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L&T Arbitrage Opportunities Fund

A fund that aims to capitalize on the arbitrage opportunities between cash and derivatives segments of the equity market

Venugopal Manghat, Praveen Ayathan and Abhijeet Dakshikar (for foreign securities) are the Fund Managers for L&T Arbitrage Opportunities Fund.

L&T Arbitrage Opportunities Fund seeks to generate reasonable returns by predominantly investing in arbitrage opportunities between the cash and derivatives segments of the equity markets and by investing balance in debt and money market instruments. In this edition of Fund Insights, we discuss the Fund's investment approach and highlight the reasons why we believe this Fund could add value to investors.

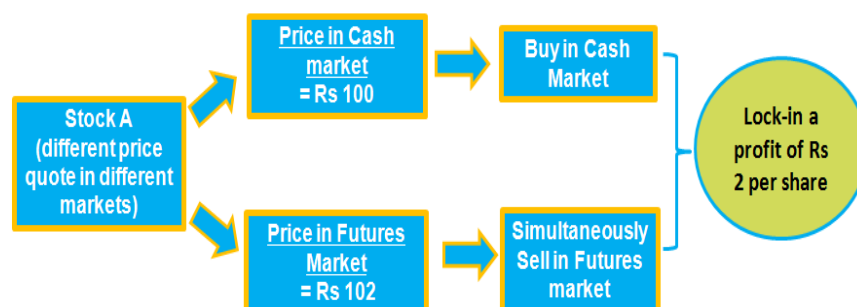
L&T Arbitrage Opportunities Fund

Arbitrage in simple terms means taking advantage of price differential between different markets for the same commodity. In financial markets, this translates into entering into trading positions in the same security through different market segments. L&T Arbitrage Opportunities Fund uses Cash and Futures arbitrage strategies to exploit any prevailing price anomaly arising out of volatility in the markets. This helps in enabling the fund to capitalize on the prevailing spread between the cash and futures segment of the equity market.

Cash – Futures Arbitrage Strategy

The fund will initiate an arbitrage position by buying a stock in the cash segment and selling simultaneously equal quantity of the stock in the futures segment of the market. The positions thus initiated are to be reversed before or during the expiry of the futures series, which is generally the last Thursday of each month. The position could also be rolled over by the fund manager. L&T Arbitrage Opportunities Fund would rely predominantly on stock arbitrage. The fund is focused on actively managing its exposure by constantly looking for arbitrage trades that offers a higher carry.

Illustration



(The above example shows an illustration of the arbitrage opportunity. It is assumed that the cash and futures prices will converge on the day of the expiry. The fund does not guarantee, promise or forecast any returns. The above opportunity may or may not be always available)

in the market. This is for illustration purpose only. No assurance can be given that prices of stock and stock futures will correlate perfectly on expiry date of stock futures.)

Product Positioning

L&T Arbitrage Opportunities Fund aims to generate returns through fully hedged exposure to equities. The fund is focused on generating 'Market-Neutral' returns, i.e., endeavor to generate absolute positive returns in all market conditions. It would be tax-efficient compared to liquid funds as tax treatment is similar to equity funds. **This makes it an interesting alternative to liquid schemes.**

Taxation – potential comparative advantage over liquid funds

	Arbitrage Funds	Liquid Funds
Amount of investment (Rs)	10,000,000	10,000,000
Annualized return for 30 days (%)	9%	9%
Appreciation (Rs)	73,973	73,973
Total investment value (Rs)	10,073,973	10,073,973
Gross Dividend Payout	73,973	73,973
Tax Rate - DDT (%)	0%	28.325%
Total tax payable (Rs)	0	20,953
Net Dividend Payout (Rs)	73,973	53,020
Post tax investment value (Rs)	10,073,973	10,053,020
Post tax return (simple annualized)	9.00%	6.45%

(DDT – Dividend Distribution Tax. The DDT rates are applicable from 1st Oct 2014. The above table is for illustrative purpose only. The above calculation is assumed for individual/HUF only. Based on the assumption that all returns are earned in the form of dividend. The aforesaid table is based on assumption and is not reflective of the current market. If the said scheme does not qualify as an "equity oriented scheme" under the Income Tax Act, 1961 due to investments in short term debt and money market instruments due to lack of arbitrage opportunities in the market, the tax advantage stated above will not be available. It is assumed that the entire appreciation is available as distributable surplus.)


KEY SCHEME FEATURES




Scheme Name	L&T Arbitrage Opportunities Fund (an open-ended equity scheme)
Investment Objective	To seek to generate reasonable returns by predominantly investing in arbitrage opportunities in the cash and derivatives segments of the equity markets and by investing balance in debt and money market instruments. There is no assurance that the objective of the Scheme will be realised and the Scheme does not assure or guarantee any returns.
Exit Load	If redeemed within 3 months from date of allotment: 0.50%
Scheme benchmark	Crisil Liquid Fund Index
Minimum initial application amount	Rs. 5000 per application and in multiples of Re. 1 thereafter
Options available	<ul style="list-style-type: none"> • Growth • Dividend - Monthly / Quarterly (payout & reinvestment) • Bonus
SIP facility	Available
Fund Manager	Venugopal Manghat, Praveen Ayathan and Abhijeet Dakshikar (for foreign securities)

Past Performance may or may not be sustained in future.

The fund insights is for general information only and does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this information. Investments in mutual funds and secondary markets inherently involve risks and recipient should consult their legal, tax and financial advisors before investing. Recipient of this insight should understand that statements made herein regarding future prospects may not be realized.

This product is suitable for investors who are seeking*

- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segment of the equity markets; and debt and 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. CL01241