RISK FACTORS

1. Standard Risk Factors:

- Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the Fund's objective will be achieved.
- 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 fluctuate, the value of your investment in the scheme may go up or down.
- The NAV of the Scheme's units may be affected by change in the general market conditions, factors and forces affecting capital markets in particular, level of interest rates, various market related factors and trading volumes.
- Past performance of the Sponsor/AMC/Mutual Fund does not guarantee future performance of the scheme.
- The name of the Scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns.
- State Bank of India, the sponsor, is not responsible or liable for any loss resulting from the operation of the scheme beyond the initial contribution of Rs. 5 Lakhs made by it towards setting up the Fund.
- The Scheme is not a guaranteed or assured return scheme

2. Common Scheme Specific Risk Factors

a. The Trustees, AMC, Fund, their directors or their employees shall not be liable for any tax consequences that may arise in the event that the scheme is wound up for the reasons and in the manner provided under the Scheme Information Document (SID) & Statement of Additional Information (SAI).

b. Redemption by the unit holder due to change in the fundamental attributes of the Scheme or due to any other reasons may entail tax consequences. The Trustees, AMC, Fund their directors or their employees shall not be liable for any tax consequences that may arise.

c. The tax benefits described in the SAI & SID are as available under the present taxation laws and are available subject to relevant condition. The information given is included only for general purpose and is based on advice received by the AMC regarding the law and practice currently in force in India and the Investors and Unit Holders should be aware that the relevant fiscal rules or their interpretation may change. As in the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of the investment in the Scheme will endure indefinitely. In view of the individual nature of tax consequences, each Investor / Unit holder is advised to consult his/her/its own professional tax advisor.

d. The Mutual Fund is not assuring any dividend nor is it assuring that it will make any dividend distributions. All dividend distributions are subject to the availability of distributable surplus and would depend on the performance of the scheme.

e. Investments under the scheme may also be subject to the following risks:

I. Investment in equity and equity related instruments:

- Equity and Equity related instruments are volatile in nature and are subject to price fluctuations on daily basis. The volatility in the value of the equity and equity related instruments is due to various micro and macro economic factors affecting the securities markets. This may have adverse impact on individual securities /sector and consequently on the NAV of Scheme.

- The inability of the Scheme to make intended securities purchases due to settlement problems, could cause the Scheme to miss certain investment opportunities as in certain cases, settlement periods may be extended significantly by unforeseen circumstances. Similarly, the inability to sell securities held in the scheme's portfolio may result, at times, in potential losses to the scheme, should there be a subsequent decline in the value of the securities held in the schemes portfolio.

- Trading volumes, settlement periods and transfer procedures may restrict the liquidity of the investments made by the scheme. Different segments of the Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances leading to delays in receipt of proceeds from sale of securities.

- As the liquidity of the investments made by the Scheme could, at times, be restricted by trading volumes and settlement periods, the time taken by the Mutual Fund for redemption of Units may be significant in the event of an inordinately large number of redemption requests or a restructuring of the Scheme. In view of this, the Trustee has the right, in its sole discretion to limit redemptions (including suspending redemptions) under certain circumstances.

- The AMC may invest in unlisted securities that offer attractive yields within the regulatory limit. This may however increase the risk of the portfolio as these unlisted securities are inherently illiquid in nature and carry larger liquidity risk as compared to the listed securities or those that offer other exit options to the investors.

II. Investment in debt:

(a) Credit risk: Credit risk is risk resulting from uncertainty in counterparty's ability or willingness to meet its contractual obligations. This risk pertains to the risk of default of payment of principal and interest. Government Securities have zero credit risk while other debt instruments are rated according to the issuer's ability to meet the obligations.

(b) Liquidity Risk pertains to how saleable a security is in the market. If a particular security does not have a market at the time of sale, then the scheme may have to bear an impact depending on its exposure to that particular security.

(c) Interest Rate risk is associated with movements in interest rate, which depend on various factors such as government borrowing, inflation, economic performance etc. The values of investments will appreciate/depreciate if the interest rates fall/rise.

(d) Reinvestment risk: This risk arises from uncertainty in the rate at which cash flows from an investment may be reinvested. This is because the bond will pay coupons, which will have to be reinvested. The rate at which the coupons will be reinvested will depend upon prevailing market rates at the time the coupons are received.

f. Risks associated with Investing in Foreign Securities

Subject to necessary approvals, some of the schemes may invest in securities in overseas markets, which could be exposed to currency risk, sovereign risk, economic and political risks. Prices of ADR/GDR may not move in consonance with the domestic underlying stock due to currency movements and the prices could also be trading at a discount/premium to the underlying stocks.

a. Currency Risk:

Moving from Indian Rupee (INR) to any other currency entails currency risk. To the extent that the assets of the Scheme will be invested in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by changes in the value of certain foreign currencies relative to the Indian Rupee.

b. Interest Rate Risk:

The pace and movement of interest rate cycles of various countries, though loosely co-related, can differ significantly. Hence by investing in securities of countries other than India, the Scheme stand exposed to their interest rate cycles.

c. Credit Risk:

Investment in Foreign Debt Securities are subject to the risk of an issuer's inability to meet interest and principal payments on its obligations and market perception of the creditworthiness of the issuer. This is substantially reduced since the SEBI (MF) Regulations stipulate investments only in debt instruments with rating not below investment grade by accredited/registered credit rating agency. To manage risks associated with foreign currency and interest rate exposure, the Mutual Fund may use derivatives for efficient portfolio management including hedging and in accordance with conditions as may be stipulated by SEBI/RBI from time to time.

d. Country Risk:

The Country risk arises from the inability of a country, to meet its financial obligations. It is the risk encompassing economic, social and political conditions in a foreign country, which might adversely affect foreign investors' financial interests. In addition, country risks would include events such as introduction of extraordinary exchange controls, economic deterioration, bi-lateral conflict leading to immobilisation of the overseas financial assets and the prevalent tax laws of the respective jurisdiction for execution of trades or otherwise.

To manage risks associated with foreign currency and interest rate exposure, the Mutual Fund may use derivatives for efficient portfolio management including hedging and in accordance with conditions as may be stipulated by SEBI/RBI from time to time.

g. Risks associated with Investing in Derivatives

- The AMC, on behalf of the Scheme may use various derivative products, from time to time, in an attempt to protect the value of the portfolio and enhance Unit holders' interest. Investors should understand that derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Other risks include but are not limited to the risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. There may be a cost attached to selling or buying futures or other derivative instrument. Further there could be an element of settlement risk, which could be different from the risk in settling physical shares. The possible lack of a liquid secondary market for a futures contract or listed option may result in inability to close futures or listed option positions prior to their maturity date.

- Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable.

- No assurance can be given that the fund manager will be able to identify or execute such strategies. The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

- Other risk associated with derivatives are as follows:

    1. The cost of hedge can be higher than adverse impact of market movements

    2. The derivatives will entail a counter-party risk to the extent of amount that can become due from the party.

    3. An exposure to derivatives in excess of the hedging requirements can lead to losses.

    4. An exposure to derivatives can also limit the profits from a genuine investment transaction.

    5. Efficiency of a derivatives market depends on the development of a liquid and efficient market for underlying securities and also on the suitable and acceptable benchmarks.

h. Risks associated with Investing in Securitized Debt

- **Liquidity risk:** There is no assurance that a deep secondary market will develop for the instrument. This could limit the ability of the investor to resell them.

- **Limited Recourse:** The instruments represent an undivided beneficial interest in the underlying receivables and do not represent an obligation of either the Issuer or the Seller or the originator, or the parent or any affiliate of the Seller, Issuer and Originator. No financial recourse is available to the buyer of the security against the Investors' Representative.

- **Delinquency and Credit Risk:** Delinquencies and credit losses may cause depletion of the amount available under the Credit Enhancement and thereby the Monthly Investor Payouts to the Holders may get affected if the amount available in the Credit

Enhancement facility is not enough to cover the shortfall. On persistent default of an Obligor to repay his obligation, the Servicer may repossess and sell the Vehicle/ Asset. However many factors may affect, delay or prevent the repossession of such Vehicle/Asset or the length of time required to realize the sale proceeds on such sales. In addition, the price at which such Vehicle/Asset may be sold may be lower than the amount due from that Obligor.

- **Risks due to possible prepayments:** Full prepayment of a contract may lead to an event in which investors may be exposed to changes in tenor and yield.

- **Bankruptcy of the Originator or Seller:** If the service provider becomes subject to bankruptcy proceedings and the court in the bankruptcy proceedings concludes that either the sale from each Originator was not a sale then an Investor could experience losses or delays in the payments due under the instrument.

i. <u>Risk factors associated with repo transactions in corporate debt securities</u>

Corporate Bond Repo transactions are currently done on OTC basis and settled on non guaranteed basis. Credit risks could arise if the counterparty does not return the security as contracted on due date. The liquidation of underlying bonds in case of counterparty default would depend on the liquidity of the bond and market conditions at that time. This risk is largely mitigated, as the choice of counterparties is largely restricted and also haircuts are applicable on the underlying bonds depending on credit ratings. Also operational risks are lower as such trades are settled on a DVP basis.

