

INDIA'S

Nifty 500 Fund

(An open-ended scheme replicating/ tracking Nifty 500 Index)

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NFO

Opens: 19th Aug 2019

Closes: 30th Aug 2019

Introducing Motilal Oswal Nifty 500 Fund (MOFNIFTY500)

THINK EQUITY
THINK MOTILAL OSWAL

 **MOTILAL OSWAL**
Asset Management

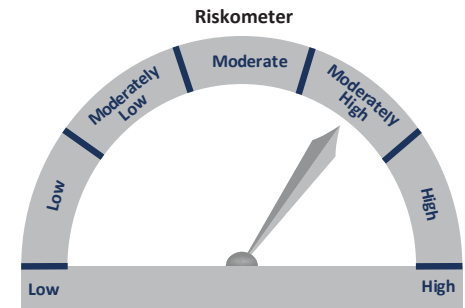
**MUTUAL
FUND**



Product labeling

This product is suitable for investors who are seeking*

- Return that corresponds generally to the performance of the Nifty 500 index, subject to tracking error.
- Equity and equity related securities covered by Nifty 500 Index
- Long term capital growth



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.



Nifty 500 Fund - Benefits of Investing

- The first low cost multi-cap index fund in India – most well diversified index fund
- Most of the portfolio invested in Large Cap stocks – stable returns and low risk
- Just over 20% of the portfolio investing in mid-cap and small-cap companies – areas of growth and higher returns

The world's most popular Mutual Fund - Vanguard S&P 500

	1 Year	3 Year	5 Year
S&P 500 ETF	10.30%	14.14%	10.67%
Average of US Equity Large Cap Funds	8.20%	12.53%	13.24%

- Launched in 1976, it was the first ever index fund. It's also the most popular and simplest of investment funds in the world
- Gives exposure to 500 of the biggest public companies in the United States
- Offers lots of diversity with some degree of a safety net as all investments are focused in the US

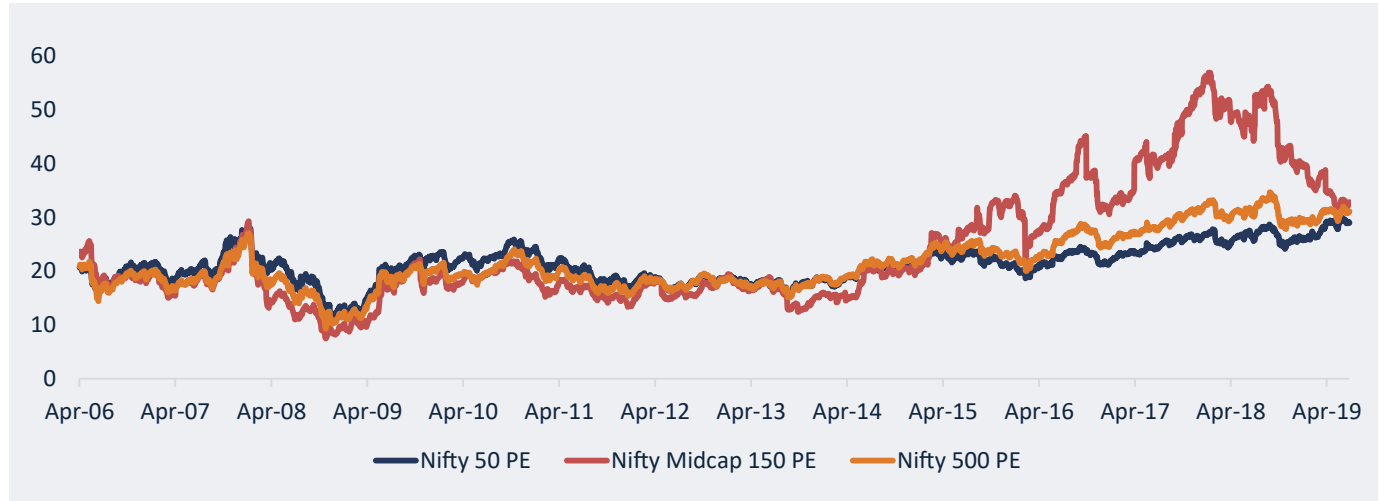
Returns before taxes As of 30/06/2019

<https://investor.vanguard.com/etf/profile/performance/voo>

Past performance may or may not be sustained in Future.



