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What is Factor Investing?

In music, the magic of a performance is created through a blend of melody, rhythm, harmony, and timing.

Similarly, in investing, certain characteristics — called Factors — influence how a stock performs.

A symphony is orchestration of multiple instruments viz. violin, Flute, Trombone, Cello, Percussion etc. Arranged and executed well, the experience is deeper and meaningful

Factor investing is like that symphony — selecting stocks based on traits like Quality, Value, Growth, Size and Momentum to create a harmonious portfolio.

What makes the difference in music - It's not just one instrument, but orchestration of many.
In investing, it's not just a single Factor — but an appropriate blend of many

How is Factor Investing a smarter choice?

Time–tested Principles
Rule-based
Free from emotional bias Built on diversification

Passive Investing

Market / Index Return

Discretionary/ Active Management

Active Investing

A fresh take on investing: Traditional vs. Factor
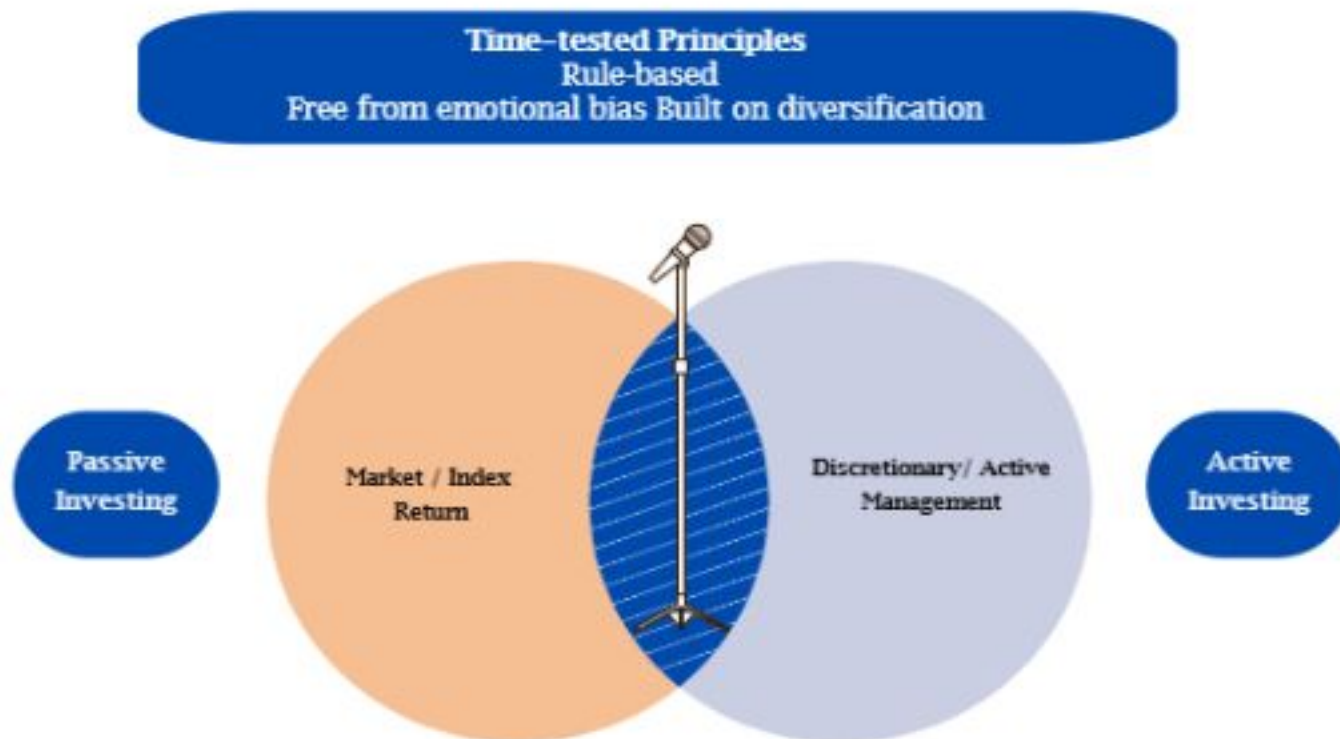
Key aspect	Traditional Investing	Factor Investing
Investment Style	Relies on **discretionary decision making by FMs,** based on fundamental and quantitative analysis.	Relies on **systematic data driven strategies** to select investments based on factors.
Portfolio Construction	Managing by **cap curve, sectoral allocation** and active **stock** picking.	By leveraging historical **evidence and statistical analysis** to deliver better risk-adjusted return.
Diversification	Through **traditional cap curve/ sector groupings/ asset class** and generating return through active allocation.	Through a different set of parameters – **growth, quality, value and momentum.**
Investment Behavior	Based on **fund manager's outlook.**	**Rule-based** investment decisions, minimizing human biases.

Established factor-based strategies

Each factor targets stocks with specific return-driving traits

Momentum

Focuses on stocks showing strong recent performance — based on the idea that winners often keep winning in the short-term.

01

Growth

Looks for companies delivering consistent increases in sales, profits, or assets — reflecting strong business expansion.

02

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Quality

Targets financially sound companies — with low debt, stable earnings, strong cash flows, and healthy return ratios.

04

Value

Identifies stocks trading below their intrinsic worth — based on valuation metrics like Price-to-Earnings or Price-to-Book, Replacement cost, etc.

