

## SCHEME INFORMATION DOCUMENT

### ESCORTS POWER & ENERGY FUND (AN OPEN ENDED GROWTH SCHEME)

Offer of Units of Rs. 10/- each for cash (subject to applicable load) during the New Fund Offer and Continuous offer for Units at NAV based prices

**New Fund Offer Opens on: 25.08.2008**

**New Fund Offer Closes on: 23.09.2008**

**Scheme re-opens on: 20.10.2008**

Name of Mutual Fund : **ESCORTS MUTUAL FUND**

Address : 11, Scindia House, Connaught Circus, New Delhi 110 001.

Tel: (011) 2335-1343, 2331-9991, 2332-1654

Telefax: (011) 2376-1495

Website : [www.escortsmutual.com](http://www.escortsmutual.com)

Name of Asset Management Company : **ESCORTS ASSET MANAGEMENT LTD.**

Address : 11, Scindia House, Connaught Circus, New Delhi 110 001.

Tel: (011) 2335-1343, 2331-9991, 2332-1654

Telefax: (011) 2376-1495

Name of Trustee Company : **ESCORTS INVESTMENT TRUST LTD.**

Address : N-6, Pratap Building,  
Connaught Circus,  
New Delhi – 110 001.

**The particulars of the Scheme 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 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 Scheme Information Document.**

The Scheme Information Document sets forth concisely the information about the scheme that a prospective investor ought to know before investing. Before investing, investors should also ascertain about any further changes to this Scheme Information Document after the date of this Document from the 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 Escorts Mutual Fund, Tax and Legal issues and general information on [www.escortsmutual.com](http://www.escortsmutual.com).**

SAI is incorporated by reference (is legally a part of the Scheme Information Document). For a free copy of the current SAI, please contact your nearest Investor Service Centre or log on to our website.

**The Scheme Information Document should be read in conjunction with the SAI and not in isolation.**

This Scheme Information Document is dated 25.07.2008.

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## **HIGHLIGHTS - SUMMARY OF THE SCHEME**

- **Scheme**  
Escorts Power & Energy Fund is an open ended growth scheme.
- **Investment objective**  
The investment objective of the Scheme is to provide income distribution and / or medium to long-term capital gains by investing predominantly in equity/equity related instruments of the companies in the Power/ Energy Sector and /or Debt/Money Market Instruments.
- **Investment Options**  
The investor can opt for either Dividend (Regular income) or Growth (Capital Appreciation) Options. Units under each investment Option will have a separate Net Asset Value, after the first Dividend distribution.
- **Investment Plans**  
Investors can participate in Systematic Investment Plan (SIP) and/or Dividend Re-investment Plan (DRIP).
- **Liquidity**  
An open-ended scheme giving opportunity to invest and exit at NAV related prices, with applicable load, on daily basis.
- **Benchmark**  
The benchmark index used shall be BSE Power Index.
- **Transparency/NAV Disclosure**  
Daily determination of Net Asset Value.
- **Loads**  
Entry Load:  
For Applications below Rs. 5 Crores - 2.25%,  
For Applications of Rs. 5 Crores or above - Nil  
For SIP - 2.25% per transaction  
However, no entry load shall be charged for direct applications received by the Escorts Asset Management Ltd.  
Exit Load:  
For Investments of Less than Rs. 5 Crores, if redeemed within 12 Months from the date of allotment - 1%  
For Investments of greater than or equal to Rs. 5 Crores, if redeemed within 6 Months from the date of allotment – 2%
- **Minimum Application Amount**  
Any application for subscription to Units under the Scheme must be for a minimum of Rs. 5000/- and in multiples of Rs. 1/- thereafter.
- **Tax Benefits: (Under Income Tax Act, 1961) (as amended by Finance Act, 2008)**
  - Under Section 10(35), any income (other than income arising from transfer of units) received by any person in respect of units of mutual fund is exempt from income tax.
  - Under Section 10(38), in case of equity oriented fund where STT is attracted, no long term capital gains tax is attracted.
  - Securities Transaction Tax (STT) @ 0.25% is to be paid by unitholders at the time of redemption / switch-out of units of an equity-oriented fund.
  - Under Section 111A, where STT is attracted, short term capital gains tax will be 15% of short term capital gains. This tax would be increased by applicable surcharge. Further, an additional 2% Education Cess and Secondary & Higher Education Cess at the rate of 1% on the amount of tax and surcharge.
  - Under Section 94(7), loss on sale of units bought within 3 months of record date and sold within 9 months after record date shall be ignored while computing income chargeable to tax to the extent of exempt income received or receivable on such units.

- U/S 94(8), units purchased within 3 months prior to record date of entitlement of bonus and sold within 9 months after such date, the loss arising on transfer of original units shall be ignored for the purpose of computing income chargeable to tax.
  - Gifts of Units, purchased under the Scheme are exempt from Gift-Tax.
  - Units of the Scheme are not subject to Wealth-tax.
- (Tax benefits to the mutual fund and unitholders are in accordance with prevailing tax laws)

## **I. INTRODUCTION**

### **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.
- Past performance of the Sponsor/AMC/Mutual Fund does not guarantee future performance of the scheme.
- 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. 1,00,000/- made by it towards setting up the Fund.
- The present scheme is not a guaranteed or assured return

#### **Scheme Specific Risk Factors:**

- **Escorts Power & Energy Fund's** investment portfolio will be concentrated in power and energy associated companies. This might lead to increased volatility in the movement of NAV.
- As with any investment in stocks and shares, the Net Asset Value (NAV) of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets such as price and volume volatility in stock markets, interest rates, currency exchange rates, change in Government policies, taxation, political or economic developments, closure of stock exchanges, liquidity and settlement systems in equity and debt markets.
- In the event that investible funds of more than 65% of the total proceeds in the scheme are not invested in equity shares of domestic companies, the proposed tax exemption on income distribution will not be available to such scheme.
- **Risks associated with Investing in Foreign Securities** - Investment in overseas markets carry a risk on account of fluctuations in the Foreign Exchange rates.
- **Risks associated with Investing in Derivatives** - 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 risk associated with investing directly in securities and other traditional investments.
- Derivative products are specialised instruments. They carry the credit risk (risk of default by counterparty), market risk (due to market movements) and liquidity risk (due to lack of liquidity in derivatives). No

principal amount is exchanged. A notional principal amount is agreed upon for interest calculation purposes. Only the difference between the two rates is exchanged at agreed intervals or payment dates. When fixed interest rate amount is higher, the fixed rate payer pays the difference amount i.e. fixed interest rate amount minus the floating interest rate amount or vice-versa. This requires investment techniques and risk analysis different from those associated with stocks and bonds. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative add to the portfolio and the ability to forecast price of securities being hedged and interest rate movements correctly. There is a 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. Other risks in using derivatives include the risk of mis-pricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

- **Risks associated with Investing in Securitised Debt** – Securitised Debt may suffer credit losses in the event of delinquencies and credit losses in the underlying pool exceeding the credit enhancement provided. As compared to the normal corporate or sovereign debt, securitised debt is normally exposed to a higher level of re-investment risk.
- **Risks associated with Short Selling and Securities Lending** -
- Engaging in securities lending is subject to risks related to fluctuations in collateral value/settlement/liquidity/counter party. It would have the inherent probability of collateral value drastically falling in times of strong downward market trends, rendering the value of collateral inadequate until such time as that diminution in value is replenished by additional security. It is also possible that the borrowing party and / or the approved intermediary may suddenly suffer severe business setback and become unable to honour its commitments. This, along with a simultaneous fall in value of collateral would render potential loss to the scheme. Besides, there may also be temporary illiquidity of the securities that are lent out and the scheme will not be able to sell such lent out securities until they are returned.

## **B. REQUIREMENT OF MINIMUM INVESTORS IN THE SCHEME**

The Scheme/Plan shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme/Plan(s). However, if such limit is breached during the NFO of the Scheme, the Fund will endeavour to ensure that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions. In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation 39(2)(c) of the SEBI (MF) Regulations would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) shall be wound up and the units would be redeemed at applicable NAV. The two conditions mentioned above shall also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI. If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule shall be given 15 days notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period. The Fund shall adhere to the requirements

prescribed by SEBI from time to time in this regard.

**C. SPECIAL CONSIDERATIONS**

Prospective investors should review / study this Statement of Additional Information in its entirety and shall not construe the contents hereof or regard the summaries contained herein as advice relating to legal, taxation, or financial / investment matters and are advised to consult their own professional advisor(s) as to the legal, tax, financial or any other requirements or restrictions relating to the subscription, gifting, acquisition, holding, disposal (by way of sale, switch or Redemption or conversion into money) of units and to the treatment of income (if any), capitalization, capital gains, any distribution, and other tax consequences relevant to their subscription, acquisition, holding, capitalization, disposal (by way of sale, transfer, switch or conversion into money) of Units within their jurisdiction of nationality, residents, incorporation, domicile etc or under the laws of any jurisdiction to which they or any managed funds to be used to purchased/gift Units are subject and also to determine possible legal, tax, financial or other consequences of subscribing/ gifting, purchasing or holding Units before making an application for Units.

The tax benefits described in this Statement in addition with Statement of Additional Information are as available under the present taxation laws and are available subject to relevant condition. The information given is included only for general purpose and is based on advice received by AMC regarding the law and practice currently in force in India and the Investors should be aware that the relevant fiscal rules or their interpretation may change. As is the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of an investment in the Scheme will endure indefinitely.

**D. DEFINITIONS**

|  |   |
|--|---|
| Act                                    | Income-tax Act, 1961  |
| Asset Management Company (AMC)         | Escorts Asset Management Limited, incorporated under the Companies Act, 1956 and having its registered Office at 11, Scindia House, Connaught Circus, New Delhi 110 001 and its successors and assigns. |
| Bank                                   | Scheduled Commercial Bank in India.   |
| Business Day                           | A day other than Saturday, Sunday and any holiday declared under the Negotiable Instruments Act, 1882 at New Delhi.   |
| Custodian                              | HDFC Bank Limited, Custodian and Depository Services, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, SEBI registration no. INBI00000063.                                      |
| Initial Contribution                   | The sum of Rs. 1,00,000/- (Rupees One Lac only) entrusted to the Trustee by the Sponsor towards the corpus of the Mutual Fund trust.  |
| New Fund Offer                         | Offer of Units of Escorts Power & Energy Fund during the New Fund Offer Period.   |
| New Fund Offer Period                  | The period during which the new fund Offer of Units under the Scheme shall be open for subscription.  |
| Investment Management Agreement        | The agreement dated 15 <sup>th</sup> April, 1996 between the Trustee and the Asset Management Company.  |
| Load/ Contingent Deferred Sales Charge | Amount collected to cover the cost of promotion of the Scheme.  |

|                                    |   |
|------------------------------------|---|
| Mutual Fund or Mutual Fund Trust   | The trust established in accordance with the Deed of Trust dated 15 <sup>th</sup> April, 1996 and registered with the Securities and Exchange Board of India on 3 <sup>rd</sup> July, 1996 vide registration no. MF/028/96/4. |
| Net Asset Value (NAV)              | It is the actual value of a Unit issued under the Scheme, on the valuation day.   |
| Offer Document                     | This document issued by the Mutual Fund offering Units of this Scheme for subscription.   |
| On-going Sale/ Redemption of Units | The facility afforded to prospective investors/ Unit holders to purchase/ redeem Units issued under this Scheme at NAV based sale/ repurchase prices, on an on-going basis.   |
| RBI                                | Reserve Bank of India   |
| Regulations                        | Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended.   |
| SEBI                               | Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992.  |
| Scheme                             | Escorts Power & Energy Fund Mutual Fund Scheme.   |
| Sponsor                            | Escorts Finance Limited, a Company incorporated under the Companies Act, 1956 and having its Registered Office at N-6, Pratap Building, Connaught Circus, New Delhi 110 001.  |
| Trustee                            | Escorts Investment Trust Limited, a Company incorporated under the Companies Act, 1956 and having its Registered Office at N-6, Pratap Building, Connaught Circus, New Delhi 110 001.   |
| Trust Deed                         | The Deed of Trust dated 15 <sup>th</sup> April, 1996 establishing the Mutual Fund.  |
| Unit                               | An undivided share in the NAV of the Scheme.  |

#### **E. DUE DILIGENCE BY THE ASSET MANAGEMENT COMPANY**

It is confirmed that:

- (i) the draft Scheme Information Document forwarded 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 scheme 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 Scheme Information Document are true, fair and adequate to enable the investors to make a well informed decision regarding investment in the proposed scheme.
- (iv) the intermediaries named in the Scheme Information Document and Statement of Additional Information are registered with SEBI and their registration is valid, as on date.

Date : 25.07.2008

Place : New Delhi

(Vipin Chawla)  
Compliance Officer  
Escorts Asset Management Ltd.

