



*Real **Value** lies  
Beneath the Surface*



## quant **VALUE FUND**

An open ended equity scheme investing in a well-diversified portfolio of value stocks

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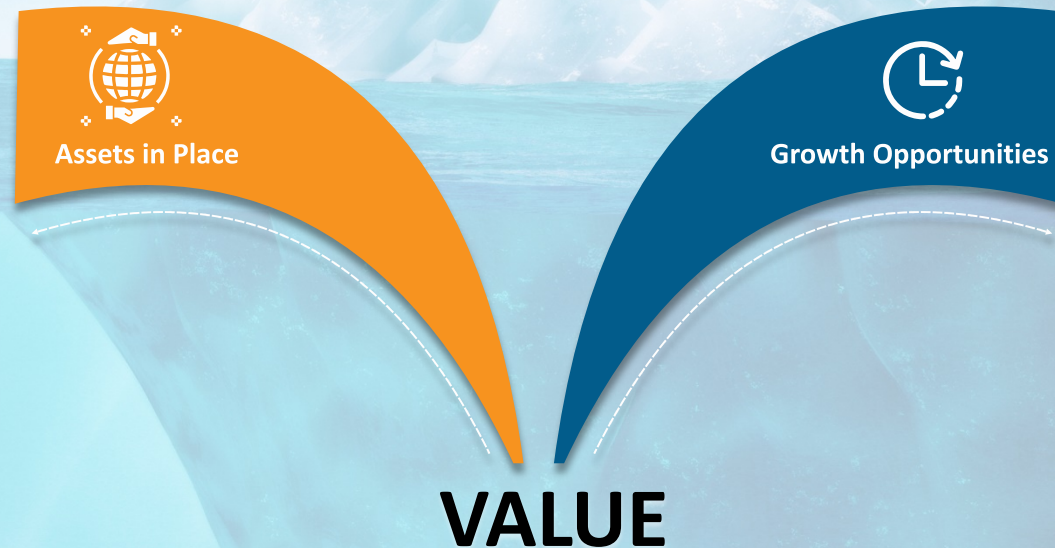
Value investing is traditionally defined as the practice of buying stocks that appear underpriced/undervalued and holding them until the market realizes their true value

In standard academic literature, a **value portfolio is typically defined as one with low price-earnings ratio, low market value to book value ratio, low price to cash flow ratio, or some other similar price-denominated metric** (Fama and French [1992, 1998], Chan and Lakonishok [2004])

**Investors often overreact to short-term trends.** Humanity's highly evolved ability to recognise patterns coupled with information overload, potentially leads participants to believe that they know exactly what will come next based on the recent past. Further, **participants often make up stories to post hoc "explain" recent events, making them even more over-confident about their extrapolations into the future. Recent events colour perceptions** and inevitably stories are constructed around these perceptions. To use Nassim Taleb's phrase, **participants are, in fact, "fooled by randomness"**

## What is Value?

According to Aswath Damodaran, the value of a firm is a function of investments that the firm has already made (assets in place) and expected future investments (growth opportunities)





**Value investing originated in the 1920s** at a time when investors were guided mostly by speculation and insider information. **Its introduction represented the first rational basis for investment decisions**

Much before Value Investing was popularised by the American duo of Graham and Dodd, **one of the first practitioners of this style of Investing was Roger W. Babson**, an American entrepreneur and theorist. **He used a valuation method to determine what he termed “normal” value by applying a suitable multiplier to average earnings.** **His investing philosophy, captured well in his book *Enduring Investments* (1921), was fundamental based, close to today’s typical notion of value investing**





## Passive/Mechanical Value Investing

built around screening for stocks that meet specific numerical criteria— two prominent ratios used are price to earnings (PE) and price to book value (PBV)



## Contrarian Investing

investing in companies that are against the general market trends



## Activist Value Investing

this form involves taking large positions in inefficiently managed, thus, poorly valued companies and making money from turning them around



## Cerebral Value Investing

incorporating other criteria such as management quality, solid moats, competitive advantages and other qualitative factors and ratios



It is perception and common knowledge that participants use to draw conclusions and not rationality

At quant Global Research (qGR), the research wing of quant Mutual Fund, our focus is to draw inference from 'Market Implied' data as opposed to an assumptions based analysis. **quant's Behavioral Indicators (including our Perception Indicator) for global economies are lingering at decade-high levels.** This not only underpins euphoria in the market but also brings forth extraordinary complacency in global equities. **If we look at these indicators individually, euphoria is more vivid for growth stocks as compared to value stocks**

