

The Board of Directors
Morningstar Investment Adviser India Private Limited
14th Floor, Platinum Technopark,
Plot No. 17/18, Sector 30A,
Vashi, Navi Mumbai – 400705

Verification of particulars stated in the portfolio management services disclosure document

We have verified the adequacy of the particulars stated in the portfolio management services disclosure document, as at February 5, 2021 prepared by Morningstar Investment Adviser India Private Limited, for the purpose of filing with the Securities and Exchange Board of India (SEBI), in accordance with the Fifth Schedule of the SEBI (Portfolio Managers) Regulations, 2020 and amendments thereto, as applicable, to enable the investors to make a well informed decision.

Based on our examination of the books of account, records and documents maintained and produced to us and on the basis of information and explanations given to us, we certify that the particulars stated in the disclosure document are true and fair.

For and on behalf of
Morzaria & Associates
Chartered Accountants
Firm Registration No.: 129763W

Vikas Morzaria
Proprietor
Membership No.: 108691
UDIN: 21108691AAAABF4636

Place: Mumbai
Date: February 5, 2021

FORM C

**Securities & Exchange Board of India (Portfolio Managers) Regulations, 2020
(Regulation 22)**

Name of the Portfolio Manager : Morningstar Investment Adviser India Private Limited

Address : 9th Floor, Platinum Technopark, Plot No. 17/18,
Sector 30A, Vashi, Navi Mumbai – 400 705,
Maharashtra, India

Phone : +91 – 22 – 61217100

Fax : +91 – 22 – 61217200

Email : Pmshelpdesk@morningstar.com

Website : mp.morningstar.com

We confirm that:

- (i) the Disclosure Document forwarded to the Board is in accordance with the SEBI (Portfolio Managers) Regulations, 2020 and the guidelines and directives issued by the Board from time to time;
- (ii) 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;
- (iii) the Disclosure Document has been duly certified by an independent chartered accountant as on February 05, 2021. The details of the chartered accountant are as follows:

Name of the Firm : Morzaria & Associates

Registration Number : 129763W

Proprietor : Vikas Morzaria

Membership No. : 108691

Address : 102, RBI Sahayog, Eksar Road, Borivali (West),
Mumbai 400 092

Telephone No. : +91-22-28937983

A copy of the chartered accountant's certificate, certifying that the disclosures made in the Disclosure Document are true, fair and adequate to enable the investors to make a well-informed decision, has been enclosed herein.

For and on behalf of
Morningstar Investment Adviser India Private Limited



Signature of the Principal Officer

Name of the Principal Officer: Mr. Dhaval Kapadia

Address: 14th Floor, Platinum Technopark

Plot No. 17/18, Sector 30A

Vashi, Navi Mumbai – 400705

Maharashtra, India

Date: February 05, 2021

Place: Mumbai

MORNINGSTAR INVESTMENT ADVISER INDIA PRIVATE LIMITED
PORTFOLIO MANAGEMENT SERVICES – DISCLOSURE DOCUMENT

- (i) This Disclosure Document has been filed with the Securities and Exchange Board of India (“SEBI”) along with the certificate in the prescribed format in terms of Regulation 22 of the SEBI (Portfolio Managers) Regulations, 2020.
- (ii) The purpose of this Document is to provide essential information about Morningstar Investment Adviser India Private Limited’s portfolio management services in a manner to assist and enable you as an investor in making an informed decision for engaging Morningstar Investment Adviser India Private Limited as a Portfolio Manager.
- (iii) This document provides necessary information about Morningstar Investment Adviser India Private Limited as a ‘Portfolio Manager’ required by investors before investing. You are advised to read this Disclosure Document and retain this Document for future reference.
- (iv) The details of the Principal Officer are as follows:
- | | |
|-------------------------------|---|
| Name of the principal officer | Mr. Dhaval Kapadia |
| Address | 14th Floor, Platinum Technopark, Plot No. 17/18, Sector 30A, Vashi, Navi Mumbai – 400 705, Maharashtra, India |
| Phone number | +91 – 22 – 61217100 |
| E-mail address | dhaval.kapadia@morningstar.com |
- (v) The Disclosure Document is dated February 05, 2021.

CONTENTS

I. DISCLAIMER	5
II. DEFINITIONS	5
III. DESCRIPTION	7
1. HISTORY, PRESENT BUSINESS AND BACKGROUND OF THE PORTFOLIO MANAGER.....	7
2. PROMOTERS AND DIRECTORS OF THE PORTFOLIO MANAGER AND THEIR BACKGROUND	8
3. KEY MANAGEMENT PERSONNEL OF THE PORTFOLIO MANAGER	9
4. GROUP COMPANIES	10
5. SERVICES BEING OFFERED	10
IV. PENALTIES, PENDING LITIGATION OR PROCEEDINGS, FINDINGS OF INSPECTION OR INVESTIGATIONS FOR WHICH ACTION MAY HAVE BEEN TAKEN OR INITIATED BY ANY REGULATORY AUTHORITY	10
V. SERVICES OFFERED BY THE PORTFOLIO MANAGER	11
A. MORNINGSTAR ACTIVE BALANCED	12
B. MORNINGSTAR ACTIVE GROWTH.....	13
C. MORNINGSTAR ACTIVE AGGRESSIVE	13
D. MORNINGSTAR ACTIVE AGGRESSIVEPLUS	14
E. POLICIES FOR INVESTMENTS IN ASSOCIATES/GROUP COMPANIES OF PORTFOLIO MANAGER.....	15
VI. RISK FACTORS.....	16
VII. DETAILS OF CONFLICTS OF INTEREST RELATED TO SERVICES OFFERED BY GROUP COMPANIES OR ASSOCIATES OF THE PORTFOLIO MANAGER.....	18
VIII. CLIENT REPRESENTATION	18
IX. FINANCIAL PERFORMANCE OF THE PORTFOLIO MANAGER	22
X. PORTFOLIO MANAGEMENT PERFORMANCE OF THE PORTFOLIO MANAGER FOR THE LAST 3 FINANCIAL YEARS:.....	23
XI. AUDIT OBSERVATIONS	24
XII. NATURE OF EXPENSES	24
XIII. TAXATION	27
XIV. ACCOUNTING POLICIES	44
XV. INVESTOR SERVICES.....	45
XVI. GRIEVANCE REDRESSAL AND DISPUTE SETTLEMENT MECHANISM	45

MORNINGSTAR INVESTMENT ADVISER INDIA PRIVATE LIMITED
PORTFOLIO MANAGEMENT SERVICES – DISCLOSURE DOCUMENT

I. DISCLAIMER

This Document has been prepared in accordance with the SEBI (Portfolio Managers) Regulations, 2020 as amended till date and it has been 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.

The distribution of this Document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this Document are required to inform themselves about and to observe any such restrictions.

This Document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person.

II. DEFINITIONS

In this Document, unless the context otherwise requires, the following words and expressions shall have the meaning assigned to them:

- a) **“Act”** means the Securities and Exchange Board of India Act, 1992.
- b) **“SEBI”** means the Securities and Exchange Board of India.
- c) **“Client”** means any person who enters into an agreement with the Portfolio Manager for availing the services of portfolio management as provided by the Portfolio Manager.
- d) **“Depository Account”** means an account of the Client or for the Client with an entity registered as a depository participant under the SEBI (Depositories and Participants) Regulations, 2018.
- e) **“Discretionary Portfolio Management Services”** means the portfolio management services rendered to the Client by the Portfolio Manager on the terms and conditions contained in the agreement, whereunder the Portfolio Manager exercises any degree of discretion in the investment of funds or management of the portfolio of securities of the Client.
- f) **“Document”** means this Disclosure Document.
- g) **“Group Company”** means a company under the same management or control as the Portfolio Manager.

- h) **“Financial Year”** means the year starting from April 1 and ending on March 31 in the following year.
- i) **“Funds”** means the monies managed by the Portfolio Manager on behalf of the Client pursuant to the portfolio management services agreement and includes the monies mentioned in the account opening form, any further monies placed by the Client with the Portfolio Manager for being managed pursuant to the portfolio management services, the proceeds of the sale or other realization of the Portfolio and interest, dividend or other monies arising from the assets therein, so long as the same is managed by the Portfolio Manager.
- j) **“Investment Approach”** or **“Portfolio”** means the type of securities and permissible instruments to be invested in by the Portfolio Manager for Clients, taking into account factors specific to clients and securities. **“Portfolio”**, when used in the specific context of a Client, means the total holdings of securities and Funds belonging to the said Client.
- k) **“Principal Officer”** means an employee of the Portfolio Manager who has been designated as such by the Portfolio Manager and is responsible for (i) the decisions made by the Portfolio Manager for the management or administration of portfolio of securities or funds of the Client, as the case may be; and (ii) all other operations of the Portfolio Manager.
- l) **“Portfolio Manager”** means Morningstar Investment Adviser India Private Limited, a company incorporated under the Companies Act, 2013, and registered with SEBI as a portfolio manager.
- m) **“Regulations”** means the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020, as amended from time to time, including the circulars and notifications issued pursuant thereto.
- n) **“Securities”** means security as defined under the Securities Contracts (Regulation) Act, 1956, as amended from time to time, and includes:
1. shares, stocks, bonds, warrants, convertible and non-convertible debentures, fixed return investment, equity linked instruments, negotiable instruments (to the extent permitted by the Regulation), deposit, units issued by the Unit Trust of India and/or by any mutual funds, foreign currency commitments, hedged swaps and any other securities issued by any company or other body corporate, any trust, any entity, the Central Government, any State Government or any local or statutory authority and all money rights or property that may at any time be offered or accrue (whether by rights, bonus, redemption preference, option or otherwise) and whether in physical or dematerialized form in respect of any of any of the foregoing or evidencing or representing rights or interest therein; government securities, warrants, options, futures, derivatives, convertible debentures, securities debt instruments, fixed return investments, equity linked investments or other marketable securities of alike nature

and or of any incorporated company or other body corporate, negotiable instruments including issuance of bills of exchange, deposits or other money markets instruments, commercial papers, certificates of deposits, units issued by Unit Trust of India and units issued by mutual funds, mortgaged backed or other backed asset securities issued by any institution or any body corporate cumulative convertible preference shares issued by any incorporated company , securities issued by central government or a state government for the purpose of raising public loan and having one of the forms specified in clause 2 of section 2 of the Public Debt Act, 1944, relief bonds saving bonds any other new forms of capital or money market instruments that may be issued in the future by any incorporated company/firm/institution or government to Reserve Bank of India.

