CPSE ETF - FFO 6 Note

Name of the Scheme	CPSE (Central Public Sector Enterprises) ETF
Fund Manager	Vishal Jain
NFO Period	30th January 2020 to 30th January 2020 (For Anchor Investors) 31st January 2020 to 31st January 2020 (For Non Anchor Investors)
Entry & Exit Load	Nil
Type of Fund	An open ended scheme investing in Nifty CPSE Index
Expense Ratio	0.0095% of daily net assets p.a.
Face Value	Rs. 10
Pricing	1/100th of Nifty CPSE Index
Discount Offered by GOI	Discount of 3.0% on the "FFO 6 Reference Market Price" to the underlying Nifty CPSE Index shares
Minimum Application (during FFO 6)	*Retail Individual Investors: Rs. 5,000 and in multiples of Rs. 1 thereafter ^Non-institutional Investors: Rs 200,001 and in multiples of Rs. 1 thereafter For Anchor Investors: Rs 10 crores and in multiple of Rs. 1 thereafter
Minimum Application (during ongoing offer period)	Directly with the Mutual Fund: in multiples of creation unit size of 1 lac units On the Exchange: 1 Unit and in multiples thereof
Trading lot	1 unit and in multiples thereof in demat form on NSE/BSE
Listing	FFO 6 units will be listed on NSE and BSE on or before February 13th 2020
Benchmark	Nifty CPSE TRI
Riskometer	High
Plans	Growth
Maximum amount to be raised during FFO 6	Minimum amount of Rs.100 crores. Initial Amount" of Rs.10,000 crores plus an "Additional Amount" (if any)
Suitable for investors	Seeking Long-term capital appreciation by Investment in Securities covered by the Nifty CPSE Index

* Retail Individual Investors - Individual Investors (including HUFs applying through their Karta's and NRIs) applied for FFO 6 units for an amount not exceeding Rs. 2 lakhs.

^ Non-institutional Investors - All investors who are not Qualified Institutional Buyers applied for FFO 6 units for an amount more than Rs. 2 lakhs.

CPSE ETF - Background

- The Central Public Sector Enterprises (CPSE) Exchange Traded Fund (ETF) was launched as a route for divestment of part of the government's stake in certain CPSEs. The ETF route was an innovation against the conventional method of sale of shares to investors, i.e., either the IPO route or the Offer for Sale (OFS) route.

- CPSE ETF New Fund Offer (NFO) was launched in March 2014 and the government has so far sold stake in the companies in the basket in five tranches, thereby raising Rs 50,000 crore -- Rs 3,000 crore from the first tranche in March 2014, Rs 6,000 crore in January 2017, Rs 2,500 crore from the third in March 2017, Rs 17,000 crore in November 2018, Rs 10,000 crore in March 2019 and Rs 11,500 crore in July 2019.

- Continuing its divestment programme, the GoI has announced Further Fund Offer 6 (FFO6). It proposes to raise initial amount of Rs 10,000 crore having a green-shoe option as well to retain additional subscription. The AMC, on the instruction of the GoI, shall notify the "Additional Amount" (if any) to the investors vide public notification/addendum post closure of Non-Anchor Investor FFO 6 Period.

- Units will be allotted at Face Value Rs 10/- per unit + a premium, if any, approximately equal to the difference between the face value and the FFO Allotment Price. The FFO Allotment Price would be approximately equal to 1/100th of Nifty CPSE Index and would be calculated post adjusting discount offered by GOI to FFO of the Scheme for buying the underlying Nifty CPSE Index shares out of the FFO Proceeds.

- Discount of 3.0% will be offered by the GOI on the "FFO reference market price" of the underlying Nifty CPSE Index Shares. FFO Reference Market Price would be determined based on the average of the full day volume weighted average price (VWAP) for each of the constituents of the Nifty CPSE Index on the NSE during the Non Anchor Investor FFO Period.

- Proposed Category wise Allocation:
  - ✓ 30% to Anchor Investors and balance 70% (plus Anchor Investor undersubscribed portion) to Retail Individual Investors and QIB (Retirement funds)

✓ Residual portion (if any) from Retail Individual Investors and QIB (Retirement funds) to be allocated to QIB (other than Retirement funds)/Non-institutional Investors.

