# PORTFOLIO MANAGEMENT SERVICES

Newsletter June 2018

DHFL Pramerica

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

## The importance of staying the course

Dear Investor,

Over the past one year or so, the portfolio of the DHFL Pramerica Deep Value PMS has not done as well as it did in the years 2013-14, 2014-15, 2015-16 or 2016-17. The single-year's performance in 2017-18 has also had its impact on the 3-year performance of the portfolio.

Given this scenario, we thought of writing down our views to help you understand the situation, and what we intend to do about it.

With the benefit of hindsight, we can come to the conclusion that some of our choices were made slightly ahead in time, and some choices we should have sold a little later than what we did. But we are confident that NONEof the choices has betrayed the mandate of the product.

When a portfolio underperforms, it is the duty of the fund manager to re-visit the original assumptions with which the stocks were purchased in the first place, and see if they are still valid, and consistent with the mandate of the product.

The mandate, as you are aware, is to choose companies with strong fundamental strengths, track record of profitability and cash flows, and buy such companies when they are (temporarily) unpopular. This is the strategy that we have followed in this product since inception, and one that you had signed up for.

I would be failing in my duty as portfolio manager if I abandoned this approach in favour of buying stocks that show "promise of faster appreciation" but which go against the principles mentioned above.

**Buying when the stock is unpopular.**

This is the biggest differentiating factor between our portfolio and several other portfolios in the market, and this feature is what makes this product rather different (and therefore provides a genuine diversification opportunity to you).

When a stock is unpopular, it is available at a less-than-exorbitant price.

Buying it at a reasonable price increases the chances of long-term success.

Many other portfolios buy good quality companies. But not many of them buy when the stock is extremely unpopular.

**Let us remind you of a few examples:**

(a) Purchase of mid-caps in 2013 and 2014, when the sector was reasonably unpopular (hard to believe now, but it is true)

(b) Purchase of Infosys during the days of uncertainty over the CEO resigning, and a difference of opinion between the management and one of the founders

(c) Buying more of Divi's Laboratories in early 2017 when the US FDA had issued a notification against the manufacturing practices of the company

(d) Buying United Spirits when there was pessimism about prohibition and Court rulings regarding location of liquor outlets.

(e) Buying Indraprastha Gas when there was a pending case in the Supreme Court regarding their difference with the regulator PNGRB.

(f) Buying PSU banks shares recently, when the pessimism against them was the maximum.

The converse is also true. We also stay away from sectors/stocks where the valuation is far higher than their historical valuation averages.

(a) Staying away from most of the FMCG stocks

(b) Staying away from most private sector banks and NBFCs

(c) Staying away from many mid and small caps in the last year

(d) Staying away from several consumer durable stocks over the last year or so

**Popularity and stock prices**

When a sector or stock is popular in the stock market, its valuation tends to be higher than normal. Let us remember lessons from history:

(1) Technology stocks were extremely popular in 1999 and 2000, possibly the worst prices to have bought into them – Many of such stocks never recovered from the highs of 2000, and the best of such companies took more than 6 years to recover to those peaks.

(2) Real estate, infrastructure and power stocks were very popular in 2007, possibly the worst prices to have bought them – Many of such stocks have still not recovered to the prices they touched in 2007.

(3) NBFCs were very popular in 1995

(4) Pharma was very popular in 2013-14

(5) FMCG was extremely popular between 2011 and 2014. Some of them continue to be popular

Conversely,

- FMCG was unpopular in 1999, and in 2007. They survived, and many of them even thrived during the technology meltdown and the post-Lehman meltdown.
- "Old economy stocks" were unpopular in 1999 and 2000. They did much better than the so-called "new-economy" stocks between 2000 and 2007.
- Automobile stocks were unpopular in 2009. They did much better in the next few years.
- Mid-caps were unpopular in 2011,2012 and 2013. See where they are now.

