**L&T MUTUAL FUND**

6th Floor, Brindavan, Plot No. 177, C.S.T. Road, Kalina,
Santacruz (East), Mumbai - 400 098
Call: 1800 2000 400
E-mail: investor.line@lntmf.co.in   Website: www.ltfs.com

**Addendum (No. 43 of F.Y. 2022 – 2023)**

**Changes in the features of L&T Infrastructure Fund**

Unitholders are hereby informed that in terms of notice dated October 15, 2022 on and from the close of business hours on November 25, 2022, the revised provisions of L&T Infrastructure Fund will be as under

**I. Key Features: Infrastructure**

| **Name of the scheme / Description** | **HSBC Infrastructure Equity Fund**<br>**Scheme Getting Merged ("Transferor Scheme ")** | **L&T Infrastructure Fund**<br>**Scheme with which Transferor Scheme is to be Merged (“Transferee Scheme")** | **HSBC Infrastructure Fund**<br>**(Erstwhile known as L&T Infrastructure Fund)**<br>**(“Surviving scheme”)** |
|---|---|---|---|
| **Type of scheme** | An open-ended equity Scheme following Infrastructure theme | An open ended equity scheme investing in infrastructure sector | An open-ended equity Scheme following Infrastructure theme |
| **Investment Objective** | To generate long term capital appreciation from an actively managed portfolio of equity and equity related securities<br>by investing predominantly in equity and equity related securities of companies engaged in or expected to benefit from growth and development of Infrastructure in India. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved. | To generate capital appreciation by investing predominantly in equity and equity related instruments of companies in the infrastructure sector.<br>There is no assurance that the objective of the Scheme will be realised and the Scheme does not assure or guarantee any returns. | To generate long term capital appreciation from an actively managed portfolio of equity and equity related securities by investing predominantly in equity and equity related securities of companies engaged in or expected to benefit from growth and development of Infrastructure in India. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved. |

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<td>Asset Allocation</td>
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<tr><td>Minimum</td><td>Maximum</td></tr>
<tr><td>Equities & Equity related securities of companies operating in Infrastructure Sector*</td><td>80%</td><td>100%</td><td>High</td></tr>
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<tr><td>Equity and equity related instruments (including equity derivative instruments)</td><td>80%</td><td>100%</td><td>Medium to High</td></tr>
<tr><td>Debt and Money Market Instruments*</td><td>0%</td><td>20%</td><td>Low to Medium</td></tr>
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* Investment in Securitized debt, if undertaken, would not exceed 20% of the total assets of the Scheme.<br>
Investments in equity derivatives up to 50% of the total assets of the Scheme.
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<tr><td>Debt Securities & Money Market instruments (including Cash & cash equivalents)</td><td>0%</td><td>20%</td><td>Low to Medium</td></tr>
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* The Scheme will seek invest in the sectors that are beneficiaries of the infrastructure growth and economic reforms expected in the country in the coming years e.g. Banking / Financial Services (Excluding Retail banks, being largely retail lending institutions); Capital Goods; Energy; Materials; Transportation; Utilities; Port & Logistics; Cement & Construction; Infrastructure Asset owners and Turnkey or services providers in infrastructure or any business benefiting from infrastructure investment.<br>The Scheme may review the above pattern of investments based on views on the equity and debt markets and asset liability management needs and the portfolio shall be reviewed and rebalanced on a regular basis. However, at all times the portfolio will adhere to the overall investment objective of the Scheme.
</td>
<td>The Scheme may invest in Foreign Securities upto 10% of its total assets subject to the Eligible Investment Amount. Investment in Foreign Securities shall be subject to the investment restrictions specified by SEBI/RBI from time to time.<br>Investments will be made in line with the asset allocation of the Scheme and the applicable SEBI and / or AMFI guidelines as specified from time to time.<br>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 days.<br>The above asset allocation pattern is not absolute and can vary depending upon the AMC’s perception of the equity and money markets as well as the general view on interest rates. The asset allocation pattern indicated above may thus be altered substantially on defensive considerations.<br>The cumulative gross exposure through equity, debt, derivative positions, other permitted securities/assets and such other securities/assets as may be permitted by the Board SEBI from time to time could not exceed 100% of the net assets of the Scheme.</td>
<td>
<table>
<tr><td>(including Cash & cash equivalents)</td><td></td><td></td><td></td></tr>
<tr><td>Units issued by REITs and InvITs</td><td>0%</td><td>10%</td><td>Medium to High</td></tr>
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* The Scheme will seek to invest in the sectors that are beneficiaries of the infrastructure growth and economic reforms expected in the country in the coming years e.g. Banking / Financial Services (Excluding Retail banks, being largely retail lending institutions); Capital Goods; Energy; Materials; Transportation; Utilities; Port & Logistics; Cement & Construction; Infrastructure Asset owners and Turnkey or services providers in infrastructure or any business benefiting from infrastructure investment.<br>Investors may note that securities which provide higher returns, typically display higher volatility. Accordingly, the investment portfolio of the Scheme would reflect moderate to high volatility in its equity and equity related investments and low to moderate volatility in its debt and money market investments.
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| | Investors may note that securities which provide higher returns, typically display higher volatility. Accordingly, the investment portfolio of the Scheme would reflect moderate to high volatility in its equity and equity related investments and low to moderate volatility in its debt and money market investments.<br>If the Scheme decides to invest in securitised debt, it is the intention of the Investment Manager that such investments will not normally exceed 20% of the corpus of the Scheme and if the Scheme decides to invest in ADRs / GDRs issued by Indian Companies and foreign securities in line with SEBI stipulation, it is the intention of the Investment Manager that such investments will not, normally exceed 30% of the assets of the Scheme.<br>For investments in ADRs / GDRs, the Fund Manager would consider the premium / discount to the underlying stock and the possibility of the discount narrowing or the premium expanding, liquidity management of the portfolio, secondary and primary offerings of ADRs / GDRs.<br>Securitized debt, while relatively illiquid compared to other debt investments provides a higher yield pickup. Hence only if the Fund Manager becomes cautious or negative on the Indian equity markets for a reasonably long period of time would he consider investing in such | | If the Scheme decides to invest in securitised debt, it is the intention of the Investment Manager that such investments will not normally exceed 20% of the net assets of the Scheme.<br>The Scheme can take covered call positions for stock derivatives, as permitted by SEBI.<br>Derivative positions for other than hedging purposes shall not exceed 50% of total equity assets. The Scheme shall have derivative exposure as per the SEBI regulations issued from time to time.<br>The Scheme may engage in short selling and securities lending. The Scheme may also take exposure to Stock lending up to 20% of net assets of the Scheme and not more than 5% of the net assets of the Scheme shall be deployed in stock/securities lending to any single counter-party /intermediary.<br><br>The gross exposure to repo transactions in corporate debt securities shall not be more than 10% of the net assets of the concerned scheme.<br>The scheme shall not invest in credit default swaps and Structured Obligations/Credit Enhancements.<br>If the Scheme decides to invest in ADRs / GDRs issued by Indian Companies and foreign securities in line with SEBI stipulation, it is the intention of the Investment Manager that such |

