PEEYOOSH CHADDA

Age: 42 years

Qualification:
MBA from IIM Ahmedabad
B-Tech from IIT Kharagpur

Current position:
Chief Investment Advisor,
Edelweiss Mutual Fund

Funds managed

Edelweiss ELSS Fund

Edelweiss Absolute Return Fund

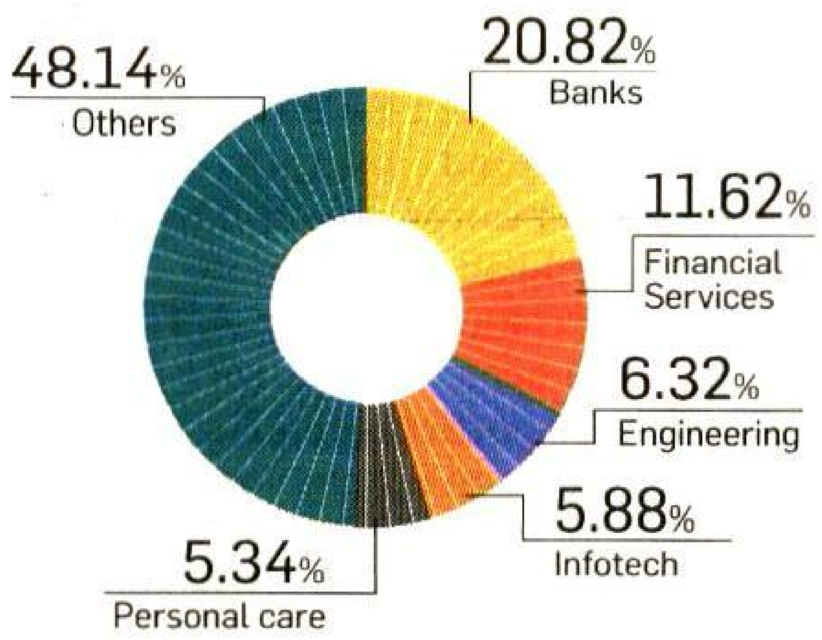
Edelweiss Select Midcap Fund

Edelweiss ELSS Fund

Top 5 stocks

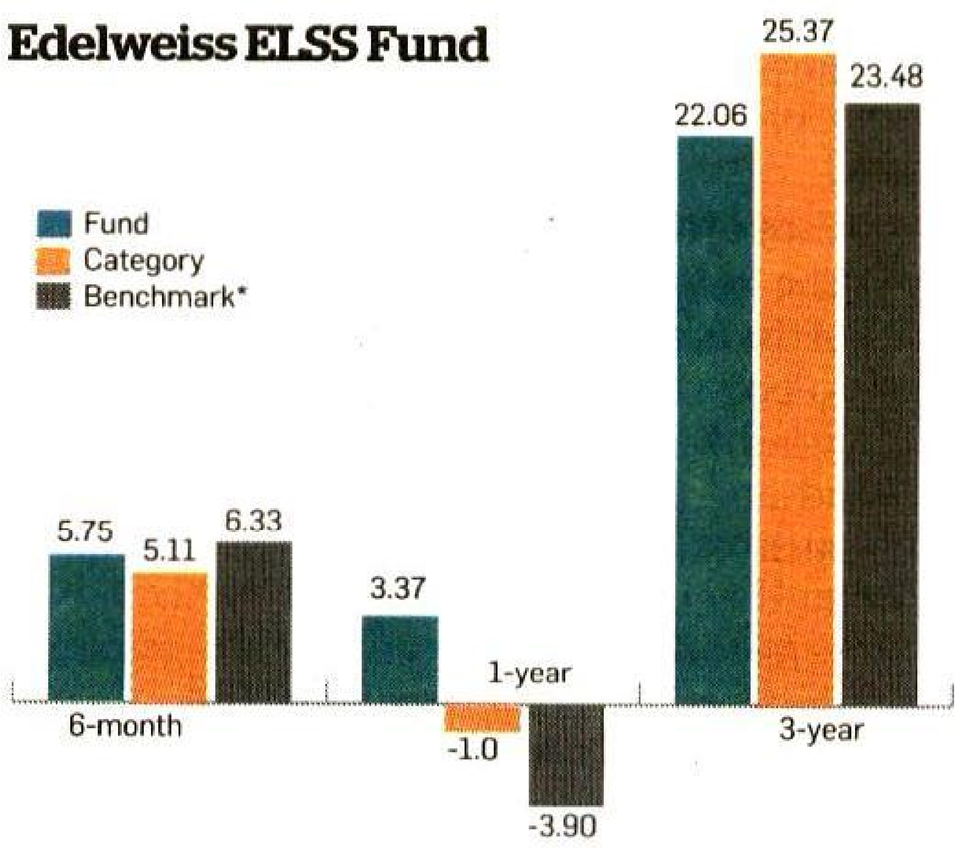
As on 29 February. Source NAVIndia

Asset allocation



As on 29 February. Source NAVIndia

Edelweiss ELSS Fund



*S&P CNX 500. As on 23 March. Returns for more than one year are annualised.

