QUANTUM MUTUAL FUND

INVESTMENT VALUATION POLICY & PROCEDURES

Version 17

INVESTMENT VALUATION POLICY

The Securities and Exchange Board of India (SEBI) has outlined investment valuation under SEBI (Mutual Funds) Regulations, 2026 as amended from time to time to compute and carry out valuation of its investment in the portfolio

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

a) The valuation of investments shall be based on principal of fair valuation i.e. 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) Investment in new type of securities/assets by the mutual fund scheme shall be made only after the valuation methodologies for such securities are established and approved by the Board of the asset management company.

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

e) The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.

f) The Board of Trustee and the Board of asset management company shall be updated on findings of periodic review of valuation policies and procedures by asset management company and auditor, as mentioned in these regulations.

g) Address conflict of interest.

h) Disclosure of policy in the Statement of Additional Information and on the website of the Asset Management Company / Mutual Fund.

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

j) Detection and prevention of incorrect valuation.

k) Inter Scheme Transfer.

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 along with implementation of any new changes in Valuation of securities as per the directives of SEBI. 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 types 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 endeavor 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 lead 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.

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 and trading value is less than Rs. 5 lacs in a month, then it will 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 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.

iii) 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 annual audited accounts shall be considered for this purpose.

iv) 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.

ii) 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 share is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that share.

If an equity share 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.

In case of any other type of capital corporate action event or change in valuation methodology other than mentioned above, the same shall be considered on case-to-case basis with necessary approval of 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)

1. Domestic Mutual Fund ETF Units

i) Valuation of domestic ETF's would be at closing price on NSE, if the closing price is not available on NSE then closing price on BSE would be considered. If the prices are not available on both NSE & BSE then valuation would be at fair value/NAV of the day.

2. Overseas Mutual Fund ETF Units

i) Overseas Mutual Fund ETF units listed and traded on exchange on valuation date would be valued at closing price (universal close price) as on the valuation date. Exchange would be as decided by Valuation Committee.

ii) Overseas Mutual Fund ETF units listed but not traded on valuation date would valued at previous day closing price.

iii) Unlisted Overseas Mutual Fund ETF units would be valued at their last available NAV as on the valuation date.

iv) The price in local currency would be obtained by applying reference rate as declared by FBIL for respective currency.

v) On valuation date, all assets and liabilities in foreign currency shall be converted in Indian Rupees by using reference rate declared on FBIL (erstwhile RBI Reference rate) for respective currency.

vi) All the corporate action for Overseas Mutual Fund ETF units will be recorded on the same basis as valuation of Overseas Mutual Fund ETF units. Dividend receivables on ex-date would be converted into INR by applying reference rate declared on FBI for respective currency.

7) 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.

8) **Valuation of Preference Shares**

Preference shares / securities shall be valued at closing price on Stock Exchange. If the closing price on Exchange is not available, then average of valuation prices provided by valuation agencies i.e. CRISIL/ICRA would be considered. If the price is not available from both then it will be valued as per the approval of the valuation committee."

9) Valuation of Shares on De-merger and 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. Valuation Committee will decide whether the illiquidity discount to be applied wherever required while arriving at final valuation price. 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. Valuation Committee will decide the illiquidity discount to be applied wherever required while arriving at final valuation Price. 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 or change in valuation methodology other than mentioned above, the same shall be considered on case-to-case basis with necessary approval of Valuation Committee.

In case of merger of 2 companies post-merger valuation price would be market price of merged entity as available on NSE. Post merger if merged company is not listed then aggregate market price of last day of merger date of both companies to be considered. In case of any other type of capital corporate action event or change in valuation methodology other than mentioned above, the same shall be considered 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 to 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 = n/m x (Pex - Pof) Where

Vr = Value of Rights

n = No. of rights offered

m = No. of original shares held

Pex = Ex-right price

Pof = Rights offer price

vi. Valuation Committee will decide whether the illiquidity discount to be applied wherever required while arriving at final valuation Price

vii) In case of any other type of capital corporate action event or change in valuation methodology other than mentioned above, the same shall be considered on case-to-case basis with necessary approval of Valuation Committee.

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:-

Physical gold with a purity of 99.5% (fineness of 995 parts per thousand) will be valued based on the polled spot prices for gold of similar purity, as published by a recognized stock exchange and used for the settlement of physically delivered gold derivatives contracts. Applicable weightage to be considered for valuation. The designated exchange for this purpose is the Multi Commodity Exchange of India Limited (MCX). Fineness of 999 purity Physical Gold to be valued using the poll spot price for 995 purity (995 Spot price * (conversion factor for 999 purity / conversion factor for 995 purity, i.e. spot price * 32.12/31.99) adjusted for purity.

