



Investment Manager: LIC Mutual Fund Asset Management Ltd.
(Formerly known as LIC Nomura Mutual Fund)

Date: 17/04/2018

Dear Unit holder,

Sub: Change in the Fundamental Attributes and Scheme Features of LIC MF Bond Fund.

We thank you for your investment in LIC MF Bond Fund.

LIC MF Bond Fund was launched by LIC Mutual Fund an open-ended debt scheme which will endeavor to generate an attractive return for its investors by investing in a portfolio of quality debt securities and money market instruments.

During the product review process, SEBI has advised us to review and modify the current asset allocation of LIC MF Bond Fund along with relevant other changes (if any), being a change in fundamental attributes to the Scheme.

Accordingly, the following changes in Scheme Information Document (SID) & Key Information Memorandum (KIM) of LIC MF Bond Fund are proposed:-

Sr. No.	Particulars	Existing				Proposed		
1	Type of the Scheme	An Open-ended debt Scheme.				An open ended medium term debt scheme investing in instruments with Macaulay duration of the portfolio is between 4 years and 7 years (Please refer to the Scheme Information Document (SID) on which the concept of Macaulay's duration has been explained.)		
2	Asset Allocation	Instruments	Indicative Allocation (% of total assets)	Deviation (%) from Normal allocation	Risk Profile	Instruments	Indicative Allocation (% of total assets)	Risk Profile
		Debt	60 - 100 %	30%	Low to Medium	Debt *	60 - 100 %	Low to Medium
		Money Market	0 - 40 %	50%	Low	Money Market *	0 - 40 %	Low
						Units issued by REITs & InvIT *	0-10%	Medium to High
<p>The Cumulative Gross Exposure to Debt, Money Market, Derivatives, REITs and InviT will not exceed 100% of the Net Assets of the Scheme.</p> <p>* The Scheme will invest in Debt and Money Market instruments wherein the Macaulay duration of the portfolio will be between 4 to 7 years.</p> <p>In case the Fund manager has a view on Interest rate movements, the Fund Manager may reduce the Macaulay duration of the portfolio between 1 year to 7 year under anticipated adverse situations.</p> <p>The Scheme may participate upto 10% of the AUM of the scheme in repo of corporate debt securities</p> <p>Applicable Investment Limits</p> <p>a. At the Mutual Fund level:- Not more than 10% of units issued by a single issuer of REIT and InvIT;</p> <p>b. At a single Mutual Fund scheme level: i. not more than 10% of its NAV in the units of REIT and InvIT; and ii. not more than 5% of its NAV in the units of REIT and InvIT issued by a single issuer.</p> <p>The limits mentioned in sub- clauses (i) and (ii) above will not be applicable for investments in case of index fund or sector or industry specific scheme pertaining to REIT and InvIT.</p>								

