

I. Introduction

A. Definitions/interpretation

The detailed definitions/ interpretations refer to the link on website of the mutual fund viz.

<https://www.sundarammutual.com/sid-kim-disclosures>

B. Risk factors

Standard Risk Factors

Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.

As the price / value / interest rates of the securities in which the scheme invests fluctuates, the value of your investment in the scheme may go up or down

Past performance of the Sponsor/Investment Manager/Mutual Fund does not guarantee future performance of the scheme.

The name of the scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns.

The sponsor is not responsible or liable for any loss resulting from the operation of the scheme beyond the initial contribution of Rs 1 lakh made by them towards setting up the Fund.

The present scheme is not a guaranteed or assured return scheme. In addition, the scheme does not guarantee or assure any Income Distribution Cum Capital Withdrawal and also does not guarantee or assure that it will make any Income Distribution Cum Capital Withdrawal, though it has every intention to make the same in the Income Distribution Cum Capital Withdrawal option. Income Distribution Cum Capital Withdrawal will be subjected to the investment performance of the Scheme.

General Risk Factors

The name of the Scheme does not in any manner indicate either the quality of the Scheme or its future prospects and returns.

Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved.

The main types of risks to which the Scheme is exposed are risk of capital loss, market risk, currency risk, liquidity risk, credit risk, counter party default risk, to name a few.

As with any investment in securities, the NAV of the Units issued under this Scheme can go up or down depending on the factors and forces affecting the capital markets.

The NAV may be affected by factors such as market conditions, level of interest rates, market-related factors, trading volumes, settlement periods, transfer procedures, price/interest rate risk, credit risk, government policy, volatility and liquidity in markets, exchange rate, geo-political development, to name a few.

Trading volumes in the securities in which it invests inherently restricts the liquidity of the scheme's investments.

Change in Government policy in general and changes in tax benefits applicable to mutual funds may impact the returns to Investors in the scheme.

The tax benefits available under the scheme are as available under the present taxation laws and subject to relevant conditions. The information given is included for general purposes only and is based on advice that the Investment Manager has received regarding the law and the practice that is now in force in India.

Unit holders should be aware that the relevant fiscal rules and their interpretation might change. As is the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of investment in the Scheme will endure indefinitely. In view of the individual nature of tax consequences, each Investor/Unit holder is advised to consult his/her own professional tax advisor.

If the market conditions turn adverse (such as high levels of volatility or disruption to trading activity to name a few) the mutual fund reserves the right to cancel the Scheme during the New Fund Offer period and also during the five business days following

the close of the Offer period.

Investors/unit holders are also urged to read the detailed clause(s) titled 'Special considerations.

This is only an illustrative list and not an exhaustive list of risk factors that could affect the NAV of the Scheme. They should read the risk factors presented in this document though the list is no way exhaustive. Potential investors should rely solely on the information contained in this Prospectus or the documents mentioned herein and are advised to consult their investment advisors before taking investment decisions.

Risk of Capital Loss

The Net Asset Value (NAV) of the Scheme is exposed to market fluctuations, and its value can go up as well as down. Investors may lose their entire principal.

Scheme-Specific Risks

Risk Factors associated with Sectoral/Thematic Schemes:

The Scheme will invest at least 80% of its net assets in equity and equity related securities with focus on stocks that represent the business cycle theme. The Scheme is thematic in nature, hence will be affected by the risks associated with the business cycle theme. Investing in thematic schemes is based on the premise that the scheme will seek to invest in companies belonging to a specific theme. This will limit the capability of the scheme to invest in other companies/themes. The Scheme will invest in equity and equity related securities of companies engaged in the particular theme and hence concentration risk is expected to be high. Also, as with all equity investing, there is a risk that companies in that theme will not achieve expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. Owing to higher concentration risk for thematic scheme, risk of capital loss is high. There is an element of unpredictable market cycles that could run for extended periods. Loss of value due to obsolescence, or regulatory changes or theme not panning out as envisaged can lead to permanent loss of capital. Thus, investing in a thematic fund could involve potentially greater volatility and risk.

Risks associated with investments in Equity and Equity related instruments

- Equity shares and equity related instruments are volatile and prone to price fluctuations on a daily basis. Investments in equity shares and equity related instruments involve a degree of risk and investors should not invest in the Scheme unless they can afford to take the risks.
- Securities, which are not quoted on the stock exchanges, are inherently illiquid in nature and carry a larger amount of liquidity risk, in comparison to securities that are listed on the exchanges.
- Investment in such securities may lead to increase in the scheme portfolio risk.
- While securities that are listed on the stock exchange carry lower liquidity risk, the ability to sell these investments is limited by the overall trading volume on the stock exchanges and may lead to the Scheme incurring losses till the security is finally sold.
- Scheme's performance may differ from the benchmark index to the extent of the investments held in the debt segment, as per the investment pattern indicated under normal circumstances.

Stock Market Volatility: Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market can react differently to these developments. The stock-specific volatility may also change over a period of time as the characteristic of the stock undergoes a change in terms of market-cap category.

Equity Price Risk: Stock prices may rise or decline based on a number of factors. These could be a combination of company-specific and system-specific factors. Their impact on different types of stocks may vary. Prices change due to events that impact entire financial markets or industries (for example, changes in inflation, consumer demand, supply situation and GDP growth). Company-specific factors may include the likes of success or failure of a new product, mergers, takeovers, earnings announcement and changes in management, to name a few. Securities owned by the Scheme may offer opportunities for growth because of high potential earnings growth; they may also involve greater risks than securities that do not have the same potential.

