



**Ajit Menon**  
CEO

## Learnings from a pivotal year

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Dear Investors and Partners,

Today I wish to talk to you about the year that went by and the performance across our equity schemes.

The last year was a pivotal year in many ways. In any year, there is the unpredictability of the markets to deal with, but last year the confluence of various macro uncertainties and geopolitics led to heightened volatility. The Russia-Ukraine conflict, sharp rise in interest rates globally, persistently high inflation, recession risks to major economies, tightening liquidity and supply chain issues were some of the big challenges. All these ensured there was no place to hide and most of the asset classes underperformed, especially growth oriented strategies.

A very important point to note is that none of the above challenges can be said to be behind us. However, many market participants can react with overconfidence to evolving news around a likely pause in rate hikes by central banks. This is because, higher interest rates which seeks to bring down inflation has an impact on economic activity, consumer demand and consequently earnings and profits. This impacts the prospects and thereby valuations of companies in every portfolio. Nothing new in all of that, is there?

Well, we at PGIM india, with the advantage of our global parentage, concur with our international colleagues that the job of fund managers have got much more difficult in the near term especially around how we approach valuation of companies. Most of the challenges we see are linked to global shifts from a largely unipolar world to a bipolar one driving changes in supply chain decisions for instance, as also relatively stickier inflation driving interest rates higher on average, compounding climate risks driving credit and financing decisions, evolving technology permeating all sectors and driving critical resource decisions. And finally, the interlinkages of various above factors driving policy and regulatory action across sectors.

These multi-decadal shifts may seem challenging but also throws up enormous opportunities to the patient investor. And it requires us fund managers to double down on our processes to continue chasing structural growth opportunities.

We firstly acknowledge that these pivotal changes have led to near term underperformance in our schemes too as growth stocks were the hardest hit in the past few quarters and deep value, lower beta segments of the market did well relatively as investors sought cheaper, lower volatile, defensive investment options, Rising rates are particularly challenging to small caps and mid caps. So far, the longer term track record of 3 years and beyond remains competitive. Even the near term performance is now seeing a recovery in the last 3 months, as the external environment shows signs of stabilizing.

Over the past month, PGIM India AMC also saw a change in fund manager as Aniruddha Naha, former Head-Equity for the mutual fund business, is now managing our newly launched Alternates line of business as we seek to strengthen and broaden our capabilities to take advantage of the evolving marketplace. Meanwhile, Vinay Paharia took over as the CIO for our mutual fund business. As always, our focus continues on building robust portfolios for uncertain times. While we maintain the approach of targeting a relatively high active share and growth-orientation across our portfolios, we have made some changes in our valuation approach, preference for structural growth and sectoral allocations, with a more diversified approach and deeper filters in terms of our existing quality factors. Consequently, what you will notice in our equity portfolios is an increase in number of stocks, while the active share remains high. This is to mitigate and manage risks and reduce the volatility in alpha as far as possible, in these uncertain times. Taking into account the famous quote "Diversification is the only free Lunch in Markets and investing" by Harry Markowitz. Srinivas Rao Ravuri took over as CIO – International Business as we engage with offshore clientele, as we see immense opportunities on the back of emerging international confidence in India in a relative world.

In conclusion, we reassure you that we are taking concrete steps to ensure that the investor experience over the longer term is top-notch. We are focussed on our endeavour to deliver consistent, risk-adjusted returns. We are also fairly confident that the global perspectives from our parent PGIM Inc during uncertain times coupled with the incremental changes in our processes have and will bear fruits for ourselves and our investors.

Thank you for your continued trust and confidence in our investment management services. If you have any questions or concerns, please do not hesitate to reach out to PGIM India team or our distributor partners.

Stay safe & happy investing.