



IDFC Investment Advisors Limited

One India Bulls Centre, 6th Floor, Jupiter Mills Compound,
Senapati Bapat Marg, Elphinstone Road(West),
Mumbai, India - 400013

www.idfcia.com

INVESTMENT ADVISER REGISTRATION FORM ADV PART 2A: FIRM BROCHURE

This brochure provides information about the qualifications and business practices of IDFC Investment Advisors Limited. If you have any questions about the contents of this brochure, please contact at 91-22-66 289999 and/or via email at investor.services@idfcia.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about IDFC Investment Advisors Limited also is available on the SEC's website at www.adviserinfo.sec.gov. An investment adviser registered with the SEC does not imply a certain level of skill or training.

June 12, 2014

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Item 4. Advisory Business

A. Introduction

IDFC Investment Advisors Limited (IDFC IA or the Adviser) was incorporated on April 3, 2006 as a wholly owned subsidiary IDFC Limited. As part of an internal group restructuring, IDFC IA became a wholly owned subsidiary of IDFC Asset Management Company Limited (IDFC AMC) in July 2009.

IDFC AMC was originally incorporated as ANZ Grindlays Asset Management Company Private Limited (ANZAM) and set up by the Australia and New Zealand Banking Group. ANZAM was appointed by ANZ Grindlays Trustee Company Pvt Ltd (Trustee to ANZ Grindlays Mutual Fund) to act as Investment Manager to ANZ Grindlays Mutual Fund pursuant to the Investment Management Agreement dated January 3, 2000.

In 2001, Standard Chartered Bank acquired 75% of the equity share capital and 100% of the preference share capital of ANZAM, which was thereafter renamed as Standard Chartered Asset Management Company Private Limited (SCAMC).

On May 30, 2008, IDFC Limited (IDFC) acquired 100% of the equity and preference share capital of SCAMC then held by Standard Chartered Bank and other minority shareholders. Pursuant to this acquisition, SCAMC was renamed as IDFC Asset Management Company Limited.

On December 9, 2011, IDFC sold a slightly greater than 25% equity stake in IDFC AMC to Natixis Global Asset Management Asia Pte Ltd (NGAM Asia).

NGAM Asia is a Singapore limited Company and a 100% indirect subsidiary of Natixis Global Asset Management (NGAM).

Background of IDFC Limited:

IDFC Limited is a leading diversified financial institution in India providing a wide range of financing products and fee-based services with infrastructure as its focus area. IDFC's key businesses include project finance, investment banking, asset management, principal investments and advisory services. IDFC also works closely with government entities and regulators in India to advise and assist in formulating policy and regulatory frameworks that support private investment and public-private partnerships in infrastructure development.

IDFC was established in 1997 as a private sector enterprise by a consortium of public and private investors and operates as a professionally managed commercial entity. IDFC listed its equity shares in India pursuant to an initial public offering in August 2005. As on March 31, 2014, IDFC's shareholders included the Government of India (approximately 17.24%), FII/FDI (approximately 53.69%) and various other investors [including resident individuals, Indian financial institutions, bodies corporate, insurance cos., mutual funds, banks] (approximately 29.07%). As on March 31, 2014, IDFC had an asset base of over USD 12.51 billion, net worth of USD 2.50 billion and market capitalization of USD 3.08 billion.

Background of NGAM:

NGAM is owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France's second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisse d'Epargne regional savings banks and the Banque Populaire regional cooperative banks.

Registration in India

IDFC IA is registered with Securities & Exchange Board of India (SEBI) in India as Portfolio Manager under the SEBI (Portfolio Managers) Regulation Act, 1993 bearing registration no. INP000002064. IDFC IA is also Investment Manager to registered Venture Capital Fund - IDFC SPICE Fund.

B. Investment Advisory Services

IDFC IA may provide a range of services to clients seeking to invest in India including, but not limited to:-

(i) Investment Management services (both discretionary & non-discretionary)

Discretionary Portfolio Management Services – under this arrangement, the Portfolio Manager exercises or may under a contract relating to portfolio management, exercise any degree of discretion as to the investments or management of the portfolio of securities or funds of the clients, as the case may be.

Non-Discretionary Portfolio Management Services – under this arrangement, the Portfolio Manager manages the funds in accordance with the direction of the Client. *IDFC IA currently does not provide Non-Discretionary Portfolio Management Services.*

(ii) **Advisory Services:**

Under this arrangement, the Portfolio Manager shall for consideration provide investment advice relating to purchasing, selling or otherwise dealing in securities and advice on investment to clients or other persons or group of persons.

(iii) **Sub-advisory services to an affiliated investment manager**

(iv) **Investment Management services under delegated authority by an advisor**

(v) **Management services as a Co-manager to an account for which an advisor also provides management Services.**

IDFC IA currently provides non-binding investment advisory services to Foreign Institutional Investors (FIIs) and domestic clients as well. The Company also provides discretionary investment management service to investment portfolio aggregating to USD 97.02 million with 2332 investors (as on March 31, 2014), consisting primarily of individuals resident in India. IDFC IA also acts as Investment Manager to the IDFC SPICE Fund which is a Venture Capital Fund registered with SEBI having a corpus of approx. USD 36.57 million (as on March 31, 2014). IDFC IA has built up strong capabilities in the areas of fund management, research, operations and sales.