Liquidity Risk: A lower level of liquidity affecting an individual security (ies) or an entire market may have an adverse bearing on the value of the Scheme's assets. This may more importantly affect its ability to sell particular securities with minimal impact cost as and when necessary to meet requirement of liquidity or to sell stocks in response to triggers such as a specific

economic/corporate event. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of a few of the investments.

According to the fund's investment strategy, which is sector/market-cap agnostic based on the evolving market and economic scenario, the investment manager will dynamically allocate and deploy the investible corpus across all the market capitalization categories of stocks, with or without any lower or upper limits in each market capitalization category such as Mega Cap Large-Cap, Mid-Cap, Small-Cap, Micro-Cap and Nano-Cap. There may not be any upper or lower limits for the absolute market capitalization levels for the stocks in the investment portfolio of this fund.

Different categories of market capitalization in which the fund would invest carry different levels and types of risk. Accordingly, the fund's overall risk levels and specific risk levels may increase or decrease depending upon its investment pattern. e.g., Small-Cap or Micro-Cap stocks carry a higher level of Liquidity Risk, Idiosyncratic Risk and Volatility Risk than Large-Cap or Mega-Cap stocks. Further even among Large-Cap Stocks or Mega-Cap stocks, stocks which are in Defensive sectors like Pharma, FMCG etc., are comparatively perceived as having low volatility risk than stocks in Cyclical sectors like Financials, Infrastructure etc.,. The investment manager of the fund may, within the Large Cap allocation, invest in stocks of highly cyclical sectors which may potentially have high volatility contrary to the belief that Large Caps have low Volatility.

As a part of the investment strategy, the investment manager may invest in stocks which are classified as Mid-Cap/Small-Cap/Micro-Cap/Nano-Cap Market Capitalization (non-Large Cap) stocks which are likely to have more price volatility and have low trading volumes with high impact cost on a relative basis compared to stock with Large-Cap stocks. Non-Large cap stock prices also have more sensitivity to changes in economic conditions. Therefore, the risk levels of investing in non-Large Cap stocks are more than investing in Large-Cap stocks. The overall risk levels are generally perceived to be inversely proportional to the level of market-capitalization and the risk levels get incrementally higher as the market-capitalization is lower.

Non-Large Cap companies are more likely to lack economies of scale and due to their moderate financial resources, they: 1) may have challenges in accessing and deploying latest modern technologies in their processes, 2) may have challenges in recruiting and retaining top talent, 3) may find it difficult to develop new products 4) may lack breadth and depth of the distribution network for their products or services 5) have limited bargaining power with suppliers of input materials. Medium Sized companies may find it difficult to raise financial capital for their growth in a cost-efficient manner.

Non-Large Cap companies are mostly closely held by the promoters who still actively run the day-to-day operations of such companies and provide strategic directions. Many non-Large Cap companies are not widely tracked by the research analysts and are not widely held by institutional investors compared to Large-Cap companies. Due to these reasons, in some non-Large Cap companies, corporate governance and transparency levels are below average and may not be on par with Large-cap companies. Non-Large Cap companies may not be resilient enough to withstand shocks of business or economic cycles.

At any point in time, the actual portfolio of the fund may have a significant skew towards a particular market capitalization category or sector. Due to this, the actual portfolio would have a high uncertainty in terms of changes in its overall risk profile with varying levels Concentration Risk, Volatility Risk, Liquidity Risk etc., over time.

Dependency Risk: The Scheme may invest in stocks and mutual funds. Equity confers a proportionate share of the ownership of a company. Its value will depend on the success of the company's business, income paid to stockholders by way of dividend, the value of the company's assets, quality of its corporate governance practice, its attractiveness relative to peers and general market conditions. The fund may also invest in convertible securities and warrants. Convertible securities generally are fixed-income securities or preference shares that may be converted into common stock after a prescribed period.

Temporary Investment Risk: If the fund manager is of the view that market or economic conditions may become unfavourable for investors in equities, he may invest a higher proportion of the fund's assets in high quality short-term and medium-term fixed income instruments as well as near-cash equivalents. This may be a defensive and temporary strategy. The fund manager may also adopt such a strategy while zeroing in on appropriate investment opportunities or to maintain liquidity. At times, such investments may lead to lower returns. In these circumstances, the Scheme may be unable to achieve its investment goal. Such temporary investment shall not exceed for period more than 30 days

Non-diversification Risk: The Scheme may pursue only a limited degree of diversification. It may invest a greater proportion of assets in the securities of one issuer (within the limit permitted by regulation) as compared to a diversified fund. This could have implications for the performance of the Scheme. The Scheme may be more sensitive to economic, business, political or other changes and this may lead to sizeable fluctuation in the Net Asset Value of the Scheme.

Regulation-Change Risk: If the Government of India, RBI and/or SEBI decide to alter the regulatory framework for investment in overseas financial assets by mutual funds, it may have an impact on the Scheme's ability to adhere to the investment objective. If and when such an eventuality materialises, the Trustee reserves the right to alter the investment objective of the Scheme or wind up the Scheme. In such cases of fundamental attribute change, the procedure in accordance with SEBI Regulations as highlighted in this document under the heading "F. Fundamental Attributes" will be adhered to.

