

Addendum No 43–December 2012

This addendum sets out changes made in Statement of Additional Information (SAI) (Printed Date December 26, 2012)

Updation of Valuation Policy:

The updated valuation policy is replaced in SAI under section IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS:

The below Valuation Policy shall be effective from January 01, 2013.

IV. INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

The NAV of the Units of the Scheme will be computed by dividing the net assets of the Scheme by the number of Units outstanding on the valuation date. The Fund shall value its investments according to the valuation norms, as specified in Schedule VIII of the Regulations, or such norms as may be prescribed by SEBI from time to time. The broad valuation policy was placed and approved by the Board of AMC and Trustee Company. The policy is as under:

Valuation Policy

VALUATION POLICY	
Background and Rationale	<p>This policy has been formulated in accordance with SEBI notification dated February 21, 2012 amending the SEBI (Mutual Funds) Regulations, 1996 which mandates AMC's to put in place a policy framework for valuing each type of security/asset on the principles of fair valuation with the objective of ensuring fair treatment to all investors, ie, existing investors and investors seeking to subscribe or redeem units.</p> <p>This policy shall be based on the principles of fair valuation and will have an overarching effect on the valuation guidelines prescribed under the SEBI (MF) guidelines. Prior to this amendment, the valuation of securities was being done as per the guidelines stated in the Eight Schedule of the SEBI (MF) Regulations and circulars issued by SEBI from time to time. In case of conflict, this valuation policy will override the valuation guidelines given under Eight Schedule of the SEBI (MF) Regulations.</p>
Objective	<p>To ensure fair treatment to all investors, ie; existing investors and investors seeking to subscribe or redeem units. The valuation shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures.</p>

Scope	<ul style="list-style-type: none"> • Valuation methodologies for all security types • Inter-scheme transfers • Periodicity of review • Conflict • Record Keeping • Exceptional circumstances
Policy owner	Board of Directors of IDFC Asset Management Company Limited & IDFC AMC Trustee Company Limited
Valuation methodologies	The methodologies for valuing each and every type of security held by the schemes is as per Annexure A. Investment in any new security shall be made only after determining an appropriate valuation methodology approved by the Valuation Committee and to be ratified post facto by the Board of AMC and Trustee Company.
Delegation of Powers to Valuation Committee	<p>The Valuation Committee shall be entrusted with the following responsibilities:</p> <ul style="list-style-type: none"> • Reviewing the systems and practices of valuation of securities and reporting to the Board at quarterly intervals • Monitoring of exceptional events and recommending appropriate valuation methods with due guidance from AMC and Trustee Board • Reviewing Inter scheme transfers
Periodicity of review	The valuation policy shall be reviewed annually by the Valuation Committee and internal auditors and the same shall be noted by the board of AMC and Trustee
Conflict	In the event of conflict, this valuation policy will override the valuation guidelines given under the Eight Schedule of the SEBI (MF) Regulations. The valuation committee shall review instances of conflict with the SEBI regulations and fair valuation norms which are currently not envisaged in the policy of the AMC and recommend to the board of AMC & Trustees any modification / amendments which may be required.
Record Keeping	This policy shall be updated in the SID/ SAI, website and other documents as prescribed by the SEBI (MF) Regulations. These records shall be preserved in accordance with the SEBI (MF) Regulations.
Exceptional circumstances	<p>Following events could be considered (list is indicative and not exhaustive) as exceptional events where current market information may not be available / sufficient for valuation of securities:</p> <ul style="list-style-type: none"> • Force Majeure events that force markets to close abruptly • Major policy announcements by Government, Regulator or Central Bank • Absence of trading in a specific security or similar securities • Significant volatility in capital markets

Annexure A

Asset Class	Traded / Non-traded	Methodology for valuation
Equity Shares / Preference Shares / Equity Warrants/ Equity rights/rights entitlement/partly paid up rights shares	Traded	<ul style="list-style-type: none"> • NSE shall be the primary exchange, if not traded on NSE, BSE closing price to be considered. • If the security is not traded either on NSE and BSE, the earliest previous day's close price shall be used, provided such day is not more than thirty days prior to the valuation date. If it is beyond 30 days, it has to be valued like a non-traded security.
	Non Traded	<ul style="list-style-type: none"> • When a share is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other Stock Exchange will be used, provided such closing price is not exceeding a period of 30 calendar days • In all other cases: <ol style="list-style-type: none"> a) Equity shares: Valuation price will be in accordance with norms prescribed ie, valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE in the range of 15- 50%), further discounted for illiquidity. With respect to calculation of PE ratio, annual EPS shall be considered. b) Preference shares: Intrinsic value will be considered.. c) Equity rights / Rights Entitlement / Partly paid up Rights shares: Valuation price will be arrived, after applying appropriate discount, after reducing the exercise price / issuance price from the closing price of the underlying cash equity security d) Demerger: In the case of demerger pending listing, the resultant company(ies) shall be valued at the intrinsic value arrived at on the date of corporate action e) Securities under the process of delisting: Securities whose traded prices are not available pending completion of delisting process, shall be valued at the last traded price or the offer price whichever is lower.

