Aditya Birla Sun Life Mutual Fund

MARKET MASTERY

Insights from portfolio managers from their decades of experience

They say the road to success is always under construction. Portfolio management at its core is a journey of constant learning. The nature of the market ecosystem is such, that it is driven by various tangible and intangible factors. As an industry that is constantly evolving, mistakes are as much part of that journey. However, they serve as crucial lessons for improvement in future decision-making and development as a practitioner. More importantly, turning them into learnings is the key aspect of evolving as a portfolio manager and provides valuable insights that help refine strategies and improve decision-making.

Over three decades, we have encountered triumphs and trials that have shaped and continue to shape our approach to investing.

As portfolio managers, our evolution is influenced by the lessons we learn - both from successes and setbacks. By continuously refining our strategies, emphasising on quality, and maintaining discipline, we strive to build portfolios that deliver sustainable returns over the long term.

Below, several experienced portfolio managers share their insights - lessons learnt as practitioners – from both their highs and lows and finetuning their investment approach and thought process over time. Some recurring themes here are that of stock selection, overcoming biases, evaluating businesses, portfolio sizing and navigating market dynamics.

Harish Krishnan

Co-CIO & Head - Equity

Fresh out of B-School as a new practitioner, I was eager to apply the techniques I learnt - focus was on projecting P&L statement, slapping some PE multiple on 1 or 2-year forward EPS. But an investment framework is not one magic formula. It is like a device one builds, you adjust a lever here, you add a feature there, refining the design and mechanics along the way.

Balance Sheet Matters More Than P&L

Early on in my career, an industry mentor (my then employer and one of the best risk managers and a leading banker) taught me that P&L projections are of no use - the true value of a business lies in its balance sheet and cash flows - liquidity is the lifeblood of any business. Thus, focusing on the balance sheet and cash flow statements is far more important than focusing on the income statement.

Importance of a Disciplined Selling Framework

As a probabilistic endeavour, mistakes of commission are inevitable. However, identifying and exiting the unsuitable investment quickly, while letting the winners in the portfolio run, improves long-term results and overall investment experience. Having a disciplined selling framework is just as crucial as a buying framework.

Portfolio Construction is an Art

Initially, the focus was to identify multibaggers and provide value using stock selection. Over time I have realised that portfolio construction is an art, much beyond stock selection. Portfolio management involves prudence, discipline, and the ability to weather market storms. Focussing on the investor experience is as critical as the pursuit of returns.

Using Models to Counter Biases

There are actual people behind fund management, so it is extremely difficult to be completely dispassionate about investing. Biases, common for any other human being, can also influence portfolio managers. This is where leveraging models and frameworks help in maintaining objectivity, assessing risks, and understanding the probabilistic nature of markets. I invariably fall back to it as an overall guide to my investing framework.

> Harish Krishnan has as an experience of nearly 20 years in the Asset Management industry, both domestically and internationally. Prior to joining Aditya Birla Sun Life AMC Ltd as the Co-CIO and Head Equity, he was associated with Kotak Mutual Fund for more than 10 years as Senior Fund Manager - Equity. He has also worked at Kotak Mahindra (UK) Limited where he managed offshore funds based out of Singapore and Dubai.

Abhinav Khandelwal

Senior Fund Manager

Value Unlocking is Key

Simply buying an undervalued stock doesn't guarantee returns. The critical factor is identifying the catalyst that will unlock that value within your investment horizon.

Don't Exit Winners Prematurely

Exiting a stock just because it has become expensive - or avoiding it because it has run up significantly in the past - can lead to missed opportunities - opportunity cost which is very difficult to quantify. Markets tend to give significant premium and reward companies whose management consistently walk the talk, delivering on promises. As long as growth continues, it's better to stay invested.

Focus on Catalysts, Not Just Projections

A portfolio manager's role extends beyond forecasting earnings. It's about identifying factors that will drive re-rating or de-rating in valuations.

Balanced Portfolios for Unpredictable Markets

Markets are inherently unpredictable. A portfolio with a healthy mix of growth and value stocks often performs better than one skewed towards either of the extremes.

Avoid Balance Sheet Risks

Steering clear of companies with weak balance sheets can help prevent most major mistakes of commission.

