

PORTFOLIO MANAGEMENT SERVICES

Newsletter

April 2018



Pramerica

From the desk of the Portfolio Manager for DHFL Pramerica Deep Value Strategy

Dear Investor,

31st March, 2018 marks the completion of the fifth financial year for your DHFL Pramerica Deep Value PMS. This is, we believe, a good time to look back at what went right, and also assess realistically what we didn't do right, and resolve once again not to change the basic characteristics of this product that have made it what it is.

Annual performance

Here is the annual and rolling 3-year performance of the DHFL Pramerica Deep Value PMS:

Time period	Portfolio performance	Nifty 50	Nifty 500
FY 2013-14 (*)	35.4 %	14.3 %	15.2 %
FY 2014-15	52.4 %	26.7 %	33.6 %
FY 2015-16	(2.2) %	(8.9) %	(7.5) %
FY 2016-17	23.4 %	18.6 %	23.9 %
FY 2017-18	6.0 %	10.3 %	11.5 %
3-year period 2013-16(*)	31.2 %	10.7 %	13.8 %
3-year period 2014-17	22.1 %	11.0 %	15.2 %
3-year period 2015-18	8.6 %	6.6 %	9.2 %

(*) from 08/07/2013, the date of inception.

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 after charging of expenses (as depicted above)

Our assessment of our own performance

Looking at our performance over the past 5 financial years, we are satisfied, but not overjoyed. What we are very happy about, are the following factors:

- (a) We have given a portfolio that is **measurably and significantly different from what the client would get from mainline investment products**, thereby providing a scope for effective diversification to the client.
- (b) This has been done without diluting the quality of stocks purchased. Your portfolio has a set of extremely strong companies, with proven track records of profitability and ability to generate free cash flows.
- (c) Every single company in the portfolio is either No. 1 or No.2 (or has a strong niche position).

In FY 2017-18 we have trailed the benchmark indices, primarily for the following reasons:

- (i) Our bets on PSU banking stocks did not perform well till 31/03/2018, the date of assessment
- (ii) We had mostly stayed away from many of the mid-cap and small-cap stocks (that were in our opinion overvalued), and also from some of the extremely popular sectors like private sector banks, NBFCs and Housing finance companies. The same is also true for consumer sectors like FMCG and durables. These sectors continued to rise for the most part of 2017-18.
- (iii) We had consciously increased the cash portion of the portfolio, given the historically high levels of valuations in most sectors. Prudent investing means buying at prices that are acceptable. If prices are not reasonable, we would rather stay away from such sectors.

Performance and the fund manager

We do not belong to the school of thought that advocates that the Fund Manager's primary and only task is to "maximize returns" for the investor. The fund manager is not present to prove his/her intelligence, but rather to manage the product **in line with its mandate**. Far too many fund managers have fallen for this trap of trying to be the "best" at all points of time, and we refuse to do so.

What went right for us?

Our approach of buying when the stock/sector is unpopular worked in the case of pharma stocks like Divi's Laboratories, Sanofi and Abbott during the year, and in IT stocks like Infosys, Persistent and Oracle. Over the past 5 years, we have been consistently following the same philosophy. We were buyers of industrials/capital goods stocks in 2013 and 2014, midcaps in 2013 and 2014, Pharma and IT last year and PSU banks since 2016.

Our call on PSU banks hasn't worked, yet

Mind you, we did not buy all PSU banks. Our choice was only to the top 2 PSU banks in the country. The valuation differential between them and the private banks / NBFCs was simply too large to be ignored.

At this stage we would like to re-emphasize our stock-selection criteria. We really do not see if the ownership is PSU or private sector. **What we want is a strong business, run reasonably efficiently and without any serious corporate governance issues, and available at a decent price.**

All 3 criteria are important. There is simply no point in buying something at exorbitant prices simply because it is efficiently run, or buying something simply because it is cheap.

Now, a good business is available at a reasonable price ONLY when it is not popular, and that usually happens when the company concerned is going through a period of difficulty. With relative unpopularity comes an acceptable price level, and purchasing at an acceptable price level increases the chances of investment success. We will buy as long as there is reasonable scope to believe that the difficulty that the company is going through is temporary.

What we don't intend to change

This approach of strict adherence to quality, and buying into such businesses when they are temporarily unpopular will, we believe, hold us in good stead. Efficiently run businesses increase chances of investment success; so does the act of buying the stock at reasonable prices.

In other words, we do try to fish in troubled waters, but are not interested in picking up worms.

This process has enabled us to build a portfolio that is measurably different from that of several other investment products in the marketplace. The client gets a qualitative diversification from our product, and we do not intend to change that.

What can an investor expect from the DHFL Pramerica Deep Value PMS?

