

CEO Speak

We will help you get HNI clients in equity

Vikaas Sachdeva, CEO, Edelweiss MF



What value do the smaller fund houses add in the industry? Plenty, says Vikaas, as he reminds us that many innovations in this industry - including cash funds, short term income funds and ETFs - were ushered in by the smaller players, and these have gone on to become mainstream industry products. In the same vein, Edelweiss has come up with a business strategy, product suite and distribution proposition that is sharply differentiated, and certainly something advisors will do well to sit up and take note of. Edelweiss' Absolute Return Fund and its Edge Top 100 have already caught the eyes of some experienced advisors - read on to understand what makes these products worth a close look. It is on the back of such differentiated offerings that Vikaas states that he and his team can work with you to help you get HNI clients in equity.



*Edelweiss Diversified Growth Equity Top 100 (E.D.G.E. Top 100) Fund | An open-ended equity oriented scheme | Fund Inception Date: 20-05-2009 | ICNK Nifty Index is the benchmark for E.D.G.E. Top 100 Fund | Fund outperformance is based on CAGR returns since inception upto June 30, 2013 | Past performance may or may not be sustained in future.

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WF: The general refrain among many market participants is that the MF industry has too many players doing more or less the same thing - which then leads to the relatively smaller players being seen as fringe players rather than valuable specialists. In this context, how do you differentiate Edelweiss MF in this "crowded" Indian fund industry?

Vikaas Sachdeva: It is an interesting question and you are right that most of the players in the mutual fund industry are doing things in a very conventional way. There seems to be a blue print for how you need to grow in this industry which is by launching fund X, selling it through way Y with result Z.

Smaller players tend to break open certain niches of the market and try to expand them. If you look at the last 20 years of the mutual fund industry you will realize most innovations be it cash fund, a short term income fund or an ETF, they have been done by smaller fund houses which have later expanded into huge segments and sometimes have carried the mutual fund player along with them.

Once you grow big it becomes more of efficiency, productivity and business as usual. Your wherewithal to stake claim to a particular niche and devote time, resources and focus to it becomes limited. I therefore believe that the role of the so-called smaller fund houses is basically of a catalyst, of a player who strives to innovate and thus push the boundaries of how the industry serves its customers.

How do we at Edelweiss differentiate ourselves in this Indian fund industry? There are a couple of things that we do. One is we have decided to come with a clear strategy in terms of what we want to do for our channel partners and we came up with a statement which says that we will help our channel partners get HNI clients in equity. It is a very simple statement but it took 7 months for us to get to that very focused and simple statement.

This of course takes into account our strengths in terms of product manufacturing and our Group's significant competence in the equities business. There are three parts to this :

1. One is the word HNI. We believe that we have a product manufacturing capability, which can churn out some smart interesting products that usually gets appreciated by HNIs first. Others may or may not be able to appreciate the value of that. So our focus is to talk to opinion leaders and get these products across to them.

2. The second is the word 'equity' and by 'equity' we don't just mean equity but we mean full fee products. So even if we look at launching a debt product tomorrow we will make sure that it does not get subject to the typical margins that debt products get reduced to in terms of an FMP or a liquid fund. We would want to launch something which is differentiated and which would make money for all the three stakeholders - investors, our distributors and us.

3. The third part is the word 'help'. It means getting feedback from the distribution fraternity and investor fraternity and trying to see whether we can create an investment management and a risk management framework around it.

The other aspect is the process orientation in the way we manage equity money - which some may say is quant, but we think it's more about rigorous process than quant in a conventional sense. This approach helps us manage risk, which we think is a vital aspect of managing money.

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These two factors, our focus on the distribution community to get HNI clients in equity as well as the quant orientation as a process is what we think will change the way people look at us in the industry.

WF: You seem to have embraced Quant in a big way in your equity management style. Can you guide us on the thinking behind your quant focus? How has this focus helped you in terms of fund performance?

Vikaas Sachdeva: The primary reasons for Quant focus are two folds:

I. Quantitative strategies can be back tested over long periods of time and through several types of market environments to better understand their behavior. Fundamental strategies rely too much on subjective forecasts and qualitative judgments that are difficult to back test whereas quantitative strategies are objective in nature. It is for these reasons that quant models, unlike traditional fundamental models, can be relied upon to achieve consistent performance, within defined range, across time periods. They are robust in various market conditions and generate better risk to reward ratio as well.

