DSP BLACKROCK
TRUSTEE COMPANY PRIVATE LIMITED

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January 31, 2018

Dear Unit Holder,

Sub: Change in Fundamental Attributes of DSP BlackRock Small and Midcap Fund ('Scheme')

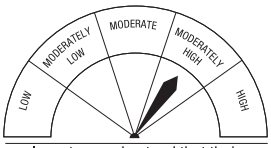
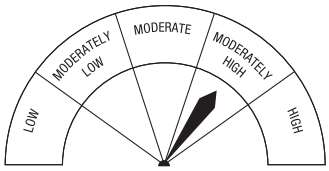
Thank you for investing in DSP BlackRock Mutual Fund. We appreciate your trust in us.

The Scheme is an open ended equity growth scheme of DSP BlackRock Mutual Fund ('Fund').

Securities and Exchange Board of India ('SEBI') vide its Circular no. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017 read alongwith Circular no. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 4, 2017 (Circular) has issued directions for Categorization and Rationalization of all the Mutual Fund Schemes in order to bring about uniformity in the practice across Mutual Funds and to standardize the scheme categories and characteristics of each category.

In this regard, in order to standardize our schemes in line with the categories as prescribed by SEBI in the said circular, certain changes needs to be carried out in the features of the Scheme. Such changes shall result in change in the fundamental attribute of the Scheme, which will attract compliance of Regulation 18 (15A) of the SEBI (Mutual Fund) Regulations, 1996 (MF Regulations) read alongwith Circular.

DSP BlackRock Trustee Company Pvt. Ltd., Trustee to the Fund, has approved the following changes to the existing features/provisions of the Scheme:

Sr. No.	Particulars	Existing	Proposed
1.	Name of Scheme	DSP BlackRock Small and Midcap Fund	DSP BlackRock Midcap Fund
2.	Type of Scheme	An Open ended equity growth Scheme	Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks
3.	Product Labeling	This open ended equity growth Scheme is suitable for investor who are seeking* • Long-term capital growth • Investment in equity and equity-related securities in companies beyond top 100 companies by market capitalization **RISKOMETER**  Investors understand that their principal will be at moderately high risk * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	This open ended equity Scheme is suitable for investor who are seeking* • Long-term capital growth • Investment in equity and equity-related securities predominantly of midcap companies **RISKOMETER**  Investors understand that their principal will be at moderately high risk * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.
4.	Investment Objective	The primary investment objective is to seek to generate long term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities which are not part of the top 100 stocks by market capitalization. From time to time, the fund manager will also seek participation in other equity and equity related securities to achieve optimal portfolio construction. **There is no assurance that the investment objective of the Scheme will be realized.**	The primary investment objective is to seek to generate long term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of midcap companies. From time to time, the fund manager will also seek participation in other equity and equity related securities to achieve optimal portfolio construction. **There is no assurance that the investment objective of the Scheme will be realized**

<table>
<tr><th>Sr. No.</th><th>Particulars</th><th>Existing</th><th>Proposed</th></tr>
<tr><td>5.</td><td>Asset Allocation</td><td>

Under normal circumstances, it is anticipated that the asset allocation of the Scheme shall be as follows:

<table>
<tr><th rowspan="2">Instruments</th><th colspan="2">Indicative Allocations (% of total assets)</th><th rowspan="2">Risk Profile</th></tr>
<tr><th>Mini-mum</th><th>Maxi-mum</th></tr>
<tr><td>1. (a) Equity and equity related securities which are not part of the top 100 stocks by market capitalization</td><td>65%</td><td>100%</td><td>High</td></tr>
<tr><td>(b) Equity and equity related securities which are in the top 100 stocks by market capitalization</td><td>0%</td><td>35%</td><td>High</td></tr>
<tr><td>of 1 (a) & (b) above, investments in ADRs, GDRs and foreign securities</td><td>0%</td><td>25%</td><td>High</td></tr>
<tr><td>2. Debt and Money Market Securities</td><td>0%</td><td>10%</td><td>Low to Medium</td></tr>
</table>

Stock lending

Subject to SEBI (MF) Regulations and the applicable guidelines issued by SEBI, the Mutual Fund may engage in stock lending. The AMC shall comply with all reporting requirements and the Trustee shall carry out periodic review as required by SEBI guidelines. Stock lending means the lending of stock to another person or entity for a fixed period of time, at a negotiated compensation. The securities lent will be returned by the borrower on expiry of the stipulated period.

The Investment Manager will apply the following limits, should it desire to engage in Stock Lending:

1. Not more than 20% of the net assets of a Scheme can generally be deployed in Stock Lending.
2. Not more than 5% of the net assets of a Scheme can generally be deployed in Stock Lending to any single counter party.

Overseas Investments

Under normal circumstances the Schemes shall not have an exposure of more than 25% of its net assets in foreign assets/securities, subject to applicable regulatory limits.

Trading in Derivatives

The net derivative position in the Scheme may be upto 100% of the net assets, subject to applicable regulatory limits, as mentioned in, **"Where will the Scheme Invest?".**

The percentage of the Scheme's corpus invested in securities, which are not part of the

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<tr><th>Minimum</th><th>Maximum</th></tr>
<tr><td>1 (a) Equity & equity related instruments of mid cap companies#</td><td>65%</td><td>100%</td><td>High</td></tr>
<tr><td>1 (b) Other equity & equity related instruments</td><td>0%</td><td>35%</td><td>High</td></tr>
<tr><td>2. Debt and Money Market Securities*</td><td>0%</td><td>35%</td><td>Low to Medium</td></tr>
<tr><td>3. Units issued by REITs & InvITs</td><td>0%</td><td>10%</td><td>Medium to High</td></tr>
</table>

*Debt and money market instruments will include investments in securitised debt.

#101st - 250th company in terms of full market capitalization would be considered as midcap companies.

The Scheme retains the flexibility to invest across all the securities in the debt and money markets as permitted by SEBI / RBI from time to time, including schemes of mutual funds.

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Trading in Derivatives

The net derivative position in the Scheme may be upto 100% of the net assets, subject to applicable regulatory limits, as mentioned in, **"Where will the Scheme Invest?"**.

The cumulative gross exposure through equity, debt, money market instruments and derivative positions shall not exceed 100% of the net assets of the Scheme.

Pending deployment of funds of the Scheme, the AMC may invest funds of the Scheme in short-term deposits of scheduled commercial banks, subject to the following conditions issued by SEBI vide its circular SEBI/IMD/CIR No. 1/91171 /07 dated April 16, 2007:

1. The term 'short term' for parking of funds shall be treated as a period not exceeding 91 days.
2. Such deposits shall be held in the name of the Scheme.
3. The Scheme shall not park more than 15% of its net assets in the short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with the prior approval of the Trustee. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the Mutual Fund in short term deposits.
4. The Scheme shall not park more than 10% of its net assets in short term deposit(s) with any one scheduled commercial bank including its subsidiaries.
5. The Trustee shall ensure that the funds of the Scheme are not parked in the short term deposits of a bank which has invested in that Scheme.
6. AMC will not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.

The above provisions do not apply to term deposits placed as margins for trading in cash and derivative market.

The Scheme shall rebalance the portfolio in case of any deviation to the asset allocation. Such rebalancing shall be done within 30 days from the date of occurrence of deviation. Where the portfolio

