IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 27 of 2018

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

Change in fundamental attributes and benchmark of the Scheme:

NOTICE is hereby given that pursuant to SEBI circular dated October 6, 2017 on categorisation and rationalisation of mutual fund schemes, the features of IDFC Sterling Equity Fund ("the Scheme"), an open ended equity fund, shall stand modified as follows with effect from **Monday, May 28, 2018** ("Effective Date") :

Name of the Scheme

Existing	Proposed
IDFC Sterling Equity Fund	IDFC Sterling Value Fund

Type / Category

Existing	Proposed
An Open ended Equity scheme	An open ended equity scheme following a value investment strategy

Investment Objective

Existing	Revised (proposed)
The investment objective of the Scheme is to seek to generate capital appreciation from a diversified portfolio of equity and equity related instruments. The Scheme will predominantly invest in small and midcap equity and equity related instruments. Small and Midcap equity and equity related instruments will be the stocks included in the Nifty Free Float Midcap 100 Index or equity and equity related instruments of such companies which have a market capitalization lower than the highest components of Nifty Free Float Midcap 100 Index. The Scheme may also invest in stocks other than mid cap stocks (i.e. in stocks, which have a market capitalization of above the market capitalization range of the defined small - midcap stocks) and derivatives. On defensive consideration, the Scheme may also invest in debt and money market instruments. In case of discontinuation / suspension of Nifty Free Float Midcap 100 Index, the AMC reserves the right to modify the definition of Mid cap and Small cap companies. In case of such a modification, the interest of investors will be of paramount importance.	The investment objective of the Scheme is to seek to generate capital appreciation from a diversified portfolio of equity and equity related instruments by following a value investment strategy.

Asset Allocation Pattern (existing)

Instruments	Indicative Allocation (% of total assets)	
	Minimum	Maximum
Equities & Equity related instruments included in the Nifty Free Float Midcap100 index or Equity and Equity related instruments of companies which have a market capitalization lower than the highest components of Nifty Free Float Midcap100 index, of which	65%	100%
Small Cap Stocks shall be	15%	50%
Midcap Stocks shall be	50%	100%
Equity & Equity related instruments of companies which have a market capitalization higher than the highest component of Nifty Free Float Midcap100 index (i.e. in Equity and Equity related instruments of companies with market capitalization above the defined Small-Mid cap stocks)	0%	35%
Debt and Money Market instruments (including Securitized Debt instruments)	0%	35%

Asset Allocation Pattern (proposed/revised)

Instruments	Indicative Allocation (% of total assets)
Equity and equity related instruments	65%-100%
Debt Securities and Money Market Instruments (including Government securities, Securitised debt, Margin money/FD) and Units issued by REITs & InvITs, within which	0%-35%
- Units issued by REITs & InvITs	0% - 10%

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.

Investment Strategy

Existing Strategy	Revised Strategy (proposed)
The scheme will invest in well-managed growth companies that are available at reasonable value. Companies would be identified through a systematic process of forecasting earnings based on a understanding of the industry growth potential and interaction with company management to access the company's core competencies to achieve long-term sustainable profit growth. The scheme would predominantly create a portfolio of emerging business and companies that are aspiring leaders in their respective field of operations. Some part of the portfolio would be in stocks/ companies that do not have a significant history of being listed. The Scheme is expected to deliver returns for investors looking for a focused aggressive portfolio of fundamentally good businesses. The guiding principles while managing the portfolio are summarized below: 1. **Sustainable company profits drives long term share value** Fund management would focus primarily on business fundamentals of the underlying company. The Equity Research process will endeavour 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, generally outperform the markets over the long term. Investors entering this scheme are therefore expected to have at least a one year time horizon. 2. **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. 3. **Monitor market interest to ensure consistent performance** Systematically tracking over stock ownership and over researched sectors would help to reduce the risk of a sudden sell off. Stock prices react to event triggers that are constantly monitored to ensure that portfolio performance is relatively more consistent. India in its growing phase, has witnessed a good hike in GDP rate compared to other countries and this clearly depicts development of Indian industry. Thanks to sectoral development across the Indian industry, which have played a major role in the growth of the economy as a whole. Future growth sectors are generally well captured though Small and Mid Caps involved in those sectors. The present scenario reveals that though stocks pertaining to Large Cap, Mid Cap and Small caps have performed well, but returns of Small and Mid Cap stocks were relatively better than Large cap stocks during many phases. Even the Market data reveals that, some of the funds investing in Mid cap stocks have performed well during the last year i.e. 2009 and in the current year. The entrepreneurial abilities of Indian businessmen and scalability of companies in India is now being recognized by Global Investors also. There are number of Public offerings lined up in the Indian Equity market. The scheme may also invest in such companies to try and endeavor providing reasonable returns to the investors. It has also been observed that a number of Small cap / Mid cap Companies in past are now market leaders in their segments and are competing with the best of global firms. Small cap and Mid cap companies also provide good opportunities, as many times, there is lower awareness about such companies and their prices may be lower than the intrinsic value of the business (quoting at much lesser P/E ratio). Institutional ownership also tends to be lower in these scrips as compared to large cap companies. These are also relatively less covered by research analyst, thus providing good investment opportunities.	The scheme would create a portfolio of emerging businesses and companies that are aspiring leaders/challengers in their respective field of operations. Some part of the portfolio would be in stocks/ companies that do not have a significant history of being listed. The scheme will invest in undervalued companies identified through a systematic process based on an understanding of the industry growth potential and interaction with company management to assess the company's core competencies towards achieving long-term sustainable profit growth. The scheme seeks to follow a value investment strategy and would accordingly aim to identify undervalued companies in the market. Investment decisions to identify these companies would be based on relative valuation parameters such as (but not limited to) EV/Sales, P/E, P/B, Dividend yield, FCF yield, etc., between the portfolio companies and the Broader market indices and Sector/sub-sector peer set. Further the fund would look to invest across sectors and market cap.

Benchmark

Existing	Revised (proposed)
Nifty Free Float Midcap 100 Index	S&P BSE 500 Index S&P BSE 500 Index is a broad based index and is representative of the scheme's investment universe

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 changes in the scheme features 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