

# **OFFER DOCUMENT**

## **LICMF FIXED MATURITY PLAN SERIES 38-39-40-41**

**A CLOSE ENDED INCOME SCHEME WITH NO ASSURED RETURNS**

From  
**LIC Mutual Fund**

**Investment Manager:**

**LIC Mutual Fund Asset Management Company Ltd.**

Industrial Assurance Bldg., 4th Floor, Opp. Churchgate Station, Mumbai - 400 020

**OFFER OPENS** : -----  
**OFFER CLOSSES** : -----  
**REPURCHASES** : will commence from ----- at NAV related price.  
**ISSUE PRICE** : Rs.10/- per unit

This Offer Document set forth concisely the information regarding the scheme, which a prospective investor ought to know before investing. It is advised that this document should be retained for future reference.

The Scheme particulars of LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 have been prepared in accordance with Securities & Exchange Board of India (Mutual Funds) Regulations 1996, as amended till date and filed with SEBI. The Units being offered for public subscription have not been approved/disapproved by the SEBI nor has SEBI certified on the accuracy or adequacy of the offer document.

This offer document will remain effective till a 'material change' (other than a change in Fundamental Attributes and within the purview of the offer document) occurs and thereafter the changes shall be filed with SEBI and circulated to the unitholders along with the quarterly/half-yearly-reports.

## **A. ABBREVIATIONS USED**

<b>AMC</b>	ASSET MANAGEMENT COMPANY
<b>IMA</b>	INVESTMENT MANAGEMENT AGREEMENT
<b>LICMFAMC</b>	LIC MUTUAL FUND ASSET MANAGEMENT COMPANY LIMITED
<b>LIC</b>	LIFE INSURANCE CORPORATION OF INDIA
<b>LICMF</b>	LIC MUTUAL FUND
<b>NAV</b>	NET ASSET VALUE
<b>SEBI</b>	SECURITIES AND EXCHANGE BOARD OF INDIA
<b>SEBI (MF) REGULATIONS 1996</b>	SECURITIES AND EXCHANGE BOARD OF INDIA (MUTUAL FUNDS) REGULATIONS 1996
<b>RBI</b>	RESERVE BANK OF INDIA, ESTABLISHED UNDER THE RESERVE BANK OF INDIA ACT, 1934.
<b>THE TRUSTEE</b>	LIC MUTUAL FUND TRUSTEE COMPANY PRIVATE LIMITED
<b>BUSINESS DAY</b>	ANY DAY OTHER THAN A SATURDAY, A SUNDAY OR A DAY ON WHICH BANKS AT CORPORATE OFFICE ARE REQUIRED OR OBLIGATED BY LAW OR EXECUTIVE ORDER TO REMAIN CLOSED.
<b>CDSC</b>	CONTINGENT DEFERRED SALES CHARGE.
<b>FII</b>	FOREIGN INSTITUTIONAL INVESTORS REGISTERED WITH SEBI
<b>SWITCH</b>	SALE OF UNIT IN ONE SCHEME /PLAN AGAINST PURCHASE OF A UNIT IN ANOTHER

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### **C. HIGHLIGHTS**

- **Nature:** A close ended Income Scheme with no assured returns.
- **Investment Objective:** The investment objective of the Scheme is to minimize interest rate risk by investing in a portfolio of fixed income securities normally maturing in line with the time profile of the scheme.
- **Series: We are launching various series. The** present scheme will be 38<sup>th</sup>, 39<sup>th</sup>, 40<sup>th</sup>, 41<sup>st</sup> in the Series and hence the scheme will be known as LICMF Fixed Maturity Plan Series 38-39-40-41 (LICMF FMP Series 38-39-40-41)
- ? **Plans: LICMF FMP Series 38-39-40-41 will mature after 3 months, which is called “3 Months Plan”.**
- **Options:** Each series offer investment under both dividend as well as growth option. Under dividend option, investors can choose from dividend reinvestment and dividend payout facility.
- **EXIT LOAD: 0.50%** if redeemed before maturity  
No exit load will be charged upon maturity of the scheme.
- **New Fund Offer Price:** Rs. 10/- per unit.
- ? **Minimum investment:** Rs.10,000/- and thereafter in multiples of Rs.1000/-
- **NAV Declaration :** NAV calculated up to 4 decimal places and declared on all business days.
- **Easy Liquidity:** Fixed Maturity Plan – SERIES 38-39-40-41 provides investors with easy liquidity where investors can redeem their investments at authorised centres.
- **Repatriation Facility :** NRIs, FIIs and PIOs may invest in the scheme on full repatriation basis. (Investment will be governed by rules laid down by RBI/SEBI in this regard).
- Nomination facility available.

Investors are advised to read the offer document carefully before investing.

## **D. RISK FACTORS - 17**

### **D.1 STANDARD RISK FACTORS**

- Mutual funds and securities investments are subject to market risks and there is no assurance and no guarantee that the objectives of the mutual fund shall be achieved.
- The NAV of the units issued under the scheme may go up or down depending on the factors and forces affecting capital markets.
- Past performance of the Sponsor/AMC/Mutual fund does not indicate the future performance of the schemes of the Mutual Fund.
- **LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41** is the name of the scheme and does not in any manner indicate either the quality of the scheme or its future prospects and returns.
- The sponsor is not liable for any loss resulting from the operation of the scheme beyond the initial contribution made by it for an amount of Rs. 2 Crore towards setting up of the Mutual Fund.
- Investors in the scheme are not being offered any assured /guaranteed returns. Further, the Fund/AMC is not guaranteeing or assuring any returns. The Fund/AMC is also not assuring or guaranteeing that it will be able to make regular dividend distributions to its Unitholders, though, it has every intention to manage the portfolio so as to make such payments to the Unitholders. Dividend payments will be dependent on the returns achieved by the AMC through active management of the portfolio. The dividend distributions may, therefore, vary from month to month, quarter to quarter or year to year, based on investment results of the portfolio. Further, it should be noted that the actual distribution of dividends and frequency thereof are indicative and will depend, inter-alia, on availability of distributable surplus. Dividend payouts will be entirely at the discretion of Trustees.
- As per SEBI Circular SEBI/IMD/CIR No. 10/22701/03 dated December 13, 2003, the scheme / plan shall have minimum 20 investors and no single investor shall account for more than 25% of the corpus of the scheme after the close of the NFO itself i.e. at the time of allotment and therefore the time period of three months to balance will not be available, failing which the provisions of Regulation 39 (2) (c) of SEBI (Mutual Funds) Regulations, 1996 would become applicable automatically without any reference from SEBI. Accordingly, the schemes/plans shall be wound up by following the guidelines prescribed by SEBI and the investors' money would be redeemed at applicable NAV. After the NFO, in each subsequent calendar quarter thereafter, on an average basis the scheme/plan should meet with both the conditions mentioned above.

### **D. 2 RISK FACTORS SPECIFIC TO SCHEME**

- The scheme is a close-ended scheme. It is not proposed to be listed on any stock exchange at present.
- **Risk factors related to debt security:** All debt securities are exposed to interest rate risks, credit risks and reinvestment risk. Different types of securities in which the scheme would invest as given in the offer document carry different levels and types of risk. Accordingly, the scheme's risk may increase or decrease depending upon its investment pattern e.g. corporate bonds carry a higher amount of risk than government securities. Further even among corporate bonds, bond which AAA rated are comparatively less risky than bonds which are AA rated.
- **Price-Risk or Interest-Rate Risk:** Fixed income securities such as bonds, debentures and money market instruments run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates.

- **Credit Risk:** In simple terms this risk means that the issuer of a debenture/bond or a money market instrument may default on interest payment or even in paying back the principal amount on maturity. Even where no default occurs, the price of a security may go down because the credit rating of an issuer goes down. It must, however, be noted that where the Scheme has invested in Government securities, there is no credit risk to that extent.
- **Reinvestment Risk:** Investments in fixed income securities may carry reinvestment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate.
- **Risk factors related to securitised debt:** Different types of Securitised Debts in which the scheme would invest carry different levels and types of risks. Accordingly the scheme's risk may increase or decrease depending upon its investments in Securitised Debts e.g. AAA securitised bonds will have low Credit Risk than a AA securitised bond. Credit Risk on Securitised Bonds may also depend upon the Originator, if the bonds are issued with Recourse to Originator. A bond with Recourse will have a lower Credit Risk than a bond without Recourse. Underlying assets in Securitised Debt may be the receivables from Auto Finance, Credit Cards, Home Loans or any such receipts. Credit risk relating to these types of receivables depend upon various factors including macro-economic factors of these industries and economies. To be more specific, factors like nature and adequacy of property mortgaged against these borrowings, loan agreement, mortgage deed in case of Home Loan, adequacy of documentation in case of Auto Finance and Home Loan, capacity of borrower to meet its obligation on borrowings in case of Credit Cards and intentions of the borrower to influence the risks relating to the assets (borrowings) underlying the Securitised Debts. Holders of Securitised Assets may have Low Credit Risk with Diversified Retail Base on Underlying Assets, especially when Securitised Assets are created by High Credit Rated Tranches. Risk profiles of Planned Amortization Class Tranches (PAC), Principal Only Class Tranches (PO) and Interest Only Class Tranches (IO) will also differ, depending upon the interest rate movement and Speed of Pre-payments. A change in market interest rates/prepayments may not change the absolute amount of receivables for the investors, but affects the reinvestment of the periodic cashflows that the investor receives in the securitised paper.
- **Risk factors related to floating rate instruments:** The fund may invest in floating rate instruments. These instruments' coupon will be reset periodically in line with the benchmark index movement. The changes in the prevailing rates of interest will affect the value of the Plan's holdings and thus the value of the Plan's Units. The fund could be exposed to the interest rate risk (i) to the extent of time gap in resetting of the benchmark rates, and (ii) to the extent the benchmark index fails to capture the interest rate movement. Though the basis (i.e. benchmark) gets readjusted on a regular basis, the spread (i.e. markup) over benchmark remains constant. This can result in some volatility to the holding period return of floating rate instruments. If the floating rate asset is created by swapping the fixed return to a floating rate return then there may be an additional risk of counter-party who will pay floating rate return and receive fixed rate return. Due to the evolving nature of the floating rate market, there may be an increased degree of liquidity risk in the portfolio from time to time.
- The value in the investments is bound to change with changes in the factors affecting the market viz. changes in interest rates, exchange rates, price and volume fluctuations in debt markets, taxation, govt. policies, and other economic and political developments.
- Risks associated with investment in derivatives: The scheme may also use various derivatives and hedging products from time to time, as would be available and permitted by SEBI, in an attempt to protect the value of the portfolio and enhance unitholders interest. In case the scheme utilizes any derivatives under the regulations, the scheme may, in certain situations, be exposed to instrument specific risks. For details please refer to the para on Derivatives.

**"Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon**

**the ability of the fund manager to identify such opportunities. Identification and execution of strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies"**

Mutual fund shall enter into derivative transactions only for the purpose of hedging, portfolio balancing and other derivative strategies.

**The risks associated with the use of derivatives are different from or possibly greater than the risks associated with investing directly in securities and other traditional investments**

- Liquidity of scheme's investment may be inherently restricted by trading volumes and settlement periods. The inability to sell the money market or debt securities held in the scheme's portfolio due to the absence of a well developed and liquid secondary market for such securities may result, at times in losses to the scheme, in case of subsequent decline in the value of such securities.
- The prices of securities may be affected by the time taken by the Fund for redemption of units, which could be significant in the event of receipt of a very large number of redemption requests or very large value of redemption requests. The liquidity of the assets may be affected by other factors such as general market conditions, political events, bank holidays and civil strife. In view of this, the Trustee has the right in its sole discretion to limit redemption (including suspension of redemption) under certain circumstances. Please refer to the para "Suspension of Redemption/Repurchase of units" for details. Redemption due to change in the fundamental attributes of the Scheme or due to any other reasons may entail tax consequences. The Trustee, AMC, Mutual Fund, their directors or their employees shall not be liable for any such tax consequences that may arise.
- *Income / growth options indicated herein this document are subject to tax laws in force for the time being. The tax benefits described herein this Offer Document are as available under the present taxation laws with no guarantee whatsoever on the period for which they may be prevalent, and are available subject to conditions. The information given is included for general purpose only and the Unit holders should be aware that the relevant fiscal rules or their interpretation may change. In view of the individual nature of tax consequences, each Unit holder is advised to consult his/ her own tax advisor.*

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#### **D. 3 OTHERS**

- No person is authorised to give any information or to make any representation inconsistent with this offer document in connection with the New Fund offer and/or issue of units of LICMF FIXED MATURITY PLAN SERIES 38-39-40-41.
- *This Offer Document includes all the points mentioned in the Standard Observations issued by SEBI.*
- *This offer document contains no deviations from, and neither have any subjective interpretations been applied to, the provisions of any regulations. All contents in this offer document have been checked and are factually correct.*
- Any information or representation not contained herein this document, must not be relied upon as having been authorised by the Mutual fund or the Investment manager.
- *All information in the offer and abridged offer document has been updated considering the standard observations, 30 days before the launch of the scheme.*
- *The Standard Observations/Clarifications, as far as possible and applicable shall also be followed in case of existing schemes till the offer documents are revised and updated.*

## **E. DUE DILIGENCE CERTIFICATE**

### **LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41**

It is confirmed that :

- I. The draft offer document forwarded to SEBI is in accordance with the SEBI (MF) Regulations, 1996 and the guidelines and directives issued by SEBI from time to time.
- II. All legal requirements connected with the launching of the scheme as also the guidelines, instructions, etc. issued by the government and any other competent authority in this behalf, have been duly complied with.
- III. The disclosures made in the Offer Document are true, fair and adequate to enable the investors to make a well-informed decision regarding investment in the proposed scheme.
- IV. All intermediaries named in the offer document are registered with SEBI and till date such registration is valid.

Date: 26/10/2007

Place : Mumbai

#### **Signature :**

**Name : P. Ponpandian**

Compliance Officer & Company Secretary

LIC Mutual Fund Asset Mgmt. Co. Ltd.

Investment Managers to

LIC Mutual Fund

The aforesaid Due Diligence Certificate is being filed with SEBI on 26/10/2007

## **F. SUMMARY OF EXPENSES AND FINANCIAL INFORMATION**

The expense structure of the Scheme, the different fees and their percentage an investor is likely to bear on purchase or sale of units of the Scheme directly or indirectly are as follows:

### **F.1 EXPENSES OF THE SCHEME**

#### **a) UNITHOLDER TRANSACTION EXPENSES**

**Exit Load: 0.50%** if redeemed before maturity

No exit load will be charged upon maturity of the scheme.

**SWITCHOVER / EXCHANGE FEE (as % of the NAV) – Nil**

**CDSC - Nil**

- Any load / fee charged will be within the admissible limits under the Regulations in force at that time.
- *All loads for each shall be maintained in a separate account and may be utilised towards meeting the selling and distribution expenses. Any surplus in this account may be credited to the scheme, whenever felt appropriate by the AMC. -3b*
- *The Fund reserves the right to introduce, revise, and review the exit load described above from time to time within the permissible limits prescribed by SEBI. The revised load will be applicable to the Unit holders prospectively. -3d*

At the time of changing the load structure the fund may consider the following measures:

- *The addendum detailing the changes in load structure may be attached to offer documents and abridged offer documents. The addendum detailing the changes may be circulated to all distributors / brokers so that the same can be attached to all offer documents and abridged offer documents already in stock. The addendum may be sent along-with the newsletter to the unit holders immediately after the changes. - 3d(i)*
- *Arrangements may be made to display the changes/modifications in the offer document in the form of a notice in all the investor service centres and distributors/ brokers office. -3d(ii)*
- *The introduction of the exit load along-with the details may be stamped in the acknowledgement slip issued to the investors on submission of the stamped application form and may also be disclosed in the statement of accounts issued after the introduction of such load. -3d(iii)*
- *Any other measures the fund may feel necessary. -3d(iv)*

## F.2 INITIAL ISSUE EXPENSES

### (i) PRESENT SCHEME

Under the SEBI Regulations, total initial issue expenses shall not exceed 6% of initial resource and any excess beyond 6% shall be borne by AMC. However initial issue expenses of more than 6% of collections during the NFO will be borne by AMC. Initial issue expenses upto 6% of NFO collection will be amortized over the period of the scheme. Please find below the estimated NFO expense.

#### **Nature of expenses Estimated NFO expense in % for collection of Rs. 100 crore**

Commission to agents	0.20%
RTA Expenses	0.05%
Other Expenses	0.15%
<b>Total</b>	<b>0.40%</b>

Assume that the scheme collects Rs. 100 crore in the NFO whereas the initial issue expenses are Rs. 40 lakh.

