

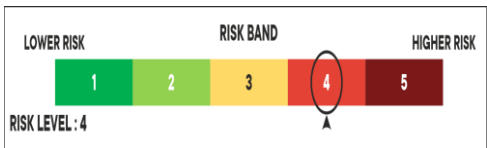
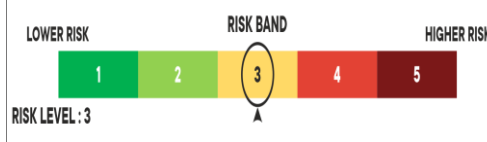
INVESTMENT STRATEGY INFORMATION DOCUMENT

SECTION 1

Sapphire Equity Long-Short SIF **SO-1**

Brought to you by Franklin Templeton Mutual Fund

(An open-ended equity investment strategy investing in listed equity and equity related instruments including limited short exposure in equity through derivative instruments) **SO-2**

This product is suitable for investors who are seeking	Risk-band* SO-3	Benchmark Risk- band (as applicable)
- Long term capital appreciation - Investment in equity and equity related instruments including limited short exposure in equity through derivative instruments		

*The Risk Band shall be as specified by AMFI.

The above product labelling assigned during the New Fund Offer (NFO) is based on internal assessment of the characteristics of the investment strategy or model portfolio and the same may vary post NFO when the actual investments are made.

Offer of units of Rs. 1000 each for cash during the
New Fund Offer and Continuous offer for Units at NAV based prices

New Fund Offer Opens on:
New Fund Offer Closes on:
Investment strategy re-opens on:

Name of SIF	: Sapphire SIF
Name of the mutual fund	: Franklin Templeton Mutual Fund
Name of Asset Management Company	: Franklin Templeton Asset Management (India) Pvt. Ltd.
Name of Trustee Company	: Franklin Templeton Trustee Services Pvt. Ltd.
Addresses, Website of the entities (including SIF):	One International Centre, Tower 2, 12th floor, Senapati Bapat Marg, Prabhadevi, Mumbai- 400013. www. franklintempletonindia.com/sapphire sif

The particulars of the investment strategy have been prepared in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, (herein after referred to as SEBI (MF) Regulations) as amended till date and circulars issued thereunder filed with SEBI, along with a Due Diligence Certificate from the AMC. The units being offered for public subscription have not been approved or recommended by SEBI nor has SEBI certified the accuracy or adequacy of the Investment Strategy Information Document.

The Investment Strategy Information Document sets forth concisely the information about the investment strategy that a prospective investor ought to know before investing. Before investing, investors should also ascertain about any further changes to this Investment Strategy Information Document after the date of this Document from the SIF/Mutual Fund/Investor Service Centres/Website / Distributors or Brokers.

The investors are advised to refer to the Statement of Additional Information (SAI) for details of Sapphire SIF, Mutual Fund, Standard Risk Factors, Special Considerations, Tax and Legal issues and general information on [www. franklintempletonindia.com/sapphiresif](http://www.franklintempletonindia.com/sapphiresif).

SAI is incorporated by reference (is legally a part of the Investment Strategy Information Document).

For a free copy of the current SAI, please contact your nearest Investor Service Centre or log on to our website (give reference to both the SIF website and mutual fund website)

The Investment strategy Information Document (Section I and II) should be read in conjunction with the SAI and not in isolation.

Investors are advised to note that investments in Specialized Investment Fund involves relatively higher risk including potential loss of capital, liquidity risk and market volatility. Please read all investment strategy related documents carefully before making the investment decision.

This Investment Strategy Information Document is dated _____ 2025.

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PART I. HIGHLIGHTS/SUMMARY OF THE INVESTMENT STRATEGY (Strategy)

Sr. No.	Title	Description
I.	Name of the Investment Strategy	Sapphire Equity Long- Short SIF
II.	Category of the Investment Strategy	Equity Long-Short Fund
III.	Type of Investment Strategy.	An open-ended equity investment strategy investing in listed equity and equity related instruments including limited short exposure in equity through derivative instruments.
IV.	Investment strategy code SO-7	
V.	Investment objective SO-5	The investment strategy seeks to generate alpha over the long term by investing across a spectrum of large, mid and small cap companies using long/short equity strategies There is no assurance that the investment objective of the investment strategy will be achieved.
VI.	Liquidity/ listing details	The Strategy is open for repurchase/redemption on all Business Days. The redemption proceeds will be despatched to the unitholders within the regulatory time limit of 3 working days of the receipt of the valid redemption request at the OPAT of the Mutual Fund. As per AMFI guidelines dated January 27, 2023, the redemption payment cycle shall be 2 days. In case of exceptional situations, additional time for redemption payment may be taken. This shall be in line with AMFI letter dated January 16, 2023. The Strategy is not listed.
VII.	Benchmark (Total Return Index) SO-25	Nifty 500 TRI. The benchmark is most suited considering the investment objective and portfolio of the strategy
VIII.	Subscription frequency	Daily on all business days
IX.	Redemption frequency	Daily on all business days

X.	NAV disclosure SO-41	The NAV will be calculated for every Business Day and can be viewed on www.franklintempletonindia.com/sapphiresif. NAV will be calculated up to four decimal places using standard rounding criteria <table><tr><th>Particulars</th><th>NAV declaration time for a Business Day & Rationale</th></tr><tr><td>First NAV</td><td>Shall be calculated and declared within 5 business days from the date of allotment of respective Plan(s)/Option(s) under the strategy</td></tr><tr><td>If entire assets under management (AUM) is invested only in Indian securities</td><td>11 p.m. on same Business Day</td></tr><tr><td>If entire or part of AUM is invested in overseas securities</td><td>As the prices of overseas securities would be determined as per a different time zone, the strategy (s) may declare the NAV for a Business Day by the next Business Day by 10:00 a.m.</td></tr></table> Further Details in Section II	Particulars	NAV declaration time for a Business Day & Rationale	First NAV	Shall be calculated and declared within 5 business days from the date of allotment of respective Plan(s)/Option(s) under the strategy	If entire assets under management (AUM) is invested only in Indian securities	11 p.m. on same Business Day	If entire or part of AUM is invested in overseas securities	As the prices of overseas securities would be determined as per a different time zone, the strategy (s) may declare the NAV for a Business Day by the next Business Day by 10:00 a.m.
Particulars	NAV declaration time for a Business Day & Rationale									
First NAV	Shall be calculated and declared within 5 business days from the date of allotment of respective Plan(s)/Option(s) under the strategy									
If entire assets under management (AUM) is invested only in Indian securities	11 p.m. on same Business Day									
If entire or part of AUM is invested in overseas securities	As the prices of overseas securities would be determined as per a different time zone, the strategy (s) may declare the NAV for a Business Day by the next Business Day by 10:00 a.m.									
XI.	Applicable timelines	Timeline for • Dispatch of redemption proceeds, • Dispatch of IDCW (if applicable) etc. Dispatch of redemption proceeds - The redemption proceeds will be despatched to the unitholders within the regulatory time limit of 3 working days of the receipt of the valid redemption request at the OPAT of the Mutual Fund. As per AMFI guidelines dated January 27, 2023, the redemption payment cycle shall be 2 days. In case of exceptional situations, additional time for redemption payment may be taken. This shall be in line with AMFI letter dated January 16, 2023. Dispatch of Payout of Income Distribution cum capital withdrawal (IDCW) option - 7 working days from record date.								

XII.	<i>Plans and Options</i> Plans/Options and sub options under the Investment strategy	• Growth Plan • Income Distribution cum capital withdrawal (IDCW) Plan (with Reinvestment and Payout Options). • Direct - Growth Plan • Direct - IDCW Plan (with Reinvestment and Payout Options). All the plans have a common portfolio. The face value of the Units is Rs.1000 each. The investors must clearly indicate the Plan and Option (Growth or IDCW / Reinvestment or Payout) in the relevant space provided for in the Application Form. In the absence of such instruction, it will be assumed that the investor has opted for the Default Plan which shall be Direct Plan and Default Option, which shall be: • Growth in case Growth or IDCW is not indicated. • Reinvestment of Income Distribution cum capital withdrawal option in case Payout of Income Distribution cum capital withdrawal option or Reinvestment of Income Distribution cum capital withdrawal option is not indicated. For detailed disclosure on default plans and options, kindly refer SAI. The Trustee / AMC reserves the right to alter / vary the default plan / option, after giving notice Plan- Direct Plan/Regular Plan Options under each Plan(s) -Growth -Income Distribution cum Capital Withdrawal (IDCW) (include facilities if applicable) • Including Default option/ facility (as applicable) For detailed disclosure on default plans and options, kindly refer SAI.
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XIII.	<i>Load Structure</i>	<i>Exit Load: 1% if units are redeemed within one year of allotment, NIL thereafter.</i> <i>Subject to the Regulations, the Trustee/ AMC reserve the right to modify / change the load structure on a prospective basis.</i>
XIV.	<i>Minimum Application Amount/switch in</i>	• During NFO or first time investment post NFO: INR 10,00,000 and multiples of 10,000 thereafter • Additional Investment on continuous basis: for existing investors Minimum INR 10,000 and in multiples of INR 1000 thereafter • Switch In - As per clause 4.1.3 of Annexure A of SEBI Circular dated February 27, 2025 on Specialized Investment Funds ('SIF Circular'), systemic transactions such as SIP, SWP and STP are permitted only for investment strategies launched under the Sapphire SIF.
XV.	<i>Minimum Additional Purchase Amount</i>	Minimum of INR 10,000
XVI.	<i>Minimum Redemption/switch out amount</i>	Rs. 10,000 The redemption will be subject to compliance with provisions mentioned under "Minimum investment threshold"
XVII.	<i>Notice Period</i>	Not Applicable

XVIII.	New Fund Offer Period This is the period during which a new investment strategy sells its units to the investors.	NFO opens on: NFO closes on: Minimum duration to be 3 working days and will not be kept open for more than 15 days Any changes in dates will be published through notice on AMC SIF website i.e. www.franklintempletonindia.com/sapphiresif
XIX.	New Fund Offer Price: This is the price per unit that the investors have to pay to invest during the NFO.	Rs. 1000 price per unit
XX.	Segregated portfolio/side pocketing disclosure SO-53	AMC may create segregated portfolio in the Investment strategy. For Details, kindly refer SAI.
XXI.	Swing pricing disclosure SO-54	Not Applicable
XXII.	Stock lending/short selling	The Investment strategy may engage in Stock lending/short selling of securities in accordance with the guidelines issued by SEBI. For Details, kindly refer SAI
XXIII.	How to Apply	During the NFO and on a continuous basis, investors can subscribe for the Units of the Investment strategy by completing the Application Form and delivering it at any Investor Service Centre or Collection Centre. KYC complied investor/ Investors who are able to provide necessary information and/or documents to perform KYC can perform a web-based transaction to purchase units of the Investment Strategy on website www.franklintempletonindia.com/sapphiresif , FT Mobile App or through any other electronic mode introduced from time to time. Financial transactions through email in respect of non-individual investors shall be accepted in terms of AMFI Best Practice Guidelines (BPG) no. 118/ 2024-25 dated January 31, 2025, and such other circulars issued in this regard from time to time. Please refer to the SAI and the Key Information Memorandum/ Application Form for the instructions. Details in section II

XXIV.	Investor services	Contact details for general service requests: Good Shepherd Square, 4th Floor, No.82, MGR Salai (Erstwhile Kodambakkam High Road), Chennai- 600034, Tamil Nadu. Tel: 1-800-425-4255 or 1-800-258-4255 (toll-free numbers). International Callers can reach at 91-44-28885200 or 91-44-69030702 (Local call rates apply to both the numbers) from 8.00 a.m. to 9.00 p.m., Monday to Saturday. Email: service@franklintempleton.com Contact details for complaint resolution: Ms. Rini Krishnan has been appointed as the Investor Relations Officer of the AMC. She can be contacted at the above address.
XXV.	Specific attribute of the investment strategy (such as lock-in, duration in case of close ended schemes as applicable)	Not Applicable
XXVI.	Special product/facility available during the NFO and on ongoing basis	Following facilities are available: • Exchange/Switch • Systematic Investment Plan (SIP) • Systematic Transfer Plan (STP) • Systematic Withdrawal Plan (SWP) • Transfer Of Income Distribution Cum Capital Withdrawal Plan (TIDCW) • Facility for subscription, redemption and switch of units through stock exchange infrastructure • For further details of above special products/ facilities, For Details, kindly refer SAI

XXVII.	Weblink	TER for last 6 months, Daily TER as well as investment strategy factsheet shall be made available (when applicable) www.franklintempletonindia.com/sapphiresif For the new Investment strategy launches, TER details shall be available from the first NAV date.
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Due diligence by the Asset Management Company

It is confirmed that:

- (i) The Investment Strategy Information Document submitted to SEBI is in accordance with the SEBI (Mutual Funds) Regulations, 1996 and the guidelines and directives issued by SEBI from time to time.
- (ii) All legal requirements connected with the launching of the Investment strategy as also the guidelines, instructions, etc., issued by the Government and any other competent authority in this behalf, have been duly complied with.
- (iii) The disclosures made in the Investment Strategy Information Document are true, fair and adequate to enable the investors to make a well informed decision regarding investment in the Investment Strategy.
- (iv) The intermediaries named in the Investment Strategy Information Document and Statement of Additional Information are registered with SEBI and their registration is valid, as on date.
- (v) The contents of the Investment Strategy Information Document including figures, data, yields etc. have been checked and are factually correct
- (vi) The AMC has complied with the compliance checklist applicable for Investment Strategy Information Document that there are no deviations from the regulations
- (vii) Notwithstanding anything contained in this Investment Strategy Information Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.
- (viii) The Trustees have ensured that the Sapphire Equity Long-Short SIF approved by them is a new product offered by Sapphire SIF and is not a minor modification of any existing Investment Strategy.

Date: __2025

Place: Mumbai

Name: Saurabh Gangrade

Designation: Compliance Officer

PART II. INFORMATION ABOUT THE INVESTMENT STRATEGY

A. HOW WILL THE INVESTMENT STRATEGY ALLOCATE ITS ASSETS?

Instruments	Indicative allocations (% of total assets)	
	Minimum	Maximum
Equity and equity related instruments*	80%	100%
Short exposure through unhedged derivative positions in equity and equity related instruments*	0%	25%
Debt, money market instruments (excluding instrument, securities kept for Margin purpose), Invits, Exchange Trade Funds and units of debt mutual fund schemes#	0%	20%

*Equity and equity related instruments include both Long and Short Equity Positions. Atleast 65% of the total proceeds of such funds are invested in the equity shares of domestic companies listed on a recognised stock exchange.

Cash or cash equivalents (including for margin) with residual maturity of less than 91 days may be treated as not creating any exposure [SO-14](#). SEBI vide letter dated November 03, 2021 has clarified that Cash Equivalent shall consist of Government Securities, T-Bills and Repo on Government Securities.

#Money Market instruments include commercial papers, commercial bills, treasury bills, Tri-party repo, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, and any other like instruments as specified under applicable regulations from time to time.

In accordance with the clause 3.2 and 6.1.5 of the SEBI Circular Regulatory framework for Specialized Investment Funds ('SIF') dated February 27, 2025, clause 12.24.1 of the SEBI Master Circular for Mutual Funds ('Master Circular') dated June 27, 2024, the cumulative gross exposure through equity, debt, derivative positions (including commodity and fixed income derivatives), repo transactions and credit default swaps in corporate debt securities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), other permitted securities/assets and such other securities/assets as may be permitted by SEBI from time to time should not exceed 100% of the net assets of the investment strategy. [SO-17](#)

Indicative Table (Actual instrument/percentages may vary subject to applicable SEBI circulars) [SO-18](#)

Sl. no	Type of Instrument	Percentage of Exposure	Circular references
1.	Derivatives for hedging and for portfolio rebalancing purposes	Up to 50% of net assets of the Investment strategy. The Investment strategy may use derivatives for the purpose of hedging and portfolio balancing, based on the opportunities available and subject to guidelines issued by SEBI from time to time	Para 12.25 of SEBI Master Circular dated June 27, 2024.
2.	Derivatives for non-hedging and other than hedging and portfolio rebalancing Purposes SO-20	Exposure of up to 25% of the net assets in exchange traded derivative instruments, specifically for purposes other than hedging and portfolio rebalancing	SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26 Ref to circular on SIF dated 27 th Feb 2025
3.	Tri-party repos	Upto 25% of net assets	Clause 1 of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996
4.	Repo/reverse repo Transactions in corporate debt securities	Upto 10% of net assets	Para 12.18 of SEBI Master Circular on Mutual Funds dated June 27, 2024
5.	Units of mutual Fund schemes	The Investment strategy may invest in Mutual Fund units including Exchange traded Funds (ETFs) to the extent of 20% of net assets of the Investment strategy. No Investment will be made in equity-oriented schemes. This investment is subject to prevailing regulatory limits of aggregate inter Investment strategy investment made by all Investment strategies under the same management or in Investment strategy under the management of any other asset	Schedule 7 of SEBI (Mutual Funds) Regulations, 1996

		management company which shall not exceed 5% of the net asset value of the mutual fund. SO-30	
6.	InVITS	The Investment strategy may invest upto 20% of the net assets of the Investment strategy in units issued by InvITs and not more than 10% of the net assets of the Investment strategy will be invested in InvITs of any single issuer.	Para 12.21 of SEBI Master Circular on Mutual Funds dated June 27, 2024 Clause 13 in the Seventh Schedule and Regulation 49AA of SEBI (Mutual Funds) Regulations, 1996. Gazette notification CG-MH-E-16122024-259451, dated December 16, 2024,
7.	ReITs	Any potential future investment in units of Real Estate Investment Trusts (REITs) shall be undertaken in accordance with the Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2025, notified on October 31, 2025, and any other applicable Regulations, circulars or guidelines issued by SEBI from time to time.	Para 12.21 of SEBI Master Circular on Mutual Funds dated June 27, 2024 In accordance with the SEBI (Mutual Funds) (Second Amendment) Regulations, 2025, notified on October 31, 2025 SEBI circular dated November 28, 2025.
8.	Securities Lending	Upto 20% of net assets and the maximum single party exposure will be restricted to 5%^ of net assets outstanding at any point of time. ^ Presently, Securities lending and borrowing (SLB) is an Exchange traded product. Counterparty is not known for transactions carried out under SLB segment and they are guaranteed by Clearing Corporations and hence do not carry any counter party risk. Accordingly, single party	Para 12.11 of SEBI Master Circular on Mutual Funds dated June 27, 2024

		exposure limit will not apply to trades on Stock Exchange platform. Single party exposure limits can only apply in case of OTC (over the counter) trades where counterparty can be identified.	
9.	Overseas Securities/ETFs SO-15/ SO-16	Upto 20% of net assets for Overseas securities and upto 20% of Net Assets for Overseas ETFs Investment strategy shall not invest in overseas debt instruments.	Para 12.19 of SEBI Master Circular on Mutual Funds dated June 27, 2024
10.	Debt instruments with special features (AT1 and AT2 Bonds)	The Investment strategy shall not invest more than 10% of its NAV of the debt portfolio of the Investment strategy in such instruments having special features or as permitted by SEBI from time to time.	Referred in Para 12.2 of SEBI Master Circular on Mutual Funds dated June 27, 2024
11.	Debt Instruments with SO / CE	The total exposure towards Credit Enhancement / structured obligations such as corporate / promoter guarantee etc. shall not exceed 10% of debt portfolio of the Investment strategy and group exposure shall not exceed 5% of debt portfolio of the Investment strategy.	Para 4.5.3 (for Overnight & Liquid fund)/ Para 12.3 of SEBI Master Circular on Mutual Funds dated June 27, 2024
12.	Securitized Debt	Upto 20% of net assets. The Investment strategy shall not invest in foreign securitized debt.	Para 12.15 of SEBI Master Circular on Mutual Funds dated June 27, 2024
13.	Credit Default Swaps	Investment Strategy will not invest in Credit default swaps	Not applicable

Deployment of Funds collected in New Fund Offer (NFO) period

Pursuant to SEBI Circular dated February 27, 2025, the AMC shall aim to deploy the funds garnered during the NFO within 30 Business Days from the date of allotment of units. In exceptional cases, if the AMC is unable to deploy the funds within the 30 Business Day period, a written explanation, including details of the efforts taken to deploy the funds, shall be placed before the Investment Committee of the AMC. The Investment Committee may extend the deployment timeline by up to 30 Business Days and will provide recommendations to ensure timely deployment in the future.

In case the funds are not deployed as per the asset allocation mentioned in the SID as per the aforesaid mandated plus extended timelines, AMC shall:

- - not be permitted to receive fresh flows in the Investment strategy till the time the funds are deployed as per the asset allocation mentioned in the SID;
- - not be permitted to levy exit load, if any, on the investors exiting the Investment strategy after 60 business days of not complying with the asset allocation of the Investment strategy;
- - inform all investors of the NFO, about the exit option without exit load, via email, SMS or other similar mode of communication;
- - report deviation, if any, to Trustees at each of the above stages.

Portfolio rebalancing:

Short Term Defensive Consideration: SO-23

Subject to SEBI (MF) Regulations the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute and that they can vary substantially depending upon the perception of the Investment Manager, the intention being at all times to seek to protect the interests of the Unit holders. As per clause 1.14.1.2 of SEBI Master Circular on Mutual Funds dated June 27, 2024, as may be amended from time to time, such changes in the investment pattern will be for short term and for defensive consideration only. In the event of change in the asset allocation, the fund manager will carry out portfolio rebalancing within 30 calendar days from date of deviation or such other timeline as may be prescribed by SEBI from time to time. However, if the asset allocation pattern is to be altered for other reasons, as this is a fundamental attribute, the procedure outlined in the paragraph on fundamental attributes below, shall be followed.

Portfolio Rebalancing (in case of passive breaches) SO-22

As per clause 2.9 of SEBI Master Circular on Mutual Funds dated June 27, 2024, as may be amended/ clarified from time to time, in the event of change in the asset allocation due to passive breaches (occurrence of instances not arising out of omission and commission of the AMC), the fund manager is required to carry out portfolio rebalancing within 30 Business Days. In case the portfolio is not rebalanced within the period of 30 Business Days, justification in writing, including details of efforts taken to rebalance the portfolio shall be placed before the Investment Committee. The Investment Committee, if it so desires, can extend the timeline for rebalancing up to 60 Business Days from the date of completion of mandated rebalancing period. In case the portfolio of the investment strategy is not rebalanced within the aforementioned mandated plus extended timelines, the AMC shall follow the requirements specified under the aforesaid circular including reporting the deviation to Trustees at each stage.

All the reporting and disclosure requirements as mentioned in Para 2.9 of SEBI Master Circular on Mutual Funds dated June 27, 2024, shall be complied with. This includes disclosure to

investors in case the AUM of deviated portfolio is more than 10% of the AUM of main portfolio of Investment strategy.

Passive breaches (occurrence of instances not arising out of omission and commission by AMC), such as those caused by a decline in Net Asset Value (NAV), shall not be treated as a violation of the Minimum Investment Threshold. However, if the total investment value falls below the threshold due to a passive breach, the investor shall only be permitted to redeem the entire remaining investment amount from SIF.

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B. WHERE WILL THE INVESTMENT STRATEGY INVEST?

