JM FINANCIAL MUTUAL FUND

JM FINANCIAL

NOTICE CUM ADDENDUM

I. THIS ADDENDUM DATED OCTOBER 7, 2009 SETS OUT THE CHANGE TO BE MADE IN THE STATEMENT OF ADDITIONAL INFORMATION ("SAI") OF ALL SCHEMES OF JM FINANCIAL MUTUAL FUND AND SCHEME INFORMATION DOCUMENT ("SID") AND KEY INFORMATION MEMORANDA ("KIM") OF JM G-SEC FUND AND JM INCOME FUND WITH EFFECT FROM NOVEMBER 23, 2009.

The above mentioned Schemes intend to commence trading in interest rate futures in accordance with the SEBI circular no. SEBI/MFD/CIR No. 03/ 158 /03, dated June 10, 2003 and SEBI/DNPD/Cir- 46 /2009, dated August 28, 2009 read with RBI notification no. FMD.MSRG No. 39 /02.04.003/ 2009-10 dated August 28, 2009. Consequently, the relevant sections of the SID/ KIM of the above Schemes stand amended as given below:

A) JM G-Sec Fund

Investment pattern:

Subject to the Regulations, the corpus of the Scheme can be invested in any (but not exclusively) of the following securities:

- Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- Money market instruments permitted by SEBI/RBI.
- Derivative instruments like Interest Rate Swaps (including interest rate futures), Forward Rate Agreements and such other derivative instruments permitted by SEBI and RBI
- Any other like instruments as may be permitted by RBI/SEBI/ such other Regulatory Authority from time to time.

B) JM Income Fund

Investment pattern:

Subject to the Regulations, the corpus of the Scheme can be invested in any (but not exclusively) of the following securities:

- Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- Securities guaranteed by the Central and State Governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- Debt obligations of domestic Government agencies and statutory bodies, which may or may not carry a Central/State Government guarantee.
- Corporate debt and securities (of both public and private sector undertakings) including Bonds, Debentures, Fixed Deposits, Notes, Strips, etc.
- Obligations of banks (both public and private sector) and development financial institutions.
- Money market instruments permitted by SEBI/RBI.
- Certificate of Deposits (CDs).
- Commercial Paper (CPs).
- Securitised Debt
- The non-convertible part of convertible securities.
- Any other domestic fixed income securities including Structured Obligations.
- Any international fixed income securities.
- Pass through, Pay through or other Participation Certificates representing interest in a pool of assets including receivables.
- Derivative instruments like Interest Rate Swaps (including interest rate futures), Forward Rate Agreements and such other derivative instruments permitted by SEBI and RBI
- Any other like instruments as may be permitted by RBI/SEBI/ such other Regulatory Authority from time to time.

Further following consideration with regards to investing in derivatives may be noted:

POLICY AND SPECIAL CONSIDERATION ON INVESTMENT IN DERIVATIVE AND HEDGING PRODUCTS

As part of the investment objective of the Scheme, the Fund may participate in fixed income derivatives market to take advantage of the opportunities available for arbitrage, hedging or any other strategy as may be permitted under the SEBI Regulations. The Scheme may also take derivative positions based on the opportunities available subject to the guidelines provided by SEBI from time to time and in line with the overall investment objectives of the Scheme. These may be taken to hedge the portfolio, rebalance the same or to undertake any other strategy as permitted under the SEBI Regulations from time to time. SEBI circulars no. SEBI/MFD/CIR No. 03/ 158 /03, dated June 10, 2003 and SEBI/DNPD/Cir- 46 /2009, dated August 28, 2009 allows mutual funds to deal in interest rate derivatives (including exchange traded interest rate future). Also on terms of notifications no. MFD. BC.191/07.01.279/1999-2000, MPD.BC.187/07.01.279/1999-2000, and FMD.MSRG No. 39 /02.04.003/ 2009-10 dated November 1, 1999, July 7, 1999 and August 28, 2009 respectively issued by the Reserve Bank of India permitting participation by Mutual Funds in Interest Rate Swaps and Forward Rate Agreements. The Scheme may trade in these instruments.

Interest Rate Swaps (IRS)

An IRS is an agreement between two parties to exchange stated interest obligations for an agreed period in respect of a notional principal amount. The most common form is a fixed to floating rate swap where one party receives a fixed (pre-determined) rate of interest while other receives a floating (variable) rate of interest.

Forward Rate Agreement (FRA)

A FRA is basically a forward starting IRS. It is an agreement between two parties to pay or receive the difference between an agreed fixed rate (the FRA rate) and the interest rate (reference rate) prevailing on a stipulated future date, based on a notional principal amount for an agreed period. The only cash flow is the difference between the FRA rate and the reference rate. As is the case with IRS, the notional amounts are not exchanged in FRAs.

Basic structure of a Swap

Assume that the Scheme has a Rs. 20 crore floating rate investment linked to MIBOR (Mumbai Inter Bank Offered Rate). Hence, the Scheme is currently running an interest rate risk and stands to lose if the interest rate moves down. To hedge this interest rate risk, the Scheme can enter into a 6 month MIBOR swap. Through this swap, the Scheme will receive a fixed predetermined rate (assume 12%) and pays the "benchmark rate" (MIBOR), which is fixed by the National Stock Exchange of India limited (NSE) or any other agency such as Reuters. This swap would effectively lock-in the rate of 12% for the next 6 months, eliminating the daily interest rate risk. This usually routed through an intermediary who runs a book and matches deals between various counterparties.

The steps will be as follows :

Assuming the swap is for Rs. 20 crore June 1, 2009 to December 1, 2009. The Scheme is a fixed rate receiver at 12% and the counterparty is a floating rate receiver at the overnight rate on a compounded basis (say NSE MIBOR).

