

## DISCLOSURE DOCUMENT

(As per the requirement of the Fifth Schedule of Regulation 14 of Securities and Exchange Board of India (Portfolio Managers) Regulation 1993).

- A. This Disclosure Document pertains to the disclosures hereby made by Marcellus Investment Managers Private Limited (the "**Company/Portfolio Manager**"). This Disclosure Document is filed with the Securities Exchange Board of India ("**SEBI**") along with the certificate set out at Schedule 1 of this Disclosure Document, in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993.
- B. The purpose of this Disclosure Document is to provide essential information about the Portfolio Management Services to assist and enable investors in making informed decisions prior to engaging the Portfolio Manager.
- C. The Disclosure Document sets forth necessary information about the Portfolio Manager required by an investor before investing, and the investor may also be advised to retain the Disclosure Document for future reference.
- D. All the intermediaries involved in the scheme are registered with SEBI as on the date of the Disclosure Document.
- E. The name, phone number, e-mail address of the Principal Officer so designated by the Portfolio Manager is:

<b>Name of the Principal Officer</b>	Saurabh Mukherjea
<b>Phone</b>	+91-22-48809929
<b>Email</b>	<a href="mailto:saurabh@marcellus.in">saurabh@marcellus.in</a>
<b>Registered Office Address</b>	602, Odyssey – 1, Hiranandani Gardens, Powai, Mumbai, India - 400076
<b>Correspondence Address</b>	929, B Wing, Ground Floor, DBS Business Centre, Kanakia Wall street, Andheri Kurla Road, Andheri (East), Mumbai - 400093



**Securities & Exchange Board of India  
(Portfolio Managers) Regulations 1993,**

**Regulation 14**

Name of the Portfolio Manager : Marcellus Investment Managers Private Ltd

Regd. Office Address : 602, Odyssey – 1, Hiranandani Gardens,  
Powai, Mumbai – 400 076

Telephone : +91-22-48809929

Email : saurabh@marcellus.in

We confirm that:

- i) The Disclosure Document forwarded to the Securities & Exchange Board of India (SEBI) is in accordance with the SEBI (Portfolio Managers) Regulations, 1993 and the guidelines and directives issued by SEBI from time to time in this regard;
- ii) The disclosures made in the Disclosure Document are true, fair and adequate to enable the investors to make a well-informed decision regarding entrusting the management of their portfolio to us/ investment in the Portfolio Management Services;
- iii) The Disclosure Document has been duly certified by an independent Chartered Accountant - Aneel Lasod And Associates, Chartered Accountants, having membership no 040117 and office at 1101-1103, Corporate Annexe, Sona Wala Lane, Near Udyog Bhavan, Goregaon (East), Mumbai Telephone: 022-26865408 on November 20, 2019.

For and on behalf of Marcellus Investment Managers Private Ltd

Sd/-  
Saurabh Mukherjea  
Principal Officer



Date: 20-11-2019

Place: Mumbai



# ANEEL LASOD AND ASSOCIATES

## CHARTERED ACCOUNTANTS

We believe in Value, Trust and Execution

The Board of Directors,  
Marcellus Investment Managers Private Ltd  
602, Odyssey – 1, Hiranandani Gardens,  
Powai, Mumbai – 400 076

We have examined the Disclosure Document for Portfolio Management dated 20<sup>th</sup> November 2019 prepared in accordance with Regulation 14 of the Securities and Exchange Board of India (Portfolio Managers) Regulations 1993 by **Marcellus Investment Managers Private Ltd for Consistent Compounders Scheme** having its corporate office at 602, Odyssey – 1, Hiranandani Gardens, Powai, Mumbai – 400 076.

Based on our examination of attached Disclosure Document and other relevant records and information furnished by Management, we certified that disclosure made in attached Disclosure Document for Portfolio Management are true, fair and adequate to enable the investors to make a well informed decision.

We have relied on the representations given by the management about the penalties or litigation against the Portfolio Manager mentioned in the disclosure document.

This certificate has been issued for submission to the Securities and Exchange Board of India for the sole purpose of certifying the contents of the Disclosure Document for Portfolio Management services and should not be used or referred to for any other purpose without our prior written consent.

For Aneel Lasod and Associates  
Chartered Accountants  
Firm Regn.No.124609W

**ANEEL  
LASOD**

Digitally signed by ANEEL LASOD  
DN: cn=ANEEL LASOD, email=aneel@aneellasod.com,  
c=IN, o=ANEEL LASOD, ou=ANEEL LASOD, email=aneel@aneellasod.com,  
serial=124609W, cn=ANEEL LASOD

Aneel Lasod  
(Partner)  
Membership No.040117

Place: Mumbai  
Date: 20<sup>th</sup> November 2019  
UDIN : 19040117AAAAIL9084

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## 1. Disclaimer

The particulars set out in this Disclosure Document have been prepared in accordance with the SEBI (Portfolio Managers) Regulations, 1993 as amended till date and filed with SEBI. This Disclosure Document has neither been approved or disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Disclosure Document.

## 2. Definitions

Unless the context or meaning thereof otherwise requires, the following expressions shall have the meaning assigned to them hereunder respectively:

- (i) **"Act"** means the Securities and Exchange Board of India Act, 1992 (15 of 1992).
- (ii) **"Agreement"** means the agreement executed between the Portfolio Manager and its Client and shall include all Schedules and Annexures attached thereto.
- (iii) **"Application"** means the application made by the Client to the Portfolio Manager to invest its monies and/or Securities as mentioned therein with the Portfolio Manager for Portfolio Management Services. Upon execution of the Agreement by the Portfolio Manager, the Application shall be deemed to form an integral part of the Agreement. Provided that in case of any conflict between the contents of the Application and the provisions of the Agreement, the provisions of the Agreement shall prevail.
- (iv) **"Assets"** means (i) the Portfolio and/or (ii) the Funds, as applicable.
- (v) **"Bank Account"** means one or more omnibus bank accounts opened, maintained and operated by the Portfolio Manager in the name of the Client or pool account managed in the name of the Portfolio Manager for the purpose of managing funds on behalf of the Client with any of the Scheduled Commercial Banks.
- (vi) **"Board"** means the Securities and Exchange Board of India established under sub-section (1) of Section 3 of the Securities and Exchange Board of India Act, 1992.
- (vii) **"Body Corporate"** shall have the meaning assigned to it in or under clause (11) of Section 2 of the Companies Act, 2013.
- (viii) **"BPS"** means basis point.
- (ix) **"Chartered Accountant"** means a chartered accountant as defined in Clause (b) of Sub-Section (1) of Section 2 of the Chartered Accountants Act, 1949 (38 of 1949) and who holds a certificate of practice under the provisions therein.
- (x) **"Client"** means the person who enters into an Agreement with the Portfolio Manager for managing its Portfolio and /or Funds.
- (xi) **"Custodian"** means an entity that has been granted a certificate of registration to carry on the business of custodian of securities under the Securities and Exchange Board of India (Custodian of Securities) Regulations, 1996.
- (xii) **"Depository Account"** means one or more account or accounts opened, maintained and operated by the Portfolio Manager with any depository or depository participant registered under the SEBI (Depositories and Participants) Regulations, 1996 in accordance with the agreement entered into with the Client.



- (xiii) **"Disclosure Document"** shall mean this disclosure document filed by the Portfolio Manager with SEBI and as may be amended by the Portfolio Manager from time to time pursuant to the Regulations.
- (xiv) **"Discretionary Portfolio Management Services"** means the portfolio management services rendered to the Client by the Portfolio Manager on the terms and conditions contained in the Agreement and in accordance with the various provisions of the Act, Rules and Regulations and/or other applicable laws in force and amendments made from time to time, where under the Portfolio Manager exercises discretion as to the investment and the management of the Assets of the client entirely at the Client's risk, in such manner as the Portfolio Manager may deem fit in accordance with the terms of this Agreement.
- (xv) **"Discretionary Portfolio Manager"** means a Portfolio Manager who exercises or may, under a contract relating to portfolio management, exercise any degree of discretion as to the investments or management of the portfolio of securities or the funds of the Client, as the case may be.
- (xvi) **"Financial Year"** means the year starting from April 1 and ending on March 31 of the following year.
- (xvii) **"Funds"** means the monies managed by the Portfolio Manager on behalf of the Client pursuant to the Agreement and includes the monies mentioned in the Application, any further monies placed by the Client with the Portfolio Manager for being managed pursuant to the Agreement, the proceeds of the sale or other realization of the Portfolio and interest, dividend or other monies arising from the Assets, so long as the same is managed by the Portfolio Manager in accordance with the provisions of the Agreement.
- (xviii) **"Net Asset Value"** means the net asset value of the portfolio which is the sum of (a) the value of the Securities in the portfolio of the Client, determined in accordance with the valuation policies of the Portfolio Manager forming a part of the accounting policies as disclosed herein; and (b) the cash balance to the credit of the Client, less (c) accounts payable by the Client.
- (xix) **"Non-discretionary Portfolio Management Services"** means a portfolio management services under which the Portfolio Manager, subject to express prior instructions issued by the Client from time to time in writing, for an agreed fee structure and for a definite described period, invests in respect of the Client's account in any type of security entirely at the Client's risk and ensure that all benefits accrue to the Client's Portfolio.
- (xx) **"Parties"** means the Portfolio Manager and the Client; and "Party" shall be construed accordingly.
- (xxi) **"Person"** includes an individual, a Hindu Undivided Family, a corporation, Company (as defined in section 2(20) of the Companies Act, 2013), a Body Corporate as defined in section 2 (11) of the Companies Act, 2013, a partnership (whether limited or unlimited), a limited liability company, a body of individuals, an association, a proprietorship, a trust, an institutional investor and any other entity or organization whether incorporated or not, whether Indian or foreign, including a government or an agency or instrumentality thereof.
- (xxii) **"Portfolio"** means the Securities managed by the Portfolio Manager on behalf of the Client pursuant to the Agreement and includes any Securities mentioned in the





Application and any further Securities placed by the Client with the Portfolio Manager for being managed from time to time, Securities acquired by the Portfolio Manager through investment of Funds and bonus and rights shares or otherwise in respect of Securities forming part of the Portfolio, so long as the same is managed by the Portfolio Manager.

