

PORTFOLIO MANAGEMENT SERVICES

Newsletter: August 2018



Pramerica

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

In Investing, the “Why” is more important than the “When”

Dear Investor,

Have you experienced a feeling of being “left out”, when the stock that we have purchased does not move up, whereas some others just whiz up? In such situations, there is a temptation to sell what we hold (simply because it has not moved up sharply enough for us), and switch into another “outperforming” stock.

The problem with this approach is that one does not know “when” the stock is going to go up. This movement of the stock price is a function of literally hundreds of variables, none of which are under our control.

What is really in our control are only the following three things:

- What we buy
- How much of it we buy, and
- At what price we buy it.

Ultimately, our fate as investors is decided only by these three factors.

In this journey, we have chosen to follow the following path:

- (a) Buy into companies where their ability to compete has not been eroded, and
- (b) Buy such stocks when they are not very much favoured by the market at the time of purchase.

The point (b) is judged by looking at the valuation of the stock at the time of proposed purchase. If the valuation is significantly higher than its long-term average, or higher than its estimated sustainable growth rate in earnings, the stock is clearly favoured by the market and therefore considered expensive.

If on the other hand, we find a company where the ability to compete has not been eroded at all, but for reasons that, in our judgement are temporary, the stock is finding itself in a position where there is not too much enthusiasm to buy it, we would enter the stock under such conditions.

A negative perception around a strong company is usually a good starting point for research. We should, however, exercise due diligence that the difficulties that the company is going through are not terminal in nature, but are temporary.

Permit us to remind you of some of the stocks that we had purchased over the past year or so fell exactly in this pattern:

Company	Reason For market pessimism	Stock price then	Stock price now
Infosys	Perceptions around management, threat of artificial intelligence, fears of corporate governance	878 (Sep 2017)	1365 (July 2018)
Persistent Systems	Perceptions around low growth in IT	665 (April 2018)	834 (July 2018)
Bosch	Fears of electric vehicles	17200 (June 2018)	18700 (July 2018)
Sanofi	Pharma under pricing threat perception	4000 (Sep 2017)	6000 (July 2018)
Abbott	Pharma under pricing threat perception	4001 (Sep 2017)	7600 (July 2018)

What has changed between April 2018 and July 2018 so much? Have the business fundamentals of Persistent Systems improved by 25% in the past 3 months?

No. It is just that the perception around the stock has changed.

Our approach is that we buy into a strong company when the perception around it is not very positive. We patiently wait till it turns extremely positive.

Of course, not all our calls will go right. But if we are right in 7-8 cases out of 10, we are home.

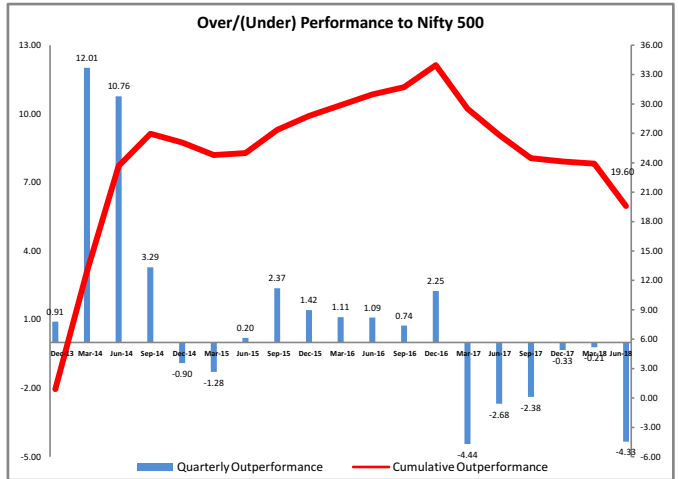
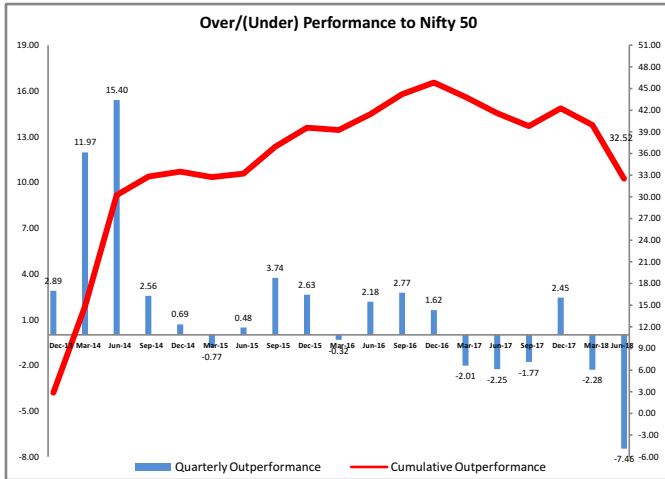
Our approach has been, and always will be, to buy a strong business when it is not very popular. We focus on WHY the stock should do well, and less on WHEN it will do well.

