

Motilal Oswal MOST 10 Year Gilt Fund

(An open ended Gilt Scheme)

Frequently Asked Questions

- 1) **Why should one invest in a G-Sec fund while short term funds are delivering decent returns?**
 - Short term funds primarily deliver returns due to current tightness in the liquidity. Short term instruments generally react due to liquidity considerations ie when the liquidity is tight, short term yields rise and vice versa.
 - They are meant for investors with shorter investment horizon.
 - On the contrary, G-Sec funds with relatively longer duration provide investors an opportunity to play on the interest rate cycle with no default risk.

- 2) **Factors affecting interest rate cycle?**
 - Inflation
 - Fiscal Deficit
 - GDP
 - Currency situation
 - Commodity prices
 - Investment outlook
 - Monetary policy

- 3) **Can there capital erosion in G-Sec bonds?**
 - Interest rate & bond price have inverse relationship ie if the interest rate moves up, bond price depreciates & vice versa impacting the returns.
 - While there is no evident default risk, adverse interest movements can potentially lead to erosion of capital.

- 4) **What kind of horizon an investor should look at while parking funds into MOST 10 Year Gilt Fund?**

Investors should typically come with a 12- 24 months horizon.

- 5) **What tenure of G-Sec's is available in the market?**

G-Sec is available from 1 year to 30 year tenure

- 6) **What is the Tax implication for MOST 10 Year Gilt Fund?**
 - Similar to any other Debt Fund, Dividends are Tax Free in the hands of the investor.
 - Units if held for a period of one year & above are eligible for indexation benefits. (as per the current tax ruling)

- 7) **What are Indexation benefits and how is it calculated? Pls. explain with the help of an example.**
 - In case of long-term capital gains, the tax liability is computed using two methods i.e. with indexation (charged at 20% plus surcharge) and without indexation (charged at 10% plus surcharge); the tax liability will be the lower of the two.
 - Simply put, indexation means adjusting the cost of the capital asset (in this case a mutual fund), by incorporating the impact of inflation during the period of holding i.e. the period between the purchase date and the date of transfer/sale. An example will help us better understand the same.
 - Say an investor Mr. A purchases units of Gilt Fund on April 1, 2010; he buys 1,000 units at ₹ 10.00 each. He decides to sell his entire holding on April 1, 2011; on the date of sale, the net asset value (NAV) of each unit is ₹ 10.90. While computing his tax-liability, Mr. A needs to compute the gains using both the methods i.e. with indexation and without indexation. In the latter, the capital gains amount to ₹ 900 (₹ 10,900 less ₹ 10,000).
 - Conversely, for computing the capital gains taking into account the indexation benefits, the Cost Inflation Index (CII) needs to be factored in. The CII for the year of purchase i.e. 2010 is 730, while that for the year of sale i.e. 2011 is 785.

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The indexed cost of purchase is computed as follows:
 $(\text{Cost of purchase} \times \text{CII} - \text{year of sale}) / (\text{CII} - \text{year of purchase})$

How indexation works

Cost of Purchase	Rs 10,000
Sale proceeds (II)	Rs 10,900
CII - Year of purchase	730
CII - Year of sale	785
Indexed cost of purchase (III)	Rs 10,753
Capital gains (with indexation) (II - III)	Rs 146
Capital gains (without indexation) (II - I)	Rs 900
Tax liability (with indexation)	Rs 29.3
Tax liability (without indexation)	Rs 90

As can be seen in the table above, the capital gains, after factoring in indexation amounts to ₹ 146 vis-vis ₹ 900 without indexation. The tax liability would be the lower of ₹ 29.3 (with indexation) than ₹ 90 (Without indexation)

Note: Investors are requested to concern their own tax advisor and the example stated above, is only for explanation purpose and should not be construed as tax advice

8) How is the MOST 10 Year Gilt Fund different from other GILT funds available?