Risks associated with investments in Fixed Income Securities

- The Net Asset Value (NAV) of the Scheme, to the extent invested in Debt and Money Market instruments, will be affected by changes in the general level of interest rates. The NAV of the Scheme is expected to increase from a fall in interest rates while it would be adversely affected by an increase in the level of interest rates.
- Money market instruments, while fairly liquid, lack a well developed secondary market, which may restrict the selling ability of the Scheme and may lead to the Scheme incurring losses till the security is finally sold.
- Investments in money market instruments involve credit risk commensurate with short term rating of the issuers.
- Government securities where a fixed return is offered run price-risk like any other fixed income security. Generally, when interest rates rise, prices of fixed income securities fall and when interest rates drop, the prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates. The new level of interest rate is determined by the rates at which government raises new money and/or the price levels at which the market is already dealing in existing securities. The price-risk is not unique to Government Securities. It exists for all fixed income securities. However, Government Securities are unique in the sense that their credit risk generally remains zero. Therefore, their prices are influenced only by movement in interest rates in the financial system
- As zero coupon securities do not provide periodic interest payments to the holder of the security, these securities are more sensitive to changes in interest rates. Therefore, the interest rate risk of zero coupon securities is higher. The AMC may choose to invest in zero coupon securities that offer attractive yields. This may increase the risk of the portfolio. Zero coupon or deep discount bonds are debt obligations that do not entitle the holder to any periodic payment of interest prior to maturity or a specified date when the securities begin paying current interest and therefore, are generally issued and traded at a discount to their face values. The discount depends on the time remaining until maturity or the date when securities begin paying current interest. It also varies depending on the prevailing interest rates, liquidity of the security and the perceived credit risk of the Issuer. The market prices of zero coupon securities are generally more volatile than the market prices of securities that pay interest periodically.

Risk Factors - Debt Markets

Interest Rate Risk: Changes in the prevailing rates of interest may affect the value of the Scheme's holdings and consequently the value of the Scheme's Units. Increased rates of interest, which frequently accompany inflation and /or a growing economy, may have a negative effect on the value of the Units. The value of debt securities held by the Scheme generally will vary inversely with the changes in prevailing interest rates.

While it is the intent of the fund manager to invest primarily in high rated debt securities, the Scheme may from time to time invest in higher yielding, low rated securities. As a result, an investment in the Scheme may be accompanied by a higher degree of risk relative to an investment consisting exclusively of high rated, lower yielding securities.

Credit Risk: Credit Risk refers to the risk of failure of interest (coupon) payment and /or principal repayment. All debt instruments carry this risk. Government securities carry sovereign credit risk. The assets of the Scheme will be partly or entirely invested in fixed income securities issued by a corporate entity, bank, financial institution and/or a public sector undertaking owned by the Government of India or by a government in any state. The credit risk associated with the aforementioned issuers of debt is higher than that of Government securities.

Price Risk: As long as the Scheme will be invested, its Net Asset Value (NAV) is exposed to market fluctuations, and its value can go up as well as down. The portfolio of fixed-income securities that the Scheme invest in would be exposed to price changes on a day-to-day basis.

These price changes may occur due to instrument-specific factors as well as general macroeconomic conditions. In general, price of fixed-income securities go up when interest rates fall, and vice versa.

Market Risk: The Scheme may also be subject to price volatility due to such factors as interest sensitivity, market perception or the creditworthiness of the issuer and general market liquidity .

Risk relating to investment pattern: Different types of securities in which the Scheme would invest as given in the Scheme Information Document carry different levels and types of risk. Accordingly the Scheme's risk may increase or decrease depending upon its investment pattern. e.g. corporate debt carry credit risk unlike Government securities. Further even among corporate debt, AAA rated debt is comparatively less risky (in credit risk terms) than those rated lower (say AA or A).

Risks relating to duration: Fixed Income securities of any issuer that has higher duration could be more risky in terms of price movements relative to those with lower duration. Thus any impact of interest rate changes would be higher on securities with higher duration irrespective of the status of the issuer of the security.

Non-diversification Risk: The Scheme may pursue only a limited degree of diversification. It may invest a greater proportion of assets in the securities of one issuer (within the limit permitted by regulation) as compared to a diversified fund. This could have implications for the performance of the Scheme. The Scheme may be more sensitive to economic, business, political or other changes and this may lead to sizeable fluctuation in the Net Asset Value of the Scheme.

Limited Liquidity & Price Risk: Presently, secondary market for fixed income 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.

Risk Factors – Derivatives

The Scheme may also use various derivative products from time to time, as would be available and permitted by SEBI, in an attempt to protect the value of the portfolio.

As and when the Scheme trades in the derivatives market there are risk factors and issues concerning the use of derivatives that investors should understand. Derivative products are specialised instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying instrument could have a large impact on their value. Also, the market for debt derivative instruments is nascent in India.

The Scheme may use techniques such as Interest Rate Swaps, options on interest rates, warrants, forward rate agreement and other derivative instruments that are / may be permitted under SEBI/RBI Regulation. These techniques and instruments, if imperfectly used, have the risk of the Scheme incurring losses due to mismatches, particularly in a volatile market. The Scheme ability to use these techniques may be limited by market conditions, regulatory limits and tax considerations (if any).

Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies.

The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. As the use of derivatives is based on the judgment of the Fund Manager, the view on market taken may prove wrong resulting in losses. The upside potential of investments may be limited on account of hedging which may cause opportunity losses.

Risks associated with Covered Call Strategy

The risk associated with covered calls is the loss of upside, i.e. if the shares are assigned (called away), the option seller forgoes any share price appreciation above the option strike price.

The Scheme may write covered call option only in case it has adequate number of underlying equity shares as per regulatory requirement. This would lead to setting aside a portion of investment in underlying equity shares. If covered call options are sold to the maximum extent allowed by regulatory authority, the scheme may not be able to sell the underlying equity shares immediately if the view changes to sell and exit the stock. The covered call options need to be unwound before the stock

positions can be liquidated. This may lead to a loss of opportunity, or can cause exit issues if the strike price at which the call option contracts have been written become illiquid. Hence, the scheme may not be able to sell the underlying equity shares, which can lead to temporary illiquidity of the underlying equity shares and result in loss of opportunity.

