

## SCHEME INFORMATION DOCUMENT

### **IDFC Hybrid Portfolio Fund – Series I A Close Ended Debt scheme from IDFC Mutual Fund**

Offer of Units of face value of Rs.10 each during the New Fund Offer

**New Fund Offer Opens on: March 01, 2010**

**New Fund Offer Closes on: March 24, 2010**

Name of Mutual Fund	:	IDFC Mutual Fund
Name of Asset Management Company	:	IDFC Asset Management Company Limited
Name of Trustee Company	:	IDFC AMC Trustee Company Limited
Addresses of the entities:		One IndiaBulls Centre, 841, Jupiter Mills Compound, Senapati Bapat Marg, Elphinstone Road(West), Mumbai - 400 013
Website	:	www.idfcmf.com

**The particulars of the Scheme have been prepared in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, (herein after referred to as SEBI (MF) Regulations) as amended till date, and filed with SEBI, along with a Due Diligence Certificate from the AMC. The units being offered for public subscription have not been approved or recommended by SEBI nor has SEBI certified the accuracy or adequacy of the Scheme Information Document.**

NSE Disclaimer:

“As required, a copy of this Scheme information document has been submitted to National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter NSE/LIST/107945-M dated May 18, 2009 permission to the Mutual Fund to use the Exchange’s name in this Scheme information document as one of the stock exchanges on which the Mutual Fund’s units are proposed to be listed subject to, the Mutual Fund fulfilling various criteria for listing. The Exchange has scrutinized this Scheme information document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Mutual Fund. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Scheme information document has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Scheme information document; nor does it warrant that the Mutual Fund’s units will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of the Mutual Fund, its promoters, its management or any scheme of the Mutual Fund.

Every person who desires to apply for or otherwise acquire any units of the Mutual Fund may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.”

The Scheme Information Document sets forth concisely the information about the scheme that a prospective investor ought to know before investing. Before investing, investors should also ascertain about any further changes to this Scheme Information Document after the date of this Document from the Mutual Fund / Investor Service Centres / Website / Distributors or Brokers.

The investors are advised to refer to the Statement of Additional Information (SAI) for details of IDFC Mutual Fund, Tax and Legal issues and general information on [www.idfcmf.com](http://www.idfcmf.com)

SAI is incorporated by reference (is legally a part of the Scheme Information Document). For a free copy of the current SAI, please contact your nearest Investor Service Centre or log on to our website.

The Scheme Information Document should be read in conjunction with the SAI and not in isolation.

This Scheme Information Document is dated February 22, 2010

<b>INDEX</b>	
<b>Particulars</b>	<b>Page Nos.</b>
<b>Highlights/Summary of the Scheme</b>	4
Highlights	4
<b>I. Introduction</b>	7
A. Risk Factors	7
B. Requirement of minimum investors in the scheme	10
C. Special Considerations	10
D. Definitions and Abbreviations	11
E. Due Diligence Certificate	15
<b>II. Information about the scheme</b>	16
A. Type of the Scheme	16
B. Investment Objective	16
C. Asset Allocation	16
D. Where will the scheme invest?	18
E. Investment Strategies and Risk Control	19
F. Fundamental Attributes	26
G. How will the scheme benchmark its performance?	26
H. Who Manages the scheme	26
I. What are the Investment Restrictions?	27
J. How has the scheme performed?	29
<b>III. Units and Offer</b>	30
A. New Fund Offer (NFO)	30
B. Ongoing Offer Details	38
C. Periodic Disclosures	40
D. Computation of NAV	43
<b>IV. Fees and Expenses</b>	44
A. New Fund Offer Expenses	44
B. Annual Scheme Recurring Expenses	44
C. Load Structure	45
D. Waiver of Load for Direct Applications	46
<b>V. Rights of Unitholders</b>	47
<b>VI. Penalties, Pending Litigation or Proceedings, Findings of Inspections or Investigations for which action may have been taken or is in the process of being taken by any regulatory authority</b>	47

## HIGHLIGHTS/SUMMARY OF THE SCHEME

### HIGHLIGHTS

<b>Sponsor</b>	The Sponsor of IDFC Mutual Fund is Infrastructure Development Finance Company Limited (IDFC)
<b>Name of the Scheme</b>	IDFC Hybrid Portfolio Fund – Series I (IDFC-HPF-S-I)
<b>Structure</b>	A Close Ended Income scheme from IDFC Mutual Fund. The scheme shall mature on September 28, 2011. If the maturity date falls on a holiday, the maturity date would be the following business day.
<b>Investment Objective</b>	The scheme endeavors to generate income by investing in high quality fixed income securities as the primary objective and generate capital appreciation by investing in equity and equity related instruments as a secondary objective. There can be no assurance that the investment objective of the scheme will be realised.
<b>Details of scheme (including liquidity and NAV disclosure)</b>	<p>The Scheme has duration of 18 months. New Fund Offer of the scheme will commence at any time within six months from the date of getting the clearance from SEBI to launch the scheme. The Unit holders will be given an Option to hold the units in physical form or in Dematerialized ('Demat') form. Account Statements will be issued to Unit holders who have opted to hold the units in physical form. Unit holders opting to hold the units in demat form must provide their Demat Account details in the specified section of the application form.</p> <p>No Redemption/ repurchase of units shall be allowed prior to the maturity of the scheme. Unitholders who wish to exit may do so through the Stock Exchange mode. NAV shall be computed and published on all business days. Since the scheme is proposed to be listed on the stock exchange, the listed price will be available on that stock exchange.</p>
<b>Options under Plan(s)</b>	<b>Dividend Option:</b> Suitable for investors seeking income by way of dividend.
	<b>Growth Option:</b> The income earned in the scheme shall remain invested in the option. Generally, no dividend shall be declared in this option.
<b>Minimum Application Amount</b>	Rs. 5,000/- per application and in multiples of Re. 10/- thereafter.

<b>Target Amount to be Raised</b>	Rs. 1,00,00,000/-.
<b>New fund offer expenses</b>	No New Fund Offer expenses will be charged to the scheme
<b>New Fund Offer Price</b>	Rs. 10/- per Unit
<b>Minimum Redemption Amount</b>	In multiples of Re. 1/-.
<b>Minimum Balance to be maintained</b>	Rs. 500/-.
<b>NAV Declaration</b>	NAV calculated up to four decimal places and declared on daily basis. Since the scheme is proposed to be listed on a stock exchange, the listed price will be available on that stock Exchange.
<b>Dematerialization</b>	<p>The Unit holders are given an Option to hold the units by way of an Account Statement or in Dematerialized ('Demat') form. Unit holders opting to hold the units in demat form must provide their Demat Account details in the specified section of the application form. The Unit holder intending to hold the units in Demat form are required to have a beneficiary account with a Depository Participant (DP) (registered with NSDL / CDSL as may be indicated by the Fund at the time of launch of the Plan) and will be required to indicate in the application the DP's name, DP ID Number and the beneficiary account number of the applicant held with the DP.</p> <p>Incase the unit holders do not provide their Demat Account details, an Account Statement shall be sent to them. Such investors will not be able to trade in the stock exchange till their holdings are converted into demat form.</p> <p>No redemption/repurchase of units shall be allowed prior to the maturity of the scheme. Unit holders wishing to exit may do so through the Stock Exchange mode.</p>
<b>Transfer of Units</b>	Units held by way of account statement cannot be transferred. Units held in demat form are transferable in accordance with the provisions of SEBI (Depositories and Participants) Regulations, as may be amended from time to time
<b>Repatriation Facility</b>	NRIs, FIIs and PIOs may invest in the scheme on a full repatriation basis. (Investment will be governed by rules laid down by RBI/SEBI in this regard).

**Taxation (As per Tax laws)**

As per the present tax laws, the income distributed by the Scheme is exempt in the hands of investors. Units of the Scheme are not subject to Wealth Tax and Gift Tax. There will also be no tax deduction at source on redemption irrespective of the redemption amount for resident investors.

---

**Benchmark Index**

CRISIL MIP Blended Index. The fund reserves the right to change the benchmark for evaluation of the performance of the scheme from time to time, subject to SEBI Regulations and other prevailing guidelines if any

---

**Repurchase facility and Load:**

During the scheme remains close ended No redemption/repurchase of units shall be allowed prior to the maturity of the scheme. Investors wishing to exit may do so through stock exchange mode.

**Load:**

Entry load: Nil

Exit Load/Contingent deferred Sales Charge ("CDSC") : Nil

## I. INTRODUCTION

### A. RISK FACTORS

#### Standard Risk Factors:

- Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme/s will be achieved.
- As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets.
- Past performance of the Mutual Funds managed by the Sponsors and its affiliates is not necessarily indicative of the future performance of the Scheme.
- IDFC Hybrid Portfolio Fund – Series I is the name of the Scheme and do not in any manner indicate either the quality of the Scheme, its future prospects or returns.
- The Sponsor or any of its associates is not responsible or liable for any loss resulting from the operation of the Scheme/s, and the Sponsor's initial contribution towards setting up the Mutual Fund is limited to Rs.30,000/-
- Investors in the Scheme are not being offered any guaranteed or assured rate of return.
- The NAV of the Scheme's Units will be affected by changes in the general level of interest rates. When interest rates decline, the value of securities can be expected to rise. Conversely, when interest rates rise, the value of the securities can be expected to decline.
- There is no guarantee or assurance of quantum or frequency of dividend declaration under this scheme. Dividend shall be declared on the availability of distributable surplus and shall be declared in accordance with applicable SEBI regulations.
- The performance of the scheme / benefits derived from the scheme may get impacted by change in Government policies, applicable laws etc

#### Scheme Specific Risk Factors

- **Price-Risk or Interest-Rate Risk:** Fixed income securities such as bonds, debentures and money market instruments run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates.
- **Credit Risk:** In simple terms this risk means that the issuer of a debenture/bond or a money market instrument may default on interest payment or even in paying back the principal amount on maturity. Even where no default occurs, the price of a security may go down because the credit rating of an issuer goes down. It must, however, be noted that where the Scheme has invested in Government Securities, there is no credit risk to that extent. Different types of securities in which the scheme would invest as given in the scheme information document carry different levels and types of risk. Accordingly the scheme's risk may increase or decrease depending upon its investment pattern. E.g. corporate bonds carry a higher amount of risk than Government securities. Further even among corporate bonds, bonds which are AAA rated are comparatively less risky than bonds which are AA rated.

- **Re-investment Risk:** Investments in fixed income securities may carry re-investment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate.
- **Repurchase Risk:** The Scheme is a close ended income Scheme. No redemption/repurchase of units shall be allowed prior to the maturity of the scheme. Investors wishing to exit may do so through stock exchange mode. Listing of the units of the fund does not necessarily guarantee their liquidity and there can be no assurance that an active secondary market for the units will develop or be maintained. Consequently, the Fund may quote below its face value / NAV.

### **Risk Associated with Securitised Debt**

The Scheme may invest in domestic securitized debt such as asset backed securities (ABS) or mortgage backed securities (MBS). Asset Backed Securities (ABS) are securitized debts where the underlying assets are receivables arising from various loans including automobile loans, personal loans, loans against consumer durables, etc. Mortgage backed securities (MBS) are securitized debts where the underlying assets are receivables arising from loans backed by mortgage of residential / commercial properties. ABS/MBS instruments reflect the undivided interest in the underlying pool of assets and do not represent the obligation of the issuer of ABS/MBS or the originator of the underlying receivables. The ABS/MBS holders have a limited recourse to the extent of credit enhancement provided. If the delinquencies and credit losses in the underlying pool exceed the credit enhancement provided, ABS/MBS holders will suffer credit losses. ABS/MBS are also normally exposed to a higher level of reinvestment risk as compared to the normal corporate or sovereign debt.

At present in Indian market, following types of loans are securitised:

Auto Loans (cars / commercial vehicles /two wheelers)  
 Residential Mortgages or Housing Loans  
 Consumer Durable Loans  
 Personal Loans  
 Corporates Loans

The main risks pertaining to each of the asset classes above are described below:

#### **Auto Loans (cars / commercial vehicles /two wheelers)**

The underlying assets (cars etc) are susceptible to depreciation in value whereas the loans are given at high loan to value ratios. Thus, after a few months, the value of asset becomes lower than the loan outstanding. The borrowers, therefore, may sometimes tend to default on loans and allow the vehicle to be repossessed. These loans are also subject to model risk. ie if a particular automobile model does not become popular, loans given for financing that model have a much higher likelihood of turning bad. In such cases, loss on sale of repossession vehicles is higher than usual.

Commercial vehicle loans are susceptible to the cyclical nature in the economy. In a downturn in economy, freight rates drop leading to higher defaults in commercial vehicle loans. Further, the second hand prices of these vehicles also decline in such economic environment.

#### **Housing Loans**

Housing loans in India have shown very low default rates historically. However, in recent years, loans have been given at high loan to value ratios and to a much younger borrower classes. The loans have not yet gone through the full economic cycle and have not yet seen a

period of declining property prices. Thus the performance of these housing loans is yet to be tested and it need not conform to the historical experience of low default rates.

### **Consumer Durable Loans**

The underlying security for such loans is easily transferable without the bank's knowledge and hence repossession is difficult. The underlying security for such loans is also susceptible to quick depreciation in value. This gives the borrowers a high incentive to default.

### **Personal Loans**

These are unsecured loans. In case of a default, the bank has no security to fall back on. The lender has no control over how the borrower has used the borrowed money. Further, all the above categories of loans have the following common risks:

All the above loans are retail, relatively small value loans. There is a possibility that the borrower takes different loans using the same income proof and thus the income is not sufficient to meet the debt service obligations of all these loans.

In India, there is insufficiency of ready comprehensive and complete database regarding past credit record of borrowers. Thus, loans may be given to borrowers with poor credit record. In retail loans, the risks due to frauds are high.

