Chapter 5.

HDFC Mutual Fund in India

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Chapter 5
HDFC MUTUAL FUND IN INDIA

5.1. Introduction

5.1.1. HDFC Mutual Fund.
HDFC mutual fund is one of the largest mutual funds and well-established fund house in the country with consistent and above average fund performance across categories since its incorporation on December 10, 1999. While our past experience does make us a veteran, but when it comes to investments, we have never believed that the experience is enough.

5.1.2. Our Investment Philosophy
The single most important factor that drives HDFC mutual fund is its belief to give the investor the chance to profitably invest in the financial market, without constantly worrying about the market swings. To realize this belief, HDFC mutual fund has set up the infrastructure required to conduct all the fundamental research and back it up with effective analysis. Our strong emphasis on managing and controlling portfolio risk avoids chasing the latest “FADs” and trends.

5.1.3. We Offer
We believe that, by giving the investor long-term benefits, we have to constantly review the markets for new trends, to identify new growth sectors and share this knowledge with our investors in the form of product offerings. We have come up with various products across asset and risk categories to enable investors to invest in line with their investment objectives and risk taking capacity. Besides, we also offer portfolio management services.

5.1.4. Our Achievements
HDFC asset management company (AMC) is the first AMC in India to have been assigned the ‘CRISIL fund house level – 1’ rating. This is its highest fund governance and process quality rating which reflects the highest governance levels and fund management.

1. Name Of The amcs Hdfcasset Management Company Limited
2. A Portfolio in the 2000 Become Too Conservite
Practices at HDFC AMC it is the only fund house to have been assigned this rating for two years in succession. Over the past, we have won a number of awards and accolades for our performance.

5.2. **Sponsors:-**

5.2.1. **Housing Development Finance Corporation Limited (HDFC)**

HDFC was incorporated in 1977 as the first specialized mortgage company in India. HDFC provides financial assistance to individuals, corporate and developers for the purchase or construction of residential housing. It also provides property related services (e.g. property identification, sales services and valuation), training and consultancy. Of these activities, housing finance remains the dominant activity. HDFC has a client base of around 12 Lac borrowers, around 8 Lac depositors, over 1.08 Lac shareholders and 50,000 deposit agents, as at March 31, 2008.

HDFC has raised funds from international agencies SUCH AS the world bank, IFC (Washington), Usaid, DEG, ABD and KFW, international syndicated loans, domestic term loans from banks and insurance companies, bonds and deposits. HDFC has received the highest rating for its bonds and deposits program for the thirteenth year in succession. HDFC standard life insurance company limited, promoted by HDFC was the first life insurance company in the private sector to be granted a certificate of registration (on October 23, 2000) by the insurance regulatory and development authority to transact life insurance business in India.

5.2.2. **Standard Life Investments Limited:-**

The standard life assurance company was established in 1825 and has considerable experience in global financial markets. The company was present in the Indian life insurance market from 1847 to 1938 when agencies were set up in Kolkata and Mumbai. The company re-entered the Indian market in 1995, when an agreement was signed with HDFC to launch an insurance joint venture. On April 2006, the board of the standard life assurance company recommended that it should demutualise and standard life plc float on the London stock exchange. At a special general meeting held in may voting members over Whelmingly
voted in favour of this. The court of session in Scotland approved this in June and standard life plc floated on the London stock exchange on 10th July 2006. Standard life investments is leading asset management company, with approximately US$ 267 billion as at March 31, 2008, of assets under management. The company operates in the UK, Canada, Hong Kong, China, Korea, Ireland, Paris, Sydney and the USA to ensure it is able to form a truly global investment view. In order to meet the different needs and risk profiles of its clients, standard life investments limited manages a diverse portfolio covering all of the major markets world-wide, which includes a range of private and public equities, government and company bonds, property investments and various derivative instruments.

5.2.3. **Trustee -:**

HDFC trustee company limited, a company incorporated under the companies act, 1956 is the trustee to HDFC mutual fund vide the trust deed dated June 8, 2000, as amended from time to time. HDFC trustee company ltd is wholly owned subsidiary of HDFC

5.3. **Awards & Accolades -:**

5.3.1 **CNBC - TV 18 - CRISIL Mutual Fund Of The Year Awards 2008: (3 Awards):**

1. HDFC prudence fund was the only scheme that won the CNBC - TV 18 - CRISIL mutual fund of the year award 2008 in the most consistent balanced fund under CRISIL ~ CPR for the calendar year 2007 (from amongst 3 schemes).

2. HDFC cash management fund - savings plan was the only scheme that won the CNBC - TV18 - CRISIL mutual fund of the year award 2008 in the most consistent liquid fund under CRISIL ~ CPR for the calendar year 2007 (from amongst 5 schemes).

3. HDFC cash management fund - savings plan was the only scheme that won the CNBC - TV18 - CRISIL mutual fund of the year award 2008 in the liquid scheme – retail category for the calendar year 2007 (from amongst 19 schemes).

3. Name of the AMC HDFC Asset Management Company Limited.
5.3.2. ICRA Mutual Fund Awards 2008: (3 Awards):
1. HDFC MF monthly income plan - long term plan - ranked a seven star fund and has been awarded the gold award for "best performance" in the category of "open ended marginal equity" for the three year period ending December 31, 2007 (from amongst 27 schemes)
2. HDFC high interest fund - short term plan - ranked a five star fund indicating performance among the top 10% in the category of "open ended debt - short term" for one year period ending December 31, 2007 (from amongst 20 schemes).
3. HDFC prudence fund - ranked a five star fund indicating performance among the top 10%in the category of "open ended balanced" for the three year period ending December 31, 2007(from amongst 16 schemes).

5.3.3. Lipper Fund Awards 2008:-
HDFC equity fund – growth has been awarded the 'best fund over ten years' in the ‘equity India category' at the Lipper fund awards 2008 (form amongst 23 schemes). It was awarded the best fund over ten years in 2006 and 2007 as well. 2008 makes it three in a row,

5.4. HDFC Asset Management Company Limited:-
HDFC asset management company ltd (AMC) was incorporated under the companies act, 1956, on December 10, 1999, and was approved to act as an asset management company for the HDFC mutual fund by SEBI vide its letter dated July 3, 2000.

HDFC asset management company limited launched its scheme HDFC equity fund in the year January 1995 since then it focused on different class of schemes for many years and launched several innovative products that went to become bourgeoning categories in the Indian mutual fund industry.

Some of these were HDFC growth fund, HDFC top 200 funds and HDFC balance fund, HDFC prudence fund etc. So that the HDFC asset management company ltd. Is a privately owned investment manager. The firm manages equity, fixed income, and balanced mutual funds for its clients. It also manages hedge funds for its clients.
It also invests in private equity with a focus on real estate. The firm invests in public equity and fixed income markets. It employs fundamental analysis to make its investments. The firm was founded in 1999 and is based in Mumbai, Maharashtra. HDFC asset management company ltd. Operates as a subsidiary of housing development finance corporation limited.

HDFC asset management company limited have office in 29 cities and currently manage assets in excess of Rs. 113354.1755 Crs. (as on 31-mar-2014).

The present share holding pattern of the HDFC AMC is as follow :-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>% Of The Paid Up Share Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC</td>
<td>50.10</td>
</tr>
<tr>
<td>Stander Life Investment Ltd.</td>
<td>49.90</td>
</tr>
</tbody>
</table>

**FIGURE 5.1: HDFC Share Holding Pattern**

The HDFC asset management company is managing 18 open schemes of the mutual fund. HDFC growth fund (HGF), HDFC balanced fund (HBF), HDFC income fund (HIF), HDFC liquid fund (HIF), HDFC tax plan 200 (HTP), HDFC children’s gift fund (HDFC CGF), HDFC gilt fund (HGF), HDFC short term plan (HSTP), HDFC index fund, HDFC floating rate income fund, HDFC equity fund, HDFC top 200 fund, HDFC capital builder fund, HDFC tax saver fund, HDFC prudence fund, HDFC high interest fund, HDFC sovereign gilt fund and HDFC cash management fund, HDFC asset management company limited is also managing the respective plans of HDFC fixed investment plan, a closed ended income scheme.

### 5.5. SEBI Guideline For HDFC Asset Management Company -:

Sales, promotional or any other literature prepared by distributors any sales, promotional or any other literature, prepared by distributors regarding products/schemes of HDFC mutual fund, should adhere to the advertisement code prescribed under the SEBI mutual funds) regulations.

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The distributors largely should prepare sales, promotional or any other literature regarding products/schemes of HDFC mf from the prevailing HDFC mf library of marketing/sales related documents.

