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 endevour 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 valued at the closing price on the National Stock Exchange. Where the equity share is not traded on the National stock exchange, the closing price of Bombay Stock Exchange is 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 Nifty/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 be willbe 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 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 is valued at the same day NAV as available on AMFI website. If the same day NAV is not available it is valued at latest available NAV.

6) Valuation of Exchange Traded Fund (ETF)

ETFs are - valued at closing market prices available on the stock exchange i.e.NSE. If the closing price not available on NSE then the closing prices available on BSE is considered. If price at both NSE and BSE are not available the latest NAV of the fund is 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 (QGF) , 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 closing market 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 is 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 is 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:

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 Cumpulsory Convertible Debentures (CCD)

CCD post ex right date till the application / investment is made is valued at traded closing price If the traded closing price is not available then it is valued at a price arrived at after providing illiquidity discount to the underlying shares closing price on the exchange less the offer price of CCD. CCD once applied for investment will be valued at traded closing price if available on the exchanges. If the CCD is not listed and traded price not available then it is valued at offer price plus the price arrived after providing illiquidity discount to(underlying shares closing price less the offer price of CCD). Illiquidity Discount will be as decided by the Valuation Committee of the executives of the AMC. On conversion into equity shares it will be valued at it's underlying shares closing price.

13) Valuation of Gold

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

1. LBMA Gold Fixing: As per SEBI Guidelines Gold is 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 from Bloomberg. If this is not available then the average international gold spot price for the last half an hour of trade prevailing before the closing of the international spot gold markets as available on Bloomberg (code: Golds Comdty) will be considered for valuation.

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/troy ounces. For conversion of Troy Ounces to Kilogram and adjustment for purity to 0.995 fineness we use the conversion factor of 31.99. Depending on the fineness of gold bar the adjustment factor would change. In case of 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, is added as applicable as prescribed by relevant authorities to arrive at the final landed price of gold. However GST is not being added to the valuation prices since as per the GST Act input credit is availabile when the Gold is bought/Sold. GST paid/received during purchase/sale transactions will be accounted as current assets/current liabilities in the books of accounts.

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 CBLO, Repos and Fixed Deposits

These instruments are valued on interest accrual/ amortization basis**.**

16) Valuation policy for Debt and Money Market instruments

The AMC has appointed ICRA Management Consulting Services Limited (IMaCS) and CRISIL Ltd, an independent external valuation agencies approved by AMFI, to carry out the daily valuation of all debt and money market instruments held in the Schemes of Quantum Mutual Fund by following all the procedures as laid below and provide the daily MTM prices for valuation with suitable rationale and justification. Securities held in the Schemes are valued at the average of the prices provided by these 2 valuation agencies.

A. Government Securities (G-Secs), Treasury Bills (T-bills), cash management bills and State Development Loans (SDLs)

The Government of India T-Bills, bonds and State development loans of any maturity is valued at average of the prices provided by IMaCS and CRISIL using their proprietary methodology which is approved by AMFI. Security level valuation done by these 2 agencies on daily basis,incorporates all trades reported on CCIL NDS-OM and RBI NDS. The price provided by IMaCS & CRISIL is used even in case of AMC's own/self-trade.

B. Non-convertible debentures (NCDs) and Money Market instruments: Procedures for valuation of securities maturing less than or equal to 60 days)

Security valuation is done at the average of the prices provided by IMaCS and CRISIL.

(B.I) All securities valued daily based on available traded prices on recognized trading and reporting platform.

B.I.1. Criteria for considering traded prices for daily valuation:

(I.1) a. Trades reported on the Clearcorp (F-TRAC), NSE and BSE is considered for valuation. Priority order for Commercial Paper (CP), Certificate of Deposit (CD) is Clearcorp (FTRAC). For NCDs NSE and then BSE

(I.1) b. All Inter Scheme Transfer (IST) and freak trades are being ignored.

(I.1) c. Minimum volume and number of trades criteria after removal of IST & freak trades :

i. There should be at least 2 trades aggregating to 100 crore or more for CP and CD.
ii. In case of NCDs there should be minimum of two trades aggregating to 20 crore or more in multiples of 5 crore.

