QUICK CHAT

5 Questions to Paul Parampreet

ASSISTANT VICE PRESIDENT AND FUND MANAGER FOR EDELWEISS ABSOLUTE RETURN FUND

What kind of strategy do you adopt while managing the fund?

We basically have a three-pronged strategy. 70 per cent of the corpus will be invested in large-caps and the remaining 30 per cent will be invested in high quality short-term debt papers or in cash futures. Last, whenever there are special situations in the market as we had recently by the way of HUL's open-offer, we aggressively invest in such opportunities and move away from our 30 per cent in debt market strategy and invest in such opportunities. But we never tinker with our 70 per cent of equity portfolio.

Then comes our stock selection process where we use quant methodology and it works on two basic parameters of price action movements and volatility. We hedge the portfolio dynamically on almost daily basis. However, if we believe markets are likely to surge, we don't hedge and the fund retains a pure balance fund portfolio. For example, in 2011, the market went down by 25 per cent, but we were able to reduce the loss as we were short on Nifty future throughout that year. In the end, the fund managed to give a negative return of 2.5 per cent. The fund has a very simple endeavour, during a positive year of Nifty index, (12 months) capture at least 60 per cent of upside. So if Nifty goes up by 30 per cent in one year, we have to be up by at least 18 per cent. If Nifty is down by 30 per cent, our losses should be one-fifth of the index. For longer term, such strategy will lead to same returns as Nifty with almost one-third risk.

Do you always look to match benchmark weights?

We select a stock after the due process and let the market take it forward. So our sector weights are in line with benchmark and we don't want to go overboard. We could have been completely overweight on FMCG and got huge returns but our objective is not to get into favouritism mode and remain very objective and beat the benchmark, taking calculated risk.

What do you always do irrespective of the market condition?

The portfolio is dynamically hedged and all the algorithms tell us what to do on a daily basis in terms of hedging. During every quarter we revisit our portfolio and look at stocks whether they are performing as expected or not. For instance, we were overweight on FMCG for a very long period. HUL was not there in our portfolio for January quarter. But by April we were highly overweight as in January it had corrected by 10 per cent and we found value in it. While valuations and price performance are looked every day, growth and consistency is looked at during the quarterly results.

Strategy you never follow...

No matter whether a stock is attractive or its a multi-bagger, we don't invest beyond top-200 companies. For the simple reason because the fund is hedged against Nifty future and carries the basis risk. If we hedge Nifty stocks with Nifty future there is very less basis risk, but if the portfolio has stocks that are of different market cap or index there will be high basis risk. We try and keep basis risk to less then 4 per cent in a year. For instance, Page Industries, earlier, was a micro-cap with very good prospects, but it entered our portfolio only when it entered the top-200 stocks. In case of Blue Dart, we don't invest in it because it has very low liquidity.

Risk measures that you follow, as this scheme looks for arbitrage opportunities in equity and debt?

First, we have sector and stock level where we don't go overweight or underweight by more then 6 per cent and 5 per cent respectively. Second is the co-relation aspect where we have less exposure in sectors that are unlikely to do well. Third is volatility where we don't invest in stocks that are highly volatile. Last, we avoid going in stocks that have poor return on equity (RoE) and low liquidity. I think these are good enough risk controls measures. ■