

BUY RIGHT : SIT TIGHT

Buying quality companies and riding their growth cycle



At Motilal Oswal Asset Management Company (MOAMC), 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 long 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.

The findings of the Motilal Oswal Wealth Creation Study show that quality stocks have grown 200 to 300 times over a period of two decades. Needless to say, you would have benefitted from this growth only if you had remained invested instead of making attempts at cashing out and trading in alternatively.

BRST stocks have delivered more than 20% CAGR over last 20 years

If you stay invested in 'Buy Right : Sit Tight' (BRST) stocks, you could reap more than 20% CAGR. Identifying such stocks from the market is important and staying invested in them for long is even more important. You might get tempted to book profits in the short term, but quality company stocks will reward you more only when you are patiently invested in them.

Here are few more examples that show how BRST stocks have fared in terms of compounded annual growth return (CAGR) over the last 20 years or since listing; whichever is later.

| Company Name | CAGR (%) |
|------------------|----------|
| Infosys | 36.64 |
| Sun Pharma.Inds. | 35.38 |
| Eicher Motors | 33.69 |
| Pidilite Inds. | 27.63 |
| HDFC Bank | 27.56 |
| Hero Motocorp | 27.38 |
| Berger Paints | 26.10 |
| Kotak Mah. Bank | 24.22 |
| Asian Paints | 22.65 |
| H D F C | 22.41 |
| Cipla | 21.56 |

In addition to the steady performance in the table, these companies also pay dividends periodically which additionally amount to about 1 to 2% of the current market value of the holdings.

Source: Capitaline | Data as on May 31, 2015

The Stocks mentioned above are used to explain the concept and is for illustration purpose only and should not used for development or implementation of an investment strategy. It should not be construed as investment advice to any party. The stocks may or may not be part of our portfolio/strategy/ schemes. Past performance may or may not be sustained in future.

Amateurs book profits; professionals cut losses

Just as bear markets reveal good quality stocks; they also reveal bad quality stocks. And the mistake one makes as an investor is to retain bad quality stocks and let go of good quality stocks. Thus you knowingly or unknowingly start accumulating bad quality stocks in your portfolio. Such bad quality stocks gradually affect the performance of your portfolio just as a rotten tomato spoils the whole basket.

Here's an example how you accumulate loss while in the process of booking profits. Assuming you get 60% of your investment decisions right and 40% wrong.

| | | |
|-----------------|--|---|
| Investment Year | 100 | This is the investment year, where you make 100 investment decisions. |
| Year 1 End | Wrong Decisions 40 Right Decisions 60 | At the end of Year 1, 60% of your investment decisions are positive and 40% are negative. Succumbing to the human nature, you tend to book profits on positive stocks and search for new stocks to deploy the monies. Please Note: You are still holding on to the 40 bad quality stocks. |
| Year 2 End | Wrong Decisions 24 Right Decisions 36 | At the end of Year 2, assuming that 60% of your investment decisions are fetching positive returns, the number of these stocks would be 36 and the number of negative stocks would be 24. Again, you tend to book profits on these 36 stocks and look for new stocks for investments. Please Note: You have 40 negative stocks from previous year and 24 from this year totaling to 64. |
| Year 3 End | Wrong Decisions 14 Right Decisions 22 | Now at the end of Year 3, assuming the same percentage of strike rate, your total positive stock investments will be 22 and negative would be 14. The story of booking profits on positive stocks continues. Please Note: By now, total negative contributors in your portfolio is 78 and positive contributors are 22. |
| Year 4 End | Wrong Decisions 9 Right Decisions 13 | At the end of Year 4, your portfolio would comprise of 13 positive contributors and 87 negative contributors. |

**A smart investor does it the other way round.
Retain good quality stocks and sell off bad quality stocks.**

Buy Right Stock Characteristics

QGLP

- 📌 **'Quality'** denotes quality of the business and management
- 📌 **'Growth'** denotes growth in earnings and sustained RoE
- 📌 **'Longevity'** denotes longevity of the competitive advantage or economic moat of the business
- 📌 **'Price'** denotes our approach of buying a good business for a fair price rather than buying a fair business for a good price

