MONTHLY Communique

Motilal Oswal Asset Management

BUY RIGHT SIT TIGHT

December, 2016

Dear Investors and my advisor friends,

The last one month has been eventful to say the least. Mr. Donald Trump winning presidential elections in the USA and the Prime Minister of India, Mr. Narendra Modi announcing withdrawal of legal tender status of Rs 500 and Rs 1000 currency notes were both unexpected. It is too early to comment on new policy dispensation in the USA and its impact. We do not find ourselves capable at this juncture to comment on possible policy implications. Whatever noises we have heard till now are hinting towards a huge impetus to domestic American economic growth and thrust on fiscal policy boosters for US economy. Large part of the concerns of the last few years has been around lack of growth in the world's largest economy and reliance of global growth on China. If the US economy is on economic boosters it can't spell bad news for global economic growth. I recently read somewhere that what politicians may say to win elections is not necessarily what they may do when they are in power. This is not meant to be a criticism; it is only meant to say that compunctions of the job and deeper insights into balancing politics and economics usually results in rounding the edges and pragmatism takes precedence over sharp policy turns.

In anticipation of expansionary fiscal policy the Fed seems to have decided to tighten monetary policy to balance inflationary pressures. There is a general belief that if interest rates are raised in the USA there will be huge withdrawals by FIIs from Indian markets. While interest rates hike reduces rate differential and reduces attractiveness for bond investors and some hedge fund strategies, for investors who are long term equity investors into India this is not going to matter. Also lets not forget the Indian equity market and foreign exposure in India is too small for them to need to withdraw from India if they want liquidity to invest back in the USA. India is 2% of world market capitalization and USA is nearly 40% of world market capitalization. In the last 10 years there are four instances where foreigners have sold in India in response to some trigger emanating out of developed markets but never for a sole reason related to Indian markets. When the dust settled they bought back more than they had sold, our markets reacted sharply and we were left on the sidelines watching. This happened as recently as December 2015 – February 2016 when foreigners were selling in response to a feared slowdown in Chinese GDP. In a span of 4-5 months Nifty declined from 8,900 to 6,700 only to bounce back to 8,900 by September 2016. Bottomline, FIIs sell for their set of reasons and buy for their set of reasons; do not react to their moves. In 1991 when FIIs first started investing in India, the market cap was Rs 2 lac crores and FII holding was Zero, today we are over 100 lac crores market cap and FII holdings are nearly 25% of the market. (data source: www.moneycontrol.com; Bloomberg)

Now, coming to the event closer to home, the demonetization. As is the popular pre-occupation with a lot many commentators and pundits; within less than 24 hours of the announcement from the PM of India; most of them started doling out views and recommendations like consumption will get finished, banks will benefit, bonds will rally one-way, RBI will cut rates etc etc. Since the time the announcement was made at 9 pm on November 8th, 2016 from that point onwards almost every week the stated objective of the move has been defined and redefined, at last count the RBI has come up with over 35-40 notifications, provisions of the Income Tax Act have been modified and we are seeing a dynamic situation evolve. Its best to acknowledge that we are in the midst of an evolving situation. Some of the conclusions on winners and losers have been drawn up too early in the day and we are already witnessing some of them busted. Contrary to expectation of banks benefiting, it is now understood that lakhs of crores of deposits with banks for which interest needs to be paid and that too amidst lack of avenues of credit disbursal and diversion of attention from NPA recovery, possibility of higher NPAs from MSME segments etc. could result in detracting from banking sector performance rather than enhancing it. Consumption on the other hand has discretionary and non-discretionary spends – cash driven vs. electronic, bank financed vs. self-funded – all types of mix to consumption. Whatever consumption is held up only due to lack of cash or whatever part of consumption depends on financing from banks may eventually bounce back. Benefit of declining interest rates and liquidity flush in the

(Continued overleaf)

system could eventually give a sharp boost to some forms of consumption. That part of consumption which is impacted due to wealth destruction would take some time to recoup but one must note that wealth destruction for some has resulted in wealth re-distribution into the hands of others. Also, note that while redistribution is benefiting weaker sections of economic participants, the very same segments are being hurt by loss of income on account of loss of industrial production. There are arguments to both sides and drawing any conclusion at the current juncture is fraught with risk. In the meanwhile, I'd like to believe the market has more or less factored the damage. Nifty at 18PE and about 60,00,000 crs market capitalization has lost nearly 10% value. A very simplistic back of envelope calculation says that from 18 times forward PE if Nifty has declined to about 16 times forward PE the market has wiped out nearly 1.5-2 years of earnings expectations. While market has declined 10%, many companies have declined by 20-30% and hence a lot of the bad news seems to be priced in with market bracing for more. (data source: www.nseindia.com)

Having said so I for one am very excited with the developments because whatever has happened is causing a distinct tailwind for capital market businesses like broking, mutual funds, insurance etc. Let me explain.

