

FUND INSIGHT

IDFC STERLING EQUITY FUND

(AN OPEN ENDED EQUITY FUND)

Value Research Ranking**Morning Star Rating****Fund Features:****Nature:** Equity**Average AUM (Jul-Sep) :** Rs 1,131.36 crores**Inception Date:** 7 March 2008**Fund Manager:** Mr. Kenneth Andrade
(Since Inception)

IDFC Sterling Equity Fund actively builds a portfolio of companies with proven business model and little environmental risk. It is investing in relatively medium sized business which would eventually end up either transitioning into business leaders or operate in environments that are small but rapidly transitioning into core industries. At points in time when environments are stressed, rather than tier down to smaller companies we prefer to buy the leaders in the space and then tier down once we have a confirmation that the business cycle has stabilized. This reduces the volatility of the portfolio and at times enhances the return profile.

The focus is on identifying structural changes in the environment and aligns companies based on how their valuations stack up within their respective industries. The portfolio is built up of companies that are market leaders and are consolidators in their space. Companies that are cash positive and not just EPS positive, and are financial solvent preferably debt free and are in a position to deploy cash when asset prices are low.

OUTLOOK

There is little reason given the environment to change the current strategy. The Macro Environment remains challenging with Inflation and Financial costs eating into corporate profitability. This trend in all likely hood will intensify over the next couple of quarters and it will remain a challenging environment for capital markets. Corporate earnings have been slowing which is apparent in the recent quarters numbers for the companies that have declared their results. Profits are down sequentially. While valuations are low, the risk is in the denominator (earnings part of the P/E) could come under further stress. International events have put a question on global growth which has also resulted in low valuations of the asset class. This we believe will not change in the immediate future. In a situation like this the current trade of buying solvent (low debt) businesses in companies that have a dominant market share has been rewarding.

CURRENT STRATEGY

The portfolio is currently weighed on business with a loyal consumer franchise. This is a part of the market we tend to believe is the least stressed in an environment which is challenging for growth. Most of the businesses in the portfolio tend to dominant the space they operate in and have a growth rate higher than their peers in the business. Some of them are consolidating a stressed industrial environment while many of the above are investing into higher capacities to anticipate future growth. None of these businesses are in any tearing need for external capital.

Other Parameters:
Beta: 0.71

R Square: 0.89

Standard deviation: 3.99%

Sharpe Ratio: -1.47

Portfolio Turnover Ratio: 1.85 Times

Asset allocation:
Equity: 92.11%

Debt: 7.89%

Benchmark: CNX Midcap

Minimum Investment Amount:

Rs. 5000/-

Exit Load: 1.00% if redeemed before 365 days.

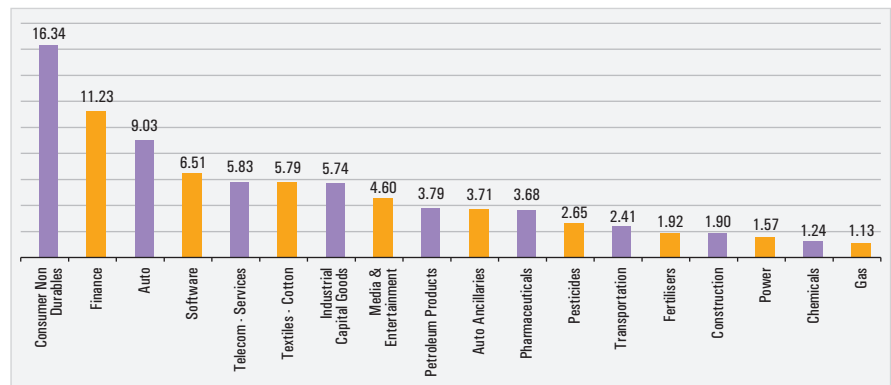
SIP Frequency: Daily, Weekly, Fortnightly, Monthly

SIP Dates Weekly, Fortnightly, Monthly: 7, 14, 21, 28; 1, 16; Any day of the month.

