

QUANTUM MUTUAL FUND

INVESTMENT VALUATION POLICY & PROCEDURES

INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

Background

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 and the same was reviewed from time to time.

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 and the process / procedure as may be applicable. The Valuation Committee will identify and deal with the exception events / process / procedure as mentioned (or not) in this policy. The decision of the valuation committee for any exceptional events / process / procedure will be informed to the Board of the AMC and Trustee in their next board meeting for their reference and / or ratification if required.

Valuation methodologies & Periodic Review

All the investments will be valued in accordance with the policy / procedure / process as mentioned (or not) in this policy and 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 comprising of the executives of the AMC with the approval of the Board of the AMC and Trustee.

Deviations & Escalation procedures

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

Provided that any deviation from the disclosed valuation policy / process / 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 Transfer

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

Conflict of Interest

If any situation arises that leads to conflict of interest the same shall be raised to valuation committee and the valuation committee shall endeavour to resolve the same such that valuation provides for fair treatment to all investors including existing and prospective investors.

Exceptional events

In case of exceptional events as mentioned below, valuation committee of AMC shall assess the situation based on appropriate justification by the valuation authority and advise appropriate method of valuation of impacted securities. Such decision of valuation committee subsequently/suitably be reported to the Board of AMC and Trustee.

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 ,Matrix and weighted average traded prices not reflective of fair valuation
4. Any other event leading to high volatility and apparent distortion in market prices

Disclosure and record keeping

Policy documents will be updated in SID / SAI, website and other documents as prescribed by SEBI Regulations and guidelines. All the documents which form the basis of valuation shall be maintained in electronic form or physical papers as feasible from time to time.

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 National Stock Exchange. Where the equity share is not traded on the National stock exchange, the last quoted closing price of Bombay 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 National 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/BSE. Per se, there will be no change in the valuation methodology.

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 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.

$$[(\text{Net worth per share} + \text{Capitalized value of EPS}) / 2] * 0.85$$

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 a 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. In case of valuation of units of Quantum Gold Fund (QFG) , any

deviations resulting from regulatory or other changes that tend to alter the normal functioning of the market leading to price distortions, the QGF units will be valued at the traded price and not at the NAV. The Freak trade ruling will be ignored until market distortions are corrected. The Valuation Committee will review the price dynamics on a monthly basis in its monthly meetings

Freak trade would be said to occur in units of Quantum Index fund when the closing market price on exchanges of Quantum Index Fund ETF units is premium/discount by 1% to its NAV for that day. In such cases Quantum Index ETF fund units will be valued at closing NAV of the day.

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 securities 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, then it will be valued based on fair price with necessary approval of valuation committee.

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 and 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:

$$V_r = (P_{ex} - P_{of}) \text{ Where}$$

V_r = Value of Rights

P_{ex} = Ex-right price

P_{of} = 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.)
$$\text{Value} = (a) * \text{market rate} [1 - (b)]$$
- 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.)

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

- 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 than 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. The Indian levies in the form of custom duty, stamp duty, octroi duty, VAT as applicable shall be added as applicable and as prescribed by relevant authorities to arrive at the final landed price of gold.

13). 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.

14). Valuation policy for Debt and Money Market instruments

The Quantum Asset Management Company Private Ltd (AMC) has appointed ICRA Management consultants (IMACS), an independent external valuation agency approved by AMFI, to carry out the daily valuation of all debt and money market instruments held by the Quantum mutual fund (Mutual Fund) by following all the procedures as laid below and provide the daily MTM prices for valuation with suitable rationale and justification.

A. CBLO, Repos and Fixed Deposits

These instruments will be valued on interest accrual/ amortization basis.

B. Government securities (G-secs), treasury bills (T-bills), cash management bills and State Development Loans (SDLs)

G.secs, T-bills and SDLs of any maturity would be valued based on the security level valuation as provided by IMACS based on their proprietary valuation methodology as approved by AMFI.

C. Non convertible debentures and Money Market instruments – (Securities maturing less than 60 days)

I. Trades reported on the FIMMDA(F-TRAC), NSE and BSE would be considered for valuation. However priority order would be FTRAC > NSE > BSE.

(I.1) Trade Size :

CP/CDs: There should be atleast 2 trades aggregating to 100 Crore or **Bonds:** In case of bonds there should be minimum of two trades aggregating to 20 Crore or more in multiples of 5 Crore.

(I.2) Weighted average yields of all trades would be taken for calculating traded price after ignoring all market inter-scheme trades and freak trades.

II. If traded price is not available for the security to be valued, then traded prices of securities of similar maturity issued by the same issuer which have a residual maturity (as per the table below) from the security held in the portfolio would be considered.

Residual Maturity of security	Between 0 to 60 days
Days Band within a	Fortnightly calendar month

The traded yield so determined daily from (C.I) or (C.II) and the spread at which it has traded over its relevant benchmark matrix yield would be calculated. This spread would be used for pricing the security when its traded price is not available. This spread thus, automatically gets revised based on newly traded data.