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</table>

Sr. No.	Particulars	Existing	Proposed
		top 100 stocks by market capitalization, may decrease subject to a minimum of 65% and in the event of the same falling below 65%, a review and rebalancing of the asset allocation will be called for by the Investment Manager. Such changes in the investment pattern will be for a short term and for defensive considerations and the intention being at all times to seek to protect the interests of the Unit Holders.	is not rebalanced within 30 Days, justification for the same shall be placed before the Investment Committee and reasons for the same shall be recorded in writing. The Investment committee shall then decide on the course of action. However, at all times the portfolio will adhere to the overall investment objectives of the Schemes. Any alteration in the investment pattern will be for a short term on defensive considerations; the intention being at all times to protect the interests of the Unit Holders. It may be noted that no prior intimation/indication will be given to investors when the composition/asset allocation pattern under the Scheme undergoes changes within the permitted band as indicated above.
6.	Where will the Scheme invest?	The Scheme will invest primarily in stocks, which are not part of the top 300 stocks by market capitalisation and which the Investment Manager determines as having strong or improving fundamentals and have been overlooked or under priced relative to other stocks(300th company had a market capitalization of approximately Rs. 3588 Crores as at March, 2016). Under normal market conditions, approximately 90% of the portfolio of the Scheme will be invested in equity and equity related securities. Equity related securities include, but are not limited to, fully convertible debentures, partly convertible debentures, optionally convertible debentures, unlisted securities, convertible preference shares, initial public offerings, private placements and warrants converting into equity securities. Under normal market conditions, approximately 10% of the portfolio of the Scheme 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. Debt securities include, but are not limited to, non convertible debentures, zero coupon securities, non-convertible portion of convertible debentures, floating rate bonds, debt instruments, and any other such instruments as may be permitted by RBI/SEBI/such other Regulatory Authority from time to time. Money market securities include, but are not limited to, treasury bills, commercial paper of public sector undertakings and private sector corporate entities, reverse repurchase agreements, CBLOs, certificates of deposit of scheduled commercial banks and development financial institutions, bills of exchange/promissory notes of public sector and private sector corporate entities (co accepted by banks), government securities with unexpired maturity of one year or less and other money market securities as may be permitted by SEBI/RBI regulations from time to time. 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 maybe acquired through Initial Public Offerings (IPOs), secondary market operations, private placements, rights offers or through negotiated deals.	Subject to the Regulations and the disclosures as made under the section "How the Scheme will allocate its Assets", the corpus of the Scheme can be invested in any (but not exclusively) of the following securities: 1. Equity and equity related securities 2. Equity Related Instruments, being securities which give the holder of the security right to receive Equity Shares on pre agreed terms. It includes convertible/optionally convertible/compulsorily convertible preference shares, share warrants and any other security which has equity component embedded in it 3. Equity Derivatives, which are financial instruments, generally traded on the stock exchange, the price of which is directly dependent upon (i.e., "derived from") the value of equity shares or equity indices. Derivatives involve the trading of rights or obligations based on the underlying, but do not directly transfer property 4. Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills); 5. Securities guaranteed by the Central and State Governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills); 6. Fixed Income Securities of domestic Government agencies and statutory bodies, which may or may not carry a Central/State Government guarantee; 7. Corporate debt (of both public and private sector undertakings); 8. Money market instruments as permitted by SEBI/RBI; 9. Usance bills; 10. Securitised Debt; 11. The non-convertible part of convertible securities; 12. Any other domestic fixed income securities as permitted by SEBI/ RBI from time to time. 13. Derivative instruments like Interest Rate Swaps, Forward Rate Agreements, Interest Rate Derivatives and such other derivative instruments permitted by SEBI/RBI. 14. Investment in units of Real Estate Investment Trust ('REIT') & Infrastructure Investment Trust ('InvIT') Debt and money market securities include, but are not limited to: ● Debt obligations of the Government of India, state and local governments, government agencies, statutory bodies, public sector undertakings, scheduled commercial banks, non-banking finance companies, development financial institutions, supranational financial institutions, corporate entities and trusts (securitised debt) ● Pass through, Pay through or other Participation Certificates, representing interest in a pool of assets including receivables ● The non-convertible part of convertible securities ● Units of Mutual funds as may be permitted by regulations Any other like instruments as may be permitted by RBI/SEBI/such other Regulatory Authority from time to time. The securities mentioned in, **"Where will the Scheme(s) invest?"**, could be listed, unlisted, privately placed, secured, unsecured, rated or unrated (subject to the rating or equivalency requirements

Sr. No.	Particulars	Existing	Proposed
		Debt and money market securities include, but are not limited to: ● Debt obligations of the Government of India, state and local governments, government agencies, statutory bodies, public sector undertakings, scheduled commercial banks, non-banking finance companies, development financial institutions, supranational financial institutions, corporate entities and trusts (securitised debt) ● Pass through, Pay through or other Participation Certificates, representing interest in a pool of assets including receivables ● The non-convertible part of convertible securities ● Units of Mutual funds as may be permitted by regulations ● Structured Notes ● Any other like instruments as may be permitted by RBI/SEBI from time to time. From time to time, it is possible that the Investment Manager may decide to invest a higher proportion in debt and money market securities, depending on prevailing economic and market conditions and the need to adopt a defensive posture on the portfolio of the Scheme. The securities mentioned in, **"Where will the Scheme invest?",** 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 secondary market operations, primary issues/offerings, other public offers, Private Placement and negotiated deals amongst other mechanisms. ● **Collateralized Borrowing and Lending Obligations (CBLO):** Collateralized Borrowing and Lending Obligations (CBLO) is a money market instrument that enables entities to borrow and lend against sovereign collateral security. The maturity ranges from 1 day to 90 days and can also be made available upto 1 year. Central Government securities including T-bills are eligible securities that can be used as collateral for borrowing through CBLO. ● **Repos:** Repo (Repurchase Agreement) or Reverse Repo is a transaction in which two parties agree to sell and purchase the same security with an agreement to purchase or sell the same security at a mutually decided future date and price.	discussed above) and of any maturity. The securities may be acquired through secondary market operations, primary issues/offerings, other public offers, Private Placement and negotiated deals amongst other mechanisms. The Scheme may invest in other Schemes managed by the AMC or in the Schemes of any other Mutual Fund(s), provided such investment is in conformity to the investment objectives of the Scheme and in terms of the prevailing Regulations. As per the Regulations, no investment management fees will be charged for such investments and the aggregate inter-scheme investment made by all Schemes of the Mutual Fund or in the Scheme under the management of other asset management companies shall not exceed 5% of the net asset value of the Mutual Fund. ● **Investment in Short-Term Deposits** Pending deployment of the funds of the Scheme, the AMC may invest funds of the Scheme in short term deposits of scheduled commercial banks, subject to following conditions issued by SEBI vide its circular SEBI/IMD/CIR No. 1/ 91171 /07 dated April 16, 2007: (a) Each Scheme shall not park more than 15% of its net assets in the short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with the prior approval of the Trustee. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the Mutual Fund in short term deposits. (b) Each Scheme shall not park more than 10% of its net assets in short term deposit(s) with any one scheduled commercial bank including its subsidiaries. (c) The Trustee shall ensure that the funds of each Scheme are not parked in the short term deposits of a bank which has invested in that Scheme. (d) AMC will not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks. (e) The term 'short term' for parking of funds shall be treated as a period not exceeding 91 days. (f) Such deposits shall be held in the name of the Scheme. **Investment in domestic Securitized Debt:** Depending upon the Investment Manager's views, the Scheme may invest in domestic securitized debt such as ABS or MBS. The investments in domestic securitized debt will be made only after giving due consideration to factors such as but not limited to the securitization structure, quality of underlying receivables, credentials of the servicing agent, level of credit enhancement, liquidity factor, returns provided by the securitized paper vis-a-vis other comparable investment alternatives. Although the returns provided by securitized debt could be higher, one must not lose sight of the fact that risks also exist with regard to investments in securitized debt. Investments in pass-through certificates of a securitization transaction represent an undivided beneficial interest in the underlying receivables and do not represent an obligation of either the issuer or the seller, or the parent of the seller, or any affiliate of the seller or the issuer or the trustee in its personal capacity, save to the extent of credit enhancement to be provided by the credit enhancer. The trust's principal asset will be the pool of underlying receivables. The ability of the trust to meet its obligations will be dependent on the receipt and transfer to the designated account of collections made by the servicing agent from the pool, the amount available in the cash collateral account, and any other amounts received by the trust pursuant to the terms of the transaction documents. However, the credit enhancement stipulated in a securitization transaction represents a limited loss cover only. Delinquencies and credit losses may cause depletion of the amount available under the cash collateral account and thereby the scheduled payouts to the investors may get affected if the amount available in the cash collateral account is not enough to cover the shortfall. **Further Unit holders are requested to refer below the disclosure relating to investments in securitized debt, in the SEBI prescribed format:** **(i) How the risk profile of securitized debt fits into the risk appetite of the Scheme:** The Scheme seeks to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of quality debt securities. The Scheme also seeks to generate capital appreciation by investing a smaller portion of its corpus in equity and equity related securities of issuers domiciled in India. In line with the investment objective, securitised debt instruments having a high credit quality commensurate with other debt instruments in the portfolio will be considered for investment.

