

# The Zen of Investing



  
**Value**  
STRATEGY  
September 2015



## Why India?

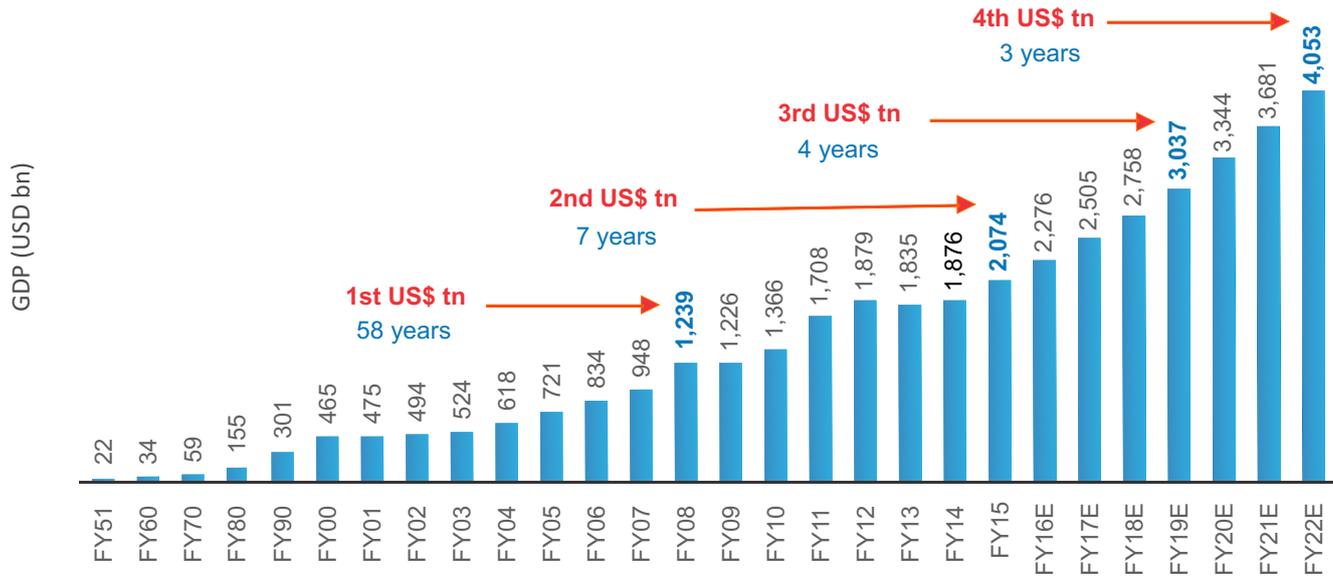
- India's Next trillion Dollar Era
- New Cycle of earnings growth
- Current Valuations below decadal average

## Why Motilal Oswal PMS?

## Why Value?

# India's Next Trillion Dollar Era

- It took our GDP almost 60 years to reach 1st US \$ trillion; but only 7 years to reach the 2nd US \$ trillion

