

Sharekhan Limited

PORTFOLIO MANAGEMENT SERVICES – DISCLOSURE DOCUMENT

- (i) This Document has been updated upto **31st March, 2011** and has been filed with the Securities and Exchange Board of India (SEBI) along with the certificate in the prescribed format in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993.
- (ii) The purpose of this Document is to provide essential information about the portfolio services in a manner to assist and enable you in making informed decision for engaging us as a Portfolio Manager.
- (iii) This document gives necessary information about us as ‘Portfolio Manager’ required by you as an investor before investing. You are advised to read this document and retain this document for future reference.
- (iv) The name, phone number, e-mail address of the principal officer designated by us as portfolio manager is as follows:

Name of the principal officer	Shankar Vailaya
Phone number	022-61150000, 67481897
E-mail address	shankar@sharekhan.com ; kunal@sharekhan.com

TABLE OF CONTENTS

1. Disclaimer.....	3
2. Definitions	3
3. History, present business and background of the Portfolio Manager	4
4. Promoters and Directors of the Portfolio Manager and their background	4
5. Group Companies –.....	5
6. Penalties,pending litigation or proceedings, findings of inspection & investigations for which action has been taken or initiated by any regulatory authority.....	6
7. Services offered by the Portfolio Manager -	6
8. Products Offered	9
9. Risk Factors	9
10. Client Representation-	10
11. Disclosure in respect of transactions with related parties pertaining to Portfolio Management Services	11
12. Financial Performance of the Portfolio Manager.....	12
13. Portfolio Management Performance:	12
14. Nature of expenses:.....	13
15. Reports available to the Clients :	13
16. Taxation.....	14
17. Accounting Policy	14
18. Investor Services.....	15
19. Grievance Redressal and Dispute Settlement mechanism	15

Sharekhan Limited

PORTFOLIO MANAGEMENT SERVICES – DISCLOSURE DOCUMENT

1. Disclaimer

This document has been prepared in accordance with the SEBI (Portfolio Managers) Regulations, 1993 and filed with the Securities and Exchange Board of India (SEBI). This Document has neither been approved nor disapproved by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.

2. Definitions

In this Disclosure Document, unless the context otherwise requires:-

“**Act**” means the Securities and Exchange Board of India Act, 1992 (Act No. 15 of 1992).

“**Board**” or “**SEBI**” means the Securities and Exchange Board of India established under section of the Act.

“**Client**” means any person who registers with the Portfolio Manager for availing the services of portfolio management by the Portfolio Manager.

“**Depository Account**” means any account of the Client or for the Client with an entity registered as a depository participant under sub-section 1A of section 12 of the Act or any other law for the time being relating to registration of depository participants.

“**Financial Year**” means the year starting from April 1 and ending on March 31 in the following year.

“**Funds**” means the moneys placed by the Client with the Portfolio Manager and shall include all accretions thereto.

“**Funds Managed**” means the market value of the Portfolio of the Client as on a date.

“**Initial Corpus**” means the value of the Funds and the market value of Securities brought in by the Client and accepted by the Portfolio Manager at the time of registering as a client with the Portfolio Manager.

“**Portfolio**” means the total holdings of all investments, securities and funds belonging to the Client.

“**Portfolio Manager**” means Sharekhan Limited (formerly SSKI Investor Services Private Limited) a company incorporated and registered under the Companies Act, 1956 and having its registered office at Lodha iThink Techno Campus, 10th Floor, Beta Building, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (E), Mumbai – 400 042.

“**Regulations**” means the Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993.

“**Rules**” means the Securities and Exchange Board of India (Portfolio Managers) Rules, 1993.

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 shall also carry the meaning assigned to them in the Regulations governing portfolio management services.

3. History, present business and background of the Portfolio Manager

Sharekhan Limited (formerly SSKI Investor Services Pvt. Ltd.) was incorporated on 20th April 1995, Sharekhan launched its brand 'Sharekhan' in the year 2000 to offer broking services predominantly to non-institutional clients and its web-site 'sharekhan.com' was launched. In the year 2005 the company changed its name to Sharekhan Limited. The company was originally promoted by Mr. Shripal S. Morakhia and Mr. Shreyas S. Morakhia. In the year 2000 company raised equity from foreign private equity investors viz., HSBC Private Equity India Fund Limited, Intel Pacific Inc., First Carlyle Ventures Mauritius. In April 2006, GA Global Investments Limited had invested in the Company through subscribing to equity and participatory convertible non-cumulative preference shares and also they purchased the equity holding of First Carlyle Ventures Mauritius.