		<ul style="list-style-type: none"> Intrinsic value of the securities referred in (b) & (d) above shall be considered and approved by the valuation committee and will be placed for information to the Board of AMC & Trustees. <p>Exceptions to the above methodology shall be approved by the valuation committee and will be placed for the information of the board of AMC and Trustee.</p>
	Unlisted Securities	<p>Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:</p> <p>a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:</p> <p>i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.</p> <p>ii. After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options}</p> <p>The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.</p> <p>(b) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E</p>

		<p>ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.</p> <p>(c) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.</p> <p>The above methodology for valuation shall be subject to the following conditions:</p> <ul style="list-style-type: none"> i. All calculations as aforesaid shall be based on audited accounts. ii. In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero. iii. If the net worth of the company is negative, the share would be marked down to zero. iii. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning. iv. In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on the date of valuation. <p>At the discretion of the AMC and with the approval of the valuation committee, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.</p>
	Thinly traded (as defined under the	Valuation shall be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after

	SEBI(Mutual Fund) Regulations)	<p>appropriate discount to industry PE; discounted by 15-50%), further discounted for illiquidity. With respect to calculation of PE ratio, annual EPS shall be considered.</p> <p>Exceptions to the above methodology shall be approved by the valuation committee and will be placed for the information of the board of AMC and Trustee.</p>
Futures & Options	<p>Traded</p> <p>Non-Traded</p>	<ul style="list-style-type: none"> On the valuation day, at the settlement price provided by the respective stock exchanges When a security is not traded on any stock exchange, on the date of valuation then the previous settlement price on NSE / any other Stock Exchange will be used, provided such settlement price is not exceeding a period of 30 calendar days
Fixed Income and related securities	Maturity Up-to 60 Days	<p>Instruments will be valued by amortisation on a straight-line basis to maturity from cost or last valuation price whichever is more recent.</p> <p>At the time of first purchase the spread between the purchase yield and the benchmark yield will be fixed. This spread will remain fixed through the life of the instrument & will be changed only if there is a trade in the security. The spread shall be readjusted on the basis of the last trade in the security. Justification for change in the spread due to any other event such as change in credit rating/ credit profile will be provided by the fund manager and approved by the valuation committee. All such changes will be notified to the Board of AMC and Trustee Company on at least a quarterly basis.</p> <p>The amortised price may be used for valuation as long as it is within $\pm 0.10\%$ of the reference price. Reference price is derived from the underlying valuation matrix yield plus spread as determined at time of purchase and modified from time to time as per procedure described in preceding paragraph. In case the variance exceeds $\pm 0.10\%$, the valuation shall be adjusted to bring it within the $\pm 0.10\%$ band.</p> <p>In case of subsequent trades including inter-scheme transfers by the fund in the same security, the valuation must reflect the realizable value of the total holding in a single instrument. Market lot for this purpose shall be a single trade of a face value of Rs. 5.00 Crores and above. The security such valued would be amortised to maturity with</p>

		<p>such amortised prices to be in line with + / - 0.10% of the reference price as above.</p> <p>In case of Coupon bearing and Zero coupon Corporate Bonds (upto 60 days maturity as well as bonds with a put and call option within 60 days), the securities shall be valued at cost plus accruals/ amortization basis. In case of subsequent trades done in Coupon bearing and Zero coupon Corporate Bonds (up to 60days maturity as well as bonds with a put and call option within 60 days) the valuation must reflect the realizable value of the total holding in a single instrument. Market lot for this purpose shall be a single trade of a face value of Rs. 5.00 Crores and above.</p> <p>The following securities will be valued at cost plus accruals/ amortization:</p> <ul style="list-style-type: none"> a) Bank Fixed Deposits b) CBLO/ Reverse Repo c) Bills rediscounting <p>Government Securities (Central government, State Government or any other security issued by Government) , Cash Management bills and Treasury bills will be valued at the average prices provided by CRISIL and ICRA.</p> <p>In addition to the above for Cash Management bills, Treasury bills or any other discounted government securities, the price may be distorted in case of forward settlement dates (e.g. across a weekend/holidays), Hence the price would be arrived at by doing amortization on Straight line basis adjusted for settlement dates.</p>
	<p>Maturity Greater Than 60 Days</p>	<p>Traded Instruments:</p> <p>To prevent frivolous and dated prices from distorting valuations:</p> <ul style="list-style-type: none"> a. For instruments maturing above 1 year, the traded price will taken if there are at least two trades aggregating to Rs. 25 crores or more. b. For instruments maturing between 61 days and 1 year, the traded price will be taken if there are at least three trades aggregating to Rs. 100 crores or more.