- (xxiii) **"Portfolio Manager"** shall have the same meaning as given in regulation 2 (cb) of the SEBI (Portfolio Managers) Regulations, 1993 as amended from time to time.
- (xxiv) **"Principal Officer"** means a senior employee or director of the Portfolio Manager who assumes responsibility for the activities of the Portfolio Manager and who has been designated as such by the Portfolio Manager.
- (xxv) **"Regulations"** means the Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993, as amended from time to time.
- (xxvi) **"Scheduled Commercial Bank"** means any bank included in the second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934).
- (xxvii) **"SEBI"** means the Securities and Exchange Board of India established under sub-section (1) of Section 3 of the Securities and Exchange Board of India Act 1992 as amended from time to time.
- (xxviii) **"Securities"** includes: "Securities" as defined under the Securities Contracts (Regulation) Act, 1956 as amended from time to time and includes:
  - (a) "Securities" as defined under the Securities Contracts (Regulations) Act, 1956;
  - (b) Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable
  - (c) securities of a like nature in or of any incorporated company or other Body Corporate;
  - (d) derivative;
  - (e) units or any other instrument issued by any collective investment scheme to the investors in such schemes;
  - (f) security receipt as defined in clause (zg) of section 2 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
  - (g) units or any other such instrument issued to the investors under any mutual fund scheme;
  - (h) any certificate or instrument (by whatever named called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt;
  - (i) Government securities;
  - (j) such other instruments as may be declared by the Central Government to be securities;
  - (k) rights or interest in securities;
  - (l) Exchange Traded Funds; and
  - (m) Liquid Funds



Words and expressions used in this Disclosure Document and not expressly defined shall be interpreted according to their general meaning and usage. The definitions are not exhaustive. They have been included only for the purpose of clarity and shall in addition be interpreted according to their general meaning and usage and shall also carry meanings assigned to them in regulations governing Portfolio Management Services.

### 3. Description

#### (a) History, Present, and Background of the portfolio manager

The Company, having Corporate Identification Number (CIN) U74999MH2018PTC312571, was incorporated on 7<sup>th</sup> August 2018 and has its registered office at Flat No. 602, Tower 1 Odyssey, Hiranandani Gardens, Powai, Mumbai 400076 and Corporate Address at 929, B Wing, Ground Floor, DBS Business Centre, Kanakia Wall street, Andheri Kurla Road, Andheri (East), Mumbai - 400093 India. The Company is incorporated with the objective of carrying out portfolio management, investment management and advisory services. Marcellus has been registered as a Portfolio Manager with SEBI on October 22, 2018 vide registration No: INP 000006183 under SEBI (Portfolio Managers) Regulations, 1993.

#### (b) Promoters of the portfolio manager, directors and their background

The promoters of the Company have 14 years of experience in investment research and asset management.

Name	Qualification	Brief Experience
Saurabh Mukherjea	Saurabh holds a BSc & MSc in Economics from the London School of Economics and is also a CFA charter holder. Saurabh is also a member of SEBI's Mutual Fund Advisory Committee.	Saurabh Mukherjea is a current Director of the Company. He was previously the chief executive officer of Ambit Capital Private Limited ("Ambit"), which is a SEBI registered institutional broker and wealth management firm, for a duration of 2 (two) years and has worked at Ambit for a total period of 8 (eight) years.
Sudhanshu Nahta	Sudhanshu holds a B. Com from Mumbai University and is a qualified Chartered Accountant.	Sudhanshu Nahta is the current Director of the Company. He was previously working with the institutional equities strategy team of Ambit.





**(c) The Shareholding Pattern of Marcellus is as under:**

Sr. No.	Name	% shareholding
1.	Mr. Saurabh Mukherjea	47.89%
2.	Mr. Sudhanshu Nahta	3.21%
3.	Other shareholders	48.9%

**(d) Group company information**

Marcellus Investment Managers Pvt Ltd has majority interest in Marcellus Capital Partners LLP and Marcellus Distributors LLP. These two entities have not yet started their operations and there have been no transactions between Marcellus Investment Managers Pvt Ltd and these two LLPs except for capital contribution by the private limited entity.

**(e) Details of the services being offered by the Portfolio Manager**

The Portfolio Manager intends to offer services of discretionary portfolio management, non-discretionary portfolio management and that of investment advisory as set out in the details provided below.

**(i) Discretionary Services:**

Under these services, the choice as well as the timings of the investment decisions would rest solely with the Portfolio Manager and the Portfolio Manager can exercise any degree of discretion in the investments or management of Assets of the Client. The Securities to be invested by the Portfolio Manager for Clients may differ from Client to Client. The Portfolio Manager's decision (taken in good faith) in deployment of the Client's fund's is absolute and final and can never be called in question or be open to review at any time during the currency of the Agreement or at any time thereafter except on the ground of fraud, conflict of interest or gross negligence. This right of the Portfolio Manager shall be exercised strictly in accordance with the relevant Acts, Regulations, guidelines and notifications in force from time to time. Periodical statements in respect to Client's Portfolio shall be sent to the respective Client.

Based on the Client's profile, overall investment objective and other relevant factors, the Portfolio of the Clients would be managed with the help of such investment strategies under which the Portfolio Manager identifies companies which have grown revenues at double digits each year for an extended period of time (for example - a decade) alongside with having a return on capital in excess



of cost of capital in each of those years. These investment strategies are outlined in detail in Saurabh Mukherjee's multiple bestselling books, television interviews & newspaper columns which, *inter alia*, includes The Gurus of Chaos, The Unusual Billionaires, etc.

(ii) Non - Discretionary Services:

Under the Non-Discretionary Portfolio Management Services, the portfolio of the Client shall be managed in consultation with the Client and in accordance with the instructions of the Client. Under this service, the Assets will be managed as per express prior instructions issued by the Client from time to time. The Client will have complete discretion to decide on the investment (Stock Quantity and Price or amount). In this case, the Portfolio Manager shall be responsible for *inter alia* managing transaction execution, accounting, recording or corporate benefits, valuation and reporting aspects on behalf of the Client entirely at the Client's risk.

(iii) Advisory Services:

Under these services, the Portfolio Manager advises the Client on investments in general or any specific advice required by the Clients and agreed upon in the Client agreement. The Portfolio Manager will render the best possible advice to the Client having regard to the Client's needs and the environment, the same can be binding or non - binding in nature in accordance with the terms mentioned in the Agreement. For such services, the Portfolio Manager shall charge the Client a fee for services rendered as mentioned in the Agreement. The advice may be either general or specific in nature and may pertain to a particular portfolio. Entry / exit timing, execution and settlement are solely the Client's responsibility.

4. **Penalties, pending litigation or proceedings, findings of inspection or investigations for which action may have been taken or initiated by any regulatory authority:**

- (i) All cases of penalties imposed by the Board or the directions issued by the Board under the Act or Regulations made there under relating to Portfolio Management Services.

**None**

- (ii) The nature of the penalty/direction.

**None**

- (iii) Penalties imposed for any economic offence and/or for violation of any securities laws relating to Portfolio Management Services.

**None**



- (iv) Any pending material litigation/legal proceedings against the Portfolio Manager/key personnel with separate disclosure regarding pending criminal cases, if any.

Securities Exchange Board of India (SEBI) issued Show cause notice: SEBI/HO/EAD-3/JS/OW/P/13577/1/2019 dated 29th May 2019 in respect of Mr. Saurabh Mukherjea (in the capacity of the CEO of Institutional Equities, Ambit) in the matter of Mannapuram Finance Ltd. under Rule 4(1) of the SEBI (Procedure for holding Inquiry and Imposing Penalties by Adjudication Officer) Rules, 1995 and Rule 4(1) of Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 2005. On 23rd July, 2019 Mr. Saurabh Mukherjea filed an Application for Settlement ("Consent Application") in connection with Show Cause Notice bearing reference no. SEBI/HO/EAD-3/JS/OW/P/13577/1/2019 dated 29th May 2019 ("Notice") issued by the Securities and Exchange Board of India ("SEBI") to Saurabh Mukherjea ("Applicant"). The Settlement Application filed by Mr. Saurabh Mukherjea is pending with Securities Exchange Board of India (SEBI).

