MONTHLY Communique

MOTILAL OSWAL Asset Management | BUY RIGHT SIT TIGHT

September 2015

Dear Investors and My Dear Advisor Friends,

Investing in Equities with Capital Protection – (no this is not about Capital Protection Funds!!!)

As we have seen, Bollywood films are laden with serious tragedy. The loss of a near and dear one or a failed love story is the most oft repeated tragedy sequence. And amidst a tragic sequence a saintly old man (or woman as the case may be) consoles the protagonist with a standard dialogue "Waqt Har Zakhm Ko Bhar Deta Hai".

This standard consolation may or maynot work in real life where one needs to take charge of matters, but it works nowhere better than in stock markets. Let me explain how...

See the chart below presented by Mr. Kayezad Adajania in the popular Mint Newspaper in an edition in June 2015. (You might feel "how careless a statement is that; chart dated somewhere in June 2015 – it is dated!" but the beauty of such long term equity charts is that the date is not important and whenever you plot it, it will look the same! Don't agree? Try it yourself!!!)

There are two sets of conclusions from this chart:

ONE: On "waqt" – time horizon of investing

The chart shows that no matter when you invested in equity, (Sensex is the proxy used here for equity in general) if your investment horizon was 7 years and above the chances of you having got a negative return is NIL. If you have invested for a time horizon anywhere between one year and six years there are chances of getting negative returns, albeit with reducing probabilities starting 32% for a 1 year time horizon down to 4% for a six year time horizon of investing. The moment you cross the 7 year itch, you are in for a "dream-run" and you would have spent enough "waqt" to overcome the worst "zakhm"! The worst "zakhm" been meted out to you would have been -56% if you had made an entry at the worst time that too for a 1 year time horizon only and that's the entry that would have taken 7 years to heal most likely!

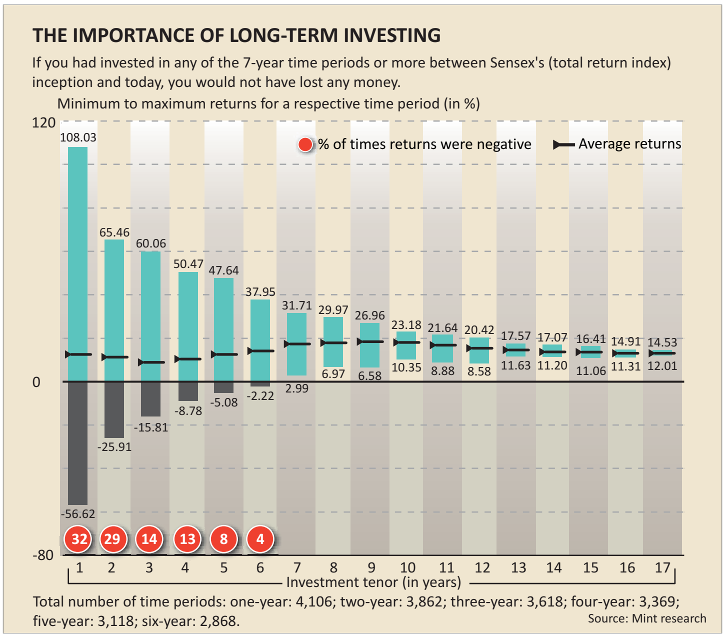
TWO: On returns – payoff from spending "waqt" on remaining invested in the face of all kinds of "zakhm"

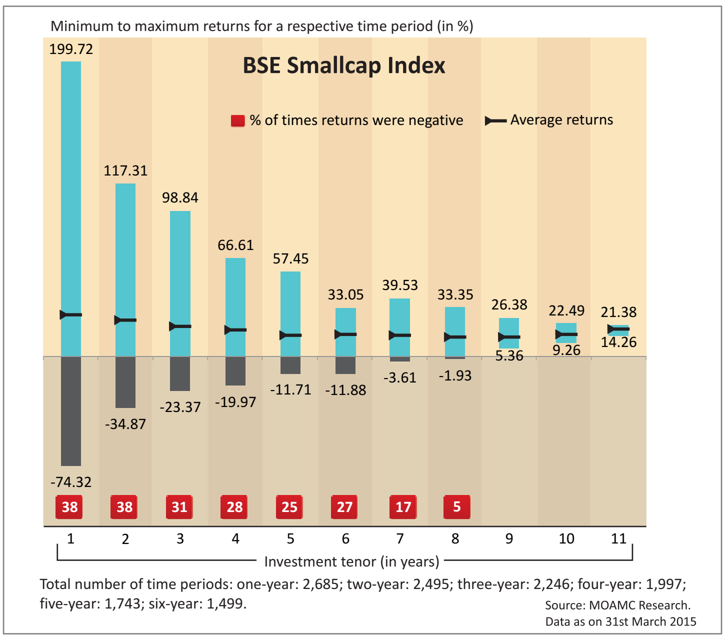
The data shows time horizons of one year of investment have a very wide range – the worst outcome being a -56% to the best outcome being a whopping 108% in a year. As you increase your time horizon of investing the range of outcomes narrows significantly. For instance, if you have invested for 10 years on an average, your worst outcome would have been a CAGR of 10.35%, the best being 23.18% CAGR and the average being just under 20% CAGR!

