

NOTICE-CUM-ADDENDUM No. 26 of 2021-2022
NOTICE – CUM – ADDENDUM TO THE SCHEME INFORMATION DOCUMENT (SID) AND KEY INFORMATION MEMORANDUM (KIM) OF LIC MF BANKING & FINANCIAL SERVICES FUND (“THE SCHEME”)
1. Modification in Asset Allocation pattern of the Scheme:

As per the current provisions of the SID, the asset allocation of the Scheme towards the financial services companies is limited to a maximum of 20%. It has been proposed to remove the limit of 20% investment in financial services companies from the scheme, since the underlying scheme benchmark - Nifty Financial Services TRI has weightage of approx. 64% in banks and remaining 26% in financial services companies. In order to align the investment in financial services companies with the underlying scheme benchmark, the following changes in SID & KIM of the Scheme are proposed.

Current Provisions of LIC MF Banking & Financial Services Fund				Proposed Change			
Instruments	Indicative Allocation (% of total assets)		Risk Profile	Instruments	Indicative Allocation (% of total assets)		Risk Profile
	Minimum	Maximum	High/Medium/Low		Minimum	Maximum	High/Medium/Low
Equity and Equity related securities of Banking and Financial Services Companies	80	100	High	Equity and Equity related securities of Banking and Financial Services Companies	80	100	High
Debt & Money market instruments.	0	20	Low to Medium	Debt & Money market instruments.	0	20	Low to Medium

The scheme asset allocation towards the financial services companies will be limited to a maximum of 20%.

The scheme may invest in Securitized Debt - up to 30% of the net assets of the scheme. The Scheme may participate upto 10% of the AUM of the scheme in repo of corporate debt securities.

The scheme will not invest in debt instruments having Structured Obligations / Credit Enhancements.

The scheme will also not invest in debt instruments with special features as specified in SEBI circular ref - SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021.

2. Creation of Segregated Portfolio

SEBI has, vide its circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018 and SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019, permitted creation of segregated portfolio of debt and money market instruments by mutual funds schemes, in order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk. Accordingly, it is proposed to incorporate provision of segregated portfolio in the SID of LIC MF Banking & Financial Services Fund.

The term 'segregated portfolio' shall mean a portfolio comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund Scheme and the term 'main portfolio' shall mean the scheme portfolio excluding the segregated portfolio. The term 'total portfolio' shall mean the scheme portfolio including the securities affected by the credit event.

Creation of segregated portfolio shall be subject to guidelines specified by SEBI from time to time and in terms of SEBI Circular Ref No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018 and SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019 which includes the following:

- Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:
 - Downgrade of a debt or money market instrument to 'below investment grade', or
 - Subsequent downgrades of the said instruments from 'below investment grade', or
 - Similar such downgrades of a loan rating
- 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.
- Creation of segregated portfolio is optional and at the discretion of the LIC Mutual Fund Asset Management Ltd. ('AMC').

Process for Creation of Segregated Portfolio

- Once the AMC decides on creation of segregated portfolio on the day of credit event, it shall follow the process laid down below:
 - AMC will seek approval of Trustees prior to creation of the segregated portfolio.
 - AMC will immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. LIC Mutual Fund will also disclose that the segregation shall be subject to approval of Trustee. Additionally, the said press release will be prominently disclosed on the website of the AMC.
 - AMC will ensure that till the time the Trustee approval is received, which in no case shall exceed 1 (one) business day from the day of credit event, the subscription and redemption in the scheme shall be suspended for processing with respect to creation of units and payment on redemptions.
- Upon receipt of approval from Trustee:
 - Segregated portfolio will be effective from the day of credit event.
 - AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.
 - An e-mail or SMS will be sent to all unit holders of the concerned scheme(s).
 - The NAV of both segregated and main portfolio will be disclosed from the day of the credit event.
 - 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.
 - No redemption and subscription will be allowed in the segregated portfolio. However, upon recovery of any money from segregated portfolio, it shall be immediately distributed to the investors in proportion to their holding in the segregated portfolio.
 - In order to facilitate exit to unit holders in segregated portfolio, AMC will enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests.
 - All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as per the existing SEBI circular on applicability of NAV as under:

Upon trustees' approval to create a segregated portfolio -

 - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
 - Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV. After creation of 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. Further investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
- If the Trustees do not approve the proposal to segregate portfolio, AMC will issue a press release immediately informing investors of the same and subscription and redemption applications will be processed based on the NAV of total portfolio.
- Notwithstanding the decision to segregate the debt and money market instrument, the valuation will take into account the credit event and the portfolio will be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.