Valuation Comparison



- The above graph compares the valuation of three of the most popular indexes via PE (Price/Earnings) Ratio. A high PE Ratio means high valuations for the index.
- The graph shows a steep correction of mid-cap valuations over the last 12-18 months. Despite the sharp correction - Nifty 500 Index shows little movement.
- Thus - Nifty 500 Index can absorb risk of mid and small-cap stocks while giving better returns than Nifty 50 Index

Data as on 28th June 2019

Source: MOAMC Internal Research

Disclaimer: The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in Future.



Multicap MFs performance vs Benchmark

Scheme Name	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year	15 Year
Multicap Funds Category average	7.06	7.19	11.86	11.36	15.28	13.49	17.06
Indices							
Nifty 500 TRI	8.11	9.31	13.58	10.96	14.42	11.88	16.11

- Multi-cap funds have historically performed better based over the long-term but is starting to show underperformance over the last 3 years.

Indices	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
Nifty 500 TRI	8.11	9.31	13.58	10.96	14.42	11.88
Nifty 50 TRI	12.7	12.95	14.67	10.81	13.95	11.76
Nifty Midcap 150 TRI	1.36	4.80	12.93	13.23	17.80	15.11
Nifty Smallcap 250 TRI	-8.43	-5.88	5.67	7.15	13.61	11.68

- Based on Risk/Return framework - Nifty 500 Index is expected to perform better than Nifty 50 Index but lower than small-cap and mid-cap funds

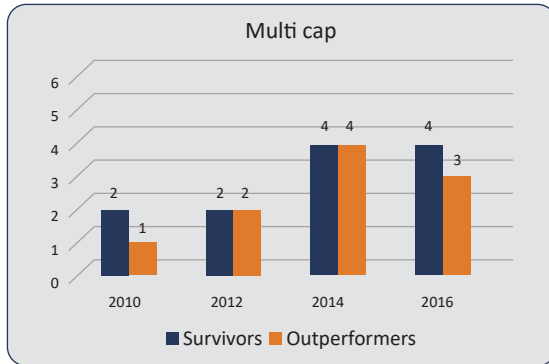
Mutual Fund investments are subject to market risk, please read scheme related documents carefully. Past performance may or may not be sustained in Future.

Data as on 28th June 2019 All figures are in % Source: MOAMC Internal Research

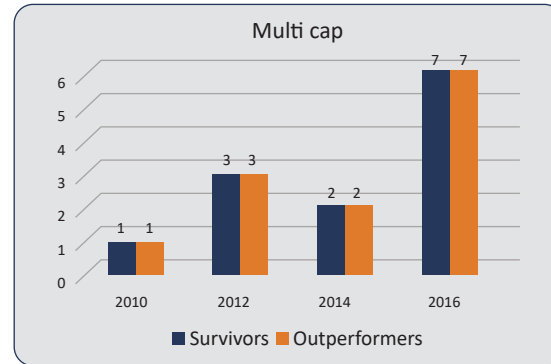


Case for Nifty 500 Fund

- To truly understand Mutual Fund returns – it's important to see performance of top mutual funds over different time periods
- As shown below – we see performance of top 10 MultiCap funds in a particular year



3 Year CAGR return



5 Year CAGR return

- **Survivors** – Number of mutual funds that are still in the top 10 category as of Dec 31st 2018
- **Outperformers** – Number of Mutual funds that have outperformed the benchmark as of Dec 31st 2018
- For Instance – if an investor chooses any of the top 10 multicap fund based on 3-year performance in 2010 – 2 of them are still top 10 and only 1 has outperformed than the index as of Dec 31st 2018
- Similarly – if an investor chooses any of the top 10 multicap fund based on 5-year performance in 2010, 1 is still in the top 10 as of Dec 31st 2018 and only 1 has outperformed the index
- **Conclusion** – Past-performance is not an indicator of future performance. Funds that outperform in the past have a high likelihood of underperforming in the future.

The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

Source: MOAMC Internal Research



Volatility

Indices	10 Year Standard Deviation (%)
Nifty 500 TRI	16.53
Category Median	15.92

Indices	10 Year Standard Deviation (%)
Nifty 500 TRI	16.53
Nifty 50 TRI	16.12
Nifty Midcap 150 TRI	19.29
Nifty Smallcap 250 TRI	22.42

- Risk is measured by volatility (Standard Deviation) above.
- Despite Nifty 500 Index being a multi-cap fund – its risk levels (measured above) appears to be almost the same as the Nifty 50 Index while the returns in the long-term are better for Nifty 500.
- Risk-adjusted returns for Nifty 500 Index appears to be the best across all broad market indices.

Data as on 28th June 2019 All figures are in % Source: MFI Explorer; MOAMC Internal Research

Standard Deviation is calculated on the basis of absolute return using 1-month Rolling and annualized by square root of 12.