To enable the AMC to have a proactive oversight, the distributors should file with HDFC mutual fund all sales, promotional or any other literature regarding products/schemes of HDFC mutual fund circulated by them. The same should be filed within 7 days from the date of issue at the following address: the chief compliance officer, HDFC asset management company limited, “HUL house”, 2nd floor, h. T. Parekh Marg, 165-166, Backbay reclamation, church gate, Mumbai - 400 020.

5.6. Portfolio Management Advisory Services

The HDFC asset management company is also providing portfolio management advisory services and such activities are not in conflict with the activities if the mutual funds -:

1. HDFC asset management company’s punch lines is “continuing a traditional of trust”.
2. In Rajasthan HDFC asset management company is located at Jaipur.
3. HDFC asset management company is working from 9.30 am. On words.
4. HDFC asset management company have 200 and more distributors in JAIPUR.
5. HDFC asset management company provide account statements to investors according to investors requirement.
6. HDFC asset management company provide good services to investors.
7. Continue to develop products and services that reduce our cost of funds; and focus on high earning in growth with low volatility.

5.7. Types Of Mutual Fund Scheme -:

5.7.1. Open-Ended Fund/ Scheme

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at
net asset value (NAV related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

5.7.2. **Close-Ended Fund/ Scheme**

A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. SEBI regulations stipulate that at least one of the two exit routes is provided to the investor. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

5.7.3. **Sector Specific Funds/Schemes**

These are the funds/schemes which invest in the securities of onlysector or industries as specified in the offer documents. E.g. Pharmaceuticals, software, fastmoving consumer goods (FMCG), petroleum stocks, etc. The returns in these funds are dependent on the performance of the respective sectors/industries. While these funds may give higher returns, they are more risky compared to diversified funds. Investors need to keep a watch on performance of those sector/industries and must exit at an appropriate time. They may also seek advice of an expert.

5.7.4. **Tax Saving Schemes**

These schemes offer tax rebates to the investors under specific provisions of the income tax act, 1961as the government offers tax incentives for investment in specified avenues. E.g. Equity linked savings schemes (ELSS). Pension schemes launched by the mutual funds also

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offer tax benefits. These schemes are growth oriented and invest predominantly in equities. Their growth opportunities and risk associated are like any equity-oriented scheme.

5.8 INVESTMENT PLAN:-

5.8.1. SYSTEMATIC INVESTMENT PLAN (SIP)

HDFC MF SIP is similar to a recurring deposit. Every month on a specified date an amount you choose is invested in a mutual fund scheme of your choice. The dates currently available for sips are the 1st, 5th, 10th, 15th, 20th and the 25th of a month. You’ll be amazed to learn about the many benefits of investing through HDFC MF SIP.

5.8.1.1. Benefits:-

1. Become A Disciplined Investor:- Being disciplined - it’s the key to investing success. With the HDFC MF systematic investment plan you commit an amount of your choice (minimum of RS. 500 and in multiples of RS. 100 there of) to be invested every month is one of our scheme.

Think of each sip payment as laying a brick. One by one, you’ll see them transform into a building. You’ll see your investments accrue month after month. It’s as simple as giving at least 6 postdated monthly cheque to us for a fixed amount in a scheme of your choice. It’s the perfect solution for irregular investors.

2. Reach Your Financial Goal:- Imagine you want to buy a car a year from now, but you don’t know where the down-payment will come from.

HDFC MF SIP is a perfect tool for people who have a specific, future financial requirement. By investing an amount of your choice. Every month, you can plan for and meet financial goals, like funds for a child’s education, a marriage in the family or a comfortable post-retirement life. The table below illustrates how a little every month can go a long way.
3. **Take Advantage Of Rupee Cost Averaging**: Most investors want to buy stocks when the prices are low and sell them when prices are high. But timing the market is time consuming and risky. A more successful investment strategy is to adopt the method called rupee cost averaging. To illustrate this we’ll compare investing the identical amount thought a sip and in one lump sum.

4. **Grow Your Investment With Compounded Benefits**: It is far better to invest a small amount of money regularly, rather than save up to make one large investment. This is because while you are saving the lump sum, your savings may not earn much interest. With HDFC MF SIP, each amount you invest grows through compounding benefits as well. That is, the interest earned on your investment also earns interest.

5. **Do All This Effortlessly**: Investing with HDFC MF SIP is easy. Simply give us post-dated cheque or opt for an auto debit from your bank account for an amount of your choice (minimum of Rs. 500 and in multiples of Rs. 100 thereof*) and we’ll invest the money every month in a fund of your choice. The plans are completely flexible. You can invest for a minimum of six

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### Monthly Savings - What your savings may generate

<table>
<thead>
<tr>
<th>Savings per month (for 15 years)</th>
<th>Total amount invested (Rs. In Lacs)</th>
<th>Rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>6.0%</td>
</tr>
<tr>
<td>5000</td>
<td>9.0</td>
<td>14.6</td>
</tr>
<tr>
<td>4000</td>
<td>7.2</td>
<td>11.7</td>
</tr>
<tr>
<td>3000</td>
<td>5.4</td>
<td>8.8</td>
</tr>
<tr>
<td>2000</td>
<td>3.6</td>
<td>5.8</td>
</tr>
<tr>
<td>1000</td>
<td>1.8</td>
<td>2.9</td>
</tr>
</tbody>
</table>

*Monthly instalments, compounded monthly, for a 15-year period.

**Disclaimer**: the illustration above is merely indicative in nature and should not be construed as investment advice. It does not in any manner imply or suggest performance of any HDFC mutual fund scheme(s). Please read risk factors.
months, or for as long as you want. You can also decide to invest quarterly and will need to invest for a minimum of two quarters.

5.8.2. Systematic Transfer Plan (STP)-:

STP refers to systematic transfer plan where in an investor invests a lump sum amount in one scheme and regularly transfers (i.e. switches) a pre-defined amount into another scheme. Every month on a specified date an amount you choose is transferred from one mutual fund scheme to another of your choice.

Currently, fixed systematic transfer plan (FSTP) - monthly interval and capital appreciation systematic transfer plan (CASTP) - monthly interval facility is available to the unit holders on 1st, 5th, 10th, 15th, 20th and 25th of a month and FSTP - quarterly interval and CASTP - quarterly interval facility is available to the unit holders on 1st, 5th, 10th, 15th, 20th and 25th of the first month of each quarter.

5.8.2.1. Load Structure –

**The Entry Load Structure For The Transferee Schemes** - HDFC growth fund, HDFC equity fund, HDFC top 200 fund, HDFC capital builder fund, HDFC core & satellite fund, HDFC premier multi-cap fund, HDFC balanced fund, HDFC prudence fund, HDFC long term advantage fund and HDFC tax saver will be : Nil

**The Exit Load Structure Is As Follows**:-
For transferee schemes : HDFC long term advantage fund and HDFC tax saver – Nil

For Transferee Schemes : HDFC growth fund, HDFC equity fund, HDFC top 200 fund, HDFC capital builder fund, HDFC core & satellite fund, HDFC premier multi-cap fund, HDFC balanced fund and HDFC prudence fund.

In respect of each investment through STP less than RS. 5 Crore in value, an exit load of 1.25% is payable if units are redeemed / switched-out on or before 2 years from the date of allotment. In respect of each
investment through STP equal to or greater than Rs. 5 crore in value, no exit load is payable.

As per addendum dated 17th February 2009 HDFC mutual fund has decided to revise the load structure for investments through systematic transfer plan (STP) from the transferor schemes (all schemes offering STP facility) to the following transferee schemes: HDFC multiple yield fund, HDFC multiple yield fund - plan 2005, HDFC income fund, HDFC high interest fund, HDFC short term plan, HDFC cash management fund, HDFC MF monthly income plan, HDFC gilt fund, HDFC floating rate income fund, HDFC liquid fund and HDFC arbitrage fund.

5.8.2.2. **Entry Load:-**

**Applications Routed Through Any Distributor / Agent / Broker:**

The amount transferred under the STP from the transferor scheme to the transferee scheme will be effected by redeeming units of transferor scheme at applicable NAV, after payment of exit load, if any, and subscribing to the units of the transferee scheme at applicable NAV, without payment of any entry load, if any, as on the specified date of a month or a quarter. In case the date falls on a non-business day or falls during a book closure period, the immediate next business day will be considered for the purpose of determining the applicability of nav.

