PORTFOLIO MANAGEMENT SERVICES

Newsletter: September 2018

DHFL Pramerica

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

Consistency and Transparency

Dear Investor,

Two traits that a manager of money should exhibit towards the person who has invested the money are - (a) consistency of approach and (b) transparency of dealing.

Transparency ensures that the investor knows what he/she is getting; and Consistency of approach ensures that he/she is indeed getting what was agreed upon.

It is towards this end that we had incorporated the following clauses in the DHFL Pramerica Deep Value PMS agreement. We believe that this practice is unique in the PMS industry:

- *The focus is **NOT** to try and maximize the returns at all point of time. We believe that if the focus of the fund manager shifts to "maximizing the returns", that would eventually lead to the dilution of the quality of the companies in the portfolio.*
- *The portfolio strategy is to buy the share of a company when it is not very popular. This strategy, we believe, increases the chances of buying the asset cheaper. However, an unpopular share need not turn popular immediately. But if the company is of good quality and we believe the unpopular phase is temporary, then the market will reward the share in the medium to long term. The client needs to be aware that only the part of his/her wealth that he/she does not immediately need, should be invested in this product.*
- *The client is advised that under this investment strategy, there will be times when the portfolio outperforms the benchmark index, and there will be times when the portfolio underperforms the Index. However, it is our expectation that given a reasonably long period of time (3-4 years), the portfolio will do well, considering that, to the best of our knowledge and judgement, the quality of the companies in the portfolio is above average.*
- *Implicit behind the construction of the portfolio are these beliefs:*
  - *Stock market will over a period of time, reflect the performance of the underlying company, **but not always**.*
  - *The share price of a company that displays efficiency in deploying its own capital, will, over a period of time, give superior returns compared to another company whose capital efficiency is inferior, **but this will not happen at all points of time**.*
  - *It is better to have a lumpy (albeit overall higher) return from equity investments compared to a smooth (albeit overall lower) return.*
- *If the client does not subscribe to these beliefs, it is likely that he/she will not be satisfied with this product.*

Having committed transparently to this approach, we have to unwaveringly stick to this approach. Which is what we have done.

- Every single company in the portfolio is either No.1 or No. 2 in its respective field
- The average age of companies in the portfolio is 54 years.
- The weighted average Return on Capital for the portfolio is 27.4%
- Portfolio dividend yield is 1.44%
- Portfolio PE is 18 times (based on estimated earnings for FY 2020) - Estimates from Bloomberg.

A feature of our portfolio is that we buy almost all companies in three or four tranches. This is because we do not buy when the share is popular. We indeed prefer to buy when the share is unpopular. A staggering of purchases enables us to spread out the price risk, and also enables us to accumulate a decent quantity when prices are reasonable.

Buying a strong company when it is unpopular makes perfect sense for us, because

(a) Strong companies which efficiently use their capital tend to do better in the stock market, and

(b) A temporary unpopularity gives us the chance to buy the share less expensively, which increases the chances of longer-term success in the investment.

As examples, we can quote the following:

- We bought Abbott in mid-2017. The stock did not move until Oct 2017; since then it has doubled in price;
- We began to buy Sanofi India in April 2016. The stock did not move much till Sep 2017. After that it has returned 61%
- We built a large position in Infosys in Aug-Sep 2017, when there was a cloud of uncertainty and questions about the various issues in the company. The stock has since appreciated by about 50%.
- More recently, our investment in Bosch, which remained flat for almost a year, went up by 27% in the past two months.

We don't claim that this is the best, or only way in which one should invest. But it is definitely a good way, and from the point of view of the investor it makes a lot of sense, given the strength of the companies in the portfolio, and the low level of overlap that this portfolio has with a majority of competing products.

