

The Zen of Investing



July 2018



∞ Why Equities?

∞ Why Large caps?

∞ Why Value Strategy?

- ∞ Portfolio and Sectors

- ∞ Performance

- ∞ Risk Analysis

- ∞ Qualitative Valuations

- ∞ Strategy Structure

∞ Why Motilal Oswal PMS?

- ∞ BUY RIGHT : SIT TIGHT

- ∞ Our Investment Philosophy

- ∞ Management Team

Key benefits of investing in Equities as an asset class:

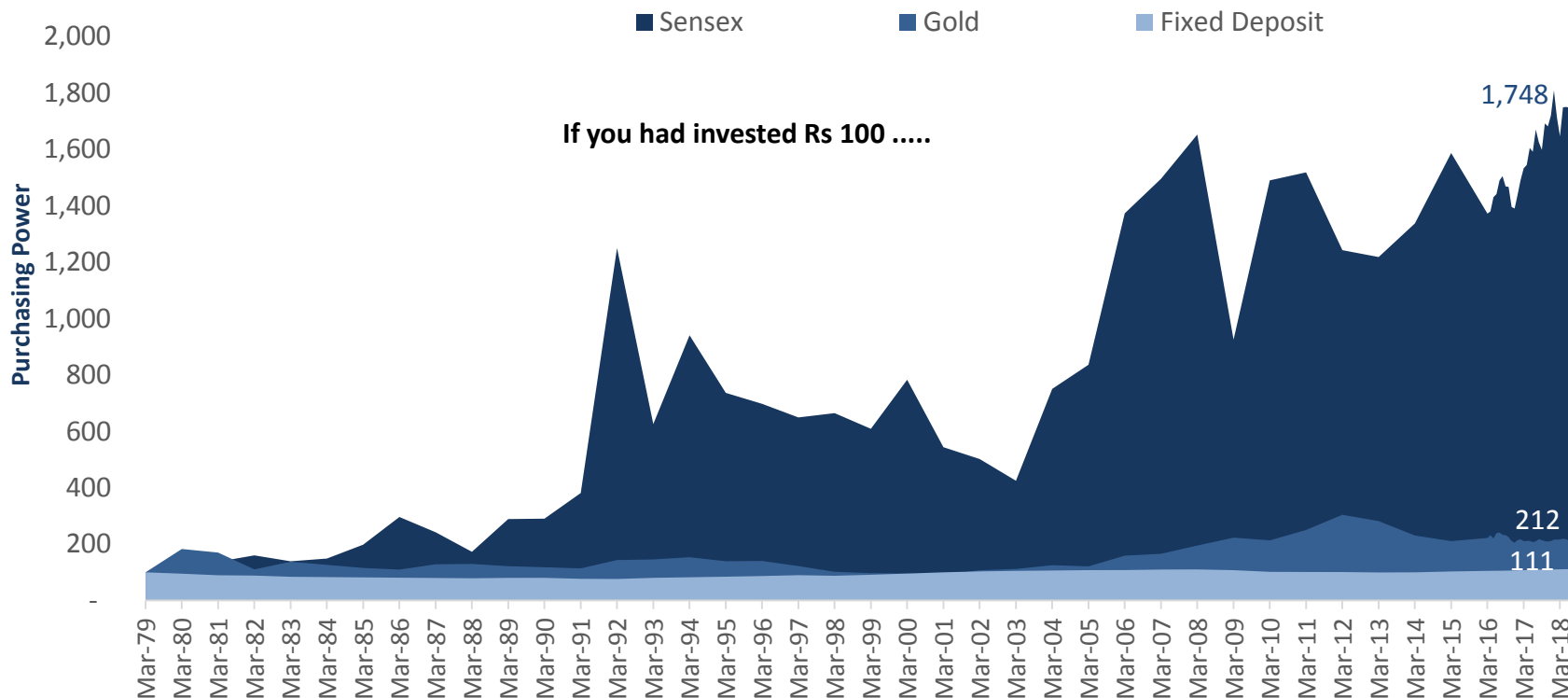
- ☞ Participation in entrepreneurship
- ☞ Wealth Creation in long term
- ☞ Dividend income
- ☞ Liquidity in times of exigencies
- ☞ Tax benefits on capital appreciation and income
- ☞ Corporate control in form of voting rights

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 negated
- ☞ As markets are not always efficient, using an active manager may also help to manage risks and improve performance
- ☞ A good manager can identify high growth potential securities to invest in by carrying out their own research on sectors and companies, including face-to-face meetings with management to determine the intrinsic value of a company's share price

Because key objective of investing in equities is to create wealth.

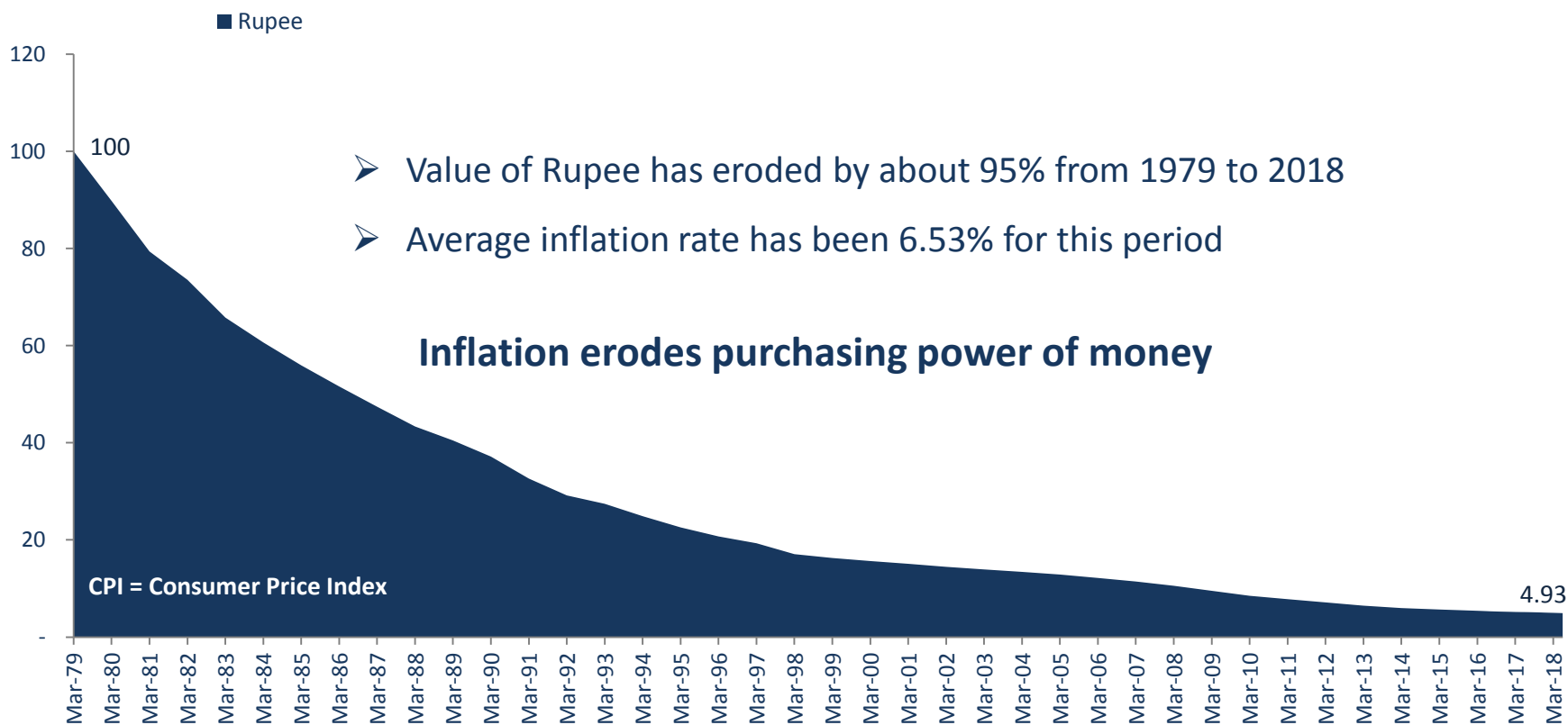
Inflation adjusted current values of the investment of Rs. 100 invested in March 1979