**Applications Not Routed Through Any Distributor / Agent / Broker (Direct Applications):** **Nil**

5.8.2.3. **Exit Load** –

The applicable entry load (% wise) originally waived will be levied in the transferee scheme if units are redeemed/switched-out on or before expiration of two years from the date of transfer. Further, applicable exit load, if any, in the transferee scheme / plan / option as on the date of allotment of units will also be levied. Thus, this facility offers the benefits similar to those of an SIP and is suitable for investors who intend to invest systematically and currently have funds for investments.
5.9. Products Of Mutual Fund

Figure 5.2 Products Of Mutual Fund
5.10. Detailed Schemes Of HDFC AMC:

<table>
<thead>
<tr>
<th>EQUITY GROWTH FUND</th>
<th>DEBT / INCOME FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Growth Fund</td>
<td>HDFC MF Monthly Income Plan - shortterm Plan</td>
</tr>
<tr>
<td>HDFC Top 200 Fund</td>
<td>HDFC Multiple Yield Fund</td>
</tr>
<tr>
<td>HDFC Core and Satellite Fund</td>
<td>HDFC Income Fund</td>
</tr>
<tr>
<td>HDFC Index Fund – Sensex Plan</td>
<td>HDFC Short Term Plan</td>
</tr>
<tr>
<td>HDFC Index Fund – Sensex Plus Plan</td>
<td>HDFC Gilt Fund - Short Term Plan</td>
</tr>
<tr>
<td>HDFC Balanced Fund</td>
<td>HDFC Floating Rate Income Fund - shortterm Plan</td>
</tr>
<tr>
<td>HDFC Long Term Advantage Fund (ELSS)</td>
<td>HDFC Cash Management Fund - Savings plusplan</td>
</tr>
<tr>
<td>HDFC Long Term Equity Fund</td>
<td>HDFC MF Monthly Income Plan - Long termplan</td>
</tr>
<tr>
<td>HDFC Infrastructure Fund</td>
<td>HDFC Multiple Yield Fund - Plan 2005</td>
</tr>
<tr>
<td>HDFC Capital Builder Fund</td>
<td>HDFC High Interest Fund</td>
</tr>
<tr>
<td>HDFC Primier Muilt – Cap</td>
<td>HDFC High Interest Fund - Short term Plan</td>
</tr>
<tr>
<td>HDFC Index Fund – Nifty Plan</td>
<td>HDFC Gilt Fund - Long Term Plan</td>
</tr>
<tr>
<td>HDFC Arbitrage Fund</td>
<td>HDFC Floating Rate Income Fund - longterm Plan</td>
</tr>
<tr>
<td>HDFC Equity Fund</td>
<td>HDFC Prudence Fund</td>
</tr>
<tr>
<td>HDFC Tax Saver (ELSS)</td>
<td>HDFC Liquid Fund</td>
</tr>
<tr>
<td>HDFC Mid-Cap Opportunities Fund</td>
<td>HDFC Liquid Fund Premium Plan</td>
</tr>
<tr>
<td>HDFC Liquid Fund Premium Plus Plan</td>
<td>HDFC Liquid Fund Premium Plus Plan</td>
</tr>
<tr>
<td>HDFC Liquid Fund Premium Plus Plan</td>
<td>HDFC Cash Management Fund – Call</td>
</tr>
</tbody>
</table>

**CHILDREN’S GIFT FUND**

| HDFC Children's Gift Fund - Investment Plan | HDFC Children's Gift Fund - Savings Plan |
| HDFC Children's Gift Fund - Savings Plan | |

Table 5.3: Detailed Schemes of HDFC AMC
5.11. SOME POPULAR FUNDS ARE EXPLAIN HERE -:

5.11.1. Equity / Growth Scheme of HDFC AMC-:

5.11.1.1 HDFC EQUITY FUND-:

**Investment Objective** the scheme is to achieve capital appreciation.  
**Investment strategy-** 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:-
- Are likely to achieve above average growth than the industry;
- Enjoy distinct competitive advantages, and
- 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 securitized 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 SEBI (MF) regulations.

5.11.1.2. HDFC GROWTH FUND-:

**Investment Objective** - The primary investment objective of the scheme is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity related instruments.  
**Investment Strategy** - The investment approach will be based on a set of well established but flexible principles that emphases the concept of sustainable economic earnings and cash return on investment as The Means of Valuation of Companies.
Five Basic Principles Serve As The Foundation For This Investment Approach. They Are As Follows:

- **Focus On The Long Term** - there is substantive empirical evidence to suggest that equities provide the maximum risk adjusted returns over the long term. In an attempt to take full advantage of this phenomenon, investments would be made with a long term perspective.

- **Investments Confer Proportionate Ownership** - The approach to valuing a company is similar to making an investment in a business. Therefore, there is a need to have a comprehensive understanding of how the business operates. The key issues to focus on are growth opportunities, sustainable competitive advantage, industry structure and margins and quality of the management.

- **Maintain A Margin Of Safety** - The benchmark for determining relative attractiveness of stocks would be the intrinsic value of the business. The investment manager would endeavor to purchase stocks that represent a discount to this value, in an effort to preserve capital and generate superior growth.

- **Maintain A Balanced Outlook On The Market** - The investment portfolio would be regularly monitored to understand the impact of changes in business and economic trend as well as investor sentiment. While short-term market volatility would affect valuations of the portfolio, this is not expected to influence the decision to own fundamentally strong companies.

- **Disciplined Approach To Selling** - The decision to sell a holding would be based on either the 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 investment manager, offers superior returns.

In order to implement the investment approach effectively, it would be important to periodically meet the management face to face. This would provide an understanding of their broad vision and commitment to the long-term business objectives. These meetings
would also be useful in assessing key determinants of management quality such as orientation to minority shareholders, ability to cope with adversity and approach to allocating surplus cash flows. Discussion with management would also enable benchmarking actual performance against stated commitments.

In summary, the investment strategy is expected to be a function of extensive research and based on data and reasoning, rather than current fashion and emotion. The objective will be to identify "businesses with superior growth prospects and good management, at a reasonable price".

The scheme may invest in listed / unlisted and /or rated / unrated debt or money market securities subject to limits indicated in the investment pattern. Investment in unrated debt securities will be made after obtaining the prior approval of the board of the AMC and trustees as per the SEBI regulations.

The scheme may invest in listed / unlisted and / or rated / unrated debt or money market securities subject to limits indicated in the investment pattern. Pursuant to SEBI circular no. MFD/ cir/9/120/2000 dated November 24, 2000, the AMC may constitute committee(s) to approve proposals for investments in unrated debt instruments. The AMC board and the trustee shall approve the detailed parameters for such investments. The details of such investments would be communicated by the AMC to the trustee in their periodical reports. It would also be clearly mentioned in the reports, how the parameters have been complied with. However, in case any unrated debt security does not fall under the parameters, the prior approval of board of AMC and trustee shall be sought.

5.11.1.3. **TOP HDFC 200 FUND**

**Investment Objective** - To generate long term capital appreciation from a portfolio of equity and equity-linked instruments primarily drawn from the companies in BSE 200 index.

**Investment Strategy** - The investment strategy of primarily restricting the equity portfolio to the BSE 200 index scrip is intended to reduce risks
while maintaining steady growth. Stock specific risk will be minimized by investing only in those companies/industries that have been thoroughly researched by the investment manager's research team. Risk will also be reduced through a diversification of the portfolio.

The trustee may from time to time at their absolute discretion review and modify the strategy, provided such modification is in accordance with the regulations or in the event of a discontinuation of or change in the compilation or the constituents of the BSE 200 index.

5.11.1.4. HDFC MID – CAPE OPPORTUNITY FUND-

**Investment Objective**- To generate long-term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of small and mid-cap companies.

**Investment Strategy**- The investment objective of the scheme is to generate long-term capital appreciation from a portfolio that is substantially constituted of equity and equity related securities of small and mid-cap companies.

The investment manager will also seek participation in other equity and equity related securities to achieve optimal portfolio construction. The scheme may also invest a certain portion of its corpus in debt and money market securities.

Small and mid-cap companies offer higher return potential than large cap companies on one hand but also carry higher risk than large cap companies, particularly over the short and medium term. The following are some of the reasons why small / mid cap companies offer higher return potential.

1. Relatively less known by market participants / price discovery by market is not full.
2. Better growth prospects due to presence in a new segment/area that is growing at a faster pace.
3. Ability to gain share due to new technology, better product / service etc.

4. Room for P/E multiples to expand if the company transitions from a small / mid cap to large cap, etc.

To reduce risk, the fund will maintain a well diversified portfolio. 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 when the valuations become too demanding even in the face of reasonable growth prospects in the long run. Though every Endeavour will be made to achieve the objectives of the scheme, the AMC/sponsors/trustees do not guarantee that the investment objectives of the scheme will be achieved. No guaranteed returns are being offered under the scheme.

5.11.1.5. HDFC CAPITAL BUILDER FUND -:

**Investment Objective** - The investment objective of the scheme is to achieve capital appreciation in the long term.

**Investment Strategy** - This scheme aims to achieve its objectives by investing in strong companies at prices which are below fair value in the opinion of the fund managers. The scheme defines a "strong company" as one that has the following characteristics:

- Strong management, characterized by competence and integrity.
- Strong position in its business (preferably market leadership).
- Efficiency of operations, as evidenced by profit margins and asset turnover, compared to its peers in the industry.
- Working capital efficiency.
- Consistent surplus cash generation.
- High profitability indicators (returns on funds employed).