- (v) Any deficiency in the systems and operations of the Portfolio Manager observed by the Board or any regulatory agency in relation to Portfolio Management Services for which action may have been taken or initiated.

**None**

## **5. Services offered / proposed to be offered**

### **Scheme Name – Consistent Compounders**

#### **(i) The present investment objectives and policies:**

##### **Objective**

To generate sustainable returns over medium to long term according to the Clients' risk profile.

##### **Investment Approach**

Our Investment approach involves understanding the Clients' investment objective, time horizon and risk profile. This helps us to determine the asset allocation and investment strategy suitable for the client.

##### **Investment Philosophy**

We have the following fundamental tenets for making investments:

Identifying companies which have a proven track record of steady growth in revenues alongside the ability to consistently deliver a return on capital employed in excess of the cost of capital.



Under Discretionary Portfolio Management, the Portfolio Manager shall invest in Securities as per its discretion based on the mandate and power of attorney given to it, to achieve the investment objectives of the Client. However, no assurance or guarantee is given by the Portfolio Manager that the investment objectives will be achieved.

Consistent with the objective and subject to Regulations, the corpus will be invested in any of (but not exclusively) the following Securities:

- Equity and equity related Securities including convertible bonds (including equity linked debentures) and debentures and warrants carrying the right to obtain equity shares;
- Securities issued/guaranteed by the Central, State Governments and local governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills);
- Obligations of Banks (both public and private sector) and Development Financial Institutions like Certificate of Deposits (CDs), Coupon bearing Bonds, Zero Coupon Bonds;
- Money Market instruments permitted by SEBI/Reserve Bank of India;
- Certificate of Deposits (CDs);
- Commercial Paper (CPs);
- Mutual Fund units, Fixed deposits, Bonds, debentures etc.;
- Securitization instruments;
- Foreign securities as permissible by Regulations from time to time;
- Any other securities and instruments as permitted by the Regulations from time to time.

The Securities mentioned above could be listed, unlisted, privately placed, secured, unsecured, rated or unrated and of any maturity. The Securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placement, rights offer or negotiated deals and including transactions for the purpose of hedging and portfolio rebalancing, through a recognized stock exchange.

**Minimum Investment Amount:** Rs. 25 Lakhs or any amount not less than the statutory minimum as may be specified by the SEBI from time to time.

The uninvested amounts forming part of the Client's Assets may be at the discretion of the Portfolio Manager be held in cash or deployed in Liquid fund schemes, Exchange Traded Index Funds, debt oriented schemes of Mutual funds, Gilt schemes, Bank deposits and other short term avenues for Investment.



- (ii) **The policies for investments in associates/group companies of the Portfolio Manager and the maximum percentage of such investments therein subject to the applicable laws/regulations/ Guidelines**

The Portfolio Manager will not invest the funds of the Clients in any Security of an associate or group companies of the Portfolio Manager.

## **6. Risk Factors**

The investments made in Securities are subject to market risk and there is no assurance or guarantee that the objectives of investments will be achieved, and the Portfolio Manager has no liability for any losses resulting from the Client availing of the Portfolio Management Services. The following are the current risk factors as perceived by management of the Portfolio Manager. This list is not intended to be exhaustive in nature and is merely intended to highlight certain risks that are associated with investing in Securities:

- (i) Investment in equities, derivatives and mutual funds and Exchange Traded Index Funds are subject to market risks and there is no assurance or guarantee that the objective of investments will be achieved.
- (ii) As with any investment in Securities, the Net Asset Value of the portfolio can go up or down depending upon the factors and forces affecting the capital markets.
- (iii) The performance of the portfolio may be affected by changes in Government policies, general levels of interest rates and risks associated with trading volumes, liquidity and settlement systems in equity and debt markets.
- (iv) The past performance of the Portfolio Manager does not indicate its future performance. Investors are not being offered any guaranteed returns.
- (v) The performance of the Assets of the Client may be adversely affected by the performance of individual Securities, changes in the market place and industry specific and macro-economic factors. The investment strategies are given different names for convenience purpose and the names of the Strategies do not in any manner indicate their prospects or returns.
- (vi) Investments in debt instruments and other fixed income securities are subject to default risk, liquidity risk and interest rate risk. Interest rate risk results from changes in demand and supply for money and other macroeconomic factors and creates price changes in the value of the debt instruments. Consequently, the Net Asset Value of the portfolio may be subject to fluctuation.
- (vii) Investments in debt instruments are subject to reinvestment risks as interest rates prevailing on interest amount or maturity due dates may differ from the original coupon of the bond, which might result in the proceeds being invested at a lower rate.
- (viii) The Portfolio Manager may invest in non-publicly offered debt securities and unlisted equities. This may expose the Client's portfolio to liquidity risks.
- (ix) Engaging in Securities lending is subject to risks related to fluctuations in collateral value/settlement/liquidity/counter party. The Portfolio Manager may use derivatives instruments like index futures, stock futures and options contracts,





warrants, convertible securities, swap agreements or any other derivative instruments for the purpose of hedging and portfolio balancing, as permitted under the Regulations and guidelines. Usage of derivatives will expose the Portfolio to certain risks inherent to such derivatives. As and when the Portfolio Manager deals in the derivatives market on behalf of the Client, there are risk factors and issues concerning the use of derivatives that investors should understand.

- (x) Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself.
- (xi) Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "**counter party**") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Thus, derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value.
- (xii) Re-investment Risk: This risk refers to the interest rate levels at which cash flows received from the Securities under a particular portfolio are reinvested. The additional income from reinvestment is the "interest on interest" component. The risk is that the rate at which interim cash flows can be reinvested may be lower than that originally assumed.
- (xiii) There are inherent risks arising out of investment objectives, investment strategy, asset allocation and non-diversification of portfolio.
- (xiv) Prepayment risk: there may be unscheduled return of principal on a particular Security, which may result in a reinvestment risk.
- (xv) Credit Risk: Credit risk or default risk refers to the risk that an issuer of a fixed income Security may default. Because of this risk corporate debentures are sold at a higher yield above those offered on Government Securities which are sovereign obligations and free of credit risk. Normally, the value of a fixed income security will fluctuate depending upon the changes in the perceived level of credit risk as well as any actual event of default.
- (xvi) The Net Asset Value may be affected by changes in settlement periods and transfer procedures.
- (xvii) Risks related to index linked securities: Performance of the reference index will have a direct bearing on the performance of the strategy. In the event the reference index is dissolved or withdrawn by the Index Provider; in case of Securities such as debentures, the debenture trustees upon request by the issuer may modify the terms of issue of the debentures so as to track a different and suitable index. Tracking errors are also inherent in any equity linked security and such errors may cause the equity index-linked security to generate returns which are not in line with the performance of the reference index or one or more Securities covered and/or included in the reference index.





- (xviii) Risks pertaining to investments in Gold ETF's will be as provided in the disclosure document of the scheme. However, some of the specific risks may include market risks, currency risks, counter party risk, liquidity risk and loss of physical gold.
- (xix) Currency Exchange Rate Risk: The Client's portfolio may from time to time enter into currency exchange transactions either on a spot basis or by buying currency exchange forward contracts. Neither spot transactions nor forward currency exchange contracts eliminate fluctuations in the price of the Client's portfolio Securities or in foreign exchange rates or prevent losses if the prices of these Securities should decline. Performance of the Client's Portfolio may be strongly influenced by movements in foreign exchange rates because currency positions held by the Client's portfolio may not correspond with the Securities positions held.
- (xx) In case of investments in mutual fund, the Client bear the recurring expenses of the Portfolio Manager in addition to the expenses of the underlying mutual fund schemes. Hence, the Client may receive lower pre-tax returns compared to what the Client may have received had he invested directly in the underlying Securities of the mutual fund schemes.
- (xxi) After accepting the corpus for management, the Portfolio Manager may not get an opportunity to deploy the same or there may be a delay in deployment. In such a situation the Client may suffer opportunity loss.
- (xxii) Risks associated with investment in equity instruments using Quantitative Analysis/ Quant Model: Some of the Risks attached with Quantitative Analysis are:
  - (i) Market Risk: Like any other equity investments, these are subject to market risk.
  - (ii) Modeling Error: Quant models are subject to price and volume inputs. It is possible that some of these inputs are entered incorrectly. The quant model selected by the Portfolio Manager may not perform as tested; such a scenario is entirely possible and would result in a loss.
  - (iii) Deviation from theoretical model: A quant model is theoretical in nature, however at times the market may act unexpectedly resulting in a loss, the quant model cannot account for any such market behavior. The quant model may initiate a sell signal; however, the stock may not have adequate liquidity at that moment forcing the portfolio manager to further drive down the stock price.
- (xxiii) Spread risk: Investments in corporate bonds are exposed to the risk of widening of the Spread between corporate bonds and gilts. Prices of corporate bonds tend to fall if this spread widens which will affect the Strategy accordingly.
- (xxiv) Liquidity or Marketability Risk: This refers to the ease with which a security can be sold at or near to its valuation yield-to-maturity (YTM). The primary measure of liquidity risk is the spread between the bid price and the offer price quoted by a dealer.
- (xxv) Risks related to Special Situations: Special situation trades are subject to all risks under equity; however, in certain cases the risks can be specific as are mentioned:
  - (i) The promoter may choose not to accept the discovered prices
  - (ii) Regulatory hurdles may delay any specific corporate action.
- (xxvi) Risk Associated with Securitized Debt: Securitized debt may suffer credit losses in the event of the delinquencies and credit losses in the underlying pool exceeding the credit enhancement provided. As compared to the normal corporate or



sovereign debt, securitized debt is normally exposed to a higher level of reinvestment risk.

