

RISK FACTORS

- **Scheme specific risk factors**

Risk factors associated with investing in Equity or Equity related Securities:

- Subject to the stated investment objective of the Scheme, the Scheme propose to invest in equity and equity related securities. Equity instruments by nature are volatile and prone to price fluctuations on a daily basis due to both macro and micro factors. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of these investments. Different segments of financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. The inability of the Scheme to make intended securities' purchases due to settlement problems could cause the Scheme to miss certain investment opportunities.
- Investments in equity and equity related securities involve a degree of risks and investors should not invest in the Scheme unless they can afford to take the risk of losing their investment.
- The liquidity and valuation of the Scheme's investments due to its holdings of unlisted securities may be affected if they have to be sold prior to the target date of disinvestment.
- Securities which are not quoted on the stock exchanges are inherently illiquid in nature and carry a larger liquidity risk in comparison with securities that are listed on the exchanges or offer other exit options to the investors, including put options.
- As the scheme may invest in stocks of different countries, the portfolio shall be exposed to the political, economic and social risks with respect to each country. However, the investment manager shall ensure that his exposure to each country is limited so that the portfolio is not exposed to one country. Investments in various economies will also diversify and reduce this risk.
- The fund will be exposed to settlement risk, as different countries have different settlement periods.
- 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 and enhance Unitholders' interest.
- In the event that the investible funds of more than 65% of the total proceeds of the Scheme are not invested in equity shares of domestic companies, the tax provisions as applicable for equity schemes may not be available to the Scheme. This is however subject to change as per Income Tax laws of India.
- 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.
- Liquidity risk can be defined as inability of the fund manager to exit securities at their fair value in the secondary market whenever there is a need to generate cash. Equity and equity related instruments are subject to liquidity risk.
- Liquidity risk is generally observed to be elevated in mid and small cap stocks than in large cap stocks. The scheme may have some exposure to mid and small cap stocks which usually have a higher impact cost. HSBC monitors liquidity risk on an ongoing basis for both assets and liability side.

Risk factor associated with legal, tax and regulatory risk

The Scheme could be exposed to changes in legal, tax and regulatory regime which may adversely affect it and / or the investors. Such changes could also have retrospective effect and could lead to additional taxation imposed on the Scheme which was not contemplated either when investments were made, valued or disposed off.

Risk factors associated with investing in Fixed Income Securities

Subject to the stated investment objective, the Scheme proposes to invest in debt and related instruments and the risk factors pertinent to the same are:

- The performance of Scheme may be affected by changes in Government policies, general levels of interest rates and risks associated with trading volumes, liquidity and settlement systems.
- Investments in different types of securities are subject to different levels and kinds of risk. Accordingly, the Scheme's risk may increase or decrease depending upon its investment pattern.

E.g. investments in corporate bonds carry a higher level of risk than investments in Government securities. Further, even among corporate bonds, bonds which have a higher rating are comparatively less risky than bonds which have a lower rating.

- **Price-Risk or Interest Rate Risk:** As with all debt securities, changes in interest rates may affect the NAV of the Scheme as the prices of securities increase as interest rates decline and decrease as interest rates rise. Prices of long-term securities generally fluctuate more in response to interest rate changes than do short term securities. Indian debt markets can be volatile leading to the possibility of price movements up or down in fixed income securities and thereby to possible movements in the NAV.

The change in value of a security, for a given change in yield, is higher for a security with higher duration and vice versa. Hence portfolios with higher duration will have higher volatility which leads to duration risk.

Government securities do carry price risk depending upon the general level of interest rates prevailing from time to time. The extent of fall or rise in the prices is a function of the coupon rate, days to maturity and the increase or decrease in the level of interest rates. The price of the Government securities (existing and new) is influenced only by movements in interest rates in financial systems.

In the case of floating rate instruments, an additional risk could be due to the change in the spreads of floating rate instruments. If the spreads on floating rate papers rise, then there could be a price loss on these instruments. Secondly in the case of fixed rate instruments that have been swapped for floating rates, any adverse movement in the fixed rate yields vis-à-vis swap rates could result in losses. However, floating rate debt instruments which have periodical interest rate reset, carry a lower interest rate risk as compared to fixed rate debt instruments. In a falling interest rate scenario, the returns on floating rate debt instruments may not be better than those on fixed rate debt instruments.

