



The silver lining in Small Caps

June, 2021

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Dear Investors,

Hope you and your family members are doing fine. The second wave has substantially subsided. Hopefully, we all will stay vigilant to prevent the occurrence of the third wave. Beyond the financial impact, it is a huge human tragedy. The entire episode has no doubt impacted the social psyche to various degrees depending on the intensity of the experience. The overall sentiment now can be termed as sanguine.

Recently one of the news items caught my attention. In an era where we hear of businesses shutting down, it stated that the “formation of new companies soars in 2021 with a covid bent”. Intrigued by the headline as I went through the article it revealed another counterintuitive statistic. According to a 2009 study by Ewin Marion Kauffman Foundation, 57% of the Fortune 500 companies had been founded in a recession or bear years. Even though only 31% of the years since 1855 have been counted as recessionary.

What could explain this phenomenon? Maybe in tough times, new businesses start with a focus on solving genuine product or service demands unlike in good times where superficial ideas also attract capital. Steam turbines and generators were invented during the great depression. The other reason could be that competition is lower in tough times. So, all activities right from attracting talent to getting customer attention in media can be done in a cost-efficient manner.

The third reason could be that the businesses with weak cash flows and high debt are likely to perish in the turmoil leaving a gap on the supply side. The gap can be filled in two ways, an existing strong player stepping in or a new player backed by innovation filling the space. If we look at our business environment, the first and second waves of Covid have hurt weaker SME businesses. At the ground level, there is a tectonic shift that is underway. Strong entities are becoming stronger. The businesses that have financial strength are in a position either to acquire weaker businesses at rock bottom valuations or are stepping in to capture the space left vacant. Buyers also prefer strong suppliers in times of uncertainty, often willing to pay a premium for assurance of supply. Again, feeding into the chain of strong becoming stronger. The strongest players in any business segment are the listed entities.

We believe that listed entities in the small-cap segments are the biggest beneficiaries of such developments. Industry consolidation is more pronounced in the areas where the small caps operate because most small-cap companies compete with the unorganized players. In tough times consolidation works in favor of listed firms. Coupled with this there are multiple tailwinds like the government trying to boost manufacturing through PLI schemes, lower taxation, and various concessions. World over buyers are following a China +1 strategy. We believe that this space is at a point of inflection. To help you capture quality opportunities we are launching PGIM India Small Cap Fund. The NFO starts on 9th July. Idea is to help investors like you gain exposure to business segments like construction, textiles, real estate, chemicals and agrochemicals, Industrials, paper and the like that find limited representation in the large-cap space. This space is more about individual stocks and therefore the valuation of the benchmark may not be the correct yardstick. The investment process remains the same as of our other schemes like PGIM India Midcap Opportunities Fund & PGIM India Flexi Cap Fund.

The decision to take exposure to our new product must be guided by an overall asset allocation and risk appetite. Your Mutual Fund Distributor or Registered Investment Advisor would be in a better position to guide you on the same. In case you wish to know more you can visit us at bit.ly/PGIM-SmallCap

Do take care. Stay safe.

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 www.pgimindiamf.com

 1800 2667 446

Riskometer

This product is suitable for investors who are seeking*:

PGIM India Flexi Cap Fund (Flexi Cap Fund - An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks)

- Capital appreciation over long term.
- To generate income and capital appreciation by predominantly investing in an actively managed diversified portfolio of equity and equity related instruments including derivatives.
- Degree of risk – VERY HIGH

PGIM India Midcap Opportunities Fund (Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks)

- Capital appreciation over long run.
- To achieve long term capital appreciation by predominantly investing in equity and equity related instruments of mid cap companies.
- Degree of risk – VERY HIGH



Investors understand that their principal will be at very high risk

PGIM India Small Cap Fund (An open-ended equity scheme predominantly investing in small cap stocks)

- Capital appreciation over a long period of time.
- Investment in equity and equity related instruments of small cap companies.
- Degree of risk – VERY HIGH

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



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.

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