



HDFC Equity Opportunities Fund (Series 2)

An Equity Investment with Portfolio Hedge#

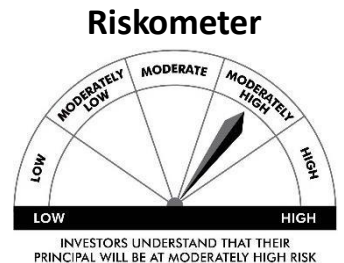
HDFC EOF - II - 1100D June 2017 (1)
(A Close Ended Equity Scheme)

Refer slide no 9
For complete details on investment strategy please refer to SID/KIM

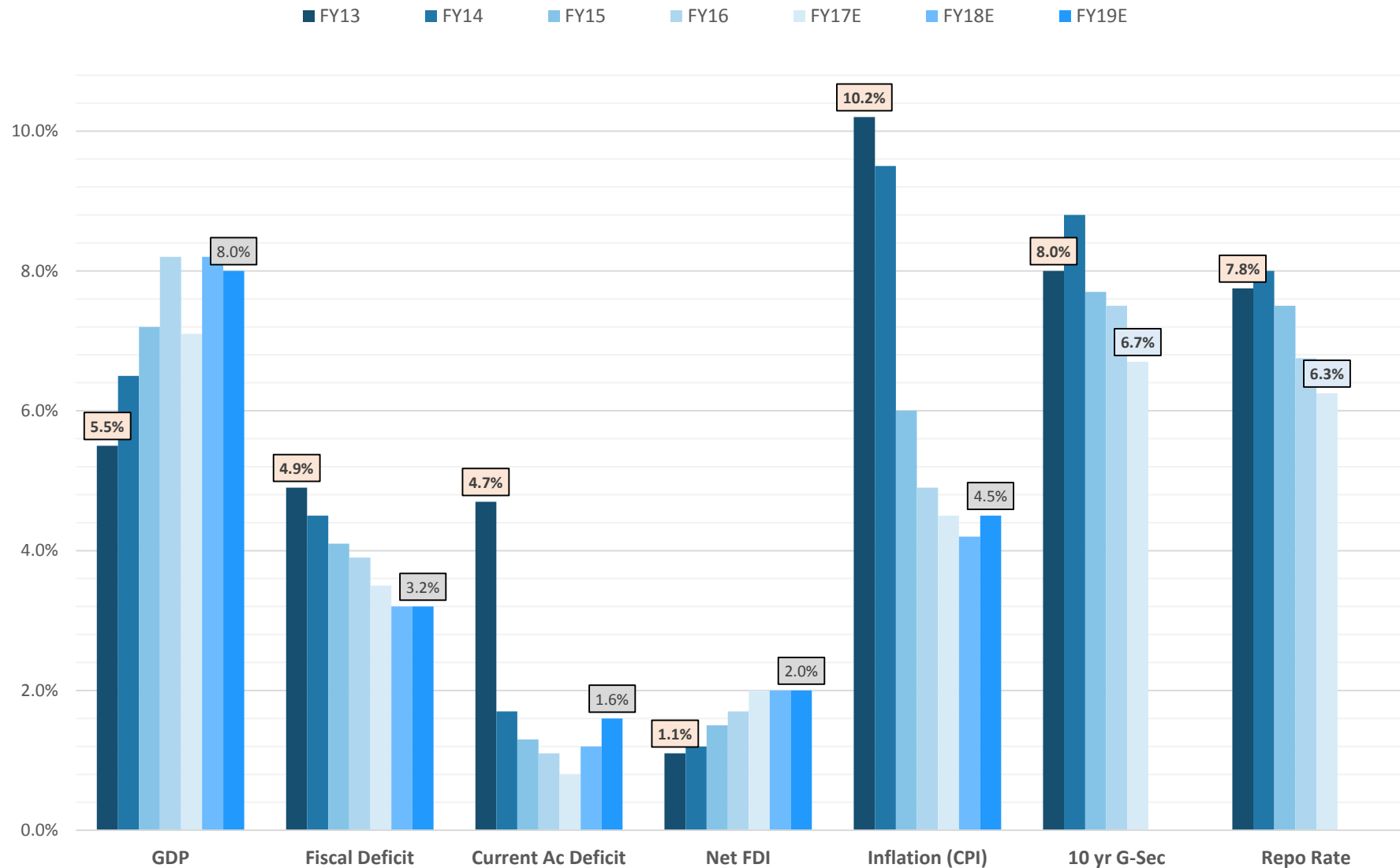
This product is suitable for investors who are seeking*:

- Capital appreciation over 1100 days (tenure of the Plan)
- Investment predominantly in equity and equity related instruments across market capitalization.

