SPREADING RISKS:

The Peruvian Farmers' Secret to Crop Yields

ICICI PRUDENTIAL MUTUAL FUND

The Charm of Shifting Microclimates

Imagine standing on a land enveloped by rain, droplets of water hanging like jewels on the grass and the air filled with cool breeze. However, as you walk to the next plot of land, which is a short distance away, the climate transforms – the air turns hot and the earth beneath feels sun-baked.

Are you wondering if such a place exists? Indeed, it does!

Cuyocuyo, situated in Peru, experiences shifting microclimates. The region has breathtaking view of the Andes mountains, rivers and valleys at different elevations – this landscape influences weather patterns due to which, while one parcel of the land experiences rainfall throughout the year, another plot may have dry climate.

The Dilemma of the Peruvian Farmers

Be it excessive rainfall or heatwaves, sudden changes in temperature affected the growth of crops. As weather conditions became increasingly unpredictable, farmers had to find a solution for productive crop yields.

Spreading Risks: Field Scattering to the Rescue

Farmers began sowing seeds across multiple smaller fields spread across the region instead of farming in a single area.

For instance, primary crops like potatoes and fava beans were cultivated at elevations ranging from 3400 to 4100 meters. Meanwhile, at lower elevations with a moderate climate, farmers grew crops, such as maize, suitable to those conditions.

Reaping the Benefits of Risk Management

01 Reduces the risk of total crop failure

Farmers in Cuyocuyo, plant in more than twenty separate fields scattered around the mountain regions in Peru, which reduces the risk of losing the entire harvest in case one region is impacted.

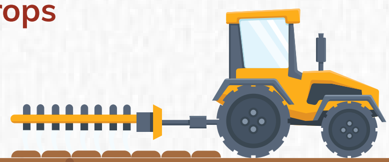
02 Enhances the overall productivity

Field scattering allows farmers to maximize the use of natural resources by planting crops best suited to the specific environment.

03 Sustain Livelihoods

Diversification of crops leads to multiple harvests, supporting the income levels of farmers.

Across the lands of Cuyocuyo, diversification became the cornerstone of successful agricultural practices – a technique of spreading crops across different plots to minimize the risk of loss.



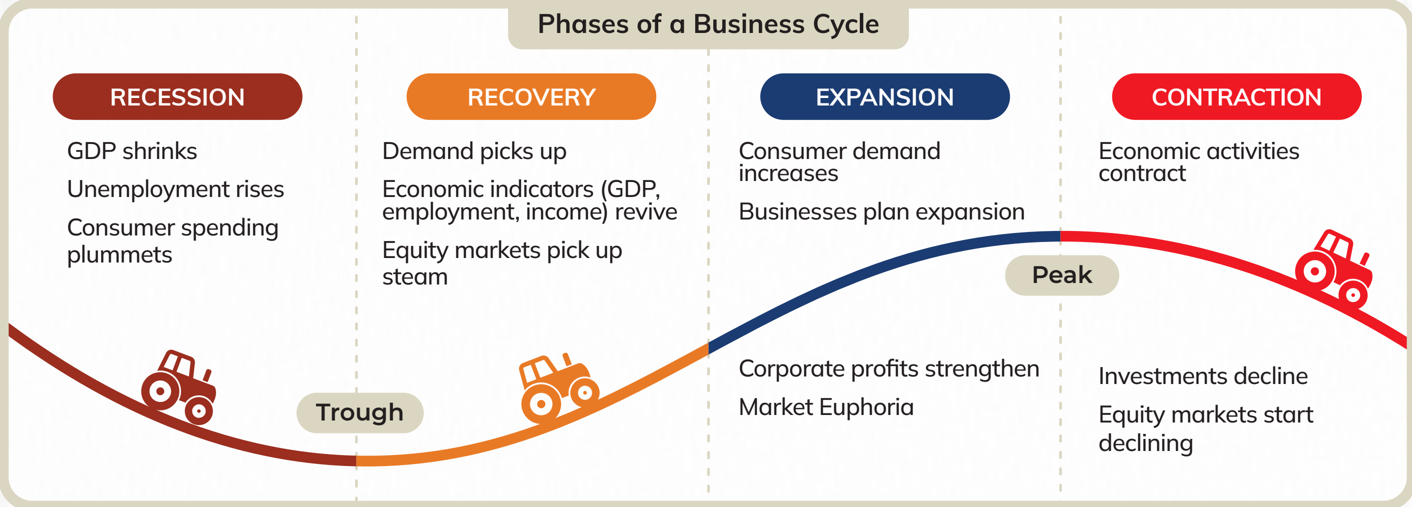
Just as how weather can shift in the blink of an eye from warm, golden rays over the hills to stormy conditions, markets are inherently volatile and unpredictable.

