THE COST OF DELUSION

This story is based on a Japanese Army Officer who remained on a Philippines island for 29 years, refusing to believe that World War II ended.

Mission: To Destroy the Lubang Airfield & Harbour located in the Philippines

Trained as an Army Intelligence Officer, **the Japanese soldier led guerrilla warfare operations** on the Lubang Island in December 1944.
The commanding officer gave him clear instructions: **Under no circumstances was he to surrender or give up his life.**

Enemy Forces Took Control of the Island

Within a few weeks, the army of the opponent country attacked the Japanese army, forcing them to retreat. When the enemy troop captured the island in February 1945, **only the Japanese soldier and three of his fellow soldiers survived.**

Denial that Japan lost the War

In October 1945, the soldiers received a leaflet stating that the war ended on August 15, 1945. Further, they received letters from their families, urging them to surrender – **However, they believed that it was a trap planted by enemies; a tactic used to lower the opponent's morale during a war.**

Time in the Hiding

While surviving on bananas, coconuts and stolen rice, **the soldiers continued to execute guerrilla activities and attack villagers whom they mistakenly assumed to be enemies.**

The Commanding officer reached the hideout to reverse his orders

By February 1974, the Japanese soldier was left alone on the island, awaiting orders from his commanding officer.

He finally surrendered in March 1974 when the commanding officer reached the Philippines to convince him that the war ended with the defeat of Japan.

The above images are for representation purpose only.

The Trap of a One-Side Perspective

Despite multiple indications about the end of the war, the soldier clung to his belief that Japan could not possibly lose. Rather than probing, he disregarded the information as an enemy propaganda typically observed on a battlefield.

This phenomenon is often seen in the world of investing: Confirmation bias, where investors hold onto their preconceived notions and focus on information aligned to their beliefs, turning a blind eye to any contradictions.

Confirmation Bias in the Investment Landscape: Equity as an Asset Class with a Pinch of Salt

Equities are often hailed as the powerhouse of a portfolio with the potential to generate capital appreciation over the long term. The below performance table indicates that the BSE Sensex delivered positive returns in every calendar year since 2016, including the year 2020 battered by the Covid-19 pandemic.

The allure of Equities may leave investors with the burning question – 'If the BSE Sensex consistently provides positive returns each year, why consider other asset classes such as bonds and gold?'

BSE Sensex

Date	Returns (%)	Closing Level
31-Dec-24	8.12	78139.01
29-Dec-23	18.79	72240.26
30-Dec-22	4.45	60840.74
31-Dec-21	21.99	58253.82
31-Dec-20	15.75	47751.33
31-Dec-19	14.38	41253.74
31-Dec-18	5.87	36068.33
29-Dec-17	27.98	34056.83
30-Dec-16	1.95	26626.46

Source: BSE Sensex. MFI Explorer. Calendar year returns. The MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html. Past performance may or may not sustain in future.

Once upon a Time

ICICI PRUDENTIAL MUTUAL FUND

Breaking Confirmation Bias with the Truth:

- **Remember the Japanese soldier who was in the delusion that the war was still being fought despite evidence of Japan's defeat? This serves as a reminder that investors should not hold onto the assumption that the markets would yield positive returns every year.**
- **It's a no brainer that Equities and market volatility are inherently intertwined – The BSE Sensex performance captured over the past few years does not depict the complete picture. For instance, in 2008, the BSE Sensex slumped 52%, foraying into the negative territory, as the Global Financial Crisis engulfed the markets.**
- **Equities as an asset class has been a major driver for wealth creation for investors over the long term. However, one should remember that it comes with intermittent volatility.**

Why are Equity Markets currently volatile?