- **Liquidity Risk:** This refers to the ease with which a security can be sold at or near to its valuation yield-to-maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is today characteristic of the Indian fixed income market.

This represents the possibility that the realised price from selling the security might be lesser than the valuation price as a result of illiquid market. If a large outflow from the Scheme is funded by selling some of the illiquid securities, the NAV could fall even if there is no change in interest rates. Illiquid securities are typically quoted at a higher yield than the liquid securities and have higher bid offer spreads. Investment in illiquid securities results in higher current yield for the portfolio. In addition, money market securities, 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.

The corporate debt market is relatively illiquid vis-a-vis the government securities market. Even though the government securities market is more liquid compared to that of other debt instruments, on occasions, there could be difficulties in transacting in the market due to extreme volatility or unusual constriction in market volumes or on occasions when an unusually large transaction has to be put through. HSBC monitor liquidity risk on an ongoing basis from both assets and liability side.

- **Spread risk:** Though the sovereign yield curve might remain constant, investments in corporate bonds are exposed to the risk of spread widening between corporate bonds and gilts. Typically, if this spread widens, the prices of the corporate bonds tend to fall and so could the NAV of the Schemes. Similar risk prevails for the investments in the floating rate bonds, where the benchmark might remain unchanged, but the spread over the benchmark might vary. In such an event, if the spread widens, the price and the NAV of the Schemes could fall.
- **Credit Risk:** Credit risk or default risk refers to the risk that an issuer of a fixed income security may default (i.e. will be unable to make timely principal and interest payments on the security). A sovereign security carries no default risk since Government raises money to meet its capital and revenue expenditure by issuing these debt or discounted securities. As the payment of interest and principal amount has a sovereign status implying no default, such securities are popularly known as "risk-free security" or "Zero Risk security". Thus Zero-Risk is the lowest risk, even lower than a security with "AAA" rating and hence commands a yield, which is lower than a yield on "AAA" security. Normally, the value of a fixed income security will fluctuate depending upon the changes in the

perceived level of credit risk as well as any actual event of default. The greater the credit risk, the greater the yield required for someone to be compensated for the increased risk. Because of this risk, corporate debentures are sold at a yield above those offered on Government Securities, which are sovereign obligations.

- **Reinvestment Risk:** This risk refers to the interest rate levels at which cash flows received from the securities in the Scheme are reinvested. The additional income from reinvestment is the “interest on interest” component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed. However, declining interest rates normally lead to increase in bond prices which may help cushion the impact of reinvestment risk to some extent.
- **Benchmark Risk:** The floating rate segment of the domestic debt market is not very developed. Currently, majority of the issuance of floating rate papers is linked to NSE MIBOR. As the floating rate segment develops further, more benchmark rates for floating papers may be available in future. The fewer number of benchmark rates could result in limited diversification of the benchmark risk.
- **Prepayment Risk:** The risk associated with the early unscheduled return of principal on a fixed-income security. The early unscheduled return of principal may result in reinvestment risk.
- **Settlement risk:** Different segments of Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. Delays or other problems in settlement of transactions could result in temporary periods when the assets of the Scheme are uninvested and no return is earned thereon. The inability of the Scheme to make intended securities purchases, due to settlement problems, could cause the Scheme, to miss certain investment opportunities. Similarly, the inability to sell securities held in the Scheme’s portfolio, due to the absence of a well-developed and liquid secondary market for debt securities, may result at times in potential losses to the Scheme in the event of a subsequent decline in the value of securities held in the portfolio of the Scheme.
- **Market risk:** Lower rated or unrated securities are more likely to react to developments affecting the market and the credit risk than the highly rated securities which react primarily to movements in the general level of interest rates. Lower rated or unrated securities also tend to be more sensitive to economic conditions than higher rated securities.
- In addition to the factors that affect the values of securities, the NAV of Units of the Scheme will fluctuate with the movement in the broader fixed income market, money market and derivatives market and may be influenced by factors influencing such markets in general including but not limited to economic conditions, changes in interest rates, price and volume volatility in the bond and stock markets, changes in taxation, currency exchange rates, foreign investments, political, economic or other developments and closure of the stock exchanges.

