



QUANTUM MUTUAL FUND

Profit with Process

and only
India's 1st Direct to Investor
Mutual Fund

Investment Manager: Quantum Asset Management Company Private Limited
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ADDENDUM NO. 2/2015

NOTICE CUM ADDENDUM

The Board of Directors of Quantum Trustee Company Private Limited, Trustee to Quantum Mutual Fund has approved the following changes in the Statement of Additional Information with effect from February 25, 2015:

SECTION V – INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

I. Compulsory Convertible Debentures (CCD)

CCD post ex right date till the application/investment is made will be valued at traded closing price. If the traded closing price is not available then it will be valued at a price arrived at after providing illiquidity discount to the underlying shares closing price on the exchange less the offer price of CCD. CCD once applied for investment will be valued at traded closing price if available on the exchanges. If the CCD is not listed and traded price not available then it will be valued at offer price plus the price arrived at after providing illiquidity discount (to underlying shares closing price less the offer price of CCD). Illiquidity Discount will be as decided by the Valuation Committee of the executives of the AMC. On conversion into equity shares it will be valued at its underlying shares closing price.

II. Valuation of Gold

For the purpose of Gold Valuation, process shall be as below:-

- LBMA Gold Fixing: As per SEBI Guidelines Gold would be valued at AM fixing price available on the LBMA site for the day. In case the LBMAAM Fix is not published on a particular day then we would take an average international spot gold price rate prevailing on that day between half an hour before the London AM Fix time to half an hour later than the London AM Fix time from Bloomberg. If this is not available then the average international Gold spot price for the last half an hour of trade prevailing before the closing of the international spot gold markets as available on Bloomberg (code: Golds Comdty) will be considered for valuation.
- The Gold Premium and fixing charges for valuation purpose would be fixed on 1st working day of every month and same will be applicable for that month. Valuation committee will decide the same.
- LBMA Gold price is quoted for USD/Oz for 999 fineness. For conversion of Troy Ounces to Kilogram we use the NYMEX conversion factor of 31.99 Troy ounces per kilogram for 995 purity. The fineness quotient is to be adjusted by using the factor 0.995996 (0.995/0.999). In case if the gold lying in stock is of 999 fineness, the conversion factor would be 32.12 for 999 fineness.
- To convert it into Rs./Kg, it has to be multiplied by INR reference rate from RBI. In case RBI reference rate for any day is not published the latest available reference rate will be considered.
- The Indian levies in the form of custom duty, stamp duty, octroi duty, VAT as applicable shall be added as applicable and as prescribed by relevant authorities to arrive at the final landed price of gold.

III. Valuation policy for Debt and Money Market instruments

Quantum Asset Management Company Private Ltd (AMC) has appointed ICRA Management Consultants (IMaCS), an independent external valuation agency approved by AMFI, to carry out the daily valuation of all debt and money market instruments held by Quantum Mutual Fund (Mutual Fund) by following all the procedures as laid below and provide the daily MTM prices for valuation with suitable rationale and justification.

A. CBLO, Repos and Fixed Deposits

These instruments are valued on interest accrual/ amortization basis.

B. Government securities (G-Secs), treasury bills (T-bills), cash management bills and State Development Loans (SDLs)

The Government of India T-Bills, bonds and State Development Loans of any maturity would be valued using the security level prices as given by IMaCS using their proprietary methodology which is approved by AMFI. This security level valuation is sent on a daily basis and incorporates all trades reported on CCIL NDS-OM and RBI NDS. The price provided by IMaCS will be used even in case of AMC's own self-trade.

C. Non-convertible debentures (NCDs) and Money Market instruments (Procedures for valuation of securities maturing less than or equal to 60 days)

(C.I) All securities would be valued daily based on available traded prices on recognized trading and reporting platform.

C.I.1. Criteria for considering traded prices for daily valuation:

- Trades reported on the Clearcorp (F-TRAC), NSE and BSE is considered for valuation. Priority order for Commercial Paper (CP), Certificate of Deposit (CD) is Clearcorp (FTRAC). For NCDs, NSE and then BSE.
- All Inter Scheme Transfer (IST) and freak trades are being ignored.
- Minimum volume and number of trades criteria after removal of IST & freak trades:-
 - There should be at least 2 trades aggregating to Rs 100 crore or more for CP and CD.
 - In case of NCDs there should be minimum of two trades aggregating to Rs 20 crore or more in multiples of Rs 5 crore
- For calculating traded prices, weighted average of the yields as derived from T+0/T+1 reported trades would be taken after considering point (a), (b) and (c) above.