In the event MCX does not publish polled spot prices for gold of 99.5% purity, valuation may be carried out using prices published by any other credible and widely accepted source, as per SEBI guidelines and as approved by valuation committee. If such prices are not available from either MCX or prices published by credible sources as stated above does not represent market value of gold, physical gold will be valued at previous day price or at fair value, as determined by the Valuation Committee.

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 AMC has appointed ICRA Analytics Ltd (erstwhile Icra Management Consulting Services Ltd) (ICRA) and CRISIL Ltd, independent external valuation agencies approved by AMFI, to provide the valuation of all debt and money market instruments held in the Schemes of Quantum Mutual Fund on daily basis.

ICRA and CRISIL provide security level valuation prices for all securities held in the portfolio. Securities shall be valued at the average of prices provided by these 2 valuation agencies.

Any new security purchased by the Schemes for which valuation price has not been provided by ICRA & CRISIL will be valued at purchase yield on the date of purchase and till the valuation prices are received from both valuation agencies. In case there is more than 1 trade, valuation would be at the weighted average purchase yield of all trades.

Any new security purchased, which exists in the valuation database of ICRA & CRISIL will be valued at the average of prices provided by the ICRA & CRISIL.

The policy, procedures and methodology followed by these two valuation agencies may undergo change based on discussion between AMFI Valuation Committee and the valuation agencies and will be subject to review and approval by AMFI.

ICRA and CRISIL will regularly keep track of AMFI Valuation Committee's suggestion on methodology for security level valuation of debt securities and changes recommended by them in the valuation methodology for debt securities.
ICRA and CRISIL will ensure to facilitate the same in the valuation prices provided to Quantum Mutual Fund. Such changes will be monitored and incorporated in the valuation policy during periodical review from time to time.

Waterfall Mechanism & Polling Process required for valuation of money market and debt securities to be followed by Valuation Agencies as per the SEBI Circular (SEBI/HO/IMD/DF4/CIR/P/2019/102; Dated 24th September, 2019) and AMFI Best practice guidelines (Circular No. 135/BP/83/2019-20; 18th November, 2019) and any other changes done thereafter 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.

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 AMFI approved agencies ICRA and CRISIL.

B. Non-Convertible Debentures & Money Market Instruments

All the money market instruments and NCDs shall be valued at average of the prices provided by AMFI approved agencies ICRA and CRISIL.

C. Interest Rate Swap (IRS)

Shall be valued based on average of prices as provided by the agency(ies) appointed by AMFI (Currently CRISIL and ICRA).

D. Fixed Deposits

These instruments are valued on Cost Plus interest accrual/ amortization basis

E. Tri-party Repo (TREPS), Repos/Reverse Repo

Tri-Party Repo (TREPS)/Reverse Repo/Corporate Bond Repo with overnight maturity securities shall be valued at cost plus accrual basis. Tri-Party Repo (TREPS)/Reverse Repo/Corporate Bond Repo, except overnight Maturity Securities shall be valued at average of security level prices obtained from valuation agencies. Overnight Maturity Securities means securities maturing on T+ 1 business day. In case security level prices given by valuation agencies are not available, then such securities will be valued at purchase yield on the date of purchase.

F. Valuation of Money Market & Debt Securities Rated below Investment Grade

All money market and debt securities which are downgraded/rated below investment grade (rating below "BBB-") shall be valued at the price provided by AMFI approved valuation agencies CRISIL and ICRA.

Till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies.

Consideration of Trade after credit event

In case of trades during the interim period when the security is below investment Grade, Valuation Agencies shall consider the traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation.

The trades referred to above shall be of a minimum size as determined by valuation agencies.

The AMC may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

- The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded.

- The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

- The rationale for deviation along-with details shall also be disclosed to investors under a separate head on the website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

Credit Risk Review

The AMC will continuously watch the liquidity and credit worthiness of the securities in its portfolio. The AMC would assess whether the illiquid securities valuation provided by ICRA 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 illiquidity discount to the illiquid securities to bring the valuation at its expected fair value.

These securities mark down of credit worthiness, or illiquidity 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 ICRA/CRISIL.

G. 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

With reference to SEBI Circular no. SEBI/HO/IMD/IMD-I PoD-1/P/CIR/2024/163 dated November 26, 2024 below changes would be applicable effective 1st January 2025.

1. All money market and debt securities including floating rate securities shall be valued at average of security level prices obtained from valuation agencies.

2. In case security level prices given by valuation agencies are not available for a new security then such security may be valued at purchase yield on the date of allotment / purchase.

15) Valuation of CDMDF:

Units of Corporate Debt Market Development Fund (CDMDF) and would be valued at the published NAV on AMFI Website as on the valuation day.

Other points to be considered

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

For securities with Put and call option, Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly.
For securities with put/call options on the same day with different prices; below methodology will be followed
-Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price
-Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price
-In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date
Weighted average/ Last traded YTM is rounded to 4 decimal points.