## **II. INFORMATION ABOUT THE SCHEME**

### **A. TYPE OF THE SCHEME**

Escorts Power & Energy Fund is an Open ended growth scheme

## **B. INVESTMENT OBJECTIVE OF THE SCHEME**

The investment objective of the Scheme is to provide income distribution and / or medium to long-term capital gains by investing predominantly in equity/equity related instruments of the companies in the Power/ Energy Sector and /or Debt/Money Market Instruments.

Post Electricity Supply Act 2003 government is also fully committed to liberal framework conducive to development of the electricity industry, promoting competition, rationalization of power tariff, Supply of electricity to all the areas. The act has also removed and reduced many entry barriers and by delicensing of generation, recognizing 'Trading Power' as independent activity; multiple license in distribution; establishment of regulatory commission for developing the sector in a transparent and competitive manner by rational fixation and management of tariff.

India is now a trillion-dollar economy, the 11<sup>th</sup> largest economy in the world. The GDP is growing @9% p.a. and expected to grow by 11% p.a by the end of 11<sup>th</sup> 5 Year Plan. The key ingredient in achieving these growth rates and sustaining them would be availability of adequate quantity and quality of power at affordable prices. As such, with estimated Electricity GDP elasticity of 0.95%, the electricity sector alone has to grow by about 10% to keep pace with growth of GDP.

India has the fifth largest electricity generation capacity in the world with installed capacity of over 1,32,110 MW but still witnessing peak shortage and energy about 13% and 10% respectively, implying that the capacity is short of the required levels. It requires an additional 1,00,000 mw generation capacity by 2012. The power sector needs investments to the tune of Rs. 10,00,000 crores in the 11<sup>th</sup> five year plan 2007-2012.

The focus of power sector as one of the prime vehicle for development and sustaining growth, public/private sector participation and allocation huge resources for the sector provide reasonable growth opportunities in the sector that will create wealth for the investors. **Escorts Power & Energy Fund Proposes to invest in various segments of Indian Power Sector. Broadly, Power Sector companies can be segregated into those operating in the following genres:**

- Power Equipment
- Power Technology
- Power Generation
- Power Trading
- Power Transmission
- Power Distribution
- Funding Power Projects/Power Finance Companies
- Mining and Material Handling related to Power Generation/Transmission
- Utility Companies (Coal/Gas/ Gas Transmission/ Oil Exploration etc.)
- Industries/Companies Associated with Gas & Power Infrastructure

Power Infrastructure has witnessed under-investment in all its categories such as transmission, distribution & generation, mining, oil exploration etc. over last several decades. The investment build-up would take place in the next 15 years leading to above average growth in Power Equipment (equipment supplies to generation companies), Power technology (for curtailment of T& D losses), Power Generation (utilities) etc. They shall be allocated huge outlay and additional capacity in the 11<sup>th</sup> and the 12<sup>th</sup> five-year plan. Power Distribution and Transmission companies will have growth opportunities with Gas and Oil finds in

our country and at overseas basins. Besides, international agreements Eg. Gas pipeline being extended from Iran to south-east asian countries will multiply opportunities.

The Investment Manager will have the discretion to completely or partially invest in any of the type of securities stated above with a view to maximize the returns or on defensive considerations.

However, there can be no assurance that the investment objective of the Scheme will be realized, as actual market movements may be at variance with anticipated trends. However the debt part of the portfolio will not necessarily be invested in the power sector, it would include other debt and money market instruments as specified in investment strategy.

### C. **ASSET ALLOCATION AND INVESTMENT PATTERN**

The following asset allocation is proposed to be adhered to, under normal conditions:

| Instruments  | Indicative allocations (% of total assets) |      | Risk Profile    |
|--|--|------|-----------------|
|  | Min.                                       | Max. | High/Medium/Low |
| Equity & Equity Related Instruments of the companies in Power/ Energy Sector.  | 65   | 100  | Medium to High  |
| Debt Instruments, Govt. Bonds, Money Market Instruments etc. Investment by the scheme in securitised debt, will not normally exceed 40% of the debt component of the scheme. | 0  | 35   | Low to Medium   |

This is an open ended diversified scheme.

Pending deployment of funds of the Scheme in securities in terms of the investment objective of the Scheme, the AMC may invest the funds of the Scheme in short term deposits of scheduled commercial banks.

Investments in derivative instruments may be used in the manner and to the extent permissible under SEBI Regulations from time to time.

Equity related securities include, but are not limited to, fully convertible debentures, partly convertible debentures, convertible preference shares and warrants converting into equity securities.

Debt instruments include, but are not limited to, debt obligations of the Government of India, State and local government, government agencies, statutory bodies, public sector undertakings, public sector banks, DFLs, private sector banks and corporate entities. They could be listed, unlisted, privately placed or securitised debt securities, among others. The investment Manager will invest in securities of short or long maturity, at its discretion.

Money market securities include but are not limited to treasury bills, commercial paper of public sector undertakings and private sector corporate entities, inter bank call and notice money, fixed deposits with scheduled commercial banks, certificates of deposits of scheduled commercial banks and development financial institutions, securitised debt, bills of exchange / promissory notes of public sector and private sector corporate entities (co-accepted by banks), government securities with unexpired maturity of one year or one year or less and other

money market securities as may be permitted by SEBI/RBI. From time to time it is possible that the portfolio may hold cash.

### **A Brief Note on the Debt and Money Market in India**

The debt market in India is a predominantly institutional market and the key market players are banks, financial institutions, insurance companies, mutual funds, primary dealers and corporates. However, provident / pension funds are also present, though not in a very active manner. It comprises of :

- i. The money market – The market for borrowing / lending monies; and;  
It can be classified into the following categories -
  - The market for clean borrowing / lending i.e. borrowing / lending without the backing of any collateral consists of
    - Call Money: The market for overnight borrowing / lending
    - Notice Money: The market for borrowing / lending from 2 days to a fortnight.
    - Term Money: The market for borrowing / lending from a fortnight to six months
  - The market for collateralized borrowing / lending – mainly consists of
    - Repo transactions - These are repurchase obligation transactions, in which the borrower tenders securities to the lender which is bought back by the borrower on the repurchase date. The price difference between the sale and repurchase of the securities is the implicit interest rate for the borrowing /lending. The eligible underlying securities for these transactions are currently government securities / treasury bills. Corporate bonds etc. are currently not allowed as eligible securities for repo transactions. The minimum repo term (lending / borrowing period) is one day.
    - CBLO means Collateralised Borrowing and Lending obligation and is a discount instrument introduced by the Clearing Corporation of India Limited (CCIL). They can be traded like any other discount instrument. Lenders buy CBLO's and borrowers sell CBLOs. CCIL manages the risks inherent in issuing these securities through a system of margins and deposits that it takes from both lenders and borrowers. CBLOs can be issued/bought/sold for a minimum of one day to a maximum of 364 days.
- ii. The securities market – The market for trading in securities. It is divided into
  - The market for money market (short-term) instruments – which are generally discount securities maturing within one year at the time of issuance. Instruments satisfying this criterion are treasury bills (obligations of the government), commercial paper (obligations of the corporate sector) and certificate of deposit (obligations of banks). Government securities are medium / long-term debt obligations of the government. The market for government securities is the most liquid segment of the Indian debt market. Most of the secondary market trading is concentrated in government securities.
  - The market for Government Securities - Trading in government securities is now done mostly through an electronic trading, reporting and settlement platform developed by the Reserve Bank of India (RBI) called Negotiated Dealing System (NDS). The role of brokers which was an important element of the Indian bond market therefore stands reduced to that extent. Trading in corporate bonds is relatively subdued (in comparison to government securities). Price discovery and trading in this

segment is still carried out through the telephone. Attempts at improving the trading, settlement and risk management practices for trading corporate bonds are currently underway.

- The market for Corporate Bonds
- The market for other instruments such as securitised debt /PTCs etc.

Trading in other instruments such as securitised debt is relatively scarce. Price discovery and trading in this segment too is through the telephone. The various instruments and their prevailing yields and liquidity are indicated in the following table:

As on March 31, 2008

| Instruments           | Tenor     | Yield                | Liquidity     | Risk   |
|-----------------------|-----------|----------------------|---------------|--------|
| Treasury Bills        | 364 days  | 7.30% p.a.           | High          | Nil    |
| Commercial Deposits   | 1 year    | 9.90% - 9.95% p.a.   | High          | Medium |
| Commercial Deposits   | 3 months  | 10.10% - 10.50% p.a. | High          | Medium |
| Government Securities | 10 years  | 7.85% - 7.90% p.a.   | High          | Nil    |
| Government Securities | 1-5 years | 7.35% - 7.70% p.a.   | High          | Nil    |
| Corporate Bonds       | 5 years   | 9.35% - 9.45% p.a.   | Medium - High | Medium |
| Corporate Bonds       | 10 years  | 9.30 p.a.            | Medium - High | Medium |

Source: [www.fimmda.org](http://www.fimmda.org)

The actual yields will, however, vary in line with general levels of interest rates and debt/money market conditions prevailing from time to time.

The Floating rate securities market is at a growing stage in India. The coupon rate in floating rate securities is linked to an acceptable benchmark. Floating rate securities generally have a coupon rate, which is reset over a regular period depending on the benchmark chosen. The market widely uses the MIBOR benchmarks announced by Independent agencies such as NSE and Reuters. When benchmark interest rate rises, the income generated on these floating rate securities also rise. When the benchmark interest rates fall, the income generated on these floating rate securities also fall. Increasingly more companies are raising resource through floating rate securities. Most of such securities are in the form floating rate debentures at a spread over NSE MIBOR. The Government of India has also started issuing floating rate securities. Such floating rate issuances reduce the interest rate risk of the portfolio in which these securities are held.

iii. The derivatives market – The market for-fixed income derivatives : The interest rate derivatives market is in a developing stage in the country. Instruments are mainly transacted are -

- Interest Rate Swaps; and
- Forward Rate Agreements

Vanilla interest rate swap contracts are contracts, which exchange a fixed amount against a floating benchmark. These are calculated on a notional principal, which is never exchanged. Interest rate swaps can be used to hedge interest rate risk for existing fixed rate exposures; and Create synthetic floating or fixed rate structures. Forward Rate Agreements are contracts which allow the transacting counter parties to fix a borrowing / lending rate for some future date at the current juncture itself.

#### **D. WHERE WILL THE SCHEME INVEST?**

##### Investment Approach & Strategy

To achieve its primary objective as mentioned above the fund would under normal circumstances shall invest at least 65% of the value of its total net assets either debt or equity securities in the Power and Energy associated companies. These securities could include:

- Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares.
- Money market instruments permitted by SEBI/ RBI, having maturities upto 1 year in call money market instruments as may be provided by the RBI.
- Certificate of Deposits (CDs) & Commercial paper (CPs)
- In Securitised Debt upto 100% of the corpus
- The non convertible part of convertible securities
- Any other domestic fixed income securities
- ADRs / GDRs issued by Indian power sector companies, subject to guidelines issued by RBI / SEBI
- Foreign debt and equity subject to guidelines issued by RBI /SEBI
- Derivatives like Interest rate swaps, Forward Rate agreements, stock futures, index futures, and other such instruments as permitted by RBI /SEBI
- Any other instruments as allowed by the Regulations from time to time.

The Fund may also enter into "Repo", "Stock Lending" or such other transactions as may be allowed to Mutual Funds from time to time. For purposes of this Offer Document, fixed Income securities includes, but is not confined to debt obligations of the statutory bodies, public sector undertakings, Financial Institutions, public and private sector banks and corporate entities. The Scheme reserves the right to invest it's entire allocation in debt and money market securities in any one of the Fixed Income security classes. Investments in rated fixed Income securities will be in securities rated by at least one recognized rating agency.

Money market securities includes but are not limited to treasury bills, commercial paper of public sector undertakings and private sector corporate entities, inter bank call and notice money, certificates of deposit of scheduled commercial banks and Financial Institutions, securitised debt, bills of exchange/promissory notes of public and private sector entities (co-accepted by banks) and any other money market securities as may be permitted by SEBI/RBI. From time to time, it is possible that the portfolio may hold cash. The Scheme may also enter into repurchase and reverse repurchase obligations in all securities held by them as per the guidelines and regulations applicable to such transactions. Further, the Scheme intends to participate in securities lending as permitted within the Regulations. It is the intention of the scheme to trade in the derivatives market as per the Regulations. Further, the Scheme intends to participate in Securities lending as per the Regulations. The scheme also intends to invest in foreign debt securities, as and when permitted by SEBI and in accordance with the Regulations then prevailing.

##### **Exposure to foreign securities:**

The scheme may have an exposure of upto 90% of its net assets in foreign securities. The AMC with a view to protecting the interests of the investors may increase exposure in foreign securities upto 100% as deemed fit from time to time. However, the exposure in foreign securities would not exceed the maximum amount permitted from time to time.

