

HDFC Small Cap Fund

(An open ended equity scheme predominantly investing in small cap stocks)



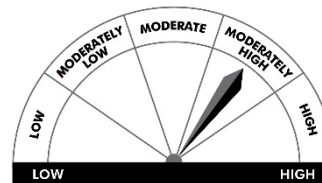
Small is Powerful!

This product is suitable for investors who are seeking*:

- To generate long-term capital appreciation /income.
- Investments predominantly in Small-Cap companies.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer



INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT MODERATELY HIGH RISK

*For complete scheme related information refer scheme information document. Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Fund History

- Launched as Morgan Stanley A.C.E. Fund on April 3, 2008 as a multi-cap fund.
- Scheme acquired by HDFC Mutual Fund in 2014* and fund repositioned as HDFC Small & Mid-cap Fund with a focus on small and midcap stocks.
- Scheme repositioned** in November 2016 and renamed as HDFC Small Cap Fund, with a focus on Small cap stocks.

Investment Approach

- Focus on well managed small cap companies.
- Businesses operating in a niche environment.
- Identify businesses at a relatively early stage in their life-cycle.
- Focus on quality metrics like ROCE & ROE.

Investment Strategy

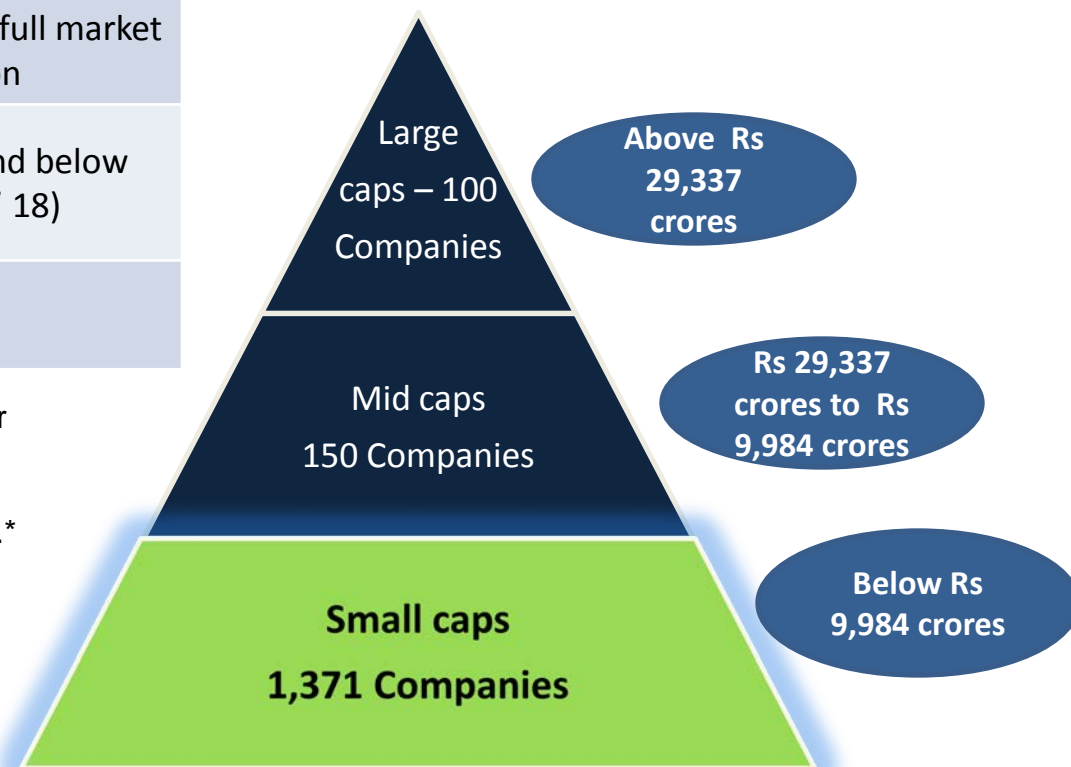
- Invest predominantly in small cap companies.
- Identifying companies with reasonable growth prospects.
- Identify companies with sound financial strength and sustainable business.
- Seek undervalued businesses.

*Scheme acquisition as on close of business hours on June 27th 2014.