The investment strategy will operate as an Equity Long Short strategy under the SIF framework. The Investment strategy objective is to achieve price appreciation and growth in the long term through investment in Equity and Equity related instruments. The stocks will be chosen basis five primary parameters i.e. Quality, Innovation, Value, Sentiments and Alternatives which together has approximately 40 plus sub parameters. Unhedged Short exposure will be captured through listed Futures or Options strategy.

Subject to the SEBI Regulations and the asset allocation pattern mentioned above for the investment strategy may invest in various types of instruments including, but not limited to, any of the following:

- Equity and Equity related instruments of domestic companies / corporations
- Securities issued, guaranteed or supported by the Central Government or any state government (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills)
- Domestic non-convertible securities as well as non-convertible portion of convertible securities, such as debentures, coupon bearing bonds, zero coupon bonds, deep discount bonds, Mibor-linked or other floating rate instruments, premium notes and other debt securities or obligations of public sector undertakings, banks, financial institutions, corporations, companies and other bodies corporate/entity as may be permitted by SEBI / RBI from time to time
- Securities issued by any domestic government agencies, quasi-government or statutory bodies, Public Sector Undertakings, which may or may not be guaranteed or supported by the Central Government or any state government
- Domestic securitised debt, pass through obligations, various types of securitisation issuances such as Asset Backed Securitisation, Mortgage Backed Securitisation and so on as may be permitted by SEBI from time to time.
- Commercial Paper (CP), Certificate of Deposits (CD), Bills Rediscounting, Tri-Party Repo (TREPS), Repo, Reverse Repo, Treasury Bills and other Money Market Instruments as may be permitted by SEBI / RBI from time to time.
- Domestic derivatives including covered call option, imperfect hedging and other derivative instruments are permitted by SEBI from time to time.
- Deposits with banks and other bodies corporate as may be permitted by SEBI from time to time
- Repo/ reverse repo transactions in Corporate Debt Securities
- Debt Instruments with Credit Enhancement / structured obligations
- Other schemes managed by the AMC or in the schemes of any other mutual funds
- Units of Infrastructure Investment Trusts (InvITs)

- Any other debt and money market instruments that may be available or evolve with the development of the securities markets and as may be permitted by SEBI / RBI from time to time

Further, the Investment Strategy investing in Foreign Securities may invest in various types of instruments including, but not limited to, any of the following:

- Equity and Equity related instruments of overseas companies listed on recognised stock exchanges overseas
- Initial and follow on public offerings for listing at recognised stock exchanges overseas
- ADRs / GDRs issued by Indian or foreign companies
- Overseas Exchange Traded Funds (ETFs)
- units/securities issued by overseas mutual funds or unit trusts registered with overseas regulators and investing in permitted Foreign Securities, Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas or unlisted overseas securities (not exceeding 10% of their net assets).
- Any other permitted overseas securities / instruments that may be available from time to time.

The securities mentioned above could be listed, unlisted, publicly offered, privately placed, secured, unsecured, rated or unrated. The securities may be acquired through public offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals. The Investment strategy may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions. Investment in Foreign equity listed Securities shall be made in accordance with the guidelines issued by SEBI and RBI from time to time.

Investment in overseas securities shall be made in accordance with the requirements stipulated by SEBI and RBI from time to time.

C. WHAT IS THE INVESTMENT APPROACH? **SO-27**

Our long/short equity strategy combines a top-down macro model for dynamic capital allocation with a bottom-up proprietary active quantitative multi-factor model for stock selection. This dual-layered approach allows us to build a high-conviction, risk-aware portfolio that is both adaptive to macroeconomic conditions and consistent in capturing stock-level alpha.

Capital allocation is governed by our disciplined research-driven proprietary macro model, which evaluates a comprehensive set of indicators to determine appropriate portfolio positioning. The model includes Macro Indicators, Street Sentiment and Index Valuation.

Based on the model's output, we dynamically adjust **Gross exposure**:

- **Long exposure:** Between 75% and 100%, increasing in constructive macro environments
- **Short exposure (Unhedged):** Between 0% and 25%, rising in periods of macro uncertainty or negative outlooks

This flexible approach allows the portfolio to align with the prevailing economic regime while preserving the opportunity to generate alpha on both the long and short sides.

Stock selection is driven by our proprietary systematic **multi-factor model** that evaluates securities across a blend of key dimensions. The Fund will follow an active investment strategy that aims to blend fundamental and behavioural perspectives through the use of multiple forward and backward-looking factors embedded in a proprietary developed Quant model. The investment belief supports that underlying fundamental strength at the security level is the driver of long-term returns. Hence, the Bottom-up approach has been considered as a key driver to achieve relatively better risk adjusted returns.

A stock must have appropriate market capitalization, meet a minimum liquidity threshold, and have a sufficient history of reliable financial data in order to be included in the investable universe for the portfolio. The stock selection process is dynamic, in an attempt to ensure that investment decisions are based on current information.

The factor library utilised in the model used by the Fund has been well researched, broad and deep and has a sound economic rationale for its contribution which allows to build a comprehensive view around the relative attractiveness of each stock in the universe. The Quant model uses five primary factors: Quality, Innovation, Value, Sentiment, and Alternatives. Each factor encompasses a wide range of sub-factors/metrics, some of which are proprietary and derived from rigorous research. These factors help in decision-making through multiple dimensions:

Quality-Oriented Factor

- Profitability: Assessing the company's profitability.
- Balance Sheet: Evaluating the strength of the balance sheet from a debt quality perspective.
- Efficiency: Measuring the company's efficiency in asset utilization.

Innovation-Oriented Factor

- Innovation: Analyzing the company's investment in innovation.

Value-Oriented Factors:

- Value: Determining if the stock is undervalued relative to peers.
- Cash Flow: Assessing the availability of cash for dividends or reinvestment.

Sentiment-Oriented Factor

- Earnings Growth: Reviewing the history and potential for earnings growth.
- Expectations: Monitoring analyst upgrades or downgrades and earnings surprises.
- Behavioral: Evaluating price momentum and trend reversals.

Alternative Factors:

- Option Data - Analyzing the Put and Call open interest and Implied Volatility.

The sub factors provide Fundamental, Technical and Behavioural perspectives. Some of the sub factors considered in the strategy besides the ones mentioned above are [this is not an exhaustive factor list, and the fund manager may add or delete any factor(s)] Return on Assets, Capex Coverage, Enterprise Multiples, Shareholder Yield, and Earning Momentum, etc.

Many other criteria are also involved in running the model and decision making. Stock specific characteristics such as sector, Market Capitalization, style and others are considered as we seek to have minimal active exposures to these types of attributes. This allows us to develop a more robust Alpha model taking into account multiple factor and style perspectives.

Stocks with best scores are selected in long portfolio. The long portfolio also seeks to apply a negative

screen for companies with poor quality based on our proprietary quality factor scores, high risk based on price volatility and poor corporate governance score. The short portfolio seeks to select stocks which have weak multi factor scores and exhibit bearish market sentiment.

The stock selection is done through a systematic and disciplined optimized process using quantitative models, data analysis, risk-models, and algorithms. This approach aims to reduce human biases, offer diversification, capture market inefficiencies and manage risk. As part of the process, risk management is embedded in the portfolio construction process and monitored and managed on a continual basis. The strategy also leverages the power of data, technology, and analytics to uncover the true value and potential of the stocks in the universe, while avoiding the pitfalls of human judgment and emotions. The strategy focuses to balance both return generation as well as risk management.

This strategy implements an integrated portfolio construction to optimize alpha capture while managing factor, sector, beta exposures and also capital allocation as suggested by macro model.

Although the Investment strategy will primarily invest in stocks aligned with the quant theme (process), it retains the flexibility to take selective exposure beyond this theme (process) at the fund manager's discretion

This disciplined investment process enables us to build a high-conviction long/short portfolio that is responsive to macroeconomic conditions while driven by robust, repeatable stock selection by our proprietary active quantitative multi factor investment process.

Portfolio Turnover: The strategy includes macroeconomic signal and a long-short component, we expect more frequent trading than in traditional long-only funds, which may result in relatively higher brokerage and transaction costs.

Derivatives SO-28

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.

For detailed derivative strategies, please refer to SAI

D. HOW WILL THE INVESTMENT STRATEGY BENCHMARK ITS PERFORMANCE?

Benchmark (Total Returns Index): Nifty 500 TRI

The composition of the aforesaid benchmark is such that it is most suited for comparing performance of the investment strategy.

The above benchmark suits the expected investment strategy composition. It is in accordance with paragraph 1.9 of SEBI Master Circular for Mutual Funds dated June 27, 2024, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' and the policy framework as

prescribed by AMFI.

The Trustee reserves the right to change the benchmark for evaluation of performance of the investment strategy from time to time in conformity with the investment objectives and appropriateness of the benchmark subject to SEBI (MF) Regulations, and other prevailing guidelines, if any.

E. WHO MANAGES THE INVESTMENT STRATEGY? **SO-33**

Name	Age	Designation	Educational Qualification	Total No. of years of Experience	Nature of past experience including assignments held during the last 10 years
Arihant Jain	29	Portfolio Manager/Senior Investment Analyst	Bachelor of Engineering (Hons), BITS Pilani CFA Charter Holder, CFA Institute	8	Portfolio Manager/Senior Investment Analyst (based in Mumbai). • Daily oversight of live portfolios; track quantitative model outputs and identify significant drifts or anomalies, adjusting strategies as necessary to maintain alignment with investment objectives. • Partner with traders to ensure timely and efficient execution of trades, minimizing transaction costs and market impact. • Helping in providing thought leadership in the portfolio construction, traditional quantitative, ESG and alternative factors. Prior Assignments (last 10 years): Senior Investment Analyst- Franklin Templeton Services (India) Pvt Ltd (2022 - July 08, 2025) Design solutions and the management of data

					processes for investment systems and implementation of quantitative models geared to factor based (traditional and ESG) quantitative equities, risk premia, multi asset portfolios and/or Volatility management. Work with Research, Global Portfolio Managers, and Investment Platform teams to design products and custom solutions for institutional portfolios Work cross-functionally with investment professionals to refine and improve existing investment processes, enhancing overall quality, performance, and efficiency. Senior Associate - MSCI (2020-2022) Involved in Quantitative research that supports new and existing indexes, including factor indexes. Co-authored two paper - o Value's Lost Decade: Learning from Value Strategies' Behavior over Two Contrasting Decades on Managing Portfolios in a LowRates Age Analyst - Morgan Stanley (2018-2020). Involved in developing market neutral strategy for the equity market, to extract alpha. Quant Research Analyst -
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					Quant One (2017-2018) Devised a strategy based on long-term momentum indicator and optimized the results using machine learning to effectively capture alpha in the market.
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F. HOW IS THE INVESTMENT STRATEGY DIFFERENT FROM EXISTING INVESTMENT STRATEGIES OF THE SIF?

This investment strategy is a new strategy and hence not applicable.

G. HOW HAS THE INVESTMENT STRATEGY PERFORMED (if applicable)

This investment strategy is a new strategy and hence not applicable.

H. ADDITIONAL INVESTMENT STRATEGY RELATED DISCLOSURES

- i. Investment Strategy's portfolio holdings (top 10 holdings by issuer and fund allocation towards various sectors to be provided through a functional website link that contains detailed description.)- Not applicable as this is a new investment strategy
- ii. Functional website link for Portfolio Disclosure:
www.franklintempletonindia.com/sapphiresif
- iii. Portfolio Turnover Rate particularly - Not applicable as this is a new investment strategy.
- iv. Aggregate investment in the Investment Strategy by: Not applicable as this is a new investment strategy

For any other disclosure w.r.t investments by key personnel and AMC directors including regulatory provisions in this regard kindly refer SAI.

- v. Investments of AMC in the Investment Strategy - This is a new Investment Strategy and hence not applicable

SO-58 The AMC reserves the right to invest its own funds in the Investment Strategy as may be decided by the AMC from time to time and as disclosed in the ISID. Under the Regulations, the AMC is not permitted to charge any investment management and advisory services fee on its own investment in the Investment Strategy. Subject to the Regulations, the AMC may invest either directly or indirectly, in the Investment Strategy during Ongoing Offer Period. However, the AMC shall not charge any investment management fee on such investment in the Investment Strategy. As per the amended regulations i.e. sub-regulation 16(A) in Regulation 25 of SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations'), the asset management companies ('AMCs') are required to invest such amount in such Investment Strategy (s) of the Specialized

Investment Fund, based on the risk associated with the investment strategy, as may be specified by the Board from time to time. Accordingly, it is decided that based on the risk band assigned to the Investment Strategy(s), in terms of Clause 17.4 of SEBI Master Circular on Mutual Funds dated June 27, 2024, the AMC shall invest minimum amount as a percentage of assets under management ('AUM') in their Investment Strategy (s) in line with the Clause 6.9 of SEBI Master Circular on Mutual Funds dated June 27, 2024.

PART III- OTHER DETAILS

A. COMPUTATION OF NAV **SO-42**

The Net Asset Value (NAV) is the value of a Unit and is computed as shown below

NAV = (Rs. Per unit)	Market Value of the Investment strategy's investments + other assets (including accrued interest) - all liabilities except unit capital & reserves
	Number of units outstanding at the end of the day

For example, if the market value of securities of a SIF Investment strategy is INR 20 lakh and the SIF has issued 1000 units of INR 1000 each to the investors, then the NAV per unit of the fund is INR 2000 (i.e.20 lakh/1000).

The NAV will be normally computed for all Business Days of the Investment strategy and will be calculated to four decimals using standard rounding criteria.

While determining the price of the units, the SIF/mutual fund shall ensure that the repurchase price of an open-ended Investment strategy is not lower than 95 per cent of the Net Asset Value. **SO-47**

Valuation of the Investment strategy's assets, calculation of the Investment strategy's NAV and the accounting policies & standards will be subject to such norms and guidelines that SEBI may prescribe from time to time. For the detailed Valuation Policy and the accounting policy of the AMC, please refer the Statement of Additional Information.

For other details such as policies w.r.t computation of NAV, procedure in case of delay in disclosure of NAV etc. refer to SAI.

B. NEW FUND OFFER (NFO) EXPENSES

These expenses are incurred for the purpose of various activities related to the NFO like sales and distribution fees paid marketing and advertising, registrar expenses, printing and stationery, bank charges etc.

The NFO expenses for launch of investment strategy will be borne by the AMC.

C. ANNUAL RECURRING EXPENSES

These are the fees and expenses for operating the Investment Strategy. These expenses include Investment Management and Advisory Fee charged by the AMC, Registrar and Transfer Agents' fee, marketing and selling costs etc. as given in the table below:

The AMC has estimated that upto 2.25% of the daily average net assets of the Investment Strategy will be charged to the Investment Strategy as expenses

For the actual current expenses being charged, the investor should refer to the website of the SIF.

The maximum annual recurring expenses that can be charged to the Investment strategy, excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be within the limits stated in Regulations 52 read with SEBI notification no. No. SEBI/LAD-NRO/GN/2024/221 dated December 16, 2024 and Para 10. 1 of Master Circular on Mutual Funds dated June 27, 2024, as follows:

(I) Recurring expenses including the investment management and advisory fee subject to the limits specified in the table below (as % of daily net assets):

on the first Rs. 500 crores	2.25%
on the next Rs. 250 crores	2.00%
on the next Rs. 1,250 crores	1.75%
on the next Rs. 3,000 crores	1.60%
on the next Rs. 5,000 crores	1.50%
On the next Rs. 40,000 crores	Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.
Above Rs. 50,000 crores	1.05%

(II) In addition to the above, the following costs or expenses may be charged to the Investment strategy, as per sub regulation 52(6A) namely-

(a) brokerage and transaction costs which are incurred for the purpose of execution of trade up to 0.12 per cent of trade value in case of cash market transactions and 0.05 per cent of trade value in case of derivatives transactions

(b) expenses not exceeding 0.30% of daily net assets, if the new inflows from retail investors from such cities as specified by SEBI from time to time are at least - (i) 30% of gross new inflows in the Investment strategy, or; (ii) 15% of the average assets under management (year to date) of the Investment strategy, whichever is higher.

Provided that if inflows from retail investors from such cities are less than the higher of (i) or (ii) above, such expenses on daily net assets of the Investment strategy shall be charged on proportionate basis.

Provided further that expenses charged under this clause shall be utilised for sales, marketing and distribution expenses incurred for bringing inflows from such cities.

Provided further that amount incurred as expense on account of inflows from retail investors from such cities shall be credited back to the Investment strategy in case the said inflows are redeemed within a period of one year from the date of investment.

These expenses are in abeyance with effect from March 1, 2023 till further instructions from SEBI.

(c) additional expenses not exceeding 0.05% of daily net assets of the Investment strategy towards various permissible expenses.

Provided that such additional expenses shall not be charged to the Investment strategy s where the exit load is not levied or applicable.

Any expenditure in excess of the limits specified in sub-regulations 52 (6) and 52 (6A)] shall be borne by the asset management company or by the trustee or sponsors.

(III) The AMC may charge Goods and Service Tax on investment and advisory fees to the Investment strategy in addition to the maximum limit of annual recurring expenses as prescribed in Regulation 52. Further, the below mentioned expenses and charges shall be borne by the Investment strategy within the maximum limit of annual recurring expenses as prescribed in Regulation 52.

- a) Goods and Service Tax on expenses other than investment and advisory fees; and,
- b) brokerage and transaction costs (including Goods and Service Tax) incurred for the purpose of execution of trade in excess of 0.12% in case of cash market transactions and 0.05% in case of derivatives transactions, if any.

Within such total recurring expenses charged to the Investment strategy as above, the investment management and advisory fee (charged as a percentage of daily net assets) would be as decided by the AMC from time to time, provided that the investment management and advisory fee shall not exceed the aggregate of expenses charged under clause (I) and (II)(c) above.

The total annual recurring expenses of the Investment strategy including the investment management and advisory fee (together with additional management fee wherever applicable) shall not exceed the limit stated in Regulation 52 read with Para 10.1.16 of SEBI Master Circular on Mutual Funds dated June 27, 2024, as explained above.

The investments under 'Direct' shall have a lower expense ratio excluding distribution expenses, commission, etc., and no commission shall be paid on investments under Direct Plan. The Direct Plan shall also have a separate NAV

Expense Head	% p.a. of daily Net Assets* (Estimated p.a.)
Investment Management & Advisory Fee	not exceeding 2.25% of daily net assets
Audit fees/fees and expenses of trustees	
Custodial Fees	
Registrar & Transfer Agent Fees including cost of providing account statements / IDCW / redemption cheques/ warrants	
Marketing & Selling Expenses including Agents Commission and statutory advertisement	

Costs related to investor communications	
Costs of fund transfer from location to location	
Cost towards investor education & awareness	
Brokerage & transaction cost pertaining to distribution of units	
Goods & Services Tax on expenses other than investment and advisory Fees	
Goods & Services Tax on brokerage and transaction cost	
Other Expenses (to be specified as per Reg 52 of SEBI MF Regulations)	
Maximum Total expenses ratio (TER) permissible under Regulation 52 (6) (c)	not exceeding 2.25% of daily net assets
Goods & Services Tax on investment and advisory Fees	At actual
Additional expenses under Regulations 52(6A)(c)	not exceeding 0.05% of daily net assets
Additional expenses for gross new inflows from specified cities SO-46	not exceeding 0.30% of daily net asset (These expenses are in abeyance with effect from March 1, 2023 till further instructions from SEBI)

The above estimates have been made in good faith as per the information available to the Investment Manager based on past experience and are subject to change inter-se and types of the expenses charged shall be as per the Regulations.

The tables relating to Annual Investment strategy Recurring Expenses given above and the Load structure given below have been given to the investor to assist him / her in understanding the various costs and expenses that an investor of the Investment strategy will bear directly or indirectly.

Investment management fees are payable monthly in arrears. The direct expenses incurred by each Investment strategy shall be chargeable to that Investment strategy. The common expenses incurred on various Investment strategy s could be allocated to the Investment strategy s based on various parameters such as number of unitholders, the size of the corpus / assets, equally or any other basis in conformity with generally accepted accounting principles.

Illustration of expenses and impact on the return SO-44						
	Regular Plan			Direct Plan*		
	Amount	Units	NAV Per Unit	Amount	Units	NAV Per Unit
Opening Investment and NAV Per Unit for the Day (a)	1,000,000	1000	1000	1,000,000	1000	1000
Closing Investment and NAV Per Unit for the Day (b)	1,099,940	1000	1099.94	1,099,970	1000	1099.97
NAV Movement (c = a - b)	99,940		99.94	99,970		99.97

Return for the Day after expenses (d = (c / a) %)	9.9940%		9.9940%	9.9970%		9.9970%
TER % (e)	2%			1%		
Distribution Expenses % (j)	1%					
Expenses for the Day (f = (b * e)/365 days)	60		0.06	30		0.03
Impact on Return due to Expenses % (g = (f / a) %)	0.0060%			0.0030%		
Value of investment prior to expense (h = b + f)	1,100,000		1100.00	1,100,000		1100.00
Return prior to expenses for the Day (i = d + g)	10.00%			10.00%		

*The investments under 'Direct' has lower expense ratio excluding distribution expenses, commission, etc., and no commission is paid on investments under Direct Plan. The Direct Plan also has a separate NAV as illustrated above.

Notes:

- The above illustration is provided only to explain the impact of expense ratio on Investment strategy's returns, and not to be construed as providing any kind of investment advice or guarantee on returns on investments.
- The Expense are charged on the closing asset under management and are subject to change on a periodic basis.
- The tax impact has not been considered in the above illustration. In view of the individual nature of the implications, each investor is advised to consult his or her own tax advisors/authorised dealers with respect to the specific amount of tax and other implications arising out of his or her participation in the Investment strategy.

D. LOAD STRUCTURE SO-47

- Exit Load is an amount which is paid by the investor to redeem the units from the Investment Strategy. Load amounts are variable and are subject to change from time to time. For the current applicable structure, please refer to the website of SIF www.franklintempletonindia.com/sapphireSIF or may call at 1800 425 4255 or 1800 258 4255 (Please prefix the city STD code if calling from a mobile phone. Local call rates apply to both the number) or contact your distributor.

Type of Load	Load chargeable (as %age of NAV)
Exit	: 1% if units redeemed within one year of allotment, NIL thereafter.

For investments under the 'Direct' plan, the Exit load applicable shall be the same as the exit load applicable in the respective Investment Strategy/ Investment Strategy Portfolio.

No exit load shall be charged in respect of switches between plans and options within the same Investment Strategy.

The AMC/Trustee reserves the right to modify the Load/Fee mentioned above at any time in future on a prospective basis, subject to the limits prescribed under the SEBI Regulations.

As per Para 10.4.1.a of SEBI Master Circular on Mutual Funds dated June 27, 2024, no entry load will be charged for purchase/additional purchase/switches accepted by Sapphire SIF. Similarly, no entry load will be charged with respect to all applications for registrations under the Systematic Investment Plan (SIP)/Systematic Transfer Plan (STP) accepted by the SIF.

The upfront commission on investment made by the investor, if any, shall be paid to the ARN Holder (AMFI registered distributor) directly by the investor, based on the investor's assessment of various factors including service rendered by the ARN Holder.

All the switches / exchanges will be treated as redemption in the source investment strategy and subscription in the destination investment strategy, with the entry and exit load as may be applicable. The switches of Units will be considered on First-in-First-Out (FIFO) basis.

