

NOTICE



NOTICE is hereby given to the investors/Unit Holders of DSP Dynamic Asset Allocation Fund ('Scheme') that the Board of Directors of DSP Trustee Private Limited, Trustee to DSP Mutual Fund ('Fund'), have approved change in fundamental attribute of the Scheme as summarized below which would be effective from **September 18, 2019**.

The following changes will be carried out in the Scheme:

Sr. No.	Particulars	Existing	Proposed																																															
1.	Investment Objective	<p>The investment objective of the Scheme is to seek capital appreciation by managing the asset allocation between equity and fixed income securities. The Scheme will dynamically manage the asset allocation between equity and fixed income based on the relative valuation of equity and debt markets.</p> <p>The Scheme intends to generate long-term capital appreciation by investing in equity and equity related instruments and seeks to generate income through investments in fixed income securities and by using arbitrage and other derivative strategies.</p> <p>However, there can be no assurance that the investment objective of the scheme will be realized.</p>	<p>The investment objective of the Scheme is to seek capital appreciation by managing the asset allocation between equity and fixed income securities. The Scheme will dynamically manage the asset allocation between equity and fixed income. Equity allocation will be decided based on a combination of valuation and momentum while fixed income and arbitrage will be resultant allocation.</p> <p>The Scheme intends to generate long-term capital appreciation by investing in equity and equity related instruments and seeks to generate income through investments in fixed income securities and by using arbitrage and other derivative strategies.</p> <p>However, there can be no assurance that the investment objective of the scheme will be realized.</p>																																															
2.	Investment Strategy	<p>The key value proposition of the Scheme is to provide an asset allocation overlay to investors. The Scheme will dynamically manage the asset allocation between equity and fixed income based on the relative valuation of equity and debt markets.</p> <p>The factor that would be used for determining the asset allocation is the yield gap ratio, which is the ratio of debt market yield to equity market yield.</p> <p>Yield gap = 10Y GSec yield / Earnings yield of Nifty</p> <p>10Y G-Sec is used as the proxy for debt market yield, while earnings yield of equity markets is simply the reciprocal of Price/Earnings ratio. So by looking at the ratio of these two yields, one can assess whether equity markets are overpriced or underpriced relative to debt markets.</p> <p>If the ratio is <= 1, one can deduce that return expectations from equity markets are higher than from debt and hence one should be invested more in equity.</p> <p>Similarly, if the ratio is >1, the return from equity is expected to be less than from debt and hence debt allocation should be gradually increased.</p> <p>The actual or current values of these parameters will be compared against the historical trend to determine the relative attractiveness of equity versus debt markets. The asset allocation table based on the yield gap bands would be as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Yield Gap Ratio</th> <th>Equity Allocation</th> <th>Yield Gap Ratio</th> <th>Equity Allocation*</th> </tr> </thead> <tbody> <tr> <td><1.10</td> <td>90%</td> <td>1.50 – 1.60</td> <td>40%</td> </tr> <tr> <td>1.10 - 1.20</td> <td>80%</td> <td>1.60 – 1.70</td> <td>30%</td> </tr> <tr> <td>1.20 – 1.30</td> <td>70%</td> <td>1.70 – 1.80</td> <td>20%</td> </tr> <tr> <td>1.30 – 1.40</td> <td>60%</td> <td>>1.80</td> <td>10%</td> </tr> <tr> <td>1.40 – 1.50</td> <td>50%</td> <td></td> <td></td> </tr> </tbody> </table> <p>*unhedged equity exposure (exposure to equity shares alone without a corresponding equity derivative exposure)</p> <p>The model also considers the modified yield gap, which uses 1Y G-Sec yield in the numerator.</p> <p>If the difference between the yield gap ratio and the modified yield gap ratio is less than 0.05, which is an indicator of a flat yield curve, the following asset allocation bands based on the modified yield gap ratio would be used:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Yield Gap Ratio</th> <th>Equity Allocation</th> <th>Yield Gap Ratio</th> <th>Equity Allocation*</th> </tr> </thead> <tbody> <tr> <td><0.7</td> <td>90%</td> <td>1.1 – 1.2</td> <td>40%</td> </tr> <tr> <td>0.7 – 0.8</td> <td>80%</td> <td>1.2 – 1.3</td> <td>30%</td> </tr> <tr> <td>0.8 – 0.9</td> <td>70%</td> <td>1.3 – 1.4</td> <td>20%</td> </tr> <tr> <td>0.9 – 1.0</td> <td>60%</td> <td>>1.4</td> <td>10%</td> </tr> <tr> <td>1.0 – 1.1</td> <td>50%</td> <td></td> <td></td> </tr> </tbody> </table> <p>*unhedged equity exposure (exposure to equity shares alone without a corresponding equity derivative exposure)</p> <p>The primary objective of the scheme is to generate income through investments in fixed income securities and using arbitrage and other derivative Strategies. The Scheme also intends to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments</p> <p>Investment Strategy for Equity Investments</p> <p>The scheme aims to provide long term capital growth by investing in a well-diversified portfolio of equity and equity related securities. The fund manager proposes to concentrate on business and economic fundamentals driven by in-depth research techniques and employing the full potential of the research team at the AMC. The stock selection process proposed to be adopted is generally a bottom-up approach seeking to identify companies with long term sustainable competitive advantage (as this is one of the key factors responsible for withstanding competitive pressures and does not allow rivals to eat up any excess profits earned by a successful business). The fund would also use a top down discipline for risk control by ensuring representation of companies from select sectors.