PORTFOLIO MANAGEMENT SERVICES

Newsletter: October 2018

DHFL Pramerica

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

Walking the talk

> **"It is remarkable how much long-term advantage people like us have gotten by trying to be constantly not stupid, instead of trying to be very intelligent" - Charlie Munger.**

Dear Investor,

In the investment management world, the toughest task is not to identify a good business to invest in. It is not to determine which stock is expensive and which one is not.

The toughest task, undoubtedly, is to stay calm and disciplined when either (a) there is panic all around, or (b) when there is too much exuberance around.

When there is panic, and the general sentiment is to stay away from stocks in general, the investor's task is to identify individual stocks or sectors that offer good opportunity because of such a panic and invest in them. And when there is too much exuberance, the investor's task is to stay away from the stocks carried up by such exuberance.

Now, when one stays away from a sector that is exorbitantly valued, such an investor would "underperform" as long as the exuberance lasts. Also, when one buys into an undervalued stock or sector, such an investment might "underperform" until the rest of the market agrees with this point of view.

Sometimes, "underperformance" is not necessarily a bad thing. If we "underperform" because we have stayed away from some sectors that are quoting at stratospheric valuations, we would venture to call that the right thing.

A fund manager is supposed to stay consistent to the mandate of the product that is being offered. This is the basic thing that the person who has signed up to invest with the product would expect. If the focus shifts, on the other hand, to "trying to outperform" at all points of time, then that would inevitably lead to dilution in the mandate of the product.

We have, right from the beginning, sold our PMS as a product that is "different", and not as a product that would maximize the returns at all points of time.

Having a different view on stocks or sectors, compared to what is currently popular or prevalent is an essential ingredient in investing.

> **"You are neither right nor wrong because the crowd disagrees with you; you are right because your data and reasoning are right" – Benjamin Graham**

It is essential that what is said by the investment manager is the same as what is done by him/her. We would like to point out that we have been faithful to what we said we would do.

Our PMS performance since mid-2017

Our style, we would like to suggest, tends to underperform in extremely skewed market conditions, when one sector does extremely well in terms of stock price movement (at the expense of almost all others).

We witnessed this phenomenon in the mid and small cap space in 2017 (until February 2018), and also in the financial sector (especially NBFCs and HFCs) until recently.

Let us clarify that there is nothing wrong with mid-cap stocks per se. It is just that the valuations of several mid-cap stocks went much beyond average levels in 2017 and the earlier part of 2018, and this led to the popular belief that such a phenomenon would continue forever. The same thing happened in NBFCs and HFCs.

Issue	What we said	What we did
Mid and small cap valuations	In our December 2017 newsletter, we had written "we have stayed away from the sectors that we believe are overhyped, because it is in this product's mandate to do so"	We had, in August 2017, a weight of 38.5% in Large-cap category, which we increased to 47% in August 2018.
NBFC and HFC sector valuations	In our February 2018 and August 2018 newsletters, we had expressed concerns about the rising NPAs across slabs of housing loans, and the expensive range of valuations of stocks in these sectors.	For the whole of the past year, our exposure to NBFCs and HFC sectors has been ZERO
A strong company that is going through temporary difficulty is when we will buy into it (explained in various forums)	The portfolio strategy is to buy the share of a company when it is not very popular (mentioned in the PMS Agreement)	Overweight position in IT in Aug/Sep 2017 (at the peak of the pessimism against the sector) and in pharma companies in early 2018.

Dear investor, our mandate is to buy stocks of companies when they are not very popular. This is measured in terms of their valuations being lower than averages, or lower than their estimated sustainable rate of earnings growth.

Now, when we buy them when they are not popular (because that's when they are available at reasonable prices), we have to wait until they get popular (that is when their share prices will rise). This is not going to happen immediately after we buy the shares. But as investors, we can sleep soundly that every single company that we buy has a strong balance sheet, and has not lost its ability to compete in the market place. Our portfolio's characteristics suggest just that:

- The average age of companies in the portfolio is 55 years
- The average Return on Capital Employed of the portfolio is 26.5%
- The average dividend yield is 1.58%
- The Average PE Multiple (1-year forward) is 16.34 times
- Every single company in the portfolio is either No.1 or No.2 in its respective field.

We are not aware of any other investment product that has so transparently communicated its intentions.

The stock market's nature is to fluctuate. It has always done so, and will continue to do so. Fluctuations cause panic only if the investor has purchased shares of companies without understanding the strength of the company, its ability to compete, or purchased it at exorbitantly high valuations. Else, fluctuations provide entry and exit opportunities for the discerning investor.

India's long-term stock market returns have been in line with the nominal GDP growth in the country. Sometimes, the stock market gives returns well in excess of this trajectory, and sometimes go well below this trajectory. We believe that it is our duty to temper our expectations at such times, and remind ourselves of this fact again when pessimism hits the market.