Sr. No.	Particulars	Existing	Proposed
		The transaction results in collateralized borrowing or lending of funds. ● **Investment in Short-Term Deposits** Pending deployment of the funds of the Scheme, the AMC may invest funds of the Scheme in short term deposits of scheduled commercial banks, subject to following conditions issued by SEBI vide its circular SEBI/IMD/CIR No. 1/ 91171 / 07 dated April 16, 2007: (a) Each Scheme shall not park more than 15% of its net assets in the short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with the prior approval of the Trustee. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the Mutual Fund in short term deposits. (b) Each Scheme shall not park more than 10% of its net assets in short term deposit(s) with any one scheduled commercial bank including its subsidiaries. (c) The Trustee shall ensure that the funds of each Scheme are not parked in the short term deposits of a bank which has invested in that Scheme. (d) AMC will not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks. (e) The term 'short term' for parking of funds shall be treated as a period not exceeding 91 days. (f) Such deposits shall be held in the name of the Scheme. **Investment in domestic Securitized Debt:** Depending upon the Investment Manager's views, the Scheme may invest in domestic securitized debt such as ABS or MBS. The investments in domestic securitized debt will be made only after giving due consideration to factors such as but not limited to the securitization structure, quality of underlying receivables, credentials of the servicing agent, level of credit enhancement, liquidity factor, returns provided by the securitized paper vis-a-vis other comparable investment alternatives. Although the returns provided by securitized debt could be higher, one must not lose sight of the fact that risks also exist with regard to investments in securitized debt. Investments in	**(ii) Policy relating to originators based on nature of originator, track record, NPAs, losses in earlier securitized debt, etc** **The parameters used to evaluate originators are** ● Track record ● Willingness to pay, through credit enhancement facilities etc. ● Ability to pay ● Business risk assessment, wherein following factors are considered: - Outlook for the economy (domestic and global) - Outlook for the industry - Company specific factors In addition a detailed review and assessment of rating rationale is done including interactions with the originator as well as rating agency. **Critical Evaluation Parameters (for pool loan) regarding the originator / underlying issuer:** ● Default track record/ frequent alteration of redemption conditions / covenants ● High leverage ratios of the ultimate borrower - both on a standalone basis as well on a consolidated level/ group level ● Higher proportion of re-schedulement of underlying assets of the pool or loan, as the case may be ● Higher proportion of overdue assets of the pool or the underlying loan, as the case may be ● Poor reputation in market ● Insufficient track record of servicing of the pool or the loan, as the case may be. **(iii) Risk mitigation strategies for investments with each kind of originator** **Analysis of originator:** An independent Risk and Quantitative Analysis (RQA) team analyses and evaluates each originator and sets up limits specifying both the maximum quantum and maximum tenor for investments and investments are considered only within these limits. **Originator analysis typically encompasses:** ● Size and reach of the originator ● Collection process, infrastructure and follow-up mechanism ● Quality of MIS ● Credit enhancement for different type of originator **(iv) The level of diversification with respect to the underlying assets, and risk mitigation measures for less diversified investments** **Eligible assets:** Only assets with an established track record of low delinquencies and high credit quality over several business cycles will be considered for investment. **Analysis of pool:** Characteristics such as average pool maturity (in months), average loan to value ratio, average seasoning of the pool, maximum single exposure, geographical distribution and average single exposure are studied to determine pool quality **Risk mitigating measures:** Credit enhancement facilities (including cash, guarantees, excess interest spread, subordinate tranches), liquidity facilities and payment structure are studied in relation to historical collection and default behavior of the asset class to ensure adequacy of credit enhancement in a stress scenario. **(v) Minimum retention period of the debt by originator prior to securitization** We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time. **(vi) Minimum retention percentage by originator of debts to be securitized** We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time.

Sr. No.	Particulars	Existing	Proposed
		pass-through certificates of a securitization transaction represent an undivided beneficial interest in the underlying receivables and do not represent an obligation of either the issuer or the seller, or the parent of the seller, or any affiliate of the seller or the issuer or the trustee in its personal capacity, save to the extent of credit enhancement to be provided by the credit enhancer. The trust's principal asset will be the pool of underlying receivables. The ability of the trust to meet its obligations will be dependent on the receipt and transfer to the designated account of collections made by the servicing agent from the pool, the amount available in the cash collateral account, and any other amounts received by the trust pursuant to the terms of the transaction documents. However, the credit enhancement stipulated in a securitization transaction represents a limited loss cover only. Delinquencies and credit losses may cause depletion of the amount available under the cash collateral account and thereby the scheduled payouts to the investors may get affected if the amount available in the cash collateral account is not enough to cover the shortfall. Further Unit holders are requested to refer below the disclosure relating to investments in securitized debt, in the SEBI prescribed format: **(i) How the risk profile of securitized debt fits into the risk appetite of the Scheme:** The Scheme seeks to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of quality debt securities. The Scheme also seeks to generate capital appreciation by investing a smaller portion of its corpus in equity and equity related securities of issuers domiciled in India. In line with the investment objective, securitised debt instruments having a high credit quality commensurate with other debt instruments in the portfolio will be considered for investment. **(ii) Policy relating to originators based on nature of originator, track record, NPAs, losses in earlier securitized debt, etc** The parameters used to evaluate originators are ● Track record ● Willingness to pay, through credit enhancement facilities etc. ● Ability to pay ● Business risk assessment, wherein following factors are considered:	**(vii) The mechanism to tackle conflict of interest when the Mutual Fund invests in securitized debt of an originator and the originator in turn makes investments in that particular Scheme of the Fund** The AMC has an independent RQA team which is distinct from the Sales function and the Investments function and has a separate reporting and appraisal structure designed to avoid conflict of interest. Investments can be initiated by the fund managers only after the RQA team has assigned limits for the originator. The originator wise limits specify both the maximum quantum and maximum tenor for investments. **(viii) The resources and mechanism of individual risk assessment with the AMC for monitoring investment in securitized debt** The AMC has a rigorous risk management process for all fixed income investments, which also encompasses securitized debt. A dedicated RQA team is responsible for monitoring risks including credit and liquidity risk. The functions of the RQA team include: ● Detailed credit analysis of issuers: based on the management evaluation, operating strength and financial strength to determine suitability for investment. Periodic reviews on a quarterly/ annual basis are under taken for eligible issuers. Ratings are monitored on a daily basis and any changes are immediately recorded and suitable action taken. ● RQA team monitors adherence to single and group level exposure norms, minimum rating requirements, liquidity requirements, and ensures that only eligible securities are included in the fund, in line with the Scheme information document/internal templates. For securitized pool loan exposures, the analysis includes pool seasoning, pool asset quality, diversification, collateral margin, originator analysis and credit enhancement mechanisms. Pool performance statistics published by rating agencies are analyzed for performance of other securitised pools of the same originator as well as for the performance of the asset class as a whole. Regular interactions with the rating agencies are done to discuss performance trends. Documents are vetted by the legal and compliance team. In addition, monthly payout reports from the trustees are analysed for collection performance and adequacy of cash collateral. Framework that is applied while evaluating investment decision relating to a pool securitization transaction:

Sr. No.	Particulars	Existing	Proposed

- Outlook for the economy (domestic and global)
- Outlook for the industry
- Company specific factors

In addition a detailed review and assessment of rating rationale is done including interactions with the originator as well as rating agency.

Critical Evaluation Parameters (for pool loan) regarding the originator / underlying issuer:

- Default track record/ frequent alteration of redemption conditions / covenants
- High leverage ratios of the ultimate borrower - both on a standalone basis as well on a consolidated level/ group level
- Higher proportion of re-schedulement of underlying assets of the pool or loan, as the case may be
- Higher proportion of overdue assets of the pool or the underlying loan, as the case may be
- Poor reputation in market
- Insufficient track record of servicing of the pool or the loan, as the case may be.

(iii) Risk mitigation strategies for investments with each kind of originator

Analysis of originator: An independent Risk and Quantitative Analysis (RQA) team analyses and evaluates each originator and sets up limits specifying both the maximum quantum and maximum tenor for investments and investments are considered only within these limits.

Originator analysis typically encompasses:

- Size and reach of the originator
- Collection process, infrastructure and follow-up mechanism
- Quality of MIS
- Credit enhancement for different type of originator

(iv) The level of diversification with respect to the underlying assets, and risk mitigation measures for less diversified investments

Eligible assets: Only assets with an established track record of low delinquencies and high credit quality over several business cycles will be considered for investment.

