Letter from CIO
Unitholders' Meet - 2023

Mr. Rajeev Thakkar
CIO & Director

November 06, 2023

Dear Unitholders,

Our annual unit holders meeting is scheduled for December 2, 2023. I am writing down a few thoughts on some of the questions that we have been getting and which may be on your mind. Of course we will be discussing these at our unit holders meeting as well. However this is an opportunity to put forth data points and our reasoning in a more structured manner.

The topics I wish to cover are the following. These are covered in the note accompanying this letter.

- Our portfolio construction approach
- Thoughts on the market outlook
- Thoughts on our product offerings
- Thoughts on our size

Our compliance team informs me that using memes is not permitted in presentations. You can look forward to a somewhat shorter (albeit less interesting) presentation at our Annual Meeting.

I look forward to interacting with you either in person or digitally very soon.

Thank you for your trust.

With warm regards,

R N Thakkar

Rajeev Thakkar
Chief Investment Officer & Director

PPFAS MUTUAL FUND
There's only one right way©

Our Portfolio construction approach

We keep getting asked

Why are you not invested in …….?

- Railway stocks
- Defence stocks
- PLI / Manufacturing stocks
- Infrastructure stocks
- Renewable energy stocks
- Electric Vehicles stocks
- ….. (fill in your favourite sectors / stocks)
- ….. (fill in your favourite sectors / stocks)

The above sectors / companies may or may not do well. The following paragraphs are not a commentary on the prospects of these sectors and companies but a reflection of the research process and rigour that is required before any investment is made in a promising new space.

When we are looking to construct our portfolio, we are trying to select attractive investment opportunities for the portfolio.

Attractive investment opportunities as we look at them are companies which have

- Great Promoters / Managers which are aligned with the minority shareholders interests, are capable and competent in their business and work steadily toward creating long term wealth for shareholders

  AND

- A great business as defined by one that creates good returns on Invested Capital, which does not need too much borrowing and has some long term competitive advantage

  AND

- The shares are available at reasonable valuations

When we come across such businesses, we invest in them. We try to strike a balance between reasonable diversification while at the same time not diluting our best ideas.

When we apply the above filters, there are many sectors / companies which do not qualify. We do not invest in those. Just investing in companies or sectors which are seen to have attractive growth prospects due to policy changes or other sources of volume growth is not a sure shot formula for investing success.

Benjamin Graham wrote many decades ago in “The Intelligent Investor”

“ …..we draw two morals for our readers:

1. *Obvious prospects for physical growth in a business do not translate into obvious profits for investors.*
2. The experts do not have dependable ways of selecting and concentrating on the most promising companies in the most promising industries.”

If the above paragraph is not clear and looks to be too academic, let me give you two practical examples from the Indian context.

Example 1: Private Airlines in India

Prior to 1990, civil aviation in India was restricted to the public sector. We had Indian Airlines operating in the domestic sector and Air India was operating foreign routes (apart from the foreign airlines operating foreign routes via bilateral agreements with those countries).

In 1990, the sector was opened up to the private sector. What would you think happened? Would private sector airlines be great investments?

East West Airlines, Sahara Airlines, Jet Airways, Modiluft, Damania Airways, NEPC airlines, Air Deccan, Kingfisher Airlines and others have not made too much money for shareholders.

Example 2: Private mobile telephone operators in India

In the early 1990s, the telecommunications sector was opened up to the private sector. Prior to this, the public sector players like MTNL, BSNL and VSNL were the only players in the space.

What would you think happened? Would the new private sector telecom companies be great investments?

Companies like Tata Docomo, Aircel, S Cel, BPL Mobile, Reliance Communications and many more did not do too well for shareholders.

Unlike a zoo where you probably try to have two samples from each animal species, in an equity portfolio it is fine not to have investments in each new sector or a company. You need not go to every party in town on a particular evening to have a good time.

We are sure to miss out on some attractive companies or sectors over time. As long as our process helps us avoid a lot of mistakes and allows us to earn reasonable returns over time, that is fine.

Thoughts on market outlook

As such our investment process is driven more by individual company prospects rather than broad market outlooks.

However, in recent times we have seen interest rates moving up substantially especially in the developed world. It is undeniable that low interest rates in some form or the other resulted in an increase in valuations of almost all asset classes across the world.

The era of free / easy money has come to an end with the erstwhile zero and negative interest rates looking more like 5% interest rates these days. We will continue to be vigilant on the valuations of our existing and potential investments and will not be adventurous there.