On June 1, 2009 the Scheme and the counterparty will exchange only a contract of having entered this swap. This documentation would be as per International Swap Dealers Association (ISDA). On a daily basis, the benchmark rate fixed by NSE will be tracked by them.

On December 1, 2009 they will calculate the following –

The Scheme is entitled to receive interest on Rs. 20 crore at 12% for 184 days i.e. Rs. 1.21 crore, (this amount is known at the time the swap was concluded) and will pay the compounded benchmark rate.

The counterparty is entitled to receive daily compounded call rate for 184 days & pay 12% fixed.

On December 1, 2009, if the total interest on the daily overnight compounded benchmark rate is higher than Rs. 1.21 crore, the Scheme will pay the difference to the counterparty. If the daily compounded benchmark rate is lower, then the counterparty will pay the Scheme the difference.

Effectively the Scheme earns interest at the rate of 12% p.a. for six months without lending money for 6 months fixed, while the counterparty pays interest @ 12% p.a. for 6 months on Rs. 20 crore, without borrowing for 6 months fixed.

The above example illustrates the benefits and risks of using derivatives for hedging and optimizing the investment portfolio. Swaps have their own drawbacks like credit risk, settlement risk, etc. However, these risks are substantially reduced as the amount involved is interest streams and not principal.

Valuation of Derivative Products:

a) The traded derivatives shall be valued at market price in conformity with the stipulations of sub clauses (i) to (v) of clause 1 of the Eighth Schedule to the SEBI Regulations, as amended from time to time.

b) The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) and (ii) of clause 2 of the Eighth Schedule to the SEBI Regulations as amended from time to time.

Risk factors

Credit Risk: The credit risk is the risk that the counter party will default obligations and is generally negligible, as there is no exchange of principal amounts in a derivative transaction.

Market Risk: Derivatives carry the risk of adverse changes in the market price.

Illiquidity Risk: The risk that a derivative cannot be sold or purchased quickly enough at a fair price, due to lack of liquidity in the market.

The fund pays the daily compounded rate. In practice however there can be a difference in the actual rate at which money is lent in the call market and the benchmark, which appears and is used.

All other features of the Schemes remain unchanged.

The above changes will be effective from November 23, 2009.

As per the SEBI Regulations, the above changes are construed as changes in the fundamental attributes of the schemes; hence an exit option is being provided to the unitholders of JM Income Fund and JM G-Sec Fund as per regulation 18(15A) of the Regulations.

Accordingly the unitholders in JM G-Sec Fund and JM Income Fund, who do not consent to the above proposal, are being provided with an exit option to redeem their units at the prevailing NAV without imposition of any exit load. The option to exit without payment of exit load will be valid from October 22, 2009, up to and including November 20, 2009 (up to 3.00 p.m.).

The option to exit is available to all unitholders in the schemes, except for those unitholders who have:

i) pledged their units, unless they procure a release of their pledges prior to November 20, 2009 and/ or

ii) whose units are marked under lien/ injunction in accordance with the instructions of any Court of law/ Income Tax Authority/ other Regulatory Authority

Redemption/ switch out requests may be made by filling out the transaction slip and submitting the same to any of the Investor Service Centres of the Registrar and Transfer Agent, Karvy Computershare Private Limited ("Karvy"), or at any of the Investor Service Centres ("ISCs") of JM Financial AMC on or before 3.00 p.m. on November 20, 2009. If you wish to opt for the exit option set forth above, then you may redeem/switch out the units of the Plan(s) held by you at the applicable Net Asset Value without any exit load upto 3.00 p.m. on November 20, 2009.

In respect of valid redemptions/switch out requests received upto 3.00 p.m. on all business days during the period of no exit load period by the Mutual Fund, the closing NAV of the day on which application is received shall be applicable. In respect of valid redemptions/switch out requests received after 3.00 p.m. on all business days during the no exit load period by the Mutual Fund, the closing NAV of the next business day shall be applicable.

II. Notice is hereby given that the Official Points of Acceptance of JM Financial Asset Management Private Limited, bangalore office will be shifted to following address as Official Points of Acceptance of transactions; with effect from October 21, 2009.

Location	Address
Bangalore	Unit No. 205 & 206, 2nd Floor, Richmond Towers, No. 12, Richmond Road Bangalore - 560025. Telephone No. 080 - 42914242/21. Fax No. 080 - 41131488

Investors are requested to make a note of this change and approach the nearest Official Point of Acceptance of the AMC for any transaction related matter.

Bhanu Katoch
Chief Executive Officer
JM Financial Asset Management Private Limited
(Investment Managers to JM Financial Mutual Fund)

Place : Mumbai
Date : October 19, 2009

For further details, please contact :
Corporate Office : JM Financial Asset Management Private Limited, 5th Floor, Apeejay House, 3, Dinshaw Vachha Road, Near K. C. College, Churchgate,
Mumbai – 400 020. Tel. No.: (022) 39877777 • Fax Nos.: (022) 26528377 / 78. E-Mail: investor@jmfinancial.in • Website : www.jmfinancialmf.com

Investment Objective: **JM Income Fund** (an open-ended income scheme), To generate stable long term returns with low risk strategy and capital appreciation / accretion through investment in debt instruments and related securities besides preservation of capital. **JM G-Sec Fund** (an open-ended dedicated gilts scheme), To provide ultimate level of safety to its unitholders through investments in sovereign securities issued by the Central and State Government.

Statutory Details : Trustee : JM Financial Trustee Company Private Limited. **Investment Manager** : JM Financial Asset Management Private Limited. **Sponsor** : JM Financial Limited.