

FAQ TO INVESTORS - SEGREGATION OF ADILINK INFRA & MULTITRADING PVT LTD

We currently have an exposure in Adilink Infra & Multitrading Private Limited (Adilink henceforth). This NCD is unrated and matures on March 2020. We are a majority debenture holder with our schemes holding 98.65% of the outstanding debentures. There is another minority investor holding 1.35% of the outstanding debentures.

Recent development

On 25th Nov 2019, payments from Adilink were due to the minority investor as the minority investor had exercised a put option available to them. It has come to our knowledge that the Issuer has not repaid the minority investor today. We have taken this as a credit event and propose to create segregated portfolios for the Adilink exposure.

What is a segregated portfolio?

SEBI permits Asset Management Companies to create segregated portfolio of debt and money market instruments of mutual fund schemes in order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk.

A “segregated portfolio” consists of a debt or money market instrument affected by a credit event, which are segregated in the mutual fund scheme by carving it out of the “total portfolio”. The investor thus has two portfolios, the “segregated portfolio” and the “main portfolio”.

How is segregation good for investors?

- On a combined portfolio basis, the existing investor is unaffected by the segregation since the combined NAVs of both the segregated and the main portfolio is equal to the total portfolio.
- Since there is no change in the valuation of the security, there would not be any loss to the investor with respect to the NAV of the total portfolio.
- In effect, segregation of the portfolio ensures that no investor is unfairly advantaged/disadvantaged. Ultimately, it provides more choice to investors which they can use to make the optimal solution for themselves.
- With respect to the Adilink exposure, there is extension of originally anticipated timelines for the monetization of road assets. If no segregation is done, this can cause near-term volatility in valuation of these NCDs.
- Segregation ensures that investors who have remained with the fund and taken this risk will be the sole beneficiaries on resolution.

How and when is the resolution of the NCDs expected to take place?

The repayment of the Adilink NCDs is expected to be done through the monetization the road assets which are pledged to us as security. Given that these are unlisted infrastructure assets, the sale process is a little longer drawn owing to negotiation & finalization of all commercials, documentation as well as authority approvals. There are a few potential investors who are actively evaluating these road assets in parallel. We are looking to realize the best value for the entire portfolio of road assets (which include toll and annuity assets) and currently, the process is at different stages with different investors. Base case valuations done through reputed third-party vendors indicate that when the monetization process is successfully completed for the portfolio, the entire exposure can be taken out. We are exploring all options to realize dues as soon as possible.

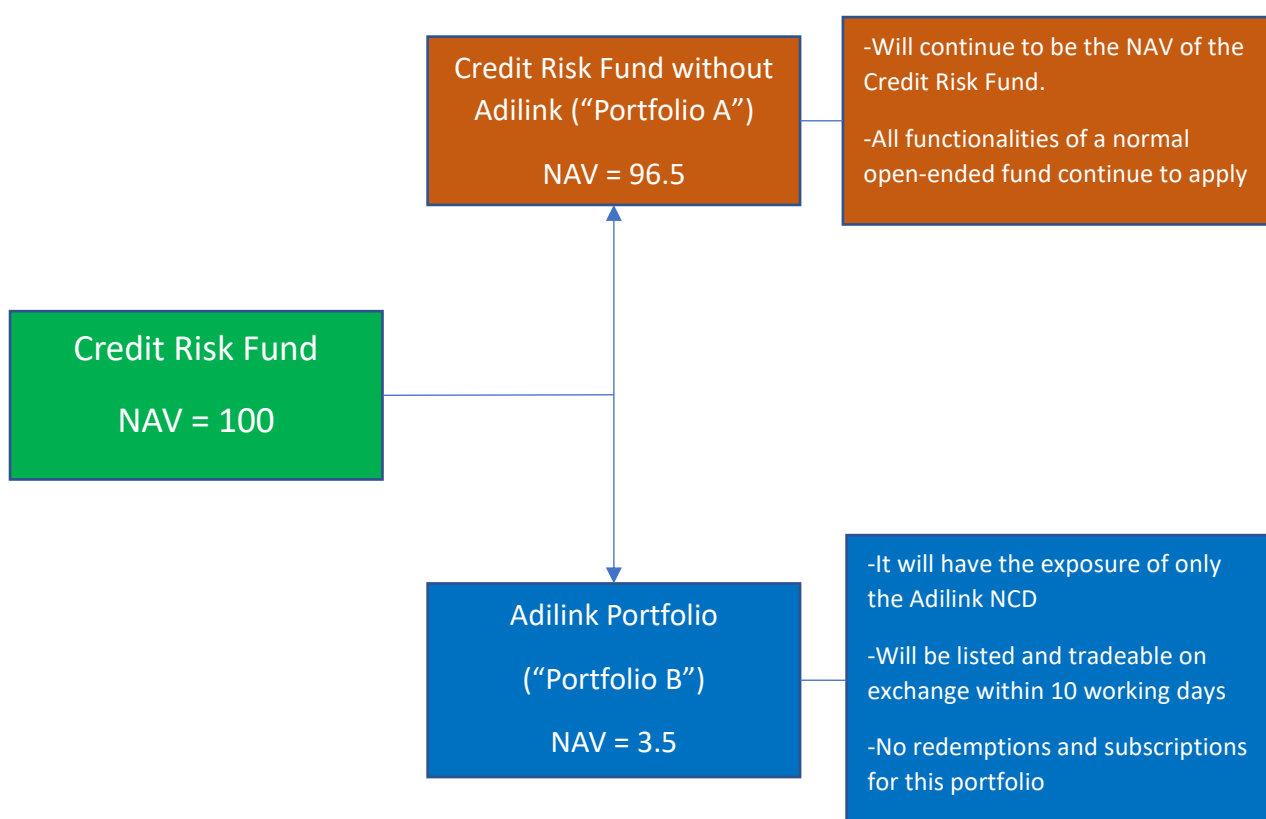
What is the current exposure to the NCD in these funds?

The exposures as on 23rd Nov 2019 as a percentage of AUM is as follows:

Fund	Issuer Name	% of AUM
ABSL Medium Term Plan	Adilink Infra & Multitrading Private Limited	7.5
ABSL Credit Risk Fund	Adilink Infra & Multitrading Private Limited	3.7
ABSL Dynamic Bond Fund	Adilink Infra & Multitrading Private Limited	5.6

Illustration of Segregation in Credit Risk Fund

Note: Assume the NAV Is 100 for illustration purposes



In effect, the investor who is holding a unit of Credit Risk Fund will be:

- Allocated 1 unit of Portfolio A and 1 unit of Portfolio B
- Having a reduction in NAV from 100 to 96.5 in Portfolio A
- Having Portfolio B valued at 3.5

Hence, the sum of both the portfolios would be $96.5 + 3.5 = 100$, resulting in no loss to the investor.