

Disclosure Document of Portfolio Management Services Being Offered by  
**LIC Nomura Mutual Fund Asset Management Company Ltd.**

- (i) The Disclosure Document has been filed with the Securities and Exchange Board of India (SEBI) along with the certificate in the prescribed format in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993 as amended from time to time.
- (ii) The Purpose of the Disclosure Document is to provide essential information about the portfolio services in a manner to assist and enable the investors in making informed decision for engaging us as Portfolio Manager.
- (iii) The Disclosure Document contains the necessary information about the Portfolio Manager, required by an investor before investing and the investor is advised to retain the document for future reference.
- (iv) All the intermediaries involved in the scheme are registered with SEBI as on the date of the document.

**Shri Nilesh Sathe**

Chief Executive Officer

LIC Nomura MF Asset Management Company Ltd.

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**Disclaimer clause**

The particulars of this Disclosure Document have been prepared in accordance with the SEBI (Portfolio Managers) Regulations 1993 and filed with SEBI. This Disclosure Document has neither been approved nor disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of the Document.

**1) Highlights:**

- LIC Nomura Mutual Fund Asset Management Company Ltd. (LIC Nomura MF AMC Ltd.), the AMC, renewed the license from SEBI for offering Portfolio Management Services effective from June 15, 2009 to April 30, 2012. We have applied for renewal of the same. The Portfolio Management Services are being offered by LIC Nomura MF AMC Ltd.
- Investors under the Portfolio Management are not being offered any guaranteed returns.

**2) FORM C****SECURITIES AND EXCHANGE BOARD OF INDIA  
(PORTFOLIO MANAGERS) REGULATIONS, 1993**

(Regulation 14)

Securities and Exchange Board of India  
(Portfolio Managers) Regulations, 1993  
LIC Nomura MF Asset Management Company Ltd.  
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It is confirmed :

- i. The Disclosure Document forwarded to the Board is in accordance with the SEBI (Portfolio Managers) Regulations, 1993 and the guidelines and directives issued by the Board from time to time;
- ii. The disclosures made in the Disclosure Document are true, fair and adequate to enable the investors to make a well informed decision regarding entrusting the management of the portfolio to LIC Nomura MF AMC Ltd., in its Portfolio Management Scheme;

The Disclosure Document has been duly certified by an Independent Chartered Accountant, M/s M P Chitale & Co, Chartered Accountants, 1/ 11, 1<sup>st</sup> Floor, Prabhadevi Industrial Estate, Veer Savarkar Marg, Opposite Siddhi Vinayak Temple, Prabhadevi, Mumbai – 400 025. Telephone No.022-43474301, Firm Registration No: 101851W with ICAI.

Date: 15.06.2012

Place: Mumbai

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**PORTFOLIO MANAGEMENT SERVICES****3) Definitions:**

In this Disclosure Document, the following words and expressions shall have the meaning specified herein, unless the context otherwise requires:

Asset Management Company or AMC or Portfolio Manager or Company	LIC Nomura Mutual Fund Asset Management Company Limited. (LIC Nomura MF AMC Ltd.) incorporated under the Companies Act, 1956 and registered with SEBI to act as a Portfolio Manager in terms of SEBI (Portfolio Managers) Regulations, 1993 vide Registration No.INP000001694 dated April 18, 2006. Portfolio Manager means LIC Nomura MF AMC Ltd. who pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio Manager or otherwise) the management or administration of a portfolio of security or the funds of the client as the case may be.
AUM	Asset Under Management
Portfolio	Portfolio means the total holdings of securities belonging to any person/ investor.
Discretionary Portfolio Management Services	Discretionary Portfolio Management Services means a Portfolio Management Services provided by the Portfolio Manager exercising its sole and absolute discretion to invest in respect of the Client's account in any type of security as per an Agreement relating to portfolio management and to ensure that all benefits accrue to the Client's Portfolio, for an agreed fee structure and for a definite period as described, entirely at the Client's risk.  It shall be in the nature of investment advisory and shall include the responsibility of advising on the portfolio strategy (asset allocation) and investment and disinvestment of individual securities on the clients portfolio
Advisory Portfolio Management Services	Non discretionary Portfolio Management Services mean a Portfolio Management Services, under which the portfolio Manager, subject to express prior instructions issued by the Client from time to time in writing, for an agreed fee structure and for a definite described period, invests in respect of the Client's account in any type of security entirely at the Client's risk and to ensure that all benefits accrue to the Client's Portfolio.
Non-discretionary Portfolio Management Services	The money or securities accepted by the Portfolio Manager from the Client in respect of which the portfolio management services are to be rendered by the Portfolio Manager.
Investment Amount	Non-Resident Indian
NRI	This document issued by LIC Nomura MF AMC Ltd. for

Disclosure Document	offering portfolio management services, prepared in terms of Schedule V of the SEBI (Portfolio Managers) Amendment Regulations, 2002.
RBI	Reserve Bank of India, established under Reserve Bank of India Act, 1934, as amended from time to time.
SEBI	Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992, as amended from time to time.
Securities	<p>Securities and Exchange Board of India established under</p> <p><b>“Securities”</b> includes such securities as defined under the Securities Contracts (Regulation) Act, 1956 but the same shall not be limited to shares, stocks, bonds government (central, state, municipal or provincial) securities, warrants, options, futures, foreign currency, commitments, hedges, swaps or netting off, derivatives of all kinds, convertible and/ or non convertible debentures, fixed and/ or variable return investments, equity linked instruments, negotiable instruments including usance bills of exchange, deposits or other money market instruments, commercial paper, certificates of deposit, units of Unit Trust of India and Units or other instrument issued by any Mutual Funds, mortgage backed or other asset backed Securities issued by any institution and/ or body corporate and/ or corporation and/ or trust, cumulative convertible preference shares issued by any incorporated company or body and Securities by whatever name called issued by any Government, Central or State for the purpose of raising pub loan as defined under the Pub Debt Act, 1944., Relief Bonds, Savings Bonds or any other capital or money market instruments that may be issued by any company/ corporation/ firm/ institution/ trust/ Government/ Municipality or the Reserve Bank of India, all money, rights or property that may at any time be offered or accrue (whether by rights, bonus, redemption, preference, option or otherwise) and whether in physical or dematerialized form in respect of any of the foregoing or evidence or representing rights or interest therein and any other instruments or investments as may be permitted by applicable law from time to time.</p>
The Regulations	Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993 as amended from time to time.
The Agreement	The agreement executed between the Portfolio Manager and its clients in terms of Regulation 14 of SEBI (Portfolio Managers) Regulations, 1993 and Amendment Regulations, 2002 issued by the Securities And Exchange Board of India.

## DESCRIPTION

### i. History, Present Business and Background of the Portfolio Manager

LIC Nomura Mutual Fund Asset Management Company Ltd. is registered with SEBI as Portfolio Manager under Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993.

LIC Nomura Mutual Fund AMC Ltd., the Investment Managers to LIC Mutual Fund manages over Rs.5658 crores as on 31.03.2012

### ii. Promoters of the Portfolio Manager, Directors and their background:

#### (a) Promoters:

Life Insurance Corporation of India set up LIC Mutual Fund in June 1989. LIC Mutual Fund was constituted as a Trust in accordance with the provisions of Indian Trust Act 1882. LIC Mutual Fund consists of LIC Mutual Fund Trustee Company Pvt. Ltd. and LIC Mutual Fund Asset Management Co. Ltd., which is the Investment Manager to LIC Mutual Fund.

