

**STEPTRADE SHARE SERVICES PRIVATE LIMITED**

**DISCLOSURE DOCUMENT**

**FOR**

**PORTFOLIO MANAGEMENT SERVICES**

**Key Information and Disclosure Document for Portfolio Management Services provided by STEPTRADE SHARE SERVICES PRIVATE LIMITED**

As per the requirement of Schedule V and Regulation 22 of Securities and Exchange Board of India (Portfolio Managers) Regulation 2020:

- i. The disclosure document ("**Document**") has been filed with the Securities and Exchange Board of India along with the certificate in the specified format in terms of Regulation 22 of the SEBI (Portfolio Managers) Regulations, 2020.
- ii. The purpose of the Document is to provide essential information about the Portfolio Management Services (PMS) in a manner to assist and enable the investors in making informed decision for engaging **STEPTRADE SHARE SERVICES PRIVATE LIMITED** (as the "**Portfolio Manager**").
- iii. The disclosure document contains the necessary information about the Portfolio Manager, required by an investor before investing, and hence, the investor may be advised to retain the document for future reference.

The following are the Details of the Portfolio Manager:

<b>Name of the Portfolio Manager</b>	Steptrade Share Services Private Limited
<b>SEBI Registration Number</b>	INP000008598
<b>Registered Address/ Principal Place of Business</b>	726, Iconic Shyamal, Shyamal Cross Road, 132 Ring Road, Satellite, Jodhpur Char Rasta, Ahmedabad, Ahmadabad City, Gujarat, India, 380015
<b>Name of Principal Officer</b>	Yash Ashok Bhanushali
<b>Phone</b>	6357956904
<b>Email</b>	<a href="mailto:pms.po@steptrade.capital">pms.po@steptrade.capital</a>

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## 1. **DISCLAIMER**

This Disclosure Document has been prepared in accordance with the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 as amended till date and filed with SEBI. This Document has neither been approved nor disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.

## 2. **DEFINITIONS AND INTERPRETATIONS**

### 2.1 **Definitions**

The terms used in the Disclosure Document are defined as follows:

1. **"Act"** means the Securities and Exchange Board of India Act, 1992 (15 of 1992), as may be amended from time to time.
2. **"Accreditation Agency"** means a subsidiary of a recognized stock exchange or a subsidiary of a depository or any other entity as may be specified by the SEBI from time to time.
3. **"Accredited Investor"** means any person who fulfils the eligibility criteria as specified by SEBI pursuant to circular dated 26 August 2021 on 'Modalities for implementation of the framework for Accredited Investors' (SEBI/HO/IMD/IMD- 1/DF9/P/CIR/2021/620), as may be amended from time to time, and is granted a certificate of accreditation by an Accreditation Agency.
4. **"Agreement"** means Discretionary Portfolio Investment Management Agreement and/or Non-Discretionary Portfolio Investment Management Agreement and/or Advisory Agreement and/or Co-Investment Portfolio Management Agreement, as applicable, executed between the Portfolio Manager and the Client as amended, modified, supplemented, or restated from time to time together with all annexures, schedules, and exhibits, if any.
5. **"Advisory Services"** means advising on the portfolio strategy, investment, and divestment of individual Securities in the Client's Portfolio, entirely at the Client's risk, in terms of the Regulations and the Agreement.
6. **"Alternative Investment Fund"** shall have the meaning as mentioned under SEBI (AIF) Regulations, 2012.
7. **"Alternative Investment Fund Manager"** means any person or entity who is appointed by the Alternative Investment Fund to manage its investments by whatever name called and may also be same as the sponsor of the Fund.
8. **"Associates"** means
  - a. a body corporate in which a director or partner of the portfolio manager holds, either individually or collectively, more than twenty percent of its paid-up equity share capital or partnership interest, as the case may be; or
  - b. a body corporate which holds, either individually or collectively, more than twenty percent of the paid-up equity share capital or partnership interest, as the case may be of the portfolio manager.
9. **"Board"** means the Securities and Exchange Board of India.

10. **"Client"** or **"Investor"** means a Person that enters into an Agreement for availing services offered by the Portfolio Manager **Custodian(s)** means an entity registered with the SEBI as a custodian under applicable law and appointed by the Portfolio Manager, from time to time, primarily for custody of Securities of the Client.
11. **"Co-investment Portfolio Management Services"** means services provided by the Portfolio Manager to the investors of the Alternative Investment Fund which are managed and sponsored by it, in its capacity as the Co-investment Portfolio Manager.
12. **"Disclosure Document"** means this disclosure document issued by the Portfolio Manager for offering services stated hereunder, prepared in terms of Schedule V of the Regulations as amended from time to time.
13. **"Discretionary Portfolio Management Services"** or **"Discretionary PMS"** means the portfolio management services rendered to the Client, by the Portfolio Manager on the terms and conditions contained in the Discretionary Portfolio Investment Management agreement, wherein the Portfolio Manager exercises or may exercise, any degree of discretion as to the investment of funds or management of the portfolio of Securities of the Client.
14. **"Foreign Portfolio Investor"** or **"FPI"** means a person registered with SEBI as a Foreign Portfolio Investor under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 as amended from time to time.
15. **"Financial Year"** means the period of 12 (twelve) months starting from April 1 to March 31 the following year.
16. **"Funds"** means the money and / or securities placed by the Client with the Portfolio Manager and any accretions thereto.
17. **"Investment Approach"** means any of the current investment approaches or such investment approach that may be introduced at any time in the future by the Portfolio Manager.
18. **"Large Value Accredited Investor"** means an Accredited Investor who has entered into an Agreement with the Portfolio Manager for a minimum investment amount of ten crore rupees.
19. **"Non-discretionary Portfolio Management Services"** or **"Non-Discretionary PMS"** means portfolio management services under which the Portfolio Manager, subject to express prior instructions issued by the Client from time to time in writing or on recorded line or by e-mail, invests in respect of the Client's account entirely at the Client's risk.
20. **"NRI"** or **"Non-Resident Indian"** means an individual resident outside India who is a citizen of India.
21. **"Parties"** means the Portfolio Manager and the Client; and **"Party"** shall be construed accordingly.
22. **"Person"** includes any individual, partners in partnership, central or state government, company, body corporate, cooperative society, partnership firm, limited liability partnership, corporation, trust, society, Hindu Undivided Family or any other body of persons, whether incorporated or not.
23. **"Portfolio"** means the total holdings of Securities belonging to any Person.

24. **"Portfolio Management Services"** means the Discretionary Portfolio Management Services or Non-Discretionary Portfolio Management Services or Advisory Services, as the context may be.
25. **"Regulations"** means the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020, as amended from time to time, and where applicable, Chapter III of SEBI (Investment Advisers) Regulations, 2013, as amended from time to time.
26. **"Related Party"** means a related party as defined under the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 and any amendments thereto from time to time.
27. **"SEBI"** means the Securities and Exchange Board of India established under sub-section (1) of Section 3 of the Securities and Exchange Board of India Act, 1992, as amended from time to time.
28. **"Securities"** includes:-
  - a. "Securities" as defined under the Securities Contracts (Regulation) Act, 1956;
  - b. shares, scrips, stocks, bonds, warrants, convertible and non-convertible debentures/debenture stocks and other marketable securities of a like nature, fixed return investments, equity linked instruments including derivatives, negotiable instruments, term deposits, money market instruments including commercial paper, certificates of deposit etc., units issued by Mutual Funds, Collective Investment Schemes, Alternative Investment Funds, Mortgage backed or other asset backed securities, derivatives, Security Receipt and any other securities issued by any company/entity/body corporate, Central Government, State Government or any local or statutory authority including Structured Products;
  - c. gold related securities; and
  - d. Any other instruments or investments as may be permitted by applicable law from time to time.

## 2.2 **Interpretation**

Words and expressions used in this Disclosure Document and not expressly defined shall be interpreted in accordance with applicable law or according to their general meaning and usage. The definitions are not exhaustive.

## 3. **DESCRIPTION**

### 3.1 **History, Present Business and Background of the Portfolio Manager**

Our Company was originally incorporated as a private limited Company under the name of "Ace Shares Services Private Limited" on November 02, 1993 under the provisions of the Companies Act, 1956 with the Registrar of Companies, Ahmedabad bearing registration number as 020569. Thereafter, the name of the Company was changed from "Ace Shares Services Private Limited" to "Steptrade Shares Services Private Limited" vide fresh certificate of incorporation dated April 13, 2023, issued by the Registrar of Companies, Ahmedabad. The Corporate identification number of our Company is U67120GJ1993PTC020569.

"Steptrade Shares Services Private Limited" is also an Investment Manager Entity to three Alternative Investment Funds:

Sr. No.	Name	Registration Number
1.	Chanakya Fund Trust, Category II Alternative Investment Fund	IN/AIF2/22-23/1230
2.	StepTrade Fund, Category III Alternative Investment Fund	IN/AIF3/23-24/1330
3.	StepTrade Opportunities Fund, Category I Alternative Investment Fund	IN/AIF/22-23/1352

The Company is also registered with SEBI as a Portfolio Manager vide Certificate of Registration No. INP000008598 dated January 09, 2024.

### 3.2 **Directors Of The Portfolio Manager And Their Background**

Particulars	Other Directorships
<b>Name:</b> Ms. Kresha Kailash Gupta <b>Designation:</b> Director <b>Age:</b> 24 years <b>Date of Birth:</b> August 18, 1998 <b>Address:</b> 3, Rajpath Highway Society, Behind Rajpath Club, Bodakdev, S.G.Highway, Ahmedabad-380054  <b>Experience:</b> 6 Years <b>Occupation:</b> Business <b>Qualification:</b> Bachelors of Commerce (in Banking and Financial Service), Chartered Accountant <b>DIN:</b> 09639553	STEPTRADE FINANCE PRIVATE LIMITED



<b>Name:</b> Mr. Ankush Kumar Jain <b>Designation:</b> Director <b>Age:</b> 35 years <b>Date of Birth:</b> October 04, 1987 <b>Address:</b> A-103, Sparsh Arise, Opp Community Hall, B/h Vasna Bus Stop, Near Ratnam Flat, Vasna, Ahmedabad – 380 007 <b>Experience:</b> 14 Years <b>Occupation:</b> Business <b>Qualification:</b> Master's in financial Analysis, Bachelors of Commerce, Chartered Financial Analyst <b>DIN:</b> 09811818	
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### 3.3 Group companies' information

(i.e., the information related to top 10 group companies / firms of the Portfolio Manager on turnover basis)

No.	Name of Company	CIN No.	Nature of Business
1.	STEPTRADE BROKING SECURITIES PRIVATE LIMITED	U64990GJ2023PTC146313	Broking and Related Activities
2.	STEPHEAD ADVISORS PRIVATE LIMITED	U70200GJ2023PTC139345	Advisory Services
3.	STEPTRADE FINANCE PRIVATE LIMITED	U64990GJ2023PTC145415	Other financial service activities

### 3.4 Details of the Services being offered

#### 3.4.1. Discretionary & Non-Discretionary Portfolio Management Services (PMS)

Under these services, all an investor has to do, is to give the Portfolio Manager his portfolio in any form i.e., in stocks or cash or a combination of both. The minimum size of the portfolio under the Discretionary and/ or Non - Discretionary Funds Management Service should be Rs. 50 lakhs as per the Regulations. The requirement of minimum investment amount per client shall not apply to a client who is (a) an Accredited Investor, or (b) an investor to a Fund in respect of which the Portfolio Manager is acting as a co-investment portfolio manager. However, the Portfolio Manager reserves the right to prescribe a higher threshold product-wise or in any other manner at its sole discretion. The Portfolio Manager will ascertain the investor's investment objectives to achieve optimal returns based on his risk profile.

