ICICI PRUDENTIAL ALTERNATE INVESTMENTS

OUTLOOK 2025

THE FUTURE IS UNCONVENTIONAL



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Outlook 2025

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From the Desk of the MD & CEO



NIMESH SHAH
MD & CEO
ICICI Prudential AMC Ltd

Dear Readers,

As we step into 2025, the asset management landscape finds itself at a pivotal juncture, shaped by evolving market dynamics and the growing prominence of alternative investments. Over the past decade, the alternates business has transformed from a niche segment to a central pillar of global capital markets. As per Statistics by the Securities and Exchange Board of India (SEBI), commitments to Alternative Investment Funds (AIFs) have tripled since 2020, reaching ₹11.8 trillion by mid-2024, while PMS Equity AUM soared to ₹3.6 trillion—underscoring their increasing importance in an investors' portfolios. (sebi.gov.in)

The structural tailwinds of recent years—such as regulatory reforms and the development of GIFT City—have made alternatives an even more attractive vehicle for sophisticated investors. Within alternative investments, while equity remains the key to long-term wealth generation, private credit, real estate, and long-short strategies are becoming essential diversification tools. This year's Annual Outlook 2025 encapsulates insights from our four business verticals, focusing on alternative investment categories: **Equity, Long-Short, Private Credit, and Real Estate.**

Equity Markets: We believe equity markets are entering a phase of tempered optimism. After four years of robust, beta-driven returns, 2025 will require a renewed focus on alpha generation. Global macro uncertainties—particularly in China and the US—will present both risks and opportunities, emphasizing the importance of bottom-up stock selection. *Anand Shah* and his team share their insights on the key trends expected to shape equity markets this year.

Private Credit: Private credit continues to be driven by structural reforms like the Insolvency and Bankruptcy Code, 2016 (IBC) and enhanced project financing norms. These changes have fueled growth, complemented by the flexibility in deal structuring. For 2025, *Shekhar Daga* and his team believe the focus will remain on niche opportunities, such as acquisition financing, PE buyouts, and capex funding—areas often overlooked by traditional lenders.

Real Estate: The real estate sector remains to be driven by structural demand factors such as urbanization, rising incomes, and the ongoing housing upcycle. Over the past decade, office space has more than doubled, and rental growth has remained resilient despite increased supply. Real estate experts *Rohit Rathi* and *Vishal Gupta* see opportunities in mid-sized commercial properties and luxury residential spaces.

Long-Short Strategies: In a moderated equity environment, long-short and absolute return strategies have the potential to deliver uncorrelated returns. Dynamic equity allocation strategies, too, stand out for their ability to optimize risk-adjusted returns. *Paul Parampreet* and *Suraj Nanda* believe these adaptive approaches will play a pivotal role in helping investors navigate the complexities of 2025.

We remain steadfast in our commitment to delivering, risk-adjusted returns through a diversified and adaptive approach. We deeply value your continued trust and look forward to a year of shared growth and success.

Wishing you and your family a happy new year.

Regards,
Nimesh

Resetting One's Expectation

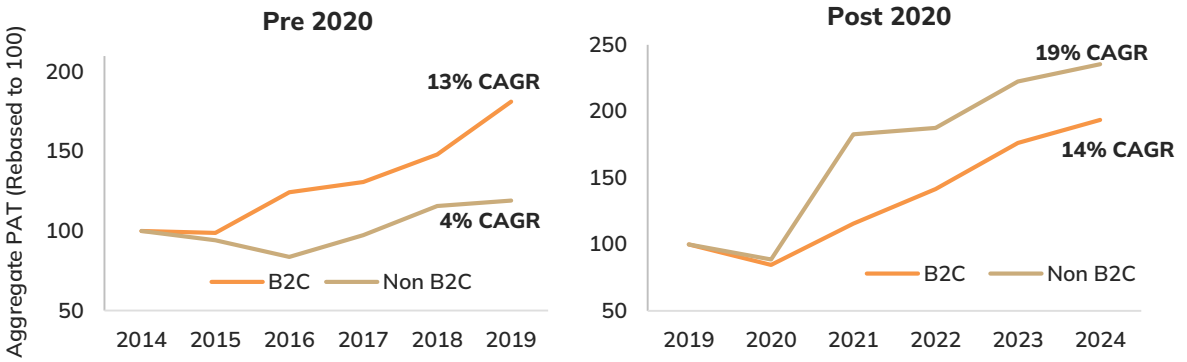


ANAND SHAH
HEAD – PMS & AIF INVESTMENTS
ICICI Prudential AMC Ltd

In our Annual Outlook CY 2024, **"Stay the Course"** we highlighted a shift in earnings trends wherein B2B businesses saw healthy recovery in their profits, which we believe is likely to continue at the same pace through 2025. We also discussed this in our previous outlooks for CY 2022 and CY 2023 (click here to read). The past four years have been supported by India's renewed focus on kick starting investment activity in the economy. This began with Government-driven capital expenditures and end-user demand necessitating capacity expansions in sectors with high capacity utilization. In this journey, we have also seen improved financing capacity coming from internal accruals of corporates/individuals, improvements in asset quality (particularly among public sector banks) and active capital markets. The primary beneficiaries of this trend have been B2B businesses compared to B2C businesses.

Given our positive stance on these sectors and companies, our strategies have managed to create alpha for investors in this phase. Along with prudent stock picking and spotting the right trend, the market beta also played a key role in generating strong returns for our investors. The easy pickings on this front are seemingly less in offer from Mr. Market in CY 2025 and to that extent, this will be a year of **Resetting One's Expectations.** We cite following reasons (a) the near term past was way too good both from beta (earnings growth exceeded GDP growth) as well as alpha perspective (B2B fared well compared to B2C) (b) going forward beta will be soft (modest in the near term and healthy in the long term) in line with nominal GDP growth and generating alpha will be difficult (given B2B valuations has caught up with their long term averages and exceeded in some cases.).

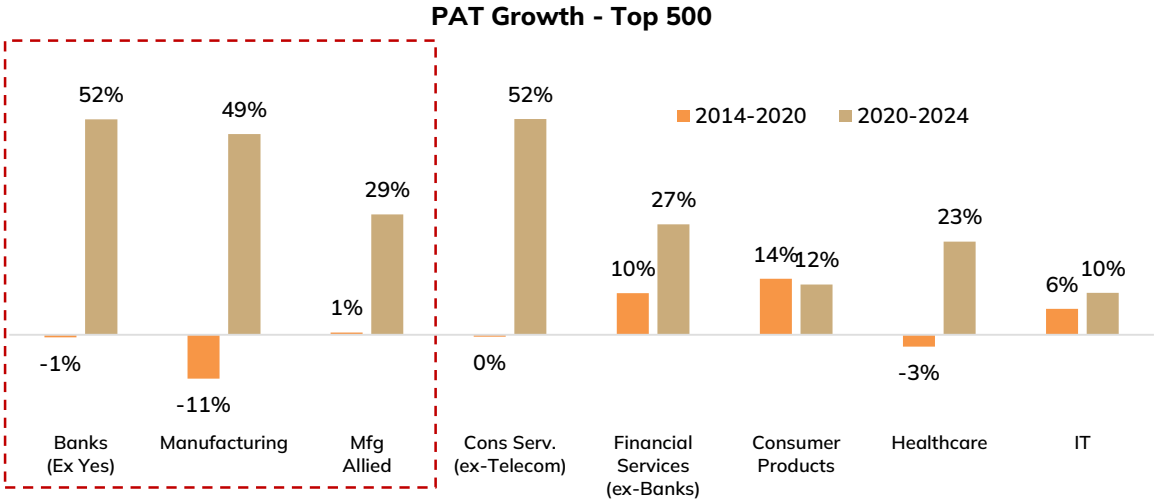
Exhibit 1A: Post 2020 B2B Companies Fared Well