**qGR's Perception Analytics for Growth Stocks has peaked out while those for Value Stocks have bottomed out**

The 'Perception Indicator' for Nasdaq & other global technology indices, the flag bearers of growth stocks for the past decade, have seen euphoric moves in the last one year; these technology stocks seem to be on the final leg of expansion in their valuation multiples. **qGR believes that with the nearing end of an up move in technology stocks, the perception surrounding the story of Growth stocks is peaking out.** The peaking characteristic of our 'Perception Indicator' indicates the probability of a trend reversal in the perceived valuation of stocks. Hence, a very important indicator in qGR's Predictive Analytics Framework



Multiple indicators are endorsing the fact that from a medium-to-long-term perspective, value stocks which have so far traded in the neglected territory will be the market outperformers in absolute as well as relative terms

## quant **VALUE** Fund | What makes Value Tick Now?

Value/Growth ratio is currently trading at multi-decade lows. We expect the ratio to head up towards the next resistance line (dotted) above before any further up move. This outperformance will signify the investors preference for Value stocks





*"You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right"*

— Benjamin Graham (2006)

Traditional  
Value  
Investing

Typically based on price-denominated metrics

Under-owned & Under-researched stocks

Stocks trading in the  
neglected categories

Asset Plays & Turnarounds

Quantitative Metrics & Ratios

Leverage-based analysis

Operating Financial

Perception  
Analytics

In line with our philosophy of looking beyond the obvious – **Value investing for us is not the same as its traditional approach**—a predefined program—that selects securities on the basis of a statistical measure indicating which ones are less expensive

Calculations of intrinsic value are usually more intricate and require more detailed knowledge of company and industry economics; these cannot be deciphered by simple financial ratios

Using Multi-dimensional research and Predictive Analytics, quant Global Research (qGR), the research wing of quant Mutual Fund endeavors to distinguish temporary cycles from permanent shifts and if the change is secular, to accurately estimate its impact. This is not a simple task. Worse, guidance from the past is limited for genuinely novel structural changes

Value  
Investing at



\*non-exhaustive list of factors

Given the widespread information overload we are all experiencing, it is important to go beyond the narrative of popular data points such as headline ratios and look beyond the veneer

At any given point in time, there are thousands, if not millions, of data points about an individual stock, sector, or the market as a whole. Some will be positive while others negative. **What is positive and what is negative is merely a matter of Perception. It is our biases that dictate how we perceive these data points**

**qGR prefers to focus on granular, audited data available from publically listed companies**

**We track global economic indicators** such as global liquidity, global risk appetite, demand-supply dynamics of commodities, global freight volumes and charges, energy usage and gross fixed capital formation as lead indicators of economic activity.

**Volume data for daily consumer items** and personal hygiene items along with fuel consumption are reliable indicators of consumption. Similarly, **consumer durable items and housing data** reflect actual discretionary expenditure

**All of these help us form a clearer picture of the economy and separate fact from fiction, eventually leading to accurate, meaningful datasets and more informed decision making**





*“A reliable way to make people believe in falsehoods is frequent repetition, because familiarity is not easily distinguished from truth”*

— Daniel Kahneman

Headline ratios are a simplistic measurement and the attention they receive is mostly due to their ready availability and easy external verifiability. However, caution is needed, singular use of earnings ratios such as the P/E, can be a poor measure of value. Further, **overdependence on statistical techniques can frequently give rise to the illusion and delusion of intrinsic value** and provide misleading comfort. **They are mere preliminary screeners and nothing more**

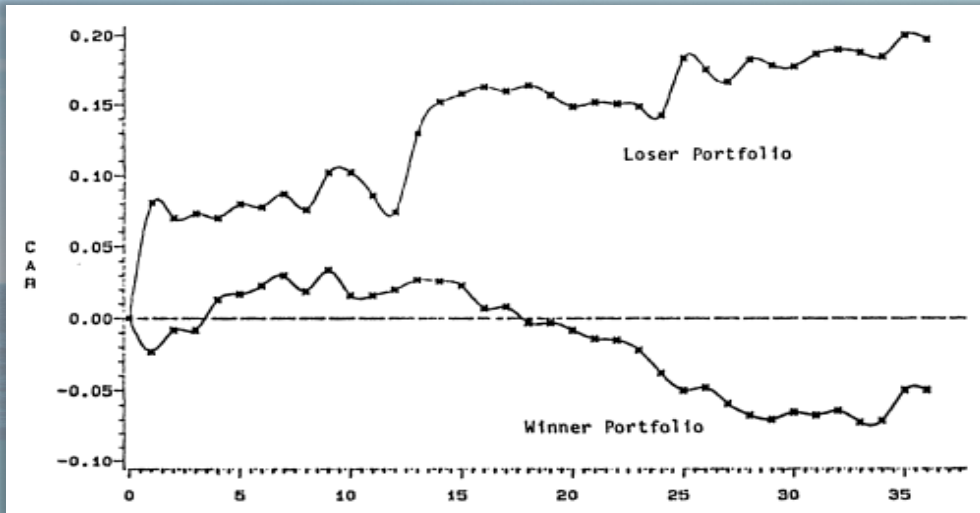
Many asset values on the balance sheet are not updated to reflect their current values, and earnings—whose cumulative, retained portion is included in book value—reflect systematic accounting biases (“conservatism”) and value-irrelevant (one-time) items – **this leads to a systemic error in computation of ratios, based on which decisions are made**

