

MONTHLY Communique

May, 2017



Dear Investors and my dear Advisor friends,

Wish you many congratulations for all your achievements in FY 2016-17. And entire Motilal Oswal AMC team wishes you all the best for whatever you intend to commence or complete in FY2017-18.

FY17 was an eventful year to say the least, full of unexpected outcomes after totally unexpected events!!! More than once the world was supposed to come to an end and somehow it didn't! Thank God for "small" mercies.

Fy17 was marked by a "first" for us at Motilal Oswal AMC. We capped the inflows into one of our well-performing PMS portfolio strategies namely Next Trillion Dollar Opportunity Strategy (NTDOP).

Whenever a product or strategy caps the inflows or curbs subscriptions, there are multiple conclusions one can draw. Is it that stocks are over-valued, markets have no potential to deliver returns? Is this no longer a focus for the AMC? Is it that returns have started to suffer and the manager cannot manage a larger portfolio? There has anyway been a lot of debate regarding size of a strategy / fund and its performance in the face of rising size.

At Motilal Oswal AMC, we are a single investing philosophy equity only manager. There are wrong or right, black or white approaches as far as equity investing is concerned. There is no right or wrong strategy, one just needs to have one's own strategy. There are multiple ways to make money in the markets. Some people are experts at trading based on macro developments, some people trade futures and options, some execute arbitrage strategies, some are deep value or contrarian investors, some are opportunistic investors and yet some others are long-short practitioners. It's not important to follow this or that strategy only, what is important is that you should know what you are good at as a manager and execute in line with your own expertise and related understanding. Hence, at Motilal Oswal AMC over the years we have developed our own strategy i.e. to buy high quality growth oriented companies whose earnings growth is sustainable. Once we identify such companies we buy them and hold as long as we see their growth trajectory playing out. We are committed to refining and sharpening our strategy but BUY RIGHT : SIT TIGHT is what we will practice. Considering that there is one identified philosophy and there is one particular type or set of companies that we are looking to buy, there is a limit to how many products, funds are PMS strategies one can manage. Theoretically, one can manage a value strategy, a growth strategy, a contrarian strategy, dividend yield, top down, bottom up, focused, diversified etc etc., zillion types of strategies and funds riding on them and then they can be further sliced and diced to execute these strategies on large cap, mid cap, small, all cap, multicap etc investment universes. There is no end to "slicing" and "dicing". Eventually we have hundreds of funds and strategies to buy 100 odd good companies if one sees the market from our lens!

Coming back to Motilal Oswal AMC, since there is a single investing philosophy and there is one set or type of companies and stocks that we are looking to buy, we don't see us launching too many strategies and funds. If there is one way of investing, at best one can execute it on a large cap, midcap, multicap and may be at some point a small cap universe. This is how our offerings are currently laid out. Single philosophy bucketed by market cap.

So why have we currently capped the Next Trillion Dollar Opportunity Strategy? Let me explain. The cumulative assets for all client portfolios under the said strategy is somewhere in the vicinity of Rs 6,000 crs as we speak and we are committed to buying stocks that fall in the midcap universe. While there is no hard coded definition of "mid cap" anywhere in the market by convention one can say that stock no. 101 by market till stock no 300 by market cap can be called midcap – which is stocks falling approximately between 4,000 crs to about 20,000 crs. Below 4,000 crs could be termed as small cap and above 20,000 crs could be termed as large cap.

(Continued overleaf)



For a 6,000 crs portfolio if we intend to buy a material position of say 5% allocation for our clients, we would need to acquire stock worth Rs 300 crs. As you are aware we believe in managing portfolios with around 20 stocks and hence we normally have material positions in our holdings. For any investor or group of investors to buy Rs 300 crs worth of a stock, the market cap has to be anywhere in the vicinity of Rs 10,000 crs to Rs 15,000 crs considering exposure, liquidity, risk control all kinds of requirements. This is plumb in the midcap domain. As you can see the current size of the strategy enables us to acquire companies in the midcap bucket quite comfortably. But if we were to continue accepting new clients into the strategy, and lets say the total corpus managed on behalf of all clients exceeded Rs 10,000 crs, then the above calculations would look totally different and you can surmise that we would have to end up buying stocks that actually fall in the large cap domain. We are not averse to owning large cap stocks as a result of holding on to midcaps which we acquired a while back and whose appreciation we are currently enjoying or where we are confident of sustained growth. But at entry we would like to persist in picking midcaps.

To sum up this long winded discussion, we have capped the strategy so as to ensure that our loyalties to our existing investors are prioritized over the quest for attracting newer flows and we can operate in our chosen investment universe. From the existing investors' perspective this should be seen as a welcome move as it will enable us to sustain delivery of performance by staying in the chosen investment universe. We are not foregoing the basic objectives of the strategy so as to accommodate a larger and larger corpus. Over a period of time as the economy grows and size and scale of companies grows, newer companies and sectors enter, the universe can be reconsidered and the definition of what is largecap or midcap can be reviewed, but at the current juncture we feel the need to stick to the investment universe and focus on managing monies for the existing clients.

