IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 21 of 2018

Addendum to the Scheme Information Document and Key Information Memorandum of IDFC Equity Fund

Change in features of IDFC Equity Fund:

NOTICE is hereby given that pursuant to SEBI circular dated October 6, 2017 on categorization and rationalization of mutual fund schemes, the features of IDFC Equity Fund ("the Scheme"), an open-ended equity fund of IDFC Mutual Fund, shall stand modified as follows with effect from **Monday, May 14, 2018** ("Effective Date").

Name of the Scheme

Existing	Proposed
IDFC Equity Fund	IDFC Large Cap Fund

Type / Category

Existing	Proposed
An Open ended Equity scheme	Large Cap Fund - An open ended equity scheme predominantly investing in large cap stocks

Investment Objective

Existing	Proposed
The investment objective of the Scheme is to seek to generate capital growth from a portfolio of predominantly equity and equity-related instruments (including equity derivatives). The scheme may also invest in debt and money market instruments to generate reasonable income.	The investment objective of the Scheme is to seek to generate capital growth from predominantly investing in large cap stocks.

Asset Allocation Pattern (existing)

Instruments	Indicative Allocation (% of total assets)	
	Maximum	Minimum
Equities & Equity related instruments	100	65
Debt & Money Market instruments	35	0
Securitised debt instruments	35	0

Investments in Derivatives -upto the limits permitted by SEBI Mutual Funds regulations from time to time.
Investments in Securities Lending - upto 100% of Equity investments in the Scheme.
Investments in Foreign debt instruments - up to 35% of the net assets of the Scheme
Investments in ADRs and GDRs issued by Companies in India / equity of listed overseas companies or such other foreign securities as permitted by SEBI regulations – upto 75% of the net assets of the scheme.
Gross Exposure to Repo of Corporate Debt Securities – upto 10% of the net assets of the Scheme.

Asset Allocation Pattern (proposed/revised)

Instruments	Indicative Allocation (% of total assets)
Equities & Equity related instruments of Large cap companies	80% -100%
Equities & Equity related instruments of Mid cap and Small cap companies	0% -20%
Debt & Money Market instruments (including Government securities, Securitised debt, Margin money/FD) and Units issued by REITs & InvITs, within which	0% -20%
- Units issued by REITs & InvITs	0% - 10%

Large Cap companies, Mid Cap companies and Small Cap companies shall have the meaning as defined by SEBI from time to time.
Investment in Foreign securities - up to 35% of the total assets
Investment in Securities lending – up to 20% of the total assets with maximum single party exposure restricted to 5% of the total assets
Exposure in Derivatives (other than for hedging purpose) – up to 50% of total assets
Gross Exposure to Repo of Corporate Debt Securities – upto the extent permitted by the Regulations (currently up to 10% of total assets, subject to change in line with the regulations from time to time)
The Scheme may engage in short selling of securities in accordance with the applicable guidelines / regulations. The scheme may invest in Credit Default Swaps (CDS) in accordance with the applicable regulations as and when permitted by SEBI/RBI up to the extent permitted by the regulations.
The cumulative gross exposure through equity, derivatives, debt & money market instruments along with repo transactions in corporate debt securities, credit default swaps and units issued by REITs & InvITs shall not exceed 100% of the net assets of the Scheme.
The current SEBI guidelines on categorisation of the companies based on market cap are as follows:
Large Cap companies, Mid cap companies and Small cap companies are defined as follows:
Large cap: 1st-100th company in terms of full market capitalisation.
Mid cap: 101st-250th company in terms of full market capitalisation
Small cap: 251st company onwards in terms of full market capitalisation.
For this purpose, list of stocks prepared by AMFI would be considered. AMFI would consider the following points:

a. If a stock is listed on more than one recognised stock exchange, an average of full market capitalisation of the stock on all such stock exchanges, will be computed.
b. In case a stock is listed on only one of the recognised stock exchanges, the full market capitalisation of that stock on such an exchange will be considered.
c. The list of stocks would be uploaded on the AMFI website and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be available on the AMFI website within 5 calendar days from the end of the 6 months period.
d. While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered.

Subsequent to any updation in the list, the Scheme will have to rebalance its portfolios (if required) in line with updated list, within a period of one month.
The SEBI guidelines on categorisation of companies based on market cap are subject to change from time to time and the Scheme will follow the guidelines as amended from time to time.

Investment strategy (existing)

The Scheme seeks to generate capital appreciation from a portfolio of predominantly equity and equity – related instruments (including equity derivatives). The scheme may also invest in debt and money market instruments to generate reasonable income.
The scheme will generate capital growth by predominantly investing in large cap stocks having a market capitalization equal to or above the 100th stock in the S&P BSE 100 index. This will form at least 80% of the equity corpus of the scheme. The remaining portion of the scheme may be invested in stocks with smaller market capitalization and/or in debt and money market instruments depending on the prevailing market conditions.
The scheme will follow an actively managed approach of identifying quality companies without any sector / industry bias. Within the investment universe, the focus of the scheme would be towards building a set of companies that have superior cash generating ability, capability to service debt and offer growth potential at reasonable price.