** W.e.f. November 9th 2016

| Parameters | Details |
|--------------------------------|---|
| Small-Cap Universe | Companies beyond 250th company in terms of full market capitalization |
| Market Cap Range | Rs.9,849 crores and below (As of 30 th Jun' 18) |
| Allocation to Small-Cap Stocks | 65%-100% |

Classification as per SEBI circular on rationalization and merger of schemes.*



Classification as per SEBI circular (SEBI / HO/ IMD/ DF3/ CIR/ P/ 2017/ 114) dated October 6, 2017, the universe of “Small Cap” shall consist of companies below 250th company in terms of full market capitalization. *AMFI - As on 30th June 2018. Stock cut off – Market Cap above Rs 150 Cr

Scope for PE Expansion

- Size of the company increases
- Analysts start tracking stocks
- Institutional holding increases
- Better disclosure levels can lead to greater familiarity and high multiples
- As a result, smaller stocks which are often mis-priced get re-priced

Under Researched: Limited Analyst Coverage

| Index | Average Analyst Coverage |
|---------------------------|--------------------------|
| NIFTY 50 Index | 39 |
| NIFTY Midcap 100 Index | 16 |
| NIFTY Small Cap 100 Index | 9 |

Under Owned: Lower Institutional Holding

| Ownership Pattern amongst Index Constituents (%) | | | |
|--|----------------|---------------|--------|
| Index | Promoter Group | Institutional | Retail |
| NIFTY 50 Index | 42 | 41 | 17 |
| NIFTY Midcap 100 Index | 53 | 29 | 18 |
| NIFTY Small Cap 100 Index | 49 | 26 | 25 |

For small cap stocks, company specific factors have a much higher impact than macro factors

Source: Bloomberg, Capitaline.

Average analyst coverage is the average number of analysts covering each of the index constituents as on September 30th 2018.

Latest Ownership pattern as disclosed by index constituent companies to the NSE as on QE June 2018

Small Caps : A strong case for Active Investing

Within small caps there are large number of companies that show high returns and ones with low returns = **High return dispersion**

Therefore, scope for active stock picking. Focus on quality of business and management, consistency in earnings growth and reasonable valuations can lead to alpha generation

| Segments | 2017 | | | 2016 | | |
|---------------------------|-------------|---------|-----------|-------------|---------|-----------|
| | Large Cap | Mid Cap | Small Cap | Large Cap | Mid Cap | Small Cap |
| Greater Than 50% | 30 | 68 | 624 | 1 | - | 26 |
| 20-50% | 35 | 33 | 236 | 1 | 1 | 39 |
| 0-20% | 17 | 19 | 171 | 4 | 10 | 81 |
| 0 to -20% | 4 | 10 | 91 | 26 | 25 | 210 |
| -20-50% | 2 | 1 | 44 | 51 | 66 | 485 |
| Less Than -50% | - | - | 10 | 5 | 29 | 335 |
| Total observations | 1395 | | | 1395 | | |

High
Return
Dispersion



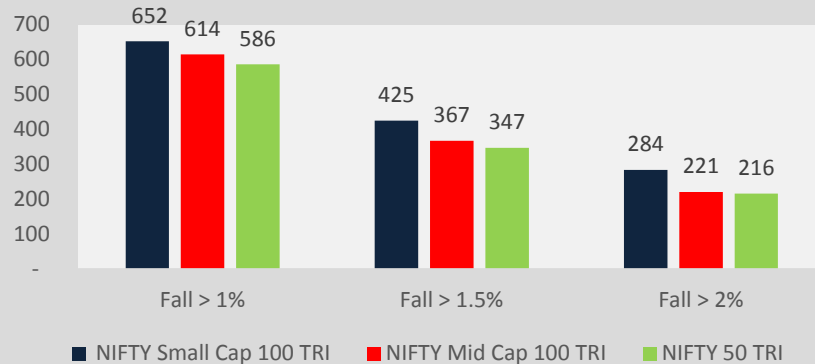
Classification as per SEBI circular (SEBI / HO/ IMD/ DF3/ CIR/ P/ 2017/ 114) dated October 6, 2017, the universe of "Small Cap" shall consist of companies below 250th company in terms of full market capitalization. Market Cap classification as of 30th June 2018. Stock cut off – Market Cap above Rs 150 Cr. Stocks selected have been traded in each of the past 2 financial years. The above chart is for illustrative purposes only. Small Caps carry a higher risk of market fluctuations and are also prone to higher liquidity risks. Small caps are strictly not comparable to Mid-caps/Large caps stocks.

Is risk higher?

