INDIA'S

# 1st

# Bank Index Fund

**NFO**

Opens: 19th Aug 2019
Closes: 30th Aug 2019

(An open ended scheme replicating/ tracking Nifty Bank Index)

## Introducing Motilal Oswal Nifty Bank Index Fund (MOFNIFTYBANK)

THINK EQUITY
THINK MOTILAL OSWAL

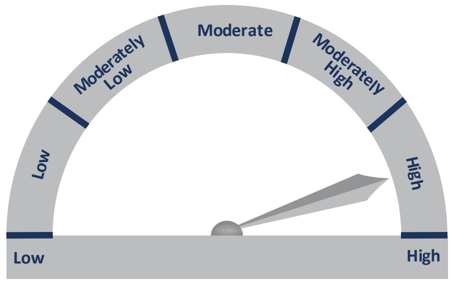
Motilal Oswal Asset Management MUTUAL FUND

# Product labeling

**This product is suitable for investors who are seeking***

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

**Riskometer**



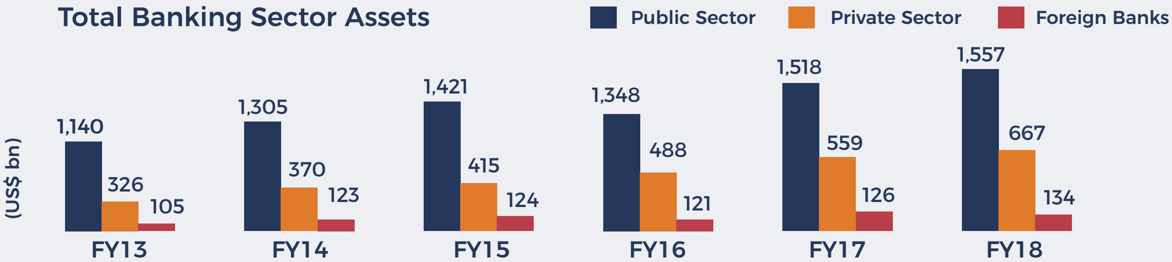

**Investors understand that their principal will be at High risk**

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

# Banking Industry - Impressive Growth so far

## Market Size

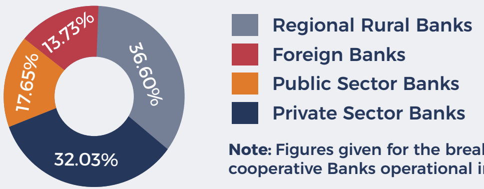
### Total Banking Sector Assets




**Trend Point:** Private sector expanded at an CAGR of 12.68 percent during FY 13-18, while foreign banks posted a growth of 4.69 percent during FY13-17.

## Sector Composition

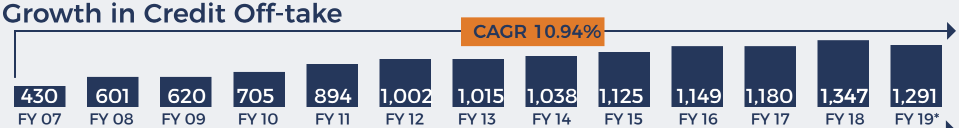
### Breakup Of Banks in India (FY17)



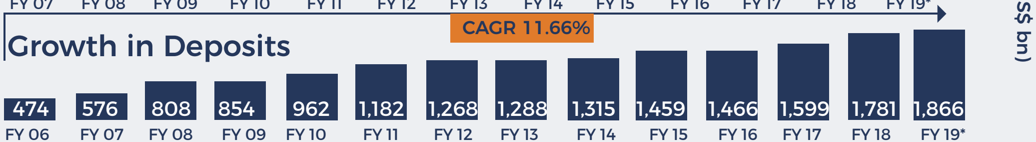

**Note:** Figures given for the breakup are exclusive of 1,502 Urban cooperative Banks and 64,384 Rural cooperative Banks operational in India.

