

**HD**FC

# DUAL ADVANTAGE FUND - SERIES III

(A Closed-ended Income Scheme)

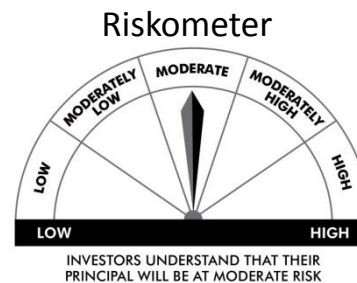
HDFC DAF – III – 1224D November 2016

NFO Opens On : November 21, 2016  
NFO Closes On : December 5, 2016

This product is suitable for investors who are seeking\*:

- Regular income as well as capital appreciation over 1224 days (tenure) of the fund
- To generate returns by investing in debt and money market instruments and also in equity and equity related instruments to achieve capital appreciation.

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



November 2016

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# How does Dual Advantage Work?

- Portfolio comprising a judicious mix of Debt securities & money market instruments and also equity and equity related instruments
- The debt portion of the scheme will aim to provide relatively stable return while the equity portion will aim to generate capital appreciation
- For e.g.: The scheme invests ~88% in debt and money market instruments. The 88% of the portfolio invested in debt securities is structured to grow over the tenure of the scheme to 100% (net of annual recurring expenses)
- The remaining corpus will be invested in equities and equity related instruments to generate capital appreciation.

The actual allocation can be different within the Asset Allocation and Investment Pattern mentioned in the SID. There is no assurance of any capital protection or capital guarantee for investors in this scheme. HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. There is no assurance that the investment objective of the scheme will be realised.