### **Corporate Loans**

These are loans given to single or multiple corporates. The receivables from a pool of loans to corporates are assigned to a trust that issues Pass through certificates in turn. The credit risk in such PTCs is on the underlying pool of loans to corporates. The credit risk of the underlying loans to the corporates would in turn depend of economic cycles.

### **Risks in Foreign Securities**

- The Scheme may also invest in overseas financial assets as permitted under the applicable regulations. To the extent that the assets of the Scheme will be invested in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by changes in the value of certain foreign currencies relative to the Indian Rupee. The repatriation of capital to India may also be hampered by changes in regulations concerning exchange controls or political circumstances as well as the application to it of other restrictions on investment.

### **Risk Factors for derivatives**

1. 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 (especially in case of debt derivatives).
2. Market risk: Derivatives carry the risk of adverse changes in the market price.
3. 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.
4. The risk is to the extent that returns are limited for the investor in case of extreme movement in call rates.

5. The fund pays the daily compounded rate in case of fixed income derivatives. 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.
6. 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 fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies.
7. 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.

## **B. REQUIREMENT OF MINIMUM INVESTORS IN THE SCHEME**

The Scheme(s) shall have a minimum of 20 investors and no single investor shall account for more than 25% of the corpus of the Scheme(s)/Plan(s). These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment. In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) shall be wound up in accordance with Regulation 39 (2) (c) of SEBI (MF) Regulations automatically without any reference from SEBI. In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

## **C. SPECIAL CONSIDERATIONS, if any**

All the above factors not only affect the prices of securities but may also affect the time taken by the Fund for redemption of Units, which could be significant in the event of receipt of a very large number of redemption requests or very large value of redemption requests. The liquidity of the assets may be affected by other factors such as general market conditions, political events, bank holidays and civil strife. In view of this, the Trustee has the right in its sole discretion to limit redemption (including suspension of redemption) under certain circumstances. Please refer to the para "Suspension of Redemption/Repurchase of Units & Dividend Distribution" in this document.

The liquidity of the Scheme's investments may also be restricted by trading volumes, settlement periods and transfer procedures. In the event of an inordinately large number of redemption requests or of a restructuring of the Scheme's portfolios, the time taken by the Scheme for redemption of Units may become significant. In view of this, the Trustee has the right in its sole discretion to limit redemption (including suspension of redemption) under certain circumstances.

Please refer to the para "Suspension of Redemption/Repurchase of Units & Dividend Distribution" under section III titled "Units on Offer".

Redemption due to change in the fundamental attributes of the Scheme or due to any other reasons may entail tax consequences. The Trustee, AMC, Mutual Fund, their directors or their employees shall not be liable for any such tax consequences that may arise.

The tax benefits described in this Scheme Information Document are as available under the present taxation laws and are available subject to conditions. The information given is included for general purpose only and is based on advice received by the AMC regarding the law and

practice in force in India and the Unitholders should be aware that the relevant fiscal rules or their interpretation may change. As is the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of an investment in the Scheme will endure indefinitely. In view of the individual nature of tax consequences, each Unitholder is advised to consult his/ her own professional tax advisor.

No person has been authorized to give any information or to make any representation not confirmed in this Standard Information Document in connection with the scheme or the issue of Units, and any information or representation not contained herein must not be relied upon as having been authorized by the Mutual Fund or the Asset Management Company

#### **D. DEFINITIONS AND ABBREVIATIONS.**

In this document, the following words and expressions shall have the meaning specified herein, unless the context otherwise requires:

<b>AMC</b>	IDFC Asset Management Company Limited previously known as Standard Chartered Asset Management Company Private Limited (which was previously known as Grindlays Asset Management Company Private Limited), a company set up under the Companies Act, 1956, and approved by SEBI to act as the Asset Management Company for the Schemes of IDFC Mutual Fund
<b>Applicable NAV</b>	Unless stated otherwise in the Scheme information document, Applicable NAV is the Net Asset Value as of the Day as of which the purchase or redemption is sought by the investor and determined by the Fund. (For details, please refer to the section on "Applicable NAV")
<b>Business Day</b>	A day other than (i) Saturday or Sunday or (ii) a day on which the Reserve Bank of India &/or Banks in Mumbai are closed for business or clearing or (iii) a day on which there is no RBI clearing / settlement of securities or (iv) a day on which the Bombay Stock Exchange and/or National Stock Exchange are closed or (v) a day on which the Redemption of Units is suspended by the Trustee / AMC or (vi) a day on which normal business could not be transacted due to storms, floods, other natural calamities, bandhs, strikes or such other events or as the AMC may specify from time to time. The AMC reserves the right to declare any day as a Business Day or otherwise at any or all collection &/or Official points of acceptance of transactions.
<b>Custodian</b>	Deutsche Bank, Mumbai, acting as Custodian to the Scheme, or any other custodian who is approved by the Trustee
<b>Distributor</b>	Such persons/firms/ companies/ corporates who fulfill the criteria laid down by SEBI/AMFI from time to time and as may be appointed by the AMC to distribute/sell/market the Schemes of the Fund

<b>FII</b>	Foreign Institutional Investors, registered with SEBI under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995
<b>Fixed Income Securities</b>	Debt Securities created and issued by, inter alia, Central Government, State Government, Local Authorities, Municipal Corporations, PSUs, Public Companies, Private Companies, Bodies Corporate, Unincorporated SPVs and any other entities which may be recognised/permitted which yield at fixed or variable rate by way of interest, premium, discount or a combination of any of them
<b>Fund or Mutual Fund</b>	IDFC Mutual Fund (“the Mutual Fund” or “the Fund”) previously known as Standard Chartered Mutual Fund (which was earlier known as ANZ Grindlays Mutual Fund), had been constituted as a trust in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) vide a trust Deed dated December 29, 1999. The office of the Sub-Register of Assurances at Mumbai had registered the Trust Deed establishing the Fund under the Registration Act, 1908. The Fund was registered with SEBI vide Registration No.MF/042/00/3 dated March 13, 2000. A deed of amendment to the Trust Deed had been executed and registered to recognize the change in sponsor of the Mutual Fund.
<b>The Scheme</b>	IDFC Hybrid Portfolio Fund – Series I (IDFC-HPF-S-I)
<b>Gilt or Govt. Securities</b>	Securities created and issued by the Central Government and/or a State Government (including Treasury Bills)
<b>New Fund Offer</b>	Offer of the Units of Plans under the scheme IDFC Hybrid Portfolio Fund – Series I (IDFC-HPF-S-I) during the New Fund Offer Period
<b>New Fund Offer Period</b>	The dates on or the period during which the initial subscription to Units of the Plans under this Scheme can be made. New Fund Offer Period for the scheme will be announced at the time of the launch subject to the earlier closure, if any; such offer period not being more than 30 days
<b>Investment Management Agreement</b>	The Agreement dated January 3, 2000 entered into between IDFC AMC Trustee Company Private Limited formerly Standard Chartered Trustee Company Private Limited (which was earlier known as ANZ Grindlays Trustee Company Private Limited) and IDFC Asset Management Company Private Limited formerly Standard Chartered Asset Management Company Private Limited (which was earlier known as ANZ Grindlays Asset

<b>Official Points of acceptance of Transaction</b>	All applications for purchase/redemption of units should be submitted by investors at the official point of acceptance of transactions at the office of the registrar and/or AMC as may be notified from time to time. For details please refer to the application form and/or website of the Mutual Fund at www.idfcmf.com
<b>Load</b>	A charge that may be levied as a percentage of NAV at the time of exiting from the Scheme
<b>Money Market Instruments</b>	Commercial papers, Commercial bills, Treasury bills, Government Securities having an unexpired maturity upto one year, , certificates of deposit, usance bills and any other like instruments as specified by the Reserve Bank of India from time to time including mibor linked securities and call products having unexpired maturity upto one year
<b>NAV</b>	Net Asset Value of the Units of the Scheme / Plan and Options therein, shall be calculated daily in the manner provided in this Scheme information document or as may be prescribed by Regulations from time to time
<b>NRI</b>	Non-Resident Indians
<b>Scheme information document</b>	This document is issued by IDFC Mutual Fund, offering Units of Plans under IDFC Hybrid Portfolio Fund – Series I (IDFC-HPF-S-I)
<b>Person of Indian Origin</b>	A citizen of any country other than Bangladesh or Pakistan, if- a) he at any time held an Indian passport, or b) he or either of his parents or any of his grand-parents was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955) or c) the person is a spouse of an Indian citizen or a person referred to in sub clause (a) or (b)
<b>RBI</b>	Reserve Bank of India, established under the Reserve Bank of India Act, 1934, as amended from time to time
<b>Repo / Reverse Repo</b>	Sale / Purchase of Government Securities as may be allowed by RBI from time to time with simultaneous agreement to repurchase / resell them at a later date
<b>SEBI</b>	Securities and Exchange Board of India established under Securities and Exchange Board of India Act, 1992, as amended from time to time
<b>The Regulations</b>	Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, as amended from time to time

<b>Trustee</b>	IDFC AMC Trustee Company Private Limited formerly Standard Chartered Trustee Company Private Limited (which was earlier known as ANZ Grindlays Trustee Company Private Limited), a company set up under the Companies Act, 1956, and approved by SEBI to act as the Trustee for the Scheme/s of IDFC Mutual Fund
<b>Trust Deed</b>	The Trust Deed dated December 29, 1999 establishing ANZ Grindlays Mutual Fund (subsequently renamed as Standard Chartered Mutual Fund and then renamed as IDFC Mutual Fund) as amended from time to time
<b>Trust Fund</b>	Amounts settled/contributed by the Sponsor towards the corpus of the IDFC Mutual Fund and additions/accretions thereto
<b>Unit</b>	The interest of an investor that consists of one undivided share in the Net Assets of the Scheme
<b>Unitholder</b>	A holder of Units under the Plans in IDFC Hybrid Portfolio Fund – Series I (IDFC-HPF-S-I) as contained in this Scheme information document Interpretation

For all purposes of this Scheme information document, except as otherwise expressly provided or unless the context otherwise requires:

- the terms defined in this Scheme information document include the plural as well as the singular
- pronouns having a masculine or feminine gender shall be deemed to include the other
- all references to "Sterling Pounds" refer to United Kingdom Sterling Pounds , "dollars" or "\$" refer to United States Dollars and "Rs" refer to Indian Rupees. A "crore" means "ten million" and a "lakh" means a "hundred thousand"

## **E. DUE DILIGENCE BY THE ASSET MANAGEMENT COMPANY**

It is confirmed that:

(i) the draft Scheme Information Document forwarded to SEBI is in accordance with the SEBI (Mutual Funds) Regulations, 1996 and the guidelines and directives issued by SEBI from time to time.

(ii) all legal requirements connected with the launching of the scheme as also the guidelines, instructions, etc., issued by the Government and any other competent authority in this behalf, have been duly complied with.

(iii) the disclosures made in the Scheme Information Document are true, fair and adequate to enable the investors to make a well informed decision regarding investment in the proposed scheme.

(iv) the intermediaries named in the Scheme Information Document and Statement of Additional Information are registered with SEBI and their registration is valid, as on date.

**For IDFC Asset Management Company Limited  
(Investment Manager of IDFC Mutual Fund)**

Sd/-

**Jyothi Krishnan**  
Compliance Officer

The due diligence certificate was filed with SEBI on May 25, 2009

## II. INFORMATION ABOUT THE SCHEME

### A. TYPE OF THE SCHEME

A Close Ended Debt scheme

### B. INVESTMENT OBJECTIVE

The scheme endeavors to generate income by investing in high quality fixed income securities as the primary objective and generate capital appreciation by investing in equity and equity related instruments as a secondary objective. There can be no assurance that the investment objective of the scheme will be realised.

### C. ASSET ALLOCATION

Asset Class	Range of allocation (% of Net Assets)	Risk Profile
Debt instruments and Money Market instruments	50 - 93	Medium
Equity and Equity related instruments	7 - 50	High

Investment in Securitized Debt - Upto 50% of Net Assets of the scheme

Investments in Foreign securities – Upto 50% of the Net Assets of the scheme

Investment in Derivatives – Upto 100% of the Net Assets of the scheme

*The total exposure to all equity, debt and derivative positions on a gross basis will not exceed 100% of the net assets of the scheme*

### Change in Investment Pattern

Subject to the SEBI Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute. These proportions can vary substantially depending upon the perception of the Investment Manager; the intention being at all times to seek to protect the interests of the Unitholders. Such changes in the investment pattern will be for short term and for defensive considerations only which would be rebalanced within 6 month from the date of deviation. In case the same is not aligned to the above asset allocation pattern within 6 month, justification shall be provided to the Investment committee. The Investment committee shall then decide on the course of action.

### NOTE ON DEBT MARKET & MONEY MARKET IN INDIA

The Indian debt markets are one of the largest such markets in Asia. Government and Public Sector enterprises are predominant borrowers in the market. While interest rates were regulated till a few years back, there has been a rapid deregulation and currently both the lending and deposit rates are market determined.

The debt markets are developing fast, with the rapid introduction of new instruments including derivatives. Foreign Institutional Investors are also allowed to invest in Indian debt markets now. There has been a considerable increase in the trading volumes in the market. The trading

volumes are largely concentrated in the Government of India Securities, which contribute a significant proportion of the daily trades.

The money markets in India essentially consist of the call money market (i.e. market for overnight and term money between banks and institutions), repo transactions (temporary sale with an agreement to buy back the securities at a future date at a specified price), commercial papers (CPs, short term unsecured promissory notes, generally issued by corporates), certificate of deposits (CDs, issued by banks) and Treasury Bills (issued by RBI). In a predominantly institutional market, the key money market players are banks, financial institutions, insurance companies, mutual funds, primary dealers and corporates.