2. Any other instruments or investments (including borrowing or lending of securities) as may be permitted by applicable laws from time to time.

Words and expressions used in this Document and not expressly defined shall be interpreted according to their general meaning and usage. The definitions are not exhaustive. They shall also carry the meaning assigned to them in the Regulations and the Act, governing portfolio management services.

III. DESCRIPTION

1. History, Present Business and Background of the Portfolio Manager

Morningstar Investment Adviser India Private Limited ("**Morningstar**") is a private limited company incorporated under the Companies Act, 2013 on October 09, 2013. Morningstar has its registered office situated at 9th Floor, Platinum Technopark, Plot No. 17/18, Sector 30A, Vashi, Navi Mumbai – 400705, Maharashtra, India. The paid-up capital of Morningstar is Rs. 309,358,000/- (represented by 30,935,800 equity shares of Rs. 10/- each). 99.99% of the paid-up equity capital of Morningstar is held by Morningstar Investment Management, LLC.

Present business activity:

- Investment management and advisory services
- Portfolio management services

Morningstar has a valid certificate of registration with SEBI as a portfolio manager under the Regulations (registration number INP000006156). Therefore, Morningstar has been permitted by SEBI to commence portfolio management services and provide management and advisory services to individuals, and non-individual entities, including but not limited to corporates, partnership firms, HUFs, associations of persons, body of individuals, offshore funds, pension funds, provident funds, venture capitals funds etc., and management of insurance funds, financial consultancy and exchange of research on commercial basis.

Morningstar received license to commence portfolio management services with effect from October 17, 2018, and investment advisory services, with effect from March 28, 2014, the latter having been renewed effective June 11, 2019.

2. Promoters and Directors of the Portfolio Manager and their background

Morningstar is promoted by Morningstar Investment Management, LLC ("MIM, LLC"). MIM, LLC is a U.S.A. based firm registered with the U.S. Securities and Exchange Commission as an investment adviser. MIM, LLC was established on September 20, 1999, in Delaware, with its registered office in Chicago, USA, and has expertise in investment / portfolio management, investment advisory services, global capital market expectations, asset allocation modelling, and portfolio construction. In addition to Morningstar, MIM, LLC has other wholly-owned subsidiaries, which are regulated by the securities market regulators in other geographies, such as Morningstar Investment Management Europe Limited, which is regulated by UK's Financial Conduct Authority, and Morningstar Investment Management South Africa (Pty), which is licensed by the Financial Services Board.

The directors of Morningstar are:

- Mr. Donald Scott Schilling
- Mr. Aditya Agarwal
- Mr. Shreyas Shah (Alternate Director to Mr. Donald Scott Schilling)

Mr. Donald Scott Schilling

Mr. Donald Scott Schilling, a Bachelor of Science in General Management (Option Accounting), has been a compliance professional in the asset management industry for 28 years. For 20 years, Mr. Scott Schilling has been the head of Morningstar Inc.'s compliance department. Mr. Scott Schilling, presently the Global Chief Compliance Officer of Morningstar, Inc. Mr. Schilling is also the Chief Compliance Officer of Morningstar Funds Trust, an open-end management investment company registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940 (as amended). Mr. Scott Schilling is also currently serving as a director of 8 (eight) regulated entities –Ibbotson Associates Japan KK (authorized and regulated by Financial Service Agency), Morningstar Investment Management Europe Limited (authorized and regulated by the Financial Conduct Authority), Morningstar Investment Management Asia Limited (authorized and regulated by Hong Kong's Securities and Futures Commission), Morningstar Investment Management Australia Ltd. and Morningstar Australasia Pty Ltd. (which are both authorized and regulated by Australian Securities and Investments Commission), Morningstar Investment Adviser India Private Limited (authorized and regulated by SEBI), Morningstar Investment Consulting France SAS (registered with Autorite Des Marches Financiers), and Morningstar Investment Management South Africa (Pty) Ltd. (which is licensed by the Financial Services Board).

Mr. Aditya Agarwal

Mr. Aditya Agarwal has been with the Morningstar group for almost 12 years and oversees the India operations for the group as Country Manager. Aditya has over 28 years of experience in the Indian financial markets, having worked with leading financial services companies engaged in the business

of merchant banking and distribution of third-party products, including mutual funds. He ventured out on his own in 1999 to become an entrepreneur and co-founded one of the leading fund research companies in India – ICRA Online Ltd., to deliver innovative solutions to the Indian mutual funds industry.

Mr. Aditya Agarwal has been a director on the Board of Morningstar India Private Limited for 12 years, and he has a bachelor's degree in commerce and law.

Mr. Shreyas Shah

Mr. Shreyas Shah is an alternate Director for Mr. Donald Scott Schilling at Morningstar Investment Adviser India Private Limited. He also serves as Director-Finance and as an alternate Director at Morningstar India Private Limited. Shreyas has been with the Morningstar group for more than 8 years and oversees the finance and taxation functions for India operations. Shreyas has an overall industry experience of over 22 years, spread across various industries, including financial services, media, FMCG and manufacturing, being part of the senior management in many of them. Apart from finance, Shreyas has also had oversight over operations, legal, HR, Admin and IT functions in his previous assignments.

Shreyas is a Chartered accountant and has a Bachelor's degree in commerce. He has also completed a one-year certificate course in Senior Management from IIM Calcutta.

3. Key Management Personnel of the Portfolio Manager

The Key Management Personnel of the Portfolio Manager are as under:

Mr. Dhaval Kapadia – Principal Officer

Mr. Dhaval Kapadia is Director – Portfolio Specialist for Morningstar Investment Adviser India Private Limited and is the Principal Officer. He has been with the Morningstar group for more than 6 years and has an overall experience of close to 23 years in the financial services space. He has served in significant positions in the investment management industry, including as the Chief Manager and Head – Financial Planning, Wealth Management and Private Banking, at ICICI Bank, for close to 3 (three) years, and as Deputy Vice President, Investment Advisory Group, Wealth Management and Private Banking at Axis Bank for close to 6 (six) years. He holds a post graduate diploma in business management (with specialization in Finance), a CFA charter and a CFP certification.

Ms. Rashmi Pandit – Compliance Officer

Ms. Rashmi Pandit is the Compliance Officer. She has been with the Morningstar group for over 5 years and has an overall experience of 21 years in the field of law and compliance in the financial services sector. She has served as head of legal and compliance for many organizations in the investment management industry, such as Baroda Pioneer Mutual Fund and DSP BlackRock Mutual Fund. She is a member of the Institute of Company Secretaries of India, has a Bachelor's Degree in General Law and also a Post Graduate Diploma in Securities Law.

4. Group Companies

The top 10 group companies of Morningstar on the basis of turnover are as under*:

1. Morningstar Investment Services LLC
2. Morningstar Investment Management Europe Limited
3. Ibbotson Associates Japan, Inc.
4. Morningstar Investment Management Asia Ltd
5. Morningstar Investment Management South Africa (Pty)
6. Morningstar Investment Adviser India Private Ltd

* Morningstar has only six group companies, as per the relevant definitions.

5. Services being offered

Morningstar provides discretionary portfolio management services and advisory services to the clients.

IV. PENALTIES, PENDING LITIGATION OR PROCEEDINGS, FINDINGS OF INSPECTION OR INVESTIGATIONS FOR WHICH ACTION MAY HAVE BEEN TAKEN OR INITIATED BY ANY REGULATORY AUTHORITY

1. All cases on penalties imposed by the Board or the directions issued by the Board under the Act or Regulations made there under relating to portfolio management services.

None

2. The nature of the penalty/direction

None

3. Penalties/fines imposed for any economic offence and/or violation of any securities laws relating to portfolio management services.

None

4. Any pending material litigation/legal proceedings against the Portfolio Manager/key personnel with separate disclosure regarding pending criminal cases, if any.

None

5. Any deficiency in the systems and operations of the Portfolio Manager observed by the Board or any regulatory agency.

None

6. Any enquiry/adjudication proceedings initiated by SEBI 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

V. SERVICES OFFERED BY THE PORTFOLIO MANAGER

The Portfolio Manager offers the following types of services:

- i. Discretionary
- ii. Advisory

The Portfolio Manager is permitted to invest in the securities listed or traded on a recognized stock exchange, money market instruments, units of mutual funds and other securities, as specified by SEBI from time to time.

Details of the Investment Approaches being offered under Discretionary Portfolio Management Services.

The Investment Approaches include, currently, multi-asset mutual fund strategies, and in future, may extend to direct equity strategies, exchange traded funds ("ETF") and/or bonds. The Portfolio Manager has initially launched multi-asset mutual fund strategies; further strategies would be launched based on market feedback and Morningstar's business plans. The proposed solutions are aligned with Morningstar's mission of empowering investor success by creating great financial products that help investors achieve their financial goals. These products would leverage on the Morningstar group's core competencies in asset allocation, Capital Market Assumptions (or CMA) methodologies, fund research, global research and independent approach. It may be noted that the minimum investment amount in the investment approaches, at a PAN level, is INR 50 lakh (Rupees Fifty Lakh only).

These products will be offered to individuals and non-individuals, whether resident in India or not, in compliance of Applicable Laws, either directly or through Indian Financial Institutions, e.g., banks, wealth management & private banking firms, other distributors of financial / investment products, etc. and independent advisors / distributors of financial products, who meet the SEBI requirements for distributing the products. **Morningstar offers investors the option of direct onboarding.**

The multi asset product strategy consists of multi asset mutual fund Investment Approaches with the objective of delivering superior risk adjusted returns over the targeted investment horizon. These multi-asset diversified mutual fund Investment Approaches may have allocations to asset classes such as domestic equity, international equity, fixed income, cash, gold and other asset classes, through direct plans of Indian mutual fund schemes, as deemed suitable by the portfolio manager. The universe of underlying holdings of Investment Approaches would typically include actively and / or passively managed mutual funds, as deemed suitable by the portfolio manager.

Each multi-asset mutual fund Investment Approach would have varying allocations to any or all of the asset classes outlined above. Allocations to various asset classes would be determined by the portfolio manager and would be typically based on the investment objectives laid down for the respective Investment Approach and Morningstar's research views. The investment objectives for each Investment Approach could include a suitable investment horizon, maximum risk level, etc.

Based on the risk profile of the investor, derived through an appropriate risk tolerance questionnaire, a specific strategy / portfolio would be identified for an investor.

It may be noted that each Investment Approach will be using a Morningstar proprietary index specifically constructed for the Investment Approach, for the purposes of benchmarking the performance of that Investment Approach.

