PORTFOLIO MANAGEMENT SERVICES

Newsletter September 2017

Dear Investor,

Our stated objective in the DHFL Pramerica Deep Value PMS is to stay invested in businesses that have demonstrated a good track record of profitability and balance sheet strength, an ability to grow their revenues and profits over the next several years, run by people who have demonstrated both their competence and their willingness to share the profits with you and me, and at the same time, buy stocks of such companies **when they aren't too expensive.**

We want to be steadfast in the adherence of all these principles.

These principles have enabled our portfolio to give a better-than-market performance in the Calendar years 2013, 2014, 2015 and 2016*. However, over the past 6 months or so in 2017, you would have observed that the returns of this PMS have not exactly lit up the Arabian Sea. A time like this is when we should have a hard look at what we have been doing, and see if it needs to be done differently.

It is our observation that ultimately, only two things drive stock prices sustainably over the long term.

(a) The ability of the company to sustainably compete in the market place, and its ability to grow its revenues and net profits; and

(b) Buying stocks of such companies at prices that afford a reasonable scope for appreciation.

Both these aspects are important. In the short term (i.e., a space of a few or even several months), stocks of **any** kind of company can go up. It is not in the interest of the investor to try and buy any stock that goes up. What is important is to stick to a discipline that has a better chance of succeeding, or, in other words, less chance of failing.

In the first aspect, i.e., in the strength of companies in the portfolio, we are satisfied that your portfolio meets the requirement.

- Every single company in the portfolio has a long track record. The average age of companies in your portfolio is 61 years
- Every single company in the portfolio is either No.1 or No.2 in its respective field
- There is no company in your portfolio that has treated shareholders shabbily
- There is no company in your portfolio that has an unsustainably high level of leverage
- The average Return on Capital of companies in your portfolio is 28.19%, indicating high levels of efficiency.

Now, about the second aspect of avoiding stocks of companies when the price is too high….

Let us carefully look at this aspect. Why does the price of a share rise? There may be a hundred reasons ascribed, but the most important reason is that **there is an increased level of expectation about the company's future performance.** An increased level of expectation leads to greater demand for the stock, and therefore its price rises. There is really no other reason.

Now, is it better for an investor to buy a stock when the level of expectation is low or reasonable, or when the level of expectation is already too high? If we assume, reasonably, that the level of expectations around the stock is reflected in its valuation levels, then it is in our interest to stay away from stocks or sectors where their level of valuation is significantly higher than historical averages, or significantly higher than their sustainable growth rate in earnings.

We have to learn from history. There are too many instances when buying a stock (or any asset, for that matter) immediately after a substantial rise leads to a depressed level of return in the subsequent years, as can be seen in the Table below. Any Index that did extremely well in one time period, had a less-than-par performance for the subsequent period.

**past performance may or may not be sustained in future.*

	BSE Sensex	BSE 500	BSE Midcap (*)	BSE Smallcap (*)
5-year CAGR 2002-07	36.9%	39.5%	56.4%	66.1%
5-year CAGR 2007-12	2.6%	2.2%	-1.9%	-4.5%
5-year CAGR 2012-17	12.7%	15.7%	20.9%	20.1%

Notes: (1) Base date for BSE Sensex and BSE 500 is 31st Aug 2002.

(2) Base date for BSE Midcap and BSE Smallcap is Apr 2003 (*)

(3) End date for all indices is 31st Aug 2017.

Data source: www.bseindia.com

The same data is reinforced by studies of individual sectors as well. Any sector that has seen a substantially good performance in one time period is best avoided for some time after that. Cumulatively, these sectors account for more than two-thirds of the Index composition.

	BSE IT	BSE Banks	BSE Finance	BSE Capital Goods	BSE FMCG	BSE Healthcare	BSE Realty
5-year CAGR 2002-07	27.2%	44.8%	29.1%	72.9%	18.4%	22.5%	(*)
5-year CAGR 2007-12	4.6%	7.9%	6.7%	-6.8%	22.1%	16.0%	-26.9%
5-year CAGR 2012-17	11.9%	19.0%	19.8%	12.9%	13.7%	11.9%	7.2%

Notes: (1) BSE Finance Index was started in Sep 2005.

(2) BSE Realty Index started In Jan 2006. It rose 4.56 times between Jan 2006 and Aug 2007.

(3) End date for all indices is 31st Aug 2017.

Data source: www.bseindia.com

The main reasons why your portfolio has underperformed in the last 6-8 months are as follows:

(a) We have a higher proportion of stocks in sectors that have not done well over the past year, notably IT and Pharma.

(b) We have stayed away from sectors where the valuations are far higher than their long-term averages, or where they are far in excess of their sustainable growth rate in earnings, notably small cap, NBFCs or certain automobile companies.

(c) We have stayed away from stocks where the level of liquidity is suspect.

Dear Investor, we wish to assure you that **no fund manager likes to underperform**. But a fund manager also has to be faithful to the mandate of the product being managed. The mandate of this product is to choose companies that pass the strict filters of quality, and buy into them when the prices are not too expensive.

Buying a share of a company without being convinced about its long-term competitive strength, or its valuation level, and buying solely with the intention of "riding the wave" is not our cup of tea. **More importantly, it is not in your interest**.

Yes, this period of under performance sometimes plays on the patience. But we are convinced that it is far better to underperform with a strong set of companies, rather than outperform with a weaker balance sheet or a stock/sector where the valuation levels have touched stratospheric levels.

To conclude, dear Investor, we would like to state the following:

(a) Your portfolio consists of very strong companies with strong balance sheets and a good track record

(b) Your portfolio consists of companies with a high level of profitability and cash flows

(c) Your portfolio valuation levels are lower than market averages. The level of expectation around several of your stocks is low, which is why we are confident they will not fall much from these levels.