</p> <p>In a scenario where Equity markets are attractive, the Scheme would exploit such opportunities with increased equity participation.</p> <p>In a scenario where equity markets are expensive, the Scheme would reduce the equity participation and actively use arbitrage and cash to hedge the portfolio and generate low volatility returns.</p> <p>Investment Strategy for Debt Investments</p> <p>The Fund Manager will invest only in those debt securities that are rated investment grade by a domestic credit rating agency such as CRISIL, ICRA, CARE, FITCH etc. or in unrated debt securities which the Fund Manager believes to be of equivalent quality. In the case of unrated debt securities, the approval of the Board of Directors of the AMC and Trustee shall be obtained prior to investment.</p> <p>The securities mentioned above could be listed, unlisted, privately placed, secured, unsecured, rated or unrated (subject to the rating or equivalency requirements discussed above) and of any maturity. The securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placements, rights offers or through negotiated deals.</p> <p>Subject to the limits indicated above, the Fund may invest a part of the portfolio in securities issued and guaranteed by State and Central Governments. The Fund may also invest in Securities of issuers supported by Government of India or State Governments subject to such securities satisfying the criteria relating to rating etc.</p> <p>Investment Strategy for Arbitrage Opportunities</p> <p>The market provides opportunities to the investor to derive returns from the implied cost of carry between the underlying cash market and the derivatives market. This provides for opportunities to generate returns that are possibly higher than short term interest rates with minimal active price risk on equities. Implied cost of carry and spreads across the spot, futures and options markets can potentially lead to profitable arbitrage opportunities. The Scheme would carry out arbitrage strategies, which would entail taking offsetting positions in the various markets simultaneously. The arbitrage strategy can also be on account of buy-back of shares announced by a company and/or differences in prices between two exchanges/markets. In this case the arbitrage strategy will not include an offsetting derivatives transaction.</p> <p>The Investment Manager will use a disciplined quantitative analysis while accessing arbitrage opportunities. The Investment Manager will have an effective risk monitoring and control process to ensure adherence to regulatory guidelines and limits.</p> <p>As arbitrage opportunities are dependent on ensuing market conditions, there will be a part of the portfolio, which will be invested in debt securities and money market securities. This component of the portfolio will provide the necessary liquidity to meet redemption needs and other liquidity requirements of the Scheme.</p> <p>The arbitrage strategies the Fund may adopt could be as under. The list is not exhaustive and the Fund could use similar strategies and any other strategies as available in the markets.</p> <p>a) Index/ Stock spot – Index/ Stock Futures:</p> <p>This strategy is employed when the price of the future is trading at a premium to the price of its underlying in spot market. The Scheme shall buy the stock in spot market and endeavor to simultaneously sell the future at a premium on a quantity neutral basis.</p> <p>Buying the stock in spot market and selling the futures results into a hedge where the Scheme has 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 spot market. Thus there is a convergence between the spot price and the futures market on expiry. This convergence helps the Scheme to generate the arbitrage return locked in earlier.</p> <p>On or before the date of expiry, if the price differential between the spot and futures position of the subsequent month maturity still remains attractive, the scheme may rollover the futures position and hold onto the position in the spot market. In case such opportunity is not available, the scheme would liquidate the spot position and settle the futures position simultaneously.</p> <p>Rolling over of the futures transaction means unwinding the short position in the futures of the current month and simultaneously shorting futures of the subsequent month maturity, and holding onto the spot position.</p> <p>b) Index Arbitrage:</p> <p>The S&P CNX Nifty derives its value from fifty constituent stocks; the constituent stocks (in their respective weights) can be used to create a synthetic index matching the Nifty Index. Also, theoretically, the fair value of a future is equal to the spot price plus the cost of carry.</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.</p> <p>Due to market imperfections, the index futures may not exactly correspond to the synthetic index futures. 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>One instance in which an index arbitrage opportunity exists is when Index future is trading at a discount to the index (spot) and the futures of the constituent stocks are trading at a cumulative premium.</p> <p>The investment manager shall endeavour to capture such arbitrage opportunities by taking long positions in the Nifty Index futures and short positions in the synthetic index (constituent stock futures). Based on the opportunity, the reverse position can also be initiated.</p>	Yield Gap Ratio	Equity Allocation	Yield Gap Ratio	Equity Allocation*	<1.10	90%	1.50 – 1.60	40%	1.10 - 1.20	80%	1.60 – 1.70	30%	1.20 – 1.30	70%	1.70 – 1.80	20%	1.30 – 1.40	60%	>1.80	10%	1.40 – 1.50	50%			Yield Gap Ratio	Equity Allocation	Yield Gap Ratio	Equity Allocation*	<0.7	90%	1.1 – 1.2	40%	0.7 – 0.8	80%	1.2 – 1.3	30%	0.8 – 0.9	70%	1.3 – 1.4	20%	0.9 – 1.0	60%	>1.4	10%	1.0 – 1.1	50%		
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DSP MUTUAL FUND