Source: Bloomberg, MOAMC internal analysis, Data as on June 30, 2018

The information herein is used for comparison purpose and is illustrative and not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. Past performance may or may not be sustained in future.

Because Inflation erodes the purchasing power of your money.



Source: Bloomberg, MOAMC internal analysis, Data as on June 30, 2018

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Because markets returns as much as growth in earnings .

21-years CAGR of Sensex at 10% is exactly the same as 21-years Sensex EPS CAGR!

	Sensex	YoY	Sensex EPS	YoY		Sensex	YoY	Sensex EPS	YoY
Mar-95	3261		181		Mar-07	13072	16%	720	33%
Mar-96	3367	3%	250	38%	Mar-08	15644	20%	833	16%
Mar-97	3361	0%	266	6%	Mar-09	9709	-38%	820	-2%
Mar-98	3893	16%	291	9%	Mar-10	17528	81%	834	2%
Mar-99	3740	-4%	278	-4%	Mar-11	19445	11%	1024	23%
Mar-00	5001	34%	280	1%	Mar-12	17404	-10%	1120	9%
Mar-01	3604	-28%	216	-23%	Mar-13	18836	8%	1180	5%
Mar-02	3469	-4%	236	9%	Mar-14	22386	19%	1329	13%
Mar-03	3049	-12%	272	15%	Mar-15	27957	25%	1354	2%
Mar-04	5591	83%	361	33%	Mar-16	25341	-9%	1330	-2%
Mar-05	6493	16%	446	24%	StdDev		32%		14%
Mar-06	11280	74%	540	21%	CAGR	10%		10%	

Source: Motilal Oswal Securities, MOAMC Internal Analysis | Data as on 31st March 2016

CAGR - is an investing specific term for the geometric progression ratio that provides a constant rate of return over the time period; Std Dev - a quantity expressing by how much the members of a group differ from the mean value for the group.

The information provided herein is for illustrative purpose only and should not be construed as an investment advice.; Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments; Mar-95 is taken as the base year.

Food for thought !!!

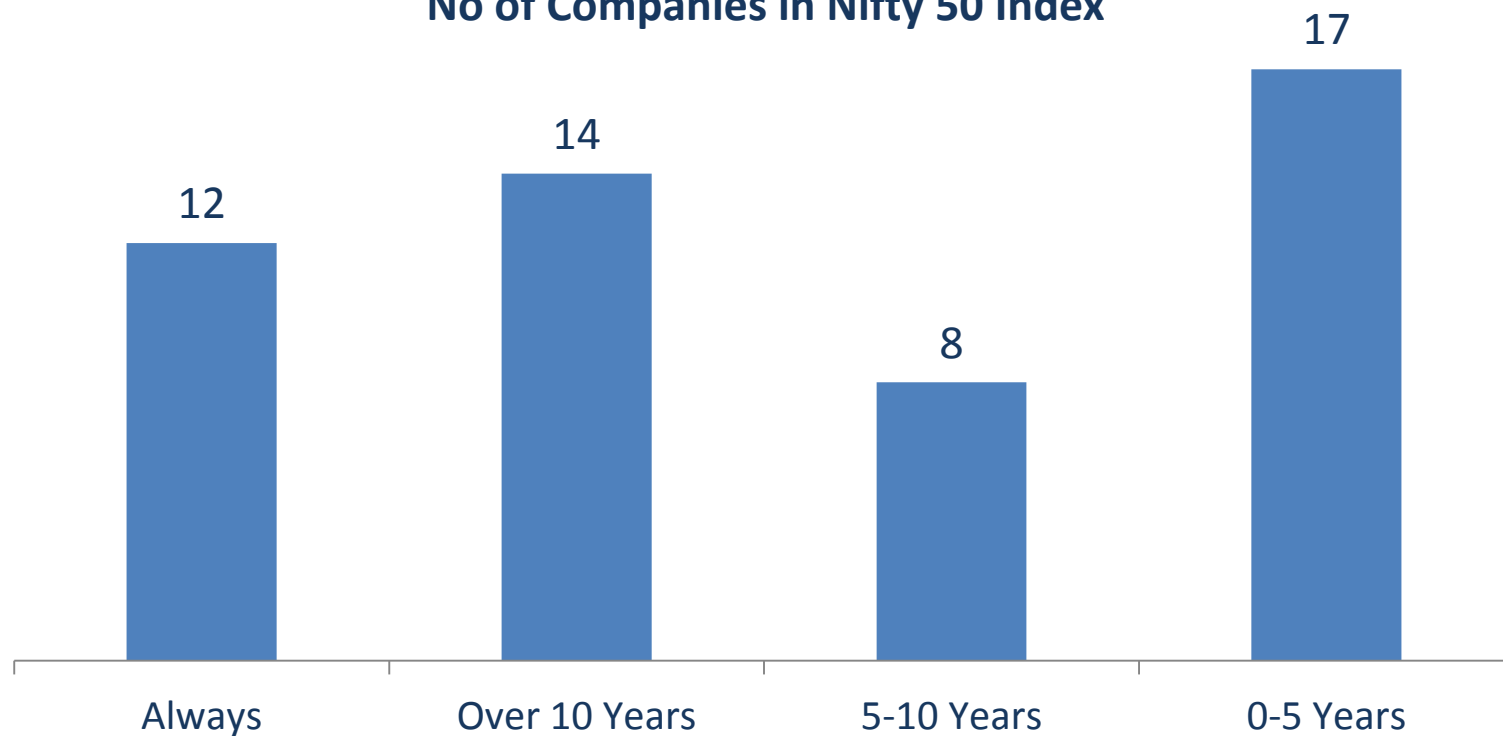
- ☞ Over long periods of time equities do deliver in line with corporate earnings; but it's a known fact that the volatility in share prices is way higher than volatility of earnings themselves
- ☞ This volatility in share prices results in emotional response of greed in rising markets and fear in falling markets. Mostly these responses are way more exaggerated on upside as well as downside
- ☞ When evaluated in hindsight after the data plays out; one usually rues that responses were disproportionate to changes in corporate earnings

