# PORTFOLIO MANAGEMENT SERVICES

Newsletter November 2015

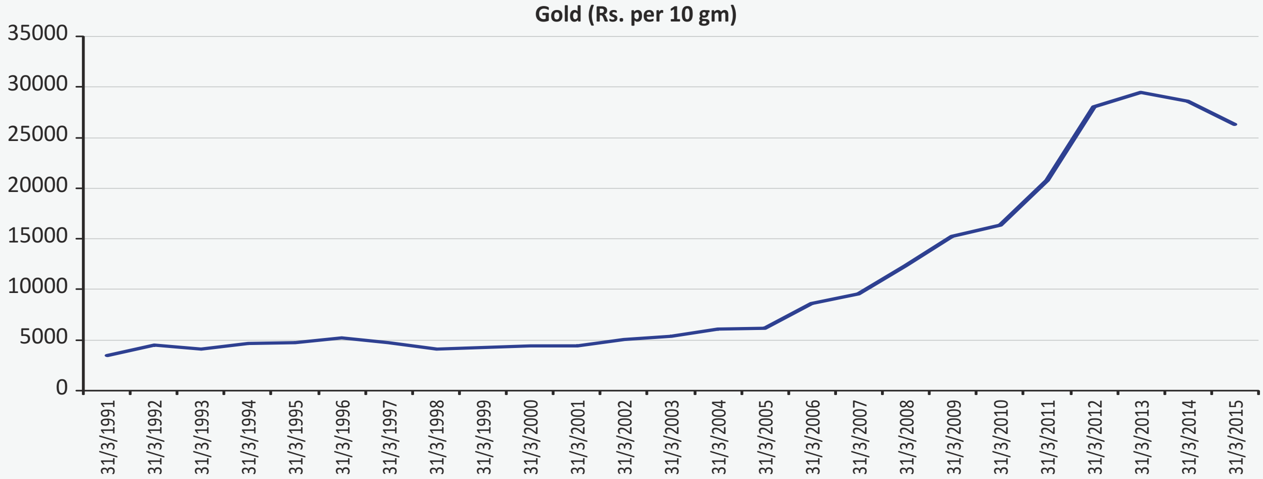
DHFL Pramerica

Dear Investor,

Often, we are confronted with the question about the longer term performances of different asset classes. It is an interesting study to compare the performances of these classes of assets in India over the past several years:

## Gold

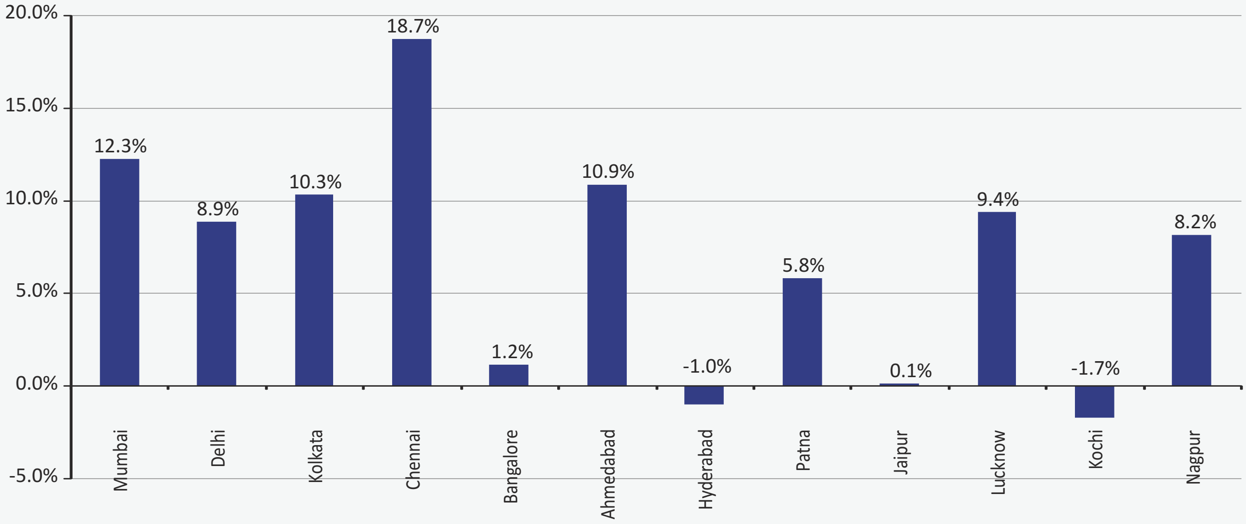
Gold has been a favourite asset in India for generations, and especially in the past decade or so, its popularity has been quite strong. Gold has done well in the past decade, although it has slowed down in the past couple of years:




Source: (1) RBI website (2) www.taxguru.in

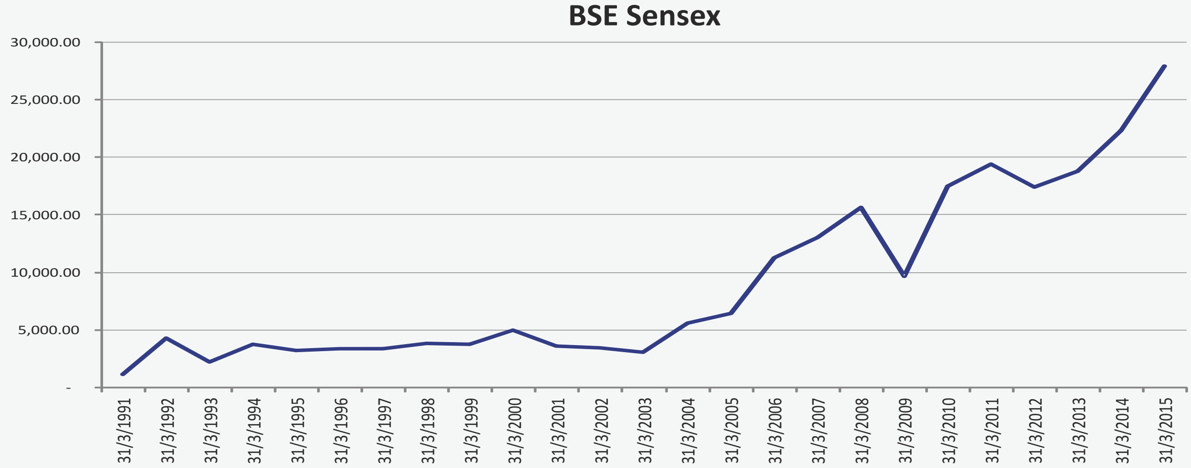
## Real estate

There are not many reliable indexes to measure the price performance of real estate as an asset class. The National Housing Bank has an Index called "Residex" which measures the price movements of residential properties in various parts of the country. This Index was introduced in 2007. We have used this as our data point.




Source: National Housing Bank "Residex"

## The Indian stock market




Source: BSE Ltd. (www.bseindia.com)

## Comparative performance of real estate, gold and the equity markets

The best performing city in terms of real estate Investments (as measured by the Residex) has been Chennai (which returned 18.7% per annum from March 2007 till September 2014). The average returns from the 12 major cities in India have been 6.9% per annum.

The long term returns from gold has been 8.8% per annum (March 1991 to March 2015). Gold did phenomenally well in the 10 years (2005-2015) recording a rise of 15.6% p.a., but in the past three years, this asset class has yielded -2.2% return per annum.

The Indian stock market (represented by the BSE Sensex) has given a long term return of 14.1% per annum for the 25 year period 1991-2015, compared to the 8.8% return of gold. In the past three years ending March 2015, the Sensex has given a compounded return of 17.1% compared to -2.2% of gold.

We therefore can conclude that, despite the volatility displayed by the stock market, on a longer term basis, this asset class does give the highest after-tax return among all asset classes, with additional benefits of easy tradability and liquidity.

The important points in stock market investments

- Choosing a robust business with a strong balance sheet and sustainable competitive advantage
- Choosing a company with a good set of managers
- Choosing the stock at a price that is not extravagantly expensive

When these three aspects are in place, the stage gets set for a decent performance. This is precisely what we are attempting to do in your PMS.

*We wish you and your family a very Happy Diwali and Prosperous New Year.*

# Equity Market Outlook of DHFL Pramerica Asset Managers - October 2015

October was a relatively mellow month for the Indian equity indices compared to the volatility seen in September, while it underperformed global indices. Frontline indices closed with gains of 1.5% while the broader markets outperformed slightly. Some of the early gains of the month were given up as the earnings followed in the second half.

