

HDFC Asset Management Company Limited

A Joint Venture with Standard Life Investments

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NOTICE

NOTICE-CUM-ADDENDUM TO THE SCHEME INFORMATION DOCUMENT / KEY INFORMATION MEMORANDUM OF THE SCHEMES / STATEMENT OF ADDITIONAL INFORMATION OF HDFC MUTUAL FUND

I. Background

The unit holders of the schemes of HDFC Mutual Fund ("HDFC MF") are requested to note that HDFC Asset Management Company Limited ("HDFC AMC") and HDFC Trustee Company Limited ("HDFC Trustee"), the asset management company and trustee company of HDFC MF respectively have entered into an agreement with Morgan Stanley Investment Management Private Limited ("MS AMC") and the Board of Trustees of Morgan Stanley Mutual Fund (the "MS Trustees"), the existing asset management company and trustees of Morgan Stanley Mutual Fund ("MSMF"), pursuant to which the schemes of MSMF ("MSMF Schemes") will be transferred to and form part of HDFC MF, HDFC Trustee will take over the trusteeship of the MSMF Schemes from the MS Trustees and HDFC AMC will take over the rights to manage the MSMF Schemes from MS AMC and become the investment manager of the MSMF Schemes (the "Transaction"). Pursuant to the Transaction, Morgan Stanley shall cease to be the sponsor, and Housing Development Finance Corporation Limited (HDFC Limited) and Standard Life Investments Limited shall assume the co-sponsorship of the MSMF Schemes.

Pursuant to the acquisition of the MSMF Schemes, subject to completion of the Transaction ("Completion"), HDFC MF may have in its bouquet of products, similar schemes. Thus, in order to avoid similar schemes and to enable optimal utilization of resources, in the interest of investors, it is proposed to carry out certain changes to the MSMF Schemes by implementing changes in their fundamental attributes and by merging certain MSMF Schemes with existing schemes of HDFC MF ("HDFC MF Schemes"), as well implementing changes in the fundamental attributes of an existing HDFC MF Scheme and merging an existing HDFC MF Scheme with another existing HDFC MF Scheme. The proposed changes to the MSMF Schemes, pursuant to their acquisition by HDFC MF, and to the HDFC MF Schemes ("Changes to the Schemes") are briefly detailed as follows:

Current Name and Type of Scheme / Transferor Scheme	Type of Change	Proposed new Name and Type of Scheme / Transferee Scheme
Morgan Stanley Growth Fund (Open Ended Equity Fund)	Change in Name and Fundamental Attributes	HDFC Large Cap Fund (Open-ended equity scheme)
Morgan Stanley A.C.E Fund (Open Ended Across Capitalizations Equity Fund)	Change in Name and Fundamental Attributes	HDFC Small and Mid Cap Fund (Open-ended equity scheme)
Morgan Stanley Gilt Fund (Open Ended Gilt Fund)	Change in Name and Fundamental Attributes	HDFC Inflation Indexed Bond Fund (Open-ended income scheme)
Morgan Stanley Liquid Fund (Open Ended Liquid Fund)	Merger	HDFC Liquid Fund (Open-ended liquid income scheme)
Morgan Stanley Ultra Short Term Bond Fund (Open Ended Debt Fund)	Merger	HDFC Cash Management Fund - Treasury Advantage Plan (Open-ended income scheme)
Morgan Stanley Active Bond Fund (Open Ended Debt Fund)	Merger	HDFC High Interest Fund - Dynamic Plan (Open-ended income scheme)
Morgan Stanley Short Term Bond Fund (Open Ended Debt Fund)	Merger	HDFC Short Term Plan* (Open-ended income scheme)
Morgan Stanley Multi Asset Fund (Plan A and Plan B) (Open Ended Debt Fund)	Change in Name and Fundamental Attributes	HDFC Dynamic PE Ratio Fund of Funds** (Open-ended fund of funds scheme)
HDFC Focused Large-Cap Fund (Open Ended equity scheme)	Merger	HDFC Equity Fund (Open-ended growth scheme)

* HDFC Short Term Plan will undergo a change in fundamental attributes with effect from after the close of business hours on **June 20, 2014**. Refer Section III (1) below for details.

