

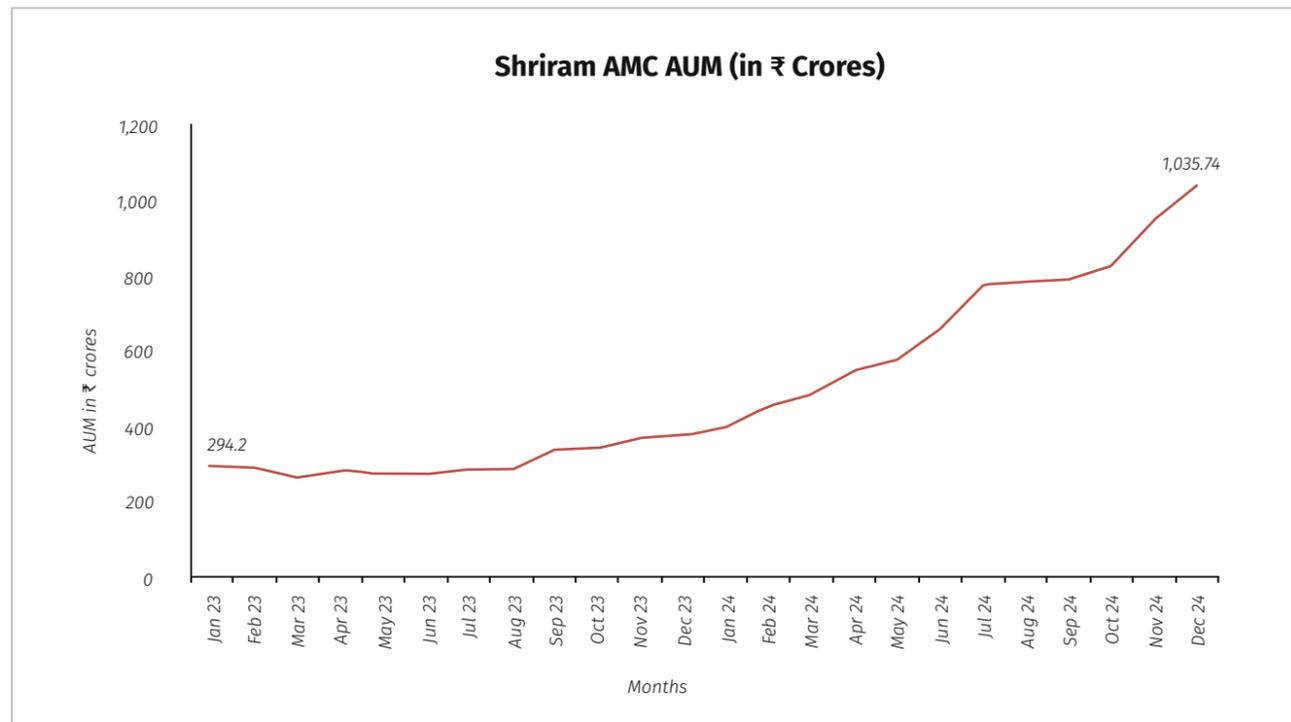
# Reviving a 30-year-old AMC through Innovations and Strategic Investments

Insights from Mr. Kartik Jain, MD & CEO of Shriram AMC

## Q&A WITH MR. KARTIK JAIN

01

While the AMC has been in existence since the last 30 years, the AUM until Jan'23 (when you joined) was just around ₹300 crores. Now it has surpassed as of December'24 to ₹1,000 crores. What changed in the last two years?



Source: Shriram AMC

The fundamental shift that occurred was the arrival of a new investor, a US-based investor called Mission 1 Investments. Their idea aimed to innovate, resurrect the

business, rejuvenate it and tap into the opportunities in the growing capital market space in India.

I focused on four core pillars—Performance, Product, Placement and People. Let me break it down:



**Performance:** This pillar focuses on delivering differentiated investment outcomes through an innovative framework called the continental approach. Recognising the post-COVID regime's higher interest rates, uncertainty and volatility, the approach blends quantitative and fundamental methods, referred to as "quantamental."

This combines machine-driven factor-based portfolio creation with a fundamental overlay by analysts and fund managers, resulting in a risk-adjusted portfolio. The aim is to generate consistent alpha over benchmarks, branding it as "alpha intelligence" rather than artificial intelligence.

