

# DSP

INVESTMENT MANAGERS

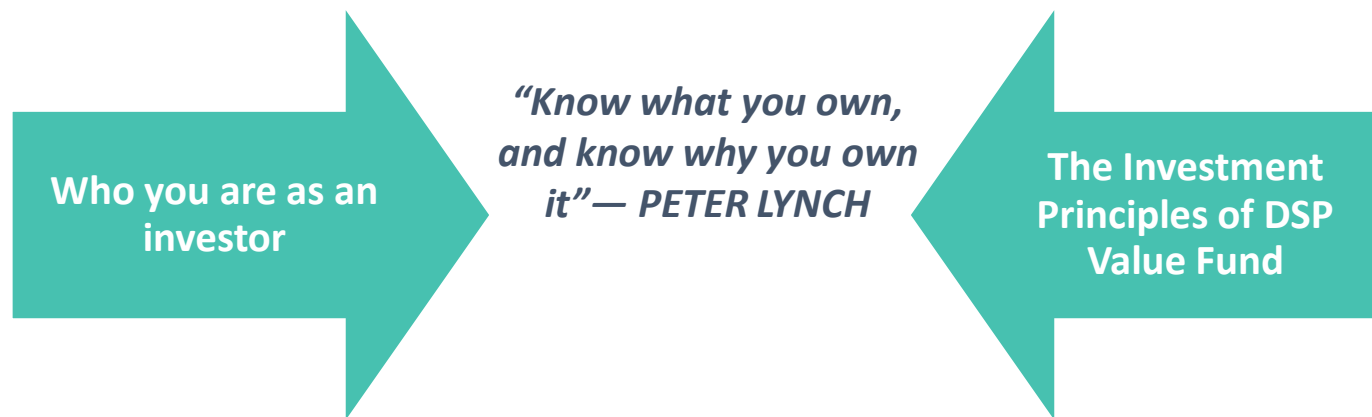


## DSP Value Fund

November 2020

## The investment journey starts with you – our valued investor

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- ✓ Looking for long term wealth creation and diversification
- ✓ Patient, don't track prices every day
- ✓ Temporary underperformance does not worry you, you know what you own and why
- ✓ Value conscious, more rational than emotional
- ✓ Finding quality companies at sensible prices, not overpaying for quality
- ✓ Stay away from mediocre companies and poor managements even if prices are cheap
- ✓ Holding cash when opportunities are scarce
- ✓ Not anchored to benchmark, away from consensus

***If your investment principles match with the Fund's, we welcome you to consider investing in DSP Value Fund!***

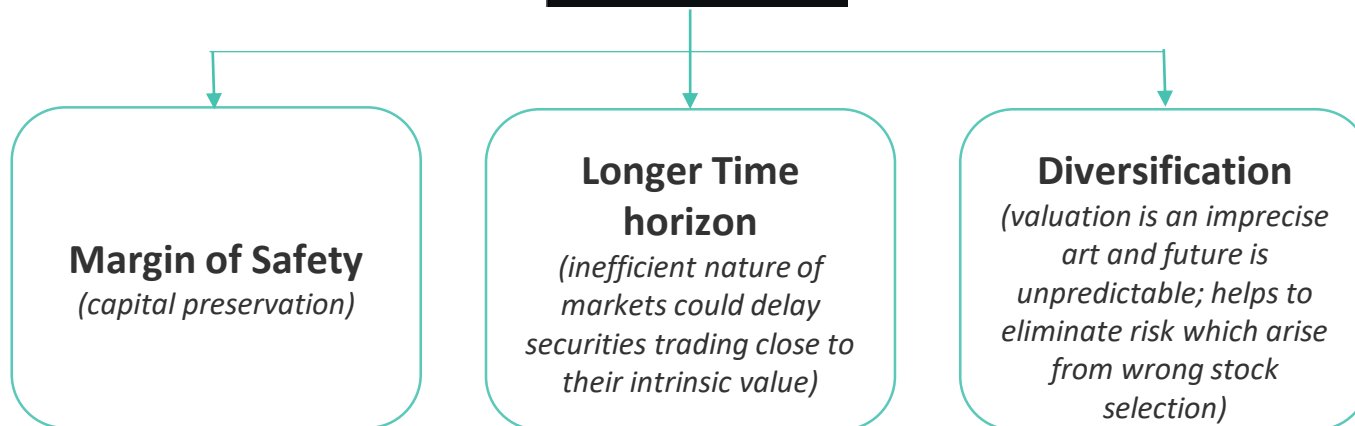
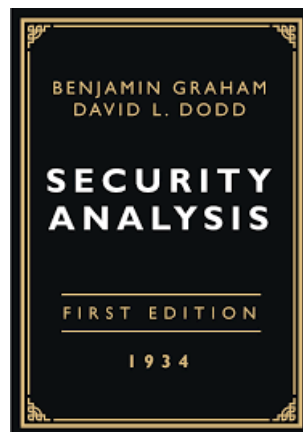
# VALUE INVESTING



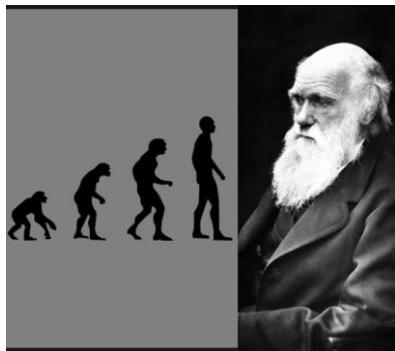
# What is Value investing?

The classical definition of 'Value investing': an investment process that involves buying securities at a discount to its intrinsic value.

The strategy of value investing pays greater attention to the company fundamentals rather than the current stock price. **Three key principles associated with Classical Value Investing -**

