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

Date: 17/04/2018

Dear Unit holder,

<u>Sub: Change in the Fundamental Attributes and Scheme Features of LIC MF Govt. Securities Fund.</u>

We thank you for your investment in LIC MF Govt. Securities Fund.

LIC MF Govt. Securities Fund was launched by LIC Mutual Fund as an open ended dedicated Government Securities (Gilt) Scheme which seeks to generate credit risk free and reasonable returns for its investors through investments in sovereign securities issued by the central and /or state Government and/or any security unconditionally guaranteed by the central/ state government for repayment of Principal and interest and/or reverse repos in such securities as and when permitted by RBI.

During the product review process, SEBI has advised us to review and modify the current asset allocation of LIC MF Govt. Securities 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 Govt. Securities Fund are proposed:-

<table>
<tr><th>Sr. No.</th><th>Particulars</th><th>Existing</th><th>Proposed</th></tr>
<tr><td>1</td><td>Type of the Scheme</td><td>An open ended dedicated Government Securities (Gilt) Scheme.</td><td>An open ended debt scheme investing in government securities across maturity.</td></tr>
<tr><td>2</td><td>Asset Allocation</td><td>
<table>
<tr><th>Instruments</th><th>Indicative Allocation (% of total assets)</th><th>Deviation (%) from Normal</th><th>Risk Profile</th></tr>
<tr><td>G-Sec Instruments</td><td>Up to 100%</td><td>-</td><td>Low</td></tr>
<tr><td>Debt/Money Market (Debt includes Government securitized & securitized debt for allschemes)</td><td>Up to 40%</td><td>25%</td><td>Low to Medium</td></tr>
</table>
</td><td>
<table>
<tr><th>Instruments</th><th>Indicative Allocation (% of total assets)</th><th>Risk Profile</th></tr>
<tr><td>G-Sec Instruments</td><td>80% - 100%</td><td>Moderate</td></tr>
<tr><td>Debt/Money Market (Debt includes Government securities & securitized debt for allschemes)</td><td>0% - 20%</td><td>Low to Medium</td></tr>
</table>
</td></tr>
<tr><td>3</td><td>Where the Scheme will Invest</td><td>Not Given</td><td>Imperfect Hedging
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:
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 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:

(Portfolio Modified Duration*Market Value of the Portfolio)/(Futures Modified Duration*Future Price/PAR)

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.
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:

Exposure to IRFs is created only for hedging the interest</td></tr>
</table>

			rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio. 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. 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: The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or 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. c) At no point of time, the net modified duration of part of the portfolio being hedged should be negative. 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. 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. 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. 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. Imperfect hedging is when we take short/reverse position in similar/other security compare to our long position in cash market. 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 interest movement however this protection would not be perfect as movement in interest rate of corporate bonds and GOI bond may not be the same..
4	**Risk associated with Imperfect heding**	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 Govt. Securities 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 Govt. Securities 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