BARRON'S
JUNE 8, 2022

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An International Value Fund Wins by Losing Less

By Lewis Braham

Rupal Bhansali is chief investment officer of Ariel Investments' global equity strategies.
Photograph by Rick Wenner

Rupal Bhansali takes her goal to not lose her investors' money personally.

The portfolio manager of Ariel International grew up in Mumbai, where her father was a stockbroker. "In the 1960s, the market was soaring, even in India, but then the 1970s arrived, and our family fortune nosedived," she recalls. "As a child, I would ask my mom to buy me something, and she would say, 'Sure, I'll get it for you when we have the money.' I learned about money because I didn't have it."

Bhansali, 54, doesn't want investors in her $767 million fund to have the same experience. She has successfully played defense by first asking, before making any investment, "What can go wrong?"

Thus, the worst quarterly loss for the Ariel InternationalAINTX –0.75% fund (ticker: AINTX) since its Dec. 31, 2011, inception was in the first quarter of 2020 during the pandemic crash, when it fell 13.6%—when the average fund in Morningstar's Foreign Large Value category plummeted 27.3% and the benchmark MSCI ACWI Ex USA index lost 28.6%.

Ariel International has beaten 60% of its peers in the past 10 years with a 6.4% annualized return, while being 27% less volatile. In 2022, the fund is down 3.9% versus the average Foreign Large Value fund's -4.1%. Morningstar rates it four stars for its consistent risk-adjusted outperformance, not for shooting the lights out. The fund's expense ratio is 1.14%, slightly higher than the category's 0.96% average.

After immigrating to the U.S. in 1991 and graduating with her M.B.A. in finance from the University of Rochester in 1993, Bhansali got her start at a sell-side broker called Crosby Securities. There, she recommended stocks to money managers.

"I hated it at the time because my goal coming to this country was not to pitch stocks but pick stocks," she says. "But I took the job because it gave me the visa I needed to stay."

In retrospect, Bhansali says working on the sell side was "the best thing that happened to me." She ended up pitching stock ideas to some of the world's top money managers, including George Soros, and got a "ringside seat" to see their strategies in action. She learned how value investors often catch falling knives—cheap stocks that keep sliding. She also learned how to analyze stocks from the perspective of a short seller, an investor who bets against stocks that will do poorly by studying what can go wrong.

Bhansali worked briefly as an equity

analyst at Soros Fund Management in 1995, but soon left to become a portfolio manager at Oppenheimer Capital from 1995 to 2000. She then joined MacKay Shields to run MainStay MacKay International EquityMSIIX −1.44% (MSIIX), turning it into a top-performing fund. In 2011, she joined Ariel Investments as chief investment officer of its new International & Global Equities division in New York, starting with seed capital of $1 million. She now runs $7 billion, mostly in private institutional accounts.

One essential difference in Bhansali's strategy from that of her peers: the process of elimination. She isn't screening stocks to find companies she likes, but to exclude those she dislikes.

"If you're a value manager, you'll screen on valuation multiples," she says. "If you're a growth manager, you will screen on growth rates. We do neither. We actually screen on risk, and instead of looking to shortlist a set of companies to look at, we're looking to reject the list of companies to look at."

An obvious target for a risk-conscious manager is leverage. Yet Bhansali isn't just seeking to eliminate companies with debt they might struggle to repay. She also wants to avoid companies with high "operating leverage"—such as a business model that is too dependent on one customer or a single macroeconomic factor outside its control, like oil prices. Energy stocks make up only 0.5% of her portfolio.

Unlike fund managers who are fundamental bottom-up stock pickers, Bhansali is also concerned about macroeconomic risks to her investments. The fund holds Deutsche Boerse (DB1. Germany), a German fintech and securities exchange, as a way to play the expected moves in interest rates across the globe. One of the company's most popular products is interest rate derivatives, which are futures and options used to bet on the direction of rates.

Predicting rate increases or decreases can be challenging, but predicting that they will be volatile in today's inflationary environment isn't. That volatility causes investors to trade more derivatives. "I don't have to make a directional bet on whether rates are going up and by how much," she says.

Bhansali has also been finding defensive plays in healthcare stocks, which account for 17.8% of her portfolio. But these aren't the riskier biotechs that depend on one drug's approval to succeed. She prefers companies with numerous product lines like Roche Holding ROG +0.65% (ROG.Switzerland), which specializes in diverse cancer treatments and screens. In addition to the increased likelihood of cancer for an aging population worldwide, people have skipped their mammograms, Pap smears, and prostate and other preventative exams during the pandemic, so the company's prospects will likely improve as the world reopens, she notes.

Similarly, Bhansali likes GlaxoSmithKline GSK +0.37% (GSK), which has an effective shingles vaccine many people haven't gotten lately, opting for the Covid-19 vaccine instead. "These are businesses where the demand is delayed, not denied," she says.

Bhansali also employs environmental, social, and governance risk analysis to her portfolio, but she has a different take from the typical ESG fund. One of her largest holdings is Philip Morris International PM −0.75% (PM). Rather than viewing the stock as a risky play on cigarettes, she highlights its smoke-free nicotine delivery systems, like vaping, that help people quit tobacco. "They have got a target that by 2025, which is just around the corner, more than 50% of the revenues of the company will come from smoke-free products," she says.

It's yet another example of how Bhansali seeks out the risks and opportunities some investors simply don't see.

Bhansali starts off by ruling out companies she doesn't want to invest in.
Photograph by Rick Wenner