Following table exhibits various debt instruments alongwith indicative yields as on January 31, 2010

Instruments	Yield Range (% per annum)
G – Sec 5 year	7.17%
G – Sec 10 year	7.59%
Corporate Debentures AAA 3 year	7.62%
Corporate Debentures AAA 5 year	8.35%
CP's / CD's 3 months	4.50%
CP's / CD's 1 year	6.00%
Treasury Bills 3 months	4.00%
Treasury Bills 1 year	4.70%

The actual yields will, however, vary in line with general levels of interest rates and debt/money market conditions prevailing from time to time.

#### **D. WHERE WILL THE SCHEME INVEST?**

The corpus of the Scheme will be invested in debt and money market instruments. Subject to the Regulations, the corpus of the Scheme can be invested in any (but not exclusively) of the following securities / instruments:

- 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 instruments issued by 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, Notes, Strips, etc.
- Debt instruments (both public and private sector) issued by banks / development financial institutions.
- Money market instruments permitted by SEBI or in other instruments as may be provided by RBI to meet the liquidity requirements.
- Certificate of Deposits (CDs).
- Commercial Paper (CPs).

- Securitised Debt instruments.
- The non-convertible part of convertible securities.
- Any other domestic fixed income securities
- Any overseas debt instrument, as permitted by extant regulations
- Pass through, Pay through or other Participation Certificates representing interest in a pool of assets including receivables.
- Any other securities / instruments as may be permitted by SEBI from time to time
- Foreign debt instruments
- Derivative instruments

For the purpose of further diversification and liquidity, the Scheme may invest in another scheme managed by the same AMC or by the AMC of any other Mutual Fund without charging any fees on such investments, provided that aggregate inter-scheme investment made by all schemes managed by the same AMC or by the AMC of any other Mutual Fund shall not exceed 5% of the net asset value of the Fund.

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 offers or negotiated deals. The scheme may invest the funds of the scheme in short term deposits of scheduled commercial banks as permitted under extant regulations.

The Scheme may also enter into repurchase and reverse repurchase obligations in all securities held by it as per the guidelines and regulations applicable to such transactions.

The scheme shall not make investments in Foreign Securitised debt.

## **INVESTMENT IN OVERSEAS FINANCIAL ASSETS**

Mutual funds have been permitted to inter alia invest in Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/registered credit rating agencies. Additionally, investments can also be made in Money market instruments rated not below investment grade, Repos in the form of investment, where the counterparty is rated not below investment grade; repos should not however, involve any borrowing of funds by mutual funds, Government securities where the countries are rated not below investment grade, Short term deposits with banks overseas where the issuer is rated not below investment grade. Mutual Funds can also invest in overseas exchange traded funds, subject to certain conditions. Funds can invest within an overall limit for the MF industry, of US \$ 7 billion; mutual funds can make overseas investments subject to a maximum of US \$300 million per mutual fund.. The MF also need to appoint a dedicated fund manager for making investments in Foreign Securities in line with the SEBI regulations.

It is the Investment Manager's belief that overseas securities offer new investment and portfolio diversification opportunities into multi-market and multi-currency products. However, such investments also entail additional risks. Such investment opportunities may be pursued by the Investment Manager provided they are considered appropriate in terms of the overall the investment objectives of the Scheme and in accordance with any guidelines issued by SEBI from time to time. Since the Scheme would also invest in overseas securities, there may not be readily available and widely accepted benchmarks to measure performance of the Scheme. Offshore investments shall be made subject to any necessary approvals or conditions stipulated

by SEBI and the expenses charged to the Scheme shall not exceed the total limits on expenses as prescribed under the Regulations and guidelines thereunder. The details of calculation for charging such expenses shall be reported to the Boards of AMC and trustees and shall also be disclosed in the Annual Report of the Scheme. The Fund may, where necessary, appoint other intermediaries of repute as advisors, sub-managers, or sub-custodians for managing and administering such investments. The appointment of such intermediaries shall be in accordance with the applicable requirements, if any, of SEBI.

To the extent that the assets of the Scheme will be invested in securities denominated in foreign currencies, the Indian Rupee equivalent of the net assets may be adversely affected by changes in the value of certain foreign currencies relative to the Indian rupee. The repatriation of capital to India may also be hampered by changes in regulations concerning exchange controls or political circumstances or any other restriction applicable to it. To manage risk associated with foreign currency and interest rate exposure and for efficient portfolio management, the fund may use derivatives such as currency forwards, cross currency swaps etc. The use of derivatives would be in accordance with the prevailing regulations.

#### ***Debt Markets abroad:***

Overseas debt markets are deep and vibrant and much more sophisticated than the Indian debt markets. Most individual bonds are bought and sold in the over-the-counter (OTC) market, although some corporate bonds are also listed on the New York Stock Exchange. The OTC market comprises hundreds of securities firms and banks that trade bonds by phone or electronically. Some are dealers that keep an inventory of bonds and buy and sell these bonds for their own account; others act as agent and buy from or sell to other dealers in response to specific requests on behalf of customers. Quotes are available for an entire gamut of securities of varying maturities. Among the types of bonds one can choose from are: Government securities, municipal bonds, corporate bonds, mortgage and asset-backed securities, federal agency securities and foreign government bonds.

Bond choices range from the highest credit quality Treasury securities, which are backed by the full faith and credit of the government, to bonds that are below investment-grade and considered speculative. Since a bond may not be redeemed, or reach maturity, for years - even decades, credit quality becomes an important consideration when you are evaluating a fixed/floating-income investment.

In the United States, major rating agencies include Moody's Investors Service, Standard & Poor's Corporation and Fitch. Each of the agencies assigns its ratings based on in-depth analysis of the issuer's financial condition and management, economic and debt characteristics and the specific revenue sources securing the bond. The highest ratings are AAA (S&P and Fitch) and Aaa (Moody's). Bonds rated in the BBB category or higher are considered investment grade; securities with ratings in the BB category and below are considered "high yield" or below investment grade. While experience has shown that a diversified portfolio of high-yield bonds will, over the long run, have only a modest risk of default, it is extremely important to understand that, for any single bond, the high interest rate that generally accompanies a lower rating is a signal or warning of higher risk.

#### **The Link between Interest Rates and Maturity**

Changes in interest rates do not affect all bonds equally. The longer it takes for a bond to mature, the greater the risk that prices will fluctuate along the way and that the fluctuations will be greater and the more the investors will expect to be compensated for taking the extra risk.

There is a direct link between maturity and yield. It can best be seen by drawing a line between the yields available on like securities of different maturities, from shortest to longest. Such a line is called a yield curve. A yield curve could be drawn for any bond market but it is most commonly drawn for the Treasury market, which offers securities of every maturity and where all issues bear the same top credit quality. By watching the yield curve, as reported in the daily financial press, you can gain a sense of where the market perceives interest rates to be headed one of the important factors that could affect your bonds' prices. A normal yield curve would show a fairly steep rise in yields between short and intermediate term issues and a less pronounced rise between intermediate and long term issues. That is as it should be, since the longer the investor's money is at risk, the more the investor should expect to earn.

## **E. INVESTMENT STRATEGIES AND RISK CONTROL**

### **Investment Strategy**

IDFC Hybrid Portfolios Series I is a Close ended debt scheme. It endeavors to generate income by investing in high quality fixed income securities as the primary objective and generate capital appreciation by investing in equity and equity related instruments as a secondary objective.

The Scheme will initially deploy at least 50% of the funds collected during the New Fund Offer in high quality debt securities/money market instruments with an intention to generate income. The scheme will invest in a portfolio predominantly of fixed income securities that are maturing on or before the date of maturity of the scheme. The scheme shall follow a passive investment strategy for the fixed income component of the Scheme.

#### Investment approach for equity allocations:

The fund will seek to generate capital appreciation by investing in either cash equity or in equity derivatives. The cash equity portfolio in the scheme will be passive in nature and will mirror the NSE Nifty index. The derivative portfolio will comprise of futures and options on the Nifty Index and will be actively managed by the fund manager within the overall asset allocation of the fund.

The fund manager will look to use index options specifically to set up certain strategies designed to take advantage of the fund manager's view on the equity markets for the duration of the scheme. Use of index options allows the fund manager to set up the trades even while protecting the downside as the downside in case of options is limited to the option premium paid by the scheme.

Some examples of option strategies that the fund manager can take advantage of include the following:

#### **1) Buying an at-the-money (ATM) call option**

A call option gives a buyer the right to participate in the upside of the underlying without participating in the downside. The losses for a long option position is limited to the initial option premium paid by the buyer. The fund manager will buy an ATM option if the fund manager expects the market to go up but does not want to get impacted on the downside.

Risk factor for the strategy: In case the equity markets go down then the option premium paid to purchase the option is lost.

#### **2) Buying a call spread**

A call spread involves buying a call while selling another out-of-the-money (OTM) call with a higher strike price. The selling of the higher strike OTM call helps reduce the cost of the position but caps the return that the position will make in case the index moves up. The fund manager will buy a call spread if he expects the market to go up but does not expect a very big movement.

Risk factor for the strategy: In case the equity markets go down then the option premium paid to purchase the call spread is lost.

### **3) Buying an out-of-the-money (OTM) call option**

An OTM call option is cheaper than an ATM call option. A fund manager will use an OTM option if he expects the market to move up sharply but wants to reduce the cost of the option in case the view proves to be incorrect.

Risk factor for the strategy: In case the equity markets go down then the option premium paid to purchase the option is lost.

### **4) Buy a straddle**

A straddle consist of buying a call option and put option together. Fund manager will use this strategy in case he is expecting the markets to move sharply higher or lower but is uncertain of the direction. However it is a high cost strategy as two set of options need to be bought.

Risk factor for the strategy: In case the equity markets remain close to the initial level, then the option premium paid to purchase the straddle is lost.

## **TRADING IN DERIVATIVES**

The scheme intends to use derivatives for purposes not only be restricted to hedging and portfolio balancing, such exposure to derivate instruments shall be in accordance with the SEBI Mutual Fund regulations from time to time.

Derivative transactions that can be undertaken by the Scheme include a wide range of instruments, including, but not limited to

- Futures
- Options
- Swaps
- Any other instrument, as may be regulatorily permitted

Derivatives can be either exchange traded or can be over the counter (OTC). Exchange traded derivatives are listed and traded on Stock Exchanges whereas OTC derivative transactions are generally structured between two counterparties.

SEBI has vide its circular DNPd/Cir-29/2005 dated September 14, 2005 interalia specified the guidelines pertaining to trading by Mutual Funds in Exchange Traded derivatives. The position limits have subsequently been modified vide circulars interalia including circular no. DNPd/Cir-30/2006 dated January 20, 2006 and circular no. SEBI/DNPd/Cir-31/2006 dated September 22, 2006.

**All derivative position taken in the portfolio would be guided by the following principles.**

#### ***i. Position limit for the Mutual Fund in index options contracts***

a. The Mutual Fund position limit in all index options contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest of the market in index options, whichever is higher, per Stock Exchange.

b. This limit would be applicable on open positions in all options contracts on a particular underlying index.

***ii. Position limit for the Mutual Fund in index futures contracts:***

a. The Mutual Fund position limit in all index futures contracts on a particular underlying index shall be Rs. 500 crore or 15% of the total open interest of the market in index futures, whichever is higher, per Stock Exchange.

b. This limit would be applicable on open positions in all futures contracts on a particular underlying index.

***iii. Additional position limit for hedging***

In addition to the position limits at point (i) and (ii) above, the Mutual Fund may take exposure in equity index derivatives subject to the following limits:

1. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Fund's holding of stocks.

2. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Fund's holding of cash, government securities, T-Bills and similar instruments.

***iv. Position limit for Mutual Fund for stock based derivative contracts***

The Mutual Fund position limit in a derivative contract on a particular underlying stock, i.e. stock option contracts and stock futures contracts, is defined in the following manner:-

1. For stocks having applicable market-wise position limit (MWPL) of Rs. 500 crores or more, the combined futures and options position limit shall be 20% of applicable MWPL or Rs. 300 crores, whichever is lower and within which stock futures position cannot exceed 10% of applicable MWPL or Rs. 150 crores, whichever is lower.

2. For stocks having applicable market-wise position limit (MWPL) less than Rs. 500 crores, the combined futures and options position limit would be 20% of applicable MWPL and futures position cannot exceed 20% of applicable MWPL or Rs. 50 crore which ever is lower.

***v. Position limit for each scheme of a Mutual Fund for stock based derivative contracts***

The scheme-wise position limit / disclosure requirements shall be –

1. For stock option and stock futures contracts, the gross open position across all derivative contracts on a particular underlying stock of a scheme of a mutual fund shall not exceed the higher of:

1% of the free float market capitalisation (in terms of number of shares) or 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

2. This position limits shall be applicable on the combined position in all derivative contracts on an underlying stock at a Stock Exchange.

3. For index based contracts, Mutual Funds shall disclose the total open interest held by its scheme or all schemes put together in a particular underlying index, if such open interest equals to or exceeds 15% of the open interest of all derivative contracts on that underlying index.

**Illustrations**

### Index Futures

Index Futures have been introduced by BSE and NSE. Generally three futures of 1 month 2 months and 3 months are presently traded on these exchanges. These futures expire on the last working Thursday of the respective months.

If the Nifty (Index) was 1875 at the beginning of a month and the quotes for the three futures were as under:

Month	Bid Price	Offer Price
1	1880	1885
2	1900	1915
3	1910	1930

The Fund can buy an Index of month 1 on the last day of the month prior to month 1 in the illustration above at an offer price of 1885.

Numerical example of futures trade

The following is a hypothetical example of a typical likely index future trade and the associated costs.

