



**Ajit Menon**  
CEO

## Accumulative advantage of the 1% rule.

September, 2021

Dear Investors and Partners,

Economic activity is steadily improving with the opening of most sectors. The pace of hiring especially in the IT space is quite robust. Real Estate is witnessing a revival of sorts. Agri commodity prices have moved up with the possibility of bringing more income to the hinterlands. Overall, there is a steady flow of positive news from all quarters. Amid positive sentiments, we must continue practicing safety protocols to eliminate any possibility of a third wave.

As the organisations and individuals move their focus from mere survival to prosperity, they will be dealing with a changing environment. However, what is likely to remain the same in the pre-pandemic and post-pandemic operating environment is the competition and its intensity. Athletes compete for that one medal, companies compete for the same client or politicians for votes. In the era of disruptive innovation, the general impression created is that to be hugely successful one must do something path-breaking. While this is true for some fields, it may not hold for all operating areas. A small positive change maintained over a long period can lead to outsized results.

Take the case of Mexico. Dealing with poverty levels, the governor of the Mexican state Coahuila noticed that children staying in houses with dirt floors were more prone to diarrhea and had higher fatalities. In 2000, he launched a program called Piso Firme ("Solid Floor"), to replace dirt floors with cement ones. It provided 34,000 homes with a cement flooring upgrade by 2005. The success in Coahuila, led to Mexico making a national commitment to eliminate dirt floors. By 2012, the total number of cement floors installed had reached 2.7 million. An independent survey showed that the program led to a drop of 13% in diarrhea and 20 percent in anemia for children under six for the households that participated in Piso Firme. A small positive step repeated over 12 years led to large results.

Another example of small positive steps repeatedly taken leading to outsized results is of Jaydev Payang, India's forest man. Through regular planting of seeds and saplings on the island of Majauli he has created a forest cover of 550 hectares in 42 years. Compare this with the outcome of big bang plantation drives.

This is what can be referred to as the 1% rule. The accumulative advantage that drives the Pareto principle or the 80/20 rule that we are familiar with. 1% improvement sustained over a long period can be the real cutting edge for organizations and individuals as well. What applies to day-to-day life applies to fund management as well. For a fund to beat the benchmark or its peer set, it does not have to do post dramatically big returns. A small outperformance over a period leads to a big outperformance. There are many examples in the industry using the same philosophy the funds have multiplied money 6.5x when the index delivered 4x over the same period. We strive to achieve that incremental performance consistently over a long period to deliver a happy investing experience for our investors.

Individuals can also apply the same rule in their lives. If a person walking 1000 steps a day decides to walk 1% steps more every week than the previous week, in 5 years he/she will be walking 13000 steps a day. Saving 1% more than the previous month will lead to ~2x more savings in 5 years. This requires us to work on our habits. A small shift in inculcating the right habits can go a long way to achieve results in health or in our wealth creation journey.

To sum up whatever you wish to undertake make a small beginning, do a little more every time, and stay the course. A quote I find powerful in this regard is that of F.M. Alexander who said, People do not decide their futures, they decide their habits and their habits decide their futures.

Stay safe & happy investing.

Connect with us on:    

 [www.pgimindiamf.com](http://www.pgimindiamf.com)

 1800 2667 446

This Document is for information purpose only. This Document and the information do not constitute a distribution, an endorsement, an offer to buy or sell or the solicitation of an offer to buy or sell any securities or mutual fund schemes (collectively "Products"). PGIM India Asset Management Private Limited and/or its affiliates/associates undertake no obligation to update forward-looking statements to reflect events or circumstances after the date therefore. PGIM India Asset Management Pvt. Ltd. and/or its affiliates/associates, their directors, employees, representatives or agents shall not be liable or responsible, in any manner whatsoever, to any Investor/Recipient or any other person/entity, for the performance of the products. The distribution of this Document in certain jurisdictions may be restricted or totally prohibited and accordingly no persons receiving this Document in any such jurisdiction may treat this Document as constituting an invitation to them to subscribe for units of funds of PGIM India Mutual Fund.

© 2020 Prudential Financial, Inc. (PFI) and its related entities. PGIM, the PGIM logo, and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.