ICICI PRUDENTIAL MUTUAL FUND
TARAKKI KAREIN!

ICICI Prudential Asset Management Company Limited
Corporate Identity Number: U99999DL1993PLC054135

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Addendum to Notice nos. 017/04/2018 and 018/04/2018 dated April 17, 2018

Investors are requested to refer to our notice no. 017/04/2018 dated April 17, 2018 regarding change in fundamental attributes of select schemes of ICICI Prudential Mutual Fund (the Fund) and notice no. 018/04/2018 dated April 17, 2018 regarding merger of ICICI Prudential Dynamic Bond Fund with ICICI Prudential Banking & PSU Debt Fund, wherein risks associated with investing in derivatives was disclosed. In this regard, investors are requested to note that the following provisions shall be included under the heading "**Risks associated with investing in Derivatives**":

Debt Derivatives

The Scheme may use derivatives instruments like Interest Rate Swaps, Forward Rate Agreements or such other derivative instruments as may be introduced from time to time for the purpose of hedging and portfolio balancing and as may be permitted under the Regulations and guidelines.

Interest rate swap is a strategy in which one party exchanges a stream of interest for another party's stream. Interest rate swaps are normally 'fixed against floating', but can also be 'fixed against fixed' or 'floating against floating' rate swaps. Interest rate swaps will be used to take advantage of interest-rate fluctuations, by swapping fixed-rate obligations for floating rate obligations, or swapping floating rate obligations to fixed-rate obligations.

i) Interest Rate Swaps and Forward rate Agreements

Benefits

Bond markets in India are not very liquid. Investors run the risk of illiquidity in such markets. Investing for short-term periods for liquidity purposes has its own risks. Investors can benefit if the Fund remains in call market for the liquidity and at the same time take advantage of fixed rate by entering into a swap. It adds certainty to the returns without sacrificing liquidity.

Illustration

The following are illustrations how derivatives work:

Basic Structure of an Interest Rate Swap

Counter Party 1 —Floating Interest Rate→ **Counter Party 2**

Counter Party 1 ←Fixed Interest Rate— **Counter Party 2**

In the above illustration,

Basic Details : Fixed to floating swap

Notional Amount : ₹ 5 Crores

Benchmark : NSE MIBOR

Deal Tenor : 3 months (say 91 days)

Documentation : International Securities Dealers Association (ISDA).

Let us assume the fixed rate decided was 10%.

At the end of three months, the following exchange will take place:

Counter party 1 pays : compounded call rate for three months, say 9.90%

Counter party 2 pays fixed rate: 10%

In practice, however, the difference of the two amounts is settled. Counter party 2 will pay:

₹ 5 Crores *0.10%* 91/365 = ₹ 12,465.75

Thus the trade off for the Fund will be the difference in call rate and the fixed rate payment and this can vary with the call rates in the market. Please note that the above example is given for illustration purposes only and the actual returns may vary depending on the terms of swap and market conditions.

ii) Interest Rate Futures (IRF):

IRF means a standardized interest rate derivative contract traded on a recognized stock exchange to buy or sell a notional security or any other interest bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract.

Hedging using interest rate futures could be perfect or imperfect, subject to applicable regulations.

Currently, exchange traded Interest Rate Futures traded on exchange are standardized contracts based on 10-Year Government of India Security and 91 day Treasury bill. IRF contracts are cash settled.

IRFs give an opportunity in the fixed income market to hedge interest rate risk or rebalance the portfolio by using them. By locking into a price, the IRF contract can help to eliminate the interest rate risk. Thus, in order to protect against a fall in the value of the portfolio due to falling bond prices, one can take short position in IRF contracts.

Example:

Date: April 01, 2018

Spot price of the Government Security: ₹108.83

Price of IRF - April contract: ₹ 108.90

On April 01, 2018, Fund buys 1000 units of the Government security from the spot market at ₹ 108.83. Subsequently, it is anticipated that the interest rate will rise in the near future. Therefore to hedge the exposure in underlying Government security, Fund sells April 2018 Interest Rate Futures contracts at ₹ 108.90.

On April 15, 2018 due to increase in interest rate:

Spot price of the Government Security: ₹ 107.24

Futures Price of IRF Contract: ₹107.30

Loss in underlying market will be (107.24 - 108.83)*1000 = (₹ 1,590)

Profit in the Futures market will be (107.30 -108.90)*1000 = ₹ 1,600

Please note that the above examples are given for illustration purposes only. Some assumptions have been made for the sake of simplicity. Actual results may vary depending on market conditions and various other factors.

This Notice-cum-addendum forms an integral part of the SIDs/KIMs/addenda of respective Schemes. All the other terms and conditions of the aforesaid documents read with the addenda issued from time to time will remain unchanged.

Investors are requested to take note of the above.

For ICICI Prudential Asset Management Company Limited

Place: Mumbai
Sd/-
Date : April 27, 2018
Authorised Signatory

No. 034/04/2018