NFO expenses as a percentage of NFO collection = 0.40%

The impact on NAV is shown below:

Total Corpus of the scheme on the date of reopening = Rs. 100 crore

Total Unit Capital on the date of reopening = 10 crore;

Total Expenses = Rs. 40 lakh

NAV per unit =  $(100000000 - 4000000) / 100000000 = \text{Rs. } 9.9600$

However, the above example does not take in the account the appreciation on the investment on the date of reopening. If the appreciation is also factored in, then the NAV would under normal market conditions be above Rs. 10.

### (ii) PAST SCHEMES

The Fund has launched close ended as per the details mentioned below for the year 2006-07.

Scheme Name	Term	Initial Issue Expenses
LICMF FMP Series 7	3 Months	.17%
LICMF FMP Series 8	3 Months	.16%
LICMF FMP Series 9	3 Months	.17%
LICMF FMP Series 10	3 Months	.30%
LICMF FMP Series 15	13 Months	.42%
LICMF FMP Series 11	3 Months	.11%
LICMF FMP Series 12	6 Months	.16%
LICMF FMP Series 16	3 Months	.17%

LICMF FMP Series 17	3 Months	.11%
LICMF FMP Series 21	15 Months	.35%
LICMF FMP Series 18	3 Months	.19%
LICMF FMP Series 20	14 Months	.32%
LICMF FMP Series 13	6 Months	.16%
LICMF FMP Series 14	6 Months	.31%
LICMF FMP Series 19	13 Months	.38%
LICMF India Vision Fund	36 Months	2.00%

### F.3 ANNUAL SCHEME RECURRING EXPENSES: (as a % of average weekly net assets)

The following are the maximum recurring expenses as percentage of average weekly net assets.

EXPENSE HEAD	AS PERCENTAGE OF AVERAGE WEEKLY NET ASSETS
AMC Fees	<b>1.25%</b>
Custodian Fees	<b>0.15%</b>
Cost pertaining to issuance of Statement of account / Certificate/Warrants, other servicing cost etc./ Registrar Fees	<b>0.10%</b>
Fees & Expenses of The Trustee, Audit Fees, Brokerage & Transaction Cost, Cost related to Investor communications, cost of statutory advertisements & Marketing & Selling expenses including agents commission	<b>0.75%</b>
<b>Total</b>	<b>2.25%</b>

The purpose of the above table is to assist the investor in understanding the various costs and expenses that he will bear directly or indirectly.

*The total annual recurring scheme expenses under each plan is estimated at 2.25% of the average weekly net assets and the total expenses of the scheme under each plan excluding issue or redemption expenses whether initially borne by the mutual fund or by the AMC, but including the management and advisory fees shall not exceed the following Statutory limits on the total annual recurring expenses of the scheme as prescribed under Regulation 52(6) of the SEBI Regulations : 3a*

First 100 crore Net assets	Next 300 crore	Next 300 crore	Balance
2.25%	2.00%	1.75%	1.50%

These estimates have been made in good faith as per the information available to the Investment Manager and are subject to change inter se.

### F.4 CONDENSED FINANCIAL INFORMATION

The following is the condensed financial information for schemes launched by LICMF during the last three fiscal years.

#### **HISTORICAL PER UNIT STATISTICS - 15**

SCHEME	LICMF FMP SERIES IV		LICMF FMP SERIES V		SERIES 13	SERIES 21	SERIES 20	SERIES 12
Date of allotment	06/02/2006		20/03/2006		12/03/2007	09/02/2007	28/02/2007	29/11/2006
	2006-07	2005-06	2006-07	2005-06	2006-07	2006-07	2006-07	2006-07
NAV at the start of the year/launch								
Dividend option	10.1046	10.00	10.0275	10.00	10.0000	10.0000	10.0000	10.0000
Growth option	10.1046	10.00	10.0275	10.00	10.0000	10.0000	10.0000	10.0000
Net Income	5.2237	0.75	19.100	0.31	0.1394	.8521	.74	2.74

Income Distribution/Dividends	.0437	0	9.3838	0	0.007		1.937
Transfer to reserves (if any)	5.78	0	8.6	0	0.03	.084	0.082
NAV at the end of the year							
Dividend Option	10.0045	10.1024	10.0049	10.0253	1.0022	10.0050	10.053
Growth Option	10.8552	10.1024	10.8289	10.0253	10.1714	10.1128	10.0733
Annualized returns (%) end of year since inception	7.05	7.05	8.01	8.39	3.18	8.33	8.64
Net Assets at the end of period (Rs. Lakh)	7395.00	7171.30	53299.00	12260.61	8017.00		10172.00
Ratio of Recurring expenses to net Assets (Annualized)	0.26	0.24	0.18	0.19	0.007	0.041	0.021
N.A.V as on YEAR END							
Dividend	10.0045	10.1024	10.0049	10.0253	10.0022	10.05	10.0053
Growth	10.86	10.1024	10.8289	10.0253	10.1714	10.1128	10.0730
Annualized Returns – last 1 year	NA	NA	NA	NA	NA	NA	NA
Benchmark Return for the above period	NA	NA	NA	NA	6.42	2.44	6.34

SCHEME	LICMF FLOATER MIP PLAN – A		LICMF FLOATER MIP – PLAN B		LICMF OPPORTUNITY FUND		LICMF FMP SERIES 18	LICMF FMP SERIES 17	LICMF FMP SERIES 15
Date of allotment	16/10/2004		16/10/2004		18/03/2005		20/02/2007	31/01/2007	19/10/2006
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2006-07	2006-07
NAV at the start of the year/launch									
Dividend option	10.7623 (Monthly)	10.1190 (Monthly)	10.4200 (Monthly)	10.0440 (Monthly)	13.1127	9.4495	10.0000	10.0000	10.0000
	11.0507 (Quarterly)	10.2242 (Quarterly)	10.6899 (Quarterly)	10.1691 (Quarterly)					
	11.6950 (Yearly)	10.2746 (Yearly)	11.1035 (Yearly)	10.1943 (Yearly)					
Growth option	11.9865	10.2746	11.2245	10.1943	15.3427	9.4495	10.0000	10.0000	10.0000
Net Income	3.9100	1.73	0.1500	1.32	2.8472	8.92	0.2247	3.1533	19.0639
Income Distribution/Dividends					2.52	2	0.1281	1.1924	1.4824
	0	1.20 (Monthly)	0.78	0.70 (Monthly)					
	0	1.20 (Quarterly)	0.66	0.85 (Quarterly)					
	0	1.20 (Yearly)	0.14	0.85 (Yearly)					
Transfer to reserves (if any)	11.7	10.68	1.77	1.38	23.73	15.57	0.07	0.79	17.23
NAV at the end of the year									
Dividend Option	10.0027	10.7607 (Monthly)	10.07 (Monthly)	10.4189 (Monthly)	11.04	13.1135	10.0053	10.050	10.0055
	10.1500	11.0491 (Quarterly)	10.08 (Quarterly)	10.6888 (Quarterly)					
	11.0600	11.6932 (Yearly)	10.60 (Yearly)	11.1024 (Yearly)					
Growth Option	12.63	11.9847	11.60	11.2233	15.92	15.3437	10.0733	10.1515	10.3697
Annualized returns (%) end of year since inception	10.02	13.40	6.24	8.30	26.65	51.31	8.49	9.55	3.18
Net Assets at the end of period (Rs. Lakh)	7097.00	9719.10	820.00	1883.23	7429.00	4471.59	2499.00	20835.00	53200.00
Ratio of Recurring expenses to net Assets (Annualized)	2.11	1.88	2.50	1.85	2.5	2.50	0.016	0.03	0.15
N.A.V as on YEAR END									
Dividend	10.0027	10.7607 (Monthly)	10.07 (Monthly)	10.4189 (Monthly)	11.04	13.1135	10.0060	10.0056	10.0055
	10.1500	11.0491 (Quarterly)	10.08 (Quarterly)	10.6888 (Quarterly)					

	11.0600	11.6932 (Yearly)	10.60 (Yearly)	11.1024 (Yearly)					
Growth	12.63	11.9847	11.60	11.2233	15.92	15.3437	10.0904	10.1520	10.3697
Annualized Returns - last 1 year	5.46	16.64	3.26	10.09	3.73	62.38		NA	NA
Benchmark Return for the above period	8.72	11.08	8.72	11.08	30.8	62.82	4.78	2.49	3.85

## **G. CONSTITUTION OF THE MUTUAL FUND**

### **G.1 INFORMATION ABOUT THE SPONSOR**

Life Insurance Corporation of India (LIC), the sponsor of LIC Mutual Fund is one amongst the largest insurance companies in the world, serving over 32 crore policy holders and managing a Fund of over Rs. 463147.62 crore. There are very few organizations in India, which manage funds of this size. However beyond the initial contribution of Rs. 2 crore towards setting up of the corpus LIC is not responsible or liable for any loss or shortfall resulting from the operations of any scheme of the Mutual Fund

### **Activities of the sponsor and its financial performance for the last three fiscal years**

LIC of India, incorporated in 1956 under the LIC Act is in the principal business of providing life insurance. The brief financial position of LIC, is as under :

Particulars	For financial years (Rs. in crore)		
	2005-06	2004-05	2003-04
TOTAL INCOME	132146.88	112346.24	93088.91
TOTAL OUTGO (INCLUDING TAXES, TRANSFER TO RESERVES & 5% OF VALUATION SURPLUS PAID TO CENTRAL GOVT)	52251.57	48460.70	44704.50
EXCESS OF INCOME OVER OUTGO ADDED TO FUND	79895.31	63885.54	48384.41
LIFE FUND AT THE END OF THE YEAR	463147.62	385639.07	321753.53
CAPITAL PROVIDED BY CENTRAL GOVT.	5.00	5.00	5.00

### **G.2 INFORMATION ABOUT LIC MUTUAL FUND**

LIC Mutual Fund was set up as a separate Trust by the Life Insurance Corporation of India having its central office at Yogakshema, Jeevan Bima Marg, Mumbai 400 021. The Trust deed dt.20.04.89 was modified through a deed of modification as mentioned in schedule III of SEBI (Mutual Fund) Regulations 1996. The Trust Deed will not be modified without the prior approval of SEBI and Unit holders approval will be obtained where it affects the interest of the Unit holders. LIC has made an initial contribution of Rs.2 crore towards Trust Fund. LIC Mutual Fund Trustee Co. Pvt. Ltd. is formed and appointed to supervise the activities of the Fund. The Trustee company has entrusted the work of management of the Fund to LIC Mutual Fund Asset Management Company Ltd., which is a company promoted by Life Insurance Corporation of India with an authorized capital of Rs.25 crore. Further details regarding the set up are furnished in the following paragraphs:

### **Objective of LIC Mutual Fund**

The basic objective of LIC Mutual Fund is to mobilize savings from investors who are spread in various parts of the country and have no easy access to the capital market, with a view to providing them a vehicle for investment of their funds to ensure safety, security, easy liquidity and reasonably good returns.

## LIC Mutual Fund Trustee Company Private Limited

LIC Mutual Fund Trustee Company Private Limited comprising the following eminent persons whose current directorships are as under:

Name and Address	Current Directorships
Shri D K Mehrotra – Chairman (Associate) C-1, Jeevan Jyot, Setalvad Lane, Napean Sea Road, Mumbai 400 006	Managing Director 1. LIC of India Director 1. LIC (Lanka) Ltd. 2. Infrastructure Leasing & Financial Services Ltd. 3. ITC Ltd. 4. LIC (Intl) B.S.C. (C ) Bahrain Alternate Director 1 Kenindia Assurance Co. Ltd. Member 1. Supervisory Board of India Advantage Fund I & II
Shri P N Shah (Independent) Shantiniketan, Block no. 51 Prabhat Colony, Road No. 1, Santacruz (E), Mumbai 400 055	Director 1. Indo Count Industries Ltd. 2. Taparia Tools Ltd. 3. P I Industries Ltd. 4. Secure Meters Ltd. 5. Wolkem India Ltd. 6. Lipi Data Systems Ltd. 7. Pranavadity Spinning Mills Ltd Partner in Partnership Firms 1. Shah & Co. Chartered Accountants 2. Shah & Associates, Chartered Accountants
Shri P N Mehta (Independent) 90 Anand Lok August Kranti Marg New Delhi – 110049	Director 1. Matrushita Television & Audio India Ltd. 2. Salora International Ltd. Alternate Director 1. Bihar Sponge Iron Ltd. Partner 1. Aiyar & Co.
Shri V G Subramanian (Independent) A/5, Swami Shivananda C.H.S Ltd, Chakala Road Andheri (East), Mumbai-400 099.	Nil
Shri M Raghvendra (Independent) C-5/104, Saket Complex Thane (W), Mumbai-400 601.	Director 1. National Stock Exchange of India 2. OTC Exchange 3. Agricultural Insurance Co. Ltd. 4. Punjab Tractors Ltd.

## Substantiative Provisions of Trust Deed

Substantiative Provisions of Trust Deed are as under-

- a. A Director of Trustee Co. in carrying out his responsibilities as Member of the Board of Trustee Co. shall maintain an arms length relationship with other companies, or institutions or financial intermediaries or any Body Corporate with which he may be associated.

- b. A member of the Board of Trustee Co. shall not participate in the meetings of the Board or in any decision making process for any investment in which he may be interested.
- c. All members of the Board of Trustee Co. shall furnish to the SEBI, the interest which they may have in any other company or institution or financial intermediary or any corporate by virtue of their position as Directors, partners or with which they may be associated in any other capacity.
- d. The Trustee Co. shall take into their custody or under their control all the capital property of the various schemes of LIC Mutual Fund and shall hold it in trust for the Unit holders.
- e. It shall be the duty of the Trustee Co. to act in the best interest of the unit holders and shall provide or cause to provide information to Unit holders and SEBI as may be specified by SEBI.
- f. All Unit holders will have beneficial interest in the trust property to the extent of individual holding in respective schemes only.
- g. The Trustee Co. shall appoint an AMC with SEBI approval to float schemes and manage the funds mobilized under various schemes. The Trustee Co shall enter into an investment management agreement with the AMC for this purpose.
- h. The Trustee Co. shall appoint a custodian and be responsible for the supervision of its activities in relation to the mutual fund and shall enter into a custodian agreement for this purpose.
- i. The Trustee Co. shall explicitly forbid the acquisition of any asset out of the trust property, which involves the assumption of any liability, which is unlimited or results in encumbrance of the trust property in any way.
- j. The trustee Co. shall have the power to dismiss the AMC under the specific events only with the approval of SEBI in accordance with the Regulations.
- k. The Trustee Co. shall take reasonable care to ensure that the funds under the various schemes floated and managed by the Asset Management Company are in accordance with the Trust Deed and the guidelines issued by SEBI.
- l. The Trustee Co. shall supervise the collection of any income due to be paid to the scheme and claiming of any repayment of tax and holding of any income received in trust for the holders in accordance with the Trust Deed and guidelines issued by SEBI.
- m. The Trustee Co. Board shall meet at-least once in every 2 months and at-least 6 such meetings shall be held every year.
- n. *No amendment to the Trust Deed shall be carried out without the prior approval of Unit holders and the Board, provided however, that in case a Board of Trustees is converted into a Trustee Company such a conversion shall not require the approval of Unit holders.* -6

**Functions and responsibilities of the Trustee : -8**

The Board of Trustee Co. shall discharge the functions and responsibilities as per the Trust Deed and Deed of Modification as mentioned in Schedule III of SEBI (MF) Regulations, 1996 and as per SEBI (Mutual Funds) Regulations 1996 as may be amended from time to time.

**Under SEBI (Mutual Fund) Regulations, 1996, the Trustees/Trustee Co. have the following duties and obligations :**

- A. To enter into an investment management agreement with the asset management company with prior approval of the SEBI.
- B. To ensure that the investment management agreement contains such clauses as are mentioned in the Fourth Schedule of SEBI (Mutual Fund) Regulations, 1996 and such other clauses as are necessary for the purpose of making investment.
- C. To ensure before the launch of any scheme that the asset management company has :-
  - ? Systems in place for its back office, dealing room and accounting;

- ? Appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the trustee, within 15 days of their appointment;
  - ? Appointed auditors to audit its accounts, and ensured that the auditor for the Mutual Fund is different from the auditor of the AMC;
  - ? Appointed compliance officer to comply with regulatory requirements and to redress investor grievances;
  - ? Appointed registrars and laid down parameters for their supervision;
  - ? Appointed Custodians and laid down the parameters for supervision of their activities;
  - ? Prepared compliance manual and designed internal control mechanisms including internal audit systems;
  - ? Specified norms for empanelment of brokers and marketing agents.
- D. To ensure that the Asset Management Company has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.
- E. To ensure that the asset management company has not given any undue or unfair advantage to any associates or dealt with any of the associates of the asset management company in any manner detrimental to interest of the Unit holders.
- F. To ensure that the transactions entered into by the asset management company are in accordance with SEBI (Mutual Fund) Regulations, 1996 and the scheme.
- G. To ensure that the asset management company has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme is not being compromised with those of any other scheme or of other activities of the asset management company.
- H. To ensure that all the activities of the asset management company are in accordance with the provisions of SEBI (Mutual Fund) Regulations, 1996.
- I. Where the trustee have reason to believe that the conduct of business of the mutual fund is not in accordance with SEBI (Mutual Fund) Regulations, 1996 and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the SEBI of the violation and the action taken by them.
- J. To file the details of his/her holdings in securities on a quarterly basis with the trust.
- K. To be accountable for, and be the custodian of, the funds and property of the respective schemes and to hold the same in trust for the benefit of the unit holders in accordance with SEBI (Mutual Fund) Regulations, 1996 and the provisions of trust deed.
- L. To take steps to ensure that the transactions of the mutual fund are in accordance with the provisions of the trust deed.
- M. To be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in the mutual fund for the holders of the units of any scheme in accordance with SEBI (Mutual Fund) Regulations, 1996 and the trust deed.
- N. *To obtain the consent of the Unit holders* :  7
- ? Whenever required to do so by the SEBI in the interest of the Unit holders; or
  - ? Whenever required to do so on the requisition made by three-fourths of the Unit holders of any scheme; OR
  - ? When the majority of the trustee decide to wind up or prematurely redeem the units; or
  - ? Whenever any modification of the fundamental attributes of the scheme, or the trust or the fees and expenses payable or any other modification by the Trustee is proposed it shall be made bearing in mind that the interest of the Unit holders is not affected and no change in any of the above shall be carried out unless –

- A written communication about the change is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head office of the Mutual Fund is situated; and
- The unit holders are given an option to exit at prevailing NAV without any exit load.