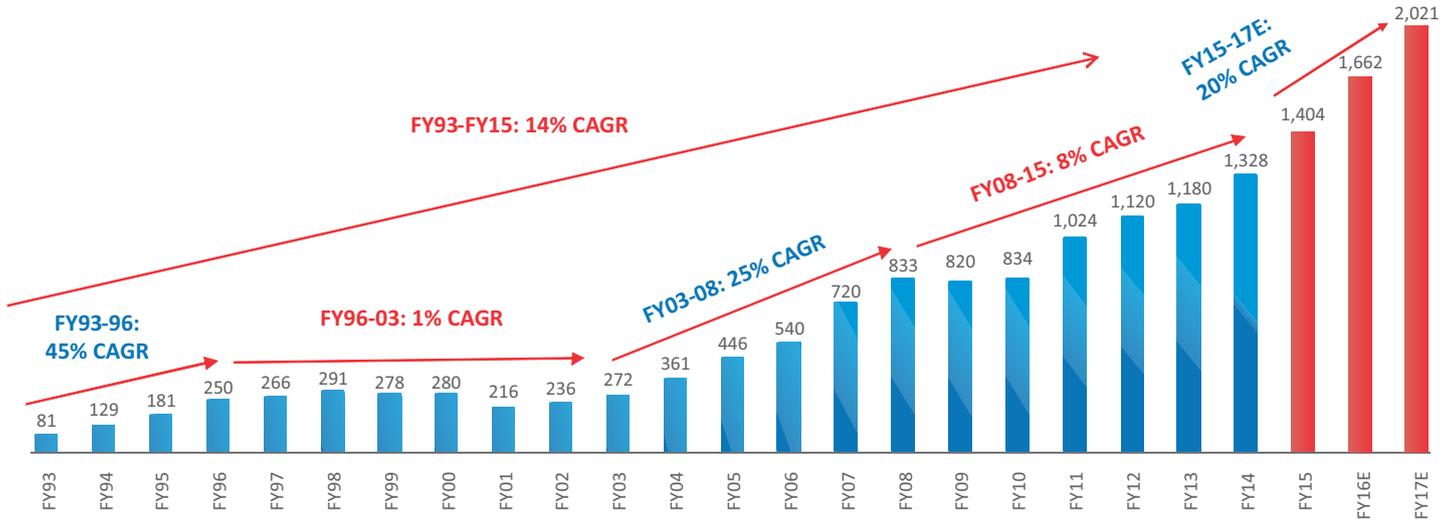


Source: Motilal Oswal Securities Ltd (Data as on 31/3/2015)

Above forward-looking graphs & statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results.

# New cycle of earnings growth

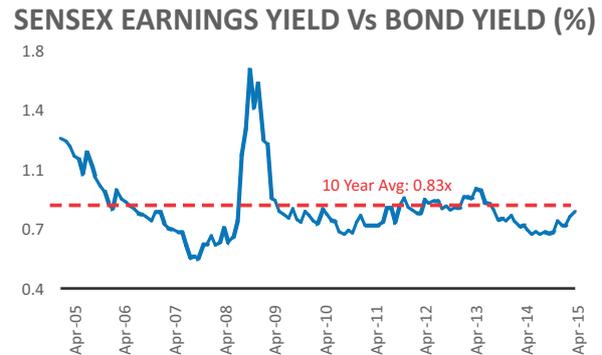
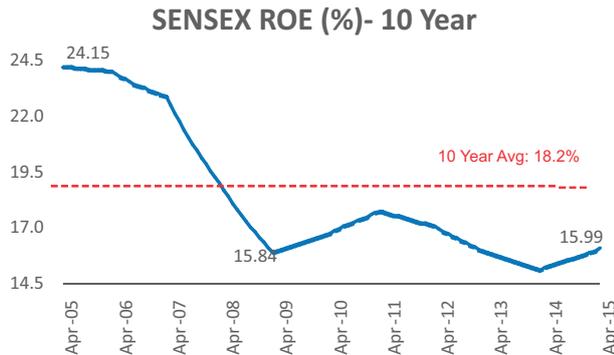
The chart below indicates the S&P Sensex expected Earnings Per Share (EPS) growth from FY15 – FY17E.



Source: Motilal Oswal Securities Ltd, as on 31st March, 2015

Above forward-looking graphs & statements are based on external current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results. Past performance may or may not be sustained in future.

# Current Valuations: Below decadal average



Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Source: Motilal Oswal Securities Ltd, as on 31st March, 2015

# Why Motilal Oswal PMS ?

Amongst India's leading PMS Providers, with assets under management of approx Rs. 4510 Crores.

Our Flagship "Value Strategy" has outperformed the benchmark across market cycles over a 12 year period.

Motilal Oswal PMS has one of the largest active accounts (more than 8,380) on PMS platform.

Motilal Oswal PMS has active clients in 138 different cities right from Agra to Vijaywada; a testimony of strong acceptance of our PMS across the length & breadth of the country.

Data as on 31st August 2015

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. 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 (PMS) will be achieved. Investors in the PMS Product are not being offered any guaranteed/assured returns. Past performance of the portfolio manager does not indicate the future performance for any of the strategies.

## Value Investing

- Wealth Creator - Value Investing
- Buy & Hold philosophy
- Value philosophy
- Rigorous investment process

## Value Strategy

## Consistent performance

# Our investment philosophy – ‘Buy Right : Sit Tight’

At Motilal Oswal Asset Management Company (MOAMC), our investment philosophy is centered on 'Buy Right: Sit Tight' principle.

