SUNDARAM MUTUAL

Notice cum Addendum to the unitholders of Sundaram Banking & PSU Debt Fund, Sundaram Bond Saver, Sundaram Flexible Fund Flexible Income Plan, Sundaram Income Plus, Sundaram Money Fund, Sundaram Monthly Income Plan (Aggressive), Sundaram Select Debt Short-Term Asset Plan, Sundaram Ultra Short Term Fund

Changes in Fundamental Attribute

NOTICE IS HEREBY GIVEN THAT, in accordance with SEBI Circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017 and SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 04, 2017, Sundaram Trustee Company Limited (Trustee to Sundaram Mutual Fund), has approved the following changes in the Scheme Information Document and Key Information Memorandum of Sundaram Banking & PSU Debt Fund, Sundaram Bond Saver, Sundaram Flexible Fund Flexible Income Plan, Sundaram Income Plus, Sundaram Money Fund, Sundaram Monthly Income Plan (Aggressive), Sundaram Select Debt Short-Term Asset Plan, Sundaram Ultra Short Term Fund, **with effect from 04/05/2018, ("Effective Date")**. SEBI vide their letter no. IMD/DF3/OW/P/2018/6389/1 dated 28/02/2018 has conveyed their no objection to the proposed changes.

Sundaram Banking & PSU Debt Fund

Particulars	Existing			Proposed		
Fund Name	Sundaram Banking & PSU Debt Fund			Sundaram Banking & PSU Debt Fund		
Type of scheme	An open-end Income scheme			An open ended debt scheme predominantly investing in debt instruments of Banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds		
Fund Objective	To generate reasonable returns by creating a portfolio comprising substantially of fixed income instruments and money market instruments by keeping the interest rate risk of the fund low.			To generate income and capital appreciation by predominantly investing in debt instruments of Banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds		
Asset allocation	Money market and debt* securities issued by banks, public sector undertakings (PSUs) and Public Financial Institutions PFIs)	80-100%	Low to Medium	Money market and debt* securities issued by Banks, Public Sector Undertakings (PSUs) and Public Financial Institutions PFIs) and Municipal Bonds	80-100%	Low to Medium
	Other debt* and money market securities	Upto 20%	Low to Medium	Other Debt and Money Market Securities *	Upto 20%	Low to Medium
	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Investment in Securitised Debt will be upto 35% of the net assets of the Plan. • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.			• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Investment in Securitised Debt will be upto 50% of the net assets of the Plan. • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits		
Duration	Not Applicable			Not Applicable		
Investment Strategy	As per SID – No Change			As per SID – No Change		
Investment Restrictions	• Investment in Securitised Debt will be upto 35% of the net assets of the Plan. • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.			• Investment in Securitised Debt will be upto 50% of the net assets of the Plan. • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits		
Benchmark	CRISIL Short Term Bond Fund Index			CRISIL AAA Short Term Bond Fund Index		
Product Suitability	This product is suitable for investors who are seeking • Short term income • Reasonable returns from a portfolio comprising substantially of fixed income and money market instruments by keeping the interest rate risk of the fund low			This product is suitable for investors who are seeking • Income • Capital appreciation from a portfolio comprising substantially of fixed income and money market instruments of Banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds		
Riskometer	Moderately Low Risk			Moderately Low Risk		

Sundaram Bond Saver

Particulars	Existing			Proposed		
Fund Name	Sundaram Bond Saver			Sundaram Medium Term Bond Fund		
Type of scheme	An open-end Income scheme			An open ended medium term debt scheme investing in Debt & Money Market instruments such that the Macaulay duration* of the portfolio is between 3 and 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years. * *The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.*		
Fund Objective	To earn regular income by investing primarily in fixed income securities, which may be paid as dividend or reinvested at the option of the investor. A secondary objective is to attempt to keep the value of its units reasonably stable.			To generate income and capital appreciation by investing in Fixed Income Securities and Money Market Instruments.		
Asset allocation	Debt instruments	65-100%	Low to medium	Debt instruments & Money Market Instruments, Cash and Cash equivalents* *Ensuring that the Macaulay duration of the portfolio will be maintained between 3 years-4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years.*	Upto 100%	Low to medium
	Money Market Investments	Upto 40%	Low	—	—	—
	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Debt securities may include securitised debts up to 100% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.			• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme. • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits		

Duration	Not Applicable	Macaulay duration of the portfolio is between 3 years and 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years. Also whenever the portfolio duration is reduced below the specified floors of 3 years and 4 years in respect of Medium Duration Fund, the AMC shall be required to record the reasons for the same with adequate justification and maintain the same for inspection. The written justifications shall be placed before the Trustees in the subsequent Trustee meeting. Further, the Trustees shall also review the portfolio and report the same in their Half Yearly Trustee Report to SEBI.
Investment Strategy	Based on the interest rate view, the optimum duration of the portfolio is first determined. Then depending on this decision, the mix of G-Secs, corporate debt, money market instruments, and cash is arrived at. This mix tries to ensure that returns are maximized while still protecting the liquidity of the portfolio. Within corporate debt, a further decision is taken: the weights of AAA (pronounced 'triple A') rated instruments and Sub-AAA rated instruments are determined. The Scheme may invest in fixed income instruments of shorter or longer maturities, depending upon the interest rate outlook. Purchase of debt may be made either through initial public offer, private placement, through rights offerings, purchase on the floor of a recognised stock exchange or through negotiated deals on the secondary market. The Scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The fund does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. The fund shall invest in the instruments rated as investment grade or above by a recognised rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. Pending deployment of funds in terms of investment objectives of the Scheme, the funds may be invested in short term deposits with Scheduled Commercial Banks and money market instruments. The Scheme being debt oriented, shall invest a substantial portion ranging between 65%-100% of the investible funds in debt instruments, for which there is no regular and established market. While lack of liquidity in the Indian debt markets remains a matter of concern, the fund shall try to tackle this by earmarking a certain portion of the investible funds for investment in government securities and liquid, top rated corporate / PSU debt. Apart from this, a portion of the fund shall be invested in extremely liquid money market investments. With this composition, the Scheme shall be able to meet the normal repurchase / redemption requirement. The focus of the Scheme would be to generate regular returns on the portfolio, while maintaining low risk profile. While, generally the investment policy will be "Buy and hold" due to the low liquidity in the debt market, we may actively trade on debt investments as and when trading volumes improve. However, it is difficult to estimate with reasonable accuracy, the likely turnover in the portfolio of the Scheme. The Scheme has no specific target relating to portfolio turnover. In case of dealings in PSU bonds and government securities and money market investments, the portfolio turnover may be substantially higher due to low transaction costs and faster transfer of ownership. The portfolio turnover in corporate debt may, however, increase, once the trading volumes improve. The fund, in future, if regulations permit, may: 1. Invest in debt instruments issued by companies incorporated outside India but rated by reputed international credit rating agencies as investment grade. 2. Securities issued by Indian corporates in foreign currency. In cases where the repurchase/ redemption requirements are large, the Scheme may sell a part of debt instruments. The Scheme may also resort to temporary borrowing within the limits laid down by SEBI. The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable Regulations. Though every endeavour will be made to achieve the objective of the Scheme, the Investment Manager/Sponsors/Trustee do not guarantee that the investment objective of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme.	The mix of investments is arrived at to be in line with the requirement of maintaining the Macaulay duration of the portfolio between 3 and 4 years. Within corporate debt, a further decision is taken - the weights of AAA (pronounced 'triple A') rated instruments and sub-AAA rated instruments are determined. The Scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The fund does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. The fund shall invest in the instruments rated as investment grade or above by a recognized rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The focus of the Scheme would be to generate income and capital appreciation on the portfolio. The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable Regulations. Though every endeavour will be made to achieve the objective of the Scheme, the Investment Manager / Sponsors/Trustee do not guarantee that the investment objective of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme.
Investment Restrictions	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Debt securities may include securitised debts up to 100% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme. • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Benchmark	CRISIL Composite Bond Fund Index	Combination of CRISIL AAA Medium Term Bond (60%) and CRISIL AA Medium Term Bond (40%)
Product Suitability	This product is suitable for investors who are seeking • Income over medium to long term, • Regular income by investing primarily in fixed income securities	This product is suitable for investors who are seeking • Income and Capital appreciation by investing in a portfolio comprising of fixed income securities with Macaulay Duration between 3 to 4 years.
Riskometer	Moderate Risk	Moderate Risk

