MONTHLY Communique

December 2018

Aashish P Somaiyaa
(MD & CEO)

Dear Investors and my dear advisor friends,

We are coming to the end of a difficult year; I'd say more like the end of a difficult year and half or last two years. I say difficult year because the profession of managing other people's money can be very stressful through the years when clients see depreciation in their investment values or see a downward averaging of returns on the wealth built up in past years. Motilal Oswal group being in equities since 1987 and most of us out here being in the markets for over 20 years understand this is the basic nature of capital markets; there are many up years and every once in a while there are down years. But we are humans and hence having a full understanding of how markets work is still not enough while we actually live through the down years because it's the psychological and behavioural impact to situations that matters.

It's the end of an eventful year and hence to gain perspective on what I am saying I urge you to spare sometime and review the communications we have made since the year started.

January started with https://www.motilaloswalmf.com/blogs/ceo-speak/in-your-shoes/79; and a the most relevant extract of the communication is reproduced below.

Quote begins: "If you have been invested for long expecting 'teen' returns from equities and the recent past average has been pulled way above, stay the course with your SIPs and your asset allocations but all the same, do consider taking the excess off the table. If you are under-invested and you need to correct your exposure, you cannot do it overnight; draw out a plan over time to gradually correct the asset allocation. Asset allocation is far more strategic than merely over-weighting the asset which did the best in the last couple of years by under-weighting what has not done as well." End of Quote.

Our note in February was about the budget and its implications https://www.motilaloswalmf.com/blogs/ceo-speak/update-on-markets-and-budget-implications/80; and an explanation of underperformance.

Quote begins: "In the last 6 months we have received concerns relating to underperformance vis-à-vis benchmark indices where we had sent a note dated Nov 30, 2017 explaining that we have been underperforming due to high quality high growth focus whereas in the market high beta, cheap, contrarian, cyclicals and deep value ideas like PSU Banks, Metals, Telecom, Real Estate etc. have been flying. From our investors perspective this huge beta correction in indices would eventually ensure we close the underperformance and start gaining alpha because whatever the budget has done is beneficial to our portfolio positions

Lastly on the markets, our past experience shows that whenever the market corrects due to global concerns and Foreign Investors (FII) selling, eventually when the dust settles they buy back more than what they sold because the impact of global events on domestically oriented Indian companies is very limited and if at all, its short term. Our portfolio strategies are typically 60-70% domestic economy centric." End of quote.

This was followed by a series of updates through the difficult parts of the year including an interesting podcast exposition of our investing philosophy and couple of media interviews (all of which you can check out here https://www.motilaloswalmf.com/blogs/ceo-speak; rounded of by the last one https://www.motilaloswalmf.com/blogs/ceo-speak/why-you-should-remain-invested/107) and the relevant extract is reproduced below:

Quote begins: "In all our funds we remain committed to our QGLP philosophy and broadly the portfolio construct has not changed much over last year. We expect the portfolios to deliver superior ROE and earnings growth and this coupled with the sharp price correction recently leads to attractive valuation. We also believe that the sector rotation issue in the market is transitory and high

(Continued overleaf)

quality high growth companies will be rewarded sooner than later especially with the commencement of a new result season and market likely to become more discerning of quality after this hard knock. If good stocks representing marquee companies have fallen 40% and some of the junk has fallen 50-60%, once the dust settles it's the quality that will find takers."

I am happy to tell you that the expectations from the last CEO speak are playing out as expected and all our mutual fund schemes and PMS portfolios over the last 2-3 months have turned the corner and there are significant sharp bounce backs in the portfolio values from the bottom of September.

Going ahead we expect the trajectory to sustain and clearly 2019 is set to be much better than 2018 for the markets. Let me explain.

The last week has been quite eventful with the resignation of the Governor of RBI. One of the most crucial functionaries of our economic management deciding to resign amidst what is widely reported to be a conflict with the Government is clearly not a good development for the perception of our central bank and its independence. That explains all the negative press around the event and the fear of FPIs exiting our markets in hoards and resultant bloodbath in markets. Except, nothing of the kind happened even though the situation was further aggravated the next morning with news of the ruling party losing three states to the largest opposition party.

