QUANTUM MUTUAL FUND

INVESTMENT VALUATION POLICY

INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms for the mutual funds to compute and carry out valuation of its investment in its portfolio under Regulation 47 and Eight Schedule of SEBI (Mutual Funds) Regulations, 1996 as amended from time to time.

SEBI vide its notification dated February 21, 2012 has amended Regulation 47 and Eight Schedule and has mandated the mutual funds to value its investments on Principal of Fair Valuation to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

As stated in the Notification, the Board of Directors of the Asset Management Companies are required to approve valuation policy and procedure on the basis of following criteria:

(a) Valuation of securities /assets shall be reflective of the realizable value of the securities / assets.

(b) Valuation shall be done in good faith and in true and fair manner.

(c) Describe the process to deal with exceptional events where market quotations are no longer available.

(d) Periodic review of valuation policy and procedure by the Board of Directors of Asset Management Company and Board of Trustee and by an independent auditor at least once in a financial year.

(e) Address conflict of interest.

(f) Disclosure of policy in the Statement of Additional Information and on the website of the Asset Management Company / mutual fund

(g) Disclosure of deviation from the policy to the Board of Trustees / Asset Management Company / Investors.

(h) Detection and prevention of incorrect valuation.

(i) Inter Scheme Transfer.

The notification also prescribed that any conflict between the principles of fair valuation and valuation guidelines issued by SEBI, the Principles of Fair Valuation shall prevail.

The Board of Directors of Quantum Asset Management Company Private Limited ("AMC") and Quantum Trustee Company Private Limited ("Trustee") has approved the Investment Policy and the framework for valuation of investments of Quantum Mutual Fund in accordance with SEBI Notification dated February 21,2012 effective from July 1,2012 in its meeting held on May 25,2012 which has been detailed below:-

The Board of Directors of the AMC has constituted a Valuation Committee comprising of the executives of the AMC. The valuation Committee is to review investment valuation norms from time to time. The Valuation Committee will identify and deal with the exception events as mentioned in this policy. The decision of the valuation committee for any exceptional events will be informed to the Board of the AMC and Trustee in their next board meeting for their reference and / or ratification if required.

All the investments will be valued in accordance with the policy / procedure as mentioned in this policy in accordance with Valuation methodology as prescribed by SEBI from time to time. This policy and procedure will be reviewed at least once in a financial year by an internal auditor. The periodic report from the internal auditor verifying appropriateness and accuracy of valuation of investments in accordance with this policy will be placed before the Board of AMC and Trustee.

Investment in new type of securities / assets other than mentioned in this policy shall be made only after establishment of the valuation methodologies for such securities / assets by the Valuation Committee with the approval of the Board of the AMC and Trustee.

The responsibility of true and fairness of valuation and correct NAV shall be of the AMC. However, if the policies and procedures of valuation mentioned in this policy do not result in fair/ appropriate valuation / realistic realizable value, the valuation committee and the AMC shall deviate from the established policies and procedures in order to value the assets/ securities at fair / realisable value which may be more or less than the value determined according to the policies and procedures of valuation mentioned in this policy.

Provided that any deviation from the disclosed valuation policy and procedures may be allowed with appropriate reporting to Boards of the AMC and Trustee with appropriate disclosures to investors, which shall be done on the website at appropriate intervals.

Inter Scheme Transfers of investments is not allowed as per the Investment Policy of the Fund.

1). Valuation of Equity and Equity Related Securities

a). Traded Equity shares

Traded equity shares are to be valued at the last quoted closing price on the selected Stock Exchange. Where the equity share is not traded on the selected stock exchange, the last quoted closing price of another Stock Exchange may be used. If equity share is not traded on any stock exchange 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 30 days prior to valuation date. The valuation committee will decide to select the appropriate stock exchange with necessary information to Board Investment committee. Once a stock exchange has been selected for valuation, reasons for change of the exchange if any shall be recorded.

Freak scenario when the Sensex falls more than 8% at the end of day with respect to previous day's close. Valuation would be done as per the closing traded price on NSE. Per se, there will be no change in the valuation methodology.

