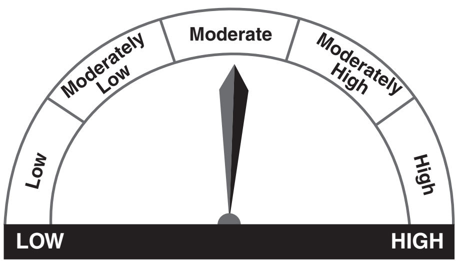
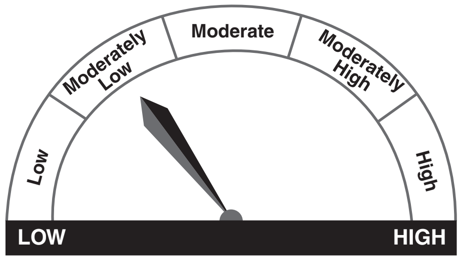
October 05, 2017

Dear Valued Unitholder,

Re: Change in Fundamental Attributes of Aditya Birla Sun Life Government Securities Fund – Long Term Plan

Thank you for choosing Aditya Birla Sun Life Mutual Fund ("the Fund") as your investment partner. We truly appreciate your trust in us.

We would like to inform you that in accordance with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and in terms of the enabling provisions of the Scheme Information Document ("SID"), Aditya Birla Sun Life Trustee Private Limited (Trustee to the Fund) has approved to change the following features of Aditya Birla Sun Life Government Securities Fund - Long Term Plan - An open-ended Gilt Scheme,("the Scheme") with effect from **Tuesday, November 07, 2017:**

Sr. No.	Features	Existing Provisions	Revised Provisions (w.e.f November 07, 2017)
1.	**Scheme Name**	Aditya Birla Sun Life Government Securities Fund - Long Term Plan- An Open ended Gilt Scheme	Aditya Birla Sun Life Banking & PSU Debt Fund - An open-ended Income scheme
2.	**Type of Scheme**	An open- ended Gilt Scheme	An open-ended Income scheme
3.	**Product labeling**	This product is suitable for investors who are seeking: • Income with capital growth over medium to long term • investments exclusively in Government Securities  Investors understand that their principal will be at **moderate** risk Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	This product is suitable for investors who are seeking: • Generation of reasonable returns and liquidity over short term • investment primarily in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions in India  Investors understand that their principal will be at **moderately Low** risk Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
4.	**Investment Objective**	The objective of the scheme is to provide investors current income consistent with a portfolio invested 100% in securities issued by the Government of India or the State Government and the secondary objective is capital appreciation	To generate reasonable returns by primarily investing in debt and money market securities that are issued by Banks, Public Sector Undertakings (PSUs) and Public Financial Institutions (PFIs) in India. **The Scheme does not guarantee/indicate any returns. There can be no assurance that the scheme' objectives will be achieved**