With warm regards,

(EA Sundaram)

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 July 31st, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.42%
Jun/2015	ITC Ltd	FMCG	5.02%
Jul/2013	Container Corporation of India Ltd	Logistics	4.76%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.72%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	4.29%
May/2014	Infosys Ltd	IT Services	4.23%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	4.21%
Mar/2015	Castrol India Ltd	Lubricants / oils	3.87%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.67%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.49%
Aug/2013	Cummins India Ltd	Engineering	3.38%
May/2017	Abbott India Ltd	Pharmaceuticals	3.34%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.24%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.12%
Oct/2017	Power Grid Corporation Of India Ltd	POWER-TRANSMISSION	3.09%
Total			60.85%

Model Portfolio Details

Portfolio Details as on July 31st, 2018

Weighted average RoCE	24.67%
Portfolio PE (1-year forward) (Based on FY 20)	15.92
Portfolio dividend yield	1.28%
Average age of companies	53 Years

Portfolio Composition as on July 31st, 2018

Large Cap	42.75%
Mid Cap	26.00%
Small Cap	14.00%
Cash	17.25%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on July 31st, 2018.

Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on July 31st, 2018.

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on July 31st, 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 July 31st, 2018

Period	Portfolio	NIFTY 50	NIFTY 500
Month	6.08%	5.99 %	5.33 %
3 Months	-0.33%	5.75 %	1.62 %
6 Months	-2.04%	2.98 %	-0.49 %
1 Year	6.87%	12.70 %	9.75 %
2 Years	11.42%	14.67 %	14.75 %
3 Years	9.83%	10.00 %	10.74 %
5 Years	24.68%	14.56%	17.05%
Since inception date 08/07/2013	23.46%	13.92 %	16.07 %
Portfolio Turnover Ratio*	21.01%		

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

August, 2018 is an important month for us as we have completed 2 yrs with Phoenix strategy. The last two years have been very interesting and tumultuous where we have seen events like demonetization, implementation of GST, RERA and Bankruptcy laws. In markets we did see euphoria in mid and small cap space till Jan 2018 and which to a certain extent has subsided because of the recent fall in the small cap space.

Some of the recent changes which we have brought in the portfolio are: -

1. We have completely exited Hexaware Technologies as the stock had achieved the fair value based on our calculations. We like the company and the management if the stock falls significantly below the fair value we will like to repurchase the stock.
2. We have decided to participate in the buyback offer of DB corp.
3. Techno Electric may also go for a buyback (board decision on 10 August 2018). Based on the price at which buyback is there we will decide to participate or not to participate in the offer.
4. We have added Mayur Uniquoters Ltd to all the portfolios in the month of July 2018. Mayur Uniquoters is the largest manufacturer of PVC (Poly Vinyl Chloride) leather in India. It gets 50% of revenue from footwear and 39% of its revenue from automotive segment. Exports contribute nearly 30% of the revenue. Company has no debt and has been paying continuous dividend for last twelve years. It is expanding its PVC leather business by adding new lines and is entering PU (Polyurethane) leather business. New PU plant is expected to start manufacturing from April 2019. We expect Mayur to grow in mid double digits over next few years based on the capacity they are building and expect it to gain market share from small unorganized players in the industry. The stock is currently trading at 20 times trailing EPS (FY 2018).
5. The other company which we have added recently is Kirloskar Brothers Ltd. Kirloskar Brothers is the largest pump manufacturer in India. It's a play on capex spending by both private and government sector. The company had had last few years in terms of margins, revenue growth and working capital cycle. We are now seeing signs of improvement in all the three parameters of margins, revenue growth and working capital. The stock is at 40 times trailing PE (FY 2018) which seems to be expensive, but we need to remember that the earnings have been depressed in FY 2018 and last few years. It is more of a turnaround theme than any structural change we see in the industry.

As of now the highest weightage in the client portfolios is in Banks which is approximately 16%. We have 4 stocks Vijaya Bank, Indian Bank, Federal Bank and DCB in our portfolios. The increase in weightage in these stocks is because of significant up move in these stocks in last 4-5 weeks. Federal bank has moved from Rs 74 to Rs 88, Indian Bank from Rs 310 to Rs 375, Vijaya Bank from Rs 50 to Rs 63 and DCB has remained flat. We would like to trim our positions in these stocks.

Sectors	Nifty 50		
	May-18	May-13	Dec-07
Consumer Discretionary	9.74	8.38	3.03
Consumer Staples	8.38	12.86	3.57
Energy	12.04	12.35	24.09
Financials	38.44	30.65	12.78
Health Care	2.94	5.61	2.20
Industrials	5.74	5.19	10.51
Information Technology	10.77	11.04	9.53
Materials	7.00	7.47	11.13
Real Estate	0.00	0.37	2.25
Telecommunication Services	1.80	1.88	11.40
Utilities	3.15	4.20	9.52

Source: Bloomberg

The weightage of financials is the highest in Nifty 50 in its history. The weightage has increased from 12.78% in Dec 2007 to 38.44% as of May 2018. Financials is an important part of an economy which we agree too but we need to ask a question that has it become so important in a decade that it is now nearing 40% of the index weightage? We also don't buy into the hypothesis that the intensity of competition has reduced in the financial industry because of PSU banks put under PCA (Prompt Corrective Action). On the contrary we find number of banks, HFC's and NBFC's have come up in last 10 years with sizable asset size and everybody is vying for the same retail consumer, agriculture and SME sector. PCA banks are competing for CA and SA deposits and are also allowed to do retail and agriculture lending, the places they have been vacating are corporate and SME sectors. Because of heightened intensity of competition, we expect the NIM's to reduce for the industry over a period.