The Methodology involved in valuation of traded Equity Shares:

(i) Valuing the equity shares at the closing price of NSE on the date of valuation.

(ii) Valuing equity shares at the closing price of another Stock Exchange i.e. BSE, if it is not traded on the valuation date on the Stock Exchange as selected NSE.

(iii) Valuing equity shares at the earliest previous day's quotes of selected stock exchange i.e. or any other stock exchange as the case may be provided such date is not more than 30 days prior to valuation date.

b). Non Traded/Thinly Traded Equity Shares

If the equity and equity related securities are not traded on NSE or BSE stock exchange for a period of thirty days prior to the valuation date or it is thinly traded security as per SEBI guideline norms of trading less than 50000 shares in a month or trading value is less than Rs. 5 lacs in a month, then it be should be valued as per the norms given below :-

(i) Based on the latest available Balance Sheet, net worth shall be calculated as follows:

(ii) Net Worth per share = [share capital+ reserves (excluding revaluation reserves) - Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

(iii) Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% 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 will be considered for this purpose.

(iv) 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% for ill-liquidity so as to arrive at the fair value per share.

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

(vi) 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.

(vii) In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.

C) Unlisted Equity shares

SEBI Circular No. MFD/CIR/03/526/2002 dated May 9, 2002 has prescribed the method of valuation for unlisted equity securities. These guidelines are similar to the guidelines issued by SEBI for non traded / thinly traded securities mentioned above only except the following:

Computation of Net worth per share as lower of (a) and (b):

(a) i) 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.

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

(b) i) 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.

ii) 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.

(c) Average capitalization rate (P E ratio) for the industry based upon either BSE or NSE data shall be taken and discounted by 75% i.e. only 25% of industry average P /E shall be taken as capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts shall be considered for this purpose.

(d) Computation of fair value per share to be considered for valuation at 15 % discount for illiquidity.

[(Net worth per share + Capitalized value of EPS) / 2] * 0.85

In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.

At the discretion of the valuation committee and with the approval of the Board Investment committee, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.

2). Valuation of Stock and Index Derivatives:

a) Equity / Index Options Derivatives

(i) Market values of traded open option contracts shall be determined with respect to the exchange on which contracted originally, i.e., an option contracted on the National Stock Exchange (NSE) would be valued at the settlement price on the NSE. The price of the same option series on the Bombay Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the option itself has been contracted on the BSE.

The same shall be valued at settlement price. In case settlement price is not available closing price to be considered.

b). Equity / Index Futures Derivatives

(i) Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally, i.e., futures position contracted on the National Stock Exchange (NSE) would be valued at the settlement price on the NSE. The price of the same futures contract on the Bombay Stock Exchange (BSE) cannot be considered for the purpose of valuation, unless the futures contract itself has been contracted on the BSE.

(ii) The same shall be valued at settlement prices. In case the same is not available then closing price to be considered.

3). Valuation of Suspended Security:

In case trading in an equity shares is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that shares.

If an equity shares is suspended for trading on the stock exchange for more than 30 days then valuation committee will decide the valuation.

4). Valuation of Partly Paid-up Equity Shares

If the partly paid-up equity shares are traded in market separately then the same shall be valued at traded price (like any other equity instrument). If the same is not traded separately then partly paid equity shares shall be valued at Underlying Equity shares price as reduced by the balance call money payable with illiquidity discount as suggested by valuation committee.

If the fully paid equity shares are not traded for more than 30 days, the same shall be valued as per valuation norms given for non traded shares with necessary illiquidity discount as decided by valuation committee.

5). Valuation of Mutual Fund Unit (MFU)

Mutual fund units will be valued at the same day NAV as available on AMFI website.If the same day NAV is not available it will be valued at latest available NAV.

6). Valuation of Exchange Traded Fund (ETF)

ETFs shall be valued at closing prices available on the stock exchange i.e.NSE. If the price not available on NSE then the prices available on BSE will be considered. If price at both NSE and BSE are not available the latest NAV of the fund will be considered.In case of Freak trade, the valuation would happen on the NAV. Freak trade would be said to occur when the Gold ETF units trades at a deviation of more than 2.00% from the real time fair value that is unexplained by the prevailing premium / discount in the domestic gold market.In case of Freak trade, the valuation would happen on the NAV.