Size: A layer for stability and enhanced risk-adjusted return

Established factor–based strategies

	Investor Bias	What It Leads To	Factor That Helps	How the Factor Helps
Trim the flowers and water the weeds	Loss Aversion	Selling winners too early and holding losers too long >>> Value Trap	Momentum / Quality	Tracks price trends and company health to stay objective
Seek information that supports our belief	Confirmation Bias	Selectively focus on information that supports belief resulting in buying high and selling low >>> Growth Trap	Growth	Focuses on real earnings growth, not just convincing stories
Focusing on the latest experience and forgetting the big picture	Recency Bias	Overemphasize recent strong numbers, ignoring historical details >>> Quality Trap	Quality	Anchors decisions on long-term company stability and fundamentals
Jumping off a cliff with the crowd is easier than thinking first	Herd Mentality	Chasing a stock by following others and expecting it to rise >>> Momentum Trap	Value	Identifies undervalued stocks and avoids overhyped trends

The term 'Factors' may sound new, but the idea isn't

1964
Sharpe, Lintner and Mossin developed the **Capital Asset Pricing Model (CAPM)**

1981
Banz finds that small cap stocks outperformed large cap stocks; Basu finds that low PE stocks generate higher returns

2003
First Smart Beta ETF Fund launched

1960
Separation of beta and alpha

Low Volatility
1970

1980
Size, Value

Size, Value, Momentum
1990

2000

2010

1972
Haugen and Heinz showed low volatility stocks realized extra risk-adjusted returns

1976
Launch of the first index mutual fund

1993
- Fama and French developed 3-factor model by adding size and value to the market factor
- Jegadeesh and Titman find that buying past winners and selling past losers was highly profitable

2015
Fama and French expand their asset pricing model by adding profitability and investment factors

2019
AUM in Smart Beta ETFs exceed USD 880 billion

> Skilled fund managers have long relied on these characteristics — like value, quality, or momentum — to guide their investment decisions.

Source: Wikipedia

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Factor performance across market cycles

Q — G — V — M — BSE 200 TRI
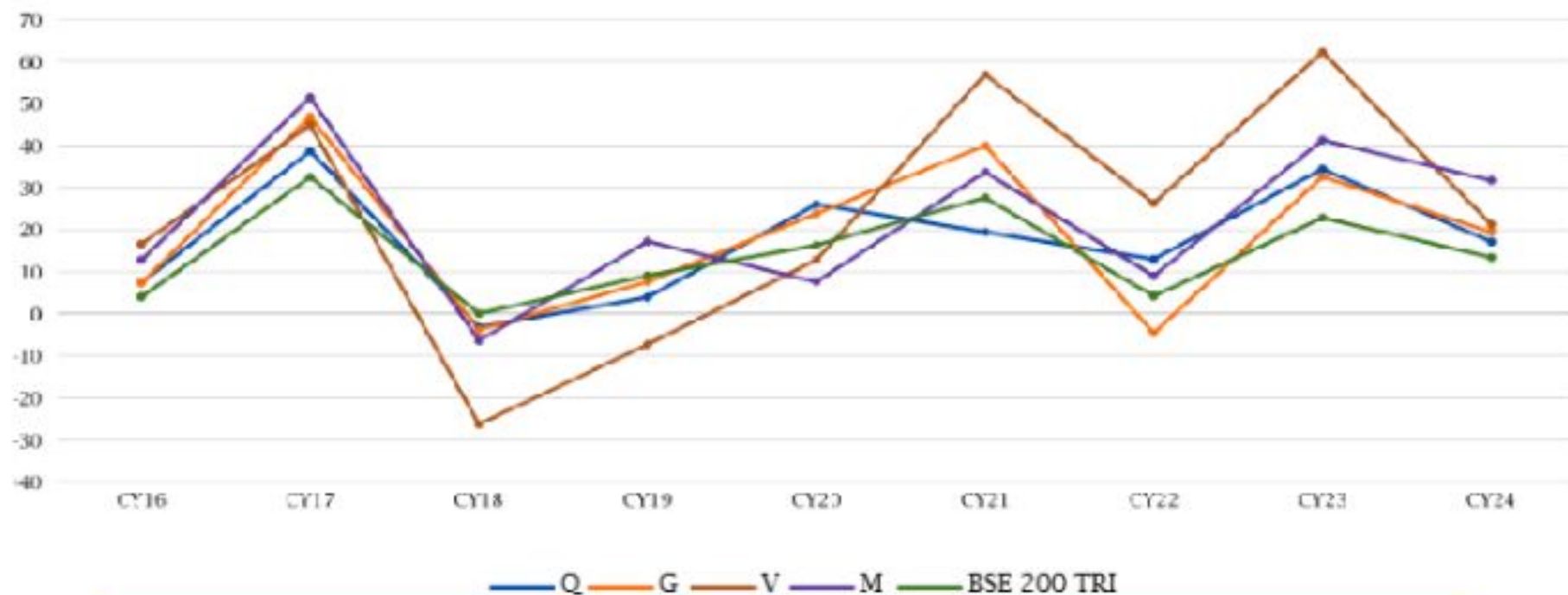
Each factor performs at different times — but none leads all the time. Combining them through a multi-factor strategy helps deliver more stable returns across changing market conditions.

Using multi-factor helps performance across market cycles

Annual Factor Rankings (2016–2024)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Rank1	V	M	I	M	Q	V	V	V	M
Rank2	M	G	Q	I	G	G	Q	M	V
Rank3	Q	V	G	G	I	M	M	Q	G
Rank4	G	Q	M	Q	V	I	I	G	Q
Rank5	I	I	V	V	M	Q	G	I	I

Distribution of Factor Rankings (2016–2024)

BSE 200 TRI	22%	11%	67%
Quality	33%	22%	44%
Growth	33%	33%	33%
Value	56%	11%	33%
Momentum	56%	22%	22%
Rank	1 & 2	3	4 & 5

All factors have individually outperformed the Index: Momentum and Value topped

Relying on a single factor is risky—markets move in cycles. Multi factor can mitigate cyclicity.