Analysis of pool: Characteristics such as average pool maturity (in months),

Characteristics / Type of Pool	Mortgage Loan	Commercial Vehicle and Construction Equipment	CAR	2 wheelers	Others
Approximate Average maturity (in Months)	In line with average maturity of mortgage loans as per industry norms. Typically less than 10 years.	In line with average maturity of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 4 years.	In line with average maturity of car loans as per industry norms. Typically less than 4 years.	In line with average maturity of two-wheeler loans as per industry norms. Typically less than 4 years.	In line with average maturity of the asset class as per industry norms.
Collateral margin (including cash, guarantees, excess interest spread , subordinate tranche)	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	The collateral margin will be adequate for the pool to achieve a rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.
Average Loan to Value Ratio	In line with average Loan to Value ratio of mortgage loans as per industry norms. Typically less than 80 per cent.	In line with average Loan to Value ratio of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of car loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of two-wheeler loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of the asset class loans as per industry norms.
Average seasoning of the Pool	In line with industry norms and guidelines laid down by RBI/ SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/ SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time.
Maximum single exposure range	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%
Average single exposure range %	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%

*Kindly note that all references to single loan securitization has been removed as securitization of single corporate loans are no longer envisaged under revised RBI guidelines on securitization

The Scheme will not be investing in foreign securitised debt.

- **Investment in Overseas Financial Assets/Foreign Securities**

  According to SEBI circular no. SEBI/IMD/CIR No. 7/104753/07 dated September 26, 2007 mutual funds can invest in ADRs/GDRs/other specified foreign securities and as per SEBI circular no. SEBI/IMD/CIR No. 2/122577/08 dated April 08, 2008, such investments are subject to an overall limit of US$ 7 bn. for all mutual funds put together. The Mutual Fund has been allowed an individual limit of US$ 600 mn. The overall ceiling for investment in overseas ETFs that invest in securities is US$ 1 billion subject to a maximum of US$ 50 million per mutual fund.

  The dedicated fund manager appointed for making overseas investments by the Mutual Fund will be in accordance with the applicable requirements of SEBI. Depending upon the Investment

Sr. No.	Particulars	Existing	Proposed
		average loan to value ratio, average seasoning of the pool, maximum single exposure, geographical distribution and average single exposure are studied to determine pool quality Risk mitigating measures: Credit enhancement facilities (including cash, guarantees, excess interest spread, subordinate tranches), liquidity facilities and payment structure are studied in relation to historical collection and default behavior of the asset class to ensure adequacy of credit enhancement in a stress scenario. **(v) Minimum retention period of the debt by originator prior to securitization** We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time. **(vi) Minimum retention percentage by originator of debts to be securitized** We will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time. **(vii) The mechanism to tackle conflict of interest when the Mutual Fund invests in securitized debt of an originator and the originator in turn makes investments in that particular Scheme of the Fund** The AMC has an independent RQA team which is distinct from the Sales function and the Investments function and has a separate reporting and appraisal structure designed to avoid conflict of interest. Investments can be initiated by the fund managers only after the RQA team has assigned limits for the originator. The originator wise limits specify both the maximum quantum and maximum tenor for investments. **(viii) The resources and mechanism of individual risk assessment with the AMC for monitoring investment in securitized debt** The AMC has a rigorous risk management process for all fixed income investments, which also encompasses securitized debt. A dedicated RQA team is responsible for monitoring risks including credit and liquidity risk. The functions of the RQA team include: ● Detailed credit analysis of issuers: based on the management evaluation, operating strength and financial strength to determine suitability for investment. Periodic reviews on a quarterly/annual basis are under taken for eligible issuers. Ratings are monitored on a daily	Manager's views, Scheme would like to seek investment opportunities in the ADR/GDR/overseas market. **Trading in Derivatives** The Mutual Fund may use various derivatives and hedging products/ techniques, in order to seek to generate better returns for the Scheme. Derivatives are financial contracts of pre-determined fixed duration, whose values are derived from the value of an underlying primary financial instrument, commodity or index. The Scheme while investing in equities shall transact in exchange traded equity derivatives only and these instruments may take the form of Index Futures, Index Options, Futures and Options on individual equities/securities and such other derivative instruments as may be appropriate and permitted under the SEBI Regulations and guidelines from time to time. **Advantages of Trading in Derivatives** Advantages of derivatives are many. The use of derivatives provides flexibility to the Schemes to hedge whole or part of the portfolio. The following section describes some of the more common derivatives transactions along with their benefits: Derivatives are financial contracts of pre-determined fixed duration, whose values are derived from the value of an underlying primary financial instrument, commodity or index, such as interest rates, exchange rates, commodities and equities. **1. Futures** A futures contract is a standardized contract between two parties where one of the parties commits to sell, and the other to buy, a stipulated quantity of a security at an agreed price on or before a given date in future. Currently, futures contracts have a maximum expiration cycle of 3 months. Three contracts are available for trading, with 1 month, 2 months and 3 months expiry respectively. A new contract is introduced on the next trading day following the expiry of the relevant monthly contract. Futures contracts typically expire on the last Thursday of the month. For example a contract with the April 2017 expiration expires on the last Thursday of April 2017 (April 27, 2017). **Basic Structure of an Index Future** The Stock Index futures are instruments designed to give exposure to the equity markets indices. The Stock Exchange, Mumbai (BSE) and The National Stock Exchange (NSE) have 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 short-term interest rates. Index futures are cash settled, there is no delivery of the underlying stocks. Example using hypothetical figures: 1 month ABC Index Future If the Scheme buys 2,000 futures contracts, each contract value is 50 times the futures index price. Purchase Date : April 01, 2017 Spot Index : 9200.00 Future Price : 9300.00 Date of Expiry : April 27, 2017 Margin : 10% Assuming the exchange imposes a total margin of 10%, the Investment Manager will be required to provide a total margin of approx. Rs. 93,000,000 (i.e. 10%*9300*2000*50) through eligible securities and cash. Assuming on the date of expiry, i.e. April 27 , 2017, ABC Index closes at 9350, the net impact will be a profit of Rs. 5,000,000 for the Scheme, i.e. (9350-9300) * 2000 * 50 (Futures price = Closing spot price = Rs. 9350.00) Profits for the Scheme = (9350-9300) * 2000*50 = Rs. 5,000,000. 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 Scheme will be in terms of the difference of the closing price of the index

<table>
<tr><th>Sr. No.</th><th>Particulars</th><th>Existing</th><th>Proposed</th></tr>
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basis and any changes are immediately recorded and suitable action taken.

• RQA team monitors adherence to single and group level exposure norms, minimum rating requirements, liquidity requirements, and ensures that only eligible securities are included in the fund, in line with the Scheme information document/internal templates.

For securitized pool loan exposures, the analysis includes pool seasoning, pool asset quality, diversification, collateral margin, originator analysis and credit enhancement mechanisms. Pool performance statistics published by rating agencies are analyzed for performance of other securitised pools of the same originator as well as for the performance of the asset class as a whole. Regular interactions with the rating agencies are done to discuss performance trends. Documents are vetted by the legal and compliance team. In addition, monthly payout reports from the trustees are analysed for collection performance and adequacy of cash collateral.

Framework that is applied while evaluating investment decision relating to a pool securitization transaction:
<table>
<tr><th>Characteristics / Type of Pool</th><th>Mortgage Loan</th><th>Commercial Vehicle and Construction Equipment</th><th>CAR</th><th>2 wheelers</th><th>Others</th></tr>
<tr><td>Approximate Average maturity (in Months)</td><td>In line with average maturity of mortgage loans as per industry norms. Typically less than 10 years.</td><td>In line with average maturity of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 4 years.</td><td>In line with average maturity of car loans as per industry norms. Typically less than 4 years.</td><td>In line with average maturity of two-wheeler loans as per industry norms. Typically less than 4 years.</td><td>In line with average maturity of the asset class as per industry norms.</td></tr>
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and cost price. Thus, it is clear from the above example that the profit or loss for the Scheme will be the difference between 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.

Basic Structure of a Stock Future

A futures contract on a stock gives its owner the right and obligation to buy or sell stocks. Single Stock Futures traded on NSE (National Stock Exchange) are cash settled; there is no delivery of the underlying stocks on the expiration date. A purchase or sale of futures on a security gives the trader essentially the same price exposure as a purchase or sale of the security itself. In this regard, trading stock futures is no different from trading the security itself.

Example using hypothetical figures:

The Scheme holds shares of XYZ Ltd., the current price of which is Rs. 500 per share. The Scheme sells one month futures on the shares of XYZ Ltd. at the rate of Rs. 540.

If the price of the stock falls, the Mutual Fund will suffer losses on the stock position held. However, in such a scenario, there will be a profit on the short futures position.

