

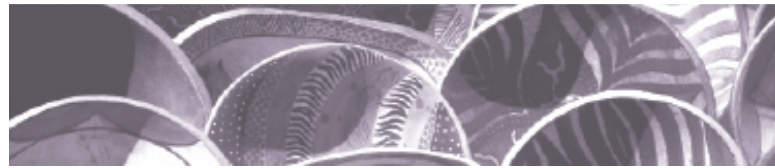
IDFC Arbitrage Fund

(IDFC-AF)

An open-ended equity fund

Fund characteristics

Fund name	IDFC Arbitrage Fund (IDFC-AF)
Nature	Equity & Equity Derivatives
Fund manager	Mr. Kenneth Andrade & Mr. Suyash Choudhary (w.e.f. 25Mar 2011)
Investment objective	The investment objective of the Scheme is to generate capital appreciation and income by predominantly investing in arbitrage opportunity in the cash and the derivative segments of the equity markets and the arbitrage opportunity available within the derivative segments and by investing the balance in debt and money market instruments. However there is no assurance that the investment objective of the scheme will be realized.
Investment style	The Scheme seeks to capture the "Cost of Carry" by executing simultaneous buy (in the cash market) and sell (in the futures) trades. The amount not so invested is invested in FDs and money market instruments.
Ideal investment horizon	1 year or more
Entry load	Nil
Exit load	0.25% in both Plan A and Plan B, if redemption / switch is requested within 30 days from the date of purchase, during ongoing period. (w.e.f. August 24, 2009). In case of Switches, Exit load shall be NIL for all switch transactions between equity schemes of IDFC Mutual Fund w.e.f. October 12, 2009.
Options available	Growth, Dividend & Dividend Sweep (w.e.f. 16-Nov-2009)
Minimum investment amount	Plan A : ₹ 5,000 Plan B : ₹ 25,00,000 (w.e.f. July 6, 2009)
Additional investment amount	₹ 1
SIP (minimum amount)	NA
Inception date	21 December 2006



Introduction

The IDFC Arbitrage Fund is a fund that invests predominantly in arbitrage opportunities in the cash and the derivative segments of the equity market. Such trades are market neutral and low risk in nature. As an open ended equity fund, it offers the tax benefits that equity schemes enjoy.

The world of arbitrage

Arbitrage opportunities within the equity derivative market are constantly sought and evaluated. Here is an example of how it works. The fund buys 10,000 shares of Company A in the spot market at Rs. 180 and at the same time sells 10,000 Company A futures for current month expiry at ₹ 182. This allows the fund to lock in a spread of ₹ 2 or 1.11% (2/180) on the position. The spread of 1.11% represents the 'yield' realized to the fund over the tenure of the position. At the end of the tenure, the fund may either unwind or rollover the future position to the next month depending on whether the cash-future spread for the next month is favorable.

Apart from single stock futures, the fund can also carry out similar trades using indices such as Nifty on which futures are available.

Who is it for?

This product is for conservative investor seeking the comfort of a relatively less risky portfolio in addition, they can avail of tax benefits as well. Dividends declared by equity fund are completely tax-free and equity funds attract zero long term capital gains tax if units are held for more than 365 days.

Fund manager's comment

Cash-future spreads remained attractive in May. The fund was able to successfully roll-over its futures positions into June.

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Performance (31 May 2011)

Period	IDFC-AF Growth Returns	Benchmark Returns
Last 3 months (absolute)	1.89%	1.97%
Last 6 months (absolute)	3.99%	3.89%
Last 1 year CAGR	7.52%	6.90%
Last 2 year CAGR	5.50%	4.99%
Last 3 year CAGR	5.44%	6.19%
Since inception CAGR	6.51%	6.62%

Inception date: 21 Dec 2006. Benchmark : Crisil Liquid Fund Index. The returns have been calculated on the basis of compounded Annualised Growth Rate: Past performance may or may not be sustained in future.

