

“By retirement, most Indians are asset-rich, but income poor”

One of the industry’s most recognisable voices on investing, **Radhika Gupta**, MD and CEO, Edelweiss Mutual Fund, has helped shape both her fund house and the broader industry conversations around investing. In this conversation with **Sanket Dhanorkar**, she talks about why she prefers simple investment solutions.



Q If your portfolio were a Bollywood movie or song, what would it be titled?

Lakshya. Investing is about goals.

Q What is the most “un-daal-chawal” (extravagant) thing you’ve ever spent money on?

Fancy bags and diamond jewellery.

Q A recent trend on fintwit that makes you cringe?

The glamour of extremes. As we say, “ya rail mein ya jail mein”. Either FDs or crypto.

RAPID FIRE



Q A fund category that deserves bigger space in investor portfolios?

SIFs deserve a bigger space.

Q If markets could talk, what would they say to investors today?

Stop looking at me every day.

Q What is tougher: managing investor expectations or judging founders?

Investor expectations. Good founders sign up for turbulence.



Radhika Gupta
MD and CEO, Edelweiss Mutual Fund

What lessons have the last 20-22 months reaffirmed to you as an asset manager, or challenged any previously held beliefs?

Personally, as an observer of markets, a stretch of 18 to 24 months where nothing much has happened is par for the course in equity investing. Frankly, in a period marked by slowing earnings growth, significant foreign institutional investor (FII) outflows, and heightened geopolitical volatility, the fact that markets have remained largely flat is, in many ways, a testament to the resilience of domestic capital markets.

As someone who is an investment professional and runs an asset management company (AMC), I think there are two sides

to it. One, these markets come with a sense of responsibility. Not everyone who is a market participant has a 21-year history in the capital markets. Half of the new mutual fund folios entered after Covid-19, and many of those are our investors. So, I think the responsibility to communicate and answer questions is very significant. I don’t think any beliefs have been challenged. The basic principles remain the same—of taking sensible risks, paying attention to valuations, asset allocation, etc. What has surprised me positively is the maturing of the retail investor. I have always heard that if markets fall, the systematic investment plan (SIP) book will go away. But we saw ₹32,000 crore of SIP inflow in March along with outflow from arbitrage funds, which

is a shift in stance from conservative to aggressive. This is a heartening change.

But the unflappability of SIP flows has been severely tested in recent months, as SIP terminations show.

I do believe a large part of the SIP book that the country has is very structural. It has become a way of investing. This is because it caters to the very core need of every Indian—that is to automate the process of saving, especially as a salaried professional. If you look at SIP returns over any 10-year period, it makes money. The worst-case SIP return on our mid-cap fund is around 10-11%, and that includes going through 2008. Now, there is bound to be some SIP discontinuations if returns do not materialise. This may be

around 5-10% of the SIP book, not beyond.

You recently launched another industry-first combo strategy—a passive hybrid debt-equity fund. How does this solve investors’ asset allocation challenges?

I am a big fan of packaged products. I call them *thali* combinations, similar to combo meals at restaurants. One of the things that we think is most difficult for investors to do is any kind of market or asset class timing. It sounds very nice to say that you will be able to forecast things, but you are often not able to do that. I believe static asset allocation works beautifully.

A few years ago, we launched the industry’s first gold and silver combo fund

offunds (FOF)—50% gold, 50% silver. We never attempted to time or dynamically manage the allocation. It solved the need of getting exposure to both precious metals in a tax efficient way without having to take a call on gold-silver allocation. Similarly, we launched a large- and mid-cap index fund—again 50% large, 50% mid. The hybrid index fund we launched recently offers 70% exposure to the top 250 companies and 30% in fixed income in a passive form. So, it is a 70-30 combo, effectively one-third large cap, one-third mid cap, one-third fixed income. Packaged products are like different pieces of Lego coming together. It is the basic need for every investor.

You insist that investors pursue a *daal-chawal* approach to investing. But with the MF industry offering so many choices, how can investors pursue simplicity?

India is a vast consumer market. There are investors I meet who want a blockchain oriented fund or a Taiwan technology fund. And there are investors who are just learning the basics of what is equity. In such a heterogeneous market, there will be different investment products for different people. Asset management companies also run different products across different platforms. If a new AMC comes to the market, they are going to launch new innovative products, as we do.

I tell investors that 80% of your portfolio should be all-weather stuff. I will give the analogy of a restaurant here. There are thousands of restaurants in a city. Do you eat at every restaurant open in the city? You don't. You have some framework. 80% of the time, you either eat at home or eat at the same few places you like.

So your core portfolio should comprise four or five mutual fund categories and maybe two funds per category. Nobody needs anything else. Only 20% is left for experimentation. The hybrid fund that we spoke about is also a passive *daal-chawal* solution for a certain kind of investor. The large and mid cap index fund is a passive solution for another. Flexi cap is a solution for another kind of investor.

The principle with *daal-chawal* is that it's less about the product and more about buying things that are not very cyclical. It is to buy things that will last the test of time. Now it could be active, passive or hybrid, but it's not something that requires you to put a lot of thought into when to enter, when to exit.

Your first Specialised Investment Fund (SIF) made a good start. Do you think managing SIFs requires distinct capabilities and priorities from asset managers?

