IDFC
IDFC MUTUAL FUND

Notice - Cum - Addendum No. 13 of 2018

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

Repositioning of IDFC Arbitrage Plus Fund:

NOTICE is hereby given that the name, investment objective, asset allocation pattern, investment strategy and benchmark index of IDFC Arbitrage Plus Fund ("the Scheme"), an open-ended equity fund of IDFC Mutual Fund, shall stand modified as follows with effect from **Monday, April 30, 2018** ("Effective Date").

Consequently, the following changes will be carried out in the features of the scheme from the Effective Date:

Name

Existing	Proposed
IDFC Arbitrage Plus Fund	IDFC Equity Savings Fund

Type / Category

Existing	Proposed
An Open ended Equity scheme	An open ended scheme investing in equity, arbitrage and debt

Investment Objective

Existing	Proposed
To generate income (absolute to low volatility returns) by taking advantage of opportunities in the cash and the derivative segments of the equity markets including the arbitrage opportunities available within the derivative segment, by using other derivative based strategies and by investing the balance in debt and money market instruments.	To generate income by predominantly investing in arbitrage opportunities in the cash and derivatives segments of the equity markets along with debt and money market instruments and to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments.

Existing Asset Allocation Pattern

Under Normal circumstances:

Instruments	Indicative Allocation (% of total assets)	
	Maximum	Minimum
Equities & Equity related instruments *	100	65
Derivatives *	100	65
Debt & Money Market instruments including the margin money deployed in derivative transactions	35	0

Under Defensive Consideration+:

Instruments	Indicative Allocation (% of total assets)	
	Maximum	Minimum
Equities & Equity related instruments *	35	0
Derivatives *	35	0
Debt & Money Market instruments including the margin money deployed in derivative transactions	100	65

+ Defensive circumstances are when the arbitrage opportunities in the market are negligible, in view of the fund manager

Investments in securitized debt can be made upto 35% of the portfolio.

Investment in derivatives can be made 100% of the net assets of the scheme.

Investment in Securities Lending can be made upto 50% of net assets of scheme

Investments in Foreign debt instruments – up to 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 ADRs and GDRs issued by Companies in India, as permitted by SEBI regulations – upto 50% of the net assets of the scheme.

*Equity allocation is measured as the Gross exposure to equities, equity related instruments and derivatives. The scheme will enter into equity positions to hedge the investments in derivatives. The derivative positions will be hedged against corresponding positions in either equity or derivative markets depending on the strategies involved and execution costs. On the total portfolio level there will be no short-positions. **Unhedged positions in the portfolio (investments in equity shares without corresponding exposure to equity derivative) shall not exceed 5%.**

Proposed / Revised Asset Allocation Pattern

Under Normal circumstances:

Instruments	Indicative Allocation (% of total assets)
Equities & Equity related instruments (including derivatives), within which	**65% - 80%**
- Net Equity Arbitrage Exposure*	20% -60%
- Net Long Equity Exposure (un-hedged)	20% - 45%
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%

*The exposure to derivative shown in the above asset allocation table would normally be the exposure taken against the underlying equity investments for hedging and in such case, exposure to derivative will not be considered for calculating the gross exposure.

Under Defensive circumstances (i.e., when the arbitrage opportunities in the market are not adequate, in view of the fund manager):

Instruments	Indicative Allocation (% of total assets)
Equities & Equity related instruments (including derivatives), within which	**20% - 65%**
-Net Equity Arbitrage Exposure*	0% - 20%
- Net Long Equity Exposure (un-hedged)	20% - 45%
Debt & Money Market instruments (including Government securities, Securitised debt, Margin money/FD) **and Units issued by REITs & InvITs,** within which	**35% - 80%**
-Units issued by REITs & InvITs	0% - 10%

*The exposure to derivative shown in the above asset allocation table would normally be the exposure taken against the underlying equity investments for hedging and in such case, exposure to derivative will not be considered for calculating the gross exposure.

Investment in Securitised Debt - up to 35% of the total assets

Investment in Foreign securities - up to 35% 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 Equity Derivatives (other than for hedging purpose) – up to 25% of total assets

Exposure in Fixed Income Derivatives – up to 35% 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.

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.

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 investment objective of the scheme is to generate income (absolute to low volatility returns) by taking advantage of opportunities in the cash and the derivative segments of the equity markets including the arbitrage opportunities available within the derivative segment, by using other derivative based strategies and by investing the balance in debt and money market instruments. The scheme will enter into derivative based strategies to take advantage of pricing inefficiencies in the market. These strategies will be undertaken based on certain statistical models/ technical analysis carried out by the fund manager. The scheme will also invest a part of its corpus in debt and money market instruments. The scheme will target to generate returns with a low correlation with equity markets. The following strategies will be used by the fund manager: 1. Cash-Futures Arbitrage 2. Relative Value Trades 3. Derivative strategies and structured investments Additionally the fund manager may invest in debt and money market instruments for margin and cash flow management purposes.	The investment strategy of the hedged portion of the fund includes identifying and investing into arbitrage opportunities between spot/cash and futures prices of individual stocks. The un-hedged portion will follow a diversified strategy without any market cap or sector bias. Debt allocation would be across various money market and fixed income securities with the objective of providing liquidity and achieving optimal returns.

Benchmark

Existing	Revised (proposed)
Crisil Liquid Fund Index	**30% Nifty 50 + 70% Crisil Liquid Fund Index** The proposed benchmark is in line with the intended asset allocation of the fund. The fund intends to invest predominant portion of its assets in arbitrage opportunities alongside marginal exposure to debt and money market instruments. Crisil Liquid Fund index is an appropriate index to track the performance offered by arbitrage opportunities and debt/money market instruments. Nifty 50 being a diversified benchmark is appropriate for benchmarking the un-hedged equity portion.

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 this scheme in view of the proposed change in the scheme features. The period of this no load exit offer is valid for a period of 30 days **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.

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.

Introduction of Quarterly Dividend Option:

Simultaneous to the re-positioning of the scheme, **Quarterly Dividend Option** shall be introduced under the Regular and Direct Plan of the Scheme in addition to the existing Monthly and Annual Dividend Options from the Effective Date.

Introduction of Quarterly Dividend Option under the Scheme shall be as per details stated here below :-

Date of Launch	Effective date
Offer Price	At Rs. 10/- on the Effective Date and at applicable NAV based prices thereafter.
Facility	Payout, Re-investment and Sweep
Dividend Policy	Dividend will be declared subject to availability of distributable surplus and at the discretion of the Trustee.

Default Option: Consequent to the introduction of Quarterly Dividend Option, the default dividend option will change from Monthly Dividend Option to Quarterly Dividend option from the Effective Date. Accordingly, within Dividend options if the investor does not select any frequency option, the default option shall be Quarterly Dividend Reinvestment.

Quarterly Dividend Option introduced under the Regular Plan and Direct Plan of the Scheme will have the same investment objective, portfolio, liquidity, and minimum application amount, load structure and expense ratio as that of respective Plan of the Scheme.

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.

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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