**Explanation:** For the purposes of this clause “fundamental attributes” mean the type of a scheme, the investment objectives and terms of issue.

- O. To call for the details of the transactions in securities by the key personnel of the asset management companies in their own name or on behalf of the asset management company and shall report to the SEBI, as and when required.
- P. To make a quarterly review of all transactions carried out between the mutual fund, asset Management Company and its associates.
- Q. To quarterly review the networth of the asset management company and in case of any shortfall, ensure that the asset management company make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21 of SEBI (Mutual Fund) Regulations, 1996.
- R. To periodically review all service contracts, such as custody arrangements, transfer agency of the securities and satisfy itself that such contracts are executed in the interest of the Unit holders.
- S. To ensure that there is no conflict of interest between the manner of deployment of its networth by the asset management company and the interest of the Unit holders.
- T. To periodically review the investor complaints received and the redressal of the same by the asset management company.
- U. To abide by the Code of Conduct as specified in the Fifth Schedule of SEBI (Mutual Fund) Regulations, 1996.
- V. To furnish to the SEBI on half yearly basis, -
  - a) A report on the activities of the mutual fund;
  - b) A certificate stating that the trustee has satisfied itself that there have been no instances of self dealing or front running by any of the member of the trustee, directors and key personnel of the asset management company;
  - c) A certificate to the effect that the asset management company has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of the regulation 24 of SEBI (Mutual Fund) Regulations, 1996 have been undertaken by the asset management company, it has taken adequate steps to ensure that the interest of the Unit holders are protected.

The independent Directors of Trustee Co. shall give their comment on the report received from the AMC regarding the investment by Mutual Fund in the securities of group Company(s) of the sponsor.

### **The Trustee fees**

In accordance with the Trust Deed constituting the Mutual Fund, and the Deed of Modification the Trustee Co. is entitled to receive in addition to the reimbursement of all costs, charges and expenses a fee not exceeding 0.01% of the weekly / daily average net assets or a sum of 25 lakh per annum whichever is higher subject to regulations.

### **Certificate of registration**

In accordance with the Regulation 9 of the Securities & Exchange Board of India Regulations, the LIC Mutual Fund has obtained a Certificate of Registration from SEBI on 9/5/94 vide Registration Code No.MF/012/94/5.

### G.3 INFORMATION ABOUT THE ASSET MANAGEMENT COMPANY (AMC)

In terms of Securities & Exchange Board of India (Mutual Fund) Regulations, an Asset Management Company called the LIC Mutual Fund Asset Management Company Ltd. with an authorized capital of Rs. 25 crore has been appointed, as approved by the Securities & Exchange Board of India, to manage the affairs of LIC Mutual Fund and operate the schemes of the Fund. Promoted by LIC, LICMFAMC was incorporated in April 1994 and has since been managing the schemes of LICMF.

#### AMC SHAREHOLDING PATTERN:-16

- LIC OF INDIA	:	49.5%
- LIC HOUSING FINANCE LTD.	:	39.3%
- GIC HOUSING FINANCE LTD.	:	11.2%

#### AMC Board

The Board of Directors of the LIC Mutual Fund Asset Management Company Ltd. consists of the following :

Name Present Occupation and Address	Current Directorships
Shri T S Vijayan - Chairman (Associate) B-6, Jeevan Jyot Setalwad Lane Off. Napeansea Road Mumbai – 400 006	Chairman 1. LIC of India Non Executive Chairman 1. LIC Housing Finance Ltd. 2. LIC (Nepal) Ltd. 3. LIC (Lanka) Ltd. 4. LIC(Intl.) BSC (c) Bahrain 5. LIC (Mauritius) Offshore Ltd. Director 1. Ken India Assurance Ltd.(Nairobi Kenya) 2. ICICI Bank Ltd. 3. GIC of India 4. <b>National Commodity &amp; Derivatives Exchange Ltd</b> Member, Board of Governor 1. The Anglo Scottish Education Society
Shri C R Thakore (Independent) Mrudul, 8 Jeevan Prakash Society, St. Xaviers High School Road PO Navajivan, Ahmedabad 380014	Nil

Shri R M Honavar (Independent) “Lakshmi Kamal”, 20, Chintamani Co-op. Hsg. Society, Karve Nagar, Pune – 411 052	<u>Member of Governing Body</u> Indian School of Political Economy
Shri N Mohan Raj (Associate) Chief Executive LICMF AMC Ltd. Industrial Assurance Building 4 <sup>th</sup> floor, Opp. Churchgate Station Mumbai - 400 020	<u>Director</u> 1. Punjab Tractors Ltd. 2. HEG Ltd.
Shri T S Vishwanath (Independent) Flat no.10, Shankar Market Connaught Circus New Delhi – 110001	<u>Director</u> 1. Mangalam Cements Ltd 2. The Karnataka Bank Ltd. Partner in 1. Singh Vishwanath & Co. 2. Meghra Singh & Associates - Chartered Accountants, New Delhi
Shri H N Motiwalla (Independent) 508, Sharada Chambers, 15A New Marine Lines Mumbai – 400020	<u>Director</u> 1. Asian Electronics Ltd. 2. Excel Industries Ltd. 3. BOB Card Ltd. Partner 1. M/s H N Motiwalla & Co. , Chartered Accountants
Shri S K Mitter (Associate) G2, Antariksha, K S Marg, Prabhadevi, Dadar (W), Mumbai – 400 025	<u>Director</u> 1. LIC Housing Finance Ltd. 2. 3I Infotech Ltd.
Shri N N Vohra (Independent) 1805, Sector 17-A Gurgaon, 122 001 Haryana	<u>Director</u> 1. Hero Honda Ltd. <u>Trustee</u> 1. The Tribune Chandigarh 2. Sarvodaya International Trust - Delhi Chapter

### **AMC Fees**

In accordance with the Investment Management Agreement and the SEBI regulations the AMC is entitled to receive investment management and advisory fee at the rate of 1.25%, per annum of the weekly average net assets outstanding in an accounting year, for net assets upto Rs. 100 crore, and at the rate of 1% per annum of the weekly average net assets outstanding in an accounting year, for net assets above Rs. 100 crore.

### **Duties and obligations of AMC**

The Investment Management Agreement was entered into by the LICMFAMC on 22.04.94.

Under the SEBI (Mutual Funds) Regulations, 1996, the Asset Management Company has the following obligations :

1. To take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of SEBI (Mutual Fund) Regulations, 1996 and the trust deed.
2. To exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.
3. To be responsible for the acts of commissions or omissions by its employees or the persons whose services the Asset Management Company has procured.
4. To submit to the trustee quarterly reports of each year on its activities and the compliance with SEBI (Mutual Fund) Regulations, 1996.
5. The trustee at the request of the asset Management Company may terminate the assignment of the asset Management Company at any time, provided that such termination shall become effective only after the trustee have accepted the termination of assignment and communicated their decision in writing to the asset Management Company.
6. Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commissions or omissions, while holding such position or office.
7. The SEBI (MF) Regulations 1996 specify that, the AMC,
  - a) Shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5% or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes.  
Provided that for the purpose of this sub-regulation, aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund. Provided further that the aforesaid limit of 5% shall apply for a block of three months.
  - b) Shall not purchase or sell securities through any broker (other than a broker referred to in clause (a)) which is average of 5 % or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless LICMF AMC has recorded in writing the justification for exceeding the limit of 5% and reports of all such investments are sent to the trustee on a quarterly basis. Provided that the aforesaid limit shall apply for a block of three months.
  - c) Shall submit a quarterly report to the trustee giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or LICMF AMC as the case maybe, by the mutual fund during the said quarter.
8. Not to utilize the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities provided that the Asset Management Company may utilize such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half yearly annual accounts of the mutual fund.
9. To file with the trustee the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and to also report to the SEBI, as and when required by the SEBI.
10. In case the asset management company enters into any securities transactions with any of its associates, a report to that effect to be sent immediately to the trustee.
11. In case any company has invested more than 5 percent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries to be brought to the notice of the trustee by the asset management company and to be disclosed in the half yearly and annual accounts of the respective schemes with justification for such investment. Provided that the latter investment has been made within 1 year of the date of the former investment calculated on either side.
12. To file with the trustee and the SEBI -
  - a) Detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment; and

- b) Any change in the interests of the directors every six months.
13. To file with the trustee a statement of holdings in securities of the directors of the asset management company with the dates of acquisition of such securities at the end of each financial year.
14. Not to appoint any person as key personnel who has been found guilty of any economic offense or involved in violation of securities laws.
15. To appoint registrars and share transfer agents who are registered with the SEBI.  
Provided if the work relating to the transfer of units, repurchase/ redemption etc is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustee shall be obtained and reasons of charging higher rates shall be disclosed in the annual accounts.
16. To abide by the Code of Conduct as specified in the Fifth Schedule.  
*The appointment of the AMC can be terminated by a majority of the trustee or by seventy five percent of unitholders of the scheme.*-5d
17. The AMC is currently managing the affairs of the schemes of LIC Mutual Fund. It has obtained certificate of registration for carrying on the business of portfolio managers in terms of Regulation 24 (2) but the activity is yet to commence -1

**KEY PERSONNEL:- 2m**

The day to day operations of the AMC are looked after by experienced and qualified professionals, consisting of senior officials on deputation from Life Insurance Corporation of India as well as directly recruited officials of the AMC.

NAME	AGE	POSITION	QUALIFICATION	EXPERIENCE
Mr. N. Mohan Raj	53	Chief Executive	M.A.	? Chief, Investment Deptt. (LIC of India) – 2 Years ? Zonal Manager (I/C), Central Zone (LIC of India), Bhopal – 1 Year ? Presently, Chief Executive at LIC Mutual Fund
Mr. H. C. Mishra	54	General Manager	M.A.	? Mktg. Manager, Mumbai D.O.-I, LIC of India – 1 Year ? Secretary (P&GS), Western Zone, LIC of India, Mumbai – 1 Year ? Divl. Manager (I/C), Goa Div., LIC of India – 2 Years ? Sr. Div. Manager (I/C), Satara Div., LIC of India – 3 Years ? Secretary (OS), Central Office, LIC of India, Mumbai – 1 Year ? Presently, General Manager at LIC Mutual Fund
Mr V Udayshankar	48	JGM – Finance	B.Sc.	? Administrative officer, LICHFL – 4 years ? Manager (Claims. Data Processing), LIC of India, Guwahati – 2 years ? AGM (Admn), LICMF, CO – 3 years ? DGM (Mktg), LICMF, CO – 1 year ? JGM (Mktg) – LICMF, CO – 4 years ? Presently JGM (Fin) – from 8/6/07
Mr S Jayaraj	47	DGM – Mktg	B.Com., ACA	? Manager (F&A), Mumbai D.O.I,

				LIC of India – 2 years ? Sr. Br. Manager, LIC of India, Pollachi – 3 years ? Manager (Sales), LIC of India, Vellore DO – 3 years ? Chief Manager, LICMF, AO – 2 years ? Presently DGM (Mktg)
Mr. G K Maiya	48	DGM – Accounts	B.Com., F.C.A	? Manager – DO – Udipi – 1 year ? Manager – Claims – DO – Udipi – 2 years ? Manager (F&A) – DO – Machilipatnam – 3 years ? AO (F&A) SCZO – Hyderabad – 4 years ? Presently DGM at LIC Mutual Fund
Mr. P. Ponpandian	48	Company Secretary & Compliance Officer	M.Com , ACA, ACS	? Asst. Administrative Officer (F&A), Vellore, LIC of India -4 years, ? Dy.Mgr. LICHFL Madurai,- 5 yrs ? Asst. Secretary (P& GS) Central office, LIC of India -2 yrs, ? AGM (LICMF AMC Ltd.) – Since Jan 2000
Ms. B. Mahapatra	41	Fund Manager	M.Sc.	? Worked in LIC of India in Different Cadres – 11 Years ? AGM (Finance) – 1 LICMFAMC (5 yrs)
Mr. Nagendra Singh	40	Fund Manager	M.Com., MBA	? Investment Department, LIC Mutual Fund – 10 years ? Presently A.G.M. (Finance) – LICMFAMC Ltd.
Mr. Ashish Kumar	38	Fund Manager	B.Com MBA (Finance)	? Asst. Manager (Finance) LICMFAMC-3 years ? Manager (Finance) LICMFAMC-5 years ? Presently A.G.M. (Finance) – LICMFAMC Ltd. ?
Mr. A. R. Nayak	48	Dealer	B.Com., FIII	? Asst. Manager (Finance) LICMFAMC-5 years ? Manager (Finance) LICMFAMC- 9 years ? Presently A.G.M. (Finance) – LICMFAMC Ltd.

## CUSTODIANS

LIC Mutual Fund has appointed **Stock Holding Corporation of India** situated at Mittal Court, 'B' Wing, Nariman Point, Mumbai 400021, having SEBI Regulation no. IN/CUS/011 as per the custodian agreement with them, signed on 22/4/94 and **HDFC Bank Ltd.** Situated at Sandoz House, Dr. Annie Besant road, Worli, Mumbai 400 018, having SEBI Regulation no. IN/CUS/001 as per the custodian agreement with them, signed on 2/12/2002. LIC Mutual Fund may also appoint any other Depository as the custodian for the scheme.

## Functions and Responsibilities of Custodians

The custodian is required to take delivery of all properties belonging to the Mutual Fund schemes and hold them in custody Separately from the assets of the custodian and their other clients. The custodian will make efforts to have the properties of the Fund registered in the name of the Fund and will deliver them only as per the instructions of the AMC and on receipt of the consideration.

The custodian shall collect, receive and deposit in the account or accounts of the Fund with the bank, income, dividends, interest, rights and other payments of whatever kind with respect to the securities and other assets and items of a like nature of the Fund held by or to the order of the custodian and shall execute such ownership and other confirmations as are necessary. LIC Mutual Fund shall have the right to change the Custodians if at any point of time it is observed that the service of the appointed Custodians is not upto the mark.

## **REGISTRARS AND TRANSFER AGENTS**

All the activities such as processing of applications, issuance of statement of account / unit certificate and other such activities are proposed to be carried out by our Registrar and Transfer agents Registrars M/s. Karvy Mutual Fund Services (A division of Karvy Computershare Pvt. Ltd.).. **The address of the Registrar is :**

“Karvy Plaza”, H.No.8-2-596,  
Avenue 4, Street No.1, Banjara Hills,  
Hyderabad – 500 034  
Phone: 040 - 23312454/23320751/52  
Fax No. 040 - 23311968

The AMC shall have the right to change the Registrars and Transfer agent later.

The Board of Trustees and the Board of AMC have ensured that the registrar and transfer agent M/s Karvy Computershare Pvt. Ltd. has adequate capacity to discharge responsibilities with regard to processing of applications and dispatching unit certificates to unitholders within the time limit prescribed in the Regulations and also has sufficient capacity to handle investor complaints

## **AUDITOR**

M/s. Shah Gupta & Co.,  
Chartered Accountants,  
38, Bombay Mutual Building,  
Fort, Mumbai – 400 001

LIC Mutual Fund shall review the appointment of Auditors after every three years or at such time as may be deemed fit in the opinion of the Board.

## **BANKERS**

Presently **HDFC Bank Ltd.**, is the Bankers to the scheme. The AMC reserves the right to change the Banker or introduce additional banker/s to the scheme at a later date.

## **H. ASSOCIATE TRANSACTIONS / SPONSOR**

### **Investment by LIC Mutual Fund**

There are no investments by the schemes of LIC Mutual Fund in securities issued by companies associated with or belonging to sponsor group and underwriting obligations undertaken by the schemes relating to issues of associate companies during the last three years directly.