(**I.1) d.** For calculating traded prices, weighted average of the yields as derived from T+0/T+1 reported trades would be taken after considering point (a), (b) and (c) above.

Freak trade in a particular security is identified in following way:

In case there are multiple trades in a security and the difference in traded high and low yield is more than 0.10%, then at least one of the trade is a freak trade. The correct trades are identified based on trades of similar security papers of similar maturity or by polling and judgment of the valuation agnecy.The weighted average would then be calculated for the correct trades by following point (a), (b), (c) and (d)

(B.II) If trades, subject to the above conditions is not available for the security to be valued, then trades of securities of similar maturity issued by the same issuer is considered for valuation.

B.II.1. Criteria for considering security of similar maturity for traded yields :

(**II.1) a.** The criteria for considering the securities having similar maturity is as follows: For all securities issued by the ***same issuer*** to be considered as of similar maturity, traded prices would be considered for securities which have a residual maturity (as per the table below) from the security held in the portfolio.

Residual maturity of security	**Between 0 to 60 days**
Days Band within a	Calendar Fortnightly Buckets

(II.1) b. In case there are two or more securities of similar maturity which is subject to and satisfies all the criteria laid above in (B.I.1) then weighted average yield of all trades will be taken as the valuation yield for deriving MTM price for the portfolio security.

B.II.2. Additional Points for traded prices:

(II.2) a. (i) **For traded data in case of CDs;** if the deviation in weighted average traded yield in comparison to the previous day valuation yield is more than the change in benchmark matrix yield over the previous day matrix yield by (+/-) 0.05%, then that traded data would be ignored.

(ii) **For traded data in case of CPs/NCDs;** if the deviation in weighted average traded yield in comparison to the previous day valuation yield is more than the change in benchmark matrix yield over the previous day matrix yield by (+/-) 0.15%, then that traded data would be ignored.

(II.2) b. The traded yield so determined daily from (B.I.1) or (B.II.1) above would be noted. The spread at which it has traded over it's 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.

(II.2) c. Self Trade of 5 crore or more would be considered for valuation at the purchase yield. If there are multiple self-trades on same day , then the weighted average yield of those trades would be considered. But if on the same day, market traded price satisfying (B.I.1) or (B.II.1) is available, then market traded price for valuation would be considered over the AMC self trade and the spread over/under the matrix for the same will be recorded.

For new security purchased in a lot size of less than 5 crores, will be valued at purchase spread keeping constant over matrices till it's maturity. This security will be mark to market based on traded prices only when the security holding crosses 5 crores or more. If the same security is already there in the portfolio of same scheme or other scheme , on 1st day it will be valued at the spread at which it is being currently valued plus the matrices. If on 1st day the trades prices are available satisfying (B.I.1) or (B.II.1) it will be valued considering the same. On subsequent days it will be valued by following the criteria's mentioned in (B.I.1) or (B.II.1)

(II.2) d. 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, credit rating changes, liquidity crisis etc. The rationale for the same would be suitably documented.

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

Securities falling in the respective buckets, sector and credit rating category would be valued as per the yield given in the benchmark yield matrix plus the most recent recorded spread, as derived from (B.II.2) to determine the valuation yield of the security for the day. The determination of benchmark yield matrix is as per the methodology approved by AMFI on generation on yield matrices and are segregated based on tenure, sector, external credit rating and type of instrument

B.III.1. Criteria For Review Of Spread Used In Valuation

(III.1) a In case the spread of a particular security is not adjusted through traded prices in a calendar week, the spreads will be reviewed on the first working day of every subsequent week based on either of the following:-

- Primary market trades of the same issuer
- Similar credit analysis of traded data
- Opinion of IMaCS / CRISIL with proper rationale and justification

The similar credit means the securities of issuers of same long term credit rating as given by a SEBI registered credit rating agency which trade at similar levels. The list of these securities is maintained with the groups of similar credit issuers. For using traded data of similar credit, all criterions mentioned in (B.I.1, B.II.1 and B.II.2) will have to be followed.