- A common perception is that small caps are riskier
- Volatility exhibited by the Small Cap benchmark is in line with large and midcaps. *(See charts below)*
- Numbers say otherwise

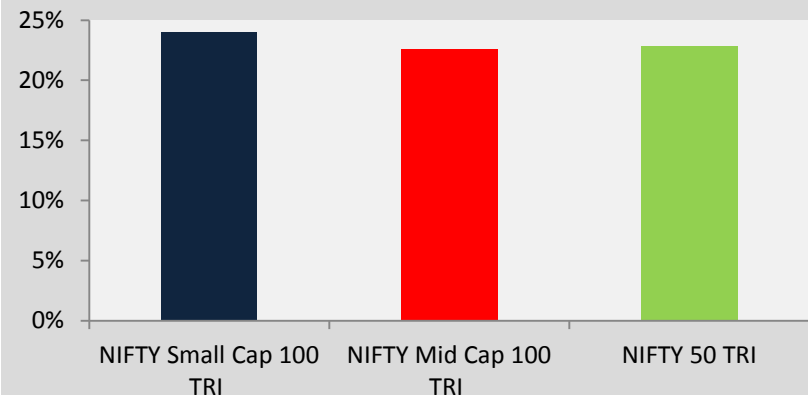
Small caps fall similar to Large / Mid caps on bad days

Number of Days The Index Has fallen > 1%, 1.5% & 2%



Large / Mid caps are as volatile as small caps

Annualized Volatility



Source: HDFC AMC Research, Bloomberg

Calculations done from 1st January 2004 (NIFTY Full Mid cap 100 Index and NIFTY Full Small Cap 100 Index– Base date) for all indices for the purpose of consistency of data. All calculations as of September 28th 2018. Annualized volatility calculated based on day wise changes in index values of mentioned indices. Past performance may not be sustained in the future.

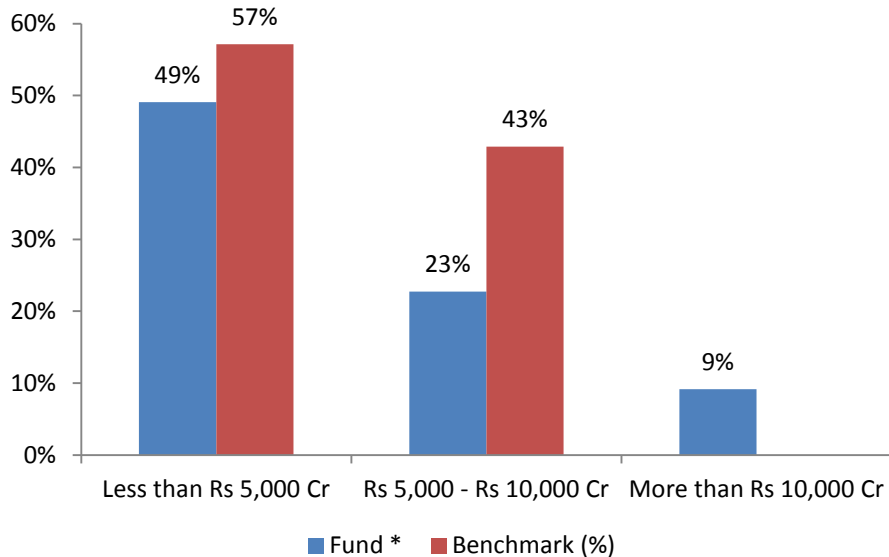
Historical performance indications and financial market scenarios are not reliable indicator for current or future performance. Small Caps carry a higher risk of market fluctuations and are also prone to higher liquidity risks. Small caps are strictly not comparable to Large caps stocks.

HDFC Small Cap Fund

Portfolio Construct

- Invests at least 65% in small-cap companies.
- Targets high quality small cap business which are undervalued and have a sustainable business.
- Well diversified portfolio at all times.

Market Cap** (In Rs. Crore)

