Key Information Memorandum (KIM)

Zerodha Nifty Smallcap 100 ETF

(An open-ended scheme replicating/tracking Nifty Smallcap 100 Total Return Index)

BSE Symbol/ Scrip Code: [🔾] , ***NSE Symbol***: [🔾]

Key Information Memorandum

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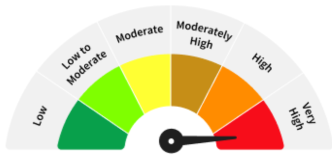
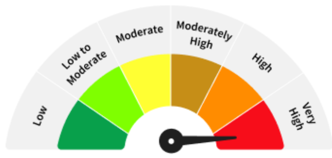
(An open-ended scheme replicating/tracking Nifty Smallcap 100 Total Return Index)
BSE Symbol/ Scrip Code: [ ], ***NSE Symbol**:* [ ]

This product is suitable for investors who are seeking*:	Risk-o-meter of the Scheme	Risk-o-meter of the Benchmark (Nifty 100 Index TRI)
Long term capital growth Investment in equity and equity related securities covered by Nifty Smallcap 100 TRI		
Investors should understand that their principal will be at **Very High Risk**		

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

The product labelling assigned during the New Fund Offer (NFO) is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when actual investments are made.

(Face Value of ₹10 and Offer for Sale of Units at ₹10/- per unit (subject to statutory deductions, if any) as on the date of allotment for applications received during the New Fund Offer (NFO) period and at intraday NAV based on the actual execution price of the underlying portfolio during the Ongoing Offer for applications directly received at AMC.)

New Fund Offer opens on	**August 25, 2025**
New Fund Offer closes on	**September 05, 2025**
Scheme reopens on	**Scheme will reopen for continuous Sale and Repurchase within 05 Business Days from the date of allotment of units under NFO**

Name of Sponsor	**Zerodha Broking Limited**
Name of Mutual Fund	**Zerodha Mutual Fund**
Name of Asset Management Company	**Zerodha Asset Management Private Limited**

Name of Trustee Company	Zerodha Trustee Private Limited
Address	**Indiqube Penta, New No. 51 (Old No. 14), Richmond Road, Bangalore - 560 025**
Website	**www.zerodhafundhouse.com**

This Key Information Memorandum (KIM) sets forth the information, which a prospective investor ought to know before investing. For details of the scheme/ Mutual Fund, due diligence certificate by the AMC, Key Personnel, investors' rights and services, risk factors, penalties & pending litigations, etc. investor should, before investing, refer to the Scheme Information Document and Statement of Additional Information available free of cost or access the same from the website www.zerodhafundhouse.com

The scheme particulars have been prepared in accordance with Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, as amended till date, and filed with Securities and Exchange Board of India (SEBI). The units being offered for public subscription have not been approved or disapproved by SEBI, nor has SEBI certified the accuracy or adequacy of this KIM.

The Key Information Memorandum is dated August 20, 2025.

<table>
<tr>
<td>Investment Objective</td>
<td>The investment objective of the scheme is to invest in stocks comprising the Nifty Smallcap 100 Index in the same proportion as in the index to achieve returns equivalent to the Total Return Index of Nifty Smallcap 100 Index (subject to tracking error).

There is no assurance or guarantee that the investment objective of the scheme would be achieved.</td>
</tr>
<tr>
<td>Asset Allocation Pattern of the Scheme</td>
<td>Under the normal circumstances, the asset allocation (% of Net Assets) of Scheme’s portfolio will be as follows:
<table>
<tr><th rowspan="2">Instruments</th><th colspan="2">Indicative allocations (% of total assets)</th></tr>
<tr><th>Minimum</th><th>Maximum</th></tr>
<tr><td>Equities and equity related securities covered by Nifty Smallcap 100 Index TRI</td><td>95%</td><td>100%</td></tr>
<tr><td>Debt and Money Market Instruments, cash and cash equivalents</td><td>0%</td><td>5%</td></tr>
</table>
In accordance with SEBI circular no. SEBI/HO.IMD/DF2/CIR/P/2021/024 dated March 04, 2021, the cumulative gross exposure through equity and equity instruments, debt, money market instruments and derivative position will not exceed 100% of the net assets of the scheme.

However, cash and cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.

The funds raised under the Scheme shall be invested in the stocks and will be as per Regulation 44 (1), Schedule 7 of the SEBI (MF) Regulations.