Asset Allocation:

Instruments	Indicative allocations (% of total assets)		Risk Profile
	Minimum	Maximum	High/ Medium/ Low
Securities covered by Nifty CPSE Index	95	100	Medium to High
Money Market Instruments (with maturity not exceeding 91 days), including Tri-party Repo, cash & cash equivalents.	0	5	Low to Medium

Who can Invest

The following persons (subject, wherever relevant, to Purchase of FFO 6 Units being permitted under their respective constitution and relevant state regulations) are eligible to subscribe to FFO 6 Units:

- Resident adult individuals, either singly or jointly (not exceeding three) or on anyone or survivor basis.
- Minors through parents / lawful guardian.
- Hindu Undivided Family ("HUF") through its karta.
- Partnership firms.
- Companies, bodies corporate, societies, association of persons, body of individuals, clubs and public sector undertakings registered in India if authorized and permitted to invest under applicable Laws and regulations.
- Banks (including co-operative banks and regional rural banks), financial institutions and investment institutions incorporated in India or the Indian branches of banks incorporated outside India.
- Mutual Funds registered with SEBI.
- Non-Resident Indians (NRIs) / Persons of Indian Origin (PIOs) residing abroad on repatriation basis and on non-repatriation basis.
- QIBs.
- FPIs (subject to regulations / directions prescribed by the RBI/SEBI from time to time relating to FPI investments in mutual fund schemes).
- Charitable or religious trusts, wakf boards or endowments and registered societies (including registered co-operative societies) and private trusts authorized to invest in Units of mutual fund schemes under their trust deeds.
- Army, air force, navy, para-military funds and other eligible institutions.
- Scientific and industrial research organizations.
- Multilateral funding agencies or bodies corporate incorporated outside India with the permission of GOI / RBI.
- Overseas financial organizations which have entered into an arrangement for investment in India, interalia with a mutual fund registered with SEBI and which arrangement is approved by GOI.
- Provident / pension / gratuity / superannuation and such other retirement and employee benefit and other similar funds as and when permitted to invest.
- Other associations, institutions, bodies etc. authorized to invest in the Units.
- Apart from the above, all other categories of Investors permitted under applicable laws at present and in future are eligible to invest in the Scheme.
- Insurers, insurance companies / corporations registered with the Insurance Regulatory Development Authority (subject to Master Circular on IRDAI (Investment) Regulations, 2016 issued in August 2016)

Nifty CPSE Index:

Nifty CPSE Index is constructed in order to facilitate Government of India's initiative to disinvest some of its stake in selected CPSEs through the ETF route. The index values are to be calculated on free float market capitalization methodology. The index has base date of 01-Jan-2009 and base value of 1000. Weights of index constituent shall be re-aligned (i.e. capped at 20%) on a quarterly basis after the expiry of the F&O contracts in March, June, September and December.

Selection Criteria:

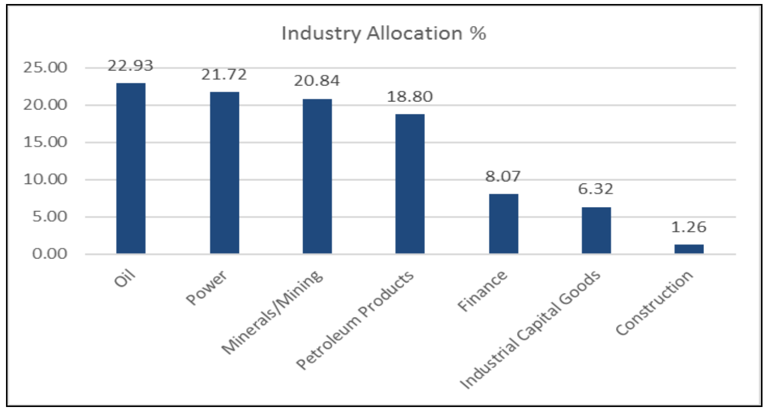
- Included in the list of CPSEs published by the Department of Public Enterprise
- Listed at National Stock Exchange of India Ltd. (NSE)
- Having more than 51% government holding (stake via Govt. of India or President of India) under Promoter category.
- Companies having average free float market capitalization of more than Rs. 1000cr. for six-month period ending December 2019 are selected.

- Companies which are IRDA dividend norms compliant shall be considered eligible to be included in the index, i.e companies which have paid not less than 10% of the dividends at least two consecutive years immediately preceding the relevant date.

