Investment Framework

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DSP MUTUAL FUND

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"Investment is most intelligent when it is most business-like"
- Benjamin Graham

"Selecting a stock for superior returns might be challenging for the average investor. However, if you inquire about a sound business, the common response will likely emphasize durability of growth and the potential for superior returns on invested capital. This, precisely, is the foundation of sound investment principle.

– Vinit Sambre

Success in investing comes from picking businesses that last and are well-run by capable managers. Businesses that can earn returns higher than the cost of capital for sustainable periods of time, can generate favorable returns. These businesses could provide excellent opportunity for long term investors. Now, why do we care about things like ROCE or ROE? ROCE, which stands for return on capital employed, is just a way of looking at the profit a company makes in a year on the invested capital.

"Return on Capital Employed (ROCE) is like measuring how efficiently a company uses its money to make profits. Imagine a business invests Rs.100 to run its operations and makes a profit of Rs. 20. The ROCE would be 20%, showing that for every Rs.100 invested, the company earns Rs.20 in profit. A higher ROCE means the company is really good at turning its investments into profits, which is great for investors. It's a way of checking if a company is using its money wisely and generating good returns."

Above is used for illustrative purposes only and are not intended to be indicative of any fund's performance.

This is important because it tells us not just about the current year's profits, but also how well the company manages its money, including money saved from previous years. If a company can keep making good profits and reinvest them wisely, it may show a sustainable and prolonged period of above average returns. On the flip side, if a company consistently doesn't make enough ROCE compared to safer options like fixed deposits, it might be a good idea to move the money somewhere else. ROCE is not static, which makes the investment journey unpredictable yet exciting. The success really lies in the ability to identify businesses which could probably generate superior ROCEs on a sustainable basis. This involves the element of predictability. The better one is at predicting the ability of the business to sustain high return on capital, the higher the chances of success. This is true for companies across market capitalizations. It's a bit more challenging to identify such companies in the small and mid-cap space due to the nascent nature of the businesses, the lack of prior history and limited predictive power.

DSP's Style for the Small cap and Mid cap investing:

Small and mid-cap stocks have the potential for high growth but come with high volatility. They are more sensitive to economic ups and downs compared to larger, more established companies. These stocks are often under-researched and less owned.

Investing in them requires a long-term outlook as value creation takes time. Successful investing in the small cap category involves thorough research, maintaining conviction in the investment thesis, and being vigilant about adjusting exposure when necessary.

For generating sustainable alpha, we aim to pick passionate management teams running businesses with a capital efficient mindset and generating superior ROCEs over long term. Hence, investors with a long-term appetite and the ability to stomach volatility should invest and continue to remain invested in these strategies. Our aim is to identify such businesses, track them closely and then buy and hold them for as long as necessary.

We also mitigate capital risk by avoiding businesses which are run poorly or are ranked low on governance standards and essentially must clear our forensic filters. A dedicated forensic analyst role is created for this purpose. His role is to identify governance, accounting irregularities and create a forensic filter for our investee companies.

Identifying Businesses:

When choosing businesses to invest in, we focus on three main things:

• The business,
• Who runs the business, the management,
• At what price is the business available, the valuation.

The business:

We prefer straightforward business, the ones with potential for growth over its peers. We look at the following set of factors closely.

1. **Competitive advantages:** Why does the business enjoy any competitive advantage and is it sustainable in face of competition. Has this advantage allowed the business to have and grow its market share?
2. **Market size:** Is this business in a large and high growth sector, and, or it can grow and increase its market share overtime?
3. **The ability to generate consistent profits:** Is there an inherent strength in the business or its management to wrest industry profits and reinvest at high rate of returns. How predictable is the Return on Equity for investors?

Disclaimer: The investment approach / framework/ strategy mentioned herein are currently followed by the scheme and the same may change in future depending on market conditions and other factors.