As long as the investment is done in a logical and disciplined manner, we are confident that India offers good investment opportunities for investors to make decent money. But no country in the world will satisfy any investor whose expectations keep rising in proportion to the rise in the stock prices themselves.

Warm regards,

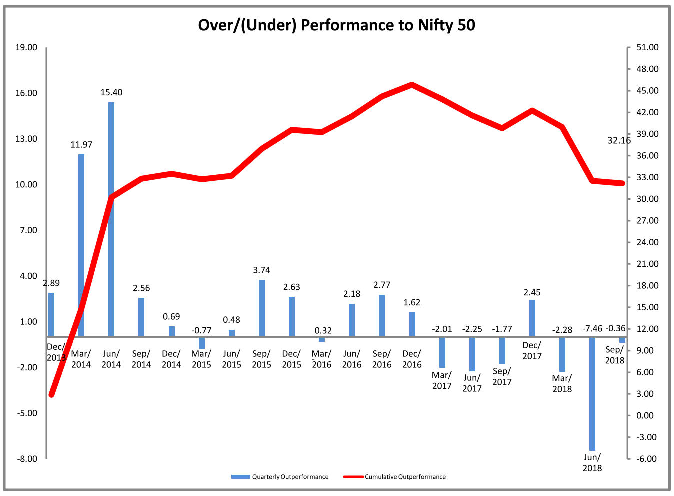
Yours Sincerely,

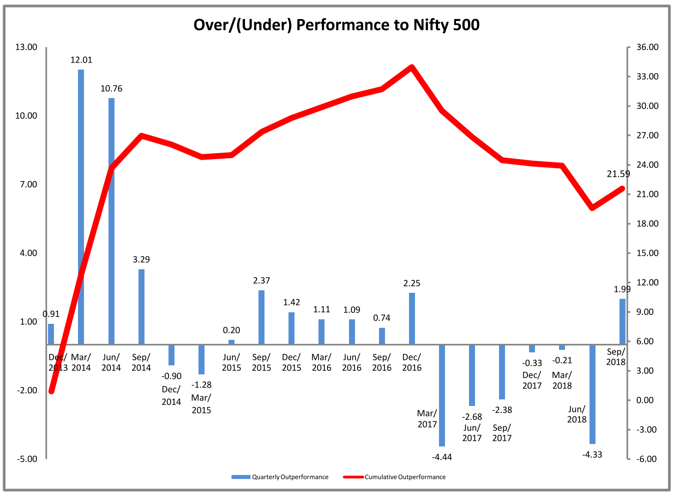
(E A Sundaram)

Portfolio Manager

28th September 2018.

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 September 28th, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.05%
Jun/2015	ITC Ltd	FMCG	5.25%
Jul/2013	Container Corporation of India Ltd	Logistics	4.66%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.16%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	3.95%
May/2014	Infosys Ltd	IT Services	3.76%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.72%
Oct/2017	Power Grid Corporation Of India Ltd	POWER-TRANSMISSION	3.64%
Aug/2013	Cummins India Ltd	Engineering	3.64%
Feb/2018	Multi Commodity Exchange Of India Ltd	OTHER FINANCIAL SERVICES	3.45%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.36%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	3.28%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.26%
Aug/2013	Great Eastern Shipping Co Ltd	Shipping	3.22%
Jul/2013	Bosch Ltd	Auto Ancillaries	3.19%
	Total		**58.59%**

Model Portfolio Details

Portfolio Details as on September 28th, 2018	
Weighted average RoCE	26.53%
Portfolio PE (1-year forward) (Based on FY 20)	16.34
Portfolio dividend yield	1.58%
Average age of companies	55 Years

Portfolio Composition as on September 28th, 2018	
Large Cap	47.75%
Mid Cap	27.50%
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 September 28th, 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 September 28th, 2018

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on September 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 September 28th, 2018

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-6.39%	-6.88 %	-8.71 %
3 Months	2.86%	3.22 %	0.87 %
6 Months	-0.08%	8.08 %	2.29 %
1 Year	4.76%	11.89 %	6.53 %
2 Years	6.73%	11.81 %	10.15 %
3 Years	11.19%	11.92 %	11.79 %
5 Years	21.80%	13.38 %	15.39 %
Since inception date 08/07/2013	21.49%	12.64 %	14.29 %
Portfolio Turnover Ratio*	25.71%		

*Portfolio Turnover ratio for the period 1st October 2017 to 28th September 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
01-01-2014 to 31-12-2014	77.24	31.39	37.82
01-01-2015 to 31-12-2015	2.48	-4.06	-0.72
01-01-2016 to 31-12-2016	8.90	3.01	3.84
01-01-2017 to 29-12-2017	24.56	28.65	35.91
01-01-2018 to 28-09-2018 CYTD	-5.95	3.80	-3.95
08-07-2013 to 28-09-2018	21.49	12.64	14.29