## Key Trends

### Growth in Credit Off-take




### Growth in Deposits

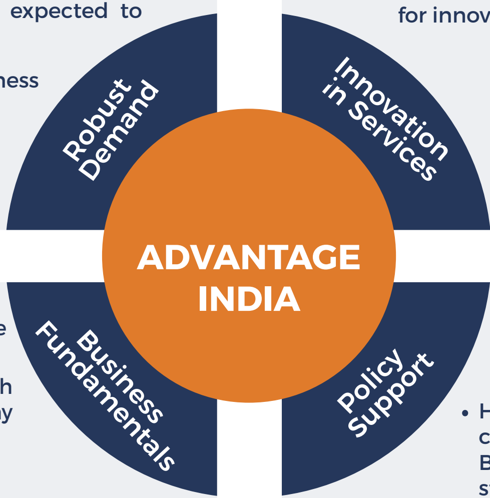



**Note:** * - between April - December 2018, CAGR FY18; Source: https://www.ibef.org/download/banking-jan-2019.pdf

# Future Prospects

- Increase in working population and growing disposable incomes will raise demand for banking and related services
- Housing and personal finance are expected to remain key demand drivers
- Rural banking is expected to witness growth in the future

- Mobile, Internet banking and extension of facilities at ATM stations to improve operational efficiency
- Vast un-banked population highlights scope for innovation in delivery

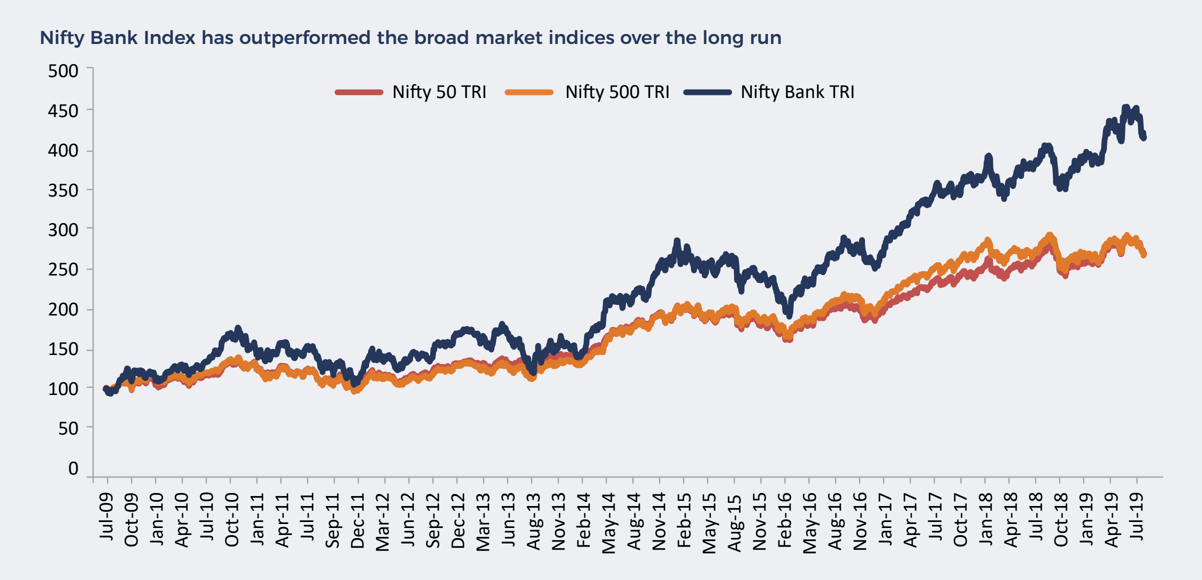



- Rising fee incomes improving the revenue mix of banks
- High net interest margins, along with low NPA levels, ensure healthy business fundamentals

- Wide policy support in the form of private sector participation and liquidity infusion
- Healthy regulatory oversight and credible Monetary Policy by the Reserve Bank of India have lent strength and stability to the country's banking sector

Source: https://www.ibef.org/download/banking-jan-2019.pdf
MOAMC does not assure completion of any of the above future prospects

# Why Nifty Bank Index?

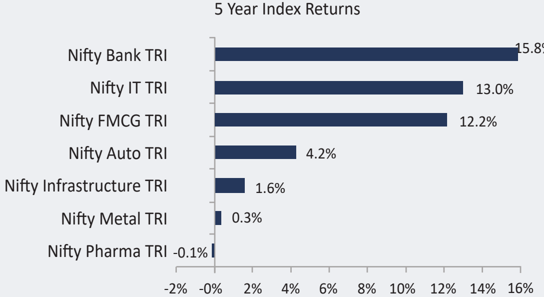



- Play on the biggest industry in India and its growth prospects
- As seen above – Nifty Bank Index has delivered outperformance across all broad market indices
- Out of top 10 mutual funds in India in terms of performance, 6 are BFSI funds (as of December 2018)

Returns are as on July 31, 2019. Returns are in CAGR terms. Data source: MFI Explorer. Figures in the chart are rebased to 100. Past performance may or may not be sustained in the future. The Total Return Variant of the Index has been used. The performance figures pertain to the Index and do not in any manner indicate the returns/ performance of the Scheme.