II. Large universe of stocks can be statistically evaluated and allocation decisions can be made with greater confidence. So scalability is relatively easier.

Edelweiss quant based funds are as actively managed as any other fund, with the adaptive strategies changing the portfolio in accord with the current market and macroeconomic scenario. Additionally, a lot of discipline is exercised in the final portfolio selection to ensure low tracking error with respect to the benchmark. The advantages of quant focus, along with the investment management discipline that it entails, have helped the funds to consistently deliver on their mandates.

WF: Your Absolute Return Fund has caught the eye of some experienced and successful advisors. Can you take us through this product's construct and performance?

Vikaas Sachdeva: Let me list down a few features of this product.

- 1) This is the country's premier volatility control product.
- 2) Secondly the endeavor of this product is to capture the maximum upside in NIFTY uptrend and the least on the NIFTY downside.
- 3) This fund is suitable for investors looking to re-enter the markets / diversify their portfolio/ prefer low risk opportunities / have a low tolerance for losses.

This fund basically has three buckets: equity which is actively hedged through NIFTY futures in terms of a quant portfolio, special situations and little bit of debt. Through these three we ensure that the product satisfies a basic premise that is low volatility to investors. Investors are not worried about getting into the stock markets and they do not get turned off by the stock markets per se, they are very keen to create wealth. Volatility turns investors off. So if you can cut down the volatility and risk and have a compounded effect on the returns over a period of time, we believe that more and more investors will look at it from an investment perspective and I think that is what has caught the eyes of a few advisors.

WF: Your EDGE Top 100 Fund has delivered commendable alpha: 50% alpha in 50 months of its existence. What are some of the factors that have gone into delivering this strong performance?

Vikaas Sachdeva: EDGE Top 100 Fund uses a process driven approach to factor based investing in equities. It takes the current and forward looking market data as input to assess the market environment. Then it suitably chooses the best factors to use in such a market environment. Since the launch of EDGE Top 100 Fund in May 2009, it has been a recurring thing of high volatility, low growth coupled with relatively high cost of capital. In such an environment the factors that do well are high quality, low volatility and consistency of growth. In sectoral terms, this leads to a portfolio overweight in consumption and healthcare. In the intermediate term, the cost of capital had gone down but inflation has been significantly high and demand fickle enough to ensure that the private sector capex investment cycle did not materialize. The main beneficiaries of these intermittent lowering of cost of capital were private sector financial companies which were overweight for most of the duration of first 50 months in EDGE Top 100 Fund.

So, an adaptive approach to factor investing coupled with good risk management has been the cornerstone of stable and consistent performance delivery by EDGE Top 100 Fund

WF: What are your sales and distribution strategies, going forward?

Vikaas Sachdeva: The first major step that we have taken is to get our distribution focus right. We have a value proposition in place for the distribution channels. The second layer to this is that we have very clearly articulated that our vision statement includes three factors.

- a) One is we will give you products which are very productive in nature and which will give you productive returns and not embarrass you in front of your clients.
- b) The second statement is we will give consistent performance.
- c) The third is that we will keep giving dividends as and when possible. We have noticed that clients like to have dividends in their hands. They mostly do not want to book profits but they would like to have tax efficient dividend coming to them more often than not and reinvest that money.

We have a B2B model. We will not have 30 branches across the country but at best over the next 6 months have 10 branches in the country but we will work with the distribution fraternity across the country, connect with them digitally, and connect with them at various forums. You have a very good industry forum wherein distributors come, listen and share insights. We would rather connect with them through Wealth Forum rather than opening up branches. We believe that today distributors are smart enough to take the best of products and go their investors and explain to them why it makes sense for them to invest. We would like to capitalize on such financial advisors.

WF: What is your business outlook over the next 2 years? What do you see as potential growth drivers for the MF industry - especially in an environment where individual investor apathy towards capital markets seems to be at all time high levels?

Vikaas Sachdeva: I believe there is money out there that gets channelized into different asset classes. The following things make me hopeful even in these times.

1. We are seeing lot of new folios being opening up in debt. I came across a survey few years back that mentioned that an investor who comes into the mutual fund industry through debt route typically tends to stay for 6 to 7 years. He rides the whole cycle of debt to equity whereas somebody who comes in through equity typically would be around for two and a half to three years, in the best of circumstances. Most investors are usually risk averse and therefore look for products that help preserve capital first.

