



**AXIS PENSION FUND MANAGEMENT LIMITED**

**INVESTMENT POLICY**

**VERSION 04**

**JANUARY 2024**

**Policy Signoff & Circulation List**
**Signoff**

<b>Name</b>	<b>Position</b>	<b>Signature</b>	<b>Date</b>
Sumit Shukla	Chief Executive Officer	Approved	September 6, 2022
Rohit Harlalka	Chief Investment Officer	Approved	September 6, 2022
Shail Deshpande	Chief Compliance Officer	Approved	September 6, 2022
Rohit Harlalka	Chief Investment Officer	Approved	January 11, 2023
Shyamsunder Bhat	Chief Investment Officer	Approved	April 12, 2023

**Activity Log**

<b>Sl. No.</b>	<b>Version No.</b>	<b>Date of approval by Investment Committee</b>	<b>Date of approval by Board of Directors</b>	<b>Revised Policy effective date</b>	<b>Brief description / Nature of change</b>
1	01	September 6, 2022	September 6, 2022	September 6, 2022	Initial release
2	02	January 11, 2023	January 11, 2023	January 11, 2023	Modifications pursuant to change in investment guidelines
3	03	April 12, 2023	April 12, 2023	April 12, 2023	Updation relating to some investment guidelines, and separation of shareholder investment policy
4	03	October 9, 2023	October 10, 2023	N.A.	Half-yearly review with no changes
5	04	January 9, 2024	January 10, 2024	January 10, 2024	Modifications pursuant to change in investment guidelines (definitions of investment limits) and PFRDA inspection observations (separation of broker empanelment policy)

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## **1. Introduction**

### **1.1 Scope of Policy**

This Investment Policy ('Policy') at all times will comply with the PFRDA regulations, circulars, and/or directions. Any content of this document, if in deviation from any PFRDA regulations, circulars, and/or directions, the PFRDA regulations, circulars and/or directions shall prevail.

The purpose of this Policy is to set forth the investment objectives for all the invested assets under different fund categories of AXIS PENSION FUND (henceforth referred to as 'Axis PF' in this document,). This document also forms the basis of Standard Operating Procedures (SOP) which are documented separately. This policy details:

- Investment philosophy, objectives, and processes.
- Investment organisation structure.
- Investment-related policies in respect of fixed income securities, equity investment framework, and money market instruments.
- Investment related valuation policies.

### **1.2 Investment Philosophy, Objectives, and Strategy:**

#### **Investment Philosophy**

Pension Fund Manager is accountable for managing investments made by NPS account holders and offers the best returns based on the investment approach selected by the NPS account holders.

Axis Pension Fund Management Company Limited is a registered Pension Fund Manager. It seeks consistent and superior long-term returns with a well-defined and disciplined investment approach symbolizing integrity and transparency, to benefit all stakeholders. The investment philosophy takes into account asset liability management, market risks, portfolio duration, liquidity considerations and credit risk defined in the policy framework, in decision-making process.

#### **Investment Objectives**

Invested assets are all the investments made in market instruments using the Subscribers' funds under various schemes and Shareholder Fund. The Pension Fund Manager will maintain separate schemes, each investing in a different asset class.

The objective of this policy is to assist Axis PF in effectively investing, supervising, monitoring and evaluate all activities pertaining to the fund management. The core objective of this policy is to maximize the risk-adjusted returns on investments. This policy has been set forth to:

- Define and assign the responsibilities of all involved parties.
- Provide clear understanding of investment goals and objectives for the portfolio.
- Provide guidance and limitations, required to maintain sufficient levels of diversification, risk management, and liquidity within the portfolio
- Outline procedures and criteria to monitor, evaluate and compare performance results achieved by the Chief Investment Officer (CIO) on a regular basis, and report the same
- Ensure that an internal control framework is in place to adhere to all investment PFRDA (regulatory) requirements.

- Achieve performance in line with benchmarks and guidelines identified for the different investment portfolio.

### Investment Strategies

The overall investment strategy follows the basic principles of compliance with investment regulations, safety, return & liquidity of investments.

The investment strategy is guided by prudent risk management techniques & risk profiling as per internal & regulatory guidelines.

#### **1.3 Investment Structure:**

The Board is required to constitute an Investment Committee which shall be responsible to the Board of Directors of the company.

The Investment Committee (IC) recommends and reviews investment policy and changes thereto, reviews investments, and oversees the risk management framework for the investments.

The IC monitors the investment management process and reports to the Board of Directors. The committee members shall consist of two Independent Directors, Chief Executive Officer (CEO), Chief Risk Officer (CRO), and Chief Investment Officer(CIO). The Secretary of the Committee is the Head of Investments or any other official as appointed by the committee members.

The Investment Team under the Head of Investments is responsible for market tracking, investment decisions execution, and deal negotiation & conclusion. It is also responsible for research, and portfolio risk management.

#### **1.4 Policy Revision**

The Board shall approve the Investment Policy and review it's compliance. The Board shall review and approve changes to the Policy as and when the need arises, but at least semi-annually to bring it in tune with the requirements of law and regulations in regard to the protection of subscribers' interest and pattern of investment laid down by PFRDA.

The "custodian" of the document is the Chief Investment Officer (CIO). He will be assisted by the Heads of Operations & Compliance whose role is to inform the Chief Investment Officer (CIO) of the impact of relevant changes to government legislation etc. on this document.

The details of revisions/addendums in the Investment Policy or its review as periodically decided by the Board shall be submitted to the NPS Trust within 30 days of its decision.

## **2. Investment Organisation Structure - Roles, responsibilities and processes**

### **2.1 Board of Directors**

The principal function of the Board is to approve the Investment Policy. The Board is also required to review and approve changes to the Policy as and when the need arises, but at least semi-annually.

- In framing such a policy, the Board will be guided by: Issues relating to liquidity, prudential norms, exposure limits, stop loss limits in securities trading, management of all investments & market risks, management of assets & liabilities, internal/concurrent audits, investment statistics, and all other internal controls of investment operations.

- To ensure a competitive return on Subscribers' funds & shareholders' funds that is consistent with the safety and liquidity requirements.

