes, with a focus on the CAGR as the return measure over 1-year, 3-year and 5-year periods. Direct and Regular plans were compared wherever a like-for-like pair existed, and a correlation and R^2 analysis was performed to test the association between TER and CAGR. It is suitable for the problem since the aim is to describe and compare the observed cost and return characteristics, rather than to build a forecasting model. The comparison between paired plans is useful as the portfolio inside each pair is the same, so the cost difference stands out. The relationship is applied across the whole sample to see if higher expense goes together with higher or lower return.

Two kinds of data were used. Secondary data consisted of the total expense ratio and the historical NAV of each selected scheme and plan, taken from official scheme documents, SEBI and AMFI materials. The cost measure is the total expense ratio expressed as a percentage of average net assets. The return measure is the compound annual growth rate which converts the change in NAV over a period of time into an equivalent annual rate:

$$\text{CAGR} = (\text{Ending NAV} \div \text{Beginning NAV})^{(1/n)} - 1$$

where n is the number of years in the period (1, 3 or 5). The linear association between TER and CAGR is measured by the correlation coefficient (r) and the share of variation in CAGR associated with TER is measured by the coefficient of determination (R^2), equal to r squared. An R^2 close to zero implies that TER explains very little of the variation in returns, while the higher R^2 implies a higher share is associated with it. A positive r indicates that schemes with higher TER also tended to show higher CAGR while a negative r would indicate the opposite.

To bring together cost and return into a view, each scheme was ranked on TER and on 1-year, 3-year and 5-year CAGR and these ranks were then combined into an overall rank. The framework is intended for comparison and interpretation and is not a rating of fund quality and does not account for risk, and so it is read in combination with the other results and not in place of them. Fifteen scheme-plan combinations were selected, representing eight schemes across equity, hybrid, index, debt and ELSS categories. Seven of the schemes are included in their direct and regular plans, which allows for a like-for-like comparison, while the SBI ELSS Tax Saver Fund is included in its direct plan. The schemes were selected to represent a spectrum of expected cost and risk, from a passive index fund to a small cap fund, so that the relationship between cost and return could be observed across a broad range.



Table 5: Selected mutual fund schemes

No.	Mutual Fund Scheme	Category	Plan
1	SBI Large Cap Fund	Equity – Large cap	Direct
2	SBI Large Cap Fund	Equity – Large cap	Regular
3	Parag Parikh Flexi Cap Fund	Equity – Flexi cap	Direct
4	Parag Parikh Flexi Cap Fund	Equity – Flexi cap	Regular
5	HDFC Mid Cap Fund	Equity – Mid cap	Direct
6	HDFC Mid Cap Fund	Equity – Mid cap	Regular
7	Nippon India Small Cap Fund	Equity – Small cap	Direct
8	Nippon India Small Cap Fund	Equity – Small cap	Regular
9	HDFC Nifty 50 Index Fund	Index	Direct
10	HDFC Nifty 50 Index Fund	Index	Regular
11	HDFC Balanced Advantage Fund	Hybrid	Direct
12	HDFC Balanced Advantage Fund	Hybrid	Regular
13	HDFC Corporate Bond Fund	Debt	Direct
14	HDFC Corporate Bond Fund	Debt	Regular
15	SBI ELSS Tax Saver Fund	ELSS (tax saving)	Direct

Sources used for compiling this information, as referenced by the author, are as follows:

- Documents related to mutual fund regulations and investor guidelines issued by SEBI.
- Resources related to industry research and investor education provided by the Association of Mutual Funds in India (AMFI).
- Instructions and guidelines provided by the concerned Asset Management Companies for the schemes chosen for the spreadsheet. Historical data on NAV and Total Expense Ratio used for the spreadsheet calculations.
- Cost measure: Total Expense Ratio (TER).
- Return measure: CAGR for 1-year, 3-year and 5-year periods.
- Statistical measures: correlation coefficient and coefficient of determination (R^2).
- Ranking measures: TER rank, CAGR ranks and overall rank.
- Using official scheme documents and regulator or industry-body material keeps the data traceable and reduces the chance of errors that can arise from third-party summaries. The NAV and TER figures were organised in a spreadsheet, where the CAGR, correlation and R^2 calculations were carried out.

