



Notice-Cum-Addendum (No. 40 of F.Y. 2019 – 2020)

Creation of Segregated Portfolio in the Scheme Information Documents (SIDs) & Key Information Memorandums (KIMs) of L&T Liquid Fund, L&T Ultra Short Term Fund, L&T Money Market Fund, L&T Short Term Bond Fund, L&T Flexi Bond Fund, L&T Banking and PSU Debt Fund, L&T Triple Ace Bond Fund, L&T Low Duration Fund, L&T Credit Risk Fund, L&T Resurgent India Bond Fund, L&T Equity Savings Fund, L&T Conservative Hybrid Fund, L&T Balanced Advantage Fund (formerly L&T Dynamic Equity Fund) and L&T Hybrid Equity Fund (Schemes).

Effective Date: March 19, 2020

In order to ensure fair treatment to all investors in case of a credit event/actual default and to deal with liquidity risk, SEBI has vide its letter no. IMDII/DF3/OW/P/2019/30364/1 dated November 15, 2019 confirmed that it has no objection and has allowed the creation of segregated portfolio of debt and money market instruments (including unrated instruments) by mutual fund schemes.

It is proposed to incorporate provision of segregated portfolio in the Scheme Information Documents (SIDs) and Key Information Document (KIMs) of the above-mentioned schemes of L&T Mutual Fund (LTMF).

Creation of segregated portfolio shall be subject to guidelines specified by SEBI from time to time and includes the following:

- 1) Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:
 - a) Downgrade of a debt or money market instrument to 'below investment grade', or
 - b) Subsequent downgrades of the said instruments from 'below investment grade', or
 - c) Similar such downgrades of a loan rating
- 2) In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as mentioned above and implemented at the ISIN level.
- 3) Creation of segregated portfolio is optional and is at the discretion of the L&T Investment Management Company Limited (AMC)

In case of unrated debt or money market instruments, actual default of either the interest or principal amount by the issuer that does not have any outstanding rated debt or money market instruments shall be considered for segregation of portfolio.

AMC shall inform AMFI immediately about the actual default by the issuer. Pursuant to dissemination of information by AMFI about actual default by the issuer, AMC may segregate the portfolio of debt or money market instruments of the said issuer.

Process for Creation of Segregated Portfolio

- 1) On the date of credit event/actual default, AMC should decide on creation of segregated portfolio. Once AMC decides to segregate portfolio, it should:
 - a) seek approval of trustees prior to creation of the segregated portfolio.
 - b) immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. L&T Mutual Fund will also disclose that the segregation shall be subject to Trustee approval. Additionally, the said press release will be prominently disclosed on the website of the AMC.
 - c) ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of credit event/actual default, the subscription and redemption in the scheme will be suspended for processing with respect to creation of units and payment on redemptions.
- 2) Once Trustee approval is received by the AMC:
 - a) Segregated portfolio will be effective from the day of credit event/actual default.
 - b) AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information will also be submitted to SEBI.
 - c) An e-mail or SMS will be sent to all unit holders of the concerned scheme.
 - d) The NAV of both segregated and main portfolios will be disclosed from the day of the credit event/actual default.
 - e) All existing investors in the scheme as on the day of the credit event/actual default will be allotted equal number of units in the segregated portfolio as held in the main portfolio.
 - f) No redemption and subscription will be allowed in the segregated portfolio. However, upon recovery of any money from segregated portfolio, it will be immediately distributed to the investors in proportion to their holding in the segregated portfolio.
 - g) AMC should enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests
 - h) Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
- 3) If the trustees do not approve the proposal to segregate portfolio, AMC will issue a press release immediately informing investors of the same.
- 4) In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

Valuation and Processing of Subscription and Redemption Proceeds

Notwithstanding the decision to segregate the debt and money market instrument, the valuation should take into account the credit event/actual default and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.

All subscription and redemption requests for which NAV of the day of credit event/actual default or subsequent day is applicable will be processed as under:

- i. Upon trustees' approval to create a segregated portfolio -
 - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
 - Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
- ii. In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

Disclosure

AMC shall make necessary disclosures as mandated by SEBI, in statement of account, monthly / half yearly portfolio statements, Key Information Memorandum (KIM), SID, Scheme Advertisements, Scheme Performance data, AMC Website and at other places as may be specified.

