

Fund Insights

L&T Income Opportunities Fund

February 2014

A unique yield focused fund that could form the core of your fixed income portfolio



Shriram Ramanathan is Head – Fixed Income at L&T Investment Management. He has over 12 years of experience in the fixed income markets in India. Prior to joining L&T Investment Management, he was Fund Manager at FIL Fund Management. He has also worked with ING Investment Management in India and Hong Kong, Zurich Asset Management Company and ICICI Bank.

Reserve Bank of India increased the repo rate by 25 basis points in its third quarter review of monetary policy. Though the CPI Inflation declined on the back of drop in vegetable and fruit prices in December, it still remains elevated at 9.87%. The decision to hike repo rate is in line with the RBI's focus on containing persistently high inflationary expectations and the future interest rate trajectory is largely expected to be data driven. Given this backdrop, we believe the risk-reward is still in favour of shorter duration and higher accrual oriented funds as compared to longer duration funds. L&T Income Opportunities Fund with its yield focused strategy could be an interesting investment option for relatively cautious investors having investment horizon of at least 2 years. In this edition of Fund Insights, we discuss the fund's portfolio strategy, product positioning and additionally, also highlight the reasons why we believe it may make sense to increase allocation to this Fund in the current environment

Shriram Ramanathan is the Fund Manager of L&T Income Opportunities Fund.

High Accrual fund with a Focus on Infrastructure Sector

L&T Income Opportunities Fund is a medium term bond fund which focuses on yield enhancement through measured exposure to high yielding securities. The fund looks to focus currently on infrastructure segment by leveraging the expertise of L&T group in terms of project execution, project financing, industry knowledge and sourcing abilities. Our internal credit research team's ability to access and leverage the L&T group's expertise in the infrastructure domain clearly provides an added advantage to carefully select the credits in the sector.

- ✓ **Focus on yield enhancement through measured exposure to high yielding securities**
- ✓ **Rigorous credit selection process to spot mispriced credit opportunities**
- ✓ **Current focus on infrastructure sector**
- ✓ **Average maturity not to exceed 3 years**

TOP TEN HOLDINGS (%)

as at 31.1.14	Rating	Weight
Tata Housing Development Company Limited	ICRA AA	10.47%
IL&FS Transportation Networks Limited	ICRA A	8.77%
Inox Air Product Limited	CRISIL AA	8.43%
Kotak Mahindra Investment Limited	CRISIL AA+	7.55%
HPCL-Mittal Energy Limited	ICRA AA-	7.18%
L&T Halol Shamlaji Tollway Limited	CRISIL AA(SO)	6.58%
JSW Energy Limited	CARE AA-	6.09%
Adani Ports and Special Economic Zone Limited	ICRA AA-	6.00%
Shriram Transport Finance Company Limited	CARE AA+	5.25%
L&T Housing Finance Limited	CARE AA	5.23%

Source: Internal

PORTFOLIO BREAK-UP (%)

as at 31.1.14	
Corporate bonds / NCDs	88.99
CDs / Cps	7.06
CBLO, Reverse Repo, Net receivables	3.95

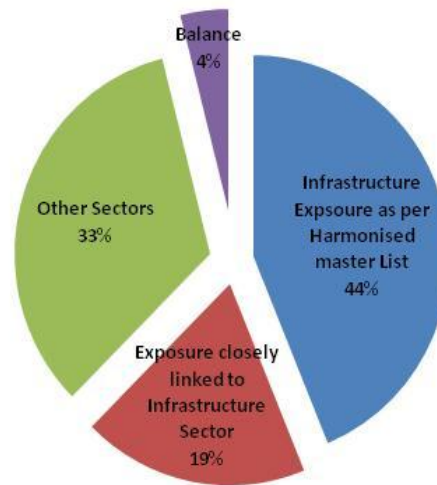
Source: Internal

PORTFOLIO STATISTICS

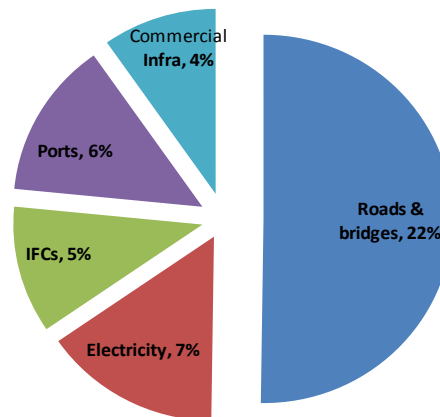
as at 31.1.14	
Average Maturity	2.16 Years
Modified Duration	1.72 Years
Fund Size (Rs. Crore)	478.11

