PORTFOLIO MANAGEMENT SERVICES

Newsletter March 2018

DHFL Pramerica

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

Reversal to mean - a very important concept in investing

Dear Investor,

Possibly, one of the greatest books ever to be written about Investing is the classic “Security Analysis” by Benjamin Graham and David Dodd. This treatise is as relevant today as it was in 1934 when it was first published.

The book begins with a couplet from the poet Horace, which goes like this

“Many shall be restored that now are fallen, and many shall fall that now are in honor”

Nothing explains the concept of “reversal to mean” better than this.

Everything in the stock market has its normal trajectory. If some stock, or sector does extremely better than its normal trajectory (or extremely worse), than that should trigger an investment decision that bets on the phenomenon of reversal to mean.

In the recent past, the relative movement of the Large Cap stocks and Mid/Small cap stocks have been a topic of animated discussions.

The interesting fact is that the long-term performance of all three indices have been similar. But the last 3 years the story is quite different. The details are given in the table below:

Time Period	(% appreciation per annum - CAGR)		
	BSE SENSEX	**BSE Midcap**	**BSE Smallcap**
April 2003 – Feb 2018 (14.8 years)	17.9%	21.2%	22.5%
April 2003 – Feb 2013 (10 years)	20.7%	20.9%	21.0%
April 2013 – Feb 2018 (4.8 years)	12.3%	22.0%	25.6%
April 2003 – April 2008 (5 years)	42.3%	49.6%	57.9%
April 2008 – April 2013 (5 years)	2.4%	-2.3%	-7.3%
April 2013 – Feb 2018 (4.8 years)	12.3%	22.0%	25.6%
April 2003 – April 2016 (13 years)	18.1%	20.7%	21.3%
April 2016 – Feb 2018 (1.8 years)	17.1%	24.7%	31.2%

Data source: www.bseindia.com

For a 10-year period April 2003 – April 2013, the BSE Sensex (a large-cap index), The BSE Midcap Index and the BSE Smallcap Index had a compounded annual growth rate (CAGR) of 20.7%, 20.9% and 21.0% respectively.

But from April 2013 to Feb 2018, the CAGR returns for the BSE Sensex have been 12.3%; they were 22.0% for the BSE Midcap, and 25.6% for the BSE Smallcap Index.

The contrast is even more stark if we see just the data from April 2016 - Feb 2018. In this period, the BSE Sensex has grown 17.1% pa, the BSE Midcap Index has grown 24.7% pa, and the BSE Smallcap Index has grown 31.2% pa.

Now, there are points that favour a higher expectation of growth from smaller companies. From a smaller base, their percentage growth can be higher than very-well established companies, and the recent reduction of corporate tax rate for companies with a turnover of less than Rs.250 crores is good news for smaller companies, but there is a limit to which one can expect the higher trajectory of growth to continue, and the valuation levels of such stocks, in comparison to their own history of valuation, is a good indicator of such expectations.

Besides this, the extent of volatility exhibited by stocks of smaller companies is higher and the extent of liquidity provided by them is lower, and both of these points must be borne in mind while deciding upon overall asset allocation.

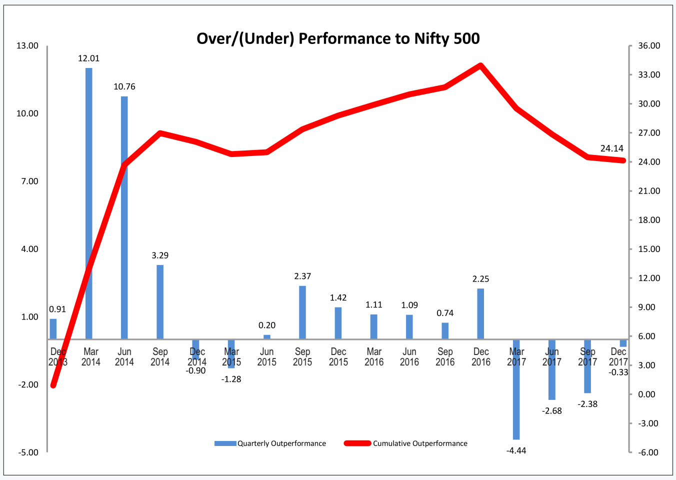
No investor can precisely estimate the exact date in which the reversal to mean would occur. When valuations of individual stocks begin to hit higher and higher levels, we believe it is better to err on the side of caution and more into stocks where the level of valuation is not exorbitantly high.

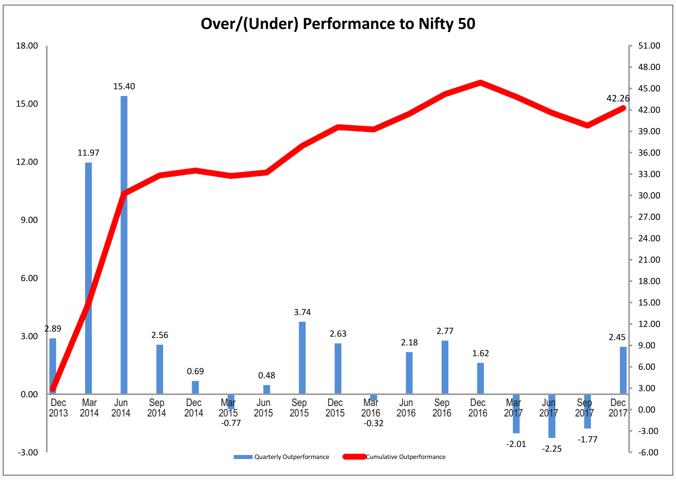
This strategy provides a better protection in terms of a sharp downturn in the stock prices, and this is precisely what your portfolio has been doing over the past few months.

