

**NOTICE**

Notice is hereby given that the Board of Directors of IDFC AMC Trustee Company Ltd. (Trustee of IDFC Mutual Fund) has decided the following:

**1. Change in Exit Load/Contingent deferred Sales Charge ("CDSC")**

Name of the scheme	Revised exit load / CDSC applicable from July 25, 2011
IDFC Nifty Fund (IDFC NF)	Exit Load: NIL

**2. Declaration of Dividend:**

Dividend declared will be as follows:

Scheme / Plan / Option	Quantum of Dividend*	NAV (Rs.) as on July 21, 2011
IDFC Super Saver Income Fund - Medium Term - Plan A (IDFC-SSIF-MT)	Rs. 0.2529 per Unit subject to availability of distributable surplus.	10.8439

\*This includes dividend distribution tax and other statutory levies

The Record date for the purpose of declaring dividend has been fixed as July 29, 2011 for the scheme. All investors whose names appear in the register of unit holders as on the close of July 29, 2011 will receive dividend. **Pursuant to the payment of dividend, NAV of the scheme will fall to the extent of payout and statutory levy (if any).**

**3. In addition to our addendum dated June 14, 2011, in the below mentioned official points of acceptance of transactions-CAMS locations liquid fund transactions shall not be accepted; only local cheque shall be accepted for any subscriptions. (w.e.f August 5, 2011).**

S.No	Locations	Region	S.No	Locations	Region
1	Moga	Punjab	13	Porbandar	Gujarat
2	Nanded	Maharashtra	14	Tanjore	Tamil Nadu
3	Nizamabad	Andhra Pradesh	15	Faizabad	Uttar Pradesh
4	Sonepat	Haryana	16	Dharmapuri	Tamil Nadu
5	Srikakulam	Andhra Pradesh	17	Himatnagar	Gujarat
6	Chandrapur	Maharashtra	18	Hosur	Tamil Nadu
7	Hoshiarpur	Punjab	19	Manipal	Karnataka
8	Angul	Orissa	20	Surendranagar	Gujarat
9	Ratlam	Madhya Pradesh	21	Mathura	Uttar Pradesh
10	Ujjain	Madhya Pradesh	22	Haldwani	Uttarakhand
11	Darbhanga	Bihar	23	Ahmednagar	Maharashtra
12	Haldia	West Bengal	24	Dhule	Maharashtra

- TP lite will be open for walk-in Investors / distributors from 12PM to 3PM.
- Cheque of all the equity & debt schemes will be deposited in the scheme CMS account only.
- Banking will be completed on T+1 morning before opening of the branch.
- There will be no change in other processing, including NFI processing & rejection handling

**4. Change in the Fundamental Attribute of IDFC Monthly Income Plan**

In order to enable the fund manager to manage the scheme like any other Monthly Income Plan scheme and keeping in mind the evolving market characteristics, it has been decided to change the IDFC Monthly Income Plan from Fund of Fund Scheme to an Monthly Income Plan (debt scheme). Details of the scheme and investment objective of IDFC Monthly Income Plan as stated below. The Board of Directors of IDFC AMC Trustee Company Limited and the Board of Directors of IDFC Asset Management Company Limited have approved the following changes to the scheme information document of IDFC Mutual Fund.