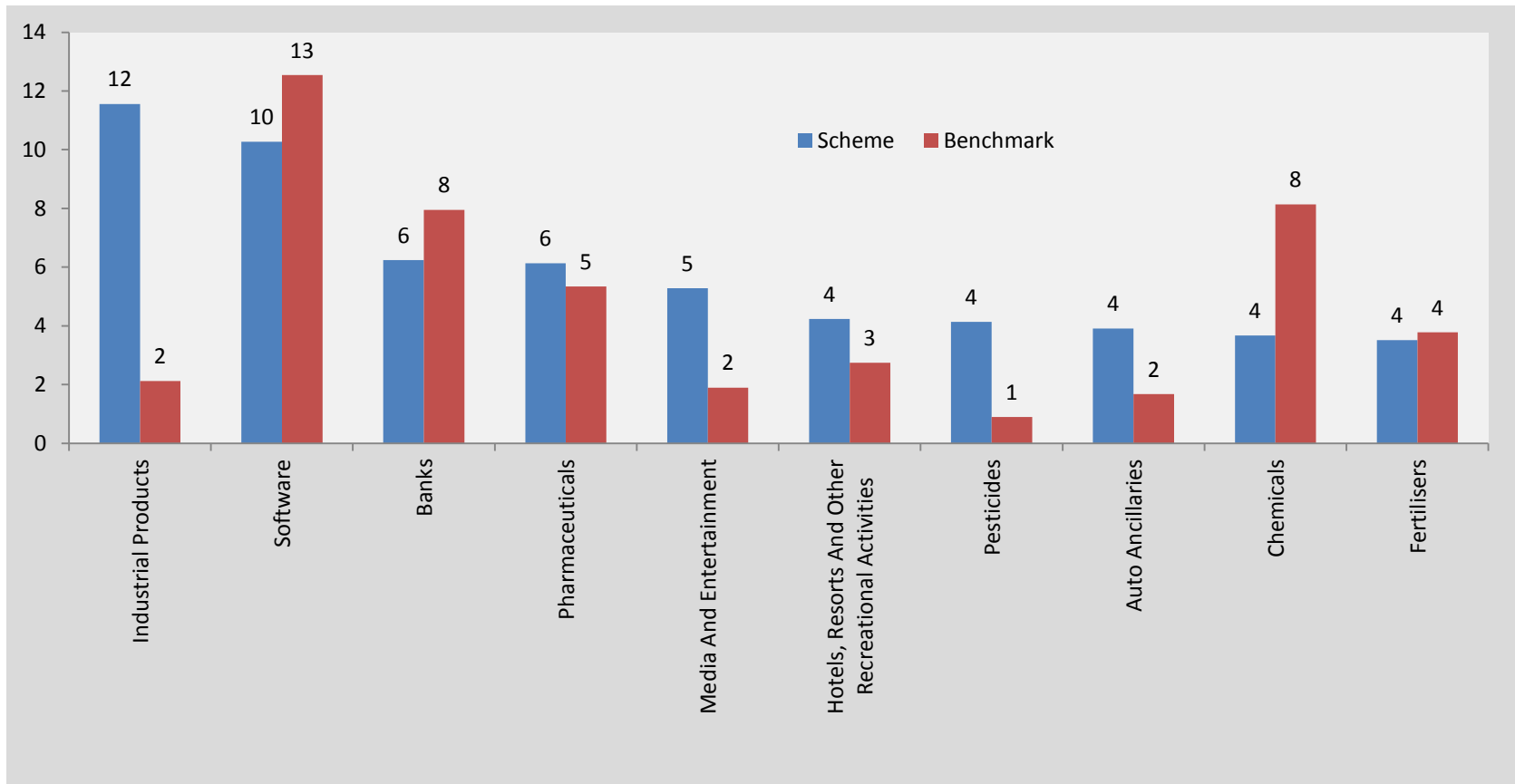


Weighted Average Market Cap** (in Rs Crore)



* Portfolio as on 28th September 2018. Full Market Cap data as on September 28th, 2018 from Capital Line. HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. ** Weighted Average Market Cap as on September 28, 2018 (Source: Capital Line). The current investment strategy is subject to change depending on the market conditions. Equity Exposure of Fund rebased to 100%.

Bottom up stock picking approach (Top 10 Sectors in portfolio)

