



# Motilal Oswal Asset Management Company Limited

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## Notice cum Addendum to the Scheme Information Document (SID) and Key Information Memorandum (KIM) of the Schemes of Motilal Oswal Mutual Fund (MOMF)

### I. Creation of segregated portfolios in the Scheme Information Documents (SIDs) and Key Information Document (KIMs)

Unitholders are hereby informed that the Board of Directors of Motilal Oswal Asset Management Company Limited (MOAMC) and Motilal Oswal Trustee Company Limited (MOTC), Investment Manager and Trustee to Motilal Oswal Mutual Fund (MOMF) respectively have approved the change in fundamental attributes and enabling of following provisions of segregated portfolio of debt and money market instruments in the Scheme Information Document (SID) and Key Information Memorandum (KIM) of the following schemes of MOMF, herein after referred as Designated Schemes:

- Motilal Oswal Focused 25 Fund (MOF25)
- Motilal Oswal Midcap 30 Fund (MOF30)
- Motilal Oswal Multicap 35 Fund (MOF35)
- Motilal Oswal Long Term Equity Fund (MOFLTE)
- Motilal Oswal Large and Midcap Fund (MOFLM)
- Motilal Oswal M50 ETF (MOFM50)
- Motilal Oswal Midcap 100 ETF (MOFM100)
- Motilal Oswal Equity Hybrid Fund (MOFEH)
- Motilal Oswal Motilal Oswal Dynamic Fund (MOFDYNAMIC)
- Motilal Oswal Nasdaq 100 ETF (MOFN100)
- Motilal Oswal Nasdaq 100 Fund of Fund (MOFN100FOF)
- Motilal Oswal Ultra Short Term Fund (MOFUSTF)
- Motilal Oswal Liquid Fund (MOFLF)
- Motilal Oswal Nifty 500 Fund (MOFNIFTY500)
- Motilal Oswal Nifty Bank Fund (MOFNIFTYBANK)
- Motilal Oswal Nifty Midcap 150 Index Fund (MOFMIDCAP)
- Motilal Oswal Nifty Smallcap 250 Index Fund (MOFSMALLCAP)

#### Need for segregated portfolio:

While very stringent internal credit evaluation norms are being followed by AMC / Mutual Fund, the risk of credit downgrade in portfolio companies due to various factors cannot be ruled out. In the event of credit downgrade instrument generally become illiquid making it very difficult for the fund manager to dispose of such instrument/s. In such an event segregation of such an instrument from the main portfolio will prevent the distressed asset(s) damaging the returns generated from more liquid and better-performing assets of the portfolio. It also provides fair treatment to all existing, incoming and outgoing investors, as any recovery from the issuer in future would get distributed among those investors, who would have suffered a loss due to downgrade event.

The proposed changes are in accordance with the SEBI Circular dated 28 December, 2018 vide reference no. SEBI/HO/IMD/DF2/CIR/P/2018/160 read with its circular dated 07 November, 2019 SEBI/HO/IMD/DF2/CIR/P/2019/127. Creation of segregated portfolio shall be subject to guidelines specified by SEBI from time to time and includes the following:

#### Creation of segregated portfolio:

In order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk, SEBI has allowed creation of segregated portfolio of debt and money market instruments by mutual fund schemes. In this regard, the term 'segregated portfolio' shall mean a portfolio comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme. The term 'main portfolio' shall mean the scheme portfolio excluding the segregated portfolio. The term 'total portfolio' shall mean the scheme portfolio including the securities affected by the credit event.

- Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:
  - Downgrade of a debt or money market instrument to 'below investment grade', or
  - Subsequent downgrades of the said instruments from 'below investment grade', or
  - Similar such downgrades of a loan rating
- In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as mentioned above and unratified at the ISIN level.
- In case the Designated scheme(s) of MOMF are holding any unratified debt or money market instruments of issuer that does not have any outstanding rated debt or money market instruments, segregated portfolio of such unratified debt or money market instruments may be created only in the following circumstances:
  - There is actual default of either the interest or the principal amount by the said issuer; or
  - Asset Management Companies are required to inform AMFI immediately about the actual default by the issuer. Upon being informed by AMFI about the actual default by the said issuer, AMFI shall immediately inform the same to all AMCs. Pursuant to dissemination of information by AMFI about actual default by the issuer, MOMF may segregate the portfolio. Hereinafter also referred to as 'credit event' for the purpose of creation of segregated portfolio.
- Creation of segregated portfolio is optional and at the discretion of Motilal Oswal Asset Management Company Limited. ('MOAMC').

