

# ICICI Prudential AMC

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# MISTAKES OF 2004 - 2007

- ❑ GOING MORE *AGGRESSIVE* AS MARKETS GO UP  
(*ASSET ALLOCATION HAS TO BE COUNTERCYCLICAL*)
- ❑ *SHORT TERM PERFORMANCE* USED FOR ALLOCATION DECISIONS
- ❑ GOING INTO *HOT THEMES*
- ❑ *ONE THEME* BECOMING VERY LARGE IN EVERY PORTFOLIO
- ❑ PEOPLE *IGNORING VALUATIONS*

# WHEN DO YOU KNOW BUBBLE HAS BEEN REACHED

- VALUATIONS NOT CONNECTED TO P/E
- *RECORD COLLECTION* OF MONEY
- STATEMENTS ARE MADE, SUCH AS;

*“VALUE OF JAPAN EMPEROR HOUSE GREATER THAN WHOLE CALIFORNIA REAL ESTATE (1990)”*

*“VALUE OF INFOSYS GREATER THAN MARKET CAP OF CEMENT INDUSTRY (2000)”*

*“VALUE OF DLF GREATER THAN MARKET CAP OF HEALTHCARE INDUSTRY (2007)”*

# WHEN DO YOU KNOW BUBBLE HAS BEEN REACHED

- YOU AND YOUR CUSTOMERS START *VIOLATING ASSET ALLOCATION RULES*
- RETURNS FAR *HIGHER THAN NOMINAL GDP* FOR 2 YEARS IN A ROW
- YOU START *LIKING THEMES* MORE THAN EVERYTHING ELSE
- WHEN *VALUE INVESTING FAILS*
- WHEN *NEW MODELS OF VALUATION* ARE THERE IN NEWSPAPER

