

EXCLUSIVE INTERVIEW

“FROM A LONG-TERM PERSPECTIVE, THE OVERALL MARKET OUTLOOK REMAINS CONSTRUCTIVE, SUPPORTED BY FAVOURABLE STRUCTURAL TRENDS”

ANUP MAHESHWARI

CO-FOUNDER & CIO, 360 ONE ASSET

01 As a seasoned investment professional, what would you consider the most overlooked yet crucial macroeconomic indicator that could impact equity valuations over the next 3–5 years?

While macroeconomic indicators impact equity valuations in the short term, inflation dynamics are sometimes overlooked. While current valuations appear premium, the country's robust macroeconomic fundamentals provide a strong foundation for long-term growth. Investors should adopt a cautious approach in the short term, particularly in the small and mid-cap segments, where volatility and risks are higher. However, from a long-term perspective, the overall market outlook remains constructive, supported by favourable structural trends.

02 Earnings season has not been that robust compared to the kind of valuations we are trading at. Do you see some more stock-specific consolidation before a constructive trend can emerge?

Earnings growth has been encouraging post-COVID, which is partly reflected in the market's performance. However, valuations have expanded at a pace higher than underlying earnings growth, making future earnings a critical factor for market direction. Instead of stock-specific consolidation, we may see sectoral adjustments as markets digest current valuations. Market valuations are currently at the upper end of their historical range, with the price-to-book ratio exceeding 4x, while the BSE Sensex has traded between 2x and 4x about 85% of the time over the past 25 years. Historically, markets have traded within a broad range, and current levels suggest we're at the higher end of this range. For long-term investors, such periods of consolidation can present opportunities, emphasising the importance of a disciplined and time-horizon-focused investment approach.

03 In your experience, what are the common pitfalls that investors often face when navigating through cycles of economic uncertainty, and how can they avoid these mistakes?

Investors often misjudge risk during economic uncertainty. At low Price-to-Book ratios (say around 2), they become cautious and prefer safer opportunities like large caps, but I am of the view this might be a good time to consider alternative opportunities other than large caps, such as mid and quality small caps. At high valuations (around 4), they tend to chase riskier opportunities, such as aggressive small and mid-caps, while large caps may provide better risk-reward. Currently, as we are poised – a blend or mix looks ideas – with large caps looking slightly more attractive due to the performance of mid- and small caps.

04 360 ONE Asset has a strong track record in mid and large-cap investing. How do you approach identifying undervalued stocks in a market that is increasingly becoming efficient?

At 360 ONE Asset, we focus on identifying sectors with pricing power and structural growth potential. Sectors like telecom and cement, benefiting from price hikes and consolidation, stand out. Additionally, the pharmaceutical space, particularly contract manufacturing (pharma CDMO), shows promise, driven by global trends such as the U.S. BIOSECURE Act. The power sector, spanning renewables, generation, and transmission, also offers compelling opportunities. We maintain a disciplined approach, leveraging our expertise to navigate an increasingly efficient market while uncovering long-term value across sectors.

05 What is your philosophy regarding 'growth at a reasonable price' in the current market, and how do you balance the need for growth with the risk of overpaying for quality?

Different factors—growth, value, quality, and defensives—tend to perform in cycles. Our Secular-Cyclicals-Defensives-Value Traps (SCDV) framework keeps us agnostic to the growth vs value debate and helps position ourselves appropriately based on the stage of each market cycle. Following this, we maintain an overweight on the secular growth segment and underweight on value traps. We adjust allocations between cyclical and defensive sectors based on economic conditions and valuations. Our disciplined framework ensures a balanced mix of growth, value, and defensives, allowing us to focus more on bottom-up stock selection.

06 Given the ongoing evolution of financial technologies and AI-driven investing, how do you foresee these innovations reshaping the asset management industry in the next 5 years, and how is 360 ONE Asset preparing for this change?

The evolution of financial technologies and AI are transforming the asset management industry, enhancing efficiency, personalisation, and decision-making. Over the next five years, AI-driven insights and automation will further optimise portfolio management and client engagement. At 360 ONE Asset, we are integrating advanced analytics and AI tools into our investment processes while staying focused on human expertise, ensuring a balance between innovation and delivering consistent value to our clients. A testimony of that is our 360 ONE WIKI – a proprietary research management system that aids in managing analysts' recommendations, running screeners, recording & disseminating company information, documenting meetings, and maintaining internal models. It supports the team's collaborative culture and aligns with their investment strategy, all aided by leveraging technology and AI.

07 How does your PMS strategy approach sectoral rotations, and in times of market uncertainty, how do you decide whether to stay within a sector or completely pivot away from it?

Our sectoral rotation strategy aligns with the economic cycle—overweight on cyclical sectors during expansions and defensive ones during slowdowns. We use a combination of fundamental analysis and market indicators to guide these shifts, which are backed by our SCDV framework. In times of market uncertainty, we focus on risk management, pivoting to resilient sectors with strong fundamentals. We also assess macro factors like interest rates and inflation to adjust our allocations. While we make tactical adjustments, we typically avoid abandoning sectors entirely unless there's a fundamental shift that justifies it.

08 How do you deal with underperforming stocks within the portfolio? What is your exit strategy when a high-conviction stock no longer fits the long-term thesis of the fund?

If a high-conviction stock no longer aligns with our long-term thesis due to changes in fundamentals, valuations, or the economic outlook, we reevaluate its position within the portfolio. Using our SCDV framework, we focus on bottom-up analysis and reallocate capital to opportunities with stronger potential.

09 How does your SCDV approach account for potential mispricing of cyclical stocks during periods of market optimism or pessimism?

Our SCDV framework ensures a disciplined approach to portfolio construction. Secular stocks form the core, while value traps are the least preferred. We employ a high-conviction, bottom-up process across sectors and market capitalisations. Allocations between cyclical and defensive segments are adjusted based on the economic outlook and valuations, helping us navigate potential mispricing during periods of market optimism or pessimism while maintaining diversification and managing volatility effectively.