<table>
<tr><th>Sr. No.</th><th>Features</th><th>Existing Provisions</th><th>Revised Provisions (w.e.f November 07, 2017)</th></tr>
<tr><td>5.</td><td>Asset Allocation</td><td>
Under normal circumstances, the asset allocation pattern shall be as under:
(% age of net assets)
<table>
<tr><th>Instruments</th><th>Maximum Exposure</th><th>Credit Risk Profile</th></tr>
<tr><td>Government of India dated Securities</td><td>100%</td><td>Sovereign</td></tr>
<tr><td>State governments dated Securities</td><td>100%</td><td>Low</td></tr>
<tr><td>Government of India Treasury Bills</td><td>100%</td><td>Sovereign</td></tr>
</table>
The Scheme is not a Money Market Mutual Funds scheme as defined by the RBI.
In addition to the securities stated in the table above, the Scheme may enter into repos/reverse repos in the securities that it will invest in or as may be permitted by the RBI. From time to time the Scheme may hold cash. A part of the net assets may be invested in the call money market or in an alternative investment for the call money market as may be provided by the RBI to meet the liquidity requirements. The Scheme reserves the right to invest in newer investment products subject to approval of the Trustee Company and in compliance with the applicable
SEBI Regulations. Investments may be made as primary market offers, auctions, secondary market purchases, private placements or negotiated investments. Individual investments may have tenors that vary from short-term (i.e. less than one year) to long-term (i.e. ten years or more).
The scheme may also invest upto 100% of the portfolio (i.e. net assets including cash) in such derivative instruments as may be introduced from time to time subject to framework specified by SEBI, for the purpose of hedging and portfolio balancing and other uses as may be permitted under SEBI Regulations.
The portion of the Scheme's portfolio invested in each type of security will vary in accordance with economic conditions, interest rates, liquidity and other relevant considerations, including the risks associated with each investment. Performance will depend on the Asset Management Company's ability to assess accurately and react to changing market conditions
</td><td>
Under normal circumstances, the asset allocation pattern shall be as under:
(% age of net assets)
<table>
<tr><th>Instruments</th><th>Risk Profile</th><th>Asset Allocation</th></tr>
<tr><td>Debt * and Money Market Instruments, issued by Scheduled Commercial Banks, Public Sector Undertakings (PSUs) & Public Financial Institutions (PFIs)</td><td>Medium to High</td><td>80% -100%</td></tr>
<tr><td>Debt* (including government securities) and Money Market Instruments issued by entities other than the above @</td><td>Low to Medium</td><td>0 - 20%</td></tr>
</table>
*Including investments in securitized debt up to 50% of the net assets except foreign securitized debt.
@The non- banking, non PSU part of the portfolio will have exposure to companies from the private sector.
Public sector entities/undertakings to include those entities,
• In which the Government of India / a State Government has atleast 51% shareholding.
• notified / qualifies as public sector entities, in accordance with norms / notified by Government of India / a State Government
• The debt of which is guaranteed by Government of India / a State Government.
Public Financial Institution" means -
(i) the Life Insurance Corporation of India, established under section 3 of the Life Insurance Corporation Act, 1956;
(ii) the Infrastructure Development Finance Company Limited, referred to in clause (vi) of sub-section (1) of section 4A of the Companies Act, 1956 so repealed under section 465 of this Act;
(iii) specified company referred to in the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002;
(iv) institutions notified by the Central Government under sub-section (2) of section 4A of the Companies Act, 1956 so repealed under section 465 of this Act;
(v) such other institution as may be notified by the Central Government in consultation with the Reserve Bank of India:
Provided that no institution shall be so notified unless -
(A) it has been established or constituted by or under any Central or State Act; or
(B) not less than fifty-one per cent of the paid-up share capital is held or controlled by the Central Government or by any State Government or
</td></tr>
</table>