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<p>Example: Terms: Fixed Interest Rate : 8.50% p.a. Variable Interest Rate : NSE Over-Night MIBOR reset daily and compounded daily Notional Principal Amount : Rs.100 Crore Period of Agreement : 1 year Payment Frequency : Semi-annual</p> <p>Now, suppose the six-month period from the effective date of the swap to the first payment date comprises 182 days and the daily compounded NSE Over-Night MIBOR is 8.15% p.a. on the first payment date, then the fixed and variable rate payment on the first payment date would be as follows:</p> <p>Fixed rate payment: $\text{Rs. } 4,23,83,562 = (\text{Rs. } 100,00,00,000) \times (8.50\%) \times (182 \text{ Days} / 365 \text{ Days})$</p> <p>Variable rate payment: $\text{Rs. } 4,06,38,356 = (\text{Rs. } 100,00,00,000) \times (8.15\%) \times (182 \text{ Days} / 365 \text{ Days})$</p> <p>Often, a swap agreement will call for only the exchange of net amount between the counterparties. In the above example, the fixed-rate payer will pay the variable-rate payer a net amount of $\text{Rs. } 17,45,205 = \text{Rs. } 4,23,83,562 - \text{Rs. } 4,06,38,356$. The second and final payment will depend on the daily NSE MIBOR compounded daily for the remaining 183 days. The fixed rate payment will also change to reflect the change in holding period from 182 days to 183 days.</p> <p>4. Forward Rate Agreement (FRA) An FRA is an off balance sheet agreement to pay or receive on an agreed future date, the difference between an agreed interest rate and the interest rate actually prevailing on that future date, calculated on an agreed notional principal amount. It is settled against the actual interest rate prevailing at the beginning of the period to which it relates rather than paid as a gross amount.</p> <p>An FRA is referred to by the beginning and end dates of the period covered. Thus a 5x8 FRA is one that covers a 3-month period beginning in 5-months and ending in 8-months. FRAs are purchased to hedge the interest rate risk; an investor facing uncertainty of the interest rate movements can fix the interest costs by purchasing an FRA.</p> <p>An illustration could be a corporation having floating rate debt linked to an index such as say, 3-Month MIBOR. If the existing interest cost is at 8% on Rs.100 Crore for the next three months, the corporation can purchase a 3x6 FRA @ 8.1% on Rs.100 Crore and fix the interest cost for the 3-6 months period. If the actual 3-Month MIBOR after 3-months is at 8.25%, the corporation has saved 15 bps in interest cost. As the settlement is done at the beginning of the period, the savings in interest expense are discounted to a present value using a 3-month rate to calculate the actual settlement amount.</p> <p>The flows for the institution will be, as follows: $\begin{aligned} \text{Interest Savings} &= \text{Rs. } 100 \text{ Crore} * 15 \text{ bps} * 92/365 \\ &\quad (\text{assuming 92 days in the 3 month FRA period and 365 days in the conventional year}) \\ &= \text{Rs. } 3,78,082.19 \\ \text{Settlement Amount} &= \text{Rs. } 3,78,082.19 / (1+8.25\% * 92/365) \end{aligned}$</p> <p>Please note that the above examples are hypothetical in nature and the figures are assumed.