WAY2WEALTH
Your Personal Investment Guide

9th May 2007

Mutual Fund Outlook

ICICI Prudential Services Industries Fund

Offering high & secular growth…

Fund Snapshot	
Fund Manager	Mr. Deven Sangoi
Scheme Corpus as on 31/03/07	Rs 465.98 Crore
Inception Date	30/11/2005
Entry Load	2.25%
Minimum Investment	Rs 5000
NAV High / Low	16.49/8.86
NAV as on 25/04/2007	16.03

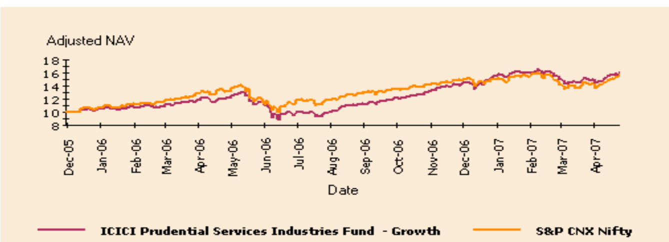
Asset Allocation (%)	**March-07**	**Jan-07**
Equity	91	89
Cash/Call	-	7
FD/CD	9	4

Top Sector Holdings (%)	**March-07**	**Jan-07**
Computers – Software	19.3	20.9
Banks	10.6	5.3
Media & Entertainment	8.7	6.2
Pharmaceuticals	8.6	7.1
Miscellaneous	6.6	3.3

Performance as on April 25, 2007

Schemes - Growth Options	**1 M**	**6 M**	**1 Yr**	**Inception**
ICICI Prudential Services Industries Fund	7.1	24.4	34.5	60.3
Tata Service Industries Fund	7.0	21.6	17.6	54.6
UTI Growth Sectors Fund-Services Sector Fund	5.2	14.1	21.9	43.9
Principal Infrastructure & Services Industries Fund	8.1	9.5	8.8	NA
Other Equity Div Funds	**7.0**	**9.5**	**8.9**	**44.9**
CNX Nifty	**9.3**	**13.4**	**20.4**	**57.1**

Scheme	**Beta**	**Sharpe ratio**	**Jenson's Alpha**	**Downside Risk**
Pru Ser	0.79	2.13	0.19	0.38
Tata Ser	0.86	1.59	0.04	0.42
UTI Ser	0.85	1.85	0.07	0.42
Principal I&S	0.90	1.43	-0.06	0.44
Other Eq Div Funds	0.87	1.17	-0.13	0.42



India has undergone a structural shift owing to its competitive stand in the world. The Indian economy is on a robust growth trajectory and boasts of a stable 8% plus annual growth rate, rising foreign exchange reserves and booming capital markets among others. One of the most interesting features of the Indian economy over the last fifteen years is emergence of services as the dominant sector and the main driver of GDP growth. Service sector has been growing at faster pace than the economy and currently accounts for more than 55% of the GDP as compared to 30% of the GDP in 1970. A combination of higher than average growth (in excess of 9%) as well as a higher weightage in GDP makes services sector the leading contributor to the over all economic growth. Moreover, with India's favourable demographics and rising disposable income, services sector is expected to continue its healthy growth for years to come.

Thus, investment in service sector mutual fund schemes provides opportunity for growth with diversification. And, ICICI Prudential Services Industries Fund stands out to be promising bet among its peers in the given category.

ICICI Prudential Services Industries Fund, launched in November 2005, is an open-ended equity diversified scheme from the stable of ICICI Prudential Mutual Fund. The investment objective of the scheme is to provide capital appreciation and income distribution to unit holders by investing predominantly in equity/equity related securities of companies belonging to the service industries and the balance in debt securities and money market instruments including call money.

Performance: The performance of the fund has been quite commendable across various time frames. With returns of about 34.5% over the past year, the fund figures amongst the top-performing schemes amid diversified equity funds and within its category. The fund has also outperformed its benchmark index, S&P CNX Nifty over a period of more than a month and since inception. Also, the fund is well placed in terms of statistical ratios such as Beta, Jenson's Alpha and Downside risk, which means that fund manager has delivered notable performance in spite of low risk taken in the overall portfolio.