The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.

Monitoring by Trustees

Trustees will monitor the compliance of the SEBI Circular in respect of creation of segregated portfolio and disclosure in this respect shall be made in Half-Yearly Trustee reports filed with SEBI.

In order to avoid mis-use of segregated portfolio, Trustees will review the performance of fund manager(s) in entirety which shall include:

- Investment decisions are taken by the fund manager(s) with adequate due diligence and there is no irregular or unethical conduct.
- Investment has been made in accordance with scheme objective.
- Segregation of portfolio is on account of extraneous uncontrollable event.
- There is adequate documentation with regard to investment decision.
- All risks are transparently highlighted to the investors through scheme related documents.

If the investment decision and/or segregation of portfolio is not in line with the above listed parameters, the Board of Trustees thereafter in consultation with AMC may decide to levy appropriate penalty on fund manager(s) which may even include claw back of performance incentive.

TER for the Segregated Portfolio

- 1) AMC will not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.
- 2) The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence. In addition to the TER mentioned above, the legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio as mentioned below.
- 3) The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum

TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.

- 4) The costs related to segregated portfolio shall in no case be charged to the main portfolio.

Explanations:

- 1) The term 'segregated portfolio' means a portfolio, comprising of debt or money market instrument affected by a credit event and in case of unrated debt or money market instruments affected by actual default, that has been segregated in a mutual fund scheme.
- 2) The term 'main portfolio' means the scheme portfolio excluding the segregated portfolio.
- 3) The term 'total portfolio' means the scheme portfolio including the securities affected by the credit event/actual default.

Risks associated with segregated portfolio

1. Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer.
2. Security comprises of segregated portfolio may not realise any value.
3. Listing of units of segregated portfolio in recognised stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.
4. Illustration of Segregated Portfolio

| | |
|--|---------------------------|
| Portfolio Date | 31-Mar-19 |
| Downgrade Event Date | 31-Mar-19 |
| Downgrade Security | 7.65% C Ltd from AA+ to B |
| Valuation Marked Down | 25% |
| Mr. X is holding 1000 Units of the Scheme, amounting to (1000*15.8944) Rs.15894.30/- | |

Portfolio before downgrade event

| Security | Rating | Type of the Security | Qty | Price Per Unit (Rs) | Market Value (Rs. in Lacs) | % of Net Assets |
|----------------------------|-----------------|----------------------|------------------|---------------------|----------------------------|-----------------|
| 7.80% A FINANCE LTD | CRISIL AAA | NCD | 3,200,000 | 102.812 | 3289.98 | 20.70% |
| 7.70 % B LTD | CRISIL AAA | NCD | 3,230,000 | 98.5139 | 3182.00 | 20.02% |
| 7.65 % C Ltd | CRISIL B | NCD | 3,200,000 | 100.00 | 3200.00 | 20.13% |
| D Ltd (15/May/2019) | ICRA A1+ | CP | 3,200,000 | 98.3641 | 3147.65 | 19.80% |
| 7.65 % E LTD | CRISIL AA | NCD | 3,000,000 | 98.6757 | 2960.27 | 18.62% |
| Cash / Cash Equivalents | | | | | 114.47 | 0.72% |
| Net Assets | | | | | 15,894.37 | |
| Unit Capital (no of units) | | | | | 1000.00 | |
| NAV (Rs) | | | | | 15.8944 | |

Total Portfolio as on March 31, 2019

| Security | Rating | Type of the Security | Qty | Price Per Unit (Rs) | Market Value (Rs. in Lacs) | % of Net Assets |
|----------------------------|-----------------|----------------------|------------------|---------------------|----------------------------|-----------------|
| 7.80% A FINANCE LTD | CRISIL AAA | NCD | 3,200,000 | 102.812 | 3289.98 | 21.80% |
| 7.70 % B LTD | CRISIL AAA | NCD | 3,230,000 | 98.5139 | 3182.00 | 21.08% |
| 7.65 % C Ltd | CRISIL B | NCD | 3,200,000 | 75.00 | 2,400.00 | 15.90% |
| D Ltd (15/May/2019) | ICRA A1+ | CP | 3,200,000 | 98.3641 | 3147.65 | 20.85% |
| 7.65 % E LTD | CRISIL AA | NCD | 3,000,000 | 98.6757 | 2960.27 | 19.61% |
| Cash / Cash Equivalents | | | | | 114.47 | 0.760% |
| Net Assets | | | | | 15,094.37 | |
| Unit Capital (no of units) | | | | | 1000.00 | |
| NAV (Rs) | | | | | 15.0944 | |

