

RISKS IN MUTUAL FUNDS

STANDARD RISK FACTORS

- Mutual Fund Schemes are not guaranteed or assured return products.
- Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.
- As the price / value / interest rates of the securities in which the Scheme invests fluctuates, the value of investment in a mutual fund Scheme may go up or down.
- In addition to the factors that affect the value of individual investments in the Scheme, the NAV of the Scheme may fluctuate with movements in the broader equity and bond markets and may be influenced by factors affecting capital and money markets in general, such as, but not limited to, changes in interest rates, currency exchange rates, changes in Government policies, taxation, political, economic or other developments and increased volatility in the stock and bond markets.
- Past performance does not guarantee future performance of any Mutual Fund Scheme

SPECIFIC RISK FACTORS

Risks associated with investments in Equities

Risk of losing money:

Investments in equity and equity related instruments involve a degree of risk and investors should not invest in the equity schemes unless they can afford to take the risk of possible loss of principal.

Price Risk:

Equity shares and equity related instruments are volatile and prone to price fluctuations on a daily basis.

Liquidity Risk for listed securities:

The liquidity of investments made in the equities may be restricted by trading volumes and settlement periods. Settlement periods may be extended significantly by unforeseen circumstances. While securities that are listed on the stock exchange carry lower liquidity risk, the ability to sell these investments is limited by the overall trading volume on the stock exchanges. The inability of a mutual fund to sell securities held in the portfolio could result in potential losses to the scheme, should there be a subsequent decline in the value of securities held in the scheme portfolio and may thus lead to the fund incurring losses till the security is finally sold.

Event Risk:

Price risk due to company or sector specific event.

Risks Associated with investment in Debt Securities and Money Market Instruments

Debt Securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligation (Credit Risk) on the due date(s) and may also be subject to price volatility due to such factors as interest rate

sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (Market Risk).

The timing of transactions in debt obligations, which will often depend on the timing of the Purchases and Redemptions in the Scheme, may result in capital appreciation or depreciation because the value of debt obligations generally varies inversely with the prevailing interest rates.

Interest Rate Risk

Market value of fixed income securities is generally inversely related to interest rate movement. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. Accordingly, value of a scheme portfolio may fall if the market interest rate rise and may appreciate when the market interest rate comes down. The extent of fall or rise in the prices depends upon the coupon and maturity of the security. It also depends upon the yield level at which the security is being traded.

Credit Risk

This is risk associated with default on interest and /or principal amounts by issuers of fixed income securities. In case of a default, scheme may not fully receive the due amounts and NAV of the scheme may fall to the extent of default. Even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer. It may be mentioned here that a government security is a sovereign security and is safer. Corporate bonds carry a higher amount of credit risk than government securities. Within corporate bonds also there are different levels of safety and a bond rated higher by a rating agency is safer than a bond rated lower by the same rating agency.

Spread Risk

Credit spreads on corporate bonds may change with varying market conditions. Market value of debt securities in portfolio may depreciate if the credit spreads widen and vice versa. Similarly, in case of floating rate securities, if the spreads over the benchmark security / index widen, then the value of such securities may depreciate.

Liquidity Risk

Liquidity risk refers to the ease with which securities can be sold at or near its valuation yield-to-maturity (YTM) or true value. Liquidity condition in market varies from time to time. The liquidity of a bond may change, depending on market conditions leading to changes in the liquidity premium attached to the price of the bond. In an environment of tight liquidity, necessity to sell securities may have higher than usual impact cost. Further, liquidity of any particular security in portfolio may lessen depending on market condition, requiring higher discount at the time of selling.

The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of some of these investments. Different segments of the Indian financial markets have different settlement periods, and such periods may be extended significantly by unforeseen circumstances. Further, delays in settlement could result in temporary periods when a portion of the assets of the Scheme are not invested and no return is earned thereon or the Scheme may miss attractive investment opportunities.

At the time of selling the security, the security may become illiquid, leading to loss in value of the portfolio. The purchase price and subsequent valuation of restricted and illiquid securities may reflect a discount, which may be significant, from the market price of comparable securities for which a liquid market exists.

Counterparty Risk

This is the risk of failure of the counterparty to a transaction to deliver securities against consideration received or to pay consideration against securities delivered, in full or in part or as per the agreed specification. There could be losses to the fund in case of a counterparty default.

Prepayment Risk

This arises when the borrower pays off the loan sooner than the due date. This may result in a change in the yield and tenor for the mutual fund scheme. When interest rates decline, borrowers tend to pay off high interest loans with money borrowed at a lower interest rate, which shortens the average maturity of Asset-backed securities (ABS). However, there is some prepayment risk even if interest rates rise, such as when an owner pays off a mortgage when the house is sold or an auto loan is paid off when the car is sold. Since prepayment risk increases when interest rates decline, this also introduces reinvestment risk, which is the risk that the principal may only be reinvested at a lower rate.

Re-investment Risk

Investments in fixed income securities carry re-investment risk as the interest rates prevailing on the coupon payment or maturity dates may differ from the original coupon of the bond (the purchase yield of the security). This may result in final realized yield to be lower than that expected at the time

The additional income from reinvestment is the "interest on interest" component. There may be a risk that the rate at which interim cash flows can be reinvested are lower than that originally assumed.)