

HDFC Core & Satellite Fund

(An Open-ended Growth Scheme)



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REGISTERED OFFICE: Ramon House, 3rd Floor, H.T. Parekh Marg, 169, Backbay Reclamation, Churchgate, Mumbai – 400 020. Tel : 022-66316333. Fax: 022-22821144. Copy of the Scheme Information Document, Statement of Additional Information and Key Information Memorandum may be obtained from the Investor Service Centres of HDFC Mutual Fund or agents/distributors of HDFC Mutual Fund. **Risk Factors:** All mutual funds and securities investments are subject to market risks and there can be no assurance that the Scheme's objectives will be achieved and the NAV of the Scheme may go up or down depending upon the factors and forces affecting the securities market. Past performance of the Sponsors and their affiliates / AMC / Mutual Fund and its Scheme(s) do not indicate the future performance of the Scheme of the Mutual Fund. There is no assurance or guarantee to unit holders as to the rate of dividend distribution nor that dividends will be paid regularly. Investors in the Scheme are not being offered any guaranteed / assured returns. The NAV of the units issued under the Scheme may be affected, inter-alia by changes in the interest rates, trading volumes, settlement periods, transfer procedures and performance of individual securities. The NAV will inter-alia be exposed to Price / Interest Rate Risk and Credit Risk. **HDFC Core & Satellite Fund, an open-ended growth scheme, is only the name of the Scheme and does not in any manner indicate either the quality of the scheme, its future prospects and returns. Please read the Scheme Information Document and Statement of Additional Information before investing. Investment Objective:** To generate capital appreciation through equity investments in companies whose shares are quoting at prices below their true value. **Asset Allocation Pattern:** Equity and equity related instruments: 90-95%; Fixed Income Securities (including securitised debt upto 10% of the net assets) and money market instruments: 5-10%. **Terms of Issue:** Applications for subscriptions/redemptions/switches would be accepted at official points of acceptance on all Business Days at NAV based prices. The AMC will calculate and publish NAV on all Business Days. **Load Structure: Entry Load:** Not Applicable. Upfront commission shall be paid directly to the ARN holder (AMFI registered Distributor) based on the investor's assessment of various factors including the service rendered by the ARN Holder **Exit Load:** In respect of each purchase / switch-in of units, an Exit Load of 1.00% is payable if Units are redeemed / switched-out within 1 year from the date of allotment. No Exit Load is payable if Units are redeemed / switched-out after 1 year from the date of allotment. **Statutory Details:** HDFC Mutual Fund has been set up as a trust sponsored by Housing Development Finance Corporation Limited and Standard Life Investments Limited (liability restricted to their contribution of Rs. 1 lakh each to the corpus) with HDFC Trustee Company Limited as the Trustee (Trustee under the Indian Trusts Act, 1882) and with HDFC Asset Management Company Limited as the Investment Manager.

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A good batting order in a cricket team needs the stability of its key players to bat right through the innings and make a large score. But if the team wants to pile up a match winning total it also needs one or two explosive but less predictable batsmen to add to the crucial run rate in the slog overs. HDFC Core & Satellite Fund has been designed keeping in mind the above strategy of having the right balance of relatively stable blue-chips (Core stocks) and Satellite stocks with higher potential returns but with relatively higher risk.

The 'Core' Group: Laying the foundation for a match winning total
60-80% of the net assets of the scheme will be invested in a **focused** portfolio of well-established companies called the "Core" group. The companies that comprise this "Core" group will have the following characteristics:

- Companies with a long and successful track record of stable earnings and/or dividend growth.
- Companies with leadership positions (say top 3) in their markets and with significant competitive advantages.
- Companies whose stocks are available below their intrinsic value.
- Such stocks are expected to be predominantly large cap in nature.

The investment strategy of this portion will be a **focused** one. The "Core" group will invest in around 10-20 companies, with exposure to each stock being 3-8% of the scheme's portfolio. These stocks are expected to provide greater stability and dependability to the scheme's portfolio. They aim to provide the foundation on which the big hitting but riskier "Satellite" stocks can build a large total.

