

Notice - Cum - Addendum No. 44 of 2016

Addendum to the Statement of Additional Information (SAI) of IDFC Mutual Fund

Updation of Valuation Policy-

This addendum sets out changes made in Statement of Additional Information (SAI) [Printed Date – June 30, 2016]

The valuation policy appearing in SAI under section IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS stands replaced with the updated Valuation Policy as given below:

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	
Background and Rationale	<p>This policy has been formulated in accordance with SEBI notification dated February 21, 2012 amending the SEBI (Mutual Funds) Regulations, 1996 which mandates AMC's to put in place a policy framework for valuing each type of security/asset on the principles of fair valuation with the objective of ensuring fair treatment to all investors, i.e., existing investors and investors seeking to subscribe or redeem units.</p> <p>This policy shall be based on the principles of fair valuation and will have an overarching effect on the valuation guidelines prescribed under the SEBI (MF) guidelines. Prior to this amendment, the valuation of securities was being done as per the guidelines stated in the Eight Schedule of the SEBI (MF) Regulations and circulars issued by SEBI from time to time. In case of conflict, this valuation policy will override the valuation guidelines given under Eight Schedule of the SEBI (MF) Regulations.</p>
Objective	To ensure fair treatment to all investors, i.e., existing investors and investors seeking to subscribe or redeem units. The valuation shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures.
Scope	<ul style="list-style-type: none"> • Valuation methodologies for all security types • Inter-scheme transfers • Periodicity of review • Conflict • Record Keeping • Exceptional circumstances
Policy owner	Board of Directors of IDFC Asset Management Company Limited (AMC) & IDFC AMC Trustee Company Limited (Trustee Company/Trustees)

Valuation methodologies	The methodologies for valuing each and every type of security held by the schemes is as per Annexure A. Investment in any new security shall be made only after determining an appropriate valuation methodology approved by the Valuation Committee and to be ratified post facto by the Board of AMC and Trustee Company.
Delegation of Powers to Valuation Committee	The Valuation Committee is entrusted with the following responsibilities: <ul style="list-style-type: none"> • Reviewing the systems and practices of valuation of securities and exception if any, to be reported to the Board of AMC & Trustee Company at its periodic meetings. • Monitoring of exceptional events and recommending appropriate valuation methods with due guidance from Board of AMC and Trustee Company
Periodicity of review	The valuation policy shall be reviewed annually by the Valuation Committee and internal auditors and the same shall be noted by the board of AMC and Trustee
Conflict	In the event of conflict, this valuation policy will override the valuation guidelines given under the Eight Schedule of the SEBI (MF) Regulations. The valuation committee shall review instances of conflict with the SEBI regulations and fair valuation norms which are currently not envisaged in the policy of the AMC and recommend to the board of AMC & Trustees any modification / amendments which may be required.
Record Keeping	This policy shall be updated in the SAI, website and other documents as prescribed by the SEBI (MF) Regulations. These records shall be preserved in accordance with the SEBI (MF) Regulations.
Exceptional circumstances	Following events could be considered (list is indicative and not exhaustive) as exceptional events where current market information may not be available / sufficient for valuation of securities: <ul style="list-style-type: none"> • Force Majeure events that force markets to close abruptly • Major policy announcements by Government, Regulator or Central Bank • Absence of trading in a specific security or similar securities • Significant volatility in capital markets
Last reviewed	October 26, 2016

