

# PORTFOLIO MANAGEMENT SERVICES

Newsletter    December 2015



Pramerica

## The need to “do something”

One of the most important things in investing is to stay the course after choosing to invest in a particular company’s stock. But this simple-sounding principle is often very difficult to practice, especially when the stock price does not appreciate immediately after we have bought it!!

If a stock price does not move up within a few days of purchase, many investors get fidgety and begin to think that they have made a mistake by buying the stock. Worse, they sell a perfectly good stock just because it hasn’t moved the way **they wanted it to move**, and get into some other stock in the hope that the second one will move up immediately after purchase.

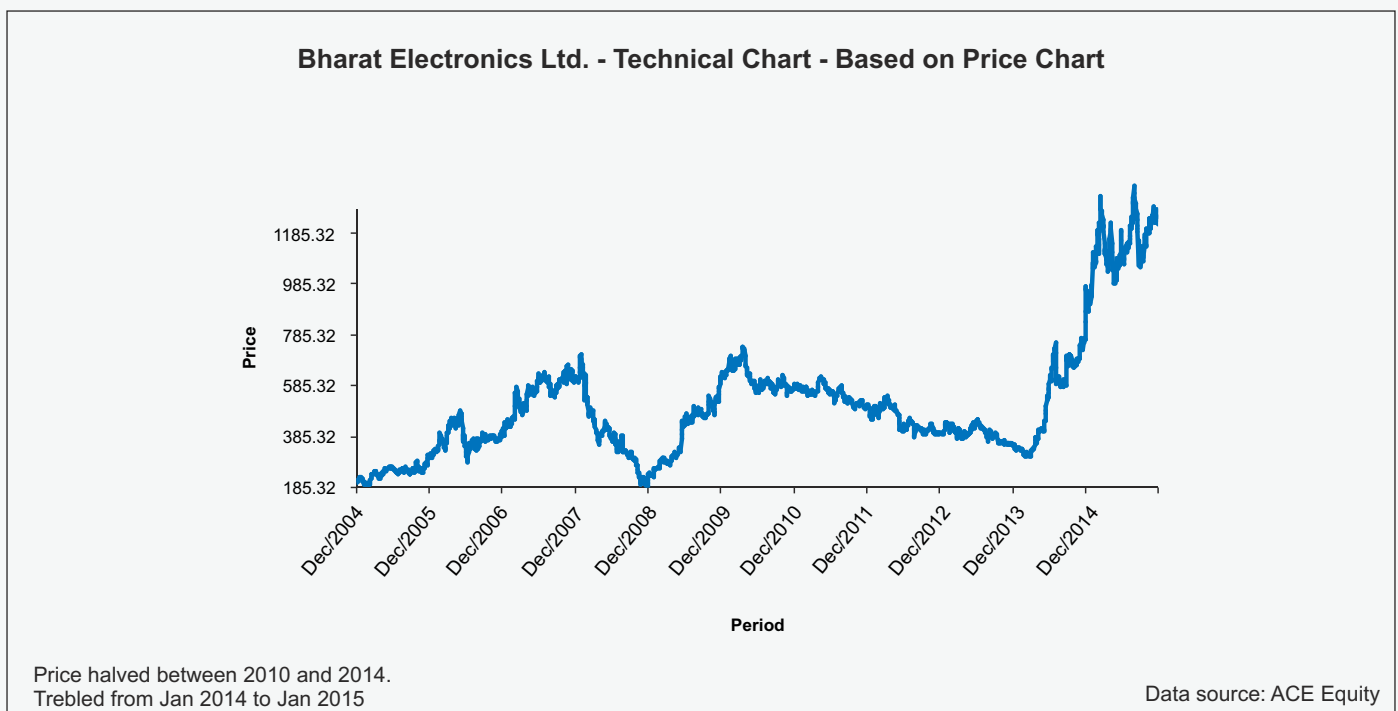
In the process, several investors ignore the business fundamentals of the company behind the stock, and focus on “**what is going to move up the fastest**”

This chain of events, unfortunately, has happened too many times for us to dismiss with the phrase “this time, things are different”.

Let us not forget for a moment - there is no rule, either man-made or divine, that says that a stock should move up immediately after we have purchased it.