Equity

The Scheme will endeavour to invest in well-managed businesses whose shares are available through the primary market/secondary market at reasonable value through a process of disciplined research. The portfolio of securities could be concentrated in a particular sector or well diversified depending on prevailing offers at that point of time.
Stock prices are directly correlated to company profits over the medium to long term. However in the near term given a buoyant market conditions new offerings are often priced in such a way that it provides an opportunity to generate an arbitrage on listing of the stock. For eg. If the market average PEx trades at 10xFY06 (theoretical) then for a company approaching the capital market for the first time in a majority of cases these issues are priced at lower PEx. Thus giving the applicant an opportunity to generate a reasonable return on listing.
Funds management in such cases would focus on picking these reasonably priced issues. The Equity Research process will endeavour to acquire understanding of the dynamics of the underlying business and the pricing of the industry/ company peer group. Forecasts on future profitability and sustainability of cash profit growth are indicators on whether the stock would list at a premium to offer price.
Opportunities can exist in the markets, inter alia in the following cases:

1. Companies offering stock at a valuation that trades at a discount to their peer group.
2. There is a reasonable discount of the offer price in relation to the secondary market historical traded prices.
3. Business on a high growth curve offering stock at a reasonable Price Earning Growth ratio.

Other aspects which shall be considered in making investment decisions in equities in the initial / subsequent public offerings by companies or in the secondary markets would include:

1. Margin of Safety
   The fund managers will look to build a "margin of safety" while making forecasts on business profitability. "Margin of safety" will also be the guiding principle while evaluating a company's current market price. The portfolio would also be protected from company specific risks by constantly monitoring the economic and business environment and changes in management strategy.
2. Acquire stocks at reasonable value
   Once good businesses are identified, stocks would be endeavoured to be acquired when they are available at a reasonable value.
3. Selling Discipline
   It is left to the discretion of the fund manager to sell or hold the respective stock depending on his view of the business and the prospects in the near future. This would also depend on relative valuation of the business when compared to its peer group and the market valuations. The selling discipline / process would be no different from the existing schemes that are being managed by IDFC AMC.

Cash Futures Arbitrage

The cash futures arbitrage strategy could be employed when the price of the futures exceeds the price of the underlying stock. The methodology would be to first buy stocks in the cash segment and then lock into the spreads / returns by selling the future of the same stock. Since the spreads are locked in, returns remain unaffected with the price movement of the cash and the futures market. The futures contracts are settled based on the last half hours weighted average trade of the cash market on the settlement date (once a month). Thus there is a convergence of the cash and futures market on the expiry of the futures contract. The convergence of the prices on expiry thus enables the scheme to lock in the spreads. The outstanding position could however be closed earlier in case the price differential is realised before expiry or better opportunities are available in other stocks. In case, the future price trades at discount to spot price (any time during the period till expiry) then the original position will be squared by buying the future and selling the spot market position.
The following example will illustrate the return generated out spot and futures market.
Say for stock A spot price is Rs. 100 and month end futures is trading at Rs. 101 and thirty days are left for the expiry.
The Scheme will enter in the following trade.
Purchase 1000 shares of A @ Rs. 100 at the total Cost of Rs. 1,00,000.
Sell 1000 Futures @ Rs. 101 at the sale proceeds of Rs. 1,01,000.
This trade is done to lock in profit of Rs. 1000 irrespective of price of stock A.
The annualized return before brokerage and transaction cost will be 12%.
The said transaction will generate profit under any market scenario as under:

1. At the time of expiry of derivative contract, price of stock A is Rs. 50 Profit / loss on Stock A will be = 1000* (50-100) = -50,000 Profit/loss on Futures will be = 1000 * (101-50) = 51,000 Net Profit = Rs. 1,000
2. At the month end, price of stock A is Rs. 200 Profit / Loss on stock A will be = 1000 * (200-100) = 1,00,00 Profit / Loss on futures position = 1000 * (101-200) = 99,000 Net Profit = Rs. 1,000

Thus under any market scenario, the trade would result in profit of Rs. 1,000.
The fund could hold the cash / spot market position and the future market position till expiry to earn the arbitrage. However if the opportunity is available the same positions will be rolled over to next month expiry by swapping the current month future with the next months future. In this case the cash market position would remain undisturbed.
Investments to benefit out of the cash futures arbitrage or in any other permitted derivative products would be made by the fund manager considering the market conditions and the opportunities available in such markets.