# Banking & Financial Services Funds performance vs Benchmark

**Nifty Bank Index has outperformed the sectoral market indices over a period**




**Nifty Bank Index has generated a CAGR of 15.8% over the period of last 5 years which has outperformed all major sectoral indices**

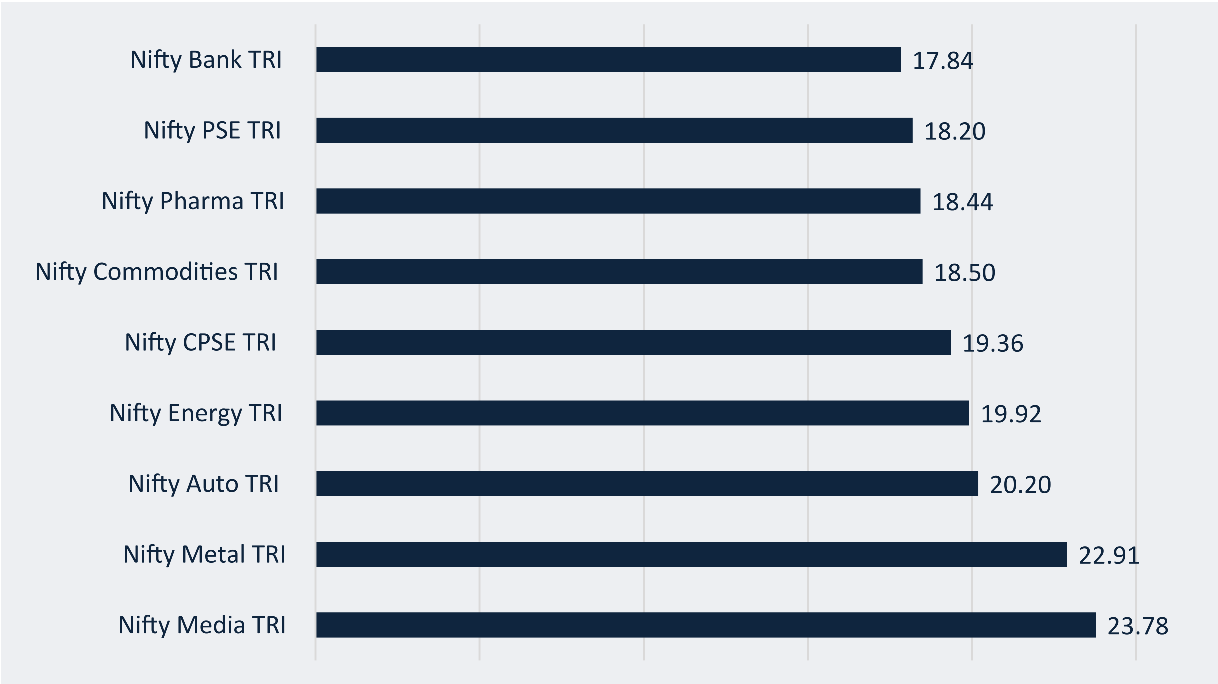
Returns are as on June 18,2019. Returns are in CAGR terms. Data Source: MFI Explorer. Past performance may or may not be sustained in the future. The performance figures pertain to the Index and do not in any manner indicate the returns/performance of the Scheme.

- Nifty Bank Index is also the top performing sectoral fund in India
- Nifty Bank Index fund also outperforms across category average (Banking and Financial Services) – see below

| Scheme Name | 1 Year | 2 Year | 3 Year | 5 Year | 7 Year | 10 Year | 15 Year |
|---|---|---|---|---|---|---|---|
| Banking & Financial Services Funds Category average | 14.64 | 10.47 | 17.76 | 14.70 | 16.46 | 16.77 | 19.64 |
| Indices | | | | | | | |
| Nifty Bank Index TRI | 18.61 | 16.29 | 16.42 | 16.42 | 18.46 | 16.43 | 20.42 |

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

# Volatility- 3 Year Standard Deviation




- Sectoral funds tend to be a lot more volatile than non-sectoral funds due to cyclicality factors.
- Nifty Bank Index, however, remains the least volatile of the lot.