In our thorough evaluation process, we delve into industry insights and conduct meticulous due diligence, engaging with competitors, vendors, customers, auditors, ex-employees, and plant managers to validate information provided by company management. We then analyze the company's financials over the past 10 years or since the inception of the businesses, scrutinizing cash flows, revenue and profit cyclicality, balance sheet strength, and working capital requirements. Our focus is on identifying any abnormalities and steering clear of companies with excessive related party transactions or complex shareholding structures, which could signal potential fund leakage or dubious financial practices.

Who runs the business, the management:

"To finish first, you must first finish." Businesses rooted in ethics, trust and fully compliant with business regulations are the ones we focus on.

A trustworthy and skilled management team is pivotal. Credibility and capability, linked to driving business growth, are subjective but crucial qualities that surpass conventional measures like experience or qualifications. Individual judgment matters greatly in this assessment.

- Evaluating management in small-cap companies can be tricky due to limited information availability, yet it's vital given their role in driving growth. We focus on key aspects like passion and ownership, favoring high promoter involvement aligning with shareholder goals.
- Assessing the track record in meeting projections, especially in tough times,
- Prioritizing prudent capital allocation, a key driver for long-term wealth creation through Return on Capital Employed (ROCE).

At what price is the business available, the valuation.

All successful investment involves trying to get into something where it's worth more than you're paying.

We determine a reasonable valuation for our investee companies by assessing both business strength and management quality. Valuations are not considered in isolation; we examine them alongside growth, return ratios, management quality, earnings stability, cyclicality, and other factors. Higher consistency in growth and Return on Capital Employed (ROCE) allows a business to command a higher multiple.

We also look at business cycles and valuations cycle. We are comfortable investing in good businesses available at rich valuations if the businesses are going through low to mid business cycles. We adjust their optical valuations for full cycle. We avoid businesses at peak of their business cycle and trading at peak valuations. This assessment also allows us to size the bets appropriately.

The exit strategy: When do we Sell/ Book Profits?

We prefer to hold great businesses forever. This is one of the reasons why our portfolios have lower churn and turnover. But there are times we need to adapt and act. In the following cases we will sell or book profits:

- Businesses trading at peak business cycles and very expensive valuations.
- Deterioration in the business fundamentals potentially due to regulatory changes, management strategy shift, deterioration of cash flows, etc.
- Surfacing of corporate governance issues which we were not able to anticipate at the time of investment.
- Fraudulent activity or misrepresentation of facts with respect to the financials of the company.

Do we buy stocks outside the framework and how do we manage risk?

Yes, we do hold stocks in our portfolio that don't perfectly align with our investment framework. During transitions, especially when strong management teams are involved, we see opportunities to support good companies. We may invest in companies on the periphery of our framework or undergoing transitions, trusting in the management's ability to lead a successful turnaround. The cautious nature of the mid and small-cap space calls for prudence when building positions. When investing in companies outside our framework for potential improvements, we manage risk by keeping lower exposure, limiting the impact of any failures to a reasonable extent.

Has this framework helped us in creating alpha?

We are confident of the companies we hold as well as their ability to deliver high earnings growth going forward. When the framework is followed, we expect the portfolio to generate superior returns.

Action on stocks going outside the framework.

Our investee companies falling outside the framework due to business cycles don't necessary warrant selling the position if the long-term thesis is intact. We would like to double down on these positions during their low business cycles to gain from the eventual recovery. A business which we pick from outside our framework and shows no visibility of a move towards it, shall be reviewed, and likely dropped in a reasonable period of time.

We hold the conviction that sound companies meet specific financial benchmarks, crucial in our evaluation process. For non-financial service businesses, we prioritize the following metrics:

Metric	Threshold	Importance	Rationale
3 Yr. Avg. ROE	>16%	High	Long-term consistency is very important. 16% provides a fair margin over the risk-free rate and adequately covers for the risk undertaken in the business.
5 Yr. Avg. EBITDA Growth	>13%	High	Growth higher than nominal GDP growth ensures outperformance over index.
5 Yr. Avg. PAT Growth	>13%	High	Growth higher than nominal GDP growth ensures outperformance over index.
Margin Increase: EBITDA Growth > Sales Growth	>1	High	Indicates operating efficiency and operating leverage potential.
Tax Rate	>20%	High	Lowers the risk of accounting misrepresentation. Tax payment is one indicator of clean accounting.

