Policy on valuation of investments by IDBI Asset Management Ltd for declaring Net Asset Value

Preamble

The Securities & Exchange Board of India vide gazette notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 pertaining to Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2012 notified guidelines regarding the valuation of investments by the Asset Management Companies of Mutual Funds. As per the guidelines the valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets as on the valuation date. AMFI Valuation committee has further recommended specific guidelines for valuation of debt instruments based on the fair value principle.

Definition:

ASBA means "Application Supported by Blocked Amount". ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If IDBI AMC applies through ASBA, its application money shall be debited from the bank account only if its application is selected for allotment after the basis of allotment is finalized, or the issue is withdrawn/failed.

Debt instruments/Securities:- "debt securities/debt instruments" means a non-convertible debt securities which create or acknowledge indebtedness, and include debenture, bonds, mezzanine debt and such other securities of a body corporate or any statutory body constituted by virtue of a legislation, whether constituting a charge on the assets of the body corporate or not, but excludes bonds issued by Government or such other bodies as may be specified by SEBI, security receipts and securitized debt instruments including pass through vehicles

Force Majeure Event; are events which occur due to natural calamities, civil commotion, war, strikes, riots, and bandhs, excessive volatility in stock/bond markets, shutdown of exchanges, breakdown in trading in some segments of the financial market, major policy announcements by the Governments/Central Bank/Regulators or any other acts of god or other similar event or causes beyond AMC's reasonable control.

Money Market instruments:- money market instruments" includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.

Market lot: - market lot means an order size of minimum Rs. 5 Crores.

Non-traded Equity Securities: - a security not traded on any stock exchange for a period of thirty days prior to the valuation date.

Thinly Traded equity Securities:- an equity and/or equity related security (such as convertible debentures, equity warrants etc.) where the total turnover in a month is less than Rs. 5 lacs and the total volume is less than 50,000 shares or securities identified and published as illiquid securities by NSE/BSE.

Securitized debt instrument:- Securitized debt instrument means any certificate or instrument, by whatever name called, issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case maybe.

A. **Valuation of Debt Investments including Money Market Securities**

1. **Instruments maturing up to 60 days**

(i) The AMC will use the most commonly used yield matrix available in the market which captures traded prices/yields across all public platforms for arriving at the benchmark yields. If two such yield matrix are available the aggregation of such matrices will be used for arriving at the benchmark yield for NAV computation purpose.

(ii) Each security will be mapped to a benchmark matrix/aggregate matrix which reflects the maturity profile of the security.

(iii) At the time of first purchase the spread between the purchase yield and the benchmark yield should be fixed. This spread will remain fixed through the life of the instrument & will be changed only if there is justification for the change Irrespective of amortization the AMC will review/ revaluate the appropriateness of the spread in case of a change in credit rating ot credit profile of the issuer

(iv) If the security is traded by the AMC, the traded yield/price will be taken for valuation.

(v) If the security is not traded by the AMC, the amortized price will be arrived based on the yield and purchase price of the security. The most recent traded price will be used for calculating the amortized price as long as the trade is of market lot. The amortized price will be compared with the price of the security derived based on the benchmark matrix/aggregate matrix based on the mapping mentioned in point (ii). If the difference between amortized price and the price derived on the basis of benchmark/aggregate matrix is within ±0.10%, the amortized price shall be used for valuation. In case the variance exceeds ±0.10%, the valuation shall be adjusted to bring it within the ±0.10% band of the benchmark matrix/aggregate matrix.

2. **Instruments having maturity greater than 60 days**

i) The AMC migrate to security level valuation for all debt securities having maturity greater than 60 days with effect from 16th December 2013

ii) Independent Valuation agencies (CRISIL & ICRA) will send clean prices of all securities held in the portfolios on a daily basis for tenor above 60 days

iii) Prices provided by both valuation agencies will be averaged to calculate the final price for that security
iv) Prices will be provided for all days including holidays assuming a settlement of T+1.
v) Prices for holidays will be provided on the previous working day.
vi) Prices for securities will be made available regardless of whether an instrument is traded or not.
vii) In case prices are made available by only one agency, such prices will be used to arrive at the valuation
viii) In case of non-availability of prices by both agencies, then
    a) Weighted average yield/price of the same security (same ISIN) available on FIMMDA satisfying criteria (aggregate trade size of Rs. 100 Crores and atleast 3 trades on the trade date)
    b) If not available and if the instrument is traded by the AMC, then weighted average yield/price on that day of Self (own) trades will be considered for valuation

If the instrument is not traded and the price is not available from the independent valuation agencies, the instrument will be valued based on procedures defined by the Valuation Committee.

3. **<u>Securitized debt instruments</u>**

The policy applicable for debt securities will apply mutatis mutandis for valuation of securitized debt instruments also.

4. **<u>Convertible debentures, bonds and warrants</u>**

In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in;

In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures [as referred to above] must be deducted to account for the period which must elapse before the warrant can be exercised;

5. Corporate Repo/Reverse repo

Where instruments have been bought on 'repo' basis, the instrument will be valued at the resale price after deduction of applicable interest upto date of resale. Where an instrument has been sold on a 'repo' basis, adjustment will be made for the difference between the repurchase price (after deduction of applicable interest upto date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation will be provided for and if the repurchase price is lower than the value, credit will be taken for the appreciation.