## **2.2 Investment Committee (IC)**

The committee will be responsible for:

- Review the prevailing investment policy at half yearly basis or at such short intervals as it may decide to bring it in line with any important changes made in investment provisions laid down by Act and regulations and recommend to the Board either retention of the existing Policy or adopt changes as deemed appropriate. IC will also review the Pension Fund's investment philosophy with regard to different asset classes, sectors, counterparties, etc., as defined in this document.
- Reviewing performance with regard to the objectives of the schemes.
- Reviewing Issuers with regards to investment risks. Oversee the application of risk appetite as defined by the Board in the policy.
- Reviewing Compliance of PFRDA regulations with regard to investment norms, documentations and limits.

Any decisions in case of any unforeseen exigencies would be reported to the IC for ratification. All regulatory breaches (asset allocation and other limits) shall be reported to Investment Committee.

The Board's (and the Investment Committee's) obligations will be met by the Investment Team satisfying itself that the Board's Investment Policy is implemented. The CIO or other authorized person can implement the decisions approved by the IC without the need for case-by-case approval. The IC will be receiving appropriate reports from the CIO. Any breach of mandates/limits is to be placed before the IC by the CIO for their information and action, as necessary.

### **Procedural Issues**

The Investment Committee shall meet at least four times per year and more frequently if required and report its proceedings to the Board. Members may participate in any meeting through the medium of telephone, or video conferencing and this fact shall be recorded as such. The Committee meetings should be documented chronologically and adequate minutes of the proceedings should be prepared.

In urgent cases, the IC can be convened to an extraordinary meeting at the request of the CEO or CIO. In case of any urgent matter of business requiring the approval of the IC, the same may be approved by a resolution by circulation amongst the members of the committee (including facsimile and email messages).

### **Modification to the constitution of Committee**

The Board of Directors will be the Authority to modify the constitution of the Committee.

### **Working of the IC**

Any resolution shall require a 'yes' vote from a majority of the participating voting members. However, if the number of 'yes' votes is the same as that of 'no' votes, the Chairperson of the meeting shall have the casting vote. Urgent approval of investment decisions, beyond the guidelines laid down by the investment policy, shall be done by the written consent of IC members (including fax and email messages).

## **2.3 Investment Team Structure**

### **Chief Investment Officer (CIO)**

- Head of Investments & will report to the CEO.
- Would be responsible for the control, supervision, and overall efficient management of the investment team.
- Would ensure that sound processes/ ethical practices are followed by the investment team.
- Will oversee portfolio performance including enhancement of processes, and devising of systems to ensure adherence to various internal/ regulatory guidelines/ limits.

### **Fund Manager**

- The Fund Manager is responsible for all the investment decisions and reports to the CIO.
- Closely interacts with the dealer to understand the market behaviour and takes well-informed investment decisions.
- In the absence of the Fund Manager, the CIO will take the responsibilities of Fund Manager also.

### **Research Analyst**

- All research analysts will report to the CIO.
- Closely interacts with the Fund Manager / CIO and shares macro updates and micro updates with the team, providing actionable research inputs.

### **Dealer**

- The dealer is responsible for the execution of the mandate given by the Fund Manager / CIO.
- Reports to the CIO / Fund Manager.

### **Back Office / Mid Office**

The back office, the mid-office, and the front office activities of the investment functions are clearly demarcated and segregated. While the front office function is supervised by the CIO, CFO / Operations Head is responsible for control and supervision of the back office and mid-office including internal/concurrent audits.

### **Controls & Procedures**

The company shall put in place appropriate controls & procedures to ensure data security, access restrictions, system controls, maker checker control, etc. Detailed procedures to be put in place in SOP

## **3. General Investment Policy Norms & Prudential Exposure Limits**

The Pension Fund Manager will maintain separate schemes, each investing in a different asset class –

The following restrictions/filters/exposure norms would be applicable to reduce concentration risks. It would not be applicable till the scheme corpus reaches Rs.5 crore in each scheme.

If the Pension Fund makes investments in Equity/Debt instruments, in addition to the investments in index funds/ETF/Debt MF, the exposure limits under such Index funds/ETF/Debt MF shall not be

considered for compliance with the prescribed industry Concentration, Sponsor /Non-Sponsor group norms under these guidelines.

### A. Equity Scheme (Asset class E)

This asset class will be invested in –

i) equity shares of body corporate listed either on BSE/NSE which are in top 200 stocks in terms of full market capitalization as on date of investment.

- If a stock is listed on more than one recognized stock exchange, an average of the full market capitalization of the stock on all such stock exchanges, will be computed.
- In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.
- The list of stocks mentioned above, would be circulated by NPS Trust & the same would be updated every six months based on the data as of the end of June & December of each year. The data shall be circulated by NPS Trust within 5 calendar days from the end of the 6 months period.

ii) ETFs/ Index Funds which replicate the portfolio of either the BSE Sensex index or NSE Nifty 50 index.

iii) Units of mutual funds which have a minimum of 65% of their investment in shares of body corporate listed on BSE or NSE.

iv) ETFs constructed specifically for disinvestment of shareholding of the Government of India in body corporate and

v) Exchange-traded derivatives.

### Prudential Exposure Limits – Asset Class E

Type of Investment	Group Limit of Investee Company	Industry limit to which the Investee Company Belongs
<b>Non Promoter / Non Sponsor</b>	15% of Equity Paid up capital of all the Non-Sponsor Group companies or 15% of the Scheme AUM, whichever is lower.	Investment exposure to single industry is restricted to 15% under all NPS Schemes by each pension fund manager as per Level 5 of NIC classification.
<b>Promoter / Sponsor Group</b>	5% of Equity Paid up capital of all the Sponsor Group companies or 5% of Total AUM managed by the Pension Fund, whichever is lower	

Investment in SEBI regulated Equity schemes of mutual funds:.. Investment in such mutual funds shall not exceed 5% of the AUM under Scheme/Asset Class E at any point of time and the fresh investment in such mutual funds shall not exceed 5% of the fresh inflows invested in the year.

Investment in Cash & Cash Equivalents/ Money Market / Liquid & Overnight MF's investment is capped at 10% of the Tier – I Scheme AUM & 20% of Scheme AUM for Tier – II portfolio.

Prudential exposure norms would not be applicable till the scheme corpus reaches Rs.5 crores for Tier I & Tier II.

Benchmark: - S&P BSE 200 TRI.

### **B. Government Securities Scheme (Asset class G)**

Investments will be made in Government securities – Central & State Government, Government of India – Fully serviced bonds and securities which are unconditionally guaranteed by Central or State Government. All investments in this asset class would be subject to restrictions outlined by PFRDA.