C. Restrictions for investments in securities by Clients

IDFC IA provides investment advice to clients in accordance with the investment objective, guidelines and restrictions which forms part of the mandate selected by the client.

Clients may provide restrictions on investing in certain securities and types of securities, which is adhered at the time of providing investment advice.

D. Wrap Fee Programs

IDFC IA does not participate in wrap fee programs while providing its services.

E. Assets under Management

As on March 31, 2014, IDFC IA manages following AUM under its various services –

| Services | AUM in US\$ (in million) |
|---------------|--------------------------|
| Discretionary | 98.47 |

| | |
|---------------------|---------------|
| Discretionary (VCF) | 36.57 |
| Advisory | 32.20 |
| Total | 167.24 |

Item 5. Fees & Compensation

Fees and charges for Advisory Services are specified in the contractual agreement executed with each client. Fees may vary by investment objective, complexity, geographical location, services offered, account/relationship size etc. To the extent permitted under applicable law, IDFC IA may negotiate and charge performance fees as well as asset based fees or a combination of asset bases fees plus performance fees.

Subject to agreement between IDFC IA and the client, generally, the fee is calculated and accrued daily and billed on monthly or quarterly basis. However, such accrual and billing cycles may vary from client to client. Depending on the arrangement, the fee can either be deducted from the fund/mandate assets or paid by client directly to IDFC IA.

IDFC IA under its Advisory Services does not perform nor provide custody or fund administration services, hence, each Advisory Services client may designate or appoint its own custodian and/or fund administrator and such cost shall be borne by the client. Accordingly, a client shall send or cause its designated agent (custodian/fund administrator) to send IDFC a statement of the value of the assets (including cash or cash equivalents) for the relevant month to allow IDFC IA to calculate the applicable management fee.

Fees and charges for Discretionary Portfolio Management Services are specified in the contractual agreement executed with each client, indicative list of fees and charges on Discretionary Portfolio Management services are as follows:

- (i) **Management Fee:** An ongoing management fee up to 7% per annum of the value of the Portfolio. Additional applicable taxes shall be charged on the amount of fees.
- (ii) **Performance Linked Fee:** Performance linked fees charged as a percentage of returns above the hurdle rate of return on portfolio. Additional applicable taxes shall be charged on the amount of fees.

Performance fee are computed on the basis of a high water mark principle over the life of the investment, where IDFC IA charges performance fees only on the increase in portfolio value in excess of the previously achieved highest value.

- (iii) **Upfront Fees:** In addition to the above, the Client may be charged an upfront fee of up to 5%. Additional applicable taxes shall be charged on the amount of fees.
- (iv) **Termination Fees:** In the event of earlier termination (prior to the expiry of the relevant contract period), an early termination fee calculated at a rate of up to 25 % on the net asset value determined on the effective date of termination may be charged and recovered from certain Clients. Additional applicable taxes shall be charged on the amount of fees.
- (v) Any other fee permissible under applicable law and agreed between the parties from time to time.

The aforesaid fees and structures are subject to such modifications as may be agreed by and between IDFC IA and Clients based on individual requirements of the Clients.

- (vi) **Custodian / Accounting Fees:** IDFC IA may appoint custodians, clearing agents, fund accountants, and depository participants to effect the custody of securities and settlement of trades.

Out of pocket expenses, applicable taxes and charges on the services rendered by such parties shall be charged at actual cost as applicable. In the event the Client opts to maintain separate accounts, then account opening charges and other associated expenses are charged to the Client's account.

- (vii) **Registrar and transfer agent fees:** IDFC IA may negotiate registration and transfer agent fees with registrars and transfer agents as applicable. Currently these services are provided by IDFC IA.
- (viii) **Brokerage and transaction costs:** The purchase and sale prices of securities will be inclusive of the market rates of the securities, the brokerage charges and related transaction costs, including stamp fees, if any. These charges are generally not expected to exceed 1% per transaction.
- (ix) **Bank Charges:** Certain bank charges may be charged at actual cost, as applicable.

- (x) **Stamp duty:** Certain stamp duties may be charged at actual cost, as applicable.
- (xi) **Legal costs and professional fees:** Costs incurred for instituting or defending legal suits, audit fees and other similar charges.
- (xii) **Out-of pocket/ incidental expenses:** As may be incurred at actuals by IDFC IA on behalf of the Client.

Any other taxes, duties and fees which may be levied by IDFC IA from time to time for providing aforesaid services.

In a limited number of situations, clients may arrange to pay fees in advance. In the event of the termination of a relationship, unearned fees, if any, paid in advance will be refunded to the client. To the extent fees have been earned but not yet billed, such fees will be pro-rated and paid by the client upon termination. Neither IDFC IA nor its personnel accept compensation in exchange for the sale of securities or other investment products.

Item 6. Performance Based Fees and Side-by-side management

IDFC IA under its Discretionary Portfolio Management services charges performance based fees as explained in Item 5 above.

