# Quant Expert calls for Differentiated Investment Strategies for HNW Client Portfolios in India

Sankaranarayanan Krishnan, Quant Fund Manager (PMS & AIF schemes) at Indian wealth firm Motilal Oswal Asset Management, gave a fascinating presentation at the Hubbis live India wealth forum in Mumbai on September 7. This is a short summary of some of his insights and observations.

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**Armed with an** excellent PDF slide show, Sankar said that diversity in the world of investments is just as important as biodiversity in the natural world, as it helps keep everything properly balanced. "So, what does a typical HNW portfolio lack?" he pondered. "Well, in my view, number one is alternative assets. In the US markets, alternative assets represent some 35% of investments, while in India equities as a whole represent around 35% of invested wealth. That means we are only at the start of diversification to such assets."

He explained this is important because the average correlation of alternative assets with equity is 15% and with debt is negative 17%. "True diversification is buying something that is actually different from what you're already owning, so alternative assets really make a strong case for themselves based in these numbers," he stated.

And he said that another big miss is quantitative assets, which he categorised as assets which are managed based not on discretionary choice, but on quantitative strategies or systematic strategies. "Discretionary is prone to bias, as humans have evolved these biases as part of our decision-making process," he said. "But by incorporating some sleeve of your allocation into quantitative portfolios, what you end up doing is you end up eliminating those biases."

He also pondered what else might be lacking. "We also lack alternate beta assets, so most portfolios are 85% to 90% in equity large, mid or small caps and only about 10% of your risk exposure in some of these buckets like value-based risk, quality risk, low volatility, momentum, and so on," he reported. "Does this matter if you are already getting returns? Yes, because from 1999 to 2012 the S&P 500 underperformed US treasury debt. During the same timeframe, a strategy which had more balanced exposure to all these different factors that I spoke about, actually outperformed significantly."

And although India is a growth market, that type of approach works well in India, he told delegates. "In the rough 10 year period from 2007 to 2017, market, the NIFTY has underperformed fixed deposits, yet at the same time, a portfolio which had more balanced exposures to different risk categories outperformed fixed deposit as well as the NIFTY. In short, we need to start incorporating more and more different sources of risk."

He said another element lacking is long volatility assets, in other words those assets that benefit when volatility increases. "A typical portfolio in the US might be 40% plus debt, 30% to 40% allocation to equity, cash and some private equity and other investments. But if you look at long volatility and short volatility, you might see that 98% is short volatility, so you really want to be betting bigger than 2% on long volatility, or uncertainty, and although that is not popular or easy to talk about it is necessary, especially as we know that crises come about and quite often."

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In short, his message was to bet more and bet bigger on future troubles ahead, as we know from the past that these crises, whether the global crisis, or pandemics, or the return of rampant inflation will re-emerge in one form or another. "Perhaps it is indeed time to reimagine diversification and make your portfolio whole by adding these four things - alternate assets, quantitative assets, multifactor exposure, and long volatility exposure," he concluded. ■