A minimum haircut of 10% shall be applicable on the market value of the corporate debt securities prevailing on the date of trade of 1^{st} leg. A higher haircut may be adopted by the scheme after referring to the rating-haircut matrix that may be published by Fixed Income Money Market Derivatives Association of India (FIMMDA).

6. Valuation of securities with Put/Call Options and futures contract

a) Securities with call option

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

b) Securities with Put option

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

c) Securities with both Put and Call option on the same day

The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

d) Valuation of Futures contract including interest rate derivatives contract

The valuation will be based on the settlement price of the futures contract published by the stock Exchanges on daily basis. MTM loss or gain will be booked on daily basis.

B. Valuation of Government Securities/T Bills

Government securities and T-Bills having maturity of more than 60 days will be valued at prices released by CRISIL and ICRA.

For Government securities and T-Bills, Cash Management Bills with residual maturity up to 60 days, the amortized price may be used for valuation as long as it is within ±10 basis points (bps) (±0.10%) of the reference price. In case the variance exceeds ±10 bps of the reference price, the valuation shall be adjusted to bring it within the ±10 bps band.

C. Valuation of CBLO, reverse repo, Fixed Deposits

Investment in CBLO, reverse repo, Fixed Deposits will be valued at cost

D. Valuation of Equity Shares

1. Traded Securities:

(i) The securities shall be valued at the last quoted closing price on National Stock Exchange of India Ltd (NSEIL).

(ii) When on a particular valuation day, a security has not been traded on NSEIL, the value at which it is traded on Bombay Stock Exchange may be used.

(iii) When a security is not traded on BSE and NSE on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to the valuation date.

2. Thinly Traded/Non Traded Securities

(i) In order to determine whether a security is thinly traded or not traded, the volumes traded in all recognized Stock Exchanges in India may be taken into account.

(i) Based on the latest available Balance Sheet, the price of the scrip shall be calculated as follows:

a) Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.

b) Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose.

c) The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent. for illiquidity so as to arrive at the fair value per share.

d) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.

e) In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

f) In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation In case trading in an equity security is suspended up to thirty days, then the last traded price shall be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees shall decide the valuation norms to be followed and such norms shall be documented and recorded.

3. <u>Right Shares</u>

Until they are traded, the value of the "rights" shares should be calculated as:

Vr = n/m x (Pex - Pof)
Where
Vr = Value of rights
n = No. of rights offered
m = No. of original shares held
Pex = Ex-rights price
Pof = Rights Offer Price

Where the rights are not treated *pari passu* with the existing shares, suitable adjustment will be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

4. Equity / Index Futures & Options Derivatives:

Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally. The Exchanges give daily settlement prices in respect of all derivates positions.

5. Unlisted Securities

Unlisted securities will be valued as per policy listed above for Thinly traded/non-traded securities except for the following:

i. Net worth will be computed as lower of the following:

(a) Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

Net worth per share = (Net worth of the company / Number of paid up shares).

(b) Net worth of the company = Paid up capital + Consideration on exercise of Option/Warrants received/receivable by the company + free reserves other than Revaluation reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.

Net worth per share = (Net worth of the company/{Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}).

If the net worth of the company is negative, the share should be marked down to Zero.

ii. Fair value per share will be arrived at with an illiquidity discount of 15% instead of 10%

E. <u>Valuation of Gold Investments</u>

The gold held by a gold exchange traded fund scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following:

(a)adjustment for conversion to metric measure as per standard conversion rates;
(b)adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and
(c) Addition of-
(i) transportation and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and
(ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from the London to the place where it is actually stored on behalf of the mutual fund;
Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund;

Provided further that where the gold held by a gold exchange traded fund scheme has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this sub-paragraph.

If the gold acquired by the gold exchange traded fund scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of sub-paragraph (1).]"

F. Valuation of Gold Fund of Fund units

Valuation of Gold Fund of Fund units will be based on the applicable NAV of the IDBI Gold Exchange Traded Fund

G. Valuation of Gold Deposit Schemes

Principal investment in Gold Deposit Schemes by IDBI Gold Exchange Traded Fund will be valued at the price of physical gold, while interest income will be valued on accrual basis

H. Inter-scheme transfer of securities

For Debt Schemes

1. Weighted average yield/price of the same security (same ISIN) available on FIMMDA, satisfying the following criteria -
    a. For instruments maturing upto 1 year - aggregate trade size of Rs. 100 Crores or more and atleast 3 trades on the trade date
    b. For instruments maturing above 1 year – at least two trades aggregating to Rs. 25 Crores or more on the trade date

2. If not available and if the instrument is traded by the AMC, then weighted average yield/price of Self (own) trades will be considered for valuation

3. If both are not available, the AMC will use the valuation price as the transfer price

4. All ISTs shall be completed before **2:15** PM on T day

For Equity Schemes

ISTs for equity shares will be allowed only for transferring securities from two index schemes on account of Index reconstitution at the closing price of the security on the transfer day.

