MONTHLY Communique

October 2017

Dear Investors and my dear Advisor friends,

The mutual fund industry is bracing for the latest move from the regulator to bring method in the madness amidst hyper-growth. It is expected to shortly come up with a circular which will classify mutual funds into standardized categories. So equity mutual funds could be large cap, mid cap, multicap, small cap, value, combination of large and midcap so on and so forth. Debt funds could be categorised as liquid, ultra short term, short term, credit etc. Further at a more fundamental level one expects the regulator to also define large cap, mid cap or short term, long term in case of debt. This should help investors and intermediaries know what exactly they are buying into and also enable appropriate benchmarking in homogeneous peer groups. Great move...but this is not it...what is most likely to have an impact is the expectation that the regulator would permit only one fund per category per fund house. It is well known that there are fund houses with a long history synchronous with industry evolution itself and classification once announced, could lead following scenarios:

1. more than one fund in a category
2. funds which don't exactly fit into any category may need to change investment universe to fit in
3. aligning to the new definition of large, mid or small cap or short or medium term

In cases where there are multiple schemes in the same category; it might result in merger of similar schemes or suspension of subscriptions into one scheme and continuance of another. All of these changes will be accentuated in case of debt because there is more product proliferation there. While for debt the story will likely be that of "consolidation" for equity funds it will be about "categorisation and rationalization".

It is not appreciated enough that "excessive choice leads to sub-optimal decisions". I have been an investor in funds since 1999 and it is beyond comprehension why the AMC sends communication about all their new product launches but never about reinforcing my decision to invest in the fund that I own. Never thought what the barrage of new fund communication did to the stickiness of my original decision; I always felt that the fund that I had invested in is clearly not the "hot fund" to be in anymore much less an area of focus for the head honchos out there. Coming to discussing choices, my favourite read on this topic is "Paradox of Choice" by Barry Schwartz. If you aren't much of a reader, you could view his ideas at https://www.youtube.com/watch?v=VO6XEQIsCoM. When provided excessive choice people make sub-optimal decisions, they make choices that they are likely to regret, that they are less likely to stick with and at the extremes sometimes they just refuse to make a choice lest they go wrong! It's ironic that the regulator has to step in for the industry to appreciate human psychology and provide optimal number of differentiated choices instead of an array of poorly defined similar looking choices.

Excessive choice in mutual funds has counter-productive outcomes. The top 500 stocks by market cap account for over 94% of market cap and top 300 stocks; >88%. This means that if a fund investor has a bunch of 8-10 funds that in turn owns say 300 unique stocks for her, then the investor owns 88% of whatever there is to be owned in the market. Needless to say, if you buy the market

(Continued overleaf)

you can't beat the market. And this is where I think a lot of mutual fund investors are taking the expensive route to fetching couple of percentage more than the broad BSE 200 or worse still to just track it.

Product proliferation also results in significant scope for mis-selling; it increases scope of pushing irrelevant products. Just as the regulator is working towards putting the onus of product suitability on intermediaries, who determines whether the products being launched and pushed over emails, SMS, phone calls are relevant for whoever they are being pushed to by AMCs themselves? While mis-selling may not be intentional, this kind of thrust on offering something new as a bait to investors, may result in mis-buying i.e. buying irrelevant funds with misplaced expectations, over-diversifying instead of just adding to the supposedly suitable funds one may have already bought. There is also the tendency for fund houses' sales machinery to propagate the funds that have the best immediate past performance and temporarily relegating to the background those funds that are undergoing a lean patch. This comes at the cost of explaining what goes into producing long term track record and what determines suitability.

For these reasons I welcome the regulatory intervention and I am quite sure it will result in better landscape for an industry that has come of age.

(An extract from this was published in ET Wealth on September 25,2017)

A liquidity management tool -Systematic withdrawal plan:

Over the years one of the prime objections to investing in equities has been that of possibility of potential capital losses. But the excellent track record of managed products building faith coupled with sustained growth in Indian stock markets over the years, has resulted in increased subscription to equities and equity linked products across mutual funds, pension funds, insurance, alternates and direct equities. That equity can deliver higher returns over the long term now seems to be finding acceptability with investors. The systematic investing culture has taken serious root and a large population of investors have already seen excellent results.