<b>Revised name of the scheme</b>	<b>IDFC Monthly Income Plan</b>		
Type of scheme	An Open Ended debt Scheme		
Investment Objective	The primary objective of Scheme is to generate regular returns through investment primarily in debt securities. The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity securities. Monthly Income is not assumed and the same is subject to availability of distributable surplus.		
Asset Allocation Pattern	<b>Asset Allocation</b>	<b>Range of allocation (% of Net Assets)</b>	<b>Risk Profile</b>
	Debt Securities (including securitized debt)	65 – 100	High
	Equity & equity rated securities	0 – 25	High
	Money Market instruments	0 - 15	Low to medium
	Investment in derivative – up to 50% of the net assets of the scheme Investment in Foreign Securities - up to 50% of the net assets of the scheme The assets of the Scheme shall be predominantly invested in debt and equity Securities. The fund manager would decide on the appropriate asset allocation for the scheme within the overall allocation range, depending on market conditions. The asset allocation pattern may be modified in the interest of investors for short term or defensive considerations and the portfolio will be rebalanced in line with the market conditions and based on the views on the equity and debt markets.		
Risk Profile	Low to medium		
Load structure	Entry Load: Nil Exit Load: 1% of the NAV shall be applicable to investors who redeem/switch out of such investments within one year (365 Days) from the date of subscription applying First in First Out basis, (including investments through SIP/STP).		
Minimum application amount	Purchase (non SIP) - Rs. 5000/- & in multiples of Re. 1/- for purchases and in multiples of Re. 0.01 for switch-ins. Additional ongoing purchase (Non SIP) - Rs. 1000 and in multiples of Re. 1 thereafter SIP purchase-Rs.1000 (subject to minimum of 6 installments of Rs. 1000 each). Units of the scheme may be purchased or redeemed on every Business Day at NAV based prices subject to the prevailing load structure. The units of the Scheme are presently not proposed to be listed on any exchange. Investors having a bank account with Standard Chartered Bank or such other banks with whom the Fund has an arrangement from time to time can avail of the facility of direct debit/credit to their account for purchase/sale of their units. The Fund shall under normal circumstances, endeavor to dispatch the redemption proceeds within three Business Days (T+3) from the date of acceptance of redemption request at the Official Points of Acceptance of Transactions. (Similar timeline shall be applicable in case of switch-outs too). As per SEBI Regulations the dispatch of redemption proceeds need to be undertaken under no circumstances, later than 10 (ten) Business Days from the date of acceptance of the request.		
Applicable NAV	<p><b>For amount less than Rs 1 crore:</b></p> <p><b>Provision For Purchases including Switch-ins:</b></p> <ol style="list-style-type: none"> <li>In respect of valid applications received upto 3.00 p.m on a Business Day by the Fund along with a local cheque or a demand draft payable at par at the official point(s) of acceptance where the application is received, the closing NAV of the day on which application is received shall be applicable.</li> <li>In respect of valid applications received after 3.00 p.m on a Business day by the Fund along with a local cheque or a demand draft payable at par at the official point(s) of acceptance where the application is received, the closing NAV of the next Business day shall be applicable.</li> <li>However, in respect of valid applications, with outstanding cheques/demand drafts not payable at par at the official point(s) of acceptance where the application is received, closing NAV of the day on which cheque/demand draft is credited shall be applicable.</li> </ol> <p><b>For amount of Rs 1 crore and above:</b></p> <p><b>Provision for Purchases:</b></p> <ol style="list-style-type: none"> <li>In respect of valid application received for an amount equal to or more than Rs. 1 crore upto 3.00 p.m on a day at the official point(s) of acceptance and funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective Scheme before the cut-off time i.e. available for utilization before the cut-off time - the closing NAV of the day shall be applicable</li> <li>In respect of valid application received for an amount equal to or more than Rs. 1 crore after 3.00 p.m on a day at the official point(s) of acceptance and funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective Scheme before the cut-off time of the next Business Day i.e. available for utilization before the cut-off time of the next Business Day- the closing NAV of the next Business Day shall be applicable</li> <li>Irrespective of the time of receipt of application for an amount equal to or more than Rs. 1 crore at the official point(s) of acceptance, where funds for the entire amount of subscription/purchase as per the application are credited to the bank account of the respective Scheme before the cut-off time on any subsequent Business Day - i.e. available for utilization before the cut-off time on any subsequent Business Day the closing NAV of such subsequent Business Day shall be applicable.</li> </ol> <p><b>For Switch-in of Rs. 1 crore and above to the above scheme from any other Schemes of IDFC Mutual Fund:</b></p> <ol style="list-style-type: none"> <li>Application for Switch-in received before the applicable cut-off time.</li> <li>Funds for the entire amount of subscription/purchase as per the switch-in request are credited to the bank account of the scheme before the cut-off time.</li> <li>The funds are available for utilization before the cut-off time, by the scheme, then the closing NAV of the day shall be applicable</li> </ol> <p>The aforesaid provisions shall also apply to systematic transactions i.e. Systematic Investment Plan (SIP), Systematic Transfer Plan (STP).</p> <p>Applicable NAV (for sales/Redemption/Switch out) Where the application is received upto 3.00 pm, closing NAV of the day on which the application is received shall be applicable and if the application is received after 3.00 pm closing NAV of the next business day shall be applicable.</p>		
Annual Recurring Expenses	<ol style="list-style-type: none"> <li>on the first Rs. 100 crore of the Scheme's weekly average net assets, will not exceed 2.25%</li> <li>on the next Rs. 300 crore of the Scheme's weekly average net assets, will not exceed 2.00%</li> <li>on the next Rs. 300 crore of the Scheme's weekly average net assets, will not exceed 1.75% and</li> <li>On the balance of the Scheme's weekly average net assets, will not exceed 1.50%.</li> </ol> <p>Recurring expenses incurred in excess of the aforesaid limits will be borne by the AMC.</p>		

As per the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 modification mentioned above, inter alia, changes in the scheme are considered as change in fundamental attributes of scheme. Accordingly, as per Clause 18(15A) of the said regulation, in case an investor does not wish to continue to hold units in view of the said changes, he / she / it will have the option to exit the said schemes / Plans at prevailing NAV without any exit load. The said exit option can be availed between August 1, 2011 to August 30, 2011 (both days inclusive). All transaction requests received on/after August 31, 2011 will be subject to changes, as may be prevailing in the respective Scheme as mentioned in the addendum. It may be noted that the offer to exit is merely an option and is not compulsory.

