IDFC MUTUAL FUND

Addendum No 23–August 2012

**This addendum sets out changes made in Statement of Additional Information (SAI) (Printed Date August 28, 2012)**

**Updation of Valuation Policy:**

The updated valuation policy is replaced in SAI under section IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS:

IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

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. The broad valuation policy was placed and approved by the Board of AMC and Trustee Company. The policy is as under:

VALUATION POLICY

| Asset Class | Traded / Non-traded | Methodology for valuation |
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| Equity Shares / Preference Shares / Equity Warrants | Traded | • NSE shall be the primary exchange, if not traded on NSE, BSE closing price to be considered.<br>• If the security is not traded either on NSE and BSE, the earliest previous day's close price shall be used, provided such day is not more than thirty days prior to the valuation date. If it is beyond 30 days, it has to be valued like a non-traded security. |
| | Non Traded | • When a share is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other Stock Exchange will be used, provided such closing price is not exceeding a period of 30 calendar days<br>• In all other cases:<br>a) Equity shares: Valuation price will be in accordance with norms prescribed ie, valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE in the range of 15-_50%), further discounted for illiquidity. With respect to calculation of PE ratio, annual EPS shall be considered.<br>b) Preference shares: Intrinsic value will be considered.<br>c) Equity rights / Rights Entitlement / Partly paid up Rights shares: Valuation price will be arrived, after |

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| | | applying appropriate discount, after reducing the exercise price / issuance price from the closing price of the underlying cash equity security<br>d) Demerger: In the case of demerger pending listing, the resultant company(ies) shall be valued at the intrinsic value arrived at on the date of corporate action<br>e) Securities under the process of delisting: Securities whose traded prices are not available pending completion of delisting process, shall be valued at the last traded price or the offer price whichever is lower.<br>• Intrinsic value of the securities referred in (b) & (d) above shall be considered and approved by the valuation committee and will be placed for information to the Board of AMC & Trustees.<br><br>Exceptions to the above methodology shall be approved by the valuation committee and will be placed for the information of the board of AMC and Trustee. |
| | Unlisted Secuities | Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:<br>a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:<br><br>i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.<br><br>ii. After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options} |

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| | | The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.<br><br>(b) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.<br><br>(c) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.<br><br>The above methodology for valuation shall be subject to the following conditions:<br><br>i. All calculations as aforesaid shall be based on audited accounts.<br><br>ii. In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.<br><br>ii. If the net worth of the company is negative, the share would be marked down to zero.<br><br>iii. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.<br><br>iv. In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on |

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| | | the date of valuation.<br><br>At the discretion of the AMC and with the approval of the valuation committee, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology. |
| | Thinly traded | Valuation shall be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE; discounted by 15-50%), further discounted for illiquidity. With respect to calculation of PE ratio, annual EPS shall be considered. |
| Futures & Options | Traded<br><br>Non-Traded | • On the valuation day, at the settlement price provided by the respective stock exchanges<br>• When a security is not traded on any stock exchange, on the date of valuation then the previous settlement price on NSE / any other Stock Exchange will be used, provided such settlement price is not exceeding a period of 30 calendar days |
| Fixed Income and related securities | Maturity Up-to 91 Days | Instruments will be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent.<br><br>At the time of first purchase the spread between the purchase yield and the benchmark yield will be fixed. This spread will remain fixed through the life of the instrument & will be changed only if there is a trade in the security. The spread shall be readjusted on the basis of the last trade in the security.<br><br>The amortised price may be used for valuation as long as it is within ±0.10% of the reference price. Reference price is derived from the underlying valuation matrix yield plus spread as determined at time of purchase and modified from time to time as per procedure described in preceding paragraph. In case the variance exceeds ±0.10%, the valuation shall be adjusted to bring it within the ±0.10% band.<br><br>In case of subsequent trades including inter-scheme transfers by the fund in the same security, the valuation must reflect the most recent trade as long as the trade is of face value of INR 100 crores and above. The security such valued would be amortised to maturity with such amortised prices to be in line with + / - 0.10% of the reference price as above. |