In common parlance, such companies are also called 'blue chips'. The scheme defines "reasonable prices" as: a market price quote that is around 30% lower than its value, as determined by the discounted value of its estimated future cash flows.

- P/E multiple that is lower than the company's sustainable return on funds employed.
➢ A P/E to growth ratio that is lower than those of the company's competitors.
➢ In case of companies in cyclical businesses, a market price quote that is around 50% lower than its estimated replacement cost.

5.11.1.6. HDFC PREMIER MULTI – CAPE FUND-

**Investment Objective** - The primary objective of the scheme is to generate capital appreciation in the long term through equity investments by investing in a diversified portfolio of mid cap and large cap `Blue Chip` companies.

**Investment Strategy** - The net assets of the scheme will be invested primarily in equity and equity related instruments. The primary objective of the scheme is to generate capital appreciation in the long term through equity investments in a diversified portfolio of mid cap and large cap `blue chip` companies.

As the name suggests, the scheme will invest predominantly in `premier` or `Blue Chip` companies. A premier or blue chip company is typically a company with a successful track record, has reasonable competitive advantages in its business and has an able management. It has been observed that while mid cap companies offer potential for higher returns, the risk associated with them is also higher. In order to manage the higher risk associated with mid caps, the following investment strategy is proposed for the scheme: invest a minimum of 35% of the scheme each in large caps and in mid caps. The balance of the scheme will be a `swing portfolio` that can invest in either mid caps or large caps. The allocation of the swing portion between large caps and mid caps will be a function of the relative valuations of large caps vs mid caps.

Past experience suggests that at varying times, mid caps trade at varying discounts (and sometimes at a premium) to the large caps and this gives opportunities in terms of asset allocation between mid caps and large caps. The `swing` portion of the scheme will invest in either large caps or mid caps depending on which is relatively more attractive. This composition will, in our opinion, optimally combine the merits of
targeting higher returns from mid cap companies, the risk control offered by investing in large caps and the additional returns that are targeted from the swing strategy.

To summarize this scheme has three advantages:-

- Exposure to mid caps which have higher growth potential.
- Control risk of mid caps by confining such investments to `premier` / `blue chip` companies; further exposure to mid caps will be increased only if they are relatively cheaper / more attractive than large caps.
- `Swing` portion to optimize asset allocation.

5.11.1.7. HDFC CORE AND SATELLITE FUND -

**Investment Objective** - The primary objective of the scheme is to generate capital appreciation through equity investment in companies who’s shares are quoting at prices below their true value.

**Investment Strategy** - The net assets of the scheme will be invested primarily in equity and equity related instruments in a portfolio comprising of 'core' group of companies and 'satellite' group of companies. The 'core' group will comprise of well established and predominantly large cap companies whereas the 'satellite' group will comprise of predominantly small-mid cap companies that offer higher potential returns but at the same time carry higher risk. The 'satellite' group will complement the 'core' group.

The companies that will comprise the 'core' group will have the following characteristics:

- Companies with a long and successful track record.
- Companies that enjoy leading positions in their markets (say no. 1/2/3) and have significant competitive advantages.
- Companies that are available below their intrinsic value.

Such companies typically will be large cap companies. Large cap companies are generally those companies with market capitalization of more than rest. 2,500 cores. The number of stocks in this category is expected to be in the range of 10-20 and the average exposure per company will thus be between 3-8% of the portfolio. The 'core' portion is expected to be between 60-80% of the portfolio. The companies that will
comprise the 'satellite' group of companies will be predominantly small-mid cap companies that offer higher potential returns compared to the companies in the 'core' group but at the same time will also carry higher risk. Small-mid cap companies are generally those companies with market capitalization of less than Rs. 2,500 Crore. The higher potential for returns will be on account for one or more of the following reasons: -

- Higher growth potential either because of presence in an emerging area or a new business model or because of smaller size.
- New technology/research driven company without much commercial success till present.
- A turnaround case.
- An out-of-favour or an ignored company, a company facing a temporary setback as a result of which the stock price is depressed and / or the stock is not actively covered by analysts.

5.11.1.8. HDFC BALANCE FUND -

Investment Objective - The primary objective of the scheme is to generate capital appreciation along with current income from a combined portfolio of equity and equity related and debt and money market instruments.

Investment Strategy- The balanced product is positioned as a lower risk alternative to a pure equities scheme, while retaining some of the upside potential from equities exposure. The scheme provides the investment manager with the flexibility to shift allocations in the event of a change in view regarding an asset class. Asset allocation between equities and debt is a critical function in a balanced fund. It is proposed to continuously monitor the potential for both debt and equities to arrive at a dynamic allocation between the asset classes. The equity and debt portfolios of the scheme would be managed as per the respective investment strategies detailed herein.

- Equity Investments : The investment approach would be based on the concept of economic earning power and cash return on investments. Five basic principles serve as the foundation for this investment approach. They are as follows :-
Focus on the long term

View our investments as conferring a proportionate ownership of the business.

Maintain a margin of safety (the price of purchase represents a discount to the intrinsic value of that business).

Maintain a balanced outlook on the market by regularly monitoring economic trends and investor sentiment.

The decision to sell a holding would be based on one of three reasons -
- The anticipated price appreciation has been achieved or is no longer probable.
- Alternative investments offer superior total return prospects, or
- A fundamental change has occurred in the company or the market in which it competes.

**Debt Investments**: Debt securities (in the form of non-convertible debentures, bonds, secured premium notes, zero interest bonds, deep discount bonds, floating rate bond / notes, securitized debt, pass through certificates, asset backed securities, mortgage backed securities and any other domestic fixed income securities including structured obligations etc.) Include, but are not limited to:
- Debt obligations of / securities issued by the government of India, state and local governments, government agencies and
- Statutory bodies (which may or may not carry a state / central government guarantee).
- Securities that have been guaranteed by government of India and state governments.
- Securities issued by corporate entities (public / private sector undertakings).
- Securities issued by public / private sector banks and development financial institutions.

**5.11.1.9. HDFC PRUDENCE FUND**

**Investment Objective** - The investment objective of the scheme is to provide periodic returns and capital appreciation over a long period of
time, from a judicious mix of equity and debt investments, with the aim to prevent/ minimize any capital erosion.

**Investment Strategy** - The investments in the scheme will comprise both debt and equities. The fund would invest in debt instruments such as government securities, money market instruments, securitized debts, corporate debentures and bonds, preference shares, quasi government bonds, and in equity shares. In the long term, the mix between debt instruments and equity instruments is targeted between 25:75 and 40:60 respectively. The exact mix will be a function of interest rates, equity valuations, reserves position and risk taking capacity of the portfolio.

In such times when the interest rates are high, investment in debt would be generally more attractive versus equities and accordingly the fund is likely to increase the debt component in the scheme's portfolio. Similarly in times when the interest rates are low and the equity valuations are cheap, the scheme is likely to reduce exposure to debt and increase exposure to equities. In addition to debt and equities, the scheme will also invest in money market instruments. The exact proportion in money market instruments will be a function of the liquidity needs and the attractiveness of the debt/ equity markets. At times when neither the debt market nor equities are attractive for investment, more resources may be temporarily invested in money market investments to be invested in debt/ equities at a more appropriate time.

The scheme may also invest up to 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 regulations and guidelines.

The scheme may also invest a part of its net assets, not exceeding 40% of its net assets, in overseas markets in global depository receipts (gars), ads, overseas equity, bonds and mutual funds and such other instruments as may be allowed under the regulations from time to time. Please refer to the section on investment in AD/GDR/Foreign securities in the SID.
Subject to the regulations and the applicable guidelines, the scheme may, engage in stock lending activities. Please refer to the section on stock lending by the fund in the SID. If the investment in equities and related instruments falls below 40% of the portfolio or rises above 75% of the portfolio of the scheme at any point in time, it would be Endeavoured to review and rebalance the composition.

5.11.2. **Debt/ Income Fund-:**

5.11.2.1. **HDFC SHORT TERM PLAN-:**

**Investment Objective** The primary objective of the HDFC short term plan is to generate regular income through investment in debt securities and money market instruments.

**Investment Strategy** - With respect to the investment horizon profile, this scheme is aimed to be positioned between the liquid scheme and the 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.

5.11.2.2. **HDFC MULTI YIELD FUND-**

**Investment Objective** - the primary objective of the scheme is to generate positive returns over medium time frame with low risk of capital loss over medium time frame.

**Investment Strategy** - the net assets of the scheme(s) will be invested primarily in fixed income securities and balance in equity and equity related instruments.

