DEEP VALUE PORTFOLIO

Investment Objective

The Deep Value portfolio endeavours to generate capital gains over the long term, by investing in a diversified portfolio of significantly undervalued stocks.

Suitability of the Product

The Deep Value portfolio may be considered suitable for investors with a medium to high-risk appetite and an investment horizon of above 12 to 18 months.

Investment Strategy

The Deep Value portfolio will invest primarily in stocks that are significantly undervalued i.e. a stock, which trades at valuations that are significantly below the estimated fair value of the company. The degree of undervaluation of the stock may be judged by various quantitative valuation parameters including, but not limited to, price/earnings, price/book, dividend yield, price/cash flow, replacement cost, sum-of-part valuation etc.

The core investment philosophy of value investing is based on the belief that stocks cannot continue to quote at values that are significantly below their fair values over the long term. At some point in time, the markets are likely to recognize the extent of undervaluation of these companies. The same could lead to a rerating / appreciation in the companies stock price.

There are various reasons why stocks tend to quote at low valuations. Some of these include:

- **Irrational market sentiments:** that drive down the price of a stock to a level lower than justified by fundamentals. This could occur as an overreaction to negative news or as result of market pessimism on corporate/industry fundamentals. Markets also often tend to ignore certain stocks/sectors that appear to have low growth or non-exciting stories.

- **Valuations not factoring in all aspects of the companies earning potential:** Companies may have certain hidden assets on their books or assets whose actual value may not be factored in by the markets. This could include surplus land, equity holdings, cash on balance sheets, trademarks etc. The markets are also at times slow to factor in company developments such as operational or financial restructuring, entry in to new markets, capacity expansions, introduction of new products, change in management etc. that could potentially add significant value to the worth of the business. During cyclical downturns, a number of companies are also often valued based on bottom cycle earnings, which can look very attractive as the industry cycle improves.

The investment process consists of initially preparing a universe of stocks that are quoting at low valuations, and subsequently conducting in-depth fundamental research with an aim of understanding the true worth of the business, reasons behind the current undervaluation and the potential drivers that could lead to a rerating of the stock. This is because there are also a large number of companies whose low valuations are justified by weak fundamentals.

The holding periods of individual stocks tend to be high as the necessary drivers for the expected re-rating could fall into place over a period of time. The performance of the Deep Value portfolio may thus not move in line with the overall markets, and could significantly under or outperform the markets at various points in time. We would thus recommend that investors invest in the Deep Value portfolio with a longer-term investment horizon. lio returns

Risk Factors & Disclaimer

The Client shall not make any claim against the Portfolio Manager and shall indemnify and keep indemnified the Portfolio Manager from and against any losses (notional or real) or against any loss of opportunity for gain under various PMS Products including but not limited to Deep Value Portfolio, on account of or arising out of such circumstance/ change in market condition or for any other reason which may specifically affect a particular sector or security, including but not limited to disruption/ prohibition/ discontinuation/ suspension of trading in a particular Security including any index or scrip specific futures/ options or due to any act of Company, Market Intermediary by SEBI or any other regulatory authority which may result in trading in such security (ies) being completely or partially affected, to which the Portfolio Manager has taken exposure/ proposed to take exposure and is unable to take additional exposure/ restrain him from taking any position in a particular equity or related derivative instruments etc. due to any reason beyond the control of the Portfolio Manager resulting in unhedged positions or losses due to unwinding of certain positions or losses due to any reason or related to any of the aforesaid circumstances.

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