PORTFOLIO MANAGEMENT SERVICES

The Need for PMS

PMS or Portfolio Management Service is a professional service where qualified and experienced portfolio managers backed by a research team manage equity portfolios on behalf of clients instead of clients managing it themselves. India being one of the oldest stock market ecosystems, the direct equity investing cult has been prevalent for decades and has especially taken deeper root since many marquee listings in the markets since late 1970s. There are a large number of investors who own equity portfolios in their demat accounts that they manage based either on their own experiences or with inputs from broking companies and equity advisors.

Types of PMS

- Discretionary
- Non-Discretionary

There are over 2.6 crore demat accounts and some of the largest listed companies have about 20 to 30 lakh shareholders each. While brokers provide equity research, advisory services and an operational platform; this usually needs the investors' involvement in investment discretion as well as operational aspects. More importantly, the onus of outcomes is shared between investors as well as the service providers. On the other hand, professionally managed portfolios make the portfolio manager answerable to the investor. They are managed for a fee and everything including, research, investing, operations, etc. are available to the investor.

PMS could either be Discretionary; i.e. where the fund manager takes decisions on investors' behalf or Non-Discretionary; i.e. where the fund manager needs to take approvals from the investors on suggested investments. The other alternative for professionally managed investments into equities is through Mutual Funds; which is a very popular choice too. Discretionary PMS differ from Equity Mutual Funds in following aspects:

PMS	MF
• Stocks	• Units
• Minimum Investment 25Lac+	• Minimum Investment 2500+
• HNI	• Retail

- Investors in Mutual Funds are allotted units that represent their holding in a basket of stocks. For every PMS investor, the Portfolio Manager creates a segregated demat account where his portfolio is held on his behalf. The Portfolio Manager has to be provided with a power of attorney to transfer stocks in and out of the demat account.
- Mutual Funds have investment thresholds as low as ₹ 500/- or ₹ 1,000/- while for PMS, regulation requires that such services be offered only to investors bringing in a minimum of ₹ 25 lakhs by way of stocks or cash. Subsequent investments (top-up), typically have a threshold of ₹ 1 lakh.

However, there are certain aspects where PMS could be seen to be having distinct advantages for long term buy and hold investors as compared to investing by self or investing via Mutual Funds.

PORTFOLIO MANAGEMENT SERVICES

The PMS Advantage

Focused Portfolio

People who manage their own portfolios on an average buy less of quality and focus more on price, rather than value

Data shows that while there are thousands of listed companies; individual investors (Non Promoter Non Institutional [NPNI]) have a lower share of holding in the larger indices like Nifty, BSE 200 or even Nifty 500. Retail or NPNI holding is higher in non-index smaller companies. There is a skew to lesser quality stocks in their portfolios. It is equally remarkable that Nifty accounts for almost 60% of total market cap, BSE 200 accounts of nearly 85% of market cap and Nifty 500 accounts for nearly 94% of market cap (Source: Capitaline). This means that while the 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. Retail investors consistently seem to ignore the adage, "Price is what you pay; Value is what you get". They seem to chase stocks that are attractive on price and may or may not be so on value. It's not that retail investors never buy good quality stocks; it's just that they have a tendency to sell when they make a profit and hold on to stocks that have depreciated in value. It's a well-known fact that profits are booked easily and mostly prematurely, but losses are allowed to run. Motilal Oswal AMC promotes 'BUY RIGHT : SIT TIGHT' having realized that when people buy right they book profits and when they buy wrong they become long term investors. A simple test to measure the quality and performance of a portfolio can be done by visiting : www.motilaloswalmf.com/tools/compare-portfolio

Independent Portfolio

PMS Holdings are isolated and hence not impacted by other investors behavior

Mutual Funds being managed and held as a pool may be at times exposed to vagaries of the sum total behavior of hundreds of thousands of investors. In general, investors tend to invest in rising markets or improving fund performance and there could be times of panic in rapidly falling markets and times of poor fund performance. It may happen that mutual funds at times are forced to buy in rising markets and sell in falling markets because fund managers have discretion on stock picks but not on fund flows. Apart from managing the portfolio, managing fund flows is a significant activity on a daily basis. As far as PMS is concerned, every investor influences his own buying or selling time and price, there is no impact on other investors' holding or experiences. PMS has isolated individual holdings so one investor's behavior doesn't impact other investors investments.