7). Valuation of Interest Rate Swap (IRS):

In case of IRS contracts, counter parties agree to exchange stream of interest payments on notional value at an agreed date. One party agrees to pay floating and another agrees to pay fixed rate of interest. Floating rate is decided on the basis of some benchmark such as NSE MIBOR/3 Day MIBOR.

Valuation of IRS involves valuation of streams of interest payments. The underlying security is valued in the same manner as was valued before entering into IRS contract.

Value of IRS contract is the present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity is the interest accrued till the valuation date plus the interest on remaining period at reversal rate.

Reversal rate for the day is available on Reuters/Bloomberg for different maturities. The relevant rate is taken on the basis of maturity of the contract. However, if the maturity date falls between the two years, the reversal rate is arrived by interpolation on valuation date.

8). Valuation of Non -Traded Warrants

In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at Underlying Equity Price as reduced by the amount which would be payable on exercise of the warrant. Appropriate illiquidity discount to be provided with approval of valuation committee. If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero.

9). **Valuation of Shares on De-merger and Other Corporate Action Events:**

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: The cost of demerged entity will be bifurcated between 2 companies based on demerger ratio. The price of shares which is listed and traded after demerger will be valued at that price. The price of shares which is not listed will be valued at price arrived at by difference in price between last traded price before demerger less the traded price of shares which is traded post demerger. It will also be ensured that total market value of both security added together post de merger is equivalent to the pre demerger market value. This will be followed till 30 days. Post that if the prices are not available it will be valued as non traded equity shares as mentioned in this policy.

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 total cost value of shares post demerger should be bifurcated in the demerger ratio and should be equivalent to the pre demerger cost. The market price also will be bifurcated in same manner till both the companies are listed nd traded post demerger. If post 30 days the prices are not available then it will be valued based on fair price with necessary approval of valuation committee.

In case of any other type of capital corporate action event, the same shall be valued at fair price on case to case basis with necessary approval of valuation committee.

10). **Valuation of Non Traded Thinly Traded Rights Entitlements:**

Till the rights are subscribed, the entitlements as per Regulations have to be valued as under:

i) Where right entitlements are not subscribed to but are to be renounced, and where renouncements are being traded, the right entitlements have to be valued at traded renunciation value.

ii) Where right entitlements are not traded and it is decided not to subscribe the rights, the right entitlements have to be valued at zero.

iii) In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero.

iv) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange, right entitlement should be valued at zero

v) Valuations of non-traded/thinly traded/Unlisted rights entitlement, SEBI Regulations have explained this with the help of following formula and the security will be valued accordingly:

Vr = (Pex - Pof) Where

Vr = Value of Rights

Pex = Ex-right price

Pof = Rights offer price

11). **Valuation of Convertible Debentures**

Non-convertible and convertible components are valued separately.

The non-convertible component shall be valued on the same basis as would be applicable to a non-convertible debt instrument mentioned in this policy.

The convertible component to be valued as follows:

i) Ascertain

- The number of shares to be received after conversion.
- Whether the shares would be pari passu for dividend on conversion.

- The rate of last declared dividend.
- Whether the shares are presently traded or non traded/thinly traded.
- Market rate of shares on the date of valuation

ii) In case the shares to be received are, on the date of valuation, are thinly traded / non-traded, these shares to be received on conversion are to be valued as thinly traded / non-traded shares as stated.

iii) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation and would be traded paripassu for dividend on conversion:

a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate

b) Determine the discount for non-tradability of the shares on the date of valuation.

(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the valuation committee.)

Value = (a)*market rate [1-(b)]

iv) In case the shares to be received on conversion are not non-traded or thinly traded on the date of valuation but would not be traded pari passu for dividend on conversion:

a) Number of shares to be received on conversion, per convertible debenture, multiplied by the present market rate

b) Arrive at the market value of the shares on the date of valuation by reducing the amount of last paid dividend.

c) Determine the discount for non-tradability of the shares on the date of valuation.

