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## ADDENDUM

● **HDFC Housing Opportunities Fund - Series 1, a Close Ended Thematic Equity Scheme**

Investment Objective : To provide long term capital appreciation by investing predominantly in equity and equity-related instruments of entities engaged in and/or expected to benefit from growth in housing and its allied business activities. There is no assurance that the investment objective of the Scheme will be realized.

### CONVERSION FROM A CLOSE ENDED THEMATIC EQUITY SCHEME TO AN OPEN ENDED EQUITY SCHEME FOLLOWING HOUSING AND ALLIED ACTIVITIES THEME

HDFC Trustee Company Limited (**“the Trustee”**) to HDFC Mutual Fund (**“the Fund”**) has decided to convert HDFC HOF - I - 1140D November 2017 (1), a Plan under HDFC Housing Opportunities Fund - Series 1 (**“the Scheme”**) from a close ended thematic equity scheme to an open ended equity scheme following housing and allied activities theme at the end of the current tenure of the Scheme i.e. with effect from **January 19, 2021 (“Effective Date”)**.

Accordingly, the following changes to the Scheme shall be carried out from the Effective Date:

Particulars	Existing Provision	Revised Provision (proposed)
<b>Name of the Scheme</b>	HDFC HOF - I - 1140D November 2017 (1), a Plan under HDFC Housing Opportunities Fund - Series 1	HDFC Housing Opportunities Fund
<b>Type of the Scheme</b>	A close ended thematic equity scheme	An open ended equity scheme following housing and allied activities theme
<b>Benchmark</b>	India Housing and Allied Businesses (Total Returns Index)	No Change. Refer <b>Note A</b> for Index Methodology
<b>Exit Load (Subsequent to conversion of Scheme into an open-ended Scheme)</b>	Not Applicable. The Units under the Plan cannot be directly redeemed with the Fund as the Units are listed on the stock exchange(s).	Following exit load shall be levied for units allotted after conversion of the scheme into an open-ended scheme i.e. on or after January 19, 2021: <ul style="list-style-type: none"> <li>● In respect of each purchase / switch - in of units, an exit load of 1.00% is payable if units are redeemed / switched - out within 1 year from the date of allotment.</li> <li>● No exit load is payable if units are redeemed / switched - out after 1 year from the date of allotment.</li> </ul> No Entry / Exit Load shall be levied on bonus units and units allotted on dividend reinvestment. In respect of Systematic Transactions such as SIP / STP, etc., Exit Load, if any, prevailing on the date of registration / enrolment shall be levied. Note: To clarify, Unitholders who acquired units on or before January 18, 2021, will not be charged exit load in respect of those units. The AMC / Trustee reserves the right to change / modify the Load Structure at a later date on prospective basis.
<b>Listing / liquidity / Ongoing subscription / redemptions</b>	The Units of the Plan will not be available for Subscriptions / Switch-in / redemption / switch out after the closure of NFO period. The Mutual Fund will list the Units of the Plan offered under the Scheme on the Capital Market Segment of the NSE and BSE within 5 Business Days of allotment of Units under NFO.  The Units can be purchased / sold during the trading hours like any other publicly traded stock, until the date of suspension of trading by stock exchange(s) where the Scheme / Plan is listed.	Sale and Redemption of Units shall be offered on continuous basis by the Mutual Fund (subject to completion of lock-in period, if any) at Applicable NAV on any Business Day. Hence, the Units of the Scheme are not proposed to be listed on any stock exchange. However, the Mutual Fund may at its sole discretion list the Units under the Scheme on one or more stock exchange at a later date.