While value investing is premised on identifying stocks whose prices understate their intrinsic value and those who overstate it, there is **no universally accepted way of implementing the value strategy, leading to multiple value measures used in practice and academic research**

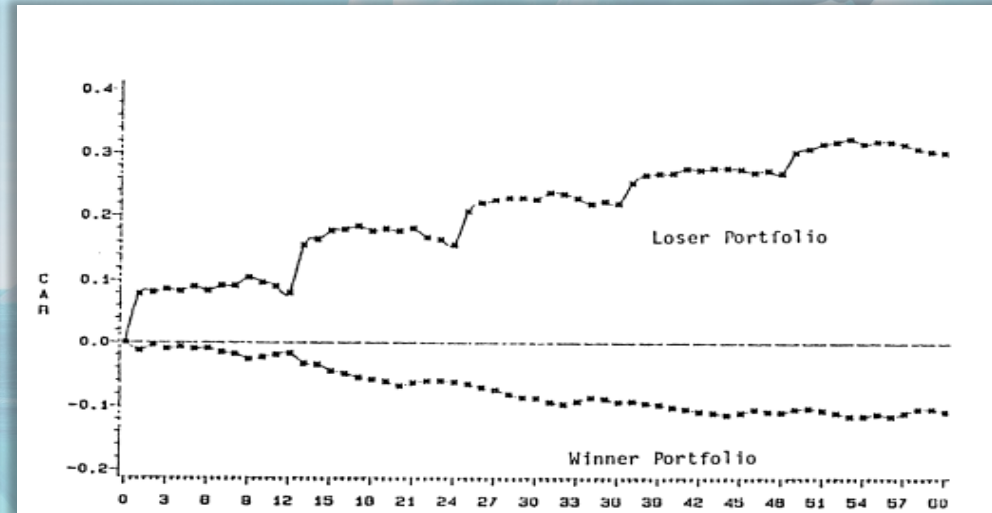
A firm investing heavily in intangibles – R&D, IT, brands, or business processes (e.g., customer recommendation algorithms), **may appear to be an overvalued company, due to its understated denominator of the market-to-book ratio, whereas in reality its valuation isn’t excessively high when book value is properly measured. This was not the case when the traditional form of Value Investing was prominent**

## Does the stock market Overreact?

Cumulative Average Residuals for Winner and Loser Portfolios of 35 Stocks (1-36 months into the test period) [monthly data NYSE]



Cumulative Average Residuals for Winner and Loser Portfolios of 35 Stocks (1-60 months into the test period) [monthly data NYSE]



The graphs presented here are a representation of our overreaction bias. In contrast to Baye's rule, **people overreact to unanticipated news events**. In a study, DeBondt & Thaler (1987), two prominent economists, found that **loser stocks, defined as the stocks that have gone down the most in the last year, deliver almost 20% more in returns than winner stocks, defined as stocks that have gone up the most in the last year; this is consistent across a three and five-year timeframe**

**At quant, using predictive analytics tools, we are able to quantify stocks that are trading in the neglected territory (out of favour) due to investors' overreaction. With time, the perception surrounding such stocks change, thus initiating mean reversion and potential outperformance due to improved perceptions**