Risk Factors associated with investments in Money Market instruments

- Investments in money market instruments would involve a moderate credit risk i.e. risk of an issuer’s liability to meet the principal payments. Additionally, money market securities, 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.
- Money market instruments may also be subject to price volatility due to factors such as changes in interest rates (when interest rates in the market rise, the value of a portfolio of money market instruments can be expected to decline), general level of market liquidity and market perception of credit worthiness of the issuer of such instruments. and risks associated with settlement of transactions and reinvestment of intermediate cash flows. The NAV of the Scheme’s Units, to the extent that the Scheme is invested in money market instruments, will consequently be affected by the aforesaid factors. The AMC endeavours to manage such risk by the use of in-house credit analysis.
- The NAV of the Scheme’s Units, to the extent that the corpus of the Scheme is invested in money market instruments, will be affected by the changes in the level of interest rates. When interest rates in the market rise, the value of a portfolio of money market instruments can be expected to decline.

Risks associated with investing in Foreign Securities

- **Foreign Securities:** Subject to necessary approvals and within the investment objectives of the Scheme, the Scheme may invest in overseas markets which carry risks related to fluctuations in the foreign exchange rates, the nature of the securities market of the country, repatriation of capital due to exchange controls and political circumstances. It is the AMC’s belief that investment in foreign securities offers new investment and portfolio diversification opportunities into multi-market and multi-currency products. However, such investments also entail additional risks. Such investment opportunities may be pursued by the AMC provided they are considered appropriate in terms of the overall investment objectives of the Scheme. Since the Scheme would invest only partially in foreign securities, there may not be readily available and widely accepted benchmarks to measure performance of the Scheme. To manage risks associated with foreign currency and interest rate exposure, the Fund may use derivatives for efficient portfolio management including hedging and in accordance with conditions as may be stipulated by SEBI / RBI from time to time.
- Offshore investments will be made subject to any / all approvals, conditions thereof as may be stipulated by SEBI / RBI and provided such investments do not result in expenses to the Fund in excess of the ceiling on expenses prescribed by and consistent with costs and expenses attendant to international investing. The Fund may, where

necessary, appoint other intermediaries of repute as advisors, custodian / sub-custodians etc. for managing and administering such investments. The appointment of such intermediaries shall be in accordance with the applicable requirements of SEBI and within the permissible ceiling of expenses. The fees and expenses would illustratively include, besides the investment management fees, custody fees and costs, fees of appointed advisors and sub-managers, transaction costs and overseas regulatory costs.

- To the extent that the assets of the Scheme will be invested in foreign securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by changes in the value of certain foreign currencies relative to the Indian Rupee. The repatriation of capital to India may also be hampered by changes in regulations concerning exchange controls or political circumstances as well as the application to it of other restrictions on investment.
- **Regulatory Limit Risk** - The Scheme's investments in overseas securities is subject to the regulatory limits applicable for overseas investments as prescribed from time to time. In this regard, overseas investments will be halted, if such limit is breached either at the mutual fund level or at mutual fund industry level.

Risks associated with investing in Derivatives

- The Fund may use derivative instruments like stock index futures, option on stocks, stock indices, or other derivative instruments as permitted under the Regulations and guidelines.
- 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 specialized instruments that require investment techniques and risk analyses 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, lack of liquidity and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value. Also, the market for derivative instruments is nascent in India.
- 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(s) may not always be profitable. No assurance can be given that the fund manager(s) 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.

Risks associated with investing in securitized debt

Securitized Debt: Securitized debt papers carry credit risk of the Obligors and are dependent on the servicing of the PTC / Contributions etc. However, these are offset suitably by appropriate pool selection as well as credit enhancements specified by Rating Agencies. In cases where the underlying facilities are linked to benchmark rates, the securitized debt papers may be adversely impacted by adverse movements in benchmark rates. However, this risk is mitigated to an extent by appropriate credit enhancement specified by rating agencies. Securitized debt papers also carry the risks of prepayment by the obligors. In case of prepayments of securities debt papers, it may result in reduced actual duration as compared to the expected duration of the paper at the time of purchase, which may adversely impact the portfolio yield. These papers also carry risk associated with the collection agent who is responsible for collection of receivables and depositing them. The Investment team evaluates the risks associated with such investments before making an investment decision. The underlying assets in the case of investment in securitized debt could be mortgages or other assets like credit card receivables, automobile / vehicle / personal / commercial / corporate loans and any other receivables / loans / debt.