#### **Prudential Exposure Limits – Asset Class G**

<b>Asset Class G</b>	At least 90% investments in Central or State Government Securities.	Other securities are – i) 'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government and also includes "Govt. of India - Fully Serviced Bonds" issued by Public Sector Undertakings under Extra Budgetary Resources after 3rd Jun 2020. Provided that investments under this sub-category of securities shall not exceed 10% of the AUM under Scheme/Asset Class G at any point of time. -
	Units of Government Securities schemes of Mutual Funds, regulated by SEBI.	Cannot exceed 5% of the total portfolio of scheme G.

Investment in Cash & Cash Equivalents/ Money Market / Liquid & Overnight MF's investment is capped at 10% of the Tier – I Scheme AUM & 20% of Scheme AUM for Tier – II portfolio

Prudential exposure norms would not be applicable till the scheme corpus reaches Rs.5 crores for Tier I & Tier II.

Benchmark - CRISIL Ultra Long term GILT Index & CRISIL 9.5 – 15yr SDL Index.

### C. Corporate bond Scheme (Asset class C)

This asset class contains bonds issued by any entity other than the Government. This asset class will be invested in fixed deposits and credit-rated debt securities. This includes rated bonds/securities of Public Financial Institutions and Public sector companies, rated municipal bodies/infrastructure bonds, rated bonds of InvITs and REITs, Rupee bonds issued by identified institutions, units of debt mutual funds and units of ss launched by Government of India. Investments will be made only in rated bonds/debentures of all companies, subject to risk limits and liquidity considerations. All investments in this asset class would be subject to restrictions outlined by PFRDA.

#### Prudential Exposure Limits – Asset Class C

Type of Investment	Investee Company Limit	Group Limit of Investee Company	Industry limit to which the Investee Company Belongs
<b>Non Promoter / Non Sponsor</b>		10% of the Net worth of all Non-Sponsor Group companies or 10% of the Scheme AUM, whichever is lower in each respective scheme.	Investment exposure to single industry is restricted to 15% under all NPS Schemes by each pension fund manager as per Level 5 of NIC classification.
<b>Promoter / Sponsor Group</b>		5% of the Net worth of all Sponsor Group companies or 5% of the Scheme AUM, whichever is lower in each respective scheme.	
<b>REIT's / INVIT's</b>	Investment is capped at 15% of the outstanding debt instruments issued by a single InvIT/REIT issuer.	The cumulative Investments in Units and debt instruments of InvITs and REITs shall not exceed 3% of the total AUM of the Pension Fund at any point of time.	

Total Investment in units of Debt Mutual Funds is capped at 5% of the AUM under Scheme/ Asset Class C at any point of time.. Provided that these schemes shall exclude schemes of mutual funds having investment in short-term debt securities with Macaulay duration less than 1 year.

Investment in Debt ETFs for GOI shareholding disinvestment is cannot exceed 5% of the AUM under Scheme/Asset Class C at any point of time.

Investment in Cash & Cash Equivalents/ Money Market / Liquid & Overnight MF's investment is capped at 10% of the Tier – I Scheme AUM & 20% of Scheme AUM for Tier – II portfolio.

Prudential exposure norms would not be applicable till the scheme corpus reaches Rs.5 crores for Tier I & Tier II.

#### **D. Alternative Assets Scheme (Asset class A)**

##### **Prudential Exposure Limits – Asset Class A**

This asset class will contain the following assets:

- a) Alternate Investment Funds (category 1 & 2)
- b) Real Estate Investment Trust (REIT)
- c) Mortgage Backed Securities/ Asset Backed Securities
- d) Basel III Tier-1 bonds
- e) Infrastructure Investment Trusts (InvIT)

<b>Type of Investment</b>	<b>Investee Company Limit</b>	<b>Category Limit</b>	
<b>Basel III Tier 1 Bonds</b>	1. Investment in a single issuer shall not exceed 10% of the AUM of the scheme. 2. Investment in the initial offering cannot exceed 20% of the initial offering. 3. Further, at any point in time, the aggregate value of Tier-1 bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by that bank.	A total portfolio invested in Basel III Tier-1 bonds, at any time, can be up to a maximum of 5% of the total portfolio i.e., Scheme G+C+E+A for both Tier I and Tier II.	The exposure norms for sponsor/non-sponsor groups shall not be applicable in Scheme A.
<b>REITs/INVITs</b>	Investment is capped at 5% of the units issued a by single InvIT/REIT issue.	The cumulative Investments in Units and debt instruments of InvITs and REITs shall not exceed 3% of the total AUM of the Pension Fund at any point in time.	

Investment in Cash & Cash Equivalents/ Money Market / Liquid & Overnight MF's is capped at 10% however, this exposure shall not be applicable till the scheme corpus is below 5 crores.

Prudential exposure norms would not be applicable to Scheme A till the scheme corpus reaches Rs.15 crores.

Each of the above schemes will have separate funds for Tier I and Tier II categories, except for Asset Class A which is offered to Tier I subscribers only. All references, henceforth, to each of the schemes will apply uniformly to Tier I and Tier II categories independently (unless specified otherwise), except for Asset Class A which has no Tier II offering.

Investment guidelines for Tier I schemes are applicable to Tier II schemes also.

#### **E. NPS Tier II Tax Saving Scheme (NPS-TSS)**

This is a composite scheme open to Central Government NPS subscribers with the following investment limits:

- a) Asset Class Equity: 10%-25%
- b) Asset Class Debt: 0-90%
- c) Cash/ Money Market / Liquid MFs: 0-20%

#### **Benchmark:**

GOI Securities & Corporate Bonds: 39% each

Equity: 20%

Cash & Cash Equivalents: 2%

Investment in Cash & Cash Equivalents/ Money Market / Liquid & Overnight MF's investment is capped at 20% of the scheme AUM. The above exposure norms shall not be applicable till the scheme corpus is below Rs.5 crores.

## **4. Investment Processes**

### **4.1. Equity**

Equity investments are to be managed with a long-term horizon. Equity shares of companies that belong to the NSE 200 or BSE 200 index are allowed. Should a stock drop out from the NSE 200 or BSE 200, further investments will be disallowed as at the date of the revised list of stocks released by the PFRDA. Besides, the said security shall be offloaded within a period of 6 months.