The writing of covered call option would lead to loss of opportunity due to appreciation in value of the underlying equity shares. Hence, when the appreciation in equity share price is more than the option premium received the scheme would be at a loss.

Risk Factors - Overseas Investments

As the Scheme will invest in global markets; investors will be exposed to several risk factors that are not relevant for the Scheme that invests in Indian securities. A few types of risks are:

Foreign Exposure and Currency Risk: The Scheme may invest in overseas securities that are issued and traded in foreign currencies. As a result, their values may be affected by changes in exchange rates between foreign currencies and the Indian Rupee as well as between currencies of countries other than India. Restrictions on currency trading that may be imposed will have an adverse effect on the value of the securities of companies that trade or operate in such countries.

Country Risk: This refers to inability of a country to meet its financial obligations for economical, political or geo-political reasons. The degree of this risk may vary from country to country.

Event Risk: Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Scheme's investments. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Scheme's investments.

Restrictions imposed overseas: Changes in local regulation can affect the local financial markets and restrictions on investment by overseas investors be imposed; introduction of exchange controls and immobilisation of foreigner financial assets can occur. In contrast, an improvement in country risk rating may take a substantially longer period.

Emerging Markets Risk: Emerging market countries include those currently considered to be developing by the World Bank, the International Finance Corporation, the United Nations, the countries' authorities or countries that are treated as emerging markets by index service providers at the global level. These countries typically are located in the Asia-Pacific region, Eastern Europe, Central and South America and Africa. Emerging markets are comparatively smaller than developed markets. They are characterised by high degree of market-price and currency volatility and declines of more than 50% are not unusual. Markets that are generally considered to be liquid may become illiquid for short or extended periods.

Regulation-Change Risk: If the Government of India, RBI and/or SEBI decide to alter the regulatory framework for investment in overseas financial assets by mutual funds, it may have an impact on the Scheme's ability to adhere to the investment objective. If and when such an eventuality materialises, the Trustee reserves the right to alter the investment objective of the Scheme or wind up the Scheme. In such cases of fundamental attribute change, the procedure in accordance with SEBI Regulations as highlighted in this document under the heading "F. Fundamental Attributes" will be adhered to.

Risk Factors - ADR/GDR

- Currency risk in case the rupee appreciates against the currency in which the security is issued.
- In the case of GDRs, liquidity may be poor and dependent on the market-makers.
- In case of ADRs, liquidity may be more than in the case of GDRs and lower than in the underlying stock listed in India (NSE and/or BSE), as ADRs are usually listed either on the NYSE or Nasdaq. ADRs/GDRs cannot be held in the name of the Mutual Fund; they have to be held in the name of a custodian (usually domiciled outside India).

Risk Factors - Securitised Debt

The Scheme proposes to invest in asset based and mortgage based securities not exceeding 35% of the fixed income allocation.

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	Mortgage Loan	Commercial Vehicle and Construction Equipment	CAR	2 wheelers	Others
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 Scheme will not be investing in foreign securitised debt.

Some of the risk factors typically analysed 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.

Risk Factors - REITs/InvITs

- **Interest-Rate Risk:** REITs/InvITs carry interest-rate risk. Generally, when interest rates rise, prices of existing securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates.
- **Risk of lower than expected distributions:** The distributions by the REITs/InvITs will be based on the net cash flows available for distribution. The amount of cash available for distribution principally depends upon the amount of cash that the REITs/InvITs receives as dividends or the interest and principal payments from portfolio assets. The cash flows generated by portfolio assets from operations may fluctuate based on, among other things
 - success and economic viability of tenants and off-takers
 - economic cycles and risks inherent in the business which may negatively impact valuations, returns and profitability of portfolio assets
 - debt service requirements and other liabilities of the portfolio assets and fluctuations in the working capital needs
 - ability of portfolio assets to borrow funds and access capital markets
 - amount and timing of capital expenditures on portfolio assets
- **Liquidity Risk:** This refers to the ease with which REITs/InvITs units can be sold. There is no assurance that an active secondary market will develop or be maintained. Hence there would be time when trading in the units could be infrequent. The subsequent valuation of illiquid units may reflect a discount from the market price of comparable securities for which a liquid market exists.
- **Price-Risk:** The valuation of the REITs/InvITs units may fluctuate based on economic conditions, fluctuations in markets (eg. real estate) in which the REITs/InvITs operates. As an indirect shareholder of portfolio assets, unit holders rights are subordinated to the rights of creditors, debt holders and other parties specified under Indian law in the event of insolvency or liquidation of any of the portfolio assets.

The above are some of the common risks associated with investments in REITs/InvITs. There can be no assurance that a Scheme's investment objectives will be achieved, or that there will be no loss of capital. Investment results may vary substantially on a monthly, quarterly or annual basis.

Risk Factors - Repo in 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 shall participate in the corporate bond repo transactions 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 fixed income allocation.
- 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 a minimum investment grade rating and is approved by the Internal 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 not borrow for a period 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/2019-20/107FMRD.DIRD.21/14.03.038/2019-20 dated 28/11/2018, all corporate bond repo transaction will be subject to a minimum haircut given as given below:

(c) Haircut/ margins will be decided either by the clearing house or may be bilaterally agreed upon, in terms of the documentation governing repo transactions, subject to the following stipulations:

- Listed corporate bonds and debentures shall carry a minimum haircut of 2% of market value. Additional haircut may be charged based on tenor and illiquidity of the security.
- CPs and CDs shall carry a minimum haircut of 1.5% of market value.
- Securities issued by a local authority shall carry a minimum haircut of 2% of market value.