Salaam Bollywood for giving us the right advice! Waqt indeed seems to be filling all sorts of Zakhm in equity markets.

But the above data and analysis is based on Sensex. And Sensex on an average is made up of some of the better companies in our markets. While it may still have a mix of good and not so good performing companies, as an aggregate of 30 companies it works as a diversified portfolio and hence the average performance can be expected to be well "average"!!! This "average" performance is actually good performance relative to the ocean of 7000 odd listed companies! So such analysis on Sensex companies may not represent the average investors' experience keeping in mind that in the whole market of about 7000 odd companies individual holding is higher percentage of market cap, while in Sensex it is relatively much lower percentage of market cap. Retail holding is much higher in the not so great companies and retail holding is low in the good companies a proxy of which is the Sensex! This is why a lot of times experts tell investors – if you can't analyze and buy the right stuff, the least you can do is to buy the Sensex! At least with passage of time, the "zakhm" has hope of healing.

Instead of Sensex companies what do you think would the results be if you had to do the above analysis on non-Sensex companies or let's say a wider list instead of





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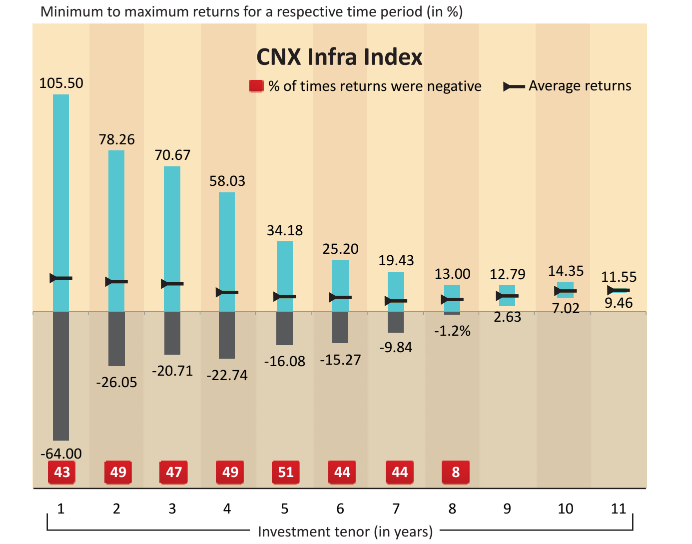
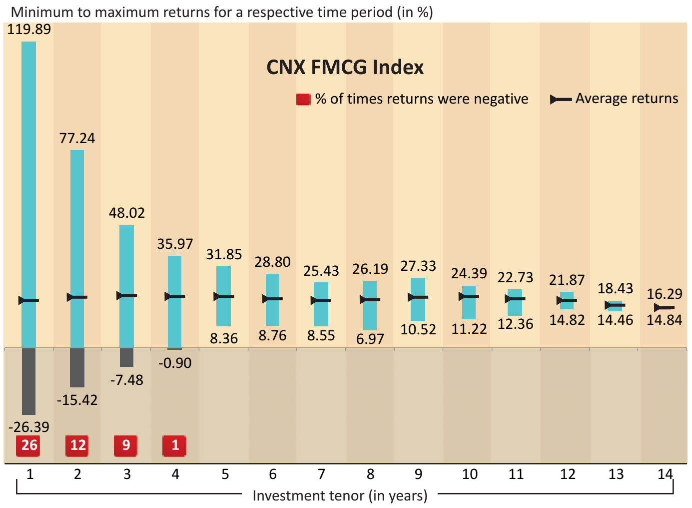


Total number of time periods: one-year: 2,490; two-year: 2,300; three-year: 2,051; four-year: 1,802; five-year: 1,548; six-year: 1,304.