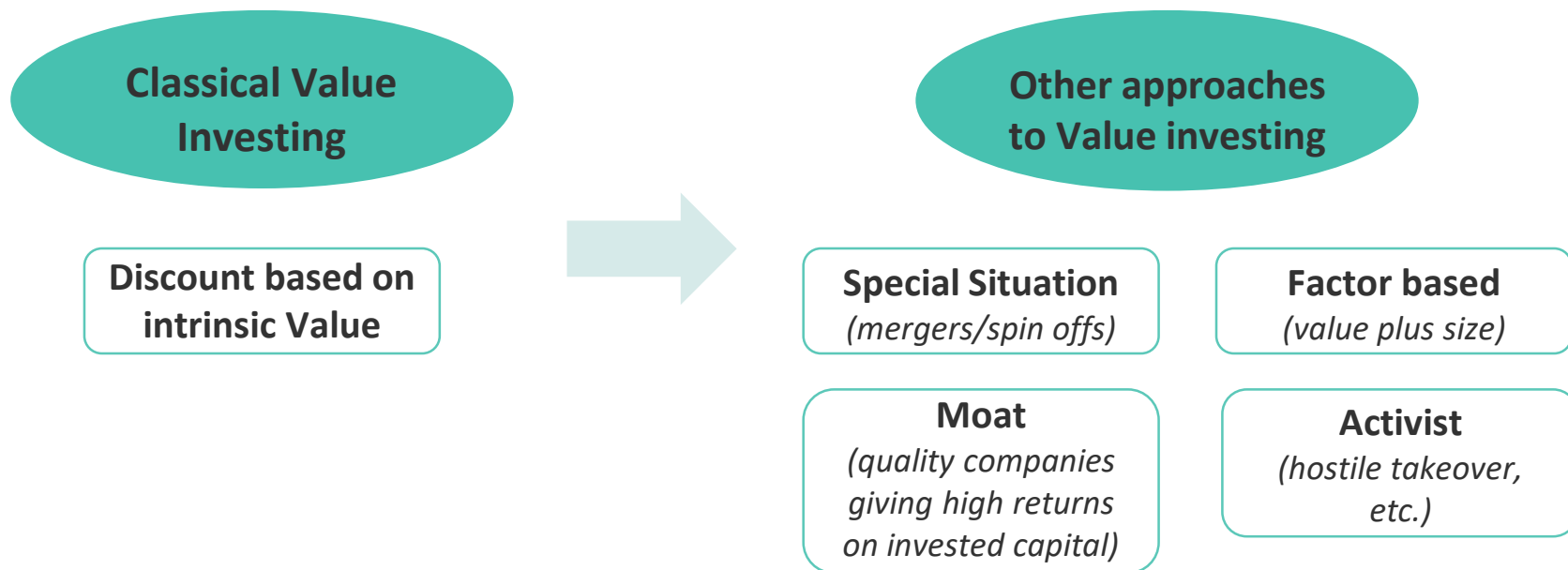


# Evolution of Value investing



Charles Darwin explained the theory of evolution by natural selection in his book “ on the Origin of Species in 1859. Theory of evolution is the process by which organisms change over time as a result of changes in heritable physical or behavioral traits. The same could be attributed to the world of value investing.

Changing nature of businesses, increasing participation of investors and analysts, rising efficiency within the markets, etc. have all contributed to evolution of different styles and approaches to Value Investing.



# DSP Framework for Value Investing

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*#1 Finding quality companies at a sensible price as opposed to finding mediocre companies for cheap prices*

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*#2 Holding cash when we can't find suitable investments*

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*#3 Looking for Value in India and Overseas*

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*#4 Managing risks through adequate diversification and position sizing*

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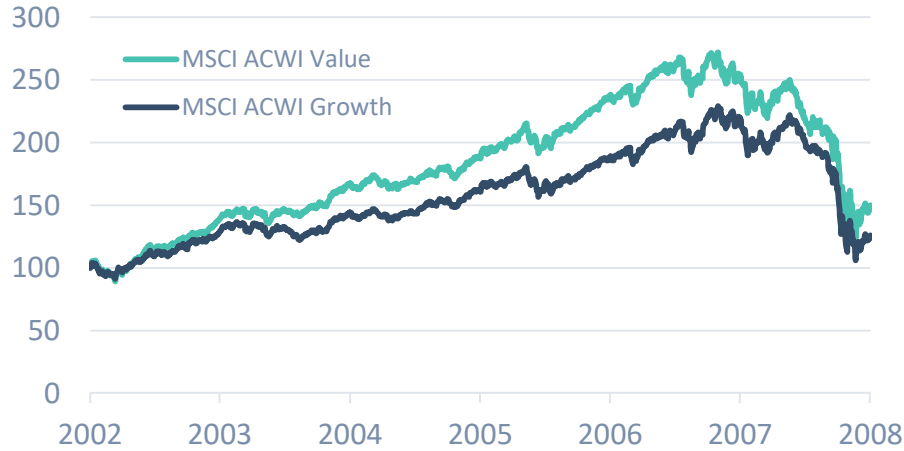
*#5 Combining strengths of fundamental and quantitative investment approaches*

# THE CASE FOR VALUE INVESTING



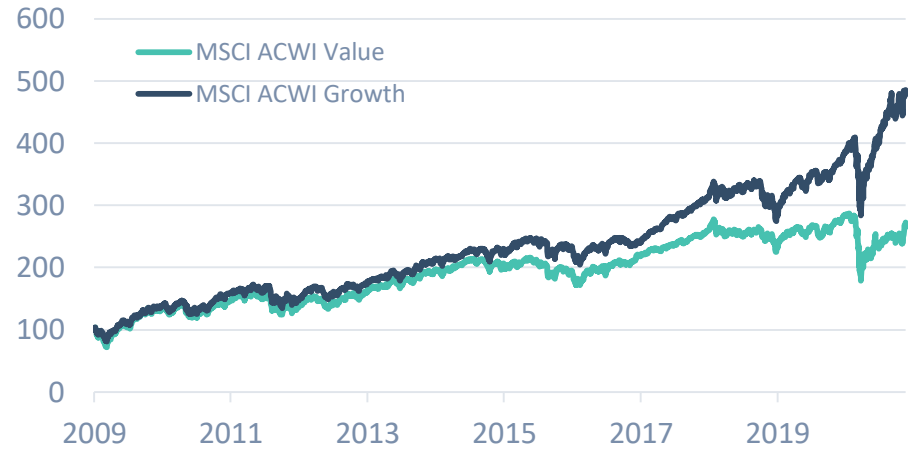
# Reasons to consider Value Investing

Cumulative Returns (2002 - 2008)



**Pre-2008 was a long period of value outperformance**

Cumulative Returns (2009 - Present)



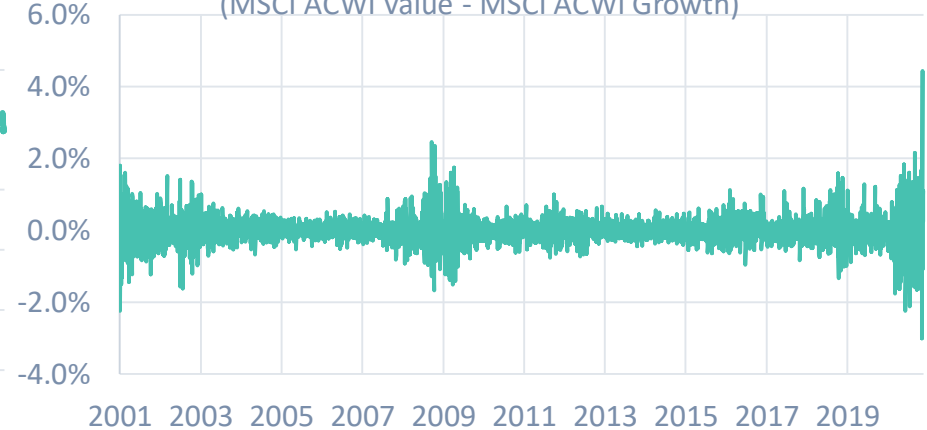
**2015 onwards saw growth outperform by a wide margin**

Relative Valuation  
(Growth P/B ratio divided by Value P/B ratio)



**Valuation dispersions are now extreme relative to history**

Chart: Daily Returns Dispersion  
(MSCI ACWI Value - MSCI ACWI Growth)

