VOLATILITY – THE NEW ASSET CLASS

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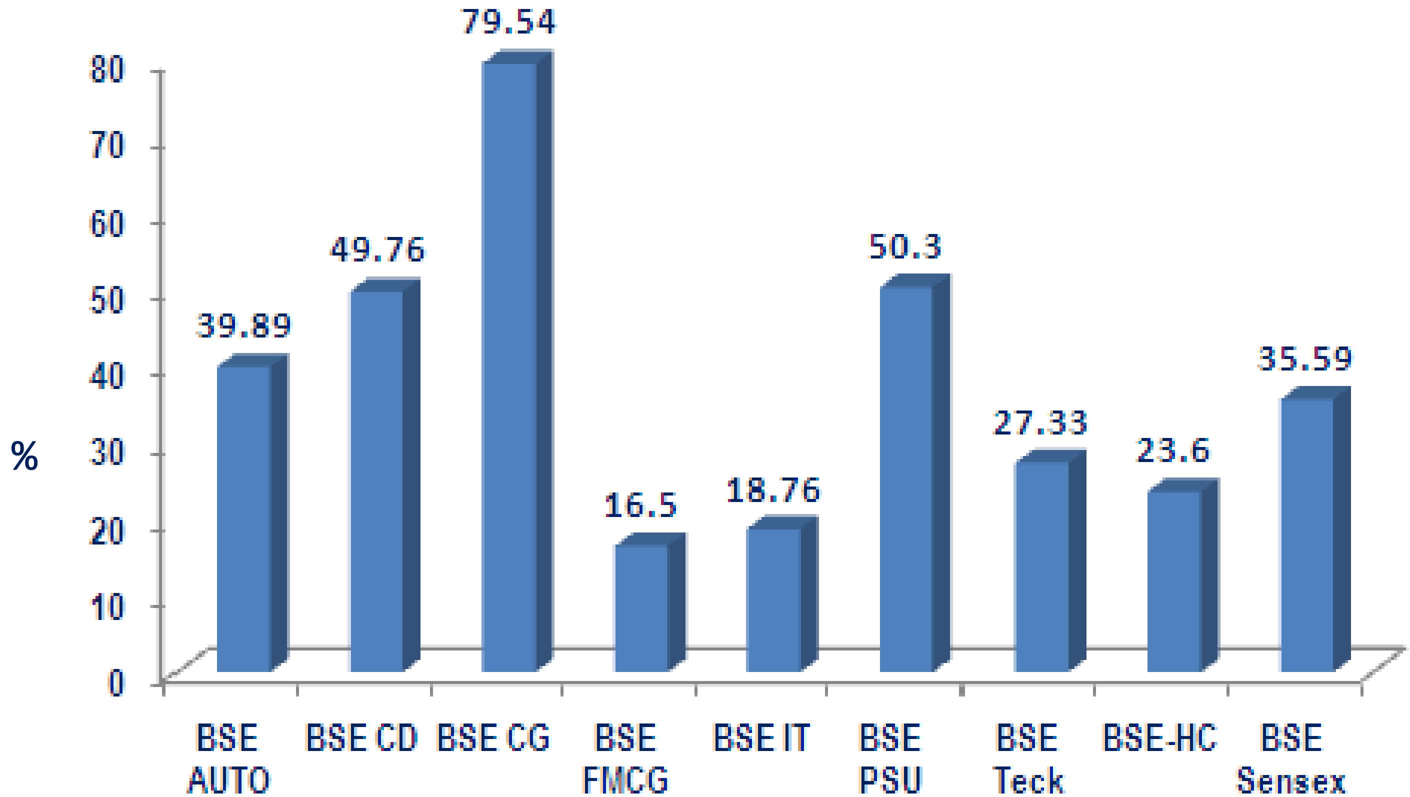
WHAT IS THE OPPOSITE OF VOLATILITY?

