Why bigger isn't better for PMS schemes

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PMS are customized investment portfolios for high-net-worth investors, with a minimum investment of ₹50 lakh, typically built around a concentrated set of stocks.**(Pixabay)**

SUMMARY

Five of six large portfolio management schemes managing over ₹5,000 crore have seen returns weaken as scale limits their ability to generate alpha.

MUMBAI: Bigger is proving to be a handicap for portfolio management services (PMS), with five of six large schemes analysed—each managing over ₹5,000 crore—seeing performance decline after crossing that size, an analysis by *Mint* shows.

PMS are customized investment portfolios for high-net-worth investors, with a minimum investment of ₹50 lakh, typically built around a concentrated set of stocks.

The pattern points to a structural constraint: as PMS strategies scale, deploying larger sums into high-conviction small- and mid-cap ideas becomes harder without moving prices, compressing alpha.

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There are 15 equity PMS schemes with assets above ₹5,000 crore as of March 2026, according to data from the Association of Portfolio Managers of India (Apmi). Of these, six schemes were analysed as they manage domestic money and invest directly in stocks. The rest either manage foreign portfolio investor (FPI) money or invest in **mutual funds** and bonds. Total PMS assets stood at ₹5.3 trillion as of March 2026, excluding employee provident fund assets.

About five years ago, when these schemes were much smaller, their alpha was significantly higher, according to data from PMS Bazaar, a platform for PMS and the Securities and Exchange Board of India (Sebi). Today, with larger asset bases, that excess return has narrowed as funds have grown.

Different schemes are benchmarked against different indices depending on their strategy. Multi-cap strategies are typically compared against the S&P BSE 500 TRI.

While the relationship is not strictly linear, the data for at least five schemes show this trend.

Bouyant Capital's Opportunities scheme generated an alpha of 35.6% for a period of one year through March 2021 when its assets were ₹140 crore. By March 2026, its assets had grown to ₹8,689 crore, while its one-year alpha had dropped to 9%.

A similar trend is visible in Stallion Asset's Core Fund. It generated an alpha of 8.1% for a period of one year through March 2021 with assets of ₹255 crore. By March 2026, its one-year alpha had declined to 0.55%, even as assets rose to ₹5,833 crore.

We have considered only one-year performance, as a longer time frame would capture periods when the scheme operated at a much smaller size. In simple terms, if a scheme manages ₹5,000 crore today, its three-year returns would partly reflect a time when its assets were closer to ₹1,000 crore—when the fund was significantly smaller.