The Satellite Group: The explosive lower order batsmen

The remaining 20-40% of the portfolio will be invested in a "Satellite" group of stocks. These would be companies with a potential for higher returns compared to the "Core" group but would also carry greater risk. The higher potential returns could be on account of one or more of the following reasons:

- Higher growth potential either because of presence in an emerging area, or a new business model or because of smaller size.
- New technology / research driven company without much commercial success yet.
- A turnaround case.
- An out-of-favour or an ignored company, i.e. a company facing a temporary setback because of which the stock price is depressed and / or the stock is not covered by analysts.
- A company expected to benefit significantly on account of changes in the external environment e.g., commodity prices, exchange rates etc.

Such stocks would typically be small - mid cap in nature. The investment strategy of this portion will be a **well diversified one**. The investments in these "Satellite" stocks will be spread over 10-20 stocks and hence, the average exposure per company would be between 1-4% of the total assets of the scheme. **This strategy aims to manage higher risk inherent in such companies by spreading it over a high number of stocks and thus limit the risk of the overall portfolio.**

The Right Batting Order:

The "Satellite" stocks in the portfolio aim to add pace to the relatively stable earnings from the "Core" group of stocks. Both the "Core" group of well established low risk companies and the "Satellite" group of higher return potential (as also higher risk) companies complement each other well, as can be seen below:

	Return Expectation	Risk Profile
Core	Average	Low
Satellite	High	High
Total Scheme	Above Average	Average

The "Satellite" group of companies thus aims to act as a booster for the returns generated by the "Core" group. Such boosters can go a long way in helping you meet your objectives of wealth generation in the long-term.

Relative Performance - Growth Option (as at June 30, 2010) : NAV per Unit (as at June 30, 2010) :

Growth Option- Rs. 37.251 ; Dividend Option - Rs.21.177

Date	Period	NAV per Unit (Rs.)	Returns (%) ^	Benchmark Returns (%) #
June 30, 2009	Last 1 Year (365 days)	24.903	49.58	27.22
June 29, 2007	Last 3 Years (1097 days)	27.011	11.29	7.58
June 30, 2005	Last 5 Years (1826 days)	13.372	22.73	19.47
Sept 17, 2004	Since Inception (2112 days)	10.000	25.52	21.61

^ Past performance may or may not be sustained in the future

Above returns are compounded annualized (CAGR). # BSE 200

Benefits of Systematic Investment Plan (SIP)

To illustrate the advantages of SIP investments, this is how your investments would have grown if you had invested say Rs. 1,000 systematically on the first Business Day of every month over a period of time.

SIP Investments	Since Inception	5 Year SIP	3 Year SIP	1 Year SIP
Total Amount Invested (Rs.'000)	70.00	60.00	36.00	12.00
Market Value as on June 30, 10 (Rs.'000)	128.31	98.87	54.46	15.55
Returns (Annualised)* %	20.72	20.07	28.83	59.18
Benchmark Returns (Annualised) % #	16.80	16.15	18.99	39.16

Past performance may or may not be sustained in the future

BSE 200 *Load is not taken into consideration and the Returns are of Growth Option. Investors are advised to refer to the Relative Performance table furnished above for non-SIP returns.

Past performance may or may not be sustained in the future. Please refer to SIP enrolment form or contact nearest ISC for SIP load structure.

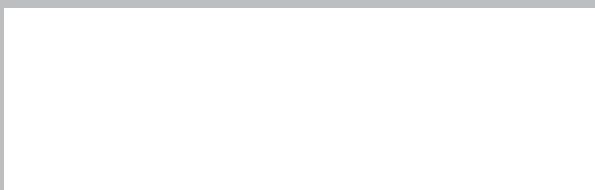
Disclaimer: The above investment simulation is for illustrative purposes only and should not be construed as a promise on minimum returns and safeguard of capital. The AMC/ Mutual Fund is not guaranteeing or promising or forecasting any returns. SIP does not assure a profit or guarantee protection against a loss in a declining market.

HDFC Core & Satellite Fund: The Winning Team

The "Core" group companies aim to provide stability to the portfolio and lay the foundation to build a large score. The "Satellite" group companies, though riskier than the "Core" group, aims to build on this foundation and pile up a match-winning total at a faster run rate. Both these groups come together in the HDFC Core & Satellite Fund to create a team with a good blend of defense and aggressive stroke play.

So if you think this batting order is the one for you, consider investing now. Your investment might be on track for a memorable innings.

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