I absolutely believe that SIF is a very different product. It is trying to bring elements of alternative investing into a far more tax-efficient platform. SIFs must be viewed as a quasi-alternative business.

I come from an alternatives background and have closely tracked the evolution of the alternative investment fund (AIF) and portfolio management services (PMS) industry. No financial product is truly effective unless it addresses a genuine consumer need. That is why we intend to be highly thoughtful and selective about



every category launch within SIF. Despite having the single largest scheme in the category as of April—Altiva Hybrid Long Short Fund—we have launched only one scheme. Many competitors have launched three or four. We don't want to launch SIFs like *khakras* because we really believe each one solves a different need and is a different capability set. Altiva Hybrid Long Short was

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clearly thought out as meeting the need of an investor who wants a fixed income like return without too much drawdown. We have delivered exactly what we said. Now the underlying in that fund is fixed income, arbitrage and a lot of low-risk derivative strategies.

That needs a distinct capability. Our mutual fund universe and asset management universe has largely been focused on long-only managers or fixed income managers. Very few people have derivatives asset management talent. There are a lot of people who work on derivatives on prop desks. Very few people have asset management talent on the derivative side. On the equity side, we say it's important to have a fund manager who's gone through cycles, right? Because in a tough time, they will be able to take those calls on how much risk to take, how to size positions, where to be brave, etc.

The same is true in derivatives. For the past seven-eight years, we have chosen to organise ourselves slightly differently as an AMC. We house a fixed income team, a long-only team, and a team that focuses on more systematic investments, including much of our derivatives capability. It is run by two individuals, Bhavesh Jain and Bharat Lahoti. Both have been with us for a very long time, are deeply rooted in derivatives capabilities, and manage many of our hybrid funds and SIF funds because that is where their expertise lies. So yes, I do believe SIFs require a completely different capability, especially if you are doing derivatives-heavy work within SIFs.

What strategy will your upcoming SIF pursue?

We will play every SIF as it comes. We are going to launch our second SIF soon, again rethinking it from what the industry is doing. We are trying to target the PMS space. If you look at mid- and small-cap mutual funds, they are constrained to either be 65% mid-cap or 65% small-cap (usually between 60-80%). There is a market for concentrated small- and mid-cap (smid) strategies with the flexibility to go anywhere between small, mid and micro. But PMS has the problem of tax inefficiency. PMS is tax-inefficient; model portfolio returns don't match actual portfolio returns.

Can we provide more PMS style concentrated smid investing with the efficiency of the mutual fund platform through the SIF vehicle? That's what we are trying to do with our Ex-Top100 Fund. We are using our traditional long-only expertise. It will allow 10% flexibility for derivatives.

How do you see GIFT City evolving? What more needs to be done to make it an attractive destination, for both local and global investors?

GIFT City holds a lot of promise. It is still early days. I feel Know Your Customer (KYC) is one hurdle it needs to cross—making the onboarding experience seamless for an NRI investing into India or an Indian investor investing overseas. It should be as smooth as

when you invest in a mutual fund. We already have two funds in GIFT City—an inbound Category III AIF (Edelweiss India Multimanager Equity Fund) and an outbound fund (Edelweiss Greater China Equity Fund). We'll offer a US outbound fund sometime this year.

Do you believe Indians need to rethink how they approach retirement planning?

We came from a mindset where many of us or our parents worked in the public sector. Retirement was sort of quasi-planned for us. Many of us knew retirement was coming, but we never had to plan around retirement.

And then suddenly, we've transitioned to this corporate world. The reality is people want to retire much earlier than our parents' generation. But if you're thinking about retirement planning closer to retirement, you've already lost the plot.

There are too many myths around retirement. For instance, there's a myth that when you are 60, you need to be sitting in fixed income. Why? Your lifespan is going to be 90. One-third of your life you're going to spend in retirement. The kind of risk you can take at 60 is not what it was when life expectancy was 70, many years ago. I have met a good number of retired people who have portfolios with 50, 60, 70% equity. It makes sense.

One, we don't plan early enough about retirement. Second, we don't think aggressively enough about retirement. Third, historically, we've been a very real estate heavy market.

A big problem is that by retirement, people are asset rich but cash poor. Retirement also involves liquidity planning. What's the point of having assets? You need to have income. We plan to do something around retirement in a wrapper of lifecycle fund.

Why are you convinced investors need lifecycle funds for goals? Aren't advisers already offering similar paths with existing, proven funds?

We're super excited about this category. Advisers have asked me this question—if I have a 10-year goal for my client, what do I do if in the ninth year of that goal, equity markets fall? Can you get me a solution where I can rebalance the risk down gradually? What lifecycle funds do is that they enable more goal-driven investing than abstract investing.

As you reach your goal, your asset allocation becomes more conservative. Can advisers do it for the clients with the existing basket of funds? They absolutely can. But I feel this is a more packaged and tax efficient way to do it.

There is no existing fund category that lets you change the asset allocation over a defined period.

As you get closer to your goal, you want to reduce the asset allocation and make it conservative. No category enables this. This is a very popular global category because it actually solves a need. The problem is when you come up with fund categories that do nothing for anyone.