Warm regards,

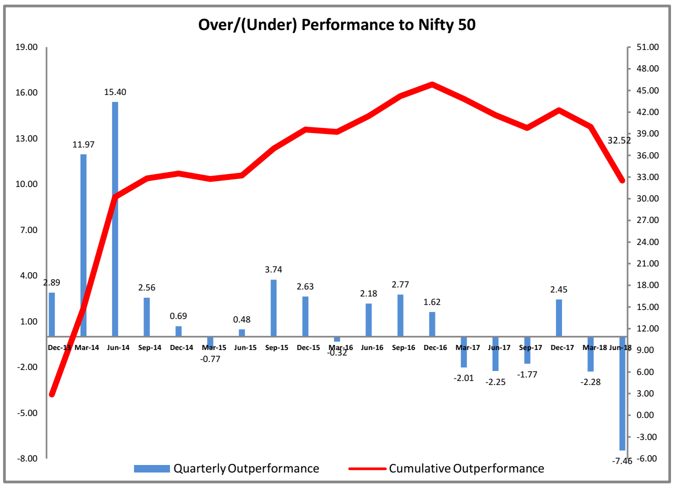
Yours Sincerely,

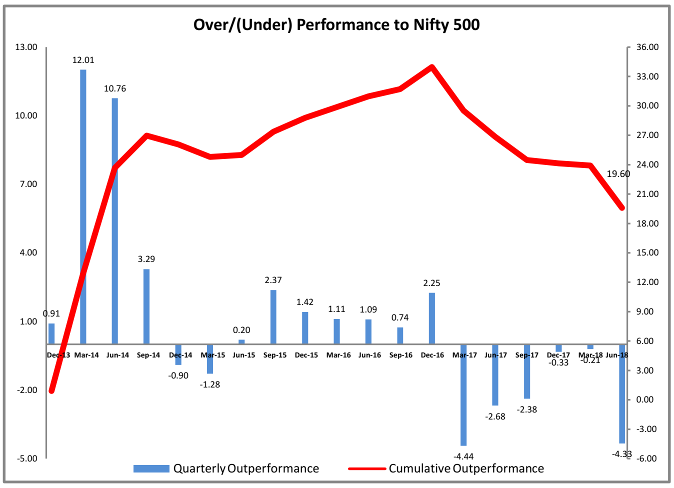
(E A Sundaram)

Portfolio Manager.

The above stocks does not represent model portfolio being offered to client (including prospective client) hence it is possible that these portfolio may not be part of portfolios constructed for new client. The above holdings are for illustrative purpose only & should not be considered as investment recommendation or analysis or advice or opinion from portfolio manager on the above mentioned stock.

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 August 31st, 2018

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.44%
Jun/2015	ITC Ltd	FMCG	5.12%
Jul/2013	Container Corporation of India Ltd	Logistics	4.41%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.30%
Feb/2018	Multi Commodity Exchange Of India Ltd	OTHER FINANCIAL SERVICES	3.85%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.84%
Aug/2013	Cummins India Ltd	Engineering	3.81%
May/2014	Infosys Ltd	IT Services	3.53%
Oct/2017	Power Grid Corporation Of India Ltd	POWER-TRANSMISSION	3.46%
Mar/2015	Castrol India Ltd	Lubricants / oils	3.45%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.41%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.41%
Jul/2013	Bosch Ltd	Auto Ancillaries	3.26%
Jul/2014	Oil & Natural Gas Corporation Ltd	Oil Exploration	3.18%
Apr/2016	Sanofi India Ltd	Pharmaceuticals	3.15%
	Total		**58.62%**

Model Portfolio Details

Portfolio Details as on August 31st, 2018	
Weighted average RoCE	27.44%
Portfolio PE (1-year forward) (Based on FY 20)	18.35
Portfolio dividend yield	1.43%
Average age of companies	54 Years

Portfolio Composition as on August 31st, 2018	
Large Cap	46.75%
Mid Cap	29.75%
Small Cap	14.00%
Cash	9.50%

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

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

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	3.58%	2.85 %	3.54 %
3 Months	5.81%	8.80 %	7.26 %
6 Months	3.87%	11.32 %	7.88 %
1 Year	12.83%	17.77 %	14.92 %
2 Years	11.32%	15.31 %	15.51 %
3 Years	13.13%	13.58 %	14.42 %
5 Years	25.13%	16.37%	19.06%
Since inception date 08/07/2013	23.88%	14.30 %	16.57 %
Portfolio Turnover Ratio*	25.84%		

*Portfolio Turnover ratio for the period 1st September 2017 to 31st August 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 month's newsletter we will share our thoughts on how we are seeing the risks in the markets and building the portfolio after looking at these risks.