With warm regards

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 February 28th, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	5.80%
May/2014	Infosys Ltd	IT Services	5.23%
Jul/2013	Container Corporation of India Ltd	Logistics	4.99%
Jun/2015	ITC Ltd	FMCG	4.51%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.51%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	4.20%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	4.03%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.74%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.61%
Nov/2016	Persistent Systems Ltd	Computers - Software	3.60%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.56%
Aug/2013	Cummins India Ltd	Engineering	3.39%
May/2017	Abbott India Ltd	Pharmaceuticals	3.34%
Feb/2018	Multi Commodity Exchange Of India Ltd	OTHER FINANCIAL SERVICES	3.21%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	3.13%
	Total		**60.85%**

Portfolio Details

Portfolio Details as on February 28th, 2018	
Weighted average RoCE	30.03%
Portfolio PE (1-year forward)	19.46
Portfolio dividend yield	1.59%
Average age of companies	53 Years

Portfolio Composition as on February 28th, 2018	
Large Cap	51.00%
Mid Cap	29.50%
Small Cap	10.50%
Cash	9.00%

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

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

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-2.24%	-4.85 %	-4.50 %
3 Months	1.35%	2.60 %	1.17 %
6 Months	8.33%	5.80 %	6.52 %
1 Year	12.95%	18.17 %	20.14 %
2 Years	21.00%	22.56 %	26.06 %
3 Years	8.76%	5.63 %	8.56 %
Since inception date 08/07/2013	25.82%	13.33 %	16.61 %
Portfolio Turnover Ratio*	17.04%		

*Portfolio Turnover ratio for the period 1st March 2017 to 28th February 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

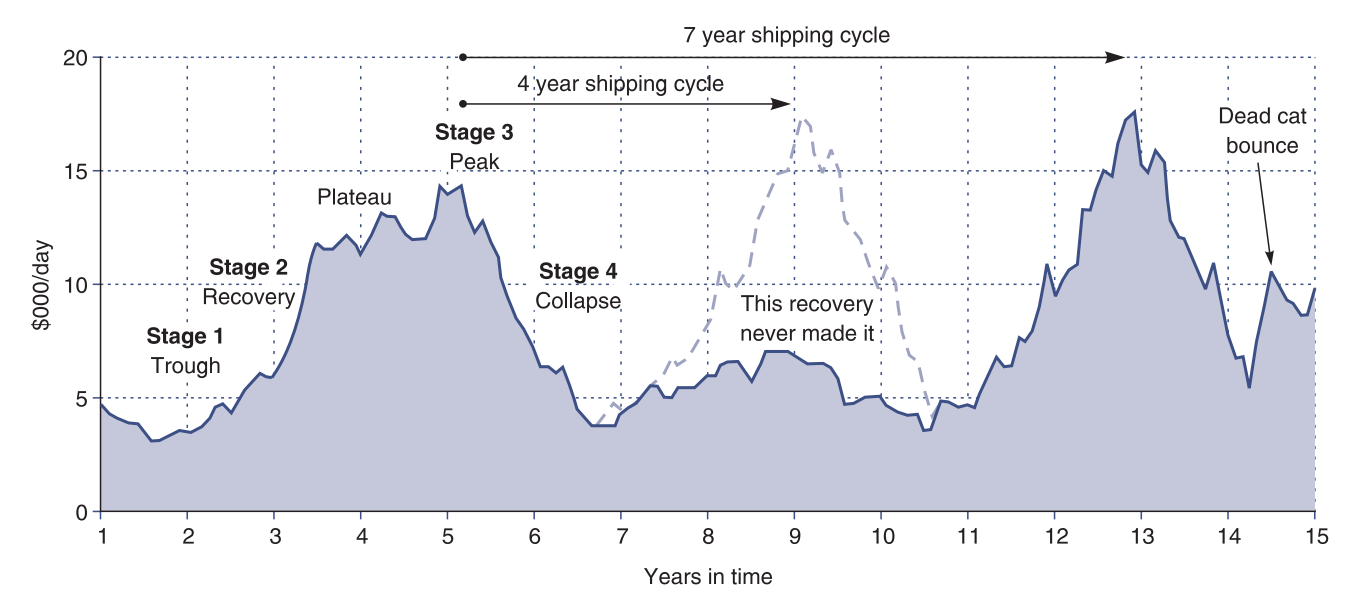
Dear Investor

In this newsletter for the Phoenix portfolio, we wish to articulate our views on shipping sector and what is the reasoning behind the high exposure we have taken on a single stock in this segment.

Great Eastern Shipping was incorporated in 1948 and is the largest private sector shipping company in India and the second largest shipping company in India after SCI. It is one of the few shipping companies globally which have not shown any losses in last 36 years, has paid continuous dividend for last 31 years and has not raised equity capital in last 22 years. It has a well-diversified fleet of 15 drybulk ships, 12 crude carriers, 17 product carriers and 3 gas carriers on shipping side. On the offshore side it has 4 jack up rigs and 19 offshore support vessels.

