

NOTICE

HSBC MUTUAL FUND

Merger of HSBC Dividend Yield Equity Fund into HSBC India Opportunities Fund

NOTICE is hereby given that the Board of Directors of HSBC Asset Management (India) Private Limited ("**HSBC AMC**") and Board of Trustees of ("**the Trustee**"), of HSBC Mutual Fund ("**HSBC MF**") have approved merger of **HSBC Dividend Yield Equity Fund** an open ended equity scheme (hereinafter referred to as "**HDYEF**" / "**Transferor Scheme**") into **HSBC India Opportunities Fund**, an open ended flexi cap equity scheme (hereinafter referred to as "**HIOF**" / "Transferee Scheme"). The Securities and Exchange Board of India ("SEBI") has also granted it's no objection to the aforesaid merger.

A. Rationale for Merger

HDYEF was restructured in July 2014 to identify dividend yielding stocks having potential for capital appreciation, in order to improve investor outcomes and renew interest in the Transferor Scheme, however since restructure the size of the fund has continued to decrease. The continuous small size of HDYEF since its restructuring indicates low investor interest in this strategy which leads to further challenges in terms of achieving portfolio diversification, effectively managing redemptions without diluting portfolio returns, high expenses etc.

As continuing to offer a sub-scale fund is not in the best interest of the unitholders, it is proposed to merge HDYEF, a diversified equity fund into another diversified equity fund, the HSBC India Opportunities Fund owing to its portfolio commonalities with HDYEF. HIOF is an actively managed, multi-cap equity fund that invests in a range of large, mid & small cap stocks with an endeavor to benefit from different market conditions, which we believe is the most suitable target scheme for merger.

B. Effective date for the merger

The merger shall be effective from July 01, 2017 ("Effective Date"). Accordingly, the Transferor Scheme would cease to exist from July 01, 2017.

C. Consequences of merger

- The sale of units in the Transferor Scheme will be suspended effective from May 31, 2017.
- Merger of schemes is considered as a change in the fundamental attributes of the scheme as per SEBI Circular No. SEBI/MFD/Cir No. 05 / 12031 / 03 dated June 23, 2003. As per Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations), a change in fundamental attributes can be carried out only after the unitholders of the concerned scheme have been informed of the change via written communication and an option to exit the scheme within a period of 30 days at the prevailing NAV without any exit load is provided to them. Unitholders in the Transferor Scheme are given 31 days written notice of the merger and provided an option to exit the scheme with no exit load during the notice period.
- As per SEBI Circular No. Cir / IMD / DF / 15 / 2010 dated October 22, 2010, exit option is not required to be given to the unitholders of the Transferee Scheme, if there is no change in the fundamental attributes of that scheme, the circumstances merit a merger and the interest of the unitholders of the Transferee Scheme is not adversely affected.
- Consequent to the aforesaid merger, there will be no change in the investment objective, asset allocation, investment pattern, annual scheme recurring expenses, risk-o-meter or any other provisions as contained in the Scheme Information Document ('SID') of the Transferee Scheme and no new scheme will come into existence. Hence, the interests of the unitholders of the Transferee Scheme will not be adversely affected and providing an exit option to the unitholders of the Transferee Scheme is not required.
- Unitholders of the Transferor Scheme should note that consequent to the aforesaid merger their principal will be at moderately high risk as the Risk-o-Meter of the Transferee Scheme is Moderately High.
- Unitholders may note that no action is required in case they are in agreement with the aforesaid merger. The offer to exit at no exit load during the notice period is not compulsory and exercise is at the discretion of the unitholder.**

D. Exit Option for unitholders of the Transferor Scheme

- In case the unitholders are not in agreement with the proposed merger then they may switch their investments held in the Transferor Scheme to any other scheme(s) of HSBC MF or redeem their investments, within a period of 31 days starting from May 31, 2017 to June 30, 2017 (both days inclusive), at the applicable NAV (as on the date and time of receipt of your application for switch/redemption at any of the designated Official Points of Acceptance), without payment of exit load, if any. Unitholders who do not exercise the exit option before 3.00 p.m. on June 30, 2017, shall be deemed to have consented to the proposed merger and will be allotted units under the respective plans/options of the Transferee Scheme at the NAV declared as at close of business hours on the Effective Date.
- The redemption payment will be made within 10 Business Days of receipt of valid redemption request to those unitholders who choose to exercise their exit option. Unitholders who have pledged / marked lien on their units will have the option to exit only if they submit a release of their pledges / lien prior to submitting their redemption / switch requests during the exit option period. In case a lien is marked on units held by a unitholder or units have been frozen / locked pursuant to an order of a governmental authority or a court, redemption / switch-out can be executed only after the lien / order is vacated / revoked within the exit option period specified above.
- Unitholders who have registered for Systematic Investment Plan (SIP)/Systematic Transfer Plan (STP) in the Transferor Scheme and who do not wish to continue their future investments/installment in the Transferee Scheme are required to provide a written request to the HSBC MF and it will take at least 15 days to process such requests. Intervening installments will continue to be processed.
- Unitholders should ensure that change in address / pay-out bank details, if any required by them, are updated in HSBC MF's records before exercising the exit option. Unitholders holding units in dematerialised form may approach their Depository Participant for transaction and update of address/ bank details.

