

## **Risk factors**

### **General risk factors**

- a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.
- b. The Portfolio Manager has commenced its portfolio management activities with effect from January 2011. However, past performance of the Portfolio Manager or its affiliates does not indicate its future performance.
- c. Investors are not being offered any guaranteed or assured returns i.e. either of principal or appreciation on the Portfolio.
- d. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.
- e. The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.
- f. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.

### **Specific risk factors**

The product portfolios offered by the Portfolio Manager are subject to the following risk factors:

- a. The Client's investment with the Portfolio Manager shall be subject to the terms and conditions mentioned in the Agreement. Liquidity would be restricted in case of fixed term portfolios.
- b. Investors may note that the Portfolio Manager's investment decisions may not always be profitable, as actual market movements may be at variance with anticipated trends.
- c. The liquidity of the Portfolio's investments is inherently restricted by trading volumes in the securities in which it invests, settlement periods and transfer procedures in the equity and debt markets. Different segments of the financial markets have different settlement periods and such periods may be extended significantly due to unforeseen circumstances. The inability of a Portfolio to make intended securities purchase due to settlement problems could cause the Portfolio to miss certain investment opportunities. Similarly, the inability to sell securities held in the portfolio due to absence of a well developed and liquid secondary market would at times result in potential losses in the Portfolio, in case of a subsequent decline in the value of securities held in the Portfolio.
- d. Investments in equity and equity related securities involve high degree of risks and the Clients should not place funds with the Portfolio Manager to invest unless they can afford to take the risk of losing their investment.
- e. The Portfolio is also vulnerable to movements in the prices of securities invested in, which again could have a material bearing on the overall returns from the portfolio.
- f. The valuation of the Portfolio's investments may be affected generally by factors affecting the securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the government, taxation laws or policies of any other appropriate authority and other political and economic developments and closure of stock exchanges which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets. Consequently, the value of the Portfolio may fluctuate and can go up or down.

- g. 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 in the stock exchanges. Debt and money market securities, while fairly liquid lack well-developed secondary market, which may restrict the selling ability of the Portfolio(s) and may lead to the investment(s) incurring losses till the security is finally sold.
- h. The performance of the Client's portfolio may be adversely affected by the individual company's changes in the market place and industry specific and macro economic factors.
- i. Risk arising from the investment objective, investment strategy and asset allocation: Each portfolio will be exposed to various risks depending on the investment objective, investment strategy and the asset allocation, market risk, political and geopolitical risk and risk arising from changing business dynamics, which may affect portfolio returns. The investment objective, investment strategy and the asset allocation may differ from client to client. However, generally, highly concentrated portfolios with lesser number of stocks will be more volatile than a portfolio with a larger number of stocks. Portfolios with higher allocation to equities will be subject to higher volatility than portfolios with low allocation to equities.
- j. Risk arising out of non-diversification - diversified portfolios (allocated across companies and broad sectors) generally tends to be less volatile than non-diversified portfolios.
- k. At times, portfolios of individual Clients may be concentrated in certain companies/industries. The performance of the portfolios would depend on the performance of such companies / industries / sectors of the economy.
- l. Any policy change / technology change / obsolescence of technology would affect the investments made in a particular industry.
- m. Unrated / lower rated securities: The Portfolio Manager may invest in lower rated / unrated securities offering higher yields. This may increase the risk of the Portfolio. Such investments will be subject to the scope of investments as laid down in the Agreement.
- n. Risk due to participation in securities lending: The Portfolio Manager may subject to the authorization given by the Client in writing, participate in securities lending. In the case of stock lending, risks relate to the defaults from counterparties with regard to securities lent and the corporate benefits accruing thereon, inadequacy of the collateral and settlement risks.
- o. Debt and fixed income securities: Given below are some of the common risks associated with investments in fixed income and money market securities. These risks include but are not restricted to: Interest rate risk: As with all debt securities, changes in interest rates will affect the valuation of the Portfolios, as the prices of securities generally increase as interest rates decline and generally decrease as interest rates rise. Prices of longer-term securities generally fluctuate more in response to interest rate changes than do shorter-term securities. Interest rate movements in the Indian debt markets can be volatile leading to the possibility of large price movements up or down in debt and money market securities and thereby to possibly large movements in the valuation of Portfolios. Liquidity or marketability risk: This refers to the ease at which a security can be sold at or near its true value. The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is characteristic of the Indian fixed income market. Credit risk: Credit risk or default

risk refers to the risk which may arise due to default on the part of the issuer of the fixed income security (i.e. will be unable to make timely principal and interest payments on the security). Because of this risk debentures are sold at a yield spread above those offered on Treasury securities, which are sovereign obligations and generally considered to be free of credit risk. Normally, the value of a fixed income security will fluctuate depending upon the actual changes in the perceived level of credit risk as well as the actual event of default. Reinvestment Risk: This risk refers to the interest rate levels at which cash flows received from the securities under a particular Portfolio are reinvested. The additional income from reinvestment is the "interest on interest" component. The risk refers to the fall in the rate for reinvestment of interim cashflows.