Source: Universe of Top 200 NSE Listed companies considered. B2C sectors: Auto, Consumer Goods, Media & Entertainment, Retailing, Hotels/Resorts, Telecom, Retail banks | Non-B2C Sectors: Construction, Metals, Industrial Manufacturing, Pharma, Power, Transportation, IT, Other Banks. *2024- Till Mar 2024 quarter

One needs to tone down expectations on both counts, absolute returns and its velocity. **In our view, absolute returns are considerably less likely to be beta driven and more of rowing the boat upstream i.e. purely based on bottom up stock picking and creating alpha.**

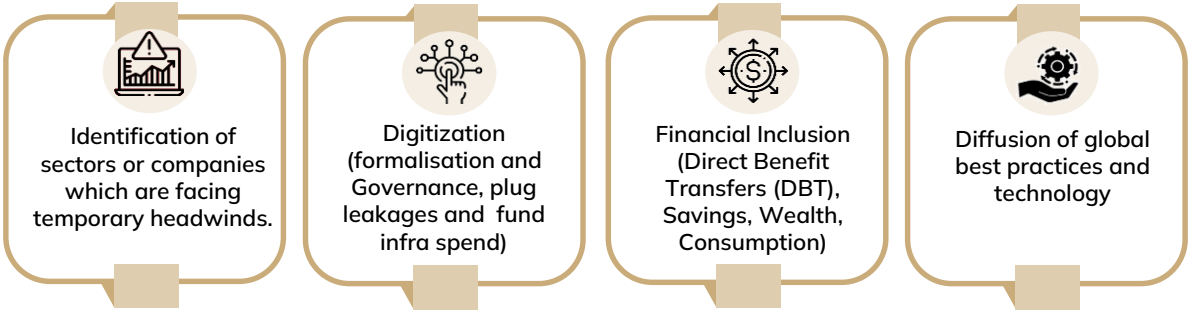
Exhibit 1B: Post 2020: Banks, Manufacturing and Manufacturing Allied Led the Pack



Source: NSE, Capitaline. Data from Dec. 31, 2020 to Sep., 2024 | Mcap – Market Capitalisation ; The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios may or may not have any future positions in these Stock(s)/Sector(s).

Looking back, CY 2024 was marked by significant geopolitical events, and an election heavy year with over 70 countries, including (most notably for our markets) in India and the United States. Further, Europe and China also faced slower economic growth compared to their historic trend line. These events added to uncertainty on direction of policy movement in these markets and their implications for rest of the world. On the monetary policy front, 2024 saw many G10 central banks begin rate-cut cycles to stimulate growth as inflation started to come within their comfort zone. Despite these uncertainties, the broader Indian markets delivered YTD returns to the tune of 16%. (NSE 500 TRI Data as of Dec. 30, 2024)

Exhibit 2: Long Term Drivers of GDP Growth



Source: Internal, Government Websites, Various Media. The aforesaid factors are only indicative. There may be other factors that may be relevant for driving GDP Growth, depending upon the varied market conditions.

"In CY 2025, Nifty 50's earnings growth may moderate. While the near-term outlook might be challenging due to global economic uncertainties, India's long-term growth story does remain strong. Key drivers include demographics, digitalization, infrastructure development, financialization, and a growing middle class. Structurally, we believe India Inc. can sustain a 10-12% earnings growth rate in line with nominal GDP growth. Despite the recent correction, Nifty 50 P/E remains significantly above the 10-year mean. We expect CY 2025 market performance to be driven by earnings, favoring sectors with a lower risk of EPS cuts."

Uncertainty, Challenges And Opportunities

A. Global And Geopolitical Overhang

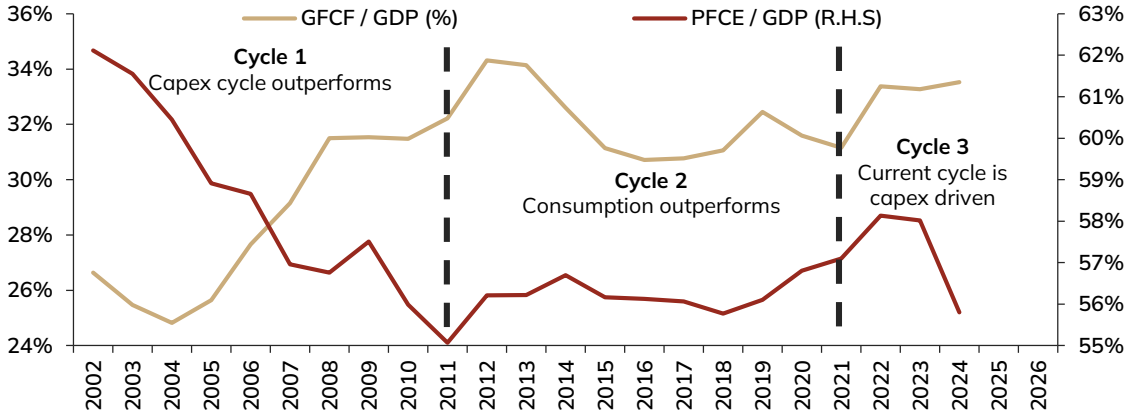
The global economy looks to be running at a solid pace, broadly similar to performance over the past two years. The consensus has penciled slower growth in China, but the risks there are skewed to the upside with more fiscal stimulus in the offering. With the start of the new government in the US, CY2025 is likely to see a shift in geopolitical and economic policies. The early part of the year could likely be dominated by US policies, specifically, on trade and immigration. This could stoke higher inflation risks in the US and consequently a higher neutral interest rate may create headwinds for most economies (more for EMs), given the inherent USD strengthening bias. On the other hand, China's weak domestic demand and excess capacity in multiple sectors (mainly metals, autos and renewable energy) is likely to remain a risk for most economies, especially those aiming to push domestic manufacturing.

B. Modest Near Term Growth But Long Term Drivers Are Intact

India delivered investment-led strong growth in the last three years. However, going forward growth expectations may need to moderate. We attribute the recent growth slowdown to (1) the lagged impact of slowdown in parts of formal job creation, (2) lagged impact of slower pace of government expenditure until the general elections in July'24, (3) RBI regulations focused on ensuring asset quality for the financial institutions hold up well – this possibly leading to slowdown in personal credit, and its consequent impact on domestic consumption (consumer durables, possibly staples, health expenses, education, etc.) and foreign travel and tourism.

