Headline: Seeking value by investing in NSE's NV20 index?	
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Seeking value by investing in NSE's NV20 index?

Aggressive investors could use the ETF or direct investment route, as it concentrates on IT and bank stocks

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For retail investors, the National Stock Exchange's NV20 index and exchange-traded funds (ETFs) based on the index are interesting. As the name suggests, NV20 is a 20-stock index that provides exposure to eight broad sectors and comprises most liquid blue-chip companies in the CNX Nifty. The top five stocks in the index are Infosys (weight 15.99 per cent), ICICI Bank (13.01 per cent), Reliance Industries Ltd (11.79 per cent), TCS (10.98 per cent) and Axis Bank (6.91 per cent).

With the index comprising some of the best companies, mutual fund houses are creating ETFs to involve retail investors in the index. After the index went live in June, Reliance Mutual Fund launched the R*Shares NV20 exchange-traded fund, while ICICI Prudential AMC recently applied to the Securities and Exchange Board of India to launch one. Some, such as Edelweiss Asset Management, are planning to launch schemes based on this index.

Chintan Haria, fund manager and head (product development & strategy) at ICICI Prudential AMC, says an ETF with underlying index of NV20 has the potential to outperform the broader market through a cycle.

Manas Shukla, head (ETFs), Edelweiss Asset Management, says this forms part of factor investing, which includes momentum, low volatility, dividend yield and value (NV20). "We have seen under different market conditions, different strategies work," he says, adding the base year for the NV20 index is 2009. In that year and the next, it performed better than the Nifty. But for the past three years, when the stock market was in a bullish phase, the returns were similar to the Nifty's.

According to Value Research, the one-month and three-month returns for R*Shares NV20 ETF are 3.92 per cent and -3.35 per cent, respectively, whereas for Nifty, it is 4.07 per cent and -3.04 per cent.

Companies in the index have been selected on the basis of value parameters such as return on capital employed, dividend yields, price-to-earnings, and price-to-book-value. These companies should have paid at least four per cent dividend, including bonus, for at least seven of the past nine years. The index is rebalanced on a semi-annual basis and is listed in the futures and options segment.

Experts say retail investors shouldn't go overboard with this index. G Chokkalingam, founder and managing director of Equinomics Research & Advisory, says, "The index has strong sector concentration with IT and banks have about 60 per cent weight, according to September data...If the two sectors don't do well for some reason, the returns will be heavily impacted." Also, the index doesn't capture turnaround stories. Cyclicals such metals have not been doing well for many years. When economic growth picks up and the commodity cycle turns, these companies will give much higher returns. Haria of ICICI Prudential AMC says investors looking to invest in value blue-chips companies with a stable long-term outlook and keen to diversify their portfolio by taking exposure to a quant-based product could consider investing in such an ETF.