The company has been professionally managed and its current promoters are Mr. Tarun P. Shah, Mr. Jaideep Arora and Mr. Shankar Vailaya. In the year 2007 erstwhile promoters of the company viz., Mr. Shripal S. Morakhia and Mr. Shreyas S. Morakhia, sold their equity holdings to Human Value Developers Pvt. Ltd. (HVD), a company promoted by Mr. Tarun P. Shah, Mr. Jaideep Arora and Mr. Shankar Vailaya, thereby ceasing to be a promoter of the Company.

Further in 2007, Citigroup Venture Capital International (CVCII), India "B" Holdings, Mauritius and Infrastructure Development Finance Company Limited have subscribed to compulsorily convertible debentures issued by Sharekhan at an aggregate investment of ` 200 Crores. The said investors also purchased the shares held by the foreign investors GA Global Investments Limited, HSBC Private Equity India Fund Limited, HAV2 Holdings 1 (Mauritius) Limited and Intel Capital Corporation. Further convertible preference shares have also been purchased by the said Investors from GA Global Investments Limited.

In February 2008, Baring Private Equity Asia IV Mauritius Holdings (3) Limited, Citigroup Venture Capital International (CVCII), India "B" Holdings and Infrastructure Development Finance Company Limited have subscribed to compulsorily convertible debentures.

Sharekhan is currently amongst India's largest broking house. It is a member of the Bombay Stock Exchange Limited, the National Stock Exchange of India Limited and the MCX Stock Exchange Limited. It is a depository participant of the National Securities Depository Limited and Central Depository Services (India) Limited. Its business includes stock broking, depository services, portfolio management and derivatives.

The Company's core specialty lies in its non-institutional distribution with a large network of branches and sub-brokers/authorized persons. Its strength lies in its investment research capabilities. Its research division has several analysts continuously monitoring global, national and regional political, economic and social situations so as to assess their impact on the economy in general, the sectors and companies they research which helps them in offering quality research and advice to clients.

4. Promoters and Directors of the Portfolio Manager and their background

Mr. Tarun P. Shah, Mr. Jaideep Arora and Mr. Shankar Vailaya are the present promoters of the Company. The key shareholders of Sharekhan Limited are Human Value Developers Private Limited, CVCIGP II Client Rosehill Limited, CVCIGP II Employee Rosehill Limited, India 'B' Holdings, Mauritius, Infrastructure Development Finance Company Limited (IDFC) and promoters/key employees of the company.

Directors and their background –

No	Name	Background
1	Marc Desaeleer	Mr. Marc Desaeleer is a nominee director of CVCIGP II Client Rosehill Limited and CVCIGP II Employee Rosehill Limited. He is the Chief Investment Officer of Citigroup Venture Capital International. He did his MBA from Carnegie Mellon University, USA and graduated in Engineering from University of Louvain, Belgium.
2	Rahul Kumar Yadav	Mr. Rahul Kumar Yadav is a nominee director of CVCIGP II Client Rosehill Limited and CVCIGP II Employee Rosehill Limited. He did his Masters CSA from Oxford University, England
3	Anil Nagu	Mr. Anil Nagu is a nominee director of CVCIGP II Client Rosehill Limited and CVCIGP II Employee Rosehill Limited. He is a member of the CVCI team and is responsible for the management, administration and structuring of the private equity funds.
4	T. S. Siva Shankar	Mr. T. S. Siva Shankar is an alternate director to Mr. Anil Nagu. He is an MBA and a graduate in Technology from IIT Madras and studied management from IIM Lucknow.
5	Sumeet Narang	Mr. Sumeet Narang is a nominee director of India 'B' Holdings, Mauritius. He is an MBA with rich experience in financial services.
6	Vikram Limaye	Mr. Vikram Limaye is a nominee director of Infrastructure Development Finance Company Limited (IDFC). He is a Chartered Accountant and MBA from Wharton School of the University of Pennsylvania. He has over 19 years experience with Global Investment Banks, Foreign Banks and Global Accounting Firms.
7	Jimmy Mahtani	Mr. Jimmy Mahtani is a nominee director of Baring Private Equity Asia IV Mauritius Holdings (3) Limited, Mr. Mahtani graduated with honors from Georgetown University where he received a Bachelors of Science in Business Administration, triple majoring in Finance, International Business and Marketing.
8	Tarun P. Shah	Mr. Tarun P. Shah is a science graduate. He is the Chief Executive Officer of the Sharekhan Limited. He has over 26 years of experience in broking business. He had earlier served on the board of S. S. Kantilal Ishwarlal Securities Limited an erstwhile associate company of Sharekhan Limited.
9	Jaideep Arora	Mr. Jaideep Arora graduated from IIT Kanpur and studied management at IIM Calcutta. He has been associated with Portfolio Manager since 2000 and he primarily looks after Technology, business strategy and online business. Prior to joining the Sharekhan Group, he was working with ICICI Securities & Financial Services Ltd.
10	Shankar Vailaya	Mr. Shankar Vailaya is a commerce graduate and a Chartered Accountant. He has experience of over 20 years in the broking and financial services industry. He had earlier served on the board of S. S. Kantilal Ishwarlal Securities Limited an erstwhile associate company of Sharekhan Limited. He looks after the operations of the Company encompassing finance, compliance, risk, accounts, back-office operations etc.