LIC of India came into being on 1<sup>st</sup> September 1956 as an amalgamated entity after the nationalisation of 245 insurance companies. It has completed more than 50 years of existence and has achieved several milestones to transform itself into a global financial conglomerate.

LIC Mutual Fund Asset Management Company Ltd. entered joint venture with Japan's leading financial services conglomerate 'Nomura' on 18/01/2011. Registrars of Companies has issued fresh Certificate of Incorporation – incorporating new name w.e.f. 15/02/2011. LICMF AMC Ltd. has become **LIC Nomura Mutual Fund Asset Management Company Ltd.**

LIC Nomura MF AMC has an authorised capital of Rs.25 crs and issued paid up capital of Rs.11 crs. The share holding pattern of LIC Nomura MF AMC Ltd. is as below: -

- LIC of India - 45%
- LIC Housing Finance Ltd. - 20%
- Nomura Asset Management Strategic Investment Pte.Ltd. - 35%

The **Life Insurance Corporation of India**, founded in 1956, is the largest life insurance company in India and also the country's largest investor. It is fully owned by the Government of India. LIC of India has total assets of Rs.1324927.89 crores as on 30.09.2011

Headquartered in Mumbai, which is considered the financial capital of India, the Life Insurance Corporation of India currently has 8 Zonal Offices, 113 Divisional Offices and 2048 Branches located in different cities and towns of

India along with satellite offices attached to about 966 Branches, and has a network of around 12,78,234 agents for soliciting life insurance business from the public.

LIC of India happens to be the largest player in the Indian life insurance market, with the lion's share of 71.36%, Policies- 80.90%. Over its existence of around 50 years, Life Insurance Corporation of India, created huge surpluses, and contributes to India's GDP. It also operates in 12 other countries including Mauritius, Fiji, UK, Nepal, Sri Lanka and many Gulf countries.

Nomura Asset Management Strategic Investments PTE. LTD. (the "Company") is a wholly-owned subsidiary to Nomura Asset Management Co., Ltd. ("NAM"), a Tokyo-based investment advisor with the total assets under management over 23 trillion Japanese Yen as of March 2012. The Company was incorporated pursuant to the Companies Act of Singapore in June 2009 solely for the purpose of acquiring and making a strategic investment in the registrants, LIC Nomura Mutual Fund Trustee Company Private Limited and LIC Nomura Mutual Fund Asset Management Co., Ltd. NAM and its subsidiaries comprise a global asset management arm to Nomura Holdings Inc., a global financial conglomerate listed on Tokyo and New York stock exchanges.

**Reconstituted AMC Board after the joint venture with Nomura (As on 31/03/2012)  
Please refer to Annexure 1 .**

**iii. Top 10 Group companies/firms of the Portfolio Manager on Turn over basis :**

<b>Associate/Group Company</b>	<b>Turnover</b>	<b>As on</b>
LIC of India	87937.90 crores	30.09.2011
LIC Housing Finance Ltd.	20028.00 crores	31.03.2012

**iv) Details of the portfolio management services being offered: Discretionary /Non-discretionary / Advisory**

The Portfolio Manager shall be acting in a fiduciary capacity with regard to the Client's account consisting of investments, accruals, benefits, allotments, calls refunds, returns privileges, entitlements, substitutions and/ or replacements or any other beneficial interest including dividend, interest, rights, bonus as well as residual cash balances, if any (represented both by quantity and in monetary value). The Portfolio Manager shall be acting both as an agent as well as a trustee of all types of the Client's account.

**I DISCRETIONARY SERVICES:**

The Portfolio Manager will provide Discretionary Portfolio Management Services which shall be in the nature of investment management and may include the responsibility of managing, renewing and reshuffling the portfolio, buying and selling the securities, keeping safe custody of the securities and monitoring book closures, dividend, bonus, rights etc. so that all benefits accrue to the Client's Portfolio, for an agreed fee structure and for a definite period as described, entirely at the Client's risk.



The Portfolio Manager shall have the sole and absolute discretion to invest in respect of the Client's account in any type of security as per executed Agreement and make such changes in the investments and invest some or all the Client's account in such manner and in such markets as it deems fit would benefit the Client. The portfolio managers' decision (**taken in good faith**) in deployment of the Clients' account is absolute and final and cannot be called in question or be open to review at any time during the currency of the agreement or any time thereafter except on the ground of malafide, fraud, conflict of interest or gross negligence. This right of the Portfolio Manager shall be exercised strictly in accordance with the relevant acts, rules and regulations, guidelines and notifications in force from time to time.

## **II ADVISORY PORTFOLIO MANAGEMENT SERVICES:**

The Portfolio Manager will provide Advisory Portfolio Management Services, in terms of the SEBI (Portfolio Manager) Regulations, 1993, which shall be in the nature of investment advisory and shall include the responsibility of advising on the portfolio strategy (asset allocation) and investment and disinvestment of individual securities on the clients portfolio, for an agreed fee structure and for a period hereinafter described, entirely at the Client's risk.

The Portfolio Manager shall be solely acting as an advisor to the portfolio of the client and shall not be responsible for the investment/ disinvestment of securities and / or administrative activities on the client's portfolio. The Portfolio Manager shall provide advisory services in accordance with such guidelines and/ or directives issued by the regulatory authorities and/ or the Client, from time to time in this regard.

## **III NON-DISCRETIONARY PORTFOLIO MANAGEMENT SERVICES:**

The Portfolio Manager will provide Non-discretionary Portfolio Management Services, as per express prior instructions issued by the Client from time to time, in the nature of investment advisory/ consultancy/ management, and may include the responsibility, as per client's instruction, of managing, renewing and reshuffling the Investment amount and portfolio, buying and selling the securities, keeping safe custody of the securities and monitoring book closures, dividend, bonus, rights etc. so as to ensure that all benefits accrue to the Client's Portfolio for an agreed fee structure and for a definite described period, entirely at the Client's risk.

However the client will finally decide on its investments and the client's investment decision can never be called in question or shall not be open to review at any time during the currency of the agreement or any time thereafter. The rights and obligations of the Portfolio Manager shall be exercised strictly in accordance with the relevant Acts, rules and regulations, guidelines and notifications in force from time to time.

### **(v) Minimum Investment Amount**

The minimum amount to be invested under each service to be provided is Rs.1,00,00,000/ (Rupees One Crore only) for Equity and Rs.5,00,00,000/ - (Rupees Five Crore only) for Debt.

**5. Penalties, pending litigation or proceedings, findings of inspection or investigations for which action may have been taken or initiated by any regulatory authority.**

- i) All cases of penalties imposed by the Board or the Directions issued by the Board under the Act or Rules or Regulations made there under: A penalty of Rs. 1 Lakh each has been imposed on LIC Nomura MF AMC Ltd. for violation of investment norms as per SEBI (Mutual Fund) Regulations, 1996 vide adjudication order dated 31/ 12/ 2002. The same has been paid of by LIC Nomura MF AMC Ltd. in February 2003.
- ii) The nature of the penalty/ direction: **NA**
- iii) Penalties imposed for any economic offence and/ or for violation of any Securities laws: **NIL**
- iv) Any pending material litigation/ legal proceedings against the Portfolio Manager/ Key personnel with separate disclosure regarding pending criminal cases if any: **NIL**  
**Note: All material cases having liability in excess of Rs 5 Lakhs have been considered.**
- v) Any deficiency in the systems and operations of the Portfolio Manager observed by the Board or any regulatory agency: **NIL**
- vi) Any enquiry/ adjudication proceedings initiated by the Board against the Portfolio Manager or its Directors, Principal officer or employees or any person directly or indirectly connected with the Portfolio Manager or its Directors, Principal officer or employee, under the Act or Rules or Regulations made there under: **NIL**

**6. SERVICES OFFERED:**

**i. Investment Objectives :**

The Portfolio Manager provides discretionary investment services based on the mandate given by the Client and subject to the scope of investments as agreed upon by the Portfolio Manager and Client in the Agreement. The investment objectives of the portfolio of the Client will depend on the Clients' needs and risk appetite and will seek to get returns from capital appreciation and / or regular returns by investing in various types of securities.