**Despite popular belief, equities are not capable of delivering steady linear returns.**

3-years of almost uninterrupted bull-run in the stock market, especially in some sectors,has made many investors forget the fact that equities are not assets that give linear returns. It is therefore imperative to follow a disciplined approach in investing.

(a) Buy ***ONLY*** into companies that meet strict criteria of market leadership, track record, consistency of profitability, cash flow generation capabilities, corporate governance, and

(b) Buy such companies when they are (in our judgement) temporarily unpopular.

A strong company is unpopular only when it is going through a period of difficulty. If we are confident that the difficulty is not a terminal difficulty, we will buy the share.

This is the approach that we have consistently been following, and it has generated the following returns in the past 5 financial years (TWRR returns after expenses):

| Period | Portfolio | Nifty 50 | Nifty 500 |
|---|---|---|---|
| FY 2013-14 | 35.44% | 14.25% | 15.19% |
| FY 2014-15 | 52.42% | 26.65% | 33.56% |
| FY 2015-16 | -2.17% | -8.86% | -7.54% |
| FY 2016-17 | 23.40% | 18.55% | 23.91% |
| FY 2017-18 | 6.04% | 10.25% | 11.47% |
| Since inception (CAGR) (Till 31/03/2018) | 24.16% | 12.22% | 15.37% |

As can be observed from the table, our approach has given superior returns in all years except the previous year 2017-18. As a person with a rather long stint in equity, I can confidently say the following:

- There is no approach that is consistently capable of outperformance, and
- There is no investor or fund manager who has managed to switch successfully from one style to another, and always remained invested in a style that was in favour at the moment.

We are not going to abandon this approach. We shall stick to the same discipline. In times like these, it is extremely important to stay the course.

**What we had said earlier when our portfolio was "outperforming".**

We would like to quote from our April 2014 PMS newsletter:

**"Much as we are pleased about the "out performance" in the past 9 months, we would like to caution you that too much should not be read into this. *The performance of an investment product over a period of time should be only one of the various factors that you should consider while choosing to invest in that product.***

**What should really matter to you (the Investor) is whether the style and philosophy followed by this product suits your needs, and if it does, the next important decision is how much of your overall equity portfolio you should allocate to a product like this. In this, please consult your financial advisor before deciding.**

**Any logical investment style (if followed consistently) would pay off over a period of time, *but no investment style, however sound it is, will continuously give better returns.* This "out performance" of our PMS over the past few months only means that this style followed by us has found favour in the market over the past few months.**

**Please remember that there will be times when our style will not be favoured by the market, and during such times, we trust that you would recognize that our product is just as good as it is now. Remember, to you as an investor, it is important that each product remains faithful to its mandate, and if you diversify across three or four different types of products, at least one product will do well at any point of time, and cumulatively you would be spreading your risks by investing in three or four different styles".**

Dear investor, let us remind you about the characteristics of companies in your portfolio:

- Every single company in your portfolio (without exception) is either No.1 or No.2 in its field
- Every single company in your portfolio displays undiminished ability to compete over the long term
- Every single company in your portfolio has a strong balance sheet
- The entire portfolio consists of companies with a strong track record. There is no untested company. The average age of companies in the portfolio is 54 years.
- There is no serious case of corporate misgovernance against any company.

In addition to all the above, all of the companies were purchased when their level of valuation was not exorbitantly high compared to its historical valuations, or estimated growth rates in earnings.

Most importantly, this portfolio has minimal overlap with most of the competing portfolios in the market place. The level of overlap has been consistently less than 20%, giving you a genuine diversification.

In conclusion, dear Investor, we would like state the following:

(a) We make no claims that this is the BEST portfolio. We do however believe that this is a GOOD portfolio

(b) It gives you a genuine, qualitative and measurable diversification.