Investment in IPOs that are proposed to be listed on NSE / BSE. IPO once sold shall not be re-acquired unless the issue becomes part of NSE 200 / BSE 200.

#### **Equity Universe:**

Equity investments, in Scheme E, shall be made in:

<b>Sl. No</b>	<b>Category</b>	<b>Limits / Constraints</b>
1	Top 200 stocks in terms of market capitalization listed on NSE or BSE	
2	SEBI regulated ETF / Index Funds replicating portfolio of Sensex 30 or Nifty 50	Underlying scrips should also comply with Point 1.

3	SEBI regulated Equity schemes of mutual funds that have a minimum 65% of their investments in companies listed on NSE or BSE	Investment in such mutual funds shall not exceed 5% of the AUM under Scheme/Asset Class E at any point of time and the fresh investment in such mutual funds shall not exceed 5% of the fresh inflows invested in the year. Underlying scrips should also comply with Point 1.
4	ETFs / Index Funds are constructed specifically for disinvestment of government shareholding in body corporates	Underlying scrips need not comply with Point 1.
5	Exchange-traded derivatives, regulated by SEBI, having the underlying of any permissible listed stock (list of top 200 stocks prepared by NPS Trust) or any of the permissible indices (BSE Sensex Index or NSE Nifty 50 Index), with the sole purpose of hedging	A derivative portfolio cannot exceed 5% of the AUM under Scheme/Asset Class E at any point of time.
6	Initial Public Offering (IPO), Follow on Public Offer (FPO), and Offer for Sale (OFS) of companies, approved by SEBI	Market capitalization, at the lower end of the price band, should be higher than the market cap of 200th stock.

Investments in the shares of body corporates listed on the Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks, would be done basis the list of such stocks prepared by NPS Trust. The list of stocks would be circulated by NPS Trust and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be circulated by NPS Trust within 5 calendar days from the end of the 6 months period. Subsequent to any updation in the list, Pension Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of **six months**. The decision to hold such stocks in the portfolio shall have to be approved by the Investment Committee of the Pension Fund and also to be informed to the Board of Pension Fund.

If services of professional fund/assets managers for management of the assets is engaged, payment to whom is being made on the basis of the value of each transaction, the value of funds invested in any mutual funds mentioned in any of the categories or ETF's or Index Funds shall be reduced before computing the payment due to them in order to avoid double incidence of costs. Investments made in Liquid Mutual Funds and Overnight Funds would not be excluded for payment of investment management fee (IMF). Also, Investment in ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall also be eligible for payment of IMF.

### **Equity Stock Selection**

All stocks in the list issued by NPS Trust automatically become a part of our investible universe provided it meets all the investment criteria.

Perform fundamental research on stocks in the investment universe to assess their fair value and investment potential. The fundamental research shall be done by the Investment team and while doing so, he shall take into consideration various factors including sector review, company review and business prospects and also financial evaluation.

A detailed research note will be prepared and maintained on names the Investment Team plans to invest in. Every subsequent addition / reduction to the position shall be supported by relevant comments in the Investment Management System. Based on the aforesaid evaluation the analyst / fund manager shall put in place a research report describing his views on the company. The Research Report shall be prepared and periodically updated, atleast once annually, by the Team Members based on the Company's financials and other external sources like broker reports, Ace Equity/Capitaline, etc. The Investment Team has regular interactions wherever possible, with investee companies via conference calls/physical meetings on a more frequent basis. Therefore, though the detailed update is prepared once annually for the investee companies continuing to be a part of the portfolios, key highlights/summaries of such frequent engagements is documented.

The fair value of a stock gives the possible upside/downside in a stock from current levels.

Portfolio construction – Portfolios are constructed bottom-up, stock by stock, giving due consideration to:

- i. Fund objective
- ii. Appreciation potential of individual stocks as assessed by in-house research
- iii. Expected performance of the components of the relevant benchmark
- vi. Risk limits laid down in the investment policy.

Portfolio monitoring and rebalancing – Investment team will continuously monitor the portfolios and will take profit/rebalance to ensure that the portfolio meets its investment objectives on a continuous basis. The Investment team will also monitor cash positions, overall risk levels.

The research note should encompass the following aspects

- a. Company description – Promoters & professional management, product prospects, past performance, (trend analysis), projections and the future plans, policies of the government, management and its impact.
- b. Industry Scenario
- c. Valuation of the company – Target price and methodology for arriving at the target price.

For addition of a new security to the approved Investment list, the research note will be circulated to the IC for discussion & approval; prior to first investment in that security. The investments will be made only after receiving the subsequent approvals. Approval may also be sought via a circular resolution in between the IC meetings. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting.

Once the investment in a particular stock / IPO is made, the investment team has to keep an ongoing watch on any changes in the fundamentals of the company.

## **4.2. Fixed Income**

The philosophy for managing fixed income portfolios revolves around optimizing risk adjusted returns for the investor by investing in high credit quality assets, managing interest rate risk and

minimizing liquidity risk. Investments decisions are driven by views formulated basis various macro parameters, yield curve expectations and duration selection. In addition to regulatory and internal norms, credit spreads, duration, quality & liquidity will determine whether a particular security gains into the portfolio.

Credit risk assessment involves a detailed analysis of willingness and capacity to pay of a borrower. Credit Limits for a borrower will be decided by the IC. Investment team shall study and evaluate the business and present its credit proposal to the IC. The committee will determine the suitability of the credit and allocate limits for investment. The investment team shall present a detailed report on rating based exposures, upgrades/downgrades, any material development at every quarterly meeting.

A detailed research note will be prepared and maintained on names the Investment Team plans to invest in. For addition of a new security to the approved Investment list, the research note will be circulated to the IC for discussion & approval; prior to first investment in that security. The investments will be made only after receiving the subsequent approvals. Approval may also be sought via a circular resolution in between the IC meetings. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting.

The research report shall broadly cover the following (as applicable):

1. Sector / Company Review
2. Companies Financials
3. Company financial liquidity
4. Any other factor like stock price movement (if listed)
5. Recommendation

The Research Report shall be prepared based on the Company's financials and other external sources like rating rationales, broker reports, Ace Equity/Capitaline, etc.

In addition, the investment management team will use rating and analysis provided by external rating agencies like CRISIL, ICRA, CARE and India Ratings.

