usually decrease as interest rates rise. The extent of fall or rise in the prices is guided by modified duration, which is a function of the existing coupon, days to maturity and increase or decrease in the level of interest rate. The new level of interest rate is determined by the rate at which the government raises new money and/or the price levels at which the market is already dealing in existing securities. Prices of long-term securities generally fluctuate more in response to interest rate changes than short-term securities. The price risk is low in the case of the floating rate or inflation-linked bonds. The price risk does not exist if the investment is made under a repo agreement. Debt markets, especially in developing markets like India, can be volatile leading to the possibility of price movements up or down in fixed income securities and thereby to possible movements in the NAV. Modified Duration is a measure of price sensitivity, the change in the value of investment to a 1% change in the yield of the investment.

7. Credit Risk: Credit risk refers to the risk that an issuer of fixed income security may default or may be unable to make timely payments of principal and interest. NAV of units of the liquid scheme is also affected because of the perceived level of credit risk as well as actual event of default. Even where no default occurs, the prices of security may go down because the credit rating of an issuer goes down. It must be, however, noted that where the Scheme has invested in Government securities, there is no risk to that extent.

8. Illiquidity Risk: The corporate debt market is relatively illiquid vis-a-vis the government securities market. There could therefore be difficulties in exiting from corporate bonds in times of uncertainties. Further, liquidity may occur only in specific lot sizes. Liquidity in a Security can therefore suffer. Even though the Government securities market is more liquid compared to that of other debt instruments, on occasions, there could be difficulties in transacting in the market due to extreme volatility or unusual constriction in market volumes or on occasions when an unusually large transaction has to be put through. Trading in specified debt securities on the Exchange may be halted because of market conditions or for reasons that in the view of the Exchange Authorities or SEBI, trading in the specified debt security is not advisable. There can be no assurance that the requirements of the securities market necessary to maintain the listing of specified debt security will continue to be met or will remain unchanged. In such a situation, the Portfolio Manager at his sole discretion will return the Securities to the Client.

9. Pre-payment Risk: Certain fixed income securities give an issuer the right to call back its securities before their maturity date, in periods of declining interest rates. The possibility of such prepayment may force the fund to reinvest the proceeds of such investments in securities offering lower yields, resulting in lower interest income for the fund.

10. Reinvestment Risk: Investments in fixed income securities may carry reinvestment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate

11. Spread Risk: In a floating rate security the coupon is expressed in terms of a spread or mark up over the benchmark rate. In the life of the security this spread may move adversely leading to loss in value of the portfolio. The yield of the underlying benchmark might not change, but the spread of the security over the underlying benchmark might increase leading to loss in value of the security

12. Investments in money market instruments would involve a moderate credit risk, i.e. risk of an issuer's inability to meet the principal payments

13. Money market instruments may also be subject to price volatility due to factors such as changes in interest rates, general level of market liquidity and market perception of credit worthiness of the issuer of such instruments

14. The value of the Product, to the extent that the Product is invested in money market instruments, will be affected by changes in the level of interest rates. When interest rates in the market rise, the value of a portfolio of money market instruments can be expected to decline

Risks associated with investing in Derivatives:

1. The portfolio manager may invest in derivative products in accordance with and to the extent permitted under the Regulations. The use of derivatives requires an understanding of the underlying instruments and the derivatives themselves. The risk of investments in derivatives includes mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

2. Trading in derivatives carries a high degree of risk although they are traded at a relatively small amount of margin which provides the possibility of great profit or loss in comparison with the principal investment amount.

3. The portfolio manager may find it difficult or impossible to execute derivative transactions in certain circumstances. For example, when there are insufficient bids or suspension of trading due to price limits or circuit breakers, the portfolio may face a liquidity issue.

4. The option buyer's risk is limited to the premium paid, while the risk of an option writer is unlimited. However, the gains of an option writer are limited to the premiums earned. Since in case of the portfolio all option positions will have underlying assets, all losses due to price–movement beyond the strike price will actually be an opportunity loss.

5. The relevant stock exchange may impose restrictions on exercise of options and may also restrict the exercise of options at certain times in specified circumstances.

6. The writer of a put option bears the risk of loss if the value of the underlying asset declines below the exercise price. The writer of a call option bears a risk of loss if the value of the underlying asset increases above the exercise price.

7. Investments in index futures face the same risk as investments in a portfolio of shares representing an index. The extent of loss is the same as in the underlying stocks.

8. The portfolio bears a risk that it may not be able to correctly forecast future market trends or the value of assets, indexes or other financial or economic factors in establishing derivative positions for the portfolio.

9. The risk of loss in trading futures contracts can be substantial, because of the low margin deposits required, the extremely high degree of leverage involved in futures pricing and the potential high volatility of the futures markets.

10. Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends on the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involves uncertainty and the decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies.

11. The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

12. As and when the portfolio manager trades in derivative products, there are risk factors and issues concerning the use of derivatives that