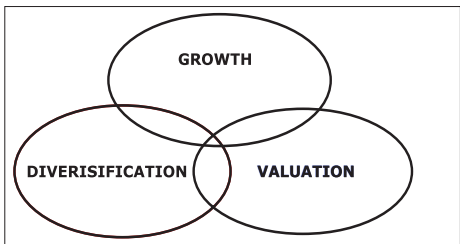
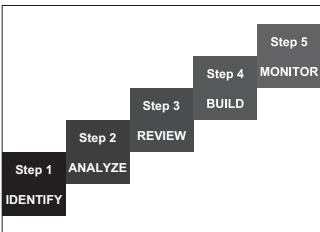
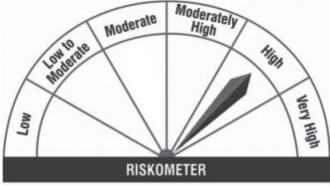
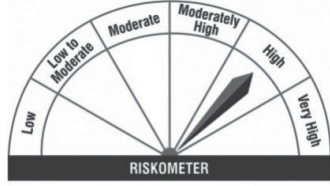


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To be continued

Where will the Scheme Invest? (contd.)	<p>The Scheme may also invest in ADRs / GDRs / Foreign Debt Securities as permitted by Reserve Bank of India and Securities and Exchange Board of India.</p> <p>Subject to the Regulations, the securities mentioned in “Where will the Scheme invest” above could be listed, unlisted, privately placed, secured, unsecured, rated or unrated and of varying maturity. The securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals.</p> <p>The Scheme may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions. Further the Scheme intends to participate in securities lending as permitted under the Regulations. Investment in overseas securities shall be made in accordance with the requirements stipulated by SEBI and RBI from time to time.</p>	<p>The portion of the Scheme’s portfolio invested in each type of security may vary in accordance with economic conditions, interest rates, liquidity and other relevant considerations, including the risks associated with each investment. The Scheme will, in order to reduce the risks associated with any one security, utilize a variety of investments.</p> <p>The Scheme may also invest in ADRs/GDRs/ Foreign securities/ Foreign Debt/ overseas ETFs Securities as permitted by Reserve Bank of India and Securities and Exchange Board of India.</p> <p>Subject to the Regulations, the securities mentioned in “Where will the Scheme invest” above could be listed, unlisted, privately placed, secured, unsecured, rated or unrated and of varying maturity. The securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals.</p> <p>The Scheme may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions. Further the Scheme intends to participate in securities lending as permitted under the Regulations. Investment in overseas securities shall be made in accordance with the requirements stipulated by SEBI and RBI from time to time.</p>	What are the investment strategies? (contd.)	<p>Sell $\sum (1000 * 100 * \text{price of stock xi Futures} * \% \text{ of stock xi in Nifty in units})$ @ ₹ 30,30,00,000 where, xi is a constituent stock of Nifty, i = 1 to 50, and Company A, Company B and Company C replaced by Company D, Company E and Company F respectively.</p> <p>This trade is done to lock in profit of ₹ 30,00,000 irrespective of prices of Nifty Index or its constituent stocks.</p> <p>The annualized return before brokerage and transaction cost will be 12%.</p> <p>The said transaction will generate profit under any market scenario as under</p> <p>1. Value of Nifty 50 Index goes up by 500 points Profit/(loss) on Nifty 50 Futures is ₹ 5,00,00,000 Profit/(loss) on Constituent Stock Futures is (₹ 4,70,00,000) Net profit = ₹ 30,00,000</p> <p>2. Value of Nifty 50 Index goes down by 500 points Profit/(loss) on Nifty Futures is (₹ 5,00,00,000) Profit/(loss) on Constituent Stock Futures is ₹5,30,00,000 Net profit = ₹ 30,00,000</p> <p>Example of Index Arbitrage keeping the portion represented by Company A, Company B and Company C in the Nifty 50 Index as open</p> <p>The Scheme will enter in the following trade.</p> <p>Purchase 1,000 lots of 100 Nifty Futures (current month expiry) @ ₹ 3,000 at the total Cost of ₹ 30,00,00,000.</p> <p>Sell $\sum (1000 * 100 * \text{price of stock xi Futures} * \% \text{ of stock xi in Nifty in units})$ @ ₹ 29,02,50,000. where, xi is a constituent stock of Nifty, i = 1 to 47, excluding Company A, Company B and Company C.</p> <p>The above trade will keep 4.25% of Nifty position i.e. ₹ 1,27,50,000 open to market risk.</p> <p>1. If the value of Nifty Index goes up by 300 points i.e. 10% with the values of Company A, Company B and Company C going up 20% i.e. by ₹ 25,50,000 Profit/(loss) on Nifty Futures is ₹ 3,00,00,000 Profit/(loss) on Constituent Stock Futures is (₹ 2,57,25,000) Net profit = ₹ 42,750</p> <p>2. If the value of Nifty Index goes up by 300 points i.e. 10% with the values of Company A, Company B and Company C going down by 10% i.e. by ₹ 12,75,000 Profit/(loss) on Nifty 50 Futures is ₹ 3,00,00,000 Profit/(loss) on Constituent Stock Futures is ₹(2,95,50,000) Net profit = ₹4,50,000</p> <p>Example of cash futures arbitrage</p> <p>The Scheme will enter in the following trade.</p> <p>Purchase 1000 shares of A @ ₹100 at the total Cost of ₹1,00,000</p> <p>Sell 1000 Futures @ ₹101 at the sale proceeds of ₹1,01,000</p> <p>This trade is done to lock in profit of ₹1000 irrespective of price of stock A.</p> <p>The annualized return before brokerage and transaction cost will be 12%.</p> <p>The said transaction will generate profit under any market scenario as under:</p> <p>1. At the time of expiry of derivative contract, price of stock A is ₹50 Profit/(loss) on Stock A will be = $1000 * (50 - 100) = (\text{₹ } 50,000)$ Profit/(loss) on Futures will be = $1000 * (101 - 50) = \text{₹ } 51,000$ Net Profit/(loss) = ₹ 1,000</p> <p>2. At the month end, price of stock A is ₹ 200 Profit/(loss) on stock A will be = $1000 * (200 - 100) = \text{₹ } 1,00,000$ Profit/(loss) on futures position = $1000 * (101 - 200) = (\text{₹ } 99,000)$ Net Profit/(loss) = ₹ 1,000</p> <p>Example of hedging</p> <p>The scheme will enter into the following trade</p> <p>Buy stock A for ₹ 100.</p> <p>Sell Nifty futures for ₹ 100</p> <p>This trade will make the stock A market neutral. The stock may generate returns out of market outperformance irrespective of market movements.</p> <p>1. Due to fall in the overall market by 20%, the stock A goes down by 10%. Profit/(Loss) on stock A will be = (₹ 10) Profit/(Loss) on Short Nifty futures = ₹ 20 Net Profit/(loss) = ₹ 10</p> <p>2. Due to rise in the overall market by 10%, the stock A goes up by 20%. Profit/(Loss) on stock A will be = ₹ 20 Profit/(Loss) on Short Nifty futures = (₹ 10) Net Profit/(loss) = ₹ 10</p> <p>Example of stock specific derivative strategies</p> <p>Using Options</p> <p>Against an underlying position in stock A at current market price of ₹ 100, the scheme sells at the money call options (strike price of ₹ 100) of Stock A at a price of ₹ 3, thus reducing the downside by the amount of the option premium earned.</p> <p>1. If at the option expiry date, the price of Stock A goes up to ₹ 105, the option will get exercised. Profit/(Loss) from Selling stock A ₹ 5 Profit/(Loss) on call option (₹ 5) Option Premium earned ₹ 3 Net Profit/(loss) = ₹ 3</p> <p>2. If at the option expiry date, the price of Stock A goes down to ₹ 95, the option will not be exercised. Profit/(Loss) from Selling stock A (₹ 5) Profit/(Loss) on call option Nil</p>	<p>on a particular underlying stock, i.e. stock option contracts and stock futures contracts:-</p> <p>a. The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL).</p> <p>b. The MWPL and client level position limits however would remain the same as prescribed v. Position limit for the Scheme</p> <p>The position limits for the Scheme and disclosure requirements are as follows:</p> <p>a. For stock option and stock futures contracts, the gross open position across all derivative contracts on a particular underlying stock of a scheme of a Fund shall not exceed the higher of:</p> <p>1% of the free float market capitalisation (in terms of number of shares).</p> <p>Or</p> <p>5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).</p> <p>b. This position limit shall be applicable on the combined position in all derivative contracts on an underlying stock at a Stock Exchange.</p> <p>c. For index based contracts, the Fund shall disclose the total open interest held by its scheme or all schemes put together in a particular underlying index, if such open interest equals to or exceeds 15% of the open interest of all derivative contracts on that underlying index.”</p> <p>Illustration of some derivative instruments:</p> <p>i) Index Futures:The Stock Index futures are the instruments designed to give exposure to the equity market indices. BSE Limited and National Stock Exchange of India Limited have started trading in index futures of 1, 2 and 3-month maturities. The pricing of an index future is the function of the underlying index and interest rates.</p> <p>ii) Buying Options: The Stock or Index Options are the instruments that give the holder of the Options a right but not the obligation to buy (in call option) or sell (in put option) the underlying stock/index at the designated stock price.</p> <p>iii) Interest Rate Swaps and Forward rate Agreements (FRA):</p> <p>An Interest Rate Swap (IRS) is a combination of FRAs in which a fixed interest on a notional principal is exchanged for a floating interest rate equal to the reference rate at periodic intervals over the tenure of the contract.</p> <p>iv) Interest rate futures (IRF):</p> <p>IRF means a standardized interest rate derivative contract traded on a recognized stock exchange to buy or sell a notional security or any other interest bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract. The underlying security for IRF could be either Government Securities or Treasury Bills. Currently, exchange traded Interest Rate Futures traded on exchange are standardized contracts based on 10-Year Government of India Security and 91 day Treasury bill. IRF contracts are cash settled.</p> <p><u>The following section describes some of the more common equity derivatives transactions along with their benefits:</u></p> <p>1. Basic Structure of a Stock & Index Future</p> <p>The Stock Index futures are instruments designed to give exposure to the equity markets indices. BSE Limited (BSE) and National Stock Exchange of India Limited (NSE) provide futures in select stocks and indices with maturities of 1, 2 and 3 months. The pricing of a stock/index future is the function of the underlying stock/index and short term interest rates.