For the information of the investors, any introduction / change of load in the investment strategy may be put up on the website (www.franklintempletonindia.com/sapphiresif) of Sapphire SIF. The addendum detailing the changes may be circulated among the Investor Service Centres / Distributors / Brokers under directions to display it at their respective offices in form of a Notice and attach it to the copies of Investment Strategy Information Documents and Key Information Memorandum (if required) already in stock. The load may also be disclosed in the account statement issued after the introduction of such load. **SO-34**

The investor is requested to check the prevailing load structure of the Investment Strategy before investing.

Exit load (if any) charged to the unit holders by SIF on redemption (including switch-out) of units shall be credited to the Investment Strategy net of Goods and service tax. Goods and Service tax on exit load, if any, shall be paid out of the exit load proceeds.

Load on bonus/ Reinvestment of Income Distribution cum capital withdrawal option units: As per Para 10.6 of SEBI Master Circular on Mutual Funds dated June 27, 2024, no entry and exit load shall be charged on bonus units or units allotted on reinvestment of IDCW.

Section II

Introduction

A. Definitions/interpretation

For detailed description please click the link:

www.franklintempletonindia.com/sapphiresif

Words and expression used but not defined in this Investment Strategy Information Document (ISID) shall have the same meaning respectively assigned to them under the Statement of Additional Information.

In this ISID, all references to “U.S.\$” or “\$” are to United States of America Dollars and “Rs.” are to Indian Rupees.

B. Risk factors

Investment Strategy Specific risk factors **SO-8**

B.1 Risk factors associated with investment in Capital markets

- The Investment strategy’s performance may be affected by corporate results, macroeconomic conditions, government policy changes, prevailing interest rates, and risks related to trading volumes, market liquidity, and settlement systems within securities markets.
- Restrictions on the liquidity of the Investment strategy’s investments can arise from limited trading volumes, extended settlement periods, and complex transfer procedures. Extreme market volatility may impede transactions due to reduced volumes.
- Amendments to SEBI or RBI regulations and guidelines may negatively impact on the Investment strategy’s liquidity.
- Indian financial markets exhibit varying settlement periods across different segments, which may be significantly extended by unforeseen events. Prolonged settlement times could adversely affect the Investment strategy in the event of an unusually high volume of redemption requests.
- The Trustee reserves the right, at their discretion, to temporarily or indefinitely limit or suspend the sale, repurchase/redemption, and switching of units in the investment strategy (including any specific plan under the investment strategy) under certain circumstances. For further details, refer to the sections titled ‘Suspension of sale of units’ and ‘Suspension of redemption of units.’
- The investment strategy will maintain a portion of its investment in cash or cash equivalents to meet daily liquidity requirements.

B.2 Risk associated in SIF Equity Long/Short Investment Strategy

- **Strategy and Manager Risk:** As a new asset class, most SIFs lack an established track record. Investors rely heavily on the skill, experience, and risk management capabilities of fund managers. While regulations aim to safeguard investors with mandatory disclosures, minimum investment thresholds, and certification for distributors, enforcement and investor comprehension may vary.
- **Suitability:** SIFs are not designed for retail investors. The minimum investment is ₹10

lakh, making them suitable only for informed high-net-worth or institutional investors capable of understanding complex risks and weathering market volatility.

- **Market Risk:** Although long/short strategies aim to minimize market exposure, they are still affected by broad market movements, such as recessions or macroeconomic shocks. Unexpected swings in market sentiment can cause losses in both long and short positions if the market moves against portfolio expectations.
- **Short-Sale Risk:** If a stock sold short rises substantially instead of falling, potential losses are theoretically unlimited, making short positions inherently riskier than long positions.
- **Leverage Risk:** These strategies often use borrowed capital to amplify returns (leverage), but leverage also increases downside risk and portfolio volatility, particularly in periods of market stress.
- **Idiosyncratic/Company-Specific Risk:** Losses can arise from factors that impact specific stocks, such as earnings reports, management changes, scandals, or regulatory actions, regardless of overall market conditions.
- **Execution and Liquidity Risk:** Short positions may be hard to establish or maintain in less liquid stocks, and execution risk can arise from short squeezes and borrowing costs. Liquidity is critical, especially during market crises.
- **Factor and Sector Exposure Risk:** Long/short portfolios often have exposure to specific factors such as value, growth, momentum, or quality. Unexpected shifts in factor performance or sector trends can impact returns.
- **Portfolio Construction and Concentration Risk:** Poor diversification or excessive concentration in specific stocks or sectors can increase risk. Prudent risk management calls for regular rebalancing and limiting individual stock exposure.
- **Higher Costs:** Long/short funds can involve higher transaction costs, including fees for short selling, borrowing expenses, and frequent rebalancing. These costs may erode returns, especially for funds relying heavily on short positions or high turnover.
- **Risk Management Complexity:** Managing a long/short portfolio, particularly with leverage or derivatives, requires sophisticated risk systems and processes. Portfolio managers must actively monitor and adjust exposures to prevent unexpected losses.

B.3 Risk associated with a Quantitative model-based investment strategy

- **Risk of investing in quants-based investment strategy:** Investing in a thematic fund is based on the premise that the Investment strategy will seek to invest in companies belonging to only specific theme. Thus, investing in a thematic fund could involve potentially greater volatility and risk.
- **Proprietary quantitative model:** The Investment strategy would be investing in Equity & Equity related instruments based on quant-based investment theme based on an in-house proprietary quantitative model. This in-house model will have various qualitative and quantitative factors basis which the investments would be done. However, the model may not be able to capture the short-term market opportunities from time to time due to the underlying factors used. The model is based on historical data and assumptions which may not hold true in future and can lead to losses.
- **Performance Variability in Factor Investing:** There is no guarantee that the factor model will generate higher returns as compared to the benchmark. Factor investing may go through cycles of underperformance and overperformance, and there may be periods when a factor-focused portfolio will not achieve its objectives.

- **Unintended Concentrations:** Factor portfolios can become heavily concentrated in certain sectors, increasing exposure to sector-specific risk
- **Crowded Trades and Overused Signals:** Popular factor strategies can lead to crowded trades, increasing the risk of sharp drawdowns during market stress, as many investors try to exit simultaneously.
- **Data Mining and Overfitting:** Some factors may have been identified through back testing and may not perform as expected in real markets, leading to model risk
- **Non-Constant Correlations:** Correlations between factors can change over time, reducing diversification benefits and potentially leading to simultaneous losses across multiple factors
- **Risk of Factor Premium Commoditization:** Factor premiums may diminish over time due to widespread adoption and arbitrage, reducing expected excess returns.
- **Fund Manager Discretion:** The Fund Manager may deviate from the model, due to market environment, liquidity considerations, flows, trading cost benefit analysis and any new information on any specific.
- **Higher Turnover:** This fund being thematic fund based on quantitative model, the turnover could be higher than other diversified equity funds. Frequent rebalancing or trading to maintain factor exposures can incur higher transaction costs.
- **Market impact and Liquidity Risk:** Model based investment at times may impact the market prices leading to higher costs.

B.4 Risk Factors associated with Minimum Investment Threshold

When investing in specialized investment funds (SIFs), the minimum investment threshold (₹10 lakh) introduces new dimensions of risk as follows:

- **Liquidity and Forced Redemption Risk** If an investor's holdings fall below the minimum threshold through active breaches (redemption, transfer), regulatory mechanisms require the fund to enforce action such as forced redemption of units or freezing investor accounts for further debits. This may lead to liquidation at a less-than-optimal price, especially during adverse market conditions.
- **Barrier to Entry and Investor Eligibility** A high minimum investment threshold restricts access to these funds mainly to high net-worth individuals and institutional investors. This can exclude retail investors from strategies, concentrating risk among a smaller investor base
- **Concentration and Diversification Risk** High minimum thresholds can result in fewer, larger investors per fund. This concentration makes the fund susceptible to redemption pressure, impacting the overall portfolio stability and increasing liquidity risk.
- **Investment Flexibility Constraints** Investors who prefer the flexibility of gradual inflow must ensure their total investments continue to meet the minimum threshold. Falling below it can trigger forced redemption, limiting investment strategy options.

B.5 Risks factors associated with equity and equity related instruments

- **Market Risk:** The Investment strategy proposes to invest in equity and equity-related securities. Prices, trading volumes, settlement periods and transfer procedures may restrict liquidity of investments in equity and equity-related securities. Market risk is a risk which is inherent to an equity investment.
- **Liquidity Risk:** Risk will be monitored in terms of the number of days it takes to

liquidate every stock in the portfolio assuming a share of the average volume traded over the previous one year. Efforts would be made to keep the average liquidation period under prudent limits prescribed internally. While securities that are listed on the stock exchange carry lower liquidity risk, the ability to sell these investments may be limited by overall trading volumes of the stock exchanges.

- **Investment in Mid & Small Cap stocks:**

- o While mid cap and small cap stocks give one an opportunity to go beyond the usual large cap stocks and present possible higher capital appreciation, it is important to note that mid/small cap stocks can be riskier and more volatile on a relative basis. Therefore, the risk levels of investing in small cap and mid cap stocks are more than investing in stocks of large well-established companies.

- o While smaller and medium size companies may offer substantial opportunities for capital appreciation, they also involve substantial risks. Historically, these companies have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller companies to changing economic conditions. Smaller companies carry large amount of liquidity risk compared to the Large Cap companies, as the ability to sell is limited by overall trading volume in the securities, which it invests.

- o In addition, smaller companies may lack depth of management, be unable to generate funds necessary for growth or development or be developing or marketing new products or services for which markets are not yet established and may never become established. They could also suffer from disadvantages such as - outdated technologies, lack of bargaining power with suppliers, low entry barriers and inadequate management depth. Overall, the risks of investing in medium / small companies are (a) transparency/liquidity levels may not be at par with established, large companies; (b) corporate governance may be an issue with some companies; and (c) they may not be resilient enough to withstand shocks of business/economic cycles.

- **Historical Trends and Performance:** The fund manager aims to generate returns based on past statistical trends. However, the performance of the Investment strategy may be affected if there is a change in these trends. There is no assurance that historical trends will continue

- **Liquidity in Abnormal Circumstances:** In abnormal circumstances, it may be difficult to complete square-off transactions due to poor liquidity in stock futures or the spot market. The fund will aim to take exposure into relatively liquid stocks to minimize the risk of square-off transactions.

- **Impact of Government Policy Changes:** Changes in government policy, especially changes in tax benefits applicable to mutual funds, may impact the returns to investors in the Investment strategy or the business prospects of the company in any particular sector.

- **Unlisted securities:** Securities which are not quoted on the stock exchanges are inherently illiquid in nature and carry a larger liquidity risk in comparison with securities that are listed on the exchanges or offer other exit options to the investors, including put options. This may, however, increase the risk of the portfolio. Additionally, the liquidity and valuation of the Investment strategy's investments due to its holdings of unlisted securities may be affected if they have to be sold prior to the target date of disinvestment.

B.6 Risk Factors associated with investment in Derivatives

- **General risk factors related to derivatives**

The investment strategy may use various derivative products as permitted by the Regulations. Use of derivatives requires an understanding of not only the underlying instrument but also of the derivative itself.

- o **Correlation with underlying assets:** Derivatives can include the risk of mis-pricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates, and indices.
- o **Leveraged instruments:** Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor.
- o **Fund manager skill dependent:** 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 the decision of the 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
- o **Market Opportunity Risk:** There is a risk of mispricing or improper valuation, as well as the inability of derivatives to correlate perfectly with underlying assets, rates, and indices.
- o **Execution Risk:** The prices displayed on the screen may not necessarily be the same as the prices at which execution will occur.
- o **Basis Risk:** This risk arises when the derivative instrument used to hedge the underlying asset does not match the movement of the underlying asset being hedged.
- o **Margin Requirements:** Exchanges may increase the initial margin, variation margin, or other forms of margin on derivative contracts. They may also impose one-sided margins or require that margins be placed in cash. These actions could force positions to be unwound at a loss and could materially impact returns
- **SIF related derivative positions:** Investment Strategy can take derivative positions, including options and short selling, beyond what is permitted for hedging and rebalancing. Derivatives can introduce high volatility and risk of loss. While they are often used for hedging, SIFs may also use them for speculative strategies, amplifying both gains and losses. Strategies like long-short or single-stock derivatives carry risks of unlimited losses in short positions and rapid mark-to-market fluctuations.
- **Complexity of investment strategies:** The structure and payoff mechanisms in derivative-linked investments can be highly complex; investors may not fully understand the risk exposure, especially if derivatives are used for unhedged positions, leverage, or concentrated portfolio strategies.
- **Liquidity Risk:** Derivative markets may not be liquid enough, particularly for exotic or deep-out-of-the-money contracts, making exit difficult. If redemption demands arise, fund managers might have to liquidate positions at unfavorable prices. Derivative positions can be especially illiquid during market stress, making it hard to unwind trades or liquidate holdings quickly.
- **Leverage and Concentration Risk:** Derivatives often involve leverage; even within the gross exposure and maximum unhedged exposure limit, using derivatives can significantly amplify gains and losses. Concentrated bets through derivatives (especially combined with equity/debt exposures) can magnify downside if markets move against the position. Investment strategy may focus on specific sectors or themes, increasing exposure to sector-specific risks. Derivative bets can magnify those effects if the market moves unfavorably.
- **Market and Volatility Risk:** Exposure to niche strategies and derivatives means

investment strategies are more vulnerable to market swings, especially during corrections. Price movements in the underlying assets can lead to significant and rapid changes in returns. Derivatives inherently magnify market movements, so price swings in underlying assets can be rapid and substantial. Short positions, especially unhedged ones, carry potentially unlimited loss if the underlying asset price rises instead of falls.

- **Risk associated with Covered Call**

A call option gives the holder (buyer) the right but not the obligation to buy an asset by a certain date for a certain price. Covered calls are an options strategy where a person holds a long position in an asset and writes (sells) call options on that same asset to generate an income stream. The Investment strategy may write call options under covered call strategy, as permitted by the regulations. Risks associated thereto are mentioned below:

- o Opportunity cost: A covered call strategy limits the upside potential of the stock underlying. If the stock rises sharply, the gains above the call option's strike price will be missed out. When the underlying asset's price rises above the strike price, the short call loses its value as much as the underlying stock gains and as a result the upside of the stock always gets capped. Downside risk is reduced by writing covered call options.
- o Exit issues / Illiquidity risk: If the strike price at which the call option contracts have been written become illiquid, the Investment strategy may not be able to sell the underlying equity shares, which can lead to temporary illiquidity of the underlying equity shares and result in loss of opportunity. Also, if the covered call options are sold to the maximum extent allowed by regulatory authority, the Investment strategy may not be able to sell the underlying equity shares immediately in case where the view changes to sell and exit the stock.
- o The total gross exposure related to option premium paid and received must not exceed the regulatory limits of the net assets of the Investment strategy. This may restrict the ability of Investment strategy to utilize options strategies.

B.7 Risks factors associated with investment in Fixed Income Securities

- **Market Risk/Interest Rate Risk:** The Net Asset Value (NAV) of the Investment strategy(s), to the extent invested in Debt and Money Market securities, will be affected by changes in the general level of interest rates. The NAV of the Investment strategy(s) is expected to increase from a fall in interest rates while it would be adversely affected by an increase in the level of interest rates.
- **Liquidity Risk:** The liquidity of a security may change depending on market conditions leading to changes in the liquidity premium linked to the price of the security. At the time of selling the security, the security can become illiquid leading to loss in the value of the portfolio.
- **Credit Risk:** Investments in Fixed Income 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.
- **Price Risk:** Government securities where a fixed return is offered run price-risk like any other fixed income security. Generally, when interest rates rise, prices of fixed income securities fall and when interest rates drop, the prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates. The new level of interest rate is determined by the rates at which government raises new money and/or the price levels at which the market is already dealing in existing securities. The price-risk is not unique to Government Securities. It exists for all fixed income securities. However, Government Securities are unique in the sense that their credit risk generally remains zero. Therefore, their prices are influenced only by movement in interest rates

in the financial system.

- **Reinvestment Risk:** This risk refers to the interest rate levels at which cash flows received from the securities in the Investment strategy 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.
- **Regulatory Risk:** Changes in government policy in general and changes in tax benefits applicable to Mutual Funds may impact the returns to investors in the Investment strategy.
- **Risks associated with investment in unlisted debt securities:** Except for any security of an associate or group company, the Investment strategy can invest in securities which are not listed on a stock exchange (“unlisted Securities”) which in general are subject to greater price fluctuations, less liquidity and greater risk than those which are traded in the open market. Unlisted securities may lack a liquid secondary market and there can be no assurance that the Investment strategy will realise their investments in unlisted securities at a fair value. The AMC may choose to invest in unlisted securities that offer attractive yields. This may increase the risk of the portfolio.
- **Potential difficulties in transacting in Government Securities due to market conditions:**

Although the government securities market is generally more liquid compared to other debt instruments, there can be difficulties in transacting due to extreme volatility, unusual constriction in market volumes, or the need to execute unusually large transactions

- **Settlement risk:** The inability of the Investment strategy to make intended securities purchases due to settlement problems could cause the Investment strategy to miss certain investment opportunities. By the same rationale, the inability to sell securities held in the Investment strategy’ portfolio due to the extraneous factors that may impact liquidity would result, at times, in potential losses to the Investment strategy, in case of a subsequent decline in the value of securities held in the Investment strategy’ portfolio.
- **Risk of large redemption requests:** The Investment strategy(s) at times may receive large number of redemption requests, leading to an asset-liability mismatch and therefore, requiring the investment manager to make a distress sale of the securities leading to realignment of the portfolio and consequently resulting in investment in lower yield instruments.

B.8 Instrument specific risks factors

- **Risk factors associated with investment in Tri-Party Repo**

All transactions of the mutual fund in government securities and in Tri-party Repo trades are settled centrally through the infrastructure and settlement systems provided by Clearing Corporation of India (CCIL). This reduces the settlement and counterparty risks considerably.

Mutual funds are member of securities segment and Triparty Repo trade settlement of CCIL. The members are required to contribute an amount from time to time to the default fund maintained by CCIL as a part of the default waterfall (a loss mitigating measure of CCIL in case of default by any member in settling transactions routed through CCIL). As per the waterfall mechanism, after the defaulter's margins and the defaulter's contribution to the default fund have been appropriated, CCIL's contribution is used to meet the losses. Post utilization of CCIL's contribution if there is a residual loss, it is appropriated from the default fund contributions of the non-defaulting members. Thus, the Investment strategy is subject to risk of the initial margin and default fund contribution being invoked in the event of failure of any

settlement obligations. Additionally, the fund contribution is allowed to meet the residual loss in case of default by the other clearing member (the defaulting member). CCIL maintains two separate Default Funds with respect to the Securities Segment. One with a view to meet losses arising out of any default by its members from outright and repo trades and the other for meeting losses arising out of any default by its members from Triparty Repo trades.

Therefore, mutual fund is exposed to the extent of its contribution to the default fund of CCIL. If the contribution of the mutual fund is called upon to absorb settlement/default losses of another member by CCIL, the Investment strategy may lose an amount equivalent to its contribution to the default fund.

- **Risks associated with Repo in Corporate Debt**

- o Lending transactions: The Investment strategy may be exposed to counter party risk in case of repo lending transactions in the event of the counterparty failing to honour the repurchase agreement. However, in repo lending transactions, the collateral may be sold, and a loss is realized only if the sale price is less than the repo amount. The risk may be further mitigated through overcollateralization (the value of the collateral being more than the repo amount). Further, the liquidation of underlying securities in case of counterparty default would depend on liquidity of the securities and market conditions at that time. It is endeavoured to mitigate the risk by following an appropriate counterparty selection process, which include their credit profile evaluation and over-collateralization to cushion the impact of market risk on sale of underlying security.
- o Borrowing transactions: In the event of the Investment strategy being unable to pay back the money to the counterparty as contracted, the counter party may dispose of the assets (as they have sufficient margin). This risk is normally mitigated by better cash flow planning to take care of such repayments. Further, there is also a Credit Risk that the Counterparty may fail to return the security or Interest received on due date. It is endeavoured to mitigate the risk by following an appropriate counterparty selection process, which include their credit profile evaluation. Further, there is also a Credit Risk that the Counterparty may fail to return the security or Interest received on due date. It is endeavoured to mitigate the risk by following an appropriate counterparty selection process, which include their credit profile evaluation.

- **Risk associated with investing in units of mutual funds**

The Investment strategy may make investments in units of mutual funds. Investments in mutual funds Investment strategy are subject to market risks and there is no assurance or guarantee that the objectives of the Investment strategy will be achieved. Further, any investment in mutual funds is also subject to risk factors outlined in the offer document of the mutual fund and an adverse performance of a mutual fund Investment strategy in which the Investment strategy has made investments could adversely impact the Investment strategy's performance and NAV of the Investment strategy

- **Risk associated with investments in REITs**

Market Risk: REIT securities are subject to fluctuations in market prices driven by macroeconomic conditions, investor sentiment, and overall equity market volatility. REITs are vulnerable to movements in the prices of securities invested in by the Investment Strategy, due to various market-related factors like changes in the general market conditions, factors and forces affecting capital

market, level of interest rates, trading volumes, settlement periods and transfer procedures. Adverse economic cycles may lead to a decline in property valuations and rental income streams.

Interest Rate Risk: REITs are highly sensitive to changes in interest rates. An increase in interest rates typically raises borrowing costs and may reduce the relative attractiveness of REIT dividend yields compared to fixed-income securities, thereby impacting valuations.

Liquidity Risk: Although listed REITs provide market liquidity, trading volumes may be limited compared to equities, potentially impacting the ability to exit positions at favorable prices.

Property-Specific Risk: The financial performance of a REIT is directly linked to the quality and occupancy of its underlying real estate assets. Risks include tenant defaults, prolonged vacancies, and sector-specific downturns (e.g., retail, office, hospitality).

Regulatory and Taxation Risk: REITs operate under specific regulatory frameworks and tax regimes. Any amendments to applicable laws, including changes in tax treatment or compliance requirements, may adversely affect distributions and overall returns.

Concentration Risk: REITs with concentrated exposure to a single property type or geographic region are vulnerable to sector-specific or regional economic downturns, which may impair income stability and asset valuations.

Inflation Risk: Although real estate is generally considered an inflation hedge, fixed long-term lease agreements may restrict the ability to adjust rental income in line with inflationary trends, thereby impacting profitability.

Management and Operational Risk: The performance of a REIT is contingent upon the strategic and operational decisions of its management team. Ineffective asset allocation, acquisition strategies, or tenant management practices can materially affect financial outcomes.

- **Risk associated with investments in Infrastructure Investment Trusts (InvITs):**

Regulatory and Policy Risk: InvITs operate under a defined regulatory regime. Any changes in government policies, tax laws, or SEBI regulations can materially impact the structure, returns, and compliance obligations of InvITs.

Economic and Market Risk: The performance of InvITs is influenced by macroeconomic conditions, interest rate movements, and overall market sentiment. Economic downturns may reduce traffic volumes, energy demand, or other usage metrics, thereby impacting cash flows.

Operational Risk: Infrastructure assets are subject to operational challenges such as maintenance issues, technical failures, and delays in project execution. These factors can lead to cost overruns and reduced revenue generation.

Revenue and Demand Risk: InvIT revenues often depend on long-term concessions or usage-based models (e.g., toll roads, transmission lines). Lower-than-expected demand or traffic volumes can adversely affect income streams.

