June 2015

L&T Monthly Income Plan

An open-ended income scheme with no assured returns (Monthly Income is not assured & is subject to the availability of distributable surplus)

Aiming to strike a risk-return balance using calibrated equity exposure

L&T Monthly Income Plan is managed by Venugopal Manghat (Equity) and Vikram Chopra (Fixed Income)

Venugopal Manghat *is Co Head – Equity investments at L&T Investment Management. He has over 19 years of experience. Prior to joining L&T Investment Management he was Co-Head, Equities at Tata Asset Management Limited and was managing some of the key equity and hybrid schemes for the company. He holds an MBA in Finance and a B.Sc. (in Mathematics*

Vikram Chopra *has over 13 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 IDBI Bank and Axis Bank.*

** For product labeling, please refer to page 3 of this document*

With substantial easing of inflation and improving economic fundamentals, the overall environment looks quite conducive for bonds and present yield levels seem relatively attractive given the medium term interest rate outlook. On the other hand, the recent correction in equity market has led to moderation in valuation levels which are now somewhat closer to long term average. The L&T Monthly Income Plan with its asset allocation strategy that allows measured exposure to equities could prove to be an interesting investment opportunity for cautious investors in such an environment. The Fund also has an uninterrupted dividend track record over the past several years. In this edition of Fund Insights, we discuss the investment approach of L&T Monthly Income Plan and also put forth some of the reasons for investing in this fund.

A CAUTIOUS INVESTMENT APPROACH

L&T Monthly Income Plan looks to maintain a steady asset allocation between debt and equity with at least 80% of its net assets in debt and money market instruments and up to 20% in equities. Such asset allocation approach ensures discipline as there is an endeavor to book profits periodically by cutting exposure to asset class that has outperformed. This approach also helps in striking a balance between stability and growth. While debt provides the necessary stability to the portfolio, equity component help enhance the return potential over longer time horizon. Since this fund is primarily aimed at relatively cautious investors, the debt component of the portfolio is typically invested in high quality instruments such as government securities and high credit quality corporate bonds. The duration of the bond portfolio is actively managed based on the interest rate views of the fund manager. The equity portion of the portfolio is diversified across sectors and market capitalization segments with focus on owning fundamentally strong businesses at reasonable valuations. Investors looking to combine safety of debt with a marginal exposure to equities could consider this fund.

BOND YIELDS LOOK ATTRACTIVE GIVEN FAVOURABLE MACRO-ECONOMIC ENVIRONMENT

The 10-year g-sec yield is now trading in a range of 7.80% to 7.90% (based on 8.40%GS 2024) which does look attractive given the favorable environment for bonds. With significant easing of inflation over

TOP 5 DEBT HOLDINGS (%)

AMFI Industry	RATING	Fund
09.20% GOI 30-SEP-2030	Sovereign	23.48%
08.60% GOI 02-JUN-2028	Sovereign	14.32%
08.15% GOI 24-NOV-2026	Sovereign	12.27%
Power Grid Corporation of India Limited	AAA	7.46
09.23% GOI 23-DEC-2043	Sovereign	4.29

Source: Internal, Bloomberg

Portfolio data as on 30.04.2015.

DIVIDEND HISTORY (LAST 12 MONTHS)

Record date	Per unit dividend
27-Apr-15	0.04
25-Mar-15	0.04
25-Feb-15	0.04
27-Jan-15	0.07
26-Dec-14	0.07
25-Nov-14	0.07
27-Oct-14	0.07
25-Sep-14	0.08
25-Aug-14	0.08
25-Jul-14	0.08
25-Jun-14	0.10
26-May-14	0.27

(Pursuant to payment of dividend, NAV per unit of the dividend options of the aforesaid scheme will fall to the extent of the payment and statutory levy (if applicable)

Past performance of the aforesaid schemes may or may not be sustained in future)

the past few months, real interest rates have turned positive after a gap of almost 6 years and this could prove to be a good opportunity for investors to capitalize in an easing interest rate environment from a medium term perspective. The Reserve Bank of India had indicated in the last policy that transmission of previous policy rate cuts into bank lending rates and supply side reforms will be the key to further easing. The RBI is likely to ease policy rates by another 25-50 basis points during the course of this financial year, though the timing of rate cuts remain uncertain.

EQUITIES COULD DELIVER STRONG PERFORMANCE OVER THE NEXT 3-5 YEARS

Indian equities have seen a correction from its peak in January 2015 and market valuations are now closer to long-term average. Over the past 10 years, S&P BSE Sensex has largely traded in the range of 14-25 times trailing 12 month earnings (except Oct- 2008 to April 2009 period), with average being around 18.2 times. It is currently trading at trailing P/E of 19.7 (At index level of 26599) which is a little above the long-term average. Given that we are closer to the trough of the earnings cycle, the current valuations do not look expensive and the corporate earnings growth over the next few years is likely to determine the future course of action for the market. Moreover, if the earnings growth accelerates, we could see market get re-rated as has been observed in the past. In fact, with significant moderation in inflation, benign commodity prices, relatively stable currency and reduced twin deficits, the macro-economic parameters are looking quite favorable for the domestic economy. The current government has also taken several measures to revive the economy and further reforms are expected in the coming months. However, given the severe nature of the slowdown, it may take a while for these reforms to yield results but once they do, the impact could last for a long time.

L&T MONTHLY INCOME PLAN – CURRENT PORTFOLIO POSITIONING

As on 30th April 2015, the fund had approx 16% exposure to equities, 64% in sovereign bonds and about 8% in corporate bonds. The cash exposure was around 12%. In terms of equity exposure, the fund has a well diversified portfolio invested across large and mid cap stocks. Stock selection is done using bottom-up investment approach without any sector, style or market cap bias. As for debt component, the fund is predominantly invested in long dated sovereign papers given the expected easing of interest rates over the medium term. The corporate bond exposure of the fund is largely invested in relatively liquid high credit quality instruments.

WHY INVEST IN L&T MONTHLY INCOME PLAN?

- A product suitable for relatively cautious investors looking to boost returns through measured equity exposure
- A disciplined asset allocation product that could suit relatively

cautious investors
- A product with potential to deliver risk adjusted returns
- Asset allocation structure that could provide necessary downside protection from a medium term perspective
- A tax efficient asset allocation alternative for investors as the gains on investment held in the fund for more than 3 years (long term capital gains) are taxable at a concessional rate

This product is suitable for investors who are seeking*

• Generation of monthly income over medium to long term

• Investment in debt, equity and money market instruments

• Medium 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.

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