Mutual Fund investments are subject to market risk, please read scheme related documents carefully. Past performance may or may not be sustained in Future.



What is an Index Fund?

- An Index Fund is a mutual fund scheme that endeavours to track/replicate the constituents of its target benchmark index
- An Index Fund aims to maintain a portfolio of investments that is weighted the same as its benchmark index in order to mirror its performance.
- The expense ratio of index funds are generally lower than actively managed equity funds
- Index Funds are passively managed funds :
- There is no active selection of stocks by the Fund Manager
- The portfolio is rebalanced periodically only when companies enter/exit the index



About Nifty 500 Index

- The NIFTY 500 index represents top 500 companies selected based on full market capitalization from the eligible universe.
- NIFTY 500 Index is computed using free float market capitalization method, wherein the level of the index reflects the total free float market value of all the stocks in the index relative to particular base period. NIFTY 500 can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETFs and structured products.

Eligibility Criteria for Selection of Constituent Stocks:

- All equity shares listed on the NSE are eligible for inclusion in the NIFTY indices. Convertible stock, bonds, warrants, rights, and preferred stock that provide a guaranteed fixed return are not eligible for inclusion in the NIFTY indices.
- To be considered for inclusion in NIFTY 500 index, companies must form part of eligible universe. The eligible universe includes:
 - i. Companies ranked within top 800 based on both average daily turnover and average daily full market capitalisation based on previous six months period data
 - ii. Companies traded for at least 90% of days during the previous six months period
 - iii. Securities will be included if rank based on full market capitalisation is among top 350
 - iv. Securities will be included if full market capitalisation is 1.50 times of the last constituent in NIFTY 500
 - v. Securities will be excluded if rank based on full market capitalisation falls below 800
 - vi. Eligibility criteria for newly listed security is checked based on the data for a three-month period instead of a six-month period

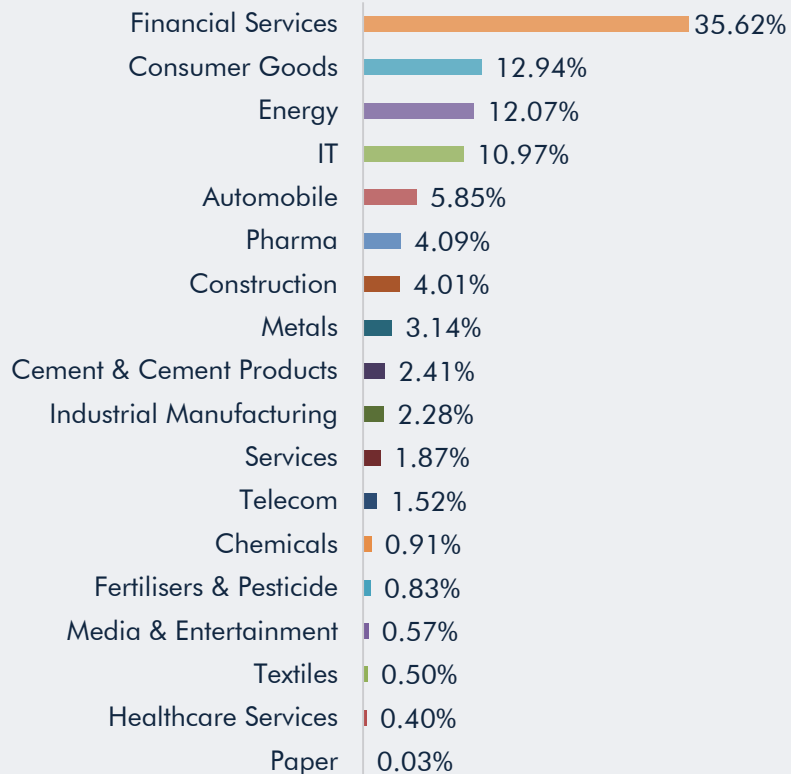
Re-Balancing Period:

Index is re-balanced on semi-annual basis. The cut-off date is January 31 and July 31 of each year, i.e. For semi-annual review of indices, average data for six months ending the cut-off date is considered. Four weeks prior notice is given to market from the date of change.



