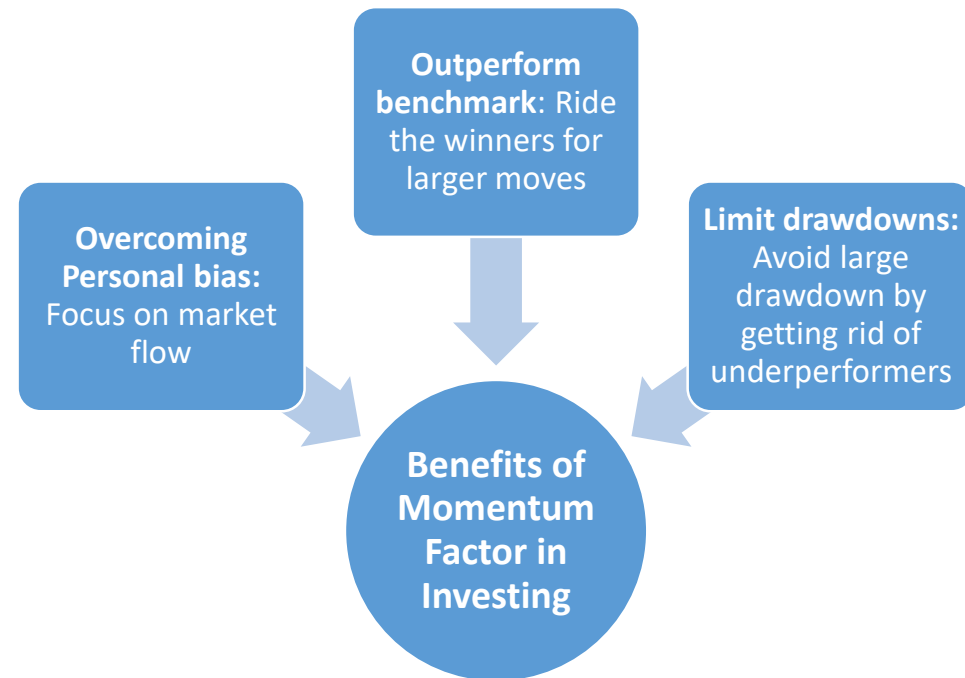

Momentum Smart Beta Portfolio: Largecaps

Momentum Investing: Purpose and Rationale

What is Momentum Investing?

- Momentum investing style is developed upon a philosophy of buying well performing securities and selling underperforming ones, in an attempt to beat benchmark returns
- The style is conceptualised based on Technical Analysis' core tenet that price trends have a tendency to perpetuate over long periods and investors can benefit from them by staying in sync with market flow by overcoming personal biases
- This is especially true of Large caps where few stocks/sectors compound returns consistently for several years and therefore riding their mega trends help in portfolio outperformance
- In other words, investing in the past winners (outperforming stocks) and getting rid of underperformers is a key premise of Momentum investing

Our Back tested Momentum smart beta portfolio of Large caps has outperformed Nifty100 index over 2014-2021 period at 18% CAGR returns (Top20 basket) against benchmark returns of 13%



Momentum Smart Beta Portfolio: Largecaps Methodology

Stock Universe

ICICIdirect has developed an in house model pertaining to stock selection approach with an aim to construct Large cap portfolio that outshines Nifty100 index, which represents 77% of free float market capital on NSE as of March 2019

Source:

https://www1.nseindia.com/products/content/equities/indices/nifty_100.htm

Stocks Screeners

ICICIdirect Research adopted a methodical approach by ranking Nifty100 constituents based on statistical model that works on dual time series momentum factor of a) past 12-month momentum score and b) three year Relative strength rank. ICICIdirect proprietary screeners are applied to evaluate top 20 ranking stocks having higher relative strength. Applied screeners has helped to exclude the stocks having corporate governance issue or any other negative trait

Momentum Smart Beta Portfolio: Largecaps

Stock Weightage process

Individual stock weightages are capped at 10% and for sector at 30% of portfolio

Minimum 50% of the stocks in Portfolio will be selected from Top 20 ranked stocks, while remaining stocks are selected based on substantial improvement in momentum ranks

Back testing performance

Back testing for CY14-CY21 indicates that portfolio works well across market environments with intermediate periods of underperformance. Returns of Top20 ranked stocks over 8 years:

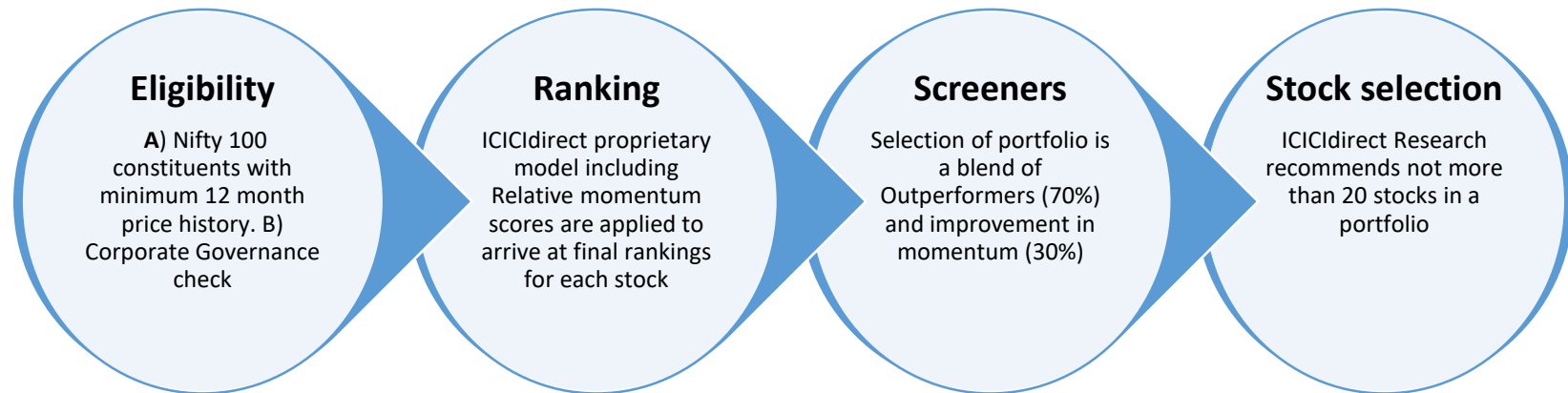
	CAGR	Rolling
Portfolio	18%	18%
Nifty100	13%	14%

Momentum Smart Beta Portfolio: Largecaps

Stock screening process

- Technical analysis is at the core of building our Momentum strategy with key focus on capturing mega uptrends in quality stocks to outperform Nifty100 benchmark
- We have deployed rigorous screening process to arrive at our high conviction investment portfolio
- ICICIdirect proprietary model carries out stock ranking based on a)time tested Trend identification parameters b) momentum ranking c) price structure analysis and Relative Strength score
- It helps us in removing personal bias in stock selection process. A detailed step-by step process is explained below:

Stock Screening process



Source: NSE, Bloomberg, ICICI Direct Research

Momentum Smart Beta Portfolio: Largecaps Rebalancing and weightages

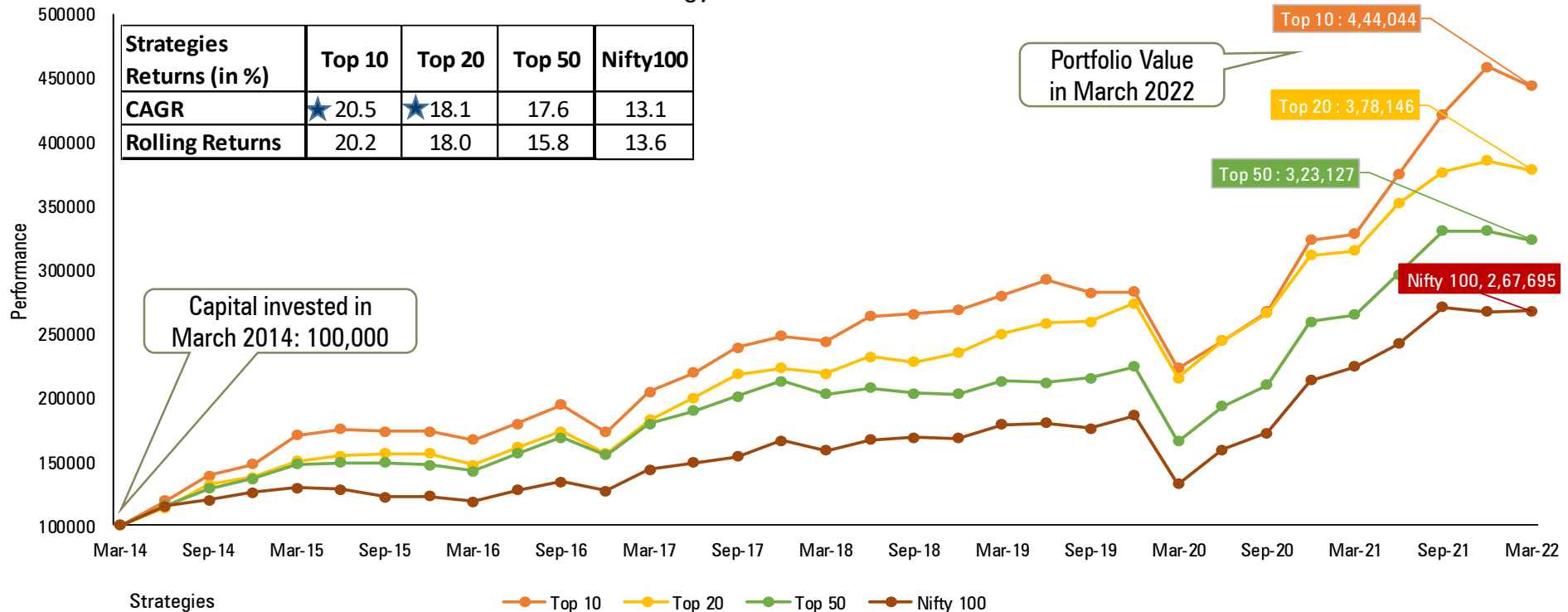
- Stock constituents would be reviewed and rebalanced in the model based on the suggested methodology, at the end of each quarter. Review does not mean compulsory churn. Churning is done only if there is significant deterioration in ranks of portfolio stocks
- In case of unforeseen events or corporate governance issues cropping up, ICICIdirect reserves right to exit a particular stock (s) anytime during the quarter.
- Stocks that go out of Nifty100 index are removed from Momentum Smart Beta Portfolio at the time of review
- ICICIdirect research recommend to apply equal weightages for all the stocks

Momentum Smart Beta Portfolio: Largecaps

Back testing and Return expectations

- ICICIdirect in house model have been back tested over 8 year period of 2014 to date, covering different market environments
- Our portfolio of Top 20 ranked stocks with quarterly rebalancing has outperformed Nifty100 index consistently on relative basis. However one should note that past returns are only for indicative purpose.
- Nifty100 index gained CAGR 14% over Eight year period while Momentum Smart Beta Portfolio (Top20 bucket) would have gained 18% CAGR in same period (Returns calculated are prior considering costs and tax implications)

Strategy Performance



Source: NSE, Bloomberg, ICICI Direct Research

Momentum Smart Beta Portfolio: Largecaps

Frequently asked questions

Q. What returns can I expect from Momentum Smart Beta Portfolio in down trending or sideways markets?

A. Momentum strategy also undergoes intermediate periods of underperformance. However strategy is expected to relatively outperform benchmark Nifty 100 Index across market cycles, supported by Back testing data between 2014-2021

Q. How frequent portfolio is rebalanced? How will I come to know about the same?

A. ICICIdirect research will recommend to review at end of each quarter. Same will be communicated to you. However in case of unforeseen events, stock exits may be made during the quarter if necessary.

Q. What are the maximum drawdowns can strategy have?

A. Based on historical back testing of strategy between 2014 to 2021, maximum drawdown was in March 2020 26%, against Nifty100 index correcting 29%

Q. If few stocks have generated significant returns from entry levels, when will profit be booked ?

A. Momentum investment approach is aimed at riding the momentum to capture maximum gains. In quarterly review, we will consider taking profits in such stocks if our statistical model warrants the churn

Q. Do I have to invest in all the stocks recommended by the research or can I partially deviate?

A. ICICIdirect Research recommends investment in portfolio in recommended weightage to optimize the return, however, investor have full discretion to execute partially or not to replicate weightage or stocks in his/her portfolio

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