PERIOD 2002-2007: SECULAR AND A BULL RUN



ACROSS ALL EQUITY – DIVERSIFIED, ELSS AND SECTOR FUNDS (CAGR):

BEST: +70%; WORST: +20%; AVERAGE: +43%

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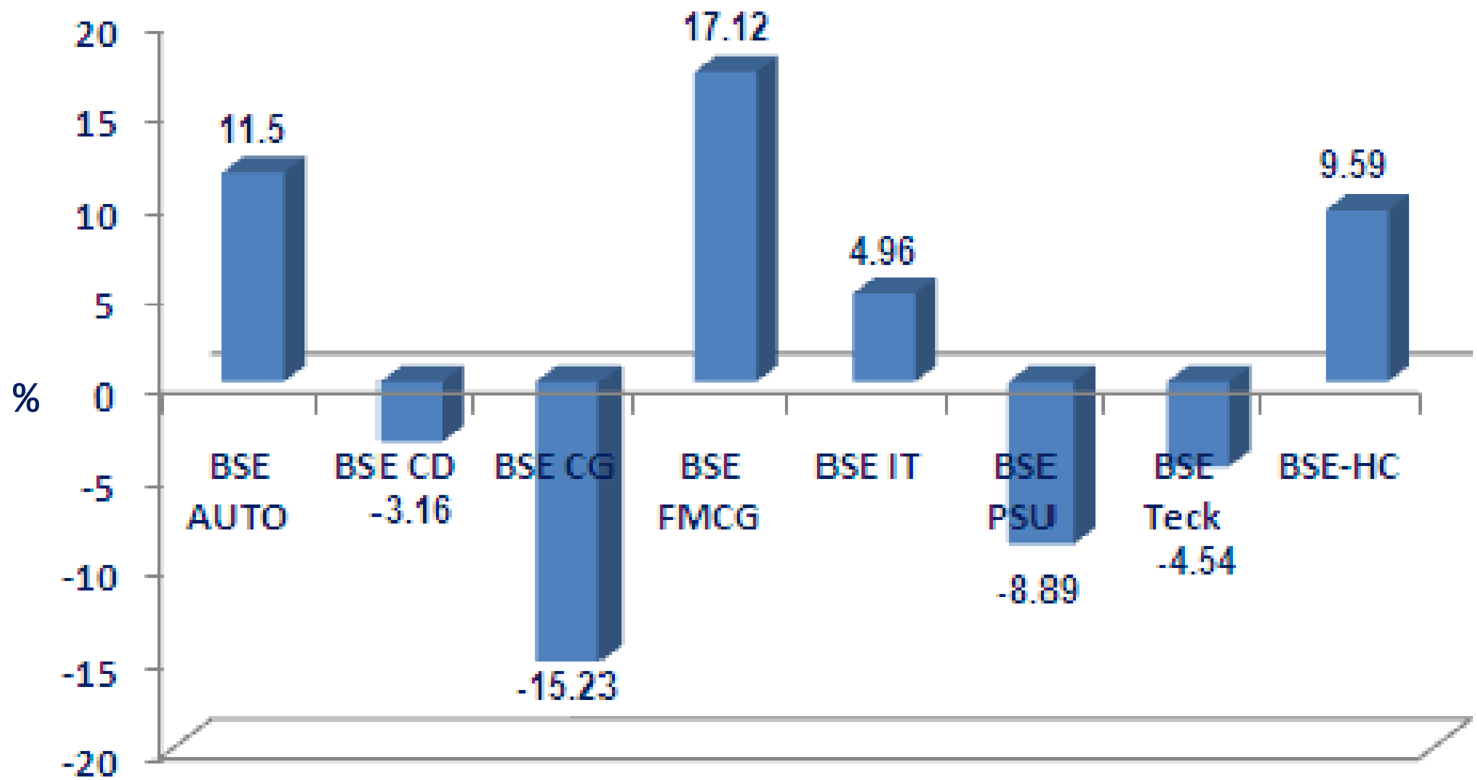
VOLATILITY ≠ SECULARITY

PERIOD 2008 -YTD: VOLATILITY



ACROSS ALL EQUITY – DIVERSIFIED, ELSS AND SECTOR FUNDS (CAGR):

BEST: +15%; WORST: -24.64%; AVERAGE: -4.37%

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WHY MARKETS WILL REMAIN VOLATILE?

