POWER & PROTECTION

Introducing

Motilal Oswal Equity Hybrid Fund (MOFEH)

A fund that strikes an ideal balance between growth and stability. While equity POWERS wealth creation through our unique investment philosophy "Buy Right: Sit Tight", debt PROTECTS from downside and adds stability.

MOTILAL OSWAL
CASH FLOW PLAN
For Planned Needs

Scheme will reopen on 19th September 2018

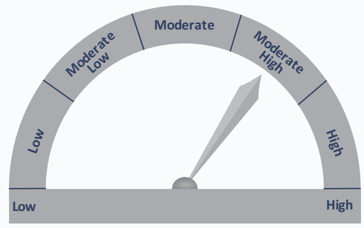
Contact your financial advisor or 1800-200-6626 | www.motilaloswalmf.com

THINK EQUITY
THINK MOTILAL OSWAL

MOTILAL OSWAL Asset Management MUTUAL FUND

BUY RIGHT SIT TIGHT

Note: Motilal Oswal Cash Flow Plan provides a regular source of funds from returns generated and capital invested.

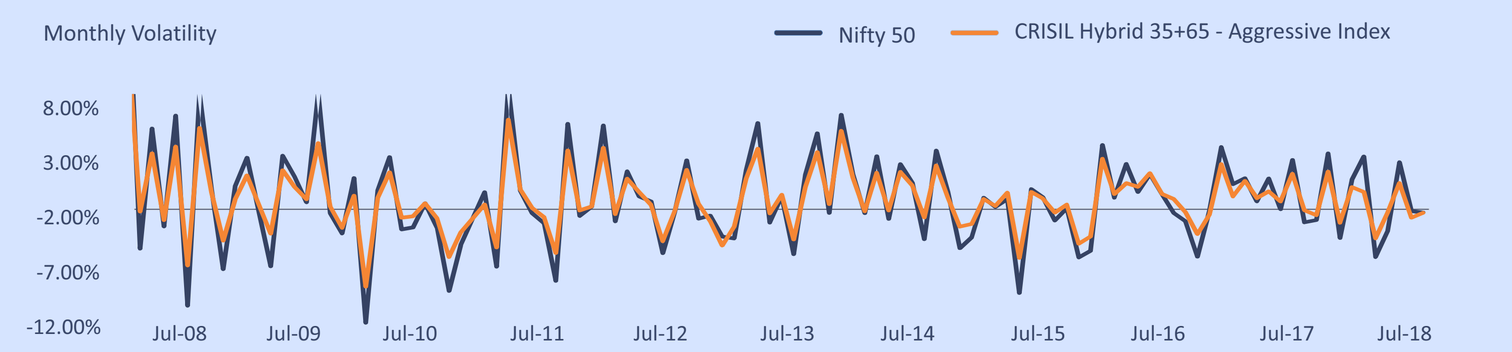
Name of the scheme	This product is suitable for investors who are seeking*	Riskometer
Motilal Oswal Equity Hybrid Fund (MOFEH) (An open ended hybrid scheme investing predominantly in equity and equity related instruments	• Long term capital appreciation by generating equity linked returns • Investment predominantly in equity and equity related instruments	 Investors understand that their principal will be at Moderately High risk

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

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

EQUITY HYBRID FUND - BETTER RISK ADJUSTED RETURN

Aims to generate reasonable returns with lesser volatility as compared to equity funds



	Returns		Volatility		Returns/Volatility	
	Nifty 50 TRI	*Crisil Hybrid	Nifty 50 TRI	*Crisil Hybrid	Nifty 50 TRI	*Crisil Hybrid
1 Year	14.49%	8.80%	10.3%	7.1%	1.41	1.23
2 Year	16.32%	12.91%	10.6%	7.4%	1.54	1.75
3 Year	12.06%	11.19%	12.9%	8.7%	0.94	1.29
5 Year	15.40%	14.48%	14.1%	9.4%	1.09	1.54
10 Year	11.43%	11.23%	20.8%	13.4%	0.55	0.84

June-2008 is taken as base year. The information provided herein is for illustrative purpose only and should not be construed as an investment advice. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Motilal Oswal AMC does not provide any guarantee/ assurance any minimum or maximum returns.
*CRISIL Hybrid - CRISIL Hybrid 35+65 - Aggressive Index Source: MOAMC Internal Analysis, NSE, BSE: Data as on July 31st 2018

Motilal Oswal Equity Hybrid Fund

- An Equity fund that allocates between equity and fixed income instruments. Equity%
- Equity allocation powers wealth creation over a long period of time and debt protects from volatility and adds stability

Equity	65% - 80%	Multi cap portfolio with large cap bias*	Bottom up stock picking with "Buy Right - Sit Tight" Investment Philosophy
Debt	20% - 35%	Optimum mix of corporate bond and money market instruments	High quality short duration accrual instruments maintaining high liquidity

*As per current investment strategy we intend to be large cap biased, though scheme can be multicap as per the provisions of SID