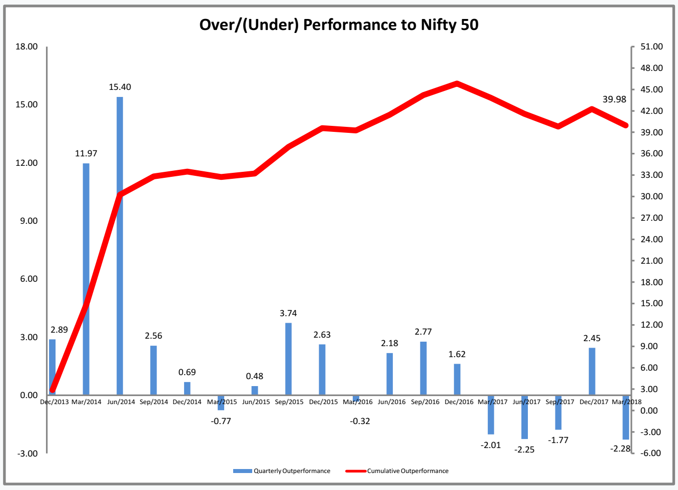
(c) We are confident that is no need to change our approach to investing. This approach may not have given the highest return in the past year, but that is no reason to change it. We will continue to manage the portfolio in exactly the same manner as we have done over the past five years.

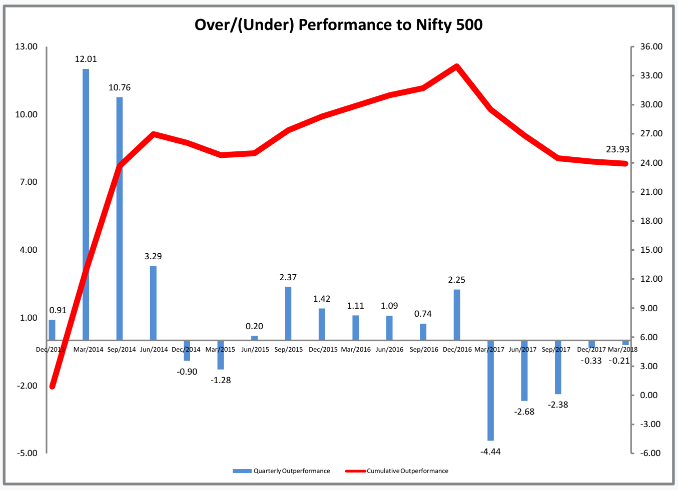
We thank you and all our distributor friends for the support that you have given us, and seek your continued support in the days and years ahead.

Yours sincerely,

**(E A 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 May 31st, 2018

| Date of Purchase | Equity | Sector | % |
|---|---|---|---|
| Sep/2015 | State Bank of India | Banking/Financial Services | 6.07% |
| Jul/2013 | Container Corporation of India Ltd | Logistics | 5.25% |
| May/2014 | Infosys Ltd | IT Services | 4.79% |
| Jun/2015 | ITC Ltd | FMCG | 4.77% |
| Jul/2013 | Indraprastha Gas Ltd | City Gas Distribution | 4.24% |
| Feb/2018 | Multi Commodity Exchange of India Ltd | Other Financial Services | 4.15% |
| Apr/2016 | Sanofi India Ltd | Pharmaceuticals | 3.95% |
| Oct/2013 | Divis Laboratories Ltd | Pharmaceuticals | 3.87% |
| Mar/2015 | Castrol India Ltd | Lubricants / oils | 3.85% |
| May/2017 | Abbott India Ltd | Pharmaceuticals | 3.55% |
| Oct/2017 | Power Grid Corporation of India Ltd | Power-Transmission | 3.55% |
| Jul/2014 | Oil & Natural Gas Corporation Ltd | Oil Exploration | 3.53% |
| Jan/2016 | Oracle Financial Services Software Ltd | IT Services / Products | 3.52% |
| Aug/2013 | Cummins India Ltd | Engineering | 3.51% |
| Jun/2016 | Amara Raja Batteries Ltd | Batteries - Automobile | 3.45% |
| | **Total** | | **62.05%** |