Nifty 500 Index Constituents

Industry Allocation



Top 10 Holdings

Name of Instrument	% to Net Assets
HDFC Bank Ltd.	7.73%
Reliance Industries Ltd.	6.28%
Housing Development Finance Corporation	5.52%
ICICI Bank Ltd.	4.13%
Infosys Ltd.	4.07%
ITC Ltd.	3.44%
Tata Consultancy Ser. Ltd.	3.43%
Kotak Mahindra Bank Ltd.	2.89%
Larsen & Toubro Ltd.	2.81%
Axis Bank Ltd.	2.42%

Industry classification as recommended by AMFI;

Source: Niftyindices.com

Data as on June 30, 2019

About Motilal Oswal AMC

- Motilal Oswal Group possesses legacy in equities for over 3 decades
- Motilal Oswal AMC is one of the most honored and trusted names in equity investing and manages over USD 5 bn of assets
- One of the pioneers of PMS business with over 16 years of track record
- One of the pioneers of passive funds in India through ETFs way back in 2010
 - Nifty 50
 - Nifty Midcap 100,
 - Nasdaq 100 – the only offshore ETF and have exclusive rights for Nasdaq



About Motilal Oswal Nifty 500 Fund

Scheme Name : Motilal Oswal Nifty 500 Fund (MOFNIFTY500)

Type of Scheme : An open ended scheme replicating/tracking Nifty 500 Index

Investment Objective : The scheme seeks investment return that corresponds (before fees and expenses) to the performance of Nifty 500 Index (underlying index), subject to tracking error. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Benchmark: Nifty 500 Index TRI

Entry Load : N/A

Exit Load : 1%- If redeemed on or before 3 months from the date of allotment. Nil- If redeemed after 3 months from the date of allotment.

New Fund Offer Opens on: August 19, 2019

New Fund Offer Closes on: August 30, 2019

Fund Manager: Mr. Swapnil Mayekar



Mr. Mayekar has 10 years of experience in the financial services industry. He has been part of fund management & product development team for Motilal Oswal Asset Management Company Limited (Mutual Fund) for last 5 years. His key area of expertise is quantitative analysis, creating customized indices, model testing and building research database. His last assignment was with Business Standard Limited as a Research Associate. He has done his post-graduation in Commerce (Finance Management) from University of Mumbai.

For further details, please refer to the Scheme Information Document (SID)



About Passive Investing



Advantages of Investing in Index Funds

- Index Funds are an easy and convenient way to invest in an index
- **Eliminates fund manager risk** and therefore the risk of underperforming the benchmark
- **Diversification** –Generally tracks broad based indices thus reducing the impact of decline in value of any one stock or industry, sector
- **Low Costs** –Since index funds are passively managed, cost are kept relatively low
- **Transparency** –As indices are pre-defined, investors know the sector, companies and proportion in which their money will be invested
- **Long-term** – Fund managers change the stocks frequently. An investor who is looking to invest for over 10 years+ is better suited for index funds



What is the relevance of Index Funds in Indian equity investing now?

- **Digital ecosystem** – increasing participation through digital and DIY modes demands simplicity and ease of product selection
- **Market evolution** – at a relatively early stage of equity participation , the MF industry already has too many complex products – **might not be a bad idea for beginners to just participate and familiarise themselves with the asset class with as little as Rs. 500/-**
- **Regulatory thrust** – lowering the cost of investment products and encouraging intermediaries towards fee based advisory services **drives the need for cheaper products**
- **Regulatory thrust on** standardizing and categorizing mutual funds reduces latitude for fund management
- **Asset allocation** – passive products like index funds are ideal building blocks **for asset allocation like the “Lego” blocks that kids play with to make different structures.**



Index Funds vs ETFs- Major Differences

- ETFs and Index Funds, both can be used for Investing in an Index.
- Both are very similar from fund management perspective.

Features	Exchange Traded Fund (ETFs)	Index Fund
Net Assets Value (NAV)	Real Time	End of the day
Liquidity Provider [@]	Authorised Participants (APs) on stock exchange + Fund itself	Only by Fund
Portfolio Disclosure	Daily	Monthly
Intraday Trading	Possible if investor has required inventory of units	Not Possible
Cost effectiveness	Each investor bears their own transaction cost	Transaction costs are spread across the fund
Holding format	Compulsory in Demat form	Physical + Demat
Investment decision	Can be bought / sold anytime during market hours at prices that are expected to be close to actual NAV of the Scheme. Thus, investor invests at real-time prices as opposed to end of day prices.	Not applicable

[@] In case of ETFs, the Scheme offers units for subscription/ redemption directly with the Mutual Fund subject to minimum lot size of units which are generally high amounts. Investor can buy/ sell ETF any units in cash segment on secondary market of exchanges where it is listed in multiple of unit.



Why index funds instead of ETFs?