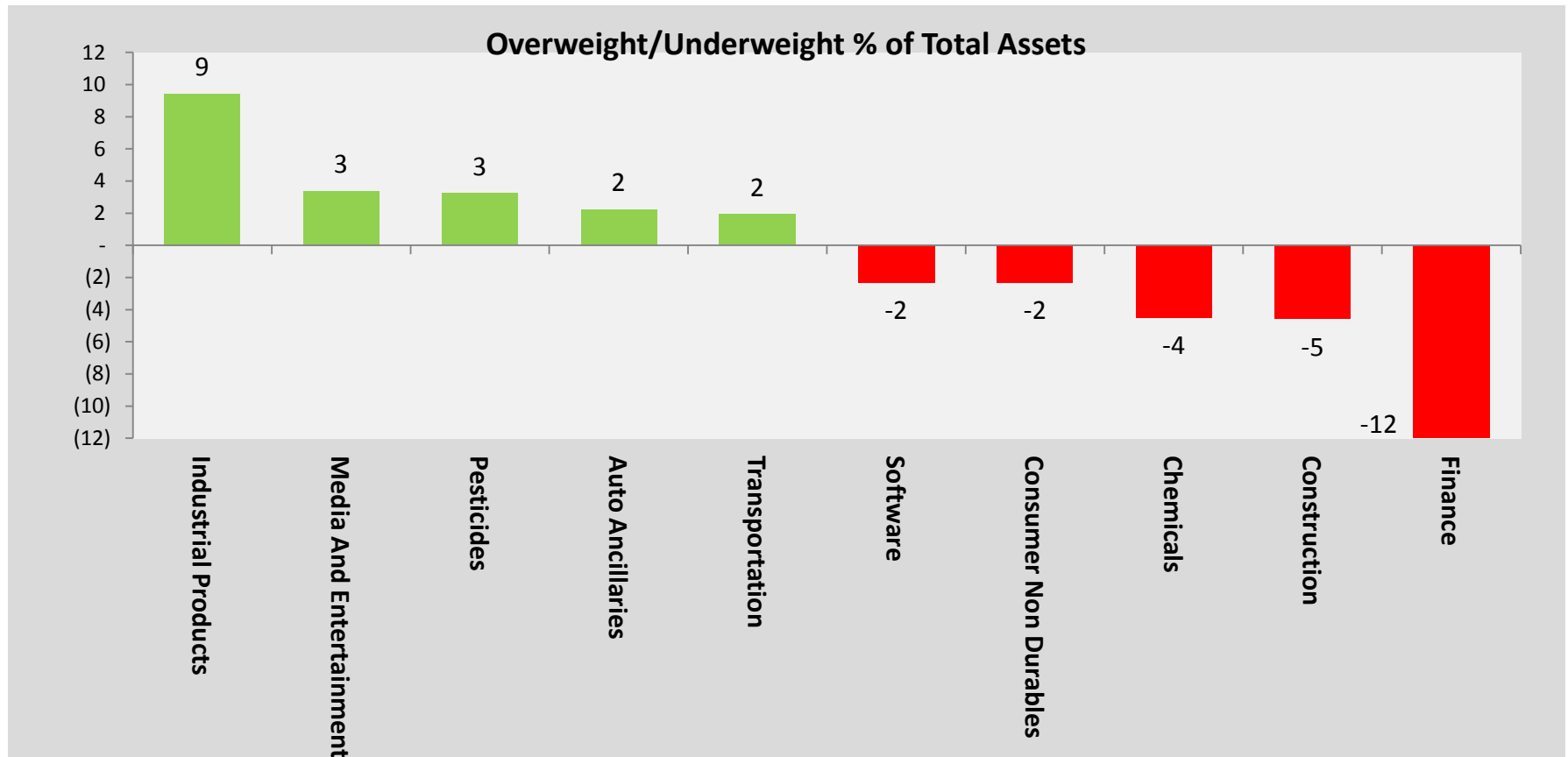


Source:-Bloomberg (Sector classification as per IISL). As of 28th September 2018. For detailed portfolio refer www.hdfcfund.com.

Stocks/sectors referred above are illustrative and are not recommended by HDFC Mutual Fund/AMC. The Fund may or may not have any present or future positions in these stocks/sectors.

The above statements / analysis should not be construed as an investment advice or a research report or a recommendation to buy or sell any security covered under the respective sector/s. The same has been prepared on the basis of information, which is already available in publicly accessible media.

