IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 28 of 2018

Addendum to the Scheme Information Document and Key Information Memorandum of IDFC Monthly Income Plan

Change in scheme features:

NOTICE is hereby given that the features of IDFC Monthly Income Plan ("the Scheme"), an open ended debt fund, shall stand modified as follows with effect from **Monday, May 28, 2018** ("Effective Date"):

Name of the Scheme

Existing	Proposed
IDFC Monthly Income Plan	IDFC Regular Savings Fund

Type / Category

Existing	Proposed
An Open Ended Debt Fund	An open ended hybrid scheme investing predominantly in debt instruments

Investment Objective

Existing	Proposed
The primary objective of the Scheme is to generate regular returns through investment primarily in debt securities. The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity securities.	The primary objective of the Scheme is to generate regular returns through investment predominantly in debt instruments. The secondary objective of the Scheme is to generate long-term capital appreciation by investing a portion of the Scheme's total assets in equity securities.

Asset Allocation Pattern (existing)

Instruments	Indicative Allocation (% of total assets)	
	Minimum	Maximum
Equity Securities	0	25
Debt Securities (Including securitized debt) and Money market Instruments	75	100

Investment in derivative- up to 50% of the net assets of the scheme.

Investment in Foreign Securities - up to 50% 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)
Equity & Equity related instruments (including derivatives)	10% - 25%
Debt & Money Market instruments (including Government securities, Securitised debt, Margin money/FD) **and Units issued by REITs & InvITs**, within which	75% - 90%
- Units issued by REITs & InvITs	0% - 10%

Investment in Foreign securities - up to 50% of total assets
Investment in Securitised Debt - up to 50% of the total assets
Exposure in Equity Derivatives (other than for hedging purpose) - up to 15% of total assets
Exposure in Fixed Income Derivatives - up to 90% of 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
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)

Equity Investments

The scheme will endeavour 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 holdings of our investors, we will adopt a well-balanced and prudent style of fund management that will endeavour 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 year 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 only at reasonable value
   Once good businesses are identified, stocks would 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 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 up to 35% during periods where in the view of the fund manager the market valuations have run ahead of its fundamentals or when we are 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 investments

The Scheme will retain the flexibility to invest in the entire range of debt instruments and money market instruments (including securitised debt). Investment in Debt securities and Money Market Instruments will be as per the limits in the asset allocation table of the Scheme, subject to permissible limits laid under SEBI (MF) Regulations.

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.

Investment Strategy (proposed/revised)

Equity

A well balanced and prudent style of fund management will be adopted to endeavour to deliver good returns at controlled levels of risk. The Scheme will endeavour to invest in a well-diversified portfolio of equity/equity related securities aimed to capture opportunities across sectors and market capitalisation in line with the fund manager's views.

Debt

The scheme shall invest in various types of permitted debt and money market securities (including G-Sec) across maturities. The aim of the Investment Manager will be to allocate the assets of the Scheme amongst various fixed income instruments (debt / money market) across maturities and ratings with the objective of optimizing returns. The actual percentage of investment in various fixed income instruments and the general maturity range for the portfolio will be determined from time to time basis the prevailing macro-economic environment (including interest rates and inflation), market conditions, general liquidity, and fund manager views.

A) The following disclosures are being modified in the Scheme Information Document of the Scheme from the Effective Date:

Risks associated with Investing in Derivatives (inserted under the section "Risk Factors"):

Derivative products are leveraged instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies. The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. As and when the Scheme trade in the derivatives market there are risk factors and issues concerning the use of derivatives that investors should understand. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with Money Market Instruments bonds. The use of a derivative requires an understanding not only of the underlying instrument but of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Derivatives are highly leveraged instruments. Even a small price movement in the underlying security could have a large impact on their value. Also, the market for derivative instruments is nascent in India.

The risks associated with the use of derivatives are different from or possibly greater than the risks associated with investing directly in securities and other traditional investments.

The specific risk factors arising out of a derivative strategy used by the Fund Manager may be as below:

- Lack of opportunity available in the market.
- The risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.

Risk associated with Interest Rate Future

1. Market risk - Derivatives carry the risk of adverse changes in the market price.
2. Liquidity risk - this occurs where the derivatives cannot be sold (unwound) at prices that reflect the underlying assets, rates and indices.
3. Model Risk - the risk of mispricing or improper valuation of derivatives.
4. Basis Risk - This risk arises when the instrument used as a hedge does not match the movement in the instrument/ underlying asset being hedged. The risks may be inter-related also; for e.g. interest rate movements can affect equity prices, which could influence specific issuer/industry assets.
5. Risk associated with imperfect hedge due to use of IRF are - '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.