- (i) A portfolio of strong businesses, with strong balance sheets. As a point of interest, our portfolio companies have an average age of 53 years, an average Return on Capital Employed of 30%, and each one of them is either a market leader or a strong No.2 in its respective field.
- (ii) Stocks that are purchased when they are not too popular. A popular stock is not cheap. We are increasing our chances of investment success when we buy at reasonable prices. Therefore we don't intend to buy when the stock is very popular. Valuation levels are good indicators of the popularity of the stock.
- (iii) Stocks that are purchased when they are unpopular generally do not turn popular the moment we buy them. In other words, the return from this product would not come instantly. This is like planting a seed. The fruit normally comes after some time lag.
- (iv) What sustains the portfolio and the investor is the absolute quality of the companies in the portfolio, the strength of the balance sheet and the ability of such companies to compete in their respective businesses. This is something that we don't compromise on.

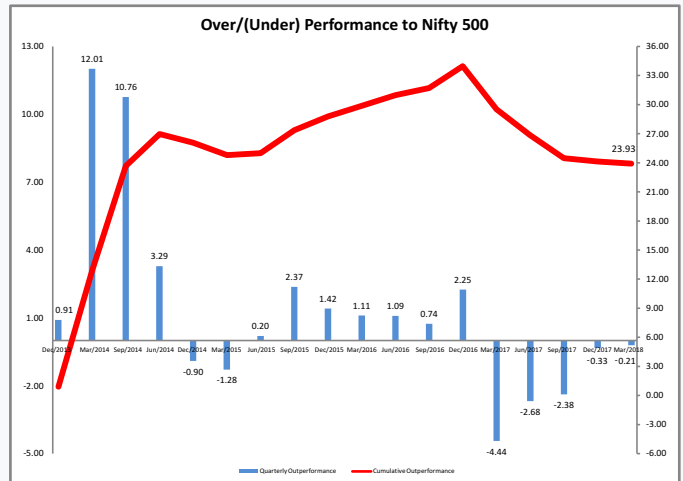
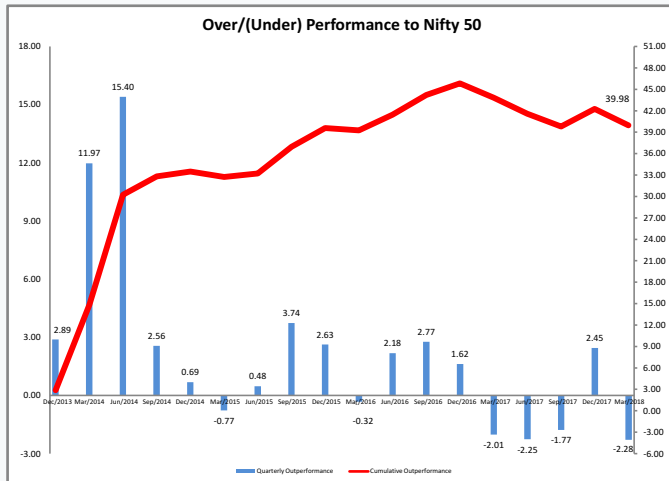
We express our deep gratitude to all our investors, distributors, advisors and wealth counters, and hope that we can further build on this in the years to come, both in the DHFL Pramerica Deep Value PMS, as well as the other products from our stable.

Warm regards,

Yours Sincerely,

(EASundaram)
Portfolio Manager

DHFL PRAMERICA DEEP VALUE STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



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 may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Deep Value Strategy Discretionary Portfolio Regular Plan as on March 28th, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	5.64%
Jul/2013	Container Corporation of India Ltd	Logistics	4.92%
May/2014	Infosys Ltd	IT Services	4.85%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.71%
Jun/2015	ITC Ltd	FMCG	4.52%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	4.47%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	4.02%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.69%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.56%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.56%
Aug/2013	Cummins India Ltd	Engineering	3.52%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	3.38%
Jun/2016	Jagran Prakashan Ltd	Printing and Publishing	3.28%
Feb/2018	Multi Commodity Exchange Of India Ltd	OTHER FINANCIAL SERVICES	3.24%
May/2017	Abbott India Ltd	Pharmaceuticals	3.16%
	Total		60.52%

Model Portfolio Details

Portfolio Details as on March 28th, 2018	
Weighted average RoCE	30.03%
Portfolio PE (1-year forward)	18.94
Portfolio dividend yield	1.64%
Average age of companies	53 Years

Portfolio Composition as on March 28th, 2018	
Large Cap	51.00%
Mid Cap	26.50%
Small Cap	13.50%
Cash	9.00%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on March 28th, 2018.

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 March 28th, 2018.

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on March 28th, 2018.

