PORTFOLIO MANAGEMENT SERVICES

Newsletter: February 2019

From the desk of the Portfolio Manager for DHFL Pramerica Core Equity Portfolio Strategy

The business of "outperformance"

Dear Investor,

One of the most important features that any investor, wealth advisor or a person in the financial media looks for in any investment product is its track record in "outperforming" the benchmark Index, and outperforming competing products.

This outperformance is measured as performance of the investment portfolio over a period, compared to the performance of a peer, or the performance of the benchmark index, usually over a period of 3 months, 1 year, 3 years, 5 years, and so on.

This is the measure of efficiency of the portfolio manager, who has to justify the fees earned by the asset management company. The least that is expected from an portfolio manager is that he/she should do better than the market (represented by the benchmark index). And, in a competitive environment where different investment products compete for the investor's share of investment, it is natural that the more efficiently managed portfolios should get the lion's share of the pie.

Since this is so important, it is also important that we learn the ins-and-outs of trying to outperform.

There is nothing wrong when one tries to do better than competition. Indeed, the capital market is an epitome of competitiveness. But the problem is when one tries to do it **ON A CONTINUOUS BASIS.**

The market consists of different types of PMS products - some are large-cap oriented, some are mid-cap, and so on. Some follow aggressive, highly concentrated portfolios while some are more diversified. Some follow growth strategy, some are momentum driven, while some are value-oriented. It is important to understand the type of portfolio each one is, because only then can one choose a mix that is optimally suited for each individual preference.

A different approach to portfolio management would mean a different trajectory of returns. It is in this context that trying to be No.1 at all points of time is not necessarily in the interest of the client. A client should ideally have a mix of products with different mandates, so that these products complement each other, and even though they may have different individual trajectories of returns, they together reduce the risk of volatility for the investor.

Let us understand the implications of estimating the relative stock price movements of 50-500 stocks over a period of time. A benchmark index sometimes consists of 50 stocks (Nifty 50), and sometimes as much as 500 (Nifty 500). And each company's financial performance and its stock price movement is governed by literally hundreds of variables. It is simply too much to expect that the fund manager would correctly guess the relative movement of all of these variables, and also the impact these variables have over the share price movement, and correctly adjust his/her portfolio accordingly on a continuous basis.

It is this anxiety to outperform **at all points of time** that leads to the faltering of many portfolios. In the stock market, reason and rationale are sometimes overtaken by greed and blind infatuation (we have seen this during every bubble). During such times, the portfolio that takes the maximum risks (sector concentration and/or valuation risks) seems to deliver the highest returns. But alas, this doesn't last.

If the client has all investments in the same genre of products, it is very likely that they will rise (and also fall) together. On the other hand, if the client chooses a mix of products, all of which are individually good but are managed with different approaches to investing, then the chances are that these products would have different trajectories.

We are of the opinion that the way to handle this anxiety is to invest in a set of good products (as opposed to the best), each of which is different from the other. This way, the volatility of the overall portfolio would get reduced. The main thing to do is to periodically verify whether the respective fund managers are stocking to their stated mandates are managing the risks in a logical manner.

Risk control - the primary task of a fund manager

Our submission, dear Investor, is that the fund manager's primary task is to control the three major risks that all investors should worry about:

- Business risk (meaning the risk of the company losing its competitiveness in the market)
- Management risk (pertaining to the ability and willingness of the management to act in the longer-term interest of all shareholders), and
- Price risk (the risk of losing money permanently because of an exorbitant entry price)

As long as these are done in a reasonably diligent manner, the results would follow. But the desired results would not be continuous. Let us present the performance track record of our PMS since the time of inception.

Consolidated Portfolio CY Performance of DHFL Pramerica 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 31-01-2019	-1.20	-0.29	-1.81
08-07-2013 to 31-01-2019	20.44	11.63	13.10

Performance depicted as at the above stated date is based on all the client portfolios under the Regular portfolio of DHFL Pramerica 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 is no guarantee of future returns. The above portfolio performance is after charging of expenses (as depicted above) Date of Inception: 08/07/2013. 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.

Speaking of ourselves, we have always attempted to be steady, and never to be spectacular. However, over a period of time, we have delivered a decent return, without, we believe, subjecting the portfolio to unnecessary levels of risk.

