Investment Philosophy

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Manages:
DSP Tax Saver Fund
DSP Equity Opportunities Fund
DSP Natural Resources and New Energy Fund
DSP India T.I.G.E.R. Fund (The Infrastructure Growth and Economic Reforms Fund)

This framework is applicable only for DSP Equity Opportunities Fund & DSP Tax Saver Fund

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Core Philosophy

I believe in buying business for less than what they are worth.

I want to buy companies, with capable managements, good growth and good balance sheets – when they are available at sufficient margin of safety. I am not averse to investing in cyclical businesses close to the troughs in their business cycle or companies where a turnaround in business is expected due to imminent triggers.

Approximately 70% of scheme's portfolio, consists of companies available at valuations providing sufficient margin of safety and hence offering superior risk-reward in my opinion. These are A.) companies at lower valuations vs. their own histories and that of their peers, owing to factors that are temporary in nature and B.) businesses close to cyclical lows and available at distressed valuations.

To avoid value traps, most of the companies in scheme's portfolio, typically have ROE >= 12%, expected earnings growth of >= 10%, Operating Cash Flows/EBITDA >= 0.5x and Net Debt to Equity of =< 1.5x. I buy cyclical businesses, if I expect them to meet these thresholds within the next two years.

Approximately 30% or less, of scheme's portfolio is invested in stocks with strong growth and profitability metrics that might not meet the margin of safety criterion. These are companies with visible catalysts for further improvement in growth and/or return-risk profile. These stocks usually do not end up with a positive active weight.

Conservative assumptions built into the stock price is the measure of Margin of Safety. I am also looking for lower relative multiples (below long term average) to own history and peer group of companies.

Margin of safety is at the core in my investment process, giving the scheme's portfolio, a value tilt.

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Investment Framework

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I. Entry Process

I look for stocks where I feel the price has deviated significantly from what I believe to be fair value of that business. My estimate of the fair value is based on conservative assumptions about the future shaped by the strength of the business model, its historical track record and the quality of people leading it.

I consider businesses going through a challenging phase if I believe they are available at a price that offers more than enough compensation for the potential risks. For example, I am perfectly willing to invest in commodity stocks if they are available at large discounts to their fair values often at the trough of a business cycle.

My evaluation horizon for a business is years, rather than decades. In the age of digital transformations and disruption it's not prudent to presume that business fundamentals of any sector will remain unchanged so far ahead into the future. If an idea continues to deliver the results, I will continue holding it unless the valuation breaches my comfort zone or I have an opportunity to move to a better idea.

While evaluating a business I focus on:
- Business Model
- Quality of Management
- Financial Metrics

Business Model

Primary factors that I consider are:
1. Structure of the Industry: Cyclical, Structural, Fragmented, Consolidated, Regulatory Environment
2. The Supply Chain: Bargaining Power of Suppliers, Local / Offshore, Distribution Channel
3. Product Positioning: Pricing Power, Premium vs. Value, Branding
4. Demand and Growth Drivers: Penetration, Market Size, Role of Capex, Wage Growth, Technology
5. Competitive Advantages: Brand, Scale, Differentiation, Cost of Production

I also look at sustainability of these factors over time and the execution during recessions and down cycles in particular. I like businesses that can remain profitable at the bottom of the cycle and, even better, continue to grow and gain market share. The drivers of profitability and growth could be different for different companies even within an industry.

Quality of Management

Management's execution track record and capital allocation decisions have a large impact on the value of a company. I evaluate managements based on their transparency and commitment to shareholder value creation. A history of frauds, gross misallocation of capital, accounting lapses, low quality of disclosures, rent seeking mentality and mistreatment of minority shareholders are red flags.

This is often a subjective assessment. Although I do not believe that when it comes to management errors the future should always be a victim of the past. The current situation might be different and could present unique opportunities. I am willing to evaluate businesses where management and governance is on an improving trajectory.

Financial Metrics

I want to have a holistic understanding of the Balance Sheet and Profit Model of the company before investing. No single parameter or ratio provides this in isolation. I don't look at just the current financial metrics but also how they have tracked over time.