5. Group Companies

The following are group companies of the Portfolio Manager:

1. Human Value Developers Private Limited
2. Sharekhan Commodities Private Limited
3. Sharekhan Financial Services Private Limited

4. Sharekhan.Com India Private Limited
5. Sharekhan Insurance Broking Limited

6. Penalties, pending litigation or proceedings, findings of inspection and investigations for which action has been taken or initiated by any regulatory authority.

- i) The Exchanges have imposed fines on the Portfolio Manager in its capacity as a Member Broker of these Exchanges. For the period April 2005 to March 2011, this amounts to ` 26,96,931/-. These penalties have been levied for inadvertent procedural errors which are not material to the operations of the Company either as a Portfolio Manager or as a Member Broker of these Exchanges.
- ii) SEBI had raised a demand of ` 1,92,52,510/- on the Company for SEBI Turnover Fees for the year 1997 to 2001. The Company had appealed against this demand with the Securities Appellate Tribunal (SAT). SAT vide its order dated May 09, 2006 had upheld Company's appeal. SEBI has however appealed against the order and the said appeal is pending with the Supreme Court. The Company has given an undertaking to SEBI agreeing to make payment of the demanded SEBI fees in case Supreme Court decision goes against the Company.
- iii) A summary of the inspections undertaken by SEBI and the respective outcomes is as below –

Period	As in capacity of
April 2001 – May 2003	Member Broker / Depository Participant
January 2008 – September 2009	Member Broker
April 2008 – May 2010	Depository Participant

The findings in all the above cases were procedural in nature and an advise was issued to ensure that the same are not repeated in future.

- iv) Three clients have filed criminal suits against three of the directors; however the same are not material enough to affect the operations of the Portfolio Manager.

The above details are for the period as mentioned above. Other than the above, there have been no instances of penalties imposed or directions issued by the Board or any regulatory agency under the Act, Rules or Regulations for any economic offence or for violation of any securities laws or for any deficiency in the systems and operations of the Portfolio Manager, in the said period. There are no material legal proceedings, civil or criminal initiated against the Sharekhan in its capacity as a portfolio manager, its directors, principal officer or employee under the Act, Rules or Regulations, in the said period.

7. Services offered by the Portfolio Manager

Under the portfolio management services offered by Sharekhan Limited the funds of the Client will be managed by a team of experienced professionals comprising of strategists, technical analysts, quantitative analysts, statisticians, specialists in derivative products, etc. The Portfolio Manager's investment philosophy underlines maximizing the risk-adjusted returns depending on the client's risk tolerance. In order to achieve the same, a disciplined investment approach, with adequate risk controls, has been adopted.

Research is based on use of several techniques. Broadly three techniques are used:

1. Fundamental Research

The long-term risk is managed with the help of an Equity research team whose objective is to undertake bottom up research and identify stock ideas to be included in our model portfolio assists the PMS team.