Freak trade in a particular security is identified in following way:

In case there are multiple trades in a security and the difference in high and low yield is more than 0.10%, then at least one of the trade is a freak trade. The correct trades are identified based on trades of similar security papers of similar maturity or by polling and judgment. The weighted average would then be calculated for the correct trades by following point (a), (b), (c) and (d).

(C.II) If traded price, subject to the above conditions is not available for the security to be valued, then traded prices of securities of similar maturity issued by the same issuer is considered for valuation.

C.II.1. Criteria for considering security of similar maturity for traded prices:

(II.1) a. The criteria for considering the securities having similar maturity are as follows:

For all securities issued by the same issuer to be considered as of similar maturity, traded prices would be considered for securities which have a residual maturity (as per the table below) from the security held in the portfolio.

Residual Maturity of security	Between 0 to 60 days
Days Band within a	Fortnightly calendar month

(II.1) b. In case there are two or more securities of similar maturity which is subject to and satisfies all the criteria laid above in (C.I.1) then weighted average yield of all trades will be taken as the valuation yield for deriving MTM price for the portfolio security.

C.II.2. Additional Points for traded prices:

- For traded data in case of CDs;** if the deviation in weighted average traded yield in comparison to the previous day valuation yield is more than the change in benchmark matrix yield over the previous day matrix yield by (+/-) 0.05%, then that traded data would be ignored.
 - For traded data in case of CPs/NCDs;** if the deviation in weighted average traded yield in comparison to the previous day valuation yield is more than the change in benchmark matrix yield over the previous day matrix yield by (+/-) 0.15%, then that traded data would be ignored.
- (II.2) b. The traded yield so determined daily from (C.I.1) or (C.II.1) above would be noted. The spread at which it has traded over its relevant benchmark matrix yield would be calculated. This spread would be used for pricing the security when its traded price is not available. This spread thus, automatically gets revised based on newly traded data.
- (II.2) c. Self Trade of Rs 5 crore or more would be considered for valuation at the purchase yield. If there are multiple self-trades on same day, then the weighted average yield of those trades would be considered. But if on the same day, market traded price satisfying (C.I.1) or (C.II.1) is available, then market traded price for valuation would be considered over the AMC self trade and the spread over/under the matrix for the same will be recorded.
- For new security purchased in a lot size of less than Rs 5 crores, will be valued at purchase spread keeping constant over matrices till its maturity. This security will be mark to market based on traded prices only when the security holding crosses Rs 5 crores or more. If the same security is already there in the portfolio of same scheme or other scheme, on 1st day it will be valued at the spread at which it is being currently valued plus the matrices. If on 1st day the trades prices are available satisfying (C.I.1) or (C.II.1) it will be valued considering the same. On subsequent days it will be valued by following the criteria's mentioned in (C.I.1) or (C.II.1).
- (II.2) e. In days with high intra-day volatility, traded data not reflecting the end of the day level would be ignored even if they satisfy all the criteria laid above. High volatility may arise on the day of major events like policy day, major economic reforms announced by the government, credit rating changes, liquidity crisis etc. The rationale for the same would be suitably documented.

(C.III) If traded prices are not available and/or does not represent fair valuation, then for that day:

Securities falling in the respective buckets, sector and credit rating category would be valued as per the yield given in the benchmark yield matrix plus the most recent recorded spread, as derived from (C.II.2) to determine the valuation yield of the security for the day.

The determination of benchmark yield matrix is as per the methodology approved by AMFI on generation on yield matrices and are segregated based on tenure, sector, external credit rating and type of instrument.

(C.IV) Criteria for Review of Spread Used in Valuation

In case the spread of a particular security is not adjusted through traded prices in a calendar week, the spreads will be reviewed on the first working day of every subsequent week based on either of the following:-

- Primary market trades of the same issuer
- Similar credit analysis of traded data
- Opinion of external valuing agency with proper rationale and justification

Similar credit means the securities of issuers of same long term credit rating as given by a SEBI registered credit rating agency which trade at similar levels. The list of these securities is maintained with the groups of similar credit issuers. For using traded data of similar credit, all criterions mentioned in (C.I.1, C.II.1 and C.II.2) will have to be followed.

D. Non Convertible Debentures & Money Market Instruments (Procedures for valuation of securities maturing greater than 60 days)

IMaCS will provide valuation for all securities of tenor greater than 60 days maturity held in the portfolio. The IMaCS valuation methodology for greater than 60 days residual maturity has been approved by the AMFI valuation committee and is as per the agreement between the AMC and IMaCS. The policy and procedures are subject to changes based on discussion between AMFI Valuation Committee & IMaCS.

