

PORTFOLIO MANAGEMENT SERVICES

Newsletter

December 2017



Pramerica

The real meaning of “conservative”

Dear Investor,

Sometimes, we get queries from distributors and clients roughly along these lines:

- (1) Why do you hold cash in your portfolio? Aren't you missing out the benefits of a sharply rising stock market?
- (2) The liquidity inflow into the market is driven by SIPs, and therefore it is unlikely to stop. Why are you so conservative?
- (3) Equity market is for risk-takers. Conservative people should go towards fixed income. When the market is so buoyant, isn't that the time to make money?

In this edition of the Newsletter, we shall attempt to answer these questions.

Every investment product has to be faithful to its mandate.

Just think of different investment products in your portfolio as different ingredients in your investment recipe. Any dish becomes inedible if any single ingredient rises beyond acceptable proportions in that recipe. Similarly, each investment product has to be faithful to its mandate.

Different investments products would have different trajectories of returns. It is in the interest of the investor to have a collection of products that are different from one another, so that all products do not rise and fall at the same time.

The mandate of the DHFL Pramerica Deep Value PMS is to buy into companies that display certain fundamental characteristics, at a time when they are not popular. Being unpopular (or at least not very popular) is important because only then is the stock available at a reasonable price.

This is the reason why we have an overweight position in IT, Pharma and PSU banks right now. We are aware that in the past few quarters these sectors have not done well, but our intention is NOT TO BUY THE NEXT STOCK THAT GOES UP. OUR INTENTION IS TO BUY INTO A STRONG BUSINESS AT A REASONABLE PRICE.

Are we not bothered about popular public opinion? Do we think that we are superior to the rest of the market?

The great Benjamin Graham said this about investing discipline: **“You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right”**. The important thing about investing is that there is no single Universal Truth that everyone must follow. As long as we are doing things that makes logical sense, and as long as we do it consistently, it is more likely that this approach would be rewarded in due course. It most certainly is not the only approach that would be rewarded, but that has never been our claim.

We are confident that we have a diversified set of companies that have strong business models, strong balance sheets, and that the overall valuation parameters of our portfolio are not exorbitantly high. These are the ingredients that give a decent return to the investors (without subjecting their money to unnecessary levels of risk). We are confident that we are on the right path.

Other things remaining equal, the returns from stocks are inversely proportional to the level of expectations with which they have been purchased.

We think it is impossible to improve upon the quotes of the great Benjamin Graham and Warren Buffett who have so eloquently explained this point at different times. We quoted Graham in the previous point. Here's a gem from Buffett:

In his 2000 letter to Berkshire shareholders, Buffett says that the crowd that buys big when prices are high can be compared to Cinderella at the ball **“continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in future - will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands”**

Dear investor, haven't we seen this in India too? In 1999-2000, many participants had no eyes for anything apart from IT, Telecom and Entertainment (the famous ICE sectors). In 2007, many had no eyes for anything apart from real estate, infrastructure and construction stocks. The same belief that liquidity would continue to drive the stocks higher and higher, and that the "TINA" factor (there is no alternative) would propel more and more people to buy more of the same stocks.

But the subsequent returns from stocks in those sectors (after they were purchased with very high expectations) proved to be dismal.

We have stayed away from the sectors that we believe are overhyped, because it is this product's mandate to do so.

The real implication of being "conservative"

Being "conservative", we think, is just being in sync with the basic principle of the capital market. It should not be seen with a negative connotation.

If we believe that the capital market's primary purpose is to reward efficiency in the use of capital (or conversely, punish inefficiency in the use of capital), then that has a greater chance of being achieved when the investor pays attention to:

- (a) Buying into businesses that efficiently use their capital, and
- (b) Buying them at prices that ensures that the investor's capital is being used efficiently (i.e, not at exorbitant prices)

In this sense, we are proud of being conservative.