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
  - There is no active allocation by Fund Manager
  - The portfolio is rebalanced periodically only when companies enter/exit the index

# About Nifty Bank Index

- The NIFTY Bank Index comprises of the most liquid and large Indian Banking stocks. It provides investors and market intermediaries a benchmark that captures the capital market performance of the Indian banks. The Index comprises of maximum 12 companies listed on National Stock Exchange of India (NSE).
- NIFTY Bank Index is computed using free float market capitalization method.
- NIFTY Bank Index 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:**

i. Companies must rank within top 800 based on both average daily turnover and average daily full market capitalisation for the last six months.
ii. Companies should form a part of the Banking sector.
iii. The company's trading frequency should be at least 90% in the last six months.
iv. The company should have a listing history of 6 months. A company which comes out with an IPO will be eligible for inclusion in the index, if it fulfills the normal eligibility criteria for the index for a 3 month period instead of a 6 month period.
v. Companies that are allowed to trade in F&O segment are only eligible to be constituent of the index.
vi. Final selection of 12 companies shall be done based on the free-float market capitalization of the companies.
vii. Weightage of each stock in the index is be calculated based on its free-float market capitalization such that no single stock shall be more than 34% and weightage of top 3 stocks cumulatively shall not be more than 63% at the time of rebalancing.

Index Re-Balancing:

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.

Source: NSE Indices

# Nifty Bank Index Constituents

## Top 10 Holdings

| Name of Instrument | % to Net Assets |
|---|---|
| HDFC Bank | 31.61 |
| ICICI Bank | 18.20 |
| Axis Bank | 13.02 |
| Kotak Mahindra Bank | 12.74 |
| State Bank Of India | 10.92 |
| Indusind Bank | 5.70 |
| RBL Bank | 2.09 |
| Federal Bank | 1.70 |
| Yes Bank | 1.59 |
| Bank Of Baroda | 1.15 |

Data as on June 30, 2019
Industry classification as recommended by AMFI;  Source: Niftyindices.com

# 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 Bank Index Fund

**Scheme Name :** Motilal Oswal Nifty Bank Index Fund

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

**Investment Objective :** The scheme seeks investment return that corresponds (before fees and expenses) to the performance of Nifty Bank 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.

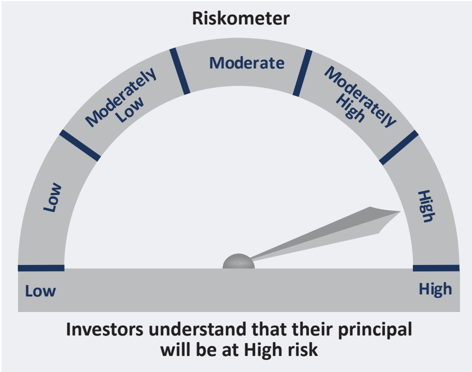
**Benchmark:** Nifty Bank Index TRI

**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.**

Motilal Oswal AMC has presence in strata A through its passive offerings since 2010, strata C through its QGLP investing philosophy backed active mutual funds and in strata D through its PMS and AIF offerings.

# 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 |

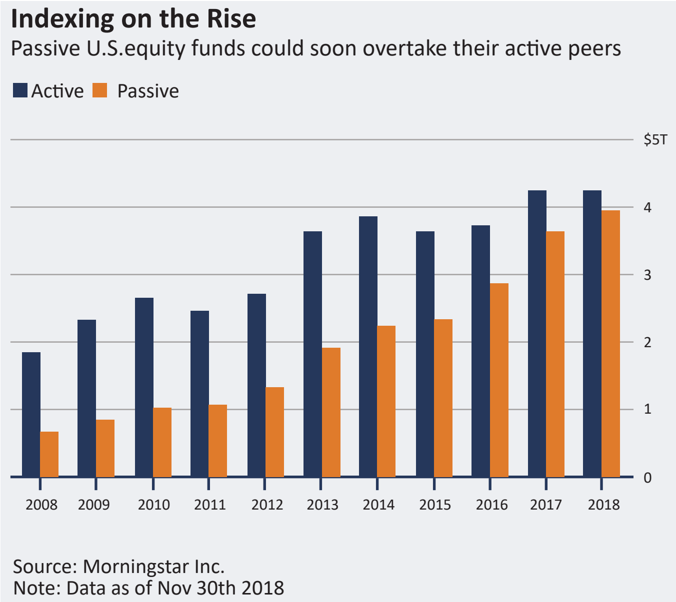
@ In case of ETFs, the Scheme offers units for subscription/ redemption directly with the Mutual Fund subject to minimum lot size of units which are generally high amounts. Investor can buy/ sell ETF any units in cash segment on secondary market of exchanges where it is listed in multiple of 1unit.

