

May 2015

L&T India Prudence Fund

Poised to capitalize on opportunities in stocks and bonds

L&T India Prudence Fund (An open-ended equity growth fund) is managed by Soumendra Nath Lahiri (Equity) and Vikram Chopra (Fixed Income)

Soumendra Nath Lahiri is Head - Equities at L&T Investment Management. He has over 22 years of experience, of which 18 years is in equity markets in India. Prior to joining L&T Investment Management, he was Head of Equities at Canara Robeco Mutual Fund. He has also worked with Fortuna Capital and DSP Black Rock in his previous assignments. He holds a B.E. degree in Mechanical Engineering and an MBA from Indian Institute of Management, Bangalore.

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.

Abhijeet Dakshikar is the Fund Manager for foreign securities.

With equity markets seeing a correction of about 10% from its peak in January 2015, market valuations are now somewhat closer to the long-term average. In fact, with this correction, excess froth seems to have been taken off from many stocks especially in the midcap and small cap space and many quality stocks are now trading at a more reasonable valuation levels. For long-term investors, this could be a good opportunity to accumulate equities as there is a strong possibility of a turnaround in corporate earnings from a medium term perspective, though it may be difficult to predict the exact timing. On the other hand, the macro-environment has been quite conducive for bonds and present yield levels seem to be attractive given the medium term interest rate outlook. The L&T India Prudence Fund (LTIPF) with its twin strategy of investing in equities and debt could be an interesting investment option in such an environment. The Fund also has a proven performance track record since its inception in February 2011. In this edition of Fund Insights, we discuss the investment approach of L&T India Prudence Fund and also put forth some compelling reasons for investing in this fund.

A BALANCED INVESTMENT APPROACH

L&T India Prudence Fund looks to maintain a steady asset allocation between equity and debt with about 65%-75% of its net assets in equities and 25%-35% in debt and money market instruments. 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 growth and stability. While equity component provides the necessary growth potential, debt helps in controlling the overall portfolio volatility. In terms of security selection, the fund manager adopts a flexible investment style. For equities, we use a bottom-up stock selection approach without any bias towards sectors or market capitalization segments whereas for the debt portion, the fund typically endeavors to maintain high credit quality portfolio and invests across sovereign securities, corporate bonds and money market instruments. The Fund's overall endeavor is to deliver superior risk adjusted performance in the long term.

TOP 10 EQUITY HOLDINGS (%)

Stock name	Fund
HDFC Bank Limited	2.81
ICICI Bank Limited	2.47
Kotak Mahindra Bank Limited	2.40
Idea Cellular Limited	2.31
Sundaram Finance Limited	1.94
Sun Pharmaceuticals Industries Limited	1.90
State Bank of India	1.80
Infosys Limited	1.77
Larsen & Toubro Limited	1.69
HCL Technologies Limited	1.68

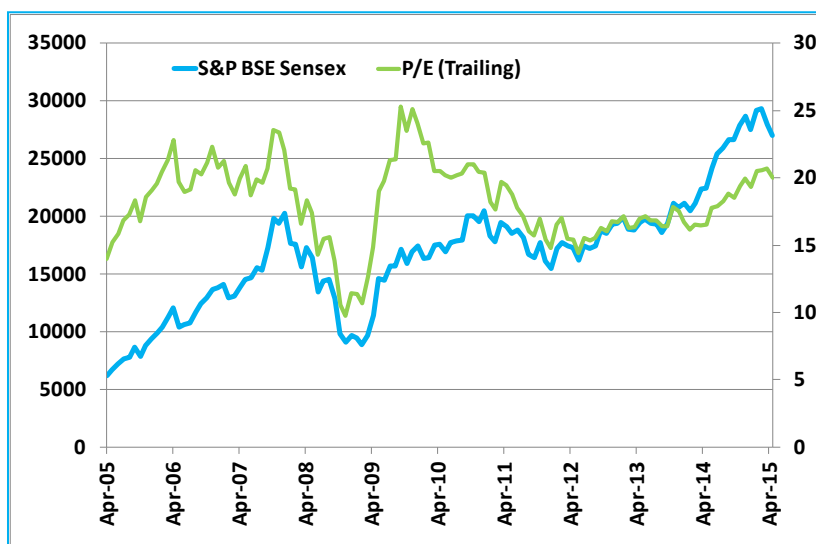
TOP 5 EQUITY SECTOR POSITIONS

AMFI Industry	Fund (%)
Banks	11.88
Software	5.46
Pharmaceuticals	4.92
Finance	4.49
Auto	3.95

Source: Internal

Portfolio data as on 30.04.2015

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



Source: Bloomberg, As on 30th April 2015

Indian equities have seen a correction of about 10% 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.