### 4. PENALTIES, PENDING LITIGATION OR PROCEEDINGS

i. All cases of penalties imposed by the Board or the directions issued by the Board under the Act or rules or regulations made thereunder.	None
ii. The nature of the penalty/direction	Not Applicable
iii. Penalties/fines imposed for any economic offence and/ or for violation of any securities laws.	None
iv. Any pending material litigation/legal proceedings against the portfolio manager/key personnel with separate disclosure regarding pending criminal cases, if any.	None

v. Any deficiency in the systems and operations of the portfolio manager observed by the Board or any regulatory agency.	None
vi. Any enquiry/ adjudication proceedings initiated by the Board against the portfolio manager or its directors, principal officer or employee or any person directly or indirectly connected with the portfolio manager or its directors, principal officer or employee, under the Act or rules or regulations made thereunder.	None

**5. SERVICES OFFERED**

**5.1 Types of services offered**

**5.1.1. Discretionary Portfolio Management (DPM) Services**

The Portfolio Manager shall be acting in a fiduciary capacity with regard to Clients' Portfolio and shall have sole and absolute discretion to invest Clients' Funds in any type of Securities and in any market as he deems fit for the benefit of the Client as per the Discretionary Portfolio Investment Management Agreement. The Securities invested / disinvested by the Portfolio Manager may differ from Client to Client. The Securities traded or held by the Portfolio Manager for different Client's Portfolios, even if invested in the same Investment Strategy, may differ from Client to Client. The Portfolio Manager's decision (taken in good faith) in deployment of the Client's Portfolio is absolute and final and cannot be called in question or be open to review at any time during the currency of the Agreement or any time thereafter except on the grounds of malafide, fraud, conflict of interest or gross negligence. This right of the Portfolio Manager shall be exercised strictly in accordance with the Regulations, guidelines and notifications in force from time to time.

Portfolio Manager shall invest funds of the client only in the securities listed or traded on a recognized stock exchange, money market instruments, units of Mutual Funds and other securities as specified by Board from time to time, on behalf of their clients.

Money Market Instruments includes commercial paper, trade bill, treasury bills, certificate of deposit and usance bills.

Portfolio Manager may invest in units of Mutual Funds (only through Direct Plan), and no distribution fees will be charged to the client.

The Portfolio Manager may offer discretionary portfolio management services for investment up to 100% of the assets under management of the Large Value Accredited Investors in unlisted securities, subject to the terms agreed between the client and the Portfolio Manager.

**5.1.2. Non-Discretionary Portfolio Management Services**

Under these services, the Clients decide their own investments with the Portfolio Manager facilitating the execution of transactions. The Portfolio Manager will provide Non-Discretionary Portfolio Management Services which shall be in the nature of investment management, and may include the responsibility of managing, renewing and reshuffling the portfolio, buying and selling the securities with the client's oral and/or written consent. Additionally, the Portfolio Manager will keep the safe custody of the securities and monitor book closures, dividend, bonus, rights etc. and any other benefits that accrue to the Client's Portfolio, for an agreed fee structure and for a definite period as described in the Products from time to time, entirely at the Client's risk.

The rights and obligations of the Portfolio Manager shall be exercised strictly in accordance with the Regulations in force from time to time. Periodical statements in respect to Client's Portfolio shall be sent to the respective Client. Portfolio Manager may invest up to 25% of the assets under management of the client in unlisted securities, in addition to the securities permitted for discretionary portfolio management. Portfolio Manager may invest in units of Mutual Funds (only through Direct Plan) and no distribution fees will be charged to the client. However, Portfolio Manager shall invest the clients' funds neither in the portfolio managed or administered by another portfolio manager nor based on the advice of any other entity.

The Portfolio Manager may offer non-discretionary portfolio management services for investment up to 100% of the assets under management of the Large Value Accredited Investors in unlisted securities, subject to the terms agreed between the client and the Portfolio Manager.

### **5.1.3. Advisory Services**

The Portfolio Manager will provide Advisory Services, in terms of Regulations, which shall be in the nature of non-binding investment advisory and shall include the responsibility of advising on the Portfolio approach, investment and divestment of individual Securities in the Client's Portfolio, for an agreed fee structure and for a period agreed in the Agreement, entirely at the Client's risk, to all eligible categories of investors who can invest in Indian market.

The Portfolio Manager shall, provide advisory services in accordance with such guidelines and/or directives issued by the regulatory authorities and /or the Client, from time to time, in this regard.

Portfolio Manager may provide advice for investment up to 25% of the assets under management of the Client in unlisted Securities, in addition to the Securities permitted for Discretionary PMS.

## **5.2 Investment Philosophy of the Portfolio Manager**

The investment philosophy revolves around two key aspects: Endeavour to preserve capital and generate long term returns. The Portfolio Manager endeavors at all times to preserve and then, grow the portfolio. The goal is not necessarily to outperform a rapidly rising market, but as far as possible, aim to avoid the troughs in a falling market such that over a longer term time horizon, the portfolios outperform the benchmarks.

Investing comes down to – Making intelligent decisions consistently.  
Our investment philosophy entails buying and holding a few great businesses indefinitely, allowing the power of compounding to manifest over extended periods.

However, we recognize that this approach is constrained by the rarity of great businesses at fair prices. Buying these businesses at a reasonable price presents as an opportunity infrequently, since they are typically overpriced.

Given that constraint, we don't mind buying value stocks that are underpriced in the market and sell them when they have reached their fair value. I mention them as stocks, as I am simply looking at the valuation front rather than the business in total.

Our investment philosophy is rooted in the belief that it's better to own a few great businesses and reap their benefits over an extended period than to hold a larger portfolio of average businesses, yielding lesser returns.

### 5.3 Investment Objective of the Portfolio Manager

The Portfolio Manager provides various investment products/services based on the mandate of the Client and subject to the scope of investments as agreed upon between the Portfolio Manager and the Client in the Agreement. The investment objectives of the portfolios of the Clients depending on the Clients' needs would be one or more of the following or any combination thereof to:

- a. Provide flexible and open-ended investment options to investor.
- b. Introduce Retail investors access to booming SME and Microcap market.
- c. Promote investment in INDIA's Booming SME and microcap sector for economic growth.
- d. To manage and deliver Robust Alpha from domestic Small and Micro cap listed Equities generate capital appreciation/periodic returns by investing in instruments such as equity/derivatives/debt/money market instruments, equity related securities, units of mutual fund schemes and such other investment instruments/markets as the Portfolio Manager deems fit would benefit the client.

### 5.4 Policies for investments in associates/ group companies

The Portfolio Manager will not make investments in associates / group companies of the Portfolio Manager.

## 6. TYPES OF INVESTMENT APPROACHES

A. The Discretionary Portfolio Management Investment Approaches being offered are as follows:

### a) Steptrade SME Fund

**Investment Objective:** The fund is designed to capture super normal Alpha generated during value unlocking phase (inflexion zone) and capture valuation increase due to demand led growth in select listed SME companies with sizes ranging between Rs 100crs to 1000 crs.

These companies also are potential candidates for them to migrate to main board in next 1-2 years. These further aids investments valuation to expand and reach its fair value.

#### **Basis Of Stock Selection:**

- Strong fundamentals with internal financials checks, corporate governance check, robust demand and supply chain.
- This strategy aims to invest and generate superior returns in newly listed companies on SME exchange.
- With thorough and professional research, investment is done in companies which have strong financials and future order book growth with good management team.
- This strategy reaps the benefit of favourable government policies towards SME's, growing economy with rising domestic consumption and purchasing power.

#### **Descriptions Of Types of Securities:**

Companies listed on SME exchange and ranging Market cap of 100crores to 1000 crores.

**Benchmark:** S&P BSE 500 TRI Index,

**Strategy:** Equity

**Allocation of portfolio across types of securities:**

- This strategy invests in companies already listed on SME Exchange where future growth and fundamentals are strongly visible.
- It invests in those companies where there is a potential to go on mainboard within short period of time.
- Equity and equity related instruments up to 100% (Cash portion maybe deployed in units of Mutual funds, ETFs for temporary period)

**Recommended Investment Horizon:** The recommended investment horizon for this approach is 3-5 Years.

**Risk Factors:**

- The portfolio shall be subject to overall risks borne out of investments in equity and equity related securities.
- Due to the heterogeneity in liquidity in the capital market segment, trades on this segment may not get implemented instantly. The liquidity of the scheme's investments, therefore, is inherently restricted by trading volumes and settlement periods.
- The portfolio may have higher concentration towards a stock or sector, at any given point in time. Any change in government policy or any other adverse development with respect to such a stock or the sector, may adversely affect the value of the portfolio.
- The Portfolio Manager may, from time to time, invest any un-deployed funds in liquid schemes of Mutual Funds which will be subject to interest rate risk arising out of changes in key interest rates in the economy.
- The performance of the investment approach will depend upon the business performance of the Portfolio Entity and its future prospects. Portfolio Manager's focus on studying the business and the sustainability with focus on studying the balance sheet will help the Portfolio Manager in mitigating these sector or company risks.
- Valuation risk: Portfolio Manager will assess the Portfolio Entities from varied valuation parameters in order to establish whether the valuations are reasonable while investing and reassess the same from time to time.
- Market risk: Portfolio Manager endeavours to invest in companies using bottom-up fundamental research rather than trying to time the markets. However, the Portfolio Manager will monitor the market and economic circumstances from time to time that may affect the performance of the Portfolio Entities.
- Liquidity risk: While investing in equities and Portfolio Entities, liquidity constraints are potential near-term risk while investing and disinvesting the Portfolio Entities. The Portfolio Manager endeavours to mitigate the risks by investing with a medium to long term time horizon.
- Concentration Risk: Endeavor to have adequately diversified portfolio across sectors and stocks.

**b) Steptrade Rising Star Fund**

**Investment Objective:** This strategy aims to manage and deliver larger and robust alpha from domestic small and micro cap listed equities. Small and medium enterprises ranging turnover 500cr to 5000cr will be critically analyzed and selected based on their future growth competence potential.

Sector specific, vintage, Companies in sectors like defense and green energy for the future will be key focus. These companies usually have a traditional vintage of 5-7 years and have strong promoter holding in the company, showcasing a good promoter's skin in the

game and confidence in his business.

The strategy aims to build portfolio of stocks falling in sectors displaying secular growth, cyclical, defensive and will try to avoid value traps.

**Description of types of securities:** It predominantly makes investments in listed equities and opportunistically in money market instruments, units of mutual funds, REITs, INVITs, Exchange Traded Funds (ETFs) or other permissible securities/products in accordance with the applicable laws.

**Investment Strategy & Basis of selection of such types of securities as part of the investment approach:** Invest in small and microcap stocks with market cap ranging from 200cr to 5000cr and showing strong order book in hand and a potential management team to deliver the results.

