

NOTICE CUM ADDENDUM NO. 26/2021-22

Change in Fundamental Attributes of IDBI Credit Risk Fund

(An open ended debt scheme predominantly investing in AA and below rated corporate bonds)

Unitholders of IDBI Credit Risk Fund are requested to note the following changes in IDBI Credit Risk Fund ("the Scheme") effective from **January 28, 2022** ("Effective Date").

The Change in Fundamental Attributes of the Scheme has been approved by Board of Directors of IDBI Asset Management Limited (AMC) and Board of Directors of IDBI MF Trustee Company Limited. Further, Securities and Exchange Board of India (SEBI) has informed the AMC that they have no objection to the aforesaid revision.

The changes proposed in the Scheme are as below:

Existing Provision				Proposed Provision			
Under normal circumstances the asset allocation pattern will be as per table below:				Under normal circumstances the asset allocation pattern will be as per table below:			
Instruments	Indicative allocation (% of total assets)		Risk Profile	Instruments	Indicative allocation (% of total assets)		Risk Profile
	Min	Max			Min	Max	
AA and below rated Corporate Bonds*\$	65%	100%	Low to Medium	AA and below rated Corporate Bonds*\$	65%	100%	Low to Medium
AA+ and above rated Corporate Bonds	0%	35%	Medium	Other debt securities and money market instruments	0%	35%	Medium
Money Market Instruments**	0%	35%	Low	Units issued by Real Estate Investment Trusts (REITs) & Investment & Infrastructure Investment Trusts (InvITs)	0%	10%	Medium to High
Units issued by Real Estate Investment Trusts (REITs) & Investment & Infrastructure Investment Trusts (InvITs)	0%	10%	Medium to High				

\$ excludes AA+ rated corporate bonds
** Corporate Bonds means Bonds which are issued by entities other than Central or State Government.*
*** Money market Instruments including but not limited to CDs, CPs, T-Bills, Tri-party repo, Repo / Reverse Repo (including repo in corporate bonds), Liquid schemes etc.*

The Scheme will not invest in Government Securities and State Development Loans.

The Scheme will enter into the repo transactions (including Repo in corporate bonds).

Investment in Securitised Debt will not exceed 50% of the net assets of the Scheme.

Investment in Derivatives will be up to 50% of the net assets of the Scheme. Investment in derivatives shall be for hedging, portfolio balancing and such other purposes as may be permitted from time to time.

The Scheme does not propose to invest in ADRs/GDRs and foreign securities.

The Scheme may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing as specified by SEBI.

The scheme shall not deploy more than 20% of its net asset in securities lending and not more than 5% in securities lending to any single counter party.

The Scheme may also participate in securities lending to augment its income. Securities lending in the scheme will be in accordance with the guidelines on securities lending and borrowing scheme issued by SEBI from time to time.

The gross investment in securities under the scheme, which includes Debt and Money Market Instruments, securitized debt, units of mutual fund schemes, units of InvIT and REIT and gross exposure to derivatives, will not exceed 100% of the net assets of the scheme.

\$ excludes AA+ rated corporate bond
** Includes Corporate Bonds which are issued by entities other than Central or State Government.*

Money Market Instruments including but not limited to CDs, CPs, T-Bills, Tri-party repo, Repo / Reverse Repo (including repo in corporate bonds), Liquid schemes etc.

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Investment in Derivatives will be up to 50% of the net assets of the Scheme. Investment in derivatives shall be for hedging, portfolio balancing and such other purposes as may be permitted from time to time.

The Scheme does not propose to invest in ADRs/GDRs/ Structured obligations or Credit enhancements and foreign securities.

The Scheme will not engage in short selling of securities. The Scheme will participate in Securities lending and borrowing as specified by SEBI to augment its income. The scheme shall not deploy more than 20% of its net asset in securities lending and not more than 5% for single intermediary.

Securities lending in the Scheme will be in accordance with the guidelines on securities lending and borrowing scheme issued by SEBI from time to time.