PORTFOLIO

(31 October, 2011)

Holdings	% of NAV	Industry
M&M Financial Services Ltd.	4.87	Finance
Nestle India Ltd.	4.28	Consumer Non Durables
VST Industries Ltd.	4.20	Consumer Non Durables
Hexaware Technologies Ltd.	4.15	Software
Eros International Media Ltd.	3.80	Media & Entertainment
Castrol India Ltd.	3.79	Petroleum Products
Vardhman Textiles Ltd.	3.78	Textiles - Cotton
Idea Cellular Ltd.	2.93	Telecom - Services
Tulip Telecom Ltd.	2.90	Telecom - Services
Piramal Glass Ltd.	2.70	Consumer Non Durables
Apollo Tyres Ltd.	2.68	Auto Ancillaries
Bajaj Finance Ltd.	2.57	Finance
ABB Ltd.	2.49	Industrial Capital Goods
Eicher Motors Ltd.	2.48	Auto
Mahindra & Mahindra Ltd.	2.47	Auto

SECTOR ALLOCATION


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 Sterling Equity Fund (IDFC SEF) 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 Rs. 30,000/-. **Investment Objective:** The investment objective of the Scheme is to seek to generate capital appreciation from a diversified portfolio of equity and equity related instruments. The Scheme will predominantly invest in small and midcap equity and equity related instruments. Small and Midcap equity and equity related instruments will be the stocks included in the CNX Midcap index or equity and equity related instruments of such companies which have a market capitalization lower than the highest components of CNX Midcap Index. The Scheme may also invest in stocks other than mid cap stocks (i.e. in stocks, which have a market capitalisation of above the market capitalisation range of the defined small - midcap stocks) and derivatives. On defensive consideration, the Scheme may also invest in debt and money market instruments. In case of discontinuation / suspension of CNX Midcap Index, the AMC reserves the right to modify the definition of Mid cap and Small cap companies. In case of such a modification, the interest of investors will be of paramount importance. here can be no assurance that the investment objective of the scheme will be realized. **Exit Load:** All investment including SIP/STP/Micro SIP/STP/FOF if redeemed / switched out within 365 days from the date of allotment-1%. **Terms of issue:** During the continuous offer the AMC calculates and publishes NAVs and offers for sale and redemption of units of the Scheme on all Business days. **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. 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.

Value Research Rating : Value Research Fund Ratings are a composite measure of historical risk-adjusted returns. In the case of equity and hybrid funds this rating is based on the weighted average monthly returns for the last 3 and 5-year periods. In the case of debt funds this rating is based on the weighted average weekly returns for the last 18 months and 3-year periods and in case of short-term debt funds - weekly returns for the last 18 months. These ratings do not take into consideration any entry or exit load. Each category must have a minimum of 10 funds for it to be rated. Effective, July 2008, we have put an additional qualifying criteria, whereby a fund with less than Rs 5 crore of average AUM in the past six months will not be eligible for rating.

Five-stars indicate that a fund is in the top 10% of its category in terms of historical risk-adjusted returns. Four stars indicate that a fund is in the next 22.5%, middle 35% receive three stars, the next 22.5% are assigned two stars while the bottom 10% receive one star. The number of schemes in each category is mentioned along side the categories name. Equity: Large Cap (47), Equity: Large & Mid Cap (54), Equity: Multi Cap (39), Equity: Mid & Small Cap (51) Equity: Tax Planning (28), Equity: Infrastructure (19), Equity: Banking (10), Hybrid: Equity-oriented (25), Hybrid: Debt-oriented Aggressive (13), Hybrid: Debt-oriented Conservative (41), Hybrid: Arbitrage (15) Debt: Income (62), Debt: Gilt Medium & Long Term (32), Debt: Short Term (19), Debt: Ultra Short Term (139), Debt: Liquid (101). These Fund Ratings are as on October 31, 2011.

The Value Research Ratings are published in Monthly Mutual Fund Performance Report and Mutual Fund Insight. The Ratings are subject to change every month. The Rating is based on primary data provided by respective funds, Value Research does not guarantee the accuracy.

Morningstar Rating : This Morningstar-sourced information is provided to you by IDFC AMC and is at your own risk. Morningstar is not responsible for any damages or losses arising from any use of this information. Also, this information must not be relied upon without appropriate verification. IDFC AMC informs you as follows: (i) no investment decision should be made in relation to any of the information provided other than on the advice of a professional financial advisor; (ii) past performance is no guarantee of future results; and (iii) the value and income derived from investments can go down as well as up.