### **Investment in overseas financial assets**

SEBI vide its circular nos. MFD/CIR/17/419/02 dated March, 30, 2002 and MFD/CIR/18/21826/2002 dated November 7, 2002 has permitted mutual funds to invest in overseas financial assets. It is the investment manager's belief that overseas securities offer new investment and portfolio diversification opportunities into multi-market and multicurrency products. However, such investments also entail additional risks.

Offshore investment will be made subject to any/ all approvals / conditions thereof as may be stipulated by SEBI/ RBI/ other regulatory authorities. The fund may, where necessary, appoint other intermediaries of repute as advisors, sub-custodians, etc. for managing and administering such investments. The appointment of such intermediaries shall be in accordance with the applicable requirements of SEBI and within the permissible ceilings of expenses. The fees and expenses would illustratively include, besides the investments management fees, custody fees and costs, fees of appointed advisors and sub managers, transaction costs and overseas regulatory costs.

## **E. INVESTMENT STRATEGIES**

### **i. DERIVATIVES AND HEDGING**

Investments for derivative instrument may be done for trading as well as hedging and portfolio balancing.

Exposure to derivative instruments will not exceed 50% of the portfolio value (i.e. net assets including cash). The scheme may use derivatives upto the maximum limit permitted under SEBI Regulations from time to time.

As per SEBI Circular No. DNP/Cir-31/2006 dated September 22, 2006 Mutual Funds are allowed to use derivatives Mutual Funds can use index futures, index options, stock options and stock futures contracts.

In terms of this Circular, Escorts Mutual Fund shall use derivatives as follows :

#### **Position Limits for Escorts Mutual Fund: (i.e aggregate of all schemes)**

| Limits (Index Options & Futures)                   |  |
|--|--|
| Position limit for the option contracts.           | On a particular underlying index Rs.500 crores or 15% of the total open interest of the market in index options whichever is higher, per stock exchange. |
| Position limit for the in Index Futures contracts. | On a particular underlying index Rs.500 crores or 15% of the total open interest of the market in index futures whichever is higher, per stock exchange. |

The above limits are applicable on open positions in all options and futures contracts on a particular underlying index.

| Limits (Stock Options & Futures)  |  |
|---|--|
| For stocks in which the stock-wise position limit is less than or equal to Rs.500 crores. | The Escorts Mutual Fund position limit shall be 20% of the market wise position. |
| For stocks in which the stock-wise position limit is greater than Rs.500 crores.          | The Escorts Mutual Fund position limit shall be Rs.50/-crores.                   |

### Additional position limit for hedging

| Hedging Limits   |  |
|--|--|
| Hedge against a fall in share prices (short futures, short calls and long puts).     | Short position shall not exceed in notional value the value of Escorts Mutual Fund's holding of stocks.                                      |
| Hedge to protect against a rise in prices (short futures, long calls and short puts) | Long position shall not exceed in notional value the value of Escorts Mutual Fund's holding of cash, g-sec, T bills and similar instruments. |

### Position Limits applicable for the scheme:

1. For stock option and stock futures contracts the gross open position across all derivative contracts on a particular underlying stock of the scheme shall not exceed the higher of:  
1% of the free float market capitalization (in number of shares)  
**OR**  
5% of the open interest in derivatives 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, Escorts Mutual Fund shall disclose the total open interest held by this scheme or all schemes 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.

The following example seeking to explain the above limits numerically, are purely illustrative and should not be perceived as any limits or restriction or assurance or otherwise of the probable outcome of such transactions.

#### Example 1:

**Investment in Index Futures or Options (Long Position) by the scheme without investing in equities:** The scheme mobilizes Rs 500 crores during New Fund Offer. The Scheme may invest all the moneys it has collected in the New Fund Offer in Index Futures or in Index Options. (i.e going long on the market). As investing in particular stocks would involve impact on the share price, buying of Futures and Options which are comparatively more liquid would save the scheme the impact of buying in bulk and paying a higher price for the same. The Fund would thus buy the index futures or options and protect itself against the rise in equity prices. During the course of time it would invest in particular stocks and sell the index futures or index options and reduce the impact cost of buying scripts and influencing their share price.

| Event                    | Gain/(Loss) from derivative position | Gain/(Loss) from cash market position | Overall Gain/(Loss) to Scheme |
|--------------------------|--------------------------------------|---------------------------------------|-------------------------------|
| 10% rise in equity price | Rs. 500 Crs. * 10% = Rs. 50 Crs.     | NIL                                   | Rs. 50 Crores                 |
| 10% fall in equity price | Rs. 500 * 10% = (Rs. 50 Crs.)        | NIL                                   | (Rs. 50 Crores)               |

**Objective of the strategy :** To earn low volatility consistent returns.

### Risk associated with the strategy :

- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.

- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 2:

**Investment in Index Futures or Options (Short Position) by the scheme without investing in equities:** The scheme mobilizes Rs 500 crores during New Fund Offer. The Scheme may invest all the moneys it has collected in the New Fund Offer in Index Futures or Index Options. (i.e going short on the market) when the view is that the market is over heated and the indices may fall When the fund manager feels that the markets have corrected reasonably they may square off their puts and buy into shares in the cash market.

| Event                    | Gain/(Loss) from derivative position | Gain/(Loss) from cash market position | Overall Gain/(Loss) to Scheme |
|--------------------------|--------------------------------------|---------------------------------------|-------------------------------|
| 10% rise in equity price | Rs. 500 Crs. * 10% = (Rs. 50 Crs.)   | NIL                                   | (Rs. 50 Crores)               |
| 10% fall in equity price | Rs. 500 * 10% = Rs. 50 Crs.          | NIL                                   | Rs. 50 Crores                 |

**Objective of the strategy :** To earn low volatility consistent returns.

**Risk associated with the strategy :**

- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 3:

**Use of derivatives (Long Position):** The scheme has a corpus of Rs. 500 Crores. It has invested Rs 100 Crores in equity and the balance amount it can invest in Futures and options of the index or even of individual stocks. Thus it can take advantage of the rise in stock prices and also protect itself against impact cost of buying large quantities of stock.

| Event                    | Gain/(Loss) from derivative position | Gain/(Loss) from cash market position | Overall Gain/(Loss) to Scheme |
|--------------------------|--------------------------------------|---------------------------------------|-------------------------------|
| 10% rise in equity price | Rs. 400 Crs. * 10% = Rs. 40 Crs.     | Rs. 100 Crs. * 10% = Rs. 10 Crs.      | Rs. 50 Crores                 |
| 10% fall in equity price | Rs. 400 Crs. * 10% = (Rs. 40 Crs.)   | Rs. 100 Crs. * 10% = (Rs. 10 Crs.)    | (Rs. 50 Crores)               |

**Objective of the strategy :** To earn low volatility consistent returns.

**Risk associated with the strategy :**

- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 4:

**Use of derivatives (Short Position):** The scheme has a corpus of Rs. 500 crores. It has invested Rs. 400 Crores in equity. If there is a correction which the fund manager expects it would not be possible for him to sell all the stocks at one point of time. The fund may sell index futures or options

and the stock futures or options as they are more liquid and prices of equity, which they hold in the cash market, would not be impacted.

| Event                    | Gain/(Loss) from derivative position  | Gain/(Loss) from cash market position | Overall Gain/(Loss) to Scheme |
|--------------------------|---------------------------------------|---------------------------------------|-------------------------------|
| 10% rise in equity price | Rs. 400 Crs. *<br>10% = (Rs. 40 Crs.) | Rs. 100 Crs. *<br>10% = (Rs. 10 Crs.) | (Rs. 50 Crores)               |
| 10% fall in equity price | Rs. 400 Crs. *<br>10% = Rs. 40 Crs.   | Rs. 100 Crs. *<br>10% = Rs. 10 Crs.   | Rs. 50 Crores                 |

**Objective of the strategy :** To earn low volatility consistent returns.

**Risk associated with the strategy :**

- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 5:

**Call Option :** Assuming that the fund buys a one month call option on XYZ Stock at a strike of Rs. 250; the current market price is Rs. 251 and the fund pays a premium of Rs. 20 to buy the call. In case the stock price goes below Rs. 250 during the tenure of the call, the fund avoids the loss it would have incurred had it straightaway bought the stock instead of the call option. The fund forgoes the premium of Rs. 20 that has to be paid in order to protect the fund from this possible downside. In case the stock goes above Rs. 250, it can exercise its right and own XYZ Stock at a cost price of Rs. 250, thereby participating in the upside of the stock.

**Benefits :** Buying a call option on a stock or index gives the owner the right, but not the obligation, to buy the underlying stock / index at the designated strike price. The downside risks are restricted to the premium paid to purchase the option.

**Objective of the strategy :** To earn the option premium

**Risk associated with the strategy :**

- The underlying security may fall by more than the option premium earned, thereby exposing the strategy to downside risks.
- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 6:

**Put Option :** Assuming that the fund owns XYZ Stock and also buys a three month put option on XYZ Stock at a strike of Rs. 250; the current market price is Rs. 251 and the fund pays a premium of Rs. 15 to buy this put. If the stock price goes below Rs. 250 during the tenure of the put, the fund can still exercise the put and sell the stock at Rs. 250, avoiding therefore any downside on the stock below Rs. 250. The fund forgoes the fixed premium of Rs. 15 that has to be paid in order to protect the fund from this possible downside. If the stock goes above Rs. 250, let us say to Rs. 270, it will not exercise its option. The fund will participate in the upside of the stock, since it can now sell the stock at the prevailing market price of Rs. 270.

**Benefits :** Buying a put option on a stock originally held provides the buyer with the right, but not the obligation, to sell the underlying stock at the designated strike price. Here the downside risks are limited to the premium paid to purchase the option.

**Objective of the strategy :** To earn the option premium

**Risk associated with the strategy :**

- The underlying security may rise by more than the option premium earned, thereby exposing the strategy to downside risks.
- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 7:

**Writing Options : With underlying stock holding (Covered call writing) :** Assuming that the fund owns XYZ Stock, the current market price being Rs. 4000. The fund manager holds the view that the stock should be sold when it reaches Rs. 4300. Currently, the one month 4300 calls can be sold at say Rs. 200. Selling this call gives the call owner the right to buy from the fund XYZ Stock at Rs. 4300. Now the fund by buying / holding the stock and selling the call is effectively agreeing to sell XYZ Stock at Rs. 4300 when it crosses this price. So the fund is giving up any possible upside beyond Rs. 4300. However, the returns on the fund are higher than what it would have got if it just held the stock and decided to sell it at Rs. 4300. This is because by writing the covered call the fund gets an additional Rs. 200 per share of XYZ Stock. In case the price is below Rs. 4300 during the tenure of the call, then it will not be exercised and the fund will continue to hold the shares. Even in this case the returns are higher than if the fund had just held the stock waiting to sell it at Rs. 4300.

**Benefits :** Under this strategy a writer (here the fund) holds a particular stock and sells in the market a call option on the stock. The buyer of the call option now has the right to buy this stock from the writer at a particular price, which is fixed by the contract (the strike price). The writer receives a premium for selling a call, but if the call option is exercised, he has to sell the underlying stock at the strike price. This is beneficial if the strike price is the level at which the writer wants to exit his holding / book profits. The writer effectively gains a fixed premium in exchange for the possible opportunity loss that comes from forgoing any upside if the stock rises beyond the strike price.

**Objective of the strategy :** To earn the option premium

**Risk associated with the strategy :**

- The underlying security may rise by more than the option premium earned, thereby exposing the strategy to downside risks.
- The risk of mis-pricing or improper valuation and the inability of the derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk : The prices which are seen on screen need not be the same at which execution will take place.

Example 8:

**Interest Rate Swaps and Forward Rate Agreements :** The derivatives work as follows :

Basic Structure of an Interest Rate Swap

Counter Party 1            → Floating Interest Rate            Counter Party 2  
   ← Fixed Interest Rate

In the above example, Basic Details: Fixed to floating swap  
Notional Amount: Rs. 1 Crore; Benchmark: NSE MIBOR; Deal Tenor: 3 months (91 days); Documentation: International Securities Dealers Association (ISDA).

Assuming that the fixed rate decided was 10%. At the end of three months, the following exchange will take place:

Counter party 1 pays: compounded call rate for three months, i.e. 9.90%.

Counter party 2 pays fixed rate: 10%

In reality, however, the difference of the two amounts is settled. Counter party 2 will pay: Rs 1 Crore \* 0.10% \* 91/365 = Rs. 2,493.15.

Thus the trade off for the Fund will be the difference in call rate and the fixed rate payment and this can vary with the call rates in the market.

**Benefits :** The Bond markets in India are not very liquid. Investors run the risk of illiquidity in such markets. Further, investing for short-term periods for liquidity purposes has its' own risks. Investors can benefit if the Fund remains in call market for the liquidity and at the same time take advantage of fixed rate by entering into a swap. It adds assurance to the returns without giving up liquidity.