Sr. No.	Features	Existing Provisions	Revised Provisions (w.e.f November 07, 2017)
5.	**Asset Allocation**		Governments or partly by the Central Government and partly by one or more State Governments; The scheme will invest in State Development Loans and UDAY Bonds issued by PSU & PFI as mentioned above Banks will include all scheduled commercial banks which are regulated by Reserve Bank of India. The scheme may use fixed income derivative upto 50% of the net assets, for the purpose of hedging and portfolio rebalancing or to undertake any other strategy as permitted under SEBI (MF) Regulations from time to time The scheme shall participate in repo transactions The gross exposure to repo transactions in corporate debt securities shall not be more than 10 % of the net assets. In terms of provisions of SEBI circular no. CIR / IMD / DF / 19 / 2011 dated November 11, 2011 read with SEBI circular no. CIR / IMD / DF / 23 / 2012 dated November 15, 2012, Repo in Corporate debt securities shall be in accordance with guidelines as prescribed by the Board of Directors of the Aditya Birla Sun Life AMC Limited and Aditya Birla Sun Life Trustee Private Limited, subject to directions issued by RBI and SEBI from time to time. The cumulative gross exposure in debt and money market instruments and derivative positions shall not exceed 100% of the net assets of the scheme. The scheme shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months. The scheme shall not invest in Foreign Securities and Credit Default Swaps. The scheme shall not engage in short selling and securities lending activities.
6.	**Investment Strategy**	A portfolio invested in GSecs or state government securities is normally associated with an investment strategy in the debt markets that is free of credit risk (i.e. the risk of default by the issuer). Investments may also be made in the call market or in an alternative investment to the call market as may be directed by the RBI. Income may be generated through the receipt of coupon payments, the amortization of the discount on debt instruments or the purchase and sale of securities in the underlying portfolio. The portfolios of the plans may differ in the portfolio allocation to a particular asset class and the issue held as well as in the duration of each portfolio. Long Term Plan will be managed to maximum rupee weighted duration of seven years. The investment plan will, under normal market conditions, invest its net assets as per the asset allocation hereunder. The Fund Manager will review the portfolio for adherence with the above rupee weighted duration norms and rebalance the same within 30 days to conform to the above limits. It is the intention of the Scheme to avail itself of the liquidity support from the RBI extended to mutual funds dedicated to investments in government	The Scheme will invest in securities issued by banks and financial institutions across maturities with an intention to offer reasonable level of yields at lower levels of risk while maintaining sufficient portfolio liquidity. The fund manager will focus on credit quality as an important criterion for investment decision making. The Scheme will typically invest in short to medium term securities and as a result significant proportion of the total returns is likely to be in the form of income yield or accrual. The general maturity range for the portfolio will be determined after considering the prevailing political conditions, the economic environment (including interest rates and inflation), the performance of the corporate sector and general liquidity as well as other considerations in the economy and markets.

Sr. No.	Features	Existing Provisions	Revised Provisions (w.e.f November 07, 2017)
6.	**Investment Strategy**	securities via circular IDMC.No.2741/03.01.00/95-96 dated April 20, 1996 as amended from time to time. Further, non-Government Provident Funds, Superannuation Funds, Gratuity Funds and Pension Funds through its investments in government securities may invest in the Scheme.	
7.	**Benchmark**	I Sec Li-Bex	CRISIL Short Term Bond Fund Index

The above modifications (other than change in Scheme Name, Investment Strategy and Benchmark) are changes in the Fundamental Attributes of the Scheme as per Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996.

Apart from above, the other features and terms & conditions of the Scheme will remain unchanged and all references to the above modifications shall be suitably incorporated in the SID and KIM 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, the existing unitholders (i.e. whose names appear in the register of unitholders as on close of business hours on October 05, 2017) under the scheme are hereby given an option to exit, **i.e. either redeem their investments or switch their investments to any other schemes of Aditya Birla Sun Life Mutual Fund,** within the 30 days exit period starting **from October 07, 2017 till November 06, 2017 (both days inclusive and upto 3.00 pm on November 06, 2017)** at Applicable NAV, without payment of any exit load.

Thus, all the applications for redemptions/switch-outs received under the Scheme shall be processed at Applicable NAV of the day of receipt of such redemption / switch request, without payment of any exit load, provided the same is received during the exit period of 30 days mentioned above. Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges / encumbrances prior to the submission of redemption/ switch requests. Unitholders should ensure that their change in address or pay-out bank details are updated in records of Aditya Birla Sun Life Mutual Fund as required by them, prior to exercising the exit option for redemption of units. The redemption proceeds shall be despatched within 10 business days of receipt of valid redemption request to those unitholders who choose to exercise their exit option.

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

☛ RATIONALE

- A fund having exposure to good quality corporate credits is expected to have higher demand and better performance capability going forward as compared to a government securities oriented fund. Hence, repositioning will aid in scaling up the assets as well as the investor base of the scheme;
- Over the past few years, Government Securities category has been relatively sluggish and the narrow investment universe doesn't warrant having multiple schemes in the category.
- After taking into consideration the price sensitivity of this asset class, we feel that it is not a very sustainable asset class in light of the increased volatility that markets are expected to structurally undergo. Further, high rated corporate bonds could provide better yield with moderate risk.