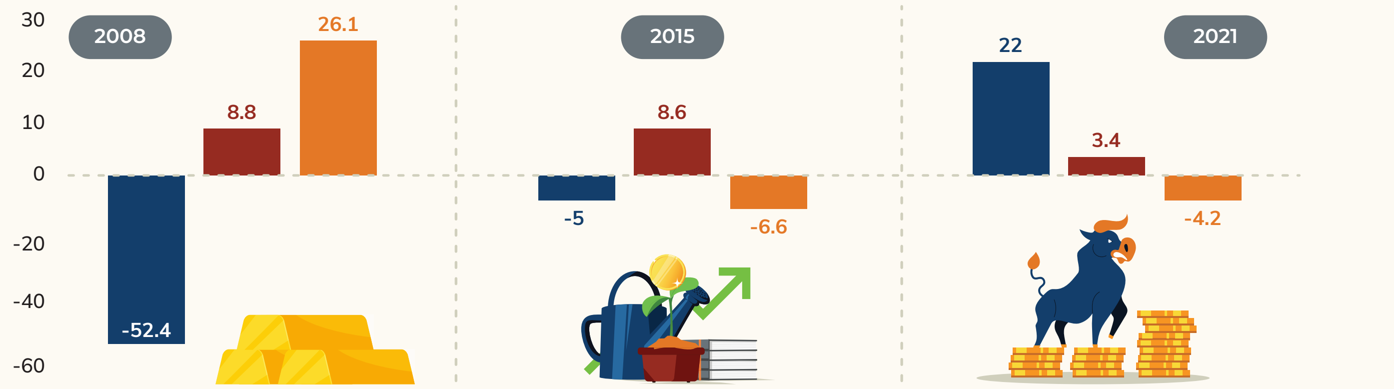
- **Concerns looming around Trade Tariffs:** The U.S. President unveiled the plan to impose reciprocal tariffs on its trading partners, stoking fears of a full-blown trade war.
- **Prolonged Geopolitical Tensions in the Middle East:** Heightened geopolitical tensions in the Middle East pose the risk of supply chain disruptions and erratic commodity market conditions.
- **Foreign Portfolio Investors are offloading Indian Equities, adding to the pain:** Foreign Portfolio Investors sold Indian equities worth ₹98,229 crore in 2025 (Source: NSDL, Data up to February 20, 2025) owing to relatively high valuations and subdued corporate earnings.
- **Tepid corporate earnings:** Urban consumption dampened due to inflationary pressures and margins of domestic cyclical sectors moderated, contributing to the lacklustre performance of corporate earnings.
- **The Indian rupee plummeted to around 87.58 against the U.S. dollar in February 2025:** A strong U.S. economy, higher U.S. treasury bond yields and demand for dollars from foreign investors has exerted pressure on the rupee.

So, what is the way out?

1. **Stay in the Game for Long:** Equities comes with the commitment of staying invested for the long term without being influenced by the market noise.

2. **The Power of Diversification:** Investing across a basket of different asset classes, such as Equities, Fixed-Income Instruments, Gold and Real Estate could help reduce **the** portfolio risk and enhance the return potential.

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.

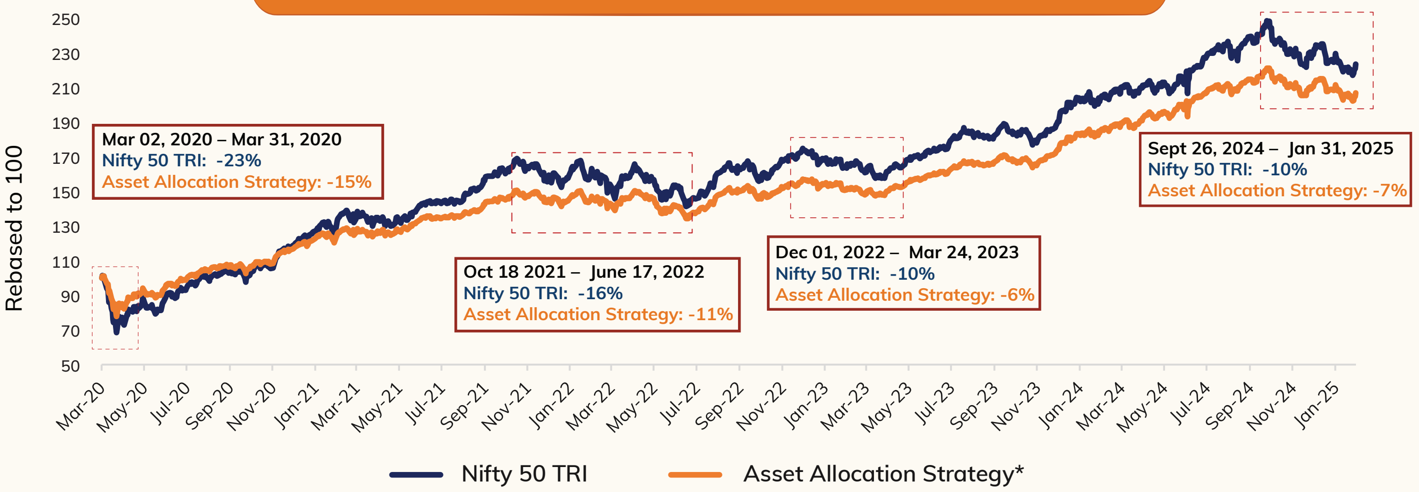
● BSE Sensex Returns % ● CRISIL Composite Bond Fund Index ● Gold Returns %

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

Our Recommendations to Manage Market Volatility

1. **Consider investing in Asset Allocation/Hybrid/Fund of Funds schemes that can invest in various asset classes:** Investing in a portfolio of asset classes with low/negative correlation could help reduce the overall risk and facilitate better compounding effect. Based on research, an Asset Allocation strategy tends to fall lesser during market downturns compared to a portfolio concentrated on Equity.