The specific Investment Approaches (and their investment objectives, policies and investment strategies) currently on offer, which will be managed by Mr. Dhaval Kapadia, are as under:

A. Morningstar Active Balanced

1. Investment Objective and Policy

The investment objective is to provide a balance between capital growth and capital preservation over the medium to long term by investing predominantly in equity, debt and gold mutual funds domiciled in India.

2. Suitable Investor Profile

The portfolio is suitable for investors who desire a modest level of capital stability but are willing to accept moderate investment value volatility in return for commensurate potential investment performance.

3. Suitable Investment Horizon

5-7 years

4. Benchmark

Morningstar Active Balanced Composite Benchmark

5. Investment Strategy and indicative asset allocation range

The Investment Approach follows a multi-asset investment strategy by investing in asset classes such as domestic equity, fixed income, cash, international equity and gold; based on Morningstar's valuation-driven asset allocation approach. The universe of Investment Approach holdings includes direct plans of actively managed mutual funds and / or passively managed mutual funds domiciled in India, which are short-listed based on qualitative and quantitative assessment.

The asset allocation of the Investment Approach is expected to change over time based on opportunities arising from changes in market valuations and views of the portfolio manager. The Investment Approach will normally invest at least 30% and up to 60% of its assets in domestic equity Mutual funds. The Investment Approach will also invest in international equity mutual funds domiciled in India, in a range of 0% to 20% of its assets. The Investment Approach will normally invest at least 30% and upto 70% of its assets in domestic fixed income. The Investment Approach will also invest in a range of 0% to 15% in Gold Mutual Funds/Fund of Funds.

B. Morningstar Active Growth

1. Investment Objective and Policy

The investment objective is to provide capital growth and some capital preservation over the medium to long term by investing predominantly in equity, debt and gold mutual funds domiciled in India.

2. Suitable Investor Profile

The portfolio is suitable for investors who are willing to accept higher levels of investment value volatility in return for higher potential investment performance. Some exposure to interest bearing assets is still desired.

3. Suitable Investment Horizon

7-10 years

4. Benchmark

Morningstar Active Growth Composite Benchmark

5. Investment Strategy and indicative asset allocation range

The Investment Approach follows a multi-asset investment strategy by investing in asset classes such as domestic equity, fixed income, cash, international equity and gold, through mutual funds, based on Morningstar's valuation-driven asset allocation approach. The universe of Investment Approach holdings includes direct plans of actively managed mutual funds and / or passively managed mutual funds domiciled in India, which are short-listed based on qualitative and quantitative assessment. The asset allocation of the Investment Approach is expected to change over time based on opportunities arising from changes in market valuations and views of the portfolio manager. The Investment Approach will normally invest at least 40% and may invest up to 70% of its assets in domestic equity Mutual funds. The Investment Approach will also invest in international equity mutual funds domiciled in India, in a range of 0% to 30% of its assets. The Investment Approach will normally invest at least 20% and up to 50% of its assets in domestic fixed income. The Investment Approach will also invest in a range of 0% to 15% in Gold Mutual Funds/Fund of Funds.

C. Morningstar Active Aggressive

1. Investment Objective and Policy

The investment objective is to provide capital growth over the long term by investing predominantly in equity, debt and gold mutual funds domiciled in India.

2. Suitable Investor Profile

The portfolio is suitable for investors who are willing to accept high levels of investment volatility in return for high potential investment performance.

3. Suitable Investment Horizon

10+ years

4. Benchmark

Morningstar Active Aggressive Composite Benchmark

5. Investment Strategy and indicative asset allocation range

The Investment Approach follows a multi-asset investment strategy by investing in asset classes such as domestic equity, fixed income, cash, international equity and gold through mutual funds; based on Morningstar's valuation-driven asset allocation approach. The universe of Investment Approach holdings includes direct plans of actively managed mutual funds and / or passively managed mutual funds domiciled in India, which are short-listed based on qualitative and quantitative assessment. The asset allocation of the Investment Approach is expected to change over time based on opportunities arising from changes in market valuations and views of the portfolio manager. The Investment Approach will normally invest at least 55%, and may invest up to 85% of its assets in domestic equity Mutual funds. The Investment Approach will also invest in international equity mutual funds domiciled in India, in a range of 5% to 35% of its assets. The Investment Approach will normally invest at least 0% and up to 30% of its assets in domestic fixed income. The Portfolio will also invest in a range of 0% to 15% in Gold Mutual Funds/Fund of Funds.

D. Morningstar Active Aggressive Plus

1. Investment Objective and Policy

The investment objective is to provide capital growth over the long term by investing predominantly in domestic equity, debt and gold mutual funds domiciled in India.

2. Suitable Investor Profile

The portfolio is suitable for investors who are willing to accept high levels of investment volatility in return for high potential investment performance. The equity allocation will be limited to domestic equity only. This could potentially result in higher levels of volatility vis-à-vis Morningstar Active Aggressive Investment Approach.

3. Suitable Investment Horizon

10+ years

4. Benchmark

Morningstar Active Aggressive Plus Composite benchmark

5. Investment Strategy and indicative asset allocation range

The Investment Approach follows a multi-asset investment strategy by investing in asset classes such as domestic equity, fixed income, cash and gold, through mutual funds, based on Morningstar's valuation-driven asset allocation approach. The universe of Investment Approach holdings includes direct plans of actively managed mutual funds and / or passively managed mutual funds domiciled in India, which are short-listed based on qualitative and quantitative assessment. The asset allocation of the Investment Approach is expected to change over time based on opportunities arising from changes in market valuations and views of the portfolio manager. The Investment Approach will normally invest at least 60% and may invest up to 100% of its assets in domestic equity Mutual funds. The Investment Approach will normally invest at least 0% and up to 35% of its

assets in domestic fixed income. The Investment Approach will also invest in a range of 0% to 15% in Gold Mutual Funds/Fund of Funds.

E. Morningstar Liquid

This is an Investment Approach that is intended to be used, at the client' behest, for temporary parking of funds for a short term pending its deployment in any of the Investment Approaches described in A. to D. above selected by the Client. In such an event, the funds that are yet to be so deployed will be held in a strategy, called Morningstar Liquid, where, at the discretion of the Portfolio Manager, they may be temporarily held in cash or deployed in overnight funds or in liquid mutual fund schemes or any other such short term avenue for temporary parking of funds.

1. Investment Objective and Policy

The strategy seeks to offer an investment avenue for short term savings by investing in liquid mutual funds, overnight funds and any other such short-term avenue for temporary parking of funds, domiciled in India.

2. Suitable Investor Profile

Since this Investment Approach is intended only for temporary parking of funds for a short term period, pending deployment of the whole or any part of the funds in any of the Investment Approaches described in A. to D. above, as selected by the Client, there is no specific investor profile that is relevant to this Investment Approach.

3. Suitable Investment Horizon

This Investment Approach is intended only for temporary parking of funds for a short term period, pending deployment of the whole or any part of the funds in any of the Investment Approaches described in A. to D. above, as selected by the Client.

4. Benchmark

CCIL Liquidity Weight Tbill TR INR

5. Investment Strategy and indicative asset allocation range

This Investment Approach is intended only for temporary parking of funds for a short term period, pending deployment of the whole or any part of the funds in any of the Investment Approaches described in A. to D. above, as selected by the Client. In such an event, the entire funds that are yet to be so deployed may, at the discretion of the Portfolio Manager, be temporarily held in cash or deployed in overnight funds or in liquid mutual fund schemes or any other such short term avenue for temporary parking of funds.

6. Policies for Investments in Associates/Group Companies of Portfolio Manager

The Investment Approaches will, as a general principle, not invest in securities of associate/group companies of Morningstar. In the event that any of the underlying mutual fund schemes of the Portfolios invest in any security of any associate or group company of Morningstar, such underlying

investments shall be governed by the limits for investment laid down in the relevant regulations, such as the SEBI (Mutual Funds) Regulations, 1996, as amended from time to time.

VI. RISK FACTORS

1. Investment in mutual funds, whether on the basis of fundamental or technical analysis or otherwise, is subject to market risks. The Portfolio Manager does not assure or guarantee that the objectives of any of the Investment Approaches will be achieved and investors are not being offered any guaranteed returns. The investments may not be suitable to all the investors.
2. The Portfolio Manager was registered as an investment adviser from March 27, 2014. The Portfolio Manager has been involved in providing investment advisory solutions to wealth management and private banking firms and independent financial advisors. While the Morningstar group has abundant experience in portfolio management, the Portfolio Manager has an experience/track record of only one year in providing portfolio management services.
3. Past performance of the Portfolio Manager does not indicate or guarantee the future performance of the Portfolio Manager or any Investment Approach in future or any other future Investment Approach of the Portfolio Manager. There is no assurance that the past performances will be repeated in future.
4. The names of the Investment Approaches do not in any manner indicate their prospects or returns. The Client is required to and deemed to have read and understood the risk factors, investment objectives and other relevant features of the various Investment Approaches mentioned herein and has selected an Investment Approach based on his/her/their risk appetite and investment horizon, as agreed upon in the Risk Tolerance Questionnaire..
5. The value of the Investment Approach may be affected by changes in the general market conditions, domestic and/or overseas, as the case may be, and factors and forces affecting the capital markets, in particular, level of interest rates, various market related factors, trading volumes, settlement periods, transfer procedures, currency exchange rates, foreign investments, changes in government policies, taxation, political, economic and other developments, closure of stock exchanges, etc. Delays or other problems in settlement of transactions could result in temporary periods when the assets in the Investment Approach are un-invested and no return is earned thereon. The inability of the Portfolio Manager to make intended Securities purchases, due to settlement problems, could cause the Investment Approach to miss certain investment opportunities.
6. Risk may also arise due to an inherent nature/risk in the stock markets such as, volatility, market scams, circular trading, price rigging, liquidity changes, de-listing of Securities or market closure, relatively small number of scrip's accounting for a large proportion of trading volume among others.
7. In case the Portfolio Manager invests in mutual funds registered with SEBI, specific risk factors of each such underlying investment will be applicable to the portfolio. All risks associated with such underlying investment, including performance of their underlying stocks, derivative instruments, off-shore investments etc., will therefore be applicable to the Investment Approach. Returns from the types of securities in which mutual funds invests

may underperform from various general securities markets or different asset classes. Different types of securities tend to go through cycles of out-performance and under-performance in comparison with general securities markets.