Particulars	Index Future	Actual purchase of stocks
Index at the beginning of the month	1875	1875
Price of 1 Month Future	1885	
• Execution Cost: Carry and other Index Future costs (1885-1875)	10	Nil
B. Brokerage Cost: Assumed at 0.30% for Index Future and 0.50% for spot Stocks (0.30% of 1885) (0.50% of 1875)	5.66	9.38
C. Gains on Surplus Funds: (assumed 10% return on 90% of the money left after paying 10% margin) (10%*1875*90%*30 days/365)	13.87	Nil
<b>Total Cost (A+B-C)</b>	<b>1.79</b>	<b>9.38</b>

In this example, the Index Future trade has resulted in profitability compared to actual purchase of the underlying index stocks. The profitability of Index Future as compared to an individual security will interalia depend upon the carrying cost, the interest available on surplus funds and the transaction cost.

There are futures based on stock indices as mentioned above as also futures based on individual stocks.

Illustrative list of strategies that can employ futures

#### Strategies that employ index futures and their objectives:

(a) The fund has an existing equity portion invested in a basket of stocks. In case the fund manager has a view that the equity markets are headed downwards, the fund can then hedge the exposure to

equity either fully or partially by initiating short futures positions in the index. A similar position in the long direction can also be initiated by the fund to hedge its position of cash and permissible equivalents. The extent to which this can be done is determined by existing guidelines.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Inability of the derivatives to correlate perfectly with underlying indices
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

(b) To the extent permissible by extant regulations the scheme can initiate a naked short position in an underlying index future traded on a recognized stock exchange. In case the nifty near month future contract trading at say, 1850, and the fund manager has a view that it will depreciate going forward, the fund can initiate a sale transaction of nifty futures at 1850 without holding a portfolio of equity stocks or any other underlying long equity position. Once the price falls to 1800 after say, 20 days the fund can initiate a square-up transaction by buying the said futures and book a profit of 50. Correspondingly the fund can take a long position without an underlying cash/ cash equivalent subject to the extant regulations.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Inability of the derivatives to correlate perfectly with underlying indices
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

#### Strategies that employ Stock specific Futures and their objectives:

Individual stock futures are also available in the Indian Equity Markets. Stock futures trade either at a premium or at discount to the spot prices, the level of premium generally reflects the cost of carry. Stock specific issues may have a bearing on futures as speculators may find futures as a cost-effective way of executing their view on the stock. However such executions usually increase the premium/discount to the spot significantly, thereby giving rise to arbitrage opportunities for a fund.

(a) Selling spot and buying future : In case the fund holds the stock of a company at say Rs. 1000 while in the futures market it trades at a discount to the spot price say at Rs. 980 then the fund may sell the stock and buy the futures. On the date of expiry of the stock future, the fund may reverse the transactions (i.e. Buying at Spot & Selling futures) and earn a risk-free Rs. 20/- (2% absolute) on its holdings. As this can be without any dilution of the view of the fund on the underlying stock the fund can still benefit from any movement of the price in the northward direction, i.e. if on the date of expiry of the futures, if the stock trades at 1100 which would be the price of the futures too, the fund will have a benefit of Rs. 100/- whereby the fund gets the 10% upside movement together with the 2% benefit on the arbitrage, and thus getting a total return of 12%

Risk associated with this strategy:

- Lack of opportunities available in the market
- Risk of mispricing or improper valuation
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

(b) Buying spot and selling future: Where the fund holds the stock of a company trading in the spot market at Rs 1000 while it trades at Rs. 1020/- in the futures market then fund may buy the stock at spot and sell in the futures market thereby earning Rs 20. In case of adequacy of cash with the fund, this strategy may be used to enhance returns of the Scheme which was otherwise sitting on cash.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Risk of mispricing or improper valuation
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

(c) Buying stock future: Where the scheme wants to initiate a long position in a stock whose spot price is at say, Rs.1000 and futures is at 980, then the fund may just buy the futures contract instead of the spot thereby benefiting from a lower cost option.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Risk of mispricing or improper valuation
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

(d) In case the fund has a bearish view on a stock which is trading in the spot market at Rs.1000/- and the futures market at say Rs.980/-. The fund can express such a view subject to extant SEBI regulations by initiating a short position in the futures contract. In case the view is right and the futures price depreciates to say 900/- the fund can square up the short position thereby earning a profit of Rs. 80/-

Risk associated with this strategy:

- Lack of opportunities available in the market
- Risk of mispricing or improper valuation
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

### **Strategies that use Options and the objectives of such strategies:**

Option contracts are of two types - Call and Put; the former being the right, but not obligation, to purchase a prescribed number of shares at a specified price before or on a specific expiration date and the latter being the right, but not obligation, to sell a prescribed number of shares at a specified price before or on a specific expiration date. The price at which the shares are contracted to be purchased or sold is called the strike price. Options that can be exercised on or before the expiration date are called American Options, while those that can be exercised only on the expiration date are called European Options. Option contracts are designated by the type of option, name of the underlying, expiry month and the strike price. Thus options can be used to earn less volatile returns, earn the premium or use for hedging purposes etc.

### **Illustrations of strategies using Options**

Call Option (Buy): The fund buys a call option at the strike price of say Rs.1000 and pays a premium of say Rs. 50, the fund would earn profits if the market price of the stock at the time of expiry of the option is more than 1050 being the total of the strike price and the premium thereon. If on the date of expiry of the option the stock price is below Rs 1000, the fund will not exercise the option while it loses the premium of Rs 50.

Risk associated with this strategy:

- Lack of opportunities available in the market

- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

Put Option (Buy): The fund buys a Put Option at Rs 1000 by paying a premium of say Rs 50. If the stock price goes down to Rs. 900, the fund would protect its downside and would only have to bear the premium of Rs 50 instead of a loss of Rs 100 whereas if the stock price moves up to say Rs. 1100 the fund may let the Option expire and forego the premium thereby capturing Rs. 100 upside after bearing the premium of Rs50.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

Writing a Call Option: The fund writes a call option at Rs. 1050 and earn a premium of, say, Rs. 10. If the price is higher than Rs. 1050, say Rs.1100/- at expiry then the option is exercised, the Fund earns the premium of Rs. 10/- but loses the difference between the market price and the exercise price i.e. Rs. 50/-. In case the stock price is less than Rs.1050, the fund gets to keep the premium of Rs.10/-.

Risks associated with the Strategy:

- The underlying security may fall by more than the option premium earned, thereby exposing the strategy to downside risks.
- The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place.

Writing a Put Option: The fund writes a put option with the strike price of Rs1000 and earn a premium of say Rs 20. In case the stock trades at Rs 950 the put option will be exercised, the fund will earn the premium of Rs.20/- but loses the difference between the exercise price and the market price which is Rs.50/-. Where the stock trades at above the exercise price, the option-holder will not exercise the option and let it expire. In this case the fund will earn the premium income of Rs. 20.

**Risks associated with Covered Put Strategy:**

- The underlying security may rise by more than the option premium earned, thereby exposing the strategy to downside risk
- The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.
- Execution Risk: The prices which are seen on the screen need not be the same at which execution will take place.

The above four option positions can be initiated in both index based options as well as stock specific options.

Risk associated with this strategy:

- Lack of opportunities available in the market
- Inability of the derivatives to correlate perfectly with underlying security
- Execution risk, whereby the rates seen on the screen may not be the rates at which the ultimate execution takes place.

The AMC retains the right to enter into such derivative transactions as may be permitted by the applicable regulations from time to time.

## **Debt Derivatives**

In terms of Circular No. MFD.BC.191/07.01.279/1999-2000 and MPD.BC.187/07.01.279/1999-2000 dated November 1, 1999 and July 7, 1999 respectively issued by Reserve Bank of India permitting participation by Mutual Funds in Interest Rate Swaps and Forward Rate Agreements, the Fund will use derivative instruments for the purpose of hedging and portfolio balancing. The AMC would undertake the same for similar purposes only.

### *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 the 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.

## **EXAMPLE OF A DERIVATIVES TRANSACTION**

### *Basic Structure Of A Swap*

Bank A has a 6 month Rs 10 crore liability, currently being deployed in call. Bank B has a Rs 10 crore 6 month asset, being funded through call. Both banks are running an interest rate risk.

To hedge this interest rate risk, they can enter into a 6 month MIBOR (Mumbai Inter Bank Offered Rate) swap. Through this swap, A will receive a fixed preagreed rate (say 7%) and pay "call" on the NSE MIBOR ("the benchmark rate"). Bank A's paying at "call" on the benchmark rate will neutralise the interest rate risk of lending in call. B will pay 7% and receive interest at the benchmark rate. Bank A's receiving of "call" on the benchmark rate will neutralise his interest rate risk arising from his call borrowing.

The mechanism is as follows:

- Assume the swap is for Rs.10 crore from March 1, 2002 to September 1, 2002. A is a fixed rate receiver at 7% and B is a floating rate receiver at the overnight compounded rate.
- On March 1, 2002 A and B will exchange only an agreement of having entered this swap. This documentation would be as per International Swaps and Derivatives Association (ISDA).
- On a daily basis, the benchmark rate fixed by NSE will be tracked by them.
- On September 1, 2002 they will calculate the following:
- A is entitled to receive interest on Rs.10 crore at 7% for 184 days i.e. Rs. 35.28 lakh, (this amount is known at the time the swap was concluded) and will pay the compounded benchmark rate.
- B is entitled to receive daily compounded call rate for 184 days & pay 7% fixed.
- On September 1, 2002, if the total interest on the daily overnight compounded benchmark rate is higher than Rs. 35.28 lakhs, A will pay B the difference. If the daily compounded benchmark rate is lower, then B will pay A the difference.

- Effectively Bank A earns interest at the rate of 7% p.a. for six months without lending money for 6 months fixed, while Bank B pays interest @ 7% p.a. for 6 months on Rs. 10 crore, without borrowing for 6 months fixed.

The AMC retains the right to enter into such derivative transactions as may be permitted by the applicable regulations from time to time.

### **Other Investment strategies**

The Fund has put in place detailed Investment Discretion Guidelines defining the prudential and concentration limits for the portfolio. The Fund Manager(s) record a justification for investments made, on the deal slip. The Investment Management Committee (IMC) in its periodic meetings tracks portfolio investment rationale, portfolio composition, performance and limits. Any modifications to the Investment Discretion Guidelines can be made by the IMC. The performance of the fund is monitored against its peer group in the industry and presented at every Board meeting along with the portfolio of the Schemes. The Board of Directors discusses the performance and portfolio composition of the scheme and queries are responded to by the Managing Director.

Currently no AMFI - recognised benchmark is available for comparison for the Scheme. However given the nature of the scheme the CRISIL MIP Blended Index, being a widely used benchmark in the market, has been selected as a standard benchmark for the purpose of this Scheme.

The fund reserves the right to change the said benchmark and/or adopt one/more other benchmarks to compare the performance of the Scheme.

The AMC may approach rating agencies such as CRISIL, ICRA, etc for ratings of the scheme.

### **Risk Control**

Since investing requires disciplined risk management, the AMC would incorporate adequate safeguards for controlling risks in the portfolio construction process. The risk control process involves reducing risks through portfolio diversification, taking care however not to dilute returns in the process. The AMC believes that this diversification would help achieve the desired level of consistency in returns.

The AMC aims to identify securities, which offer superior levels of yield at lower levels of risks. With the aim of controlling risks, in-depth credit evaluation of the securities proposed to be invested in will be carried out by the investment team of the AMC.

For the present, the Scheme does not intend to enter into underwriting obligations. However, if the Scheme does enter into an underwriting agreement, it would do so after complying with the RBI Regulations and with the prior approval of the Board of the AMC/Trustee.

The Scheme may invest in other Schemes managed by the AMC or in the Schemes of any other Mutual Funds, provided it is in conformity with the investment objectives of the Scheme and in terms of the prevailing SEBI Regulations. As per the SEBI Regulations, no investment management fees will be charged for such investments and the aggregate inter Scheme investment made by all Schemes of IDFC Mutual Fund or in the Schemes under the management of other asset management companies shall not exceed 5% of the net asset value of the IDFC Mutual Fund.

### **PORTFOLIO TURNOVER**

The AMC's portfolio management style is conducive to a relatively low portfolio turnover rate. However, the AMC will take advantage of the opportunities that present themselves from time to time because of the conditions prevailing / inefficiencies in the securities markets. The AMC will endeavour to balance the increased cost on account of higher portfolio turnover with the benefits derived therefrom.

## **F. FUNDAMENTAL ATTRIBUTES**

Following are the Fundamental Attributes of the scheme, in terms of Regulation 18 (15A) of the SEBI (MF) Regulations:

(i) Type of Scheme

Close-Ended Debt Scheme.

(ii) Investment Objectives & Policies

The scheme endeavors to generate income by investing in high quality fixed income securities as the primary objective and generate capital appreciation by investing in equity and equity related instruments as a secondary objective. There can be no assurance that the investment objective of the scheme will be realised.

Asset Allocation Pattern as defined in Section C.

(iii) Terms of Issue

Repurchase and Redemption of Units as detailed in Section III B of this document

Fees and expenses as specified in Section IV B of this document

In accordance with Regulation 18(15A) of the SEBI (MF) Regulations, the Trustees shall ensure that no change in the fundamental attributes of the Scheme(s) and the Plan(s) / Option(s) thereunder or the trust or fee and expenses payable or any other change which would modify the Scheme(s) and the Plan(s) / Option(s) thereunder and affect the interests of Unitholders is carried out unless:

- A written communication about the proposed change is sent to each Unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- The Unitholders are given an option for a period of 30 days to exit at the prevailing Net Asset Value without any exit load.

## **G. HOW WILL THE SCHEME BENCHMARK ITS PERFORMANCE?**

Currently no AMFI - recognised benchmark is available for strict comparison for the Scheme. However CRISIL MIP Blended Index Index being a widely used benchmark (for products with similar tenor / average maturity etc.) in the market, the same has been selected as a standard benchmark for the purpose of this Scheme.