IMaCS will regularly keep track of AMFI Valuation Committee's suggestion on methodology for scrip level valuation of debt securities and changes recommended by them in the valuation methodology for debt securities having maturity greater than 60 days. IMaCS will ensure to facilitate the same in the valuation prices provided. Each change will be monitored and incorporated in the valuation policy during periodical review from time to time.

Any new security purchased by the Schemes which does not exist in the database of IMaCS will be valued at purchase yield on the date of purchase and as per IMaCS valuation policy afterwards. Any new security purchased which exists in the database of IMaCS will be valued as per the IMaCS Valuation Policy as approved by AMFI.

Policies and procedures to be followed by IMaCS in valuation of securities maturing greater than 60 days is as mentioned below:-

Heads	Criteria
Priority order for considering data for valuations	Trades>Polls>Primary>Carry forward of Spread
Data Sources: Priority order - Reporting platforms	FTRAC > NSE > BSE
Data Sources: Priority order - Primary, Secondary, polled data	Secondary > Market Polls > Primary
Priority order: In case same ISIN trade is not available in secondary market	Same issuer, similar maturity > Similar issuer with similar maturity > previous day spread
Trade Size: Bonds	Minimum Rs 5 Crore and more, 1 trade
Trade Size: CPCD	Minimum Rs 25 Crore and more, 1 trade
Cut off time of trades considered from reporting platform	4.00 p.m.
Settlement convention	T+1
Last traded/Weighted average yield is used	Last traded Yield
Identification of outlier: Liquid paper	10bps over and above the matrix movement
Identification of outlier: Illiquid paper	Illiquid: 30 bps over and above the matrix movement
Process followed for illiquid outlier trade - inclusion in valuation	The trade for illiquid outlier trade is included in the valuation after confirming with market participants whether or not the trade is good. If confirmed the trade is good, it is included in the valuation. If not the security is kept under yield watch. In case there is trade for the security at similar levels on the next day or previous day's trade is confirmed, the trade is considered for valuations.
Classification of similar securities/ Clustering based on maturity	
Up to 3 months	Fortnight buckets
3 months - 1 year	Monthly buckets
1 year - 5 years	Yearly buckets
5 years and above	Yearly buckets
In case of no trade on valuation day	Spread constant, reviewed at least fortnightly
In case of no trade post issuance (highly illiquid securities)	Issuance spread used, if no trades available post issuance, polling is done to bring the levels in line with the market
Bond valuer used	IMaCS Bond valuation Tool (subject to the terms of the Agreement)
Valuation of Saturday-Sunday and other holidays	Constant yield, settlement date will change
Maintenance of historical valuation record, quality controls etc.	Yes, process in place
Detailed methodology to arrive at the price from the relevant yield	Standard methodology as per IMaCS Bond valuation Tool

E. Perpetual Debt instruments, Derivatives, Securitized and structured debt instruments

The policy does not provide for valuation methodology for Perpetual, Hybrid Debt instruments, Derivatives and Securitized/Structured Debt instruments and the AMC undertakes to invest in these instruments only after formulating a fair valuation methodology for the same.

F. Other points to be considered for debt and money market instrument

- Fair valuation for a security once determined will be applied to all schemes of the AMC.
- For securities with Put and Call option, the put/call date would be taken as maturity date; for securities with only call option, the value would be lowest of all call or maturity and in case of securities with put option the values would be higher of all put or maturity.
- Weighted average/Last traded YTM would be rounded to 4 decimal points.

This addendum forms an integral part of the Statement of Additional Information (SAI) of Quantum Mutual Fund as amended from time to time. All other terms and conditions of the SAI will remain unchanged.

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

Place: Mumbai
Date: February 24, 2015

Sd/
Jimmy A Patel
Chief Executive Officer

Mutual fund investments are subject to market risks, read all scheme related documents carefully. Please visit – www.QuantumMF.com to read scheme specific risk factors. Investors in the scheme are not being offered a guaranteed or assured rate of return and there can be no assurance that the schemes objective will be achieved and the NAV of the scheme may go up or down depending upon the factors and forces affecting securities market. Investment in mutual fund units involves investment risk such as trading volumes, settlement risk, liquidity risk, default risk including possible loss of capital. Past performance of the sponsor / AMC / Mutual Fund does not indicate the future performance of the Scheme. **Statutory Details:** Quantum Mutual Fund has been constituted as a Trustee under the Indian Trusts Act, 1882. **Sponsor:** Quantum Advisors Private Limited. (Liability of Sponsor limited to Rs. 1,00,000/-) **Trustee:** Quantum Trustee Company Private Limited **Investment Manager:** Quantum Asset Management Company Private Limited. The Sponsor, Trustee and Investment Manager are incorporated under the Companies Act, 1956.