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



Source: MFI Explorer; ICICI Prudential AMC Internal Research, Data as on January 31, 2025. 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%). The above values have been rebased to 100. MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html.

Recommended Asset Allocation/Hybrid/ Fund of Funds schemes are as follows:

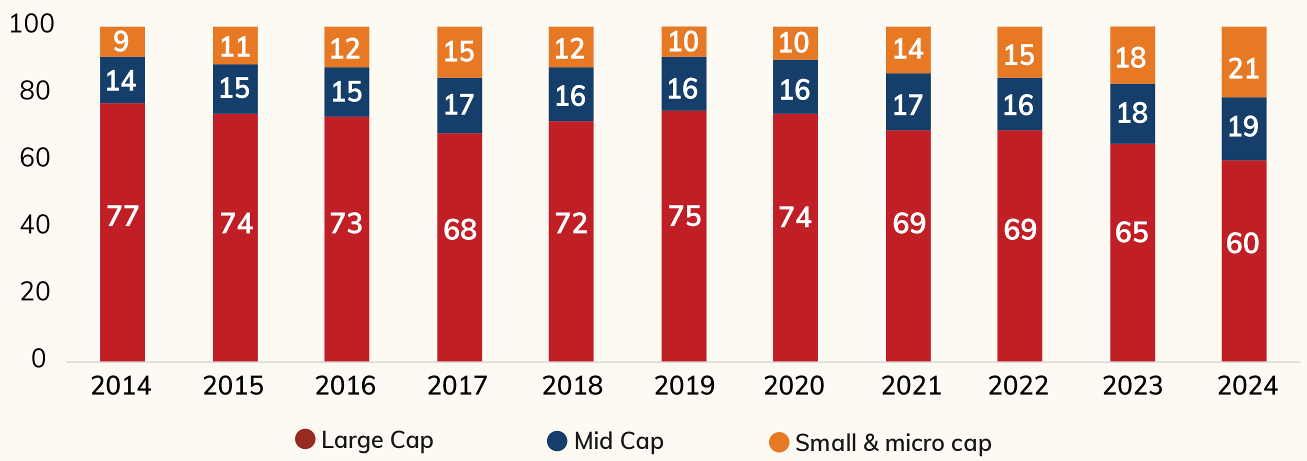
Scheme	Net Equity Range	Asset Class			Taxation
		Equity	Debt	Gold	
ICICI Prudential Equity & Debt Fund	65-80%	✓	✓		Equity
ICICI Prudential Multi-Asset Fund	10-80%	✓	✓	✓	Equity
ICICI Prudential Balanced Advantage Fund	30-80%	✓	✓		Equity
ICICI Prudential Equity Savings Fund	15-50%	✓	✓		Equity
ICICI Prudential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

Data as on January 31, 2025. 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.

Our Recommendations to Manage Market Volatility

2. **Time to Embrace the Relative Stability of Large caps:** The large cap share in the total market cap has declined significantly, reflecting that large caps are relatively reasonably valued. Considering the current market scenario, investors can start investing in large caps in a systematic manner or consider schemes that have a flexible mandate, which means the fund manager has the flexibility to move to large caps during volatile market conditions, take exposure to mid and small cap segments during a recovery period, switch to a defensive sector during tough market conditions and adopt an aggressive strategy when market conditions are conducive.

Market Cap Trends



Source: BSE & Nuvama Research. Data as on December 31, 2024.

Recommended Schemes for SIP/STP investments are as follows:

ICICI Prudential Bluechip Fund

- A pure large cap fund with a minimum allocation of 80% into large cap companies
- *Portfolio accounts for 93% in large caps, which consists of 25% allocation to defensive sectors

ICICI Prudential Flexicap Fund

- A diversified equity scheme with the flexibility to move across market caps/sectors/themes without any capping
- *Biased towards large caps with an aim to keep large cap exposure in the range of 50-100%^

ICICI Prudential Equity Minimum Variance Fund

- Stocks are picked from the 'Nifty 50' universe. Focuses on large cap stocks with low volatility, good corporate governance and high cash flows
- Low volatility stocks help in limiting the downside during market downturns
- *The portfolio has high liquidity with allocation of 9% to Cash and TREPS, which can be utilized for future opportunities.