**ii. Type of services / products offered**

Investment objectives may vary from client to client. The investment requirement of the client are understood and captured by the use of an investment profile. The investment profile captures the client's expectation of returns and risk tolerance. Further depending on the individual Client requirements and the client's specification captured in the profile, the portfolio manager will advise the client accordingly. The same is used to arrive at the appropriate portfolio for the client. Also Portfolio Manager would continuously monitor the client's investments on

an ongoing basis and keep in touch regularly with the client about their performance, which allows for fine-tuning of the financial strategy of the client in the complex investment environment. However with the express prior instructions issued by the Client from time to time, the portfolio manager will assist the client in managing, renewing and reshuffling the Investment amount and portfolio, buying and selling the securities, keeping safe custody of the securities and monitoring book closures, dividend, bonus, rights etc. so as to ensure that all benefits accrue to the Client's Portfolio for an agreed fee structure and for a definite described period, entirely at the Client's risk.

**iii. Policies including the types of securities on which Portfolio Manager will generally advise:**

The same shall be always subject to the scope of investment objective as agreed upon between the Portfolio Manager and the Client in the Agreement.

Investment approach for Equity

The investment approach would vary depending upon the specific requirements of the client. The broad investment style portfolio is outlined below :

a) Diversified Portfolio

The Portfolio Manager shall endeavor that the portfolios are invested in baskets of stocks with no undue concentration in any stock or sector.

b) Investment Style

The Portfolio Manager typically looks to invest in stocks which offer growth or an upside on account of a potential re-rating and which are available at reasonable valuations. The valuation measures typically used are P/ E, Price/ Book Value, EVA ratio etc.

c) Taking advantage of trading opportunities

Active management of the portfolio is essential in today's volatile and dynamic Otimes. Many stocks are in a trading range for most part of the year. The Portfolio Manager will point out any trading opportunities available in the market to the client.

d) Using tactical asset allocation

The Portfolio Manager may move between asset classes i.e. equity and fixed income and cash depending upon market conditions. This is done mainly with an objective of protecting capital when markets are uncertain or have a downward bias.

e) Use of derivatives

The portfolio manager may use derivatives with an objective of either hedging and / or balancing the portfolio. By the use of derivatives for the purpose of hedging, the Portfolio Manager attempts to protect the portfolio especially when markets are uncertain or have a downward bias.

Investment approach for Debt:

The approach to debt investments is primarily guided by the interest rate movements in the market. While following a bottom up approach to investments in debt papers due care is taken to reduce credit risk, liquidity risk and risk spreads. Further, as the debt instruments are not standardized, adequate analysis is done to understand the structure of the instruments and the risk-return potential before taking an investment decision.

Investment approach for Mutual Fund Schemes:

The approach to Mutual Fund investment is primarily guided by the consistent performance of the scheme with low volatility and also keeping in view structure of the scheme and the risk appetite of the client.

**Type of securities:**

Subject to the investment objectives chosen by the Client, the Portfolio Manager shall manage the Client's Account by investing in such capital and money market instruments or in fixed income securities or other securities of any description including: -

- Equity and Equity related securities, Convertible Stock and Preference Shares of Indian Companies
- Debentures, Bonds and Secured Premium Notes, Swaps, Options, Futures, Tax-exempt Bonds of Indian Companies and Corporations
- Government and Trustee Securities;
- Units, Magnums and other instruments of Mutual Funds
- Bank Deposits
- Treasury Bills
- Commercial Papers, Certificates of Deposit and other similar Money Market instruments; and
- Derivatives, both equity & fixed income as permitted under the Regulations
- Other eligible modes of investment and/ or forms of deployment within the meaning of the Regulation issued by SEBI as amended from time to time (hereafter collectively referred to as "Securities")

Asset Classes for deployment shall be always subject to the scope of investments as agreed upon between the Portfolio Manager and the Client in the Agreement.

**iv. The policies for investments in associates/ group companies of the Portfolio Manager and the maximum percentage of such investments therein subject to the applicable laws / regulations / guidelines**

The Portfolio Manager will, before advising the client in investing in the securities of associate/ group companies, evaluate such investments, the criteria for the evaluation being the same as is applied to other similar investments to be made under the Portfolio.

**7. RISK FACTORS:**

- Securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Service will be achieved.

- Past performance of the Portfolio Manager in a portfolio may or may not be sustained in the future **and does not indicate the future performance of the same service in future or any other future service of the portfolio manager.**
- Investors are not being offered any guaranteed or assured return/ s i.e. either of Principal or appreciation on the portfolio as the Investments are subject to market risks.
- Investors may note that Portfolio Manager's investment in specific securities investments, investment strategy and asset allocation for achieving investment objectives may not be always profitable, as actual market movements may be at variance with anticipated trends.
- The valuation of the Portfolio's investments, may be affected generally by factors affecting securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the Government, taxation laws or any other relevant policies and other political and economic developments which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.
- Trading volumes, settlement periods and transfer procedures may restrict the liquidity of the investments made by the Portfolio. Different segments of the Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. The inability of the Portfolio to make intended securities purchases due to settlement problems could cause the Portfolio to miss certain investment opportunities. By the same rationale, the inability to sell securities held in the portfolio due to the absence of a well developed and liquid secondary market for securities would result, at times, in potential losses to the Portfolio, in case of a subsequent decline in the value of securities held in the Portfolio.
- The Portfolio Manager may, considering the overall level of risk of the portfolio, advice to invest in lower rated/ unrated securities offering higher yields. This may increase the risk of the portfolio. Such investments shall be subject to the scope of investments as laid down in the Agreement.
- Securities, which are not quoted on the stock exchanges, are inherently illiquid in nature and carry a larger amount of liquidity risk, in comparison to securities that are listed on the exchanges or offer other exit options to the investor, including a put option. The Portfolio Manager may invest in unlisted securities that offer attractive yields. This may however increase the risk of the portfolio. Such investments shall be subject to the scope of investments as laid down in the Agreement.
- While securities that are listed on the stock exchange carry lower liquidity risk, the ability to sell these investments is limited by the overall trading volume on the stock exchanges. Money market securities, while fairly liquid, lack a well-developed secondary market, which may restrict the selling ability of the Portfolio(s) and may lead to the investment(s) incurring losses till the security is finally sold.