Source: MOAMC Research.
Data as on 31st March 2015



Total number of time periods: one-year: 3,308; two-year: 3,057; three-year: 2,808; four-year: 2,559; five-year: 2,305; six-year: 2,061.

Source: MOAMC Research.
Data as on 31st March 2015

a focused list of 30 presumably good quality companies; like a relatively lower perceived quality list of BSE Small Cap? To see the impact of investing in companies that are not as stable as some of those in the Sensex or which are generally not thought to be of comparable quality as Sensex, let us see how the same chart depicted above looks for the BSE Small Cap Index. What do you think? What should happen to the maximum negative returns, what should happen to the maximum holding period above which one doesn't witness negative returns? Have a look...

Check the worst one year, two year and three year CAGRs! What does the chart say? Check the maximum period for which one could have witnessed negative returns! It is 8 years instead of 7 years on the Sensex. Also, not to focus only on the negatives, check the upsides and maximum returns too. And now let's check for some sectoral indices – two extremes – the Infrastructure sector; poster boy of "not-so-good-quality" companies and FMCG; poster boy of high quality companies based on Quality-Growth-Longevity-Price parameters – more on this later. (And while we are at it, please do not conclude that one should never invest in infrastructure and there will be no infrastructure developed in India. That's not the call. Infrastructure will be built and there will also be infrastructure companies – will the shareholders make sustainable wealth by buying shares of these companies? That's the debate to have! Most of them are heavily dependent on environment in which they operate – land acquisition, government policies, funding, interest costs, execution delays, etc. etc. Locus of control generally cannot be said to be residing within the company but it is mostly outside the company and pre-dominantly in the uncontrollable environment.

Check the chart for the CNX Infra index. Study the same indicators above. What are your observations?

And now for FMCG!!!

What are the observations one can glean regarding the worst one year performance, the best performance, the longest holding period for which one could have negative returns?

Based on all the four charts what conclusions can one draw on risk adjusted returns? Isn't it obvious that FMCG which are perceived to be some of the most stable companies and have the best risk adjusted performance – even better than the Sensex? And Infra companies in general seem to have worse risk adjusted performance than even the BSE Small Cap Index!

What are the key takeaways of all this information for investing in equities and at the same time reducing risk or protecting capital?

Let me explain further...

My company has an investment philosophy of BUY RIGHT:SIT TIGHT! I was recently at a conference where a gentleman exclaimed out of sheer frustration – I am practicing "SIT TIGHT" since over 7 years and I haven't seen anything working for me! With great pains, I had to submit to him, the SIT TIGHT has to be preceded by the "BUY RIGHT"!!!

Always remember – If a business with a bad reputation is run by a management with a good reputation; eventually it is the reputation of the business that shall prevail! If your aim is to create wealth on sustainable basis; high quality companies with sustainable earnings growth and longevity of competitive advantage bought at attractive prices is the mantra.

Exceptions are always there, equally there are good companies in bad sectors or businesses and there are bad companies in good sectors or business lines, but again – calls for betting on a turn around, believing in miracles and more importantly betting on them and living on hope is not the option.

(Continued overleaf)

What is BUY RIGHT?

Simply put, buying companies with a track record of earnings and likelihood of sustenance of track record going forward is all about buying right.

BUY RIGHT : SIT TIGHT

Buying quality companies and riding their growth cycle

Buy Right Stock Characteristics

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 Approach

- **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 in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk

Q for QUALITY | G for GROWTH | L for LONGEVITY | P for PRICE

Happy Investing,

Aashish P Somaiyaa
Managing Director & CEO

Disclaimer: The 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. The sector 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.

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.