Nifty CPSE Index Constituents & Industry Allocation (%)

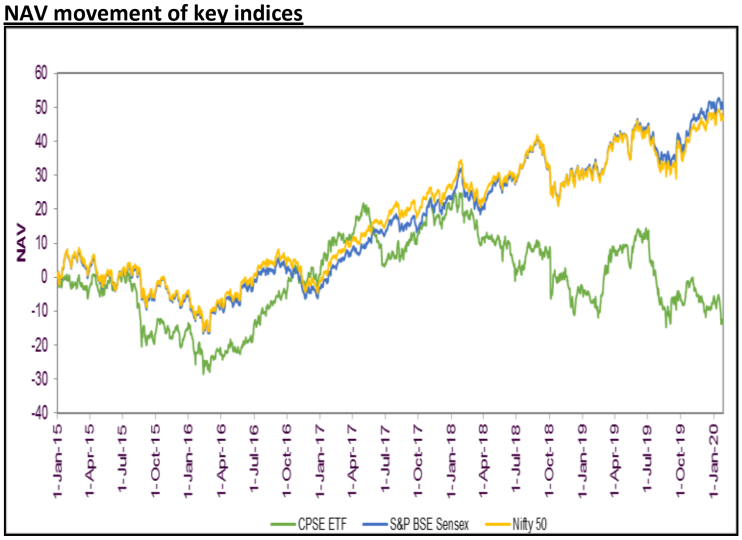
Company Name *	Sector	Weights*
Coal India Ltd.	Minerals/Mining	20.84%
NTPC Ltd	Power	20.27%
ONGC	Oil	19.90%
India Oil Corporation Ltd	Petroleum Products	18.80%
Power Finance Corporation Ltd	Finance	8.07%
Bharat Electronics Ltd	Industrial Capital Goods	6.32%
Oil India Ltd	Oil	3.03%
NBCC (India) Ltd	Construction	1.26%
NLC India Ltd	Power	0.75%
SJVN Ltd	Power	0.71%

Index Composition as on 31st December, 2019
*= The total number of constituents forming part of NIFTY CPSE index will change from 10 to 12. These changes shall become effective from January 24, 2020 (close of January 23, 2020).