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



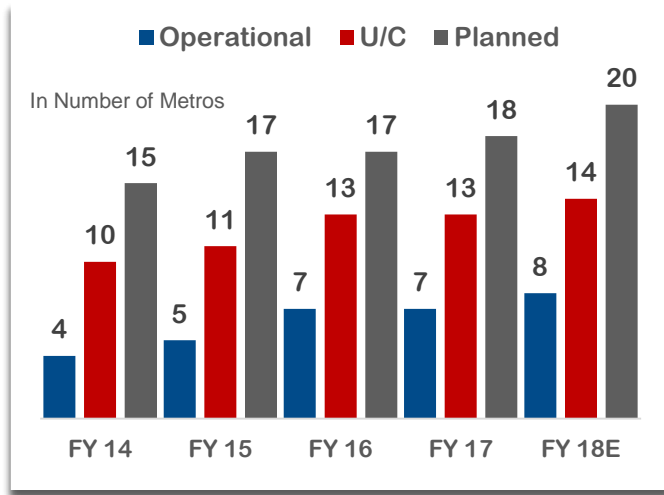
India's Economic Transformation



Source: CEIC, CSO, RBI, Morgan Stanley Research.

India- Strong Economic Recovery and Outlook

Metros



Central Govt allocation up 141% from FY14 to FY17. ~Rs 3 lac cr in planning stage

Housing demand to spur demand for cement, steel and revival of private capex

Housing

Govt plans to spend Rs 3.5 lakh cr to build 3 cr houses in rural areas

PMAY approved 17.7 lac affordable houses last 2 yrs (Rs 96k cr) as against 13.3 lakh in previous 10 yrs (Rs 33k Cr)

SMART & AMRUT to improve urban infra - total central outlay of Rs 1 lac Cr

Tax incentives and attractive interest subsidies for affordable housing

Ports & Airports

Sagarmala- 400 projects amounting to Rs 8 lac cr

Greenfield airports- Setting up 18 greenfield airports – Rs 30,000 cr

UDAN- Connect 70 airports over 3 years - Capex of Rs 4,500 cr

Development of Ports/Airports to lower logistic costs & improve economic activity