Abhinav Khandelwal has overall experience of more than 15 years in the Equity Markets. Before joining Aditya Birla Sun Life AMC Limited, he worked with Mahindra Manulife Mutual Fund as Equity Fund Manager. He has also worked with Canara Robeco Asset Management Company Limited as Equity Fund Manager - offshore for India dedicated mandates.

Vishal Gajwani

Fund Manager

Starting with Valuation is a Flawed Approach

Beginning with a "value/valuation" lens often leads to stocks with structural issues. While these stocks occasionally reach fair value, their long-term returns are typically suboptimal.

Fallen Angels Could Offer Better Opportunities

An alternate approach that has been helpful in picking multibaggers has been that of identifying high-quality stocks (e.g., high ROCE) with large untapped opportunity, facing temporary setbacks—what I call "fallen angels." Examples include a leading FMCG brand that was embroiled in controversy over the quality of one of its popular products and another jewellery company, part of a leading conglomerate, that faced headwinds amid gold import duty challenges. Both of these scenarios presented compelling buying opportunities.

Vishal Gajwani has over 19 years of experience in equity research and portfolio management. He has extensive experience of managing equity portfolios across investment cycles. He has been part of Aditya Birla Sun Life AMC Ltd. for over a decade as portfolio manager. He has also held the role of Head – Alternate Investments (Equity). Before this, he was part of Reliance Capital.

Chanchal Khandelwal

Fund Manager and Senior Analyst

The Art of Portfolio Sizing

One of the critical aspects of investment strategy is position sizing, which refers to the amount of capital allocated to a particular investment. While stock selection often gets significant attention, position sizing is equally critical. Failing to allocate appropriately can dilute returns, even when the stock performs well. Conversely, oversizing can lead to significant losses if the stock underperforms. Striking the right balance between individual risk tolerance and portfolio concentration is key.

Seizing Momentum Early

In favourable market conditions, it's crucial to size positions effectively during the initial purchase. Adjustments can be made later—whether through profit booking or reducing exposure if the thesis weakens.

Timing of Exiting a Stock

Exiting a stock requires balancing analytical thinking, emotional discipline, and strategic foresight, especially when mistakes in judging management, business, or valuation occurs. Management misjudgment is the most critical error, requiring swift action, while business flaws and overvaluation can sometimes be corrected over time if fundamentals remain intact. When a stock falls, the psychological struggle of deciding whether to buy more, hold, or sell at a loss is inevitable, but the faster one exits from mistakes - especially related to management or business - the more time and resources can be redirected towards identifying the next potential winners.

Chanchal Khandelwal is a Fund Manager and Senior Analyst at Aditya Birla Sun Life AMC Limited (ABSLAMC). With an overall experience of more than 15 years, he has been a part of the Aditya Birla Group for 15 years, with nearly a decade with ABSLAMC. Prior to joining ABSLAMC, he was part of the Strategy and Finance team at Aditya Birla Group.

Dhaval Shah

Fund Manager and Senior Analyst

80/20 Rule in Portfolios

Investors spend a lot of time, energy, and effort in finding new investment ideas practically every month which can add alpha to the portfolio. Our research on the database of stocks we cover indicates that the 80:20 principle applies in portfolio construction too. This means 20% of the stocks in a portfolio often drive 80% of the returns. Instead of chasing new ideas constantly, focusing on fewer, high-quality franchises with strong RoE and cash generation, leads to better outcomes.

Avoiding Poor-Quality Franchises

Poor-quality businesses—those with weak RoE, poor cash flow, or frequent equity dilutions, can lead to significant capital erosion. Avoiding such names minimises errors of commission. It is better to take into stride errors of omission, as in, to not be able to participate in investment ideas which we don't completely understand.

Crafting a Resilient Portfolio

Last year was about re-rating in narrative-based stocks wherein many companies were overvalued vis-à-vis historical framework. While narrative-driven stocks may perform in specific market cycles, avoiding overvalued stories ensures a portfolio that can outperform across bull and bear markets. We have refrained from participating in many such names. While such an approach may lead to not having an optimal portfolio for certain market conditions, but gives confidence to craft a portfolio which can outperform over an entire bull and bear market cycle.

