

RISK FACTORS

Scheme specific risk factors

Risk factors associated with the Scheme

Investments in the Underlying scheme, which also consist of equity funds, will have all the risks associated with investments in equity and the offshore markets.

- The portfolio disclosure of the Scheme will be largely limited to the investments made by the Scheme.
- The investor will be exposed to the risk of the global markets and currency risk arising out of the investment in the Underlying scheme in securities which are denominated in foreign currencies (eg US Dollars). The investor will also be prone to delays in redemption if the global market is closed.
- This being a fund of funds Scheme, the investors should note that the expenses to be borne by the investor include the recurring expenses of the Underlying scheme in which Fund of Funds Scheme makes investments subject to the maximum limits prescribed under sub-regulation 6 & 6A of Regulation 52 of the SEBI Regulations.
- If the Underlying scheme declares a non-business day, the AMC will also declare it a non-business day. If this information is received later in the day and the local feeder fund has already accepted transaction, such transactions will be processed at the NAV of the next business day. This may impact liquidity of investors of local scheme.
- **Liquidity risk of underlying instruments:** There could be liquidity risk on account of illiquid underlying holdings.
- To maintain liquidity at the feeder fund level, the AMC will invest upto 5% in Money Market instruments (including TREPS & reverse repo in government securities) and units of domestic mutual funds to provide from a liquidity perspective.
- **Restructuring / Rescheduling Risk:** There could be cases of restructuring / re-scheduling of particular debt / money market instruments held in the portfolio which could result in the maturity of these instruments going beyond the original maturity date of the instrument. In such cases the fund manager may be constrained to sell these instruments in the market at realizable value and pass on the loss / impact to investors under the Scheme.

Risks associated with investing in derivatives, securitized debt, short selling and securities lending

The Scheme will not take any exposure to the above mentioned securities or participate in short selling or securities lending. However, the Underlying scheme may take exposure to the above mentioned securities. Refer risk factors associated with the same below for Underlying scheme.

Risk associated with short selling and securities lending Underlying schemes

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(s) 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.

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.
- Money market instruments may also be subject to price volatility due to factors such as changes in interest rates, general level of market liquidity and market perception of credit worthiness of the issuer of such instruments.
- 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.

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 of Underlying scheme (HGIF Asia Pacific Ex Japan Equity High Dividend Fund)

The Underlying scheme having exposure to equity and equity related securities will be subject to the following risks which may in turn affect the performance of the Scheme. There can be no assurance that the Underlying scheme will achieve its investment objectives and past performance should not be seen as a guide to future returns.

Risks associated with Underlying scheme investing in Equity & 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. In the view of the Fund Manager, investing in mid and small cap stocks are riskier than investing in large cap stocks.
- **Market / Investment Risk:** Many of the Asian markets are emerging markets. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity, market volatility (such as interest rate and price volatility) and regulatory risks.
- **Currency Risk:** Investors investing in this fund will be exposed to currency risk as Indian investors will invest in INR in India and the fund will invest in USD in the Underlying scheme. The Underlying scheme in-turn may take exposure in multiple currencies (such as USD, HKD and EURO). As the Underlying scheme will invest in securities which are denominated in foreign currencies (e.g. US Dollars), fluctuations in the exchange rates of these foreign currencies may have an impact on the income and value of the Scheme. The assets in which the Underlying scheme is invested and the income from the assets will or may be quoted in currencies which are different from the Underlying scheme's base currency. The performance of the Underlying scheme will therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the Underlying scheme's base currency and hence there can be the prospect of additional loss or the prospect of additional gain to the investors greater than the usual risks of investment. The performance of the Underlying scheme may also be affected by changes in exchange control regulations. The investment manager to the Underlying scheme is permitted, but not obliged, to use hedging techniques to attempt to offset market and currency risks. There is no guarantee that hedging techniques will achieve the desired result. Being on open-ended Scheme, the investors can enter and exit at any time. Since each investor's horizon is different, investor who wish to hedge could undertake it at their end.
- **Communication Risk:** This product will require greater coordination between HSBC Asset Management India Operations and HSBC Global Operations team. A robust communication and escalation model will be put in place which is periodically, revisited (quarterly) to account for changes in people/process/systems.
- **Swing Pricing Risk:** There are trading and associated transaction costs involved when there are significant inflows into or significant outflows from the Underlying scheme. The dealing charges incurred as a result of such significant flows fall not on only those investors who have just transacted but on all the investors in the fund thereby diluting the value of existing shareholders' holding. Introduction of Swing pricing aims to protect the interest of the existing investors from some of the performance dilution that they may suffer as a result of significant inflows and outflows from the fund. It is a process whereby the NAV of the fund is swung or adjusted when a predetermined net capital activity threshold (or swing threshold) is exceeded. Thus, if net subscriptions are above the swing threshold, the NAV per share is swung up by the swing factor. Conversely, if net redemptions are above the swing threshold, the NAV per share is swung down by the swing factor. The swing threshold has been set at a level by the Underlying scheme

which it believes best manages the objective of protecting existing shareholders from NAV dilution by capturing a significant percentage of the gross amount of deals on any fund whilst maintaining a reasonable level of fund volatility by not swinging the NAV all the time.