The Pillars of Factor-Based Investing

A structured approach to capture market opportunities

Quality
Financially strong companies with consistent earnings and low debt.

Momentum
Stocks trending upward capturing market trends in real time.

Growth
Companies with high earnings growth and reinvestment potential.

Value
Undervalued stocks based on fundamentals like low P/E or P/B ratios.

Size
Well balanced between Large and Mid Cap to maximize compounding while minimize risk.

Why Multi–Factor and not single factor approach?

Aspect	Single–Factor Investing	Multi–Factor Investing
Strategy	Focuses on one factor (e.g., Value or Momentum)	Combines multiple factors for holistic exposure
Risk	High risk during factor underperformance	Reduced risk through diversification
Consistency	Cyclical, performance depends on market trends	More stable returns over various cycles
Implementation Complexity	Investors/Advisors needs to constantly Switch in/out	Buy and stay invested for the long-term

Multi Factor model should

Be justified by research

Be implementable across time horizon and on the entire universe

Have exhibited significant return history

Protection history during bad times

Sundaram Multi-Factor Portfolio creation

Investment Universe

Currently **Top 250 companies** by market cap

Stock Selection

Stocks are ranked within each factor — Momentum, Value, Quality, Growth and Size—based on factor determinants

Portfolio Construction

The portfolio consists of the top 25 stocks selected within each factor. Additionally, top stocks are included based on the Size. Total Stocks ~85 after overlap

Monitoring & Rebalancing

Portfolio reviewed on a regular basis based on ranking and factor returns and rebalancing quarterly

Benefits of Sundaram Multi-Factor Fund

Momentum

Quality

Growth

Size

Value

Diversifies across multiple factors

Captures return efficiently while offering superior risk-adjusted return across market cycles

Through cross sectional approach, captures opportunistic sectors across cycles

Reduced concentration risk by diversifying

Sundaram Multi-Factor Model Portfolio vs Single Factor

Cumulative Amount(Lacs)

- 50.8
- 50.1
- 46.3
- 39.5
- 37.0
- 29.6

Legend: Q — G — V — M — Index — Model Portfolio
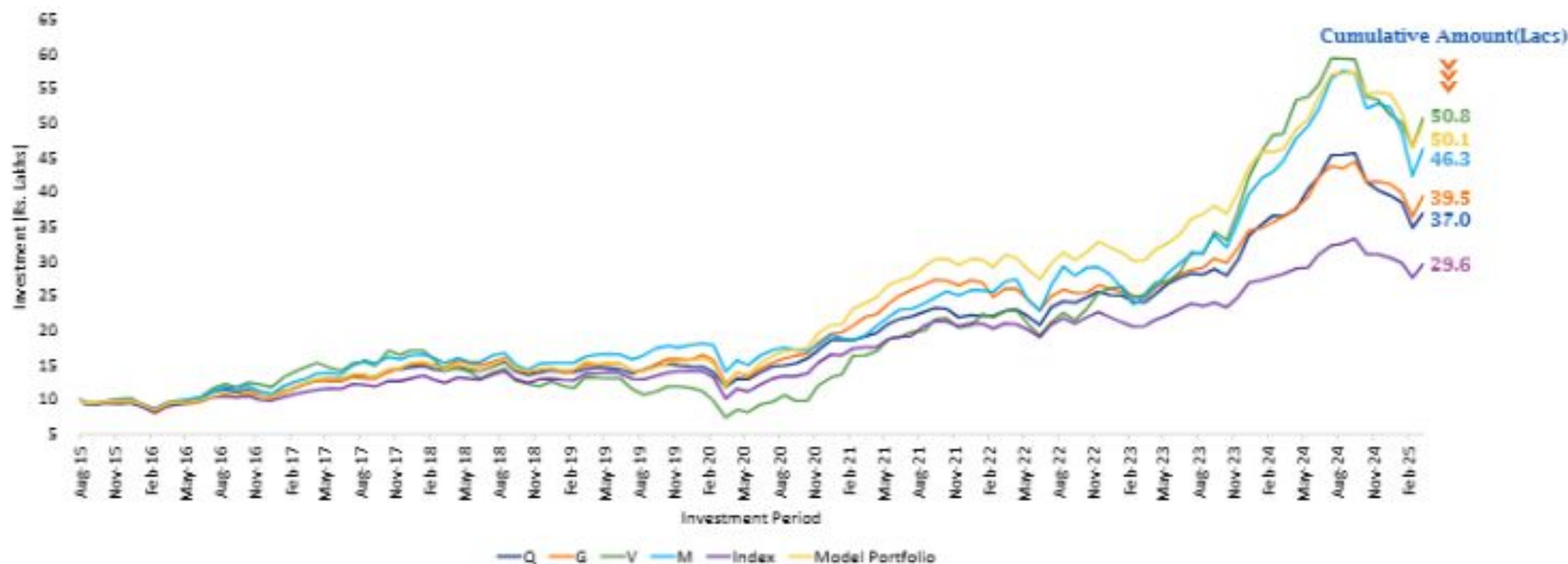
Sundaram Multi-Factor Model Portfolio closely trails the top-performing factor while outperforming momentum, quality, growth, and the index — offering a well-balanced return with reduced concentration risk.