#### Segregate portfolio creation process:

Creation of segregated portfolio shall be optional and at the discretion of the AMC / Trustees.

- The AMC may decide on creation of segregated portfolio on the day of credit event / actual default (as applicable). Segregated portfolio has to be created at the issuer level i.e. the scheme having multiple segregated portfolios will have multiple segregated portfolios. Once decided, AMC shall
  - Seek Trustee prior approval.
  - Issue a press release immediately mentioning its intention to segregate such debt and money market instrument and its impact to investors. It should also disclose that the segregation shall be subject to trustee approval. Additionally, the said press release to be prominently disclosed on the website of the AMC.
  - The Trustee approval has to be secured in not more than one business day from the credit event / actual default date & meanwhile the subscription and redemption in the scheme shall be suspended for processing with respect to creation of units and payment on redemptions.
- On receipt of the Trustee approval,
  - the segregated portfolio shall be created effective from credit event / actual default date.
  - AMC shall issue press release immediately mentioning all details pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.
  - An e-mail or SMS should be sent to all unit holders of the concerned scheme.
  - The NAV of both segregated and main portfolio shall be disclosed from the day of the credit event / Actual Default.
  - All existing investors in the scheme as on the day of the credit event / actual default date will be allotted equal number of units in the segregated portfolio as held in the main portfolio.
  - No redemption or subscription will be allowed in the segregated portfolio/s. However, AMC shall enable the listing of the units of the segregated portfolio on recognized stock exchange within 10 working days from the date of its creation and shall also enable transfer of units on receipt of transfer request.
- If the trustees do not approve the proposal to segregate portfolio, AMC shall issue a press release immediately informing investors of the same.

#### Disclosure Requirements

In order to enable the existing as well as the prospective investors to take informed decision, AMC will comply with the following disclosure requirements:

- A statement of holding indicating the units held by the investors in the segregated portfolio along with the NAV of both segregated portfolio and main portfolio as on the day of the credit event shall be communicated to the investors within 5 working days of creation of the segregated portfolio.
- Adequate disclosure of the segregated portfolio shall appear in all scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the scheme.
- The Net Asset Value (NAV) of the segregated portfolio shall be declared on daily basis.
- The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.
- The scheme performance required to be disclosed at various places shall include the impact of creation of segregated portfolio. The scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, shall be disclosed as a footnote to the scheme performance.
- The disclosures at point (iv) and (v) above regarding the segregated portfolio shall be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered / written-off.
- The investors of the segregated portfolio shall be duly informed of the recovery proceedings of the investments of the segregated portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

#### Valuation of security:

From the date of credit downgrade to non-investment grade, the Security shall be valued based on principal of fair valuation & hair cut prescribed by the AMFI till the time valuation agency(ies) start providing valuation for the security.

The valuation of the instruments / portfolio shall be done based on the quote / price obtained from the independent valuation agency(ies). In cases where quote / price is not available from an independent agency, the Valuation Committee will decide the methodology for valuation of such instruments / portfolio.

All subscription and redemption requests for which NAV of the day of credit event / Actual Default or subsequent day is applicable will be processed as per the existing circular on applicability of NAV as under:

- Upon trustees' approval to create a segregated portfolio:-
  - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
  - Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
- In case, trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

#### Total Expense Ratio (TER) for segregated portfolio:

- AMC shall not charge investment and advisory fees on the segregated portfolio. However, TER (including legal charges and excluding the investment and advisory fees) shall be charged pro-rata basis only on upon recovery of investment in the segregated portfolio.
- The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.
- The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. The maximum TER limit shall be same as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
- The costs related to segregated portfolio shall in no case be charged to the main portfolio.

#### Monitoring by Trustee:

In order to ensure timely recovery of investments of the segregated portfolio, the Trustees shall ensure that:

- The AMC puts in sincere efforts to recover the investments of the segregated portfolio.
- Upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their holding in the segregated portfolio. Any recovery of amount of the security in the segregated portfolio even after the write off shall be distributed to the investors of the segregated portfolio.
- The Trustees shall monitor the compliance of SEBI requirements and disclosure in this respect shall be made in half-yearly trustee reports filed with SEBI.
- AMC shall place an Action Taken Report (ATR) on the efforts made to recover the investments of the segregated portfolio at every trustee meeting till the investments are fully recovered / written-off.