India's growth trajectory in this context is likely to be driven by domestic factors, while global factors may continue to impact at the margin. We expect manufacturing and services to recover from FY 2025 growth levels on the back of some cyclical recovery. Construction and investments (government capex) could see some pickup as the government gets some space to spend in FY 2026. Private sector capex cycle is likely to remain concentrated and gradual.

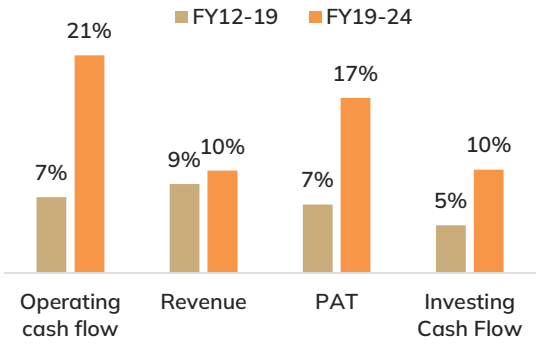
Exhibit 3: Growth Driven by Gross Fixed Capital Formation (GFCF)



Source: I-Sec Strategy Note. Dec 12, 2024. Note – GFCF stands for gross fixed capital formation and GFCF / GDP ratio indicates 'investment rate'. PFCE stands for private final consumption expenditure (FCE) and FCE / GDP indicates overall consumption as a percentage of GDP.

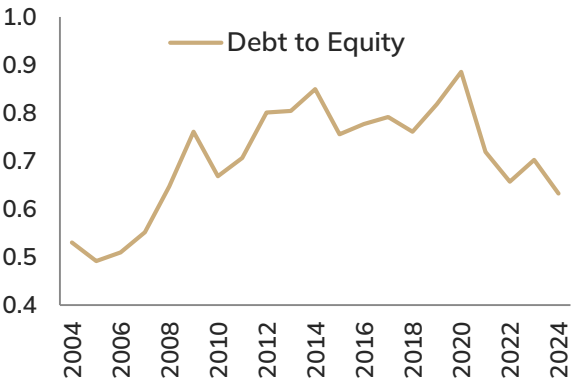
Investing activities have not increased in line with operating cash flow. Despite deleveraging and 21% CAGR in operating cash flow in the past five years, investments of BSE 200 (ex – Financials) have seen only a 10% CAGR over the same period. Most of the investing cash flow goes towards capital expenditure, while the rest goes for investments, excluding loans (mostly in securities) and acquisitions and mergers. Going ahead, Corporate capex is expected to improve given the improving cash return on invested capital. Increased capex activities are expected to enhance the supply cycle, intensifying competition, leading to a fight for market share, erode pricing power, and eventually impact valuation multiples (refer exhibit 4 and 5).

Exhibit 4: Strong Operating Metrics (% CAGR)



Source: Axis Capital – India Strategy – Sep.'24, BSE 200 (ex-financials)

Exhibit 5: Debt/Equity Ratio of BSE 200 Cos

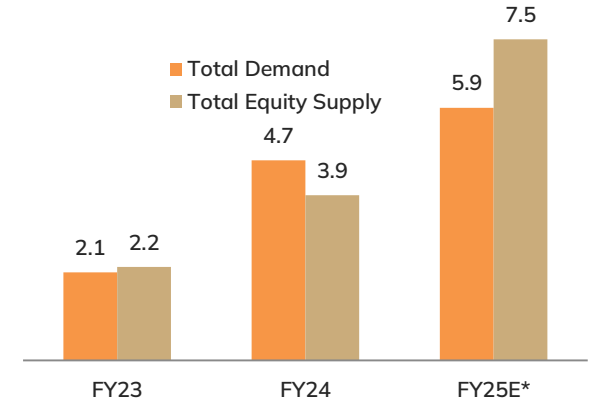


Source: Axis Capital – India Strategy – Sep.'24. Data as of March 2024

C. Markets P/E can remain under pressure with higher supply

As per Axis Capital Strategy Report (Dec. 2024) the total equity supply (promoter/PE block sales and ECM transactions) has risen sharply and at an estimated Rs 7.5tn for FY25E, exceeds demand, which is estimated at Rs 6tn in FY25E, as FII flows remain tepid. A Supply-demand mismatch may persist in CY 2025; this can be a factor pressuring market P/E, after the risk of higher bond yields in the US. The primary share issuance through IPOs and QIPs supports economic growth over the medium term, as the funds are used to de-leverage or to invest in the form of capex for growth. However, supply of paper from promoter/PE which do not add to capex/growth could be a concern.

Exhibit 6: Equity Demand and Supply (INR Trillion)

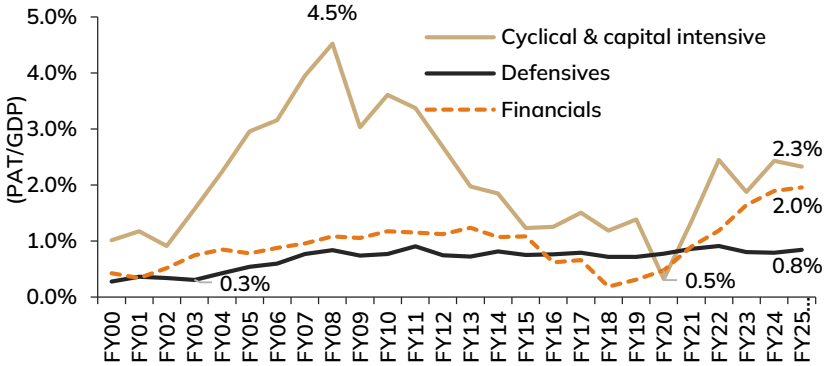


Source: Axis Capital Strategy Report (Dec. 2024)

Key Beneficiaries and Portfolio Orientation:

Growth is likely to be capex driven and accompanied by improving credit availability. Interest rates have also seemingly peaked – while they may not come down significantly, some relief there would work as a catalyst. In this scenario, we believe capex-driven sectors/stocks (infra, manufacturing, utilities etc.) could still be one of the biggest beneficiaries of revival in investment demand in CY2025 as far as earnings recovery is concerned. Valuations, however, needs to be looked at for better risk reward, given the outperformance of this theme in the past few years. To that extent, this year is likely to be more of bottom up than top down.

Exhibit 7: Cyclical, Capital-Intensive Sectors Drove Profit Cycle



Key to 2025 will be more of bottom up v/s top down (i.e. theme/sector agnostic)

Source: Capitaline, I-Sec research Estimates. Dec 2024. The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Stock(s)/Sector(s).

We continue to be positive on the energy theme which spans over green hydrogen, gas, power utilities. Apart from the aforementioned traditional sectors, current capex cycle may have additional drivers in the form of new sectors such as renewables, data centres, AI infrastructure, EVs, EMS manufacturing etc. Industrials are likely to be led by private capex in new areas, such as energy, mobility, defense, railways, electronics, and semiconductors as well as conventional areas, such as coal-fired power plants, steel, cement, and real estate.