**Benchmark:** S&P BSE 500 TRI Index

**Strategy:** Equity

**Allocation of portfolio across types of securities:** 100% in Equity, Units of mutual funds, ETFs and/ or Fixed Income Securities

**Minimum Account Size:** Rs.50 lakhs or such other amount as decided by the Portfolio Manager at its sole discretion, subject to applicable SEBI Regulations that may come into force from time to time. Accredited Investors : Minimum amount Rs. 25 Lakhs

**Recommended Investment Horizon:** The recommended investment horizon for this approach is 3-5 Years.

**Risk Factors:**

- The portfolio shall be subject to overall risks borne out of investments in equity and equity related securities.
- Due to the heterogeneity in liquidity in the capital market segment, trades on this segment may not get implemented instantly. The liquidity of the scheme's investments, therefore, is inherently restricted by trading volumes and settlement periods.
- The portfolio may have higher concentration towards a stock or sector, at any given point in time. Any change in government policy or any other adverse development with respect to such a stock or the sector, may adversely affect the value of the portfolio.
- The Portfolio Manager may, from time to time, invest any un-deployed funds in liquid schemes of Mutual Funds which will be subject to interest rate risk arising out of changes in key interest rates in the economy.
- **Market Risk:** The performance of the investment approach will be impacted by interest rates prevailing as well as movements in interest rates. The Investor may lose money over short or long period due to fluctuation in fund investments due to factors including but not limited to economic, political developments, changes in interest rates, inflation and other monetary factors and also movement in prices of underlining investments.
- **Interest Rate Risk:** Changes in interest rates will affect the performance of the investment approach. There is an inverse relationship between the interest rate and price of securities. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and increase or decrease in the level of interest rate. The price risk is low in short duration securities.
- **Reinvestment Risk:** Investments in fixed income securities may carry reinvestment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the securities. Accordingly, the

- proceeds may get invested at a lower rate.
- **Pre-payment Risk:** Certain fixed income securities give an issuer the right to call back its securities before their maturity date, in periods of declining interest rates. The possibility of such prepayment may force the fund to reinvest the proceeds of such investments in securities offering lower yields, resulting in lower interest income for the fund.
- **Spread Risk:** In a floating rate security the coupon is expressed in terms of a spread or mark up over the benchmark rate. In the life of the security this spread may move adversely leading to loss in value of the portfolio. The yield of the underlying benchmark might not change, but the spread of the security over the underlying benchmark might increase leading to loss in value of the security.
- **Credit Risk:** Credit Risk means that the issuer of a security may default on interest payments or even paying back the principal amount on maturity. Even where no default occurs, the prices of security may go down because the credit rating of an issuer goes down. It must be, however, noted that where the Scheme has invested in Government securities, there is no risk to that extent.
- **Liquidity or Marketability Risk:** It refers to the ease at which a security can be sold at or near its true value. The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is characteristic of the Indian fixed income market. Trading Volumes, settlement periods and transfer procedures may restrict the liquidity of the investments made by the Scheme.

## **7. RISK FACTORS**

### **7.1 General Risk**

- The name of any of the Investment Approach does not, in any manner, indicate the future prospects or returns. The Investment Approaches do not guarantee any assured return.
- At times, due to the forces and factors affecting the capital market or as per the view of the Portfolio Manager, the Investment Approach may not be able to invest in Securities falling within its investment objective resulting in holding the monies collected by it in cash or cash equivalent or invest the same in other permissible Securities amounting to substantial reduction in the earning capability of the Client.
- The Portfolio Manager would not be liable for any loss caused to the Client pursuant to Portfolio Management Services. The Portfolio Manager will however ensure that reasonable care and skill is employed while tendering advice or making investments on behalf of the Client.
- Securities investments are subject to market risk and there is no assurance or guarantee that the objectives of the Investment Approach will be achieved.
- Past performance of the Portfolio Manager does not indicate its future performance.
- An investment option may not necessarily provide a basis of comparison with other investments carried out in past. There is no assurance that past performances in earlier product will be repeated. Risk arising from the investment objective, investment strategy, asset allocation and quant model risk, Market risk, political and geopolitical risk and risk arising from changing business dynamics, which may affect Portfolio returns.
- The Portfolio Management Service is subject to risk arising out of non-diversification as the Portfolio Manager under its PMS may invest in a particular sector, industry, few/single investee companies. The performance of the Client Portfolio would depend on the performance of such companies/industries/sectors of the economy.
- Investors may note that Portfolio Manager's investment decisions may not always be profitable, as actual market movements may be at variance with anticipated trends. The returns of investments in Securities would depend on the happening / non-

happening of specified events and the returns may or may not accrue to an investor accordingly.

- The Portfolio Manager and its affiliates are involved in a variety of advisory, management and investment-related/ financial services activities and intend to continue to do so in the future. The Portfolio Manager and any of its affiliate/group entities may, from time to time, act as asset managers or investment managers or advisers to entities, companies or funds apart from the portfolio management activities under the PMS. It is therefore possible that the Portfolio Manager and its affiliates may in the course of their business have potential conflicts of interest inter-se different activities.
- The Portfolio Manager has included statements / opinions / recommendations in this document, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc.
- While utmost care has been exercised, Edelweiss, its sponsors or any of its officers, employees, personnel, and directors make no representation as to the accuracy, completeness or reliability of the content and hereby disclaim any liability with regard to the same. Recipients of this material should exercise due care and read the disclosure document (including if necessary, obtaining the advice of tax/ legal/ accounting/ financial/ other professionals) prior to taking of any decision, acting or omitting to act. The document is solely for the information and understanding of intended recipients only. Further, the recipient shall not copy/ circulate contents of this document, in part or in whole, or in any other manner whatsoever without prior and explicit approval of Edelweiss.
- The tax implications provided in this document are for general purposes only and is based on advice that the Portfolio Manager has received regarding the tax laws and practice that is currently in force in India and the Client should be aware that the relevant fiscal rules and 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 investment in the Portfolio will endure indefinitely. In view of the individual nature of tax consequences, each Client is advised to consult his/her own professional tax advisor.
- To implement a decision of the Client regarding investments (other than under DPMS Services), the Portfolio Manager would have to employ the services of persons and bodies who are not the Portfolio Manager's employees and rely on them. While the Portfolio Manager, would exercise all care and take all precautions while employing such persons, it should be understood that the Portfolio Manager would not be liable for any act or omission on the part of such persons engaged by the Portfolio Manager for the purpose of making an investment or disposing off an investment and that the Portfolio Manager would not be liable for any loss caused by any act or omission on the part of such person.
- The Portfolio Manager will not be liable for any financial loss arising from the Portfolio Manager not being able to sell the shares on behalf of the Client in case the original shares are lost or stolen whilst shares were in transit.
- The Portfolio Manager will also not be liable for any bona fide act of omission or commission or delay in carrying out the instructions of the Client.
- The Portfolio Manager may not be able to lend out Securities which can lead to temporary illiquidity. There are risks inherent in securities lending, including the risk of failure of the other party, in this case the approved intermediary to comply



with the terms of the agreement. Such failure can result in a possible loss of rights to the collateral, the inability of the approved intermediary to return the Securities deposited by the lender and the possible loss of corporate benefits accruing thereon.

## **7.2 Risks associated with investments in Equity and equity related instruments:**

Some of the common risks associated with investments in equity and equity linked Securities are mentioned below. These risks include but are not restricted to:

- Equity and Equity related Securities by nature are volatile and prone to price fluctuations on a daily basis due to both macro and micro factors.
- The value of the Portfolio will fluctuate as the daily prices of the individual Securities in which they invest fluctuate and may be worth more or less than its original cost, at a given point in time.
- In respect of investments in equity and equity-related instruments, there may be risks associated with trading volumes, settlement periods and transfer procedures that may restrict liquidity of investments in equity and equity related Securities.
- The value of the Portfolio may be affected generally by factors affecting securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the Government, taxation laws or policies of any appropriate authority and other political and economic developments and closure of stock exchanges which may have an adverse bearing on individual Securities, a specific sector or all sectors including equity and debt markets. Consequently, the Portfolio valuation may fluctuate and can go up or down.
- The Portfolio manager may invest in stocks, which may or may not be undervalued with the anticipation of increase in price. However, the stocks may languish and may not attain the anticipated price.
- The Portfolio is subject to investment style risk; the product may have a contrarian style of investment, the Portfolio performance may not be in line with the general market in scenarios of strong upward or downward cycles. Further, the prices of Securities under the relevant Investment Approach may not behave as expected by Portfolio Manager, this may affect the returns adversely.
- In domestic markets, there may be risks associated with trading volumes, settlement periods and transfer procedures that may restrict liquidity of investments in equity and equity related Securities.
- In the event of inordinately low volumes, there may be delays with respect to unwinding the Portfolio and transferring the redemption proceeds.
- The Portfolio may have higher concentration towards a particular stock or sector, at a given point in time.
- Any change in government policy or any other adverse development with respect to such a stock or the sector, may adversely affect the value of the Portfolio.

## **7.3 Risks associated with investments in Fixed Income Securities:**

Some of the common risks associated with investments in fixed income and money market securities are mentioned below. These risks include but are not restricted to:

- **Interest Rate Risk:** As with all debt Securities, changes in interest rates will affect the valuation of the Portfolios, as the prices of Securities generally increase as interest rates decline and generally decrease as interest rates rise. Prices of longer-term Securities generally fluctuate more in response to interest rate changes than do shorter-term Securities. Interest rate movements in the Indian debt markets can be volatile leading to the possibility of large price movements up or down in debt and money market Securities

and thereby to possibly large movements in the valuation of Portfolios.

- **Liquidity or Marketability Risk:** This refers to the ease at which a Security can be sold at or near its true value. The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Liquidity risk is characteristic of the Indian fixed income market. Money market Securities, while fairly liquid, lack a well developed secondary market, which may restrict the selling ability of the Portfolio and may lead to the Portfolio incurring losses till the Security is finally sold. This refers to the ease with which a Security can be sold at or near to its valuation yield-to-maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer. Any investment in fixed income carries high degree of risk due to their illiquidity. Additionally, there may be no active secondary market for investments of the kind the Portfolio Manager may make for the Client's Portfolio. Such investments may be of a medium-to-long term nature. However, there can be no guarantee that such realizations shall be achieved and the Portfolio's investments may remain illiquid. Delays or other problems in settlement of transactions could result in temporary periods when the assets are un-invested and no return is earned thereon.
- **Credit Risk:** Credit risk or default risk refers to the risk which may arise due to default on the part of the issuer of the fixed income Security (i.e. risk that the issuer will be unable to make timely principal and interest payments on the Security). Because of this risk debentures are sold at a yield spread above those offered on treasury Securities, which are sovereign obligations and generally considered to be free of credit risk. Normally, the value of a fixed income Security will fluctuate depending upon the actual changes in the perceived level of credit risk as well as the actual event of default. The fund manager will endeavor to manage credit risk through in-house credit analysis. The Portfolio Manager may also use various hedging products from time to time, as are available and permitted by SEBI, to attempt to reduce the impact of undue market volatility on the Client Portfolios.
- **Credit Rating Risk:** Different types of Securities in which the Portfolio Manager would invest as given in the product note carry different levels and types of risk. Accordingly, the Securities' risk may increase or decrease depending upon their investment patterns. E.g. corporate bonds carry a higher amount of risk than Government Securities. Further, even among corporate bonds, bonds which are rated AAA are comparatively less risky than bonds which are AA rated.
- **Reinvestment Risk:** Investments in fixed income Securities may carry reinvestment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate.
- **Pre-payment Risk:** Certain fixed income Securities give an issuer the right to call back its Securities before their maturity date, in periods of declining interest rates. The possibility of such prepayment may force the Portfolio Manager to reinvest the proceeds of such investments in Securities offering lower yields, resulting in lower interest income for the fund.

The above are some of the common risks associated with investments in fixed and money market Securities including derivatives. There can be no assurance that a Portfolio's investment objectives will be achieved, or that there will be no loss of capital. Investment results may vary substantially on a monthly, quarterly or annual basis.