The gross investment in securities under the Scheme, which includes Debt and Money Market Instruments, securitized debt, units of mutual fund schemes, units of InvIT and REIT and gross exposure to derivatives, will not exceed 100% of the net assets of the scheme.

The Scheme intends to invest in debt instruments with special features such as subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption ("hereinafter referred to as "perpetual debt instruments")

Creation of Segregated Portfolio (as an enabling provision)

SEBI has allowed creation of segregated portfolio of debt and money market instruments by mutual fund schemes. The IDBI AMC may create segregated portfolio in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA). Creation of segregated portfolio shall be subject to guidelines specified by SEBI from time to time and includes the following:

- In this regard,
- The term 'segregated portfolio' shall mean a portfolio comprising of debt or money market instrument affected by a credit event that has been segregated in a mutual fund scheme.
 - The term 'main portfolio' shall mean the scheme portfolio excluding the segregated portfolio.
 - The term 'total portfolio' shall mean the scheme portfolio including the securities affected by the credit event.

Benefits of Creation of Segregated Portfolio:

Creation of Segregated portfolio helps ensuring fair treatment to all investors in case of a credit event and helps in managing liquidity risk during such events.

Procedure to create a segregated portfolio

- Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:
 - Downgrade of a debt or money market instrument to 'below investment grade', or
 - Subsequent downgrades of the said instruments from 'below investment grade', or
 - Similar such downgrades of a loan rating
 - Segregated portfolio may be created on an event as specified by SEBI from time to time.
 - In case of unrated debt or money market instruments of an issuer that does not have any outstanding rated debt or money market instruments, segregated portfolio of such unrated debt or money market instruments may be created only on actual default of either the interest or principal amount.
 - In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as mentioned above and implemented at the ISIN level.
 - Creation of segregated portfolio is optional and is at the discretion of the IDBI AMC.
- Process for Creation of Segregated Portfolio**
- On the date of credit event, the IDBI AMC shall decide on creation of segregated portfolio. Once AMC decides to segregate portfolio, it shall:
 - Seek approval of trustees prior to creation of the segregated portfolio.
 - Immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. The AMC will also disclose that the segregation shall be subject to Trustee approval. Additionally, the said press release will be prominently disclosed on the website of the IDBI AMC.
 - Ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the scheme will be suspended for processing with respect to creation of units and payment on redemptions.
 - Once Trustee approval is received by the IDBI AMC:
 - Segregated portfolio will be effective from the day of credit event
 - IDBI AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information will also be submitted to SEBI.
 - An e-mail or SMS will be sent to all unit holders of the concerned scheme.
 - The NAV of both segregated and main portfolios will be disclosed from the day of the credit event.
 - All existing investors in the scheme as on the day of the credit event will be allotted equal number of units in the segregated portfolio as held in the main portfolio.
 - No redemption and subscription will be allowed in the segregated portfolio. However, upon recovery of any money from segregated portfolio, it will be immediately distributed to the investors in proportion to their holding in the segregated portfolio.
 - In order to facilitate exit to unit holders in segregated portfolio, AMC should enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests.
 - If the trustees do not approve the proposal to segregate portfolio, IDBI AMC will issue a press release immediately informing investors of the same.

Valuation

Notwithstanding the decision to segregate the debt and money market instrument, the valuation shall take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and circular(s) issued thereunder.

Processing of Subscription and Redemption Proceeds

All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as under:

- Upon trustees' approval to create a segregated portfolio –
 - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
 - Investors subscribing to the Scheme will be allotted units only in the main portfolio based on its NAV.
- In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

Disclosure

In order to enable the existing as well as the prospective investors to take informed decision, the following shall be adhered to:

- A statement of holding indicating the units held by the investors in the segregated portfolio along with the NAV of both segregated portfolio and main portfolio as on the day of the credit event shall be communicated to the investors within 5 working days of creation of the segregated portfolio.
 - Adequate disclosure of the segregated portfolio shall be made in all scheme related documents, in fortnightly, monthly and half-yearly portfolio disclosures and in the annual report of the mutual fund and the Scheme.
 - The Net Asset Value (NAV) of the segregated portfolio shall be declared on daily basis.
 - The information regarding number of segregated portfolios created in the Scheme shall appear prominently under the name of the Scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.
 - The Scheme performance required to be disclosed at various places shall include the impact of creation of segregated portfolio. The Scheme performance should clearly reflect the fall in NAV to the extent of the portfolio segregated due to the credit event and the said fall in NAV along with recovery (ies), if any, shall be disclosed as a footnote to the Scheme performance.
 - The disclosures at paragraph (d) and (e) above regarding the segregated portfolio shall be carried out for a period of at least 3 years after the investments in segregated portfolio are fully recovered/ written-off.
 - The investors of the segregated portfolio shall be duly informed of the recovery proceedings of the investments of the segregated portfolio. Status update may be provided to the investors at the time of recovery and also at the time of writing-off of the segregated securities.
- TER for the Segregated Portfolio**
- IDBI AMC shall not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.
 - The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.
 - The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
 - The costs related to segregated portfolio shall in no case be charged to the main portfolio.

Monitoring by Trustees

In order to ensure timely recovery of investments of the segregated portfolio, Trustees would ensure that:

- The AMC puts in sincere efforts to recover the investments of the segregated portfolio.
 - Upon recovery of money, whether partial or full, it shall be immediately distributed to the investors in proportion to their holding in the segregated portfolio. Any recovery of amount of the security in the segregated portfolio even after the write off shall be distributed to the investors of the segregated portfolio.
 - In order to avoid mis-use of segregated portfolio, trustees will ensure to have a mechanism in place to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs), etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of the AMC, including claw back of such amount to the segregated portfolio of the scheme.
 - The Trustees will monitor the compliance of this circular and disclose in the half-yearly trustee reports filed with SEBI, the compliance in respect of every segregated portfolio created.
- Risk factors associated with Creation of Segregated Portfolio**
- Investor holding units of segregated portfolio may not be able to liquidate their holding till the time recovery of money from the issuer.
 - Security comprises of segregated portfolio may not realize any value.
 - Listing of units of segregated portfolio in recognized stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

Illustration of Segregated Portfolio

Portfolio Date	June 5, 2020
Downgrade Event Date	June 5, 2020
Downgraded Security	8.65% D Ltd. from AA+ to D
Valuation Marked Down	75%

Mr. A is holding 1000 Units of the scheme for an amount of Rs. 12,26,956.50 (1,000 *1,226.96)

Portfolio before the Downgrade Event

Security Rating	Credit Rating	Type of Security	Unit/ Qty	Market Price per Unit (Rs.)	Market Value (in Rs.)	% of Net Assets
8.50% A Ltd	AAA	NCD	6,000	102.33	6,13,980.00	50.04%
8.75% B Ltd.	AA+	NCD	1,700	97.50	1,65,750.00	13.51%
9.50% C Ltd	A1+	CP	2,000	98.34	1,96,684.20	16.03%
8.65% D Ltd.	AA+	NCD	1,000	99.00	99,000.00	8.07%
8.80% E Ltd.	AA	NCD	1,000	101.22	1,01,221.10	8.25%
Cash & cash equivalents					50,321.20	4.10%
Net Assets					12,26,956.50	100.00%
Unit capital (no. of units)					1000.00	
NAV (In Rs.)					1226.96	

Total Portfolio as on June 05, 2020

Security Rating	Credit Rating	Type of Security	Unit/ Qty	Market Price per Unit (Rs.)	Market Value (in Rs.)	% of Net Assets
8.50% A Ltd	AAA	NCD	6,000	102.33	6,13,980.00	53.25%
8.75% B Ltd.	AA+	NCD	1,700	97.50	1,65,750.00	14.38%
9.50% C Ltd	A1+	CP	2,000	98.34	1,96,684.20	17.06%
8.65% D Ltd.	D	NCD	1,000	25.00	25,000.00	2.17%
8.80% E Ltd.	AA	NCD	1,000	101.22	1,01,221.10	8.78%
Cash & cash equivalents					50,321.20	4.36%
Net Assets					11,52,956.50	100.00%
Unit capital (no. of units)					1000.00	
NAV (In Rs.)					1152.96	

