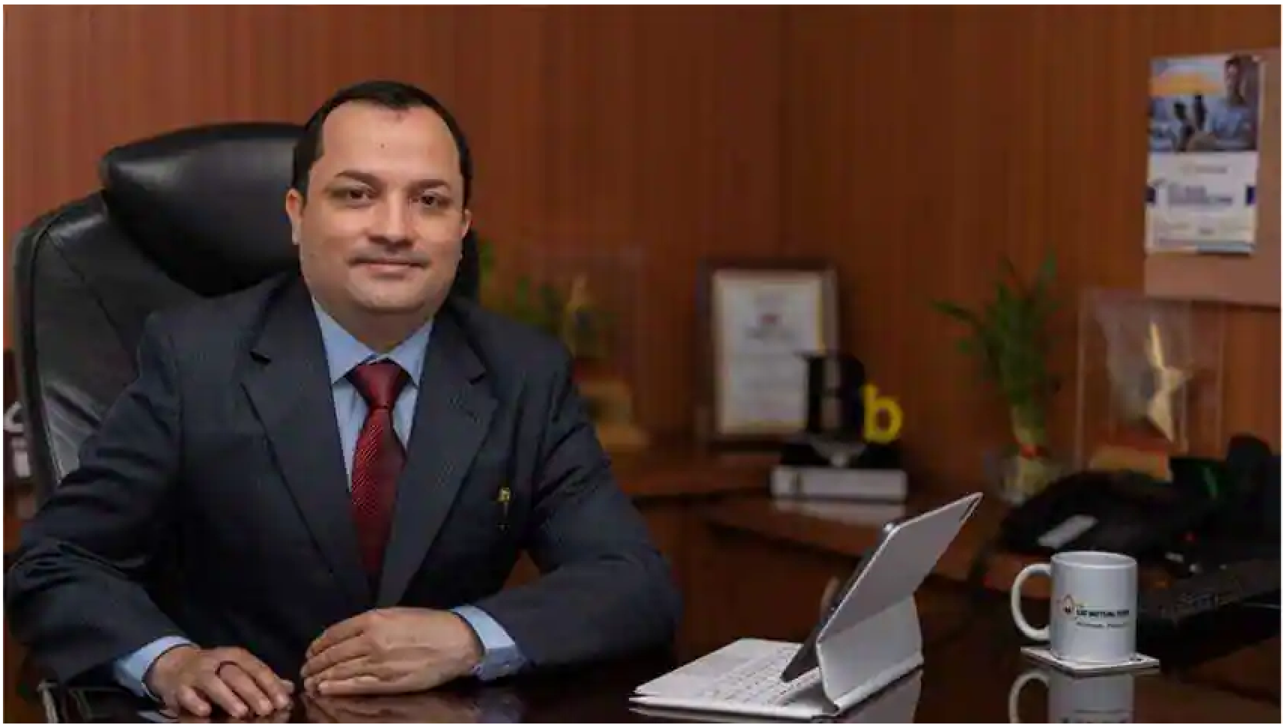
Investors’ approach towards PMS witnessing tectonic shift since onset of pandemic; Azeem Ahmad, Head PMS at LIC Mutual Fund tells how?

"Pandemic-induced hybrid work environment has been a blessing in disguise. It gave time to the Ultra-HNIs to reflect back on their financial asset allocation and also their approach towards it. They now seem to have a clearer thinking on what they want to achieve from these financial assets," Azeem Ahmad says



The landscape for Portfolio Management Services (PMS) has seen a tectonic shift since 2019 and just before the onset of Covid-19

A portfolio approach that is build upon evolving economic and fundamental trends with an over lay of risk adjusted returns may generate returns in next 2-3 years, **Azeem Ahmad, Head PMS & Principal Officer, LIC Mutual Fund Asset Management** tells Shivendra Kumar in an exclusive chat. *Edited excerpts!*

1) How has Portfolio Management Services (PMS) changed since the onset of Covid-19 pandemic?

The landscape for Portfolio Management Services (PMS) has seen a tectonic shift since 2019 and just before the onset of Covid-19.

The most sweeping change has been the standardisation of the key aspects of PMS products viz. fees, operating expenses, performance reporting and calculations and exit loads, making it more transparent. This was done via a February 2020 Securities and Exchange Board of India (SEBI) circular. As a consequence of this, PMS are now a go to schemes for Ultra-HNIs.

Prior to this, SEBI increased the minimum ticket size from 25 lakhs to Rs 50 lakhs and enhanced the net worth criteria. The regulator has also capped unlisted investments by portfolio managers.

2) What has been the difference in approach of the ultra-High Net-worth Individuals (HNIs) towards PMS allocation in pre and post pandemic times?

