Disclaimer :- This was originally published on 6th April 2023 and is part of our Q4FY23 letter. Link to the letter here

PMS vs Mutual Funds vs Alternate Investment Fund (AIF) for long only strategies
There is no perfect investment vehicle. Each has pros and cons.

Disadvantages of a PMS are:

- Churn by a PMS creates tax incidence. However, tax is not avoided vs a MF, only delayed. Theimpact is time value of money and would be small in a PMS with <25% churn.
- A PMS requires annual collation of tax statements.

Advantages of a PMS are:

- Smaller size allows us greater flexibility to invest in smaller companies.
- Concentration in higher conviction ideas.
- Customization on entry rather than model portfolio.
- Holdings in an individual account rather than part of a pooled vehicle (AIF/MF) is a big edge wheninvesting in smaller companies. They are more illiquid and have sharper drawdowns during a crisis. Large redemptions in a pooled vehicle will typically result in the most liquid and best performing companies getting sold first. Hence, clients who remain invested are left holding a larger share of the less attractive Assets.
- Transparency and access.

We are unclear about the merits of an AIF for long only strategies vs a PMS/MF.

- An AIF has the same tax incidence as a PMS (paid by the fund).
- It has neither the tax advantage of a MF nor the customization advantage of a PMS.