The prospects for India and her economy look good. If due care is taken while investing, we should be looking at reasonable equity returns over the long run. However the past 3-5 years returns have been elevated by the easy money conditions and the post COVID bounce. It is always wise to moderate expectations and not to be over optimistic while making financial plans for the future.

Thoughts on our product offerings

The default answer whenever any client / distributor / RIA / media person / colleague asks me about a new scheme is NO.

More schemes = More work

Anyone who knows me well enough knows that I am no fan of more work. In fact in 2013, I would have thought that just having the Flexicap fund would be it.

Tax Saver Fund was largely the same equity strategy minus the foreign investments and eligible for ELSS benefits

The launch of the Liquid fund happened after a lot of Saam, Daam, Dand, Bhed from a lot of people to enable STPs into the Flexicap Fund.

Conservative Hybrid Fund was launched to prevent retirees among our friends and family from putting in all their money into the Flexicap fund. It is for persons needing regular cash flow or for those needing a fixed income allocation as part of their financial plan.

We should have been sorted with this limited product offering. A combination of these schemes should have enabled clients / distributors / RIAs to meet most needs of their clients via some combination of these schemes. However fate had other plans.

The earlier tax laws classified mutual fund schemes into two categories

- Schemes with 65%+ Indian equity allocation (10% LTCG)
- Other schemes (20% LTCG with indexation benefits)

However, post the recent changes to tax laws, there are now three categories of schemes to deal with

- Schemes with 65%+ Indian equity allocation (10% LTCG)
- Schemes with equity allocation between 35% to 65% (20% LTCG with indexation benefits)
- Other schemes (taxed as regular income without benefits of capital gains taxation or indexation)

Bulk of our revenues and almost all of our profits come from the equity schemes. There is no attraction for us to keep launching new schemes from a revenue or profits point of view. However the recent changes to tax laws have changed client preferences for non equity schemes which necessitate some rejig in our offering. We need to stay relevant to client needs at all times.

Hence the new product architecture now is as follows:

Growth / Equity

Parag Parikh Flexicap Fund
Parag Parikh ELSS Tax Saver Fund

Liquidity management

Parag Parikh Liquid Fund
Parag Parikh Arbitrage Fund (recently launched)

Regular cash flow / debt allocation

Parag Parikh Conservative Hybrid Fund

The Parag Parikh Conservative Hybrid Fund can invest up to 25% in Indian equities. Indexation benefits start from a 35% allocation to Indian equities. The gap between 25% to 35% would need to be bridged by a new scheme to be eligible for inflation indexation benefit.

Apart from this, we have no other plans of launching new schemes.

Thoughts on our size

“The reports of ~~my death~~ our AUM growth are greatly exaggerated”

- ~~Mark Twain~~ Team PPFAS

To put our AUM in perspective, we are about 1 percent of the total AUM of Mutual Funds in India (1.04% to be precise)

We are at 1.75% of the actively managed Indian equity by mutual funds in India (granular data in Annexure 1)

<u>Why look at fund house level AUM?</u>

We frequently get asked about our scheme level AUM. It is appreciated that at an aggregate AUM we may not be big but AUM per scheme seems high for the Parag Parikh Flexicap Fund.

The following screenshot from the SEBI Mutual Fund regulations should be noted.

> [326][*1B.* ***]
> 2. No mutual fund under all its schemes should own more than ten per cent of any company's paid up capital carrying voting rights.

The restrictions on ownership of companies is the aggregate of all the schemes run by an Asset Management Company. At the aggregate level, the impact cost on the market, the liquidity constraints, the ownership restrictions do not change. You cannot reduce the total calories in a Pizza by cutting it up into more slices. In the same manner, you cannot split the AUM into various schemes and claim to get back the flexibility and nimbleness of a much smaller AUM.

It should be noted that apart from mutual funds, there are Insurance companies, Portfolio Managers, AIFs, FPIs, NPS, EPFO (via passive funds), Family Offices, HNIs and retail investors who invest in equities.

It is true that the flexibility that we have at around ₹ 38,000 crores will not be the same as what was there at say ₹ 3,000 crores. However to say that the size is too large in the overall context would be stretching the point too much. If you look at the screenshots in Annexure 2 giving the portfolio of April 2020 when the AUM was less than ₹ 3,000 crore and the current AUM, you will see that the portfolio construct is very similar.

A frequent question asked is around our plans for the small and mid cap allocation within our Flexicap and whether the scheme will increasingly look like a large cap fund.

Also, there are a lot of requests around launching a Small Cap Fund or a Mid Cap fund. My colleague Rukun has done a wonderful presentation on this topic. You could look up the same here.