III. If traded prices are not available and/or does not represent fair valuation then the security would be valued based on the benchmark yield matrices for the relevant maturity as being prepared by IMACS plus its last recorded spread over/under the matrix.

In the absence of traded prices, the spread would be reviewed regularly by using, primary market trades, traded prices of securities of issuers having a similar long term credit rating, and/or on the opinion of the external valuing agency in consultation with the AMC.

Other Points:-

- The Mutual Fund's First trade / Self Trade of 5 Crore or more would be considered for valuation at the weighted average yield of its trades. But if on the same day, market traded price satisfying (C.I) or (C.II) is available, then market traded price for valuation would be considered over the MF's self trade and the spread over/under the matrix for the same will be recorded.
- Any security purchased in a lot size of less than 5 Crore will be valued at constant spread over matrices recorded at the time of first purchase till its maturity. In case of further

purchases in same security, new spread will be calculated based on weighted average spreads of the purchases. This security will be mark to market based on traded prices only when the security holding is 5 Crore or more.

- 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 all call or maturity and in case of securities with put option the values would be higher of all put or maturity.
- If the AMC believes that even after following all the process laid above, the security is not appropriately valued then the fair values would be determined by taking on record the assessment of the external valuing agency and the AMC investment team with a proper rationale for the same which would be documented and submitted to the valuation committee.

D. Non Convertible Debentures & Money Market Instruments (Securities maturing greater than 60 days)

IMaCS will provide valuation for all securities of tenor greater than 60 days maturity held in the portfolio. Any new security purchased by the Schemes which does not exist in the database of IMaCS will be valued as per the below mentioned policy from the next business day. On the day of purchase that security will be valued at purchase yield. Any new security purchased which exists in the database of IMaCS will be valued as per the below mentioned policy from the date of purchase.

(D.I) Trades reported on the FIMMDA(F-TRAC), NSE and BSE would be considered for valuation. However priority order would be FTRAC > NSE > BSE

- I.1.a. There should be atleast 1 trade of 25 Crore or more for CPs and CDs.
- I.1.b. In case of bonds there should be minimum of 1 trade of 5 Crore or more.
- I.1.c. Cut off time taken for trades reported on reporting platform as at 4:00 PM.
- I.1.d. For calculating traded prices, last traded yield as derived from T+0/T+1 reported trades would be taken after considering point (a), (b) and (c) above after ignoring all market inter scheme trades and freak trades.

(D.II.1) If traded price is not available for the security to be valued then traded prices of securities of similar maturity issued by the same issuer which have residual maturity (as per table given below) from the security held in the portfolio would be considered.

The criteria for considering the securities having similar maturity is as follows: For all securities issued by the **same issuer/ similar credit**, to be considered as of similar maturity, traded prices would be considered for securities which have a residual maturity (as per the table below).

Residual Maturity of security	Between 61 to 90 days	Between 91 -days and 1 year	1 year and above
Days Band within a	Fortnightly calendar month	Calendar month	Same Year

(D.II.2) Additional Points for traded prices:

- (II.2) a. The traded yield so determined daily from (D.I.1) or (D.II.1) above would be noted. The spread at which it has traded over its relevant benchmark curve would be calculated. This spread would be used for pricing the security when its traded price is not available. This spread thus, automatically gets revised based on newly traded or polled data on a daily basis
- (II.2) b. Quantum Mutual Funds First trade / Self Trade of 5 crore or more would be considered for valuation at the level reported. But if on the same day, market traded price satisfying (D.I.1) or (D.II.1) is available, then market traded price for valuation would be considered over the QMF's self trade and the spread over/under the benchmark curve for the same will be recorded.
- (II.2) c. In days with high intra-day volatility, traded data not reflecting the end of the day level would be ignored even if they satisfy all the criteria laid above. The high volatility may arise on day of major events like policy day, major economic reforms announced by the government, liquidity crisis etc. The rationale for the same would be suitably documented.
- (II.2.) d. 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 all call or maturity and in case of securities with put option the values would be higher of all put or maturity.

(D.III) If traded prices are not available and/or does not represent fair valuation, then for that day:

The Security would be valued based on the spread over/under the benchmark yield curve for the relevant maturity as prepared and provided by the external valuing agency. These benchmarks are segregated based on tenure, sector, external credit rating and type of instrument. The determination of benchmark yield curve is as per the methodology approved by AMFI.

Securities falling in the respective buckets, sector and credit rating category would be valued as per the yield given in the benchmark curve plus the most recent recorded spread, as derived from (D.II.2) to determine the valuation yield of the security for the day.

(D.III.1) Criteria For Review Of Spread Used In Valuation

- (III.1) a. In case of highly illiquid securities, the spreads are polled once a fortnight for fine tuning of the levels. The polls are also taken from AMC holding the security alongwith other market participants.

E. Perpetual Debt instruments, Derivatives, Securitized and structured debt instruments :

The Mutual fund will invest in these instruments only after the AMC formulates a valuation methodology for these instruments.

**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 whichever 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 within 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.

Reschedule of interest / redemption:

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

- (i) In case it is a first reschedule 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 reschedule 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.