Key Traits of Large cap companies:

- Well established track records of Management
- Sound financials and balance sheets
- Demonstrated ability to pay dividends
- Relatively stable companies as compared to midcaps
- Stocks are seldom mispriced by the markets
- Wide research coverage
- Often held by large institutional investors (FIIs and DIIs)

When fundamental supports, the Large cap always remains a Large cap!!!

No of Companies in Nifty 50 Index

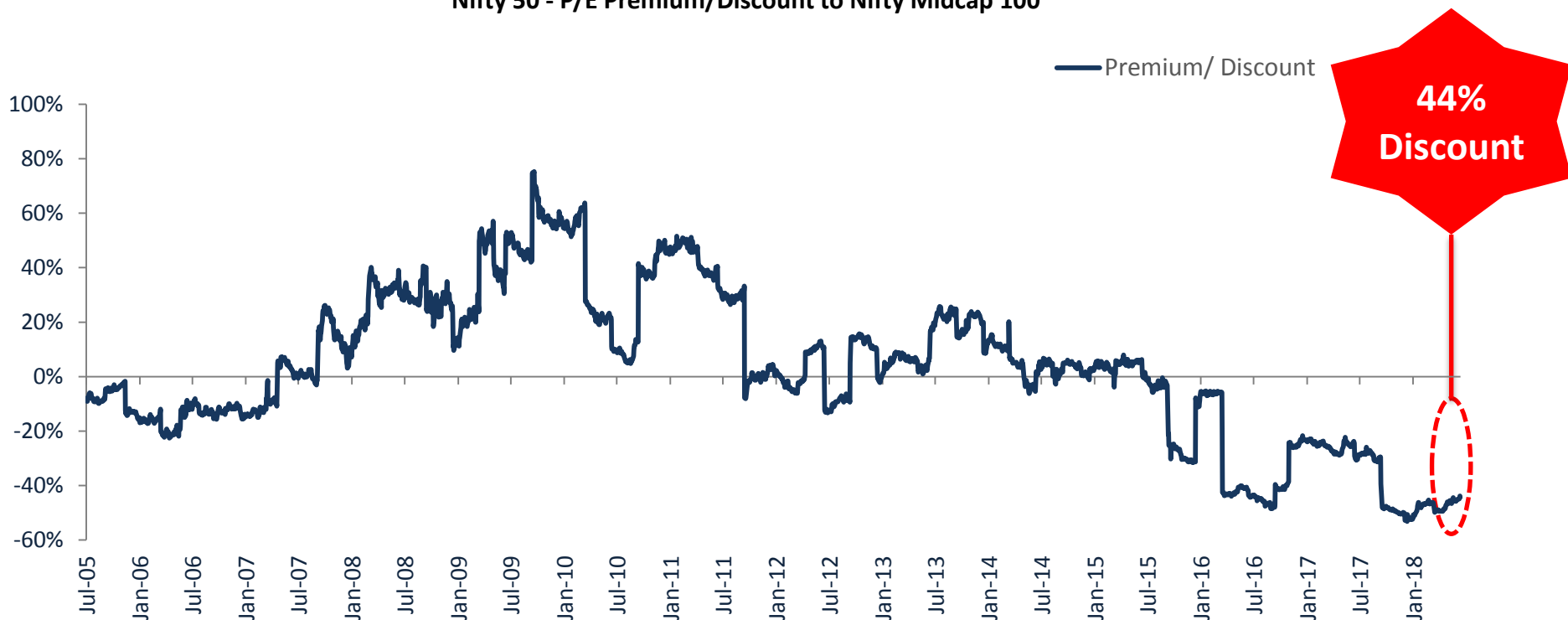


Time spent by the companies in the Nifty 50 Index

- ☞ Large caps have acceptable returns with higher probability of success from within a limited universe.

Because mean reversion expected.

Nifty 50 - P/E Premium/Discount to Nifty Midcap 100



- 🌀 Nifty 50 Index currently trades at 44% discount to Nifty Midcap 100 Index
- 🌀 Earnings outlook for Nifty 50 for FY17-20 at ~18% CAGR suggests a possible mean reversion ahead

- ☞ Motilal Oswal Group possesses legacy in equities for over 3 decades
- ☞ Motilal Oswal AMC is chaired by Mr. Raamdeo Agrawal, one of the most honored and trusted names in the investing world
- ☞ One of the pioneers of PMS business with over 15 years of PMS track record
- ☞ Trusted by over 38,719 HNI investors and with over Rs. 15,448 Crs of AUM as on 30th June 2018.
- ☞ Presence across the length and breadth of India and also overseas

Basic Traits of our Investing Style

- ☞ We invest in companies with operating leverage than financial leverage
- ☞ We do not believe in “timing the market”, rather we believe in “spending time in market”
- ☞ We do not over diversify
- ☞ The businesses we invest, must have growth potential with economic moat
- ☞ We practise long-term Buy and Hold investing style

BUY RIGHT : SIT TIGHT

Buy Right

QGLP

- ☞ **'Q'uality** denotes quality of the business and management
- ☞ **'G'rowth** denotes growth in earnings and sustained RoE
- ☞ **'L'ongevity** denotes longevity of the competitive advantage or economic moat of the business
- ☞ **'P'rice** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

Sit Tight

- ☞ **Buy and Hold:** We are strictly buy and hold investors and believe that picking the right business needs skill and holding onto these businesses to enable our investors to benefit from the entire growth cycle needs even more skill.
- ☞ **Focus:** Our portfolios are high conviction portfolios with 25 to 30 stocks being our ideal number. We believe in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk

Why BUY RIGHT : SIT TIGHT is significant ?