Particulars	Existing Provision	Revised Provision (proposed)
<b>Total Recurring expenses</b>	1.25% p.a. of the daily net assets	On the first Rs.500 crores of the daily net assets - 2.25% p.a. On the next Rs.250 crores of the daily net assets - 2.00% p.a. On the next Rs.1,250 crores of the daily net assets - 1.75% p.a. On the next Rs.3,000 crores of the daily net assets - 1.60% p.a. On the next Rs.5,000 crores of the daily net assets - 1.50% p.a. On the next Rs.40,000 crores of the daily net assets - Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof. On balance of the assets - 1.05% p.a.
<b>Segregated Portfolio</b>	-	Provision enabling segregation of portfolio in accordance with SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, as amended from time to time will stand included in the Scheme Information Document as per <b>Note B</b> below
<b>Cut-off timings</b>	Not Applicable	<p><b>i) For Purchases:</b></p> <ul style="list-style-type: none"> <li>● In respect of valid applications received for any amount upto 3.00 p.m. at the Official Point(s) of Acceptance and where the funds for the entire amount of subscription / purchase as per the application are credited to the bank account of the Scheme before the cutoff time i.e. available for utilization before the cut-off time - the closing NAV of the day shall be applicable.</li> <li>● In respect of valid applications received for any amount after 3.00 p.m. at the Official Point(s) of Acceptance and where the funds for the entire amount of subscription / purchase as per the application are credited to the bank account of the Scheme either on the same day or before the cutoff time of the next Business Day i.e. available for utilization before the cutoff time of the next Business Day - the closing NAV of the next Business Day shall be applicable.</li> <li>● Irrespective of the time of receipt of applications for any amount at the Official Point(s) of Acceptance, where the funds for the entire amount of subscription / purchase as per the application are credited to the bank account of the Scheme before the cut-off time on any subsequent Business Day i.e. available for utilization before the cutoff time on any subsequent Business Day - the closing NAV of such subsequent Business Day shall be applicable.</li> </ul> <p><b>ii) For Switch-ins:</b></p> <p>For determining the applicable NAV, the following shall be ensured:</p> <ul style="list-style-type: none"> <li>● Application for switch-in is received before the applicable cut-off time.</li> <li>● Funds for the entire amount of subscription / purchase as per the switch-in request are credited to the bank account of the Scheme before the cut-off time.</li> <li>● The funds are available for utilization before the cut-off time.</li> </ul> <p><b>iii) For Redemption (including switch-out) applications</b></p> <ul style="list-style-type: none"> <li>● In respect of valid applications received upto 3 p.m. on a Business Day by the Fund, same day's closing NAV shall be applicable.</li> <li>● In respect of valid applications received after 3 p.m. on a Business Day by the Fund, the closing NAV of the next Business Day shall be applicable.</li> </ul>

Particulars	Existing Provision	Revised Provision (proposed)
		<p><b>Transactions through online facilities / electronic modes:</b></p> <p>The time of transaction done through various online facilities / electronic modes offered by the AMC, for the purpose of determining the applicability of NAV, would be the time when the request for purchase / sale / switch of units is received in the servers of AMC / RTA.</p> <p>In case of transactions through online facilities / electronic modes, there may be a time lag of upto 5-7 banking days between the amount of subscription being debited to investor's bank account and the subsequent credit into the respective Scheme's bank account. This lag may impact the applicability of NAV for transactions where NAV is to be applied, based on actual realization of funds by the Scheme. Under no circumstances will HDFC Asset Management Company Limited or its bankers or its service providers be liable for any lag / delay in realization of funds and consequent pricing of units.</p> <p>The AMC has the right to amend cut off timings subject to SEBI (MF) Regulations for the smooth and efficient functioning of the Scheme.</p>
<b>Special Products to be available</b>	Not Applicable	Facilities such as Systematic Investment Plan (SIP) / Systematic Transfer Plan (STP) / Flex STP / Systematic Withdrawal Advantage Plan (SWAP) / Dividend Transfer Plan / purchase and redemptions of units through the stock exchange infrastructure, etc.
<b>Risk Factors associated with Tri-Party Repo and risk Factors associated with Structured Obligations and Credit Enhanced Debt</b>	Not Included	Included Risk Factors associated with Structured Obligation and Credit Enhancement and Tri-Party Repo
<b>Covered Call Strategy-Derivatives</b>	Not Applicable	The Scheme may write options as part of its derivatives strategy under covered call strategy as per the exposure limits and other norms specified in SEBI circular no SEBI/HO/IMD/DF2/CIR/P/2019/17 dated January 16, 2019 as amended from time to time. (Refer <b>Note C</b> below)
<b>Imperfect hedging</b>	Not Included	The Scheme may undertake Imperfect hedging in accordance with SEBI guidelines and limits as specified under Circular No. SEBI/HO/IMD/DF2/CIR/P/ 2017/109 dated September 27, 2017 as amended from time to time. (Refer details under <b>Note D</b> below)
<b>Repo in Corporate Debt, Credit Default Swaps and Short Selling</b>	The Plan shall not (i) undertake repo / reverse repo transactions in Corporate Debt Securities; (ii) undertake Credit Default Swap and (iii) undertake Short Selling.	The Scheme may undertake (i) repo / reverse repo transactions in Corporate Debt Securities not more than 10% of the net assets of the scheme or as permitted by extant SEBI regulation; (ii) Credit Default Swaps and (iii) Short Selling in accordance with guidelines issued by SEBI from time to time
<b>Plans / Options</b>	<p>Growth and Dividend Payout</p> <p>Dividend</p> <p>Under the Dividend, it is proposed to declare dividends on the Maturity Date / Final Redemption Date of the Plan, subject to the availability of distributable surplus, as computed in accordance with SEBI (MF) Regulations. The record date for the purpose</p>	<p>Growth and Dividend (Payout and reinvestment facility)</p> <p><b>Dividend</b></p> <p>Under this Option, it is proposed to declare dividends subject to availability of distributable profits, as computed in accordance with SEBI (MF) Regulations.</p>