It's not just Return, It's Risk–Adjusted Return

Single vs Multi–Factor Return Analysis

The Model Portfolio optimizes the trade–off between returns and volatility, positioning it more favorably on the risk–return spectrum than individual factor strategies.

Source: Bloomberg, Sundaram Asset Management
Data as of May 31, 2025
All returns are indicative and based on model assumptions and underlying indices; actual performance may vary

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Multi-Factor Model for Superior Risk-Adjusted Return

Factors	Return	Volatility	Risk-Adjusted Return
Quality	19%	20.2	0.94
Value	21%	22.8	0.92
Growth	18%	17.2	1.02
Momentum	20%	19.3	1.05
Model Portfolio	21%	17.6	1.19

Value provided higher return with higher volatility

Growth has least volatility with lowest return

All factors are cyclical

Sundaram Multi-Factor has the highest risk-adjusted return

Source: Bloomberg, Sundaram Asset Management
Data as of May 31, 2025, Volatility measured by SD, all data 1yr rolling basis since 2015
All returns are indicative and based on model assumptions and underlying indices; actual performance may vary

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Sundaram Multi–Factor Model: Outperformance

	3 Years Rolling Returns		5 Years Rolling Returns	
	Sundaram Model Portfolio	BSE 200 TRI	Sundaram Model Portfolio	BSE 200 TRI
Average Return	20.2%	13.5%	21.5%	14.0%
Maximum Return	37.5%	27.6%	32.9%	22.9%
Minimum Return	-2.9%	-4.1%	9.1%	4.1%
% of times outperformed BSE 200 TRI	100%		100%	

On a 3-year and 5-year basis the fund has **outperformed benchmark** at all times

Unlocking Opportunities

	Quality	Growth	Value	Momentum	Sundaram Model Portfolio
Up Capture	154.1	108.0	215.9	151.3	148.2
Down Capture	100.3	92.6	105.1	96.5	93.7

Sundaram Multi-Factor Model Portfolio has efficiently captured market upside opportunities and providing downside protection

Sundaram's Multi-Factor Fund Offers Low Inter-Factor Correlation

Correlation Analysis

	Value	Momentum	Quality	Growth	Sundaram Model Portfolio
Value	1.00	0.53	0.83	0.52	0.66
Momentum	0.53	1.00	0.49	0.72	0.88
Quality	0.83	0.49	1.00	0.69	0.63
Growth	0.52	0.72	0.69	1.00	0.72
Sundaram Model Portfolio	0.66	0.88	0.63	0.72	1.00

Sundaram Multi-Factor Fund offers **higher diversification** and effectively captures rallies across multiple factors

Sector Rotation Analysis of Sundaram's Model Portfolio vs Index


Sundaram Model Portfolio exhibits **dynamic sector rotation** and diverges from the benchmark in its top sector allocations, allowing for more responsive positioning across market cycles.

*BM (Benchmark) = BSE 200 TRI

Dynamic rotation of Model portfolio Vs BM (Jan '24 to Mar '25)

Jan-Mar 24		Apr-Jun 24		Jul-Sep 24		Oct-Dec 24		Jan-Mar 25		Benchmark- Mar 25	
Banks	25.1	Banks	20.4	Banks	21.7	Banks	23.5	Banks	24.6	Banks	22.5
IT-Software	10.8	Petroleum Prod	10.3	IT-Software	8.9	IT-Software	9.5	IT-Software	12.0	IT-Software	11.2
Petroleum Prod	7.3	IT-Software	7.0	Finance	7.1	Petroleum Prod	6.1	Pharmaceutical	8.6	Petroleum Prod	6.2
Finance	6.4	Power	5.9	Petroleum Prod	6.8	Pharmaceuticals	5.9	Petroleum Prod	6.2	Automobiles	5.4
Power	5.2	Automobiles	4.7	Electrical Equip	5.3	Capital Market	4.1	Finance	5.2	Finance	5.2
Electrical Equip	4.1	Finance	4.7	Auto Component	4.7	Electrical Equip	4.1	Telecom	4.8	Pharmaceuticals	4.6
Automobiles	3.5	Constuction	3.6	Aerospace & Def	4.7	Finance	3.5	Capital Markets	4.6	Diversified	4.2
Ferrous Metals	2.9	Realty	3.5	Power	4.1	Auto Component	3.5	Insurance	2.9	Power	3.5
Pharmaceuticals	2.9	Consumer Dur	3.5	Automobiles	3.6	Insurance	2.9	Healthcare Serv	2.9	Telecom	3.2
Minerals & Mini	2.3	Electrical Equip	2.9	Diversified FMCG	2.9	Diversified FMCG	2.8	Consumer Dur	2.3	Retailing	3.1
Total	58.4		59.2		63.2		59.2		68.0		69.1

