5 key takeaways from the PPFAS annual unitholders' meeting

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Rajeev Thakkar, chief investment officer, PPFAS Asset Management Co. (Abhijit Bhatlekar/ Mint)

SUMMARY

At the PPFAS annual unitholders' meeting, chief investment officer Rajeev Thakkar shared crucial insights regarding current market valuations and investor optimism, emphasizing the need for a balanced perspective.

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PPFAS Asset Management Company, which runs India's largest actively run mutual fund scheme, held its recent annual unitholders' meeting. Its flagship Flexicap fund has registered a stellar five-year compound annual growth rate (CAGR) of 26%. But despite its success, the fund house is not without its share of scrutiny.

During the annual meet, Rajeev Thakkar, chief investment officer of PPFAS, along with the fund management team, addressed investor questions—whether at the stock level, sector level, or about the overall strategy and operations of the fund house.

Here are five key takeaways for investors from the annual meeting.

Focus on long-term returns over short-term

Often, investors are swayed by recent performance, especially during bull markets. To address this common pitfall, Thakkar began the annual general meeting with a road trip analogy.

Imagine a road trip from Mumbai to Pune, Delhi to Shimla, or Bengaluru to Mysuru. For such a journey, you would prioritize safety—choosing a vehicle equipped with airbags and other safety features, driven by an experienced driver who follows traffic rules. On winding hilly roads or narrow lanes, you would expect the driver to slow down rather than speed recklessly. If the passengers need a coffee or bio break, you'd want the driver to stop.

Similarly, in investing, when valuations are stretched or opportunities are scarce, investors would want a fund manager who knows when to slow down and adopt a defensive approach. Investing, like a road trip, isn't about racing to the destination—it's about navigating the journey safely and prudently.

"If you are passing through the Khandala and Lonavala ghats, you would expect the vehicle to go slowly. You do not expect the driver to drive at 150 km/h on winding roads, narrow lanes, or pothole-filled stretches," Thakkar said. "Why is it that when it comes to our investment journeys, the last six months or 12 months matter so much? The entire chatter revolves around how the fund has performed in the last six months, why there's cash in the portfolio, why allocations to small or mid-caps are at certain levels. Why don't we look at the bigger picture?"

In investments, it's critical to assess factors beyond short-term returns, Thakkar emphasized.

Key takeaway: investors should focus on the journey, not just the immediate milestones, and trust in a thoughtful, disciplined approach for long-term success.

5 key take aways from PPFAS AGM 2024

- Focus on long-term returns, not short-term performance.
- Diversification is key; buying more of what you have alone may not suffice.
- Higher AUM is not a concern; India's growing equity market offers ample opportunities.
- Cash holdings can be a prudent risk management strategy, not a sign of pessimism.
- Current valuations may overlook the impact of rising competition and future challenges.

Investor journey: PPFAS Flexicap Fund

PPFAS runs the largest active fund, has out-performed the benchmark and peers with the least risk

PARTH PARIKH,
Mumbai, Entrepreneur

RONAK SUTARIA,
Pune, Entrepreneur

	PARTH PARIKH	RONAK SUTARIA
What keeps you invested?	Consistent performance, transparency, simple investment approach.	They are never in negative news, trust in the fund management, prompt service.
% allocation to PPFAS	40	50

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Outsized valuations

Thakkar expressed his concerns about current market valuations and optimistic investor behaviour.

"I am patriotic; I am optimistic about India's prospects in the future. No dispute there. But then people take it one step forward, saying, as India's GDP grows, people will have a lot more discretionary income to spend, and because of that, certain companies, certain sectors in India deserve this outsized valuation premium," he said.

To illustrate his point, Thakkar highlighted how the consumption growth story led to inflated valuations for fast-moving consumer goods (FMCG) companies such as Hindustan Unilever Ltd, Nestle, Dabur, and Marico, which were bid up to 50–100 times their earnings. Later, this optimism extended to direct-to-consumer brands despite the challenges of increased competition and margin pressures.

Thakkar also addressed the enthusiasm around big-box retailers and their private-label businesses.