# Scenario Analysis

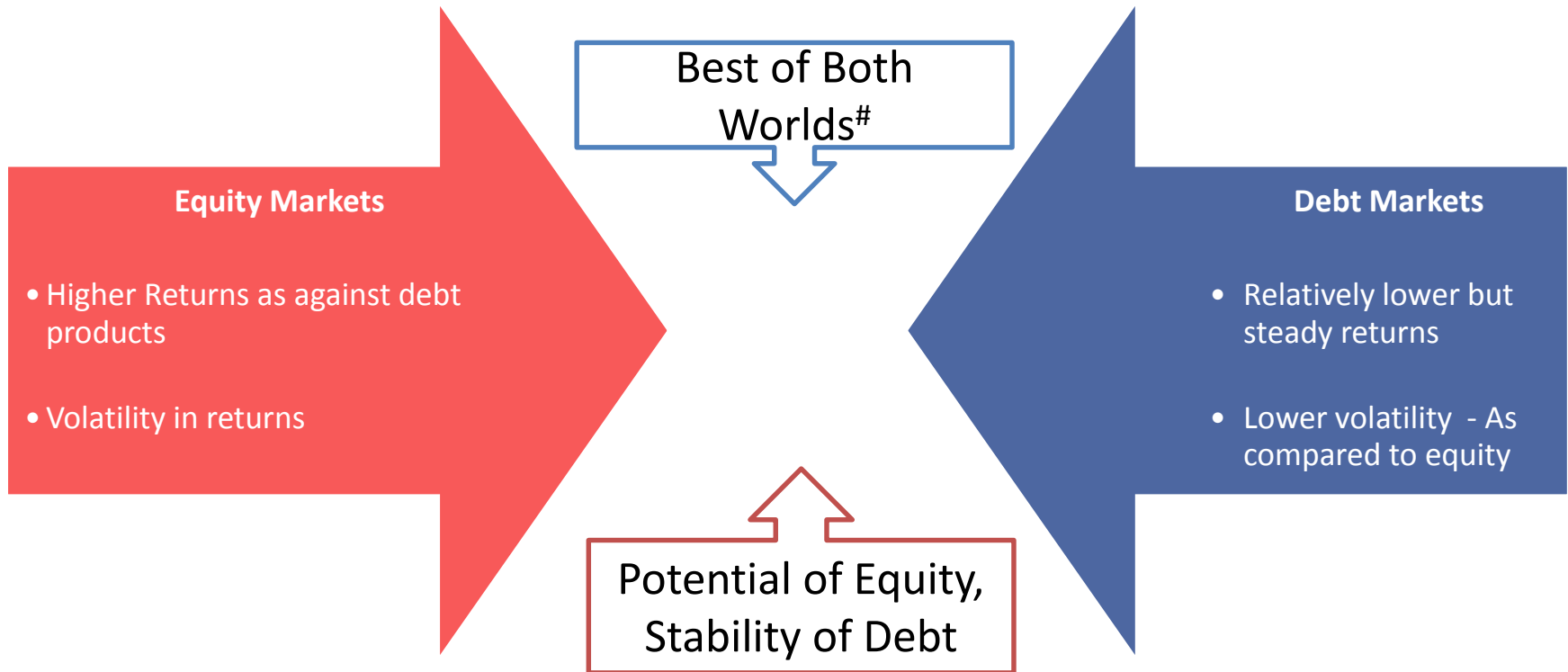
## Illustration

	Scenario analysis over 1224 Days				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<b>Scheme Corpus (Rs.)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Debt allocation (Rs.)	88	88	88	88	88
<b>Debt Value on maturity (Rs) (A)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Direct Equity allocation	12	12	12	12	12
<b>CAGR (%) on equity allocation</b>	<b>-20</b>	<b>-10</b>	<b>0</b>	<b>10</b>	<b>20</b>
Equity Value at the time of Scheme maturity (Rs.) (B)	5.68	8.43	12.00	16.52	22.12
<b>Fund Value (Rs.) (A+B)</b>	<b>105.68</b>	<b>108.43</b>	<b>112.00</b>	<b>116.52</b>	<b>122.12</b>

As explained in the scenarios given above, over the tenure of the scheme the initial scheme investment has remained intact and the value of portfolio appreciated, despite positive or negative equity returns.

The portion of debt/equity portfolio does not offer any assured returns and is subject to market risks. The equity returns generated by the Scheme would depend on the portion of asset allocated to equity. There is no assurance of any capital protection or capital guarantee for investors in this scheme. HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. There is no assurance that the investment objective of the scheme will be realised.

# Dual Benefits



A pure debt portfolio returns might not beat inflation. It is important to add a portion of equity to your debt portfolio to improve the performance over longer holding period.

# Debt securities held for a period of more than 3 years are treated as long term capital gains and investors can avail indexation benefits on income from such assets. Refer slide 6 for taxation

HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in this scheme. The current investment strategy is subject to change depending on the market conditions.

# Taxation

	Resident Individual/HUF	Domestic Companies @	NRI\$/#
<b>Dividend Distribution Tax Applicable To Schemes Other Than Equity Oriented Schemes (Payable By The Scheme)</b>			
	25% + 12% Surcharge + 3% Cess = 28.84%	30% + 12% Surcharge + 3% Cess = 34.608%	25% + 12% Surcharge + 3% Cess = 28.84%
<b>Capital Gains Taxation Applicable To Schemes Other Than Equity Oriented Schemes</b>			
<b>Long Term Capital gains</b> (Units held for a period of more than 36 months) Listed Units	20% with indexation + 15% Surcharge + 3% Cess = 23.690%	20% with indexation + Surcharge as applicable+ 3% Cess = 23.072%	20% with indexation + 15% Surcharge + 3% Cess = 23.690%
Tax Deducted at Source	Nil	Nil	23.690%
<b>Short Term Capital gains</b> (Units held for a period of less than 36 months) Listed Units	30%^+15% Surcharge + 3% = 35.5350%	30% + Surcharge as applicable + 3% = 34.608% or 33.063%	30%^+15% Surcharge + 3% = 35.5350%
Tax Deducted at Source	Nil	Nil	35.5350%

^ Assuming the investor falls in the highest tax bracket. @ Surcharge as the rate of 7% for domestic corporate unit holders where the income exceeds Rs 1 Cr but less than Rs 10 Cr and the rate of 12% where income exceeds Rs 10 Cr. \$ Surcharge when income exceeds Rs 1 Cr. # Tax will be deducted at the time of redemption of units in case of NRI investors only.