I also explore the possibility that some of these ratios might be at cyclical troughs or highs with plausible triggers. I want to know what the normalized ratios and numbers would look like in case the company:

a) Is currently facing temporary slowdown or dislocation (often neglected and beaten down stocks)
b) Is going through a temporary but unsustainable favourable phase (often stocks with positive growth and price momentum)
c) There are positive changes (management changes, capital allocation etc which were an overhang on the stock in the past)

At times the data suggests a significant shift in business fundamentals over the medium term - this could be either due to change in industry dynamics (reduced competition), regulatory changes (taxation, levies), or other factors. Here the key is to take a longer-term view and try to estimate the normalized earnings and potential upside.

Starting cash flows and return ratios may look weak. Any positive surprise, in these cases, not only leads to swift earnings recovery but also valuation rerating. The potential upside in these cases is often high with low downside risks.

II. Valuation

All the value of a company lies in its future. I don't rely solely on historical parameters to anchor my judgement of 'value'. What I focus on is:

- **Margin of Safety:** What is the difference in price and the intrinsic value of the company based on my assumptions?
- **Risk Reward:** What is the upside compared to the downside?

In that sense my valuation approach is more forward looking. I will consider stocks that:

- Are at high multiples compared to history: If I conclude that the future growth and profitability is going to be even stronger than what is implied by the price and the predictability of this improvement is high. These are generally market leaders who have delivered consistently over the past. Due to changes in business or market structure these assumptions could still be conservative.
- Are at low historical multiples compared to history: If I believe all the risk (business, balance sheet, management) is being priced in the stock. But here I will often wait for positive triggers before taking a substantial position. I will increase weights as my positive rerating thesis plays out.

I am not going to be always invested in sector or industry leaders. Stocks in an industry that have similar record and similar growth prospects but are available at significant discount to the leader will form part of my consideration set.

The threshold for inclusion for these ideas is high i.e. I should have very high conviction that the future business performance is going to diverge from the past.

III. Portfolio Construction

Approximately 70%, of scheme's portfolio consists of stocks with (A) capable managements, good growth and good balance sheets with sufficient margins of safety or (B) companies close to cyclical lows in their business that are available at distressed valuations.

Note that in the case of cyclical businesses, I am not trying to forecast the cycles. I am trying to participate in the ideas if they offer satisfactory upside with limited portfolio risk.

The key thresholds I consider during evaluation of such ideas are:

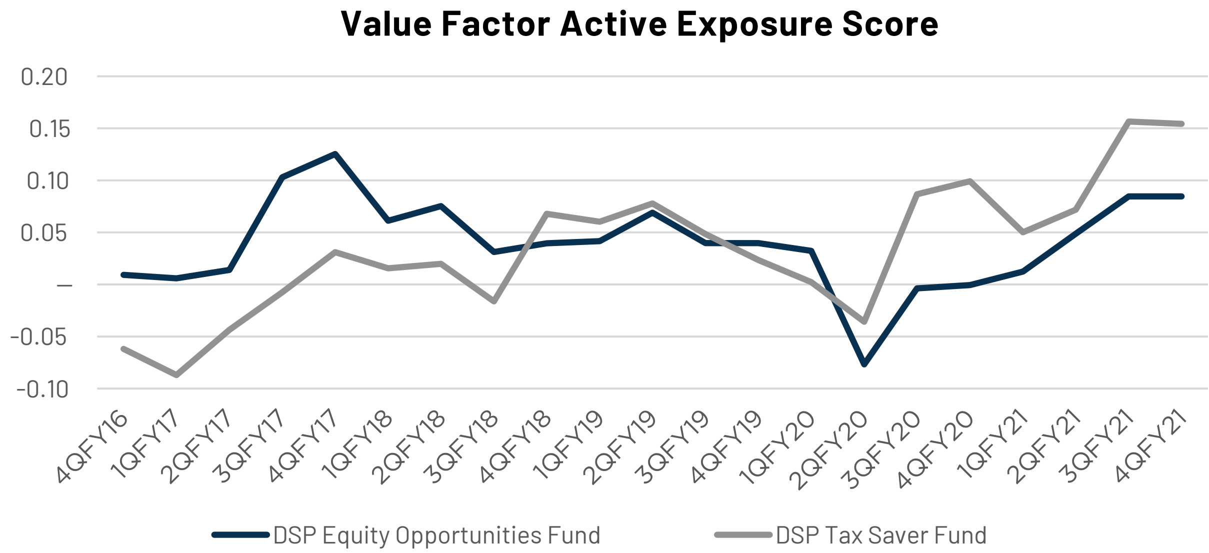
	Parameters	**Criteria**
Non-Financial Companies (3 or more of the listed criteria should be satisfied)	Return on Equity	Last 3 Year Average ROE >= 12%
	CFO/EBITDA	Last 3 Year Average CFO/ EBITDA >= 0.50x
	Net Debt/Equity	<= 1.5 X
	Dividend distribution	Dividend paid at least three times in last five year bucket.
	Expected ROE Improvement	Expected ROE Improvement (estimated FY2 ROE >= Trailing 3 Year Average ROE)
	Expected Earnings Growth	>=10% (over the next two years)
Financial companies (2 or more of the listed criteria should be satisfied)	Expected Earnings Growth	>=10% (over the next two years)
	Return on Assets (ROA)	Last 3 Year Average ROA >= 1.2% / ROE >= 12%
	Expected ROE and ROA Improvement	Expected ROE and ROA Improvement (estimated FY2 ROE > Trailing 3 Year Average ROE)