Additional haircut may be charged based on tenor and illiquidity of the security.

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.

Transactions in Repo in Corporate Debt securities done through a tri-partite exchange based platform with settlement guarantee offered by a central counterparty mitigates the risk of counterparty as in case of a transaction failure by the counterparty the money would be returned by the central counterparty. Nevertheless, there is a residual risk that the returned money may not deployed in the overnight market due to end of market hours.

The Internal Investment Committee (Debt) will also periodically review the limits, restrictions and conditions at its meeting.

Risk Factors - Securities Lending

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. 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 following limits should it engage in Securities Lending.

- The exposure of the Scheme at the time of lending will be restricted to 20% of its total assets and 5% for a single counter party.
- The exposure to a single approved intermediary will not exceed 5% of the Total Assets of the Scheme.

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

Risk Factors - Segregated Portfolio

Liquidity Risk: Securities classified under the segregated portfolio will typically be those securities that are thinly traded or not traded at all. Hence these securities will have significant liquidity risk and investors may not be able to redeem their investments.

Credit Risk: Securities classified under the segregated portfolio will typically be securities which are undergoing stress with regard to their ability to make principal and interest payments. Hence these securities will have significant credit risk and investors may not be able to redeem / realize their investments and realizes. It is also highly likely that these securities will undergo bankruptcy / liquidation processes which further increases the risk of the amount and the time taken for the investor to realize his investment.

The scheme got the approval from the AMC and Trustee to enable the segregation of portfolio in case of credit event

SEBI vide circular number SEBI/HO/IMD/DF2/CIR/P/2018/160 and dated 28th December 2018 prescribed the procedure for segregation of portfolio in mutual fund schemes. Following is the extract from the circular:

Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:

Downgrade of a debt or money market instrument to 'below investment grade', or

Subsequent downgrades, or

Similar such downgrades of a loan rating.

In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events and implemented at the ISIN level.

Creation of segregated portfolio shall be optional and at the discretion of the AMC. It should be created only if the SID of the scheme has provisions for segregated portfolio with adequate disclosures.

AMCs shall have a detailed written down policy on creation of segregated portfolio and the same shall be approved by the trustees.

Process for creation of segregated portfolio

- a. AMC shall decide on creation of segregated portfolio on the day of credit event. Once an AMC decides to segregate portfolio, it shall
 - i. seek approval of trustees prior to creation of the segregated portfolio.
 - ii. immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors.
 - iii. ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the scheme shall be suspended for processing with respect to creation

of units and payment on redemptions.

- b. Once trustee approval is received by the AMC,
 - i. Segregated portfolio shall be effective from the day of credit event
 - ii. AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.
 - iii. An e-mail or SMS should be sent to all unit holders of the concerned scheme.
 - iv. The NAV of both segregated and main portfolio shall be disclosed from the day of the credit event.
 - v. All existing investors in the scheme as on the day of the credit event shall be allotted equal number of units in the segregated portfolio as held in the main portfolio.
 - vi. No redemption and subscription shall be allowed in the segregated portfolio. however, in order to facilitate exit to unit holders in segregated portfolio, AMC shall enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests.
- c. If the trustees do not approve the proposal to segregate portfolio, AMC shall issue a press release immediately informing investors of the same.

Valuation and processing of subscriptions and redemptions

- a. the valuation should take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets).
- b. All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as per the existing circular on applicability of NAV as under:
 - i. upon trustees' approval to create a segregated portfolio

Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.

Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.

- ii. In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio (scheme portfolio including the securities affected by the credit event).

Disclosure Requirements

- a. A statement of holding indicating the units held by the investors in the segregated portfolio along with the NAV of both segregated portfolio and main portfolio as on the day of the credit event shall be communicated to the investors within 5 working days of creation of the segregated portfolio.
- b. Adequate disclosure of the segregated portfolio shall appear in all scheme related documents.
- c. The Net Asset Value (NAV) of the segregated portfolio shall be declared on every business day.
- d. The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.
- e. The scheme performance required to be disclosed at various places shall include the impact of creation of segregated portfolio. The scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, shall be disclosed as a footnote to the scheme performance.
- f. The disclosures at paragraph (d) and (e) above regarding the segregated portfolio shall be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered/ written-off.
- g. The investors of the segregated portfolio shall be duly informed of the recovery proceedings of the investments of the

segregated portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

TER for the Segregated Portfolio

- a. AMC shall not charge investment and advisory fees on the segregated portfolio. however, TER (excluding the investment and advisory fees) can be charged, on a prodata basis only upon recovery of the investments in segregated portfolio.
- b. The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.
- c. The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. however, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
- d. The costs related to segregated portfolio shall in no case be charged to the main portfolio.

1. Monitoring by Trustees

- a. In order to ensure timely recovery of investments of the segregated portfolio, trustees shall ensure that:
 - i. The AMC puts in sincere efforts to recover the investments of the segregated portfolio.
 - ii. upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their holding in the segregated portfolio.

Any recovery of amount of the security in the segregated portfolio even after the write off shall be distributed to the investors of the segregated portfolio.
- iii. An Action Taken Report (ATR) on the efforts made by the AMC to recover the investments of the segregated portfolio is placed in every trustee meeting till the investments are fully recovered/ written-off.
- iv. The trustees shall monitor the compliance of this circular and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every segregated portfolio created.
- b. In order to avoid mis-use of segregated portfolio, trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the segregated portfolio of the scheme.