#### **7.4 Risk Factors associated with investments in Derivatives:**

- The Portfolio Manager intends to use exchange traded derivatives as a hedging tool & does not intend to take any naked positions. Nevertheless, trading in derivatives market

has risks and issues concerning the use of derivatives that investor should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds.

- Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Even a small price movement in the underlying Security could have a large impact on their value. Execution of such strategies depends upon the ability of the Portfolio Manager to identify such opportunities. Identification and execution of such strategies to be persuaded by the Portfolio Manager involve uncertainty and decision of the Portfolio Manager may not always be profitable. No assurance can be given that the Portfolio Manager shall 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.
- As and when the product trades in the derivatives market there are risk factors and issues concerning the use of derivatives that investors should understand. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the Portfolio and the ability to forecast price or interest rate movements correctly. There is a possibility that loss may be sustained by the Portfolio as a result of the failure of another party (usually referred as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying Security could have a large impact on their value.
- Derivative trades involve execution risks, whereby the rates seen on the screen may not be the rate at which ultimate execution takes place.
- The options buyer's risk is limited to the premium paid, while the risk of an options writer is unlimited. However, the gains of an options writer are limited to the premiums earned.
- The writer of a put option bears the risk of loss if the value of the underlying asset declines below the exercise price. The writer of a call option bears a risk of loss if the value of the underlying asset increases above the exercise price.
- Investments in index futures face the same risk as the investments in a Portfolio of shares representing an index. The extent of loss is the same as in the underlying stocks.
- Risk of loss in trading futures contracts can be substantial, because of the low margin deposits required, the extremely high degree of leverage involved in futures pricing and potential high volatility of the futures markets.

#### **7.5 Risk Factors associated with investments in units of Mutual Fund schemes:**

- Mutual funds invest across equity, money market & debt instruments. The risk factors affecting such instruments are mainly as follows- Market risk, Inflation risk, Interest rate risk, Currency risk, Credit risk, Regulatory/legal risk.

- The Portfolio Manager may, from time to time, invest any un-deployed funds in liquid schemes of Mutual Funds or in money market instruments. Though the Portfolio of liquid funds is expected to comprise of short-term deposits, government Securities and money market instruments, they cannot be considered as totally risk free. This is because liquidity patterns and short term interest rates of the government change, sometimes on a daily basis, thereby making the fund susceptible.
- Liquid fund returns are not guaranteed and it entirely depends on market movements.
- In case of investments in Mutual Fund units, the Client shall bear the recurring expenses of the Portfolio Management Services in addition to the expenses of the underlying mutual fund schemes. Hence, the Client may receive lower pre-tax returns compared to what he may receive had he invested directly in the underlying mutual fund schemes in the same proportions.

#### **7.6 Risk of Quantitative Investing:**

- Asset allocation based on quantitative analysis may perform differently from the market as a whole due to the factors used in the analysis and the weight placed on each factor and markets behaves differently from the factor's historical trends.
- If the strategy of the Portfolio is to always remain diversified across all asset class, it may tend to underperform the best performing asset class at any given point of time.
- If Portfolio seeks to allocate assets dynamically, based on certain market factors, there could be times when the allocation calls may go wrong. In other words, Portfolio may go overweight on an asset class, which subsequently may underperform or vice versa. However, the severity of impact will be lower due to its built-in feature of asset allocation.
- If Portfolio proposes to invest in ETFs/ Mutual Fund schemes, there will be a double layer of charges, one from the underlying ETFs / Mutual Fund schemes and the other at the Portfolio level and all the risks related to the underlying ETFs and mutual fund schemes are by default the risk associated with the Portfolio.

#### **7.7 Risks pertaining to the index linked Securities:**

- Performance of the reference index will have a direct bearing on the performance of the approach.
- In the event the reference index is dissolved or withdrawn by the index provider, such as, India Index Services Ltd. (IISL) (for NSE- Nifty), BSE for S&P BSE Sensex etc., in case of Securities such as debenture, the debenture Trustees upon request by the issuer may modify the terms of issue of debentures, so as to track a different and suitable index and appropriate intimation will be sent to the debenture holders.
- Tracking errors are inherent in any equity index linked Security and such errors may cause the equity index-linked Security to generate returns which are not in line with the performance of the reference index or one or more Securities covered and/or included in the reference index. Such variations, referred to as tracking error, are expected to be around 2% per annum, but may vary substantially due to several factors.
- Any delay experienced in the purchase or sale of Securities due to liquidity of the market, settlement and realization of sales proceeds and the registration of any Security transfer and any delays in receiving cash and scrip dividends and resulting delays in reinvesting them.

- The reference index reflects the prices of securities at close of business hours.
- The index provider undertakes a periodic review of the scripts that comprise the reference index and may either drop or include new securities.

### 7.8 **Other Risks**

- After accepting the corpus for management, the Portfolio Manager may not get an opportunity to deploy the same or there may be delay in deployment in a particular Investment Approach. In such situation the Clients may suffer opportunity loss.
- Clients will not be permitted to withdraw the funds/Portfolio (unless in accordance with the terms agreed with the Client). In addition, they are not allowed to transfer any of the interests, rights or obligations with regard to the Portfolio except as may be provided in the Agreement and in the Regulations.
- Changes in Applicable Law may impact the performance of the Portfolio.

## 8. **Client Representation**

### 8.1 **Details of Client's accounts activated**

Category of clients	No. of clients	Funds managed (Rs. Cr.)	Discretionary/Non- Discretionary (if available)
Associates/ group companies (Last 3 years)	NIL	NIL	NIL
Others (last 3 years)	3	1.5 cr	Discretionary
Total	NIL	NIL	NIL

The Portfolio Manager is in the process of making an application to the authority. This section will be updated once the Portfolio Manager will start rendering the portfolio management services.

### 8.2 **Disclosure of transaction with related parties**

The Portfolio Manager has not undertaken any transaction with its group entities.

### 8.3 Financial Performance

The Financial Performance of the Portfolio Manager (based on audited financial statements)

Particulars	Financial Year 2021 - 2022	Financial Year 2022-2023	Financial Year 2023-2024
Profit / (Loss) Before Depreciation & Taxation	(200)	7,19,258	(2,933,435.34)
Net Profit / (Loss) after Depreciation & Taxation	(200)	6,00,318	(2,933,435.34)
Shareholder's Funds	1,14,271	2,57,88,589	7,51,02,742.79
Share Capital	1,00,000	2,00,00,000	38,611,730.00
Reserves & Surplus	14,271	57,88,589	36,490,170.00

### 9. Performance of Portfolio Manager

Investment Approach wise performance of the Portfolio Manager against the respective benchmark, for Discretionary Portfolio Services with performance are tabled as below:

Name of the Investment Approach	Returns of the Step trade Scheme	Returns as per performance benchmark (BSE 500 TRI)
Rising Star Fund*	9.92%	1.58%
SME Fund*	-2.40%	1.58%

\* As the fund has not completed one year since its operations hence absolute return as on date is shared.

### 10. Audit Observations

There have been no adverse observations reported by the statutory auditor in last preceding 3 years.

### 11. Nature of expenses

The following are indicative types of costs and expenses for clients availing the Portfolio Management services. The exact basis of charge relating to each of the following services shall be annexed to the Portfolio Management Agreement and the agreements in respect of each of the services availed at the time of execution of such agreements. With Effect from October 1, 2020, operating expenses excluding brokerage, over and above the fees charged for Portfolio Management Service, shall not exceed 0.50% per annum of the client's average daily Assets under Management (AUM).

- a. **Management Fees:** Professional charges relate to the Portfolio management services offered to clients. "Assets Under Management (AUM)" means the value of the Securities in the Client Portfolio. For the purpose of calculating the Assets Under Management, Securities shall be valued at the Fair Market Value and/or marked to market basis, as applicable.

The Management Fee for the 1st year shall be payable monthly in arrears, calculated on the

basis of the average value of the daily Assets Under Management and will be computed pro rata from the date on which the capital/Securities are managed on behalf the Client.

Management Fee from the 2nd year onwards shall be payable monthly in arrears, calculated on the basis of the average value of the daily Assets Under Management for the previous quarter.

All applicable taxes (including goods and services tax (GST)) and levies, if any (together with surcharge and additional surcharge, as may be applicable) leviable on such Management Fee, shall be charged to the Client Portfolio.

- b. **Performance Fee:** Performance Fee shall be charged last day of every calendar quarter. For the first year, the Performance Fee shall be calculated and charged on the 31st day of calendar quarter immediately following the date on which the capital/securities are managed on behalf the Client.

In case of termination of Agreement during the year, the Performance Fee accrued till the termination date shall be payable to the Portfolio Manager.

All applicable taxes (including GST) and levies, if any (together with surcharge and additional surcharge, as may be applicable) leviable on such Performance Fee, shall be charged to the Client Portfolio.

- c. **Custodian/Depository Fees:** The charges relating to opening and operation of dematerialized accounts, custody and transfer charges for shares, bonds and units, dematerialization, rematerialisation and other charges in connection with the operation and management of the depository accounts.
- d. **Registrar and transfer agent fee:** Charges payable to registrars and transfer agents in connection with effecting transfer of securities and bonds including stamp charges, cost of affidavits, notary charges, postage stamp and courier charges.
- e. **Brokerage and transaction costs:** The brokerage charges and other charges like service charge, stamp duty, transaction costs, turnover tax, exit and entry loads on the purchase and sale of shares, stocks, bonds, debt, deposits, units and other financial instruments.
- f. **Certification and professional charges:** Charges payable for outsourced professional services like accounting, taxation and legal services, notarizations etc. for certifications, attestations required by bankers or regulatory authorities.
- g. **Incidental Expenses:** Charges in connection with the courier expenses, stamp duty, service tax, depository charges, postal, telegraphic, opening and operation of bank accounts etc.
- h. **Other charges:** As may be mutually agreed between client and Portfolio Manager.

**Manner of payment:** Client shall pay by way of cheque/ DD/ Debit to the client portfolio account, as per the respective fee schedule applicable to the portfolio services opted by the client.

Any modification in the existing terms, shall be intimated to the Clients by written communication.

a) **Steptrade SME Fund**

**Fixed Fee Option**

Upfront Fees (including GST)	<b>NIL</b>
Management Fee	Fixed Management Fee: 2.5% per annum (p.a.) of the daily average assets under management in the portfolio
Custody Fee and Fund accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	<b>At Actuals</b>
Hurdle Rate	Nil
Performance Fee	Nil
Brokerage	Brokerage shall be charged at actuals.
Account Opening & Closing	<b>At Actuals</b>
Account Maintenance	<b>At Actuals</b>
Professional Fees for NRI Clients	<b>Nil</b>
Exit Load	Withdrawal before completion of 1 year, an exit load@ 3% will be charged. Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged. Withdrawal after completion of 2 years no exit load will be charged. Exit load period will continue from date of respective Capital Inflow.

**Variable Fee Option -A**

Upfront Fees (including GST)	<b>NIL</b>
Management Fee	Fixed Management Fee: 1.5% per annum (p.a.) of the daily average assets under management in the portfolio
Custody Fee and Fund accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	<b>At Actuals</b>
Hurdle Rate	10%
Performance Fee	15% Performance Fee on profits above hurdle of 10% (without catch-up)
Brokerage	Brokerage shall be charged at actuals.