- Proposed modification will allow the fund to retain the conservative credit character yet allowing it to offer investors corporate spreads (AAA over G Sec) without being subjected to increased volatility.

The proposed modification of the Scheme is expected to lead to the following benefits:

- Repositioning will help scale the surviving scheme, which has not seen any major inflows during last couple of years;
- The repositioned scheme will have a differentiated investment objective and mandate as compared to the existing fixed income schemes; and
- Repositioning to the new theme / focus, allows the scheme to retain the conservative credit character yet allowing it to offer investors corporate spreads (AAA over G Sec).

☛ SCHEME DETAILS

To enable you to take an informed decision and understand the Scheme better, please find the following details pertaining to the scheme (Data as on September 29, 2017):

- Portfolio statement of the scheme **(Refer 'Annexure A')**
- Performance of the scheme **(Refer 'Annexure B')**
- Current norms/guidelines for participating in Repo in Corporate debt securities **(Annexure C)**
- Disclosures with respect to making Investments in Securitised Debt **(Annexure D)**

Expense Ratio	Regular Plan - 1.50%; Direct Plan - 0.87%
Folios	3382
Assets Under Management (AUM)	Rs. 592.79 crores

The Notice-cum-Addendum informing the details of the modification is published in newspapers and uploaded on our website www.birlasunlife.com. We request you to go through the same.

☛ 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 with our Investor Service Centres and on our website www.birlasunlife.com

It may be noted that the offer to exit is purely optional and is not compulsory.

Alternatively, you can continue to remain invested in the Scheme. In that case, no action is required by you and Unitholders who do not exercise the exit option by 3.00 p.m. on **November 06, 2017** would be deemed to have consented to the above proposal.

Aditya Birla Sun Life AMC Ltd / Aditya Birla Sun Life Mutual Fund would like the unitholders to remain invested in the Scheme. Also, please note that in case you choose to continue with your investments in the aforesaid scheme, there shall be no tax implications arising out of the above proposal.

☛ CONTACT US

If you have any further queries regarding your investments you can -

- Write in at connect@birlasunlife.com
- Visit your nearest Investor Service Centres (ISCs). To locate your nearest ISC we request you to visit www.birlasunlife.com.

Thanking you once again and looking forward to a long and enduring relationship.

For Aditya Birla Sun Life AMC Ltd.

(Investment Manager for Aditya Birla Sun Life Mutual Fund)

sd/-

Authorised Signatory

Annexure A

Aditya Birla Sun Life Government Securities Fund-Long Term Plan

Monthly Portfolio Statement as on September 29, 2017

Name of the Instrument	ISIN	Industry^/ Rating	Quantity	Market/ Fair Value (Rs. in Lacs)	% to Net Assets
Government Securities					
6.79% GOI (MD 15/05/2027)	IN0020170026	SOV	48,000,000.00	48,422.40	81.63%
7.68% GOI (MD 15/12/2023)	IN0020150010	SOV	5,500,000.00	5,744.99	9.69%
6.84% GOI (MD 19/12/2022)	IN0020160050	SOV	2,000,000.00	2,015.52	3.40%
6.79% GOI (MD 26/12/2029)	IN0020160118	SOV	63,500.00	62.74	0.11%
8.30% GOI (MD 02/07/2040)	IN0020100031	SOV	300.00	0.33	$0.00%
7.98% Telangana UDAY BOND (MD 07/03/2030)	IN4520160230	SOV	500,000.00	519.37	0.88%
7.81% Telangana UDAY BOND (MD 07/03/2027)	IN4520160206	SOV	500,000.00	511.33	0.86%
Total				**57,276.69**	**96.56%**
CBLO / Reverse Repo					
Clearing Corporation of India Ltd				2,039.92	3.44%
Sub Total				**2,039.92**	**3.44%**
GRAND TOTAL				**59,316.61**	**100.00%**