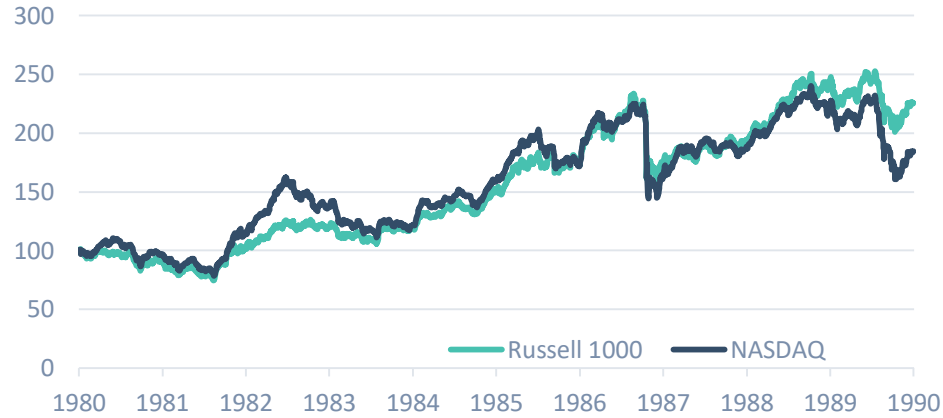


**Return dispersions usually spike at periods of rotation**

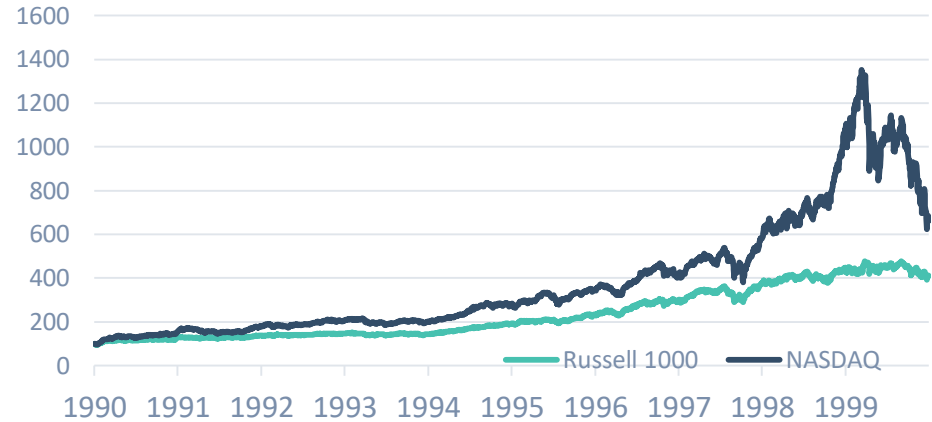


# A historical perspective (40 years)

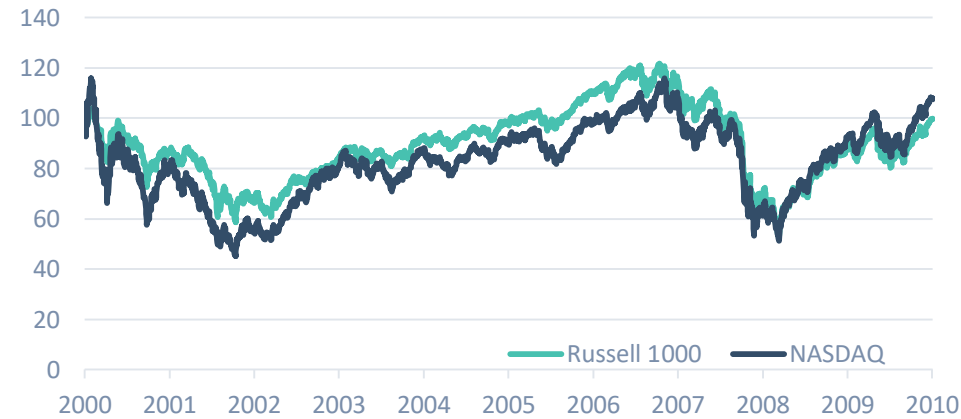
Russell 1000 vs NASDAQ 1981-90



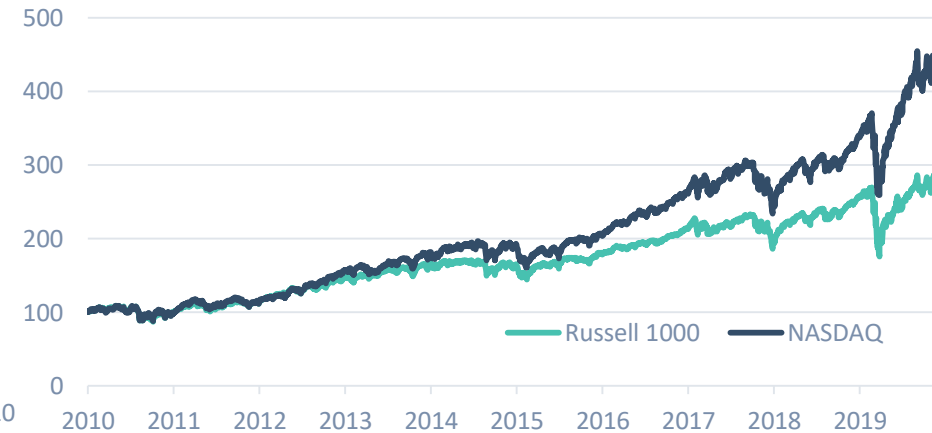
Russell 1000 vs NASDAQ 1991-2000



Russell 1000 vs NASDAQ 2001-10



Russell 1000 vs NASDAQ 2011-20



**NASDAQ represents the high growth and technology sectors and Russell 1000 represents the broader stock market**

# INVESTMENT PROCESS



# Quality at Sensible Price

500 stock  
Universe:NIFTY500  
(Large + mid + small)



Stocks screened  
based on  
**QUANTITATIVE**  
criteria



## 1. Eliminate poor quality

- *High leverage*
- *High price volatility*
- *Poor accounting and governance metrics*
- *Ownership and shareholder misalignment*
- *Poor growth*

## 2. Eliminate high valuation

- *High P/B, after adjusting for profitability/RoE*
- *High P/B, relative to long term sector trends*

## 3. Select good quality

- *High RoE*
- *Stable earnings growth*
- *Favorable fwd. growth forecasts*
- *Dividend paying*
- *Positive free cash flows*
- *Good management*

## 4. Fundamental inputs

- *Adding a layer of fundamental inputs and in-house research*
- *To avoid value traps*

# Criteria used for elimination of poor quality

## HIGHLY LEVERAGED COMPANIES

- × High DEBT TO EQUITY

Difficulty to service interest payments

Raises risk of defaults which further tightens liquidity

In case of defaults, creditors get preference over equity holders

## HIGHLY VOLATILE STOCKS

- × High BETA
- × High PRICE VOLATILITY

Typically highly cyclical businesses

Haven't added value to equity holders over the long term

Disproportionately high stock price volatility on a relative & absolute basis

Potential red flag

## NON-ALIGNMENT OF MANAGEMENT INCENTIVES

- × Ownership Criteria

Shareholder wealth creation is not a primary goal

Business decisions maybe driven by other considerations

Minority shareholders get sub-optimal returns

## POOR QUALITY OF REPORTED EARNINGS

- × LOW reliability of earnings
- × WEAK balance sheets
- × POOR cash conversion
- × Potential governance issues