**Product:** It is creating a comprehensive and diverse product portfolio to cater to customers' varying risk-return requirements across short, medium and long-term horizons. This includes debt products for short-term needs, hybrid products for medium-term needs and equity products for long-term goals. Over the past two years, the portfolio has been expanded to include nine products—three in debt, three in hybrid and three in equity.

A key focus has been on launching differentiated products, such as the Shriram Multi-Sector Rotation Fund, a first-of-its-kind sector rotation theme designed to help investors avoid sector traps and capitalise on sector trends.

**Placement:** The "placement" pillar revolves around strategically expanding the distribution of products through both internal and external channels. Leveraging the strength of the Shriram Group's extensive pan-India presence, comprising branches, millions of customers, agents and employees, the goal is to tap into these existing networks to reach a wider audience.

For example, Shriram Finance, the flagship company, now has an ARN for mutual fund distribution and mutual funds are integrated into the Shriram One app, which consolidates all group offerings in one place.

**People:** It is centred on recruiting and retaining individuals with a growth mindset who can thrive in a dynamic, startup-like environment, despite being backed by a strong brand. Given the startup nature of the business, there is an emphasis on adaptability and creative thinking to scale up effectively.

The team is expected to understand the value of the Shriram brand while being able to operate with a sense of urgency and flexibility to create new solutions and accelerate growth.

**Kartik Jain**

MD & CEO, Shriram AMC



02

**There have been some AMC's that have been trying such models and while their performances up to the initial three years were very good, their subsequent year performances dipped sharply. So how do you plan on not making the same mistakes that they made?**

The key idea here is understanding the quantamental framework and the philosophy behind it.

The big advantage of this approach is that I can backtest my strategies, which allows me to test them over a span of 10 or 20 years. This helps me understand how the model performs in different market cycles. We run the model alongside the live fund, continuously calibrating, tracking and comparing how it behaves under different conditions.

This process also involves adding a fundamental overlay to see how I can improve the model's performance by adding an alpha strategy. The ongoing learning from this means I can confidently explain why the

model might be underperforming or overperforming and also predict when it might recover or shift direction.

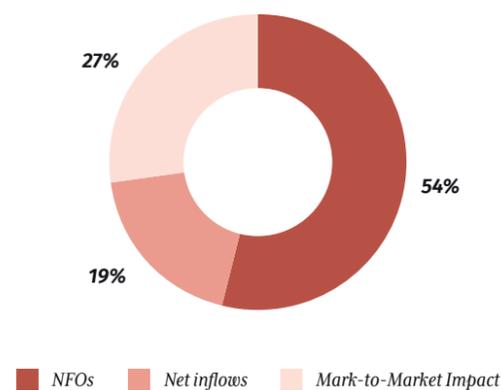


Another critical aspect is that since the market environment is always evolving, it's important to keep updating and enhancing the models. While we may have a core model in place, we don't just leave it there. We're constantly reviewing and looking for ways to improve the underlying algorithm, testing it again to see how it adapts to new changes.

03

**How much of the AUM growth do you attribute to NFOs, primary investments done by new investors or the existing ones and third to asset growth?**

**Attribution of AUM Growth of Shriram AMC Since Jan'23**



04

**Where do you see this AUM growth growing from ₹1,000 crores to by the end of FY26? What measures are you going to take for that?**

We've seen a significant jump, around ₹400 crores to the NFOs, with approximately ₹125-150 crores coming from net inflows and the rest from mark-to-market impact.

Currently, about two-thirds of our AUM is in equity mutual funds, with the remaining one-third in debt.

On the product side, we launched our PMS in December. With equity, debt and PMS offerings, we now have a diverse range

of products catering to various customer segments. These include everything from serving the smallest borrowers within Shriram Finance to ultra-HNI customers through Shriram Wealth and even catering to corporate clients. Essentially, we're addressing the needs of all the customer segments interacting with the Shriram brand.

We're very clear in our strategy. Our focus revolves around three core pillars—plus one: performance, product, placement and people. Strengthening these areas is what will drive our success.

We mentioned these pillars earlier. They form the foundation of a sustainable and scalable business. By continuously

improving in these areas, we're building a strong base for future growth.