- (xxvii) Risk factor specifically while using Options: The Portfolio Manager might buy options to enhance yield. In buying options the profit potential is unlimited, whereas the maximum risk is the premium paid to buy the options. The Portfolio Manager 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 strategies 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.
- (xxviii) Risk factors 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 Portfolio Manager to identify such opportunities. Identification and execution of the strategies to be pursued by the Portfolio Manager involve uncertainty and the decision of Portfolio Manager may not always be profitable. No assurance can be given that the Portfolio 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: (i) An exposure to Derivatives in excess of the hedging requirements can lead to losses. (ii) An exposure to Derivatives, when used for hedging purpose, can also limit the profits from a genuine investment transaction. (iii) Derivatives carry the risk of adverse changes in the market price. (iv) 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.

## 7. Client Representation

(i) As on 31<sup>st</sup> October 2019

Category of client	No. of clients	Funds Managed (Rs. Cr)	Discretionary / Non-discretionary (if applicable)
*Associate / Group company Last 3 years	4	6.95	Discretionary
Others (last 3 years – till 31st October 2019)	756	534.96	Discretionary
Total	760	541.91	Discretionary



Category of client	No. of clients	Funds Managed (Rs. Cr)	Discretionary / Non-discretionary (if applicable)
Associate / Group company Last 3 years	0	0	Non - Discretionary
Others (last 3 years – till 31st October 2019)	2	1.47	Non - Discretionary
Total	2	1.47	Non - Discretionary

**\*Associates/Group Companies**

Sr. No	Client Name
1	Pramod Gubbi Jayaprakash
2	Rakshit Ranjan
3	Saurabh Mukherjea
4	Manish Lalchand Hemnani

(ii) Disclosure regarding transactions with related parties:

(a) Names of Persons / enterprises by whom significant influence is exercised:

- i. Mr. Saurabh Mukherjea
- ii. Mr. Pramod Gubbi
- iii. Mr. Rakshit Ranjan
- iv. Mr. Manish Hemnani
- v. Mr. Nitesh Bhadani
- vi. Mr. Ashvin Shetty
- vii. Mr. Sudhanshu Nahta

(b) Names of Key Management Personnel

- i. Mr. Saurabh Mukherjea
- ii. Mr. Sudhanshu Nahta
- iii. Mr. Pramod Gubbi
- iv. Mr. Rakshit Ranjan
- v. Mr. Manish Hemnani
- vi. Mr. Ashvin Shetty
- vii. Mr. Nitesh Bhadani

The Company has no related party transactions apart from payment of salaries and reimbursement of expenses (pre and post incorporation of the Company) by the Company to its Key Managerial Personnel, namely; Saurabh Mukherjea, Pramod Gubbi, Rakshit Ranjan, Manish Hemnani, Ashvin Shetty, Nitesh Bhadani & Sudhanshu Nahta.



(iii) Appointment of Custodian

The Portfolio Manager may appoint a custodian for its Portfolio Management Services. Currently, Kotak Mahindra Bank Limited and HDFC Bank are being appointed as custodian.

8. **Financial performance of Portfolio Manager (based on audited financial statements)**

Particulars	Year ended 31-Mar-2019 (Rs.)
Total Income	75,28,326
Profit / (Loss) for the year	-1,55,47,473
Paid up capital	4,81,58,500
Reserves & surplus	1,40,44,401
Networth	6,22,02,901

9. **Portfolio management performance of the Portfolio Manager for the last three years, and in case of Discretionary Portfolio Manager disclosure of performance indicators calculated using weighted average method in terms of Regulation 14 of SEBI (Portfolio Managers) Regulations 1993**

Performance	From 01-12-2018 to 31-03-2019	From 1-04-2019 to 31-10-2019
Marcellus – Consistent Compounders	5.03%	22.77%
Nifty 50	6.87%	2.18%

#Table above shows performance of Marcellus Consistent Compounders Product calculated on TWRR basis.

\* Nifty 50 returns are computed using index value at the start and end of reporting period.

10. **Complaints Received and Addressed by Portfolio Managers**

Number of Complaints Received by Portfolio Manager Through Scores Portal	Number of Complaints Addressed by the Portfolio Manager	Number of Complaints Pending with Portfolio Manager
0	0	0

11. **Nature of Expenses**

(i) Investment management and advisory fees:

Investment Management and Advisory fees charged may be a fixed fee or a return-based fee or a combination of both. Fixed fees charged to clients will range from 10 BPS to 250 BPS per annum. The Company also intends to charge



performance fees which will kick in after a hurdle rate ranging from 8% (eight percent) to 12% (twelve percent) per annum. The Portfolio Manager intends to claim between 10-40% (ten to forty percent) of the upside generated over and above the hurdle rate agreed with client. All specifics of investment management & advisory fee would be agreed with each Client and set out in more detail in the Agreement.

(ii) Custodian fee

These charges relate to the opening and maintenance of Depository Accounts and/or custody fee and charges paid to the Custodian and/or Depository Participant, dematerialization of scrips, Securities lending and borrowing and their transfer charges in connection with the operation and management of the Client's portfolio account and is expected to be in the range of 1-25 BPS.

(iii) Registrar and transfer agent fee

This is fee payable to the Registrar and Transfer Agent for giving effect to transfers of Securities and may *interalia* include stamp duty costs, courier, post and notary charge and is expected to be in the range of 10 BPS.

(iv) Brokerage and transaction cost

These are amounts payable to the broker for opening of an account, execution of transactions on the stock exchange or otherwise for the transfer of Securities and may interalia include service charges, stamp duty costs, GST, STT etc. and is expected to be in the range of 10 BPS.

(v) Goods and Service Tax: As applicable from time to time.

(vi) Depository Charges: As may be applicable from time to time.

(vii) Bank Charges: As may be applicable at actuals.

(viii) Stamp duty: As may be applicable at actuals.

(ix) Legal costs and professional fees: Costs incurred for documentation, certifications, attestation and instituting or defending legal suits, audit fees and other similar charges.

(x) Incidental expenses: Charges in connection with day to day operations like courier expenses, stamp duty, service tax, postal, telegraphic, opening and operation of bank account or any other out of pocket expenses as may be incurred by the Portfolio Manager in the course of discharging his duties to the Client.

(xi) Fund accounting charges: Up to 5 BPS.





- (xii) Other costs and expenses - Other than the fees (fixed and variable) mentioned above, the Company does not intend to require its clients to bear any additional costs.

**12. List of third-party service providers whose services are being used by Portfolio Manager for the proposed scheme**

Sr. No.	Name of the service provider	Nature of services provided
1	Kotak Mahindra Bank Limited	Custodian Services & Depository Participant
2	HDFC Bank Limited	Custodian Services & Depository Participant
3	Kotak Securities Limited	Stock Broking
4	HDFC Securities Limited	Stock Broking
5	Batlivala & Karani Wealth Management Pvt Ltd.	Stock broking
6	Edelweiss Securities Limited	Stock broking
7	Motilal Oswal Financial Services Limited	Stock Broking

**13. Taxation**

The general information stated below is based on the general understanding of direct tax laws in force in India as of the date of the Disclosure Document and is provided only for general information to the Client only vis-à-vis the investments made through the Portfolio Management Services of the Company. This information gives the direct tax implications on the footing that the securities are/will be held for the purpose of investments. In case the securities are held as stock-in-trade, the tax treatment will substantially vary and the issue whether the investments are held as capital assets or stock-in-trade needs to be examined on a case to case basis. There is no guarantee that the tax position prevailing as on the date of the Disclosure Document/the date of making investment shall endure indefinitely.

Further, the statements with regard to benefits mentioned herein are expressions of views and not representations of the Company to induce any client, prospective or existing, to invest in the portfolio management schemes of the Company. Implications of any judicial decisions/ double tax avoidance treaties etc. are not explained herein. The Client should not treat the contents of this section of the Disclosure Document as advice relating to legal, taxation, investment or any other matter. In view of individual nature of the tax benefits, interpretation of circulars for distinguishing between capital asset and trading asset, etc., the Client is advised to best consult its or his or her own tax consultant, with respect to specific tax implications arising out of its or his or her portfolio managed by the Company.