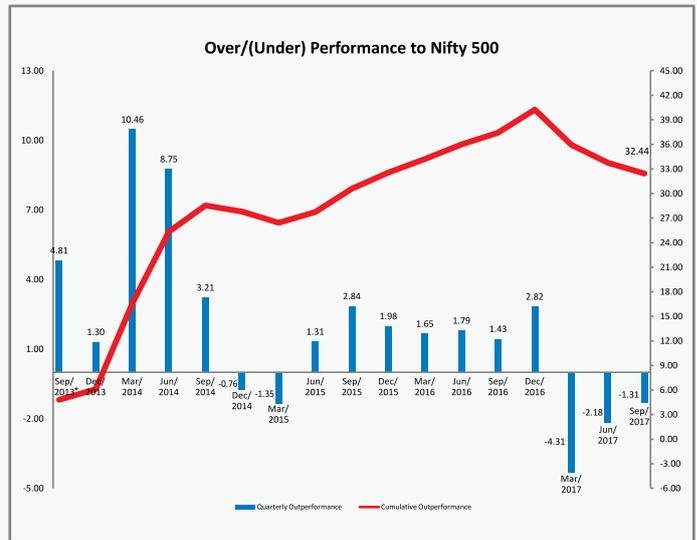
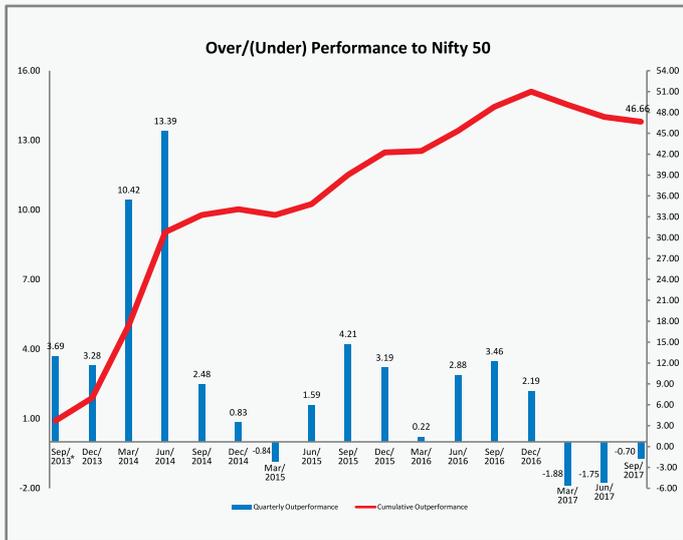
We wish you and your family all the very best in the ensuing New Year 2018.

Yours sincerely,

(EASundaram)

Portfolio Manager.

DHFL PRAMERICA DEEP VALUE STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



* Returns for the period 8th July, 2013 to 30th September, 2013. 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). 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 November 30th, 2017

| Date of Purchase | Equity | Sector | % |
|------------------|--|------------------------------|---------------|
| Sep/2015 | State Bank of India | Banking / Financial Services | 6.01% |
| Jul/2013 | Container Corporation of India Ltd | Logistics | 5.24% |
| May/2014 | Infosys Ltd | IT Services | 5.15% |
| Oct/2013 | Divis Laboratories Ltd | Pharmaceuticals | 4.90% |
| Mar/2015 | Castrol India Ltd | Lubricants / oils | 4.31% |
| Jul/2013 | Indraprastha Gas Ltd | City Gas Distribution | 3.93% |
| Apr/2016 | Sanofi India Ltd | Pharmaceuticals | 3.89% |
| Jun/2015 | ITC Ltd | FMCG | 3.84% |
| Jan/2016 | Oracle Financial Services Software Ltd | IT Services / Products | 3.81% |
| Aug/2013 | Cummins India Ltd | Engineering | 3.64% |
| Jul/2014 | Oil & Natural Gas Corporation Ltd | Oil Exploration | 3.51% |
| May/2017 | Abbott India Ltd | Pharmaceuticals | 3.46% |
| Nov/2016 | Persistent Systems Ltd | Computers - Software | 3.18% |
| Jun/2016 | Amara Raja Batteries Ltd | Batteries - Automobile | 3.08% |
| Jul/2013 | Siemens Ltd | Engineering | 3.04% |
| | Total | | 60.99% |

Portfolio Details

| Portfolio Details as on November 30th, 2017 | |
|---|----------|
| Weighted average RoCE | 29.05% |
| Portfolio PE (1-year forward) | 16.69 |
| Portfolio dividend yield | 1.71% |
| Average age of companies | 56 Years |

| Portfolio Composition as on November 30th, 2017 | |
|---|--------|
| Large Cap | 44.00% |
| Mid Cap | 26.00% |
| Small Cap | 13.00% |
| Cash | 17.00% |

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 30th November 2017

Midcap: Market cap below 100th company to the market cap of the 300th company in the Nifty 500 (sorted by market cap in descending order) as on 30th November 2017