- ☞ Real wealth is created by riding out bulk of the growth curve of quality companies and not by trading in and out in response to buy, sell and hold recommendations.
- ☞ This philosophy enables investor and manager alike to keep focus on the businesses they are holding rather than get distracted by movements in share prices.
- ☞ An approach of buying high quality stocks and holding them for a long term wealth creation motive, results in drastic reduction of costs for the end investor.
- ☞ While BUY RIGHT is largely the role of the portfolio manager, SIT TIGHT calls for involvement from the portfolio manager as well as investor. This brings in greater accountability from the manager and at the same time calls for better involvement and understanding from investor resulting in better education for the latter.
- ☞ Long term multiplication of wealth is obtained only by holding on to the winners and deserting the losers.

QGLP – The investment philosophy has been framed out of 20 years of annual wealth creation studies authored by our co-founder, Raamdeo Agrawal.

Q-G-L-P Demystified



What is the relevance of Buy & Hold and Focused Portfolio?

Buy & Hold leads to low churn ratio of the portfolio. If the portfolio is churned many times during a year, the fund will incur higher transaction costs, thus impacting the returns.

On the other hand, low churn in the portfolio also indicates higher investment conviction of the Portfolio Manager thus indicating **BUY RIGHT : SIT TIGHT**

Focused Portfolios: While it is true that diversification of portfolio leads to lesser risk, it is also a fact that over-diversification beyond a threshold, does not add any significant value. Both, in terms of wealth creation as well as minimizing the risk.



Source: An Introduction to Risk and Return Concepts and Evidence by Franco Modigliani and Gerald A. Pogue

Because you deserve the best of the Large cap world !



Over 3500 listed companies in India. Large portion of this is junk stocks which do not have any underlying business fundamentals

MOAMC applies QGLP filters and our universe narrows down to 300 odd stocks. High quality, high potential and highly regarded stocks.

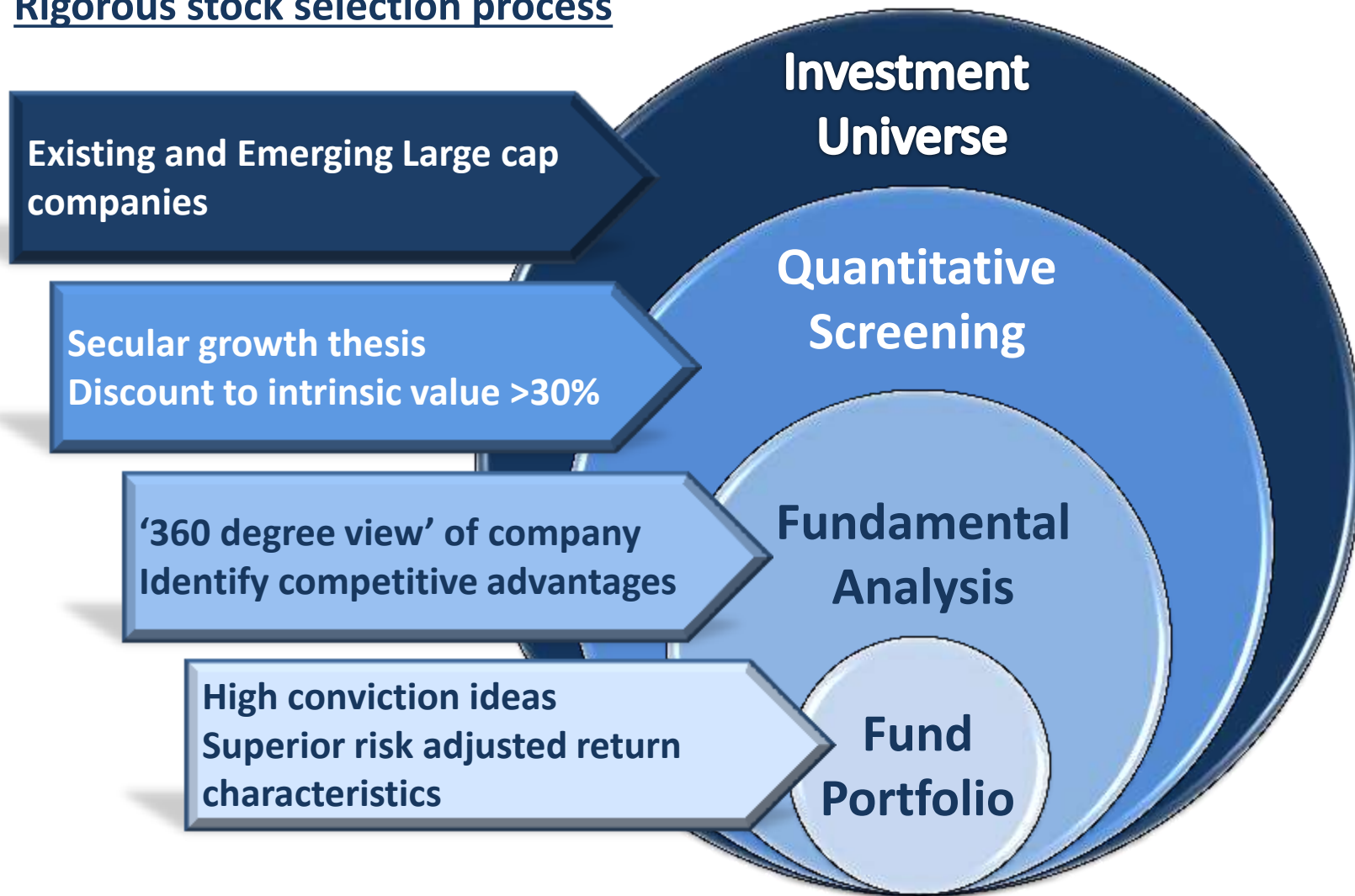


Out of these universe, we further filter down to large caps.

Finally the Value Strategy portfolio is built using 15-20 high quality Large cap stocks.



Rigorous stock selection process



Because you deserve the best of the Large cap world !

Hence when we select the stocks for Value Strategy we ensure the following:

- ☞ The companies are large in size with an established business of secular nature
- ☞ They are largely consumer facing businesses
- ☞ The companies are market leaders in their segment
- ☞ They have an edge over the competitors and have competitive economic moat
- ☞ They are commonly known names but with uncommon profits and track record

Value Strategy Characteristics

☞ Focus on return on net worth

- ☞ Companies which are likely to earn 20-25 % on its net worth going forward

☞ Balance between growth and value

- ☞ The focus is on buying undervalued companies
- ☞ Buying stable earnings / cash flows in reasonably priced assets

☞ Bottom up approach

- ☞ To identify potential long-term wealth creators by focusing on individual companies and their management bandwidth

☞ Focused strategy construct

- ☞ The portfolio consists of around 20 stocks

☞ Long-term investment view

- ☞ Strongly believe that “Money is made by investing for the long term”

☞ Margin of safety

- ☞ To purchase a piece of great business at a fraction of its true value

Because Wealth Creation is the forte !