8. Each portfolio will be exposed to various risks depending on the investment objective, investment strategy and the asset allocation. The investment objective, investment strategy and the asset allocation may differ from client to client.
9. As the price/value/interest rates of the securities in which mutual funds invest fluctuates, the value of the portfolio managed by the Portfolio Manager may go up or down depending on various factors and forces affecting the capital markets and money markets.
10. Investments in mutual funds investing in equity and equity related instruments will have all the risks associated with the equity schemes including liquidity risk.
11. Investments in mutual funds investing debt and other fixed income instruments will have all the risks associated with the fixed income scheme including interest risk, reinvestment risk, credit risk, market risk, liquidity risk, etc.
12. Any change in the investment policies or fundamental attributes of the mutual funds, including side-pocketing for debt funds, will affect the performance and/or liquidity of the Client's Portfolio managed by the Portfolio Manager.
13. When the underlying Securities of the mutual fund are industry specific such as technology stocks; such investments may be subject to volatility, high valuations, obsolescence and low liquidity leading to non-diversification or concentration risk. If the sector(s), for any reason, fails to perform, the performance of the mutual fund will be adversely affected.
14. The Client acknowledges and confirms that the purchases and sale of mutual fund units have inherent risks and accordingly, any loss, damage, cost, expenses, direct/ indirect or consequential on account of purchase and sale of such units by the Portfolio Manager with the Funds of the Client shall be that of the Client. The Portfolio Manager shall not in any way, directly or indirectly be responsible or liable for the loss damage, cost, expenses, direct/ indirect or consequential, which arises to the Client for any reason what so ever.
15. In case of investments in mutual fund units, the Client will bear the recurring expenses of the underlying mutual fund schemes also.
16. After accepting funds from the Client, the Portfolio Manager may not immediately get an opportunity to deploy the same, or there may be a delay in deployment. In such a situation, the Clients may suffer opportunity loss. Likewise, units in electronic form may take time to get credited to a Client's portfolio due to reasons beyond the control of the Portfolio Manager. Therefore, it may not be possible for the Portfolio Manager to effect redemptions during such time period.
17. Investment decisions made by the Portfolio Manager may not always be profitable. Investing in the securities market could possibly result in loss of capital.
18. A Client may withdraw the funds/Portfolio only in accordance with the terms agreed upon with the Client. Likewise, a Client may transfer the interests, rights or obligations with regard to the Portfolio only as provided in the portfolio management services agreement and in the Regulations.
19. Changes in applicable law may impact the performance of the Investment Approaches.

20. The employees of the Portfolio Manager may invest in mutual fund schemes either on their own or through the Portfolio Manager and some of their individual investment decisions may be in variance to the investment decision taken by the Portfolio Manager, provided that such trades are pre-approved by the Compliance Officer.

21. **Risk factors specific to the Investment Approaches:**

The above risk factors are applicable to all the Investment Approaches, as all of them invest predominantly in mutual fund schemes domiciled in India. However, each Investment Approach has a different asset allocation, and hence, depending on the asset allocation, the risks associated with investing in an Investment Approach would be higher or lower than those arising from investing in the other Investment Approaches. Accordingly, each Investment Approach is suitable for a certain category of investors who are willing to accept a certain level of investment volatility.

For instance, Morningstar Active Balanced aims to provide a balance between capital growth and capital preservation, and normally invests 30-70% in domestic fixed income mutual fund schemes, thus rendering it suitable for investors, who are willing to accept a moderate investment value volatility. At the other end, Morningstar Active Aggressive Plus normally invests 60-100% in domestic equity-oriented mutual funds, which could potentially result in higher levels of volatility vis-a-vis Morningstar Active Aggressive, which normally invests 55-85% in domestic equity-oriented mutual funds. Hence, Morningstar Active Aggressive Plus is suited for investors who are willing to accept higher levels of investment volatility than investors of Morningstar Active Aggressive.

Redemption of the liquid mutual funds held in Morningstar Liquid, for the purpose of investing into the Investment Approach selected by the client, could entail an exit load, as levied by the asset management company(ies) concerned.

VII. DETAILS OF CONFLICTS OF INTEREST RELATED TO SERVICES OFFERED BY GROUP COMPANIES OR ASSOCIATES OF THE PORTFOLIO MANAGER

The Portfolio Manager does not presently utilize the services of any of its group companies or associates. In the event that the Portfolio Manager begins to utilize the services of any of its group companies or associates, necessary disclosures of conflicts of interest, if any, will be made.

It may be noted, however, that there may be cases where a Portfolio may include a mutual fund scheme that uses an index created and maintained by Morningstar, Inc. (the Portfolio Manager's ultimate parent company) as its tracking index (i.e., the mutual fund scheme's investments are derived from the underlying holdings of the Morningstar index). To mitigate any conflict of interest arising from the Portfolio Manager's selection of such a mutual fund scheme for a Portfolio, the compensation earned by Morningstar, Inc. or an affiliate from the asset manager of such a mutual fund scheme for use of the Morningstar index will not be based on, nor will it include, the assets resulting from the Client's use of a Portfolio with such a mutual fund scheme as an underlying holding.

VIII. CLIENT REPRESENTATION

1. Fund management business details:

Category of Clients	No. of Clients	Funds Managed (Rs. In crores)	Discretionary/ Non-discretionary
Associate/Group Companies			
As on November 30, 2020	1	4.69	Discretionary
F.Y.2019-20	1	3.46	Discretionary
F.Y. 2018-19*	NA	NA	NA
F.Y. 2017-18	NA	NA	NA
Others			
As on November 30, 2020	39	31.5	Discretionary
F.Y.2019-20	28	17.42	Discretionary
F.Y. 2018-19*	NA	NA	NA
F.Y. 2017-18	NA	NA	NA

*The Portfolio Manager commenced its business in April 2019.

- Details of related parties as per AS-18 "Related Party Disclosure" issued by the Institute of Chartered Accountants of India, according to the audited financial statements for the financial year ended March 31, 2020, are as follows:

Transactions with related parties during the financial year and outstanding balances as at year end- As required by Accounting Standard 18, "Related Party Disclosures" issued by the Institute of Chartered Accountants of India for the financial year ended March 31, 2020 are as under.

(A) Related parties relationship where control exists, irrespective of whether transactions have taken place or not:

- Morningstar Investment Management LLC, Holding Company
- Morningstar Inc., Ultimate holding Company

Subsidiaries of Ultimate Holding Co. (Morningstar Inc.) and their subsidiaries:

- Morningstar Global LLC (025) - U.S.
- Morningstar Ratings Holding Corp. (R01) - U.S.
- DBRS, Inc. (R06/LE002) - U.S.
- Morningstar Credit Ratings LLC (027) - U.S.
Ratings Acquisition Corporation - Alpine Merger Co. merged with and into Ratings Acquisition Corp (R02/LE005) - Cayman
- AAA UK Holding Co. Limited (R03/LE007) - U.K.
- DBRS Ratings Limited (R07/LE003) - U.K.
- European DataWarehouse GmbH - Germany
- DBRS Limited (R08/LE001) – Canada
- DBRS Ratings GmbH (R09/LE008) – Germany
- DBRS Ratings GmbH Sucursal en España (R10/LE009) - Spain
- Morningstar Finance Limited - U.K. (304)

- 13 Morningstar Finance (Cyprus) Limited - (303)
- 14 Ellevest, Inc. (f/k/a Ellevest Financial, Inc. - U.S.
- 15 YCharts, Inc. - U.S.
- 16 PitchBook Data, Inc. (037) - U.S.
- 17 Suite #140 LLC
- 18 PitchBook Data Limited (U37) - U.K.
- 19 Morningstar Investment Management LLC (002) - U.S.
- 20 Ibbotson Associates Japan K.K., d/b/a Ibbotson Associates Japan, Inc. (J70) - Japan
- 21 Morningstar Investment Management South Africa (Pty) Ltd (409)
- 22 Morningstar Investment Management Europe Limited (U30) - U.K.
- 23 Morningstar Investment Management Asia Limited (A96) - Hong Kong
- 24 Morningstar Investment Adviser India Private Limited (I02) - India
- 25 Morningstar Investment Services LLC (090) - U.S.
- 26 Morningstar Research Services LLC (036) - U.S.
- 27 Morningstar Commodity Data, Inc. (026) - U.S.
- 28 Corporate Fundamentals, Inc. (019) - U.S.
- 29 MStar Holdings, C.V. (408) - Netherlands
- 30 Morningstar Europe, B.V. (401) - Netherlands
- 31 Morningstar Holland, B.V. (B98/B99) - Netherlands
- 32 Morningstar Group Australia Pty Limited (700) - Australia
- 33 Morningstar Direct Investments Limited (701) - Australia
- 34 Morningstar Research Limited (601) - New Zealand
- 35 Morningstar Australasia Pty Limited (MAPL) AFSL 240892 (704) - Australia
- 36 Ibbotson Pty Limited (formerly Intech Pty Limited) (708) - Australia
- Morningstar Investment Management Australia Limited (formerly Ibbotson Associates Australia Limited) (709)
- 37 Cuffelinks Pty Ltd - Australia
- 38 ADL (Aust) Pty Limited
- 40 Morningstar Canada Group, Inc. (199) - Canada
- 41 Morningstar Associates, Inc. (196) - Canada
- 42 Morningstar Research, Inc. (100) - Canada
- 43 2745343 Ontario Limited (TBD)
- 44 Morningstar Italy, S.R.L. (I99) - Italy
- 45 Morningstar Norge AS (N99) - Norway
- 46 Morningstar Asia, Ltd. (A99) - Hong Kong
- 47 Managed Account Partners (Holdings) Limited - - Hong Kong
- 48 Morningstar Investment Adviser Singapore PTE Ltd (A95)
- 49 Morningstar Research PTE Ltd (A98) - Singapore
- 50 Morningstar (Shenzhen) Ltd. (C99) - China
- 51 Morningstar Luxembourg S.a.r.l. (L99) - Luxembourg
- 52 Morningstar Deutschland GmbH (D99) - Germany
- 53 Morningstar Danmark Holding ApS (D01) - Denmark
- 54 Morningstar Danmark A/S (D02)- Denmark
- 55 Morningstar Europe, Ltd (301) - U.K.
- 56 Morningstar UK Limited (U99) - U.K.
- 57 Morningstar Real-Time Data Limited (403) - U.K.