ROE- Return on Equity; EBITDA- Earnings before Interest, Tax, Depreciation and Amortization; PAT- Profit After Tax

Metric	Threshold	Importance	Rationale
Earnings per share (EPS) Growth Variability	<100%	Low	Indicator of stability of earnings. Helps to size positions.
Payout Ratio	>15%	Low	Indicator of cash generation in the business and profit-sharing mindset of the management.

Metric	Threshold	Importance	Rationale
Net Debt/ EBITDA	<3x	High	Lower ratio depicts less leverage indicating strength of the business and makes business less vulnerable during economic downturns.
Valuation	High ROE justifies higher P/E (Trailing 12M)	High	Will pay higher valuations for businesses with high ROE provided other metrics are also strong.

Metric	Threshold	Importance	Rationale
Free Cash Flow Yield	Positive	High	Explains quality of operating earnings especially in the context of working capital and capex.
Receivable days variability	<30 days	High	Lower variability (not the absolute days) in receivable days suggests strong bargaining power of the business.

ROE- Return on Equity; EBITDA- Earnings before Interest, Tax, Depreciation and Amortization; PAT- Profit After Tax

Metric	Threshold	Importance	Rationale
Inventory days variability	<30 days	High	Lower variability suggests lower cyclicality of business.
Payable days variability	<30 days	High	Lower variability indicates bargaining power of the management and reduces the risk of high debt disguised as payable.

Metrics for financial services business:

Metric	Threshold	Importance
3 Yr. Avg. ROE	>16%	High
Tax Rate	>20%	High
Gross NPA	<2%	High
5 Yr. Avg. PAT Growth	>13%	High
EPS Growth Variability	<100%	Low

Statistics at aggregate level for both funds on the framework criteria is as follows:

% weights that meet stated framework*		
	DSP Small Cap Fund	**S&P BSE 250 Small Cap TRI**
2023	66.1	59.0
2022	64.3	53.2
		S&P BSE Small Cap TRI
2021	62.2	50.2
2020	70.8	57.8
2019	79.2	63.4
Performance CAGR		
5Y (2019-2023)	24.8%	24.5%^

Source: Factset, MFIE. *Portfolio considered at a point in time in end September every year. ^Represents blended performance of newly adopted benchmark “S&P BSE 250 Small Cap TRI” effective from December 01 2021 and prior to that of “S&P BSE Small Cap TRI”. Past performance may or may not be sustained in the future. **There is no assurance of any capital protection/capital guarantee to the investors in the Scheme.** For Scheme performance in SEBI prescribed format refer Annexure

ROE- Return on Equity; NPA- Non-Performing Asset; PAT- Profit After Tax; EPS- Earning Per Share

Disclaimer: The investment approach / framework/ strategy mentioned herein are currently followed by the scheme and the same may change in future depending on market conditions and other factors.