Counterparty and Credit Risk: InvITs rely on counterparties such as concession authorities, contractors, and lenders. Defaults or delays in payments by these entities can impair cash flows and distributions to unit holders.

Interest Rate and Financing Risk: InvITs typically employ leverage for asset acquisition and operations. Rising interest rates can increase financing costs and reduce distributable income.

Sector Concentration Risk: InvITs often focus on specific infrastructure sectors (e.g., roads, power transmission). Sector-specific regulatory changes or economic stress can disproportionately affect performance.

Liquidity Risk: Although listed InvITs provide market liquidity, trading volumes may be limited compared to equities, potentially impacting the ability to exit positions at favorable prices.

Force Majeure and Environmental Risk: Infrastructure assets are exposed to risks arising from natural disasters, extreme weather events, and other force majeure situations, which can disrupt operations and revenue generation.

Management and Governance Risk: The success of an InvIT depends on the competence and integrity of its management team. Poor governance, inadequate risk controls, or misaligned interests can negatively impact investor returns.

- **Risks associated with overseas investment SO-11**

To the extent the assets of the Investment strategy are invested in overseas financial assets, there may be risks associated with currency movements, restrictions on repatriation and transaction procedures in overseas market. Further, the repatriation of capital to India may also be hampered by changes in regulations or political circumstances as well as the application to it of other restrictions on investment. 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. Overseas investments will be made subject to any/all approvals, limits, conditions thereof as may be stipulated under the SEBI Regulations or by RBI.

- o **Currency Risk:** The fund may invest in overseas mutual fund / foreign securities as permitted by the concerned regulatory authorities in India. Since the assets 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/fluctuations in the value of the foreign currencies relative to the Indian Rupee.
- o **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.

- **Risk Factors with respect to Imperfect Hedging Using Interest Rate**

An Interest Rate Futures is an agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today. Interest Rate Futures are Exchange traded. These future contracts are cash settled.

- o Perfect Hedging means hedging the underlying using IRF contract of same underlying.
- o Imperfect hedging means the underlying being hedged and the IRF contract has correlation of closing prices of more than 90%.

In case of imperfect hedging, the portfolio can be a mix of:

- Corporate Bonds and Government securities or
- Only Corporate debt securities or
- Only government securities with different maturities

- **Risk associated with imperfect hedging includes:**

- o **Basis Risk:** The risk arises when the price movements in derivative instrument used to hedge the underlying assets does not match the price movements of the underlying assets being hedged. Such difference may potentially amplify the gains or losses, thus adding risk to the position.
- o **Price Risk:** The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates, and indices.

- Risk of mismatch between the instruments: The risk arises if there is a mismatch between the prices movements in derivative instrument used to hedge, compared to the price movement of the underlying assets being hedged. For example, when IRF which has government security as underlying is used, to hedge a portfolio that contains corporate debt securities.
- Correlation weakening and consequent risk of regulatory breach: SEBI Regulation mandates minimum correlation criterion of 0.9 (calculated on a 90-day basis) between the portfolio being hedged and the derivative instrument used for hedging. In cases where the correlation falls below 0.9, a rebalancing period of 5 working days has been permitted. Inability to satisfy this requirement to restore the correlation level to the stipulated level, within the stipulated period, due to difficulties in rebalancing would lead to a lapse of the exemption in gross exposure computation. The entire derivative exposure would then need to be included in gross exposure, which may result in gross exposure in excess of 100% of net asset value.
- Yield curve slope risk – The IRF hedge is done on a modified duration basis. This means that the maturity of the underlying instrument and the maturity of the IRF could be different. The hedge ratio is arrived at using the prescribed formula. This hedges the risk arising from a parallel shift in the yield curve. Any change in the slope of the yield curve (flattening/steepening) remains unhedged as residual risk.
- Spread risk – The IRF is based on government securities and treasury bills. Imperfect hedging can be applied on portfolios comprised of corporate bonds as well. Corporate bond yield theoretically comprises of the risk free rate (systemic risk) and a credit spread (idiosyncratic risk). IRF would hedge out only the risk free rate. Any compression/expansion of credit spread of the underlying portfolio would not be hedged by the IRF.
- Liquidity/execution risk – IRF are relatively new instruments traded on the exchanges and don't have as much liquidity as the OTC market in the underlying bond. This could expose the hedge to liquidity (execution and wider bid-offer spread) risk and associated impact cost.
- Change in benchmark bond – IRF of government bonds are based on the liquid, on the run securities. When the underlying security is phased out for issuance by Government of India, a new bond is typically issued. IRFs are subsequently issued on the new bond and the market liquidity shifts to the new bond and away from the older bond. This would also expose the hedge to liquidity risk and impact cost to shift from the older instrument to the newer instrument.
- Rollover risk – IRF instruments are available upto a year in maturity, but typically the first few months are more liquid. If the holding period of the hedge exceeds the maturity of the IRF instrument's maturity, then the IRF would have to be rolled over at maturity. This could create rollover risk at maturity and associated costs.
- Unwinding risk – An unexpected change in market conditions may require unwinding the derivative positions at disadvantageous prices during periods of heightened volatility e.g. if the yields slide lower due to a surprise RBI rate cut, participants with short Interest Rate Futures positions would seek to cut their losses and exit, leading to an increase in the price of the IRF, and negative price impact on the hedged portfolio there from.

- **Risks associated with Securities Lending**

As with other modes of extensions of credit, there are risks inherent to securities lending, including the risk of failure of the other party, in this case the approved intermediary, to comply with the terms of the agreement entered into between the lender of securities i.e. the Investment strategy and the approved intermediary. Such failure can result in the possible loss of rights to the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of any corporate benefits

accruing to the lender from the securities deposited with the approved intermediary. The Investment strategy may not be able to sell lent out securities, which can lead to temporary illiquidity & loss of opportunity.

- **Risk factors associated with investments in Perpetual Debt Instrument (PDI)**

Perpetual Debt instruments are issued by Banks, non-banking financial institutions (NBFCs) and corporates to improve their capital profile. Some of the PDIs issued by Banks which are governed by the Reserve Bank of India (RBI) guidelines for Basel III Capital Regulations are referred to as Additional Tier I (AT1 bonds). While there are no regulatory guidelines for issuance of PDIs by corporate bodies, NBFCs issue these bonds as per guidelines issued by RBI. The instruments are treated as perpetual in nature as there is no fixed maturity date.

The key risks associated with these instruments are highlighted below:

- o **Risk on coupon servicing:**

- Banks: As per the terms of the instruments, Banks may have discretion to cancel distributions/ payment of coupons
- NBFCs: While NBFCs may have discretion to cancel payment of coupon, coupon may also be deferred (instead of being cancelled), in case paying the coupon leads to breach of capital ratios.
- Corporates: Corporates usually have discretion to defer the payment of coupon. However, the coupon is usually cumulative, and any deferred coupon shall accrue interest at the original coupon rate of the PDI

- o **Risk of write-down or conversion into equity**

Banks: As per the regulatory requirements, Banks have to maintain a minimum Common Equity Tier-1 (CET-1) ratio of Risk Weighted Assets (RWAs), failing which the AT-1 bonds can get written down. Further, AT-1 Bonds are liable to be written down or converted to common equity, at the discretion of RBI, in the event of Point of Non Viability Trigger (PONV). PONV is a point, determined by RBI, when a bank is deemed to have become non-viable unless there is a write off/ conversion to equity of AT-1 Bonds or a public sector capital injection happens. The write off/conversion has to occur prior to public sector injection of capital. This risk is not applicable in case of NBFCs and Corporates.

- o **Risk of instrument not being called by the Issuer**

- Banks: The issuing banks have an option to call back the instrument after minimum period as per the regulatory requirement from the date of issuance and specified period thereafter, subject to meeting the RBI guidelines. However, if the bank does not exercise the call on first call date, the Investment strategy may have to hold the instruments for a period beyond the first call exercise date.
- NBFCs: The NBFC issuer has an option to call back the instrument after minimum period as per the regulatory requirement from date of issuance and specified period thereafter, subject to meeting the RBI guidelines. However, if the NBFC does not exercise the call option the Investment strategy may have to hold the instruments for a period beyond the first call exercise date.
- Corporates: There is no minimum period for call date. However, if the corporate does not exercise the call option, the Investment strategy may have to hold the

instruments for a period beyond the call exercise date.

- **Risks associated with Securitized Debts**

The Risks involved in Securitised Papers described below are the principal ones and does not represent that the statement of risks set out hereunder is exhaustive.

- o **Limited Liquidity & Price Risk:** There is no assurance that a deep secondary market will develop for the Certificates. This could limit the ability of the investor to resell them.
- o **Limited Recourse, Delinquency and Credit Risk:** The Credit Enhancement stipulated represents a limited loss cover to the Investors. These Certificates 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 Certificate Holders against the Investors' Representative. Delinquencies and credit losses may cause depletion of the amount available under the Credit Enhancement and thereby the Investor Payouts to the Certificate 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 Asset. However, many factors may affect, delay or prevent the repossession of such Asset or the length of time required to realise the sale proceeds on such sales. In addition, the price at which such Asset may be sold may be lower than the amount due from that Obligor.
- o **Risks due to possible prepayments and Charge Offs:** In the event of prepayments, investors may be exposed to changes in tenor and yield. Also, any Charge Offs would result in the reduction in the tenor of the Pass Through Certificates (PTCs).
- o **Bankruptcy of Bank with Liquidity facility:** If the Bank with Liquidity facility, becomes subject to bankruptcy proceedings then an investor could experience losses or delays in the payments.
- o **Risk of Co-mingling:** With respect to the Certificates, the Servicer will deposit all payments received from the Obligors into the Collection Account. However, there could be a time gap between collection by a Servicer and depositing the same into the Collection account especially considering that some of the collections may be in the form of cash. In this interim period, collections from the Loan Agreements may not be segregated from other funds of originator. If originator in its capacity as Servicer fails to remit such funds due to Investors, the Investors may be exposed to a potential loss.

- **Risks associated with short selling of securities:** Purchasing a security entails the risk of the security price going down. Short selling of securities (i.e. sale of securities without owning them) entails the risk of the security price going up there by decreasing the profitability of the short position. Short selling is subject to risks related to fluctuations in market price, and settlement/liquidity risks. If required by the Regulations, short selling may entail margin money to be deposited with the clearing house and daily mark to market of the prices and margins. This may impact fund pricing and may induce liquidity risks if the fund is not able to provide adequate margins to the clearing house. Failure to meet margin requirements may result in penalties being imposed by the exchanges and clearing house.

C. Risk mitigation strategies SO-9

The Investment strategy, by utilizing a holistic risk management strategy will endeavour to manage risks associated with investing in equity and debt markets. The risk control process involves identifying & measuring the risk through various risk measurement tools.

The Investment strategy has identified the following risk management strategies, which are embedded in the investment process to manage such risks.

Type of Risks	Measures/ Strategies to control risks
Equity and Equity related instruments	Investment strategy: The fund will comply with the prescribed SEBI limits on exposure. Risk is monitored and necessary action would be taken on the portfolio, if required. Attribution analysis is done to monitor the under or over performance vis a vis the benchmark and the reasons for the same. Portfolio volatility & concentration: The overall volatility of the portfolio would be maintained in line with the objective of the Investment Strategy Volatility would be monitored with respect to the benchmark and peer set. Liquidity: The Investment Strategy predominantly invests across market capitalisations which are actively traded and thereby liquid. The fund manager may also keep some portion of the portfolio in debt and money market instruments and/or cash within the specified asset allocation framework for the purpose of meeting redemptions. The liquidity would be monitored, and necessary action would be taken on the portfolio if required. Stock turnover is monitored at regular intervals. The debt/money market instruments that are invested by the fund will have a short-term duration.
Derivatives	The Investment Strategy may invest in derivatives for the purpose of hedging, portfolio balancing and unhedged purposes as may be permitted under the Regulations. Equity Derivatives will be used in the form of Index Options, Index Futures, Stock Options and Stock Futures and other instruments as may be permitted by SEBI. Derivatives can be either exchange traded or can be over the counter (OTC). Exchange traded derivatives are listed and traded on stock exchanges whereas OTC derivative transactions are generally structured between two counterparties. Exposure with respect to derivatives shall be in line with regulatory limits and the limits specified in the SID. Specifically on derivate investments for purposes other than hedging and rebalancing, the investment strategy will adhere to regulatory limits on maximum unhedged short positions and maximum portfolio gross exposure. Portfolio and position-level liquidity will be monitored, and necessary actions will be taken if required. The investment strategy aims to restrict investments to derivative contracts with low liquidity and low open interest. Additionally, the investment strategy will endeavour to diversify exposures across indices, sectors, and expiries to reduce concentration

Debt and Money Market instruments	Credit Risk: Management analysis will be used for identifying company specific risks. Management's past track record will also be studied. In order to assess financial risk a detailed assessment of the issuer's financial statements will be undertaken. Price-Risk or Interest-Rate Risk: The Investment Strategy may invest the debt portion of the portfolio in short term debt & money market instruments, units of Liquid and Overnight mutual fund schemes thereby mitigating the price volatility due to interest rate changes generally associated with long-term securities. Risk of Rating Migration: The Investment Strategy may invest the debt portion of the portfolio in short term debt & money market instruments, units of Liquid and Overnight schemes thereby mitigating the risk of rating migration generally associated with long-term securities. Basis Risk: The debt allocation of Investment strategy is primarily as a cash management strategy and such strategy returns are expected to reflect the very short-term interest rate hence investment is done in short term debt and money market instruments. Spread Risk: The Investment Strategy may primarily invest the debt portion of the portfolio in short-term debt & money market instruments, units of Liquid and Overnight schemes thereby mitigating the risk of spread expansion which is generally associated with long-term securities Reinvestment Risk: The debt allocation of Investment Strategy is primarily as a cash management strategy and such strategy returns are expected to reflect the very short-term interest rate hence investment is done in short term debt and money market instruments. Reinvestment risks will be limited to the extent of debt instruments, which will be a very small portion of the overall portfolio value. Liquidity Risk: The Investment Strategy may, however, endeavour to minimize liquidity risk by primarily investing the debt portion of the portfolio in relatively liquid short-term debt & money market instruments, units of Liquid and Overnight schemes.
Government securities and Triparty repo on Government securities or treasury bills:	As a member of securities segment and Triparty repo segment, maintenance of sufficient margin is a mandatory requirement. CCIL monitors these on a real time basis and requests the participants to provide sufficient margin to enable the trades etc. Also, there are stringent conditions / requirements before registering any participants by CCIL in these segments. Since settlement is guaranteed the loss on this account could be minimal though there could be an opportunity loss.
Repo Transactions	This risk is largely mitigated, as the choice of counterparties is largely restricted and their credit rating is taken into account before entering into such transactions. Also, operational risks are lower as such trades are settled on a DVP basis. In the event the counterparty is unable to pay back the money to the Investment Strategy as contracted on maturity, the Investment Strategy may dispose of the assets (as they have sufficient margin) and the net proceeds may be refunded to the

	counterparty.
Units of mutual fund schemes	Mutual Fund portfolios are generally well diversified and typically endeavour to provide liquidity on a T+1/T+2 basis and aim to mitigate any risks arising out of underlying investments.
REITS	The fund will comply with the prescribed SEBI limits on exposure. The Investment Strategy will endeavour to invest in liquid REITS.
InvITS	The fund will comply with the prescribed SEBI limits on exposure. The Investment Strategy will endeavour to invest in liquid InvITs.
Securities Lending	The SLB shall be operated through Clearing Corporation/Clearing House of stock exchanges having nation-wide terminals who are registered as Approved Intermediaries (AIs).” The risk is adequately covered as Securities Lending & Borrowing (SLB) is an Exchange traded product. Exchange offers an anonymous trading platform and gives the players the advantage of settlement guarantee without the worries of counter party default. However, the Fund may not be able to sell such lent securities during contract period or have to recall the securities which may be at higher than the premium at which the security is lent.
Securitized Debt	In addition to careful scrutiny of credit profile of borrower/pool additional security in the form of adequate cash collaterals and other securities may be obtained.
Structured Obligation (SO) & Credit Enhancement (CE) rated securities	Investments as prescribed by the regulations, limits the exposure to such securities. Additionally, covenants of such structured papers are reviewed periodically for adequate maintenance of covers as prescribed in the Information Memorandum of such papers.

Note: The information contained herein is based on current market conditions and may change from time to time based on changes in such conditions, regulatory changes and other relevant factors. Accordingly, our investment strategy, risk mitigation measures and other information contained herein may change in response to the same.

Information about the investment strategy: **SO- 29**

A. Where will the investment strategy invest –

In terms of Regulation 49Z of SEBI MF Regulations, detailed description of the instruments as permitted under Regulation 43(1) for mutual fund schemes (including overview of debt markets in India, if applicable) mentioned in Section I.

A.1 Instrument types

- **Equity Securities:**

Equity and Equity related instruments include convertible debentures, equity warrants, convertible preference shares, equity derivatives and units of Real Estate Investment trust (REITs).

- **Derivative Instruments**

As part of the Fund Management process, the Fund manager may use of derivative instruments such as index futures, stock futures and options contracts, or any other derivative instruments that are permissible or may be permissible in future under applicable regulations and such investments shall be in accordance with the investment objectives of the Investment Strategy.

Index futures/options are meant to be an efficient way of buying/selling an index compared to buying/selling a portfolio of physical shares representing an index for ease of execution and settlement. Index futures/options can be an efficient way of achieving the Investment Strategy's investment objective.

Derivatives can be either exchange traded or can be over the counter (OTC). Exchange traded derivatives are listed and traded on Stock Exchanges whereas OTC derivative transactions are generally structured between two counterparties.

Derivatives may be high risk - high return instruments, upon leveraging. As they are highly leveraged, a small price movement in the underlying security could have a large impact on their value and may also result in a loss.

- **Debt and Money Market Instruments: SO-13**

Debt Instruments:

Debt instruments (in the form of non-convertible debentures, bonds, secured premium notes, zero interest bonds, deep discount bonds, floating rate bonds/notes, securitized debt, pass through certificates, asset backed securities, mortgage-backed securities and any other domestic fixed income securities including structured obligations etc.) include, but are not limited to:

- Debt issuances of the statutory bodies (which may or may not carry a state/central government guarantee)
- Debt securities that have been guaranteed by Government of India and State Governments,
- Debt securities issued by Corporate Entities (Public /Private sector undertakings),
- Debt securities issued by Public/Private sector banks and development financial institutions,
- Securitized Debt, Structured Obligations, Credit enhanced Debt,
- Non Convertible Preference Shares.

Money Market Instruments include:

- Commercial papers
- Commercial bills
- Tri-party Repos on Government securities or treasury bills (TREPS)
- Certificate of deposit
- Usance bills
- Permitted securities under a repo/reverse repo agreement
- Any other like instruments as may be permitted by RBI/SEBI for liquidity requirements

from time to time.

Any other debt and money market instruments that may be available or evolve with the development of the securities markets and as may be permitted by SEBI / RBI from time to time

- **Investment schemes of Mutual funds**

Investment Strategy may invest in Mutual fund schemes managed by the AMC or in the schemes of any other mutual funds

- **InvITs**

Investment Strategy may invest in units of and Infrastructure Investment Trusts (InvITs)

- **Investment In Foreign Securities**

The Investment Strategy may invest in permitted Foreign Securities and any other overseas instruments as may be permitted by SEBI/RBI/other regulatory authorities from time to time.

As per Para 12.19 of SEBI Master Circular on Mutual Funds dated June 27, 2024, has issued guidelines pertaining to investments in overseas financial assets. Accordingly, the investments in Foreign Securities shall be made in compliance with the said circular.

The Investment Strategy may invest in various types of instruments including, but not limited to, any of the following:

- Equity and Equity related instruments of overseas companies listed on recognised stock exchanges overseas
- Initial and follow on public offerings for listing at recognised stock exchanges overseas
- ADRs / GDRs issued by Indian or foreign companies
- Overseas Exchange Traded Funds (ETFs)
- units/securities issued by overseas mutual funds or unit trusts registered with overseas regulators and investing in permitted Foreign Securities, Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas or unlisted overseas securities (not exceeding 10% of their net assets).
- Any other permitted overseas securities / instruments that may be available from time to time.

The securities mentioned above could be listed, unlisted, publicly offered, privately placed, secured, unsecured, rated or unrated. The securities may be acquired through public offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals. The Investment strategy may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions. Investment in Foreign equity listed Securities shall be made in accordance with the guidelines issued by SEBI and RBI from time to time.

Offshore investment will be made subject to any/ all approvals/conditions thereof as may be stipulated by SEBI/ RBI/ other regulatory authorities. Boards of asset management companies (AMCs) and trustees shall exercise due diligence in making investment decisions as required under Regulation 25(2). They shall make a detailed analysis of risks and returns of investment in

foreign securities and how these investments would be in the interest of investors. Investment must be made in liquid actively traded securities/instruments and such other types of securities/instruments as may be permitted by SEBI from time to time. Boards of AMCs and trustees may prescribe detailed parameters for making such investments, which may include identification of countries, country rating, country limits, etc. They shall satisfy themselves that the AMC has experienced key personnel, research facilities and infrastructure for making such investments. Other specialised agencies and service providers associated with such investments e.g. custodian, bank, advisors, etc should also have adequate expertise and infrastructure facilities. Their past track record of performance and regulatory compliance record, if they are registered with foreign regulators, may also be considered. Necessary agreements may be entered into with them as considered necessary. All investment decisions shall be recorded in accordance with para 12.19.3.2.a of SEBI Master Circular on Mutual Funds dated June 27, 2024. Such investments shall be disclosed while disclosing half-yearly portfolios in the prescribed format by making a separate heading "Foreign Securities/overseas ETFs." Scheme-wise percentage of investments made in such securities shall be disclosed while publishing half-yearly results in the prescribed format, as a footnote.

It is the investment manager's belief that overseas securities offer new investment and portfolio diversification opportunities into multi-market and multi-currency products. However, such investments also entail additional risks.

As advised by SEBI, in order to avoid breach of industry-wide overseas investment limits as allowed by RBI and as per Para 12.19 of SEBI Master Circular of Mutual Funds dated June 27, 2024, the total investment in overseas funds or securities across all schemes of FTMF is capped at the level as of February 1, 2022. The aforesaid capping is temporary in nature and will continue only till further enhancement of limit by Regulators in this regard.

A.2 Exposure & Position Limits related to Derivatives

The investment strategy may enter into derivative transactions in line with the guidelines prescribed by SEBI from time to time. The exposure limit per scrip/instrument shall be to the extent permitted by the SEBI Regulation for the time being in force. These limits will be reviewed by the AMC from time to time. Trading in derivatives by the investment strategy shall be restricted to hedging, portfolio balancing purposes and upto 25% unhedged short derivative exposure.