5. Results and Discussion

Objective 1 – Cost Comparison

This section compares the total expense ratio of Direct and regular plans for the selected schemes. In the comparison, regular plan had a higher TER than its direct counterpart.

Table 6: TER difference between Regular and Direct plans

Scheme	TER Difference	Observed Comparison
SBI Large Cap Fund	Approximately 0.43 percentage points	Regular higher than Direct
HDFC Mid Cap Fund	0.52 percentage points	Regular higher than Direct
Nippon India Small Cap Fund	Approximately 0.23 percentage points	Regular higher than Direct



Source: Author's analysis of scheme-level TER data.

Among the three highlighted comparisons, HDFC Mid Cap Fund had the widest TER gap and Nippon India Small Cap Fund the narrowest. This pattern shows that the choice of plan change the ongoing expense an investor bears. TER is one part of the investment decision, and should be read together with return, risk, fund objective and other scheme characteristics. A gap of 0.2 to 0.5 percentage points look small in a single year. Its importance lies in repetition, since the same deduction is made every year on the full value of the holding. Table 7 shows illustration in which a lump sum of ₹1,00,000 is invested for 5, 10 and 15 years. The direct plan is assumed to earn 12% a year, and the regular plan of the same scheme is assumed to earn the same less the TER gap. The 12% rate is an assumption chosen to show the arithmetic.

Table 7: Illustrative cost of the TER gap on ₹1,00,000 (assumed 12% a year for the direct plan)

TER gap (percentage points)	After 5 years	After 10 years	After 15 years
0.23 (as in Nippon India Small Cap)	₹1,802	₹6,319	₹16,620
0.43 (as in SBI Large Cap)	₹3,357	₹11,720	₹30,689
0.52 (as in HDFC Mid Cap)	₹4,053	₹14,122	₹36,905

Note: The figure shows the shortfall of the regular plan against the direct plan. At the assumed rate the direct plan grows to ₹1,76,234, ₹3,10,585 and ₹5,47,357 respectively.

Even on these simple assumptions, the shortfall for a 0.52 point gap grows to more than ₹36,000 on a ₹1,00,000 investment over fifteen years. The reason is that the shortfall is not only the fees paid each year, but also the growth that the money paid as fees would have earned. This is the compounding effect that the long-term cost literature describes.

Objective 2 – Relationship between Fees/Costs and Returns

Table 8: Correlation and R² between TER and CAGR

Cost–Return Relationship	Correlation (r)	R ²	Variance Explained	Interpretation
TER vs 1-Year CAGR	0.0353	0.0012	0.12%	Very weak positive relationship
TER vs 3-Year CAGR	0.3095	0.0954	9.54%	Weak-to-moderate positive relationship
TER vs 5-Year CAGR	0.3950	0.1563	15.63%	Moderate positive relationship

Source: Author's calculation.

For 1-year CAGR, the link with TER is almost negligible: an R² of 0.0012 means only about 0.12% of the variation in 1-year CAGR is associated with TER in this sample. The R² rises to 0.0954 for 3-year CAGR, or 9.54% of the variation, and to 0.1563 for 5-year CAGR, or 15.63%. In this sample, then, the association is stronger over longer horizons, yet TER alone still falls well short of explaining fund returns. The three coefficients are positive which indicates that schemes with a higher TER tended to have a slightly higher CAGR particularly for longer time horizons. Small cap and mid cap equity schemes have higher expense ratios and recorded in the periods studied a higher growth than an index fund or a corporate bond fund which are cheaper to run and expected to grow slower. The study does not control for category which reflects part of this positive association in the analysis. The matched direct-regular comparison for the first objective is a cleaner one as the portfolio is identical within the pair differing only in terms of the costs. Returns will also depend on the market conditions, the composition of the portfolio, the investment strategy and the fund category.



Objective 3 – Investor Implications and Mutual Fund Selection

Table 9: Ranking framework used for scheme comparison

Analysis Measure	Purpose
TER Rank	Identifies the relative cost position of each selected scheme.
1-Year CAGR Rank	Compares short-term historical return performance.
3-Year CAGR Rank	Compares medium-term historical return performance.
5-Year CAGR Rank	Compares longer-term historical return performance.
Overall Rank	Combines the selected cost and return ranking measures.
Investor Implication	Indicates the relative cost-return profile for interpretation.