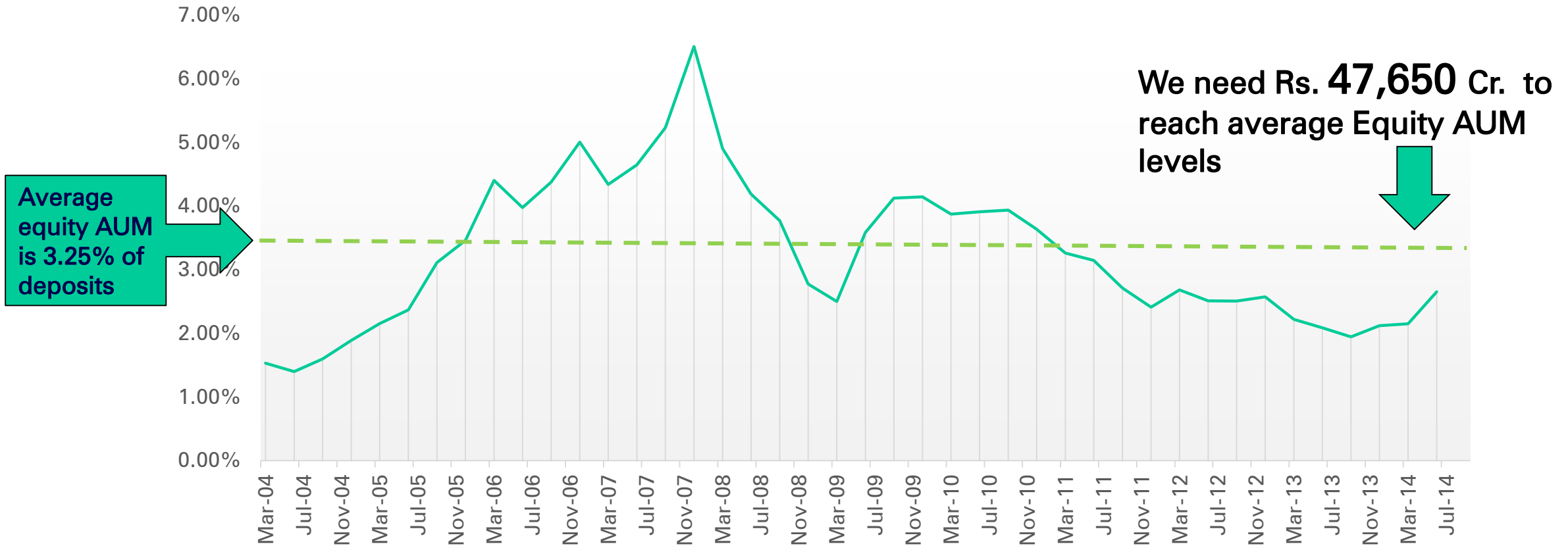
# REMEDY TO SUCH SITUATION

- DON'T *CHANGE STRATEGY* AFTER FAILURE
- KEEP A CHECKLIST ON *WHAT HAS RESULTED IN FAILURE*
- KEEP A CHECKLIST ON *WHAT HAS RESULTED IN SUCCESS*
- KEEP *REVISING* THEM OVER TIME
- DON'T BE A *PERMANENT BULL* OR *PERMANENT BEAR*
- WRITE REASONS ON WHAT WILL *FORCE YOU TO CHANGE VIEW*
- HAVE A PERSON WHO CAN FORCE YOU TO THINK ON *CHANGING YOUR VIEW*
- *YOU CANT BE ALWAYS RIGHT*

