Motilal Oswal reaps rewards of simplicity

The Indian fund house has seen impressive AUM growth on the back of an approach to investing that sticks to the basics, but does them well, say Aashish Somaiyaa and Akhil Chaturvedi.

Over the past 12 months, Motilal Oswal Asset Management Company has been able to grow its client assets faster than most of its peers in India – yet with a surprisingly simple investment philosophy.

The guiding principle for the fund house is 'Buy Right, Sit Tight'. In short, it looks to buy what it considers to be quality companies at reasonable prices and then stay invested in them for longer.

This way, it believes, it will realise the full growth potential of the stock.

The upshot of this strategy has been a doubling of AUM to the equivalent of USD3 billion within a year.

SIMPLICITY RULES

Such success reflects the fundamental view that Motilal Oswal has held for decades – that stock prices will, over time, reflect the growth in earnings. So, rather than chasing alpha, the investment manager is more focused on portfolio construction and selecting the right stocks.

Thise stock-picking exercise itself is guided by a detailed strategy laid out by top management; it highlights the key take-aways from market movements over a five-year period to identify promising companies.

"Our job is to ensure the earnings of the companies in the portfolio double in three to four years," says Aashish Somaiyaa, the firm's managing director and chief executive officer.

"The stock prices can lead or lag, we don't control them at all. This is the fundamental premise of our investment philosophy," he adds.

AASHISH SOMAIYAA
Motilal Oswal AMC

The firm is clearly driven by a passion for equities, and prides this above the thrill of growing its market share or AUM. Indeed, it is not chasing infinite capacity. "We are conscious that if it comes to sacrificing alpha vis-à-vis the size of the funds or the strategies or the profitability, then we will preserve our

AKHIL CHATURVEDI
Motilal Oswal AMC

profitability at a certain scale rather than go crazy about market shares or assets that we manage," explains Somaiyaa.

YIELD FOCUSED

At the same time, improving its own yield on incremental assets is a key goal for Motilal Oswal.

In line with this, AIF and PMS vehicles both offer the opportunity to raise money via the profit-share model, where the manager can reduce its fixed management fee and, based on performance, charge a share in gains. "Given the markets, if we deliver, that can help us improve the business yield," says Akhil Chaturvedi, executive vice president and head of sales and distribution.

A new AIF platform comprising discretionary accounts, real estate, private equity, hedge funds and offshore investments via its asset management company in Mauritius, has also been added to its offering to appeal to a wider cross-section of investors.

Chaturvedi says this third platform – in addition to its PMS and mutual funds – was required to meet the demand from its banking distribution channels for more boutique products with sophisticated bundling. "There is a target audience for all three platforms and we want to offer whichever platform the investor likes."

The crucial difference between AIFs and other products, he adds, lies in the operational structure. Like private equity, investments via AIFs can be staggered over three to four quarters. Besides, the holding structure for AIFs and mutual funds is in the form of units, whereas for PMS, it is in a demat format.

FEE PRESSURE MOUNTING

Although the Motilal Oswal business model has worked to date, its future is not without its strains.

One of the challenges the firm looks likely to face, for example, is the growing pressure on fees, especially from investors who seek alpha.

As managers struggle to outperform in different categories, for instance, Somaiyaa says clients have started to wonder why they should be paying high fees to have their assets managed.

His firm is tackling this by making client communication integral to its strategy to orient investors towards the longer term.

"I will be happy if people are buying performance for a reason. So buy the input, not just the output. That is one strategic priority."

The firm is also relying on its alternate base to off-set the pressure on fees; AIFs allow for adoption of more flexible strategies and at the same time reach out to wealthier clients.

Digital key to the future

Digital is an important focus area going forward for Motilal Oswal. But what the firm is actually looking to implement in the near term is a mix of bricks-and-mortar with online channels.

In particular, it is keen to use a digital platform for execution. On the advisory side, Chaturvedi feels clients still like to have a face-to-face interaction. "There is still relatively low knowledge [in India] about mutual funds and the risks associated with them, so clients want to talk to somebody who can explain the product, the risks, asset allocation and so on. This cannot happen via digital [channels]," he adds.

For the firm's distributors, meanwhile, a digital platform not only saves time but also creates economies of scale. "One can meet more clients if execution is done digitally," says Chaturvedi. "So it gives the advisers more bandwidth to grow their business."

Another of Somaiyaa's goals is expanding the research capability, to stay on top of the game.

According to Chaturvedi, meanwhile, to be able to scale-up quickly, the regulators need to step up, too, and fix the ever-changing KYC norms. "In the last three years, the rules have changed three times in terms of what we need to collect from investors and what we need to upload in the KYC system," he says. "I hope that there is some simplification." ■