Shipping is a highly commoditized business where to the end consumer it does not matter from which ship did the product was transported. Like all other commodities shipping is a highly cyclic by nature. During good times; when the global trade is growing at fast rate ship owners tend to order more ships than required in future and when growth in global trade slows down and new ships start getting delivered, the charter rates fall resulting in fall in prices of ships, new ordering gets reduced and scrapping of ships increases till the supply demand gets balanced.

Stages in a typical dry cargo shipping market cycle



Definition of trough

1. Freight near operating costs
2. Old ship prices fall to scrap
3. Little ordering (usually)
4. Many demolition sales
5. Banks reluctant to lend
6. Market sentiment pessimistic

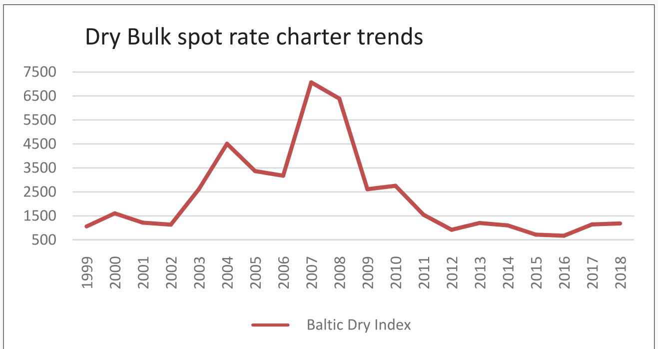
Definition of peak

1. Freight over 3 × OPEX
2. 5-year-old ship costs same as newbuilding
3. Heavy ordering (usually)
4. Few demolition sales
5. Banks keen to lend
6. Market sentiment implausibly positive

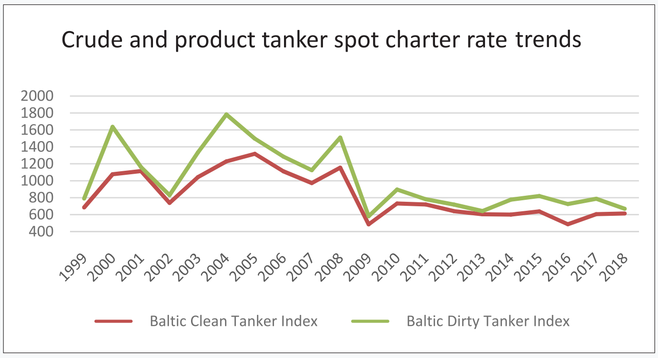
Source: Maritime Economics by Martin Stopford

We believe shipping is at a trough for the following reasons:

1. Charter rates for dry bulk shipping, crude oil carriers and product tankers is below the all-time highs and below the long-term averages.

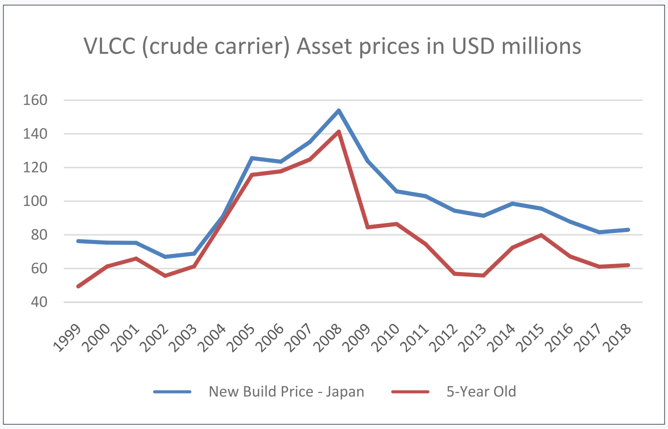


Source of Data: Bloomberg

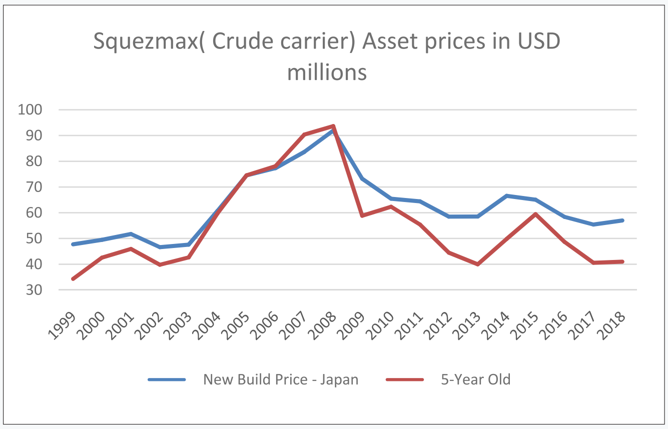


Source of Data: Bloomberg

2. The value of ships is below the long-term averages and much below the historical highs.



Source of Data: Bloomberg; SSY



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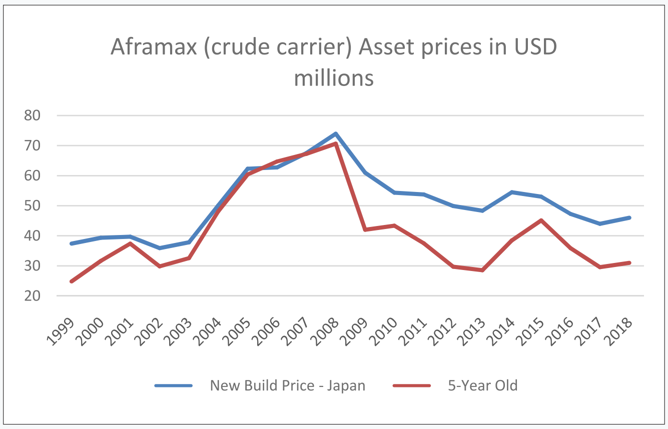