Sundaram Flexible Fund Flexible Income Plan

Particulars	Existing			Proposed		
Fund Name	Sundaram Flexible Fund Flexible Income Plan			Sundaram Corporate Bond Fund		
Type of scheme	An open-end Income scheme			An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds		
Fund Objective	To generate reasonable returns by creating a portfolio comprising substantially of fixed income instruments and money market instruments by keeping the interest rate risk of the fund low.			To generate income and capital appreciation by investing predominantly in AA+ and above rated corporate bonds.		
Asset allocation	Fixed Income Instruments, Government of India & Corporate Debt Securities (including Securitised Debt)	65-100%	Low to medium	Investment in corporate bonds (only in AA+ and above rated corporate bonds).	80%-100 %	Low to medium
	Money Market Instruments like CPs, CBLO, REPO, MIBOR Instruments, Debt Securities with initial maturity of less than one year / GOI Secs. / Treasury Bills	Upto 35%	Low to Medium	Other debt securities and Money Market Instruments, Cash and Cash Equivalents	0%-20%	Low to medium
	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 35% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.			• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits		
Duration	Not Applicable			Not Applicable		
Investment Strategy	Based on the interest rate view, the optimum duration of the portfolio is first determined. Then depending on this decision, the mix of G-Secs, corporate debt, money market instruments, and cash is arrived at. This mix tries to ensure that returns are maximized while still protecting the liquidity of the portfolio. The schemes may invest in fixed-income instruments/money market instruments of shorter or longer maturities, depending upon the interest rate outlook and the investment objective of the scheme. Purchase of debt may be made either through initial public offer, private placement, through rights offerings, purchase on the floor of a recognised stock exchange or through negotiated deals on the secondary market. The schemes may invest in the non-publicly offered securities on the merits of the investment proposals. The Investment Manager shall invest in the instruments rated as investment grade or above by a recognised rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The Investment Manager will keep in mind the Investment Objectives of the Scheme and the applicable Regulations. Though every endeavour will be made to achieve the objective of the Scheme, the Investment Manager/Sponsor/Trustee do not guarantee that the investment objectives of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme.			The objective of the Scheme is to generate income and capital appreciation by investing predominantly in highest rated corporate bonds. The Scheme will invest in Corporate Debt Securities and Money Market Instruments with various maturities to take advantage of various interest rate scenarios. Since corporate debt normally trade above government securities, the Scheme aims to benefit from the spreads over the Government Securities. Though every endeavor will be made to achieve the objective of the Scheme, the Investment Manager / Sponsors / Trustee do not guarantee that the investment objective of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme. Investments would be made in accordance with the investment objective of the Scheme and the provisions of the SEBI (MF) Regulations. The Investment Manager will strive to achieve the investment objective by way of a judicious portfolio mix comprising of Debt and Money Market Instruments. Every investment opportunity in Debt and Money Market Instruments would be assessed with regard to credit risk, interest rate risk, liquidity risk, derivatives risk and concentration risk.		
Investment Restrictions	• Debt securities may include securitised debts up to 35% of the net assets • The scheme shall not invest in repo in corporate bond • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap			• Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in credit default swaps subject to applicable limits		
Benchmark	CRISIL Composite Bond Fund Index			CRISIL AAA Medium Term Bond Index		
Product Suitability	This product is suitable for investors who are seeking • Income over short to medium term, • Reasonable returns from a portfolio comprising substantially of fixed income and money market instruments by keeping the interest rate risk of the fund low			This product is suitable for investors who are seeking • Income and Capital appreciation from a portfolio comprising substantially of fixed income and money market instruments of AA+ and above rated corporate bonds		
Riskometer	Moderate Risk			Moderate Risk		

Sundaram Income Plus

Particulars	Existing			Proposed		
Fund Name	Sundaram Income Plus			**Sundaram Short Term Credit Risk Fund**		
Type of scheme	An open-end Income scheme			An open ended debt scheme predominantly investing in AA and below rated corporate bonds		
Fund Objective	To obtain high yields by investing in fixed income securities. Capital appreciation is secondary objective when consistent with its primary objective.			To generate income and capital appreciation by predominantly investing in AA and below rated corporate bonds		
Asset allocation	High Yield Securities including securitised debt	Upto 100%	Medium	Investment in AA* and below rated corporate bonds **excludes AA+ rated corporate bonds.*	65%-100%	Medium to High
	Convertible Debentures /Bonds and Preference shares	Upto 15%	Medium to High	Other Debt & Money Market Instruments, Cash and Cash equivalents	0-35%	Low to High
	High Investment Grade Fixed Income Securities	Upto 100%	Medium			
	Central Government Securities	Upto 50%	Low to Medium			
	Money Market Investments (excluding call money)	Upto 50%	Low			
	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Debt securities may include securitised debts up to 100% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap			• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits		