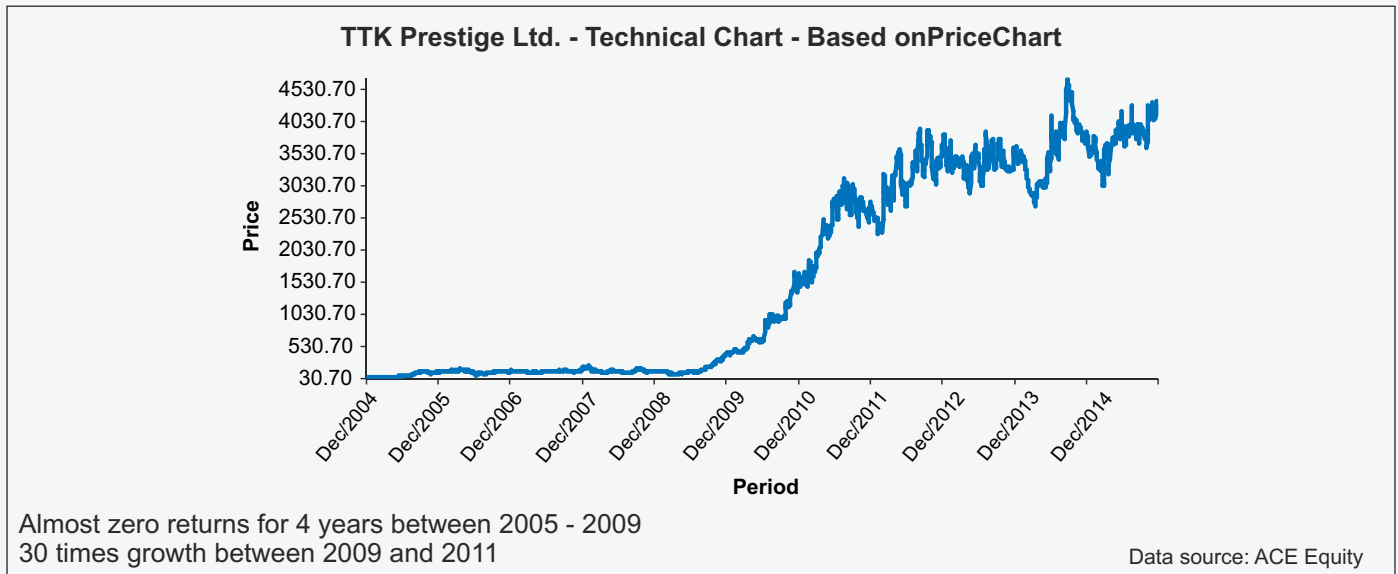
Here are some examples of some perfectly good companies, whose stocks did not move for several years, but once they moved, moved dramatically:

### Example 1- Bharat Electronics Limited

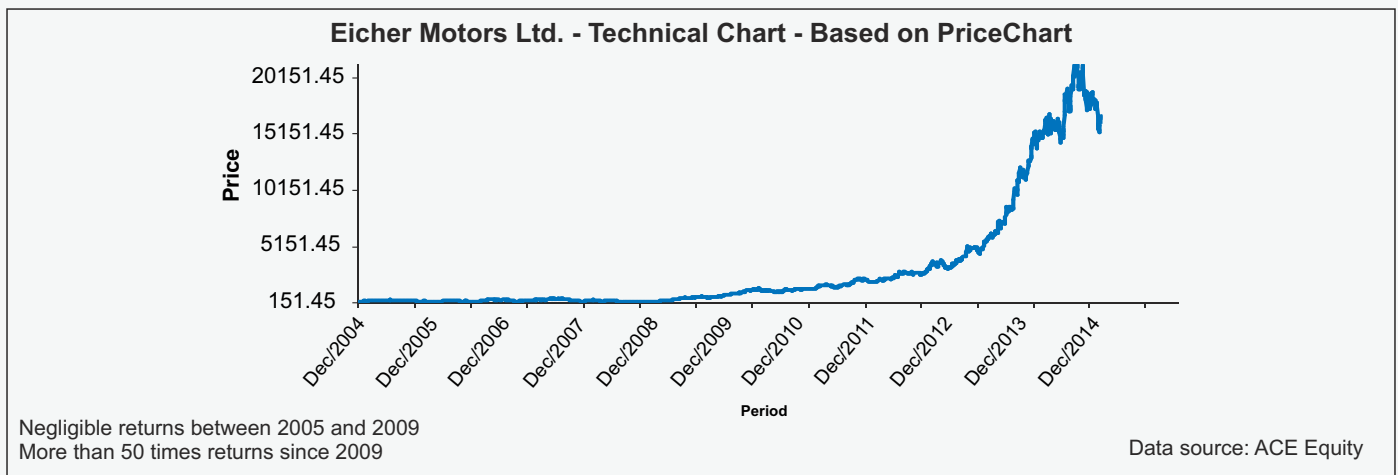


The reference to stock is for illustration purpose only and should not be considered as a recommendation or opinion on the above mentioned stock. The Portfolio Manager or its affiliates may or may not have any present or future position in the above stock.