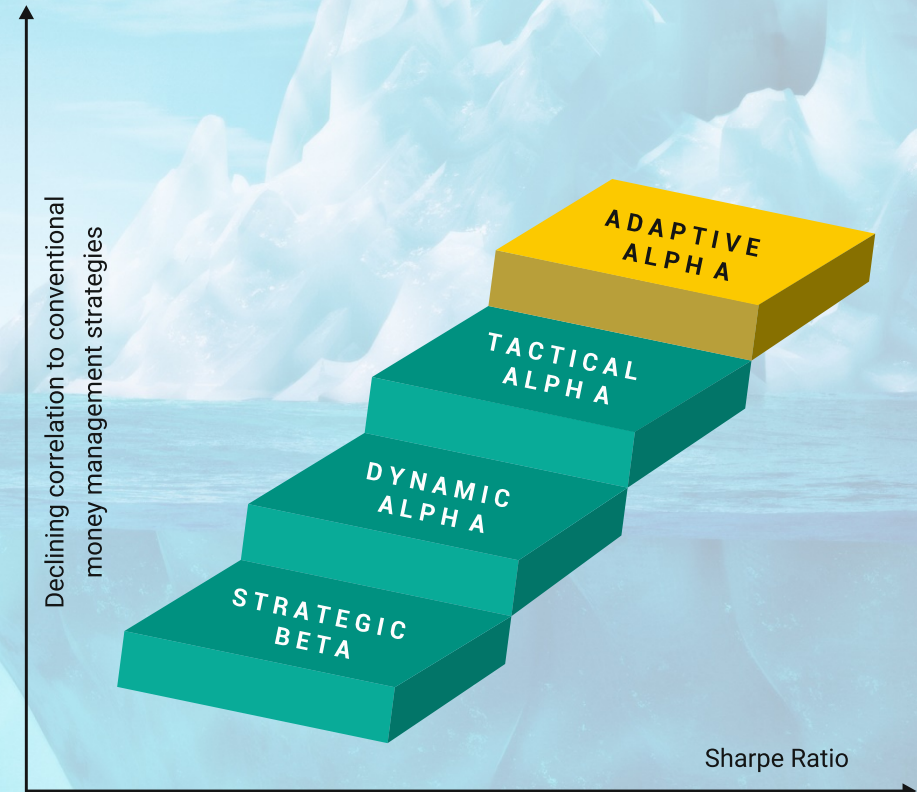


## Managed Volatility creates Alpha

**Alpha can be generated through exploiting informational inefficiencies in the market** – prescient identification of businesses and industries that benefit from fundamental economic shifts (Valuation), behavioural biases pushing price away from the true value (Liquidity) and macroeconomic and geopolitical developments that induce market volatility and opportunity (Risk Appetite)

**The focus on stock picking with less importance given to macro and sentiment-driven market behavior represents an important structural bias in both retail and institutional market participants. Adaptive alpha is the reward for understanding and investing based on those ignored valued components**

Markets do not price in what the participants do not seek value in, unless, there is a sound methodology devised to gain from the opportunity



## Leveraged Economy & Real Economy – What's the Link?

In contrast to the conventional beliefs, it's the leveraged economy that drives the real economy. Thus, studying this relationship helps us look beyond the obvious

## Volatility, Credit & Leverage

qGR believes that 2018 – 2023 will be remembered as the Volatility Expansion Phase (VEP). During this phase, traditional investment strategies will underperform; the dynamic way of money management will enable us to sail through the tides of volatility to deliver superior risk-adjusted-returns

## Liquidity Analytics

Liquidity in the 21st century seems to be part of a never-ending cycle. Studying this pattern is essential to understand the flow of money

## Earth Analytics

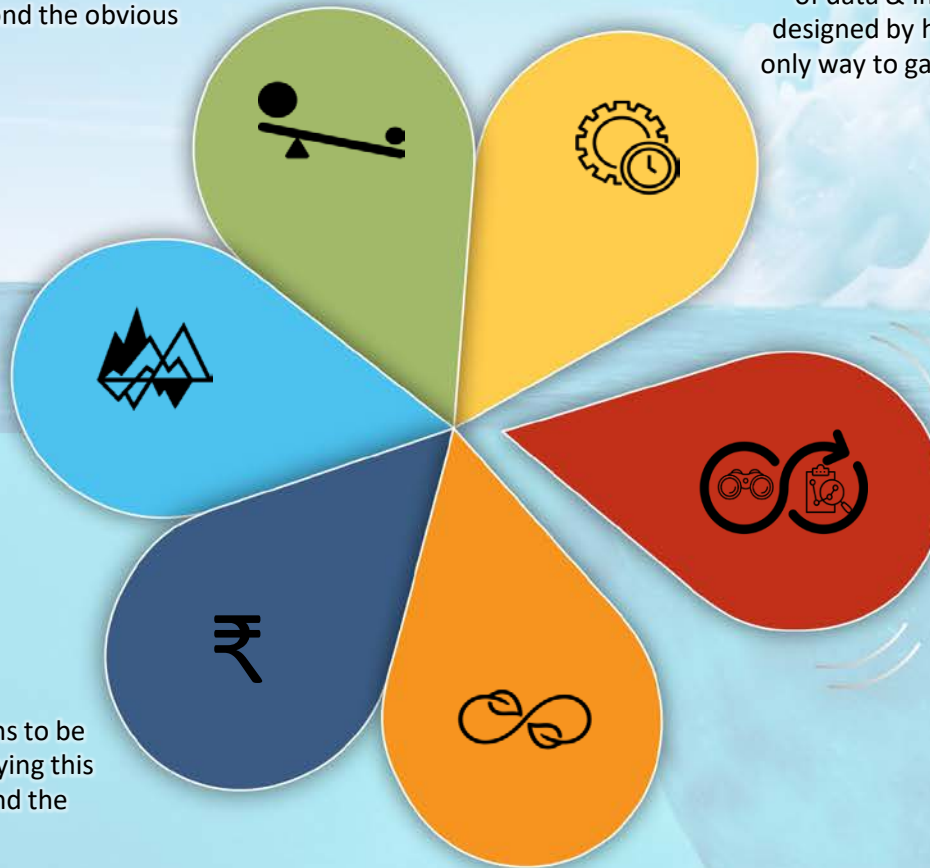
A relatively new area of research for us, zooming out to study the climate cycle reveals several socio-economic trends of great significance especially during transition phases between cycles