Duration	Not Applicable	Not Applicable
Investment Strategy	The scheme will have substantially higher risk compared to a scheme investing predominantly in sovereign or AAA rated debt. High Yield securities are defined as unrated securities or securities rated below "AAA" by rating agencies. Thus most of the investments will fall in the rating categories AA (High safety), A (Adequate safety) and BBB (Moderate Safety). If the regulations are changed to allow investment in lower rated securities, the Scheme may invest in Speculative Grade securities as well. Equivalent short-term rating shall be Crisil P2 (or similar rating by other agencies). The fund manager considers economic factors such as the effect of interest rates on the Scheme's investments. He also applies a "bottom up" approach in choosing investments. This means that the Scheme's fund manager looks at income producing securities one at a time to determine if an income -producing security is an attractive investment opportunity and consistent with the Scheme's investment policies. If a fund manager is unable to find such investments, the Scheme's assets may be in cash or similar investments. The Scheme will also attempt to provide capital appreciation by identifying securities that could be potentially upgraded by rating agencies. Based on the interest rate view, the optimum duration of the portfolio is first determined. Then depending on this decision, the mix of G-Secs, corporate debt, money market instruments, and cash is arrived at. This mix tries to ensure that returns are maximized while still protecting the liquidity of the portfolio. Within corporate debt, a further decision is taken: the weights of AAA (pronounced 'triple A') rated instruments and Sub-AAA rated instruments are determined. The scheme may invest in fixed income instruments of shorter or longer maturities, depending upon the interest rate outlook. Purchase of debt may be made either through initial public offer, private placement, through rights offerings, purchase on the floor of a recognised stock exchange or through negotiated deals on the secondary market. The scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The fund does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. The fund shall invest in the instruments rated as investment grade or above by a recognised rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The scheme being debt-oriented, shall invest a substantial portion ranging between 65%-100% of the investible funds in debt instruments, for which there is no regular and established market. While lack of liquidity in the Indian debt markets remains a matter of concern, the fund shall try to tackle this by earmarking a certain portion of the investible funds for investment in government securities and liquid, top rated corporate / PSU debt. Apart from this, a portion of the fund shall be invested in extremely liquid money market investments. With this composition, the scheme shall be able to meet the normal repurchase / redemption requirement. The focus of the Scheme would be to generate regular returns on the portfolio, while maintaining moderate risk / moderately high risk profile. While, generally the investment policy will be "Buy and hold" due to the low liquidity in the debt market, we may actively trade on debt investments as and when trading volumes improve. However, investments in corporate debt attracting high brokerage and stamp duty, is unlikely to exceed 300% per year. In case of dealings in PSU bonds and government securities and money market investments, the portfolio turnover may be substantially higher due to low transaction costs and faster transfer of ownership. The portfolio turnover in corporate debt may, however, increase, once the trading volumes improve. The fund, in future, if regulations permit, may: 1. Invest in debt instruments issued by companies incorporated outside India but rated by reputed international credit rating agencies as investment grade. 2. Securities issued by Indian corporates in foreign currency. In cases where the repurchase/ redemption requirements are large, the scheme may sell a part of debt instruments. The scheme may also resort to temporary borrowing within the limits laid down by SEBI The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable Regulations. Though every endeavour will be made to achieve the objective of the Schemes, the Investment Manager / Sponsor / Trustee do not guarantee that the investment objectives of the Schemes will be achieved. No guaranteed returns are being offered under the Schemes.	The scheme will invest predominantly in AA and below rated corporate bonds with the aim to generate higher returns than from a portfolio comprising of purely investments in debt securities with the highest credit rating. Hence the portfolio is likely to have a higher Credit risk compared to a portfolio comprising of AA+ and above securities. The fund manager considers economic factors such as the effect of interest rates on the Scheme's investments. He also applies a "bottom up" approach in choosing investments. This means that the Scheme's fund manager looks at income producing securities one at a time to determine if an income -producing security is an attractive investment opportunity and consistent with the Scheme's investment policies. If a fund manager is unable to find such investments, the Scheme's assets may be in cash or similar investments. The Scheme will also attempt to provide capital appreciation by identifying securities that could be potentially upgraded by credit rating agencies. Based on the interest rate view, the optimum duration of the portfolio is first determined. Then depending on this decision, the mix of investments is arrived at - the weights of AAA (pronounced 'triple A') rated instruments and sub-AAA rated instruments are determined. The scheme may invest in fixed income instruments of shorter or longer maturities, depending upon the interest rate outlook. Purchase of debt may be made either through initial public offer, private placement, through rights offerings, purchase on the floor of a recognized stock exchange or through negotiated deals on the secondary market. The scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The fund does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. The fund shall invest in the instruments rated as investment grade or above by a recognized rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable Regulations. Though every endeavor will be made to achieve the objective of the Schemes, the Investment Manager / Sponsor / Trustee do not guarantee that the investment objectives of the Schemes will be achieved. No guaranteed returns are being offered under the Schemes.
Investment Restrictions	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Debt securities may include securitised debts up to 100% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 50% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Benchmark	CRISIL Composite Bond Fund Index	CRISIL A Short Term Bond Index 15%; CRISIL AA Short Term Bond Index 35% and CRISIL Ultra Short Term Bond Index 50%
Product Suitability	This product is suitable for investors who are seeking • Income over medium to long term, • High yields by investing in fixed income securities	This product is suitable for investors who are seeking • High yield and capital appreciation by investing in a portfolio comprising predominantly of AA and below rated corporate bonds.
Riskometer	Moderate Risk	Moderate Risk

Sundaram Money Fund

Particulars	Existing	Proposed
Fund Name	Sundaram Money Fund	Sundaram Money Fund
Type of scheme	An open-end liquid scheme	An open ended liquid scheme
Fund Objective	To provide a level of income consistent with the preservation of capital, liquidity and lower level of risk, through investments made primarily in money market and debt securities. The aim is to optimize returns while providing liquidity.	To provide a level of income consistent with the preservation of capital, liquidity and lower level of risk, through investments made primarily in money market and debt securities. The aim is to optimize returns while providing liquidity.
Asset allocation	Money Market Instruments, debt securities* | 0-100% | Low to Medium • The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. ** Investment in Securitised Debt will be upto 50% of the net assets of the Plan.* • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	Debt securities, Money Market Instruments, cash and cash equivalents * | 0-100% | Low to Medium • Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. ** Investment in Securitised Debt will be upto 25% of the net assets of the scheme* • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Duration	Upto 91 days	Upto 91 days
Investment Strategy	As per SID – No Change	As per SID – No Change
Investment Restrictions	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Investment in Securitised Debt will be upto 50% of the net assets of the Plan. • The scheme shall not invest in repo in corporate bond • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Investment in Securitised Debt will be upto 25% of the net assets of the scheme • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in credit default swaps subject to applicable limits
Benchmark	CRISIL Liquid Fund Index	CRISIL Liquid Fund Index
Product Suitability	This product is suitable for investors who are seeking • Short term income • preservation of capital, liquidity and lower level of risk through investments made primarily in money market and debt securities	This product is suitable for investors who are seeking • Short term income • preservation of capital, liquidity and lower level of risk through investments made primarily in money market and debt securities
Riskometer	Low Risk	Low Risk

Sundaram Monthly Income Plan (Aggressive)

Particulars	Existing	Proposed
Fund Name	Sundaram Monthly Income Plan (Aggressive)	Sundaram Debt Oriented Hybrid Fund
Type of scheme	An open-end Income scheme	An open ended hybrid scheme investing predominantly in debt instruments
Fund Objective	To generate regular income through investment in fixed income securities. The secondary objective is to generate long term capital appreciation by investing a portion of the schemes assets in equity and equity related instruments.	To generate income and capital appreciation through investments predominantly in fixed income securities and in equity and equity related instruments.
Asset allocation	Government Securities | 70-100% | Low Debt Securities, Money Market instruments & Cash (Including money at Call, other than securitised debt) | 70-100% | Low to Medium Equity & Equity related securities | upto 30% | High Units issued by REITs & InvITs | Upto 10% | Medium to High • The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Investment in Securitised Debt will be upto 70% of the net assets of the Plan. • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	— | — | — Debt Securities, Money Market instruments & Cash and Cash Equivalents | 75%-90% | Low to medium Equity & Equity related instruments | 10%-25% | High Units issued by REITs & InvITs | Upto 10% | Medium to High • Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Investment in Securitised Debt will be upto 50% of the net assets of the Plan. • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Duration	Not Applicable	Not Applicable
Investment Strategy	As per SID – No Change	As per SID – No Change
Investment Restrictions	• The Scheme may invest in derivative within the limits prescribed under SEBI regulations for the purpose of hedging and portfolio rebalancing. • Investment in Securitised Debt will be upto 70% of the net assets of the Plan. • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Investment in Securitised Debt will be upto 50% of the net assets of the Plan. • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Benchmark	CRISIL MIP Blended Index	CRISIL Hybrid 85+15 -Conservative Index
Product Suitability	This product is suitable for investors who are seeking • Income over medium to long term, • Regular income through investment in fixed income securities and long term capital appreciation by investing a portion of the assets in equity and equity related instruments	This product is suitable for investors who are seeking • Income over medium to long term • Capital appreciation by investing a portion of the assets in equity and equity related instruments
Riskometer	Moderately High Risk	Moderately High Risk