The information set out here is neither complete nor constitute as tax or legal advice. Due to the individual nature of taxation please consult your tax advisor before investing.

# Investment Strategy

- Tenure: 1224 Days
- Intended Portfolio Allocation\*:
- Debt Strategy^:
  - Approximately 88% of the portfolio shall be invested in debt and money market instruments which would be targeted to reach 100% of the original investment over the tenure of the Plan.
  - Investments in the instruments to mature on or before the date of maturity of the Plan, thereby no interest rate risk and shall earn prevailing yields over tenure of the Plan.
  - Investment in AAA rated securities minimizes credit risk.

\* The intended portfolio allocation will be constructed at the time of deployment of funds collected during the NFO. Refer slide 13 for intended portfolio allocation.  
^HDFC Mutual Fund/AMC is not guaranteeing/offering/ communicating any indicative yield on investments made in this scheme.

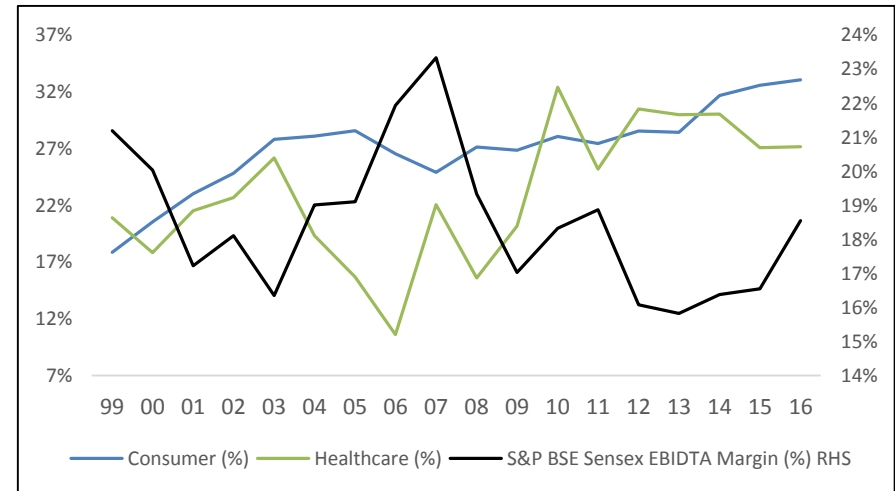
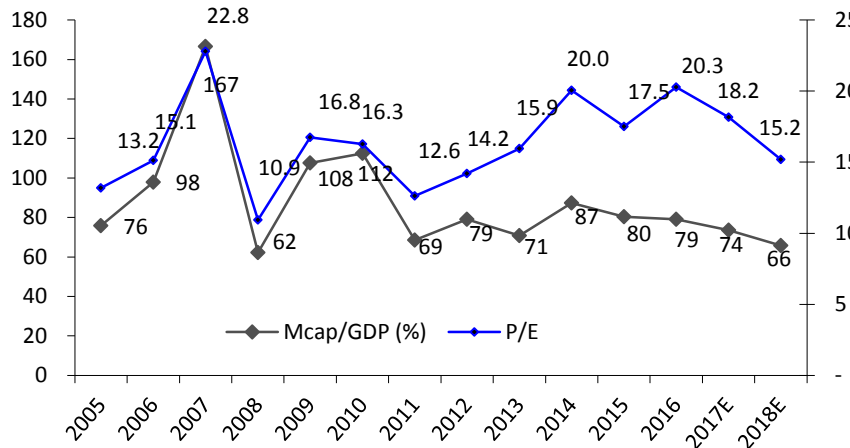
# Investment Strategy

- Equity Strategy:
  - Up to 12% of the corpus would be invested in equity and equity related instruments to achieve capital appreciation. The investment may be in either of the following instruments or a combination thereof:
    - Direct Equity: Investments may be made in stocks of a cross-section of companies across major industries and economic sectors through active management.
    - Equity Derivatives: The Plan may take equity exposure through equity derivatives maturing on or before the maturity date
- The main driver for probable capital appreciation over the tenure is primarily due to the allocation to equities with debt portfolio providing relatively stable returns.