We remain underweight in defensives, but do acknowledge that some names on a bottom up basis are no longer stuck at high valuation levels, but it do face growth challenges (staples and healthcare). Among defensives, IT is one space where we see that earnings may have bottomed out, but risk reward across most names is still not that compelling.

Key to 2025 will be more of bottom up v/s top down (i.e. theme/sector agnostics). Our focus has been towards companies with prudent capital allocation, earnings growth and improving RoEs to identify them as good companies. Marrying that with the right risk-reward that these companies offer, through our time tested BMV (Business, Management and Valuations) framework is what has worked for us in the long run and we strive to continue the same. In the current scenario, we are finding these set of companies in B2B space have better earnings growth potential and are available at reasonable valuations. But all said, the market will transition from Beta driven (supported by solid macro, decent global growth and government heavy lifting) to one where bottom stock picking will likely add alpha. Key risks to our outlook remains (a) the uncertainty in global trade and investment landscape due to US policies, (2) continued overhang from Chinese overcapacity and (3) low visibility of long-term domestic and global demand.

The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Stock(s)/Sector(s).
Please note that BMV framework mentioned above is developed in house and only indicative in nature. The strategies offered by the Portfolio Manager may or may not follow the above framework at all times. The framework is developed in order to select the right companies through a filtration process and endeavor the strategy to attain their investment objective. These models are based on various broad market parameters prevalent in the market and are dynamic in nature.

The Evolving Narrative of Private Credit



SHEKHAR DAGA
HEAD – PRIVATE CAPITAL
ICICI Prudential AMC Ltd

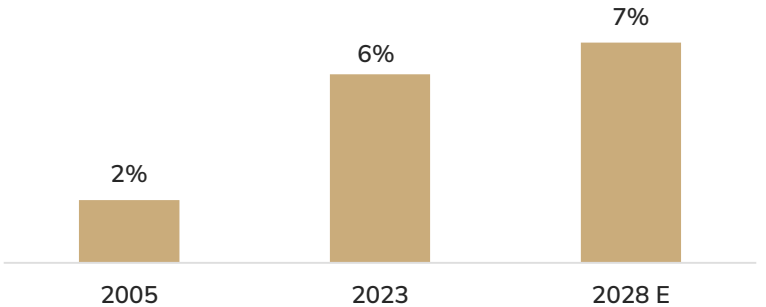
India's private credit market has undergone significant transformation in recent years, evolving as a critical component of the country's alternative financing ecosystem. With US$6 billion in deals recorded in H1 2024, private credit has emerged as a vital funding source for mid-market companies and sectors such as real estate, manufacturing, and infrastructure. This growth follows US$8.6 billion in investments during CY2023 and US$5.9 billion in CY2022, indicating a steady upward trajectory. [1]

Globally too, as an asset class, Private Credit's share has grown from 2% of the total alternatives universe in 2005 to 6% in 2023 and now essentially has become a key part of the current financial system.

Private Credit aligns well with market structures, meeting the need for long-term investments and more flexible company-specific or asset-specific lending.

The global private credit market clocked a CAGR of 10.7% in the last four years and is further estimated to grow at a robust CAGR of 16.9% between 2024 and 2028 with its market size **reaching US$2.8 trillion by 2028**[2]. Private Credit brings in the flexibility with regards to type, size and timing of the transactions making it a preferred borrowing instrument. The regulations in the banking sector have limited the risk banks can take, retreating them from select lending deals.

Exhibit 1: Share of Private Credit in the Global Alternatives market



The global private credit market is estimated to grow at US$2.8 trn by 2028[2]

Source: BCG Global Asset Management Market Sizing Database, 2024 E - Estimated

[1]Source: Private Credit in India – H1 2024 Update – EY, Dated 10th Sept 2024
[2] Source: BCG Global Asset Management Market Sizing Database, 2024

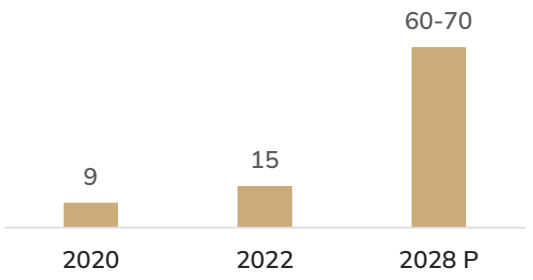
The Growing Confidence in Indian Private Credit Market

The rapid expansion of the private credit market is underpinned by India's robust macroeconomic fundamentals, supported by improving capital expenditure, rising domestic demand, government reforms and stable monetary policies. Furthermore, regulatory developments, including improved oversight of Alternative Investment Funds (AIFs), are fostering transparency and investor confidence.

The asset class is estimated to fourfold in size between 2022 to 2028 (refer Exhibit 2). India has emerged as a preferred destination with its robust economic growth, strategic initiatives and a large, young workforce in its favor.

The growing preference in the asset class in reflected in the number of deal counts in H1 2024. The domestic funds are dominating the space with their local presence, relationships, and market coverage. Whereas, the global funds typically focus more on larger deal value and so are leading the market in terms of deal value with 58% share as compared to domestic market with 42% share.[3]

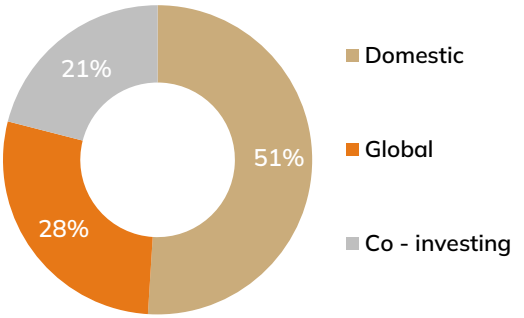
Exhibit 2: Indian Private Credit Market Size (US$bn)



Source: Praxis – Unlocking opportunities: India's Private Credit landscape, Dec 2023

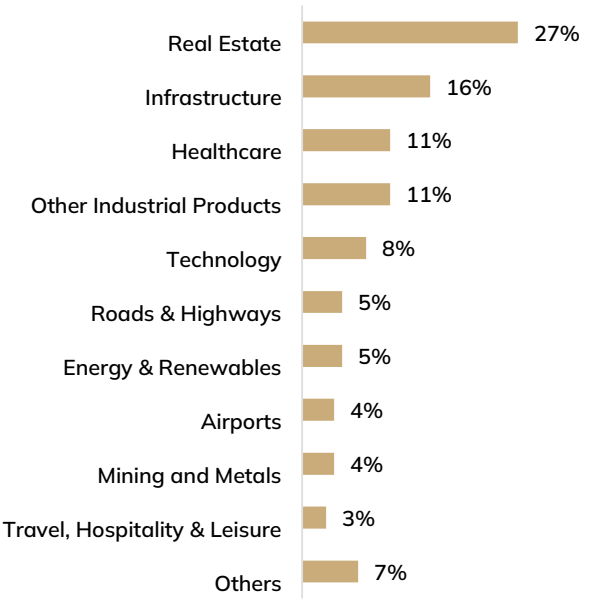
The surge in the deal value is majorly accounted by the high performing deals that took place during the year. Key beneficiaries of private credit included sectors like real estate, infrastructure and healthcare.