The core difference between good and bad quality stocks is that good quality stocks perform during bear and bull markets while bad quality stocks perish during bear markets. It's important to spot such good quality stocks but you need expertise to buy them at a reasonable price. And when you have good quality stocks in your portfolio, you don't have to worry about bull or bear markets. Just stay focused on your wealth creation till you achieve your goal. On the other hand, bad quality stocks might earn you handsomely in bull markets; but eventually will perish.

Below is the case study of good and bad quality companies during good and bad times in the equity market.

| Company | 2004-08 Bull Market | 2008-14 Bear Market | 2004-14 Full Cycle |
|-----------------|------------------------|------------------------|-----------------------|
| Eicher Motors | 11% | 2286% | 2557% |
| Page Industries | 62% | 1445% | 2406% |
| Asian Paints | 298% | 357% | 1717% |
| HDFC Bank | 251% | 181% | 889% |
| Nestle India | 137% | 236% | 696% |
| JP Associates | 907% | -64% | 258% |
| SAIL | 475% | -61% | 121% |
| GMR Infra. | 255% | -71% | 4% |
| DLF | 13% | -73% | -69% |

Source: Capitaline | Data as on March 31st, 2014

Asian Paints delivered 298% in the bull market and 357% in the bear market

GMR Infra delivered 255% in the bull market and -71% during the bear market

Good quality stocks perform even in bear market

The stocks herein are used for comparison purpose and is illustrative and is 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.

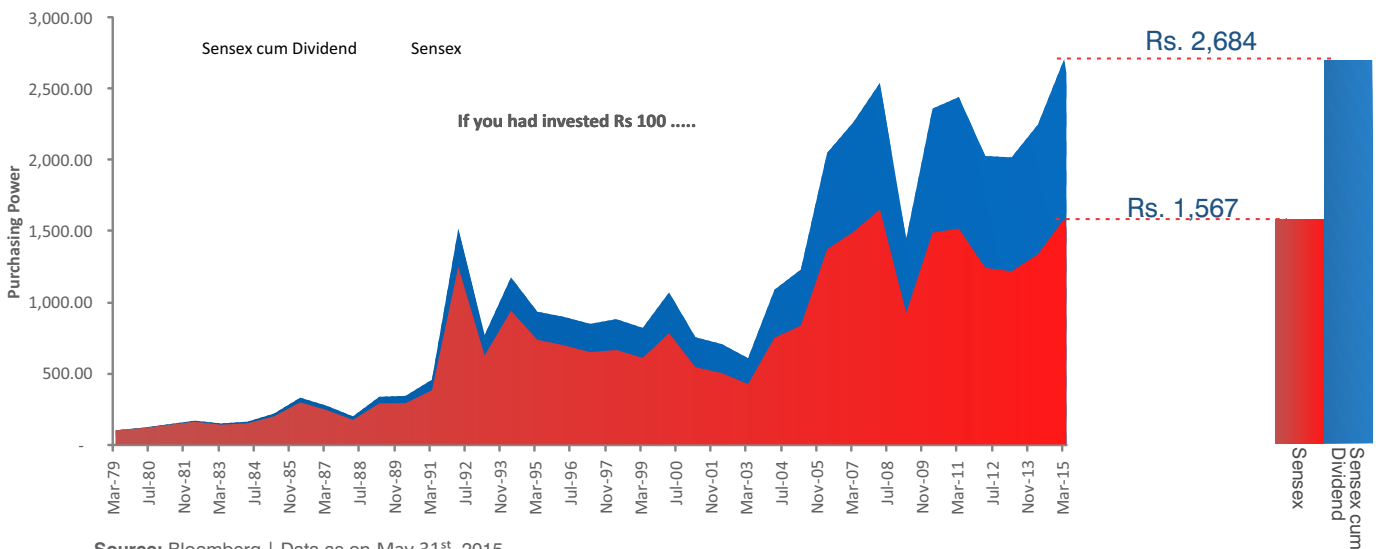
'Buy Right : Sit Tight' investment philosophy