LIC Mutual Fund's Policy for investing in group companies: LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 shall not invest in any unlisted securities of the group/associate company of the sponsor and in any privately placed security issued by associate or group company of the sponsor. LIC Mutual Fund will also ensure that its aggregate investment in the listed securities of the group companies of the sponsor shall not exceed 25% of the aggregate net assets of all schemes of the Fund.

LIC Mutual Fund has not utilised the services of associate companies for purchase or sale of securities.

The AMC may subject to SEBI Guidelines, utilise the services of the associate companies for the following :

- Purchase and Sale of securities
- Marketing ,Sale and Distribution of the units of the schemes of LIC Mutual Fund

However the AMC shall ensure that the brokerage if paid to any associate is in line with what is paid to any non-associate broker and the quantum of business shall be subject to any limits prescribed by the SEBI.

The AMC shall ensure that the trail fee/brokerage paid to the affiliate brokers for the sale and distribution of the units is at the same rates offered to the distributors.

Subject to the regulations from time to time the sponsors, the mutual funds managed by them, their affiliates/associates and the AMC may acquire substantial portion of the scheme's units and collectively constitute a majority investor in the Scheme.

#### **Investments by all Schemes of LIC Mutual Fund**

1. The aggregate market value of investments in group companies by all the schemes of LIC Mutual Fund as on 19/10/2007, is furnished below:  
Name of the Group Company - LIC Housing Finance Ltd.  
Market value of Investment 5.62 Crore
2. The aggregate net asset value of all the schemes of LIC Mutual Fund as on 19/10/2007 is Rs. 13418.53 Crore.
3. The Investment in the securities of the sponsor and its associate companies constitute 0.04% of the total net asset of all schemes of LIC Mutual Fund.
4. LICMF Fixed Maturity Plan – SERIES 38-39-40-41 may consider investment in future, in any of the present or future group companies of the sponsor purely on investment consideration, subject to prudential norms.
5. No scheme of LIC Mutual Fund has invested more than 25% of its net asset value in the listed securities of any of the group companies of sponsor or AMC.
6. Names of the associate companies of the sponsor or AMC are given below :-

- |                                    |
|------------------------------------|
| A. LIC Housing Finance Ltd.        |
| B. LIC International (E.C) Behrain |

- C. LICHFL Care Homes Ltd.
- D. LIC (Nepal) Ltd.
- E. Any other company that may be floated in future

The LIC Mutual Fund may have dealings, transactions or use the services of the above companies for marketing and distributing the scheme. The commission if any, that may be paid to them will be purely on commercial consideration and as approved by the Trustee.

## **I. THE SCHEME**

The administration and management of the scheme will be by LIC Mutual Fund Asset Management Company, which is incorporated and authorised for business by SEBI in accordance with scheme objectives, Trust Deed and Investment Management Agreement.

### **I.1 FUNDAMENTAL ATTRIBUTES**

The fundamental attributes of the scheme shall include,

- (1) The nature of the scheme, viz., close ended income fund with no assured returns.
- (2) Investment objectives, Investment pattern and
- (3) Other terms of the scheme, viz., provision for repurchase/ redemption, fees, and expenses.

Any modification of the fundamental attributes of the Scheme, or the trust or the fees and expenses payable or any other modification by the Trustee shall be made bearing in mind that the interest of the unit holders is not affected and no change in any of the above shall be carried out unless –

- A written communication about the proposed change is sent to each unit holder and an advertisement is given in an English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head office of the Mutual Fund is situated; and
- The unit holders are given an option to exit at prevailing NAV without any exit load.

### **I.2 INVESTMENT OBJECTIVE**

The investment objective of the Scheme is to minimize interest rate risk by investing in a portfolio of fixed income securities normally maturing in line with the time profile of the scheme.

There can be no assurance that the investment objective of the Scheme will be realised.

### **I.3 INVESTMENT PATTERN & RISK CONTROL**

The corpus of the Scheme will be invested in debt and money market instruments. Subject to the Regulations, the corpus of the Scheme can be invested in any (but not exclusively) of the following securities:

1. Floating rate money market instruments (Money at call, MIBOR linked debentures, floating rate CPs, CDs, floating rate bonds or any other instruments permitted by SEBI having a residual maturity or less than or equal to 3 months)
2. Floating rate non-money market instruments (including floating rate bonds & debentures issued by corporates or PSUs, floating rate Gilts, fixed rate debentures/ bonds with swap or any other instrument permitted by SEBI)
3. Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI/SEBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).

4. Securities guaranteed by the Central and State Governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills)
5. Debt obligations of domestic Government agencies and statutory bodies, which may or may not carry a Central/State Government guarantee
6. Corporate debt and securities (of both public and private sector undertakings) including Bonds, Debentures, Notes, Strips, etc.
7. Money market instruments permitted by RBI/SEBI, having maturities of upto 3 months in call money market or in alternative investments for the call money market as may be provided by RBI/SEBI to meet the liquidity requirements.
8. Certificate of Deposits (CDs).
9. Commercial Paper (CPs).
10. Securitised Debt obligations.
11. The non-convertible part of convertible securities.
12. With regard to SEBI Circular Ref.SEBI/IMD/CIR No.7/73202/06 dt..2/8/06 i.e. investment in ADRs/GDRs/Foreign Securities and Overseas ETFs by mutual funds, we would like to inform that we are not going to invest in any foreign securities.
13. Pass through, Pay through or other Participation Certificates representing interest in a pool of assets including receivables.
14. Any other like instruments as may be permitted by SEBI from time to time.

The securities mentioned above and such other securities the scheme is permitted to invest could be listed, unlisted, privately placed, secured, unsecured, rated or unrated and of residual maturity matching with the plan term. The securities may be acquired through Initial Public Offer, secondary market operations, private placement, rights offers or negotiated deals.

The Scheme may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions.

**Asset Allocation :-2f**

Under normal circumstances, it is anticipated that the asset allocation would be as under :

**3 months plan :**

Investments	Indicative Allocation(%) of corpus)	Risk Profile	Avg. Maturity Profile
Debt* instruments having residual maturity of 3 months	Upto 100	Low To Medium	Not exceeding 3 onths
Money market instruments	Upto 100	Low	

\* Debt includes securitised debt upto 100% - 2f

Investment in derivative instruments shall be made for the hedging purpose only to protect the interest of the investors and the total exposure in the derivative will not be more than 50% of the Net Asset of the scheme.

**Investment in Debt :**

- a) The AMC may retain the option to alter the asset allocation for a short term period on defensive considerations.
- b) All debt instruments other than Government securities in which investments are made by the scheme should have been rated above investment grade by CRISIL/ICRA/CARE/FITCH or any other credit rating agencies which may be recognised from time to time. However if any debt instrument is not rated, the specific approval of the Board of Directors of the LICMF AMC Ltd. shall be taken for investment.
- c) The investments shall be made only in transferable securities and the funds of the scheme shall not be used in short selling or carry forward transactions.

- d) The Maturity profile of debt instrument 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.

## **DEBT MARKETS IN INDIA :-2k**

The major debt investment options include rated corporate debentures/bonds, PSU bonds, Bonds of Central govt. bodies which carry a central govt. guarantee for repayment of principal and of interest apart from other instruments like Mibor –linked NCDs , Bank CDs and rated CPs for parking of funds in the short term .

The past couple of years have seen a substantial deepening of the Wholesale Debt market. The volume of trades have increased substantially. There have been major changes like a rate cut in contractual savings, a cut in the Bank rate and reduction in CRR. Uncertain domestic as well as international ecpolitical situations have also increased volatility in the Debt markets.

Currently the indicative yields for some of the money market instruments are as follows :

<b>INSTRUMENTS</b>	<b>INDICATIVE YIELDS AS 04/10/2007</b>
Call Money/ CBLO	6.00%-6.05%
Commercial Paper	
3 Months	7.70%
6 Months	8.10%
Treasury Bills	
91 Days	6.95%
364 Days	7.15%
Government Securities	
2 years	7.75%
3 Years	7.77%
Corporate Securities (AAA)	
1 Year	8.75%
3 Years	9.25%

**Note :** The above rates are indicative and are subject to fluctuations in general interest rates and market conditions.

### **Scenarios/Conditions for investment in Derivatives**

Investment in derivative instruments shall be made for the hedging purpose only to protect the interest of the investors and the total exposure in the derivative will not be more than 50% of the Net Asset of the scheme.

1. Interest rate swaps can be used for return enhancement when any plan under the scheme is sitting on cash pending investment in bonds. Since this money typically earns MIBOR on daily call lending, we can receive fixed rate against paying MIBOR through an Overnight Indexed Swap (OIS) to get better return.
2. To convert a floating rate asset into fixed rate asset: Plans under the scheme can invest in a floating rate bond and convert it into a fixed rate bond with the use of swap market. The Plans under the scheme can receive fixed rate and pay floating rate in the swap against an underlying investment. This will be done in case total returns are higher than buying a similar fixed coupon bond.

3. If OIS is trading higher than interest rate available in cash market securities then the plans under the scheme could keep the money in call / call equivalents and receive OIS.

### Scenarios/Conditions for investment in securitised debt

The scheme will invest in securitised debt instruments if it is offering better returns compared to fixed income instruments for similar risk profile. The scheme may also invest in securitised debt if for same returns, securitised debt offer better risk profile. The Scheme will invest in securitised debt considering the maturity, asset quality and available yield. However, the scheme shall not invest in foreign securitised debt. The fund manager shall always keep in mind the investment in securitised debt will not increase the risk profile 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 various derivatives subject to applicable regulations and counter party risk assessment as and when they become permissible in the Indian markets subject to necessary authorization.

### Debt Market Derivatives:

The deregulation of interest rates has resulted in presenting a assortment of risks to market participants. To provide an effective hedge against interest rate risks on account of lending or borrowings made at fixed/variable rates of interest, RBI has allowed the use of such instruments as the Interest Rate swaps (IRS) and Forward Rate Agreements (FRAs).

**IRS:** An IRS is an off balance sheet contract between two counterparties to exchange a stream of payments on specified dates based on a notional principal.

Presently the most common form of IRS in the domestic market is the Overnight Index Swap (OIS), wherein a fixed rate is exchanged with the floating leg linked to the MIBOR ( Mumbai Interbank offered rate/ the call money rate).The tenure of the OIS ranges from 2 to 365 days.

Eg: The scheme may park its funds in the call money market from time to time. The scheme thus becomes a lender in the market. Say Y – a corporate is a borrower in the call money market. Suppose the Fund manager of the scheme has a view that overnight rates may fall, while Y expects volatility and is looking to hedge or lock into a fixed rate. Now the scheme is a fixed rate receiver and Y is the floating rate receiver. Consider a 3 day OIS at 8.25% for a notional principal of Rs. 1 Crore between the two.

Now the scheme would received a fixed rate from Y on the notional principal of Rs. 1 Crore @ 8.25% for 3 days = Rs. 6780/-.

The scheme in turn would have to pay Y the floating rate of interest on the same principal of Rs. 1 Crore which is calculated as follows :

DAY	MIBOR (%)	PRINCIPAL (Rs.)	INTEREST (Rs.)	AMOUNT (Rs.)
1	8.00	10000000	2192	10002192
2	8.25	10002192	2261	10004453
3	7.75	10004453	2124	10006577
TOTAL			6577	

As shown in the table the scheme will be required to pay Y a sum of Rs. 6577/-.

Instead of exchanging the gross amounts Y will pay the scheme the difference amount i.e. 6780-6577= Rs. 203.

Thus at the end of the swap the scheme has earned a fixed rate while Y has been able to fix the cost of its funds irrespective of the movements in the market.

**FRA (forward rate agreement):** A FRA is a cash settled agreement where 2 parties (the buyer and the seller) agree to exchange interest payments for a notional principal amount for a specified period on a settlement date. A FRA is quoted by the forward month in which it matures, for e.g. A 3x6 FRA is a contract maturing 6 months from now and starting 3 months from now.

e.g.: Suppose the scheme has exposure to 91 day T Bills and the Fund manager takes a view that the yields are going to fall, then using FRAs he can lock into the available rates. Assume that on the last day of a given month the spot 91 day T Bill rate is 9.50% and the 3x6 FRA is quoted at 9.40%/9.60 %. Assuming a notional principal of 10 Crore the scheme now receives fixed 9.40% (and pays the 91 day T bill rate 3 months from now) on the 3x6 FRA for a notional principal of RS. 10 crore. On the settlement date the scheme receives the fixed rate from the swap market maker and pays the floating rate.

Assuming the fund manager's view is correct and the 91day T-Bill cut off, 3 months from now is 9.25% then the scheme receives – Rs.23,43,562 and pays Rs.23,06,164. The difference Rs.37397 is to be discounted to settlement at a mutually negotiated rate based on the credit of the counter-party.

Assuming a discounted rate of 10% the actual cash settlement =  $37397 / (1 + 10\%)^{91/365} = \text{Rs. } 36488/-$

**Risk factors:-2g**

**Credit Risk :** This is the risk of default by the counterparty. This is usually negligible, as there is no exchange of principal amounts in a derivative transaction.

**Market Risk :** Market movements may adversely affect the pricing and settlement of derivatives.

**Liquidity Risk :** The risk that a derivative cannot be sold or purchased quickly enough at a fair price, due to lack of liquidity in the market.

**Change in Investment Pattern**

Subject to the SEBI Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute. These proportions can vary substantially depending upon the perception of the Investment Manager; the intention being at all times to seek to protect the interests of the Unitholders. Such changes in the investment pattern will be for short term and for defensive considerations only.

**Investment Strategy**

The proportion of investment in various securities will be decided after considering the prevailing political conditions, the economic environment (including interest rates and inflation), the performance of the corporate sector and general liquidity and other considerations in the economy and markets so as to have a liquid portfolio providing optimum returns.

**Risk Control**

The AMC aims to identify securities, which offer superior levels of yield at lower levels of risks. With the aim of controlling risks, rigorous in depth credit evaluation of the securities proposed to be invested in will be carried out by the investment team of the AMC.

The Scheme may also use various derivatives and hedging products from time to time, as would be available and permitted by RBI, in an attempt to protect the value of the portfolio and enhance Unitholders' interest.

**Investment of subscription money**

Pending deployment of funds of the scheme in securities in terms of investment objectives of the scheme, the AMC can invest the funds of the scheme in short term deposits of scheduled commercial Banks. The AMC, after satisfying the receipt of the minimum subscription amount, can commence investment of the funds received in accordance with the investment objective of the scheme and as per existing regulations.

**Investment By LICMF Fixed Maturity Plan – SERIES 38-39-40-41 In Other Schemes Managed By The AMC**

LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 may invest its funds with other schemes managed by LICMF AMC subject to scheme objectives and regulations 44(1) of the SEBI Regulations 1996 and the AMC shall not charge any investment management fee for such investments.

#### **Investment by the asset management company**

LICMF AMC may invest in LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 at its discretion from time to time. The AMC shall, however, not charge any fees on its investment in the scheme in accordance with sub-clause 3 of regulation 24 of SEBI (MF) Regulations 1996.

#### **Portfolio Turnover**

As the scheme is a close ended debt scheme the portfolio turnover is expected to be very low.

#### **I.4 INTER SCHEME TRANSFERS**

The norms followed for Inter Scheme Transfer are as follows:

All Inter Scheme Transfers of Securities are effected

i) at the prevailing market price for quoted securities or at the “fair value” for non-traded securities as per valuation norms approved by the Trustee in accordance with the provisions of SEBI (MF) Regulations, 1996 ; and

ii) Provided the securities so transferred are in conformity with the investment objective and requirement of the transferee scheme.

The valuation norms referred to in (i) above are the same as are followed for valuation of securities for calculating NAVs in general.

#### **I.5 LIQUIDITY**

The Scheme will repurchase units under the scheme on an on going basis on all business days (except book closure if any) at NAV related prices after the closure of New Fund offer period (i.e. on reopening of the scheme for Repurchase on -----). Applicable price is the NAV declared for the day subject to the prevailing load structure.

#### **I.6 LISTING**

As the scheme is open for repurchase on all business days after it re-opens , the units of the Scheme will not be listed on any Stock Exchange. However the Trustee reserve their right to list the Units of the Scheme on any Stock Exchange, subject to the regulations.

#### **I.7 BORROWING BY THE FUND**

The Fund may borrow to meet temporary liquidity needs for the purpose of repurchase/redemption, redemption or payment of interest or dividend to the unitholders provided that such borrowing shall not exceed 20% of the net asset value and the duration of such borrowing shall not exceed a period of six months. There were borrowings by the fund for the financial year 2006-07.

