PORTFOLIO MANAGEMENT SERVICES

Newsletter February 2018

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

The much-anticipated Budget has been presented, and it has coincided with a sharp fall in the stock market. The benchmark Nifty 50 has fallen 3.47%, and the broadbased Nifty 500 Index has fallen 4.09% in the 5 days since the Budget was presented.

Of course, the contents of the Budget were only partially responsible, and they played only a small part.

For one thing, almost the entire world's markets have fallen sharply. They obviously are not affected by India's budget. The fall in the Indian market is also a reflection of the fall in markets elsewhere.

The rise in the bond yield to 7.56% (at the time of writing this newsletter) is a major reason. We are now witnessing bond yields at a level last seen in early 2016.

Oil prices have sharply risen in the past few months and are now hovering at US $ 68 per barrel (Brent crude). This is serious as far as our import bill, and consequently the fiscal deficit is concerned.

So, pinning the entire blame on the recent Budget for the market's fall is not justified.

That said, the market's nature is to fluctuate. It is we who are to blame if we believe that the market can only go up at all points of time. A fall in the stock market is as natural as a rise. We have to be careful about

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

Budget – not completely unanticipated

It was widely expected that the budget would focus on rural India, and on the financially weaker sections of the population. It was also anticipated that continued thrust would be on development of physical infrastructure. On these fronts the budget did not disappoint.

- In an attempt to shore up rural incomes, the Minimum Support Prices of agricultural commodities has been promised at 1.5 times the cost of produce. We are still unclear as to how this would be calculated, but this is a clear attempt to assuage the angst of the farming community that has been reeling for the past few years. This has implications for rural purchasing power and therefore on several consumer product companies and FMCG companies.
- The Bharatmala project, railway modernization and electrification, power sector investments are continuation of the projects undertaken earlier. Several engineering, construction, and infrastructure-related companies would be positively impacted.
- The continued thrust on disinvestment of non-core sectors
- The health insurance plan for providing hospitalization care for 10 crore families would create the safety net (over the next several years) for the financially marginalized sections. This can work however, only when the infrastructure of medical facilities are extended to rural and semi-urban areas.
- The imposition of taxes on long-term capital gains at 10% was not completely unanticipated, but the LTCG along with the STT was a dampener.

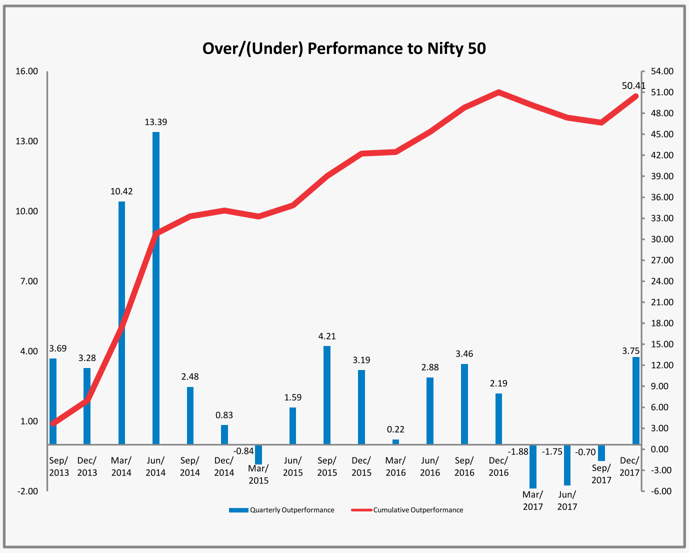
On the whole, a budget skewed in favour of the rural and semi-urban sectors, with a mild disappointment for capital market investors.

