LIC MUTUAL FUND

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 Infrastructure Fund.</u>

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

LIC MF Infrastructure Fund was launched by LIC Mutual Fund as an open ended scheme which seeks to generate long term capital growth from a portfolio of equity / equity related instruments of companies engaged either directly or indirectly in the infrastructure sector

During the product review process, SEBI has advised us to review and modify the current dynamic asset allocation of LIC MF Infrastructure 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 Infrastructure 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 Equity Scheme.</td><td>An open ended equity scheme investing in Infrastructure sector.</td></tr>
<tr><td>2</td><td>Asset Allocation</td><td>
<table>
<tr><th>Instruments</th><th>Indicative Allocation (% of total assets)</th><th>Risk Profile</th></tr>
<tr><td>Equity and equity related instruments of companies engaged either directly or indirectly in he infrastructure sector.</td><td>70%-100%</td><td>Medium to High</td></tr>
<tr><td>Debt* and Money Market instruments</td><td>0%-30%</td><td>Low to Medium</td></tr>
</table>
*Debt securities includes securitised debt upto 30%
Investment in equity derivative instruments shall be made for the purpose of hedging only to protect the interest of the investors and the total exposure in the equity derivative will not be more than 50% of the Net Assets of the scheme.
</td><td>
<table>
<tr><th>Instruments</th><th>Indicative Allocation (% of total assets)</th><th>Risk Profile</th></tr>
<tr><td>Equity and equity related instruments of companies engaged either directly or indirectly in he infrastructure sector.</td><td>80% - 100%</td><td>Medium to High</td></tr>
<tr><td>Debt* and Money Market</td><td>0% - 20%</td><td>Low to Medium</td></tr>
</table>
*Debt securities includes securitised debt upto 20%
Investment in equity derivative instruments shall be made for the purpose of hedging only to protect the interest of the investors and the total exposure in the equity derivative will not be more than 50% of the Net Assets of the scheme.

Stock lending Subject to SEBI (MF) Regulations and the applicable guidelines issued by SEBI, the Mutual Fund may engage in stock lending. The AMC shall comply with all reporting requirements and the Trustee shall carry out periodic review as required by SEBI guidelines. Stock lending means the lending of stock to another person or entity for a fixed period of time, at a negotiated compensation. The securities lent will be returned by the borrower on expiry of the stipulated period.

The Investment Manager will apply the following limits, should it desire to engage in Stock Lending:

1. Not more than 20% of the net assets of a Scheme can generally be deployed in Stock Lending.

2. Not more than 5% of the net assets of a Scheme can generally be deployed in Stock Lending to any single counter party.
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What Are The Investment Strategies?

Approach to investment in equity:
The investment approach for investing in equities would be to identify companies with a strong competitive position in a good business and having quality management. The focus would on fundamentally driven investment with scope for future growth.

Approach to investment in debt:
The investment in debt securities will usually be in instruments, which have been assigned as investment grade ratings by a recognized credit rating agency. In case a debt instrument is not rated, prior approval of Board of directors will be obtained for such investments. The Maturity profile of debt instruments will be selected in line with the outlook for the market. The investment strategy would emphasize investments in securities that give consistent returns at low levels of risks. If the Scheme decides to invest in Securitised Debt and or Asset backed securities it is the intention of the investment manager that such investments will not normally exceed 30% of the corpus of the Scheme.

Trading in derivatives:

The Scheme may use derivatives with respect to debt in accordance with SEBI regulations in an attempt to protect the portfolio values and unit holder interest. The AMC in appropriate circumstances may use futures, options and other derivatives subject to applicable regulations and counter party risk assessment as and when they become permissible in the Indian markets subject to necessary authorization. In addition subject to applicable regulations and counter party risk assessment the scheme may also borrow or lend stock.

The Value of the derivative contracts outstanding will be limited to 20% of the net assets of the Scheme.

Trading in derivative shall however be restricted to hedging and portfolio balancing purposes as illustrated in the following cases :

Equity market Derivatives:

The fund proposes to invest in equity market derivatives such as index futures, stock futures and such other instruments as permitted under SEBI regulations from time to time.