3	Risk Factors associated with Investments in REITs and InvITS	Not given.	<p>Market Risk: REITs and InvITs are volatile and prone to price fluctuations on a daily basis owing to market movements. Investors may note that AMC/Fund Manager's investment decisions may not always be profitable, as actual market movements may be at variance with the anticipated trends. The NAV of the Scheme is vulnerable to movements in the prices of securities invested by the scheme, due to various market related factors like changes in the general market conditions, factors and forces affecting capital market, level of interest rates, trading volumes, settlement periods and transfer procedures.</p> <ul style="list-style-type: none"> • Liquidity Risk: As the liquidity of the investments made by the Scheme(s) could, at times, be restricted by trading volumes and settlement periods, the time taken by the Mutual Fund for liquidating the investments in the scheme may be high in the event of immediate redemption requirement. Investment in such securities may lead to increase in the scheme portfolio 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, etc. Consequently, the proceeds may get invested in assets providing lower returns. <p>The above are some of the common risks associated with investments in REITs & InvITs. There can be no assurance that a Scheme's investment objectives will be achieved, or that there will be no loss of capital. Investment results may vary substantially on a monthly, quarterly or annual basis.</p>
4	Where the Scheme will invest	<p>The Scheme proposes to invest in a mix of fixed income securities including securitized debt, asset backed securities, corporate debentures, bonds & money market instruments for generating attractive return.</p> <p>The Fund proposes to continuously monitor the potential for both debt and money market instruments to arrive at an optimum asset allocation between the asset classes.</p> <p>The Scheme may invest in money markets instruments including call money market, or any other alternative permitted by Reserve Bank of India in lieu of Call money, term/notice money market and repos in order to meet the liquidity requirements or to meet the defensive nature the portfolio.</p> <p>The Scheme may also invest in Govt. Securities, which may be those supported by the ability to borrow from the treasury; those with sovereign or state guarantee or those supported by the state govt. or the govt. of India in some other way.</p> <p>The Fund may invest, subject to necessary approvals, in ADR's / GDR's of Indian Companies listed overseas. The Fund will employ necessary measures to manage foreign exchange movements arising out of such investments.</p> <p>The Fund may also invest in overseas securities with the approval of RBI/SEBI, subject to such guidelines as may be issued by RBI/SEBI.</p> <p>The Fund may also use trading in derivatives for the purpose of hedging and portfolio balancing in accordance with SEBI regulations.</p>	<p>The Scheme proposes to invest in a mix of fixed income securities including securitized debt, asset backed securities, corporate debentures, bonds & money market instruments for generating attractive return.</p> <p>The Fund proposes to continuously monitor the potential for both debt and money market instruments to arrive at an optimum asset allocation between the asset classes.</p> <p>The Scheme may invest in money markets instruments including call money market, or any other alternative permitted by Reserve Bank of India in lieu of Call money, term/notice money market and repos in order to meet the liquidity requirements or to meet the defensive nature the portfolio.</p> <p>The Scheme may also invest in Govt. Securities, which may be those supported by the ability to borrow from the treasury; those with sovereign or state guarantee or those supported by the state govt. or the govt. of India in some other way.</p> <p>The Fund may invest, subject to necessary approvals, in ADR's /GDR's of Indian Companies listed overseas. The Fund will employ necessary measures to manage foreign exchange movements arising out of such investments.</p> <p>The Fund may also invest in overseas securities with the approval of RBI/SEBI, subject to such guidelines as may be issued by RBI/SEBI.</p> <p>The Fund may also use trading in derivatives for the purpose of hedging and portfolio balancing in accordance with SEBI regulations.</p> <p>The Scheme may participate upto 10% of the AUM of the scheme in repo of corporate debt securities</p> <p>The Scheme will invest in Debt and Money Market instruments wherein the Macaulay duration of the portfolio will be between 4 to 7 years.</p> <p>In case the Fund manager has a view on Interest rate movements, the Fund Manager may reduce the Macaulay duration of the portfolio between 1 year to 7 year under anticipated adverse situations.</p> <p>Imperfect Hedging</p> <p>In addition to the existing provisions of SEBI circular No.IMD/DF/11/2010 dated August 18, 2010, the following are prescribed under the recent circular no SEBI/HO/IMD/DF2/CIR/P/2017/109 dated September 27, 2017:</p> <p>I. To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by</p>