Looking ahead, our goal is to maintain this growth trajectory. If you're looking for specifics, we're aiming for a 3X growth in two years, or whatever that translates to in numbers. It's ambitious but achievable with the right focus and execution.

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*If you're looking for specifics, we're aiming for a 3X growth in two years.*

05

**The company was listed 30 years back and until 2023, the AUM was just ₹300 crores. Why was the group not so serious about this business, as even running an AMC comes with a high fixed cost?**

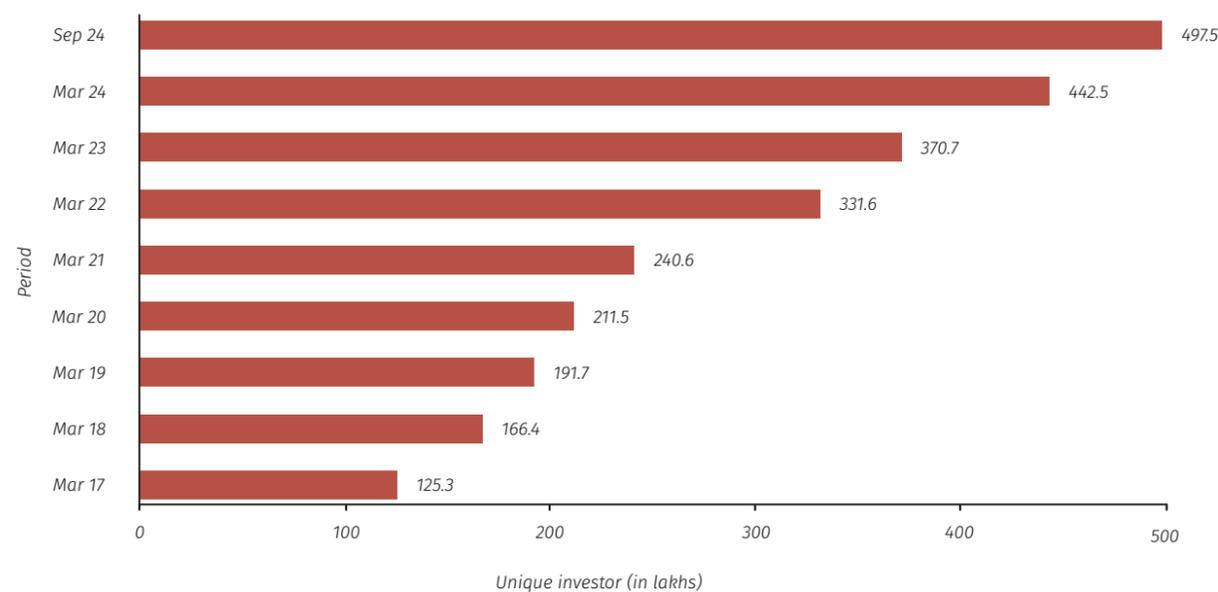
After launching the AMC business, what the group realised was that their traditional customer base is more used to the fixed returns of its fixed deposits and they were not very comfortable or used to the volatility of equities, especially after the 2000s when the markets crashed or GFC. So there was some caution from the group's part.

What has happened now is that the

market has changed. So two things have happened:

One is the market is more mature. Thanks to "Mutual Fund Sahi Hai," the AMFI campaign, we understand the pros and cons of mutual funds and how SIPs can be a good strategy to stay in the market and invest in the market.

### Trends in Unique Individual Mutual Fund Investors



Note: Includes unique accounts linked to PANs with P or H as fourth character and PEKRN accounts. Source: SEBI

Second is the group's customer profile perspective. The fixed deposit ticket size has gone up from ₹5,000 to ₹10,000 ticket size many years ago to ₹5-6 lakhs on average now. So the customers also have wealth and like our founder Mench said, "Look, we've helped the truck driver become a fleet owner. It's now time to also help them manage their wealth."

We retained it, didn't exit the business, kept it and then waited till the time would be right. I think right now the time is right because India has now realised the opportunity in the asset management space, broking, wealth management, etc.

## 06

**You're planning to raise ₹105 crores from Sanlam, which is a South African financial services group. What made you raise that money?**

Essentially, it is growth capital for our expansion plans and working capital to build the business out.