### Example 2 - TTK Prestige



### Example 3 - Eicher Motors



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From the above, what are the conclusions that we can draw as investors?

- (1) The movement of a stock price does not go according to the calendar.
- (2) It is much better to focus on “why” a stock should move rather than “when” it will move
- (3) After buying a stock after reasonable research, just hold on to it if the original assumptions with which it was bought have not changed.
- (4) Switch from one stock to another only if the new purchase is having superior fundamentals and/or is available at a better price, and **NOT BECAUSE IT SEEMS LIKELY TO MOVE UP FASTER.**

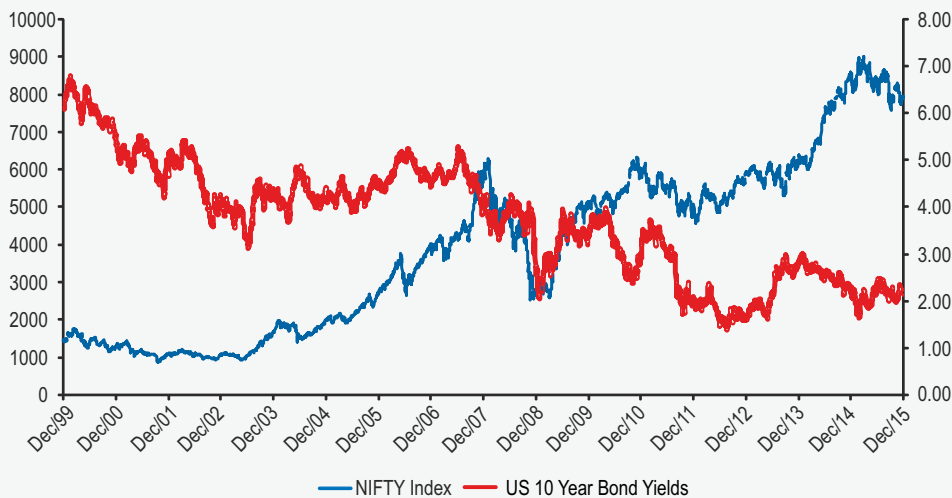
*“ In the world of investing, being correct about something isn't at all synonymous with being proved correct right away”*  
- Howard Marks

## Equity Market Outlook of DHFL Pramerica Asset Managers

### November 2015

November was a relatively lackluster month for the Indian equity indices compared to the volatility seen in October, while it underperformed global indices. Frontline indices closed with loss of 1.5% while the broader markets registered moderate outperformance. Some of the early gains of the month were given up as the earnings followed through the month.

Globally, there is a high likelihood of US rate hike in the upcoming fed meet. A rate hike in December would be the first such move in nine years which has been near zero since late 2008. While markets remain fearful of the rate hike in US, it is important to note the same also implies a strong growth in US economy. Rate hike is expected to have an impact on the global markets however India should remain relatively resilient as historical data suggests that growth in US markets is complimentary to Indian markets, given high share of Indian exposure to US markets. The same is aptly justified in the chart below where the same is clearly reflected in the movement of Nifty Vs US bond yields.



The European Central Bank (ECB) in its policy meeting signaled that it stands ready to deploy another stimulus program which could include more bond purchases and additional cuts to the already negative deposit rate as the region remains stuck in ultra-low inflation and the recovery was tepid. ECB's Draghi blamed the slowdown in EMs, including China, for the renewed weakness in Eurozone. Markets will start factoring in possible action in the December 3 policy meeting

Domestic economic data continued with its sanguine streak as GDP expanded in line with expectation while IIP grew more than expectation. GDP growth for 2QFY16 was projected at 7.4% YoY by the CSO (v/s 7% YoY in 1QFY16). On the supply side the pick-up in GDP growth was driven mainly by higher industrial sector growth whilst on the demand side, it was driven by higher Government expenditure growth. Though private consumption slowed down, overall investment picked up-reflecting the government thrust to kick-start the capex cycle. Core sector grew at 3.2% YoY in October, the same as in September. While Industries like Crude, Gas, Refining and Steel contracted, strong growth was witnessed in Fertilizers (16.2%), Cement (11.7%), Electricity (8.8%) and Coal (6.3%)

