HDFC Dual Advantage Fund - Series III

NFO Opens on: August 19, 2016
NFO Closes on: September 2, 2016

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.

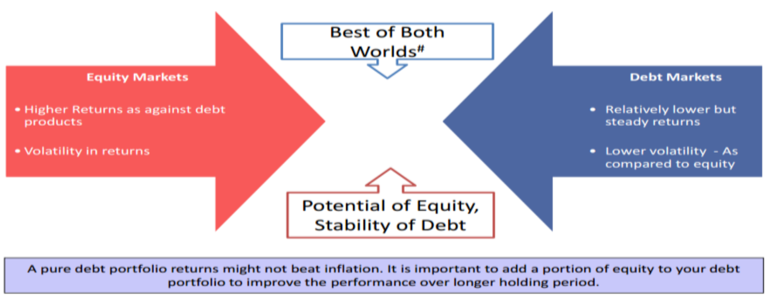
Scenario Analysis

Illustration:

Scenario Analysis over 1304 Days					
	Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**
Scheme Corpus (Rs.)	**100**	**100**	**100**	**100**	**100**
Debt allocation (Rs.)	88	88	88	88	88
Debt Value on Maturity (Rs.) (A)	100	100	100	100	100
Direct Equity allocation	12	12	12	12	12
CAGR (%) on equity allocation	**-20**	**-10**	**0**	**10**	**20**
Equity Value at the time of Scheme maturity (Rs.) (B)	5.41	8.24	12.00	16.87	23.02
Fund Value (Rs.) (A+B)	**105.41**	**108.24**	**112.00**	**116.87**	**123.02**

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.

Dual Benefits



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$/#**
Dividend Distribution Tax Applicable To Schemes Other Than Equity Oriented Schemes (Payable By The Scheme)			
	25% + 12% Surcharge + 3% Cess = 28.84%	30% + 12% Surcharge + 3% Cess = 34.608%	25% + 12% Surcharge + 3% Cess = 28.84%
Capital Gains Taxation Applicable To Schemes Other Than Equity Oriented Schemes			
Long Term Capital gains (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%
Short Term Capital gains (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%

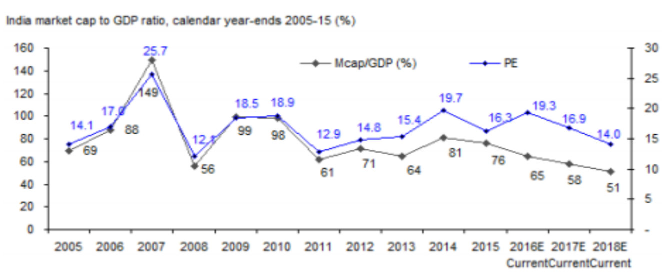
^ Assuming the investor falls in the highest tax bracket. @ Surcharge as the rate of 7% for domestic corporate unit holders where the income exceeds Rs 1 Cr but less than Rs 10 Cr and the rate of 12% where income exceeds Rs 10 Cr.$ Surcharge when income exceeds Rs 1 Cr. # Tax will be deducted at the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

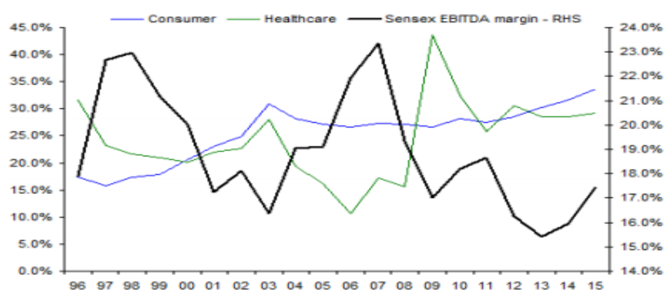
Investment Strategy

- Tenure: 1304 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
- 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 Outlook



Source: World Bank, Bloomberg, Kotak Institutional Equities, updated till 31st Mar, 2016



Source: BAML

- Marketcap to GDP near all time lows and hence relatively flat markets for 8 years,

Positives

- Profit growth to accelerate driven by low base of Cement / Commodity companies and corporate banks; acceleration of GDP growth, low wage inflation, improving capacity utilization, lower interest rates etc. to aid profitability

Negatives

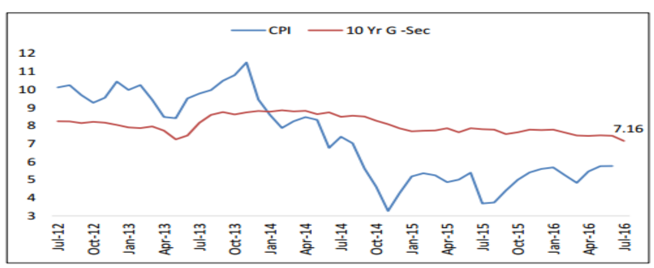
- Uncertain Global situation in general and emerging markets / China in particular

Interest rate Outlook

Yields have fallen from 8.8% in Dec 13 to 7.2% in Jul16 (As on July 29th 2016)

Despite this large fall in yields, there is further downward bias to bond yields in our opinion.

- Fall in yields is much less than fall in inflation
- Higher real yields in India v/s other large economies
- Indian bonds real yield remain attractive for foreigners.



In line with the above, our recommendation to investors would be to remain invested in debt oriented funds.

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

Nature of Scheme	A Close-ended Income Scheme
Investment Objective	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. There is no assurance that the investment objective of the Schemes will be realized
Fund Manager	Fund Manager for Debt Portfolio: Anil Bamboli Fund Manager for Equity Portfolio: Krishan Kumar Daga
Investment Option	Direct & Regular Option
Investment sub-options	Under Each option: Growth & Dividend. The Dividend Option offers Dividend Payout facility
Minimum Application Amount. (Under Each Plan/Option)	Purchase: Rs. 5,000 and in multiples of Rs.10 thereafter
Load Structure	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. Exit Load: • Not Applicable. The Units under the plan cannot be directly redeemed with the fund as the Units are listed on the stock exchange(s).
Benchmark	CRISIL Debt Hybrid 60+40 Fund Index

Indicative Asset Allocation Pattern

The Plan, HDFC DAF - III - 1304D August 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
Debt & Money Market Instruments			
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
Equity and Equity related Instruments (including equity derivatives)			0-12

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