Risks associated with underlying assets in the case of investment in securitized debt

Credit card receivables are unsecured. Automobile / vehicle loan receivables are usually secured by the underlying automobile / vehicle and sometimes by a guarantor. Mortgages are secured by the underlying property. Personal loans are usually unsecured. Corporate loans could be unsecured or secured by a charge on fixed assets / receivables of the company or a letter of comfort from the parent company or a guarantee from a bank / financial institution. As a rule of thumb, underlying assets which are secured by a physical asset / guarantor are perceived to be less risky than those which are unsecured. By virtue of this, the risk and therefore the yield in descending order of magnitude would be credit card receivables, personal loans, vehicle / automobile loans, mortgages and corporate loans assuming the same rating.

- In case of securitised debt, changes in market interest rates and pre-payments may not change the absolute amount of receivables for the investors but may have an impact on the reinvestment of the periodic cash flows that an investor receives on securitised papers.

- **Tenor risk:** While building the planned amortization schedule for a PTC, there can be a clause stating a minimum percentage of receivable by the issue to stick to the initial cash flows. If the receivables are less than the minimum stated receivables then the tenor of the PTC can get elongated or vice versa.
- **Risk due to prepayment:** Asset securitization is a process whereby commercial or consumer credits are packaged and sold in the form of financial instruments. In the event of pre-payment of the underlying debt, investors may be exposed to changes in tenor and yield.
- **Liquidity Risk:** Presently, despite recent legal developments permitting the listing of securitised debt instruments, the secondary market for securitised debt in India is not very liquid. Even if a more liquid market develops in the future, secondary transactions in such instruments may be at a discount to initial issue price due to changes in the interest rate structure.
- **Limited Recourse, Delinquency and Credit Risk:** Certificates issued on investment in securitised debt represent a beneficial interest in the underlying receivables and there is no obligation on the issuer, seller or the originator in that regard. Defaults on the underlying loan / decline in project SPV's receivables can adversely affect the pay outs to the investors and thereby, adversely affect the NAV of the Scheme. While it is possible to repossess and sell the underlying asset, various factors can delay or prevent repossession and the price obtained on sale of such assets may be low. Delinquencies and credit losses may cause depletion of the amount available under the Credit Enhancement and thereby the Investor Payouts 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.
- **Bankruptcy Risk:** If the originator of securitised debt instruments in which the Scheme invests is subject to bankruptcy proceedings and the court in such proceedings concludes that the sale of the assets from originator to the trust was not a 'true sale', then the Scheme could experience losses or delays in the payments due. Normally, care is taken in structuring the securitization transaction so as to minimize the risk of the sale to the trust not being construed as a 'true sale'.
- **Risk of Co-mingling:** Servicers in a securitization transaction normally deposit all payments received from the obligors into a collection account. However, there could be a time gap between collection by a servicer and depositing the same into the collection account. In this interim period, collections from the loan agreements by the servicer may not be segregated from other funds of the servicer. If the servicer fails to remit such funds due to investors, investors in the Scheme may be exposed to a potential loss.

Risks associated with investments in repo transactions in corporate bonds

In repo transactions, also known as a repo or sale repurchase agreement, securities are sold with the seller agreeing to buy them back at later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest. A repo is economically similar to a secured loan, with the buyer receiving corporate debt securities as collateral to protect against default. The Scheme may invest in repo of corporate debt securities which are subject to the following risks:

- Counterparty Risk:** This refers to the inability of the seller to meet the obligation to buy back securities at the contracted price on the contracted date. The Investment Manager will endeavour to manage counterparty risk by dealing only with counterparties, having strong credit profiles, approved by our credit risk analysis team. The exposure to each counterparty will be within the overall approved credit limits. Also, the counterparty risk is to an extent mitigated by taking collateral equivalent in value to the transaction after knocking off a minimum haircut on the intrinsic value of the collateral. In the event of default by the repo counterparty, the scheme shall have recourse to the corporate debt securities.
- Collateral Risk:** Collateral risk arises when the market value of the securities is inadequate to meet the repo obligations. This risk is mitigated by restricting participation in repo transactions with collateral bearing a minimum rating as prescribed by the regulators (currently AA or equivalent and above rated money market and corporate debt securities). Any rating downgrade will tantamount to either an early termination of the repo agreement or a call for fresh margin to meet the minimum haircut requirement. In addition, the Investment manager may apply a higher haircut on the underlying security than mentioned above to adjust for the illiquidity and interest rate risk on the underlying instrument. The adequacy of the collateral will be monitored on a daily basis by considering the daily market value & applying the prescribed haircut. In the event of shortfall in the collateral, the counterparty shall be asked to replenish the same. If the counterparty is not able to top-up either in form of cash / collateral, it shall tantamount to early termination of the repo agreement.
- Settlement Risk:** Corporate Bond Repo shall be settled between two counterparties in the OTC segment unlike in the case of Government securities repo transactions where CCIL stands as central counterparty on all transactions which neutralizes the settlement risk. However, the settlement risk pertaining to CDRs shall be mitigated through Delivery versus Payment (DvP) mechanism which is followed by all clearing members.

Risk Factors of covered call strategy

Volatility risk: Volatility risk arises when market is more volatile than the Fund Manager's estimation. The investment

manager holds view of range bound market and the market volatility breaches these limits, thereby increasing risk to the portfolio. This risk is mitigated as we have covered with the stocks we hold.

Opportunity loss: Writing a call option means investment manager are obligated to deliver the stock at a predetermined price called as Strike Price. In case when the stock price moves above the threshold of strike price plus premium of the call option, the upside opportunity is lost on the stock, because we have written call option.

Writing call options are highly specialized activities and entail higher than ordinary investment risks. In such investment strategy, the profits from call option writing is capped at the option premium, however the downside depends upon the increase in value of the underlying equity shares which could be unlimited.

Risk factors associated with investing in REITs and InvITs:

Market Risk: REITs and InvITs Investments are volatile instruments and are subject to price fluctuations on a daily basis owing to the market conditions and factors impacting the underlying assets. Fund Manager will do the necessary due diligence but actual market movements may be at variance with the anticipated trends.

Liquidity Risk: As the liquidity of the investments made by the Scheme(s) could, at times, be restricted by trading volumes, settlement periods, dissolution of the trust, potential delisting of units on the exchange etc., the time taken by the Mutual Fund for liquidating the investments in the scheme may be long in the event of immediate redemption requirement. Investment in such securities may lead to increase in the scheme portfolio risk. As these products are new to the market they are likely to be exposed to liquidity risk.

Reinvestment Risk: Investments in REITs & InvITs may carry reinvestment risk as there could be repatriation of funds by the Trusts in form of buyback of units or dividend pay-outs, interest payments etc. Depending upon the market conditions, interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. As a result, the proceeds may get invested at a lower rate.

Credit Risk: REITs & InvITs are likely to have volatile cash flows as the repayment dates would not necessarily be pre scheduled.

Regulatory / Legal Risk : REITs and InvITs being new asset classes, regulatory guidelines may be evolving in nature which may impact the investments in REITs and InvITs.

Risk factors associated with investments in Perpetual Debt Instruments (PDI) including Additional Tier-1 and Tier-2 bonds

The scheme may invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and / or convertible to equity upon trigger of a pre-specified event for loss absorption including Additional Tier I bonds and Tier 2 bonds issued under Basel III framework (known as perpetual debt instruments). PDIs are instruments issued by the borrower to strengthen their capital structure and as the name suggests these instruments do not have a specific maturity date but have an embedded call option instead and maybe less liquid than conventional debt instruments. These bonds are subordinate to all other debt and only senior to equity capital. The issuer may call or redeem the bonds on the call exercise date if they can refinance the issue at a cheaper rate, especially when interest rates are declining. The issuers of such instruments could be Banks, NBFCs and Corporates. PDIs issued by Banks and NBFCs fall under scope of Reserve Bank of India (RBI)'s guidelines for Basel III capital regulations. These are also referred to as Additional Tier I (AT1 bonds). However, there are no regulatory guidelines for issuance of PDIs by Corporates.