Disclosure requirements:

In order to enable the existing as well as the prospective investors to take informed decision, the following shall be adhered to as mandated by SEBI:

- A statement of holding indicating the units held by the investors in the segregated portfolio along with the NAV of both segregated portfolio and main portfolio as on the day of the credit event will be communicated to the investors within 5 working days of creation of the segregated portfolio.
- Adequate disclosure of the segregated portfolio will appear in all scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the scheme.
- The Net Asset Value (NAV) of the segregated portfolio will be declared on daily basis.
- The information regarding number of segregated portfolios created in a scheme will 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 scheme performance required to be disclosed at various places will include the impact of creation of segregated portfolio. The scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, will be disclosed as a footnote to the scheme performance.
- The disclosures at point (d) and (e) above regarding the segregated portfolio will be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered/ written-off.
- The investors of the segregated portfolio will 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.

TER for the Segregated Portfolio

- AMC will not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.
- The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence. In addition to the TER mentioned above, the legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio as mentioned below:
 - The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
 - The costs related to segregated portfolio will not be charged to the main portfolio.

Monitoring by Trustees

In order to ensure timely recovery of investments of the segregated portfolio, the Trustee would continuously monitor the progress and take suitable action as mentioned in the SEBI Circular. The trustees shall monitor the compliance of SEBI Circulars and guidelines issued from time to time and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every segregated portfolio created.

In order to avoid mis-use of segregated portfolio, Trustees have put a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the segregated portfolio of the scheme.

Risks associated with segregated portfolio

- Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer.
- Security comprises of segregated portfolio may not realize any value.
- Listing of units of segregated portfolio in recognized stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

In addition to the above requirements, SEBI vide its circular no. SEBI/HO/IMD/DF2/CIR/P/2019/127 dated November 07, 2019 in partial modification to SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018 has allowed creation of segregated portfolio of unrated debt or money market instruments by mutual fund schemes of an issuer that does not have any outstanding rated debt or money market instruments, subject to the following:

- Segregated portfolio of such unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount.
- Asset Management Companies shall inform AMFI immediately about the actual default by the issuer. Upon being informed about the default, AMFI shall immediately inform the same to all the Asset Management Companies. Pursuant to dissemination of information by AMFI about actual default by the issuer, the Asset Management Companies may segregate the portfolio of debt or money market instruments of the said issuer in terms of SEBI circular dated December 28, 2018.

Illustration of Segregated Portfolio:

Portfolio Date 30-June-2021

Downgrade Event Date 30-June-2021

Downgrade Security 9.30% R Ltd from AA+ to B

Valuation Marked Down by 20%

Mr. A is holding 1000 Units of the Scheme, amounting to (1000*44.95920) ₹ 44959.20

Portfolio before Downgrade Event

Security	Rating	Type of the Security	Qty	Price Per Unit (₹)	Market Value (₹ in Lacs)	% of Net Assets
8.96% P LTD	CRISIL AAA	NCD	2200	10,03,573	22078.61	49.11
9.02% Q FINANCE LTD	CRISIL AAA	NCD	2000	10,04,985	20099.70	44.71
S Ltd		CP	200	5,00,000	1000.00	2.22
9.30 % R Ltd	CRISIL B*	NCD	50	10,06,139	503.07	1.12
9.32 % T LTD		NCD	100	11,67,721	1167.72	2.60
Cash / Cash Equivalents					110.10	0.24
		Net Assets			44959.20	
		Unit Capital (no of units)			1000.00	
		NAV ₹			44.95920	

* Marked down by 20% on the date of credit event. Before mark down the security was valued at ₹ 12,57,673.75 per unit on the date of credit event i.e. on 30th June 2021, NCD of R Ltd (9.30%) will be segregated as separate portfolio.