#### **I.8 MINIMUM NUMBER OF INVESTORS IN THE SCHEME**

**As per SEBI Circular SEBI/IMD/CIR No. 10/22701/03 dated December 13, 2003, the scheme shall have minimum 20 investors and no single investor shall account for more than 25% of the corpus of the scheme on quarterly basis.**

#### **I.9 UNDERWRITING**

Subject to SEBI Regulations, the Scheme may enter into underwriting agreements. The Capital Adequacy norms for the purpose of underwriting shall be the net assets of the Scheme and the underwriting obligation of the scheme shall not at any time exceed the total net asset value of the Scheme.

## **J. UNITS AND OFFER**

### **J.1 THE OFFER**

LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 is being launched to provide investors with an opportunity to earn reasonable returns with low level of risk and high liquidity.

<b>Features</b>	<b>Brief Details</b>
Name of the scheme	LICMF Fixed Maturity Plan SERIES 38-39-40-41
Nature of the scheme	Close ended income scheme
New Fund Offer Period	Opens on ----- and closes on -----
Subsequent Offer Period	Being Close-ended scheme, no sale is allowed after New Fund Offer period.
Date of Allotment/ Issuance of Statement of Account	For application received during the New Fund offer period, the allotment will be made on closure of New Fund offer period.
Repurchase/Redemption Facility	Available on reopening of the scheme on ----- for repurchase/ redemption on all business days.
Issue Price	Rs. 10/- per unit during the New Fund offer period only.
Exit Load	0.50% if redeemed on before maturity. No exit load will be charged upon maturity of the scheme.
Minimum Subscription	Rs.10000/- per application per option and additional amount in multiples of Rs.1000 thereafter
Maximum Subscription	There is no limit for the maximum investment amount by an investor.
Plans Available	3 months plan
Options Available under each plan	Growth, Dividend – Payout & Reinvestment
Tax Benefits	u/s 10 (35) ,48 & 112 Income Tax Act 1961.
Target Amount	Minimum Rs. 50 lakh.

### **J. 2 MINIMUM TARGET AMOUNT**

The minimum target amount during the New Fund offer period is Rs. 50 lakh. There is no maximum target and entire subscription received during the New Fund offer period will be fully retained. Therefore subject to the applications being in accordance with the terms of this offer full and firm allotment will be made to applicants and the Mutual Fund shall be liable to refund the subscription amounts as per SEBI norms.

### **J. 3 MINIMUM AMOUNT FOR APPLICATION & ADDITIONAL INVESTMENT**

The minimum amount of application is Rs.10,000/- and thereafter in multiples of Rs.1000/-

### **J. 4 INVESTMENT OPTIONS**

#### **DIVIDEND OPTION :**

Under this option Fund expect to declare income distribution subject to availability of distributable surpluses. Dividends declared will either be distributed under the Dividend option or will be reinvested in the scheme at the prevailing NAV. Unitholders may elect to either receive or reinvest their Dividend in additional units of the scheme by indicating their decision in the application form. In case of dividend payment less than Rs.250/-, the same will be reinvested into the scheme.

There is no assurance or guarantee to the unitholder as to rate of income distribution and regularity in declaration of income distribution. Though It is the intention of the Fund to make monthly/quarterly/yearly income distribution under the above options.

## **GROWTH OPTION**

Investors desiring capital appreciation can opt for Growth plan. Returns under the plan will be reflected in the NAV. Investors under this plan can avail of the long term capital gains tax benefits, as per the relevant provisions of the Income Tax Act 1961. The Fund may declare Bonus units under this plan.

## **DEFAULT OPTION**

No option indicated

**Growth option**

No payout/reinvestment plan indicated **Re-investment plan**

## **CHANGE OF OPTION**

Investors can change the option from Income options to Growth option and visa versa and from Income payout option to income reinvestment option any time subsequently. No exit load will be changed for such changes.

## **K. SALE OF UNITS**

### **K. 1 NEW FUND OFFER**

Applications for allotment of "LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41" units should be made in the prescribed form only. Cheques / DDs should be drawn in favour of "LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41".

### **K. 2 WHO CAN INVEST**

Applications for allotment of the scheme units can be made by any of the below mentioned investors provided they are permitted to purchase Mutual Fund units by their respective constitutions and/or statutory regulations.

(1) Resident citizens of India who are :

- (i) Adult individual or individuals not exceeding three in number together on Single, Joint, First Holder or Survivor(s) or Anyone or survivor(s) basis,
- (ii) Minors through their Parents/Step-parents/Guardians  
(Joint Mode of Holding is not permitted with minors),

(2) Hindu Undivided Family

(By the Karta acting on behalf of H.U.F.).

(3) An association of persons or a body of individuals consisting in either case, only of husband and wife, governed by the system of community of property in force in the State of Goa and Union Territories of Dadra and Nagar Haveli and Daman and Diu by whom, or on whose behalf, investment is made.

(4) Companies, Bodies Corporate, PSUs, Banks, Trusts, Societies, Co-operative Societies, Schools, Colleges, Universities, Clubs, Associations, Partnership firms and other such bodies.

(5) Army/Airforce/Navy/Paramilitary funds & other eligible institutions.

(6) On repatriable / non-repatriable basis by Non-Residents of Indian Nationality/ Persons of Indian Origin.

**Explanation:** A person shall be deemed to be of Indian origin if

- He/she, at any time, held an Indian passport, or
- He/she or either of his/her parents or any of his/her grandparents was an Indian and a permanent resident of Undivided India at any time.

However, Pakistani and Bangladeshi nationals, even though they satisfy the definition of 'Indian Origin', shall not be eligible to apply for the units.

The spouse of a citizen of India or a person of Indian origin shall also be deemed to be of Indian origin even though he/she may be of Non-Indian parentage.

### **K.3 WHERE TO SUBMIT APPLICATION FORM**

#### **Domestic investors –**

Duly filled in applications with subscriptions can be submitted at the authorized collection centres along with local cheques/DD payable at the authorized centres only. Payment by cash will not be accepted.

#### **NRI's on a fully repatriable basis-**

In case of NRIs, payment may be made by means of a Draft in Indian Rupees purchased abroad or by cheque/DD drawn on Non resident (External) /FCNR Accounts, payable at the authorized centres only. Payments may also be made through Demand drafts or other instruments permitted under the Foreign Exchange Management Act.

#### **NRI's on a non-repatriable basis-**

NRIs can invest by cheques/DD's drawn out of Non resident (Ordinary) Accounts.

FIIs shall pay their subscription by way of direct remittance from abroad or out of their special Non resident Rupee account maintained with designated bank in India or as may be permitted by law.

#### **Application under (POA) Power of Attorney /Body Corporate/Registered Society/Trust/Partnership**

In case of an application under POA or by a limited company, body corporate, registered society trust or Partnership etc., the relevant POA or the resolution or authority to make the application as the case may be, or duly certified copy thereof, along with the memorandum and articles of association /bye-laws must be Lodged at the authorized centre along with the application form.

Presently, our Corporate Office and Area Offices are the only authorized Centres for redemption. However, the AMC may at their sole discretion add or delete one or more collection centres at a later date if they so find necessary.

Note: The application form no. should be noted on the reverse of all Cheques and bank drafts accompanying the application form.

#### **BANK ACCOUNT DETAILS:**

In order to protect unit holder interest from fraudulent encashment of cheques, the current SEBI Regulations, has made it mandatory for investors to mention in their application/repurchase-redemption request, the bank name and account number of the unit holders .The AMC will not be responsible for any loss arising out of fraudulent encashment of cheques and or any delay /loss in transit. In the absence of these details, applications are liable for rejection.

### **K.4 RIGHT TO ACCEPT OR REJECT APPLICATIONS**

Allotment is assured to all applicants provided the applications are complete in all respects and are in order.

Applications received for allotments of units under the scheme, which are not complete in any respect, are liable to be rejected and LIC Mutual Fund/AMC would not be responsible for consequences thereof. LIC Mutual Fund/AMC reserves, at their sole and absolute discretion, the right to accept or reject any application in whole or in part without assigning any reason.

### **K. 5. REFUNDS**

Where an application is rejected in full or in part, application money received will accordingly be refunded to the applicant within 6 weeks from the closure of the New Fund offer period. No interest will be paid on the amounts so refunded.

In case the Fund does not receive the minimum targeted subscription during the New Fund offer period, the subscription moneys received will be refunded within a period of 6 weeks from the close of the New Fund subscription. If refunds are not made for any reason within the above period, interest at 15% p.a. will be paid on the amounts due for refund.

## **K.6 SWITCH OVER FACILITY**

Facility of switchover to other LIC Mutual Fund schemes are available on all Business days. Between two plans of the scheme switch over will be allowed at the NAV.

The switch over will be effected by way of redemption of units and a reinvestment of the Redemption proceeds in another scheme(s).

To effect a switch over, a unit holder must provide clear instructions. A separate form should be filled for effecting switch over and sent to the authorised centre. A fresh statement of account reflecting the new holdings will be issued by the Fund.

## **L. ALLOTMENT OF UNITS**

### **L.1 NEW FUND OFFER**

Allotment of Unit under the Scheme will be made at Rs.10 during NFO. The allotment will be made after the closure of New Fund offer period subject to realisation of Cheque/DD.

### **L.2 NEW FUND OFFER PERIOD**

The New Fund offer Period will commence from ----- and closes on -----.

### **L.3 EXTENSION / TERMINATION OF NEW FUND OFFER PERIOD**

The Trustee reserves the right to extend the closing date, subject to condition that the subscription period shall not be more than 30 days. The Trustees also reserves the right to close subscription earlier by giving 1 day notice in atleast one daily newspaper.

### **L.4 STATEMENTS OF ACCOUNT. -5h**

For any investments made during the New Fund offer period the statements of account will be issued to all investors within 10 days after the closure of the offer.

*For any repurchase after the scheme reopens for the Fund will endeavour to issue the statement of account within 3 business days after processing of the application*

A fresh statement of account will be issued after every partial encashment / declaration of dividend / issue of bonus units / further purchase of units giving the total number of units standing to the investors' credit. On every such operation the previous statement of account shall automatically stand cancelled.

In addition, each unit holder will also receive an annual account statement as soon as practicable after 31st March each year which will detail the investors opening unit balance as of 1st April of the prior year, all transactions that occurred during the preceding twelve months and the closing balance of units held as of 31st March.

No unit certificate will be issued under the scheme. However incase of a specific request unit certificate may be issued within 6 weeks from the receipt of request from the investor at the appropriate authorized centre

## **L. 5 AVAILABILITY OF APPLICATION FORMS**

Copies of the Offer document and the application forms are available at the authorised collection centres, corporate office, area offices, business centres, and Chief Agents of the AMC and at the approved intermediaries of the LIC Mutual Fund.

## **M. HOW TO REPURCHASE / REDEEM THE UNITS OF THE SCHEME**

Investors may repurchase / redeem their holding in full or in part.

Investors must submit the redemption request in the form available at the authorized centres/registrars office duly filled in, furnishing their folio / Account numbers, and duly signed as per the application form.

The Fund shall repurchase / redeem the units of the scheme regularly, from the date of allotment of units on all business days except during the period of book closure if any.

The repurchase / redemption price will be calculated and declared on a daily basis. The Mutual Fund will arrange to publish in atleast two daily newspapers once a week, the Repurchase / Redemption Price of the scheme in accordance with the SEBI guidelines from time to time.

Repurchase / redemption shall be effected on receipt of the repurchase / redemption request along with the duly discharged Statement of Account mentioning the number of units offered amount sought for repurchase / redemption at the authorized centre. The new statement of account, mentioning the units outstanding to the credit of investor, if any, will be sent to the investor separately.

On complete redemption of the holdings an investor ceases to be a member of the Scheme and will not be entitled to any further benefits from the Scheme.

**M.1 APPLICABLE SALE AND REPURCHASE - REDEMPTION PRICE**

Investors can purchase / sell the units at the applicable sale / repurchase price calculated as follows :

Sale Price = APPLICABLE NAV \* (1 + Entry Load, IF ANY)

Repurchase Price = APPLICABLE NAV \* (1 - Exit Load, IF ANY)

Sale / Repurchase prices will be as per the prevailing load structure.

Please find below the illustration on what will be the sale / repurchase price depending on load structure.

<b>Applicable NAV</b>	<b>Sale Price (Entry Load = 1%)</b>	<b>Repurchase Price (Exit Load = 1%)</b>
10.0000	10.1000	9.9000

The scheme being close ended scheme, will not remain open for continuous sale after the completion of the NFO period. The units will be allotted at Rs. 10 during the NFO period subject to realization of the cheque/DD. Whereas, the scheme will remain open for continuous repurchase after its reopening. For redemptions, valid application received upto 3 p.m. at the authorised centres, same day's closing NAV shall be applicable. If received after 3 p.m., closing NAV of the next business day shall be applicable. Valid applications for "switch out" shall be treated as redemptions and for "switch in" shall be treated as purchase and the above mentioned guidelines shall be applicable.

The NAV will be calculated and declared on all business days.

Since the scheme is a close ended one, the repurchase price shall not be less than 95% of the NAV till time of its maturity.

**M.2 CHOICE FOR REDEMPTION AMOUNT**

Investors may redeem their entire holdings either in full or in part subject to the exit load conditions. In case of partial repurchase, the unitholder has to maintain a minimum balance of 1000 units or Rs.10,000/- amount which is minimum application amount. Investors have also the option to request the redemption :

- a. of a Specified amount in Rupees
- or
- b. of a Specified number of Units of the Scheme

Where the redemption request is for both a specified amount and for a specified number of units, the Specified Unit request is considered as definite. In case of a Specified request for an amount in rupees the number of units to be redeemed will be determined on the basis of the applicable

repurchase price. Similarly where the request is for a specified number of Units for redemption, the redemption amount payable will be the number of units multiplied by the applicable repurchase price. Where the request for redemption exceeds the holdings of the Unit holders, the account of the Unit holder will be closed and the entire holding to the unitholders' credit will be redeemed at the applicable repurchase price.

### **M. 3 EXIT LOAD**

Entry Load: In case of close ended schemes, no entry load shall be levied as per SEBI Circular Ref. SEBI/IMD/CIR No.1/64507/06 dt.4/4/2006

Exit load will be 0.50% if redeemed before maturity.

No exit load will be charged upon maturity of the scheme. However, the repurchase price shall not be lower than 95% of the NAV. -4b

### **M.4 DESPATCH OF REPURCHASE / REDEMPTION PROCEEDS**

The time permitted by SEBI for repurchase / redemption is 10 working days from the date of receipt of request duly complete in all respects by the appropriate office. However, it will be the endeavour of the Fund to dispatch the repurchase / redemption proceeds within 2 business days, from the date of receipt of duly complete redemption request at the registrars office, subject to the right of the Fund to limit the redemption as stated below. However, if there is any delay in payment of redemption/ repurchase proceeds, the fund is liable to pay interest @ 15% per annum.

### **M.5 RIGHT TO CLOSE A UNITHOLDERS ACCOUNT**

The Mutual Fund may close a unitholder's account whenever, for any reasons, the number of units falls below the minimum balance of 1,000 units / Rs.10,000/-

### **M.6 SUSPENSION OF REDEMPTION OF UNITS**

*The suspension of redemption of units under the scheme shall be made applicable only after the approval of the Trustee. The approval from the AMC Board and the Trustee giving details of the circumstances and the justification for the proposed action shall be informed to SEBI in advance.* -5f

- 1) When one or more stock exchanges or markets which provides basis of valuation for substantial portion of the assets of the scheme is closed otherwise than for ordinary holidays.
- 2) In circumstances outside the control of the Trustee and AMC the disposal of the assets of the scheme is not reasonable or would not reasonably be practicable without being detrimental to the interests of the Unit holders.
- 3) During Periods of extreme volatility in the stock market, which, in the opinion of the investment manager is prejudicial to the interest of the investors
- 4) In case of Natural calamity, strikes riots etc.
- 5) If so directed by SEBI.
- 6) During the period of Book closure, if any.

In the above eventualities the time limit for processing of requests for redemption of units will not be applicable.

### **M.7 SERVICE STANDARDS**

The fund intends to follow up promptly with its service centres all the enquiries and complaints with regard to the issue of the units to resolve them expeditiously. Investors are requested to contact the servicing centres for any further assistance.

The Investment Manager has arranged a single window for all services relating to sale, repurchase, and holdings of the units under the scheme, for present at its Registrars office mentioned in this document and will endeavor rendering quality service to its customers.

## **M.8 RIGHT TO LIMIT REDEMPTIONS**

In response to unforeseen and unusual market circumstances, the Trustee may limit the total redemptions on any Business day to 20% of the total units under issue or any other higher or lower percentage as the Trustee may decide.

The Trustee also reserve their right to limit the redemption at their absolute discretion to Rs. 10 crore per account on any single Business day. When the limitations are applicable, requests not redeemed on a Business day will be carried forward to the next Business day in order of their receipt and at the repurchase price applicable on the subsequent Business day(s) when the condition for redemption is fulfilled. In case of multiple requests for redemption satisfying on a single Business day, when the limitations exist, redemption payments will be made pro rata based on the amounts of request. Such redemption cheques may be mailed within a reasonable time and will not be subject to the normal response time for mailing redemption cheques.

