PORTFOLIO MANAGEMENT SERVICES

Newsletter January 2016

DHFL Pramerica

Dear Investor,

At the beginning of a New Year, it is customary for investors to expect the portfolio manager to make a prediction as to how the stock market is likely to move in the ensuing New Year. No doubt you would have had access to several such predictions already; so we are not giving our own.

Instead, we want to discuss something more fundamental and permanent - the method with which we manage your money.

The price movement of a stock is a function of two things:

(a) the business fundamentals of the underlying company, and

(b) the change in expectations of the market participants about such fundamentals.

We have witnessed stock prices suddenly dip sharply because the company "missed the earnings estimate" by merely a few paise. Conversely, we have seen stock prices shoot up suddenly because the reported performance was "better than expected".

In this environment, the investor should pay attention not only to the business fundamentals of the company and its prospects, **but also to an assessment of how much of these business fundamentals are already reflected in the price quotation of the stock that represents the company.**

The investor, therefore, has a better chance of succeeding if

(a) he/ she sticks to businesses that have a strong balance sheet, a sustainable competitive advantage, and good prospects, and

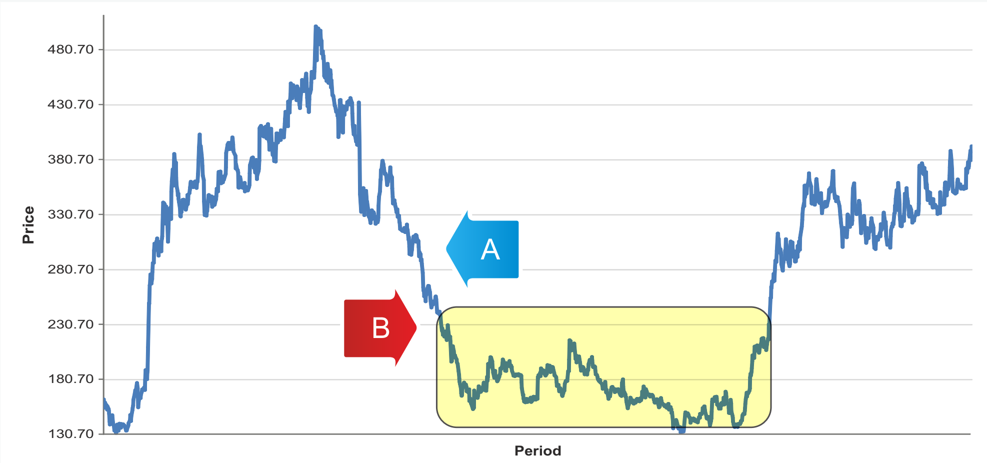
(b) he/ she buys the stock before the general market's expectation about the stock takes a turn for the better.

For point (a) above, there are enough sources of information from which we can assess the fundamental strength of the company. For point (b), however, the discipline and temperament has to come from within us.

It is our submission that the investor's interest is better served if he/she buys a stock when the general interest in that stock or sector is not particularly high. One way of measuring this is to look at the valuation of the stock concerned compared to its own history of valuation, and buy it when the valuation levels are well below historical average levels.

The flipside of this approach is that one can never be sure about "when" the stock will turn popular again, or when the "expectations" around the stock take a turn for the better. Let us explain this with an example set out in the following chart shown in Exhibit 1. For purposes of anonymity, the name of the stock and the time horizon have been blanked out.

Exhibit 1



The point represented by arrow A is where we started to buy this stock. Since our purchases were spread over several weeks, arrow B represents our average purchase price. The stock did not move for a few months after we completed our purchase. Therefore the portion represented by the shaded rectangle is what we can call “the period of frustration”.

Could we not have waited until the stock showed signs of rising and then begun our purchases?

When the stock begins to rise, there is considerable buying interest at such times, and the investor is usually unable to accumulate a decent quantity in a rising stock (unless the investor is buying into the momentum irrespective of the price).

It has been our experience that (a) as long as one does not violate the rule of buying only into companies that exhibit strong business fundamentals and (b) buying when the expectations from the stock are not exorbitantly high, the chances of success are higher.

By following this method, if the investor is right in 7 out of 10 occasions, the end result will be more than satisfactory **(most importantly, this is achieved without subjecting our money to high levels of risk).**

This is precisely what we attempt to do with your money.

We wish you and your family good health, prosperity and continued success in the ensuing New Year 2016.

Equity Market Outlook of DHFL Pramerica Asset Managers

December 2015

The year 2015 came to a close with a flattish December for the frontline indices while the midcap index outperformed with gains of 1%. The yearly performance was along similar lines with the Nifty down over 4% while the midcap index posted gains of around 6.5%. This is in sync with the institutional investor flows where FIIs were net cash sellers of $130mn in December and their cumulative investment in 2015 fell from $7bn in July to $3bn in December while DIIs bought almost $1bn worth of stocks in December and in excess of $10bn in 2015.

December had a 'V' shaped performance in the index with losses ahead of the Federal Open Market Committee (FOMC) meet. The risk-off positions were covered just ahead of the FOMC announcement where the Federal Reserve raised interest rates for the first time since 2006 by an expected 25 bps while maintaining an accommodative stance which led to a recovery in the markets. Crude had a terrible month losing 18% taking its yearly fall to 45% hitting levels lower than those seen during the 2008 crisis as OPEC maintained its levels of production and USA allowed export of oil for the first time in 40 years. Other commodities had a marginally better month with a benign China post the August devaluation of yuan which began the flight of capital from emerging markets and other risky asset classes.

