

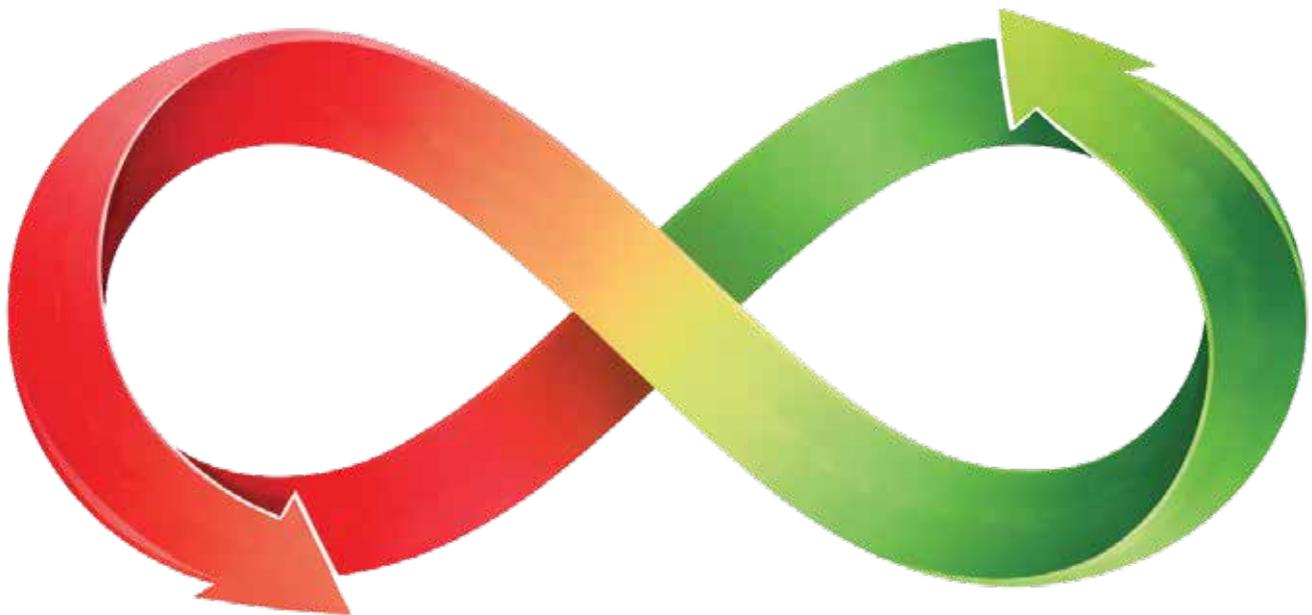
Mutual Fund Insight

March 2026

₹200

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NIRMAY CHOKSI

Power of a balanced line-up

Why multifactor strategies deliver more consistent outcomes

Factor investing rests on sound economic logic, but factor returns are inherently cyclical. Leadership shifts as market conditions change, which is why single-factor investing often becomes an unintended timing exercise. Investors tend to chase what has worked recently, only to lose patience when the cycle turns and performance cools.

Different factors lead in different market phases. The graph titled 'Multifactor: Built for all phases' captures this rotation clearly and shows how no single factor consistently leads across all environments.

A cricket analogy makes the idea intuitive. You would not build a team of only Rohits or only Sehwargs and expect consistent wins. A balanced side works better, with different players stepping up as conditions change. Multifactor investing follows the same principle. By combining multiple factors in a rule-based

framework, it reduces reliance on any single market phase and helps investors stay invested as leadership rotates.

Staying invested across regimes

Markets move through broad phases shaped by economic conditions. Recoveries follow periods of stress. Expansions are marked by improving growth and rising risk appetite. Slowdowns emerge as upswing fades, while contractions coincide with economic and market stress.

Identifying these phases accurately in real time is extremely difficult. Yet factor performance is closely tied to them.

Momentum tends to benefit during sustained expansions. Value often performs better during recoveries as pessimism unwinds. Low Volatility usually offers relative protection during slowdowns and contractions. Quality tends to provide resilience across

Multifactor: Built for all phases

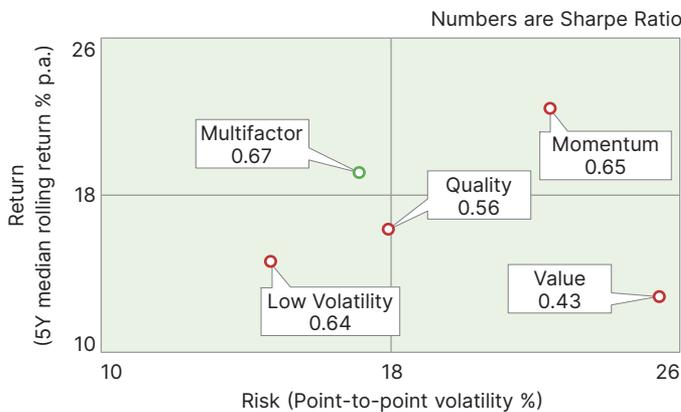
Designed to stay resilient across all market regimes