Defence shifting to domestic manufacturing – surge in spending as backlog clears

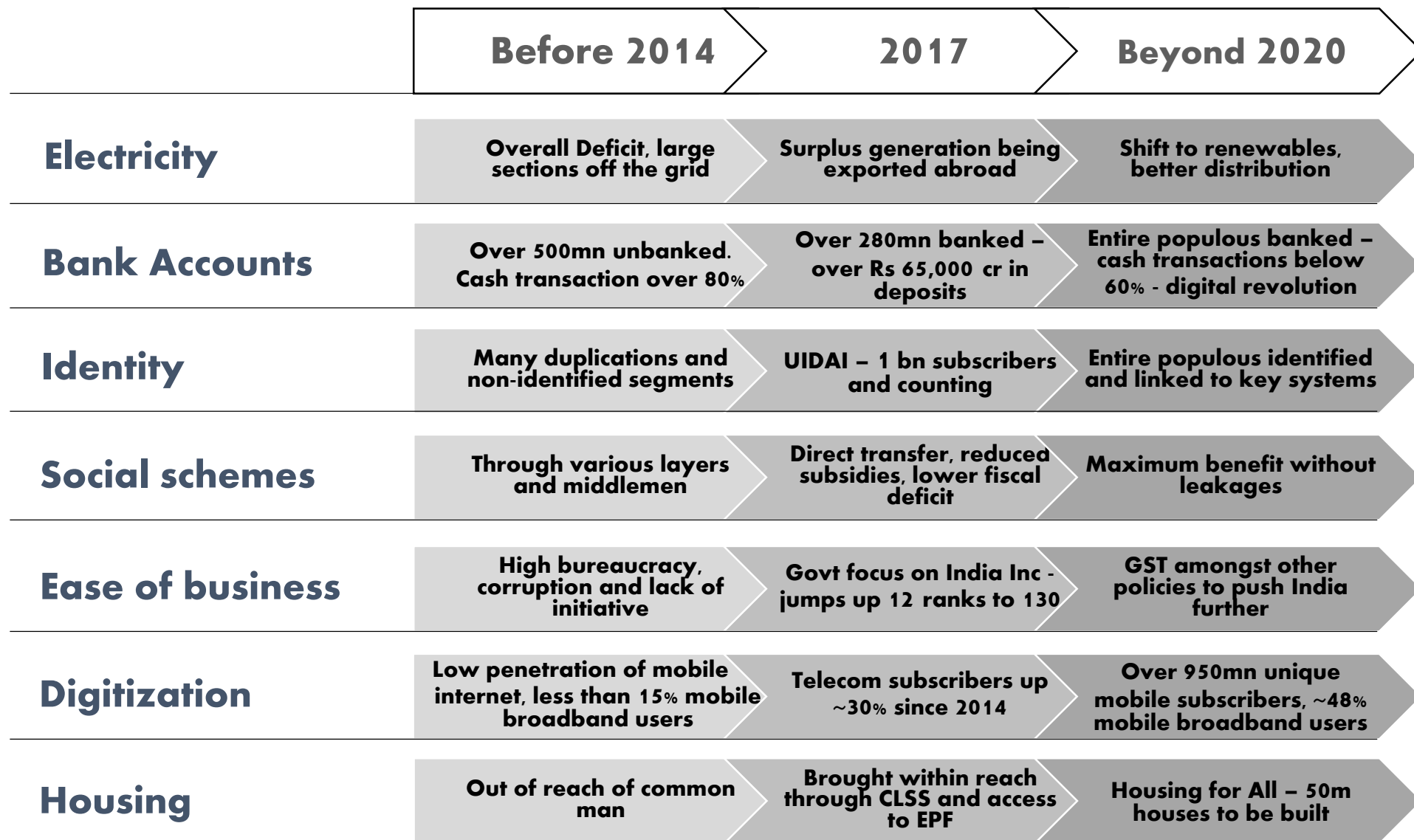
Defence

Policy push: Several changes in DPP to promote sharing of technology/designs with domestic vendors & manufacturers

DAC (Defence acqn. council) cleared a record Rs 3.4 tn worth of projects in last 3 yrs

Hike in FDI limit to 49% to encourage overseas defence companies

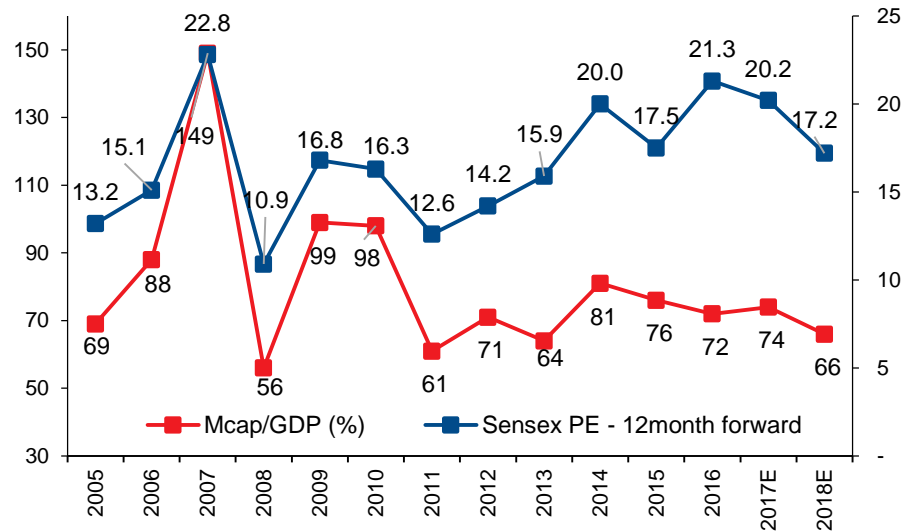
India - Vision 2020



Valuations – are they expensive?

In our opinion, P/E is the not the best measure when earnings are at extremes. It is more prudent to focus on Market Cap to GDP ratio.

India market cap to GDP ratio near 10 year lows

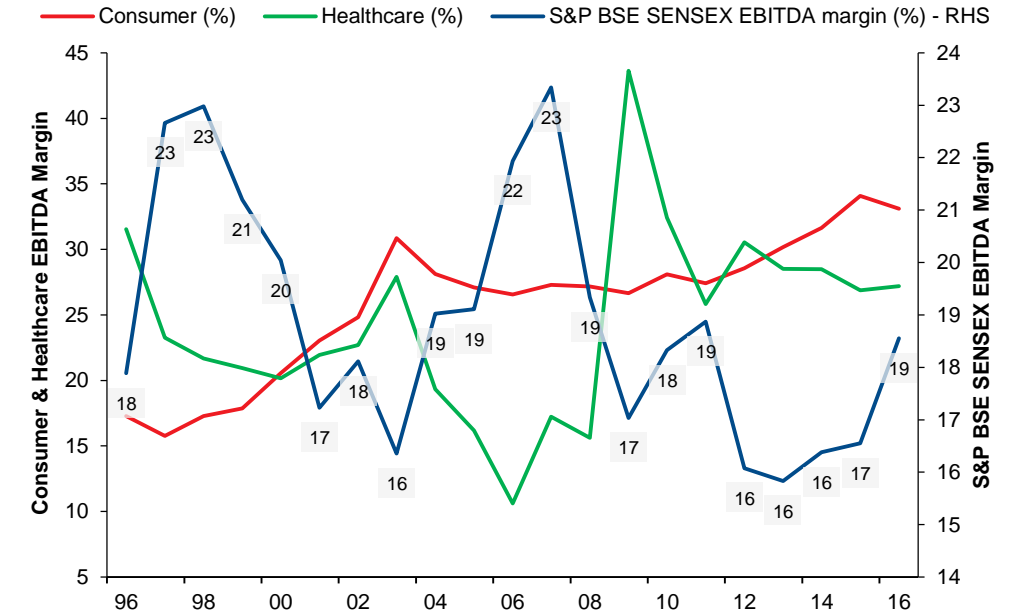


Source: World Bank, Kotak Institutional Equities, updated till 31st May, 2017 At Current Prices