Account Opening & Closing	At Actuals
Account Maintenance	At Actuals
SEBI Fees	At Actuals
Professional Fees for NRI Clients	Nil
Exit Load	Withdrawal before completion of 1 year, an exit load@ 3% will be charged. Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged. Withdrawal after completion of 2 years no exit load will be charged. Exit load period will continue from date of respective Capital Inflow.

**Variable Option-B**

Upfront Fees (including GST)	NIL
Management Fee	NIL
Custody Fee and Fund accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	At Actuals
Hurdle Rate	Nil
Performance Fee	20% on all profits
Brokerage	Brokerage shall be charged at actuals.
Account Opening & Closing	At Actuals
Account Maintenance	At Actuals
SEBI Fees	At Actuals
Professional Fees for NRI Clients	Nil
Exit Load	Withdrawal before completion of 1 year, an exit load@ 3% will be charged. Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged. Withdrawal after completion of 2 years no exit load will be charged. Exit load period will continue from date of respective Capital Inflow.

**b) Steptrade Rising Star Fund**

**Fixed Fee Option**

Upfront Fees (including GST)	NIL
Management Fee	Fixed Management Fee: 2.5% per annum (p.a.) of the daily average assets under management in the portfolio
Custody Fee & Fund Accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	<b>At Actuals</b>
Hurdle Rate	Nil
Performance Fee	Nil
Brokerage	Brokerage shall be charged at actuals.
Account Opening & Closing	At Actuals
Account Maintenance	At Actuals
Professional Fees for NRI Clients	Nil
Exit Load	Withdrawal before completion of 1 year, an exit load@ 3% will be charged. Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged. Withdrawal after completion of 2 years no exit load will be charged. Exit load period will continue from date of respective Capital Inflow.

**Variable Fee Option- A**

Upfront Fees (including GST)	NIL
Management Fee	Fixed Management Fee: 1.5% per annum (p.a.) of the daily average assets under management in the portfolio
Custody Fee & Fund Accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	<b>At Actuals</b>
Hurdle Rate	10%
Performance Fee	15% Performance Fee on profits above hurdle of 10% (without catch-up)
Brokerage	Brokerage shall be charged at actuals.

Account Opening & Closing	At Actuals
Account Maintenance	At Actuals
Professional Fees for NRI Clients	Nil
Exit Load	<p>Withdrawal before completion of 1 year, an exit load@ 3% will be charged.</p> <p>Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged.</p> <p>Withdrawal after completion of 2 years no exit load will be charged.</p> <p>Exit load period will continue from date of respective Capital Inflow.</p>

**Variable Option-B**

Upfront Fees (including GST)	NIL
Management Fee	NIL
Custody Fee and Fund accounting Fees	4 bps per annum (p.a.) of the daily average assets under management in the portfolio
Transaction Charges	At Actuals
Hurdle Rate	Nil
Performance Fee	20% on actual profits
Brokerage	Brokerage shall be charged at actuals.
Account Opening & Closing	At Actuals
Account Maintenance	At Actuals
SEBI Fees	At Actuals
Professional Fees for NRI Clients	Nil
Exit Load	<p>Withdrawal before completion of 1 year, an exit load@ 3% will be charged.</p> <p>Withdrawal after completion of 1 year but before completion of 2 years, an exit load@ 1% will be charged.</p> <p>Withdrawal after completion of 2 years no exit load will be charged.</p>

	Exit load period will continue from date of respective Capital Inflow.
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## 12. Taxation

### 12.1 General

In view of the individual nature of tax consequences, each client is advised to consult his or her tax advisor with respect to the specific tax consequences arising to him/her from participation in any of the investments. The tax implications given below are based on the existing provisions of the Income tax Act, 1961 ('the IT Act') and rules made thereunder. The Portfolio Manager accepts no responsibility for any loss suffered by any Investor as a result of current taxation law and practice or any changes thereto.

### 12.2 Tax Rates

The rates specified in this section pertain to the financial year ('FY') 2023-24 as per the amendments made by the Finance Act, 2023 ('FA 2023'). The rates are exclusive of Surcharge and Health and Education cess as leviable.

#### A. Dividend

The Finance Act, 2020 has reintroduced the classical system of taxing dividends in the hands of the shareholders. Where the dividend income has been offered to tax on net basis, expenses may be claimed against dividend income with specific limits specified for interest expense.

Dividend income shall be taxable in the hands of the unitholder as under:

Particulars	Tax rate <sup>1</sup>
Non-resident shareholders (on a gross basis i.e. without allowing any deduction for expenses)	20%
Resident shareholders (other than companies and firm/ LLP)	As per applicable slab rates
Firms/ LLPs	30%
Indian companies	22%/ 25%/ 30% <sup>2</sup>

The above rates will be increased by applicable surcharge and health and education cess. If the total turnover of the resident corporate investor does not exceed INR 4000 million during financial year 2019-20, a concessional rate of 25% (plus applicable surcharge and health and education cess) shall apply.

Further, as per Section 115BAA - Corporate tax rate for domestic companies is reduced to 22% (excluding surcharge and health and education cess) subject to condition that they will not avail any incentives or exemptions. Further, no Minimum Alternate Tax (MAT) applicable on such companies.

#### B. Interest

Classification of interest income is a matter of dispute with contradicting judicial precedents. Whether interest income would be assessable as business income or income from other sources would depend upon the nexus it has with the assessee's activities.

Interest income shall be taxable in the hands of the unitholder as follows:

Particulars	Tax rate
Non-resident shareholders other than foreign companies	Upto 30%
Resident shareholders (other than companies and firm/ LLP)	As per applicable slab rates
Firms/ LLPs	30%
Indian companies	22%/ 25%/ 30%
Foreign Companies	40%

**C. Capital Gains on sale of securities**

Type of instrument	Period of holding immediately preceding the date of transfer	
Listed securities	More than 12 months	Long-term Capital Asset
	12 months or less	Short-term Capital Asset
Unlisted shares	More than 24 months	Long-term Capital Asset
	24 months or less	Short-term Capital Asset
Other securities	More than 36 months	Long-term Capital Asset
	36 months or less	Short-term Capital Asset

**Tax Rates in case of Residents under domestic laws<sup>4</sup>**

Nature of Income	Tax rate for beneficiaries who are resident firms, domestic companies	Tax rate for any other resident beneficiaries
Short-term capital gains on transfer of (i) listed equity shares on a recognized stock exchange, (ii) to be listed equity shares sold through offer for sale and on which STT has been paid	20% (without indexation)	20% (without indexation)
Short-term capital gains (other than on listed shares)	22/25/30 (without indexation) for domestic companies / 30% (without indexation) for firms	As per slab rates- highest rate being 30% (without indexation)
Long-term capital gains exceeding INR 1.25 lakhs on transfer of (i) listed equity shares on a recognized stock exchange, (ii) to be listed equity shares sold through offer for sale or and on which STT has been paid <sup>5</sup>	12.5% (without indexation)	12.5% (without indexation)
Long-term capital gains on transfer of listed bonds or listed debentures <sup>6</sup>	12.5% (without indexation)	12.5% (without indexation)

Long-term capital gains on transfer of unlisted bonds, units of mutual fund (other than equity-oriented mutual fund) or unlisted debentures	22/25/30 (without indexation) for domestic companies / 30% (without indexation) for firms	As per slab rates- highest rate being 30 (without indexation)
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\*The above rates will be increased by applicable surcharge and health and education cess.

The Finance Act, 2024, has introduced section 112A of the ITA to provide for taxation of long-term capital gains exceeding Rs. 1,25,000 (computed without considering indexation benefit and foreign exchange fluctuation benefit) arising on listed equity shares, or to be listed equity share at 12.5% (exclusive of surcharge and health and education cess). Further, STT should be paid at the time of acquisition (except in some acquisitions, notification has been issued in this regard on 1st October 2018) and sale of the securities.

**Tax Rate in case of Non-residents under domestic laws<sup>7</sup>**

Nature of Income	Tax rate for beneficiaries who are foreign companies	Tax rate for any other foreign beneficiaries other than companies
Short-term capital gains on transfer of (i) equity shares through recognized stock exchange, (ii) to be listed	20 (without indexation)	20 (without indexation)

<sup>7</sup> The above rates will be increased by applicable surcharge and health and education cess.

equity shares sold through offer for sale or, and on which STT has been paid		
Other short-term capital gains	30/40 (without indexation)	30 (without indexation)
Long-term capital gains exceeding INR 1.25 lakhs on transfer of (i) listed equity shares on a recognized stock exchange, (ii) to be listed equity shares sold through offer for sale or and on which STT has been paid	12.5	12.5

Long-term capital gains on transfer of listed bonds / listed debentures or other listed securities (other than units of mutual fund) on which STT has not been paid	12.5 (without indexation)	12.5 (without indexation)
Long-term capital gains on transfer of unlisted securities	12.5 (without indexation and foreign currency fluctuation benefit)	12.5 (without indexation and foreign currency fluctuation benefit)
Long-term capital gains on transfer of units of mutual fund (listed or unlisted) other than equity-oriented Fund	12.5 (with indexation)	12.5 (with indexation)

**D. Surcharge and health and education cess**

The above rates of income-tax shall be increased by the following surcharge on income-tax and education cess on income-tax and surcharge:

For the Financial Year 2024-25	Surcharge on income-tax
Resident companies with income exceeding: - INR 10 million but less than INR 100 million - INR 100 million	7% 12%
Resident companies opting for taxation under section 115BAA and section 115BAB	10%
Non-resident companies with income exceeding: - INR 10 million but less than INR 100 million - INR 100 million	2% 5%
Firm/ LLP with total income exceeding INR 10 million	12%
Resident and non-resident individuals/Association of Persons (AOP), Body of Individuals (BOI) and Artificial Juridical Persons (AJP) with total income (including dividend income and income under section 111A and 112A of the Act) exceeding INR 5 million but less than INR 10 million	10%



Resident and non-resident Individuals/AOP/BOI/AJP with total income (including dividend income and income under section 111A and 112A of the Act) exceeding INR 10 million but less than INR 20 million	15%
Resident and non-resident Individuals with total income (excluding dividend income and income under section 111A and 112A of the Act) exceeding INR 20 million but less than INR 50 million	25%
Resident and non-resident Individuals with total income (excluding dividend income and income under section 111A and 112A of the Act) exceeding INR 50 million	37%
On buy-back tax	12%

In addition to the surcharge and health and education cess is chargeable at 4% on income-tax and surcharge.

**E. Gains are characterized as 'business income'**

If the gains are characterized as business income, then the same is taxable on net income basis at the rate of 30% for resident investors. The Finance Act has reduced the tax rate to 25% in case of domestic companies having a total turnover or gross receipts not exceeding INR 400 crores in the Financial Year 2019-20. Kindly note, we have assumed highest rate for resident individual investors. Also, per the Taxations Laws (Amendment) Act, 2019, domestic companies have the option to pay tax on total income at the rate of 15% or 22% subject to fulfillment of certain conditions. If the gains are characterized as business income, then the same are taxable on net income basis at 40% for foreign company if it has a business connection/ permanent establishment in India, and such income is attributable to the business connection/ permanent establishment of the non-resident in India. Further, for non- resident investors (other than a foreign company) a tax rate of 30% is levied.