Investment Strategy

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

Details

Fund Manager	:	Manish Sonthalia
Strategy Type	:	Open ended
Date of Inception	:	24th March 2003
Benchmark	:	CNX Nifty
Investment Horizon	:	3 Years +
Subscription	:	Daily
Redemption	:	Daily
Valuation Point	:	Daily

Top Sectors

Sector Allocation	% Allocation*
Auto & Auto Ancillaries	30.08
Banking & Finance	28.54
Pharmaceuticals	11.23
Oil and Gas	6.64
Infotech	6.37
FMCG	6.24
Engineering & Electricals	5.34
Alcoholic Beverages and Distilleries	5.17
Cash	0.40

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

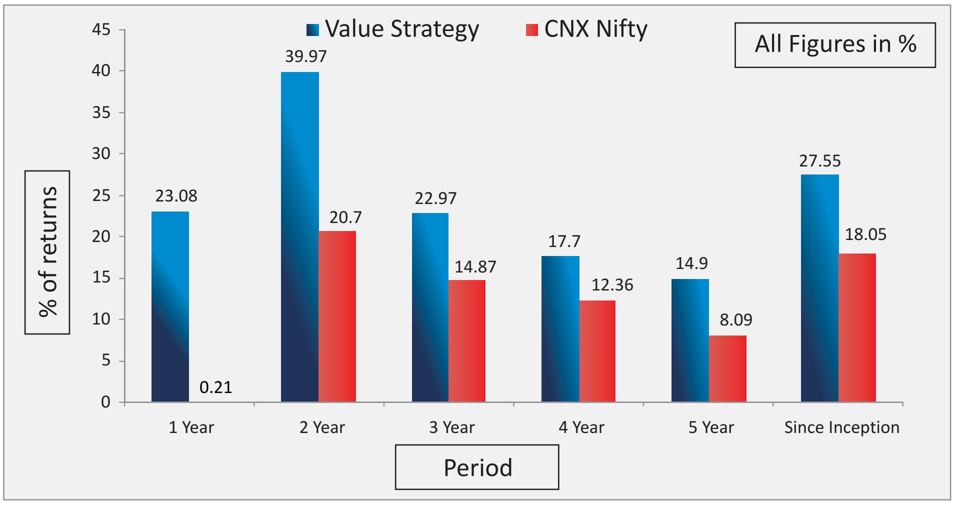
Particulars	% Allocation*
Sun Pharmaceuticals Ltd.	11.23
Eicher Motors Ltd.	10.15
Bosch Ltd.	9.65
HDFC Bank Ltd.	9.42
Housing Development Finance Corporation Ltd.	7.35
Bharat Petroleum Corpn. Ltd.	6.64
Tata Consultancy Services Ltd.	6.37
Bharat Forge Ltd.	6.36
Asian Paints Ltd.	6.24
State Bank Of India	6.13
Kotak Mahindra Bank Ltd.	5.63
Larsen & Toubro Ltd.	5.34
United Spirits Ltd.	5.17

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	Value Strategy	CNX Nifty
Standard Deviation (%)	21.52	24.00
Beta	0.81	1.00

Data as on 31st August 2015



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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 of GDP growth.

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 Dec. 2007
Benchmark	: CNX Midcap
Investment Horizon	: 3 Years +
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	27.38
Auto & Auto Ancillaries	24.55
FMCG	18.29
Oil and Gas	11.05
Engineering & Electricals	6.07
Diversified	5.58
Cash	0.48

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

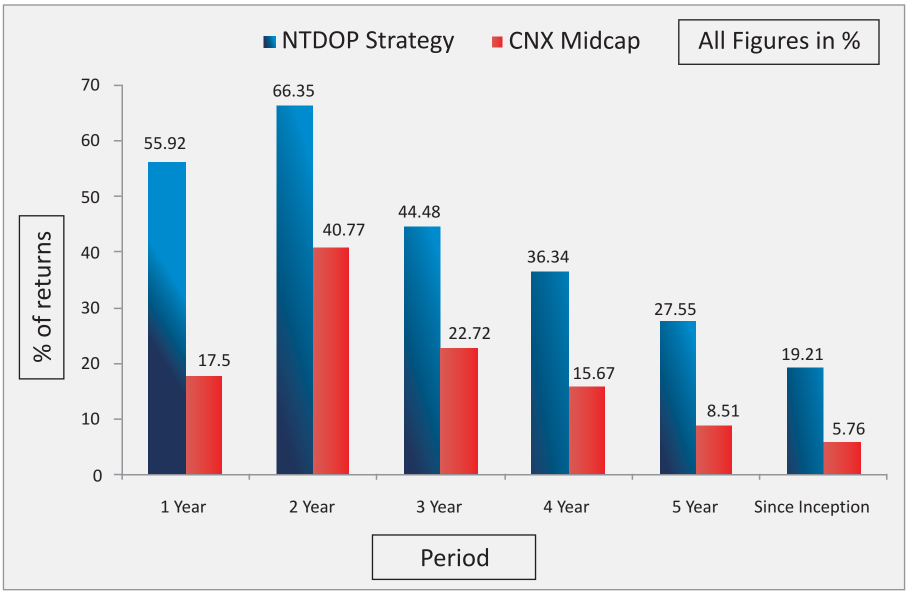
Particulars	% Allocation*
Eicher Motors Ltd.	16.73
Hindustan Petroleum Corporation Ltd.	11.05
Bajaj Finance Ltd.	9.73
Page Industries Ltd.	9.04
Bosch Ltd.	7.82
Voltas Ltd.	5.58
Max India Ltd.	5.26
Cummins India Ltd.	5.23

