

ANNEXURE 13: SPECIALIZED INVESTMENT FUNDS (SIF)

Annexure 13A - Illustration on Derivative Exposure

Investment strategy 'ABC Long-Short Equity Fund' has **AUM of 100 crore**. The following table specifies the list of securities identified for investment:

Security details	Price	Lot size
XYZ Ltd.	2500	N.A.
XYZ Futures	2525	500
XYZ Call option 2500	90	500
XYZ Put option 2500	85	500

A) Maximum exposure limits:

The following table illustrates the maximum amount/contracts that can be bought/sold under the investment strategy:

Details	Provisions/Exposure calculation	Maximum amount that can be invested	Maximum no. of contracts that can be bought/sold
XYZ Ltd. futures short position (without hedging/ without having underlying security in the portfolio)	Maximum 25% of unhedged short exposure Exposure to single stock <= 10% of investment strategy	INR 10 crore	79 contracts = 10 crore / (2525*500)
Overall stock futures short position at portfolio level across multiple securities	Maximum 25% of unhedged short exposure	INR 25 crore	-
XYZ Call option 2500 long position	Max 20% exposure (ref. Paragraph 13.18.3 of Master Circular for Mutual Funds) Exposure to single stock <= 10% of investment strategy	INR 10 crore	2222 contracts = 10 crore / (90 * 500)

XYZ Call option 2500 short position	Max 20% exposure (ref. 12.25.2 of this Master Circular for Mutual Funds) Exposure to single stock <= 10% of investment strategy	INR 10 crore	80 contracts = 10 crore / (2500 * 500)
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B) Illustration on portfolio composition:

The following examples illustrates possible usage of derivatives for portfolio construction of the investment strategy:

Example 1	
Investment Details	Amount (Total: INR 100 crore)
Investment in EQ	INR 70 crore
Cash holding	INR 5 crore
Short exposure using stock/index futures	INR 25 crore

Example 2	
Investment Details	Amount (Total: INR 100 crore)
Investment in EQ	INR 62.5 crore
Investment in EQ Long Futures & Long options	INR 10 crore
Cash holding	INR 2.5 crore
Short exposure using stock/index futures	INR 25 crore*

**Since unhedged short exposure of upto 25% is additional to the investment in derivatives for purposes other than hedging and portfolio rebalancing.*

	Represents unhedged short exposure through derivatives
	Represents derivatives exposure for the purpose of hedging and portfolio rebalancing

C) Offsetting of transactions:

As per the provisions of the circular, the investment strategy is allowed to offset certain derivative transactions. Below are some of the illustrative scenarios for offsetting of positions on the same underlying security.

Sr. No.	Position 1	Position 2	Offsetting allowed/not?	Net exposure to be considered
1	Equity Long	Futures Short	Yes	Equity Long only
2	Equity /Futures Long	Call option Short	Yes	Equity /Futures Long only
3	Equity /Futures Long	Put option Long	Yes	Equity /Futures Long only
4	Futures Short	Call option Long	Yes	Futures Short only
5	Futures Short	Put option Short	Yes	Futures Short only
6	Call option Long	Call option Short	Yes	Call option Short only
7	Put option Long	Put option Short	Yes	Put option short only
8	Equity Long	Futures Long	No	Equity Long + Futures Long
9	Equity /Futures Long	Call option Long	No	Equity /Futures Long + Call option Long
10	Equity /Futures Long	Put option Short	No	Equity /Futures Long + Put option Short
11	Futures Short	Call option Short	No	Futures short + Call option short
12	Futures Short	Put option Long	No	Futures short + Put option Long
13	Call option Long	Put option Short	No	Call option Long + Put option Short
14	Call option Short	Put option Long	No	Call option Short + Put option Long

**For offsetting of positions, the futures and options contracts shall be on the same underlying security and having same expiry date.*
