

Applicable Risk Factors

Scheme specific risk factors

- Investments in the Underlying scheme will have all the risks associated with investments in gold & gold related instruments and debt markets.
- The portfolio disclosure of the Scheme will be largely limited to the investments made by the Scheme.
- 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. The subscription and redemption in FOF is also dependent on the liquidity of the underlying scheme. The illiquidity of the same may affect the performance of the FOF.
- There could be liquidity risk on account of illiquidity issues in underlying funds for example, underlying fund creating a segregated portfolio due to default in its exposures. 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.

The underlying scheme will invest in a combination of Gold and money market instruments hence, the performance of the FoF would depend upon the performance of Underlying scheme.

Risk factors associated with Underlying scheme investing in Gold and Gold related securities

- **Market risk due to volatility in gold prices:**

The NAV of the Scheme will react to the securities and bullion market movements. The Investor may lose money over short or long periods due to fluctuation in the Scheme's NAV in response to factors affecting gold prices. The price of gold is driven by speculation and supply and demand, like most commodities. The key factors that affect the volatility of gold are geo-political uncertainties, rising crude oil prices, depreciating dollar, government policies on major export and import destinations, sales by Central Banks, fluctuating industrial demand and store of value demand, Changes in indirect taxes or any other levies etc.

- **Liquidity risks in physical markets impairing the ability of the fund to buy and sell gold :**

Commodities tend to be more volatile than other instruments driven by demand and supply dynamics. This may have an impact on liquidity and may result in price risk. Liquidity risks may arise due to issues related to the supply chain which affects the availability of gold. The OTC markets for physical gold are concentrated in centres like London, New York and Zurich. However, London gold market is by far the largest global centre for over the counter (OTC) transactions. Globally, most of the countries prefer to store their gold reserves in London due to transparent market for gold driven by robust supporting infrastructure such as vaults, specialised transportation companies, insurers and customs handling firms. Mining companies, central banks, manufacturers of jewellery and industrial products, together with investors transact their business through London centre. However, in a situation of heightened geopolitical uncertainties and tariff wars, countries may intend to ship the gold back home as a defence mechanism which may adversely impact the supply of physical gold in global centres. The situation may result in higher cost of liquidity for the fund house, at the time of bulk redemptions driven by market sentiments.

The market makers for gold ETFs also depend on the bulk gold markets centres to procure and sell the physical gold for providing two way liquidity to the fund houses. However, geopolitical uncertainty leading to supply issues in global centres, may limit their ability to support fund houses to meet the redemption by selling the underlying gold in physical markets in extreme scenarios.

The gold ETF has to sell gold only to bullion bankers/traders who are authorized to buy gold but there is no obligation for bullion bankers/traders to be on the other side of the trade. Though there are adequate number of players (commercial or bullion bankers) to whom the gold ETF can sell gold, it may have to resort to distress sale of gold if there is no or low demand for gold to meet its cash needs of redemption or expenses.

The lack of liquidity in the physical gold market may further arise due to seasonality of demand and supply. Lastly, government regulations including change in taxation or duties levied on gold may affect the demand and supply and may affect the liquidity.

- **Risks associated with handling, storing and safekeeping of physical gold:**

All Physical gold procured must follow the LBMA guidelines as per prescribed SEBI guidelines. Risk arises when part or all of the gold held by the Fund could be lost, stolen or damaged and access to gold may be restricted due to natural calamities or human actions. Loss or damage as a consequence of war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power may also lead to erosion of the value of underlying gold. Loss due to aridity, humidity, exposure to light or extremes of temperature can lead to risk of value erosion of physical gold. Hence, the Custodian maintains insurance with regards to the business on

terms and conditions and the custodian is also responsible for all costs arising from the insurance policies. The custodian taking delivery on behalf of the AMC needs to ensure the weight, purity, and the source of gold as specified under the LBMA guidelines. Since this is paramount under SEBI guidelines, the risk arises in violation of same. Safekeeping of physical gold requires appropriate vaulting space, confirming to the best global standards. The vaulting agents engaged by the custodian needs to ensure the same.

