

From the Fund Manager's desk on Motilal Oswal Midcap 30 Fund

(Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks)



Akash Singhania
Fund Manager

Dear Investors,

Motilal Oswal Midcap 30 Fund (MOF30) is a midcap Fund with a successful track record of more than 4 years; delivering a CAGR of 25.14% since inception. However, the past performance of MOF30 has been below expectations for over a year now which has also had the effect of dragging down the performance for prior periods.

We appreciate your patience and faith in this journey of long term wealth creation. Underperformance in this Fund has been on account of a combination of portfolio choices which were made in line with the stated investment philosophy, regulatory constraints and shifts in the underlying markets. This note is aimed at apprising the investors on the reasons of past performance, recent developments and outlook for the fund.

Past performance

Scheme Name	1 Year		3 Years		Since Inception	
	CAGR (%)	₹ 10,000	CAGR (%)	₹ 10,000	CAGR (%)	₹ 10,000
Motilal Oswal Midcap 30 Fund	3.42	10,342	8.80	12,879	25.14	25,069
Nifty Midcap 100 TRI	10.25	11,025	14.36	14,958	25.73	25,559
Nifty 50 TRI	11.76	11,176	7.37	12,378	14.15	17,204

Data as on 31st March 2018

Date of inception: 24-Feb-14. Returns for one year are absolute returns and returns for more than one year are compounded annualized. Past performance may or may not be sustained in the future. Performance is for Regular Plan Growth option. Different plans have different expense structure. Mr. Akash Singhania is the Fund Manager for equity component since 28-Jul-2017; Mr. Siddharth Bothra had managed this fund from 23-Nov-16 to 28-Feb-18. Further, Mr. Niket Shah is the Associate Fund Manager since March 1, 2018 vide addendum dated March 14, 2018 and Mr. Abhiroop Mukherjee is the Fund Manager for debt component since 24-Feb-2014. The scheme has been in existence for less than 5 years

Firstly, few things which hurt performance in the last year (CY17) are as follows:

- 1) Style: We have always followed Q-G-L-P philosophy and concentrated investing style in high quality, high growth companies. Last year, the mid-cap index went up by ~47% which was led by high-beta low-quality stocks and rotation of style away from growth towards momentum ideas. During such periods, bottom up index agnostic funds like ours, which pick individual stocks on merit irrespective of short term moves in the broader markets tend to underperform.
- 2) From a portfolio perspective too, we had two issues:
 - a) Higher exposure to pharmaceutical and agro-chemical sector (~17%) hurt the performance of the fund.
 - b) The portfolio earnings growth was also muted with higher earnings downgrade because of events like demonetization and GST

Recent Developments

- 1) In our quest to augment the team and to lend specific focus to MOF30, there has been a change of Fund Manager. Akash Singhania was inducted as the Fund Manager from July 2017. Subsequently in March 2018, Niket Shah has joined as an Associate Fund Manager. Both Akash and Niket have long experience of research and stock picking. Akash has been a Fund Manager with over 14 years of experience at DHFL Pramerica and Deutsche Asset Management while Niket was Head of MidCap Research at Motilal Oswal Securities' Institutional Equities business.
- 2) From a portfolio perspective, we made major changes (around 45%) during August to October 2017 wherein the weights in the pharma and agro-chem sector have been substantially reduced and focus has been on picking stocks with higher stability and visibility of earnings growth.

Way forward

The worst is clearly behind us

- 1) The changes made in the portfolio (by October 2017) have resulted in a gain of 5% to the fund and post these changes the performance has stabilized (November 2017 onwards).
- 2) **With additional relaxations on the change of SID, we have made changes to the tune of 5%-10% of the portfolio. As the earlier constraints on the portfolio have been reduced, we expect that greater flexibility in portfolio construction will improve performance and have positive impact thereon.**
- 3) **For the MOF30 fund we have created a high quality and high growth portfolio with strong longevity in both parameters.**
- 4) From a style perspective, we will stick to our QGLP (Q- Quality, G- Growth, L- Longevity and P- Price) philosophy which we believe will be back in favour as the markets becomes discerning on performance and participants are forced to be choosy in stock picking from a bottoms-up basis compared to a broad-based beta rally last year. The beginning of 2018 has amply demonstrated that this is not going to be like CY2017 where anything and everything was flying.

Let me conclude by highlighting that markets handsomely reward patient long term investors who are unperturbed by past volatility, considering we believe that the worst of underperformance is behind us and the market is likely to reward the growth oriented companies in this portfolio going forward.

Looking forward to being of greater service in your journey towards wealth creation.

Yours Sincerely,

Akash Singhania

Motilal Oswal Midcap 30 Fund (MOF30)

This product is suitable for investors who are seeking

- Long-term capital growth
- Investment in equity and equity related instruments in a maximum of 30 quality mid-cap companies having long-term competitive advantages and potential for growth

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