As for existing clients looking to allocate more or for clients who are considering joining Motilal Oswal AMC in the near future, we have an alternate strategy in the form of India Opportunities Portfolio which I would say is what NTDOP used to be a few years ago in terms of its evolution. It is again focused on the midcap universe but why virtue of having aggregate assets of much lower magnitude, the investment universe that opens up is much larger. I urge you to study and consider the same with the help of your advisor.

Finally, it's not that a larger strategy or fund size precludes it from delivering performance, but yes what it does mean is that the investment universe available has to shrink or the number of stocks that are being held has to go up significantly. This may result in differential outcomes over time. We would always like to restrict the number of stocks to a manageable and "focusable" number like 20 and we would prefer not to dilute the stated investment universe in which we are operating for each of our strategies.

Happy Investing,

Yours Sincerely,
Aashish P Somaiyaa
Managing Director and CEO

Value Strategy

Strategy Objective

The Strategy aims to benefit from the long term compounding effect on investments done in good businesses, run by great business managers for superior wealth creation.

Investment Strategy

- Value based stock selection
- Investment Approach: Buy & Hold
- Investments with Long term perspective
- Maximize post tax return due to Low Churn

Details

Fund Manager : Manish Sonthalia
 Co-fund Manager : Kunal Jadhvani
 Strategy Type : Open ended
 Date of Inception : 24th March 2003
 Benchmark : Nifty 50 Index
 Investment Horizon : 3 Years +
 Subscription : Daily
 Redemption : Daily
 Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	33.61
Auto & Auto Ancillaries	26.85
Oil and Gas	8.89
FMCG	7.25
Pharmaceuticals	6.91
Cash	0.56

Data as on 30th April 2017

*Above 5% & Cash

Top 10 Holdings

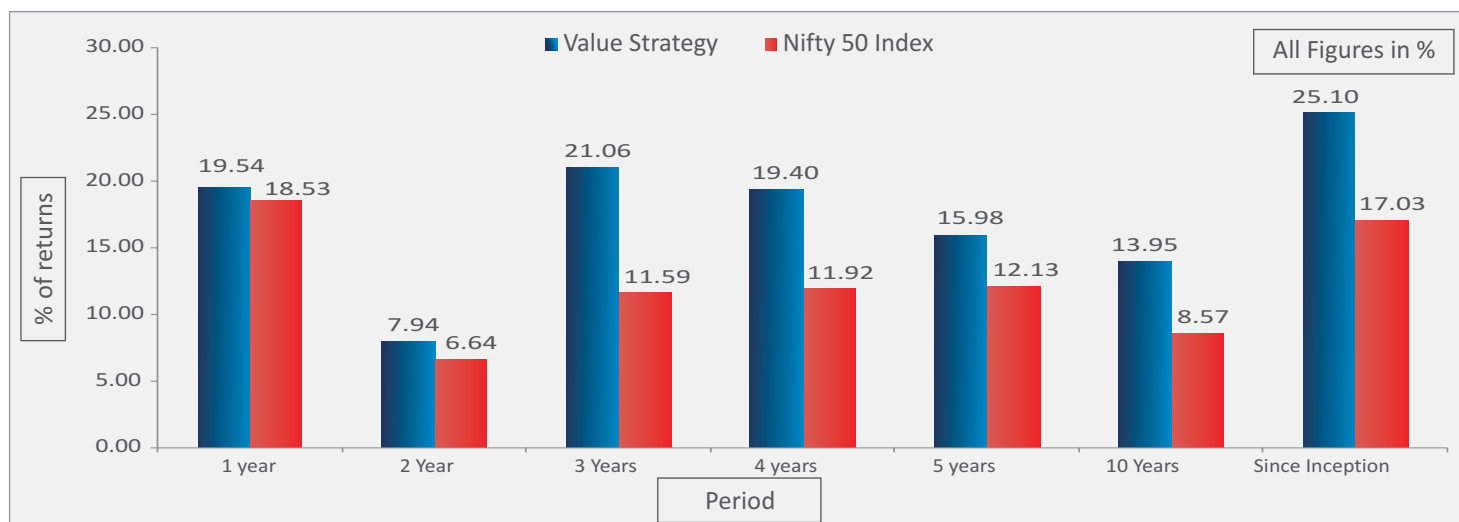
Particulars	% Allocation
HDFC Ltd.	11.87
HDFC Bank Ltd.	11.47
Kotak Mahindra Bank Ltd.	10.27
Bharat Petroleum Corporation Ltd.	8.89
Bosch Ltd.	8.57
Eicher Motors Ltd.	7.95
Asian Paints Ltd.	7.25
Sun Pharmaceuticals Ltd.	6.91
Interglobe Aviation Ltd.	5.58
Bharat Forge Ltd.	5.51

Data as on 30th April 2017

Key Portfolio Analysis

Performance Data	Value Strategy	Nifty 50
Standard Deviation (%)	21.19%	23.50%
Beta	0.82	1.00

Data as on 30th April 2017



The Above strategy returns are of a Model Client. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategy. The Above returns are calculated on NAV basis and are based on the closing market prices as on 30th April 2017. Past performance may or may not be sustained in future. Returns above 1 year are annualized. Please refer to the disclosure document for further information.