B,IV.1. Credit Risk Review

The AMC will continuously watch the liquidity and credit worthiness (Credit Risk) of the securities in its portfolio.The AMC would assess whether the illiquid securities valuation provided by IMaCS and CRISIL (respectively) are at fair value. If some securities in its portfolio are not at fair value due to perceived deterioration of its credit worthiness or have become illiquid, the AMC may mark down the credit rating of the security or give illiquid discount to the illiquid securities in its portfolio. This is done to bring the valuation at its expected fair value. These securities mark down of credit worthiness or illiquid discount would be arrived as per inputs / justification given by the Investment Committee/valuation Committee in good faith for review and approval by the valuation committee and would be different from the valuation derived by IMaCS/CRISIL.

C. Non Convertible Debentures & Money Market Instruments (Procedures for valuation of securities maturing greater than 60 days)

IMaCS and CRISIL provides valuation prices for all securities of tenor greater than 60 days maturity held in the portfolio. Security valuation is done at the average of prices provided by these 2 valuation agencies. The IMaCS and CRISIL valuation methodology for greater than 60 days residual maturity has been approved by the AMFI valuation committee and is as per the agreement between the AMC and 2 valuation agencies i.e.IMaCS and CRISIL. The policy and procedures are subject to changes based on discussion between AMFI Valuation Committee,IMaCS and CRISIL.

IMaCS and CRISIL will regularly keep track of AMFI Valuation Committee’s suggestion on methodology for scrip level valuation of debt securities and changes recommended by them in the valuation methodology for debt securities having maturity greater than 60 days. IMaCS and CRISIL will ensure to facilitate the same in the valuation prices provided. Each change will be monitored and incorporated in the valuation policy during periodical review from time to time.

The Valuation Committee will identify and deal with changes as per AMFI Valuation Committee’s suggestion as stated above in the valuation process / procedure as mentioned (or not) in this policy. The decision of the valuation committee for incorporating the AMFI Valuation Committee’s suggestion will be informed to the Board of the AMC and Trustee in their next board meeting for their reference and / or ratification if required.

Any new security purchased by the Schemes which does not exist in the database of IMaCS & CRISIL is valued at purchase yield on the date of purchase and as per IMaCS & CRISIL valuation policy afterwards. Any new security purchased which exists in the database of IMaCS & CRISIL is valued as per the IMaCS & CRISIL Valuation Policy as approved by AMFI.

Policies and procedures to be followed by IMaCS & CRISIL in valuation of securities maturing greater than 60 days is as mentioned below:-

Heads	Criteria - IMACS	Criteria - CRISIL
Priority order for considering data for valuations	Trades>Polls>Primary>Carry forward of Spread	Trades>Polls>Primary>Same/Similar issuer similar maturity>Carry forward of Spread
Data Sources: Priority order - Reporting platforms	FTRAC > NSE > BSE	CPCD - CCIL FTRAC & Bonds - NSE exchange traded > NSE listed/unlisted > BSE
Data Sources : Priority order - Primary, Secondary, polled data	Secondary > Market Polls > Primary	Secondary > Market Polls > Primary
Priority order : In case same ISIN trade is not available in secondary market	Same issuer, similar maturity > Similar issuer with similar maturity > previous day spread	Same issuer, similar maturity > Similar issuer with similar maturity > previous day spread
Trade Size : Bonds	Minimum 25 Crore and more for primary and 5 crore for secondary trades	Minimum 25 Crore and more for primary and 5 crore for secondary trades. IST Trades at NSE are ignored
Trade Size : CPCD	Minimum 25 Crore and more, for both primary and secondary.	Minimum 25 Crore and more, for both primary and secondary
Cut off time of trades considered from reporting platform	4.30 p.m.	4.30pm
Settlement convention	T+1	T +1
Last traded / Weighted average yield is used	Last traded Yield	Last traded Yield
Identification of outlier : Liquid paper	5 bps over and above the matrix movement	10bps over and above the matrix movement for bonds and 5 bps over and above the matrix movement for CPCDs
Identification of outlier : illiquid paper	Illiquid: 30 bps over and above the matrix movement	Semi Liquid: 15 bps over and above the matrix movement, Illiquid: 30 bps over and above the matrix movement
Process followed for illiquid outlier trade - inclusion in valuation	The trade for illiquid outlier trade is included in the valuation after confirming with market participants whether or not the trade is good. If confirmed the trade is good, it is included in the valuation. If not the security is kept under yield watch. In case there is trade for the security at similar levels on the next day or previous day’s trade is confirmed, the trade is considered for valuations	The trade for illiquid outlier trade is included in the valuation after confirming with market participants whether or not the trade is good. If confirmed the trade is good, it is included in the valuation. If not the security is kept under yield watch. In case there is trade for the security at similar levels on the next day or previous day’s trade is confirmed, the trade is considered for valuations