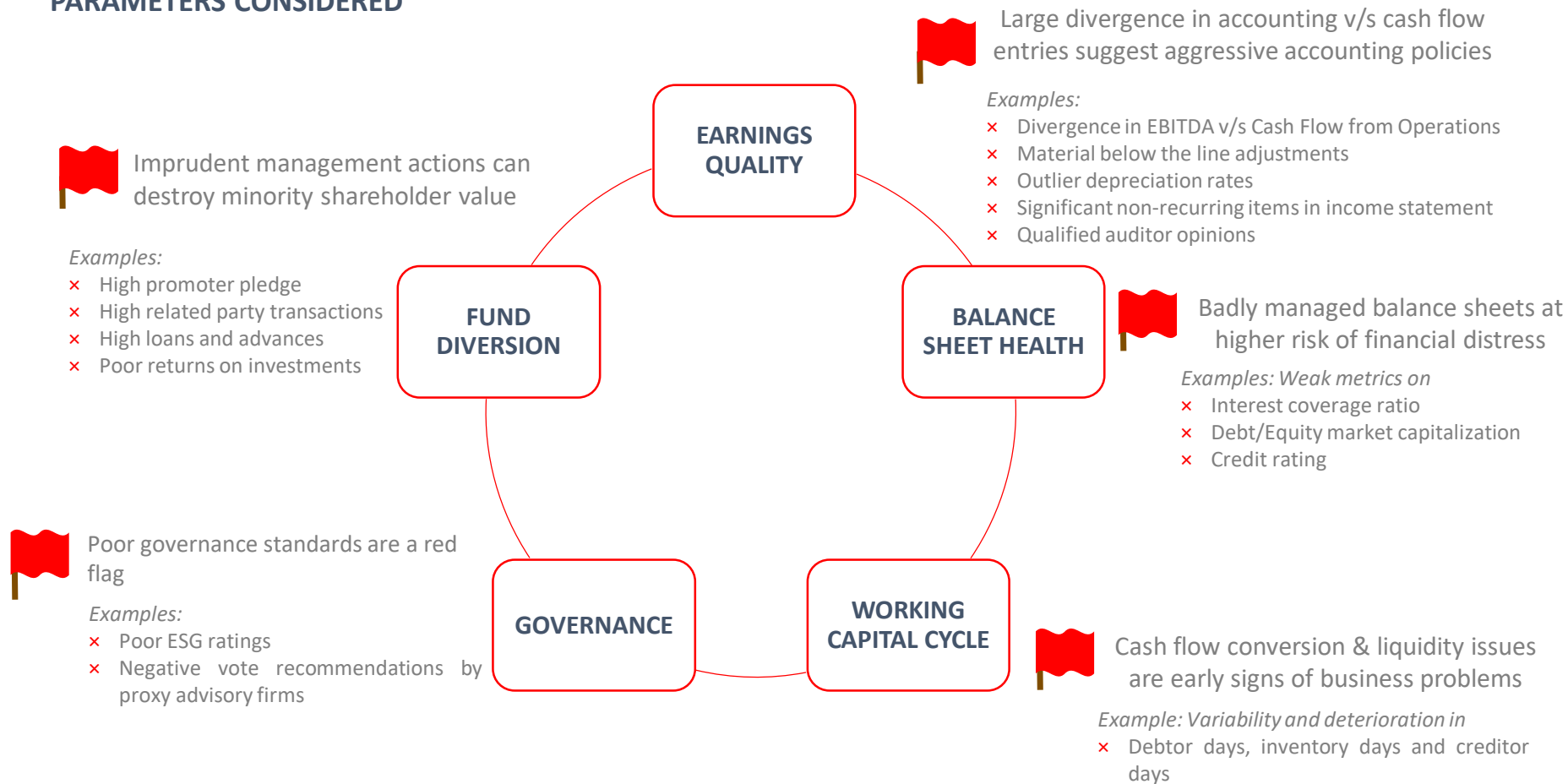
Forensic analysis of financials disclosures can throw up potential red flags

Accounting & Management issues can lead to severe value destruction

Extensive criteria to identify and eliminate potential value destroyers from the investible universe