In the event of the scheme(s) being unable to pay back the money to the counterparty as contracted in case of transactions as a borrower, the counter party may dispose of the assets (as they have sufficient margin) and the net proceeds may be refunded to the Mutual Fund. Thus, the scheme(s) may in remote cases suffer losses. This risk is normally mitigated by better cash flow planning to take care of such repayments.

j. <u>For Scheme investing in Gold</u>

- The NAV of the units is closely related to the value of gold held by the scheme. The value (price) of gold may fluctuate for several reasons and all such fluctuations will result in changes in the NAV of units under the scheme. The factors that may effect the price of gold, among other things, include demand and supply for gold in India and in the Global market, Indian and Foreign exchange rates, Interest rates, Inflation trends, trading in gold as commodity, legal restrictions on the movement/trade of gold that may be imposed by RBI, Government of India or countries that supply or purchase gold to/from India, trends and restrictions on import/export of golden jewellery in and out of India, etc.
- Counter party Risk: There is no Exchange for physical gold in India. The Mutual Fund may have to buy or sell gold from the open market, which may lead to counter party risks for the Mutual Fund for trading and settlement.
- Liquidity Risk: The Mutual Fund has to sell gold only to bullion bankers/traders who are authorized to buy gold. Though, there are adequate numbers of players (commercial or bullion bankers) to whom the Fund can sell gold. Fund may have to resort to distress sale of gold if there is no or low demand for gold to meet its cash needs of redemption or expenses.
- Currency Risk: The formula for determining NAV of the units is based on the imported (landed) value of gold. The landed value of gold in computed by multiplying international market price by US dollar value. The value of gold or NAV, therefore will depend upon the conversion value of US dollar into Indian rupee and attracts all the risks attached to such conversion.
- Regulatory Risk: Any changes in trading regulations by the stock exchange (s) or SEBI may affect the ability of Authorized Participant to arbitrage resulting into wider premium/ discount

to NAV. Any changes in the regulations relating to import and export of gold or gold jewellery (including customs duty, sales tax and any such other statutory levies) may affect the ability of the scheme to buy/sell gold against the purchase and redemption requests received.

- Asset Class Risk: The returns from physical Gold in which the Scheme invests may under perform returns from the securities or other asset classes.
- Physical gold: There is a risk that part or all of the Scheme's gold could be lost, damaged or stolen. Access to the Scheme's gold could also be restricted by natural events or human actions. Any of these actions may have adverse impact on the operations of the scheme and consequently on investment in units.
- As the scheme proposes to invest not less than 90% of the net assets in Gold, the Scheme is a passively managed scheme and provides exposure to Gold and Gold bullion and tracking its performance and yield as closely as possible. The Schemes' performance may be affected by a general price decline in the Gold prices. The Scheme invests in the physical Gold regardless of their investment merit. The Mutual Fund does not attempt to take defensive positions in declining markets.
- Tracking error may have an impact on the performance of the scheme. However the AMC will endeavour to keep the tracking error as low as possible.
- Investors may note that even though this is an open-ended scheme, they will have to buy or sell units of the scheme on the stock exchanges where these units are listed for liquidity at the market price, subject to the rules and regulations of the exchange.
- The market price of scheme units, like any other listed security, is largely dependent on two factors, viz., (1) the intrinsic value of the unit (or NAV), and (2) demand and supply of units in the market.
- Sizeable demand or supply of the units on exchange may lead to market price of the units to quote at premium or discount to NAV. Hence the price of the scheme is less likely to hold significant variance (large premium or discount) from the latest declared NAV all the time.
- The Fund may have to sell gold to meet recurring expenses. In such an event, irrespective of whether the price of gold goes up or not, the NAV of the Fund will go down due to such expenses.
- The NAV of the units is determined based on the formula for valuation of gold prescribed by SEBI whereas the actual price of gold in the market may be different from the value of gold arrived at based on the prescribed formula. This may lead to extreme conditions like NAV being far too different from the domestic market price of gold. In such extreme conditions, the Trustee reserves the right to delay or suspend the redemption of units.
- The units of the scheme will be issued only in Demat form through depositories. The records of the depository are final with respect to the number of units available to the credit of unit holder. Settlement of trades, repurchase of units by the mutual fund depends up on the confirmations to be received from depository on which the mutual fund has no control.
- Conversion of the underlying physical Gold to scheme may attract capital gains tax depending on acquisition cost and holding period. Repurchase of scheme, the Fund or sale of scheme stock Exchange may attract capital gain tax depending upon the holding period of the units.
- The scheme is not an equity oriented Fund; therefore, tax benefit related to equity oriented Fund will not be available.

REQUIREMENT OF MINIMUM INVESTORS IN THE SCHEME

(For open-ended schemes)

The Scheme/Plan shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s). However, if such limit is breached during the NFO of the Scheme, the Fund will endeavour to ensure that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions. In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation 39(2)(c) of the SEBI (MF) Regulations would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV. The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI. If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period. The Fund shall adhere to the requirements prescribed by SEBI from time to time in this regard.

(For Close ended scheme / Interval scheme)

The Scheme / Plan under the Scheme(s) shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme(s)/Plan(s). These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment. In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation 39 (2) (c) of SEBI (MF) Regulations automatically without any reference from SEBI. In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

For interval scheme the aforesaid provision will be applicable at the end of NFO and specified transaction period.

Investors are requested to refer Scheme Information Document of the respective schemes for detailed scheme specific risk factors.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.