Particulars	Existing Provision	Revised Provision (proposed)
	<p>of determining the Unit holders entitled to receipt of Income distribution / Dividend, if any declared, will be the Maturity Date / Final Redemption Date. The Trustee / AMC reserves the right to change the record date. Such change shall be notified by a suitable display at the Investor Service Centres.</p> <p>The AMC reserves the right to introduce a new option / investment Plan at a later date, subject to the SEBI (MF) Regulations. Growth and Dividend Option (Payout and reinvestment facility)</p>	

#### **Note A: India Housing and Allied Businesses Index (Total Returns Index)**

India Housing & Allied Businesses Index seeks to measure the performance of a portfolio of minimum 50 stocks that form part of select basic industries that are into housing and allied businesses such as cement, banks, paints, housing finance, residential projects, steel, sanitary ware, house ware etc.

The index has a base date of March 31, 2017 and base value of 1000.

Sector / Industry wise classification (as per AMFI classification) of the benchmark constituents index will be disclosed on the website viz. <https://www.hdfcfund.com/information/india-housing-and-allied-businesses-index>. The same will be updated as and when the benchmark is re-balanced. The Value of the Benchmark Index shall also be disclosed.

#### **Index Methodology**

The stock

- Should form part of top 800 companies by both Full Market capitalization and average Turnover in 6 months period prior review.
- Should have an average free float Market capitalization of minimum 1000 Cr and full market capitalization of minimum 2000 Cr. in previous 6 months period.
- Stock should have a minimum listing history of 3 months.
- Should have traded on all trading days in previous 6 months period at the time of review.
- Top 5 stocks are chosen from each of the 14 basic industries on the basis of full market capitalization. In case the portfolio consists of less than 50 stocks, remaining stocks are chosen on the basis of full market capitalization across eligible basic industries.
- Weight of 'basic industry' is capped at 20% and stock at 10% cap on a quarterly basis. Weights of basic industry and stocks may drift between the quarters due to movement in stock prices.
- Index is reviewed semi-annually based on six months ending data as on January 31st and July 31st. Changes in the index are made effective along with NIFTY Broad based indices.
- During the review, any member stock that undergoes change in classification and is not part of the 14 basic industries shall be excluded from the index.
- Stocks that do not qualify the eligibility criteria mentioned above shall be compulsorily excluded from the index and replaced with non-member eligible stocks.
- In case of availability of an eligible non-member stock from a basic industry that has less than 5 stocks in the existing index portfolio, such stock shall be included in the index.
- Non-member eligible stock with full market capitalization of 1.25 times the full market cap of the smallest full market capitalization stock in the basic industry / index shall be compulsorily included in the index via replacement.
- Apart from the scheduled semi-annual review, additional ad-hoc reconstitution and rebalancing of the index shall be initiated in case any of the index constituents undergoes suspension or delisting or scheme of arrangement.

#### **Disclaimer of NSE Indices for India Housing and Allied Businesses Index**

This Scheme of HDFC Mutual Fund (the "Product") is not sponsored, endorsed, sold or promoted by NSE Indices Limited (NSE Indices) formerly India Index Services & Products Limited i.e. IISL. India Housing & Allied Businesses Index has been exclusively customized for HDFC Asset Management Company Limited (HDFC AMC) and has been developed and is being maintained as per the specifications and requirements of HDFC AMC. NSE INDICES does not make any representation or warranty, express or implied, to the owners of the Product(s) or any member of the public regarding the advisability of investing in securities generally or in the Product(s) particularly or the ability of the India Housing & Allied Businesses Index to track general stock market performance in India. Please read the full disclaimer in relation to the Index in the Scheme Information Document.

