Edelweiss | MUTUAL FUND
Ideas create, values protect

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NOTICE CUM ADDENDUM TO THE SCHEME INFORMATION DOCUMENT AND KEY INFORMATION MEMORANDUM OF EDELWEISS EQUITY SAVINGS FUND

NOTICE is hereby given to the Unit holders of Edelweiss Equity Savings Fund ("the Scheme") that in accordance with the provisions of the SEBI Circular no. SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019 and in terms of the enabling provisions of the Scheme Information Document (SID), Edelweiss Trusteeship Company Limited, Trustee to Edelweiss Mutual Fund ("the Fund") and Edelweiss Asset Management Limited, Investment Manager to the Fund, has approved the following changes to the features of the Scheme with effect from July 20, 2019, to enable the Scheme to write call options. In view of the same, the below mentioned provisions shall be inserted in the Scheme Information Document (SID) under the relevant section.

Section	Particulars
Investment Strategy & Approach	**Derivative & Arbitrage Strategies: Covered Call Options** A call option gives the holder (buyer) the right but not the obligation to buy an asset by a certain date for a certain price. Covered calls are an options strategy where a person holds a long position in an asset and writes (sells) call options on that same asset. Benefits of using Covered Call strategy in Mutual Funds: The covered call strategy can be followed by the Fund Manager in order to hedge risk thereby resulting in better risk adjusted returns of the Scheme. The strategy offers the following benefits: a) Hedge against market risk - Since the fund manager sells a call option on a stock already owned by the mutual fund scheme, the downside from fall in the stock price would be lower to the extent of the premium earned from the call option. b) Generating additional returns in the form of option premium in a range bound market. Thus, a covered call strategy involves gains for unit holders in case the strategy plays out in the right direction. **Illustration – Covered Call strategy using stock call options:** A fund manager buys equity stock of ABC Ltd. for Rs. 1000 and simultaneously sells a call option on the same stock at a strike price of Rs. 1100. Further, it is assumed that the scheme has earned a premium of Rs. 50 and the fund manager is of the opinion that the stock price will not exceed Rs. 1100, during the expiry period of the option. Scenario 1: Stock price exceeds Rs. 1100 The call option will get exercised and the fund manager will sell the stock to settle his obligation on the call at Rs. 1100 (earning a return of 10% on the stock purchase price). Also, since the scheme has earned a premium of Rs. 50, this has reduced the purchase cost of the stock (Rs. 1000 – Rs. 50 = Rs. 950). Hence, the Net Gain = Rs. 150 (Rs 100 stock appreciation + Rs 50 call option premium) *(However, please note that in a scenario where the stock price reaches Rs. 1300, investment in long only equity would be more beneficial than a covered call strategy as the net gain under the covered call strategy would be Rs. 150, against a net gain of Rs. 300 under a pure long only equity strategy.)* Scenario 2: Stock prices stays below Rs. 1100 The call option will not get exercised and will expire worthless. The premium earned on call option will generate alpha for the scheme. Hence, the Net Gain = Rs. 50.
Investment Restrictions	**Investment Restrictions for Covered Call strategy** The Scheme can write Call options only under a covered call strategy subject to the following conditions: a) The Scheme can write call options under a covered call strategy only for constituent stocks of NIFTY 50 and BSE SENSEX. b) The total notional value (taking into account strike price as well as premium value) of call options written by the Scheme shall not exceed 15% of the total market value of equity shares held in the Scheme. c) The total number of shares underlying the call options written shall not exceed 30% of the unencumbered shares of a particular company held in the scheme. The unencumbered shares in a scheme shall mean shares that are not part of Securities Lending and Borrowing Mechanism (SLBM), margin or any other kind of encumbrances. d) At all points of time the Scheme shall comply with the provisions at points (b) and (c) above. In case of any passive breach of the requirement at paragraph (b) above, the respective scheme shall have 7 trading days to rebalance the portfolio. During the rebalancing period, no additional call options can be written in the said scheme. e) In case the Scheme needs to sell securities on which a call option is written under a covered call strategy, it must ensure compliance with paragraphs (c) and (b) above while selling the securities. f) In no case, the scheme shall write a call option without holding the underlying equity shares. A call option can be written only on shares which are not hedged using other derivative contracts. g) The premium received shall be within the requirements prescribed in terms of SEBI circular dated August 18, 2010 i.e. the total gross exposure related to option premium paid and received must not exceed 20% of the net assets of the scheme. h) The exposure on account of the call option written under the covered call strategy shall not be considered as exposure in terms of paragraph 3 of SEBI Circular no. Cir/IMD/DF/11/2010, dated August 18, 2010. i) The call option written shall be marked to market daily and the respective gains or losses factored into the daily NAV of the Scheme until the position is closed or expired.
Risk Factors	**Risks associated with writing covered call options for equity shares** i. Writing call options are highly specialized activities and entail higher than ordinary investment risks. In such investment strategy, the profits from call option writing is capped at the option premium, however the downside depends upon the increase in value of the underlying equity shares. This downside risk is reduced by writing covered call options. ii. The Scheme may write covered call option only in case it has adequate number of underlying equity shares as per regulatory requirement. This would lead to setting aside a portion of investment in underlying equity shares. If covered call options are sold to the maximum extent allowed by regulatory authority, the scheme may not be able to sell the underlying equity shares immediately if the view changes to sell and exit the stock. The covered call options need to be unwound before the stock positions can be liquidated. This may lead to a loss of opportunity, or can cause exit issues if the strike price at which the call option contracts have been written become illiquid. Hence, the scheme may not be able to sell the underlying equity shares, which can lead to temporary illiquidity of the underlying equity shares and result in loss of opportunity. iii. The writing of covered call option would lead to loss of opportunity due to appreciation in value of the underlying equity shares. Hence, when the appreciation in equity share price is more than the option premium received the scheme would be at a loss. iv. The total gross exposure related to option premium paid and received must not exceed the regulatory limits of the net assets of the scheme. This may restrict the ability of Scheme to buy any options.

