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“All good art is a science. And good science is an art.”

Dear Investors and Advisors,

While June marks the end of a volatile month for the markets, it also marks the beginning of a volatile monsoon season in Mumbai. One of the pleasures of the monsoon season is the drive from Mumbai to Khandala, and on this drive, the inevitable breakfast destination is the McDonalds, in Panvel. Which I have noticed, over the last 9 years, has gotten increasingly more packed with visitors. The success of the McDonalds and Starbucks of the world has always piqued me, because clearly gourmet cooking or coffee is not what a consumer is getting, and sometimes gourmet is not what you need. A McDonalds flourishes because of consistency – no matter where you are in the world, when you visit a store there is a certain assurance that you will get a similar product and experience.

Delivering a consistent consumer experience – whether you are in California or Connecticut – was actually Ray Kroc's vision for McDonalds when he took the proposal in 1954 to the Donald brothers in South California. How did they accomplish this? Turning the art of cooking into a science, or in simpler words, putting processes to work. After the first McDonalds opened in 1955, Ray Kroc founded a training school, Hamburger University in 1961, where the curriculum is based on four cooking concepts, and since then, the university has systematically taught franchisees how to run a restaurant the way Kroc envisioned 50 years ago. The dealers truly today recognize the value of the process behind preparing fries in the kitchen!

I find the McDonalds example very relevant to the asset management business, because one of the most important things we look to deliver to our investors and advisors is a consistent investment experience. And that consistency can only come from process. Investing has long been called an art left to the magic of the fund manager, but each art can be learned and can be turned largely into science. Even the best sportsman learns his craft through science – years of training, practice, process. What does a “process driven” approach mean in investing? For starters, it means a clear and well defined set of rules and guidelines that define how you construct a portfolio. This defines what your investment universe is and what rules/guidelines you follow for stock selection. Beyond stock selection, it also defines how stocks are weighted in your portfolio, in absolute and relative to the benchmark, as well as when to add exposure and reduce exposure. In hybrid funds like a Balanced Advantage fund it defines how to allocate between debt and equity, and in debt funds like Dynamic Bond, how to switch between longer and shorter term duration buckets.

A process driven approach is very powerful for an investor and an advisor. By taking out the element of emotional and behavioral bias, it brings consistency to the investment management process. Process driven funds do make investing less of a black box – what we do, why we do it, and when it will not do well becomes easy to define. We live in the reality that each fund will go through periods of underperformance and markets will go through cycles – a process driven approach helps in performance attribution and understanding the drivers of underperformance. We also live in a world where key man risk is a reality, as is fund manager turnover, and process oriented asset managers are far less vulnerable to this.

In no way, does a process driven approach take away the role of people or innovation from the asset management process. McDonalds, by the way, is an extremely innovative company. In 1975, when soldiers in a certain locale could not get out of their cars while wearing their fatigues, McDonalds created the now famous concept of a drive through. They have also been sharp to adapt their process to local markets, India being the best example, where a lot of the cooking processes have been adapted to a vegetarian menu. Even in the asset management business, a process driven approach has to be backed by extremely competent people, who are able to follow and constantly enhance investment processes to new market conditions, asset classes, and client realities.

The MasterChefs of the world have a great way of making the cooking process appear like magic, but ask Wikipedia, and they will tell you McDonalds has a point. They define cooking as “the art, science and craft of preparing food for consumption”, and that is most certainly true of investment management as well. A lot of science and a lot of process, backed by the art of judgment, brings robustness and scale to what we do. At Edelweiss AMC, we continue to focus on process as a key pillar of our investment management philosophy – whether in funds like Balanced Advantage, the revamped approach to Dynamic Bond, our long only suite, and even in ideas like Maiden Opportunities. The year ahead of us promises to be a VUCA one – and a little more consistency, clarity and transparency, will hopefully make this a better ride. Thank you as always for your support and happy investing!

Regards,
Radhika