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# LIC MUTUAL FUND

## LIC MF Dividend Yield Fund

### Abstract

India's equity investment market has evolved, yet a gap remains between growth-focused strategies that bring volatility and income-focused strategies that often lag in long-term wealth creation. LIC Mutual Fund introduced the LIC MF Dividend Yield Fund on 21 December 2018 to bridge this divide. The fund invests in companies with strong dividend yields, sturdy fundamentals and sustainable growth potential, using a market-cap-agnostic, diversified approach. Benchmarking against NIFTY 500 TRI, it aims to provide both capital appreciation and steady income, offering investors a strategy that approaches long-term wealth creation with stability and resilience.

### Introduction

LIC Mutual Fund launched the LIC MF Dividend Yield Fund to offer equity investors a stable solution: a focus on companies with sustainable dividends, strong cash flows and a track record of reinvestment. Since 21 December 2018, the fund has targeted investors seeking both growth and regular income within a single product.

The initiative responded to increasing investor demand for lower-volatility equity products that remain resilient in uncertain environments while supporting long-term wealth. The fund uses a disciplined strategy focused on fundamentally strong businesses with consistent dividends and sustainable cash flow, while avoiding value traps associated with unsustainable high-yield stocks.

The portfolio's market-cap agnostic, benchmarked strategy ensures diversified sector exposure. Allocations focus on dividend-rich sectors such as financials,

capital goods and consumer staples. The scheme offers both Growth and Income Distribution cum Capital Withdrawal (IDCW) options and provides Regular and Direct plans to meet diverse investor requirements.

**The Problem Statement** India's equity mutual fund ecosystem has historically been dominated by growth-focused investment strategies that primarily aim to maximise capital appreciation. While such strategies can generate significant returns during bullish market phases, they often expose investors to elevated volatility and inconsistent income streams.

A substantial gap, therefore, existed for investors seeking a balanced investment solution that could combine long-term growth with periodic income. Traditional equity schemes generally ignored the defensive characteristics and stability associated with dividend-paying businesses.

The problem became particularly significant during volatile market conditions when investors increasingly sought lower-volatility investment products capable of preserving wealth while still participating in long-term equity growth.

Another challenge was the presence of "dividend traps" in the market. Companies with high dividend yields often have weak fundamentals, declining balance sheets, poor reinvestment or unsustainable payouts. Investors attracted by these high yields often saw their capital shrink and underperform.

Many Indian mutual funds did not establish dedicated dividend-yield-focused investment frameworks during this period, limiting investor access to professionally managed equity-income strategies. The bigger challenge was to build an equity strategy offering reliable income, disciplined risk management and long-term wealth. This had to be done without reducing portfolio quality or growth.

LIC Mutual Fund identified this gap and responded with a resilient strategy centered on fundamentally strong, sustainable dividend-paying companies, targeting stability, income and long-term growth together.

**Solutions Stack** The LIC MF Dividend Yield Fund team implemented a multi-layered investment framework that evaluates dividend sustainability, actively manages portfolios, diversifies market-cap exposures and screens for long-term growth.

The first component designs a market-cap-agnostic equity strategy by focusing on companies with sustainable dividend payouts and strong reinvestment potential. Stock selection relies on positive cash flows, consistent dividends, prudent capital allocation and returns above the cost of capital.

The third part adds "growth plus yield" filters to ensure long-term growth and regular income. This prevents the portfolio from becoming overly focused on slow-growing or weak firms. The fourth step is to monitor the portfolio and change sector positions as needed. The fund reduces exposure to weaker sectors and invests more in stable sectors such as financials, capital goods and consumer staples.

The fund offers investors a choice between Growth and IDCW options. For IDCW, both reinvestment and payout are available. Both Direct and Regular investment plans are offered. The exit load design supports investor flexibility and long-term investment. Investors can redeem up to 12% of units within 12 months at no charge. Redemptions above this within 12 months have a 1% charge. No exit load applies after 12 months. By benchmarking against NIFTY 500 TRI, the fund ensures diversified market representation and enables transparent performance evaluation.

## Strategic Vision and Institutional Philosophy

LIC Mutual Fund planned the LIC MF Dividend Yield Fund to create a stable, diversified platform for long-term wealth. This approach centers on strong companies that pay dividends. The company recognised that modern investors increasingly require investment products that balance growth aspirations with downside protection and income generation. The strategic philosophy underlying the initiative was built around four key pillars.

The first pillar focused on selecting companies with sustainable dividend-paying capacity and strong operating cash flows.

The second emphasised long-term capital appreciation through disciplined equity investing and the evaluation of reinvestment opportunities.

The third pillar involved avoiding value

traps by rigorously screening businesses with strong quality management, positive cash flows and returns exceeding the cost of capital.

The fourth pillar focused on maintaining resilience across market cycles through diversified sector allocation and active portfolio monitoring. LIC Mutual Fund also demonstrated its wider organisational commitment through disciplined, research-driven investing and investor-centric portfolio management.