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 March 28th, 2018

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-4.01%	-3.61 %	-3.78 %
3 Months	-5.76%	-3.48 %	-5.55 %
6 Months	4.48%	3.53 %	4.15 %
1 Year	6.66%	11.13 %	12.64 %
2 Years	14.57%	15.25 %	18.63 %
3 Years	8.59%	6.63 %	9.18 %
Since inception date 08/07/2013	24.16%	12.22 %	15.37 %
Portfolio Turnover Ratio*	17.13%		

*Portfolio Turnover ratio for the period 1st April 2017 to 31st March 2018

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 after charging of 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.

From the desk of the Portfolio Manager for DHFL Pramerica Phoenix Strategy

Dear Investor

In this newsletter, we wish to articulate our views on real estate sector and our reasoning behind the high exposure we have taken on this sector. This sector corresponds to "Special Situations" theme of the portfolio (the other one being Reversion to mean).

Scope and size of real estate

Real Estate sector is a big sector in Indian economy it is the second largest employment creator after agriculture and is expected to be US \$180 Bn by 2020. Real estate is a substantial proportion of Market Capitalization (MCap.) in most countries. If we see our neighbouring countries the largest companies in Philippines are Ayala Land with MCap of USD 11.31bn and SM Prime has MCap. USD 19bn, largest company in Thailand is Central Pattana which has MCap. of USD 11bn, largest company in Hong Kong is Swire Properties which has a MCap. of USD 20bn, largest company in Indonesia is BumiSerpong which has a MCap. of USD 2.5 bn, Singapore which is of the size of Mumbai the largest company is Capital land which has a MCap. of USD 12bn which is nearly equal to the total market cap of real estate companies in our country. The total market cap of real estate sector in India is equal to the market cap of largest company in some of these countries which are very small in geographical area, GDP and overall population. In my view size of this sector is going to be very large in next 5 to 10 yrs.

Today's larva may be tomorrow's butterfly

Real estate in India has been an unorganized business till now and hence a murky business. Most industries when they are in initial stages of growth are unorganized and fragmented among large number of players. But as industry matures lot of players shut down. 30 yrs back there were number of players in detergents, toothpastes, paints, bearings and equity brokerage etc but today there are very few players remaining in these industries and top 3-5 players have lion's share of the industry. This is the nature of capitalism where successful players take lion's market share of the industry. In my view real estate will also become organized over the next few years. Already we are seeing signs of few players have large share in few geographies like in Pune Kolte Patil has decent market share in residential segment; in Bangalore Prestige, Sobha, Brigade, Puravankara, Embassy and Mantri combined have more than 40% market share.

The reasons why consolidation is likely to happen

RERA, GST, REIT, availability of ample capital to few reputed developers at decent cost and poor experience of the customers should lead to consolidation in the industry.

RERA is one of the most significant regulatory change which the sector has seen. We believe RERA will bring transparency, accountability and enhance professionalism in the real estate sector. The most notable feature in RERA bill is the builder can take out only 30% of the money from the customer collections and 70% of the money must be put in an escrow account and based on the construction spend for a project money can be taken out from the escrow account. This will ensure that builders don't divert large amount of funds from one project to other project or land purchase. We expect because of GST and the new cash flow structure in residential projects under RERA will increase the regulatory costs and fringe players will move out of the business. Also, there is levy of strict penalties in case rules are breached and consumers can access project-related documents online.

Real Estate is a capital-intensive business as cash is required to purchase a land. In today's tough environment the company which can get capital at the cheapest rate will be able to expand the business. In last few quarters we have seen increasing number of private equity capital funds and Sovereign Wealth funds partner with reputed developers for purchase of land and development of new projects. Private equity and debt investments in real estate grew to \$4.18 billion in 2017 from \$3.73 billion in 2016 (News Corp.'s VCC Edge).

With more clarity on REIT's as a structure, we expect builders with good portfolio of lease rental projects to be able to raise capital by listing these projects. It should help them to get the required capital to grow their businesses.

Finally, when there is glut in the market people tend to purchase property from the better real estate company; which leads to better sales velocity for market leader versus others.

We are already seeing recovery on the office space side and the occupancy is at 5 yr low. On residential side there is an inventory overhang but new launches have also reduced by more by 48% in CY 2017 versus CY 2016. So, we expect the inventory to reduce over the next few quarters and demand supply scenario to improve. In immediate future we expect tough times on residential side to continue for few more quarters.

We have exposure to three real estate companies Prestige Estate, Sobha and Oberoi Realty. All the three companies have strong presence in the markets where they are present. We choose three companies as we wanted to minimize exposure to any one geography and any one segment of real estate. Sobha is present majorly in residential space across most of South India and small presence in Gurgaon and Pune. Oberoi Realty is present only in Mumbai market and deals in both residential and rental projects. Prestige is present on residential side in Southern markets and has rental properties in Bangalore market. Currently across all the portfolios our exposure to real estate is approx. 7.5%. If the stocks correct significantly than we will increase the exposure further to these three names.