**Forward RATE agreements (FRA) :** This is an agreement between two counterparties to pay or to receive the difference between an agreed fixed rate (the FRA rate) and the interest rate prevailing on a stipulated future date based on the notional amount, for an agreed period. The interest rate benchmarks that are commonly used for floating rate in interest rate swaps are those on various Money Market Instruments. In Indian markets, the benchmark most commonly used is MIBOR.

**Objective of the strategy :** To hedge against interest rate uncertainty relating to asset prices and interest rates in future.

**Risk associated with the strategy :**

- It may be difficult to find instruments of similar maturity and risk class.
- The limits applicable for all above derivative transactions would be as per the maximum allowable limits under SEBI (Mutual Fund) Regulations and as permitted by the Trustee from time to time.

**Risks associated with Derivatives**

Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. 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 of interest rate movements correctly. There is a 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. Other risks in using derivatives include the risk of mis-pricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Also, the market for derivative instruments is nascent in India.

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 and execute such strategies.

The risks associated with the use of derivatives are different from or possibly greater than the risk associated with investing directly in securities and other traditional investments.

#### **ii. PORTFOLIO TURNOVER POLICY**

Portfolio turnover is defined as the aggregate of purchases and sales as a percentage of the corpus of the scheme during a specified period of time.

As the nature of the scheme is dynamic, the fund manager may churn the portfolio keeping in mind the investment objective of the scheme. If the Fund Manager is of the opinion that there is an opportunity to enhance the total return of the portfolio, the Scheme may take trading exposure which may result in high portfolio turnover.

#### **iii. CHANGE IN INVESTMENT PATTERN**

Subject to Regulations, the asset allocation indicated above may change from time to time keeping in view market condition, market opportunities, applicable regulations, legislative amendments and other 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 Unitholders.

The fund shall seek Unitholders approval, if necessary, and in accordance with the Regulations, if there is any change in the Fundamental Attributes pursuant to change in investment Pattern.

#### **iv. INVESTMENT BY THE AMC IN THE SCHEME**

The AMC may invest in the scheme from time to time, as per SEBI regulations. However, in respect of investment by the Scheme in Units of other Mutual Fund Scheme(s), AMC shall not be entitled to charge any Investment Management and Advisory Fees.

#### **v. SECURITIES LENDING**

If permitted by SEBI under extant regulations / guidelines, the Scheme may also engage in securities lending activity. Stock Lending means the lending of securities to another person or entity for a fixed period of time at a negotiated compensation in order to enhance returns of the scheme portfolio. The securities lent will be returned by the borrower on the expiry of the stipulated period. The AMC will adhere to the following strict internal limits should it engage in stock lending :

It may lend the securities held by it to eligible brokers, dealers, financial institutions, etc. through approved intermediaries, in amounts upto 75% of its total net assets at the time of lending, in accordance with the Guidelines for Participation by Mutual Funds in Stock Lending Scheme and any other guidelines / regulations issued by SEBI. The scheme would limit its exposure, with regard to securities lending, for a single intermediary, to the extent of 25% of the total net assets of the scheme at the time of lending. Collateral must be obtained by approved intermediary for the lending transactions. However, the Asset Management Company and the Trustees

reserve the right to modify the above-mentioned limits. Any default / delay by the parties to return the securities lent to them may have an adverse impact on the net assets (and consequently the performance) of the scheme. Collateral would always be obtained by the approved intermediary and would always be more than the value of securities lent. Collateral can be in the form of cash, bank guarantee, government securities, as may be agreed upon with the approved intermediary and would also be subject to mark to market valuation on a daily basis.

Example : A fund has an equity share of a company which it would wish to hold for a long period of time as a core holding in the portfolio as per the fund manager's plan. In that case the investors would be benefited only to the extent of the rise in the value of the share, from time to time if any, on the exchange. If the fund is enabled to lend the said security to a borrower who would be wanting to take advantage of the market fluctuations in its price, the borrower would return the security to the lender (scheme) at a stipulated time or on demand for a negotiated compensation. The fund's unitholders can enhance their returns to the extent of the compensation it will earn for lending the same. An adequate security or collateral will have to be maintained by the intermediary. This should always be higher than the cost of the security. Thus it is in the interest of the investors that returns can be enhanced by way of stock lending rather than hold the security only for capital appreciation potential.

Thus the scenario under which the fund would participate in stock lending would be :

1. There is a holding of security eg 1 lakh shares of XYZ Ltd in the fund, which the fund manager wants to be the core holding of the scheme for approximately 6 to 12 months.
2. There is a borrower (not mutual fund) for the security, (who has taken a short position in the market and needs XYZ Ltd shares to settle it) who is willing to put up a proper collateral for the same. (In all cases higher than the price of the script).
3. The borrower is represented by a proper recognized intermediary.
4. The agreement is to return the security or the amount so negotiated at a particular period of time or on demand.

Then the security will be lent by the fund and the unitholders would benefit from the additional compensation earned for lending, apart from the capital appreciation, which also happens in that stock.

#### **F. FUNDAMENTAL ATTRIBUTES**

Following are the Fundamental Attributes of the scheme, in terms of Regulation 18 (15A) of the SEBI (MF) Regulations:

##### (i) Type of a scheme

- o Open ended growth scheme
- o Diversified Equity Fund

(ii) Investment Objective

- o Main Objective - Growth.
- o Investment pattern –

| Instrument   | Likely Proportion* (%) | Risk           |
|--|------------------------|----------------|
| Equity & Equity Related Instruments of the companies in Power/ Energy Sector.  | 65 -100                | Medium to High |
| Debt Instruments, Govt. Bonds, Money Market Instruments etc. Investment by the scheme in securitised debt, will not normally exceed 40% of the debt component of the scheme. | 0 - 35                 | Low to Medium  |

Notes : \* = as a proportion of the net assets of the scheme

**Change in investment pattern**

Subject to Regulations, the asset allocation indicated above may change from time to time keeping in view market condition, market opportunities, applicable regulations, legislative amendments and other 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 Unitholders.

The fund shall seek Unitholders approval, if necessary, and in accordance with the Regulations, if there is any change in the Fundamental Attributes pursuant to change in investment Pattern.

(iii) Terms of Issue

- o Liquidity provisions –  
An open-ended scheme with daily determination of Net Asset Value and providing opportunity to invest and exit at NAV related prices, with applicable load, on daily basis.
- o Aggregate fees and expenses charged to the scheme –  
Total expenses of the scheme including the investment management and advisory fee shall be within the limits stated in Regulation 52(6), or as may be prevailing under the Regulations from time to time.

In accordance with Regulation 18(15A) of the SEBI (MF) Regulations, the Trustees shall ensure that no change in the fundamental attributes of the Scheme(s) and the Plan(s) / Option(s) thereunder or the trust or fee and expenses payable or any other change which would modify the Scheme(s) and the Plan(s) / Option(s) thereunder and affect the interests of Unitholders is carried out unless:

- 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 30 days to exit at the prevailing Net Asset Value without any exit load.

**G. BENCHMARK**

This scheme proposes investment in primarily in Equity and Equity related instruments of companies in the Power / Energy Sector. Hence, the benchmark index used shall be BSE Power Index. The Bombay Stock Exchange launched the 'BSE Power Index' on 09.11.2007 constituting 14 upcoming Companies in the power sector. The index tracks the performance of companies engaged in the business of generation, transmission,

distribution of electricity, companies providing power infrastructure, and manufacturers of power equipment.

Example : Weightage of the Power Scrips in the BSE Power Index as on January 23, 2008

| <b>Scrip Name</b>                    | <b>Weightage</b> |
|--------------------------------------|------------------|
| Bharat Heavy Electricals Ltd.        | 19.12            |
| Reliance Energy Limited (BSES Ltd.)  | 15.91            |
| NTPC Ltd.                            | 14.39            |
| Suzlon Energy                        | 10.09            |
| Tata Power Co. Ltd.                  | 9.07             |
| Siemens Ltd.                         | 7.03             |
| ABB Limited (Asea Brown Boveri Ltd.) | 6.91             |
| Crompton Greaves Ltd.                | 4.21             |
| Powergrid                            | 3.64             |
| GMR Infrastructure                   | 3.27             |
| Torent Power                         | 2.09             |
| GVK Power                            | 1.63             |
| NF CESC Ltd.                         | 1.51             |
| Areva                                | 1.14             |

The abovementioned BSE Power Index is only for performance comparison purposes and should not be construed as investment pattern of the Scheme. The scheme shall have the flexibility to invest in stocks that are outside the composition of the index but are within the investment focus of the scheme. The scheme may broadly follow the composition of the index without necessarily tracking it.

#### **H. CHIEF INVESTMENT OFFICER**

##### Chief Investment Officer

Mr. Rajesh Sharma is the Chief Investment Officer for the Scheme. He has done B.E. followed by PGDBM from IIM – Ahmedabad. He has 16 yrs experience in the financial sector.

| <b>Name</b>               | <b>Designation</b>       | <b>Age</b> | <b>Qualification</b>           | <b>Expe-<br/>rience<br/>(yrs.)</b> | <b>Type and<br/>nature of<br/>past<br/>experience<br/>including<br/>assignment<br/>held during<br/>the last 10<br/>years</b> | <b>Responsi<br/>bility</b>                 |
|---------------------------|--------------------------|------------|--------------------------------|------------------------------------|--|--|
| Mr. Rajesh Sharma         | Chief Investment Officer | 43         | B.E., PGDBM – IIM Ahmbd.       | 16                                 | Worked in the financial sector looking after investment and research related functions                                       | Overall responsibility for Fund Management |
| Mr. Jagveer Singh Fauzdar | Fund Manager (Equity)    | 30         | Eco MBA (Fin.) – Lucknow Univ. | 5                                  | Equity Research and Portfolio Management   | Fund Manager (Equity)                      |

| Name               | Designation         | Age | Qualification  | Expe-rience (yrs.) | Type and nature of past experience including assignment held during the last 10 years | Responsibility      |
|--------------------|---------------------|-----|--|--------------------|---|---------------------|
| Mr. Sanjeev Sharma | Fund Manager (Debt) | 32  | M. Com., PGDBA (Finance) – Symbiosis Pune, PG Dip. – Computer Applications | 5                  | Debt research.  | Fund Manager (Debt) |

They manage all the schemes of Escorts Mutual Fund.

#### **I. INVESTMENT RESTRICTIONS**

The investment policy of the Scheme complies with the rules, regulations and guidelines laid out in SEBI (Mutual Funds) Regulations, 1996. As per the Regulations, specifically the Seventh Schedule, the following investments limitations are applicable :

1. The scheme shall not invest more than 15% of its NAV in debt 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 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of AMC. Provided such limit shall not be applicable for investment in government securities and money market instrument. Provided further that investment within such limit can be made in mortgaged backed securitised debt which are not rated below investment grade by a credit rating agency registered with the Board. However, investments made in securitised debt (MBS/ABS), restrictions at originator level will not be applicable.
2. The scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investments in such instruments shall not exceed 25% of the NAV of the scheme. The proposals for investment in unrated debt instruments may be approved by Committee. However, the detailed parameters must be approved by the AMC Board and the Trustees. In case any security does not fall under the parameters, the prior approval of Boards of AMC and Trustee shall be required.
3. The Mutual Fund under all its scheme(s), including this Scheme shall not own more than 10% of any company's paid up capital carrying voting rights.
4. Transfers of investments from one scheme to another scheme in the same Mutual Fund shall be allowed only if:
  - such transfers are done at the prevailing market price for quoted instruments on spot basis; and
  - the securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.
5. The Scheme may invest in another scheme under the same asset management company or any other mutual fund, without charging any fees, provided that the aggregate inter-scheme investments made by all schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the Mutual Fund.
6. The Mutual Fund 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 Mutual Fund may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board :

Provided further that a mutual fund may enter into derivatives transactions on a recognised stock exchange, subject to framework specified by the Board.