(This discount should be determined in advance and to be used uniformly for all the convertible securities. Rate of discount should be documented and approved by the valuation committee and Board Investment Committee.)

Value = (a)*{b- [1- (c)]}

v) In case of optionally convertible debentures, two values must be determined assuming both, exercising the option and not exercising the option.

- If the option rests with the issuer, the lower of the two values shall be taken as the valuation of the optionally convertible portion, and;
- If the option rests with the investor, the higher of the two values shall be taken.

12). Valuation of Gold

For the purpose of Gold Valuation, process shall be as below:-

1. LBMA Gold Fixing: As per SEBI Guidelines Gold would be valued at AM fixing price available on the LBMA site for the day. In case the LBMA AM Fix is not published on a particular day then we would take an average international spot gold price rate prevailing on that day between half an hour before the London AM Fix time to half an hour later then the London AM Fix time. This would be done to value gold as close as possible to the fair value prevailing on the particular day when the LBMA Fix price is unavailable.
2. The Gold Premium and fixing charges for valuation purpose would be fixed on 1st working day of every month and same will be applicable for that month. Valuation committee will decide the same.
3. LBMA Gold price is quoted for USD/Oz for 999 fineness. For conversion of Troy Ounces to Kilogram we use the NYMEX conversion factor of 31.99 Troy ounces per kilogram for 995 purity. The fineness quotient is to be adjusted by using the factor 0.995996 (0.995/0.999) In Case if the gold lying in stock is of 999 fineness, the conversion factor would be 32.12 for 999 fineness.

4. To convert it into Rs. /Kg, it has to be multiplied by INR reference rate from RBI. In case RBI reference rate for any day is not published the latest available reference rate will be considered.
5. Custom duty shall be applied at prevailing rate as prescribed by relevant authorities on base value. Base value is arrived at by multiplying daily LBMA closing price with LBMA fixing price and the respective month gold import dollar exchange rate. Prevailing landing cost will be added to this to get the base value.
6. Stamp Duty shall be applied at prevailing rate as prescribed by relevant authorities on the price arrived as above including custom duty.
7. Octroi duty shall be applied at prevailing rate as prescribed by relevant authorities on the price calculated as above including customs and stamp duty.
8. VAT shall be applied at prevailing rate as prescribed by relevant authorities on the price calculated as above including Customs, Stamp Duty and Octroi.

13). Valuation of Fixed Deposits

All Fixed Deposits shall be valued at cost plus interest accrual basis.

14). Valuation of Application Money for Primary Market Issue

i) Application money should be valued at cost up to 15 days from the closure of the issue. If the security is not allotted within 15 days from the closure of the issue, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded.

ii) Equity securities allotted and proposed to be listed, but not listed, are to be valued at cost till 15 days from the date of allotment and after 15 days, are to be valued as unlisted securities.

15). Valuation of Collateralised Borrowing and Lending Obligation (CBLO)

CBLO being discounted instrument will be valued on interest accrual/ amortised basis.

16). Valuation of Government Securities, Treasury Bills, State Development Loans, Money market instruments and Debt instruments

All securities to be valued on a fair valued Mark To Market (MTM) basis. The policy has highlighted the instances in which each of these is to be used and also the basis in which the AMC would decide the source of the MTM on a daily basis. The policy has also provided for exceptions; deviations; conflict of interest and similar security identification.

Sources/inputs to arrive at the appropriate mark to market (yield/price) :

- Traded price/yield on any reporting platform/exchange. Currently, we have the NDS-OM; PDO-NDS; NSE; BSE; FIMMDA; FIMMDA Trade reporting & confirmation system (F-Trac); NSE clearing corporation and BSE clearing corporation where trades are reported/dealt/settled by various market counterparties.
- External valuation providers, like Crisil/Imacs (Icra Management Consultants), who provide valuation yields on a matrix basis.
- Individual security level pricing, if any, as provided and made available by an external independent agency like CCIL, FIMMDA, Crisil, Imacs etc.
- Investments team assessment of fair valuation.