Further, in order to avoid mis-use of segregated portfolio, Trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers, etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the segregated portfolio of the scheme.

#### Risks associated with segregated portfolio:

##### Liquidity risk

- Investor holding units of a segregated portfolio may not able to liquidate their holding till the recovery of dues from the issuer.
- Listing of units of segregated portfolio in a recognized stock exchange does not necessarily guarantee its liquidity. There may not be active trading of units in the stock market. Further trading price of units in the stock market may be significantly lower than the prevailing NAV.

##### Credit risk

Security which is part of a segregated portfolio may not realize any value.

##### Illustration of segregated portfolio:

The below table shows how a security affected by a credit event will be segregated and its impact on investors:

Portfolio Date October 31, 2019

Downgrade Event Date October 31, 2019

Mr. X is holding 1000 units of the scheme for an amount of Rs 12,323.10 (1,000 \*12.3231)

##### Portfolio before downgrade event:

Security	Rating	Type of the security	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
8.50% A Ltd.	CRISIL AAA	NCD	500	101.4821	50,741.05	41.18%
9.00 % B Ltd.	CRISIL AA+	NCD	25	120.00	3000.00	2.43%
8.75% C Ltd.	CRISIL AA+	NCD	25	100.7341	2518.35	2.04%
8.00% D Ltd.	CRISIL AA+	NCD	375	102.7886	38,545	31.28%
Cash & cash equivalents					28,425.52	23.07%
Net Assets					1,23,230.63	100.00%
Unit capital (no of units)					10,000.000	
NAV (In Rs)					12.3231	
Security downgraded	9.00% B Ltd.					from AA+ to D
Valuation Marked down by	75.00%					Valuation agencies shall be providing the valuation price post consideration of standard haircut matrix.

##### Total Portfolio as on October 31, 2019:

Security	Rating	Type of the security	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
8.50% A Ltd.	CRISIL AAA	NCD	500	101.4821	50,741.05	41.94%
9.00 % B Ltd.	CRISIL D	NCD	25	30.00	750	0.62%
8.75% C Ltd.	CRISIL AA+	NCD	25	100.7341	2518.35	2.08%
8.00% D Ltd.	CRISIL AA+	NCD	375	102.7886	38,545	31.86%
Cash & cash equivalents					28,425.52	23.50%
Net Assets					120,980.63	100.00%
Unit capital (no of units)					10,000.000	
NAV (In Rs)					12.0981	

##### Main Portfolio as on October 31<sup>st</sup> 2019:

Security	Rating	Type of the security	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
8.50% A Ltd.	CRISIL AAA	NCD	500	101.4821	50,741.05	42.20%
8.75% C Ltd.	CRISIL AA+	NCD	25	100.7341	2518.35	2.09%
8.00% D Ltd.	CRISIL AA+	NCD	375	102.7886	38,545	32.06%
Cash & cash equivalents					28,425.52	23.64%
Net Assets					120,230.63	100.00%
Unit capital (no of units)					10,000.000	
NAV (In Rs)					12.0231	

##### Segregated Portfolio as on October 31, 2019:

Security	Rating	Type of the security	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
9.00 % B Ltd.	CRISIL D	NCD	25	30.00	750	100%
Net Assets					750	100.00%
Unit capital (no of units)					10,000.000	
NAV (In Rs)					0.075	

##### Net impact on value of holding of Mr. X after creation of segregation portfolio

	Main Portfolio	Segregated Portfolio	Total Value
No. of Units	1,000	1000	
NAV (in Rs)	12.0231	0.075	
Total Value (in Rs)	12,023.10	75	12,098.10

Note: NAV of Main Portfolio + NAV of Segregated Portfolio = NAV of Total Portfolio of the Scheme.

The above illustration is provided for explaining the concept of creation of segregated portfolio and its impact on the NAV of the Scheme. Please note that the said illustration would be amended suitably while incorporating the provision in the SID of the Designated schemes. All other features, terms and conditions of the Designated schemes will remain unchanged.

The Board of Directors of MOAMC and MOTC have approved the proposal contained in this addendum in meeting held on January 18, 2020.

### II. Change in fundamental attributes of the scheme, Motilal Oswal Dynamic Fund (MOFDYNAMIC):

Unit holders are hereby informed that the Board of Directors of MOAMC and MOTC have approved the changes in fundamental attributes of the scheme, Motilal Oswal Dynamic Fund (MOFDYNAMIC) in their meeting held on January 18, 2020.

