PGIM
India Mutual Fund

# Personal Benchmarking, To Reach Desired Goals

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Dear Investors and Partners,

So far, the current fiscal has seen lot of interesting trends in India. In contrast to the rest of the world, the Indian market has been a beneficiary of liquidity, both from domestic and foreign investors, between April to September 2023. The industry data would suggest that mutual fund investors are chasing performance, as Smallcap and Sectoral/Thematic category of mutual funds have got bulk of the inflows in FY24, so far. Between April to August 2023, out of the ~INR 46,000 crore inflows within the equity category, Smallcap funds, in aggregate, have seen inflows of around 42%, and Sector/Thematic funds have got another 15% share of the inflows. Midcap funds have got 19% share of the inflows. On the other hand, Largecap funds have seen outflows of around INR 5,500 crore in the same period. (Source: AMFI data from April 2023 to August 2023)

The Nifty Microcap 250 TRI Index, which is the best performing index, has delivered 55.6% between April to August 2023. In the same timeframe, the Nifty Smallcap 250 TRI index has appreciated by 36.3%, while the Nifty 100 TRI, in contrast, has delivered only 12.6% returns, which partly explains the above trend in the flows. This divergence in performance is observed within sectors as well as within the different styles, with Momentum and Value outperforming Quality and Growth oriented indices. (Source: ICRA MFIE) This suggests that in the short-term, investors are favouring turnaround and beaten down stories beyond the largecap stocks and momentum stocks, and perhaps ignoring long-term structural quality plays in the process.

We at PGIM India, through our well-diversified investment process, are focused on the quality and growth side of the markets, as we screen our universe accordingly and do not actively participate in cyclical stories. This is done with a view to protect downside and participate in the long-term growth story of the Indian markets in a meaningful way.

Investors and advisors in these times may fear from missing out, and this may lead to an error in behaviour as one may be tempted to overallocate, to small and microcaps and sector specific strategies, more than what one maybe comfortable with. As always, investors must focus on asset allocation and the required rate of return rather than looking at what the different segments of the market are doing in the very short-term. However, this is easier said than done. One behaviour hack which can make the job easier is to ignore the benchmark index, and focus on one's own personal benchmark. This personal benchmark should be based on goal-based investing. If one has a defined long-term financial goal like Retirement, than based on lifestyle needs and risk appetite, one can define a required rate of return to achieve the desired post-retirement corpus. Personal benchmark is nothing but the specific required rate of return to build the desired corpus. As long as one is generating this return from their investment portfolio, one should not look at market benchmarks, which will help in staying focused.

The nature of equity markets has always been similar in the short-term, and this is not the first and certainly not the last time where we see pockets of the market showing sharp divergence with the rest of the market. This may be due to a variety of factors, and this exuberance can sustain for a while. However, the earnings' growth remains strong for Indian companies, so investors should be mindful of valuations at this stage. A portfolio with long-term focus and that offers quality stocks which have not participated in the market rally as much as rest of the market can be preferred.

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.