Diversifying your portfolio across different asset classes, such as Equities, Fixed-income Instruments, Gold and Real Estate could reduce the overall portfolio risk and enhance the return potential.

The Need to Diversify like the Peruvian Farmers

1. Your Portfolio goes through Different Environments:

Just as how Peruvian crops are exposed to diverse climatic conditions, your portfolio also goes through different phases of an economic cycle. Say, your portfolio is focused only on Debt market instruments, it may not perform during economic growth periods when equity markets start rising.



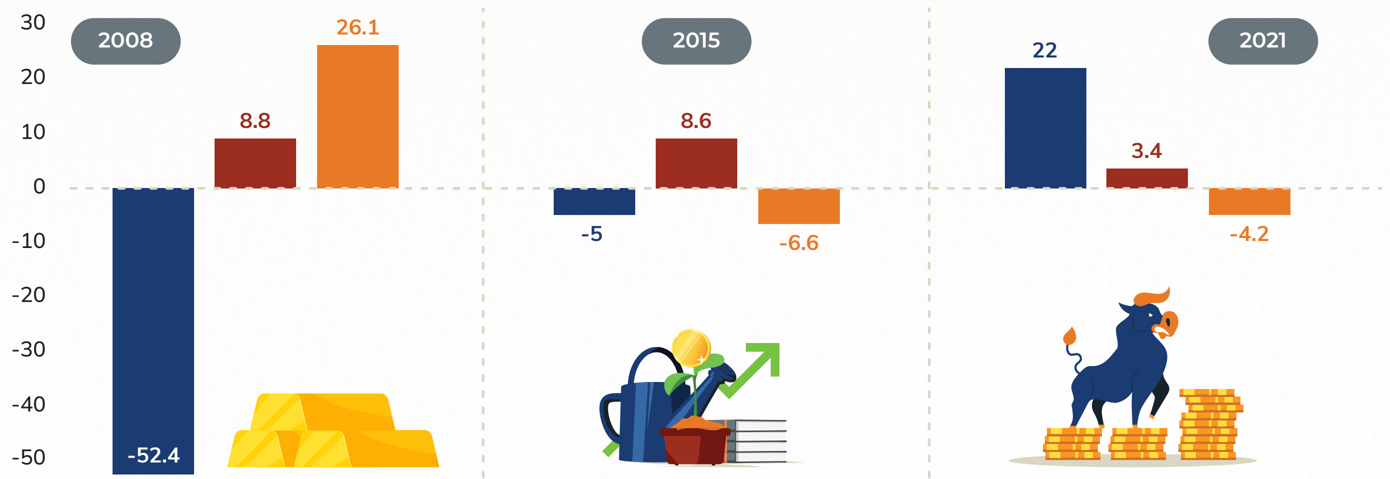
Note: This diagram is for illustration purpose. GDP: Gross Domestic Product. Trough is where the demand and supply factors are at the bottom. Peak is where the maximum level of growth is attained.

2. The Benefit of Investing in Asset classes with Low-correlation:

When planting seeds, the Peruvian farmers wisely selected plots that were not connected to each other so that if one plot faces adverse conditions, the other would thrive.

Similarly, investing in different asset classes with low or negative correlation could be an effective strategy as when one asset class underperforms, the other would balance the portfolio.

Illustration: Performance of Asset Classes (%)



The BSE Sensex plunged 52% in 2008 due to the Global Financial Crisis. During this period, Investors found solace in the relative stability of Gold.