The Scheme does not intend to undertake/ invest/ engage in the following:
<table>
<tr><th>S.No.</th><th>Type of Instrument</th><th>Percentage of exposure</th><th>Circular references</th></tr>
<tr><td>1.</td><td>Securitized Debt</td><td rowspan="3" colspan="2"></td></tr>
<tr><td>2.</td><td>Short selling of securities</td></tr>
<tr><td>3.</td><td>Repo in corporate debt</td></tr>
</table>
</td>
</tr>
</table>

4.	Unrated instruments (except TREPs/ Government Securities/ SDL / Repo in Government Securities);	The Scheme will not invest/engage in these instruments.
5.	Foreign securities/ADR/GDR	
6.	ReITs and InVITs	
7.	Instruments having Special Features as defined in SEBI Circular no. SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021;	
8.	Credit Enhancements & Structured Obligations; and	
9.	Credit Default Swaps	

The scheme shall make investment in derivatives as permitted under the SEBI (MF) regulations. Exposure to equity derivatives of the index or its constituent stocks may be required in certain situations wherein equity shares are unavailable, insufficient or for rebalancing in case of corporate actions within 7 days (or as specified by SEBI from time to time). Investment in derivatives will be upto 20% of the net assets.

Subject to the Regulations and the applicable guidelines, the Scheme may engage in Stock Lending activities. The Scheme will participate in stock lending not more than 20% of total Net Assets of the Scheme and would limit its exposure with regard to stock lending for a single intermediary to the extent of 5% of the total net assets at the time of lending.

Change in Asset Allocation

The Scheme, in general, will hold all the securities that comprise the underlying Index in the same proportion as the Index. Expectation is that, over a period of time, the tracking error of the Scheme relative to the performance of the Underlying Index will be relatively low. The Investment Manager would monitor the tracking error of the Scheme on an ongoing basis and would seek to minimise tracking error to the maximum extent possible. If the investments fall outside the asset allocation range given above due to change in constituents of the index as a result of periodic review, the portfolio of the Scheme shall be rebalanced within 7

	calendar days. The proportions mentioned in the asset allocation can vary substantially depending upon the perception of the fund manager; the intention being at all times to seek to protect the interests of the Unit holders. Such changes in the investment pattern will be for short term and for defensive considerations only and will be rebalanced within 7 calendar days. As per SEBI Circular No. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022, in case of deviation (passive), the portfolio would be rebalanced within 7 calendar days from the date of deviation. The funds raised under the Scheme shall be invested only in securities as permitted by SEBI (MF) Regulations. Provided further and subject to the above, any change in the asset allocation affecting the investment profile of the Scheme shall be effected only in accordance with the provisions of sub regulation (15A) of Regulation 18 of the SEBI (MF) Regulations. **Portfolio Rebalancing:** Pursuant to SEBI circular no. SEBI/HO/IMD/IMD - II DOF3/P/CIR/2022/39 dated May 23, 2022 and circulars issued thereunder, in case of change in constituents of the index due to periodic review, the portfolio of the scheme will be rebalanced within 7 calendar days. **Short term defensive consideration:** Subject to SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021 and circulars issued thereunder, the asset allocation pattern indicated above may change for a short term period on defensive considerations, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. These proportions may vary depending upon the perception of the Fund Manager, the intention being at all times to seek to protect the interests of the Unit holders. Such changes in the investment pattern will be rebalanced within 7 calendar days from the date of deviation and further action may be taken as specified under SEBI Circulars/ AMFI guidelines issued from time to time. **Timelines for deployment of Funds mobilized in a New Fund Offer (NFO)** Pursuant to SEBI Circular dated February 27, 2025, the funds mobilized during the New Fund Offer (NFO) shall be deployed in accordance with the asset allocation pattern of the scheme within 30 business days from the date of allotment of units. In exceptional cases where the AMC is not able to deploy the funds within this period, shall provide an explanation, including details of the efforts made to deploy the funds, to the Investment Committee of the AMC. The Investment Committee may extend the deployment timeline by up to 30 business days and shall provide recommendations to ensure timely deployment in the future.

<table>
<tr><td>Investment Strategy</td><td>The Scheme is a passively managed ETF, which endeavors to invest in stocks in proportion to the weightage of the stocks in the Nifty Smallcap 100 Index. The investment strategy would revolve around reducing the tracking error to the least possible extent through regular rebalancing of the portfolio, taking into account the change in weights of stocks in the Index as well as the incremental collections/redemptions in the Scheme. Such rebalancing shall be done in accordance with timelines prescribed by SEBI from time to time.

A part of the funds may be invested in debt and money market instruments, to meet the liquidity requirements.

The Scheme may also invest in the schemes of Mutual Funds in terms of the prevailing SEBI (MF) Regulations.

Though every endeavour will be made to achieve the objective of the Scheme, the AMC/Sponsors/Trustee do not guarantee that the investment objective of the Scheme will be achieved. No guaranteed returns are being offered under the Scheme.</td></tr>
<tr><td>Risk Profile of the scheme</td><td>Mutual Fund Units involve investment risks including the possible loss of principal. Please read the SID carefully for details on risk factors before investment. Scheme specific Risk Factors are summarized at page no. 17 to 23.