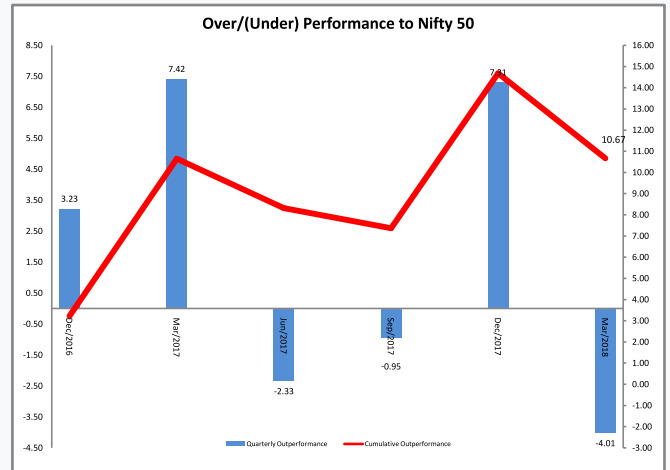
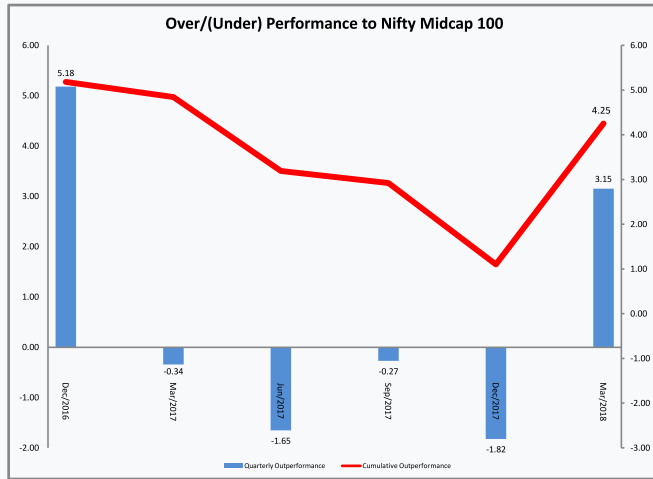
Portfolio updates:-

In last month we participated in two buy backs one of MOIL and the other of FDC. In both cases the market price was much lower than the buyback price hence we decided to tender for the buyback in clients portfolio who were having shares on the record date. In case of MOIL we did purchase back the shares we sold in buyback from the market but in case of FDC we have not bought back the shares as we are still waiting for a better price to buy.

We have also added Cummins and Kewal Kiran Clothing in the portfolios in the month of March 2018.

Himanshu Upadhyay
Portfolio Manager (Phoenix Strategy)

DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



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Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on March 28th, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.47%
Sep/2016	D B Corp Ltd	Printing And Publishing	4.35%
Jan/2018	Vijaya Bank	Banks	3.87%
Aug/2016	Federal Bank Ltd	Banks	3.64%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.63%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	3.60%
Jan/2018	Indian Bank	Banks	3.58%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing-Construction	3.50%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.18%
Jan/2018	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.07%
May/2017	MOIL Ltd	Industrial Minerals	2.92%
Oct/2016	DCB Bank Ltd	Banks	2.80%
Sep/2016	Apar Industries Ltd	Power Equipment	2.80%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	2.77%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	2.76%
	Total		50.94%

Model Portfolio Details

Portfolio Details as on March 28th, 2018	
Weighted average RoE	14.32%
Portfolio PE (1-year forward)	13
Portfolio dividend yield	1.31%

Portfolio Composition as on March 28th, 2018	
Large Cap	3.75%
Mid Cap	26.00%
Small Cap	57.75%
Cash	12.50%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on March 28th, 2018.

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Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on March 28th, 2018.

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DHFL Pramerica Phoenix Strategy Portfolio Performance as on March 28th, 2018

Period	Portfolio	Nifty Midcap 100	Nifty 50
1 Month	-4.14%	-4.62 %	-3.61 %
3 Months	-7.49%	-10.64 %	-3.48 %
6 Months	8.25%	4.55 %	3.53 %
1 Year	11.87%	10.11 %	11.13 %
Since inception date 01/08/2016	18.93%	15.51 %	9.99 %
Portfolio Turnover Ratio*	30.44%		

*Portfolio Turnover ratio for the period 1st April 2017 to 31st March 2018

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Investment objective of DHFL Pramerica Phoenix Strategy: The objective of the strategy is to generate capital appreciation over the long term by investing in a portfolio of equity of Indian companies

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This document is dated April 9th, 2018.

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