MOFDYNAMIC was launched for asset allocation between equity and debt based on in-house MOVI (Motilal Oswal Value Index). The MOVI helps gauge attractiveness of the equity market. A low MOVI level indicates that the market valuation appears to be cheap and one may allocate a higher percentage of their investments to Equity as an asset class. The rationale to make the change in the key terms of MOFDYNAMIC by changing the Net Equity Allocation band is given below:

The Fund has minimum 30% equity despite higher valuation so the management has smoothen it from MOVI levels of 100-130+. The Fund has proposed a larger band at MOVI levels of 90-100 wherein the equity allocation is at midlevel of around 70% (range of 60-75 as existing risk). Below this level of MOVI the equity allocation the fund will have high equity risk and again smoothen out. Further, since the medium range of allocation is narrow and with market volatility results in frequent churn and challenges of execution in managing net equity exposure.

MOVI LEVELS	NET EQUITY	
	Existing	Proposed
LESS THAN 70	100	100
70-80	90-95	85-95
80-90	80-85	75-85
90-100	70-75	60-75
100-110	55-60	50-60
110-120	40-45	40-50
120-130	30-40	30-40
GREATER THAN 130	30-40	30-40

The changes proposed in the SID & KIM of the Designated Schemes and MOFDYNAMIC given above amounts to changes in the fundamental attributes of the Scheme(s). Hence, in accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996, all the existing unit holders under the Designated Schemes are given an option to exit the Scheme(s) at the applicable Net Asset Value without any exit load on such redemption. This option is valid for a period of 30 days from publishing the notice. The above change in the fundamental attribute of the Scheme(s) will be effective from October 08, 2020.

If a Unit holder has no objection to the above proposals, no action needs to be taken by him and it would be deemed that such Unit holder has consented to the above proposals.

If a Unit holder disagrees to the above proposals, then they are requested to go through the below information on exit option.

Unit holder investor does not wish to continue in the designated scheme, unit holders of the scheme have the option to switch-out or redeem the units held by them at the prevailing NAV without being charged any exit load during the exit option period. The Unit holders are entitled to exercise exit option during the period commencing from September 08, 2020 and closing on October 07, 2020 (both days inclusive) ('Option Exercise Period'). During the Option Exercise Period, the Unit holders have following options:

- Redeem their units [partly or fully] at applicable NAV;
- Switch their units [partly or fully] to any of the schemes of MOMF at applicable NAV; or
- Remain invested in the Scheme.

Unit holders are requested to note of the following conditions for switch out / redemption:

- The redemption / switch-out can be done by submitting a switch-out / redemption request form between (T day) to (T+30 days) (both days inclusive), subject to the terms and conditions set out in this letter, to any of our official points of acceptance within the applicable cut-off time mentioned in the scheme information document.
- An exit option will not be available to those unitholders who have pledged their units and on which the Fund has marked lien unless the release of pledged is obtained and communicated to the Fund / Registrar before applying for the redemption.
- In case of units held in demat mode redemption request is required to be submitted to the depository participant on or before the close of business hours of October 7, 2020 (T+30 days).
- The offer to exit is merely an option and is not compulsory.
- The redemption warrant / cheque will be mailed / redemption proceeds will be credited within 10 working days from the date of receipt of the redemption request.
- Redemption / switch out by the unit holders due to creation of segregated portfolio(s) or change in fundamental attributes of MOFDYNAMIC or due to any other reasons may entail tax consequences. In view of individual nature of tax consequences, Unit holders are advised to consult his / her / their professional tax advisor.
- Please note that if you do not exercise your exit option on or before October 7, 2020 or if we do not receive your request for switch-out / redemption on or before October 7, 2020 by 3.00 pm or the applicable cut-off timings as on October 7, 2020, you would be deemed to have consented to the proposed proposal.

Securities Transaction Tax will be borne by AMC during the exit period.

Unit holders under the Scheme are / will be sent a communication in this regard, through an appropriate mode of communication (post, courier, email, etc). For any further assistance / clarification, Unit holders may contact any of our Investor Service Centres.

All the other terms and conditions of the SID and KIM of the Designated Schemes shall be read with the addendum issued. This addendum forms an integral part of the SID and KIM of the Designated scheme(s) of MOMF. All other contents remain unchanged.

For Motilal Oswal Asset Management Company Limited (Investment Manager for Motilal Oswal Mutual Fund)

Place : Mumbai

Date : August 31, 2020

Sd/-  
Navin Agarwal  
Managing Director & Chief Executive Officer

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,  
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.