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| | instruments to improve the yield to the fund and investors as opposed to putting the monies in reverse repo and short term money market instruments. No investments shall be made in foreign securitized debt.<br>The Scheme shall have derivative exposure as per the SEBI regulations issued from time to time. | | investments will not, normally exceed 30% of the assets of the Scheme. For investments in ADRs / GDRs, the Fund Manager would consider the premium / discount to the underlying stock and the possibility of the discount narrowing or the premium expanding, liquidity management of the portfolio, secondary and primary offerings of ADRs / GDRs.<br>Pending deployment of funds, the Scheme may invest them into deposits of scheduled commercial banks as permitted under the extant Regulations.<br>The Scheme may participate in instruments with special features including Additional Tier 1 bonds and Additional Tier 2 bonds as prescribed under SEBI circular no SEBI/HO/IMD/DF4/CIR/P/2021/032 dated 10th March 2021 and any other guidelines issues by SEBI from time to time. As per the extant regulatory guidelines, the Scheme shall not invest –<br>a. more than 10% of its net assets in such instruments; and<br>b. more than 5% of its net assets in such instruments issued by a single issuer.<br><br>The cumulative gross exposure through equity, debt instruments, REITs & InvITs units and derivative positions and other permitted |

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| | | | securities/assets and such other securities/ assets as may be permitted by from time to time, subject to approval, if any, shall not exceed 100% of net assets of the Scheme.<br>Investments will be made in line with the asset allocation of the Scheme and the applicable SEBI and / or AMFI guidelines as specified from time to time.<br>Due to market conditions, the AMC may invest beyond the range set out in the asset allocation. Such deviations shall normally be for short term and defensive considerations as per SEBI Circular no. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 4, 2021, and the fund manager will rebalance the portfolio within 30 calendar days from the date of deviation. Further, as per SEBI Circular no. SEBI/HO/IMD/IMD-II DOF3/P/CIR/2022/39 dated March 30, 2022, as may be amended from time to time, in the event of deviation from mandated asset allocation due to passive breaches (occurrence of instances not arising out of omission and commission of the AMC), the fund manager shall rebalance the portfolio of the Scheme within 30 Business Days. In case the portfolio of the Scheme is not rebalanced within the period of 30 Business Days, justification in writing, including details of efforts taken to rebalance the portfolio shall be |