Source: Author's compilation.

The ranking framework provides a numeric basis on which to compare the selected schemes on the twin dimensions of expense and historical returns. It suggests that an investor considers expense and historical returns together. With respect to the direct versus regular comparisons, the observed TER differentials provide the rationale for the plan-level cost in comparisons between similar schemes. The rankings should not be seen as prescriptive with respect to choosing one scheme over another but rather as a basis for an investor to consider their own objectives, risk tolerance, investment horizon and the other attributes of the scheme. The relationship analysis suggests that the TER accounts for differences in returns, and that what it does account for is likely to reflect category differences. The ranking framework illustrates how cost and return can be taken together. Taken together, the evidence is not supportive of a cost-based criterion.

6. Findings and Contributions

Key Findings

Direct and regular plans differ in their expense structures, so plan-level cost matters when analysing investor outcomes. In the selected comparisons, regular plans carry a higher TER than their direct counterparts. The link between TER and CAGR changes with the investment horizon in the selected data. The R^2 results show that TER alone cannot explain mutual fund returns. The study offers structured cost-return framework for comparing the selected schemes. Cost, return, risk, investment objective and investor awareness need to be considered together.

Table 10: Findings by objectives

Objective	Main findings
1. Cost comparison	The standard plans had a substantially higher TER than direct plans in the schemes under comparison; the difference was largest for the HDFC Mid Cap Fund (0.52 p.) and smallest for the Nippon India Small Cap Fund (about 0.23 p.).
2. Fee-return relationship	R^2 was 0.0012, 0.0954 and 0.1563 for 1-, 3- and 5-year CAGR; the association strengthens with the horizon, but TER alone does not explain returns.
3. Investor implications	Cost and return should be examined together, and plan choice and investor awareness matter for the cost actually borne.

The study makes three modest contributions. It puts direct and regular plans of several categories in a single sample rather than limiting itself to equity or liquid funds. It reports the TER–CAGR association over three horizons, which shows that the strength of the relationship is not constant. And it links these scheme-level numbers to the practical question of what investors know about the fees they pay.



Implications

For investor: Investors can check which plan (and thus TER) they hold and compare it with the direct plan of the same scheme. An investor who is comfortable selecting and monitoring funds on their own may find that the direct plan is cheaper for the same portfolio. An investor who values guidance may reasonably choose to pay for it, but should do so with eyes open to the magnitude of the cost. Expense ratio should be read along with category, risk and objective, and not used as the sole filter. For advisers and distributors: The results suggest that clear articulation of what the extra cost of the regular plan entails would aid client decision-making, as client disclosure becomes more granular under the revised framework. For regulators and fund houses: The finding that cost and return are only loosely related underlines the importance of disclosure to enable comparison, so that investors understand the components of the cost they incur and the differences across schemes.

7. Conclusion

This study examined the mutual fund fee structure, investor cost and historical returns across a selected set of schemes. Comparison of direct and regular plans highlights the fact that the difference in TER translates into differences in the ongoing cost that investors have to bear. The correlation and R^2 results show a very weak association between TER and CAGR for 1-year returns, a stronger one for 3 and 5-year periods, and still not enough to explain the overall variation in returns. The findings thus support a cautious approach when examining both cost and return. Investors assessing a scheme should examine its expense structure alongside historical performance, risk, investment objective, portfolio characteristics and the type of plan opted for. The broader lesson is a balanced one. Cost is one of the few things about an investment that can be known in advance, and the arithmetic of compounding means that it deserves attention. A low expense ratio is not a guarantee of good returns, and a high one is not by itself a reason to reject a fund.

8. Limitations and Future Research

The results of this research are applicable only to the analysed schemes and the period under investigation. The performance of a fund depends not only on the expenses of the fund but also on the accompanying market conditions and the decisions of its custodians. The sample used in this study may not be entirely representative of the mutual fund industry in India. The analysis of the relationship between TER and CAGR does not isolate the impact of other variables, including the category of funds, their risk level, or size. Further research on a more significant data set that covers a more extended period is needed. Future studies should consider applying more complex econometric techniques to the analysis of mutual funds to understand how regulatory adjustments and investor behaviour influence markets in the long run.

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