

Formula for calculating Information Ratio

The formula for calculating the Information Ratio is:

$$\text{Information Ratio (IR)} = (\text{Portfolio Return} - \text{Benchmark Return}) / \text{Standard Deviation of Excess Return}$$

Here is what each component of the formula represents:

Portfolio Return: The annualized return generated by the fund/portfolio during a particular period, usually expressed in percentage terms.

Benchmark Return: The annualized return of a comparable index (e.g., NIFTY 50, BSE 30), also measured in percentage terms.

Standard Deviation of Excess Return: Measures how much a funds return deviate from its benchmarks return over time.