In 2015, bond market was the lead performer. Stock markets tanked on concerns around a slowing Chinese economy.

In 2021, economies began to recover from the pandemic with introduction of vaccines. While the BSE Sensex delivered 22% returns with a resumption of economic activities, Gold forayed in the negative territory.

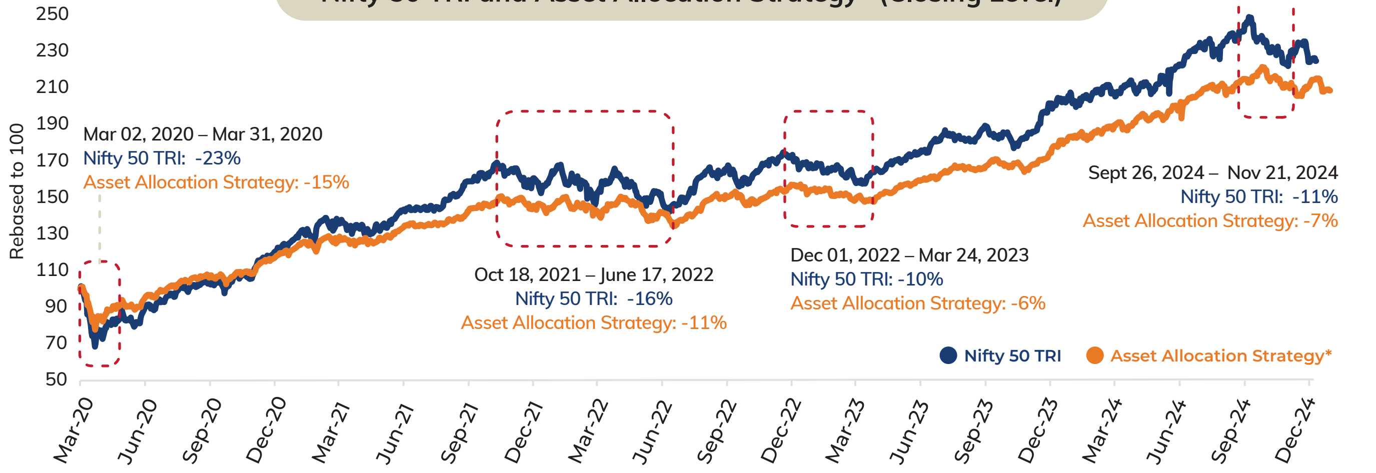
● BSE Sensex Returns (%) ● CRISIL Composite Bond Fund Index ● Gold Returns %

Source: MFI Explorer; Calendar year returns. Returns mentioned are in terms of CAGR. For calculating returns of Gold, MCX prices are considered. For Equity Returns: BSE Sensex values are considered. For Debt Returns: CRISIL Composite Bond Fund Index values are considered. Returns are calculated on absolute basis. Past performance may or may not be sustained in future. Pandemic refers to Covid-19. MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html

3. Diversification reduces the impact of the market fall and enhances the return potential:

Like the wavering climatic conditions in Cuyocuyo; markets experience clouds of uncertainties led by Financial Crisis, Geopolitical conflicts and black-swan events like the Covid-19 pandemic. Based on research, an Asset Allocation strategy tends to fall lesser during market downturns compared to a portfolio concentrated on Equity. When the economy was trapped in the pandemic woods in 2020, the Nifty 50 TRI corrected significantly by 23% in March 2020; whereas, the Asset Allocation strategy demonstrated greater resilience with a lesser correction of 15%.

Nifty 50 TRI and Asset Allocation Strategy* (Closing Level)



Source: MFI Explorer; ICICI Prudential AMC Internal Research, Data as on December 31, 2024. Nifty 50 TRI is considered. TRI – Total Returns Index. Past performance may or may not be sustained in the future. *The Asset Allocation Strategy is Nifty 200 TRI (65%) + Nifty Composite Debt Index (25%) + Domestic Price of Gold (6%) + Domestic Price of Silver (1%) + iCOMDEX Composite Index (3%). MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html.