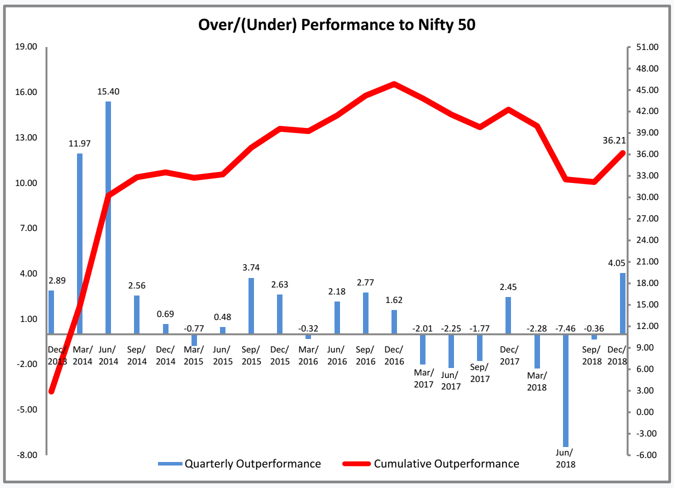
We would like to end with a marvellous quote from the great Seth Klarman:

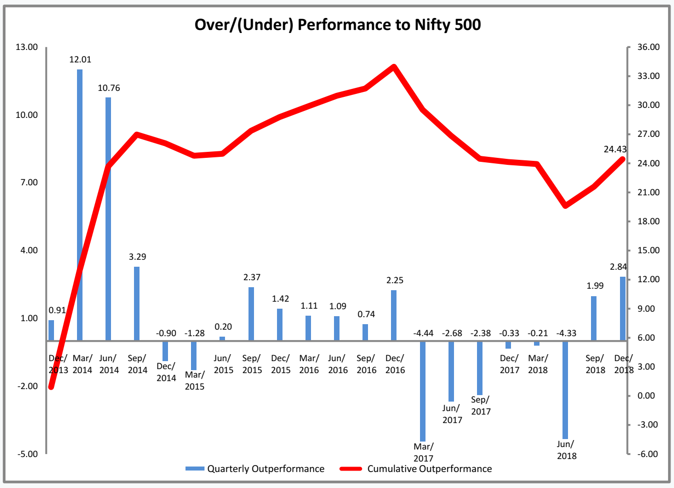
> ***"Investment returns are not a direct function of how long or hard you work or how much you wish to earn... An investor cannot decide to think harder or put in overtime in order to achieve a higher return. All that an investor can do is follow a consistently disciplined and rigorous approach; over time, the returns will come"***

Warm regards,
Yours Sincerely,

(E A Sundaram)
Portfolio Manager

DHFL PRAMERICA CORE EQUITY PORTFOLIO STRATEGY
KEY PORTFOLIO PERFORMANCE INDICATORS





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Top 15 Holdings of DHFL Pramerica Core Equity Portfolio Strategy Discretionary Portfolio Regular Plan as on January 31st, 2019

Date of Purchase	Equity	Sector	%
Sep/2015	State Bank of India	Banking / Financial Services	6.53%
Jun/2015	ITC Ltd	FMCG	4.80%
Jul/2013	Container Corporation of India Ltd	Logistics	4.77%
Jul/2013	Indraprastha Gas Ltd	City Gas Distribution	4.62%
Mar/2015	Castrol India Ltd	Lubricants / oils	4.53%
Jan/2016	Oracle Financial Services Software Ltd	IT Services / Products	4.32%
Aug/2013	Cummins India Ltd	Engineering	4.31%
Feb/2018	Multi Commodity Exchange Of India Ltd	Other Financial Services	4.00%
May/2018	Bharat Electronics Ltd	Industrial Electronics	3.88%
Oct/2017	Power Grid Corporation Of India Ltd	Power- Transmission	3.73%
Jul/2013	Bosch Ltd	Auto Ancillaries	3.45%
Aug/2013	Great Eastern Shipping Co Ltd	Shipping	3.35%
Oct/2013	Divis Laboratories Ltd	Pharmaceuticals	3.34%
Jun/2016	Amara Raja Batteries Ltd	Batteries - Automobile	3.22%
May/2014	Infosys Ltd	IT Services	3.17%
	Total		**62.02%**

Model Portfolio Details

Portfolio Details as on January 31st, 2019	
Weighted average RoCE	26.11%
Portfolio PE (1-year forward) (Based on FY 20)	22.79
Portfolio dividend yield	1.26%
Average age of companies	57 Years

Portfolio Composition as on January 31st, 2019	
Large Cap	41.00%
Mid Cap	27.75%
Small Cap	20.25%
Cash	11.00%

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

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

The above holding represents top 15 holdings of DHFL Pramerica 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.