ANNEXURE TO VALUATION POLICY

AMFI CIRCULAR NO: 135/ BP/ 83/ 2019-20 dated: November 18, 2019

I. AMFI GUIDELINES ON VALUATION APPROACH FOR TRADED AND NON-TRADED MONEY MARKET AND DEBT SECURITIES

SEBI, vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24,2019 on Valuation of money market and debt securities, has laid down the broad principles for considering traded yields for the purpose of valuation of money market and debt securities. Paragraph 2.1of the aforesaid circular prescribes that AMFI shall ensure that valuation agencies have a documented waterfall approach for valuation of money market and debt securities. In this regard, the following are the areas identified for issuing standard guidelines.

1. Waterfall mechanism for valuation of money market and debt securities
2. Definition of tenure buckets for similar maturity
3. Process for determination of similar issuer
4. Recognition of trades and outlier criteria
5. Process for construction of spread matrix

Part A: Valuation of Money Market and Debt Securities other than G-Secs

1. Waterfall Mechanism for valuation of money market and debt securities:
The following shall be the broad sequence of the waterfall for valuation of money market and debt securities:

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN
ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below)
iii. VWAY of secondary trades of same issuer, similar maturity
iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity

v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below)
vi. VWAY of secondary trades of similar issuer, similar maturity.
vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity
viii. Construction of matrix (polling may also be used for matrix construction)
ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1

Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2

Some examples of exceptional circumstance would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.

Further, the exact details and reasons for the exceptional circumstances which led to polling shall be documented and reported to AMCs. Further, a record of all such instances shall be maintained by AMCs and shall be subject to verification during SEBI inspections.

Note 3

All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note4

It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would be considered exceptional events:

i. Monetary / Credit Policy
ii. Union Budget
iii. Government Borrowing/ Auction Days
iv. Material Statements on Sovereign Rating
v. Issuer or Sector Specific events which have a material impact on yields
vi. Central Government Election Days
vii. Quarter end days

In addition to the above, valuation agencies may determine any other event as an exceptional event. All exceptional events along-with valuation carried out on such dates shall be documented with adequate justification.

2. Definition of tenure buckets for Similar Maturity

When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond to be priced. However, as

it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

Residual Tenure of Bond to be priced	Criteria for similar maturity
Upto 1 month	Calendar Weekly Bucket
Greater than 1 month to 3 months	Calendar Fortnightly Bucket
Greater than 3 months to 1 year	Calendar Monthly Bucket
Greater than 1 year to 3 years	Calendar Quarterly Bucket
Greater than 3 years	Calendar Half Yearly or Greater Bucket

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.

b. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1 year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.

c. The changes/ deviations mentioned in clauses a and b, above, should be documented, along with the detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer do not always refer to issuers which trade at same yields, but may carry spreads amongst themselves & move in tandem or they are sensitive to specific market factor/s hence warrant review of spreads when such factors are triggered.

i. Issuers within same sector/industry and/or
ii. Issuers within same rating band and/or
iii. Issuers with same parent/ within same group and/or
iv. Issuers with debt securities having same guarantors and/or
v. Issuers with securities having similar terms like Loan Against Shares (LAS)/ Loan Against Property (LAP)

The above criteria are stated as principles and the final determination on criteria, and whether in combination or isolation shall be determined by the valuation agencies. The criteria used for such determination should be documented along with the detailed rationale for the same in each instance. Such records shall be preserved for verification. Similar issuers which trade at same level or replicate each other's movements are used in waterfall approach for valuations. However, similar issuer may also be used just to trigger the review of

spreads for other securities in the similar issuer category basis the trade/news/action in any security/ies within the similar issuer group.

4. Recognition of trades and outlier criteria

i. Volume criteria for recognition of trades (marketable lot)

Paragraph 1.1.1.l(a) of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under.

The following volume criteria shall be used for recognition of trades by valuation agencies:

Parameter	Minimum Volume Criteria for marketable lot
Primary	INR 25 er for both Bonds/NCD/CP/ CD and other money market instruments
Secondary	INR 25 er for CP/ CD, T-Bills and other money market instruments
Secondary	INR 5 Cr for Bonds/NCO/ G-secs

Trades not meeting the minimum volume criteria i.e. the marketable lot criteria as stated above shall be ignored.

ii. **Outlier criteria**

It is critical to identify and disregard trades which are aberrations, do not reflect market levels and may potentially lead to mispricing of a security or group of securities. Hence, the following broad principles would be followed by valuation agencies for determining outlier criteria.

