PPFAS's Thakkar embraces debt: What's driving the portfolio shift?

From 95% equity to cautious diversification: Rajeev Thakkar on rebalancing as valuations rise, retirement nears

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Rajeev Thakkar, the chief investment officer of Parag Parikh Financial Advisory Services (PPFAS Mutual Fund), oversees assets of over ₹1 trillion. Thakkar, 52, has built a solid track record over the years, with Parag Parikh Flexicap Fund becoming the largest fund in its category. Incidentally, this is also the fund that Thakkar uses for his own equity investments. In this interaction with *Mint* for 'Guru Portfolio series', Thakkar shares how he manages his personal investment portfolio and why his equity allocation has reduced.

How has your personal investing and portfolio evolved over the past five years?

Over the past five years, my portfolio has seen a shift, especially in the last one to two years. We've been cautious as a fund house, largely due to elevated valuations in the market, and this cautious approach reflected in my personal investments as well. Most of my investments over the past 18–24 months have been in hybrid and arbitrage funds. Given my historically high exposure to equities and the fact that I'm in my 50s, I started rebalancing by allocating more to hybrids and arbitrage products.

Why have you taken a cautious investment approach recently?

Given that valuations are elevated, while stocks may deliver slightly better returns than bonds, I have opted for a more balanced approach. Within hybrids, I have allocated to a dynamic asset allocation fund. It also offers a long-term capital gains tax benefit: if the holding period is more than 24 months, capital gains are taxed at a flat 12.5%.

What is your asset allocation?

Debt allocation has increased significantly. It was 4-5% around 2020, but has now grown to around 12-13%. If I include contingency and retirement funds, the fixed income component moves closer to 20%. Overall, there's been a clear rise in allocations toward hybrid and debt instruments and gold has largely been in the form of jewellery. I haven't had explicit exposure to gold, but on auspicious days, some buying and some gifting happen for ceremonial reasons. The balance 80% is still in equities.

How was it five years ago?

Five years ago, debt was very limited. That period—March-May 2020—coincided with the covid lows. Valuations were extremely attractive then, and even some of my debt allocation was tactically moved into equities. At that time, the portfolio was heavily tilted towards equities.

How heavy was the equity allocation back then?

It was quite high—equity allocation could have been around 95%.

1 HOW HAS YOUR PORTFOLIO PERFORMED?

#5-year returns are annualized; point-to-point returns from Covid lows

2 WHAT'S THE MARKET CAP SPLIT OF YOUR EQUITY PORTFOLIO?

Large-cap	60%
Mid-cap	2%
Small-cap	2%
International equities	10%
Cash	26%

Note: All equity exposure is through Parag Parikh Flexicap Fund

3 WHAT HAS LED TO INCREASE IN DEBT EXPOSURE?

- Putting new money in arbitrage and hybrids
- Targeting a post-retirement* contingency fund for medical, other costs
- Incremental money will go to equities after target amount is reached

*Thakkar plans to work in some or the other role post-retirement

4 HAVE YOU REACHED YOUR RETIREMENT TARGET?

- Yes, have adequate savings now for meeting post-retirement lifestyle needs

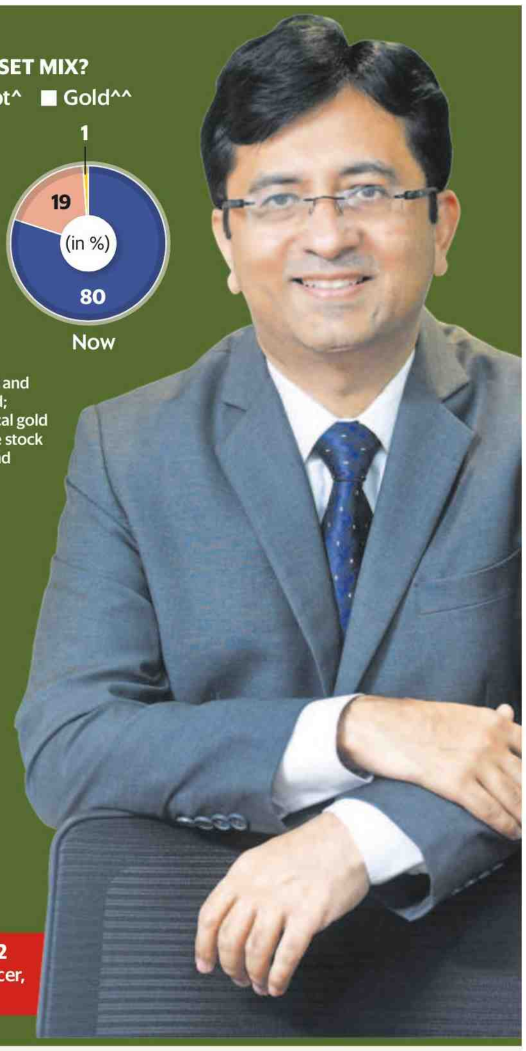
5 WHAT IS THE PLANNED SIZE OF YOUR POST-RETIREMENT CONTINGENCY FUND?