INDEX FUTURES:

a) When the Investment Manager takes a negative view on the market:

When the investment manager anticipates the market to fall from its current levels, he needs to reduce his exposure to equities. He may do so by taking a short position in index futures i.e. by selling the index forward thereby reducing the market risk and volatility of the portfolio. He can unwind his position by concurrently selling equities from the investment portfolio and simultaneously reverse his position on the index.

b) When the Investment Manager takes a positive view on the market:

When the investment manager anticipates rise from the current market levels, the investment manager needs to make the most of the opportunity he foresees. The Scheme being open-ended would witness a daily inflow of funds, which in the above case need to be deployed on an immediate basis. In such a situation the Investment Manager would take a long position in index futures i.e. he would buy the index and then gradually reverse his position as the funds actually get invested in the market.

The following table illustrates the underlying effects of derivative trading we assume a equity corpus of Rs. 100 crore and a 20% Hedge i.e. futures contract value of Rs. 20 crore

The fund manager may use equity derivatives (index futures and options and stock futures and options) within the permissible limits to hedge and to rebalance the portfolio.

The fund manager could also use active cash calls as a means to rebalance or hedge the portfolio up to the permissible limits.

The investment manager will invest only in those money market instruments that are related investment grade by a domestic credit rating agency authorized to carry out such activity, such as CRISIL, ICRA, CARE etc., which the Investment manager believes to be of equivalent quality.

Derivative Strategies

Index Futures

Index Futures of 1 month, 2 months, and 3 months duration are presently traded on these BSE and NSE exchanges. These futures expire on the last working Thursday of the respective months. The Index futures are cash settled, without delivery of the underlying stock. The profitability of the position in the futures trade depends on

- Carrying Cost
- Interest available on surplus funds
- Transaction Costs
- Future roll over cost, in case future contracts are rolled over
- Market Liquidity

An example of typical future trade and associated cost as compared to purchasing the underlying index stocks is illustrated below

If the Index was 5190 at the beginning of a month and the quotes for the 1-month future is as under:

Month	Bid Price	Offer Price
1	5200	5215

The Fund can make an actual purchase of the stocks in the Index at the Index level of 5000 or buy one month future at the offer price of 5215 as illustrated above. The cost of employing both the strategies is illustrated below.

Particulars	Index Future	Actual Purchase of Stocks
Index at the beginning of the month	5190	5000
Price of 1 Month Future	5215	NA
A. Execution Cost: Carry and other	25	Nil
B. Brokerage Cost: Assumed at 0.20% for Index Future and 0.25% for spot Stocks (0.20% of 5215) (0.25% of 5190)	10.43	12.98
C. Return on Surplus Funds left after paying margin (assumed 8% return on the remaining 90% of the funds left after paying 10% margin) (8%*5190*90%*30 days/365)	30.71	Nil
Total Cost (A+B-C)	**4.72**	**12.98**

Now if on the date of expiry the Index closes at 5300, then the strategy of purchasing one month future would yield a gain of INR 105.28 (5300-5190-4.72) while the purchase of the underlying securities would result in a gain of INR 97.02

Strategies employing index futures

The fund will invest the equity portion in a basket of stocks. During the time that the fund manager believes bearishness in the market, the fund can hedge the exposure to equity, fully or partially, by selling futures positions in the index.

A long position can be built by buying futures positions in the index against the available cash and permissible equivalents. Existing guidelines will determine the extent of exposure in the long future position.

Risks associated:

Portfolio	Event	Equity Portfolio	Derivative	Final Portfolio
		Gain/(Loss) Rs. in crore		
Without Hedge	10% fall in equity prices	(10)	Nil	**90**
	10% rise in equity prices	10	Nil	110
With Hedge	10% fall in equity prices	(10)	2	92
	10% rise in equity prices	10	(2)	108

RISKS

The strategy of taking a short position in index futures is a hedging strategy and reduces the market risk. The short position is negatively correlated with the market and the price of the contract may go up or down depending on market conditions. There is no assurance that the stocks in the portfolio and the index behave in the same way and thus this strategy may not be a perfect hedge.

The short position will have as much loss as a gain in the underlying index. E.g. if the index appreciates by 10%, the future value falls by 10%. However, this is true for futures contracts held till maturity. In the event that a futures contract is closed out before its expiry, the quoted price of the futures contract may be different from the gain/loss due to the movement of the underlying index. This is called the basis risk.

While futures markets are typically more liquid than the underlying cash market, there can be no assurance that ready liquidity would exist at all points in time, for the Scheme to purchase or close out a specific futures contract.