Adjusted NAV Calculation: Subscription Example –

- Using the following swing pricing criteria:
 - o The swinging threshold is 0.5% of the underlying scheme's Net Assets
 - o The swing factor on the offer (net subscriptions above the threshold) is 1.0%
 - o The swing factor on the bid (net redemptions below the threshold) is 0.5%
- Assume the following fund data:

Total net assets (US\$)	Net subscriptions (US\$)	No. of shares
US\$ 100,000,000	US\$ 600,000	1,000,000

- Net subscriptions = US\$600,000
- The swinging threshold = Total Net Assets x 0.5% = US\$100,000,000 x 0.5% = US\$500,000
- As the net inflows exceed the swinging threshold, the NAV per share has to be adjusted
- Unadjusted NAV per share = Total Net Assets/No. of shares = US\$100,000,000/1,000,000 = US\$100.00 z Adjusted NAV per share = NAV per share x (1 + swing factor) = US\$100.00 x (1 + 0.01) = US\$101.00
- The NAV is adjusted upwards as net subscriptions have exceeded the swinging threshold.
- Therefore, all investors (including the local Scheme) redeeming or subscribing into the underlying scheme will deal at the adjusted price of US\$101.00 per share. Thus, investors of the underlying scheme (including the local scheme) may be positively or negatively impacted by application of the swing price factor by the underlying scheme, depending upon whether they are subscribing /redeeming on the date of application of swing price factor.
- Liquidity Risk: Investors should be aware that the investments of the Underlying scheme could be negatively impacted by low liquidity and poor transparency of some of the exchanges where the investments are made. Investments may also become illiquid which may constrain the ability of the investment manager of the Underlying scheme to realize some or all of the portfolio. 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.
- Country Risk: As the underlying portfolio could invest in stocks of different countries, the portfolio shall be exposed to the social, economic, political and settlement risks with respect to each country.
- Settlement Risks: The Scheme will be exposed to settlement risk, as different foreign markets may have different settlement periods and the procedures may be different.
- Stock risk: The Underlying scheme is exposed to equity markets for all or part of its total assets. The value of these assets can therefore rise or fall and investors may not get back all of their investment.
- Emerging Market Risk: As the Underlying scheme could invest in emerging markets, investors are advised to consider carefully the special risks of investing in equity and equity equivalent securities of companies which have their registered office in, and with an official listing on a major stock exchange or other regulated market of emerging market countries, as well as those companies which carry out a preponderant part of their business activities in emerging market countries. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Brokerage commissions, custodial services and other costs relating to investment in Emerging Markets generally are more expensive than those relating to investment in more developed markets. The risk also exists that an emergency situation may as a result of which trading of securities may cease or may be substantially curtailed and prices for a sub-fund's securities in such markets may not be readily available.
- NAV Alignment Risk: The cut off timing of NAV is aligned to the Underlying scheme's NAV. HSBC Asset Management India only declares NAV, after receiving the NAV of the Underlying scheme.

Risks associated with investing in Foreign Securities

- Foreign Securities: 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.
- Changes to the investment objectives or strategies of the Underlying scheme into which the Scheme invest or any change in the regulations in the country where such Underlying scheme is domiciled may affect the performance of the Scheme which invest into such schemes.

Risk factors associated with underlying scheme investing in REITs and InvITs

- The Underlying scheme may also invest in REITs and InvITs which may subject the scheme to the following risks:
- **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:** The liquidity of the investments could, at times, be restricted by trading volumes, settlement periods, dissolution of the trust, potential delisting of units on the exchange etc. Hence, the time taken by the Fund Manager for liquidating the investments in the scheme may be longer than anticipated. 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 deployed at a lower yield.
- **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.

Risks associated with Underlying scheme investing in Derivatives

- The underlying fund may use derivative instruments like stock index futures, option on stocks, stock indices, interest rate swaps, forward rate agreements or other derivative instruments as permitted under the Regulations and guidelines.
- As and when the underlying scheme trade 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 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 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.
- 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 perused 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.

Risk associated with Underlying scheme investing in securitized debt

- **Securitized Debt:** Securitized debt papers carry credit risk of the Obligor 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. Securitised 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 securitised debt could be mortgages or other assets like credit card receivables, automobile / vehicle / personal / commercial / corporate loans and any other receivables / loans / debt.

The risks associated with the underlying assets can be described as under:

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.

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 recognised 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 recognised exchange in this regard.

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.