Key Elements of our approach to Fundamental Research are:

- Bottom-up stock selection
- In-depth, independent fundamental research
- High-quality companies with sustainable competitive advantages
- Disciplined valuation approach applying multiple valuation measures Long-term vision, resulting in comparatively low portfolio turnover

2. Technical Research

The short term risk is managed with the use of a technical analysis team which focuses on determining trend changes over the short and long term and weighs the probability of that trend in decision making. Based on the type of Investment model portfolio chosen by the client long-term investments might also be made on the basis of technical analysis. Statistical models or mathematical models might also be used to make the buying/selling decisions. Based on this the risk may be hedged in the futures or options market from time to time. A long/short position might be taken in the stock/index futures market. The Value of the exposure in the futures market will not exceed the value of the underlying portfolio at any point of time.

Key Elements of Technical Research are:

- Studies historical data of price, volume, open interest and volatility to gauge the underlying trend
- Determine the probability of that trend sustaining
- Forecasting of price objectives and risk to approach at a risk/reward ratio which is useful in decision making
- Determine entry exit points based on such analysis

Technical research is also used to correct the portfolio Beta to the required risk level that has been fixed for the concerned product. In products based on technical analysis investments might be made in stock/index options by buying stock or index options i.e. calls or puts from the derivatives market. The premium to be paid for options purchased shall never exceed the value of the portfolio. The risk in this case is limited to the extent of premium paid for the options purchased. Any model portfolio that buys options in the derivatives market will have a pre-decided limit up to which options can be purchased. This will be in the form a percentage of the portfolio and premium paid for options at any point of time will not exceed this limit. Stock/index options might also be sold to earn the premium. In this case the value of the exposure [(strike price)+(premium)] shall never exceed the value of the underlying portfolio at any point of time.

The Portfolio Manager may from time to time form different investment model portfolios. The model portfolios are clearly categorized on the basis of the type of Research that goes into it. They could be based on fundamental analysis, technical analysis, statistics, quantitative models, market prices or combinations of these types of research.

1. Within the category of Fundamental Research based model portfolios they may be classified into Blue chip, balanced, high-risk model portfolio, large cap, mid-cap etc. Each model portfolio will have different risk profile. The Investor may choose between the schemes based on the risk appetite.
2. Similarly model portfolios could be based on technical analysis, quantitative techniques or statistics and classified into aggressive schemes, passive schemes, index investment schemes, High Beta portfolios and low Beta portfolios etc.
3. Schemes may be introduced where a percentage of the portfolio would be a mix of model portfolios as described above.

3. Arbitrage opportunities

Investment Objective Arbitrage portfolio is to endeavour to earn attractive risk-adjusted returns on capital invested by taking advantage of spreads between the price of a stock future and the underlying stock. The model portfolio may be considered suitable for investors with investments in relatively low risk assets who are looking for an alternative to potentially increase their returns. The cash futures arbitrage strategy can be employed when the price of the futures exceeds the price of the underlying stock. Two simultaneous transactions are undertaken for example:

- (a) Buying the underlying stock
- (b) Selling the futures.

The position may be held till expiry of the futures contracts. By definition, the price of the futures will equal the closing price of the stock on expiry. Thus, the price differential between the futures and the stock is realized. However, the position could even be closed earlier in case the price differential is realised before expiry or better opportunities are available in other stocks.

Each model portfolio may be given a title or brand name. Such title or brand name does not necessarily indicate the scheme objective or portfolio risks.

The investments will be generally made in Equities and its derivatives, money market instruments and in Mutual Funds.

Investments will not be made in associated/group companies of the Portfolio Manager.

The Portfolio Manager will offer discretionary, non-discretionary as well as advisory services to the clients.

The Portfolio Manager broadly offers services under the following categories:

a. Discretionary Services

Under these services, the choice as well as the timing of the investment decision is with the Portfolio Manager. The Portfolio Manager, may at its discretion, adhere to the views of the Client pertaining to the investment/ disinvestment decisions of the Client's Portfolio.

The Portfolio Manager shall have the sole and unfettered discretion to invest in respect of the Client's account in any type of security in accordance with the Agreement and make changes in the investment and invest some or all of the Client's Portfolio in such manner and in such markets as it deems fit. The Portfolio Manager's decision in deployment of the Client's Portfolio is absolute and final and is not open to review or question by the Client during the currency of the Agreement or at any time thereafter. The Portfolio Manager shall exercise its power and be subject to obligations strictly in accordance with the Act, Rules and Regulations made there under.

The Client may, under these services, authorise or restrict the Portfolio Manager to invest the Client's Portfolio in specific financial instruments or securities or a mix of specific instruments or securities.