# Criteria for elimination on accounting and governance red flags

## PARAMETERS CONSIDERED

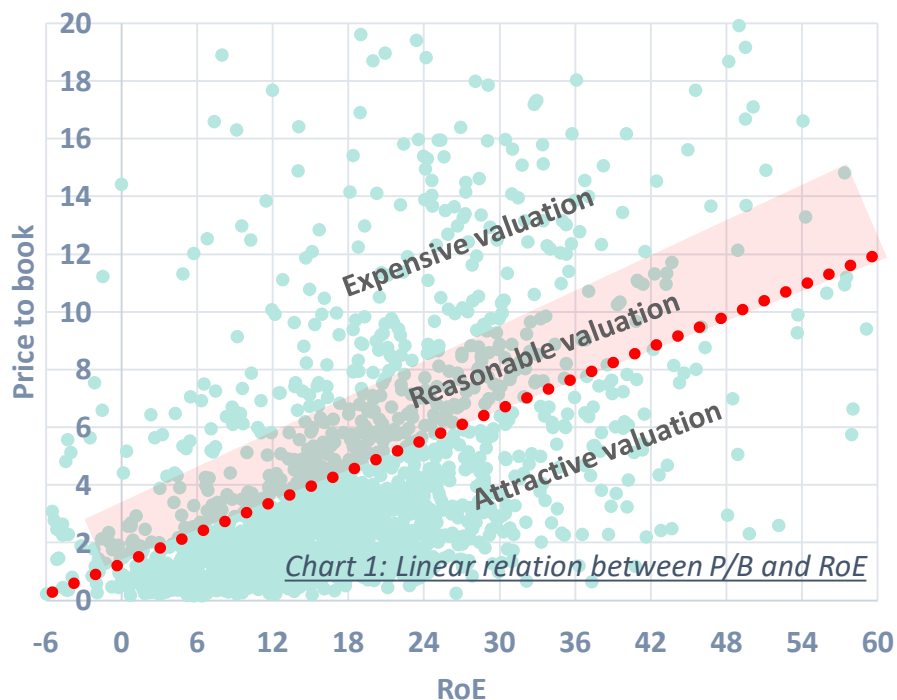


**Forensic analysis is a critical part of the elimination process**

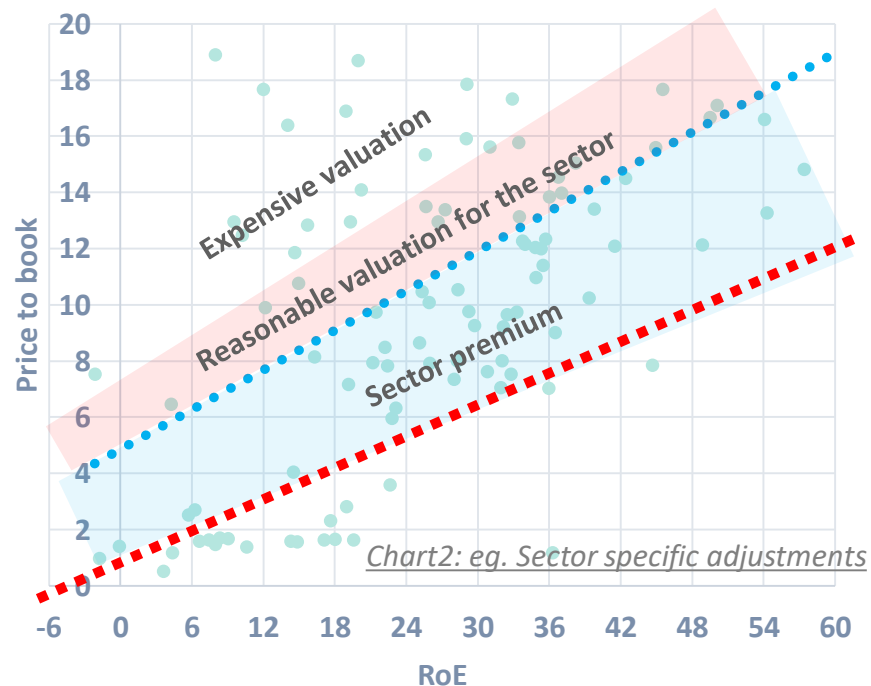
# Criteria used for elimination of high valuations

- Relative approach, using long term data (*assumption is that over long periods, markets are reasonably efficient in valuing securities*)
- Eliminate companies which have high P/B, after adjusting for RoE (located in the expensive valuation zone – see Chart 1)
- Long term sector trends are also factored in, as certain sectors command premium (eg. Consumer Staples) and some trade at discounts to the broader market (eg. Commodities) – the sector premium or discount could be a function of the nature of assets (tangible assets like plant and machinery vs intangible assets such as brands), sector growth prospects (attractive growth vs declining or mature sectors) or other inherent characteristics
- Ignore future predictions in estimation of growth (will not justify high valuations based on rosy growth forecasts)

Indian equities, slope of P/B vs RoE (10 years)



Cons. Staples, slope of P/B vs RoE (10 years)



# Framework for selecting overseas securities

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## Need for overseas securities

- ✓ Diversification from home country risk
- ✓ Access to sectors where opportunities may be limited in India
- ✓ Access to global best-in-class companies and managements

## Framework

- ✓ Assess fit with “quality at sensible price” framework
- ✓ Assess past track record of management to generate superior risk adjusted returns

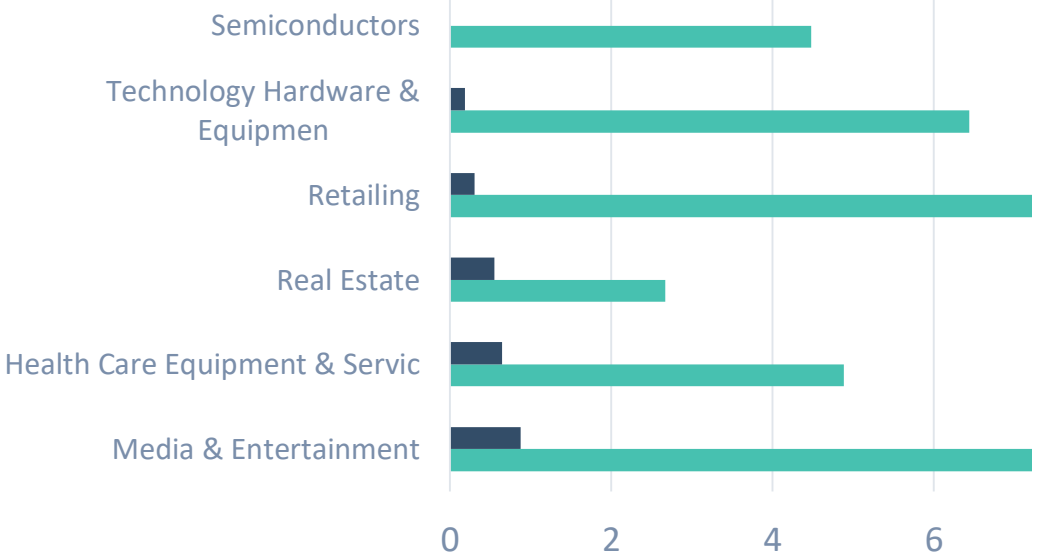
**Broadens the Universe + Diversification + Lowers country risk**

# Reasons for considering overseas securities

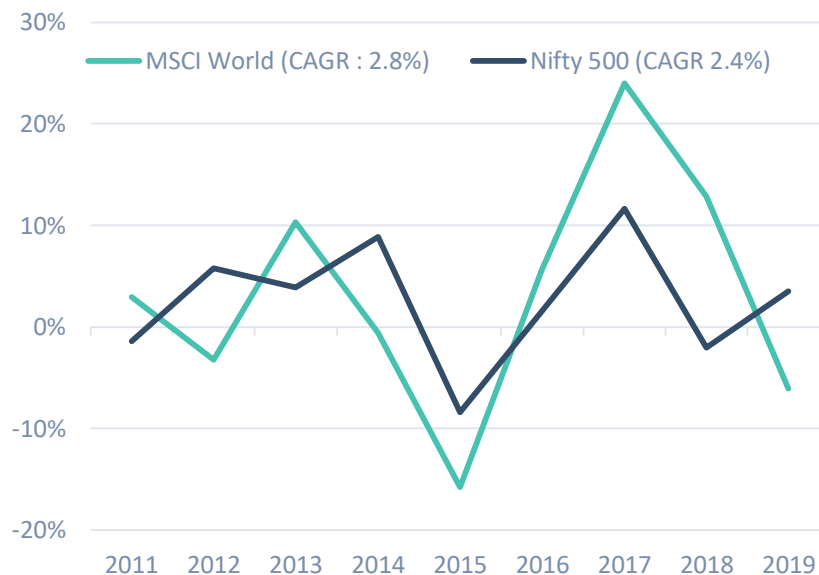
Sector	Global		India		Remarks
	ROE	P/B	ROE	P/B	
Communication Services	16	5	(23)	5	Superior RoE for similar book values
Consumer Staples	23	7	45	16	Better risk – reward globally than India
Industrials	27	6	14	5	Superior RoE for similar book values
Materials	14	3	17	7	Far more attractive valuations in global space

## Global sectors under represented in India

■ Nifty 500    ■ All Country World Index



## Comparable EPS % Growth YoY



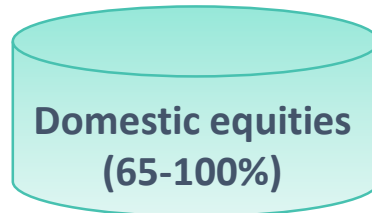
Source: FactSet, Bloomberg, GICS sectors, Global companies represent all country world index, Data of NIFTY500 (India) as on 30-Oct-2020, EPS growth trailing 12 months. The sector(s) mentioned in this document do not constitute any recommendation of the same and the Fund may or may not have any future position in these sector(s). These figures pertain to performance of the index/Model and do not in any manner indicate the returns/performance of the Scheme. It is not possible to invest directly in an index.



