Parag Parikh Tax Saver Fund

A. RISK FACTORS

Standard Risk Factors:

- Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal.

- As the price / value / interest rates of the securities in which the Scheme invests fluctuates, the value of your investment in the Scheme may go up or down depending on the various factors and forces affecting the capital markets and money markets as with any investment in stocks, shares and securities.

- Past performance of the Sponsor and their affiliates / AMC / Mutual Fund does not guarantee future performance of the Scheme of the Mutual Fund.

- Parag Parikh Tax Saver Fund is only the name of the Scheme and the name of the Scheme does not in any manner indicate either the quality of the Scheme or its future prospects and returns.

- The Sponsor is not responsible or liable for any loss resulting from the operation of the Scheme beyond the initial contribution of Rs. 1 lakh made by them towards setting up the Fund.

- The present scheme is not a guaranteed or assured return scheme.

Scheme Specific Risk Factors:

Some of the specific risk factors related to the Scheme include, but are not limited to the following:

By virtue of requirements under the ELSS Guidelines, Units issued under the Scheme will not be redeemed until the expiry of 3 (three) years from the date of their allotment. The ability of an investor to realise returns on investments in the Scheme is consequently restricted for the first three years. Redemption will be made prior to the expiry of the aforesaid 3 (three) years period only, in the event of death of assessee, the nominee or legal hair, as the case may be, shall be able to withdraw the investment only after the completion of one year from the date of allotment of the units to the assessee or any time thereafter.

1. Risks associated with investments in Equity and Equity related instruments

Equity and equity related securities may be volatile and hence are prone to price fluctuations on a daily basis. The liquidity of investments made in the Scheme may be restricted by trading volumes and settlement periods. Settlement periods may be extended significantly by unforeseen circumstances. The inability of the Scheme to make intended securities purchases, due to settlement problems, could cause the Scheme to miss certain investment opportunities. Similarly, the inability to sell securities held in the Scheme portfolio would result at times, in potential losses to the Scheme, should there be a subsequent decline in the value of securities held in the Scheme portfolio. Also, the value of the Scheme investments may be affected by interest rates, currency exchange rates, changes in law / policies of the government, taxation laws and political, economic or other developments which may have an adverse bearing on individual securities, a specific sector or all sectors.

Investments in equity and equity related securities involve a degree of risk and investors should not invest in the equity Schemes unless they can afford to take the risk of losing their investment.

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 investors, including put options. The AMC may choose to invest in unlisted securities within the regulatory limit. The liquidity and valuation of the Scheme investments due to their holdings of unlisted securities may be affected negatively if they have to be sold prior to their target date of divestment. The value of unlisted security may go down before the divestment date and selling these securities before the divestment date may lead to losses in the portfolio.

Investment strategy to be adopted by the Scheme may carry the risk of significant variance between the portfolio allocation of the Scheme and the Benchmark particularly over a short to medium term period.

2. Risk Factors Associated with Fixed Income Securities

Interest-Rate Risk: Fixed income securities such as government bonds, corporate bonds, and money market instruments and derivatives run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices depends upon the coupon and maturity of the security. It also depends upon the yield level at which the security is being traded.

Re-investment Risk: Investments in fixed income securities carry re-investment risk as interest rates prevailing on the coupon payment or maturity dates may differ from the original coupon of the bond.

Basis Risk: The underlying benchmark of a floating rate security or a swap might become less active or may cease to exist and thus may not be able to capture the exact interest rate movements, leading to loss of value of the portfolio.

Spread Risk: In a floating rate security the coupon is expressed in terms of a spread or mark up over the benchmark rate. In the life of the security this spread may move adversely leading to loss in value of the portfolio. The yield of the underlying benchmark might not change, but the spread of the security over the underlying benchmark might increase leading to loss in value of the security.

Liquidity Risk: The liquidity of a bond may change, depending on market conditions leading to changes in the liquidity premium attached to the price of the bond. At the time of selling the security, the security can become illiquid, leading to loss in value of the portfolio.

Credit Risk: This is the risk associated with the issuer of a debenture/bond or a money market instrument defaulting on coupon payments or in paying back the principal amount on maturity. Even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer. It is to be noted here that a Government Security is a sovereign security and is the safest. Corporate bonds carry a higher amount of credit risk than Government securities. Within corporate bonds also there are different levels of safety and a bond rated higher by a particular rating agency is safer than a bond rated lower by the same rating agency.

Prepayment Risks: In the event of prepayments, investors may be exposed to changes in tenor and yield.