The scheme(s) target positive returns over medium time frame and aims to reduce the chances and extent of a capital depreciation over medium term holding period for the unit holder. The scheme(s) aims to achieve this by adopting the following investment strategy:-

- Invest around 85% of the net assets of the scheme(s) in fixed income securities of roughly one year maturity and adopt a predominantly
buy and hold strategy. This will mean that over medium term irrespective of the interest rate movements, the scheme(s) will earn returns that are nearly equal to the underlying yield on the bonds.

- Invest the balance nearly 15% of the net assets of the scheme(s) in equities where the dividend yields are moderate to high. The investment focus will be on dividend yield stocks.

Both a) and b) combined together represent two sources of yield on the entire portfolio. These two yields combined together are expected to reduce the chances and extent of a capital loss. In order to implement the investment approach effectively, it would be important to periodically meet the management face to face. This would provide an understanding of their broad vision and commitment to the long-term business objectives. These meetings would also be useful in assessing key determinants of management quality such as orientation to minority shareholders, ability to cope with adversity and approach to allocating surplus cash flows. Discussions with management would also enable benchmarking actual performance against stated commitments.

5.11.2.3. HDFC INCOME FUND -

**Investment Objective** - The primary objective of the scheme is to optimized returns while maintaining a balance of safety, yield and liquidity.

**Investment Strategy** - The AMC retains the flexibility to invest across all the securities / instruments in debt and money market. Investments made from the net assets of the scheme would be in accordance with the features of the scheme and the provisions of the SEBI (mutual funds) regulations. The AMC will strive to assess risk of the potential investment in terms of credit risk, interest rate risk and liquidity risk. The credit risk analysis would involve an assessment of the past track record and prospects for the company, the industry it operates in, the future cash flows from operations and the requirement for additional capital expenditure. An interest rate scenario analysis would be performed on
an ongoing basis, considering the impact of the developments on the macro-economic front and the demand and supply of funds.

Based on the above analysis, the AMC would manage the investments of the scheme on a dynamic basis to exploit emerging opportunities in the investment universe and manage risks at all points in time. The AMC will utilize ratings of rating agencies registered with SEBI as an input in the decision making process. Investments in bonds and debentures will usually be in instruments that have been assigned high investment grade ratings by a rating agency registered with SEBI. Pursuant to SEBI circular no. MFD/CIR/9/120/2000 dated November 24, 2000, the AMC may constitute committee(s) to approve proposals for investments in unrated debt instruments. The AMC board and the trustee shall approve the detailed parameters for such investments. The details of such investments would be communicated by the AMC to the trustee in their periodical reports. It would also be clearly mentioned in the reports, how the parameters have been complied with. However, in case any unrated debt security does not fall under the parameters, the prior approval of board of AMC and trustee shall be sought.

The AMC will attempt to reduce liquidity risk by investing in securities that would result in a staggered maturity profile of the portfolio, investment in structured securities that provide easy liquidity and securities that have reasonable secondary market activity. In the event of a requirement to liquidate all or a substantial part of these investments in a very short duration of time, the AMC may not be able to realize the full value of these securities to an adverse impact on the net asset value of the scheme.

**Investment Policies**- consistent with the investment objectives of the scheme, the AMC aims to identify securities which offer superior levels of yield at low levels of risk. The investment team of the AMC will carry out an internal credit analysis of all securities included in the investment universe.

The scheme may also use various derivative and hedging products from time to time, as would be available and permitted by SEBI, in an attempt to protect the value of the portfolio and enhance unit holders' interest. The investment manager may therefore enter into forward
contracts, future contracts or buy or sell options in an effort to maintain risks at acceptable levels. The scheme may also invest in suitable investment avenues in overseas financial markets for the purpose of diversification, commensurate with the scheme objectives and subject to necessary stipulations by SEBI / RBI. Towards this, the mutual fund may also appoint overseas investment advisors and other service providers, as and when permissible under the regulations.

5.11.2.4. HDFC HIGH INTREST FUND

**Investment Objective** - the investment objective of HDFC high interest fund - short term plan is to generate income by investing in a range of debt and money market instruments of various maturity dates with a view to maximizing income while maintaining the optimum balance of yield, safety and liquidity.

**Investment Strategy** - HHIF-STP has been designed to provide more stable returns to shorter-term investors with lower interest rate risk than the dividend and growth plans of HDFC high interest fund (the main scheme). Except for this, the investment strategy for HHIF-STP would be in line with that of the main scheme. Hence, over the long term, returns in the main scheme may be higher than that of HHIF-STP but over the short term, HHIF-STP will have a relatively lower exposure to interest rate movements as its portfolio maturity may be shorter than that of the main scheme.

5.11.2.5. HDFC MF MONTHLY INCOME PLAN – SHORT TERM PLAN

**Investment Objective** - the primary objective of scheme is to generate regular returns through investment primarily in debt and money market instruments. The secondary objective of the scheme is to generate long-term capital appreciation by investing a portion of the scheme's assets in equity and equity related instruments. However, there can be no assurance that the investment objective of the scheme will be achieved.

**Investment Strategy** - the net assets of the respective plans will be invested primarily in debt and money market instruments. The
Respective plans seeks to generate regular returns through investment primarily in debt and money market instruments. The secondary objective of the scheme is to generate long-term capital appreciation by investing a portion of the scheme's assets in equity and equity related instruments.

5.11.2.6. HDFC Mf Monthly Income Plan – Long Term Plan

**Investment Objective** - the primary objective of scheme is to generate regular returns through investment primarily in debt and money market instruments. The secondary objective of the scheme is to generate long-term capital appreciation by investing a portion of the scheme’s assets in equity and equity related instruments. However, there can be no assurance that the investment objective of the scheme will be achieved.

**Investment Strategy** - The net assets of the respective plans will be invested primarily in debt and money market instruments. The respective plans seeks to generate regular returns through investment primarily in debt and money market instruments. The secondary objective of the scheme is to generate long-term capital appreciation by investing a portion of the scheme's assets in equity and equity related instruments.

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5.11.2.7. HDFC FLOATING RATE INCOME FUND LONG TERM PLAN -

**Investment Objective** - To generate regular income through investment in a portfolio comprising substantially of floating rate debt / money market instruments, fixed rate debt / money market instruments swapped for floating rate returns, and fixed rate debt securities and money market instruments.

**Investment Strategy** - The net asset of the scheme will be invested in a portfolio comprising substantially of floating rate debt / money market instruments, fixed rate debt instruments swapped for floating rate returns, and fixed rate debt instruments and money market instruments.
5.11.3. Children's Gift Fund
5.11.3.1. HDFC Children’s Gift Fund Savings Plan -

**Investment Objective** - The primary objective of the scheme is to generate long term capital appreciation. However, there can be no assurance that the investment objective of the scheme / plans will be achieved.

**Investment Strategy**: 

1. **Savings Plan**: The net assets of the plan will be primarily invested in debt and money market instruments. The AMC will also invest the net assets of the plan in equities and equity related instruments. This plan seeks to generate steady long term returns with relatively low levels of risk.

2. **Equity Investments**: The investment approach would be based on the concept of economic earning power and cash return on investments. Five basic principles serve as the foundation for this investment approach. They are as follows :-
   - Focus on the long term.
   - View our investments as conferring a proportionate ownership of the business.
   - Maintain a margin of safety (i.e. the price of purchase represents a discount to the intrinsic value of that business).
   - Maintain a balanced outlook on the market by regularly monitoring economic trends and investor sentiment.
   - The decision to sell a holding would be based on one of three reasons -
     - The anticipated price appreciation has been achieved or is no longer probable; or
     - Alternative investments offer superior total return prospects; or
     - A fundamental change has occurred in the company or the market in which it competes.

In summary, the assessment of investment value is a function of extensive research and based on data and reasoning, rather than current

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12. Naresh malthotra, research methodology
fashion and emotion. The idea is to develop a model that allows us to identify "businesses with superior growth prospects and good management, at a reasonable price".

5.11.3.2. HDFC Children’s Gift Fund – Investment Plan -

**Investment Objective** - The primary objective of the scheme is to generate long term capital appreciation. However, there can be no assurance that the investment objective of the scheme / plans will be achieved.

**Investment Strategy**: 

1. **Investment Plan**: the net assets of the plan will be primarily invested in equities and equity related instruments. The AMC will also invest the net assets of the plan in debt / money market instruments with an objective of generating long term returns and maintaining risk under control.

