

# PORTFOLIO MANAGEMENT SERVICES

Newsletter: November 2018



HAPPY  
*Diwali*  
FESTIVAL OF LIGHTS



Pramerica

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

### Usain Bolt and Eliud Kipchoge

Usain Bolt of Jamaica and Eliud Kipchoge of Kenya are two of the world's legendary athletes. Bolt has recently retired from athletics, but both of them currently are the world record holders in their respective events - the 100 metre sprint, and the marathon.

Usain Bolt's record in the 100-metre sprint stands at 9.58 seconds. Eliud Kipchoge's record at the marathon is a timing of 2:01:39.

Now, if we were to hypothetically argue - had Usain Bolt sustained his record-winning speed over the distance of the marathon, he could have completed the marathon in a time of 1:07:22 (that is about half the time of the present world record), how does that sound?

Doesn't it sound too outlandish even to contemplate any such thing? Of course, it does. A marathon is an event not of speed, but of sustainability and endurance over a very long distance.

And average speed (the measure of performance) comes down when the distance to be covered is longer and longer.

Now, let us superimpose the same thought on equity investing.

If one is investing to build a capital for his or her own retirement, or some other long-term goal like that, what good does it do to extrapolate a fantastic 1-year return (earned in a wildly bull market) and expect that over a period of 10 years, we can generate the same fantastic compounded return? Does this sound any better than the Usain Bolt example?

At the same time, a negative return in one year (when the market is bearish) should also not be extrapolated over the long term, and we as investors should definitely not come to any wrong conclusions that the stock market would perennially be negative.

A good starting point is to establish what is a sustainable rate of return and build an investment plan around that.

The stock market's long term growth record in India, over the last nearly 40 years, has been about 15.8% per annum. It has roughly grown in the same proportion as the nominal GDP growth of the country. Going forward, we have reasons to believe that the nominal GDP growth over the next decade or so can be about 12-13% per annum. These figures should temper our expectations about what sort of returns the overall stock market can deliver over a period of time.

**Better investing skills, including choice of stronger and more efficient companies, and at prices that make sense, can deliver a better (but not a spectacularly better) return, compared to the market averages.**

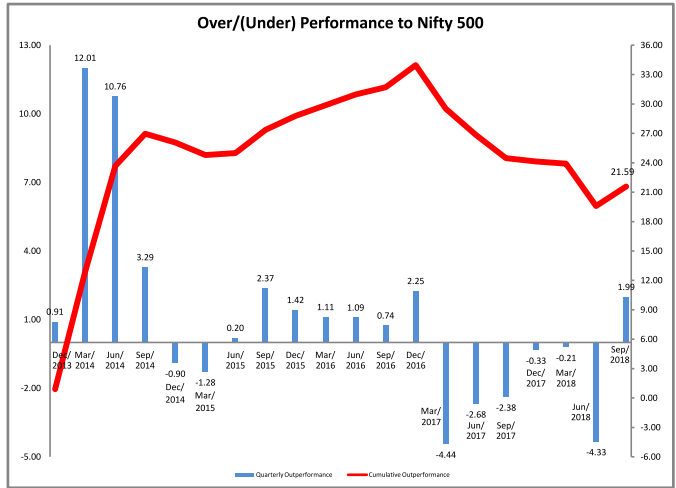
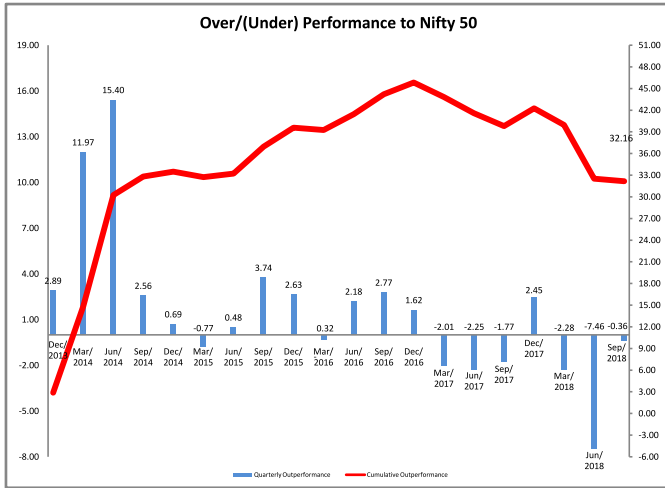
A realistic return expectation from equities helps in not straying from our path too much. It also prevents us from trying to replace Usain Bolt with another sprinter the moment there is a slowdown.