While new investors seem to be coming in a cursory analysis of the market numbers will tell you that this is a fundamentally strong flow because it is existing investors who are increasing their commitments and not just new investors coming in hordes drawn by immediate past performance. Let me illustrate by way of a back of the envelope calculations. In this financial year the net inflow into equity mutual funds has been in the range of Rs. 15,000 to Rs 20,000 crs per month. The average flow by way of existing monthly SIP commitments has been around Rs. 4,800 crs. We are witnessing an average about 5L to 6L new SIP registrations at an average of about Rs 3,500 per instalments which tells us that in addition an SIP book of Rs 4,800 crs new SIP registrations should add another Rs 200 crs for the month so lets take an average SIP book of Rs 5,000 crs. Further, about 4L new folios are created per month and there the average lumpsum should be in the vicinity of Rs 50,000 to Rs 60,000 giving another Rs 2500 crs inflow. The EPFO seems to be committing at a rate of about Rs 2,000 crs a month – all of this tells us that the recurring flow keeping current dynamic in mind is near about Rs 10,000 crs. So where is the other Rs 5,000 to Rs 10,000 crs per month coming from? Just as SIP is to be seen as increased commitment from the same investors, this additional flow of Rs 5,000 to Rs 10,000 crs per month is nothing but further commitment from existing investors albeit by way of cutting a cheque instead of the slow, steady, consistent SIP mode. A lot of market observers seem to conjecture that if the market were not to remain so buoyant, then flows would dry up. I don't disagree with that observation because good immediate past performance keeps the courage going and bad immediate past performance dampens sentiment. Having said so, the flows can't be as fickle minded as is being assumed because I know for a fact that investors who have been "in the money" in the past and have seen marked-to-market gains in their portfolios are more willing to tolerate the downside. A loss in profit is seen differently by the human mind as against a loss in capital even if the loss in absolute terms may be more. Once you "show them the money", there is faith and willingness to keep patience. But investors who come in new and come in last who have never been "in the money", are more likely to lose faith and run for the exit. I prefer to explain this in Hindi because that's the language which activates "bhavnaon ko samjho" as an emotion. So let me say "naphe mein nuksaan chalta hai lekin asal mein nuksan nahin chalega" is how minds work.

A lot of investors have reservations against investing in equities because they feel the need for regular incomes like monthly, quarterly or at annual frequencies. And dividends from equity funds in their strictest sense should be a function of NAV growth and booking of profits from such growth. Whether it is dividend or a redemption by the investor for want of cashflow income; if such outflow happens without growth in NAV the basically it's the investor's capital being returned back to the investor. This is where I chanced upon an interesting thought. Equity can give great returns is now widely accepted but how does one manage cashflows. Fixed income securities by nature are interest bearing and the cashflow from the interest fulfils requirements. But we all know the return potential of fixed income securities and just for securing cashflow if one chooses fixed income investments then it's a mighty sub-optimal choice to make. Need for cashflows doesn't mean one has to give up on returns. One needs to learn to segregate the two. Lets say the annual cashflow required by an investor is Rs 10L or about Rs 80,000 a month. Over long periods of time the index itself has returned around 15% CAGR and good funds have delivered anywhere between 20% to 25% CAGR in the same time frame. CAGR obviously in some form represents average returns and average by definition means that there is a minimum and a maximum on which the average is built and while the average may look like a nice and sane number, it's the minimum and the maximum which gets investors' goat. It is precisely this frequent occurrence of deviation from the average towards the minimum which trashes the "cashflow" requirement.

Going forward we don't extrapolate 15% on the index and 20% - 25% on good funds because these numbers came in a different era of inflation and interest rates. For sake of working arguments, let's say index delivers 10%-12% and good funds deliver in the range of 15%-16% over the next few years. What would happen if one were to invest Rs 1 cr in a fund of choice and instruct the fund to pay Rs 80,000 per month irrespective of where the long range average (CAGR), the minium and maximum lies. Just ignore whether we are close to the average phase, whether we are deviating below or above the average and keep taking Rs 80,000 per month off the table to meet your requirements. What do you think would happen? Intuitively if the fund actually delivers in line with expectations over the entire time frame of investments, one would see that since the return on the fund is much higher than the cashflow required, eventually not only the capital would be preserved like a good fixed income instrument should but also one would end up with some growth like a good equity investment should enable!

