



**PGIM**

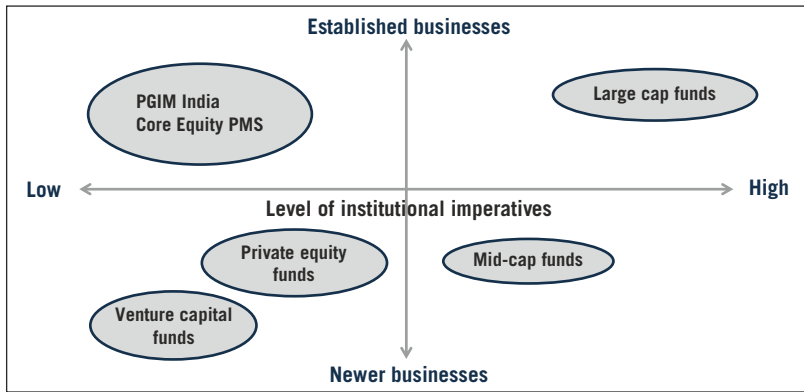
India Portfolio  
Management Services

Stable core.  
Strong portfolio.

---

**PGIM INDIA**  
**CORE EQUITY PORTFOLIO**

## Product Positioning



This chart is created for illustrative purpose only

### Institutional imperatives

- (a) To be close to fully-invested at all times
- (b) Focus on "outperformance" at all times
- (c) To be close to a benchmark index

## Portfolio build up strategy

The portfolio attempts to enhance the chances of investment success, and is built with the twin objectives of giving the client a set of strong companies, purchased at prices that are not exorbitantly high, thereby minimizing permanent capital loss to the investor.

### Permanent capital loss occurs as a result of 3 factors:

- Buying shares of companies with weak or deteriorating fundamentals
- Buying shares of companies where the management quality is less than favourable, and
- Buying when the share price is exorbitantly high.

The PGIM India Core Equity PMS believes that a strategy that takes active steps to minimize the incidence of these errors listed above, leads to an enhancement of chances of success in the stock market.

## Investment Process

The flow chart diagram of the investment process



The investment process consists of

- (a) Screening all possible choices to create an investment universe of acceptable quality
- (b) Further filter the Universe on the basis of growth prospects and management quality
- (c) Construct the portfolio using filters of valuation levels, and sector exposure limits.

## Selection of the Investment Universe (about 160-180 companies)

The investment universe consists of companies that meet the following criteria:

### (a) A minimum of 15-years track record

It is the expectation that in 15 years, a company would have completed at least one complete business cycle. If it has completed at least one business cycle, then it is expected that they have dealt with difficult business conditions, and have come out of such a situation. This is an invaluable lesson that hopefully the company would have learnt. Dealing with absolutely new companies or ones that are not old enough, increases the risk on this front. Of course, a 15-year track record does not eliminate this risk, but as investors, we can breathe a little easier.

### (b) A minimum size of Rs. 400 crores sales revenue

Since the strategy aims for a multi-cap portfolio, we have to be open to buying large, medium and small companies. Setting the threshold much higher would have meant that smaller and mid-sized companies are kept out to a larger degree. At the same time, we wanted a decent size of operations (after 15 years, if the company still does not generate Rs.400 crore revenues, it deserves to come in only as an exception).

**(c) Consistency in generating high return on capital employed (20% or higher)**

The RoCE measures how efficiently the total capital of the company is being used. The higher the RoCE, the better it is for the investor, but the basic idea is to verify whether the company is efficient enough to consistently earn more than its cost of funds.

**(d) Consistency in the ability to generate free cash flow**

Net profits can be "adjusted" with clever accounting, or with lenient trade terms, but the cash flows of a company indicate how smoothly the business is being run (without constant external funding). Just as we would expect any individual to live within his/her means, a company generating positive free cash flow indicates that the company is living within its means. The generation of positive free cash flow indicates that the company is in a comfortable financial position.

**At least 75% of all clients' portfolios will be from the Investment Universe so derived.**

**Determining the growth prospects and management quality**

While a good track record of a company is a necessary condition, it is not sufficient to be included in the portfolio. We seek to satisfy ourselves about the following:

- (a) The ability of the company to grow its sales and profits over the next 3-5 years
- (b) The ability of the company to do this without consistently resorting to additional external funding
- (c) The track record of the management in capital allocation, and in treating minority shareholders fairly

**Price filters**

The inclusion in the portfolio happens when the company, apart from qualifying on all of the above criteria, also qualifies on the following parameters:

- (a) The valuation at the time of entry into the portfolio is lower than its average valuation for the previous decade and/or
- (b) The valuation is lower than the expected growth rate in earnings over the foreseeable future

**When do we sell a stock?**

- (a) When the assumptions with which the stock was purchased in the first place are no longer valid
- (b) When the stock's price goes well beyond what we think it is worth\*
- (c) When for the same perceived level of risk, we spot a superior opportunity\*
- (d) When there is a redemption request

\* Note: It shall be our endeavour to keep the chances of short term capital gains taxes to the minimum. Therefore to the extent possible, we shall refrain from selling within a period of 12 months

**Strategy Snapshot**

Benchmark	Nifty 500
Target Capitalization Range	No bias
Target Diversification	20-25 Stocks
Maximum Single Stock Exposure	10%
Maximum Single Sector Exposure	30%

In addition, we also provide comparison with the Nifty 50 Index.

**Cash strategy**

The holding of cash is a residual strategy, i.e., the portfolio manager does not pre-decide the extent of cash. If suitable investment opportunities are not available at that point, cash is held to that extent.

**Product suitability**

This product is suitable for all equity investors who wish to invest in portfolio of quality companies bought at reasonable prices. It offers a qualitative diversification compared to the mainline mutual funds. It is suitable for investors with a time horizon of 3 years.



**Himanshu Upadhyay**  
PMS Portfolio Manager

- In his career spanning 10 years, Himanshu has extensive experience in Equity Markets
- B.Tech from NIT Hamirpur and PGDM (IIM Kozhikode)
- Since November 2015 has been with PGIM India Asset Management Private Limited
- 2010-2015 was with M3 Investments
- 2007-2010 was with Max-New York Life Insurance

## Investment Credo

- Have a clearly articulated investment strategy
- Remain faithful to the mandate of the product
- Refrain from doing things that are short-term oriented
- Stay away from the crowd
- Focus on “why” a stock should move; not on “when” it will move

## Popularity and share prices

An investor has a better chance of making money on an investment when the purchase price is reasonable. The price is reasonable only when there is relatively lower demand for that asset. There is lower demand for an asset only when a majority of the participants in the market do not expect that asset to go up in a hurry. Therefore, if one has to have a better chance of making money, one has to buy a share when the asset is unpopular.

## The flip side

Like every coin has two sides, this philosophy too has its downsides. When we buy stocks that are not very popular, they can remain unpopular for an extended period of time. What will sustain the investor during this period is the quality of the balance sheet of the company and the long term earnings power held by the company, even if the share has not moved up sharply in the short term. This philosophy therefore, is suitable for investors with a time horizon of 3 years.

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

**Disclaimers and risk factors:** PGIM India Asset Management 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.

© 2020 Prudential Financial, Inc. (PFI) and its related entities. PGIM, the PGIM 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 PGIM India Core Equity Portfolio. 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 July 22, 2020.