**F. Premium on redemption:**

There are no specific provisions contained in the ITA, with regard to the characterization of the premium received on redemption of debentures. Redemption premium earned on account of redemption of Non-Convertible Debentures/ Optionally Convertible Debentures, may be classified as capital gains or interest. The characterization of premium on redemption of debentures as interest or a capital receipt has to be decided based on factors surrounding the relevant case and within the framework of the following features:

- The term of the loan,
- The rate of interest expressly stipulated for (whether at arm's length, whether contains premium over risk free rate of return, etc.),
- The nature of the risk undertaken:
- Interest rate risk (e.g. Changes in prevailing market interest rates)
- Capital risk (e.g. Risk of loss of capital)
- Industry risk (real estate being quite volatile sector)
- Limited Exit Opportunities (e.g. Redemption option at the end of the 37th month and limitations with respect to purchaser in the open market)

- Country risk (e.g. economic risks - slowdown in economic growth or macro-economic imbalances, political instability and related risks, laws and tax related risks - retrospective amendments)

#### **G. Currency risk adverse change in exchange rate**

In order to characterise the redemption premium as capital gains, one needs to demonstrate and substantiate (with requisite documentation) that any premium paid is on account of above referred risks. Preferable, one should be able to provide broad bifurcation of premium against each category of risk. Where redemption premium is classified as capital gains, the same is taxable at the rate specified against capital gains. If redemption premium is classified as interest, it is taxable at the rate specified against interest.

#### **Proceeds on buy-back of shares by a domestic company**

On the distribution of income by way of buy-back of shares of an Indian portfolio entity (not being listed on a recognised stock exchange), if the buy-back is in accordance with the provisions of provisions of section 77A of the Companies Act, 1956/ section 68 of the Companies Act, 2013, the Indian portfolio entity will be liable to pay tax at the rate of 20% (plus 12% surcharge and 4% cess). Further, the Finance Act, 2016 has provided buy back to mean purchase by a company of its own shares in accordance with the provisions of any law for the time being in force. The tax will be payable on the difference between consideration paid by the company for purchase of its own shares and the amount that was received by the company for issue of such shares, to be determined in the manner prescribed. For the same, buy-back rules have been notified for providing the manner of determination of the 'amount received by the company' in various circumstances including shares issued under tax neutral reorganisation. Income arising on account of such buy-back of shares would be exempt from tax in the hands of the Fund.

Effective from October 1, 2024, consideration received on buy-back will be taxed as dividends in the hands of the shareholders at applicable rates, without any deduction of cost of acquisition / any other deduction. The cost of acquisition will generate a capital loss, which can be carried forward and set off against future capital gains.

### **12.3 Other tax considerations**

#### **A. Advance tax instalment obligations**

It will be the responsibility of the investors to meet the advance tax obligation instalments payable on the due dates prescribed under the ITA.

#### **B. Tax deduction at source**

##### ***Section 206AA of the ITA***

The income tax provisions (section 206AA of the ITA) provide that where a recipient of income (who is subject to withholding provisions) does not furnish its Permanent Account Number ('PAN'), then tax is required to be deducted by the payer at the higher of the following i.e., (i) rates specified in the relevant provisions of the ITA; (ii) rates in force; or (iii) at 20%.

In the case of non-residents not having a PAN, this provision requiring tax deduction at a higher rate shall not apply if they furnish certain prescribed information / documents. The CBDT had issued a notification granting certain relaxations from deduction of tax at a higher rate in the case of non-resident investors or a foreign company. The provisions of section 206AA of the ITA does not apply in respect of payments to be made which are in the nature of interest, royalty, fees for technical services and payments on transfer of any capital asset, provided the deductee furnishes

certain details and specified documents to the deductor.

### **Section 206AB of the ITA**

The Finance Act, 2021 has introduced a new provision - section 206AB in the ITA for deducting tax at higher rates on payments made to non-filers of income-tax returns. Section 206AB of the ITA applies where any sum or income or amount is paid, or payable or credited, by a person to a specified person and tax is required to be deducted at source as per provisions of the ITA (except under sections 192, 192A, 194B, 194BB, 194LBC or 194N of the ITA).

Specified person shall not include a non-resident who does not have a permanent establishment in India.

In case the aforesaid section is applicable, tax shall be deducted at higher of the followings rates:

- twice the rate specified in the relevant provision of the ITA; or
- twice the rate or rates in force; or
- the rate of five per cent.

If provisions of section 206AA and section 206AB of the ITA are applicable to a specified person, then, tax shall be deducted at higher of the two rates provided under the respective sections of the IT Act. Withholding tax on purchase of goods The Finance Act, 2021 has introduced a new provision - section 194Q in the ITA. The section provides that any person (i.e. buyer) who is responsible for paying any sum to any resident (i.e. seller) for the purchase of any goods (likely to include shares and securities) of the value or aggregate of such value exceeding INR 50 lakhs in any previous year, shall deduct an amount equal to 0.1% of such sum exceeding INR 50 lakhs. The buyer shall be required deduct such tax at the time of credit of such sum to the account of the seller or at the time of payment thereof by any mode, whichever is earlier. Further, the term 'buyer' has been defined to mean a person whose total sales, gross receipts or turnover from the business carried on by him exceeds INR 10 crores during the Financial Year immediately preceding the Financial Year in which the purchase of goods is carried out. The section further provides that if any sum is credited to any account, whether called "suspense account" or by any other name, in the books of the buyer liable to pay such income, such credit of income shall be deemed to be the credit of such income to the account of the payee (i.e. seller) and the provisions of this section shall apply accordingly.

However, the provisions of section 194Q shall not apply to transactions on which:

- a. tax is deductible under any of the provision of the ITA; and
- b. tax is collectible under the provisions of section 206C of the ITA other than transaction to which section 206C(1H) of the ITA applies.

### **C. Collection of tax at source**

Section 206C(1H) of the ITA mandates a seller to collect tax at source at the rate of 0.1% of the consideration value of the goods (likely to include shares and securities) sold exceeding value of INR 50 lakhs. The seller has been defined to mean a person whose total sales, gross receipts or turnover from the business carried on by him exceeds INR 10 crores during the specific earlier year. If the buyer does not provide PAN or Aadhaar number to the seller, then the tax rate would be 1% (section 206CC). In a situation, where the buyer is liable to undertake withholding obligations and has undertaken the said obligation, the seller will not be liable to collect tax at source.

Having said the above, the CBDT vide its Circular dated 29 September 2020, stated that the provisions of 206C(1H) shall not apply to transactions in securities and commodities which are traded through recognized stock exchanges.

The Finance Act, 2021, has proposed a new section (i.e. section 206CCA) which is to be effective from 1 July 2021. Vide this section, tax will be required to be collected at the higher of the i.e., (i) rates specified in the relevant provisions of the ITA; or (ii) at 5% (five per cent) by a person at the time of receipt of any sum from a specified person. In this context, the term 'specified person' means a person who has not filed the tax returns for the specific defined past two years and the tax withheld and tax collected at source is INR 50,000 or more for the said two years. Further, the specified person to not include a non-resident who does not have a permanent establishment in India.

If both the above-mentioned provisions are applicable (i.e. section 206CC and 206CCA), it has been proposed that the tax will be collected at the higher of the two rates derived in both the sections.

Applicability of these provisions in the case of cross-border or offshore transactions to be evaluated on a case to case basis.

The applicability of these provisions w.r.t. shares and securities are required to be tested.

#### **D. Foreign Portfolio Investors**

Per section 2(14) of the ITA, any investment in securities made by FPIs in accordance with the regulations made under the Securities and Exchange Board of India is treated as a capital asset. Consequently, any income arising from transfer of securities by FPIs are to be treated as capital gains. Under section 115AD of the ITA, long-term capital gains arising from transfer of securities are taxable at the rates mentioned in paragraph 3.3 above.

Under section 115AD of the ITA, interest and dividend income earned by FPIs are taxable at 20%. However, interest referred to in section 194LD of the ITA is taxable at 5% subject to fulfilment of conditions.

Per section 196D of the ITA, no deduction of tax is made from any income by way of capital gains arising from the transfer of securities referred to in section 115AD which is payable to FPI. However, tax shall be deducted under section 196D of the ITA with respect to interest income (other than referred to in section 194LD of the ITA) and dividend income at the rate of 20%.

These tax rates are subject to the rates specified in the applicable tax treaties and subject to fulfilment of conditions specified therein and under the ITA for availing such benefits.

#### **E. Tax Treaty Benefits for Non-Resident investors**

Per Section 90(2) of the ITA, the provisions of the ITA, are applicable to the extent they are more beneficial than the provisions of the Tax Treaty between India and the country of residence of the non-resident investor (subject to General Anti Avoidance Rules ('GAAR') provisions discussed below and to the extent of availability of Tax Treaty benefits to the non-resident investors).

Per the Finance Act 2020, section 90(1) of the ITA is amended to provide that the Central Government may enter into Tax Treaty for granting relief in respect of income tax, without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty shopping arrangements aimed at obtaining reliefs provided in the said agreement for the indirect benefit of residents of any other country or territory).

Having said the above, it may be noted that no assurance can be provided that the Tax Treaty benefits will be available to the non-resident investors or the terms of the Tax Treaty will not be subject to amendment or reinterpretation in the future. This chapter does not discuss the tax implications applicable to the non-residents under a beneficial Tax Treaty, which would need to be analysed separately based on the specific facts.

The taxability of such income of the non-resident investors, in the absence of Tax Treaty benefits or from a country with which India has no Tax Treaty, is in accordance with the provisions of the ITA.

**F. Tax Residency Certificate ("TRC")**

In order to claim Tax Treaty benefits, the non-resident investors have to obtain the TRC as issued by the relevant authorities of its home jurisdiction. Further, the non-resident investors are required to furnish such other information or document as may be prescribed. In this connection, the CBDT vide its notification dated 1 August 2013 had prescribed certain information in Form No. 10F to be produced along with the TRC, if the same does not form part of the TRC. The tax authorities may grant Tax Treaty benefit (after verifying the TRC) based on the facts of each case.

**G. Non-resident investors (including FPI)**

A non-resident investor is subject to taxation in India only if;

- it is regarded a tax resident of India; or
- being a non-resident in India, it derives (a) Indian-sourced income; or (b) if any income is received/ deemed to be received in India; or (c) if any income has accrued / deemed to have accrued in India in terms of the provisions of the ITA.

Per Section 6 of the ITA, a foreign company is treated as a tax resident in India if its place of effective management ('POEM') is in India in that year. POEM has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity are, in substance made. In case, the foreign company has a POEM in India, it qualifies as a resident of India for tax purposes and consequently, its worldwide income is taxable in India. In this connection, the CBDT issued a notification dated 22 June 2018, prescribing special provisions regarding taxation of foreign companies which are regarded as residents in India on account of its POEM being in India. Further, the foreign company might also not be entitled to claim the benefits of a Tax Treaty between India and the country of residence of the foreign company.

The CBDT had vide its Circular dated 24 January 2017, issued guiding principles for determination of POEM of a Company ('POEM Guidelines'). The POEM guidelines lay down emphasis on POEM concept being 'substance over form' and further provides that place where the management decisions are taken would be more important than the place where the decisions are implemented for determining POEM.

The CBDT had vide circular dated 23 February 2017, clarified that provisions of Sec 6(3)(ii) relating to POEM do not apply to companies having turnover or gross receipts less than or equal to INR 50 crores during the Financial Year.

Per section 90(2) of the ITA, the provisions of the ITA apply to the extent they are more beneficial than the provisions of the Tax Treaty between India and the country of residence of the non-resident investor (subject to GAAR provisions discussed below).

Per the Finance Act 2020, section 90(1) of the ITA is amended to provide that the Central Government may enter into Tax Treaty for granting relief in respect of income tax, without

creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty shopping arrangements aimed at obtaining reliefs provided in the said agreement for the indirect benefit of residents of any other country or territory).