# CURRENT SITUATION

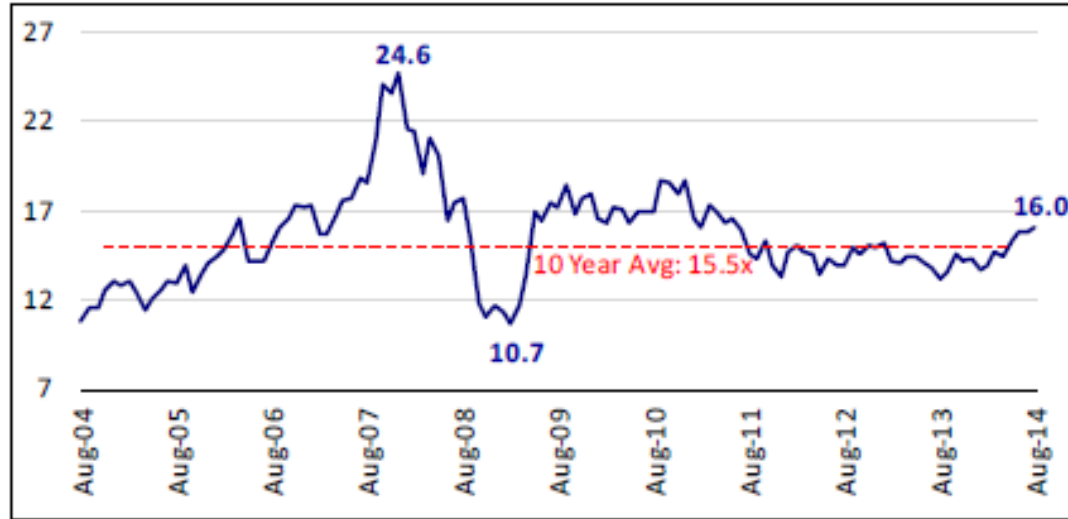
# INVESTORS UNDERINVESTED IN EQUITIES

Equity AUM /Bank Deposits

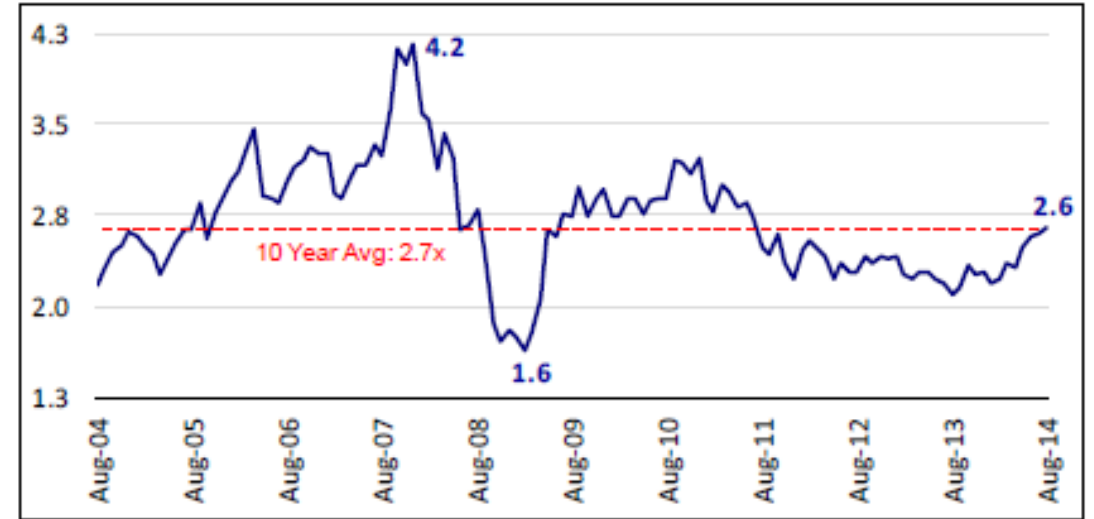


# FORWARD VALUATIONS ARE NEAR LONG TERM AVERAGE

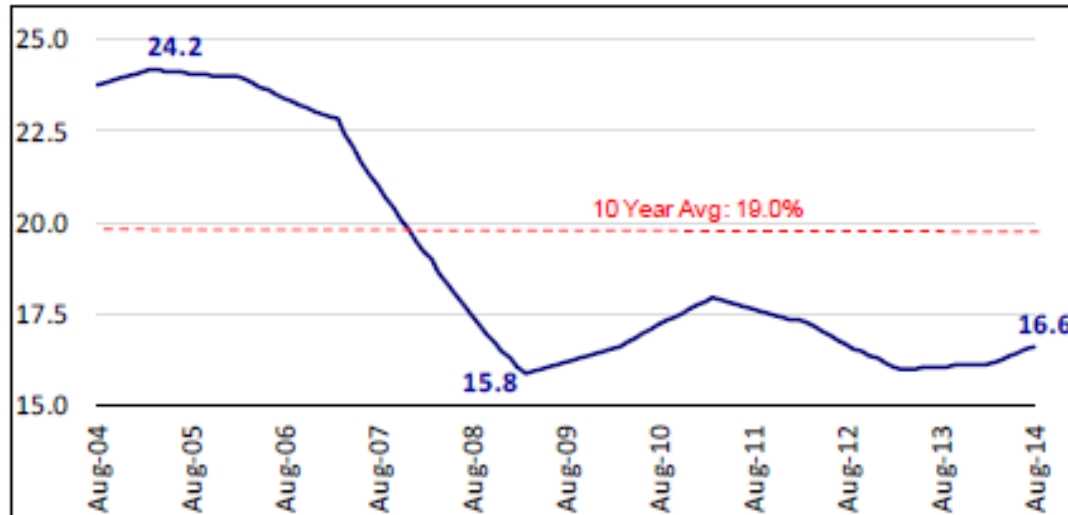
12-month forward Sensex P/E (x)