Top ten sectors and color-coded top five based on Jan-Mar 2025 - Model Portfolio

Sector allocation of Sundaram Model Portfolio

Top 10 sectors overweight and underweight analysis

2015

2018
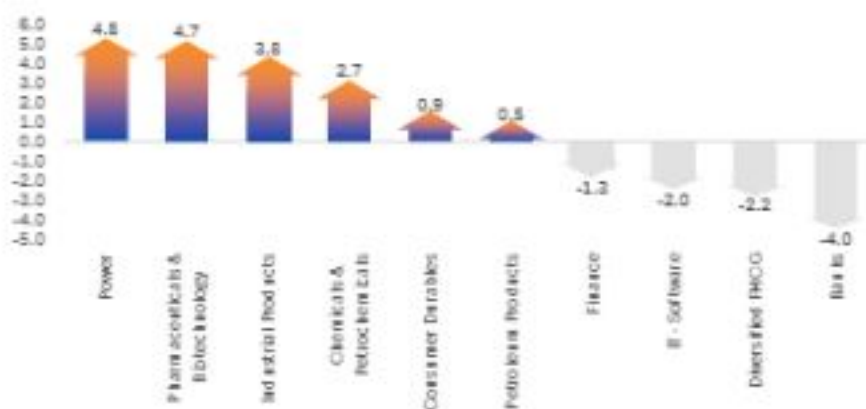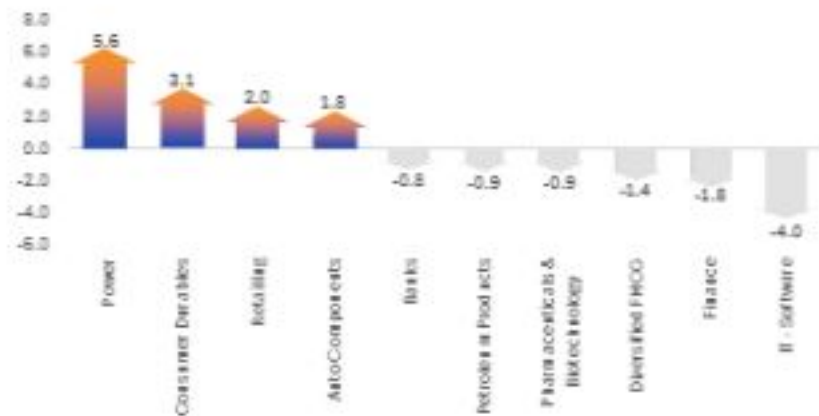
Through multi-factor selection, the model portfolio adapts differently across various cycles, positioning itself uniquely compared to conventional indices and other diversified funds.

Smart Sector Positioning Enhances Returns

Top Overweight Sectors in CY 2023

Sector	Value
Electrical Equipment	3.2
Finance	1.6
Power	1.5
Ferrous Metals	1.1
Banks	0.8
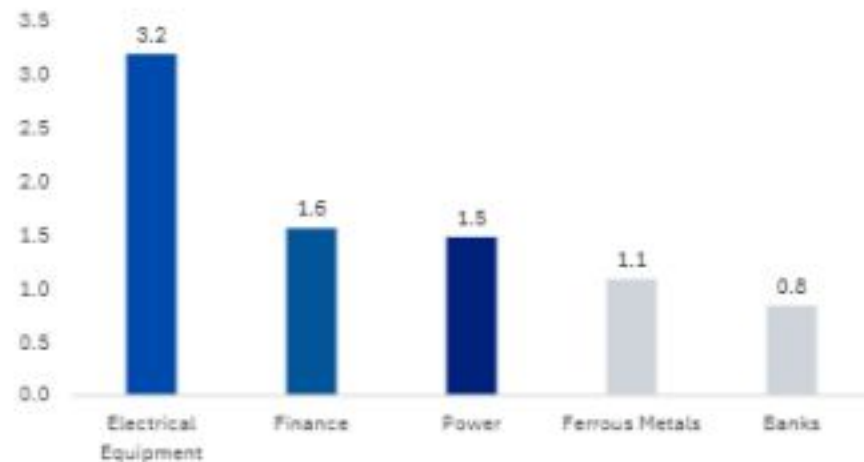
2024 Outperformance vs BSE 200 TRI
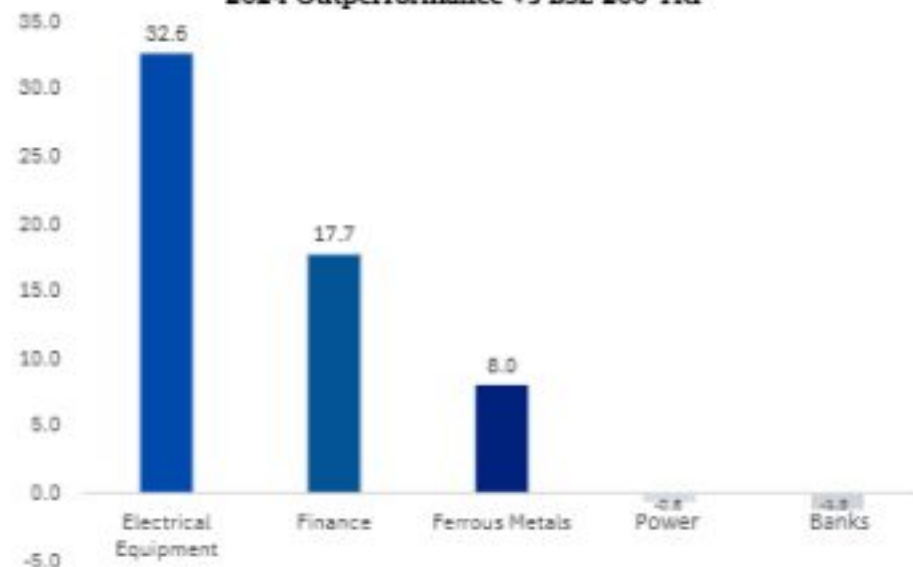
Sector	Value
Electrical Equipment	32.6
Finance	17.7
Ferrous Metals	8.0
Power	-0.8
Banks	-0.8

Sundaram Model Portfolio exhibits dynamic sector rotation and diverges from the benchmark in its top sector allocations, allowing for more responsive positioning across market cycles.