Main Portfolio as on June 05, 2020

Security Rating	Credit Rating	Type of Security	Unit/ Qty	Market Price per Unit (Rs.)	Market Value (in Rs.)	% of Net Assets
8.50% A Ltd	AAA	NCD	6,000	102.33	6,13,980.00	54.43%
8.75% B Ltd.	AA+	NCD	1,700	97.50	1,65,750.00	14.38%
9.50% C Ltd	A1+	CP	2,000	98.34	1,96,684.20	17.44%
8.80% E Ltd.	AA	NCD	1,000	101.22	1,01,221.10	8.97%
Cash & cash equivalents					50,321.20	4.46%
Net Assets					11,27,956.50	100.00%
Unit capital (no. of units)					1000.00	
NAV (In Rs.)					1127.96	

Segregated Portfolio as on June 05, 2020

Security Rating	Credit Rating	Type of Security	Unit/ Qty	Market Price per Unit (Rs.)	Market Value (in Rs.)	% of Net Assets
8.65% D Ltd.	D	NCD	1,000	25.00	25,000.00	100.00%
Net Assets					25,000.00	100.00%
Unit capital (no. of units)					1000.00	
NAV (In Rs.)					25.00	

Net impact on value of holding of Mr. A after creation of segregation portfolio

	Main Portfolio	Segregated Portfolio	Total Value
No. of Units	1000	1000	
NAV (in Rs.)	1127.96	25	
Total Value (in Rs.)	11,27,956.50	25,000.00	11,52,956.50

Provision for Creation of Segregated Portfolio in case of perpetual debt instruments

If the debt instruments with special features such as subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption ("hereinafter referred to as "perpetual debt instruments") is to be written off or converted to equity pursuant to any proposal, the date of said proposal may be treated as the trigger date. However, if the said instruments are written off or converted to equity without proposal, the date of write off or conversion of debt instrument to equity may be treated as the trigger date.

Asset Management Companies/Valuation Agencies shall ensure that the financial stress of the issuer and the capabilities of issuer to repay the dues/borrowings are reflected in the valuation of the securities from the trigger date onwards.

Investment Restrictions relating to the Provision for Creation of Segregated Portfolio in case of perpetual debt instruments

As per SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021, No Mutual Fund under all its schemes shall have more than 10% of instruments issued by a single issuer in debt instruments with special features such as subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption ("hereinafter referred to as "perpetual debt instruments"). Further, a Mutual Fund scheme shall not invest:

- More than 10% of its NAV of the debt portfolio of the scheme in perpetual debt instruments; and
 - More than 5% of its NAV of the debt portfolio of the scheme in perpetual debt instruments issued by a single issuer.
- The limit mentioned at a) and b) above shall be within the overall limit for debt instruments issued by a single issuer and other prudential limits with respect to the debt instruments.

Risk factors associated with investments in Perpetual Debt Instrument (PDI)