Globally, October belonged to developed markets as they rebounded close to 10% (US, Germany, France) after almost hitting their 52 week lows. Asian markets also rallied as a weak US jobs report early on in October pushed out expectations of an interest rate lift off, that had a weakening effect on the USD and a knock-on positive impact on commodity stocks, other Asian economies and crude which also stabilized with Brent gaining 2.5%. Later on in the month, ECB further fuelled the markets signaling that it was prepared to further cut interest rates and expand its quantitative easing possibly in December to stave off the renewed risk of slump.

Domestic economic data continued with its sanguine streak as IIP expanded higher than expected and consumer inflation was also bang in line with expectations, though at a higher print than previous month. IIP grew at a solid 6.4% in August, led by a robust pick-up in consumer durables by 17% yoy or capital goods which clocked a ~22% rise as seen in industry-wise classification). This is indicative of the pent-up demand in the system as well as resumption of some of the stuck projects.

One of key issues plaguing the economy is the quantum of bad loans that banks have been laden with, which has become a hindrance for credit availability for new projects due to the risk aversion it induces among lenders as well as the capital it has blocked. As promoters' willingness to sell assets to cut debt has been patchy, Reserve Bank's introduction of Strategic Debt Restructuring, which allows banks to convert their loans into equity and take over the assets to sell it to a better management, has been a big shot in the arm. Banks have, since the introduction of SDR, invoked it in the case of five corporate with more to come, and this will only expedite our thesis of consolidation in the industry.

## 2QFY16 result

The second quarter so far has been a mixed bag even within sectors. Among financials, there was divergence even within the private sector banks where though most of them reported good credit growth, the retail oriented ones stood out on asset quality while issues on that front pinched the corporate heavy banks harder this time. Among, NBFCs asset financing companies are still hard pressed for growth as the focus continued to be on collections while home finance was a safe pocket for yet another quarter. NIMs across the board were solid this quarter with them having largely peaked for banks as the base rate cut will take effect in the following one.

The narrative for consumer companies was the same yet again, of weak volume growth and higher margins. Volumes were especially impacted where rural drove the demand thus far, including 2 wheelers, while all of them retained a large part of the lower commodity cost benefits resulting in higher margins.

Capital goods' companies reported good order inflow with execution yet to pick up meaningfully. They have guided to a better 2H in this respect while they benefited from lower commodity costs on the margins front. IT companies had a weak quarter which led to moderation of full year expectations.

## Outlook

Markets globally have spent a considerable amount of time worrying about the reversal of US interest rates and with it the global liquidity that has sought out risky assets including emerging markets. In this context, it is key to note that ECB, China and Japan will keep up the global liquidity situation which will make it even more difficult for the US to reverse the position dramatically.

Hence, barring periods of intermittent turmoil caused by some emerging market or the other running into a crisis, India is well positioned to benefit from foreign inflows as well as domestic investor interest. The periods of tumult in the market will be opportunities build a portfolio of good companies at relatively attractive prices.

# KEY PORTFOLIO PERFORMANCE INDICATORS

## Quarter on Quarter Performance

| | Jul '13- Sep '13* | Oct '13 - Dec '13 | Jan '14 - Mar '14 | Apr '14 - Jun '14 | Jul '14 - Sep '14 | Oct '14 - Dec '14 | Jan '15 - Mar '15 | Apr '15 - Jun '15 | Jul '15 - Sep '15 |
|---|---|---|---|---|---|---|---|---|---|
| DHFL Pramerica Deep Value Strategy | 2.38% | 13.20% | 16.77% | 26.92% | 7.12% | 4.82% | 1.67% | 0.15% | -0.80% |
| Nifty | -1.31% | 9.92% | 6.35% | 13.53% | 4.64% | 3.99% | 2.51% | -1.44% | -5.01% |
| Over / (Under) Performance | 3.69% | 3.28% | 10.42% | 13.39% | 2.48% | 0.83% | -0.84% | 1.59% | 4.21% |

*Return for the period 8th July 2013 to 30th September 2013.