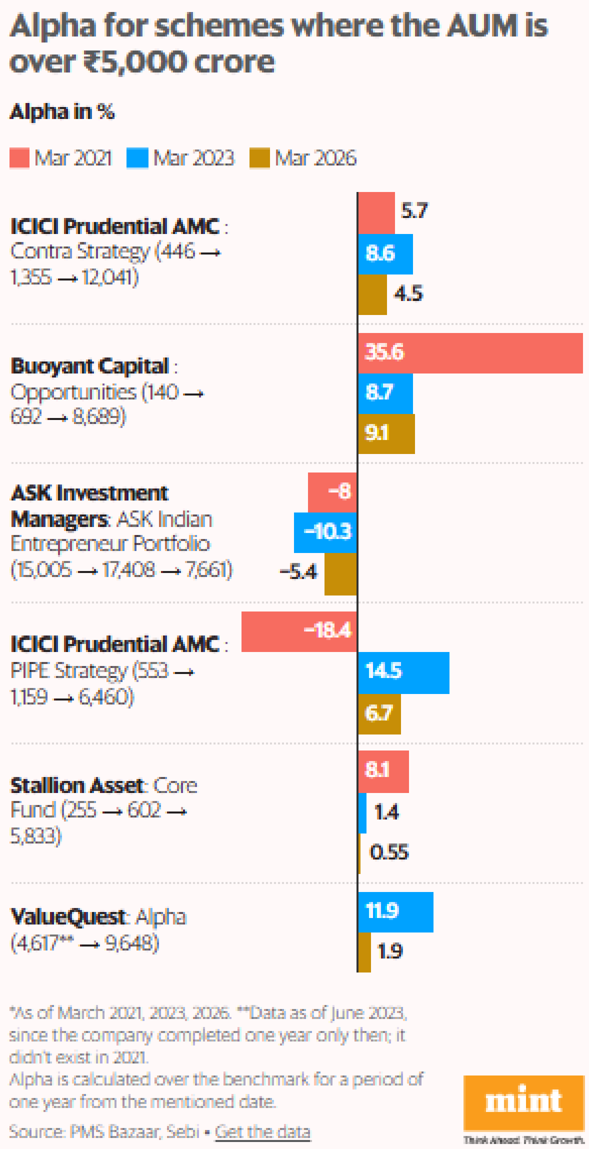
Scale vs alpha

The size-performance trade-off stems from how PMS strategies are constructed. Known for concentrated portfolios and a bias towards small-cap stocks, they face constraints when assets grow.

"Suppose a client wants to exit and has a large corpus with the asset manager, and if the asset manager tries selling illiquid names, it will end up hammering prices down because liquidity is limited," said Dinshaw Irani, chief executive officer at Helios Capital.

Prabhakar Kudva, director and principal officer–PMS at Samvitti Capital, said smaller PMS firms have the advantage of "fishing in smaller ponds".

Kudva explained this with a simple example: a PMS managing ₹500 crore taking a 2% position in a small-cap would deploy about ₹10 crore. But if the **AUM** scales up to ₹5,000 crore, the same 2% bet becomes ₹100 crore, a size large enough to potentially move the stock price, especially in volatile markets.



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Smaller funds can enter and exit such names more easily, while larger funds, by virtue of their size, tend to stick to the top 250–300 stocks where liquidity is deeper. "As a result, the investable universe narrows with scale, which can make it harder to consistently deliver market-beating returns."

Another veteran fund manager said that investors come to boutique PMS to get niche stock ideas; if the size increases and becomes largecap heavy, it is similar to a mutual fund, which investors do not like.

Not just size

Some large PMS managers argue that performance cannot be reduced to scale alone.

George Heber, chief investment officer and chief executive–equity at ASK Investment Managers, said, “It’s not just the size of the AUM that drives performance, but also identifying the cycles and picking the right businesses.”

In FY21, returns were impacted as ASK leaned on consumer names and played the consumption theme. While this helped certain PMS strategies outperform, one of the schemes of the Indian Entrepreneur Portfolio lagged. It was also relatively late in riding the capex cycle, which contributed to its underperformance in FY23.

Over the past year, PMS strategies with meaningful exposure to commodities have performed well, largely because commodities have been among the best-performing segments during this period, Heber said.

Heber added that managing under ₹15,000 crore in a single PMS strategy is comfortable and does not pose meaningful constraints.

Amol Jadhav, head, product communications–alternate investments at ICICI Prudential AMC, said PMS remains a flexible vehicle with the advantage of agility and a broader opportunity set for generating alpha. But “as the corpus grows particularly in the small and micro cap strategy, stock selection and allocation becomes a more nuanced exercise.”

ICICI Prudential’s PIPE strategy was the exception among the six schemes analysed. It generated a negative 18% alpha for the period of one year through March 2021 when assets were ₹553 crore, but delivered an alpha of 6.7% for the period of one year through March 2026 as assets grew to ₹6,460 crore.

Investor watch

The size-performance dynamic has also influenced how portfolio managers position themselves, with some moving towards the mutual fund route to scale more efficiently. Firms such as Whiteoak Capital Management, Abakkus Asset Managers and Unifi Capital have taken that path.

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For investors, performance remains the primary filter, but fund selection should balance AUM size, **fund manager** pedigree and consistency, said Santosh Joseph, chief executive officer and managing director at Germinate Investor Services.

“A large fund (₹6,000–10,000 crore) isn’t automatically better, and a small fund without a track record isn’t reliable either. Very small funds may show high short-term returns due to agility, but low AUM (₹20-30 crore) raises credibility and scalability concerns,” Joseph added.