Sundaram Select Debt Short-Term Asset Plan

Particulars	Existing	Proposed
Fund Name	Sundaram Select Debt Short-Term Asset Plan	Sundaram Short Term Debt Fund
Type of scheme	An open-end Income scheme	An open ended short term debt scheme investing in instruments such that the Macaulay duration* of the portfolio is between 1 year and 3 years. ** The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.*
Fund Objective	To earn regular income by investing primarily in fixed income securities, which may be paid as dividend or reinvested at the option of the investor. A secondary objective is to attempt to keep the value of its units reasonably stable.	To generate income and capital appreciation by investing primarily in fixed income securities & money market instruments.
Asset allocation	Debt instruments (including investment in securitised debt) | 65-100% | Low to medium	Debt instruments & Money Market instruments, cash and cash equivalents* **Ensuring that the Macaulay duration of the portfolio will be maintained between 1 & 3 years* | Upto 100% | Low to medium

	Money Market Investments	Upto 35%	Low	—	—	—

	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 100% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 25% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Duration	Not Applicable	Macaulay duration of the portfolio is between 1 year – 3 years
Investment Strategy	The funds will be invested in securities that fulfil the plan's maturity criterion. The Fund Manager will not take active decision on fixing the maturity of the plan. As mentioned, elsewhere, in case, the size of the Plan falls below Rs. 50 Crores, funds may be invested in money market instruments or securities of lower maturity than the stated maturity of the plan. Purchase of debt may be made either through initial public offer, private placement, through rights offerings, purchase on the floor of a recognised stock exchange or through negotiated deals on the secondary market. The scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The scheme does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. However, the small size of individual plans, could at times result in concentration in industry, sector or promoter group. The scheme shall invest in the instruments rated as investment grade or above by a recognised rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The scheme being debt oriented shall invest in debt instruments, for which there is no regular and established market. While lack of liquidity in the Indian debt markets remains a matter of concern, the fund shall try to tackle this by earmarking a certain portion of the investible funds for investment in government securities and liquid, top rated corporate / PSU debt. Apart from this, a portion of the fund may be invested in extremely liquid money market investments. With this composition, the scheme shall attempt to meet the normal repurchase / redemption requirement. The focus of the Plan would be to generate regular returns on the portfolio. In each plan attempts will be made to actively trade in securities. However, investments in corporate debt attracting high brokerage and stamp duty, is unlikely to exceed 5 times per year. In case of dealings in PSU bonds and government securities and money market investments, the portfolio turnover may be substantially higher due to low transaction costs and faster transfer of ownership. In cases where the repurchase / redemption requirements are large, the plan may sell a part of debt instruments. The scheme may also resort to temporary borrowing within the limits laid down by SEBI The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable regulations. Though every endeavour will be made to achieve the objective of the Schemes, the Investment Manager / Sponsor / Trustee do not guarantee that the investment objectives of the Schemes will be achieved. No guaranteed returns are being offered under the Schemes.	The mix of investments is arrived at to be in line with the requirement of maintaining the Macaulay duration of the portfolio between 1 and 3 years. The scheme may invest in the non-publicly offered securities on the merits of the investment proposals. The scheme does not aim to concentrate investments in any particular industry. The investment shall be made across industries, sector and promoter groups. The scheme shall invest in the instruments rated as investment grade or above by a recognized rating agency. In case, the instruments are not rated, specific approval of the Board of Directors of the Investment Manager or a committee constituted by the Board of Directors of Trustees shall be obtained. The focus of the Scheme would be to generate income and capital appreciation on the portfolio. The Investment Manager will keep in mind the Investment Objective of the Scheme and the applicable regulations. Though every endeavour will be made to achieve the objective of the Schemes, the Investment Manager / Sponsor / Trustee do not guarantee that the investment objectives of the Schemes will be achieved. No guaranteed returns are being offered under the Schemes.
Investment Restrictions	• Debt securities may include securitised debts up to 100% of the net assets • The scheme shall not invest in repo in corporate bond • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.	• Debt securities may include securitised debts up to 25% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in credit default swaps subject to applicable limits
Benchmark	CRISIL Short Term Bond Fund Index	CRISIL Short Term Bond Fund Index
Product Suitability	This product is suitable for investors who are seeking • Income over short to medium term, • To earn regular income by investing primarily in fixed income securities	This product is suitable for investors who are seeking • Income and capital appreciation by investing in a portfolio comprising of fixed income securities. • having a macaulay duration is between 1 year and 3 years
Riskometer	Moderately Low Risk	Moderately Low Risk

Sundaram Ultra Short Term Fund

Particulars	Existing			Proposed		
Fund Name	Sundaram Ultra Short Term Fund			Sundaram Low Duration Fund		
Type of scheme	An open-end Income scheme			An open ended low duration debt scheme investing in instruments such that the Macaulay duration* of the portfolio is between 6 and 12 months. * *The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.*		
Fund Objective	To provide a level of income consistent with liquidity through investments made primarily in money market and debt securities.			To provide a level of income consistent with liquidity through investments made primarily in money market and debt securities.		
Asset allocation	Money market securities and/or Debt securities* with residual or average maturity of less than or equal to 370 days or put options within a period not exceeding 370 days	70-100%	Low to Medium	Debt securities / Money Market instruments and Cash & Cash Equivalents* ** Ensuring that the Macaulay duration of the portfolio will be maintained between 6 & 12 months.*	0 - 100%	Low to Medium
	Debt securities* which have residual or average maturity of more than 370 days.	Up to 30%	Low to Medium	—	—	—

	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 30% of the net assets • The Scheme shall not invest in repo in Corporate Bond. • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap	• Exposure to derivatives will be limited to 50% of the net asset value of the Scheme at the time of transaction. • Debt securities may include securitised debts up to 25% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in Credit Default Swaps subject to applicable limits
Duration	Nil	Macaulay duration of the portfolio will be between 6 months - 12 Months
Investment Strategy	As per SID - No change	As per SID - No change
Investment Restrictions	• Debt securities may include securitised debts up to 30% of the net assets • The scheme shall not invest in repo in corporate bond • The scheme shall not engage in securities lending • The scheme shall not invest in credit default swap.	• Debt securities may include securitised debts up to 25% of the net assets • The Scheme shall invest in repo in Corporate Bond upto 10% of the net assets of the scheme • The scheme shall engage in securities lending subject a maximum of 20% and 5% for a single counter party. • The scheme shall invest in credit default swaps subject to applicable limits
Benchmark	CRISIL Liquid Fund Index	CRISIL Ultra Short Term Debt Index
Product Suitability	This product is suitable for investors who are seeking • Short term income • Liquidity through investments made primarily in money market and debt securities	This product is suitable for investors who are seeking • Short term income • Liquidity through investments made primarily in money market and debt securities
Riskometer	Moderately Low Risk	Moderately Low Risk

In addition, the following changes are also proposed to be introduced which may improve the performance of the scheme:

1. **Participation of scheme of Sundaram Mutual Fund in repo of corporate debt securities**

   Presently, the Scheme invests in repo on Government Securities, Treasury Bills and other money market instruments. It is also proposed to invest in the repo of corporate debt securities.

