Value Research

Mutual Fund Insight

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Complete Personal Finance Guide

Diversification is killing returns

How to do it the right way

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Quiet flight to quality

Why investors around the world, and increasingly in India, are turning to the quality factor for long-term resilience

Investing has never lacked for buzzwords, but few are as enduring—and as misunderstood—as “quality”. At its heart, quality factor investing is a simple proposition: favour companies that are built well, run prudently and perform consistently. Specifically, it means companies with strong return on equity, stable earnings, low financial leverage and healthy cash flows. Add disciplined capital allocation and a history of shareholder-friendly policies, and you have a recipe for businesses that tend to endure.

The renewed appeal of quality is not coincidental. In a world of geopolitical upheaval, tighter monetary conditions and fragmented growth, quality has become a quiet refuge. The rise of global ETFs like the iShares MSCI USA Quality Factor ETF—now managing over $50 billion—reflects a broader shift in investor priorities. In uncertain times, resilience trumps everything else.

The quiet climb of quality in India

Quality-focused ETFs’ AUM surges from ₹17 crore to over ₹3,800 crore in six years

Factor	Quality oriented	Other factors	Total
Total AUM (₹ cr)			
May 2019	17	229	**247**
May 2025	3,832	41,550	**45,383**
Number of ETFs			
May 2019	1	7	**8**
May 2025	22	79	**101**

Source: ICRA, NJ Asset Management Pvt. Ltd. Internal Research. Quality-oriented funds refer to those funds that focus on the quality factor alone as well as combined with other factors.

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The world is catching on

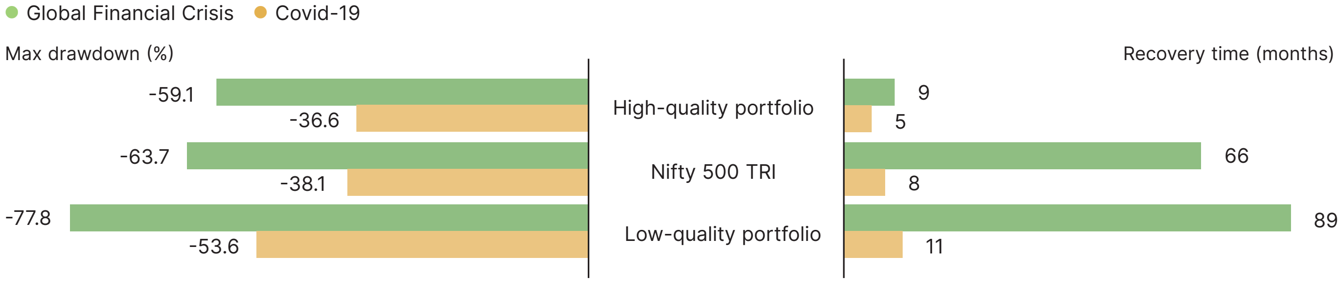
Global data makes a compelling case. From just eight quality-focused ETFs in the US in 2014 to 28 by 2024, and from $4.7 billion in assets to over $100 billion, the strategy has grown at a staggering 35.9 per cent annually. This is not a fad. It is a migration.

Why? Because quality performs when it matters most. Over the last three decades, the US quality factor has delivered 13.2 per cent annualised returns versus 10.4 per cent for the broader market. Crucially, it has done so with lower volatility and shallower drawdowns.

Europe tells a similar story, albeit with tighter margins. Even in structurally slower economies, quality finds a way to outperform. The reason is structural, not cyclical. Sound businesses survive bad weather. Great ones grow through it.

When the tide goes out, quality floats

High-quality portfolios suffered smaller drawdowns and bounced back faster during 2008 and 2020



Source: NJ Asset Management Pvt. Ltd. Internal research, CMIE, National Stock Exchange, NJ's Smart Beta Platform (in-house proprietary model of NJAMC). High Quality Portfolio and Low Quality Portfolio refer to the NJ Quality+ Model and NJ Low Quality Model, respectively. NJ Quality+ Model and NJ Low Quality Model are in-house proprietary methodologies developed by NJ Asset Management Private Limited. The methodologies will keep evolving with new insights based on the ongoing research and will be updated accordingly from time to time. Recovery time is in months.

India's quality awakening

India, too, is undergoing its quality moment. In May 2019, there was just one quality-oriented fund with about ₹17 crore in assets. By May 2025, that number has jumped to 22 funds managing ₹3,832 crore. And while that may still be modest compared to global figures, the trend is unmistakable. Quality is steadily gaining ground in India.

Its share of the factor fund space tripled—from 2.8 per cent in 2021 to 8.4 per cent in 2025. In performance terms, it has held up well. Since 2005, quality stocks in India have delivered nearly 19 per cent annualised returns, ahead of the broader market at nearly 17 per cent. Even though momentum has led in recent years, the long arc points to quality emerging as the dominant factor—just as it has in the US.

There's another reason quality stands out: it behaves better during stress. In both 2008 and 2020, quality-oriented portfolios in India not only fell less than the market but also recovered faster. For long-term investors, that's not just comfort—it's compounding.

Why quality works in bad times

There's an old investing cliché: "In bull markets, everyone looks like a genius." But when the tide goes out, it's quality that avoids embarrassment. The difference shows up in drawdowns. During the global financial crisis and the pandemic crash, quality stocks had smaller declines and shorter recovery periods.

Factor investing, particularly quality, is not about prediction. It's about preparation. Unlike style rotations or macro punts, quality is a long-term allocation decision.

Volatility was markedly lower, and the emotional toll on investors—often overlooked in spreadsheets—was significantly reduced.

In India, high-ROE portfolios have historically delivered better returns with lower risk. Those with consistent ROE, conservative debt and regular dividend payouts have outperformed erratic peers on every metric. They're not just smoother rides. They're smarter ones.

What should investors do with this information?

Factor investing, particularly quality, is not about prediction. It's about preparation. Unlike style rotations or macro punts, quality is a long-term allocation decision. It provides stability, especially when used as a core building block in portfolios.

At NJ AMC, we have been an early proponent of this approach, favouring quality as a foundational pillar. These strategies prioritise companies with strong fundamentals and low financial risk, aiming to offer investors a more predictable path through unpredictable markets.

The message is clear: quality may not always lead in euphoria, but it rarely disappoints in adversity. For investors thinking in decades rather than days, quality isn't just a factor. It's a philosophy worth embracing. ☑

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