



# QUANTUM MUTUAL FUND

FOR THOUGHTFUL INVESTORS

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**ADDENDUM NO. 10 / 2023**

## Notice-Cum-Addendum

**Notice** is hereby given to the Investors / Unit holders of the schemes of Quantum Mutual Fund to take a note of the following change to the Statement of Additional Information.

### CREATION OF SEGREGATED PORTFOLIO IN CASE OF CREDIT EVENT

In order to ensure fair treatment to all investors in case of a Credit Event and to deal with liquidity risk, SEBI vide its circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, as amended from S.O. 53 57 time to time has allowed creation of Segregated Portfolio of debt and money market instruments by mutual fund schemes. Creation of Segregated Portfolio shall be optional and at the sole discretion of the asset management company.

- Segregated Portfolio shall mean a portfolio comprising of debt or money market instrument affected by a Credit Event, that has been segregated in a mutual fund scheme.
- Main Portfolio shall mean the scheme portfolio excluding the Segregated Portfolio.
- Total Portfolio shall mean the scheme portfolio including the securities affected by the Credit Event.

#### (A) Credit Event

##### 1. For Rated debt or money market instruments:

- Segregated Portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:

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

- In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of Segregated Portfolio shall be based on issuer level credit events as mentioned above and implemented at the ISIN level.

##### 2. For Unrated debt or money market instruments

Segregated Portfolio of unrated debt or money market instruments may be created only in case of actual default of either the interest or principal amount by the issuer. Credit event in this case shall be 'actual default' by the issuer of such instruments and shall be considered for creation of Segregated Portfolio.

#### (B) Process for Creation of Segregated Portfolio

##### 1. On the date of credit event, the AMC shall decide on creation of Segregated Portfolio. Once AMC decides to segregate portfolio, it shall:

- Seek approval of trustees prior to creation of the Segregated Portfolio.
- Immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors and that the segregation shall be subject to Trustee approval. Additionally, the said press release shall be prominently disclosed on the website of the AMC.
- Ensure that till the time the Trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the Scheme shall be suspended for processing with respect to creation of units and payment on redemptions.

##### 2. Once Trustee approval is received by the AMC:

- Segregated Portfolio shall be effective from the day of credit event
- AMC shall issue a press release immediately with all relevant information pertaining to the Segregated Portfolio. The said information will also be submitted to SEBI.
- An e-mail or SMS shall be sent to all unit holders of the Scheme.
- The NAV of both segregated and main portfolios shall be disclosed from the day of the credit event.
- All existing investors in the Scheme as on the day of the credit event shall be allotted equal number of units in the Segregated Portfolio as held in the main portfolio.
- No redemption and subscription shall be allowed in the Segregated Portfolio. AMC shall enable listing of units of Segregated Portfolio on the recognized stock exchange within 10 working days of creation of Segregated Portfolio and also enable transfer of such units on receipt of transfer requests.

##### 3. If the trustees do not approve the proposal to segregate portfolio, AMC will issue a press release immediately informing investors of the same.

#### (C) Processing of Subscription and Redemption Proceeds

All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as under:

- Upon trustees' approval to create a Segregated Portfolio -
  - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of Segregated Portfolio.
  - Investors subscribing to the Scheme will be allotted units only in the main portfolio based on its NAV.
- In case trustees do not approve the proposal of Segregated Portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

#### (D) Valuation

Notwithstanding the decision to segregate the debt and money market instrument, the valuation shall take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and circular(s) issued thereunder.

#### (E) TER for the Segregated Portfolio

- The AMC shall not charge investment and advisory fees on the Segregated Portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in Segregated Portfolio.
- The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the Segregated Portfolio was in existence.
- The legal charges related to recovery of the investments of the Segregated Portfolio may be charged to the Segregated Portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
- The costs related to Segregated Portfolio shall in no case be charged to the main portfolio.

#### (F) Risks associated with Segregated Portfolio:

- Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer.
- Security(ies) held in segregated portfolio may not realize any value.
- Listing of units of segregated portfolio in recognized stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

#### (G) Disclosure

In order to enable the existing as well as the prospective investors to take informed decision, the following shall be adhered to:

- A statement of holding indicating the units held by the investors in the Segregated Portfolio along with the NAV of both Segregated Portfolio and main portfolio as on the day of the credit event shall be communicated to the investors within 5 working days of creation of the Segregated Portfolio.
- Adequate disclosure of the Segregated Portfolio shall be made in all scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the Scheme.
- The Net Asset Value (NAV) of the Segregated Portfolio shall be declared on daily basis.
- The information regarding number of Segregated Portfolios created in the Scheme shall appear prominently under the name of the Scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.
- The Scheme performance required to be disclosed at various places shall include the impact of creation of Segregated Portfolio. The Scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery(ies), if any, shall be disclosed as a footnote to the Scheme performance.
- The disclosures at paragraph (d) and (e) above regarding the Segregated Portfolio shall be carried out for a period of at least 3 years after the investments in Segregated Portfolio are fully recovered/ written-off.
- The investors of the Segregated Portfolio shall be duly informed of the recovery proceedings of the investments of the Segregated Portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