It is the responsibility of all prospective clients to inform themselves as to any income tax or other tax consequences arising in the jurisdictions in which they are resident or domiciled or have any other presence for tax purposes, which are relevant to their particular circumstances in connection with the acquisition, holding or disposal of the units.

The following summary is based on the law and practice of the Income-tax Act, 1961 (the "IT Act"), the Income-tax Rules, 1962 (the "IT Rules") and various circulars and notifications issued thereunder from time to time. The IT Act is amended every year by the Finance Act of the relevant year and this summary reflects the amendments enacted by the Finance Act, 2019.

The tax rates mentioned in this document relate to Financial Year 2019-20 (Assessment Year 2020-21) as proposed in the Finance (No. 2) Bill, 2019 introduced on 5 July 2019, and are inclusive of surcharge and education cess as applicable to corporates, unless specified otherwise.

The maximum tax rates applicable to different categories of assesseees are as follows:

Resident individual & HUF	30% + surcharge & cess
Partnership Firms & Indian Companies (other than specified companies below)	30% + surcharge & cess
Indian Companies having turnover less than INR 4000 million during the financial year 2017-18	25% + surcharge & cess
Non-resident Indians	30% + surcharge & cess
Foreign companies	40% + surcharge & cess

The applicable rate of surcharge in case of companies other than domestic companies ("foreign companies") is 2% where the income exceeds INR 10 million but is less than or equal to INR 100 million and is 5% where the income exceeds INR 100 million. In case of domestic companies having total income exceeding INR 10 million but not exceeding INR 100 million, surcharge of 7% on income tax is applicable. In case of domestic companies having total income exceeding INR 100 million, surcharge of 12% is applicable. In case of firms or local authorities or co-operative societies having total income exceeding INR 10 million, surcharge of 12% is applicable. For other resident and non-resident assesseees, surcharge is levied at 10% if total income exceeds INR 5 million but is less than or equal to INR 10 million; it is levied at 15% if total income exceeds INR 10 million but is less than or equal to INR 20 million; it is levied at 25% if total income exceeds INR 20 million but is less than or equal to INR 50 million; if the total income exceeds INR 50 million, surcharge of 37% is applicable.

Further, Health and Education Cess at the rate of 4% shall be leviable on aggregate of tax and surcharge as per the provisions of the Finance Act, 2019. In this Disclosure Document, we have assumed that the highest surcharge rate would be applicable to an investor.



Further, Section 87A of the IT Act has been amended vide Finance Act 2019. As per the provisions of the said section, an assessee who is an individual resident in India, whose total income does not exceed INR 0.50 million, shall be entitled to a deduction, from the amount of income-tax (as computed before allowing the deductions under Chapter VIII of the IT Act) on his total income, of an amount equal to hundred per cent of such income-tax or an amount of INR 12,500, whichever is less.

## **I. Taxation in hands of Clients**

### **A. Characterization of income**

Traditionally, the issue of characterization of exit gains (whether taxable as business income or capital gains) has been a subject matter of litigation with the Indian Revenue authorities. There have been judicial pronouncements on whether gains from transactions in securities should be taxed as 'business income' or as 'capital gains'. However, these pronouncements, while laying down certain guiding principles have largely been driven by the facts and circumstances of each case.

Regarding characterization of income from transactions in listed shares and securities, the Central Board of Direct Taxes ("CBDT") had issued a clarificatory Circular No. 6 of 2016 dated February 29, 2016, wherein with a view to reduce litigation and maintain consistency in approach in assessments, it has instructed that income arising from transfer of listed shares and securities, which are held for more than twelve months would be taxed under the head 'Capital Gains' unless the tax-payer itself treats these as its stock-in-trade and transfer thereof as its business income.

In the context of transfer of unlisted shares, the CBDT has issued a clarification vide Instruction No. F.No. 225/12/2016/ITA.II dated May 2, 2016 stating that income arising from transfer of unlisted shares would be considered under the head 'Capital Gains' irrespective of the period of holding with a view to avoid dispute/ litigation and to maintain uniform approach. However, the above shall not apply in the following cases:

- The genuineness of transactions in unlisted shares itself is questionable; or
- The transfer of unlisted shares is related to an issue pertaining to lifting of corporate veil; or
- The transfer of unlisted shares is made along with the control and management of underlying business and the Indian Revenue authorities would take appropriate view in such situations.



Further, CBDT has issued clarification stating that the exception to transfer of unlisted securities made along with control and management of underlying business would not apply to Category I & II AIFs.

#### *B. Taxation of Resident investors*

The tax implications in the hands of resident investors on different income streams are discussed below:

##### *a) Dividend income*

Under Section 10(34) of the IT Act, dividends declared by an Indian company are exempt in the hands of all shareholders, irrespective of their residential status, provided the Indian company distributing the dividends has paid a Dividend Distribution Tax ("DDT") of 20.555% on the dividends distributed, declared or paid. DDT is the Indian company's liability and not the recipient shareholder's liability.

However as per Section 115BBDA of the IT Act, the tax on dividend income exceeding INR 1 million at the rate of 14.248% on gross basis should apply to all resident assesses other than a domestic company or an educational or charitable trust or a trust or institution registered under the IT Act.

##### *b) Interest income*

Under the IT Act, interest income should be taxable in the hands of the resident investors as under:

Interest income received by	Tax Rate for the domestic investors
Resident companies (Refer Note 1)	34.944%
Firms / LLPs	34.944%
Others	As per applicable slab rates, maximum being 42.744%

Note 1: Earlier, the Finance Act, 2018 had reduced tax rate to 25% in case of domestic companies having total turnover or gross receipts not exceeding INR 2500 million in the Financial Year 2016-17 (Assessment Year 2017-18).

The Finance (No. 2) Bill, 2019, has proposed an increase in the above threshold limit to include domestic companies having turnover or gross receipts not exceeding INR 4000 million in the Financial Year 2017-18 (Assessment Year 2018-19) thereby levying the lower corporate rate of 25% on such companies. Hence, in such case the rate of tax on interest income



should be 29.12% (considering surcharge at the rate of 12% and Health and Education cess at the rate of 4%).

c) Capital gains

Assuming the gains arising from sale of capital assets such as shares, and securities of the Indian portfolio companies is characterised as capital gains in hands of the resident Client, such Client shall be liable to pay taxes on capital gains income as under:

i. Period of holding

Capital assets are classified as long-term assets ("**LTCA**") or short-term assets ("**STCA**"), based on the period of holding of these assets. The period of holding of the asset is computed from the date of acquisition to the date of transfer. Depending on the period of holding for which the shares and securities are held, the gains would be taxable as short-term capital gains ("**STCG**") or long-term capital gains ("**LTCG**"). This is discussed below:

Nature of asset	STCA	LTCA
For assets being shares in a company or any other security listed on a recognised stock exchange in India i.e. equity shares, preference shares or debentures, or a unit of the Unit Trust of India or a unit of an equity oriented mutual fund or zero-coupon bonds	Held for not more than 12 months	Held for more than 12 months
For assets being shares of a company (other than shares listed on a recognised stock exchange in India) and immovable property being land or building	Held for not more than 24 months	Held for more than 24 months
For assets other than those specified above	Held for not more than 36 months	Held for more than 36 months

ii. Taxation of capital gains

Depending on the classification of capital gains, the resident investors would be chargeable to tax as per the IT Act as under:



Nature of Income	Tax rate for beneficiaries who are resident companies	Tax rates for resident Individuals / HUF / AOP / BOI	Tax rates for other residents (Firms, LLPs)
	%	%	%
STCG on transfer of (i) listed equity shares on a recognised stock exchange, (ii) to be listed equity shares sold through offer for sale or (iii) units of equity oriented mutual fund and on which Securities Transaction Tax ("STT") has been paid	17.472	21.372	17.472
Other STCG	34.944 (Refer Note 2)	42.744	34.944
LTCG on transfer of (i) listed equity shares on a recognised stock exchange, (ii) units of equity oriented mutual fund and on which STT has been paid (Refer Note 3 below)	11.648 (without indexation)	14.248 (without indexation)	11.648 (without indexation)
LTCG on transfer of listed securities [other than units of mutual funds, listed bonds and listed debentures] and on which STT has not been paid	11.648 (without indexation) or 23.296 (with indexation), whichever is lower	14.248 (without indexation) or 28.496 (with indexation), whichever is lower	11.648 (without indexation) or 23.296 (with indexation), whichever is lower
LTCG on transfer of listed bonds and listed debentures (Note 1)	11.648 (without indexation)	14.248 (without indexation)	11.648 (without indexation)
LTCG on transfer of units of mutual fund (listed or unlisted) other than equity oriented fund	23.296 (with indexation)	28.496 (with indexation)	23.296 (with indexation)



LTCG on transfer of unlisted securities (other than unlisted bonds and unlisted debentures)	23.296 (with indexation)	28.496 (with indexation)	23.296 (with indexation)
LTCG on transfer of unlisted bonds and unlisted debentures	23.296 (without indexation)	28.496 (without indexation)	23.296 (without indexation)

Note 1: The Indian tax authorities may seek to apply a higher rate of 20% (plus applicable surcharge and cess) without indexation on long-term capital gains arising on sale of listed bonds and debentures.

