



Prudential ICICI Portfolio Management Services Dividend Yield Portfolio

Investment Objective

The Dividend Yield Portfolio endeavours to generate superior risk-adjusted returns through a combination of *dividend income* and *capital appreciation*.

Suitability of the Portfolio

This portfolio may be considered appropriate for investors with a relatively low risk appetite, who wish to earn potentially higher returns offered through the equity markets. It is also suitable for investors looking for tax-efficient investment options that offer the scope for high-returns.

Investment Strategy

Investments will be made primarily in stocks that offer an attractive dividend yield. Particular attention would be paid to the dividend track record, sustainability of free cash flows / dividends, industry prospects, management quality, business fundamentals etc., with an attempt to include only high-quality companies in the portfolio.

Some of the benefits of investing in high-dividend yield companies include:

- A company will generally pay dividends out of real and sustainable profits / free cash flows. Thus, dividends can be seen as *an indicator of the earnings generating capability of a company*.
- Companies quoting at a high-dividend yield are *generally attractively valued* on other parameters such as price/earnings, price/book, price/cash flow and have strong and sustainable fundamentals. This provides the potential for capital appreciation.
- A decline in the share price for high dividend yield stocks increases the yield, making investments even more attractive. This tends to *limit the downside* on such stocks.
- A company paying out high-dividends is generally *perceived to be shareholder friendly*.
- Dividend income is *tax-free* in the hands of the investor (w.e.f. 1st April 2003)

Simulation on High-Dividend Yield Stocks

To test these beliefs we have run a simulation of a 'Passive Dividend Yield Portfolio' over an eight-year period (i.e. Feb-95 to Feb-03). The attempt is to gain an understanding into how high-dividend yield stocks have performed historically vis-à-vis the overall markets. A detailed methodology of the simulation is provided overleaf.

The results of the simulation are as follows:

1-year absolute returns earned (28-Feb-1995 to 28-Feb-2003)

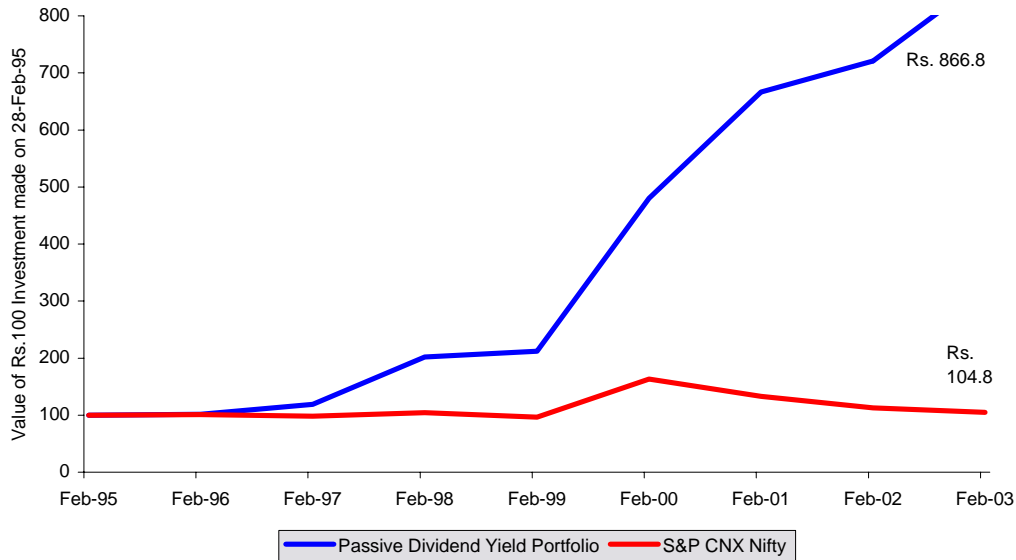
Investment in	Dividend Yield Portfolio			S & P CNX Nifty (Nifty)
	Dividend Income	Capital Gains	Total Return	
28-Feb-95 to 28-Feb-96	3.3%	-1.8%	1.5%	1.2%
28-Feb-96 to 28-Feb-97	4.3%	12.6%	16.9%	-2.8%
28-Feb-97 to 28-Feb-98	4.7%	65.4%	70.1%	6.2%
28-Feb-98 to 28-Feb-99	4.8%	0.1%	4.9%	-7.5%
28-Feb-99 to 28-Feb-00	6.4%	120.3%	126.6%	68.6%
28-Feb-00 to 28-Feb-01	6.6%	32.3%	38.9%	-18.3%
28-Feb-01 to 28-Feb-02	5.0%	3.1%	8.1%	-15.5%
28-Feb-02 to 28-Feb-03	10.3%	10.0%	20.2%	-6.9%
CAGR (Feb-95 to Feb-03)			31.0%	0.6%

Important points that emerge from the simulation include:

- The Passive Dividend Yield Portfolio *outperformed the Nifty in all eight years under study.*
- While returns on the Nifty were negative in five out of eight years, *returns on the Passive Dividend Yield Portfolio never turned negative.*
- Not only did the selected stocks earn income through dividends but there was also *an element of capital appreciation in six out of the eight years under study.*

The benefit of investing in high-dividend yield stocks can also be seen, by considering how much Rs.100 invested in February '95 would have grown to by February '03 in the Passive Dividend Yield Portfolio vis-à-vis an investment in the Nifty.

Value of Rs. 100 invested on 28th February 1995



While a Rs.100 investment in the Nifty in February '95 would have grown to Rs.104.8 by February '03, the same investment in the Passive Dividend Yield Portfolio grew by more than eight times to Rs.866.8 over the same period.

The results of the study indicate that companies quoting at a high-dividend yield offer the potential for significantly higher returns as compared to the overall market, through a combination of dividend income and capital appreciation.

Simulation Methodology

- The Passive Dividend Yield Portfolio was constructed by selecting the top 20% stocks in the S&P CNX Nifty (Nifty), ranked on the basis of their historic dividend yield. Investments were made as on the last trading day of February for each year.
- The dividend yield was calculated using dividend data of the previous financial year (Data Source: Capital Line) e.g. For 28th February '95, dividend for the financial year ending on 31st March '94 will be taken. The same process was followed for companies with a financial year ending other than in March.
- The return earned on this portfolio was a combination of the dividend declared during the year (if any) and capital gains on the investment (if any).
- After a year, the portfolio is rebalanced and the stock selection for the following year is done as per the process mentioned above. This process was continued for the entire period.

Disclaimer: Please note that the strategy indicated in the simulation is used for illustrative purposes only. The actual investment management for the Dividend Yield Portfolio may differ significantly from the strategy indicated in the simulation.