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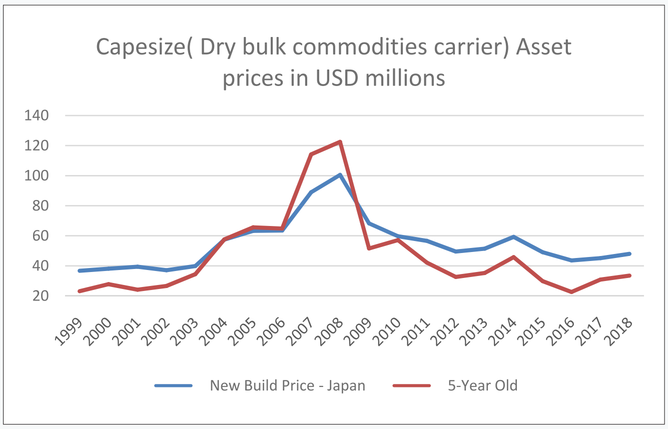
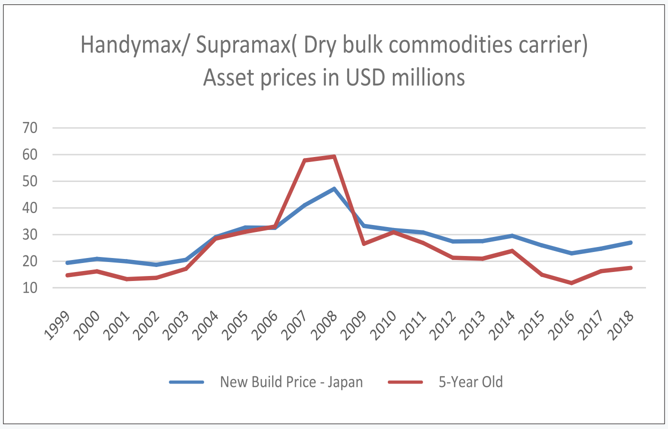
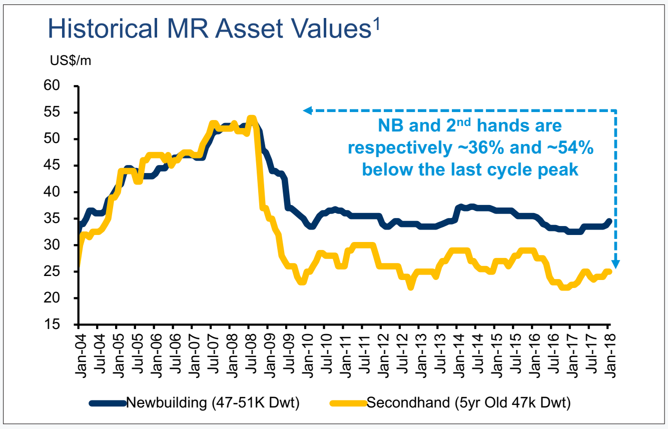