# Portfolio Construction

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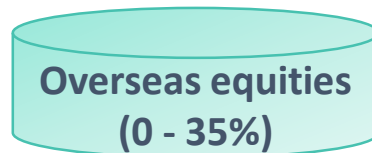
ASSIGN PORTFOLIO WEIGHTS  
To DOMESTIC EQUITIES



Weights assigned within internal risk guidelines

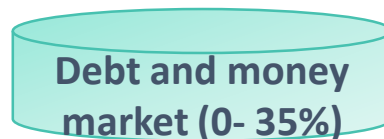
- Single Stock and single sector exposure constraints
- Weight constraints based liquidity considerations
- Part of this 65% could be hedged in the form of cash futures arbitrage when valuations are excessive

ADD OVERSEAS SLICE



- Overseas equities slice will be built up to 35% of the portfolio

DETERMINE FIXED INCOME  
WEIGHT



- Debt and money market is the balancing allocation
- If investment opportunities in domestic equities at reasonable valuations are abundant, this slice will be minimal

**Equity Taxation, Opportunistic Allocation and Diversification through overseas equities**

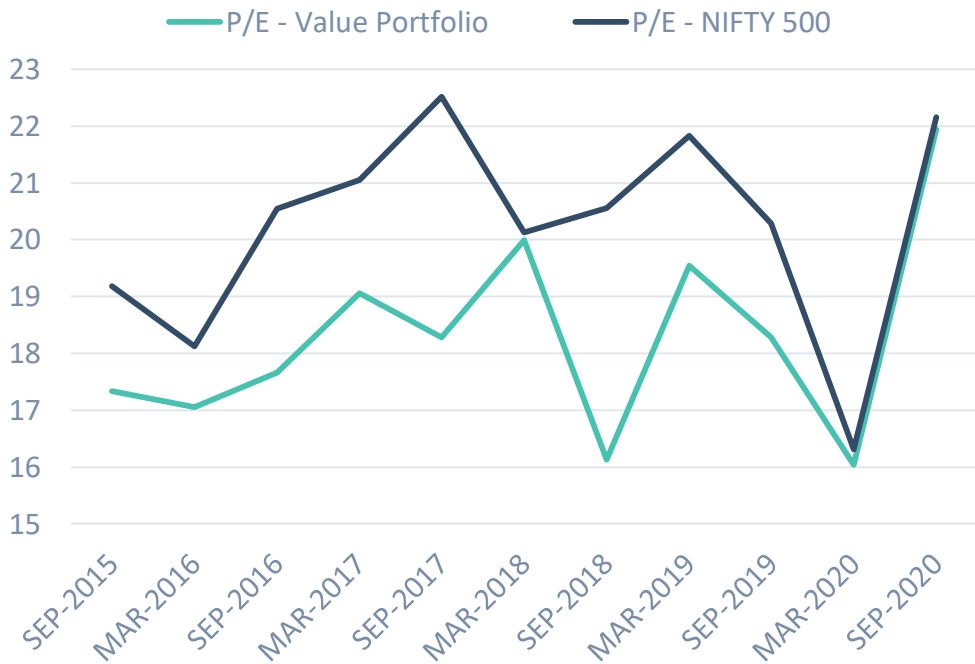
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# STRATEGY PERFORMANCE (simulated)

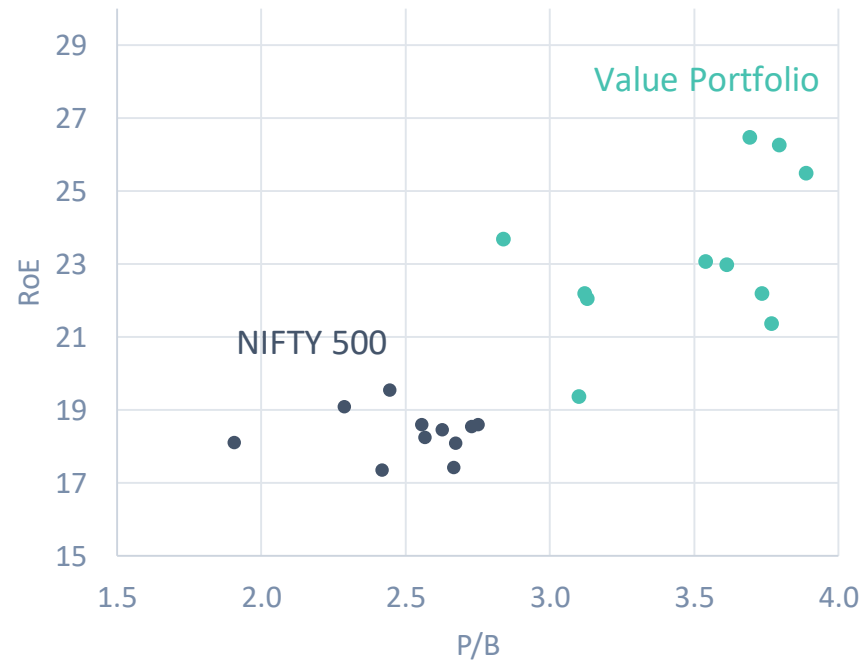


# Characteristics

P/E Comparison



P/B vs RoE (Past 5 years, Mar & Sep)