Not many might know, but Sanlam is a strategic partner for Shriram Group as a whole. There's a 40% stake in Shriram Capital. They already are joint venture partners for Shriram Life and Shriram General. Now with this issue, they'll also become a stakeholder with Shriram Asset Management. In

that sense, they're completely linked with all the Shriram Group's verticals.

Sanlam is also the largest insurer and asset manager in South Africa. They bring with them a lot of expertise and knowledge, which will also help us tremendously as we grow the business and build credibility as well.

## 07

**How challenging is active fund management in India, especially considering that most of the equity mutual fund AUM is invested in the top 100 companies by market capitalisation?**

We primarily focus on the Nifty 500 stocks. While there are over 4,000 listed shares in the Indian market, we stick to the Nifty 500 because it offers clean and reliable data, which is crucial for our quantum factor models. These stocks have ample historical data, which enables us to perform robust back-testing. Additionally, corporate actions are well tracked, making the data set more reliable and easier to work with. So, this becomes our universe of operation.

From our perspective, we've chosen to be an active fund house because we believe that's where the opportunity lies, given India's growth trajectory. Developed markets may have more mature growth, making

it harder for active funds to deliver alpha consistently. But India is a growth market and the potential to generate excess returns through active management is still very much present.

That's why we've adopted a "quantamental" approach—a blend of quantitative factor models and fundamental insights. This approach is designed to optimise our hit rate for alpha generation over time. By focusing on the top 500 stocks, we also address liquidity concerns, as these stocks are typically more liquid and better suited for our models.

Now, coming to the bigger picture, we understand that passive investing is growing and it's an important segment. However, many investors are still looking for the upside potential that active management offers. At this stage, being in the active space aligns with market dynamics and investor expectations. Our approach, we believe, strikes the right balance and positions us well to deliver on that promise.

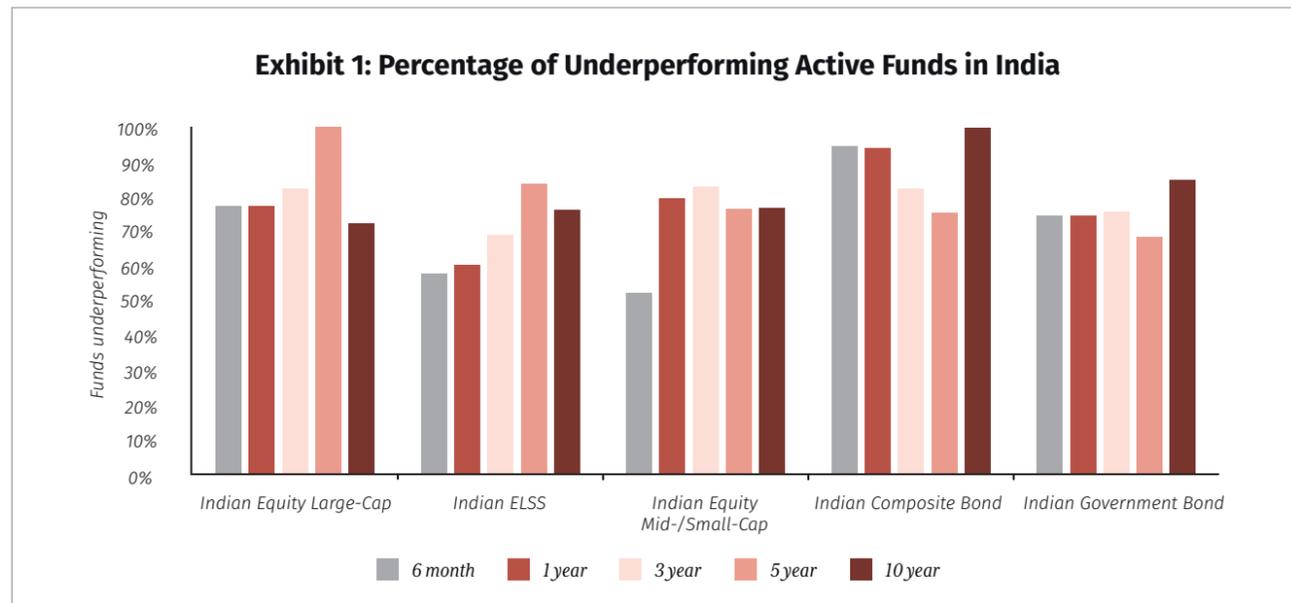


08

If we look at the latest SPIVA report, there's a pretty clear trend: more than 50% of largecap funds have been underperforming their benchmarks. And this isn't just over one or two years; it's across all timeframes: five years, ten years and beyond.