While it is the role of the media to give us latest "News", it behoves us to place incremental piece of news in context of developments thus far and evaluate how things may shape up. While the current discourse has been around the exit of the RBI Governor, somewhere it got lost in conversations that the same sources of news over the last one year have been citing serious disconnect between the markets and the RBI policy, the very high level of real interest rates, consistent undershooting of inflation as compared to RBI's expressed fears etc. Few sample links of such observations in the media are appended below and a cursory google search on the topic will yield many more.

https://economictimes.indiatimes.com/news/economy/indicators/october-inflation-print-questions-credibility-of-rbi-forecasting-sbi-report/articleshow/66596166.cms

https://www.livemint.com/Money/gI8N9uuSfQTO262IyPJADP/RBI-needs-to-get-its-inflation-forecasts-right.html

https://www.bloombergquint.com/opinion/are-indias-bond-markets-out-of-sync-with-monetary-policy#gs.CHfda9o

https://www.moneycontrol.com/news/business/markets/rbi-policy-status-quo-analysts-say-decision-a-mistake-3017131.html

It is not my case to make commentary on the rights and wrongs of RBI pronouncements but purely as a market observer making an attempt to decipher what the market behaviour is telling us and what it could mean from hereon.

One of the biggest conundrums of the last 3-4 years has been that one was not able to figure where we are in the cycle. We never saw cyclical downturn when it was feared and we aren't witnessing a much anticipated upturn; too many mixed signals coupled with disruptive changes by the Government. Part of the reason also is the lack of direction on interest rates and consistent undershooting of inflation which has been going against the very reason for holding rates high, not to forget the complexity offered by US interest rates and the overall global scenario. While the jury is out on the long term implications and after effects of impending policy actions likely to emerge out of this change at RBI, at least in the near term one may finally hope to witness expansionary policy engendering a cyclical upturn over the next 12-18 months. With a change of guard at least in the near to mid-term one can expect reduction in rates, better liquidity and a credit push priming economic growth. Finally we are likely to see a growth cycle with corporate earnings reviving. With some lag effect we may again see inflationary pressures and rising rates and cycle peaking out but that's some way off, for now we are likely to witness a huge expansionary push and possibly a strong pre-election rally. The state election event is over; the results are not as one sided as they are made out to be and everyone expects state elections and general elections to play out differently, it's been that way all along in history.

Further, I expect FPI flows to be reasonably strong – in all past instances where oil has played truant and the rupee has declined – 2002-03, 2008-09, 2012-13 – with some lag effect FPIs have been big buyers in our markets. The US and a good part of developed markets have witnessed a multi-year rally and hence flows to emerging markets have been poor. With the developed markets likely topping out sometime around the corner, allocation to emerging markets especially like India is likely to rise.

It may sound contrary to normal discourse, but I would stick my neck out at this juncture and tell all fence sitters and gradual investors to jump in. Before doing so, please consult your financial advisor to assess your risk profile and investment goals.

Yours Sincerely,

Aashish P. Somaiyaa
(MD & CEO – Motilal Oswal AMC)

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. Value is a large cap oriented strategy where investments are made with long term perspective with industry leaders.

Details

Fund Manager	:	Shrey Loonker
Strategy Type	:	Open ended
Date of Inception	:	24th March 2003
Benchmark	:	Nifty 50 Index
Investment Horizon	:	3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	85
Mid cap	8
Small cap	2

Top 10 Holdings

Particulars	% Allocation
HDFC Bank Ltd.	12.31
Kotak Mahindra Bank Ltd.	9.84
Bajaj Finserv Ltd.	6.77
Larsen & Toubro Ltd.	6.43
ICICI Lombard General Insurance Company Ltd.	6.01
Bharat Petroleum Corporation Ltd.	5.90
AU Small Finance Bank Ltd.	5.50
Eicher Motors Ltd.	5.45
Bharat Forge Ltd.	5.32
Maruti Suzuki India Ltd.	4.33

Data as on 30th November 2018

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	49.39
Auto & Auto Ancillaries	20.89
Oil & Gas	8.99
Engineering & Electricals	6.43
Pharmaceuticals	4.07
Cash	5.43