Annexure A

Asset Class	Traded / Non-traded	Methodology for valuation
Equity Shares / Preference Shares / Equity Warrants/ Equity rights/rights entitlement/partly paid up rights shares	Traded	<ul style="list-style-type: none"> • NSE shall be the primary exchange for pricing except in case of schemes passively tracking an index published by BSE. For schemes passively tracking a BSE Index, the primary stock exchange for pricing shall be BSE. If a particular scrip is not traded on the primary stock exchange used for pricing (NSE or BSE) but if it is traded on the other stock exchange (BSE or NSE) then price of the other stock exchange shall be considered. • If the security is not traded either on NSE or 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 will be valued like a non-traded security.
	Non Traded	<ul style="list-style-type: none"> • 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 • In all other cases: <ol style="list-style-type: none"> a) Equity shares: Valuation price will be in accordance with norms prescribed i.e. 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. Book value shall be calculated as follows based on the latest available Balance Sheet: Book value per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares. b) Preference shares: Intrinsic value will be considered. c) Equity rights /Equity Warrants/ Rights Entitlement / Partly paid up Rights shares: Valuation price will be arrived, after applying appropriate discount, after reducing the exercise price / issuance price from the closing price of the underlying cash equity security

		<p>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</p> <p>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.</p> <p>f) Securities pending lock-in period / pending listing: Valuation shall be done on the last quoted closing price of security, after applying suitable discount for illiquidity.</p> <p>g) Securities under suspension: In case trading of a security is suspended upto 30 days, then the last quoted closing price shall be considered for valuation of the security. If an equity security is suspended for more than 30 days then the Valuation Committee shall value the same at intrinsic value arrived</p> <ul style="list-style-type: none"> • Intrinsic value of the securities referred in (b), (d) & (g) above shall be considered and approved by the valuation committee and will be placed for information to the Board of AMC & Trustees. <p>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 Trustees.</p>
	<p>Unlisted</p>	<p>Unlisted equity shares of a company shall be valued "in good faith" and as per valuation principles laid down below:</p> <p>a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:</p> <p>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.</p> <p>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</p>

		<p>Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options }</p> <p>The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.</p> <p>(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.</p> <p>(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.</p> <p>The above methodology for valuation shall be subject to the following conditions:</p> <ol style="list-style-type: none"> i. All calculations as aforesaid shall be based on audited accounts. 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. iii. If the net worth of the company is negative, the share would be marked down to zero. iv. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning. v. 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 the date of valuation. <p>An unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology if considered appropriate by the Valuation Committee. Such exception shall be reported to the Board of AMC & Trustees at its periodical meetings.</p>
	Thinly traded (as	Valuation shall be computed on the basis of average of

	defined under the SEBI(Mutual Fund) Regulations)	<p>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.</p> <p>Book value shall be calculated as follows based on the latest available Balance Sheet: Book value per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.</p> <p>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 Trustees.</p>
Futures & Options	Traded Non-Traded	<ul style="list-style-type: none"> • On the valuation day, at the settlement price provided by the respective stock exchanges • 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	Residual Maturity Up-to 60 Days	<p>Instruments (including Government Securities*) will be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent.</p> <p>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. Justification for change in the spread due to any other event such as change in credit rating/ credit profile will be provided by the fund manager and approved by the valuation committee. All such changes will be notified to the Board of AMC and Trustee Company on at least a quarterly basis.</p> <p>The amortised price may be used for valuation as long as it is within $\pm 0.10\%$ 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 $\pm 0.10\%$, the valuation shall be adjusted to bring it within the $\pm 0.10\%$ band.</p> <p>In case of subsequent trades including inter-scheme</p>

		<p>transfers by the fund in the same security, the valuation must reflect the realizable value of the total holding in a single instrument. Market lot for this purpose shall be a single trade of a face value of Rs. 5.00 Crores and above.</p> <p>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.</p> <p>In case of Coupon bearing and Zero coupon Corporate Bonds (up to 60 days maturity as well as bonds with a put and call option within 60 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 60days maturity as well as bonds with a put and call option within 60 days) the valuation must reflect the realizable value of the total holding in a single instrument. Market lot for this purpose shall be a single trade of a face value of Rs. 5.00 Crores and above.</p> <p>* Government Securities shall mean and include such securities issued by Central government or State Government, Cash Management bills, Treasury bills, State Development Loans etc.</p> <p>Note: Till such time of completion of system enhancement by CRISIL, Government Securities other than Treasury bills and Cash Management Bills, are being valued at average prices provided by CRISIL & ICRA or such other AMFI nominated agency(ies).</p> <p>In addition to the above for Cash Management bills, Treasury bills or any other discounted government securities, 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.</p> <p>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 Trustees.</p>
	<p>Residual Maturity Greater Than 60 Days</p>	<p>The Securities shall be valued at the average of Valuation prices provided for individual securities by CRISIL & ICRA, or any other external independent agency(ies) prescribed by AMFI, (without any discretionary spread) from time to time.</p> <p>New securities purchased for which Valuation price is not</p>