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	NTDOP	CNX Midcap
Standard Deviation (%)	18.44	23.10
Beta	0.70	1.00

Data as on 31st August 2015



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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 : Varun Goel

Strategy Type : Open ended

Date of Inception : 11th Feb. 2010

Benchmark : BSE 200

Investment Horizon : 3 Years +

Subscription : Daily

Redemption : Daily

Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	30.85
Auto & Auto Ancillaries	17.72
Pharmaceuticals	15.20
Oil and Gas	9.28
FMCG	8.21
Engineering & Electricals	7.29
Cash	0.39

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

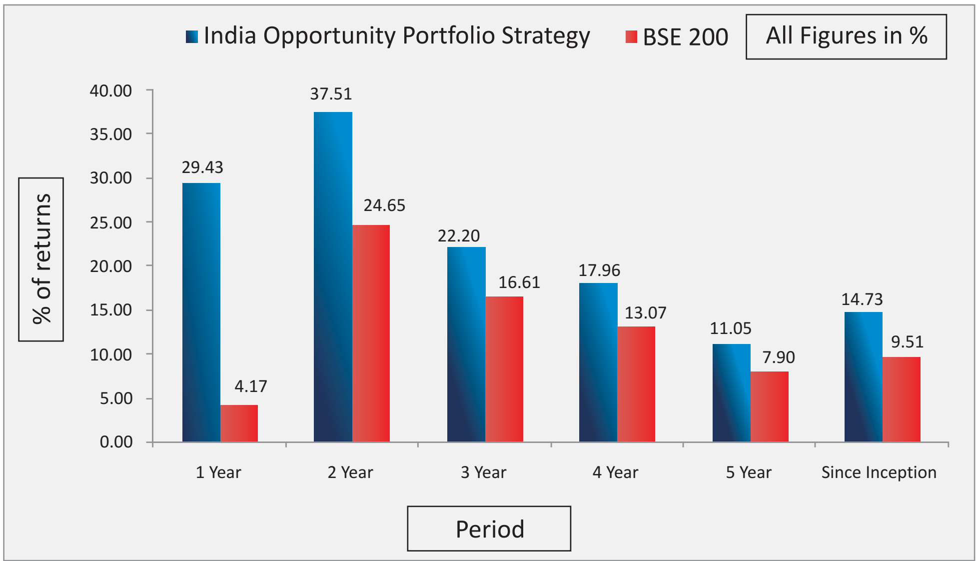
Particulars	% Allocation*
Bajaj Finance Ltd.	11.23
Hindustan Petroleum Corporation Ltd.	9.28
Lupin Ltd.	8.61
Page Industries Ltd.	8.21
Eicher Motors Ltd.	7.64
Larsen & Toubro Ltd.	7.29
Ajanta Pharma	6.60
HDFC Bank Ltd.	6.12
Bharat Forge Ltd.	5.99
Housing Development Finance Corporation Ltd.	5.19

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	IOPS	BSE 200
Standard Deviation (%)	14.89	16.28
Beta	0.78	1.00

Data as on 31st August 2015



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Focused Series IV - Flexi Cap Strategy

Strategy Objective

The Strategy aims to generate superior returns over a medium to long term by investing in only 8-10 companies across market capitalization. The Fund Manager will take active asset allocation calls between cash & equity. The strategy will also take active equity allocation calls between investments in large caps & mid caps & it will follow a policy of profit booking with predefined price targets.

Investment Strategy

- Active Equity Allocation between Mid caps & Large caps
- Active Asset Allocation calls between Cash and Equity
- Strategy will follow a policy of profit booking with predefined price targets
- When the Client's AUM appreciates by 15%, the appreciation amount will be automatically paid-out.