Currently, the position limits for Specialized Investment Funds and its investment strategies, as permitted by the SEBI Regulations, are as under:

- The cumulative gross exposure through equity, debt and derivative positions (including commodity and fixed income derivatives), and repo transactions in corporate debt securities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), other permitted securities/assets and such other securities/assets as may be permitted by SEBI from time to time) should not exceed 100% of the net assets of the investment strategy.
- Exposure due to offsetting positions may not be included in the cumulative gross exposure, see below for illustrations of offsetting positions.
- Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be included in Cumulative gross exposure

- For offsetting of positions, the futures and options contracts shall be on the same underlying security and having same expiry date.
- Pursuant to SEBI letter dated November 03, 2021, Cash or cash equivalents shall consist of following securities having residual maturity of less than 91 days which are not considered for the purpose of calculating gross exposure limit:
 - o Government Securities
 - o T-Bills
 - o Repo on Government Securities

- **Exposure to Derivatives:**

The exposure limits for trading in derivatives by Specialized Investment Funds specified by SEBI vide its clause 12.25 of Master Circular dated June 27, 2024 and as amended from time to time are as follows:

A. *Position limit for SIFs in index options contracts:*

- o The SIF position limit in all index options contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest of the market in index options, whichever is higher, per Stock Exchange.
- o This limit would be applicable on open positions in all options contracts on a particular underlying index.

B. *Position limit for SIFs in index futures contracts:*

- o The SIF position limit in all index futures contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest of the market in index futures, whichever is higher, per Stock Exchange.
- o This limit would be applicable on open positions in all futures contracts on a particular underlying index.

C. *Additional position limit for hedging, in addition to the position limits at point (A) and (B) above,* Specialized Investment Funds may take exposure in equity index derivatives subject to the following limits:

- o Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Specialized Investment Fund's holding of stocks.
- o Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Specialized Investment Fund's holding of cash, government securities, T-Bills and similar instruments

D. *Position limit for SIFs for stock based derivative contracts*

- o The SIF position limit in a derivative contract on a particular underlying stock, i.e. stock option contracts and stock futures contracts shall be 20% of the applicable Market Wide Position Limit (MWPL).
- o Position limit for each Investment strategy of a SIF
 1. The position limits for each Investment strategy of SIF and disclosure requirements shall be identical to that prescribed for a sub-account of a FII. Therefore, the Investment strategy-wise position limit/disclosure requirements shall be –
 - o For stock option and stock futures contracts, the gross open position across all derivative contracts on a particular underlying stock of an Investment strategy of a SIF shall not exceed the higher of:

1% of the free float market capitalisation (in terms of number of shares)

Or

5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts)

2. This position limits shall be applicable on the combined position in all derivative contracts on an underlying stock at a Stock Exchange.
3. For index based contracts, SIFs shall disclose the total open interest held by its Investment strategy or all Investment strategies put together in a particular underlying index, if such open interest equals to or exceeds 15% of the open interest of all derivative contracts on that underlying index.

- **Definition of Exposure in case of Derivative Positions**

Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

Position	Exposure
Long Future	Futures Price * Lot Size * Number of Contracts
Short Future	Futures Price * Lot Size * Number of Contracts
Option Bought	Option Premium Paid * Lot Size * Number of Contracts
Options sold	Market price of the underlying * Lot size * Number of contracts

In case of any other derivative exposure, the exposure shall be calculated as the notional market value of the contract. The total exposure at any point of time shall be the sum of exposure through instruments in both the cash market and derivatives market.

Offsetting of exposure at the portfolio level shall be allowed for:

- Cash and derivative positions on the same underlying security
- Between derivative positions on the same underlying security

The illustration on exposure calculation and offsetting of derivative positions is provided in C) Offsetting of transactions.

A) Illustration on Investment strategy:

Investment strategy 'ABC Long-Short Equity Fund' has AUM of 100 crore. The following table specifies the list of securities identified for investment:

Security details	Price	Lot
XYZ Ltd	2500	NA
XYZ Futures	2525	500
XYZ Call option 2500	90	500
XYZ Put option 2500	85	500

A) Maximum exposure limits:

The following table illustrates the maximum amount/contracts that can be bought/sold under the investment strategy:

Details	Provisions/Exposure calculation	Maximum amount that can be invested	Maximum no. of contracts that can be bought/sold
XYZ Ltd. futures short position (without hedging/without having underlying security in the portfolio)	Maximum 25% of unhedged short exposure Exposure to single stock $\leq$ 10% of investment strategy	INR 10 crore	79 contracts $= 10 \text{ crore} / (2525 \times 500)$
Overall stock futures short position at portfolio level across multiple securities	Maximum 25% of unhedged short exposure	INR 25 crore	
XYZ Call option 2500 long position	Max 20% exposure (ref. 12.25.2 of Master Circular for Mutual Funds) Exposure to single stock $\leq$ 10% of investment strategy	INR 10 crore	2222 contracts $= 10 \text{ crore} / (90 \times 500)$
XYZ Call option 2500 short position	Max 20% exposure (ref. 12.25.2 of	INR 10 crore	80 contracts

	Master Circular for Mutual Funds)		= 10 crore / (2500 * 500)
	Exposure to single stock <= 10% of investment strategy		

B) Illustration on portfolio composition:

The following examples illustrates possible usage of derivatives for portfolio construction of the investment strategy

Example 1

Investment Details	Amount (Total: INR 100 crore)
Investment in EQ	INR 70 crore
Cash holding	INR 5 crore
Short exposure using stock/index futures	INR 25 crore

Example 2

Investment Details	Amount (Total: INR 100 crore)
Investment in EQ	INR 62.5 crore
Investment in EQ Long Futures & Long options	INR 10 crore
Cash holding	INR 2.5 crore
Short exposure using stock/index futures	INR 25 crore

*Since unhedged short exposure of upto 25% is additional to the investment in derivatives for purposes other than hedging and portfolio rebalancing.

C) Offsetting of transactions:

As per the provisions of the circular, the investment strategy is allowed to offset certain derivative transactions. Below are some of the illustrative scenarios for offsetting of positions on the same underlying security

Sr. No	Position 1	Position 2	Offsetting allowed/not?	Net exposure to be considered

1	Equity Long	Futures Short	Yes	Equity Long only
2	Equity /Futures Long	Call option Short	Yes	Equity /Futures Long only
3	Equity /Futures Long	Put option Long	Yes	Equity /Futures Long only
4	Futures Short	Call option Long	Yes	Futures Short only
5	Futures Short	Put option Short	Yes	Futures Short only
6	Call option Long	Call option Short	Yes	Call option Short only
7	Put option Long	Put option Short	Yes	Put option short only
8	Equity Long	Futures Long	No	Equity Long + Futures Long
9	Equity /Futures Long	Call option Long	No	Equity /Futures Long + Call option Long
10	Equity /Futures Long	Put option Short	No	Equity /Futures Long + Put option Short
11	Futures Short	Call option Short	No	Futures short + Call option short
12	Futures Short	Put option Long	No	Futures short + Put option Long

13	Call option Long	Put option Short	No	Call option Long + Put option Short
14	Call option Short	Put option Long	No	Call option Short + Put option Long

*For offsetting of positions, the futures and options contracts shall be on the same underlying security and having same expiry date.

Examples for Derivatives

i. Stock and Index Options:

Option contracts are of two types - Call and Put; the former being the right, but not obligation, to purchase a prescribed number of shares at a specified price before or on a specific expiration date and the latter being the right, but not obligation, to sell a prescribed number of shares at a specified price before or on a specific expiration date. The price at which the shares are contracted to be purchased or sold is called the strike price. Options that can be exercised on or before the expiration date are called American Options, while those that can be exercised only on the expiration date are called European Options. In India, all individual stock options are American Options, whereas all index options are European Options. Option contracts are designated by the type of option, name of the underlying, expiry month and the strike price.

Strategies that employ Options:

- Buying a Call Option: Let us assume that the Fund buys a call option of XYZ Ltd. with strike price of Rs. 1000, at a premium of Rs. 25. If the market price of ABC Ltd on the expiration date is more than Rs. 1000, the option will be exercised.
- The Fund will earn profits once the share price crosses Rs. 1025 (Strike Price + Premium i.e. 1000+25). Suppose the price of the stock is Rs. 1100, the option will be exercised and the Fund will buy 1 share of XYZ Ltd. from the seller of the option at Rs 1000 and sell it in the market at Rs. 1100, making a profit of Rs. 75.
- In another scenario, if on the expiration date the stock price falls below Rs. 1000, say it touches Rs. 900, the Fund will choose not to exercise the option. In this case the Fund loses the premium (Rs. 25), which will be the profit earned by the seller of the call option.

Risks:

- In case of buying options either call/put, the maximum loss would be the premium paid in case of options expiring out of the money.
- Buying a Put Option: Let us assume the Fund owns the shares of XYZ Ltd, which is trading at Rs. 500. The fund wishes to hedge this position in the short-term as it perceives some downside to the stock in the short-term. It can buy a Put Option at Rs. 500 by paying a premium of say

Rs. 10/- In case the stock goes down to Rs. 450/- the fund has protected its downside to only the premium i.e Rs 10 instead of Rs. 50. On the contrary if the stock moves up to say Rs. 550/- the fund may let the Option expire and forego the premium thereby capturing Rs. 40/- upside. The strategy is useful for downside protection at cost of foregoing some upside.

ii. Stock and Index Futures

The Stock Exchange, Mumbai and the National Stock Exchange have introduced Index futures on BSE Sensex (BSE 30) and Nifty (NSE-50). Generally, three futures of 1 month, 2 months and 3 months are presently traded on these exchanges. These futures will expire on the last working Thursday of the respective month.

There are futures based on stock indices as mentioned above as also futures based on individual stocks. Individual stock futures are also widely used derivative instruments for enhancing portfolio returns. Stock futures trade either at a premium or at discount to the spot prices, usually the level of premium reflective of the cost of carry. Many a times the stock-specific sentiments too have a bearing on Futures as speculators may find futures as a cost-effective way of executing their view on the stock. However such executions usually increase the premium/ discount to the spot significantly, thereby giving rise to clean arbitrage opportunities for a fund.

Strategies that employ Index Futures:

Illustrative list of strategies that can employ index futures:

- The fund has an existing equity portion invested in a basket of stocks. In case the fund manager has a view that the equity markets are headed downwards, the fund can then hedge the exposure to equity either fully or partially by initiating short futures positions in the index. A similar position in the long direction can also be initiated by the fund to hedge its position of cash and permissible equivalents. The extent to which this can be done is determined by existing guidelines.
- To the extent permissible by extant regulations the Investment strategy can initiate a naked short position in an underlying index future traded on a recognized stock exchange.
- In case the Nifty near month future contract trading at say, 1850, and the fund manager has a view that it will depreciate going forward, the fund can initiate a sale transaction of nifty futures at 1850 without holding a portfolio of equity stocks or any other underlying long equity position. Once the price falls to 1800 after say, 20 days the fund can initiate a square-up transaction by buying the said futures and book a profit of 50. Correspondingly the fund can take a long position without an underlying cash/ cash equivalent subject to the extant regulations.

Risks:

- The risks associated with index futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mis-pricing of the futures and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

- The Long position in the Nifty will have as much loss as the gain in the short portfolio if hedged completely and would be vice versa if we were holding long portfolio, short Index.

Strategies that employ Stock Futures

a. Sell Spot Buy Future

- To illustrate, let us assume the fund holds the stock XYZ Ltd which is trading @ Rs. 100/- at the spot market. If for some reasons the stock trades at Rs. 98 in the futures, the fund may sell the stock and buy the futures.
- On the date of expiry, the fund may reverse the transactions (i.e. Buy Spot & Sell futures) and earn a risk-free Rs. 2/- (2% absolute) on its holdings.
- Since this is done without diluting the fund's view on the underlying stock, the fund will benefit from any upside move i.e. if on the date of futures expiry, the stock is trading at Rs. 110/- the futures too will be trading at Rs. 110- and the fund will capture the 10% upside the stock provided and along with it the 2% arbitrage too, thereby enhancing returns to 12%

Risks:

- While Futures markets are typically more liquid than the underlying cash market, there can be no assurance that ready liquidity would exist at all points in time for Investment strategy to purchase or close out a specific futures contract.
- The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mispricing of the futures.

b. Buy Spot Sell Future

If the fund holds a stock XYZ Ltd which trades @ Rs 100/- at the spot market and is trading at Rs. 102/- in the futures market. The fund may buy the spot and sell the futures and earn the premium of Rs.2 /- which is risk-free. However, this strategy can be used only when the fund is sitting in cash and is looking at enhancing the returns on the cash.

Risks:

- While Futures markets are typically more liquid than the underlying cash market, there can be no assurance that ready liquidity would exist at all points in time for Investment strategy to purchase or close out a specific futures contract.
- The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mispricing of the futures.

c. Sell Future

This helps in shorting the market and taking a direct short position in the market. Futures facilitate a short position if fund manager has a bearish view in the market. A sold Futures can be re-purchased any time up to the date of its expiry. If not re-purchased, it is automatically squared off on the expiry date at Spot Rate.

Risks: The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mispricing of the futures and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

d. Buy Future

If the fund wants to initiate a long position in a stock whose spot price is at say, Rs.100 and futures is at 98, the fund may just buy the futures contract instead of the spot thereby benefiting from a lower cost option.

Risks: The risks associated with stock futures are similar to those associated with equity investments. Additional risks could be on account of illiquidity and potential mis-pricing of the futures and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

A.3 Valuation:

- The traded derivatives shall be valued at market price in conformity with the stipulations of sub clauses (i) to (v) of clause 1 of the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.
- The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

A.4 Securities Lending

If permitted by SEBI under extant regulations/ guidelines, the investment strategy may also engage in scrip lending as provided under Securities Lending Scheme 1997, as per Para 12.11 of SEBI Master Circular on Mutual Funds dated June 27, 2024, and other applicable guidelines/regulations, as amended from time to time. Scrip lending means lending a security to another person or entity for a fixed period of time, at a negotiated compensation. The security lent will be returned by the borrower on or before the expiry of the stipulated period

The AMC will comply with the required reporting obligations and the Trustee will carry out the reviews required under SEBI/RBI guidelines. Further a maximum of 40% of net assets will be deployed in securities lending and the maximum single party exposure will be restricted to 10%# of net assets outstanding at any point of time.

Presently, Securities lending and borrowing (SLB) is an Exchange traded product.

Counterparty is not known for transactions carried out under SLB segment and they are guaranteed by Clearing Corporations and hence do not carry any counter party risk. Accordingly, single party exposure limit will not apply to trades on Stock Exchange platform. Single party exposure limits can only apply in case of OTC (over the counter) trades where counterparty can be identified.

Engaging in scrip lending is subject to risks related to fluctuations in the collateral value / settlement / liquidity / counter party.

A.5 Investment in Securitized Debt

1. How the risk profile of securitized debt fits into the risk appetite of the Investment Strategy

Securitization is the fact or process of securitizing assets i.e. the conversion of loans into securities, usually in order to sell them on to other investors. This is done by assigning the loans to a special purpose vehicle (a trust), which in turn issues Pass-Through-Certificates (PTCs). These PTCs are transferable securities with fixed income characteristics. The risk of investing in securitized debt is similar to investing in debt securities. However it differs mainly in two respects. One, the liquidity of securitized debt is less than similar debt securities. Two, for certain types of securitized debt (backed by mortgages, personal loans, credit card debt, etc.), there is an additional pre-payment risk. Pre-payment risk refers to the possibility that loans are repaid before they are due, which may reduce returns if the re-investment rates are lower than initially envisaged.

Because of these additional risks, securitized debt typically offers higher yields than debt securities of similar credit rating and maturity. After considering these additional risks, the investment is no different from investment in normal debt security. Considering the investment objective of the investment strategy, these instruments with medium risk profile can be considered in the investment universe. Thus, if the Fund Manager judges that the additional risks are suitably compensated by the higher returns, he may invest in securitized debt up to the limits specified in the asset allocation table.

2. Policy relating to originators based on nature of originator, track record, NPAs, losses in earlier securitized debt, etc

Investments in securitized debt will be done based on the assessment of the originator and the securitized debt which is carried out by the Fixed Income team based on the in-house research capabilities as well as the inputs from the independent credit rating agencies and by following Franklin Templeton's internal credit process.

Specifically, in order to mitigate the risk at the issuer/originator level the Fixed Income team will consider various factors which will include -

- Track record of the originator in the specific business to which the underlying loans correspond to;
- size and reach of the issuer/originator;
- Collection infrastructure & collection policies;
- Post default recovery mechanism & infrastructure;
- Underwriting standards & policies followed by originator;
- Management information systems;
- Financials of the originators including an analysis of leverage, NPAs, earnings, etc.;
- Future strategy of the company for the specific business to which the underlying loans correspond to;
- Performance track record of Originator's portfolio & securitized pools, if any;
- Utilization of credit enhancement in the prior securitized pools;
- The quality of information disseminated by the issuer/ originator; and
- The credit enhancement for different types of issuer/originator.

Also, assessment of business risk would be carried out which includes -

- Outlook for the economy (both domestic and global); and
- Outlook for the industry

In addition, the Investment Strategy fund analyses the specific pool and the broad evaluation parameters are as follows:

- Average seasoning of the loans in the pool
- Average Loan to value ratio of the loans in the pool
- Average ticket size of the loans

- Borrower profile (salaried / self employed, etc)
- Geographical profile of the pool
- Tenure profile of the pool
- Obligor concentration
- Credit enhancement cover available over and above the historic losses on Originator's portfolio
- Expected Prepayment rate in the specific asset class experienced by the originator in the past as well as the industry
- Limited Liquidity and Price Risk.

The investment strategy will invest in securitized debt which are rated investment grade and above by a credit rating agency recognized by SEBI. The investment team analyses the Rating Rationale in detail before investing in any PTCs, and also discusses with the concerned rating agency on a need basis. The rating agency would normally take in to consideration the following factors while rating a securitized debt:

3. Credit risk at the asset/originator/portfolio/pool level

- The quality of the pool is a crucial element in assessing credit risk. In the Indian context, generally, pools are 'cherry-picked' using positive selection criteria. To protect the investor from adverse selection of pool contracts, the rating agencies normally take into consideration pool characteristics such as pool seasoning (seasoning represents the number of installments paid by borrower till date: higher seasoning represents better quality), over dues at the time of selection and Loan to Value (LTV). To assess its risk profile vis-à-vis the overall portfolio, the pool is analyzed with regard to geographical location, borrower profile, LTV, and tenure.

4. Counterparty risk

- This includes Servicer Risk, co-mingling risk etc. The rating agencies generally mitigate such risks though the usage of stringent counterparty selection and replacement criteria to reduce the risk of failure.

5. Bankruptcy risk

- Of the Originator
 - Normally, specific care is taken in structuring the securitization transaction so as to minimize the risk of the sale to the trust not being construed as a 'true sale'. It is also in the Interest of the originator to demonstrate the transaction as a true sell to get the necessary revenue recognition and tax benefits.
- Of the Investors' agent
 - All possible care is normally taken in structuring the transaction and drafting the underlying documents so as to provide that the assets/receivables if and when held by Investor's Agent is held as agent and in Trust for the Investors and shall not form part of the personal assets of Investor's Agent.

6. Legal risks

The rating agency normally conducts a detailed study of the legal documents to ensure that the investors' interest is not compromised and relevant protection and safeguards are built into the

transaction.

- Various market risks like interest rate risk, macro-economic risks
- Assessment of risks related to business for example outlook for the economy, outlook for the industry and factors specific to the issuer/originator.

3. Risk mitigation strategies for investments with each kind of originator

The examples of securitized assets which may be considered for investment by the investment strategy and the various risk mitigation parameters (please read in continuation with point 2 above) which will be considered include;

A) Asset backed securities issued by banks or non-banking finance companies.

Underlying assets may include receivables from loans against cars, commercial vehicles, construction equipment or unsecured loans such as personal loans, consumer durable loans. The various factors which will be usually considered while making investments in such type of securities include profile of the issuer, analysis of underlying loan portfolio – nature of asset class, seasoning of loans, geographical distribution of loans and coverage provided by credit-cum-liquidity enhancements.

B) Mortgage backed securities issued by banks or housing finance companies, where underlying assets are comprised of mortgages/home loan.

The various factors which will be usually considered while making investments in such type of securities include issuer profile of the issuer, quality of underlying portfolio, seasoning of loans, coverage provided by credit-cum-liquidity enhancements and prepayment risks.

C) Single loan securitization, where the underlying asset comprises of loans issued by a bank/non-banking finance company.

The factors which will be usually considered while making investments in such type of securities include assessment of credit risk associated with the underlying borrower as well as the originator. The Fixed Income team will adhere to the Franklin Templeton's internal credit process and perform a detailed review of the underlying borrower prior to making investments. This analysis is no different from the analysis undertaken by Fund when it invests in Debentures or Commercial papers issued by the same borrower.

Critical Evaluation Criteria

Typically the Investment Strategy Fund would avoid investing in securitization transaction (without specific risk mitigation strategies / additional cash/security collaterals/ guarantees) if there are concerns on the following issues regarding the originator / underlying issuer:

- High default track record/ frequent alteration of redemption conditions/covenants
- High leverage ratios – both on a standalone basis as well on a consolidated level/ group level
- Higher proportion of re-schedulement of underlying assets of the pool or loan, as the case may be
- Higher proportion of overdue assets of the pool or the underlying loan, as the case may be
- Poor reputation in market
- Insufficient track record of servicing of the pool or the loan, as the case may be.

Further, investments in securitized debt will be done in accordance with the investment restrictions specified under the SEBI Regulations/ this ISID which would help in mitigating certain risks. Currently, as per the Regulations, the Scheme cannot invest more than 10% of its net assets in debt instruments (irrespective of residual maturity) issued by a single issuer which are rated not below investment grade by a credit rating agency authorized to carry out such activity under the Act. Such investment limit may be extended to 12% of the net assets of the Scheme with the prior approval of the Board of Trustees and the Board of the AMC.

4. The level of diversification with respect to the underlying assets, and risk mitigation measures for less diversified investments

The framework which will generally be applied by the Fund Manager while evaluating the investment decision with respect to securitized debt will be as follows:

Characteristics / Type of Pool	Mortgage Loan	Commercial Vehicle & Construction Equipment	Car	2-Wheelers	Micro Finance Pools	Personal Loans	Single Sell Down	Others
Approximate Average Maturity (in Months)	Up to 10 years	Up to 5 years	Up to 5 years	Up to 48 months	Up to 80 weeks	Up to 3 years	Case by case basis	As and when new asset classes of securitized debt are introduced, the investments in such instruments will be evaluated on a case by case basis
Collateral Margin (cash, guarantees, excess interest spread, subordinate tranche)	In excess of 3%	In excess of 4%	In excess of 4%	In excess of 4%	In excess of 5%	In excess of 5%	Case by case basis	
Average Loan to Value Ratio	95% or lower	100% or lower **	95% or lower	95% or lower	Unsecured	Unsecured	Case by case basis	
Average Seasoning of the Pool	Minimum 2 months	Minimum 2 months	Minimum 2 months	Minimum 2 months	Minimum 2 weeks	Minimum 2 months	Case by case basis	
Maximum single exposure range *	< 5%	< 5%	NA (retail pool)	NA (retail pool)	NA (Very Small retail pool)	NA (retail pool)	Not applicable	
Average single exposure range % *	< 5%	< 5%	< 2%	< 1%	< 1%	< 1%	Not applicable	

* denotes % of a single ticket/loan size to the overall assets in the securitized pool.

** LTV Based on chassis value

Notes:

1. Retail pools are the loan pools relating to Car, 2 wheeler, micro finance and personal loans, wherein the average loan size is relatively small and spread over large number of borrowers.
2. The information illustrated in the table above is based on current scenario relating to securitized debt market and is subject to change depending upon the change in the related factors.