*We wish all our Investors and their family a very Happy Diwali*

Warm regards,  
Yours Sincerely,

**(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 October 31st, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.37%
Jun/2015	ITC Ltd	FMCG	4.92%
Jul/2013	Container Corporation of India Ltd	Logistics	4.75%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.36%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.31%
Aug/2013	Cummins India Ltd	Engineering	4.19%
May/2018	Bharat Electronics Ltd	Industrial Electronics	3.79%
Oct/2017	Power Grid Corporation Of India Ltd	Power- Transmission	3.73%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.71%
Jul/2013	Bosch Ltd	Auto Ancillaries	3.63%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.60%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	3.60%
Aug/2013	Great Eastern Shipping Co Ltd	Shipping	3.51%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.27%
Jun/2018	Ge Power India Ltd	Power Equipment	3.23%
	<b>Total</b>		<b>60.97%</b>

### Model Portfolio Details

Portfolio Details as on October 31st, 2018	
Weighted average RoCE	26.19%
Portfolio PE (1-year forward ) (Based on FY 20)	17.31
Portfolio dividend yield	1.39%
Average age of companies	55 Years

Portfolio Composition as on October 31st, 2018	
Large Cap	41.50%
Mid Cap	33.75%
Small Cap	14.25%
Cash	10.50%

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

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

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	0.76%	-4.98 %	-3.98 %
3 Months	-3.71%	-8.54 %	-9.30 %
6 Months	-3.99%	-3.28 %	-7.82 %
1 Year	-0.26%	0.50 %	-4.37 %
2 Years	6.42%	9.74 %	8.03 %
3 Years	9.86%	8.79 %	9.04 %
5 Years	20.90%	10.52 %	12.75 %
Since inception date 08/07/2013	21.18%	11.34 %	13.16 %
Portfolio Turnover Ratio*	29.49%		

\*Portfolio Turnover ratio for the period November 1st 2017 to October 31st, 2018

### Consolidated Portfolio CY Performance of DHFL Pramerica Deep Value Strategy

CY	Portfolio Performance	NIFTY 50	NIFTY 500
08-07-2013 to 31-12-2013	13.79	7.43	8.36
CY 2014	77.24	31.39	37.82
CY 2015	2.48	-4.06	-0.72
CY 2016	8.90	3.01	3.84
CY 2017	24.56	28.65	35.91
CY 2018 till date	-5.40	-1.37	-7.77
08-07-2013 to 31-10-2018	21.18	11.34	13.16

**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 discuss our real estate exposure and how we are looking at the companies which are there in the portfolio. When we started buying the shares of the real estate companies we hypothesized that the new regulations like GST & RERA, customer preference to good developers, cheaper source of capital for good developers and demonetization will lead to sector becoming more consolidated. We believe, in this phase of turmoil players who are financially prudent, have good execution capabilities and have good understanding of the markets where they are present will become stronger and gain market share at the expense of the unorganized and smaller players.

If we see the rolling 12-month sales of some of the listed players, we find that in general the sales bottomed around demonetization and have started picking after that. Also, if we see the data carefully we find that the sales for the selected group of companies has now started increasing every quarter year on year basis.