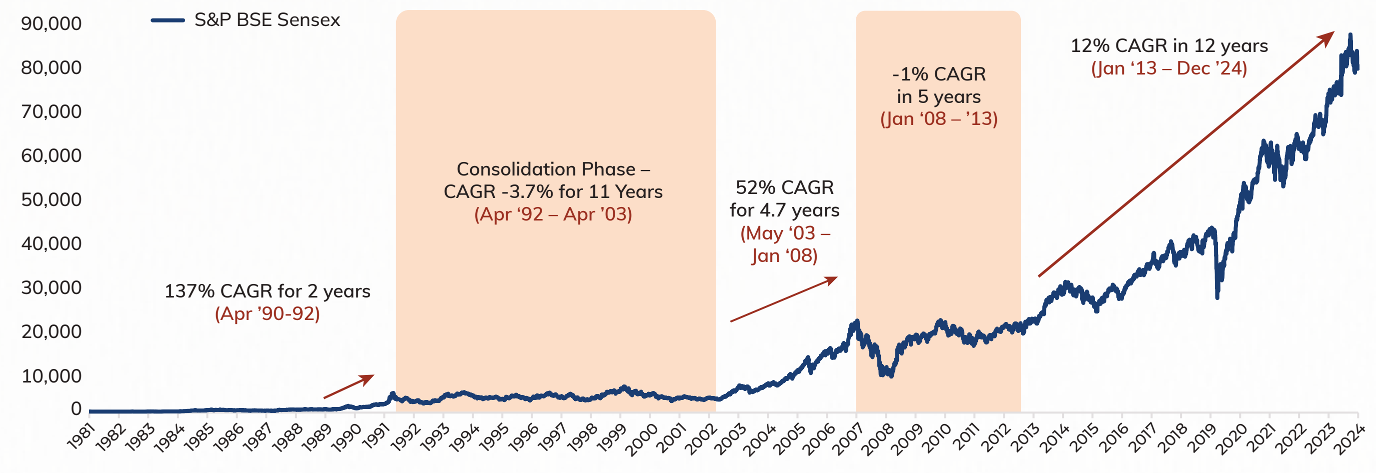
After looking at the broader picture, let's delve into individual asset classes and the performance across different cycles.

01 Equities - The Powerhouse of the Portfolio

Equity is often seen as the powerhouse of a portfolio as it aims to provide growth and play the role of a potential wealth creator. This asset class tends to perform during economic recovery periods when the Gross Domestic Product (GDP) is healthy, consumer demand picks up steam and businesses begin to scale their operations.

However, the path of Equities is not always a smooth upward climb – When the bulls and bears engage in a fierce tug of war, this asset class may experience a prolonged consolidation phase. Stock prices are likely to fall during market downturns when economic activities weaken.

S&P BSE SENSEX



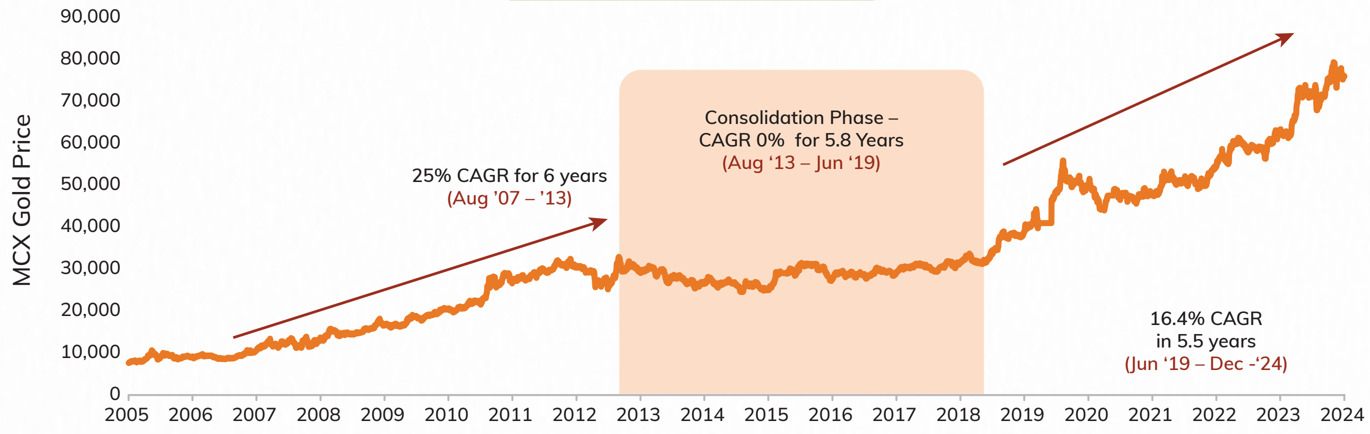
Source: BSE. Data as on December 31, 2024. Source: MFI Explorer; MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html Data shows price returns index values of BSE Sensex index. Past performance may or may not sustain in future. S&P BSE Sensex shall now be read as BSE Sensex.

