MONTHLY Communique

September, 2016

Dear Investors and my dear Advisor friends,

Do you know how the leading smart phone maker in the world – a US based technology giant has been able to earn the numero uno position among its peers and scale new peaks each passing year? It was the result of a small change which won big results for the company.

When the new CEO took over the reins of the company a second time around, he shrunk the company's product basket to five core products as he was determined that lighter the product bouquet; the faster the company would be able to sprint.

Critics would claim that a limited product basket increases the chances of heavy losses if even one product fails to click with buyers. But he proved them wrong with his thorough approach and a high conviction; he wasn't the only one to follow a focused approach.

Legendary tales of the focused approach are often recounted in the world of equity investments too. The largest most renowned and followed equity investor in the world too has demonstrated the miracle of betting on few horses or putting his eggs in fewer baskets than is usually advocated. The top five investments of this reputed investor made up nearly 65% of his total portfolio.

But aren't lay investors incessantly nudged not to put all eggs in one basket to mitigate risks? Hold on, there's a difference between not putting your eggs in the same basket, putting them in too many baskets and putting them in a selected few baskets! Well, results thrown up by research concludes that splitting the eggs in too many baskets – also termed as diversification in investment parlance but put into practice in an "over" diversified manner – doesn't always reduce the risk. Putting all your eggs in fewer baskets is ideal; it means you should have identified the right basket and you should work overtime to ensure that the chosen basket is safe. On the other hand, putting your eggs into too many baskets in the name of diversification puts onus on you to study and identify that many more baskets, watch after that many more probably less familiar baskets and hope all of them don't break at the same time!

The study of risk associated with open-ended equity schemes measured using standard deviation strongly points out that a broader portfolio doesn't reduce risk. Standard deviation captures the performance swings of a scheme. The higher the fluctuations in a fund's returns, the greater will be its standard deviation. So, if a fund has an average return of 15% with a standard deviation of 4%, then most of the times the returns of the fund would be between 11% (15%-4%) and 19% (15% +4%).

For the ease of comprehension, we call the schemes that held less than 25 stocks as focused, the ones that held 25-50 stocks as diversified and those beyond 50 stocks as over-diversified (they should be really called "spray-and-pray" because no one can profess to thoroughly conduct bottom up research on over 50 companies at the same time!!!).

The analysis of the above mentioned schemes shows that focused or concentrated portfolios (having less than 25 stocks) have generated higher average returns and their standard deviation as a measure of volatility is not significantly higher than the other schemes. On the other hand, there's nothing to really pick between schemes that were supposedly diversified and had between 25 to 50 and over 50 stocks as two separate groups. In fact the average return for >50 group is same as the 25-50 group and there is no decline in standard deviation as a measure of volatility.

If we peg this standard deviation against the returns, we realize that there is more to gain by following a focused equity strategy. Concentrated equity schemes delivered better returns and were even able to curtail the downside during the shorter period as compared with the mixed bag schemes. In turn, these mixed bags were able to steer past equity schemes that had a larger universe of stocks.

What is ailing diversified schemes? They are facing what can be termed a problem of plenty. Splitting the apples into too many baskets forces the fund manager to spend more time on monitoring each basket rather than picking up the right apples.

If the fund manager has fewer stocks to scrutinize day-in-day-out and track monthly top lines and quarterly results, he would be able to allocate more time to cherry pick the right horse that would lead him to victory. We all know one cannot change a horse mid-race.

This impact of concentration on portfolio returns has been studied by several analysts. Most recently, two reputed academicians analyzed the performance of 536 global equity funds over the period of 1995-2007 and noted their findings in the report which concluded, "Evidence from

(Continued overleaf)

U.S. equity mutual funds suggests that fund managers, who are willing to take big bets and hold more concentrated portfolios, display better performance than managers who hold more broadly diversified portfolios."

The reason is simple. If you have a limited basket to invest you would place your best bets only after doing adequate research as one wrong move could abysmally impact the returns. One can draw similarities between a fund manager and a gardener, who has to choose a handful of plants for the given area. He would always handpick the most rewarding plants leaving out the rest as he wouldn't want the fertility and his efforts to be wasted on plants, which merely occupy space.

Similarly, a focused scheme's fund manager would dive in only if he is convinced about the business. He/she would be privy to superior information about specific market segments and players. He would then invest and nurture for long them to bear the fruits. Unless he sows a higher area (read high concentration in stocks), he won't be able to multiply the profits well.

One great equity investor, who detested diversification, once said, "Wide diversification is only required when investors do not understand what they are doing."