DHFL Pramerica Core Equity Portfolio Strategy Portfolio Performance as on January 31st, 2019

Period	Portfolio	NIFTY 50	NIFTY 500
1 Month	-1.20%	-0.29%	-1.81%
3 Months	1.40%	4.28%	2.86%
6 Months	-2.34%	-4.63%	-6.70%
1 Year	-4.22%	-1.78%	-7.16%
2 Years	7.91%	12.49%	10.47%
3 Years	12.60%	12.71%	12.40%
5 Years	20.42%	12.26%	14.00%
Since inception date 08/07/2013	20.44%	11.63%	13.10%
Portfolio Turnover Ratio*	31.04%		

*Portfolio Turnover ratio for the period February 1st 2018 to January 31st, 2019

Consolidated Portfolio CY Performance of DHFL Pramerica Core Equity Portfolio Strategy

CY	Portfolio Performance	NIFTY 50	NIFTY 500
08-07-2013 to 31-12-2013	13.79	7.43	8.36
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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 DHFL Pramerica Core Equity Portfolio Strategy: DHFL Pramerica Core Equity Portfolio 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 will like to explain our views on various stocks which are there in the client portfolios and may not be there in the newer model portfolios and briefly on some newer stocks which we have added in the current model portfolio.

Cummins is a market leader in engines for power gensets and industrial applications. When we bought it the results for few preceding quarters were not good and there was all round pessimism on the stock. We believe the company to be a beneficiary of capex revival in India and of currency depreciation as 30% of revenue is from exports. The stock has moved by around 15% from our average purchase price and hence we have removed from the new model portfolio. We continue to hold the stock in the portfolios where we purchased it earlier.

Mahanagar Gas Limited is a natural gas distribution company in Mumbai. British Gas was selling the shares of the company and there was some amount of pessimism regarding the growth prospects of the company. We like the monopolistic nature of the business, sustainable and profitable growth prospects for the future. The stock is trading at 17 times FY 2019 EPS as on 6th Feb 2019. The nature of business being a utilities where very high growth is unlikely we want to be cautious in our purchase price. Hence removed from the current model portfolio.

Sanofi India Limited is an MNC pharma company subsidiary with strong presence in diabetes and cardiology space. We believe the prevalence of these diseases to increase because of sedentary lifestyle and people having longer life span. We like the long-term prospects of the company but are uncomfortable with the current valuation of the stock and hence have removed from the models.

Oracle Financial Services is a banking software product company. We bought it when there was a sharp fall in the stock price. The EBITDA margins in this business are upwards of 40% and there is a recurring revenue stream in the form of license fees and pay per use. But the growth in the business has been low and hence we are not comfortable to pay very high valuation despite the company having good business model and high moats in the business.

Vijaya Bank we started buying last year in the month of January 2018. As it had best asset quality and was one of the few profitable PSU banks last year. The bank is going to get merged with BOB and Dena bank. Hence it will become a large cap bank and we don't know how the shape of things will be at the merged entity and hence we have removed from the model. As the stock is cheap we have not sold from the portfolios where we own it.

Techno Electric is a company in the space of Transmission and Distribution. It is a debt free company with a conservative and disciplined management which is very important trait in a contracting business. In last two years the orders have been low for the company and hence revenue growth has become a challenge for the company. As there is lack of clarity on the next two years growth we have decided to tender the stock in the buyback and also removed it from the current model portfolios. Once the buyback gets over and we see the results of this quarter we will decide what to do of the remaining quantity of shares.

Pokarna is a company in the space of quartz and granite surface and predominant sales are to North America. The stock trades at 10 and 6 times PE ratio for FY 2018 reported & FY2019 expected EPS. The company is undergoing a capex of 250 cr, has a debt equity ratio of 1:1 and has high dependence on US housing market. With rising interest rates in USA the housing sector may also slowdown. Because of the above-mentioned reasons for the time being we are not purchasing the stock in newer portfolios but the valuations being cheap we are not selling in the portfolios where we hold it.

"In the midst of chaos, there is also opportunity." – Sun Tzu

We have added NOCIL and CCL products to the new model portfolio. We used to hold both the stocks in the portfolio earlier but had run up sharply in 2017 and hence we had decided to sell them.

Nocil is in the space of rubber chemicals and is market leader in rubber chemicals with market share of 45% in the Indian market and has approximately 4% global market share. Major use of rubber chemicals is in manufacturing of tyres. As there is uncertainty in the sales of automobiles the demand of rubber chemicals is expected to be lower. Also there is anti-dumping duty on import of some rubber chemicals in India and which may get removed. In the recent past the stock has corrected sharply and is available at 11 times FY 19 EPS as on 6th Feb 2019. We believe at the current stock price levels most of the risks are factored in.