Note 2: Earlier, the Finance Act, 2018 had reduced tax rate to 25% in case of domestic companies having total turnover or gross receipts not exceeding INR 2500 million in the Financial Year 2016-17 (Assessment Year 2017-18).

The Finance (No. 2) Bill, 2019, has proposed an increase in the above threshold limit to include domestic companies having turnover or gross receipts not exceeding INR 4000 million in the Financial Year 2017-18 (Assessment Year 2018-19) thereby levying the lower corporate rate of 25% on such companies.

Note 3: The Finance Act, 2018 withdrew exemption from tax on long term capital gains arising on transfer of listed equity shares, units of equity oriented mutual fund and units of business trust w.e.f. 1 April 2018. The LTCG above INR 1 lakh on following transfers shall be taxable at 10% (plus surcharge and cess):

- listed equity shares (STT paid on acquisition\* and transfer)
- units of equity oriented mutual fund (STT paid on transfer); and
- units of business trust (STT paid on transfer)

Benefit of the computation of gains in foreign currency and cost inflation index shall not be available on such gains and the cost of acquisition of equity shares, equity oriented mutual fund or units of business trust shall be higher of:

- Actual cost of acquisition; and
- Lower of:
  - Fair market value as on 31 January 2018; and
  - Value of consideration received upon transfer





The Finance Act, 2018 also amended that in such case where the equity shares were unlisted on 31 January 2018 and listed at the time of transfer, the FMV would be after considering indexation benefit on the original cost of acquisition.

\*The CBDT has notified a circular to specify the transactions where the condition of STT on acquisition would not apply for applying tax rate of 10% on transfer of listed equity shares.

(iii) Deemed Sale Consideration on sale of unquoted shares

As per Section 50CA of IT Act, if there is a transfer of unquoted shares of a company at a value lesser than the fair market value, then the fair market value would be deemed to be the full value of sale consideration for computing the capital gains for such unquoted shares. The CBDT has issued rules for computation of Fair Market Value ("FMV") for the purpose of section 50CA of the IT Act. The taxability of such gains would be as discussed above.

d) Proceeds on buy-back of shares by company

As per the Section 10(34A) of the IT Act, gains arising on buy-back of shares are exempt in the hands of investors. However, as per section 115QA of the IT Act, a distribution tax at the rate of 23.296% is payable by an Indian company on distribution of income by way of buy-back of its shares if the buy-back is in accordance with the provisions of the Companies Act, 2013.

The Finance (No. 2) Bill, 2019 vide an amendment in Section 10(34A) and Section 115QA, has proposed that with effect from 5 July 2019, buy back of shares listed on a recognized stock exchange will also be subject to a distribution tax at the rate of 23.296%. Income arising on such buy back shall be exempt in the hands of shareholders.

Such distribution tax should be payable on the difference between consideration paid by such Indian company for the purchase of its own shares and the amount that was received by the Indian investee company at the time of issue of such shares, determined in the manner prescribed. In this regard, CBDT notified final buyback rules by inserting new Rule 40BB to IT Rules for determining the amount received by the Indian company in respect of issue of shares.

Gains arising on buy-back of shares listed on a recognised stock exchange should be taxed in the manner summarised above (for listed shares).



e) Deemed income on investment in shares / securities of unlisted companies in India

- Section 56(2)(x), provides that any assessee receives any property (including shares, debentures etc.) without consideration or for inadequate consideration in excess of INR 0.05 million as compared to the FMV shall be taxable in the hands of the recipient as Income from Other Sources.
- The CBDT has issued rules with revised mechanism for computation of FMV for the purpose of section 56(2)(x) of the IT Act.
- Accordingly, such Other Income would be chargeable to tax (i) at the rate of 34.944% in case of Investors being resident companies (ii) at the rate of 34.944% in case of firms/LLPs; and (iii) as per applicable slab rates in case of individuals and others, maximum being 42.744%.

f) Provisions related to dividend and bonus stripping

- As per section 94(7) of the IT Act, losses arising from the sale/ transfer of any securities/units (including redemption) purchased up to 3 months prior to the record date and sold within 3 months (in case of units - 9 months) after such date, will not be allowed to the extent of dividend / income distribution (excluding redemptions) on such securities/units claimed as tax exempt by the shareholder/unit holder.
- Further, section 94(8) of the IT Act provides that any person who buys or acquires any units within a period of 3 months prior to the record date and such person is allotted additional units without consideration (bonus units) based on the original holding, any subsequent loss on sale of original units within a period of 9 months from the record date, will be ignored for computing the income chargeable to tax. The loss so ignored will be deemed to be the cost of purchase or acquisition of Bonus units (held at such time) when these Bonus units are subsequently sold.

C. *Taxation of Non-resident investors*

A non-resident investor would be subject to taxation in India only if;

- it is regarded a tax resident of India; or
- being a non-resident in India, it derives (a) Indian-sourced income; or (b) if any income is received / deemed to be received in India; or (c) if any income has accrued / deemed to have accrued in India in terms of the provisions of the IT Act.



Section 6 of the IT Act was amended by the Finance Act, 2015 to provide that a foreign company should be treated as a tax resident in India if its place of effective management ("POEM") is in India in that year. The Finance Act, 2016 provided that the said amended provisions are effective from April 1, 2017. POEM has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

The CBDT had vide its Circular dated January 24, 2017 issued guiding principles for determination of POEM of a company ("**POEM Guidelines**"). The POEM Guidelines lays down emphasis on POEM concept being 'substance over form' and further provides that place where the management decisions are taken would be more important than the place where the decisions are implemented for determining POEM. The CBDT had vide circular dated 23 February 2017 clarified that provisions of Sec 6(3)(ii) relating to POEM would not apply to companies having turnover or gross receipts of Rs. 500 million or less than Rs 500 million during the Financial Year.

#### *D. Tax Treaty Benefits*

As per Section 90(2) of the IT Act, the provisions of the IT Act would apply to the extent they are more beneficial than the provisions of the Double Taxation Avoidance Agreement ("**Tax Treaty**") between India and the country of residence of the offshore investor to the extent of availability of Tax Treaty benefits to the offshore investors. However, no assurance can be provided that the Tax Treaty benefits would be available to the offshore investor or the terms of the Tax Treaty would not be subject to amendment or reinterpretation in the future.

#### *E. Tax Residency Certificate ("**TRC**")*

Section 90(4) of the IT Act provides that in order to claim Tax Treaty benefits, the offshore investor has to obtain a TRC as issued by the foreign tax authorities. Further, the offshore investor should be required to furnish such other information or document as prescribed. In this connection, the CBDT vide its notification dated August 1, 2013 amended Rule 21AB of the IT Rules prescribing certain information in Form No 10F to be produced along with the TRC, if the same does not form part of the TRC.

The details required to be furnished are as follows:

- Status (individual, company, firm, etc.) of the assessee;
- Nationality (in case of an individual) or country or specified territory of incorporation or registration (in case of others);
- Assessee's tax identification number in the country or specified territory of residence and in case there is no such number, then, a unique number on the basis of which the person is identified by the Government of the country or the specified territory of which the assessee claims to be a resident;
- Period for which the residential status, as mentioned in the TRC, is applicable; and



- Address of the assessee in the country or specified territory outside India, during the period for which the certificate is applicable.

The additional information prescribed above may not be required to be provided if it already forms a part of the TRC.

The taxability of income of the offshore investor, in the absence of Tax Treaty benefits or from a country with which India has no Tax Treaty, would be as per the provisions of IT Act as discussed below:

a) Dividend Income

Under Section 10(34) of the IT Act, dividends declared by an Indian company are currently exempt in the hands of the shareholders, irrespective of their residential status, provided the Indian company distributing the dividends has paid a DDT of 49.92% on the dividends distributed, declared or paid. DDT is the Indian company's liability and not the recipient shareholder's liability.

b) Interest

Interest income would be subject to tax at the rate of 43.68% for beneficiaries who are non-resident companies. For other non-resident beneficiaries, being individual, HUF, AOP or BOI, interest income would be subject to tax at the rate of 42.744%. For other non-resident beneficiaries, interest income would be subject to tax at the rate of 34.944%. The above rates would be subject to availability of Tax Treaty benefits, if any.

In case the investments made by the non-resident Indian ('NRI') Clients are entitled to be governed by the special tax provisions under Chapter XII-A of the IT Act and if the NRI investors opt to be governed by these provisions under the IT Act, the interest income from specified assets (which includes debentures issued by public companies) should be taxable at the rate of 28.496% on gross basis.