## The Physics of Time

quant's core Investment Principle is - Timing is Everything. In this digitized age, with an explosion of data & information, multi-variate models designed by humans but run by machines is the only way to gain Predictive Analytics power, thus, to stay relevant

## On the look out for the next new thing!

The paradigms mentioned here form a non-exhaustive list. In order to remain Relevant, quant Global Research is always working to incorporate new ideas and paradigms into its investment philosophy





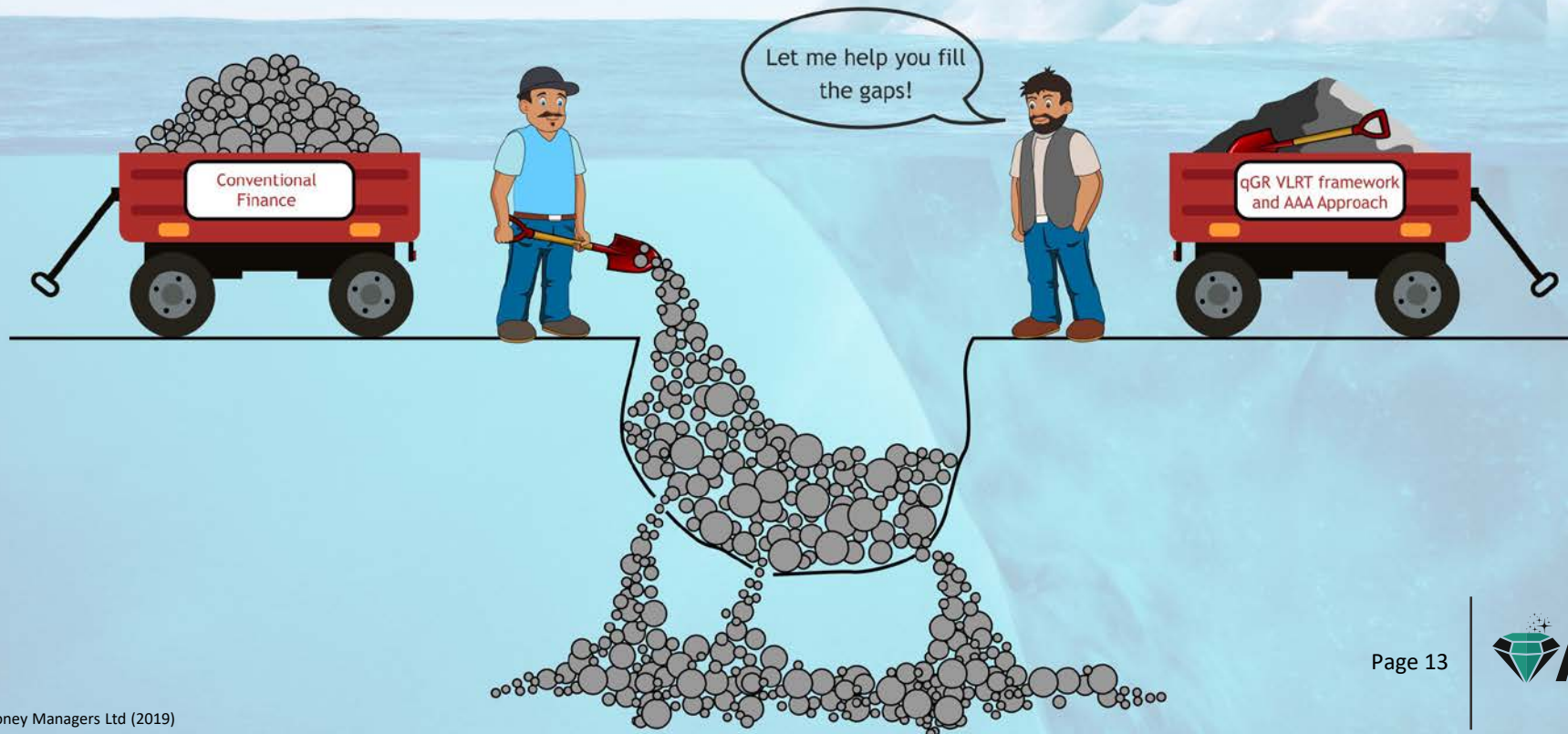
**Intrinsic value is not what trades are made on, but without real value, no price is justifiable**