## **H. WHO MANAGES THE SCHEME?**

The Fund Manager of the Scheme is Mr. Ashwin Patni

Mr. Ashwin Patni	Fund Manager	B.E, PGDM - IIM, Calcutta	Over 7 years of experience in Wealth Management, Structured Finance, Credit and Market Groups and Business Consulting
------------------	--------------	---------------------------	---

**Last Assignments held:** He has over six years of experience in Wealth Management, Structured Finance, Credit and Market Groups and Business Consulting. In his last assignment he was designated as Product Manager, Investment Services for Wealth Management Function of Standard Chartered Bank (January 2005-November 2007). Prior to this he was working as Manager, Syndication for ICICI Bank (February 2003 – January 2005). He has also worked with Accenture India Pvt Ltd as Analyst (June 2001 – January 2003). Age: 30 Years

Mr. Ashwin Patni also manages IDFC Arbitrage Fund and IDFC Arbitrage Plus Fund.

## INVESTMENT BY AMC IN THE SCHEME

The AMC may invest in the Scheme from time to time. As per the Regulations, such investments are permitted subject to disclosure being made in the Scheme Information Document. However, the AMC shall not be entitled to charge any management fee on its investments in the Scheme. The maximum extent of investment by the AMC at any given time shall not exceed the networth of the AMC.

### I. WHAT ARE THE INVESTMENT RESTRICTIONS?

Pursuant to the Regulations and amendments thereto, the following investment restrictions are presently applicable to the Scheme:

1. The New Fund Offer Expenses in respect of the Scheme shall not be charged to the Scheme.
2. The Scheme shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance.
3. Debt instruments in which the Scheme invests should be rated as investment grade by a credit rating agency. Till the regulations so require, not more than 15% of the Net Assets of the Scheme shall be invested in debt instruments issued by a single issuer. Provided that such investment limit may be exceeded to 20% of the Net Assets of the Scheme with the prior approval of the Board of Trustees and the Board of AMC till such time the regulation requires such approvals. Provided that such limit shall not be applicable for investments in government securities and money market instruments. Provided further that investment within such limit can be made in mortgaged backed securitised debts which are rated not below investment grade by a rating agency registered with SEBI.
4. All investments in unrated debt instruments shall be made with the prior approval of the Board of the AMC and the Trustee till the regulations so require. SEBI vide its circular no. MFD/CIR/9/120/2000 dated November 24, 2000 has permitted the Mutual Fund to constitute a committee for Investment in Unrated debt Instruments. The said committee

can approve such investments based on parameters laid down by the Board of AMC and the Trustees and details of such investments should be communicated by the AMC to the Trustees in their periodical/ quarterly reports along with a disclosure regarding how the parameters have been complied with. Further, the Scheme shall not invest more than 10% of its Net Assets in unrated instruments by a single issuer and the total investment in such instruments shall not exceed 25% of the Net Assets of the Scheme till the regulations so require.

5. Debentures, irrespective of any residual maturity period (above or below one year), shall attract the investment restrictions as applicable to debt instruments under clause 1 and 1 A of the VII Schedule to the regulations.
- Till the regulations so require, the Scheme shall not make any investment in :
    - any unlisted security of an associate or group company of the sponsor;
    - any security issued by way of private placement by an associate or group company of the sponsor or
    - the listed securities of group companies of the sponsor which is in excess of 25% of the net assets.

Transfer of investments from one Scheme to another Scheme in the same Mutual Fund is permitted provided:

- such transfers are done at the prevailing market price for quoted instruments on a spot basis (spot basis shall have the same meaning as specified by a Stock Exchange for spot transactions); transfer of unquoted securities will be made as per the policies laid down by the Trustees from time to time, and
- the securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.
- The Scheme may invest in other Schemes under the same AMC or any other Mutual Fund without charging any fees, provided the aggregate inter-Scheme investment made by all the Schemes under the same management or in Schemes under management of any other asset management company shall not exceed 5% of the Net Asset Value of the Fund. Provided that this clause shall not apply to any Fund of Funds scheme.
- The Fund shall get the securities purchased transferred in the name of the Fund on account of the concerned Scheme, wherever investments are intended to be of a long-term nature.
- The Fund may buy and sell securities on the basis of deliveries and will not make any short sales or engage in carry forward transactions except as and when permitted by the RBI in this regard (for example “when issued market” transactions).
- All the Scheme’s investments will be in transferable securities or bank deposits or in money at call or any such facility provided by RBI in lieu of call.
- No loans for any purpose can be advanced by the Scheme.
- The Fund shall not borrow except to meet temporary liquidity needs of the Fund for the purpose of repurchase/ redemption of units or payment of interest and/or dividend to the Unitholders, provided that the Fund shall not borrow more than 20% of the net assets of the individual Scheme and the duration of the borrowing shall not exceed a period of 6 months.

6. Pending deployment of funds of a Scheme in securities in terms of investment objectives of the Scheme, the AMC can invest the funds of the Scheme in short-term deposits of scheduled commercial banks or in call deposits.
7. The Scheme may also use various hedging and derivative products from time to time, as are available and permitted by SEBI, in an attempt to protect and enhance the interests of the Unitholders at all times. Derivatives are contractual instruments whose performance is derived from that of an underlying asset.
8. The scheme shall not make any investment in a Fund of Funds scheme.
9. The scheme shall invest only in such securities which mature on or before the date of the maturity of the scheme.

The Scheme will comply with SEBI regulations and any other Regulations applicable to the investments of Mutual Funds from time to time. The Trustees may alter the above restrictions from time to time to the extent that changes in the Regulations may allow and/or as deemed fit in the general interest of the Unitholders.

All investment restrictions shall be applicable at the time of making the investment.

#### **J. HOW HAS THE SCHEME PERFORMED?**

*This scheme is a new scheme and does not have any performance track record*

### **III. UNITS AND OFFER**

This section provides details you need to know for investing in the scheme.

#### **A. NEW FUND OFFER (NFO)**

New Fund Offer Period (This is the period during which a new scheme sells its units to the investors)

NFO opens on: March 01, 2010

NFO closes on: March 24, 2010

New Fund Offer of each of the scheme will commence at any time within 6 months of receipt of final observation from SEBI to launch the scheme.. The Trustee reserves the right to extend the closing date, subject to the condition that the subscription list shall not be kept open for more than 45 days. Any such extension of the subscription list shall be notified by a suitable display at the official point of acceptance of transactions

New Fund Offer Price (This is the price per unit that the investors have to pay to invest during the NFO):

Rs. 10

#### **Minimum Amount for Application in the NFO**

The minimum application amount is Rs.5000/- and in multiples of Re.10/- thereafter. There will be no maximum limit

**Minimum Target amount:** Rs. 1,000,000

In accordance with the Regulations, if the Scheme fails to collect the minimum subscription amount as specified above, the Fund shall be liable to refund the money to the applicants.

In addition to the above, refund of subscription money to applicants whose applications are invalid for any reason whatsoever will commence immediately after the allotment process is completed. Refunds will be completed within six weeks of the close of the New Fund Offer Period. If the Fund refunds the amount after six weeks, interest @ 15% per annum shall be paid by the AMC. Refund orders will be marked "Account Payee only" and drawn in the name of the applicant in the case of the sole applicant and in the name of the first applicant in all other cases.

#### **Maximum Amount to be raised (if any)**

Not Applicable. The AMC retains the right to specify maximum amount to be raised, at the time of the New Fund Offer.

#### **Plans / Options offered**

Under the Scheme investors may choose either the Growth Option or the Dividend Option.

##### **(i) Growth Option**

The Scheme will generally not declare any dividend under this option. The income attributable to Units under this Option will continue to remain invested in the Scheme and will be reflected in the Net Asset Value of Units under this option.

#### **(ii) Dividend Option**

Under this option, the Fund will endeavour to declare dividends as and when deemed fit by the Fund and/or on &/or before the closure of the scheme. In case no dividend is declared during the tenure of the scheme or at closure, the net surplus, if any, will remain invested and be reflected in the NAV.

Dividends, if declared, will be paid out of the net surplus of the Scheme to those Unitholders whose names appear in the Register of Unitholders on the record date. The actual date for declaration of dividend will be notified suitably to the Registrar. Unitholders are entitled to receive dividend within 30 days of the date of declaration of the dividend. However, the Mutual Fund will endeavour to make dividend payments sooner to Unitholders. There is no assurance or guarantee to Unitholders as to the rate of dividend distribution nor that dividends will be paid, though it is the intention of the Mutual Fund to make dividend distributions.

For details on taxation of dividend, please refer to the section on 'Tax Benefits of Investing in the Mutual Fund' in the Statement of Additional Information.

The Investors should note that NAVs of the Dividend Option and the Growth Option will be different after the declaration of dividend under the Scheme.

#### **Dividend Policy**

Dividend declaration and distribution shall be in accordance with SEBI Regulations as applicable from time to time. The AMC reserves the right to declared dividend from time to time, depending on availability of distributable surplus.

#### **Allotment**

Full allotment will be made to all valid applications received during the New Fund Offer Period of respective Plan(s). Allotment of Units, shall be completed not later than 30 days after the close of the New Fund Offer Period.

#### **ACCOUNT STATEMENTS**

An Account Statement will be sent by ordinary post / courier / any other permitted mode, to each Unitholder, stating the number of Units allotted, not later than 30 Days from the close of the New Fund Offer Period. The account statement shall not be construed as a proof of title and is only a computer generated statement indicating the details of transactions under the Scheme and is a non-transferable document. The account statement will be issued in lieu of Unit Certificate/s.

#### **UNIT CERTIFICATES**

No Unit Certificates will be issued. An investor who wishes to trade in units would require to have a demat account.

#### **Refund**

In accordance with the Regulations, if the Scheme fails to collect the minimum subscription amount as specified above, the Fund shall be liable to refund the money to the applicants.

In addition to the above, refund of subscription money to applicants whose applications are invalid for any reason whatsoever will commence immediately after the allotment process is completed. Refunds will be completed within six weeks of the close of the New Fund Offer Period. If the Fund refunds the amount after six weeks, interest @ 15% per annum shall be paid by the AMC. Refund orders will be marked "Account Payee only" and drawn in the name of the applicant in the case of the sole applicant and in the name of the first applicant in all other cases.

## **WHO CAN INVEST?**

The following persons may apply for subscription to the Units of the Scheme (subject, wherever relevant, to purchase of units of Mutual Funds being permitted under respective constitutions, relevant statutory regulations and with all applicable approvals):

- Resident adult individuals either singly or jointly
- Minor through parent/lawful guardian
- Companies, Bodies Corporate, Public Sector Undertakings, association of persons or bodies of individuals whether incorporated or not and societies registered under the Societies Registration Act, 1860 (so long as the purchase of units is permitted under the respective constitutions).
- Trustee(s) of Religious and Charitable and Private Trusts under the provision of Section 11(5) (xii) of the Income Tax Act, 1961 read with Rule 17C of Income Tax Rules, 1962 (subject to receipt of necessary approvals as "Public Securities" where required)
- The Trustee of Private Trusts authorised to invest in mutual fund Schemes under their trust deed.
- Partner(s) of Partnership Firms.
- Karta of Hindu Undivided Family (HUF).
- Banks (including Co-operative Banks and Regional Rural Banks), Financial Institutions and Investment Institutions.
- Non-resident Indians/Persons of Indian origin residing abroad (NRIs) on full repatriation basis or on non-repatriation basis.
- Foreign Institutional Investors (FIIs) registered with SEBI on full repatriation basis.
- Army, Air Force, Navy and other para-military funds.
- Scientific and Industrial Research Organizations.
- Mutual fund Schemes.
- Provident/Pension/Gratuity and such other Funds as and when permitted to invest.
- International Multilateral Agencies approved by the Government of India.
- Others who are permitted to invest in the Scheme as per their respective constitutions
- Other Schemes of IDFC Mutual Fund subject to the conditions and limits prescribed in SEBI Regulations and/or by the Trustee, AMC or sponsor may subscribe to the units under this Scheme.

Subscriptions from residents in the United States of America and Canada shall not be accepted by the Scheme.

The Fund reserves the right to include / exclude new / existing categories of investors to invest in this Scheme from time to time, subject to regulatory requirements, if any.

This is an indicative list and investors are requested to consult their financial advisor to ascertain whether the scheme is suitable to their risk profile.

**Where can you submit the filled up applications.**

Filled up applications can be submitted at the Offices of the collecting bankers, as per the details given on the last few pages of this document including the back cover page.

**HOW TO APPLY?**

Please refer to the SAI and Application form for the instructions.

**Mode of Payment**

Investors may make payments for subscription to the Units of the Scheme at the bank collection centres by local Cheque/Pay Order/Bank Draft, drawn on any bank branch, which is a member of Bankers Clearing House located in the Official point of acceptance of transactions where the application is lodged or by giving necessary debit mandate to their account or by any other mode permitted by the AMC.

Cheques/Pay Orders/Demand Drafts should be drawn as follows:

- 1 The Cheque/DD/Payorder should be drawn in favour of of **IDFC Hybrid Portfolio Fund - Series I**, as mentioned in the application form/addendum at the time of the launch.

Please note that all cheques/ DDs/ payorders should be crossed as "Account payee".

- 2 Centres other than the places where there are Official point of acceptance of transactions as designated by the AMC from time to time, are Outstation Centres. Investors residing at outstation centres should send demand drafts drawn on any bank branch which is a member of Bankers Clearing House payable at any of the places where an Official point of acceptance of transactions is located.

