

# Encouraging a longer term investment mind-set in India

*Sankaran Naren of ICICI Prudential Asset Management says investors in the country are increasingly looking at making longer-term decisions, and advisers need to focus on managing client expectations.*

Rather than looking at what has happened in the financial markets in the short term, it is the long-term conversations and construction of portfolios using asset allocation methodology which contributes the most to delivering consistent outperformance for clients.

A lot of attention among Indian investors and advisers, however, continues

stocks on a day-to-day basis. Yet there is evidence of the movement among a growing number of investors towards longer-term thinking, says Sankaran Naren, executive director and chief investment officer at ICICI Prudential Asset Management.

“I have seen that investors are looking more at the long term,” he explains.

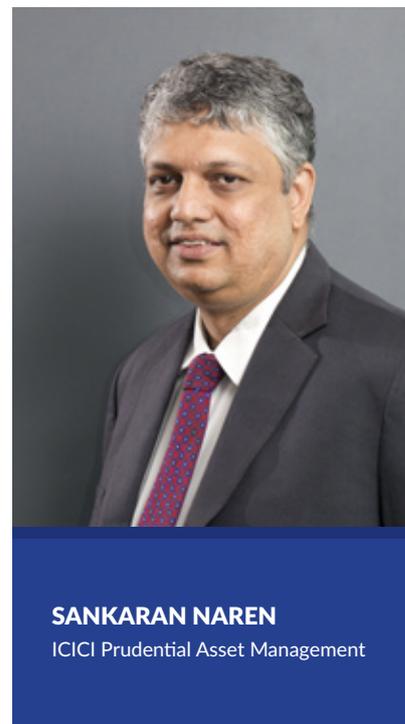
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to be focused on the high activity on the stock exchange and the vibrancy of the derivatives market. This skews media attention towards trying to satisfy a retail audience, which is trading

“Over the last four years, [many] investors have been adding to their equities [portfolios] and have been careful not to take money out when markets have fallen.” Having said that, as a student of behav-



ioral finance, he is waiting to see what will happen when these investors get tested during the next market crash.

## DELIVERING PERFORMANCE

According to Naren, in the short run, an increasing number of funds in India will under-perform benchmarks.

Over a longer time period, however, the fact that India lacks an efficient market means that active fund managers are more likely than in developed markets to deliver alpha over a cycle. “One thing to keep in mind is that we have to create a portfolio different from the benchmark,” he adds.

More broadly, adding more depth to India’s asset management industry is an important part of ensuring capacity going forward. Yet Naren believes his

“If I start getting money in a thematic category that has done well then I will have something to worry about,” he adds.

He also remains unconcerned about capacity constraints in the Indian market over the coming years given that small- and mid-cap funds are not seeing large inflows as of yet.

In terms of numbers of funds, Naren says that ICICI Prudential Asset Management needs the number of strategies it has at this point of time. In fact, he adds, there is potentially a need for more funds in the industry as a whole, given the significant growth in the local market over the last decade.

## Finding value

*In Naren’s view, there will be value over the next 12 months in infrastructure-related stocks – plus, potentially, some areas of financials.*

*Over the longer term, he sees healthcare as one of the more attractive sectors.*

## “We need more types of strategies to grow the [mutual fund] market from where we are at the moment.”

firm has done a lot to contribute in this area by promoting a dynamic asset allocation fund category.

This involves various funds – including equity, income, balanced advantage, balanced – which can move into equities as the market falls and move out from equities as market rallies.

“My belief is this category lends itself to a situation where we have lesser liquidity issues because the automatic nature of these funds is to raise cash as the market goes up and put money into equities as market falls,” he explains. And as long as the bulk of the increasing flows into the firm go into its dynamic asset allocation and closed-end funds, this will not present an issue for Naren.

“We need more types of strategies to grow the market from where we are at the moment.”

## KEEPING ASSET ALLOCATION IN MIND

A key aspect of thinking longer term is keeping asset allocation in mind, with advisers able to play an important role in terms of staying focused on managing client expectations.

To help its investors in this way, the thought process that ICICI Prudential Asset Management implements for its dynamic asset allocation category has been one of a solutions-based approach. This way of thinking is a bit different to how many domestic investors view their portfolios, given that

India lacks any kind of US-style, 401K-type pension system to force people to think of investing in a mutual fund with a 20- to 30-year view. “If this were to [happen], then people would become more solution-oriented,” adds Naren.

The current situation therefore also calls on advisers and wealth managers to spend time managing their clients’ expectations. “Towards [the top of the market] people forget that there is something called ‘asset allocation’,” says Naren.

“Our entire goal has been to convince people that they should not forget asset allocation as a concept as the market keeps going up.”

Although he doesn’t see any signs at this stage to suggest that nearer-term returns are at risk, it is more that when investing in these kinds of markets, the longer-term returns require substantial moderation, he explains.

“The big problem in bull markets is the fact that investors don’t focus on asset allocation,” he adds. “Behavioural finance forces them into a greed situation... and once the market crosses a certain level, people forget about the risk.” ■