The Portfolio Manager shall send periodical statements to the Client.

b. Non Discretionary/Advisory Services

Under these services, the Client decides his own investments. The Portfolio Manager is responsible for providing advise and facilitating the execution of transactions. The Portfolio Manager's role is limited to providing research, investment guidance and trade execution at the Client's request. The deployment of the Client's Funds on the Client's instructions is absolute and final and is not open to review or question by the Client during the currency of the Agreement or at any time thereafter. The

Portfolio Manager shall exercise its power and be subject to obligations strictly in accordance with the Act, Rules and Regulations made there under.

The Portfolio Manager shall send periodical statements to the Client.

8. Products offered

- a. The Products offered by the Portfolio Manager are based on the various research techniques as mentioned above.
- b. These products are divided into Fundamental Investment products, investing in assets based on strong fundamental research and Technical based products, which include investing through Derivatives (Futures and Options) based on proprietary trading tools, automated or otherwise. It is ensured that while investing through Derivatives no leverage is taken on the portfolio of the client.
- c. Minimum initial investment amount in these products is ` 5 Lacs, however this may change from product to product based on the discretion of the Portfolio Manager
- d. Fees and charges may be different for each product. Details of such charges are provided below

9. Risk Factors

- a. Investment in securities, whether on the basis of fundamental analysis or technical analysis or otherwise, is subject to market risks which include price fluctuations impact cost, basis risk etc. The Portfolio Manager does not assure or guarantee that the objectives of any of the model portfolios will be achieved. The investments may not be suitable to all the investors
- b. The portfolio manager has commenced offering Portfolio Management Services in May 2004. Hence previous experience/track record of the portfolio manager is limited.
- c. Past performance of the Portfolio Manager does not indicate the future performance of the same or any other model portfolio in future or any other future model portfolio of the Portfolio Manager. There is no assurance that the past performances will be repeated. Investors are not being offered any guaranteed or assured returns through any of the model portfolio.
- d. The names of the model portfolios do not in any manner indicate their prospects or returns.
- e. Investments in equity may be adversely affected by the performance of companies, changes in the economy, government policy, the market place, credit ratings and industry specific factors.
- f. Debt and other fixed income investments may be subject to changes in interest rates and/or liquidity, credit and reinvestment risks.
- g. Liquidity in the investments and performance of portfolio may be affected by trading volumes, settlement periods and transfer procedures.
- h. Stocks, may be subject to volatility, high valuations, obsolesce and low liquidity.
- i. Derivatives, futures and options are highly leveraged instruments and require a high degree of skill, diligence and expertise. Small price movements in the underlying security may have a large impact on the value. The derivatives and futures and options market is relatively new.
- j. Appreciation in any of the model portfolio can be restricted in the event of a high asset allocation to cash, when stock appreciates. The performance of any model portfolio may also be affected due to any other asset allocation factors.
- k. When investments are restricted to a particular or few sector(s) under any model portfolio; there arises a risk called non-diversification or concentration risk. If the sector(s), for any reason, fails to perform, the portfolio value will be adversely affected.
- l. In the case of stock lending, risks relate to the defaults from counterparties with regard to securities lent and the corporate benefits accruing thereon. The Portfolio Manager is not responsible for any loss resulting from stock lending.
- m. Each portfolio will be exposed to various risks depending on the investment objective, investment strategy and the asset allocation. The investment objective, investment strategy and the asset allocation may differ from client to client. However, generally, highly concentrated portfolios with lesser number of stocks generally will be more volatile than a portfolio with a larger number of stocks.

- n. Investments in alternative investments such as real estate, art, or such others are subjective in nature. The market for such investments may not be developed and hence may result in losses. The portfolio manager shall provide consultancy in this regard, however the client shall be responsible for the investment decisions
- o. There is an inherent risk in investing in certain countries. These risks could be in the nature of economic slowdown, economic risks currency risks, sanctions, military coups, political instability among others
- p. The values of the Portfolio may be affected by changes in the general market conditions and factors and forces affecting the capital markets, in particular, level of interest rates, various market related factors, trading volumes, settlement periods, transfer procedures, currency exchange rates, foreign investments, changes in government policies, taxation, political, economic and other developments, closure of stock exchanges, etc
- q. Risk may also arise due to an inherent nature / risk in the stock markets such as, volatility, market scams, circular trading, price rigging, liquidity changes, de-listing of Securities or market closure, relatively small number of scrip's accounting for a large proportion of trading volume among others.