Fair valuation methodology for government securities (Gsec), treasury bills (T-bills) and State Development Loans (SDLs) of any maturity

- Gsecs, T-bills and SDLs would be valued based on the security/scrip level valuation as provided by external agencies like Crisil/Imacs (Icra Management consultants). MTM prices as provided by CCIL (Clearing Corporation of India) can also be considered in the absence of Crisil/Imacs prices.

- If scrip level prices are not available, then the security would be valued based on traded prices as reported on PDO-NDS / NDS - OM.
  - o To use traded prices for fair valuation, minimum traded volume of INR 250 mln is required.
- If traded prices are not available, then the security would be priced as per the matrix yield provided by Crisil/Imacs.
- The valuation committee may consider an illiquidity discount (mark down of price/mark up of yields) over the security level pricing as provided by external agencies if it believes that the given price does not account for illiquidity of the said security.

Fair Valuation of non convertible debentures and Money Market instruments:

The valuation for these kind of securities the most preferred option would be traded prices.

- The F-trac module as developed by FIMMDA will be the source of traded prices. The weighted average price would be taken for valuation.

To determine that the traded prices under all methods reflect fair value; the following criteria would be followed:

- Money Market Instruments
  - Total traded value should be a minimum of INR 1000 million.
  - A minimum of 3 trades need to be reported.
- Instruments other than money market instruments.
  - Minimum trade lot size would be INR 50 million.
  - A minimum of 2 trades need to be reported.

If traded price, subject to the above conditions is not available for the security to be valued, then valuation could be carried out as per other traded prices of similar security issued by the same issuer.

Similar security identification - Since the bond and money markets have various kind of issuers with different instruments of varying maturities; not all instruments get traded on any particular day. But by providing a mechanism to compare traded prices of similar securities as specified the valuation committee can determine the fair valuation for the security held in the portfolio. The following guideline in priority would help determine fair valuation based on traded prices of similar securities.

Classification based on maturity

- For all securities issued by the same issuer, traded prices would be considered for securities which have a residual maturity (as per the table below) from the security held in the portfolio subject to the days falling in a particular calendar quarter. The traded price of the security closest to the maturity date of the security to be valued would be considered.

Residual Maturity	**Between 0 to 1 year**	**Between 1 year - 2 year**	**Between 2 year and 5 year**	**5 year and above**
Days band	**+/- 7 days**	**+/- 15 days**	**+/- 60 days**	**+/- 90 days (no calendar quarter restriction)**

Self Trade: A self traded security of INR 50mln and above would be taken at the weighted average price for valuation.

If the security to be valued cannot be determined by traded prices as per the criteria laid above; the fair valuation would be done through the matrix yield as provided by external valuing agencies like Crisil or Imacs.

Fair valuation methodology for money market instruments and non-convertible debentures which cannot be valued through traded prices as mentioned above:-

These instruments would be fair valued on a MTM basis following the process based on the following considerations.

- Crisil/Imacs provides a matrix based valuation yields for different tenor buckets, credit rating and sector.
- Securities falling in the respective buckets, sector and credit rating category would be valued as per the yield given by the matrix.
- Since the matrix provided is for a generic credit rating category, to determine fair value from the matrix for a security within the credit rating which is bought at a spread over/under the relevant matrix of the day; the traded spread would be determined and frozen and subsequent valuation would be undertaken at the determined spread over/under the daily matrix.
- If the security (or its similar security) gets traded in between, the spread over/under the matrix of that day would be recorded and this new spread would be used in future valuation of the said security when it is not traded.
- The spread can be revised based on changes in credit rating of the issuer; changes in spread due to primary market issuances and on secondary market trades of similar long term credit rated securities and they would be suitably documented with justification (*).
- There would be no cap on illiquidity premium or discount over the matrix to determine fair valuation and a higher discretion may be used by the valuation committee subject to proper rationale to be submitted and minuted.
- The preferred matrix provider would be Crisil and then Imacs if an aggregated/average matrix is unavailable.