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on 30th November 2017

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 30th November 2017

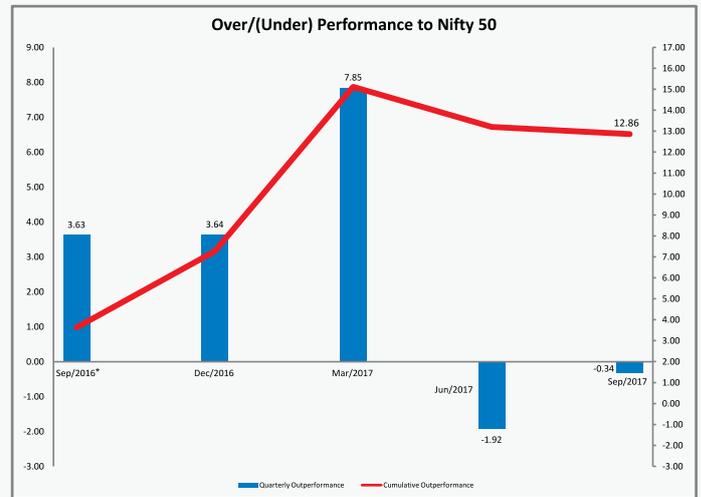
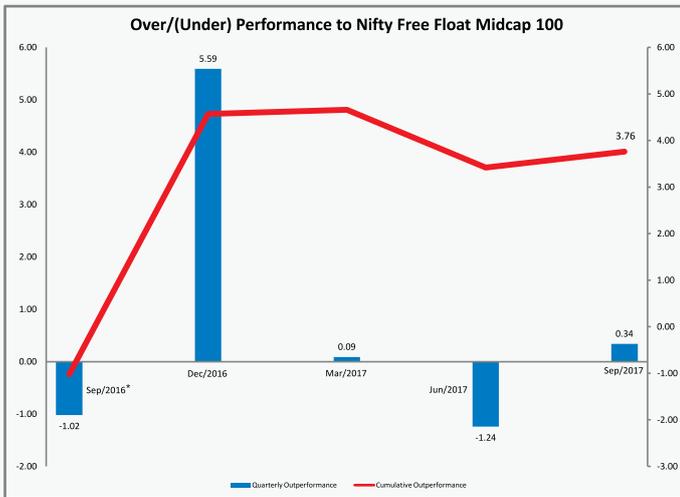
| Period | Portfolio | NIFTY 50 | NIFTY 500 |
|---------------------------------|-----------|----------|-----------|
| 1 Month | 2.00% | -1.05 % | 0.01 % |
| 3 Months | 7.91% | 3.11 % | 5.29 % |
| 6 Months | 9.66% | 6.29 % | 9.62 % |
| 1 Year | 24.15% | 24.34 % | 29.31 % |
| 2 Years | 18.63% | 13.51 % | 17.00 % |
| 3 Years | 14.05% | 5.99 % | 9.78 % |
| Since inception date 08/07/2013 | 31.10% | 13.46 % | 17.31 % |
| Portfolio Turnover Ratio* | 11.59% | | |

*Portfolio Turnover ratio for the period 1st December 2016 to 30th November 2017

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 before charging of any 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.

DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



*Return for the period 1st August, 2016 to 30th September, 2016. 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). Past performance may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on November 30th, 2017

| Date of Purchase | Equity | Sector | % |
|------------------|--|--|---------------|
| Aug/2016 | Great Eastern Shipping Co Ltd | Shipping | 4.20% |
| Feb/2017 | Sanofi India Ltd | Pharmaceuticals | 3.97% |
| Sep/2016 | D B Corp Ltd | Printing And Publishing | 3.86% |
| Aug/2016 | FDC Ltd | Pharmaceuticals | 3.64% |
| Sep/2016 | Oracle Financial Services Software Ltd | It Enabled Services - Software | 3.59% |
| Aug/2016 | JB Chemicals & Pharmaceuticals Ltd | Pharmaceuticals | 3.55% |
| Sep/2016 | Abbott India Ltd | Pharmaceuticals | 3.53% |
| Aug/2016 | Ahluwalia Contracts India Ltd | Cement Products | 3.51% |
| Aug/2016 | Prestige Estates Projects Ltd | Residential/ Commercial/Sez Project | 3.40% |
| Jan/2017 | Techno Electric & Engineering Co Ltd | Engineering-Designing-Construction | 3.28% |
| Jul/2017 | Mayur Uniquoters Ltd | Textiles | 3.22% |
| Aug/2016 | Oberoi Realty Ltd | Residential/ Commercial/Sez Project | 3.20% |
| Oct/2016 | Inox Leisure Ltd | Film Production, Distribution & Exhibition | 3.17% |
| Apr/2017 | Hexaware Technologies Ltd | Computers - Software | 2.95% |
| Feb/2017 | Shoppers Stop Ltd | Retailing | 2.87% |
| | Total | | 51.94% |

Portfolio Details

| Portfolio Details as on November 30th, 2017 | |
|---|--------|
| Weighted average RoE | 13.74% |
| Portfolio PE (1-year forward) | 14.54 |
| Portfolio dividend yield | 0.94% |

| Portfolio Composition as on November 30th, 2017 | |
|---|--------|
| Large Cap | 4.00% |
| Mid Cap | 33.25% |
| Small Cap | 45.50% |
| Cash | 17.25% |

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on 30th November 2017

Midcap: Market cap below 100th company to the market cap of the 300th company in the Nifty 500 (sorted by market cap in descending order) as on 30th November 2017

Small Cap: Market cap lower than the 300th company in the nifty 500 (sorted by market cap in descending order) as on 30th November 2017

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 30th November 2017

| Period | Portfolio | Nifty Free Float Midcap 100 | NIFTY 50 |
|---------------------------------|-----------|--------------------------------|----------|
| 1 Month | 4.84% | 1.62 % | -1.05 % |
| 3 Months | 12.68% | 8.85 % | 3.11 % |
| 6 Months | 13.41% | 13.62 % | 6.29 % |
| 1 Year | 37.80% | 33.46 % | 24.34 % |
| Since inception date 01/08/2016 | 30.01% | 25.02 % | 13.49 % |
| Portfolio Turnover Ratio* | 25.76% | | |

*Portfolio Turnover ratio for the period 1st December 2016 to 30th November 2017

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 before charging of any 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

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This document is dated December 11, 2017.

C134/2017-18