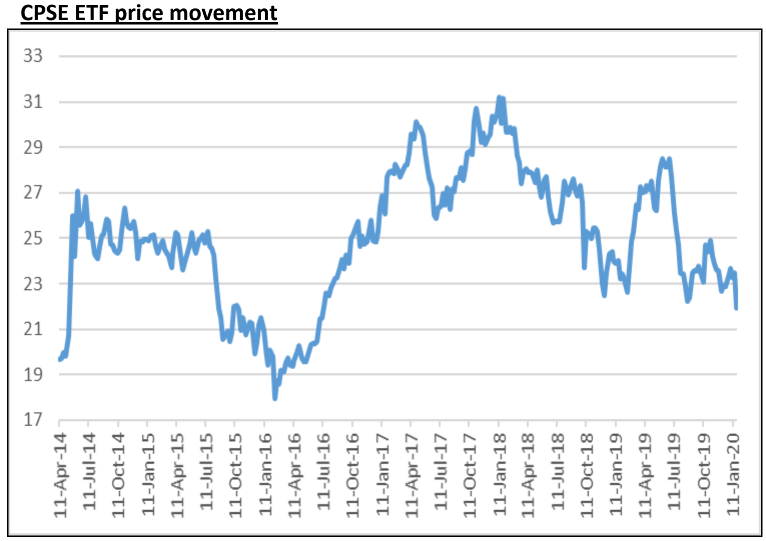


Index Composition as on 31st December, 2019

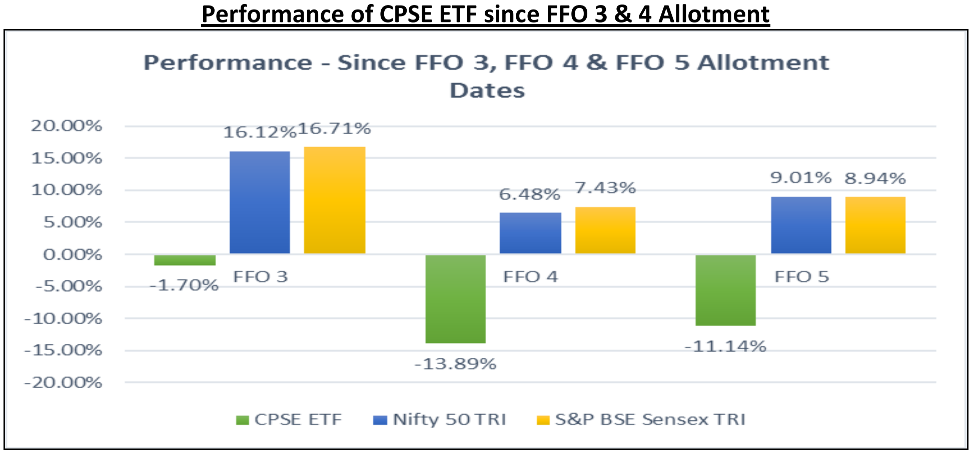
NAV movement of key indices



CPSE ETF price movement

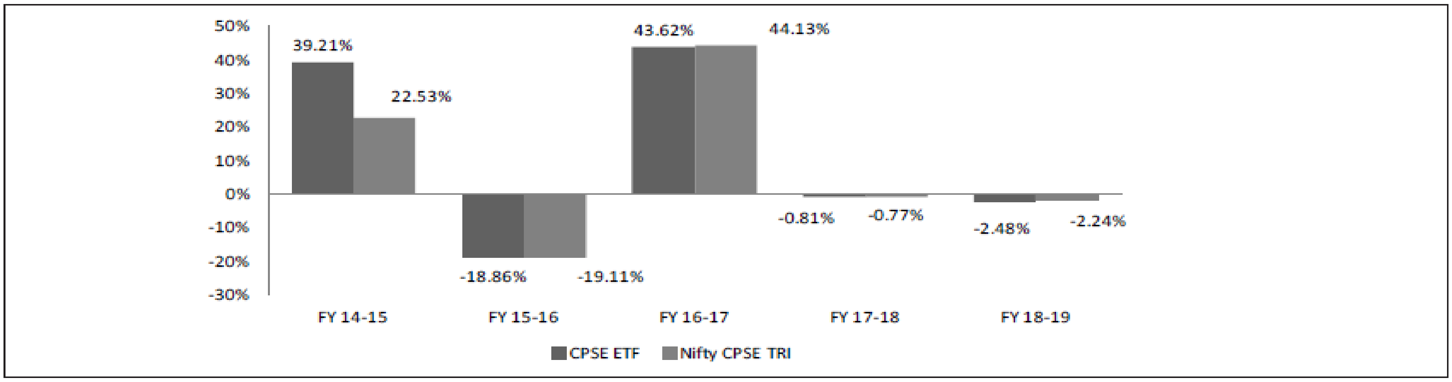


Performance of CPSE ETF since FFO 3 & 4 Allotment



Data as of 24th Jan, 2020
CPSE ETF FFO 3 Allotment Date – 7th December, 2018
CPSE ETF FFO 4 Alotment Date – 29th March, 2019
CPSE ETF FFO 5 Alotment Date – 26th July, 2019

Absolute Returns for each financial year for the last 5 years.



CPSE ETF

CPSE ETF is an open ended, semi diversified, thematic and passively managed ETF which tracks and provide returns corresponding to the Nifty CPSE Index.

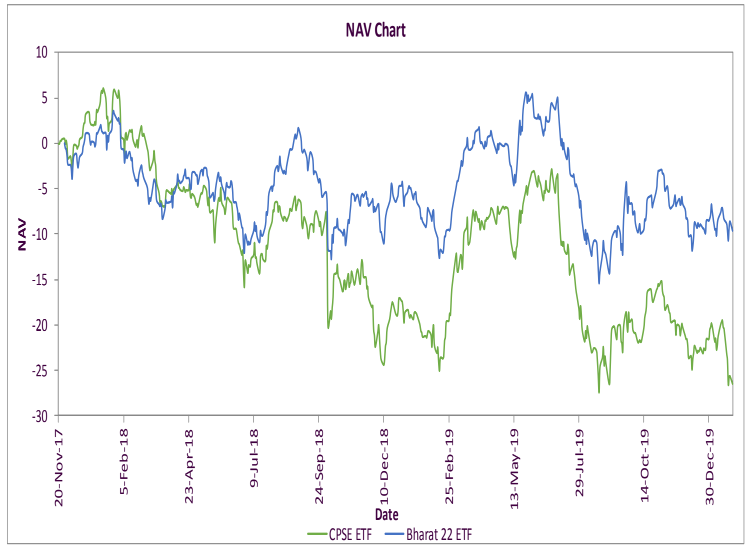
Investment Objective:
The investment objective of the Scheme is to provide returns that, before expenses, closely correspond to the total returns of the Securities as represented by the Nifty CPSE Index, by investing in the Securities which are constituents of the Nifty CPSE Index in the same proportion as in the Index. However, the performance of the Scheme may differ from that of underlying index due to tracking error.

