



Why PPFAS's dynamic asset allocation fund suits retirees

CIO Thakkar explains why this fund targets a cash flow-oriented investor

A seasoned value investor with over 25 years of experience in the markets, Rajeev Thakkar isn't one to chase fads or believe in shortcuts. As Chief Investment Officer at PPFAS Mutual Fund, he draws deeply from the philosophies of Warren Buffett and Charlie Munger. In a market driven by FOMO (fear of missing out) and momentum, Thakkar urges investors to

respect cycles, manage expectations and focus on long-term wealth creation—especially in volatile or directionless phases.

In this conversation, he talks about the importance of asset allocation discipline, the positioning of the Dynamic Asset Allocation Fund and why it's tailored for conservative, cash flow-oriented investors. He also discusses market risks, tax-

efficient strategies and the rational thinking that anchors PPFAS's fund management approach.

You talk about markets as cycles and not as straight lines. So in today's world where everyone's chasing momentum or pouncing on every oversold chart, how do you help investors realise that

the next cycle might look completely different from the last one?

An interesting statistic comes up all the time regarding the number of demat accounts opened or the number of first-time mutual fund investors. Many of these investors think that allocating money to equity is a magic bullet. Just because you allocate more money to equity, doesn't mean you'll get 2x or 3x the returns that a bank FD (fixed deposit) or a bond gives you.

Suppose bonds offer 5-6 per cent, people come with the expectation that if they have invested in equity, they should get 15 per cent.

Equity doesn't work this way. Equity allocation typically pays off in the long run. And when we talk about the long run, people think of the definition of "long-term" in the Income Tax Act, i.e., they assume that if you hold an investment for more than a year, it becomes a long-term investment.

Whereas one year is not really long term when it comes to asset allocation. As of now (July 2025), the one-year performance of the Nifty 50 has been flattish. So people could say that Nifty has not even matched a bank FD. Some may think this is an aberration, but we have had a period from March 1992 to March 2003 when the Indian stock market went nowhere and was, in fact, in negative territory.

We have witnessed a lost decade in the US markets, from 2000 to 2010. Even Japan has had a long period of minimal equity returns. China has gone through this phase, too. So, just because you have a one-year or two-year

horizon doesn't mean equity will give you fabulous returns or returns that can easily beat bond returns.

One has to keep in mind that while equity has the potential of delivering much higher returns, this plays out over very long periods of time, sometimes taking longer than a decade.

One year is not really long term when it comes to equity



For our Dynamic Asset Allocation Fund, I typically picture a retiree, someone who's maybe 55-60 years of age and has a long retirement period ahead of them

While equity is good for wealth creation, it is good for a 20-30-year-old having more than 30 years to reach retirement. And it is suitable for someone who regularly invests in equity. But for people with moderate or lower tenures to reach their financial goals, it makes a lot of sense to have a mix of fixed-income and equity.

Also, keep in mind the valuations. If valuations are not very conducive, it may make sense to have a lower allocation to equity.

What is the positioning of the Dynamic Asset Allocation Fund (DAAF) in your overall fund lineup? Also, what kind of investors are best suited for this fund?

People who are looking for longer-

term growth can opt for our equity schemes, like the Flexi Cap Fund or the ELSS Tax Saver Fund.

However, when I look at the target customer for our Dynamic Asset Allocation Fund, I typically picture a retiree, someone who's maybe 55-60 years of age and has a long retirement period ahead of them, along with multiple objectives. Sometimes these objectives may conflict with one another.

First, they don't have a fixed tenure in mind. After all, if someone retires at 60, that person could have 20 or more years ahead of them, depending on their longevity.

Second, there's a preference for liquidity. Sometimes, unforeseen cash expenses may come up, such as medical expenses. Hence, a person may need the liquidity.

Third, there's also a need for regular cash flows. People may want monthly payouts or withdrawals to meet their expenses.

And lastly, there is fear of inflation eroding their purchasing power over the medium to long term. While all these needs are relevant, an investor also wants to pick a fund that is tax-efficient.

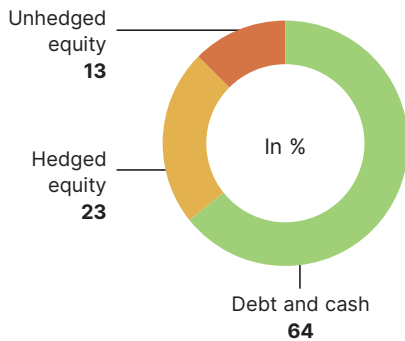
This is the target customer for our Dynamic Asset Allocation Fund. We'd like to offer them somewhat regular cash flows along with a dash of equity to conserve their purchasing power to some extent.

Given that a major portion of your fund is in debt and hedged equity, how do you determine when to increase or decrease your allocation to debt?