2. The existence of the provisions for segregated portfolio should not encourage the AMCs to take undue credit risk in the scheme portfolio.

In partial modification to SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018 on 'Creation of segregated portfolio in mutual fund schemes', it has been decided by SEBI to permit creation of segregated portfolio of unrated debt or money market instruments by mutual fund schemes of an issuer that does not have any outstanding rated debt or money market instruments, vide circular number SEBI/HO/IMD/DF2/CIR/P/2019/127, dated 07th November 2019. subject to the following:

- a. Segregated portfolio of such unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount.
- b. AMCs will inform AMFI immediately about the actual default by the issuer. upon being informed about the default, AMFI shall immediately inform the same to all AMCs. Pursuant to dissemination of information by AMFI about actual default by the issuer, AMCs may segregate the portfolio of debt or money market instruments of the said issuer in terms of SEBI circular dated December 28, 2018.

The Scheme intends to have the ability to create a segregated portfolio in line with the above SEBI circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018.

Example of Segregation:

The below table shows how a security affected by a credit event will be segregated and its impact on investors. Whether the distressed security is held in the original portfolio or the segregated portfolio, the value of the investors holdings will remain the same on the date of the credit event. Over time, the NAV of the portfolios are subject to change.

Key Assumptions: We have assumed a Scheme consists of 3 Securities (A, B, and C). It has two investors with total of 10,000 units. (Investors 1 – 6,000 units , Investors 2- 4,000 units)

Total Portfolio Value of Rs. 30 Lakhs (each Security invested Rs. 10 Lakh)

Current NAV: 30,00,000/10,000 = Rs. 300 Per unit

Suppose Security A is downgraded to below investment grade and consequently the value of the security falls from Rs. 10,00,000 to Rs. 4,00,000 and the AMC decides to segregate the security into a new portfolio. Investors will be allotted the same number of units in the segregated portfolio as they hold in the main portfolio. So, Investor 1 will get 6,000 units and Investor 2 will get 4,000 units in the segregated portfolio.

With Segregation – Portfolio Value is Rs. 24,00,000 (Now B & C Securities worth Rs. 20 Lakh and Security A has fallen from Rs. 10,00,000 to Rs. 4,00,000)

	Main Portfolio (Security of B & C)	Segregated Portfolio (Security A)
Net Assets	Rs. 20,00,000	Rs. 4,00,000
Number of units	10,000	10,000
NAV per unit	Rs. 20,00,000/ 10,000 = Rs. 200	Rs. 4,00,000/ 10,000 = Rs. 40

With respect to Investors.

	Investor 1	Investor 2
units held in Main portfolio (No. of units)	6,000	4,000
NAV of Main Portfolio	Rs. 200 per unit	Rs. 200 per unit
Value of holding in Main Portfolio (A) –	Rs. 12,00,000	8,00,000
units held in Segregated Portfolio	6,000	4,000
NAV of Segregated Portfolio	Rs. 40 Per unit	Rs. 40 Per unit
Value of holding in Segregated Portfolio (B) –	Rs. 2,40,000	1,60,000
Total Value of holdings (A) + (B) –	Rs. 14,40,000	9,60,000

In case if it does not segregate (Total Portfolio would be)

Net Assets of the Portfolio	No. of Units	NAV per unit Rs.
Rs. 24,00,000 (Rs. 4,00,000 in Security A and Rs. 10,00,000 in Security B and Rs. 10,00,000 in Security C)	10,000	4,00,000/ 10,000= Rs. 240
	Investor 1	Investor 2
units held in Original portfolio (No. of units)	6,000	4,000
NAV of Original Portfolio	Rs. 240 Per unit	Rs. 240 Per unit
Value of holding -	Rs. 14,40,000	9,60,000

Note:

- The term 'segregated portfolio' shall mean a portfolio, comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme.

2. The term 'main portfolio' shall mean the scheme portfolio excluding the segregated portfolio.
3. The term 'total portfolio' shall mean the scheme portfolio including the securities affected by the credit event.

Risks associated with investing in Tri-Party Repo through CCIL (TREPS)

Tri-party Repo i.e. TREPS facilitates, borrowing and lending of funds, in Triparty Repo arrangement. CCIL would be the Central Counterparty to all trades from Tri Party Repo Dealing System (TREPS) and would also perform the role and responsibilities of Triparty Repo Agent, in terms of Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 as amended from time to time. The mutual fund is a member of securities segment and Tri-party Repo trade settlement of the Clearing Corporation of India (CCIL). All TREPS trades are settled anonymously and centrally through the infrastructure and settlement systems provided by CCIL. Further the settlement is guaranteed by CCIL. This is a collateralized investment whereby borrowers have to give adequate amount of securities on which a haircut is applied by CCIL. CCIL periodically prescribes a list of securities eligible for contributions as collateral by members. Presently, all Central Government securities and Treasury bills are accepted as collateral by CCIL. The risk factors may undergo change in case the CCIL notifies securities other than Government of India securities as eligible for contribution as collateral." CCIL has several risk management processes in place such as initial margin, borrowing limits, identification of eligible collateral, haircuts on eligible collateral, mark to market margins (MTM) and volatility margin are applicable for Triparty Repo trades. There is a default fund for Triparty Repo trades. The exposure monitoring is online and on a pre-order basis, ensuring that orders can be placed only if the member has sufficient initial margin and/or borrowing limits to support the resultant trades. CCIL may temporarily impose volatility margin in case of a sudden increase in volatility in interest rates. Thus the settlement and counterparty risks are considerably low.