7. The Mutual Fund shall get the securities purchased, transferred in the name of the Mutual Fund on account of the concerned Scheme, whenever investments are intended to be of a long-term nature.
  8. Pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme a mutual fund can invest the funds of the scheme in short term deposits of scheduled commercial banks. The investment in short term deposits shall be reported to the trustees along with the reasons for the investment, which, interalia, would include comparison with interest rates offered by other scheduled commercial banks. Further, the AMC shall ensure that the reasons for such investments are recorded in the manner prescribed in SEBI Circular MFD/CIR/6/73/2000 dated 27.07.2000. Further, in terms of SEBI Circular No .SEBI/IMD/Cir No. 1/91171/07 dated 16.04.2007 the following guidelines shall be followed :
    1. "Short Term" for such parking of funds by mutual funds shall be treated as a period not exceeding 91 days.
    2. Such short term deposits shall be held in the name of the concerned scheme.
    3. No mutual fund scheme shall park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with prior approval of the trustees. Also, 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.
    4. No mutual fund scheme shall park more than 10% of the net assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries.
    5. Trustees shall ensure that no funds of a scheme may be parked in short term deposit of a bank which has invested in that scheme.
    6. Asset Management Company (AMC) shall not be permitted to charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks in case of liquid and debt oriented schemes.
- However, the abovesaid Circular shall not be applicable to term deposits placed as margins for trading in cash and derivatives market.
9. The Mutual Fund shall not make any investment in
    - any unlisted security of an associate or group Company of the Sponsor; or
    - any security issued by way of private placement by an associate or group Company of the Sponsor; or
    - the listed securities of group companies of the Sponsor which is in excess of 25% of the net assets.
  10. No scheme of a Mutual Fund shall make any investment in any fund of funds.
  11. In case of investments in securitised debts, the Scheme may invest in asset backed securities and mortgage backed securities. Investment in securitised debt shall be upto a maximum of 10% of its NAV.
  12. The scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments in case of open ended schemes.
  13. The Scheme shall not advance any loans for any purpose.

14. The scheme shall not invest more than 10% of its NAV in the equity shares or equity related instruments of any company.

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 the Regulations, as follows :

Clause 1. The scheme shall not invest more than 15% of its NAV in debt 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 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of AMC. Provided such limit shall not be applicable for investment in government securities and money market instrument.

Clause 1A. The scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investments in such instruments shall not exceed 25% of the NAV of the scheme. The proposals for investment in unrated debt instruments may be approved by Committee. However, the detailed parameters must be approved by the AMC Board and the Trustees. In case any security does not fall under the parameters, the prior approval of Boards of AMC and Trustee shall be required.

Further, it is clarified that the investment limits mentioned in (1) and (2) above are applicable to all debt securities which are issued by public bodies/institutions such as electricity boards, municipal corporations, state transport corporations etc. guaranteed by either central or state government. Government securities issued by central/state government or on its behalf by RBI are exempt from the above referred investment limits.

All investment restrictions stated above shall be applicable at the time of making investment. The Scheme will not enter into any transaction, which exposes it to unlimited liabilities or results in the encumbering of its assets in any way so as to expose them to unlimited liability. These investment limitations / parameters as expressed / linked to the net asset / net asset value / capital, shall in the ordinary course, apply as at the date of the most recent transaction or commitment to invest. Changes do not have to be effected merely because of appreciation or depreciation in value or by reason of the receipt of any rights, bonuses or benefits in the nature of capital or of any scheme of arrangement or for amalgamation, reconstruction or exchange, or at any repayment or redemption or other reason outside the control of the Fund, any such limits would thereby be breached. If these limits are exceeded for reasons beyond its control, AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the Unitholders.

In terms of SEBI Circular No. SEBI/IMD/CIR No. 1/ 91171 /07 dated 16.04.2007 "Short Term" for such parking of funds shall be treated as a period not exceeding 91 days. Further, No mutual fund scheme shall park more than 15% of the Net Assets in Short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with prior approval of the trustees. Also, 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. Moreover, no mutual fund scheme shall park more than 10% of the Net Assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries. Trustees shall ensure that no funds of a

scheme may be parked in short term deposit of a bank which has invested in that scheme.

It is further clarified that the scheme will not invest in foreign securitised debt.

In the event of any amendment to the Regulations, in general and to the Seventh Schedule thereto, in particular, the Trustee shall take note of the same and may alter these investment restrictions, from time to time, with immediate effect, if need be, to enable the Scheme to make investments to achieve its investment objective.

#### **J. SCHEME PERFORMANCE**

"This scheme is a new scheme and does not have any performance track record".

### **III. UNITS AND OFFER**

This section provides details you need to know for investing in the scheme.

#### **A. NEW FUND OFFER (NFO)**

|   |  |
|---|--|
| New Fund Offer Period<br><br>This is the period during which a new scheme sells its units to the investors.   | NFO opens on:<br>NFO closes on:  |
| New Fund Offer Price:<br><br>This is the price per unit that the investors have to pay to invest during the NFO.  | Rs. 10/- per unit  |
| Minimum Amount for Application in the NFO   | Rs. 5,000/- and in multiples of Rs. 1/- thereafter.  |
| Minimum Target amount<br><br>This is the minimum amount required to operate the scheme and if this is not collected during the NFO period, then all the investors would be refunded the amount invested without any return. However, if AMC fails to refund the amount within 6 weeks, interest as specified by SEBI (currently 15% p.a.) will be paid to the investors from the expiry of six weeks from the date of closure of the subscription period. | Rs. 10,00,000/-<br><br>The minimum subscription amount for the New Fund Offer of Units under the Scheme is 1,00,000 Units of Rs. 10/- each aggregating to Rs. 10 lakhs, in the event this amount is not raised during the New Fund Offer period, the amount collected will be refunded to the applicants. However, any over subscription will be retained. |
| Maximum Amount to be raised (if any)  | Not Applicable   |

Plans / Options offered :

Options :

The investor can opt for Dividend Option or Growth Option. Units under each Investment Option will have a separate Net Asset Value, after the first dividend distribution. The Dividend Option will suit the needs of those investors who are desirous of receiving regular income by way of dividends, which are exempt from tax under section 10(33) of the Act. The Growth

Option will suit the needs of those investors who do not require regular income, by way of dividends but are desirous of enjoying capital appreciation. They will enjoy the twin tax benefits of indexation and lower tax rate on long term capital gains under sections 48 and 112 of the Act.

Plans:

1. Systematic Investment Plan -
  - The investors can enroll themselves for systematic investment Plan (SIP) by ticking the appropriate box on the application, during the New Fund Offer Period or the application for purchase, on an on-going basis. In the former case, the Asset Management Company will contact the investor for participation in SIP, subsequent to the Commencement of the Scheme.
  - The investor can choose to invest a minimum of Rs. 500/- on a monthly or Rs. 1,500/- on a quarterly basis, subject to minimum of Rs. 5,000 per annum by enclosing, along with their application for purchase sufficient number of post-dated cheques (monthly or quarterly), for a continuous period of at least one year.
  - The Board of Trustees/AMC reserve the right to alter/vary the terms of SIP.
2. Dividend Re-investment Plan -
  - Unit holders, under the Dividend Option may choose to re-invest the whole or a part of their dividend income (subject to a minimum of Rs. 1,000/- in additional units of the Scheme instead of receiving the same in cash under DRIP).
  - The dividend due and payable to the Unitholder will be automatically reinvested at the first ex-dividend NAV prevailing after the dividend declaration.

Dividend Policy

1. No dividend will be declared and distributed under the Growth Option, and the distributable surplus, which thus remains wholly undistributed, would be transferred to the reserves of the Scheme attributable to the Unit holders of this Option alone.
2. Under the Dividend Option, the Trustee may decide and declare dividend at such rests, as it deems fit, after the close of the relevant period, subject to availability of distributable surplus, from time to time.
3. When dividends are declared and distributed, the reserves of the Scheme attributable to the Unit holders of this Option alone, will stand reduced by an amount equivalent to the product of the number of Units outstanding, under the Dividend Option and the dividend per Unit (including Dividend Tax plus surcharge as applicable thereon, if any).
4. Dividend will be paid by cheque favouring the registered holder of the Units and, if there is more than one registered holder, then the first-named registered holder.
5. Dividend warrants will be dispatched to the Unit holder's address in the Register of Unit holders and made payable to the bank, branch and account number of the Unit holder.
6. Dividend warrants will be dispatched, within 30 days from the date of declaration of dividend.
7. Dividend Payout of Rs. 100/- and below shall be automatically re-invested in the scheme.
8. Payment of dividend and dispatch of dividend warrants to Non-Resident Unit holders / FIIs will be subject to obtaining requisite RBI directions from time to time.
9. The Trustee may introduce Electronic Clearing Service (ECS), at a later date to obviate the need for issuing and handling paper instruments such as dividend warrants and thereby facilitate improved investor service, for which purpose a separate communication will be sent to all eligible Unit holders at the appropriate time.

10. The unclaimed dividend amount shall be deployed by the mutual fund in call money market or money market instruments only and the investors who claim these amounts during the period of 3 years from the due date shall be paid at the prevailing NAV. After a period of 3 years this amount shall be transferred to a pool account and the investors can claim the amount at NAV prevailing at the end of the third year. The income earned on such funds can be used for the purpose of investor education.

#### Allotment

Full allotment will be made to all valid applications received during the New Fund Offer Period. Allotment to NRIs/OCBs/FIIs will be subject to RBI approval, if any, required.

A non-transferable statement of Account with a unique account number will be dispatched to the investor stating the number of Units held, within 30 days from the closure of the New Fund Offer Period. Such Statement of Account will be confirmation of the ownership of Units.

#### Refund

If application is rejected, full amount will be refunded within 6 weeks of closure of NFO. If refunded later than 6 weeks, interest @ 15% p.a. for delay period will be paid and charged to the AMC.

Refund warrants for the following amounts will be dispatched:

1. Where an application is rejected in full, the subscription amount in full;
2. Where an application is accepted in part, the excess subscription amount;
3. For applications accompanied by payment in the form of foreign exchange/Dollar drafts, where the remittance is in excess of the subscription amount due on the nearest lower multiple of 100 Units, the excess subscription amount;
4. If the entire subscription does not amount to target amount of Rs. 10 lakhs, on the date of closure of the New Fund Offer Period, then the entire subscription amount in full and the Scheme shall be deemed to have been terminated.
5. No interest will be payable on any subscription amount so refunded. However, if the Mutual Fund fails to refund the above excess subscription amount, if any within 6 weeks from the date of the New Fund Offer Period, then interest @ 15% per annum will be paid out of the assets of the Mutual Fund for the Period thereafter.
6. Refund warrants, marked "A/c Payee Only" will be drawn in the name of the investor and dispatched by registered post A.D. to the address of the sole/first-named investor as per the application.

#### Who can invest

This is an indicative list and you are requested to consult your financial advisor to ascertain whether the scheme is suitable to your risk profile.

The following persons/ entities (subject, wherever relevant to purchase of Units of Mutual Funds being permitted under relevant statutory regulations and their respective constitutions, wherever applicable) may apply for subscription to Units under the Scheme :

1. Resident adult individuals, either singly or jointly (not exceeding three)
2. Minors through their parents/ legal guardians;
3. Hindu Undivided Family ('HUF'), in the name of karta;
4. Sole Proprietors, Partners of (Partnership) Firms and Association of Persons or Body of Individuals;
5. Bodies corporate/ Companies registered in India;
6. Banks (including Co-operative and Regional Rural Banks) and financial institutions;

7. Religious and Charitable (public) and private Trusts authorised to invest in such Units;
8. Registered societies and Co-operative societies authorised to invest in such Units;
9. Provident/ Pension/ Gratuity/ Superannuation and such other Funds as and when permitted to invest.
10. Army/ Air Force/ Navy and other para-military Funds and eligible institutions;
11. Scientific and/ or industrial research organisations authorised to invest in such Units;
12. Other associations, institutions, bodies etc. authorised to invest in such Units;
13. Non-Resident Indians and persons of Indian origin residing abroad (collectively 'NRIs');
14. Foreign Institutional Investors ('FIIs') registered with SEBI;
15. Multilateral agencies approved by the Government of India can apply subject to obtaining Reserve Bank of India ('RBI') approval; and
16. Other Mutual Funds and Schemes of Escorts Mutual Fund.

Investments in Units under the scheme by religious and charitable trusts will rank as an eligible investment under Section 11(5) of the Act read with Rule 17C of the Income-tax Rules, 1962. Eligible institutions such as those covered under section 11 and 10(23C) of the Act, investing in Units under the scheme would therefore continue to qualify for exemption, in respect of income therefrom under the applicable sections of the Act.

In terms of Schedule 5 of Notification No. FEMA 20/2000 dated May 3, 2000, RBI as amended vide FEMA Notification No. 101 dated October 3, 2003 has granted general permission to NRIs to purchase, on a repatriation basis, units of domestic mutual funds. Further, the general permission is also granted to NRIs to sell the units to the mutual funds for repurchase or for the payment of maturity proceeds, provided that the units have been purchased in accordance with the conditions set out in the aforesaid notification.

For the purpose of this section, the term "mutual funds" is as referred to in Clause (23D) of Section 10 of Income-tax Act, 1961.

However, NRI investors also have the option to make their investment on a non-repatriable basis.

In terms of Schedule 5 of Notification No. FEMA 20/2000 dated May 3, 2000, RBI has granted general permission to a registered FII to purchase, on repatriation basis, units of domestic mutual funds. Further, the general permission is also granted to FIIs to sell the units to the mutual funds for repurchase or for the payment of maturity proceeds, provided that the units have been purchased in accordance with the conditions set out in the aforesaid notification.

