IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 29 of 2018

Addendum to the Scheme Information Document and Key Information Memorandum of IDFC Ultra Short Term 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 Ultra Short Term Fund, an open ended debt fund, shall stand modified as follows with effect from **Monday, May 28, 2018** ("Effective Date"):

Type / Category

Existing	Proposed
An Open ended debt scheme	An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months and 12 months (please refer below)#

Please refer to the section on Macaulay's Duration given in the addendum below.

Name

Existing	Proposed
IDFC Ultra Short Term Fund	IDFC Low Duration Fund

Investment Objectives

Existing	Proposed
To offer an investment avenue for short term savings by looking to generate stable returns with a low risk strategy. The scheme will have a portfolio that is invested in good quality debt and money market instruments such that the fund will offer a blend of liquidity with stability of returns.	The Scheme seeks to offer an investment avenue for short term savings by looking to generate returns commensurate with a low risk strategy from a portfolio that is invested in debt and money market securities such that the Macaulay duration of the portfolio is between 6 months and 12 months.

Asset Allocation Pattern (existing)

Asset Class	Indicative allocation (as % of net assets)
Money Market Instruments, debt Instruments	0% - 100%
Debt instruments with maturity up to 365 Days	0% - 75%
Debt instruments between 1-3 years	0% - 50%
Securitized instruments	0% - 25%

Investments in Derivatives - Up to 50% of Net Assets of the scheme.

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

Investment in Securities lending (Stock lending) - Up to 35% of Net Assets of the scheme.

Investment in Foreign Debt Instruments up to 35%.

The fund would provide high liquidity by investing in a portfolio of money market instruments such as CBLOs, Call Money market, Treasury bills, reverse repos, commercial papers, certificate of deposits etc. and various debt instruments. The scheme has the primary objective to provide liquidity.

Any surplus funds will be invested in a manner to deliver reasonable returns to the investors. The RBI had announced that it may permit scheduled commercial banks to offer cheque writing facility inter alia to Mutual Fund schemes which are liquid Schemes and predominantly invest in money market instruments (not less than 80% of their corpus). On introduction of cheque writing facility by RBI / other regulatory authority, the AMC may introduce the same under the Scheme. On introduction of the said facility, the Scheme will comply with guidelines, procedures issued for the same.

Asset Allocation Pattern (proposed/revised)

Asset Class	Indicative allocation (as % of total assets)
Debt Securities (including G-Sec and securitised debt) and Money Market Instruments such that the Macaulay duration of the portfolio is between 6 months and 12 months	0% - 100%

Investment in Securitised Debt - up to 50% of the total assets.

Investment in Foreign securities - up to 50% 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.

Exposure in Derivatives - up to 100% 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 derivatives and debt & money market instruments along with repo transactions in corporate debt securities and credit default swaps shall not exceed 100% of the net assets of the Scheme.

Investment Strategy

Existing	Proposed
The domestic debt markets are maturing rapidly with liquidity emerging in various debt segments through the introduction of new instruments and investors. The aim of the Investment Manager will be to allocate the assets of the Scheme between various money market and fixed income securities with the objective of providing liquidity and achieving optimal returns with the surplus funds. The actual percentage of investment in various money market and other 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 Scheme proposes to invest in a diversified set of fixed income securities and money market instruments with the aim of generating returns commensurate with a low risk strategy such that the Macaulay duration of the portfolio is between 6 months and 12 months. 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 from time to time will be decided basis the prevailing macro-economic environment (including interest rates and inflation), market conditions, general liquidity, and fund manager views.

Macaulay duration

The following paragraph shall be inserted in the Section "Information about the Scheme" -

Macaulay duration

The Macaulay duration is the weighted average term to maturity of the cash flows from a bond.The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

Macaulay duration can be calculated as below:

$$\text{Macaulay Duration} = \frac{\sum_{t=1}^{n} \frac{t * C}{(1+y)^t} + \frac{n * M}{(1+y)^n}}{\text{Current Bond Price}}$$

Where: t = respective time period, C = periodic coupon payment, y = periodic yield, n = total number of periods, M = Value at maturity, Current Bond Price

In other words, Macaulay duration calculates the weighted average time an investor must hold a bond until the present value of the bond's cash flows equals the amount paid for the bond. A coupon paying bond will always have its duration less than its time to maturity. Macaulay duration may help investors gauge the interest rate risk of the fund and accordingly help consider an ideal fund that match investors risk/return expectation.

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 objectives, asset allocation pattern and investment strategy of the Scheme, and use of IRF to imperfectly hedge the portfolio, 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 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

Size : 16 (w) x 50 (h) cm