#### (H) Monitoring by Trustees

In order to ensure timely recovery of investments of the Segregated Portfolio, Trustees shall ensure that:

- The AMC puts in sincere efforts to recover the investments of the Segregated Portfolio.
- Upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their holding in the Segregated Portfolio. Any recovery of amount of the security in the Segregated Portfolio even after the write off shall be distributed to the investors of the Segregated Portfolio.
- The Trustees shall monitor the compliance of this circular and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every Segregated Portfolio created.
- In order to avoid mis-use of Segregated Portfolio, Trustees shall ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the Segregated Portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the Segregated Portfolio of the Scheme.

#### (I) Illustration of Segregated Portfolio

The below table shows how a rated security affected by a credit event will be segregated and its impact on investors:

Portfolio Date: July 31, 2023

Downgrade Event Date: July 31, 2023

Mr. X is holding 1,000 units of the scheme for an amount of Rs. 11,31,993.87 (1,000 \* 1,131.9939)

##### Portfolio before downgrade event

Security	Rating	Type	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
9.60% A Ltd.	CRISILAAA	NCD	5,000	103.2232	5,16,116.00	45.59%
8.80% B Ltd.	CRISILAA+	NCD	2,000	99.4678	1,98,935.60	17.57%
9.80% C Ltd.	ICRAA1+	CD	1,200	98.3421	1,18,010.52	10.43%
7.70% D Ltd.	CRISILAA+	NCD	2,000	99.0000	1,98,000.00	17.49%
8.80% E Ltd.	CRISILAA	NCD	500	101.2211	50,610.55	4.47%
Cash & equivalent					50,321.20	4.45%
Net Assets					11,31,993.87	100.00%
Unit Capital(No of Units)					1,000.0000	
NAV (in Rs)					1,131.9939	

Security Downgraded	7.70% D Ltd.	From AA+ to D
Valuation marked down by	75%	Valuation agencies shall provide the valuation price post consideration of standard haircut

##### Portfolio as on July 31, 2023

Security	Rating	Type	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
9.60% A Ltd.	CRISILAAA	NCD	5,000	103.2232	5,16,116.00	52.45%
8.80% B Ltd.	CRISILAA+	NCD	2,000	99.4678	1,98,935.60	20.22%
9.80% C Ltd.	ICRAA1+	CD	1,200	98.3421	1,18,010.52	11.99%
7.70% D Ltd.	CRISILAA+	NCD	2,000	25.0000	50,000.00	5.08%
8.80% E Ltd.	CRISILAA	NCD	500	101.2211	50,610.55	5.14%
Cash & equivalent					50,321.20	5.11%
Net Assets					9,83,993.87	100.00%
Unit Capital (No of Units)					1,000.0000	
NAV (in Rs)					983.9939	

##### Main Portfolio as on July 31, 2023

Security	Rating	Type	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
9.60% A Ltd.	CRISILAAA	NCD	5,000	103.2232	5,16,116.00	55.26%
8.80% B Ltd.	CRISILAA+	NCD	2,000	99.4678	1,98,935.60	21.30%
9.80% C Ltd.	ICRAA1+	CD	1,200	98.3421	1,18,010.52	12.64%
8.80% E Ltd.	CRISILAA	NCD	500	101.2211	50,610.55	5.42%
Cash & equivalent					50,321.20	5.39%
Net Assets					9,33,993.87	100.00%
Unit Capital(No of Units)					1,000.0000	
NAV (in Rs)					933.9939	

##### Segregated Portfolio as on July 31, 2023

Security	Rating	Type	Quantity	Market Price Per Unit (Rs.)	Market Value (Rs.)	% of Net Assets
7.70% D Ltd.	CRISILAA+	NCD	2,000	25.0000	50,000.00	100.00%
Net Assets					50,000.00	100.00%
Unit Capital (No of Units)					1,000.0000	
NAV (in Rs)					50.0000	

##### Net impact on value of holding of Mr. X after creation of segregation portfolio

	Main Portfolio	Segregated Portfolio	Total Value
No. of Units	1,000	1,000	
NAV (in Rs)	933.9939	50.0000	
Total Value (inRs)	9,33,993.87	50,000.00	9,83,993.87

**For Quantum Asset Management Company Private Limited  
(Investment Manager – Quantum Mutual Fund)**

**Sd/-**

**Jimmy A Patel**

**Managing Director and Chief Executive Officer**

**DIN: 00109211**

**Place: Mumbai**

**Date: August 09, 2023**

**Mutual fund investments are subject to market risks, read all scheme related documents carefully.**