However, no assurance can be provided that the Tax Treaty benefits will be available to the non-resident investor or the terms of the Tax Treaty will not be subject to amendment or reinterpretation in the future. The taxability of such income of the non-resident investor, in the absence of Tax Treaty benefits or where the non-resident investor is from a country with which India has no Tax Treaty, would be as per the provisions of the ITA.

#### **H. STT**

STT is applicable on various transactions as follows:

- a. 0.10% on the purchase of equity shares in a company and units of business trust on a recognized stock exchange in India where the contract for purchase is settled by the actual delivery or transfer of shares;
- b. 0.10% on the sale of equity shares in a company or sale of units of a business trust on a recognized stock exchange in India where the contract for sale is settled by the actual delivery or transfer of shares;
- c. 0.001% on the sale of units of equity oriented funds on a recognized stock exchange in India where the contract for sale is settled by the actual delivery or transfer of units
- d. 0.025% on the sale of equity shares in a company or units of equity oriented funds or units of a business trust on a recognized stock exchange in India where the contract for sale is settled otherwise than by the actual delivery or transfer of shares or unit;
- e. 0.01% on the sale of futures in securities;
- f. 0.05% on the sale of options in securities;
- g. 0.125% of the difference between the strike price and settlement price of the option, where the options are exercised;
- h. 0.001% on the sale of units of equity oriented fund to the Mutual Fund.
- i. 0.2% on sale of unlisted equity shares under an offer for sale

#### **I. Transfer of unquoted shares at less than fair market value**

Per Section 50CA of ITA, if there is a transfer of unquoted shares of a company at a value lesser than the fair market value, then the fair market value is deemed to be the full value of sale consideration for computing the capital gains for such unquoted shares. The CBDT has notified rules for computation of FMV for the purpose of section 50CA of the ITA.

Per the Finance (No. 2) Act, 2019, the provision of section 50CA do not apply to any consideration received/ accruing on transfer by certain class of persons and subject to fulfillment of conditions, as may be prescribed.

#### **J. Deemed income on investment in securities**

Section 56(2)(x) of the ITA provides that if any assessee receives any property (including securities) without consideration or for inadequate consideration in excess of INR 50,000 as compared to the fair market value, fair market value in excess of such consideration is taxable in the hands of the recipient as 'Income from Other Sources'. The tax rates are subject to availability of benefits under the Tax Treaty, if any in case of non-resident assessee.

The CBDT has issued rules with revised mechanism for computation of FMV for the purpose of

section 56(2)(x) of the ITA.

Per the Finance (No.2) Act, 2019, the provision of section 56(2)(x) of the ITA do not apply to any sum of money or any property received by such class of persons and subject to fulfillment of conditions as may be prescribed.

Such deemed income is chargeable to tax (i) at the rate of 30% in case of resident investors (assuming highest slab rate for resident individual) (ii) at the rate of 40% in case of foreign companies and (iii) at the rate of 30% in case of non-resident (assuming highest slab rate for non-resident individual).

In the case of domestic companies having total turnover or gross receipts not exceeding INR 400 crores in the Financial Year 2019-20, the tax rate is 25%. Per the Taxation Laws (Amendment) Act, 2019, domestic companies have the option to pay tax on total income at the rate of 15% or 22% depending on fulfillment of certain conditions and their nature of business.

The Finance Act 2020 has inserted a new section 115BAC in the ITA. Per the said section, Individuals and HUF have an option to pay tax on their total income at the reduced tax rates. The income would, however, have to be computed without claiming prescribed deductions or exemptions.

#### **K. GAAR**

The Finance Act, 2012 had introduced General Anti-Avoidance Rules ('GAAR') into ITA, which, subsequent to the amendments introduced by the Finance Act, 2015, has come into effect from April 1, 2017. Further, it has been announced that GAAR would be applicable only to investments made on or after April 1, 2017.

As per the provisions of ITA, Indian tax authorities have been granted wide powers to tax 'impermissible avoidance arrangements' including the power to disregard entities in a structure, reallocate income and expenditure between parties to the arrangement, alter the tax residence of such entities and the legal situs of assets involved, treat debt as equity and vice versa. The GAAR provisions are potentially applicable to any transaction or any part thereof.

The term 'impermissible avoidance arrangement' has been defined to mean an arrangement where the main purpose is to obtain a tax benefit, and it:

1. creates rights, or obligations, which are not ordinarily created between persons dealing at arm's length;
2. results, directly or indirectly, in the misuse, or abuse, of the provisions of ITA;
3. lacks commercial substance or is deemed to lack commercial substance, in whole or in part; or
4. is entered into, or carried out, by means, or in a manner, which are not ordinarily employed for bona fide purposes.

Further, an arrangement shall be presumed, unless it is proved to the contrary by the taxpayer, to have been entered into, or carried out, for the main purpose of obtaining a tax benefit, if the main purpose of a step in, or a part of, the arrangement is to obtain a tax benefit, notwithstanding the fact that the main purpose of the whole arrangement is not to obtain a tax benefit. The arrangement shall be deemed to lack commercial substance (amongst other factors) if:

1. the substance or effect of the arrangement as a whole, is inconsistent with, or differs significantly from, the form of its individual steps or a part; or
2. it involves or includes:
  - a) round trip financing;

- b) an accommodating party;
  - c) elements that have effect of offsetting or cancelling each other; or
  - d) a transaction which is conducted through one or more persons and disguises the value, location, source, ownership or control of funds which is the subject matter of such transaction; or
3. it involves the location of an asset or of a transaction or of the place of residence of any party which is without any substantial commercial purpose other than obtaining a tax benefit for a party; or
  4. it does not have a significant effect upon the business risks or net cash flows of any party to the arrangement apart from any effect attributable to the tax benefit that would be obtained.

In case the GAAR is applied to any transaction pertaining to the Fund, it could have an adverse impact on the taxability of the Fund and the returns to the Contributors/ Investors.

#### **L. FATCA Guidelines**

According to the Inter-Governmental Agreement read with the Foreign Account Tax Compliance Act ('FATCA') provisions and the Common Reporting Standards ('CRS'), foreign financial institutions in India are required to report tax information about US account holders and other account holders to the Indian Government. The Indian Government has enacted rules relating to FATCA and CRS reporting in India. A statement is required to be provided online in Form 61B for every calendar year by 31 May. The Reporting Financial Institution is expected to maintain and report the following information with respect to each reportable account:

- a. the name, address, taxpayer identification number [(‘TIN’) (assigned in the country of residence)] and date and place of birth [‘DOB’ and ‘POB’ (in the case of an individual)];
- b. where an entity has one or more controlling persons that are reportable persons:
  - i. the name and address of the entity, TIN assigned to the entity by the country of its residence; and
  - ii. the name, address, DOB, POB of each such controlling person and TIN assigned to such controlling person by the country of his residence;
- c. account number (or functional equivalent in the absence of an account number);



- d. account balance or value (including, in the case of a cash value insurance contract or annuity contract, the cash value or surrender value) at the end of the relevant calendar year; and
- e. the total gross amount paid or credited to the account holder with respect to the account during the relevant calendar year.

Further, it also provides for specific guidelines for conducting due diligence of reportable accounts, viz. US reportable accounts and Other reportable accounts (i.e. under CRS).

**M. Multilateral Convention to implement Tax Treaty related measures to prevent Base Erosion and Profit Shifting**

The Organisation of Economic Co-operation and Development ('OECD') released the Multilateral Convention to implement Tax Treaty related measures to prevent Base Erosion and Profit Shifting.

MLI is an agreement negotiated under Action 15 of the OECD/G20 BEPS Project. As opposed to bilateral Double Taxation Avoidance Agreements, the MLI is intended to allow jurisdictions to swiftly amend their tax treaties to include the Tax Treaty-related BEPS recommendations in multiple Tax Treaties. MLI seeks to curb tax planning strategies that have the effect of shifting profits to low or no tax jurisdictions, supplements or modifies existing tax treaties etc.

The final impact of the MLI on a Tax Treaty is dependent on both the contracting states to the Tax Treaty having deposited their respective instruments of ratification with their final MLI Positions with the OECD Depository. The MLI includes both mandatory provisions (i.e. the minimum standards under the BEPS Project) as well as non-mandatory provisions.

India has been an active participant in the entire discussion and its involvement in the BEPS project has been intensive. In a ceremony held in Paris on 7 June 2017, various countries including India, signed the MLIs. The Union Cabinet of India issued a press release dated 12 June 2019, approving the ratification of the MLI to implement Tax Treaty related measures to prevent BEPS. The application of MLI to a Tax Treaty is dependent on ratification as well as positions adopted by both the countries signing a Tax Treaty. On June 25, 2019, India has taken the final step for implementation of MLI by depositing its instrument of ratification with the OECD. The MLI entered into force from 1 October 2019 and operational with effect from the financial year beginning from 1 April 2020 in respect of certain treaties signed by India.

Once MLI evolves and is implemented in future, one should need to analyse its impact at that point in time on the existing tax treaties that India has entered into with other countries. There is limited guidance or jurisprudence at present on how the above will be interpreted by the Revenue authorities and applied.

**N. Minimum Alternate Tax**

The Taxation Laws (Amendment) Act, 2019 has reduced the base rate of MAT from 18.5% to 15% (plus applicable surcharge and cess), which shall be applicable w.e.f. 1 April 2020 i.e. Financial Year 2019-2020. Per the ITA, if the income-tax payable on total income by any company is less than 15% (excluding applicable surcharge and health and education cess) of its book profits, the company is required to pay MAT at 15% of such book profits (excluding applicable surcharge and health and education cess). Further, MAT provisions are not applicable to a foreign company if such company is a resident of a country or a specified territory with which India has a Tax Treaty and the company does not have a permanent establishment in India. Also, MAT provisions are not applicable if the company is a resident of a country or a specified territory with which India does not have a Tax Treaty, but the company is not required to seek registration under any law in

relation to companies.

Further, the MAT credit is allowed to be carried forward up to 15 assessment years. The Finance Act, 2017, has introduced the framework for computation of book profit for IndAS compliant companies in the year of adoption and thereafter.

In case where the domestic company opts to be taxed as per the rates and manner prescribed under Section 115BAA and 115BAB of the ITA, then MAT provisions does not apply to such domestic companies. Also, MAT credit (if any) is not allowed to be carried forward once the company exercises the option to avail reduced tax rates as mentioned above.

**O. Alternate Minimum Tax**

Per the ITA, if the income-tax payable on total income by any person other than a company is less than the alternate minimum tax, the adjusted total income is deemed to be the total income of that person and he is liable to pay income-tax on such total income at the rate of 18.5% (excluding applicable surcharge and health and education cess). Such provisions are not applicable if the adjusted total income does not exceed INR 20 lakhs.

Further, as per Finance Act 2020, the above provisions are not applicable in case of a person who exercises the option referred to in section 115BAC or section 115BAD of the ITA

**P. Bonus stripping**

Where any person buys or acquires any units of a mutual fund or the Unit Trust of India within a period of three months prior to the record date (i.e., the date that may be fixed by a Mutual Fund or the Administrator of the specified undertaking or the specified company, for the purposes of entitlement of the holder of the units to receive additional unit without any consideration) and such person is allotted additional units (without any payment) on the basis of holding of the aforesaid units on the record date, and if such person sells or transfers all or any of the original units within a period of nine months after the record date while continuing to hold all or any of the additional units, then any loss arising to him on account of such purchase and sale of all or any of the units is ignored for the purpose of computing his income chargeable to tax. Further, the loss so ignored is deemed to be the cost of acquisition of such additional units as are held by him on the date of sale or transfer of original units.