	<p>For AMC own trades, only a trade (including inter schemes where only one leg would be considered) of a market lot or more is to be taken as reflective of the realizable value of the total holding in a single instrument. Market lot for this purpose shall be a single trade of a face value of Rs. 5.00 Crores and above.</p> <p>In case of corporate debt instruments the security would be valued based on weighted average price. In case of discounted instruments (CP's / CD's / ZCB the security would be valued based on at the weighted average yield .</p> <p>In case of discounted instruments: Less than or equal to 1 year to maturity / Put and/ or Call option : Money market yield shall be considered.</p> <p>Greater than 1 year to maturity / Put and/ or Call option : XIRR yield shall be considered.</p> <p>All the amounts above refer to face value of securities. In addition, as the price may be distorted in case of forward settlement dates (e.g. across a weekend/holidays), the traded yields will be used to arrive at a price for valuation. In case of multiple trades, the weighted average price will be used for valuation.</p> <p>In case there are both qualifying market trades and AMC trades, the market trades will be given a higher priority. In case of multiple platforms reporting trades on the same day, the order of preference will be FIMMDA, Exchange (NSE WDM, BSE) and own trades. The qualifying criteria will to be observed at the exchange/platform level (as the same trades may be reported on multiple platforms).</p> <p>Government Securities (Central government, State Government or any other security issued by Government), Cash Management bills and Treasury bills will be valued at the average prices provided by CRISIL and ICRA.</p> <p>In addition to the above for Cash Management bills, Treasury bills or any other discounted government securities, the price may be distorted in case of forward settlement dates (e.g. across a weekend/holidays), Hence the price would be arrived at by doing amortization on Straight line basis adjusted for settlement dates.</p>
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		<p>Non-Traded Instruments:</p> <p>In the absence of traded prices, the matrix-based valuation will be continued to determine the valuation price for instruments. However in the interest of fair reflection of market levels, there will be no restriction on the allowed spread relative to the benchmark curve in respect of different issuers & instruments.</p> <p>At the time of first purchase the spread between the purchase yield and the benchmark yield will be fixed. This spread will remain fixed through the life of the instrument & will be changed only if there is a trade in the security. The spread shall be readjusted on the basis of the last trade in the security.</p>
	<p>Interest Swaps</p> <p>Rate</p>	<p>Valuation of IRS involves valuation of streams of interest payments. The earmarked security will be valued in the same manner as was valued before entering into IRS contract. Value of IRS contract is the present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity will be the interest accrued till the valuation date plus the interest on remaining period at reversal rate. Reversal rate for the day will be taken from Reuters/Bloomberg for different maturities. The relevant rate (mid rate of the bid ask rate) will be taken on the basis of maturity of the contract. However, if the maturity date falls between the two periods, the reversal rate will be arrived at by interpolation on valuation date.</p> <p>The AMC shall use the Swap Manager (SWPM) application in the Bloomberg platform or any such platform as may be available for the purpose for valuing IRS contracts. Currently the AMC uses SWPM for the purpose of valuing swaps.</p>
	<p>Inter scheme - Transfers</p>	<p>Inter scheme transfers shall be effected at the current market prices. For this purposes quotes in same or similar securities shall be obtained from 2 brokers at the time of executing the inter-scheme transfer. Such inter-scheme transfers shall be executed within the bid-ask range obtained from brokers.</p> <p>Incase no quotes are available, inter-scheme shall be effected at the prevailing market price or fair value based on justification</p>

		<p>from the Fund Manager.</p> <p>Under abnormal market condition inter-scheme may be effected at previous day valuation price, for this purpose the process laid out for determination of abnormal Situations & Market Disruptions needs to be adhered with ((pl refer to the section below)).</p>
	Mutual Fund units	<p>Units of Mutual Funds will be valued at last published NAV. For Mutual Fund units listed on the stock exchange, the closing price shall be considered for valuation of such security.</p>
	Abnormal Situations & Market Disruptions	<p>In normal situations the above methods will be used for valuation. However in abnormal market conditions, due to lack of market trading or otherwise it may not be possible to obtain fair valuation using “normal” means. In such situations, the realizable value may be substantially different from the benchmark-based prices obtained. Such events may comprise (list indicative and not exhaustive) monetary policy or other regulatory related events, large redemptions, or other external factors could constitute abnormal events.</p> <p>Fund manager will explain in writing why a particular day of valuations should qualify as an abnormal market condition and what will qualify as situation returning to normal. Valuation committee will discuss and approve recognition of abnormal market condition and decide basis for valuation during the period of continuation of abnormal market condition. This period upto ceasure of abnormal market condition (also to be detailed by fund manager and approved by valuation committee) will be documented. The Board of the AMC and Trustee Company will review the valuation methodology adopted and offer direction if any, to the Valuation Committee within a period of 3 days from the occurrence of the abnormal event.</p>

Notes:

Valuation prices will be arrived based on the underlying YTM adjusted for settlement dates

Dated: December 26, 2012