- 58 Morningstar Research (Proprietary) Limited (402) - South Africa
- 59 Morningstar Switzerland GmbH (G99) - Switzerland
- 60 Morningstar France Holding SAS (F01) - France
- 61 Morningstar France Fund Information SARL (S20) - France
- 62 Morningstar Investment Consulting France SAS (F03) - France
- 63 Morningstar Network, S.L. (E99) - Spain
- 64 Morningstar Europe Services, S.L. (302) - Spain - Incorporated November 2018
- 65 Servicios Morningstar Chile Ltd (900) - 0.02% owned by Morningstar Global LLC - Chile
- 66 Morningstar Brasil Informacoes Financeiras Ltda. (901) - Brazil
- 67 Investigaciones MS Mexico, S. de R.L. de. C.V. (902) - Mexico
- 68 Servicios MStar Global, S. de R.L. de C.V. (903) - Mexico
- 69 Morningstar (Dubai) Ltd (802) - Dubai
- 70 Morningstar HoldCo AB (S01) - Sweden
- 71 Morningstar Sweden AB (S99) - Sweden
- 72 Sustainalytics Holding BV - Netherlands
- 73 Morningstar Japan, K.K. (Balance held by Softbank and Public) - Japan
- 74 Morningstar Korea, Ltd. (800) - Korea
- 75 Morningstar Research Thailand Limited (707) - Thailand
- 76 Financial Technology Ventures II (Q), L.P. - U.S.
- 77 FTVentures III, L.P. - U.S.
- 78 FTV IV, L.P. - U.S.
- 79 FTV V, L.P. - U.S.
- 80 FTV VI, L.P. - U.S.
- 81 Vestigo Ventures Fund 1, L.P. - U.S.

(B) Other related parties with whom the Company has transactions during the year:

Nature of related party relationship	Name of related party
Subsidiary of Ultimate holding Company	Morningstar India Private Limited

(C) Transactions with related parties during the financial year and outstanding balances as at year end:

Item	Subsidiary of Ultimate Holding Company		Ultimate Holding Company	
	31st March 2020	31st March 2019	31st March 2020	31st March 2019
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
<u>Revenue</u>				
Morningstar India Private Limited	25,595	-		
(Portfolio Management Revenue)				
<u>Expenses</u>				
Morningstar India Private Limited	5,169,356	4,521,898	-	-

Item	Subsidiary of Ultimate Holding Company		Ultimate Holding Company	
	31st March 2020	31st March 2019	31st March 2020	31st March 2019
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
(Rent and Other Facilities)				
Trade payables				
Morningstar India Private Limited	446,746	2,761,237		
Other current liabilities				
Morningstar Inc.			956,434	
Other current assets				
Morningstar Inc.				75,206

IX. FINANCIAL PERFORMANCE OF THE PORTFOLIO MANAGER

The financial performance of Morningstar for the three financial years ended on March 31st of 2020, 2019 and 2018 is given below.

(in Rs. Lakhs)

Particulars	31-03-2020	31-03-2019	31-03-2018
<u>Sources of Funds:</u>			
Share Capital	3093.58	1343.58	1343.58
Reserves and Surplus	(1384.72)	(884.54)	(599.81)
Loan Funds	-	-	-
Deferred Tax Liabilities	-	-	-
Total Liabilities	1708.86	459.04	743.77
<u>Application of Funds:</u>			
Net Fixed Assets	-	-	-
Investments	-	-	-
Other Assets	1838.26	557.23	822.33
Less: Current Liabilities and provisions	129.40	98.19	78.56
Net Other Assets	-	-	-
Deferred Tax Asset	-	-	-
Total Assets	1708.86	459.04	743.77
Particulars	31-03-2020	31-03-2019	31-03-2018
Total Income	126.70	139.38	167.20
Total Expenses	626.88	424.12	312.22
Profit/(Loss) before Tax	(500.18)	(284.74)	(145.02)
Provision for Tax	-	-	-
Deferred tax (Assets)/Liability	-	-	-
Profit/(Loss) after Tax	(500.18)	(284.74)	(145.02)

X. PORTFOLIO MANAGEMENT PERFORMANCE OF THE PORTFOLIO MANAGER FOR THE LAST 3 FINANCIAL YEARS:

The portfolio management performance of the Portfolio Manager, along with disclosure of performance indicators calculated using Time Weighted Rate of Return method is in terms of Regulation 22 of the PM Regulations, as on March 31, 2020, is as under:

Product Name-Morningstar Active Balanced	As on 31.03.2020	
Type of Client	Individual Clients*	Corporate Clients*
Product Performance (%)	-6.72	-5.51
Benchmark - Morningstar Active Balanced Composite Benchmark	- 7.01	-5.34

* Since inception performance for Morningstar Active Balanced has been computed from April 24, 2019. For individual clients in the strategy, the inception date is July 29, 2019.

Product Name-Morningstar Active Growth	As on 31.03.2020*	
Type of Client	Individual Clients	Corporate Clients
Product Performance (%)	-14.01	-13.77
Benchmark - Morningstar Active Growth Composite Benchmark	-12.02	-11.47

* Since inception performance for Morningstar Active Growth has been computed from April 25, 2019. For individual clients in the strategy, the inception date is July 11, 2019.

Product Name-Morningstar Active Aggressive	As on 31.03.2020*	
Type of Client	Individual Clients	Corporate Clients
Product Performance (%)	-19.83	-19.00
Benchmark - Morningstar Active Aggressive Composite Benchmark	-17.81	-17.80

* Since inception performance for Morningstar Active Aggressive has been computed from April 18, 2019. For individual clients in the strategy, the inception date is April 25, 2019.

Product Name-Morningstar Active Aggressive Plus	As on 31.03.2020*	
Type of Client	Individual Clients	Corporate Clients
Product Performance (%)	- 14.98	-17.55
Benchmark - Morningstar Active Aggressive Plus Composite benchmark	-15.24	-17.62

* Since inception performance for Morningstar Active Aggressive Plus has been computed from April 22, 2019. For individual clients in the strategy, the inception date is August 30, 2019.

Note:

Method: Since inception performance (absolute in case of investments < 1 year & annualised in case of investments > 1 year) is calculated after accounting for cash flows using Time Weighted Rate of Return method (TWRR). Since Inception performance of the benchmark is calculated on absolute basis in case of investments < 1 year & annualised in case of investments > 1 year.

Taxes: Calculations are on pre-tax basis.

Fees: Calculations are after deduction of fees.

The Company received registration in October 2018. Hence, the requirement of submission of data relating to Portfolio Management performance as required under Regulation for three years is not applicable for this period.

XI. AUDIT OBSERVATIONS

There have been no audit observations for the financial years ended the March 31st of 2020, 2019 and 2018.

XII. NATURE OF EXPENSES

The following are indicative types of expenses. The exact basis of charge relating to each of the following services shall be annexed to the portfolio management services agreement which will be entered into between the Portfolio Manager and the Client, and the agreements in respect of each of the services availed at the time of execution of such agreements. Such expenses and charges shall be subject to any limits prescribed by SEBI and as amended from time to time. It may be noted that operating expenses excluding brokerage, over and above the fees charged for Portfolio Management Service, shall not exceed 0.50% per annum of a Client's average daily Assets under Management.

1. Investment management and advisory Fees

All fees and charges shall be levied on the actual amount of Clients' assets under management. In case of interim contributions/ withdrawals by Clients, performance fees may be charged on proportionate basis.

Management fees relates to the portfolio management services offered to Clients. For managing a discretionary investment portfolio, the fees may be a fixed fee or a return-based fee or a combination of both. Specific details shall be provided in the Schedule to the respective portfolio management services agreement with the Client. The Fees shall be charged in the manner agreed upon between the Client and the Portfolio Manager, along with applicable surcharges or a fixed fee and a variable charge as negotiated and agreed with the Client in the agreement.

2. Custodian/ Depository Fees

The charges pertaining to opening and operation of dematerialized accounts, custody and transfer charges for shares, bonds and units, dematerialisation, rematerialisation and other charges in connection with the operation and management of the Depository Accounts. This may be as decided between the Client and the Portfolio Manager.

3. Registrar and Transfer Agent Fee

Charges payable to registrar and transfer agents in connection with effecting transfer of Securities, including stamp charges, cost of affidavits, notary charges, postage stamp and courier charges, etc.

4. Brokerage and transaction costs

The brokerage charges and other charges like Goods and Service tax, securities transaction tax, service charges, stamp duty, transaction costs, turnover tax, exit and entry loads on the purchase and sale of shares, stocks, bonds, debt, deposits, mutual fund units and other financial instruments. Brokerage at actuals shall be charged as expense to the Client.

5. Performance Fee

Performance fees may be charged upon exceeding a hurdle rate or benchmark as specified in the agreement between the Client and the Portfolio Manager. Although currently, the Portfolio Manager does not intend charging a performance fee, the concept of high-water mark along with illustration is given below.

High Water Mark Principle: High Water Mark shall be the highest value that a Portfolio has reached. Value of a Portfolio for computation of high water mark shall be taken to be the value on the date when performance fees are charged. For the purpose of charging performance fee, the frequency shall not be less than quarterly. The Portfolio Manager shall charge performance-based fee only on increase in Portfolio value in excess of the previously achieved high water mark.

Illustration: Consider that frequency of charging of performance fees is annual. A client's initial contribution is Rs.50,00,000, which then rises to Rs.60,00,000 in its first year; a performance fee/ profit sharing would be payable on the Rs.10,00,000 return. In the next year the Portfolio value drops to Rs.55,00,000, hence no performance fee would be payable. If in the third year the Portfolio rises to Rs.65,00,000, a performance fee/profit sharing would be payable only on the Rs. 5,00,000 profit which is portfolio value in excess of the previously achieved high water mark of Rs.60,00,000, rather than on the full return during that year from Rs.55,00,000 to Rs.65,00,000.

6. Certification and Professional Charges

Charges payable for outsourced professional services like accounting, audit, taxation and legal services, notarization, etc. for certification, attestation required by bankers, intermediaries and regulatory authorities.

7. Securities transaction tax

Delivery based purchase of unit of an equity-oriented fund is subject to a NIL rate. Delivery based sale of unit of an equity-oriented fund is subject to a rate of 0.001%. STT is levied on the seller at the rate of 0.025% on the sale of unit of an equity oriented mutual fund - transaction in a recognized stock exchange, settled otherwise than by actual delivery.

8. Incidental Expenses

Courier charges, stamp duty, service tax, postal stamps, opening and operation of bank accounts, etc.

Investors may note that, the fees/ expenses that may be charged to Clients, as mentioned below, are indicative only. The same will vary depending upon the exact nature of the services to be provided to investors.