## **Note B: CREATION OF SEGREGATED PORTFOLIO**

In order to ensure fair treatment to all investors in case of a Credit Event and to deal with liquidity risk, SEBI vide its circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, as amended from time to time has allowed creation of Segregated Portfolio of debt and money market instruments by mutual fund schemes. Creation of Segregated Portfolio shall be optional and at the sole discretion of the asset management company.

The salient features of creation of Segregated Portfolio are as follows:

The term 'Segregated Portfolio' shall mean a portfolio, comprising debt or money market instrument affected by a Credit Event, that has been segregated in a mutual fund scheme.

The term 'Main Portfolio' shall mean the scheme portfolio excluding the Segregated Portfolio.

The term 'Total Portfolio' shall mean the scheme portfolio including the securities affected by the Credit Event.

The AMC at its sole option and discretion may create Segregated Portfolio in the Scheme, with the approval of the Trustees, subject to the following:

Segregated portfolio may be created, in case of a Credit Event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:

- Downgrade of a debt or money market instrument to 'below investment grade', or
- Subsequent downgrades of the said instruments from 'below investment grade', or
- Similar such downgrades of a loan rating; or
- Any other scenario as permitted by SEBI from time to time.

In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of Segregated Portfolio shall be based on issuer level Credit Events as detailed above and implemented at the ISIN level.

Further, Segregated Portfolio may be created for unrated debt or money market instruments of an issuer that does not have any outstanding rated debt or money market instruments but only in case of actual default of either the interest or principal amount and subject to guidelines prescribed by SEBI in this behalf from time to time.

It may be noted that even for the same security (ISIN level) held by multiple Schemes, the AMC, in its sole discretion, may decide to segregate the portfolio only for select Schemes.

It may be noted that notwithstanding the above, segregation of portfolio may be effected in such events and in such manner as may be permitted by SEBI whether by changes to circulars or guidelines in this behalf or by way of clarifications issued thereto from time to time or in any other manner.

### **Process for creation of Segregated Portfolio:**

- a) In case the AMC decides on creation of Segregated Portfolio on the day of a Credit Event it shall:
  - i. seek approval of trustees prior to creation of the Segregated Portfolio.
  - ii. immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors and also disclose that the segregation shall be subject to trustee approval. Additionally, the said press release shall be prominently disclosed on the website of HDFC Mutual Fund ("the Fund").
  - iii. ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of Credit Event, the subscription and redemption in the scheme(s) shall be suspended for processing with respect to creation of units and payment on redemptions.
- b) Process post receipt of trustee approval by the AMC for creation of Segregated Portfolio in the Scheme(s):
  - i. Segregated Portfolio shall be effective from the day of Credit Event
  - ii. The AMC shall issue a press release immediately with all relevant information pertaining to the Segregated Portfolio. An e-mail or SMS shall be sent to all unit holders of the concerned scheme(s) who have registered email id / mobile number in the folio.
  - iii. The NAV of both segregated and Main Portfolio of the Scheme(s) shall be disclosed from the day of the Credit Event.
  - iv. All existing investors in the scheme(s) as on the day of the Credit Event shall be allotted equal number of units in the Segregated Portfolio as held in the Main Portfolio.
  - v. No redemption and subscription shall be allowed in the Segregated Portfolio. However, in order to facilitate exit to unit holders in Segregated Portfolio, the AMC shall enable listing of units of Segregated Portfolio on the recognized stock exchange within 10 working days of creation of Segregated Portfolio and also enable transfer of such units held in demat mode on receipt of transfer requests.
- c) If the trustees do not approve the proposal to Segregate Portfolio, the AMC shall issue a press release immediately informing investors of the same.



### Valuation and processing of subscriptions and redemptions

- a) Notwithstanding the decision to segregate the debt and money market instrument, the valuation shall take into account the Credit Event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.
- b) All subscription and redemption requests for which NAV of the day of Credit Event or subsequent day is applicable will be processed as per the existing circular on applicability of NAV as under:
  - i. Upon trustees' approval to create a Segregated Portfolio -
    - Investors redeeming their units will get redemption proceeds based on the NAV of Main Portfolio and will continue to hold the units of Segregated Portfolio.
    - Investors subscribing to the scheme(s) will be allotted units only in the Main Portfolio based on its NAV.
  - ii. In case trustees do not approve the proposal of Segregated Portfolio, subscription and redemption applications will be processed based on the NAV of Total Portfolio.