Credit Suisse

"Weak macro data, debt crisis driving investors to safe havens. Markets are currently caught between the fear of what could all go wrong in the coming weeks and the anticipation of overwhelming policy response to prevent such Scenarios from unfolding". Nannette Hechler-Fayd'herbe - Head of Global Financial Markets Research.

Russell Investments.

"Volatility, due in many cases to sensational risk stories, will likely remain elevated through most of the year". Mike Dueker, Ph.D. Chief Economist

Goldman Sachs

"In Europe, the sovereign debt crisis worsens almost daily." David Kostin Chief Equity Strategist.

Leading Economists

"The period after any banking crisis will be earmarked with extended periods of Volatility ."Carmen M. Reinhart (lecturer at IMF and World Bank.) & Keneth S. Rogoff (Thomas D. Cabot Professor of economics at Harvard University and frequent commentator for WSJ & FT).

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A CHANGED APPROACH – NEED OF HOUR

- <u>TRADITIONAL APPROACH</u> Execute asset allocation based on client risk profile and return expectation and hold on to investments with periodic rebalancing.

- <u>THE NEW IMPERATIVE</u> VOLATILITY has generated more returns than holding onto assets and hence allocate investments to volatility products that thrive on the interplay between asset classes.

- In the last 5 years holding the asset class has not given returns but <u>'MANAGING VOLATILITY'</u> has given more returns.

CHALLENGES IN VOLATILE MARKETS

NEED TO INFLUENCE INVESTOR BEHAVIOR

– Buying low and selling high demands contrarian behavior amidst volatility

INFLUENCING INVESTOR BEHAVIOR IS VERY DIFFICULT

EXPECTING INVESTORS TO RESPOND TO "MARKET CALLS"? ALLOCATE INVESTMENTS TO MANAGED PRODUCTS THAT TAKE BENEFIT OF VOLATILITY

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ICICI PRU VIEW ON VOLATILITY

The order of the day.

Our market call for more than a year.

Does not mean that markets keep going up or keep going down.

Rallies followed by falls.

INTERVIEW: S NAREN

CIO – EQUITY, ICICI PRUDENTIAL AMC

Capitalise on volatility for returns

Indian equities may have delivered stellar returns this year but volatility will continue to be the order of the day, says S Naren, CIO—equity, ICICI Prudential AMC. Naren tells FE's Ashley Coutinho that moderating inflation, a downward interest rate bias and recovery in some areas of infrastructure construction could provide tailwind to the market in the second half. Excerpts:

The market has run up quite a bit this year. What is your advice to retail investors?

We believe that volatility will continue. Our advice to investors is to maintain their equity asset allocation and aggressively increase weightage on equity in case of triggers such as correction of crude oil prices, improvement in fiscal deficit and action on the interest rate front. The volatility can present investment opportunity and investors can benefit from investing in funds that have the potential to capitalise on volatility. SIP, STP and asset allocation should continue to form the basis of retail investment philosophy.

What are the key positives and headwinds for the market this year?

Factors like moderating inflation, a downward interest rate bias, focus on growth and eventual recovery in some areas like infrastructure and construction could provide some tailwind to the economy and to the market in the second half. The RBI will be better positioned towards a more pro-growth stance this year. The year 2012 will be more about managing growth rather than managing inflation. Increased focus on investment in infrastructure by utilising revenue received through effective taxation, disinvestment and measures to reduce the fiscal deficit will be important to sustain economic growth.

What are your expectations from the Union Budget?

Given the high fiscal scenario, it is imperative that the government takes corrective action towards fiscal prudence in this budget.