Source of Data: Bloomberg; SSY



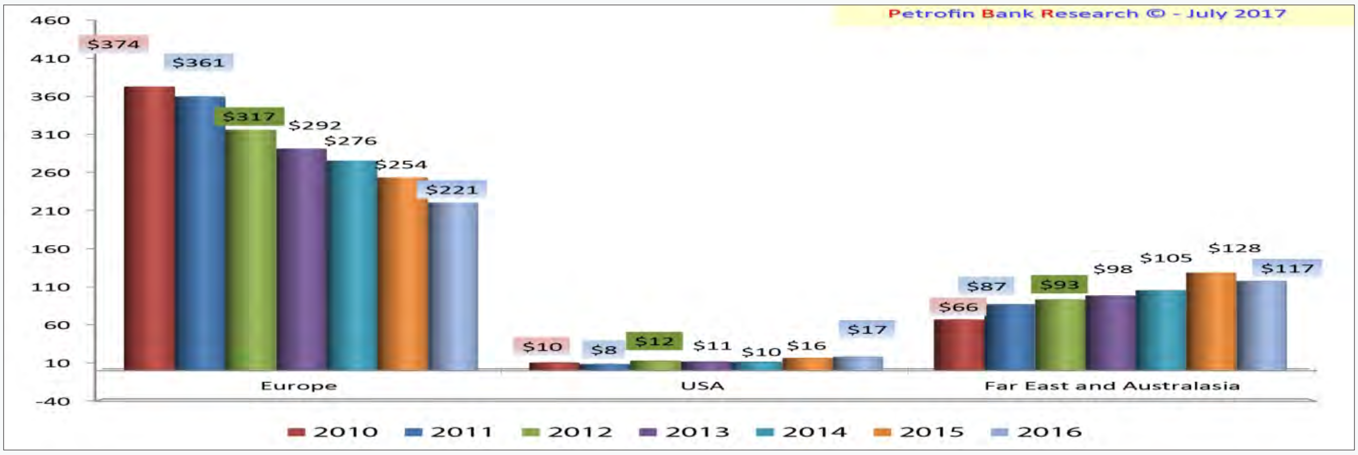
Source of Data: Bloomberg; SSY



Source of Data: d Amico International Shipping presentation

Note: MR carries refined crude products

3. Exposure of top 40 ship finance banks which was nearly USD 450 Bn in CY 2010 is down to USD 356 Bn in CY 2016.

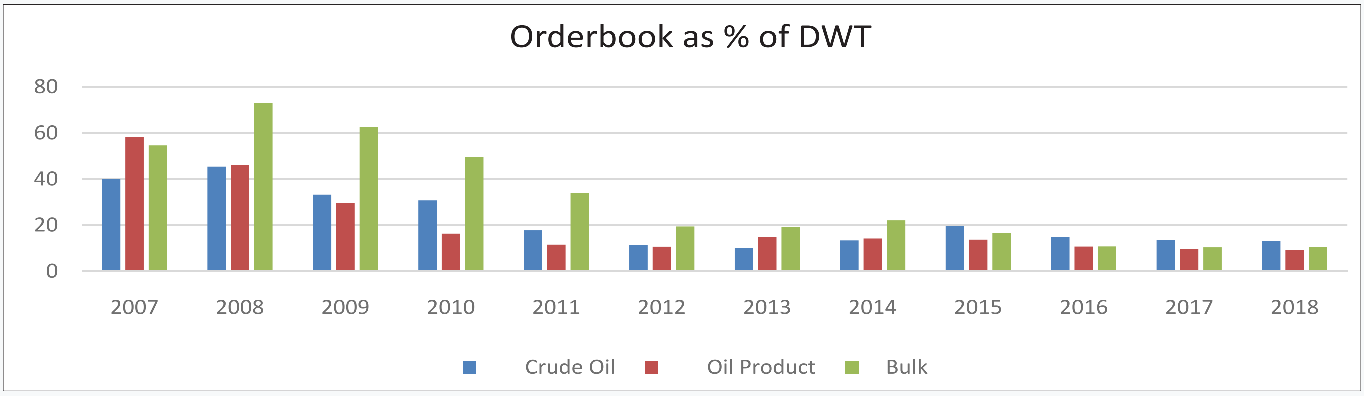


Source of Data: Key Developments and Growth in Global Ship-Finance July 2017 By Ted Petropoulos, Head, Petrofin Research.

Because of the above-mentioned reasons and pessimism across the investors and shipowners we believe that shipping is at the bottom of the cycle.

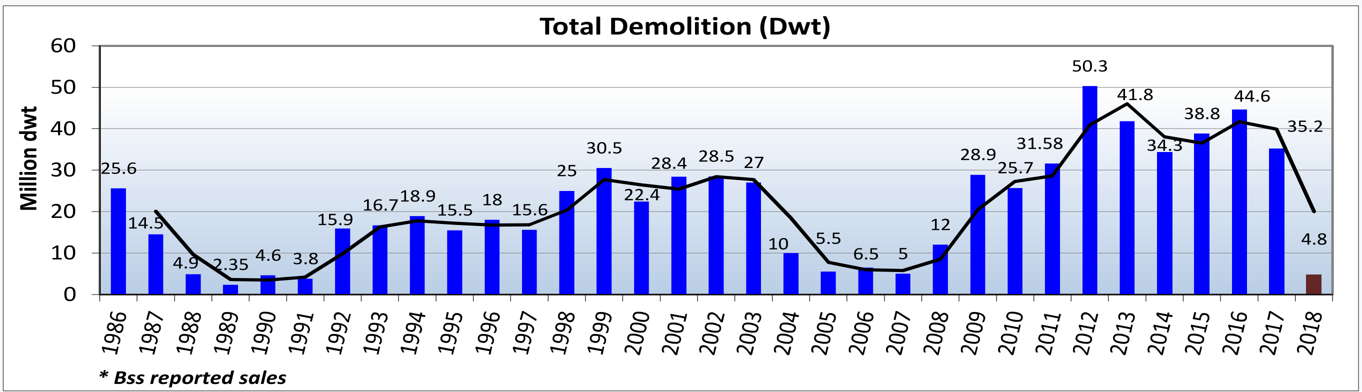
Though it is not possible to perfectly time the market. We believe the cycle will start improving from here on because of the following reasons:

1.The orderbook for new ships as a % of DWT of existing fleet for most shipping categories is at past 10 yr lows. As most shipyards and shipowners are in distress we expect the new deliveries to be even lower than what is the orderbook and hence new supply of ships will be lower than what it has been historically.