</p> <p>Example using hypothetical figure</p> <p>1 month NIFTY 50 Index Future</p> <p>Say, Fund buys 1,000 futures contracts; each contract value is 50 times futures index price</p> <p>Purchase Date: Feb 01, 2019</p> <p>Spot Index: 6036.25</p> <p>Future Price: 6081.90</p> <p>Say, Date of Expiry: Feb 24, 2019</p> <p>Say, Margin: 20%</p> <p>Assuming the exchange imposes total margin of 20%, the Investment Manager will be required to provide total margin of approx. ₹ 6.08 Cr (i.e. $20\% * 6081.90 * 1000 * 50$) through eligible securities and cash.</p> <p>Date of Expiry</p> <p>Assuming on the date of expiry, i.e. Feb 24, 2019, Nifty 50 Index closes at 6100, the net impact will be a profit of ₹ 9,05,000 for the fund i.e. $(6100 - 6081.90) * 1000 * 50$</p> <p>Futures price = Closing spot price = 6100.00</p> <p>Profits for the Fund = $(6100 - 6081.90) * 1000 * 50 = \text{₹ } 9,05,000$</p> <p>Please note that the above example is given for illustration purposes only. Some assumptions have been made for the sake of simplicity. The net impact for the Fund will be in terms of the difference of the closing price of the index and cost price. Thus, it is clear from the example that the profit or loss for the Fund will be the difference of the closing price (which can be higher or lower than the purchase price) and the purchase price. The risks associated with index futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mis-pricing of the futures.</p> <p>2. Basic Structure of an Equity Option</p> <p>An option gives a buyer the right but does not cast the obligation to buy or sell the underlying. An option is a contract between two parties wherein the buyer receives a privilege for which he pays a fee (premium) and the seller accepts an obligation for which he receives a fee. The premium is the price negotiated and set when the option is bought or sold. A person who buys an option is said to be long in the option. A person who sells (or writes) an option is said to be short in the option.</p>
What are the investment strategies?	<p>Equity: The fund manager will invest into opportunities available across the market capitalization. The fund manager will use top down approach to identify growth sectors and bottom up approach to identify individual stocks. The AMC will follow a structured investment process using proprietary research tools to identify the sectors and the stocks for inclusion in the portfolio. The AMC shall follow the following investment principles for equity investments:</p> <div></div> <ul style="list-style-type: none">Follow the growth investment philosophy looking to invest in companies, which are growing at a rapid pace.Look at valuation matrix, invest in companies which are available at attractive valuations on the price to earnings growth basis. Buy good companies at good prices and not at expensive prices.Seek a diversified portfolio across various sectors to mitigate the concentration risk. <p>As a part of the larger process, the Scheme shall follow the following steps to identify, build and monitor its investments.</p> <div></div> <p>Identify: The investment team has identified a universe of more than 250 companies for evaluation purpose.</p> <p>Analyze: Quantitative tools shall be used to analyse the fundamentals of the companies in the universe to rank them on various valuation parameters like ROE, ROCE, PER, PBV, PEG, PCEPS, PEPS etc.</p> <p>Review: The companies coming on top of the ranking after being analysed are reviewed with personal meetings or phone calls or discussion with third party agencies like brokers, rating agencies, independent researches etc. to arrive at the final view on the company.</p> <p>Build: The fund manager gives the order to the traders to buy the stocks at the agreed levels. The traders execute the strategy in the market seeking for optimum rates.</p> <p>Monitor: The portfolio is monitored on a regular basis by the portfolio manager with the help of the sector analysts.</p> <p>Derivatives strategy:</p> <p>The fund manager will employ a combination of the various derivative strategies apart from investments in equity and equity related instruments and short-term debt instruments. The derivative strategies to be used have been enumerated in the section Derivative Strategy in this document.</p> <p>ICICI Prudential Balanced Advantage Fund</p> <p>The Scheme will invest predominantly in equities. The equity portfolio will be created on a bottom up stock picking through fundamental research. The Scheme will invest across market capitalization. The Scheme will use derivatives to hedge the downside risk of the portfolio. The Scheme will take a call on the hedge ratio after weighing following factors:</p> <ol style="list-style-type: none">The earnings growth of the stockThe quantitative valuation parameters in the historical as well global context<ul style="list-style-type: none">P/E RatioP/ BV RatioPrice/Earnings Growth RatioPrice/Free Cash FlowPrice/Cash EPSExpected Fund FlowMarket Sentiment <p>The Scheme will seek to reduce volatility of returns by actively using derivatives as hedge. This will make the Scheme forgo some upside but shall protect downside.</p> <p>Following are some of the illustrations on the different types of Derivative exposure strategies that the Scheme may adopt:</p> <p>Example of Index Arbitrage replacing Company A, Company B and Company C with similar stocks.</p> <p>The Scheme will enter in the following trade.</p> <p>Purchase 1,000 lots of 100 Nifty 50 Futures (current month expiry) @ ₹ 3,000 at the total Cost of ₹ 30,00,00,000.</p>	<p>The Scheme will dynamically allocate its net assets to equity and equity related securities and debt instruments. The portfolio construct of the Scheme will be dependent on various factors such as market conditions, economic scenarios, global events, valuation parameters such as Price to Book Value, Price to Earnings, interest rate movement, etc. The gross equity and equity related exposure would be normally maintained between 65%-100%, the net equity exposure can be brought down below 65% through various derivative strategies. The equity exposure is thus dynamically managed and is increased when various factors are favourable towards equity as an asset class or is brought down when the factors are not favourable.</p> <p>Equity: The Scheme can invest into opportunities available across the market capitalization. A top down approach shall be used to identify growth sectors and bottom up approach to identify individual stocks. The following investment principles shall be followed for equity investments:</p> <p>Growth: Following growth investment philosophy looking to invest in companies, which are growing at a rapid pace.</p> <p>Valuations: Look at valuation matrix, invest in companies which are available at attractive valuations.</p> <p>Diversification: Seek a diversified portfolio across various sectors to mitigate the concentration risk.</p> <p>Derivatives strategy:</p> <p>i) Trading in Derivatives</p> <p>The Scheme may use derivatives instruments like Stock/Index Futures, Interest Rate Swaps, Forward Rate Agreements or such other derivative instruments as may be introduced from time to time for the purpose of hedging and portfolio balancing, within the permissible limit for derivatives as stated under ‘How will the Scheme allocate its assets’.</p> <p>The following information provides a basic idea as to the nature of the derivative instruments proposed to be used by the Scheme and the risks attached there with.</p> <p>Advantages of Derivatives: The volatility in Indian markets both in debt and equity has increased over last few months. Derivatives provide unique flexibility to the Scheme to hedge part of its portfolio. Some of the advantages of specific derivatives are as under:</p> <p>Position limits for investment in Derivative instruments:</p> <p>SEBI has vide its Circular DNPd/Cir-29/2005 dated September 14, 2005 and DNPd/Cir-29/2005 dated January 20, 2006 and CIR/IMD/DF/11/2010 dated August 18, 2010 specified the guidelines pertaining to trading by Mutual Fund in Exchange trades derivatives. All Derivative positions taken in the portfolio would be guided by the following principles:</p> <ol style="list-style-type: none">Position limit for the Fund in index options contracts<ol style="list-style-type: none">The Fund position limit in all index options contracts on a particular underlying index shall be ₹ 500 crore or 15% of the total open interest of the market in index options, whichever is higher as per Stock Exchange.This limit would be applicable on open positions in all options contracts on a particular underlying index.Position limit for the Fund in index futures contracts:<ol style="list-style-type: none">The Fund position limit in all index futures contracts on a particular underlying index shall be ₹ 500 crore or 15% of the total open interest of the market in index futures, whichever is higher as per Stock Exchange.This limit would be applicable on open positions in all futures contracts on a particular underlying index.Additional position limit for hedging <p>In addition to the position limits at point (i) and (ii) above, Fund may take exposure in equity index derivatives subject to the following limits:</p> <ol style="list-style-type: none">Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Fund’s holding of stocks.Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Fund’s holding of cash, government securities, T-Bills and similar instruments. Position limit for the Fund for stock based derivative contracts <p>The Fund position limit in a derivative contract</p>			