IDFC IA under its Advisory Services may provide advice to one or more clients that are charged performance-based fees. Portfolio Managers of IDFC IA may advise both accounts that are charged a performance fee and accounts that are charged another type of fee such as asset based fee.

Side-by-side management by the Adviser or its supervised persons who provide investment advisory services and Portfolio Management Services to one or more clients may raise potential conflicts of interest, including those associated with any differences in fee structures, as well as other pecuniary and investment interests the Adviser or its supervised persons may have in an account managed by the Adviser. The prospect of achieving higher compensation from a performance based fee account may provide IDFC IA an incentive to favour such an account over others.

IDFC IA has implemented Policies and Procedures for “Aggregation & Allocation procedures” which seeks to address potential conflicts of interest that may arise when a portfolio manager or different portfolio managers within IDFC IA manage client assets which are subject to performance based fees.

Item 7. Type of Clients

IDFC IA will provide Advisory services to investors including but not limited to institutions, investment companies, pooled investment vehicles or institutional investors in and/or outside United States. Such advisory services will generally be directed to such clients who primarily seek to invest in India.

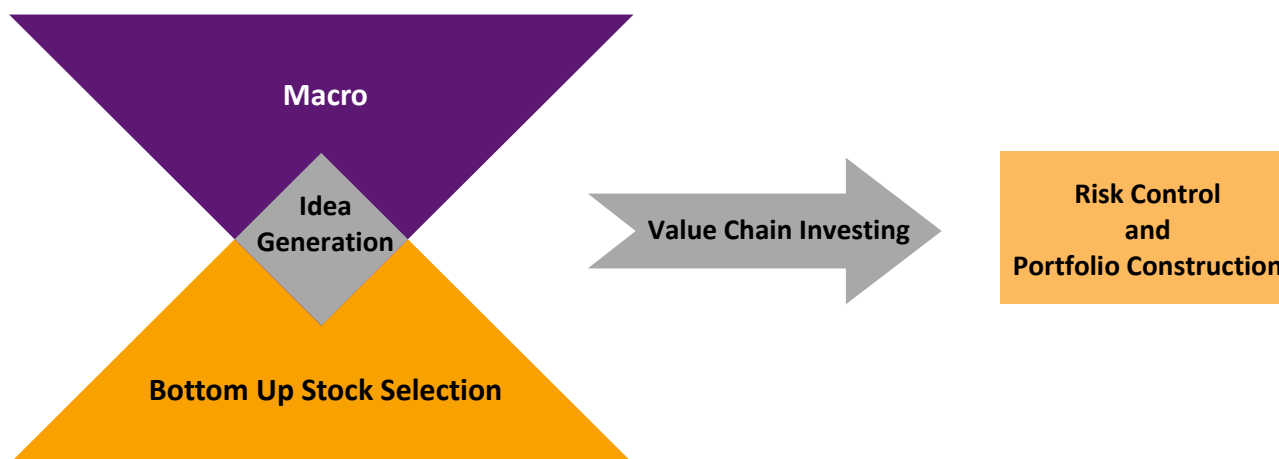
Currently the investment advisory services are being provided to following type of investors –

- (i) Corporate Investors
- (ii) Funds
- (iii) Pooled Investment Vehicles

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

The investment process & methodology is driven by disciplined fundamental research. Stock selection for investment advisory and portfolio management services is made through a combination of top down and bottom up approach and by concentrating on underlying shifts in the Indian economy at an early stage.

This enables IDFC IA to create a portfolio of companies that are relatively undervalued and efficiently capture corporate profitability within the economy leading to superior portfolio performance.



➤ Top Down Thematic Approach

Thematic approach seeks to identify large shifts in capital across the Indian economy that would result in corporate profitability. Currently, the approach to investing in India, which has experienced two decades of being integrated into the world economy, is to track major trends in the Consumer, Investment and Outsourcing economies. We believe that the trends in these macro variables provides an effective means of tracking our investing universe of 500 companies (referenced by the S&P BSE 500 Index).

- **Consumer Economy** - Consumer spending is driven by the rising per capita income and low leverage
- **Investment Economy** - Investment is driven by Government spending which is linked to the deficits of the fiscal policy
- **Outsourcing Economy** – The opposite of the Investment Economy, Outsourcing builds its profitability and competitiveness with the devaluation of the currency, which, in turn, is the outcome of weak domestic macros.

Within these three segments, we believe that we are able to derive alpha through the complete market cycle.

➤ **Value Chain Investing**

The second core element in the investment process is to break down the sub-segments of these larger economic trends into value chains and track the progress of the individual components of such chains. IDFC IA determines profit pools within such value chains and allocates capital to the companies that IDFC IA believes will capture these profit pools, until their underlying profitability is eroded by competitive forces.

➤ **Bottom Up Stock Selection**

The third core element is stock selection to facilitate participation within the identified themes. This is achieved through fundamental company analysis, focusing on:

- Market Interest
- Valuations
- Corporate Structure and Management

This approach endeavors to allocate capital to companies which capture significant profit and market share within their sectors and sub-sectors. We wish to incorporate the above process as a means to accomplish the end result. However, it doesn't necessarily imply that the end portfolio has to be

derived through a top down approach. A lot of portfolios also originate when we find an element in the economy doing well, thus leading to a macro hypothesis.