No.	MOST 10 Year Gilt Fund	Other Gilt Funds
1)	Replicates the characteristics of the 10 Year Benchmark G-Sec	Invests in basket of securities with varying maturities
2)	Invests pre dominantly in the 10 year Benchmark Government security	No certainty in the investment duration
3)	Purest play on the interest rate cycle	Not necessarily purest play on interest rate cycle due to investments in varying maturities
4)	No fund manager risk as no active duration management	Active duration calls being taken leading to fund manager risk
5)	Most liquid segment of the market	Also invests in relatively lesser liquid instruments

9) What is the Total expense of the fund (entry and exit load)?

- The Total Expense Ratio (TER) of the fund is 0.99% p.a.
- Entry load - Nil
- Exit load - 0.50% applicable if redeemed within 3 months from the date of investment/allotment of units.

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Disclaimers: Statutory Details: Constitution: Motilal Oswal Mutual Fund has been set up as a trust under the Indian Trust Act, 1882. **Trustee:** Motilal Oswal Trustee Company Limited. **Investment Manager:** Motilal Oswal Asset Management Company Ltd. **Sponsor:** Motilal Oswal Securities Ltd. **Scheme Classification:** Motilal Oswal MOST 10 Year Gilt Fund (MOST 10 Year Gilt Fund), an open ended gilt scheme **Investment Objective:** The primary investment objective of the Scheme is to generate credit risk-free returns by investing in a portfolio of securities issued by the Central Government and State Government. **Asset Allocation:** 10 yr Benchmark Government Security: 90%-100%; Other Government Securities (7 to 12 years), T-Bills, Cash Management Bills, CBLO & Repo: 0-10%. **Load:** Entry Load: Nil Exit Load: 0.50% for exit within 3 months **Terms of Issue: Minimum Application Amount: During NFO& ongoing basis:** Rs. 10,000/- and in multiples of Re. 1/-thereafter. **Face Value & Issue Price:** Offer of units of Rs. 10/- per unit during the New Fund Offer and at NAV based prices on ongoing basis. **Investor Benefits and General Services:** During NFO, Investors can also subscribe to the units through the mutual fund trading platforms viz. BSE StAR MF of Bombay Stock Exchange Limited (BSE) and Mutual Fund Service System (MFSS) of NSE. The AMC will calculate and publish the first NAV of the Scheme not later than 30 days from the closure of the NFO. Subsequently, the NAVs will be calculated and disclosed at the close of every Business Day. **Risk Factors: (1) All the Mutual Funds and securities investments are subject to market risks and there can be no assurance that the Scheme's objectives will be achieved (2) As the price / value / interest rates of the securities in which the Scheme invests fluctuates, the Net Asset Value (NAV) of units issued under the Scheme may go up or down depending upon the factors and forces affecting the securities market (3) Past performance of the Sponsor/AMC/Mutual Fund and its affiliates does not indicate the future performance of the Scheme and may not provide a basis of comparison with other investments (4) Motilal Oswal MOST 10 Year Gilt Fund (MOST 10 Year Gilt Fund) is the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects and returns. Investors are therefore urged to study the terms of offer carefully and consult their Investment Advisor before they invest in the Scheme (5) The Sponsor is not responsible or liable for any loss or shortfall resulting from the operation of the Mutual Fund beyond the initial contribution made by it of an amount of Rs. 1 Lac towards setting up of the Mutual Fund (6) The present Scheme is not a guaranteed or assured return Scheme. **Scheme Specific Risk Factors:** The 10 yr Benchmark Government Bond is the most liquid security in the entire Government Bond market, presently it alone constitutes about 80%-90% of the entire volume of the Government Bond market. The 10 yr Benchmark however changes every year as there is a new 10 yr Benchmark Government Bond issued by the RBI as the existing one becomes a 9 yr residual maturity paper, hence the market exits from the existing paper and the focus shifts to the new 10 yr Benchmark Government Bond. For further Scheme Specific Risk Factors & other details, Please read the Scheme Information Document (SID) & Statement of Additional Information (SAI) carefully before investing. A copy of SID, SAI and KIM along with the application form are available at the office of the AMC, R&T, Distributors, or can be downloaded from www.motilaloswal.com/assetmanagement and www.mostshares.com Investors can also contact us on our toll free number 1800-200-6626 or send email at mfservice@motilaloswal.com**