Main Portfolio as on March 31, 2019

| Security | Rating | Type of the Security | Qty | Price Per Unit (Rs) | Market Value (Rs. in Lacs) | % of Net Assets |
|----------------------------|------------|----------------------|-----------|---------------------|----------------------------|-----------------|
| 7.80% A FINANCE LTD | CRISIL AAA | NCD | 3,200,000 | 102.812 | 3289.98 | 25.92% |
| 7.70 % B LTD | CRISIL AAA | NCD | 3,230,000 | 98.5139 | 3182.00 | 25.07% |
| D Ltd (15/May/2019) | ICRA A1+ | CP | 3,200,000 | 98.3641 | 3147.65 | 24.80% |
| 7.65 % E LTD | CRISIL AA | NCD | 3,000,000 | 98.6757 | 2960.27 | 23.32% |
| Cash / Cash Equivalents | | | | | 114.47 | 0.90% |
| Net Assets | | | | | 12694.37 | |
| Unit Capital (no of units) | | | | | 1000.00 | |
| NAV (Rs) | | | | | 12.6944 | |

Segregated Portfolio as on March 31, 2019

| Security | Rating | Type of the Security | Qty | Price Per Unit (Rs) | Market Value (Rs. in Lacs) | % of Net Assets |
|----------------------------|------------------|----------------------|------------------|---------------------|----------------------------|-----------------|
| 7.65 % C Ltd | CRISIL B* | NCD | 3,200,000 | 75.00 | 2400.00 | 100% |
| Unit Capital (no of units) | | | | | 1000.00 | |
| NAV (Rs) | | | | | 2400.00 | |

Value of Holding of Mr. X after creation of Segregated Portfolio

| | Segregated Portfolio | Main Portfolio | Total Value (Rs.) |
|--------------------|----------------------|-----------------|-------------------|
| No of units | 1000 | 1000 | |
| NAV(Rs) | 2.4000 | 12.6944 | |
| Total value | 2400 | 12694.37 | 15094.37 |

A written communication is being sent to all the unit holders of the scheme(s) informing them of the above changes and option to exit from scheme(s) at the prevailing NAV without payment of exit load from February 18, 2020 to March 18, 2020 (upto 3.00 p.m.).

Existing Unit holders for the units held by them as on February 17, 2020 will be eligible for the exit without any exit load i.e. either redeem their investments or switch their investments to any other schemes of L&T Mutual Fund, within 30 days exit period starting from February 18, 2020 till March 18, 2020 (upto 3.00 p.m.) at Applicable NAV, without payment of any exit load.

Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges/encumbrances prior to the submission of redemption/switch requests.

Unitholders should ensure that their change in address or bank details are updated in records of L&T Mutual Fund as required by them, prior to exercising the exit option for redemption of units. Unit holders holding Units in dematerialized form may approach their Depository Participant for such changes. In case units have been frozen/locked pursuant to an order of a government authority/regulatory authority/court, such exit option can be executed only after the freeze/lock order is vacated/revoked within the period specified above.

Redemption/switch-out of units from the Scheme(s), during the exit period, may entail capital gain/loss in the hands of the Unit Holder. Similarly, in case of NRI investors, TDS shall be deducted in accordance with the applicable Tax laws, upon exercise of exit option by the Unit Holder and the same would be required to be borne by such investor only. In view of individual nature of tax implications, unitholders are advised to consult their tax advisors. Unitholders may note that no action is required in case they are in agreement with the aforesaid changes.

Investors are requested to take note of the above.

For any further assistance/clarification, Unit holders may contact any of our Investor Service Centers.

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

Sd/
Authorised Signatory

Date : February 14, 2020
Place : Mumbai