For details on risk factors and risk mitigation measures, please refer to the Scheme Information Document (SID).</td></tr>
<tr><td>Plans and Options</td><td>Not Applicable.</td></tr>
<tr><td>Applicable NAV</td><td>The NAV applicable for purchase or redemption or switching of Units based on the time of the Business Day on which the application is accepted, subject to the provisions of 'realization of funds' and 'cut off timings' as described in this Scheme Information Document.</td></tr>
<tr><td>Minimum Application Amount/ Number of Units</td><td>
<table>
<tr><th>Purchase</th><th>Additional Purchase</th><th>Redemption</th></tr>
<tr><td>On the Exchange:

Investors may purchase the Units of the Scheme through the Stock Exchange(s) on which the units of the Scheme are listed, on any trading day in round lot</td><td>On the Exchange:

The Units of the Scheme can be Purchased in minimum lot of 1 Unit and in multiples thereof.</td><td>On the Exchange:

Investors can subscribe (buy) / redeem (sell) Units on a continuous basis on the National Stock Exchange of India Limited and BSE Limited or any other recognised</td></tr>
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</td></tr>
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	of one (1) Unit and multiples thereof at the prevailing listed price. **Directly with Mutual Fund:** Only Market maker(s) and large investors subject to following: a. Market Maker(s): Market maker(s) can directly purchase units with the Fund in “Creation Unit Size”. The limit of ₹ 25 crores or such other amount as may be specified by SEBI from time to time is not applicable for Market Makers. b. Large Investor(s): Large investors can directly purchase from the fund in “Creation unit size” subject to the value of transaction is greater than the threshold of ₹ 25 crores or such other amount as may be specified by SEBI from time to time.	**Directly with Mutual Fund:** Purchase: 1,50,000 Units (Creation Unit Size) and in multiples thereof provided amount is greater than ₹ 25 Crore. The limit of ₹ 25 crores or such other amount as may be specified by SEBI from time to time is not applicable for Market Makers and shall not be applicable to (i) schemes managed by Employee Provident Fund Organisation, India; and (ii) Recognized Provident Funds, approved Gratuity Funds and approved Superannuation Funds under Income-tax Act, 1961 till August 31, 2025 or any other date as may be communicated by SEBI.	Stock Exchange(s) as may be decided by the AMC from time to time on which the Units are listed. Subscriptions / Redemptions made through Stock Exchange(s) will be made by specifying the number of Units to be subscribed / redeemed and not the amount to be invested. On the Stock Exchange(s), the Units of the Scheme can be purchased / sold in a minimum lot of 1 (one) Unit and in multiples thereof. **Directly with Mutual Fund:** The Scheme offers redemptions only for Market Makers and Large Investors in ‘Creation Unit Size’ on all Business Days at applicable NAV (along with applicable charges and execution variations) during the Ongoing Offer for applications directly received at AMC. Large investors can redeem directly with the AMC for an amount greater than ₹25 crores. Additionally, transaction handling charges, if any, will have to be borne by the Market Makers /Large Investor.

			The Portfolio Deposit and Cash Component for the Scheme may change from time to time due to change in NAV. The redemption of Units of the Scheme in Creation Unit Size will be allowed both by means of exchange of Portfolio Deposit and by cash (i.e. payments shall be made only by means of payment instruction of Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT)). The Fund may from time to time change the size of the Creation Unit in order to equate it with marketable lots of the underlying instruments. No switch (switch-in/switch-out) requests will be accepted under the Scheme. The AMC/ Trustee reserves the right to change/ modify the terms of minimum redemption amount provision offered under the Scheme of the Fund.
	**The limit of ₹ 25 crores or such other amount as may be specified by SEBI from time to time is not applicable for Market Makers and shall not be applicable to (i) schemes managed by Employee Provident Fund Organisation, India; and (ii) Recognized Provident Funds, approved Gratuity Funds and approved*		

	Superannuation Funds under Income-tax Act, 1961 till August 31, 2025 (as per SEBI letter dated February 28, 2025) or any other date as may be communicated by SEBI.
Despatch of Repurchase (Redemption request)	Redemption: Within three working days of the receipt of the redemption request.
Benchmark Index	The Benchmark for the Scheme is NIFTY Smallcap 100 TRI. The Scheme proposes to invest in equity and equity related instruments of companies, which are constituents of the Nifty Smallcap 100 Index. Hence, it is an appropriate benchmark for the Scheme. Further, a Total Returns Index reflects the returns on the index from index gain/loss plus dividend payments by constituent index stocks. The performance will be benchmarked to the Total Returns Variant of the Index. The Trustee reserves the right to change the benchmark for evaluation of performance of the Scheme from time to time in conformity with the investment objectives and appropriateness of the benchmark subject to SEBI (MF) Regulations, and other prevailing guidelines, if any by suitable notification to investors to this effect.
Dividend Policy	Not Applicable
Name of the Fund Manager	Mr. Kedarnath Mirajkar
Name of the Trustee Company	Zerodha Trustee Private Limited
Performance of the scheme	This scheme is a new scheme and does not have any performance track record.
Additional Scheme Related Disclosures	1. **Scheme Portfolio Holdings** Please visit the AMC/MF website viz.www.zerodhafundhouse.com/resources/disclosures for Top 10 holdings by issuer and the portfolio holdings statements of the scheme. 2. **Disclosure of name and exposure to Top 7 issuers, stocks, groups and sectors**

Please visit the AMC/MF website viz.www.zerodhafundhouse.com/resources/disclosures for details on names and exposure to Top 7 issuers, Groups and Sectors as a percentage of NAV.