Even when we shift focus to mid- and smallcap funds, we see a similar story. The percentage of actively managed funds underperforming is a bit lower than largecaps but still more than 50%.

Why does the industry as a whole still promote the idea that active management is a better choice for investors in the long run? When the data shows that I have less than a 50% chance of losing more money than if I'd just invested in a passive fund?



Source: SPIVA India Focus, Mid-Year 2024 Highlights

If it's a fundamentally managed fund, a lot depends on the skill and experience of the fund manager, along with the quality of the research backing them. Very often, that's what makes the difference. But at the same time, markets keep evolving and changing. So why does a fund underperform at a certain point in time and outperform at others? Well, it comes down to whether the strategy can adapt to those changes.

Now, I'm not here to defend or criticize any specific fund, fund house, or fund manager; they're all essentially in the same boat. Everyone is trying to be active and

consistently generate alpha over time. That's the goal.

From our perspective, we believe in a quantamental model approach. And we've seen the backtest data to support it. Over the long run, we believe this approach can consistently deliver better returns than the benchmark. Of course, there will be up cycles and down cycles periods of outperformance and underperformance. But since equity is inherently a long-term play, we think this approach holds up well.

Machines don't have emotions; they look at data, analyse it and provide clear outputs.

The stronger and more refined the algorithm, the more unbiased and effective it becomes.

Of course, at the end of the day, market

behaviour and our ability to adapt to it remain critical. But that's the intent—to build a system that works over the long run.

09

As per your models, the quantamental approach, which sectors do you think are going to maybe outperform in the next three years and are you betting on them?

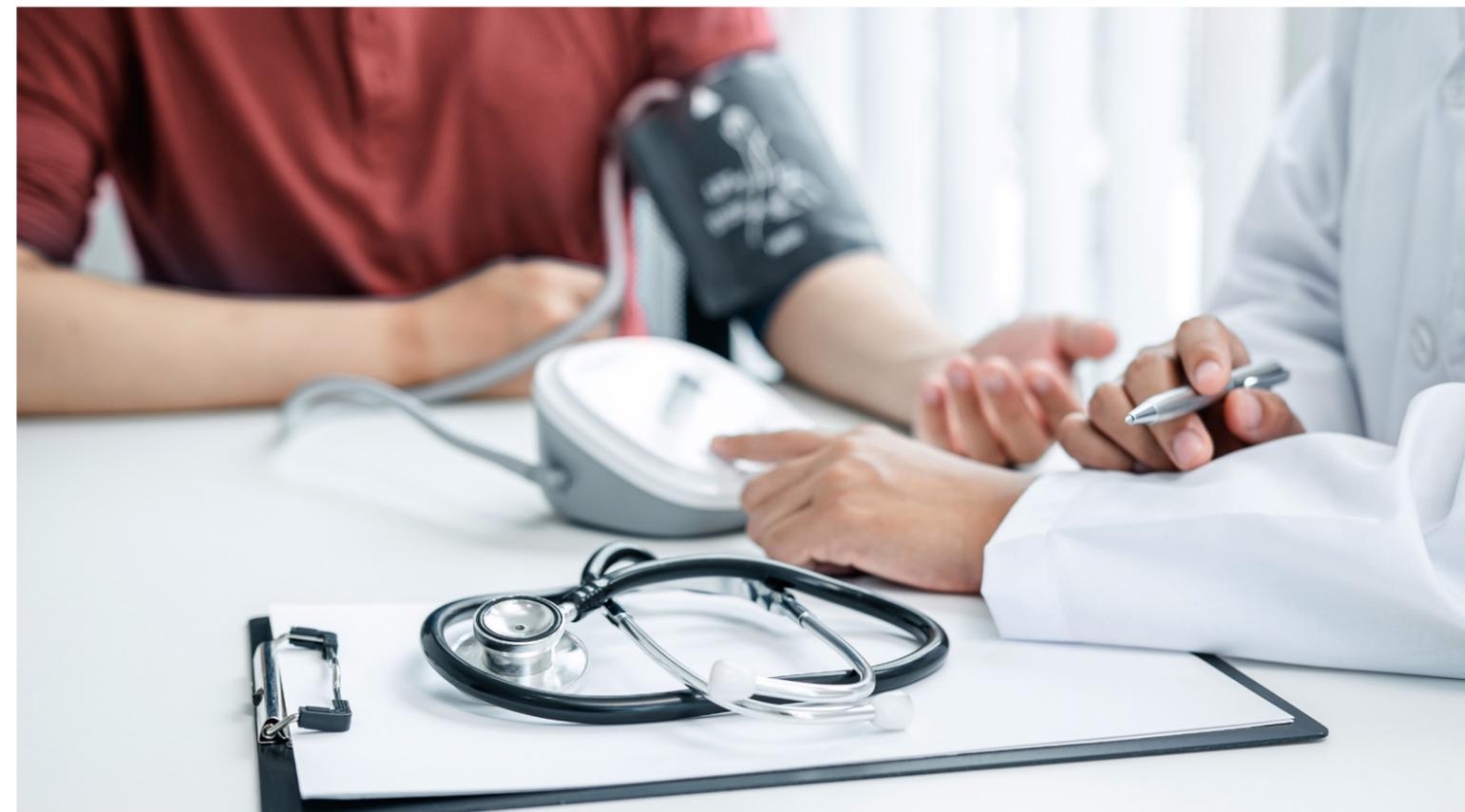
First, healthcare has been a consistent performer; it's been at the top for a while now and that continues to hold true. The second theme we observed was around consumption. Specifically, we're seeing trends emerge in consumer durables, FMCG and consumer services. These were the two key takeaways from our last analysis.