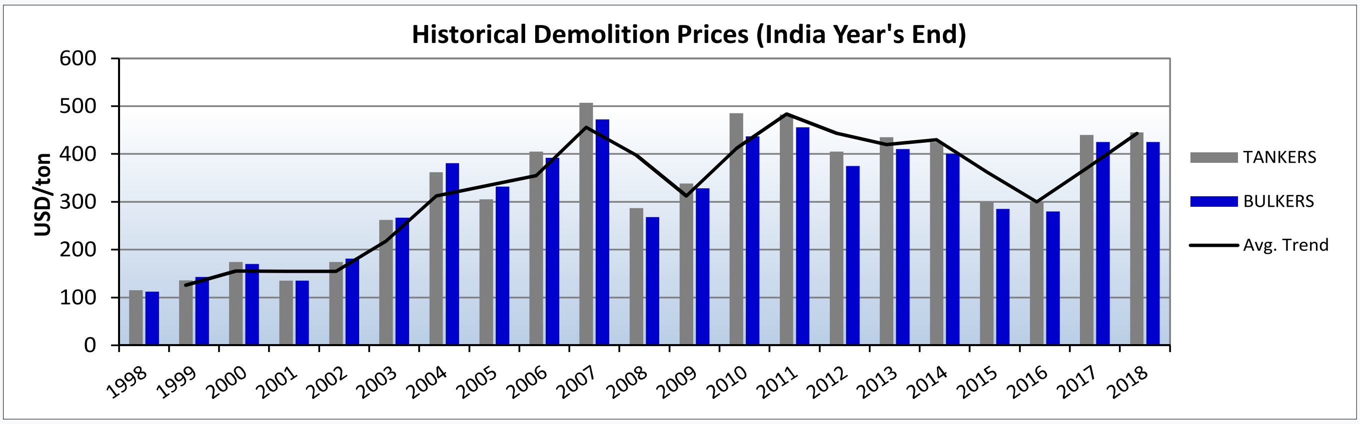


Source of Data: Bloomberg

2. Secondly number of ships getting demolished every year is also at historical high numbers. With steel prices being high, value of scraping ships is also good and in a bad operating environment it makes more sense for an owner to scrap old ships. We expect the scraping of ships to remain high till the demand supply gets balanced. As both new deliveries will be lower than in past few years and demolition remains high of ships we expect the increase in global fleet of ships will be low.

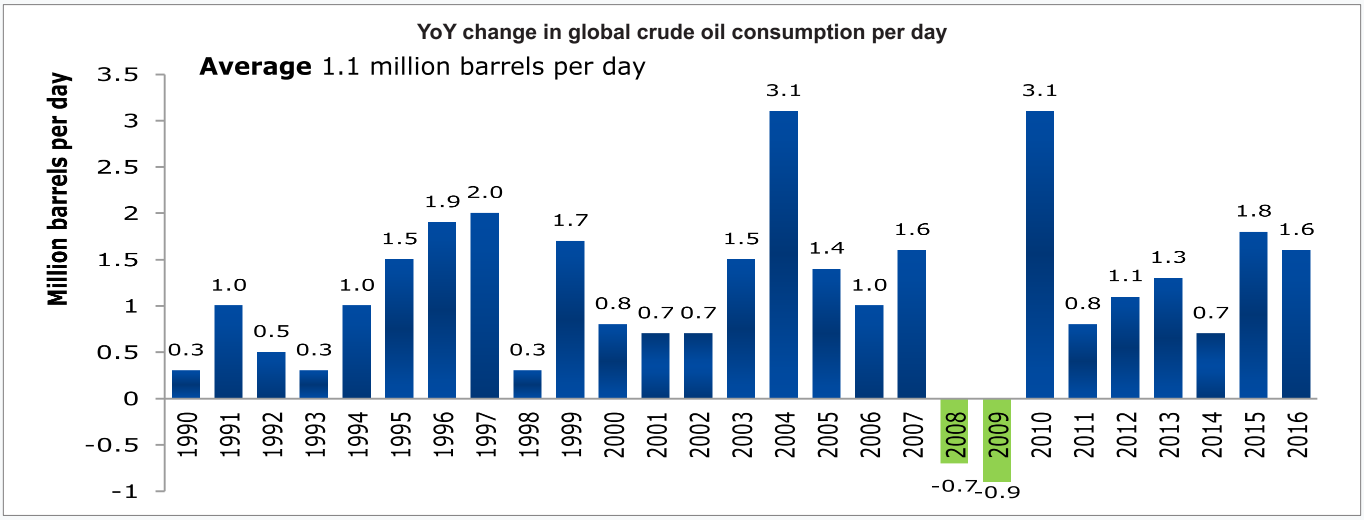


Source of Data: Athenian Shipbrokers S.A.

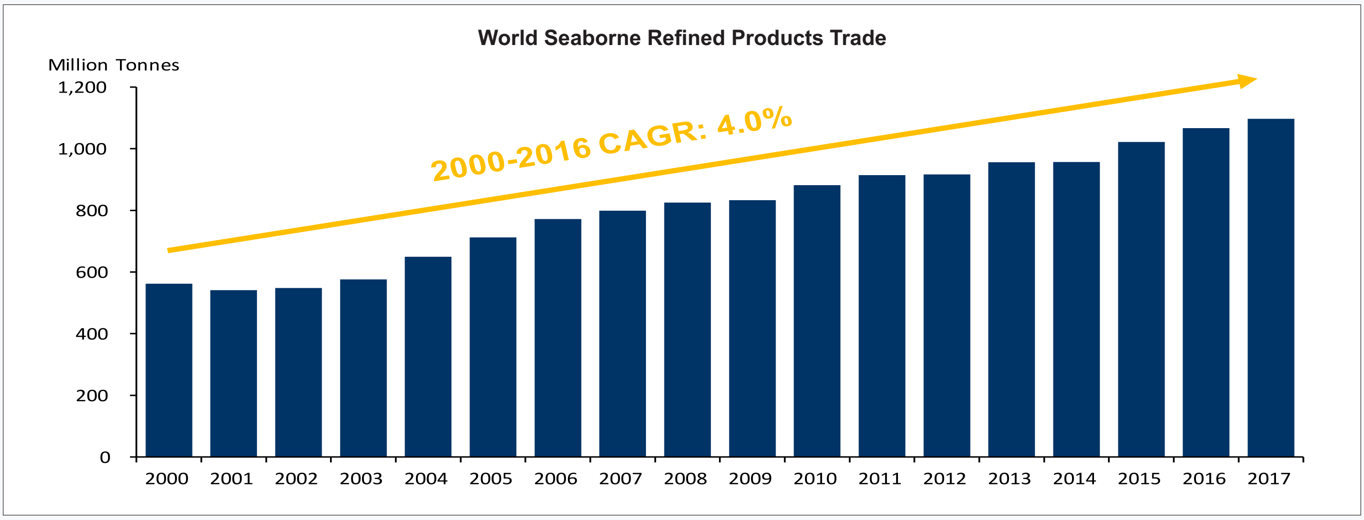


Source of Data: Athenian Shipbrokers S.A.