Next Trillion Dollar Opportunity Strategy

Date	NAV	Units Held	Units Sold (Assuming 80000 reedeemed monthly)	Remaining Units	Amount after Withdrawal
3-Aug-15	41.0028	243885.72			10000000.00
1-Sep-15	37.9137		2110.06	241775.66	9166603.87
1-Oct-15	37.6160		2126.76	239648.90	9014622.68
2-Nov-15	37.0052		2161.86	237487.05	8788255.60
1-Dec-15	36.4929		2192.21	235294.84	8586590.99
1-Jan-16	37.8603		2113.03	233181.81	8828333.15
1-Feb-16	35.2406		2270.11	230911.70	8137466.77
1-Mar-16	33.2928		2402.93	228508.77	7607686.72
1-Apr-16	36.1562		2212.62	226296.15	8182001.82
2-May-16	37.0339		2160.18	224135.97	8300629.24
1-Jun-16	38.3777		2084.54	222051.42	8521827.73
1-Jul-16	40.7479		1963.29	220088.13	8968130.44
1-Aug-16	46.5531		1718.47	218369.66	10165782.00
1-Sep-16	47.1156		1697.95	216671.71	10208623.01
3-Oct-16	48.0371		1665.38	215006.34	10328288.99
1-Nov-16	48.1640		1660.99	213345.34	1027556.36
1-Dec-16	43.4091		1842.93	211502.41	9181118.92
02-Jan-17	42.8955		1865.00	209637.41	8992494.33
01-Feb-17	46.6686		1714.21	207923.19	9703484.31
01-Mar-17	47.8722		1671.12	206252.08	9873738.60
03-Apr-17	49.8236		1605.66	204646.41	10196225.40
02-May-17	51.8486		1542.96	203103.46	10530621.98
01-Jun-17	53.1971		1503.84	201599.62	10724508.12
03-Jul-17	53.0625		1507.66	200091.96	10617377.67
01-Aug-17	55.9388		1430.13	198661.83	11112909.77
01-Sep-17	**55.8259**		**1433.03**	197228.80	11010475.40
XIRR					14.37%

The above is for illustration purpose only. XIRR formula is used to calculate overall CAGR for all those investments taken together. The investment amount, NAV of model strategy, etc. have provided for explaining the concept. It should not be construed to be an indicator of performance of strategy in any manner. Past performance of the Portfolio Manager does not indicate the future performance of any of the strategies. MOAMC does not guarantee or assure returns. 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.

The learning is clear – we are making a huge mistake by linking our need for cashflow with the return on the underlying investment. As long as the underlying investment delivers over a sufficiently long period of time, we should not be averse to taking out the required cashflow at regular intervals. The key condition being that at any time the annual cashflow taken out has to be well below a conservative estimation of the likely long term CAGR on the investment. While taking cashflow the capital shouldn't get eroded to such an extent that the entire future growth is jeopardised.

At the same time we must note that taking our regular cashflows is definitely going to reduce the effective compounding rate and exit returns. But at the same time, it is a way better idea than to park the corpus into fixed income just because we want cashflow without capital fluctuation.

Any investment option can only be evaluated on three parameters:

1. Safety

2. Liquidity

3. Returns

A fixed income instrument can provide liquidity and safety with regular cashflow (a facet of liquidity itself) but of course it would be sub-optimal on returns. The above plan would keep the investment in a high return investment option and provide liquidity and to that extent fluctuation in capital value has to be tolerated albeit for intervening periods and not at all if the likely exit is sufficiently long term in nature. Need for liquidity doesn't compromise return and that's a good option to have.

Keeping these observations in mind we have now introduced MOSt Focused CashFlow Plan in all our equity funds – Motilal Oswal MOSt Focused 25 Fund, MOSt Focused MidCap 30 Fund, MOSt Focused MultiCap 35 Fund and MOSt Focused Dynamic Equity Fund. Now you can register a CashFlow requirement at the rate of 7.5% annualised or 10% annualised. The payout can be opted for on monthly, quarterly, half yearly and annual basis. Wish you happy investing and I hope you make use of this facility which enables you to enjoy equity compounding without sacrificing need for cashflows and vice versa. It is most appropriate if one consults their financial advisor and draws up accurate calculations instead of relying on conversational "back of the envelope" inputs. While we have of course done our homework and been conservative in our assumptions before we introduced such a feature, I urge you to do some excel work on a lazy Sunday and figure out the numbers for yourself.

