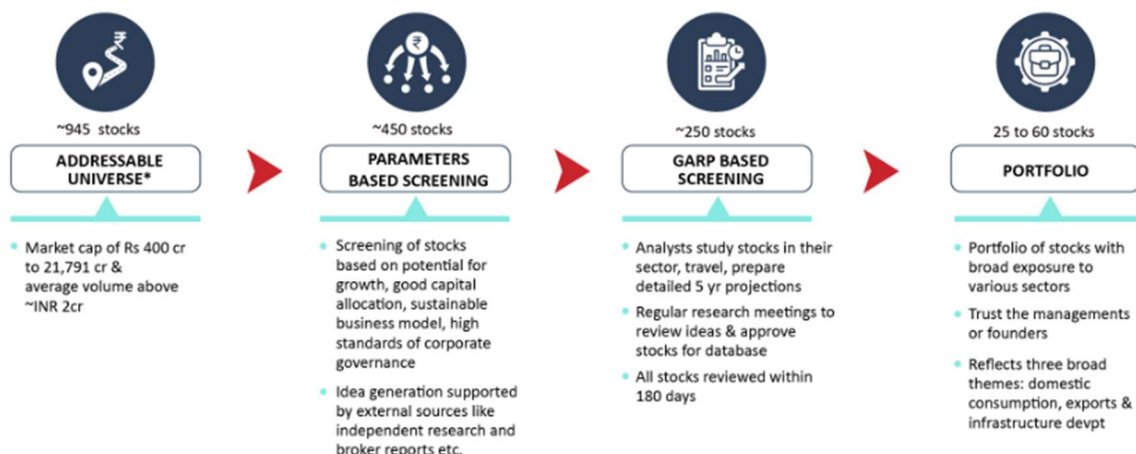


Policy on Small Cap Fund

Equities possess the potential for superior returns over the long term. Within the equities domain, small-cap companies represent promising future mid or large-cap entities. These firms offer significant growth prospects owing to their unique products or market segments, facilitating market share expansion. Despite their potential, small-cap investments are inherently risky due to factors such as operating in newer segments, limited scale, and brand recognition, resulting in difficulties in attracting capital and talent. Additionally, lower market capitalization leads to reduced liquidity and heightened risk exposure.

Investment Philosophy & Strategy – Quantum Small Cap Fund

1. The fund aims to generate capital appreciation by maintaining a diversified portfolio predominantly comprising small-cap stocks.
2. The investment strategy involves intensive fundamental analysis, both quantitative and qualitative, to select a basket of stocks.
3. Portfolio management emphasizes active monitoring without engaging in excessive trading, coupled with risk control through adequate diversification.
4. The fund focuses on small-cap companies with growth potential, sound capital allocation, sustainable business models, reasonable valuations, and high corporate governance standards.
5. Stock selection criteria include assessing business fundamentals, industry dynamics, economic sensitivity, financial strength, and catalysts for earnings growth.



While the fund primarily adopts a buy-and-hold strategy, it exercises rational selling decisions based on demanding valuations, adverse management or market changes, or superior alternative opportunities.

Investment Process

1. **Investment Approach:** The investment strategy revolves around thorough fundamental analysis, both quantitative and qualitative, to select stocks with high growth potential, sound capital allocation, sustainable business models, and reasonable valuations. Emphasis will be placed on companies demonstrating robust corporate governance standards.

2. **Valuation Criteria:** Valuations will be determined based on various factors including the company's business model, management capabilities, financial strength, and cash flow prospects aligned with long-term goals.

3. **Portfolio Management:** The fund adopts a buy and hold strategy while maintaining a balanced approach towards selling based on demanding valuations or adverse changes in company prospects or market conditions. The portfolio will typically consist of 25 to 60 stocks with minimum and maximum weightages set to ensure diversification and mitigate concentration risks.



Risk Mitigation Measures

1. **Closing fund for subscriptions on reaching Capacity:** The fund recommends closing subscriptions upon reaching a predetermined capacity threshold to maintain effective portfolio replication. On the basis of stock level liquidity in the current portfolio assuming not more than 1/3rd participation, we arrive at a threshold fund capacity that corresponds to at least 90% replicability / liquidity of the portfolio holdings. This capacity will be monitored and reviewed internally on a regular basis at least quarterly.

2. **Minimum Liquidity criteria for including stocks in the portfolio:** Minimum liquidity criteria ensure the ability to enter or exit portfolio stocks within a specified timeframe. we have minimum threshold liquidity of INR 2 crores average liquidity over last 12 months to be met for stocks to be part of the portfolio, our liquidity criteria aims at being able to enter or liquidate the portfolio stock within 66 trading days with 1/3rd participation on any given day. At the mandate capacity, we want the entire portfolio or most of the portfolio i.e. 90% to be liquidated within 66 trading days. We monitor portfolio liquidity on a monthly basis.
3. **Capping exposure:** Portfolio holdings are capped to prevent overexposure and reduce the risk of large positions. To avoid being a dominant shareholder in the company, we cap our portfolio holding typically to 5% of the market capitalization of the company.
4. **Investment guardrails:** Investment guardrails limit holdings in investee companies to maintain diversification and manage liquidity risk. Generally, we cap our holding in our investee company at 4% at cost to NAV of the portfolio.
5. **Defined process for portfolio exits:** Portfolio exits occurs based on target price achievement or relative valuation metrics, with a focus on trimming positions with limited upside or heightened risks.
6. **Rebalancing:** Rebalancing activities are completed within 30 days to maintain portfolio integrity. In case of large redemptions, the fund sells holdings in order of upside, reducing individual stock weights to optimal levels. Liquidity isn't a criterion given most of the holdings in the portfolio have minimal threshold liquidity to allow us exit a position, In case the liquidity isn't available at the time of selling, the fund will gradually rebalance any such lop sided positions within a maximum period of one month to not allow any portfolio weight to exceed its optimal actively determined allocation. Such an approach also helps to ensure that investors are protected from the first mover advantage of redeeming investors.

The AMC may discontinue / restrict subscription under the Scheme for a specified period after approval of the Trustee Board, if the AMC views that changing in the size of the corpus of the Scheme may prove detrimental to the interest of the unitholder of the scheme.

The Quantum Small Cap Fund is committed to employing a disciplined investment approach focused on identifying promising small cap opportunities while implementing rigorous risk management practices to safeguard investor interests.