**Figure 1: Rolling 12-month sales of some listed players from real estate:**

	Q3 FY 2015	Q4 FY 2015	Q1 FY 2016	Q2 FY 2016	Q3 FY 2016	Q4 FY 2016	Q1 FY 2017	Q2 FY 2017	Q3 FY 2017	Q4 FY 2017	Q1 FY 2018	Q2 FY 2018	Q3 FY 2018	Q4 FY 2018	Q1 FY 2019	Q2 FY 2019	
<b>Moving average of 12 month sales in mn sq ft</b>																	
Prestige share of sales	6.04	6.45	5.21	4.07	4.05	4.25	4.27	4.22	3.87	3.07	2.94	2.77	3	3.82	4.24	4.77	
Sobha Sales	3.17	3.28	3.37	3.38	3.53	3.38	3.35	3.36	3.16	3	3.01	3.01	3.32	3.61	3.76	3.93	
Oberoi Sales	0.3	1.03	1.05	1.07	1.94	1.31	1.38	1.49	0.57	0.57	0.52	0.51	0.56	0.55	0.71	0.78	
<b>Total sales of portfolio companies</b>	<b>9.52</b>	<b>10.76</b>	<b>9.62</b>	<b>8.52</b>	<b>9.52</b>	<b>8.94</b>	<b>9</b>	<b>9.07</b>	<b>7.61</b>	<b>6.64</b>	<b>6.46</b>	<b>6.3</b>	<b>6.88</b>	<b>7.98</b>	<b>8.71</b>	<b>9.47</b>	
Kolte Patil Ltd	2.64	2.85	2.74	2.6	2.48	2.05	2.21	2.32	2.12	2.1	1.85	1.79	2.06	2	2.05	2.31	
Brigade Sales	2.69	2.8	2.94	2.85	2.47	2.25	2	1.87	1.73	1.63	1.57	1.35	1.51	1.57	1.68		
Godrej Properties	4.53	3.88	4.11	3.97	4.3	4.32	3.59	3.07	3.23	3.1	4.31	5.13	5.37	6.26	5.63	5.2	
Mahindra Life Spaces	1.17	1.38	1.52	1.62	1.26	1.16	1.16	1.08	0.97	0.91	0.92	0.89	1.02	1.1	1.12	1.3	
<b>Total sales of some of the listed companies</b>	<b>20.55</b>	<b>21.68</b>	<b>20.93</b>	<b>19.56</b>	<b>20.03</b>	<b>18.72</b>	<b>17.96</b>	<b>17.41</b>	<b>15.66</b>	<b>14.37</b>	<b>15.11</b>	<b>15.45</b>	<b>16.83</b>	<b>18.91</b>	<b>19.19</b>	<b>18.28</b>	
<b>YoY sales growth in 12 month moving average</b>																	
Prestige share of sales						-33%	-34%	-18%	4%	-4%	-28%	-31%	-34%	-22%	24%	44%	72%
Sobha Sales						11%	3%	0%	-1%	-10%	-11%	-10%	-10%	5%	20%	25%	30%
Oberoi Sales						539%	27%	31%	39%	-71%	-57%	-62%	-66%	-2%	-2%	38%	51%
<b>Total sales of portfolio companies</b>						<b>0%</b>	<b>-17%</b>	<b>-7%</b>	<b>6%</b>	<b>-20%</b>	<b>-26%</b>	<b>-28%</b>	<b>-31%</b>	<b>-10%</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>
Kolte Patil Ltd						-6%	-28%	-19%	-11%	-15%	2%	-16%	-23%	-3%	-5%	11%	29%
Brigade Sales						-8%	-20%	-32%	-34%	-30%	-28%	-22%	-28%	-13%	-4%	7%	
Godrej Properties						-5%	11%	-13%	-23%	-25%	-28%	20%	67%	66%	102%	31%	1%
Mahindra Life Spaces						8%	-16%	-24%	-33%	-23%	-22%	-21%	-18%	5%	21%	22%	46%
<b>Total sales of some of the listed companies</b>						<b>-3%</b>	<b>-14%</b>	<b>-14%</b>	<b>-11%</b>	<b>-22%</b>	<b>-23%</b>	<b>-16%</b>	<b>-11%</b>	<b>7%</b>	<b>32%</b>	<b>27%</b>	

Source of Data: Company presentations and Anand Rathi Securities

Note: The results of Brigade for Q2 FY 2019 is not released hence the Q2 FY2019 is no comparable.

The other point we need to understand is that the sales in the markets where these players are present are significantly below the peak sales in these markets. Hence, we can fairly say that these players are gaining market share in the places where they are present.