Which are the sectors you are bullish on?

We continue to be underweight on consumption-oriented sectors like FMCG due to valuation concerns. Consumption demand combined with a conservative outlook has helped FMCG companies to witness a strong upside over the last three years. The current valuation reduces the upside potential, except in the case of select stocks across the mid-cap space. Sectors such as infrastructure and banking could benefit from a benign global environment and government action on policy reforms and fiscal consolidation. We are also neutral to positive on all export sectors due to the prevailing high trade deficit in India and an improving global scenario.

What are the global cues to watch out for?

The most significant global cue will come from the movement of crude oil prices. The shift in focus of central banks across the globe towards reviving economic growth and the positive macro-economic indicators in the US like the strong GDP growth have helped ease sentiments. Initiatives like the LTRO (longer-term refinancing operations) have helped provide comfort for now. However, the crisis still lingers and the markets will continue to watch global news flow for further direction.

What is your outlook on FII inflows?

The recent surge in FII inflows is due to the LTRO in Europe. It is also because of attractive valuations of domestic companies and high bond yields in debt. In future, liquidity enhancing programmes in the Western world are likely to help emerging markets, including India. Finally, long-term FII flows are determined on the basis of the relative attractiveness of the growth prospects of different nations. If India addresses imbalances like fiscal deficit, roadblocks in project implementation and creates a prudent business environment, we will continue to garner FII flows.

We still believe we are headed for volatility.

Recommending investors and partners to look at products that benefit out of volatility.

By investing in such products, one can generate returns and also limit downside.

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HOW WE MANAGE VOLATILITY?

CALIBRATING EQUITY AND CASH LEVELS USING IN- HOUSE MODEL BASED ON VARIED VALUATION PARAMETERS

VALUATION BASED ALLOCATION ACROSS MARKET CAPS WITH UPPER CAP ON MID & SMALL CAP ALLOCATIONS.

SECTOR WEIGHT-AGE BASED ON A RISK RETURN TRADE OFF. CONSCIOUSLY REMAIN UNDERWEIGHT ON OVER OWNED / FANCIED SECTORS.

PROOF OF THE PUDDING!!!

ICICI Pru Dynamic Fund

Good show during volatility

FUND PICK ICICI PRUDENTIAL DYNAMIC PLAN

Flexible gains

ICICI Prudential Dynamic Plan is a flexi-cap opportunity fund launched in November 2002. The fund has been ranked in the top 30 percentile, that is, either CRISIL Fund Rank 1 or CRISIL Fund Rank 2, of the peer group in the 'Diversified Equity Funds' category under CRISIL Mutual Fund Ranking methodology for 13 of the past 16 quarters. This methodology looks at a fund's performance in the past two years.

Over a longer time frame, the fund has been ranked CRISIL Fund Rank 1 in the 'Consistent Performers - Equity' category for the quarter ended December 2011, wherein the fund entered this category for the first time. The 'Consistent Performers' category ranks those funds which have been

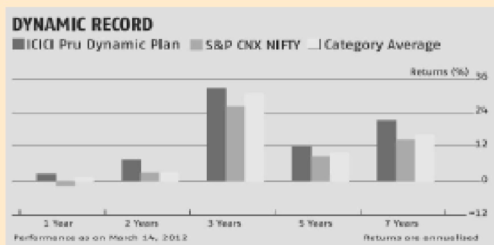
(principal invested of Rs84,000) resulting in annualised returns of 15 per cent. A similar investment in the benchmark would have grown to Rs1,16,958, yielding nine per cent annualised gains.

Risk

The fund has managed to generate higher returns than the benchmark and category while maintaining low volatility over the past five years. The average monthly volatility for the fund over this period was 23 per cent vis-a-vis 27 per cent and 28 per cent for the category and benchmark, respectively. Since inception, the fund has a beta of 0.8 indicating relatively lower risk.