For the purpose of this section, the term "mutual funds" is as referred to in Clause (23D) of Section 10 of Income-tax Act, 1961.

#### Where can you submit the filled up applications

Escorts Asset Management Limited  
 Regd. Office: 11, Scindia House,  
 Connaught Circus, New Delhi – 110 001.  
 (Tel): (011) 2332-1654, 2331-9991,  
 2332-5177, 2335-1343  
 (Fax): (011) 2376- 1495  
 Website : [www.escortsmutual.com](http://www.escortsmutual.com)

Official points of acceptance, collecting banker details etc. – appearing on back cover page.

#### How to Apply

Please refer to the SAI and Application form for the instructions.

No receipt will be issued for the application. However, the Acknowledgement Slip, at the bottom of the application, duly initialled/ stamped by collecting branches of the bankers to the New Fund Offer shall be issued to the investor for future reference. All communication in respect of the application should be sent to the Asset Management Company quoting the full name of the investor, application serial number, number of Units applied for, date on which and name of the collecting branch of the bankers to the New Fund Offer.

#### Mode of Payment :-

- For application(s) from Resident investors payment should be made either by cash or by local cheque/ demand draft drawn in favour of "ESCORTS MUTUAL FUND – A/C ESCORTS POWER & ENERGY FUND", crossed "A/c payee only" and made payable locally after deducting bank charges / commission and drawn on any bank branch which is a member of Bankers Clearing House located in the centre where the application is lodged. Bank charges for outstation demand drafts will be borne by the AMC during New Fund Offer Period. Stockinvests, outstation cheques, post-dated cheques, postal orders or money orders will not be accepted. In case of payment by cheque/ demand draft, a separate cheque/ demand draft must accompany each application.
- For application(s) from NRIs, in case of purchase of units on repatriation basis, payment shall be made either by inward remittance through normal banking channels or out of the funds held in his Non-Resident (External) Account / FCNR Account. In case of purchase of units on non repatriation basis, payment shall be made either by inward remittance through normal banking channels or out of the funds held in his Non-Resident (External) Account / FCNR Account / Non Resident Ordinary Account / NRNR Account. All cheques/ demand drafts should be drawn in favour of "ESCORTS MUTUAL FUND – A/C ESCORTS POWER & ENERGY FUND – NRI". Payment in the form of foreign exchange/ Dollar drafts may result in subscription to fractional Units. Applicable Exchange Rate shall be that prevailing on the date of remittance of dividend / redemption.
- Cheque/ demand draft accompanying the application, if any should contain the application serial number on its reverse.

#### Rejection of Applications :-

The following kinds of Applications are liable to be rejected :

1. Incomplete or incorrectly filled Applications and/or those not accompanied by the subscription amount or otherwise found invalid;
2. Applications under Power of Attorney for which the requisite documents are not submitted within the time period stipulated in this regards Applications accompanied by cheques / demand drafts that have been dishonoured / returned unpaid;
3. The Trustee reserves the sole and absolute right to accept or reject applications, in whole or in part, without assigning any reason therefor. The decision of the Trustee in this regard shall be absolute and final.

#### Lien on Units :-

A lien on Units allotted will be created, and such Units shall not be available for redemption until the payment proceeds are realised by the Fund. In case

a unitholder redeems Units soon after making purchases, the redemption cheque will not be despatched until sufficient time has elapsed to provide reasonable assurance that cheques or drafts for Units purchased have been cleared. In case the cheque / draft is dishonoured by the bank, the transaction shall be reversed and the Units allotted earlier shall be cancelled, and a fresh Account Statement / Confirmation slip shall be despatched to the Unitholder.

For non-individuals and NRIs, the Fund may mark a lien on Units in case documents, which need to be submitted, are not given in addition to the application form and before the submission of the redemption request.

However, the Fund reserves the right to change operational guidelines for lien on Units from time to time.

Pledge of Units :-

The Units under the Scheme may be offered by a Unitholder as security by way of pledge in favour of a scheduled bank, financial institution or any other body, all specifically approved by the Fund for this purpose. Upon a specific authorisation request made by a Unitholder and upon completing necessary formalities by the Unitholder, the Fund will instruct the Registrar to mark a lien for a specific period on the Units standing to the credit of the Unitholders account. However, the disbursement of such loans will be at the entire discretion of the concerned bank/ financial institution/ any other body and the Mutual Fund assumes no responsibility thereof. If by enforcing the pledge /charge, the scheduled bank/ financial institution any other approved body seeks to transfer the Units and or have them registered in its name, then the AMC shall comply with the request, if the necessary documentary evidence is made available. No pledge or charge shall be recognised by the AMC unless it is registered with the Registrar and the acknowledgement has been received. However, Escorts Asset Management Ltd. reserves the right to change operational guidelines for pledge on Units, from time to time.

#### Listing

Since, no transfer of Units under the Scheme is contemplated, in normal circumstances, listing of the Units under the Scheme on a recognized Stock Exchange is not contemplated. However, the Trustee, with due regard to the prevalent circumstances, from time to time may decide, to list the Units under the Scheme, investment Option-wise on any one or more recognised Stock Exchange(s).

#### Special Products / facilities available during the NFO

1. Systematic Investment Plan -
  - The investors can enroll themselves for systematic investment Plan (SIP) by ticking the appropriate box on the application, during the New Fund Offer Period or the application for purchase, on an on-going basis. In the former case, the Asset Management Company will contact the investor for participation in SIP, subsequent to the Commencement of the Scheme.
  - The investor can choose to invest a minimum of Rs. 500/- on a monthly or Rs. 1,500/- on a quarterly basis, subject to minimum of Rs. 5,000 per annum by enclosing, along with their application for purchase sufficient number of post-dated cheques (monthly or quarterly), for a continuous period of at least one year.
  - The Board of Trustees/AMC reserve the right to alter/vary the terms of SIP.
2. Dividend Re-investment Plan -
  - Unit holders, under the Dividend Option may choose to re-invest the whole or a part of their dividend income (subject to a minimum of Rs.

1,000/- in additional units of the Scheme instead of receiving the same in cash under DRIP.

- The dividend due and payable to the Unitholder will be automatically reinvested at the first ex-dividend NAV prevailing after the dividend declaration.

## **B. ONGOING OFFER DETAILS**

### Subsequent Purchase Of Units

1. After 30 days from the date of closure of the New Fund Offer Period or as earlier as the Trustee may decide, the Units under the Scheme can be purchased at the then prevailing NAV.
2. The terms under which the subsequent purchase of Units will be made will be, inter alia, unless repugnant to the subject or context hereof the same as for the New Fund Offer of Units. An existing Unit holder may also make subsequent purchase of Units under the same account or a fresh account.
3. A Unit holder/ investor may request for purchase of Units for a specific amount (not less than Rs. 5,000/-). Additional Purchase may be made of Rs. 1,000/- and in multiples of Rs. 1/- thereafter.
4. Unit holders/ investors who are desirous of purchasing Units are required to lodge the application duly signed with any of the offices of the Asset Management Company mentioned in the Offer Document. Applications for purchase by mail, from Unit holders/ investors located at places where there are no offices of the Asset Management Company should be sent, preferably by Registered Post to the Asset Management Company at New Delhi. Applications for purchase by telephone, telegram, facsimile or other means and/ or those that lack valid signatures will not be accepted. However, the Mutual Fund may specify alternate means, in this regard, from time to time.
5. In terms of SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated 11.10.2006 the following cut off timings shall be applicable in respect of purchase of units and the following NAVs shall be applied for such purchases :
  - a. where the application is received upto 3.00 P.M. with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the day of receipt of application.
  - b. where the application is received after 3.00 P.M. with a local cheque or demand draft payable at par at the place where it is received – closing NAV of the next business day.
  - c. where the application is received with an outstation cheque or demand draft which is not payable at the place where it is received – closing NAV of the day on which the cheque or demand draft is credited.
6. Sale of Units may be suspended temporarily or indefinitely when any one or more of the following conditions exist:
  - The stock/ fixed income securities/ money market stops functioning or trading is restricted;
  - Periods of extreme volatility in the stock/ fixed income securities/ money market, which, in the opinion of the Asset Management Company is prejudicial to the interest of the existing Unit holders;
  - Declaration of war or occurrence of insurrection, civil commotion, natural calamity or sustained financial, political or industrial emergency, strife or disturbance; and/ or
  - SEBI, by order so directs.
7. Barring unforeseen circumstances, a Statement of Account, reflecting the number of Units purchased, the purchase value and the fresh balance of Units outstanding in the account will be dispatched within 10 business days from the date of application for purchase.
8. The effect of purchases, inter alia, will be to increase the outstanding Unit Capital of the Scheme by an amount equivalent to the product of

the number of Units purchased and the face value of the Units. Further, since Unit holders may purchase Units valued at Rs. 5,000/- or more, their consequent holding of Units may be fractional (upto three decimal places). Holding of fractional Units does not in any way reduce or limit the rights of such Unit holders.

|   |  |
|---|--|
| <p>Ongoing Offer Period<br/>This is the date from which the scheme will reopen for subscriptions/redemptions after the closure of the NFO period.</p>   | <p>W.e.f 20.10.2008.</p>   |
| <p>Ongoing price for subscription (purchase)/switch-in (from other schemes/plans of the mutual fund) by investors.<br/><br/>This is the price you need to pay for purchase/switch-in.<br/><br/><i>Example: If the applicable NAV is Rs. 10, entry load is 2% then sales price will be:<br/>Rs. 10* (1+0.02) = Rs. 10.20</i></p>     | <p>At the applicable NAV subject to prevailing entry load.<br/><br/>Entry Load:<br/><br/>For Applications below Rs. 5 Crores - 2.25%,<br/>For Applications of Rs. 5 Crores or above - Nil<br/>For SIP - 2.25% per transaction<br/><br/>In terms of SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated 31.12.2007, no entry load shall be charged for direct applications received by the Escorts Asset Management Ltd. i.e. applications received through internet, submitted to Escorts Asset Management Ltd. or collection centre/ Investor Service Centre that are not routed through any distributor/agent/broker. This shall also be applicable to additional purchases done directly by the investor under the same folio and switch-in to a scheme from other schemes if such a transaction is done directly by the investor.</p> |
| <p>Ongoing price for redemption (sale) /switch outs (to other schemes/plans of the Mutual Fund) by investors.<br/><br/>This is the price you will receive for redemptions/switch outs.<br/><br/><i>Example: If the applicable NAV is Rs. 10, exit load is 2% then redemption price will be:<br/>Rs. 10* (1-0.02) = Rs. 9.80</i></p> | <p>At the applicable NAV subject to prevailing exit load.<br/><br/>Exit Load:<br/><br/>- For Investments of Less than Rs. 5 Crores, if redeemed within 12 Months from the date of allotment. - 1%<br/>- For Investments of greater than or equal to Rs. 5 Crores, if redeemed within 6 Months from the date of allotment - 2%</p>  |

|   |   |
|---|---|
| <p>Cut off timing for subscriptions/ redemptions/ switches</p> <p>This is the time before which your application (complete in all respects) should reach the official points of acceptance.</p> | <p>In terms of SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated 11.10.2006 the following cut off timings shall be applicable :</p> <p>a. where the application is received upto 3.00 P.M. – closing NAV of the day of receipt of application.</p> <p>b. where the application is received after 3.00 P.M. – closing NAV of the next business day.</p>             |
| <p>Where can the applications for purchase/redemption switches be submitted?</p>  | <p>Escorts Asset Management Limited<br/> Regd. Office: 11, Scindia House,<br/> Connaught Circus, New Delhi – 110 001.<br/> (Tel): (011) 2332-1654, 2331-9991,<br/> 2332-5177, 2335-1343<br/> (Fax): (011) 2376- 1495<br/> Website :<br/> www.escortsmutual.com<br/> Official points of acceptance, collecting banker details etc. – appearing on back cover page.</p> |
| <p>Minimum amount for purchase/redemption/swiches</p>   | <p>A Unit holder/ investor may request for purchase of Units for a specific amount (not less than Rs. 5,000/-). Additional Purchase may be made of Rs. 1,000/- and in multiples of Rs. 1/- thereafter.<br/> Minimum redemption amount - Rs. 1,000/-.</p>  |

Minimum balance to be maintained and consequences of non maintenance.

In any case, if the effect of the notice for redemption is to reduce the balance in the account of the investor below the minimum account balance of Rs. 1,000/-, the Mutual Fund has the right to close the account and redeem the balance holding of Units, at the prevailing NAV after 30 days from the date on which the balance in the account of the investor fell below the minimum account balance of Rs. 1,000/- unless the Unit holder responds favourably to the notice issued by the Mutual Fund to the Unit holder, in this regard. In case, the effect of the notice for redemption is to reduce the balance in the account of the investor to a debit balance, then the credit balance in the account of the investor, as on the date of notice for redemption, prior to consideration of the notice for redemption will be payable.