At the end of the period, the price of the stock falls to Rs. 450 and this fall in the price of the stock results in a fall in the price of futures to Rs. 470. There will be a loss of Rs. 50 per share (Rs. 500 - Rs. 450) on the holding of the stock, which will be offset by the profits of Rs. 70 (Rs. 540 - Rs. 470) made on the short futures position.

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 and other related costs have been ignored. The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mis-pricing of the futures.

2. Options

An option gives a person the right but not an obligation to buy or sell something. 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.

An option contract may be of two kinds:

1) Call option

An option that provides the buyer the right to buy is a call option. The buyer of the call option can call upon the seller of the option and buy from him the underlying asset at the agreed price. The seller of the option has to fulfill the obligation upon exercise of the option.

2) Put option

The right to sell is called a put option. Here, the buyer of the option can exercise his right to sell the underlying asset to the seller of the option at the agreed price.

Option contracts are classified into two styles:

(a) European Style

In a European option, the holder of the option can only exercise his right on the date of expiration only.

(b) American Style

In an American option, the holder can exercise his right anytime between the purchase date and the expiration date.

Basic Structure of an Equity Option

In India, options contracts on indices are European style and cash settled whereas, option contracts on individual securities are American style and cash settled.
</td>
</tr>
</table>

Sr. No.	Particulars	Existing	Proposed

Existing

Characteristics / Type of Pool	Mortgage Loan	Commercial Vehicle and Construction Equipment	CAR	2 wheelers	Others
subordinate tranche)	collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	times cover over historical losses observed in the asset class.	category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.	rating in the high safety category at the time of initial rating. The collateral margin will ensure at least a 3 times cover over historical losses observed in the asset class.
Average Loan to Value Ratio	In line with average Loan to Value ratio of mortgage loans as per industry norms. Typically less than 80 per cent.	In line with average Loan to Value ratio of Commercial Vehicle and Construction Equipment loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of car loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of two-wheeler loans as per industry norms. Typically less than 85 per cent.	In line with average Loan to Value ratio of the asset class loans as per industry norms.
Average seasoning of the Pool	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time. Typically, more than 3 months	In line with industry norms and guidelines laid down by RBI/SEBI from time to time.

Proposed

Example using hypothetical figures:

Market type	:	N
Instrument Type	:	OPTSTK
Underlying	:	XYZ Ltd. (XYZ)
Purchase date	:	April 1, 2017
Expiry date	:	April 27, 2017
Option Type	:	Put Option (Purchased)
Strike Price	:	Rs. 9,750.00
Spot Price	:	Rs. 9,800.00
Premium	:	Rs. 200.00
Lot Size	:	100
No. of Contracts	:	50

Say, the Mutual Fund purchases on April 1, 2017, 1 month Put Options on XYZ Ltd. (XYZ) on the NSE i.e. put options on 5000 shares (50 contracts of 100 shares each) of XYZ.

As these are American style options, they can be exercised on or before the exercise date i.e. April 27, 2017. If the share price of XYZ Ltd. falls to Rs. 9,500/- on April 27, 2017, and the Investment Manager decides to exercise the option, the net impact will be as Follows:

Premium Expense	=	Rs. 200 * 50 * 100 = Rs. 10,00,000/-
Option Exercised at	=	Rs. 9,500/-
Profits for the Mutual Fund	=	(9,750.00 - 9,500.00) * 50 * 100
	=	Rs. 12,50,000/-

Net Profit = Rs. 12,50,000 - Rs. 10,00,000 = Rs. 2,50,000/-

In the above example, the Investment Manager hedged the market risk on 5000 shares of XYZ Ltd. by purchasing put options.

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 Mutual Fund as the risk is already in the Mutual Fund's portfolio on account of the underlying asset position (in his example shares of XYZ Ltd.). The Premium paid for the option is treated as an expense and added to the holding cost of the relevant security. Additional risks could be on account of illiquidity and potential mis-pricing of the options.

Exposure to Equity Derivatives

i. Position limit for the Mutual Fund in index options contracts:

a. The Mutual Fund position limit in all index options contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest in the market in index options, whichever is higher, per Stock Exchange.

b. This limit would be applicable on open positions in all options contracts on a particular underlying index.

ii. Position limit for the Mutual Fund in index futures contracts:

a. The Mutual Fund position limit in all index futures contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest in the market in index futures, whichever is higher, per Stock Exchange.

b. This limit would be applicable on open positions in all futures contracts on a particular underlying index.

iii. Additional position limit for hedging:

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:

a. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Fund's holding of stocks.

b. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Fund's holding of cash, government securities, T-Bills and similar instruments.

Sr. No.	Particulars	Existing	Proposed

Existing

Characteristics / Type of Pool	Mortgage Loan	Commercial Vehicle and Construction Equipment	CAR	2 wheelers	Others
Maximum single exposure range	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%
Average single exposure range %	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%	Not more than 10%

* Kindly note that all references to single loan securitization has been removed as securitization of single corporate loans are no longer envisaged under revised RBI guidelines on securitization

The Scheme will not be investing in foreign securitised debt.

- **Investment in Overseas Financial Assets/Foreign Securities**

  According to SEBI circular no. SEBI/IMD/CIR No. 7/104753/07 dated September 26, 2007 mutual funds can invest in ADRs/GDRs/other specified foreign securities and as per SEBI circular no. SEBI/IMD/CIR No. 2/122577/08 dated April 08, 2008, such investments are subject to an overall limit of US$ 7 bn. for all mutual funds put together. The Mutual Fund has been allowed an individual limit of US$ 600 mn. The overall ceiling for investment in overseas ETFs that invest in securities is US$ 1 billion subject to a maximum of US$ 50 million per mutual fund.

  The dedicated fund manager appointed for making overseas investments by the Mutual Fund will be in accordance with the applicable requirements of SEBI. Depending upon the Investment Manager's views, Scheme would like to seek investment opportunities in the ADR/GDR/overseas market.

  Trading in Derivatives

  The Mutual Fund may use various derivatives and hedging products/techniques, in order to seek to generate better returns for the Scheme. Derivatives are financial contracts of pre-determined fixed duration, whose values are derived from the value of an underlying primary financial instrument, commodity or index. The Scheme while investing in equities shall transact in exchange traded equity derivatives only and these instruments may take the form of Index Futures, Index Options, Futures and Options on individual equities/securities and such other

Proposed

iv. Position limit for the Mutual Fund for stock based derivative contracts:

The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL).

v. Position limit for the Scheme:

The position limits for the Scheme and disclosure requirements are as follows:

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 1% of free float market capitalization (in terms of number of shares).

Or

5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

b. This position limit shall be applicable on the combined position in all derivative contracts on a underlying stock at a Stock Exchange.

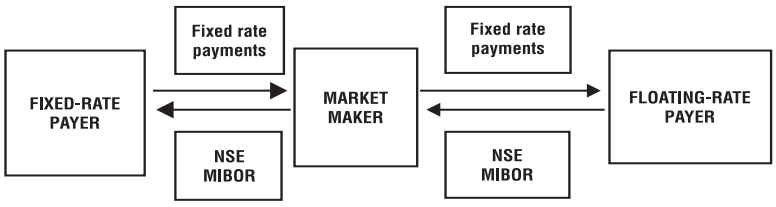
c. For index based contracts, the Mutual Fund shall disclose the total open interest held by its scheme or all schemes put together in a particular underlying index, if such open interest equals to or exceeds 15% of the open interest of all derivative contracts on that underlying index.

As and when SEBI notifies amended limits in position limits for exchange traded derivative contracts in future, the aforesaid position limits, to the extent relevant, shall be read as if they were substituted with the SEBI amended limits.

Exposure Limits:

With respect to investments made in derivative instruments, the Schemes shall comply with the following exposure limits in line with SEBI Circular Cir/IMD/DF/11/2010 dated August 18, 2010:

1. The cumulative gross exposure through equity, debt and derivative positions will not exceed 100% of the net assets of the respective Scheme. However, the following shall not be considered while calculating the gross exposure:
   a. Security-wise hedged position and
   b. Exposure in cash or cash equivalents with residual maturity of less than 91 days
2. The total exposure related to option premium must not exceed 20% of the net assets of the Scheme.
3. The Mutual Fund shall not write options or purchase instruments with embedded written options.
4. Exposure due to hedging positions may not be included in the above mentioned limits subject to the following:
   a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.
   b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned in Point 1.
   c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.
   d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.
5. The Mutual Fund may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme.
6. Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in point 1.