### TER for the Segregated Portfolio

- a) The AMC will not charge investment and advisory fees on Segregated Portfolio. However, TER (excluding the investment and advisory fees) may be charged, on a pro-rata basis only upon recovery of the investments in Segregated Portfolio.
- b) The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the Main Portfolio (in % terms) of the scheme(s) during the period for which Segregated Portfolio was in existence.
- c) The legal charges related to recovery of the investments of the Segregated Portfolio may be charged to the Segregated Portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the Main Portfolio. The legal charges in excess of the TER limits, if any, shall be borne by The AMC.
- d) The costs related to Segregated Portfolio shall in no case be charged to the Main Portfolio.

### Periodic Disclosures:

In order to enable the existing as well as the prospective investors to take informed decision, inter alia the following disclosures shall be made:

- a) A statement of holding indicating the units held by the investors in the Segregated Portfolio along with the NAV of both Segregated Portfolio and Main Portfolio as on the day of the Credit Event shall be communicated to the investors within 5 working days of creation of the Segregated Portfolio.
- b) Adequate disclosure of the Segregated Portfolio shall appear in the scheme related documents, in monthly and half-yearly portfolio disclosures and in the annual report of the Scheme.
- c) Net Asset Value (NAV) of Segregated Portfolio, if any, shall be declared on daily basis.
- d) Investors of the Segregated Portfolio shall be duly informed of the recovery proceedings of the investments of the Segregated Portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.

### Risk factors associated with Creation of Segregated Portfolio

- a) Investor holding units of Segregated Portfolio may not be able to liquidate their holding till recovery of money from the issuer.
- b) Security comprising of Segregated Portfolio may not realise any value.
- c) Listing of units of Segregated Portfolio in recognised stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

Given below is an **illustration explaining the segregation of portfolio**:

#### Scheme Portfolio before the Credit Event

Assets	Amount (Rs.)
Debt A	50,000
Debt B	50,000
Debt C	50,000
Net Assets	1,50,000

Assuming number of units outstanding is 10,000 units

NAV = Net Assets / No of units = 150,000/10,000= Rs.15/-

There is a Credit Event in one of the Security (Debt C). Due to Credit Event the Debt C is valued at Rs. 25,000/- in line with extant SEBI regulations on valuation of such securities. AMC decides to segregate portfolio by segregating exposure in Debt C. The resultant split will be as follows:

### Scheme Main Portfolio

Assets	Amount (Rs.)
Debt A	50,000
Debt B	50,000
Net Assets	100,000

NAV (Main Portfolio) = 100,000/10,000= Rs.10/-

### Scheme Segregated Portfolio

Assets	Amount (Rs.)
Debt C	25,000
Net Assets	25,000

NAV (Segregated Portfolio) = Rs. 25,000/10,000= Rs.2.5/-

Investor (having 1000 units) will see his scheme holdings as follows:

Particulars	Before Credit Event	After Credit Event	
		Main Portfolio	Segregated Portfolio
Market Value of Units (Rs.)	15,000	10,000	2500
No of Units	1000	1000	1000
NAV per unit (Rs.)	15.00	10.00	2.50

### Monitoring by Trustees

In order to ensure timely recovery of investments of a Segregated Portfolio, if any, the trustees would continuously monitor the progress and take suitable action as they deem appropriate.

In order to avoid mis-use of Segregated Portfolio, Trustees shall ensure that a mechanism is put in place which will negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the Segregated Portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the Segregated Portfolio of the Scheme.

### Note C: Covered Call Strategy

When the Fund sells a covered call (also known as writing a covered call), it would mean that the Fund would already be owning shares of the underlying stock and is selling a call which grants the buyer right, but not the obligation, to buy that stock at a set price until the option expires. The Fund would earn income known as option price or value (commonly known as the option premium) premium. An option's premium is based on several factors, like time value, intrinsic value, and implied volatility etc.