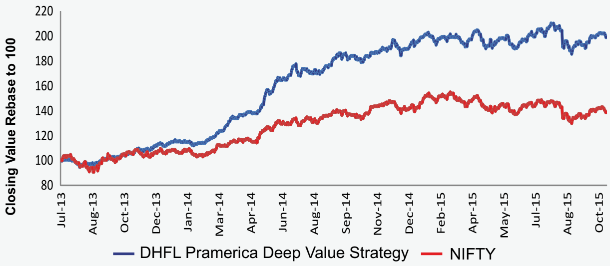
Returns calculated for 3 months gross of expenses.

Returns are Quarterly returns for DHFL Pramerica Deep Value Strategy - Discretionary Clients Regular Portfolio.

## Top 15 Holdings of DHFL Pramerica Deep Value Strategy Discretionary Portfolio Regular Plan as on October 31, 2015

| Security | Sector | % Assets |
|---|---|---|
| Indraprastha Gas Ltd. | Lpg/ cng/ png/ lng Supplier | 6.94% |
| Container Corporation of India Ltd. | Logistics Solution Provider | 5.85% |
| Colgate-palmolive (i) Ltd. | Personal Care | 4.92% |
| Siemens Ltd. | Power Equipment | 4.92% |
| Infosys Ltd. | Computers - Software | 4.68% |
| Oil & Natural Gas Corporation Ltd. | Oil Exploration | 4.30% |
| ITC Ltd. | Cigarettes | 4.29% |
| Hero Motocorp Ltd. | Motor Cycles/ scooters | 4.19% |
| Crisil Ltd. | Ratings | 4.00% |
| Blue Star Ltd. | Air Conditioner | 3.65% |
| Sun Pharmaceutical Industries Ltd. | Pharmaceuticals | 3.58% |
| Bosch Ltd. | Auto Ancillaries | 3.41% |
| Divis Laboratories Ltd. | Pharmaceuticals | 3.39% |
| Swaraj Engines Ltd. | Diesel Engines | 3.33% |
| Tata Motors Ltd. Dvr | Commercial Vehicles | 3.19% |
| **Total** | | **64.64%** |

## Performance Comparision




## Portfolio Details

| Portfolio Details as on October 31, 2015 | |
|---|---|
| Weighted average RoCE | 38.80% |
| Portfolio PE (1-year forward ) | 16.7 |
| Portfolio dividend yield | 1.58% |
| Average age of companies | 56 Years |

| Portfolio Composition as on October 31, 2015 | |
|---|---|
| Large Cap | 43% |
| Mid Cap | 34% |
| Small Cap | 13% |
| Cash | 10% |

The above holding represents top 15 holdings of DHFL Pramerica Deep Value Strategy – Regular Portfolio based on all client portfolios existing as on the date stated above, excluding any temporary cash investments. The above holdings do not represent the model portfolio being offered to the clients (including prospective clients) and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. The above holdings are for illustration purpose only and it should not be considered as investment recommendation or analysis or advice or opinion from the Portfolio Manager on the above mentioned stocks. The above portfolio holdings are provided on an "as is" basis, and the Portfolio Manager makes no express or implied warranties or representations with respect to the accuracy, completeness, reliability, or fitness of the above portfolio holdings or any financial results you may achieve from their use. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability relating to the use of the portfolio holdings.

## DHFL Pramerica Deep Value Strategy Portfolio Performance as on 30th October 2015

| Period | Portfolio | NIFTY | CNX500 |
|---|---|---|---|
| 1 Month | 2.19 % | 1.47 % | 1.58 % |
| 3 Months | -2.37 % | -4.23 % | -3.83 % |
| 6 Months | 3.59 % | -1.41 % | 0.02 % |
| 1 Year | 8.23 % | -1.27 % | 2.75 % |
| 2 Years | 36.92 % | 13.60 % | 19.05 % |
| Since inception date 08/07/2013 | 34.76 % | 14.74 % | 18.76 % |
| Portfolio Turnover Ratio* | 38.71% | | |

*Portfolio Turnover ratio as on 31st October 2015

**Important Disclosures regarding the consolidated portfolio performance:** Performance depicted above is based on all the client portfolios under Regular Portfolio of DHFL Pramerica Deep Value Strategy existing as on such date, using Time Weighted Rate of Return (TWRR). 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 above. 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.

**Investment objective of DHFL Pramerica Deep Value Strategy:** DHFL Pramerica Deep Value Strategy seeks to generate returns by investing in a portfolio of value stocks which have the potential of superior wealth creation over long term.

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**This document is dated November 06, 2015.**