Sr. No.	Particulars	Existing	Proposed
		derivative instruments as may be appropriate and permitted under the SEBI Regulations and guidelines from time to time. **Advantages of Trading in Derivatives** Advantages of derivatives are many. The use of derivatives provides flexibility to the Schemes to hedge whole or part of the portfolio. The following section describes some of the more common derivatives transactions along with their benefits: Derivatives are financial contracts of pre-determined fixed duration, whose values are derived from the value of an underlying primary financial instrument, commodity or index, such as interest rates, exchange rates, commodities and equities. **1. Futures** A futures contract is a standardized contract between two parties where one of the parties commits to sell, and the other to buy, a stipulated quantity of a security at an agreed price on or before a given date in future. Currently, futures contracts have a maximum expiration cycle of 3 months. Three contracts are available for trading, with 1 month, 2 months and 3 months expiry respectively. A new contract is introduced on the next trading day following the expiry of the relevant monthly contract. Futures contracts typically expire on the last Thursday of the month. For example a contract with the April 2017 expiration expires on the last Thursday of April 2017 (April 27, 2017). **Basic Structure of an Index Future** The Stock Index futures are instruments designed to give exposure to the equity markets indices. The Stock Exchange, Mumbai (BSE) and The National Stock Exchange (NSE) have 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 short-term interest rates. Index futures are cash settled, there is no delivery of the underlying stocks. **Example using hypothetical figures:** **1 month ABC Index Future** If the Scheme buys 2,000 futures contracts, each contract value is 50 times the futures index price. Purchase Date : April 01, 2017 Spot Index : 9200.00	**7. Definition of Exposure in case of Derivative Positions:** Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows: **Position** | **Exposure** Long Future | Futures Price * Lot Size * Number of Contracts Short Future | Futures Price * Lot Size * Number of Contracts Option Bought | Option Premium Paid * Lot Size * Number of Contracts **3. Interest Rate Swap (IRS)** Any swap is effectively an exchange of one set of cash-flows for another considered to be of equal value. If the exchange of cash flows is linked to interest rates, it becomes an interest rate swap. An interest rate swap is an agreement between two parties to exchange future payment streams based on a notional amount. Only the interest on the notional amount is swapped, and the principal amount is never exchanged. In a typical interest rate swap, one party agrees to pay a fixed rate over the term of the agreement and to receive a variable or floating rate of interest. The counterparty receives a stream of fixed rate payments at regular intervals as described in the agreement and pays the floating rate of interest. A fixed/ floating interest rate swap is characterized by: 1. Fixed interest rate; 2. Variable or floating interest rate, which is periodically reset; 3. Notional principal amount upon which total interest payments are based; and 4. The terms of the agreement, including a schedule of interest rate reset dates, payment dates and termination date. The primary reason for engaging in an interest rate swap is to hedge the interest rate exposure. An illustration could be an institution having long-term fixed rate assets (longer tenor securities receiving fixed rate) in a rising interest rate environment; it can hedge the interest rate exposure by purchasing an interest rate swap where the institution receives floating interest rate and pays fixed rate. In this case, an interest rate swap is likely to reduce the duration and interest rate volatility of the fund.  **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 **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:** **Fixed rate payment:** Rs. 4,23,83,562 = (Rs.100,00,00,000) x (8.50%) x (182 Days / 365 Days) **Variable rate payment:** Rs. 4,06,38,356 = (Rs.100,00,00,000) x (8.15%) x (182 Days / 365 Days) Often, a swap agreement will call for only the exchange of net amount between the counterparties.

Sr. No.	Particulars	Existing	Proposed
		Future Price : 9300.00 Date of Expiry : April 27, 2017 Margin : 10% Assuming the exchange imposes a total margin of 10%, the Investment Manager will be required to provide a total margin of approx. Rs. 93,000,000 (i.e. 10%*9300*2000*50) through eligible securities and cash. Assuming on the date of expiry, i.e. April 27 , 2017, ABC Index closes at 9350, the net impact will be a profit of Rs. 5,000,000 for the Scheme, i.e. (9350-9300) * 2000 * 50 (Futures price = Closing spot price = Rs. 9350.00) Profits for the Scheme = (9350-9300) * 2000*50 = Rs. 5,000,000. 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 Scheme will be in terms of the difference of the closing price of the index and cost price. Thus, it is clear from the above example that the profit or loss for the Scheme will be the difference between 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. **Basic Structure of a Stock Future** A futures contract on a stock gives its owner the right and obligation to buy or sell stocks. Single Stock Futures traded on NSE (National Stock Exchange) are cash settled; there is no delivery of the underlying stocks on the expiration date. A purchase or sale of futures on a security gives the trader essentially the same price exposure as a purchase or sale of the security itself. In this regard, trading stock futures is no different from trading the security itself. **Example using hypothetical figures:** The Scheme holds shares of XYZ Ltd., the current price of which is Rs. 500 per share. The Scheme sells one month futures on the shares of XYZ Ltd. at the rate of Rs. 540. If the price of the stock falls, the Mutual Fund will suffer losses on the stock position held. However, in such a scenario, there will be a profit on the short futures position.	In the above example, the fixed-rate payer will pay the variable-rate payer a net amount of Rs. 17,45,205 = Rs. 4,23,83,562 - 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. **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. 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. 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. **The flows for the institution will be, as follows:** Interest Savings = Rs. 100 Crore * 15 bps * 92/365 (assuming 92 days in the 3 month FRA period and 365 days in the conventional year) = Rs.3,78,082.19 Settlement Amount = Rs.3,78,082.19/ (1+8.25%*92/365) Please note that the above examples are hypothetical in nature and the figures are assumed. **5. Interest Rate Futures** 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. The overall gross exposure for a fund is computed as sum of exposure to equity, cash, debt instruments and derivatives (other than for hedging purposes) and it should not be more than 100%. Derivative position is considered to be for hedging purposes only if the following conditions are met: 1. **Perfect Hedging -** We hedge the underlying using IRF contract of same underlying 2. **Imperfect hedging -** the Underlying being hedged and the IRF contract has a 90 day correlation of closing prices of more than 90%. In case of correlation breaking at any time the derivative position would be counted as an exposure. SEBI allows maximum of 20% imperfect hedging. **For example, assume a portfolio comprising the following structure:** **Security** | **Amount (crs)** | **Price (Rs)** IGB 6.79% 2027 | 100 | 100.40 IGB 6.79% 2029 | 50 | 98.35 IGB 7.72% 2025 | 25 | 104.55 Cash | 25 | Total | 200 |