			<p>using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:</p> $\frac{\text{(Portfolio Modified Duration*Market Value of the Portfolio)}}{\text{(Futures Modified Duration*Future Price/PAR)}}$ <p>2. In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.</p> <p>3. Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, upto maximum of 20% of the net assets of the scheme, subject to the following:</p> <p>Exposure to IRFs is created only for hedging the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.</p> <p>Mutual Funds are permitted to resort to imperfect hedging, without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is atleast 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure computed in terms of Para 3 of SEBI circular dated August 18, 2010. The correlation should be calculated for a period of last 90 days.</p> <p>Explanation: If the fund manager intends to do imperfect hedging upto 10% of the portfolio using IRFs on weighted average modified duration basis, either of the following conditions need to be complied with:</p> <p>The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or</p> <p>The correlation for past 90 days between the part of the portfolio (excluding the hedged portions, if any) i.e. at least 10% of the net asset of the scheme (including one or more securities) and the IRF is at least 0.9.</p> <p>c) At no point of time, the net modified duration of part of the portfolio being hedged should be negative.</p> <p>d) The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of gross exposure in terms of Para 3 of SEBI circular dated August 18, 2010.</p> <p>4. The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities) based on the weighted average modified duration.</p> <p>Explanation: In case of Medium Term fund, after hedging the portfolio based on the modified duration of the portfolio, the net modified duration should not be less than the minimum modified duration of the portfolio as required to consider the fund as a Medium Term fund.</p> <p>Perfect Hedging is when we take short / reverse position in same security where we have long position in cash market. Example: We have an long position in 6.68% GOI 17-09-2031 in cash and if we take short position in same security in IRF(Interest Rate Futures) that will be the perfect hedging.</p> <p>Imperfect hedging is when we take short/reverse position in similar/other security compare to our long position in cash market.</p> <p>Example: We have Dynamic bond portfolio consisting of various corporate bonds having maturities between 10 - 17 years with overall portfolio duration of 10 years and we take a short position in Interest Rate Futures in a 6.68% GOI 2031 (a 13yr GOI Bond) as a proxy to reduce the interest rate risk in portfolio. Here this short position would protect the portfolio against adverse</p>
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5	Risk associated with investments in repo of corporate debt securities	Not given.	<p>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:</p> <p>a. Counterparty Risk: This refers to the inability of the seller to meet the obligation to buy back securities at the contracted price. The Investment Manager will endeavour to manage counterparty risk by dealing only with counterparties having strong credit profiles assessed through in-house credit analysis or with entities regulated by SEBI/RBI/IRDA</p> <p>b. Collateral Risk: In the event of default by the repo counterparty, the scheme have recourse to the corporate debt securities. 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 only in AA and above rated money market and corporate debt securities. In addition, appropriate haircuts are applied on the market value of the underlying securities to adjust for the illiquidity and interest rate risk on the underlying instrument.</p>
6	Risk associated with Imperfect hedging	Not given	Basis Risk: The Future Rate (as defined by the future prices) moves approximately but not precisely in line with the cash market rate. An error in estimation of basis risk can lead to wrong prediction of futures closing price.

The Board of Directors of LIC Mutual Fund Asset Management Limited and the Board of Trustees have accorded their approval for the aforesaid Changes. SEBI vide its letter Ref.: IMD/DF3/OW/P/2018/7513/1 Dt.09/03/2018 has also accorded their no objection for this Changes in the fundamental attributes of LIC MF Bond Fund.

If you agree with the proposed Changes in Fundamental Attributes, no action is required from your end. If you do not agree with the proposed Changes in Fundamental Attributes, you may exercise your right to exit from the scheme, without any applicable exit load during the prescribed exit period. . The exit option is valid for a period of 30 days to all the investors of LIC MF Bond Fund. The exit period will begin from 03/05/2018 and continue till business hours of 01/06/2018 (both days inclusive). In case of non-agreement to the proposal of the Changes in Fundamental Attributes, you may choose to redeem your units by submitting the request to the registrar at M/s. Karvy Computershare Private Limited, Unit: LIC Mutual Fund, Karvy Selenium Tower B, Plot number 31 & 32 Financial District, Nanakramguda, Serilingampally Mandal, Hyderabad – 500032. Redemption proceeds will be given in 10 business days on receipt of valid redemption request from the unitholders who exercises his/her option.

Unit holders who do not exercise the exit option upto 3.00 pm on 01/06/2018 would be deemed to have consented to the proposed changes.

Exit option will not be available to unitholders whose units have been pledged or encumbered their units in the Scheme and Mutual Fund has been instructed to mark a pledge/lien on such units, unless the release of the pledge/lien is obtained and appropriately communicated to AMC/Mutual Fund prior to applying for redemption/switch-out.

As regards the unitholders who redeem their investments during the Exit Option Period, the tax consequences as set for in the Statement of Additional Information of LIC Mutual Fund and Scheme Information Document of the Scheme would apply. In view of individual nature of tax consequences, unitholders are advised to consult their financial/tax advisor for detailed tax advice.

If you need any clarification, please feel free to contact our representatives at any of the LIC MF branches across the country. You could also reach us on service@licmf.com

We are confident that you will continue your valued relationship with us.

Assuring you of our best services,

Yours faithfully,

LIC Mutual Fund Asset Management Ltd

Sd/-

(Raj Kumar)

Whole Time Director & Chief Executive Officer

LIC Mutual Fund Asset Management Ltd.

Registered Office: Industrial Assurance Building, 4th Floor, Opp. Churchgate Station, Mumbai 400 020.

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