Finally, talking of CashFlow there's one other thing I'd like to take the opportunity to let you know. While the above plan is suited for a regular CashFlow to meet your regular requirements; every once in a few years it does happen that the markets reward us way more than what we would have imagined. Like the current times where money has pretty much doubled in last 3 years in most cases as against the usual 15% CAGR kind of assumptions that we loosely make. Whatever the baseline assumptions maybe I am sure 25-30% CAGR or doubling of money in less than 3 years is phenomenal return and way more than anticipated. Asking for more would be sheer greed. At times like this I notice people spend more time discussing where the market will go - further higher or will it turn back. Arre bhai; forget the market. As some wiseman said; look within. If you have got more than what you ever imagined or more than what you actually deserve take some money off the table. In the long run our portfolios should deliver in line with earnings growth but there are times when stock prices lead earnings - and lead they can by a margin. We anyway bear the brunt when stock prices lag the earnings; so why not take some joy when they lead. If you think you got what you thought you should or more than what you imagined; it's always wise to take some off the table and let the rest participate in the market. Let me tell you; don't wait for us to take cash on your behalf; we will not (except in MOSt DEF). That's because we don't know your asset allocation. Some of you have given us 2% of your total portfolio and some of you have given us 20% of your portfolio. Whatever that is; is opaque to us. It's between you and your advisors you decide the return expectation to meet your goal; the risk tolerance; the asset allocation and the choice of investment options. If the money is given to us in an equity fund we invest in equity with the aim of beating the index and providing decent absolute return over 5 years.

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.

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	36.34
Auto & Auto Ancillaries	27.21
Oil & Gas	8.39
FMCG	7.03
Airlines	5.32
Pharmaceuticals	5.21
Infotech	5.15
Engineering & Electricals	5.02
Cash	0.35

Data as on 30th September 2017

*Above 5% & Cash

Investment Strategy

- Value based stock selection
- Investment Approach: Buy & Hold
- Investments with Long term perspective
- Maximize postt ax return due to Low Churn

Top 10 Holdings

Particulars	% Allocation
HDFC Bank Ltd.	10.22
Eicher Motors Ltd.	9.14
Bharat Petroleum Corporation Ltd.	8.39
Kotak Mahindra Bank Ltd.	7.83
Bosch Ltd.	7.35
Asian Paints Ltd.	7.03
Housing Development Finance Corporation Ltd.	6.63
AU Small Finance Bank Ltd.	5.96
Bajaj Finserv Ltd.	5.70
Bharat Forge Ltd.	5.44