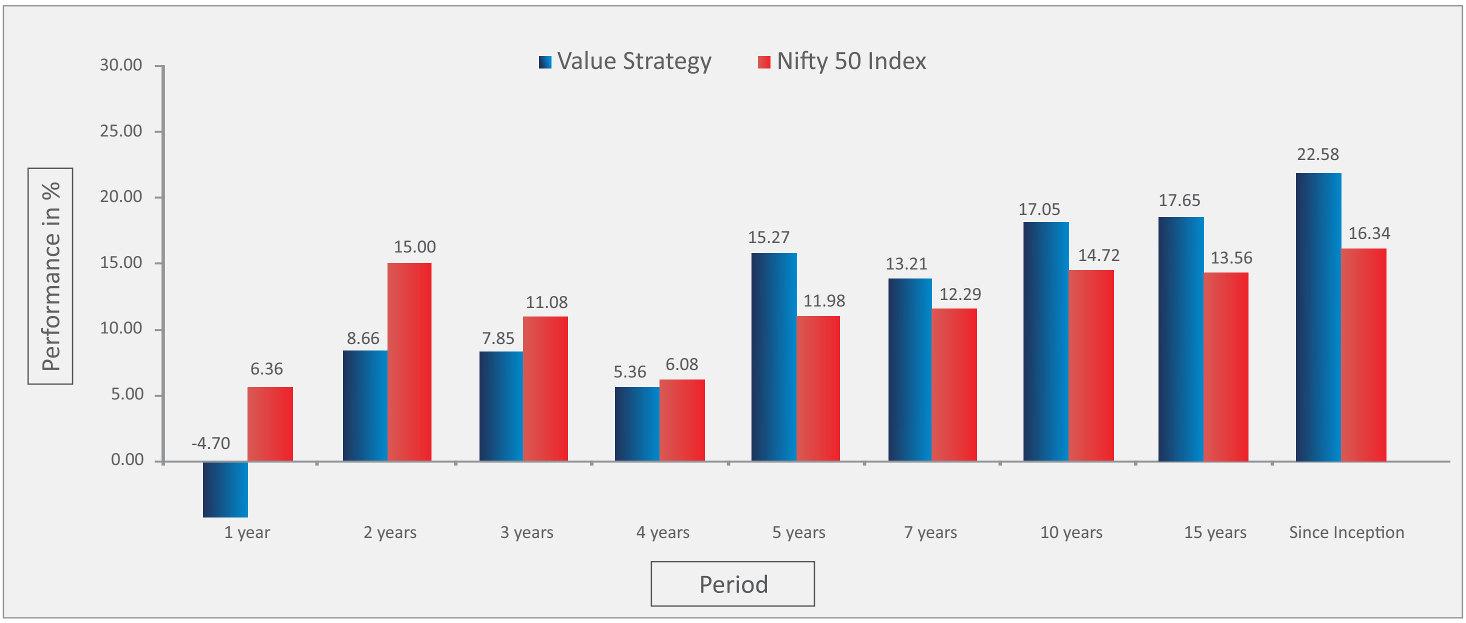
Data as on 30th November 2018

*Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	Value Strategy	Nifty 50
Standard Deviation (%)	20.49%	22.56%
Beta	0.82	1.00

Data as on 30th November 2018



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 31st October 2018. 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

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 predominantly invest in Small and Mid Cap stocks* with a focus on identifying potential winners that would participate in successive phases of GDP growth. Focus is on businesses benefitting from growth in GDP.

*The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager : Manish Sonthalia
Strategy Type : Open ended
Date of Inception : 05th December 2007
Benchmark : Nifty 500
Investment Horizon : 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	43
Mid cap	51
Small cap	6

Top 10 Holdings

Particulars	% Allocation
Kotak Mahindra Bank Ltd.	11.10
Page Industries Ltd.	10.17
Voltas Ltd.	8.87
Bajaj Finance Ltd.	5.33
Eicher Motors Ltd.	5.26
City Union Bank Ltd.	4.99
L&T Technology Services Ltd.	4.38
Bosch Ltd.	4.27
Max Financial Services Ltd.	3.97
Godrej Industries Ltd.	3.89