Depending upon the prevailing market scenario, the management strategy may change. IDFC IA seeks to ensure relatively low levels of trading in the portfolio, however, if IDFC IA believes it would impact the portfolio due to volatility in the market, it may lead to frequent trading in the Portfolio. Under such scenario the client should understand that frequent trading may impact the performance, higher transaction (including brokerage) cost and taxation impact.

Risk Control & Portfolio Construction

As stated above, depending upon prevailing market conditions and client requirements, multiple strategies are followed to build each portfolio. The portfolios are aligned accordingly to the underlying sectors and sub-sectors.

Over all we use a core and satellite approach to build a portfolio. This approach involves focusing the core of the investment portfolio around stable businesses and rounding out the remainder with “satellites” consisting of companies with a growth matrix higher than the current market and stock indices. The best ideas where we take execution risk on the portfolio are usually stocks which rank in the largest 10 through 20 of a Benchmark Index. IDFC IA believes that such stocks usually end up comprising the top ten performers within the portfolio following the first cycle of portfolio building (i.e. around 5 years).

The predominance of our thematic approach is limited in different strategies (e.g., where portfolio construction is limited by its index, the maximum weighting at the beginning of the portfolio is in line with the strategy.) Diversification within a theme is achieved by investing across the value chain of the theme / sector. Portfolios are aligned to companies which are industry leaders with higher shares of their respective industry profit pool. If the theme does not play through, the underlying company exposure should be such that the company remains solvent and relevant at the end of the cycle.

Quantitative systems are used to monitor the current investment ideas vis-à-vis the perceived levels of risk. These systems are used to measure portfolio risk resulting from sector/stock concentration, macroeconomic risk on current investment themes and the potential for broad asset class declines. Procedures are in place to measure credit and interest rate risk as well. Tracking error, Sharpe ratio, volatility of the portfolio and other performance measures are also constantly monitored. System built

checks is also in place to measure exposure to certain sectors, stocks or family of stocks. Matlab, Morningstar and Bloomberg are used to design and enforce these risk tools to monitor and control the risks.

Investment Risks

The risks involved for different client accounts will vary based on each client's investment strategy and the type of securities or other investments held in the client's account. An indicative list of the risks associated with investing through IDFC IA is set out below:

- (i) **Market Risk:** The value of the portfolio may increase or decrease depending upon various market forces and factors affecting the capital markets such as de-listing of securities, market closure, relatively small number of scrips accounting for large proportion of trading volume. Consequently, IDFC IA provides no assurance of any guaranteed returns on the portfolio.
- (ii) **Past Performance:** Past performances of IDFC IA does not guarantee its future performance.
- (iii) **Price Risk:** The Client stands a risk of loss due to lack of adequate external systems for pricing, accounting and safekeeping or record keeping of Securities. Price risk may arise on account of availability of share price from stock exchanges during the day and at the close of the day.
- (iv) **Management risk:** Investment decisions / advice made by IDFC IA may not always be profitable.
- (v) **Equity and Equity Related Risks:** Equity instruments carry both company specific and market risks and hence no assurance of returns can be made for these investments. While IDFC IA shall take all reasonable steps to invest the Funds in a prudent manner in such instruments, such decisions may not always prove to be profitable or correct. Consequently, the Client shall assume any loss arising from such decisions made by IDFC IA.
- (vi) **Macro-Economic risks:** Overall economic slowdown, unanticipated corporate performance, environmental or political problems, changes to monetary or fiscal policies, changes in government policies and regulations with regard to industry and exports may have direct or indirect impact on the investments, and consequently the growth of the portfolio.
- (vii) **Liquidity Risk:** Liquidity of investments in equity and equity related securities are often restricted by factors such as trading volumes, settlement periods and transfer procedures. If a

particular security does not have a market at the time of sale, then the portfolio may have to bear an impact depending on its exposure to that particular security. While securities that are listed on a stock exchange generally carry a lower liquidity risk, the ability to sell these investments is limited by overall trading volume on the stock exchange. Money market securities, while fairly liquid, lack a well developed secondary market, which may restrict the selling ability of such securities thereby resulting in a loss to the portfolio until such securities are finally sold. This risk may be higher where IDFC IA invests a large portion of the portfolio in unlisted securities. Even upon termination of the Agreement, the Client may receive illiquid securities and finding a buyer for such Securities may be difficult. Further, different segments of the Indian financial markets have different settlement periods and such periods may be extended significantly by unforeseen circumstances. Delays or other problems in settlement of transactions could result in temporary periods when the assets of the scheme are un-invested and no return is earned thereon. The inability of IDFC IA to make intended Securities purchases, due to settlement problems, could cause the portfolio to miss certain investment opportunities.