What are the investment strategies? (contd.)	<p>Option Premium earned ₹ 3</p> <p>Net Profit/(loss) = (₹ 2)</p> <p>Using Futures</p> <p>Based on the relative valuations of Stock A and Stock B in the banking sector, the scheme buys 100 units of Stock A at ₹ 100 and sells 50 units of stock B futures at ₹ 200 thus creating an equal but opposite exposure.</p> <p>1. If the overall banking index goes up with stock A at ₹ 120 and stock B at ₹ 220,</p> <p>Profit/(loss) on stock A = ₹ 2000</p> <p>Profit/(loss) on stock B = (₹ 1000)</p> <p>Net Profit/(loss) = ₹ 1000.</p> <p>2. If the overall banking index goes down, Stock A falls to ₹ 95 and stock B falls to ₹ 180,</p> <p>Profit/(loss) on stock A = (₹ 500)</p> <p>Profit/(loss) on stock B = ₹ 1000</p> <p>Net Profit/(loss) = ₹ 500.</p> <p>Example of stock and index derivative strategies</p> <p>Based on the relative valuations of Stock A in the banking sector, the scheme buys 3000 units of Stock A at ₹ 100 and sells 100 units of Nifty Bank futures at ₹ 3000 thus creating an equal but opposite exposure.</p> <p>1. If the bank index goes up with stock A futures at ₹ 120 and Nifty Bank Futures at ₹ 3300,</p> <p>Profit/(loss) on stock A = ₹ 60,000</p> <p>Profit/(loss) on Nifty Bank Futures = (₹ 30,000)</p> <p>Net Profit/(loss) = ₹ 30,000.</p> <p>2. If the banking index goes down, Stock A falls to ₹ 95 and Nifty Bank Futures falls to ₹ 2700,</p> <p>Profit/(loss) on stock A = (₹ 15,000)</p> <p>Profit/(loss) on Nifty Bank Futures = ₹ 30,000</p> <p>Net Profit/(loss) = ₹ 15,000.</p> <p>Example of sector index derivative strategies</p> <p>Based on the relative valuations of banking sector and the IT sector, the scheme buys 100 units of Nifty IT Futures at ₹ 3000 and sells 100 units of Bank Nifty futures at ₹ 3000 thus creating an equal but opposite exposure.</p> <p>1. If the overall markets go up, with Nifty BankFutures at ₹ 3600 and Nifty IT Futures at ₹ 3300,</p> <p>Profit/(loss) on Nifty Bank Futures = ₹ 60,000</p> <p>Profit/(loss) on Nifty IT futures = (₹ 30,000)</p> <p>Net Profit/(loss) = ₹ 30,000.</p> <p>2. If the overall markets go down, with Nifty Bank Futures at ₹ 2850 and Nifty IT Futures at ₹ 2700,</p> <p>Profit/(loss) on Nifty Bank Futures = (₹ 15,000)</p> <p>Profit/(loss) on Nifty IT Futures = ₹ 30,000</p> <p>Net Profit/(loss) = ₹ 15,000.</p> <p>Example of sector and market index derivative strategies</p> <p>The Scheme may decide to hedge a sector index against the market and generate returns out of the out performance of the sector against the market. Based on the relative valuations of IT sector, the scheme buys 100 units of Nifty IT Futures at ₹ 3000 and sells 100 units of Nifty 50 futures at ₹ 3000.</p> <p>1. If the markets go up, with Nifty IT Futures at ₹ 3600 and Nifty 50 Futures at ₹ 3300,</p> <p>Profit/(loss) on Nifty IT futures = ₹ 60,000</p> <p>Profit/(loss) on Nifty 50 futures = (₹ 30,000)</p> <p>Net Profit/(loss) = ₹ 30,000.</p> <p>2. If the overall markets go down, with Nifty IT Futures at ₹ 2850 and Nifty 50 Futures at ₹ 2700,</p> <p>Profit/(loss) on Nifty IT Futures = (₹ 15,000)</p> <p>Profit/(loss) on Nifty 50 Futures = ₹ 30,000</p> <p>Net Profit/(loss) = ₹ 15,000.</p> <p>Example of buying a straddle</p> <p>If the volatility in the market is high, the scheme will buy call as well as put options on stock A/index with the same strike price and expiration date.</p> <p>Strike Price ₹ 100</p> <p>Premium paid on call option ₹ 3</p> <p>Premium paid on put option ₹ 3</p> <p>1. If the price of the stock/index goes up to ₹ 110, the scheme will exercise the call option</p> <p>Profit on call option ₹ (110-100) = ₹ 10</p> <p>Total premium paid on call and put options = ₹ 6</p> <p>Net Profit = ₹ 4</p> <p>2. If the price of the stock/index goes down to ₹ 90, the scheme will exercise the put option</p> <p>Profit on put option ₹ (100-90) = ₹ 10</p> <p>Total premium paid on call and put options = ₹ 6</p> <p>Net Profit = ₹ 4</p> <p>Example of buying a strangle</p> <p>If the volatility in the market is high, the scheme will buy out of money call as well as put options on stock A/index with the same expiration date.</p> <p>Current market price of stock A/index ₹ 100</p> <p>Strike price of call option ₹105</p> <p>Premium paid on call option ₹1</p> <p>Strike price of put option ₹95</p> <p>Premium paid on put option ₹1</p> <p>1. If the price of the stock/index goes up to ₹110, the scheme will exercise the call option</p> <p>Profit on call option ₹(110-105) = ₹ 5</p> <p>Total premium paid on call and put options = (₹ 2)</p> <p>Net Profit = ₹ 3</p> <p>2. If the price of the stock/index goes down to ₹ 90, the scheme will exercise the put option</p> <p>Profit on put option ₹ (95-90) = ₹ 5</p> <p>Total premium paid on call and put options = (₹ 2)</p> <p>Net Profit = ₹ 3</p> <p>Example of selling a straddle</p> <p>If the market volatility is low, the scheme will</p>	<p>Example using hypothetical figures on Index Options:</p> <p>Market type: N</p> <p>Instrument Type: OPTIDX</p> <p>Underlying: Nifty</p> <p>Purchase date: Feb 01, 2019</p> <p>Expiry date: Feb 24, 2019</p> <p>Option Type: Put Option (Purchased)</p> <p>Strike Price: ₹ 6,000.00</p> <p>Spot Price: ₹ 6036.00</p> <p>Premium: ₹ 84.00</p> <p>Lot Size: 50</p> <p>No. of Contracts: 100</p> <p>Say, the Fund purchases on Feb 01, 2019, 1 month Put Options on Nifty on the NSE i.e. put options on 5000 shares (100 contracts of 50 shares each) of Nifty.</p> <p>Date of Exercise</p> <p>As these are European style options, they can be exercised only on the exercise date i.e. Feb 24, 2019. If the share price of Nifty falls to ₹ 5,500 on expiry day, the net impact will be as follows:</p> <p>Premium expense = ₹ 84*100* 50 ₹ 4,20,000</p> <p>Option Exercised at = ₹ 5,500</p> <p>Profits for the Fund = (6000.00–5,500.00) * 100*50 = ₹ 25,00,000</p> <p>Net Profit = ₹ 25,00,000 – ₹ 4,20,000 = ₹ 20,80,000</p> <p>In the above example, the Investment Manager hedged the market risk on 5000 shares of Nifty Index by purchasing Put Options.</p> <p>Please note that the above example is given for illustration purposes only. Some assumptions have been made for the sake of simplicity. Certain factors like margins have been ignored. The purchase of Put Options does not increase the market risk in the fund as the risk is already in the fund’s portfolio on account of the underlying asset position. The premium paid for the option is treated as an expense. Additional risks could be on account of illiquidity and potential mis-pricing of the options.</p> <p>Example of Hedging using Index Futures</p> <p>The scheme holds stock at current market price of ₹ 100. To hedge the exposure, the scheme will sell index futures for ₹ 100.</p> <p>The stock will make a gain or a loss subject to its relative out-performance or underperformance of the markets.</p> <p>Stock A falls by 10% and market index also falls by 10%.</p> <p>Profit/(Loss) on stock A will be = (₹ 10)</p> <p>Profit/(Loss) on Short Nifty futures = ₹ 10</p> <p>Net Profit/(loss) = Nil</p> <p>Therefore, hedging allows the scheme to protect against market falls.</p> <p>Please note that the above examples are only for illustration purposes.</p> <p>Valuation of Derivative Products:</p> <p>I. The traded derivatives shall be valued at market price in conformity with the valuation policy of the Mutual Fund.</p> <p>II. The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time.</p> <p>Various Derivatives Strategies:</p> <p>If and where Derivative strategies are used under the scheme the Fund Manager will employ a combination of the following strategies:</p> <p>1. Index Arbitrage:</p> <p>As the Nifty 50 Index derives its value from fifty underlying stocks, the underlying stocks can be used to create a synthetic index matching the Nifty Index levels. Also, theoretically, the fair value of a stock/ index futures is equal to the spot price plus the cost of carry i.e. the interest rate prevailing for an equivalent credit risk, in this case is the Clearing Corporation of the NSE.</p> <p>Theoretically, therefore, the pricing of Nifty Index futures should be equal to the pricing of the synthetic index created by futures on the underlying stocks. However, due to market imperfections, the index futures may not exactly correspond to the synthetic index futures.</p> <p>The Nifty Index futures normally trades at a discount to the synthetic Index due to large volumes of stock hedging being done using the Nifty Index futures giving rise to arbitrage opportunities.</p> <p>The fund manager shall aim to capture such arbitrage opportunities by taking long positions in the Nifty Index futures and short positions in the synthetic index. The strategy is attractive if this price differential (post all costs) is higher than the investor’s cost-of-capital.</p> <p>Objective of the Strategy</p> <p>The objective of the strategy is to lock-in the arbitrage gains.</p> <p>Risks Associated with this Strategy</p> <ul style="list-style-type: none">• Lack of opportunity available in the market• The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices:• Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place. <p>2. Cash Futures Arbitrage:</p> <p>(Only one way as funds are not allowed to short in the spot market).</p> <p>The scheme would look for market opportunities between the spot and the futures market. The cash futures arbitrage strategy can be employed when the price of the futures exceeds the price of the underlying stock.