2. **Equity Investments**: -The investment approach would be based on the concept of economic earning power and cash return on investments. Five basic principles serve as the foundation for this investment approach. They are as follows:-
   - Focus on the long term.
   - View our investments as conferring a proportionate ownership of the business.
   - Maintain a margin of safety (i.e. the price of purchase represents a discount to the intrinsic value of that business).
   - Maintain a balanced outlook on the market by regularly monitoring economic trends and investor sentiment.
   - The decision to sell a holding would be based on one of three reasons:
     - The anticipated price appreciation has been achieved or is no longer probable; or
     - Alternative investments offer superior total return prospects; or
     - A fundamental change has occurred in the company or the market in which it competes.
In summary, the assessment of investment value is a function of extensive research and based on data and reasoning, rather than current fashion and emotion. The idea is to develop. A model that allows us to identify "businesses with superior growth prospects and good management, at a reasonable price".

5.11.4. LIQUID FUNDS:
5.11.4.1. HDFC Liquid Fund -

**Investment Objective** - The primary objective of the Scheme is to enhance income consistent with a high level of liquidity, through a judicious portfolio mix comprising of money market and debt instruments.

**Investment Strategy** - The Scheme will retain the flexibility to invest in the entire range of money market and debt instruments. These instruments are more specifically highlighted below:

**1. Debt securities** (in the form of non-convertible debentures, bonds, secured premium notes, zero interest bonds, deep discount bonds, floating rate bond / notes, securitized debt, pass through certificates, asset backed securities, mortgage backed securities and any other domestic fixed income securities including structured obligations etc.)

Include, but are not limited to:

1. Debt obligations of the government of India, state and local governments, government agencies and statutory bodies (which may or may not carry a state / central government guarantee),

2. Securities that have been guaranteed by government of India and state governments,

3. Securities issued by corporate entities (public / private sector undertakings),

4. Securities issued by public / private sector banks and development financial institutions.

**2. Money Market Instruments Include**

1. Commercial papers
2. Commercial bills
3. Treasury bills
4. Government securities having an unexpired maturity up to one year
5. Collateralized Borrowing & Lending Obligations (CBLO)
6. Certificate of deposit
7. Usance bills
8. Permitted securities under a repo / reverse repo agreement
9. Any other like instruments as may be permitted by RBI / SEBI from time to time.

Investments will be made through secondary market purchases, initial public offers, other public offers, placements and right offers (including renunciation). The securities could be listed, unlisted, privately placed, secured / unsecured, rated / unrated of any maturity.

With respect to counterparty risk exposure arising out of OTC derivative and repo transactions, HDFC AMC does an ongoing credit assessment for setting appropriate counterparty limit and type of exposure the scheme can assume on all counterparties of the scheme. Internal control mechanisms ensure adherence to these limits and type of exposures.

5.11.4.2. HDFC Liquid Fund Primium Plan -

**Investment Objective** - The primary objective of the scheme is to enhance income consistent with a high level of liquidity, through a judicious portfolio mix comprising of money market and debt instruments.

**Investment Strategy** - The scheme will retain the flexibility to invest in the entire range of money market and debt instruments. These instruments are more specifically highlighted below:

1. **Debt Securities** (In the form of non-convertible debentures, bonds, secured premium notes, zero interest bonds, deep discount bonds, floating rate bond / notes, securitized debt, pass through certificates, asset backed securities, mortgage backed securities and any other domestic fixed income securities including structured obligations etc.)

Include, but are not limited to:-
1. Debt obligations of the government of India, state and local governments, government agencies and statutory bodies (which may or may not carry a state / central government guarantee),
2. Securities That Have Been Guaranteed By Government of India and State Governments,
3. Securities Issued By Corporate Entities (Public / Private Sector Undertakings),
4. Securities Issued By Public / Private Sector Banks And Development Financial Institutions.

**2. Money Market Instruments Include**

1. Commercial papers
2. Commercial bills
3. Treasury bills
4. Government securities having an unexpired maturity up to one year
5. Collateralised borrowing & lending obligations (CBLO)
6. Certificate of deposit
7. Usance bills
8. Permitted securities under a repo / reverse repo agreement
9. Any other like instruments as may be permitted by RBI / SEBI from time to time.

Investments will be made through secondary market purchases, initial public offers, other public offers, placements and right offers (including renunciation). The securities could be listed, unlisted, privately placed, secured / unsecured, rated / unrated of any maturity. With respect to counterparty risk exposure arising out of OTC derivative and repo transactions, HDFC AMC does an ongoing credit assessment for setting appropriate counterparty limit and type of exposure the scheme can assume on all counterparties of the scheme. Internal control mechanisms ensure adherence to these limits and type of exposures.

**5.11.4.3. HDFC CASH MANAGEMENT FUND – SAVINGS PLAN**

**Investment Objective** - The investment objective of the scheme is to generate optimal returns while maintaining safety and high liquidity.
**Investment Strategy** - The savings plan is suitable for investors especially institutional investors who have short-term savings/investment horizon and seek liquidity of their investment at short notice. Under the savings plan, investments will be made in money market and debt instruments maturing in less than one year.

The scheme will purchase securities in primary as well as secondary markets. The scheme may also invest in securities offered by the issuer through private placements. The portfolio would be reviewed and rebalanced on a continual basis.

Further it must be understood that the referred percentages are not absolute and that they can vary substantially, depending upon the AMC's perception of the debt and money market and the trend in interest rates; with the intent to protect the NAV of the scheme. Also, the AMC may from time to time, for a short term, alter the asset allocation on defensive consideration.

The scheme may also invest up to 25% of net assets of the scheme in such 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 regulations.

The scheme may also invest a part of its net assets, not exceeding 20% of its net assets, in overseas markets in bonds and mutual funds and such other debt instruments as may be allowed under the regulations from time to time. Please refer to the section on policy on off-shore investments by the scheme(s).

With respect to counterparty risk exposure arising out of OTC derivative and repo transactions, HDFC AMC does an ongoing credit assessment for setting appropriate counterparty limit and type of exposure the scheme can assume on all counterparties of the scheme. Internal control mechanisms ensure adherence to these limits and type of exposures.

5.12. **Taxation Information** -
5.12.1. Tax Treatment For The Investors (Unit Holders)

The information given is included only for general purpose and is based on advice received by the AMC regarding the law and practice currently in force in India and the investors/unit holders should be aware that the relevant fiscal rules or their interpretation may change. As is the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of an investment in the scheme will endure indefinitely. In view of the individual nature of tax consequences, each investor/unit holder is advised to consult his/her own professional tax advisor.

As per the taxation laws in force and chapter vii of the finance (no. 2) act, 2004 pertaining to securities transaction tax (STT), the tax benefits/consequences as applicable, to the HDFC mutual fund in respect of its mutual fund schemes (being an equity oriented fund/other than equity oriented fund/money market mutual fund/liquid fund) and investors investing in the units of its mutual fund schemes [on the assumption that the units are not held as stock-in-trade] are stated as follows:-

5.12.1.1 Tax Benefits / Consequences to the Mutual Fund

HDFC mutual fund is a mutual fund registered with the securities & exchange board of India and hence the entire income of the mutual fund will be exempt from income-tax in accordance with the provisions of section 10(23d) of the income-tax act, 1961 (the act).

The mutual fund will receive all income without any deduction of tax at source under the provisions of section 196(iv) of the act.

On income distribution, if any, made by the mutual fund, additional income-tax is payable under section 115r of the act, in the case of its schemes (other than equity-oriented funds i.e. Such fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of the total proceeds of such fund). Up to may 31, 2011, the additional income-tax on distribution of income to an individual/Hindu undivided family (HUF) shall be payable by the mutual fund at the rate of 13.519% (including applicable surcharge, education and secondary and higher education)
and at the rate of 21.63% (including applicable surcharge, education and secondary and higher education) on distribution of income to any other investor.

The additional income-tax on distribution of income by a money market mutual fund or a liquid fund shall be payable at the rate of 27.038% (including applicable surcharge, education and secondary and higher education). with effect from June 1, 2011, the additional income-tax on distribution of income by a money market mutual fund or a liquid fund to an individual / HUF shall be payable by the mutual fund.

At the rate of 27.038% (including applicable surcharge, education and secondary and higher education) and at the rate of 32.445% (including applicable surcharge, education and secondary and higher education) on distribution of income to any other investor.

The additional income-tax on distribution of income by any other fund to an individual/ HUF shall be payable at the rate of 13.519% (including applicable surcharge, education and secondary and higher education) and at the rate of 32.445% (including applicable surcharge, education and secondary and higher education) on distribution of income to any other investor.

As per the act, a money market mutual fund means a money market mutual fund as defined in the SEBI (mutual fund) regulations, 1996 and a liquid fund means a scheme or plan of a mutual fund which is classified by the SEBI as a liquid fund in accordance with the guidelines issued by it in this behalf under the SEBI act, 1992 or regulations made there under.

The availability of credit for dividend distribution tax in the hands of the non-resident investor would depend upon the tax laws of the country of which he is a resident and/ or the applicable tax treaty of such country with India.