Exhibit 3: Share of Deal Count by Global/Domestic Funds in H1 2024



Source - Private Credit in India – H1 2024 Update – EY, Dated 10th Sept 2024

Exhibit 4: Sectoral Snapshot of Private Credit Investments in H1 2024[3]



Marquee Deals of H1 2024:

- Prestige Group (USUS$283 million)
- Kalpataru (US$103 million)
- Shapoorji (US$95 million).
- Infrastructure - Reliance Logistics and Warehousing (US$697 million)
- Healthcare - Nimmagadda Prasad and Viatris Inc. (USUS$293 million)

[3]Source - Private Credit in India – H1 2024 Update – EY, Dated 10th Sept 2024.
The Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Sector(s). Past performance may or may not be sustained in future and is no guarantee of future results.

Growing Preference for Performing Credit

Of all the existing credit options, performing credit is the most preferred one. Suited for the mid-market companies, this segment provides medium risk and returns, avoiding stressed situations and focused towards growth and capital requirements of the companies. With the private capex expected to pick up, the demand for performing credit is estimated to be robust as well. In contrast to the high-risk world of distressed debt or the potentially stagnant returns of government bonds, performing credit offers encouraging risk-adjusted returns.

We at ICICI Prudential Alternates, look at companies that have fundamentally sound businesses and are managed by an experienced management team or experienced promoters. We aim to evaluate investments based on several factors, as may be applicable, which may include, but are not limited to, management quality, credit quality, structure, etc. The investment team utilizes both qualitative and quantitative assessments in the selection process of the investment. On ground presence helps us necessitating fragmented and localized deals. We pay special attention to proprietary deal origination within our ecosystem. Attention is also given to avoiding deals in greenfield projects, distressed deals, groups with poor past history and in unfavorable sectors.

Performing credit provides medium risk and returns, avoiding stressed situations and focused towards growth and capital requirements

Buoyancy to Continue in 2025 and Beyond

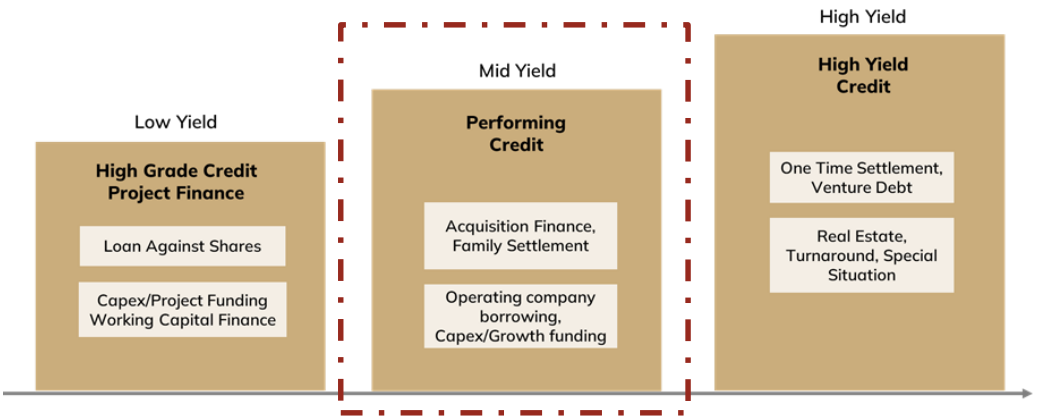
We believe the private credit market will continue to support transactions related to M&A financing, bridge-to-IPO funding, and structured credit. Performing credit, which focuses on high-quality borrowers with predictable cash flows and secured lending, backed by collateral will see a decent traction.

The M&A activity has been buoyant in the country with mega deals in first half of 2024. As per Indian Brand Equity Foundation (IBEF), M&A activity in India rose by 13.5% in the first eleven months of 2024 to reach US$88.9 bn. A positive M&A trend in other sectors like automotive and energy is also expected as we see a rise in investments in the electric vehicles and the growing emphasis on clean and renewable energy. Transactions in the buyout deals seems to have gained traction. The Private Credit funds have executed deals by serving as a bridge till the IPO takes place or by providing funds to the promoters for the PE firms exit, in our view this trend could continue.

Capital expenditure/Growth financing is one of the crucial drivers of the Private Credit funding. Domestic funds are gaining market share because of the growing awareness of this alternative financing instrument, its distinctive features like flexible structuring solutions, negotiable security options, better understanding of the local dynamics and relationship. We believe Private Credit is bringing a shift in the credit market, with growing preference for it over the traditional sources of capital.

The Sector(s) mentioned above do not constitute any recommendation of the same and the portfolios/Scheme may or may not have any future positions in these Sector(s).

Exhibit 5: Our Focus – Performing Credit



Real Estate's Pivotal Decade





ROHIT RATHI
Principal – Real Estate
ICICI Prudential AMC Ltd

VISHAL GUPTA
Principal – Real Estate
ICICI Prudential AMC Ltd

After pandemic, the Indian Real Estate stands as a bright spot in the global market. Technological advancements in the sector, all time high sales in the housing segment, the growing office space and global capability centres are supporting the rising share of the sector in India's GDP. The sector is consolidating with most of the commercial and retail properties being owned by the large developers. The market share of these developers rose from 18% to 36% in the last four years, indicating potential for bigger players. Moreover, the smaller players face construction finance issues which adds to the consolidation potential.[1]

India Real Estate: Growing at a Healthy Pace

Between FY 2017 and FY 2020, the Indian real estate market grew at a CAGR of 14.5% reaching US$180 billion in market size. The research further estimates the market to reach the US$1tn by FY 2030 (refer Exhibit 1). The real estate growth is led by the affordable housing schemes, capital appreciation and high rental yields.