### **Illustration:**

The Scheme owns 100 shares of Company A. Current Market Price (**CMP**) is Rs.50/- per share. The Scheme writes a covered call with a strike price of Rs.55/- and receives a premium of Rs.2.50 per share. Thus, the total premium received for selling the call option is Rs.250 (Rs 2.5\*100 lot size). The call has an expiration date of 3 months.

On the day of expiration of options contract:

**Scenario 1:** The market price of Company A is below Rs.55/-, the Scheme keeps the premium (Rs.250/-) and also the stock as the buyer would let the call expire as CMP is lower than the strike price.

**Scenario 2:** The market price of Company A moves above Rs.55/-, the buyer would exercise the option and the Scheme will have to deliver the underlying stock to settle this obligation. The Scheme will get the strike price (Rs.5500/-) plus the premium (Rs.250/-).

### **Benefits:**

The key benefit of writing a covered call option is to generate additional income (i.e. the proceeds of the options sale or option premium) on a stock already owned by the Fund. This enhances returns on a security that, in the fund manager's view, is not expected to move in the short-term. It can also be used as used as an exit strategy for a long position.

### **Risk:**

Incorrectly pricing the option premium before writing the covered call by ignoring factors which determine pricing like number of days to expiry, adjustment with respect to announced corporate actions like dividend etc.

### **Note D: Imperfect hedging**

IRF can be taken at portfolio level to reduce the interest rate risk of the portfolio or part of the portfolio (including one or more securities). However, in case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging i.e. basis risk. In order to reduce the basis risk for the portfolio hedging strategy, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF would be atleast 0.9 at the time of initiation of hedge. The correlation should be calculated for a period of last 90 days. Additionally, Imperfect hedging using IRFs would be restricted upto maximum of 20% of the total assets of the scheme.

Example:

Date: 15/06/2020

Total Assets of the Scheme: Rs. 100 cr

Modified Duration of the Scheme: 4.75

August 2020 Future Price of IRF contract of 6.79 GOI 2030: 103.24

Modified Duration of 6.79 GOI 2030: 7.13

Correlation between IRF and Portfolio during last 90 days: 0.95

On 15/06/2020, the fund manager anticipates that the interest rates will rise in near future. Therefore, to hedge the exposures of the portfolio he sells 19,00,000 IRF contracts of August 2020 6.79 GOI 2030 at 103.24. Thus, the value of Futures contract is Rs. 19.62 cr, which is less than 20% of Scheme value.

On 15/07/2020, due to interest rate increase by 5 basis points, the values of securities in the portfolio is reduced to Rs. 99.76 cr and the price of IRF contract for August 2020 6.79 GOI 2030 is reduced to Rs. 102.88. This results in loss in the value of the securities of Rs. 0.24 cr (Rs. 100 cr – Rs. 99.76 cr) and profit in the futures position of Rs. 0.07 cr  $\{(103.24-102.88)*19,00,000\}$

Given that there was imperfect correlation between portfolio and the IRF (ie basis risk) as well as cap on the maximum portfolio hedging allowed as per extant regulation, the loss in the value of portfolio was not completely matched by the gain from the IRF contract. Nevertheless, the fund manager was able to protect the value of the portfolio, to an extent, using the IRF contract. The loss on proportionate basis (ie ~20% of portfolio) would have been only Rs. 0.05 cr as against gain of Rs. 0.07 cr of gain from IRF.

#### **Risk Factors of SWAP / Forward Rate Agreement (FRAs) / Interest Rate Futures (IRFs)**

- **Credit Risk:** This is the risk of defaults by the counterparty.

This is usually negligible, as there is no exchange of principal amounts in a derivative transaction.

- **Market Risk:** Market movements may adversely affect the pricing and settlement derivatives.
- **Liquidity Risk:** The risk that a derivative cannot be sold or purchased quickly enough at a fair price, due to lack of liquidity in the market.
- **Basis Risk for imperfect hedging using IRF:** The imperfect correlation between the prices of securities in the portfolio and the IRF contract used to hedge part of the portfolio leads to basis risk. Thus, the loss on the portfolio may not exactly match the gain from the hedge position entered using the IRF.

**Apart from above, other features and terms and conditions of the Scheme such as Asset Allocation Pattern, Investment Objective, etc. shall remain unchanged.**

The Securities and Exchange Board of India (“SEBI”) has vide its communicated dated December 11, 2020 noted the conversion of the Scheme from a **close ended thematic equity scheme** to an **open ended equity scheme following housing and allied activities theme**.