Details

Portfolio Manager : Kunal Jadhwani
Date of Inception : 07th Dec. 2009
Benchmark : BSE 200
Investment Horizon : 12 – 18 Months
Subscription : Daily
Redemption : Daily
Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Auto & Auto Ancillaries	29.69
Banking & Finance	26.63
FMCG	17.03
Engineering & Electricals	12.97
Pharmaceuticals	5.95
Oil and Gas	5.22
Cash	0.08

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

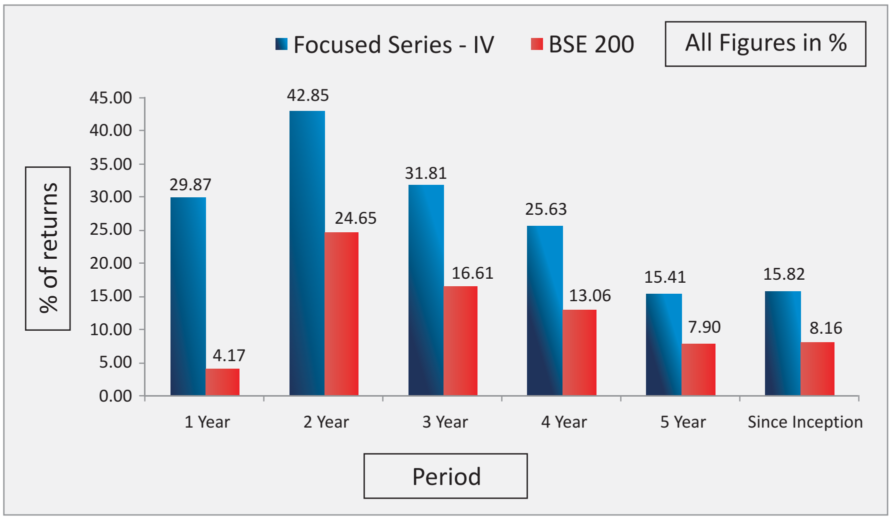
Particulars	% Allocation*
Page Industries Ltd.	17.03
Eicher Motors Ltd.	15.40
Kotak Mahindra Bank Ltd.	14.78
Bosch Ltd.	14.29
HDFC Bank Ltd.	11.85
Cummins India Ltd.	7.98
Ipca Lab Ltd.	5.95
Hindustan Petroleum Corporation Ltd.	5.22
Triveni Turbine Ltd.	5.00

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	Focused Series - IV	BSE 200
Standard Deviation (%)	15.47	16.46
Beta	0.76	1.00

Data as on 31st August 2015



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Focused Series V - A Contra Strategy

Strategy Objective

The strategy aims to invest in fundamentally sound companies that can benefit from changes in a company's valuation which reflects a significant change in the markets view of the company over a horizon of three years. The Strategy focuses on investing in stocks that can benefit from growth in earnings, re-rating of business or higher valuation of assets. Objective is to increase return rather than reduce risk for Investors.

Investment Strategy

- Buy and hold philosophy – low portfolio churn
- Follows the principle to pick best rather than diversification
- Concentrated Strategy Structure of less than 10 stocks
- Investment Horizon : Medium to Long term

Details

Fund Manager	: Manish Sonthalia
Date of Inception	: 27th Sept. 2010
Benchmark	: BSE 200
Investment Horizon	: 2 to 3 Years
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	41.01
Auto & Auto Ancillaries	27.68
Oil and Gas	20.88
Engineering & Electricals	9.61
Cash	0.81