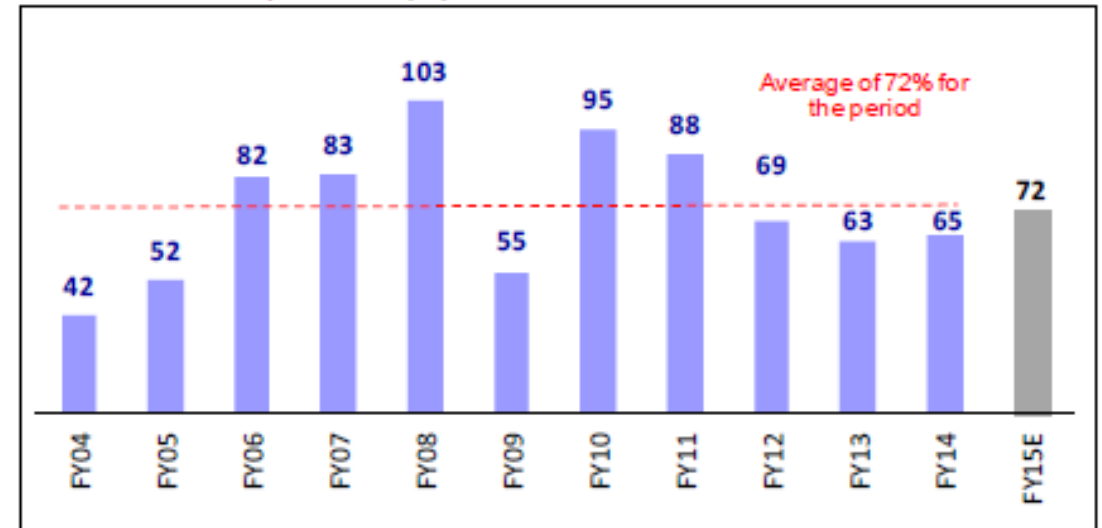
12-month forward Sensex P/B (x)



12-month forward Sensex RoE (%)