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| | | | placed before the Investment Committee of the AMC. The Investment Committee, if it so desires, can extend the timeline for rebalancing up to sixty (60) Business Days from the date of completion of mandated rebalancing period. Further, in case the portfolio is not rebalanced within the aforementioned mandated plus extended timelines the AMC shall comply with the prescribed restrictions, the reporting and disclosure requirements as specified in SEBI circular dated March 30, 2022 |
| **Investment Strategy** | The aim of the scheme is to deliver above benchmark returns by providing long-term capital growth from an actively managed portfolio, primarily comprising of stocks of companies engaged in or expected to benefit from growth and development of Infrastructure in India.<br>A top down and bottom up approach will be used to invest in equity and equity related instruments. Investments will be pursued in Infrastructure related sectors based on the Investment Team's identification of the drivers of growth of the Indian economy. For this, the Fund Manager(s) will do an analysis of business cycles, regulatory reforms, demographics, investment / infrastructure requirements, competitive advantage etc. The Fund Manager(s) in selecting scrips will focus on the fundamentals of the business, the industry structure, the quality of | The Scheme will invest primarily in companies that are engaged in the area of infrastructure. The industries that fall under infrastructure sector would broadly include Banking & Financial Services, Cement & Cement Products, Capital Goods, Construction & related Industry, Electrical & Electronic components, Energy, Engineering, Metals/Mining/Minerals, Housing, Oil & Gas and Allied Industries, Petroleum & Related Industry, Ports, Power and Power Equipment, Telecom, Transportation. The Scheme will also use derivative instruments such as Index/stock futures or options for portfolio rebalancing, hedging and return optimization.<br>The Fund uses a system that it believes can assemble a portfolio of securities that is style neutral and that consistently outperforms traditional strategies that focus on a single style, such as value | The aim of the scheme is to deliver above benchmark returns by providing long-term capital growth from an actively managed portfolio, primarily comprising of stocks of companies engaged in or expected to benefit from growth and development of Infrastructure in India.<br>A top down and bottom up approach will be used to invest in equity and equity related instruments. Investments will be pursued in Infrastructure related sectors based on the Investment Team's identification of the drivers of growth of the Indian economy. For this, the Fund Manager(s) will do an analysis of business cycles, regulatory reforms, demographics, investment / infrastructure requirements, competitive advantage etc. The Fund Manager(s) in selecting scrips will focus on the fundamentals of the |

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| | management and its strategy, corporate governance trends, sensitivity to economic factors, operating efficiency, the financial strength of the company, key earnings and cash flow drivers. Since disciplined investing requires risk management, the AMC would incorporate adequate safeguards for controlling risks in the portfolio construction process.<br>The Scheme may invest in unlisted and / or privately placed and / or unrated debt securities subject to the limits indicated under “Investment Restrictions for the Scheme(s)” prescribed in this SID, from issuers of repute and sound financial standing. If investment is made in unrated debt securities, the approval of the Board of the AMC and the Trustees or the Investment Management Committee (within the broad parameters approved by the Board of the AMC and the Trustees) shall be obtained, as per the Regulations. As per the asset allocation pattern indicated above, for investment in debt securities and money market instruments, the Fund may invest a part of the portfolio in various debt securities issued by corporates and / or state and central government. Such government securities may include securities which are supported by the ability to borrow from the treasury or supported only by the sovereign guarantee or of the state | or growth. Since the Scheme is based on Infrastructure theme, the Fund Manager will focus mainly on companies that offer an opportunity to participate in the growth of infrastructure sector.<br>The aim would be to select fundamentally sound companies having potential to deliver superior earnings growth in the long run. The fund manager would adopt both, Top-down and Bottom-up approach for stock selection. Under Top –down approach, the aim would be to identify industries in the infrastructure sector that can offer long-term growth. Under bottom-up approach, the aim would be select companies with high profitability and scalability supported by sustainable competitive advantages. These companies will have a long term growth prospect and will be measured on earning potential.<br>• The overall portfolio structuring would aim at controlling risk at moderate level. Security specific risk will be minimised by investing only on those companies that have been thoroughly researched in-house. Risk will also be managed through broad diversification of the portfolios within the framework of the Scheme’ investment objective and policies.<br>• The AMC will follow a structured investment process in order to identify the best securities for investment and has developed an internal research | business, the industry structure, the quality of management and its strategy, corporate governance trends, sensitivity to economic factors, operating efficiency, the financial strength of the company, key earnings and cash flow drivers. Since disciplined investing requires risk management, the AMC would incorporate adequate safeguards for controlling risks in the portfolio construction process.<br>The Scheme may invest in unlisted and / or privately placed and / or unrated debt securities subject to the limits indicated under “Investment Restrictions for the Scheme(s)” prescribed in this SID, from issuers of repute and sound financial standing. If investment is made in unrated debt securities, the approval of the Board of the AMC and the Trustees or the Investment Management Committee (within the broad parameters approved by the Board of the AMC and the Trustees) shall be obtained, as per the Regulations. As per the asset allocation pattern indicated above, for investment in debt securities and money market instruments, the Fund may invest a part of the portfolio in various debt securities issued by corporates and / or state and central government. Such government securities may include securities which are supported by the ability to borrow from the treasury or supported only by the sovereign guarantee or of |