Bottom up stock picking approach with wide sectoral diversification

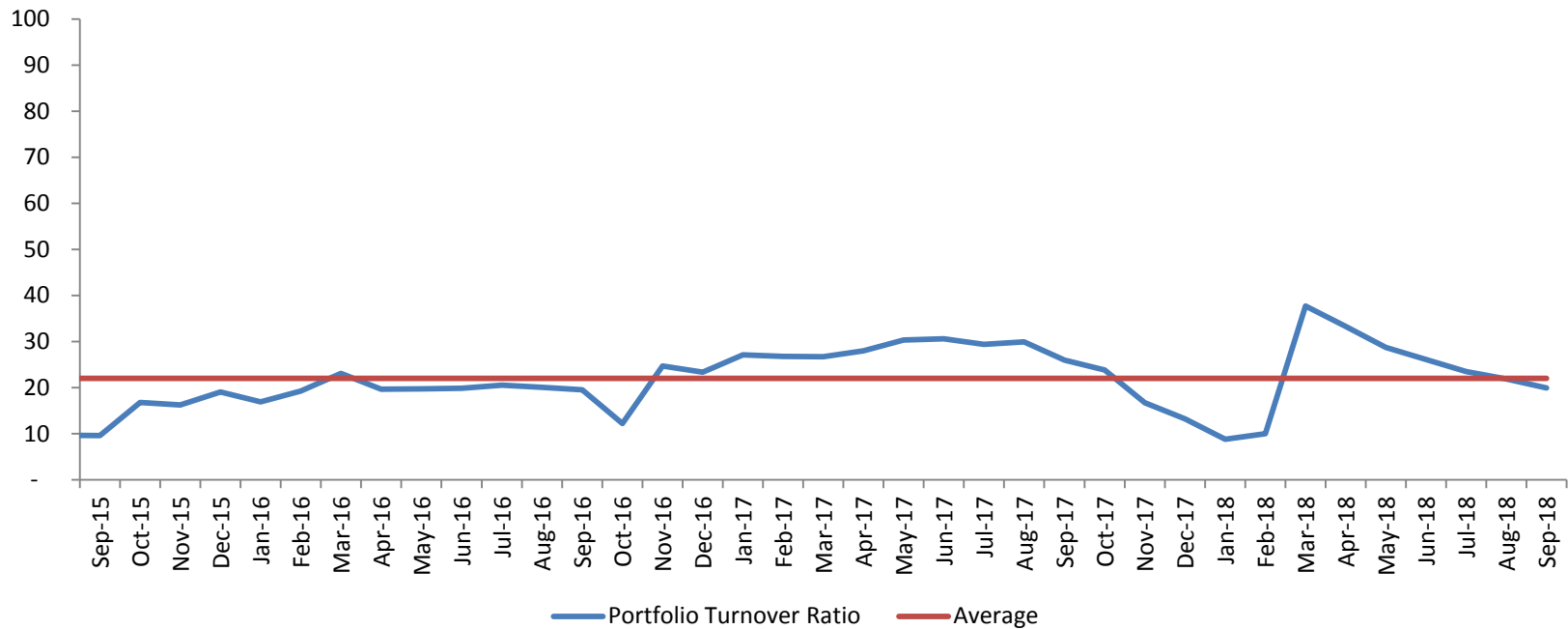


Source:-Bloomberg (Sector classification as per IISL). As of 28th September 2018. For detailed portfolio refer www.hdfcfund.com. Stocks/sectors referred above are illustrative and are not recommended by HDFC Mutual Fund/AMC. The Fund may or may not have any present or future positions in these stocks/sectors. The above statements / analysis should not be construed as an investment advice or a research report or a recommendation to buy or sell any security covered under the respective sector/s. The same has been prepared on the basis of information, which is already available in publicly accessible media.