** As part of change in fundamental attributes of Morgan Stanley Multi Asset Fund (Plan A and Plan B), Plan A will be renamed as HDFC Dynamic PE Ratio Fund of Funds and Plan B will be merged into it.

Effective Dates for the above Changes: All the proposed changes to the fundamental attributes of MSMF Schemes and mergers of MSMF Schemes with HDFC MF Schemes are subject to Completion and will come into effect on and from the close of business hours on the date of Completion. However, changes to fundamental attributes of HDFC Short Term Plan and merger of HDFC Focused Large-Cap Fund into HDFC Equity Fund are proposed to be effected after the close of business hours on **June 20, 2014** irrespective of Completion.

Prior to the date of Completion, MS AMC and HDFC AMC will each issue public notices informing the respective investors in the MSMF Schemes and HDFC MF Schemes about the Completion and the coming into effect of the Changes to the Schemes, as appropriate. After Completion, fresh account statements will be issued by HDFC MF to unit holders of MSMF Schemes reflecting the relevant Changes to the Schemes and issuing new folio numbers, which should be used by unit holders for all future correspondence with HDFC MF. The updated Scheme Information Documents & Key Information Memorandum of the MSMF Schemes undergoing changes to fundamental attributes, containing the revised provisions shall be made available with the Investor Service Centres of HDFC MF and also displayed on the website www.hdfcfund.com immediately after Completion.

II. Requisite Corporate and Regulatory Approvals

The Transaction and the Changes to the Schemes have been approved by the MS Trustees and the Board of Directors of MS AMC (only in respect of changes to the fundamental attributes of the MSMF Schemes and merger of MSMF Schemes with HDFC MF Schemes), and the respective Boards of Directors of HDFC Trustee and HDFC AMC. The Securities and Exchange Board of India ("SEBI") has also vide its letter no. OW/13162/2014 dated May 8, 2014 confirmed its no objection to the Transaction and the Changes to the Schemes.

III. Details of Changes to the HDFC MF Schemes:

(1) Change in Fundamental Attributes of HDFC Short Term Plan ("HSTP"), an open-ended income scheme viz. Asset Allocation pattern and Investment Strategy

Provisions	Existing				Proposed			
	Type of Instruments	Normal Allocation	Normal Deviation	Risk Profile	Type of Instruments	Allocation (% of Net Assets)		Risk Profile
						Min.	Max.	
Asset Allocation Pattern	Debt Securities	60%	Upto 33.33%	Low to Medium	Debt Securities with less than 3 years residual maturity and Money Market Instruments	80	100	Low to Medium
	Money Market Instruments	40%	Upto 50%	Low	Debt Securities with less than 5 years residual maturity	0	20	Low to Medium
	It is the intention of the Scheme that the investments in securitized debt will not, normally exceed 60% of the net assets of the Scheme.				It is the intention of the Scheme that the investments in securitized debt will not, normally exceed 60% of the net assets of the Scheme.			
					Average maturity shall be from 1 to 3 years.			
Investment Strategy	CONCEPT: HDFC Short Term Plan is structured as an open-ended income scheme with the objective to generate regular income through investments in debt securities and money market instruments. The characteristics of the product are similar to that of a debt fund. With respect to the investment horizon profile, this Scheme is aimed to be positioned between the liquid scheme and the income scheme.				HDFC Short Term Plan is structured as an open-ended income scheme with the objective to generate regular income through investments in debt securities and money market instruments. The characteristics of the product are similar to that of a debt fund. With respect to the investment horizon profile, this Scheme is aimed to be positioned between a liquid scheme and an income scheme.			
	The Scheme will invest in debt securities and money market instruments with a short to medium term maturity and aims to maintain an average maturity profile of 9 - 18 months under normal circumstances.				The net assets of the Scheme will be invested in Debt Securities and Money Market Instruments. The Scheme will maintain an average maturity profile of 1 to 3 years. The primary objective of the Scheme is to generate regular income through investment in debt securities and money market instruments.			
	INVESTMENT STRATEGY: The net assets of the Scheme will be invested in Debt Securities and Money Market Instruments. The primary objective of the Scheme is to generate regular income through investment in debt securities and money market instruments.							