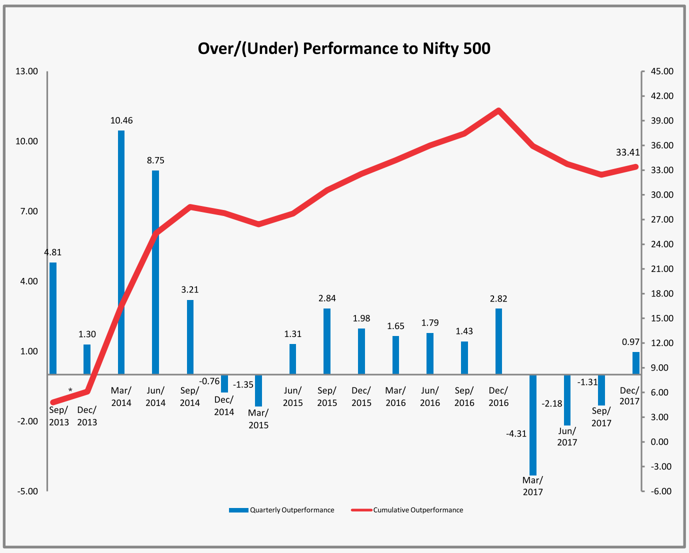
Our approach to investment does not change with the presentation of a Budget. Our focus continues to be on the quality of the company, its balance sheet, its ability to generate profits and cash flows, the quality of the management, and most importantly, the price at which the share is purchased, and these are independent of any Budget. The Budget is that way, only a catalyst.

Warm regards,
Yours sincerely,

(E A Sundaram)
Portfolio Manager

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 January 31st, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	5.68%
May/2014	Infosys Ltd	IT Services	5.57%
Jul/2013	Container Corporation of India Ltd	Logistics	5.24%
Jun/2015	ITC Ltd	FMCG	4.56%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	4.31%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.07%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	4.06%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.91%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.79%
Aug/2013	Cummins India Ltd	Engineering	3.72%
Nov/2016	Persistent Systems Ltd	Computers - Software	3.58%
May/2017	Abbott India Ltd	Pharmaceuticals	3.37%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	3.26%
Jul/2013	Siemens Ltd	Engineering	3.18%
Apr/2014	CRISIL Ltd	Credit Rating	3.03%
	Total		**61.33%**

Portfolio Details

Portfolio Details as on January 31st, 2018	
Weighted average RoCE	28.73%
Portfolio PE (1-year forward)	18.95
Portfolio dividend yield	1.47%
Average age of companies	56 Years

Portfolio Composition as on January 31st, 2018	
Large Cap	47.75%
Mid Cap	29.50%
Small Cap	9.50%
Cash	13.25%

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

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on January 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 January 31st, 2018

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	0.43%	4.72 %	2.18 %
3 Months	6.32%	6.70 %	5.95 %
6 Months	10.60%	9.43 %	10.29 %
1 Year	25.05%	28.81 %	31.42 %
2 Years	24.02%	20.73 %	23.67 %
3 Years	13.42%	7.77 %	10.61 %
Since inception date 08/07/2013	30.96%	14.81 %	18.09 %
Portfolio Turnover Ratio*	11.79%		

*Portfolio Turnover ratio for the period 1st February 2017 to 31st January 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 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.

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

Dear Investor

In this newsletter for the Phoenix portfolio, we wish to articulate our views on financial sector and what is the thought behind the exposure we have taken in this segment.

Credit Growth Trends for the banking sector

	Sector	9 yr CAGR	7 yr CAGR	5 yr CAGR	3 yr CAGR
	Non-food Credit (1 to 4)	**13%**	**11%**	**9%**	**8%**
1	**Agriculture & Allied Activities**	**15%**	**13%**	**12%**	**10%**
2	**Industry (Micro & Small, Medium and Large)**	**11%**	**8%**	**4%**	**1%**
2.1	Micro & Small	10%	8%	7%	0%
2.2	Medium	-2%	-7%	-6%	-8%
2.3	Large	13%	10%	5%	2%
3	**Services**	**13%**	**12%**	**11%**	**11%**
4	**Personal Loans**	**14%**	**16%**	**16%**	**16%**
4.1	Consumer Durables	8%	11%	19%	7%
4.2	Housing (Including Priority Sector Housing)	15%	16%	16%	16%
4.3	Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	1%	0%	0%	-2%
4.4	Advances to Individuals against share, bonds, etc.	7%	11%	14%	12%
4.5	Credit Card Outstanding	9%	20%	21%	28%
4.6	Education	11%	7%	5%	4%
4.7	Vehicle Loans	13%	14%	12%	8%
4.8	Other Personal Loans	17%	23%	22%	26%