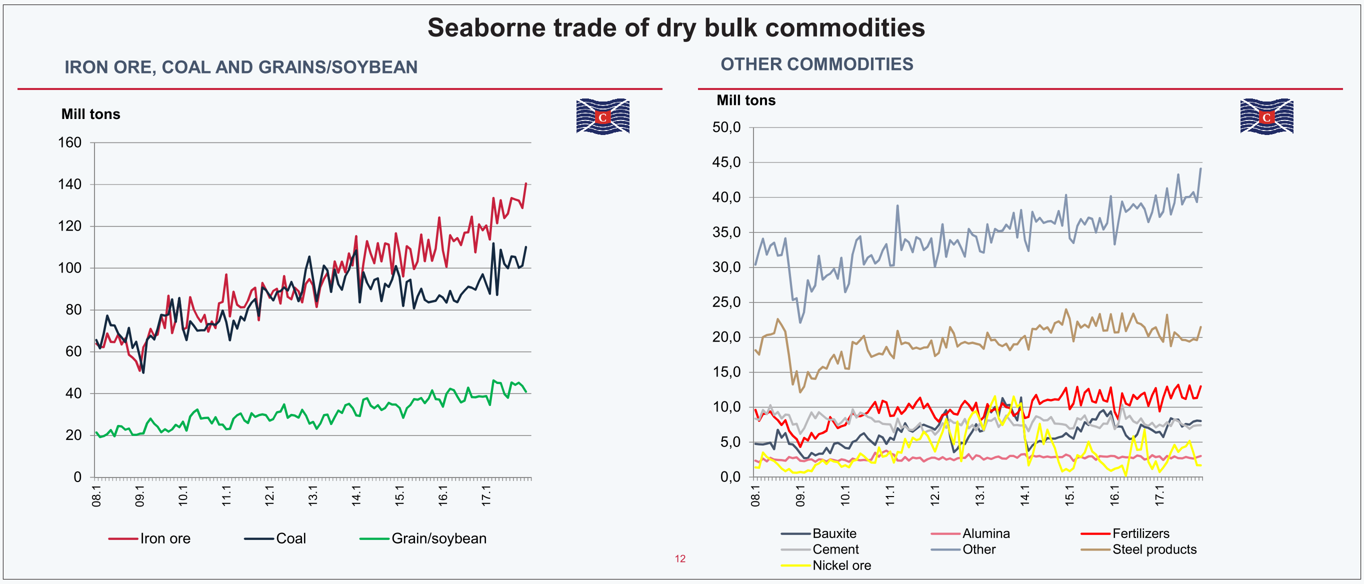
3. Finally, on the demand side the growth has been robust for the crude oil, seaborne refined product and sea borne dry bulk trade. We expect the growth in commodities trading to follow the historical growth trend. We don't expect too much of an issue because of trade barrier to impact the commodity movement. As countries which don't have crude oil, coal, iron ore etc. will continue to import these raw materials.



Source of Data: IEA, Euronav company presentation



Source of Data: Clarkson ResearchServices as at Feb'18, d Amico International Shipping presentation



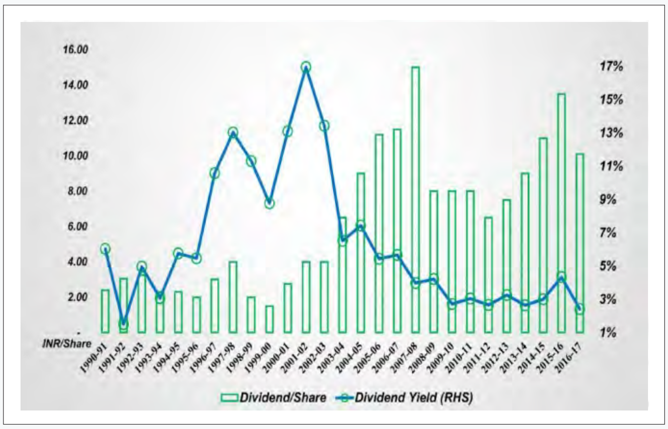
Source: Q4 2017Sona Bulk ppt, ClarksonsPlatou

As there is huge scraping of ships happening, fewer new deliveries than in past and growth in commodities trading we remain confident that the cycle will improve in near future.

What can be an upside in profits if the cycle improves from here on? Assuming there is a USD 1000 increase in charter rate and size of shipping fleet remains at 47, each ship operates at 350 days in a year and 1 USD is of Rs 65 for the shipping fleet can result in increase in PAT can be of Rs 101 (47*350*1000*65*.95) crores. For every USD 1000 increase in charter rates the PAT can roughly increase by Rs 100 cr for an year. If the charter rates increase by 5000USD per day for a vessel the incremental PAT can be nearly Rs500 cr for a year.In shipping the charter rates can rapidly increase and decrease by 5 to 10 thousand USD in a matter of few months.