At the same time, it is worth noting that Mutual Funds get benefited by regular inflows by way of Systematic Investment Plan, which helps them buy stocks in all kinds of market conditions. On the other hand, PMS would get inflows depending upon client discretion and their preferences. It is possible to register a SIP with Motilal Oswal PMS too, but these PMS-SIP flows will benefit individual client accounts and not comparable with enabling a fund to buy in general, consistently on a monthly basis.

PORTFOLIO MANAGEMENT SERVICES

The PMS Advantage

Online Top Up

Mini PMS facility

Registering SIP in Motilal Oswal PMS is an interesting experience because our portfolios have very low churn. As an investor when one registers PMS- SIP more often than not, one knows the curated focused list of high quality stocks that one will end up buying month on month. Also, one can register a paperless and user-friendly PMS-SIP, online. Similarly, Motilal Oswal PMS also enables an investor to purchase additional amounts into the PMS portfolio online on a same day basis. Ideal for the day when some global event not connected with our markets results in a 1000 point correction on the Sensex, only to bounce back in a few days!!!

Transparent Holdings

PMS is transparent

If we were to use cricket parlance, one can say that in PMS an investor can get a ball by ball update on the portfolio. Every trade is intimated to the investor and a live portfolio view is available on the managers' website. Specifically for Motilal Oswal PMS portfolios, there is a focused portfolio of curated stocks which the client can view in his holdings. Mutual Funds typically tend to have large diffused portfolios ranging from 25, 30 to even a 100 stocks, (which restrict the transparency) and the holdings are made available only once in a month or a quarter. 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. You can't beat the market if you buy the market.

Superior Returns

PMS can be more aggressive and has the potential to generate higher returns

Mutual Funds being structured for a wide mass of retail investors tend to be regulated strictly; for instance there are regulatory norms for benchmarking, scrip level exposure, investment patterns etc. More specifically in Mutual Funds, no stock can be over 10% of portfolio exposure. In PMS for instance; if a stock has 8% exposure and all things being static, this stock appreciates to become 12% of the portfolio, there is no compulsion to sell. There are times when a stock classified as mid cap appreciates over time and comes within the large cap basket. In a Mutual Fund scheme depending on investment universe defined the portfolio manager might be forced to sell. In a PMS, a portfolio manager may choose to have higher exposure as well as hold on to concentrated positions as long as they are delivering growth. While this can cut both ways, the ability to run concentrated positions combined with no inflows and outflows or compulsions of fund flow management, does afford the potential to generate higher returns.

PORTFOLIO MANAGEMENT SERVICES

Transparent Expense Ratio

PMS is flexible in terms of expense ratios being transparent and customized

Expense ratio disclosures of PMS are transparent as each client signs a specific fee structure and receives a monthly detail of charge levied on the portfolio. Further, expense structures can be customized based on ticket size and profit sharing based fee structures are possible too.

Focused Customer

PMS helps focus on the mass affluent and affluent customer

While Mutual Funds can focus on the new to market and lower sized segments through SIPs etc; PMS by definition, focuses on the mass affluent and affluent. This audience in India is growing by leaps and bounds, values flexibility and most importantly they are familiar with equity investing. The number of equity investors is almost 3 times the number of Mutual Fund investors. Significant wealth creation in the last decade has anyway occurred by way of sweat equity. It is then easy to diversify the holdings by investing in PMS. Hence, while there is a market for Mutual Fund investors, there also exists a market for PMS products

Our experience at Motilal Oswal brings out that PMS ageing is almost 1.5 to 2 times higher than Mutual Funds. This longer investing period means higher chances of returns, especially if you 'Buy Right' and 'Sit Tight'. A WIN-WIN-WIN situation for investor-manufacturer-investment advisor.

Disadvantages of investing in PMS

Tax Implications

- While Mutual Funds are registered as a tax exempt trust structure, for PMS portfolios the tax implications are the same as those for investors investing directly. If stocks are held for more than a year, it results in long term capital gain which is tax free for equities. If the portfolio manager indulges in short term trading activity, it may result in short term capital gains, which would mean the investor has to pay tax. At Motilal Oswal specifically, our average holding for stocks is in excess of 3-4 years and hence this tends to be a lesser concern.