## **M.9 REPURCHASE / REDEMPTIONS BY NRI's / PIO's**

Repurchases / Redemptions By NRI's / PIO's will be in accordance with the conditions mentioned above subject to any procedures laid down by the RBI if any.

Payment to NRI's / PIO's will be subject to relevant laws / guidelines of the RBI as are applicable from time to time.

1. Subject to RBI approval, in case of NRI unitholders the amounts due on redemption / repurchases (subject to tax deduction at source) will be credited to the NRE / FCNR account of the investor where the original investment in the units was made on repatriation basis by an NRI either through inward remittance or debit to NRE/FCNR account.
2. In all other cases the amounts due on redemption / repurchases (subject to tax deduction at source) will be paid by means of a rupee cheque payable at the NRO/NRSR account of the investor as applicable.

## **N. INVESTMENT DECISION PROCEDURE, RESTRICTIONS AND OTHER CONSIDERATIONS**

### **PROCEDURE FOR TAKING INVESTMENT DECISIONS: -2n**

All investment proposals originating from the primary market by way of public issue or private placement are appraised in detail supported by Memorandum, Financials from available sources such as database outputs, balance sheets, research reports if any etc. to arrive at a decision and the justification for taking individual investment decision are duly recorded. A similar procedure is followed in respect to investments in secondary market for the first time. The reasons for subsequent investments in same security together with price limits for YTM etc, are also duly recorded.

The AMC Board has approved a set of procedures to be followed in chapter X of the Procedure and Delegation of Powers Order 1994 (with amendments and changes as approved by the board from time to time). This lays down the broad parameters for investment, the competent authorities for approving investments in various securities, and the procedures and guidelines to be followed for money market operations etc. these procedures and guidelines are followed in our investment decisions.

All purchases and sales in both primary and secondary markets are reported to the Board of AMC/Trustee in the periodical meetings. The minutes of the Executive Committee (sub committee of the AMC Board) which is the highest competent authority for certain investment decision are also placed before the Boards.

**BENCHMARKS:** The Scheme is a debt scheme. The 3 months plan will broadly track C Fund ~ LX, based on the specified asset allocation pattern herein.

## **INVESTMENT RESTRICTIONS:-2c**

Pursuant to the Securities and Exchange Board of India (Mutual Funds) Regulations 1996 [Regulations 44(1)], the following investment and other limitations are presently applicable to the scheme :-

- 1) The scheme shall not invest more than 15% of the schemes NAV in debt instruments issued by a single issuer which are not rated below investment grade by an authorized credit rating agency. Such an investment limit may be raised to 20% of the scheme's NAV with the prior approval of the Trustee and the Board of Asset Management Company.
- 2) Not more than 10% of the scheme's NAV shall be invested in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the scheme's NAV provided that the specific approval of the AMC and Trustee Board shall be taken for investment.
- 3) No loans for any purpose will be advanced by the scheme for any purpose. Lending of securities will be in accordance with the stock-lending scheme of SEBI.
- 4) Transfers of investments from one scheme to another in the mutual fund shall be allowed only if :-
  - i) Such transfers are done at the prevailing market price for quoted instruments on spot basis.
  - ii) The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.
- 5) *The investment manager may, from time to time invest its own funds in the scheme at its discretion. However, the investment manager shall not be entitled to charge any fees on its investments in the scheme.* **2a**
- 6) *A scheme may invest in another scheme under the same AMC or any other Mutual Fund without charging any fees, provided the aggregate inter-scheme investment made by all schemes under the same management company shall not exceed 5% of the net assets of the mutual fund.* **2d**
- 7) The Mutual Fund may borrow to meet liquidity needs, for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit holders and such borrowings shall not exceed 20% of the net asset of the scheme and duration of the borrowing shall not exceed 6 months.
- 8) *The Mutual Fund's schemes shall not invest in any unlisted securities of the group/associate company of the sponsor and in any privately placed security issued by associate or group company of the sponsor. LIC Mutual Fund will also ensure that the aggregate investment by any scheme in the listed securities of the group companies of the sponsor shall not exceed 25% of the net assets of the scheme.* **2e**
- 9) The sale and purchase of securities shall take place on the basis of deliveries and in all cases of purchases the Mutual fund shall take delivery of relative securities and in all cases of sale deliver the securities and shall in no case put itself in a position whereby it has to make a short sale or carry forward transactions or engage in badla. However the Mutual fund may enter into derivative transactions in a recognized stock exchange for the purpose of hedging or portfolio balancing in accordance with the guidelines issued by the board.
- 10) The Mutual fund shall get the securities purchased or transferred in the name of the mutual fund on account of the scheme, wherever investments are intended to be of a long-term nature.
- 11) Pending deployment of funds of the scheme in securities in terms of the investment objectives of the scheme the mutual fund can invest the funds of the scheme in short term deposits of scheduled commercial banks.
- 12) Aggregate value of 'illiquid securities' which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme.
- 13) The Trustee of the Mutual Fund may alter these limitations from time to time to the extent the SEBI regulations change so as to permit the scheme to make its investments in the full spectrum of permitted investments for the Mutual Fund in order to achieve its investment objectives. All investments of the Scheme will be made in accordance with the SEBI (Mutual Funds) Regulations, 1996, including Schedule VII thereof.

- 14) The Mutual Fund under all its schemes shall not own more than 10% of any company's paid up capital carrying voting rights.
- 15) The initial issue expenses in respect of the scheme may not exceed 6% of the funds raised under that scheme.
- 16) The Mutual Fund shall not invest more than 10% of its NAV in the equity shares or equity related instruments of any company.
- 17) The Mutual Fund scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments.
- 18) A Fund of funds scheme shall be subject to the following restrictions :
  - A fund of funds scheme shall not invest in any other fund or funds scheme;
  - A funds of funds scheme shall not invest its assets other than in schemes of mutual funds, except to the extent of funds required for meeting the liquidity requirements for the purpose of repurchases or redemptions, as disclosed in the offer document of fund of funds scheme.
- 19) *Debentures, irrespective of residual maturity period (above or below 1 year) shall attract the investment restrictions as applicable for debt instruments as specified under clause 1 and 1A of the Seventh Schedule to the Regulations.* **21**
- 20) *The fund follows the investment restrictions specified under Schedule VII of SEBI Mutual Fund Regulations, 1996.* **21**

## **O. ACCOUNTING POLICIES AND STANDARDS - 14**

In compliance with the Regulations 50(3) & 55(4) (iii) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the policies and standards include, inter-alia, the following :

### **O.1 INVESTMENTS**

- (A) Transactions for purchase/sale of investment are accounted as investment on trade dates.
- (B) The cost of investment acquired or purchased includes brokerage and stamps charges and any charge customarily included in the brokers bought note. Front-end fee received relating to privately placed debt instruments is reduced from the cost of such investment.
- (C) Bonus entitlements are recognized as investments on ex-bonus dates.
- (D) Right entitlement of equity shares are accounted as investment at issue price plus acquisition cost if any, on ex-right dates.
- (E) In respect of purchases/sale of interest bearing investments, accrued interest payable/receivable is debited / credited respectively to interest recoverable account and not added or deducted to cost of investments.
- (F) Holding cost of investments to be determined using Average Cost Method.
- (G) When Units are sold an appropriate part of the sale proceeds would be credited to an equalization account and when units are repurchased an appropriate amount would be debited to an equalization account. The net balance on this account should be credited or debited to the Revenue account, but should be reflected only after the net income of the fund is determined.
- (H) For the purposes of the financial statements all the investments shall be marked to market and be carried at market value in the balance sheet.

### **O.2 INCOME RECOGNITION**

- (A) Dividend income is recognized on ex-dividend date for quoted shares and for unquoted shares dividend income is recognized on the date of declaration.
- (B) Interest on investment is accounted for on a daily accrual basis.

- (C) Profit or loss on sale of investments is accounted for on the basis of average cost method.
- (D) Commitment charges/Documentation charges are accounted for on cash basis.
- (E) Underwriting commission is recognized as revenue on cash basis when there is no devolvement. In case of either partial or full devolvement, the total commission received is reduced from the cost of such investments.
- (F) If accrued income on investment is not received for a period of 13 months beyond the due date, provision is made by debit to revenue account for the income so accrued and no further accrual of income on these investments is considered beyond this period.

**O.3 EXPENSES**

All expenses are accounted on accrual basis. Issue expenses incurred during the New Fund offer period beyond 6% of the collections will be absorbed by the AMC. Expenses incurred subsequently will be written off in the year in which they are incurred.

**P. NET ASSET VALUE CALCULATION & VALUATION OF INVESTMENTS**

**P.1 CALCULATION OF NET ASSET VALUE**

NAV shall be calculated on all business days including and announced at the close of each business day and declared in accordance with the SEBI guidelines from time to time and will be displayed / available at the Corporate office, Registrars office and other Authorized Centers such as the Area Offices / Business Centers. The NAV will also be published in two daily newspapers in accordance with SEBI guidelines, and will also be updated on AMFI website and LICMF website on all business days. The NAV per unit shall be calculated as follows. **-4a**

$$\text{NAV} = \frac{\text{Total Unit Cap.+ Reserves + Inc.(net of exp. \& provisions)} + (-)\text{Appreciation/ (Depreciation)in investment}}{\text{No. of Units outstanding}}$$

**P. 2 VALUATION OF INVESTMENTS**

For valuation of investments, the following principles/ bases will be followed :

- 1) Traded Securities:** Quotations for Debentures/Bonds will be taken from the NSE Debt Market .When a debt security (other than Govt. securities) is not traded on any stock exchange on any particular valuation day, then the value at which it was traded on the principle stock exchange or any other stock exchange as the case may be on the earliest previous day may be used provided such a quotation not more than 15 days prior to the valuation date.
- 2) Thinly traded/Non-traded Securities:** A debt security (other than Govt. securities ) shall be deemed to qualify as a thinly traded security and valued as a thinly traded security as per SEBI guidelines If on the valuation date there are no individual trades in that security in marketable lots (currently Rs. 5 Crs.) on the principle stock exchange or any other stock exchange

When a debt security (other than Govt. securities ) is purchased by way of private placement, the value at which it was bought may be used for a period of 15 days beginning from the date of purchase.

The approach in valuation of non-traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non-traded security.

The Yields for pricing the non-traded debt security would be arrived at using the process as described :

**Step A**

A Risk-Free Benchmark Yield is built using the government securities (GOI Sec) as the base. GOI Secs are used as the benchmarks as they are traded regularly, free of credit risk, and traded across different maturity spectra every week.

#### **Step B**

A Matrix of spreads (based on the credit risk) is built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment - grade corporate paper.

#### **Step C**

The yields as calculated above are Marked-up/Marked-down for illiquidity risk.

#### **Step D**

##### **a. Construction of Risk-Free Benchmark**

Using Government of India dated securities, the Benchmark shall be constructed as below:

The Yields so arrived at are used to price the portfolio.

#### **METHODOLOGY**

GOI dated securities will be grouped into various duration buckets such as 0.5-1 years, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5-6 years and 6 years and the volume weighted yield would be computed for each bucket. Accordingly, there will be a benchmark YTM for each duration bucket. These duration buckets may be changed to reflect the market value more closely by any agency suggested by AMFI giving benchmark yield/matrix of spreads over benchmark yield.

The benchmark as calculated above will be set at least weekly, and in the event of any significant movement in prices of Government Securities on account of any event impacting interest rates on any day such as a change in the Reserve Bank of India (RBI) policies, the benchmark will be reset to reflect any change in the market conditions.

Note: The concept of duration over tenor has been chosen in order to capture the reinvestment risk. It is intended to gradually move towards a methodology that incorporates the continuous curve approach for valuation of such securities. However, in view of the current lack of liquidity in the corporate bond markets, a continuous curve approach to valuation would be necessarily based on limited data points, and this would result in out-of-line valuations. As an interim methodology therefore it is proposed that the Duration Bucket approach be adopted and continuously tracked in order to fine tune the duration buckets on a periodic basis. Over the next few years it is expected that with the deepening of the secondary market trading, it would be possible to make a gradual move from the Duration Bucket approach towards a continuous curve approach.

##### **b. Building a Matrix of Spreads for Marking-up the Benchmark Yield**

Mark-up for credit risk over the risk free benchmark YTM as calculated in step a, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchanges during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment-grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix. Accordingly:

- All traded paper (with minimum traded value of Rs. 1 crore) will be classified by their ratings and grouped into 7 duration buckets; for rated securities, the most conservative publicly available rating will be used.
- For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances.

- Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, trades on the appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such a rating category.
- If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix.
- In each rating category, all outliers will be removed for smoothing the YTM matrix.
- Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities.
- In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.

### **c. Mark-up/Mark-down Yield**

The Yields calculated would be marked-up/marked -down to account for the illiquidity risk, promoter background, finance company risk and the issuer class risk. As the level of illiquidity risk would be higher for non-rated securities, the marking process for rated and non-rated securities, would be differentiated as follows:

#### **(i) Adjustments for Securities rated by external rating agencies:**

The Yields so derived out of the above methodology could be adjusted to account for risk mentioned above.

A discretionary discount of upto +100 basis points for rated instruments with duration of upto 2 years and upto +75 basis points for rated instruments with duration over 2 years will be permitted to be provided for the above mentioned types of risks. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

#### **(ii) Adjustments for Internally Rated Securities :**

To value an un-rated security, the fund manager has to assign an internal credit rating, which will be used for valuation. Since un-rated instruments tend to be more illiquid than rated securities, the yields would be marked-up by adding +50 basis points for securities having a duration of upto two years and +25 basis points for securities having duration of higher than two years to account for the illiquidity risk.

<b>Category</b>	<b>Discretionary discount over benchmark yield in basis points</b>
Unrated Instruments with duration upto 2 years	Discretionary Discount of upto +50 over and above the mandatory Discount of +50
Unrated Instruments with duration over 2 years	Discretionary Discount upto +50 over and above the mandatory Discount of +25

iii) The benchmark yield/matrix of spreads over benchmark yield obtained from any agency suggested by AMFI (currently CRISIL) as a provider of benchmark yield/matrix of spreads over benchmark yield to mutual funds, must be applied for valuation of securities on the day on which the bench mark yield/matrix of spreads over benchmark yield is released by the aforesaid agency.

### **Valuation of securities with Put/Call Options:**

The option embedded securities would be valued as follows:

#### **Securities with Call Option :**

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

**Securities with Put Option :**

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

**Securities with both Put and Call option on the same day:**

The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

**Rights:**

Rights will be valued as per norms stipulated in the Eight Schedule of the SEBI (MF) Regulations 1996.

**Government Securities :**

Government Securities will be valued at yield to maturity based on the prevailing market rate.

**Repos/reverse Repos :**

Schedule eighth 2(f) of SEBI (MF) Regulations 1996 states that where instruments have been bought on 'repo' basis, the instrument must be valued at the resale price after deduction of applicable interest upto date of resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest upto date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.

**Call Money :**

While investments in call money, bills purchased under rediscounting scheme and short term deposits with banks shall be valued at cost, plus accrual, other money market instruments shall be valued at the yield at which they are currently traded. For this purpose non traded instruments (i.e. those instruments not traded for a period of 7 days) will be valued at cost plus interest accrued till the beginning of the day, plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments.

**3) Derivatives :**

The traded derivatives shall be valued at market price in conformity with the stipulations of sub-clauses (I) to (v) of clause 1 of the eighth schedule to the Securities and Exchange Board of India (Mutual Fund) Regulations 1996. The securities held shall be marked to market by the AMC to ensure full coverage of investments made in derivative products at all time. Separate records shall be maintained for holding the cash and cash equivalents /securities for this purpose.

The valuation of untraded derivatives shall be done in accordance with the valuation norms for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the eighth schedule to the Securities and Exchange Board of India (Mutual Fund) Regulations 1996.

**4) Non Performing Assets :**

As per the Guidelines issued by SEBI vide its circular MFD/CIR/8/92/2000 dated September 18,2000 an asset shall be classified as non performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income /installment has fallen due and may be applied after a quarter past the due date.

**Guidelines for Identification and Provisioning for Non Performing Assets (Debt Securities) for Mutual Funds :**

**(a) Definition of a Non Performing Asset (NPA) :**

An 'asset' shall be classified as non performing, if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income / installment has fallen due.

**(b) Effective date for classification and provisioning of NPAs :**

The definition of NPA may be applied after a quarter past due date of the interest. For e.g. if the due date for interest is 30.06.2000, it will be classified as NPA from 01.10.2000.