ICICI Prudential Business Cycle Fund

- Aims to invest in themes based on the prevailing business cycle
- Flexibility to move across market caps/sectors/themes without any capping
- *Invests heavily into Large caps, the current allocation is 82%

*Portfolio Data as on January 31, 2025. The asset allocation and investment strategy will be as per Scheme Information Document. The portfolio of the scheme is subject to changes within the provisions of the Scheme Information document of the Scheme. TREPS: Treasury Bills Repurchase Agreement. SIP: Systematic Investment Plan. STP: Systematic Transfer Plan. ^of the equity portfolio

Once upon a Time

ICICI PRUDENTIAL MUTUAL FUND

All's well that ends well

1. The Japanese soldier fell prey to the delusion that the war was ongoing despite signals that portrayed Japan's defeat. Similarly, confirmation bias may take over investors, compelling them to invest only in Equities while focusing on the consecutive positive returns delivered in the past 9 years. Hence, it is important to evaluate asset allocation at a point where market volatility is high.

2. The long-term structural story of India remains intact. Hence, we recommend investors with a long-term view to continue investing in equity-oriented schemes that have a flexible mandate.

3. We prefer Large caps due to reasonable valuations and the possibility of FPIs (Foreign Portfolio Investment) making a come back, which may result in better performance.

Time to Take Control over Confirmation Bias, Agree? To Know more

Click Here

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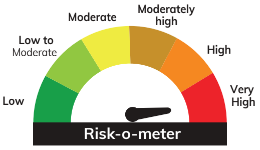
ICICI PRUDENTIAL MUTUAL FUND

Riskometers

ICICI Prudential Flexicap Fund (An open ended dynamic equity scheme investing across large cap, mid cap & small cap stocks) is suitable for investor who are seeking*:

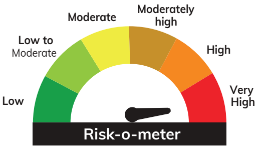


The risk of the scheme is very high

- Long term wealth creation
- An open ended dynamic equity scheme investing across large cap, mid cap & small cap stocks

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

ICICI Prudential Business Cycle Fund (An open ended equity scheme following business cycles based investing theme) is suitable for investors who are seeking*:

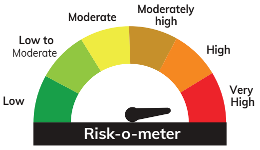


The risk of the scheme is very high

- Long term wealth creation
- An equity scheme that invests in Indian markets with focus on riding business cycles through dynamic allocation between various sectors and stocks at different stages of business cycles

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

ICICI Prudential Bluechip Fund (An open ended equity scheme predominantly investing in large cap stocks) is suitable for investors who are seeking*:

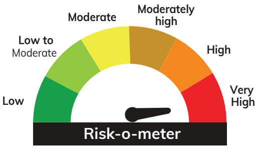


The risk of the scheme is very high

- Long term wealth creation
- An open ended equity scheme predominantly investing in large cap stocks

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

ICICI Prudential Equity Minimum Variance Fund (An open ended equity scheme following Minimum Variance theme) is suitable for investors who are seeking*:



The risk of the scheme is very high

- Long term wealth creation
- To generate long term capital appreciation by investing in Equity & Equity related instruments through a diversified basket with an aim to minimize the portfolio volatility.

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

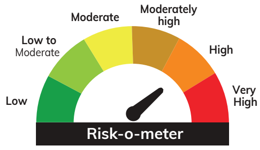
ICICI Prudential Equity & Debt Fund (An open ended hybrid scheme investing predominantly in equity and equity related instruments) is suitable for investors who are seeking*:

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 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*:

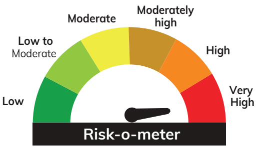


The risk of the scheme is high

- 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 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

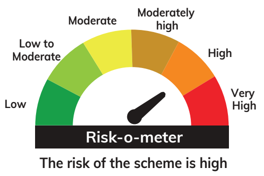
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Once upon a Time

ICICI PRUDENTIAL MUTUAL FUND

Riskometers & Disclaimers

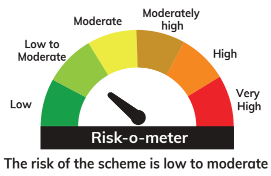
ICICI Prudential Asset Allocator Fund (FOF)^ (An open ended fund of funds scheme investing in equity oriented schemes, debt oriented schemes and gold ETFs/schemes) is suitable for investors who are seeking*:



- 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. 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.

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



- 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 January 31, 2025. Please refer to https://www.icicipruamc.com/news-and-updates/all-news for more details.

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

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