(*) Classification based on credit rating for similar securities

In order to ensure that the spread chosen for the security remains fair, the valuation committee can determine the traded values of securities with a similar long term credit rating to that of the issuer and align the spread for the security over the matrix to the traded levels of similar securities to arrive at its fair valuation.

- The valuation committee can consider traded data for similar credit rated securities as per the list provided by the investments team to determine the fairness/relevance of the spread over/under the matrix taken for a particular security.
- The residual maturity band to be considered for considering traded prices of similar rated securities would be as below

Residual Maturity	**Between 0 to 1 year**	**Between 1 year - 2 year**	**Between 2 year and 5 year**	**5 year and above**
Days band	**+/- 7 days**	**+/- 15 days**	**+/- 60 days**	**+/- 90 days (no calendar quarter restriction)**

- The traded price of the similar rated security which offers the most conservative and closest to the maturity date of the security to be valued would be considered.
- The valuation committee should consider traded data of atleast two separate issuers before recommending it as fair valuation for the security
- Tolerance level for spread changes would be (+/-) 10 bps from the current spread. So if after considering all factors, the change in spread is less than (+/-) 10 bps, then the existing spread can be continued to be taken for fair valuation.

If on a particular day, traded prices for the security and matrix pricing are not available, then the security can also be valued by looking at relevant traded prices of other similar credit rated issuers as per the process laid down above

- **Security level traded prices, if so and as and when provided by any external/ independent agencies like Crisil and others would be considered as the primary source for fair valuation**

If the valuation committee believes that even after following all the process laid above, the security is not appropriately valued, the committee would determine fair values by taking on record the assessment of the investments team with a proper rationale for the same which would be documented and submitted to the Valuation committee and Board Investment Committee for ratification.

Other points to be considered:-

- Fair valuation for a security once determined will be applied to all schemes of the AMC.
- Valuation of floating rate bonds would be as per note on valuation of floating rate bonds
- For securities with Put and call option, the put/call date would be taken as maturity date; for securities with only call option, the value would be lowest of call or maturity and in case of securities with put option the values would be higher of put or maturity.
- This policy does not consider perpetual instruments and securitized or structured debt instruments. The AMC will make investments in these securities only after drafting a suitable fair valuation policy.
- Weighted average YTM would be rounded off to 2 decimal points

Exceptions:

Exceptional events like the ones mentioned below can lead to non-availability of traded prices and matrix; or with weighted average traded prices not completely reflective of fair valuation and in such instances the exceptional trades shall be ignored based on a justification of the investment team and approved by the Valuation Committee.

1. Policy announcements by central banks; government or any other regulatory agency
2. Force majeure events which leads to closure of market exchanges
3. Non availability of traded prices and matrix
4. Any other event leading to high volatility and apparent distortion in market prices

NPA's

Investment Grade and Non Performing or Non Investment Grade and Non Performing Securities

Debt securities are considered as non-performing if the interest and/or principal amount have not been received or remained outstanding for one quarter from the day such income/installment has fallen due. The definition of NPA may be applied after quarter part due date of interest. After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset. From beginning of 2nd quarter there will be no further accrual on income. On classification of the asset as NPA from a quarter past due date of interest, all interest accrued and recognized in the books of accounts of the Fund till the date, should be provided for. Both secured and unsecured investments once they are recognized as NPA's call for provisioning in the same manner and where these are related to close ended scheme the phasing would be such that to ensure full provisioning prior to the closure of the scheme or the scheduled phasing which ever is earlier. The value of the asset must be provided in the following manner or earlier at the discretion of the fund. Fund will not have discretion to extend the period of provisioning. The provisioning against the principal amount or installments should be made at the following rates irrespective of whether the principal is due for repayment or not.

Provisioning to be made as follows:

- 10% of the book value of the asset should be provided for after 6 months past due date of interest i.e. 3 months from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 9 months past due date of interest i.e. 6 months from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 12 months past due date of interest i.e. 9 months from the date of classification of the asset as NPA.
- Another 25% of the book value of the asset should be provided for after 15 months past due date of interest i.e. 12 months from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 18 months past due date of interest i.e. 15 months from the date of classification of the asset as NPA.