Data as on 30th November 2018

Top Sectors

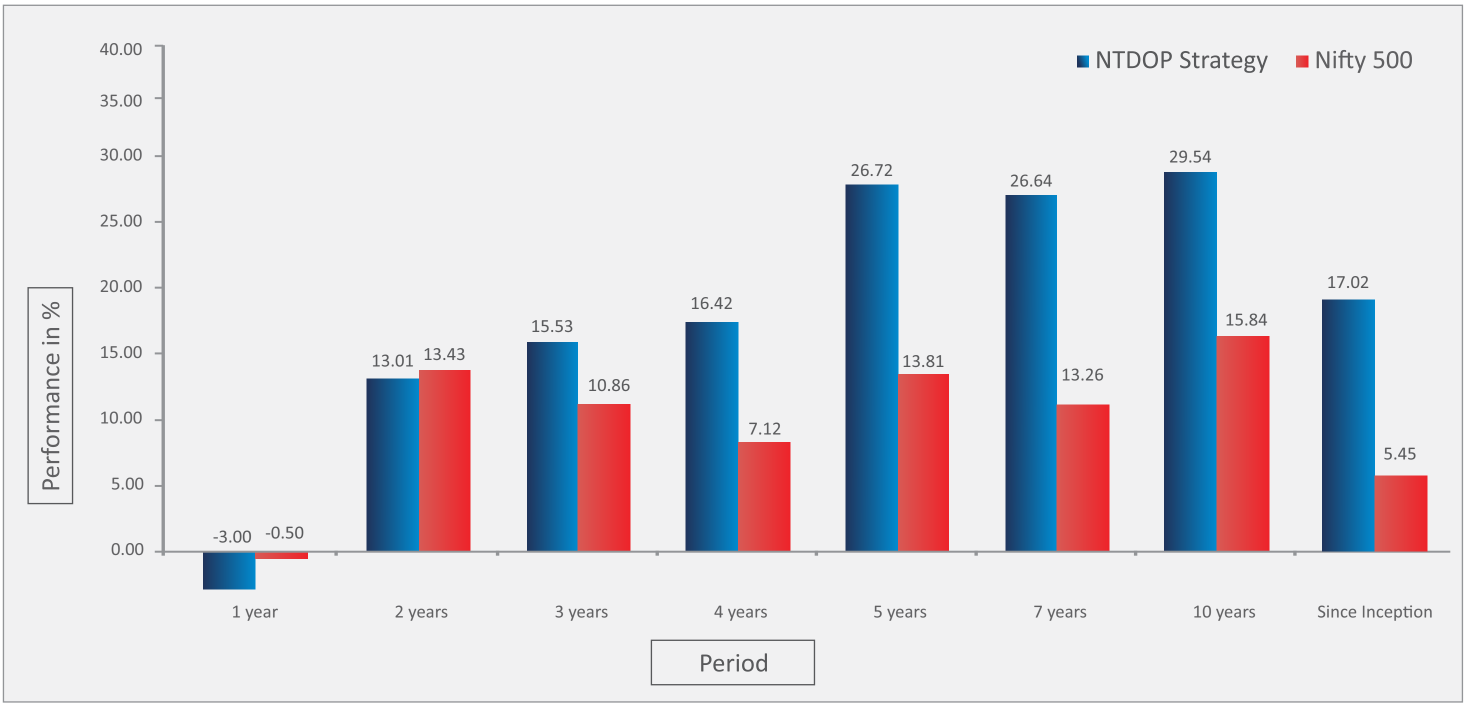
Sector Allocation	% Allocation*
Banking & Finance	30.21
FMCG	17.98
Auto & Auto Ancillaries	13.11
Diversified	12.76
Infotech	8.05
Cash	0.14

Data as on 30th November 2018 *Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP	Nifty 500
Standard Deviation (%)	17.85%	21.32%
Beta	0.69	1.00

Data as on 30th November 2018



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India Opportunity Portfolio Strategy

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 market capitalization and which are available at reasonable market prices. The strategy is for investors who are keen to generate wealth by participating in India's growth story over a period of time.

Top 10 Holdings

Particulars	% Allocation
Development Credit Bank Ltd.	9.13
Birla Corporation Ltd.	7.37
Aegis Logistics Ltd.	7.24
TTK Prestige Ltd.	6.91
AU Small Finance Bank Ltd.	6.75
Gabriel India Ltd.	6.13
Mahanagar Gas Ltd.	5.52
Alkem Laboratories Ltd.	5.51
Blue Star Ltd.	5.00
Quess Corp Ltd.	4.57

Data as on 30th November 2018

Details

Fund Manager	: Mr. Manish Sonthalia
Associate Fund Manager	: Mr. Atul Mehra
Strategy Type	: Open ended
Date of Inception	: 11th Feb. 2010
Benchmark	: Nifty Smallcap 100
Investment Horizon	: 3 Years +

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.09
Pharmaceuticals	13.70
Oil & Gas	12.75
Consumer Durable	11.21
Cement & Infrastructure	9.89
Cash	0.12