Portfolio (31 May 2011)

Name	Market Value in Lakhs	% of NAV	Market Value (in Lakhs) Futures
Apollo Tyres Ltd	82.68	1.45	-82.68
Aurobindo Pharma Ltd	198.68	3.48	-199.97
Bharat Forge Ltd	131.10	2.30	-132.04
Cairn India Ltd	183.01	3.20	-184.38
Central Bank Of India	83.40	1.46	-83.99
Development Credit Bank Ltd	157.74	2.76	-158.53
Dena Bank	84.15	1.47	-84.20
GVK Power & Infrastructure Ltd	129.22	2.26	-130.36
Hindalco Industries Ltd	108.54	1.90	-108.87
Hindustan Petroleum Corporation Ltd	53.27	0.93	-53.46
Tata Teleservices (Mah) Ltd	48.98	0.86	-49.30
ICICI Bank Ltd	108.61	1.90	-107.75
Firstsource Solutions Ltd	50.26	0.88	-50.83
Indusind Bank Ltd	174.27	3.05	-173.88
IVRCL Ltd	205.86	3.60	-207.27
IRB Infrastructure Developers Ltd	80.25	1.41	-80.53
Indiabulls Real Estate Ltd	136.13	2.38	-137.23
Jindal Steel & Power Ltd	74.66	1.31	-75.23
JSW Steel Ltd	114.71	2.01	-115.37
KS Oil Ltd	99.18	1.74	-99.57
Larsen & Toubro Ltd	133.44	2.34	-134.34
Mercator Lines Ltd	33.00	0.58	-33.28
Ispat Industries Ltd	205.39	3.60	-206.33
Oriental Bank of Commerce	79.27	1.39	-77.20
Pantaloon Retail (India) Ltd	242.60	4.25	-244.03
Polaris Software Lab Ltd	106.71	1.87	-107.32
PTC India Ltd	125.55	2.20	-125.85
Rural Electrification Corporation Ltd	168.15	2.94	-168.86
TVS Motor Company Ltd	47.70	0.84	-48.05
State Bank Of India	172.35	3.02	-172.88
Shree Renuka Sugars Ltd	152.26	2.67	-152.50
Unitech Ltd	92.17	1.61	-92.56
Vijaya Bank	132.35	2.32	-132.16
Equities Total	3995.61	69.95	
CBLO	180.04	3.15	
Margin Fixed Deposit Total	1500.00	26.26	
Net Current Asset	36.24	0.63	
Grand Total	5711.89	100.00	

Dividend History (31 May 2011) (face value ₹10/-)

Plan	Date	Rs./Unit	NAV
Plan B	26-Aug-09	0.02	10.419
Plan A	12-Nov-09	0.06	10.3214
Plan B	12-Nov-09	0.06	10.4668
Plan A	14-Dec-09	0.02	10.3226
Plan B	14-Dec-09	0.02	10.4729
Plan A	12-Jan-10	0.02	10.3285
Plan B	12-Jan-10	0.02	10.4834
Plan A	11-Feb-10	0.02	10.3249
Plan B	11-Feb-10	0.02	10.4843
Plan A	10-Mar-10	0.01	10.3287
Plan B	10-Mar-10	0.01	10.4922
Plan B	19-Apr-10	0.01	10.5203
Plan B	11-May-10	0.01	10.5498
Plan B	21-Jun-10	0.01	10.5834
Plan B	12-Jul-10	0.01	10.5929

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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 will be achieved. The NAV of the Scheme 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 and may not necessarily provide a basis for comparison with other investments. IDFC Arbitrage Fund (IDFC - AF) is the name of the Scheme and does 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 beyond the corpus of the Trust of ₹ 30,000/-.

Terms of Issue & Load Structure: Entry Load : Nil, Exit Load IDFC - AF - 0.25% in both Plan A and Plan B, if redemption / switch is requested within 30 days from the date of purchase, during ongoing period. (w.e.f. August 24, 2009). In case of Switches, Exit load shall be NIL for all switch transactions between equity schemes of IDFC Mutual Fund w.e.f. October 12, 2009.

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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 ₹ 30,000) with IDFC AMC Trustee Company Ltd as the trustee and IDFC Asset Management Company Ltd as the investment manager.

Copy of Scheme Information Document and Key Information Memorandum along with application form may be obtained from the office of IDFC Mutual Fund, One IndiaBulls Centre, 841, Jupiter Mills Compound, Senapati Bapat Marg, Elphinstone Road, (West), Mumbai 400 013. Contact Call Free: 1-800-226622

For other scheme specific risk factors and other details please read the Scheme Information Document / Statement of Additional Information carefully before investing.