IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 12 of 2018

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

Change in scheme features:

NOTICE is hereby given that pursuant to SEBI circular on categorization and rationalization of mutual fund schemes, the features of IDFC Balanced Fund ("the Scheme"), an open ended balanced scheme, shall stand modified as follows with effect from **Monday, April 30, 2018** ("Effective Date"):

Name

Existing	Proposed
IDFC Balanced Fund	IDFC Hybrid Equity Fund

Type / Category

Existing	Proposed
An Open ended Balanced scheme	An open ended hybrid scheme investing predominantly in equity and equity related instruments

Investment Objective

Existing	Proposed
The Fund seeks to generate long term capital appreciation along with current income by investing in a mix of equity and equity related securities, debt securities and money market instruments.	The Fund seeks to generate long term capital appreciation by investing predominantly in equity and equity related instruments. The Fund also seeks to generate current income by investing in debt securities and money market instruments.

Asset Allocation Pattern (existing)

Under normal circumstances

Instruments	Indicative Allocation (As % of total assets)	
	Minimum	Maximum
Equities & Equity related instruments	30	60
Net Equity Arbitrage Exposure*	5	15
Debt Securities & Money Market instruments	35	60

* Equity exposure would be hedged with corresponding equity derivatives of 5% - 15%.

Under defensive circumstances

Instruments	Indicative Allocation (As % of total assets)	
	Minimum	Maximum
Equities & Equity related instruments	40	60
Debt Securities & Money Market instruments	40	60

Investment in Securitised Debt - up to 15% of the net assets
Investment in Foreign securities - up to 50% of the net assets
Investment in Securities lending – up to 20% of the net assets with maximum single party exposure restricted to 5% of the net assets
Investment in Derivatives - up to 50% of the net assets
Gross Exposure to Repo of Corporate Debt Securities - up to 10% of the net assets

The Scheme may engage in short selling of securities in accordance with the applicable guidelines / regulations.

The Scheme may also invest in units of debt and liquid mutual fund schemes and Equity ETFs within the above limits. The portfolio may hold cash depending on the market conditions.

Whenever the equity and equity derivative investment strategy (arbitrage strategy) is not likely to give return comparable with the fixed income securities portfolio, the fund manager will invest in fixed income securities. This is subject to the 30 days' rebalancing period provision mentioned in the Scheme Information Document.

The cumulative gross exposure through repo transactions in corporate debt securities along with equity, debt and derivatives shall not exceed 100% of the net assets of the Scheme. Cash or cash equivalents with residual maturity of less than 91 (ninety one) days will be treated as not creating any market exposure.

The scheme shall not invest in Credit Default Swaps (CDS).

Asset Allocation Pattern (proposed/revised)

Instruments	Indicative Allocation (% of total assets)
Equities & Equity related instruments (including derivatives)	65%-80%
Debt & Money Market instruments (including Government securities, Securitised debt, Margin money/FD) **and Units issued by REITs & InvITs,** within which	20%-35%
- Units issued by REITs & InvITs	0% - 10%

Investment in Foreign securities - up to 35% of the total assets
Exposure in Equity Derivatives (other than for hedging purpose) - up to 40% of total assets
Exposure in Fixed Income Derivatives - up to 35% of total assets
Investment in Securitised Debt - 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
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)

The Fund has an open mandate for allocation between debt and equity. It does not follow any defined model for determining the allocation.

Equity allocation:

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 allocation:

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

Derivatives:

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 effective equity exposure, depending on the prevailing market conditions. Given that the fund is a balanced fund, allocation between equity and debt instruments will be dynamically managed with the derivative allocation providing opportunities to hedge equity exposure so as to provide a lower risk alternative to equity allocation

INVESTMENT STRATEGY (proposed/revised)

The Fund has an open mandate for allocation between debt and equity. It does not follow any defined model for determining the allocation.

Equity allocation:

For the equity portion, the scheme shall seek to build a diversified portfolio of companies across market cap and sectors. The scheme may also take exposure to equity derivatives when it needs to bring down the effective equity exposure, depending on the prevailing market conditions.

Debt allocation:

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.

The above change in asset allocation pattern and investment strategy has been approved by the Board of Directors of the AMC and the Trustee Company.

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 above changes in 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, March 28, 2018** to **Friday, April 27, 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, March 28, 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, April 27, 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.

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: March 26, 2018

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