Source of data: RBI

Sectoral share of outstanding loans

	Sector	28-Dec-12	27-Dec-13	26-Dec-14	25-Dec-15	23-Dec-16	22-Dec-17
Share							
1	**Agriculture & Allied Activities**	**12.3**	**12.0**	**12.9**	**13.3**	**13.9**	**13.8**
2	**Industry (Micro & Small, Medium and Large)**	**45.7**	**45.4**	**44.2**	**42.6**	**39.2**	**36.4**
2.1	Micro & Small	5.6	6.1	6.3	5.9	5.2	5.1
2.2	Medium	2.9	2.4	2.2	1.8	1.6	1.3
2.3	Large	37.3	37.0	35.8	34.9	32.4	30.0
3	**Services**	**23.3**	**23.7**	**23.1**	**23.1**	**24.0**	**25.0**
4	**Personal Loans**	**18.7**	**18.8**	**19.8**	**21.0**	**22.9**	**24.8**
4.1	Consumer Durables	0.2	0.2	0.3	0.3	0.3	0.3
4.2	Housing (Including Priority Sector Housing)	9.5	9.8	10.3	11.3	12.5	12.9
4.3	Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	1.2	1.1	1.0	1.0	0.9	0.8
4.4	Advances to Individuals against share, bonds, etc.	0.1	0.1	0.1	0.1	0.1	0.1
4.5	Credit Card Outstanding	0.5	0.5	0.5	0.6	0.7	0.9
4.6	Education	1.2	1.1	1.1	1.1	1.1	1.0
4.7	Vehicle Loans	2.3	2.4	2.5	2.2	2.5	2.5
4.8	Other Personal Loans	3.7	3.7	4.0	4.5	4.9	6.4

Source of data: RBI

Two notable features of the growth in credit are:-

First, personal loans as a category is the fastest growing segment and in last three years has grown at 16% CAGR versus 8% CAGR for the overall (non-food) credit in last three years. As a share of outstanding loans it is currently at 24.8% versus 18.7% five years back. In personnel loan category the fastest growing segments are housing at 16%CAGR, credit card outstanding at 28%CAGR and other personnel loans at 26% CAGR for last three years.

Because of this fast growth what we have seen is number of new Housing Finance Companies have entered and the players who were not so focused till now on housing loan segment have started to focus on it. The overall expectation by the players in this segment and investors is that this sector will keep on growing irrespective of the overall market conditions and the profitability will remain decent in this segment. Resulting in very rich valuations for both HFC's andconsumer focused banks.

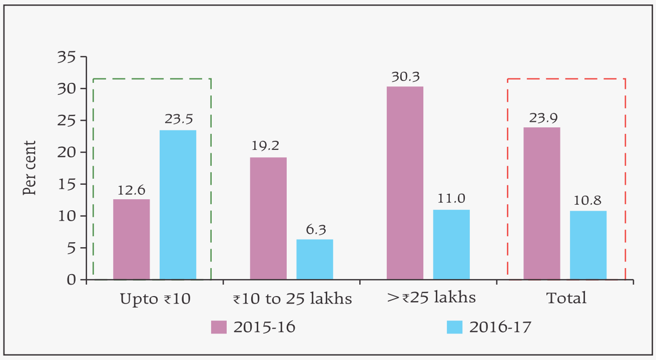
NPAs Across Slabs of Housing Loans

(per cent)

NPAs	PSBs		HFCs		Total	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Up to ₹2 lakhs	12.0	11.9	6.1	8.6	9.8	10.4
Up to ₹5 lakhs	4.9	5.0	2.4	3.4	4.0	4.4
Up to ₹10 lakhs	2.7	2.7	1.5	1.2	2.3	2.1
Up to ₹25 lakhs	1.7	1.7	0.8	0.7	1.4	1.3
>₹25 lakhs	0.9	1.2	0.3	0.5	0.6	0.9
Total	**1.4**	**1.5**	**0.4**	**0.6**	**0.9**	**1.1**

