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Dear Investors and Advisors,

*“Critics don't change the world. Innovators do.”*

I write this note in the background of a lot of chatter that took place based on the events of 1st February, on the introduction of long term capital gains and dividend distribution tax. Announcements like these are always accompanied by too much news, too much emotion, and too many forecasts. Questions like the death of mutual fund flows and the end of the SIP culture pop up out of nowhere, challenging what has been built painstakingly over so many years. The truth is six months later, we will look back at much of this – and demonetization is an example – largely as a lot of noise. For one, good things – whether it is consumer brands or services – are incredibly resilient and survive the test of time, and that is certainly true of equity mutual funds. The second is that change of any kind creates an opportunity for innovation in an industry.

Usually, when innovation has been talked about, it is always in the context of technological change and focused on large global brands, the Apples and the Amazons of the world. The truth is innovation is local, homegrown innovation – one that is solving problems in Indian markets for Indian consumers factoring in Indian circumstances, is perhaps the most disruptive. I was reading “I Too Had A Dream”, which talks about the growth of one of India's most innovative and loved consumer brands, Amul, a product of a crisis. Founded by farmers with a mission to stop exploitation by middlemen, Amul is a story of entrepreneurship that led to the formation of cooperative societies, a unique and cost efficient operating model. What started with a few farmers producing just 247 liters of milk has now grown into a full-fledged organization with more than 15 million litres of milk produced by 3.6 million producers per day. The homegrown brand was globally recognized with the “World Dairy Innovation Award” in 2014.

Our own MF industry has also seen its share of local innovation, and in fact, the last major tax change that hit mutual funds in 2014 – the change in long term debt taxation periods from 1 year to 3 year – lead to a lot of positive change. Hybrid mutual funds took an important place in an MF world that was polarized between debt and equity. Two new categories – the balanced advantage fund and the equity savings fund – grew almost entirely after this change, and are now very popular solutions, particular in dynamic and volatile market conditions. Who knows, with a change in equity taxation, we might start looking more favorably at some ignored categories like international equity funds, which are important sources of diversification and over a 3 year period, not significantly more tax inefficient than local equities (with the benefit of indexation) or multi-asset funds that combine three or more asset classes.

Innovation is also about bringing new opportunities to the market, connecting the dots. Amul, ultimately connected farmers and end consumers through a series of much loved dairy products. Another homegrown and loved brand, Fab India, connected rural artisans to urban shoppers through handlooms. Today, while we talk about diversification in our equity portfolios across funds and market caps, we are largely holding a similar set of market opportunities, driven by the composition of indices focused on banking, oil and gas, and IT and pharma. As markets evolve, both new asset classes and new sets of opportunities within equities will emerge, and innovative products will provide investors access to these opportunities. At Edelweiss AMC, as a start to our journey towards becoming a more innovative asset management company, we launched Edelweiss Maiden Opportunities Fund - Series 1 (A close ended equity scheme investing across large, mid and small cap stocks) in February, a fund platform dedicated towards bringing truly innovative ideas to investors and connecting some of these interesting dots. The first series under this platform focuses on IPO segment, and solving the problems of access, selection and exit management that investors have traditionally had while trying to benefit from this large market opportunity.

Sometimes, when we discuss innovation, there is also a belief, particularly in asset management, there is belief that it is about only products and often very complex. The truth is process, branding, communication and many other aspects of investor experience can be innovative. Amul is not just innovative in business model and process, but also in branding. India's longest running ad campaign, shouldered by the much loved Amul girl, has brought humor into advertising and remained topical and relevant over decades, and the ads have made way for very popular coffee table compilations. At Edelweiss AMC, we are making attempts to constantly improve and simplify the communication in our new and improved factsheets, this year, and we welcome your feedback because this will only help us get better.

I'd like to end on a slightly personal note on innovation. As a part of revamping factsheet communication, I have been writing this column for a few months and last time I wrote about simplicity and consistency, sharing the story of Parle G. To our delight, 7 days after our factsheet was released, we received a delightful box of goodies from Parle and a poster, framing me as the Parle G kid. In addition to driving change, innovation can also be a lot of fun!

On that note, drown out the noise, look for new opportunities created by the changes around us, and most importantly have fun with your investing journey.

Regards  
Radhika