- *Interest Rate Risk:* As with all debt securities, changes in interest rates may affect valuation of the Portfolios, as the prices of securities generally increase as interest rates decline and generally decrease as interest rates rise. Prices of long-term securities generally fluctuate more in response to interest rate changes than do short-term securities. Indian debt markets can be volatile leading to the possibility of price movements up or down in fixed income securities and thereby to possible movements in the valuations of Portfolios.
- *Liquidity or Marketability Risk:* This refers to the ease with which a security can be sold at or near to its valuation yield-to-maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is today characteristic of the Indian fixed income market.
- *Credit Risk:* Credit risk or default risk refers to the risk that an issuer of a fixed income security may default (i.e., will be unable to make timely principal and interest payments on the security). Because of this risk corporate debentures are sold at a higher yield above those offered on Government Securities, which are sovereign obligations and free of credit risk. Normally, the value of a fixed income security will fluctuate depending upon the changes in the perceived level of credit risk as well as any actual event of default. The greater the credit risk, the greater the yield required for someone to be compensated for the increased risk.
- *Settlement Risk:* It refers to risk of default by counterparty during settlement of trade. This risk arises as soon as an institution makes the required payment until the balance part of the transaction is settled.
- *Reinvestment Risk:* This risk refers to the interest rate levels, at which cash flows received from the securities under a particular Portfolio are reinvested. The additional income from reinvestment is the “interest on interest” component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed.
- The Investment activity is exposed to various types of risks as referred above in “Risk Factors”. The client unconditionally understands and agrees that the non-discretionary investment being made under this agreement to carry out investment objective of the respective scheme, have an inherent risk and the client shall under no circumstances whatsoever considered / hold the Portfolio Manager liable in a manner whatsoever as a result of services / transaction / investments made including for non-diversification.
- The Portfolio Manager may invest in various derivative products as permitted by the Regulations. Use of derivatives requires an understanding of not only the underlying instrument but also of the derivative itself. Other risks include, the risk of miswriting or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.
- The Portfolio Manager may invest in derivatives instruments like Stock Index Futures, Interest Rate Swaps, Forward Rate Agreements or other derivative instruments, as permitted under the Regulations and guidelines. Usage of derivatives will expose the Portfolio to certain risks inherent to such derivatives.

Risks attached with the use of derivatives:

As and when there is a trade in the derivatives market there are risk factors and issues concerning the use of derivatives that investors should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the “counter party”) to comply with the terms of the derivatives contract. However there is adequate redressal mechanism to resolve the matter. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value. Also, the market for derivative instruments is nascent in India.

**Trading in derivatives**

SEBI in terms of Securities and Exchange Board of India (Portfolio Managers) Amendment Regulations, 2002, has permitted all the Portfolio Managers to participate in the derivatives trading subject to observance of guidelines issued by SEBI in this behalf. Pursuant to this, the Portfolio Managers may use various derivative 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 the Clients’ interest.

Accordingly, the Portfolio Manager may invest in derivatives instruments like Stock Index Futures, Options on Stocks and Stock Indices, Interest Rate Swaps, Forward Rate Agreements or other such derivative instruments as may be introduced from time to time, as permitted by SEBI.

The following information provides a basic idea as to the nature of the derivative instruments investment and the benefits and risks attached there with.

D) Index Futures:

Benefits

- a) Investment in Stock Index Futures can give exposure to the index without directly buying the individual stocks. Appreciation in Index stocks can be effectively captured through investment in Stock Index Futures.
- b) One can sell futures to hedge against market movements effectively without actually selling the stocks it holds. The Stock Index futures are instruments designed to give exposure to the equity market indices. The National Stock Exchange has started trading in index futures of 1, 2 and 3-month maturities.

The pricing of an index future is the function of the underlying index and interest rates.

Illustration:

Spot Index: 1070

1 month Nifty Future Price on day 1: 1075

Investor buys 100 lots

Each lot has a nominal value equivalent to 200 units of the underlying index

Let us say that on the date of settlement, the future price = Closing spot price = 1085

Profits for the Portfolio =  $(1085-1075) * 100 \text{ lots} * 200 = \text{Rs } 200,000$

Please note that the above example is given for illustration purposes only.

The net impact for the Portfolio will be in terms of the difference between the closing price of the index and cost price (ignoring margins for the sake of simplicity). Thus, it is clear from the example that the profit or loss for the Portfolio will be the difference of the closing price (which can be higher or lower than the purchase price) and the purchase price. The risks associated with index futures are similar to the one with equity investments. Additional risks could be on account of illiquidity and hence mispricing of the future at the time of purchase.

ii) Buying options:

Benefits of buying a call option:

Buying a call option on a stock or index gives the owner the right, but not the obligation, to buy the underlying stock / index at the designated strike price. Here the downside risks are limited to the premium paid to purchase the option.

Illustration:

For example, if the investor buys a one month call option on Company 'A' at a strike of Rs. 150, the current market price being say Rs. 151. The Investor will have to pay a premium of say Rs. 15 to buy this call. If the stock price goes below Rs. 150 during the tenure of the call, the investor avoids the loss it would have incurred had it straightaway bought the stock instead of the call option. The investor gives up the premium of Rs. 15 that has to be paid in order to protect the Portfolio from this probable downside. If the stock goes above Rs. 150, it can exercise its right and own Company 'A' at a cost price of Rs. 150, thereby participating in the upside of the stock.

Benefits of buying a put option:

Buying a put option on a stock originally held by the buyer gives him/ her the right, but not the obligation, to sell the underlying stock at the designated strike price. Here the downside risks are limited to the premium paid to purchase the option.

Illustration:

For example, if the portfolio owns Company 'B' and also buys a three month put option on Company 'B' at a strike of Rs. 150, the current market price being say Rs. 151. The Investor will have to pay a premium of say Rs. 12 to buy this put. If the



stock price goes below Rs. 150 during the tenure of the put, the investor can still exercise the put and sell the stock at Rs. 150, avoiding therefore any downside on the stock below Rs. 150. The investor gives up the fixed premium of Rs.12 that has to be paid in order to protect the Portfolio from this probable downside. If the stock goes above Rs. 150, say to Rs. 170, it will not exercise its option. The investor will participate in the upside of the stock, since it can now sell the stock at the prevailing market price of Rs. 170.

iii) Writing options:

(a) Benefits of writing an option with underlying stock holding (Covered call writing)  
Covered call writing is a strategy where a writer (say the investor) will hold a particular stock, and sell in the market a call option on the stock. Here the buyer of the call option now has the right to buy this stock from the writer (the investor) at a particular price, which is fixed by the contract (the strike price). The writer receives a premium for selling a call, but if the call option is exercised, he has to sell the underlying stock at the strike price. This is advantageous if the strike price is the level at which the writer wants to exit his holding / book profits. The writer effectively gains a fixed premium in exchange for the probable opportunity loss that comes from giving up any upside if the stock goes up beyond the strike price.

Illustration:

Let us take for example Company 'C', where the Portfolio holds stock, the current market price being Rs. 3600. The investor holds the view that the stock should be sold when it reaches Rs. 3700. Currently the one month 3700 calls can be sold at say Rs. 150. Selling this call gives the call owner the right to buy from the portfolio, Company C at Rs. 3700.

Now the investor by buying / holding the stock and selling the call is effectively agreeing to sell Company 'C' at Rs. 3700 when it crosses this price. So the investor is giving up any possible upside beyond Rs. 3700. However, the returns on the Portfolio are higher than what it would have got if it just held the stock and decided to sell it at Rs. 3700. This is because the investor by writing the covered call gets an additional Rs. 150 per share of Company C. In case the price is below Rs. 3700 during the tenure of the call, then it will not be exercised and the investor will continue to hold the shares. Even in this case the returns are higher than if the Portfolio had just held the stock waiting to sell it at Rs. 3700.

(b) Benefits of writing put options with adequate cash holding:

Writing put options with adequate cash holdings is a strategy where the writer (say, the investor) will have an amount of cash and will sell put options on a stock. This will give the buyer of this put option the right to sell stock to the writer (the investor) at a pre-designated price (the strike price). This strategy gives the put writer a premium, but if the put is exercised, he has to buy the underlying stock at the designated strike price. In this case the writer will have to accept any downside if the stock goes below the exercise price. The writer effectively gains a fixed premium in exchange for giving

up the opportunity to buy the stock at levels below the strike price. This is advantageous if the strike price is the level at which the writer wants to buy the stock.