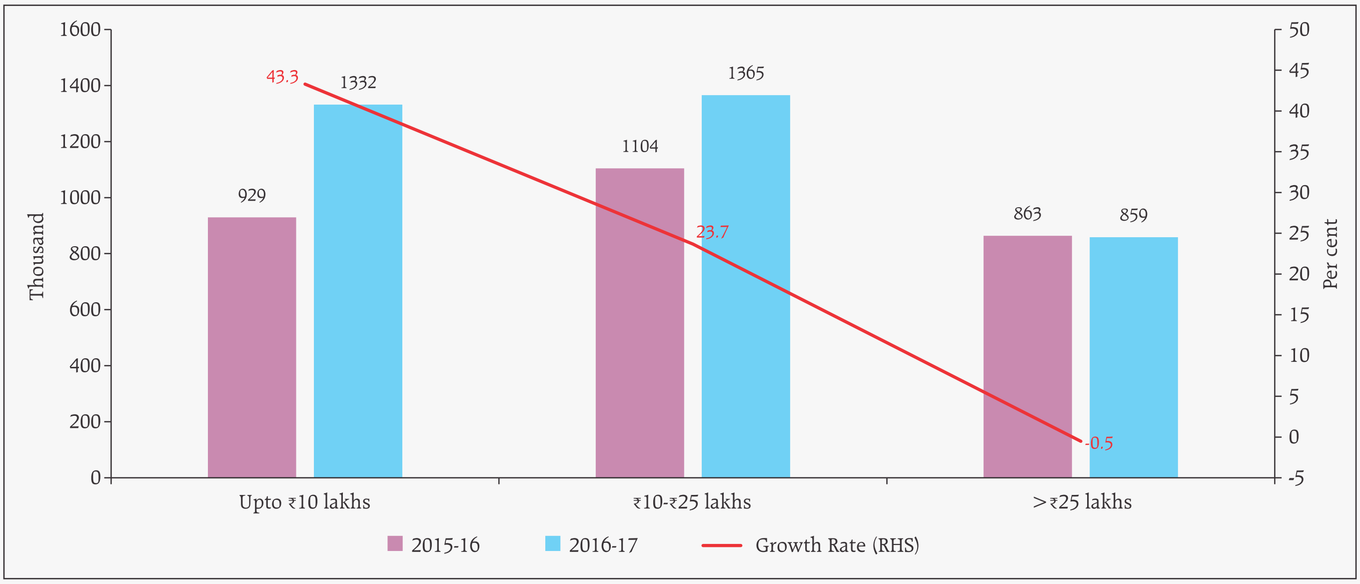
Source of data: Affordable Housing in India, RBI Bulletin January 2018

Growth in disbursements of housing loans: slab-wise



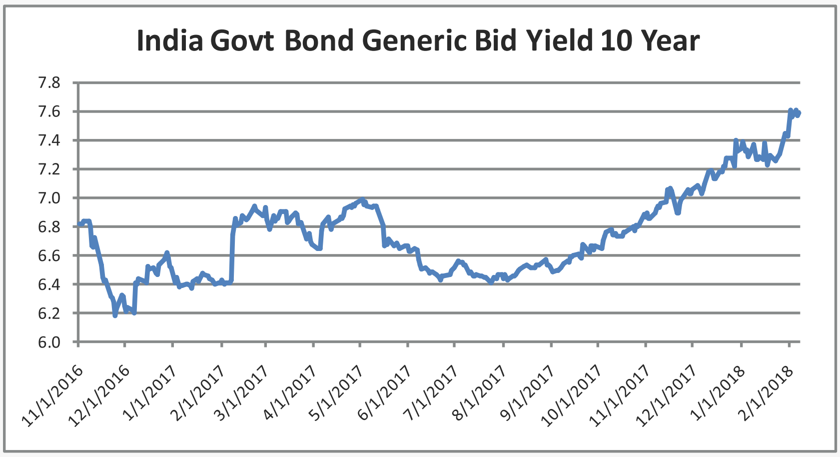
Source of data: Affordable Housing in India, RBI Bulletin January 2018

Credit Disbursements in terms of number of Accounts



Source of data: Affordable Housing in India, RBI Bulletin January 2018

Based on an article "Affordable Housing in India by Shri AjeshPalayi and Shri NalinPriyaranjan in RBI Bulletin Jan, 2018" over the last two years what we are seeing is; NPA's across the slabs have increased and lower ticket size loans have higher NPA's. Also, the incremental loans in value and number of new accounts is increasing towards low ticket sizes which have higher NPA's. Despite the incremental growth in loan book is of lower quality assets the valuations of all NBFC's present in the housing finance sector are near all-time high.