</p>	<p>What are the investment strategies? (contd.)</p> <p>write a call as well as put options on stock A/ index with the same strike price and expiration date.</p> <p>Strike Price ₹ 100</p> <p>Premium received on call option ₹ 3</p> <p>Premium received on put option ₹ 3</p> <p>1. If the price of the stock/index goes up to ₹ 105, the call option will get exercised</p> <p>Loss on call option ₹ (105-100) = (₹ 5)</p> <p>Total premium received on call and put options = ₹ 6</p> <p>Net Profit = ₹ 1</p> <p>2. If the price of the stock/index goes down to ₹ 95, the put option will get exercised</p> <p>Loss on put option ₹ (100-95) = (₹ 5)</p> <p>Total premium received on call and put options = ₹ 6</p> <p>Net Profit = ₹ 1</p> <p>Example of selling a strangle</p> <p>If the market volatility is low, the scheme will write out of money call as well as put options on stock A/index with the same expiration date.</p> <p>Current market price of stock A/index ₹ 100</p> <p>Strike price of call option ₹ 105</p> <p>Premium received on call option ₹ 1</p> <p>Strike price of put option ₹ 95</p> <p>Premium received on put option ₹ 1</p> <p>1. If the price of the stock/index goes up to ₹ 106, the call option will be exercised</p> <p>Loss on call option if exercised ₹ (106-105) = (₹ 1)</p> <p>Total premium paid on call and put options = ₹ 2</p> <p>Net Profit = ₹ 1</p> <p>2. If the price of the stock/index goes down to ₹ 94, the put option will be exercised</p> <p>Loss on put option ₹ (95-94) = (₹ 1)</p> <p>Total premium paid on call and put options = ₹ 2</p> <p>Net Profit = ₹ 1</p> <p>The above examples are the indicative strategies. Depending upon the market outlook, more strategies could be developed and employed to fulfill the scheme objectives.</p> <p>Fixed Income securities</p> <p>The AMC aims to identify securities, which offer superior levels of yield at lower levels of risks. With the aim of controlling risks rigorous in depth credit evaluation of the securities proposed to be invested in will be carried out by the investment team of the AMC. The credit evaluation includes a study of the operating environment of the issuer, the short as well as long-term financial health of the issuer. Rated debt instruments in which the Scheme invests will be of investment grade as rated by a credit rating agency. The AMC will be guided by the ratings of such Rating Agencies as approved by SEBI to carry out the functioning of rating agencies. In case a debt instrument is not rated, such investments shall be made by an internal committee constituted by AMC to approve the investment in un-rated debt securities in terms of the parameters approved by the Board of Trustees and the Board of Asset Management Company.</p> <p>In addition, the investment team of the AMC will study the macro economic conditions, including the political, economic environment and factors affecting liquidity and interest rates. The AMC would use this analysis to attempt to predict the likely direction of interest rates and position the portfolio appropriately to take advantage of the same.</p> <p>The Schemes could invest in Fixed Income Securities issued by government, quasi government entities, corporate issuers, structured notes and multilateral agencies in line with the investment objectives of the Scheme and as permitted by SEBI from time to time.</p> <p>The scheme may undertake repo transactions in corporate debt securities in accordance with the directions issued by RBI and SEBI from time to time. Such investment shall be made subject to the guidelines which may be prescribed.</p> <p>Portfolio Turnover</p> <p>Portfolio turnover is defined as the lower of purchases and sales after reducing all subscriptions and redemptions and derivative transactions there from and calculated as a percentage of the average assets under management of the Scheme during a specified period of time.</p> <p>The AMC’s portfolio management style is conducive to a low portfolio turnover rate. However, the AMC will take advantage of the opportunities that present themselves from time to time because of the inefficiencies in the securities markets. The AMC will endeavour to balance the increased cost on account of higher portfolio turnover with the benefits derived there from.</p>	<p>The Scheme will first buy the stocks in cash market and then sell in the futures market to lock the spread known as arbitrage return.</p> <p>Buying the stock in cash market and selling the futures results into a hedge where the Plans have locked in a spread and is not affected by the price movement of cash market and futures market. The arbitrage position can be continued till expiry of the future contracts. The future contracts are settled based on the last half an hour’s weighted average trade of the cash market. Thus there is a convergence between the cash market and the futures market on expiry. This convergence helps the Plans under the Scheme to generate the arbitrage return locked in earlier. However, the position could even be closed earlier in case the price differential is realized before expiry or better opportunities are available in other stocks. The strategy is attractive if this price differential (post all costs) is higher than the investor’s cost-of-capital.</p> <p>Objective of the Strategy</p> <p>The objective of the strategy is to lock-in the arbitrage gains.</p> <p>Risk Associated with this Strategy</p> <ul style="list-style-type: none">• Lack of opportunity available in the market.• The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.• Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place <p>3. Hedging and alpha strategy: The fund will use exchange-traded derivatives to hedge the equity portfolio. The hedging could be either partial or complete depending upon the fund managers’ perception of the markets. The fund manager shall either use index futures and options or stock futures and options to hedge the stocks in the portfolio. The fund will seek to generate alpha by superior stock selection and removing market risks by selling appropriate index. For example, one can seek to generate positive alpha by buying an IT stock and selling Nifty IT Index future or a bank stock and selling Bank Index futures or buying a stock and selling the Nifty Index.</p> <p>Objective of the Strategy</p> <p>The objective of the strategy is to generate alpha by superior stock selection and removing market risks by hedging with appropriate index.</p> <p>Risk Associated with this Strategy</p> <ul style="list-style-type: none">• The stock selection under this strategy may under-perform the market and generate a negative alpha.• The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.• Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place. <p>4. Other Derivative Strategies: As allowed under the SEBI guidelines on derivatives, the fund manager will employ various other stock and index derivative strategies by buying or selling stock/index futures and/or options.</p> <p>Objective of the Strategy</p> <p>The objective of the strategy is to earn low volatility consistent returns.</p> <p>Risk Associated with this Strategy</p> <ul style="list-style-type: none">• The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices• Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place. <p>The Schemes could invest in Fixed Income Securities issued by government, quasi government entities, corporate issuers, structured notes and multilateral agencies in line with the investment objectives of the Scheme and as permitted by SEBI from time to time.</p> <p>The Scheme may use derivative instruments like Interest Rate Swaps, Interest Rate Futures, Forward Rate Agreements or other derivative instruments for the purpose of hedging, portfolio balancing and other purposes, as permitted under the Regulations. Hedging using Interest Rate Futures could be perfect or imperfect, subject to applicable regulations. Usage of derivatives may expose the Scheme to certain risks inherent to such derivatives. It may also invest in securitized debt.</p> <p>The Scheme may undertake repo transactions in corporate debt securities in accordance with the directions issued by RBI and SEBI from time to time. Such investment shall be made subject to the guidelines which may be prescribed.</p> <p>The Scheme may invest in Units issued by REITs and Inv/Its, Preference Shares, ADRs/GDRs/ Foreign Securities/overseas ETFs. The Scheme may also engage in Securities lending. The Scheme can take covered-call positions for stock derivatives, as permitted by SEBI.</p> <p>Portfolio Turnover</p> <p>Portfolio turnover is defined as the lower of purchases and sales after reducing all subscriptions and redemptions and derivative transactions there from and calculated as a percentage of the average assets under management of the Scheme during a specified period of time.</p> <p>The AMC’s portfolio management style is conducive to a low portfolio turnover rate. However, the AMC will take advantage of the opportunities that present themselves from time to time because of the inefficiencies in the securities markets. The AMC will endeavour to balance the increased cost on account of higher portfolio turnover with the benefits derived there from.</p>
3				