## 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 20 to 25 stocks being our ideal number. We believe inadequate 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.

- A business is prudently picked for investment after a thorough study of its underlying hidden long-term potential.
- Value Investment involves determining the Intrinsic value of a stock, and investing in it if the difference between the value and the stock price provides a sufficient Margin of Safety.
  - “We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.”-Warren Buffett

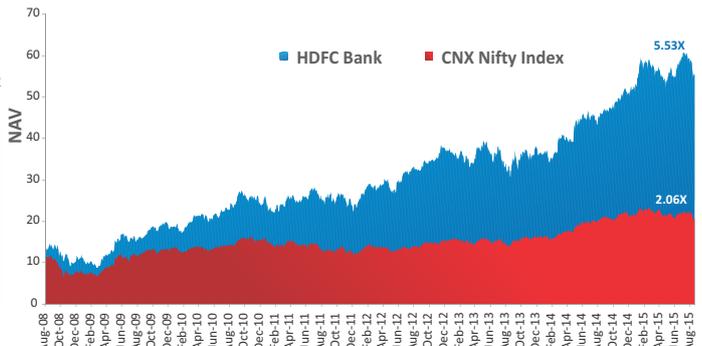
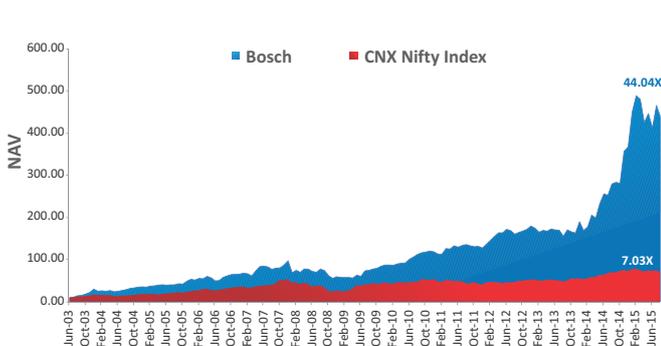
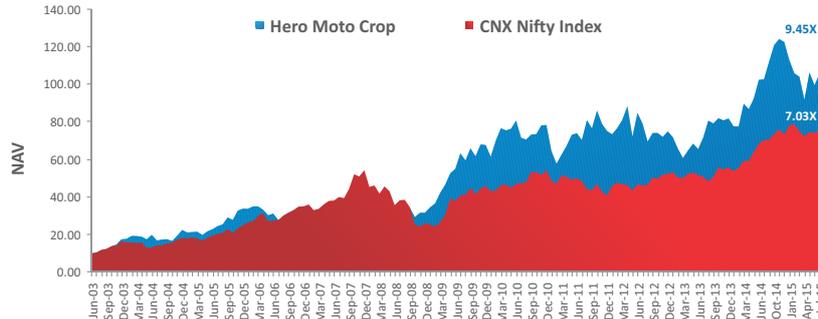
Stock	Purchase Date	Adjusted Purchase Price*	Current Market Price	% Growth
			31-August-15	
Bosch Limited	Jun-03	497.00	23,210.45	4570%
State Bank Of India	Jun-03	36.00	247.35	587%
HDFC Ltd.	Jan-06	241.80	1,186.15	391%
HDFC Bank	Jul-08	201.00	1,027.45	411%
Eicher Motors Ltd.	Apr-12	2054.80	19,014.80	825%
Hero MotoCorp Ltd.	Jun-03	253.65	2,397.20	845%

Source: MOAMC

Please Note: The given stocks are part of portfolio of a model client of Value Strategy as on 31st August 2015. The stocks forming part of the existing portfolio under Value Strategy may or may not be bought for new client. 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. The Companies mentioned above are only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC.