In my opinion, the small cap and mid cap allocations are best handled under the Flexicap construct rather than launching separate schemes for that segment. Given our current size, we may have some increase in the number of stocks in the portfolio from the small and mid cap space. However this has to be done at an opportune time. Investing in small caps is best done in markets which are in the midst of severe sell off rather than at times of great optimism.

Annexure 1

Some data points*

* September 2023 data. For PPFAS it is month end data. For the industry it maybe month end or average AUM for the quarter depending on the data source.

AUM ₹ Crores

Parag Parikh Flexicap Fund		
- Indian Allocation	35,921	
- Foreign Stocks	6,864	
Total Flexicap AUM		42,785
Tax Saver Fund		2,065
Others Schemes of PPFAS		3,571
Total AUM		48,411
Total PPFAS Indian equity allocation (35,921 + 2,065)		37,986
Total AUM of all Mutual Funds in India		46,57,755
PPFAS market share of Total AUM		1.04%
Total AUM of Actively managed equity schemes		19,08,088
Equity component of AUM of hybrid schemes (approx)		2,75,000
Total actively managed equity by mutual funds		21,83,088
PPFAS share of active Indian equity		1.75%
AUM of a Mid Cap Fund (Non PPFAS)		48,686
AUM of a Small Cap Fund (Non PPFAS)		37,374

Annexure 2

April 2020

Portfolio Disclosure

Core Equity		
Name	**Industry**	**% of Net Assets**
HDFC Bank Ltd	Banks	7.83%
Bajaj Holdings & Investment Ltd	Finance	5.99%
Hero Motocorp Ltd.	Auto	5.65%
Mphasis Ltd	Software	4.87%
ICICI Bank Ltd	Banks	4.78%
Axis Bank Ltd	Banks	4.52%
ITC Ltd	Consumer Non Durables	4.36%
Persistent Systems Ltd	Software	4.03%
Balkrishna Industries	Auto Ancillaries	3.40%
Zydus Wellness Ltd	Consumer Non Durables	3.24%
Oracle Financial Services Software Ltd.	Software	3.16%
Lupin Ltd	Pharmaceuticals	2.47%
Dr.Reddys Laboratories Ltd	Pharmaceuticals	2.16%
Cadila Healthcare Ltd	Pharmaceuticals	1.98%
Central Depository Services (I) Ltd.	Finance	1.64%
Mahindra Holidays & Resorts India Ltd	Hotels, Resort and Other Recreational Activities	1.42%
ICRA Ltd	Finance	1.34%
IPCA Laboratories Ltd	Pharmaceuticals	1.31%
Multi Commodity Exchange of India Ltd.	Finance	1.02%
Sun Pharmaceuticals Industries Ltd	Pharmaceuticals	0.52%
Total		**65.69%**
Overseas Securities, IDRS and ADRs		
# AMAZON.COM INC	Consumer Services	9.34%
# Alphabet Inc (Google Class C)	Internet & Technology	9.08%
# Facebook INC	Internet & Technology	6.20%
# Suzuki Motor Corp (ADR)^	Auto	3.80%
# Microsoft Corporation	Internet & Technology	2.27%
Total		**30.69%**

September 2023

Portfolio Disclosure

Core Equity

Name	Industry	% of Net Assets
HDFC Bank Limited	Banks	7.94%
Bajaj Holdings & Investment Limited	Finance	7.37%
ITC Limited	Diversified FMCG	6.30%
Axis Bank Limited	Banks	5.73%
ICICI Bank Limited	Banks	5.31%
HCL Technologies Limited	IT - Software	5.20%
Maruti Suzuki India Limited	Automobiles	5.07%
Coal India Limited	Consumable Fuels	4.98%
Power Grid Corporation of India Limited	Power	4.93%
NMDC Limited	Minerals & Mining	1.81%
Infosys Limited	IT - Software	1.58%
Motilal Oswal Financial Services Limited	Capital Markets	1.56%
Central Depository Services (India) Limited	Capital Markets	1.53%
Balkrishna Industries Limited	Auto Components	1.52%
Indian Energy Exchange Limited	Capital Markets	1.37%
Multi Commodity Exchange of India Limited	Capital Markets	1.19%
Zydus Lifesciences Limited	Pharmaceuticals & Biotechnology	1.04%
Cipla Limited	Pharmaceuticals & Biotechnology	1.00%
Dr. Reddy's Laboratories Limited	Pharmaceuticals & Biotechnology	0.87%
IPCA Laboratories Limited	Pharmaceuticals & Biotechnology	0.77%
UTI Asset Management Company Limited	Capital Markets	0.56%
ICRA Limited	Capital Markets	0.54%
Oracle Financial Services Software Limited	IT - Software	0.40%
NMDC Steel Limited	Ferrous Metals	0.33%
Maharashtra Scooters Limited	Finance	0.14%
Total		**69.04%**