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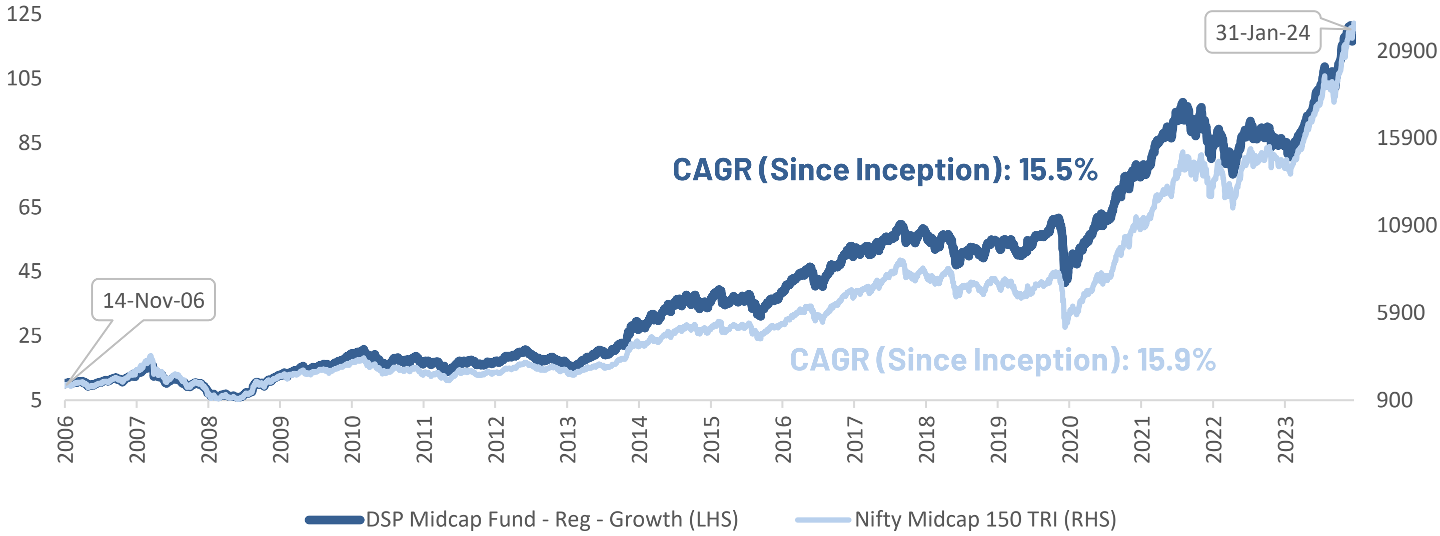
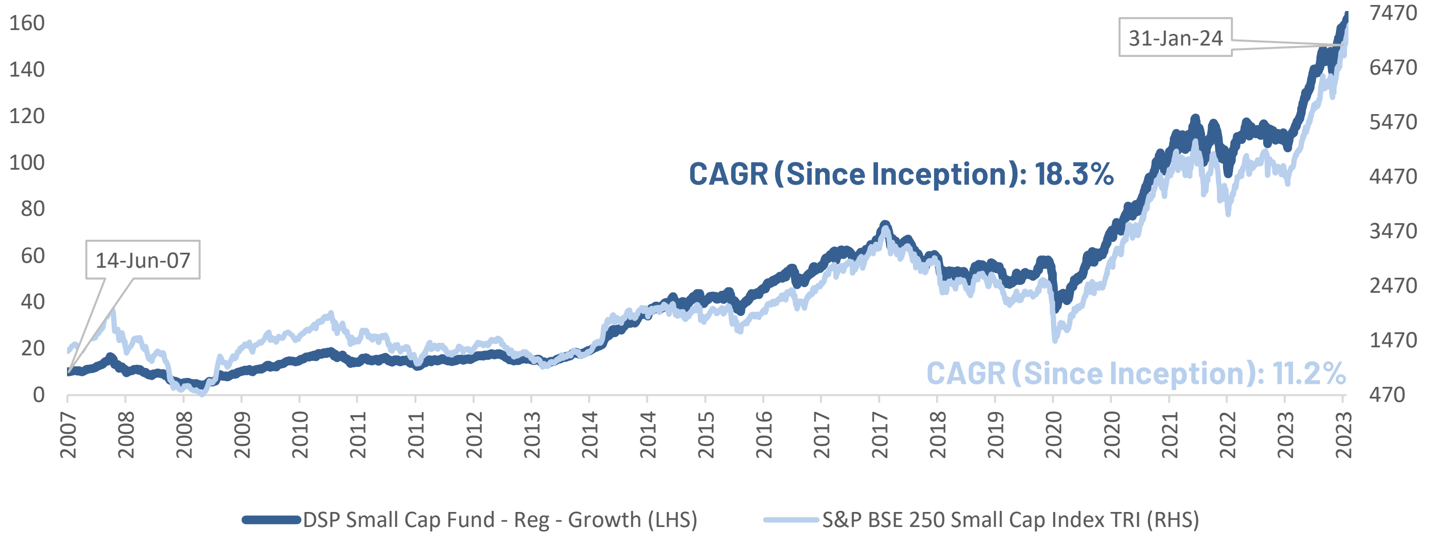
% weights that meet stated framework*		
	DSP Mid Cap Fund	**Nifty Midcap 150 TRI**
2023	67.8	52.9
2022	72.9	57.3
		Nifty Midcap 100 TRI
2021	59.7	52.1
2020	64.1	60.3
2019	73.5	71.2
Performance CAGR		
5Y (2019-2023)	17.9%	21.4%^