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| | government or supported by GOI / state government in some other way.<br>With the aim of controlling risks, rigorous in depth credit evaluation of the instruments proposed to be invested in will be carried out by the Investment Team of the AMC. The credit evaluation includes a study of the operating environment of the company, the past track record as well as the future prospects of the issuer, the short as well as long-term financial health of the issuer. The AMC will also be guided by the ratings of rating agencies such as CRISIL, CARE and ICRA or any other rating agency as approved by the regulators. In addition, the Investment Team of the AMC will study the macro economic conditions, including the political, economic environment and factors affecting liquidity and interest rates. The AMC would use this analysis to attempt to predict the likely direction of interest rates and position the portfolio appropriately to take advantage of the same. The Scheme may invest in other Scheme(s) managed by the AMC or in the schemes of any other mutual fund, provided it is in conformity with the investment objectives of the Scheme and in terms of the prevailing Regulations. As per the Regulations, no investment management fees will be charged for such investments | framework for consistently examining all securities which will focus on the follow key factors:<br>• Enduring business model<br>• Management quality<br>• Change in business fundamentals<br>• Valuation<br>Investment decisions are made by the Fund Manager of the Scheme. The Investment committee which also includes the Fund Managers reviews all investments on a regular basis and also records justification for the investments made and periodically reviews the investments decisions and policies with the Chief Executive Officer. The Board of Directors of the AMC and the Trustee Company review the performance of the Scheme vis-à-vis similar schemes of other mutual funds. | the state government or supported by GOI / state government in some other way.<br>With the aim of controlling risks, rigorous in depth credit evaluation of the instruments proposed to be invested in will be carried out by the Investment Team of the AMC. The credit evaluation includes a study of the operating environment of the company, the past track record as well as the future prospects of the issuer, the short as well as long-term financial health of the issuer. The AMC will also be guided by the ratings of rating agencies such as CRISIL, CARE and ICRA or any other rating agency as approved by the regulators. In addition, the Investment Team of the AMC will study the macro economic conditions, including the political, economic environment and factors affecting liquidity and interest rates. The AMC would use this analysis to attempt to predict the likely direction of interest rates and position the portfolio appropriately to take advantage of the same. The Scheme may invest in other Scheme(s) managed by the AMC or in the schemes of any other mutual fund, provided it is in conformity with the investment objectives of the Scheme and in terms of the prevailing Regulations. As per the Regulations, no investment management fees will be charged for such investments |

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| **Benchmark Index** | S&P BSE India Infrastructure TRI | Nifty Infrastructure TRI Index | S&P BSE India Infrastructure TRI |
| **Plan / Options /Sub-options** | • Growth<br>• Growth – Direct<br>• Income Distribution cum Capital Withdrawal Option (IDCW)<br>• Income Distribution cum Capital Withdrawal Option (IDCW) – Direct<br>- Payout of IDCW<br>- Reinvestment IDCW | • Growth<br>• Growth – Direct<br>• Income Distribution cum Capital Withdrawal Option (IDCW)<br>• Income Distribution cum Capital Withdrawal Option (IDCW) – Direct<br>- Payout of IDCW<br>- Reinvestment IDCW | • Growth<br>• Growth – Direct<br>• Income Distribution cum Capital Withdrawal Option (IDCW)<br>• Income Distribution cum Capital Withdrawal Option (IDCW) – Direct<br>- Payout of IDCW<br>- Reinvestment IDCW |
| **Loads (Including SIP / STP where applicable)** | Entry Load*: Nil<br>**Exit Load:**<br>(i) In respect of each purchase /switch-in of Units, an<br>Exit Load of 1% is payable if Units are redeemed / switched-out<br>within 1 year from the date of allotment. (ii) No Exit Load will be charged, if Units are redeemed/switched-out after 1 year from the date of allotment.<br>** In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged to the investor effective August 1, 2009.* | Entry Load*: Nil<br>**Exit Load:**<br>If the units redeemed or switched out are upto 10% of the units purchased or switched in (“the limit”) within 1 year from the date of allotment – Nil<br>If units redeemed or switched out are over and above the limit within 1 year from the date of allotment – 1%<br>If units are redeemed or switched out on or after 1 year from the date of allotment. – Nil<br>A switch-out or a withdrawal under SWP may also attract an Exit Load like any Redemption.<br>No Exit load will be chargeable in case of switches made between different options of the Scheme.<br>No Exit load will be chargeable in case of Units allotted on account of dividend reinvestments, if any. | Entry Load*: Not Applicable<br>**Exit Load:**<br>If the units redeemed or switched out are upto 10% of the units purchased or switched in (“the limit”) within 1 year from the date of allotment – Nil<br>If units redeemed or switched out are over and above the limit within 1 year from the date of allotment – 1%<br>If units are redeemed or switched out on or after 1 year from the date of allotment. – Nil<br>A switch-out or a withdrawal under SWP may also attract an Exit Load like any Redemption.<br>No Exit load will be chargeable in case of switches made between different options of the Scheme.<br>No Exit load will be chargeable in case of Units allotted on account of dividend reinvestments, if any. |