Yields in debt move up and down

What powers Parag Parikh DAAF

Majority of the portfolio lies in debt and hedged equity, with minimal market risk



Data as of June 30, 2025. Hedged equity is equity holdings protected using futures, so they deliver stable returns with minimal market risk.

all the time. This is based on the market’s expectation of the RBI’s moves. These yields can change—in the short or medium-term—in reaction to interest rate decisions made based on the liquidity prevalent in the banking system.

Let’s say if the RBI is slashing repo rates aggressively, bond yields tend to come down. And vice versa, when the RBI increases rates, bond yields tend to go up.

Now, another segment which can give somewhat predictable, low-risk returns is the arbitrage segment, which is the hedged equity portion. Now the returns depend on market sentiment, in terms of how aggressively speculators are bidding up the futures prices as compared to the cash-market level of a stock.

We keep evaluating the arbitrage spreads and the bond yields at all points in time. Depending on the attractiveness of either segment. We can take up one versus the other while making rebalancing decisions.

Could you explain the PPFAS Mutual Fund’s strategy? When everyone else seems to be favouring equity funds, why are you increasing exposure to the debt category? What is the reasoning behind that?

So a lot of people look at Balanced Advantage Funds or Dynamic Asset Allocation Funds (DAAFs) and assume that a fund manager can make market calls and sit idle for one to two years. For instance, a fund manager might position their fund based on their outlook of the equity or debt market.

Our objective is to be predictable for the Indian investor from the point of view of taxation. Right now, there are three tax categories.

One is where equity allocation is 0-35 per cent. Second is that the scheme has an equity exposure of 35-65 per cent. And the third category is where equity allocation is more than 65 per cent. Our objective is to maintain an equity allocation between 35-65 per cent—the

second bucket—so that investors have predictability in terms of the tax rate that will apply and the minimum holding period required to avail of the favourable tax rate.

For the funds having an equity exposure of 35-65 per cent, investors have to hold their investment for a minimum period of two years. Within that timeframe, we keep managing the allocation between hedged equity and debt.

Now, I mentioned that the target customer is a retiree or someone who’s very conservative. Hence, we don’t intend to take unhedged equity to a high level. Currently, unhedged equity would be around 15-20 per cent. These will be largely cash-flow yielding securities, either distributing cash through dividends or sometimes special payouts, like stock buybacks, etc.

So, we are not really targeting a growth-oriented investor, but we are targeting a cash-flow-oriented investor. Hence, we have a lower equity allocation for this fund.

Critics say the Dynamic Asset Allocation Fund

underperforms when the bulls run wild. So, you’re saying that you’re deliberately accepting that trade-off to manage risk?

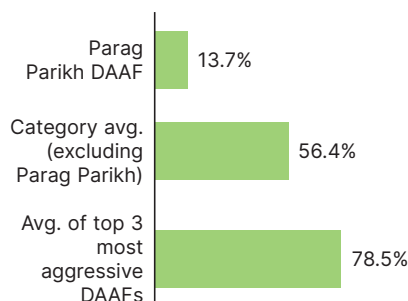
That is correct. One, in a bull market, the fund will definitely underperform the funds with high equity allocations. That’s a given. But it’s very difficult to predict whether we are going into a bull market or whether the market will go for a prolonged sideways spell, or if we are on the brink of a downward market.

Last year, as we have seen, the market has mostly gone sideways. So, given our target market and

Conservative by design

Parag Parikh DAAF is the only DAAF to stay below 15% unhedged equity all year

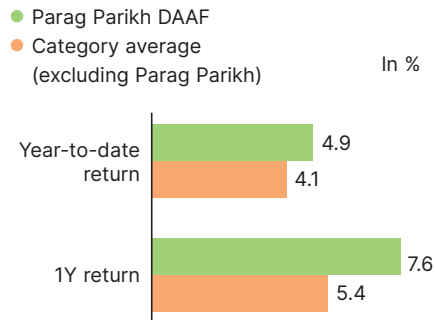
1Y average unhedged equity allocation



Data based on the period July 31, 2024 to June 30, 2025

Holding back, but not falling behind

Despite low equity exposure, returns have held up well



Data for direct plans as of July 22, 2025

our end-investor profile, we would want to be on the conservative

side of unhedged equity.

You've mentioned that your fund focuses on conservative investors, but for investors who are used to jumping on hot trends or reacting to every headline, how can a dynamic asset allocation framework build smarter, more disciplined habits over the long run?

Our Dynamic Asset Allocation Fund may not be suited for such an investor. But there are fund houses that change the allocation very meaningfully between equity and debt while having an aggressive approach. There are two variants in this.

One variant is where people

tend to be pro-cyclical, i.e., they increase equity allocation when markets are rising, and they have a sort of stop-loss mechanism wherein, when the markets start falling, they aggressively cut their equity allocation. This is one type of DAAF.

The other flavour of DAAF is where they focus on valuation. When markets are down and valuations are cheap, they increase their equity allocation. Similarly, they reduce equity allocation when valuations are high.

Depending on one's risk profile and preference, one could choose those schemes. These funds protect against a prolonged sideways market spell or a bear market situation. ☑