Exhibit 1A: Real Estate Market in India (US$bn)

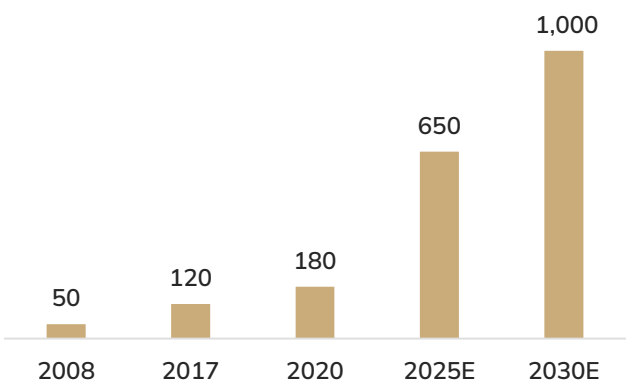
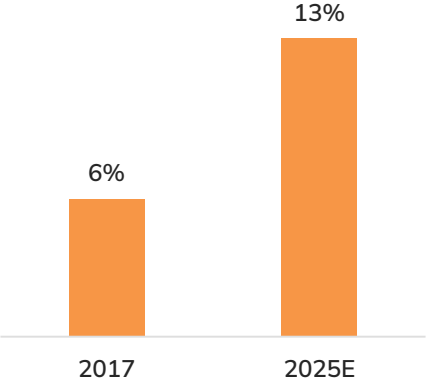


Exhibit 1B: Share of Real Estate in GDP



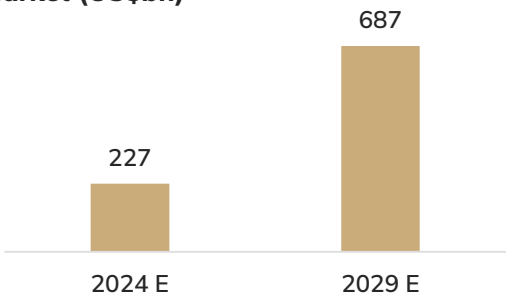
Source for Exhibit 1A and 1B: Nirmal Bang report dated 5th Dec 2024. Note: Data in Financial Year

[1]Nirmal Bang report dated 5th Dec 2024

A. Residential Real Estate Market

The housing sales in India have reached new peaks with sales of 4.7 lakh units in 2023, surpassing all its previous records. The residential real estate market is estimated to record a strong 24.8% CAGR between 2024 - 2029, with the market size reaching US$ 687bn. (refer Exhibit 2). The consistent improvement in housing sales are driven by buyers confidence and restored market activity. The post pandemic era has also led to a need for a larger space, believed to be led by hybrid work models.

Exhibit 2: Indian Residential Real Estate Market (US$bn)



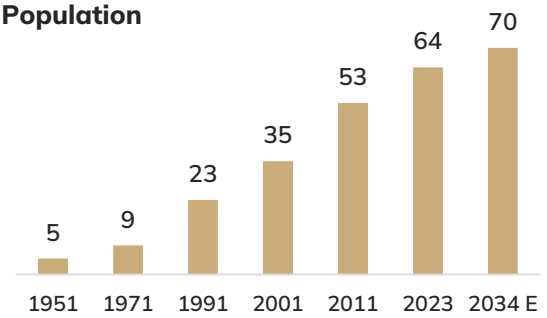
Source: Brickwork Research, Residential real estate sector in India, June 2024

Growth Drivers of Residential Real Estate

a. Urbanization Led Growth

India is in the rapid urbanization phase, which we believe will be driving the residential market in the upcoming decade. As per the Knight Frank report, the current urbanization rate is pegged at 36.5% in India, estimated to reach 42.5% in one decade which translates to 164mn households residing in urban areas as against 79mn at present (refer Exhibit 3). The surge in housing demand will span across various income brackets from affordable to luxury housing segment.

Exhibit 3: Rise In Cities With 1Mn+ Population



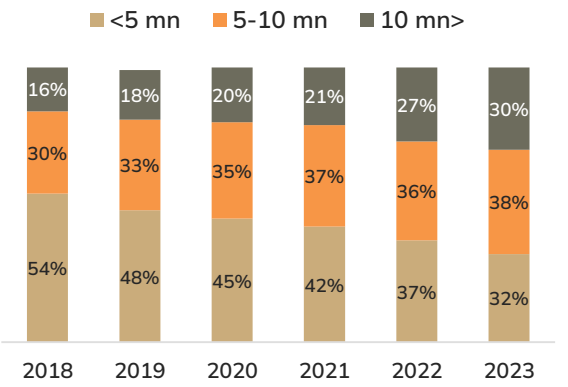
Source: Knight Frank – India Real Estate: A Decade From Now, April 2024

b. Rising Income To Boost The Housing Demand

The rising income levels due to households with double income, growing middle class segment and shortage of houses in urban areas is expected to aid the housing demand. Rising share of upper middle and high income category augurs well for the residential real estate demand.

The growth of the HNI population is driving the premium and luxury housing demand in the country. As per the Knight Frank Wealth report 2024 the number of ultra rich Indians will rise by 50.1% to 19,908 in 2028 from 13,263 in 2023. The rise in disposable income of HNI population is estimated to feed the luxury housing demand. Housing units priced at INR 10 million are emerging as the largest segment (refer Exhibit 4). Additionally, the demand for premium homes is rising in the 'tech driven' cities like Pune, Bengaluru, Chennai and Hyderabad.

Exhibit 4: Increasing Demand INR >10mn housing



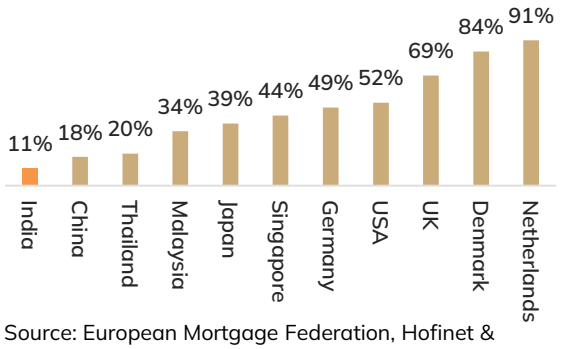
Source: Knight Frank – India Real Estate: A Decade From Now, April 2024

Consolidation in sector, rising share of upper middle and high income category and affordability augurs well for the residential segment

c. Rising Affordability and Favorable Ecosystem

India has a housing affordability advantage, with favorable loan-to-income ratios compared to global markets. India also offers lowest mortgage to nominal GDP ratio, which with rising income has a wherewithal to go up. Strong real estate market post-covid, boost from Policy Reforms & Government Support has improved corporate governance and accountability.*

Exhibit 5: Mortgage as % of Nominal GDP

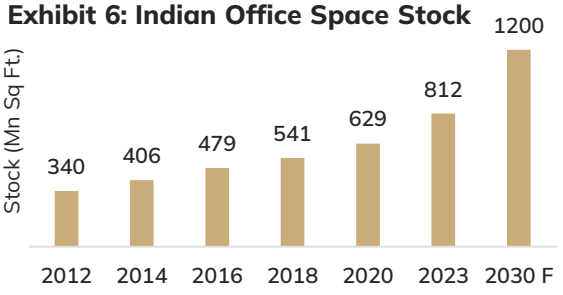


Source: European Mortgage Federation, Hofinet & HDFC estimates for India, Jul 2024

B. Commercial Real Estate: Resurgence in Demand

The commercial real estate stock has more than doubled from CY 2012 to CY 2023, growing from 340 million sq. ft. to 812 million sq. ft. (refer Exhibit 8). The positive economic sentiment which has gained momentum post pandemic has contributed to the robust growth. In recent years, the commercial space has grown stronger with the domestic HNI/UHNI investors showcasing their interest along with institutions. Support from the government initiatives like Special Economic Zones and Software Technology Parks have contributed to the positive sentiment of the commercial segment. The commercial space demand is well supported by the logistics and warehousing as well in addition to the expanding office/retail landscape.