Stock	Purchase Date	Adjusted Purchase Price	Market Rate as on	% Growth
			30-Jun-18	
Bosch	Jun-03	497	17,510	3423%
Hero MotoCorp	Jun-03	254	3,474	1269%
Eicher Motors	Apr-12	2055	28,590	1291%
HDFC Bank	Jul-08	201	2,108	949%
HDFC	Jan-06	242	1,908	689%

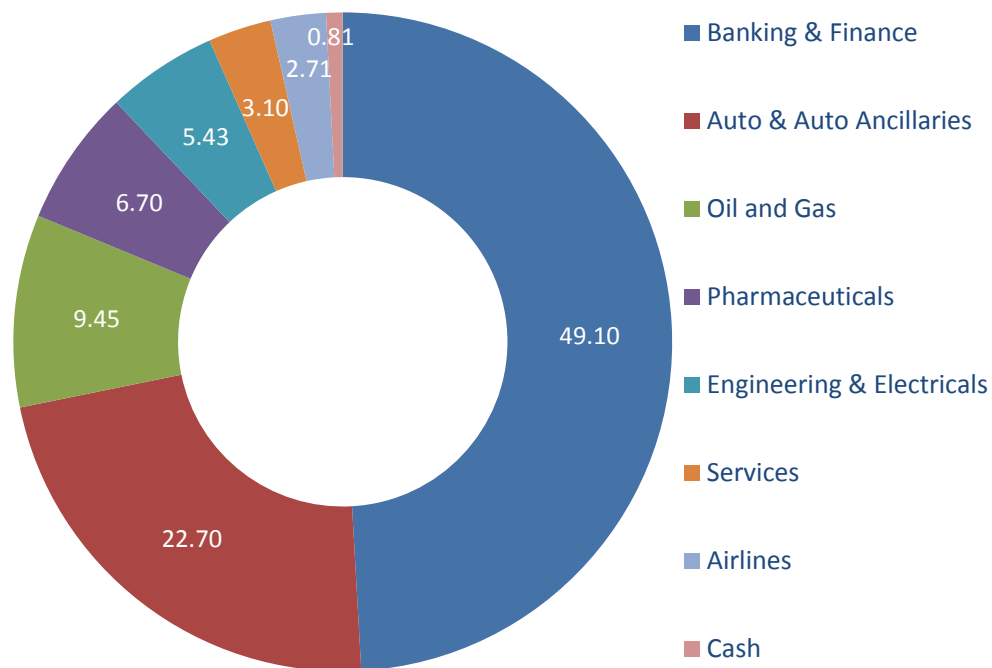
- ☞ BUY & HOLD strategy, leading low churn, lower costs and enhanced returns
- ☞ A business is prudently picked for investment after a thorough study of its underlying hidden long-term potential.
- ☞ “We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.”-Warren Buffett

Did you know?

- The average holding period of scrips held under the Value Strategy as on 30th Jun 2018 is over 4 years and 5 months
- The Average Market Cap in Value Strategy is Rs 1,66,584.76 Crs

No. of Scrips	Holding Period
2	Since Inception
4	> 5 Years
5	> 2 Years but < 5 Years
9	< 2 Years