On the offshore side because of fall in crude oil prices the capex has fallen by 57% in last 4 years but it is expected that it will start stabilizing from here on. Fall in the offshore side has negatively impacted the offshore business (4 Jack up rigs and 19 support vessels) of Great Eastern shipping.

Source: Q3FY 2018, Great Eastern Shipping ppt



Source: Q3 FY 2018, Great Eastern Shipping ppt

When we buy a cyclical company in asset heavy business, we want to buy the company with the strongest balance sheet which can grow in the troubled times and buy assets at cheap rates. Great Eastern has one of the strongest balance sheet among all the shipping companies in India and has increased its shipping fleet from 29 ships in 2014 to 47 as of now. The net D/E ratio remains comfortable at 0.34 as of Q3 FY 2018. Also, the company has maintained its dividend even in these tough times.

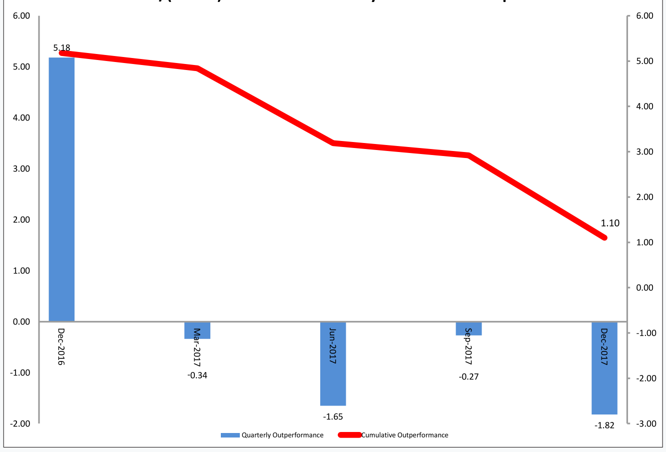
Portfolio stance:

We are increasing our equity exposure across the portfolios as the stocks we wanted to purchase have become cheaper but we remain cautious in our approach. As of 31st Jan 2018, the scheme level(cumulative across the portfolio) cash was 26.85% and on 28th Feb 2018 it was 20.6%.

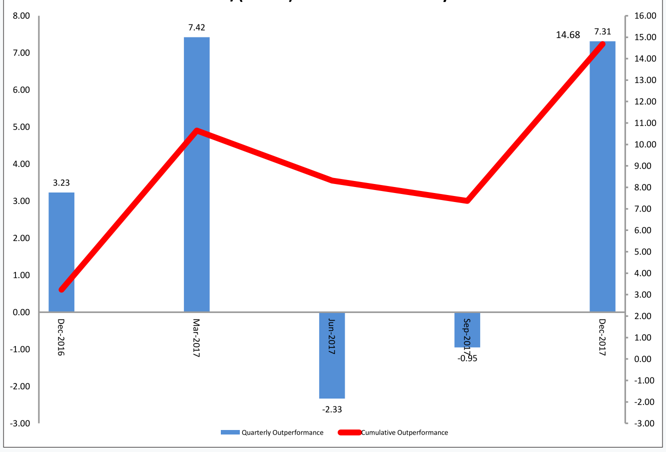
Himanshu Upadhyay
Portfolio Manager

DHFL PRAMERICA PHOENIX STRATEGY
KEY PORTFOLIO PERFORMANCE INDICATORS

Over/(Under) Performance to Nifty Free Float Midcap 100



Over/(Under) Performance to Nifty 50



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

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.21%
Aug/2016	FDC Ltd	Pharmaceuticals	3.99%
Sep/2016	D B Corp Ltd	Printing And Publishing	3.89%
Aug/2016	Federal Bank Ltd	Banks	3.77%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.68%
Jan/2017	Techno Electric & Engineering Co Ltd	Engineering-Designing-Construction	3.56%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.53%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	3.51%
Jan/2018	Vijaya Bank	Banks	3.34%
Aug/2016	Greaves Cotton Ltd	Diesel Engines	3.31%
May/2017	MOIL Ltd	Industrial Minerals	3.30%
Jan/2018	Indian Bank	Banks	3.20%
Jan/2018	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.09%
Sep/2017	Pokarna Ltd	Sanitary Ware	3.05%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	2.92%
	Total		**52.35%**

Portfolio Details

Portfolio Details as on February 28th, 2018	
Weighted average RoE	12.90%
Portfolio PE (1-year forward)	13.35
Portfolio dividend yield	1.13%

Portfolio Composition as on February 28th, 2018	
Large Cap	3.50%
Mid Cap	31.25%
Small Cap	48.25%
Cash	17.00%

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

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

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

Period	Portfolio	Nifty Midcap 100	NIFTY 50
1 Month	-0.09%	-5.39 %	-4.85 %
3 Months	1.45%	-1.16 %	2.60 %
6 Months	13.81%	7.59 %	5.80 %
1 Year	22.29%	19.32 %	18.17 %
Since inception date 01/08/2016	24.12%	19.85 %	13.10 %
Portfolio Turnover Ratio*	27.83%		

*Portfolio Turnover ratio for the period 1st March 2017 to 28th February 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

This document is dated March 09, 2018. **C184/2017-18**