Asset Allocation: The asset allocation of the fund has always been in line with its investment objective. The fund has a well-diversified portfolio that holds 42 stocks across 14 sectors. As far as asset allocation goes the fund has allocated 91% in the equity instruments and rest in Money market & Gilt market.

Investment case: Service sector will continue to be main engine of growth for the Indian Economy. Given the consistent track record of the fund and the dynamism of service sector, investment in ICICI Prudential Service Sector Fund can provide an opportunity to tap the long term potential growth in the services sector with a view to create long term wealth. The scheme is ideal for investors looking to invest in those companies that are expected to benefit, directly or indirectly, by the expected growth in services sector.

Investment Pattern

Investment Strategy: ICICI Prudential Services Industries Fund seeks to optimise the risk adjusted return by a mix of top-down macro and bottom-up micro research to identify stocks in the services sector. From a top-down perspective, the focus will be on an analysis of changing factors in the economy, trends, policy changes, etc. From bottom-up perspective, the Scheme will concentrate on business and economic fundamentals for strong stock selection, seeking to identify companies with high profitability and scalability supported by sustainable competitive advantages. These companies will have a long-term growth prospects and will be measured on price-to-earnings ratios and earnings power.

As seen from the graph below, the fund holds a blended portfolio with a bias towards growth investment style. Moreover, the fund manager has selected stocks across the market cap with little exposure to small cap stocks. Value style of stock selection has proven to be a superior approach during the market turmoil while the growth style turns out to be a better approach when the markets are heading northwards. But the equity markets never follow one direction, which is why value style may outperform at one point of time while growth style may do well at another point of time and vice versa. In such a scenario, blend style proves to be more meaningful investment approach that provides cushion to the portfolio when the market exhibits one-sided prolonged direction.

Diversified Portfolio: ICICI Prudential Services Industries fund is well diversified in both its stock and sectoral exposures. It is a multi-sector fund and therefore has a much lesser concentration risk than a typical sector/thematic fund. The fund normally holds 40-50 stocks in its portfolio spread across 14-20 sectors, a large number when compared to most other thematic/sector funds. The large number of stocks in the portfolio may reduce the fund's vulnerability to the fluctuations in each of its holdings. However, it may also prevent spectacular performance from one or two of its stocks from showing up in the performance.

Industry Holding

The fund has actively realigned the portfolio by increasing its exposure in banking sector while pared exposure in auto ancillaries sector. The fact that the recent hiccups in the interest scenario and the sudden appreciation in the Indian Rupee, has not affected the discipline of the fund manager on the IT and banking sectors in its portfolio. The fund has spread its sectoral holdings across 14 different sectors, making it a well-diversified scheme like any other diversified equity schemes.

IT Sector: IT has been a dominant sector holding of the portfolio, since inception. According to Nasscom's projections, overall software and services is likely to grow by 25-28%, clocking revenues of USD 36-38 billion in FY 2007. India has emerged as the fastest growing IT hub in the world; its growth is dominated by IT software and services. With a CAGR of 28% during the last 5 years, the IT-ITeS industry's contribution to India's GDP is expected to rise to 7% by FY 2008 against 4.8% in FY 2006. The sector is not only expected to generate exports worth USD 60-75 billion by 2010 but also in terms of employment creation, the industry is expected to create about 11 million jobs (directly and indirectly) over the next three years. The only threat arising for this sector, is the appreciation of the domestic currency, but this caveat now no more remains a risk to the earnings as majority of IT companies are hedging their exports in the forward currency market. Despite of negligible impediments, IT sector will continue to heave new opportunities and will propel growth in the sector as well as in the performance of the fund too.

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Banking Sector: - This sector is among the prominent industry holding in the portfolio of the fund. The fund manager has increased its exposure from 5.3% in January, 2007 to 10.6% in March 2007 on the back of impressive performance delivered by financial services sector such as banking, insurance, real estate and business services. In spite of tightening monetary policy, financial service sector has maintained its growth momentum in FY 2007 with 11.1% growth as compared to 10.9% in FY 2006. Although RBI is trying all possible steps to control credit off take in excess of 30% and curb surfeit liquidity in the banking system to retrain inflation beyond its trajectory limit of 5.5%, still banking sector is vigorous enough to absorb such short term anomalies. However, the current annual monetary policy is in favour of the banking system that may boost up the performance of the sector in the near future.