**(c) Treatment of income accrued on the NPA and further accruals :**

- After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset i.e. if the due date for interest falls on 30.06.2000 and if the interest is not received, accrual will continue till 30.09.2000 after which there will be no further accrual of income. In short, taking the above example, from the beginning of the 2nd calendar quarter there will be no further accrual on income.
- On classification of the asset as NPA from a quarter past due date of interest, all interest accrued and recognised in the books of accounts of the Fund till the date, should be provided for. For e.g. if interest income falls due on 30.06.2000, accrual will continue till 30.09.2000 even if the income as on 30.06.2000 has not been received. Further, no accrual will be done from 01.10.2000 onwards. Full provision will also be made for interest accrued and outstanding as on 30.06.2000.

**(d) Provision for NPAs - Debt Securities :**

Both secured and unsecured investments once they are recognized as NPAs call for provisioning in the same manner and where these are related to open ended schemes the phasing would be such as to ensure full provisioning prior to the closure of the scheme or the scheduled phasing whichever is earlier.

The value of the asset must be provided in the following manner or earlier at the discretion of the fund. The Fund will not have the discretion to extend the period of provisioning. The provisioning against the principal amount or installments should be made at the following rates irrespective of whether the principal is due for repayment or not.

- 10% of the book value of the asset should be provided for after 6 months past the due date of interest i.e. 3 months from the date of classification of the asset as NPA.
- 20% of the book value of the asset should be provided for after 9 months past the due date of interest i.e. 6 months from the date of classification of the asset as NPA.
- Another 20% of the book value of the assets should be provided for after 12 months past the due date of interest i.e. 9 months from the date of classification of the asset as NPA.
- Another 25% of the book value of the assets should be provided for after 15 months past the due date of interest i.e. 12 months from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 18 months past the due date of the interest i.e. 15 months from the date of classification of the assets as NPA.

Book value for the purpose of provisioning for NPAs shall be taken as a value determined as per the prescribed valuation method.

This can be explained by an illustration :

Let us consider that interest income is due on a half yearly basis and the due date falls on 30.06.2000 and the interest is not received till 1st quarter after due date i.e. 30.09.2000. This provisioning will be done in the following phased manner :

10% provision	01.01.2001	6 months past the due date of interest i.e.3 months from the date of classification of asset as NPA (01.10.2000)
20% provision	01.04.2001	

20% provision	01.07.2001	
25% provision	01.10.2001	
25% provision	01.01.2002	

Thus, 1 1/2 years past the due date of income or 1 1/4 years from the date of classification of the 'asset' as NPA, the 'asset' will be fully provided for. If any installment has fallen due, during the period of interest default, the amount of provision should be the installment amount or above provision amount, whichever is higher.

**(e) Reclassification of assets :**

Upon reclassification of assets as 'performing assets':

1. In case a company has fully cleared all the arrears of interest, the interest provisions can be written back in full.
2. The asset will be reclassified as performing on clearance of all interest arrears and if the debt is regularly serviced over the next two quarters.
3. In case the company has fully cleared all the arrears of interest, the interest not credited on accrual basis would be credited at the time of receipt.
4. The provision made for the principal amount can be written back in the following manner :
  - 100% of the asset provided for in the books will be written back at the end of the 2nd calendar quarter where the provision of principal was made due to the interest defaults only.
  - 50% of the asset provided for in the books will be written back at the end of the 2nd calendar quarter and 25% after every subsequent quarter where both installments and interest were in default earlier.
5. An asset is reclassified, as a 'standard asset' only when both overdue interest and overdue installments are paid in full and there is satisfactory performance for a subsequent period of 6 months.

**(f) Receipt of past dues :**

When the fund has received income/principal amount after their classifications as NPAs :

- For the next two quarters, income should be recognised on cash basis and thereafter on accrual basis. The asset will be continued to be classified as NPA for these two quarters.
- During this period of two quarters although the asset is classified as NPA no provision needs to be made for the principal if the same is not due and outstanding.
- If part payment is received towards the principal, the asset continues to be classified as NPA and provisions are continued as per the norms set at (d) above. Any excess provision will be written back.

**(g) Classification of Deep Discount Bonds as NPAs :**

Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied :

- If the rating of the Bond comes down to grade 'BB' or below.
- If the company is defaulting in their commitments in respect of other assets, if available.
- Full Net worth erosion.

Provision should be made as per the norms set at (d) above as soon as the asset is classified as an NPA. Full provision can be made if the rating comes down to grade 'D'.

**(h) Reschedulement of an Asset**

In case any company defaults on either interest or principal amount and the fund has accepted a reschedulement of the schedule of payments, then the following practice may be adhered to:

- i. In case it is a first reschedulement and only interest is in default, the status of the asset, namely 'NPA' may be continued and existing provisions should not be written back. This practice should be continued for two quarters of regular servicing of the debt. Thereafter, this may be classified as a 'performing asset' and the interest provided may be written back.
  - ii. If the reschedulement is done due to default in interest and principal amount, the asset should be continued as non-performing for a period of 4 quarters, even though the asset is continued to be serviced during these 4 quarters regularly. Thereafter, this can be classified as a 'performing asset' and all the interest provided till such date should be written back.
  - iii. If the reschedulement is done for a second/third time or thereafter, the characteristic of NPA should be continued for eight quarters of regular servicing of the debt. The provision should be written back only after it is reclassified as a 'performing asset'.
- 6) All expenses and incomes accrued upto the valuation date shall be considered for computation of NAV. For this purpose while major expenses like management fees and other periodic expenses would be accrued on a day to day basis, other minor expenses and income may not be accrued, provided the non accrual does not affect the NAV calculations by more than 1 %.
  - 7) Any changes in securities and in the number of units will be recorded in the books not later than the 1<sup>st</sup> valuation date following the date of the transaction. If this is not possible given the frequency of the NAV disclosure, the recording may be delayed upto a period of 7 days following the date of transaction, provided that as a result of non recording, the NAV calculations shall not affected by more than 1%.

The above basis of valuation may be altered from time to time by the Trustee and in accordance with the investment valuation norms stipulated in the VIII Schedule of SEBI (MF)

## **Q. UNIT HOLDERS INFORMATION**

### **Q.1 ACCOUNT NUMBER**

Every unit holder of the Scheme will have an account number/Folio number allotted to him and a statement of account/unit certificate will be issued.

### **Q.2 APPLICATIONS IN MULTIPLE NAMES**

Where an account has more than one applicant, the **first named** applicant shall only receive any notices, correspondence from the fund, dividend and redemption proceeds. Only such an investor shall have voting rights if any associated with such Units. The Fund will have no obligation what so ever in this regard to any other investor other than the first named in the application.

However the repurchase/redemption requests should be signed by all the joint holders

### **Q.3 NOMINATION FACILITY-20**

Nomination facility to receive the money due in case of unfortunate death of the unitholder is available. The name of the nominee should be clearly written in the space provided in the Application form. Minors also can be nominated. In case the nominee is a minor, name of a major Appointee / Guardian, other than the applicant /s', should be mentioned in the space provided for. Nomination / Alternate Nomination / change of Nomination facility can also be availed of after issue of the Statement of Account by writing to the Registrars to the scheme. The Alternate nominee shall be entitled to receive the amount due in respect of Units of the deceased Unit holders only in the event of the first named nominee predeceasing all the unit holders. The nomination /s will become invalid on repurchase/ redemption / transfer of units.

It may be mentioned however, that such nomination is subject to the other provisions of law. In the event of dispute between heirs and consequent litigation in that behalf, resulting in a court order directing devolvment on a basis different from that indicated in the nomination, then such court order would prevail over the nomination and to that extent, the nomination facility is not final. As between the Mutual Fund and the nominee, the nomination is binding and effective subject to above.

### **Q.4 TRANSFERABILITY / TRANSMISSION OF UNITS**

As the Fund is prepared to repurchase / redeem its units on any business day, transfer facility is found to be redundant.

However, if a transferee becomes a holder of the units by operation of law or upon enforcement of a pledge, then the trustee shall, subject to production of such evidence, which in their opinion is sufficient, proceed to effect the transfer within 30 days from the date of lodging if the intended transferee is otherwise eligible to hold the units.

A person becoming entitled to hold the units in consequence of the death, of the unitholder, upon producing evidence to the satisfaction of the fund, shall be registered as a holder subject to eligibility constraints of the scheme. If after transfer as mentioned above the balance units in the folio / account are less than the stipulated number the folio / account shall be closed by repurchasing those units at the prevailing repurchase/redemption price on the date of transfer and the repurchase/redemption proceeds shall be sent to the first holder.

#### **Q.5 ACCOUNTING YEAR OF THE FUND**

The Accounting year of LIC Mutual Fund is from 1st April to 31st March. During the periods of Book closure, transfers and repurchase/redemptions of units under the scheme will not be effected.

The Trustee shall cause the Accounts of the Scheme to be maintained in such form and manner as may be decided by them and in accordance with the SEBI (Mutual Fund) Regulations, 1996.

#### **Q.6 DISCLOSURES / TRANSPARENCY**

*The Trustee and the AMC shall, at the close of each half year, i.e. 31st March & 30th September, publish the unaudited Half yearly financial results and portfolios of the schemes in one English daily newspaper and in a local vernacular newspaper before the expiry of 1 month. These shall also be displayed on the website [www.licmutual.com](http://www.licmutual.com) and [www.amfiindia.com](http://www.amfiindia.com) along with the full portfolio. -5b*

The scheme-wise Annual Report of the Mutual Fund or an abridged summary thereof shall be published as soon as may be but not later than 6 months from the date of closure of the relevant accounts year as per the Eleventh schedule of the regulations.

*An Abridged scheme-wise annual report and the portfolio shall be mailed to all Unit holders not later than 6 months from the date of closure of the relevant accounting year and the full annual report shall be available for inspection at the corporate office of LIC Mutual Fund and a copy shall be made available the Unit holders on request on payment of nominal fees, if any. -5a*

In addition the portfolio can also be obtained upon specific request at the authorized centres of the Fund and on its web site 'www.licmutual.com'.

#### **Q.7 REGISTER OF LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41 HOLDERS**

A separate register of **LICMF FIXED MATURITY PLAN – SERIES 38-39-40-41** Unit holders shall be maintained at the office of the Investment Manager and/or the Registrars and/or at such other places as the Trustee may decide.

### **R. TAXATION**

As per the taxation laws in force at the date of this document, the tax benefits that are available to the investors are stated below. This information is provided for only general information purpose. Each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the scheme.

#### **Income Tax**

##### ***Income Distributed by the Mutual Fund***

Consequent upon the amendments by the Finance bill, 2005 to the Income Tax Act, 1961, income in respect of units of Mutual Funds will continue to remain tax free in the hands of the investors. But in case of debt related schemes the Fund is required to pay dividend distribution tax @ 12.5% plus surcharge plus cess on income distributed to individual/HUF unitholders. However, in case of non-individual/HUF unitholders the Fund is required to pay dividend distribution tax @ 20% plus

surcharge plus cess. The above mentioned provisions will continue as per the Finance Bill 2005. As per the Finance Bill 2007 effective from 01/04/2007 where the income is distributed by any Money Market Mutual Fund scheme and Liquid Fund scheme, the fund is required to pay dividend distribution tax @ 25% plus surcharge plus cess.

### ***Tax deduction at source (All unitholders)***

In view of the exemption of income in the hands of the unitholders, no income-tax is deductible at source, on income distribution by the Mutual Fund, under the provision of section 194K and 196A of the act. However, as per the section 196B of the act, tax is required to be withheld at the rate of 10.25% from dividend payable to approved overseas financial organization.

### **Capital Gains Tax**

#### ***Foreign Institutional Investors***

Long-term capital gains on sale of Units, held for a period of more than twelve months, would be taxed at the rate of 10% under Section 115AD of the Act. Such gains, would be calculated without indexation of cost of acquisition. Short-term capital gains would be taxed at 30%. The above tax rates would be increased by applicable surcharge, of 10% thereon, in case of, non-corporate Unitholders, where the income exceeds Rs.10,00,000 and 2.5% surcharge in case of corporate Unitholders.

#### **Specified overseas financial organisations**

As per the provisions of section 115AB of the Act, long-term capital gains on transfer of units arising to specified overseas financial organisations on transfer of units purchased by them in foreign currency shall be liable to tax at the concessional rate of 10 per cent plus applicable surcharge thereon. However, such gains shall be computed without the benefit of cost indexation.

Short-term capital gains would be taxed at 40% plus applicable surcharge in case of foreign companies and 30% plus applicable surcharge in case of others.

#### **Other Unitholders**

Long term capital gains in respect of Units, held for a period of more than twelve months, will be chargeable under Section 112 of the Act, at concessional rates of tax, at 20% as increased by the applicable surcharge.

The following amounts would be deductible from the full value of consideration, to arrive at the amount of capital gains:

- Cost of acquisition of Units as adjusted by Cost Inflation Index notified by the Central Government, and
- Expenditure incurred wholly and exclusively in connection with such transfer.

Where redemption is made during the minority of the child, tax will be levied on either of the parents, whose income is greater. When the child attains majority, such tax liability will be on the child.

In case of Individuals and Hindu Undivided Families, where taxable income as reduced by long-term capital gains, is below the basic exemption limit, the long-term capital gains will be reduced to the extent of the shortfall and only the balance long-term capital gains will be subjected to the flat rate of income-tax. However, where the tax payable on such long-term capital gains, computed before indexation, exceeds 10%, as increased by the applicable surcharge, of the amount of capital gains, such excess tax shall not be payable by the Unitholder.

Short-term capital gains would be taxed at 35% plus applicable surcharge in case of companies and firms.

Short-term capital gains arising to individuals and HUFs are taxable on progressive basis, as given below :

- Nil, where total income for a tax year (April to March) is less than or equal to Rs. 110,000/- for men, Rs. 145,000/- for woman, and Rs.195,000/- for senior citizen, plus
- 10% of the amount by which the total income exceeds Rs. 110,000 for men and Rs.145,000/- for women but is less than or equal to Rs. 150,000, plus

- 20% of the amount by which the total income exceeds Rs. 150,000 for men & women and Rs.1,95,000 for senior citizen but is less than or equal to Rs. 250,000/-,plus
- 30% of the amount by which the total income exceeds Rs. 250,000.

Where the total income of the individual/ HUF exceeds Rs. 1,000,000/-, surcharge of 10 per cent will be payable on the tax calculated on such total income (net of applicable tax rebates).

### ***All Unitholders***

Under the provisions of Section 94(7) of the Act, loss arising on sale of Units, which are bought within 3 months prior to the record date (i.e. the date fixed by the Mutual Fund for the purposes of entitlement of the Unitholders to receive the income) and sold within 3 months after the record date, shall be ignored for the purpose of computing income chargeable to tax to the extent of exempt income received or receivable on such Units.

### ***Tax deduction at source***

#### ***Domestic Unitholders***

No income-tax is deductible at source from income by way of capital gains under the provisions of the Act and as per Circular no. 715 dated August 8, 1995 issued by the CBDT.

#### ***Foreign Institutional Investors***

Under Section 196D of the Act, no deduction shall be made from any income by way of capital gains, in respect of transfer of securities referred to in Section 115AD of the Act.

#### ***Specified overseas financial organisations***

As per the provisions of section 196B of the Act, long-term capital gains on transfer of units arising to specified overseas financial organisations on transfer of units purchased by them in foreign currency shall be liable to tax deduction at source at the rate of 10% plus applicable surcharge.

Short-term capital gains arising to such organisations shall be subject to tax deduction at source at 40% plus applicable surcharge in case of foreign companies and 30% plus applicable surcharge in case of others.

#### ***Other Non-resident Unitholders***

Part II of the First Schedule to the Finance Act, 2005, provides for deduction of tax at source from capital gains at the rate of 20%, where they relate to long-term capital gains and at the marginal rates, viz. at 30% in case of non-corporate Unitholders and at 40% in case of corporate Unitholders, in case of short-term capital gains. Surcharge on income-tax will be levied at 10%, on such tax, in respect of all Unitholders, other than corporate Unitholders, where the income exceeds Rs. 10,00,000 and in respect of all corporate Unitholders at 2.5% of such tax.

In accordance with the provisions of Circular no.728 dated October 30, 1995 issued by the Central Board of Direct Taxes ('CBDT'), in case of non-resident Unitholder who is a resident of a country with which India has signed a double taxation avoidance agreement (which is in force) the tax should be deducted at source under section 195 of the Act at the rate provided in the Finance Act of the relevant year or the rate provided in the said agreement, whichever is more beneficial to such non-resident Unitholder. However, such a non-resident Unitholder will be required to provide appropriate documents to the Mutual Fund, to be entitled to a beneficial rate under such agreement.

### ***Exemptions from long-term capital gains***

1. As per the provisions of section 54EC of the Act, long-term capital gains arising on transfer of units shall be exempt from tax to the extent such capital gains are invested, within a period of six months of such transfer, in acquiring specified bonds and remain so invested as specified.

2. As per the provisions of section 54ED of the Act, long-term capital gains arising on transfer of units shall be exempt from tax to the extent such capital gains are invested, within a period of six months of such transfer, in acquiring the equity shares forming part of a public issue of an Indian public company and remain so invested as specified.

