L&T Mutual Fund
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L&T Financial Services
Mutual Fund

NOTICE CUM ADDENDUM (No. 09 of F.Y. 2019 – 2020)

Notice is hereby given that effective August 01, 2019 there shall be a change to the fundamental attributes of L&T Dynamic Equity Fund as stated below. These changes will be applicable on a prospective basis.

<table>
<tr><th>Particulars</th><th>Existing provisions</th><th>Revised provisions</th></tr>
<tr><td>Name</td><td>L&T Dynamic Equity Fund</td><td>L&T Balanced Advantage Fund</td></tr>
<tr><td>Asset Allocation Pattern</td><td>
<table>
<tr><th rowspan="2">Instruments</th><th colspan="2">Indicative allocations (% of net assets)</th><th rowspan="2">Risk Profile</th></tr>
<tr><th>Maximum</th><th>Minimum</th></tr>
<tr><td>A. Equity and Equity related instruments</td><td>80</td><td>65</td><td>High</td></tr>
<tr><td>A1. Net long equity</td><td>80</td><td>20</td><td>High</td></tr>
<tr><td>A2. Equity and equity derivatives (arbitrage opportunities)</td><td>60</td><td>0</td><td>High</td></tr>
<tr><td>B. Debt, Money Market Instruments and Government Securities (including Tri-Party Repo/ reverse repos and securitized debt)</td><td>35</td><td>20</td><td>Low</td></tr>
</table>
Further, the net long equity allocation within the above specified range would be decided based on the weighted average P/E ratio of Nifty 50 Index as per the asset allocation model shown below.
<table>
<tr><th>Nifty 50 Index weighted average P/E range</th><th>Unhedged equity allocation</th><th>Hedged equity allocation</th></tr>
<tr><td>Upto 14</td><td>70% to 80%</td><td>0 to 10%</td></tr>
<tr><td>14-16</td><td>60% to 70%</td><td>0 to 20%</td></tr>
<tr><td>16-18</td><td>50% to 60%</td><td>5% to 30%</td></tr>
<tr><td>18-20</td><td>40% to 50%</td><td>15% to 40%</td></tr>
<tr><td>20-22</td><td>30% to 40%</td><td>25% to 50%</td></tr>
<tr><td>Above 22</td><td>20% to 30%</td><td>35% to 60%</td></tr>
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The net long equity allocation will be determined based on the month-end weighted average PE ratio of the Nifty 50 and the portfolio will be rebalanced within the first five business days of the following month. The Fund Manager(s) would also have the flexibility to rebalance the portfolio at more frequent intervals based on prevailing market situation.
The data on PE Ratio of the Nifty 50 Index will be sourced from the stock exchange or any other agencies that the AMC may find appropriate.
The Investment Committee, with notification to the Trustees, reserves the right to change the PE ratio range, or use any other criteria for determining the net long equity allocation if the Nifty 50 Index is either suspended or becomes irrelevant.
The Scheme may invest upto 35% of its net assets in securitized debt. The Scheme will not invest in foreign securities and credit default swaps.
The Scheme shall have derivatives exposure as per the SEBI/RBI Guidelines issued from time to time. Further, the Scheme may undertake interest rate derivatives transactions for the purpose of hedging and portfolio rebalancing (within the permissible limits specified by RBI/SEBI from time to time).
The gross investments in securities under the Scheme which includes Debt, Money Market Instruments, Government Securities and Equity and Equity Related Instruments including Securitized debt and, Derivatives shall not exceed 100% of net assets of the Scheme.
However, following will not be considered while calculating the gross exposure:
Security-wise hedged position and
Exposure in Cash or cash equivalents with residual maturity of less than 91 days. The exposure to derivatives will be calculated on notional value of the derivative contracts.
Due to market conditions, the AMC may invest beyond the range set out above. Such deviations shall normally be for a short term purpose only, for defensive considerations and the intention being at all times to protect the interests of the Unit Holders. In the event of deviations, rebalancing will normally be carried out within 30 Business Days.
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Under normal circumstances, it is anticipated that the asset allocation shall be as follows:
<table>
<tr><th rowspan="2">Instruments</th><th colspan="2">Indicative allocations (% of net assets)</th><th rowspan="2">Risk Profile</th></tr>
<tr><th>Maximum</th><th>Minimum</th></tr>
<tr><td>A. Equity and Equity related instruments</td><td>100</td><td>65</td><td>High</td></tr>
<tr><td>A1. Net long equity</td><td>90</td><td>20</td><td>High</td></tr>
<tr><td>A2. Equity and equity derivatives (arbitrage opportunities)</td><td>70</td><td>0</td><td>High</td></tr>
<tr><td>B. Debt, Money Market Instruments and Government Securities (including Tri-Party Repo/ reverse repos and securitized debt)</td><td>35</td><td>20</td><td>Low</td></tr>
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Exposure in Cash or cash equivalents with residual maturity of less than 91 days. The exposure to derivatives will be calculated on notional value of the derivative contracts.
