Rajnish Narula
CEO, Canara Robeco Asset Management

“Difficult Times Call For Difficult Measures”

***Canara Robeco Asset Management** operates with a dynamic asset allocation strategy and as its **CEO Rajnish Narula** says in this interview, it involves the frequent adjustment of the weights of asset classes in a portfolio based on the overall market performance or the performance of certain asset classes*

We are going through one of the worst health crises in a century which is taking a toll on the economy. Going ahead, what is the trajectory you see for the equity market and returns from equity?

Markets don't like uncertainty and hence undergo a correction. At this point in time, it is difficult to estimate how much the corona virus infections would spread and by when we will return to business as usual. Most market participants are struggling to price in the impact on the earnings' growth of companies. The uncertainty has led to fear and ultimately to a sharp selloff. Once the contagion rate (the pace of infection spreading) reduces and the recovery rate (patient discharges from hospitals) improves, investors will be able to forecast the end of the pandemic and price the companies with a much clearer view of the impact.

What explains the huge disconnect between the economy and the equity market that we are witnessing in present times?

Over a longer term, the large-cap indices of Nifty and Sensex will have a better correlation with earnings' growth rather than GDP growth. Once the virus cases started rising in the country and the government decided to go for a lockdown, the earnings' growth estimates of India Inc. were revised down sharply and the indices also responded with a sharp correction. While FY21 earnings are significantly impacted, we expect FY22 to show some recovery. The broader market, mainly the mid-cap and the small-cap space, is significantly lower than the December 2017 peak, reflecting a slowdown in the economy. Going forward, the market will adjust the timelines for economic recovery based on the news flow related to the virus vaccine.

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Despite being low on cash, how did Canara Robeco Blue Chip Equity Fund manage to beat its benchmark and also its category? What is the investment philosophy adopted for the same?

At Canara Robeco Blue Chip Equity Fund we deploy cash in companies that have a strong business model, a good management team, limited capital requirement, healthy cash flows and a huge runway to grow profitably. We believe that as a basket these businesses will be worth much more in future and will create wealth. We also analyse how the current crises will impact their business and select companies that have strong, unleveraged balance-sheets. While most of us would think that this is the time to remain out of the market, we have managed to find investible ideas at very attractive valuations. Hence, we have remained invested in our large-cap fund which has helped us outperform the markets and peers.

We see that you have large-cap, multi-cap and small-cap funds in the equity space. However, mid-cap is the space where you have not stepped in yet. Is this a strategic decision or do you observe a lack of opportunity in this space?

We already have a large-cap and mid-cap fund. Our mid-cap ideas are executed in that fund. As per the re-categorization exercise by SEBI, we also have the space to take certain strong mid-cap ideas in our multi-cap fund too. As and when we see discrete opportunity in this space, we will come up with a pure mid-cap fund.

In the hybrid space you deal with conservative hybrid fund and an aggressive hybrid fund. What are your thoughts on dynamic asset allocation strategy and does this strategy work in the long term?

Our dynamic asset allocation strategy involves the frequent adjustment of the weights of asset classes in a portfolio based on the overall market performance or the performance of certain asset classes. Due to active management and a resultant high turnover ratio, the costs associated with the fund are higher. Instead of dynamic asset allocation strategy, investors should try asset allocation by investing individually in equity and debt or with the help of a financial advisor. Such a method could consider goal-specific allocations and work better over the longer term.

Most of your equity-dedicated assets are tilted towards financials, FMCG, energy, technology and healthcare sectors. Do you see any drastic change in your holdings post the pandemic?

The pandemic has fundamentally changed the world as we know it. People are living differently, buying differently and, in many ways, thinking differently. Supply chains have been tested; retailers are closing doors. Consumers across the globe are looking at products and brands through a new lens. There has been a large influx of funds and shortage too, all at the same time. The virus is reshaping the Indian economy in real-time, rapidly impacting long-term underlying trends in all sectors in mere weeks. Our research indicates that new habits formed now will endure beyond this crisis, permanently changing what we value, how and where we shop, and how we live and work.

Even as this crisis continues to evolve, by exploring the changes that are happening now we would most likely stick to our investment plan. We had identified and invested in businesses that we found were creating value for the end-users. We prefer companies that can experience pent-up demand or that can have higher market share when the situation normalises. We are also looking at companies that are trading much below their intrinsic value after the market has discounted the bear case scenarios.

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Of late, index investing is gaining traction. What are your thoughts on the same? Do you think that in the future index investing would be more rewarding than actively managed funds, especially in the large-cap space?

When markets go through correction, investors tend to shy away from active bets and move to passive investing. The debate on active versus passive is a long-drawn one. With investors losing on the information edge and the analytical edge, one of the few ways we can create alpha in the large-cap space is by having behavioural edge i.e. by exploiting behavioural biases. This can be done by taking advantage of overreaction or under-reaction by the market in either direction and by improving one's own decision-making process to avoid behavioural pitfalls.

What is your advice for investors in the current market situation? How should they go about investing in mutual funds – both equity and debt – in the current situation?

Difficult times call for difficult measures. If someone is seeing his income dwindle drastically during the lockdown, it is okay for him to pause or stop SIPs temporarily but redeeming investments during such volatile times does not seem prudent. On the other hand, people having regular cash flows can continue or increase investments. With avenues for discretionary expenditures closed, they would have experienced a surge in savings which could be utilised to increase investments over time. The final advice will be to run a thorough check on the kind of risk one can take and always stick to asset allocation.