3. **Portfolio Turnover Rate**

The Scheme will endeavor to keep the portfolio turnover at a minimum. However, the portfolio turnover ratio may vary as the Scheme may change the portfolio according to Asset Allocation to align itself with the objectives of the Scheme and in accordance with the composition of Nifty Smallcap100 Index. The effect of higher portfolio turnover could be higher brokerage and transaction costs.

Portfolio Turnover Ratio can be accessed from the website of the AMC viz. www.zerodhafundhouse.com/resources/disclosures.

Expenses of the scheme
(i) Load Structure

New Fund Offer Period

Exit/ Redemption Load: **Not Applicable**

Continuous Offer Period

Exit/ Redemption Load: **Not Applicable**.

(ii)Recurring expenses

These are the fees and expenses incurred for the Scheme. These expenses include but are not limited to Investment Management and Advisory Fee charged by the AMC, Registrar and Transfer Agents' fee, marketing and selling costs, listing fee, etc.

The AMC has estimated that the following expenses will be charged to the Scheme as permitted under Regulation 52 of SEBI (MF) Regulations. For the actual current expenses being charged, the investor should refer to the website of the Mutual Fund viz. www.zerodhafundhouse.com

Expense Head	% of daily net assets (estimated) (p.a.)
Investment Management and Advisory Fees	**Upto 1.00%**
Audit fees/fees and expenses of trustees[1]	
Custodial Fees	

Registrar & Transfer Agent Fees including cost of providing account statements / IDCW / redemption cheques/ warrants	
Marketing & Selling Expenses including Agents Commission and statutory advertisement	
Cost related to Investor Communication	
Cost of fund transfer from one location to another	
Cost towards investor education and awareness[2]	
Brokerage and Transaction cost over and above 0.12% and 0.05% on value of trades for cash and derivative market trades only	
GST on expenses other than Investment Management and Advisory Fees[3]	
GST on brokerage and transaction cost[3]	
Other Expenses	
Maximum Total Expense Ratio (TER) permissible under Regulation 52 (6)[4]	**Upto 1.00%**

[1] *Trustee Fees and Expenses*

In accordance with the Trust Deed constituting the Mutual Fund, the Trustee is entitled to receive, in addition to the reimbursement of all costs, charges, and expenses, a yearly fee of ₹1. Such fee shall be paid to the Trustee within seven working days of the end of every year. The Trustee may charge further expenses as permitted from time to time under the Trust Deed and SEBI (MF) Regulations.

[2] *Investor Education and Awareness initiatives*

As per PSEBI Circular no. SEBI/HO/IMD/DOF2/P/CIR/2022/69 dated May 23, 2022 read with SEBI Circular no. SEBI/HO/IMD/PoD2/P/CIR/2024/183 dated December 31, 2024, the AMC shall annually set apart 5% of total TER charged to direct plans, subject to maximum of 0.5 bps of AUM for passive schemes as defined under the circular dated December 31, 2024, within the limits of total expenses prescribed under Regulation 52 of SEBI (MF) Regulations for investor education and awareness initiatives undertaken.

[3] *Refer Point (3) below on GST on various expenses.*

[4] *The expenses towards Investment Management and Advisory Fees under Regulation 52 (2) and the various sub-heads of recurring expenses mentioned*

	under Regulation 52 (4) of SEBI (MF) Regulations are fungible in nature. Thus, there shall be no internal sub-limits within the expense ratio for expense heads mentioned under Regulation 52 (2) and (4) respectively. *The purpose of the above table is to assist the Investor in understanding the various costs and expenses that an Investor in the Plan(s) under the Scheme will bear directly or indirectly. The figures in the table above are estimates. The actual expenses that can be charged to the Scheme will be subject to limits prescribed from time to time under the SEBI (MF) Regulations.* **GST** As per Para B of the SEBI circular no. CIR/IMD/DF/21/2012 dated September 13, 2012, GST shall be charged as follows: - a. GST on investment management and advisory fees shall be charged to the Scheme in addition to the maximum limit of TER as prescribed in Regulation 52 (6) of the SEBI (MF) Regulations. b. GST on other than investment management and advisory fees, if any, shall be borne by the Scheme within the maximum limit of TER as prescribed in Regulation 52 (6) of the SEBI (MF) Regulations. c. GST on brokerage and transaction cost paid for execution of trade, if any, shall be within the limit prescribed under Regulation 52 of the SEBI (MF) Regulations. The total expenses of the Scheme including the Investment Management and Advisory Fee shall not exceed the limits stated in Regulation 52 of the SEBI (MF) Regulations. The mutual fund would update the current expense ratios on the website (www.zerodhafundhouse.com) at least three working days prior to the effective date of the change and update the TER under the Section titled "Statutory Disclosures" under the sub-section titled "Total Expense Ratio of Mutual Funds".
Tax Treatment for the Investors (Unitholders)	Investors are advised to refer to the paragraph on '**Taxation'** in the '**Statement of Additional Information**' and to consult their own tax advisors with respect to the specific amount of tax and other implications arising out of their participation in the scheme.
Daily Net Asset Value (NAV) Publication	The NAV will be calculated by the AMC for each Business Day except in special circumstances. AMC shall disclose the NAV for each Business Day as below:

<table>
<tr><td></td><td colspan="2">1. On the website of the Fund/AMC viz www.zerodhafundhouse.com - 11.00 P.M. of every business day.
2. On the website of Association of Mutual Funds in India (AMFI) - 11.00 P.M. of every business day.</td></tr>
<tr><td>For Investor Grievances please contact</td><td>Investors can lodge any service request or complaints or enquire about NAVs, Unit Holdings, etc. by sending an email to support@zerodhafundhouse.com

The investor service representatives may require personal information of the Investor for verification of his / her identity in order to protect confidentiality of information.

The AMC will at all times endeavour to handle transactions efficiently and to resolve any investor grievances promptly.
Any complaints should be addressed to the Investor Relations Officer.

Address:
Investor Relation Officer
Zerodha Asset Management Private Limited
New No.51, IndiQube Penta, 2nd Floor, Richmond Road, Bangalore - 560 025
Email - iro@zerodhafundhouse.com

For any grievances with respect to transactions through BSE StAR, the investors / Unit Holders should approach either the stockbroker or the investor grievance cell of the stock exchange.

Investors may escalate to the Compliance Officer at compliance@zerodhafundhouse.com and/ or CEO at ceo@zerodhafundhouse.com if they do not receive a response/ not</td><td>Registrar and Transfer Agent

Computer Age Management Services Limited (CAMS)

Rayala Tower-1, 158 Anna Salai, Chennai - 600 002
Website: www.camsonline.com

<u>Please note that the Investor Grievances are being handled by AMC, so Investors are requested to reach out directly to the AMC.</u></td></tr>
</table>

	satisfied with the response from the Investor Relations Team.	
Unitholders' Information	**ACCOUNT STATEMENTS DURING ONGOING OFFER PERIOD** The AMC shall send an allotment confirmation specifying the units allotted by way of email and/or SMS within 5 working days of receipt of valid application/transaction to the Unit holders registered e-mail address and/ or mobile number (whether units are held in demat mode or in account statement form). A Consolidated Account Statement (CAS) detailing all the transactions across all mutual funds (including transaction charges paid to the distributor) and holding at the end of the month shall be sent to the Unit holders in whose folio(s) transaction(s) have taken place during the month by electronic mode or physical mode on or before 15th of the succeeding month respectively as may be opted by the Investor. Half-yearly CAS shall be issued at the end of every six months (i.e. September/ March) by electronic mode or physical mode on or before 18th and 21st day of succeeding month respectively, to all investors providing the prescribed details across all schemes of mutual funds and securities held in dematerialized form across demat accounts, if applicable As the Units of the Scheme will be issued, traded and settled mandatorily in dematerialized (electronic) form, the statement of holding of the Unitholder i.e. beneficiary account holder will be sent by the respective DPs periodically Please refer to SAI for details. **Half Yearly Portfolio Statement** The Mutual Fund/ AMC will disclose the portfolio (along with ISIN) of the Scheme, including Segregated Portfolio, if any, in the prescribed format, as on the last day of half-year i.e. March 31 and September 30, on its website viz. www.zerodhafundhouse.com and on the website of Association of Mutual Funds in India (AMFI) viz. www.amfiindia.com within 10 days from the close of each half-year respectively. The Mutual Fund / AMC will send via mail, to the registered email address of the unitholders, the half-yearly statement of scheme portfolio within 10 days from the close of each half-year respectively. Mutual Fund / AMC will publish an advertisement every half-year in an all India edition of at least two daily newspapers, one each in English and Hindi, disclosing the hosting of the half-yearly statement of the Scheme portfolio on its website and on the website of Association of Mutual Funds in India (AMFI). Mutual Fund / AMC will provide a physical copy of the statement of its Scheme portfolio, without charging any cost, on specific request received from a unitholder.	