### **Other Benefits**

Investments in Units of the Mutual Fund will rank as an eligible form of investment under Section 11 (5) of the Act read with Rule 17C of the Income-tax Rules, 1962, for Religious and Charitable Trusts.

### **Wealth-tax**

Units held under the Scheme(s) are not treated as assets as defined under Section 2(ea) of the Wealth-tax Act, 1957 and thereof would not liable to wealth-tax.

### **Gift-tax**

The Gift-tax Act, 1958 has ceased to apply to gifts made on or after October 1, 1998. Gifts of Units, purchased under the Scheme(s), would therefore, be exempt from gift-tax.

## **S. UNITHOLDERS RIGHTS AND SERVICES**

- a) Unit holders under the scheme have a proportionate right in the beneficial ownership of the assets of the mutual fund under the scheme.
- b) The Unit holders have a right to ask the trustee company about any information which may have an adverse bearing on their investments, and the trustee shall be bound to disclose such information to the Unit holders.
- c) The appointment of the Asset Management Company in respect of this scheme may be terminated by a majority of the Trustee or 75% of the Unit holders.
- d) Units of the scheme are generally non-transferable. However, transfer of units, in cases outlined under the heading Transferability/ Transmission of units and subject to conditions stated therein, shall be made within 30 days from the date of lodgment.
- e) *Warrants in respect of dividends, if declared, will be dispatched to the Unit holders within 30 days of the declaration of dividend if any.* -5e
- f) The appropriate Office will dispatch redemption or repurchase warrants within 10 working days from the date of their receipt of request duly complete in all respects.
- g) The Trustee may, from time to time, add to or otherwise amend or alter all or any of the terms of this scheme, for duly complying with the guidelines of Government, RBI / SEBI or any other regulatory body. Any modification of the fundamental attributes of the Scheme, or the trust or the fees and expenses payable or any other modification by the Trustee shall be made bearing in mind that the interest of the unit holders is not affected and no change in any of the above shall be carried out unless -
  - *A written communication about the change is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head office of the Mutual Fund is situated; and*
  - *the unit holders are given an option to exit at prevailing NAV without any exit load.* -5c

## **DOCUMENTS FOR INSPECTION**

The following documents will be available for inspection to the unit holders at the corporate office of the Mutual Fund:

1. The Trust Deed
2. Deed of Modification
3. Memorandum of Association of LIC Mutual Fund Trustee Co. Pvt. Ltd.
4. Articles of association of LIC Mutual Fund Trustee Co. Pvt. Ltd.
5. Memorandum of Association of Asset Management Company
6. Articles of Association of Asset Management Company
7. Investment Management Agreement
8. Custodial Agreement
9. Registrars Agreement
10. Audited Balance Sheet of the Mutual Fund
11. The Securities & Exchange Board of India (Mutual Fund) Regulations, 1996
12. Offer Document of the scheme.
13. The Indian Trusts Act 1882 and the consent of the Auditors to act in that capacity.

#### **DECLARATION OF NAV/SALE/REPURCHASE PRICE**

The Net Asset Value, Sale and Repurchase/redemption price of the scheme will be calculated and declared daily or as per SEBI regulations.

#### **QUERIES / DIFFICULTIES**

In case of any difficulties/queries regarding the scheme, investors may contact Shri S Jayaraj, Dy. Gen. Manager (Mktg.) at the corporate office of LICMFAMC. Tel. No. (Direct) - 22823791 or the Area offices at the address mentioned in the document.

### **T. GENERAL INFORMATION**

#### **T.1 POWER TO MAKE RULES**

The Trustee may, from time to time, prescribe such forms and procedures and make such rules and regulations for the purpose of giving effect to the provisions of the scheme, and will also have powers to add to, alter or amend all or any of the forms, procedures, rules and regulations that may be framed from time to time.

#### **T.2 POWER TO REMOVE DIFFICULTIES**

In case of any difficulty in implementing the provisions of this Scheme arises, The Trustee may do any thing necessary, in their opinion, but not inconsistent with such provisions, to remove such difficulty.

#### **T.3 INVESTOR GRIEVANCE REDRESSAL MECHANISM -18**

LIC Mutual Fund has had on the whole over 3.5 lakh investors under its 77 different schemes. The investor complaint history for the last three years for existing schemes and the redressal mechanism thereof is as under :

<b>FOR LAST 3 YEARS</b>	<b>SEBI</b>	<b>AMC</b>	<b>REGISTRARS</b>
No. Of complaints recd. Upto 30/09/2007	124	277	16
No. of complaints disposed off	117	276	16
No. of complaints outstanding as on	7	1	0

Most of the complaints relate to delay / loss of warrants/certificates in transit. Follow-up with various agencies is made in order to finally dispose of the complaints.

#### **T.4 DURATION OF THE SCHEME**

LICMF Fixed Maturity Plan SERIES 38-39-40-41 is a close ended scheme with a tenure of 3 months from the date of allotment of units.

#### **T.5 UNCLAIMED REDEMPTION AMOUNTS**

The following redemption amounts are with the fund as on 31/03/2007:

Scheme	Date of Redemption	Investors	Unclaimed Amount (Rs in lakhs)	Management Fee (Rs. in lakhs)
Dhanashree 1989	31/10/1996	3283	152.19	
Dhanavridhhi 1989	15/05/2000	192	36.34	.27
Dhan 80 CC (1)	31/11/1995	341	87.07	.44
Dhanashree 1990	31/08/1997	1055	71.38	.59
Dhan 80 CC B(1)	31/03/2001	8075	1021.79	7.58
Dhanavarsha (3)	30/11/1996	1136	1983.11	1.84
Dhanashree 1991	30/09/1998	637	72.41	.71
Dhanavidya	15/12/2003	435	65.56	.44
Dhanalakshmi (1)	31/01/1997	638	106.65	.40
Dhan 80 CC B(2)	31/03/2002	16729	766.09	4.61
Dhanavarsha (4)	31/03/1998	6061	1764.05	4.44
Dhanavarsha (5)	31/07/1998	3386	595.60	3.76
Dhan 88 (1)	31/03/2003	5207	170.34	1.02
Dhan Tax Saver 1995	31/03/2005	1475	96.56	.56
Dhanavarsha (6)	30/11/2000	658	111.87	1.25
Dhanavarsha (1)RO	31/10/1999	1121	167.08	1.76
Dhan Tax Saver 1996	31/03/2006	922	75.09	.58
Dhanavarsha (7)	31/03/2001	329	83.33	.55
Dhanavarsha (8)	30/09/2001	1306	303.45	1.89
Dhanavarsha (2)RO	07/08/2000	2863	585.19	5.95
Dhanavarsha (9)	31/01/2001	946	291.77	1.81
Dhanavarsha (10)	31/08/2001	295	107.01	.65
Dhanavarsha (11)	28/02/2002	283	72.48	.53
Dhanavarsha (13)	30/09/2002	1713	621.59	4.09

In accordance with the SEBI Circular No. MFD/CIR/9/120 /2000 Dated 24/11/2000 the AMC has been deploying these funds in money market instruments. The fund has been reminding the investors to redeem their holdings as well as declaring the NAV of the redeemed schemes on a monthly basis. **5**

#### **U. WINDING UP OF THE SCHEME**

The scheme is subject to SEBI (Mutual Funds) Regulations 1996. The relevant provisions for redemption/winding up of the scheme are appended below.

##### **Regulation 39 :**

(1) A scheme of a mutual fund may be wound up, after repaying the amount due to the Unit holders :-

(a) On the happening of any event which, in the opinion of the trustee, requires the scheme to be wound up; or

- (b) If seventy five percent of the unit holders of a scheme pass a resolution that the scheme be wound up; or
  - (c) If the Board so directs in the interest of the Unit holders.
- (2) Where a scheme is to be wound up under sub-regulation (2), the trustee shall give notice disclosing the circumstances leading to the winding up of the scheme: -
- (a) To the Board; and
  - (b) In two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual funds is formed.
- (3) As per SEBI Circular SEBI/IMD/CIR No. 10/22701/03 dated December 13, 2003, the scheme / plan shall have minimum 20 investors and no single investor shall account for more than 25% of the corpus of the scheme after the close of the NFO itself i.e. at the time of allotment and therefore the time period of three months to balance will not be available, failing which the provisions of Regulation 39 (2) (c) of SEBI (Mutual Funds) Regulations, 1996 would become applicable automatically without any reference from SEBI. Accordingly, the schemes/plans shall be wound up by following the guidelines prescribed by SEBI and the investors' money would be redeemed at applicable NAV. After the NFO, in each subsequent calendar quarter thereafter, on an average basis the scheme/plan should meet with both the conditions mentioned above.

In case the Fund receives less than 20 applications during the NFO period, the subscription money will be refunded within a period of 6 weeks from the close of NFO period. If refunds are not made for any reason within the above period, interest at 15% p.a. will be paid on the amounts due for refund.

**Regulation 41:**

- (1)
- (a) The trustee shall dispose of the assets of the scheme concerned in the best interest of the Unit holders of that scheme.
  - (b) The proceeds of sale realized, shall be first utilized towards discharge of such liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the Unit holders in proportion to their respective interest in the assets of the scheme as on the date when the decision for winding up was taken.
- (2) On the completion of the winding up, the trustee shall forward to the Board and the unit holders a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the fund before winding up, expenses of the fund for winding up, net assets available for distribution to the Unit holders and a certificate from the auditors of the fund.
- (3) Notwithstanding anything contained in this regulation, the provisions of these regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable.

**Regulation 42 :**

After the receipt of the report under sub-regulation (3) of Regulation 41, if the Board is satisfied that all measures for winding up of the scheme have been complied with, the scheme shall cease to exist.

**V. PENALTIES, PENDING LITIGATIONS**

*A penalty of Rs. 1 Lac each has been imposed on LIC Mutual Fund and LIC Mutual Fund Asset Management Co. Ltd. For violation of investment norms as per SEBI (Mutual Funds) Regulations, 1996 Vide adjudication order dated 31/12/2002. The same has been paid of by both LIC Mutual Fund and LIC Mutual Fund Asset Management Co. Ltd.* **-13**

*“Notwithstanding anything contained in the offer document the provisions of the SEBI(Mutual Funds) Regulations, 1996 and the guidelines thereunder shall be applicable.”-21*

*This offer document contains no clause which limits the jurisdiction for settlement of claims of the investors to a specific place/region.-12*

*The draft offer document of LICMF Fixed Maturity Plan – SERIES 38-39-40-41 was approved by the Trustee of LIC Mutual Fund in its Board Meeting held on 25/10/2007.-11*

The offer document has been submitted as per the SEBI Mutual Funds Regulations 1996.

For and on behalf of the Board of  
Directors of the Asset  
Management Company of the  
Mutual Fund

Place : Mumbai  
Date: 26/10/2007

**N. Mohan Raj**  
Chief Executive

## **W. ADDRESSES OF OFFICES & BUSINESS CENTERS OF LICMF AMC/ LIC MUTUAL FUND**

**Corporate Office:** LIC Mutual Fund, 4th Floor, Industrial Assurance Bldg., Opp. Churchgate Station, MUMBAI - 400020  
Phone No. 22851661/ 663, 22842338, 22842521 Fax No. 22880633

<b>AREA OFFICES</b>		
<b>PLACE</b>	<b>ADDRESS</b>	<b>CONTACT NO.</b>
<b>AHMEDABAD</b>	6 – C, 7 <sup>th</sup> Floor, Summeru Center, C. G. Road, Near Parimal Railway Crossing, AHMEDABAD - 380007.	26631989
<b>BANGALORE</b>	10A, 3 <sup>rd</sup> floor, Chandrakiran Bldg., Kasturba Road, BANGALORE-560001.	22210180 / 22295598
<b>CHENNAI</b>	15, Annasalai Next to V.G.P. Bldg., CHENNAI - 600002.	28411984 / 28555883
<b>ERNAKULAM</b>	11th Floor, Jeevan Prakash, LIC Divisional Office, M.G. Road, ERNAKULAM – 682011.	9895036554 / 9349738881
<b>HYDERABAD</b>	LIC Mutual Fund, House No. 5-9-57, 4th Floor, Jeevan Jyoti Building, Basheerbagh, HYDERABAD - 500029.	23244445 / 23210572
<b>INDORE</b>	U.V. Business Centre Pvt. Ltd., 1st Floor, Snehil 9/1-A South Tukoganj, INDORE - 452001.	2520262 / 5069162
<b>KANPUR</b>	Jeevan Vikas, P. B. No. 181, 16/98, M.G. Road, KANPUR - 208001.	2312285 / 2360240 / 3944949
<b>KOLKATA</b>	Hindustan Buildings, 4, Chittaranjan Avenue, KOLKATA - 700072.	22129455 / 55290605
<b>MUMBAI</b>	LIC Mutual Fund, 4th Floor, Industrial Assurance Bldg., Opp. Churchgate Station, MUMBAI - 400020.	22885971 / 55719750
<b>NASHIK</b>	Shop No.2, Ground Floor, Rajvee Enclave, New Pandit Colony, NASHIK – 422002.	2579507
<b>NEW DELHI</b>	Jeevan Prakash, P. B. No. 102, 25 K.G. Marg, NEW DELHI - 110001.	23359190/23314396/ 31270973

<b>BUSINESS CENTRE</b>		
<b>PLACE</b>	<b>ADDRESS</b>	<b>CONTACT NO.</b>
<b>BHOPAL</b>	LIC Mutual Fund, LIC Branch No 3, City Nagar, New Market, BHOPAL.	9300380797
<b>BHUBANESHWAR</b>	C/o P&GS Deptt. LIC of India, 84 – Kharvel Nagar BHUBANESHWAR.	9338227225
<b>CHANDIGARH</b>	SCO 158 / 159, First floor, Sector 34/A, CHANDIGARH - 160034.	9316065681
<b>DEHRADUN</b>	C/o Shri J M Sharma, 202 – Phase - II, P.O. - Premnagar, DEHRADUN.	9358132483
<b>GHAZIABAD</b>	LIC Mutual Fund, LIC of India, Building No 1, Model Town II, GHAZIABAD.	9350455141
<b>HUBLI</b>	LIC Mutual Fund, C/o LIC Branch Office No 1, Lamington Road, HUBLI-1.	9880058223
<b>JAIPUR</b>	327 – A, 3 <sup>rd</sup> floor, Ganpati Plaza, M. I. Road, JAIPUR - 5112620.	9314476770
<b>JAMMU</b>	LIC Mutual Fund, LIC Divisional Office, Jeevan Jyoti, 18-A, Rail Head Complex, JAMMU.	9 419213201
<b>KARNAL</b>	LIC Mutual Fund, Divisional Office, 489, 1st Floor, Jeevan Prakash Building, Model Town, KARNAL - 132001.	9315563229
<b>KOTTAYAM</b>	LIC of India, OS Department, Jeevan Prakash Opp. Nehru Stadium, KOTTAYAM - 686001.	9349736595
<b>KOZHICODE</b>	LIC of India, P & IR Department, Jeevan Prakash, KOZHICODE – 673001.	9349739890
<b>LUCKNOW</b>	LIC Divisional Office Campus, 30, Hazratganj, LUCKNOW - 226001.	9415087505
<b>LUDHIANA</b>	2ND Floor, Jeevan Prakash, Urban Estate, Phase – I, Dugri, LUDHIANA.	9316938094
<b>NAGPUR</b>	LIC of India, Br No 973, Indian Mutual Building, Mount Road, Sadar, NAGPUR.	9325266311
<b>PATNA</b>	5th floor, Jeevan Deep Bldg. Exhibition road, PATNA - 800001.	9835212171
<b>PONDICHERRY</b>	LIC of India, Branch No 1, Opp Kamaraj Salai, New Saram, PONDICHERRY - 605013.	9360644001
<b>PUNE</b>	LIC of India, 2nd Floor, IT Department, Jeevan Prakash, 6/7, Shivaji Nagar, University Road, PUNE - 411005.	9325523480
<b>RAIPUR</b>	No. 20, 2nd Floor, Millennium Plaza, Near Indian Coffee House, G.E. Road, RAIPUR - 492001.	9301701133
<b>RANCHI</b>	LIC of India, Branch Office No 2, Jeevan Jyoti Bldg, (Besides Sandhya Cinema), Puruliya Road, RANCHI -834001.	9334861988
<b>THANE</b>	LIC of India, 2nd Floor, P & IR Department, Jeevan Chintamani, Eastern Express Highway, THANE - 406004.	9323180806
<b>THIRUVANANTHAPURAM</b>	LIC of India, Sales Department, Jeevan Prakash, THIRUVANANTHAPURAM - 695004.	9349739151
<b>THRISSUR</b>	LIC of India, Br No II, 2nd Floor, Palace Road, THRISSUR - 2.	9349739119
<b>VISHAKHAPATNAM</b>	LIC Mutual Fund, Divisional Office, Jeevitha Bima Road, P B No 411, VISHAKHAPATNAM – 530004	9393339593