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| | | ** In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged to the investor effective August 1, 2009.* | ** In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged to the investor effective August 1, 2009.* |
| **Liquidity** | Being an open ended Scheme, Units may be purchased or redeemed on every Business Day at NAV based prices, subject to provisions of exit load, if any. The Fund will, under normal circumstances, endeavour to despatch redemption proceeds within 3 Business Days. | The Scheme will offer Units for Purchase and Redemption at NAV related prices on every Business Day. The Mutual Fund will endeavour to despatch the Redemption proceeds within 3 Business Days from the date of acceptance of the Redemption request. | Being an open ended Scheme, Units may be purchased or redeemed on every Business Day at NAV based prices, subject to provisions of exit load, if any. The Fund will, under normal circumstances, endeavour to despatch redemption proceeds within 3 Business Days. |
| Segregated Portfolio | Not Enabled | Not Enabled | To be Enabled (Refer provisions on Segregated portfolio below) |
| Covered Call | Not Enabled | Not Enabled | To be Enabled (Refer provisions on Covered Call below) |

## A. Provisions related to covered call strategy

Covered call 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.

**Benefit of covered call 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.

**Risk Factors of covered call strategy**

**Volatility risk**: Volatility risk arises when market 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 predetermine 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.

**Restriction in Writing of Covered Call Options by Mutual Fund Schemes:**

In terms of SEBI circular dated January 16, 2019 Mutual funds have been permitted to write call options under a covered call strategy as prescribed below:

Mutual Fund schemes (except Index Funds and ETFs) may write call options only under a covered call 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 paragraph (a) and (b) above. In case of any passive breach of the requirement at paragraph (a), 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 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 in cumulative gross exposure of the Scheme for computing 100% of the net assets of the scheme.
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.

**B. <u>Provisions related to REITs & InvITs</u>**

**<u>Risks factors associated with investments in REITs & InvITs</u>**

**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

**<u>Investment restrictions related to REITs & InvITs :</u>**

The Scheme may invest in the units of REITs and InvITs subject to the following:
(a) The Mutual Fund under all its schemes shall not own more than 10% of units issued by a single issuer of REIT and InvIT; and
(b) The Scheme shall not invest –
i. more than 10% of its NAV in the units of REIT and InvIT; and
ii. more than 5% of its NAV in the units of REIT and InvIT issued by a single issuer.

## C. Segregated Portfolio

In order to ensure fair treatment to all investors in case of a Credit Event and to deal with liquidity risk, SEBI (vide its circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018) has allowed creation of Segregated Portfolio of debt and money market instruments by mutual fund schemes.

**Benefits associated with Segregated Portfolio**

The creation of Segregated Portfolio is aimed at ring fencing a bad asset and restrict cascading effect of illiquidity on the rest of portfolio. This will ensure fair treatment to all investors in case of a Credit Event and allow HSBC AMC to deal with liquidity risk. This offers advantage to the investors in following ways:

- Protecting interest of the investors – It protects investors from exits of large investors as segregation of bad assets help in stabilizing the NAV and minimize panic redemptions, thereby providing a cushion to the liquid portfolio of the Scheme.
- Fair treatment to the investors – New investors coming to the Scheme (Main Portfolio) after the Credit Event will neither get benefit of subsequent recovery, if any, of the bad assets nor will they have to bear the cost of further reduction in value of bad assets. Furthermore, an existing investor exiting from the liquid portfolio (Main Portfolio) after the Credit Event shall still be entitled to receive his portion of subsequent recovery of bad assets in the Segregated Portfolio.