All other terms and conditions of HSTP will remain unchanged.

Note: Upon Completion, Morgan Stanley Short Term Bond Fund will be merged into HSTP.

(2) Merger of HDFC Focused Large-Cap Fund into HDFC Equity Fund

Sr. No.	Provisions	Scheme getting merged (Transferor Scheme)			Scheme with which Transferor Scheme is proposed to be merged (Transferee Scheme)			
1.	Name of Scheme	HDFC Focused Large-Cap Fund			HDFC Equity Fund			
2.	Type of Scheme	An open-ended equity scheme			An open-ended growth scheme			
3.	Investment Objective	To generate long term capital appreciation from a focused portfolio that is invested in Large-Cap Companies.			To achieve capital appreciation.			
4.	Asset Allocation Pattern	Type of Instruments	Allocation (% of Net Assets)	Risk Profile	Type of Instruments	Normal Allocation (% of Net Assets)	Risk Profile	
		Min.	Max.					
	Equity and equity related instruments of Large-cap Companies#	80	100	High	Equity and Equity related instruments	80-100	Medium to High	
	Debt Securities and money market instruments	0	20	Low	Debt and Money Market Instruments*	0-20	Low to Medium	
	# of which top 10 stocks shall be at least 50% of the net assets				* Investment in Securitised debt, if undertaken, would not exceed 20% of the net assets of the Scheme.			
	The Scheme will not invest in Securitised Debt.							

Sr. No.	Provisions	Scheme getting merged (Transferor Scheme)	Scheme with which Transferor Scheme is proposed to be merged (Transferee Scheme)
5.	Investment Strategy	The investment strategy of the Scheme is to build and maintain a diversified portfolio of "Large-Cap Companies" that have the potential to appreciate in the long run. For the purpose of the Scheme, "Large-Cap Companies" are those companies with market capitalization greater than or equal to that of the company with the lowest market capitalization in the CNX Nifty Index. Companies identified for selection in the portfolio will have demonstrated a potential ability to grow at a reasonable rate for the long term. The aim will be to build a portfolio that adequately reflects a cross-section of the growth areas of the economy from time to time. While the portfolio focuses primarily on a buy and hold strategy at most times, it will balance the same with a rational approach to selling upon anticipated price appreciation being achieved or being no longer possible due to a change in fundamental factors affecting the company or the market in which it competes, or due to the availability of an alternative that, in the view of the Fund Manager, offers superior returns.	In order to provide long term capital appreciation, the Scheme will invest predominantly in growth companies. Companies selected under this portfolio would as far as practicable consist of medium to large sized companies which: a) are likely to achieve above average growth than the industry; b) enjoy distinct competitive advantages, and c) have superior financial strengths. The aim will be to build a portfolio, which represents a cross-section of the strong growth companies in the prevailing market. In order to reduce the risk of volatility, the Scheme will diversify across major industries and economic sectors. A part of the funds may be invested in debt and money market instruments. The Scheme will retain the flexibility to invest in the entire range of debt instruments and money market instruments. Investment in Debt securities (including securitised debt) and Money Market Instruments will be as per the limits in the asset allocation table of the Scheme, subject to permissible limits laid under the SEBI (Mutual Fund) Regulations, 1996 ("MF Regulations"). The Scheme may also invest upto 25% of net assets of the Scheme in derivatives such as Futures & Options and such other derivative instruments as may be introduced from time to time for the purpose of hedging and portfolio balancing and other uses as may be permitted under the MF Regulations.
6.	Benchmark	CNX Nifty Index	CNX 500 Index
7.	Plans / Options	Plans: Regular & Direct Options: Growth & Dividend (With Payout and Reinvestment facility)	
8.	Exit Load	• 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.	
9.	Expense Ratio	As per Regulatory Limits	