During the current market situation of tight liquidity, these larger players which have lower dependence on NBFC's for funding in comparison to the weaker players can better execute the projects in a timely manner and can expand the business by purchasing the land at good prices as many unorganized and smaller players are in tight liquidity situation and don't have money to complete even the ongoing projects. We expect this tight liquidity situation will hasten the process of consolidation in the industry.

We currently own three companies from real estate sector in our portfolio Oberoi Realty, Prestige Estates and Sobha realty.

Oberoi was chosen because of strong balance sheet, good brand image, established track record of good execution in Mumbai market, clarity of thought process and strategy in terms of customer segments they want to focus on, clean land titles and projects at good location. The reasons for which we bought them are still relevant and hence we continue to keep in the portfolio.

Sobha is a Bangalore based builder which is into residential segment and does selective construction of buildings for third parties, is backward integrated (depends on its internal team for construction and has factories for some of the raw material required in construction), has good brand image, diversified in terms of geography, has a good balance sheet and clarity of thought.

Prestige is also a Bangalore based builder which is into residential, commercial, retail and hotel properties. Prestige has good brand image in the local markets where they are present, diversified in terms of both product mix and geography and an aggressive management. Prestige among the three stocks in our portfolio has the highest leverage in terms of debt, largest unsold finished goods inventory and has huge capex commitment for the commercial, hotel and retail projects. Among the three players we need to monitor Prestige very closely for next few quarters. We want to see them reduce the leverage and unsold finished goods inventory. Also, for now we will not increase the weightage in Prestige from hereon.

All the three companies have different business models and geographical exposures which gives us a good diversification in real estate. The current exposure to real estate is approximately 11% of the portfolios.

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

1. Completely exited Inox leisure across the portfolios.
2. Added Oracle Financial Services and Kirloskar Oil Engines in all the portfolios.
3. Had tendered the shares of JB Chemicals in the buy back.
4. Increased weightage in Kirloskar Brothers, Hexaware, Oberoi, Sobha, DBCorp, Mayur Uniquoters and Indian Bank.

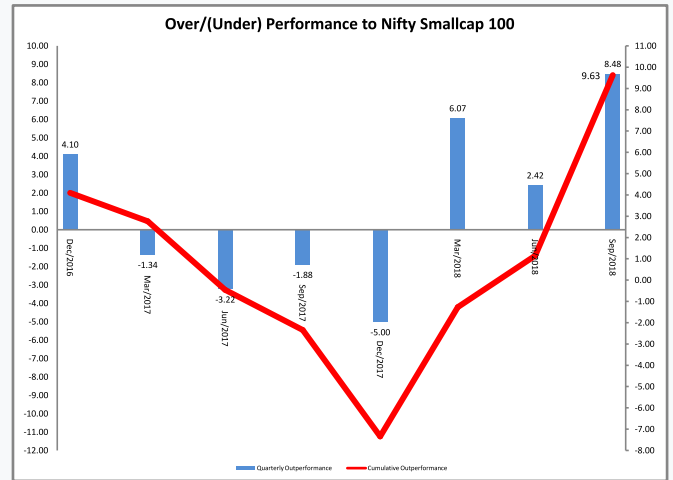
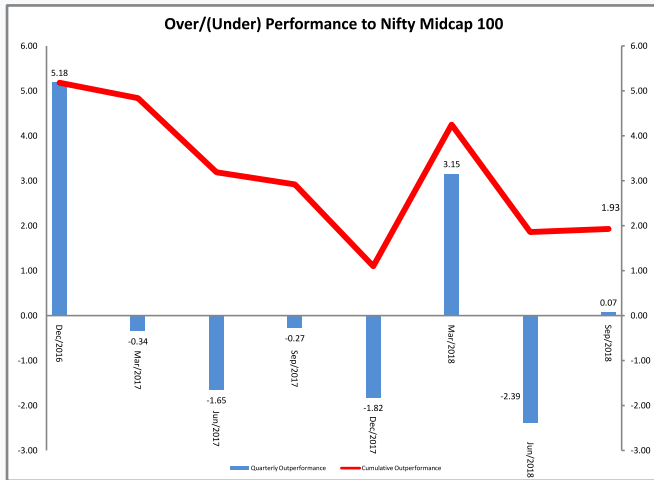
Finally, Happy Diwali to everyone and we wish you all have a great time with family and friends.