$ Less Than 0.01% of Net Asset Value

^Industry classification as recommended by AMFI and wherever not available, internal classification has been used

Scheme Performance (Returns as on September 29, 2017)

NAVs as on September 29, 2017

Regular Plan - Rs. 50.19

Direct Plan - Rs. 51.48

Period	Scheme Returns (%)		I-SEC Li-Bex# Returns (%)	
	Direct	Regular	Direct	Regular
1 Year	5.53	4.89	6.86	6.86
3 Year	11.14	10.41	12.06	12.06
5 Year	-	9.06	-	10.32
Since Inception	9.42	9.41	10.01	8.85

Past performance may or may not be sustained in the future

12 month performance for last 3 Financial Years

Particulars	April 01, 2016 - March 31, 2017	April 01 2015 - March 31, 2016	April 01, 2014 - March 31, 2015	Since inception (CAGR %)	Growth of Rs.10000 (Absolute) Rs.
Regular	10.75	5.84	18.14	9.41	11075
Direct	11.45	6.64	18.60	9.42	11145
I-SEC Li-Bex #	12.47	7.24	19.88	-	11247
10 Year GOI##	11.87	7.97	14.57	-	11187

Past performance may or may not be sustained in the future

Returns are of Growth Option

Since Inception Date : Regular Plan- October 28, 1999 Direct Plan- January 01, 2013

Scheme Benchmark ## Additional Benchmark

Norms/guidelines for participating in Repo in Corporate debt securities

In terms of provisions of SEBI circular no. CIR / IMD / DF / 19 / 2011 dated November 11, 2011 read with SEBI circular no. CIR / IMD / DF / 23 / 2012 dated November 15, 2012, Repo in Corporate debt securities shall be in accordance with guidelines as prescribed by the Board of Directors of the Aditya Birla Sun Life AMC Limited and Aditya Birla Sun Life Trustee Private Limited, subject to directions issued by RBI and SEBI from time to time.

Currently, such investments shall be governed by the following norms/guidelines:

- The gross exposure to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the scheme.
- The cumulative gross exposure through repo transactions in corporate debt securities along with corporate debt and money market instruments and derivative positions shall not exceed 100% of the net assets of the scheme.
- The Mutual Fund shall participate in repo transactions only in AA or equivalent and above rated corporate debt securities.
- The details of repo transactions of the Scheme in corporate debt securities, including details of counterparties, amount involved and percentage of NAV shall be disclosed to investors in the half yearly portfolio statements and to SEBI in the half yearly trustee report.
- In terms of Regulation 44 (2) of the SEBI (MF) Regulations, the scheme shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.
- **Eligible Counterparties:**
  a. Any scheduled commercial bank excluding RRBs and LABs;
  b. Any Primary Dealer authorised by the Reserve Bank of India;
  c. Any nonbanking financial company registered with the Reserve Bank of India (other than Government companies as defined in subsection (45) of section 2 of the Companies Act, 2013);
  d. All India Financial Institutions, namely, Exim Bank, NABARD, NHB and SIDBI;
  e. India Infrastructure Finance Company Limited;
  f. Any scheduled urban cooperative bank subject to adherence to conditions prescribed by Reserve Bank of India;
  g. Other regulated entities, subject to the approval of the regulators concerned, viz.,
     i. Any mutual fund registered with the Securities and Exchange Board of India;
     ii. Any housing finance company registered with the National Housing Bank; and
     iii. Any insurance company registered with the Insurance Regulatory and Development Authority
  h. Any other entity specifically permitted by the Reserve Bank.
- **Credit Rating of Counterparty:** Category of Counterparty and Credit Rating of counterparty that schemes shall enter into lending via Repo shall be only in Investment Grade counterparties which are part of approved Debt Universe with approved Credit Limits.
- **Tenor:**

  In case of investment in repos in corporate debt securities, the tenor of the transaction may range from a minimum period of one day to a maximum period of one year.