10. Client Representation

- i) The Portfolio Manager has commenced offering Portfolio Management Services to clients only in May 2004. The market value of Portfolio managed and number of clients as on 31st March 2011 are as under::

Category of clients	No. of clients	Funds managed (₹)	Discretionary/Non-discretionary
Associates/Group Companies	1	31,579,745	Discretionary
Others	1,809	1,348,012,440	Discretionary
Total	1,810	1,379,592,185	

- ii) Following is the complete disclosure in respect to transactions with related parties, as on 31st March 2010, based on audited books of accounts, as per the standards specified by the Institute of Chartered Accountants of India:

- a) List of related parties with whom the Portfolio Manager has transactions –

The disclosures relating to transactions with related parties have been disclosed separately for those carried out with parties falling under such provisions through the erstwhile promoters.

a. Subsidiary Companies

- i. Sharekhan Commodities Private Limited
- ii. Sharekhan Financial Services Private Limited

b. Indirect Subsidiary Companies

- i. Sharekhan.Com India Private Limited
- ii. Sharekhan Insurance Broking Limited

c. Key Management Personnel

- i. Tarun P. Shah
- ii. Shankar Vailaya
- iii. Jaideep Arora

d. Enterprise over which key management personnel has significant influence.

Human Value Developers Private Limited

b) Disclosure in respect to transactions with related parties between 01-04-2009 to 31-03-2010

Transactions with related parties (` in thousands)													
	Individuals controlling / has significant influence and their relatives		With Subsidiaries		With Enterprises under common control		With Key management personnel		With relatives of Key management personnel		Total		
	Mar 10	Mar 09	Mar 10	Mar 09	Mar 10	Mar 09	Mar 10	Mar 09	Mar 10	Mar 09	Mar 10	Mar 09	
Brokerage earned	-	-	301	861	-	-	344	214	5	3	650	1,078	
PMS fees	-	-	-	295	-	-	309	221	-	-	309	516	
Depository income.	-	-	1	1	-	-	2	2	1	1	4	4	
Reimbursement of expenses	-	-	11,160	8,040	-	-	-	-	-	-	11,160	8,040	
Interest income	-	-	2,867	-	-	-	-	-	-	-	2,867	-	
Other income (web site fees)	-	-	120	120	-	-	-	-	-	-	120	120	
Purchase of fixed assets	-	-	73	-	-	-	-	-	-	-	73	-	
Expenses (includes employee cost, operating expenses and finance cost)	-	-	-	1,868	-	-	-	-	-	-	-	1,868	
Inter-corporate deposit given	-	-	1,343,000	137,004	-	-	-	-	-	-	1,343,000	137,004	
Inter-corporate deposit repaid	-	-	-1,301,500	137,004	-	-	-	-	-	-	-1,301,500	137,004	
Advances given	-	-	-1,559,069	888,748	-	-	-	-	-	-	-1,559,069	888,748	
Advances received	-	-	-1,559,957	902,248	-	-	-	-	-	-	-1,559,957	902,248	
Receivable	-	-	54,113	13,501	-	-	-	-	-	-	54,113	13,501	

11. Disclosure in respect of transactions with related parties pertaining to Portfolio Management Services

The Portfolio manager is a member of the Bombay Stock Exchange Limited (BSE), National Stock Exchange Limited of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX) and United Stock Exchange of India Limited (USE). The Portfolio manager is also a registered depository participant with NSDL and CDSL.

For the purpose of executing transactions of purchase and sale of securities the Portfolio manager would transact through the membership held by the Portfolio Manager in NSE and BSE as mentioned above. Brokerage will be charged for such transactions as per clause 13.

12. Financial Performance of the Portfolio Manager

The following represents the summarized financial performance of the Portfolio Manager as per the audited financial statements

Balance Sheet	As at March 31, 2010	As at March 31, 2009	As at March 31, 2008
	(` In '000')	(` In '000')	(` In '000')
Source of Funds			
Shareholder's Funds	3,767,044	3,160,438	2,639,898
Share application	0	81	647
Loans	4,376,054	3,376,054	7,657,932
Deferred Tax Liability	0	0	0
Total	8,143,098	6,536,573	10,298,477
Application of Funds			
Net Fixed Assets	837,889	524,889	545,808
Investments	372,792	122,676	4,508,040
Current Assets	13,551,326	11,227,978	10,515,729
Less: Current Liabilities and Provisions	-6,690,305	-5,377,640	-5,322,488
Net Current Assets	6,861,020	5,850,338	5,193,241
Deferred Tax Asset	71,397	38,670	51,388
Total	8,143,098	6,536,573	10,298,477