- Motilal Oswal AMC has been a pioneer in the ETF space. MOAMC launched their first ETF in 2010 and subsequently launched two more. MOAMC is launching Index funds since they are considered efficient and customer centric. Some other benefits of Index Funds over ETFs are:
- **No Liquidity problems:** The industry is plagued with liquidity issues when it comes to trading ETF's.
 - ETF's today are mostly bought and sold by institutions who prefer to go directly to the AMC and not the exchange.
 - Retail + HNI customers as a result pay a premium to buy an ETF and sell ETFs at a discount. This adds cost and leads to a higher tracking error for the investor.
 - Index funds however are directly bought from the AMC who provide daily liquidity.
- **Demat Account** – All investors wanting to buy an ETF need to open a Demat account and buy the unit on the exchange. Buying an index fund is like buying any mutual fund.
- **Brokerage costs** – Investors in ETF's pay brokerage costs (on buying and selling) in addition to the expense ratio. Brokerage and other trading related costs are embedded in the expense ratio
- **Simpler to understand** – Index funds are pure passive funds. ETFs however may not be (eg. CPSE ETF). Customers see index funds as natural investment vehicles whereas ETF's are trading instruments.
- **SIP option** – Setting SIPs are possible in index funds (not possible in ETF's).

Index Funds are suitable for long term investors who are not looking to trade frequently

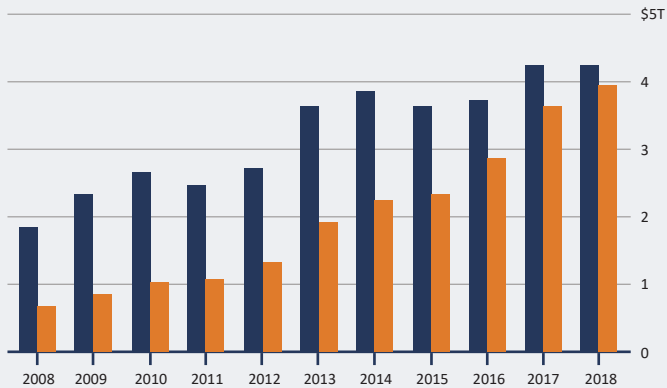


US case study : Shift from actively managed funds to Passive Funds

Indexing on the Rise

Passive U.S. equity funds could soon overtake their active peers

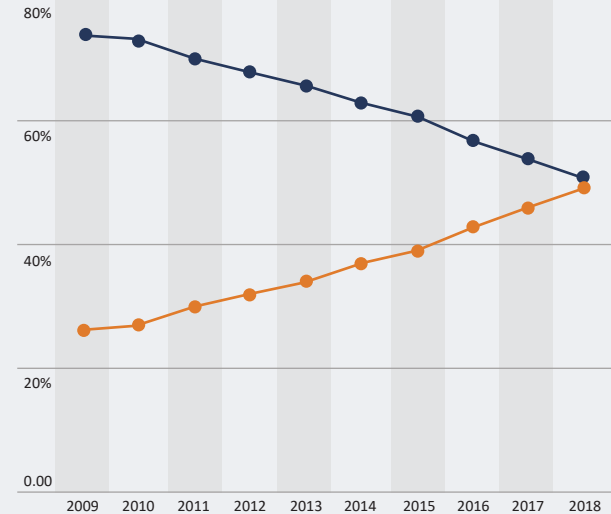
■ Active ■ Passive



Source: Morningstar Inc.
Note: Data as of Nov 30th 2018

U.S. Equity Active/
Passive Percentage

— U.S.Active Percentage — U.S.Passive Percentage



Source: Morningstar Direct. Data as of 31 December 2018

Over a 10 year period-

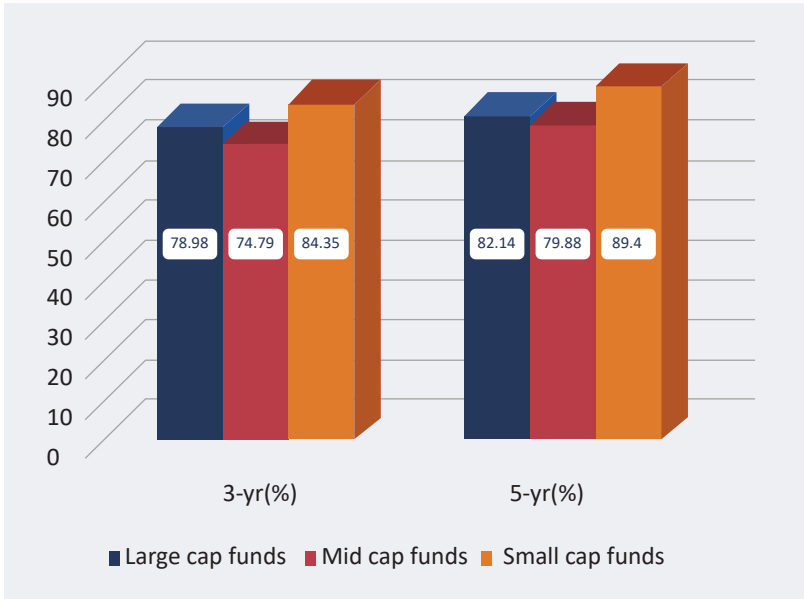
- Value of active funds increased from \$1.8trn to \$4.2trn
- Value of passive funds increased from \$0.7trn to \$3.9trn
- Share of passive funds rose from 28% in 2008 to 48% in 2018