**Securities Transaction Tax**

As per chapter vii of the finance (no. 2) act, 2004 pertaining to STT, STT shall be payable, wherever applicable, as follows:-

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<table>
<thead>
<tr>
<th>SR. No.</th>
<th>Taxable Securities Transaction</th>
<th>Rate</th>
<th>PAYABLE BY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase Of An Equity Share In A Company Or A Unit Of An Equity Oriented Fund, Where</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. The Transaction Of Such Purchase Is Entered Into In A Recognized Stock Exchange; And</td>
<td>0.125%</td>
<td>Purchaser</td>
</tr>
<tr>
<td></td>
<td>B. The Contract For Purchase Of Such Share Or Unit Is Settled By The Actual Delivery Or Transfer Of Such Share Or Unit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Sale Of An Equity Share In A Company Or A Unit Of An Equity Oriented Fund, Where</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. The Transaction Of Such Sale Is Entered Into In A Recognized Stock Exchange; And</td>
<td>0.125%</td>
<td>Seller</td>
</tr>
<tr>
<td></td>
<td>B. The Contract For Sale Of Such Share Or Unit Is Settled By The Actual Delivery Or Transfer Of Such Share Or Unit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Sale Of An Equity Share In A Company Or A Unit Of An Equity Oriented Fund, Where</td>
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</tr>
<tr>
<td></td>
<td>A. The Transaction Of Such Sale Is Entered Into In A Recognized Stock Exchange; And</td>
<td>.025%</td>
<td>Seller</td>
</tr>
<tr>
<td></td>
<td>B. The Contract For Sale Of Such Share Or Unit Is Settled Otherwise Than By The Actual Delivery Or Transfer Of Such Share Or Unit.</td>
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</tr>
<tr>
<td>4</td>
<td>A. Sale Of An Option In Securities</td>
<td>0.017%</td>
<td>Seller</td>
</tr>
<tr>
<td></td>
<td>B. Sale Of An Option In Securities, Where Option Is Exercised</td>
<td>0.125%</td>
<td>Purchaser</td>
</tr>
<tr>
<td></td>
<td>C. Sale Of A Futures In Securities</td>
<td>0.017%</td>
<td>Seller</td>
</tr>
</tbody>
</table>
5.12.1.2 Tax Benefits / Consequences To Unit Holders:-

1. **Income-Tax:-**

   **All Unit Holders** income received, otherwise than on transfer (subject to the exemption of long-term capital gains provided for in section 10(38) of the act, discussed elsewhere in this statement), in respect of units of a mutual fund would be exempt from tax under section 10(35) of the act.

   **Tax Deduction At Source**

   **All Unit Holders** No income-tax is deductible at source, on any income distribution by the mutual fund under the provisions of section 194k and 196a of the act.

2. **Capital Gains Tax:-**

   1. **Foreign Institutional Investors**-Long-term capital gains on sale of units, held for a period of more than twelve months, would be taxed at the rate of 10% (plus applicable surcharge, education and secondary and higher education) under section 115ad of the act (subject to the exemption of long-term capital gains provided for in section 10(38) of the act, discussed elsewhere in this statement). Such gains would be calculated without indexation of cost of acquisition. Short-term capital gains would be taxed at 30% (plus applicable surcharge, education and secondary and higher education) (subject to the concessional rate of tax provided for in section 111a of the act, discussed elsewhere in this statement).

   As per section 111a of the act, short-term capital gains on sale of units of an equity-oriented fund, where such transaction of sale is chargeable to STT, shall be subject to tax at a rate of 15 per cent (plus applicable surcharge, education and secondary and higher education).

   **Exemption Of Capital Gain From Income Tax**

   a) As per section 10(38) of the act, any long-term capital gains arising from the sale of units of an equity-oriented fund where such
transaction of sale is chargeable to STT, shall be exempt from tax.
b) Income by way of long term capital gain of a company shall be taken into account in computing the book profit and income-tax payable under section 115jb (minimum alternate tax)[mat]. The matter is however not free from doubt in case of corporate foreign institutional investors.

Other Unit Holders
c) Long-term capital gains in respect of units, held for a period of more than twelve months, will be chargeable under section 112 of the act, at concessional rate of tax, at 20% (plus applicable surcharge, education and secondary and higher education) (subject to the exemption of long-term capital gains provided for in section 10(38) of the act, discussed elsewhere in this statement).
d) The following amounts would be deductible from the full value of consideration, to arrive at the amount of capital gains:-
   ▪ Cost of acquisition of units (as adjusted by cost inflation index notified by the central government in case of long term capital gain) and
   ▪ Expenditure incurred wholly and exclusively in connection with such transfer (excluding any sum paid on account of STT).
e) However, where the tax payable on such long-term capital gains, exceeds 10% (plus applicable surcharge, education and secondary and higher education) of the amount of capital gains computed before indexation, such excess tax shall not be payable by the unit holder, at his option.
f) In case of resident individuals and Hindu undivided families, where taxable income as reduced by long-term capital gains, is below the basic exemption limit, the long-term capital gains will be reduced to the extent of the shortfall and only the balance long-term capital gains will be subjected to the flat rate of income-tax (plus education and secondary and higher education).
g) As per section 111a of the act, short-term capital gains on sale of units of an equity oriented fund where such transaction of sale is chargeable to STT shall be subject to tax at a rate of 15 per cent (plus applicable surcharge, education and secondary and higher education). Further in case of resident individuals and HUFs where taxable income
as reduced by short-term capital gains, is below the basic exemption limit, the short-term capital gains will be reduced to the extent of the shortfall and only the balance short-term capital gains will be subjected to the flat rate of income-tax (plus education and secondary and higher education).

**Exemption Of Capital Gain From Income Tax**

A). As per section 10(38) of the act, any long-term capital gains arising from the sale of units of an equity-oriented fund where such transaction of sale is chargeable to STT, shall be exempt from tax.

B). Income by way of long term capital gain of a company shall be taken into account in computing the book profit and income-tax payable under section 115jb [MAT].

C). As per the provisions of section 54ec of the act and subject to the conditions and investment limits specified therein, capital gains (subject to the exemption of long-term capital gains provided for in section 10(38) of the act, discussed elsewhere in this statement), arising on transfer of a long-term capital asset shall not be chargeable to tax to the extent such capital gains are invested in certain notified bonds within six months from the date of transfer.

D). As per the provisions of section 54F of the act and subject to the conditions specified therein, in the case of an individual or a HUF, capital gains (subject to the exemption of long-term capital gains provided for in section 10(38) of the act, discussed elsewhere in this statement) arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax if the entire net consideration received on such transfer is invested within the prescribed period in a residential house.

If part of such net consideration is invested within the prescribed period in a residential house, then such gains would not be chargeable to tax on a proportionate basis. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.
**All Unit Holders** - Under the provisions of section 94(7) of the act, loss arising on sale of units, which are bought within 3 months prior to the record date (the date fixed by the mutual fund for the purposes of entitlement of the unit holders to receive income or additional units without any consideration, as the case may be) and sold within 9 months after the record date, shall be ignored for the purpose of computing income chargeable to tax to the extent of exempt income received or receivable on such units.

Under the provisions of section 94(8) of the act, where any person purchases units ('original units') within a period of 3 months prior to the record date, who is allotted additional units without any payment and sells all or any of the original units within a period of 9 months after the record date, while continuing to hold all or any of the additional units, then any loss arising on sale of the original units shall be ignored for the purpose of computing income chargeable to tax. The amount of loss so ignored shall be deemed to be the cost of purchase of the additional units as are held on the date of such sale.

**Tax Deduction At Source**

**All Unit Holders** - No income-tax is deductible at source from income by way of capital gains under the present provisions of the act in case of residents. However, the provisions of section 195 of the act may apply to non-residents (other than foreign institutional investors and long-term capital gains exempt under section 10(38) of the act).

<table>
<thead>
<tr>
<th>Tax Deducted At Source Pertaining To NRI Investors$</th>
<th>Short Term Capital Gain</th>
<th>Long Term Capital Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Oriented Schemes</td>
<td>15.450% ##</td>
<td>Nil</td>
</tr>
<tr>
<td>Other than Equity Oriented schemes (Listed)</td>
<td>30.900%</td>
<td>20.60%@</td>
</tr>
<tr>
<td>Other than Equity Oriented schemes (Unlisted)</td>
<td>30.900%</td>
<td>10.30%</td>
</tr>
</tbody>
</table>

## Subject to NRI’s having Permanent Account Number in India.

**Table -: 5.5 Tax Deducted At Source Pertaining To NRI Investors**
As per the finance act 2012, with effect from July 1, 2012, a list of transactions is proposed to be specified, wherein the rate for tax deduction at source needs to be determined by the assessing officer. In case the transaction of sale of mutual fund units by an NRI gets covered within such list, then an application would be required to be made to the assessing officer to determine the tax deduction at source rate after providing for indexation.