**Payments by cash, money orders, postal orders, stockinvests and out-station and/or post dated cheques will not be accepted.**

**MANDATORY QUOTING OF BANK MANDATE AND PAN NUMBER BY INVESTORS**

Pursuant to SEBI Circular No. SEBI/IMD/CIR No. 6/4213/04 dated March 1, 2004 it is mandatory for investors to mention their bank account number in their application/request for redemption. As per SEBI Circular No. MRD/DoP/Cir- 05/2007 dated April 27, 2007, it is now mandatory that Permanent Account Number (PAN) issued by the Income Tax Department would be the sole identification number for all participants transacting in the securities market, irrespective of the amount of transaction. Accordingly investors will be required to furnish a copy of PAN together with request for fresh purchases. Application Forms without these information and documents will be considered incomplete and are liable to be rejected without any reference to the investors. The procedure implemented by the AMC and the decisions taken by the AMC in this regard shall be deemed final.

## **LISTING AND TRANSFER OF UNITS**

### **LISTING**

The units of the scheme shall be listed. The units are proposed to be listed on the NSE.

Buying or selling of Units by investors can be made from the secondary market on the NSE. Units can be bought or sold like any other listed stock on the Exchange at market prices. The minimum number of Units that can be bought or sold on the Exchange is 1 (one) unit. Investors can purchase Units at market prices, which may be at a premium/discount to the NAV of the Scheme depending upon the demand and supply of Units at NSE. Unitholders who wish to trade in units would be required to have a demat account. All investors may buy/sell Units on NSE on all the trading days of NSE as per the settlement cycle of the Stock Exchange.

Although the Scheme is proposed to be listed, for declaration of dividend, the Scheme shall follow the requirements stipulated by SEBI.

Although Units are proposed to be listed on NSE, there can be no assurance that an active secondary market will develop or be maintained. Trading on NSE may be halted because of market conditions or for reasons that in the view of the market authorities or SEBI, trading in the Units is not advisable. There can be no assurance that the requirements of the market necessary to maintain the listing of the Units will continue to be met or will remain unchanged. The AMC and the Trustees will not be liable for delay in trading of Units on NSE due to the occurrence of any event beyond their control.

### **TRANSFER**

On listing, the IDFC-HPF-Series 1 Units would be transferable. Transfers should be only in favour of transferees who are eligible for holding Units under the Scheme. The AMC shall not be bound to recognise any other transfer. For effecting the transfer of Units held in electronic form, the Unitholders would be required to lodge delivery instructions for transfer of Units with the DP in the requisite form as may be required from time to time and the transfer will be effected in accordance with such rules/regulations as may be in force governing transfer of securities in dematerialised mode.

If a person becomes a holder of the Units consequent to operation of law, or upon enforcement of a pledge, the Fund will, subject to production of satisfactory evidence, effect the transfer, if the transferee is otherwise eligible to hold the Units. Similarly, in cases of transfers taking place consequent to death, insolvency etc., the transferee's name will be recorded by the Fund subject to production of satisfactory evidence.

### **Special Products / facilities available during the NFO**

This being a close ended scheme, facilities like Systematic Investment Plan, Systematic Transfer Plan and Systematic Withdrawal Plan are not available to investors.

### **PLEDGE OF UNITS FOR LOANS**

The Units can be pledged by the Unitholders as security for raising loans subject to the conditions of the lending institution. The Registrar will take note of such pledge (by marking a lien etc.) / charge in its records. Disbursement of such loans will be at the entire discretion of the lending institution and the fund assumes no responsibility thereof.

The pledgor will not be able to redeem Units that are pledged until the entity to which the Units are pledged provides written authorisation to the fund that the pledge/lien charge may be removed. As long as Units are pledged, the pledgee will have complete authority to redeem such Units. However, such redemption will be permitted only on maturity of the scheme. Decision of the AMC shall be final in all cases of lien marking.

In case of Units held in electronic form, the rules of Depository applicable for pledge will be applicable for Pledge/Assignment of the Units of the Scheme. Units held in electronic form can be pledged by completing the requisite forms/formalities as may be required by the Depository

## **SUSPENSION OF REDEMPTION / REPURCHASE OF UNITS AND DIVIDEND DISTRIBUTION**

The Mutual Fund at its sole discretion reserves the right to withdraw repurchase or switching of Units of the Scheme, temporarily or indefinitely, if in the opinion of the AMC the general market conditions are not favourable and /or suitable investment opportunities are not available for deployment of funds. However, the suspension of repurchase/switching either temporarily or indefinitely will be with the approval of the trustee. The AMC reserves the right in its sole discretion to withdraw the facility of switching out of the Scheme, temporarily or indefinitely. Further, the AMC & Trustee may also decide to temporarily suspend determination of NAV of the Scheme offered under this Document, and consequently redemption of Units, declaration and distribution of dividend in any of the following events:

1. When one or more stock exchanges or markets, which provide basis for valuation for a substantial portion of the assets of the Scheme are closed otherwise than for ordinary holidays.
2. When, as a result of political, economic or monetary events or any circumstances outside the control of the Trustee and the AMC, the disposal of the assets of the Scheme is not reasonable, or would not reasonably be practicable without being detrimental to the interests of the Unitholders.
3. In the event of a breakdown in the means of communication used for the valuation of investments of the Scheme, without which the value of the securities of the Scheme cannot be accurately calculated.
4. During periods of extreme volatility of markets, which in the opinion of the AMC are prejudicial to the interests of the Unitholders of the Scheme.
5. In case of natural calamities, strikes, riots and bandhs.
6. In the event of any force majeure or disaster that affects the normal functioning of the AMC or the Registrar.
7. During the period of Book Closure.
8. If so directed by SEBI.

In the above eventualities, the time limits indicated above, for processing of requests for redemption of Units and/or distribution of dividend will not be applicable. Further an order to purchase units is not binding on and may be rejected by the Trustee, the AMC or their respective agents until it has been confirmed in writing by the AMC or its agents and payment has been received. The suspension or restriction of repurchase/redemption facility under the scheme shall be made applicable only after the approval of the Board of Directors of the Asset Management Company and the Trustee and the details of the circumstances and justification for the proposed action shall be informed to SEBI in advance.

Investors are requested to note that No Redemption/ repurchase of units shall be allowed in a close ended scheme prior to the maturity of the scheme. Unitholders who wish to exit may do so through the Stock Exchange mode.

## PHONE TRANSACT

All individual investors in the scheme applying on “Sole” or “Anyone or Survivor” basis in their own capacity shall be eligible to avail of phone transact facilities for permitted transactions inter alia on the following terms and conditions:

“Terms and Conditions” mean the terms and conditions set out below by which the Facility shall be used/availed by the Unit holder and shall include all modifications and supplements made by AMC thereto from time to time.

In order to access the Facility, the Unit holder shall be required to give Basic Identification Data (BID) to IDFC Asset Management Company Pvt. Ltd. (AMC) based on which the AMC may allow access to the Facility. The BID may be enhanced / modified by the AMC from time to time. The unitholder must provide additional BID as & when required by the AMC.

The AMC has a right to ask such information from the available data of the Unit holder before allowing him/her access to avail of the Facility. If for any reason, the AMC is not satisfied with the replies of the Unit holder, the AMC has at its sole discretion the right of refusing access without assigning any reasons to the Unit holder.

It is clarified that the Facility is only with a view to accommodate /facilitate the Unit holder and offered at the sole discretion of the AMC. The AMC is not bound and/or obliged in any ways to give access to Facility to Unit holder.

AMC may periodically provide the Unit holder with a written statement of all the transactions made by the Unit holder on a regular/as & when basis, as is being currently done.

The Unit holder shall check his/her account records carefully and promptly. If the Unit holder believes that there has been a mistake in any transaction using the Facility, or that an authorised transaction has been effected, the Unit holder shall notify AMC immediately. If the Unit holder defaults in intimating the alleged discrepancies in the statement within a period of thirty days of receipt of the statements, he waives all his rights to raise the same in favour of the AMC, unless the discrepancy /error is apparent on the face of it.

By opting for the facility the Unit holder hereby irrevocably authorises and instructs the AMC to act as his /her agent and to do all such acts as AMC may find necessary to provide the Facility.

The Unit holder shall not disclose/divulge the BID to any person and shall ensure that no person gains access to it.

The Unit holder shall at all times be bound by any modifications and/or variations made to these Terms and Conditions by the AMC at their sole discretion and without notice to them.

The Unit holder agrees and confirms that the AMC has the right to ask the Unit holder for an oral or written confirmation of any transaction request using the Facility and/or any additional information regarding the Account of the Unit holder.

1. The Unit holder agrees and confirms that the AMC may at its sole discretion suspend the Facility in whole or in part at any time without prior notice if (i) the Unit holder does not comply with any of the Terms and Conditions or any modifications thereof, (ii) the AMC has the reason to believe that such processing is not in the interest of the Unit holder or is contrary to Regulation/Scheme Information Documents/amendments to the Scheme Information Documents and (iii) otherwise at the sole discretion of the

AMC in cases amongst when the markets are volatile or when there are major disturbances in the market, economy, country, etc.

2. The Unit holder shall not assign any right or interest or delegate any obligation arising herein.
3. The Unit holder agrees that it shall be his/her sole responsibility to ensure protection and confidentiality of BID and any disclosures thereof shall be entirely at the Unit holder's risk.
4. The Unit holder shall take responsibility for all the transactions conducted by using the Facility and will abide by the record of transactions generated by the AMC. Further, the Unit Holder confirms that such records generated by the AMC shall be conclusive proof and binding for all purposes and may be used as evidence in any proceedings and unconditionally waives all objections in this behalf.
5. The Unit holder shall, in case of accounts opened in the names of minors and being the natural guardian of such minor, give all instructions relating to the operation of the account and shall not, at any point of time disclose the BID to the minor / any other person
6. AMC shall be notified immediately if a record of the BID, is lost or stolen or if the Unit holder is aware or suspects another person knows or has used his/her BID without authority.
7. The Unit holder agrees and acknowledges that any transaction, undertaken using the Unit holder's BID shall be deemed to be that of the Unit holder. If any third party gains access to the Facility, the Unit holder agrees to indemnify the AMC and its directors, employees, agents and representatives against any liability, costs, or damages arising out of claims or suits by such other third parties based upon or related to such access or use.
8. The Unit holder agrees that use of the Facility will be deemed acceptance of the Terms and Conditions and the Unit holder will unequivocally be bound by these Terms and Conditions.

19. Indemnities in favour of the IDFCAMC:

The Unit holder shall not hold the AMC liable for the following:

- i) For any transaction using the Facilities carried out in good faith by the AMC on instructions of the Unit holder.
- ii) For the unauthorized usage/ unauthorised transactions conducted by using the Facility.
- iii) For any loss or damage incurred or suffered by the Unit holder due to any error, defect, failure or interruption in the provision of the Facility arising from or caused by any reason whatsoever.
- iv) For any negligence / mistake or misconduct by the Unit holder and/or for any breach or non-compliance by the Unit holder of the rules/terms and conditions stated in this Agreement.
- v) For accepting instructions given by any one of the Unit holder in case of joint account/s having mode of operations as "Either or Survivor" or "anyone or survivor".
- vi) For not verifying the identity of the person giving the telephone instructions in the unit holder name.

- vii) For not carrying out any such instructions where the AMC has reason to believe (which decision of the AMC the Unit holder shall not question or dispute) that the instructions given are not genuine or are otherwise improper, unclear, vague or raise a doubt.
20. The AMC may assign any of its rights under these terms and conditions without the consent of the Unit holder to any of the AMC's group companies, subsidiary or Associate Company or such other company which the AMC deems suitable for provision of this Facility.

All other investors in the scheme/plan will be eligible to avail of phone transact facilities for permitted transactions (as may be decided by the AMC from time to time) by entering into an agreement with the AMC/Mutual Fund. Requests like change in bank mandate, change of nomination, change in mode of holding, change of address or such other requests as the AMC may decide from time to time will not be permitted using the phone transact facility. The AMC/Mutual Fund reserves the right to modify the terms and conditions of the service from time to time as may be deemed expedient or necessary.

## **B. ONGOING OFFER DETAILS**

### **Ongoing Offer Period**

This is a close ended scheme. Units shall be on offer for subscription only during the New Fund Offer period

Ongoing price for subscription (purchase)/switch-in (from other schemes/plans of the mutual fund) by investors:

Not Applicable, as this is a close ended scheme and units are available for subscription only during the NFO.

### **Ongoing price for redemption (sale) /switch outs (to other schemes/plans of the Mutual Fund) by investors:**

No Redemption/ repurchase of units shall be allowed prior to the maturity of the scheme. Unitholders who wish to exit may do so through the Stock Exchange mode.

Switch outs to other schemes/plans of the Mutual Fund will be permitted only on maturity of the scheme.

The Redemption Price will not be lower than 95% of the Applicable NAV and the Purchase Price will not be higher than 107% of the Applicable NAV, provided that the difference between the Redemption Price and the Purchase Price at any point in time shall not exceed the permitted limit as prescribed by SEBI from time to time, which is currently 7% calculated on the Purchase Price.

## **SWITCH FACILITY**

### **Switching from any Schemes of the Mutual Fund to this Scheme**

Investors who hold Units in any open ended schemes launched or to be launched hereafter of the Mutual Fund and also investors who holds Units in Plan/(s) of any close ended scheme launched or to be launched hereafter, may switch all or part of their holdings to any of the

scheme available for subscription under this SID during the New Fund Offer Period of the scheme. The switch from any close ended fund will be subject to applicable repurchase &/or maturity date of the respective Scheme/(s) or Plan/(s) and will be permitted only on such dates of respective Plans/Schemes.

Investors so desiring to switch may submit a switch request, already available with them along with an application form of the Scheme indicating therein the details of the scheme to which the switch is to be made. Applications for switch as above should specify the amount/Units to be switched from out of the Units held in any of the existing Schemes of the Fund. The switch request will be subject to the minimum application size and other terms and conditions of the SID of this Scheme and the scheme from which the amount is switched out.

The Applicable NAV for switching out of the existing open-ended funds will be the NAV of the Business Day on which the switch request, complete in all respects, is accepted by the AMC, subject to the cut-off time and other terms specified in the SID of the respective existing open-ended Schemes.