Note:

- a) From 2005-16, S&P BSE SENSEX PE is based on 12 month forward estimated EPS
- b) For 2017 and 2018, we have calculated S&P BSE SENSEX PE based on estimates as of Mar 17 and Mar 18 and used market cap as of Mar 31,2017

Improving EBITDA margins



Source: BofAML

- S&P BSE SENSEX EBITDA margins are stable/improving

| S&P BSE SENSEX | 1QFY15 | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA Margin (%) | 17.4% | 17.0% | 17.0% | 16.8% | 18.2% | 18.0% | 18.3% | 18.7% | 18.3% | 18.1% | 17.8% |

Source: BofAML

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

Source: HDFC AMC.

Markets entering a new cycle?

| | | CY 1995 - 2000 | CY 2001 - 2007 | CY 2007 - 2015 | CY 2016 |
|--------------------------------------|--------------------------|----------------|------------------------------------|----------------------|---------------------------------------|
| Leading Sectors | | IT stocks | Capex/Banking/ Commodities/Auto | Pharma/FMCG/ Auto | Next cycle – Infra/Banking/Capex? |
| Return in number of (x) times | | | | | |
| S&P BSE SENSEX (x) times | | 1.3 | 5.1 | 1.3 | |
| Sector | Stocks* | (x) times | (x) times | (x) times | |
| Automobile | Tata Motors, Maruti, M&M | 0.3 - 0.7 | 8 – 12 | 3 – 5 | ✓ Low inflation |
| FMCG | HUL, ITC | 2 – 4 | 1 – 4 | 3 – 4 | ✓ Benign interest rates |
| IT | Infosys, TCS, Wipro | 96 – 97 | 1 – 3 | 2 – 5 | |
| Pharma | Sun Pharma, Lupin | 0.2 – 6 | 6 – 10 | 7 – 15 | ✓ Rising Capex |
| Retail Banks & Finance | HDFC Bank, HDFC | 2 | 8 – 11 | 2 – 3 | |
| Cement | Ambuja Cement, Grasim | 0.4 – 1 | 6 – 13 | 1.3 – 1.4 | |
| Corporate Banks & Finance | SBI, ICICI | 0.9 | 8 – 12 | 1.0 – 1.1 | ✓ Peaking NPAs |
| Refineries/Oil Exploration | Reliance Ind, ONGC | 2 | 15 – 17 | 0.7 – 0.8 | |
| Capital Goods | BHEL, L&T | 0.8 - 0.9 | 28 – 32 | 0.3 – 0.9 | ✓ Moderating Pharma/FMCG growth |
| Utilities | NTPC, Powergrid | NA | NA | 0.3 – 1.0 | |
| Metals | Tata Steel, Hindalco | 0.5 - 1.0 | 3 – 12 | 0.3 – 0.4 | |
| Realty | DLF | NA | NA | 0.1 | |
| Telecom | Bharti | NA | NA | 0.1 – 0.7 | |

*Above stocks cover more than 80% of market cap of S&P BSE SENSEX as on Mar 31, 2017

Source: Bloomberg, HDFC AMC Research. Stocks/Sectors referred above are illustrative and not recommended by HDFC AMC. Scheme(s) managed by HDFC AMC may or may not have any present or future positions in these Stocks/Sectors. The analysis above should not be construed as a research report or a recommendation to buy or sell any security covered under the respective sector/s. The analysis has been prepared on the basis of information which is already available in publicly accessible media. The information/ views/opinions provided are for informative purpose only and the recipient should note and understand that the information provided above may not contain all the material aspects relevant for making an investment decision. Past performance of any portfolio may or may not be sustained in future.