	Annual Report Scheme Annual report in the format prescribed by SEBI, will be hosted on the website of the Fund viz. www.zerodhafundhouse.com and on the website of Association of Mutual Funds in India (AMFI) viz. www.amfiindia.com as soon as may be but not later than four months from the date of closure of the relevant accounts year (i.e. 31st March each year). Mutual Fund / AMC will publish an advertisement every year, in the all India edition of at least two daily newspapers, one each in English and Hindi, disclosing the hosting of the Scheme wise Annual Report on the website of the Fund and on the website of Association of Mutual Funds in India (AMFI). Mutual Fund / AMC will e-mail the Scheme Annual Report or Abridged Summary thereof to the unitholders registered email address with the Mutual Fund. Mutual Fund / AMC will provide a physical copy of the abridged summary of the Annual Report, without charging any cost, on specific request received from a Unitholder through any mode. A physical copy of the scheme wise annual report shall be made available for inspection to the investors at the registered office of the AMC. A link of the scheme annual report or abridged summary thereof shall be displayed prominently on the website of the Fund and shall also be displayed on the website of Association of Mutual Funds in India (AMFI)

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Risk Factors

Scheme Specific Risk Factors

The performance of the Scheme may be affected by changes in Government policies, general levels of interest rates and risks associated with trading volumes, liquidity and settlement systems, etc. Some of the Risks are listed below:

Risks associated with the Scheme:

- Absence of Prior Active Market: Although the units of ETFs are listed on the Stock Exchange for trading, there can be no assurance that an active secondary market will develop or be maintained.

- Lack of Market Liquidity: Trading in units of ETFs on the Stock Exchange on which it is listed may be halted because of market conditions or for reasons that, in the view of the concerned Stock Exchange or Market Regulator, trading in the ETF Units is inadvisable. In addition, trading in the units of ETFs is subject to trading halts caused by extraordinary market volatility pursuant to 'circuit breaker' rules. There can be no assurance that the requirements of the concerned Stock Exchange necessary to maintain the listing of the units of ETFs will continue to be met or will remain unchanged.

- Units of Exchange Traded Funds May Trade at Prices Other than NAV: Units of Exchange Traded Funds may trade above or below their NAV. The NAV of Units of Exchange Traded Funds may fluctuate with changes in the market value of a Scheme's holdings. The trading prices of units of the ETF will fluctuate in accordance with changes in their NAVs as well as market supply and demand. However, given that ETFs can be created / redeemed in Creation Units, directly with the fund and disclosure of iNAV as stipulated by regulations, large discounts or premiums to the NAVs may not be sustainable.

- Regulatory Risk: Any changes in trading regulations by the Exchange or SEBI may affect the ability of the market maker to arbitrage resulting into wider premium/ discount to NAV. Although Zerodha Nifty 100 ETF is listed on Exchange, the AMC and the Trustees will not be liable for delay in listing of Units of the Scheme on Exchange / or due to connectivity problems with the depositories due to the occurrence of any event beyond their control.

- Political Risks: Whereas the Indian market was formerly restrictive, a process of deregulation has been taking place over recent years. This process has involved removal of trade barriers and protectionist measures, which could adversely affect the value of investments. It is possible that the future changes in the Indian political situation, including political, social or economic instability, diplomatic developments and changes in laws and regulations could have an effect on the value of investments. Expropriation, confiscatory taxation or other relevant developments could affect the value of investments.

- Right to Limit Redemptions: The Trustees, in the general interest of the unit holders of the Scheme offered under this Scheme Information Document and keeping in view of the unforeseen circumstances/unusual market conditions, may limit the total number of Units which can be redeemed on any Business Day depending on the total “Saleable Underlying Stock” available with the fund.

- Redemption Risk: The Unit Holders may note that even though this is an open ended scheme, the Scheme would ordinarily repurchase Units in Creation Unit size. Thus, unit holdings less than the Creation Unit size can normally only be sold through the secondary market except situations mentioned under ‘Exit opportunity in case of ETF for investors other than Market Makers and Large Investors’ in the SID.

- Asset Class Risk: The returns from the types of securities in which a Scheme invests may underperform returns from the various general securities markets or different asset classes. Different types of securities tend to go through cycles of out-performance and underperformance in comparison of the general securities markets.

- Passive Investments: As the Scheme is not actively managed, the underlying investments may be affected by a general decline in the Indian markets relating to its Underlying Index. The scheme invests in the securities included in its underlying index regardless of their investment merit. The AMC does not attempt to take defensive positions in declining markets. Further, the fund manager does not make any judgement about the investment merit nor shall attempt to apply any economic, financial or market analysis.

- Tracking Error/ Tracking Difference Risk: Tracking Error & Tracking Difference may arise including but not limited to the following reasons:

    - Expenditure incurred by the fund.
    - The holding of cash positions. The fund may not be invested at all time as it may keep a portion of the funds in cash to meet redemptions.
    - The fund will deploy available funds into TRI-PARTY REPO at various points during the day, which may differ from weighted average rate published by CCIL at end of the day (considered for index return computation).
    - Execution of large buys / sell orders.
    - Transaction cost.
    - Realization of Unit holders funds.

Risk specific to investing in securities forming part of Nifty Smallcap 100 Index

Zerodha Nifty Smallcap 100 ETF is a passively managed ETF i.e. the amount collected under the scheme is invested in securities comprising the underlying index in the same weightages as they have in the underlying index.
a. The composition of the underlying index is subject to changes that may be affected periodically by the Index Service Provider.
b. Performance of the underlying index will have a direct bearing on the performance of the scheme.
c. The extent of the Tracking error may have an impact on the performance of the scheme.