The salient features of creation of Segregated Portfolio is given as below:

**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:
   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) Trigger of a pre-specified event for loss absorption in case of debt instruments with special features such as subordination to equity (absorption of losses before equity capital) and/or conversion to equity upon trigger of a pre-specified event for loss absorption.

   In case of debt instruments with special features mentioned above, if the instrument is to be written off or converted to equity pursuant to any proposal, the date of said proposal may be treated as the Trigger Date. However, if the said instruments are written off or converted to equity without proposal, the date of write off or conversion of debt instrument to equity may be treated as the Trigger Date.

3) 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.
4) In case of unrated debt or money market instruments of an issuer that does not have any outstanding rated debt or money market instruments, actual default of either the interest or principal amount by the issuer of such instruments shall be considered as a Credit Event for creation of Segregated Portfolio.
5) Creation of Segregated Portfolio is optional and is at the discretion of the AMC.

**Definitions**

1) The term 'Segregated Portfolio' means a portfolio, comprising of debt or money market instrument affected by a Credit Event 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.

**Process for Creation of Segregated Portfolio**

1) On the date of Credit Event, the AMC shall decide on creation of Segregated Portfolio. Once the AMC decides to Segregated Portfolio, it shall :
   a. seek approval of Board 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. The Fund will also disclose that the segregation shall be subject to the Trustee approval. Additionally, the said press release will be prominently disclosed on the website of the AMC; and
   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, the subscription and redemption in the scheme will be suspended for processing with respect to creation of units and payment on redemptions.
2) Once the Trustee approval is received by the AMC:
   a. Segregated Portfolio will be effective from the day of Credit Event
   b. The 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 Net Asset Value (NAV) of both Segregated and Main Portfolios will be disclosed from the day of the Credit Event.
   e. All existing investors in the scheme as on the day of the Credit Event 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. The AMC shall 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 valid transfer requests.
3) If the Trustee do not approve the proposal to segregate portfolio, the AMC will issue a press release immediately informing investors of the same.

**Processing of Subscription and Redemption Proceeds**

1) All subscription and redemption requests for which NAV of the day of Credit Event 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**

**L&T Mutual Fund**
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C. S. T. Road, Kalina
Santacruz (East), Mumbai 400 098

**call** 1800 2000 400
**email** investor.line@lntmf.co.in
**www**.ltfs.com



The AMC shall make necessary disclosures as mandated by SEBI, in statement of account, monthly / half yearly portfolio statements, KIM, SID, Scheme Advertisements, Scheme Performance data, AMC's website and at other places as may be specified.
The information regarding number of Segregated Portfolio(s) 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.
The NAV of the Segregated Portfolio shall be declared on daily basis.
Further, the investors of the Segregated Portfolio shall be duly informed of the recovery proceedings of the investments of the Segregated Portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

**Total Expense Ratio (TER) for the Segregated Portfolio**

1. The 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.
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.

**Monitoring by Trustees**

The Trustee 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 shall have a mechanism in place to negatively impact the performance incentives of fund managers, Chief Investment Officers, etc. involved in the investment process of securities under the Segregated Portfolio, mirroring the existing mechanism for performance incentives of the AMC, including transfer of such impacted amount to the Segregated Portfolio.

**Risks associated with Segregated Portfolio**

***Liquidity risk –*** Segregated Portfolio is created to separate debt and money market instruments affected by a Credit Event from the Main Portfolio of the Scheme. The Fund will not permit redemption of the Segregated Portfolio units, but the units will be listed on a recognized stock exchange. The Fund is not assuring any liquidity of such units on the stock exchange. Further, trading price of units on the stock exchange may be significantly lower than the prevailing NAV. Investors can continue to transact (subscribe/redeem) from the Main Portfolio.
***Credit risk –*** While the AMC will put in sincere efforts to recover the securities in the Segregated Portfolio and distribute the same to unit holders, it is likely that such securities may not realise any value leading to losses to investors.

**Illustration of Segregated Portfolio**

Below mentioned is sample Portfolio of a scheme, net assets of which amount to Rs. 558.41 lacs.