"Based on my own personal experience – both as an investor in recent years and an expert witness in years past – rarely do more than three or four variables really count. Everything else is noise." -- *Martin Whitman*

As an analyst we analyze four important factors namely Management, Business, Financial and Valuation when purchasing shares of a company and most of the risks emanate from these four areas.

Management: - In case of management we want to see the management is competent to run the business in difficult times, has hunger to grow it in a cautious, sustainable and profitable manner and finally, the management should have a track record of sharing the profits with minority shareholders on a consistent basis. In our portfolio most companies have been paying dividends consistently (only INOX Leisure is there which has not paid dividends) or have bought back the shares and managements have run businesses for pretty long period of time. On the management front in the portfolio companies we have less worries.

Business: - In case of business the three factors we need to look for are sustainability of the business opportunity, business model and business environment(or macroeconomic scenario). All companies in the portfolio have profitable business and have been long in the business, so the risk is not on the business opportunity or business models. The risk is external business environment.

"No one has the right to not assume that the business cycle will turn! Every five years or so, you have got to assume that something bad will happen." -- *Jamie Dimon, chairman and CEO of JP Morgan Chase*

What keeps us worried is the business environment turning bad in near future. Over the last few years the developed economies did have loose monetary policy to prop growth in their own economies. But today money is fungible and keeps on moving from one country to other. Hence, in past few years a lot of money has moved from the Developed markets to the emerging markets in search for better returns. Now the interest rates have started rising in the developed markets and money has started moving back to the Developed markets from Emerging Markets. It is leading to some deleveraging in few of the Emerging Markets, and their currencies depreciating. The faster the currencies of Emerging markets depreciate, the quicker their deleveraging needs to happen to repay the dollar denominated loans and leading to inflation being high in local currency terms which then leads to higher interest rates and slowdown at some point of time in these economies. In the worst case it can spread across many Emerging Markets leading to slowdown in the global economy. The other thing which we need to remember is with global debt at very high levels whenever deleveraging happens in future it will be a deflationary scenario and can lead to sharp fall in the asset prices. In our view, deflationary economic scenario is more dangerous scenario for long term equity investors than an inflationary scenario.