# Buy & Hold Approach

## BUY & HOLD strategy, leading to very low churn, lower costs and enhanced returns



Source: MOAMC, NSE

For relative comparison, base has been taken as 10 for all the above charts. Based on the closing market prices of 31st August 2015

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## **Focus on return on net worth**

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

## **Margin of safety**

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

## **Balance between growth and value**

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

## **Long-term investment view**

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

## **Bottom up approach**

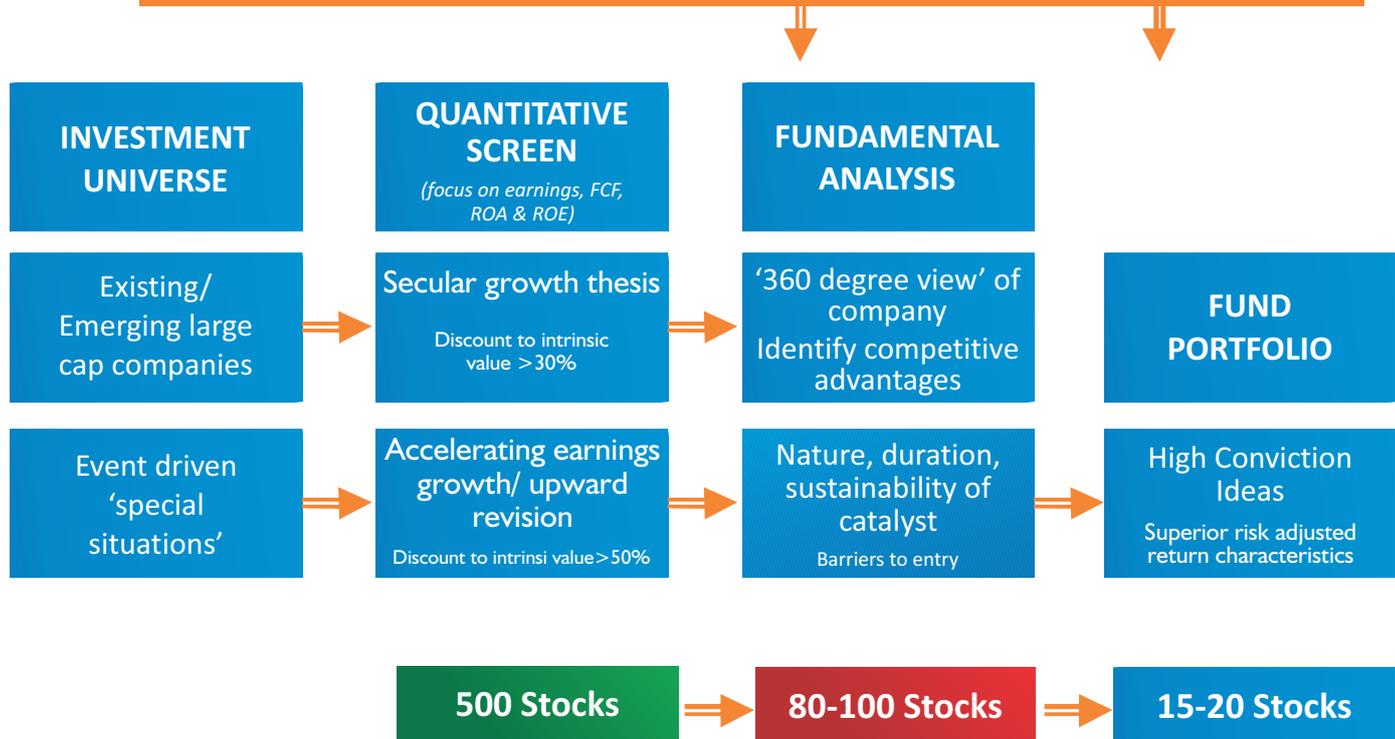
- To identify potential long-term wealth creators by focusing on individual companies and their management bandwidth.

## **Focused strategy construct**

- The strategy should not consist of more than 15-20 stocks

# Rigorous investment process

Top Down analysis: market views, thematic drivers, winner categories, category winners





Strategy objective



Investment style & timing



Risk-return matrix



Strategy construct



Model holding



Investment committee



Fund structure

# 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

# Investment style and timing

**Buy undervalued stock and sell overvalued stock, irrespective of Index movements.**

- The below mentioned table gives the performance of stocks after they exited from the Strategy.