		<p>provided by the external agencies on the date of purchase, would be valued at the weighted average price/yield of trades.</p> <p>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 Trustees.</p>
	Interest Rate Swaps / Forward Rate Agreements	<p>All IRS/FRA's will be valued at net present value after discounting the future cash flows. Future cash flows for IRS/FRA's contracts will be computed daily based on the terms of the contract and discounted by suitable OIS rates available on Reuters/Bloomberg/any other provider, as approved by Valuation Committee. The unrealized gain / loss accounted for IRS/FRA till 61st day will be amortised.</p> <p>The amortised price may be used for valuation as long as it is within $\pm 0.10\%$ of the reference price. Reference price shall be derived from the OIS rates relevant to the maturity. In case the variance exceeds $\pm 0.10\%$, the valuation shall be adjusted to bring it within the $\pm 0.10\%$ band.</p> <p>The relevant discount rate (mid of the bid ask rate) will be taken on the basis of residual maturity of the contract. If the residual maturity of the contract falls between two periods, the reversal rate will be arrived at by interpolation on valuation date.</p> <p>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 Trustees.</p>
	Interest Rate Futures	<p>The exchange traded Interest Rate Futures would be valued based on the Daily settlement Price of the exchange.</p>
	Inter scheme - Transfers	<p>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 inter-scheme transfer. Such inter-scheme transfers shall be executed within the bid-ask range obtained from brokers.</p> <p>In case no quotes are available, inter-scheme shall be effected at the prevailing market price or fair value based on justification from the Fund Manager.</p> <p>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</p>

		<p>Situations & Market Disruptions needs to be adhered with (pl refer to the section below).</p> <p>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 Trustees.</p>
	<p>a) Bank Fixed Deposits b) CBLO/Repo/ Reverse Repo</p>	<p>These securities, irrespective of any maturity will be valued at cost plus accruals/ amortization.</p>
<p>Valuation policy for Foreign Securities</p>	<p>Listed Foreign Security</p>	<p>Foreign securities will be valued at the last available traded or quoted price on the overseas stock exchange where such security is listed. However, if the security is listed on more than one stock exchange, an appropriate stock exchange will be selected from which the price will be sourced. The AMC shall select the Primary stock exchange prior to transacting in any scheme in case a security is listed on more than one stock exchange and the reasons for the selection will be recorded in writing. Any subsequent change in the reference stock exchange used for valuation will be necessarily backed by reasons for such change being recorded in writing by the AMC and approved by the Valuation Committee.</p> <p>For securities listed in a time zone ahead of IST, the same day's last traded or closing price would be used for valuation and for securities listed on time zone behind IST, the previous day's closing price would be used for valuation.</p> <p>If the security is not traded on a particular valuation day on the primary stock exchange, the value at which it is traded on another stock exchange shall be used. If the security is not traded on any stock exchange on the particular day then, last quoted closing price of the primary stock exchange shall be used, provided such date is not more than thirty days prior to the valuation date.</p> <p>If it is determined that market quotations (last traded/quoted prices) are not readily available or reliable for a particular security the valuation committee may apply fair value, as determined by the Valuation Committee.</p> <p>Additionally, if it is determined that a significant market changes have occurred after security prices were established for a particular market or exchange but prior to NAV computation, the AMC reserves the right to apply</p>