Once a credit has been approved, the Investment team shall maintain an ongoing watch for any developments that affect the credit quality of the borrower. For the credits that continue to be in the portfolios, the Investment team shall do a formal review and documentation of the Issuer credit on a half-yearly basis, subject to availability of half yearly financials for the issuer.

The actual investment in any particular credit shall in all cases be subject to the regulatory limits/internal limits, whichever is lower.

### **Fixed Income Universe**

Fixed Income investments are made in Government securities in scheme G, Corporate bonds in scheme C and Alternative Asset class in scheme A

The authorized investments in the **Government securities scheme** are:

Sl. No	Category	Limits / Constraints
1	Central & State Government securities	90% or higher
2	Other Securities {'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956} the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government and also includes "Govt. of India - Fully Serviced Bonds" issued by Public Sector Undertakings under Extra Budgetary Resources after 3rd Jun 2020.	Cannot exceed 10% of the total portfolio of the scheme G.
3	Units of Government Securities Mutual Funds, regulated by SEBI	Cannot exceed 5% of the total portfolio of the scheme G.

The authorized investments in the **Corporate bond scheme (Asset class C)** are

1) Debt securities, which are listed or proposed to be listed, issued by bodies corporate, including banks and public financial institutions [as defined under Section 2 of the Companies Act, 2013]. Provided that investment in debt securities with minimum residual maturity of three years or less than three years from the date of investment, shall be limited to 10% of the investments made in Scheme/Asset Class C during the preceding 12 months in the concerned Scheme.. The stipulated limit of 10% is applicable to the fresh investments that have been made in the corporate bonds of less than 3 years maturity and the same shall not be applicable to investments made prior to that. Further, those securities which earlier had a residual maturity of more than 3 years but now have a residual maturity of less than 3 years shall also not form a part of the said 10% limit.

In case of securities where the principal is to be repaid in a single pay-out the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one pay-out then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

The investment in this category should be made in instruments which are listed or proposed to be listed having a credit rating of A or higher from at least two credit rating agency, subject to a cap on investments between A to AA- rated bonds to be not more than 10% of the portfolio. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.

2) The following infrastructure related debt instruments:

a. Listed or proposed to be listed debt securities issued by body corporate engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction of finance of Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors. This shall also include securities issued by Indian Railways or any of the body corporate in which it has majority shareholding. This shall also include securities

issued by any authority of the Government which is not a body corporate and has been formed mainly with the purpose of promoting development of infrastructure.

Any structural obligation undertaken or letter of comfort issued by the Central Government, Indian Railways or any Authority of the Central Government, for any security issued by a body corporate engaged in the business of infrastructure, which notwithstanding the terms in the letter of comfort or the obligation undertaken, fails to enable its inclusion as security covered under category "Other Securities" in Scheme G above, shall be treated as an eligible security under this sub-category.

b. Infrastructure & Affordable housing bonds issued by any scheduled commercial bank, which meets the conditions specified below for term deposits receipt.

c. Listed or proposed to be listed securities issued by Infrastructure Debt Funds operating as NBFCs and regulated by RBI. For such securities credit ratings shall relate to the NBFC.

d. Listed or proposed to be listed securities issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by SEBI

It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category 2, a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub- sectors.

Further, investment shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.

Pension Fund can make investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1', provided that investments shall be permissible in securities having investment grade rating below AA in case the risk of default for such securities is fully covered with Credit Default Swaps (CDSs) issued under Guidelines of the RBI and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to be investment made under this category.

3) Listed or proposed to be listed Credit Rated Municipal Bonds. Investment shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.

4) Term Deposits receipts of scheduled commercial banks not less than one year duration, which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law:

- a) having declared profit in the immediately preceding three financial years;
- b) Having net non-performing assets of not more than 4% of the net advances;

Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme.

5) Units of Debt Mutual Funds as regulated by SEBI. Provided that these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year. Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the AUM under Scheme/ Asset Class C at any point of time..

6) Rupee bonds issued by the International Bank for Reconstruction & Development, International Finance Corporation & Asian Development Bank. Provided that investment in Rupee bonds with minimum residual maturity of three years or less than three years from the date of investment, shall be limited to 10% of the investments made in Scheme/Asset Class C during the preceding 12 months in the concerned Scheme. For this category a single rating of AA or above by a domestic or international rating agency will be acceptable.

7) Debt securities issued by Real Estate Investment Trusts (REITs) regulated by the SEBI. Provided that investment shall be made only in such securities which have minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI.

8) Debt securities issued by Infrastructure Investment Trusts (InvITs) regulated by the SEBI. Provided that investment shall be made only in such securities which have minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI.

9) Units of Debt ETFs launched by Government of India specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other Government organizations etc provided that the portfolio invested in such Debt ETFs shall not be more than 5% of of the AUM under Scheme/Asset Class C at any point of time.

For categories (1) and (6), i.e. for the investments made in debt securities and Rupee Bonds with residual maturity period of less than three years on the date of investment, the combined limit will be 10% of the investments made in Scheme/Asset Class C during the preceding 12 months in the concerned Scheme.

If services of professional fund/assets managers for management of the assets is engaged, payment to whom is being made on the basis of the value of each transaction, the value of funds invested in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced before computing the payment due to them in order to avoid double incidence of costs. However, Investments made in Liquid Mutual Funds and Overnight Funds would not be excluded for payment of investment management fee (IMF). Also, investment made in Bharat Bond ETF/Debt ETF issued by Government of India in respect of bonds issued by CPSEs, CPSUs, CPFIs and other Government Organizations, shall be eligible for payment of IMF.

The exposure norms for investment in InvITs/REITs would be as under:

(i) The cumulative Investments in Units and debt instruments of InvITs and REITs shall not exceed 3% of total AUM of the Pension Fund at any point of time.

(ii) The Pension Fund shall not invest in more than 10% of the outstanding debt instruments issued by single InvIT/REIT issue.

The following Credit limits will be applicable to all the investments in the Asset Class C

<b>Credit Rating issued by at least two Rating Agency</b>	<b>Exposure Limit</b>
AAA Rated instruments including money market instruments /cash and cash equivalents*	At least 75% of AUM
AA or higher rated instruments including money market instruments/ cash and cash equivalents	At least 90% of AUM
A to AA- Rated instruments	Not more than 10% of AUM

\*Cash & Cash Equivalents includes Money market / Liquid & Overnight MF schemes

In case of any instruments mentioned above being rated and their rating falling below A, the option of exit would be considered and exercised, as appropriate, in a manner that is in the best interest of the subscriber.