02 Gold – The Knight in the Shining Armour amidst global uncertainties

India's love affair with Gold persists – the yellow metal is not only a symbol of prosperity but also acts as a potential hedge against market uncertainties such as geopolitical risks. This is evident from the surge in gold prices since the latter half of 2022 when central banks bolstered their gold reserves amidst the flaring Russia-Ukraine war.

The Gold reserves of India increased from 760.42 tonnes in Q1 2022 to 853.63 tonnes in Q3 2024 as the central bank diversified its foreign exchange reserves in the face of global setbacks.*

MCX Gold Price (₹/10 gms)



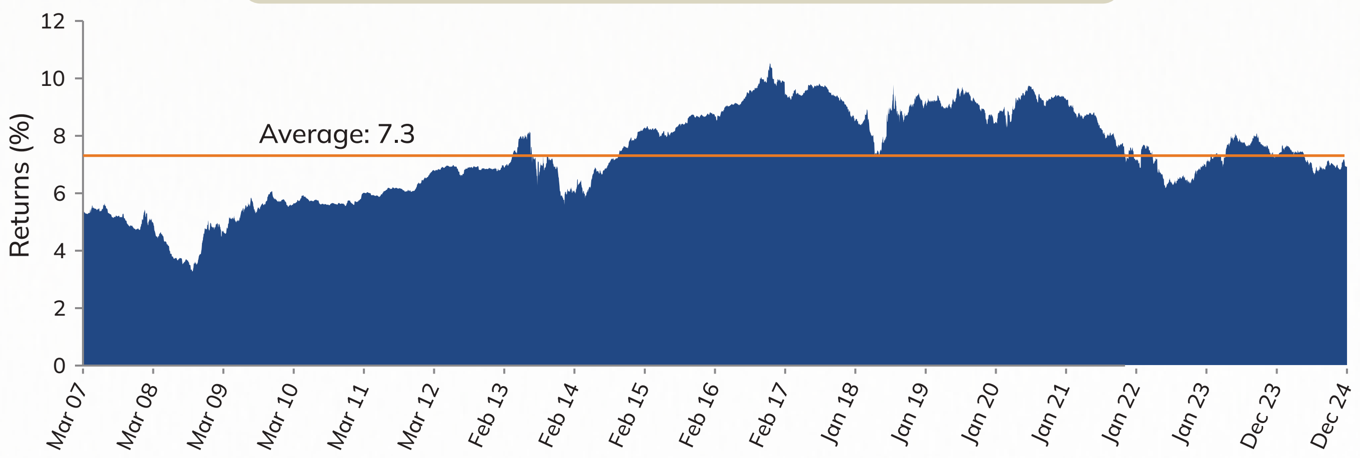
Data Source: MCX Gold. Data as on December 31, 2024. Past performance may or may not sustain in future. *World Gold Council, Q: Quarter. Gms: Grams

03 Fixed Income Securities – Striking a Balance with Reasonable Stability

Investors with a high-risk appetite often chase high returns, allocating more money to stocks. However, while building a portfolio, one should not overlook the significance of fixed income investments in maintaining a well-balanced portfolio.

Historically, when stock markets plummet, fixed income securities such as bonds, tend to gain ground, providing reasonable stability to the portfolio with the capacity to generate regular cash flows.