In the case of foreign companies the rate of tax to be deducted at source on short-term capital gains referred to in section 111a would be 15% (plus applicable surcharge, education and secondary and higher education) and at the rate of 40% (plus applicable surcharge, education and secondary and higher education) in case of short-term capital gains (other than under section 111a), unless a lower withholding tax certificate is obtained from the tax authorities, and at the rate of 20% (plus applicable surcharge, education and secondary and higher education) in case of long term capital gains, unless a lower withholding tax certificate is obtained from the tax authorities.

With effect from 1 April 2010, where tax is deductible under the act, and the Deductee has not furnished a permanent account number (pan) to the Deductor, tax should be deducted at source at the highest of the following rates:

➢ At the rate specified in the act.
➢ At the rates in force.
➢ At the rate of 20% (plus applicable surcharge and education and secondary and higher education )

2. Gift Of Units- With effect from 1.10.2009, as per the provisions of section 56(2) (vii) of the act, certain specified property transferred, without consideration / adequate consideration, exceeding specified limits, are taxable in the hands of the recipient individual / HUF (subject to certain exceptions).

The term "property" includes shares and securities. Units of a mutual fund could fall within the purview of the term "securities". As per the act, "property" would refer to capital assets only.

3. Clubbing Of Income- Subject to the provisions of section 64(1a) of the act, taxable income accruing or arising in the case of a minor child shall
be included in the income of the parent whose total income is greater or where the marriage of the parents does not subsist, in the income of that parent who maintains the minor child. An exemption under section 10(32) of the act, is granted to the parent in whose hand the income is included up to Rs. 1,500/- per minor child. When the child attains majority, the tax liability will be on the child.

**Deduction under section 80c** - As per section 80c, and subject to the provisions, an individual / HUF is entitled to a deduction from gross total income up to Rs. 1.00 Lac (along with other prescribed investments) for amounts invested in any units of a mutual fund referred to in section 10(23d) of the act, under any plan formulated in accordance with such scheme as the central government may notify.

**Securities Transaction Tax**

*All Unit Holders* - As per chapter vii of the finance (no. 2) act, 2004 pertaining to STT, the STT shall be payable by the seller at the rate 0.25 per cent on the sale of a unit of an equity-oriented fund to the mutual fund.

5.15.1.3. **OTHER BENEFITS**:

Investments in units of the mutual fund will rank as an eligible form of investment under section 11(5) of the act read with rule 17c of the income-tax rules, 1962, for religious and charitable trusts.

**(I) TAX TREATY BENEFITS** - A non-resident investor has an option to be governed by the provisions of the act or the provisions of a tax treaty that India has entered into with another country of which the non-resident investor is a tax resident, whichever is more beneficial to the non-resident investor. The provisions of section 195 and/or section 197 of the act would need to be complied and also documents will have to be furnished by the non-resident investor in this regard.

**(II) WEALTH-TAX** - Units of the mutual fund are not treated as assets as defined under section 2(ea) of the wealth-tax act, 1957 and therefore would not be liable to wealth-tax.

**(iii) GIFT-TAX** - The gift-tax act, 1958 has ceased to apply to gifts made on or after October 1, 1998. Gifts of units of the mutual fund would therefore, be exempt from gift-tax.
The above statement of possible direct tax benefits / consequences sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of mutual fund units. The statements made above are based on the tax laws in force (including the amendments made by the finance act, 2011), chapter vii of the finance (no. 2) act, 2004 pertaining to securities transaction tax, and as interpreted by the relevant taxation authorities as of date. The proposals of the draft direct taxes code bill, 2010 have not been considered there in. Investors/unit holders are advised to consult their tax advisors with respect to the tax consequences of the purchase, ownership and disposal of mutual fund units.

5.13. Investor Corner-

The first and most important step in your life as an investor is to define your goals at the onset of your investing activity. This will map the road ahead for you in terms of time, amount, type of asset and risk. At this point of time you must also decide how much you are willing to save. When you look at defining your goals think carefully and try to include all your requirements,

A simple way to get an overall perspective is to draw a time line starting from today with the amount you have saved up till now labeled at time zero. Going forward you can label your major outflows as and when they occur till retirement and then the steady outflows for your retirement income. Please remember your worst enemy “inflation” and factor this into your targets.

5.14. SWOT ANALYSIS –

A type of fundamental analysis of the health of a company by examining its strengths(s), weakness (w), business opportunity (o), and any threat (t) or dangers it might be exposed to.
I. STRENGTHS

- **Brand Strategy**: as opposed to some of its competitors (e.g. HSBC), HDFC operates a multi-brand strategy. The company operates under numerous well-known brand names, which allows the company to appeal to many different segments of the market.

- **Distribution Channel Strategy**: HDFC is continuously improving the distribution of its products. Its online and internet-based access offers a combination of excellent growth prospects and its retail direct business also saw growth of 27% in 2002 and 15% in 2003.

- **Various Sources Of Income**: HDFC has many sources of income throughout the group, and this diversity within the group makes the company more flexible and resistant to economic and environmental changes.
  - Large pool of installed capacities.
  - Experienced managers for large number of generics.
  - Large pool of skilled and knowledgeable manpower.
  - An increasing liberalization of government policies.

II. WEAKNESS

- **Emerging Markets**: Since there is more investment demand in the United states, Japan and the rest of Asia, HDFC should concentrate on these markets, especially in view of low global interest rates.

- **Mutual Funds Are Like Many Other Investments Without A Guaranteed Return**: There is always the possibility that the value of your mutual fund will depreciate. Unlike fixed-income products, such as bonds and treasury bills, mutual funds experience price fluctuations along with the stocks that make up the fund. When deciding on a particular fund to buy, you need to research the risks involved – just because a professional manager is looking after the fund, that doesn’t mean the performance will be stellar.

- **Fees**: In mutual funds, the fees are classified into two categories: shareholder fees and annual operating fees. The shareholder fees, in the forms of loads and redemption fees are paid directly by shareholders purchasing or selling the funds. The annual fund operating fees are charged as an annual percentage – usually ranging...
from 1-3%. These fees are assessed to mutual fund investors regardless of the performance of the fund. As you can imagine, in years when the fund doesn’t make money, these fees only magnify losses.

III. OPPORTUNITIES

• **Potential Markets**: The Indian rural market has great potential. All the major market leaders consider the segments and real markets for their products. A senior official in a one of the leading company says foray into rural India already started and there has been realization that the rural market is both price and quantity conscious.

• **Entry Of MNCS**: Due to multinationals are entering into market job opportunities are increasing day by day. Also India mutual fund majors are tie up with other financial institutions.

IV. THREATS

• **Hedge Funds**: Sometimes referred to as hot money, are also causing a threat for mutual funds have gained worldwide notoriety for bringing the markets down. Be it a crash in the currency, a stock or a bond market, a usually a hedge fund prominently figures somewhere in the picture.

5.15. **FUTURE GROWTH AND MARKET APPROACH OF HDFC MUTUAL FUND IN INDIA**

The HDFC mutual fund industry has involved in many aspects in the last decade or so. Be it product innovation. Distribution reach, investors education or leveraging technology. At present, only small portions of public savings reach the capital markets through the HDFC MF route will raise gradually. Innovations like arbitrage funds, exchange -traded funds are going to benefit investors is a very tangible way. However again within the exchange traded funds category, products like real estate exchange traded funds will take some time to be introduced in the Indian market. The industry one of the most regulated and has so far seen a very small numbers of issues. This fact alone should illustrate the likely future development of the HDFC mutual funds industry.
Although The Competitive Scenario Is Getting Tougher By The Day. It Actually Helps In The Expansion Of The Market. Competition Will Also Lead To Innovation In Product Development And A Race For Better Returns. Going by India’s demography, the purchasing power and the savings rate and the kind of money people earn will increase in the future. Obviously, they need investment opportunities and HDFC mutual funds will be one of the best opportunities for the future, because of the kind of returns they yield which no other class can give the risks.

The HDFC mutual fund industry future seems bright for the coming years. It has great potential to grow and is already on the path.

**Conclusion**-

The HDFC mutual fund In India has gone through sea- changes in the last decade or so and has witnessed very impressive growth rates. However, even now, it is poised for many far reaching changes that can unleash a further period of very high growth in the near future as well.

At HDFC bank we understand the value of your time and the opportunities it holds for you. Your personal finances may not get the attention they deserve while you attend to your business and professional needs. We are pleased to offer to you our tailors made private banking services. Created exclusively for valued customer for managing and enhancing your wealth.
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