Portfolio analysis

The fund has a well diversified portfolio with



products have helped the fund deliver alpha over the benchmark during the past three years. The fund has chosen to remain underweight on over owned sectors like banks and petroleum products as compared to the category over the past three years.

CRISIL Research

ICICI Prudential Dynamic Plan

Safe Bet

BUY
₹92.73

The equity market has been on a roller coaster ride, with the Sensex touching levels of around 21000 in ...8, then plunging as low ...uncing back to around ...10, only to come down ...6000 thereafter. As is evi-...rket has been very volatile ...few years. At times like ...l scheme like the ICICI ...ynamic Plan, which is a ...pportunities fund, is the ...for investors to be able to ...st of the dynamic changes .... It has the ability to cap-...ide opportunities in the market by adopting a bottom-up fundamental analysis strategy across market capitalisations on a diversified basis, to identify and pick its stocks. On the flip side, it can also adopt an active cash strategy and uses derivatives, which helps mitigate downside risks, as and when the market gets overvalued.

Launched in 2002, the fund has generated CAGR returns of 27.82 per cent. YTD as well as in the last five calendar years, the fund has outperformed both its benchmark as well as its category average five out of six times. The fund underperformed in 2007 on account of cash calls taken, whereas equity market rose sharply that year.

As of October 2011, the fund is fairly diversified, with around 75 to 80 stocks in its portfolio. It has around 14 per cent held in cash. The fund is less volatile as compared to its peers, and offers better risk-adjusted returns, as measured by the Sharpe Ratio.

The ICICI Prudential Dynamic Plan is positioned to protect against any significant downside. However, in substantial bull markets, the fund could underperform its peers. The fund is ideal for investors with a conservative or moderate risk appetite, with a long-term investment horizon in the equity market.

Fund (%)	Category (%)
-16.90	-20.90
-13.77	-18.16
27.55	22.07
8.41	4.47

...e absolute and over 1 year are annualised

FACT-SHEET

AMC	ICICI Prudential Asset Management Co. Ltd.
Structure	Equity Diversified
Investment Option	Growth & Dividend
Exit Load	1% for redemption within 365 days of allotment
Corpus	₹4130.18 crore (30/09/11)
52 Weeks' High/Low	₹111.90 (03/01/11)/ ₹91.63 (05/10/11)
Minimum Investment	₹5000
Benchmark	S&P CNX Nifty
Launch Date	October 2002
Fund Manager/s	Sanjay Parekh, Rajat Chandak

Top Five Holdings (% Of Net Assets As On 31/10/11)	
Reliance Industries	10.33
Infosys Technologies	5.65
ICICI Bank	4.99
Sterlite Industries	4.39
Bharti Airtel	4.37
Total of Ten Holdings	**43.92**

Fund's NAV as well as returns are as of 25/11/2011

(Send your feedback to mf@dsij.in)