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L&T Financial Services
Mutual Fund

**(1) Portfolio Before Downgrade Event (As on 29 June, 2019)**

| Security | Rating | Type of Security | Quantity | Price Per Unit (Rs.) | Market Value (Rs. in lacs) | % of Net Assets |
|---|---|---|---|---|---|---|
| 7.14% A Finance Corporation Ltd. | AAA | NCD | 50000 | 102.625 | 51.31245 | 9.19% |
| 7.70 % B Industries Ltd. | AAA | NCD | 60000 | 98.3588 | 59.01528 | 10.57% |
| 8.29% C Services Ltd. | AA+ | NCD | 70000 | 98.9125 | 69.23875 | 12.40% |
| D Ltd | A1+ | CD | 30000 | 98.199 | 29.4597 | 5.28% |
| 7.37% GoI Sep 16 2019 | Sovereign | Gilt | 50000 | 98.7623 | 49.38115 | 8.84% |
| Cash / Cash Equivalents | | | | | 300.00142 | 53.72% |
| | | **Net Assets** | | | **558.41** | |
| | | **No. of units (in Lacs)** | | | **10** | |
| | | **NAV (Rs. per unit)** | | | **55.8409** | |

**(2) Rating downgrade of security**

| | |
|---|---|
| Downgrade event date | 30-Jun-2019 |
| Downgraded security | 8.29% C Services Ltd. from AA+ to B |
| Valuation marked down by | 25%* |

*Mark down in valuation of downgraded securities shall be based on the haircut matrices specified by Association of Mutual Funds in India (AMFI) which takes into account downgraded rating, sector to which security belongs and secured / unsecured nature of the security.

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L&T Financial Services
Mutual Fund

**Portfolio after Downgrade (As on 30 June, 2019)**

| Security | Rating | Type of Security | Quantity | Price Per Unit (Rs.) | Market Value (Rs. in lacs) | % of Net Assets |
|---|---|---|---|---|---|---|
| 7.14% A Finance Corporation Ltd. | AAA | NCD | 50000 | 102.625 | 51.31245 | 9.47% |
| 7.70 % B Industries Ltd. | AAA | NCD | 60000 | 98.3588 | 59.01528 | 10.90% |
| 8.29% C Services Ltd.* | B* | NCD | 70000 | 75 | 52.5 | 9.69% |
| D Ltd. | A1+ | CD | 30000 | 98.199 | 29.4597 | 5.44% |
| 7.37% GoI Sep 16 2019 | Sovereign | Gilt | 50000 | 98.7623 | 49.38115 | 9.12% |
| Cash / Cash Equivalents | | | | | 300.00142 | 55.38% |
| | | **Net Assets** | | | **541.67** | |
| | | **No. of units (in Lacs)** | | | **10** | |
| | | **NAV (Rs. per unit)** | | | **54.1670** | |

* Mark down of 25% is on the face value (Rs. 100/-) of security on the date of Credit Event. Before marked down, the security was valued at Rs. 98.9125 per unit on 30 June, 2019 which is the date of Credit Event, NCD of C Services Ltd. will be segregated into a separate portfolio.

**Main Portfolio (As on 30 June, 2019)**

| Security | Rating | Type of Security | Quantity | Price Per Unit (Rs.) | Market Value (Rs. in lacs) | % of Net Assets |
|---|---|---|---|---|---|---|
| 7.14% A Finance Corporation Ltd. | AAA | NCD | 50000 | 102.625 | 51.31245 | 10.49% |
| 7.70 % B Industries Ltd. | AAA | NCD | 60000 | 98.3588 | 59.01528 | 12.06% |
| D Ltd. | A1+ | CD | 30000 | 98.199 | 29.4597 | 6.02% |
| 7.37% GoI Sep 16 2019 | Sovereign | Gilt | 50000 | 98.7623 | 49.38115 | 10.09% |
| Cash / Cash Equivalents | | | | | 300.00142 | 61.33% |

| Security | Rating | Type of Security | Quantity | Price Per Unit (Rs.) | Market Value (Rs. in lacs) | % of Net Assets |
|---|---|---|---|---|---|---|
| | | **Net Assets** | | | **489.17** | |
| | | **No. of units (in Lacs)** | | | **10** | |
| | | **NAV (Rs. per unit)** | | | **48.9170** | |

**Segregated Portfolio (As on 30 June, 2019)**

| Security | Rating | Type of Security | Quantity | Price Per Unit (Rs.) | Market Value (Rs. in lacs) | % of Net Assets |
|---|---|---|---|---|---|---|
| 8.29% C Services Ltd.* | B* | NCD | 70000 | 75 | 52.5 | 100.00% |
| | | **Net Assets** | | | **52.50** | |
| | | **No. of units (in Lacs)** | | | **10** | |
| | | **NAV (Rs. per unit)** | | | **5.2500** | |

**(3) Holding after creation of Segregated Portfolio**

| Particulars | Segregated Portfolio | Main Portfolio | Total Value (Rs. in lacs) |
|---|---|---|---|
| No. of units (in Lacs) | 10 | 10 | |
| NAV (Rs. per unit) | 5.2500 | 48.9170 | |
| **Total value** | **52.50** | **489.17** | **541.67** |

