Portfolio Management Services

Monthly Factsheet - March 2014

Dear Investor,

For investment decision making, one of the most important factors is the risk inherent in that decision. Too many times, this aspect is not given the attention it deserves, and too much attention is given to the "returns" or "potential returns" generated by the investment.

What is risk?

Risk, in very simple terms, is the possibility of the occurrence of an unsavoury event.

For an investor, this "unsavoury event" is the permanent loss of capital.

Let us take a very simple example. Suppose there are two investors A & B who invest in fixed deposits. Mr. A invests in the fixed deposit of a well-known bank, whereas Mr. B chooses to invest in the fixed deposit of a new finance company promising a much higher rate of interest.

A neutral observer would say that Mr. B is taking the **risk** of losing his principal amount. As long as the concerned finance company honours its interest payment and principal repayment commitments, one can say that Mr. B's risk has paid off. But that does not mean that the risk did not exist.

Mr. A, on the other hand, does not want to take that risk at all, and is satisfied with the safer (albeit lower) returns that he expects from the deposit in an old and established bank.

Who is a "better" investor? Mr. A or Mr. B? Should this be judged only by the returns generated by their respective investments? Or should it also be judged based on the risk taken by both parties?

Now, let us shift our focus to equity investing.

In equity investing too, the "unsavoury event" would mean the permanent loss of capital for the investor. Such a permanent loss of capital can be caused by

Business risk - where the investor loses because fundamentals of the business deteriorate

Management risk - where the company concerned is let down by the people running it, either by way of incompetence or lack of integrity, or both

Price risk - where the loss is caused by the price of the company's stock falling sharply. This is typically a result of paying too high a price for the stock to begin with.

It is interesting that in many cases, investors in equity (or equity funds) judge performance only by the "returns" generated by their investment, and not by the inherent risks in the investment. As a result, during bullish times when returns are easy, risks are ignored or even forgotten. As a result, during such times, stocks of mediocre companies often rise much faster than those of more well-established companies.

Are we suggesting that investors should avoid taking risks altogether? Not in the least. Investing in equities means investing in risk capital. What is important is to balance the existence of risk with that of the expected returns. Trying the best to reduce the incidence of these three types of risk (i.e., business risk, management risk and price risk) is, in our opinion, the best way to manage equity.

If we pay attention to the management of the risks, the returns will follow.

Consolidated Portfolio Performance of Pramerica Deep Value Strategy as on Feb 28, 2014

Period	Portfolio	Nifty
1 Month	5.16%	3.08%
3 Months	6.51%	1.63%
6 Months	21.37%	14.71%
Since inception date 03/07/2013	20.50%	7.16%
Portfolio Turnover Ratio	1.84%	

Performance depicted above, as at Feb 28, 2014, is based on all the client portfolios under Pramerica Deep Value Strategy existing as on such date, using time weighted average methodology.

Past performance is no guarantee of future returns. The above portfolio performances are before charging of any expenses. Please read the complete text of the disclosure on page number 3.

3 Months Absolute Returns				
	From	To	Strategy Return	Nifty Return
Lowest Returns of Pramerica Deep Value Strategy	15-Jul-13	15-Oct-13	2.00%	0.97%
Lowest Return of NIFTY	04-Nov-13	04-Feb-14	3.54%	-5.01%
Highest return of Pramerica Deep Value Strategy and NIFTY	03-Sep-13	03-Dec-13	15.93%	16.11%

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Important Disclosures regarding the consolidated portfolio performance

Performance depicted on page number 2 and above, as at Feb 28, 2014, is based on all the client portfolios under Pramerica Deep Value Strategy existing as on such date, using time weighted average methodology. Past performance is no guarantee of future returns. The above portfolio performances are before charging of any expenses. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client mandate, specific portfolio construction characteristics or other structural parameters. These factors may have impact on client portfolio performance and hence may vary significantly from the performance data depicted above.

Neither the Portfolio Manager, nor its directors or employees shall in any way be liable for any variation noticed in the returns of individual client portfolios. The Portfolio Manager does not make any representation that any investor will or is likely to achieve profits or losses similar to those depicted on page no. 2.

Return for period upto 1 year is absolute. Since inception date stated is considered to be the date on which the first client investment was made under the strategy.

Disclaimers and risk factors

Pramerica Asset Managers Private Limited is registered with SEBI as Portfolio Manager as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993.

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