(d) Your portfolio, most importantly, consists of companies that have retained their ability to compete in the market place.

(e) Your portfolio is adequately but not excessively diversified.

We thank you for being patient during this period of under performance. We assure you, there will be a time (hopefully soon) when this portfolio would outperform.

When that happens, you can rest assured that we still would be sticking to the same principles.

Warm regards

Yours sincerely,

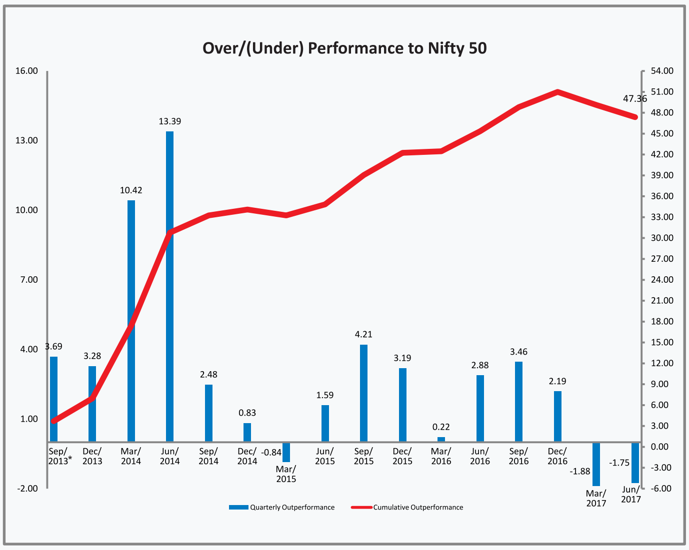
(E A Sundaram)

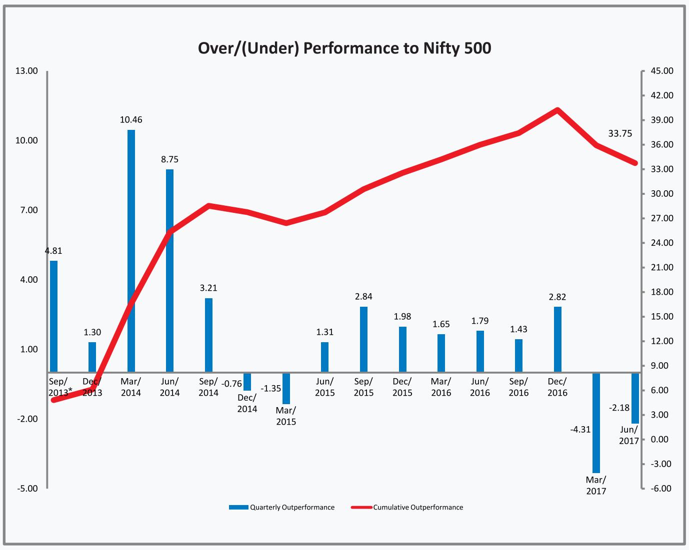
Portfolio Manager.

"The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like the pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer"

- Warren Buffett

DHFL PRAMERICA DEEP VALUE STRATEGY
KEY PORTFOLIO PERFORMANCE INDICATORS





* Returns for the period 8th July, 2013 to 30th September, 2013. Performance depicted as at the above stated date is based on all the client portfolios under the Regular Portfolio of DHFL Pramerica Deep Value Strategy existing as on such date, using Time Weighted Rate of Return (TWRR). Past performance may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Deep Value Strategy Discretionary Portfolio Regular Plan as on Aug 31st, 2017

Date of Purchase	Equity	Sector	%
Jul/2013	Container Corporation of India Ltd	Logistics	5.55%
Sep/2015	State Bank of India	Banking / Financial Services	5.45%
May/2014	Infosys Ltd	IT Services	5.02%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.49%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.23%
Aug/2013	Cummins India Ltd	Engineering	4.06%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	3.78%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.62%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.58%
Jul/2013	Siemens Ltd	Engineering	3.54%
Jun/2015	ITC Ltd	FMCG	3.53%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.18%
Jun/2016	Jagran Prakashan Ltd	Printing and Publishing	3.13%
Nov/2016	Persistent Systems Ltd	COMPUTERS - SOFTWARE	3.08%
Apr/2014	CRISIL Ltd	Credit Rating	3.05%
	Total		**59.29%**

Portfolio Details

Portfolio Details as on August 31st, 2017	
Weighted average RoCE	28.19%
Portfolio PE (1-year forward)	18.5
Portfolio dividend yield	1.48%
Average age of companies	61 Years

Portfolio Composition as on August 31st, 2017	
Large Cap	38.50%
Mid Cap	36.25%
Small Cap	6.50%
Cash	18.75%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 31st August 2017

Midcap: Market cap below 100th company to the market cap of the 300th company in the Nifty 500 (sorted by market cap in descending order) as on 31st August 2017

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on 31st August 2017

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 August 2017

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-1.69%	-1.58 %	-1.12 %
3 Months	1.56%	3.08 %	4.12 %
6 Months	6.93%	11.69 %	12.79 %
1 Year	10.65%	12.88 %	16.08 %
2 Years	14.56%	11.54 %	14.17 %
3 Years	14.20%	7.63 %	10.98 %
Since inception date 08/07/2013	30.27%	13.48 %	16.97 %
Portfolio Turnover Ratio*	10.30%		

*Portfolio Turnover ratio for the period 1st September 2016 to 31st August 2017

Important Disclosures regarding the consolidated portfolio performance: Performance depicted as at the above stated date is based on all the client portfolios under the Regular Portfolio of DHFL Pramerica Deep Value Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is before charging of any expenses (as 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. 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.

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 September 06, 2017. **C83/17-18**