Source of data: Bloomberg

The other thing which keeps us worried in case of financials focusing on housing and consumer loans is the increased competitive intensity, over the last one year we have seen the 10yr GSEC yields have increased by nearly 100 bps but no announcement of increase in lending rates for housing or any other consumer loans is being seen in the market. Because of the above-mentioned reasons, we have decided to remain away from the financial institutions which are focused on personal segments.

"They were trying to – and proclaiming that they could increase earnings per share in some low double-digit range or something of the sort. And any time a large financial institution starts promising regular earnings increases, you're going to have trouble, you know?

I mean, it isn't given to man to be able to run a financial institution where different interest-rate scenarios will prevail on all of that so as to produce kind of smooth, regular earnings from a very large base to start with; and so if people are thinking that way, they are going to do things, maybe in accounting –– as it turns out to be the case in both Freddie and Fannie –- but also in operations that I would regard as unsound. And I don't know when it will happen. I don't even know for sure if it will happen. It will happen eventually, if they keep up that policy; and so we just decided –- or I just decided to get out." **FCIC interview of Warren Buffett, May 26, 2010.**

Second point to be noted is the loans to the industry segmenthas grown at a meager pace of 1%CAGRin last three years and it used to be 45.7% of the outstanding credit for the banking system five years back and is currently at 36.4%. Overall the capacity utilization across the sectors has been low and hence low capex has been happening in last few years.

For the financial institutions which have higher exposure to the industrial segment the loan growth is anemic and because of high stress in this segment, the NPA's for these financial institutions has been higher; resulting in higher provisioning requirements and poor results. As the economy grows the capacity utilization will improve across the industry and stress on the industrial side will reduce and new capex cycle will begin. The other important thing is the valuations for the financial institutions which have higher exposure to the industrial segment is low.

We have taken exposure to two PSU banks Vijaya Bank and Indian Bank. Net NPA of Vijaya Bank is 3.99% as of 31 Dec, 2017 and for Indian Bank it is 3.4% as of 30 Sep 2017which are the best among all PSU banks and have adequate Provision coverage ratios. As these banks don't have any big legacy NPA problems, whenever the industrial capex recovers we expect these banks to again start growing faster than the overall industry. As of now Vijaya Bank is available below the last reported book value of Rs72 and Indian Bank is slightly higher than the last reported book value of Rs 319.

We also have two private sector banks DCB and Federal Bank. DCB is purely focused on MSME and approximately 90% of its advances and deposits are from self-employed categories.Federal bank is a well-diversified bank with 63% of advances exposure to SME and corporate sector. Federal Bank is trading at 1.5 times the last reported book value of Rs 60.80 and DCB is trading at 2 times the last reported book value of Rs 88. Both these banks have good business models and significant presence in MSME space.

Portfolio Stance

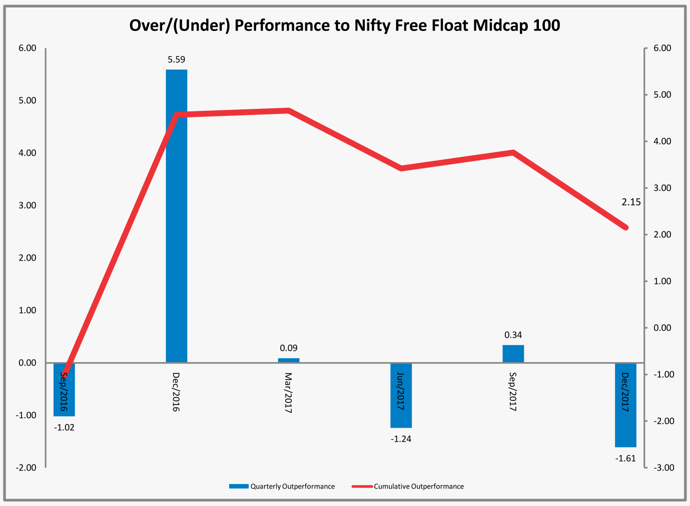
The other crucial point I would like to reiterate is we are not momentum investors and would like to focus on buying with decent margin of safety. In today's market when the valuations are stretched for most of the sectors we would like to be slow in investing. If the markets remain as expensive as they are currently we would like to take at least two months to build the portfolio for a new customer. **from Jan 2018 newsletter.**