E. Steps to operationalise the merger

- On the Effective Date of the merger, the Transferor Scheme will cease to exist and the unitholders of the Transferor Scheme, as at the close of business hours, will be allotted units under the corresponding option (as explained below) of the Transferee Scheme at the last available applicable Net Asset Value ("NAV"). In case of any pledge / lien / other encumbrance marked on any units in the Transferor Scheme, the same shall be marked on the corresponding number of units allotted in the Transferee Scheme.

Plan/Option under which units are held in Transferor Scheme	Plan/Option under which units are held in Transferee Scheme
Direct Plan – Growth Option	Direct Plan – Growth Option
Direct Plan - Dividend Option	Direct Plan - Dividend Option
Growth Option	Growth Option
Dividend Option	Dividend Option
Dividend Payout	Dividend Payout
Dividend Re-investment	Dividend Re-investment

- A fresh account statement reflecting the new units of Transferee Scheme allotted will be sent to the unitholders of the Transferor Scheme. The units allotted in the Transferee Scheme shall be treated as a fresh subscription. Accordingly, all provisions under the Transferee Scheme will apply including exit load, if any. The period of holding for the purpose of taxation / exit load will be computed from the date of allotment of such units in the Transferor Scheme.
- Unitholders of the Transferor Scheme who have registered for Systematic Investment Plan (SIP)/Systematic Transfer Plan (STP) facility, the said registration will continue under corresponding Plan/Option of the Transferee Scheme from the Effective Date. The registered SIP/STP will be deemed to be registered in the Transferee Scheme from the Effective Date.

F. Tax implication

- Under the provisions of the Income-Tax Act, 1961 ("Act"), implications of the proposed merger of HSBC Dividend Yield Equity Fund (HDYEF) into HSBC India Opportunities Fund (HIOF), which are equity oriented mutual fund schemes are:
 - Under section 47(xviii) of the Act, consolidation/ merger of two or more equity oriented mutual fund schemes or two or more non-equity oriented mutual fund schemes is exempt from Capital Gain tax.
 - Consequently, the allotment to a unitholder of units in the Transferee Scheme in exchange for cancellation of units held in the Transferor Scheme is not treated as a taxable transfer.
- Securities Transaction Tax (STT) on redemption/switch out of units, if any, exercised during the exit option period shall be borne by HSBC AMC.
- In case of NRI investors, Tax Deducted at Source (TDS) shall be deducted in accordance with applicable tax laws for redemption / switch-out of units from the Transferor Scheme during the exit period and the same would be required to be borne by such investors only.
- The cost of acquisition and the period of holding of units held by the unitholders in the Transferee Scheme shall, respectively, be the cost of acquisition and the period of holding in the Transferor Scheme.
- Please note that the aforesaid tax neutrality on consolidation/merger of mutual fund schemes is subject to the following:
 - Consolidation/merger should be in accordance with SEBI (Mutual Funds) Regulations, 1996.
 - Units are held as 'Capital assets'.

In view of individual nature of tax consequences, unitholders are advised to consult a professional tax advisor with regard to tax and other financial implications arising out of participation in the merger of the scheme.

G. Communication to unitholders of Transferor Scheme

Communication is being sent to the all existing unitholders of the Transferor Scheme informing about the merger details including **(i)** Features of the HDYEF and HIOF **(ii)** Portfolio of HDYEF and HIOF as at April 30, 2017 **(iii)** Performance of the HDYEF and HIOF as at April 30, 2017 **(iv)** Percentage of total non-performing assets and percentage of total illiquid assets to net assets as at April 30, 2017 **(v)** Total expense ratio as at April 30, 2017 and **(vi)** Basis of allocation of Units in HIOF. Unitholders who do not receive the said communication can contact any of the ISCs of HSBC Mutual Fund to obtain the same.

The unitholders of the Transferor Scheme are requested to read the detailed features of the Transferee Scheme i.e. HSBC India Opportunities Fund provided in the Scheme Information Document which is available on the website of the Fund.

This Notice forms an integral part of the Scheme Information Document and Key Information Memorandum of HSBC Mutual Fund, as amended from time to time. All other terms and conditions of the schemes, except as mentioned above, remain unchanged.

Applicants/unitholders may contact our Investor Service Centres or their distributors for any additional information or clarification. Also, please visit our website www.assetmanagement.hsbc.com/in for any other related information.

For & on behalf of HSBC Asset Management (India) Private Limited
(Investment Manager to HSBC Mutual Fund)

Sd/-
Authorised Signatory
Mumbai, May 23, 2017

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Investors may obtain the Statement of Additional Information, Scheme Information Document and Key Information Memorandums along with application forms from the Investor Service Centres of HSBC Mutual Fund or call on Tel: 1800-200-2434. (Can be dialled from all phones within India) or Tel: +91-44-39923900 (can be dialled from outside India)

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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