**Valuation Analytics is the cornerstone of the entire investment process**

We strongly believe that **without a sound economic model along with strong governance and management capability, no entity can survive for long** and hence, no potential reward justifies the risk being taken

There is an important difference in how we analyse businesses and the macro environment. **We believe conventional analytical methodologies, which have existed for decades now, have several limitations**

Thus, **at qGR, we augment conventional analytical methodologies with various alternate tools: for instance, growth in electricity usage provides a check on the economic picture painted by the GDP number. Similarly, a deep analysis of management and directors can help weed out companies, which could become liable for regulatory or legal action**



# Intrinsic **VALUE** | A Novel Approach – Anchoring Each Investment Decision

## Step 1: Identification



### IDENTIFICATION OF STOCK

Proprietary quant Screeners

Promoter/FII/MF Flows

Corroborative Signal from Proprietary  
qGR indicators



### SCUTTLEBUTT

Verify company claims with channel checks,  
factory visits, employee interactions etc.

Assessing competition in the various parameters to  
judge the level of business outperformance



### MOAT ANALYSIS

Understanding Industry dynamics

Assessing the long term sustainability of the  
competitive advantage

Analyzing the key drivers of business value

## Step 2: Valuation



### PROBABILITES

Multiple probabilistic scenario  
analysis and predictive modeling  
for better decision making under  
uncertain environments.



### CORPORATE GOVERNANCE

Analysis of management  
intent and examination of  
corporate governance  
standards within the  
organization.



### CASH FLOWS

The best gauge of capital allocation  
abilities. Multiple probabilistic  
scenario analysis and predictive  
modeling for better decision making  
under uncertain environments.



### VALUATION PARAMETERS

Applying theoretical and perception  
multiples to arrive at the most  
optimal value of the business for  
effective market timing strategy.



### LEVERAGE INVESTIGATION

Understanding the liquidity and  
debt profile of the company,  
holding co and associates,  
alongwith industry peers, to gauge  
business resilience to shocks.

## The Guiding Voices



PAT  
DORSEY

Unless a company has some kind of economic moat, predicting how much shareholder value it will create in the future is pretty much useless, regardless of what the historical track record looks like. Looking at the numbers is a start, but its only a start. **Thinking carefully about the strength of the company's competitive advantage, and how it will or wont be able to keep the competition at bay, is a critical next step**



THOMAS ROWE  
PRICE JR.

Every business is manmade. It is a result of individuals. It reflects the personalities and the business philosophy of the founders and those who have directed its affairs throughout its existence. **If you want to have an understanding of any business, it is important to know the background of the people who started it and directed its past and the hopes and ambitions of those who are planning its future**



**Dynamic Money management**– our role as dynamic money managers is to smooth out returns when value factors are underperforming. This is how our approach can offer better investment outcomes over both the long and medium term than conventional “smart beta” portfolios

An investment process based on maximising the odds of being right in the long run, but which makes no claims to be able to predict the immediate future, thus, requires an elongated investment horizon

**The key is to not get distracted by the popular narrative being propagated as the gospel truth in the markets. Using Predictive Analytics tools, our endeavor is to decipher the true stature of the market. This enables us to determine an appropriate perceived valuation multiple of a liquid & traded class/ sector/ stock**

### **BUY**

When the stock is at an inflection point – inching away from the Most Neglected and are in the early phases of the Admired territory

### **SELL**

When a stock has touched its inflection point and started drifting away from the Most Admired Category

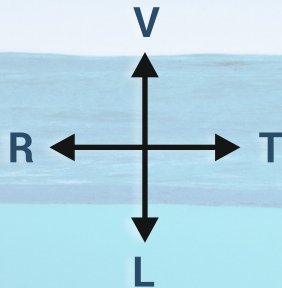
## *Being Relevant with 'predictive analytics'*

### VALUATION ANALYTICS

Knowing the difference between price and value.