In addition to the framework stated in the table above, in order to mitigate the risks associated with the underlying assets where the diversification is less, at the time of investment the Fixed Income team could consider various factors including but not limited to -

- Size of the loan - the size of each loan is generally analysed on a sample basis and an analysis of the static pool of the originator is undertaken to ensure that the same matches with the static pool characteristics. It also indicates whether there is high reliance on very small ticket size borrower which could result in delayed and expensive recoveries.

- Average original maturity of the pool of underlying assets

- The analysis of average maturity of the pool is undertaken to evaluate whether the tenor of the loans are generally in line with the average loans in the respective industry and repayment capacity of the borrower.

- Loan to value ratio, average seasoning of the pool of underlying assets - these parameters would be evaluated based on the asset class as mentioned in the table above.

- Default rate distribution - the Fixed Income team generally ensures that all the contracts in the pool are current to ensure zero default rate distribution.

- Geographical distribution - the analysis of geographical distribution of the pool is undertaken to ensure prevention of concentration risk.

- Credit enhancement facility - credit enhancement facilities in the form of cash collateral, such as fixed deposits, bank guarantee etc could be obtained as a risk mitigation measure.

- Liquidity facility - these parameters will be evaluated based on the asset class as mentioned in the table above.

- Structure of the pool of underlying assets - The structure of the pool of underlying assets would be either single asset class or combination of various asset classes as mentioned in the table above. We could add new asset class depending upon the securitization structure and changes in market acceptability of asset classes.

5. Minimum retention period of the debt by originator prior to securitization

The minimum retention period of the debt by the originator prior to securitization and the minimum retention percentage by originator of debts will be as per the guidelines/regulations issued by the RBI/other regulatory agencies from time to time. Also, please refer the table in point 4. The Fund will adopt that policy, whichever is stricter.

6. Minimum retention percentage by originator of debts to be securitized

Same as point 5 above.

7. The mechanism to tackle conflict of interest when the Specialized Investment Fund invests in securitized debt of an originator and the originator in turn makes investments in that particular

Investment Strategy of the Specialized Investment Fund

An investment by the Investment Strategy in any security is done after detailed analysis by the Fixed Income team and in accordance with the investment objectives and the asset allocation pattern of a Investment Strategy. All investments are made on an arm's length basis without consideration of any investments (existing/potential) in the Investment Strategy made by any party related/involved in the transaction. The robust credit process ensures that there is no conflict of interests when a Investment Strategy invests in securitized debt of an originator and the originator in turn makes investments in that particular Investment Strategy.

8. The resources and mechanism of individual risk assessment with the AMC for monitoring investment in securitized debt

The resources for and mechanisms of individual risk assessment with the AMC for monitoring investment in securitized debt are as follows:

- Fixed Income Team – Currently, the AMC has a well experienced team, which is responsible for credit research and monitoring and fund management, for all exposures including securitized debt.
- Ratings are monitored for any movement – Based on the cash flow report and Fixed Income Team's view, periodic review of utilization of credit enhancement shall be conducted and ratings shall be monitored accordingly.
- For legal and technical assistance with regard to the documentation of securitized debt instruments, the team can make use of resources within the internal legal team and if required take help of our external legal counsel as well.

As per the prevailing SEBI guidelines, the investments in securitised debt instruments will be shown as a separate category under debt instruments in the half yearly disclosure of Investment Strategy portfolio.

A.6 Usage of Short Term Deposits:

Pending deployment of the funds in securities in terms of investment objective of the Investment strategy, the AMC may park the funds of the Investment strategy in short term deposits of the Scheduled Commercial Banks, subject to the guidelines issued by SEBI vide Para 12.16 of SEBI Master Circular on Mutual Funds dated June 27, 2024, as may be amended from time to time.

A.7 Debt instruments having Structured Obligations / Credit Enhancements

The investment of the Investment strategy in debt instruments having Structured Obligations / Credit Enhancements shall not exceed 10% of the debt portfolio of the Investment strategy and the group exposure in such instruments shall not exceed 5% of the debt portfolio of the Investment strategy:

- a. Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade and
- b. Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.

Interest Rate Futures

An Interest Rate Futures ('IRF') contract is "an agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today." The underlying security for Interest Rate Futures is either Government Bond or T-Bill. Interest Rate Futures are Exchange traded and standardized contracts based on 6 year, 10 year and 13 year Government of India Security and 91-day Government

of India Treasury Bill (91DTB). These future contracts are cash settled. These instruments can be used for hedging the underlying cash positions.

Numerical Example –

When the underlying asset being hedged and the IRF contract are based on the same instrument, the hedge is known as a perfect hedge.

Imperfect hedging is when the underlying asset being hedged and the IRF contract has a 90 day correlation of closing prices of more than 90%. If such a correlation does not exist at any time, the derivative position shall be counted as exposure. Maximum permissible imperfect hedging is 20%. For example, assume a portfolio comprising the following structure:

Security	Amount (crs)	Price (INR)
IGB 6.79% 2027	50	94.6
IGB 6.68% 2031	25	91
IGB 7.17% 2028	15	98
Cash	10	-
Total	100	

Assuming the fund manager intends to hedge the portfolio using IRF and uses contracts on IGB 6.79% 2027 as it is most liquid. Maximum permissible imperfect hedging is 20%. For the above fund is $100 \times 20\% = \text{INR } 20 \text{ crores}$. Maximum perfect hedging using 6.79% 2027 is INR 50 crores. Total hedge the fund can enter into is INR 50 crores + INR 20 crores = INR 70 crores. Assuming the 90 day historical correlation between the instruments in the portfolio are as follows:

90 day historical correlation	IGB 6.79% 2027	IGB 6.68% 2031	IGB 7.17% 2028
IGB 6.79% 2027	1	0.95	0.85
IGB 6.68% 2031	0.95	1	0.80
IGB 7.17% 2028	0.85	0.80	1

Given that we are using IRF on 6.79% 2027, we can hedge 6.68% 2031 using IRFs as correlation is more than 90% upto INR 20 crores (based on the 20% limit of imperfect hedging). Since one contract of IRF has a notional value of INR 2 lakhs, in this example the fund manager may sell (INR 70 crores / 2 lakhs) 3500 contracts, to hedge his position.

Scenario 1: When the bonds close higher than at the time the hedge was entered into:

Security	Amount (crs)	Price before hedging (INR)	Price on maturity of hedge (INR)	Gain/Loss	Net Gain (INR lakhs)
IGB 6.79% 2027	50	94.6	94.7	0.1	5
IGB 6.68% 2031	25	91	91.15	0.15	3.75
IGB 7.17% 2028	15	98	98.05	0.05	0.75
Cash	10				
Without IRF					9.5
IRF based on IGB 6.79% 2027	70	94.5	94.65	-0.15	-10.5
Total with IRF	100				-1

Scenario 2: When the bonds close lower than at the time the hedge was entered into:

Security	Amount (crs)	Price before hedging (INR)	Price on maturity of hedge (INR)	Gain/Loss	Net Gain (INR lakhs)
IGB 6.79% 2027	50	94.6	94.5	-0.1	-5
IGB 6.68% 2031	25	92	91.85	-0.15	-3.75

IGB 7.17% 2028	15	100	99.95	-0.05	-0.75
Cash	10				-
Without IRF					-9.5
IRF based on IGB 6.79% 2027	70	98.5	98.45	0.05	3.5
Total with IRF	100				-6

As can be seen in the cases above, IRFs help in reducing the volatility of the loss/gain to the fund in case of yield movements.

As is clear from the above examples, engaging in derivatives has the potential to help the investment strategy in minimising the portfolio risk and/or improve the overall portfolio returns.

Covered call:

A covered call involves fund holding a long position in a stock and simultaneously sells a call option on the same stock. The call premium serves as a partial hedge against minor declines in the stock's value. By selling a call option, the fund receives a premium, which can offset some of the losses incurred if the stock price decreases slightly. In markets where the stock price remains flat or experiences slight increases, the covered call strategy can help neutralize part of the risk. **In rising markets there is an opportunity loss** where fund gives up upside gains beyond the strike price of the call option.

Example of Covered call strategy

Suppose an investor purchases 100 shares of ABC Corp. at INR 100 per share. The Fund manager expects the stock price to remain stable or rise slightly over the next one month. To generate additional income, the fund manager sells (writes) 1 call option contract on ABC Corp. with a strike price of INR 105, expiring in one month, and receives a premium of INR 3 per share.

Initial investment: $1000 \text{ shares} \times \text{INR } 100 = \text{INR } 100,000$

Premium received: $100 \text{ shares} \times 10 \text{ (lot size)} \times \text{INR } 3 = \text{INR } 3000$ (income earned upfront)

Possible outcomes at option expiry:

Stock price stays below INR 105:

The call option expires worthless. The Fund keeps the 1000 shares and the INR 3000 premium, effectively reducing the cost basis to INR 97 per share.

Stock price rises above INR 105:

The option is exercised. The fund manager sells the shares at INR 105, realizing a gain of INR 5 per share plus INR 3 premium, totaling INR 8 per share profit. However, any upside beyond INR 105 is forfeited.

Stock price falls below INR 100:

The premium of INR 3000 cushions the loss, offsetting some of the decline in share value.

This strategy generates additional income through option premiums while providing limited downside

protection, but it caps the upside potential at the strike price plus premium received.

Please note these examples are hypothetical in nature and are given for illustration purposes only. The actual returns may vary depending on the market conditions.

The AMC retains the right to enter into such derivative transactions as may be permitted by the applicable regulations from time to time.

Investments in repo of corporate debt securities: Guidelines for participation in repo of corporate debt securities

As per Para 12.18 of SEBI Master Circular on Mutual Funds dated June 27, 2024 enabled mutual funds to participate in repos in corporate debt securities as per the guidelines issued by Reserve Bank of India (RBI) from time to time and subject to few conditions listed in the said SEBI circular.

Applicable conditions are as follows:

- The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned Investment strategy.
- The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned Investment strategy.
- Mutual funds shall participate in repo transactions only in AA and above rated corporate debt securities.
- In terms of Regulation 44 (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, mutual funds shall borrow through repo transactions only if the tenor of the transaction does not exceed a period of six months.

Other guidelines are as follows:

- Category of counter party & Credit rating of counter party

All entities eligible for transacting in corporate bond repos as defined by SEBI and RBI shall be considered for repo investments with the caveat that the credit rating of the counterparty should be equal to or higher than AA- (long term rating).

- Tenor of Repo

Tenor of repo shall be capped to 3 months as against maximum permissible tenor of 6 months. Any repo for a tenor beyond 3 months shall require prior approval from investment committee of the fund. There shall be no restriction / limitation on the tenor of collateral.

- Applicable haircut

The AMC would be guided by the parameters for applying haircut as may be specified by RBI and/or SEBI for undertaking repo in corporate debt securities, from time to time

As per the SEBI guidelines, Mutual Funds may undertake repo in only AA and above rated corporate bond securities. Also, the Fund Manager may ask for a higher haircut (while lending) or give a higher haircut (while borrowing) depending on the prevailing market situation.

SEBI has recommended for setting up a Limited Purpose Clearing Corporation (LPCC) for clearing and settling repo transactions in corporate debt securities by contributing an amount of

INR 150 crore at the industry level. The AMC shall contribute INR 150 Cr. towards share capital of LPCC in proportion to the Asset Under Management (AUM) of open ended debt oriented mutual fund schemes (excluding overnight, gilt fund and gilt fund with 10 year constant duration but including conservative hybrid schemes) managed by them.

The investment restrictions applicable to scheme's participation in corporate bond repos will also be as prescribed or varied by SEBI or by the Board of Trustee and AMC (subject to SEBI restrictions) from time to time.

B. What are the investment restrictions? SO-19

In pursuance of the Regulations, the following restrictions are currently applicable to the Investment strategy:

(1) An investment strategy under Specialized Investment Fund shall not invest more than 20 per cent of its NAV in debt instruments comprising money market instruments and non-money market instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 25 per cent of the NAV of the investment strategy with the prior approval of the Board of Trustees and Board of Directors of the asset management company: Provided that such limit shall not be applicable for investments in Government Securities, treasury bills and triparty repo on Government securities or treasury bills: Provided further that investments within such limit can be made in mortgaged backed securitised debt which are rated not below investment grade by a credit rating agency registered with the Board: Provided further that such limit shall not be applicable for investments in case of debt exchange traded funds or such other funds as may be specified by the Board from time to time.

(2) No Specialized Investment Fund under all its investment strategies should own more than fifteen per cent of any company's paid up capital carrying voting rights or fifteen per cent of units of REITs issued by a single issuer, as the case may be:

Provided that investment in the asset management company or the trustee company of a mutual fund shall be governed by clause (a) of sub-regulation (1) of regulation 7B: Provided further that the limit mentioned in sub-regulation (2) above shall be inclusive of ten per cent limit for mutual fund schemes as specified under clause 2 of Seventh Schedule.

Explanation:

If a mutual fund under all its schemes owns ten per cent of any company's paid up capital carrying voting rights or ten per cent of units of REITs issued by a single issuer, as the case may be, then the Specialized Investment Fund under all its investment strategies shall not own more than five per cent of that company's paid up capital carrying voting rights or five per cent of units of REITs issued by a single issuer respectively, as the case may be.

(3) No investment strategy of a Specialized Investment Fund shall invest more than 10 per cent of its NAV in the equity shares and equity-related instruments of any entity.

(4) A Specialized Investment Fund may invest in the units of REITs and InvITs subject to the following:

(a) No Specialized Investment Fund under all its investment strategies shall own more than 20 per cent of units issued by a single issuer of InvIT:

Provided that the limit mentioned in clause (a) of sub-regulation 4 above shall be inclusive of 10

per cent limit for mutual fund scheme as specified under clause 13 (a) of Seventh Schedule.

(b) An investment strategy under Specialized Investment Fund shall not invest -

(i) more than 20 per cent of its NAV in the units of InvITs; and

(ii) more than 10 per cent of its NAV in the units of InvIT issued by a single issuer:

Provided that the limits mentioned in sub-clauses (i) and (ii) above shall not be applicable for investments in case of index fund or sector or industry specific scheme pertaining to InvIT.

(5) All other investment restrictions applicable for schemes of mutual funds as specified under Seventh Schedule shall apply to investment strategies under the Specialized Investment Fund.

6. Investment in securities from the Investment strategy's corpus would be only in transferable securities in accordance with Regulation 43 of Chapter VI and Regulation 49AA of Chapter VI-C of SEBI [Mutual Funds] Regulations, 1996.

7. The Investment strategy shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relevant securities and in all cases of sale, deliver the securities; provided that the Investment strategy may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by SEBI; provided further that the Investment strategy may enter into derivatives transactions in a recognised stock exchange, subject to the framework specified by SEBI; provided further that sale of government security already contracted for purchase shall be permitted in accordance with the guidelines issued by the Reserve Bank of India in this regard.

8. The Mutual Fund shall, get the securities purchased or transferred in the name of the fund on account of the concerned Investment strategy, wherever investments are intended to be of long term nature.

9. No investment shall be made in any Fund of Funds scheme.

10. The fund shall not advance any loans for any purpose.

11. The Investment strategy may invest in any other scheme without charging any fees, provided that aggregate interscheme investment made by all schemes under the management of Franklin Templeton Asset Management (India) Private Limited or in schemes under the management of any other AMC shall not exceed 5% of the net asset value of the mutual fund.

12. No Specialized Investment Fund under all its investment strategies should own more than 15 per cent of any company's paid up capital carrying voting rights:

Provided that investment in the asset management company or the trustee company of a mutual fund shall not exceed 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or representation on the board of the asset management company or the trustee company of any other mutual fund.

Provided further that the limit mentioned in above shall be inclusive of 10 per cent limit for FTMF schemes as specified under clause 2 of Seventh Schedule.

Explanation: If schemes of FTMF owns ten per cent of any company's paid up capital carrying voting rights, then the Specialized Investment fund under all its investment strategies shall not own more than 5 per cent of that company's paid up capital carrying voting rights.

13. All investments by the Investment strategy in equity shares and equity related instruments shall only be made provided such securities are listed or to be listed.

14. The Investment strategy shall not invest more than 10% of its net assets in the equity or equity

related instruments of any company.

The Investment strategy shall not make any investment in debt & money market instrument more than:

- a. 20% of its NAV in debt and money market securities issued by a single issuer and rated AAA or
- b. 16% of its NAV in debt and money market securities issued by a single issuer and rated AA or
- c. 12% of its NAV in debt and money market securities issued by a single issuer and rated A and below.

These instrument limits may be extended by up to 5% of the NAV of investment strategy with prior approval of trustees of MF and board of AMC.

1. Investment in unlisted debt instruments:

The Investment strategy shall not invest in unlisted debt instruments including commercial papers (CPs), other than (a) government securities, (b) other money market instruments and (c) derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. which are used for hedging.

However, the Investment strategy may invest in unlisted Non-Convertible Debentures (NCDs) not exceeding 10% of the debt portfolio of the Investment strategy subject to the condition that such unlisted NCDs have a simple structure (i.e. with fixed and uniform coupon, fixed maturity period, without any options, fully paid up upfront, without any credit enhancements or structured obligations) and are rated and secured with coupon payment frequency on monthly basis.

For the purpose of the provisions of point 11, listed debt instruments shall include listed and to be listed debt instruments.

2. Investment in unrated debt and money market instruments, other than government securities, treasury bills, derivative products such as Interest Rate Swaps (IRS), Interest Rate Futures (IRF), etc. by the Investment strategy shall be subject to the following:

- a. Investments should only be made in such instruments, including bills rediscounting, usance bills, etc., that are generally not rated and for which separate investment norms or limits are not provided in SEBI (Mutual Fund) Regulations, 1996 and various circulars issued thereunder.
- b. Exposure of the Investment strategy in such instruments, shall not exceed 5% of the net assets of the Investment strategy.
- c. All such investments shall be made with the prior approval of the Board of AMC and the Board of Trustees.

3. a. Sector Exposure –

The exposure in a particular sector (excluding investments in Bank CDs, TREPs, G-Secs, T-Bills and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) under the portfolio will not exceed 25% of the net assets on account of purchase.

An additional exposure to financial services sector (over and above the limit of 25%) not exceeding 10% of the net assets of the Investment strategy on account of purchase shall be allowed by way of increase in exposure to Housing Finance Companies (HFCs) only **SO-31**. Further, an additional exposure of 5% of the net assets of the Investment strategy shall be allowed for investments in securitized debt instruments based on retail housing loan portfolio and/or affordable housing loan portfolio.

Provided that the additional exposure to such securities issued by HFCs are rated AA and above

and these HFCs are registered with National Housing Bank (NHB) and the total investment/exposure in HFCs shall not exceed 20% of the net assets of the Investment strategy on account of purchase.

The above restriction will not be applicable to the equity portion of the Investment strategy's portfolio (where applicable).

b. Group Exposure - The total exposure of Investment strategy in a Group (excluding investments in securities issued by Public Sector Units, Public Financial Institutions and Public Sector Banks) will not exceed 20% of the net assets of the Investment strategy. Such investment limit may be extended to 25% of the net assets of the Investment strategy with the prior approval of the Board of Trustees.

Investments by the Investment strategy in debt and money market instruments of group companies of both the sponsor and the asset management company shall not exceed 10% of the net assets of the Investment strategy. Such investment limit may be extended to 15% of the net assets of the Investment strategy with the prior approval of the Board of Trustees.

For this purpose, a group means a Group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an entity, its subsidiaries, fellow subsidiaries, its holding company and its associates.

The above restrictions will not be applicable to the equity portion of the Investment strategy's portfolio.

4. Debentures, irrespective of any residual maturity period (above or below one year), shall attract the investment restrictions as applicable for debt instruments as specified under Clause 1 and 1A of Seventh Schedule to SEBI Regulations.
5. As per Para 12.19 of SEBI Master Circular on Mutual Funds dated June 27, 2024, each mutual fund is currently permitted to invest up to US\$1 billion in Foreign Securities irrespective of the size of the assets. The ceiling for investment in overseas ETFs that invest in securities is US\$ 300 million per mutual fund.

Additionally, an investment headroom of 20% of the average AUM in Overseas securities / Overseas ETFs of the previous three calendar months would be available to the Mutual Fund for that month to invest in Overseas securities / Overseas ETFs subject to maximum limits as specified above.

Currently, the funds can invest in ADRs/GDRs issued by Indian or foreign companies, equity of overseas companies listed on recognised stock exchanges overseas, Initial and follow on public offerings for listing at recognized stock exchanges overseas, Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities, Short term deposits with banks overseas where the issuer is rated not below investment grade and Overseas Exchange Traded Funds (ETFs) that invest in securities. The mutual funds can also invest in the units/securities issued by overseas mutual funds or unit trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas or (c) unlisted overseas securities (not exceeding 10% of their net assets). The restriction on the investments in mutual fund units up to 5% of net assets and prohibition on charging of fees shall not be applicable to investments in mutual funds in foreign countries made in accordance with SEBI Guidelines. However, the management fees and other expenses charged by the fund in foreign countries along with the management fee and recurring expenses charged to the domestic mutual fund Investment strategy shall not exceed the total limits on expenses as prescribed under Regulations. Where the Investment strategy is investing only a part of the net assets in the foreign mutual fund(s), the same principle shall be applicable for that part of investment.

As and when the investment limits at Mutual Fund level/Industry level/SIF are exhausted or nearing exhaustion, the Investment Strategy may temporarily suspend deployment of funds in

overseas funds/securities.

6. Transfers of investments from one strategy of SIF to another strategy of SIF will be done in conformity with as per Para 12.30 of SEBI Master Circular on Mutual Funds dated June 27, 2024 and Interscheme Transfer policy of FTMF.
7. No investment shall be made in
 - b. any unlisted security of an associate or group company of the sponsor; or
 - c. any security issued by way of private placement by an associate or group company of the sponsor; or
 - d. the listed securities of group companies of the sponsor which is in excess of 25% of the net assets.
8. Pending deployment of funds in securities in terms of investment objectives of the Investment strategy, the Mutual Fund can invest the funds of the Investment strategy in short term deposits of scheduled commercial banks in line with Para 4.5 of SEBI Master Circular on Mutual Funds dated June 27, 2024 as amended from time to time. The Investment strategy shall abide by the following guidelines for parking of funds in short term deposits:
 - Such short term deposits shall be held in the name of the Investment strategy.
 - The Investment strategy shall not park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together. However, such limit may be raised to 20% with prior approval of the Trustees.
 - Parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.
 - The Investment strategy shall not park more than 10% of the net assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries.
 - The Investment strategy shall not park funds in short-term deposit of a bank, which has invested in the Investment strategy. The bank in which the Investment strategy has short-term deposit shall not be permitted to invest in the said Investment strategy until the Investment strategy has short-term deposit with such bank.
 - AMC shall not charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks.
 - The aforesaid limits are not applicable to term deposits placed as margins for trading in cash and derivatives market.
9. Restrictions on Investment in debt instruments having Structured Obligations / Credit Enhancements:

Investment of the Investment strategy in the following instruments shall not exceed 10% of the debt portfolio of the Investment strategy and the Group exposure in such instruments shall not exceed 5% of the debt portfolio of the Investment strategy:

 - a) Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade.; and
 - b) Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.

For this purpose, a group means a Group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an
10. Repo transactions in corporate debt securities

The gross exposure of any mutual fund Investment strategy to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned Investment strategy.

