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Stable core.
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PGIM INDIA
CORE EQUITY PORTFOLIO STRATEGY

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From the desk of the Portfolio Manager for PGIM India Core Equity Portfolio Strategy

Dear Investor,

In this newsletter we wish to discuss some thoughts of a few important writers and thinkers who have played an important role in our thinking of risks, management of risks and how it influences various facets of our investment process and approach to portfolio building. A question which can come up is why we need to discuss risks and not some other facets of our investment process; in our opinion and process of investment; avoidance of risk of permanent impairment of capital is the primary responsibility in managing of funds. Risk management cannot be bifurcated from generating long-term returns.

> **The essence of investment management is the management of risks, not the management of returns.**
> ***— Benjamin Graham***

We understand that the money which our clients have given us, with trust on us, is important for their future well-being. Hence, we remain extremely vigilant about the risks we take in the portfolio and remain conscious of the fact that we don't take any large position where there is serious risk of permanent impairment of capital. From our observation the main areas where risk of capital emanates are by buying companies with poor corporate governance, high debt, over paying for the future potential growth and companies having weak business models or competitive positions.

> **If you incur a tiny probability of ruin as a "one-off" risk, survive it, then do it again (another "one-off" deal), you will eventually go bust with a probability of one hundred percent. Confusion arises because it may seem that if the "one-off" risk is reasonable, then an additional one is also reasonable. This can be quantified by recognizing that the probability of ruin approaches 1 as the number of exposures to individually small risks, say one in ten thousand, increases.**
> ***— Skin in the Game Nassim Nicholas Taleb.***

There have been times when clients have come up and told that we should not be too dogmatic about quality, valuation, play momentum and have higher concentration in the portfolio. But our opinion is if we start taking a risk of capital loss in a company that may not happen in the first time but if we keep on playing the same game again and again, eventually at some point of time the risks will materialize and can result in significant erosion of the capital. It is something like what is happening in the finance industry today in India where management of some of the financial institutions kept on taking larger and larger risks while giving loans; as those loans were higher yielding and hence were higher margin business and everybody kept on growing the proportion of these high risk loans as it seemed more profitable and market was also rewarding these institutions but eventually the tide turned and liquidity dried up for such financial institutions leading to some shutting down. The cycle will again reverse and good time for financial institutions will come but if you don't survive the downturn, then what good can be the eventual upturn for you? In a nutshell long term investing is first about surviving the long term waiting patiently for your turn to get bargain opportunities which will create long term wealth.

> **Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get.' Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.**
> ***— Warren E Buffett***

Why do we have diversified portfolio and not very concentrated positions in the portfolio?

There are multiple reasons for not having too concentrated portfolios both in terms of stocks, themes and sectors. The future is uncertain - whatever we do can and will get it wrong at times. Sometimes it may happen that the story took longer to pan than we estimated or we made a mistake in understanding the business, or the business environment deteriorated after we purchased the stock, or something happened which was completely unthought of. For example we have been holding Container Corporation and Indraprastha Gas in the portfolio which have equally good business models, high moats in the business but the returns have been much better in the case of IGL. Another example is Great Eastern Shipping where it is taking far more time for the up cycle than we thought of. Had it been an extremely high weightage stock in the portfolio, it would have given an extreme pain. Third

example is we bought Sanofi and Abbott simultaneously in the portfolio, both looked equally good at the time of investment but we made much higher returns in Abbott than Sanofi. These things have happened in past the equity market is uncertain and hence diversification as a part of risk mitigation strategy is important.

> **That's what diversification is for. It's an explicit recognition of ignorance. And I view diversification not only as a survival strategy but as an aggressive strategy, because the next windfall might come from a surprising place. I want to make sure I'm exposed to it.**
>
> ***— Peter Bernstein***

In last few months we have booked profits on some of our stocks which had risen quite sharply like MCX, Indraprastha Gas Limited, PI Industries, Divis etc and a question which has been asked many times "Why do we sell or reduce our positions when a stock is moving up?". The thought is weightage of the same company when bought at 10 times PE cannot be the same as at 20 times PE. In our experience when valuations are high the risk of any negative event could be enormous. For example two years back we had Infosys whose weightage was nearly 6% in the portfolio and we have been continuously trimming down the position as the stock valuation has moved up. Had we not trimmed the position its weightage would have been nearing double digits and after the whistle blower complaint when the stock tanked would have led to substantial erosion of portfolio returns. One thing of which we can be sure in life is that things will go wrong sooner or later and we need to continuously prepare ourselves in a manner that the impact of it is minimum on our portfolio. Also in case of cyclical businesses we need to remember that PE will also mean revert and sometimes very quickly.