Illustration:

Let us take, for example, that the investor wants to buy Company D at Rs. 3500, the current price being Rs. 3600. Currently the three-month 3500 puts can be sold at say Rs. 100. Writing this put gives the put owner the right to sell to the portfolio, Company D at Rs. 3500. Now the Writer by holding cash and selling the put is agreeing to buy Company D at Rs. 3500 when it goes below this price. The investor will take on itself any downside if the price goes below Rs. 3500. But the returns on the Portfolio are higher than what it would have got if it just waited till the price reached this level and bought the stock at Rs. 3500, as per its original view. This is because the investor by writing the put gets an additional Rs. 100 per share of Company D. In case the price stays above Rs. 3500 during the tenure of the put, then it will not be exercised and the investor will continue to hold cash. Even in this case the returns are higher than if the Portfolio had just held cash waiting to buy Company D at Rs. 3500.

(iv) Interest Rate Swaps and Forward Rate Agreements

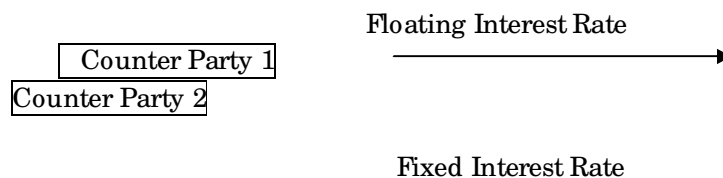
Benefits

Bond markets in India are not very liquid. Investors run the risk of illiquidity in such markets. Investing for short-term periods for liquidity purposes has its own risks. Investors can benefit if the Portfolio remains in call market for the liquidity and at the same time take advantage of fixed rate by entering into a swap. It adds certainty to the returns without sacrificing liquidity.

Illustration:

The following are illustrations how derivatives work:

Basic Structure of an Interest Rate Swap



In the above illustration

Basic Details	:	Fixed to floating swap	
Notional Amount	:	Rs. 5 Crores	
Benchmark	:	NSE MIBOR	
Deal Tenure	:	3 months (say 91 days)	
Documentation Association (ISDA)	:	International Securities Dealers	

Let us assume the fixed rate decided was 10%

At the end of three months, the following exchange will take place:

Counter party 1 pays : compounded call rate for three months, say 9.90%

Counter party 2 pays fixed rate : 10%

In practice, however, the difference of the two amounts is settled. Counter party 2 will pay :

Rs. 5 Crores \*0.10%\* 91/ 365 = Rs. 12,465.75

Thus the trade off for the investor will be the difference in call rate and the fixed rate payment and this can vary with the call rates in the market. Please note that the above example is given for illustration purposes only and the actual returns may vary depending on the terms of swap and market conditions.

#### 8. (i) CLIENT REPRESENTATION:

Category of Clients	No. of Clients	Funds Managed (Rs. in crores)	Discretionary/Non Discretionary
<b>Associate/Group Companies</b>			
As on 31/ 05/ 2012	1	417.06	Discretionary
As on 31/ 03/ 2012	1	413.20	Discretionary
As on 31/ 03/ 2011	1	379.71	Discretionary
As on 31/ 03/ 2010			
<b>Others</b>			
As on 31/ 05/ 2012	4	1153.54	Discretionary
As on 31/ 03/ 2012	4	1136.30	Discretionary
As on 31/ 03/ 2011	2	740.19	Discretionary
As on 31/ 03/ 2010	2	723.76	Discretionary

#### 8(ii) Complete disclosure in respect of transactions with related parties as per the standards specified by the Institute of Chartered Accountants of India.

##### 1) Related parties with whom transactions have taken place during the financial year ended 31/03/2012.

Names of Related Parties where control exists irrespective of whether transaction have occurred or not

Particulars	Relationship
Life Insurance Corporation of India	Associate
LIC Housing Finance Limited	Associate
Nomura Asset Management Strategic Investment Pte.Ltd.	Associate
Key Management Personnel	Mr. N Mohanraj, Chief Executive Officer LICNOMURA MF AMC Ltd.

Names other Related Parties with whom transactions have taken place during the year

Name of parties	Relationship
LIC NOMURA Mutual Fund	Mutual Fund managed by the Company
Insurance Institute of India	Associate of LIC

**A) Management Fees Income**

Receipt of Management fee	For Year ended March 31, 2012	For Year ended March 31, 2011
LIC NOMURA MF	322,369,234	868,633,207
Insurance Institute of India	4,762,833	2,269,875

**B) Management Fees Receivable**

Receivable From	As at March 31, 2012	As at March 31, 2011
LIC NOMURA MF	7,887,396	8,622,103
Insurance Institute of India	2,412,362	1,936,813

**C) Investment in MF Schemes & Redemption in Mutual Fund Schemes**

Particulars	2011-12	2010-11
Investments	172,000,000	5,184,584,298
Redemptions	248,047,503	5,523,467,012

**D) Profit on Sale of Mutual Fund Units**

Particulars	For Year ended March 31, 2012	For Year ended March 31, 2011
LIC Nomura MF Liquid Fund	14,952,497	22,028,418
LIC Nomura MF Income Plus	-	927,250
LIC Nomura MF Floating Rate	-	22,235,248
LIC Nomura MF Saving Plus Growth	-	19,756,597
LIC Nomura MF Interval Fund	-	3,762,628
<b>TOTAL</b>	<b>14,952,497</b>	<b>68,710,142</b>

**E) Investments balances Outstanding**

Particulars	As at March 31, 2012	As at March 31, 2011
LIQUID FUND	959,519,873	1,035,567,376

**F) Payments to Key Management Personnel**

Particulars	For Year ended March 31, 2012	For Year ended March 31, 2011
Gross Salary	1,364,582	1,713,664
Employers contribution to PF	73,260	146,539
TR Coupons	44,720	37,400
News/ Paper/ Magazines	2,622	3,096
Car Running expenses	14,773	35,702

**NOTE**

The above figures do not include provision towards Gratuity and Leave Encashment Liability as separate figure for Directors are not available. As there is no Commission payable to the directors the computation of the profit under section 198 and section 349 of the companies act, 1956 has not been disclosed. Perquisites have been valued in accordance with the provisions contained in the Income Tax Rules, 1962.

**G) Dividend Paid for during the year**

Particulars	For Year ended March 31, 2012	For Year ended March 31, 2011
LIC	-	37,125,000
LIC HFL	-	29,475,000
GIC HFL	-	8,400,000

**H) Scheme Expenses borne by the Company**

Particulars	For Year ended March 31, 2012	For Year ended March 31, 2011
Expense related to Scheme Losses & Capping of Expenses	27,836,241	1,174,140,482

**I) Payment to LIC**

Particulars	For Year ended March 31, 2012	For Year ended March 31, 2011
Rent paid for Premises to LIC	13,164,661	14,289,555
Paid for Renovation to LIC	-	1,664,220
Contribution to Gratuity for LIC Employees	1,851,572	2,398,003
Premium paid to LIC for Gratuity Policy of AMC Employees	60,784	57,388

**J) Recoverable Expenses for Valuation of Shares**

Particulars	As at March 31, 2012	As at March 31, 2011
LIC HFL	-	14,916,568
GIC HFL	-	9,668,144
LIC HFL Care Homes	-	17,138

## K) Fresh issue of shares

Shares issued to Nomura Asset Management Strategic Investment Pte.Ltd.