Data shows that while there are thousands of listed companies; individual investors (Non Promoter Non Institutional) have a lower share of holding in the larger indices like Nifty 50, BSE 200 or even Nifty 500. Retail or NPNI holding is higher in non-index smaller companies. In the Indian context, it is equally remarkable that Nifty 50 accounts for almost 60% of total market cap, BSE 200 accounts of nearly 85% of market cap and Nifty 500 accounts for nearly 93% of market cap. This means that while bulk of the market value resides with the top 500 companies, retail direct investors 'holding is with the "long tail" which doesn't hold much value. Mutual Funds typically tend to have large portfolios ranging from 25, 30 to even a 100 stocks, which restricts transparency. Investors may or may not be able to see what they are holding fully. And for investors holding 5-6-7 different funds in their portfolios, they end up holding over 250-300 stocks, even if they de-duplicate the holdings through proper analysis they would realize they pretty much own whatever of the market there is to own resulting in dilution of returns.

As you can see there are multiple reasons to remain focused! At Motilal Oswal AMC, not only do we run focused portfolios, we are also very focused business managers as we focus on only equity management and within equity we focus only on one investing style – that of buying right companies and holding on to them through their growth cycle – BUY RIGHT : SIT TIGHT!

Happy Investing,

Yours Sincerely,
Aashish P Somaiyaa
Managing Director and CEO

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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.

Top Sectors

Sector Allocation	% Allocation*
Auto & Auto Ancillaries	30.45
Banking & Finance	25.76
Pharmaceuticals	8.76
Oil and Gas	8.35
FMCG	7.85
Infotech	5.80
Cash	0.15

Data as on 31st August 2016 *Above 5% & Cash

Investment Strategy

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

Top Holdings

Particulars	% Allocation*
Eicher Motors Ltd.	11.31
Bosch Ltd.	9.44
Sun Pharmaceuticals Ltd.	8.76
HDFC Bank Ltd.	8.39
Bharat Petroleum Corpn. Ltd.	8.35
Asian Paints Ltd.	7.85
Kotak Mahindra Bank Ltd.	6.45
Tata Consultancy Services Ltd.	5.80
State Bank Of India	5.78
Hero Motocorp Ltd.	5.41
Housing Development Finance Corporation Ltd.	5.14

Data as on 31st August 2016 *Above 5%

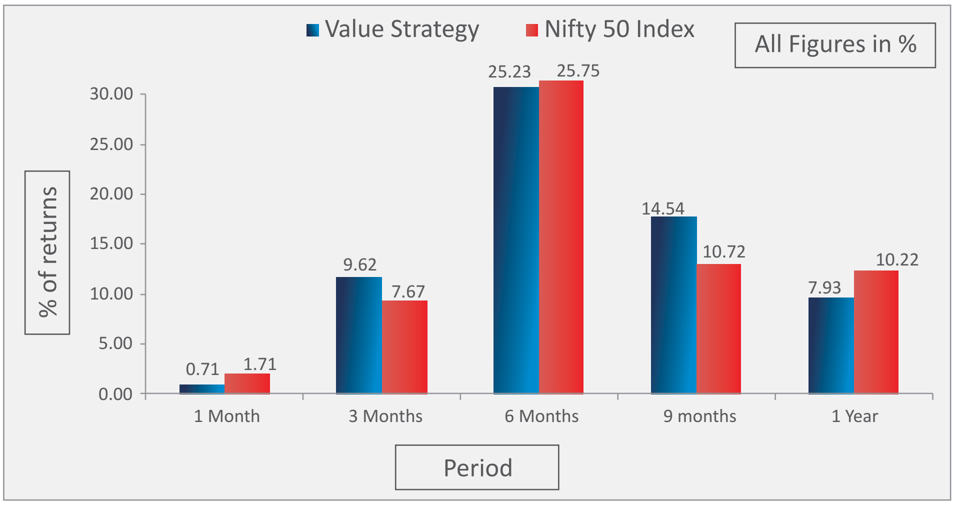
Details

Fund Manager	:	Manish Sonthalia
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

Key Portfolio Analysis

Performance Data	Value Strategy	Nifty 50
Standard Deviation (%)	21.52%	23.91%
Beta	0.81	1.00

Data as on 31st August 2016



Data as on 31st August 2016

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 31st August 2016. 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.

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	33.78
Auto & Auto Ancillaries	18.39
FMCG	15.04
Oil and Gas	13.16
Diversified	6.48
Cash	2.05

Data as on 31st August 2016 *Above 5% & Cash

Investment Strategy

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

Top Holdings

Particulars	% Allocation*
Bajaj Finance Ltd.	16.82
Hindustan Petroleum Corporation Ltd.	13.16
Eicher Motors Ltd.	9.51
Page Industries Ltd.	7.45
Bosch Ltd.	6.80
Voltas Ltd.	6.48
Max Financial Services Ltd.	6.42
Kotak Mahindra Bank Ltd.	5.40