A quarterly statement on the investment made in securities which have a minimum rating of 'A' and their performance including downgrades in this category, if any, to NPS Trust for monitoring of such investments.

#### **4.3. Alternative Asset Class Investment Universe**

The permissible securities in the Alternative Asset class scheme (Asset class A) are in following categories.

- 1) Commercial mortgage based Securities or Residential mortgage based securities;
- 2) Asset Backed Securities regulated by the SEBI;
- 3) Units issued by Real Estate Investment Trusts regulated by SEBI;
- 4) Units of infrastructure Investment Trusts regulated by SEBI;
- 5) Investments in SEBI Regulated 'Alternative Investment Fund' AIF (Category I and Category II only) as defined under the SEBI (Alternative Investment Fund) regulations 2012;
- 6) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI guidelines;

Investment in the above categories would be made in instruments which are listed or proposed to be listed except in case of category 1 and 2 above. Provided further that investment under this Scheme in Category 1 to 4 and 6 above shall be made only in such securities which have minimum AA equivalent rating in the applicable rating scale from at least two credit rating agencies registered with the Securities and Exchange Board of India (SEBI) under SEBI (Credit Rating Agency) Regulations, 1999. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered. For category 3 and 4 above, minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI shall be considered.

For category 1 and 2 above rating from only one rating agency will be sufficient.

**The investment in AIF – Category I and Category II is allowed subject to satisfaction of the following conditions :-**

- 1) The permitted funds under category I are Start-up Funds, infrastructure funds, SME funds, venture capital funds and social venture capital funds as detailed in Alternative Investment Funds Regulations, 2012 by SEBI.

- 2) For category II AIF as per Alternative Investment Funds Regulation 2012 by SEBI, at least 51% of the funds of such AIF shall be invested in either of the Start-up entities, infrastructure entities or SMEs or venture capital or social welfare entities.
- 3) Investment will be made only in those AIFs whose corpus is equal to more than Rs100 crores.
- 4) Exposure to single AIF shall not exceed 10% of the AIF size.
- 5) Funds shall not be invested in securities of the companies or funds incorporated and operated outside India in violation of section 25 of the PFRDA Act 2013.
- 6) Sponsors of the Alternative Investment funds would not be the promoter in Pension fund or the promoter group of the pension fund.
- 7) AIFs shall not be managed by investment manager, who is directly or indirectly controlled or managed by Pension fund or the promoter of the pension fund.

**The investment in Basel-III Tier-1 bonds of Scheme A is allowed provided that –**

- 1) Investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier-1 bonds are listed.
- 2) In case of Initial offering of the bonds, investment shall be made only in such Tier-1 bonds which are proposed to be listed.
- 3) Total portfolio invested in this sub-category, at any time, can be upto a maximum of 5% of the total portfolio i.e. Scheme G+C+E+A for both Tier I and Tier II.
- 4) No investment in this sub-category in initial offering shall exceed 20% of the initial offering. Further, at any point of time, the aggregate value of Tier-1 bonds of any particular bank held by fund shall not exceed 20% of such bonds issued by that bank.
- 5) The investment by a single issuer shall not exceed 10% of the AUM of the scheme.

The exposure norms for sponsor/non-sponsor group shall not be applicable in Scheme A.

The exposure norms for investment in InvITs/REITs would be as under:

- (i) The cumulative Investments in Units and Debt Instruments of InvITs and REITs (Scheme C) shall not exceed 3% of total AUM of the Pension Fund at any point of time.
- ii) The Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.

A detailed research note will be prepared and maintained on names the Investment Team plans to invest in.

For addition of a new security to the approved Investment list, the research note will be circulated to the IC for discussion & approval; prior to first investment in that security. The investments will be made only after receiving the subsequent approvals. Approval may also be sought via a circular resolution in between the IC meetings. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting.

## **5. Short Term Investments**

The money under the respective Schemes may be invested in the following eligible short-term instruments:

### **a. Deposits & Certificate of Deposits upto 1 year of Scheduled Commercial Banks**

SCB's which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law.

- Having declared profit in immediately preceding three financial years.
- Having net NPA's of not more than 4% of net advances.

The amount of deposits placed with any bank will form a part of the bank's overall credit limit. The funds placed in bank deposits shall not be counted towards calculating the exposure to the banking sector. However, investments in deposits of a bank falling under the promoter group of the insurer, shall continue to be subjected to the promoter group exposure norms, as specified in the section on 'Exposure Limits'. The investment restrictions for bank deposits as stipulated by PFRDA would apply to all investment made in them.

**b. Money market instruments** like Triparty Repo conducted over TREPS with CCIL as settlement guarantor.

**c. Commercial Papers** with minimum rating of A1+ by at least two credit rating agencies.

**d. Other liquid instruments or Mutual Funds**

Investments may be made in units of a Debt scheme of a Mutual Fund as regulated by SEBI where investment is in short term securities with Macaulay duration of less than 1 year viz. Overnight fund, Liquid Fund, Ultra Short Duration Fund and Low duration fund with the condition that the average total asset under management of AMC for the most recent six-month period should be at least Rs. 5,000/- crores, subject to a maximum of 10% of the scheme corpus.

The total AUM of the Liquid Fund, underlying securities, scheme rating (if applicable), parentage, past performance etc are some of the key parameters for proposing investment limits for the Funds.

**e. Treasury Bills and Cash Management Bills** issued by the Government of India for its short term funding needs.

## **6. Restrictions**

### **6.1 Leverage in the schemes:**

No leverage, in any manner, is allowed in any of the schemes. The PFM shall be deemed to have leveraged the portfolio if it:

- Enters into borrowings or other financial arrangements or creates or purports or attempts to create any security, charge, mortgage, pledge, lien or encumbrance of any kind whatsoever on the assets of the portfolio or any part thereof;
- Undertakes any transaction the result of which would overdraw the account maintained by the Custodian on behalf of the PFM for the purpose of settling transactions;
- Commits the Trustee to supplement the assets of the portfolio or the account maintained by the Custodian on behalf of the PFM for the purpose of settling transactions without the prior written consent of the Trustee by a Proper Instruction, either by borrowing in the name of the

- PFM or the Trustee or by committing the PFM or the Trustee to a contract which may require the Trustee to supplement those assets; or
- Allows market movement to result in a leveraged position.