2. **Imperfect Hedging**

   The Scheme may imperfectly hedge its portfolio or part of the portfolio using interest rate futures (IRFs).

3. **Securities Lending by the Fund**

   Securities Lending means the lending of securities to another person or entity for a fixed period of time, at a negotiated compensation in order to enhance returns of the portfolio. The borrower will return the securities lent on the expiry of the stipulated period or the lender can call the same back i.e. the scheme before its expiry. The fund may lend the securities for a specific period, to generate better returns on those stocks, which are otherwise bought with the intention to hold for a long period of time.

4. **Credit Default Swaps**

   A credit default swap (CDS) protects lenders in the event of default on the part of the borrower by transferring the associated risk in return for periodic payments.

   In a credit default swap (CDS), two counterparties exchange the risk of default associated with a loan(e.g. a bond or other fixed-income security) for periodic payments throughout the life of the loan. In the event that the borrowing party (the issuer) does default, the insuring counterparty agrees to pay the lender (bondholder) the par value in addition to lost interest.

The conditions, limits, risk factors are set out in the annexure.

Suitable and consequential changes will be made in the Scheme Information Document, Key Information Memorandum of the Scheme and other related documents.

The above proposals amount to change in the Fundamental Attributes of the specified scheme as per Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996.

In accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 and pursuant to provisions of SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017 all the unitholders are hereby given an option to exit, i.e. either redeem their investments or switch their investments to any other schemes of Sundaram Mutual Fund, within the 30 days exit period starting from **05/04/2018 till 04/05/2018 (both days inclusive and upto 3.00 pm on 04/05/2018)** at Applicable NAV, without payment of any exit load. The Exit Option can be exercised during the Exit Option Period by submitting a valid redemption / switch-out request at any Official Point of Acceptance of the Fund. STT will be borne by AMC for any redemptions / switch outs during the exit window period. However for investments made during the exit window period, there will be no waiver of exit load. A separate written communication is being sent to the existing Unit holders in this regard. In case, any existing Unit holder has not received an Exit Option Letter, they are advised to contact any of the Investor Service Centres of Sundaram Asset Management Company Limited ("Sundaram AMC").

Unitholders who do not exercise the exit option by **3.00 pm on 04/05/2018** would be deemed to have consented to the proposed modification. It may also be noted that no action is required in case Unitholders are in agreement with the aforesaid changes, which shall be deemed as consent being given by them for the proposed changes. **Kindly note that an offer to exit is merely optional and is not compulsory.**

All the valid applications for redemptions/switch-outs received under the scheme shall be processed at applicable NAV of the day of receipt of such redemption / switch request, without payment of any exit load, provided the same is received during the exit period mentioned above. However, for investments made during the exit window period, there will be no waiver of exit load. Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges / encumbrances prior to the submission of redemption / switch requests.

Unitholders should ensure that their change in address or bank details are updated in records of Sundaram Mutual Fund as required by them, prior to exercising the exit option for redemption of units. Unit holders holding Units in dematerialized form may approach their Depository Participant for such changes. In case units have been frozen / locked pursuant to an Order of a Government Authority or a Court, such exit option can be executed only after the freeze / lock order is vacated / revoked within the period specified above. The redemption proceeds shall be dispatched within 10 (ten) business days of receipt of valid redemption request to those unitholders who choose to exercise their exit option.

Redemption / switch-out of units from the scheme, during the exit period, may entail capital gain/loss depending on the holding period in the hands of the unitholder. Similarly, in case of NRI investors, TDS shall be deducted in accordance with the applicable tax laws, upon exercise of exit option and the same would be required to be borne by such investor only. In view of individual nature of tax implications, unitholders are advised to consult their tax advisors.

At the time of communication to the investors, necessary intimation will be made to National Securities Depository Limited, Central Depository Services Limited, NSE for MFSS Platform and BSE for Star Platform for making suitable changes.

To locate your nearest Investor Service Centre (ISC) we request you to visit www.sundarammutual.com.

Apart from above, all other features and terms and conditions of the scheme shall remain unchanged.

This Notice-cum-Addendum forms an integral part of the SID/KIM issued for the scheme read with the addendum issued from time to time.

Annexure

1. **Participation of scheme of Sundaram Mutual Fund in repo of corporate debt securities**

   In accordance with SEBI circular no. CIR / IMD / DF / 19 / 2011 dated November 11, 2011 and CIR/IMD/DF/23/2012 dated November 15, 2012; scheme of Sundaram Mutual Fund (SMF) shall participate in the corporate bond repo transactions w.e.f. June 21, 2013 as per the guidelines issued by Reserve Bank of India (RBI) from time to time. Currently the applicable guidelines are as under:

   - The gross exposure of the scheme to repo transactions in corporate debt securities shall not be more than 10% of the net assets of the concerned scheme.
   - The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned scheme.
   - Mutual Funds shall participate in repo transactions only in AA and above rated corporate debt securities.
   - In terms of Regulation 44 (2) mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months

   The investment restrictions applicable to the Scheme's participation in the corporate bond repos will also be as prescribed or varied by SEBI or by the Board of Sundaram Trustee Company Limited (subject to SEBI requirements) from time to time.

   The following guidelines shall be followed by Sundaram Mutual Fund for participating in repo in corporate debt securities, which have been approved by the Board of AMC and Trustee Company.

   (i) **Category of counterparty to be considered for making investment:**

   All entities eligible for transacting in corporate bond repos as defined by SEBI and RBI shall be considered for repo transactions.

   (ii) **Credit rating of counterparty to be considered for making investment**

   The schemes shall participate in corporate bond repo transactions with counterparties having aminimum investment grade rating and is approved by the Investment Committee on a case-to-case basis. In case there is no rating available, the Investment Committee will decide the rating of the counterparty, and report the same to the Board from time to time.

   (iii) **Tenor of Repo and collateral**

   As a repo seller, the scheme will borrow cash for a period not exceeding 6 months or as per extant regulations.

   As a repo buyer, the Scheme are allowed to undertake the transactions for maximum maturity upto one year or such other terms as may be approved by the Investment Committee.

   There shall be no restriction / limitation on the tenor of collateral.

   (iv) **Applicable haircuts**

   As per RBI circular RBI/2012-13/365 IDMD.PCD. 09 /14.03.02/2012-13 dated 07/01/2013, all corporate bond repo transaction will be subject to a minimum haircut given as given below:

   (1) AAA : 07.50%

   (2) AA+ : 08.50%

   (3) AA : 10.00%

   The haircut will be applicable on the prevailing market value of the said security on the prevailing on the date of trade. However, the fund manager may ask for a higher haircut (while lending) or give a higher haircut (while borrowing) depending on the market prevailing liquidity situation.

