IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 21 of 2017

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

Change in investment strategy of IDFC Dynamic Equity Fund:

NOTICE is hereby given that the asset allocation pattern, investment strategy and benchmark index of IDFC Dynamic Equity Fund ("the Scheme"), an open-ended equity fund of IDFC Mutual Fund, shall stand modified as follows with effect from June 19, 2017 ("Effective Date").

Consequently, the following changes will be carried out in the features of the scheme from the Effective Date:

Existing Asset Allocation Pattern

Instruments	Indicative Allocation (As % of total assets)	
	Maximum	Minimum
Equities & Equity related instruments	100	65
Equity Derivatives	35	0
*Debt securities & Money Market Instruments (including Cash & Cash equivalent)	35	0

* If the Scheme decides to invest in securitised debt, it is the intention of the Investment Manager that such investments will not normally, exceed 15% of the corpus of the Scheme.

Investment in debt derivatives - up to 10% of the net assets of the Scheme.

Gross Exposure to Repo of Corporate Debt Securities - up to 10% of the net assets of the Scheme.

Investments in ADRs and GDRs issued by Companies in India and foreign securities as permitted by SEBI regulations – upto 50% of the net assets of the scheme. However, the scheme shall restrict exposure to ADR/GDR to 20% of the net assets.

Investments in foreign securities shall be in compliance with the requirement of SEBI circular dated September 26, 2007.

The total exposure to equity, debt and derivative positions on a gross basis will not exceed 100% of the net assets of the scheme.

The scheme shall not invest in Credit Default Swaps (CDS), and shall not undertake short selling and securities lending & borrowing.

Proposed/Revised Asset Allocation Pattern

Instruments	Indicative Allocation (As % of total assets)	
	Maximum	Minimum
Equities & Equity related instruments	100	65
Equity Derivatives	35	0
*Debt securities & Money Market Instruments (including Cash & Cash equivalent)	35	0

* If the Scheme decides to invest in securitised debt, it is the intention of the Investment Manager that such investments will not normally, exceed 15% of the corpus of the Scheme.

Investment in debt derivatives - up to 10% of the net assets of the Scheme.

Gross Exposure to Repo of Corporate Debt Securities – up to 10% of the net assets of the Scheme.

Investments in foreign securities - upto 50% of the net assets of the scheme.

Investment in Securities lending - up to 20% of the net assets with maximum single party exposure restricted to 5% of the net assets.

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 guidelines / regulations as and when permitted by SEBI/RBI.

The cumulative gross exposure through repo transactions in corporate debt securities, credit default swaps along with equity, debt and derivatives shall not exceed 100% of the net assets of the Scheme.

Existing Investment Strategy

The scheme aims to dynamically manage equity and debt exposure in the portfolio. We are of the belief that such strategy will minimize the risk and optimize the risk return proposition for a long term investor.

The extent of equity exposure would be guided by an underlying quantitative model. The balance will be invested in debt and money market securities. The fund managers will follow a passive investment strategy and take equity exposure depending on opportunities available at various points in time based on the month-end weighted average PE ratio and 200 Day Moving Averages of the CNX Nifty Index.

Equity exposure:

Equity market exposure will be taken as per the quantitative model outputs. These exposures will then be passively maintained by tracking any of the market indices (subject to tracking error). The Scheme will endeavour to invest in stocks in a proportion that it is as close as possible to the weightages of these stocks in the underlying Index, taking into account the change in weights of stocks in the index as well as the incremental collections/redemptions from the Scheme.

The index to be invested in (tracked) will be determined on relative valuation of indices (month-end weighted average P/E ratio of the respective index) amongst themselves. The scheme proposes to track (subject to tracking error) CNX Nifty and CNX Nifty Junior indices as its investment universe. The Scheme will switch between indices when the current ratio of the indices' PE ratios (PE of CNX Nifty/PE of CNX Nifty Junior) is above or below its 18 month standard deviation.

Debt exposure:

The scheme shall invest in various types of permitted debt and money market securities (including G-Sec) across maturities. The allocation to various types of debt / money market securities would be based on the fund manager's view on interest rates and the market conditions.

Use of equity derivatives:

Under normal circumstances, the scheme shall primarily invest in equity and equity related instruments in the range of 65% to 100% and fixed income securities including money market instruments in the range of 0% to 35% for capital appreciation. The scheme will vary its investment in equity and equity related instruments and move towards exposure to equity derivatives when it needs to bring down the equity exposure below 65% depending upon the quantitative model.

In the periods where the model indicates a bullish market, the exposure of the scheme in equity and equity related instruments will increase of up to 100%. However, if the market movement reflects a bearish tint, the scheme will restrict its investment in equity to 65% and if necessary shall hedge this equity exposure in underlying stocks up to the extent of 35% of the portfolio by taking offsetting position in the derivative segment, therefore resulting into an equity market exposure going below 65% bringing it down up to 30%. In such a scenario the balance will be invested into debt market instruments.

Determining the equity exposure:

A quantitative model will be used to determine the exposure in equity and debt markets. The portfolio shall be rebalanced on the first business day of every month.