### RISK APPETITE ANALYTICS

Perceiving what drives market participants to certain actions and reactions.



### TIMING

Being in sync with the waves of value and behaviour

### LIQUIDITY ANALYTICS

Understanding the flow of money across asset classes.

The core engine that drives us and sets us apart is a robust and differentiated investment framework that enables us to see beyond the horizon and stay relevant. Our unique analytical framework for enabling 'predictive analytics' encompasses all available asset classes and sectors, formulating a multi-dimensional research perspective

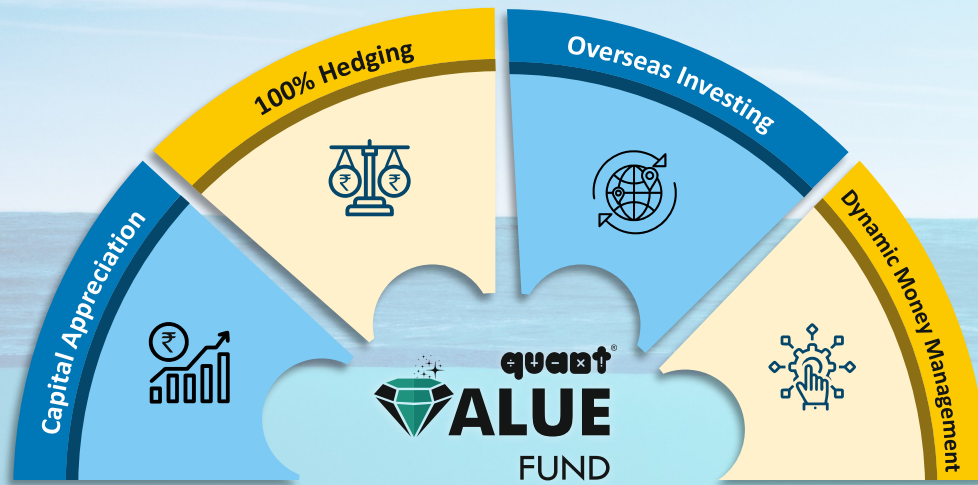
#### Why multi-dimensional?

The markets are a complex, dynamic system. There is no one formula or strategy or perspective that can consistently outperform

**A diverse set of variables and participants are continuously interacting with each other in myriad ways**

In the face of this uncertainty and complexity, instead of limiting ourselves to any one school of thought **we have found consistent success by studying markets along four dimensions: Valuation, Liquidity, Risk Appetite, and Time [VLRT]**





### Capital Appreciation over the medium and long-term

This scheme intends to invest in equity & equity related instruments with an endeavor to deliver superior risk-adjusted returns with **No Exit Load**

### 100% Hedging

The scheme may take exposure to derivative instruments unto 100% of net assets for hedging purposes. In volatile scenarios, this allows the scheme with greater flexibility to sail through the tides

### Up to 35% Overseas Investment

The scheme allows investments in Developed Markets where large volumes of historical data points for building novel quantitative investment models is widely available

### Dynamic Money Management

Using the VLRT Investment Framework and Predictive Analytics, quant adopts a Dynamic style of Money Management During hyper-volatility and uncertainty, this allows the scheme to adapt and move with agility



## Sandeep Tandon | Chief Investment Officer

Sandeep is the founder & chief investment officer of the quant Group and has a vast experience of over 27 years in the capital markets. His journey in the money management business started in FY 1992-93 with GIC mutual fund (a JV partner with George Soros in India) where he was a trainee. He later joined IDBI Asset Management (now Principal Asset Management), where he was a founding member and was part of the core team that initialized the asset management business. He played a key role in devising, conceptualizing and marketing one of India's most successful mutual fund schemes: IDBI I-NITS 95. Furthermore, Sandeep worked in pivotal positions at several reputed financial services firms including ICICI Securities (a JV partner with J P Morgan in India), Kotak Securities (a J V partner with Goldman Sachs in India) and REFCO (erstwhile global derivatives firm). He has also worked at the Economic Times Research Bureau (a research wing of Bennett, Coleman and Company Limited).

Sandeep's credentials as a Global Macro Strategist are well established. He has channeled his vast experiences, interests and novel thinking into build the predictive analytics framework and the dynamic VLRT investment framework of the quant group. It is these frameworks coupled with his deep understanding of various asset classes at a global level, including, credit, commodities, equities and now digital currencies that enable Sandeep in definitive identification of market inflexion points and arrive at conclusive micro and macro calls.