Risk envisaged and mitigation measures for repo transactions:

Credit risks could arise if the counterparty does not return the security as contracted or interest received by the counter party on due date. This risk is largely mitigated, as the choice of counterparties is largely restricted and their credit rating is taken into account before entering into such transactions. Also operational risks are lower as such trades are settled on a DVP basis.

In the event of the scheme being unable to pay back the money to the counterparty as contracted, the counter party may dispose of the assets (as they have sufficient margin) and the net proceeds may be refunded to us. Thus the scheme may in remote cases suffer losses. This risk is normally mitigated.

In addition to the above, the Internal Investment Committee (IIC) or Credit Committee of the AMC shall prescribe limits, restrictions and conditions for the enhancement proposed. The IIC / Credit Committee will also periodically review the limits, restrictions and conditions at its meeting.

2. **Imperfect Hedging**

   In addition to the existing provisions of SEBI circular No.IMD/DF/11/2010 dated August 18, 2010, the following are prescribed under the recent circular no SEBI/HO/IMD/DF2/CIR/P/2017/109 dated September 27, 2017:

   i. To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:

   $$\frac{\text{(Portfolio Modified Duration*Market Value of the Portfolio)}}{\text{(Futures Modified Duration*Future Price/PAR)}}$$

   ii. In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.

   iii. Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, upto maximum of 20% of the net assets of the scheme, subject to the following:

   a) Exposure to IRFs is created ***only for hedging*** the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.

   b) Mutual Funds are permitted to resort to imperfect hedging, without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is atleast 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure computed in terms of Para 3 of SEBI circular dated August 18, 2010. The correlation should be calculated for a period of last 90 days.

   Explanation: If the fund manager intends to do imperfect hedging upto 15% of the portfolio using IRFs on weighted average modified duration basis, either of the following conditions need to be complied with:

i. The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or

ii. The correlation for past 90 days between the part of the portfolio (excluding the hedged portions, if any) i.e. at least 15% of the net asset of the scheme (including one or more securities) and the IRF is at least 0.9.

c) At no point of time, the net modified duration of part of the portfolio being hedged should be negative.

d) The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of gross exposure in terms of Para 3 of SEBI circular dated August 18, 2010.

iv. The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities) based on the weighted average modified duration.

Explanation: In case of long term bond fund, after hedging the portfolio based on the modified duration of the portfolio, the net modified duration should not be less than the minimum modified duration of the portfolio as required to consider the fund as a long term bond fund.

Perfect Hedging is when we take short / reverse position in same security where we have long position in cash market.

For example: We have an long position in 6.79% GOI 15-05-2027 in cash and if we take short position in same security in IRF(Interest Rate Futures) that will be the perfect hedging.

Imperfect hedging is when we take short/reverse position in similar/other security compare to our long position in cash market.

For example: We have bond portfolio consisting of various corporate bonds having maturities between 7-10years with overall portfolio duration of 6 years and we take a short position in IRF(Interest Rate Futures) in a 6.79% GOI 2027 (a 10yr GOI Bond) as a proxy to reduce the interest rate risk in portfolio. Here this short position would protect the portfolio against adverse interest movement however this protection would not be perfect as movement in interest rate of corporate bonds and GOI bond may not be the same. But nevertheless it's the best possible hedge we can do given the availability and liquidity in the market in case of certain exposures.

3. Investment in Securitised debt

The Scheme proposes to invest in asset based and mortgage based securities not exceeding 50% of the net assets of the Scheme.

Depending upon the Investment Manager's views, the Scheme may invest in domestic debt such as ABS or MBS. The investments in domestic securitized debt will be made only after giving due consideration to factors such as but not limited to the securitization structure, quality of underlying receivables, credentials of the servicing agent, level of credit enhancement, liquidity factor, returns provided by the securitized paper vis-a-vis other comparable investment alternatives.

Although the returns provided by securitized debt could be higher, one must not lose sight of the fact that risks also exist with regard to investments in securitized debt. Investments in pass-through certificates of a securitization transaction represent an undivided beneficial interest in the underlying receivables and do not represent an obligation of either the issuer or the seller, or the parent of the seller, or any affiliate of the seller or the issuer or the trustee in its personal capacity, save to the extent of credit enhancement to be provided by the credit enhancer. The trust's principal asset will be the pool of underlying receivables. The ability of the trust to meet its obligations will be dependent on the receipt and transfer to the designated account of collections made by the servicing agent from the pool, the amount available in the cash collateral account, and any other amounts received by the trust pursuant to the terms of the transaction documents. However, the credit enhancement stipulated in a securitization transaction represents a limited loss cover only. Delinquencies and credit losses may cause depletion of the amount available under the cash collateral account and thereby the scheduled payouts to the investors may get affected if the amount available in the cash collateral account is not enough to cover the shortfall.

Further Unit holders are requested to refer below the disclosure relating to investments in securitized debt, in the SEBI prescribed format:

(i) **How the risk profile of securitized debt fits into the risk appetite of the Scheme:**

The Scheme seeks to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of quality debt securities. In line with the investment objective, securitised debt instruments having a high credit quality commensurate with other debt instruments in the portfolio will be considered for investment.

(ii) **Policy relating to originators based on nature of originator, track record, NPAs, losses in earlier securitized debt, etc**

The parameters used to evaluate originators are

- Track record
- Willingness to pay, through credit enhancement facilities etc.
- Ability to pay
- Business risk assessment,

wherein following factors are considered: -

Outlook for the economy (domestic and global)

Outlook for the industry - Company specific factors.

In addition a detailed review and assessment of rating rationale is done including interactions with the originator as well as rating agency.

Critical Evaluation Parameters (for pool loan) regarding the originator / underlying issuer:

Default track record/ frequent alteration of redemption conditions / covenants

- High leverage ratios of the ultimate borrower - both on a standalone basis as well on a consolidated level/ group level
- Higher proportion of re-schedulement of underlying assets of the pool or loan, as the case may be
- Higher proportion of overdue assets of the pool or the underlying loan, as the case may be
- Poor reputation in market
- Insufficient track record of servicing of the pool or the loan, as the case may be.

(iii) **Risk mitigation strategies for investments with each kind of originator**

Analysis of originator: An independent Credit Risk Team analyses and evaluates each originator and sets up limits specifying both the maximum quantum and maximum tenor for investments and investments are considered only within these limits.

Originator analysis typically encompasses:

- Size and reach of the originator
- Collection process, infrastructure and follow-up mechanism
- Quality of MIS
- Credit enhancement for different type of originator

(iv) **The level of diversification with respect to the underlying assets, and risk mitigation measures for less diversified**

investments

Eligible assets: Only assets with an established track record of low delinquencies and high credit quality over several business cycles will be considered for investment.

Analysis of pool: Characteristics such as average pool maturity (in months), average loan to value ratio, average seasoning of the pool, maximum single exposure, geographical distribution and average single exposure are studied to determine pool quality.

Risk mitigating measures: Credit enhancement facilities (including cash, guarantees, excess interest spread, subordinate tranches), liquidity facilities and payment structure are studied in relation to historical collection and default behaviour of the asset class to ensure adequacy of credit enhancement in a stress scenario.

(v) **Minimum retention period of the debt by originator prior to securitization**

We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time.