- **Haircut:**

  A haircut shall be applicable on the market value of the corporate debt security prevailing on the date of trade of 1st leg, depending upon the rating of the underlying security.

  Applicable Minimum Haircut on the underlying security as prescribed by RBI guidelines:

Rating of the Security	AAA/A1	AA+/A2+	AA/A2
Minimum Haircut	7.50%	8.5%	10%

- **Risk Factors Associated with investments in repo transactions in corporate debt securities:**

  In repo transactions, also known as a repo or sale repurchase agreement, securities are sold with the seller agreeing to buy them back at later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest. A repo is economically similar to a secured loan, with the buyer receiving corporate debt securities as collateral to protect against default. The Scheme may invest in repo of corporate debt securities which are subject to the following risks:

  (i) **Counterparty Risk:** This refers to the inability of the seller to meet the obligation to buy back securities at the contracted price on the contracted date. The Investment Manager will endeavour to manage counterparty risk by dealing only with counterparties, having strong credit profiles, approved by our credit risk analysis team. The exposure to each counterparty will be within the overall approved credit limits. Also the counter-party risk is to an extent mitigated by taking collateral equivalent in value to the transaction after knocking off a minimum haircut on the intrinsic value of the collateral. In the event of default by the repo counterparty, the scheme shall have recourse to the corporate debt securities.

  (ii) **Collateral Risk:** Collateral risk arises when the market value of the securities is inadequate to meet the repo obligations. This risk is mitigated by restricting participation in repo transactions only in AA or equivalent and above rated money market and corporate debt securities. Any rating downgrade will tantamount to either an early termination of the repo agreement or a call for fresh margin to meet the minimum haircut requirement. In addition, the Investment manager may apply a higher haircut on the underlying security than mentioned above to adjust for the illiquidity and interest rate risk on the underlying instrument. The adequacy of the collateral will be monitored on a daily basis by considering the daily market value & applying the prescribed haircut. The fund manager shall then arrange for additional collateral from the counterparty, within a period of 1 business day. If the counterparty is not able to top-up either in form of cash / collateral, it shall tantamount to early termination of the repo agreement.

Disclosures with respect to making Investments in Securitised Debt:

1. **How the risk profile of securitized debt fits into the risk appetite of the scheme**

   Securitized Debt is a financial instrument (bond) whose interest and principal payments are backed by an underlying cash flow from another asset. The asset may be either a loan to a single counterparty or a pool of loans. The Scheme aim to invest in a portfolio of corporate debt securities maturing on or before the maturity of the Scheme. In this scheme the Fund manager ensures that the Scheme maturity matches the maturity of the underlying securities and as securitised debt instruments are relatively illiquid the fund manager buys these with the view to hold them till maturity. Thus, In line with the investment strategy of the Scheme and considering that there would be no intermediate redemption pressures for the Fund Manager, the Scheme may take exposure to rated Securitized Debt. Credit assessment of the underlying asset or loans is done to evaluate if it meets internal norms set by the AMC.

   Investment in these instruments will help the Scheme in aiming at reasonable returns. These returns come with a certain degree of risks which are covered separately in the Scheme Information Document. Accordingly, the risk profile of the securitised debt instruments matches that of the prospective investors of this Scheme and hence can be considered in the fund universe.

2. **Policy relating to originators based on nature of originator, track record, NPAs, losses in earlier securitized debt, etc**

   A securitization transaction involves sale of receivables by the originator (a bank, non-banking finance company, housing finance company, or a manufacturing/service company) to a Special Purpose Vehicle (SPV), typically set up in the form of a trust. Investors are issued rated Pass Through Certificates (PTCs), the proceeds of which are paid as consideration to the originator. In this manner, the originator, by selling his loan receivables to an SPV, receives consideration from investors much before the maturity of the underlying loans. Investors are paid from the collections of the underlying loans from borrowers. Typically, the transaction is provided with a limited amount of credit enhancement (as stipulated by the rating agency for a target rating), which provides protection to investors against defaults by the underlying borrowers.