Nature of Expenses (Indicative)	Maximum Rate of Fee (As a % of the Client's Assets Under Management with Morningstar)
Set Up Fee	NIL
Management Fee	Up to 1.15%
Management Fees under Performance Scheme	Not Applicable
Performance Fees	Not Applicable
Hurdle Rate	Not Applicable
Exit Load	1% for first year; NIL after 1st year
Custody Fees, Fund accounting Fees	Up to 0.15%
Audit Fees	Up to 0.10%
Registrar and Transfer Agent Fee.	Not Applicable
Brokerage & Transaction cost	Not Applicable
Depository Fees	Up to 0.10%
Securities Transaction Tax	Not Applicable
Incidental Expenses	Up to 0.10%

In respect of Morningstar Liquid, the following fee structure will apply:

Nature of Expenses (Indicative)	Fee in Rupees / As a % of the Client's Assets Under Management with Morningstar
Set Up Fee	NIL
Management Fee	Up to 0.1%
Management Fees under Performance Scheme	Not Applicable
Performance Fees	Not Applicable
Hurdle Rate	Not Applicable
Exit Load*	NIL
Custody Fees, Fund accounting Fees	Up to 0.08%
Audit Fees	500 (Five Hundred)
Registrar and Transfer Agent Fee.	Not Applicable
Brokerage & Transaction cost	Up to 0.04%
Depository and Related Fees	Up to 0.10%
Securities Transaction Tax	Not Applicable
Incidental Expenses	Up to 0.10%

An exit load may be applicable on partial/full withdrawal of funds from a Portfolio at such rate as may be agreed upon for the Portfolio between the Portfolio Manager and the Client, subject to the limits prescribed by SEBI under the Regulations and the circulars issued and amended from time to time. Such exit load will be credited to the benefit of the other clients in the Investment Approach, in proportion to their respective holdings in the Investment Approach, as on the date of the partial/full withdrawal of funds by the Client. Likewise, a partial/full withdrawal of funds by any other client from the Portfolio could result in a credit of exit load to the Client in proportion to his/her/their holdings in the Portfolio. This mechanism aims to compensate for any exit loads that may be applied during a partial/full withdrawal of funds by a client from a Portfolio, which may not be strictly attributable to his/her/their subscription and withdrawal dates. However, no exit load shall be charged in case a Client redeems its portfolio in full or partially, after a period of three years from the date of investment.

* Redemption of the liquid mutual funds held in Morningstar Liquid, for the purpose of investing into the Investment Approach selected by the client, could entail an exit load, as levied by the asset management company(ies) concerned.

XIII. TAXATION

In view of the nature of tax consequences, each client is advised to consult their respective tax advisor with respect to the specific tax consequences to the client arising from participation in the investment approaches. Clients are best advised to take independent opinion from their tax

advisors/ experts for any income earned from such investments. Morningstar Investment Adviser India Private Limited ('Company') shall not be responsible for assisting in or completing the fulfillment of the client's tax obligations. The provisions of the Income-tax Act, 1961 ('IT Act') shall apply to the client and the Portfolio Manager in respect of their individual income.

The general information stated below is based on the general understanding of direct tax laws in force in India as on the date of the Disclosure Document and is provided only for general information to the client only *vis-à-vis* the investments made through the portfolio management services of the Company. This information gives the direct tax implications on the footing that the securities are/will be held for the purpose of investments. In case, the securities are held as stock-in-trade, the tax treatment will substantially vary and the issue whether the investments are held as capital assets or stock-in-trade needs to be examined on a case to case basis. There is no guarantee that the tax position prevailing as on the date of the Disclosure Document/the date of making investment shall endure indefinitely.

Further, the statements with regard to benefits mentioned herein are expressions of views and not representations of the Company to induce any client, prospective or existing, to invest in the portfolio management schemes of the Company. Implications of any judicial decisions/ double tax avoidance treaties etc. are not explained herein. The client should not treat the contents of this section of the Disclosure Document as advice relating to legal, taxation, investment or any other matter. In view of nature of the tax benefits, interpretation of circulars for distinguishing between capital asset and trading asset, etc., the client is advised to best consult their own tax consultant, with respect to specific tax implications arising out of their portfolio managed by the Company.

It is the responsibility of all prospective clients to inform themselves as to any income tax or other tax consequences arising in the jurisdictions in which they are resident or domiciled or have any other presence for tax purposes, which are relevant to their particular circumstances in connection with the acquisition, holding or disposal of the securities.

The following summary is based on the law and practice of the IT Act, the Income-tax Rules, 1962 ('IT Rules') and various circulars and notifications issued thereunder from time to time all of which are subject to change, with possible retrospective effect. The IT Act is amended every year by the Finance Act of the relevant year, and this summary reflects the amendments enacted in the Finance Act 2020 ('the Finance Act'). The Government of India has promulgated the Taxation and other laws (Relaxation and amendment of certain provisions) Bill, 2020 which is yet to receive the assent of the President of India.

1. Tax Rates

The tax rates mentioned below relate to the Financial Year 2020-21 (Assessment Year 2021-22). The tax rates stated below are exclusive of surcharge and health and education cess (unless stated otherwise).

Slab rates for individuals

The slab rates which are applicable for individuals / HUF / AOP / BOI are as follows:

Total Income (Refer to notes below)	Tax rates
Up to INR 2,50,000	Nil
From INR 2,50,001 to INR 5,00,000	5%
From INR 5,00,001 to INR 10,00,000	20%
INR 10,00,001 and above	30%

Note 1: The Central Government *vide* the Finance (No. 2) Act, 2019, has provided for a rebate on tax on total income of upto INR 5,00,000 for resident individual assessee.

Note 2: In the case of a resident individual of the age of 60 years or more but less than 80 years, the basic exemption limit is INR. 3,00,000.

Note 3: In the case of a resident individual of the age of 80 years or more, the basic exemption limit is INR. 5,00,000

Alternative system of taxation for Individuals and HUFs

It may be noted that the Finance Act had inserted a new section, section 115BAC which comes into effect from AY 2021-22. Section 115BAC provides an option to individuals and HUFs to pay tax on their income at the rates mentioned below:

Total Income (Refer to notes below)	Tax rates
Up to INR 2,50,000	Nil
From INR 2,50,001 to INR 5,00,000	5%
From INR 5,00,001 to INR 7,50,000	10%
From INR 7,50,001 to INR 10,00,000	15%
From INR 10,00,001 to INR 12,50,000	20%
From INR 12,50,001 to INR 15,00,000	25%
Above INR 15,00,000	30%

Note 1: It may be noted that the income would, however, have to be computed without claiming prescribed deductions or exemptions.

Surcharge rates

Surcharge rates are provided below:

Type of Investor	Surcharge rate as a % of income-tax (Refer notes below)				
	If income is less than INR 50 lakhs	If income is more than INR 50 lakhs but less than INR 1 crore	If income exceeds INR 1 crore but less than INR 2 crores	If income exceeds INR 2 crores but less than INR 5 crores	If income exceeds INR 5 crores
Individual, HUF, AOP, BOI (Resident & non-resident)	Nil	10%	15%	25%	37%

Note 1: In the case where the total income includes any income referred to in Section 111A or Section 112A of the IT Act, surcharge on such income shall not exceed 15%.

Note 2: In case where the total income of foreign portfolio investor ('FPI') includes any income in the nature of short-term capital gains and long-term capital gains, surcharge on such income shall not exceed 15%.

Note 3: In case of a resident investor, where the total income includes dividend income from shares, surcharge on such dividend income shall not exceed 15%.

Type of Investor	Surcharge rate as a % of income-tax (Refer notes below)		
	If income does not exceed INR 1 crore	If income exceeds INR 1 crore but less than INR 10 crores	If income exceeds INR 10 crores
Partnership firm (Domestic & foreign)	Nil	12%	12%
Domestic Company	Nil	7%	12%
Foreign Company, including FPI incorporated as a company	Nil	2%	5%

Note 1: As per the Taxation Laws (Amendment) Act, 2019, the applicable surcharge rate on income chargeable to tax under sections 115BAA or 115BAB of the IT Act shall be 10% irrespective of income threshold.

In addition to the above, health and education cess at the rate of 4% shall be leviable on aggregate of tax and surcharge.

2. Taxation in the hands of clients

Resident taxation: A resident investor should be subject to tax in India on its global income. In the case of a resident but not ordinarily resident, any income which accrues/ arises outside India shall not be subject to tax in India, unless it is derived from a business/ profession controlled from India.

An individual is said to be a resident in India if he is in India during a year for a period or periods amounting in all to one hundred and eighty-two days or more; **or** have within the four years preceding that year, been in India for a period or periods amounting in all to three hundred and sixty five days or more **and** is in India for a period or periods amounting in all to sixty days or more in that year.

The Finance Act has amended the provisions of section 6 of the IT Act. Pursuant to amendment, in case of a citizen of India or person of Indian origin, having total income (other than income from foreign sources) exceeding INR 15 lakhs, the period of 60 days as mentioned above should be replaced with 120 days (all the other conditions mentioned remain the same).

A new clause has been added by the Finance Act, according to which a citizen of India, having total income (other than income from foreign sources) exceeding INR 15 lakhs during a previous year, shall be deemed to be a resident in India for that previous year, if he is not liable to tax in any other country by reason of his domicile or residence in that country.

Further, there are other additional conditions specified in the tax laws for a person to be an ordinarily resident and not ordinarily resident in India.

A HUF, partnership firm or AOP is said to be resident in India in any previous year in every case except where the control and management of its affairs is situated wholly outside India.

A Company is said to be a resident in India in the previous year if (i) it is an Indian Company; or (ii) its place of effective management ('POEM') during that year is in India.

Every other person is said to be resident in India during the previous year in every case except where the control and management of affairs is situated wholly outside India.

Non-resident taxation: A non-resident investor would be 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 or arisen/ deemed to have arisen in India in terms of the provisions of the IT Act.

As per section 6 of the IT Act, a foreign company should be treated as a tax resident in India if its POEM is in India during 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 would qualify as resident of India for tax purposes and consequently, its worldwide income would be taxable in India. In this connection, the Central Board of Direct Taxes ('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 Double Taxation Avoidance Agreement ('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 lays 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 would not apply to companies having turnover or gross receipts less than or equal to INR 50 crores during the financial year.

- *Tax Treaty Benefits*

As per section 90(2) of the IT Act, the provisions of the IT Act would 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 to the extent of availability of Tax Treaty benefits to the non-resident investors (subject to General Anti Avoidance Rules ['GAAR'] provisions discussed below) and Multilateral Convention to implement Tax Treaty related measures to prevent Base Erosion and Profit Shifting ['MLI']).