Main Portfolio as on 30th June 2021

Security	Rating	Type of the Security	Qty	Price Per Unit (₹)	Market Value (₹ in Lacs)	% of Net Assets
8.96% P LTD	CRISIL AAA	NCD	2200	10,03,573	22078.61	49.66
9.02% Q FINANCE LTD	CRISIL AAA	NCD	2000	10,04,985	20099.70	45.21
S Ltd		CP	200	5,00,000	1000.00	2.25
9.32 % T LTD		NCD	100	11,67,721	1167.72	2.63
Cash / Cash Equivalents					110.10	0.25
		Net Assets			44456.13	
		Unit Capital (no of units)			1000.00	
		NAV ₹			44.45613	

Segregated Portfolio as on 30th June 2021

Security	Rating	Type of the Security	Qty	Price Per Unit (₹)	Market Value (₹ in Lacs)	% of Net Assets
9.30 % R Ltd	CRISIL B*	NCD	50	10,06,139	503.07	100
		Unit Capital (no of units)			1000.00	
		NAV ₹			0.50307	

Value of Holding of Mr. X after creation of Segregated Portfolio

	Segregated Portfolio	Main Portfolio	Total Value ₹
No. of Units	1000	1000	
NAV ₹	0.50307	44.45613	
Total Value	503.07	44,456.13	44,959.20

The above changes will be effective from 29th October 2021.

The Board of Directors of LIC Mutual Fund Asset Management Limited ("AMC") and LIC Mutual Fund Trustee Private Ltd. ("Trustee") have accorded their approval for the aforesaid Changes. SEBI vide its communication dated 9th September 2021 has also accorded their no objection for the aforesaid changes in the fundamental attributes of the Scheme.

The proposed changes being a Fundamental attribute (FA) change in terms of Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 as amended from time to time. Therefore, Unitholders of the Scheme as of 28th September 2021 are given an option to exit i.e., either redeem their investments or switch their investments (to any other scheme of the Fund) without payment of 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 the Scheme of the Fund. The exit period will begin from 29th September 2021 and continue till business hours of 28th October 2021 (both days inclusive).

Unit Holders who wish to exit may tender their redemption/switch request (to any other scheme of the fund) by submitting their request at any Official Point of Acceptance of the fund. The applicable NAV for redemption will be based on the cut-off time of the Business Day when the redemption request is accepted. The Redemption proceeds will be dispatched within 10 (ten) business days of receipt of valid redemption request to those unitholders who choose to exercise the exit option. Unit holders who do not exercise the exit option upto 3.00 pm on 28th October 2021 would be deemed to have consented to the proposed modifications. It may also be noted that no action is required in case Unitholders are in agreement with the aforesaid changes, which shall be deemed as consent being given by them for the proposed changes. **Kindly note that an offer to exit is merely optional and not compulsory.**

Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges / encumbrances prior to the submission of redemption / switch requests. Unitholders should ensure that their change in address or bank details are updated in records of LIC Mutual Fund as required by them, prior to exercising the exit option for redemption of units. Unit holders holding Units in dematerialized form may approach their Depository Participant for such changes.

TAX IMPLICATIONS

Redemption / switch-out of units from the scheme, during the exit period, may entail capital gain/loss in the hands of the Unit Holder. Similarly, in case of NRI investors, TDS shall be deducted in accordance with the applicable Tax laws, upon exercise of exit option and the same would be required to be borne by such investor only. In view of individual nature of tax implications, Unit Holders are advised to consult their tax advisors. For details on Tax implications, please refer to SID of the scheme and Statement of Additional Information ("SAI") available on our website www.licmf.com.

Existing Unit holders of the Scheme are being sent a detailed communication in this regard through appropriate mode of communication. For any further assistance/clarification, Unit holders may contact any of our Investor Service Centres/ representatives at any of the LIC MF branches across the country. You could also reach us on service@licmf.com

This notice cum addendum will form an integral part of the SID and KIM of the scheme.

All other terms and conditions of the Scheme will remain unchanged.

For LIC MUTUAL FUND ASSET MANAGEMENT LIMITED

Sd/-

Dinesh Pangtey

Whole Time Director & Chief executive Officer

Date : 24/09/2021

Place : Mumbai

As part of Go-Green initiative, investors are encouraged to register/update their email ID and Mobile Number with us to support paper-less communication.

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