Since PDIs have special features other than usual non-convertible bonds, there are additional risks associated with such instruments which are listed below –

Risk related to coupon servicing –

Banks - As per the terms of the instruments, Banks may have discretion at all times to cancel distributions/payment of coupons. In the event of non-availability of adequate distributable reserves and surpluses or inadequacy in terms of capital requirements, RBI may not allow banks to make payment of coupons. These bonds may not be permitted to pay these coupons if the Bank's financial position improves subsequently (non-cumulative).

NBFCs - While NBFCs can defer/postpone payment of coupon in case paying the coupon leads to breach of capital ratios, they also have discretion at all times to cancel payment of coupon.

Corporates - Corporates usually have discretion to defer the payment of coupon. However, the coupon is usually cumulative and any deferred coupon shall accrue interest at the original coupon rate of the PDI.

Risk of write down or conversion to equity –

In the event of shortfall in maintenance of capital adequacy ratios and / or Point of Non Viability Trigger (PONV – a point defined by RBI when a bank is deemed to have become non-viable unless appropriate measures are taken to revive its operations or infusion of public sector capital), PDIs issued by Banks could be written down or converted to common equity. This risk does not exist in case of PDIs issued by NBFCs and Corporates.

Risk of call option not exercised by the issuer –

Banks and NBFCs - The issuing Banks and NBFCs have an option to call back the instrument after minimum period as per the regulatory requirement from the date of issuance and specified period thereafter, subject to meeting the RBI guidelines. However, if the issuer does not exercise the call on first call date, the Scheme may have to hold the instruments for a period beyond the first call exercise date and hence maybe exposed valuation impacts.

Corporates – Unlike Banks and NBFCs there is no minimum period for call date for Corporate issuers. However, if the corporate does not exercise the call option, the Scheme may have to hold the instruments for a period beyond the call exercise date and hence maybe exposed to valuation impacts.

Risk Mitigation – The Scheme will not invest more than 10% of the NAV of the scheme in such instruments and will limit exposure to 5% of the NAV of the Scheme for such instruments issued by a single issuer.

Risks associated with Segregated Portfolio

Liquidity risk - Segregated Portfolio is created to separate debt and money market instruments affected by a Credit Event from the Main Portfolio of the Scheme to ensure fair treatment to existing, entering and exiting investors of the scheme. The Fund will not permit redemption of the Segregated Portfolio units, but the units will be listed on a recognized stock exchange. The Fund is not assuring any liquidity of such units on the stock exchange which may subject investors to impact cost. Further, trading price of units on the stock exchange may be significantly lower than the prevailing NAV. Investors can continue to transact (subscribe / redeem) from the Main Portfolio.

Credit risk – While the AMC will put in sincere efforts to recover the securities in the Segregated Portfolio and distribute the same to unit holders, since such securities are affected by credit event, it is likely that such securities may not realize any value leading to losses to investors.

Risk associated with short selling and securities lending by scheme

Short Selling Risk: The risk associated with upward movement in market price of security sold short may result in loss. The losses on short position may be unlimited as there is no upper limit on rise in price of a security.

Securities Lending: The risks in lending portfolio securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of securities i.e. the Scheme and the approved intermediary. Such failure to comply can result in the possible loss of rights in the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of any corporate benefits accruing to the lender from the securities deposited with the approved intermediary. The Mutual Fund may not be able to sell such lent securities and this can lead to temporary illiquidity.

Risks associated with transaction in Units through Stock Exchange mechanism

In respect of transactions in Units of the Scheme routed through the BSE StAR MF platform or any other recognized stock exchange platform as intimated by the AMC, allotment and redemption of Units on any Business Day will depend upon the order processing / settlement by BSE, or such other exchange and their respective clearing corporations on which the Fund has no control. Further, transactions conducted through the stock exchange mechanism shall be governed by the operating guidelines and directives issued by BSE or such other recognized exchange in this regard.