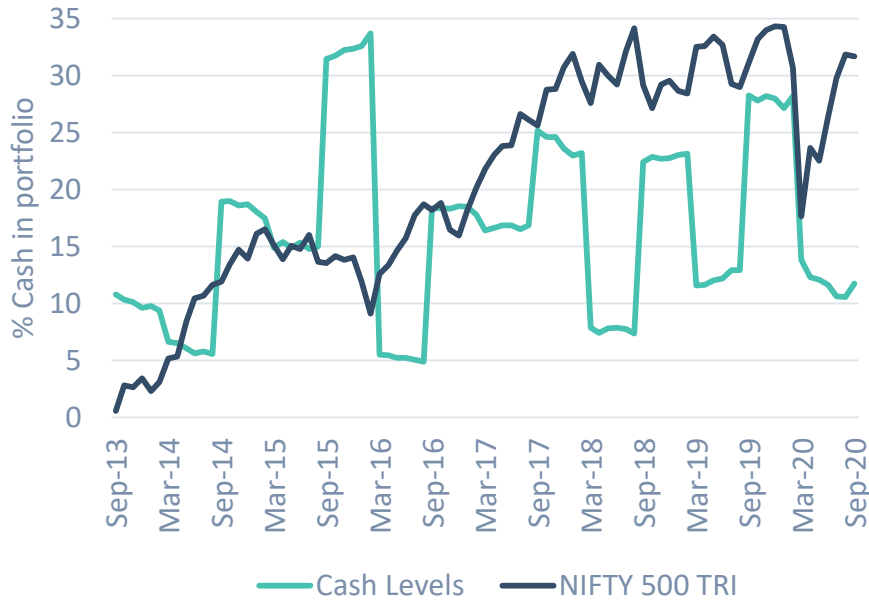


**Adjusted for profitability, P/B is comparable with NIFTY500**

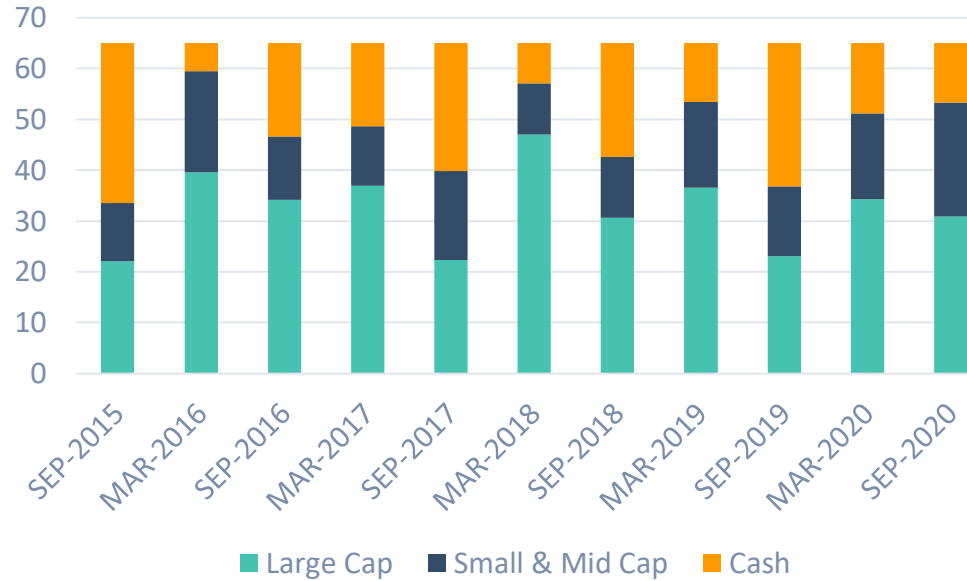
*Note: The data for P/E, P/B, RoE are shown on weighted average basis for portfolio created based on the strategy described in the presentation. These figures pertain to the backtest and do not in any manner indicate the returns/performance of the Scheme. The backtest portfolios are rebalanced every March and September. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. Data Source: FactSet. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). Data Source: FactSet, DSP Investment Managers Private Limited, NIFTY500*

# Composition

Cash levels in portfolio



Value Portfolio (65% domestic equities)  
Market Cap + Cash %

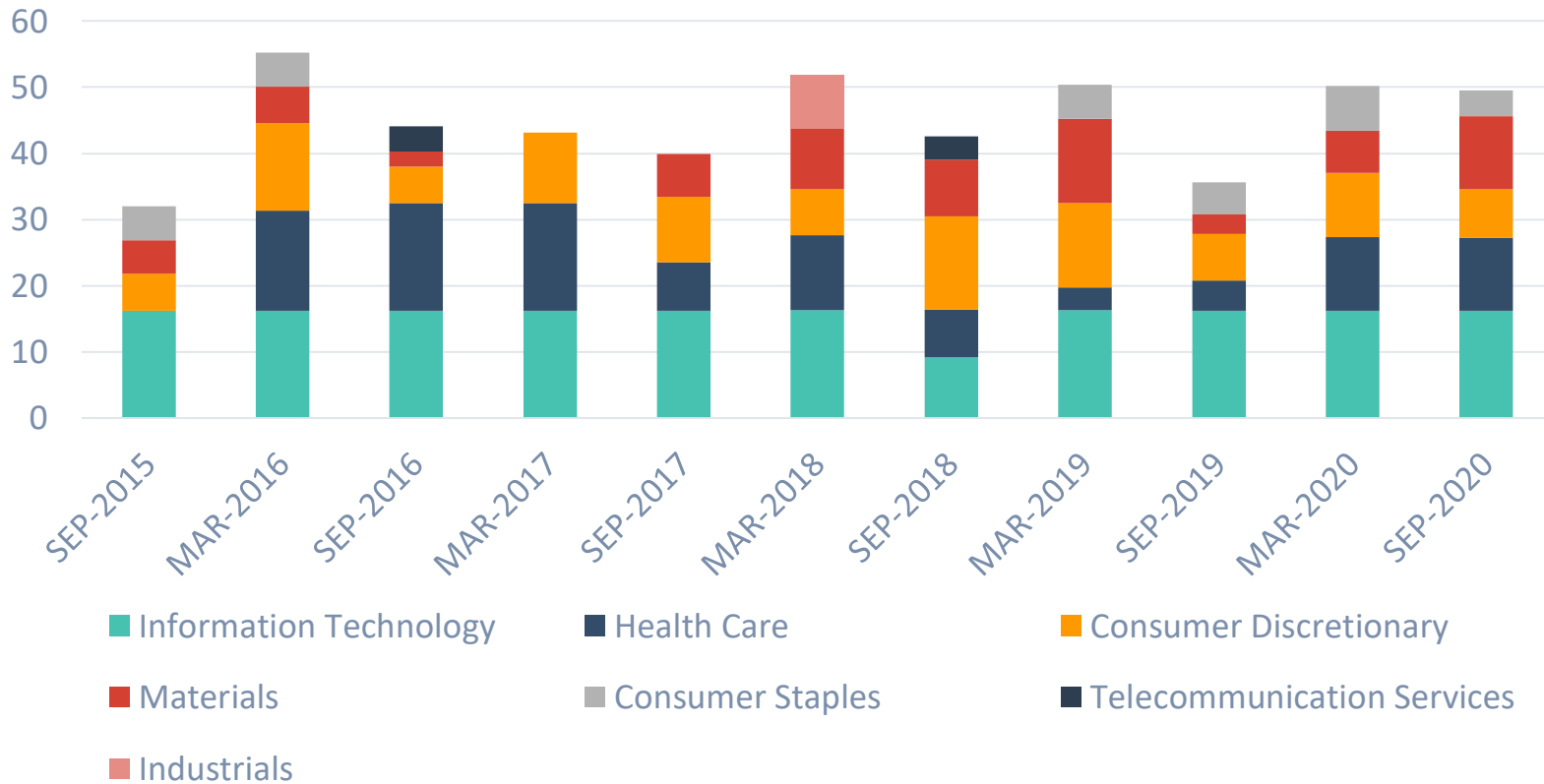


## Flexi-cap approach + dynamic cash allocations, determined by valuations

*Note: The data are shown for portfolio created based on the strategy described in the presentation. These figures pertain to the backtest and do not in any manner indicate the returns/performance of the Scheme. The backtest portfolios are rebalanced every March and September. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. Data Source: FactSet. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). Data Source: FactSet, DSP Investment Managers Private Ltd, NIFTY500*

# Sector Composition

Value Portfolio - Top 5 Sectors by Weight %



**IT, Healthcare, Materials, Consumer Sectors typically are part of the portfolio**

NOTE: Global Industry Classification Standard. The data are shown for portfolio created based on the strategy described in the presentation. These figures pertain to the backtest and do not in any manner indicate the returns/performance of the Scheme. The backtest portfolios are rebalanced every March and September. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). Data Source: FactSet, DSP Investment Managers Private Limited, NIFTY500