Sector Allocations

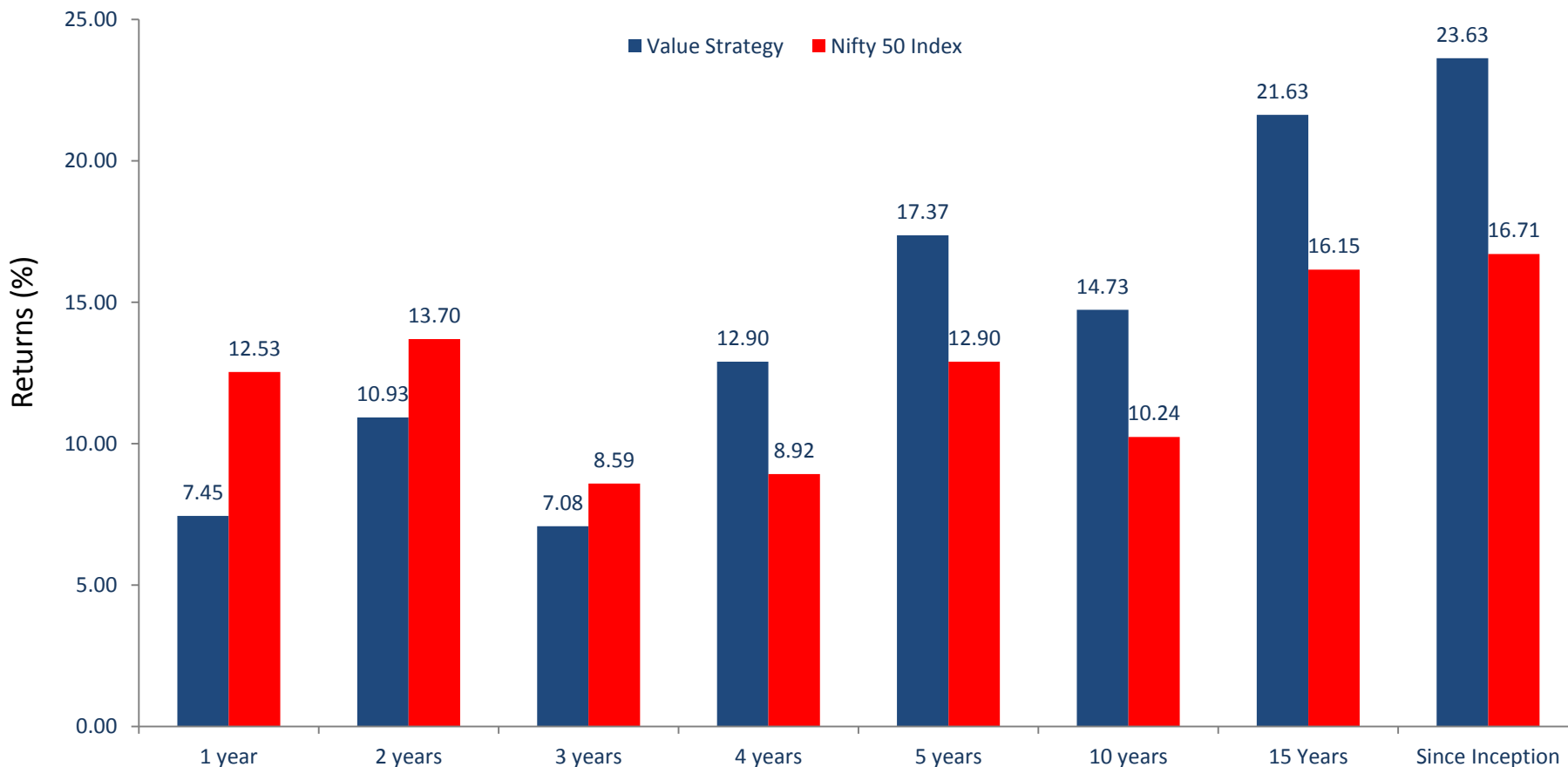


Top 10 Holdings

Scrip Names	% Holdings
HDFC Bank Ltd.	11.58
Kotak Mahindra Bank Ltd.	10.17
AU Small Finance Bank	6.66
Bharat Petroleum Corporation Ltd.	6.44
Eicher Motors Ltd.	6.32
Bajaj Finserv Ltd.	6.25
Sun Pharmaceuticals Ltd.	5.66
Bharat Forge Ltd.	5.49
Larsen & Toubro Ltd.	5.43
HDFC Ltd.	4.82

Please Note: The given stocks are part of portfolio of a model client of Value Strategy as on 30th Jun 2018. The stocks forming part of the existing portfolio under Value Strategy may or may not be bought for new client. The stocks mentioned above are only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Name of the PMS Strategy does not in any manner indicate its future prospects and returns.

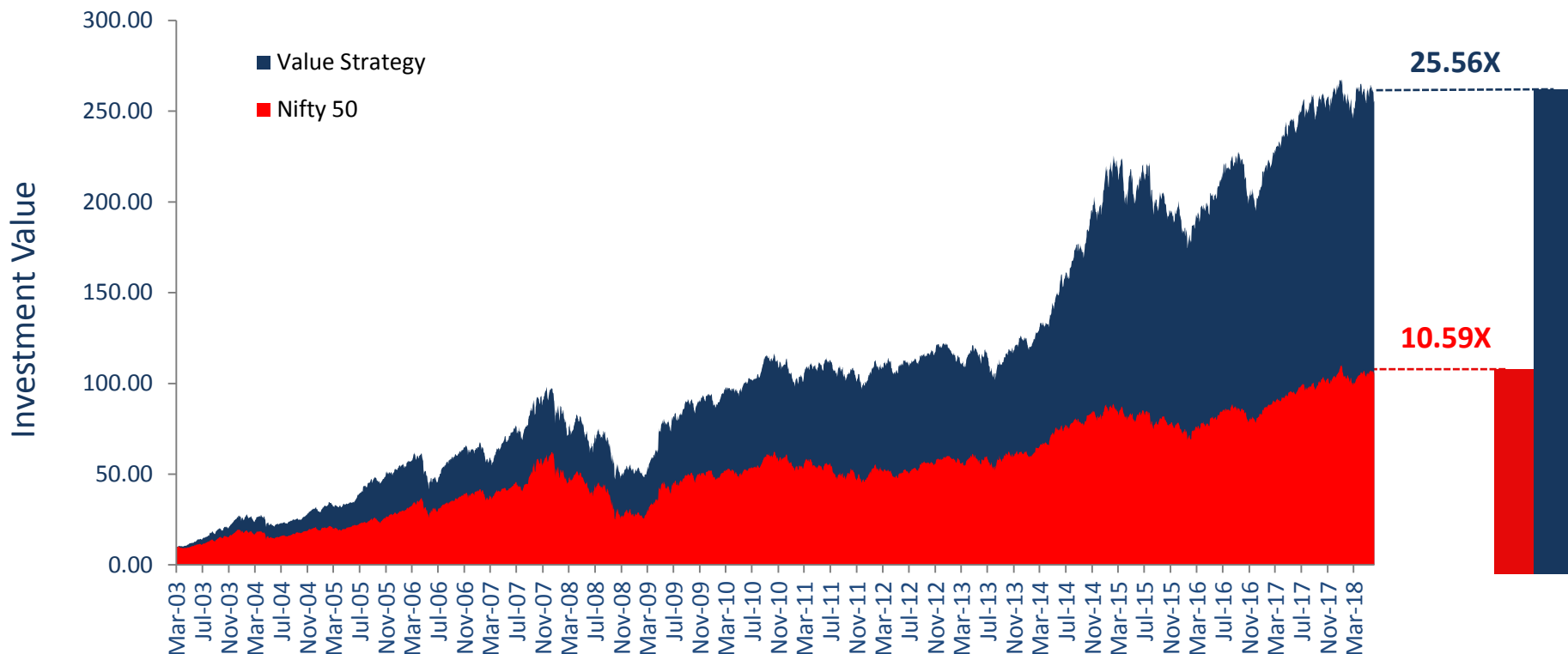
Since inception, Value Strategy has delivered a CAGR of 23.63% vs. Nifty 50 returns of 16.71%, an outperformance of 6.92% (CAGR)



*Strategy Inception Date: 24/03/2003.

Please Note: The Above strategy returns are of a Model Client as on 30th Jun 2018. Returns of individual clients may differ depending on time of entry in the strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Strategy returns shown above are post fees & expenses. Returns above 1 year are annualized.