Features

- **Type of Scheme**
  - An open ended hybrid scheme investing predominantly in equity and equity related instruments
- **Investment Objective**
  - The investment objective is to generate equity linked returns by investing in a combined portfolio of equity and equity related instruments, debt, money market instruments and units issued by Real Estate Investment Trust (REITs) and Infrastructure Investment Trust (InvITs). However, there can be no assurance or guarantee that the investment objective of the Scheme would be achieved.
- **Benchmark**
  - CRISIL Hybrid 35+65 – Aggressive TRI
- **Entry/Exit Load**
  - Entry Load: **Nil**

    Exit Load: **1%**- If redeemed on or before 1 year from the date of allotment. **Nil**- If redeemed after 1 year from the date of allotment.
  - No exit load applies for switch between Motilal Oswal Focused 25 Fund, Motilal Oswal Midcap 30 Fund, Motilal Oswal Multicap 35 Fund & Motilal Oswal Dynamic Fund. No load for switch between Options within the Scheme. Investors have option to withdraw (Only under Cashflow plan and SWP) up to 12% p.a. of original investment cost (OIC) within 1 year (from date of investment) with no exit load. If the withdrawal amount is beyond 12% p.a. of OIC, the normal exit load applies on the amount greater than 12% p.a.
- **Plans**
  - Regular Plan and Direct Plan
- **Options (Under each plan)**
  - Growth
- **Cash Flow Plan**
  - Available at 7.5%, 10% or 12% p.a.
- **Minimum Application Amount**
  - Rs. 5,000/- and in multiples of Re. 1/- thereafter
- **Additional Application Amount**
  - Rs. 1,000/- and in multiples of Re. 1/- thereafter
- **Systematic Investment Plan (SIP)**
  - Weekly SIP, Fortnightly SIP, Monthly SIP
    - Rs. 1,000 and in multiples of Re.1/- thereafter (Minimum Installment – 6)
  - Quarterly SIP
    - Rs. 2,000 and in multiples of Re.1/- thereafter (Minimum Installment – 3)
  - Annual SIP
    - Rs. 5,000 and in multiples of Re. 1/- thereafter (Minimum Installment – 1)
- **Minimum Redemption Amount**
  - Rs. 1,000/- and in multiples of Re. 1/- thereafter or account balance, whichever is lower.

Cash Flow Plan V/s Dividend Option

Many investors believe that dividends declared in Mutual Funds are an ideal option for steady cash flows and are paid from the profits of the fund, but that's not the case. Dividends are paid from the return as well as capital and are dependent on fund manager's discretion, wherein Cash Flow plan generates steady cash flow and is tax efficient.

Tax impact for an investor looking for regular cashflow

Date	Jan (2014)	Jan (2015)	Feb (2015)	Mar (2015)	Apr (2015)	May (2015)	June (2015)	July (2015)	Aug (2015)	Sep (2015)	Oct (2015)	Nov (2015)	Dec (2015)
NAV	10.43	13.77	14.57	14.85	14.64	14.38	14.70	14.77	15.19	14.37	14.69	14.59	14.57
Investment Amount	1,00,000												
Balance Units	9,588	9,490	9,417	9,349	9,281	9,213	9,144	9,076	9,008	8,942	8,872	8,804	8,736
Cashflow/Dividend		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Units Redeemed		73	69	67	68	70	68	68	66	70	68	69	69
Cash Flow Plan													
LTCG (Long term Capital Gain)		24.3	28.4	29.8	28.8	27.4	29.1	29.4	31.3	27.4	29.0	28.5	28.4
											Total Tax		341.8
Dividends													
DDT (Dividend Distribution Tax)		100	100	100	100	100	100	100	100	100	100	100	100
											Total Tax		1,200

- Investor opting for a Cash Flow Plan, the tax paid by the investor is 10% (LTCG) on the gains only (Difference in NAV x Units), whereas for the dividend option, the investor has to pay 10% Dividend Distribution Tax (DDT) on the entire amount withdrawn i.e. dividend

The above illustration is based on assumed composite NAV of an actively managed fund (65%) and Crisil Short Term Bond Fund Index (35%), assuming some one invested on 13th may 2013 at Starting NAV of 10 and monthly withdrawal at 1% of of Investment Amount.

Motilal Oswal Cash Flow Plan (MO - CP)

The plan enables investors to withdraw a regular sum from their investments at a fixed percentage of the original investments at a predefined frequency irrespective of the movement in market value of the investments and that would be subject to the availability of account balance of the investor

- It presently offers three options:
  - MO - CP @ 7.5% p.a. of original cost of investment
  - MO - CP @ 10% p.a. of original cost of investment
  - MO - CP @ 12% p.a. of original cost of investment
- MO - CP is offered at a predefined frequency i.e. monthly, quarterly or annually

- Benefits

  If the return on the underlying fund on CAGR basis over the length of the holding period is higher than the rate of the withdrawal then:
  - Cash flow requirement would be met
  - Capital would eventually remain intact with same potential for growth

  Ideal Option for people who want an annuity kind of arrangement or for people looking to park a retirement corpus while preserving the growth potential and at the same time fulfilling the need for regular cash flow