CRISIL Composite Bond Fund Index - 5 Year Rolling Returns (%)

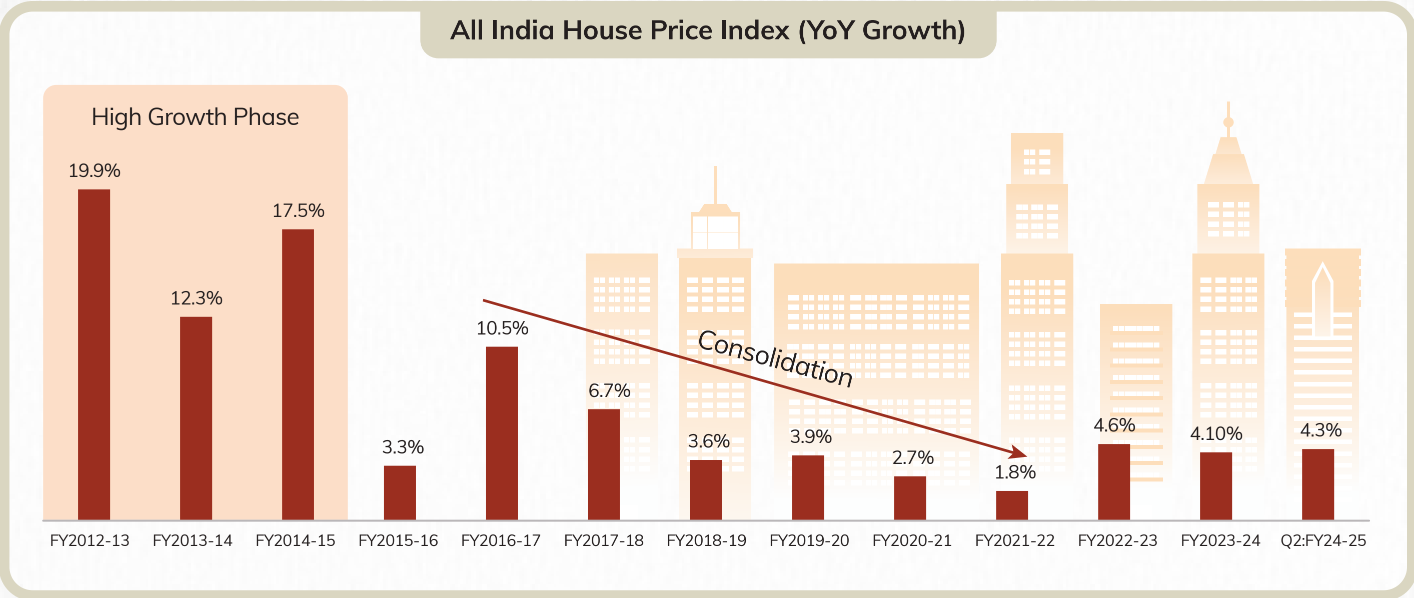


Source: ACEMF; Data as on December 31, 2024. Past performance may or may not sustain in future and is not a guarantee of any future returns.

04 Real Estate Assets – Enhancing Potential Yields

The demand for housing and commercial spaces rises with an increase in the cost of living, driving the value of properties upwards. Real estate assets could produce stable cash flows through rental properties, facilitating a long-term growth opportunity. This blend of consistent income and the potential for capital appreciation with lesser correlation to other asset classes adds the flavor of diversification to the portfolio.

The All-India Housing Price Index (HPI), an important economic indicator published by the Reserve Bank of India (RBI) to track changes in residential property prices across major cities in India, picked up to 4.3% in Q2:FY24-25.



Source: Reserve Bank of India (RBI). Past performance may or may not sustain in future. Data as on June 30, 2024, RBI press release as on November 2024

Food for Thought - **Risk from a different lense**

Howard Marks described diversifying risks with an interesting story:

"I tell my father's story of the gambler who lost regularly.
One day he hears about a race with only one horse in it, so he bet the rent money.
Halfway around the track, the horse jumped over the fence and ran away."

This event taught the gambler an invaluable lesson:
Even the most certain situations can lead to Unforeseen Outcomes.