Now, as we've mentioned before, the model evolves along with the markets. As the environment changes, we'll keep reevaluating which sectors come out on top. Different sectors perform well at different times; it's not something we can predict

with certainty. It really depends on how the dynamics unfold.

That said, if we look at the broader picture for this year, there are some expectations shaping up. We believe government capex is likely to increase and over time, we could also see private capex and private consumption pick up. From that perspective, sectors like infrastructure and capital goods might perform well.

Of course, it remains to be seen how everything pans out, but those are some of the trends we're watching closely right now.

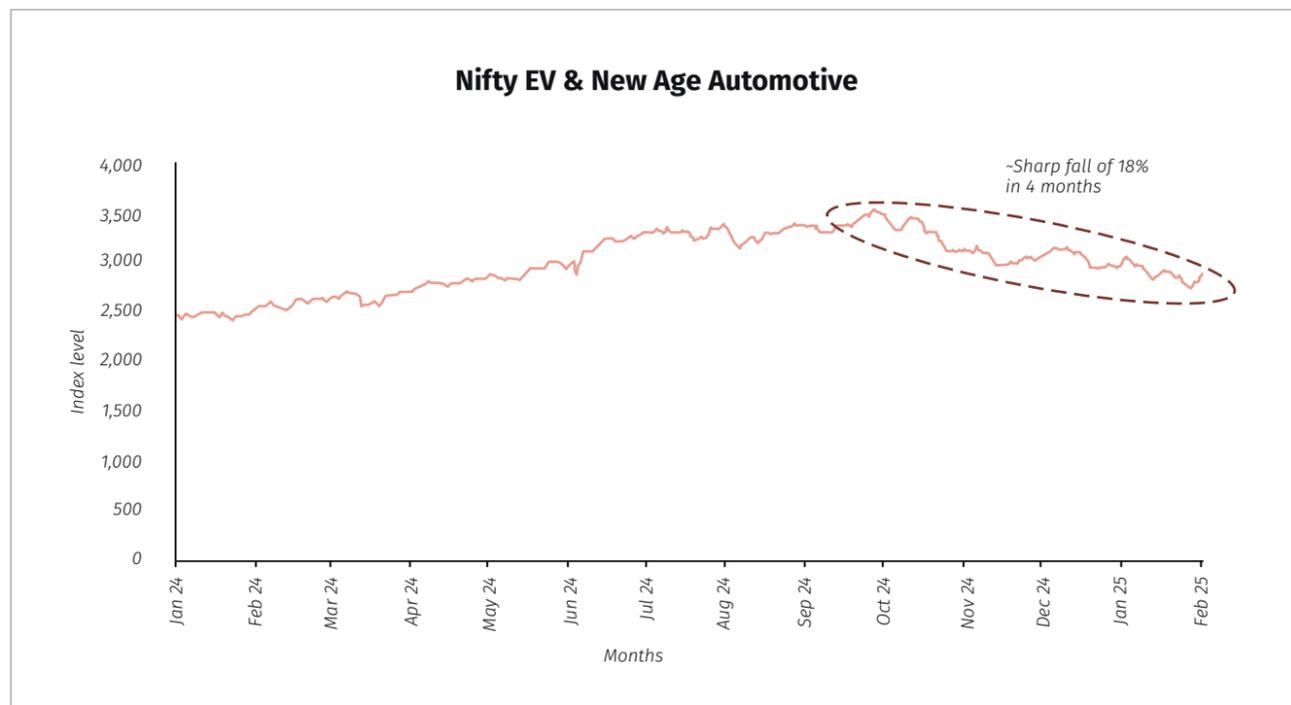


## 10

## Speaking of a 10-year horizon, do you see any sunrise sectors?

There are definitely some sectors to watch over the next decade. Traditional ones, like renewable energy, are already well-known, as is the electric vehicle (EV) space. EVs were a market darling two to three years ago, but

now stockpickers are reassessing their positions. It seems the enthusiasm might have been premature, as India's infrastructure for EVs is still developing and the high costs remain a barrier.



Source: NSE Indices

India is a value-driven market. Consumers here are not necessarily price-conscious but are deeply value-conscious—they need

to justify every penny they spend. This has led to a cooling down of EV-related stocks that were previously overhyped.

### Given these challenges, do you believe there will still be an EV boom in the next 10 years? Are there any positive trends regarding infrastructure for EVs?

While the challenges are evident, the long-term prospects for EVs remain promising. Infrastructure development is slowly gaining momentum and as the ecosystem matures, costs will likely come down, making EVs more accessible. If supported by

government policies, improved charging infrastructure and innovations in battery technology, the EV sector could still see significant growth over the next decade.

### Beyond renewables and EVs, what other spaces do you see emerging as sunrise sectors in the long term?

Apart from renewables and EVs, data centres and artificial intelligence (AI) investments are showing strong potential. The increasing reliance on cloud computing, digital transformation and the AI-driven