Riskometer*	<div><p>This scheme is suitable for investors who are seeking*:</p><ul style="list-style-type: none">Long term wealth creation solutionAn equity fund that aims for growth by investing in equity and derivatives.</div> <div><p>RISKOMETER</p><p>Investors understand that their principal will be at High Risk</p></div> <div><p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p></div>	<div><p>This scheme is suitable for investors who are seeking*:</p><ul style="list-style-type: none">Long term capital appreciation/incomeInvesting in equity and equity related securities and debt instruments.</div> <div><p>RISKOMETER</p><p>Investors understand that their principal will be at High Risk</p></div> <div><p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them</p></div>
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* Investors please note that the above riskometer is based on scheme portfolio dated January 31, 2021.

The following disclosures shall be included in the SID of the Scheme:

- 1. COVERED CALL STRATEGY:**
- **RISKS FOR WRITING COVERED CALL OPTIONS FOR EQUITY SHARES**
- A call option gives the holder (buyer) the right but not the obligation to buy an asset by a certain date for a certain price. Covered calls are an options strategy where a person holds a long position in an asset and writes (sells) call options on that same asset to generate an income stream. The Scheme may write call options under covered call strategy, as permitted by the regulations. Risks associated thereto are mentioned below:
- a) 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. This downside risk is reduced by writing covered call options.
 - b) 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.
 - c) 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.
 - d) The total gross exposure related to option premium paid and received must not exceed the regulatory limits of the net assets of the scheme. This may restrict the ability of Scheme to buy any options.

- **Investment Restrictions on writing call options:**
- Mutual Fund schemes (excluding ETFs and Index funds) can write Call options under a covered strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:
- a) The total notional value (taking into account strike price as well as premium value) of call options written by a scheme shall not exceed 15% of the total market value of equity shares held in that scheme.
 - b) The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.
 - c) At all points of time the Mutual Fund scheme shall comply with the provisions at points (a) and (b) above. In case of any passive breach of the requirement at paragraph (a) above, the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.
 - d) In case a Mutual Fund scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs (a) and (b) above while selling the securities.
 - e) In no case, a scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.
 - f) The premium received shall be within the requirements prescribed in terms of SEBI circular dated August 18, 2010 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.
 - g) The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of paragraph 3 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010.
 - h) The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective scheme(s) until the position is closed or expired.

- **Under Derivatives Strategy:**
- Writing call options under Covered call strategy
- A call option gives the holder (buyer) the right but not the obligation to buy an asset by a certain date for a certain price. Covered calls are an options strategy where a person holds a long position in an asset and writes (sells) call options on that same asset to generate an income stream. The Scheme may write call options under covered call strategy, as permitted by Regulations.
- Benefits of using Covered Call strategy in Mutual Funds:**
- The covered call strategy can be followed by the Fund Manager in order to hedge risk thereby resulting in better risk adjusted returns of the Scheme. This strategy is also employed when the Fund Manager has a short-term neutral view on the asset and for this reason holds the asset long and simultaneously takes a short position via covered call option strategy to generate income from the option premium. The strategy offers the following benefits:
- i) Hedge against market risk - Since the fund manager sells a call option on a stock already owned by the mutual fund scheme, the downside from fall in the stock price would be lower to the extent of the premium earned from the call option.
 - j) Generating additional returns in the form of option premium in a range bound market.

- Thus, a covered call strategy involves gains for unit holders in case the strategy plays out in the right direction
- Illustration – Covered Call strategy using stock call options:**
- Suppose, a fund manager buys equity stock of ABC Ltd. For ₹ 1000 and simultaneously sells a call option on the same stock at a strike price of ₹ 1100. The scheme earns a premium of say, ₹ 50. Here, the fund manager does not think that the stock price will exceed ₹ 1100.
- Scenario 1: Stock price exceeds ₹ 1100**
- The call option will get exercised and the fund manager will sell the stock to settle his obligation on the call at ₹ 1100 (earning a return of 10% on the stock purchase price). Also, the scheme has earned a premium of ₹ 50 which reduced the purchase cost of the stock (₹ 1000 – ₹ 50 = ₹ 950).
- Net Gain – ₹ 150
- Scenario 2: Stock prices stays below ₹ 1100**
- The call option will not get exercised and will expire worthless. The premium earned on call option will generate alpha for the scheme.
- Net Gain – ₹ 50.

