PGIM
India Mutual Fund

Return per unit of volatility

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Mutual Funds are subject to market risk... This disclaimer is repeated in all forms of communication by the industry. Despite this it would be interesting to know from the advisors/investors as to how many times the conversation focuses around the returns delivered by an asset class or a category of the schemes versus the risk assumed by an investor to get those returns. The focus on returns could be ascribed to the fact that returns can easily be measured and stated, while it is difficult to quantify the risk. In a real sense risk is probability of losing money or making returns lesser than risk free avenues. However such futuristic probability being impossible to measure. From a practical perspective the real risk in the world of equity investments arises when the investor exits an asset class at an inappropriate time or value due to high volatility leading to a mismatch between the long term returns from an asset class/scheme and returns made by him/her. As volatility quite often drives investment behavior, it works as a good proxy for risk.

Is it possible to completely eliminate volatility from market linked investments? The answer is no. Any investment that works on the concept of mark to market comes with volatility as an embedded feature. It naturally means that focus needs to move from pure returns to return per unit of volatility. Obviously as an investor higher the return per unit of volatility better it is. There are multiple ratios to measure the returns per unit of risk/volatility and your investment advisor will be able to help you with same.

For an investor it becomes crucial to assess the ability to digest volatility and then make a choice of category within equity funds. Historically Large Caps have demonstrated lower volatility as compared to Mid and Small Caps. Midcaps generaly tend to deliver higher returns with higher volatility over 5-7 year horizon. Of course the choice also has to be made keeping in mind overall asset allocation based on the financial plan.

The conversation around volatility assumes greater significance in today's environment given the fact that we have seen a multi year bull run and headwinds are visible on the horizon that could potentially lead to volatility. The cross currents of sluggish global growth, fresh central bank reflation, and ongoing trade tensions with a fragile truce are likely to keep markets volatile in the second half of the year. As seen in the past all these perceived high volatility events become insignificant over long-term so do not defer your investment decisions and keep investing as per the plan. It would be a good idea to include returns delivered per unit of volatility as a selection criteria while choosing a scheme in consultation with your advisor.

On the company front I am pleased to inform you that we have received SEBI's no objection for the change of sponsor in DHFL Pramerica Asset Managers Pvt Ltd on 25th June 2019. Post the completion of customary formalities we will be a wholly owned subsidiary of Prudential Financial Inc (PFI) of US, a Fortune 500 company and be associated with its global investment management business PGIM. The new entity will be known as PGIM India Asset Management Private Limited.

PGIM, the 10th largest asset manager globally is built on the strength and stability of a 140 year legacy. PGIM is dedicated to serving the needs of its global client base with a commitment to investment performance, product innovation and integrity.

I believe that this change of ownership presents an exciting opportunity to strengthen the business in India. It will further enhance our ability to bring to you differentiated offerings using our global expertise. The existing schemes would continue to be managed by the same Investment team according to the scheme mandates in the best interest of our clients. Our investment management continues to be process oriented with a robust risk management framework.

I take this opportunity to thank you for investing with us.