Liquidity Risk on account of unlisted securities: The liquidity and valuation of the Scheme investments due to their holdings of unlisted securities may be affected if they have to be sold prior to their target date of divestment. The unlisted security can go down in value before the divestment date and selling of these securities before the divestment date can lead to losses in the portfolio.

Counterparty Risk: - This is the risk of failure of counterparty to a transaction to deliver securities against consideration received or to pay consideration against securities delivered, in full or in part or as per the agreed specification. There could be losses to the Scheme in case of a counterparty default.

Settlement Risk: Fixed income securities run the risk of settlement which can adversely affect the ability of the fund house to swiftly execute trading strategies which can lead to adverse movements in NAV.

Risks associated with unrated instruments: -Investments in unrated instruments are subject to the risk associated with investments in any other fixed income securities, as referred above. However, investments in unrated instruments are considered to be subject to greater risk of loss of principal and interest than rated instruments.

3. Risk factors associated with investing in Foreign Securities

Investment in Foreign Securities would be made only if permitted under ELSS Rules. The Scheme may seek investment opportunities in foreign securities including ADRs / GDRs / Foreign equity subject to SEBI (MF) Regulations. Subject to necessary approvals and within the investment objectives / asset allocation pattern of the Scheme may invest in overseas markets which carry risks related to fluctuations in the foreign exchange rates, the nature of the securities market of the country, repatriation of capital due to exchange controls and political circumstances. It is the AMC’s belief that investment in foreign securities offers new investment and portfolio diversification opportunities into multimarket and multi-currency products. Such investment opportunities may be pursued by the AMC provided they are considered appropriate in terms of the overall investment objectives of the Scheme. Since the Scheme would invest only partially in foreign securities, there may not be readily available and widely accepted benchmarks to measure performance of the Scheme. However, such investments also entail additional risks not only limited to the following.

Currency Risk:
Moving from Indian Rupee (INR) to any other currency involves currency risk. To the extent that the assets of the Scheme will be invested in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets and income may be adversely affected by changes in the value of certain foreign currencies relative to the Indian Rupee.

Interest Rate Risk:
The pace and movement of interest rate cycles of various countries, though loosely co-related, can differ significantly. Investments in securities of countries other than India, the Scheme stand exposed to their interest rate cycles.

Credit Risk:
To manage risks associated with foreign currency and interest rate exposure, the Mutual Fund may use derivatives for efficient portfolio management including hedging in accordance with conditions as may be stipulated by SEBI / RBI from time to time.

Repatriation Risk:
The repatriation of capital to India may also be hampered by changes in regulations concerning exchange controls or political circumstances as well as the application to it of other restrictions on investment.

4. Risk factors associated with investing in Derivatives:

The Scheme may invest in derivative products from time to time only if permitted under ELSS Rules. The AMC, on behalf of the Scheme may use various derivative products, from time to time, in an attempt to protect the value of the portfolio and enhance Unit holders' interest. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Other risks include, the risk of mis-pricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

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.

Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counterparty") to comply with the terms of the derivatives contract. The Scheme bears a risk that it may not be able to correctly forecast future market trends or the value of assets, indices or other financial or economic factors in establishing derivative positions for the Scheme.

Besides the price of the underlying asset, the volatility, tenor and interest rates affect the pricing of derivatives, trading in derivatives carry a high degree of risk although they are traded at a relatively small amount of margin which provides the possibility of great profit or loss in comparison with the principal investment amount.

Other risks in using derivatives include but are not limited to:

a. Credit Risk – This occurs when a counterparty defaults on a transaction before settlement and therefore, the Scheme are compelled to negotiate with another counter party, at the then prevailing (possibly unfavorable) market price, in order to maintain the validity of the hedge. For exchange traded derivatives, the risk is mitigated as the exchange provides a guaranteed settlement but one takes the performance risk on the exchange.

b. Liquidity risk - This risk arises from the inability to sell derivatives at prices that reflect the underlying assets/ rates/ indices, lack of availability of derivative products across different maturities and with various risk appetite.

c. Model Risk – This is the risk of mis–pricing or improper valuation of derivatives.

d. Basis Risk – This risk arises when the derivative instrument used to hedge the underlying asset does not match the movement of the underlying being hedged for example, when a bond is hedged using a derivative, the change in price of the bond and the change in price of the derivative may not be fully correlated leading to basis risk in the portfolio. The underlying benchmark of a floating rate security might become less active or may cease to exist and thus may not be able to capture the exact interest rate movements, leading to loss of value of the portfolio. Example: Where swaps are used to hedge an underlying fixed income security, basis risk could arise when the fixed income yield curve moves differently from that of the swap benchmark curve or if there is a mismatch in the tenor of the swap and the fixed income security.