The quantitative model approach used to determine the equity and debt allocation employs valuation and momentum factors namely month-end weighted average P/E Ratio and 200 Day Moving Averages ("DMA") of CNX Nifty index. Valuation (P/E ratio) is used to determine whether markets are cheap or expensive relative to their 10 year history. We believe that the P/E ratio captures broader market valuations very well and thus helps judge market cycles while the moving average (200 DMA) help determine near term market sentiment.

The equity exposure of the scheme's portfolio will be determined as follows:

If Nifty Index weighted average PE is	Equity Component of the portfolio		Debt Component of the portfolio	
	If 200DMA<Spot Index	If 200DMA>Spot Index	If 200 DMA<Spot Index	If 200 DMA>Spot Index
Below 13.7	100%	65-83%	0%	17-35%
13.7-15.7	83-100%	48-65%	0-17%	35%
15.7-18.4	65-83%	30-48%	17-35%	35%
18.4-21.3	48-65%	30%	35%	35%
Above 21.3	30-48%	30%	35%	35%

Data for the Price-to-Earnings Ratio (PE ratio) of the indices will be obtained from the stock exchanges or any other reputed agency(ies) . The Price will reflect the closing market price on the stock exchanges for that day. The undiluted Earnings Per Share (EPS) will reflect the trailing earnings of the most recent four quarters of each of the companies on the index.

Proposed / Revised Investment Strategy

The scheme aims to dynamically manage equity and debt exposure in the portfolio. We are of the belief that such strategy will minimize the risk and optimize the risk return proposition for a long term investor.

The extent of equity exposure would be guided by an underlying quantitative model. The fund managers will take equity exposure depending on opportunities available at various points in time based on the month-end weighted average PE ratio. The balance will be invested in debt and money market securities.

Equity exposure:

Equity market exposure will be taken as per the quantitative model outputs. Within this, the equity component will be managed actively. For the equity portion, the scheme shall seek to build a diversified portfolio of companies across market cap and sectors with a large cap bias.

Debt exposure:

The scheme shall invest in various types of permitted debt and money market securities (including G-Sec) across maturities. The allocation would be based on the prevailing economic environment (including interest rates and inflation), the performance of the corporate sector and general liquidity and other considerations in the economy and markets.

Use of equity derivatives:

Under normal circumstances, the scheme shall primarily invest in equity and equity related instruments in the range of 65% to 100% and fixed income securities including money market instruments in the range of 0% to 35% for capital appreciation. The scheme will vary its investment in equity and equity related instruments and move towards exposure to equity derivatives when it needs to bring down the equity exposure below 65% depending upon the quantitative model.

In the periods where the model indicates a bullish market, the exposure of the scheme in equity and equity related instruments will increase up to 100%. However, if the market movement reflects a bearish tint, the scheme will restrict its investment in equity to 65% and if necessary shall hedge this equity exposure in underlying stocks up to the extent of 35% of the portfolio by taking offsetting position in the derivative segment, therefore resulting into an equity market exposure going below 65% bringing it down up to 30%. In such a scenario the balance will be invested into debt market instruments.

Determining the equity exposure:

A quantitative model will be used to determine the exposure in equity and debt markets. The quantitative model approach used to determine the equity and debt allocation employs valuation factor namely month-end weighted average P/E Ratio of Nifty 50 index.

The equity exposure of the scheme's portfolio will be determined as follows:

PE Bands	Equity Allocation
<12	90-100
12-16	75-90
16-19	65-75
19-22	55-65
22-26	40-55
>26	30-40

The balance will be invested in debt and money market securities. The portfolio will be rebalanced within the first three working days of the next month.

Data for the Price-to-Earnings Ratio (PE ratio) of the indices will be obtained from the stock exchanges or any other reputed agency(ies) . The Price will reflect the closing market price on the stock exchanges for that day. The undiluted Earnings Per Share (EPS) will reflect the trailing earnings of the most recent four quarters of each of the companies on the index.

The PE Bands would be revisited every year for recalibration, if required. The information about the same will be given to the investors by issuing an addendum to that effect.

Benchmark

Existing	Revised
CNX Nifty Index and **Crisil Balanced Fund - Aggressive Index** (earlier known as Crisil Balanced Fund Index)	**Crisil Balanced Fund - Aggressive Index** *(earlier known as* Crisil Balanced Fund Index) Since the Scheme shall invest in a mix of equity and debt securities, with predominant exposure to equities, CRISIL Balanced Fund -Aggressive Index is most suited for comparing performance of such hybrid scheme.

The investment objective of the Scheme will remain unchanged.

The above changes in the scheme features have been approved by the Board of Directors of the AMC and the Trustee Company.

The change in investment strategy of the Scheme, being a change in the fundamental attributes of the Scheme, in terms of regulation 18(15A) of SEBI (Mutual Funds) Regulations, 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 May 18, 2017 to June 16, 2017 (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 May 18, 2017.

Such exit option will not be available to unitholders whose units have been 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 June 16, 2017 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.

As regards the unitholders who redeem their investments during the Exit Option Period, the tax consequences as set forth in the Statement of Additional Information of IDFC Mutual Fund and Scheme Information Document of the Scheme would apply. In view of individual nature of tax consequences, unitholders are advised to consult their financial / tax advisor for detailed tax advice.

The Notice - Cum - Addendum forms an integral part of the SID and KIM of the Scheme, read with the addenda.

Date: May 15, 2017

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

20 (w) x 50 (h) cm