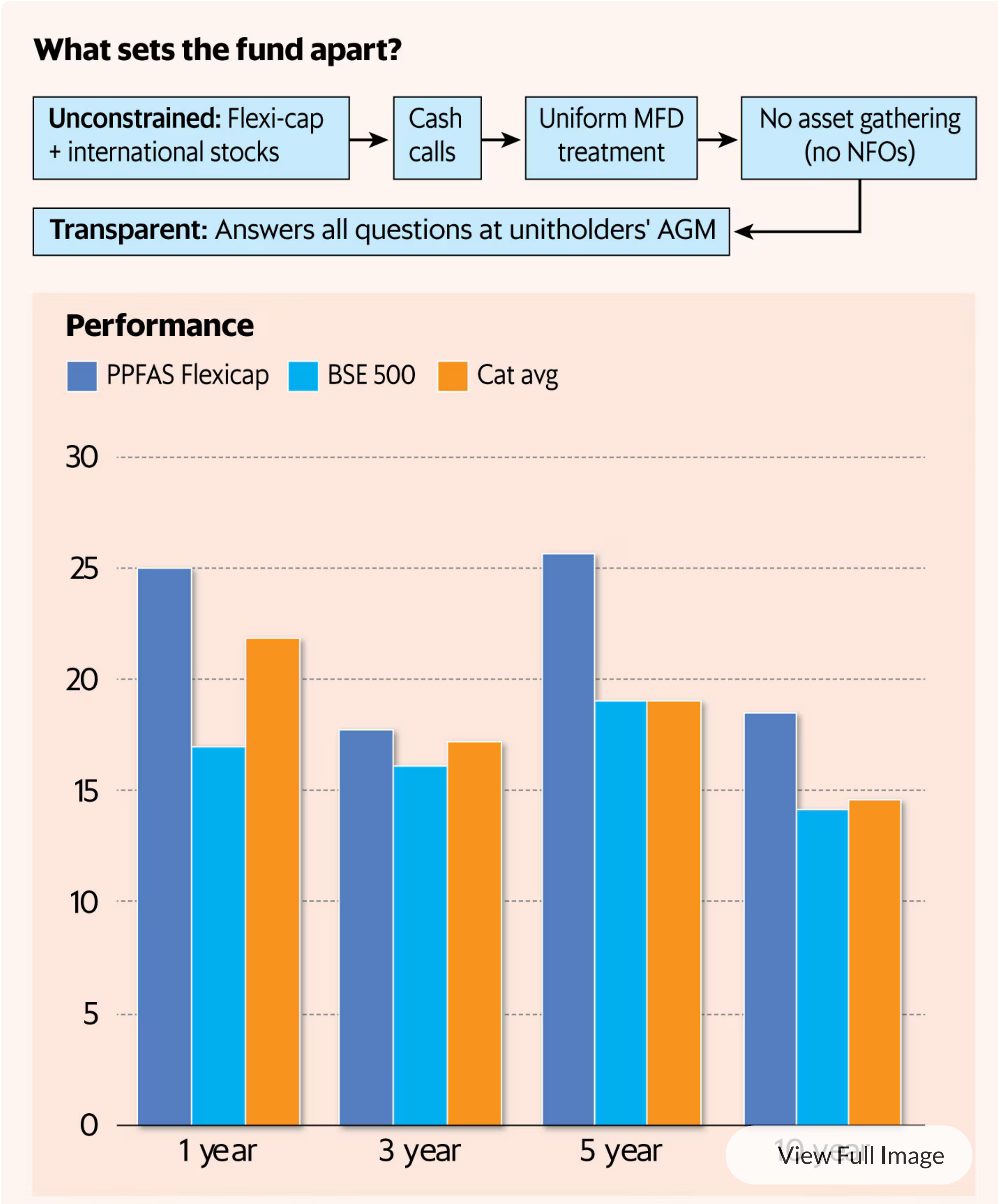
"... People got very excited about big-box retailers—the organized retailers like JioMart, Star Bazaar, D-Mart, More, and Vishal Mega Mart. People said these players would gain because they have private labels, which enable extra margins. But if private labels gain, it's again negative for FMCG and B2C companies," he explained.