We need to remember that several new licenses in the financial industry have been given in last decade and this would increase the competition in the industry. The impact of this is not yet clearly visible but eventually we will see the impact. Secondly a lot of these institutions loan books are not seasoned, and they depend heavily on funding from financial institutions. In a rising rate scenario and tight liquidity scenario there can be downside risks in the valuation of these institutions. Hence we are wary of buying the shares of these institution at an expensive valuation.

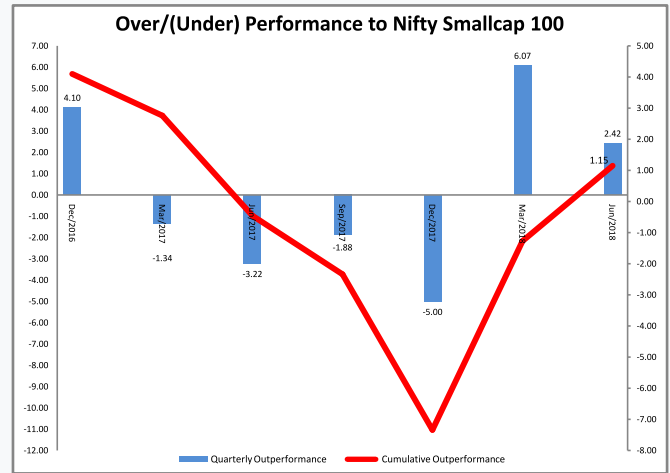
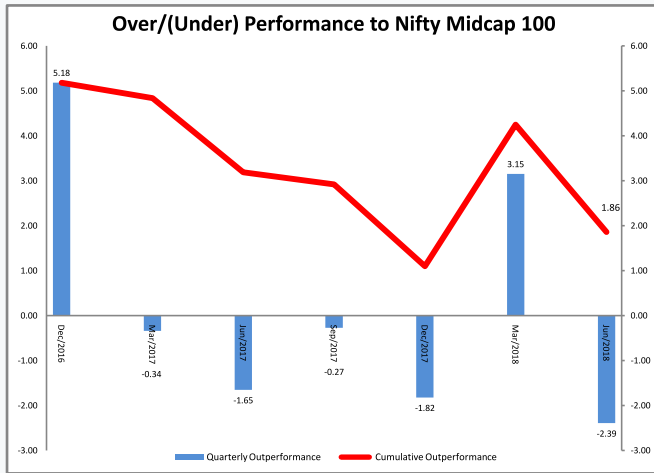
Please note that these are our opinion as portfolio managers.

Yours Sincerely,

(Himanshu Upadhyay)

Portfolio Manager

DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



Performance depicted as at the above stated date is based on all the client portfolios under DHFL Pramerica Phoenix 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 Phoenix Strategy as on July 31st, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	5.04%
Jan/2018	Vijaya Bank	Banks	5.01%
Jan/2018	Indian Bank	Banks	4.35%
Aug/2016	Federal Bank Ltd	Banks	4.22%
Aug/2016	J B Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.19%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	3.88%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	3.76%
Aug/2016	Prestige Estates Projects Ltd	Residential/ Commercial/Sez Project	3.70%
Mar/2018	Cummins India Ltd	Engineering	3.69%
Sep/2016	D B Corp Ltd	Printing And Publishing	3.55%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing-Construction	3.34%
Sep/2017	Pokarna Ltd	Sanitary Ware	3.24%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.16%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	3.11%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	3.02%
	Total		57.26%

Model Portfolio Details

Portfolio Details as on July 31st, 2018	
Weighted average RoE	10.93%
Portfolio PE (1-year forward) (Based on FY 20)	10.81
Portfolio dividend yield	1.09%

Portfolio Composition as on July 31st, 2018	
Large Cap	2.50%
Mid Cap	23.25%
Small Cap	62.75%
Cash	11.50%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on July 31st, 2018.

Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on July 31st, 2018.

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DHFL Pramerica Phoenix Strategy Portfolio Performance as on July 31st, 2018

Period	Portfolio	Nifty Midcap 100	Nifty Smallcap 100
1 Month	2.91%	3.83 %	4.01 %
3 Months	-7.06%	-6.97 %	-11.01 %
6 Months	-6.33%	-9.18 %	-15.32 %
1 Year	4.31%	1.96 %	-4.29 %
2 Years	14.71%	13.05 %	10.76 %
Since inception date 01/08/2016	14.71%	13.05 %	10.76 %
Portfolio Turnover Ratio*	31.10%		

*Portfolio Turnover ratio for the period 1st August 2017 to 31st July 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 August 08, 2018.

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