   The scheme will invest in instruments of the originator only if the originator has an investment grade rating. Over and above the credit rating assigned by credit rating agencies to the originator, BSLMF will conduct an additional evaluation on

   - Previous track record on origination, servicing and performance of existing pools
   - 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
     - Originator/Pool specific factors

   In addition a detailed review and assessment of rating rationale is done including interactions with the company as well as agency. For single loan PTC, credit evaluation of the underlying corporate will be carried out as with any other debt instruments.

3. **Risk mitigation strategies for investments with each kind of originator**

   In terms of specific risks attached to securitization, each asset class would have different underlying risks, however, residential mortgages are supposed to be having lower default rates as an asset class. On the other hand, repossession and subsequent recovery of commercial vehicles and other auto assets is fairly easier and better compared to mortgages. Some of the asset classes such as personal loans, credit card receivables etc., being unsecured credits in nature, may witness higher default rates. As regards corporate loans/receivables, depending upon the nature of the underlying security for the loan or the nature of the receivable the risks would correspondingly fluctuate. However, the credit enhancement stipulated by rating agencies for such asset class pools is typically much higher, which helps in making their overall risks comparable to other AAA rated asset classes.

The Scheme may invest in securitized debt assets. The asset may be either a loan to a single counterparty or a pool of loans. The Scheme intends to invest in securitized instruments rated by a SEBI recognized credit rating agency. In addition, some specific risk mitigation measures will include:

Limited Recourse and Credit Risk: Certificates issued on investment in securitized debt represent a beneficial interest in the underlying receivables and there is no obligation on the issuer, seller or the originator in that regard. Defaults on the underlying loan can adversely affect the pay outs to the investors (i.e. the Scheme) and thereby, adversely affect the NAV of the Scheme.

<u>Risk Mitigation:</u> In addition to careful scrutiny of credit profile of borrower/pool additional security in the form of adequate cash collaterals and other securities may be obtained to ensure that they all qualify for similar rating.

Bankruptcy Risk: If the originator of securitized debt instruments in which the Scheme invests is subject to bankruptcy proceedings and the court in such proceedings concludes that the sale of the assets from originator to the trust was not a 'true sale', and then the Scheme could experience losses or delays in the payments due.

<u>Risk Mitigation:</u> Normally, specific care is taken in structuring the securitization transaction so as to minimize the risk of the sale to the trust not being construed as a 'true sale'. It is also in the interest of the originator to demonstrate the transaction as a true sell to get the necessary revenue recognition and tax benefits.

Limited Liquidity and Price risk

Presently, secondary market for securitized papers is not very liquid. There is no assurance that a deep secondary market will develop for such securities. This could limit the ability of the investor to resell them. Even if a secondary market develops and sales were to take place, these secondary transactions may be at a discount to the initial issue price due to changes in the interest rate structure.

<u>Risk Mitigation:</u> Securitized debt instruments are relatively illiquid in the secondary market and hence they are generally held to maturity. The liquidity risk and HTM nature is taken into consideration at the time of analyzing the appropriateness of the securitization.

Risks due to possible prepayments: Weighted Tenor / Yield

Asset securitization is a process whereby commercial or consumer credits are packaged and sold in the form of financial instruments Full prepayment of underlying loan contract may arise under any of the following circumstances;

- Obligor pays the Receivable due from him at any time prior to the scheduled maturity date of that Receivable; or
- Receivable is required to be repurchased by the Seller consequent to its inability to rectify a material misrepresentation with respect to that Receivable; or
- The Servicer recognizing a contract as a defaulted contract and hence repossessing the underlying Asset and selling the same
- In the event of prepayments, investors may be exposed to changes in tenor and yield.