(vi) **Minimum retention percentage by originator of debts to be securitized**

We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time.

(vii) The mechanism to tackle conflict of interest when the Mutual Fund invests in securitized debt of an originator and the originator in turn makes investments in that particular Scheme of the Fund

The AMC has an independent Credit Risk team which is distinct from the Sales function and the Investments function and has a separate reporting and appraisal structure designed to avoid conflict of interest. Investments can be initiated by the fund managers only after the Credit Risk team has assigned limits for the originator. The originator wise limits specify both the maximum quantum and maximum tenor for investments.

(viii) **The resources and mechanism of individual risk assessment with the AMC for monitoring investment in securitized debt**

The AMC has a rigorous risk management process for all fixed income investments, which also encompasses securitized debt. A dedicated Credit Risk team is responsible for monitoring risks including credit and liquidity risk. The functions of the Credit Risk team include:

- Detailed credit analysis of issuers: based on the management evaluation, operating strength and financial strength to determine suitability for investment. Periodic reviews on a quarterly/annual basis are under taken for eligible issuers. Ratings are monitored on a daily basis and any changes are immediately recorded and suitable action taken.
- Credit Risk team monitors adherence to single and group level exposure norms, minimum rating requirements, liquidity requirements, and ensures that only eligible securities are included in the fund, in line with the Scheme information document/internal templates.

For securitized pool loan exposures, the analysis includes pool seasoning, pool asset quality, diversification, collateral margin, originator analysis and credit enhancement mechanisms. Pool performance statistics published by rating agencies are analysed for performance of other securitised pools of the same originator as well as for the performance of the asset class as a whole. Regular interactions with the rating agencies are done to discuss performance trends. Documents are vetted by the legal and compliance team. In addition, monthly payout reports from the trustees are analysed for collection performance and adequacy of cash collateral.

Framework that is applied while evaluating investment decision relating to a pool securitization transaction:

Characteristics / Type of Pool	Mortgage Loan	Commercial Vehicle and Construction Equipment	CAR	2 wheelers	Others
Approximate Average maturity (in Months)	In line with average maturity of mortgage loans as per industry norms. Typically less than 10 years.	In line with average maturity of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 4 years.	In line with average maturity of car loans as per industry norms. Typically less than 4 years.	In line with average maturity of two wheeler loans as per industry norms. Typically less than 4 years.	In line with average maturity of the asset class as per industry norms.
Collateral margin (including cash, guarantees, excess interest spread , subordinate tranche)	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.
Average Loan to Value Ratio	In line with average Loan to Value ratio of mortgage loans as per industry norms. Typically less than 80 per cent.	In line with average Loan to Value ratio of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of car loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of two-wheeler loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of the asset class loans as per industry norms.
Average seasoning of the Pool	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time.
Maximum single exposure range	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%
Average single exposure range %	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%

* Kindly note that all references to single loan securitization has been removed as securitization of single corporate loans are no longer envisaged under revised RBI guidelines on securitization

The schemes will not be investing in foreign securitised debt.

Some of the risk factors typically analyzed for any securitization transaction are as follows:

- **Risks associated with investments in Securitised Assets**

  A securitization transaction involves sale of receivables by the originator (a bank, non-banking finance company, housing finance company, or a manufacturing/service company) to a Special Purpose Vehicle (SPV), typically set up in the form of a trust. Investors are issued rated Pass Through Certificates (PTCs), the proceeds of which are paid as consideration to the originator. In this manner, the originator, by selling his loan receivables to an

SPV, receives consideration from investors much before the maturity of the underlying loans. Investors are paid from the collections of the underlying loans from borrowers. Typically, the transaction is provided with a limited amount of credit enhancement (as stipulated by the rating agency for a target (rating), which provides protection to investors against defaults by the underlying borrowers.

Some of the risk factors typically analyzed for any securitization transaction are as follows:

- **Risks associated with asset class:** Underlying assets in securitised debt may assume different forms and the general types of receivables include commercial vehicles, auto finance, credit cards, home loans or any such receipts. Credit risks relating to these types of receivables depend upon various factors including macro economic factors of these industries and economies. Specific factors like nature and adequacy of collateral securing these receivables, adequacy of documentation in case of auto finance and home loans and intentions and credit profile of the borrower influence the risks relating to the asset borrowings underlying the securitised debt.
- **Risks associated with pool characteristics:**
  - (a) ***Size of the loan:*** This generally indicates the kind of assets financed with loans. While a pool of loan assets comprising of smaller individual loans provides diversification, if there is excessive reliance on very small ticket size, it may result in difficult and costly recoveries.
  - (b) ***Loan to Value Ratio:*** This indicates how much percentage value of the asset is financed by borrower's own equity. The lower LTV, the better it is. This ratio stems from the principle that where the borrowers own contribution of the asset cost is high, the chances of default are lower. To illustrate for a Truck costing Rs. 20 lakh, if the borrower has himself contributed Rs.10 lakh and has taken only Rs. 10 lakh as a loan, he is going to have lesser propensity to default as he would lose an asset worth Rs. 20 lakh if he defaults in repaying an installment. This is as against a borrower who may meet only Rs. 2 lakh out of his own equity for a truck costing Rs. 20 lakh. Between the two scenarios given above, the later would have higher risk of default than the former.
  - (c) ***Original maturity of loans and average seasoning of the pool:*** Original maturity indicates the original repayment period and whether the loan tenors are in line with industry averages and borrower's repayment capacity. Average seasoning indicates whether borrowers have already displayed repayment discipline. To illustrate, in the case of a personal loans, if a pool of assets consist of those who have already repaid 80% of the instalments without default, this certainly is a superior asset pool than one where only 10% of instalments have been paid. In the former case, the portfolio has already demonstrated that the repayment discipline is far higher.
  - (d) ***Default rate distribution:*** This indicates how much % of the pool and overall portfolio of the originator is current, how much is in 0-30 DPD (days past due), 30-60 DPD, 60-90 DPD and so on. The rationale here is very obvious, as against 0-30 DPD, the 60-90 DPD is certainly a higher risk category.
- **Credit Rating and Adequacy of Credit Enhancement:** Unlike in plain vanilla instruments, in securitisation transactions, it is possible to work towards a target credit rating, which could be much higher than the originator's own credit rating. This is possible through a mechanism called "Credit enhancement". The process of "Credit enhancement" is fulfilled by filtering the underlying asset classes and applying selection criteria, which further diminishes the risks inherent for a particular asset class. The purpose of credit enhancement is to ensure timely payment to the investors, if the actual collection from the pool of receivables for a given period is short of the contractual payout on securitisation. Securitisation is normally non-recourse instruments and therefore, the repayment on securitisation would have to come from the underlying assets and the credit enhancement. Therefore the rating criteria centrally focus on the quality of the underlying assets.