</p> <p>5. Interest Rate Futures</p> <p>An Interest Rate Futures ('IRF') contract is "an agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today." The underlying security for Interest Rate Futures is either Government Bond or T-Bill. Interest Rate Futures are Exchange traded and standardized contracts based on 6 year, 10 year and 13 year Government of India Security and 91-day Government of India Treasury Bill (91DTB). These future contracts are cash settled. These instruments can be used for hedging the underlying cash positions.</p> <p>For example, assume a portfolio has Rs. 100 crores of Government security 7.59% GOI 2026 with face value Rs. 100/- The bond is currently trading in market at 105.00. The futures on 7.59% GOI 2026, expiring on 26th October 2018 is trading on exchange at 105.10.</p> <p>Instead of exiting the cash position, the fund manager can decide to hedge the position by selling the same quantity in futures. Since one contract of IRF has a notional of Rs. 2 lakhs, in this example the fund manager sells Rs. 100 crores/2 lakhs = 5000 contracts, to hedge his position.</p> <p>At maturity, the settlement price of the futures will be almost same as closing price of the underlying security.</p> <p>At maturity of the Interest Rate Futures</p> <p><u>Case 1: At maturity Bonds close higher than the price at which fund manager hedged the position, but below the futures price at which he hedged</u></p> <p>Closing price of Bonds on day of maturity of futures = 105.05 Settlement price of futures = 105.05 MTM gain on the underlying bond = $(105.05-105.00) * 100 \text{ crores} / 100$ (i.e. face value of bond) = Rs. 5,00,000 The profit on the futures leg is = $5000*2\text{lakhs} * (105.10-105.05) / 100$ (i.e. face value of bond) = Rs 5,00,000 Overall profit to the fund = Rs 10,00,000</p> <p><u>Case 2: At maturity bonds close higher than the level at which futures were sold</u></p> <p>In case, the closing price of bonds on the day of maturity of futures = 105.20, Settlement price of futures = 105.20</p> <p>The MTM gain on bonds = $(105.20-105.00) * 100 \text{ crores} / 100$ (i.e. face value of bond) = Rs. 20,00,000 Loss on futures leg = $5000*2 \text{ lakhs} * (105.10-105.20) / 100$ (i.e. face value of bond) = (Rs 10,00,000) Total Profit to the fund = Rs 10,00,000</p> <p><u>Case 3: At maturity bonds sells off from levels were hedges were initiated</u></p> <p>In case, the closing price of bonds on the day of maturity of futures = 104.80, Settlement price of futures = 104.80</p> <p>The MTM loss on bonds = $(104.80-105.00) * 100 \text{ crores} = (\text{Rs. } 20,00,000)$ Profit on futures leg = $5000*2 \text{ lacs} * (105.10-104.80) = \text{Rs } 30,00,000$ Total Profit to the fund = Rs 10,00,000</p>	<p>Example: Terms: Fixed Interest Rate : 8.50% p.a. 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3. NAV as on August 7, 2019 (in Rs.)	DSP Dynamic Asset Allocation Fund - Direct Plan – Growth: 16.065 DSP Dynamic Asset Allocation Fund - Direct Plan - Monthly Dividend Payout - 10.830 DSP Dynamic Asset Allocation Fund - Regular – Growth - 15.181 DSP Dynamic Asset Allocation Fund - Regular Plan - Monthly Dividend Payout - 10.245
4. No. of folios as on July 31, 2019	Direct Plan: 1992 Regular Plan: 15429
5. AUM as on July 31, 2019 (in crores)	Direct Plan: 47.06 Regular Plan: 808.78

