

L&T Infrastructure Fund

An open-ended equity scheme



L&T Financial Services
Mutual Fund

Fund Update - December 2017

Equity Market Review

Indian markets resumed their upward journey after taking a breather in November. Investors remained cautious on weak macroeconomic data points, surging crude prices and geopolitical risks. However, sentiment improved after the Bhartiya Janata Party won state elections in Gujarat and Himachal Pradesh. Nifty and Sensex ended the month with 3% and 2.7% gains. Global markets were also in cheerful mode and majority of indices ended on positive note. BSE Mid Cap and BSE Small Cap Index both outperformed their larger peers, gaining 5.3% and 5.5% respectively.

FII reversed position to turn net sellers in month of December with net outflows of \$930 Mn. FII tally for CY17 stood at \$7.8 Bn of inflows. Domestic investors continued to be buyers for the ninth straight month with net inflows of \$1.3Bn. DII tally for CY17 stood at \$14 Bn. Mutual Fund continued to drive inflows with buying of \$951Mn in December and its YTD tally stood at \$18Bn. Insurance companies were buyers to the tune of \$317 Mn in December but were sellers YTD to the tune of \$3.9Bn.

Macro Economic Developments

IIP slowed to 2.2% in October vs 3.8% in September due to a slowdown in manufacturing. November CPI at 4.9% surprised on the upside as core inflation spiked along with food and fuel inflation. Vegetable prices drove food inflation whereas LPG prices drove fuel inflation. Core inflation rose to 4.5% led by health and education services. Food and fuel inflation also led to spike in WPI to 3.93%. Trade deficit in month of November narrowed to \$13.8Bn vs \$14Bn in the previous month. Exports led the gains and were up by 30.6% in November due to by gems & jewellery and engineering goods. Imports grew by 19.6% on back of higher crude imports. RBI in its policy meeting maintained status quo on rates. BJP has won its 6th consecutive term in Gujarat and secured a comfortable win in Himachal Pradesh. The Finance Ministry announced an extra borrowing of Rs. 500bn (0.3% of GDP) through government bonds over and above the budgeted net borrowing of Rs. 3,482bn for FY18.

Outlook

Nifty ended calendar year 2017 with 28.7% gains on the back of strong flows, valuation re-rating and government reforms. In the last two years (2016 and 2015) Nifty had a muted performance. Indian economy saw strong macroeconomic activity in last few years like twin deficit under control, stable currency, rising forex reserves and low inflation. The key trigger that was missing in past few years in an otherwise solid and strong India macro story was earnings growth. We expect that to change as we head into 2HFY18 and FY19. Low base of demonetization, commodity price inflation and demand recovery in a few B2C sectors are expected to provide earnings recovery support. As we enter the new calendar year 2018, rising crude prices and consequent inflation has taken some sheen of the macros although they still remain healthy. Overall we remain optimistic on consumption revival in CY18 led by normalization of GST led issues, normal monsoon, hikes in minimum support prices and rural wage growth. India was among the best performing markets last year and Indian equities trade at premium to many emerging markets. However India's ROE remains superior to all emerging markets and hope of strong earnings revival are an important differentiator for the valuation premium. We continue to remain positive on the long term India story and stay invested in well managed companies with earnings visibility and 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 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).

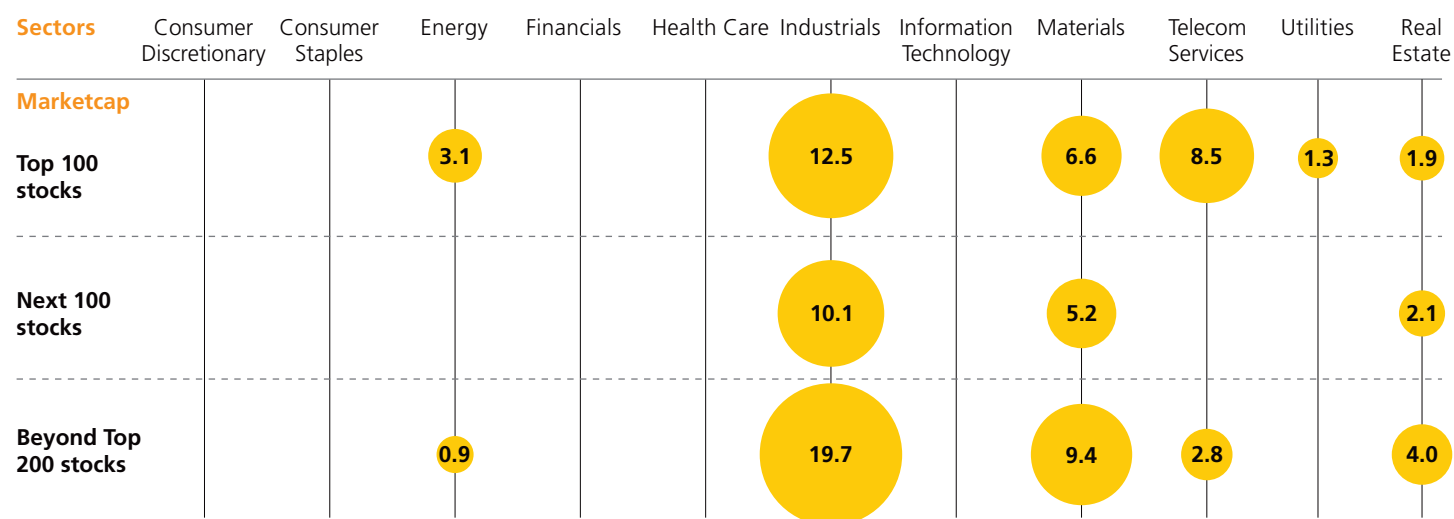
Portfolio information

Top 10 holdings

Company	% of net assets
Larsen & Toubro Limited	6.45%
Bharti Airtel Limited	4.66%
Graphite India Limited	3.98%
The Ramco Cements Limited	3.73%
Shree Cements Limited	3.00%
Engineers India Limited	2.93%
Bharat Electronics Limited	2.79%
Cummins India Limited	2.67%
OCL India Limited	2.49%
AIA Engineering Limited	2.42%

Source: Bloomberg, ICRA MFIE, Internal. All data as at 29.12.2017

Portfolio Positioning



Sectors	Weight in Scheme (%)	Current Positioning	Key Active Stocks
Industrials	42.3	Exposure to Transportation, Construction Projects, Industrial Capital Goods	Techno Electric, Indian Hume Pipe, L&T, Triveni Turbine, Cummins India
Materials	21.2	Exposure to Cement, Metals	OCL India, Ramco Cements, Tata Steel
Telecommunication Services	11.2	-	Bharti Airtel, Idea Cellular, Bharti Infratel
Real Estate	8.0	Overweight	Arihant Superstructures, Sunteck Realty, Oberoi Realty
Energy	4.0	-	-
Utilities	1.3	-	-
Consumer Discretionary	0.0	No exposure	-
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 29th December 2017. 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 19,00,000 customer account folios across 375 cities and towns and close to ₹ 58,000 crores in managed assets[^], we remain dedicated to building our customers' futures.

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[^]Average assets. Data for the month ended December 29, 2017.

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.