

L&T Infrastructure Fund

An open-ended equity scheme



L&T Financial Services
Mutual Fund

Fund Update - February 2018

Equity Market Review

Indian equities erased gains of January with increased global volatility weighing on sentiment and foreign investors turning big sellers. Introduction of long term capital gain tax (LTCG) in the union budget, widening trade deficit and the unraveling of banking fraud at PNB was a dampener to market sentiments. Nifty and Sensex ended 4.9% and 5% lower in February. Global markets turned cautious with rising bond yields. Globally, equity indices ended on a negative note in February. BSE Mid cap and BSE Small cap index both outperformed its larger peers. BSE Midcap ended 4.6% down and BSE Small cap was down 3.1%.

FI turned net sellers in February amidst increased global volatility with outflows of \$1.9Bn offsetting inflows of the previous month taking YTD net inflows to mere \$108Mn. Domestic investors continued to be buyers for 11th straight month with staggering buying of \$2.7Bn. Mutual Funds continued to drive inflows with \$2Bn in February while Insurance companies were net buyers to the tune of \$700 Mn.

Macro-Economic Developments

India's GDP in 3Q rebounded to 7.2% as negative supply shocks related to demonetization and GST faded away. Investment growth recovered sharply to 13% in 3Q vs 8.9% in last quarter. Recovery in real GDP is quite noteworthy given the drag from exports and rising GDP deflator which went up by 100 bps. CPI inflation in the month of January eased slightly to 5.1% vs 5.2% in December; this was entirely led by cooling off in vegetable price and tomatoes in particular. Core CPI at 5.1% was unchanged. GST sensitive items witnessed reduced inflationary pressure for second straight month. Trade deficit in January rose to \$16.3Bn which is well above the recent average of \$13.4Bn. Trade deficit widened as imports witnessed accelerated growth of 26% to \$40.7 Bn while slow growth of 9% in export of Textile and Jewellery pegged it to \$24.4Bn. The Reserve Bank of India kept its policy rates unchanged in line with street expectations, but pared down growth forecasts and pushed up inflation forecast signifying somewhat difficult policy challenges going forward. After six years of fiscal prudence the government moderately deviated from its fiscal roadmap, pegging FY18 fiscal deficit at 3.5% and FY19 at 3.3%. The budget math on tax revenues and divestment revenues appeared to be sound. The budget delivered a blend of pragmatic economics and electoral optimism while placing primacy on rural India. The much discussed LTCG tax was finally introduced on equities although in a milder form.

Outlook

Indian economy has started to recover from the cyclical and structural bottlenecks witnessed over the past two years as reflected in data and with improving corporate earnings. We can expect the economy to recover gradually in FY19 as GST related disruptions smoothens and as consumption improves amid stable wages and expected payouts from states' implementation of 7th pay commission. Revival of consumption driven by rural wage growth, good monsoon, healthy MSP and higher visibility of direct benefit transfer are other positives. While the ongoing gradual improvement in private investment continues to provide hope of a revival in the capex cycle, the spare capacity in the economy along with a slow resolution of twin balance sheet problems are expected to constrain growth. Improving global growth prospects is further expected to support growth. Valuations for Indian equities remain rich and we see limited triggers for re-rating unless accompanied by earnings revival. We continue to remain positive on India story from medium to long term prospective and stay invested in companies with strong and able management available at reasonable valuations.

Source: Bloomberg

Fund Facts

Objective	To generate capital appreciation by investing predominantly in equity and equity related instruments of companies in the infrastructure sector.
Options	Growth and Dividend. The Dividend option offers payout and dividend reinvestment facilities.
Indicative Asset allocation	65% - 100% in equity and equity-related securities (including equity derivatives) 0% - 35% in money market instruments.
Exit load	For redemption within 1 year from the date of allotment or Purchase applying First in First out basis - 1% of applicable NAV. After 1 year from the date of allotment or Purchase applying First in First out basis - Nil.
Fund managers	Mr. S. N. Lahiri
Benchmark	Nifty Infrastructure TRI Index

About L&T Infrastructure Fund

L&T Infrastructure Fund is a theme based fund which predominantly invests in stocks and sectors that are likely to benefit from country's infrastructure growth. The fund is agnostic to style and market capitalization and typically holds a diversified portfolio spread across various sectors within the infrastructure space. It provides long-term investors an opportunity to benefit from India's structural infrastructure growth. Given the potential that the India's infrastructure sector offers and the Government's increased focus on providing necessary stimulus to the sector, we believe this fund has a strong potential to deliver significant alpha over the next few years, albeit at a relatively higher risk. We believe this fund could complement the core fund holdings in investor's portfolio and has strong potential to provide boost to investor's overall portfolio returns.

Current Portfolio Strategy

In the current environment, the Fund Manager is placing strong emphasis on evaluating the growth prospects of the companies against their stock valuation. Capital goods, Engineering, Building Products, Construction, Cement, and Transportation and Logistics are some of the top sectors where the scheme currently has significant positions. L&T Infrastructure Fund has been focusing on investing in companies with strong long-term growth prospects, scalable business model, strong project execution capabilities and proven management track record. Industrial capital goods companies are likely to be the early beneficiaries of the business cycle turnaround. Policy reforms focused on fast track clearances and simplification of processes for project approvals are expected to aid growth of companies in the infrastructure sector.

Minimum application amount (lump sum)	Initial investment: ₹ 5,000 per application and in multiples of ₹ 1 thereafter.
	Additional investment: ₹ 1,000 per application and in multiples of ₹ 1 thereafter.
Minimum application amount (SIP)	₹ 3,000 (minimum 6 monthly instalments or minimum 4 quarterly instalments).