Global icons - views on India

Tim Cook, CEO, Apple

- **"We're very optimistic about our future in this remarkable country with its very large, young, and tech-savvy population, fast-growing economy, and improving 4G network infrastructure"**
- **"They're moving at a speed that I have not seen in any other country in the world once they were started, and it is truly impressive"**

Bill Gates, Microsoft founder

- **"I try to visit India at least once a year. I'm inspired by something new every time"**
- **"I can't think of another time when a national leader has broached such a sensitive topic so frankly and so publicly." (on Clean India)**

Thomas Sweet, CFO, Dell

- **"For the first time in a long time, it's great to see the alignment of government policies and investment in infrastructure. It is coupled with a strong GDP. "**
- **"Past few years have been challenging for some emerging markets like Brazil and Russia. India has been one of the bright spots in emerging economies, particularly now "**

Mark Zuckerberg, CEO, Facebook

- **"When the benefits of technology are shared across the whole society, that is when we can make the big leap. Because India has embraced science, the next generation has the opportunity to bring the world to India and India to the world"**

Jeffrey Immelt, Chairman and CEO, GE

- **"If the government ever matches the entrepreneurial class in India, there is no stopping this country. I have seen more general progress on macro today than I can remember seeing in days gone by"**

Overview of HDFC Equity Opportunities Fund Series 2

(A Close Ended Equity Scheme)

Investment Strategy

A Focused portfolio

Combined with a strategy to **limit downside** by purchasing 'at-the-money' (ATM) ~3 year long dated NIFTY 50 **Put Options** with a strike around current levels

Investment Theme

Corporate Banks

- **Bottoming out of NPA cycle**
- **Process of NPA resolution**
- **Passage of Bankruptcy code, sale of corporate assets**

Recovery in Capex cycle

- **Govt focus on Roads, Railways, Defence, Renewable energy and Affordable Housing**
- **Power transmission & Distribution**
- **Cyclical recovery in Metals**

Unorganized to Organized

- **Implementation of GST and growth in digitization**
- **Streamlining of Corporate tax and compliance cost for unorganized sector**

For complete details of Investment Strategy refer SID/KIM

Disclaimer : HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in the Scheme and/or should not be construed as an advice for investing in the above sectors
Benchmark of the scheme is NIFTY 500

How Does Put Option Work?

Understanding Put Option

- A put option is an option contract giving the buyer the right, but not the obligation, to sell a specified amount of an underlying security at a specified price (termed as Strike Price) on a specified date. A put option comes with a cost called “premium” which needs to be paid upfront.
- A put option increases in value as the price of the underlying security or index reduces as compared to the strike price. On the other hand, it loses in value as the security or index rises in value as compared to the strike price.
- The maximum loss that a buyer of a put option can incur is the option premium paid.
- A put option can be used as a hedging tool to limit downside while holding the underlying security in the cash market.

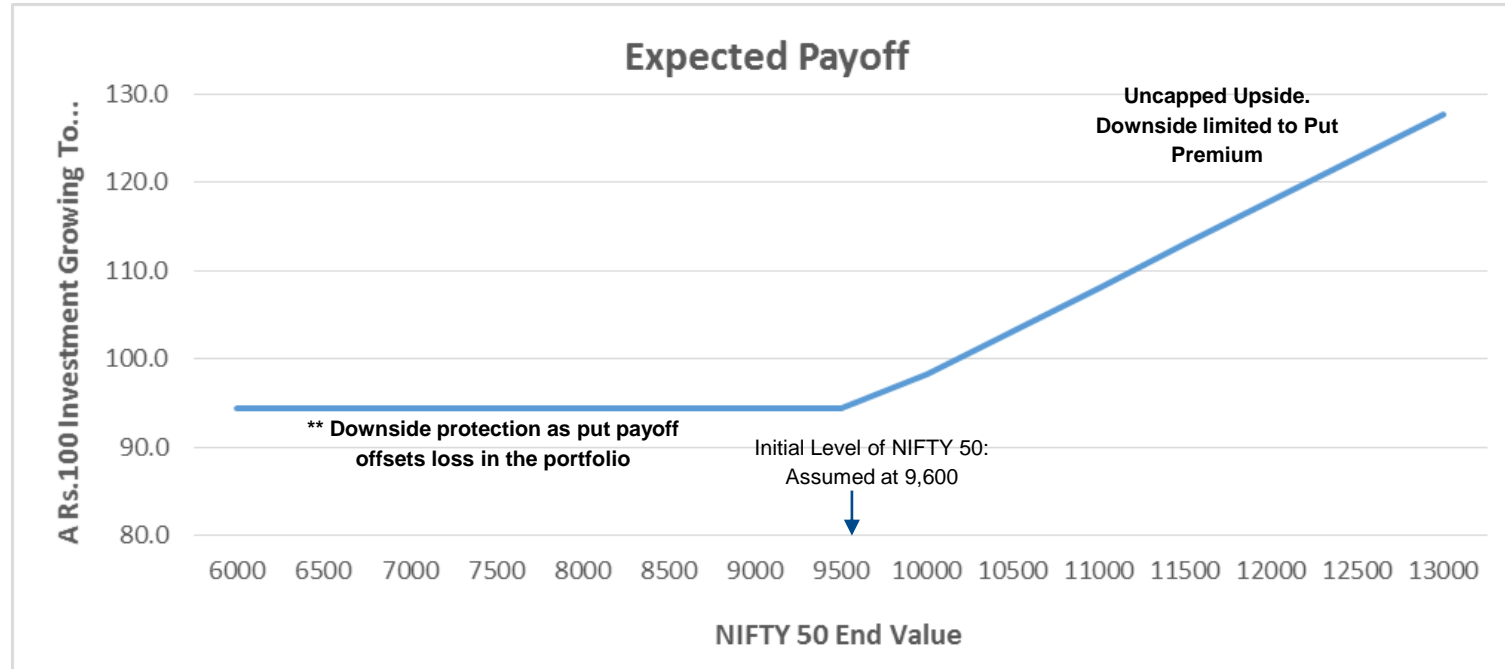
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Put Option illustration (Tabular Illustration on Next Slide)