Till a few years back the biggest competition to capital market investing was the Government itself. I distinctly remember when I started working ~1997-98, the RBI used to issue Government of India Relief Bonds which paid investors 11% tax free and of course risk free. If the sovereign pays 11% risk free and tax free, frankly there is no case for anyone to take risk and venture into capital markets. Over the years with a series of reform measures and developments in the economy we now find ourselves in a situation where the risk free rate is closer to 6% and there is pretty much nothing called tax free.

At recent client meets I have been seeking out the youngest person in the room and whenever I find someone below 30 years of age I ask them if they had heard of GoI Relief Bonds and that fact that it was possible to fetch 11% risk free and tax free. I also ask them what is the first number that comes to mind when you hear “interest rate”, “home loan rate”, “deposit rates” etc etc. For one generation of people interest rates meant 10-12% and nowadays interest rate means 7-8% and most people don't yet realize we are in general way below that range. The latest home loan rates are around 9.1% for 20 years.

Apart from this massive decline in interest rates the other development that excites me about capital markets is that suddenly its not so cool to invest in or for that matter hoard real estate and gold as has been the practice for most Indians!!!

So net-net with interest rates dropping, real estate and gold under pressure and the push towards digital and cashless, these are exciting times for capital market products like bonds, equities, portfolio management services and mutual funds. These trends were already in progress – what with the equity mutual fund industry having crossed 1.20 cr SIP accounts contributing Rs 3,884 crs a month of fixed inflow into equity mutual funds. And this is rising at nearly 4-6 lac new accounts a month. No wonder domestic institutions have been able to buy consistently as FIIs have sold over the last 30-45 days. Whatever has happened since the announcement of demonetization has only accentuated these trends and added tailwinds to the movement! Hopefully this “movement” will translate into a much required “movement” – that of Indians owning more of Indian equities – something that has been on a worryingly declining trend for most of the last two decades. While I am excited, I am surprised no as yet has identified this as a key agenda or as a key benefit (as an afterthought at least!!!) of the great demonetization of 2016!

Happy investing...and may you live in “interesting” times as the famous Chinese proverb goes!

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 Jadhwani
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	27.77
Auto & Auto Ancillaries	26.27
Oil and Gas	9.63
Pharmaceuticals	8.66
FMCG	7.11
Infotech	5.67
Cash	0.34