The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the concerned

Investment strategy.

11. The Investment strategy may invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption (For eg. Additional Tier I bonds and Tier 2 bonds issued under Basel III framework) subject to the following:

- a) SIF under all its Investment strategies shall not own more than 10% of such instruments issued by a single issuer
- b) The Investment strategy shall not invest:
 - a. more than 10% of its NAV of the debt portfolio of the Investment strategy in such instruments; and
 - b. more than 5% of its NAV of the debt portfolio of the Investment strategy in such instruments issued by a single issuer.

The above investment limit for an Investment strategy shall be within the overall limit for debt instruments issued by a single issuer, as specified at clause 1 of the Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996, and other prudential limits with respect to the debt instruments.

12. The Investment strategy may consider investment in other financial market investments as per guidelines issued by the Central Government/SEBI/RBI from time to time.

13. Investment Restrictions for Covered Call strategy:

SIF's investment strategy can write Call options under a covered strategy for constituent stocks of NIFTY 50 and BSE SENSEX subject to the following:

- a) The total notional value (taking into account strike price as well as premium value) of call options written by a investment strategy shall not exceed 15% of the total market value of equity shares held in that investment strategy.
- b) The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the investment strategy. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances.
- c) At all points of time the investment strategy shall comply with the provisions at points (a) and (b) above. In case of any passive breach of the requirement at paragraph (a) above, the respective investment strategy shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said investment strategy.
- d) In case a investment strategy needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs (a) and (b) above while selling the securities.
- e) In no case, a investment strategy shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts.
- f) The premium received shall be within the requirements prescribed in terms Clause 12.25.2 of the SEBI Master Circular i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the investment strategy.
- g) The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of clause 12.24.1 of the SEBI Master Circular.
- h) The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the respective schemes until the position is closed or expired.

The AMC/Trustee may alter these investment restrictions from time to time to the extent SEBI regulations/applicable rules change/permit so as to achieve the investment objective of the Investment strategy. Such alterations will be made in conformity with SEBI regulations. Further, apart from the investment restrictions prescribed under SEBI regulations, the Investment strategy may follow any internal norms vis-à-vis limiting exposure to a particular scrip or sector, etc.

The investment restrictions specified as a percentage of net assets will be computed at the time of making the investment and it is clarified that changes need not be effected, merely by reason of appreciation or depreciation in value or by reason of factors beyond the control of the scheme (such as receipt of any corporate or capital benefits or amalgamations). In case the limits are exceeded due to reasons beyond its control, the AMC shall adopt necessary measures of prudence to reset the situation having regard to the interest of the investors.

C. Fundamental Attributes **SO-59**

Following are the Fundamental Attributes of the investment strategy, in terms of Clause 1.14 of SEBI Master Circular for Mutual Funds:

(i) Type of investment strategy:

- Open ended
- Equity Oriented

(i) Investment Objective

Main Objective – Growth- The investment strategy seeks to generate alpha over the long term by investing across a spectrum of large, mid and small cap companies using long/short equity strategies.

There is no assurance that the investment objective of the Investment strategy will be achieved

o Investment pattern - Please refer to asset allocation under 'HOW WILL THE INVESTMENT STRATEGY ALLOCATE ITS ASSETS'. The fund retains the option to alter the asset allocation on a short-term basis in the interest of unitholders on defensive considerations

(ii) Terms of Issue-

- o **Liquidity provisions such as listing, repurchase, redemption-** Please refer to the Part I
- o **Aggregate fees and expenses charged to the investment strategy-** Please refer to Annual Investment Strategy Recurring Expenses under Part III – Other Details.
- o **Any safety net or guarantee provided** -This Investment Strategy does not provide any guaranteed or assured return

In accordance with Regulation 18(15A) of the SEBI (MF) Regulations and Clause 1.14.1.4 of SEBI Master Circular for Mutual Funds, the Trustees shall ensure that no change in the fundamental attributes of the investment strategy or the trust or fee and expenses payable or any other change which would modify the investment strategy thereunder and affect the interests of Unitholders is carried out unless:

- SEBI has reviewed and provided its comments on the proposal
- A written communication about the proposed change is sent to each Unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- The Unitholders are given an option for a period of atleast 30 calendar days to exit at the prevailing Net Asset Value without any exit load.

D. Other Investment Strategy Specific Disclosures:

Listing and transfer of units	The Investment strategy is open ended and the Units are not listed on any stock exchange. However, the Mutual Fund may, at its sole discretion, list the Units on one or more Stock Exchanges at a later date, and thereupon the Mutual Fund will make suitable public announcement to that effect. The Mutual Fund will offer and redeem Units on a continuous basis during the Continuous Offer Period. The Unit holders are given an option to hold the Units by way of an Account Statement (physical form) or in Dematerialized (demat form). Units held in Demat form are transferable (subject to lock-in period, if any and subject to lien, if any marked on the units) in accordance with the provisions of SEBI (Depositories and Participants) Regulations, 1996, as may be amended from time to time. Transfer can be made only in favor of transferees who are capable of holding Units and having a Demat Account. The delivery instructions for transfer of Units will have to be lodged with the DP in requisite form as may be required from time to time and transfer will be effected in accordance with such rules / regulations as may be in force governing transfer of securities in dematerialized mode. Further, for the procedure of release of lien, the investors shall contact their respective DP. For units held in paper form, normally, units are not certified. However, if an applicant so desires to transfer units, the AMC, upon submission of documents which will be prescribed from time to time, shall certify the units and issue a fresh statement/certificate to the extent of certified units to the investor within 5 business days of the receipt of request. If the investor intend to transfer units, it could be done to the extent of certified units mandatorily using the statement/certificate issued post certification of units. Certificate/ statement issued post certifying of units must be duly discharged by the Unit holder(s) and surrendered along with the request for Transfer / Redemption / Switch or any other transaction of Units covered therein. AMC reserves the right to accept the request for certification of units. The AMC reserves the right to reject the application for transfer, post acceptance of the same, if any of the requisite documents / declarations are unavailable or incomplete. However, if a person becomes a holder of the Units consequent to operation of law or upon enforcement of a pledge, the Mutual Fund will, subject to production of satisfactory evidence, effect the transfer, if the transferee is otherwise eligible to hold the Units. Similarly, in cases of
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	transfers taking place consequent to death, insolvency etc., the transferee's name will be recorded by the Mutual Fund subject to production of satisfactory evidence.
Dematerialization of units SO-57	The Unit holders have an option to hold the Units in dematerialized (demat) form or account statement (non-demat) form. Units held in Demat Form are freely transferable. The Applicant intending to hold Units in demat form will be required to have a beneficiary account with a Depository Participant (DP) of the NSDL/CDSL and will be required to mention in the application form DP's Name, DP ID No. and Beneficiary Account No. with the DP at the time of purchasing Units.
Minimum Target amount (This is the minimum amount required to operate the investment strategy and if this is not collected during the NFO period, then all the investors would be refunded the amount invested without any return.)	10 Crore
Redemption and subscription frequency of the investment strategy	Daily
Notice period of the investment strategy	Not Applicable
Maximum Amount to be raised (if any)	Not Applicable
Dividend Policy (IDCW)	The Trustee may, at its sole discretion distribute income under IDCW option/plan in the fund at any time and at such frequency (such as daily, weekly, monthly, quarterly, half-yearly, annually etc.) as it deems appropriate. Although there is every intention to distribute income, there is no assurance or guarantee as to the frequency or quantum of such distribution nor that the distributions be regularly paid. Income Distribution cum capital withdrawal (IDCW) is based on the availability of adequate distributable surplus in the Investment strategy. Distributions can be made out of available distributable surplus (including Equalization Reserve, which is part of sale price that represents realized gains). Such distributions are payable to the Unitholders in the IDCW Plan, whose names appear on the Unitholders' register on the record date. The Trustee may not distribute income at all in the event of inadequacy of distributable income. The Investment strategy reserves the right to suspend sale of units for such period of time as it deems necessary before the

	record date to ensure proper processing. The amount of distribution will be distributed within 7 working days from the record date. IDCWs will be paid through electronic mode or by cheque (in exceptional circumstances only), net of taxes as may be applicable, and payments will be in favour of the first-named registered holder in the folio. To safeguard the interest of Unitholders from loss or theft of IDCW cheques, it is mandatory for investors to provide the details of their bank account in the Application Form. IDCW cheques or electronic payments will be sent in accordance with such information. Record dates for declaration of IDCW The procedure of declaring IDCW and fixing of record dates will be in accordance with Chapter 11 of SEBI Master Circular on Mutual Funds dated June 27, 2024.
Allotment (Detailed procedure)	Subject to the Investment Strategy receiving the minimum subscription, full allotment will be made to all valid applications received during the New Fund Offer (NFO). Allotment of Units on Application shall be made in the following manner: - An Account Statement containing the number of Units allotted will be issued within 5 Business Days from the closure of the NFO. The Units allotted in electronic form will be credited to the investor's Beneficiary Account with a Depository Participant (DP) of CDSL or NSDL as per the details furnished by the investor in the Application Form within 5 Business Days from the closure of the NFO and an intimation / allotment advice specifying the number of units allotted to the investor. The Account Statement of the Beneficiary Account with the DP will be sent by the respective DP's as per their service standards. - Refund of subscription money to applicants, in case applications are invalid or rejected will be made within 5 Business Days from the closure of the NFO without any return. No interest will be payable on any subscription money so refunded. If the Investment Strategy refunds the amount after 5 Business Days from the closure of the NFO, interest at the rate as may be prescribed by SEBI (presently 15% p.a.) shall be paid out of the assets of the AMC for the period thereafter. Refund orders will be marked "A/c Payee only" and drawn in the name of the applicant in the case of a sole applicant and in the name of the first applicant in all other cases. Payment will also be made through electronic mode and credited to First applicants Bank account.

	For applicants applying through the ASBA mode, on allotment, the amount will be unblocked in their respective bank accounts and account will be debited only to the extent required to pay for allotment of Units applied in the application form.
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Refund	If application is rejected, full amount will be refunded within 5 working days of closure of NFO. If refunded later than 5 working days @ 15% p.a. for delay period will be paid and charged to the AMC.
Who can invest This is an indicative list and investors shall consult their financial advisor to ascertain whether the investment strategy is suitable to their risk profile.	The Investment strategy units can be purchased by the following entities (subject to the applicable legislation/regulation governing such entities): 1. Adult individuals, either singly or jointly (not exceeding three), resident in India. 2. Parents/Guardian on behalf of minors. 3. Companies/ Domestic Corporate Bodies/ Public Sector Undertakings registered in India. 4. Charitable, Religious or other Trusts authorised to invest in units of mutual funds. 5. Banks, Financial Institutions and Investment Institutions. 6. Non-Resident Indians (NRIs) and Overseas Citizen of India (OCI) (including erstwhile Person of Indian Origin card holders) on full repatriation basis and on non-repatriation basis but not (a) United States Persons within the meaning of Regulation 'S' under the United States Securities Act of 1933 or as defined by the U.S. Commodity Futures Trading Commission, as amended from time to time or (b) residents of Canada. 7. Foreign institutional investors and their sub accounts on full repatriation basis/ Foreign Portfolio Investors (subject to RBI approval) and such other entities as may be permitted under SEBI (Foreign Portfolio Investors) Regulations, 2014, as amended from time to time. 8. Hindu Undivided Family (HUF). 9. Wakf Boards or Endowments / Societies / Co-operative societies / Association of Persons or Body of individuals (whether incorporated or not), Trusts and clubs authorised to invest in units of mutual funds. 10. Sole Proprietorship, Partnership Firms, Limited Liability Partnerships (LLPs). 11. Army/Air Force/Navy/Para-military funds and other

	eligible institutions. 12. Scientific and/or industrial research organizations. 13. Other Associations, Institutions, Bodies etc. authorized to invest in the units of mutual funds. 14. Such other individuals/institutions/body corporate etc., as may be decided by the AMC from time to time, so long as wherever applicable they are in conformity with SEBI Regulations. 15. Mutual fund Investment strategy s/ Alternative Investment Funds can also invest in the Investment strategy, subject to SEBI Regulations applicable from time to time. Subject to the requirement applicable under respective state laws governing public Trust, Units of the Investment strategy of Sapphire SIF is an eligible investment for charitable and religious trusts under the provisions of Section 11(5)(xii) of the Income Tax Act, 1961, read with Rule 17C of the Income Tax Rules, 1962. Mutual Fund / AMC / Trustee reserves the right to redeem investors' investments in the event of failure on the part of the investor(s) to redeem his/her/their holdings, subsequent to his/her/their becoming (a) United States Persons with the meaning of Regulation (S) under the United States Securities Act of 1933 or as defined by the U.S. Commodity Futures Trading Commission, as amended from time to time or (b) residents of Canada. In view of the individual nature of implications, the investors are advised to consult their own advisors to ascertain if they are eligible to invest in the Investment strategy as per the laws applicable to them and whether the Investment strategy is suitable for their risk profile.
Who cannot invest	The below mentioned persons/entities shall not be eligible to invest in the Investment strategy, if such persons/entities are: 1. United States Person (U.S. person*) as defined under the extant laws of the United States of America. *The term "U.S. person" means any person that is a U.S. person within the meaning of Regulation S under the Securities Act of 1933 of U.S. or as defined by the U.S. Commodity Futures Trading Commission or as per such further amended definitions, interpretations, legislations,

	rules etc, as may be in force from time to time. 2. Residents of Canada SIF/ Mutual Fund / AMC /Trustee reserves the right to redeem investors' investments in the event of failure on the part of the investor(s) to redeem his/her/their holdings, subsequent to his/her/their becoming (a) United States Persons with the meaning of Regulation (S) under the United States Securities Act of 1933 or as defined by the U.S. Commodity Futures Trading Commission, as amended from time to time or (b) residents of Canada.
How to Apply (details) SO-35	Details regarding- Investors can subscribe for the Units of the strategy by completing the Application Form and delivering it at any Investor Service Centre or Collection Centre. KYC complied investors/ Investors who are able to provide necessary information and/or documents to perform KYC can perform a web-based transaction to purchase units of the strategy on website of the Sapphire SIF www.franklintempletonindia.com/sapphiresif, FT Mobile app or through any other electronic mode introduced from time to time. Please refer to the SAI and Application form for the instructions. The Applications Forms shall be made available at Investor Service Centres (ISCs)/Official Points of Acceptance (OPAs) of Mutual Fund and/or may be downloaded from the website of AMC. The list of the Investor Service Centres (ISCs)/Official Points of Acceptance (OPAs) will be provided on the website : www.franklintempletonindia.com/sapphiresif, Please refer to Application form for the instructions. Email based non-commercial transactions (NCT) facility Will also accept specified non-commercial transactions (NCT) on email as attachments on nonfintransaction@franklintempleton.com will be dedicated for receiving specified non-commercial transaction requests. The list of Non-commercial Transactions that are eligible for this facility and Terms & Conditions applicable to the NCT requests received through email mode for the same is available on our website

	Name, address and contact no. of Registrar and Transfer Agent (R&T), email id of R&T, website address of R&T, official points of acceptance, collecting banker details etc. are also provided on back cover page. As per the directives issued by SEBI, it is mandatory for applicants to mention their bank account numbers in their applications/ request for redemption and therefore, investors are requested to fill-up the appropriate box in the application form failing which applications are liable to be rejected
The policy regarding reissue of repurchased units, including the maximum extent, the manner of reissue, the entity (the investment strategy or the AMC) involved in the same.	Not Applicable
Restrictions, if any, on the right to freely retain or dispose of units being offered.	Suspension of sale of units With the approval of the Boards of Directors of the Trustee and the Asset Management Company, the sale of Units may be suspended temporarily or indefinitely when any of the following conditions exist: 1. The equity / debt market stops functioning or trading is restricted. 2. Periods of extreme volatility in the equity / debt market, which, in the opinion of the Investment Manager, is prejudicial to the interest of the investors. 3. When there is a strike by the banking community or trading is restricted by RBI or other authority. 4. Period of extreme volatility in the equity / debt / money market, which in the opinion of the Board of Directors of AMC and Trustee is prejudicial to the interest of the Investment strategy's investors. 5. As and when directed by the Government of India or RBI or SEBI to do so or conditions relating to natural calamity/external aggression/internal disturbances etc. arises, so as to cause volatile movements in the money or debt market, which in the opinion of the AMC, will be prejudicial to the interest of the unitholders, if further

	trading in the Investment strategy is continued. 6. Break down in the information processing/communication systems affecting the valuation of investments/processing of sale/repurchase request. 7. Natural calamity. 8. SEBI, by order, so directs. 9. Trustee views that increasing the Investment strategy's size further may prove detrimental to the existing/prospective Unitholders of the Investment strategy. 10. Any other circumstances which in the opinion of the Board of Directors of AMC and Trustee is prejudicial to the interest of the existing/prospective investors. Suspension of redemption of units With the approval of the Boards of Directors of the Trustee and the Asset Management Company, the redemption of Units may be suspended temporarily when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets such as: i. Liquidity issues - when market at large becomes illiquid affecting almost all securities rather than any issuer specific security. Further, restriction on redemption due to illiquidity of a specific security in the portfolio of a Investment strategy due to a poor investment decision, shall not be allowed. ii. Market failures, exchange closures - when markets are affected by unexpected events which impact the functioning of exchanges or the regular course of transactions. Such unexpected events could also be related to political, economic, military, monetary or other emergencies. iii. Operational issues - when exceptional circumstances are caused by force majeure, unpredictable operational problems and technical failures (e.g. a black out). Such cases can only be considered if they are reasonably unpredictable and occur inspite of appropriate diligence of third parties, adequate and effective disaster recovery procedures and systems. iv. Based on any other guidance/ circular issued by SEBI from time to time. Restriction on redemption may be imposed for a specified period of time not exceeding 10 working days in any 90 days
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	period. The approval from the Boards of AMC / Trustee shall also be informed to SEBI in advance. When restriction on redemption is imposed, the following procedure shall be applied: i. No redemption requests upto Rs. 2 lakh shall be subject to such restriction. ii. Where redemption requests are above Rs. 2 lakh, AMC shall redeem the first Rs. 2 lakh without such restriction and remaining part over and above Rs. 2 lakh shall be subject to such restriction. Any Units which, by virtue of these limitations, are not redeemed on a particular Business Day will be carried forward for redemption on the next following Business Day in order of receipt. Redemptions carried forward will be made at the NAV in effect on the subsequent Business Day(s) on which the condition for redemption request is fulfilled. To the extent multiple redemptions are being satisfied in a single day under these circumstances, such payments will be made pro-rata based on the size of each redemption request. Under such circumstances, redemption cheques may be mailed out to investors within a reasonable period of time and will not be subject to the normal response time for redemption cheque mailing. In case where more than one application is received for redemption in a Investment strategy for an aggregate redemption amount equal to or more than Rs.2 lakhs on any Business Day across all plans/options of the relevant Investment strategy, then such applications shall be aggregated at the investor level (same holders/joint holders identified by their Permanent Account Numbers (PAN) in the same sequence). Such aggregation shall be done irrespective of the number of folios under which the investor is redeeming and irrespective of mode, location and time of application.
Cut off timing for subscriptions/ redemptions/ switches This is the time before which your application (complete in all respects) should reach the official points of acceptance. SO-40	<u>For subscriptions:</u> Pursuant to SEBI guidelines, the cut-off timings and the applicability of Net Asset Value of the investment strategy is under: In respect of valid applications received* up to 3:00 p.m. by the Mutual Fund and the funds are available for utilisation on the same day before the cut-off time - the closing NAV of the day on which the funds are available for utilisation shall be

	applicable. In respect of valid applications received* after 3:00 p.m. by the Mutual Fund and the funds are available for utilisation on the same day - the closing NAV of the Business Day following the day on which the funds are available for utilisation shall be applicable. However, irrespective of the time of receipt of application, where the funds are not available for utilisation on the day of the application, the closing NAV of the Business Day on which the funds are available for utilisation before the cut-off time (3:00 p.m.) shall be applicable provided the application is received* prior to availability of the funds. Investors are encouraged to avail electronic payment modes to transfer funds to the bank account of the Investment strategy to expedite unit allotment. For determining the availability of funds for utilisation, the funds for the entire amount of subscription/ purchase (including switch-in) as per the application should be credited to the bank account of the Investment strategy before the cut-off time and the funds are available for utilisation before the cut-off time without availing any credit facility whether intra-day or otherwise, by the respective Investment strategy. For investments through systematic investment routes such as Systematic Investment Plans (SIP), Systematic Transfer Plans (STP), Transfer of Income Distribution cum capital withdrawal plan (TIDCW) etc. the units will be allotted as per the closing NAV of the day on which the funds are available for utilization by the destination Investment strategy irrespective of the instalment date of the SIP, STP or record date of IDCW etc. The Trustee/ AMC may alter the limits and other conditions in line with the SEBI Regulations. *Received at the Official Points of Acceptance of Transactions of Sapphire SIF. For Redemptions: Pursuant to SEBI guidelines, the cut off timings and the applicability of Net Asset Value of the Investment strategy is under: In respect of valid applications received up to 3:00 p.m. by the Mutual Fund, same day's closing NAV shall be applicable. In respect of valid applications received after 3:00 p.m. by the
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	Mutual Fund, the closing NAV of the next business day shall be applicable.
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Where can the applications for purchase/redemption switches be submitted?	The Applications Forms may be downloaded from website www.franklintempletonindia.com/sapphiresif / at Investor Service Centres (ISCs)/Official Points of Acceptance (OPACs) As per the directives issued by SEBI, it is mandatory for applicants to mention their bank account numbers in their applications/requests and therefore, investors are requested to fill-up the appropriate box in the application form failing which applications are liable to be rejected.
Minimum amount for purchase/redemption/switches	Subscription: Fresh Purchase - Rs.10 Lakhs/-. Additional Purchase - Rs.10,000/-. Systematic Investment Plan (SIP) – Rs. 10,000 The amount for subscription, SIP in excess of the minimum amount specified above is any amount in multiple of Re. 1000/- There is no upper limit on the investment amount. The Trustee / AMC reserves the right to vary these limits from time to time, in the interest of investors. Redemption: Rs.10,000/ and in multiple of Re. 1000/- Since the redemption request for units held in dematerialized mode can be given only in 'number of units' with Depository Participants or on Stock exchange Platform, the provision pertaining to 'Minimum redemption amount' shall not be applicable to such investors. The Trustee / AMC reserve the right to vary these limits from time to time, in the interest of investors. Unitholder may request the redemption of a certain specified Rupee amount or of a certain number of Units. If a redemption request is for both a specified Rupee amount and a specified number of Units, the specified number of Units will be considered the definitive request. In the case where a Rupee amount is specified or deemed to be specified for redemption, the number of Units redeemed will be the amount redeemed divided by the applicable NAV. Redemption requests will be honoured to the extent permitted by the credit balance in the Unitholder's account. The number of Units so redeemed will be subtracted from the Unitholder's account and a statement to this effect will be issued to the Unitholder. If the redemption request exceeds the Balance in the account then the account would be closed and balance sent to the investors. To pay the investor the

	redemption amount requested for (in Rupees), Franklin Templeton will redeem that many units as would give the investor the net redemption amount requested for, after deducting exit load as applicable from time to time.
Minimum threshold requirement and consequences of non-maintenance SO- 36	The AMC shall ensure that an aggregate investment by an investor across all investment strategies offered by the SIF, at the Permanent Account Number ('PAN') level, is not less than INR 10 lakh. Provided that the requirement of minimum investment amount shall not apply to an accredited investor. Provided that, the above provisions shall not be applicable for mandatory investments made by AMC for designated employees under paragraph 6.10 of the Master Circular for Mutual Funds dated June 27, 2024. The AMC shall monitor compliance with the Minimum Investment Threshold on a daily basis and ensure that there are no active breaches. The AMC shall ensure that the investor's total investment value does not fall below the Minimum Investment Threshold due to redemption transactions initiated by the investor. Passive breaches (occurrence of instances not arising out of omission and commission by AMC), such as those caused by a decline in Net Asset Value (NAV), shall not be treated as a violation of the Minimum Investment Threshold. However, if the total investment value falls below the threshold due to a passive breach, the investor shall only be permitted to redeem the entire remaining investment amount from the SIF. Active Breaches shall mean fall in the aggregate value of an investor's total investment across all investment strategies of SIF, below the Minimum Investment Threshold of INR 10 lakh, on account of any transactions (i.e. redemption, transfer, sale etc.) initiated by the investor. In case of any active breach of the Minimum Investment Threshold by an investor including through transactions on stock exchanges or off-market transfers: (a) all units of such investor held across investment strategies of the concerned SIF shall be frozen for debit, and (b) a notice of 30 calendar days shall be given to such investor to rebalance the investments in order to comply with the Minimum Investment Threshold. Pursuant to the said notice issued to the investor: (i) in case investor rebalances his/her investments in SIF within the notice period of 30 calendar days, the units of SIF of such investor shall be unfrozen, and no further action shall be taken with regard to compliance with Minimum Investment Threshold. (ii) in case the investor fails to rebalance the investments within the aforesaid 30 calendar day period, the frozen units shall be automatically redeemed by the AMC, at the applicable Net Asset Value of the next immediate business day after the 30th calendar day of the notice period.