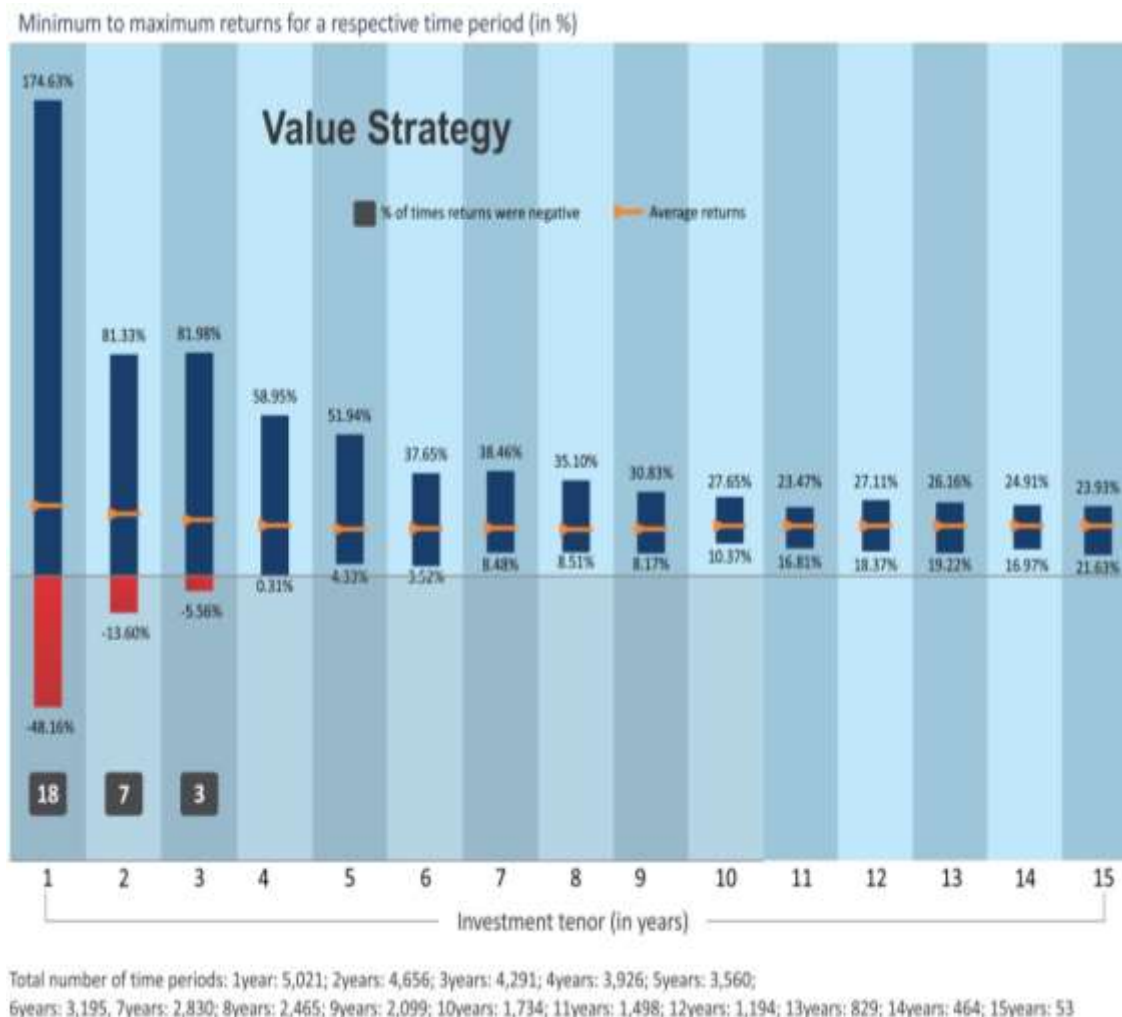
The chart below illustrates Rs.1 crore invested in Value PMS in March 2003 is worth Rs. 25.56 crores as on 30th Jun 2018. For the same period Rs. 1 crore invested in Nifty 50 is now worth Rs. 10.59 crores



Strategy Inception Date: 24/03/2003.

Please Note: The Above strategy returns are of a Model Client as on 30th Jun 2018. Returns of individual clients may differ depending on time of entry in the strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Strategy returns shown above are post fees & expenses.

- ☞ The data shows rolling returns of the Value Strategy over various time frames.
- ☞ It is worth noting that on 1 year rolling basis, the returns are in a very wide range. The best return made by the Strategy is 174% and the worst return is -48%.
- ☞ As we increase the time horizon, the outcomes narrow significantly from the average.
- ☞ For instance, if we consider the 5 year time frame, historically the best return (CAGR) is 52%, least return is 4.3% and average return is 17%.
- ☞ It may also be noteworthy that the negative returns above 3 years rolling periods are zero.



Please Note: The Above strategy returns are of a Model Client as on 30th June 2018. Returns of individual clients may differ depending on time of entry in the strategy. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Strategy returns shown above are post fees & expenses. Returns above 1 year are annualized. Motilal Oswal AMC does not provide any guarantee/ assurance any minimum or maximum returns. Past performance may or may not be sustained in future.

The Value strategy has outperformed the benchmark with a lower level of volatility and has managed to deliver strong returns while offering defensive characteristics, reducing losses during periods of market downturn but participating in the upside.

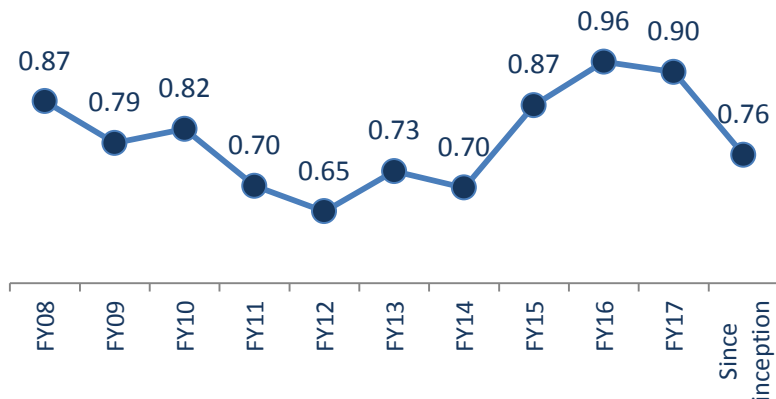
5 Years Data	Portfolio	Benchmark*
Beta	0.95	1.00
R ²	85.28	100.00
Up Capture Ratio	116.55	100.00
Down Capture Ratio	101.98	100.00
Sharpe Ratio	0.70	0.51
Standard Deviation	14.96%	13.78%

Source : Motilal Oswal AMC, Data as on 30/06/2018, returns annualized using model strategy

*Nifty 50

The data and analysis provided herein do not constitute investment advice and are provided only for informational purposes. It should not be construed as an offer or the solicitation of an offer, to buy or sell securities. Past performance may or may not be sustained in future.

Value Strategy year-wise Beta



How to interpret Beta

A Beta of 1 indicates that the security's price moves with the market. A beta of less than 1 means that the security is theoretically less volatile than the market and vice versa.