## Implementation Journey

LIC Mutual Fund began operating the LIC MF Dividend Yield Fund on 21 December 2018 as part of a broader effort to diversify its equity-oriented investment portfolio and strengthen investor participation in dividend-focused investing.

The first implementation phase focused on building a differentiated investment framework that highlights sustainable dividend-paying businesses rather than merely high-yield stocks. The fund management team established rigorous screening procedures and prioritised positive operating cash flows, dividend sustainability, prudent management quality and reinvestment capability.

The next phase refined portfolio composition, optimising allocations toward stable, dividend-rich sectors and reducing

exposure to cyclical businesses. In the third phase, the investment team actively monitored the portfolio and responded to market conditions. They continuously evaluated changing macroeconomic conditions, dividend sustainability, valuation trends and sectoral opportunities.

Simultaneously, LIC Mutual Fund undertook investor awareness initiatives to educate investors on dividend-yield investing as an equity-oriented wealth-creation strategy rather than a fixed-income substitute. The initiative subsequently gathered momentum among investors seeking lower-volatility equity exposure alongside income-generating characteristics.

## Implementation Challenges

The implementation process encountered several strategic and operational challenges. One of the main challenges was avoiding dividend traps by making sure that portfolio companies had sustainable dividend-paying capacity, strong reinvestment potential and healthy operating fundamentals, rather than merely attractive headline yields.

Another significant challenge involved investor perception management. Many investors initially viewed dividend-yield funds as substitutes for fixed-income products rather than as equity-oriented long-term wealth-creation vehicles. Extensive investor education was therefore required to clarify the fund's risk-return characteristics.

The fund additionally faced temporary performance pressures during market phases dominated by aggressive growth investing rather than value-oriented or

dividend-focused strategies. Operationally, balancing portfolio stability with long-term growth opportunities required continuous optimisation of sector allocations and stock selection frameworks.

The strategy also faced certain structural limitations, including relatively lower exposure to high-growth, low-dividend businesses, which occasionally constrained upside participation during momentum-driven market rallies.

## Highlights

- LIC Mutual Fund launched the LIC MF Dividend Yield Fund in December 2018 to provide investors with a balanced equity strategy combining long-term capital appreciation, regular income and lower volatility through investments in sustainable dividend-paying companies.
- The fund addressed gaps in traditional growth-focused mutual fund strategies by offering a resilient investment approach focused on stable cash flows, disciplined risk management and protection against market volatility and dividend traps.
- Using a market-cap-agnostic and diversified framework benchmarked against the NIFTY 500 TRI, the fund selects fundamentally strong companies with sustainable dividends, prudent capital allocation and long-term growth potential.
- The strategy combines active portfolio monitoring, sector diversification and "growth plus yield" filters, while offering investors flexible Growth and IDCW options through both Direct and Regular plans.
- The initiative strengthened investor participation in dividend-yield investing, benefited around 9.6 lakh investors, improved portfolio resilience across market cycles and established a scalable framework for long-term wealth creation through disciplined dividend-focused investing.

**Outcomes** LIC MF Dividend Yield Fund generated substantial investor participation, portfolio quality and long-term wealth creation outcomes. The initiative achieved strong investor adoption and emerged as a preferred investment option for those looking for a combination of growth and income amid volatile market conditions. The product has strengthened investor awareness regarding dividend-yield investing as a hedge against market volatility and inflation while supporting disciplined long-term investing behaviour.

Portfolio quality improved significantly through systematic avoidance of value traps and prioritisation of fundamentally strong dividend-paying companies with sustainable cash flows and prudent capital allocation. The initiative currently benefits the entire ecosystem of external beneficiaries, reflecting substantial institutional scale and market participation.

Operationally, the fund maintained steadiness across market cycles through diversified sector allocation, active monitoring and disciplined portfolio management. Institutionally, the initiative strengthened LIC Mutual Fund's positioning within India's equity mutual fund ecosystem by introducing a differentiated dividend-yield-focused strategy aligned with evolving investor needs.

The fund has created a scalable framework for future dividend-focused investment solutions and broader thematic equity fund innovation.

**Conclusion** This fund represents an important innovation within India's equity mutual fund landscape by successfully integrating long-term capital appreciation with sustainable income generation.

Through disciplined stock selection, dividend sustainability evaluation, active portfolio monitoring and diversified sector allocation, LIC Mutual Fund addressed a critical gap between aggressive growth investing and stable income-oriented investing.

The initiative demonstrates that dividend-yield-focused investing can be a strong, effective long-term wealth-creation strategy, balancing stability, growth and income generation in uncertain market environments. Importantly, the product reinforces the principle that successful dividend investing calls for rigorous focus on business quality, operating cash flows, reinvestment capacity and management discipline rather than merely chasing high headline yields.



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