Similarly the applicable NAV for switching out of the existing close – ended funds will be the applicable NAV (after considering applicable loads) on the specified repurchase date for such Plan(s), subject to the switch request, complete in all respects, being accepted by the AMC, and subject to the availability of repurchase facility and other terms specified in the SID of the respective existing closed-end Schemes.

Investors should note that the amount invested under Sections 54EB in the Investment Plans of IDFC Super Saver Income Fund would have to be locked-in for a period of seven years and the Units so allotted cannot be switched to another Scheme/option during the lock-in period of seven years. This is subject to any change that may be effected in the Income-tax Act, 1961 or any guidelines / amendments / rules / clarifications issued by the Central Board of Direct Taxes.

#### **Switch from this Scheme to any other eligible Schemes of the Mutual Fund**

Investors who hold Units of the Scheme may switch all or part of their holdings to any (to be launched hereafter) other Open-end/close- ended Scheme/s (where switch-in is permitted) of the Mutual Fund. Such switch will be permitted only on the maturity of the Scheme. If the maturity date falls on a holiday, the maturity date would be such other nearest business day that the AMC may deem to be appropriate. Decision of the AMC shall be considered final

Investors so desiring to switch may submit a switch request, already available with them, indicating therein the details of the Scheme or any other Scheme of the Mutual Fund to which the switch is to be made. Applications for switch as above should specify the amount/Units to be switched from out of the Units held. The switch request will be subject to the minimum application size and other terms and conditions under this Scheme information document and the terms and conditions of the Scheme to which the amount is switched into.

#### **Note:**

The switch will be effected by redeeming Units from the Scheme in which the Units are held and investing the net proceeds in the other Scheme(s)/Plan(s), subject to the minimum balance applicable for the respective Scheme(s)/ Plan(s).

The price at which the Units will be switched out of the Scheme(s) /Plan(s) will be based on the Applicable NAV of the relevant Scheme(s)/ Plan(s) and after considering any Loads that the Trustee may approve from time to time

#### **Cut off timing for subscriptions/ redemptions/ switches**

The Scheme is a close ended scheme. No subscription facility is available, other than during the New Fund Offer.

No Redemption/ repurchase/ Switch out of units shall be allowed prior to the maturity of the scheme. Unitholders who wish to exit may do so through the Stock Exchange mode.

**Minimum Application Amount (subscription):** Rs. 5000/- per application and in multiples of Re. 10/- thereafter.

**Minimum amount for redemption:** Rs 1

**Minimum balance to be maintained and consequences of non maintenance:** Rs. 500/-. The Fund may close a Unitholder's account if, as a consequence of redemption/ repurchase, the balance falls below Rs.500/-. In such a case, entire Units to the Unitholder's account will be redeemed at the Applicable NAV with the applicable Load, if any, and the account will be closed

#### **Special Products / facilities available during the Ongoing offer**

This being a close ended scheme, facilities like Systematic Investment Plan, Systematic Transfer Plan and Systematic Withdrawal Plan are not available to investors

#### **ACCOUNTS STATEMENTS**

**For normal transactions: sales (during the NFO and during the ongoing offer) and repurchase:**

- The AMC shall issue to the investor whose application (other than SIP/STP) has been accepted, an account statement specifying the number of units allotted (state the service standard for the same)
- For those unitholders who have provided an e-mail address, the AMC will send the account statement by e-mail.
- The unitholder may request for a physical account statement by writing/calling the AMC/ISC/R&T.
- No Account Statements will be issued to Unit holders who hold units in dematerialized mode.

**For SIP / STP transactions:**

As the scheme is a close ended scheme, there shall be no SIP / STP transactions.

**Annual Account Statement:**

- The Mutual Funds shall provide the Account Statement to the Unitholders who have not transacted during the last six months prior to the date of generation of account statements. The Account Statement shall reflect the latest closing balance and value of the Units prior to the date of generation of the account statement,
- The account statements in such cases may be generated and issued along with the Portfolio Statement or Annual Report of the Scheme.

Alternately, soft copy of the account statements shall be mailed to the investors' e-mail address, instead of physical statement, if so mandated

**Dividend**

The dividend warrants shall be dispatched to the unitholders within 30 days of the date of declaration of the dividend.

**Redemption**

The redemption or repurchase proceeds shall be dispatched to the unitholders within 10 working days from the date of redemption or repurchase.

**Delay in payment of redemption / repurchase proceeds**

The Asset Management Company shall be liable to pay interest to the unitholders at such rate as may be specified by SEBI for the period of such delay (presently @ 15% per annum).

**C. PERIODIC DISCLOSURES****Net Asset Value**

This is the value per unit of the scheme on a particular day. You can ascertain the value of your investment by multiplying the NAV with your unit balance.

NAV of units under the Scheme shall be calculated as shown below: **NAV (Rs.) =**

Market or Fair Value of Scheme's investments	+	Current Assets including Accrued Income	-	Current and Liabilities Provisions including accrued expenses
--	---	---	---	---

**No. of Units outstanding under Scheme**

The NAV of the Scheme will be calculated upto four decimal places and will be declared on each business day. The valuation of the Scheme's assets and calculation of the Scheme's NAV shall be subject to audit on an annual basis and shall be subject to such regulations as may be prescribed by SEBI from time to time.

The NAV shall be calculated and announced / and released to the Press on each business day. The NAVs of Growth Option and Dividend Option will be different after the declaration of the first dividend. NAV of the scheme shall be endeavoured to be updated on AMFI's website [www.amfiindia.com](http://www.amfiindia.com) by 9.00 p.m. The NAVs shall also be updated on the website of the Mutual Fund, [www.idfcmf.com](http://www.idfcmf.com).

**Half yearly Disclosures: Portfolio / Financial Results** (This is a list of securities where the corpus of the scheme is currently invested. The market value of these investments is also stated in portfolio disclosures)

The mutual fund shall publish a complete statement of the scheme portfolio and the unaudited financial results, within one month from the close of each half year (i.e. 31<sup>st</sup> March and 30<sup>th</sup> September), by way of an advertisement at least, in one National English daily and one regional newspaper in the language of the region where the head office of the mutual fund is located.

The mutual fund may opt to send the portfolio to all unit holders in lieu of the advertisement (if applicable).

**Half Yearly Results**

The mutual fund and Asset Management Company shall before the expiry of one month from the close of each half year that is on 31st March and on 30th September, publish its unaudited financial results in one national English daily newspaper and in a regional newspaper published in the language of the region where the Head Office of the mutual fund is situated.

**Annual Report**

Scheme wise Annual Report or an abridged summary thereof shall be mailed to all unitholders within four months from the date of closure of the relevant accounts year i.e. 31<sup>st</sup> March each year.

**Associate Transactions**

Please refer to Statement of Additional Information (SAI).

<b>Taxation</b>		<b>Resident Investors</b>	<b>Mutual Fund</b>
<p>The information is provided for general information only. However, in view of the individual nature of the implications, each investor is advised to consult his or her own tax advisors/authorised dealers with respect to the specific amount of tax and other implications arising out of his or her participation in the schemes.</p> <p><i>(mention the tax rates as per the applicable tax laws)</i></p>	Tax on Dividend	NIL	Nil (please refer to the note below)
	Capital Gains: Long Term	10/20 % (please refer to the note below)	NIL
	Short Term	30 %	
<b>For further details on taxation please refer to the clause on Taxation in the SAI</b>			

**Note:**

1. As per section 112 of the Act, long-term capital gains on transfer of units are liable to tax at the rate of 20 per cent. Income tax on long-term capital gains on transfer of units shall, however, be limited to 10 per cent of the gains computed without the benefit of cost indexation.

Further, in case of individuals/ HUFs, being residents, where the total income excluding long-term capital gains is below the maximum amount not chargeable to tax <sup>1</sup>, then the difference between the maximum amount not chargeable to tax and total income excluding long-term capital gains, shall be adjusted from long-term capital gains. Therefore only the balance long term capital gains will be liable to income tax at the rate of 20 / 10 per cent.

## 2. Short-term capital gains

Short-term capital gains arising to partnership firms and domestic companies, are taxable at the rate of 33.99 per cent (30 per cent tax plus 10 per cent surcharge<sup>2</sup> thereon plus additional surcharge of 3 per cent by way of education cess on the tax plus surcharge)

Short-term capital gains arising to FIIs, being foreign companies, are taxable at 31.6725 per cent (30 per cent tax plus 2.5 per cent surcharge<sup>3</sup> on tax plus additional surcharge of 3 per cent by way of education cess on the tax plus surcharge).

Short-term capital gains arising to FIIs, other than foreign companies, are taxed at the rate of 33.99 (30 per cent tax plus 10 per cent surcharge<sup>4</sup> on tax plus additional surcharge of 3 per cent by way of education cess on the tax plus surcharge).

Short-term capital gains arising to individuals and HUFs are taxable on progressive basis, as per the slabs of income

3. Income of the Mutual Fund (including dividend income) is exempt from income tax. However the scheme needs to pay distribution tax on the dividend paid by it to the investors. In case of dividend paid by income funds to Individuals and Hindu Undivided Families ('HUFs') distribution tax @ 14.1625% is payable, while its 22.66% in case of dividend paid to persons other than individuals and HUFs. In case of liquid funds, dividend distribution tax is 28.325%. Distribution tax is inclusive of the base tax rate, surcharge thereon and has additional surcharge by way of education cess.

### **Investor services**

Investor relations officers of IDFC AMC Ltd.:

<b>Sr. No</b>	<b>Name</b>	<b>Region</b>	<b>Address and Contact Number</b>	<b>E-Mail</b>
1.	Sunil Aryamane	West	17/18,3 <sup>rd</sup> Floor, Vaswani Mansion, 120, Dinshaw Vachha Road, Opp. K C College, Churchgate, Mumbai - 400 020. Tel.: 22841378.	<a href="mailto:sunil.aryamane@idfcmf.com">sunil.aryamane@idfcmf.com</a>
2.	Jincy John	North	4th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi - 110 001. Tel. : 011-47311323. Fax: 011-23326669, 41524332.	<a href="mailto:jincy.john@idfcmf.com">jincy.john@idfcmf.com</a>
3.	Vijith Raghavan	East	Oswal Chambers, 1st Floor, 2 Church Lane, Kolkata - 700 001. Tel. : 91-33-3024 9778/80/81	<a href="mailto:vijith.raghavan@idfcmf.com">vijith.raghavan@idfcmf.com</a>
4.	Shaji Perincheri	South	Maalavika Centre, Old No. 144/145, New No. 60, Kodambakkam Road,	<a href="mailto:shaji.perincheri@idfcmf.com">shaji.perincheri@idfcmf.com</a>

		Chennai - 600 034. Tel. : 91-44-25349340.	
--	--	--	--

#### **D. COMPUTATION OF NAV**

The NAV of the Units of the Scheme will be computed by dividing the net assets of the Scheme by the number of Units outstanding on the valuation date. The Fund shall value its investments according to the valuation norms, as specified in Schedule VIII of the Regulations, or such norms as may be prescribed by SEBI from time to time.

All expenses and incomes accrued up to the valuation date shall be considered for computation of NAV. For this purpose, major expenses like management fees and other periodic expenses would be accrued on a day to day basis. The minor expenses and income will be accrued on a periodic basis, provided the non-daily accrual does not affect the NAV calculations by more than 1%.

Any changes in securities and in the number of units be recorded in the books not later than the first valuation date following the date of transaction. If this is not possible given the frequency of the Net Asset Value disclosure, the recording may be delayed upto a period of seven days following the date of the transaction, provided that as a result of the non-recording, the Net Asset Value calculations shall not be affected by more than 1%.

In case the Net Asset Value of a scheme differs by more than 1%, due to non - recording of the transactions, the investors or scheme/s as the case may be, shall be paid the difference in amount as follows:-

- (i) If the investors are allotted units at a price higher than Net Asset Value or are given a price lower than Net Asset Value at the time of sale of their units, they shall be paid the difference in amount by the scheme.
- (ii) If the investors are charged lower Net Asset Value at the time of purchase of their units or are given higher Net Asset Value at the time of sale of their units, Asset Management Company shall pay the difference in amount to the scheme. The asset management company may recover the difference from the investors

NAV of units under the Scheme shall be calculated as shown below: **NAV (Rs.) =**

Market or Fair Value of Scheme's investments	+	Current Assets including Accrued Income	-	Current Liabilities and Provisions including accrued expenses
---	---	---	---	---

---

#### **No. of Units outstanding under Scheme**

The NAV of the Scheme will be calculated upto four decimal places and will be declared on all business days. The valuation of the Scheme's assets and calculation of the Scheme's NAV shall be subject to audit on an annual basis and shall be subject to such regulations as may be prescribed by SEBI from time to time.

The NAVs of Growth Option and Dividend Option will be different after the declaration of the first dividend.

#### IV. FEES AND EXPENSES

(This section outlines the expenses that will be charged to the schemes):

As per the provisions of the Regulations, read with the amendments thereto, the following fee and expenses will be charged to the plans under the Scheme:

##### **New Fund Offer Expenses**

No new fund offer expenses will be charged to the scheme.

##### **A. NEW FUND OFFER (NFO) EXPENSES**

(These expenses are incurred for the purpose of various activities related to the NFO like sales and distribution fees paid marketing and advertising, registrar expenses, printing and stationary, bank charges etc.)

No New Fund Offer Expenses shall be charged to the scheme.

##### **B. ANNUAL SCHEME RECURRING EXPENSES**

(These are the fees and expenses for operating the scheme. These expenses include Investment Management and Advisory Fee charged by the AMC, Registrar and Transfer Agents' fee, marketing and selling costs etc. as given in the table below):

The AMC has estimated that upto 2.25% of the weekly average net assets of the scheme will be charged to the scheme as expenses for the actual current expenses being charged, the investor should refer to the website of the mutual fund.