**D. Risk factors associated with investments in Perpetual Debt Instruments (PDI) including Additional Tier-1 and Tier-2 bonds**

The scheme may invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption including Additional Tier I bonds and Tier 2 bonds issued under Basel III framework (known as perpetual debt instruments). PDIs are instruments issued by the borrower to strengthen their capital structure and as the name suggests these instruments do not have a specific maturity date but have an embedded call option instead and maybe less liquid than conventional debt instruments. These bonds are subordinate to all other debt and only senior to equity capital. The issuer may call or redeem the bonds on the call exercise date if they can refinance the issue at a cheaper rate, especially when interest rates are declining. The issuers of such instruments could be Banks, NBFCs and Corporates. PDIs issued by Banks and NBFCs fall under scope of Reserve Bank of India (RBI)'s guidelines for Basel III capital regulations. These are also referred to as Additional Tier I (AT1 bonds). However, there are no regulatory guidelines for issuance of PDIs by Corporates.

Since PDIs have special features other than usual non-convertible bonds, there are additional risks associated with such instruments which are listed below –

**Risk related to coupon servicing –**
Banks - As per the terms of the instruments, Banks may have discretion at all times to cancel distributions/payment of coupons. In the event of non-availability of adequate distributable reserves and surpluses or inadequacy in terms of capital requirements, RBI may not allow banks to make payment of coupons. These bonds may not be permitted to pay these coupons if the Bank's financial position improves subsequently (non-cumulative)
NBFCs - While NBFCs can defer/postpone payment of coupon in case paying the coupon leads to breach of capital ratios, they also have discretion at all times to cancel payment of coupon.
Corporates - Corporates usually have discretion to defer the payment of coupon. However, the coupon is usually cumulative and any deferred coupon shall accrue interest at the original coupon rate of the PDI.

**Risk of write down or conversion to equity –**
In the event of shortfall in maintenance of capital adequacy ratios and/or Point of Non Viability Trigger (PONV – a point defined by RBI when a bank is deemed to have become non-viable unless appropriate measures are taken to revive its operations or infusion of public sector capital), PDIs issued by Banks could be written down or converted to common equity. This risk does not exist in case of PDIs issued by NBFCs and Corporates.

**Risk of call option not exercised by the issuer –**
Banks and NBFCs - The issuing Banks and NBFCs have an option to call back the instrument after minimum period as per the regulatory requirement from the date of issuance and specified period thereafter, subject to meeting the RBI guidelines. However, if the issuer does not exercise the call on first call date, the Scheme may have to hold the instruments for a period beyond the first call exercise date and hence maybe exposed valuation impacts.
Corporates – Unlike Banks and NBFCs there is no minimum period for call date for Corporate issuers. However, if the corporate does not exercise the call option, the Scheme may have to hold the instruments for a period beyond the call exercise date and hence maybe exposed to valuation impacts.

**Risk Mitigation –** The Scheme will not invest more than 10% of the NAV of the scheme in such instruments and will limit exposure to 5% of the NAV of the Scheme for such instruments issued by a single issuer.

**E. <u>Provision related to participation of mutual funds in repo in corporate debt securities:</u>**

In terms of SEBI Circular No. CIR/IMD/DF/19/2011 dated November 11, 2011 and 361 SEBI Circular No. CIR/IMD/DF/23/2012 dated November 15, 2012, Mutual funds can participate in repos in corporate debt securities as per the guidelines issued by RBI from time to time, subject to the following conditions:

a. The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.

b. Mutual funds shall participate in repo transactions only in AA and above rated corporate debt securities.

c. In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.

**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:

a. 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.
b. 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.
c. 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.

**F. <u>Risk associated with short selling and securities lending</u>**

**<u>Short Selling Risk</u>**: The risk associated with upward movement in market price of security sold short may result in loss. The losses on short position may be unlimited as there is no upper limit on rise in price of a security.
**<u>Securities Lending</u>**: The risks in lending portfolio securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of securities i.e., the Scheme and the approved intermediary. Such failure to comply can result in the possible loss of rights in the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of any corporate benefits accruing to the lender from the securities deposited with the approved intermediary. The Mutual Fund may not be able to sell such lent securities and this can lead to temporary illiquidity.

This Addendum forms an integral part of the Scheme Information Document (SID) & Key Information Memorandum (KIM) of the surviving scheme.

Investors are requested to take note of the above.

**For L&T Investment Management Limited**
**CIN: U65991MH1996PLC229572**
*(Investment Manager to L&T Mutual Fund)*

**Date:** November 24, 2022
**Place:** Mumbai

Sd/-
**Authorised Signatory**

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