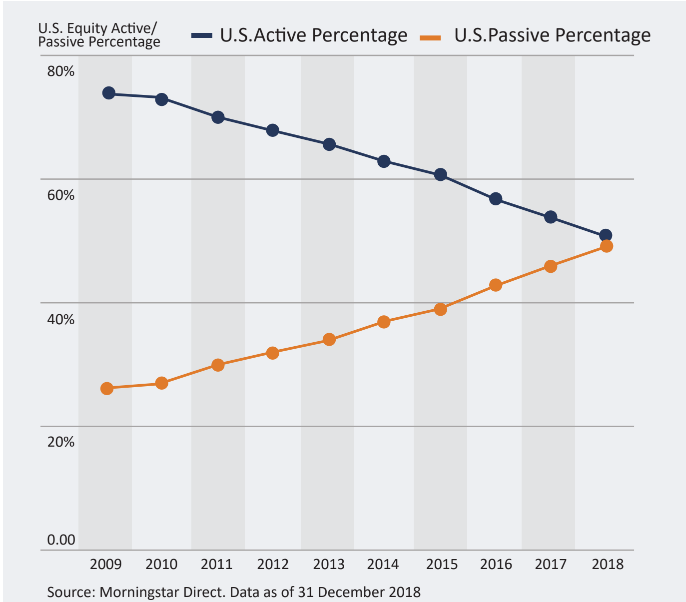
# Why index funds instead of ETFs?

- 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 us 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