Please note that redemption request may be submitted to any of the Offices of the AMC or the CAMS Investor Service Centers. Such exit option will not be available to unit holders whose units have been pledged and Mutual Fund has been instructed to mark a lien on such units and the release of the pledge is not obtained and appropriately communicated to Mutual Fund prior to applying for redemption.

Additions to the Scheme Information Document of IDFC Monthly Income Plan:

**TRADING IN DERIVATIVES:**

The scheme intends to use derivatives for purposes that may be permitted by SEBI (Mutual Funds) regulations 1996, 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 • Any other instrument, as may be regulatory 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.

The scheme will use derivative instruments only for the purposes of static hedge strategy; the exposure to derivatives on notional value terms shall be limited to the extent available for equity exposure in the Asset allocation pattern for the scheme.

**Exposure limits:**

- The cumulative gross exposure through equity, debt and derivative positions shall not exceed 100% of the net assets of the scheme.
- The scheme shall not write options or purchase instruments with embedded written options.
- The total exposure related to option premium paid shall not exceed 20% of the net assets of the scheme
- Cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure.
- Exposure due to hedging positions may not be included in the above mentioned limits subject to the following
  - Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains.
  - Hedging positions cannot be taken for existing derivative positions. Exposure due to such positions shall have to be added and treated under limits mentioned above (The cumulative gross exposure through equity, debt and derivative positions should not exceed 100% of the net assets of the scheme.)
  - Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.
  - The quantity of underlying associated with the derivative position taken for hedging purposes does not exceed the quantity of the existing position against which hedge has been taken.
- The scheme may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions shall be an entity recognized as a market maker by RBI. Further, the value of the notional principal (with respect to interest rate swaps) in such cases shall not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions shall not exceed 10% of the net assets of the scheme.
- Exposure due to derivative positions taken for hedging purposes in excess of the underlying position against which the hedging position has been taken, shall be treated under the limits mentioned above.

Definition of Exposure in case of Derivative Positions

- Each position taken in derivatives shall have an associated exposure as defined under. Exposure is the maximum possible loss that may occur on a position. However, certain derivative positions may theoretically have unlimited possible loss. Exposure in derivative positions shall be computed as follows:

Position	Exposure
Long Future	Futures Price * Lot Size * Number of Contracts
Short Future	Futures Price * Lot Size * Number of Contracts
Option bought	Option Premium Paid * Lot Size * Number of Contracts.

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

**Risk Factors: Mutual Funds and securities investments are subject to market risks, reinvestment risk, changes in political, economic environment and government policy and there is no assurance or guarantee that the objectives of the Scheme/s will be achieved. The NAV of the Scheme/s can go up or down depending on factors and forces affecting the Securities Market including fluctuation in interest rates, trading volumes and reinvestment risk. Past performance of the Sponsor/AMC/Mutual Fund is not necessarily indicative of the future performance of the Scheme/s and may not necessarily provide a basis for comparison with other investments. IDFC Super Saver Income Fund - Medium Term (IDFC-SSIF - MT), IDFC Nifty Fund (IDFC-NF) and IDFC Monthly Income Plan (IDFC-MIP) are name of the Scheme and does not in any manner indicate either the quality of the Schemes, their 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 Schemes beyond the corpus of the Trust of Rs. 30,000/- (Investment Objective: IDFC-NF: The investment objective of the scheme is to replicate the S&P CNX Nifty Index by investing in securities of the S&P CNX Nifty Index in the same proportion/ weight age. However, there is no assurance or guarantee that the objectives of the scheme will be realized and the scheme does not assure or guarantee any returns. IDFC SSIF-MT: Seek to generate stable returns with a low risk strategy by investing in good quality fixed income securities and money market securities. However there is no assurance that the investment objective of the scheme will be realized. IDFC MIP: The primary objective of Scheme is to generate regular returns through investment primarily in debt oriented Mutual Fund schemes (such as Income and Liquid funds). The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity oriented MF schemes. Monthly Income is not assumed and the same is subject to availability of distributable surplus. **Statutory Details:** IDFC Mutual Fund has been set up as a trust by Infrastructure Development Finance Company Limited (IDFC) (liability restricted to corpus of Trust of Rs. 30,000) with IDFC AMC Trustee Company Ltd as the trustee and IDFC Asset Management Company Ltd as the investment manager. Investors in the scheme(s) are not being offered any guaranteed or assured rate of return. Copy of Scheme Information Document and Key Information Memorandum along with application form for all the schemes may be obtained from the office of IDFC Mutual Fund, One India Bulls Centre, 841, Jupiter Mills Compound, Senapati Bapat Marg., Elphinstone Road, (West), Mumbai 400 013. Contact 1-800-226622 for details.**