# Performance History (simulation)

CAGR	Domestic Portfolio (based on simulation)	International Value (MSCI ACWI Value Index)**	Value Strategy (65% Domestic +35% International)	NIFTY500 TRI
1 YR	24.7%	-8.0%	12.4%	-0.1%
3 YR	8.8%	2.1%	6.7%	2.7%
5 YR	9.0%	5.5%	8.0%	8.5%
10 YR	8.9%	10.0%	9.6%	8.0%
<b>13.1 YR*</b>	<b>10.3%</b>	<b>6.4%</b>	<b>9.3%</b>	<b>7.8%</b>
<b>Volatility</b>	<b>18.1%</b>	<b>17.6%</b>	<b>15.0%</b>	<b>22.3%</b>
<b>Returns/Risk</b>	<b>0.57</b>	<b>0.36</b>	<b>0.62</b>	<b>0.35</b>

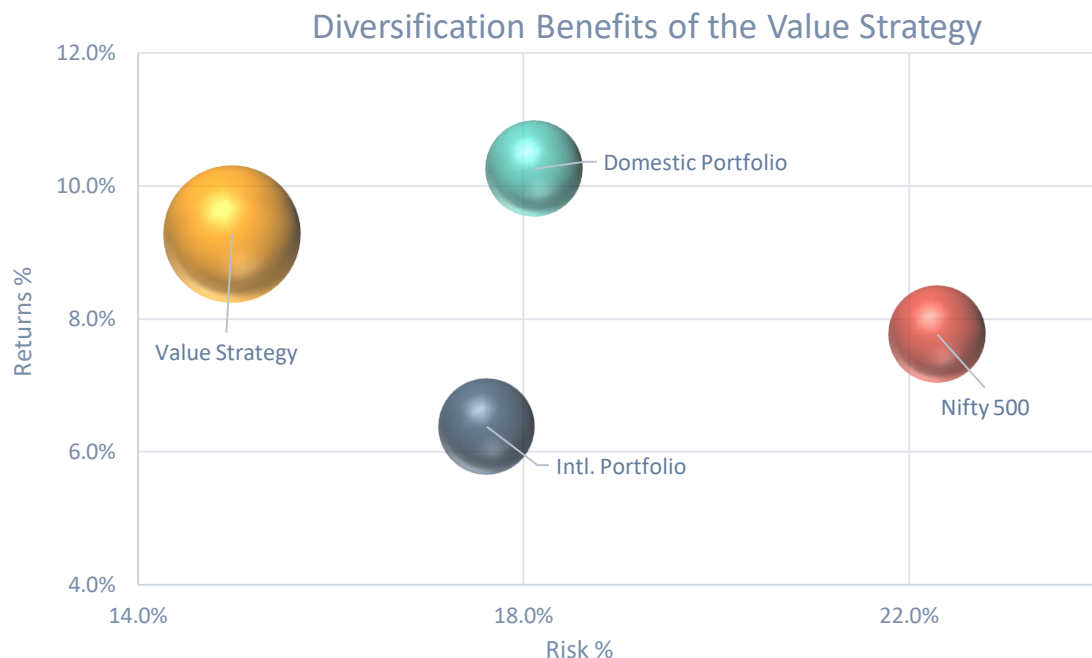
\* Denotes period of the simulation from 30-Sep-2007 to 31-Oct-2020. Returns for domestic portfolio are net of 3% annual fees and impact costs

\*\*MSCI ACWI is used for the international slice to depict blended returns. The actual portfolio will not invest in MSCI ACWI, but in chosen overseas securities based on fundamental research. Returns for International slice are net of 1% annual fees

\*Note: The performance numbers are Total return series from 30-Sep-2007 to 31-Oct-2020. Domestic Value Strategy is based on the investment process described in the presentation. The portfolios are rebalanced every March and September.

Data Source: FactSet, MFIE. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. These figures pertain to performance of the model and do not in any manner indicate the returns/performance of the Scheme. One cannot invest directly in an index.

# Diversification benefits of the Value strategy



**Diversification lowers risk**

**Reduces impact on account of endogenous shock or currency weakness**

Stress Scenarios	TaperTantrum	Demonetization	COVID 19
Domestic Portfolio	-4.8%	-1.6%	<b>-17.5%</b>
Intl. Portfolio	<b>14.2%</b>	<b>7.4%</b>	-32.7%
Value Strategy	1.6%	1.5%	-23.0%
NIFTY 500 TRI	<b>-15.4%</b>	<b>-8.7%</b>	<b>-37.2%</b>

NOTE: Returns for domestic strategy are net of 3% annual fees and impact costs

MSCI ACWI is used for the international slice to depict blended returns. The actual portfolio will not invest in MSCI ACWI, but in chosen overseas securities based on fundamental research. Returns for international slice are net of 1% annual fees

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# TEAM





# Investment & Quantitative Research Team

## FUND MANAGERS



**Suryanarayanan Manian – VP & Fund Manager**

- 10 year experience in investment and Product Management
- Since 2013 has been a part of Equity Investment team. Prior experience with Anand Rathi Financial Services
- Post Graduate Program (PGP) in Management from Indian Institute of Management (IIM), Ahmedabad. CFA Charterholder. Passed CAIA Level 1 examination Mechanical Engineering



**Jay Kothari\* – Senior VP, Lead Investment Strategist & Head – International Business**

- 14 years of experience across equities and global fund raising
- Has been with DSP Investment Managers since 2005 as a part of sales team and moved to Investments team in 2011
- Prior experience with Standard Chartered Bank in Priority Banking
- MBA in Finance & Bachelor of Management Studies (Finance & International Finance)

## QUANTITATIVE RESEARCH TEAM



**Aparna Karnik – Senior VP & Head Risk & Quantitative Analysis**

- 16 year experience in investment, credit and operations risk
- Prior experience with CRISIL Ratings (Structured Finance Division, Large Corporate Group)
- Masters in Management Studies from Jamnalal Bajaj Institute of Management Studies

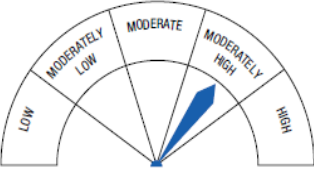


**Prateek Nigudkar – AVP, Risk & Quantitative Analysis**

- 7 years experience in quantitative finance and thematic research
- Prior experience with State Street Global Advisors (Global Beta Solutions Group) and Credit Suisse (Private Banking Global Research Division)
- MS (Quantitative Finance) from Olin Business School, Washington University in St. Louis MO

**Team with DEEP EXPERIENCE in investments & quantitative strategies across Indian & Global markets**

# Product labelling details

Fund	Product Suitability	Riskometer
<p><b>DSP Value Fund</b> <i>(An open ended equity scheme following value investment strategy)</i></p>	<p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"><li>▶ to generate long term capital appreciation / income in the long term</li><li>▶ investment primarily in undervalued stocks</li></ul>	 <p>Investors understand that their principal will be at moderately high risk</p>

\*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

# Disclaimer

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**The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s).** The portfolio of the scheme is subject to changes within the provisions of the Scheme Information document of the scheme. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.**

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**The strategy mentioned has been currently followed by the Scheme and the same may change in future depending on market conditions and other factors. There is no guarantee/assurances of returns/income generation/ capital protection in the Scheme.** Please refer to the SID for investment pattern, strategy, risk factors and other details which is available at [www.dspim.com](http://www.dspim.com).

Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of DSP Mutual Fund.

**For complete details on risk factors, event of suspension of subscriptions and more details, investors are requested to read the Scheme Information Document (SID) of the Scheme.**

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

**DSP**  
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