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

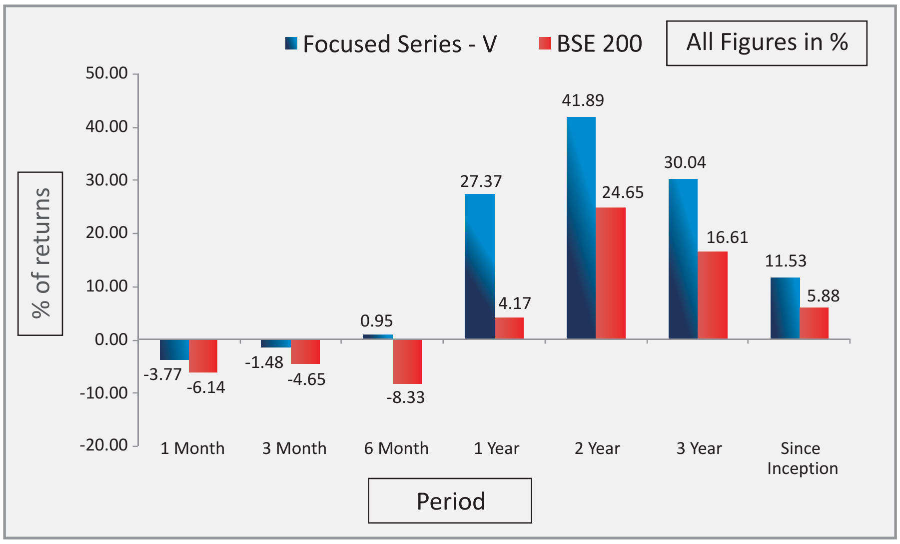
Particulars	% Allocation*
Bharat Forge Ltd.	17.83
Bharat Petroleum Corpn. Ltd.	13.27
Kotak Mahindra Bank Ltd.	12.36
Max India Ltd.	11.13
Development Credit Bank Ltd.	10.26
Eicher Motors Ltd.	9.85
Petronet LNG Ltd.	7.61
J&k Bank	7.26
Triveni Turbine Ltd.	7.10

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	Focused Series - V	BSE 200
Standard Deviation (%)	38.87	18.69
Beta	0.82	1.00

Data as on 31st August 2015



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Bulls Eye Strategy

Strategy Objective

The Strategy aims to deliver returns in the short to medium term by investing in fundamentally sound stocks coupled with active profit booking.

Investment Strategy

- Active management
- Multi Cap Stategy
- Regular Profit Booking

Details

Portfolio Manager : Kunal Jadhwani

Strategy Type : Open ended

Date of Inception : 15th Dec. 2003

Benchmark : BSE 200

Investment Horizon : 12 Months +

Subscription : Daily

Redemption : Daily

Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.13
Auto & Auto Ancillaries	16.86
Engineering & Electricals	13.01
Pharmaceuticals	7.85
FMCG	7.03
Miscellaneous	6.73
Oil and Gas	6.01
Cash	0.03

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

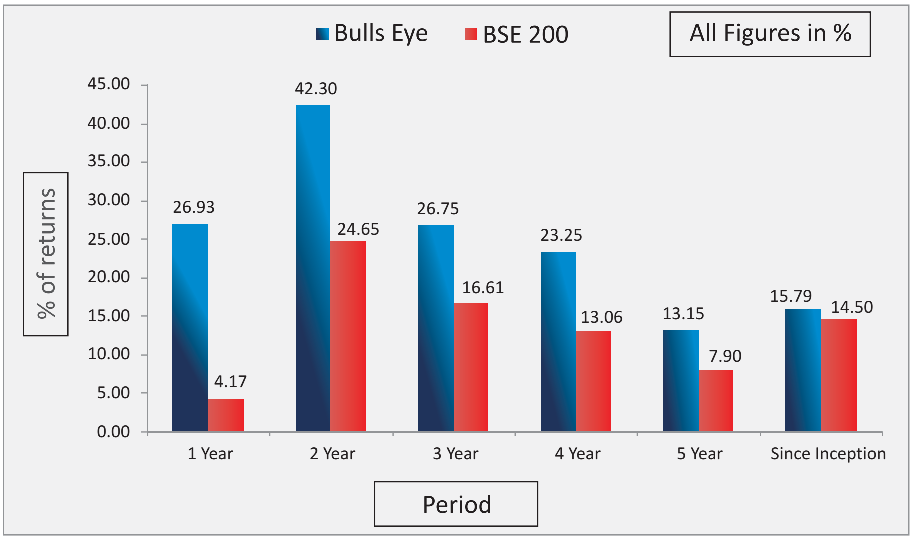
Particulars	% Allocation*
Bajaj Finance Ltd.	9.94
HDFC Bank Ltd.	9.76
Lupin Ltd.	7.85
Cummins India Ltd.	7.61
Eicher Motors Ltd.	7.53
Page Industries Ltd.	7.03
Kajaria Cera	6.73
Axis Bank Ltd.	6.43
Hindustan Petroleum Corporation Ltd.	6.01
Bharat Forge Ltd.	6.01
Larsen & Toubro Ltd.	5.39

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	Bulls Eye Strategy	BSE 200
Standard Deviation (%)	21.43	23.83
Beta	0.77	1.00

Data as on 31st August 2015



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Optima Strategy

Strategy Objective

The Strategy aims to generate superior returns over the long period by investing in companies with growth potential and which are available at reasonable market price.