Accounts Statements SO-60	The AMC shall send an allotment confirmation specifying the units allotted by way of email and/or SMS within 5 working days of receipt of valid application/transaction to the Unit holders registered e-mail address and/ or mobile number (whether units are held in demat mode or in account statement form). A Consolidated Account Statement (CAS) detailing all the transactions across all SIFs and holding at the end of the month shall be sent to the Unit holders in whose folio(s) transaction(s) have taken place during the month by mail or email on or before 15th of the succeeding month. Half-yearly CAS shall be issued at the end of every six months (i.e. September/ March) on or before 21st day of succeeding month, to all investors providing the prescribed details across all investment strategies of SIFs and securities held in dematerialized form across demat accounts, if applicable For further details, refer SAI.
Dividend/ IDCW	The payment of dividend/IDCW to the unitholders shall be made within seven working days from the record date.
Redemption	The redemption or repurchase proceeds shall be dispatched to the unitholders within three working days from the date of redemption or repurchase. For list of exceptional circumstances refer Clause 14.1.3 of SEBI Master Circular for Mutual Funds dated June 27, 2024

	For investment strategies investing atleast 80% of total assets in permissible overseas investments (as per Clause 12.19 of SEBI Master Circular for Mutual Funds), the transfer of redemption or repurchase proceeds to the unitholders shall be made within five working days from the date of redemption or repurchase.
Bank Mandate SO-61	As per the directives issued by SEBI, it is mandatory for applicants to mention their bank account numbers in their applications and therefore, investors are requested to fill-up the appropriate box in the application form failing which applications are liable to be rejected. Change in Bank Mandate - For investors holding units in demat mode, the procedure for change in bank details would be as determined by the depository participant. - For investors holding units in non-demat mode, the Unit holders may change their bank details registered with the Mutual Fund by submitting an application for the same In an endeavour to protect the investors from possible fraudulent activities, the AMC may require the investors to submit such documents as may be deemed necessary or appropriate from time to time, for verification and validation of the bank account details furnished by the investors. The AMC reserves the right to deny the request for registration of a bank account for the investor's Folio in case the investor fails to submit the necessary document to the satisfaction of the AMC.
Delay in payment of redemption / repurchase proceeds/ dividend	The Asset Management Company shall be liable to pay interest to the unitholders at rate as specified vide clause 14.2 of SEBI Master Circular for Mutual Funds dated June 27, 2024 for the period of such delay
Unclaimed Redemption and Income Distribution cum Capital Withdrawal Amount SO-52	The unclaimed redemption and IDCW amount may be deployed by the mutual fund in call money market, money market instruments or separate plan of Liquid scheme / Money Market Mutual Fund scheme floated specifically for deployment of the unclaimed amounts only. The investors who claim the unclaimed amounts during a period of three years from the due date shall be paid initial unclaimed amount along-with the income earned on its deployment. Investors, who claim these amounts after 3 years, shall be paid initial unclaimed amount along-with the income earned on its deployment till the end of the third year. After the third year, the income earned on such unclaimed amounts shall be

	used for the purpose of investor education. The AMC would make a continuous effort to remind the investors through letters to take their unclaimed amounts. AMC's is not permitted to charge any exit load in plan of Liquid scheme / Money Market Mutual Fund scheme floated specifically for deployment of the unclaimed amounts only and TER (Total Expense Ratio) of such plan shall be capped as per the TER of direct plan of such scheme or at 50 bps, whichever is lower. The Fund/AMC shall not be liable to pay any interest or compensation on unclaimed amount.
Disclosure w.r.t investment by Minors- SO-37	Investments in the name of a minor acting through guardian In case of investments held in the name of a minor, no joint holders will be registered. The minor, acting through the guardian, should be the first and sole holder in the Folio/ Account. The guardian should be either the parent (i.e. father or mother) or the court appointed legal guardian. The guardian of the minor may need to submit such declarations and/or other documents/information as a proof of guardianship, as may be prescribed by the AMC from time to time. Date of birth of the minor along with photocopies of the supporting documents (viz. birth certificate, school leaving certificate/ Mark sheet issued by Higher Secondary Board of respective states, ICSE, CBSE etc., or, passport or any other document evidencing the date of birth of the minor) should be mandatorily provided while opening the account. Payment for investment by any mode shall be accepted from the bank account of the minor, parent or legal guardian of the minor, or from a joint account of the minor with parent or legal guardian. Irrespective of the source of payment for subscription, all redemption proceeds shall be credited only in the verified bank account of the minor, i.e. the account the minor may hold with the parent/ legal guardian after completing all KYC formalities. Upon attainment of majority by the minor, the account should be regularised forthwith, the minor in whose name the investment was made, shall be required to provide all the KYC details, updated bank account details including cancelled original cheque leaf of the new account. No further transactions shall be allowed till the status of the minor is changed to major. The AMC may specify such procedures for regularisation of the Folio, as may be deemed appropriate from time to time. Post attainment of majority by the minor, the Mutual Fund/ AMC will not be obliged to accept any instruction or transaction application made under the

	signature of the guardian. In case of an application for registration of a systematic transaction facility (Systematic Investment Plan / Systematic Transfer Plan / Systematic Withdrawal Plan or Transfer of Income Distribution cum capital withdrawal), if the end date of the facility extends beyond the date of attainment of majority by the minor, such facility will be registered only up to the date of attaining majority.
Non applicability Minimum Application Amount (Lump-sum) and Minimum Redemption amount	As per Para 6.10 of SEBI Master Circular on Mutual Funds dated June 27, 2024 Alignment of interest of Designated Employees of Asset Management Companies (AMCs) with the Unitholders of the Mutual Fund Schemes has, inter alia mandated that a certain percentage of gross annual CTC net of income tax and any statutory contributions of the Designated Employees of the AMCs shall be invested in units of the Investment Strategy in which they have a role/oversight. In accordance with the regulatory requirement, the minimum application amount and minimum redemption amount will not be applicable for investment made in schemes of the Fund in compliance with the aforesaid circular(s). The above-mentioned provisions shall override the conflicting provisions, if any.

III. Other Details

A. Periodic Disclosures such as Half yearly disclosures, half yearly results, annual report

The SIF shall disclose portfolio (along with ISIN), including derivative instruments, as on the last day of every alternate month (i.e. as on the end of May, July, September, November, January and March) for all its investment strategies (including debt based investment strategies) on the respective AMC website and on the website of AMFI within 10 days from the close of such month in a user friendly and downloadable spreadsheet format.

Half yearly disclosures/results: The SIF shall host half yearly disclosures of the Investment Strategy's unaudited financial results in the prescribed format on its website viz. www.franklintempletonindia.com/sapphiresif and on the website of Association of Mutual Funds in India (AMFI) viz. www.amfiindia.com within one month from the close of each half year i.e. on 31st March and on 30th September and shall publish an advertisement in this regard in at least one English daily newspaper having nationwide circulation and, in a newspaper, having wide circulation published in the language of the region where the Head Office of the Mutual Fund is situated.

Annual Report: Investment strategy Annual report in the format prescribed by SEBI, will be hosted on the website of the SIF viz. www.franklintempletonindia.com/sapphiresif and on the website of Association of Mutual Funds in India (AMFI) viz.

www.amfiindia.com as soon as may be but not later than four months from the date of closure of the relevant accounts year (i.e. 31st March each year). SIF/AMC will publish an advertisement every year, in the all India edition of at least two daily newspapers, one each in English and Hindi, disclosing the hosting of the Investment strategy wise Annual Report on the website of the Fund and on the website of Association of Mutual Funds in India (AMFI). SIF/AMC will e-mail the Investment strategy Annual Report or Abridged Summary thereof to those unitholders, whose email addresses are registered with the SIF. Investors who have not registered their email id will have an option of receiving a physical copy of the Annual Report or Abridged Summary thereof. SIF/ AMC will provide a physical copy of the abridged summary of the Annual Report, without charging any cost, on specific request received from a unitholder through any mode. A physical copy of the Investment strategy wise annual report shall be made available for inspection to the investors at the registered office of the AMC.

Risk Band: SO-38

Risk band forms part of the Product labeling and depicts Risk band of the investment strategy. The risk band of the investment strategy shall be in accordance with Paragraph 12 of SEBI Circular dated February 27, 2025 and circulars issued thereunder from time to time and regulatory framework issued by AMFI communication No. 35P/ MEM-COR/ 14 / 2025-26 dated April 21, 2025.

Disclosure of Risk band of investment strategies and benchmark:

In terms of Clause 5.16 of SEBI Master Circular on Mutual Funds dated June 27, 2024 and SEBI Circular dated November 05, 2024 and regulatory framework issued by AMFI communication No. 35P/ MEMCOR/ 14 / 2025-26 dated April 21, 2025., the risk band of the investment strategies and benchmark shall be disclosed while disclosing the performance of the investment strategies from time to time.

Disclosure of Investment Strategy Summary Document: SO-38

The Investment Strategy Summary Document of each investment strategy shall be disclosed on AMC SIF website and to be uploaded AMFI portal in three different formats, ie. Pdf, excel and xml.

Other disclosures: To enhance investor awareness and information dissemination to investors, SEBI prescribes various additional disclosures to be made by Mutual Funds from time to time on its website/on the website of AMFI, stock exchanges, etc. These disclosures include Investment strategy Summary Documents, various activities of Mutual Funds with timelines, DOs and DON'Ts for Investors, Grievance Redressal Mechanism, etc.). Investors may refer to the same.

B. Scenario Analysis for Derivatives Positions (As specified by AMFI)

The following table shows the performance of Nifty50 index and individual performance of other indices:

Nifty50	10.00%
IT Sector	-15.00%
Banking Sector	8.50%

Total AUM of Investment	₹ 10,00,00,000
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Strategy	
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Scenario 1: Without any unhedged short derivative exposure

Portfolio		Weight (NAV/Total NAV)	Net Asset Value(NAV)	PnL (Nifty up by 10%)	PnL (Nifty down by 10%)
Equity	Nifty50	95.0%	₹ 9,50,00,000	₹ 95,00,000	₹ -95,00,000
Cash	-	5.0%	₹ 50,00,000	₹ -	₹ -
Total		100.0%	₹ 10,00,00,000	₹ 95,00,000	₹ -95,00,000
				9.50%	-9.50%

Scenario 2: 25% short exposure in IT Sector

Portfolio		Weight (NAV/Total NAV)	Net Asset Value(NAV)	PnL (Nifty up by 10%)	PnL (Nifty down by 10%)
Equity	Nifty50	70.0%	₹ 7,00,00,000	₹ 70,00,000	₹ -70,00,000
Unhedged Futures Short	IT Sector	25.0%	₹ 2,50,00,000	₹ 37,50,000	₹ -37,50,000
Cash		5.0%	₹ 50,00,000	₹ -	₹ -
Total		100.000%	₹ 10,00,00,000	₹ 1,07,50,000	₹ -1,07,50,000
				10.75%	-10.75%

Scenario 3: 25% short exposure in Banking Sector

Portfolio		Weight (NAV/Total NAV)	Net Asset Value(NAV)	PnL (Nifty up by 10%)	PnL (Nifty down by 10%)
Equity	Nifty50	70.0%	₹ 7,00,00,000	₹ 70,00,000	₹ -70,00,000
Unhedged Futures Short	Bankin g Sector	25.0%	₹ 2,50,00,000	₹ -21,25,000	₹ 21,25,000
Cash		5.0%	₹ 50,00,000	₹ -	₹ -
Total		100.000%	₹ 10,00,00,000	₹ 48,75,000	₹ -48,75,000
				4.88%	-4.88%

Scenario 4: 15% short exposure in IT Sector and 10% short exposure in Banking sector

Portfolio		Weight (NAV/Total NAV)	Net Asset Value(NAV)	PnL (Nifty up by 10%)	PnL (Nifty down by 10%)
Equity	Nifty50	70.0%	₹ 7,00,00,000	₹ 70,00,000	₹ -70,00,000
Unhedged Futures Short	IT Sector	15.0%	₹ 1,50,00,000	₹ 22,50,000	₹ -22,50,000
Unhedged Futures Short	Bankin g Sector	10.0%	₹ 1,00,00,000	₹ -8,50,000	₹ 8,50,000
Cash		5.0%	₹ 50,00,000	₹ -	₹ -
Total		100.000%	₹ 10,00,00,000	₹ 84,00,000	₹ -84,00,000
				8.40%	-8.40%

Note:

1	Equity Derivatives may include exchange traded Futures and Options on equity securities
2	NAV is representative of the market value at the asset level and aggregates to 100% at the fund level

C. Liquidity risk management tools and its applicability

This is an open-ended equity investment strategy with daily redemptions. Liquidity risk management tools would be as follows:

- AMC would be monitoring of asset liquidity and investor & distributor concentration
- AMC has set up exit load to discourage short-term withdrawals and provide protection against liquidity shocks.
- With the approval of the Board of Directors of the Trustee and Asset Management Company, the redemption of units may be suspended temporarily when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets as detailed in segment "Restrictions, if any, on the right to freely retain or dispose of units being offered"
- With the approval of the Board of Directors of the Trustee and Asset Management Company, the sale of units may be suspended temporarily or indefinitely when select conditions occur as detailed in segment "Restrictions, if any, on the right to freely retain or dispose of units being offered"

D. Transparency/NAV Disclosure (Details with reference to information given in Section I)

Net Asset Value This is the value per unit of the investment strategy on a particular day. You can ascertain the value of your investments by multiplying the NAV with your unit balance.

The AMC will calculate and disclose the first NAV of the Investment Strategy within a period of 5 business days from the date of allotment. Subsequently, the NAVs will be calculated and disclosed on all the Business Days. The AMC shall update the NAVs on the website Association of Mutual Funds in India - AMFI (www.amfiindia.com) before 11.00 p.m. on every Business Day and shall also update the NAVs on the AMC SIF website (<http://qsif.com/>) before 11.00 p.m. on every Business Day for a given business day. If the NAVs are not available before the commencement of Business Hours on the following day due to any reason, the Specialized Investment Fund shall issue a press release giving reasons and explaining when the Specialized Investment Fund would be able to publish the NAV. Information regarding NAV can be obtained by the Unit holders / Investors by calling or visiting the nearest ISC.

E. Transaction charges and stamp duty-

- **Transaction charges:** Not applicable.
- **Stamp duty:** Mutual fund units issued against Purchase transactions (whether through lump-sum investments or SIP or STP or switch-ins or reinvestment under IDCW Option) would be subject to levy of stamp duty @ 0.005% of the amount invested. Transfer of mutual fund units (such as transfers between demat accounts) are subject to payment of stamp duty @ 0.015%. The rate and levy of stamp duty may vary as amended from time to time.

Details to be provided in SAI.

F. Associate Transactions- Please refer to Statement of Additional Information (SAI)

G. Taxation- For details on taxation please refer to the clause on Taxation in the SAI apart from the following:

This information is provided for general information only and is based on the

prevailing tax laws, as applicable in case of this Investment Strategy. However, in view of the individual nature of the implications, each investor is advised to consult his or her own tax advisors/ authorised dealers with respect to the specific amount of tax and other implications arising out of his or her participation in the Investment Strategy.

Franklin Templeton Mutual Fund is registered as a Mutual Fund with Securities and Exchange Board of India ('SEBI') under SEBI (Mutual Fund) Regulations, 1996. Any income earned by such mutual fund registered with SEBI is exempt from taxation as per section 10(23D) of the Income Tax Act, 1961 ('Act')

Category of this Investment Strategy: 'Equity oriented' fund as currently defined under the Act basis the Investment Strategy.

"Equity oriented fund" is defined to mean a fund set up under a scheme of a mutual fund specified under clause 23D of section 10 and

In case where the fund invests in the units of another fund which is traded on a recognised stock exchange –

- a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and
- such other fund also invests a minimum of 90% of its total proceeds in the equity shares of domestic companies listed on a recognized stock exchange; and

In any other case, a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange.

Provided that the percentage of equity shareholding or unit held in respect of the fund, as the case may be, shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

Taxability in the hands of Investor

If the units are held as stock-in-trade of a business, the said income will be taxed at the rates at which the normal income of that investor is taxed.

If the units are held as investments, the said income will be taxed as capital gains. In such case, the tax rates applicable will depend on whether the gain on sale of units is classified as a short-term capital gain or a long-term capital gain.

Nature of Income	Resident Individual & HUF	Domestic Corporate	Non-Resident Investor
IDCW	As per applicable tax rate	As per applicable tax rate	20%
LT CG Holding Period > 12 Months	12.5%*	12.5%*	12.5%*
STCG Holding Period ≤ 12 Months	20%	20%	20%

* where LT CG exceeds Rs. 1,25,000 in a financial year

Withholding Tax Rates (TDS)

Nature of Income	Resident Individual & HUF	Domestic Corporate	Non-Resident Investor [#]
IDCW	10% ^{**}	10% ^{**}	20%
LTCG Holding Period > 12 Months	Nil	Nil	12.5%
STCG Holding Period ≤ 12 Months	Nil	Nil	20%

IDCW – Income Distribution cum capital withdrawal

LTCG – Long Term Capital Gain

STCG – Short Term Capital Gain

[#] In case of a foreign portfolio investor, no TDS is required on LTCG and STCG

^{**} As per provision of section 194K of the Act, where the amount of income credited or paid in a financial year, in aggregate, does not exceed Rs. 10,000, no withholding is required to be carried out. However, the scheme shall be withholding tax when the aggregate amount in financial year at Permanent Account Number (PAN) level exceeds Rs. 9,000.

The above beneficial rates should be applicable only in a case of sale/redemption of units of equity-oriented fund where transaction is chargeable to STT. Tax rates mentioned above are further increased by surcharge and health and education cess as may be applicable for respective investor.

Surcharge and cess shall not be applied on basic tax while deducting TDS, if any, on income of resident investors.

Surcharge Rates

Total income	Individual/HUF ~~	Partnership Firms & Co-operative Societies	Domestic Companies*	Foreign Companies
Less than or equal to 50 lakhs	NIL	NIL	NIL	NIL
> 50 lakhs ≤ 1 crore	10%	NIL	NIL	NIL
> 1 crore ≤ 2 crores	15%	12%	7%	2%
> 2 crores ≤ 5 crores	25%	12%	7%	2%
> 5 crores ≤ 10 crores	37%	12%	7%	2%
> 10 crores	37%	12%	12%	5%

~~ Surcharge rate shall not exceed 25% in case of individual and HUF being taxed under tax regime under section 115BAC of the Act. In case total income includes income by way

of dividend on shares, short-term capital gains on units of equity oriented mutual fund schemes and long-term capital gains on mutual fund schemes, the rate of surcharge on the said type of income not to exceed 15% [refer clause on Taxation in the SAI for further details].

* 10% basic surcharge (irrespective of taxable income) for domestic companies availing benefit under section 115BAA and section 115BAB of the Act.

Tax plus surcharge shall be further increased by a health and education cess of 4 percent.

DTAA Benefits

Taxability in the hands of non-resident investor shall be subject to Double Taxation Avoidance Agreement ("DTAA" or "tax treaty") benefits which can be claimed in the return of income to be filed by such investors, as applicable. Further, such DTAA benefit may also be claimed at the time of withholding of taxes (subject to requisite documents for claiming DTAA benefit made available by investor to the Mutual Fund). The investors should obtain specific advice from their tax advisors regarding the availability of the tax treaty benefits.

PAN-AADHAR Linking

As per section 139AA of the Act read with rule 114AAA of the Income-tax Rules, 1962, in the case of a resident person, whose PAN has become inoperative due to non-linking of PAN with Aadhaar, it shall be deemed that he has not furnished the PAN and tax could be withheld at a higher rate of 20% as per section 206AA of the Act.

Securities Transaction Tax (STT)

STT at 0.001% is payable on sale (redemption) of unit of an equity-oriented fund to the mutual fund (except in case redemption by any person for, or on behalf of, the New Pension System Trust).

As per Rule 4 of the STT Rules 2004, where the STT payable is 50 paise and above, it shall be rounded off to the nearest rupee. Thereby, where the amount of STT payable is lower than 50 paise, no STT is deducted. Long-term capital gains arising on transfer of units of an equity-oriented fund chargeable to Securities Transaction tax (STT) are subject to tax in accordance with the provisions of section 112A of the Act. Therefore, as per provisions of the Act, if STT payable is NIL due to rounding off, the long-term capital gain shall be chargeable to tax in accordance with the provisions of section 112A and the concessional rate of tax shall be applicable.

DISCLAIMER: The information given here is neither a complete disclosure of every material fact of Income-tax Act 1961 nor does it constitute tax or legal advice. Investors are requested to review the prospectus carefully and obtain expert professional advice with regard to specific legal, tax and financial implications of the investment/participation in the scheme.

H. Rights of Unitholders- Please refer to SAI for details.

I. List of official points of acceptance:

Details are uploaded on www.franklintempletonindia.com/sapphiresif

J. Penalties, Pending Litigation or Proceedings, Findings of Inspections or Investigations For Which Action May Have Been Taken or is in the process of being taken by any Regulatory Authority SO-48 SO-49

Details are uploaded on www.franklintempletonindia.com/sapphiresif

The Investment Strategy under this Investment Strategy Information Document was approved by the Trustee Company on September 09, 2025. The Trustees have ensured that the Sapphire Equity Long-Short SIF approved by them is a new product of Sapphire SIF (offered by Franklin Templeton Mutual Fund) and is not a minor modification of any existing Investment Strategy

Notwithstanding anything contained in this Investment Strategy Information Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable. SO-63