HDFC Small Cap Fund

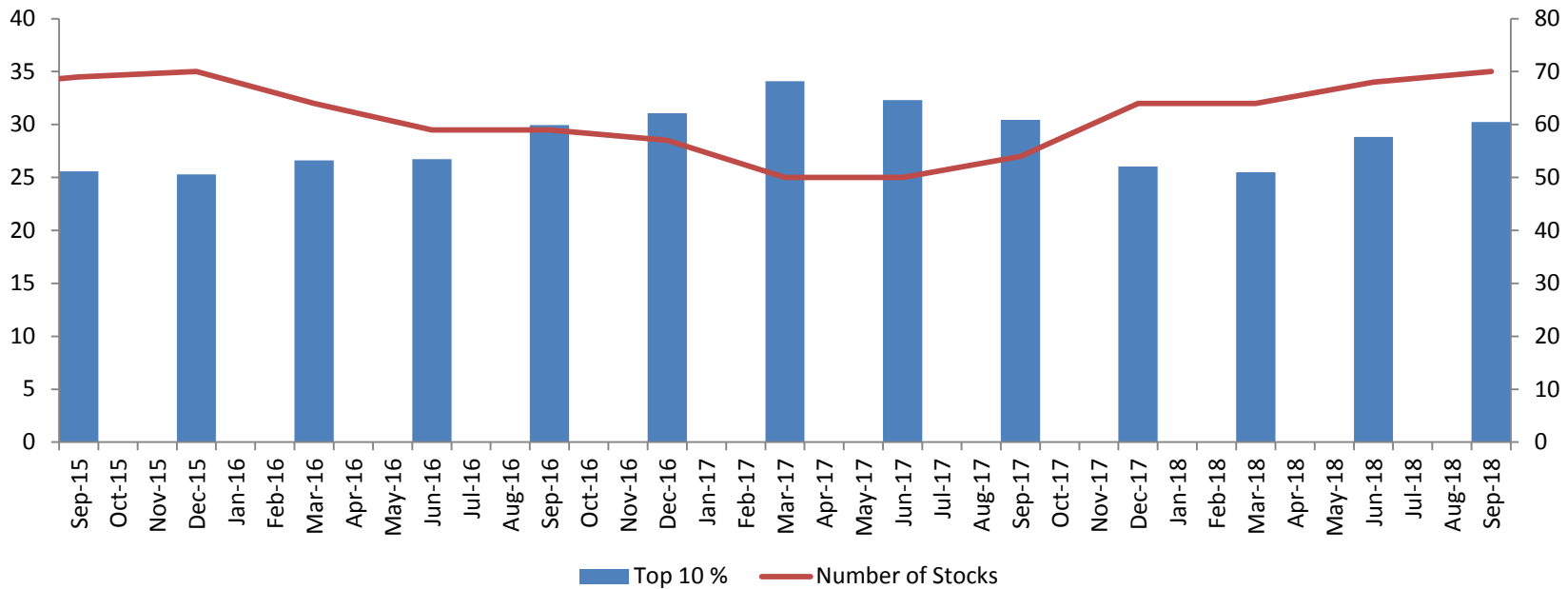
Portfolio Turnover

Consistently Low Portfolio Turnover Ratio indicating high conviction in stock selection.



Source:-ICRA online .As of 28th September 2018.

Consistently low portfolio concentration



| Parameter | Average (Since Mar' 15) |
|---------------------------------|-------------------------|
| Top 10 holding (% of portfolio) | 28% |
| Number of stocks | 62 |

Why SIP

- Imbibes financial discipline.
- Drops of water help fill a glass – Small and regular investments build a corpus over time.
- Eliminates the need to time the markets.
- Enables setup and plan financial goals.
- Option to stop at anytime thus providing flexibility.
- Aids in long term wealth creation.

Why SIP in HDFC Small Cap Fund

- An open ended Fund with a well defined portfolio strategy.
- Targeted allocation to small cap stocks with good growth and earnings potential.
- Given the volatility that small caps bring to the portfolio, an SIP helps weather such inherent volatility

| | |
|--|---|
| Type of Scheme | An open ended equity scheme predominantly investing in small cap stocks |
| Inception Date (Date of allotment) | April 3, 2008 |
| Investment Objective | To provide long-term capital appreciation /income by investing predominantly in Small-Cap companies. |
| Fund Manager [§] | Mr. Chirag Setalvad |
| Plans | Direct Plan Regular Plan |
| Options | Under Each Plan: Growth & Dividend. The Dividend Option offers Dividend Payout and Reinvestment facility. |
| Minimum Application Amount (Under Each Plan/Option) | Purchase: Rs 5,000 and any amount thereafter Additional Purchase: Rs 1,000 and any amount thereafter |
| Load Structure | <p>Entry Load: Not Applicable. Upfront commission shall be paid directly by the investor to the ARN Holder (AMFI registered Distributor) based on the investors' assessment of various factors including the service rendered by the ARN Holder.</p> <p>Exit Load:</p> <ul style="list-style-type: none"> 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. No Exit Load is payable if Units are redeemed / switched-out after 1 year from the date of allotment. <p>In case of Systematic Transactions such as SIP, GSIP, STP, Flex STP, Swing STP, Flex index; Exit Load, if any, prevailing on the date of registration / enrolment shall be levied.</p> |
| Benchmark Index | NIFTY Small cap 100 Index |

[§] Fund Manager Overseas investment –Rakesh Vyas

For further details, refer SID and KIM available on www.hdfcfund.com and at Investor Service Centres of HDFC Mutual Fund

Under normal circumstances, the asset allocation of the scheme's portfolio will be as follows:

| Type of Instruments | Minimum Allocation (% of Total Assets) | Maximum Allocation (% of Total Assets) | Risk Profile of the Instrument |
|---|---|---|-----------------------------------|
| Equity and equity related instruments of Small Cap companies** | 65 | 100 | High |
| Equity and equity related instruments other than Small Cap companies | 0 | 35 | High |
| Debt Securities (including securitised debt) and money market instruments | 0 | 35 | Low to Medium |
| Units issued by REITs and InvITs | 0 | 10 | Medium to High |
| Non-convertible preference shares | 0 | 10 | Low to Medium |

The Scheme may invest up to 100% of its net assets in Derivatives.

The Scheme may invest up to 35% of its net assets in foreign securities.

**** Investment universe of "Small Cap":**

The investment universe of "Small Cap" shall comprise companies as defined by SEBI from time to time.

