L&T Mutual Fund

Fund Insights

L&T Low Duration Fund

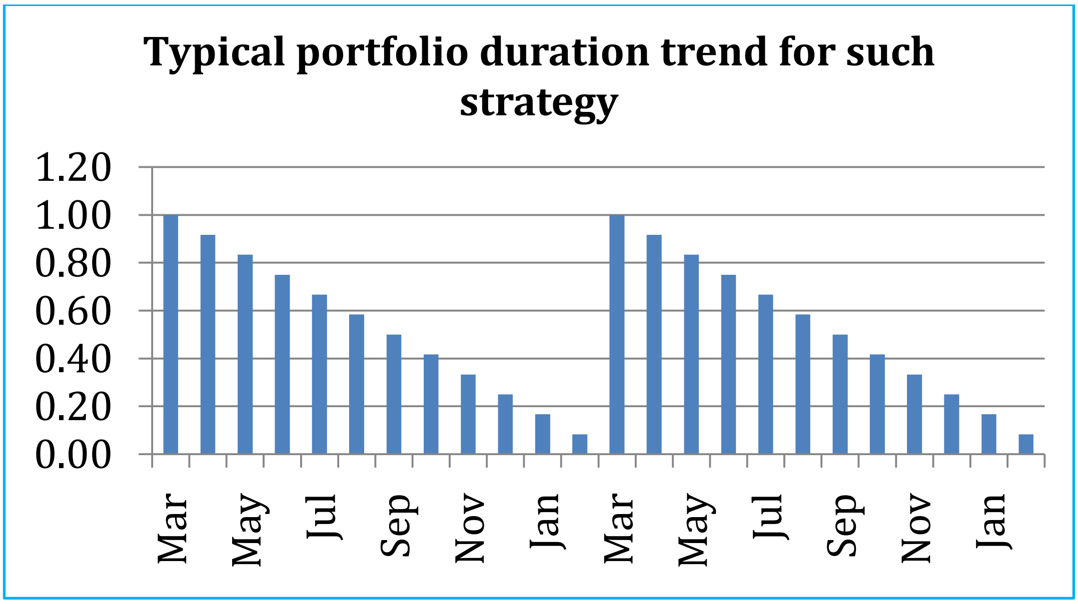
March 2014

Historically, it has been observed that liquidity deficit increases significantly in the March quarter leading to sharp upward movement in money market rates. This provides an attractive investment opportunity for investors looking to lock-in investments at higher yields. In this edition of Fund Insights we discuss how investors could look to capitalize on this investment opportunity and also present the current portfolio strategy of L&T Low Duration Fund which we believe is well positioned to take advantage of this trend.

L&T Low Duration Fund

L&T Low Duration Fund is an open-ended debt fund which predominantly invests in debt and money market securities with maturity of upto 1 year. The current strategy of the fund aims to capitalize on the higher yields by having maximum allocation to liquid high quality Bank CDs maturing in March next year. The fund's duration is expected to steadily decrease over the next 1 year as the fund would aim to follow a bullet strategy of deploying any incremental inflows in securities maturing in March next year. We believe L&T Low Duration Fund is in a good position to take advantage of the higher yields in this segment on account of the following:

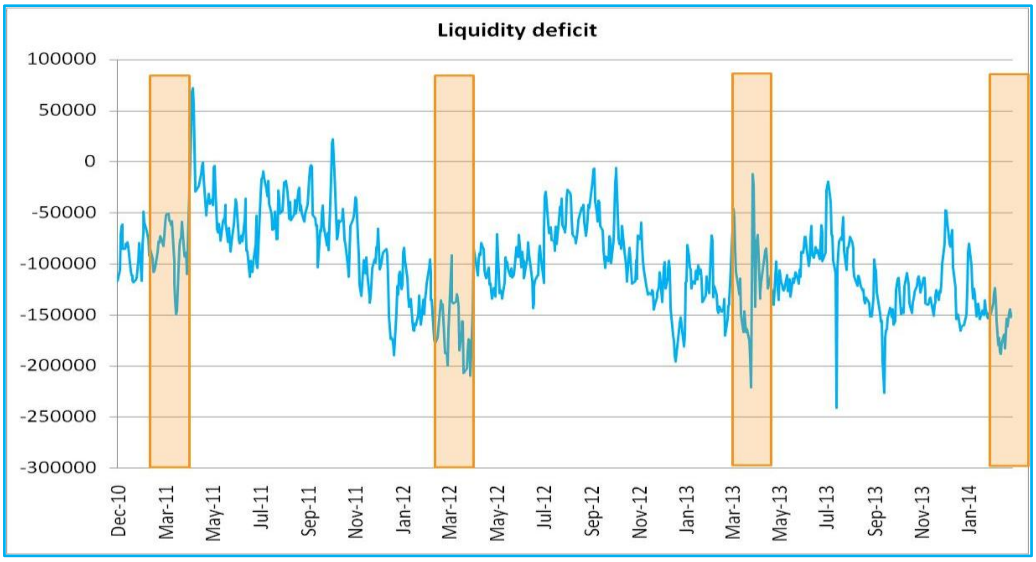
- The fund has a clear mandate of predominantly investing in securities with maturity of upto 1 year
- The Fund would focus on investing primarily in liquid high quality bank CDs, thus maintaining relatively liquid portfolio to be able to meet liquidity needs, if any
- The fund's strategy would help investors lock-in yield level prevailing at the time of their investment provided they stay invested till march of the following year
- The asset size of the fund is currently quite small. As a result any fresh inflows into the fund that are invested at an attractive yield are likely to drive the portfolio yield higher.



The above chart is for illustrative purposes only.

Why March quarter may provide an opportunity for investors?

- Significant outflows on account of advance tax payments leading to increase in liquidity deficit
- Government spending typically reduces in the last quarter of the fiscal leading to further tightening of liquidity
- Banks in their effort to expand balance sheet look to fund credit growth through heavy issuance of Certificate of Deposits
- As a result, short term rates tend to go up sharply providing an attractive investment opportunity.
- Liquidity conditions normally improve in the first quarter of new fiscal year, thus offering benefit of roll down



Source: Bloomberg, in Rs. Crore. As on 28-Feb-14

SCENARIO ANALYSIS

The table below depicts the holding period return from a 1 year security for various yield movement and holding periods. For example, if the yields move downward by 50 basis points over a period of 180 days, the security would return approx 10.27% on an annualised basis. So while investor may invest with a 1 year investment horizon, if the yields fall it would be possible to exit within 1 year without compromising on the returns. On the other hand, if investor stays invested till March 2015, he is likely to lock-in at the yield level prevailing at the time of his investment.

PRESENT YIELD: 9.75%		*REDUCTION IN YIELD*					
		0 bps	*10 bps*	*20 bps*	*30 bps*	*40 bps*	*50 bps*
HOLDING PERIOD (DAYS)	**30**	9.75%	10.87%	12.01%	13.16%	14.32%	15.49%
	60	9.75%	10.26%	10.77%	11.29%	11.81%	12.33%
	91	9.75%	10.05%	10.35%	10.66%	10.96%	11.27%
	180	9.75%	9.85%	9.96%	10.06%	10.16%	10.27%
	270	9.75%	9.79%	9.82%	9.86%	9.89%	9.93%
	365	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%

The above table is for illustrative purpose only and should not be construed as performance of the fund or indicating any returns. Please consult your financial adviser before taking any investment decision.

This product is suitable for investors who are seeking*

• Generation of reasonable returns and liquidity over short term
• Investment primarily in money market and short term debt 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

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