# Equity Markets – Market cap to GDP near 10 year lows

India Market Cap To GDP Ratio - Calendar Year ends 2005 - 18 (%)



- S&P BSE SENSEX EBITDA margins are improving steadily

S&P BSE Sensex	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17E	2QFY17E
EBITDA Margin (%)	17.4%	17.0%	17.0%	16.8%	18.2%	18.0%	18.3%	18.7%	18.3%	19.4%

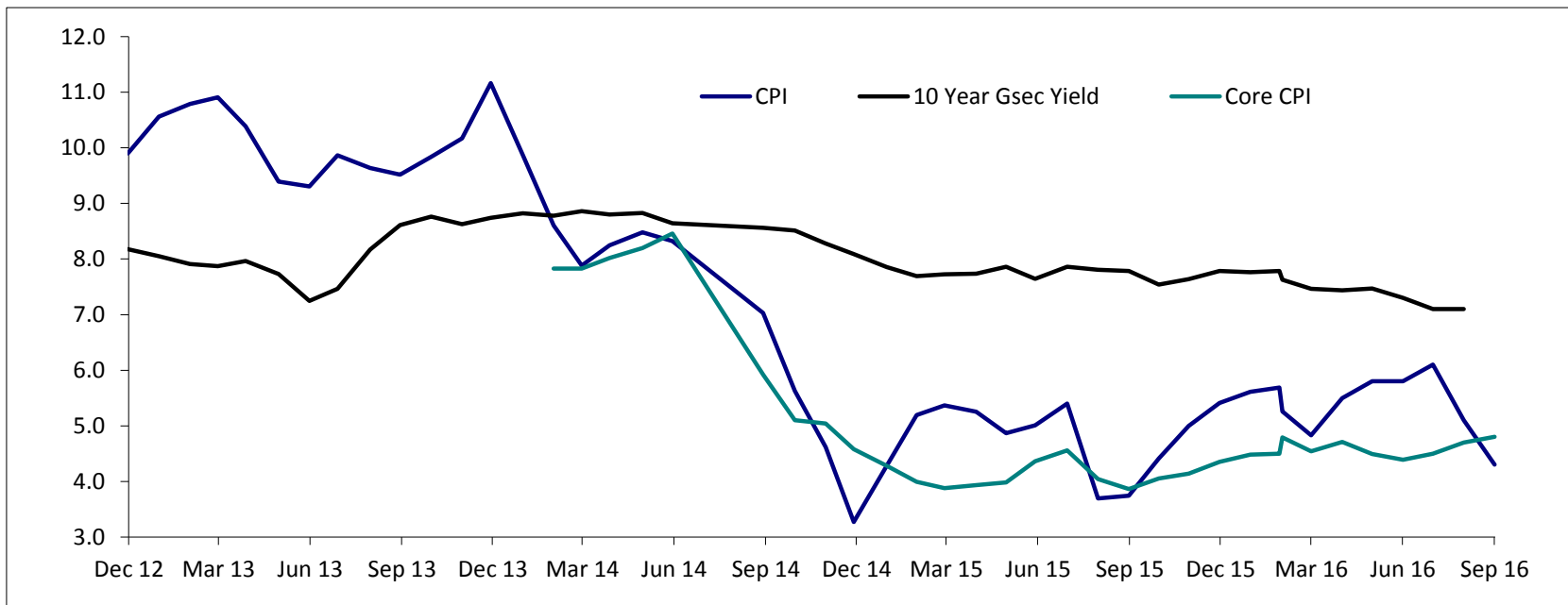
- Improving EBITDA margins, lower interest rates should lead to improved EPS / Profit growth in coming years

