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Dear All,

"For last year's words belong to last year's language. And next year's words await another voice." - T.S.Eliot

I hope you all had a wonderful festive season. One of the wonderful things about the start of a New Year is the opportunity to think about change, where we have come in the year gone by and how we want to build the year ahead of us. Incidentally, soon after the New Year, I attended a conference of Asian asset managers in Shanghai, and the theme was "Stronger Portfolios for a Changing World". We spend much of our time reacting to short term market movements around us, the day to day weather, that we often forget that there is a broader climate change ahead of us that we need to prepare our portfolios and our investors for.

As we look at the global economic landscape, it is clear that change is perhaps the only certainty we will experience. The great monetary experiment, as it was called after 2008, will come to an end as bond purchases turn negative in late 2018, challenging the downward trend in global yields. Globalization, which we have grown up taking for granted, is being challenged as countries become more insular and localized. Finally, China, which has been an engine for global growth, is making a transition from an export driven and leverage fueled to a consumption driven economy.

We are seeing our own set of "climate changes" in our investment world in India. From a high interest rate environment where collecting carry in fixed income was enough, to a low interest world, the change from 10 to 6 is forcing us to question our own investment behavior. Many of us started an investment journey in 2013 – a world of low valuations and high interest rates, and now find ourselves in 2017 – at quite exactly the opposite end. Not to mention, as an AMC industry, we have seen our own set of changes, with the new SEBI scheme merger regulations ushering in a move from a murky world of lots of schemes with unclear definitions to a focused and true to label world.

What does this environment of change mean for our portfolios and investments? For one, globally asset managers are anchoring to lower return expectations. An interesting data point showed that while over the last 50 years, the returns of a "vanilla" 60-40 global stock bond portfolio were 9%, they fell to 7.9% over the last 25 years, and the forecast is that over the next 10 years they will fall further to 5.2%. The second thing to take away is that risk management and dynamism will become more and more important in investing. In Shanghai, the group of asset managers was asked what would be the most important driver of investment performance going forward, and the results were surprising: 6% said "great investment views" and 1% said "timing the market".

"73%" said risk management.

That indeed, I believe is the lesson for us going forward. The environment we are in today, will demand that portfolios become more dynamic. The ability to blend different asset classes into a single portfolio, to manage how much debt and equity one allocates to, and to adapt to different market conditions will be the key to surviving, and thriving in these market conditions. The terrific thing is that SEBI has created a set of fund categories now that provide fund managers this flexibility and investors the opportunity to benefit from wealth creation with downside protection. We at Edelweiss believe the hybrid category is here to stay, whether it is dynamic balanced funds, which vary equity exposure depending on market conditions, or equity savings funds, which are a great low risk way to start with equities.

Speaking of change, this time, you'll notice another few changes in the factsheet. We decided as a team to eliminate the market outlook section because we want to do a little more for our partners than provide the same statistics on NIFTY levels and bond yields, much of which this digital world gives you real-time on your fingertips. What has happened is hindsight and is known, what will happen is foresight and is difficult to predict. What we can do is provide you insights, and hence the new Market Insights section, where we hope to share insightful snippets about investments with you.

On a concluding note, I learned interestingly in Shanghai, that the Chinese word for "change" is "wei-ji" or crisis + opportunity. It is beautifully apt, because well managed change can lead to immense opportunities, and unanticipated change can be the source of many a crisis. We at Edelweiss Asset Management Limited look forward to working together with you over the next year to navigate this change and create opportunities for your clients and your portfolios.

Thank you.