		fair valuation as determined by the Valuation Committee.
	IPO purchase	The security shall be valued at lower of the cost or listed price till the new security is listed.
	Unlisted Securities	ADR/ GDRs shall be valued after considering prices/issue terms of underlying security. Valuation committee shall decide the appropriate discount for illiquidity. Non traded foreign security shall be valued by AMC at fair value after considering relevant factors on case to case basis.
	Foreign Exchange Conversion	<p>RBI reference rate would be used for available currencies and where the reference rate is not available; the rate available in Reuters at the time of closing of banking hours on the relevant business day in India (at around 5:00 PM IST) shall be used. In case the direct exchange rates are not available on Reuters, then cross currency rate with USD would be considered and converted as per the INR/USD RBI reference rate.</p> <p>The Trustee/AMC reserves the right to change the source of determining the exchange rate.</p>
Mutual Fund units		<p>Unlisted: Units of Mutual Funds will be valued at latest published NAV.</p> <p>Listed: For Mutual Fund units listed, the closing price of the Principal Stock Exchange shall be considered for valuation of such security.</p> <p>If units are not traded on Principal Stock Exchange on a particular valuation day, the closing price on any other stock exchange where units are traded will be used for valuation.</p> <p>If units are not traded on any stock exchange on a particular valuation day, then closing price at which it traded on the principal stock exchange or any other stock exchange, as the case may be, on the earliest previous day will be used provided such date is not more than 30 days prior to the valuation date.</p> <p>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 Trustees.</p>
Valuation policy for Infrastructure Debt Fund	Valuation based on rating of the security	<p>An indicative parameter of the valuation methodology based upon rating of a security shall be as follows:</p> <p>i) Rated securities will be valued basis the relevant</p>

		<p>underlying tenor and rating benchmark as provided by the valuation matrices provided currently by the valuation agency. The spread over the benchmark may be decided qualitatively by the AMC.</p> <p>ii) Wherever the securities are unrated (or the relevant valuation matrix benchmark is unavailable), valuation may be arrived at subjectively taking into account valuation for similar such securities wherever available.</p>
	Securities not covered in the above category	The securities that do not fall under any of the above category mentioned above shall be valued on a quarterly basis by an independent valuer to be appointed by the AMC. Such valuations will be reviewed by the Fund's auditors. The expenses connected with the valuations shall be borne by the AMC.
	Periodicity of valuation	The assets of the scheme shall be valued at quarterly intervals.
Valuation of Non-Performing Assets		Valuation of such securities shall be done as per the policy/guidelines provided by SEBI (Mutual Funds) Regulations and circular issued by SEBI from time to time.
	Abnormal Situations & Market Disruptions	<p>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.</p> <p>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</p>

Notes:

Valuation prices will be arrived based on the underlying YTM adjusted for settlement dates

Disclaimer for Security Level Pricing provided by CRISIL/ICRA:

By using the valuation prices provided by CRISIL/ICRA (together referred to as service providers), IDFC AMC acknowledges and accepts that the valuations are provided severally (and not jointly) by the service providers and are subject to the following disclaimers and exclusion of liability which operate severally to the benefit of the relevant service provider and AMFI. The valuation uses the methodology discussed by the service providers with the Association of Mutual Funds of India (AMFI) and reflects the service provider's assessment as to the value of the relevant securities as at the date of the valuation. This is an indicative value of the relevant securities on the valuation date and can be different from the actual realizable value of the securities. The valuation is based on the information provided or arranged by or on behalf of IDFC AMC or obtained by the service providers from sources they consider reliable. Neither AMFI nor the service providers guarantee the completeness or accuracy of the information on which the valuation is based. IDFC AMC takes the full responsibility for any decisions made on the basis of the valuations. Neither AMFI nor the service providers accept any liability (and each of them expressly excludes all liability) for any such decision or use.

All the other terms and conditions of the Statement of Additional Information of IDFC Mutual Fund, read with the addenda issued from time to time, remain unchanged.

This Addendum forms an integral part of the SAI of IDFC Mutual Fund read with the addenda.

Date: November 15, 2016

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