Sundaram Model: Market Cap Allocation
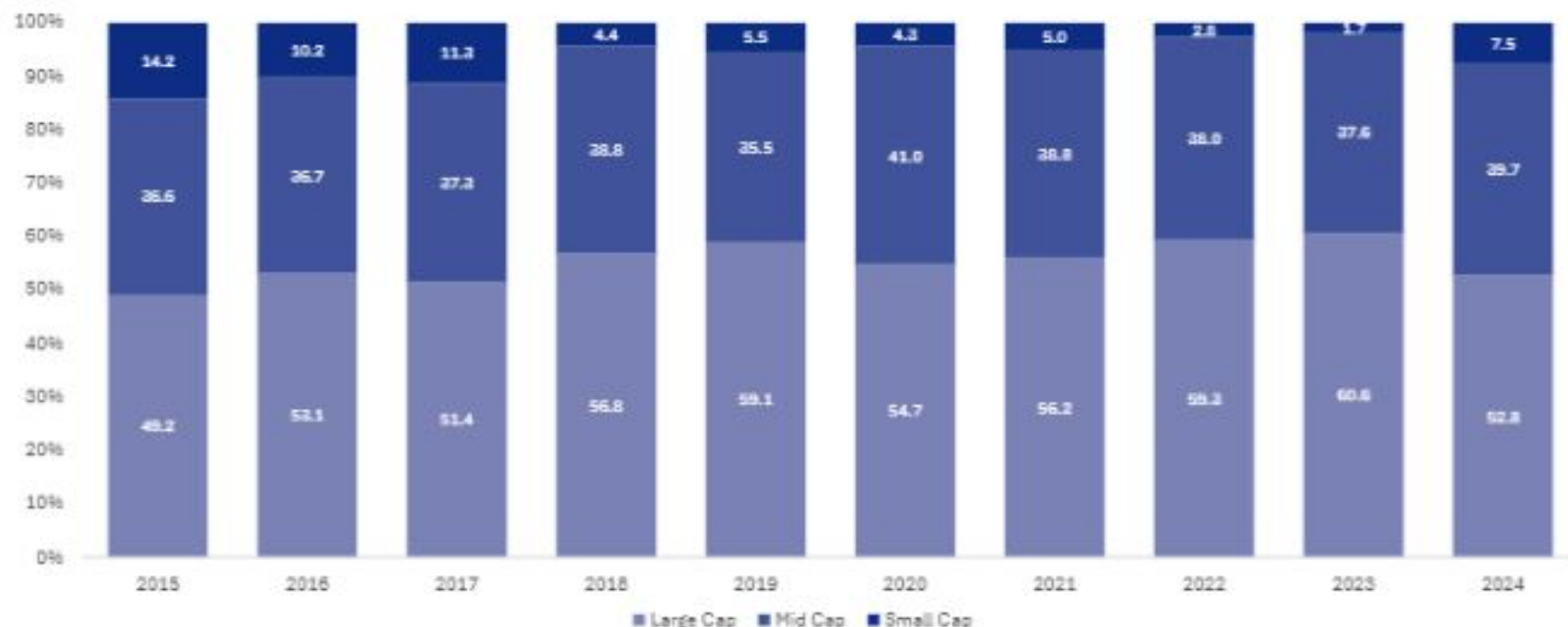
Large-cap and mid-cap universe correlates with stability, lower volatility and growth in uncertain market conditions

Sundaram Multi–Factor Model – CY Returns vs Index
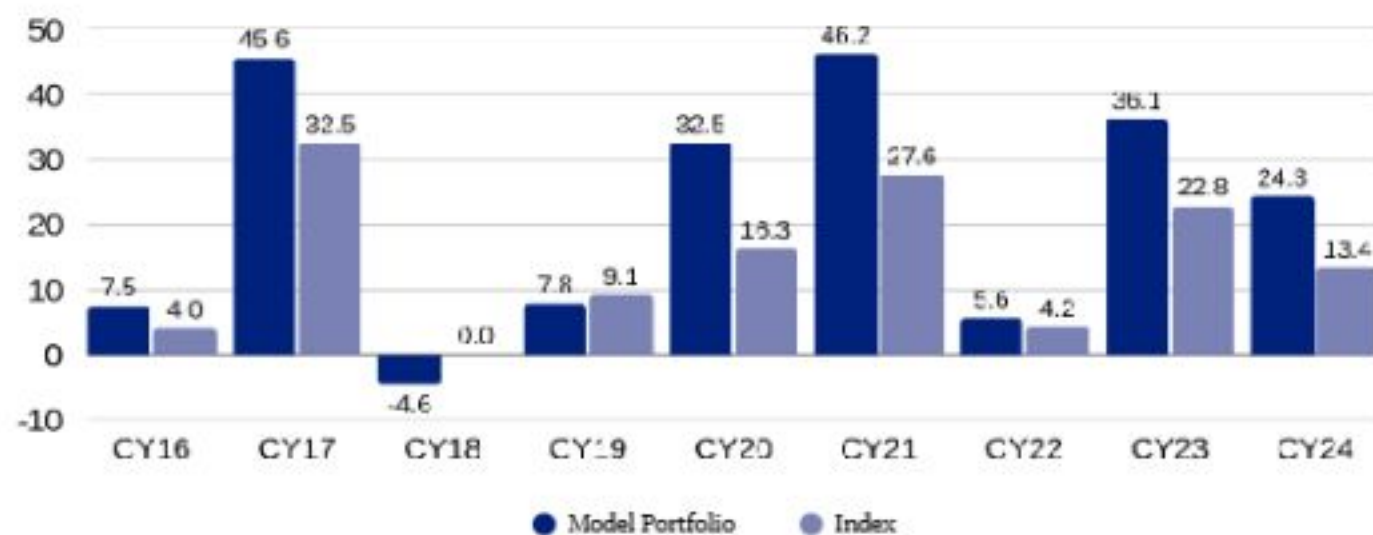
Rs. 1 Crore Journey in Model Portfolio vs Index

₹1 crore **grew to approximately ₹5.5 crore in Sundaram Multi-Factor Model Portfolio**, compared to ₹3 crore in BSE 200 since 2015.