Source: Internal

OVERALL PORTFOLIO COMPOSITION(31.1.2014)



PORTFOLIO COMPOSITION ACROSS INFRASTRUCTURE SEGMENT



The scheme has invested almost 65% of the total net assets towards infrastructure sector, as per harmonized master list and another 13% in BPCL / HMEL. Within the infrastructure space, the exposure is diversified across ports, roads, electricity, IFCs etc.

WHY INVEST IN A YIELD ORIENTED, ACCRUAL BASED FUND?

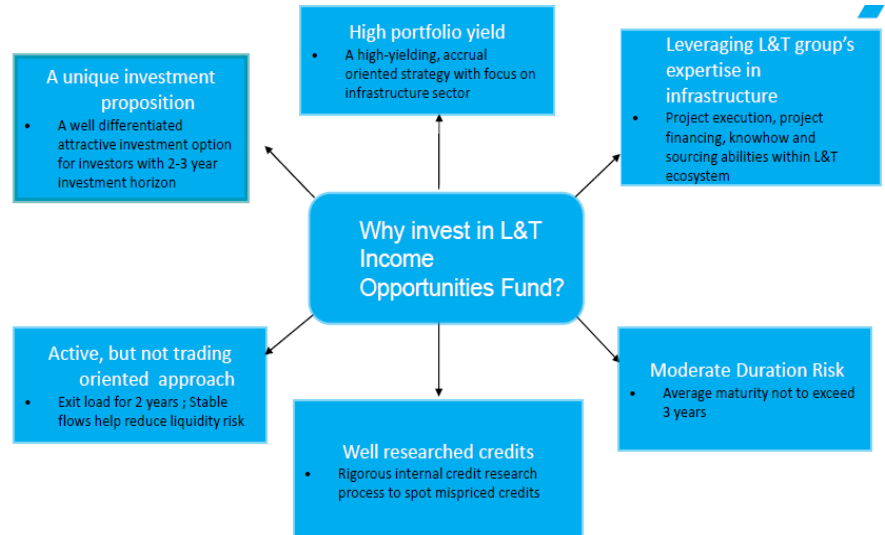
L&T Income Opportunities fund can be ideal for investors with an investment horizon of more than 2 years in the current market environment. The fund focuses on short to medium term horizon and is thus less risky compared to longer duration funds. With the RBI raising the repo rate twice in the last couple of month, interest rate tightening is set to continue, as the focus shifts to inflation management.

RATING PROFILE

as at 31.1.14

AAA /A1+ /Sovereign And equivalent	13.23%
AA+/AA/AA- /A	82.82%
CBLO, Reverse Repo, Net receivables	3.95%

Accrual based strategy insulates the portfolio from interest rate volatility and delivers returns by locking in yields at higher levels. L&T Income Opportunities funds with a higher yield but comparatively lower risk strategy, owing to its focus on infrastructure segment, has the potential to deliver from a medium term perspective of 2 years or more.




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




Risk Factors: Please note that the strategy stated above is an indicative strategy and is not to be construed as advising on / disclosing the actual construct of the portfolio. The actual allocations may vary significantly due to changing market conditions / unavailability of securities. The views expressed herein regarding future prospects may or may not be realized. L&T Investment Management Limited/L&T Mutual Fund shall not be liable for any errors in the content or for any actions taken in reliance thereon.

Any reference to the securities/ sectors / indices in the document is only for illustration purpose and may or may not form a part of the portfolio of the scheme and is not any indication of the portfolio of the scheme. The portfolio indicated is the current portfolio and may be changed at the discretion of the fund manager. The inclusion of any security in the portfolio should not be construed as a recommendation to buy such securities.

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This product is suitable for investors who are seeking*

- Generation of regular returns and capital appreciation 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  (YELLOW).

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. **CL00729**