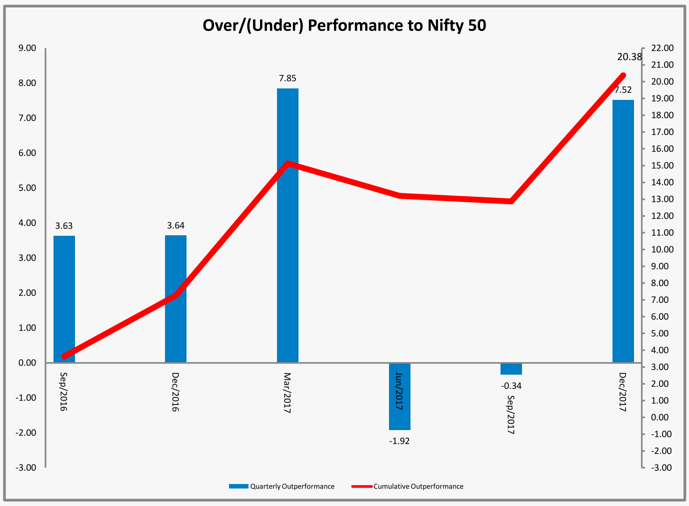
Though the mid and small cap companies have corrected in last few days. We continue to maintain a cautious stance as still the valuations are much higher than the long-term averages for the mid and small cap companies. We are slowly increasing the weightage of equity across the portfolios in phoenix strategy.

Himanshu Upadhyay
Portfolio Manager (Phoenix Strategy)

Disclaimer: - This is a view which I have taken in Phoenix strategy and is limited to only Phoenix portfolios.

DHFL PRAMERICA PHOENIX STRATEGY
KEY PORTFOLIO PERFORMANCE INDICATORS





*Return for the period 1st August, 2016 to 30th September, 2016. 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). Past performance may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on January 31st, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.04%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	3.63%
Sep/2016	D B Corp Ltd	Printing And Publishing	3.36%
Aug/2016	FDC Ltd	Pharmaceuticals	3.31%
Aug/2016	Federal Bank Ltd	Banks	3.30%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.28%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	3.12%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.12%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	2.92%
Jan/2018	Vijaya Bank	Banks	2.91%
Sep/2016	Apar Industries Ltd	Power Equipment	2.91%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing -Construction	2.80%
Jan/2018	Indian Bank	Banks	2.66%
Aug/2016	Sobha Ltd	Residential/Commercial/ Sez Project	2.62%
Oct/2016	Inox Leisure Ltd	Film Production, Distribution & Exhibition	2.61%
	Total		**46.59%**

Portfolio Details

Portfolio Details as on January 31st, 2018	
Weighted average RoE	11.78%
Portfolio PE (1-year forward)	13.7
Portfolio dividend yield	1.02%

Portfolio Composition as on January 31st, 2018	
Large Cap	4.00%
Mid Cap	25.50%
Small Cap	51.50%
Cash	19.00%

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

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on January 31st, 2018

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

Period	Portfolio	Nifty Midcap 100	NIFTY 50
1 Month	-2.34%	-1.65 %	4.72 %
3 Months	6.91%	6.16 %	6.70 %
6 Months	12.57%	12.26 %	9.43 %
1 Year	36.03%	34.85 %	28.81 %
Since inception date 01/08/2016	28.07%	25.50 %	17.64 %
Portfolio Turnover Ratio*	12.71%		

*Portfolio Turnover ratio for the period 1st February 2017 to 31st January 2018

Important Disclosures regarding the consolidated portfolio performance: 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 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 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

This document is dated February 12, 2018. **C172/2017-18**