As per the IT Act, interest on rupee denominated corporate bonds and government securities payable to FPI would be subject to tax at the rate of 5% plus applicable surcharge and cess, if following conditions are satisfied:

- Such interest is payable on or after 1 June 2013 and 1 July 2020
- Rate of interest does not exceed the rate notified by Central Government

If the above concessional tax rate is not available, then the interest income would be subject to tax rate at the rate of 20% plus applicable surcharge and cess for FPI investors.



Further, CBDT had issued a Press Release on September 17, 2018 announcing tax exemption and withholding tax exemption for interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of rupee denominated bond issued outside India during the period from September 17, 2018 to March 31, 2019. The Press Release also stated that legislative amendments in this regard shall be proposed in due course. The Finance (No. 2) Bill, 2019, proposes to incorporate the provisions contained in the said press release into the Act by way of inserting the provisions through an amendment in Section 10.

c) Capital Gains

i. Period of holding

Please refer Paragraph 11(I)(B)(c)(i) above for period of holding.

ii. Taxation of capital gains

Depending on the classification of capital gains, the non-resident investors would be chargeable to tax as per the IT Act as under:

Nature of Income	Tax rate for offshore investors being Foreign company	Tax rate for non-resident individual/HUF/AOP/BOI	Tax rate for other non-resident beneficiaries
	%	%	%
Short-term capital gains on transfer of (i) listed equity shares through the recognised stock exchange, (ii) to be listed equity shares sold through offer for sale or (iii) units of equity oriented mutual fund, and on which STT has been paid	16.38	21.372	17.472
Other short-term capital gains	43.68	42.744	34.944
Long-term capital gains on transfer of (i) listed equity shares through the	10.92 (without indexation)	14.248 (without indexation)	11.648 (without indexation)





Nature of Income	Tax rate for offshore investors being Foreign company	Tax rate for non-resident individual /HUF/AOP/BOI	Tax rate for other non-resident beneficiaries
	%	%	%
recognised stock exchange, or (ii) units of equity oriented mutual fund and on which STT has been paid (Refer Note 1)			
Long-term capital gains on transfer of listed bonds / listed debentures or other listed securities (other than units of mutual fund) on which STT has not been paid (Refer Note 2)	10.92 (without indexation)	14.248 (without indexation)	11.648 (without indexation)
Long-term capital gains on transfer of units of mutual fund (listed or unlisted) other than equity oriented fund	21.840 (with indexation)	28.496 (with indexation)	23.296 (with indexation)
Long-term capital gains on transfer of unlisted securities	10.92 (without indexation)	14.248 (without indexation)	11.648 (without indexation)

Note 1: The Finance Act, 2018 has withdrawn exemption from tax on long term capital gains arising on transfer of listed equity shares, units of equity oriented mutual fund and units of business trust w.e.f. from Financial Year starting from 1 April 2018. The LTCG above INR 1 lakh on following transfers shall be taxable at 10% (plus surcharge and cess):

- listed equity shares (STT paid on acquisition\* and transfer)
- units of equity oriented mutual fund (STT paid on transfer); and
- units of business trust (STT paid on transfer)





Benefit of the computation of gains in foreign currency and cost inflation index shall not be available on such gains and the cost of acquisition of equity shares, equity oriented mutual fund or units of business trust shall be higher of:

- Actual cost of acquisition; and
- Lower of:
  - Fair market value as on 31 January 2018; and
  - Value of consideration received upon transfer

\*The CBDT has notified a circular providing certain specified transaction on which condition of paying STT at time of acquisition shall not apply for applying tax rate of 10%.

Note 2: Based on judicial precedents, non-residents may avail the concessional tax rate (as mentioned above). However, the possibility of Indian Revenue Authorities disregarding the said position and applying a tax rate of 20% (plus applicable surcharge and cess) without indexation on long-term capital gains arising on sale of listed bonds and debentures cannot be ruled out.

In case the investments made by the NRI Clients are entitled to be governed by the special tax provisions under Chapter XII-A of the IT Act and if the NRI investors opt to be governed by these provisions under the IT Act, (i) any long-term capital gains should be taxable at the rate of 14.248% and (ii) any investment income should be taxable at 28.496%.

iii. Deemed Sale Consideration on sale of unquoted shares

As per Section 50CA of IT Act, if there is a transfer of unquoted shares of a company at a value lesser than the fair market value, then the fair market value would be deemed to be the full value of sale consideration for computing the capital gains for such unquoted shares. The CBDT has issued rules for computation of FMV for the purpose of section 50CA of the IT Act. The taxability of such gains would be as discussed above.

d) Buy-back of shares

Please refer Paragraph 11(I)(B)(d) above for tax implications on income received from buy-back of shares.

e) Deemed income arising at the time of investment in shares of unlisted companies in India

- As per section 56(2)(x), if any assessee receives any property (including shares, debentures etc.) without consideration or for inadequate



consideration in excess of INR 0.05 million as compared to the FMV shall be taxable in the hands of the recipient as Income from Other Sources.

- The CBDT has rules providing mechanism for computation of FMV for the purpose of section 56(2)(x) of the IT Act.
  - The shortfall in consideration is taxable in the hands of the acquirer as Other Income earned by a foreign company would be chargeable to tax (i) at the rate of 43.68% in case of offshore investors being foreign companies; (ii) at the rate of 34.944% in case of offshore firms / LLPs; and (iii) as per applicable slab rates in case of non-resident individuals and others, maximum being 42.744%.
- f) Provisions related to dividend and bonus stripping
- As per section 94(7) of the IT Act, losses arising from the sale / transfer of any securities / units (including redemption) purchased up to 3 months prior to the record date and sold within 3 months (in case of units - 9 months) after such date, will not be allowed to the extent of dividend / income distribution (excluding redemptions) on such securities / units claimed as tax exempt by the shareholder / unit holder.
  - Further, section 94(8) of the IT Act provides that any person who buys or acquires any units within a period of 3 months prior to the record date and such person is allotted additional units without consideration (bonus units) based on the original holding, any subsequent loss on sale of original units within a period of 9 months from the record date, will be ignored for computing the income chargeable to tax. The loss so ignored will be deemed to be the cost of purchase or acquisition of Bonus units (held at such time) when these Bonus units are subsequently sold.

## II. Securities Transaction Tax

Delivery based purchases and sales of equity shares traded on recognized Indian stock exchanges are subject to STT at the rate of 0.1% on the transaction value of purchase or sale. Further, STT @ 0.2% on the transaction value is also leviable on sale of unlisted equity shares under an offer for sale to the public included in an initial public offer and where such shares are subsequently listed on a stock exchange. STT is levied on the seller @ 0.025% on the sale of equity share in a company or unit of an equity oriented mutual fund - transaction in a recognised stock exchange, settled otherwise than by actual delivery.

Further, an amendment has been proposed which states that the levy of STT @0.125% on sale of an option in securities where option is exercised, would be limited to only the intrinsic value of options i.e. the difference between the settlement price and the strike price, with effect from 1 September, 2019.



### **III. Minimum Alternate Tax**

The IT Act provides for levy of Minimum Alternate Tax ('MAT') on corporates if the tax amount calculated at the rate of 18.5% (plus applicable surcharge and cess) of the book profits, as the case may be, is higher than the tax amount calculated under the normal provisions of the IT Act.

If MAT is held to be applicable to the Client, then income receivable by such Client from their investment in the Fund shall also be included to determine the MAT.

The MAT provisions are not applicable to a non-resident if, (a) the assessee is a resident of a country with which India has DTAA and the assessee does not have a permanent establishment in India; or (b) the assessee is a resident of a country with which India does not have a Tax Treaty and is not required to seek registration under the Indian corporate law.

### **IV. Withholding at a higher rate**

The income tax provisions provide that where a recipient of income (which is subject to withholding tax) does not have a Permanent Account Number ("PAN"), then tax is required to be deducted by the payer at higher of the following i.e. rates specified in relevant provisions of the IT Act, or rates in force or at 20%. However, this provision of the IT Act shall not apply in respect of payments in the nature of interest, royalty, fees for technical services and payments on transfer of any capital asset to a non-resident, subject to furnishing of certain details and documents. As per Rule 37BC of the ITR, the following details and documents are prescribed:

1. Name, e-mail id, contact number;
2. Address in the country or specified territory outside India of which the deductee is a resident;
3. A certificate of his being resident in any country or specified territory outside India from the Government of that country or specified territory if the law of that country or specified territory provides for issuance of such certificate; and
4. Tax identification number of the deductee in the country or specified territory of his residence and in case no such number is available, then a unique number on the basis of which the deductee is identified by the Government of that country or the specified territory of which he claims to be a resident.

### **V. Carry-forward of losses and other provisions (applicable to both Equity products irrespective of the residential status):**

In terms of Section 70 read with Section 74 of the IT Act, short term capital loss arising during a year can be set-off against short term as well as long term capital gains. Balance loss, if any, shall be carried forward and set-off against any capital gains arising during the subsequent 8 assessment years. A long-term capital loss arising during a



year is allowed to be set-off only against long term capital gains. Balance loss, if any, shall be carried forward and set-off against long term capital gains arising during the subsequent 8 assessment years.

