

Risks factors associated with investments in repo transactions in corporate bonds

In repo transactions, also known as a repo or sale repurchase agreement, securities are sold with the seller agreeing to buy them back at later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest. A repo is economically similar to a secured loan, with the buyer receiving corporate debt securities as collateral to protect against default. The Scheme may invest in repo of corporate debt securities which are subject to the following risks:

Counterparty Risk: This refers to the inability of the seller to meet the obligation to buy back securities at the contracted price on the contracted date. The Investment Manager will endeavour to manage counterparty risk by dealing only with counterparties, having strong credit profiles, approved by our credit risk analysis team. The exposure to each counterparty will be within the overall approved credit limits. Also, the counterparty risk is to an extent mitigated by taking collateral equivalent in value to the transaction after knocking off a minimum haircut on the intrinsic value of the collateral. In the event of default by the repo counterparty, the scheme shall have recourse to the corporate debt securities.

Collateral Risk: Collateral risk arises when the market value of the securities is inadequate to meet the repo obligations. This risk is mitigated by restricting participation in repo transactions with collateral bearing a minimum rating as prescribed by the regulators (currently AA or equivalent and above rated money market and corporate debt securities). Any rating downgrade will tantamount to either an early termination of the repo agreement or a call for fresh margin to meet the minimum haircut requirement. In addition, the Investment manager may apply a higher haircut on the underlying security than mentioned above to adjust for the illiquidity and interest rate risk on the underlying instrument. The adequacy of the collateral will be monitored on a daily basis by considering the daily market value & applying the prescribed haircut. In the event of shortfall in the collateral, the counterparty shall be asked to replenish the same. If the counterparty is not able to top-up either in form of cash / collateral, it shall tantamount to early termination of the repo agreement.

Settlement Risk: Corporate Bond Repo shall be settled between two counterparties in the OTC segment unlike in the case of Government securities repo transactions where CCIL stands as central counterparty on all transactions which neutralizes the settlement risk. However, the settlement risk pertaining to CDRs shall be mitigated through Delivery versus Payment (DvP) mechanism which is followed by all clearing members.

Risks associated with REITs and InvITs

- Market Risk:** REITs and InvITs Investments are volatile and subject to price fluctuations on a daily basis owing to the market conditions and factors impacting the underlying assets. AMC/Fund Manager's will do the necessary due diligence but actual market movements may be at variance with the anticipated trends.
- Liquidity Risk:** As the liquidity of the investments made by the Scheme(s) could, at times, be restricted by trading volumes, settlement periods, dissolution of the trust, potential delisting of units on the exchange etc., the time taken by the Mutual Fund for liquidating the investments in the scheme may be long in the event of immediate redemption requirement. Investment in such securities may lead to increase in the scheme portfolio risk. As these products are new to the market they are likely to be exposed to liquidity risk.
- Reinvestment Risk:** Investments in REITs & InvITs may carry reinvestment risk as there could be repatriation of funds by the Trusts in form of buyback of units or dividend pay-outs, interest payments etc. Depending upon the market conditions, interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. As a result, the proceeds may get invested at a lower rate.
- Credit Risk:** REITs & InvITs are likely to have volatile cash flows as the repayment dates would not necessarily be pre scheduled.
- Regulatory/Legal Risk:** REITs and InvITs being new asset classes, regulatory guidelines may be evolving in nature which may impact the investments in REITs and InvITs.

III. Investment restriction associated with REITs and InvITs :

- The Scheme shall invest not more than 10% of its NAV in the units of REIT and InvIT and not more than 5% of its NAV in the units of REIT and InvIT issued by a single issuer.

IV. Segregation of the Portfolio:

(a) Creation of Segregated Portfolio:

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:

- Downgrade of a debt or money market instrument to 'below investment grade', or
- Subsequent downgrades of the said instruments from 'below investment grade', or
- 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:

- seek approval of trustees prior to creation of the segregated portfolio.
- 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.
- 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:

- Segregated portfolio will be effective from the day of credit event/actual default.
- 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.
- An e-mail or SMS will be sent to all unit holders of the concerned scheme.
- The NAV of both segregated and main portfolios will be disclosed from the day of the credit event/actual default.
- 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.
- 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.
- 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
- 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:

- 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.
- 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

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

Explanations:

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

Risks associated with segregated portfolio:

- Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer.
- Security comprises of segregated portfolio may not realise any value.
- 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.
- Illustration of Segregated Portfolio

Portfolio Date	31-Mar-20
Downgrade Event Date	31-Mar-20
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	

Main Portfolio as on March 31, 2020

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	

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

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 NetAsset 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 **January 8, 2021 to February 8, 2021** (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 February 8, 2021. 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 February 8, 2021 or if we do not receive the request for switch-out/redemption on or before February 8, 2021 by 3.00 pm, they would be deemed to have consented to the proposed changes.

Tax implications: Redemption / Switch-out by the Unit holders due to aforesaid change or due to any other reasons may entail tax consequences. Unit holders are advised to consult their tax advisor for the same.

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.

Total Portfolio as on March 31, 2020

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	

Segregated Portfolio as on March 31, 2020

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	