Source: Factset, MFIE. *Portfolio considered at a point in time in end September every year. ^Represents blended performance of newly adopted benchmark "NIFTY Mid Cap 150 TRI" effective from December 01 2021 and prior to that of "NIFTY Midcap 100 TRI". **Past performance may or may not be sustained in the future.** There is no assurance of any capital protection/capital guarantee to the investors in the Scheme. FFor Scheme performance in SEBI prescribed format refer Annexure.





Disclaimer: Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. There is no assurance of any returns/capital protection/capital guarantee to the investors in this scheme of DSP Mutual Fund.

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Annexure –
Performance of DSP Small Cap Fund in SEBI Format (Regular plan - Growth option)

Historical Returns (As per SEBI format) as of January 31, 2024 with investment of ₹10,000

	This fund		S&P BSE 250 Small Cap TRI ^		NIFTY 50 TRI #	
	CAGR	Current Value	CAGR	Current Value	CAGR	Current Value
1 Year	47.04%	₹14,704	60.31%	₹16,031	24.35%	₹12,435
3 years	32.68%	₹23,393	34.77%	₹24,516	18.15%	₹16,510
5 Years	26.19%	₹32,016	24.97%	₹30,500	16.29%	₹21,276
since Inception	18.33%	₹164,759	11.21%	₹58,617	11.73%	₹63,342
NAV / Index Value	₹164.76		₹7,460		₹31,940	

Date of allotment: **Jun 14, 2007.** Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement. Different plans shall have a different expense structure. The performance details provided herein are of **Regular Plan.** Since inception returns have been calculated from the date of allotment till **January 31, 2024**. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** Rolling returns have been calculated based on returns from regular plan growth option. **^ Fund Benchmark # Standard Benchmark**

Performance of DSP Mid Cap Fund

Historical Returns (As per SEBI format) as of January 31, 2024 with investment of ₹10,000

	This fund		Nifty Midcap 150 TRI ^		NIFTY 50 TRI #	
	CAGR	Current Value	CAGR	Current Value	CAGR	Current Value
1 Year	38.80%	₹13,880	55.19%	₹15,519	24.35%	₹12,435
3 years	18.88%	₹16,818	32.42%	₹23,257	18.15%	₹16,510
5 Years	18.72%	₹23,596	25.29%	₹30,891	16.29%	₹21,276
since Inception	15.45%	₹118,806	15.85%	₹126,124	11.87%	₹69,089
NAV / Index Value	₹118.81		₹22,496		₹31,940	

Date of allotment: **Nov 14, 2006.** Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement. Different plans shall have a different expense structure. The performance details provided herein are of **Regular Plan.** Since inception returns have been calculated from the date of allotment till **January 31, 2024**. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** Rolling returns have been calculated based on returns from regular plan growth option. **^ Fund Benchmark # Standard Benchmark**

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Annexure – Performance of other schemes managed by same fund manager.