## **6.2 Interscheme Transfers**

Transfer of securities within the same scheme or inter scheme are allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis & the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made. Such transfers may be allowed in following scenarios:

- To meet liquidity requirement in a scheme in case of unanticipated redemption pressure.
- To adjust securities received through corporate action.

The inter scheme transfers are allowed only on exception basis. The Pension Fund in its periodic reporting shall inform NPS Trust & Authority upon exercise of this option.

## **7. Counterparties & Broker Empanelment**

### **Counterparty Empanelment**

Investments can be routed (direct or through and empanelled broker) with all market participants including, Scheduled Commercial Bank's, Financial Institutions, Foreign Portfolio Investors, Primary Dealers, Corporates, Mutual Funds, Insurance Companies, Central Board of Trustee's, Provident funds, wealth management companies & other regulated market participants.

Transactions with a broker counterparty can be executed only after obtaining an approval from CIO & CEO. The pension fund shall give preference to counterparties where transaction settlement is routed through a Centralised Clearing House.

### **Broker Empanelment**

All secondary market trading should be channelled through multiple brokers empanelled by the company, to reduce the concentration risk of placing trades through a few brokers. PFRDA guidelines stipulate that the company shall transact (purchase or sell securities) through any empanelled broker and that not more than 5% of the total volume of trades of all the schemes in a block of twelve months should be transacted through any single broker.

Detailed process for empanelment of brokers is covered separately in the Broker Empanelment Policy.

## **8. Personal dealing guidelines**

All employees associated with investment activity of the Company shall at all times maintain confidentiality of investment decisions and highest degree of integrity and shall conduct themselves in a professional manner.

The company shall have in place Employee dealing guidelines policy duly approved by the Investment Committee. These guidelines will be applicable to all employees as directed by the PFRDA. The adherence of these guidelines by the concerned employees shall be monitored periodically by the Compliance team of the company.

## **9. Investment dealing room guidelines**

The Investment team shall operate out of Investment Dealing Room (hereinafter referred to as the "Deal room") which shall have a restricted access to other employees not associated with the Investment operations during the market hours. Usage of mobile phone inside the deal room would not be allowed within the market hours. All conversations made with counterparties pertaining to sale and purchase of investments shall be recorded by means of a voice recorder installed in the deal room. The recordings of the voice recorder shall be preserved for a period of three financial years including the year of transaction in the system for retrieval, if necessary. Detailed guidelines covered separately in SOP.

## **10. Investment Risk Management**

Risk can be defined as volatility of returns keeping in mind the return objectives. Impact of each aspect of risk shall be considered keeping in mind the asset mix, return objectives and risk profile.

### **Credit Risk**

The risk of default by a counterparty/borrower is defined as credit risk. Risk of default is a function of both willingness and capacity of an issuer to pay. Risk of default may arise especially, during the recessionary phase of an economic cycle.

Credit risk is generally determined by the credit rating of an issuer. Higher the credit rating, lower the risk of default. However, the rating shall not replace appropriate risk analysis and management.

PFDA regulations stipulate that all the investments in Scheme C have to be rated A or above by atleast two credit rating agencies. In addition, atleast 90% of the scheme assets shall be invested in AA or higher rated categories. These limits put an upper bound on the investments in lower rated instruments and act as a credit risk mitigant.

### **Reinvestment Risk**

This risk arises on cash flows from Fixed income securities, when the yields available at the time of reinvestment are lower. Reinvestment risks normally offsets interest rate risk and this cannot be eliminated without accepting interest rate risk. When bond yields trend downward, bonds will increase in price but the yield on the bonds purchased will be lower.

### **Interest Rate Risk / Market Risk**

Interest rate risk can be defined as sensitivity of portfolio to changes in interest rates. It is measured by a metric called as Duration. Higher the duration of the bond, higher the interest rate risk. This is minimized by managing the duration of the portfolio & cash flow matching techniques.

Market risk arises from unfavourable movement in asset prices leading to heightened volatility in portfolio performance. Cash flow planning and diversification into uncorrelated investments helps reduce the risk significantly. Asset allocation, diversification, prudential exposure limits act as mitigating tools.

In order to curb interest rate risk, it will be the endeavour to stay within the following tolerance thresholds.

- **Fixed Income (Scheme G & Scheme C)**

Aggregate portfolio duration deviation of (+3) or (-3) from the benchmark.

**Overweight / Underweight**

Sr. No.	Fixed Income (Duration)	Outlook
1	+3	Strongly Positive
2	+2	Positive
3	+1	Mildly Positive
4	0	Neutral
5	-1	Mildly Negative
6	-2	Negative
7	-3	Strongly Negative

**Liquidity Risk**

This arises due to sudden contingent requirements which cannot be met out of the safety reserve and there is no option but to liquidate investments which may result in loss due to adverse market conditions.

To meet the requirements, adequate cash position shall be maintained and invested in liquid, short term instruments such as repo, CBLO, FD's liquid mutual funds etc. Cash flow matching is another way of addressing liquidity risk.

It is important that the funds exposure to any company will be such that the fund will be able to exit the entire position reasonably quickly. Majority of Investments should be made in high quality instruments (both equity and debt) for ease of exit.

**Portfolio Drawdowns**

Most equity investments are made with a medium to long term investment horizon. Fund managers implement their portfolio strategies based on market developments and fundamental research.

There is no drawdown policy for fixed income investments as a fixed set of cash flows in the form of coupons accrue to investors over the life of the investment.

Please refer to the stop-loss policy of the company for detailed guidelines.

**Scheme Risk Profiling**

The investment under various asset classes of the scheme of pension funds would involve different levels of risk for subscribers and therefore, to ensure adequate disclosure and communication of risks to subscribers – PFRDA laid down various parameters in its Circular PFRDA/2022/11/REG-PF/03.

Schemes will be classified under the following six levels of risk:

- Low Risk.

- Low to Moderate Risk.
- Moderate Risk.
- Moderately High Risk.
- High Risk.
- Very High Risk.

Risk profiling has to be disclosed under 'Portfolio Disclosure' section within 15 days from the close of each quarter ending month. Risk profiling shall be evaluated quarterly and any change in it shall be updated on the website and also be communicated to NPS Trust. Axis Pension fund shall disclose the risk level of schemes as on March 31, of every year along-with the number of times the risk level has changed over the year.