- p. Risks associated with investment in securitised instruments: As with any other debt instrument, the following risk factors have to be taken into consideration while investing in pass through certificate (PTCs): a. Credit risk: Since most of the PTCs are drawn from a cherry picked pool of underlying assets, the risk of delay / default due to poor credit quality is low. Furthermore most of the PTCs enjoy additional cashflow coverage in terms of subordination by another lower class of PTCs or in terms of excess cash collateralisation. b. Liquidity risk: Since the maturity of the PTCs will be in line with the maturity of the Portfolio, the risk arising from low secondary market liquidity of such instruments is low. c. Price risk / interest rate risk: The price risk of these instruments shall be in line with the maturity / duration of such instruments. However given the fact that these instruments will have a maturity profile up to 2 years, the duration risk is relatively less. d. Domestic securitised debt can have different underlying assets and these assets have different risk characteristics. These may be as given in the following example: Security 1 -Backed by receivables of personal loans originated by XYZ Bank. Specific risk factors: Loss due to default and/or payment delay on receivables, premature termination of facility agreements, limited loss cover, delinquency and credit risk, limited liquidity and price risk, originator/collection agent risk, bankruptcy of the originator, co-mingling of funds. Security 2 - senior series pass through certificates backed by commercial vehicles and two-wheeler loan and loan receivables from ABC Bank Limited.
- q. Different types of securities in which the Client's funds would be invested carry different levels and types of risks. Accordingly, the portfolio's risk may increase or decrease depending upon its investment pattern; e.g. corporate bonds carry a higher amount of risk than government securities. Further, even among corporate bonds, bonds which are AAA rated are comparatively less risky than bonds which are AA rated.
- r. Mutual fund risk: This risk arises from investing in units of mutual funds. Risk factors inherent to equities and debt securities are also applicable to investments in mutual fund units. Further, scheme specific risk factors of each such underlying scheme, including performance of their underlying stocks, derivatives instruments, stock lending, off-shore investments etc., will be applicable in the case of investments in mutual fund units. In addition, events like change in fund manager of the scheme, take over, mergers and other changes in status and constitution of mutual funds, foreclosure of schemes or plans, change in government policies could affect performance of the investment in mutual fund units.
- s. The Clients may not be able to avail of securities transaction tax credit benefit and/or tax deduction at source (TDS) credit and this may result in an increased incidence of tax on the Clients. The Client may incur a higher rate of TDS/ dividend distribution tax in case the investments are aggregated.

- t. In case of investments in mutual fund units, the Client shall bear the recurring expenses of the portfolio management services in addition to the expenses of the underlying mutual fund schemes. Hence, the Client may receive lower pre-tax returns compared to what he may receive had he invested directly in the underlying mutual fund schemes in the same proportions.
- u. After accepting the corpus for management, the Portfolio Manager may not get an opportunity to deploy the same or there may be delay in deployment. In such situation the Clients may suffer opportunity loss.

Additional Risks specific to All Seasons Portfolio:

- v. The Portfolio Manager has no previous experience / track record of investments in fixed income instruments and of investments in gold as an asset class.
- w. Risks associated with investment in Gold ETF: The portfolio manager may invest in instruments which have gold as an underlying, under the "All Seasons Portfolio". Gold being an international commodity is affected by both the international price movement of gold and foreign exchange volatility. The domestic gold ETF price is also affected by government tax levies (customs).
- x. Investment in equity of Regulated utilities as a proxy for fixed income may not generate returns in line with fixed income instruments in the short to medium term as market would price such securities as equity instruments with fluctuating equity risk premiums. Thus there could be a deviation which could impact the short to medium term performance of the All Seasons Portfolio.
- y. In case of All Seasons Portfolio as the investments would be in different asset classes, the taxability of each asset class could be different. Any change in the tax structure could have an impact on the post-tax returns of the Client.