PPFAS MUTUAL FUND
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Notice - cum- addendum to the Scheme Information Document (SID) and Key Information Memorandum (KIM) of Parag Parikh Long Term Equity Fund.

WRITING OF CALL OPTIONS UNDER A COVERED CALL STRATEGY

NOTICE IS HEREBY GIVEN THAT in accordance with SEBI (Mutual Funds) Regulations, 1996 and SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019, the Board of PPFAS Asset Management Private Limited (Investment Manager to PPFAS Mutual Fund) and PPFAS Trustee Company Private Limited (Trustee to PPFAS Mutual Fund) have approved Parag Parikh Long Term Equity Fund (An Open-ended Equity Scheme investing across large cap, mid cap, small cap stocks), scheme of PPFAS Mutual Fund ("Fund"), the following changes to the features of the Scheme to enable the Scheme to write call options under a covered call strategy with effect from **14th October, 2020 ("Effective Date")**. In view of the same, the below mentioned provisions be inserted in the Scheme Information Document (SID) under the relevant section.

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.

A. Benefits of using Covered Call strategy in Mutual Funds:

The covered call strategy can be followed by the Fund Manager in order to hedge risk thereby resulting in better risk adjusted returns of the Scheme. The strategy offers the following benefits:

a) Down side protection to the extent of premium collected - Since the fund manager sells a call option on a stock already owned by the mutual fund scheme, the downside from fall in the stock price would be lower to the extent of the premium earned from the call option.

b) Generating additional returns in the form of option premium in a range bound market.

Thus, a covered call strategy involves gains for unit holders in case the strategy plays out in the right direction.

B. Risks for writing covered call options for equity shares:

a) Writing call options are highly specialized activities and entail higher than ordinary investment risks. In such investment strategy, the profits from call option writing is capped at the option premium, however the downside depends upon the increase in value of the underlying equity shares. This downside risk is reduced only to the extent of premium received by writing covered call options.

b) The Scheme may write covered call option only in case it has adequate number of underlying equity shares as per regulatory requirement.

This would lead to setting aside a portion of investment in underlying equity shares. If covered call options are sold to the maximum extent allowed by regulatory authority, the scheme may not be able to sell the underlying equity shares immediately if the view changes to sell and exit the stock. The covered call options need to be unwound before the stock positions can be liquidated. This may lead to a loss of opportunity or can cause exit issues if the strike price at which the call option contracts have been written become illiquid. Hence, the scheme 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.

c) The writing of covered call option would lead to loss of opportunity due to appreciation in value of the underlying equity shares. Hence, when the appreciation in equity share price is more than the option premium received the scheme would be at a loss.

d) The total gross exposure related to option premium paid and received must not exceed the regulatory limits of the net assets of the scheme. This may restrict the ability of Scheme to buy any options.

e) Increased volatility in the market may result in higher premium and marked to market losses in NAV for all the existing short option position even at the same price of underlying stock.

C. Investment Restrictions for Covered Call strategy:

Mutual Fund schemes (excluding ETFs and Index funds) 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 scheme shall not exceed 15% of the total market value of equity shares held in that scheme.

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 scheme. 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 Mutual Fund scheme 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 scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme.

d) In case a Mutual Fund scheme 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 scheme 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 of SEBI circular dated August 18, 2010 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme.

g) The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of paragraph 3 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010.

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 scheme(s) until the position is closed or expired.

The Securities and Exchange Board of India vide its email dated August 24, 2020 has noted the above changes.

Illustration - Covered Call strategy using stock call options:

A fund manager buys equity stock of ABC Ltd. for Rs. 1000 and simultaneously sells a call option on the same stock at a strike price of Rs. 1100. Further, it is assumed that the scheme has earned a premium of Rs. 50 and the fund manager is of the opinion that the stock price will not exceed Rs. 1100, during the expiry period of the option.

Scenario 1: Stock price exceeds Rs. 1100

The call option will get exercised and the fund manager will sell the stock to settle his obligation on the call at Rs. 1100 (earning a return of 10% on the stock purchase price). Also, since the scheme has earned a premium of Rs. 50, this has reduced the purchase cost of the stock (Rs. 1000 - Rs. 50 = Rs. 950).

Hence, the Net Gain = Rs. 150 (Rs 100 stock appreciation + Rs 50 call option premium)

(However, please note that in a scenario where the stock price reaches Rs. 1300, investment in long only equity would be more beneficial than a covered call strategy as the net gain under the covered call strategy would be Rs. 150, against a net gain of Rs. 300 under a pure long only equity strategy.)

Scenario 2: Stock prices stays below Rs. 1100

The call option will not get exercised and will expire worthless. The premium earned on call option will generate alpha for the scheme.

Hence, the Net Gain = Rs. 50.

Provisions related to Change in Fundamental Attributes:

In accordance with Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 and pursuant to provisions of SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019, the existing unitholders (i.e. whose names appear in the register of unitholders as at close of **13th September, 2020**) under the scheme are hereby given an option to redeem or switch (to any other open ended schemes of PPFAS Mutual Fund) at the prevailing Net Asset Value without any exit load, within the 30 days exit period starting from **14th September, 2020** till **13th October, 2020** (both days inclusive and upto 3.00 pm on **13th October, 2020**). The normal redemption form may be used for this purpose and submitted at any Investor Service Centers.

Unitholders who do not exercise the exit option on or before **13th October, 2020** would deemed to have consented to the proposed modification. **Kindly note that an offer to exit is merely optional and is not compulsory.**

All the valid applications for redemptions/switch-outs received under the schemes shall be processed at Applicable NAV of the day of receipt of such redemption/switch request, without payment of any exit load, provided the same is received during the exit period mentioned above. The redemption proceeds shall be dispatched within 10 (ten) business days of receipt of valid redemption request to those unitholders who choose to exercise their exit option. Redemption/switch-out of units from the schemes, during the exit period, may entail capital gain/loss in the hands of the unitholder. Similarly, in case of NRI investors, TDS shall be deducted in accordance with the applicable Tax laws, upon exercise of exit option and the same would be required to be borne by such investor only. Unitholders who have pledged or encumbered their units will not have the option to exit unless they procure a release of their pledges/encumbrances prior to the submission of redemption/switch requests. Unitholders should ensure that any change in address or payout bank details required by them, are updated in fund's records before exercising the exit option.

In view of individual nature of tax implications, unitholders are advised to consult their tax advisors. If the units are held in dematerialized form, investors are requested to contact their Depository Participant for their transactions.

This addendum shall form an integral part of the SID & KIM of Parag Parikh Long Term Equity Fund all other features, terms and conditions as mentioned therein remained unchanged.

For PPFAS Asset Management Private Limited
(Investment Manager to PPFAS Mutual Fund)

Place: Mumbai **Sd/-**
Date: 09th September 2020 **Director**

Name of Mutual Fund: PPFAS Mutual Fund

For more information please contact:
PPFAS Asset Management Private Limited (Investment Manager for PPFAS Mutual Fund)
CIN No: - U65100MH2011PTC220623
Registered Office: - 81/82, 8th Floor, Sakhar Bhavan, Ramnath Goenka Marg,
230 Nariman Point, Mumbai - 400 021. INDIA. **Tel.:** 91 22 6140 6555 **Fax:** 91 22 6140 6590.
E-mail: mf@ppfas.com. **Website:** www.amc.ppfas.com. **Toll Free Number:** 1800-266-7790.