Recovery	Expansion	Slowdown	Contraction
Value (46.8%)	Momentum (26.0%)	Low Volatility (2.4%)	Low Volatility (-10.6%)
Quality (34.7%)	Value (24.2%)	Multifactor (0.8%)	Multifactor (-12.0%)
Multifactor (32.3%)	Multifactor (19.8%)	Quality (0.4%)	Quality (-13.1%)
Low Volatility (27.2%)	Quality (17.3%)	Momentum (0.1%)	Momentum (-16.7%)
Momentum (23.6%)	Low Volatility (16.0%)	Value (-6.8%)	Value (-16.9%)

Source: NJ AMC Internal Research, CMIE, NSE, NJ AMC SmartBeta Research Platform. Factors refer to Nifty 500 (Value 50 TRI, Momentum 50 TRI, Low Volatility 50 TRI, Quality 50 TRI, Multifactor MQVLv 50 TRI). The half-yearly periods from April 2005 to December 2025 are classified into four market phases; the shown returns are the average absolute half-yearly returns for each phase. Past performance may or may not be sustained and is not indicative of future returns.

Better returns for the risk taken

Multifactor offers a better return-risk balance



Source: NJ AMC's Internal Research, CMIE, NSE, NJ AMC's Proprietary SmartBeta Research Platform. Factors refer to Nifty 500 counterparts, namely Nifty 500 Value 50 TRI, Nifty 500 Momentum 50 TRI, Nifty 500 Low Volatility 50 TRI, Nifty 500 Quality 50 TRI, and Nifty 500 Multifactor MQVLV 50 TRI. Data is for the period April 1, 2005 to December 31, 2025.

phases, even if it isn't the top performer in every rally. The regime-wise data below clearly show this rotation. Leadership shifts meaningfully across phases, and no single factor performs well across all environments.

Multifactor strategies are built around this uncertainty. Instead of requiring investors to predict the next regime, they combine factors with different sensitivities so that portfolios can participate more evenly across phases.

Why multifactor strategies deliver steadier outcomes

A simple way to judge consistency is to look at calendar-year performance relative to the broader market. Between April 2005 and December 2025, the multifactor index outperformed the Nifty 500 in 14 out of 21 calendar years, higher than most single-factor indices. More importantly, while several single-factor indices went through sharp spells of relative underperformance, the multifactor index was never the worst performer in any single year. This distinction matters.

Frequent outperformance helps build confidence, but avoiding deep and prolonged underperformance is often more important. Severe underperformance increases the risk of investors exiting at exactly the wrong time.

Multifactor strategies aim to smoothen this

experience. When one factor falls out of favour, others often provide support. The result may not translate to leadership in every phase, but a more consistent pattern of performance across cycles, which is easier for investors to stay committed to.

Efficiency matters

Stability alone is not the end goal. Investors ultimately care about how much return they earn for the risk they take. This is where efficiency becomes a useful lens.

The chart titled 'Better returns for the risk taken' illustrates this risk-return trade-off with point-to-point volatility (%) on the x-axis, median rolling five-year returns (%) on the y-axis, and sharpe ratio of factor strategies showing return earned per unit of risk. Low Volatility sits at the lower-risk end with modest returns. Momentum offers stronger returns, but with greater swings. Single factors tend to excel in specific environments and struggle in others.

Multifactor stands out for its balance. It combines relatively strong returns with moderate volatility, resulting in the highest Sharpe ratio (~0.67) as compared to single-factor strategies. By blending factors, multifactor strategies aim to deliver returns more efficiently, making investors' journeys steadier.

Multifactor stands out for its balance. It combines relatively strong returns with moderate volatility.

Conclusion

Each factor plays a distinct role, but their combination addresses the core challenge of factor investing: market leadership changes frequently and often without warning. Rather than attempting to anticipate these shifts, multifactor strategies are designed to help investors remain invested through them.

At NJ AMC, multifactor investing is approached as a disciplined, rule-based framework rather than a response to recent performance. By focusing on the Quality factor and meaningfully combining it with other factors such as Value, Low Volatility, and Momentum, the strategy seeks to deliver smoother outcomes across market cycles.

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