Investment Strategy

- Growth At Reasonable Price (GARP)
- Active Portfolio Rebalancing
- Market Timing
- Situation based Multi Cap approach

Details

Portfolio Manager	: Kunal Jadhwani
Strategy Type	: Open ended
Date of Inception	: 30th Dec 2008
Benchmark	: BSE 200
Investment Horizon	: 2 Years +
Subscription	: Daily
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	26.90
Auto & Auto Ancillaries	16.31
Engineering & Electricals	12.76
FMCG	8.04
Pharmaceuticals	7.89
Oil and Gas	6.21
Miscellaneous	6.20
Cash	0.02

Data as on 31st August 2015 *Above 5% & Cash

Top Holdings

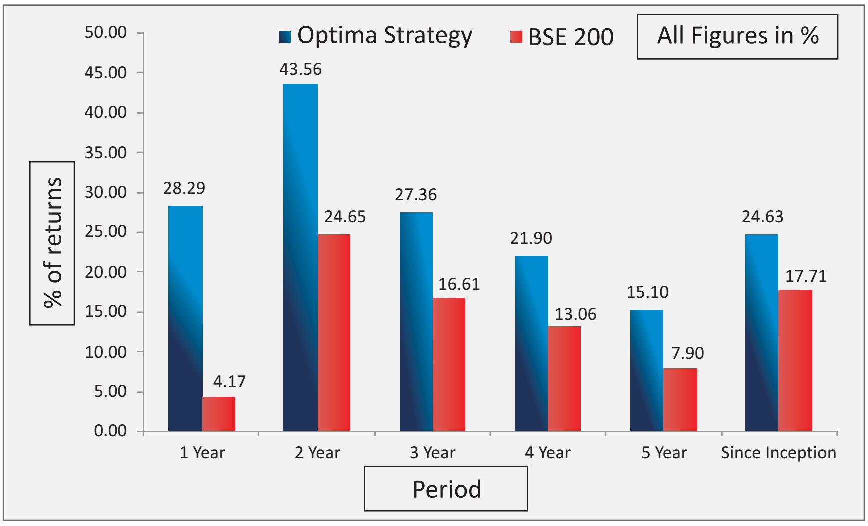
Particulars	% Allocation*
HDFC Bank Ltd.	9.95
Bajaj Finance Ltd.	9.65
Page Industries Ltd.	8.04
Lupin Ltd.	7.89
Eicher Motors Ltd.	7.77
Cummins India Ltd.	7.32
Axis Bank Ltd.	7.31
Hindustan Petroleum Corporation Ltd.	6.21
Kajaria Cera	6.20
Bharat Forge Ltd.	5.43
Larsen & Toubro Ltd.	5.43

Data as on 31st August 2015 *Above 5%

Key Portfolio Analysis

Performance Data	Optima Strategy	BSE 200
Standard Deviation (%)	16.10	19.55
Beta	0.67	1.00

Data as on 31st August 2015



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BUY RIGHT : SIT TIGHT

Buying quality companies and riding their growth cycle

At Motilal Oswal Asset Management Company, our investment philosophy is centered on two critical pillars of equity investing – 'Buy Right: Sit Tight'. 'Buy Right' means buying quality companies at a reasonable price and 'Sit Tight' means staying invested in them for a longer time to realise the full growth potential of the stocks.

It is a known fact that good quality companies are in business for decades but views about these companies change every year, every quarter, every month and sometimes every day! While many of you get the first part of identifying good quality stocks, most don't stay invested for a long enough time. The temptation to book profits at 25% or 50% or even 100% returns in a 1 to 3 year period is so natural that you miss out on the chance of generating substantial wealth that typically happens over the long term; say a 10 year period.

'Buy Right' Stocks Characteristics

QGLP

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

Sit Tight Approach

- **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 in adequate diversification but over-diversification results in diluting returns for our investors and adding market risk.

This Buy Right : Sit Tight philosophy manifests itself in all the products in our Portfolio Management and Equity Mutual Fund schemes

Call: 022 - 3980 4238
Website: www.motilaloswalmf.com

MOTILAL OSWAL Asset Management

BUY RIGHT SIT TIGHT

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