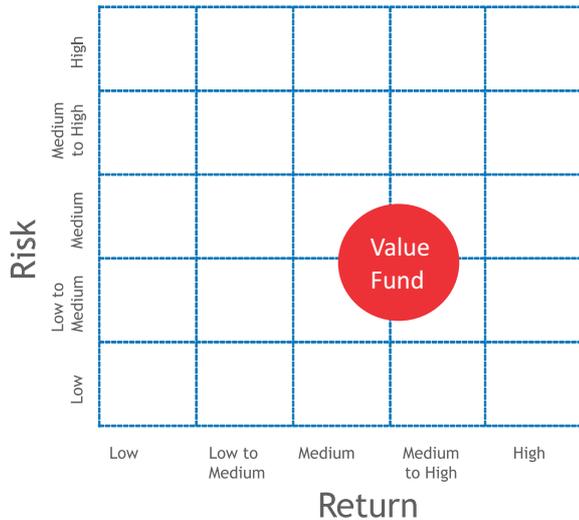
Scrip Name	Buy Date	Adjusted Buy Price	Sell Date	Adjusted Sell Price	Current Market Price* (INR)	Scrip Returns post selling	Value Returns post selling	Nifty Returns post selling
Balkrishna Industries	14-Jan-04	24.20	31-Aug-05	169.32	641.80	14%	17%	13%
BHEL	23-Jun-03	27.38	26-Mar-07	224.31	226.45	0%	17%	9%
Tata Steel Ltd.	06-Nov-07	857.40	29-Mar-10	648.20	225.40	-18%	16%	8%
DLF	06-Jul-07	576.18	10-Jul-08	458.55	110.90	-18%	19%	10%
Bharti Airtel Ltd.	25-Apr-03	17.24	07-Mar-12	329.20	354.05	2%	24%	13%

\* Data as on 31st August 2015

Source: MOAMC

The Stocks mentioned herein are for general and comparison purpose only and not a complete disclosure of every material fact. It should not be construed as investment advice to any party. Past performance may or may not be sustained in future.

# Risk-Return Matrix & Strategy Construct



## 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

- 15 - 20 stocks for a portfolio

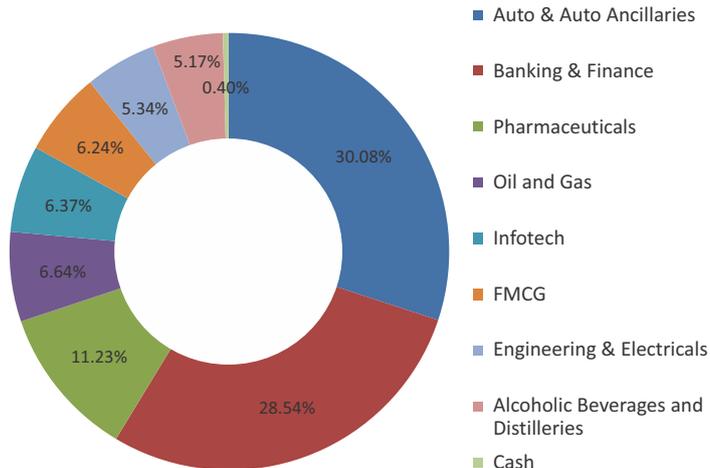
### Scrip allocation

- Not more than 10% - 12% in a single stock

### Sector allocation limit

- 35% in a sector

## Sector Allocation



Source: MOAMC

## Top Holdings

Scrip Name	%Holdings <sup>^</sup>
Sun Pharmaceuticals Ltd.	11.23
Eicher Motors Ltd.	10.15
Bosch Ltd.	9.65
HDFC Bank Ltd.	9.42
HDFC Ltd.	7.35
Bharat Petroleum Corpn. Ltd.	6.64
Tata Consultancy Services Ltd.	6.37
Bharat Forge Ltd.	6.36
Asian Paints Ltd.	6.24
State Bank Of India	6.13
Kotak Mahindra Bank Ltd.	5.63
Larsen & Toubro Ltd.	5.34
United Spirits Ltd.	5.17

<sup>^</sup> Above 5%

Please Note: These stocks are a part of the existing Value PMS strategy as on 31st August 2015. These Stocks may or may not be bought for new clients. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The strategy may or may not have any present or future holdings in these stocks. The companies mentioned above are only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC. <sup>^</sup> Based as per the closing market prices on 31st August 2015.