BOND YIELDS LOOK ATTRACTIVE GIVEN FAVOURABLE MACRO-ECONOMIC ENVIRONMENT

After touching a recent low of about 7.65%, 10-year g-sec yield has now moved closer to 8% which does look attractive given the favorable environment for bonds. With significant easing of inflation over 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

TOP 10 ACTIVE EQUITY POSITIONS (%)

Stock name	Fund	Rel wt
Idea Cellular Ltd.	2.31	1.95
Sundaram Finance Ltd.	1.94	1.94
Balkrishna Industries Ltd.	1.57	1.57
Multi Commodity Exchange of India Ltd.	1.51	1.43
Bharat Electronics Ltd.	1.47	1.36
Kotak Mahindra Bank Ltd.	2.40	1.34
Kajaria Ceramics Ltd.	1.25	1.25
K P R Mill Ltd.	1.22	1.22
Gateway Distriparks Ltd.	1.21	1.21
Monsanto India Ltd.	1.10	1.10

TOP 5 DEBT HOLDINGS (%)

AMFI Industry	RATING	Fund
09.20% GOI 30-SEP-2030	Sovereign	5.81
08.15% GOI 24-NOV-2026	Sovereign	5.57
08.60% GOI 02-JUN-2028	Sovereign	3.55
08.40% GOI 28-JUL-2024	Sovereign	2.61
REC Ltd	AAA	2.58

MARKET CAPITALISATION (%)

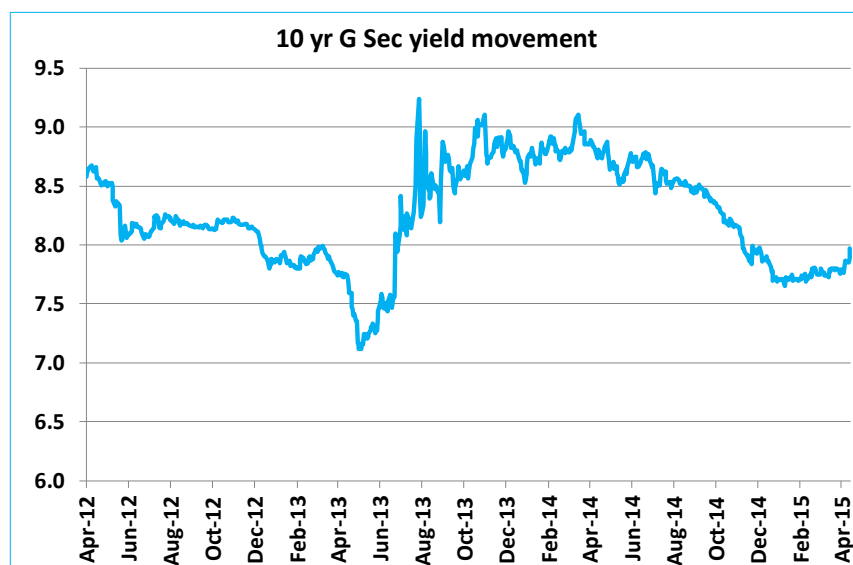
Market cap segment	Exposure*
Large cap	57.12%
Mid and Small cap	42.88%

*As % of total equity exposure. Large cap stocks are defined as the top 100 stocks by market capitalization.

Source: Internal, Bloomberg

Portfolio data as on 30.04.2015.

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.



Source: Bloomberg

L&T INDIA PRUDENCE FUND – POISED TO CAPITALIZE ON THE OPPORTUNITY


As on 30th April 2015, the fund had approx 65% exposure to equities, 21% in sovereign bonds and about 7% in corporate bonds. The cash exposure was around 7%. In terms of equity exposure, the fund has a well diversified portfolio invested across large, mid and small cap stocks. Of the total equity exposure that the fund has, approx 43% is invested in mid and small cap stocks and approx 57% in large cap stocks. In terms of sectors, the fund has highest exposure of 11.88% to banks which is significantly skewed towards private sector banks. Banks are likely to be the key beneficiaries of expected pick-up in the economic recovery and private sector banks look more attractive given their relatively strong asset quality and ability to capitalize on credit growth potential.




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 INDIA PRUDENCE FUND?

- Offers growth potential of equities as it invests 65-75% of the portfolio in stocks
- The debt portion adds stability to the portfolio and help control volatility to a certain extent
- Disciplined asset allocation approach
- Flexible equity investment approach to help capitalize on opportunities across the market spectrum
- Currently has significant exposure to dated government securities which could aid performance in an easing interest rate environment
- A tax efficient asset allocation alternative for investors as the gains on investment held in the fund for more than a year (long term capital gains) are tax free
- Proven performance track record

This product is suitable for investors who are seeking*

- Long term capital appreciation and generation of reasonable returns
- Investment in equity and equity-related securities in and debt and money market instruments
- High risk  (BROWN)

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.

DISCLAIMER: The information shown above is based on the portfolios of the fund as on April 30, 2015. Any reference to the securities/sectors in the document is only for illustration purpose and may or may not form a part of the portfolio of the fund and is not any indication of the portfolio of the fund. The portfolio/portfolio strategy indicated is the current portfolio/strategy 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. Recipient of this article/information should understand that statements made herein regarding future prospects may not be realized and are views of the fund managers. He/ She should also understand that any reference to the securities/sectors in the document is only for illustration purpose and are not stock recommendations from the Fund Manager and/or L&T Investment Management Limited, the asset management company of L&T Mutual Fund or any of its associates. Investors should consult their financial advisors before making any investment decision. Any performance information shown refers to the past should not be seen as an indication of future returns. The value of investments and any income from them can go down as well as up.

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

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