Data as on 30th November 2018 *Above 5% & Cash

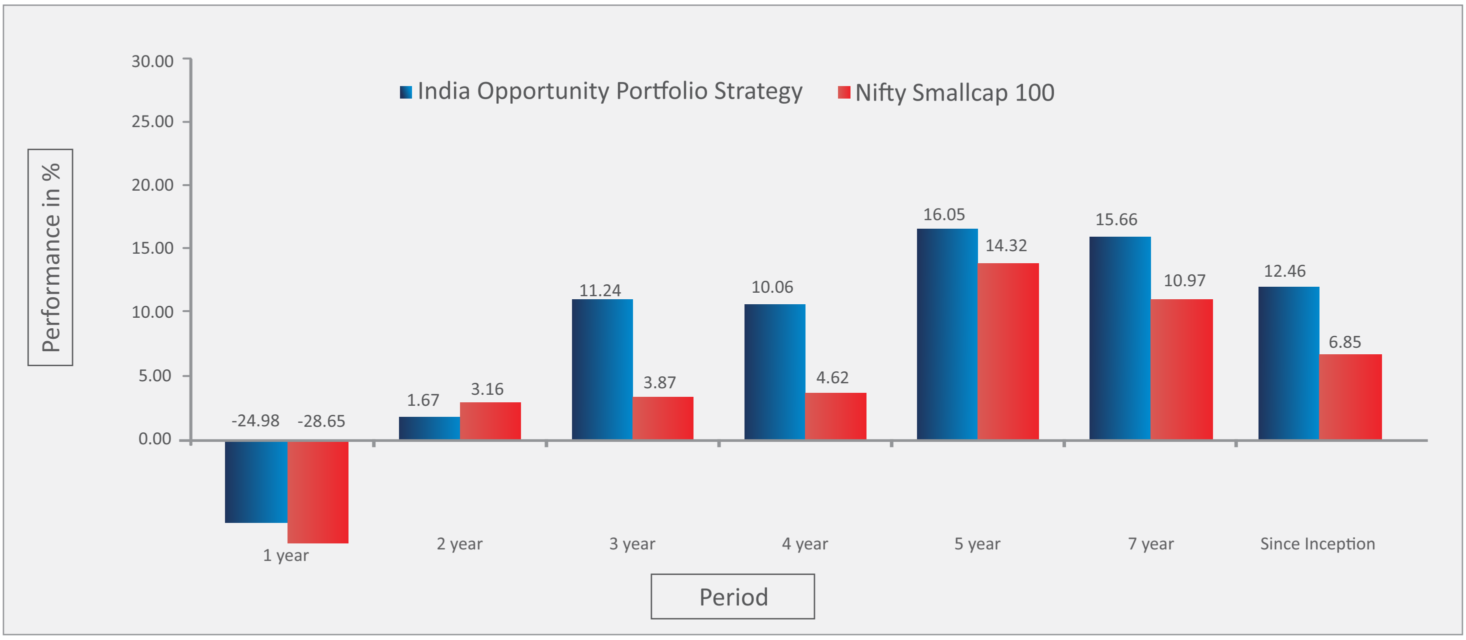
Market Capitalization

Market Capitalization	% Equity
Large cap	–
Mid cap	23
Small cap	77

Key Portfolio Analysis

Performance Data (Since Inception)	IOPS	Nifty Smallcap 100
Standard Deviation (%)	15.42%	19.78%
Beta	0.57	1.00

Data as on 30th November 2018



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India Opportunity Portfolio V2 Strategy

Investment Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from India's emerging businesses. It aims to predominantly invest in Small and Midcap stocks* with a focus on identifying potential winners. Focus on Sectors and Companies which promise a higher than average growth.

*The selection of the stocks will be based on the criteria of strategy at the time of initial ideation and investment made as per the model portfolio of the strategy

Details

Fund Manager	: Mr. Manish Sonthalia
Associate Fund Manager	: Mr. Atul Mehra
Strategy Type	: Open ended
Date of Inception	: 5th Feb. 2018
Benchmark	: Nifty Smallcap 100
Investment Horizon	: 3 Years +

Market Capitalization

Market Capitalization	% Equity
Large cap	_
Mid cap	46
Small cap	54

Top 10 Holdings

Particulars	% Allocation
Heg Ltd.	11.86
Gruh Finance Ltd.	8.07
Cholamandalam Investment And Finance Company Ltd.	7.93
Ipca Laboratories Ltd.	7.82
Godrej Agrovet Ltd.	6.54
Coffee Day Enterprises Ltd.	6.52
Bajaj Electricals Ltd.	5.92
Sobha Ltd.	5.45
Bata India Ltd.	5.07
Sundram Fasteners Ltd.	4.58

Data as on 30th November 2018

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	23.78
Electricals & Electronics	20.87
Agriculture	9.91
Pharmaceuticals	9.30
Restaurants	6.52
Real Estate	5.45
Cash	0.22

Data as on 30th November 2018 *Above 5% & Cash

Key Portfolio Analysis

Performance Data (Since Inception)	IOP V2	Nifty Smallcap 100
Standard Deviation (%)	19.09%	21.21%
Beta	0.75	1.00

Data as on 30th November 2018

Performance

Period	IOP V2	Nifty Smallcap 100
1 Months	1.31	2.53
3 Months	-11.64	-18.94
6 Months	-14.38	-20.61
9 Months	-15.34	-25.61
Since Inception (5th Feb 2018)	-10.36	-25.23

Data as on 30th November 2018

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Risk Disclosure And Disclaimer

Portfolio Management Services | Regn No. PMS INP 000000670

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