Particulars	For Year ended 31 March 2012	For Year ended 31 March 2011
No. of Equity Shares	-	1,000
Face Value	-	10,000
Issue Price per share	-	800,000
Amount received	-	800,000,000

## L) Amount receivable/payable

Particulars	Receivable		Payable	
	For Year ended 31 March 2012	For Year ended 31 March 2011	For Year ended 31 March 2012	For Year ended 31 March 2011
Life Insurance Corporation of India	1,944,279	1,600,049	-	-
LIC Nomura Mutual Fund	-	-	20,648,489	12,846,663

## 9. THE FINANCIAL PERFORMANCE OF AMC (Based on audited financial statements)

Rs. in Lakhs (LOSS)

<u>Particulars</u>	Period ended 31/ 03/ 2012	Period ended 31/ 03/ 2011	Year ended 31/ 03/ 2010	Year ended 31/ 03/ 2009
Total Income	3,671.91	10,061.44	19,567.68	7,843.67
Profit/ (Loss) Before Tax	(1,216.74)	(8,744.83)	11,071.96	3,380.86
Less : Provision for Tax	-	0.00	3,690.00	1,108.00
Less : Provision for Wealth Tax	-	0.15	0.00	0.00
Deferred Tax Liability/ (Asset)	2,806.63	(2,831.43)	20.57	(4.62)
Fringe Benefit Tax	-	0.00	0.00	13.00
Net Profit/ (Loss)	(4,023.37)	(5,913.40)	7,361.39	2,195.98

## 10. PORTFOLIO MANAGEMENT PERFORMANCE:

Currently PMS services are rendered in discretionary capacity and on this accord the gross Income produced is as under:-

**Discretionary Portfolio Management**  
(As on 31/03/2012)

Particulars	Inception	Roll Over Date	Annualized Returns (%) as at 31/03/2012 Since inception	Benchmark/ Hurdle Rate (%) as at 31/03/2012
NIF Tranche I	06/ 10/ 2007	06/ 10/ 2011	12.09% *	9.25%
NIF Tranche II	27/ 03/ 2008	27/ 03/ 2012	11.14%	9.50%
I.I.I.	06/ 04/ 2010	-	8.80%	N.A.
NSDF Tranche I	29/ 07/ 2011	-	10.00%	8.45%
NSDF Tranche II	05/ 03/ 2012	-	11.10%	8.75%

\*The roll-over agreement was executed on 06.12.2011 and roll-over was made effective from 06.10.2011. However, monitoring of the funds would be effective 06.12.2011.

### THREE YEAR PERFORMANCE

Client Name	Weighted Average Returns		Weighted Average Returns		
	31/ 05/ 2012	31/ 03/ 2012	31/ 03/ 2011	31/ 03/ 2010	31/ 03/ 2009
NIF Tranche I	8.62	6.90	8.00	7.45	6.75
NIF Tranche II	8.85	7.47	7.41	6.85	9.92
Insurance Institute of India	8.97	8.80	6.71	Not Applicable	
NSDF Tranche I	10.37	10.00	Not Applicable		
NSDF Tranche II	11.02	11.10	Not Applicable		

#### 11. TAX BENEFITS (IMPLICATIONS OF INVESTMENT)

Investors are advised to consult their Legal/ tax and other Professional advisors with regard to tax/ legal implications relating to their investments under portfolio Management and before making decision to avail of any services offered under this disclosure document.

#### Portfolio Management Services of – LIC Nomura MF AMC Ltd.

LIC Nomura MF AMC Ltd. is offering the Discretionary Portfolio Management Services.

The Discretionary Portfolio Management services will be in the nature of investment management, and may include the responsibility of managing, renewing and reshuffling the portfolio, buying and selling securities, keeping safe custody of the securities and monitoring book closures, dividend, bonus ,rights etc .so as to ensure all benefits accrue to the Client's Portfolio for an agreed fee structure and for a defined period, entirely to the Client's risk.

#### Taxation

#### Tax rates reflected in the Disclosure Document are for the Financial Year 2012-13

It may be noted that the information given hereinafter is only for general information purposes and is based on the advice received by the Portfolio Manager regarding the law and practice currently in force in India and the Investors should be aware that the relevant fiscal rules or their interpretation may change or it may not be acceptable to the tax authorities. As is the case with any interpretation of any law, there can be no assurance that the tax position or the proposed tax position prevailing at the time of an investment in the PMS will be accepted by the tax authorities or will continue to be accepted by them indefinitely.

Further statements with regard to tax benefits mentioned herein below are mere expressions of opinion and are not representations of the Portfolio Manager to induce

any investor to invest whether directly from the Portfolio Manager or indirectly from any other persons by the secondary market operations. In view of the above, and since the individual nature of tax consequences may differ in each case on its merits and facts, each Investor is advised to consult his / her or its own professional tax advisor with respect to the specific tax implications arising out of its participation in the PMS as an investor.

In view of the above, it is advised that the investors appropriately consult their investment / tax advisors in this regard.

## 1.1 Tax implications

1.1.1 Income arising from purchase and sale of securities under Portfolio Management Services can give rise to business income or capital gains in the hands of the Client. The issue of characterization of income is relevant as the tax computation and rates differ in either of the two situations.

The said issue is essentially a question of fact and depends on whether the shares are held as business/ trading assets or on capital account. Based on judicial decisions, the following factors need to be considered while determining the nature of assets as above:

- a. Motive for the purchase of securities
- b. Frequency of transactions
- c. Length of period of holding of the securities
- d. Treatment of the securities and profit or loss on their sale in the accounts of the assessee and disclosure in notes thereto
- e. Source of funds out of which the securities were acquired – borrowed or own
- f. Existence of an objects clause permitting trading in securities - relevant only in the case of corporate.
- g. Circumstances responsible for the sale of securities
- h. Acquisition of the securities – from primary market or secondary market
- i. Infrastructure and set – up employed for undertaking the securities transactions by the client



Any single factor discussed above in isolation cannot be conclusive to determine the exact nature of the shares. All factors and principles need to be construed harmoniously.

Investors may refer to CBDT instruction no. 1827 dated August 31, 1989 read with CBDT Circular no. 4 dated June 15, 2007 for further guidance on the matter.

1.1.2 In the following paragraphs, we have considered the broad implications under the Income Tax Act, 1961 (“IT Act”) arising in the hands of the Clients (resident as well as the non-resident) under both the scenarios, viz:

- a. Securities in the Portfolio held as business asset; and
- b. Securities in the Portfolio held on capital account.

Additionally, non-residents (including FIIs) are entitled to be governed by the applicable Double Tax Avoidance Agreement (“DTAA”), which India has entered into with the country of residence of the non-resident, if that is more beneficial. The same would have to be considered on a case-to-case basis depending upon the applicable DTAA. Ordinarily, capital gains and interest income are taxable in India in the manner and at the rates prescribed under the relevant DTAA or the relevant rates applicable in India, whichever is beneficial to the assessee. Further, business income is normally not taxable in India if there is no permanent establishment of the non-resident in India.