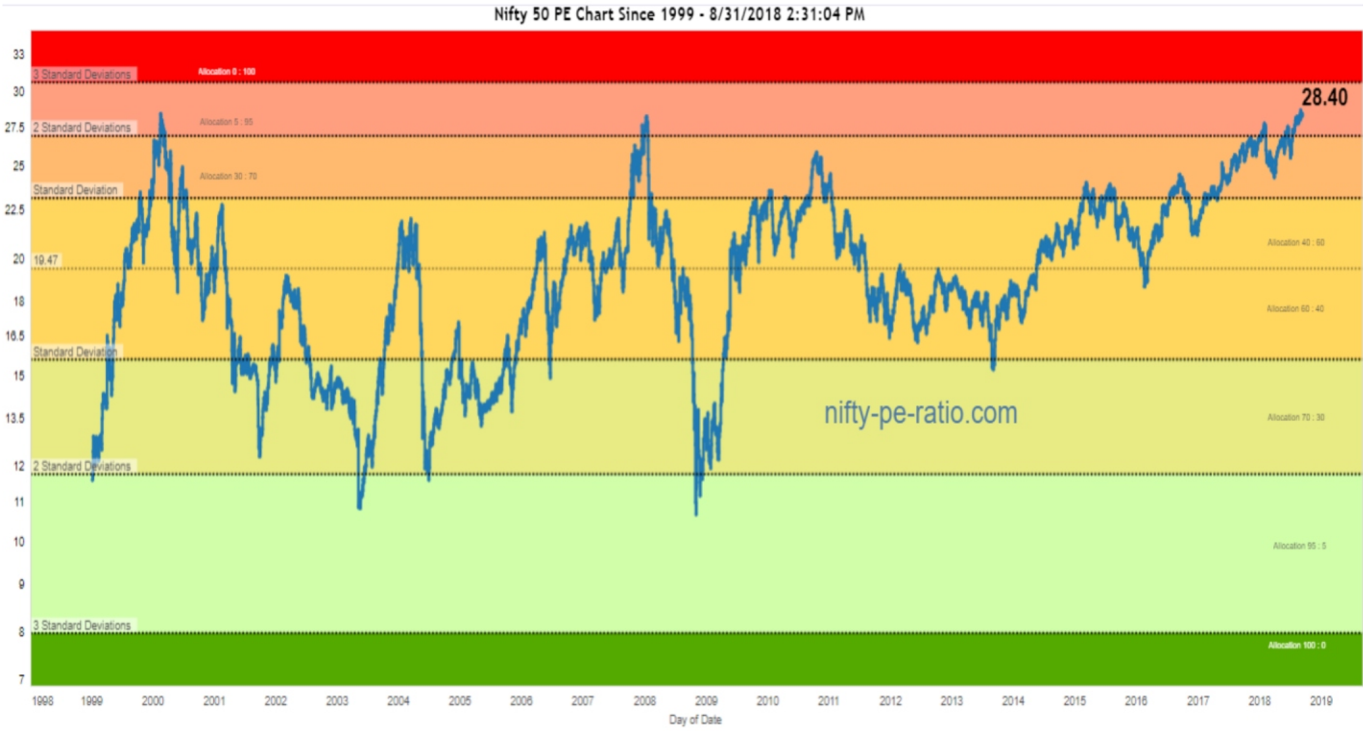
On the domestic economy we remain worried on the consumer facing financial institutions which depend heavily on wholesale markets for funding and have been aggressively giving loans both secured and unsecured. In the increasing interest rates scenario, we need to see how these organizations will manage the business and many of these organizations have developed the business model only in last few years, so the asset books are not very seasoned.

Credit is the life blood in the economy of today's society. Analyzing the way movement in credit can warn you in advance of the impending crisis in an economy in our view and hence we have been spending disproportionate amount of our time in newsletters on the financial sector.

The way we have tried to minimize the risk of poor business outlook is by having a diversified portfolio of stocks from various sectors and not being too bullish on anyone sector. Also we have been very careful in choosing the stocks to invest in financial sector.

Financial: -Equity is a fine ray of hope between the assets and the fixed liabilities (debt) of a company. As the value of assets fall the ray of hope starts dimming.(The reason why we stated earlier in the newsletter that deflation is more dangerous scenario for equity investors) In our portfolio we have tried to avoid companies with high leverage else than in financials. The companies which do have leverage on their balance sheet are Sobha, Prestige Estates, GESCO, ONGC, Himatsingka Seide, Pokarna and Kirloskar Brothers. These 7stocks are nearly 22.58% of the portfolio composition.

Valuations: - At this juncture valuations are expensive across most of the market segments. With large caps reaching all time high valuations we believe it is time to remain cautious.



Source of Data:- https://nifty-pe-ratio.com/

We have tried to minimize the valuation risk by not buying companies with high valuations and wherever we have found the valuations have reached high levels we have booked profits. Also, we continue to maintain decent levels of cash across our portfolios. The average cash across all our portfolios has been 19% as of 31st August, 2018. Finally, we need to remember what Benjamin Graham wrote, “Although there are good and bad companies, there is no such thing as a good stock; there are only good stock prices, which come and go.” We are waiting patiently with this cash for good stock prices to come. The Weighted Average PE of Phoenix Strategy is 13.29 for FY 2019.

In a nutshell we have maintained a cautious view on the market since the beginning of the year for two reason one is the risk of business environment turning bad in near future and the valuations being very high in comparison to history for both the markets and companies.