Approximately 30% or less, of scheme's portfolio, are invested in stocks with strong growth and profitability metrics and might not meet the margin of safety criterion. These would be companies with visible near-term catalysts for further improvement in growth and/or return-risk profile. These stock will typically not end up with a positive active weight.

Factor Tilt

I try to maintain a "Value" tilt in scheme's portfolio. The Value factor is based on traditional valuations multiples (Price to Book/Price to Earnings/Price to Sales) and also the valuation of the stock compared to its own history. The tilt is particularly significant for my large active bets. The overall portfolio may display a lower tilt because at times I buy expensive stocks in the Benchmark that are showing growth momentum owing to some industry tailwinds or near-term catalysts. The idea is to lose less due to these moves and not have a large negative active weight here temporarily.

Value factor tilt was positive most of the time (Based on BARRA Risk Model)



Source: Internal, Factset. Above charts do not indicate any past/future returns of the schemes. **Past performance**

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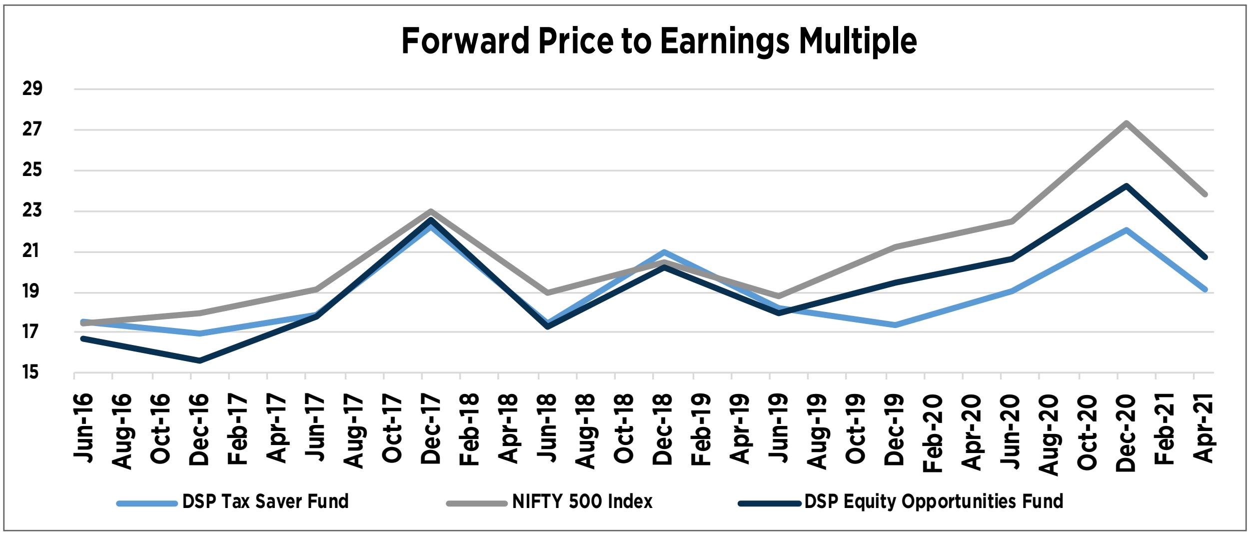

