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Bajaj Finserv Flexi Cap Fund Future-Ready Investment – Megatrend Strategy

What are megatrends?

- Megatrends are powerful, transformative forces that can change the trajectory of the global economy by shifting the priorities of societies, driving innovation and redefining business models, over a long period of time.
- Unpredictable markets and evolving economic conditions make long-term investing difficult. Megatrends offer the potential for enduring growth that transcends interest rate cycles, inflation trends and market volatility.
- At Bajaj Finserv Asset Management Limited (Bajaj Finserv AMC), we thrive to identify the key megatrends of our time, unveil the forces driving them, and discern the investment opportunities they create.
- Megatrends help anticipate the future, and hence become a powerful tool for investment decision making. We ask ourselves – in this future that we anticipate, which assets could perform well, and which ones could underperform? We then use the insights to help shape our investment decisions.

Why megatrends?

- It is generally difficult to consistently identify individual companies which will thrive over long-term, but it's relatively simpler to identify broad trends and themes with exponential growth potential.
- Looking at financial markets from a megatrend perspective allows investors to cut through short-term noise and focus on key long-term changes.
- Megatrend investing also help investors look beyond rigid sectoral or market cap classifications, which does not provide any insights in analysing future growth potential of companies, and in risk mitigation through diversification. Rather, we focus on evaluating the relative potential of individual trends and diversify our positions across the trends with highest potential which makes the portfolio more future aligned.
- Equity returns tend to be unevenly distributed over time, industries, and individual stocks, as shown by numerous empirical studies. However, equity returns do correlate with profit stream dynamics, which is driven mostly by long-term trends. Thus, a megatrend approach is better suited for tracking profit movements and benefitting from them.
- Megatrends approach also helps to negate behavioural biases. Investors often linearly extrapolate their recent experiences while making future projections (recency bias) while ignoring non-linear changes. Megatrend investing helps in understanding long-term, non-linear changes (directionally if not quantifiably) and benefit from the short-term market biases.

What are the sources of megatrends?

- We have identified the following sources for key megatrends:
Technological (T) + Regulatory (R) + Economic (E) + Nature (N) + Demographic (D) + Social (S) = TRENDS

How does the Megatrends approach translate into portfolio?

- We follow our INQUBE (**IN**formation edge + **QU**antitative edge + **BE**havioral edge) investment philosophy to arrive at a portfolio of high growth companies using the megatrends approach.

Trend assessment and stock selection process:

- We have identified the current megatrends which fulfil the three criteria – monetizable, large scope and right phase of life cycle.
- Selected the businesses and management that can capitalise on the opportunity stemming from these megatrends. A detailed financial due diligence is then carried out to understand the financial standing of the companies, and an appropriate valuation zone for the business is ascertained.
- During this process, we use several behavioral tools that are part of our INQUBE philosophy – behavioral screening, checklists, pre-mortem, investment journals, pre-commitment that refines our stock selection and enables us to learn from past missteps.

Portfolio construction process:

- Using the megatrends approach as a layer on sectoral and stock selection, we have arrived at an investible universe of 240-280 companies, from a total market-cap based universe of 700 companies.
- We then use the stock selection process and tools mentioned about to narrow down to a megatrend portfolio of 40-60 stocks.

Why is Bajaj Finserv Flexi Cap Fund Approach Useful for Investors?

- Ignore noise, focus on long-term trends.
- Seeks to utilise holistic opportunity rather than unnecessary focus on market cap and sectors.
- Tracks profit pool movement.
- Targeted trend-based resource allocation.
- Can be part of investor’s core investment portfolio, given the long-term nature of the scheme.
- INQUBE investment philosophy brings information, quantitative & behavioral understanding to the portfolio.

Portfolio management process:

- Megatrends also play a key role in our portfolio entry and exit decisions.
- Our portfolio entry decisions are driven by near-term trend confirmation, and over/under reaction to negative/positive triggers.
- Similarly, exit decisions are driven by an over-reaction to long-term megatrends, emergence of a new mega-trend, and signs of long-term megatrend growth maturing.

How is Bajaj Finserv Flexi Cap fund (Megatrend approach) different?

- True to the label of a Flexi Cap fund.
- Rather than ‘going with the flow’, investing in megatrends means ‘anticipating the flow’.
- Embracing long-term trends – higher active share component vs. most other flexi cap funds.
- Relatively low turnover ratio.
- Forward looking nature of the scheme an advantage over passive funds (generally backward looking).

Riskometer#

This product is suitable for investors who are seeking*

- Wealth creation/capital appreciation over long term
- Investment in equity and equity related instruments across large cap, mid cap and small cap stocks

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

An open ended equity scheme investing across large cap, mid cap, small cap stocks.

#The product labelling assigned during the New Fund Offer is based on internal assessment of the Scheme Characteristics or model portfolio and the same may vary post NFO when actual investments are made.

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