**Q. Carry-forward of losses and other provisions (applicable irrespective of the residential status)**

In terms of section 70 read with section 74 of the ITA, short-term capital loss arising during a year can be set-off against short-term as well as long-term capital gains. Balance loss, if any, can be carried forward and set-off against any capital gains arising during the subsequent 8 assessment years. A long-term capital loss arising during a year is allowed to be set-off only against long-term capital gains. Balance loss, if any, can be carried forward and set-off against long-term capital gains arising during the subsequent 8 assessment years.

**R. Proposed change in the India tax regime**

The Government of India intends to replace the current Income-Tax Act, 1961 with a new direct tax code ('DTC') in consonance with the economic needs of the country. The task force is in the process of drafting a direct tax legislation keeping in mind, tax system prevalent in various countries, international best practices, economic needs of the country, among others. At this stage, it is not possible to comment on the final provisions that the new DTC will seek to enact into law and consequently, no views in that regard are being expressed. There can be no assurance as to the implications of the final new DTC for the Portfolio Manager and its investors.

## **S. Goods and Services Tax**

From July 1, 2017 onwards, India has introduced Goods and Service Tax ("GST"). Post introduction of GST, many Indirect tax levies (including service tax) have been subsumed and GST should be applicable on services provided by the Portfolio Manager. GST rate on such services is currently 18%.

## **13. Accounting Policy / Valuations**

The following Accounting policy will be applied for the portfolio investments of clients: (

- a. Investments in listed equity and debt instruments will be valued at the closing market prices on the National Stock Exchange ("NSE"). If the Securities are not traded on the NSE on the valuation day, the closing price of the Security on the Bombay Stock Exchange will be used for valuation of Securities. In case of the securities that are not traded on the valuation date, the last available traded price shall be used for the valuation of securities. Investments in units of mutual funds shall be valued at the repurchase price of the previous day or at the last available repurchase price declared for the relevant Scheme on the date of the report.
- b. Unlisted Equity / Convertible Preference Shares will be valued at Fair Market Value. Such fair value may be determined comparing with peers, or by taking a comparable transaction, or where the issuer has come out with an IPO, at the lower band of the IPO price, or it may be valued by an external agency appointed by the Portfolio Manager, on a periodic basis (once in a year).
- c. Traded Debt instruments would be valued based on prices received from CRISIL / ICRA
- d. Untraded / Illiquid debt instruments, including Real Estate papers classified as held to maturity (HTM) at the time of their acquisition will be valued on XIRR basis (cash flows discounted at the yield agreed with the Issuer). They will be checked for valuation at least twice a year, in terms of regularity of payments and adequacy of collateral. Provisioning norms will be done wherever necessary, based on the facts of each case.
- e. Realised gains/losses will be calculated by applying the First In First Out principle.
- f. Unrealized gains/losses are the differences between the current market value/Net Asset Value and the historical cost of the Securities.
- g. Dividends on shares will be accounted for on ex-dividend date and dividends on units of mutual funds will be accounted for on receipt of information from the mutual fund house and interest, stock lending fees earned etc., will be accounted for on accrual basis. The interest on debt instruments will be accounted for on accrual basis.
- h. 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 up to the date of purchase will not be treated as a cost of purchase but will be debited to Interest
- i. For derivatives and futures and options, unrealized gains and losses is calculated by marking to market the open positions. Specifically, in case of certain option contracts, market quotes are

not easily available through the exchange due to low liquidity. Considering this scenario, Portfolio Manager has appointed an external agency to do the valuation based on the latest reported trades and market accepted methodologies. External agency will share the quotes on daily basis, in case such a quote is not available, previous day quotes will be used by the Portfolio Manager. Maximum validity of such quote will be 30 days.

- j. Similarly, interest received at the time of sale for the period from the last interest due date up to the date of sale will not be treated as an addition to sale value but will be credited to Interest Recoverable Account.
- k. Transactions for purchase or sale of investments will 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 there is enforceable obligation to pay the price or, in the event of a sale, when there is an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.
- l. Bonus shares will 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, rights entitlements will be recognized only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.
- m. The cost of investments acquired or purchased will include brokerage, stamp duty charges and any charge customarily included in the broker's contract note. In respect of privately placed debt instruments any front-end discount offered will be reduced from the cost of the investment.
- n. The Portfolio Manager and the Client can adopt any specific norms or methodology for valuation of investments or accounting provided the same is mutually agreed between them on a case to case basis.
- o. Purchases are accounted for at the cost of acquisition inclusive of brokerage, stamp duty, transaction charges and entry loads in case of units of mutual fund. Sales are accounted based on proceeds net of brokerage, stamp duty, transaction charges and exit loads in case of units of mutual fund. Securities Transaction Tax, Demat charges and Custodian fees on purchase/ sale transaction would be accounted as expense on receipt of bills. Transaction fees on unsettled trades are accounted for as and when debited by the Custodian.
- p. In case of Portfolio received from the Clients in the form of securities, this will be accounted for at previous day's closing price on NSE. Where the Client withdraws Portfolio in the form of securities, the same will be accounted on the date of withdrawal at the previous closing price. In case any of the securities are not listed on NSE or they are not traded on NSE on a particular day, previous day's closing price on BSE will be used for aforesaid accounting purpose.
- q. Investments in the Managed accounts (Alternate investment funds and Venture Capital funds) will be valued at last available Net asset value declared by issuer.

The Investor may contact the customer services official of the Portfolio Manager for the purpose of clarifying or elaborating on any of the above policy issues. The valuation of the securities not mentioned above shall be valued on fair value basis as decided by the Portfolio Manager.

The Portfolio Manager may change the valuation policy for any particular type of security consequent to any regulatory changes or change in the market practice followed for valuation of similar securities.

**14. Direct on-boarding of clients by Portfolio Managers**

The clients can be on-boarded directly, without intermediation of persons engaged in distribution services.

At the time of on-boarding of clients directly, no charges except statutory charges shall be levied.

**15. Investor Services**

- a. All investor queries and complains should be addressed to the compliance officer of the Portfolio Manager, whose contact co-ordinates are provided below:

<b>Name of the person</b>	Ms. Krishna Choksi
<b>Designation</b>	Compliance Officer
<b>Address</b>	726, Iconic Shyamal, Shyamal Cross Road, 132 Ring Road, Satellite, Jodhpur Char Rasta, Ahmedabad, Ahmadabad City, Gujarat, India, 380015
<b>Email ID</b>	ig@steptrade.capital
<b>Phone</b>	6357956903

- b. **Grievance redressal and dispute settlement mechanism**

- The aforesaid personnel of the Portfolio Manager shall attend to and address any query or concern of the Client as soon as practicably possible.
- All Clients' complaints are escalated to the Compliance Department immediately on receipt of complaint.
- The Compliance Department reviews and monitors the status of Clients' complaints and take necessary action for quick resolution of the same.
- If during the review of complaints, it is noticed that the complaint is due to same procedural lapses or due to any other identifiable reasons, then necessary corrective steps shall be taken immediately.
- Complaints shall be generally resolved within 30 days from the date of receipt and any complaint which is pending for more than 30 days is escalated to Senior Management for discussion and resolution.
- SEBI COMPLAINTS REDRESS SYSTEM (SOCRES): Investors may also register/lodge their complaints to SEBI through its online portal on <http://scores.gov.in> or Toll-Free Helpline: 1800 266 7575.

**16. Details of investments in the securities of related parties of the portfolio manager**

In accordance with Regulation 22(4) (da) of the Regulations, the details of the investments made in securities of Associates and Related Parties of Portfolio Managers are provided as follow:

Sr. No.	Investment Approach, if any	Name of the associates/related party	Investment amount (cost of investment) as on last day of the previous calendar quarter (Rs. in Cr.)	Value of investment as on last day of the previous calendar quarter (Rs. in Cr.)	% of total AUM as on the last day of the previous calendar quarter
-	-	-	-	-	-

The Portfolio Manager ensures that in case of any material changes in the information provided in this section, the same is updated in this document and uploaded on the website of the Portfolio Manager within 7 days.

#### **17. Details of the diversification policy of the portfolio manager**

This policy has been laid down to ensure the risk is spread across different asset classes, issuers and time horizon within the framework laid down in the specific investment approach.

The Portfolio Manager follows a rule-based approach to investments. In this approach, Securities are eliminated by analyzing past data and selected based on rules / bottom-up research approach. This results in a well-diversified portfolio with broad-based caps for weightages on individual stocks as well as sector including taking into consideration the risk profiling conducted of the clients.


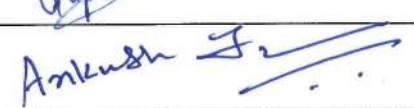
The Portfolio Manager shall periodically review the portfolios to maintain appropriate portfolio mix depending upon investment goals, market conditions, risk tolerance and liquidity requirement to ensure diversification and meet long term goals. However, the Clients need to understand that too much diversification require large capital investment and may also lead to losses. Further, portfolio churning for achieving diversification may not be effective on a long- term basis in achievement of investment goals. Accordingly, diversification shall be undertaken while balancing risk and return to achieve desired results in achieving investment goals.

#### **18. General:**

The Portfolio Manager and the Client can mutually agree to be bound by specific terms through a written two-way agreement ("Discretionary Portfolio Investment Management Agreement, Non-Discretionary Portfolio Investment Management Agreement, Advisory Agreement and Co- investment Portfolio Management Agreement") between themselves.

The PMS Investment Approaches stated in this Disclosure Document are not available to unsolicited NRI/PIO/FPI (Foreign Portfolio Investors) clients. With effect from the date of this Disclosure Document the Principal Officer may, in his/her sole discretion, permit, as an exception, provision of PMS services as stated in this Disclosure Document to an unsolicited NRI client on completion of certain KYC related additional formalities.

#### **For StepTrade Share Services Private Limited**

Sr. No.	Name of Director	Signature
1.	Ms. Kresha Gupta	
2.	Mr. Ankush Kumar Jain	

**FORMC**

Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020

[Regulation 22]

StepTrade Share Services Private Limited  
(Formerly known as Ace Share Services Private Limited)  
726, Iconic Shyamal, Shyamal Cross Road, 132 Ring Road,  
Satellite, Jodhpur Char Rasta, Ahmedabad,  
Ahmadabad City, Gujarat, India, 380015

We confirm that:

1. The Disclosure Document (the document) forwarded to SEBI is in accordance with the SEBI (Portfolio Managers) Regulations, 2020 and the guidelines and directives issued by the Board from time to time;
2. The disclosures made in the document are true, fair and adequate to enable the investors to make a well informed decision regarding entrusting the management of the portfolio to us/ investment in the Portfolio Management;
3. The document has been duly certified by M/s. Mukesh M. Gangar & Co., Chartered Accountants, having its office at F-15, Dadar Manish Market, Senapati Bapat Marg, Dadar (W), Mumbai - 400 028, having firm Registration Number 106621W to the effect that the disclosures made in the document are true, fair and adequate to enable the investors to make a well informed decision.

For StepTrade Share Services Private Limited



Yash Bhanushali  
Principal Officer

Address: 726, Iconic Shyamal, Shyamal Cross Road, 132 Ring Road,  
Satellite, Jodhpur Char Rasta, Ahmedabad,  
Ahmadabad City, Gujarat, India, 380015



Date: 15.01.2025

Place: Ahmedabad