- Lack of perfect correlation of the derivatives to the underlying indices
- Risk of improper valuation of the futures price
- Execution cost may differ from the calculated cost as rates in the futures market are volatile

<u>Strategies employing stock specific Futures</u>

Futures based on Individual stocks are available on the Indian bourses. Though these futures are based on the movement of the underlying stock, often there are mispricing of the derivatives. This gives rise to arbitrage opportunities that can be exploited by the fund. In addition, exposure to the stock through the corresponding stock futures is a cost-effective way that owning the stock directly.

(a) <u>Sell spot & buy future</u>

Assume the fund holds the stock of a company at say INR 100 while in the futures market it trades at INR 95, a discount to the spot price. The fund may sell the stock at INR 100 and buy the future at INR 95. On the date of expiry of the stock future, the fund may reverse the transactions (i.e. Buy Spot & Sell future) and earn a risk-free INR 5 on its holdings. This risk free earning is obtained even as the fund continues to hold the stock in its portfolio.

Risks associated:

- Lack of perfect correlation of the derivatives to the underlying indices
- Risk of improper valuation of the futures price
- Execution cost may differ from the calculated cost as rates in the futures market are volatile

(b) <u>Buy spot & sell future</u>

Assume a stock is trading in the spot market at INR.80 while the future trades at INR 84 in the futures market. The fund manager may buy the stock at spot and sell in the futures market thereby earning INR 4. In case of sufficient cash with the fund, this strategy may be used to enhance returns of the Scheme, instead of sitting on cash.

Risks associated:

- Lack of perfect correlation of the derivatives to the underlying indices
- Risk of improper valuation of the futures price
- Execution cost may differ from the calculated cost as rates in the futures market are volatile

(c) <u>Buy stock future</u>

In case the fund wants to initiate a long position in a stock whose spot price is say INR 150 and futures price is at INR 140, then the fund may just buy the futures contract instead of the spot, thereby benefiting from a lower cost.

Risks associated:

- Lack of perfect correlation of the derivatives to the underlying indices
- Risk of improper valuation of the futures price
- Execution cost may differ from the calculated cost as rates in the futures market are volatile

Index Options

Option contracts are of two types –

Call, having the right, but not obligation, to purchase a prescribed number of shares at a specified price before or on a specific expiration date.

Put, having the right, but not obligation, to sell a prescribed number of shares at a specified price before or on a specific expiration date. The price at which the shares are contracted to be purchased or sold is called the strike price.

American Options are the options that can be exercised on or before the expiration date, while European Options are those that can be exercised only on the expiration date. Option contracts are designated by the type of option, name of the underlying, expiry month and the strike price.

<u>Strategies using Options</u>

(a) *<u>Buying a Call Option:</u>* The fund buys a call option at the strike price of say INR100 and pays a premium of INR. 8. If on the day of the expiry, the market price of the stock is more than INR 108 the fund would earn profits. However if the market price of the stock is less than INR 100, the fund will not exercise the option while it loses the premium of INR 8.

Risks associated:

			• Lack of perfect correlation of the derivatives to the underlying indices • Risk of improper valuation of the futures price • Execution cost may differ from the calculated cost as rates in the futures market are volatile **(b)** ***Buying a Put Option***: The fund buys a Put Option at a strike price of say INR 100 paying a premium of say INR 12, for a stock trading at INR 100. If the stock price goes down to INR 90, the fund can sell exercise the put option, gaining INR 10 in the process. However accounting for the premium paid, the net loss would be INR 2 (10-12), thereby protecting its downside. However if the stock moves up to INR 120, the fund will not exercise the option, thereby foregoing the premium paid. **Risks associated:** • Lack of perfect correlation of the derivatives to the underlying indices • Risk of improper valuation of the futures price • Execution cost may differ from the calculated cost as rates in the futures market are volatile The above option positions can be initiated in both index based options as well as stock specific options. The AMC retains the right to enter into such derivative transactions, on strategic basis, as may be permitted by the applicable regulations from time to time. Other Investment Strategies will be same as mentioned in the SID of LIC MF Infrastructure Fund.
4	**Risk associated with Stock Lending**	**Not Given.**	Risks associated with stock lending may include counter party risk, liquidity risk and other market risks. At present, there is no significant activity in the Securities Borrowing and Lending market. The Mutual Fund has so far not participated in Securities Lending market. However, we understand the risks associated with the securities lending business and the AMC will have appropriate controls (including limits) before initiating any such transactions.
5	**Benchmark**	S&P BSE 100	Nifty Infrastructure Index

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 Infrastructure 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 Infrastructure 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