As the above proposal would constitute a change in Fundamental Attributes of the Scheme, in accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996, the existing unitholders under the Scheme are hereby given an option to exit, i.e. either redeem their investments or switch their investments to any other scheme of the Fund, within the 30 days exit period starting from **August 19, 2019 till September 17, 2019** (both days inclusive and upto 3.00 pm on September 17, 2019) at applicable NAV, without payment of any exit load, by filing up the requisite transaction slip and submitting the same at any of our designated Official Points of Acceptance (list available on www.dspim.com). If you have no objection to the proposed change, no action needs to be taken and it would be deemed that you have consented to the above change. The offer to exit from the Scheme is optional, at the discretion of the Unit Holder, and not compulsory. The Scheme will adopt the proposed change with effect from **September 18, 2019**.

Thus, all the applications for redemptions/switch-outs 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 of 30 days mentioned above.

Unitholders who have pledged their units will need to procure a release of pledge prior to submitting their redemption request. In case a lien is marked on units held by a unit holder or units have been frozen/locked pursuant to an order of a governmental authority or a court, redemption/switch-out can be executed only after the lien/order is vacated/revoked within the period specified above.

Unitholders should ensure that their change in address or pay-out bank details are updated in records of DSP Mutual Fund as required by them, prior to exercising the exit option for redemption of units.

The redemption proceeds shall be dispatched within 10 business days of receipt of valid redemption request to those unitholders who choose to exercise the exit option.

TAX IMPLICATIONS

Redemption / switch-out 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. For details on Tax implications, please refer to SID of the Scheme and Statement of Additional Information available on our website www.dsprim.com.**

We look forward to your continued support.

Any queries/clarifications in this regard may be addressed to:
DSP Investment Managers Pvt. Ltd. (Formerly known as DSP BlackRock Investment Managers Pvt. Ltd.)
CIN: U74140MH1996PTC099483, Investment Manager for DSP Mutual Fund,
Mafatlal Centre, 10th Floor, Nariman Point, Mumbai 400 021, Tel. No.: 91-22 66578000,
Fax No.: 91-22 66578181, Toll Free No. 1800 200 4499, www.dspnim.com

Place: Mumbai
Date: August 16, 2019