(In case the security is held by a close-ended scheme and if the period i.e.18 months past due date of interest, falls beyond the redemption date of the scheme, the aforesaid time phases of provisioning should be proportionately shortened to at least coincide with the redemption date of the scheme.)

- During the aforesaid period of provisioning any installment of redemption falls due and not received, the provided amount should be at least equal to the installment due but not received.
- In case of bullet redemption (i.e. not in parts) entire amount to be provided if not received with in a period of 3 months from the due date.

If the valuation committee feels the percentage provision to be made is not adequate as mentioned above it will provide for higher percentage on case to case basis.

Process to be followed for valuation of assets that ceases to be a non-performing asset:

In case the asset is no longer a non-performing asset which means, if issuer of the security has paid all the arrears of interest / principal, the provision shall be written back (reduced) as follows:

=> 100% of the asset provided for in the books will be written back at the end of the 2nd calendar quarter where the provision of principal was made due to the interest defaults only.

=> 50 % of the asset provided for in the books will be written back at the end of the 2nd calendar quarter and 25% after every subsequent quarter where both installments and interest were in default earlier.

During the aforesaid period of two quarters (i.e. from the date it ceases to be non-performing asset to the date on which provisions are written back), if any redemption installment falls due and not received, provision will have to be made for the redemption installment.

It may be noted that part payment of outstanding interest shall not trigger write back of provisions except to the extent where after part payment of redemption installments, principal amount outstanding is less than the provision made.

Reschedulement of interest / redemption:

In case any company defaults either interest or principal amount and the fund has accepted a reschedulement of the schedule of payments, then SEBI has prescribed the following methodology for valuation of the security:

(i) In case it is a first reschedulement and only interest is in default, the status of the asset namely, 'NPA' may be continued and existing provisions should not be written back. This practice should be continued for two quarters of regular servicing of the debt. Thereafter, this be classified as 'performing asset' and valued accordingly. The interest provided is to be written back.

(ii) If the reschedulement is done due to default in interest and principal amount, the asset should be continued as non-performing for a period of 4 quarters, even though the asset is continued to be serviced during these 4 quarters regularly. Thereafter, this can be classified as 'performing asset' and valued accordingly. All the interest provided till such date should be written back.

(iii) If the reschedulement is done for a second/third time or thereafter, the characteristic of NPA should be continued for eight quarters of regular servicing of the debt. Thereafter, this can be classified as 'performing asset' and valued accordingly. The provision should be written back only after it is reclassified as 'performing asset'.

Provisioning in case of Deep discount bonds

Deep discount bonds can be classified as NPAs if any of the following conditions are satisfied:

- If the rating of the Bond comes down to grade "BB" or below.
- If the company is defaulting in their commitments in respect of other liabilities, if available.
- If net worth is fully eroded.

Provisioning to be made as follows:

- 10% of the book value of the asset should be provided for after 3 months, from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 6 months, from the date of classification of the asset as NPA.
- Another 20% of the book value of the asset should be provided for after 9 months, from the date of classification of the asset as NPA.
- Another 25% of the book value of the asset should be provided for after 12 months, from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 15 months, from the date of classification of the asset as NPA.

(In case of security is held by the close-ended scheme and if the period i.e.18 months past due date of interest, falls beyond the redemption date of the scheme, the aforesaid time phases of provisioning should be proportionately shortened to at least coincide with the redemption date of the scheme.)

Disclosure in the Half Yearly Portfolio Reports: The mutual funds shall make scrip-wise disclosures of NPA's on half yearly basis along with the half yearly portfolio disclosure. The total amount of provisions made against the NPA's shall be disclosed in addition to the total quantum of NPA's and their proportion of the assets of the mutual fund scheme. In the list of investments an asterisk mark shall be given against such investments which are recognized as NPA's. Where the date of Redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not investment provided that where an investment is redeemable by installments that will be shown as an investment until all installments have become overdue.