- (viii) Credit Risk: Debt securities are subject to the risk of the issuer's inability to meet the principal and interest payments on the obligations and may also be subject to the price volatility due to such factors as interest sensitivity, market perception, or the credit worthiness of the issuer and general market risk.
- (ix) Interest Rate Risk: is associated with movements in interest rates, which depend on various factors such as government borrowing, inflation, economic performance etc. The value of investments in fixed income Securities will appreciate/depreciate if the interest rates fall/rise. Fixed income investments are subject to the risk of interest rate fluctuations, which may accordingly increase or decrease the rate of return thereon. When interest rates decline, the value of a portfolio of fixed income securities can be expected to rise. Conversely, when interest rates rise, the value of a portfolio of fixed income securities can be expected to decline.
- (x) Unforeseeable Events: Acts of State, or sovereign action, acts of nature, acts of war, civil disturbance are extraneous factors which can impact the portfolio.

- (xi) **Reinvestment Risk:** This risk arises from the uncertainty in the rate at which cash flows from an investment may be reinvested. This is because the bond will pay coupons, which will have to be reinvested. The rate at which the coupons will be reinvested will depend upon prevailing market rates at the time the coupons are received.
- (xii) **Non-Diversification Risk:** This risk arises when the portfolio is not sufficiently diversified by investing in a wide variety of instruments. As mentioned herein, IDFC IA will attempt to maintain a diversified portfolio in order to minimize this risk.
- (xiii) **Mutual Fund Risk:** This risk arises from investing in units of mutual funds. Risk Factors inherent to equities and debt securities are also applicable to investments in mutual fund units. Further, mutual fund specific risk factors of each such underlying mutual fund, including performance of their underlying stocks, derivatives instruments, stock lending, off-shore investments etc., will be applicable in the case of investments in mutual fund units. In addition, events like change in Fund Manager of the mutual fund, take over, mergers and other changes in status and constitution of mutual funds, foreclosure of schemes or plans, change in government policies could affect performance of the investment in mutual fund units.
- (xiv) **Responsibility of IDFC IA:** IDFC IA is neither responsible nor liable for any losses resulting from its services.
- (xv) **No Guarantee:** Clients are not being offered any guarantee / assured returns.
- (xvi) **Embedded Expenses:** In case of investments in mutual fund units, the Client shall bear the recurring expenses of the Portfolio Management Services in addition to the expenses of the underlying Indian mutual fund schemes. Hence, the Client may receive lower pre-tax returns compared to what he may receive had he invested directly in the underlying Indian mutual fund schemes in the same proportions.

Note: *The above risks should not be considered to be an exhaustive list of the risks which investors should consider. Investors should be aware that an investment may be exposed to other risks of an exceptional nature from time to time. Accordingly, investors should be prepared to bear the risks of loss.*

Item 9. Disciplinary information

- A) Neither IDFC IA, nor any of our employees, has had any civil or criminal actions brought against them.
- B) Neither IDFC IA, nor any of our employees, has had any administrative proceedings before Securities & Exchange Board of India, Securities & Exchange Commission or any foreign regulatory authority.
- C) Neither IDFC IA, nor any of our employees, has had any proceedings before a Self-Regulatory Organization.

Item 10. Other Financial Industry Activities and Affiliations

- A) Neither IDFC IA nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B) Neither IDFC IA nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading adviser.
- C) As disclosed under Item no.4, IDFC IA is wholly owned subsidiary of IDFC AMC. Further IDFC AMC is a joint venture between IDFC Limited and Natixis Global Asset Management Asia Pte Ltd. Natixis Global Asset Management Asia Pte Ltd (NGAM Asia) is a Singapore Limited Company and a 100% indirect subsidiary of Natixis Global Asset Management (NGAM).

There are related persons of IDFC IA who are registered or file reports with SEC/FINRA under various categories. Details of relationships with related persons that may be material to IDFC IA's advisory business or its clients are stated below.

| Sr.No. | Name of the Associate | Associated with IDFC IA as* - | Type of Intermediary | SEC/FINRA No. |
|--------|--|-------------------------------|-------------------------------|---------------|
| 1 | Absolute Asia Asset Management Limited | Associate | Registered Investment Adviser | 801-67871 |
| 2 | Alphasimplex Group, LLC | Associate | Registered Investment Adviser | 801-62448 |
| 3 | Hansberger Global Investors, Inc | Associate | Investment Advisor | 801-46059 |
| 4 | IDFC Alternatives Limited (under the name – IDFC Private Equity Company Limited) | Group Company | Exempt Reporting Adviser | 802-73210 |
| 5 | IDFC Capital (USA) Inc. | Group Company | Registered Brokerage Firm | 8-68685 |
| 6 | IDFC Project Equity Company Limited | Group Company | Exempt Reporting Adviser | 802-73211 |
| 7 | Natixis Asset Management US, LLC | Associate | Investment Advisor | Pending |
| 8 | Snyder Capital Management LP | Associate | Investment Advisor | 801-54641 |

* Associates, includes an entity whose director, officer or employee is director, officer or employee of IDFC AMC/IDFC IA. Group Company includes holding company of IDFC AMC i.e. IDFC Limited, its subsidiaries and other companies where IDFC Limited holds more than 25% of paid up capital or voting rights.

IDFC IA does not presently enter into transactions with any of the above associates in the course of its providing services to its clients. However, IDFC IA may in future avail services of its associates on behalf of the clients, however the same would be on an arm's length and on purely commercial relationship.

