IDFC

IDFC MUTUAL FUND

Notice - Cum - Addendum No. 18 of 2018

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

Change in features of IDFC Credit Opportunities Fund :

NOTICE is hereby given that pursuant to SEBI circulars dated October 6, 2017 and December 4, 2017 on categorization and rationalization of mutual fund schemes, the features of IDFC Credit Opportunities Fund, an open ended debt fund, shall stand modified as follows with effect from **Monday, May 14, 2018** ("Effective Date"):

Name of the Scheme

Existing	Proposed
IDFC Credit Opportunities Fund	IDFC Credit Risk Fund

Type / Category

Existing	Proposed
Open Ended Income Scheme	An open ended debt scheme predominantly investing in AA and below rated corporate bonds

Investment objective

Existing	Proposed
The Fund seeks to generate returns by predominantly investing in a portfolio of corporate debt securities across the credit spectrum within the investment grade.	The Fund seeks to generate returns by investing predominantly in AA and below rated corporate debt securities across maturities.

Asset Allocation Pattern (existing)

Instruments	Indicative Allocation (% of total assets)	
	Minimum	Maximum
Debt securities (including Securitised debt) with long term credit rating below AAA or equivalent (including unrated securities)	50	100
Government Securities and debt securities (including Securitised debt) with long term credit rating of AAA or equivalent	0	50
Money Market Instruments including CBLO, repo and cash	0	30

Investment in Securitised Debt - 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 the extent permitted by the Regulations

The Scheme may engage in short selling of securities in accordance with the applicable guidelines / regulations. The scheme may take exposure in repo / reverse repo transactions in G-Sec and Corporate Debt Securities in accordance with the applicable guidelines / regulations.

The scheme may invest in Credit Default Swaps (CDS) in accordance with the applicable guidelines / regulations as and when permitted by SEBI/RBI.

The cumulative gross exposure through repo transactions in corporate debt securities and credit default swaps along with debt & money market instruments and derivaties shall not exceed 100% of the net assets of the Scheme.

Asset Allocation Pattern (proposed/revised)

Asset Class	Indicative allocation (as % of total assets)
Corporate bonds (including securitised debt) rated AA*/ equivalent and below (including unrated securities)	65% - 100%
Other Debt Securities (including securitised debt and Government Securities), Money Market Instruments and Units issued by REITs & InvITs, within which	0% - 35%
- Units issued by REITs & InvITs	0% - 10%

* excludes AA+/equivalent rated corporate bonds

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, credit default swaps and units issued by REITs & InvITs shall not exceed 100% of the net assets of the Scheme.

Investment Strategy

Existing	Proposed
The investment strategy would focus on managing long-term investor monies with a view to provide superior levels of yield across the credit spectrum. To manage credit risk, the Fund has put in place a strong rigorous process to evaluate credit risk and monitor the same on a continuous basis. The Fund will also emphasize on collaterals/covenants where it believes it is required. The Fund may invest in derivative instruments to hedge against interest rate and/or credit risks, if and when required and subject to availability. The Fund would invest predominantly in high yielding and relatively less liquid securities.	The investment strategy would focus on managing long-term investor monies with a view to provide superior levels of yield across the credit spectrum and maturities. The Fund would invest predominantly in high yielding and relatively less liquid corporate debt securities rated AA and below across maturities / yield curve. 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.

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 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 11, 2018 to Friday, May 11, 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 11, 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 11, 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 06, 2018