Pandemic-induced hybrid work environment has been a blessing in disguise. It gave time to the Ultra-HNIs to reflect back on their financial asset allocation and also their approach towards it. They now seem to have a clearer thinking on what they want to achieve from these financial assets.

In the pre-pandemic world, it was more designed based regular allocation, without much thought on weighing risks versus returns and the time horizon of these schemes.

3) What is the guiding investment principle in the PMS segment?

PMS investment vehicle has mushroomed across length and breadth of the country. Primarily the approach towards PMS portfolio hinges on being an ace stock picker and then create a bottom-up portfolio.

While this is critical, equal importance needs to be given to the current risks (measured via returns per unit of risk) and forward looking top-down assessment of the economy and its path in the coming quarters/years.

4) How has LIC MF's PMS segment evolved over time?

At LIC MF PMS, we have incorporated three pillars in our portfolio creation exercise. At step one, macro assessment of economic conditions is undertaken for deciding the sectoral allocation.

Once sectoral assessment is achieved, stock selection based on bottom-up fundamentals is done, with due consideration to returns per unit of risk. Thus, the portfolio which is created, is done with a mix of top down and bottom-up assessment with unrelenting importance given to risk adjusted returns.

This portfolio is then reviewed periodically to assess if there is any material change in macro-economic conditions or change at company level fundamentals. This process was adopted 18 months back and we are confident and hopeful of continuing this differentiated portfolio approach.

5) Amid spike in volatility because of geopolitical and macroeconomic reasons, equity markets have been jittery. What advice does LIC MF has for its clients?

A portfolio approach that is build upon evolving economic and fundamental trends with an over lay of risk adjusted returns, may give the desireable outcome in next 2-3 years.

From the record highs of 18600 in October 2021, Nifty50 had corrected to lows of 15800 by mid of May, witnessing a decline of 15 per cent. As against their US peers, India markets have clearly shown resilience in current kerfuffle, multi-decade high inflation, hawkish pivot by central banks and Russia-Ukraine conflict. And most headwinds have been on account of global factors.

Largely, negatives have already priced-in, though volatility is there to stay. This could potentially limit positive wealth effect flip towards demand side inflation, pushing growth lower in the process as well.

We have been cognizant of this evolving trend and are using the current volatility to assiduously build positions in these spaces.

There are money-making opportunities at current levels but one needs to be selective in short term. In the medium to long term we continue to remain very constructive on an aggregate level as well.

We believe that the present market volatility offers an attractive opportunity to build a long-term portfolio in companies which have lean balance sheets, are capital efficient and have growth longevity.

6) What is the outlook for IPOs considering two biggest IPOs in LIC and Paytm, putting up a lackluster show? What will be LIC MF's strategy?

Global factor and market volatility may have a bearing on IPO issues. We are therefore focused on companies/sectors offering healthy growth prospects and better valuations.

Even as high inflation scenario and rising interest rates are escalating cost of capital, higher PE stocks (Price to Earnings multiple stocks) are under constant scrutiny to justify their high earnings growth trajectory. Failure to do this is detrimental with chances of significant price correction.

Investors are now looking towards avenues which are not tightly priced.

Q) What are your views on the new-age businesses and Indian fintech story in view of the current performance?

New age businesses are bearing the brunt of two very divergent views. On the one hand, private markets are focused on growth trajectory (market share), the public markets remain focused on profitability on the other hand.

New age businesses and fintech companies have been delivering growth in terms of client additions but have lacked profitability. That has made many investors unsure about these stocks.

Fintech companies will take time to be in the green with sustainable earnings trajectory, and investors must consider this while making a decision on new-age company stocks, one way or the other.

According to our assessment, digital footprint that we are likely to be part of suggests this space as attractive opportunity that could deliver profitable growth in longer term.

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Q) Which sectors are you betting on while which ones must be avoided for now?

Our assessment of domestic macros suggests that we may be entering mid cycle of economic recovery. Private capital expenditure is taking the baton from Government spending. Economic activity as measured by high frequency indicators /ISM/PMIs or corporate level capacity utilisation are pointing towards robust months of economic growth, going ahead.

However, global stagflation and geo-political worries remain major headwinds.

Investors must look at sector and stocks that are likely to benefit from this upswing in economic activity.

Index largest segment, BFSI segment which is the biggest contributor will likely lead the pack. Stocks in this segment have not seen significant price appreciation. With robust credit growth seen by companies in Q4 of FY22, the trends could change.

Capital goods sector which is closely related with private capex is another top bet for us. Auto, auto ancillary, real estate could offer interesting opportunities with slightly longer investment horizon.

FMCG space will be weighed down by increasing raw material cost, limiting the earnings growth and hence is a no-go space. IT, which is being impacted by strong wage inflation and high attrition, must also be avoided. One must stay away from metals as well, as the commodity prices across the globe are softening on the back of lower growth concerns.

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