Dhaval Shah is a Fund Manager and Senior Analyst with Aditya Birla Sun Life AMC Ltd. (ABSLAMC). He has an overall experience of more than 20 years in Indian equity markets and has been a part of ABSLAMC since 2015. Prior to ABSLAMC, Dhaval worked with Reliance Capital Asset Management Ltd., Morgan Stanley Investment Management and Edelweiss Securities Ltd.

Dhaval Gala

Fund Manager and Senior Analyst

Gauging Market Expectations - Beyond Fundamentals

Over the years, I have learnt that market sentiments often influence stock prices as much as, if not more than, fundamentals. Gauging the market and understanding these sentiments are critical aspects of an investment practitioner's life. A linear event in one sector can impact others. Thus, having a holistic perspective by maintaining a broad view of the market helps anticipate and react to interconnected movements.

Market Entry & Exit Strategies:

In volatile markets, leaning towards defensive stocks or lower-beta names can be more effective than holding cash. With the shortening cycles, entering early allows full benefit from emerging trends. Just as important as entry, a clear exit strategy ensures profits are realized, and losses are minimized.

Margin of Safety - Balancing Caution and Opportunity:

A solid margin of safety prevents significant losses and provides stability. While taking extra precautions may seem like leaving money or time on the table, mastering the margin of safety allows room for seizing opportunities with confidence, handling unpredictable market conditions effectively, and avoiding costly mistakes or setbacks when things don't go as planned.

Position Sizing:

Optimal position sizing in investing refers to judicious capital allocation to each investment in a portfolio to maximise potential returns while minimising risk. It involves careful analysis to ensure no single position dominates or underwhelms the portfolio.

Selling Discipline:

If a company's competitive advantage erodes or fundamentals shift negatively, it may be time to sell. The decision to sell may also be driven by the emergence of more attractive investments or if current estimates become unsustainable. Remaining flexible and responsive to changing market conditions ensures a disciplined approach to selling.

Dhaval Gala is a Fund Manager and Senior Analyst with Aditya Birla Sun Life AMC Ltd. (ABSLAMC). He has an overall experience of 19 years in equity and capital market space. He joined ABSLAMC in February 2011 as a part of the Equity Fund Management and Analyst team. He specializes in Banking and Financial Services sector. Prior to joining ABSLAMC, Dhaval has worked with B&K Securities Limited and J P Morgan Chase India Private Limited.

Kunal Sangoi

Fund Manager and Senior Analyst

Don't Miss the Forest for the Trees:

While data and numbers are vital, the overarching narratives drive market sentiment and valuations. It is important to keep the bigger picture in mind. Understanding the story behind the data and keeping track of how these narratives evolve alongside financial metrics is crucial.

Build Your Own Conviction (BYOC):

Developing a deep understanding of companies and market trends builds confidence in one's decisions. Strong conviction, based on sound analysis helps to resist market noise and prevents rash decisions during market downturns.

Ride the Winners:

The real wealth creation happens through long-term compounding. Hence, it is extremely important to be riding the winning stocks. I have learnt that it is better to have patience with your high performers and not sell the winners too early, even if they have appreciated significantly from the buying price or seem expensive compared to past valuations.

Maintain a Balanced Portfolio:

As a portfolio manager, neglecting position sizing and diversification can expose the portfolio to significant drawdowns during unforeseen market events. A well-balanced portfolio with a mix of large, mid, and small-cap stocks, and a blend of growth and value, can manage risks better through different market conditions.

Remove the Weeds:

Holding onto underperforming investments in hopes of a turnaround can be costly. Evaluating objectively and cutting losses early is crucial for portfolio health.

Kunal Sangoi is a Fund Manager and Senior Analyst with Aditya Birla Sun Life AMC Ltd. (ABSLAMC). Kunal comes with an experience of 20 years in capital markets and specialises in the Technology, Internet, Media and Telecom sectors. He has been with ABSLAMC since 2012 and was previously associated with Edelweiss Financial Services Ltd. in its Institutional Equity Research team as a Senior Analyst.

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MUTUAL FUNDS