Detailed scoring approach for risk profiling and assessment of each risk level is disclosed in the company's risk policy.

Following parameters shall be used:

**a. Debt (incl. Government Securities)**

- Credit Risk,
- Interest Rate Risk &
- Liquidity Risk.

**b. Equity**

- Market Capitalization,
- Volatility &
- Impact Cost.

**11. Transaction Limits**

The securities trading limits are defined separately for fixed income and equity assets.

**Per Transaction Limits**

In Crores	Investment Team (Cr)
<b>Fixed Income</b>	100
<b>Equity</b>	75

Any transaction in excess of the above-mentioned limits requires approval from the CEO.

**Dealing Limits – NDS OM**

Limit for execution of single deal on NDS-OM is INR 50cr for Dealer / Fund Manager.

Dealing Limits as per Investment Policy would continue to be applicable for approval of deals.

**12. Breach/Deviation Reporting**

There can be 2 categorisation of the breaches as & when it happens:

Nature of Exception	Regularization Period
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<b>Active Breach:</b> Active breach of investment is such where the breach has happened, due to non-adherence of regulations/guidelines/circular issued by the PFRDA except arising out of corporate action/events or due to extreme market fluctuations.	Such breaches have to be regularized immediately within 3 business days from the date of the Active breach.
<b>Passive Breach:</b> All other deviations which are not Active shall be treated as Passive breach.	Such breaches have to be regularized on priority.

All deviations / breaches, if any have to be reported by Pension Fund in its periodic reporting to NPS Trust, alongwith the date on which breach happened & the date of regularization.

Instances which could be treated as Breach/Deviation:

Active Breach	Passive Breach/Deviation
Failure of Monitoring system resulted in exceeding the limits of investment in a particular asset class.	Any deviation which takes place due to Corporate action.
Failure to take appropriate action on time when the limits are very much closer of exceeding the investment limit.	Temporary deviation in asset class exposure arising due to extreme market fluctuation. Extreme market fluctuation (on closing basis, on date of breach/deviation) are: 1) Equity indices (Nifty 50) movement of more than 2% OR 2) 10 year benchmark GOI yield movement of more than 25 basis points.
Non-adherence of / to: Issuer / exposure limits; Sectoral / Industry limits; Sub-limits of particular asset class; Sponsor/Non-sponsor group exposure limits; Credit rating requirement prescribed in the investment guidelines; Broker limits; Disclosure norms within the prescribed timelines on case to case basis.	Any other breach/deviation recommended by NPS trust on case to case basis.
Breaches due to incorrect classification of investments in different asset classes across schemes resulting into deviation of the limits.	
Making new investments in the securities which are not in the Investment universe.	
Non-disclosure/Non reporting of breaches to NPS trust as per prescribed timeline.	

Further, once the segregation of breaches /deviations is done as per the above classification, following is the reporting structure on the same:

- In the exception reporting submitted by NPS Trust to the Authority, NPS trust to indicate the type of deviations & the recommendation of the trust on such segregated breaches/deviations.
- In the case of the repetitive active breaches/deviations by the Pensions Funds, NPS Trust may bring this to the notice of the Authority along with its recommendation.
- In the case of the passive deviations, NPS trust may suggest the remedial action.
- In case, NPS trust is of the option that some deviations which has taken place may be regularised in the larger interest of the subscribers, NPS trust may recommend the same along with justification to the Authority.

### **Exception Approval Matrix**

#### **Exception 1: Passive Breaches**

**Approving Authority:** Approval of CEO, if the passive breach persists for a month.

**Justification for Breach:** While passive breaches have to be rectified on priority, there is no specified timeline for the same defined by the PFRDA. If the passive breach is not rectified within a month, the investment team shall take approval of CEO for the same.

#### **Exception 2: If the Money Market Breaches in Scheme A Tier-1**

**Approving Authority:** Approval from any one of Compliance Officer/ CEO.

**Justification for Breach:** Scheme A-Tier-I assets are to be invested in alternative asset instruments like Additional Tier I Bonds, AIFs, InvITs, REITs, etc. There is uncertainty regarding funds flow, liquidity concerns and lack of availability of eligible securities in the market.

Hence, investments are made in the few available approved securities, resulting in deviation to the exposure norms in Money market instruments. The cash surplus is invested in the liquid/overnight mutual funds to ensure optimum utilization of cash flow, in the best interest of the subscribers. Money Market Breaches may continue in the scheme till the time the investments universe for the scheme expands or till the supply situation of existing instruments improves.

#### **Exception 3: Single Issuer limit restricted to Max 10% of Scheme AUM in Scheme A Tier I.**

**Approving Authority:** Approval from any one of Compliance Officer/CEO.

**Justification for Breach:** Scheme A-Tier-I assets are to be invested in alternative asset instruments like Additional Tier I Bonds, AIFs, InvITs, REITs, etc. There is uncertainty regarding funds flow, liquidity concerns and lack of availability of eligible securities in the market.

Hence, investments are made in the few available approved securities, resulting in deviation to the exposure norms. The scheme will invest basis the aforementioned approach till the time the investments universe for the scheme expands or till the supply situation of existing instruments improves. The breach in the single issuer exposure limit happens as we invest in AT-1 bonds of issuers with credit comfort beyond the 10% limit. This is allowed by the Authority in the interests of the subscribers.

**Exception 4: Extreme Circumstances – Any active breach arising out of fund management action/ decision.**

**Approving Authority:** Prior approval from any 2 of Compliance Officer, CRO, CEO, Non-Executive Directors.

**Justification for Breach:** Such exceptions shall be allowed in Extreme scenarios only and justification shall be recorded in writing along with prior approval of the deviation.

### **13. Valuation of Securities**

The valuations of securities are done based on the security level valuation provided by the Valuation Agency. CRISIL Limited, which is one of the AMFI approved third party valuation agency has been appointed by NPS trust in consultation with all pension funds for providing valuation services for the schemes under NPS. CRISIL is providing the valuation to the Pension funds since 1st April 2022. The valuation policy of the Valuation Agency is based on valuation guidelines issued by PFRDA and as amended from time to time. Mutual fund units are valued at the latest available/previous day net asset values from AMFI website. The detailed valuation guidelines are covered in SOP.