Next Trillion Dollar Opportunity Strategy

Strategy Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from the Next Trillion Dollar GDP growth.

It aims to predominantly invest in Small and Mid Cap stocks with a focus on identifying potential winners that would participate in successive phases of GDP growth.

Investment Strategy

- Stocks with Reasonable Valuation
- Concentration on Emerging Themes
- Buy & Hold Strategy

Details

Fund Manager : Manish Sonthalia
 Strategy Type : Open ended
 Date of Inception : 11th December 2007
 Benchmark : Nifty Free Float Midcap 100 Index
 Investment Horizon : 3 Years +
 Subscription : Daily
 Redemption : Daily
 Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.47
Oil and Gas	18.31
Auto & Auto Ancillaries	16.45
FMCG	14.86
Diversified	9.74
Cash	0.11

Data as on 30th April 2017

*Above 5% & Cash

Top 10 Holdings

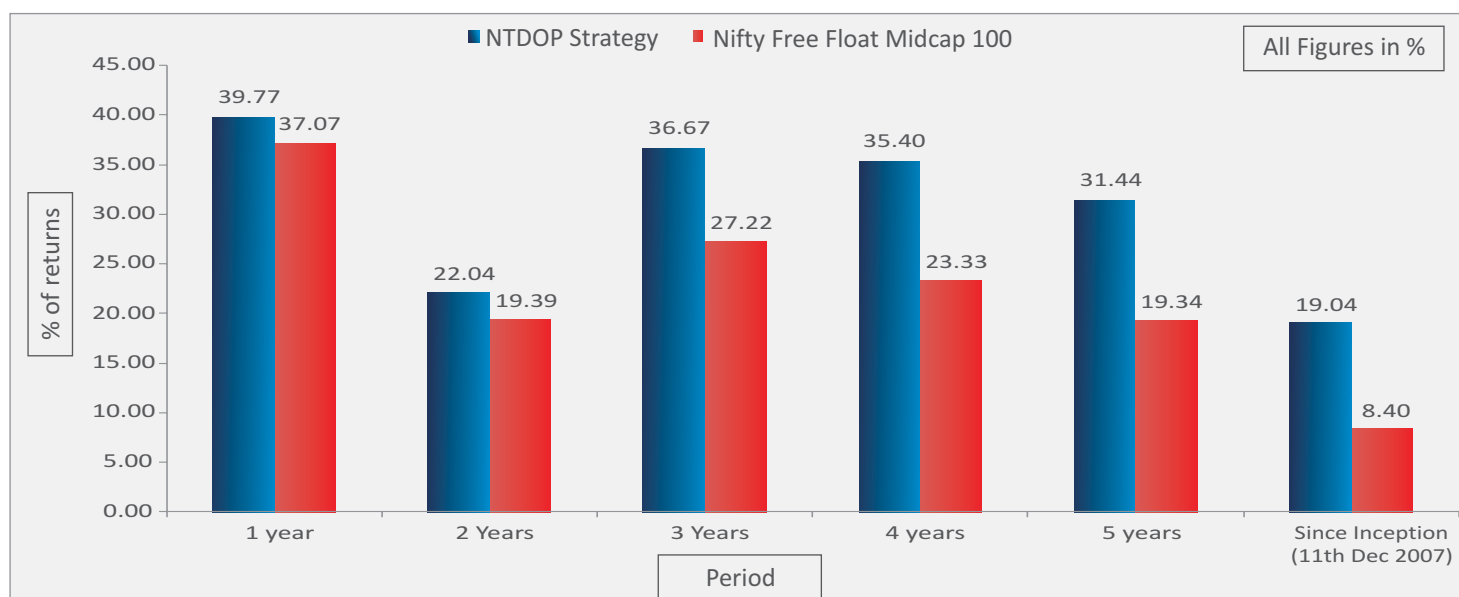
Particulars	% Allocation
Hindustan Petroleum Corporation Ltd.	15.88
Kotak Mahindra Bank Ltd.	8.38
Voltas Ltd.	7.59
Eicher Motors Ltd.	6.85
Page Industries Ltd.	6.75
Bajaj Finance Ltd.	6.74
Bosch Ltd.	6.25
Max Financial Services Ltd.	5.90
City Union Bank Ltd.	4.12
Emami Ltd.	3.67

Data as on 30th April 2017

Key Portfolio Analysis

Performance Data	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.41%	22.43%
Beta	0.71	1.00

Data as on 30th April 2017



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India Opportunity Portfolio Strategy

Strategy Objective

The Strategy aims to generate long term capital appreciation by creating a focused portfolio of high growth stocks having the potential to grow more than the nominal GDP for next 5-7 years across market capitalization and which are available at reasonable market prices.