Illustration based on the following assumptions:

Invested Amount = Rs.100, Allocation to Stocks Portfolio = Rs.92 – 95, NIFTY 50 Initial Level = 9600



****The above illustrates the payoff in multiple scenarios of index levels at maturity. For e.g., if the index falls to 7500 after 3 years (i.e. a 21.88% fall), the scheme falls only by cost of Put, assuming there is no under / out performance. The scheme thereby provides downside protection. However, in scenarios with higher index levels, the scheme delivers commensurate returns with no upside cap. Please refer to risk factors provided on slide 14.**

The above simulation does not in any manner offer any assured returns and is subject to market risks. The above simulation does not take expenses into account and that the returns shown are assumed figures and not to be constructed as actual returns and/or guaranteed returns. HDFC Mutual Fund/AMC is not guaranteeing returns on investments made in the Scheme. The information provided herein is used to explain the concept and is given for illustrative purposes only. The same is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as an investment advice to any party. Past performance may or may not be sustained in future. In view of the individual circumstances and risk profile, each investor is advised to consult his / her professional advisor before making a decision to invest in the scheme.

Put Option illustration

Illustration based on the following assumptions:

Invested Amount = Rs.100, Cost of Put = 6%, Allocation to Stocks Portfolio = Rs.94, NIFTY 50 Level = 9600

| NIFTY 50* Level at Maturity | NIFTY 50* Returns | Fund Return (with 0% Outperformance) | Fund Return (with 10% Outperformance) | Fund Return (with 20% Outperformance) |
|-----------------------------|-------------------|--------------------------------------|---------------------------------------|---------------------------------------|
| 6,500 | -32.29% | -5.66% | 3.77% | 13.21% |
| 7,500 | -21.88% | -5.66% | 3.77% | 13.21% |
| 8,500 | -11.46% | -5.66% | 3.77% | 13.21% |
| 9,500 | -1.04% | -5.66% | 3.77% | 13.21% |
| 10,500 | 9.38% | 3.18% | 12.62% | 22.05% |
| 11,500 | 19.79% | 13.01% | 22.44% | 31.88% |
| 12,500 | 30.21% | 22.84% | 32.27% | 41.71% |
| 13,500 | 40.63% | 32.67% | 42.10% | 51.53% |
| 14,500 | 51.04% | 42.49% | 51.93% | 61.36% |
| 15,500 | 61.46% | 52.32% | 61.75% | 71.19% |
| 16,500 | 71.88% | 62.15% | 71.58% | 81.01% |

Downside protection as put payoff offsets loss in the portfolio

Uncapped Upside. Cost of hedging downside limited to the cost of put option

The above illustrates the payoff in multiple scenarios of index levels at maturity. For e.g., if the index falls to 7500 after 3 years (i.e. a 21.88% fall), the scheme falls only by 5.66% assuming 0% outperformance. However, given an outperformance of 10% over the 3 year period, the scheme returns 3.77%. (see row corresponding to NIFTY 50 level at 7500). The scheme thereby provides downside protection.