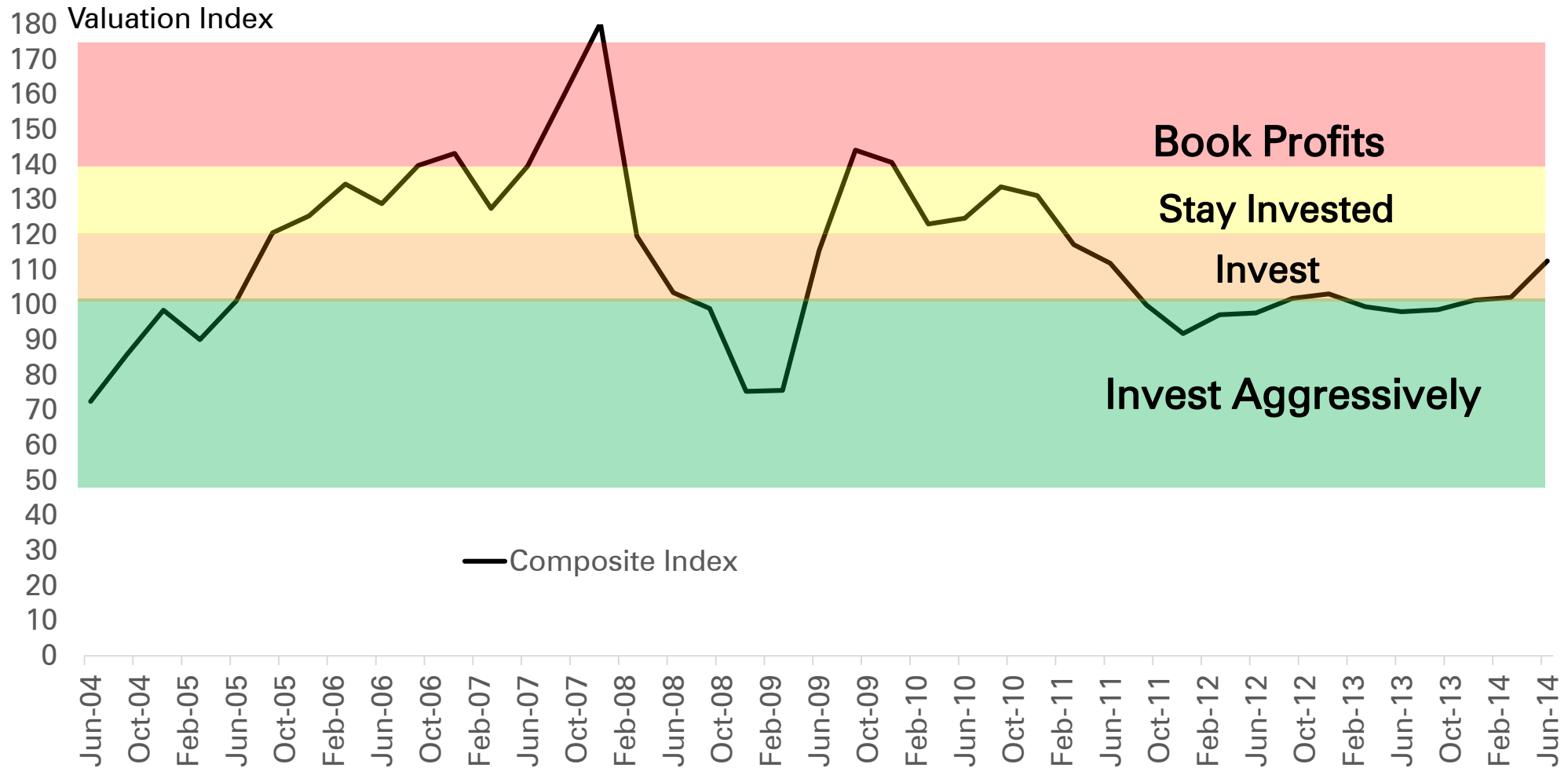


India's market cap to GDP (%)





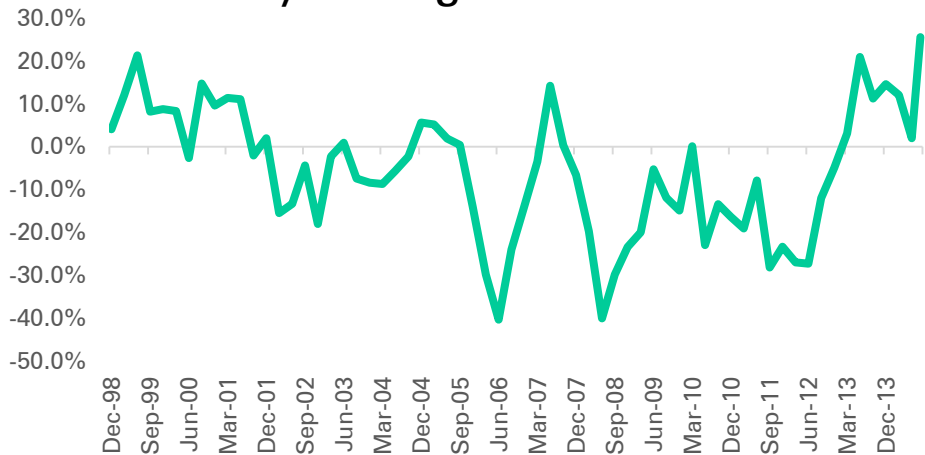
# EQUITY VALUATION– Still far away from peak



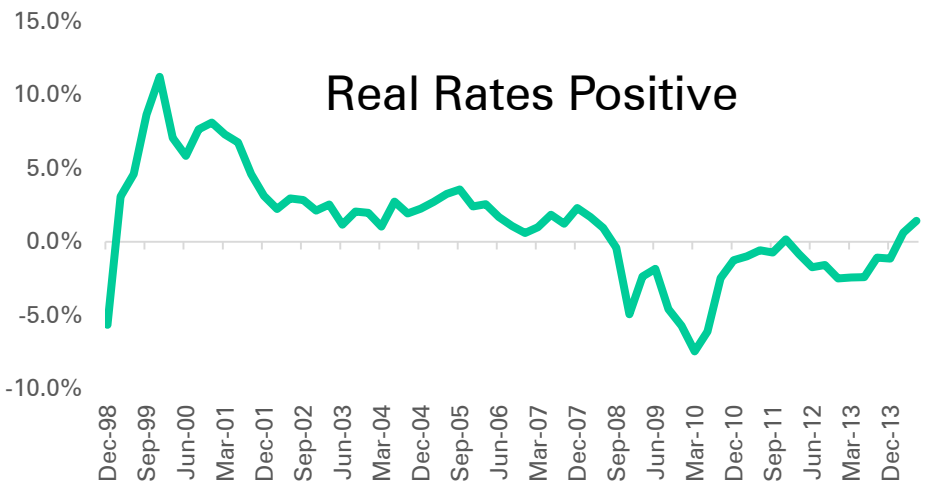
Internal valuation model based on historic P/E, P/B, Market Capitalisation and G-Sec yields