• **Tracking Error and Tracking Difference Risk:**

The scheme shall invest in Gold ETF which is exposed to tracking error and tracking difference risk. Tracking error is defined as the annualized standard deviation of the difference in the daily returns between the NAV of the Scheme and the Underlying Index. Tracking Difference is defined as the annualized difference of returns between the NAV of the Scheme and the underlying index. The Fund Manager of the underlying scheme would not be able to invest the entire corpus in physical gold due to certain factors such as the fees and expenses of the underlying Scheme, cash balance and regulatory restrictions, which may result in Tracking Error with the underlying price of gold. The underlying Scheme's returns may therefore deviate from that of the underlying gold. The Fund Manager of the underlying scheme would monitor the Tracking Error on an ongoing basis and would seek to minimize the Tracking Error to the maximum extent possible. There can be no assurance or guarantee that the underlying Scheme will achieve any particular level of Tracking Error relative to performance of the underlying Index. Tracking Error/ Tracking Difference may arise including but not limited to the following reasons:

- Expenditure incurred by the underlying Fund.
- Available funds may not be invested at all times as the Scheme may keep a portion of the funds in cash to meet Redemptions, for corporate actions or otherwise.
- Accounting for indirect taxes including tax reclaims.

The AMC would monitor the tracking error of the underlying Scheme on an ongoing basis and would seek to minimize tracking error. Under normal market circumstances, tracking error based on past one year rolling data shall not exceed 2%. However, in case of unavoidable circumstances in the nature of force majeure, which are beyond the control of the AMCs, the tracking error may exceed 2% and the same shall be brought to the notice of Trustees with corrective actions taken by the AMC, if any.

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 investment in ETFs:

To the extent the Scheme's assets are invested in Gold ETFs, the risks associated with the underlying Gold ETFs, will also be applicable.

The units issued under this Scheme, when predominantly invested in Gold ETFs, will derive liquidity from the underlying Gold ETF having creation / redemption process in creation unit size of predefined quantity of physical gold. When subscriptions are not adequate enough to invest in creation unit size, the Scheme may purchase units of Gold ETFs from the secondary market in stock exchange. Since the price of Gold ETF units traded on stock exchange may be different from the NAV of Gold ETF due to liquidity, the Scheme may at times purchase units which are higher in price than the value of gold represented by them or indicative NAV (iNAV) of the Gold ETF and vice versa in case of redemption.

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.
- The liquidity of these instruments can be adversely affected by any adverse sentiment about the issuer or deterioration in general market liquidity. This liquidity 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.

Risk Factors associated with investments in Debt instruments

- **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. In the case of floating rate instruments, an additional risk could be due to the change in the spreads of floating rate 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. 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. The corporate debt market is relatively illiquid vis-a-vis the government securities market. Liquidity risk is today characteristic of the Indian fixed income market. HSBC monitors 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. 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.
- **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.
- **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.

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.

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.

Risk mitigation strategies

The Fund by utilizing a holistic risk management strategy will endeavor to manage risks associated with investing in different types of instruments. The risk control process involves identifying & measuring the risk process involves identifying & measuring the risk through various risk measurement tools

Risks & Description	Risk Mitigants / Management Strategy
Market Risk : Fluctuations in the price of gold	The fund is passively managed and fluctuations in Gold prices will not increase the tracking error.
Tracking Error Risk : The performance of the Scheme may not be commensurate with the performance of the benchmark index on any given day or over any given period, referred to as tracking error.	The Investment Manager would monitor the tracking error of the underlying Scheme on an ongoing basis and would seek to minimize tracking error to the maximum extent possible. The investment manager will endeavor to maintain optimum cash levels to minimize tracking error.
Liquidity risk: Inability to buy/ sell appropriate quantity of gold	The underlying scheme may retain certain investments in cash or cash equivalents for its day-to-day liquidity requirements.
Legal / Tax / Regulatory Risk : Risk on account of changes in regulations	This risk is dependent upon a future event and will be clearly communicated to the investor. Comprehensive documentation including disclosures and disclaimers.
Event Risk : Price risk as a result of any specific event	Usage of derivatives to hedge portfolios if required, in case of predictable events.
Custody Risk: Risk of loss, damage, theft, impurity etc. of gold	In order to ensure safety, the said gold will be stored with custodian in vaults. Gold held by custodian is also insured. The custodian will insure/cover all such risks.
Valuation Risk for money market instruments : Risk on account of incorrect valuation	Valuation as per guidelines of Pricing and Valuation policy. Usage of third party valuation agent
Interest Rate Risk : Value of holdings may fall as a result of movements in interest rate	Determination of duration bands based on macro- economic analysis.
Credit Risk: inability of the issuer to make timely principal and interest payments on the security	Internal Credit assessment to determine the repayment capabilities of the issuer with a reduced reliance on external ratings