Unit holders under the Scheme are hereby informed that all the above proposed changes will be applicable from July 20, 2019.

The Securities and Exchange Board of India has vide its letter no. IMD/DF3/OW/P/14478/1/2019 dated June 10, 2019 conveyed it's no objection to the aforesaid change in fundamental attribute.

In accordance with the provisions of Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996, Unit holders under the Scheme as on June 19, 2019 (including investors to whom units have been allotted with NAV of June 19, 2019) who do not agree with the proposed changes are given an option to exit i.e. redeem their units (fully or partly) or switch to other schemes of the Fund at the Applicable NAV of the Scheme without any exit load for a period of 30 days starting from June 20, 2019 till July 19, 2019 (both days inclusive). Redemption/ switch-out requests can be submitted at any of the Investor Service Centres of the Fund or the Registrar and Transfer Agents of the Fund viz. Karvy Fintech Private Limited on or before July 19, 2019 (upto 3.00 p.m. on July 19, 2019). The redemption proceeds will be paid out either electronically or by a cheque within 10 Business Days of receipt of valid redemption request to those Unit holders who choose to exercise the exit option. Unit holders who have pledged their units will not have the option to exit unless they procure a release of their pledge prior to submitting the redemption request.

If the Unit holder has no objection to the aforesaid changes, no action is required to be taken and it would be deemed that such Unit holder has consented to the changes. **It may however be noted that the offer to exit is purely optional and not compulsory.** A detailed communication in this regard will be sent to the Unit holders under the Scheme as on June 19, 2019, through an appropriate mode of communication (post, courier, email etc.)

For any further assistance/clarification, Unit holders may contact us on 1-800-425-0090 (Toll free – BSNL/MTNL lines only) or 040-23001181 (non MTNL/BSNL lines and mobile phone users) or alternatively, email us at emfhelp@edelweissfin.com or visit our website www.edelweissmf.com.

This addendum shall form an integral part of the Scheme Information Document and Key Information Memorandum of the Scheme, as amended from time to time. All other features and terms and conditions of the Scheme shall remain unchanged.

For **Edelweiss Asset Management Limited**
(Investment Manager to Edelweiss Mutual Fund)
Sd/-
Radhika Gupta
Chief Executive Officer

Place: Mumbai
Date: June 14, 2019

For more information please contact:
Edelweiss Asset Management Limited (Investment Manager to Edelweiss Mutual Fund)
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