- Risks for writing covered call options for equity shares
- a) 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. This downside risk is reduced by writing covered call options.
 - b) 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.
 - c) 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.
 - d) The total gross exposure related to option premium paid and received must not exceed the regulatory limits of the net assets of the scheme. This may restrict the ability of Scheme to buy any options.

- 2. IMPERFECT HEDGING:**
- **Risk factors with respect to imperfect hedging using interest rate futures:**
- An Interest Rate Futures is an agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today. Interest Rate Futures are Exchange traded. These future contracts are cash settled.
- 1. Perfect Hedging means hedging the underlying using IRF contract of same underlying.
 - 2. Imperfect hedging means the underlying being hedged and the IRF contract has correlation of closing prices of more than 90%.

- In case of imperfect hedging, the portfolio can be a mix of:
- 1) Corporate Bonds and Government securities or
 - 2) Only Corporate debt securities or
 - 3) Only government securities with different maturities

- Risk associated with imperfect hedging includes:**
- Basis Risk:** The risk arises when the price movements in derivative instrument used to hedge the underlying assets does not match the price movements of the underlying assets being hedged. Such difference may potentially amplify the gains or losses, thus adding risk to the position.
- Price Risk:** The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Risk of mismatch between the instruments: The risk arises if there is a mismatch between the prices movements in derivative instrument used to hedge, compared to the price movement of the underlying assets being hedged. For example when IRF which has government security as underlying is used, to hedge a portfolio that contains corporate debt securities.

Correlation weakening and consequent risk of regulatory breach: SEBI Regulation mandates minimum correlation criterion of 0.9 (calculated on a 90 day basis) between the portfolio being hedged and the derivative instrument used for hedging. In cases where the correlation falls below 0.9, a rebalancing period of 5 working days has been permitted. Inability to satisfy this requirement to restore the correlation level to the stipulated level, within the stipulated period, due to difficulties in rebalancing would lead to a lapse of the exemption in gross exposure computation. The entire derivative exposure would then need to be included in gross exposure, which may result in gross exposure in excess of 100% of net asset value.

- **Under Derivatives Strategy:**
- Illustration for Imperfect Hedging
- Scenario 1 and 2
- Assumption: Portfolio whose duration is 3 years, is being hedged with an IRF whose underlying securities duration is 10 years
- Portfolio Duration: 3 year
- Market Value of Portfolio: ₹ 100 cr
- Imperfect Hedging cannot exceed 20% of Portfolio
- Maximum extent of short position that may be taken in IRFs is as per below mentioned formula:
- Portfolio (security) Modified Duration * Market Value of Portfolio (security)/(Futures Modified Duration * Futures Price/PAR)
- Consider that we choose to hedge 20% of portfolio
- (3 * (0.2 * 100))/(10 * 100/100) = ₹ 6 cr
- So we must Sell ₹ 6 cr of IRF with underlying duration of 10 years to hedge ₹ 20 cr of Portfolio with duration of 3 years.

- Scenario 1**
- If the yield curve moves in a way that the 3 year moves up by 10 bps and the 10 year moves up by 5bps, which means that the short end has moved up more than the long end
- Amount of Security in Portfolio (LONG): ₹ 20 cr
- If yields move up buy 10 bps then the price of the security with a modified duration of 3 years will move down by;
- Formula: (Yield movement * Duration) * Portfolio Value
- ((0.001 * 3) * 20,00,00,000)= - 6,00,000
- Underlying IRF (SHORT): ₹ 6crs
- If yields move up buy 5bps then the price of the security with a duration of 10 years will move down by;
- Formula: (Yield movement * Duration) * Portfolio Value
- (-0.0005*10) * 6,00,00,000 =3,00,000
- Since we have sold the IRF, this movement is positive and hence the total loss will be reduced to:
- 6,00,000 + 3,00,000=-3,00,000
- Due to IRF, the overall impact on the portfolio due to interest rate movement has been reduced.

- Scenario 2**
- If the yield curve moves in a way that the 3 year does not move and the 10 year moves down by 5 bps, which means that the yield curve has flattened.
- If yield does not move then the price of the security with a duration of 3 years will remain flat:
- Formula: (Yield movement * Duration) * Portfolio Value
- (0*3) * 20,00,00,000 = 0
- Underlying IRF (SHORT): ₹ 6 cr
- If yields moves down by 5bps then the price of the security with a duration of 10 years will move up by;
- (0.0005*10) * 6,00,00,000 = -3,00,000
- In this scenario, the imperfect hedge created on the portfolio would create a loss on the total position.
- Risk Factor: The risk arising out of uses of the above derivative strategy as under:
- Lack of opportunities available in the market.
 - The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Please note that the above example is given for illustration purposes only. Some assumptions have been made for the sake of simplicity. Additional risks could be on account of illiquidity and potential mis-pricing of the options.

- Valuation of Derivative Products
- i. The traded derivatives shall be valued at market price in conformity with the valuation policy of the Mutual Fund.
 - ii. The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the Eighth Schedule to the SEBI (Mutual Funds) Regulations, 1996 as amended from time to time.
- **Investment Restrictions –**
- Exposure limit for participating in Interest Rate Futures**
- In addition to the existing provisions of SEBI circular No.IMD/DF/11/2010 dated August 18, 2010, the following are prescribed:
- i. To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:
$$\frac{(\text{Portfolio Modified Duration} * \text{Market Value of the Portfolio})}{(\text{Futures Modified Duration} * \text{Future Price/ PAR})}$$
 - ii. In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.
 - iii. Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, upto maximum of 20% of the net assets of the scheme, subject to the following:
 - a) Exposure to IRFs is created only for hedging the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.
 - b) Mutual Funds are permitted to resort to imperfect hedging, without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is atleast 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure computed in terms of Para 3 of SEBI circular dated August 18, 2010. The correlation should be calculated for a period of last 90 days.
- Explanation: If the fund manager intends to do imperfect hedging upto 15% of the portfolio using IRFs on weighted average modified duration basis, either of the following conditions need to be complied with:
- i. The correlation for past 90 days between the portfolio and the IRF is at least 0.9 or
 - ii. The correlation for past 90 days between the part of the portfolio (excluding the hedged portions, if any) i.e. at least 15% of the net asset of the scheme (including one or more securities) and the IRF is at least 0.9.
 - c) At no point of time, the net modified duration of part of the portfolio being hedged should be negative.
 - d) The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of gross exposure in terms of Para 3 of SEBI circular dated August 18, 2010.

- iv. The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities) based on the weighted average modified duration.
- Explanation: In case of long term bond fund, after hedging the portfolio based on the modified duration of the portfolio, the net modified duration should not be less than the minimum modified duration of the portfolio as required to consider the fund as a long term bond fund.

- v. The interest rate hedging of the portfolio should be in the interest of the investors.
- 3. PREFERENCE SHARES:**

- Risk factors associated with investing in Preference Shares:
- Credit Risk - Investments in Preference Shares are subject to the risk of an issuer's inability to meet dividend and redemption by the issuer. Further, for non-cumulative preference shares, issuer also has an option to not pay dividends on preference shares in case of inadequate profits in any year.
- Liquidity Risk - Preference shares lack a well-developed secondary market, which may restrict the selling ability of the Scheme(s) and may lead to the Scheme(s) incurring losses till the security is finally sold.
- Unsecured in nature - Preference shares are unsecured in nature and rank lower than secured and unsecured debt in hierarchy of payments in case of liquidation. Thus, there is significant risk of capital erosion in case the company goes into liquidation.
- Market Risk – The schemes will be vulnerable to movements in the prices of securities invested by the schemes which could have a material bearing on the overall returns from the schemes.

