MAJOR RISK FACTORS

EQUITY FUNDS:

1. **Market Risk**
   The scheme is vulnerable to movements in the prices of securities invested by the scheme, which could have a material bearing on the overall returns from the scheme. The value of the scheme's investments, may be affected generally by factors affecting 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 any other appropriate authority policies and other political and economic developments which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.

2. **Liquidity risk**
   The Scheme may face liquidity constraints arising from market trading volumes, settlement mechanisms, and transfer processes. Since settlement periods vary across different segments of the Indian financial markets, any unforeseen disruptions or exceptional events could lead to extended settlement timelines and delays in receiving proceeds from the sale of securities in Cash/Derivatives market. Liquidity Risk can be partly mitigated by diversification as well as internal risk controls that lean towards purchase of liquid securities.

3. **Stock Selection Risk**
   Returns depend on the fund manager's stock selection, and the chosen stocks may underperform the benchmark or the market, so the scheme's performance may differ materially from its benchmark. Stocks that look attractive based on research, valuation or expected earnings may still do worse than the benchmark or the wider market. This can happen because company results fall short, because business or governance problems were not foreseen, or because market sentiment shifts against a style or theme. Because the portfolio may differ from the benchmark in its holdings and weights, the scheme's performance may differ materially from the benchmark's.

4. **Concentration Risk**
   Equity schemes have varying levels of portfolio concentration, depending on their investment mandate. Diversified equity schemes invest across a broad range of stocks and sectors, but may still hold relatively large positions in particular stocks or sectors. Focused funds hold a limited number of stocks, so individual holdings have a greater effect on performance. Sectoral and thematic funds invest mainly in a single sector or theme, which leaves them more exposed to adverse developments in that area. Higher concentration can increase volatility and may also affect the scheme's ability to exit large positions without affecting their prices, particularly during periods of market stress.

5. **Derivatives Risk**
   As and when the scheme trades in the derivatives market there are risk factors and issues concerning the use of derivatives that Investors should understand. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mis-pricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

MAJOR RISK FACTORS

DEBT FUNDS:

1. **Market Risk**
   As with all debt securities, changes in interest rates may affect the scheme's Net Asset Value as the prices of securities generally increase as interest rates decline and generally decrease as interest rates rise. Prices of long-term securities generally fluctuate more in response to interest rate changes than do short-term securities. Indian debt markets can be volatile leading to the possibility of price movements up or down in fixed income securities and thereby to possible movements in the NAV.

2. **Credit Risk**
   Credit risk or default risk refers to the risk that an issuer of a fixed income security may default (i.e., will be unable to make timely principal and interest payments on the security). Because of this risk corporate debentures are sold at a higher yield above those offered on Government Securities which are sovereign obligations and free of credit risk. Normally, the value of a fixed income security will fluctuate depending upon the changes in the perceived level of credit risk as well as any actual event of default. The greater the credit risk, the greater the yield required for someone to be compensated for the increased risk.

3. **Liquidity or Marketability Risk**
   This refers to the ease with which a security can be sold at or near to its valuation Yield-To- Maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is today characteristic of the Indian fixed income market.

4. **Reinvestment Risk**
   This risk refers to the interest rate levels at which cash flows received from the securities in the scheme are reinvested. The additional income from reinvestment is the "interest on interest" component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed.

5. **Counterparty Risk**
   This is the risk of failure of 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 Scheme in case of a counterparty default.

MAJOR RISK FACTORS

PASSIVE EQUITY FUNDS:

1. **Market Risk**
   The scheme is vulnerable to movements in the prices of securities invested by the scheme, which could have a material bearing on the overall returns from the scheme. The value of the scheme's investments, may be affected generally by factors affecting 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 any other appropriate authority policies and other political and economic developments which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.

2. **Tracking Error Risk**
   The scheme aims to replicate the returns of its underlying index, but its performance may differ from the index for several reasons. Some being –

   - delays in buying or selling securities during index rebalancing or corporate actions
   - the timing of dividend receipts and reinvestment
   - regulatory investment limits
   - limited liquidity in some constituents

   As a result, the scheme's returns may be lower or higher than those of the index, however the Scheme would endeavour to maintain a low tracking error by actively aligning the portfolio in line with the Index.

3. **Liquidity risk**
   Some index constituents may trade in low volumes, particularly in mid cap, small cap or thematic indices. This can make it difficult to buy or sell securities at prevailing prices during index rebalancing or large inflows and outflows, leading to higher costs and tracking error. For exchange traded funds, units may trade on the exchange at a premium or discount to their NAV, depending on market demand, and liquidity in the units may be limited despite the presence of market makers.

4. **Concentration Risk**
   A passive scheme replicates its underlying index, so its portfolio is only as concentrated as the index itself. If the index is heavily weighted towards a few stocks, sectors or business groups, the scheme will carry the same weighting. Because the scheme cannot deviate from the index to reduce this exposure, adverse movements in a few large constituents may have a significant effect on its performance.

5. **Derivatives Risk**
   Where permitted under the scheme's mandate, the scheme may use index or stock derivatives, generally on a temporary basis, for example pending deployment of funds or during index rebalancing. The prices of derivatives may not move exactly in line with the underlying securities or index. This may result in tracking error, and positions that are rolled over may incur additional costs. Derivatives also involve leverage, liquidity and counterparty risks, and losses may exceed the amount originally invested in the derivative position.

MAJOR RISK FACTORS

PASSIVE DEBT FUNDS:

1. **Market Risk**
   The value of debt securities moves inversely with interest rates. When yields rise, bond prices and the scheme's NAV generally fall, and the effect is larger for longer maturity securities. Because a passive scheme must replicate its index, it cannot change its duration to protect against rising rates. For target maturity schemes, sensitivity to rates falls as the scheme approaches maturity, but investors who redeem before maturity may realise returns that differ from the yield prevailing at the time of investment.

2. **Tracking Error Risk**
   The scheme's returns may differ from those of the underlying index. This can arise from scheme expenses and transaction costs, cash held to meet redemptions or awaiting investment, limited availability or liquidity of index securities, and the use of permitted substitute securities with similar characteristics. Differences in the prices used to value the portfolio and the index, the timing of coupon receipts and reinvestment, and regulatory investment limits can also contribute. There is no assurance that the scheme will track the index exactly.

   Over a short period, the Scheme may carry the risk of variance between portfolio composition and Benchmark. The objective of the Scheme is to track the performance of the Underlying Index over the same period, subject to tracking error. The Scheme would endeavour to maintain a low tracking error by actively aligning the portfolio in line with the Index.

3. **Credit Risk**
   Credit risk or default risk refers to the risk that an issuer of a fixed income security may default (i.e., will be unable to make timely principal and interest payments on the security). Because of this risk corporate debentures are sold at a higher yield above those offered on Government Securities which are sovereign obligations and free of credit risk. Normally, the value of a fixed income security will fluctuate depending upon the changes in the perceived level of credit risk as well as any actual event of default. The greater the credit risk, the greater the yield required for someone to be compensated for the increased risk.

4. **Reinvestment Risk**
   Interest received on the scheme's securities, and the proceeds from securities that mature or are rebalanced, may have to be reinvested at lower yields than those originally earned. This may reduce the scheme's returns and cause them to differ from the yield expected at the time of investment.

   This risk refers to the interest rate levels at which cash flows received from the securities in the scheme are reinvested. The additional income from reinvestment is the "interest on interest" component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed.

5. **Counterparty Risk**
   This is the risk of failure of 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 Scheme in case of a counterparty default. However, the risk is substantially reduced where transactions are settled through a recognized clearing corporation that guarantees settlement.