—Sundaram—

Hybrid Fund-Series-M

SUNDARAM MUTUAL
UNEARTHING OPPORTUNITIES

A 1300 Days Closed-End Hybrid Scheme

NFO Period : May 19, 2015 to May 28, 2015

This product is suitable for investors who are seeking*

- Income over long term
- Investment in fixed income securities and long term capital appreciation by investing a portion of the assets in equity and equity related instruments
- Medium Risk Yellow

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk may be represented as:

(BLUE) investors understand that their principal will be at low risk

(YELLOW) investors understand that their principal will be at medium risk

(BROWN) investors understand that their principal will be at high risk

Objective

To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities

Portfolio Strategy

Fixed Income: Passive; in instruments rated AA & above

Equity: Active management; in large-cap stocks, Large cap' stocks are defined as any equity stock whose market capitalization shall not be below the market capitalization of the 50th stock (after sorting the securities in the descending order of market capitalization) listed with The National Stock Exchange of India Limited.

Suitability

The fund is intended for investors who have low tolerance for the volatility of the equity markets, but at the same time, want to strive for a higher return than fixed deposits.

(Investors are neither being offered any guaranteed / indicated returns nor any guarantee on repayment of capital by the Scheme. Investors are advised to consult their investment advisors before taking investment decisions).

How the fund objective and strategy can help the investor achieve these goals:

1. A larger allocation to fixed income to deliver a certain level of income
2. A relatively smaller allocation to equity to try and achieve capital appreciation
3. The prevalent tax treatment enables investors to achieve better post tax returns vis-à-vis non mutual fund investments

A larger allocation to fixed income to deliver a certain level of income

Based on the current market conditions, an allocation of 80% may be made to this asset class. The prevalent yield (as on April 30, 2015) on the fixed income instruments, mainly corporate bonds, with a 1300 days tenure is in the range of 8.5% to 8.75%. (Source: Bloomberg).

A smaller allocation to equity to try and achieve capital appreciation

The allocation to Equity may be around 20% of the total assets. While it is not possible to predict the capital gains from the equity allocation, it is a fact that equity markets in the past have delivered higher returns than fixed income although accompanied by a higher degree of risk.

To help understand the linkage between degrees of risk and return in the past, the table below analyses the data based on the CNX Nifty, obtained over a ten-year period on a 1300 days rolling return basis. A total of 1,185 observation points have been used.

Annualized Return	# of occasions	% of occasions	Cumulative % of occasions
20% to 25% p.a	89	7.5	7.5
15% to 20% p.a	176	14.9	22.4
10% to 15% p.a	297	25.1	47.4
5% to 10% p.a	337	28.4	75.9
0% to 5% p.a	254	21.4	97.3
< 0% p.a	32	2.7	100

Table 1: CNX Nifty 10-year observations; Source – Bloomberg; In-house computation. Index values taken from April 30, 2005 to April 30, 2015.

The table above shows clearly the risk return scenario. Total of 1,185 observations have been used. A few points that are self-explanatory over a ten-year time-frame in a 1300 days period are:

- CNX Nifty has delivered a negative return in only 2.7% of the observations

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- CNX Nifty has delivered greater than double digit return in 47.4% of the observations
- In 7.5% of the observations, CNX Nifty has delivered returns of more than 20% p.a

Thus, it is apparent that the equity markets do carry a risk of erosion of capital, but also deliver the reward of high appreciation.

Tax Treatment*

The prevalent tax treatment enables investors to achieve better post tax returns vis-à-vis non mutual fund investments.

The table below illustrates the same. This illustration compares the fund with a 3 to 5 years fixed deposit.

Particulars	Fixed Deposit	Fund with Indexation
Applicable Tax Rate (%)	30.9	20.6
Amount Invested (₹)	100.0	100.0
Interest/Gains for Maturity Period (₹)	33.1	33.1
Value at Maturity (₹)	133.1	133.1
Initial Cost of Acquisition (₹)	100.0	100.0
Indexation (₹)	—	26.0
Cost for computation of capital gain (₹)	100.0	126.0
Taxable Income (₹)	33.1	7.1
Tax Liability (₹)	10.2	1.5
Post-tax return (₹)	22.9	31.6
Pre-tax annualized yield (%)	**8.5**	**8.5**
Post tax annualized yield (%)	**6.0**	**8.0**

Table 2 – Tax Illustration Source: Maturity Value of a 3 to 5-year Fixed Deposit from SBI obtained from SBI website available as on April 30, 2015. Cost inflation index is considered as 8.0% for three years.

Highest tax slab considered for the illustration. Please consult your tax advisor for details. Limitations and assumptions: All the attributes of Hybrid Fund & Bank FD's are not comparable. The comparison is limited to the scope of returns and tax efficiency which will be subject to prevailing tax laws. The above calculation is for illustrative purpose and actual figures may vary.

*Subject to existing tax laws

As the table illustrates, a debt-oriented mutual fund gives a significantly higher post tax yield compared to fixed deposits.

Post Tax Yield greater by 2.1 percentage points if the investor opts for 'with indexation'

Possible Scenarios With The Hybrid Investment Strategy

Assumptions

- An initial investment of ₹ 100 for 3.5 years
- ₹ 80 invested in Fixed Income; ₹ 20 invested in equity
- Yield on Fixed Income instruments @ 8.5% p.a

Assumed Annualized Equity Return %	Portfolio Maturity Value ₹	Annualized Portfolio Return %	Annualized Post-Tax Portfolio Return %
5.0	118.3	4.8	4.8
11.0	123.0	**6.0**	**6.0**
15.0	126.4	6.8	6.8
20.0	131.2	7.9	7.7
21.8	**133.1**	8.4	8.0
25.0	136.6	9.1	8.6
30.0	142.4	10.4	9.7

Table 3 – Portfolio return at various equity levels; In-house computation. The above calculation is for illustrative purpose and actual figures may vary

To deliver a return equivalent to that of a Fixed Deposit on a post-tax basis, the portfolio has to deliver 6.0% p.a with indexation; with an equity return of **11.0%** p.a. which has occured 46.2% of the times (Table 1)