Special Products available

- Systematic Investment Plan
- Dividend Re-investment Plan

Accounts Statements

Each Unitholder will receive an Account Statement each time additional purchases or redemptions of Units are made, or distributions in respect of Units are declared and paid. In addition, each Unitholder will also receive an

Account Statement as soon as practicable after 31<sup>st</sup> March each year. Such Annual Account Statements will detail the Unitholder's opening balance of Units held as at 1<sup>st</sup> April of the previous year, all transactions that occurred in the preceding twelve months with respect to his / her account, such as additional purchases and redemptions, a closing balance of Units held and the NAV of the Units as at 31<sup>st</sup> March.

For normal transactions (other than SIP) during ongoing sales and repurchase:

- The AMC shall issue to the investor whose application (other than SIP/STP) has been accepted, an account statement specifying the number of units allotted (state the service standard for the same)
- For those unitholders who have provided an e-mail address, the AMC will send the account statement by e-mail.
- The unitholder may request for a physical account statement by writing/calling the AMC/ISC/R&T.

For SIP transactions;

- Account Statement for SIP and STP will be despatched once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter.
- A soft copy of the Account Statement shall be mailed to the investors under SIP/STP to their e-mail address on a monthly basis, if so mandated.
- However, the first Account Statement under SIP/STP shall be issued within 10 working days of the initial investment/transfer.
- In case of specific request received from investors, Mutual Funds shall provide the account statement (SIP/STP) to the investors within 5 working days from the receipt of such request without any charges.

Annual Account Statement:

- The Mutual Funds shall provide the Account Statement to the Unitholders who have not transacted during the last six months prior to the date of generation of account statements. The Account Statement shall reflect the latest closing balance and value of the Units prior to the date of generation of the account statement,
- The account statements in such cases may be generated and issued along with the Portfolio Statement or Annual Report of the Scheme.
- Alternately, soft copy of the account statements shall be mailed to the investors' e-mail address, instead of physical statement, if so mandated.

Every Unitholder will have an Account Number. The number of Units issued to a Unitholder or redeemed by a Unitholder will be reflected in his or her account and a statement to this effect will be issued to the Unitholder.

#### Dividend

The dividend warrants shall be dispatched to the unitholders within 30 days of the date of declaration of the dividend.

Redemption – The redemption or repurchase proceeds shall be despatched to the unitholders within 10 working days from the date of redemption or repurchase

1. After 30 days from the date of closure of the New Fund Offer Period or as earlier as the Trustee may decide, the Units can be redeemed, on daily basis, at the then prevailing NAV.
2. A Unit holder may request for redemption of a specific redemption amount (not less than Rs. 1,000/-). The sale and re-purchase prices for subsequent purchase and redemption of Units under the Scheme respectively shall be disclosed for each such business day. The sale and

repurchase price of units shall be published in a daily newspaper on a daily basis. In accordance with the Regulations, it shall be ensured that the sale price is not higher than 107% of the Net Asset Value and the repurchase price is not lower than 93% of the Net Asset Value and that the difference between the sale and repurchase price does not exceed 7% of the sale price.

3. Notice for redemption of Units, in the prescribed form, duly signed by all the registered unit holders (except if held on 'either or survivor' or 'anyone or survivor' basis in which case the notice can be signed singly) may be sent to the offices of the Asset Management Company, preferably by registered post. Notices for redemption by telephone, telegram, facsimile or other means and/ or those that lack valid signatures will not be accepted. However, the Mutual Fund may specify alternate means, in this regard, from time to time. **It is mandatory** for the investors of Escorts Mutual Fund Scheme(s) to mention their bank account particulars in their requests for redemption.
4. In respect of valid redemption requests received by the Mutual Fund, the following cut off timings and NAVs shall be applicable :  
In terms of SEBI Circular No. SEBI/IMD/CIR No. 11/78450/06 dated 11.10.2006 the following cut off timings shall be applicable :
  - a. where the application is received upto 3.00 P.M. – closing NAV of the day of receipt of application.
  - b. where the application is received after 3.00 P.M. – closing NAV of the next business day.
5. Barring unforeseen circumstances, redemption warrants (along with fresh Statements of Account reflecting the number of Units redeemed, the redemption proceeds as well as the fresh balance of Units outstanding in the account, if any) will be despatched within 10 working days from the date of notice for redemption. However, endeavour shall be made to despatch redemption warrant within 5 working days from the date of notice for redemption.
6. In any case, if the effect of the notice for redemption is to reduce the balance in the account of the investor below the minimum account balance of Rs. 1,000/-, the Mutual Fund has the right to close the account and redeem the balance holding of Units, at the prevailing NAV after 30 days from the date on which the balance in the account of the investor fell below the minimum account balance of Rs. 1,000/- unless the Unit holder responds favourably to the notice issued by the Mutual Fund to the Unit holder, in this regard. In case, the effect of the notice for redemption is to reduce the balance in the account of the investor to a debit balance, then the credit balance in the account of the investor, as on the date of notice for redemption, prior to consideration of the notice for redemption will be payable.
7. The Trustee reserves the right, in its sole discretion, in response to unforeseen circumstances or unusual market conditions, to limit the total number of Units redeemable on any particular business day to not more than 5% of the total number of Units outstanding (Investment Option-wise) at the close of the previous business day. Any Units which, by virtue of this limitation are not redeemed on any particular business day will be carried forward to the next succeeding business day, and so on, in order of receipt.
8. Redemption of Units may be suspended temporarily or indefinitely when any one or more of the following conditions exist:
  - The stock/ fixed income securities/ money market stops functioning or trading is restricted;
  - Periods of extreme volatility in the stock/ fixed income securities/ money market, which, in the opinion of the Asset Management Company is prejudicial to the interest of the continuing Unit holders;

- Declaration of war or occurrence of insurrection, civil commotion, natural calamity or sustained financial, political or industrial emergency, strife or disturbance; and/ or
  - SEBI, by order so directs.
9. No tax is required to be deducted at source from the redemption proceeds. However, for a non-resident Unit holder, tax will be deducted at source from the redemption proceeds, at the applicable rates in force, from time to time.
  10. In the case of Non-Resident Unit holders, redemption proceeds will be payable by means of a Rupee cheque payable to the Non-Resident (External)/ special Non-Resident Rupee account of the Unit holder, if any or by a Dollar draft drawn at the then prevailing exchange rates, if the Units are held on repatriable basis, subject to requisite RBI directions.
  11. Redemption warrants will be drawn in the name of the registered holder of the Units, made payable to the bank, branch and account number of the Unit holder.
  12. Redemption warrants will be despatched to the address of the sole/ first-named registered holder in the Register of Unit holders.
  13. The unclaimed redemption amount shall be deployed by the mutual fund in call money market or money market instruments only and the investors who claim these amounts during the period of 3 years from the due date shall be paid at the prevailing NAV. After a period of 3 years this amount shall be transferred to a pool account and the investors can claim the amount at NAV prevailing at the end of the third year. The income earned can be used for the purpose of investor education. The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed amounts.

Delay in payment of redemption / repurchase proceeds

The Asset Management Company shall be liable to pay interest to the unitholders at such rate as may be specified by SEBI for the period of such delay (presently @ 15% per annum).


Accounting Policies

The Significant Accounting Policies of the Mutual Fund shall be in accordance with the Regulations, in general and the Ninth Schedule thereto, in particular. At present, the Significant Accounting Policies of the Mutual Fund, to the extent applicable to the Scheme are as follows:

1. For the purposes of the financial statements, Scheme shall mark all investments to market and carry investments in the balance sheet at market value. However, since the unrealized gain arising out of appreciation on investments cannot be distributed, provision has to be made for exclusion of this item when arriving at distributable income.
2. Dividend income earned by the Scheme should be recognized, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments, which are not quoted on the stock exchange, dividend income must be recognised on the date of declaration.
3. In respect of all interest-bearing investments, income must be accrued on a day to day basis as it is earned. Therefore when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase must not be treated as a cost of purchase but must be debited to interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date upto the date of sale must not be treated as an addition to sale value but must be credited to interest Recoverable Account.

4. In determining the holding cost of investments and the gains or loss on sale of investments, the "average cost" method must be followed.
5. Transactions for purchase or sale of investments should be recognized as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction should be recorded, in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.
6. Bonus shares to which the scheme becomes entitled should be recognized only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, right entitlements should be recognized only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.
7. Treatment of Non Performing Assets: When the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income/ installment fallen due :
  - After expiry of 1<sup>st</sup> quarter from the date the income has fallen due, there will be no further interest accrual on the asset.
  - On classification of the asset as NPA from the quarter past due date of interest, all interest accrued and recognized in the books of accounts of the fund till the date, should be provided for.
8. When units are sold, the difference between the sale price and the face value of the unit, if positive, should be credited to reserves and if negative is debited to reserve, the face value being credited to Capital Account Similarly, when in respect of such a scheme, units are repurchased, the difference between the purchase price and face value of the unit, if positive should be debited to reserves and, if negative, should be credited to reserves, the face value being debited to the capital account.
9. When units are sold an appropriate part of the sale proceeds should be credited to an Equalisation Account and when units are repurchased an appropriate amount should be debited to the Revenue Account. The balance on the Equalisation Account debited or credited to the Revenue Account should not decrease or increase the net income of the fund but is only an adjustment to the distributable surplus. It should therefore be reflected in the Revenue Account only after the net income of the fund is determined.
10. The cost of investments acquired or purchased should include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered should be reduced from the cost of the investment.
11. Underwriting commission should be recognized as revenue only when there is no devolvement on the scheme. Where there is devolvement on the scheme, the full underwriting commission received and not merely the portion applicable to the devolvement should be reduced from the cost of the investment.

### C. **PERIODIC DISCLOSURES**

|  |  |   |  |
|--|--|---|--|
| <p>Net Asset Value</p> <p>This is the value per unit of the scheme on a particular day. You can ascertain the value of your investments by multiplying the NAV with your unit balance.</p>   | <p>The Mutual Fund shall declare the Net asset value of the scheme on every business day on AMFI's website <a href="http://www.amfiindia.com">www.amfiindia.com</a> by 8.00 P.M. and also on their website.</p> <p>In case of open ended schemes, the NAV shall be calculated for all business days and released to the Press.</p>   |   |  |
| <p>Half yearly Disclosures: Portfolio / Financial Results</p> <p>This is a list of securities where the corpus of the scheme is currently invested. The market value of these investments is also stated in portfolio disclosures.</p>   | <p>The mutual fund shall publish a complete statement of the scheme portfolio and the unaudited financial results, within one month from the close of each half year (i.e. 31<sup>st</sup> March and 30<sup>th</sup> September), by way of an advertisement at least, in one National English daily and one regional newspaper in the language of the region where the head office of the mutual fund is located.</p> <p>The mutual fund may opt to send the portfolio to all unit holders in lieu of the advertisement (if applicable).</p> |   |  |
| <p>Half Yearly Results</p>   | <p>The mutual fund and Asset Management Company shall before the expiry of one month from the close of each half year that is on 31st March and on 30th September, publish its unaudited financial results in one national English daily newspaper and in a regional newspaper published in the language of the region where the Head Office of the mutual fund is situated.</p>   |   |  |
| <p>Annual Report</p>   | <p>Scheme wise Annual Report or an abridged summary thereof shall be mailed to all unitholders within six months from the date of closure of the relevant accounts year i..e. 31<sup>st</sup> March each year.</p>   |   |  |
| <p>Associate Transactions</p>  | <p>Please refer to Statement of Additional Information (SAI).</p>  |   |  |
| <p>Taxation</p> <p>The information is provided for general information only. 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 schemes.</p> |  | <p><b>Resident Investors</b></p>                | <p><b>Mutual Fund</b></p>  |
|  | <p><b>Equity Fund</b></p> <p>Tax on Dividend</p>   | <p>Nil</p>                                      | <p> Nil</p> |
|  | <p>Capital Gains:</p> <p>Long Term</p> <p>Short Term</p>   | <p>Nil</p> <p>10% plus applicable surcharge</p> | <p>Nil</p> <p>10% plus applicable surcharge</p>  |
|  | <p>Equity scheme will also attract securities transaction tax (STT) at applicable rates.</p>   |   |  |

**For further details on taxation please refer to the clause on Taxation in the SAI**

|                   |   |
|-------------------|---|
| Investor services | <p>Ms. Mohini Sharma<br/> Registrar Services &amp; Investor Service<br/> Department<br/> Escorts Asset Management Limited<br/> Regd. Office: 11, Scindia House,<br/> Connaught Circus, New Delhi – 110<br/> 001.<br/> (Tel): (011) 332-1654, 332-5177,<br/> 335-1343<br/> (Fax): (011) 2376 1495<br/> Website : www.escortsmutual.com</p> |
|-------------------|---|

#### D. **COMPUTATION OF NAV**

NAV is the actual value of a Unit issued under the Scheme, on the valuation day and is computed as follows:

|  |
|--|
| <b>Market/Fair value of investments + receivables + accrued<br/> income + other current assets - payables - accrued expenses<br/> - other current liabilities and provisions</b> |
| <b>Number of Units outstanding</b>   |

NAV of the Units issued under the Scheme shall be disclosed for each business day from Monday to Friday (excluding Saturday and Sunday and any holiday declared under the Negotiable Instruments Act, 1882 at New Delhi) and subject to audit on an annual basis. Units under each Investment Option will have a separate NAV, after the first dividend distribution. NAV shall be published atleast in two daily newspapers on daily basis. The NAV shall be rounded off upto two decimal places.