Nifty Spot - Nifty Futures

The price of Nifty futures at any given instance is typically more than the level of Nifty at that point. Nifty futures trade at a level that is equal to the level of Nifty plus the cost of carry (cost of carry is defined as the interest rate prevailing for an equivalent credit risk). In the case of the Nifty the credit risk is on the Clearing Corporation of the NSE. In the case of the scheme the spread would be locked into by buying the Nifty and selling the future in this case. The settlement of the Nifty futures arbitrage works on the similar lines of the stock futures arbitrage.
Investments to benefit out of the nifty spot - nifty futures arbitrage or in any other such permitted derivative products would be made by the fund manager considering the market conditions and the opportunities available in such markets.

Debt

The Scheme proposes to invest only in a diversified set of fixed income and money market instruments with an aim to generate reasonable income. Domestic debt markets are maturing rapidly with liquidity emerging in various debt segments through the introduction of new instruments and investors. The actual percentage of investment in various fixed income securities will be decided after considering the prevailing political conditions, the economic environment (including interest rates and inflation), the performance of the corporate sector and general liquidity and other considerations in the economy and markets. Investments would be undertaken in debt instruments after appropriate due diligence.

Investment Strategy (proposed/revised)

The Scheme seeks to generate capital appreciation from a portfolio of predominantly equity and equity – related instruments (including equity derivatives).
The scheme will generate capital growth by investing 80-100% of total assets in large cap companies. The remaining portion may be invested in mid cap stocks and small cap stocks and/or in debt and money market instruments depending on the prevailing market conditions.
The scheme will follow an actively managed approach of identifying quality companies without any sector / industry bias. Within the investment universe, the focus of the scheme would be towards building a set of companies that have superior cash generating ability, capability to service debt and offer growth potential at reasonable price.

Risk factors:

The following clause shall be inserted under the heading "Risk factors with investing in Derivatives" in the Section "Risk Factors – Scheme specific risk factors" -
Risk associated with imperfect hedge due to use of IRF: 'Basis Risk' is the risk that arises when the instrument used as a hedge does not match the movement in the instrument/ underlying asset being hedged. This could result into potential gains or losses from the strategy.

Trading in Derivatives

The following paragraph shall be inserted under the heading "Debt derivatives – Interest Rate Futures" in the Section "Information about the Scheme – Trading in Derivatives" -
Imperfect hedging:
Use of IRF may result in imperfect hedging when the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged.
Example of imperfect hedge due to use of IRF:
Date: January 1, 2018
Spot price of 8 year GOI Security: Rs.101.80
Futures price of IRF Contract (underlying is 10 year GOI): Rs.102.00
On January 1, 2018, the Fund Manager bought 2000 GOI securities from spot market at Rs.101.80. The Fund Manager anticipates that the interest rate will rise in near future, therefore to hedge the exposure in underlying security the Fund Manager sells March 2018, Interest Rate Futures contracts at Rs.102.00.
On March 1, 2018 due to increase in interest rate:
Spot price of 8 year GOI Security: Rs.100.80
Futures Price of IRF Contract (underlying is 10 year GOI): Rs.101.10
Loss in underlying market will be (101.80 - 100.80)*2000 = Rs 2000
Profit in the Futures market will be (101.10 – 102.00)*2000 = Rs 1800
Because of imperfect hedging strategy, the profit in futures market is Rs.1800 while the loss in the cash market is Rs.2000, resulting in a net loss of Rs. 200.
The above changes in the asset allocation and investment strategy have been approved by the Board of Directors of the AMC and the Trustee Company.
The change in investment objective, asset allocation and investment strategy of the Scheme and use of IRF to imperfectly hedge the portfolio, being a change in the fundamental attributes of the Scheme, in terms of regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996, investors in the Scheme are given an option to exit (redeem / switch-out) at the prevailing Net Asset Value without any exit load, in case they do not wish to continue in this scheme in view of the proposed change in the scheme features. The period of this no load exit offer is valid for a period of 30 days from **Wednesday, April 11, 2018** to **Friday, May 11, 2018** (both days inclusive). The normal redemption / switch request form may be used for this purpose and submitted at any of the IDFC AMC / CAMS ISCs. The no load exit option will be available only to those investments in the Scheme made prior to **Wednesday, April 11, 2018.**
Such exit option will not be available to unitholders who have pledged or encumbered their units in the Scheme and Mutual Fund has been instructed to mark a pledge/lien on such units, unless the release of the pledge/ lien is obtained and appropriately communicated to AMC / Mutual Fund prior to applying for redemption/switch-out.
Unitholders who do not exercise the exit option on or before **Friday, May 11, 2018** would be deemed to have consented to the proposed change. It may be noted that the offer to exit is merely an option and is not compulsory.
All other features, terms and conditions of the Scheme, as stated in the Scheme Information Document (SID) & the Key Information Memorandum (KIM) of the Scheme, read with the addenda issued from time to time, remain unchanged.
The Notice - Cum - Addendum forms an integral part of the SID and KIM of the Scheme, read with the addenda.
Date: April 09, 2018

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

size : 32.9 (w) x 50 (h) cm