**For details please read the respective Scheme Information Document (SID) (including those of FMPs)/ Offer Document (OD)/ Statement of Additional Information (SAI) carefully before investing.**

**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**

- 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.
- 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:**

- 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.
- 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:
- 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.
  - 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:-

- 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.
- 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 –**

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

**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.

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

IRS and FRAs do also have inherent credit and settlement risks. However these risks are substantially reduced as they are limited to the interest streams and not the notional principal amounts.

**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 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, 2010 to September 1, 2010. A is a fixed rate receiver at 7% and B is a floating rate receiver at the overnight compounded rate.
- On March 1, 2010 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, 2010 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, 2010, if the total interest on the daily overnight compounded benchmark rate is higher than Rs. 35.28 Lakh, 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.

IRS and FRAs do also have inherent credit and settlement risks. However these risks are substantially reduced as they are limited to the interest streams and not the notional principal amounts.

**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; repo 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 issue 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 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 there under. 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.

**Indicative yields (As on June 30, 2011)**

**US treasuries:**

1 Month	: 0.0101%
3 Month	: 0.0203%
6 Month	: 0.1017%
2 Year	: 0.4616%
5 Year	: 1.7624%

**Risk Factors associated with investments in the above securities:**

**Risks in Derivatives Transactions**

- 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).
  - Market risk: Derivatives carry the risk of adverse changes in the market price.
  - Illiquidity risk: The risk that a derivative cannot be sold or purchased quickly enough at a fair price, due to lack of liquidity in the market.
  - The risk is to the extent that returns are limited for the investors in case of extreme movement in call rates. (applicable to debt derivatives)
  - The fund pays the daily compounded rate. In practice however there can be a difference in the actual rate at which money is lent in the call market and the benchmark, which appears and is used. (applicable to debt derivatives)
- 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.

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.

**Risks in Foreign Securities**

- To the extent the assets of the scheme are invested in overseas financial assets, there may be risks associated with currency movements, restrictions on repatriation and transaction procedures in overseas market. Further, the repatriation of capital to India may also be hampered by changes in regulations or political circumstances as well as the application to it of other restrictions on investment. In addition, country risks would include events such as introduction of extraordinary exchange controls, economic deterioration, bi-lateral conflict leading to immobilization of the overseas financial assets and the prevalent tax laws of the respective jurisdiction for execution of trades or otherwise.
- The Scheme may also invest in ADRs / GDRs / Other Foreign Securities as permitted by Reserve Bank of India and Securities and Exchange Board of India from time to time. To the extent that some part of the assets of the Schemes may be invested in securities denominated in foreign currencies, Indian Rupee equivalent of the net assets, distributions and income may be adversely affected by the changes in the value of certain foreign currencies relative to the Indian Rupee. The repatriation of capital also may be hampered by changes in regulations concerning exchange controls or political circumstances as well as the application to it of other restrictions on investment as applicable.
- As the investment may be made in stocks of different countries, the portfolio shall be exposed to the political, economic and social risks with respect to each country. However, the investment manager shall ensure that the exposure to each country is limited so that the portfolio is not exposed to one country. Investments in various economies will also diversify and reduce this risk.
- Currency Risk: The schemes may invest in securities denominated in a broad range of currencies and may maintain cash in such currencies. As a consequence, fluctuations in the value of such currencies against the currency denomination of the relevant scheme will have a corresponding impact on the value of the portfolio. Furthermore, investors should be aware that movements in the rate of exchange between the currency of denomination of a fund and their home currency will affect the value of their shareholding when measured in their home currency.
- In respect of the corpus of the Scheme that is invested in overseas mutual fund schemes; investors shall bear the proportionate recurring expenses of such underlying scheme(s), in addition to the recurring expenses of the Scheme. Therefore, the returns attributable to such investments by the Scheme may be impacted or may, at times, be lower than the returns that the investors could obtain by directly investing in the said underlying scheme.

**5. Change in Exit Load/Contingent deferred Sales Charge ("CDSC")**

Name of the scheme	Revised exit load / CDSC applicable from July 25,
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