Profit & Loss Account	March 31, 2010 (` In '000')	March 31, 2009 (` In '000')	March 31, 2008 (` In '000')
Total Income	4,785,640	3,635,813	5,102,835
Total Expenses	3,250,015	2,942,186	4,006,660
Profit Before Tax	1,535,625	6,93,627	1,096,175
Provision for Tax	490,319	1,742,52	355,840
Profit after Tax	1,045,306	519,375	740,335

13. Portfolio Management Performance

Portfolio Manager has commenced operations in the month of May 2004. The Portfolio Management performance is given below:

Performance of Model portfolio and sensex	Year 1 (F.Y. 2010-11)		Year 2 (F.Y. 2009-10)		Year 3 (F.Y. 2008-09)	
	Return for the period	Annualized return	Return for the period	Annualized return	Return for the period	Annualized return
Diversified Equity	-3.82%	-3.83%	61.49%	61.70%	-14.96%	-15.00%
BSE 500	5.86%	5.87%	79.25%	79.54%	-44.66%	-44.75%
Beta Portfolio	3.79%	3.81%	-31.20%	-31.27%	15.54%	15.58%
NSE Nifty	11.20%	11.24%	97.38%	97.75%	-44.52%	-44.61%
Protech Diversified	7.40%	7.42%	0.00%	0.00%	-	-
NSE Nifty	14.00%	14.04%	-0.25%	-60.43%	-	-
Nifty Thrifty	4.88%	4.89%	-5.01%	-5.02%	19.99%	20.05%
NSE Nifty	11.66%	11.70%	49.01%	49.18%	-36.96%	-37.04%

Trailing Stops	-4.42%	-4.43%	-26.05%	-26.11%	25.58%	25.66%
NSE Nifty	12.73%	12.77%	81.50%	81.80%	-40.05%	-40.13%

Note: The above return is calculated on the basis of Discounted Cash flow method, popularly known as Internal Rate of Return (IRR). The above data is only for the discretionary portfolio management services.

14. Nature of expenses

The following are indicative types of expenses. The exact basis of charge relating to each of the following services shall be annexed to the Portfolio Management Services Agreement and the agreements in respect of each of the services availed at the time of execution of such agreements.

a) Management Fees

Management Fees relate to the portfolio management services offered to Clients. The fee may be a fixed charge or a percentage of the quantum of funds managed or linked to portfolio on return achieved or a combination of any of these.

b) Custodian/ Depository Fees

The charges pertaining to opening and operation of dematerialized accounts, custody and transfer charges for shares, bonds and units, dematerialisation, rematerialisation and other charges in connection with the operation and management of the depository accounts.

c) Registrar and Transfer Agent Fee

Charges payable to registrar and transfer agents in connection with effecting transfer of securities, including stamp charges, cost of affidavits, notary charges, postage stamp and courier charges, etc.

d) Brokerage and transaction costs

The brokerage charges and other charges like service tax, securities transaction tax, service charges, stamp duty, transaction costs, turnover tax, exit and entry loads on the purchase and sale of shares, stocks, bonds, debt, deposits, units and other financial instruments.

e) Securities Lending and Borrowing Charges

Charges pertaining to the lending of securities, costs of borrowing, including interest and costs associated with transfer of securities connected with the lending and borrowing operations.

f) Certification and Professional Charges

Charges payable for outsourced professional services like accounting, taxation and legal services, notarization, etc. for certification, attestation required by bankers, intermediaries and regulatory authorities.

g) **Profit Sharing** – The Portfolio manager may have a profit sharing arrangement with the clients based on the High Water Mark principle.

h) Incidental Expenses

Courier charges, stamp duty, service tax, postal stamps, opening and operation of bank accounts, etc.