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 October 31st, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	5.50%
Aug/2016	Federal Bank Ltd	Banks	5.18%
Jan/2018	Indian Bank	Banks	4.60%
Mar/2018	Cummins India Ltd	Engineering	4.43%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	4.22%
Aug/2016	Oberoi Realty Ltd	Residential/Commercial/Sez Project	3.82%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.73%
Jan/2018	Vijaya Bank	Banks	3.70%
Aug/2016	Sobha Ltd	Residential/Commercial/Sez Project	3.66%
May/2017	MOIL Ltd	Industrial Minerals	3.55%
Sep/2016	Apar Industries Ltd	Power Equipment	3.48%
Apr/2017	Hexaware Technologies Ltd	Computers - Software	3.38%
Jul/2017	Mayur Uniquoters Ltd	Textiles	3.32%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.27%
Sep/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.18%
	<b>Total</b>		<b>59.02%</b>

## Model Portfolio Details

Portfolio Details as on October 31st, 2018	
Weighted average RoE	11.23%
Portfolio PE (1-year forward ) (Based on FY 20)	10.94
Portfolio dividend yield	1.16%

Portfolio Composition as on October 31st, 2018	
Large Cap	0.00%
Mid Cap	29.50%
Small Cap	56.25%
Cash	14.25%

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

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

The above holding represents top 15 holdings of DHFL Pramerica Phoenix Strategy based on all the client portfolios under DHFL Pramerica Phoenix Strategy 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 Phoenix Strategy Portfolio Performance as on October 31st, 2018

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
Period	Portfolio	Nifty Midcap 100	Nifty Smallcap 100
1 Month	1.47%	0.20 %	-1.44 %
3 Months	-7.14%	-8.94 %	-18.79 %
6 Months	-13.70%	-15.28 %	-27.74 %
1 Year	-7.54%	-12.20 %	-29.09 %
2 Years	6.12%	3.94 %	-3.42 %
Since inception date 01/08/2016	8.20%	6.96 %	-0.17 %
Portfolio Turnover Ratio*	36.98%		

\*Portfolio Turnover ratio for the period November 1st 2017 to October 31st, 2018

## Consolidated Portfolio CY Performance of DHFL Pramerica Phoenix Strategy

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
01/08/2016 to 31/12/2016	1.08	-2.85	-5.01
CY 2017	42.13	47.26	57.3
CY 2018 till Date	-15.15	-18.66	-33.33
01/08/2016 to 31/10/2018	8.20	6.96	-0.17

**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 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 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

**Disclaimers and risk factors:** DHFL Pramerica Asset Managers Private Limited (Erstwhile Pramerica Asset Managers Private Limited) is registered with SEBI as Portfolio Manager as Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993. This Document is for information purpose only. This Document and the Information do not constitute a distribution, an endorsement, an investment advice, an offer to buy or sell or the solicitation of an offer to buy or sell any securities/ schemes or any other financial products/investment products (collectively "Products") mentioned in this Document or an attempt to influence the opinion or behavior of the Investors/Recipients. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the agreement along with the related documents carefully before investing. Investments in Products are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Products will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors/ Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Products. Pramerica and Pramerica Financial are trade names used by Prudential Financial, Inc., (PFI) a company incorporated and with its principal place of business in the United States, and by its affiliated companies in select countries outside the United States. None of these companies are affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom. Pramerica, the Pramerica logo, and the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide.

**This document is strictly confidential and meant for private & restricted circulation only and should not at any point of time be construed to be an invitation for subscribing to DHFL Pramerica Deep Value Strategy and/or DHFL Pramerica Phoenix Strategy. The document is solely for the understanding of intended recipient and if you are not the intended recipient, you are hereby notified that any use, distribution, reproduction or any action taken or omitted to be taken in reliance upon the same is prohibited and may be unlawful.**

This document is dated November 06, 2018.

C97/2018-19