## Model Portfolio Details

| Portfolio Details as on May 31st, 2018 | |
|---|---|
| Weighted average RoCE | 28.67% |
| Portfolio PE (1-year forward ) | 24.16 |
| Portfolio dividend yield | 1.36% |
| Average age of companies | 54 Years |

| Portfolio Composition as on May 31st, 2018 | |
|---|---|
| Large Cap | 44.50% |
| Mid Cap | 32.25% |
| Small Cap | 13.50% |
| Cash | 9.75% |

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

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

| Period | Portfolio | NIFTY 50 | NIFTY 500 |
|---|---|---|---|
| 1 Month | -2.41% | -0.03 % | -1.91 % |
| 3 Months | -1.95% | 2.32 % | 0.58 % |
| 6 Months | -0.60% | 4.98 % | 1.76 % |
| 1 Year | 7.34% | 11.59 % | 11.55 % |
| 2 Years | 13.86% | 14.71 % | 17.02 % |
| 3 Years | 9.68% | 8.38 % | 10.20 % |
| Since inception date 08/07/2013 | 23.76% | 13.13 % | 15.83 % |
| Portfolio Turnover Ratio* | 20.59% | | |

*Portfolio Turnover ratio for the period 1st June 2017 to 31st May 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

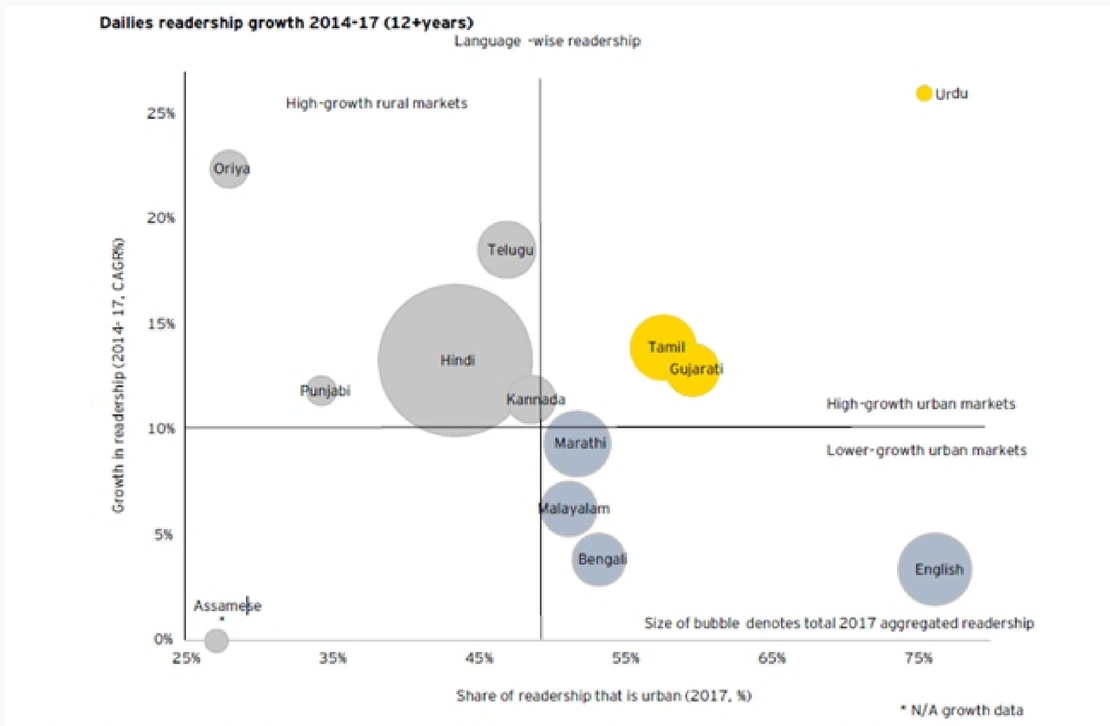
Dear Investor,

Continuing our discussion from the previous news letter where we had stated that the valuations for midcaps were expensive and hence we had taken a cautious stand in the portfolios. In the month of May, Nifty Midcap 100 has fallen by 6.84% and the portfolio at scheme level has fallen by 5.57%. We have cash of 17%at the scheme level as on 31st May 2018, which was 26.85% as on 31st Jan 2018 and 20.6% on 28th Feb 2018. Despite having significant amount of cash, the portfolio has fallen though slightly lesser than the market. The major reason for the fall in portfolio is some of the less popular stocks have fallen more. As of now the liquidity in mid and small caps is low. Hence, even on selling of small volumes the stocks are falling in double digit percentages.

Currently we are utilizing the cash we are holding to purchase the stocks which have fallen quite significantly in the last few weeks. The purpose of holding cash was to invest when the markets fall. So as a strategy we are executing what we had planned to do when the market was exuberant.