Strong Recent Performance During Volatility

Legend: Model — BSE 200 TRI

Callout values: 23.9%, 16.6%

Sundaram Model Portfolio' Uniqueness

Overlap vs BSE 200
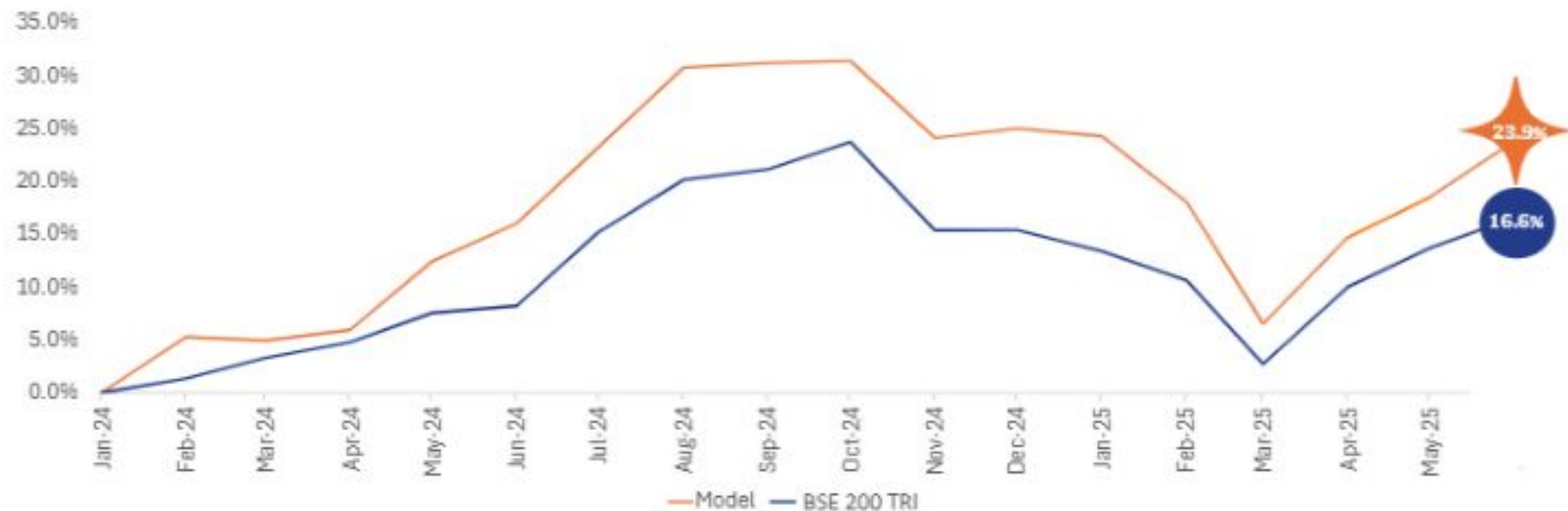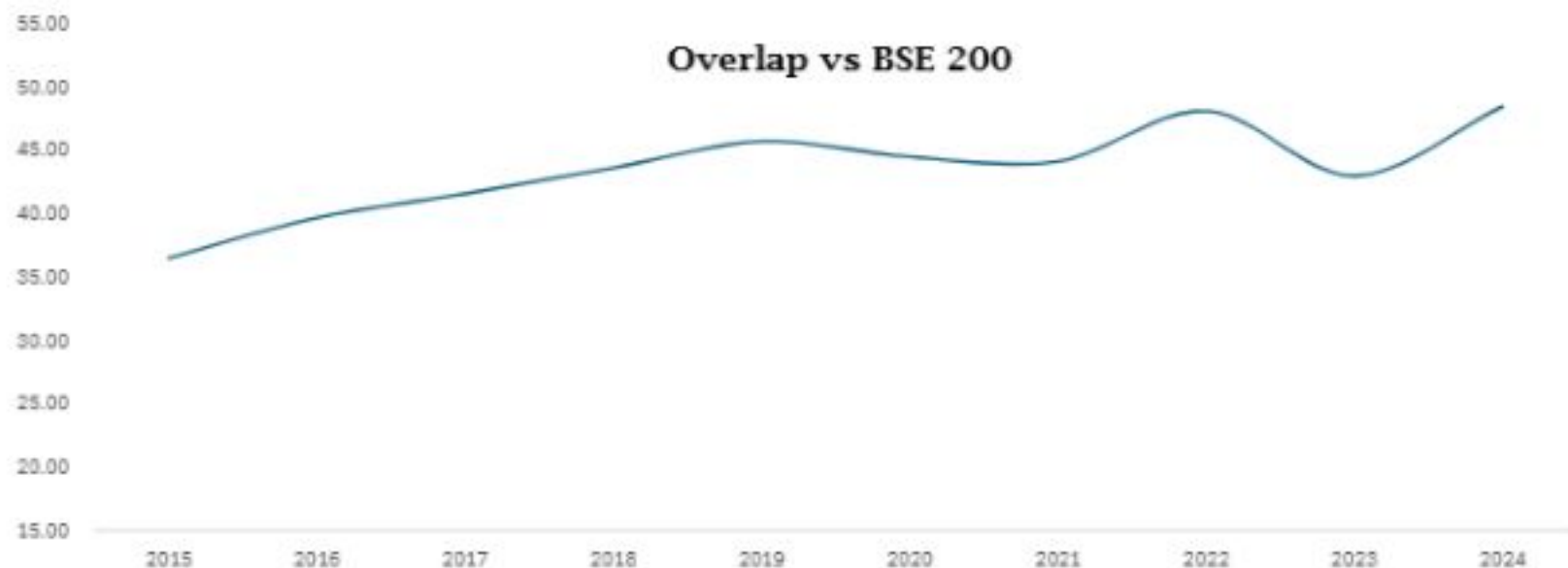
Higher stock active share in Sundaram Multi-Factor Fund, it will have around 50% unique stock vs Benchmark