Due to market conditions, the AMC may invest beyond the range set out above. Such deviations shall normally be for a short term purpose only, for defensive considerations and the intention being at all times to protect the interests of the Unit Holders. In the event of deviations, rebalancing will normally be carried out within 30 Business Days.
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<tr><td>Investment Strategy</td><td>
The Scheme aims to dynamically manage the allocation across unhedged equity, hedged equity and debt and money market instruments using the PE ratio-based asset allocation model. Historically, such a strategy of dynamically varying the equity allocation based on the PE ratio level has delivered superior risk-adjusted returns over the long term, although there is no guarantee that this past performance will be repeated in the future.
Investment strategy for unhedged equity portion of the portfolio
The unhedged equity portion of the portfolio will be primarily invested in equity securities without any sector, style or market cap bias with the aim of generating long term capital appreciation. The fund managers will use a bottom-up investment approach for stock picking, with an emphasis on first-hand research. They will favour companies that offer the best value relative to their respective long- term growth prospects, returns on capital and management quality. When assessing a company, the fund managers will focus on understanding how each of these factors will change over time.
Investment strategy for hedged equity portion of the portfolio (derivatives)
The investment strategy includes identifying and investing into arbitrage opportunities between spot/cash and futures prices of individual stocks. The Scheme will deploy "Cash and Carry Arbitrage" strategy wherein the Fund Manager will evaluate the difference between price of an individual stock in the futures market and in the spot/cash market. If the price of a stock in the futures market is higher than in the spot/ cash market, after considering the associated costs and taxes, the Scheme may buy the stock in the spot/cash market and sell the same in equal quantity in the futures market simultaneously. Similarly, the Scheme may at a later date, unwind the trade by selling cash position and buying in the futures markets. The Fund Manager after careful analysis may also decide to roll over his position, if the market conditions are favorable
</td><td>
The fund manager will decide asset allocation between equity and debt depending on prevailing market and economic conditions. Among the metrics considered for deciding the debt-equity mix at any point of time will be the interest rate cycle, equity valuations (P/E, P/BV, Dividend Yield, Earnings yield, market cap to GDP ratio etc), medium to long term outlook of the asset class, etc.
The objective of the equity strategy will be to build a portfolio of companies diversified across major industries, economic sectors and market capitalization that offer an acceptable risk reward balance. Investment in debt securities will be guided by credit quality, liquidity, interest rates and their outlook. The Scheme also proposes to take long term call on stocks which, in the opinion of the Fund Manager, could offer better return over a long period.
Investment strategy equity portion (hedged and unhedged) of the portfolio:
The objective of the equity strategy will be to build a portfolio of companies diversified across major industries, economic sectors and market capitalization that offer an acceptable risk reward balance. Investment in debt securities will be guided by credit quality, liquidity, interest rates and their outlook.
The Scheme proposes to take long term call on stocks which, in the opinion of the Fund Manager, could offer better return over a long period.
The investment strategy on the derivative side includes identifying and investing into arbitrage opportunities between spot/cash and futures prices of individual stocks. The Scheme will deploy "Cash and Carry Arbitrage" strategy wherein the Fund Manager will evaluate the difference between price of an individual stock in the futures market and in the spot/cash market. If the price of a stock in the futures market is higher than in the spot/ cash market, after considering the associated costs and taxes, the Scheme may buy the stock in the spot/cash market and sell the same in equal quantity in the futures market simultaneously. Similarly, the Scheme may at a later date, unwind the trade by selling cash position and buying in the futures markets. The Fund Manager after careful analysis may also decide to roll over his position, if the market conditions are favorable.
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It is further proposed to enable the Scheme to write call options. In view of the same below mentioned provisions shall be inserted in the Scheme Information Document (SID) & Key Information Memorandum of the scheme.