# DEBT FUNDAMENTALS ARE SCREAMING A "BULL RALLY"

Gold Returns vs G-Sec  
G-Sec yield higher than Gold Return



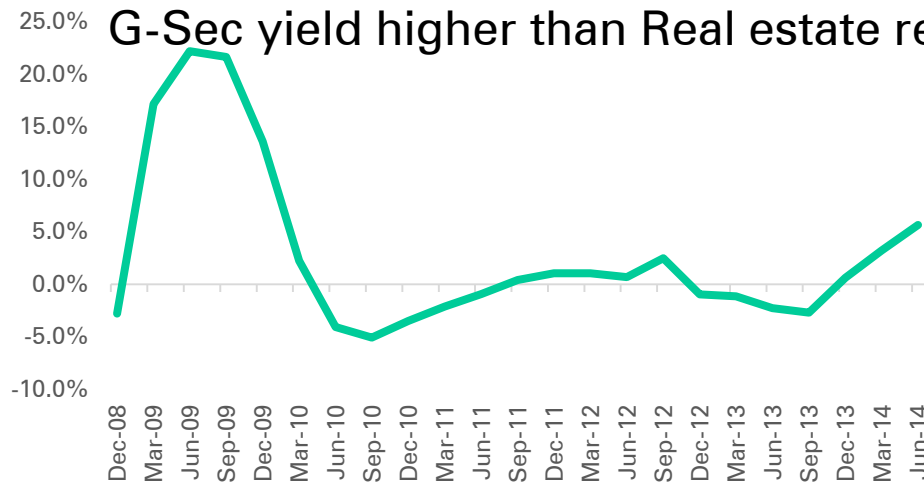
G-Sec vs CPI



Real Rates Positive

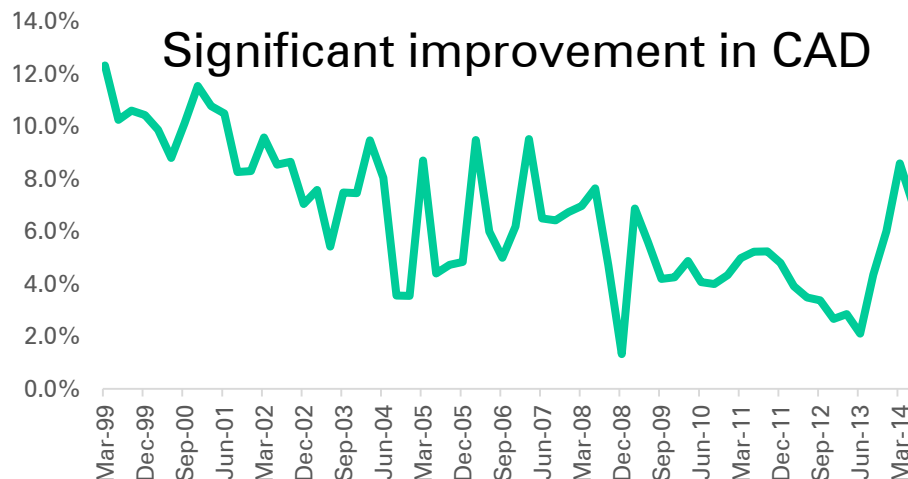
Real Estate vs G-Sec

G-Sec yield higher than Real estate return

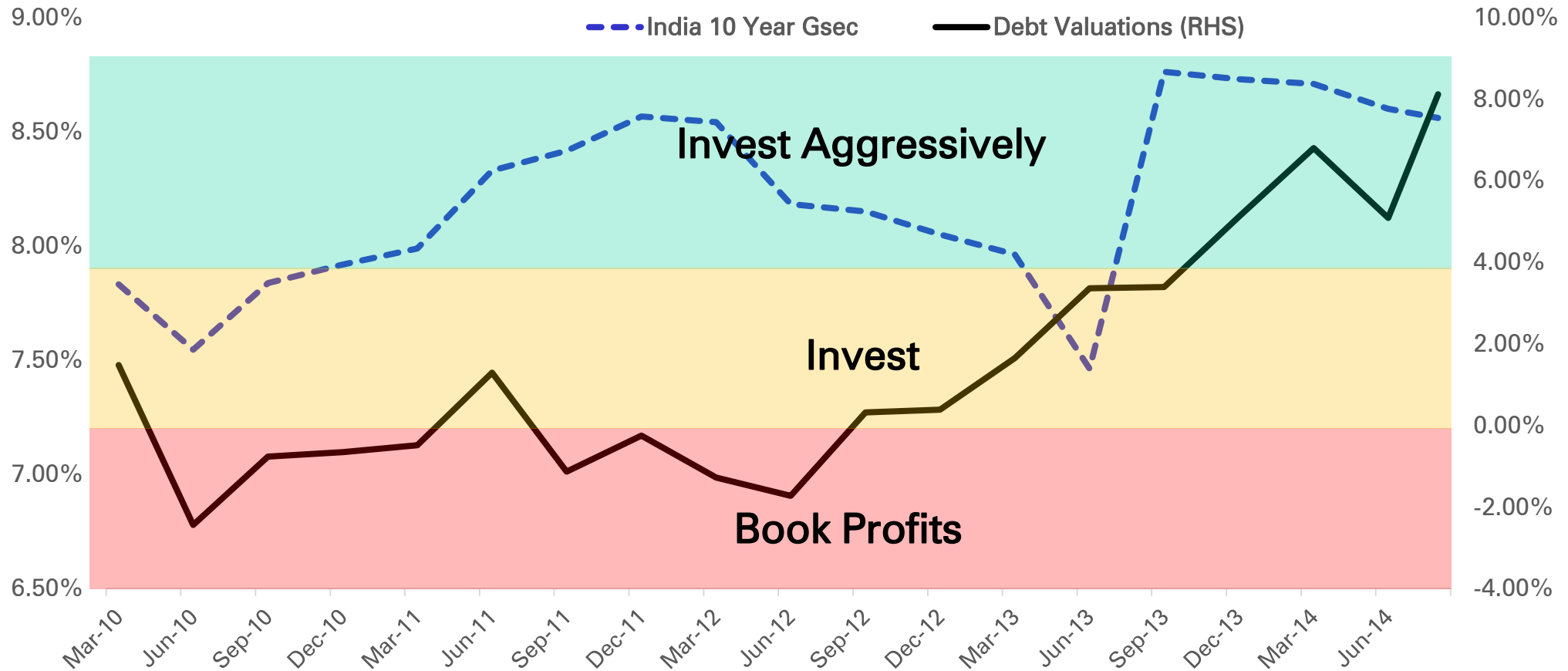


CAD vs G-Sec

Significant improvement in CAD



# DEBT VALUATION – “EXTREMELY ATTRACTIVE”

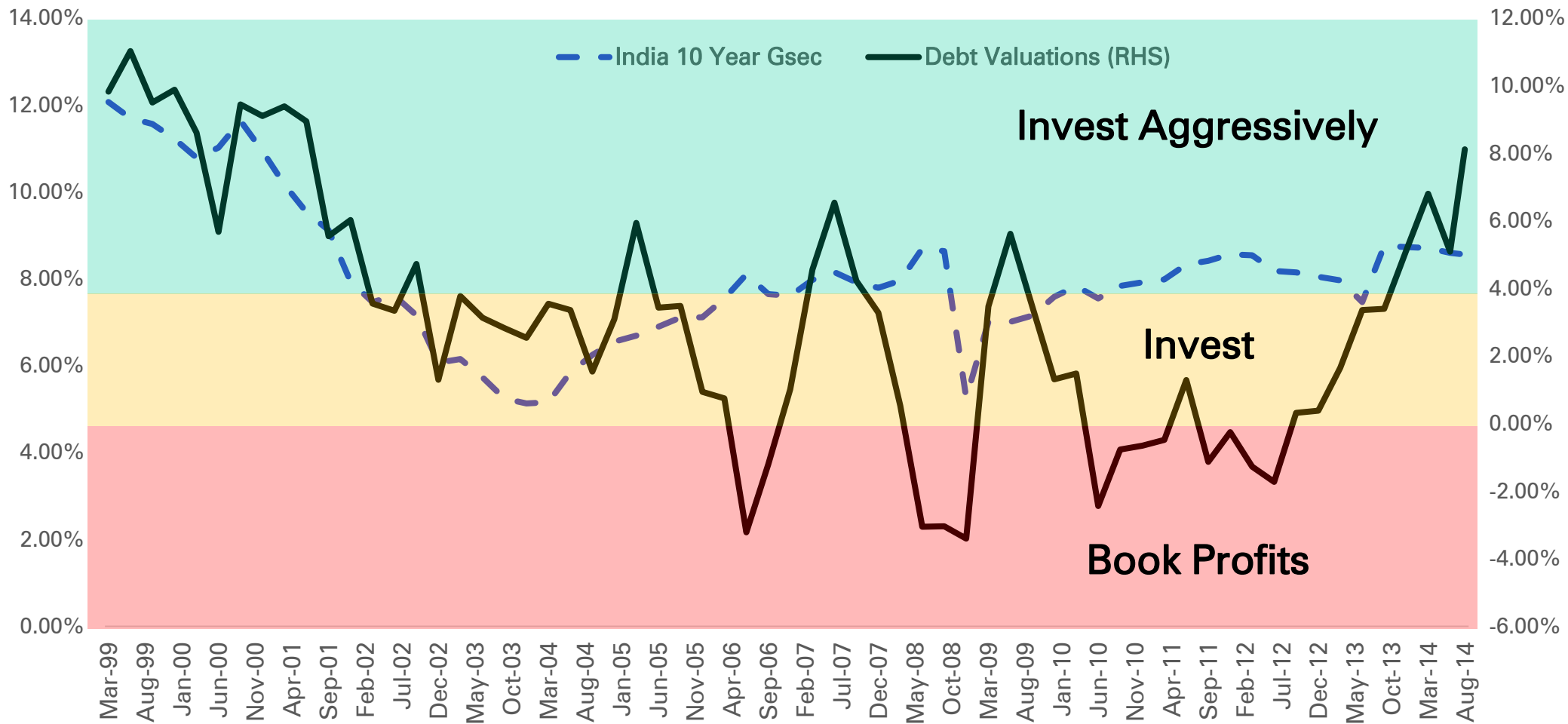


## Debt Valuations are attractive after a long time

Internal valuation model based on G-Sec yields, WPI, CPI, Current Account Deficit, Real estate returns and gold returns