I. Illiquid Securities

Aggregate value of "illiquid securities" under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent of the total assets shall be assigned zero value.

All Mutual Funds shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark shall be given against all such investments which are recognized as illiquid securities.

Mutual Funds shall not be allowed to transfer illiquid securities among their schemes.

J. Valuation of shares on demerger

On de-merger following possibilities arise which influence valuation these are:

- **Both the shares are traded immediately on de-merger:** In this case both the shares are valued at respective traded prices.
- **Shares of only one company continued to be traded on de-merger:** Traded shares is to be valued at traded price and the other security is to be valued at traded value on the day before the de merger less value of the traded security post de merger. In case value of the share of de merged company is equal or in excess of the value of the pre de merger share, then the non-traded share is to be valued at zero.
- **Both the shares are not traded on de-merger:** Shares of de-merged companies are to be valued equal to the pre de merger value up to a period of 30 days from the date of de merger. The market price of the shares of the de-merged company one day prior to ex-date can be bifurcated over the de-merged shares. The market value of the shares can be bifurcated in the ratio of cost of shares.
- In case shares of both the companies are not traded for more than 30 days, these are to be valued as unlisted security.

K. Valuation of non-traded Preference Shares

- Convertible preference shares should be valued like convertible debentures
- Non-convertible preference shares should be valued like debentures. However, if company does not pay dividend in any year, it would be treated like non-performing debentures.

L. Valuation of suspended security

- In case trading in an equity security is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that security.
- If an equity security is suspended for trading on the stock exchange for more than 30 days, then it would be considered as non traded and valued accordingly.

M. Application money for primary market issue

The AMC shall apply for primary market issues through the ASBA mode only in compliance with SEBI guidelines. Application money shall be valued at cost till the date of allotment.

N. Valuation of Foreign Securities and ADR&GDR

a) Receiving last quoted price:

If the security is listed in a time zone ahead of ours than the same day closing price on appropriate stock exchange as provided by Bloomberg would be used for valuation. If the security is listed in a time zone behind ours then the previous day's closing price provided by Bloomberg would be considered for valuation.

In case the security is not traded on the above mentioned days, price of previous day should be used provided the price is not more than 30 days old.

b) Converting the price in Indian Rupees (INR):

Since these prices are in foreign currency these are to be converted in Indian Rupees by applying the exchange rate. Bloomberg also provides closing conversion rate, which can be used for converting the foreign currency prices in INR. This closing price in INR should also be used for valuation of foreign securities and ADR/GDR.

In case Bloomberg has not provided the conversion rate, the closing price of the security should be converted to INR at RBI reference rate.

O. Exceptional Events

Exceptional Events are such events where market quotations are no longer reliable for particular security/securities. Such events or situations may be temporary in nature and could be due to any Force Majuere Event including operational, geo political, macroeconomic, disruptive events impacting the capital markets/economy as a whole. However, if such event is a result of news having long term impact on the economy, the same will not be treated as an exceptional event. The onus for defining/declaring a situation/time period as an exceptional business situation will be on Valuation Committee.

All such deviations, if any, from the disclosed valuation policy and procedures will be reported to Board of Trustees and the Board of the asset management company and also to the investors.

P. Securities not covered in the policy

Where the AMC has been allotted securities (not covered in the policy) merely by virtue of having a beneficial ownership in some securities (covered in the policy) or in lieu thereof, such securities so allotted shall be valued at cost, and continued to valued as such until the approval of the Board of AMC and MF Trustee is obtained for the methodology of valuation of such securities.

The AMC will not make investments in securities which are not mentioned in this policy for valuation without prior approval of the Board of AMC and MF Trustees.

Q. Identification and Provisioning for Non Performing Assets

The AMC will follow the guidelines published by SEBI in this regard.

R. Matters not specifically covered in the policy

All matters regarding valuation of securities, which are not specifically covered in this policy, shall be governed under Chapter 9 of the Master Circular for Mutual Funds issued by SEBI on May 11, 2012 and investment valuation norms mentioned in eighth schedule of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereof.

S. Conflict of interest

The broad structure of valuation committee would address any matters involving conflict of interest.

T. Maintenance of documentation

Documentation of rationale for valuation including inter scheme transfers shall be maintained and preserved by the asset management company as per regulation 50 of these regulations to enable audit trail.

U. Right of the AMC to deviate from the guidelines

The responsibility of true and fairness of valuation and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and procedures. In any event, if the established policies and procedures of valuation as mentioned in this policy do not result in fair/ appropriate valuation, the asset management company will have the authority to deviate from the established policies and procedures in order to value the assets/ securities at fair value. All such deviations, if any, from the disclosed valuation policy and procedures will be reported to Board of Trustees and the Board of the asset management company and also to the investors. Any permanent change in the valuation method will be incorporated in the policy, subject to the approval of the Board of AMC and Trustees.

This policy is approved by the Board of AMC on 17th February 2014