Benefit of Investing in ETF:
- ETF adopts a passive investment style and is constructed to tracks broad range of stocks. It is an ETF with a much lower cost (expense ratio) and fees, and lower portfolio turnover.
- Investors can buy and sell units real-time on the stock exchanges (NSE & BSE). Like any stock ETF offers intra-day trading flexibility with real time price and put limit orders.
- Minimum trading lot is affordable at 1 unit
- Delivery of units is credited to the investors demat account.
- Liquidity is enhanced by market makers who provide both buy and sell quotes.
- Underlying portfolio is available at any time to investors thereby offering high level of transparency
- Likely to provide investors with average market returns with a much lower cost.

Rationale behind Investing in CPSE ETF:
- Play on India growth story through investment in the large CPSE stocks at attractive valuations.
- Investors will be able to diversify exposure across a number of Public Sector companies through a single instrument.
- Investors looking at the value proposition of CPSEs over the long term through passive management along with the cost saving,
- Enables large investment in blue chip Public Sector enterprises without the constraint of market liquidity on the underlying individual stock.
- FFO 6 price advantage – Upfront discount of 3.0% to all categories of investors.
- The PSU stocks selected in the CPSE ETF have lower P/E ratio and high dividend yields and are available at attractive valuations. High dividend (compared to Nifty stocks) could enable outperformance if all else remains the same.
- Flexibility of trading on real time basis.
- Low expense ratio i.e. 0.0095%.
- Together with the advantages, investors should also keep in mind that it is not a diversified index and is skewed towards the energy sector. Any untoward global or domestic event impacting this sector will act as a negative trigger for the entire portfolio.
- GoI ownership means that the agenda of the GOI may at times be focused on the social good and therefore may not always be aimed at profit maximization for the Unit holder.

CPSE ETF v/s Bharat 22 ETF:

Bharat 22 ETF was also announced by the GoI to raise funds for systematic divestment. It has 22 constituents against CPSE ETF's 10. In that sense, Bharat 22 ETF is more diversified and captures the PSU universe better than the CPSE ETF. The weight of each individual stock in Bharat 22 Index is capped at 15% and each BSE sector is capped at 20% of the index, ensuring that it is well represented by a diversified spectrum of PSUs.



CPSE ETF has only state-run companies as its constituents, while Bharat 22 ETF has given the government a shot at selling stakes in some of the private sector blue-chip companies as well as some holdings of SUUTI (Specified Undertaking of Unit Trust of India). It includes four banking stocks — SBI, Bank of Baroda and Indian Bank and Axis Bank (private) — other than CPSEs such as ONGC, IOC, REC, PFC and Coal India. Bharat 22 ETF also has three private sector firms—L&T Ltd, ITC Ltd and Axis Bank Ltd, where the government holds stakes through SUUTI.

Scheme Name	1 Month Absolute	6 Months Absolute	1 Year Absolute
CPSE ETF	-6.25	-12.04	-6.53
Bharat 22 ETF	-1.19	-5.33	-1.09

Data as on Jan 27, 2020.

Comparison among indices:

Index Name	P/E Ratio	P/B ratio	Dividend Yield
Nifty CPSE Index	8.76	1.29	5.32
Nifty 50 Index	28.30	3.75	1.24
Nifty Next 50 Index	65.43	3.86	1.15
Nifty 100 Index	30.68	3.76	1.23
Nifty 500 Index	30.84	3.45	1.20

Note: The stock composition of all the above indices are different, Data as of December 31, 2019

Performance: CPSE ETF vs Nifty 50 Index and Large Caps:

Scheme	Absolute Return %			CAGR %		
	1 month	3 months	6 months	1 year	3 years	Since Inception*
CPSE ETF	-6.25	-10.92	-12.04	-6.53	-7.88	3.86
Nifty 50 TRI	-1.02	4.26	7.86	13.76	13.43	13.49
Average Large Cap Category	1.26	5.69	9.39	13.60	9.60	12.17

Data as on January 27 ,2020 *Since Inception date of CPSE ETF – 28th March 2014

Short term gains:

Discount of 3.0% will be offered by the GOI on the "FFO reference market price" of the underlying Nifty CPSE Index Shares. FFO Reference Market Price would be determined based on the average of the full day volume weighted average price (VWAP) for each of the constituents of the Nifty CPSE Index on the NSE during the Non Anchor Investor FFO Period.