Documentation

- Since PMS accounts entail opening of a segregated demat account and registering a power of attorney in favour of the portfolio manager, the documentation tends to be quite onerous as compared to Mutual Funds.

PORTFOLIO MANAGEMENT SERVICES

Our Strategies

- **Value Strategy**
  Concentrated large cap portfolio with only 15-20 stocks
- **Next Trillion Dollar Opportunity Strategy**
  Concentrated multicap portfolio with only 20-25 stocks
- **India Opportunity Portfolio Strategy**
  Concentrated mid cap portfolio with only 15-20 stocks

The Motilal Oswal PMS advantage

Low Churn

Focused Portfolio

High Brand Recall

Track Record

Transparency

- We are one of the largest local onshore PMS Managers in India.
- Our PMS has a vintage of 14+ years and we have created wealth through the ups and downs of market cycles.
- One of the few AMCs with a focused investing philosophy – 'Buy Right Sit Tight' where 'Buy Right' means buying quality stocks at reasonable prices using our 'QGLP' stock picking methodology and 'Sit Tight' means staying invested in them for a long period that realizes their full growth potential
- Performance track record across both our PMS schemes, For e.g.
  - ₹ 1 crore invested in Value Strategy in March 2003 is worth ₹ 26.42 crores Vs. ₹ 1 crore invested in Nifty 50 index is now worth ₹ 10.90 crore.#
  - ₹ 1 crore invested in Next Trillion Dollar Opportunity Strategy in December 2007 is worth ₹ 5.76 crores Vs. ₹ 1 crore invested in Nifty 500 index is now worth ₹ 1.91 crore.#
  - ₹ 1 crore invested in India Opportunity Portfolio Strategy in February 2010 is worth ₹ 3.71 crores Vs. ₹ 1 crore invested in Nifty Free Float Midcap 100 index is now worth ₹ 2.87 crore.#
- Concentrated and Hi-Conviction portfolios
- Widely accepted and distributed over 34,000 investors

#Data as of Jan 31, 2018

LARGE CAP STRATEGY

Value Strategy

Investment 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.

- Concentrated large cap with only 15-20 stocks
- One of the longest running products in the industry with a 14 years track record
- The corpus under this Strategy is over Rs. 2,826 cr as on January 31, 2018

Strategy Details

Fund Manager:	Shrey Loonker
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 10 Holdings

Sr. No.	Name of Instrument	% to Net Assets
1	HDFC Bank Ltd.	10.61
2	Bharat Petroleum Corporation Ltd.	8.19
3	Kotak Mahindra Bank Ltd.	8.09
4	Asian Paints Ltd.	6.55
5	AU Small Finance Bank Ltd.	6.43
6	Bharat Forge Ltd.	6.19
7	Larsen & Toubro Ltd.	5.81
8	HDFC	5.77
9	Eicher Motors Ltd.	5.73
10	Sun Pharmaceuticals Ltd.	5.61

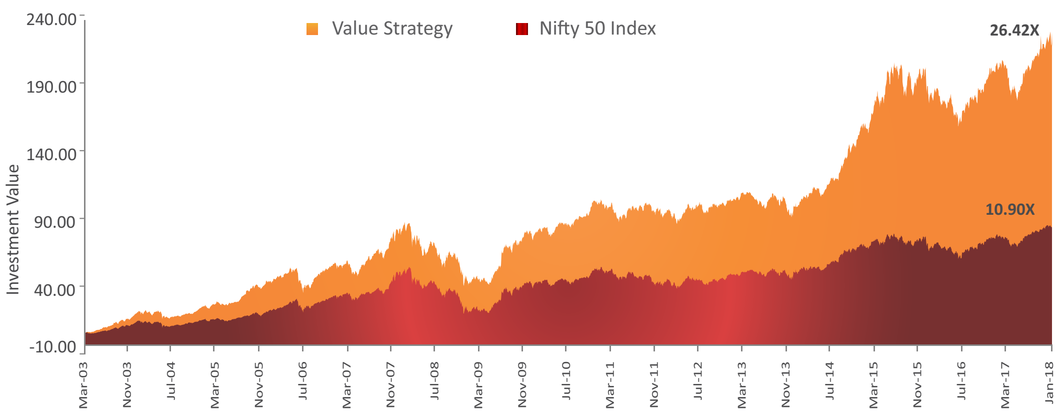
Key Portfolio Analysis

Performance Data (Since Inception)	Value Strategy	Nifty 50 Index
Standard Deviation (%)	20.77%	22.98%
Beta	0.82	1.00

