Prudential ICICI Portfolio Management Services
Only Options Portfolio

Investment Objective
The Only Options portfolio endeavours to achieve significant appreciation in capital, by investing in a portfolio of stock and index options.

Suitability of the Product
The portfolio may be considered suitable:
- For investors with a very high risk appetite who desire significant appreciation in their capital and are willing to take on significant levels of risk for the same
- As a potential portfolio return enhancer for clients with large investments in low risk fixed income assets
- For investors who desire to increase their equity market exposure through a low initial investment

The Strategy
- The investor will need to specify the following information at the time of investment:
  - Tenure of Investment (6 / 12 months)
  - Whether the investor desires that
    a) The investments be spread equally across the investment tenure
    b) The Portfolio Manager use his discretion to invest between 0 – 100% of the total capital available at any point in time. The total capital available could include all gains earned from options invested.

    Giving the Portfolio Manager the complete discretion (as in option (b)) could increase both the risks as well as potential returns from the product.
- Investments may be made in call and put options on individual stocks or indices. The upside from investments in options is unlimited while the downside is limited to the premium paid. The Portfolio Manager may also utilise various option strategies involving the purchase and sale of options at different strike prices. Different strategies can help create alternate payoff structures that can potentially result in attractive returns in any market conditions.
- In any given month, the maximum loss on options would be limited to the total investment that is made in options investment in that month. Even in the case of option strategies, investment will only be made in those strategies where the maximum loss is equal to the premium paid to create the strategy. Thus, even in the worst-case situation where the option premium is lost in every single month, losses on the portfolio will be limited to the client's initial capital.

Benefits of Investing Using Options
The benefits of investing in options (as can be seen from the table above) include:

- ***Enhanced exposure to the equity markets:*** Investments through options helps enhance the exposure to the equity markets. This is because a large exposure to a favourable movement in the underlying is gained through a significantly smaller initial investment. This helps maximize gains during a sharp rise (for a call option) or a sharp fall (for a put option) in the price of the underlying.

- ***Maximise the returns from movements in the underlying price in line with the investors expectations:*** The non-linear relationship of options with the cash market helps the buyer of a call option earn high returns if the markets rise, while limiting loss to the premium in case markets fall. The same applies in the reverse for put options.
- ***Potentially earn high returns in any market condition:*** An investment in a call option can earn high returns in case of a sharp rise in the price of the underlying, while an investment in a put option can earn high returns in case of a sharp fall in the price of the underlying. Additionally, option strategies may also be created that can potentially earn high returns in sideways markets.

Illustration

To gain a better understanding of the difference in the payoff structures between a stock and a call / put option, assume a stock X that is currently quoting at Rs.100. Assuming an investor with Rs.100 to invest. The investor has the following alternatives:

(a) He can purchase the stock X for Rs. 100
(b) In case the investor expects the price of the underlying to increase, he can purchase a call option on the stock X, by paying the option premium. Assuming the option premium to be Rs. 5 *. He can thus purchase upto 20 call options for the same initial investment as that of the stock.
(c) Alternately, in case the investor expects the price of the underlying to decrease he can purchase up to 20 put options for the same initial investment as that of the stock.

The table below gives the difference in returns earned under various prices of the stock X, on expiry of the contract:

		Price of Stock X on Expiry Date						
	Initial Investment	70	80	90	100	110	120	130
Option A: Purchase Stock X								
Value on Expiry Date (Stock X)	100	70	80	90	100	110	120	130
% return on investment		-30%	-20%	-10%	0%	10%	20%	30%
Option B: Purchase 20 Call Options								
Value on Expiry Date (1 Call Option)	5	0	0	0	0	10	20	30
Value on Expiry Date (20 Call Options)	100	0	0	0	0	200	400	600
% return on investment		-100%	-100%	-100%	-100%	100%	300%	500%
Option B: Purchase 20 Put Options								
Value on Expiry Date (1 Put Option)	5	30	20	10	0	0	0	0
Value on Expiry Date (20 Put Options)	100	600	400	200	0	0	0	0
% return on investment		500%	300%	100%	-100%	-100%	-100%	-100%

* **Note:** We have assumed the option premium to be 5% of the underlying (i.e. Rs. 5 on the stock of Rs.100) The option premium is only indicative and is subject to change from time to time as a function of market conditions.

The illustration above provides a clear indication of the benefits of investing through options (as detailed in the earlier section) as compared to a direct investment in a stock.

Key Features for this Product:

- **Minimum Portfolio Size**: Rs. 10,00,000
- **Management Fee**:

Fixed Management fee component	**2.50 % p.a**. payable on the average daily portfolio value. This is payable on a quarterly basis at the end of each quarter.
PLUS	
Performance linked fee	Return based fee of **30%** on the incremental returns generated by the Portfolio Manager beyond 15% p.a. until the end of the financial year.

Services Offered:

- Monthly portfolio statement and transaction details.
- Transaction details provided before all advance tax payment dates.
- Annual audited portfolio statement and transaction details.