> **The riskiest moment is when you're right. That's when you're in the most trouble, because you tend to overstay the good decisions. Once you've been right for long enough, you don't even consider reducing your winning positions. They feel so good, you can't even face that. As incredible as it sounds, that makes you comfortable with not being diversified. So, in many ways, it's better not to be so right.**
>
> ***— Peter Bernstein***

> **Can you manage yourself in a bubble, and can you manage yourself on the other side? It's very easy to say yes when you haven't been there. But it's very hot in that oven. And can you save your ego, as well as your wealth? I think I might have just said something important. Your wealth is like your children — the primary link between your present and the future. You should try to think about it in the same way. You want your children to have freedom but you also want them to be good people who can take care of themselves. You don't want to blow it, because you don't get a second chance. When you invest, it's not your wealth today, but it's your future that you're really managing.**
>
> ***— Peter Bernstein***

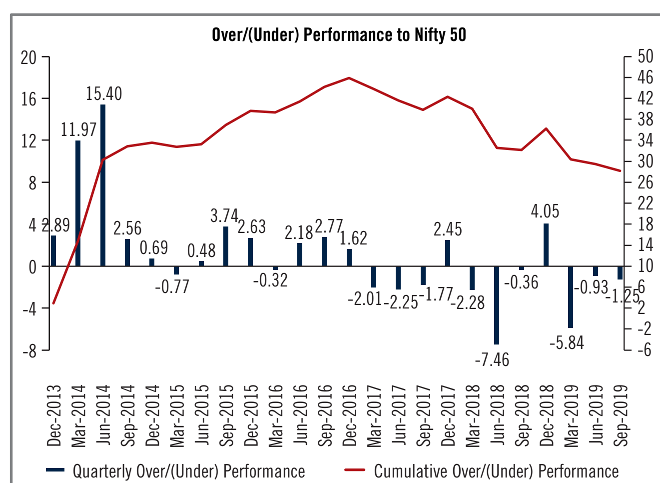
What are our thoughts about bubbles and overvaluations and how do we plan to manage the risks of it? Based on our historical experience and readings of history in most markets (commodities, real estate, equities, etc.) often times come when the price of the asset looses any relationship with the uncertain future earnings power of the asset. For example the bubble in commodity in 2005 to 2007 when investors were ready to pay for steel plants, power plants, etc. even before the construction work had begun and with an underlying assumption that margins will remain the same as they were at that point of time. What really happened in future was the prices of commodities collapsed and most plants got delayed or stuck at some approval stage or got some mining leases got cancelled and are bankrupt today. Another case is of generic pharmaceutical companies in 2013 to 2015. A large majority of generic pharma companies were trading at an extremely high valuations with an inherent assumption that the demand for pharmaceuticals will keep on increasing, hence these companies will keep on growing, and neglecting the fact that it was a highly regulated sector, with intense competition and prone to scientific innovations which made the future highly uncertain.