Data as on 30th November 2016 *Above 5% & Cash

Top 10 Holdings

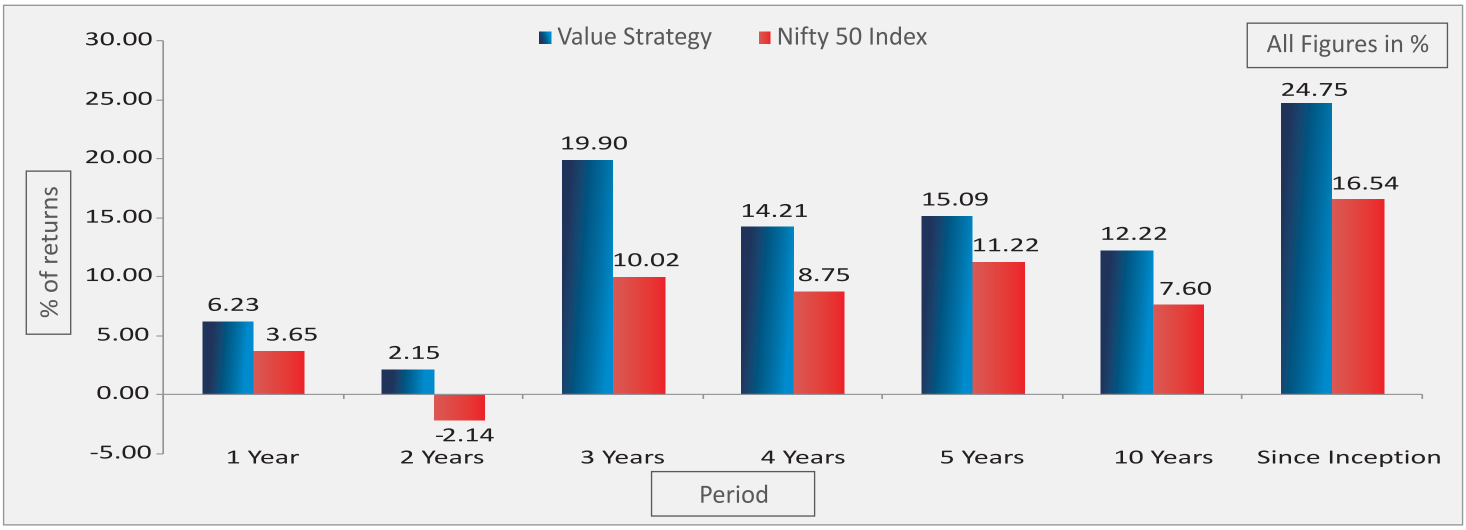
Particulars	% Allocation
Bharat Petroleum Corporation Ltd.	9.63
Bosch Ltd.	8.66
Sun Pharmaceuticals Ltd.	8.66
HDFC Bank Ltd.	8.42
Kotak Mahindra Bank Ltd.	7.97
Eicher Motors Ltd.	7.46
Asian Paints Ltd.	7.11
State Bank Of India	6.39
Tata Consultancy Services Ltd.	5.67
Hero Motocorp Ltd.	5.22

Data as on 30th November 2016

Key Portfolio Analysis

Performance Data	Value Strategy	Nifty 50
Standard Deviation (%)	21.43%	23.79%
Beta	0.82	1.00

Data as on 30th November 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 30th November 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.

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	31.40
Oil and Gas	18.20
Auto & Auto Ancillaries	15.16
FMCG	14.41
Diversified	5.57
Pharmaceuticals	5.16
Cash	0.80

Data as on 30th November 2016

*Above 5% & Cash

Top 10 Holdings

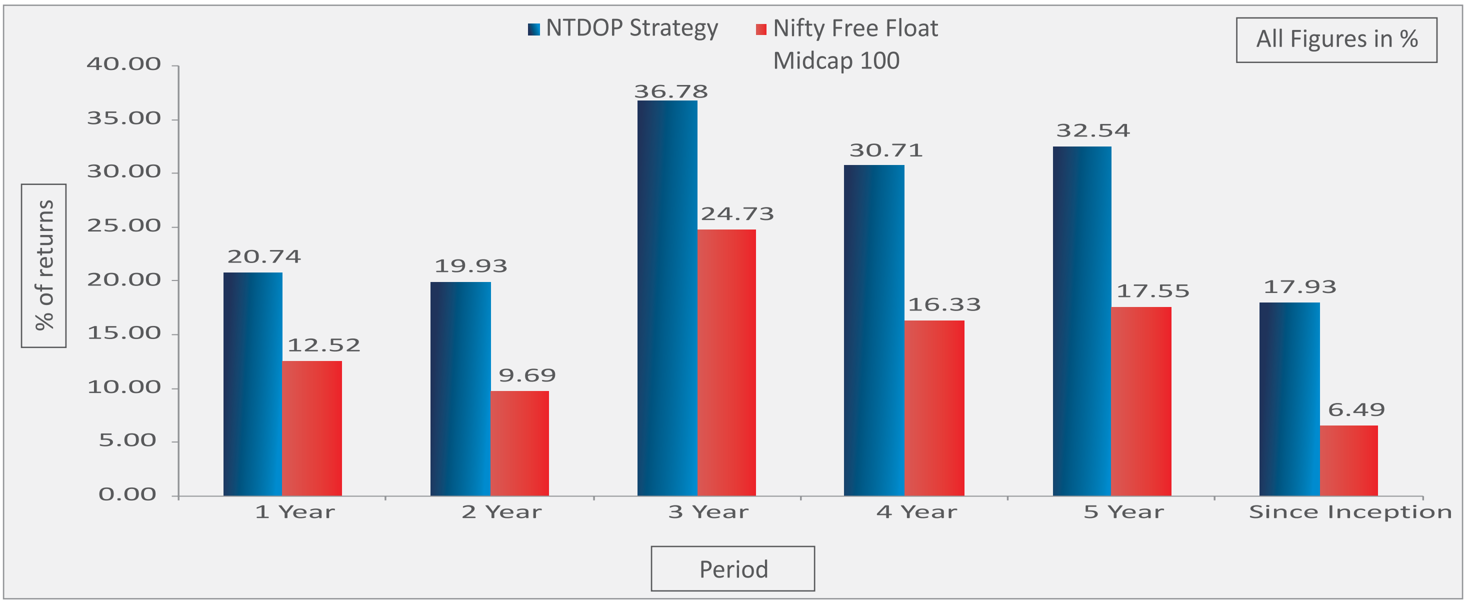
Particulars	% Allocation
Hindustan Petroleum Corporation Ltd.	16.10
Bajaj Finance Ltd.	14.79
Page Industries Ltd.	6.98
Eicher Motors Ltd.	6.48
Bosch Ltd.	6.31
Max Financial Services Ltd.	6.16
Voltas Ltd.	5.57
City Union Bank	4.14
Cummins India Ltd.	3.28
Emami Ltd.	3.24