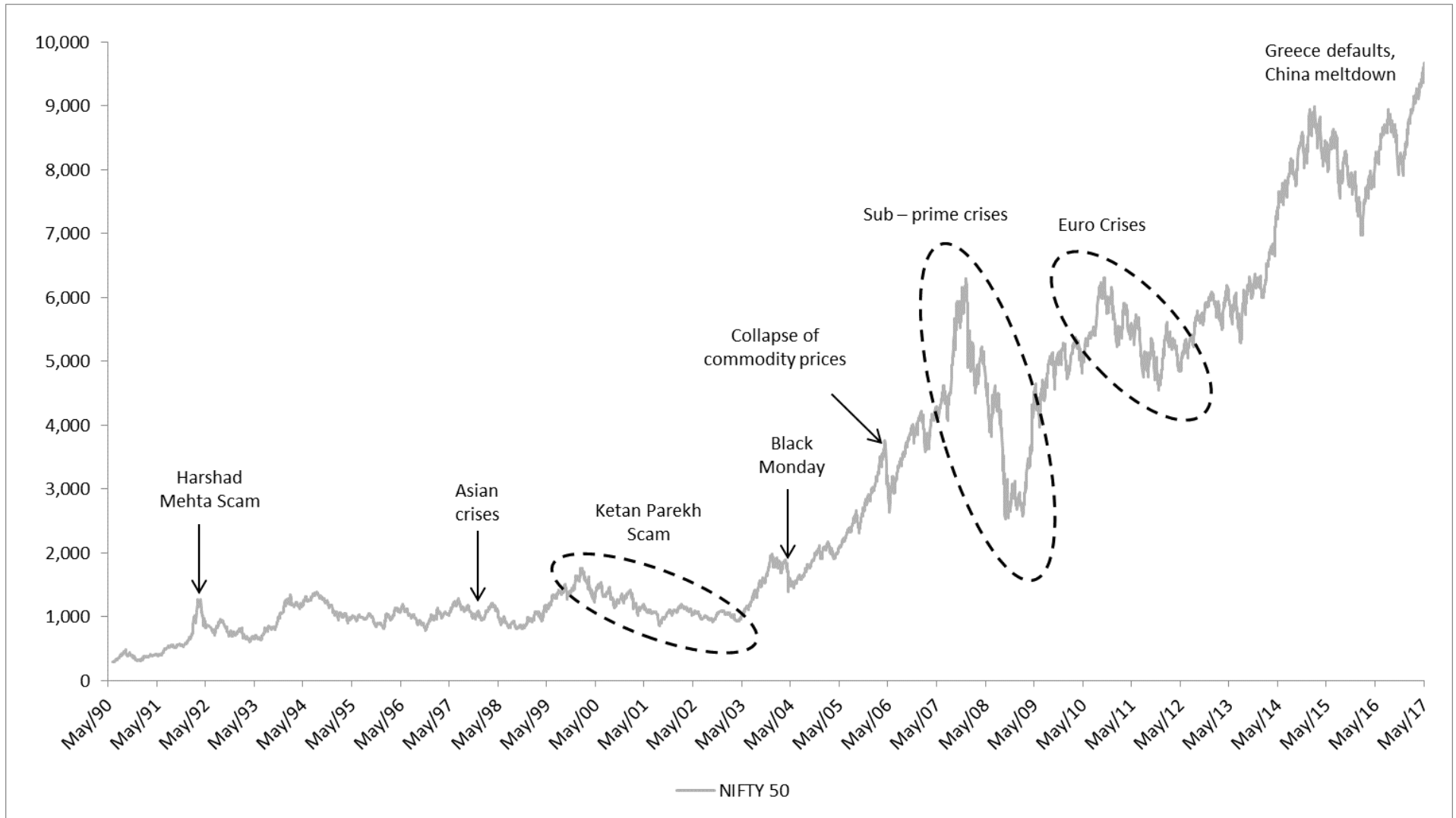
However, in scenarios with higher index levels, the scheme delivers commensurate returns with no upside cap. Please refer to risk factors provided on slide 14.

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Outperformance in this illustration refers to excess returns over the NIFTY 50 index.

Why Hedge?

Event Risks are Difficult to Forecast ...



Markets Have Seen Sharp Corrections in the Past Over Short Time Periods

Fund Suitability & Risk Factors

This fund is suitable for investors looking to:

- Participate in the Indian Equity market over the next 3 years
- Limit downside in returns over the period due to fall in the market
- Achieve overall capital appreciation by reducing downside risk

Risk factors:

- The strategy may or may not provide returns in excess of the benchmark. Downside protection is based on the movement of the index, not the scheme's stock portfolio. In the event of underperformance to the benchmark, the scheme can erode further capital to the extent of the underperformance.
- The risk/downside, if the index remains above the strike is only limited to the option premium paid. There is positive return from the put allocation only if the index falls below the strike price.
- The put option strategy will have as much loss / gain as the reverse of the underlying index. For e.g., if the index depreciates by 10%, the underlying exposure from the put rises by 10%. However, this is only true for options held till maturity.
- While options markets are typically less liquid than the underlying cash market, there can be no assurance that ready liquidity would exist at all points in time, for the Scheme to purchase or close out a specific contract.

