

Fund Insights

L&T Triple Ace Bond Fund

January 2014

Investing in high quality fixed income securities



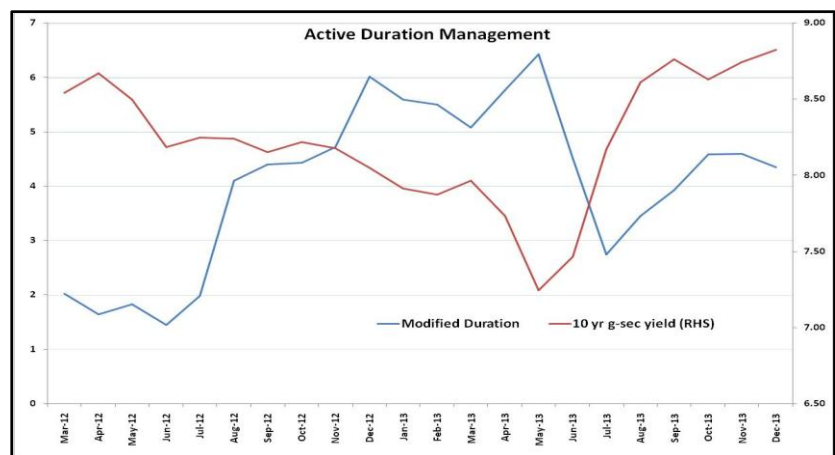
Shobheta Manglik is the Fund Manager of L&T Triple Ace Bond Fund.

She has over 12 years of experience in the fixed income market in India. Prior to joining L&T Investment Management, she was Head of Fixed Income at Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited. She has also worked with Fidelity Investments, Reliance Capital and PNB Gilts in her previous assignments. She holds a PGDBM from IMT, Ghaziabad.

L&T Triple Ace Bond Fund is one of the unique funds in the industry with its well differentiated investment strategy of investing in high quality fixed income securities. As the overall macroeconomic environment continue to be volatile and challenging, the safety and assurance of high credit quality portfolio is desirable. In this edition of Fund Insights we highlight the reasons why it makes sense to invest in L&T Triple Ace Bond Fund.

ACTIVE DURATION MANAGEMENT

L&T Triple Ace Bond Fund has been quite successful in managing its duration in the past. In response to the volatility in yield in the past year, the fund manager altered portfolio composition and maturity, within the



guidelines laid down in the scheme information document. Due to the fund's mandate of investing mainly in government securities and AAA rated corporate bonds, the portfolio is quite liquid, providing enough flexibility to the portfolio manager to alter the positioning of the portfolios based on evolving scenario.

L&T Triple Ace Bond Fund's focus on investing in high quality fixed income instruments coupled with its ability to capitalise on the favourable movement in bond yields makes it an ideal investment option for investors looking to invest in high quality bond fund with medium to long term investment horizon, ranging from minimum 18 months to 24 months.

CURRENT PORTFOLIO STRATEGY

L&T Triple Ace Bond Fund continues to be focused on investing in high

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TOP TEN HOLDINGS (%)

as at 31.12.13	Rating	Weight
Power Finance Ltd	CRISIL AAA	10.73%
REC Ltd	CRISIL AAA	8.68%
08.32% GOI 2032	SOVEREIGN	6.85%
07.83% GOI 2018	SOVEREIGN	6.24%
08.83% GOI 2023	SOVEREIGN	5.17%
07.16% GOI 2023	SOVEREIGN	4.75%
Power Grid Ltd	CRISIL AAA	4.28%
08.20% GOI 2025	SOVEREIGN	4.15%
08.33% GOI 2026	SOVEREIGN	3.93%
07.28% GOI 2019	SOVEREIGN	3.84%

Source: Internal

PORTFOLIO BREAK-UP (%)

as at 31.12.13	
Government securities	51.67%
Corporate bonds / NCDs	33.06%
CP/ CDs	3.39%
CBLO, Reverse Repo, Net receivables	11.88%

Source: Internal

PORTFOLIO STATISTICS

as at 31.12.13	
Average Maturity	7.14 years
Modified Duration	4.35
Fund Size (Rs. Crore)	1452