## 1.2 Securities Transaction Tax (“STT”)

STT is applicable on certain specified transactions (on the stock exchange or redemption of equity oriented units), which are tabulated below:

Sr. No.	Nature of transaction	Transaction on stock Exchange	Rate of STT	‘Value’ on which STT is payable
i.	Delivery based transaction in equity shares / units of equity oriented fund	Yes	Both buyer & seller to pay 0.10 %	Price at which shares / units are purchased / sold
ii.	Sale of units of an equity oriented fund to the mutual fund	No	Seller to pay 0.25 %	Price at which units are sold

iii.	Non-delivery based transaction in equity shares / units of 'equity oriented fund'	Yes	Seller to pay 0.025 %	Price at which shares / units are sold
iv.	Derivatives: Futures	Yes	Seller to pay 0.017 %	<i>Futures:</i> Price at which futures are traded
v.	Derivatives: Options		Where Option is not exercised - Seller to pay 0.017%	Payable on Option Premium
	Yes		Where Option is exercised – Buyer to pay 0.125%	Payable on Settlement Price

The above STT is payable, irrespective of whether the securities are characterized as business assets or as capital assets.

### 1.3 Tax Implications where securities are business assets

#### Profits and Gains of Business or Profession

#### 1.3.1 The following are the various income streams that can arise from securities held in the Portfolio:

- a. Gains on sale of securities;
- b. Dividend income on shares / Income-distribution on units; and
- c. Interest income on debt securities.

#### 1.3.2 If the securities in the Portfolio are regarded as a business/ trading asset, then any gain / loss arising from sale of such securities would be taxed under the head “Profits and gains of business or profession” under section 28 of the IT Act. The gain / loss is to be computed under the head “Profits and gains of business or profession” after allowing normal business expenses (inclusive of the expenses incurred on transfer).

#### 1.3.3 However, dividend on shares (referred to in section 115-O of the IT Act) and income distributed by mutual funds are exempt under the Act. In terms of

section 14A of the IT Act, the Assessing officer has been given the power to make disallowances of expenses relating to earning exempt income.

- 1.3.4 Interest income arising on securities may be categorized as 'Business income' or 'Income from other sources'. Any expenses incurred to earn such interest (such as interest expense) would be available as deduction.
- 1.3.5 STT paid on securities held on business account is allowable deduction in computing business income.
- 1.3.6 Business income is chargeable to tax at the following rates:

Assessee	% of Income tax
Individuals, HUF, Association of Persons	Applicable slab rates
Partnership firms & Indian Corporate	30%
Foreign company	40%

- 1.3.7 The slab rates for individuals / HUF / AOPs / BOI as per Finance Act, 2012 are as under:

Total Income	Tax rates
Up to Rs. 2,00,000 (a) & (b)	Nil
From Rs. 2,00,000 to R 5,00,000	10%
From Rs. 5,00,000 to R 8,00,000	20%
Above Rs. 10,00,001 and above	30%

- (a) In the case of a resident individual of the age of 60 years or more but less than 80 years, the basic exemption limit is Rs. 2,50,000.
- (b) In the case of a resident individual of the age of 80 years or more, the basic exemption limit is Rs. 5,00,000.

- 1.3.8 The income tax rates specified above and elsewhere in this Disclosure Document are exclusive of the applicable Surcharge & Cess.

For the financial year 2012-13, the applicable rates for surcharge are given below:

Assessee	% of Income Tax
Individual (including proprietorships), HUF, Association of persons, firms	NIL
Indian corporate (if income exceeds Rs. 1 Crore)	5%
Foreign company (if income exceeds Rs. 1 Crore)	2%

Additionally, Education Cess is leviable @ 2% on the income tax and Higher and Secondary Education Cess @ 1% on the income tax as computed above.

### **Losses under the head Profits and gains of business or profession**

1.3.9 In the case of loss under the head 'Profits and gains of business or profession' (other than speculative loss), it can be set off against the income from any other source under the same head or income under any other head (except certain exceptions) in the same assessment year. If such loss cannot be set off against any other head in the same assessment year, then it will be carried forward and shall be set off against the profits and gains of the business (other than speculative loss), within the period of 8 subsequent assessment years.

In case the loss is in the nature of speculation loss, set-off would be available in the same assessment year only against speculation gain. In terms of explanation to section 73, in case of a company, other than a company whose gross total income consists mainly of income which is chargeable under the heads "Interest on securities", "Income from house property", "Capital gains" and "Income from other sources", or a company the principal business of which is the business of banking or the granting of loans and advances, loss on sale of shares forming part of the business of the company (even if delivery based) is considered as speculation loss. Such loss can be carried forward for set-off against speculative gains within a period of 4 subsequent assessment years.

The IT Act has been amended to exclude derivatives transactions traded on a stock exchange from being treated as a speculative transaction. The gain/ loss from derivatives transaction would be treated as income from business.

### **1.4 Tax implications where securities are capital assets**

1.4.1 The following are the various income streams that can arise from securities forming part of the portfolio:

- a. Gains on sale of securities;
- b. Dividend income on shares / Income-distribution on units; and
- c. Interest income on debt securities.

- 1.4.2 Dividend on shares (referred to in section 115-O of the Act) and income distributed by mutual funds continue to be exempt under the IT Act. In terms of section 14A of the IT Act, the Assessing officer has been given the power to make disallowances of expenses relating to earning exempt income.
- 1.4.3 Interest income arising on securities would be categorized as 'Income from other sources'. Any expenses incurred wholly and exclusively for the earning of such (such as interest expense) would be available as deduction.
- 1.4.4 Capital assets are to be categorized into short-term capital assets and long-term capital assets based on the period of holding. Shares held in a company and any other securities listed on a recognized stock exchange in India or units of UTI / mutual fund / zero coupon bonds are considered as long-term capital assets if these are held for a period exceeding 1 year. Other securities would be considered as long-term capital asset if held for a period exceeding 3 years.
- 1.4.5 The mode of computation of capital gains would be as follows:
- |                                     |       |
|-------------------------------------|-------|
| Sale consideration                  | xxx   |
| Less: Expenses on transfer (Note 2) | (xx)  |
| Net consideration                   | xxx   |
| Less: Cost of acquisition (Note 1)  | (xxx) |
| Capital gains (Note 3)              | xxx   |

Note 1: In case of the computation of long-term capital gains, option of indexation of cost is available on all securities (other than bonds and debentures). Indexation benefits are generally not available to non-residents from transfer of shares or debentures of an Indian company.

Note 2: This would include only expenses relating to transfer of securities such as brokerage, stamp duty, etc. Normal business expenses would not be allowable. Further, STT is not allowable as a deduction in computing taxable capital gains.

Note 3: In case of non-residents (other than FIIs), capital gains from sale of shares or debentures acquired in foreign currency, will be computed in foreign exchange by converting the sale consideration, cost of acquisition & expenses on transfer into foreign currency at the rates (average of telegraphic transfer buying and selling rates prevailing on the date of purchase / sale, as the case may be) and re-converting such gains into Indian currency (at telegraphic transfer buying rate on date of transfer).

The provisions of the Act, in relation to taxation of long term and short-term capital gains are provided in the following paragraphs.

#### **Long term capital gains**

Long-term capital gains are taxable in the hands of different categories of assesses as under:

##### **1.4.6 Resident individuals (including proprietorships) / HUF / partnership firms & Indian companies:**

Long-term capital gains arising on transfer of equity shares on recognized stock exchanges or units of an equity oriented fund on which STT is paid are exempt from tax under section 10(38) of the Act.

Long-term capital gains would, however, be taken into account in computing the book profits for computation of Minimum Alternate Tax under section 115JB of the Act, irrespective of whether or not it is exempt under section 10(38) of the Act). The Finance Act, 2011 has increased in the rate under section 115JB from 18% to 18.5%.