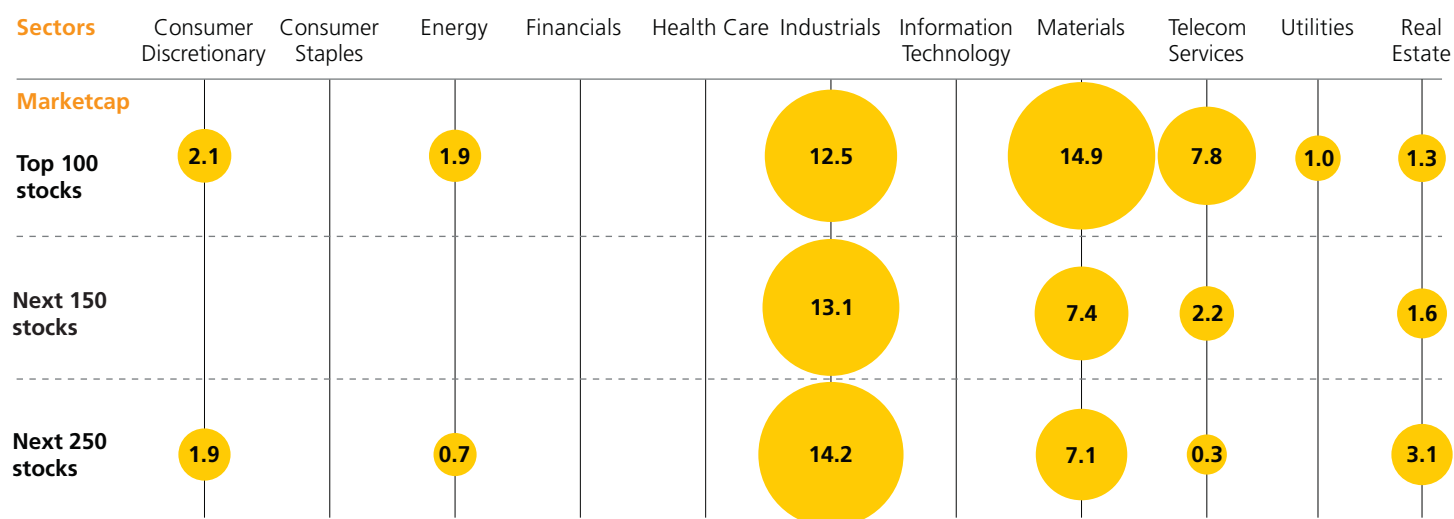
Portfolio information

Top 10 holdings

Company	% of net assets
Larsen & Toubro Limited	7.24%
Bharti Airtel Limited	4.02%
The Ramco Cements Limited	3.54%
Graphite India Limited	3.25%
Bharat Electronics Limited	3.10%
Lakshmi Machine Works Limited	3.04%
Hindustan Zinc Limited	3.00%
Engineers India Limited	2.97%
Vedanta Limited	2.92%
Carborundum Universal Limited	2.80%

Source: Bloomberg, ICRA MFIE, Internal. All data as at 28.2.2018

Portfolio Positioning



Sectors	Weight in Scheme (%)	Current Positioning	Key Active Stocks
Industrials	39.7	Exposure to Transportation, Construction Projects, Industrial Capital Goods	Techno Electric, Indian Hume Pipe, L&T, Triveni Turbine, Cummins India
Materials	29.4	Exposure to Cement, Metals	OCL India, Ramco Cements, Tata Steel
Telecommunication Services	10.2	-	Bharti Airtel, Idea Cellular, Bharti Infratel
Real Estate	6.1	Overweight	Arihant Superstructures, Sunteck Realty, Oberoi Realty
Consumer Discretionary	4.0	-	-
Energy	2.6	-	-
Utilities	1.0	-	-
Information Technology	0.0	No exposure	-
Financials	0.0	No exposure	-
Consumer Staples	0.0	No exposure	-
Health Care	0.0	No exposure	-

For product labeling please refer to the last page. Source: Bloomberg, ICRA mfie, Internal. Data as on 28th February 2018.

Sectors shown are based on Global Industry Classification Standard (GICS). Sterlite Technologies Limited and Astra Microwave Products Limited are classified under Telecom sector and Centum Electronics Limited is classified under Industrial Capital Goods as per AMFI classification. These stocks are classified under IT sector currently as per GICS classification. However, for these stocks we have classified as per AMFI sectors in the above table.

Why invest with L&T Mutual Fund?

- The aim of L&T Mutual Fund is to create prosperity for all stakeholders by delivering consistent long-term investment performance, product innovation and quality service.
- Our commitment to answering different customer needs has resulted in over 27 funds that span asset classes, risk profiles, time horizons and geographies.
- We build our investments on a foundation of in-depth research and fundamental analysis. **GEM**, our proprietary investment process comprises three rigorous steps - **G**eneration of ideas, **E**valuation of companies and **M**anufacturing and monitoring of portfolios.
- With over 23,00,000 customer account folios across 375 cities and towns and over ₹ 66,000 crores in managed assets[^], we remain dedicated to building our customers' futures.

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[^]Average assets. Data for the month ended February 28, 2018.

This product is suitable for investors who are seeking*

- Long term capital appreciation
- Investment predominantly in equity and equity-related instruments of companies in the infrastructure sector

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



Investors understand that their principal will be at high risk

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