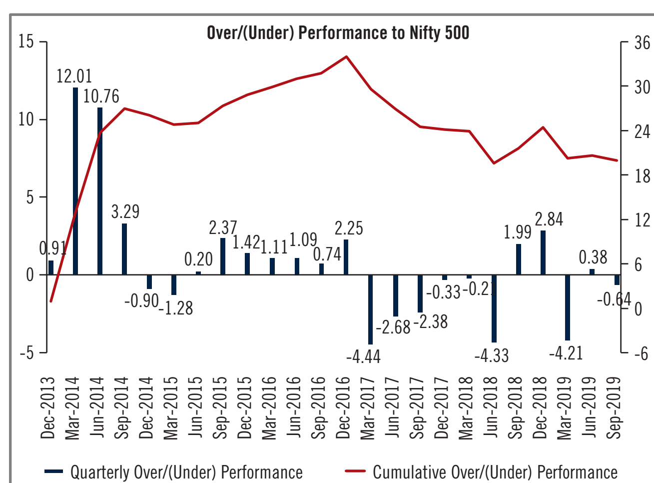
In the current time period we remain extremely cautious of perceived high quality stocks. In our opinion in terms of valuations in the high quality space we are in a zone where the risks of uncertain future (from our perspective future is always uncertain) are not being factored at all. Some of the questions which get asked are quality is always expensive and hence high quality stocks will always move up and if you had bought them at any price in last few years, you would have always made money. We have a serious difference of opinion on this based on our historical experience and reading of history.

> **For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments.**
>
> ***— Warren E Buffett***

Yours Sincerely.

PGIM INDIA CORE EQUITY PORTFOLIO 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 PGIM India Core Equity Portfolio 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 PGIM India Core Equity Portfolio Strategy Discretionary Portfolio Regular Plan as on October 31st, 2019

Date of Purchase	Equity	Sector	%
Feb-2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	5.71%
May-2018	Bharat Electronics Ltd	Industrial Electronics	5.58%
Sep-2015	State Bank of India	Banking / Financial Services	5.51%
Jul-2013	Container Corporation of India Ltd	Logistics	5.06%
Jul-2013	Indraprastha Gas Ltd	City Gas Distribution	4.76%
Jun-2015	ITC Ltd	FMCG	4.55%
Oct-2017	Power Grid Corporation Of India Ltd	Power- Transmission	4.23%
Mar-2015	Castrol India Ltd	Lubricants / oils	4.15%
Jan-2016	Oracle Financial Services Software Ltd	IT Services / Products	4.04%
Aug-2013	Great Eastern Shipping Co Ltd	Shipping	3.74%
Jul-2013	Engineers India Ltd	Consulting	3.36%
Aug-2013	Cummins India Ltd	Engineering	3.33%
Aug-2018	Cipla Ltd	Pharmaceuticals	3.26%
Jun-2018	GE Power India Ltd	Power Equipment	3.08%
Apr-2016	Sanofi India Ltd	Pharmaceuticals	2.87%
	Total		**63.23%**

Model Portfolio Details

Portfolio Details as on October 31st, 2019	
Weighted average RoCE	23.75%
Portfolio PE (1-year forward) (Based on FY 20)	17.91
Portfolio dividend yield	1.43%
Average age of companies	60 Years

Portfolio Composition as on October 31st, 2019	
Large Cap	35.25%
Mid Cap	23.25%
Small Cap	27.00%
Cash	14.50%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on October 31st, 2019

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, 2019

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on October 31st, 2019

The above holding represents top 15 holdings of PGIM India Core Equity Portfolio 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.

PGIM India Core Equity Portfolio Strategy Portfolio Performance as on October 31st, 2019

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	3.69%	3.51%	3.73%
3 Months	4.39%	6.83%	7.13%
6 Months	1.00%	1.10%	0.26%
1 Year	3.77%	14.35%	10.70%
2 Years	1.46%	7.21%	2.89%
3 Years	5.07%	11.26%	8.91%
5 Years	7.92%	7.37%	7.71%
Since Inception Date 08/07/2013	18.36%	11.81%	12.77%
Portfolio Turnover Ratio*	21.48%		

*Portfolio Turnover ratio for the period November 1st, 2018 to October 31st, 2019

Consolidated Portfolio CY Performance of PGIM India Core Equity Portfolio 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	-2.98	3.15	-3.38
CY 2019 till 31-10-2019	1.15	9.34	5.67
08-07-2013 to 31-10-2019	18.36	11.81	12.77

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 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 PGIM India Core Equity Portfolio Strategy: PGIM India Core Equity Portfolio Strategy seeks to generate returns by investing in a portfolio of value stocks which have the potential of wealth creation over long term.

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