

## **All my savings are in equity funds of HDFC Mutual Fund: Prashant Jain**

**In an exclusive interview with Cafemutual, Prashant Jain, Executive Director & Chief Investment Officer, HDFC Mutual Fund talks about his journey in fund management, the challenges faced by him and more.**



**You have been managing HDFC Prudence Fund for 21 years now. What were the biggest challenges faced by you in managing this fund?**

I have never focused on challenges but simply on doing my best, each day, one day at a time. When I look back, I feel, staying focused on the long term, has been a challenge at times, given the overwhelming day to day noise and the pressures of short term performance. Explaining the several advantages of balanced funds i.e., ongoing and automatic portfolio rebalancing and tax efficiency of the fixed income portion has not been easy. Even today there are several who are yet to be convinced.

However, the most talked about challenge – fund size, I am yet to feel it.

**What has helped you build this impressive track record? How do you plan to sustain it?**

It has been great to be associated with HDFC Prudence Fund right through from inception in Feb 1994 till date. The Fund has delivered 20.4% CAGR over ~21 years and has turned Rs. 10 to Rs 482\* (Adjusted NAV as on 31st December, 2014). When I started my career, I had only read Einstein on compounding, but now I have actually experienced it. If this can be repeated for next 20 years, then the outcome will be very interesting and the fund will be closer to what Mr. Buffett has done.

A disciplined approach to investing, focus on quality and diversification, avoidance of very expensive investments, a very stable and talented investments team, support of group and management, particularly in adverse times, lots of smart and hardworking entrepreneurs, growing and competitive economy, support of sell side, luck/ destiny have all played a role in this journey.

We will continue to do exactly what we have done so far – invest with a long term view, ignore noise and short term performance pressures, give the fund our best every day and hope for a good outcome.

**In the last 22 years of your fund management career, which mistake would you have liked to avoid? What have been your notable mistakes?**

There are two types of mistakes in investing:

- buying a poor quality / loss making investment
- missing a great investment

Regarding type 1 mistakes, I made lots of them in the first few years of my career (when the AUMs used to be in double digits) and the learnings of that period have been with me throughout.

Regarding type 2 mistakes, I have to learn more as I keep on committing these even today. Not having invested to our capacity or for long enough in stocks viz. Sun Pharma, Asian Paints, HDFC, Hero Honda etc over last 10 years or so fall in this category\*.

*\*Stocks referred above are not recommended by HDFC Mutual Fund / HDFC AMC. The Fund may or may not have any present or future positions in these stocks.*

**How do you deal with information overload?**

By staying focussed, by delegating to the team and encouraging the team to stay focussed, by thinking long term and through good understanding of businesses.

**Do you invest your own money in the funds managed by you?**

Nearly all my savings are in equity funds of HDFC Mutual Fund. It should however be noted that investments should be tailored to one's specific needs and that there is no single approach that is suitable for all.

**Unlike in the west, Indian funds are able to generate alpha by outperforming their benchmarks. Do you think Indian fund managers will continue to find opportunities to beat markets in future?**

Indian mutual funds own just 2.5% of the markets. This and the focus, experience, maturity of the mutual fund investment teams has made it possible to take performance from other market participants – retail and other institutional players.

I am optimistic about the ability of the mutual funds to continue to add value in the foreseeable future.

I would suggest that investors should take full advantage of the tax benefits, strengths and experience of mutual funds by making mutual funds the preferred vehicle for managing their equity and fixed income investments.

**What would you consider to be a reasonable expected rate of return from equity for the next 10-15 years?**

Given the increasing pace of change in the world, long term forecasts are not very helpful.

Outlook for Indian economy and Indian equities is promising. It has been observed that equity returns of a country are closely linked to nominal GDP growth rates over long periods. Over last few decades, nominal GDP growth (real growth + inflation) has been around 15% CAGR and that matches nicely with equity returns of S&P BSE Sensex.