- Targeting ₹10 crore**

**To take care of medical costs and other exigencies

WHAT'S YOUR ASSET MIX?

^Includes debt, arbitrage and employee provident fund;
^^family-inherited physical gold
Note: Excludes employee stock options in PPFAS AMC and primary residence



Rajeev Thakkar, 52
chief investment officer, PPFAS Mutual Fund

6 HOW MUCH MEDICAL COVERAGE DO YOU HAVE NOW?

- Employer cover of ₹20 lakh. Personal medical cover is small. Hence, targeting another contingency corpus

7 WHAT ABOUT LIFE COVER?

- Term cover will lapse in three years. I am in my 50s, don't feel life cover is needed now. Have built decent savings now

8 WHAT'S THE SIZE OF YOUR CURRENT CONTINGENCY FUND?

- It covers 2 years of living expenses

9 HOW INVOLVED IS YOUR FAMILY IN INVESTMENT DECISIONS?

- Family is well-aware of what is happening in our portfolio. Wife works in mutual fund industry in risk-management. My daughter, 20, manages her own small investment portfolio

Each investor has their own preferences and risk appetite, do your own research before investing. Mint does not independently verify non-public data reported by interviewees.

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How has your portfolio fared?

It has delivered 14% returns over the past year and 29% annualized returns over a five-year period.

What is the allocation to large-, mid- and small-cap stocks in your equity portfolio?

As a fund manager, I have publicly stated that valuations in the small- and mid-cap segments have generally been more elevated compared to large-cap companies. Because of this, the exposure to mid- and small-cap stocks in my equity portfolio, which is through the flexicap fund, is currently in the single digits (4%).

The bulk of the fund's portfolio—60%—is invested in large-cap stocks. About 10% is in international stocks, and the balance is in cash.

Has your international exposure changed?

This allocation has been coming down over the years due to the RBI-imposed limits on MF investments abroad. Recently, PPFAS set up a subsidiary in Gift City, which will offer both inbound, as well as outbound funds for Indian residents to invest in global stocks. So, hopefully, I will be able to use it and invest some additional money internationally.

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What about insurance?

Now that my savings have built up adequately, there's no longer a need to continue term insurance coverage. I am in the last three years of my term cover. Even my health insurance coverage is slightly lower than the typical amount. Given this scenario, I've been building an emergency corpus—particularly for health or unexpected needs in post-retirement period—again through hybrids and arbitrage funds.

How much coverage do you want to build for this post-retirement emergency fund?

I have reached the basic target to meet my post-retirement lifestyle needs. But I also need to build a post-retirement contingency fund as my personal medical cover is small in size. I have employer cover, but that would not come in handy in post-retirement period. For this emergency fund, which I am planning for health and other contingencies post-retirement, my goal is to accumulate a corpus of around ₹10 crore.

Is your family involved in investment decisions?

My wife is also a finance professional working in the mutual fund industry, but is on the risk-management side. My family is very well aware of what is happening in my investment portfolio, but any investment decisions are largely left to me.

My daughter, who is now 20, has also become a keen investor and manages a small portfolio of her own. Since a young age, she has been a regular at our annual general meetings with unitholders. She is an avid reader and also watches investment-related content we put out on YouTube regularly. She has been to Berkshire Hathaway meetings multiple times, and has had the opportunity to listen to investing greats such as Warren Buffet and Charlie Munger.

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