- Default risk** - This is the risk that losses will be incurred due to default by counterparty. This is also known as credit risk or counterparty risk. This risk pertains to the risk of default of payment of principal and interest. Perpetual bonds issued by banks too have no guarantee as these bonds are issued under Basel norms to shore up the capital of banks. If a bank's capital dips below certain thresholds, they can skip interest payments on these bonds and even write-down their value. This makes them a lot closer in nature to equity than debt.
- Repayment date risk** - Maturity of these bonds is simply the Issuer's right to repay the principal value. The Issuer is not bound to pay back the investors in these bonds. They may choose not to repay the principal and simply keep paying the interest.
- Interest rate risk** - Higher interest rates often follow a rise in inflation. When interest rates rise, bond prices fall and vice-versa. The effect is particularly strong for long-dated bonds such as perpetual bonds. A drop in the bond's price does make much difference in case if the bond held till maturity. However, if in case of sale of these bonds, the seller may get a lower price.
- Risk on coupon servicing banks** - As per the terms of the instruments, Issuers of these bonds have discretion at all times to cancel distributions/ payment of coupons. Coupon can also be deferred (instead of being cancelled), in case paying the coupon leads to breach of capital ratios.
- Risk of write - down or conversion into equity** - As per current RBI guidelines, banks have to maintain a Common Equity Tier-1 (CET-1) ratio of minimum 5.5% of Risk Weighted Assets (RWAs), failing which the AT-1 bonds can get written down. Further, AT-1 Bonds are liable to be written down or converted to common equity, at the discretion of RBI, in the event of Point of Non Viability Trigger (PONV). PONV is a point, determined by RBI, when a bank is deemed to have become non-viable unless there is a write off conversion to equity of AT-1 Bonds or a public sector capital injection happens. The write off/conversion has to occur prior to public sector injection of capital.
- Risk of instrument not being called by the Issuer Banks** - The Issuers have an option to call back the instrument after certain period from the date of issuance of these instruments subject to meeting the necessary guidelines. However, if they do not exercise call option, one may need to hold the instruments for a period beyond the first call exercise date.

All references to the above revision will be suitably incorporated in Scheme Information Document (SID) and Key Information Memorandum (KIM) of the Scheme. Apart from the above revision, all other features and attributes of the Scheme, IDBI Credit Risk Fund will continue to remain the same.

All unit holders are requested to note that the above proposed revision in the Scheme will come to an effect from **January 28, 2022** (Effective Date). In view of the above changes in fundamental attributes of IDBI Credit Risk Fund, existing unitholders who are not in agreement to the said changes are given an option to redeem their units at applicable NAV or switch to other schemes of IDBI Mutual Fund without payment of exit load between **December 29, 2021 to January 27, 2022** (both days inclusive) as per Regulation 18(15A) of the SEBI (Mutual Funds) Regulations, 1996.

If the unitholders do not exercise their option to exit or switch-out on or before **January 27, 2022** (upto 3.00 p.m.), they shall be deemed to have consented to the proposed changes.

Unitholders wishing to exit or switch-out their units from the Scheme can submit the application at any of the Official Point of Acceptance of IDBI Mutual Fund on any business day during the exit period. The application received will be processed at NAV as on the date of receipt of application subject to applicable cut-off time.

In case of application for redemption, the redemption proceeds will be mailed /credited within 10 business days of receipt of valid redemption request. Unitholders may note that the **Offer to Exit is merely an Option and not Compulsory**. However, the exit option will not be available to those unitholders who have pledged their units and on which the Mutual Fund has marked a lien unless the release of pledge is obtained and communicated to the Mutual Fund / Registrar before applying for redemption/Switch-out.

Securities Transaction Tax will be borne by AMC during the exit period.

Unitholders should ensure that any change in address, bank details required by them, are updated in the Fund's records before exercising the exit option. Redemption / switch-out by the Unit holders due to change in the fundamental attributes of the Scheme or due to any other reasons may entail tax consequences. In view of the individual nature of the implications, each Unit holder is advised to consult his or her own tax advisor.

The updated Scheme Information Document (SID) & Key Information Memorandum (KIM) of IDBI Credit Risk Fund shall be made available with our Investor Service Centres (ISCs) and shall be displayed on the website www.idbimutual.co.in immediately after completion of duration of the exit option.

This notice forms an integral part of the Scheme Information Document and Key Information Memorandum of IDBI Credit Risk Fund as amended from time to time.

Investors are requested to contact any of the Investor Service Centres (ISCs) of IDBI Mutual Fund for further details.

For IDBI Asset Management Limited
(Investment Manager for IDBI Mutual Fund)
Sd/-
Company Secretary and Compliance Officer

Place : Mumbai
Date : December 28, 2021

Statutory Details: IDBI Mutual Fund has been set up as a trust sponsored by IDBI Bank Limited with IDBI MF Trustee Company Limited as the Trustee ("Trustee" under the Indian Trusts Act, 1882) and with IDBI Asset Management Limited as the Investment Manager.

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