7.12%

is the 1-year return of Edelweiss Absolute Return Fund, managed by Peeyoosh Chadda. The category average is -1.19%.

BHARAT CHANDA

'Pick firms with high cash flow'

My investment philosophy.
To deliver benefit to investors, I follow two tenets—appropriate asset allocation to provide market exposure for investors and systematic stock selection to enhance their portfolios' value. I have a process-driven approach where I focus on consistent performance.

The stocks I like to pick.
There are some factors that govern stock returns. The first is quality (consistency of growth, return on capital employed, cash flow generations, etc). Typically, good quality stocks deliver higher returns than lower quality ones in the long run. The second factor is growth—obviously, companies that grow are better stock picks than those that are not growing. The third is valuation, though this may not come into play for 2-3 years. Sometimes, expensive stocks expose you to the risk of tremendous corrections. Finally, I consider a few technical factors around price behaviour, volatility, etc. My portfolios tend to be focused on higher quality stocks, with good growth characteristics, and comprise of a fair amount of large caps as opposed to smaller companies.

My attitude towards risk.
I am a conservative investor and have two kinds of portfolios. The first type is where I am committed to giving asset allocation type of returns to investors, and I try to manage risk by reducing exposure to the market when it is not a good time to be in it. The second type is my stock selection-based system where I avoid low quality stocks that are very small. The biggest risk is the risk of permanent loss of capital in the fund. This is why, to capture high returns, we emphasise on picking high quality companies with good growth.

Top performing funds across 10 categories **Page 27**

My take on portfolio churning.
Being process driven, I churn when my models indicate to do so. In volatile markets, where the factors that generate returns keep changing, I will churn. However, when the same factors are generating returns consistently, the churn will be less.

My best and worst decisions.
The decision that worked well in the past year was sticking to quality large-cap names. We beat the market handsomely largely due to this philosophy. As for wrong calls, I think we were too exposed to small companies in the last 4-5 months of 2010. That hurt our performance as these stocks did very poorly afterwards.

How equities will perform in 2012.
I believe the uncertainty in the market will continue. While the budget was important, what emerged from it was a compromise between several pulls and pushes. The uncertainty is whether we are on the cusp of an interest rate down-cycle or not. This will become clear in the next couple of months. As long as interest rates are in the double digits for banks, equity markets will find it hard to run. Another uncertainty is whether growth will return. If so, in what magnitude? Will we grow at 7%, 8% or 6%? Until these uncertainties resolve themselves, the market will not take a big directional jump.

My strategy for the coming months.
My strategy is fairly consistent: Stick with growth, quality and valuation, while staying away from companies that are very volatile in terms of price, revenue, earnings stream, etc. The secret to earning returns is simple—one needs to find companies that are consistently growing yet have reasonable cash flows. I will not change my philosophy to suit the market and will trust my processes to adapt to market conditions.

The sectors that I favour now.
I am not sector focused, but the factors that I am bullish on now are consistent growth and quality. I believe that high leverage should be avoided. The risk in such cases will increase if the cash flow is very low. These sectors may tempt you and you will find that in two months some of these stocks will have gone up by 30-40%. This may lead you to question your strategy. However, such sectors cannot deliver consistent returns.

My concern for the economy.
We have seen in the past that countries with large current account and fiscal deficits face issues after some time, and India is no different. When you are running such high deficits, it will create problems at some point of time. Today, we are fortunately blessed with enough resources, have a foreign exchange buffer of $300 million and a large pool of domestic savings. However, we need to make adjustments to rectify the deficit situation.

My advice for investors.
Retail investors seem to be exiting from equities, which can be disastrous for them. In India, even when the interest rates are high, the real rate of return on debt is poor. An FD might yield 9.5-10% returns, which translates to around 7% post-tax. This is just at par with inflation. Equities, though more volatile, give better returns. Investing consistently in equities is the secret to making money, so investors should have faith in this asset class and be patient.

(As told to Sanket Dhanorkar)