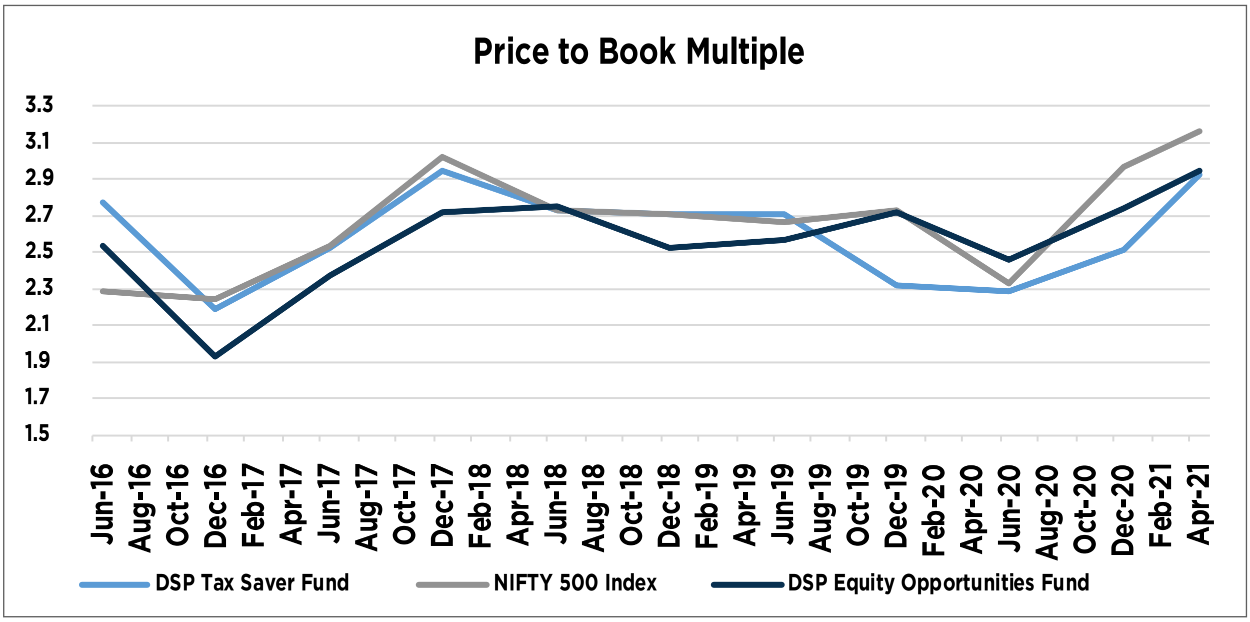

may or may not sustain in future.

Source: Internal, Factset. Above charts do not indicate any past/future returns of the schemes. **Past performance may or may not sustain in future.**

Why Value Tilt?

Stocks trading at higher multiples are prone to large de-rating in case of any disappointments. Stocks where the embedded expectations are low are open to positive triggers. Last decade has been one of the worst periods in history for traditional Value funds.

But even in this phase of extreme underperformance a simple combination of Price to Book, Price to Sales and Price to Earnings has performed well in India with average performance similar to the Index. Following is the data compiled by our Risk and Quantitative Analysis Team.