Consequences of Mergers (including those of MSMF Schemes with HDFC MF Schemes):

- On the effective date of the merger of schemes, the Transferor Schemes will cease to exist and the unit holders of Transferor Schemes as at the close of business hours will be allotted units under the corresponding option of the respective Transferee Schemes at the last available applicable Net Asset Value ("NAV") on the effective date. In case of any pledge / lien / other encumbrance marked on any units in the Transferor Schemes, the same shall be marked on the corresponding number of units allotted in the respective Transferee Schemes.
- A fresh account statement reflecting the new units allotted, will be sent to the unit holders of the erstwhile Transferor Schemes by HDFC MF. The units allotted in the Transferee Scheme(s) shall be treated as a fresh subscription. Accordingly, all provisions under the Transferee Scheme(s) will apply including exit load. The period of holding for the purpose of taxation / exit load will be computed from the date of allotment of such units in such Transferee Scheme(s).
- After the proposed mergers of schemes as set out above, the Transferee Schemes will be the surviving schemes and the investment objective, investment pattern, annual scheme recurring expenses structure and all other provisions of the Transferee Schemes will remain unchanged except as specified hereinabove.
- Unit holders who have registered for systematic investment plan facilities such as Systematic Investment Plan (SIP), Micro SIP, Group SIP (as available under the concerned Transferor Schemes), may note that the said registration will continue under the respective Transferee Schemes subsequent to the mergers except in case of Morgan Stanley Liquid Fund (since HDFC Liquid Fund does not offer SIP facility). However, registrations for systematic transfer facilities such as Systematic Transfer Plans (STPs), Systematic Withdrawal Plans (SWPs), Flex STP, Flex Index Plan, Swing STP, Dividend Transfer Plans (DTPs), etc (as available under the concerned Transferor Schemes) shall automatically cease to have effect on effective dates of the merger. Unit holders seeking to continue with their systematic transfer facilities shall have to register afresh with HDFC MF.

IV. Exit Option

As per Regulation 18(15A) of the MF Regulations, changes in fundamental attributes can be carried out only after the unit holders of the schemes concerned have been informed of the change via written communication and an option to exit the scheme(s) within a period of 30 days at the prevailing NAV without any exit load is provided to them. As per Circular No. SEBI/MFD/Cir No. 05/12031/03 dated June 23, 2003 issued by SEBI, merger of schemes is also considered as a change in fundamental attributes of the concerned schemes necessitating compliance with the above requirements. However, in case of merger, as per Circular No. Cir/IMD/DF/15/2010 dated October 22, 2010 issued by SEBI, exit option is not required to be given to the unit holders of a transferee / surviving scheme if there is no change in the fundamental attributes of that scheme, the circumstances merit a merger and the interest of the unit holders of the transferee / surviving scheme is not adversely affected. Accordingly, this notice serves as the written communication to the unit holders of the Transferee Schemes of HDFC MF viz., HDFC Liquid Fund, HDFC Cash Management Fund - Treasury Advantage Plan, HDFC Short Term Plan, HDFC High Interest Fund - Dynamic Plan and HDFC Equity Fund about the merger of Transferor Schemes viz. Morgan Stanley Liquid Fund, Morgan Stanley Ultra Short Term Bond Fund, Morgan Stanley Short Term Bond Fund, Morgan Stanley Active Bond Fund and HDFC Focused Large-Cap Fund respectively into the present Transferee Schemes. Further, due to a change in the fundamental attributes of HDFC Short Term Plan and due to merger of HDFC Focused Large-Cap Fund into HDFC Equity Fund, an exit option is being given to unit holders of HDFC Short Term Plan and HDFC Focused Large-Cap Fund ("the said Schemes"). Thus, in