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Rupal Bhansali of Ariel on the rewards of reining in risk.

Rupal Bhansali is chief investment officer and portfolio manager of Ariel's international and global equity strategies. Bhansali was profiled in this magazine's Undiscovered Manager feature in 2015; since then, Ariel International AINTX has earned a Morningstar Analyst Rating of Bronze. Bhansali has worked in the investment industry since 1989. She earned bachelor and master of commerce degrees from the University of Mumbai and an MBA from the University of Rochester.

Laura Lallos, *Morningstar* magazine's managing editor, interviewed Bhansali in August.

1. What is the biggest risk for international investors?

Not thinking about risk! Investors have ignored rising political risks, credit risk, liquidity risk, valuation risk—all sorts of risks. The biggest risk of all is not being prepared for the inevitable fallout from the debt binge by sovereigns, corporates, and consumers all over the world. I prefer to own companies with strong balance sheets, ideally those that are net cash versus those that have any debt at all.

2. How do you home in on your stock picks?

Through a process of elimination. We first exclude stocks with high risk, whether corporate-governance risk, business-model risk, regulatory risk, etc. Then, we focus on what is out of favor or misunderstood and, therefore, mispriced. In essence, we are looking for quality companies that are underappreciated, underearning, and undervalued but that also have a low risk profile, so we can achieve superior risk-adjusted returns for our clients.

3. Why are you overweight telecommunications services?

They are the new consumer staple. We can go a day or two without shampoo, but we can't go a day without our smartphones. Yet telecom stocks trade on half the multiples and twice the dividend yield of staples—a great investment bargain.

4. Why are you underweight financials?

They are a value trap. Capital requirements have doubled, and returns have halved. The hangover from the global debt binge will hurt banks the most as they are very sensitive to credit cycles.

5. Is there a global market you'd single out as a value today?

One that people rarely think of: France. It has world-class companies such as Michelin MGDDY and Safran SAFRY, combined with the biggest positive political regime change in the form of Macron.

6. You have said that what you don't own is as important a decision as what you do own. What should investors avoid at this time?

Junk bonds. They have the high risk of equities but the low returns of bonds. It is the asset class most vulnerable to a credit shock. Credit spreads are artificially low due to the chase for yield in a low interest-rate world. You are not being paid for default risk, and you should only own something when you are being paid for the risks you are exposed to.

7. When did you first become interested in investing?

My father was a stockbroker and my grandfather was a bond trader, so I was exposed to investing at a very young age.

8. What's the most interesting place your investment travels have taken you?

Japan—it is a country like none other. So Western in its pursuit of high-tech gadgetry and bullet trains yet so Eastern in its philosophy and values. I also love their obsession with quality and efficiency.

9. What are some of your favorite charities?

The Bill and Melinda Gates Foundation, Big Brothers Big Sisters, and New Profit, to name just a few. All of them have an outsized impact because they focus on transformational, measurable, and long-lasting support, not one-off assistance.

10. Where would you be working now, if not within financial services?

I can't even imagine it. I love what I do too much.