### **IV. FEES AND EXPENSES**

#### A. **NEW FUND OFFER (NFO) EXPENSES**

In terms of SEBI Circular No. SEBI/IMD/CIR No.1/64057/06 dated 04.04.2006 no initial issue expenses are permitted for open ended schemes. The scheme would meet the sales, marketing and other such expenses connected with sales and distribution of the scheme from the entry load and not through initial issue expenses.

#### B. **ANNUAL SCHEME RECURRING EXPENSES**

These are the fees and expenses for operating the scheme. 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 2.50% of the weekly average net assets of the scheme will be charged to the scheme as expenses.

For the information of investors, the estimated break-up of expenses, on an on-going basis, as a percentage of the weekly average net assets, in any financial year shall be as follows:

| <b>Expenses</b>                                      | <b>Net Assets Upto (Rs.)<br/>100 Crores</b> |
|--|---|
| Investment Management and Advisory Fee               | 1.25 %                                      |
| Custodian's Fee and charges                          | 0.23 %                                      |
| Investor Service & Communication Expenses            | 0.50 %                                      |
| Trustee Fee  | 0.05 %                                      |
| Audit Fee  | 0.02 %                                      |
| Marketing and Selling Expenses (including Brokerage) | 0.45 %                                      |
| <b>Total</b>   | <b>2.50 %</b>                               |

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

The above break-up of on-going expenses has been estimated 'in good faith', on the basis of information available to the Asset Management Company and are subject to change inter se amongst eligible expenses, as per actuals. Further, these estimates are based on the Scheme's weekly average net assets being Rs. 100 Crores. In case, the Scheme's weekly average net asset is higher or lower, these estimates would require revision. Further, common expenses of the Mutual Fund, such as Trustee Fee, Audit Fee etc. shall be borne by each of the Scheme(s) of the Mutual Fund, in operation from time to time, pro rata on the net asset(s) of the Scheme(s) and proportionate to the period of operation of the Scheme(s). Such other expenses which are directly attributable to the scheme may be charged with the approval of the trustee within the overall limit as specified in Regulation 52(6), or as may be prevailing under the Regulations from time to time. Any on-going expense, which is not specifically mentioned above, and/or not approved/or specifically excluded by SEBI will not be charged to the Scheme.

The Investment Management Fee charged by the AMC for managing unclaimed amounts of dividend / redemption shall not exceed 50 basis points.

The total expenses of the Scheme excluding issue or redemption expenses but including the investment management and advisory fee shall be subject to the following limits:

- i) On the first Rs. 100 Crores of the average weekly net assets 2.50%
- ii) On the next Rs. 300 Crores of the average weekly net assets 2.25%
- iii) On the next Rs. 300 Crores of the average weekly net assets 2.00%
- iv) On the balance of the assets 1.75%

On-going expenses in excess of the prescribed limit, if any in any financial year will be borne by the Asset Management Company or by the trustee or sponsor. Further, as and when permitted by SEBI, the AMC may charge a higher fee for that part of the unit capital that is invested overseas. However, revision in fee charged shall be within the SEBI Regulations at all times. Total expenses of the scheme including the investment management and advisory fee shall be within the limits stated in Regulation 52(6), or as may be prevailing under the Regulations from time to time.

These 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. Types of expenses charged shall be as per the SEBI (MF) Regulations.

### Past Schemes

The details of the estimated and actual Offer Expenses for Escorts Infrastructure Fund, which is a close ended scheme launched in July, 2007 is as follows:

| Expenses                | Estimated (%)               | Actual (%)                  |
|-------------------------|-----------------------------|-----------------------------|
|                         | Escorts Infrastructure Fund | Escorts Infrastructure Fund |
| Brokerage & Commission  | 1.50                        | 2.50                        |
| Marketing & Advertising | 1.50                        | 0.74                        |
| Printing & Stationery   | 1.00                        | 0.33                        |
| Registrar's Fee         | 0.50                        | 0.00                        |
| Legal Expenses          | 0.25                        | 0.00                        |
| Bank Charges            | 0.50                        | 0.00                        |
| Other Expenses          | 0.75                        | 0.00                        |
| <b>Total</b>            | <b>6.00</b>                 | <b>3.57</b>                 |

The initial issue expenses were borne by Escorts Infrastructure Fund.

### C. **LOAD STRUCTURE**

Load is an amount, which is paid by the investor to subscribe to the units or to redeem the units from the scheme. This amount is used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Load amounts are variable and are subject to change from time to time. For the current applicable structure, please refer to the website of the AMC ([www.escortsmutual.com](http://www.escortsmutual.com)) or may call at (toll free no.) or your distributor.

| Type of Load  | Load chargeable (as %age of NAV)  |
|---------------|---|
| <b>Entry</b>  | For Applications below Rs. 5 Crores - 2.25%,<br>For Applications of Rs. 5 Crores or above - Nil<br>For SIP - 2.25% per transaction  |
| <b>Exit *</b> | For Investments of Less than Rs. 5 Crores, if redeemed within 12 Months from the date of allotment. - 1%<br>For Investments of greater than or equal to Rs. 5 Crores, if redeemed within 6 Months from the date of allotment – 2% |

Bonus units and units issued on reinvestment of dividends shall not be subject to entry and exit load.

All loads including Contingent Deferred Sales Charge (CDSC) for the Scheme shall be maintained in a separate account and may be utilised towards meeting the selling and distribution expenses. Any surplus in this account may be credited to the scheme, whenever felt appropriate by the AMC.

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

For any change in load structure AMC will issue an addendum and display it on the website/Investor Service Centres.

The Asset Management Company and the Trustees reserves the right to introduce, modify / change Entry load, Exit load / CDSC and / or switchover load if it so deems fit in the interest of smooth and efficient functioning of the Mutual Fund, subject to a maximum as prescribed under the Regulations with prospective effect. In case of an exit / repurchase load this may be linked to the period of holding. The Asset Management Company may charge a load for switch of units between the various plans of the scheme and this load may be different from the Sales load charged for sale of new units. The

load charged could also be different for different plans of the scheme(s) at the same time.

Loads, when levied, shall be charged as a percentage of Net Asset Value (NAV) i.e. applicable load as a percentage of NAV will be added to NAV to calculate sale price and will be subtracted from NAV to calculate repurchase price. In other words, the following formulae shall be used :

Any imposition or enhancement of load in future shall be applicable on prospective investments only. However, AMC shall not charge any load on issue of bonus units and units allotted on reinvestment of dividend for existing as well as prospective investors.

At the time of change in the load structure the AMC may take following measures:

- The addendum detailing the changes may be attached to Scheme Information Documents and Key Information Memorandum. The addendum may be circulated to all the distributors / brokers so that the same can be attached to all Scheme Information Documents and Key Information Memoranda already in stock.
- Arrangements may be made to display the addendum in the Scheme Information Documents in the form of a notice to all the investors service centers and distributors / broker office.
- The introduction of exit load / CDSC alongwith the details may be stamped in the acknowledgement slip issued to the investors on submission of the application form and may also be disclosed in the statement of accounts issued after the introduction of such load / CDSC.
- A public notice shall be given in respect of such changes in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated.
- Any other measures which the mutual fund may feel necessary.

#### **D. WAIVER OF LOAD FOR DIRECT APPLICATIONS**

In terms of SEBI Circular No. SEBI/IMD/CIR No.10/112153/07 dated 31.12.2007, no entry load shall be charged for direct applications received by the Escorts Asset Management Ltd. i.e. applications received through internet, submitted to Escorts Asset Management Ltd. or collection centre/ Investor Service Centre that are not routed through any distributor/agent/broker. This shall also be applicable to additional purchases done directly by the investor under the same folio and switch-in to a scheme from other schemes if such a transaction is done directly by the investor.

In case any investor has struck off the Broker Code written on the Application Form and signed against it – it shall be treated as direct investment. In case an investor submits an Application Form with the Broker Code column left blank – the word 'DIRECT' should be written in the column.

#### **V. RIGHTS OF UNITHOLDERS**

Please refer to SAI for details.

**VI. 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**

This section shall contain the details of penalties, pending litigation, and action taken by SEBI and other regulatory and Govt. Agencies.

1. All disclosures regarding penalties and action(s) taken against foreign Sponsor(s) may be limited to the jurisdiction of the country where the principal activities (in terms of income / revenue) of the Sponsor(s) are carried out or where the headquarters of the Sponsor(s) is situated. Further, only top 10 monetary penalties during the last three years shall be disclosed.

There are no such cases.

2. In case of Indian Sponsor(s), details of all monetary penalties imposed and/ or action taken during the last three years or pending with any financial regulatory body or governmental authority, against Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company; for irregularities or for violations in the financial services sector, or for defaults with respect to share holders or debenture holders and depositors, or for economic offences, or for violation of securities law. Details of settlement, if any, arrived at with the aforesaid authorities during the last three years shall also be disclosed.

Escorts Finance Ltd., Sponsor of Escorts Mutual Fund had defaulted on repayment of fixed deposits on their respective maturity dates. To meet obligations to fixed deposit holders, Escorts Finance Limited turned to the promoter, Escorts Limited, for a bail-out package. For the settlement of dues Escorts Limited, came out with a Scheme of Arrangement under which the liability of Escorts Finance Ltd. was to be taken over by Escorts Ltd. against issuing of shares of Escorts Ltd. This Scheme of Arrangement was filed with the Hon'ble High Court in Delhi. A petition for approval of the scheme was also filed. Pending approval of the scheme, the Hon'ble High Court ordered to form a hardship committee to receive and consider applications from fixed deposit holders and allot shares of Escorts Limited or make payment against the respective fixed deposit. The matter is still subjudice.

Further, Escorts Finance Ltd. has been prohibited by Reserve Bank of India from accepting deposits and from alienation of assets.

3. Details of all enforcement actions taken by SEBI in the last three years and/ or pending with SEBI for the violation of SEBI Act, 1992 and Rules and Regulations framed there under including debarment and/ or suspension and/ or cancellation and/ or imposition of monetary penalty/adjudication/enquiry proceedings, if any, to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel (especially the fund managers) of the AMC and Trustee Company were/ are a party. The details of the violation shall also be disclosed.

There are no such cases.

4. Any pending material civil or criminal litigation incidental to the business of the Mutual Fund to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel are a party should also be disclosed separately.

There are no such cases.

5. Any deficiency in the systems and operations of the Sponsor(s) and/ or the AMC and/ or the Board of Trustees/Trustee Company which SEBI has specifically advised to be disclosed in the SID, or which has been notified by any other regulatory agency, shall be disclosed.

There are no such cases.

**Notwithstanding anything contained in this Scheme Information Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.**

#### **GENERAL**

Powers of the Mutual Fund

- Power to make rule: Subject to the prior approval of SEBI, the Trustee may, from time to time prescribe such terms and make such rules, for the purpose of giving effect to the provisions of this Scheme with power to the Asset Management Company to add to, alter or amend all or any of the terms and rules that may be framed from time to time, provided however that when any change in the fundamental attributes of the Scheme or the Trust or fees and expenses payable or any other change which would modify the Scheme or affect the interest of the Unit holders is proposed to be carried out, the prior consent of not less than three-fourths of the Unit holders is obtained and the Unit holders who do not give their consent are allowed to redeem their holdings of Units under the scheme.
- Power to remove difficulties: if any difficulty arises in giving effect to the provisions of this Scheme, the Trustee may do anything not inconsistent with such provisions, which appear to it to be necessary, desirable or expedient, for the purpose of removing such difficulty.

Scheme to be binding on Unit holders

The terms of the Scheme and any amendment thereof shall be binding on each Unit holder and any person or persons claiming through or under it as if each Unit holder or such person expressly had agreed that such terms should be so binding.

The Scheme under this Offer Document was approved by the Board of Trustee vide Board Resolution dated 14.11.2007.

Any amendment to the Regulations and clarifications/ guidelines/ circulars issued in respect thereof by SEBI, from time to time shall be applicable to this Scheme and the Offer Document shall stand appropriately amended with effect from such date(s).