Sector Allocation

Sr. No.	Sector Allocation	% Allocation
1	Banking & Finance	46.50
2	Auto & Auto Ancillaries	19.56
3	Oil and Gas	10.34
4	FMCG	6.55
5	Engineering & Electricals	5.81

Performance



Both, Value Strategy and Nifty 50 Index are rebased to 10 as on Mar 24, 2003

The Above strategy returns are of a Model Client as on January 31, 2018. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategies. The stocks forming part of the existing portfolio may or may not be bought for new client. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses. Past performance should not be used as a basis for comparison with other investments. Past performance may or may not be sustained in future.

Data as on January 31, 2018

MULTICAP STRATEGY

Next Trillion Dollar Opportunity Strategy (NTDOP)

Investment 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 pre-dominantly invest in large and midcap stocks with a focus on identifying potential winners that would participate in successive phases of GDP growth.

- Concentrated multicap portfolio with only 20-25 stocks
- Focused on the 'Next Trillion Dollar Growth Opportunity'
- The corpus under this Strategy is over Rs. 7,362 cr as on January 31, 2018

Strategy Details

Fund Manager:	Manish Sonthalia
Strategy Type:	Open ended
Date of Inception:	11th Dec 2007
Benchmark:	Nifty 500 Index
Investment Horizon:	3 Years +
Subscription:	Daily
Redemption :	Daily
Valuation Point:	Daily

Top 10 Holdings

Sr. No.	Name of Instrument	% to Net Assets
1	Kotak Mahindra Bank Ltd.	11.64
2	Voltas Ltd.	9.50
3	Page Industries Ltd.	8.52
4	Bajaj Finance Ltd.	8.22
5	Eicher Motors Ltd.	5.86
6	Max Financial Services Ltd.	4.65
7	Bosch Ltd.	4.43
8	Godrej Industries Ltd.	4.20
9	Hindustan Petroleum Corporation Ltd.	4.08
10	City Union Bank Ltd.	4.05

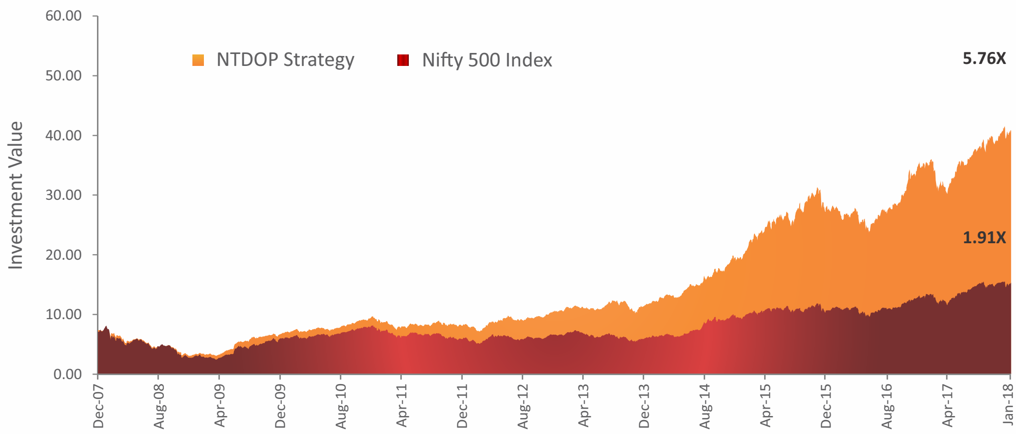
Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP Strategy	Nifty 500 Index
Standard Deviation (%)	18.02%	21.84%
Beta	0.68	1.00