The winter session of the Parliament is underway. And the key issue under the scanner is the passage of the much-hyped, much-awaited Goods and Services Tax (GST) bill. Unlike in the monsoon session, government's this time has taken initiative to engage in a constructive dialogue with the opposition, which expectedly should result in key reforms going through. Though market believes GST will be a game changer for Indian economy, we think otherwise and consider the same to be a regular development in the ongoing reform process. In a big jump, India has moved up 16 positions to rank 55th on a global index of the world's most competitive economies underlining the country's recent economic recovery, improvement in the competitiveness of the country's institutions, its macroeconomic environment and improvement in infrastructure,

### 2QFY16 earnings performance

Sensex aggregate Sales, EBITDA and PAT declined 6%, 1% & 2% respectively in 2QFY16. Index earnings profile is marred by companies facing significant business pressure and reporting PAT de-growth in the range of 50-90% in some material companies comprising the index. We expect earnings growth to pick up and appear much better going ahead as weaker companies move out of index and are replaced by larger companies with better earnings profile. Very recently we saw that Vedanta Limited and Hindalco was replaced with Adani Ports and Asian Paints in Sensex which will have a material change in the index earnings growth.

### Outlook

Markets have been uncertain for few months now and with US rate hike on the anvil there could be an enhanced volatility in the near term. However expected liquidity easing from ECB, Japan and China should provide a cushion in the scenario of shift from riskier assets to safer assets.

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
DPDVS	2.38%	13.20%	16.77%	26.92%	7.12%	4.82%	1.67%	0.15%	-0.80%
Nifty 50	-1.31%	9.92%	6.35%	13.53%	4.64%	3.99%	2.51%	-1.44%	-5.01%
Nifty 500	-2.43%	11.90%	6.31%	18.17%	3.91%	5.58%	3.02%	-1.16%	-3.64%
Over/(Under) Performance to Nifty 50	3.69%	3.28%	10.42%	13.39%	2.48%	0.83%	-0.84%	1.59%	4.21%
Over/(Under) Performance to Nifty 500	4.81%	1.30%	10.46%	8.75%	3.21%	-0.76%	-1.35%	1.31%	2.84%

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

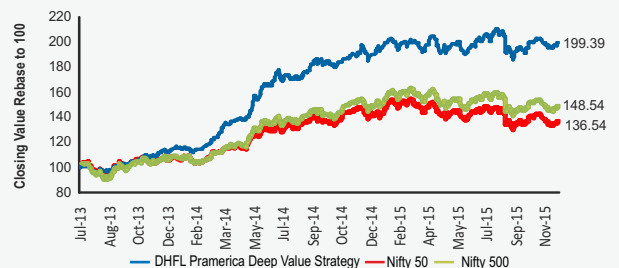
Returns calculated for 3 months gross of expenses.

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 November 30, 2015

Security	Sector	% Assets
Indraprastha Gas Ltd.	City Gas Distribution	6.85%
Container Corporation of India Ltd.	Logistics	6.16%
Colgate-Palmolive (I) Ltd.	FMCG	5.03%
Infosys Ltd.	Computers - Software	4.93%
Siemens Ltd.	Engineering	4.58%
ITC Ltd.	FMCG	4.37%
Hero Motocorp Ltd.	Motor Cycles/Scooters	4.37%
Oil & Natural Gas Corporation Ltd.	Oil Exploration	4.07%
CRISIL Ltd.	Credit Rating	4.03%
Tata Motors Ltd. DVR	Automobiles	3.64%
Divis Laboratories Ltd.	Pharmaceuticals	3.36%
State Bank of India	Banking/Financial Services	3.35%
Blue Star Ltd.	Air Conditioner	3.32%
Sun Pharmaceutical Industries Ltd.	Pharmaceuticals	3.20%
Swaraj Engines Ltd.	Engineering	3.18%
<b>Total</b>		<b>64.44%</b>

### Performance Comparison



### Portfolio Details

#### Portfolio Details as on November 30, 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 November 30, 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 30<sup>th</sup> November 2015

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	0.14%	-1.62%	-0.96%
3 Months	1.89%	-0.45%	0.25%
6 Months	-0.43%	-5.91%	-3.93%
1 Year	4.43%	-7.60%	-3.35%
2 Years	33.97%	13.36%	18.41%
Since inception date 08/07/2013	33.42%	13.41%	17.56%
Portfolio Turnover Ratio*	38.64%		

\*Portfolio Turnover ratio as on 30<sup>th</sup> November 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 December 04, 2015.