As per Regulation 33(3)(b) of SEBI (Mutual Funds) Regulations, 1996 (“**MF Regulations**”) and SEBI Circular dated January 30, 2003, conversion of a close ended scheme into an open ended scheme can be carried out if the Unit holders of the Scheme are provided with an option to redeem their units in full and informed of the change via written communication containing prescribed disclosures.

Accordingly, existing Unit holders of the Scheme as on December 14, 2020) are provided with an option to exit at the prevailing NAV, without exit load, if any, from December 18, 2020 to January 18, 2021 (upto applicable cut-off time on January 18, 2021) (both days inclusive) (“**Exit Option Period**”), if they do not wish to stay invested in the Scheme pursuant to the aforesaid changes. It may be noted that currently there is no exit load under the Scheme.

The Exit Option can be exercised during the Exit Option Period by submitting redemption / switch-out request at any of the Official Point(s) of Acceptance of the Fund. For list of Official Points of Acceptance, please visit our website [www.hdfcfund.com](http://www.hdfcfund.com).

The redemption request for units held in demat mode should be submitted to the Depositories. The redemption will be processed at the NAV applicable for the day on which redemption request is received as per applicable cut-off timing guidelines.

A written communication in this behalf is also being sent to existing Unit holders via email on registered email id / letter. In case any existing Unit holder does not receive the same, they are advised to contact any of the Investor Service Centres of the AMC.

The Scheme will be delisted during the Exit Option Period.

All auto switch requests for switching the units of the Scheme upon maturity to any other Scheme of HDFC Mutual Fund that may have been submitted by investors at the time of the New Fund Offer of the Scheme stand revoked. Investors who wish to switch their holdings to any other Scheme of HDFC Mutual Fund shall have to submit a fresh switch request.

Unit holders who have pledged / encumbered their Units will have the option to exit only if they submit a release of their pledges / encumbrances prior to submitting their redemption / switch requests during the Exit Option Period. In case a lien is marked on units held by a Unit holder or units have been frozen / locked pursuant to an order of a governmental authority or a court, redemption / switch can be executed only after the lien / order is vacated / revoked within the Exit Option Period as specified above.



Unit holders should ensure that change in address or bank mandate are updated in the Fund's records before exercising the Exit Option. Unit holders holding Units in dematerialized form may approach their Depository Participant for such changes.

The redemption proceeds (net of applicable taxes, if any) will be remitted / dispatched to the Unit holders within 10 (ten) working days from the date of receipt of the redemption request.

Securities Transaction Tax (STT) on redemption / switch-out of units, if any, exercised during the Exit Option Period shall be borne by HDFC AMC. Redemption / Switch-out by the Unit holders due to conversion of the Scheme from close ended to open ended or due to any other reasons may entail tax consequences. **In view of the individual nature of financial and tax implications, each Unit holder is advised to consult his or her own tax advisors / financial advisors.**

Unit holders may note that no action is required in case they are in agreement with the changes proposed to the Scheme. **The offer to exit from the Scheme is optional at the discretion of the Unit holders and not compulsory.** We would like you to remain invested in the Scheme.

Further if you wish to subscribe to additional units from the Effective Date, you may contact your financial advisor, if any, or visit our Investor Service Centre(s). Alternatively, you can also invest online by visiting our website [www.hdfcfund.com](http://www.hdfcfund.com). For more details you may also call 1800 233 6767 (toll free) / email to [cliser@hdfcfund.com](mailto:cliser@hdfcfund.com). Units of the Scheme will be available for purchase / redemption on BSE StAR MF and MFSS, electronic platforms of BSE and NSE, MFU respectively from the Effective Date.

The updated SID and KIM of the Scheme containing the revised provisions shall be made available with our Investor Service Centres and also displayed on the website [www.hdfcfund.com](http://www.hdfcfund.com) immediately after completion of Exit Option Period.

For any queries or clarifications in this regard, please call us on 1800 3010 6767 / 1800 419 7676 or email us on [cliser@hdfcfund.com](mailto:cliser@hdfcfund.com).

You may also visit any of the Investor Service Centres (ISC) of HDFC MF. Visit [www.hdfcfund.com](http://www.hdfcfund.com) for any other information.

**This addendum shall form an integral part of the SID / KIM of the Scheme as amended from time to time.**

*This Addendum is dated December 12, 2020.*

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**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS,  
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

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