Presenting Our Asset Allocation /Hybrid/ Fund of Funds schemes that can invest in various asset classes

Scheme	Net Equity Range	Asset Class			Taxation
		Equity	Debt	Gold	
ICICI Prudential Equity & Debt Fund	65-80%	✔	✔		Equity
ICICI Prudential Multi-Asset Fund	10-80%	✔	✔	✔	Equity
ICICI Prudential Balanced Advantage Fund	30-80%	✔	✔		Equity
ICICI Prudential Equity Savings Fund	15-50%	✔	✔		Equity
ICICI Prudential Asset Allocator Fund (FOF)^	0-100%*	✔	✔	✔	12.5% Taxation with 24 months holding period

Data as on December 31, 2024. The net equity exposure is calculated net of stock futures and options (Notional Exposure of Index Put Options only). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information document of the scheme. Please refer to the SID for investment pattern, strategy and risk factors. The asset allocation and investment strategy will be as per Scheme Information Document. ^Investors may please note that they will be bearing the recurring expenses of this Scheme in addition to the expenses of the underlying Schemes in which this Scheme makes investment.*Please note that total Non Debt Allocation of the scheme will be 35-100%. Non Debt allocation includes Equity & Gold. Consult your tax advisor for further details on taxation and applicability based on your tax structure and regime. FOFs: Fund of Funds.

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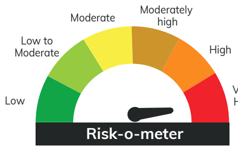
Disclaimers and Riskometers

ICICI Prudential Equity & Debt Fund (An open ended hybrid scheme investing predominantly in equity and equity related instruments) is suitable for investors who are seeking*:

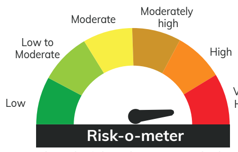


The risk of the scheme is very high

- Long term wealth creation solution
- A balanced fund aiming for long term capital appreciation and current income by investing in equity as well as fixed income securities

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

ICICI Prudential Balanced Advantage Fund (An open ended dynamic asset allocation fund) is suitable for investors who are seeking*:

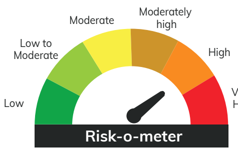


The risk of the scheme is very high

- Long term capital appreciation/income
- Investing in equity and equity related securities and debt instruments

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

ICICI Prudential Asset Allocator Fund (FOF)^ (An open ended fund of funds scheme investing in equity oriented schemes, debt oriented schemes and gold ETFs/schemes) is suitable for investors who are seeking*:

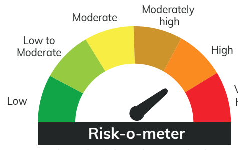


The risk of the scheme is high

- Long term wealth creation
- An open ended fund of funds scheme investing in equity oriented schemes, debt oriented schemes and gold ETF/schemes

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

ICICI Prudential Multi-Asset Fund (An open ended scheme investing in Equity, Debt and Exchange Traded Commodity Derivatives/ units of Gold ETFs/units of Silver ETFs/units of REITs and InvITs/Preference shares) is suitable for investors who are seeking*:

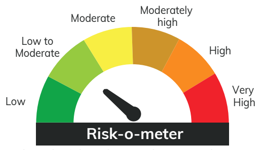


The risk of the scheme is high

- Long Term Wealth Creation
- An open ended scheme investing across asset classes

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

ICICI Prudential Equity Savings Fund (An open ended scheme investing in equity, arbitrage and debt) is suitable for investors who are seeking*:



The risk of the scheme is low to moderate

- Long term wealth creation
- An open ended scheme that seeks to generate regular income through investments in fixed income securities, arbitrage and other derivative strategies and aim for long term capital appreciation by investing in equity and equity related instruments

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

Please note that the Risk-o-meter(s) specified above will be evaluated and updated on a monthly basis. The above riskometers are as on December 31, 2024. Please refer to https://www.icicipruamc.com/news-and-updates/all-news for more details. ^Investors may please note that they will be bearing the recurring expenses of this Scheme in addition to the expenses of the underlying Schemes in which this Scheme makes investment.

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

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