In the event of a clearing member failing to honour his settlement obligations, the default Fund is utilized to handle any shortfall arising out of such default and to complete the settlement. The sequence in which the above resources are used is known as the "Default Waterfall". As per the waterfall mechanism, after the defaulter's margins and the defaulter's contribution to the default fund have been appropriated, CCIL's contribution is used to meet the losses.

Post utilization of CCIL's contribution if there is a residual loss, it is appropriated from the default fund contributions of the non-defaulting members. Thus the scheme is subject to risk of the initial margin and default fund contribution being invoked in the event of failure of any settlement obligations. In addition, the fund contribution is allowed to be used to meet the residual loss in case of default by the other clearing member (the defaulting member).

Brief note on fixed-income and money market in India

(i) Debt Instrument Characteristics:

A Debt Instrument is basically an obligation which the borrower has to service periodically and generally has the following features:

Face Value:	Stated value of the paper /Principal Amount
Coupon:	Zero, fixed or floating
Frequency:	Semi-annual; annual, sometimes quarterly
Maturity:	Bullet, staggered
Redemption:	FV; premium or discount
Options:	Call/Put
Issue Price:	Par (FV) or premium or discount

A debt instrument comprises of a unique series of cash flows for each paper, terms of which are decided at the time of issue. Discounting these cash flows to the present value at various applicable discount rates (market rates) provides the market price.

(ii) Types of Debt Market Instruments:

The Indian Debt market comprises of the Money Market and the Long Term Debt Market.

Money market instruments are Commercial Papers (CPs), Certificates of Deposit (CDs), Treasury bills (T-bills), Repos, Inter-bank Call money deposit, TREPS, Reverse Repo and TREPS etc. They are mostly discounted instruments that are issued at a discount to face value.

Money market instruments have a tenor of less than one year while debt market instruments typically have a tenor of more than one year.

Long Term Debt market in India comprises mainly of two segments viz., the Government securities market and the corporate securities market.

Government securities include central, state and local issues. The main instruments in this market are dated securities (Fixed or Floating) and Treasury bills (Discounted Papers). The Central Government securities are generally issued through auctions on the basis of 'Uniform price' method or 'Multiple price' method while State Govt. are through on-tap sales.

Corporate Debt segment on the other hand includes bonds/debentures issued by private corporates, public sector units (PSUs) and development financial institutions (DFIs). The debentures are rated by a rating agency and based on the feedback from the market, the issue is priced accordingly. The bonds issued may be fixed or floating. The floating rate debt market has emerged as an active market in the rising interest rate scenario. Benchmarks range from Overnight rates or Treasury benchmarks.

The following table gives approximate yields prevailing during the month of October 2025 on some of the instruments. These yields are indicative and do not indicate yields that may be obtained in future as interest rates keep changing consequent to changes in macro economic conditions and RBI policy

Issuer	Instruments	Maturity	OTC
GOI	Treasury Bill	91 days	5.48
GOI	Treasury Bill	364 days	5.54
GOI	Short Dated	1-3 Yrs	5.75 - 5.98
GOI	Medium Dated	3-5 Yrs	5.98- 6.17
GOI	Long Dated	5-10 Yrs	6.17 - 6.54
Corporates	Bonds (AAA)	1 - 3 years	6.56 - 6.71
Corporates	Bonds (AAA)	3 - 5 years	6.71 -6.97
Corporates	CPs (A1+)	3 months - 1 yr	6.41-6.43
Banks	CDs	3 months - 1 yr	6.05 - 6.57

Source: Bloomberg. Data As of October 24, 2025

(iii) Regulators:

The RBI operates both as the monetary authority and the debt manager to the government. In its role as a monetary authority, the RBI participates in the market through open-market operations as well as through Liquidity Adjustment Facility (LAF) to regulate the money supply. It also regulates the bank rate and repo rate, and uses these rates as indirect tools for its monetary policy. The RBI as the debt manager issues the securities at the cheapest possible rate. The SEBI regulates the debt instruments listed on the stock exchanges.

(iv) Fixed income and money market segments

The market for fixed-income securities in India can be briefly divided into the following segments:

- The money market – The market for borrowing / lending money;
- The securities market – The market for trading in securities and

In this predominantly institutional market, the key market players are banks, financial institutions, insurance companies, mutual funds, primary dealers and companies. Provident / pension funds, though present, are not active players.

The Money Market

The money market can be classified into two broad categories. The market for clean borrowing/lending without backing of any collateral:

Call Money: The market for overnight borrowing / lending.

Notice Money: The market for borrowing/lending from 2 days to a fortnight.

Term Money: The market for borrowing/lending for a fortnight to six months.

The market for collateralised borrowing/lending:

Repo transactions: These are redemption-obligation transactions in which the borrower tenders securities to the lender; these securities are bought back by the borrower on the redemption date. The price difference between the sale and redemption of the securities is the implicit interest rate for the borrowing/lending. The eligible underlying securities for these transactions are government securities and treasury bills. Corporate bonds are not allowed as eligible securities for repo transactions. The minimum repo term (lending /borrowing period) is one day.

TREPS: TREPS stands for Triparty Repo Trades. TREPS is a discount instrument introduced by the Clearing Corporation of India Limited (CCIL). They can be traded like any other discount instrument. Lenders buy TREPS and borrowers sell TREPS. CCIL manages the risks inherent in issuing these securities through a system of margins and deposits that it takes from both lenders and borrowers. TREPS can be issued/bought/sold for a minimum of one day to a maximum of 364 days.