e. Market Risk: Derivatives are traded in the market and are exposed to losses due to change in the prices of the underlying and/or other assets and, change in market conditions and factors. The volatility in prices of the underlying may impact derivative instruments differently than its underlying.

f. Valuation Risk: This is the risk of mis–pricing or improper valuation of derivatives due to inadequate trading data with good volumes.

g. Operational / Systemic Risk: This is the risk arising due to failure of operational processes followed by the exchanges and Over the Counter (OTC) participants for the derivatives trading.

h. Counterparty Risk: Counterparty risk is the risk that losses will be incurred due to the default by the counterparty for OTC derivatives.

i. Exposure Risk: An exposure to derivatives in excess of the hedging requirements can lead to losses. An exposure to derivatives can also limit the profits from a plain investment transaction.

j. Interest Rate Risk: This risk arises from the movement of interest rates in adverse direction. As with all the debt securities, changes in the interest rates will affect the valuation of the portfolios.

5. Risk factors Associated with Securitised Debt:

The Scheme may invest in domestic securitised debt such as Asset Backed Securities (ABS) or Mortgage Backed Securities (MBS) subject to necessary approvals from the SEBI, RBI and under ELSS Guidelines. ABS are securitised debts where the underlying assets are receivables arising from various loans including automobile loans, personal loans, loans against consumer durables, etc. MBS are securitised debts where the underlying assets are receivables arising from loans backed by mortgage of residential / commercial properties.

At present in Indian market, following types of loans are securitised:

1. Auto Loans (cars / commercial vehicles /two wheelers)
2. Residential Mortgages or Housing Loans
3. Consumer Durable Loans
4. Personal Loans
5. Corporate Loans

In terms of specific risks attached to securitization, each asset class would have different underlying risks. Residential Mortgages generally have lower default rates than other asset classes, but repossession becomes difficult. On the other hand, repossession and subsequent recovery of commercial vehicles and other auto assets is fairly easier and better compared to mortgages. Asset classes like personal loans, credit card receivables are unsecured and in an economic downturn may witness higher default. A corporate loan/receivable, depend upon the nature of the underlying security for the loan or the nature of the receivable and the risks correspondingly fluctuate.

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

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.

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. 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.

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).

Re-investment Risk: Since prepayment risk increases when interest rates decline, this also introduces re-investment risk, which is the risk that the principal can only be reinvested at a lower rate.

Bankruptcy of the Swap Bank

If the Swap Bank, becomes subject to bankruptcy proceedings then an Investor could experience losses or delays in the payments due under the Interest Rate Swap Agreement.

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.

6. General Risk factors:

Trading volumes, settlement periods and transfer procedures may restrict the liquidity of the investments made by the Scheme. Different segments of the Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances leading to delays in receipt of proceeds from sale of securities. The NAV of the Units of the Scheme can go up or down because of various factors that affect the capital markets in general.

As the liquidity of the investments made by the Scheme could, at times, be restricted by trading volumes and settlement periods, the time taken by the Mutual Fund for redemption of Units may be significant in the event of an inordinately large number of redemption requests or restructuring of the Scheme. In view of the above, the Trustee has the right, in its sole discretion, to limit redemptions (including suspending redemptions) under certain circumstances, as described on Page 56 under "Right to Limit Redemptions" in Section 'Restrictions, if any, on the right to freely retain or dispose of units being offered'. The Scheme may retain certain investments in cash or cash equivalents for its day-to-day liquidity requirements.

Investment strategy to be adopted by the Scheme may carry the risk of significant variance between the portfolio allocation of the Scheme and the Benchmark particularly over a short to medium term period.

Performance of the Scheme may be affected by political, social, and economic developments, which may include changes in government policies, diplomatic conditions, and taxation policies.

7. **Risk factors associated with processing of transaction through Stock Exchange Mechanism:**

The trading mechanism introduced by the stock exchange(s) is configured to accept and process transactions for mutual fund units in both Physical and Demat Form. The allotment and/or redemption of Units through NSE and/or BSE or any other recognised stock exchange(s), on any Business Day will depend upon the modalities of processing viz. collection of application form, order processing/settlement, etc. upon which the Fund has no control. Moreover, transactions conducted through the stock exchange mechanism shall be governed by the operating guidelines and directives issued by respective recognized stock exchange(s).