Overseas Securities, IDRs and ADRs

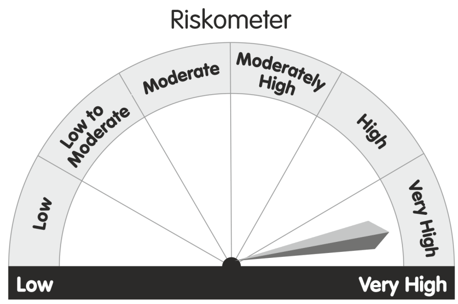
#Alphabet Inc (Google Class A)	Internet & Technology	4.75%
#Microsoft Corporation	Internet & Technology	4.49%
#Meta Platforms Registered Shares A	Internet & Technology	3.44%
#Amazon.Com Inc	Consumer Services	3.36%
Total		**16.04%**

Parag Parikh Flexi Cap Fund

An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks.

This product is suitable for investors who are seeking*

The investment objective of the Scheme is to seek to generate long-term capital growth from an actively managed portfolio primarily of Equity and Equity Related Securities. Scheme shall invest in Indian equities, foreign equities and related instruments and debt securities.



Investors understand that their principal will be at very high risk.

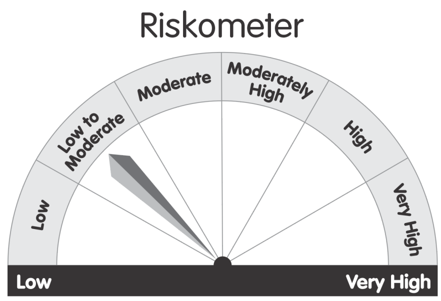
***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Parag Parikh Liquid Fund

An Open Ended Liquid Scheme. A Relatively Low Interest Rate Risk and Relatively low Credit Risk.

This product is suitable for investors who are seeking*

- **Income over short term**
- **Investments in Debt/money market instruments**



Investors understand that their principal will be at low to moderate risk.

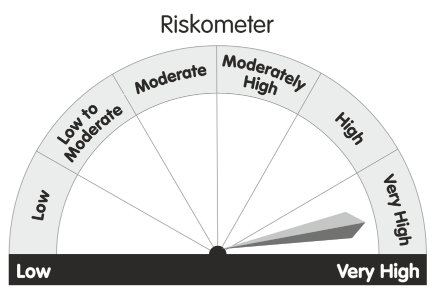
***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Parag Parikh Tax Saver Fund

An open-ended Equity linked savings scheme with a statutory lock in of 3 years and tax benefit.

This product is suitable for investors who are seeking*

- Long term capital appreciation
- Investment predominantly in equity and equity related securities.

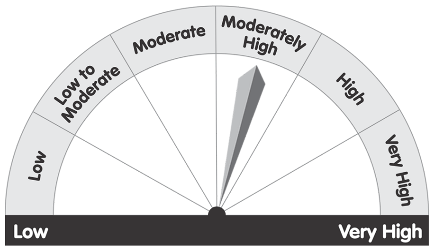


Investors understand that their principal will be at very high risk.

***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Parag Parikh Conservative Hybrid Fund

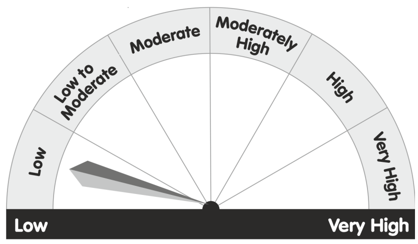
An open-ended hybrid scheme investing predominantly in debt instruments.

This product is suitable for investors who are seeking*	Riskometer
• To generate regular income through investments predominantly in debt and money market instruments • Long term capital appreciation from the portion of equity investments under the scheme.	 Investors understand that their principal will be at moderately high risk.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Parag Parikh Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

This product is suitable for investors who are seeking*	Riskometer
• To generate income by investing in arbitrage opportunities • Predominantly investing in arbitrage opportunities in the cash and derivatives segment of the equity market.	 Investors understand that their principal will be at low risk.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: The product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.

Potential Risk Class (PRC) of the debt scheme of PPFAS Mutual Fund:

	Potential Risk Class			
Parag Parikh Liquid Fund	Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)	**A-I**		
	Moderate (Class II)			
	Relatively High (Class III)			

Riskometers and PRC of the debt scheme as on October 31, 2023

Note: Click here for Latest Product Label of the Schemes.

Download SID/SAI and KIM here

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.