2. In terms of equity or capital market, we have had very conventional long only funds. We have to accept that in the industry, there is a new normal. What used to work earlier will not work now. The client is more demanding and more informed. He has to be given products or solutions that work for him. For example the Absolute Return Fund allows you to ride the India story without most of the volatility associated with it. I see a lot of fund houses starting to work on similar things. Pure alpha generation cannot be the only focus - alpha generation, with volatility control is the new normal in the industry. As more and more players internalize this, and create solutions that cater to this requirement, flows will come in.

3. This might be a little blunt but I think that one good thing happening is that people are seeing redemptions in the liquid fund industry. Conventionally, liquid has been the way to increase your AUM. Increase in AUM, even if it is liquid funds, still commands respect. Now that particular premise is a little wobbly as people are now starting to genuinely look at business development as a function, moving to B15, increasing their internet penetration. This is a very encouraging sign, as the industry will now grow in terms of number of investors on a sustainable basis.

4. Regulators are pushing towards investor education and moving towards B15 centers. These steps are encouraging. I think the usefulness of this step will unfold over a period of time. Benefits may not be visible immediately but over a longer period of time say about three to four years you will see how things are moving.

I think these are very pertinent steps. One basic thing that we need to keep in mind is keep cost under control. You will not probably see a revival to the extent you used to see earlier for quite some time. It makes sense to keep your performance intact and to keep cost low. The industry will prevail. It has come out of similar situations in the past. I have seen this industry for the last couple of decades, and I am sure it will prevail.

WF: How do you see distribution models evolving in the next 3-5 years?

Vikaas Sachdeva: There is going to be an immense focus on technology for the next 3-5 years. I would not like to get into whether it will be the aggregator model or broker dealer model that we see like in the US. I would just like to point a few things which will encourage distribution in this country. Technology is going to be key driver. You are going to see more and more clients being handled by the system, which will allow distributors to reach out to a lot many people and allow them to acquire new clients.

There is a drive towards certification like CFP by distributors. This is already happening and will unfold itself over a period of time in terms of an immense quality change in the way we do business. Ultimately this whole business is about comfort and trust. If I talk as a distributor to a client and convince him to invest in a particular fund, he may still not invest. But if he is comfortable with me and trusts me then he will invest his money even if I do not explain all features of the fund - as he will be willing to go by my judgment.

The third interesting development is that it was largely believed that IFA as a segment would wither away. But that is not the case. I can see IFAs coming back even more strongly in B15 centers as well as T15 centers. Now you have youngsters coming in as well and they bring in a fresh approach and perspective to sales. I think these are interesting things and will develop into new models. As a country we are very adept at adapting ourselves to requirements of the clients.

Last but not the least Demat is a very powerful option. We have not really explored it but with direct plan coming in people who are on the savvier side will want to use Demat to transact. But the problem is they would not have information on what to buy and sell. They will have products but not solutions. The financial advisors come in here. Fee based planning would come in the picture wherein the advisor may charge a fee for advice and then help the investor transact direct.

WF: What is the key message you would like to share with your distribution partners at this stage?

Vikaas Sachdeva: The key message to my distribution partners is that the client is a little confused and worried about his life savings right now. We are willing and eager to work with you to help your clients with products and solutions that are closer to what they really are looking for. Allow us to step in and partner with you in helping you address your clients' needs.

Disclaimer: Mr. Vikaas M. Sachdeva is the Chief Executive Officer of Edelweiss Asset Management Limited and the views expressed above are his own.

Edelweiss Absolute Return Fund (Edelweiss ARF)

This product is suitable for investors who are seeking*: To create wealth over long term and prevent capital erosion in medium term. Investment predominantly in equity and equity related securities including through arbitrage opportunities with balance exposure to debt and money market securities. High risk ■ (BROWN)

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk may be represented as: ■ (BLUE) investors understand that their principal will be at low risk ■ (YELLOW) investors understand that their principal will be at medium risk ■ (BROWN) investors understand that their principal will be at high risk

Edelweiss Diversified Growth Equity (E.D.G.E) Top 100 Fund

This product is suitable for investors who are seeking*: To create wealth in the long term. Investment predominantly in equity and equity-related securities including equity derivatives of the 100 largest companies by market capitalization, listed in India. High risk ■ (BROWN)

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