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

Benefit of Buy and Hold

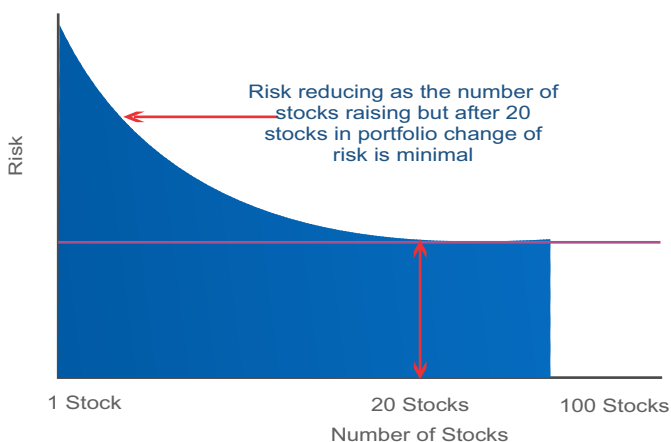
If you had invested Rs. 100 in Sensex in 1979, your investment would have multiplied to Rs. 2,684 with dividend and to Rs. 1,567 without dividend.



Source: Bloomberg | Data as on May 31st, 2015

The graph above 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. It should not be construed as investment advice to any party.

The Power of Focus



Diversification beyond your control becomes unmanageable and adds no value to your portfolio. Over diversification can impact the overall performance of your portfolio. As in case of most portfolios, the top 5 good quality stocks contribute 80% of overall performance of your portfolio while the rest 20% by bad quality stocks.

Products based on our BRST philosophy

Portfolio Management Services (PMS)

For whom: Our PMS products are meant for financially savvy high net worth individuals (HNIs) who wish to utilise our expertise in building a portfolio of high quality companies or who have a large portfolio of stocks but lack the bandwidth to monitor them.

Benefits: With our Portfolio Management Services one can build an equity portfolio in the large cap and midcap segment with a highly personalized service. Also, the 'Buy Right : Sit Tight' approach results in low churn in our portfolios and makes the costing of our portfolio management services very attractive.

Following are our flagship PMS products driven by the philosophy of 'Buy Right : Sit Tight':

Value Strategy

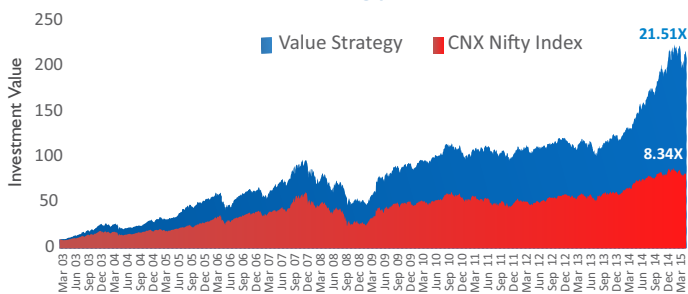
- Concentrated large cap with only 15-20 stocks
- One of the longest running product in the industry with 12 years track record
- One of the largest corpus in the industry in a single PMS product with over Rs. 1542.68 cr (as on 31st May 2015)
- #Delivered an annualized return of 28.62 % since inception as against 19.00% by CNX Nifty Index.