Investment Strategy

- Buy Growth Stocks across Market capitalization which have the potential to grow at 1.5 times the nominal GDP for next 5-7 years.
- BUY & HOLD strategy, leading to low to medium churn thereby enhancing post-tax returns

Details

Fund Manager : Mr. Manish Sonthalia
 Co-Fund Manager : Ms. Mythili Balakrishnan
 Strategy Type : Open ended
 Date of Inception : 11th Feb. 2010
 Benchmark : Nifty Free Float Midcap 100
 Investment Horizon : 3 Years +
 Subscription : Daily
 Redemption : Daily
 Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	27.21
Cement & Infrastructure	14.55
Oil and Gas	13.85
Consumer Durable	11.55
Pharmaceuticals	11.40
Cash	0.47

Data as on 30th April 2017

*Above 5% & Cash

Top 10 Holdings

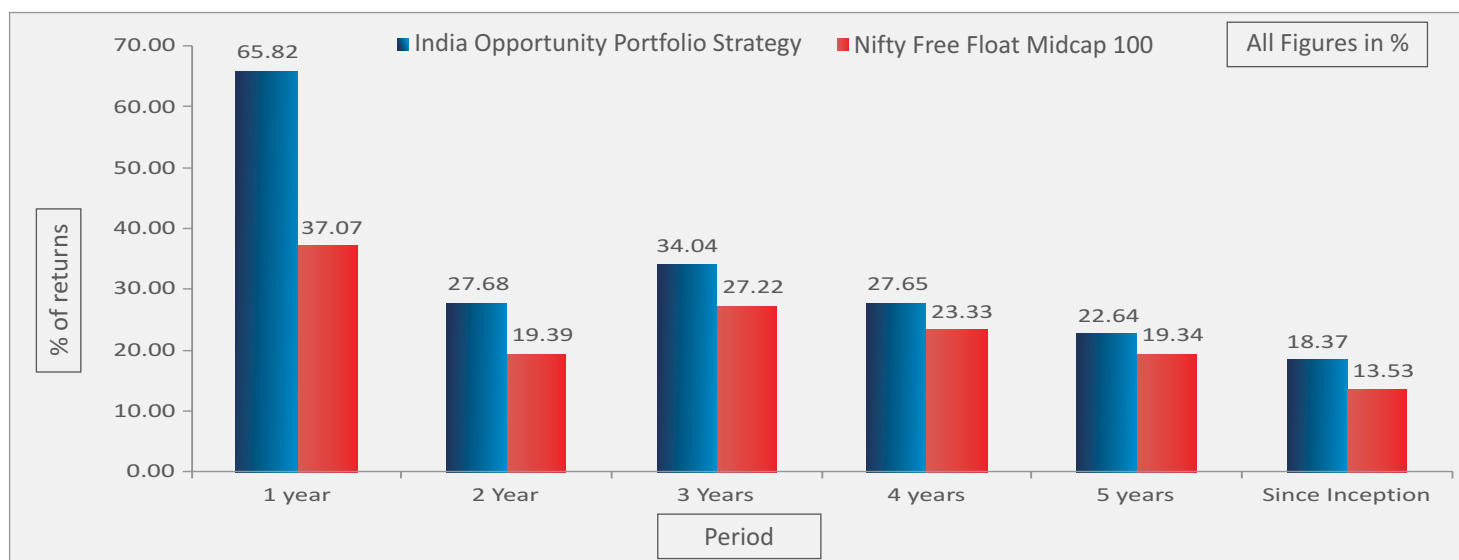
Particulars	% Allocation
Development Credit Bank Ltd.	13.87
Birla Corporation Ltd.	10.73
Aegis Logistics Ltd.	8.22
Qess Corp Ltd.	6.72
Canfin Home Ltd.	6.40
TTK Prestige Ltd.	6.20
Mahanagar Gas Ltd	5.63
Gabriel India Ltd.	5.57
Kajaria Ceramics Ltd.	5.35
Lakshmi Vilas Bank Ltd.	4.93

Data as on 30th April 2017

Key Portfolio Analysis

Performance Data	IOPS	Nifty Free Float Midcap 100
Standard Deviation (%)	15.46%	17.12%
Beta	0.75	1.00

Data as on 30th April 2017



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