Fund Facts

| | |
|------------------------------|---|
| Scheme Name | HDFC EOF - II - 1100D June 2017 (1) |
| Scheme Type | Closed Ended Equity Scheme |
| Investment Manager | HDFC Asset Management Company Limited |
| Product Labelling | Moderately High Risk (Refer Slide 1 of the presentation) |
| Tenure | 1100 days |
| Maturity Date | 1100 days from Date of allotment |
| NFO Period | 27 th June 2017 to 11 th July 2017 |
| Fund Manager | Mr. Srinivas Rao Ravuri |
| Investment Objective* | To achieve long term capital appreciation by investing predominantly in equity and equity-related instruments across market capitalization and sectors that will benefit from growth of the Indian economy. |
| Investment Strategy | The scheme is a diversified equity fund. The fund will look for opportunities across the India economy and within that various sectors. It will predominantly invest in 5 to 6 sectors. The scheme will invest across market capitalization and across sectors while emphasizing on absolute and relative value. The fund manager will also look at opportunities in the equity derivative segment and can invest up to 20% of the net assets of the scheme if a suitable opportunity is spotted. Furthermore the scheme when deemed appropriate may invest up to 20% in index options. |
| Exit Load | Not applicable. The Units under the Plan cannot be directly redeemed with the Fund until the Maturity date/ Final Redemption date. |
| Benchmark | NIFTY 500 |

For complete details refer SID/KIM available on the website www.hdfcfund.com or with Distributor

*There is no assurance that the investment objective of the Scheme will be realized.

Asset Allocation Pattern

Under normal circumstances, the asset allocation of the scheme's portfolio will be as follows:

| Type of Instruments | Normal Allocation (% of Net Assets) | Risk Profile of the Instrument |
|---|-------------------------------------|--------------------------------|
| Equity and Equity related instruments including derivatives | 80-100 | High |
| Debt & Money Market Instruments* | 0-20 | Low to Medium |

*Investment in Securitised debt, if undertaken, would not exceed 20% of the net assets of the Scheme.

The maximum equity derivative position will be restricted to 50% of the equity component of the Plan under the Scheme. The entire equity derivative exposure of the Plan (either in futures/options) shall not be in a single scrip/stock only. The total exposure related to option premium paid shall not exceed 20% of the net assets of the Plan.

For complete details refer SID/KIM available on the website www.hdfcfund.com or with Distributor

Glossary of terms

| Govt. initiatives | Description |
|--------------------|---|
| PMJDY | Pradhan Mantri Jan Dhan Yojana (PMJDY) is a nationwide scheme launched in August 2014 in which financial inclusion of every individual who does not have a bank account is to be achieved. |
| Niti Aayog | National Institution for Transforming India (NITI Aayog) is premier policy think tank of Union Government. It has had replaced erstwhile six decade old Planning Commission. |
| SMART City Mission | Initiative to promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of 'Smart' Solutions. |
| AMRUT | An urban development initiative - Atal Mission for Rejuvenation and Urban Transformation (AMRUT) |
| PMAY | Pradhan Mantri Awaas Yojana was launched in June 2015 with an aim to provide affordable housing to urban poor. |
| UDAY | Ujwal DISCOM Assurance Yojna (UDAY) has been launched by Union Ministry of Power for financial restructuring of debt of power distribution companies. It aims for financial revival and turnaround of Power Distribution companies (DISCOMs) and also ensures a sustainable permanent solution to the problem. |
| UJALA | Unnat Jyoti by Affordable LEDs for All - UJALA programme which is a domestic Efficient Lighting Programme. The main objective is to promote efficient lighting, enhance awareness on using efficient equipment which reduce electricity bills and help preserve environment. |
| S4A | RBI, after due consultation with lenders, had formulated 'Scheme for Sustainable Structuring of Stressed Assets' (S4A) as an optional framework for the resolution of large stressed accounts. |
| GST | The Goods & Services Tax (GST) is a single tax on the supply of goods and services, right from the manufacturer to the consumer. It is due to be implemented in 2017. |
| RERA | The Real Estate (Regulation and Development) Act, 2016 is an Act of the Parliament of India which seeks to protect home-buyers as well as help boost investments in the real estate industry. |
| CLSS MIG | Credit linked Interest subsidy scheme for Middle Income Group households – in pursuant to the Housing for All by 2022 mission |
| UDAN | Civil Aviation Minister has announced about UDAN scheme in which any traveller can book a seat at low costs. |
| DPP | Introduction of a new procurement category in Defence Procurement Procedure: 'Buy (Indian Designed, Developed and Manufactured)', or Buy (IDDM). |
| EPF | The Employees' Provident Fund (EPF) is a corpus of funds built through regular, monthly, contributions made by an employee and his/her employer. |
| UIDAI | The Unique Identification Authority of India (UIDAI) is a statutory authority established under the provisions of the Aadhaar(Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 on 12 July 2016 by the Government of India, under the Ministry of Electronics and Information Technology . |
| NPA | A Non-Performing asset (NPA) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. |
| DBT | With the aim of reforming Government delivery system by re-engineering the existing process in welfare schemes for simpler and faster flow of information/funds and to ensure accurate targeting of the beneficiaries, de-duplication and reduction of fraud Direct Benefit Transfer (DBT) was started on 1st January, 2013. |
| CAD | Current account deficit(CAD) is a measurement of a country's trade where the value of the goods and services it imports exceeds the value of the goods and services it exports |
| FDI | A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. |

Disclaimer

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Thank You

