Fund Insights

November 2016

L&T Mutual Fund

L&T Resurgent India Corporate Bond Fund

A combination of duration and accrual strategy…

The bond yields have come off substantially over the past two years and given the government's recent demonetization move, there is a fair probability of yields moving lower over the next few quarters. Given this background, funds with relatively higher duration could benefit over the next 6-12 months. However, the yield accrual from duration funds could also fall significantly with the falling interest rates which may make it less attractive for medium term investors to make fresh allocation to such funds. Given this backdrop, investors having investment horizon of over 3 years may consider investing in **L&T Resurgent India Corporate Bond Fund** which combines the best of duration and accrual strategies to deliver strong risk adjusted performance over the medium to long term.

L&T Resurgent India Corporate Bond Fund aims to maintain a portfolio yield that is relatively higher than the typical duration funds without significantly diluting portfolio credit quality and it also has the flexibility to increase the portfolio duration upto 6 years in a conducive interest rate environment. The credit selection in the Fund is based on our rigorous internal credit research process encompassing detailed analysis of financial strength, liquidity, management track record and corporate governance. We believe given such an approach of combining the best of duration and accrual strategies, this Fund could be a good investment option for investors looking to make allocation to fixed income asset class with a medium to long term investment horizon.

Short to medium term rate outlook

- ❖ The new RBI Monetary Policy Committee's overall objective of maintaining CPI inflation in the range of 2-6% as against earlier stance of targeting 4% inflation could support lower rates over the next few quarters
- ❖ Weak global trade could also mean lowering of interest rates to support domestic growth given the RBI's objective of supporting growth along with controlling inflation in the range of 2-6%
- ❖ Real yields could be sustained at lower levels, partly influenced by the global low yield environment
- ❖ Given (a) structural softening in food inflation on account of government's efforts on various fronts and (b) most components of CPI are within RBI's target range of 2-6%, RBI has necessary leeway to lower interest rates
- ❖ Favourable external sector, stable INR and positive demand-supply environment for bonds are also conducive for bonds
- ❖ Recent measure from government to curb black money could also (a) drive inflation lower and (b) increase banking system liquidity, thus pushing overall bond yields lower
- ❖ While from a short term perspective interest rate environment looks quite conducive, from a medium term perspective, rate cycle could reverse as and when growth picks up and / or inflation inches up.

L&T Resurgent India Corporate Bond Fund - Investment Approach

- ❖ Adequate duration to capture upside potential in falling interest rate environment ; flexibility to cut back duration once rates stabilize. Modified duration can go upto 6 years.
- ❖ Own securities which provide adequate yield pick-up over G-Sec, while maintaining superior asset quality
- ❖ Typically maintains more than 70% - 80% exposure in AAA and nil exposure in AA- or below.

Source: RBI, Internal. For product labeling please refer to page 3 of the document.

Fund Insights

November 2016

Why invest in L&T Resurgent India Corporate Bond Fund (L&T RICBF)?

- The Fund combines the best of duration and accrual strategies which makes it a suitable investment option for medium to long term investors
- Given the current stage of the interest rate cycle and recent developments, a duration strategy could do well over the next 6-12 months. However, once the rates stabilize, accrual strategy could potentially outperform the duration strategy. A unique investment strategy of L&T Resurgent India Corporate Bond Fund could help it capitalize on both phases.
- Robust credit selection process with in-house credit research team to spot mispriced credits.
- Maintains a relatively high credit quality portfolio - typically maintains more than 70% - 80% exposure in AAA and nil exposure in AA- or below.
- Investments held for over 3 years are tax efficient as gains on such investment is treated as long term capital gains and thus enjoy concessional tax rate and indexation benefit.

Who is this fund suitable for?