The above graphs are used to explain the concept and are for illustration purpose only and should not used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.



Why this Shift?

Percentage of Equity Funds Underperformed benchmarks



Funds perform worse as time period increases



Small cap funds have high underperformance rate in most of the cases

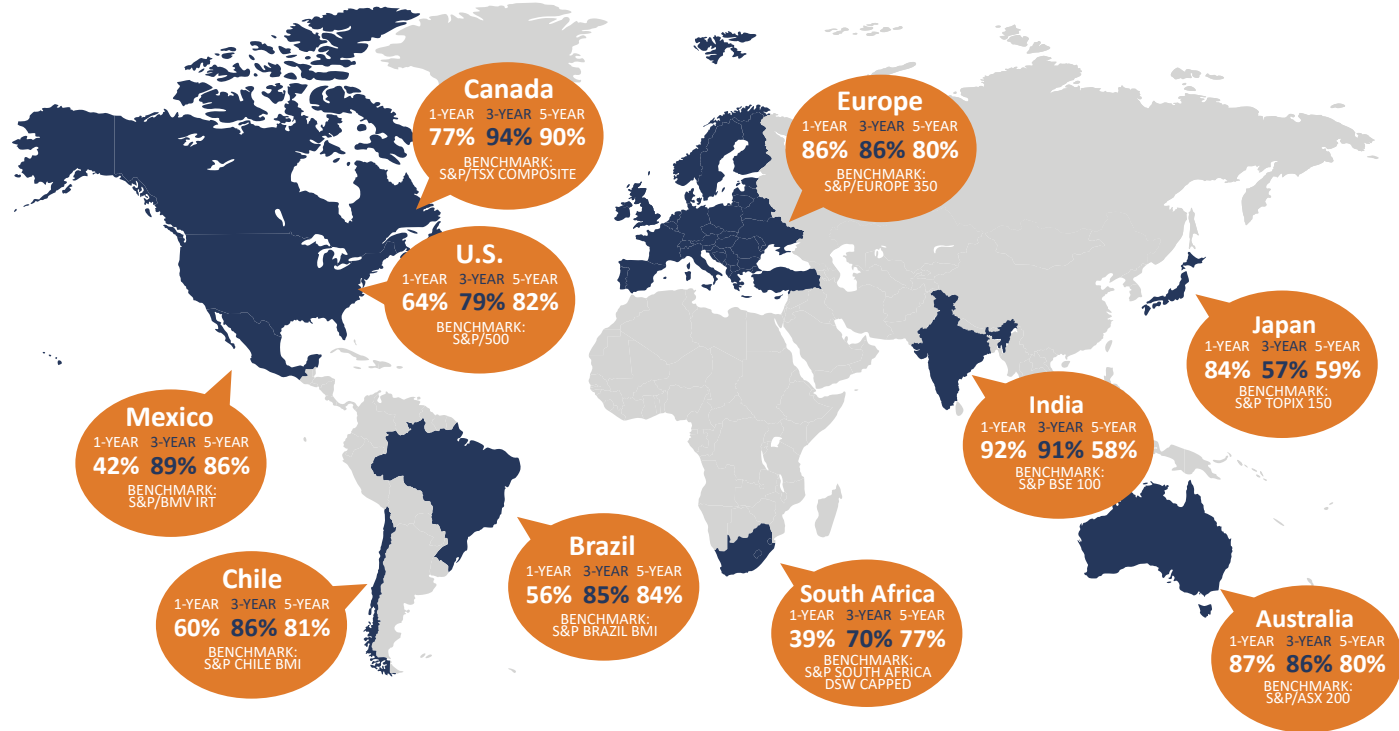
Data as of Dec. 31, 2018

Source: SPIVA (S&P Dow Jones Indices) US Year End 2018

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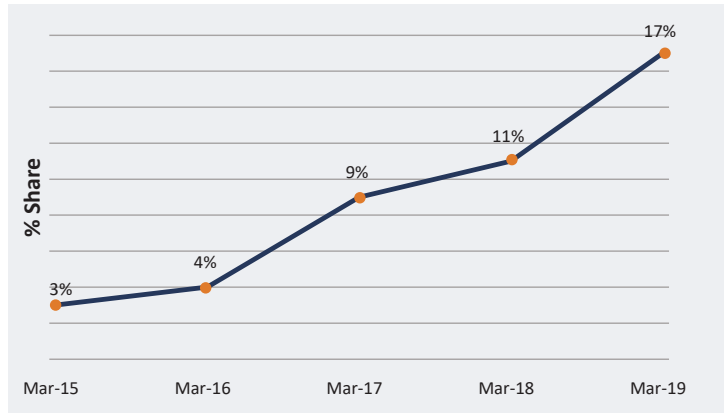
Global performance trend



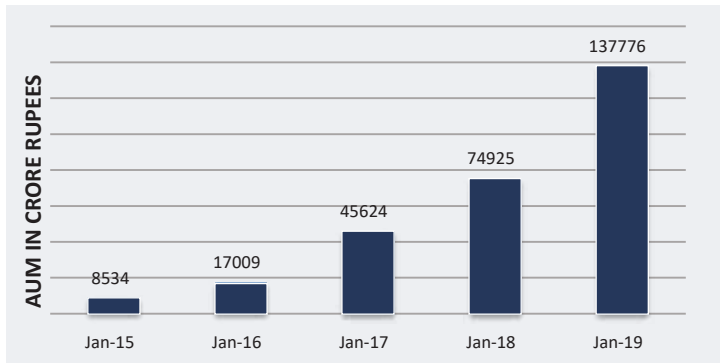
* Regional benchmarks included here are large-cap, with the exception of Brazil and Chile where SPIVA results displayed reflect regional broad market indices. Multiple benchmarks exist in all regions tracked by SPIVA. For more information on SPIVA methodology, including a full list of