<b>Description</b>	<b>Estimated Expenses</b>
Investment Management Fee	1.25
Trustee Fee	0.05
Custodian Fee	0.05
Marketing & Selling (incl. Agents Commissions)	0.60
Registrar & Transfer Agent	0.10
Transaction Costs	0.07
Audit Costs	0.04
	0.05
Costs of Investor Communications	
Cost of Statutory Advertisements	0.02
Other Expenses (including listing fees)	0.02
<b>Total Recurring Expenses</b>	<b>2.25</b>

The purpose of the above table is to assist the investor in understanding the various costs and expenses that an investor in the Scheme will bear. These estimates are based on a corpus size of Rs.1 crore under the Scheme, and would change, to the extent assets are lower or higher. The

recurring expenses being charged to the two sub plans may differ from time to time. If the corpus size is in excess of Rs.1 crore, the above mentioned recurring expenses in the Scheme would change. The above expenses are subject to inter-se change and may increase/decrease as per actual and/or any change in the Regulations.

These estimates have been made in good faith as per information available to the AMC and the total expenses may be more than as specified in the table above. However, as per the Regulations, the total recurring expenses that can be charged to the Scheme in this Scheme information document shall be subject to the applicable guidelines. Expenses over and above the permitted limits will be borne by the AMC.

As per SEBI (MF) Regulations, 1996, recurring expenses will not exceed the following limits per annum:

1. on the first Rs. 100 crore of the Scheme's weekly average net assets, will not exceed 2.25%
2. on the next Rs. 300 crore of the Scheme's weekly average net assets, will not exceed 2.00%
3. on the next Rs. 300 crore of the Scheme's weekly average net assets, will not exceed 1.75% and
4. on the balance of the Scheme's weekly average net assets, will not exceed 1.50%.

Recurring expenses incurred in excess of the aforesaid limits will be borne by the AMC.

The total recurring expenses of the Scheme, including the additional management fees, will, however, be limited to the ceilings as prescribed under Regulation 52(6) of the Regulations.

These estimates have been made in good faith as per the information available to the Investment Manager based on past experience and are subject to change inter-se. Types of expenses charged shall be as per the SEBI (MF) Regulations.

#### **AMC Fee:**

In terms of the Investment Management Agreement and the Regulations, the AMC is entitled to an investment management fee at 1.25% per annum of the average net assets for a corpus up to Rs.100 crore and at 1.00% per annum for the corpus amount in excess of Rs.100 crore

### **C. LOAD STRUCTURE**

Load is an amount which is paid by the investor while redeeming the units from the scheme. This amount is used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Load amounts are variable and are subject to change from time to time. For the current applicable structure, please refer to the website of the AMC ([www.idfcmf.com](http://www.idfcmf.com)) or may call at (toll free no.1-800-226622) or your distributor.

#### **Load:**

Entry load: Nil

Exit Load/Contingent deferred Sales Charge ("CDSC") : Nil

All loads including Contingent Deferred Sales Charge (CDSC) for the Scheme shall be maintained in a separate account and may be utilised towards meeting the selling and distribution expenses. Any surplus in this account may be credited to the scheme, whenever felt appropriate by the AMC.

The investor is requested to check the prevailing load structure of the scheme before investing.

In case of changes/modifications of load, the AMC will endeavour to do the following:

1. An addendum will be attached to the Scheme Information Documents and Key Information Memorandum. The same may be circulated to brokers/distributors so that the same can be attached to all scheme information document and abridged scheme information document in stock. Further the addendum will be sent along with a newsletter to unitholders immediately after the changes.
2. Arrangement will be made to display the changes/modifications in the scheme information document in the form of a notice in all the official point of acceptance of transactions and distributor's/broker's office.
3. The introduction of the exit load / CDSC alongwith the details may be stamped in the acknowledgement slip issued to the investors on submission of the application form and may also be disclosed in the statement of accounts issued after the introduction of such load / CDSC.
4. A public notice shall be given in respect of such changes in one English Daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head office of the Mutual Fund is situated.

The load collected under the scheme will be credited to a separate account. Surplus of load, if any, will be credited to the scheme whenever felt appropriate by the AMC or on maturity of the scheme.

## **V. RIGHTS OF UNITHOLDERS**

Please refer to SAI for details.

## **VI. PENALTIES, PENDING LITIGATION OR PROCEEDINGS, FINDINGS OF INSPECTIONS OR INVESTIGATIONS FOR WHICH ACTION MAY HAVE BEEN TAKEN OR IS IN THE PROCESS OF BEING TAKEN BY ANY REGULATORY AUTHORITY**

1. *Penalties and action(s) taken against foreign Sponsor(s) limited to the jurisdiction of the country where the principal activities (in terms of income / revenue) of the Sponsor(s) are carried out or where the headquarters of the Sponsor(s) is situated. Also, top 10 monetary penalties of foreign sponsor(s) during the last three years.*

None

2. *In case of Indian Sponsor(s), details of all monetary penalties imposed and/ or action taken during the last three years or pending with any financial regulatory body or governmental authority, against Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company; for irregularities or for violations in the financial services sector, or for defaults with respect to share holders or debenture holders and depositors, or for economic offences, or for violation of securities law. Details of settlement, if any, arrived at with the aforesaid authorities during the last three years shall also be disclosed.*

The National Securities Clearing Corporation Ltd. informed that IDFC Enterprise Equity Fund had an open interest in stock futures segment in one of the securities where the exposure quantity which was in excess of 1% of the free float market capitalization (in terms of shares) and that the exposure was also in excess of 5% of open interest (in terms of number of shares) in all futures and option contracts in the underlying security. In accordance with the NSCCL circular dated June 17, 2003, the MF was levied a penalty of Rs. 1 Lakh.

3. *Details of all enforcement actions(Including the details of violation, if any) taken by SEBI in the last three years and/ or pending with SEBI for the violation of SEBI Act, 1992 and Rules and Regulations framed there under including debarment and/ or suspension and/ or cancellation*

*and/ or imposition of monetary penalty/adjudication/enquiry proceedings, if any, to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel (especially the fund managers) of the AMC and Trustee Company were/ are a party.*

None

4. *Any pending material civil or criminal litigation incidental to the business of the Mutual Fund to which the Sponsor(s) and/ or the AMC and/ or the Board of Trustees /Trustee Company and/ or any of the directors and/ or key personnel are a party.*

None

5. *Any deficiency in the systems and operations of the Sponsor(s) and/ or the AMC and/ or the Board of Trustees/Trustee Company which SEBI has specifically advised to be disclosed in the SID, or notified by any other regulatory agency.*

The Clearing Corporation of India Limited, Mumbai imposed a penalty on the AMC under CCIL's Bye – Laws, Rules & Regulation on account of short fall in CCIL securities segment margin. The penalty charged to the AMC amounted to approx. Rs 49,000. The AMC has taken adequate steps to ensue that no further breach shall take place

**Notwithstanding anything contained in this Scheme Information Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.**

**Note: The Scheme Information Document containing details of the schemes of IDFC Mutual Fund, has been approved by the Board of IDFC AMC Trustee Company Private Limited (formerly known as Standard Chartered Trustee Company Private Limited) on May 8, 2009.**

**For and on behalf of the Board of Directors of  
IDFC Asset Management Company Private Limited**

*Sd/-*

**Naval Bir Kumar  
President & CEO**

**Mumbai, dated February 22, 2010**

**Name, address and contact no. of Registrar and Transfer Agent (R&T), email id of R&T, website address of R&T, official points of acceptance, collecting banker details etc. (UPDATED DETAILS SHALL BE INCLUDED AT THE TIME OF THE LAUNCH) :**

**REGISTRAR: Computer Age Management Services Private Limited (CAMS)**

Ground Floor, 178/10, Kodambakkam High Road,  
Opposite Palm Grove, Numgambakkam,  
Chennai 600 034  
Tel. + 91 – 44 – 28283606/07

E-Mail ID: dk\_prakash@camsonline.com  
Website: www.camsonline.com

**Official Points of Acceptance of Transactions, CAMS**

**Ahmedabad** 402-406, 4th Floor - Devpath Building, Off C G Road, Behind Lal Bungalow, Ellis Bridge, Ahmedabad - 380 006. Phone:079-30082468/30082469/30082470

**Bangalore** Trade Centre, 1st Floor 45, Dikensen Road (Next to Manipal Centre), Bangalore-560 042.  
Phone : 080-30574709/30574710/30578004/30578006

**Bhubaneswar** 101/ 5, Janpath, Unit – III , Near Hotel Swosti, Bhubaneswar - 751 001. Phone : 0674-325 3307/325 3308

**Chandigarh** Deepak Towers, SCO 154-155, 1st Floor, Sector 17-C, Chandigarh-160 017.  
Phone:0172-304 8720/304 8721/304 8722/3048723

**Chennai** Ground Floor No.178/10, Kodambakkam High Road, Opp. Hotel Palmgrove, Nungambakkam, Chennai -600 034 Phone : 044-3911 5563/ 3911 5565 /3911 5567/39115561

**Cochin** 40 / 9633 D, Veekshanam Road, Near International Hotel, Cochin-682 035. Phone : 0484-323 4658 /323 4662

**Coimbatore** Old # 66 New # 86, Lokamanya Street (West), Ground Floor, R.S.Puram, Coimbatore-641 002. Phone:0422-301 8000/301 8001.

**Durgapur** 4/2, Bengal Ambuja Housing Development Ltd, Ground Floor, City Centre Dist - Burdwan, West Bengal, Durgapur-713 216 Phone : 0343/329 8890 /329 8891/6451419

**Goa** No.108, 1st Floor, Gurudutta Bldg, Above Weekender M G Road, Panaji (Goa) - 403 001.  
Phone : 0832/325 1755-325 1640

**Hyderabad** 102, First Floor , Jade Arcade, Paradise Circle, Secunderabad-500 003. Phone : 040-3918 2471/3918 2473 /3918 2468/3918 2469

**Indore** 101, Shalimar Corporate Centre, 8-B, South tukogunj, Opp.Greenpark, Indore-452 001.  
Phone : 0731-325 3692/325 3646

**Jaipur** G-III, Park Saroj , Behind Ashok Nagar Police Station, R-7, Yudhisthir Marg ,C-Scheme. Jaipur-302 001  
Phone – 0141/326 9126/326 9128/5104373/5104372

**Kanpur** G – 27,28 – Ground Floor, CITY CENTRE, 63/ 2, THE MALL, Kanpur-208 001.  
Phone : 0512-3918003/3918000/3918001/3918002

**Kolkata** “LORDS Building”, 7/1, Lord Sinha Road, Ground Floor, Kolkata-700 071. Phone :  
033/32550760/3058 2285 /3058 2303 /30582281

**Lucknow** Off # 4,1st Floor, Centre Court Building, 3/c, 5 - Park Road, Hazratganj, Lucknow-  
226 001.  
Phone : 0522/391 8000/391 8001/391 8002/3918003

**Ludhiana** U/ GF, Prince Market, Green Field, Near Traffic Lights, Sarabha Nagar Pulli,  
Pakhawal Road, Above Dr. Viridi’s Lab, P.O Model Town, Ludhiana-141 002. Phone : 0161-  
301 8000/301 8001

**Madurai** 86/71A, Tamilsangam Road, Madurai-625 001. Phone : 0452-325 1357/325 2468

**Mangalore** No. G 4 & G 5, Inland Monarch, Opp. Karnataka Bank , Kadri Main Road, Kadri,  
Mangalore-575 003. Phone : 0824-325 1357/325 2468

**Mumbai** Rajabhadur Compound, Ground Floor, Opp Allahabad Bank, Behind ICICI Bank 30,  
Mumbai Samachar Marg, Fort, Mumbai-400 023. Phone : 022-  
30282468/30282469/30282471/65257932

**Nagpur** 145 Lendra, Behind Indus Ind Bank, New Ramdaspath, Nagpur - 440 010. Phone :  
0712-325 8275/2432447

**New Delhi** 304-305 III Floor, Kanchenjunga Building, 18, Barakhamba Road, Cannaugt Place,  
New Delhi - 110 001. Phone : 011-3048 2471 /3048 1203 /3048 1205 /30482468

**Patna** Kamalaye Shobha Plaza (1st Floor), Behind RBI Near Ashiana Tower, Exhibition Road,  
Patna-800 001. Phone : 0612-325 5284/325 5285/3255286

**Pune** Nirmitti Eminence, Off No. 6, I Floor, Opp Abhishek Hotel, Mehandale Garage Road,  
Erandawane, Pune - 411 004. Phone: 020-30283005/30283003/30283000/30283001

**Surat** Office No 2 Ahura -Mazda Complex, First Floor, Sadak Street, Timalyawad, Nanpura,  
Surat - 395 001. Phone : 0261/326 2267/326 2468/326 0352

**Vadodara** 109 - Silver Line, Besides world Trade Centre, Sayajigunj, Vadodara - 390 005  
Phone :0265-301 8029/301 8031

**Vijayawada** 40-1-68, Rao & Ratnam Complex, Near Chennupati Petrol Pump, M.G Road,  
Labbipet, Vijayawada - 520 010  
Phone : 0866-329 9181/329 5202

**Visakhapatnam** 47/ 9 / 17, 1st Floor, 3rd Lane , Dwaraka Nagar, Visakhapatnam-530016.  
Phone : 0891-329 8397/329 8374/2554893

#### **Collecting Bankers:**

The collecting bankers of various schemes of IDFC Mutual Fund include

- (1) Standard Chartered Bank (SEBI registration no. INBI0000885)  
90 MG Road, Fort, Mumbai – 400 001
  
- (2) HDFC Bank (SEBI registration no. INBI00000063)  
Sandoz House, Dr Annie Besant Road, Worli, Mumbai - 400018

The AMC reserves the right to appoint other qualified banks as collecting bankers from time to time.