Exhibit 6: Indian Office Space Stock

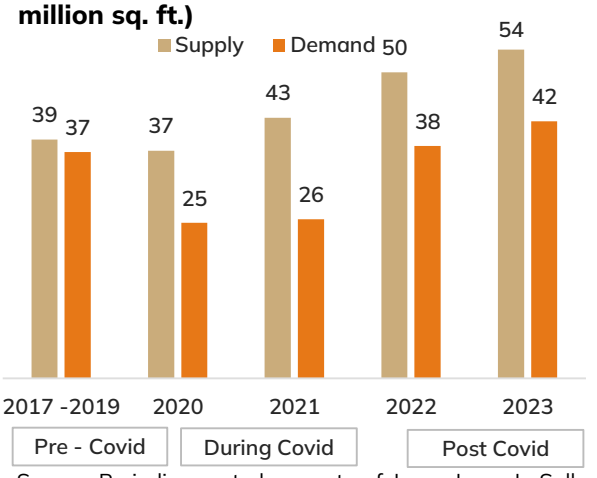


Source: Periodic quarterly reports of Jones Lang LaSalle.
Note: Data in Calendar Year. Note: F – Forecast

The demand for office had suffered due to the Covid -19 which induced lockdowns and work from home situation for almost two years. The office sector in India witnessed a remarkable recovery post pandemic lows, there has been recovery in rentals and rise in demand across all key markets (refer Exhibit 7).

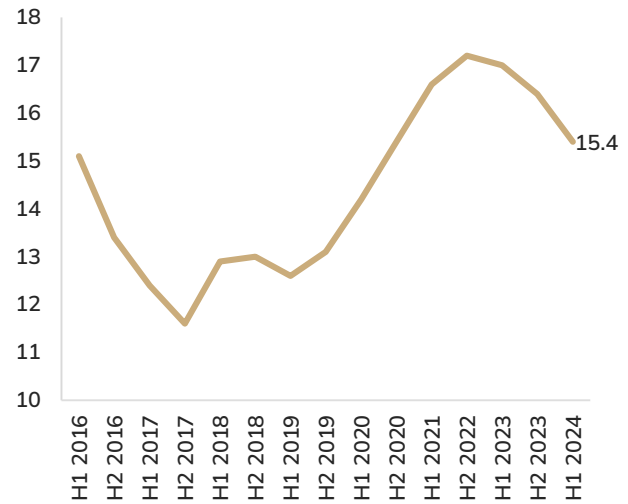
Similarly, the vacancy rates in commercial space are also estimated to decline showcasing further recovery in demand. A healthier corporate balance between is expected to bring the vacancy rates down across different markets. (refer Exhibit 7).

Exhibit 7: Uptick in Leasing Demand (in million sq. ft.)



Source: Periodic quarterly reports of Jones Lang LaSalle, Data in Calendar year

Exhibit 8: Declining Office Vacancy Rates (in %)



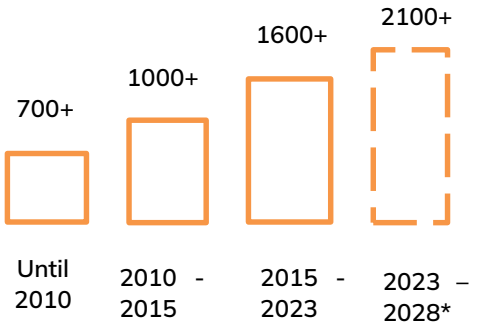
Source: Knight Frank - India Real Estate - Residential and Office Market - Jan - Jun 2024

*- The aforesaid factors are only indicative. There may be other factors that may be relevant for sources of growth for rising affordability.

a. India – Becoming a Hub For Global Capability Centres

The emergence of distributed delivery models, along with tighter labour markets globally, has accelerated outsourcing to India. In the post-Covid environment, the global CEOs appeared more comfortable with both work from home and work from India. The prominence of GCCs will persist, owing to the country's talented workforce, cost-effectiveness as well as established business ecosystem. While the tech industry continuous to be the main driver, demand is expanding for other sectors like Banking and Finance too.

Exhibit 9: Rise of GCCs in India



Source – Deloitte - The growth and evolution of Global Capability Centres (GCCs) in India, 2024.
Note: * - Estimated

b. From Traditional to Flexible Office Space

The shifts in the commercial space with changing preferences like hybrid/flexible workspace is expected to bring changes to the office space. While traditional offices will remain essential for business continuity, flexible arrangements for expansion and cost effectiveness, providing enhanced workplace experiences will remain crucial aspects of commercial office demand.

As per the JLL 2025 Global real estate outlook, India forms part of the major global markets with expected improvement in fundamentals in the office segment in 2025. This translates to rising occupier demand, supply or vacancy stable to declining, increasing rents or income. In our view the mid-market (INR 100-500cr) commercial real estate that offers properties with high growth locations, quality developers and high quality tenants offers great value.

The mid-market office segment (INR 100-500cr) with high growth locations, quality developers and high quality tenants offers great value.

Demand Surge to Continue

Real Estate sector has transformed in India with acts like RERA, introduced by the government to protect the buyers interest by bringing in accountability and transparency. This policy played a pivotal role to restore buyer's confidence and reduce dubious developers over a period of time. Both the segments – Residential as well as Commercial are witnessing shifts in their consumption patterns due to changing demographics in the country. In the Residential space, the demand for premium housing is surging while, the Commercial real estate is seeing an uptick in the office space. In addition to this, we expect the positive anticipation on the rate cut in the next twelve months to act as a catalyst to housing sales by supporting affordability.

We believe the strong macro environment in the country will complement the Real Estate cycle and investments in this asset class to play out well. Adding Real Estate investments to one's portfolio can help enhance their asset allocation with risk adjusted returns.

Portfolio Diversification in a VUCA World





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In today's investing landscape, the term *VUCA—Volatility, Uncertainty, Complexity, and Ambiguity*—has become more relevant than ever. Initially coined to describe unpredictable global conditions, VUCA now perfectly encapsulates the challenges that investors face across economies and markets. Geopolitical tensions, fluctuating interest rates, rapid technological disruptions, and unforeseen global crises (like the COVID-19 pandemic) have upended traditional investing norms. Given the current asset prices in global and domestic markets, most of them are priced with very little room for improvement on valuations. This leaves the future path of asset prices dependent on growth and central bank policies – the uncertainty and ambiguity around both is fairly high.

The Need for Alternative Strategies in Traditional Portfolios

For decades, investors relied on a simple, balanced mix of fixed income and equity portfolios. Fixed Income offers lower volatility and income generation potential, while equities provide growth over the longer term. However, in a VUCA-driven world, this standard allocation needs to be complimented with strategies with differentiated risk-return payoffs. The recent trend of rising geopolitical issues, relatively higher market valuations etc., has further complicated the investment landscape. This scenario underscores the necessity for innovative strategies that can adapt to such changing market conditions. This demands an additional approach to the traditional asset allocation—one that combines adaptability with a fair amount of reliability. Dynamic Equity Allocation strategies or even Absolute Return Strategies, particularly through the use of derivatives, offers opportunities to enhance portfolio performance and manage risk effectively. Their ability to generate uncorrelated or even negatively correlated returns to traditional asset classes can help enhance portfolio resilience.