Next Trillion Dollar Opportunity Strategy (NTDOP)

- Concentrated midcap portfolio with only 20-25 stocks
- Focused on the 'Next Trillion Dollar Growth Opportunity'
- The corpus under this PMS product is over Rs. 1512.26 cr (as on 31st May 2015)
- Superior track record of 7 years with consistent outperformance over benchmark for 1/2/3/4/5/6/7 years respectively 50%/22%/22%/23%/19%/16%/19%
- #Delivered annualized return of 19.77% since inception as against 6.09% by CNX Midcap Index

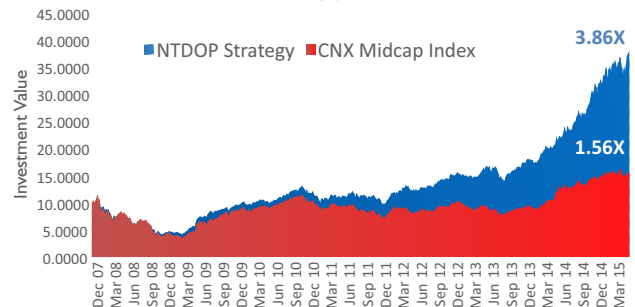
Data as on March May 31st, 2015. Returns above 1 year are annualized. Past performance may or may not be sustained in future.
#Date of inception: Value Strategy - 24th March, 2003 | NTDOP Strategy - 11th December, 2007

Value Strategy Performance



Both, Value Strategy and CNX Nifty Rebased to 10 as on 24th Mar 2003

NTDOP Strategy Performance



Both, NTDOP Strategy and CNX Midcap rebased to 10 as on 11th December 2007.

The Above strategy returns are of a Model Client as on May 31st, 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. Returns below 1 year are absolute and above 1 year are annualized. Strategy returns shown above are post fees & expenses.

Invest in our PMS by transferring your existing stocks

In case you did not know that there is an added flexibility while investing in our PMS. You can participate by transferring your existing portfolio of stocks to us. While investing in equities over the years, you might end up in accumulating stocks which may not have done well for you or have done well in past but lack future potential. Now you can participate in our PMS by transferring such stocks to us and without increasing overall equity allocation in your portfolio. We will be most happy to restructure the same and populate it with a focused portfolio of high quality companies.

Products based on our BRST philosophy

Mutual Funds

For whom: Our equity expertise can be accessed by individual investors with an approach to long term savings through our Mutual Fund products for as low as Rs. 500 through a systematic investment plan (SIP).

Benefits: Our Mutual Fund Schemes pass through a rigorous investment process with an aim to deliver consistent performance. Investments in the Schemes can also be conveniently done online. As an investment house, since we have only one investment philosophy, we aim to keep life simple for us and our investors by having a focused menu of equity funds – one large cap, one midcap, one multicap and one tax saver fund.

Following are our Mutual Fund Equity Schemes driven by the philosophy of 'Buy Right : Sit Tight':

MOST Focused 25 Fund

- Concentrated portfolio of upto 25 large cap companies
- Invests in enduring wealth creators
- Low churn
- No Entry and Exit Load
- Minimum investment as low as Rs.1000 through SIP and Rs. 5000 through lumpsum

MOST Focused Midcap 30 Fund

- Concentrated portfolio of upto 30 midcap companies
- Invests in emerging wealth creators
- Low churn
- No Entry and Exit Load
- Minimum investment as low as Rs.1000 through SIP and Rs.5000 through lumpsum

MOST Focused Multicap 35 Fund

- Concentrated portfolio of upto 35 quality companies
- Invests in enduring and emerging wealth creators
- Low churn
- No Entry and Exit Load
- Minimum investment as low as Rs.1000 through SIP and Rs.5000 through lumpsum

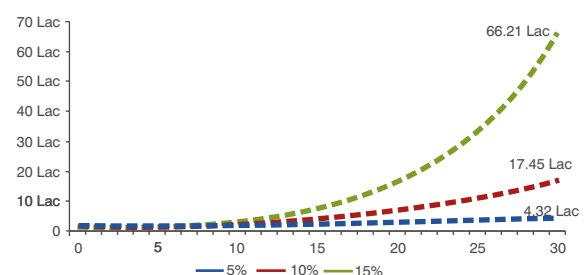
MOST Focused Long Term Fund

- Concentrated portfolio of select companies
- Invests in enduring and emerging wealth creators
- Low churn
- No Entry and Exit Load
- Minimum investment as low as Rs. 500
- Growth of equities with the added advantage of tax savings under section 80C of the Income Tax Act, 1961

Power of Compounding

Systematic Investment Plan (SIP) is a smart and hassle free mode for investing your money in our open ended equity schemes with as small as Rs. 500 at a regular interval (weekly, fortnightly, monthly & quarterly) If you are skeptical about the best time to invest in the equity market, SIP is the right vehicle. Buy Right schemes and invest regularly in them through SIP to create wealth over the years.