IDFC IA is strictly governed by its conflicts of interest of policy which lays down the framework for dealing with associates and group companies. Given that associates/group companies are equipped to provide a number of services and investment products to clients of IDFC IA, subject to applicable law and corporate governance framework, would engage services of its associates and group companies.

The Adviser is an indirect affiliate of NGAM, which owns, in addition to a minority-interest in the Adviser, a number of other asset management and distribution and service entities (each, together with any advisory affiliates of the Adviser, a “related person”). As noted under Item 4A, NGAM is owned by Natixis, which is principally owned by BPCE, France's second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisse d'Epargne regional savings banks and the Banque Populaire regional

cooperative banks. There are several intermediate holding companies and general partnership entities in the ownership chain between BPCE and the Adviser. In addition, NGAM's parent companies Natixis and BPCE each own, directly or indirectly, other investment advisers and securities and financial services firms which also engage in securities transactions.

The Adviser does not presently enter into transactions with any of its related persons when acting on behalf of clients. Because the Adviser is affiliated with a number of asset management, distribution and service entities, the Adviser occasionally may engage in business activities with some of these entities, subject to the Adviser's policies and procedures governing conflicts of interest. For example, the Adviser may enter into relationships with related persons, which include advisory or sub-advisory arrangements (on a discretionary or non-discretionary basis), cross-marketing arrangements for the sale of separate accounts and privately placed pooled vehicles, research sharing relationships and personnel sharing relationships. Moreover, the Adviser may use related persons to provide certain services to clients to the extent this is permitted under applicable law and under the Adviser's applicable policies and procedures. Given that related persons are equipped to provide a number of services and investment products, clients of the Adviser may, subject to applicable law, engage a related person of the Adviser to provide any number of such services, including advisory, custodial or banking services, or may invest in the investment products provided or sponsored by a related person of the Adviser. The relationships described herein could give rise to potential conflicts of interest or otherwise may have an adverse effect on the Adviser's clients. For example, when acting in a commercial capacity, related persons of the Adviser may take commercial steps in their own interests, which may be adverse to those of the Adviser's clients.

Given the interrelationships among the Adviser and its related persons and the changing nature of the Adviser's related persons' businesses and affiliations, there may be other or different potential conflicts of interest that arise in the future or that are not covered by this discussion. Additional information regarding potential conflicts of interest arising from the Adviser's relationships and activities with its related persons is provided under Item 11.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A) Code of Ethics Summary

IDFC IA has adopted a Code of Ethics which lays down guidelines and a framework to ensure that the interests of the Adviser's clients are paramount. The code requires all employees to conduct themselves in a lawful, honest and ethical manner in their business practices and to maintain an environment that fosters, fairness, respect and integrity. The Code of Ethics requires employees to conduct themselves in such a manner as to avoid conflicts of interest or any abuse of an individual's position of trust and responsibility.

IDFC IA has adopted the Code of Ethics which it believes contains provisions necessary and adequate to prevent and guide wide range of activities by IDFC IA and other with respect to conflicts of interest and personal trading activities. IDFC IA's Code of Ethics sets out policies and a framework with respect to a range of key fiduciary topics, including the following: -

- Fair Dealings with Clients;
- Personal securities transactions of employees;
- Gifts and entertainment;
- Conflict of Interest and disclosure to Clients;
- Confidentiality & Proprietary Information;
- Political Contributions;
- Compliance with law & regulation; and
- Business Conduct.

IDFC IA's code of conduct for personal securities transactions, which is included in the Code of Ethics, requires employees to: -

- Submit opening holding at the time of joining;
- Pre-clear certain personal securities transactions;
- Report personal securities transactions within 7 days of entering into the transaction;
- Submit their holding statement annually;
- Reporting of transactions by the employees include both direct as well indirect interest (e.g., spouse, children) acquired by any means (e.g., primary, inheritance etc.)

A copy of Code of Ethics of IDFC IA will be provided to any client or prospective client upon request.

B) Potential conflicts relating to advisory activities

IDFC AMC and its subsidiary, IDFC IA are SEBI registered intermediaries and offer various investment products to investors. IDFC AMC is the asset management company of IDFC Mutual Fund and offers various schemes under the mutual fund for investment. IDFC IA is a registered portfolio manager and also investment manager for SEBI registered venture capital funds. IDFC IA offers discretionary and non-discretionary portfolio management services and also accepts investment advisory mandates.

Though IDFC AMC and IDFC IA share common office space, as required under SEBI Regulations, the back office operations, fund managers, dealers, banks & securities accounts are segregated between the Mutual Fund Operations and Portfolio Management and advisory operations with Chinese walls and division of personnel.

There may arise potential or actual conflicts of interest on account of: -

- the investment by clients in entities in which IDFC IA or its related persons have a financial interest,
- investments by the Adviser or its employees for their personal accounts.

A policy on management of conflict of interest has been set in place to manage such conflicts.

The Adviser has no obligation to provide the same investment advice or purchase or sell the same securities for each account it manages. In general, the Adviser has discretion to determine whether a particular security is an appropriate investment for each account under management, based on the account's investment objectives, investment restrictions and trading strategies.