Sector Allocation

Sr. No.	Sector Allocation	% Allocation
1	Banking & Finance	32.30
2	FMCG	16.40
3	Auto & Auto Ancillaries	14.21
4	Diversified	13.70
5	Oil and Gas	6.72

Performance



Both, NTDOP Strategy and Nifty 500 Index are rebased to 10 as on Dec 11, 2007

The Above strategy returns are of a Model Client as on January 31, 2018. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategies. The stocks forming part of the existing portfolio may or may not be bought for new client. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses. Past performance should not be used as a basis for comparison with other investments. Past performance may or may not be sustained in future.

Data as on January 31, 2018

MIDCAP STRATEGY

India Opportunity Portfolio Strategy (IOP)

Investment 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 mid and smallcap stocks; and which are available at reasonable market prices.

- Concentrated midcap portfolio with 15-20 stocks
- Three Focused themes: 'Make in India', 'Revival in Capex Cycle' & 'Third Trillion Dollar Consumption Opportunities'
- Flexibility to own best performing stocks irrespective of market capitalization
- The corpus under this Strategy is over Rs. 4,739 cr as on January 31, 2018

Strategy Details

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

Top 10 Holdings

Sr. No.	Name of Instrument	% to Net Assets
1	Birla Corporation Ltd.	10.12
2	Development Credit Bank Ltd.	8.71
3	Quess Corp Ltd.	7.55
4	AU Small Finance Bank Ltd.	6.71
5	Aegis Logistics Ltd.	6.44
6	Gabriel India Ltd.	5.90
7	TTK Prestige Ltd.	5.27
8	Mahanagar Gas Ltd.	5.09
9	Canfin Homes Ltd.	4.88
10	Alkem Laboratories Ltd.	4.76

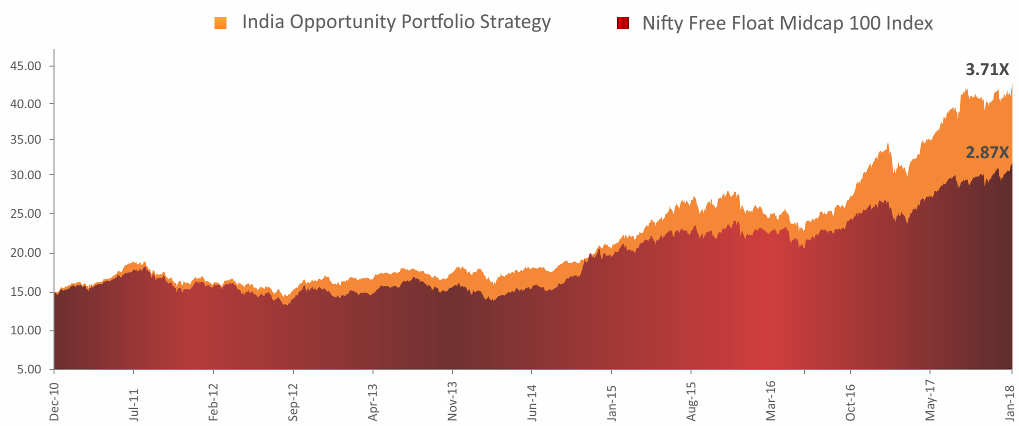
Key Portfolio Analysis

Performance Data (Since Inception)	IOP Strategy	Nifty Free Float Midcap 100 Index
Standard Deviation (%)	15.25%	16.86%
Beta	0.74	1.00

Sector Allocation

Sr. No.	Sector Allocation	% Allocation
1	Banking & Finance	27.27
2	Cement & Infrastructure	13.88
3	Pharmaceuticals	12.13
4	Oil and Gas	11.53
5	Consumer Durable	9.92

Performance



Both, IOP Strategy and Nifty Free Float Midcap 100 Index are rebased to 10 as on Feb 11, 2010.

The Above strategy returns are of a Model Client as on January 31, 2018. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategies. The stocks forming part of the existing portfolio may or may not be bought for new client. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses. Past performance should not be used as a basis for comparison with other investments. Past performance may or may not be sustained in future.

Data as on January 31, 2018