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.

b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.

c. Potential outlier trades which are identified through objective criteria defined above will be validated through polling from market participants. Potential outlier trades that are not validated through polling shall be ignored for the purpose of valuation.

d. The following criteria shall be used by valuation agencies in determining Outlier Trades

Liquidity Classification	Bps Criteria (Yield movement over Previous Day yield after accounting for yield movement of matrix)		
	Upto 15 days	15-30 days	Greater than 30 days
Liquid	30 bps	20 bps	10 bps
Semi-liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

The above criteria shall be followed consistently and would be subject to review on a periodic basis by valuation agencies and any change would be carried in consultation with AMFI.

e. In order to ensure uniform process in determination of outlier trades the criteria for liquidity classification shall be as detailed below.

Liquidity classification criteria - liquid, semi-liquid and Illiquid definition

Valuation agencies shall use standard criteria for classifying trades as Liquid, Semi-Liquid and illiquid basis the following two criteria

a. Trading Volume
b. Spread over reference yield

Such criteria shall be reviewed on periodic basis in consultation with AMFI.

Trading Volume (Traded days) based criteria:

Number of unique days an issuer trades in the secondary market or issues a new security in the primary market in a calendar quarter

- Liquid >=50% of trade days
- Semi liquid >=10% to 50% trade days
- Illiquid <10% of trade days

Spread based criteria:

Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as upto 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD- upto 25 bps for liquid; >25- 50 bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as average spread of issuer over Al+/AAA CD Bank matrix).

The thresholds shall be periodically reviewed and updated having regard to the market.

The best classification (liquid being the best) from the above two criteria (trading volume and spread based) shall be considered as the final liquidity classification of the issuer. The above classification shall be carried out separately for money market instruments {CP/ CDs) and bonds.

5. Process for construction of spread matrix

Valuation agencies shall follow the below process in terms of calculating spreads and constructing the matrix:

Steps	Detailed Process
Step 1	**Segmentation of corporates-** The entire corporate sector is first categorised across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: Public Sector Undertakings/Financial Institutions/Banks; Non-Banking Finance Companies -except Housing Finance Companies; Housing Finance Companies; Other Corporates
Step 2	**Representative issuers** - For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating {I.e. **"AAA"** or **AA+).** Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any

	compression in spreads between AA and A rated segment and so on.
Step 3	**Calculation of benchmark curve and calculation of spread** - Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1 month till 20 years and above. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given
Step 4	The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

Part B: Valuation of G-Secs {T-Bill, Cash management bills, G-Sec and SDL)

The following is the waterfall mechanism for valuation of Government securities:

- VWAY of last one hour, subject to outlier validation
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM), subject to outlier validation
- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation
- Carry forward of spreads over the benchmark
- Polling etc.

Note:

1. VWAY shall be computed from trades which meet the marketable lot criteria stated in Part A of these Guidelines.
2. Outlier criteria: Any trade deviating by more than+/- 5 bps post factoring the movement of benchmark security shall be identified as outlier. Such outlier shall be validated through polling for inclusion in valuations. If the trades are not validated, such trades shall be ignored.

II. AMFI GUIDELINES ON POLLING PROCESS FOR MONEY MARKET AND DEBT SECURITIES

Please refer to Paragraph 2.2.5 of SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, which prescribes that considering the importance of polling in the valuation process, guidelines shall be issued by AMFI on polling by valuation agencies and on the responsibilities of Mutual Funds in the polling process, as part of the waterfall approach for valuation of money market and debt securities. In this regard, the following Guidelines were approved by the Board of AMFI, in consultation with SEBI.

Polling Guidelines:

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account actors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.
2. Polling will be carried out on a daily basis by the valuation agencies, in terms of points 9-11 below.
3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.
4. Median of polls shall be taken for usage in valuation process.
5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.
6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.
7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:
   a. Conduct polls with a larger universe of pollers.
   b. Increase the frequency of polling
8. Suo moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through repolling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of repolling and subsequent changes in valuation on repolling, if any. Such records shall be preserved by the valuation agencies, for verification.
9. Polling will be done for two sets of securities, Benchmark & Others.
10. Benchmark will be defined for the following categories across tenors.
    a) Treasury Bills
    b) Central Government Securities

c) State Government Securities
d) AAA PSU / PFI / PSU Banks
e) AAA Private
f) NBFC
g) HFC
h) Any other as required for improving fair valuations.

11. Polling shall be conducted in the following two scenarios:
a) Validation of traded levels if they are outlier trades.
b) Non traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).

12. Best efforts should be made by poll submitters to provide fair valuation of a security.

13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency

14. AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects:

a. the process of participating in a polling exercise.
b. identify the roles and responsibilities of persons participating in the polling.
c. include policies and procedures for arriving at the poll submission
d. cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure/ skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC, for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).

16. AMCs shall ensure that participation in the polling process is not mis-used to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of point no. 14 above, shall also be personally liable for any misuse of the polling process.

17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.