Risks associated with Equity and Equity Related Instruments:

Equity and equity related instruments by nature are volatile and prone to price fluctuations on a daily basis due to macro and micro economic factors. The value of Equity and Equity Related

Instruments may fluctuate due to factors affecting the securities markets such as price volatility, volumes traded, interest rates, currency exchange rates, changes in law/policies of the Government, taxation laws, political, economic or other developments, which may have an adverse impact on individual securities, a specific sector or all sectors. Consequently, the NAV of the Units issued under the Scheme may be adversely affected.

Equity and Equity Related instruments listed on the stock exchange carry lower liquidity risk; however the Scheme's ability to sell these investments is limited by the overall trading volume on the stock exchanges. In certain cases, settlement periods may be extended significantly by unforeseen circumstances. The inability of the Scheme to make intended securities purchases due to settlement problems could cause the Scheme to miss certain investment opportunities. Similarly, the inability to sell securities held in the Scheme's portfolio may result, at times, in potential losses to the Scheme, if there is a subsequent decline in the value of securities held in the Scheme's portfolio.

Investments in equity and equity related instruments involve a degree of risk and investors should not invest in the Scheme unless they can afford to take the risk of losing their investment.

<u>Risks Factors Associated with Trading in the Secondary Market</u>

Although Units of Scheme are listed on the Stock Exchange(s), there can be no assurance that an active secondary market will be developed or be maintained.

Trading in Units of the Scheme on the Stock Exchange(s) may be halted because of market conditions or for reasons that in view of the Exchange Authorities or SEBI, trading in Units of the Scheme is not advisable. In addition, trading in Units of the Scheme is subject to trading halts caused by extraordinary market volatility and pursuant to the Exchange and SEBI 'circuit filter' rules. There can be no assurance that the requirements of the Stock Exchange(s) necessary to maintain the listing of Units of the Scheme will continue to be met or will remain unchanged.

Any changes in trading regulations by the Stock Exchange(s) or SEBI may affect the ability of market makers to arbitrage resulting in wider premium / discount to NAV.

The Units of the Scheme may trade above or below their NAV. The NAV of the Scheme will fluctuate with changes in the market value of Scheme's holdings. The trading prices of Units of the Scheme will fluctuate in accordance with changes in their NAV as well as market supply and demand for the Units of the Scheme.

The Units will be issued only in demat form through depositories. The records of the depository are final with respect to the number of Units available to the credit of the Unit holder. Settlement of trades, repurchase of Units by the Mutual Fund during liquidity window depends upon the confirmations to be received from depository(ies) on which the Mutual Fund has no control.

The Scheme provides for the creation and redemption of Units in Creation Unit Size directly with the Fund and therefore, it is expected that large discounts or premiums to the NAV of the Units of the Scheme will not sustain due to arbitrage opportunities available.

<u>Risks associated with Debt and Money Market Instruments or Fixed Income Securities</u>

Debt and Money Market Instruments or Fixed Income Securities are subject to the risk of an issuer's inability to meet interest and principal payments on its obligations and market perception of the creditworthiness of the issuer.

Credit Risk: This is the risk associated with the issuer of a debenture/bond or a Money Market Instrument defaulting on coupon payments or in paying back the principal amount on maturity. Even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer. It is to be noted here that a Government Security is a sovereign security and is the safest. Corporate bonds carry a higher amount of credit risk than Government Securities. Within corporate bonds also there are different levels of safety and a bond rated higher by a particular rating agency is safer than a bond rated lower by the same rating agency.

Interest Rate Risk: Fixed income securities such as government bonds, corporate bonds and Money Market Instruments run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices depends upon the coupon and maturity of the security. It also depends upon the yield level at which the security is being traded.

Liquidity Risk: The Indian debt market is such that a large percentage of the total traded volumes on particular days might be concentrated in a few securities. Traded volumes for particular securities differ significantly on a daily basis. Consequently, the scheme might have to incur a significant "impact cost" while transacting large volumes in a particular security.

Reinvestment Risk: Investments in fixed income securities carry reinvestment risk as interest rates prevailing on the coupon payment or maturity dates may differ from the original coupon of the bond.

Basis Risk: The underlying benchmark of a floating rate security or a swap might become less active or may cease to exist and thus may not be able to capture the exact interest rate movements, leading to loss of value of the portfolio.

Spread Risk: In a floating rate security the coupon is expressed in terms of a spread or mark up over the benchmark rate. During the tenure 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.

Risk of Rating Migration: It may be noted that the price of a rated security would be impacted with the change in rating and hence, there is risk associated with such migration.