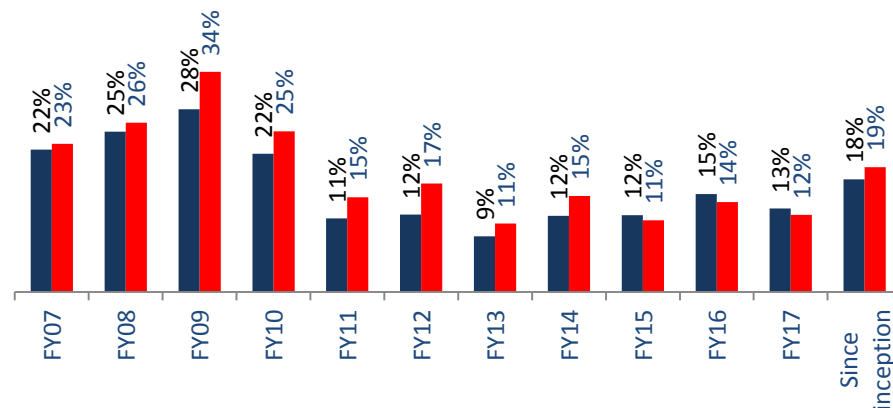
Value Strategy has been consistently low on Beta !

Understanding Standard Deviation

Standard deviation is a number used to tell how measurements for a group are spread out from the average (mean), or expected value. A low standard deviation means that most of the numbers are very close to the average. A high standard deviation means that the numbers are spread out.

Value Strategy has been less volatile than Nifty 50 Index.

Value Strategy year-wise Standard Deviation



Strategy Objective:

Aims to benefit from the long term compounding effect on investments done in good businesses, run by great business managers for superior wealth creation

Investment horizon:

- Medium to long term (3 Years +)

For Whom:

- Investors who like to invest with a long-term wealth creation view

Strategy Construct

Allocations - Market capitalization

- Large Caps : 65% - 100%
- Mid Caps : 0% - 35%

No. of stocks

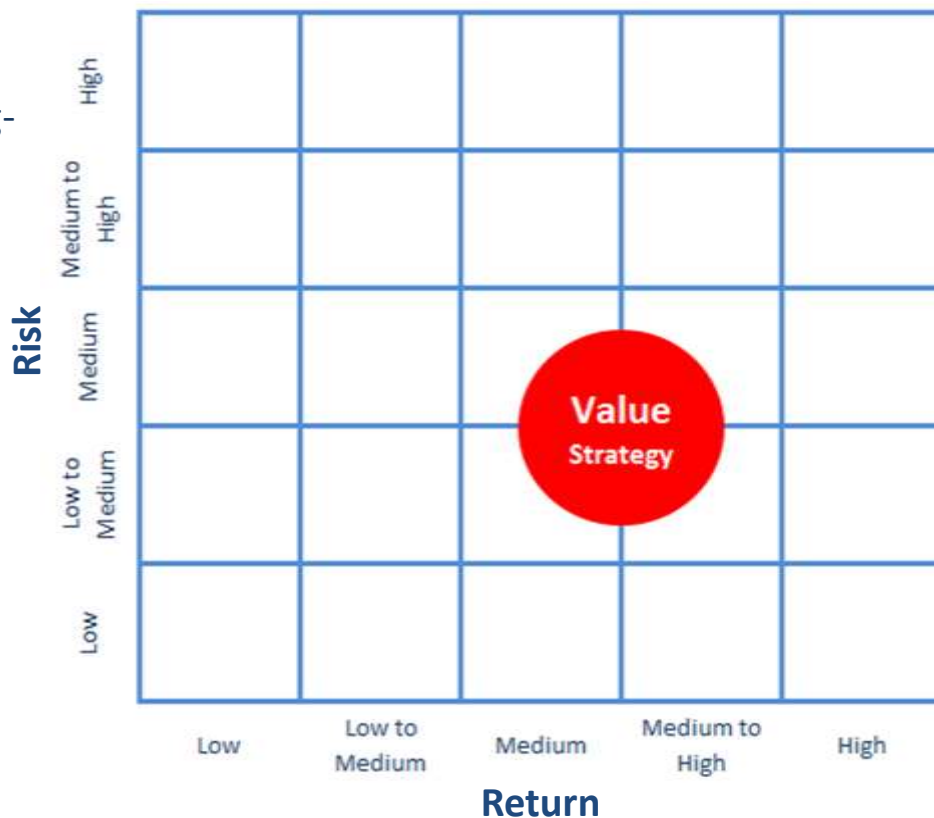
- Around 25 stocks for a portfolio

Scrip allocation

- Not more than 10% in a single stock at the time of initiation

Sector allocation limit

- 35% in a sector



Mode of payment	By fund transfer/cheque and/or stock transfer
Investment Horizon	Medium to long term (3 Years +)
Benchmark	Nifty 50 Index
Account Activation	Next business day of clearance of funds
Portfolio Valuation	Closing NSE market prices of the previous day
Operations	<ul style="list-style-type: none"> - Investments managed on individual basis - Third party custodian for funds and securities
Reporting	<ul style="list-style-type: none"> - Monthly performance statement - Transaction, holding and corporate action reports - Annual CA certified statement of the account
Servicing	<ul style="list-style-type: none"> - Dedicated Relationship Manager - Web access for portfolio tracking

Raamdeo Agrawal - Chairman, MOAMC



- ☞ Raamdeo Agrawal is the Co-Founder and Joint Managing Director of Motilal Oswal Financial Services Limited (MOFSL).
- ☞ As Chairman of Motilal Oswal Asset Management Company, he has been instrumental in evolving the investment management philosophy and framework.
- ☞ He is on the National Committee on Capital Markets of the Confederation of Indian Industry (CII), and is the recipient of "Rashtriya Samman Patra" awarded by the Government of India.
- ☞ He has also featured on 'Wizards of Dalal Street' on CNBC. Research and stock-picking are his passions which are reflected in the book "Corporate Numbers Game" that he co-authored in 1986 along with Ram K Piparia.
- ☞ He has also authored the Art of Wealth Creation, that compiles insights from 21 years of his Annual 'Wealth Creation Studies'.
- ☞ Raamdeo Agrawal is an Associate of Institute of Chartered Accountants of India.

Shrey Loonker– Sr. Vice President, MOAMC Fund Manager



- ☞ Mr. Shrey Loonker has joined as the Sr. Vice President as Fund Manager for Value PMS
- ☞ Shrey brings with him over 13 years of overall experience. Prior to Motilal, he was working with Ernst & Young Pvt Ltd in Global Taxation Advisory Services and Reliance AMC - Mumbai (11 years) as Fund Manager – Reliance Banking Fund
- ☞ Shrey has completed his Chartered Accountancy in 2005 from ICAI Mumbai & CFA in 2009 from CFA Institute, USA

Kunal Jadhvani – Vice President, MOAMC Co-Fund Manager

- ☞ Mr. Kunal Jadhvani is the Co-Fund Manager of Value Strategy since 2nd November 2016
- ☞ He has 8 years of experience in Fund Management and Equity Research
- ☞ Qualifications – Bachelors in Management Studies (Finance) - Mumbai University, PGDFRM and is currently pursuing CFA charter



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