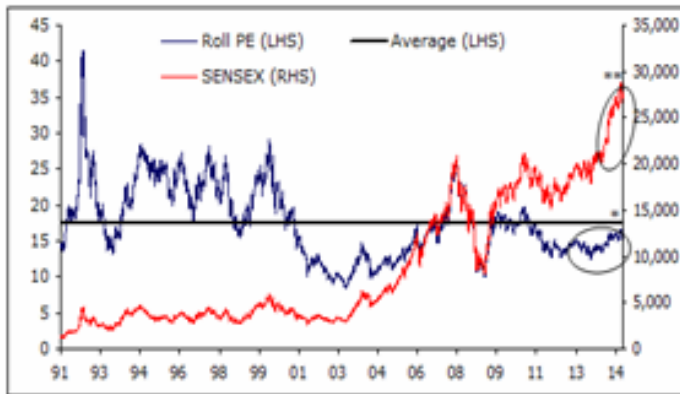
India is one of the best placed among large economies in the world in terms of demographics, demand, growth etc in my opinion. India is a key beneficiary of lower crude oil prices. The savings from lower oil prices are near 2% of GDP on run rate basis at current oil prices over calendar year 2013 average.

Apart from lower oil prices, a strong, growth oriented and business friendly government bodes well for economic growth and for businesses. Key decisions of new government so far give confidence that lower fiscal deficit is a priority and it should continue to fall. The government has shown with its actions that it will prioritize quality of supply of essential things like electricity etc. over the price of supply; put in place a transparent framework so that India can harness potential of its vast mineral resources; simplify tax structures and improve tax compliance; and follow policies that will aim to lead healthy and sustainable economic growth.

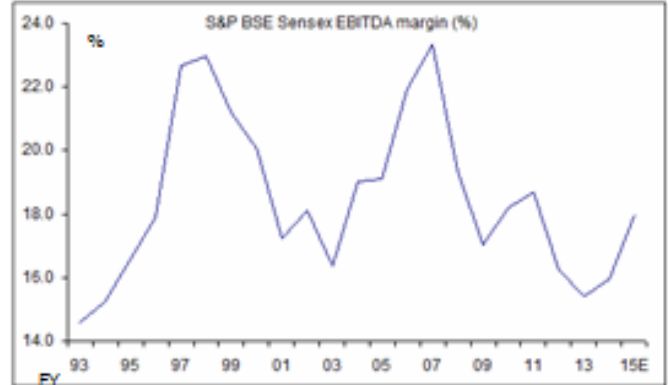
From an equity market perspective, current P/E multiples of equity markets are reasonable – actually below long term averages (Chart 1). However, corporate earnings are expected to be better than estimates as corporate margins are significantly below the long term averages and should improve as capacity utilization and business conditions improve

(Chart 2). There is thus room for multiples to expand as growth improves and as interest rates move lower besides strong earnings growth.

To summarize, the outlook for equities is promising from a 3-5 year view.



Source : CLSA  
Chart 1



Source : BAML  
Chart 2

### **How important is the role of luck in investing according to you?**

Luck / destiny has a role to play not just in investing but in life itself. However, the extent to which one attributes success or failure to luck/destiny is a matter of individual choice & personal belief. I believe that luck/destiny has an important role but hard work improves one's chances of being lucky & successful.

### **Which are the 5 most important skills to be a successful fund manager?**

Hard work, lots of common sense, ability to work in a team, belief in the ability of the markets to correctly price an asset over the long term and at times to some extent luck / destiny all have a role to play. There are several individuals who have done well in HDFC AMC and in the industry. In my opinion all of us owe this success to not just the factors mentioned above, but in large measure to the support of the teams of which we are a part of and of the sell side analysts as well.

### **Whom do you look up to in the field of investment management?**

I have read up on Warren Buffet and John Bogle and believe I have learned a lot from them, but I don't follow anybody in particular. For all practical purposes, I prefer on-the-ground research: meet companies and look for disparities and try to identify winners among them. However, I would love to have Mr Buffett's sense of humour and the ability to express in a sentence what others take a few pages to explain.

**Did you always want to become a fund manager?**

No, not at all. In fact, this is destiny. I was introduced to equities and to investing as I was the last person in my batch to join SBI Mutual Fund due to some personal commitments and equity research was least preferred between project appraisals, marketing, merchant banking etc, hence I had to “settle” for equity research!