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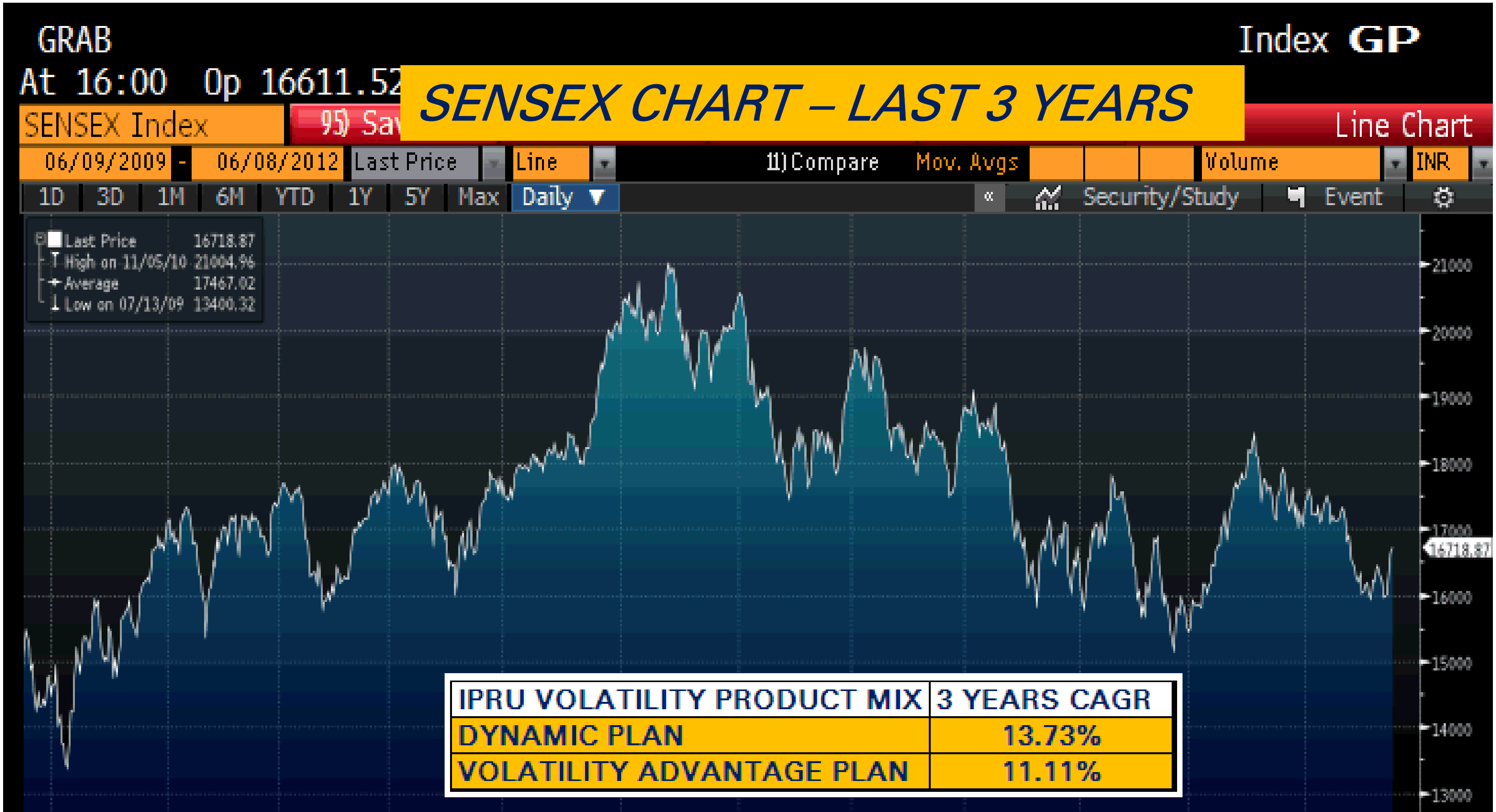
VOLATILITY POST 2008 CRISIS



IPRU VOLATILITY PRODUCT MIX	3 YEARS CAGR
DYNAMIC PLAN	13.73%
VOLATILITY ADVANTAGE PLAN	11.11%

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MYTH & REALITY

INVESTORS NEED CHART BUSTING RETURNS.

THEY NEED STEADY AVERAGE RETURNS ~12%-15%.

CURRENT INVESTOR BEHAVIOUR NOT PROGRAMMED TO GET CHART BUSTING RETURNS – NEED INVESTMENT PRODUCTS TO WORK AROUND

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VOLATILITY IS "THE" ASSET CLASS

- Difficult for investors to grasp and manage as it demands contrarian behaviour – easier said than done

- Advisors need products that manage volatility and thrive in it

- Products that re-allocate away from over-owned expensive assets to value spots and vice versa automatically and produce risk adjusted performance for investors

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DISCLAIMERS

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

All figures and other data given in this document is dated. The same may or may not be relevant at a future date.

Prospective investors are therefore advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of ICICI Prudential Mutual Fund.

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THANK YOU

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