Exhibit 1: Managing VUCA

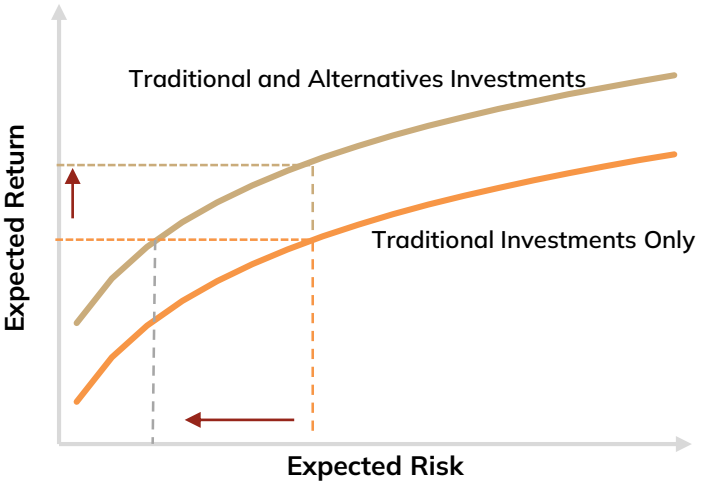
	Can be managed through
Volatility	Dynamic Equity Allocation
Uncertainty	Hedging the portfolio
Complexity	Diversification
Ambiguity	Alternative Alpha strategies

Alternate strategies' ability to generate uncorrelated or even negatively correlated returns to traditional asset classes could help enhance portfolio resilience

Alternatives Investments: Aiding Portfolio Diversification

Adding alternates such as long-short or dynamic allocation strategies to one's portfolio can help enhance return potential or lower risk depending on which type of strategy is selected. Globally, in developed markets, adding alternates has not only aided portfolio diversification, but has also led to improved risk-adjusted returns for investors.

Exhibit 2: Alternatives and Portfolio Risk/Return



Advantages of Dynamic Equity Allocation Strategies

Unlike conventional strategies, Dynamic Equity Allocation (DEA) strategies allows investors to actively shift their equity exposure to reflect evolving market conditions. By identifying risks early, seizing opportunities, and using tools like derivatives to adjust exposure, such strategies aim to provide an optimal risk-return pay-off.

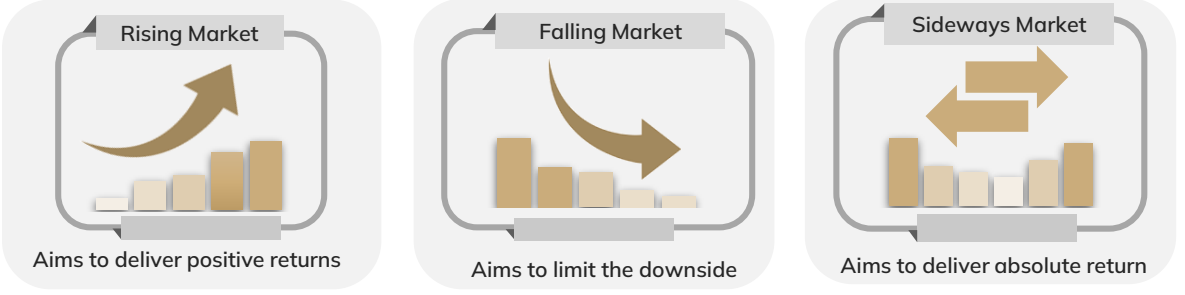
A. Enhanced Returns: By adjusting the equity exposure in line with market trends, DEA seeks to optimize returns, potentially outperforming static strategies. In favorable market conditions, DEA allows investors to increase exposure to equity, potentially enhancing returns. For example, during the post-covid market run-up, investors who had higher equity exposure through dynamic allocation strategies would have been able to capture the market upside.

B. Risk Management: DEA allows for the reduction of exposure to declining assets and the capitalization on growing sectors, thereby managing risk more effectively. By reducing exposure to equity during periods of market stress or high valuations, DEA can significantly reduce portfolio risk. For example, during the 2008 financial crisis, investors who employed DEA strategies to reduce their equity exposure would have been able to limit their losses.

C. Adaptability: The strategy's inherent flexibility makes it well-suited for volatile markets, as it can adjust allocations to align with current economic conditions. DEA offers the flexibility to adapt to changing market conditions quickly and efficiently.

Exhibit 3: Dynamic Equity Allocation Strategies

Aims to generate risk-adjusted returns over a market cycle



A distinctive proposition beyond traditional long-only strategies

Aiming for Uncorrelated Returns through Long-Short or Absolute return Strategies

In addition to dynamic strategies, Long Short or Absolute Return Strategies have gained prominence as a means to achieve performance regardless of market direction. These strategies aim to deliver positive returns by employing a variety of techniques, including long/short positions, arbitrage, and derivatives, to exploit market inefficiencies. By maintaining a low or even negative correlation with traditional asset classes like equities and bonds, absolute return strategies can enhance a portfolio's risk-adjusted returns.

Looking Ahead to CY2025: Navigating Complexity

In a VUCA world, it is expected that the volatility of returns is likely to go up, black swan (unknown unknowns) and grey swan (known unknowns) events are likely to occur more frequently. The sage advice of following your asset allocation is as always helpful, even in such difficult environment optimal use of derivative strategies can enhance investment edge in a VUCA world.
These strategies aim to offer downside protection. By utilizing hedging techniques and flexible investment approaches, they can mitigate losses during market downturns. Such strategies can play an integral role in a balanced portfolio, potentially helping to 'smoothen the ride' for investors by reducing volatility and preserving capital during turbulent times.

It's essential to acknowledge that investment approaches that employ derivative strategies require a higher level of knowledge expertise and experience than traditional buy-and-hold investing. It's important to note that such strategies come with their own set of challenges. They often involve increased complexity compared to traditional investment approaches. Additionally, the success of these strategies heavily depends on the prevailing market environment and the specific techniques employed. At ICICI Prudential AMC Ltd, we have an experienced team which remains committed to navigating the complexities of the market on behalf of investors.

Use of Derivatives in Effectively Managing Allocation

Derivatives, such as options and futures, enable investors to adjust their equity exposure without liquidating existing positions, thereby freeing up capital for other opportunities.

Through derivatives, the fund manager has the opportunity to implement tactical asset allocation overlays, facilitating adjustments to portfolio risk profiles in response to market changes. For instance, if the fund manager anticipates a market downturn, he might use options to hedge against potential losses, thereby maintaining the portfolio's value without the need for wholesale liquidation of equity positions. Conversely, in a bullish market, the inverse of the above strategy can be executed, wherein, the portfolio can take on a higher equity exposure.

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