- Investors looking for a product with relatively higher portfolio yield without significant dilution in credit quality
- Investors looking to earn relatively higher and tax efficient returns over medium to long term, from their fixed income allocation
- Investors having investment horizon of at least 3 years

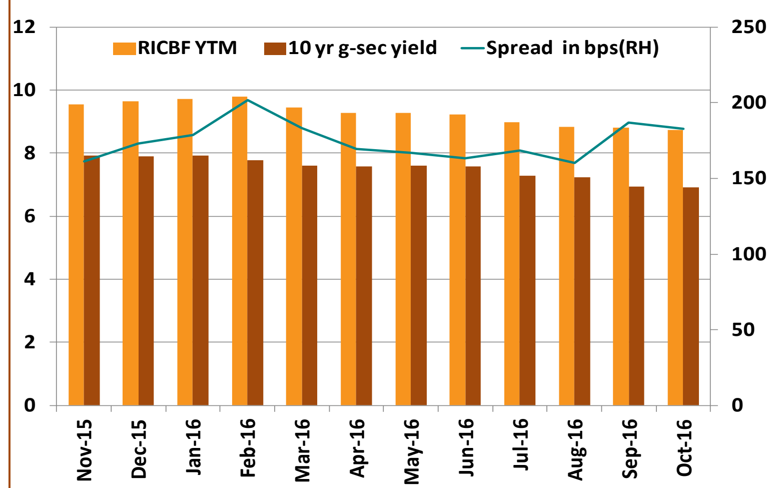
Portfolio Statistics (28.10.2016)

Average Maturity	5.66 years
Modified Duration	3.92
Gross YTM	8.74%
Fund size (Rs. Cr)	714.22

Portfolio credit profile (28.10.2016)

AAA / A1+ and equivalent / CBLO / reverse Repo / Net receivables	72.64%
AA + / AA and equivalent	27.36%

RICBF - Yield pick up of ~160-200 bps over 10 yr g-sec



Key scheme features

- **Scheme Benchmark:** CRISIL Composite Bond Fund Index
- **Exit Load:** On or before 1 year from the date of allotment or purchase applying first in first out basis: 2%; After 1 year but on or before 2 years from the date of allotment or purchase applying first in first out basis: 1%; After 2 years: NIL

Data source: Bloomberg, internal. Data as on 28-10-2016. For Product labeling please refer to page 3 of this document.

L&T Mutual Fund

Product Labeling
L&T Resurgent India Corporate Bond Fund ("L&TRICBF")

Scheme name and type of scheme

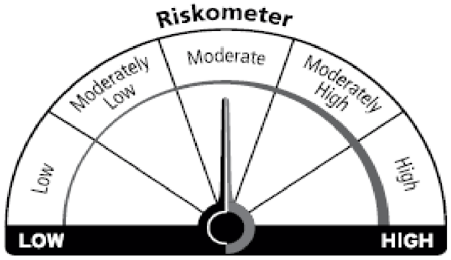
An open-ended income scheme

Investment Objective: To seek to generate income by investing primarily in debt and money market securities of fundamentally strong corporates/companies in growth sectors which are closely associated with the resurgence of domestic economy, with a flexibility to follow more conservative investment approach during economic downturns.

This product is suitable for investors who are seeking*:

• Generation of income over medium to long term

• Investment primarily in debt and money market securities of fundamentally strong corporate/ companies in growth sectors which are closely associated with the resurgence of domestic economy



Investors understand that their principal will be at moderate risk

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Disclaimer

This document 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. This document provides general information on financial planning and comparisons made are only for illustration purposes. The data/information used/disclosed in this document is only for information purposes and not guaranteeing / indicating any returns. 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 presentation should understand that statements made herein regarding future prospects may not be realized. He/ She should also understand that any reference to the indices/ sectors/ securities/ schemes etc. in the document is only for illustration purpose. The securities indicated in the presentation may or may not form a part of the portfolio of the Scheme as on the date of receipt of the document. Neither this presentation nor the units of L&T Mutual Fund have been registered in any jurisdiction except India. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. Recipient of this information should understand that statements made herein regarding future prospects may not be realized or achieved.

Risk Factors: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

CL03821