# DEBT VALUATION – “EXTREMELY ATTRACTIVE”



Internal valuation model based on G-Sec yields, WPI, CPI, Current Account Deficit, Real estate returns and gold returns



# CONCLUSION: “CAUTIOUSLY BULLISH” ON EQUITIES

- We believe that equities will generate moderate returns i.e returns closer to earnings growth over next 3 years
- For lump-sum investments we recommend:
  - ICICI Prudential Dynamic Plan
  - ICICI Prudential Balanced Advantage Fund
  - ICICI Prudential Balanced Fund
- For Aggressive Investors we recommend:
  - ICICI Prudential Target Returns Fund
  - Infrastructure, Banking and Midcap Funds
- For SIP investments we recommend:
  - ICICI Prudential Value Discovery Fund
  - ICICI Prudential Focused Bluechip Equity Fund

# CONCLUSION – “*EXTREMELY BULLISH*” ON DEBT

- This is a sweet spot for debt fund investing as 3 year view on fixed income from here on is extremely positive
- Top Recommendations:
  - ICICI Prudential Income Plan
  - ICICI Prudential Constant Maturity Gilt Fund
  - ICICI Prudential Long Term Plan
  - ICICI Prudential Long Term Gilt Fund
- For Conservative Investors
  - ICICI Prudential Regular Savings Fund
  - ICICI Prudential Corporate Bond Fund

**Thank you**

# Disclaimer

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

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