- 4. REITS AND INVITS**
- **Risk Factors Associated with Investments in REITs and INVITs:**
- Market Risk:
- REITs and InvITs are volatile and prone to price fluctuations on a daily basis owing to market movements. Investors may note that AMC/Fund Manager's investment decisions may not always be profitable, as actual market movements may be at variance with the anticipated trends. The NAV of the Scheme is vulnerable to movements in the prices of securities invested by the scheme, due to various market related factors like changes in the general market conditions, factors and forces affecting capital market, level of interest rates, trading volumes, settlement periods and transfer procedures. The scheme will undertake active portfolio management as per the investment objective to reduce the market risk.
- Liquidity Risk:
- As the liquidity of the investments made by the Scheme(s) could, at times, be restricted by trading volumes and settlement periods, the time taken by the Mutual Fund for liquidating the investments in the scheme may be high in the event of immediate redemption requirement. Investment in such securities may lead to increase in the scheme portfolio risk. The

fund will try to maintain a proper asset-liability match to ensure redemption payments are made on time and not affected by illiquidity of the underlying units.

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, etc. Consequently, the proceeds may get invested in assets providing lower returns. However, the reinvestment risk will be limited as the proceeds are expected to be a small portion of the portfolio value.

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.

➤ **Investment Restrictions –**

- A mutual fund may invest in the units of REITs and InvITs subject to the following:
 - (a) No mutual fund under all its schemes shall own more than 10% of units issued by a single issuer of REIT and InvIT; and
 - (b) A mutual fund scheme shall not invest –
 - i. more than 10% of its NAV in the units of REIT and InvIT; and
 - ii. more than 5% of its NAV in the units of REIT and InvIT issued by a single issuer.

Provided that the limits mentioned in sub-clauses (i) and (ii) above shall not be applicable for investments in case of index fund or sector or industry specific scheme pertaining to REIT and InvIT.

5. Risks associated with Investing in Structured Obligation (SO) & Credit Enhancement (CE) rated securities:

- The risks factors stated below for the Structured Obligations & Credit Enhancement are in addition to the risk factors associated with debt instruments.
- Credit rating agencies assign CE rating to an instrument based on any identifiable credit enhancement for the debt instrument issued by an issuer. The credit enhancement could be in various forms and could include guarantee, shortfall undertaking, letter of comfort, etc. from another entity. This entity could be either related or non-related to the issuer like a bank, financial institution, etc. Credit enhancement could include additional security in form of pledge of shares listed on stock exchanges, etc. SO transactions are asset backed/ mortgage backed securities, securitized paper backed by hypothecation of car loan receivables, securities backed by trade receivables, credit card receivables etc. Hence, for CE rated instruments evaluation of the credit enhancement provider, as well as the issuer is undertaken to determine the issuer rating. In case of SO rated issuer, the underlying loan pools or securitization, etc. is assessed to arrive at rating for the issuer
- Liquidity Risk: SO rated securities are often complex structures, with a variety of credit enhancements. Debt securities lack a well-developed secondary market in India, and due to the credit enhanced nature of CE securities as well as structured nature of SO securities, the liquidity in the market for these instruments is adversely affected compared to similar rated debt instruments. Hence, lower liquidity of such instruments, could lead to inability of the scheme to sell such debt instruments and generate liquidity for the scheme or higher impact cost when such instruments are sold.
- Credit Risk: The credit risk of debt instruments which are CE rated derives rating based on the combined strength of the issuer as well as the structure. Hence, any weakness in either the issuer or the structure could have an adverse credit impact on the debt instrument. The weakness in structure could arise due to ability of the investors to enforce the structure due to issues such as legal risk, inability to sell the underlying collateral or enforce guarantee, etc. In case of SO transactions, comingling risk and risk of servicer increases the overall risk for the securitized debt or assets backed transactions. Therefore apart from issuer level credit risk such debt instruments are also susceptible to structure related credit risk.

6. **PROVISIONS RELATING TO SEGREGATION OF PORTFOLIOS**

The AMC may create a segregated portfolio of debt and money market instruments in a mutual fund scheme in case of a credit event and to deal with liquidity risk.

In this regard, 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 and the term ‘main portfolio’ shall mean the scheme portfolio excluding the segregated portfolio. The term ‘total portfolio’ shall mean the scheme portfolio including the securities affected by the credit event.

A segregated portfolio may be created in a mutual fund scheme 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 of the said instruments from ‘below investment grade’, 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 as detailed above and implemented at the ISIN level.

The AMC may also create a segregated portfolio of unrated debt and money market instruments of an issuer that does not have any outstanding rated debt or money market instruments in case of ‘actual default’ of either the interest or principal amount.’

Process for creation of segregated portfolio

- The AMC shall decide on creation of segregated portfolio on the day of credit event, as per the process laid down below:
 - i. The AMC shall seek approval of Trustees, prior to creation of the segregated portfolio.
 - ii. The AMC shall immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. It shall also be disclosed that the segregation shall be subject to trustee approval. Additionally, the said press release shall be prominently disclosed on the website of the AMC.
 - iii. The AMC shall ensure that till the time the Trustee approval is received, the subscription and redemption in the scheme shall be suspended for processing with respect to creation of units and payment on redemptions.
- Upon receipt of approval from Trustees:
 - i. The segregated portfolio shall be effective from the day of credit event
 - ii. The 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.
- If the trustees do not approve the proposal to segregate portfolio, the AMC shall issue a press release immediately informing investors of the same.
- Notwithstanding the decision to segregate the debt and money market instrument, the valuation shall 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) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.
- 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:
 - a. Upon trustees’ approval to create a segregated portfolio -
 - i. 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.
 - ii. Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
 - b. 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.
- In order to enable the existing as well as the prospective investors to take informed decision, the following shall be adhered to:
 - 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, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the scheme.
 - c. The Net Asset Value (NAV) of the segregated portfolio shall be declared on daily basis.
 - 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.
- In order to ensure timely recovery of investments of the segregated portfolio, the Trustees to the fund would continuously monitor the progress and take suitable action as may be required.
- 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 pro-rata basis only upon recovery of the investments in segregated portfolio.

- 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.
- 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.
- The costs related to segregated portfolio shall in no case be charged to the main portfolio.

Investors may also note that the process followed by the AMC/Trust regarding creation of segregated portfolios shall be in accordance with the provisions laid down by SEBI in this regard, from time to time.

- Numerical illustration explaining how segregated portfolios will work

Total Assets under DEBT instruments : 10 lakhs				
Total 2 investors in the Scheme:			Portfolio	Value
	Units	Amount	DEBT A	5,00,000
Investor A	30000	375000	DEBT B	3,00,000
Investor B	50000	625000	DEBT C	2,00,000
Total	80000	1000000	Total	10,00,000
NAV (Full Portfolio): ₹ 12.5				
Security DEBT B downgrades and value falls from 3,00,000 to 280,000				
Post Segregation			Main Portfolio	
Total 2 investors in the Scheme:	Units	Amount	DEBT A	5,00,000
Investor A	30000	262500	DEBT C	2,00,000
Investor B	50000	437500		
Total	80000	700000	Total	7,00,000
NAV (Main Portfolio): ₹ 8.75				
Post Segregation			Segregated Portfolio	
Total 2 investors in the Scheme:	Units	Amount		
Investor A (units)	30000	105000	DEBT B	2,80,000
Investor B (units)	50000	175000		
Total	80000	280000	Total	2,80,000
NAV (Segregated Portfolio): ₹ 3.5				
Total Holding of Investor A	30000	367500		
Total Holding of Investor B	50000	612500		
		980000		

Notes:

- Investors who invest/subscribe to the units of the Scheme post creation of segregated portfolio shall be allotted units in the Main Portfolio only.
- Investors redeeming their units post creation of segregated portfolio will get redemption proceeds based on NAV of main portfolio and will continue to hold units in Segregated portfolio.
- No redemption and/or subscription shall be allowed in the Segregated Portfolio.
- Units of Segregated portfolio shall be listed on a recognised stock exchange.

In order to ensure timely recovery of investments of the segregated portfolio, trustees shall ensure that:

- The AMC puts in sincere efforts to recover the investments of the segregated portfolio.
- 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.
- 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.
- 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.