**Mr. Raamdeo Agrawal**

- **Mr. Raamdeo Agrawal** is a Co-founder and Joint Managing Director of Motilal Oswal Financial Services Ltd.
- He is also a Director on the Board of Motilal Oswal Asset Management Co. Ltd.
- He is the key driving force behind strong research capability as well as a renowned Value investor, and has been instrumental in setting up the investment management philosophy of the firm.
- He has an extensive experience of more than 25 years in Financial Service Sector.
- He is an Associate of Institute of Chartered Accountant of India.
- One of India's foremost value investors and author of Wealth creation Study since its inception in 1996.
- In 1986, he wrote the book Corporate Numbers Game, along with co-author Mr. Ram K Piparia.



**Mr. Manish Sonthalia**  
Head of Equity, PMS

- **Mr. Manish Sonthalia** is a Senior Vice President and Head - Equity PMS and Fund Manager of Value Strategy.
- He has more than 17 years experience in equity research, fund management & equity sales.
- Qualifications - FCA, ICWAI, CS, MBA
- Past Experience : He has been Vice President - Equity Strategy at Motilal Oswal Securities Ltd.
- Fund Manager with Motilal Oswal PMS since 2006

# Fund Management Team



**Mr. Varun Goel**  
Fund Manager

- **Mr. Varun Goel**, Fund Manager and Vice President in Motilal Oswal AMC
- He has more than 8 years of experience in Fund Management and Equity Research
- Qualifications – MBA, IIM Lucknow & BTech, IIT Delhi
- Past Experience : He has been Fund Manager & Head-PMS at Karvy Stock Broking for four years.
- Fund Manager with Motilal Oswal PMS since Feb 2015

- **Mr. Kunal Jadhvani**, Fund Manager, PMS
- He has over 9 years of experience in Indian equities.
- He has worked in various capacities in functions like Corporate Planning, Portfolio Advisory and Fund Management.
- Qualifications- Bachelors in Management Studies (Finance) – Mumbai University, PGDFRM and is currently pursuing the CFA charter.
- Past experience: He is with Motilal Oswal Financial Services since last 8 years. He has been part of fund management and research for AMC (PMS) for last 4 years.

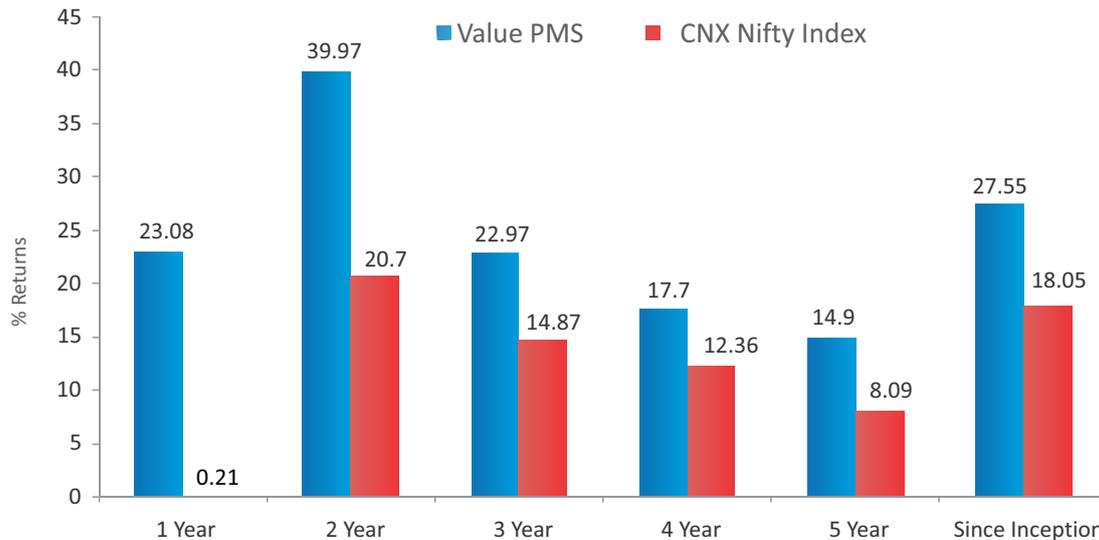


**Mr. Kunal Jadhvani**  
Fund Manager

Mode of payment	By fund transfer/cheque and/or stock transfer
Investment Horizon	Medium to long term (3 Years +)
Benchmark	CNX Nifty 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"><li>- Investments managed on individual basis</li><li>- Third party custodian for funds and securities</li></ul>
Reporting	<ul style="list-style-type: none"><li>- Monthly performance statement</li><li>- Transaction, holding &amp; corporate action reports</li><li>- Annual CA certified statement of the account</li></ul>
Servicing	<ul style="list-style-type: none"><li>- Dedicated Relationship Manager</li><li>- Web access for portfolio tracking</li></ul>

# Performance Snapshot

Since Inception Value Strategy has delivered a CAGR of 27.55% vs. Nifty returns of 18.05%, an outperformance of 9.50% (CAGR).