economy will likely fuel growth in these areas. Trends like 5G, automation and digital infrastructure expansion further point to a rising demand for these sectors.

## 11

### We have seen a very sporadic increase in thematic and sectoral funds in the market. So given that, how do you think your fund, the SMURF, will be able to get not just inflows but also perform better in the coming months to go forward?

To understand the Shriram Multi Sector Rotation Fund (SMURF), you need to first grasp the thesis behind it. What we observed is that sectors and themes move through cycles. But the challenge for investors is timing—figuring out when to enter or exit a sector.

This often leads to what we call a “sector trap.” For example, if you enter a sector too late, you might get stuck for a couple of years while waiting for it to turn around. That can be frustrating, right?

Interestingly, the idea for this fund actually came from feedback we received from our distributors, partners and advisors. Many of them had stopped recommending sectoral funds for the same reason.

So, the feedback was clear: Why not let the AMC handle the sector rotation? Using research and analysis, we could identify trending sectors and rotate across them. That's how the concept took shape.



We spent about a year doing the groundwork, conducting research, analysing data and testing various models to determine

which approach would work best. The solution we arrived at was this: focus on the top five or six trending sectors at any given time and build a portfolio around them.

By doing this, the probability of outperformance increases significantly. Plus, we diversify the risk by spreading the exposure across multiple sectors. At the same time, we're rotating—we continuously analyse which sectors are underperforming and replace them with the next upcoming ones.

For the investor, this means that at any point in time, they're getting exposure to what we believe are the best-performing sectors. Within those sectors, we also pick the top-performing stocks.

The backtested data has been encouraging; it shows that this model works. Yes, it can be a bit volatile because we're frequently moving sectors in and out. But what we've noticed is that sectors often stay in the top five or six for at least three months and, in some cases, even a couple of years or more.

So, while there is some inherent volatility, the strategy seems to work well over the long run. It has been delivering strong returns compared to conventional strategies, which is what we aim for with this approach.