Period	Sep-2005 to Feb-2021			
	S&P BSE 200 Index	PB Factor	PS Factor	PE Factor
Total Return (CAGR)	13.80%	12.40%	14.10%	13.90%

Source: Internal. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.**

Note that some of stocks with low multiples were bad businesses and frauds and were easily avoidable. If we put other filters, then the returns from these vanilla factors do go up. Contrary to popular belief even traditional value has given satisfactory returns in India in one of the most challenging periods for the factor.

Sizing

If I am highly convinced about an idea, I will deviate significantly from the Benchmark, both in case of sector and stock specific exposures but at times of uncertainty the active share could be lower. In that sense my approach is more "relative to Benchmark" vs. "absolute return".

Sizing of position in portfolio depends on:

1. Conviction in the Idea

If a good business which satisfies most of the parameters I mentioned above, is led by a quality management and is available at a reasonable valuation then I take a large position. My conviction is high even in cases where a company is facing challenges, but with plausible positive triggers and is available at a valuation which offers significant upside potential and limited downside risks. These could be companies available at a discount to their own historical valuations or that of their peers for reasons I think are temporary in nature.

Conviction primarily is a function of margin of safety and risk reward.

Source: Internal, Factset

2. **View on the Macro Cycle**

   I could be overweight in cyclical businesses (fundamentals of the business tied to the fundamentals of the economy) especially in times when economic growth is strong. Eg: Autos, Industrials, Financials, etc.

   In case of weak economic growth, I would want to be underweight cyclicals and overweight in non-cyclical businesses. Eg: Staples, IT, Pharma, etc.

3. **Liquidity**

   I typically have lower weights in less liquid positions

   In sectors where I don't have a strong view (either positive or negative) I don't want to deviate too much from Benchmark weights. My approach is to find relative ideas in such cases.

IV. Exit Process

I do not subscribe to 'hold for ever approach' to investing.

I believe businesses are increasingly becoming more complex, volatile and ambiguous. The turnover in world equity indexes have increased over the last few decades. Disruption enabled by technology and at a global scale is rapidly eroding moats. Easy and widespread availability of data leads to overextended valuation in consensus ideas which leaves no room for error and a thin margin of safety.

Primary reasons to sell are:

1. My original thesis has been violated: My approach is to track how my investment thesis has played out versus expectations. If the incoming data invalidates the original thesis, then I do not hesitate to exit or down size the position.
2. Lack of valuation comfort: If a stock has rallied so much that I believe it's already factoring in all the positives then I try to reduce or even exit that position and move to another name that offers a better risk reward. I look at the base rates, how have businesses in similar position performed historically, to judge whether the built-in expectations are aggressive or conservative.
3. Allocation to a better idea: This is one of the best reasons to sell.
4. To raise cash.

V. My Claim on Alpha

I expect to generate alpha because:

1. I am willing to let go off businesses trading at extreme valuations that offer no margin of safety and in turn avoid long periods of stagnation, gradual de- rating or value destruction due to negative triggers.
2. I am willing at the same time to invest in businesses where the sentiment and consensus is so bearish that the business is available at a price which offers very favourable risk reward and any positive development could lead to large rerating.

Both these approaches carry the risk of temporary underperformance, particularly in extended bull markets. This is the pain I choose as the unavoidable cost of alpha in my approach.

VI. What can an investor expect?

In periods when I have a strong conviction in an idea the active share for a sector/ stock will be high. But in a period where the opportunities are few I would reduce deviations from Benchmark. The expensive names in scheme's portfolio are usually Benchmark stocks where I don't have a positive active weight. High active weights are usually in names that are coming off cyclical lows or laggards in a sector on improving business trajectory.

I expect the alpha to come in bursts when I have opportunities to invest in ideas with large margin of safety. At other times my aim is to meet the Benchmark returns with lower risk. There may be periods where there is sharp momentum or "quality" rally which may result in the portfolio underperforming the benchmark.

I try to have a positive value tilt in scheme's portfolio.