Data as on 30th November 2016

Key Portfolio Analysis

Performance Data	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.62%	22.77%
Beta	0.71	1.00

Data as on 30th November 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 30th November 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.

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	25.35
Cement & Infrastructure	15.05
Pharmaceuticals	15.02
Oil and Gas	12.68
Consumer Durable	11.67
Auto & Auto Ancillaries	9.29
Services	6.92
Cash	0.32

Data as on 30th November 2016 *Above 5% & Cash

Top 10 Holdings

Particulars	% Allocation
Birla Corporation Ltd.	11.46
Development Credit Bank Ltd.	10.45
Canfin Home Ltd.	9.96
Aegis Logistics Ltd.	7.47
Quess Corp Ltd.	6.92
Ajanta Pharma Ltd.	6.51
Ttk Prestige Ltd.	6.34
Gabriel India Ltd.	6.12
Dr Lal Pathlabs Ltd.	5.38
Kajaria Ceramics Ltd.	5.33

Data as on 30th November 2016

Key Portfolio Analysis

Performance Data	IOPS	BSE 200
Standard Deviation (%)	15.60%	15.98%
Beta	0.84	1.00

Data as on 30th November 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 30th November 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.

Risk Disclosure And Disclaimer

All opinions, figures, charts/graphs, estimates and data included in this document are as on date and are subject to change without notice. While utmost care has been exercised while preparing this document, Motilal Oswal Asset Management Company Limited does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. No part of this document may be duplicated in whole or in part in any form and/or redistributed without prior written consent of the Motilal Oswal Asset Management Company Limited. Readers should before investing in the Strategy make their own investigation and seek appropriate professional advice. Investments in Securities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the strategies of the Portfolio Management Services will be achieved. Clients under Portfolio Management Services are not being offered any guaranteed/assured returns. Past performance of the Portfolio Manager does not indicate the future performance of any of the strategies. The name of the Strategies do not in any manner indicate their prospects or return. The investments may not be suited to all categories of investors. Neither Motilal Oswal Asset Management Company Ltd. (MOAMC), nor any person connected with it, accepts any liability arising from the use of this material. The recipient of this material should rely on their investigations and take their own professional advice. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. The Portfolio Manager is not responsible for any loss or shortfall resulting from the operation of the strategy. Recipient shall understand that the aforementioned statements cannot disclose all the risks and characteristics. The recipient is requested to take into consideration all the risk factors including their financial condition, suitability to risk return, etc. and take professional advice before investing. As with any investment in securities, the value of the portfolio under management may go up or down depending on the various factors and forces affecting the capital market. For tax consequences, each investor is advised to consult his / her own professional tax advisor. This document is not for public distribution and has been furnished solely for information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. No part of this material may be duplicated in any form and/or redistributed without' MOAMCs prior written consent. Distribution Restrictions - This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify MOAMC for any liability it may incur in this respect. Securities investments are subject to market risk. Please read on carefully before investing.

CDL00046_40112_010