Currently we are not making any big changes in the portfolio, selling older heavy weight stocks and buying new stocks in place of them. We remain comfortable with the stocks we are holding. Also, the stocks we had purchased earlier were at a cheap valuations. After the fall many of them have become cheaper and hence we are adding to them. If we find something more appealing than the stocks we are holding when the market further corrects, we will reconsider our options. The PE ratio for the model portfolio for FY 2018 is 14.96 (Source: Bloomberg) which is much cheaper than the overall market valuations( Nifty Midcap 100 PE as on 31st May 2018 is 53.98 Source NSE site). Hence, we remain comfortable with the portfolio and expect it to do much better than the overall market when the recovery happens.

One stock which has done poorly since the time we have been holding is DBcorp. It prints newspaper under the brand name of Dainik Bhaskar, has small online new website business and a radio business under the brand My FM. The major revenue contributor to its top-line and bottom-line is newspaper printing. A large chunk of the advertising revenue they earn is from local businesses which have got impacted because of demonetisation, GST and RERA. Also in last few months the price of newsprint paper has increased leading to increase in the raw material costs. We take the slower growth in advertising and higher raw material prices as cyclical factors and are not too much worried about it. Had there been a fall in readership of newspapers resulting in fall of the circulation copies we would have got worried. Recent IRS 2017 data shows that the readership in India is increasing in low teens and is expected to continue growing for next few years.




Note: IRS 2014 and IRS 2017 surveys had different methodologies, and may not be exactly comparable. This analysis is provided for representation purposes only.

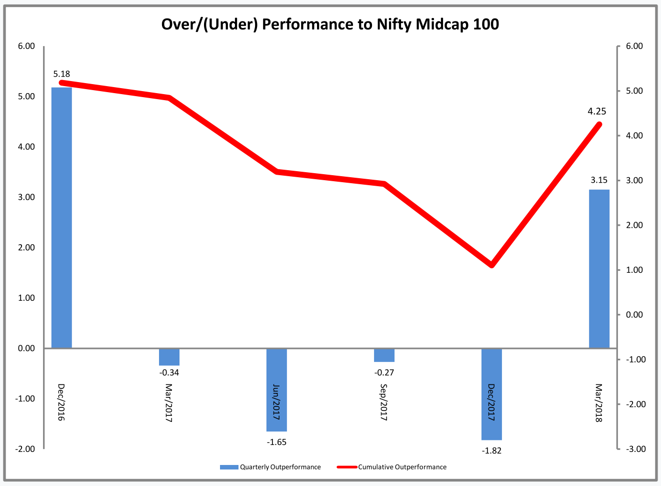
*Source: Re imagining India's M&E sector, March 2018.*

