



# Understanding Factor Investing

Factor investing selects stocks based on characteristics believed to contribute to performance. This disciplined approach combines the best of active and passive strategies.



# Six Investment Styles



## Size

Smaller companies with growth potential. Metrics: Market Cap. Examples: Mazdock, Union Bank.



## Quality

Sound balance sheets. Metrics: ROE, ROCE, Debt to Equity. Examples: ICICI Bank, Bajaj Finance.



## Growth

High growth with future potential. Metrics: Revenue, EBITDA, PAT growth. Examples: BSE Ltd, ITC Hotels.



## Value

Inexpensive stocks. Metrics: Low P/E, P/B ratios. Examples: PFC, ONGC, Coal India.



## Momentum

Rising stocks. Metrics: 3-12 month price change. Examples: L&T Finance, Indian Bank.



## Low Volatility

Lower return variability. Metrics: Standard deviation. Examples: Nestle, Britannia.

# How Factors Add Value



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## Disciplined Process

Defined rules eliminate emotional bias

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## Reduced Risk

Lower volatility enhances resilience

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## Enhanced Returns

Outperform market-cap strategies

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## Tailored Solutions

Aligned with investor goals

# Three Pillars of Factor Return



## Risk Premium

Smaller companies offer higher returns for financing challenges, lower liquidity, and earnings volatility.



## Market Inefficiencies

Behavioral biases: overreaction drives Momentum, underreaction benefits Quality and Value.



## Business Fundamentals

Quality: High ROE, stable margins, strong cash flows.  
Growth: Earnings revisions, improving fundamentals.



# Factor Behavior Across Market Phases



# Factor Responses to Market Conditions

Factors	Range Bound Market	Reform Led Bull Market	Post Rally Consolidation	Covid Crisis	Recovery and Economic Growth	Bull Market	High Valuation, FII's sell-off	Early Signs of Recovery
	Sep'13-Apr'14	Mar'14-Dec'16	Jan'17-Dec'19	Jan'20-Mar'20	Apr'20-Feb'23	Mar'23-Sep'24	Oct'24-Feb'25	Mar'25-Dec'25
Momentum	24%	24%	16%	-26%	44%	78%	-21%	30%
Quality	31%	27%	18%	-25%	31%	45%	-21%	21%
Growth	10%	26%	9%	-29%	37%	63%	-21%	28%
Low Volatility	35%	25%	16%	-14%	26%	46%	-17%	13%
Value	-28%	22%	5%	-36%	46%	80%	-21%	31%
Nifty LargeMidcap 250 TRI	0%	20%	13%	-31%	34%	47%	-16%	23%

## Momentum

Winners run ahead beyond the index when momentum builds

## Quality

High-quality businesses compound quietly, steadily beating the index

## Growth

High-growth companies deliver outsized returns by scaling business

## Low Volatility

Stable price behavior delivers steadier performance across conditions

## Value

Fundamentally strong companies trading below intrinsic worth create catch-up potential

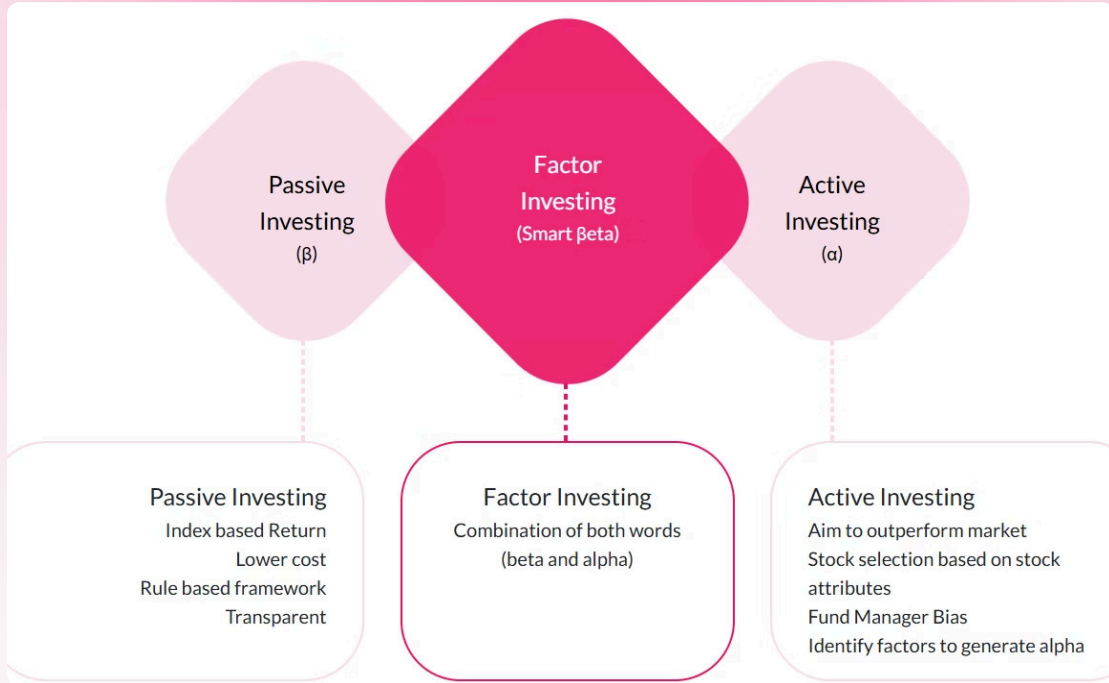
# Factor Outcomes in Different Macro Environments

Since no single factor leads across all macro environments, staying invested ensures participation through cycles.

Rate Hike	Factors	May 18 - Sep 18	Apr 22 - Feb 23	Surplus Liquidity	Factors	Aug 16 - Dec 17	Apr 25 - Oct 25
	Momentum	6%	5%		Momentum	30%	14%
	Quality	4%	1%		Quality	29%	12%
	Growth	6%	-8%		Growth	28%	17%
	Low Volatility	7%	9%		Low Volatility	16%	7%
	Value	0%	10%		Value	30%	15%

Rate Cut	Factors	Jan 15 - Jun 18	Feb 25 - Oct 25	Deficit Liquidity	Factors	Oct 15 - May 16	Dec 24 - Mar 25
	Momentum	16%	18%		Momentum	-3%	-13%
	Quality	18%	13%		Quality	2%	-10%
	Growth	14%	24%		Growth	-2%	-12%
	Low Volatility	15%	6%		Low Volatility	6%	-5%
	Value	10%	21%		Value	-1%	-7%



# Why Factor Investing Matters

Factor investing combines the best of both worlds—systematic discipline with targeted exposure to proven return drivers.