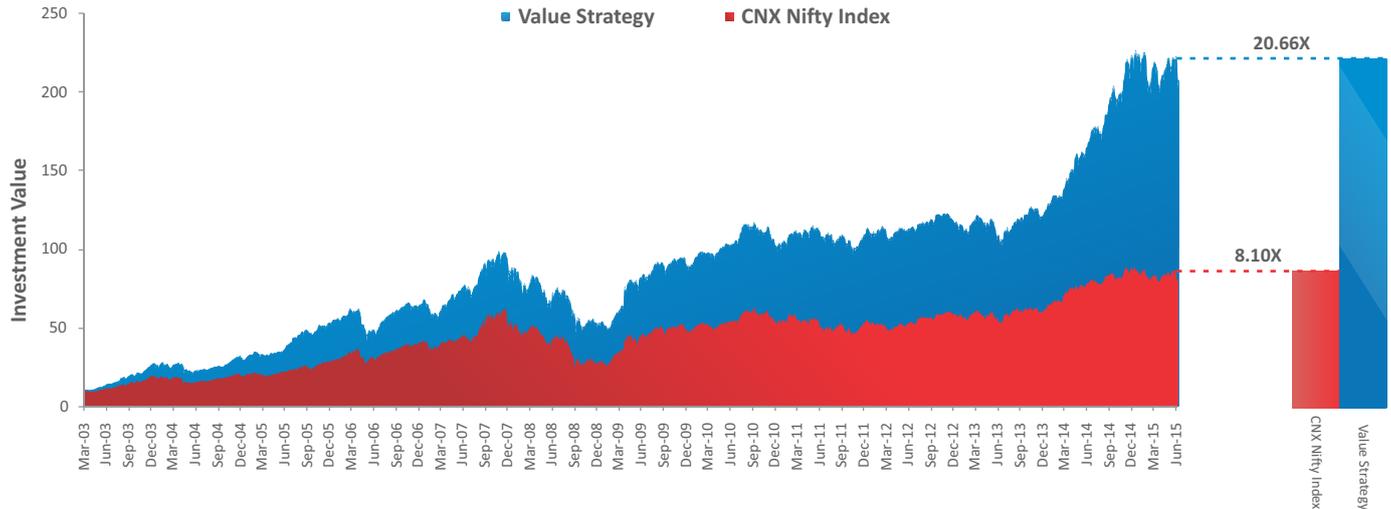


\*Strategy Inception Date: 24/03/2003.

Please Note: The Above strategy returns are of a Model Client as on 31st August 2015. 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 are shown above are post fees & expenses. Returns above 1 year are annualized.

# Performance since inception

The chart below illustrates Rs.1 crore invested in Value PMS in March 2003 is worth Rs. 20.66 crores as on 31st August 2015. For the same period Rs. 1 crore invested in Nifty is now worth Rs. 8.10 crores.



Strategy Inception Date: 24/03/2003.

Please Note: The Above strategy returns are of a Model Client as on 31st August 2015. 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 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	0.77	1.00
R <sup>2</sup>	72.69	100.00
Up Capture Ratio	100.40	100.00
Down Capture Ratio	71.88	100.00
Sharpe Ratio	0.57	0.21
Standard Deviation	15.71	17.20

Source : Motilal Oswal AMC, Data as on 30/06/2015, returns annualized using model strategy

\*CNX Nifty Index

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**Portfolio Manager:** Motilal Oswal Asset Management Company Ltd. (MOAMC) | **SEBI Registration No. :** INP 00000670

**Call:** 022 39804238  
**E-mail:** moamc.customercare@motilaloswal.com  
**Website:** www.motilaloswalmf.com



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