Motilal Oswal Cash Flow Plan - Illustration

Below is an example of an investor investing ₹ 10 lac in year 1, and withdrawing annually 10% of investment corpus

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Investment Value	10,00,000	10,28,444	12,33,919	10,69,498	12,68,803
Starting Unit	1,00,000	91,138	84,306	77,097	71,465
Withdrawal	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Units Sold	8,862	6,832	7,209	5,632	5,211
Ending Unit	91,138	84,306	77,097	71,465	66,253
Ending Value	10,28,444	12,33,919	10,69,498	12,68,803	12,71,355
				XIRR Overall	**14.07%**

Yearly withdrawal at 10% of Investment Amount

The above illustration is based on assumed composite NAV of an actively managed fund (65%) and Crisil Short Term Bond Fund Index (35%). It also assumes that an investor invested in May 2013 at starting NAV of 10 and yearly withdrawal at 10% of Investment Amount. The above chart is provided for illustration purpose only. Motilal Oswal AMC does not provide any guarantee/ assurance any minimum or maximum returns. It should not be construed to be indicative of scheme performance in any manner. Past performance may or may not be sustained in future

Anyone in the mood for dividends?

Aashish P Somaiyaa
CEO, Motilal Oswal
Asset Management Co. Ltd

The mutual fund industry in India has got itself into a tangle on the issue of dividends many a time. Monthly income plans (MIPs) with monthly dividend frequencies have skipped their dividends, prompting the regulator to ask for a disclaimer stating that MIPs could skip monthly dividends. Unusually large dividend declarations with their tax-free nature have been used to create a capital loss that is used to set off capital gains accrued elsewhere, prompting income tax authorities to change the rules for factoring such a loss and ensuring the regulator comes in with a defined process for dividend declarations. The latest discussion has centred on declaration of monthly dividends in equity-oriented funds and their sustainability.

Mutual funds have been marketing monthly dividend schemes in such a way that investors may assume that the dividends will continue and they can depend on those to meet their monthly requirements.

What does dividend actually mean and what is its purpose? Dictionary.com says that dividend is a pro-rata share in an amount to be distributed; a sum of money paid to shareholders of a corporation out of earnings. The last part about paying from earnings is important. It's worth noting that despite mutual funds being in existence for the most part of corporations' existence, there is no definition of what dividend means as applied to mutual funds.

Mutual funds are not corporations to have any earnings of their own; they are basically portfolios of corporations which generate "returns", not "earnings". Further, corporations rarely find themselves in a position to return capital or meet cashflow requirements of investors, whereas mutual funds can provide liquidity to their investors almost at call by way of resale of units.

So why such take up of dividends by mutual fund investors despite unreliability and no fundamental reason? It's not like all investors go for dividend options; in fact around 50% of all investors and probably a larger value of assets under management (AUM) is probably in growth plans as dividends have become less tax-efficient over time. Interactions with investors tell us that there is a good base of investors who want cashflows but are unable to differentiate between terms like return on capital, return of capital, dividends and plain cashflow requirement. Dividends connote "return on capital" without a direct proportionate impact on the original capital and this is what draws investors to dividend; whereas applied to mutual funds, the concept almost entirely results in "return of capital". One can argue that mutual funds too earn dividends from underlying companies but a simple calculation of dividend yield on some of these portfolios will tell you the argument is bogus. Corporations usually declare dividends after audited profits for a review period are announced and the management, after factoring capital related decisions, recommends a payout to the board. Dividend declarations from mutual funds are indeed "return of capital" as gains generated by mutual funds are only from the sale of securities and there is no correlation between the act of declaring dividends and trading operations of funds.

A portion of investors has capital that they can invest, but it is from this capital that they need to sustain themselves, which requires predictable cashflow. Yet another set of investors does not want cashflow for sustenance but sees regular cashflow as frequent "profit-booking" from a variable return asset or they see cashflow from an investment as proof of its reliability and goodness. The fact that some funds pay dividends every month is creating wrong perception. Investors are led to believe that because it is called dividend it must be a "return on capital" and because it comes every month, they can use it for sustenance or for regular profit booking. There is a pressing need to be able to distinguish "cashflow" from "return on capital".

It would be ideal if dividend plans are junked or at least investors learn that there is no need to link returns with cashflows in mutual funds. Over the long range, if your return expectation from, say, large-cap equity funds is 12% compounded annual growth rate (CAGR) or 9-10% from a hybrid mix of debt and equity, you can just set a standing instruction with the fund house to pay you 0.75% of your capital per month or 0.6%, respectively, as withdrawal.

A 12% CAGR, return expectation will play out probably as an average of negatives combined with positives. As long as your annual withdrawal rate is well below the expected return and you judiciously calibrate the process where needed, your capital remains intact over time. There is also potential for a pleasant surprise at the end of the desired tenure if the fund outperforms the asset class or the asset class beats expectations. Moreover, even the tax differential between so-called dividend plans and growth plans is nearly neutralised.

And for the fund industry, setting right expectations and educating investors will have a better outcome than taking the short cut of pandering to emotional interpretations of words.

This article was originally published in Mint on 12th July 2018