Media & Entertainment Sector: The M&E sector has been among the favorite sector holding in the portfolio over last three months. India, with 61 million C&S (cable and satellite television) and 108 million TV households, is the world's third-largest television industry, in terms of viewer-households, after China and the United States. However, in terms of revenue, at an estimated size of Rs 220 billion / USD 5 billion, it is less than 1% of the global entertainment and media industry. It offers exciting growth potential in TV penetration and advertising expenditure. Recent reforms in the sector, has given boost to Indian Media & Entertainment industry to establish a global footprint. The sector is still at a nascent stage of growth and is likely to unfurl lot of untapped opportunity, which may accelerate the growth potential of the fund in line with the growth potential of the sector.

Industry Holdings (%)	March'07
Computers – Software	19.3
Banks	10.6
Media & Entertainment	8.7
Pharmaceuticals	8.6
Miscellaneous	6.6

Industry Holdings (%)	Jan'07
Computers – Software	20.9
Pharmaceuticals	7.1
Media & Entertainment	6.2
Auto Ancillaries	5.6
Banks	5.3

Stock Holding

The fund manager has actively churned the portfolio in the past three months. Over the same period, the fund manager bought stocks like BEL, Dr.Reddy, Bharti Shipyard, Reliance Communication, TV18, and Zee Telefilms. Meanwhile the fund exited from hotel and auto ancillary stocks like Automotive Axle, Indian Hotels, GVK Hotels and also booked profits in large cap companies like HDFC, L&T, Pantaloon, and GAIL.

The fund reshuffled its portfolio in the banking and IT space, wherein the fund manager bought stocks like Wipro, 3iInfotech, Mphasis BFL, Andhra Bank, Union Bank, while it exited from Satyam Computers, HCL Tech, Bank of Baroda, Bank of India, SBI, and Kotak Mahindra Bank.

Scrip – March'07	% to NAV
Nucleus Software	5.2
ICICI Bank Ltd.	4.1
Jain Irrigation Systems	3.6
Indiainfoline	3.4
Jagran Prakashan	3.3
Bharat Electronics	3.2
PNB	2.9
Wipro	2.7
Indian Rayon	2.6
Infotech Enterprise	2.5

Scrip – Jan'07	% to NAV
Nucleus Software Exp	5.3
Tech Mahindra Ltd.	4.5
Indian Rayon	4.0
Jain Irrigation Systems	3.7
Indiainfoline	3.5
Jaiprakash Associates	3.4
Jagran Prakashan Ltd.	3.2
Bharat Electronics Ltd.	3.1
Bharati Shipyard Ltd.	3.1
ICICI Bank Ltd.	3.0

The fund maintained an average equity exposure of 90% during the month, including ~4% exposure to Nifty futures, indicating a cautious stance. Currently, the portfolio is overweight on mid cap technology and media stocks. The fund trimmed positions in capital goods (L&T), while increasing exposure to telecom (Reliance Communication). The top ten holding of the fund reveals that portfolio consists of large and mid cap stocks.

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Conclusion

Our View	
Risk	Mid – High
Return	High

Over the last 15 years, agriculture and manufacturing sector have exhibited some degree of volatility and low average growth as compared to services sectors. Services sector with double-digit growth during the last three fiscal (FY 2005, FY 2006 and FY 2007) has further strengthened its place as the leading sector of the Indian economy. Given the robust performance of the services sector and its contribution in the GDP, amicably leaves enough reasons to be part of this unprecedented growth.

Unlike general thematic funds that fall under high-risk high-return pedigree, ICICI Prudential Services Industries Fund is a well-diversified fund that entails moderate risk and generates high return. This fact can be gauged by looking at the statistical and the returns table, wherein the fund has outperformed its peers and the other equity diversified fund not only in returns category but also on the basis of key statistical ratios like down risk probability, beta and Sharpe ratios. Out of the four thematic funds focusing on the service sectors (the other three being Tata Service Industries Fund, UTI Growth Sectors Fund-Services Sector Fund and Principal Infrastructure & Services Industries Fund), ICICI Prudential Services Industries Fund stands to be a promising bet among its peers.

Investor, who seeks to be a part of potential long-term secular growth of the services industries, may invest part of their equity portfolio through SIP route, with an investment horizon of more than three years.

WAY2WEALTH Research

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