Except if such participation is in accordance with IDFC IA's policy, applicable law, and transaction is at arms-length, IDFC IA may from time to time purchase securities in public offerings or secondary offerings on behalf of client accounts in which a related person may be a member in the underwriting syndicate.

In connection with providing investment management and advisory services to its clients, the Adviser acts independently of other affiliated investment advisers and manages the assets of each of its clients in accordance with the investment mandate selected by such clients.

Related persons of the Adviser are engaged in securities transactions. The Adviser or its related persons may invest in the same securities that the Adviser recommends for, purchases for or sells to the Adviser's clients. The Adviser and its related persons (to the extent they have independent

relationships with the client) may give advice to and take action with their own accounts or with other client accounts that may compete or conflict with the advice the Adviser may give to, or an investment action the Adviser may take on behalf of, the client or may involve different timing than with respect to the client. Since the trading activities of IDFC IA and its related persons are not coordinated, each firm may trade the same security at about the same time, on the same or opposite side of the market, thereby possibly affecting the price, amount or other terms of the trade execution, adversely affecting some or all clients. Similarly, one or more clients of the Adviser's related persons may dilute or otherwise disadvantage the price or investment strategies of another client through their own transactions in investments. The Adviser's management on behalf of its clients may benefit the Adviser or its related persons. For example, clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which the Adviser or a related person, for itself or its clients, has an economic interest, and clients, or the Adviser or a related person on behalf its client, may engage in investment transactions which could result in other clients being relieved of obligations, or which may cause other clients to divest certain investments. The results of the investment activities of a client of the Adviser may differ significantly from the results achieved by the Adviser for other current or future clients. Because certain of the Adviser's clients may be related persons, the Adviser may have incentives to resolve conflicts of interest in favor of certain clients over others (e.g., where the Adviser has an incentive to favor one account over another); however, the Adviser has established conflicts of interest policies and procedures that identify and manage such potential conflicts of interest.

Potential conflicts may be inherent in the Adviser's and its related persons' use of multiple strategies. For instance, conflicts could arise where the Adviser and its related persons invest in distinct parts of an issuer's capital structure. Moreover, one or more of the Adviser's clients may own private securities or obligations of an issuer while a client of a related person may own public securities of that same issuer. For example, the Adviser or a related person may invest in an issuer's senior debt obligations for one client and in the same issuer's junior debt obligations for another client. In certain situations, such as where the issuer is financially distressed, these interests may be adverse. The Adviser or a related person may also cause a client to purchase from, or sell assets to, an entity in which other clients may have an interest, potentially in a manner that will adversely affect such other clients. In other cases, the Adviser on behalf of its clients may receive material non-public information ("MNPI") on behalf of some of its clients, which may prevent the Adviser from buying

or selling securities on behalf of other of its clients even when it would be beneficial to do so. Conversely, the Adviser may refrain from receiving MNPI on behalf of clients, even when such receipt would benefit those clients, to prevent the Adviser from being restricted from trading on behalf of its other clients. In all of these situations, the Adviser or its related persons, on behalf of itself or its clients, may take actions that are adverse to some or all of the Adviser's clients. The Adviser will seek to resolve conflicts of interest described herein on a case-by-case basis, taking into consideration the interests of the relevant clients, the circumstances that gave rise to the conflict and applicable laws. There can be no assurance that conflicts of interest will be resolved in favor of a particular client's interests. Moreover, the Adviser typically will not have the ability to influence the actions of its related persons

In addition, certain related persons of the Adviser may engage in banking or other financial services, and in the course of conducting such business, such persons may take actions that adversely affect the Adviser's clients. For example, a related person engaged in lending may foreclose on an issuer or security in which the Adviser's clients have an interest. As noted above, the Adviser typically will not have the ability to influence the actions of its related persons.

The Adviser from time to time purchases securities in public offerings or secondary offerings on behalf of client accounts in which a related person may be a member in the underwriting syndicate. Such participation is in accordance with IDFC IA's policies and applicable law, which requires that any transaction with related persons should be at prevailing market prices and at an arm's length basis. IDFC IA is required to ensure that the transactions are in the best interest of the clients and it meets their stated objective and is supported by appropriate research recommendations and rationales duly recorded.

Item 12. Brokerage Practices

1) Research and other Soft dollar benefits

IDFC IA under its Advisory services does not have any discretion over selection of any Broker for execution of transaction by Clients.

Under its Discretionary Portfolio Management Services, where IDFC IA provides trade execution services to its Clients, it does not use client brokerage commissions to obtain any other products or services. IDFC IA has its own in-house research tools and capabilities to carry out research and

recommend and execute trade orders on behalf of the client and does not use soft dollar arrangements with the Broker, other than receiving Research Report which is circulated by the Broker as usual business.

IDFC IA under its Portfolio Management Services, for providing execution services has complete discretion over the selection of the Broker.