All Funds managed by Vinit Sambre

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Focus Fund	36.17	33.81	16.26	21.79	15.87	18.34
2	DSP Mid Cap Fund	38.8	55.19	18.88	32.42	18.72	25.29
3	DSP Small Cap Fund	47.04	60.31	32.68	34.77	26.19	24.97

Managing DSP Small Cap Fund since June 2010 as a Co-Fund Manager. Managing DSP Mid Cap Fund since July 2012. Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement. Different plans shall have a different expense structure. The performance details provided herein are of regular plan. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments**

INR Performance of Permitted Category FPI Portfolio/'s Managed by Vinit Sambre (Permitted Category FPI portfolios managed under a bilateral agreement under Regulation 24(b) and subject to applicable laws)				
Period	"Portfolio #1 Returns (%)"	Benchmark (MSCI India + India Small Cap Index 20:80 Net TR) Returns (%)	"Portfolio #2 Returns (%)"	Benchmark (MSCI India Net TR) Returns (%)
1 year	31.35%	39.02%	32.55%	21.51%
3 years	--	--	NA	NA
5 years	--	--	NA	NA
Since Inception	15.21%	21.96%	17.40%	13.21%
Date of Inception	15-Mar-21		15-Feb-22	

Mr. Vinit Sambre is a Fund Manager of DSP Focus Fund, DSP Mid Cap Fund and DSP Small Cap Fund ('Mutual Fund Schemes') and also manages / advices to above mentioned two offshore funds/FPI portfolios.

Notes:

1. Past performance may or may not be sustained in the future.
2. Above performance of permitted category FPI portfolio is not comparable with the performance of the scheme(s) of DSP Mutual Fund due to differing investment objective/s and fundamental differences in asset allocation, investment strategy and the regulatory environment.
3. The said disclosure is pursuant to SEBI Circular No. Cir/IMD/DF/F/2012 dated February 28, 2012 pertaining to Regulation 24(b) of SEBI (Mutual Funds) Regulations, 1996. FPI – Foreign Portfolio Investor.
4. Returns upto 1 year are absolute and >1 year are compounded annualised (CAGR).
5. If the base currency of the permitted cateogry FPI portfolio and respective benchmark is in the currency other than INR, then the base NAV is converted to INR (used for performance calculations) using USDINR closing rate sourced from Bloomberg

Data as on Jan 31, 2024. 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.**

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Annexure – Performance of other schemes managed by same fund manager.

All Funds managed by Resham Jain and Abhishek Ghosh

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Mid Cap Fund	38.8	55.19	18.88	32.42	18.72	25.29
2	DSP Small Cap Fund	47.04	60.31	32.68	34.77	26.19	24.97

Resham Jain is managing DSP Small Cap Fund since March 2018 as a Co-Fund Manager for Equity portion and DSP Mid Cap Fund since March 2018. Abhishek Ghosh is managing DSP Small Cap Fund since March 2013 as a Co-Fund Manager and DSP Mid Cap Fund since September 2022.

Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement. Different plans shall have a different expense structure. The performance details provided herein are of regular plan. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** Data as on Jan 31, 2024. Regular plan, growth option considered.

Annexure – Performance of other schemes managed by same fund manager.

All Funds managed by Jay Kothari.

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Regular Savings Fund	12.38	11.03	7.92	7.1	8.21	9.14
2	DSP Global Innovation Fund of Fund	39.56	16.44	NA	10.79	NA	13.66
3	DSP Equity Opportunities Fund	36.84	40.43	22.49	25.35	19.26	20.79
4	DSP Focus Fund	36.17	33.81	16.26	21.79	15.87	18.34
5	DSP Banking & Financial Services Fund	NA	14.37	NA	12.85	NA	13.05
6	DSP Multicap Fund	NA	40.43	NA	25.71	NA	20.69