regional benchmarks and results, visit www.spdji.com/spiva. Source: S&P Dow Jones Indices LLC, Morningstar, Fundata, CRSP. Data as of December 31, 2018. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.



India trends : Growth of Equity ETFs and Index Funds



Equity ETFs and Index Funds AUM as % of Equity Mutual Fund AUM



* Month End Asset Under Management (AUM). Source: MFI Explorer

Major Growth Enablers

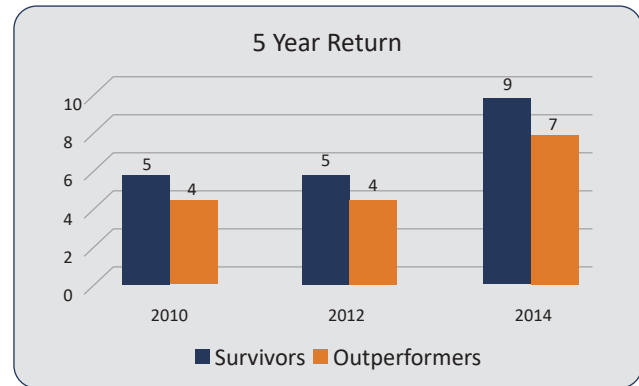
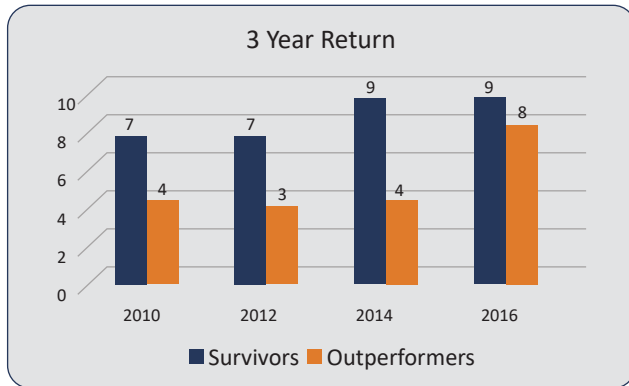
- Retirement Funds are mandated to invest at least 5% of annual accretion in Equities. Many of them have opted Equity ETFs/Index Funds for equity investment.
- Categorization and Rationalization of Mutual Fund Schemes by SEBI
- Benchmarking of funds moved from Price Return Index (PRI) to Total Return Index (TRI).
- Challenges in generating alpha due to improving efficiency of equity market and reducing information asymmetry.