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

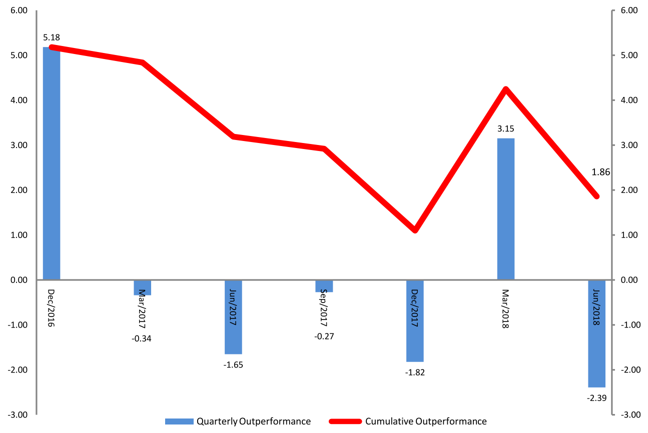
1. We have sold Greaves Cotton across all the portfolios as the stock prices had reached our calculated fair value .
2. We have added back Hexaware Technologies to all the portfolios as the stock had sharply corrected.

Yours Sincerely,

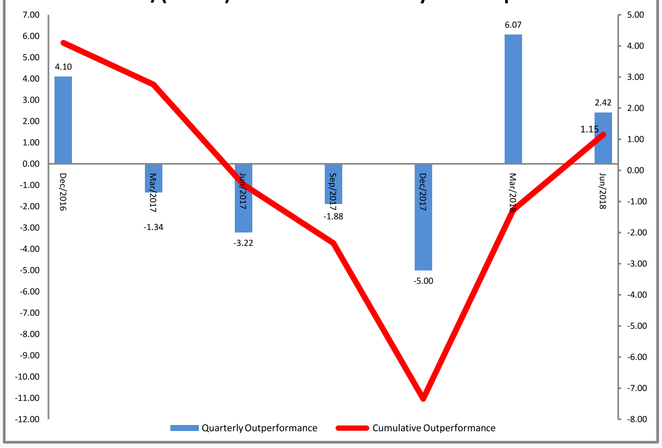
(**Himanshu Upadhyay)**
Portfolio Manager

DHFL PRAMERICA PHOENIX STRATEGY
KEY PORTFOLIO PERFORMANCE INDICATORS

Over/(Under) Performance to Nifty Midcap 100



Over/(Under) Performance to Nifty Smallcap 100



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

Date of Purchase	Equity	Sector	%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.80%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.77%
Jan/2018	Vijaya Bank	Banks	4.70%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	4.04%
Mar/2018	Cummins India Ltd	Engineering	3.88%
Aug/2016	Federal Bank Ltd	Banks	3.82%
Jan/2018	Indian Bank	Banks	3.70%
Feb/2017	Sanofi India Ltd	Pharmaceuticals	3.35%
Sep/2016	Apar Industries Ltd	Power Equipment	3.14%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.08%
Aug/2016	Prestige Estates Projects Ltd	Residential/Commercial/ Sez Project	3.06%
Jan/2018	Oil & Natural Gas Corporation Ltd	Oil Exploration	2.89%
May/2017	MOIL Ltd	Industrial Minerals	2.88%
Dec/2017	Himatsingka Seide Ltd	Fabrics And Garments	2.88%
Jan/2017	Simran Wind Project Limited	Engineering-Designing-Construction	2.86%
	Total		**53.85%**

Model Portfolio Details

Portfolio Details as on August 31st, 2018	
Weighted average RoE	9.56%
Portfolio PE (1-year forward) (Based on FY 20)	10.95
Portfolio dividend yield	1.11%

Portfolio Composition as on August 31st, 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 August 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 August 31st, 2018

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

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

Period	Portfolio	Nifty Midcap 100	Nifty Smallcap 100
1 Month	2.79%	5.53 %	2.72 %
3 Months	1.20%	5.38 %	-2.05 %
6 Months	-3.45%	1.30 %	-8.23 %
1 Year	9.65%	8.99 %	-1.03 %
2 Years	15.12%	13.85 %	11.48 %
Since inception date 01/08/2016	15.24%	15.43 %	11.73 %
Portfolio Turnover Ratio*	37.06%		

*Portfolio Turnover ratio for the period 1st September 2017 to 31st August 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 September 07, 2018. **C69/2018-19**