In terms of SEBI circular SEBI/ HO/ IMD/ DF3/ CIR/ P/ 2017/ 114 dated October 6, 2017, the universe of "Small Cap" shall consist of 251st company onwards in terms of full market capitalization and that the Scheme will be required to adhere the following:

The list of stocks of Small Cap companies prepared by AMFI in this regard will be adopted. The said list would be uploaded on the AMFI website and would be updated every six months based on the data as on the end of June and December of each year or periodically as specified by SEBI.

Subsequent to any updation in the said list as uploaded by AMFI, the portfolio of the Scheme will be rebalanced within a period of one month.

HDFC Small Cap Fund

Scheme Performance Summary

| | Scheme Returns (%) | Benchmark Returns (%) # | Additional Benchmark Returns (%) ## | Value of Rs 10,000 invested | | |
|-----------------|--------------------|-------------------------|-------------------------------------|-----------------------------|-----------------|-----------------------------|
| | | | | Scheme | Benchmark (Rs)# | Additional Benchmark (Rs)## |
| Last 1 year | 9.78 | -18.13 | 13.20 | 10,978 | 8,187 | 11,320 |
| Last 3 years | 17.49 | 6.55 | 12.69 | 16,211 | 12,094 | 14,304 |
| Last 5 years | 22.86 | 18.83 | 15.19 | 27,976 | 23,679 | 20,274 |
| Since inception | 14.60 | 6.35 | 9.54 | 41,801 | 19,081 | 26,023 |

The above scheme has been managed by Chirag Setalvad, the fund manager since June 28, 2014.

The performance of the Scheme is benchmarked to the Total Return Index (TRI) Variant of the Indices.

Past performance may or may not be sustained in the future. Returns greater than 1 year period are compounded annualized (CAGR). Load is not taken into consideration for computation of performance. #NIFTY Smallcap 100 ## NIFTY 50. Different plans viz. Regular Plan and Direct Plan have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged in the Regular Plan. Returns as on 30th September, 2018

HDFC Small Cap Fund

Other schemes managed by the Fund Manager

| Scheme | Scheme managing since | Cumulative Performance | | |
|---|-----------------------|------------------------|--------------------|--------------------|
| | | 1 year | 3 year CAGR (in %) | 5 year CAGR (in %) |
| Chirag Setalvad manages 9 schemes | | | | |
| Performance of Top 3 schemes managed by Chirag Setalvad | | | | |
| HDFC Long Term Advantage Fund | Apr 02, 07 | 7.44 | 14.29 | 19.07 |
| S&P BSE SENSEX | | 17.13 | 12.96 | 14.90 |
| HDFC Mid Cap Opportunities Fund | Jun 25, 07 | -2.31 | 11.55 | 25.54 |
| NIFTY Mid Cap 100 | | -4.32 | 11.00 | 21.02 |
| HDFC Retirement Savings Fund - Hybrid- Equity Plan # | Feb 25, 16 | 4.22 | NA | NA |
| NIFTY 50 Hybrid Composite Debt 65:35 Index | | 8.93 | NA | NA |
| Performance of Bottom 3 schemes managed by Chirag Setalvad | | | | |
| HDFC Retirement Savings Fund – Hybrid Debt Plan # | Feb 25, 16 | 1.13 | NA | NA |
| NIFTY 50 Hybrid Composite Debt 15:85 Index | | 2.61 | NA | NA |
| HDFC Retirement Savings Fund - Equity Plan # | Feb 25, 16 | 2.49 | NA | NA |
| NIFTY 500 | | 7.30 | NA | NA |
| HDFC Multi Asset Fund ^ | Apr 02, 07 | 1.94 | 6.75 | 9.72 |
| 90% NIFTY 50 Hybrid Composite Debt 65:35 Index + 10% Domestic Price of Gold | | 8.27 | 10.14 | 11.76 |

Performance of the Schemes are benchmarked to the Total Return Index (TRI) Variant of the Indices.

Past performance may or may not be sustained in the future. Returns greater than 1 year period are compounded annualised (CAGR). The above returns are of Regular Plan - Growth Option. Load is not taken into consideration for computation of performance. On account of difference in the type of the Scheme, asset allocation, investment strategy, inception dates, the performance of these schemes is strictly not comparable. Top 3 and bottom 3 schemes managed by the Fund Manager have been derived on the basis of since inception returns. # The scheme is co-managed by Chirag Setalvad and Shobhit Mehrotra. ^ The scheme is co-managed by Chirag Setalvad, Anil Bamboli and Krishan Kumar Daga. Returns as on 30th September, 2018 Different plans viz. Regular Plan and Direct Plan have a different expense structure. 16 The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses/ commission charged in the Regular Plan

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

Thank You