Data as on 30th September 2017

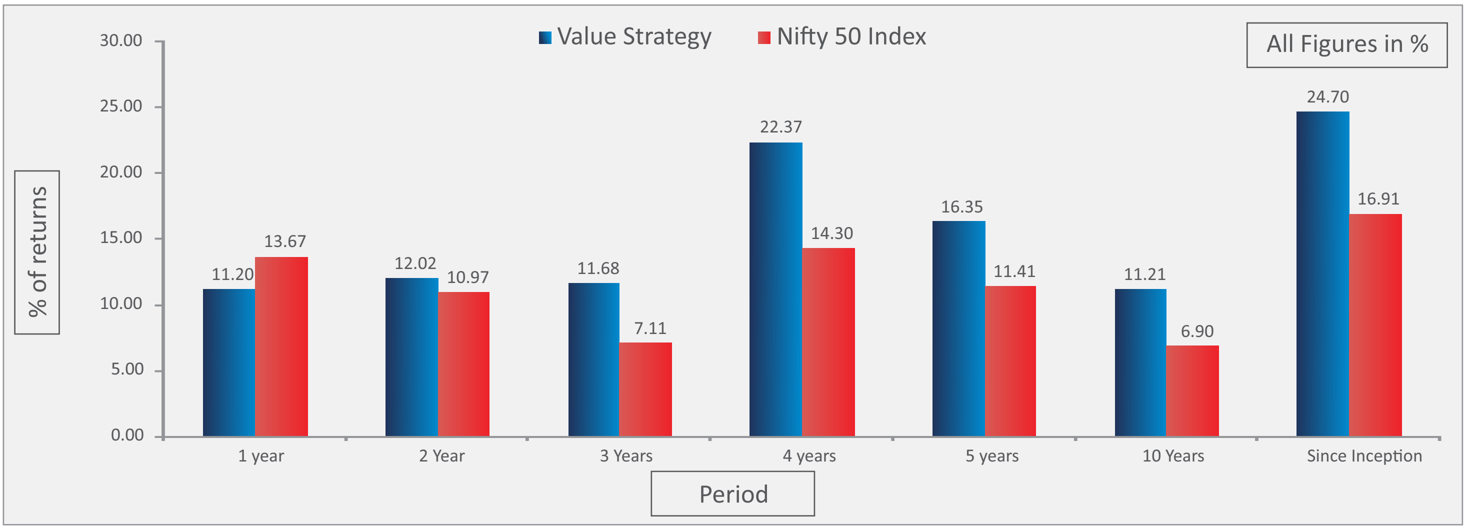
Details

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

Key Portfolio Analysis

Performance Data (Since Inception)	Value Strategy	Nifty 50
Standard Deviation (%)	20.96%	23.21%
Beta	0.82	1.00

Data as on 30th September 2017



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 September 2017. 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 ofGDPgrowth.

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	34.34
Auto & Auto Ancillaries	15.37
FMCG	15.07
Diversified	12.55
Oil & Gas	7.19
Cash	0.64

Data as on 30th September 2017 *Above 5% & Cash

Top 10 Holdings

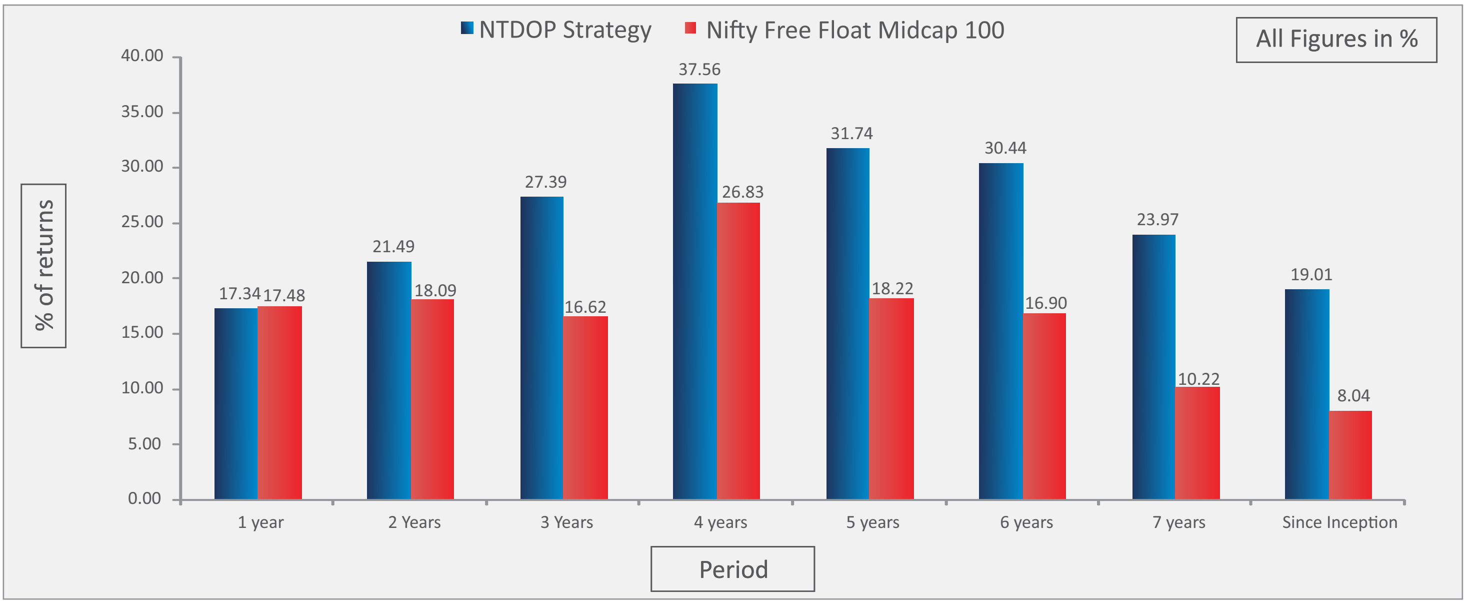
Particulars	% Allocation
Kotak Mahindra Bank Ltd.	10.99
Bajaj Finance Ltd.	9.41
Voltas Ltd.	8.30
Page Industries Ltd.	7.65
Eicher Motors Ltd.	7.10
Max Financial Services Ltd.	5.37
Bosch Ltd.	4.90
Hindustan Petroleum Corporation Ltd.	4.57
City Union Bank Ltd.	4.33
Godrej Industries Ltd.	4.25