Counterparty and Settlement Risk: Corporate Bond Repo will be settled between two counterparties in the OTC segment unlike in the case of TREPS transactions where CCIL stands as central counterparty on all transactions (no settlement risk). Settlement risk in reverse repo will be mitigated by requiring the counterparty (entity borrowing funds from the Mutual Fund) to deliver the defined collateral in the account of the MF before the cash is lent to the counterparty. Further, the Mutual Fund will also have a limited universe of counterparties comprising of Scheduled Commercial Banks, Primary Dealers, Mutual Funds and National Financial Institutions.

Legislative Risk: Changes in government policy in general and changes in tax benefits applicable to Mutual Funds may impact the returns to investors in the scheme.

Risk of Rating Migration: It may be noted that the price of a rated security would be impacted with the change in rating and hence, there is risk associated with such migration

Risk factors associated with processing of transactions through Stock Exchange Mechanism

The trading mechanism introduced by the Stock Exchange(s) is configured to accept and process transactions for mutual fund Units in both Physical and Demat Form. The allotment and/or redemption of Units through NSE and/or BSE or any other authorized Stock Exchange(s), on any Business Day will depend upon the modalities of processing viz. collection of application form, order processing /settlement, etc. upon which the Fund has no control. Moreover, transactions conducted through the Stock Exchange mechanism shall be governed by the operating guidelines and directives issued by respective recognized Stock Exchange(s). Accordingly, there could be negative impacts to the investors such as delay or failure in allotment / redemption of units. The Fund and the AMC are not responsible for the negative impacts.

Risk associated with Securities Lending

Securities Lending is a lending of securities through an approved intermediary to a borrower under an agreement for a specified period with the condition that the borrower will return equivalent securities of the same type or class at the end of the specified period along with the corporate benefits accruing on the securities borrowed. There are risks inherent in securities lending, including the risk of failure of the other party, in this case the approved intermediary to comply with the terms of the agreement. Such failure can result in a possible loss of rights to the collateral, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of corporate benefits accruing thereon.

The AMC shall adhere to the following limits should it engage in Stock Lending:

1. Not more than 20% of the net assets of a Scheme can generally be deployed in Stock Lending.
2. Not more than 5% of the net assets of a Scheme can generally be deployed in Stock Lending to any single approved intermediary / counterparty.

Risk associated with Derivatives

Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the Fund Manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and 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.

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.

Trading in derivatives has the following risks:

1. An exposure to derivatives in excess of the hedging requirements can lead to losses.
2. An exposure to derivatives, when used for hedging purpose, can also limit the profits from a genuine investment transaction.
3. Derivatives carry the risk of adverse changes in the market price.
4. Illiquidity Risk i.e., risk that a derivative trade may not be executed or reversed quickly enough at a fair price, due to lack of liquidity in the market.

The Fund may use derivatives instruments like equity futures & options, or other derivative instruments as permitted under the Regulations and Guidelines. Usage of derivatives will expose the Scheme to liquidity risk, open position risk, and opportunities risk etc. Such risks include the risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. In case of the derivative strategies, it may not be possible to square off the cash position against the corresponding derivative position at the exact closing price available in the Value Weighted Average Period. Debt derivatives instruments like interest rate swaps, forward rate agreements or other derivative instruments also involve certain risks.

Risks associated with segregated portfolio:

The unit holders may note that no redemption and subscription shall be allowed in the segregated portfolio. However, in order to facilitate exit to unit holders in the segregated portfolio, the AMC shall enable listing of units of segregated portfolio on the recognized stock exchange.

The risks associated in regard to the segregated portfolio are as follows:

- The investors holding units of the segregated portfolio may not be able to liquidate their holdings till the time of recovery of money from the issuer.
- The security comprising the segregated portfolio may not realize any value.
- Listing units of the segregated portfolio on a recognized stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units of the segregated portfolio on the stock exchange.
- The trading price of units on the stock exchange may be significantly lower than the prevailing Net Asset Value (NAV) of the segregated portfolio.

Tracking Error & Tracking Difference Risk

Tracking error is defined as the standard deviation of the difference between the daily returns of the Underlying Index and NAV of the Scheme, this may happen due to certain factors such as the fees and expenses of the Scheme, corporate actions, cash balance, changes to the underlying index, regulatory restrictions and lack of liquidity. Hence it may affect Scheme’s ability to achieve close correlation with the underlying index of the Scheme. The Scheme’s returns may therefore deviate from its underlying index.

The Fund Manager would monitor the Tracking Error of the Scheme on an ongoing basis and would seek to minimize the Tracking Error to the maximum extent possible. The tracking error of the scheme based on past one year rolling data shall not exceed 2%. In case of unavoidable circumstances in the nature of force majeure, which are beyond the control of the AMCs/ Mutual Fund, the tracking error may exceed 2% and the same shall be brought to the notice of Trustees with corrective actions taken by the AMC, if any. The Scheme will disclose the tracking error based on past one year rolling data, on a daily basis, on the website of AMC and AMFI. In case the Scheme has been in existence for a period of less than one year, the annualized standard deviation shall be calculated based on available data. There can be no assurance or guarantee that the scheme will achieve any particular level of tracking error relative to performance of the Underlying Index.

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