Delivered higher risk-adjusted returns than the individual factors and broad index, with more consistency.

Delivered relatively better return during market up cycle vs Index and demonstrated resilience during market down cycle.

Diversification based on Value/Growth/Quality/ Momentum gives a differentiated portfolio vs typical actively managed category funds.

Fund Facts

Objective	An open ended equity scheme that follows a multi-factor based investment strategy
Benchmark	BSE 200 TRI
Fund Managers	Rohit Seksaria, Bharath S, Dwijendra Srivastava, Sandeep Agarwal
Plans	Regular & Direct
Options	Growth, IDCW (Pay Out, Reinvestment & Transfer); Default Option: Growth; Default Sub-Option: IDCW Transfer
Minimum Subscription Amount	**Lumpsum:** First Investment: INR 100 and any amount thereafter; Subsequent Purchase: INR 100 and any amount thereafter **SIP:** INR 1000 per week, INR 100 per month, INR 750 per quarter, Weekly SIP will be processed on Wednesdays
Load Structure	• 1% of the applicable NAV - Any redemptions, switch or withdrawals by way of SWP would be subject to an exit load within 365 days from the date of allotment. • NIL - if the units are redeemed after 365 days from the date of allotment of units. • Further, exit load will be waived on Intra-scheme Switch-outs/STP. Generally, the exit load will be calculated on First in First out (FIFO) basis. Investors/Unit holders should note that the AMC/Trustee has the right to modify existing Load structure and to introduce Loads subject to a maximum limits prescribed under the Regulations. Any change in Load structure will be effective on a prospective basis and will not affect the existing Unit holder in any manner.

1 Year	Q	G	V	M	BSE 200	Sundaram Model
Average Return	19.5%	20.5%	28.7%	23.5%	15.9%	24.0%
Maximum Return	70.9%	77.6%	139.5%	90.2%	81.7%	107.5%
Minimum Return	-20.8%	-19.4%	-46.4%	-18.2%	-28.5%	-23.6%
< 0% return	16.0%	23.0%	33.0%	16.0%	18.0%	15.0%
> 0% return	84.0%	77.0%	67.0%	84.0%	82.0%	85.0%
> 10% return	63.0%	61.0%	59.0%	66.0%	57.0%	67.0%
> 15% return	55.0%	52.0%	56.0%	56.0%	40.0%	55.0%
> 20% return	37.0%	45.0%	54.0%	48.0%	33.0%	45.0%
Total Observation	106	106	106	106	106	106

3 Year	Q	G	V	M	BSE 200	Sundaram Model
Average Return	15.7%	16.4%	18.6%	17.7%	13.5%	20.2%
Maximum Return	27.9%	27.9%	53.7%	34.4%	27.6%	37.5%
Minimum Return	-2.7%	-1.5%	-22.2%	0.7%	-4.1%	-2.9%
< 0% return	2.0%	1.0%	22.0%	0.0%	5.0%	1.0%
> 0% return	98.0%	99.0%	78.0%	100.0%	95.0%	99.0%
> 10% return	76.0%	84.0%	65.0%	84.0%	77.0%	85.0%
> 15% return	59.0%	71.0%	56.0%	67.0%	44.0%	70.0%
> 20% return	32.0%	24.0%	48.0%	32.0%	11.0%	55.0%
Total Observation	82	82	82	82	82	82

5 Year	Q	G	V	M	BSE 200	Sundaram Model
Average Return	15.8%	17.2%	17.5%	17.1%	13.8%	21.2%
Maximum Return	26.4%	25.8%	45.5%	28.6%	22.8%	32.9%
Minimum Return	7.0%	7.8%	-1.5%	9.0%	4.1%	9.1%
< 0% return	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
> 0% return	100.0%	100.0%	95.0%	100.0%	100.0%	100.0%
> 10% return	91.0%	97.0%	67.0%	95.0%	88.0%	98.0%
> 15% return	47.0%	66.0%	40.0%	57.0%	38.0%	91.0%
> 20% return	26.0%	34.0%	33.0%	28.0%	5.0%	57.0%
Total Observation	58	58	58	58	58	58

SUNDARAM MUTUAL
Sundaram Finance Group

Using multi–factor helps performance across market cycles

Distribution of Factor Rankings (CY2016–CY2024)

BSE 200	22%	78%
Quality	33%	67%
Growth	44%	56%
Value	56%	44%
Momentum	67%	33%
Model Portfolio	78%	22%

Top performer	Bottom performer
Top 3 ranks	Bottom 3 ranks

Sundaram Multi Factor ranked in the top half in 78% of calendar years vs. other factors and the benchmark

Disclaimer