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| | | In case of Coupon bearing and Zero coupon Corporate Bonds ( upto 91 days maturity as well as bonds with a put and call option within 91 days), the securities shall be valued at cost plus accruals/ amortization basis. In case of subsequent trades done in Coupon bearing and Zero coupon Corporate Bonds ( up to 91days maturity as well as bonds with a put and call option within 91 days) the valuation must reflect the most recent trade as long as the trade is of face value of INR 100 crores and above<br><br>The following securities will be valued at cost plus accruals/ amortization:<br>a) Bank Fixed Deposits<br>b) CBLO/ Reverse Repo<br>c) Bills rediscounting<br><br>Government Securities, Cash Management bills and Treasury bills will be valued at the average prices provided by CRISIL and ICRA. |
| | Maturity Greater Than 91 Days | Traded Instruments:<br><br>To prevent frivolous and dated prices from distorting valuations:<br><br>a. For instruments maturing above 1 year, the traded price will taken if there are at least two trades aggregating to Rs. 25 crores or more.<br>b. For instruments maturing between 92 days and 1 year, the traded price will be taken if there are at least three trades aggregating to Rs. 100 crores or more.<br><br>In the case of the AMC's own trades, only a trade of a market lot or more (defined as face value of INR 25 crores or more for instruments maturing above 1 year and of INR 100 crores or more for instruments maturing between 92 days and 1 year) is to be taken as reflective of the realizable value of the total holding in a single instrument.<br><br>All the amounts above refer to face value of securities. In addition, as the price may be distorted in case of forward settlement dates (e.g. across a weekend/holidays), the traded yields will be used to arrive at a price for valuation. In case of multiple trades, the weighted average price will be used for valuation.<br><br>In case there are both qualifying market trades and AMC trades, the market trades will be given a higher priority. In case of |

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| | | multiple platforms reporting trades on the same day, the order of preference will be FIMMDA, Exchange (NSE WDM, BSE) and own trades. The qualifying criteria will to be observed at the exchange/platform level (as the same trades may be reported on multiple platforms).<br><br>Government Securities, Cash Management bills and Treasury bills will be valued at the average prices provided by CRISIL and ICRA.<br><br>Non-Traded Instruments:<br><br>In the absence of traded prices, the matrix-based valuation will be continued to determine the valuation price for instruments. However in the interest of fair reflection of market levels, there will be no restriction on the allowed spread relative to the benchmark curve in respect of different issuers & instruments.<br><br>At the time of first purchase the spread between the purchase yield and the benchmark yield will be fixed. This spread will remain fixed through the life of the instrument & will be changed only if there is a trade in the security. The spread shall be readjusted on the basis of the last trade in the security. |
| | Interest Rate Swaps | Valuation of IRS involves valuation of streams of interest payments. The earmarked security will be valued in the same manner as was valued before entering into IRS contract. Value of IRS contract is the present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity will be the interest accrued till the valuation date plus the interest on remaining period at reversal rate. Reversal rate for the day will be taken from Reuters/Bloomberg for different maturities. The relevant rate (mid rate of the bid ask rate) will be taken on the basis of maturity of the contract. However, if the maturity date falls between the two periods, the reversal rate will be arrived at by interpolation on valuation date.<br><br>The AMC shall use the Swap Manager (SWPM) application in the Bloomberg platform or any such platform as may be available for the purpose for valuing IRS contracts. Currently the AMC uses SWPM for the purpose of valuing swaps. |
| | Inter scheme - Transfers | Inter scheme transfers shall be effected at the current market prices. For this purposes quotes in same or similar securities shall be obtained from 2 brokers at the time of executing the |

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| | | inter-scheme transfer. Such inter-scheme transfers shall be executed within the bid-ask range obtained from brokers.<br><br>Incase no quotes are available, inter-scheme shall be effected at the prevailing market price or fair value based on justification from the Fund Manager.<br><br>Under abnormal market condition inter-scheme may be effected at previous day valuation price, for this purpose the process laid out for determination of abnormal Situations & Market Disruptions needs to be adhered with ((pl refer to the section below)). |
| | Mutual Fund units | Units of Mutual Funds will be valued at last published NAV |
| | Abnormal Situations & Market Disruptions | In normal situations the above methods will be used for valuation. However in abnormal market conditions, due to lack of market trading or otherwise it may not be possible to obtain fair valuation using "normal" means. In such situations, the realizable value may be substantially different from the benchmark-based prices obtained. Such events may comprise (list indicative and not exhaustive) monetary policy or other regulatory related events, large redemptions, or other external factors could constitute abnormal events.<br><br>Fund manager will explain in writing why a particular day of valuations should qualify as an abnormal market condition and what will qualify as situation returning to normal. Valuation committee will discuss and approve recognition of abnormal market condition and decide basis for valuation during the period of continuation of abnormal market condition. This period upto ceasure of abnormal market condition (also to be detailed by fund manager and approved by valuation committee) will be documented. The Board of the AMC and Trustee Company will review the valuation methodology adopted and offer direction if any, to the Valuation Committee within a period of 3 days from the occurrence of the abnormal event. |

Notes:

1. All the references to up-to 91 days will stand modified to up-to 60 days from October 01, 2012 and accordingly in future as and when the regulator modifies / changes valuation guidelines.
2. Valuation prices will be arrived based on the underlying YTM adjusted for settlement dates

**Dated: August 28, 2012**