Data as on 31st August 2016 *Above 5%

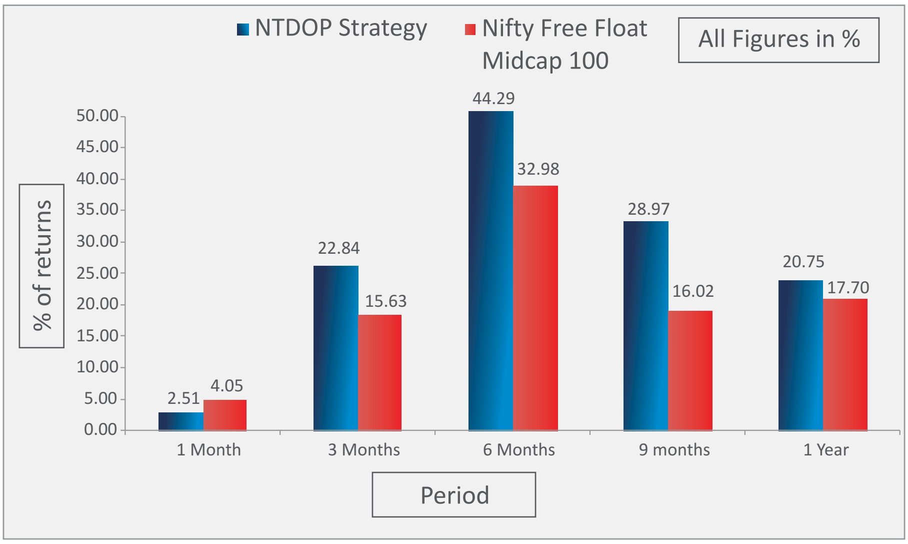
Details

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

Key Portfolio Analysis

Performance Data	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.52%	22.78%
Beta	0.71	1.00

Data as on 31st August 2016



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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	: Varun Goel
Co-Fund Manager	: Kunal Jadhwani
Strategy Type	: Open ended
Date of Inception	: 11th Feb. 2010
Benchmark	: BSE 200 and BSE 500
Investment Horizon	: 3 Years +
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	22.39
Pharmaceuticals	11.84
Chemicals	10.86
Auto & Auto Ancillaries	10.01
Oil and Gas	8.32
FMCG	7.15
Cement	6.72
Ceramic	6.51
Services	5.96
Cash	2.83

Data as on 31st August 2016 *Above 5% & Cash

Top Holdings

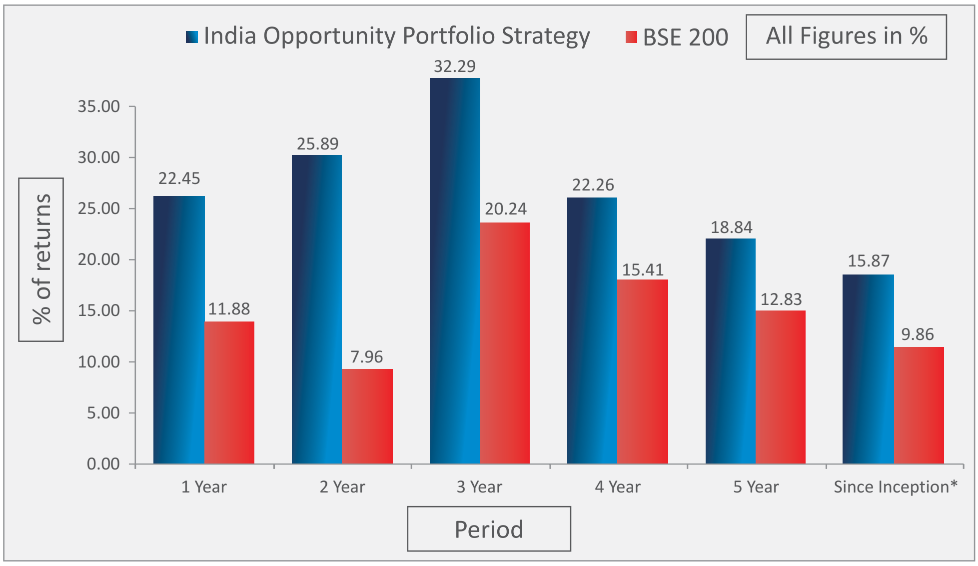
Particulars	% Allocation*
Canfin Home Ltd.	9.06
Development Credit Bank Ltd.	8.44
Mahanagar Gas Ltd.	8.32
TTK Prestig Ltd.	7.15
Aegis Logistics Ltd.	6.80
Gabriel India Ltd.	6.80
Ajanta Pharma Ltd.	6.74
Birla Corporation Ltd.	6.72
Kajaria Ceramic Ltd.	6.51
Quess Corp Ltd.	5.96

Data as on 31st August 2016 *Above 5%

Key Portfolio Analysis

Performance Data	IOPS	BSE 200
Standard Deviation (%)	15.25%	15.98%
Beta	0.91	1.00

Data as on 31st August 2016



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