Source: Internal

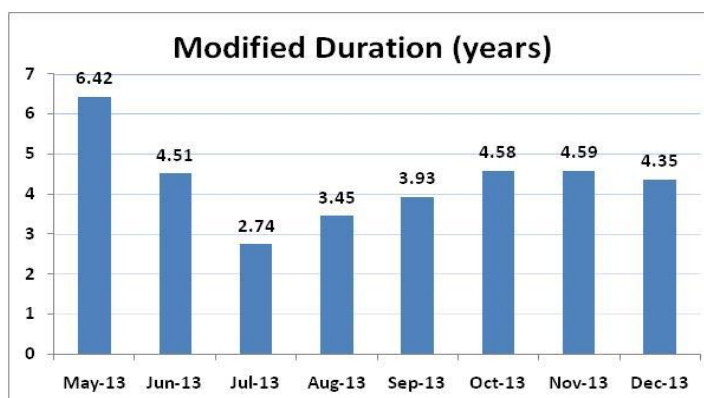
RATING PROFILE

as at 31.12.13	
Sovereign	51.67
AAA	33.06
A1+	3.39
CBLO, Reverse Repo, Net receivables	11.88

Source: Internal

quality credits and sovereign securities.

In the past, we had reduced the duration of the fund, with a view to re-enter at better yield levels. The fund has benefitted from this strategy.



Duration of the fund has now been maintained in a moderate band and is currently at 4.6 years[^]. Exposure to government securities has been reduced to approximately 53%[^] from nearly 60% earlier and the proceeds invested in the short to medium tenor corporate bond segment where spreads are still attractive. The liquidity condition in the system is comfortable after the various actions undertaken by the RBI and the shorter segment of the curve (upto 3 years) has been witnessing a gradual fall in yields. Also, there has been overall downward movement in the yield curve upto the 5 year segment. We have invested in that segment and would continue to actively manage the curve to try and capture the spread movements and the different asset preferences.

([^] data as on 13-01-14)

FUND POSITIONING

L&T Triple Ace Bond Fund is suitable for investors having a positive view on interest rates, with investment horizon of medium to long term. The Fund invests predominantly in government securities and AAA-rated corporate bonds making it an ideal option for investors looking for high quality bond fund. The Fund aims to capitalize on the investment opportunities in the bond markets by actively managing the duration of the fund and exposure to different segments of the bond market.

WHY INVEST IN L&T TRIPLE ACE BOND FUND?

- **High credit quality:** The Fund invests predominantly in high quality instruments such as AAA rated and sovereign securities. In the deteriorating credit environment, it may make all the more sense to invest in such a Fund.
- **Potential for capital gains:** L&T Triple Ace Bond Fund aims to capitalize on opportunities by actively managing duration of the fund depending on the interest rate view
- **Flexibility:** The Fund has the flexibility to invest across government securities and corporate debt depending on the relative attractiveness of the two segments
- **Multi-strategy approach:** The Fund aims to have an optimum mix of duration and yield oriented securities to generate returns depending on the prevailing macroeconomic environment

CURRENT MARKET SCENARIO

The Reserve Bank in a surprising move kept the policy rates unchanged on December 18 policy announcement. The markets which were widely expecting a 25 bps rate hike reacted quite sharply and the yields eased by 5-10 bps across the curve. Overnight, the US Federal Reserve announced the start of gradual tapering, by \$10 billion from January 2014 onwards. The event provided further comfort to the yields and it eased again by 1-4 bps across the board. The uncertainty regarding the timing of the tapering was keeping the market guessing and the possibility was factored in to some extent in the prices. The 10 year is currently trading at 8.70-82 range.

The Reserve Bank seems to have paused in its rate hike cycle to assess the effect of the previous rate hikes and also wait for data readings to decide on further action on rates. With both CPI and WPI, being at recent highs, the pause seems temporary and we could further witness a rate hike in the next review itself. The supply side on the government securities also continue to weigh in on the sentiments with the Rs. 50,000 crore debt switch to also be conducted in the market itself. Details of the switch are yet to be announced by the Government. The fiscal deficit for the current FY also seems to be difficult to meet until and unless there are sharp reductions on the expenditure side.

On the other hand, anemic domestic growth and sharply lower CAD are positive factors for the bond markets. Also, absolute yield levels appear attractive for long term investors such as PFs and insurance companies, and with scheduled g-sec supply for last quarter FY14 being much lower, tactical trading opportunities are possible, providing two-way movement in yields and keeping volatility in markets high. (Source: Bloomberg, RBI)


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Past Performance may or may not be sustained in future.

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This product is suitable for investors who are seeking*

- Generation of regular and stable income over medium to long-term
- Investment in debt market securities such as non convertible debentures, bonds issued by corporates, bank and government, commercial paper, certificate of deposits and other money market instruments
- Low risk  (BLUE).

Note: Risk may be represented as:  (BLUE) investors understand that their principal will be at low risk,  (YELLOW) investors understand that their principal will be at medium risk,  (BROWN) investors understand that their principal will be at high risk. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Mutual funds investments are subject to market risks, read all scheme related documents carefully. CL00671