Classification of similar securities / Clustering based on maturity		
Up to 3 months	Fortnight buckets	fortnight buckets
3 months - 1 year	Monthly buckets	Monthly buckets (quarterly bucket for CPs)
1 year - 5 year	Quarterly buckets – For 1 year to 3 year and thereafter yearly buckets.	**1yr to 3yr** -Calendar quarter bucket **Beyond 3 years for Liquid Issuers** -Calendar year **Semi liquid and Illiquid Issuers Exception as below** ***Between 3 yr to 5 yr*** -Traded spread to be applied between 3 year to 7 year *
5 year and above	Yearly buckets	**Beyond 5 years for Liquid Issuers** -Calendar year **Semi liquid and Illiquid Issuers Exception as below** ***Between 5 yr to 7 yr*** -Traded spread to be applied between 3 year to 7 year* ***Greater than 7 yr*** - Traded spread to be applied to all maturities greater than 7 year
In case of no trade on valuation day	Spread constant, reviewed at least fortnightly	Spread constant, reviewed at least fortnightly
In case of no trade post issuance (highly illiquid securities)	Issuance spread used, if no trades available post issuance, polling is done to bring the levels in line with the market	Issuance spread used, if no trades available post issuance, polling is done to bring the levels in line with the market
Bond valuer used	IMaCS Bond valuation Tool (subject to the terms of the Agreement)	CRISIL Bond valuation Tool (subject to the terms of the Agreement)
Valuation of Sat-Sun and other holidays	Constant yield, settlement date will change	Constant yield, settlement date will change
Maintenance of historical valuation record, quality controls etc.	Yes process in place	Yes process in place
Detailed methodology to arrive at the price from the relevant yield	Standard methodology as per IMaCS Bond valuation Tool	Standard methodology as per CRISIL Bond Valuer.

Credit Risk Review :-

The AMC will continuously watch the liquidity and credit worthiness (Credit Risk) of the securities in its portfolio.The AMC would assess whether the illiquid securities valuation provided by IMaCS and CRISIL (respectively) are at fair value. If some securities in its portfolio are not at fair value due to perceived deterioration of its credit worthiness or have become illiquid, the AMC may mark down the credit rating of the security or give illiquid discount to the illiquid securities in its portfolio. This is done to bring the valuation at its expected fair value. These securities mark down of credit worthiness or illiquid discount would be arrived as per inputs / justification given by the Investment Committee/Valuation Committee in good faith for review and approval by the valuation committee and would be different from the valuation derived by IMaCS/CRISIL.

D. Perpetual Debt instruments, Derivatives, Securitized and structured debt instruments

The policy does not provide for valuation methodology for Perpetual, Hybrid Debt instruments; Derivatives and Securitized/Structured Debt instruments and the AMC undertakes to invest in these instruments only after formulating a fair valuation methodology for the same

1. **Other points to be considered:-**

   a. Fair valuation for a security once determined will be applied to all schemes of the AMC.

   b. For securities with Put and call option, the put/call date is 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.

   c. Weighted average/ Last traded YTM is rounded to 4 decimal points.

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 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.