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Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
7	DSP World Energy Fund	-0.13	10.44	6.63	22.75	5.83	14.19
8	DSP Value Fund	32.85	33.81	19.14	21.79	NA	18.34
9	DSP World Agriculture Fund	-10.4	16.44	-6.15	10.79	2.26	13.66
10	DSP India T.I.G.E.R. Fund	57.56	104.03	38.29	49.13	25.44	28.41
11	DSP World Mining Fund	-13.65	-8.4	7.57	10.01	13.05	12.85
12	DSP Small Cap Fund	47.04	60.31	32.68	34.77	26.19	24.97
13	DSP Top 100 Equity Fund	28.83	27.28	16.14	19.28	14.64	16.81
14	DSP Healthcare Fund	44.85	51.45	18.32	18.65	25.2	20.31
15	DSP World Gold Fund of Fund	-9.6	-9.71	-5.2	-2.9	5.84	8.47
16	DSP Global Allocation Fund of Fund	9.73	16.44	4.3	10.79	8.87	13.66
17	DSP US Flexible Equity Fund	19.08	22.06	13.04	14.61	16.03	17.61
18	DSP Equity Savings Fund	12.59	13.69	9.5	10.06	9.32	10.03
19	DSP Natural Resources And New Energy Fund	34.68	25.58	29.5	34.72	20.85	19.05
20	DSP Multi Asset Allocation Fund	NA	NA	NA	NA	NA	NA
21	DSP Mid Cap Fund	38.8	55.19	18.88	32.42	18.72	25.29

Jay Kothari is managing DSP Small Cap Fund since March 2013 as a Co-Fund Manager and DSP Mid Cap Fund since March 2018.
Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement. Different plans shall have a different expense structure. The performance details provided herein are of regular plan.
Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments

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Disclaimer: This document is for information purposes only. The statements contained herein may include statements of future expectations and other forward looking statements that are based on prevailing market conditions / various other factors and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In this document, DSP Asset Managers Private Limited ("the AMC") has used information that is publicly available, including information developed in-house. While utmost care has been exercised while preparing this document, neither the AMC nor any person connected warrants the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The recipient(s), before acting on any information herein, should make his/her/their own assessment and seek appropriate professional advice. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.** There is no assurance of any returns/capital protection/capital guarantee to the investors in this scheme of DSP Mutual Fund. All figures and other data given in this document for the fund are as on 31st January, 2024 (unless otherwise specified) and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates. 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 the schemes of the DSP Mutual Fund. For scheme specific risk factors, asset allocation details, load structure, investment objective and more details, please read the Scheme Information Document and Key Information Memorandum of the scheme available at the Investor Service Centers of the AMC and also available on www.dspim.com. The comparison with PPF, Bank Fixed Deposit (and other traditional saving instruments) has been given for the purpose of the general information only. Investments in mutual funds should not be construed as a promise, guarantee on or a forecast of any minimum returns. Unlike traditional saving instruments, there is no capital protection guarantee or assurance of any return in mutual fund investment. Traditional savings instruments are comparatively low risk products and are backed by the Government (except 5- year recurring deposits). Investment in mutual funds carries high risk as compared to the traditional saving instruments and any investment decision needs to be taken only after consulting a tax consultant or financial advisor.

Large-caps are defined as top 100 stocks on market capitalization, mid-caps as 101-250 , small-caps as 251 and above. The strategy mentioned has been currently followed by the Scheme and the same may change in future depending on market conditions and other factors.

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

Scheme	Product Suitability	Riskometer	
DSP Mid Cap Fund (Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks)	This Open Ended Equity Scheme is suitable for investors who are seeking* • Long-term capital growth • Investment in equity and equity- related securities predominantly of mid cap companies	**DSP Mid Cap Fund** 	**Nifty Midcap 150 TRI** 
DSP Small Cap Fund (Small Cap Fund- An open ended equity scheme predominantly investing in small cap stocks)	This Open Ended Equity Scheme is suitable for investors who are seeking* • Long-term capital growth • Investment in equity and equity- related securities predominantly of small cap companies (beyond top 250 companies by market capitalization)	**DSP Small Cap Fund** 	**S&P BSE 250 Small Cap TRI** 

* Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.