ACCOUNTING POLICIES AND STANDARDS

In accordance with Regulation 50 read with the Ninth Schedule to the SEBI Regulations, the Schemes will follow the accounting policies and standards stated below:

a) The AMC, for each Scheme and its Plans, shall keep and maintain proper books of account, records and documents, so as to explain its transactions and to disclose at any point of time the financial position of the Scheme and, in particular, give a true and fair view of the state of affairs of the Fund.

b) For the purposes of the financial statements, the Scheme and its Plans shall mark all investments to market and carry investments in the balance sheet at market value. However, since the unrealized gain arising out of appreciation on investments cannot be distributed, provision shall be made for exclusion of this item when arriving at distributable income.

c) Dividend income earned by the Scheme and its Plans shall be recognized, not on the date the Dividend is declared, but on the date the share is quoted on an ex-Dividend basis. For investments, which are not quoted on the stock exchange, Dividend income would be recognized o the date of declaration of Dividend.

d) In respect of all interest-bearing investments, income shall be accrued on a day to day basis as it is earned. Therefore, when such investments are purchased, interest paid for the period from the last interest due date up to the date of purchase should not be treated as a cost of purchase but shall be debited to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date up to the date of sale must not be treated as an addition to sale value but shall be credited to Interest Recoverable Account.

e) In determining the holding cost of investments and the gains or loss on sale of investments, the "average cost" method shall be followed for each security.

f) Bonus shares to which the Scheme becomes entitled should be recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements should be recognised only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis

g) Transactions for purchase or sale of investments shall be recognized as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisition through private placement or purchases or sales through private treaty, the transaction would be recorded, in the event of a purchase, as of the date on which the Scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the Scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.

h) Where income receivable on investments has accrued but has not been received for the period specified in the guidelines issued by SEBI, provision shall be made by debiting to the revenue account the income so accrued in the manner specified by guidelines issued by the SEBI.

i) When Units are sold in the Scheme, an appropriate part of the sale proceeds shall be credited to an Equalization Account and when Units are Repurchased an appropriate amount shall be debited to Equalization Account. The net balance on this account shall be credited or debited to the Revenue Account. The balance on the Equalization Account debited or credited to the Revenue Account shall not decrease or increase the net income of the Fund but is only an adjustment to the distributable surplus. It shall therefore be reflected in the Revenue Account only after the net income of the Fund is determined.

j) When Units are sold, after considering the equalization as above, the difference between the sale price and the face value of the Unit, if positive, shall be credited to reserves and if negative, shall be debited to reserve, the face value being credited to Capital Account. Similarly, when the Units are Repurchased, after considering the equalization as above, the difference between the purchase price and face value of the Unit, if positive, shall be debited to reserves and, if negative, shall be credited to reserves, the face value being debited to the Capital Account.

k) The cost of investments acquired or purchased shall include brokerage, stamp charges and any charge customarily included in the broker's bought note. In respect of privately placed debt instruments any front-end discount offered shall be reduced from the cost of the investment.

l) Underwriting commission shall be recognized as revenue only when there is no devolvement on the Scheme and its Plans. Where there is devolvement on the Scheme and the Plans thereunder, the full underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment.

m) The Gold held by the Fund shall be valued at the AM fixing price of London Bulllion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, and for gold having a fineness of 999.0 parts per thousand, as per point no. 17 of Section V above.

The accounting policies and standards as mentioned above are in accordance with the Ninth Schedule of the SEBI Regulations and are subject to change as per any changes in the SEBI Regulations. All other policies and standards as specified therein, as well as any additions/modifications thereto as may be specified by SEBI from time to time shall be adhered to while preparing the books of accounts and financial statements of the Fund.

To provide appropriate details of the Schemewise deployment of the assets of the Fund, the AMC may adopt certain accounting policies and standards in accordance with the appropriate guidance notes issued by the Institute of Chartered Accountants of India as amended from time to time. The Trustee / AMC may alter these above stated accounting policies and standards from time to time, and also to the extent the guidance notes issued by the Institute of Chartered Accountants of India, and the SEBI Regulations change, so as to permit the Scheme to give a true and fair view of its state of affairs.