As per the Finance Act, section 90(1) 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 would be available to the non-resident investor or the terms of the Tax Treaty would 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 IT Act.

- *Tax Residency Certificate*

Section 90(4) of the IT Act provides that in order to claim Tax Treaty benefits, the non-resident investor has to furnish Tax Residency Certificate ('TRC') issued by the foreign tax authorities. Further, the non-resident investor should be required to furnish such other information or document as may be prescribed. In this connection, the CBDT *vide* its notification dated 1 August 2013,

amended Rule 21AB of the IT Rules prescribing certain information in Form No. 10F to be produced along with the TRC, if the same does not form part of the TRC.

The additional information prescribed above may not be required to be provided if it already forms a part of the TRC.

The tax authorities may grant Tax Treaty benefit (after verifying the TRC) based on the facts of each case. 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.

3. Different streams of income and its tax implications

The tax implications in the hands of resident as well as non-resident investors on different income streams received on transfer of securities being units of mutual fund and Exchange Traded Funds ('ETF') are discussed below:

a) Distribution income from a mutual fund

Prior to the amendments by the Finance Act, distributions by a mutual fund were exempt in the hands of all unitholders, irrespective of their residential status. The mutual fund distributing income was required to pay additional income-tax on a grossed up basis.

As per the amendments made by the Finance Act, the mutual fund distributing income on or after 1 April 2020, would not be required to pay any tax on income distributed to its unitholders. The income so distributed shall be taxable in the hands of the unitholders. Further, certain taxpayers can claim a deduction of interest expenditure under section 57 of the IT Act, against such distributed income up to 20% of the distribution income.

The mutual fund distributing income would be required to deduct tax at 10% (in case of payment to resident investors) and at 20% (in case of payment to non-resident investors).

The Taxation and other laws (Relaxation and amendment of certain provisions) Bill, 2020 has introduced a new section, section 197B which states that tax should be deducted at three-fourth of the rate specified in section 194K of the IT Act for income distributed by mutual funds during the period 14 May 2020 to 31 March 2021. No such relaxation has been provided for income distributed to non-resident investors (including FPIs).

As per the amended provisions, the distribution income shall be taxable at the following rates:

Resident investors

Distribution income earned by	Tax rate for domestic investors
Resident companies (Refer notes below)	30%
Firms / LLPs	30%
Others (Refer note below)	As per applicable slab rates, maximum being 30%

Note 1: The Finance Act, has reduced tax rate to 25% in the case of domestic companies having total turnover or gross receipts not exceeding INR 400 crores in the Financial Year 2018-19 (Assessment Year 2019-20).

Note 2: As per the Taxation Laws (Amendment) Act, 2019, the tax rates for resident companies exercising the option under section 115BAA and section 115BAB of the IT Act shall be 22% and 15% respectively, subject to the fulfilment of conditions prescribed in the said sections.

Note 3: The Finance Act has inserted a new section, section 115BAC in the IT Act. As per the said section, individual and HUF will 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.

Non-resident investors

Distribution income shall be taxable in the hands of the non-resident investors at the rate of 20% (on gross basis) under the IT Act provided the units are acquired in foreign currency. As per the provisions of the IT Act, in case of taxability of a non-resident (who is a tax resident of a country with which India has a Tax Treaty for granting relief of tax), the provisions of the IT Act, shall apply to the extent they are more beneficial and the rate of tax shall be determined accordingly on a case to case basis.

Under section 115AD of the IT Act, distribution income earned by FPIs should be taxable at 20% (on gross basis).

The above tax rate for FPI (and not withholding rates) are subject to the rates specified in the applicable tax treaties and subject to fulfillment of conditions specified therein and under the IT Act for availing such benefits.

b) Gains on sale of securities

Gains arising from the transfer of units of mutual fund and ETF may be treated either as 'Capital Gains' or as 'Business Income' for tax purposes, depending upon whether such securities were held as a capital asset or a trading asset (i.e., stock-in-trade). Traditionally, the issue of characterisation of gains (whether taxable as Business Income or Capital Gains) has been a subject matter of litigation with the tax authorities. There have been judicial pronouncements on whether gains on transfer of securities should be taxed as 'Business Income' or as 'Capital Gains'. However, these pronouncements, while laying down certain guiding principles have largely been driven by the facts and circumstances of each case.

Also, the CBDT has provided guidance, *vide* its Instruction No. 1827, dated 31 August 1989 ('CBDT Instructions') and Circular No. 4/2007, dated 15 June 2007, in respect of characterisation of gains as either Capital Gains or Business Income.

Following are the key illustrative factors indicative of Capital Gains characterisation (not Business Income): -

- a) Intention at the time of acquisition - capital appreciation;
- b) Low transaction frequency;
- c) Long period of holding;
- d) Shown as investments in books of accounts (not stock in trade);
- e) Use of owned funds (as opposed to loan) for acquisition;
- f) Main object in constitution document is to make investments; and
- g) Higher level of control over the investee companies; amongst others.

Further, the CBDT had issued a circular no. 6/2016 dated 29 February 2016 ('CBDT Circular 2016'), clarifying the issue of taxability of gains arising on sale of listed shares and securities. The CBDT Circular 2016, laid down guiding principles to characterise the gains from sale of listed shares and securities, either as Business Income or Capital Gains. It had clarified that the income-tax officer would not dispute any income arising from transfer of listed shares and securities held for more than 12 (twelve) months, if the same was treated as, and offered to tax under, the head 'Capital Gains', subject to genuineness of the transaction being established.

In the context of FPIs, the definition of capital assets inter-alia means, securities held by an FPI which has invested in such securities in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992. Consequently, any income arising from transfer of securities by FPIs are to be treated as capital gains.

Gains characterised as capital gains

If the gains arising from purchase and sale of capital assets being securities (including units, ETFs etc.) are characterized as capital gains, the tax rate depends on the period of holding of the securities. Separately, we understand that, ETF which is one of the products to be marketed by the Company is nothing but a security (i.e. a unit) and similar to a mutual fund unit. The tax rates for securities (including mutual fund and ETFs) are discussed below.

Period of holding

The IT Act provides for a specific mechanism for computation of capital gains. Capital gains are computed by deducting from the sale consideration, the cost of acquisition and certain other expenses. The tax payable on capital gains would depend on whether the capital gains are long-term or short-term in nature.

Capital assets are classified as long-term capital assets ('LTCA') or short-term capital assets ('STCA'), based on the period of holding of these assets. The period of holding of the asset is computed from the date of acquisition to the date of transfer. Depending on the period of holding for which the securities are held, the gains would be taxable as short-term capital gains ('STCG') or long term capital gains ('LTCG').

This is discussed below:

Nature of asset	STCA	LTCA
Unit of an equity-oriented fund including ETFs (defined below)	Held for not more than 12 months	Held for more than 12 months
Unlisted and listed units (other than units in an equity-oriented fund)	Held for not more than 36 months	Held for more than 36 months

Equity oriented fund (including ETF) for the purposes of the Act means, a fund set up under a scheme of a mutual fund specified under clause (23D) of section 10 and

(i) in a case where the fund invests in the units of another fund which is traded on a recognised stock exchange:

(a) a minimum of ninety per cent of the total proceeds of such fund is invested in the units of such other fund; and

(b) such other fund also invests a minimum of ninety per cent of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange; and

(ii) In any other case, a minimum of sixty-five per cent of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange

An ETF can be an equity-oriented fund or a non-equity-oriented fund. If an ETF is an equity-oriented fund, all the tax implications as applicable to an equity-oriented applies.

Period of holding and tax rates as applicable to an equity-oriented fund shall also apply to such equity ETFs. In case of an ETF, other than an equity-oriented fund, a holding period of 36 months should be considered for classifying the nature of the units.

Depending on the classification of capital gains, the investors would be chargeable to tax as per the IT Act as under:

Nature of Income	Tax rate for resident investors	Tax rate for non-residents (Note 1)	Tax rate for FPIs
STCG on transfer of unit of an equity-oriented fund on which Securities Transaction Tax ('STT') has been paid	15%	15%	15%
STCG on transfer of unlisted units and listed units (other than the above)	30% (Note 2)	40%/ 30% (Note 3)	30%
LTCG on transfer of unit of an equity-oriented fund provided STT paid on transfer of units of an equity-oriented fund and LTCG exceeds INR 1 lakh	10% (Note 4 and 5)	10% (Note 4 and 5)	10% (Note 4 and 5)
LTCG on transfer of unlisted units	20%	10%	10%

	(with indexation)	(Note 4)	(Note 4)
LTCG on transfer of units of listed mutual fund/ ETF (other than equity-oriented fund)	20% (with indexation)	20% (with indexation)	10% (Note 4)

The above rates would be subject to availability of Tax Treaty benefits in the case of non-residents, if any.

Note 1: In case the investments are made by an NRI then such investors are entitled to be governed by the special tax provisions under Chapter XII-A of the IT Act.

Note 2: Assuming highest rate for resident individual investors. In the case of domestic companies having total turnover or gross receipts not exceeding INR 400 crores in the FY 2018-19 (AY 2019-20), the tax rate would be 25%.

Also, as 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%.

The Finance Act has inserted a new section 115BAC in the IT Act. As per the said section, Individual and HUF will have an option to pay tax on its total income at the reduced tax rates. The income would, however, have to be computed without claiming prescribed deductions or exemptions.

Note 3: 30% in the case of non-resident investors other than foreign company, assuming highest slab rate for individuals. 40% in case of foreign company.

Note 4: Without considering indexation and foreign exchange fluctuation benefit

Note 5: The cost of acquisition of equity shares or units of an equity oriented mutual funds (including ETF) acquired before February 1, 2018, shall be higher of:

- The actual cost of acquisition and
- Lower of:
 - Fair market value as on January 31, 2018, determined in the prescribed manner; and
 - Value of consideration received or acquired upon transfer.

Note 6: No tax is required to be deducted on capital gains income earned by Resident investors as per the provisions of section 194K of the IT Act. As per the provisions of Section 196D of the IT Act, no deduction of tax shall be made from any income, by way of capital gains arising from the transfer of securities referred to in Section 115AD of the Act, payable to an FPI.

In respect of capital gains earned by non-resident unitholders (other than FPIs), tax may be deducted at source as per the rates specified in section 195 of the IT Act at the rates prescribed therein.

c) If gains are categorized as business income

If the gains are characterised as business income, then the same should be 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 FY 2018-19 (AY 2019-20). Kindly note, we have assumed highest rate for resident individual investors. Also, as 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%.