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Case for Passive Investing- from Indian Equity MFs

- Active mutual funds returns are volatile across time periods
- Out of the top 10 performer funds in a calendar year very few continue to be in top



- **Survivors** – Number of mutual funds that are still in the top 50 category as of Dec 31st 2018
- **Outperformers** – Number of Mutual funds that have outperformed the benchmark as of Dec 31st 2018
- For Instance – if an investor chooses any of the top 50 active fund based on 3-year performance in 2010 – 7 of them are still top 50 and only 3 have outperformed than the index
- Similarly – if an investor chooses any of the top 50 active fund based on 5-year performance in 2010, 5 are still in the top 50 as of Dec 31st 2018 and only 4 have outperformed the index
- **Conclusion** – Past-performance is not an indicator of future performance. Funds that outperform in the past have a high likelihood of underperforming in the future.

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Source: MOAMC Internal Research



Why this Shift?

Percentage of India Equity Funds Outperformed by Benchmarks



- Indian funds have started underperforming heavily over the last 3 years
- Large cap funds (which represent over 80% of India's market capitalization) have underperformed the most
- Mid/ Small cap funds are outperformed the least in most of the cases

	1 Yr(%)	3-Yr(%)	5-Yr(%)	10-Yr(%)
Indian Equity Large Cap	91.94	90.59	57.55	64.23
Indian ELSS	95.45	88.1	40.54	51.52
Indian Equity Mid-/Small-Cap	25.58	56.52	39.68	55.26

Data as of Dec. 31, 2018

Source: SPIVA India Year End 2018

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Disclaimer & Risk Factors

Passive Investments: The Scheme is not actively managed. Since the Scheme is linked to index, it may be affected by a general decline in the Indian markets relating to its underlying index. The Scheme as per its investment objective invests in Securities which are constituents of its underlying index regardless of their investment merit. The AMC does not attempt to individually select stocks or to take defensive positions in declining markets.

Risk Factors relating to Portfolio Rebalancing: In the event that the asset allocation of the Scheme deviates from the ranges as provided in the asset allocation table in this SID, then the Fund Manager will rebalance the portfolio of the Scheme to the position indicated in the asset allocation table. However, if market conditions do not permit the Fund Manager to rebalance the portfolio of the Scheme then the AMC would notify the Board of the Trustee Company and the Investment Committee of the AMC with appropriate justifications.

Index Fund: The Scheme being an index scheme follows a passive investment technique and shall only invest in Securities comprising one selected index as per investment objective of the Scheme. The Fund Manager would invest in the Securities comprising the underlying index irrespective of the market conditions. If the Securities market declines, the value of the investment held by the Scheme shall decrease.

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

NSE Indices Disclaimer: Motilal Oswal Nifty 500 Fund (MOFNIFTY500) offered by Motilal Oswal Asset Management Company Limited (MOAMC) or its affiliates is not sponsored, endorsed, sold or promoted by National Stock Exchange (NSE) and its affiliates. NSE and its affiliates do not make any representation or warranty, express or implied (including warranties of merchantability or fitness for particular purpose or use) to the owners of Motilal Oswal Nifty 500 Fund (MOFNIFTY500) or any member of the public regarding the advisability of investing in securities generally or in the Motilal Oswal Nifty 500 Fund (MOFNIFTY500) linked to Nifty 500 Index or particularly in the ability of Nifty 500 Index to track general stock market performance in India. Please read the full Disclaimers in relation to the Nifty 500 Index in the Scheme Information Document.

Statutory Details: Constitution: Motilal Oswal Mutual Fund has been set up as a trust under the Indian Trust Act, 1882. **Trustee:** Motilal Oswal Trustee Company Limited. **Investment Manager:** Motilal Oswal Asset Management Company Ltd. **Sponsor:** Motilal Oswal Financial Services Ltd.



Appendix



Why Equity Markets?

Key benefits of investing in Equities as an asset class:

- Participation in entrepreneurship
- Wealth Creation in long term
- Dividend income
- Liquidity in times of exigencies
- Tax benefits on capital appreciation and income
- Corporate control in form of voting rights

In a nutshell

- Equity markets have historically produced higher returns than gold, real-estate, bank deposits or other fixed income assets over the longer term (source: Bloomberg)
- Historical data states that the risk of capital loss does exist especially in the shorter term but with longer periods of investments, this risk is mitigated



What is an Equity Index?



Rule Based

An Index is a rule base portfolio where, stock/companies are selected based on pre-defined rules



Representation

Indices represents certain characteristics of a market segment like market capitalization, sectors, themes, factors etc.



Indexing

Investing in a portfolio which is aligned to particular index. I.e. equity portfolio will hold same stocks and in same proportion as represented by an index