

Dear All,

Globally, volatility across asset classes is extremely low. This has thrown up an opportunity in terms of Low Put Option prices of NIFTY.

Below is the indicative quote which we have got from a large foreign brokerage. Please note the actual pricing will be determined basis the date and time of execution of the deal

<b>Underlying</b>	<b>Strike Price</b>	<b>Tenure</b>	<b>Put Option Premium</b>
Nifty	9500	3 years	5.7%
Nifty	9500	2 years	5.2%
Nifty	9000	3 years	4.7%
Nifty	9000	2 years	3.7%

### **Key Points to be noted**

- With a cost of 1.9% to 2% p.a. clients may look at hedging their Equity Exposures i.e. Put Option is an option to sell Nifty at 9500 levels after 2/3 years (the tenure for which an investor hedges the portfolio)
- All trades can be executed at the investors brokerage firm no need to open a separate account
- One may look at hedging Nifty worth 20% more than the Mid & Small cap Equity Exposure which an investor may have in his Equity Portfolio. Example – For a 1 cr Equity Portfolio where Mid & Small cap Exposure is 40 lacs than investor may hedge about 48 lac worth of Nifty (20% more than 40 lacs of Midcaps) this is due to Midcaps having high Beta

- Early exit in the product is possible but not certain, we will have to take the quotes from the brokerage firms at the time when investor would want to exit and settle. The actual price will depend on the volatility levels of Nifty at that point of time
- This does not imply that we have a bearish view on Markets its simply buying Insurance for Equity exposure at a reasonably low cost

**Please refer to the below Illustration to see how this works**

**Assumptions - Portfolio Below denotes the Exposure Hedged through a 3 year put options and is assumed as 100, Cost of Put Option = 6%, Nifty 50 Level = 9500**

	Nifty 50 Level at after 3 years on the Option Expiry Date	Nifty 50 Returns	Portfolio Returns on Absolute basis (with 0% outperformance)	Portfolio Returns on Absolute basis (with 10% outperformance)	Portfolio Returns on Absolute basis (with 20% outperformance)
<b>Downside Protection on the Hedged Exposure as Put Option payoffs offsets the loss in the Portfolio</b>	7500	-21%	-6%	4.00%	14.00%
	8500	-11%	-6%	4.00%	14.00%
	9500	0%	-6%	4.00%	14.00%
<b>Uncapped Upside on the Hedged Exposure - Client returns reduces by 6% in absolute basis (i.e. 2% p.a. for 3 years)</b>	10500	11%	5%	14.53%	24.53%
	12500	32%	26%	35.58%	45.58%
	14500	53%	47%	56.63%	66.63%
	15000	58%	52%	61.89%	71.89%

Please feel free to contact us for any clarifications on the same