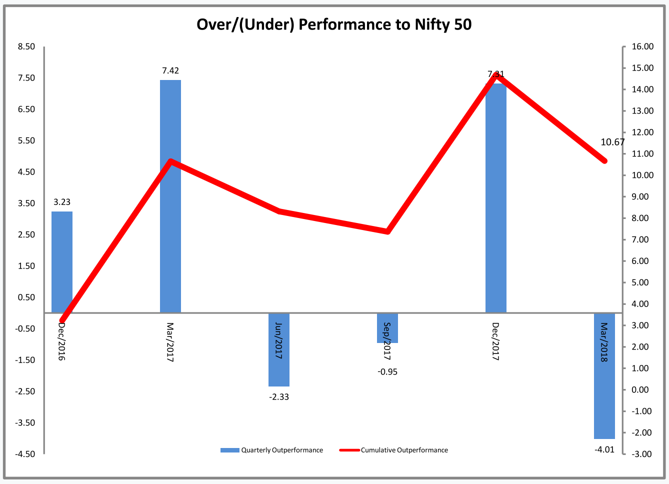
We expect the business performance to improve as the small businesses are settling down and GDP has started to grow at a better rate. Secondly, we have number of elections lined up in 2018 and Lok Sabha Elections in 2019 which should give some further improvement in the advertisement revenue.Also the company has announced a buyback at Rs 340 for 5% of the equity capital. At an appropriate time we will be deciding our course of action.

Yours sincerely,

**(Himanshu Upadhyay)**
Portfolio Manager

# DHFL PRAMERICA PHOENIX STRATEGY
# KEY PORTFOLIO PERFORMANCE INDICATORS

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

| Date of Purchase | Equity | Sector | % |
|---|---|---|---|
| Aug/2016 | Great Eastern Shipping Co Ltd | Shipping | 4.50% |
| Jan/2018 | Vijaya Bank | Banks | 4.22% |
| Aug/2016 | Greaves Cotton Ltd | Diesel Engines | 4.10% |
| Jan/2018 | Indian Bank | Banks | 4.06% |
| Sep/2016 | D B Corp Ltd | Printing And Publishing | 3.86% |
| Aug/2016 | Federal Bank Ltd | Banks | 3.83% |
| Aug/2016 | JB Chemicals & Pharmaceuticals Ltd | Pharmaceuticals | 3.67% |
| Sep/2017 | Pokarna Ltd | Sanitary Ware | 3.55% |
| Jan/2017 | Techno Electric & Engineering Co Ltd | Engineering-Designing-Construction | 3.40% |
| Apr/2017 | Hexaware Technologies Ltd | Computers - Software | 3.28% |
| Aug/2016 | Ahluwalia Contracts India Ltd | Cement Products | 3.24% |
| Feb/2017 | Sanofi India Ltd | Pharmaceuticals | 3.23% |
| Oct/2016 | DCB Bank Ltd | Banks | 3.08% |
| Jan/2018 | Oil & Natural Gas Corporation Ltd | Oil Exploration | 3.04% |
| Dec/2017 | Himatsingka Seide Ltd | Fabrics And Garments | 3.01% |
| | **Total** | | **54.07%** |

## Model Portfolio Details

| Portfolio Details as on May 31st, 2018 | |
|---|---|
| Weighted average RoE | 12.51% |
| Portfolio PE (1-year forward ) | 12.51 |
| Portfolio dividend yield | 1.04% |

| Portfolio Composition as on May 31st, 2018 | |
|---|---|
| Large Cap | 0.00% |
| Mid Cap | 25.50% |
| Small Cap | 55.50% |
| Cash | 19.00% |

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

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

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

| Period | Portfolio | Nifty Midcap 100 | Nifty 50 |
|---|---|---|---|
| 1 Month | -5.57% | -6.84 % | -0.03 % |
| 3 Months | -4.64% | -3.87 % | 2.32 % |
| 6 Months | -3.27% | -4.99 % | 4.98 % |
| 1 Year | 8.67% | 7.96 % | 11.59 % |
| Since inception date 01/08/2016 | 17.35% | 14.41 % | 12.60 % |
| Portfolio Turnover Ratio* | 29.20% | | |

*Portfolio Turnover ratio for the period 1st June 2017 to 31st May 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 June 08, 2018.** **C32/2018-19**