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.

Risk factors associated with creation of segregated portfolios:

- Liquidity risk – A segregated portfolio is created when a credit event occurs at an issuer level in the scheme. This may reduce the liquidity of the security issued by the said issuer, as demand for this security may reduce. This is also further accentuated by the lack of secondary market liquidity for corporate papers in India. As per SEBI norms, the scheme is to be closed for redemption and subscriptions until the segregated portfolio is created, running the risk of investors being unable to redeem their investments. However, it may be noted that, the proposed segregated portfolio is required to be formed within one day from the occurrence of the credit event.

Investors may note that 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 list the units of the segregated portfolio on a recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests. For the units listed on the exchange, it is possible that the market price at which the units are traded may be at a discount to the NAV of such Units. There is no assurance that a deep secondary market will develop for units of segregated portfolio listed on the stock exchange. This could limit the ability of the investors to resell them.
- Valuation risk - The valuation of the securities in the segregated portfolio is required to be carried out in line with the applicable SEBI guidelines. However, it may be difficult to ascertain the fair value of the securities due to absence of an active secondary market and difficulty to price in qualitative factors.

Investors are requested to take note of the following details w.r.t. redemptions requests:

1. **Applicable NAV for redemption and switch outs:**

In respect of valid applications received upto the cut-off time (cut off timing for subscriptions/ redemptions/ switches: 3.00 p.m.) by the Mutual Fund, same day’s closing NAV shall be applicable. In respect of valid applications received after the cut off time by the Mutual Fund, the closing NAV of the next business day shall be applicable.

2. **Payment of redemption/repurchase proceeds:**

All redemption requests received prior to the cut-off time on any Business Day at the Official Points of Acceptance of Transactions will be considered accepted on that Business Day, subject to the redemption requests being complete in all respects, and will be priced on the basis of Redemption Price for that day. Requests received after the cut-off time will be treated as though they were accepted on the next Business Day.

As per the Regulations, the Fund shall dispatch redemption proceeds within 10 Business Days (working days) of receiving the redemption request. In the event of failure to dispatch the redemption or repurchase proceeds within 10 working days, the AMC is liable to pay interest to the Unit holders @ 15% p.a. SEBI has further advised the mutual funds that in the event of payment of interest to the Unit holders, such Unit holders should be informed about the rate and the amount of interest paid to them.

3. **Taxation and Stamp Duty Applicable:**

As per the Finance Act, 2020

	Resident Investors
Tax on Dividend	Taxable as per applicable tax rates
Capital Gains: Long Term (held for more than 12 months)**	10%# without Indexationin case of redemption of units where STT is paid on transfer [u/s 112A]
Short Term (held for not more than 12 months)	15%# on redemption of units where STT is paid on transfer (u/s 111A)

Equity Scheme(s) will also attract Securities Transaction Tax (STT) at applicable rates.

Note:

- Under the terms of the Scheme Information Document, this Scheme is classified as “equity oriented fund”.

As per clause (a) of the explanation to section 112A, an “Equity oriented fund” has been defined to mean a fund set up under a scheme of a mutual fund specified under clause (23D) of section 10 and,

- in a case where the fund invests in the units of another fund which is traded on a recognised stock exchange,
 - (A) a minimum of ninety per cent of the total proceeds of such fund is invested in the units of such other fund; and
 - (B) such other fund also invests a minimum of ninety per cent of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange; and
- in any other case, a minimum of sixty-five per cent of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange

Further it is stated that the percentage of equity shareholding or unit held in respect of the fund, as the case may be, shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

Non-resident investors may be subject to a separate of tax regime/eligible to benefits under Tax Treaties, depending upon the facts of the case. The same has not been captured above.

**Aggregate long term capital gains exceeding one lakh rupees in a financial year, arising from the transfer of units of an ‘equity oriented fund’, equity shares and units of business trust are chargeable to tax at 10 per cent (plus the applicable surcharge, health and education cess).

#excluding applicable surcharge and cess.

For further details on taxation please refer to the Section on ‘Tax Benefits of investing in the Mutual Fund’ provided in ‘Statement of Additional Information (‘SAI’)’.

Stamp Duty:

Pursuant to Notification No. S.O. 1226(E) and G.S.R. 226(E) dated March 30, 2020 issued by Department of Revenue, Ministry of Finance, Government of India, read with Part I of Chapter IV of Notification dated February 21, 2019 issued by Legislative Department, Ministry of Law and Justice, Government of India on the Finance Act, 2019, a stamp duty @ 0.005% of the transaction value would be levied on applicable mutual fund transactions, with effect from July 1, 2020. Accordingly, pursuant to levy of stamp duty, the number of units allotted on purchase transactions (including dividend reinvestment) to the unitholders would be reduced to that extent. Please refer Statement of Additional Information for more details.

Provisions related to Change in Fundamental Attributes

In accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 the existing unitholders (i.e. whose names appear in the register of unitholders as on close of business hours on February 19, 2021) under the Scheme are hereby given an option to exit, i.e. either redeem their investments or switch their investments to any other schemes of ICICI Prudential Mutual Fund, within 31 days (minimum 30 days) exit period starting from February 23, 2021 till March 25, 2021 (both days inclusive and up to 3.00 pm on March 25, 2021) at Applicable NAV, without payment of any exit load. The Exit Option can be exercised during the Exit Option Period by submitting a valid redemption/switch request at any Official Point of Acceptance of the Fund. For list of Official Points of Acceptance, please visit our website. A separate written communication is being sent to the existing Unit holders in this regard. In case any existing Unit holder has not received an Exit Option Letter, they are advised to contact any of our Investor Service Centres. Unitholders who do not exercise the exit option by 3.00 pm on March 25, 2021 would be deemed to have consented to the proposed modification. It may also be noted that no action is required in case Unitholders are in agreement with the aforesaid changes, which shall be deemed as consent being given by them for the proposed changes. Kindly note that an offer to exit is merely optional and is not compulsory.

All the valid applications for redemptions/switch received under the Scheme shall be processed at Applicable NAV of the day of receipt of such redemption/switch request, without payment of any exit load, provided the same is received during the exit period mentioned above. Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges/encumbrances prior to the submission of redemption requests. Unitholders should ensure that their change in address or bank details are updated in records of ICICI Prudential Mutual Fund as required by them, prior to exercising the exit option for redemption of units. Unit holders holding Units in dematerialized form may approach their Depository Participant for such changes. In case units have been frozen/locked pursuant to an order of a government authority or a court, such exit option can be executed only after the freeze/lock order is vacated/

revoked within the period specified above. The redemption proceeds shall be dispatched within 10 (ten) business days of receipt of valid redemption request to those unitholders who choose to exercise their exit option. Redemption/switch of units from the scheme, during the exit period, may entail capital gain/loss in the hands of the unitholder. Similarly, in case of NRI investors, TDS shall be deducted in accordance with the applicable Tax laws, upon exercise of exit option and the same would be required to be borne by such investor only. In view of individual nature of tax implications, unitholders are advised to consult their tax advisors.

It may be noted that the redemption/switch transactions shall not be processed if the unit holders have not completed KYC requirements.

The updated SID & KIM of the scheme containing the revised provisions shall be made available with our Investor Service Centres and also displayed on the website immediately after completion of duration of exit option.

We hope that you will provide us your support; in case of any queries you can reach our call centre on 18002006666/1800222999. We assure you that these changes are in line with our best endeavors to serve you better.

All other features and terms and conditions of the Scheme shall remain unchanged.

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

For ICICI Prudential Asset Management Company Limited

Sd/-

Authorised Signatory

Place : Mumbai

Date : February 17, 2021

007/02/2021

To know more, call 1800 222 999/1800 200 6666 or visit www.icicprumf.com
As part of the Go Green Initiative, investors are encouraged to register/update their e-mail id and mobile number to support paper-less communications.
To increase awareness about Mutual Funds, we regularly conduct Investor Awareness Programs across the country. To know more about it, please visit https://www.icicprumf.com or visit AMFI’s website https://www.amfiindia.com

**Mutual Fund investments are subject to market risks,
read all scheme related documents carefully.**