Notes:

(a) From 2000-15, S&P BSE SENSEX PE is based on 1 year rolling forward,

(b) For 2016-18E, we have calculated S&P BSE SENSEX PE is based on PAT numbers as of Mar-16, Mar-17 and Mar-18 end and used market cap as of Sep 30 2016.

# Yields Continue To Fall, Further Fall Likely



- CPI has fallen from ~10% to ~4.3% in Sep 16, while Yields have fallen from ~8.8% in Dec 13 to ~6.6%
- RBI has suggested with decline in global real rates the more appropriate real neutral rate for India is around 1.25%
- Real yields of ~1.8-2.3% (~2.3% vs. CPI, ~1.8% vs. Core CPI) still leaves room for further rate cuts
- Low CAD, rising FDI, falling Fiscal Deficit, weak IIP growth also support lower rates

# Fund Suitability

- Investors with low to medium risk appetite
- Investors who do not want to take interest rate risk and want to earn prevailing yields over the tenure of the Plan.
- It offers investors to participate in equities with the stability in the portfolio being provided by the debt portion of the portfolio.
- Investors can take benefit of indexation and get an opportunity to earn better tax adjusted returns.

# Fund Facts

<b>Nature of Scheme</b>	A Close-ended Income Scheme
<b>Investment Objective</b>	<p>To generate income by investing in a portfolio of debt and money market securities which mature on or before the date of maturity of the Scheme. The scheme also seeks to invest a portion of the portfolio in equity and equity related securities to achieve capital appreciation.</p> <p>There is no assurance that the investment objective of the Schemes will be realized</p>
<b>Fund Manager \$</b>	<p>Fund Manager for Debt Portfolio: Anil Bamboli Fund Manager for Equity Portfolio: Krishan Kumar Daga</p>
<b>Investment Option</b>	Direct & Regular Option
<b>Investment sub-options</b>	Under Each option: Growth & Dividend. The Dividend Option offers Dividend Payout facility
<b>Minimum Application Amount. (Under Each Plan/Option)</b>	<b>Purchase:</b> Rs. 5,000 and in multiples of Rs.10 thereafter
<b>Load Structure</b>	<p>Entry Load:</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>Exit Load:</p> <ul style="list-style-type: none"> <li>• Not Applicable. The Units under the plan cannot be directly redeemed with the fund as the Units are listed on the stock exchange(s).</li> </ul>
<b>Benchmark</b>	CRISIL Debt Hybrid 60+40 Fund Index

\$ Dedicated Fund Manager for Overseas Investments: Mr Rakesh Vyas  
For further details, please refer to the Scheme Information Document/ Key Information Memorandum.

# Indicative Asset Allocation Pattern

The Plan, HDFC DAF - III - 1224D November 2016 being launched under this SID, will invest in securities as per the intended allocation indicated below against each sub class of asset for debt and money market instruments in accordance with SEBI Circular No. Cir/IMD/DF/12/2011 dated August 1, 2011 as amended from time to time:

Instruments	Credit Ratings		
	AAA/P1+	AA	NA
<b>Debt &amp; Money Market Instruments</b>			
Certificate of Deposit (CDs)	0-5		
Commercial Papers (CPs)	0-5		
Non - Convertible Debentures (NCDs)*	63-68	20-25	
Government Securities/ Treasury Bills /CBLO/ Reverse Repos/units of liquid mutual fund schemes			0-5
<b>Equity and Equity related Instruments (including equity derivatives)</b>			0-12

\*Includes CDs issued by select All-India Financial Institutions permitted by RBI from time to time.

# Disclaimer & Risk Factors

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.

Thank You