## **VI. General Anti Avoidance Rule ("GAAR")**

GAAR provisions have been introduced in chapter X-A of the IT Act (effective from Financial Year beginning on April 1, 2017), which provides that an arrangement whose main purpose is to obtain tax benefit, and which also satisfies at least one of the four specified tests as mentioned below, can be declared as an 'impermissible avoidance arrangement'.

- Arrangement creates rights or obligations, which are not ordinarily created between persons dealing at arm's length price;
- Arrangement directly or indirectly results in the misuse or abuse of the provisions of the IT Act;
- Arrangement lacks commercial substance or is deemed to lack commercial substance in whole or in part; or
- Arrangement is entered into, or carried out, by means, or in a manner, which are not ordinarily employed by bonafide purposes.

The GAAR provisions would override the provisions of a Tax Treaty in cases where GAAR is invoked. The necessary procedures for application of GAAR and conditions under which it should not apply have been enumerated in Rules 10U to 10UC of the IT Rules. The IT Rules provide that GAAR should not be invoked if the tax benefit in the relevant year does not exceed INR 30 million.

On January 27, 2017, the CBDT has issued clarifications on implementation of GAAR provisions in response to various queries received from the stakeholders and industry associations. Some of the important clarifications issued are as under:

- Where tax avoidance is sufficiently addressed by the Limitation of Benefit Clause ('LOB') in a Tax Treaty, GAAR should not be invoked.
- GAAR should not be invoked merely on the ground that the entity is located in a tax efficient jurisdiction.
- GAAR is with respect to an arrangement or part of the arrangement and limit of INR 30 million cannot be read in respect of a single taxpayer only.

## **VII. GST**

Goods and Service Tax (GST) will be applicable on services provided by the Portfolio Manager to Clients. Accordingly, GST at the rate of 18% would be levied on fees if any, payable towards investment management fee to the Company.

THERE CAN BE NO GUARANTEE THAT THE ABOVE POSITION REGARDING TAXATION WOULD BE NECESSARILY ACCEPTED BY THE INDIAN TAX AUTHORITIES UNDER THE INCOME TAX ACT. NO REPRESENTATION IS MADE EITHER BY THE PORTFOLIO



MANAGER OR ANY EMPLOYEE, PARTNER OR AGENT OF THE MANAGER IN REGARD TO THE ACCEPTABILITY OR OTHERWISE OF THE ABOVE POSITION REGARDING TAXATION BY THE INDIAN TAX AUTHORITIES UNDER THE IT ACT. INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS IN THIS REGARD.

#### 14. Accounting Policies

The following Accounting policy will be applied for the investments of Clients:

- (i) **Recognition:** The Portfolio Manager shall follow accrual-based accounting policies in conformation with generally accepted accounting principles for fund management in India.
- (ii) **Client Accounts:** The investments under the Portfolio Management Scheme (PMS) are made on behalf of and in the respective names of the Clients. Hence separate bank accounts and demat accounts may be opened in the name of the Clients which are operated by the Portfolio Manager duly authorized for this purpose by a Power of Attorney. As the amount received under PMS and the corresponding investments are made on behalf of the Clients, they are not reflected in the balance sheet of the Portfolio Manager.
- (iii) **Income Accrual:** Dividends on shares and units in mutual funds shall be accounted on ex-dividend date, interest, stock lending fees earned etc., shall be accounted on receipt basis. The interest on debt instruments shall be accounted on receipt basis.
- (iv) **Cost of Investments:** Purchase/Sale consideration will be calculated by applying the "weighted average cost" method. The cost of investments acquired or purchased shall include brokerage, stamp charges and any charge customarily included in the broker's contract note. In respect of privately placed debt instruments any front-end discount offered shall be reduced from the cost of the investment.
- (v) **Portfolio Management Fees:** Portfolio management fees could include a fixed management fee and a variable performance fee. The amount of fixed and variable fees will be as agreed with the client and defined in the Agreement. Issues related to the frequency at which fees are charged and how they are calculated will also be as defined in the Agreement with each individual client. The fixed management fee will be as agreed in the Agreement terms and conditions and is payable quarterly. The performance fees as agreed with the client in the Agreement will be based on returns over a hurdle rate as agreed in the Agreement, with a high watermark. Performance fees will be charged on performance over the hurdle rate, management fee and any costs of trading. They will be charged quarterly or annually.

The Accounting Policies and Standards as outlined above are subject to changes made from time to time by Portfolio Manager. However, such changes would be in conformity with the Regulations.





## 15. Investors Services

- (i) Details of investor relation officer who shall attend to the investor queries and complaints is mentioned herein below:

Name of the person	Manish Hemnani,
Designation	COO, Head – Client Relations
Address	929, B Wing, Ground Floor, DBS Business Centre, Kanakia Wall Street, Andheri-Kurla Road, Andheri (E), Mumbai 400093
Email	clientsupport@marcellus.in;
Telephone	+91-22-48809929

- (ii) Grievance redressal and dispute settlement mechanism:

- The Investment Relation Officer(s) will be the interface between the Portfolio Manager and the Client. In case the Client is not satisfied with the redressal by the Portfolio Manager or otherwise, the Client may lodge a complaint on SEBI's web-based complaints redress system (SCORES).
- Grievances, if any, that may arise pursuant to the Agreement entered into shall as far as possible be redressed through the administrative mechanism by the Portfolio Manager and are subject to SEBI (Portfolio Managers) Regulations 1993 and any amendments made thereto from time to time. However, all legal actions and proceedings are subject to the jurisdiction of court in Mumbai only and are governed by Indian laws.

The Portfolio Manager will endeavour to address all complaints regarding service deficiencies or causes for grievance, for whatever reason, in a reasonable manner and time. If the Client remains dissatisfied with the remedies offered or the stand taken by the Portfolio Manager, the Client and the Portfolio Manager shall abide by the following mechanisms:

All disputes, differences, claims and questions whatsoever arising between the Client and the Portfolio Manager and/or their respective representatives shall be settled through arbitration in accordance with the provisions of the Arbitration and Conciliation Act, 1996 or any amendment thereof. Such arbitration proceedings shall be held in Mumbai and the process as described in the Agreement or any Supplemental Agreement thereto shall be followed.



## 16. GENERAL PROVISION

The Prevention of Money Laundering Act, 2002 (PMLA Act) came into force with effect from July 1, 2005, forming the core of the legal framework to combat money laundering. As per the provisions of the PMLA Act, Intermediaries, including portfolio managers, have certain obligations regarding verification of the identity of their clients, maintaining records and furnishing information to the Financial Intelligence Unit-India (FIU-IND). SEBI vide its various circulars issued has directed all Intermediaries, including portfolio managers to formulate and implement policies and procedures for dealing with money laundering and adoption of 'Know Your Customer' (KYC) Policy. The client should ensure that the amount invested in the Portfolio Management Service is through legitimate sources only and does not involve and is not designed for the purpose of any contravention or evasion of any Act, Rules, Regulations, Notifications or Directions of the provisions of the PMLA Act, the Prevention of Money Laundering Rules, 2005, Income Tax Act, Anti Money Laundering Guidelines, Prevention of Corruption Act, Act or any other applicable laws enacted by the Government of India from time to time.

The Portfolio Manager reserves the right to take all steps and actions, including recording clients telephonic calls and/or obtaining and retaining all documentation for establishing the identity of the Client, proof of residence, source of funds etc. in accordance applicable law from the client and/or the custodian as may be required to ensure appropriate identification/verification and re-verification of the Client, the course of fund etc. under its KYC policy as may be amended and updated from time to time. If at any time the Portfolio Manager believes that the transaction is suspicious in nature in accordance with applicable law, the Portfolio Manager shall have the absolute discretion to report the transaction to FIU-IND and/or any other statutory body that the Portfolio Manager is bound to report to from time to time. The Portfolio manager can also reject any application, freeze the account, compulsorily close the Client account and pay out the proceeds to the Client, at its option. The Portfolio Manager shall have no obligation to inform the Client or its agent/power of attorney holder in the event of such reporting.

The Portfolio Manager and its directors, employers, officers, agents an persons acting on its behalf shall not be responsible/liable for any loss suffered by the Client in any manner whatsoever due to any reporting to the FIU-IND by the Portfolio Manager, the rejection of any application or freezing or compulsory closure of any Client account or termination of the Agreement due to any non-compliance by the Client with the provisions of any applicable law, rule, regulation, KYC policy and/or where the Portfolio Manager has reported a suspicious transaction to FIU-IND.

The Portfolio Manager and the Client can mutually agree to be bound by specific terms through a written two-way agreement between themselves in addition to the standard agreement for Portfolio Management Services.



Approved by the Board of Directors of Marcellus Investment Managers Private Limited  
on 11<sup>th</sup> November 2019

**For Marcellus Investment Managers Private Limited**

<b>Saurabh Mukherjea</b> Director	
<b>Sudhanshu Nahta</b> Director	

**Place:**  
**Date: 20-11-2019**



**Mumbai**