15. Reports available to the clients

Various reports are available to the clients these include –

- Fortnightly reporting of Portfolio Network, monthly reporting of holding and bank balances
- Quarterly reporting of portfolio holdings/transactions, network, ledgers, fees, corporate benefits etc
- Access to the website showing client holding & quarterly reporting of portfolio holdings/transaction

16. Taxation

a) General

In view of the individual nature of tax consequences, each Client is advised to consult his/her tax advisor with respect to the specific tax consequences to him/her of participation in the model portfolios. There may be a possibility that the entire profit / loss made from the investments herein may be treated as business income rather than as capital gains. The clients are best advised to take independent opinion from their respective tax advisors / experts for any income earned from such investments.

The Portfolio Manager shall not be responsible for assisting in or completing the fulfillment of the Client's tax obligations.

b) Tax deduction at source

If any tax is required to be withheld on account of any legislation, the Portfolio Manager shall be obliged to act in accordance with the regulatory requirements in this regard.

c) Advance tax installment obligations

It shall be the Client's responsibility to meet the advance tax obligation installments payable on the due dates under the Income-tax Act.

d) Tax on capital gain

Securities Transaction Tax (STT) has been introduced on certain securities transactions, effective from 1st October 2004.

Long-term capital gains on sale of securities will be exempt from tax under section 10(38), w.e.f. 1-10-2004 if the transaction is subject to STT.

Short-term capital gains on the securities sold after 1-10-2004 will be subject to tax at 10 per cent (plus applicable surcharge and education cess) under section 111A if the transaction is subject to STT. STT will be collected by the Stock Exchange / Mutual Fund from the investor, and paid to the Government.

STT is not deductible in computing capital gains, either long term or short term.

For those carrying on business in securities, the profit from such dealings is taxable, though such dealings may be liable to STT. From the assessment year 2008 – 09, STT shall be deductible as an expense while calculating business income. The erstwhile rebate being allowed under Section 88E shall no longer be available.

- e) **Transaction in Futures & Options segment** – In regard to amendment brought out in the provisions of the Income Tax Act, 1961 in the Union Budget 2006–07, transactions in the Futures & Options segment, and the circular issued by CBDT recognizing the BSE and NSE as “Recognized stock Exchanges”; the transactions in the F&O segment would be treated as business income, and would be taxed accordingly.

17. Accounting Policy

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

- a) Investments in Equities, Mutual Funds and Debt instruments will be valued at the closing market prices of the exchange (BSE or NSE as the case may be) or the Repurchase Net Asset Value declared for the relevant model portfolio on the date of the report or any cut off date or the market value of the debt instrument at the cut off date. Alternatively, the last available prices on the exchange or the most recent NAV will be reckoned.

- b) Realized gains/losses will be calculated by applying the First in/First out principle. For example, the earliest purchased quantity will be reckoned for the current/most recent sale at the respective prices at both points in time.
- c) For derivatives and futures and options, unrealized gains and losses will be calculated by marking to market the open positions.
- d) Unrealized gains/losses are the differences between the current market values/ NAVs and the historical cost of the securities.
- e) Dividends on shares and units in mutual funds, interest, stock lending fees earned etc. shall be accounted on receipt basis. The interest on debt instruments shall be accounted on accrual basis.
- f) The Portfolio Manager and the Client can adopt any specific norm or methodology for valuation of investments or accounting the same as may be mutually agreed between them on a case specific basis.
- g) The Client may contact the customer services official of the Portfolio Manager for the purpose of clarifying or elaborating on any of the above policy issues.

18. Investor Services

Name, address and telephone number of the investor relations officer who shall attend to the Client's queries and complaints: (w.e.f. 07/05/2010)

Name	:	Kashyap Chokhavatia
Address	:	Lodha iThink Techno Campus, 10 th Floor, Beta Building, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (E), Mumbai – 400 042
Telephone	:	022 – 6115 0000
Email	:	kashyap@sharekhan.com

The official mentioned above will ensure prompt investor services. The Portfolio Manager will ensure that this official is vested with the necessary authority, independence and the wherewithal to handle investor complaints.

19. Grievance Redressal and Dispute Settlement mechanism

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 in accordance with and subject to the provisions of the Arbitration and Conciliation Act, 1996 or any statutory requirement, modification or re-enactment thereof for the time being in force. Such Arbitration proceedings shall be held at Mumbai or such other place as the Portfolio Manager thinks fit.

This Risk Disclosure document as updated upto 31st March, 2011 has been approved by the Board of Directors of Sharekhan Limited at their meeting held on **6th May, 2011** at the registered office of the company.

For Sharekhan Limited

Shankar Vailaya
Principal Officer

Date: May 31, 2011
Place: Mumbai