Under the provisions of section 112 of the Act, long-term capital gains (other than those exempt as above) are subject to tax @ 20% (plus applicable surcharge and cess as mentioned in Para 1.3.8), in case where indexation benefit is claimed. However, in case the indexation benefit is not availed for the purpose of calculation of cost of acquisition, the income tax would be levied @ 10% (plus applicable surcharge and cess as mentioned in Para 1.3.8). Such an option is available only in case of long-term capital gains arising on sale of listed securities or mutual fund units or zero coupon bonds.

##### **1.4.7 Non-resident Indians**

Long-term capital gains arising on transfer of equity shares or units of an equity-oriented fund on which STT is paid, are exempt from tax under Section 10 (38) of the Act.

Non-resident Indians are permitted to be governed by the general provisions of the Act (same as above except for indexation) or the special provisions contained in section 115E of the Act.

Under section 115E of the IT Act for non-resident Indians, income by way of long-term capital gains in respect of specified assets purchased in foreign currency as defined under section 115C (which includes shares, debentures, deposits in an Indian company and security issued by central govt.) is chargeable at the rate of 10% (plus applicable surcharge and cess as mentioned in para 1.3.8)

The benefit of indexation is not available to non-resident Indians from transfer of shares or debentures of an Indian company.

#### 1.4.8 **Foreign institutional investors**

Long-term capital gains arising on transfer of equity shares or units of an equity-oriented fund on which STT is paid, are exempt from tax under Section 10 (38) of the IT Act.

Under Section 115AD of the IT Act, long-term capital gains (other than those exempt as above) arising from transfer of securities, shall be taxable at the rate of 10% (plus applicable surcharge and cess as mentioned in Para 1.3.8). Such capital gains would be computed without giving effect of indexation and foreign currency conversion.

#### **Short term capital gains**

1.4.10 1.4.9 Under Section 111A of the IT Act, income from short term capital gains arising from transfer of equity shares in a company or a unit of equity oriented fund (on which STT is paid) are taxable @ 15 % (plus applicable surcharge and cess as mentioned in para 1.3.8).

1.4.11 The tax rates applicable to different categories of assesses on short term capital gains (other than those referred above) would be the normal slab rates as provided in para 1.3.6 and para 1.3.7 above) except for FIIs who would be

taxable on short term capital gains @ 30% plus applicable surcharge and cess as mentioned in para 1.3.8) under Section 115AD of the IT Act.

### **Capital loss**

1.4.12 Losses under the head 'capital gains' cannot be set off against income under any other head. Further, within the head 'capital gains', long-term capital losses cannot be adjusted against short-term capital gains. However, short-term capital losses can be adjusted against any capital gains.

Unabsorbed long-term capital loss can be carried forward and set off against the long-term capital gains arising in subsequent eight assessment years.

Unabsorbed short-term capital loss can be carried forward and set off against the income under the head capital gains in subsequent eight assessment years.

## **12.ACCOUNTING POLICIES**

Accounting policies followed by the Portfolio Manager while accounting for the portfolio investments of the clients-

Accounting under the respective portfolios is being done in accordance with general accounting principles and more specifically in line with the SEBI (Mutual Fund) Regulations, as amended from time to time and also in accordance with the agreement with the PMS client (As SEBI (Portfolio Managers) Rules and Regulations do not explicitly lay down detailed accounting policies, such policies, which are laid down under SEBI (Mutual Fund) Regulations, are being followed). The existing policy is: -

- a) Dividend income earned by the Portfolio shall be recognized, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments, which are not quoted on the stock exchange, dividend income would be recognized on the date of declaration of dividend.
- b) In respect of all interest-bearing investments, income shall be accrued on a day-to-day basis as it is earned. Therefore, when such investments are purchased, interest paid for the period from the last interest due date up to the date of purchase should not be treated as a cost of purchase but shall be debited to interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date up to the date of sale must not be treated as an addition to sale value but shall be credited to Interest Recoverable Account.
- c) In determining the holding cost of investments the "Weighted average price (WAP)" method shall be followed for each security and the gains or loss on sale of investments, "First in first out (FIFO)" method shall be followed.
- d) Transactions for purchase or sale of investment shall be recognized as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial



statements for that year. Where investment transactions take place outside the stock market, for example, acquisition through private placement or purchases or sales through private treaty, the transaction would be recorded, in the event of a purchase, as of the date on which the portfolio obtains an enforceable obligation to pay the price or in the event of a sale. When the portfolio obtains an enforceable obligation to pay the price or, in the event of a sale, when the portfolio obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.

- e) Bonus shares to which the portfolio becomes entitled shall be recognized only when the original shares on which the bonus entitlement accrues are traded on the Stock Exchange, Mumbai on an ex-bonus basis. Similarly, rights entitlements shall be recognized only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-right basis.
- f) The cost of investments acquired or purchased shall include grossed-up brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered may be reduced from the cost of the investment.
- g) Underwriting commission shall be recognized as revenue only when there is no devolvement on the Portfolio. Where there is devolvement on the Portfolio, the full underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment.h) Traded Securities shall be valued on the basis of closing market rates on the National Stock Exchange (NSE) as on the relevant valuation date. If the client's security is not listed on the NSE, latest available quote within a period of thirty days prior to the valuation date on any other major stock exchange where the client security may be listed would be considered. In the event of this date being a holiday at the exchange, the rates as on the immediately preceding trading day shall be adopted
- i) Mutual fund units shall be valued at the latest available net asset value closest to the valuation date.
- j) Rights entitlements for shares shall be valued at the market price of the share, reduced by the exercise price payable, and further discounted for dividend element, wherever applicable.
- k) The debt securities invested in shall be valued on a cost plus accrual basis.
- l) In the event, the quoted value of a security is not available or a security is no longer listed, the Portfolio Manager may in consultation with the client, determine the value of the security as per applicable established norms.
- m) Government Securities will be valued on amortization basis.

### **13. INVESTORS SERVICES:**

The name, address and telephone number of the Investor Relation Officer who shall attend to the investor queries and complaints to MRS. Bichitra Mahapatra, D.G.M (FIN.), & Mrs Geetanjali R. Naik, Manager (FIN.) at

LIC Nomura MF Asset Management Company Ltd.  
 Industrial Assurance Building  
 4<sup>th</sup> Floor, Opp. Churchgate Station  
 Mumbai-400 020  
 Tel. No. (022) 22885774  
 Fax No. (022) 2283 5606  
 E-Mail – [pms@licnomuramf.com](mailto:pms@licnomuramf.com)

All disputes whatsoever arising will be resolved as per the dispute resolution mechanism of arbitration as more appropriately stated in the Portfolio Management Services Agreement to be entered into with the client.

## 5. DISCLAIMER

**This document is purely for the purposes of providing information and every effort has been made to truly represent the facts and circumstances herein. Incorrect information if any is by accident and the publisher of this document will not be liable in any manner whatsoever and in any circumstances whatsoever for the same.**

**Notwithstanding anything contained in this Disclosure Document, the provisions of SEBI (Portfolio Managers) Regulations 1993 and the rules shall be applicable.**

**Date: 15.06.2012**

**Place: Mumbai**

**Signatures of Directors**

Shri D K Mehrotra

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Shri T S Vishwanath

\_\_\_\_\_

Shri A N Kumar Raj

\_\_\_\_\_

Shri S K Mitra

\_\_\_\_\_

Shri V K Sharma

\_\_\_\_\_

Shri Yugo Ishida

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Shri Vikas Sharma

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Shri Aditya Narayan

\_\_\_\_\_

Prof. Marti Subhramanyam

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Shri Nilesh Sathe

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