CCL Products is largest manufacturer and exporter of instant coffee from India. The company has a cost-efficient business model, promoters have long track record in this business and long standing relationships with customers. These relationships are sticky by nature and customers don't prefer to change the vendors quite often. This gives it an edge over competitors. Coffee processing is a challenging business wherein getting the perfect blend is crucial, which the company has successfully aced. CCL operates on a 'cost plus margin' method, which saves it from adverse volatility in coffee prices and has helped in maintaining healthy margins. The stock is available at 22 and 17 times PE for FY 19 and FY 20 expected EPS. In our view the valuations are reasonable and hence we have purchased the stock.

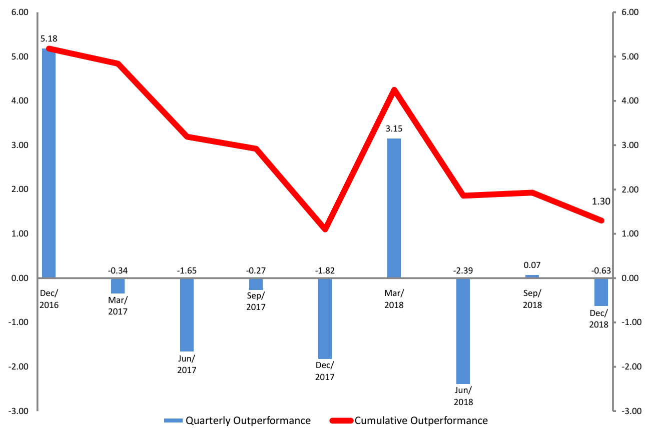
Yours Sincerely,

(**Himanshu Upadhyay**)

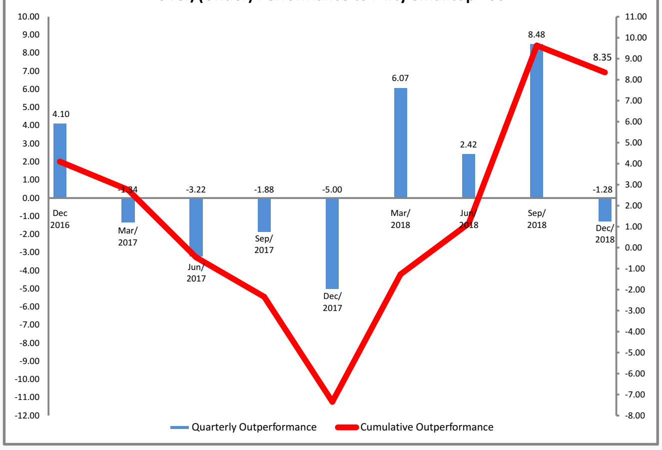
Note: Source of EPS estimate is Bloomberg.

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 January 31st, 2019

Date of Purchase	Equity	Sector	%
Aug/2016	Federal Bank Ltd	Banks	4.87%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.84%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	3.99%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	3.95%
Sep/2016	Apar Industries Ltd	Power Equipment	3.80%
Jan/2018	Indian Bank	Banks	3.64%
Mar/2018	Cummins India Ltd	Engineering	3.52%
Apr/2017	Hexaware Technologies Ltd	Computers - Software	3.44%
Aug/2016	Oberoi Realty Ltd	Residential/Commercial/ Sez Project	3.42%
Jul/2017	Mayur Uniquoters Ltd	Textiles	3.37%
Aug/2016	Sobha Ltd	Residential/Commercial/ Sez Project	3.36%
Sep/2016	Oracle Financial Services Software Ltd	IT Services / Products	3.21%
Jan/2018	Vijaya Bank	Banks	3.16%
Oct/2016	DCB Bank Ltd	Banks	3.10%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.05%
	Total		**54.72%**

Model Portfolio Details

Portfolio Details as on January 31st, 2019	
Weighted average RoE	11.59%
Portfolio PE (1-year forward) (Based on FY 20)	10.25
Portfolio dividend yield	1.20%

Portfolio Composition as on January 31st, 2019	
Large Cap	0.00%
Mid Cap	13.50%
Small Cap	71.25%
Cash	15.25%

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

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

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DHFL Pramerica Phoenix Strategy Portfolio Performance as on January 31st, 2019

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
1 Month	-3.44%	-5.43%	-4.90%
3 Months	-1.48%	-1.65%	1.16%
6 Months	-7.54%	-10.45%	-17.85%
1 Year	-13.01%	-18.67%	-30.44%
2 Years	6.84%	4.73%	-1.35%
Since inception date 01/08/2016	7.40%	5.54%	0.31%
Portfolio Turnover Ratio*	29.64%		

*Portfolio Turnover ratio for the period February 1st 2018 to January 31st, 2019

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	57.30
CY 2018	-12.72	-15.42	-29.08
CY 2019 till 31-01-2019	-3.44	-5.43	-4.90
01-08-2016 to 31-01-2019	7.40	5.54	0.31

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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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