"Then came quick commerce—10-minute grocery delivery. We said that is also very exciting. So we bid up Zomato (which is listed), Swiggy, Zepto, Amazon, Flipkart, Big Basket—various players entering the space," Thakkar added.

He also expressed scepticism about whether all these players could succeed together, given the heightened competitive dynamics. While optimism drives valuations, he emphasized the need for a balanced view that accounts for competitive pressures and sectoral challenges.

The scepticism aligns with Thakkar's broader concerns about the market's optimism, highlighting that high valuations in such sectors might not fully account for competitive dynamics and sustainability.

Key takeaway: Thakkar believes current market behaviour is overly optimistic, with valuations not fully reflecting the realities of increased competition and potential challenges ahead.


What sets the fund apart?
Unconstrained: Flexi-cap + international stocks
Cash calls
Uniform MFD treatment
No asset gathering (no NFOs)
Transparent: Answers all questions at unitholders' AGM
Performance
PPFAS Flexicap
BSE 500
Cat avg
30
25
20
15
10
5
0
1 year
3 year
5 year
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Why not buy more of what you own?

During the meeting, a participant asked why PPFAS doesn't increase allocation to existing holdings if it has cash.

"Let's say we like private sector banks. Can we have the entire portfolio consisting of private sector banks? The answer is no. You have to consider the portfolio weightage you want to give to individual companies. Just because you have cash, you won't keep buying more and more of what you already own," Thakkar explained.

"Secondly, we don't want to be overly concentrated in any one sector or theme. We have to be selective in our investments and find the right balance rather than just deploying cash for the sake of it."

Thakkar elaborated with historical examples. "If PPFAS Mutual Fund existed in 1990, and we were not owning ACC at ₹10,000, we would be massively underperforming the market. Similarly, in December 1999, if we weren't owning K-10 stocks, we would have underperformed. Or in December 2007, not owning infra and real estate companies caused underperformance in our PMS (portfolio management services) avatar."

The term K10 stocks refers to a group of stocks that were associated with the infamous stock market operator Ketan Parekh during the late 1990s and early 2000s in India. These stocks were heavily manipulated by Parekh and his network, leading to a speculative bubble.

Key takeaway: It's not about just buying more of what we already own but carefully considering diversification and the potential impact on long-term performance.

Also read | **How an obscure PPFAS morphed into India's Berkshire Hathaway**

Does the AUM of a fund matter?

To explain the significance of a fund's assets under management, Thakkar said that with India's economy expanding and its markets becoming more sophisticated, the opportunities available for large funds like PPFAS to invest effectively had also increased.

Thakkar also addressed the perception of some investors that PPFAS Flexicap's large-cap orientation limits its ability to capitalize on higher growth opportunities in mid-cap and small-cap stocks. "Large-caps are currently cheaper than mid- and small-caps. Additionally, the notion that small-caps will always grow faster than large-caps is flawed," he said, adding that a disciplined value investing strategy has allowed PPFAS to maintain its performance while minimizing unnecessary risks.

Key takeaway: India's expanding and maturing equity market provides ample opportunities for large funds to generate strong returns while managing risks effectively.

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Is PPFAS's cash holding a concern?

Addressing concerns about cash holdings, Thakkar explained: "Hypothetically, if equity gives us a 12% return, then instead of 12%, let's say we will get 7.5%. On that 20% cash, the difference is 4.5% for one year. But even if a few stocks go up or down by 5-15%, it gives us an opportunity. It's not that we are committed to staying in cash for one year. Anytime there's an opportunity, we can sell money market securities and deploy in equity."

He clarified that the cash holdings were a strategic decision and not a sign of bearishness. "We are 80% invested. You could say we are actually 80% bullish. It's not that I have any insight into an impending market crash. Whatever I know is already in the public domain."

Key takeaway: Sometimes cash holdings may be a wise way to manage risk rather than a reflection of pessimism.

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