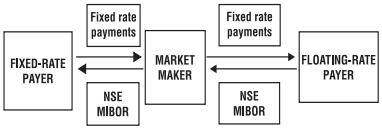
Sr. No.	Particulars	Existing	Proposed
		At the end of the period, the price of the stock falls to Rs. 450 and this fall in the price of the stock results in a fall in the price of futures to Rs. 470. There will be a loss of Rs. 50 per share (Rs. 500 - Rs. 450) on the holding of the stock, which will be offset by the profits of Rs. 70 (Rs. 540 - Rs. 470) made on the short futures position. 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 and other related costs have been ignored. The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mis-pricing of the futures. **2. Options** An option gives a person the right but not an obligation to buy or sell something. 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. **An option contract may be of two kinds:** **1) Call option** An option that provides the buyer the right to buy is a call option. The buyer of the call option can call upon the seller of the option and buy from him the underlying asset at the agreed price. The seller of the option has to fulfill the obligation upon exercise of the option. **2) Put option** The right to sell is called a put option. Here, the buyer of the option can exercise his right to sell the underlying asset to the seller of the option at the agreed price. **Option contracts are classified into two styles:** **(a) European Style** In a European option, the holder of the option can only exercise his right on the date of expiration only. **(b) American Style** In an American option, the holder can exercise his right anytime	Assuming the fund manager intends to hedge the portfolio using IRF and uses contracts on IGB 6.79% 2027 as it is most liquid. Maximum imperfect hedging allowed, based on SEBI limit of 20% for the above fund is 200*20% = 40 crs Maximum perfect hedging using 6.79% 2027 is 100 crs (as amount of 6.79% 2027 in the fund is 100 crs) Total hedge the fund can do = 100 crs + 40 crs =140 crs Assuming the 90 day historical correlation between the instruments in the portfolio are as follows **90 day historical correlation** IGB 6.79% 2027: 1 / 0.95 / 0.80 IGB 6.79% 2029: 0.95 / 1 / 0.75 IGB 7.72% 2025: 0.80 / 0.75 / 1 Given that we are using IRF on 6.79% 2027, we can hedge 6.79% 2029 using IRFs as correlation is more than 90% upto 40 crs (based on the 20% limit of imperfect hedging). Since one contract of IRF has a notional of Rs. 2 lakhs, in this example the fund manager sells Rs. 140 crores/2 lakhs = 7000 contracts, to hedge his position. Hence after hedging the fund is as shown below: **Security / Amount (crs) / Price (Rs) / Comments** IGB 6.79% 2027: 100 / 100.40 / 100% hedged - Perfect hedging IGB 6.79% 2029: 50 / 98.35 / 40% hedged - Imperfect hedging IGB 7.72% 2025: 25 / 104.55 / Unhedged Cash: 25 / / Unhedged IRF 6.79% 2027: 140 / 100.35 / Total: 200 / / At maturity of the Interest Rate Futures **Case 1:** bonds close higher than at the time the hedge was entered into **Security / Amount (crs) / Price before hedging (Rs) / Price on maturity of hedge (Rs) / Gain / Net Gain (lakhs)** IGB 6.79% 2027: 100 / 100.4 / 100.5 / 0.1 / 10.00 IGB 6.79% 2029: 50 / 98.35 / 98.5 / 0.15 / 7.50 IGB 7.72% 2025: 25 / 104.55 / 104.6 / 0.05 / 1.25 Cash: 25 / / / / - **Without IRF** / / / / / **18.75** IRF 6.79% 2027: 140 / 100.35 / 100.5 / -0.15 / (21.00) **Total With IRF**: **200** / / / / **(2.25)** **Case 2:** bonds close lower than at the time the hedge was entered into **Security / Amount (crs) / Price before hedging (Rs) / Price on maturity of hedge (Rs) / Gain / Net Gain (lakhs)** IGB 6.79% 2027: 100 / 100.4 / 100.3 / -0.1 / (10.00) IGB 6.79% 2029: 50 / 98.35 / 98.23 / -0.12 / (6.00) IGB 7.72% 2025: 25 / 104.55 / 104.5 / -0.05 / (1.25) Cash: 25 / / / / - **Without IRF** / / / / / **(17.25)** IRF 6.79% 2027: 140 / 100.35 / 100.3 / 0.05 / 7.00 **Total with IRF**: **200** / / / / **(10.25)** As can be seen in the cases above, in case yields move higher, IRFs help in reducing the loss to the fund.

Sr. No.	Particulars	Existing	Proposed
		between the purchase date and the expiration date. **Basic Structure of an Equity Option** In India, options contracts on indices are European style and cash settled whereas, option contracts on individual securities are American style and cash settled. **Example using hypothetical figures:** Market type : N Instrument Type : OPTSTK Underlying : XYZ Ltd. (XYZ) Purchase date : April 1, 2017 Expiry date : April 27, 2017 Option Type : Put Option (Purchased) Strike Price : Rs. 9,750.00 Spot Price : Rs. 9,800.00 Premium : Rs. 200.00 Lot Size : 100 No. of Contracts : 50 Say, the Mutual Fund purchases on April 1, 2017, 1 month Put Options on XYZ Ltd. (XYZ) on the NSE i.e. put options on 5000 shares (50 contracts of 100 shares each) of XYZ. As these are American style options, they can be exercised on or before the exercise date i.e. April 27, 2017. If the share price of XYZ Ltd. falls to Rs. 9,500/- on April 27, 2017, and the Investment Manager decides to exercise the option, the net impact will be as Follows: Premium Expense = Rs. 200 * 50 * 100 = Rs. 10,00,000/- Option Exercised at = Rs. 9,500/- Profits for the Mutual Fund = (9,750.00 - 9,500.00)* 50* 100 = Rs. 12,50,000/- Net Profit = Rs. 12,50,000 - Rs. 10,00,000 = Rs. 2,50,000/- In the above example, the Investment Manager hedged the market risk on 5000 shares of XYZ Ltd. by purchasing put options. 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 Mutual Fund as the risk is already in the Mutual Fund's portfolio on account of the underlying asset position (in his example shares of XYZ Ltd.). The Premium paid for the option is treated as an expense and added to the holding cost of the relevant security. Additional risks could be on account of illiquidity and potential mis-pricing of the options.	

Sr. No.	Particulars	Existing	Proposed
		Exposure to Equity Derivatives **i. Position limit for the Mutual Fund in index options contracts:** a. The Mutual Fund position limit in all index options contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest in the market in index options, whichever is higher, per Stock Exchange. b. This limit would be applicable on open positions in all options contracts on a particular underlying index. **ii. Position limit for the Mutual Fund in index futures contracts:** a. The Mutual Fund position limit in all index futures contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest in the market in index futures, whichever is higher, per Stock Exchange. b. This limit would be applicable on open positions in all futures contracts on a particular underlying index. **iii. Additional position limit for hedging:** 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: a. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Fund's holding of stocks. b. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Fund's holding of cash, government securities, T-Bills and similar instruments. **iv. Position limit for the Mutual Fund for stock based derivative contracts:** The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL). **v. Position limit for the Scheme:** The position limits for the Scheme and disclosure requirements are as follows: 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 1% of free float market capitalization (in terms of number of shares).	

Sr. No.	Particulars	Existing	Proposed
		Or 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts). b. This position limit shall be applicable on the combined position in all derivative contracts on a underlying stock at a Stock Exchange. c. For index based contracts, the Mutual 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. **As and when SEBI notifies amended limits in position limits for exchange traded derivative contracts in future, the aforesaid position limits, to the extent relevant, shall be read as if they were substituted with the SEBI amended limits.** **Exposure Limits:** With respect to investments made in derivative instruments, the Schemes shall comply with the following exposure limits in line with SEBI Circular Cir/IMD/DF/11/2010 dated August 18, 2010: 1. The cumulative gross exposure through equity, debt and derivative positions will not exceed 100% of the net assets of the respective Scheme. However, the following shall not be considered while calculating the gross exposure: a. Security-wise hedged position and b. Exposure in cash or cash equivalents with residual maturity of less than 91 days 2. The total exposure related to option premium must not exceed 20% of the net assets of the Scheme. 3. The Mutual Fund shall not write options or purchase instruments with embedded written options. 4. Exposure due to hedging positions may not be included in the above mentioned limits subject to the following: a. Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains. b. Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall	

Sr. No.	Particulars	Existing	Proposed
		have to be added and treated under limits mentioned in Point 1. c. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged. d. The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken. 5. The Mutual Fund may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme. 6. Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned in point 1. 7. Definition of Exposure in case of Derivative Positions: Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows: **Position** / **Exposure** Long Future / Futures Price * Lot Size * Number of Contracts Short Future / Futures Price * Lot Size * Number of Contracts Option Bought / Option Premium Paid * Lot **3. Interest Rate Swap (IRS)** Any swap is effectively an exchange of one set of cash-flows for another considered to be of equal value. If the exchange of cash flows is linked to interest rates, it becomes an interest rate swap. An interest rate swap is an agreement between two parties to exchange future payment streams based on a notional	

Sr. No.	Particulars	Existing	Proposed
		amount. Only the interest on the notional amount is swapped, and the principal amount is never exchanged. In a typical interest rate swap, one party agrees to pay a fixed rate over the term of the agreement and to receive a variable or floating rate of interest. The counterparty receives a stream of fixed rate payments at regular intervals as described in the agreement and pays the floating rate of interest. A fixed/ floating interest rate swap is characterized by: 1. Fixed interest rate; 2. Variable or floating interest rate, which is periodically reset; 3. Notional principal amount upon which total interest payments are based; and 4. The terms of the agreement, including a schedule of interest rate reset dates, payment dates and termination date. The primary reason for engaging in an interest rate swap is to hedge the interest rate exposure. An illustration could be an institution having long-term fixed rate assets (longer tenor securities receiving fixed rate) in a rising interest rate environment; it can hedge the interest rate exposure by purchasing an interest rate swap where the institution receives floating interest rate and pays fixed rate. In this case, an interest rate swap is likely to reduce the duration and interest rate volatility of the fund.  **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 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:	

