

Anand Radhakrishnan, CEO Sundaram Mutual Fund – June 30th 2025

Topic: Introduction to Multi-Factor Investing and Smart Beta Strategies

Understanding Factor Investing

- Factor investing involves identifying and investing based on systematic attributes like **value, growth, momentum, and quality**.
- **Value** is the oldest factor; **smart beta** is a rule-based approach combining passive indexing with active factor selection.
- Traditional vs. factor investing differs in **style, construction, diversification, and behavioural framework**.

Factor Definitions & Variables

- **Quality:** Stable companies with low debt and strong cash flows
- **Growth:** Profit growth based on historical performance
- **Value:** Screened using PE + EV/EBITDA metrics
- **Momentum:** Measured via a **6–1 rule** (6-month returns minus 1-month returns)

Behavioural Biases in Investing

- Common investor biases: **Loss aversion, confirmation bias, recency bias, herd mentality**
- Example: Mistake in averaging **Sun Pharma** despite momentum loss — driven by loss aversion.
- Strong rule-based frameworks help mitigate behavioural biases.

Single vs. Multi-Factor Strategy

- **Single factor investing is riskier** due to concentration risk.
- **Multi-factor** strategy diversifies across four styles, smoothing out volatility.
- Anand's process: Analyze **250 stocks**, pick **25 per factor**, forming a portfolio of ~100 stocks.
- **Multi-factor portfolios** offer **better risk-adjusted returns** than single-factor strategies.

Sundaram Multi Factor Fund Highlights

- Uses a **7-point checklist** across four factors: value, growth, quality, momentum.
- Ensures diversification across **market caps and sectors**.
- Has a **40–45% overlap** with the **BSE 200**, but is more style-driven.
- **Backtest Insights:**
 - **Value** performed best but was highly volatile
 - **Quality** had lower returns but less volatility
 - **Multi-factor** struck a balance with moderate returns and risk

Recommended Read:

“The Checklist Manifesto” by Atul Gawande — reinforces the importance of disciplined

Market Outlook – Key Views from Anand Radhakrishnan

Global View:

- Earlier expectations of **rate cuts have been paused**, especially with Trump’s return and his **inflationary policy stance**. Twitter wars with Fed continues.
- Anand expects **tariff-related news to settle**, reducing global volatility.

India – Macro Outlook:

- **No major macro concerns** at present — one would have to search hard to find weak spots.
- **Domestic balance sheets are strong**, with most sectors showing healthy fundamentals.
- **GST collections growing at 15–16%**, a clear indicator of economic health.
- **E-way bill collections remain robust**, pointing to continued movement of goods and economic activity.
- **Monsoon outlook is positive**, aiding **rural recovery**.
- **Broad-based consumption** is also gaining strength.

Domestic Micro View:

- **Mid-sized companies are outpacing large caps**, and **small caps are growing even faster**.
- The challenge lies in **valuations** — many global investors are starting to look for better value in **other emerging markets** and **developed home markets**.

Overall Takeaway:

The **Indian economy is fundamentally sound**, supported by strong domestic indicators, improving rural sentiment, and robust consumption trends. While the **growth momentum continues**, **valuations remain a near-term challenge**.