If the gains are characterised as business income, then the same should be 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% (assuming highest slab rate for non-resident individual) should be levied.

d) Deemed income on investment in securities

Section 56(2)(x) of the IT Act, 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 shall be taxable in the hands of the recipient as 'Income from Other Sources'.

The CBDT has issued rules with revised mechanism for computation of FMV for the purpose of section 56(2)(x) of the IT Act.

As per the Finance (No.2) Act, 2019, the provision of section 56(2)(x) of the IT Act shall 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.

Accordingly, such other income would be 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 (ii) at the rate of 30% in case of non-resident (assuming highest slab rate for non-resident individual).

The above rates would be subject to availability of benefits under the Tax Treaty, if any in case of non-resident assessee.

e) Bonus stripping

Where any person buys or acquires any units of a mutual fund/ ETF 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/ ETF 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 would be ignored for the purpose of computing his income chargeable to tax. Further, the loss so ignored would be 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.

f) Securities Transaction Tax

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 recognised stock exchange in India where the contract for purchase is settled by the actual delivery or transfer;
- (b) 0.10% on the sale of equity shares in a company or sale of units of a business trust on a recognised stock exchange in India where the contract for sale is settled by the actual delivery or transfer;
- (c) 0.001% on the sale of units of equity oriented funds on a recognised 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 recognised 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% on sale of an 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; and
- (j) 0.2% on sale of unlisted units of a business trust under an offer for sale.

g) Minimum Alternate Tax

The Taxation Laws (Amendment) Act, 2019 has reduced the base rate of Minimum Alternate Tax ('MAT') from 18.5% to 15%, which shall be applicable w.e.f. 1 April 2020 i.e. financial year 2019-2020.

As per the IT Act, if the income-tax payable on total income by any company is less than 15% of its book profits, the company will be required to pay MAT which will be deemed to be 15% of such book profits. Further, MAT provisions shall not be 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 IT Act, then MAT provisions shall not be applicable to such domestic companies. Also, MAT credit (if any) shall not be allowed to be carried forward once the company exercises the option to avail reduced tax rates as mentioned above.

h) Alternate Minimum Tax

As per the IT Act, 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 shall be deemed to be the total income of that person and he shall be liable to pay income-tax on such total income at the rate of 18.5%. Such provisions are not applicable if the adjusted total income does not exceed INR 20 lakhs.

Further, as per the Finance Act, 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 IT Act.

i) Withholding at a higher rate

The income tax provisions (section 206AA of the IT Act) 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 IT Act; (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 IT Act shall 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.

Accordingly, in the case of investors who do not have a PAN, the Company would be required to withhold taxes at a minimum rate of 20%, unless certain prescribed information / documents are provided by such investors, being non-residents.

j) Tax Treaty Benefits for Non-Resident investors

As per Section 90(2) of the IT Act, the provisions of the IT Act, would 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 General Anti Avoidance Rules provisions discussed below and to the extent of availability of Tax Treaty benefits to the non-resident investors).

As per the Finance Act, section 90(1) 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, would be as per the provisions of the IT Act.

k) Carry-forward of losses and other provisions (applicable irrespective of the residential status)

In terms of section 70 read with section 74 of the IT Act, 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, shall 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, shall be carried forward and set-off against long term capital gains arising during the subsequent 8 assessment years.

l) GAAR

The GAAR regime as introduced in the IT Act shall be effective from 1 April 2017. GAAR may be invoked by the tax authorities in case arrangements are found to be impermissible avoidance arrangements. A transaction can be declared as an impermissible avoidance arrangement, if the main purpose of the arrangement is to obtain a tax benefit and which satisfies one of the four below mentioned tainted elements:

- The arrangement creates rights or obligations which are ordinarily not created between parties dealing at arm's-length;
- It results in directly / indirectly misuse or abuse of the ITA;
- It lacks commercial substance or is deemed to lack commercial substance in whole or in part; or
- It is entered into, or carried out, by means, or in a manner, which is not normally employed for bona fide purposes.

In such cases, the tax authorities are empowered to reallocate the income from such arrangement, or recharacterize or disregard the arrangement. Some of the illustrative powers are:

- Disregarding or combining or recharacterizing any step in, or a part or whole of the arrangement;
- Ignoring the arrangement for the purpose of taxation law;
- Relocating place of residence of a party, or location of a transaction or situation of an asset to a place other than provided in the arrangement;
- Looking through the arrangement by disregarding any corporate structure; or
- Reallocating and re-characterizing equity into debt, capital into revenue, etc.
- Disregarding or treating any accommodating party and other party as one and the same person;
- Deeming persons who are connected to each other parties to be considered as one and the same person for the purposes of determining tax treatment of any amount.

The GAAR provisions would override the provisions of a Tax Treaty in cases where GAAR is invoked. The necessary procedures for application of GAAR and conditions under which it should not apply, have been enumerated in Rules 10U to 10UC of the IT Rules. The IT Rules provide that GAAR should not be invoked unless the tax benefit in the relevant year does not exceed INR 3 crores.

On 27 January 2017, the CBDT has issued clarifications on implementation of GAAR provisions in response to various queries received from the stakeholders and industry associations. Some of the important clarifications issued are as under:

- Where tax avoidance is sufficiently addressed by the Limitation of Benefit Clause ('LOB') in a Tax Treaty, GAAR should not be invoked.
- GAAR should not be invoked merely on the ground that the entity is located in a tax efficient jurisdiction.
- GAAR is with respect to an arrangement or part of the arrangement and limit of INR 3 crores cannot be read in respect of a single taxpayer only.

m) Foreign Account Tax Compliance Act and Common Reporting Standards

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 certain information with respect to each reportable account.

- 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)];
- where an entity has one or more controlling persons that are reportable persons:

- the name and address of the entity, TIN assigned to the entity by the country of its residence; and
- the name, address, DOB, POB of each such controlling person and TIN assigned to such controlling person by the country of his residence;
- account number (or functional equivalent in the absence of an account number);
- 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
- 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).

n) Multilateral Convention to implement Tax Treaty related measures to prevent Base Erosion and Profit Shifting

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

MLI is an agreement negotiated under Action 15 of the OECD/G20 BEPS Project. As opposed to bilateral Tax Treaties, 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 Depositary. 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 would 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.

o) Tax Risks

The investors are subject to a number of risks related to tax matters. In particular, the tax laws relevant to the investors are subject to change, accordingly, the tax liabilities that could be incurred by the investors as a result of such changes should also change. Further, any alternative tax positions adopted by the income tax authorities could give rise to incremental tax liabilities in addition to the tax amounts already discharged by the investors.

Proposed change in the India tax regime

The Government of India intends to replace the current IT Act 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 Company and its investors.

p) Goods and Services Tax

GST will be applicable on services provided by the portfolio manager to its clients. Accordingly, GST at the rate of 18% would be levied on fees if any, payable towards investment/portfolio management fee to the Company.

THERE CAN BE NO GUARANTEE THAT THE ABOVE POSITION REGARDING TAXATION WOULD BE NECESSARILY ACCEPTED BY THE INDIAN TAX AUTHORITIES UNDER THE IT ACT. NO REPRESENTATION IS MADE EITHER BY THE PORTFOLIO MANAGER OR ANY EMPLOYEE, PARTNER OR AGENT OF THE PORTFOLIO MANAGER IN REGARD TO THE ACCEPTABILITY OR OTHERWISE OF THE ABOVE POSITION REGARDING TAXATION BY THE INDIAN TAX AUTHORITIES UNDER THE IT ACT. INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS IN THIS REGARD.

XIV. ACCOUNTING POLICIES

The following accounting policy will be applied for the portfolio investments of the Client:

1. Investments in equities, mutual funds and debt instruments will be valued at the closing market prices of the exchange (BSE or NSE, as the case may be) or the Net Asset Value ("NAV") declared by the asset management companies for the relevant Investment Approach on the date of the report or any cut-off date or the market value of the debt

instrument at the cut-off date. Alternatively, the last available prices on the exchange or the most recent NAV will be reckoned.

2. Realized gains/losses will be calculated by applying the First in/First out principle. For example, the earliest purchased quantity will be reckoned for the current/most recent sale at the respective prices at both points in time.
3. For derivatives and futures and options, unrealized gains and losses will be calculated by marking to market the open positions.
4. Unrealized gains/losses are the differences between the current market values/ NAVs and the historical cost of the Securities.
5. Dividends on shares and units in mutual funds, interest, stock lending fees earned etc. shall be accounted on receipt basis. The interest on debt instruments shall be accounted on accrual basis.
6. The Portfolio Manager and the Client can adopt any specific norm or methodology for valuation of investments or accounting the same as may be mutually agreed between them on a case specific basis.
7. In case Securities are transferred from the client towards initial capital contribution, the market value/net asset value of the Securities on the date immediately preceding the date of such transfer will be considered for the purpose of computing cost of investments and corresponding capital contribution in the books of account of the client maintained by the portfolio manager.

XV. INVESTOR SERVICES

Name, address and telephone number of the investor relations officer who shall attend to the Client's queries and complaints:

Name	:	Ms. Rashmi Pandit
Address	:	14 th Floor, Platinum Technopark, Plot No. 17/18, Sector 30A, Vashi, Navi Mumbai 400 705, Maharashtra, India
Telephone	:	+91-22-61217100
E-mail	:	rashmi.pandit@morningstar.com

The official mentioned above will ensure prompt investor services. Morningstar will ensure that this official is vested with the necessary authority, independence and the wherewithal to handle investor complaints.

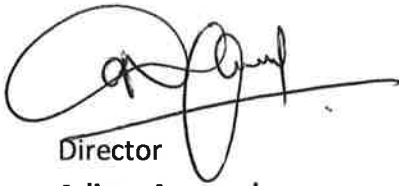
XVI. GRIEVANCE REDRESSAL AND DISPUTE SETTLEMENT MECHANISM

1. Morningstar has designated Ms. Rashmi Pandit as the Investor Relations Officer (PMS) to receive and redress all the queries.
2. Morningstar will endeavor to address all complaints regarding service deficiencies or causes for grievance, for whatever reason, in a reasonable manner and time.
3. Grievances, if any, that may arise pursuant to the portfolio management agreement entered into shall as far as possible be redressed through the administrative mechanism by the

A detailed report of complaints received and resolved and reasons for delay if any for resolution will be recorded.

For and on behalf of

Morningstar Investment Adviser India Private Limited



Director

Aditya Agarwal

DIN: 00015892



Director

Shreyas Shah

DIN: 06393553

Place: Mumbai

Date: February 05, 2021