The graph illustrates the difference in the value of Rs. 100000 invested at different rates of interests for 30 years.



The above is for illustration purpose only & should not be considered as an investment advice. The SIP amount, tenure of SIP, expected rate of return are assumed figures for the purpose of explaining the concept of advantages of SIP investments. The actual result may vary from depicted results depending on scheme selected. It should not be construed to be indicative of scheme performance in any manner. Past performance may or may not be sustained in future.

Benefits of our Equity Mutual Funds schemes

No Exit Load

- Fund houses are seen to deduct 1-2.5% as exit load
- Exit load applied on the exit value, which means, the higher your returns the more will be the exit load
- Hence we don't charge exit load in any of our equity mutual funds schemes

Low Churn

- Higher portfolio churn can increase the fund expenses disproportionately affecting the returns of the fund directly
- Frequent churn may not let you reap the full growth potential of the stocks leading to poor returns
- Hence we research extensively before we buy any stock and hold onto them for years to reap the full growth potential

High Conviction

- Too many stocks become unmanageable for the fund managers
- Over-diversified portfolio takes away the potential of quality stocks
- Risk comes from not knowing the stocks hence diversification beyond ones control can increase the risk
- Hence we believe in adequate diversification with less number of stocks in our portfolio







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PMS Disclaimer : The returns of PMS Strategies are of a Model Client. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategies. The above returns are calculated on NAV basis and based on closing market prices. Returns above one year are annualized. The stocks forming part of the existing portfolio under Value Strategy and NTDOP 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 above is only for the purpose of explaining the concept and should not be construed as recommendations from MOAMC. Investors are advised to consult his / her own professional advisor.

Mutual Fund Disclaimer:

| Name of the scheme | This product is suitable for investors who are seeking* |
|---|---|
| Motilal Oswal MOST Focused 25 Fund (MOST Focused 25): An Open Ended Equity Scheme | <ul style="list-style-type: none"> • Return by investing in upto 25 companies with long term sustainable competitive advantage and growth potential • Investment in Equity and equity related instruments subject to overall limit of 25 companies • High risk  (BROWN) |
| Motilal Oswal MOST Focused Midcap 30 Fund (MOST Focused Midcap 30): An Open Ended Equity Scheme | <ul style="list-style-type: none"> • Long-term capital growth • Investment in equity and equity related instruments in a maximum of 30 quality mid-cap companies having long-term competitive advantages and potential for growth • High risk  (BROWN) |
| Motilal Oswal MOST Focused Multicap 35 Fund (MOST Focused Multicap 35): An Open Ended Diversified Equity Scheme | <ul style="list-style-type: none"> • Long-term capital growth • Investment in a maximum of 35 equity and equity related instruments across sectors and market-capitalization levels • High risk  (BROWN) |
| Motilal Oswal MOST Focused Long Term Fund (MOST Focused Long Term): An open ended equity linked saving scheme with a 3 year lock-in | <ul style="list-style-type: none"> • Long-term capital growth • Investment predominantly in equity and equity related instruments • High risk  (BROWN) |

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

Note: Risk is represented as:

| | | |
|---|---|--|
|  (BLUE) investors understand that their principal will be at low risk |  (YELLOW) investors understand that their principal will be at medium risk |  (BROWN) investors understand that their principal will be at high risk |
|---|---|--|

Mutual Fund investments are subject to market risks, read all scheme related documents carefully