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

October 1, 2018

Dear Investor,

The weightage of financials is the highest in Nifty 50 in its history. The weightage has increased from 12.78% in Dec 2007 to 38.44% as of May 2018. Financials is an important part of an economy which we agree too but we need to ask a question that has it become so important in a decade that it is now nearing 40% of the index weightage? We also don't buy into the hypothesis that the intensity of competition has reduced in the financial industry because of PSU banks put under PCA (Prompt Corrective Action). On the contrary we find number of banks, HFC's and NBFC's have come up in last 10 years with sizable asset size and everybody is vying for the same retail consumer, agriculture and SME sector. PCA banks are competing for CA and SA deposits and are also allowed to do retail and agriculture lending, the places they have been vacating are corporate and SME sectors. Because of heightened intensity of competition, we expect the NIM's to reduce for the industry over a period. We need to remember that several new licenses in the financial industry have been given in last decade and this would increase the competition in the industry. The impact of this is not yet clearly visible but eventually we will see the impact. Secondly a lot of these institutions loan books are not seasoned, and they depend heavily on funding from financial institutions. In a rising rate scenario and tight liquidity scenario there can be downside risks in the valuation of these institutions. Hence we are wary of buying the shares of these institution at an expensive valuation. August, 2018 Phoenix newsletter.

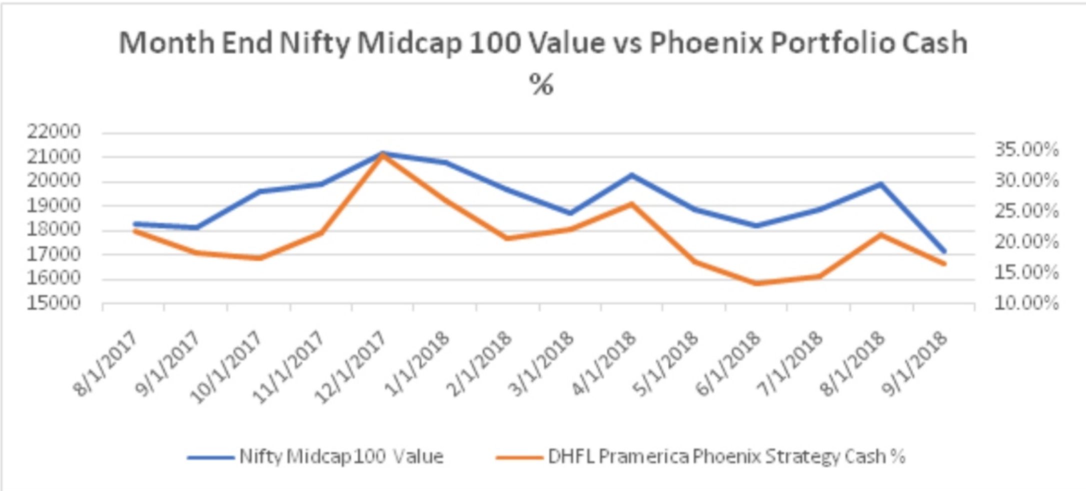
In the past few months we had been highlighting the risks which were present in the financial sector (for reference go through the newsletter of September 2018, August 2018 and February 2018).Finally, the risks are playing out in the markets and the stocks of financial services have started to fall. We remain worried about the impact of tight liquidity, higher interest ratesand the fall in credit underwriting standards in many financial institutionsover the years to show better grow. The way we expected the cycle to play out was in initial phase the credit risks to become visible with fall in NIMs (Net Interest Margin) resulting in some sort of panic followed by a tighter liquidity for many financial players in the market. The liquidity has tightened and there has been a sharp correction in the prices of financial stocks in past few months, but the credit event we feared has not yet played out. We have chosen to stay away from adding any new name in the financial space. There are two reasons for it: - One we still believe there is a risk of some credit event happening in the coming few months leading to another round of liquidity tightening and some form of domino impact and secondly the valuations of the financial institutions we want to own are yet not cheap.

We have four banks in the portfolio, two are PSU banks (Indian Bank and Vijaya Bank) and the other two are private sector banks (DCB and Federal Bank). The stock prices of these banks have also fallen in the past few months. We have chosen to stay with these banks and added more shares in the fall.We like them because they have good business models, are deposit taking financial institution which will be less impacted by the tight liquidity situation and are available at below the fair values. (For detailed discussion on why we chose these banks please refer February 2018 and July 2018 newsletter).

Portfolio stance: -

As number of stocks in midcaps have fallen over a period of last few months. We are having a good look at all the stocks in the portfolio and evaluating the new opportunities where the upside can be more than stocks we hold in the portfolio.