Risk Management Strategies

Risk Description	Risk Management
As and when the Scheme trades in the derivatives market there are risk factors and issues concerning the use of derivatives that Investors should understand. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. Derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the portfolio and the ability to forecast price or interest rate movements correctly. There is the possibility that a loss may be sustained by the portfolio as a result of the failure of another party (usually referred to as the "counter party") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indices.	The fund has provision for using derivative instruments in the manner permitted by SEBI from time to time. Interest Rate Swaps will be done with approved counter parties under pre-approved ISDA agreements. Mark to Market of swaps, netting off of cash flow and default provision clauses will be provided as per international best practice on a reciprocal basis. Interest rate swaps and other derivative instruments will be used as per local (RBI and SEBI) regulatory guidelines.

Note on investment in Derivatives (inserted under the Section "Information about the scheme")

Interest Rate Future (IRF)

Interest Rate Futures means a standardized interest rate derivative contract traded on a recognized stock exchange to buy or sell a notional security or any other interest bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract.

Exchange traded IRFs are standardized contracts based on a notional coupon bearing Government of India (GOI) security.

As there is an inverse relationship between interest rate movement and underlying bond prices and the futures price also moves in tandem with the underlying bond prices. If the Fund Manager has a view that interest rates will rise in the near future and intends to hedge the risk from rise in interest rates; the Fund Manager can do so by selling the IRF contracts to hedge the interest rate risk on the underlying portfolio.

If the Fund Manager is of the view that the interest rates will go down the Fund Manager will buy IRF to participate in appreciation.

Example:

The scheme holds cash & cash equivalent and expects that the interest rate will go down and intends to take directional position. Accordingly, the fund manager shall buy IRF-

- Trade Date- January 1, 2018
- Futures Delivery date- April 1, 2018
- Current Futures Price - Rs. 102.00
- Futures Bond Yield- 8.85%
- Trader buys 200 contracts of the April 2018, 10 Year futures contract of face value of Rs.1000 on NSE on January 1, 2018 at Rs. 102.00

Closing out the Position

- Date: January 7, 2018
- Futures market Price - Rs. 105.00
- Trader sells 200 contracts of April 2018 10 year futures contract of face value of Rs.1000 at Rs. 105 and squares off his position
- Therefore total profit for trader 200*1000*(105 – 102) is Rs.6,00,000

Pursuant to SEBI circular no. CIR/MRD/DRMNP/11/2015 dated June 12, 2015, the following position limits shall be applicable to mutual funds in for IRF contracts:

a) Scheme of Mutual Fund Level - The gross open positions across all contracts within the respective maturity bucket shall not exceed 3% of the total open interest in the respective maturity bucket or INR 200 crore, whichever is higher.
b) Mutual Fund Level - The gross open positions across all contracts within the respective maturity bucket shall not exceed 10% of the total open interest in the respective maturity bucket or INR 600 crore, whichever is higher.

Hedging

Debt securities are exposed to the risk of rising interest rates, which in turn results in the reduction in the value and such impact can be seen in the value of the portfolio of the scheme. Under such circumstances, in order to hedge the fall in the value of the portfolio of the scheme due to falling bond prices, the fund manager may sell IRF contracts.

Example:

Date: January 01, 2018

Spot price of Security: Rs 101.80

Futures price of IRF Contract: Rs 102.00

On January 01, 2018, the Fund Manager bought 2000 GOI securities from spot market at Rs 101.8. 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 2016, Interest Rate Futures contracts at Rs 102.00.

On March 01, 2018 due to increase in interest rate:

Spot price of Security: Rs 100.80

Futures Price of IRF Contract: 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

Imperfect Hedging

The Scheme may use Interest Rate Futures (IRF) in accordance with SEBI guidelines and may imperfectly hedge its portfolio or part of its portfolio using IRFs. 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 change in asset allocation pattern, investment strategy and enabling use of Interest Rate Futures has been approved by the Board of Directors of the AMC and the Trustee Company.

The above changes in the features of the scheme 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 asset allocation, investment strategy and enabling Interest Rate Futures has 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

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

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