

**Motilal Oswal Asset Management Company Limited**

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**Notice cum Addendum for Creation of Segregated Portfolio in the Scheme Information Document (SID) and Key Information Memorandum (KIM) of Motilal Oswal Nifty 50 Index Fund (MOFNIFTY50) and Motilal Oswal Nifty Next 50 Fund (MOFNEXT50)**

Notice is hereby given that in terms of SEBI vide its circular dated 28 December, 2018 (SEBI/HO/IMD/DF2/CIR/P/2018/160) read with its circular dated 07 November, 2019 (SEBI/HO/IMD/DF2/CIR/P/2019/127), has advised that portfolio by mutual fund schemes investing in debt and money market instruments should have provision in the concerned SID for creating portfolio segregation. In this regard, we wish to inform you that the Board of Directors of Motilal Oswal Asset Management Limited ('MOAMC') & the Board of Directors of Motilal Oswal Trustee Company Limited ('MOTC') have approved enabling provisions of creation of segregated portfolio of debt and money market instruments in the scheme information documents of schemes of Motilal Oswal Mutual Fund (MOMF), Motilal Oswal Nifty 50 Index Fund (MOFNIFTY50) and Motilal Oswal Nifty Next 50 Fund (MOFNEXT50) as follows:-

**A. Introduction:**

"Pursuant to SEBI circulars dated December 28, 2018 and November 07, 2019, Portfolio segregation helps in,

1. Reducing Sharp fall in NAV of Schemes.
2. Reducing Redemption pressure & liquidity risk,
3. Safeguarding good quality papers & confidence in market, and
4. Mitigating reputational risk.
5. Accordingly, this policy is being laid down to comply with the SEBI instructions

**Segregated Portfolio:** The portfolio comprising of debt and money market instruments, which might be affected by a credit event and shall also include the unrated debt or money market instruments affected by actual default.

**Main Portfolio:** Scheme portfolio excluding segregated portfolio

**Total Portfolio:** Scheme portfolio including the securities affected by credit events.

**B. 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 the 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.

**C. Credit Events:**

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:

- 1) Downgrade of a debt or money market instrument to 'below investment grade', or
- 2) Subsequent downgrades of the said instruments from 'below investment grade', or
- 3) Similar such downgrades of a loan rating.

The most conservative rating shall be considered, if there is difference in rating by multiple CRAs. Creation of segregated portfolio shall be based on issuer level credit events as detailed at "Credit Events" and implemented at the ISIN level.

**Actual default** (for unrated debt or money market instruments)

In case of unrated debt or money market instruments, the actual default of either the interest or principal amount by the issuer.

On occurrence of any default, the AMC shall inform AMFI immediately about the actual default by the issuer. Subsequent to dissemination of information by AMFI about actual default by the issuer, the AMC might segregate the portfolio of debt or money market instruments of the said issuer.

**D. Segregate portfolio creation process:**

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

- a. 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:
  - i. Seek Trustee prior approval.
  - ii. 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.
  - iii. 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.
- b. On receipt of the Trustee approval,
  - i. The segregated portfolio shall be created effective from credit event/actual default date.
  - ii. AMC shall issue press release immediately mentioning all details pertaining to the segregated portfolio. The said information shall also be submitted to SEBI.
  - iii. An e-mail or SMS should be sent to all unit holders of the concerned scheme.
  - iv. The NAV of both segregated and main portfolio, shall be disclosed from the day of the credit event/ Actual Default.
  - v. 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.
  - vi. 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.
- c. If the trustees do not approve the proposal to segregate portfolio, AMC shall issue a press release immediately informing investors of the same.

**E. Disclosure Requirements:**

Communication to the investors, NAV disclosure and other disclosure including scheme performance requirements for segregated portfolio shall be as per the norms specified in the above SEBI circular.

MOAMC will comply with all communication requirements /disclosure requirements prescribed by SEBI in an event of creation of segregated portfolio. This shall include disclosures of NAV, issue of account statement, press release announcing credit event and creation of segregated portfolio/s, Disclosure of segregated portfolio in (Monthly/Half Yearly) portfolio statement, etc.

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.

If the Trustee rejects the segregated portfolio proposal then AMC to issue press release and inform the decision of the Trustee to investors, post which subscription and redemption applications will be processed based on the NAV of total portfolio.

**F. 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:

- i. 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.
- ii. 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.

**G. Total Expense Ratio (TER) for segregated portfolio:**

AMC shall not charge investment and advisory fees on the segregated portfolio.

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 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. TER in excess of limit shall be borne by AMC. However, the costs related to segregated portfolio shall in no case be charged to the main 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.

**H. Distribution of recovery:**

Any recovery of investment of the segregated portfolio/s (including recovery after write-off) shall be distributed immediately to the investors in proportion to their holdings in the segregated portfolio/s.

**I. Monitoring of segregated portfolio:**

Trustees shall monitor the compliance of the SEBI Circular in respect of creation of segregated portfolio and disclosure in this respect shall be made in Half-Yearly Trustee reports to be filed with SEBI.

**J. Evaluation of negative impact on the performance incentives:**

In order to avoid mis-use of the segregated portfolio, Trustees will put in place a mechanism to evaluate the negative impact of such segregation, on the performance incentives of the Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of MOAMC., including claw back of such amount to the segregated portfolio of the scheme.

The amount forfeited shall be credited to the segregated portfolio of the concern scheme(s) in the ratio of value of the securities downgraded in the respective schemes before the credit event.

**K. Action Taken Report:**

AMC shall put sincere efforts to recover the bad investment. An Action Taken Report should be prepared and placed before the Board of Trustee meeting/s till the matter is finally resolved.

**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 (₹)	Market Value (₹)	% 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 ₹)					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 (₹)	Market Value (₹)	% 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 ₹)					12.0981	

**Main Portfolio as on October 31, 2019**

Security	Rating	Type of the security	Quantity	Market Price Per Unit (₹)	Market Value (₹)	% 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 ₹)					12.0231	

**Segregated Portfolio as on October 31, 2019**

Security	Rating	Type of the security	Quantity	Market Price Per Unit (₹)	Market Value (₹)	% 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 ₹)					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	1,000	
NAV (in ₹)	12.0231	0.075	
Total Value (in ₹)	12,023.10	75	12,098.10

**Risks associated with segregated portfolio**

The AMC / Trustee shall decide on creation of segregated portfolio of the Scheme in case of a credit event/ actual default at issuer level. Accordingly, Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer. The Security comprised of segregated portfolio may not realise any value. Further, Listing of units of segregated portfolio in recognised stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

This notice cum addendum shall form an integral part of the aforementioned SID and KIM of the aforesaid Schemes of MOMF. All other contents shall remain unchanged.

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

Sd/-  
Place : Mumbai  
Date : December 03, 2019

Aashish P Somaiyaa  
Managing Director and Chief Executive Officer

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