Data as on 30th September 2017

Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP	Nifty Free Float Midcap 100
Standard Deviation (%)	18.24%	22.17%
Beta	0.71	1.00

Data as on 30th September 2017



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

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	27.87
Oil & Gas	12.07
Cement & Infrastructure	11.71
Pharmaceuticals	11.02
Consumer Durable	10.15
Auto & Auto Ancillaries	7.19
Services	6.69
Cash	1.57

Data as on 30th September 2017 *Above 5% & Cash

Top 10 Holdings

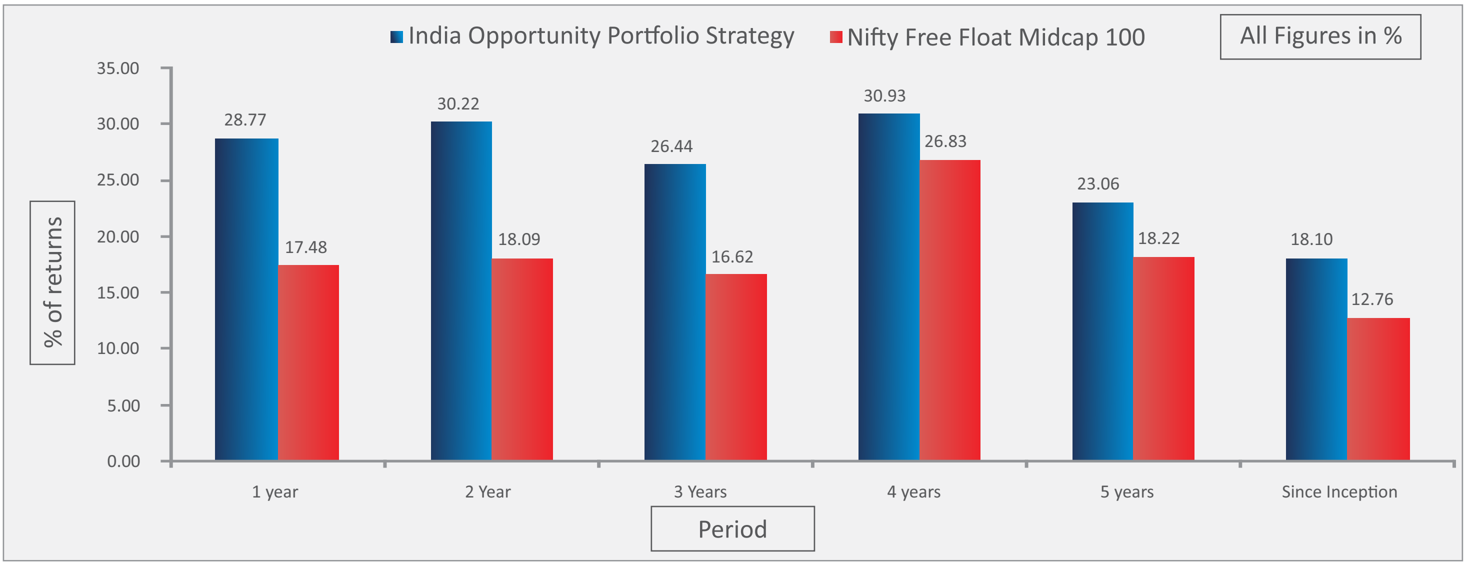
Particulars	% Allocation
Development Credit Bank Ltd.	9.52
Birla Corporation Ltd.	8.43
Gabriel India Ltd.	7.19
Quess Corp Ltd.	6.69
Aegis Logistics Ltd.	6.37
Canfin Homes Ltd.	6.19
AU Small Finance Bank Ltd.	6.06
Mahanagar Gas Ltd.	5.70
Kajaria Ceramics Ltd.	5.44
TTK Prestige Ltd.	4.71

Data as on 30th September 2017

Key Portfolio Analysis

Performance Data (Since Inception)	IOPS	Nifty Free Float Midcap 100
Standard Deviation (%)	15.39%	17.03%
Beta	0.74	1.00

Data as on 30th September 2017



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Risk Disclosure And Disclaimer

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