IDFC MUTUAL FUND

Notice - Cum - Addendum No. 26 of 2018

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

Change in features of the Scheme:

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 Classic Equity Fund ("the Scheme"), an open ended equity fund, shall stand modified as follows with effect from **Monday, May 28, 2018** ("Effective Date"):

Name

Existing	Proposed
IDFC Classic Equity Fund	IDFC Core Equity Fund

Type / Category

Existing	Proposed
An Open ended Equity scheme	Large & Mid Cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks

Investment Objective

Existing	Proposed
The investment objective of the scheme is to seek to generate long-term capital growth from a diversified portfolio of predominantly equity and equity related instruments.	The Scheme seeks to generate long-term capital growth by investing predominantly in large cap and mid cap stocks.

Asset Allocation Pattern (existing)

Instruments	Indicative Allocation (as % 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 50% of net assets of the scheme

Investments in Securities Lending - upto 35% of the net assets of the Scheme

Gross Exposure to Repo of Corporate Debt Securities - upto 10% of the net assets of 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 as permitted by SEBI regulations - upto 50% of the net assets of the scheme.

Asset Allocation Pattern (proposed/revised)

Instruments	Indicative Allocation (as % of total assets)
Equity & Equity related instruments, within which	**70% - 100%**
Large cap stocks	35% - 65%
Mid cap stocks	35% - 65%
Small cap stocks	0% - 30%
Debt & Money Market instruments (including Government securities, Securitised debt, Margin money/FD) **and Units issued by REITs & InvITs,** within which	**0% - 30%**
- 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 – up to 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)

INVESTMENT STRATEGIES AND RISK CONTROL

Equity

The scheme will endeavor to invest in well managed sustainable businesses whose shares are available at reasonable value through a process of disciplined research. The portfolio will aim to provide part ownership to investors in some of the best run companies in India. The portfolio of securities will be well diversified across sectors, so identified, to mitigate overall risk. As the scheme is expected to be part of the core long term equity holdings of the investors, a well balanced and prudent style of fund management will be adopted to endeavor to deliver good returns at controlled levels of risk. The guiding principles while managing the portfolio are summarized below:

1. Stock prices are directly correlated to company profits over the medium to long term

   Fund management would focus primarily on business fundamentals of the underlying company. The Equity Research process will endeavor to acquire a robust understanding of the dynamics of the underlying business. This would form the basis for forecasts on future profitability and sustainability of cash profit growth. Stock prices of companies that can sustain periods of high cash profit growth will outperform the markets over the long term. Investors entering this scheme are therefore expected to have at least a 2-3 years' time horizon.

2. 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.

3. Acquire stocks at reasonable value

   Once good businesses are identified, stocks would be endeavored to be acquired when they are available at a reasonable value. Overall market corrections and stock price falls due to temporary factors that don't affect long-term profitability are an excellent opportunity to buy stocks cheap.

4. Stay fully invested over most periods

   The Fund will not try to profit by predicting overall market direction based on technical indicators or momentum. The Fund will generally stay fully invested in equities to give investors the full advantage of a rise in the markets that is inevitable given the current trajectory India's GDP growth. The scheme may however hold cash during periods where in the view of the fund manager the market valuations have run ahead of its fundamentals or when the fund manager is unable to identify stocks at a reasonable value. The scheme may also hold cash to meet anticipated redemptions or to tide over temporary adverse market developments.

Debt

The 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. The Fund has put in place detailed Investment Discretion Guidelines defining the prudential and concentration limits for the portfolio limits. The investment management team is allowed full discretion to make sale and purchase decisions within the limits established. The Fund Manager/(s) record a justification for investments made, on the deal slip

The Link between Interest Rates and Maturity

Changes in interest rates do not affect all bonds equally. The longer it takes for a bond to mature, the greater the risk that prices will fluctuate along the way and that the fluctuations will be greater and the more the investors will expect to be compensated for taking the extra risk. There is a direct link between maturity and yield. It can best be seen by drawing a line between the yields available on like securities of different maturities, from shortest to longest. Such a line is called a yield curve. A yield curve could be drawn for any bond market but it is most commonly drawn for the Treasury market, which offers securities of every maturity and where all issues bear the same top credit quality. By watching the yield curve, as reported in the daily financial press, you can gain a sense of where the market perceives interest rates to be headed one of the important factors that could affect your bonds 'prices. A normal yield curve would show a fairly steep rise in yields between short and intermediate term issues and a less pronounced rise between intermediate and long term issues. That is as it should be, since the longer the investor's money is at risk, the more the investor should expect to earn.

Investment Strategy (proposed/revised)

The scheme will endeavour to invest atleast 70% of total assets in Large & Mid Cap stocks of well managed sustainable businesses whose shares are available at reasonable value through a process of disciplined research. The portfolio of securities will be well diversified across sectors, so identified, to mitigate overall risk. As the scheme is expected to be part of the core long term equity holdings of the investors, a well-balanced and prudent style of fund management will be adopted to endeavour to deliver good returns at controlled levels of risk.

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 change in investment objective, asset allocation pattern and investment strategy of the scheme and use of IRF to imperfectly hedge the portfolio, being changes 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 the Scheme in view of the proposed change in the Scheme's features. The period of this no load exit offer is valid for a period of 30 days from **Wednesday, April 25, 2018** to **Friday, May 25, 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 25, 2018.**

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 **Friday, May 25, 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.

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

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: April 19, 2018