VII. Appendix

Portfolio performance and sources of alpha

Portfolio Parameters

	Equity Opportunities Fund	Tax Saver Fund	Nifty 500 Index
Portfolio ROE	13.2%	13.8%	15.0%
Portfolio PE	22.6	20.6	25.9
Portfolio PB	2.9	2.9	3.2
Historical 3 Yr. EPS Growth	33.3%	32.7%	18.2%

Source: Internal, Factset, As on 30th April, 2021

Performance

Fiscal Year Returns	2021	2020	2019	2018	2017	2016	2015
DSP Equity Opportunities Fund	75.0%	-24.6%	5.5%	10.9%	31.5%	-2.7%	47.5%
Alpha V/S Benchmark	-10.9%	2.9%	-1.0%	-3.7%	1.7%	1.6%	2.6%
DSP Tax Saver Fund	77.5%	-23.8%	8.4%	8.8%	30.7%	-2.7%	50.3%
Alpha V/S Benchmark	0.0%	2.8%	-1.3%	-4.0%	5.1%	3.9%	15.4%

Source: Internal, Based on NAV. Period considered- FY 2015 to FY 2021. For DSP Equity Opportunities Fund - Regular plan - Growth option and for DSP Tax Saver Fund - Regular plan - Growth option considered. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.** For Latest performance of other schemes managed by the same fund manager and latest performance in SEBI prescribed format for DSP Equity opportunities Fund **click here** and for Tax saver Fund **click here.**

Benchmark of DSP Equity Opportunities Fund- Nifty Large Midcap 250 Index TRI and Benchmark of DSP Tax Saver Fund- NIFTY 500 Index TRI

Fund Managers Details-

DSP Tax Saver Fund- Rohit Singhania is managing the scheme since July 2015. Charanjit Singh is managing the scheme since January 2021.

DSP India T.I.G.E.R. Fund (The Infrastructure Growth and Economic Reforms Fund)- Rohit Singhania is managing the scheme since June 2010. Charanjit Singh is managing the scheme since January 2021. Jay Kothari$ is managing the scheme since March 2018.

DSP Equity Opportunities Fund - Rohit Singhania is managing the scheme since June 2015. Charanjit Singh is managing the scheme since January 2021. Jay Kothari$ is managing the scheme since March 2018.

DSP Natural Resources and New Energy Fund- Rohit Singhania is managing the scheme since July 2012. Aayush Ganeriwala is managing the scheme since January 2021. Jay Kothari$ is managing the scheme since March 2013.

[$]Dedicated Fund Manager for overseas investments

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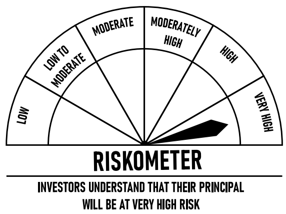
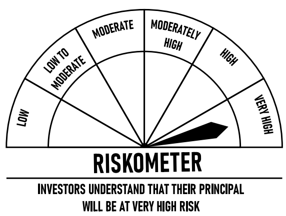
Product labeling of the Schemes:

DSP Tax Saver Fund An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit	This Open Ended Equity Linked Saving Scheme is suitable for investors who are seeking* • Long-term capital growth with a three-year lock-in • Investment in equity and equity-related securities to form a diversified portfolio * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	
DSP Equity Opportunities Fund Large & Mid Cap Fund- An open ended equity scheme investing in both large cap and mid cap stocks	This Open Ended Scheme is suitable for investors who are seeking* • Long-term capital growth • Investment in equity and equity-related securities predominantly of large and midcap companies * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	
DSP Natural Resources and New Energy Fund An open ended equity scheme investing in Natural Resources and Alternative Energy sector	This Open Ended Equity Scheme is suitable for investors who are seeking* • Long-term capital growth • Investment in equity and equity-related securities of natural resources companies in sectors like mining, energy, etc. and companies involved in alternative energy and energy technology and also, investment in units of overseas funds which invest in such companies overseas * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	
DSP India T.I.G.E.R. Fund (The Infrastructure Growth and Economic Reforms fund) An open ended equity scheme following economic reforms and/or Infrastructure development theme	This Scheme is suitable for investors who are seeking* • Long-term capital growth • Investment in equity and equity-related securities of corporates, which could benefit from structural changes brought about by continuing liberalization in economic policies by the Government and/or from continuing Investments in infrastructure, both by the public and private sector * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	

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