RBI maintained status quo in the monetary policy review in December while observing that the economy appeared to be in early stages of recovery as visible in certain pockets such as passenger cars and capital goods. This was visible in the growth in IIP in October at 9.8% versus expectations of 7.6%, led by 16% yoy growth in capital goods and 42% yoy growth in consumer durables. Inflation has however, begun to inch up with the Consumer Price Index for November up by 5.4% along expected lines.

RBI is maintaining focus on transmission of interest rate cuts and released the final guidelines on pricing of loans taking due consideration of some of the banks' concerns. Asset quality of banks also continues to be the other area where RBI is concertedly looking for recognition and resolution of stress. The Strategic Debt Restructuring plan continued to be used by banks as a way to turnaround ailing assets. The change of management and sale of these assets to better placed corporates will aid in expediting the recovery of the economy as we have been highlighting in the past.

The winter session of the parliament was a washout on account of differences in opinions which has certainly pushed the GST out by a few quarters than the intended March 2016 deadline. There will be some change in the composition of Rajya Sabha in 2016 with substantial number of seats up for election which may turn the house more suitable for passing legislation.

Outlook

After a blockbuster 2014, 2015 ended rather tepidly as foreign investors led by sovereign wealth funds and ETFs pulled out money but was supported by the strong inflows witnessed by domestic institutional investors. We expect that pressure on the markets from ETF selling will continue to be visible in the first quarter of CY2016. This will present opportunities for investors to add positions that will benefit from the uptick that we expect to be more prominent from the second half of 2016 as the economy goes through its cycle which may possibly be further aided by reforms. Midcaps are likely to continue their streak of outperformance along with strong domestic flow of money. Consolidation in the industry will continue preceding the economic and earnings recovery, setting up the markets for gains going forward.

Data Source : Bloomberg.

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	Oct '15 - Dec '15
DPDVS	2.38%	13.20%	16.77%	26.92%	7.12%	4.82%	1.67%	0.15%	-0.80%	3.16%
Nifty 50	-1.31%	9.92%	6.35%	13.53%	4.64%	3.99%	2.51%	-1.44%	-5.01%	-0.03%
Nifty 500	-2.43%	11.90%	6.31%	18.17%	3.91%	5.58%	3.02%	-1.16%	-3.64%	1.18%
Over/(Under) Performance to Nifty 50	3.69%	3.28%	10.42%	13.39%	2.48%	0.83%	-0.84%	1.59%	4.21%	3.19%
Over/(Under) Performance to Nifty 500	4.81%	1.30%	10.46%	8.75%	3.21%	-0.76%	-1.35%	1.31%	2.84%	1.98%

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

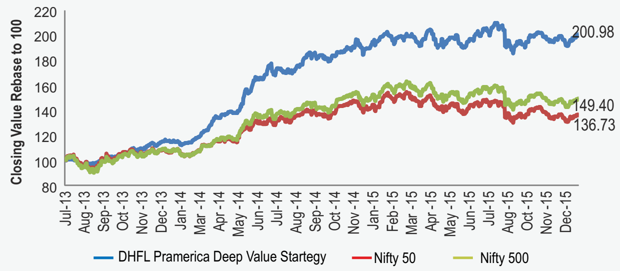
Returns calculated for 3 months gross of expenses.

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 December 31, 2015

Security	Sector	% Assets
Indraprastha Gas Ltd.	City Gas Distribution	7.36%
Container Corporation of India Ltd.	Logistics	5.65%
Colgate-Palmolive (I) Ltd.	FMCG	4.93%
Infosys Ltd.	Computers - Software	4.92%
Hero Motocorp Ltd.	Motor Cycles/Scooters	4.30%
Oil & Natural Gas Corporation Ltd.	Oil Exploration	4.20%
Siemens Ltd.	Engineering	4.19%
ITC Ltd.	FMCG	4.13%
CRISIL Ltd.	Credit Rating	3.92%
Sun Pharmaceutical Industries Ltd.	Pharmaceuticals	3.53%
VST Tillers Tractors Ltd.	Agricultural Equipment	3.51%
Tata Motors Ltd. DVR	Automobiles	3.47%
Blue Star Ltd.	Air Conditioner	3.45%
Swaraj Engines Ltd.	Engineering	3.37%
Divis Laboratories Ltd.	Pharmaceuticals	3.30%
Total		**64.23%**

Performance Comparision



Portfolio Details

Portfolio Details as on December 31, 2015	
Weighted average RoCE	39.00%
Portfolio PE (1-year forward)	16.7
Portfolio dividend yield	1.60%
Average age of companies	57 Years

Portfolio Composition as on December 31, 2015	
Large Cap	39.50%
Mid Cap	37.00%
Small Cap	12.50%
Cash	11.00%

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 31st December 2015

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	0.81 %	0.14 %	0.58 %
3 Months	3.16 %	-0.03 %	1.18 %
6 Months	2.39 %	-5.04 %	-2.50 %
1 Year	4.28 %	-4.06 %	-0.72 %
2 Years	31.85 %	12.28 %	16.99 %
Since inception date 08/07/2013	32.54 %	12.99 %	17.18 %
Portfolio Turnover Ratio*	39.74%		

*Portfolio Turnover ratio as on 31st December 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 January 05, 2016.