Risk Mitigation: A certain amount of prepayments is assumed in the calculations at the time of purchase based on historical trends and estimates. Further a stress case estimate is calculated and additional margins are built in.

Bankruptcy of the Investor's Agent: If Investor's agent becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that the recourse of Investor's Agent to the assets/receivables is not in its capacity as agent/Trustee but in its personal capacity, then an Investor could experience losses or delays in the payments due under the swap agreement.

Risk Mitigation: All possible care is normally taken in structuring the transaction and drafting the underlying documents so as to provide that the assets/receivables if and when held by Investor's Agent is held as agent and in Trust for the Investors and shall not form part of the personal assets of Investor's Agent.

4. The level of diversification with respect to the underlying assets, and risk mitigation measures for less diversified investments

Framework that will be applied while evaluating investment decision relating to a pool securitization transaction:

Characteristics/ Type of Pool	Mortgage Loan	Commercial Vehicle & Construction Equipment	Car	Two Wheeler	Micro Finance Pools	Personal Loans	Single Sell Downs	Others
Approx. Avg Maturity	60-120 Months	12-48 Months	12–48 Months	12-24 Months	12 Months	12-36 Months	NA	NA
Collateral Margin (incl. Cash, Guarantees, Excess Interest Spread, Subordinate Tranche)	5-20%	5-20%	5-20%	5-20%	10-30%	10-30%	NA	NA
Avg Loan to Value Ratio	< 90%	< 90%	< 90%	< 90%	NA	NA	NA	NA
Avg Seasoning of the Pool	6-12 Months	3-6 Months	3-6 Months	3-6 Months	3-12 Weeks	1-3 Months	0-3 Months	NA
Max. Single Exposure Range	3-4%	3-4%	Retail	Retail	Retail	Retail	NA	NA
Avg Single Exposure Range %	1-1.5%	1.5-2%	Retail	Retail	Retail	Retail	NA	NA

Information illustrated in the Table above, is based on the current scenario relating to Securitized Debt market and is subject to change depending upon the change in the related factors.

We endeavor to consider some of the important risk mitigating factors for securitized pool i.e.

- Average original maturity of the pool: based on different asset classes and current market practices
- Collateral margin including cash collateral and other credit enhancements
- Loan to Value Ratio
- Average seasoning of the pool, which is a key indicator of past pool performance
- Default rate distribution
- Geographical Distribution
- Maximum single exposure: Retail pools (passenger cars, 2-wheelers, Micro finance, personal loans, etc) are generally well diversified with maximum and average single exposure limits within 1%.

As illustrated above, these factors vary for different asset classes and would be based on interactions with each originator as well as the credit rating agency.

5. **Minimum retention period of the debt by originator prior to securitization**

   The Mutual Fund will follow the guidelines on minimum holding period requirements as laid down by SEBI and RBI from time to time.

6. **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.

7. **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**

   Investments made by the scheme in any asset are done based on the requirements of the scheme and is in accordance with the investment policy. All Investments are made entirely at an arm's length basis with no consideration of any existing / consequent investments by any party related to the transaction (originator, issuer, borrower etc.). Investments made in Securitized debt are made as per the Investment pattern of the Scheme and are done after detailed analysis of the underlying asset. There might be instances of Originator /obligor investing in the same scheme but both the transactions are at arm's length and avoid any conflict of interest. In addition to internal controls in the fixed income investment process, there is regular monitoring by the compliance team, risk management group, and internal review teams. Normally the issuer who is securitizing instrument is in need of money and is unlikely to have long term surplus to invest in mutual fund scheme.

8. **In general, the resources and mechanism of individual risk assessment with the AMC for monitoring investment in securitized debt**

   The risk assessment process for securitized debt, as detailed in the preceding paragraphs, is same as any other credit. The investments in securitized debt are done after appropriate research by credit analyst. The ratings are monitored for any movement. The entire securitized portfolio is published in the fact sheet and disclosed in the web site for public consumption with details of underlying exposure and originator.