  The Scheme will predominantly invest in those securitisation issuances which have AA and above rating indicating high level of safety from credit risk point of view at the time of making an investment. However, there is no assurance by the rating agency either that the rating will remain at the same level for any given period of time or that the rating will not be lowered or withdrawn entirely by the rating agency.
- **Limited Liquidity & Price Risk:** Presently, the secondary market for securitised papers is not very liquid. There is no assurance that a deep secondary market will develop for such securities. This could limit the ability of the investor to resell them. Even if a secondary market develops and sales were to take place, these secondary transactions may be at a discount to the initial issue price due to changes in the interest rate structure.
- **Limited Recourse to Originator & Delinquency:** Securitised transactions are normally backed by pool of receivables and credit enhancement as stipulated by the rating agency, which differ from issue to issue. The credit enhancement stipulated represents a limited loss cover to the investors. These Certificates represent an undivided beneficial interest in the underlying receivables and there is no obligation of either the Issuer or the seller or the originator, or the parent or any affiliate of the seller, issuer and originator. No financial recourse is available to the Certificate Holders against the Investors Representative. Delinquencies and credit losses may cause depletion of the amount available under the credit enhancement and thereby the investor pay outs may get affected if the amount available in the credit enhancement facility is not enough to cover the shortfall. On persistent default of an obligor to repay his obligation, the servicer may repossess and sell the underlying Asset. However many factors may affect, delay or prevent the repossession of such asset or the length of time required to realize the sale proceeds on such sales. In addition, the price at which such asset may be sold may be lower than the amount due from that Obligor.
- **Risks due to possible prepayments:** Weighted Tenor / Yield: Asset securitisation is a process whereby commercial or consumer credits are packaged and sold in the form of financial instruments Full prepayment of underlying loan contract may arise under any of the following circumstances;
  - a. Obligor pays the receivable due from him at any time prior to the scheduled maturity date of that receivable; or
  - b. Receivable is required to be repurchased by the seller consequent to its inability to rectify a material misrepresentation with respect to that Receivable; or
  - c. The servicer recognizing a contract as a defaulted contract and hence repossessing the underlying asset and selling the same.
  - d. In the event of prepayments, investors may be exposed to changes in tenor and yield.
- **Bankruptcy of the Originator or Seller:** If originator becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that the sale from originator to trust was not a sale then an Investor could experience losses or delays in the payments due. All possible care is generally taken in structuring the transaction so as to minimize the risk of the sale to Trust not being construed as a 'True Sale'. Legal opinion is normally obtained to the effect that the assignment of Receivables to Trust in trust for and for the benefit of the Investors, as envisaged herein, would constitute a true sale.

- **Bankruptcy of the Investor's Agent:** If Investor's agent becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that the recourse of Investor's Agent to the assets/receivables is not in its capacity as agent/Trustee but in its personal capacity, then an Investor could experience losses or delays in the payments due under the agreement. All possible care is normally taken in structuring the transaction and drafting the underlying documents so as to provide that the assets/receivables if and when held by Investor's Agent is held as agent and in Trust for the Investors and shall not form part of the personal assets of Investor's Agent. Legal opinion is normally obtained to the effect that the Investors Agent's recourse to assets/ receivables is restricted in its capacity as agent and trustee and not in its personal capacity.
- **Risk of co-mingling:** The servicers normally deposit all payments received from the obligors into the collection account. However, there could be a time gap between collection by a servicer and depositing the same into the collection account especially considering that some of the collections may be in the form of cash. In this interim period, collections from the loan agreements may not be segregated from other funds of the servicer. If the servicer fails to remit such funds due to Investors, the Investors may be exposed to a potential loss. Due care is normally taken to ensure that the Servicer enjoys highest credit rating on standalone basis to minimize co-mingling risk.
- **Risks relating to tax incidence on securitization Special Purpose Vehicles:** In October 2011, the income tax authorities issued a claim on certain securitisation SPVs, stating that the gross income of such SPVs was liable to tax. The Finance Act, 2013, has sought to clarify the tax position by stating that securitisation SPVs are not liable to pay income tax. However, any tax incidence on gross income of SPVs could result in dilution of pay-outs to investors.

4 **Securities Lending by the Fund**

Subject to the SEBI (MF) Regulations and in accordance with Securities Lending Scheme, 1997, SEBI Circular No MFD/CIR/01/ 047/99 dated February 10, 1999, SEBI Circular no. SEBI /IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009 and framework for short selling and borrowing and lending of securities notified by SEBI vide circular No MRD/DoP/SE/ Dep/Cir-14/2007 dated December 20, 2007, as may be amended from time to time, the Scheme seeks to engage in Securities Lending.

The AMC shall adhere to the limits as set out in the respective scheme asset allocation table.

Risk associated with Securities Lending: Risks associated with Securities Lending may include counter party risk, liquidity risk and other market risks.

5 **Credit Default Swaps (CDS)**

Illustration:

Suppose Ram holds a 10-year bond issued by company XYZ with a par value of Rs.1,000 and a coupon interest amount of Rs.100 each year. Fearful that XYZ will default on its bond obligations, Ram enters into a CDS with Shyam and agrees to pay him income payments of 20 (similar to an insurance premium) each year commensurate with the annual interest payments on the bond. In return, Shyam agrees to pay Ram the 1,000 par value of the bond in addition to any remaining interest on the bond (100 multiplied by the number of years remaining). If XYZ fulfills its obligation on the bond through maturity after 10 years, Shyam will make a profit on the annual 20 payments.

Mutual funds have been permitted to participate in CDS market, as per the guidelines issued by RBI from time to time, subject to the following conditions:

a. Mutual funds shall participate in CDS transactions only as users (protection buyer). Thus, mutual funds are permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They shall not be allowed to sell protection and hence not permitted to enter into short positions in the CDS contracts. However, they shall be permitted to exit their bought CDS positions, subject to para (d) below.

b. Mutual funds can participate as users in CDS for the eligible securities as reference obligations, constituting from within the portfolio of only Fixed Maturity Plans (FMP) schemes having tenor exceeding one year.

c. Mutual funds shall buy CDS only from a market maker approved by the RBI and enter into Master Agreement with the counterparty as stipulated under RBI Guidelines.

   Exposure to a single counterparty in CDS transactions shall not exceed 10% of the net assets of the scheme.

d. The cumulative gross exposure through credit default swap in corporate bonds along with equity, debt and derivative positions shall not exceed 100% of the net assets of the scheme.

e. The total exposure related to premium paid for all derivative positions, including CDS, shall not exceed 20% of the net assets of the scheme.

f. Before undertaking CDS transactions, mutual funds shall put in place a written policy on participation in CDS approved by the Board of the Asset Management Company and the Trustees as per the guidelines specified by RBI and Securities and Exchange Board of India (SEBI). The policy shall be reviewed by mutual funds, at least once a year.

g. To enable the investors in the mutual funds schemes to take an informed decision, the concerned Scheme Information Document (SID) shall disclose the intention to participate in CDS transaction in corporate debt securities in accordance with directions issued by RBI and SEBI from time to time, and related information as appropriate in this regard.

h. Mutual funds shall also disclose the details of CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half yearly trustee report, as per the format. Further, mutual funds shall disclose the scheme wise details of CDS transactions in the notes to the accounts of annual report of the mutual fund as per the format.

Risk associated with Credit Default Swaps: Risks associated with Credit Default Swaps may include credit risk of seller of CDS.

Mutual funds participating in CDS transactions, as users, shall be required to comply with the guidelines issued by RBI, vide notification no IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 and subsequent guidelines issued by RBI and SEBI from time to time.

For **Sundaram Asset Management Company Ltd**
P Sundararajan
Secretary & Compliance Officer

Place: Chennai
Date: 26/03/2018

For more information please contact:
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