IDFC IA has in place a “Broker Empanelment Policy” which is followed at the time of empanelment of any Broker. In addition to price, various factors are verified to ensure that only such Broker which meets the criteria are on boarded for executing transactions for the clients. Such factors inter alia include: -

- execution capabilities
- research capabilities
- capital strength of the firm
- timeliness and quality of reports on markets
- ability to handle certain trading styles or strategies
- knowledge of and access to potential market participants
- trade aggregation and arbitrage capabilities
- experience/past execution history
- general reputation of the Firm
- services provided by the broker.

IDFC IA maintains a list of authorized brokers that meets the Broker Empanelment Criteria laid down by the Board of IDFC IA. Further, on an annual basis, a review is conducted on the empanelled brokers to ensure that the Brokers continue to meet the requirements laid down by the Board of Directors.

Any deals executed for the Client are reviewed as per the framework laid down by the “Best Execution Policy” adopted by IDFC IA. IDFC IA will seek to execute Client trades at the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned. It is to be noted that to achieve best execution does not mean paying the lowest possible commission fee, but rather, a trade is executed based on principles of best execution taking into consideration the client’s investment objective and constraints as well as other aspects

of execution including, but not limited to, the broker's execution capability, speed of execution, commission rate, financial responsibility, and responsiveness to IDFC IA.

A post execution review is carried out IDFC IA by comparing the trade price against the day's average prices of the security. If the difference in the recommended / trade price with the weighted average price is more/less than 5% of the weighted average price, then such exceptions are reported to the Dealer for review and justification.

2) Brokerage for Client Referrals

IDFC IA does not receive brokerage/commission from broker-dealer for referring clients to such broker-dealer.

3) Directed Brokerage

IDFC IA does not practice nor conduct direct brokerage for clients under its Portfolio Management Services and Advisory Services.

Under its Advisory Services, IDFC IA does not execute any transactions on behalf of the Client.

However, under its Discretionary Portfolio Management Services offered, IDFC IA where execution services are provided to the Client, for cost effectiveness, IDFC IA may aggregate securities purchase or sales orders for various client accounts under the same portfolio. IDFC IA has adopted an "Aggregation and Allocation Policy" which shall be followed to ensure that any aggregation of trade is carried out within the framework adopted under the said policy.

From time to time, IDFC IA invests on behalf of clients in Initial Public Offerings ("IPOs"). Accounts will participate based on their risk profiles, strategies and guidelines that make these securities suitable investments for these particular accounts. The purchase of IPOs may be aggregated for the same portfolio as per the "Aggregation and Allocation Policy".

Item 13. Review of Accounts

The Adviser manages investment portfolios for each of its clients. Such review may be made with respect to the Adviser's clients' investment objectives and policies, limitations on the types of instruments in which each of its clients may invest and concentration of investments in particular industries or types of issues. There is no general rule regarding the number of accounts assigned to a portfolio manager.

The frequency, depth, and nature of reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written investment management agreement or by the mandate selected by the client and the particular needs of each client. Written reports of portfolio breakdown, transactions and performance are provided to clients as per frequency agreed between IDFC IA and its clients. Such reports are made available to the client through a portal which is accessible by the Client on 24*7 basis. Further, additional trade reports may be available upon request.

Item 14. Client Referrals and other Compensation

IDFC IA and/or its related person may enter into referral fee arrangements to compensate affiliated/non-affiliated third parties for referring or otherwise recommending its investment adviser services to potential clients. Such referral fees / compensation may inter alia include in addition to the specified percentage of advisory fees, fixed fees, reimbursement of other expenses that the other party may incur while providing service to IDFC IA.

Any such arrangements will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended.

Item 15. Custody

IDFC IA under its Advisory Services does not provide any custodial services. Assets of the Advisory clients shall be held by a qualified custodian which will provide statement of holding of securities and funds held on behalf of the clients on periodic basis. Clients should review and reconcile the securities and fund balances on receipt of statement from the Custodian.

Under its Portfolio Management Services, IDFC IA provides Custodial Services to the Client. An online system is provided to the Clients, where full repository of their account can be viewed online on 24*7 basis. On an annual basis the Depository Participant may send an account statement of the securities held by the Client.

The Client is urged to compare the holding forwarded by Depository Participant and provided by IDFC IA.

Item 16. Investment Discretion

IDFC IA accepts and conducts discretionary Portfolio Management and advisory services for its clients. Prior to managing client's account, client is required to sign a Discretionary Investment

Management Agreement or Advisory Agreement, as the case maybe. The Agreement covers areas like operations, investments, compliance requirements and restrictions as well as any other arrangements that the clients and IDFC IA may agree upon.

Item 17. Voting Client Securities

IDFC IA has a Proxy Voting Policy and in accordance with its policies will advise the clients to vote against matters which are detrimental to the interest of investors. Under such circumstances Clients can exercise their vote by assigning Proxy to the Portfolio Manager or its designated custodian.

Item 18. Financial Information

- A) IDFC IA does not require or solicit prepayment of advisory fees by its clients;
- B) IDFC IA does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.
- C) IDFC IA has not been subject of a bankruptcy petition at any time during the past ten years.

USD conversion rate of 60.10 INR has been considered for statistics given in this document.

Source: Website of Reserve Bank of India – www.rbi.org.in, dated March 28, 2014