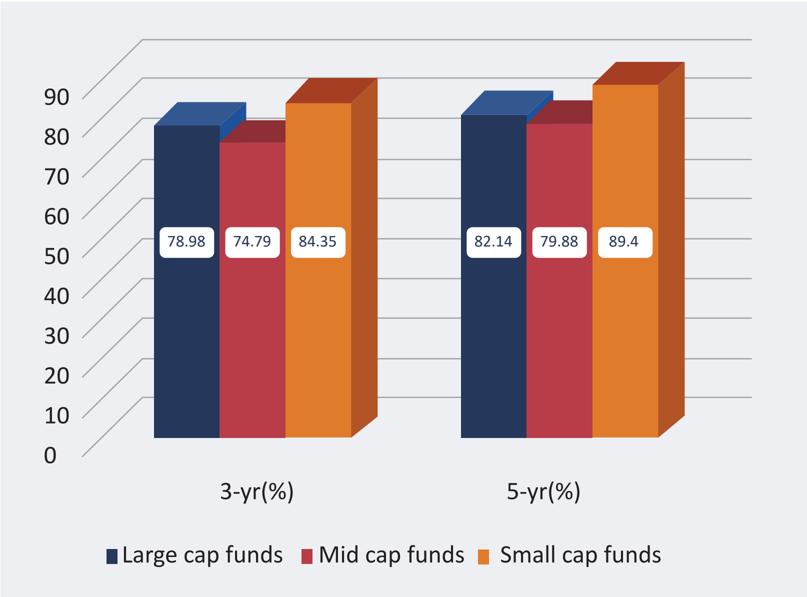

## Over a 10 year period-

- 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

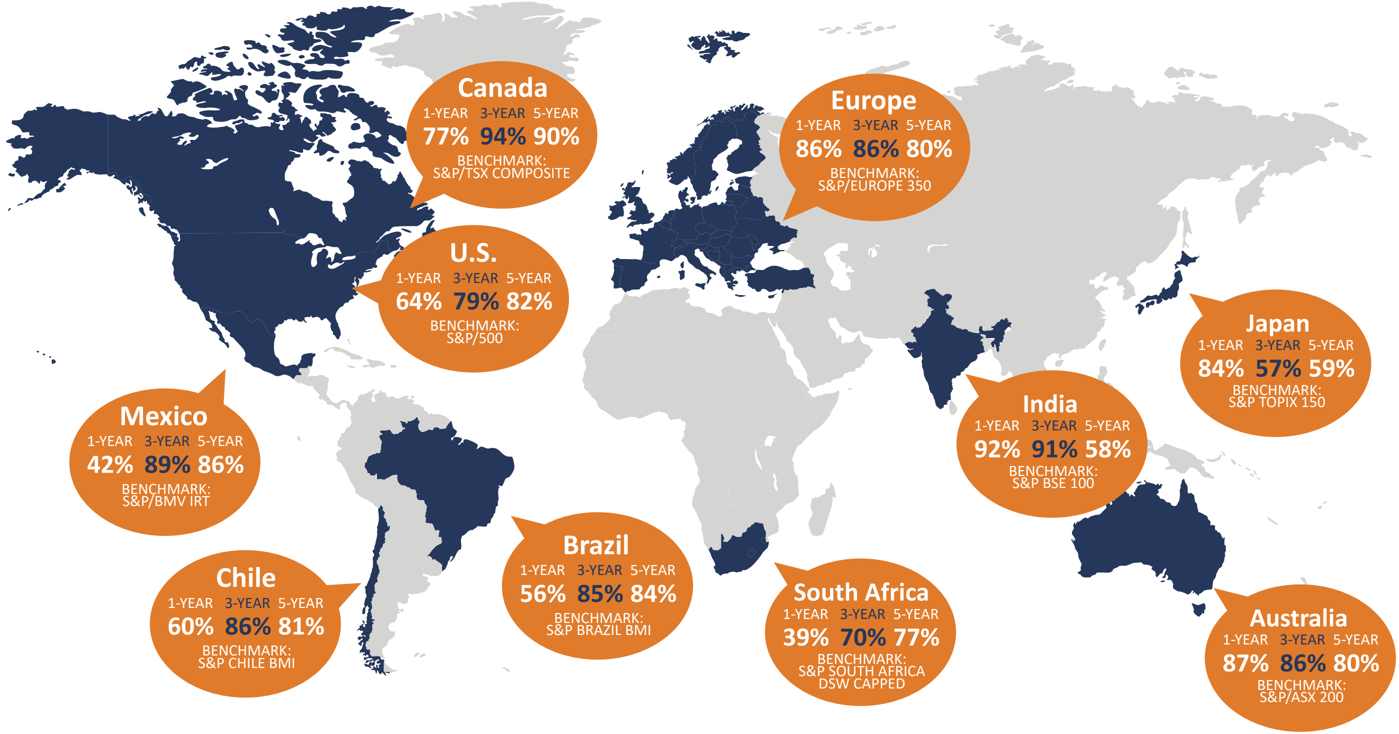
Small cap funds have high underperformance rate in most of the cases

## Data as of Dec. 31, 2018

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

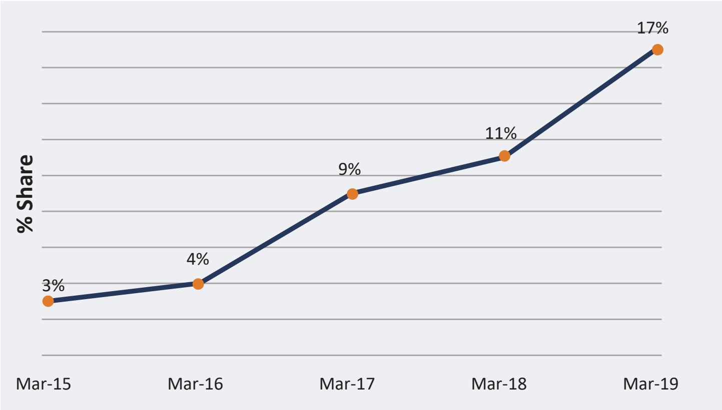
The above graph is used to explain the concept and is for illustration purpose only and should not used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

# Global performance trend

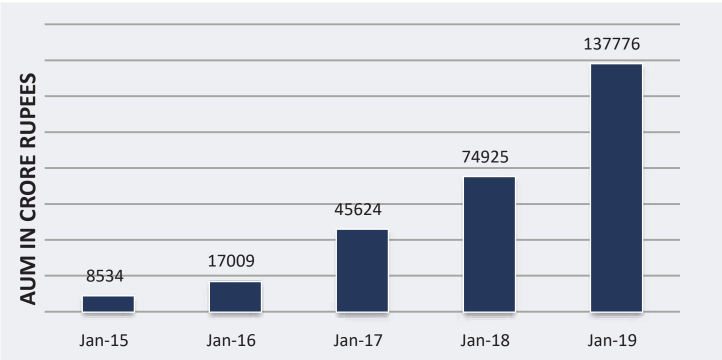



* Regional benchmarks included here are large-cap, with the exception of Brazil and Chile where SPIVA results displayed reflect regional broad market indices. Multiple benchmarks exist in all regions tracked by SPIVA. For more information on SPIVA methodology, including a full list of regional benchmarks 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