COVERED CALL OPTION STRATEGY:

Covered call option strategy is known as selling a call option on the shares which an investor holds. Under this strategy the investor owns the shares and has taken on the potential obligation to deliver the shares to the option buyer and accept the predetermine price as the price at which he sells the shares. For his willingness to do this, the investor receives the premium on the option.

i. Benefit of covered call option strategy:

- **Income Generation:** Investment manager sees this strategy as income generation. When investment manager is under view that the price of a share will not move beyond certain price in certain time frame, his endeavour will be to generate income by selling call option on that stock.
- **Downside Hedging:** Downside of the stock is protected to the extent of premium received under covered call strategy.

ii. Risk Factors of covered call option strategy:

- **Volatility risk:** Volatility risk arises when market are more volatile than the Fund Manager's estimation. The investment manager holds view of range bound market and the market volatility breaches these limits, thereby increasing risk to the portfolio. This risk is mitigated as we have covered with the stocks we hold.
- **Opportunity loss:** Selling call option means investment manager are obligated to deliver the stock at predetermined price. In case when the stock price move above the predetermined price, the upside opportunity is lost on the stock, because we have sold call option.

  Writing call options are highly specialized activities and entail higher than ordinary investment risks. In such investment strategy, the profits from call option writing is capped at the option premium, however the downside depends upon the increase in value of the underlying equity shares.

iii. Investment Restrictions for Covered Call option strategy:

The scheme can write Call options under a covered strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:

a) The total notional value (taking into account strike price as well as premium value) of call options written by a scheme shall not exceed 15% of the total market value of equity shares held in that scheme.

b) The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.

c) At all points of time the Mutual Fund scheme shall comply with the provisions at points (a) and (b) above. In case of any passive breach of the requirement at paragraph (a) above, the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.

d) In case a Mutual Fund scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs (a) and (b) above while selling the securities.

e) In no case, a scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.

f) The premium received shall be within the requirements prescribed in terms of SEBI circular dated August 18, 2010 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.

g) The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of paragraph 3 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010.

h) The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective scheme(s) until the position is closed or expired.

All reference to L&T Dynamic Equity Fund will be replaced with L&T Balanced Advantage Fund in the SID and KIM.

The number of folios under and assets under management of L&T Dynamic Equity Fund as on May 31, 2019 are 16303 and Rs. 546.74 crore respectively.

Necessary amendments will be carried out to the Scheme Information Document and Key Information Memorandum (to the extent applicable) of the Scheme to reflect the changes stated above. All the other provisions contained in the Scheme Information Document of the Scheme will remain unchanged.

In terms of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 ("SEBI Regulations"), the changes proposed to be carried out are considered as changes in the fundamental attributes of the Scheme. In accordance with the requirements of Regulation 18 (15A) of the SEBI Regulations, this notice serves as a written communication to the unit holders of the Scheme, informing them about the proposed changes and providing them an option to switch-out/redeem the units held by them in the Scheme at the prevailing Net Asset Value within a period of 30 days without any exit load if the unit holders do not approve of the proposed changes.

The exit option as aforesaid can be exercised by submitting switch-out/redemption request from **July 02, 2019 to July 31, 2019** (both days inclusive) to any of the investor service centres of L&T Mutual Fund ("the Fund") latest by the applicable cut-off time as stated in the Scheme Information Document. In case of units held in demat mode redemption request is required to be submitted to the depository participant on or before the close of business hours of July 31, 2019. In case a lien is marked on the units of the Scheme or the units have been frozen/locked pursuant to an order of a governmental authority or a court, unit holders will be able to switch-out/redeem their units only after the lien/order is vacated/revoked and the switch-out / redemption request has been submitted within the period specified above.

The redemption warrant/cheque will be mailed / redemption proceeds will be credited within 10 business days from the date of receipt of the redemption request. The offer to exit is merely an option and is not compulsory.

If the unit holders have no objection to the proposed change, no action needs to be taken by them. Please note that if the unit holders do not exercise the exit option on or before July 31, 2019 or if we do not receive the request for switch-out/redemption on or before July 31, 2019 by 3.00 pm, they would be deemed to have consented to the proposed changes.

Unit holders have also been informed by individual communication of the details of the proposed changes.

In case you require any further information/assistance please call the investor line of the AMC at 1800 2000 400 or 1800 4190 200 or visit the nearest Investor Service Centre of the Fund.

For L&T Investment Management Limited
(Investment Manager to L&T Mutual Fund)

Date : June 24, 2019
Place: Mumbai

Kailash Kulkarni
Chief Executive Officer

CL06325