Sr. No.	Particulars	Existing	Proposed
		Fixed rate payment: Rs. 4,23,83,562 = (Rs.100,00,00,000) x (8.50%) x (182 Days / 365 Days) **Variable rate payment:** Rs. 4,06,38,356 = (Rs.100,00,00,000) x (8.15%) x (182 Days / 365 Days) 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 Rs. 17,45,205 = Rs. 4,23,83,562 - 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. **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. 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. 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. **The flows for the institution will be, as follows:** Interest Savings = Rs. 100 Crore * 15 bps * 92/ 365 (assuming	

Sr. No.	Particulars	Existing	Proposed
		92 days in the 3 month FRA period and 365 days in the conventional year) = Rs. 3,78,082.19 Settlement Amount = Rs. 3,78,082.19/ (1+8.25%*92 / 365) Please note that the above examples are hypothetical in nature and the figures are assumed. **5. Interest Rate Futures** 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. 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 2017 is trading on exchange at 105.10. 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. At maturity, the settlement price of the futures will be almost same as closing price of the underlying security. At maturity of the Interest Rate Futures **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 Closing price of Bonds on day of maturity of futures = 105.05	

Sr. No.	Particulars	Existing	Proposed
		Settlement price of futures = 105.05 MTM gain on the underlying bond = (105.05-105.00) * 100 crores / 100 (i.e. face value of bond) = Rs. 5,00,000 The profit on the futures leg is = 5000*2lakhs *(105.10-105.05)/ 100 (i.e. face value of bond) = Rs 5,00,000 Overall profit to the fund = Rs 10,00,000 **Case 2:** At maturity bonds close higher than the level at which futures were sold In case, the closing price of bonds on the day of maturity of futures = 105.20, Settlement price of futures = 105.20 The MTM gain on bonds = (105.20-105.00) * 100 crores /100 (i.e. face value of bond) = Rs. 20,00,000 Loss on futures leg = 5000*2 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 **Case 3:** At maturity bonds sells off from levels were hedges were initiated In case, the closing price of bonds on the day of maturity of futures = 104.80, Settlement price of futures = 104.80 The MTM loss on bonds = (104.80-105.00) * 100 crores = (Rs. 20,00,000) Profit on futures leg = 5000*2 lacs * (105.10-104.80) = Rs 30,00,000 Total Profit to the fund = Rs 10,00,000"	
7.	Risk factors	Refer existing disclosure in the SID under "Section IV.A" titled "Risk factors" and "Section IV.B" titled Risk Management Strategies	**The following shall be added under "Section IV.A" titled as "Risk factors" in the SID:** **Risks associated with investments in REITs and InvITs** **Risk of lower than expected distributions:** The distributions by the REIT or InvIT will be based on the net cash flows available for distribution. The amount of cash available for distribution principally depends upon the amount of cash that the REIT/INVIT receives as dividends or the interest and principal payments from portfolio assets. The cash flows generated by portfolio assets from operations may fluctuate based on, among other things ● success and economic viability of tenants and off-takers ● economic cycles and risks inherent in the business which may negatively impact valuations, returns and profitability of portfolio assets ● force majeure events related such as earthquakes, floods etc. rendering the portfolio assets inoperable ● debt service requirements and other liabilities of the portfolio assets ● fluctuations in the working capital needs of the portfolio assets

Sr. No.	Particulars	Existing	Proposed
			• ability of portfolio assets to borrow funds and access capital markets • changes in applicable laws and regulations, which may restrict the payment of dividends by portfolio assets • amount and timing of capital expenditures on portfolio assets • insurance policies may not provide adequate protection against various risks associated with operations of the REIT/InvIT such as fire, natural disasters, accidents **Price-Risk:** The valuation of the REIT/InvIT units may fluctuate based on economic conditions, fluctuations in markets (eg. real estate) in which the REIT/InvIT operates and the resulting impact on the value of the portfolio of assets, regulatory changes, force majeure events etc. REITs & InvITs may have volatile cash flows. As an indirect shareholder of portfolio assets, unit holders rights are subordinated to the rights of creditors, debt holders and other parties specified under Indian law in the event of insolvency or liquidation of any of the portfolio assets **Interest-Rate Risk:** Generally, when interest rates rise, prices of units fall and when interest rates drop, such prices increase. **Liquidity Risk:** This refers to the ease with which REIT/InvIT units can be sold. There is no assurance that an active secondary market will develop or be maintained. Hence there would be time when trading in the units could be infrequent. The subsequent valuation of illiquid units may reflect a discount from the market price of comparable securities for which a liquid market exists. **Risk Factors Associated with Imperfect Hedging using Interest Rate Futures** 1. **Basis Risk -** risk associated with divergence in the price movement of the portfolio being hedged and the price movement of the derivative serving as the hedge e.g. a loss (gain) in the market value of bonds in the portfolio (or the part thereof that is being hedged), may be accompanied by a disproportionate gain (loss) in the market value of the derivatives being used to serve as the hedge. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. 2. **Mispricing Risk, or improper valuation -** market circumstances may necessitate unwinding the derivative positions at sub-optimal prices during periods of market dislocation triggered by contagion or tumult e.g. if the expected upward trajectory of yields reverses course and begins to spiral downward, most participants with short Interest Rate Futures positions are likely to seek an unwinding, leading to a potential amplification in the adverse price movement, and impact therefrom. 3. **Correlation weakening, and consequent risk of regulatory breach -** SEBI regulation mandates a minimum correlation criteria of 0.9 (calculated on a 90 day basis) between the portfolio being hedged and the derivative serving as the hedge; in cases where this limit is breached (i.e. when the 90-day correlation falls below 0.9), a rebalancing period of 5 working days has been permitted. Inability to satisfy this requirement within the stipulated period due to difficulties in re-balancing 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; leverage is not permitted as per SEBI guidelines. The following shall be added under "Section IV. B" titled as "Risk Management Strategies" of the SID: **RISK MITIGATION FACTORS:** **Risks associated with investments in REITs and InvITs** The Investment Manager endeavours to invest in REITS/InvITs, where adequate due diligence and research has been performed by the Investment Manager. The Investment Manager also relies on its own research as well as third party research. This involves one-to-one meetings with the managements, attending conferences and analyst meets and also tele-conferences. The analysis will focus, amongst others, on the predictability and strength of cash flows, value of assets, capital structure, business prospects, policy environment, strength of management, responsiveness to business conditions, etc.

Sr. No.	Particulars	Existing	Proposed
8.	Investment Restrictions	Refer existing disclosure in the SID under "Section V.I" titled "What are the Investment Restrictions"	The following shall be added under "Section V.I" titled "What are the Investment Restrictions" in the SID: ● The Mutual Fund under all its schemes shall not invest more than 10% of units issued by a single issuer of REIT and InvIT. ● The Scheme shall not invest: ✓ more than 10% of its NAV in the units of REITs and InvITs; and ✓ more than 5% of its NAV in the units of REITs and InvITs issued by a single issuer.
9.	Who Will Manage The Scheme	Mr. Vinit Sambre	Mr. Vinit Sambre Mr. Jay Kothari (Dedicated fund manager for overseas investments)
10.	NAV as on January 15, 2018 (in Rs.)	DSP BlackRock Small and Mid Cap Fund - Regular Plan - Dividend - 28.037 DSP BlackRock Small and Mid Cap Fund - Direct Plan - Dividend - 48.240 DSP BlackRock Small and Mid Cap Fund - Direct Plan - Growth - 61.916 DSP BlackRock Small and Mid Cap Fund - Regular Plan - Growth - 59.727	
11.	No. of folios as on January 15, 2018	Direct Plan: 55,953 Regular Plan: 395,936	
12.	AUM as on January 15, 2018 (in crores)	Direct Plan: 666.04 Regular Plan: 5005.90	

Apart from above, there will be no change in any other features of the Scheme.

EXIT OPTION

As the above proposal is a change in Fundamental Attributes of the Scheme, in accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 read alongwith SEBI Circular no. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017 and Circular no. SEBI/HO/IMD/DF3/CIR/P/2017/126 dated December 4, 2017 , 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 February 14, 2018 till March 15, 2018 (both days inclusive and upto 3.00 pm on March 15, 2018) 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.dspblackrock.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 March 16, 2018.

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.

Unit Holders 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 BlackRock 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.dspblackrock.com.**

We look forward to your continued support.

BOOK POST

Yours sincerely,

For and on behalf of
DSP BlackRock Trustee Company Pvt. Ltd.
Sd/-
Director

If undelivered, please return to:
DSP BlackRock Mutual Fund
Computer Age Management Services Pvt Ltd
Uttam Building, 2nd Floor, New No 24/22 & Old No 38 and 39
Whites Road, Royapettah, Chennai 600 014.