



ABSOLUTE RETURNS PORTFOLIO

Objective

The ICICI Prudential PMS Absolute Return Portfolio endeavours to deliver positive absolute returns with lower volatility across all market conditions by investing in a combination of buy and sale positions

Suitability

The Absolute Return Portfolio may be considered suitable for investors with a medium / high risk appetite and an investment horizon of 18 to 24 months.

Investment Strategy

While stock prices tend to move up and down, in a traditional diversified equity fund the Portfolio Manager only has the option to buy stocks and hence earn returns if stock prices rise. This leads to traditional equity funds delivering high returns in bull markets while earning sub-par / negative returns in bear markets.

The Absolute Return Portfolio provides the Portfolio Manager the flexibility to both buy and sell stocks, and hence earn returns by both stock price appreciation and depreciation. A diversified portfolio comprising both buy and sale positions helps provide the potential for earnings returns in all market conditions as well as reduces return volatility as compared to a traditional equity portfolio.

Over the last decade, the Indian equity markets have provided opportunities to earn returns by both buying and selling stocks, as there have been certain stocks that appreciate and certain stocks that depreciate in all market conditions. The same is visible from an annual analysis of stock performance of BSE 200 stocks over the last decade, which shows that in any given year there has been a fair share of stocks that have either appreciated or depreciated.

Stock Price Movement: BSE 200 Companies

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
BSE 200 Return	-3%	16%	0%	73%	-28%	-25%	17%	88%	19%	33%
Universe	140	146	154	159	163	172	176	181	186	197
No of Positive Returns Stocks	53	78	63	131	37	60	134	181	150	167
No of Negative Returns Stocks	87	68	91	28	126	112	42	0	36	30
Avg. Return of Positive Stocks	29%	49%	96%	137%	46%	31%	73%	171%	62%	58%
Avg. Return of Negative Stocks	-33%	-29%	-29%	-21%	-35%	-33%	-19%	0%	-18%	-18%

Note: The number of stocks in the universe declines historically as some stocks in the current BSE 200 may not have been listed previously

The portfolio aims to capitalize on the fundamental stock picking ability of the Portfolio Manager. The Portfolio Manager will follow a long-term fundamental approach while choosing which stocks to buy and which stocks to sell. The Portfolio Manager will attempt to buy stocks that are reasonably valued in relation to earnings growth, while selling those stocks whose valuations appear to have run ahead of fundamentals. The fundamental stock picking will focus on aspects such as long-term earnings potential, industry dynamics, competitive positioning etc. Various quantitative valuation tools will be used such as price/earnings, price/book, dividend yields, replacement costs etc. Technical and qualitative indicators may also be used while identifying the stocks to buy or sell.

The buy positions would be created by using cash equities, futures and / or options, while the sale positions would be created by the use of futures and / or options. The futures and options may be on indices and / or stocks.

The Portfolio Manager does not attempt to capture market direction, but keeps the flexibility to shift the Portfolio's net exposure (i.e. the value of securities bought less the value of securities sold) depending on which stock opportunities – buy or sale positions – look more attractive at that point in time. At most points in time, the portfolio manager would be close to market neutral with the ratio of buy and sale positions varying in the range of 66% : 33% to 33% : 66%. However, please note that the portfolio manager retains the flexibility to be 100% in buy positions or 100% in sale positions.

While the Absolute Return portfolio endeavours to generate positive returns with lower volatility across all market conditions, it is important to keep in mind the following characteristics of the Absolute Return portfolio:

- Since the portfolio will generally have a mix of both buy and sale positions, the portfolio may underperform a long-only equity portfolio in a strong bull market where most stocks are appreciating in value
- In case of the sale positions, potential losses can exceed the value of the stock sold (i.e. in case the stock price doubles). Appropriate risk control measures such as stop loss limits etc. may be used to minimize risk
- The potential for negative returns arises from (a) a fall in stock price of the basket of buy positions (b) a rise in stock prices of the basket of sale positions

Risk Factors & Disclaimer

The Client shall not make any claim against the Portfolio Manager and shall indemnify and keep indemnified the Portfolio Manager from and against any losses (notional or real) or against any loss of opportunity for gain under various PMS Products including but not limited to Absolute Returns Portfolio, on account of or arising out of such circumstance/ change in market condition or for any other reason which may specifically affect a particular sector or security, including but not limited to disruption/ prohibition/ discontinuation/ suspension of trading in a particular Security including any index or scrip specific futures/ options or due to any act of Company, Market Intermediary by SEBI or any other regulatory authority which may result in trading in such security (ies) being completely or partially affected, to which the Portfolio Manager has taken exposure/ proposed to take exposure and is unable to take additional exposure/ restrain him from taking any position in a particular equity or related derivative instruments etc. due to any reason beyond the control of the Portfolio Manager resulting in unhedged positions or losses due to unwinding of certain positions or losses due to any reason or related to any of the aforesaid circumstances.

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