The Securities Market

The market for fixed-income securities can be broadly classified into

The market for money market (short-term) instruments: Money-market securities are generally discount securities maturing within one year from the date of issuance. Instruments satisfying this criterion are treasury bills (obligations of the government), commercial paper (obligations of the corporate sector) and certificate of deposit (obligations of banks).

The market for Government Securities: Government securities are medium-/long-term Fixed Income Securities of the government. The market for government securities is the most liquid segment of the fixed-income market in India. Most of the secondary market trading is concentrated in government securities. Trading in government securities is now done mostly through an electronic trading, reporting and settlement platform developed by the Reserve Bank of India (RBI) called Negotiated Dealing System. The role of brokers, which was an important element of the Indian bond market, is now less significant in this segment than in the past.

The market for corporate bonds: Trading in corporate bonds is relatively subdued (in comparison to government securities). Price discovery and trading in this segment are still through the telephone. Attempts at improving the trading, settlement and risk-management practices for trading corporate bonds are currently underway.

The market for floating-rate securities: The coupon rate in floating-rate securities is linked to an acceptable benchmark. Floating-rate securities generally have a coupon rate, which is reset over a regular period depending on the benchmark chosen. The market widely uses the MIBOR benchmarks announced by Independent agencies such as NSE and Reuters. When benchmark interest rate rises, the income generated on these floating-rate securities may also rise. When the benchmark interest rates decline, the income generated on these floating-rate securities may decline. Increasingly more companies are raising resource through floating-rate securities. Most of such securities are in the form of floating-rate debentures at a spread over NSE MIBOR. The other popular benchmark is the Indian Government securities benchmark yield (known as INBMK). The reset in such cases happen after a period of time, generally six months. The Government of India has also started issuing floating-rate securities using INBMK 1 year as the benchmark.

(v) Market Participants:

Given the large size of the trades, the debt market has remained predominantly a wholesale market.

Primary Dealers

Primary Dealers (PDs) act as underwriters in the primary market, and as market makers in the secondary market.

Brokers

Brokers bring together counterparties and negotiate terms of the trade.

Investors

Banks, Insurance Companies, Mutual Funds are important players in the debt market. Other players are Trusts, Provident and pension funds.

(vi) Trading Mechanism:

Government Securities and Money Market Instruments

Negotiated Dealing System (NDS) is an electronic platform for facilitating dealing and online reporting of transactions. Government Securities (including T-bills), call money, notice/term money, repos in eligible securities, etc. are available for negotiated dealing through NDS. Currently G-Sec deals are done telephonically and reported on NDS.

Corporate Debt is basically a phone driven market where deals are concluded verbally over recorded lines. The reporting of trade is done on the NSE Wholesale Debt Market segment.

B. Minimum Number of Investors & Single-Investor Limit

As per SEBI Regulations, the Scheme shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme in each calendar quarter on an average basis. In case the Scheme does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation 39(2)(c) of the SEBI (MF) Regulation would become applicable automatically without any reference from SEBI and accordingly the Scheme shall be wound up and the units would be redeemed at applicable NAV. The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI. If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days-notice to redeem his exposure over the 25% limit. Failure on the part of the said investor to redeem his exposure over the 25% limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period. The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

C. Special Considerations

Prospective investors should review / study this Scheme Information Document carefully and in its entirety and shall not construe the contents hereof or regard the summaries contained herein as advice relating to legal, taxation, or financial/investment matters and are advised to consult their own professional advisor(s) as to the legal or any other requirements or restrictions relating to the subscription, gifting, acquisition, holding, disposal (sale, transfer, switch or redemption or conversion into money) of units and to the treatment of income (if any), capitalisation, capital gains, any distribution, and other tax consequences relevant to their subscription, acquisition, holding, capitalisation, disposal (sale, transfer, switch or redemption or conversion into money) of units within their jurisdiction / of nationality, residence, domicile etc. or under the laws of any jurisdiction to which they or any managed Scheme to be used to purchase/gift units are subject, and (also) to determine possible legal, tax, financial or other consequences of subscribing / gifting to, purchasing or holding units before making an application for units.

Neither this Scheme Information Document nor the units have been registered in any jurisdiction outside India. The distribution of this Scheme Information Document in certain jurisdictions may be restricted or subject to registration requirements and, accordingly, persons who come into possession of this Scheme Information Document in certain jurisdictions are required to inform themselves about, and to observe, any such restrictions. No person receiving a copy of this Scheme Information Document or any accompanying application form in such jurisdiction may treat this Scheme Information Document or such application form as constituting an invitation to them to subscribe for units, nor should they in any event use any such application form, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such application form could lawfully be used without compliance with any registration or other legal requirements. Neither the delivery of this Scheme Information Document nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct.

Details under FATCA/Common Reporting Standards (CRS)/Foreign Tax Laws

Compliance under Foreign Account Tax Compliance Act /Common Reporting Standard requirements: Foreign Account Tax Compliance Act: Foreign Account Tax Compliance Act ("FATCA") is a United States (US) law aimed at prevention of tax evasion by US citizens and residents ("US Persons") through use of offshore accounts. FATCA obligates foreign financial institution (FFIs), including Indian financial institutions to provide the US Internal Revenue Service (IRS) with information on the accounts of to report accounts held by specified US Persons. FATCA requires enhanced due diligence processes by the FFI so as to identify US reportable accounts. With respect to individuals, the US reportable accounts would cover those with US citizenship or US residency. The identification of US person will be based on one

or more of following "US indicia" • Identification of the Account Holder as a US citizen or resident; Unambiguous indication of a US place of birth; • Current US mailing or residence address (including a US post office box); • Current US telephone