Discount, dividend yield and low P/E are the main carrots in CPSE FFO 6. Investors could look to encash these benefits in the first 3-6 months of allotment provided the markets and PSU sector are conducive for profit taking. Such investors have done well in the past two issues.

Issues	Issue date	Subscriptions received Rs.Cr.	Subscriptions retained Rs.Cr.	Issue Price (post discount) Rs	Market price as on July 10, 2019	NFO/FFO+3 months – Trading price	3 Months Absolute Returns	NFO/FFO+6 months – Trading price	6 Months Absolute Returns	Post 6 Months of NFO/FFO High/Low
NFO	Mar-14	4363	3000	17.45	26.17	26.81	34.91%	24.08	27.53%	31.70/17.50
FFO 1	Jan-17	13705	6000	25.21	26.17	30.52	17.40%	26.8	5.93%	31.70/20.00
FFO 2	Mar-17	10083	2500	26.80	26.17	26.21	-2.25%	27.93	4.05%	31.70/20.00
FFO 3	Dec-18	31203	17000	22.32	26.17	25.39	12.10%	28.51	21.72%	28.91/20.00
FFO 4	Mar-19	30464	10000	25.48	26.17	28.51	10.61%	23.74	-7.35%	25.11/20.00
FFO 5	Jul-19	48485	11500	24.69	21.94	24.38	-1.29%	21.94	-12.55%	-

Scheme-specific Risk Factors:

Portfolio Concentration Risk: To the extent that the Scheme may concentrate its investments in the Securities of companies of certain sectors, the Scheme will therefore be subject to the risks associated with such concentration. Currently the scheme is concentrated around Energy and Oil sectors and hence the risks arising from government related actions as well as company specific risks may affect the scheme performance.

Risks Associated with Investing in Equities: Subject to the stated investment objective, the Scheme proposes to primarily invest in equity and Equity Related Securities. The Scheme is intended for long-term Investors who can accept the risks associated with investing primarily in such Securities. Equity instruments by nature are volatile and subject to price fluctuations on a daily basis due to both macro and micro factors.

Risk relating to CPSE Securities: Since the CPSE companies are substantially owned by the GOI, the agenda of the GOI may at times be focused on the social good and therefore may not always be aimed at profit maximization for the Unit holder. The interests of the GOI may be different from the interests of Unit holders and as a result, the GOI may take actions with respect to the CPSE sector that may not be in the best interests of Unit holders. There can be no assurance that such incidents would not result in a fall in price of the underlying securities constituting the Nifty CPSE Index and correspondingly the NAV of the Scheme.

Market Risk: The NAV of the Scheme will react to the securities market movements. The Investor may lose money over short or long periods due to fluctuation in the Scheme's NAV in response to factors such as economic, political, social instability or diplomatic developments, changes in interest rates and perceived trends in stock prices, market movements and over longer periods during market downturns. Investments may be adversely affected by the possibility of expropriation or confiscatory taxation, imposition of withholding taxes on Dividend or interest payments, limitations on the removal of funds or other assets of the Scheme. The Scheme may not be able to immediately sell Securities. The purchase price and subsequent valuation of restricted and illiquid Securities may reflect a discount, which may be significant, from the market price of comparable Securities for which a liquid market exists.

Market Trading Risks: As the scheme is listed on NSE and BSE, any adverse event which may affect trading operations on NSE & BSE may pose as a risk to investing in this scheme

Liquidity Risk: Like any other ETF risk of lower trading volumes may affect the scheme liquidity.

Asset Class Risk: The returns from the Securities comprising the Nifty CPSE Index may underperform returns of general Securities markets or different asset classes. Different types of Securities tend to go through cycles of out-performance and under-performance in comparison of Securities markets.

Passive Investments:
The Scheme is not actively managed. Since the Scheme is linked to index, it may be affected by a general decline in the Indian markets relating to its underlying index. The Scheme as per its investment objective invests in Securities which are constituents of its underlying index regardless of their investment merit. The AMC does not attempt to individually select stocks or to take defensive positions in declining markets.

Tracking Error Risk: The Fund Manager would not be able to invest the entire corpus exactly in the same proportion as in the underlying index due to certain factors such as the fees and expenses of the Scheme, corporate actions, cash balance, changes to the underlying index and regulatory restrictions, which may result in Tracking Error with the underlying index of the Scheme. The Scheme's returns may therefore deviate from its underlying index. (Source: SID, PPT, NAVIndia)

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600