Sandeep has a strong belief in quant Group's role as a knowledge partner in creating awareness about latest developments in investment philosophy and ideas, such as behavioral research. It is for this reason that he believes investor education is of utmost importance and the group, under his leadership, has undertaken many initiatives in this regard. Based on this belief Sandeep authored a book titled 'Being Relevant' which was published in May 2019. This book builds on research covering decades, even centuries of data points, distilled through quant's VLRT framework and predictive analytics indicators. The book further outlines the potential trajectory for the world in the coming decades that can help money managers and investors prepare for volatile times which will upend the conventional analytical methods and beliefs of the past decades.

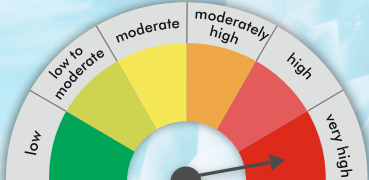
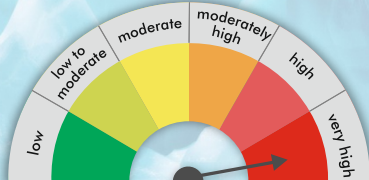



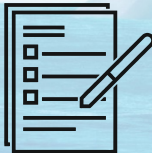

## Ankit Pande | Fund Manager




Ankit has an experience of over 9 years in Indian equities and over 3 years in software products. He started his career in core banking software with Infosys' Finacle, nurturing the product with large banking clients in APAC and small and mid-sized banks in India. He then moved in to equity research, along the way picking up the (U.S. based) CFA charter and a masters in business administration from The Chinese University of Hong Kong in 2017, being placed on the school's Dean List. He won the Thomson Reuters StarMine Award for best stock picker in the IT sector in 2014 and is a lifetime member of the Beta Gamma Sigma academic honour society. Over 2015-2019, Ankit ventured into seed stage fund raising, equity sales & relationship management in APAC. In his spare time, Ankit likes to read books on business cycle theory, macroeconomics & geopolitics.



NFO Period	New Fund Offer Opens on: <b>10<sup>th</sup> November 2021</b> New Fund Offer Closes on: <b>24<sup>th</sup> November 2021</b>
Investment Objective	<ul style="list-style-type: none"> <li>Capital appreciation over long term</li> <li>Investments in a well-diversified portfolio of value stocks</li> </ul>
Benchmark Index	NIFTY 500 Value 50 TRI
Investment Category	Thematic - Value
Plans Available	<b>quant Value Fund</b> – Growth Option – Direct & Regular <b>quant Value Fund</b> – Income Distribution cum Capital Withdrawal Option (Payout & Re-investment facility)– Direct & Regular
Entry Load	Nil
Exit Load	<b>Nil</b>
Fund Managers	Mr. Sandeep Tandon   Mr. Ankit Pande   Mr. Sanjeev Sharma   Mr. Vasav Sahgal
Minimum Application	Purchase: Rs.5,000/- plus in multiple of Re.1 thereafter
Amount during the NFO and onwards	Additional Purchase: Rs. 1,000/- and in multiples of Rs. 1/- thereafter Repurchase: Rs. 1,000/-
Systematic Investment Plan (SIP)	Rs. 1000/- and multiple of Re. 1/-
Switches	Switch-in requests from equity schemes and other schemes will be accepted up to November 24 <sup>th</sup> , 2021 till the cut-off time applicable for switches.
Bank Details	<b>Account Name:</b> QUANT VALUE FUND-COLLECTION A/C <b>Account Number:</b> 57500000794211 <b>IFSC Code:</b> HDFC0000060, Branch: HDFC, Fort, Mumbai 400001
RTGS and Transfer	Till the end of business hours on: <b>24th November 2021</b>
MICR	Till the end of business hours on: <b>24th November 2021</b>

<p>quant Value Fund is an open ended equity scheme following a quant based investment theme. This product is suitable for investors who are seeking*:</p>	<p><b>Scheme Riskometer</b></p>	<p><b>Benchmark Riskometer</b></p>
<ul style="list-style-type: none"> <li>• Capital appreciation over long term</li> <li>• Investments in a well-diversified portfolio of value stocks</li> </ul>	 <p>Investors understand that their principal will be at moderately high risk.</p>	 <p>Investors understand that their principal will be at moderately high risk.</p>
<p>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</p>		

LINKS		
		
<p>Scheme Information Document <a href="#">Click here</a></p>	<p>NFO Application Form <a href="#">Click here</a></p>	<p>quant Mutual Fund Website <a href="#">Click here</a></p>

ALSO AVAILABLE ON		
		



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