We continue to maintain 16%cash in the portfolios at September 2018 end it was 21% at August 2018 end.We have maintained the discipline of holding on to cash if there is lack of ideas to invest in the market. We have struck to the adage of being fearful when others are greedy and being greedy when others are fearful.

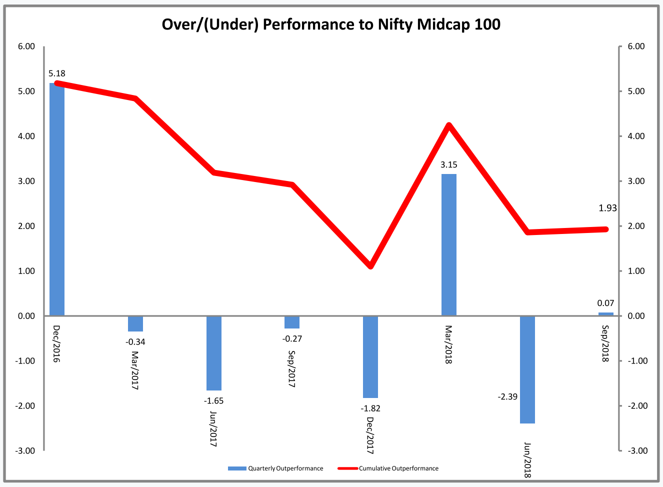


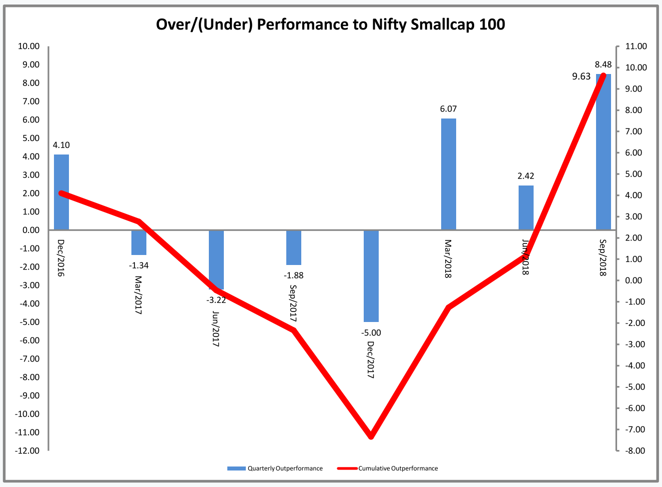
Note:- The above chart is only for reference purpose to illustrate that when the midcap space was at very high valuations and not many good ideas were there to invest we kept on having cash and looking for good ideas. As the markets have become cheaper and more ideas are available we have increased the investments resulting in less cash.

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 September 28th, 2018

Date of Purchase	Equity	Sector	%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	5.14%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.62%
Aug/2016	Federal Bank Ltd	Banks	4.49%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	4.34%
Jan/2018	Vijaya Bank	Banks	4.00%
Mar/2018	Cummins India Ltd	Engineering	3.86%
Sep/2016	Apar Industries Ltd	Power Equipment	3.78%
Jan/2018	Indian Bank	Banks	3.63%
Aug/2016	Prestige Estates Projects Ltd	Residential/ Commercial/Sez Project	3.46%
Jan/2018	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.43%
May/2017	MOIL Ltd	Industrial Minerals	3.35%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.16%
Aug/2016	Sobha Ltd	Residential/ Commercial/Sez Project	3.11%
Jan/2017	Simran Wind Project Limited	Engineering-Designing-Construction	3.11%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	2.97%
	Total		**56.45%**

Model Portfolio Details

Portfolio Details as on September 28th, 2018	
Weighted average RoE	11.11%
Portfolio PE (1-year forward) (Based on FY 20)	9.96
Portfolio dividend yield	1.25%

Portfolio Composition as on September 28th, 2018	
Large Cap	2.50%
Mid Cap	25.25%
Small Cap	56.25%
Cash	16.00%

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

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on September 28th, 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 September 28th, 2018

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
1 Month	-8.99%	-13.00 %	-19.04 %
3 Months	-3.80%	-3.87 %	-12.28 %
6 Months	-9.97%	-8.54 %	-21.06 %
1 Year	-1.12%	-4.39 %	-17.77 %
2 Years	7.14%	4.55 %	-1.70 %
Since inception date 01/08/2016	8.61%	7.16 %	0.49 %
Portfolio Turnover Ratio*	33.24%		

*Portfolio Turnover ratio for the period 1st October 2017 to 28th September 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
01/01/2017 to 31/12/2017	42.13	47.26	57.3
01/01/2018 to 28/09/2018 CYTD	-15.22	-18.83	-32.36
01/08/2016 to 28/09/2018	8.61	7.16	0.49

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 October 05, 2018. **C83/2018-19**