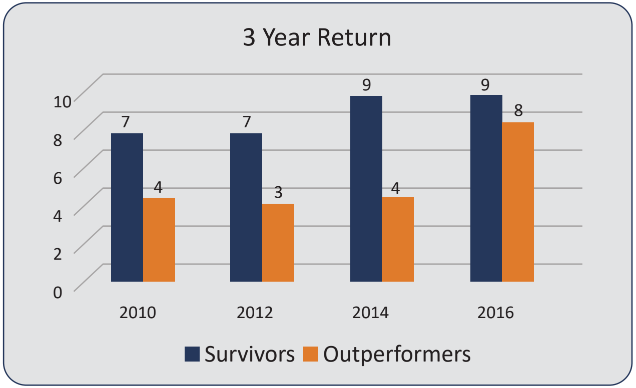
- Benchmarking of funds moved from Price Return Index (PRI) to Total Return Index (TRI).

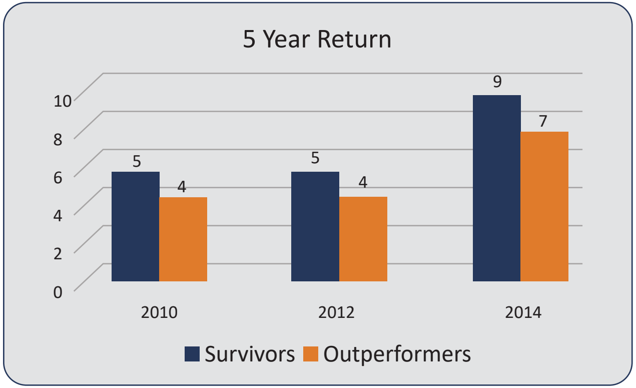
- Challenges in generating alpha due to improving efficiency of equity market and reducing information asymmetry.

Disclaimer: 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.

# 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



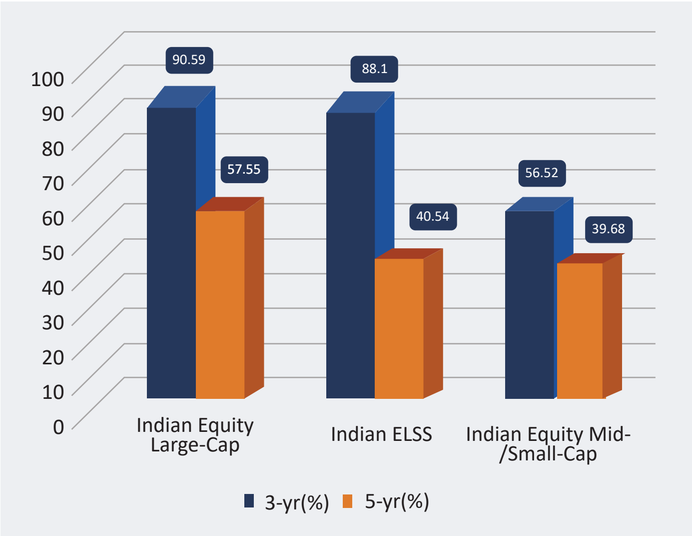




- **Survivors** – Number of mutual funds that are still in the top 50 category as of Dec 31st 2018
- **Outperformers** – Number of Mutual funds that have outperformed the benchmark as of Dec 31st 2018
- For Instance – if an investor chooses any of the top 50 active fund based on 3-year performance in 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.

Disclaimer: The above graphs are used to explain the concept and are 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

# Why this Shift?

## Percentage of India Equity Funds Outperformed by Benchmarks




Data as of Dec. 31, 2018
Source: SPIVA India Year End 2018

- 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 |

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.

# Disclaimer & Risk Factors

**Concentration risk:** This is the risk arising from over exposure to few securities/issuers/sectors. The Scheme being, sector specific, will be affected by the risks associated with the Banking sector.

**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.**

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**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