

SBI PENSION FUNDS P. LTD.
INVESTMENT POLICY FOR GOVERNMENT SECTOR

1. BACKGROUND:

The Investment Policy for the Government Sector is based on instructions/guidelines issued by the Pension Fund Regulatory and Development Authority (PFRDA) from time to time and the provisions of the Investment Management Agreement (IMA) for the Government Sector entered into with the NPS Trust.

2. SCOPE:

This policy will be applicable for the investment of the corpus received under the Central Government, State Government, NPS Lite, Corporate CG and Atal Pension Yojana NPS schemes.

3. OBJECTIVE:

Considering the nature of the pension fund business, the Company has to look at generating best available returns for the subscriber over the long term while ensuring safety and security of such investments. Keeping in view the fact that returns are market related and allotment of incremental corpus for the CG & SG schemes are based on YTD performance of the previous year, it is proposed to strive for yield maximization within the investment pattern approved by PFRDA.

4. INVESTMENT PATTERN:

The investment pattern stipulated by PFRDA prescribes upper limit for each category of investment. The provision for investments in equity gives the Company an opportunity to look for avenues which carry an element of market risk but generate sufficiently higher returns commensurate with the risks associated with such investments.

4.1 Investment under Category I: Government Securities & Related Investments

The investment under this category can go up to 55% of the total AUM under respective schemes. The eligible investments are:

4.1.1 Government Securities:

Government Security means a security created and issued by the Central or a State Government for the purpose of raising a public loan as defined in Section 2(b) of the Securities Contract (Regulation Act) Act 1956.

4.1.2 Units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities & Exchange Board of India. Provided that the exposure to a mutual fund shall not be more than 5% of the total portfolio of Government Securities in the concerned NPS Scheme at any point of time

4.1.3 Other Securities are as defined under 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.

The portfolio invested under this sub-category of securities shall not be in excess of 10% of the total portfolio of the G-Sec in the concerned NPS Scheme of the pension fund at any point of time

4.2. Investments under category II: Debt Instruments and Related Instruments

The investment under this category can go up to 45% of the total AUM under respective schemes. The eligible investments as per PFRDA, subject to stipulations prescribed by Company at 5.2 are:

4.2.1(i) (a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions (Public Financial Institutions' as defined under Section 2 of the Companies Act, 2013), which have a minimum residual maturity period of three years from the date of investment.

4.2.1(i) (b) Basel III Tier I bonds issued by scheduled commercial banks(SCB) under RBI Guidelines. Provided that in case of initial offering of the bonds the investment shall be made only in such Tier I bonds which are proposed to be listed. Provided further that investment shall be made in such bonds of a SCB from secondary market only if such Tier I bonds are listed.Total Portfolio invested in this sub-category, at any time shall not be more than 2% of the total portfolio of the fund.

No investment in sub category in initial offerings shall exceed 20% of the value of the initial offering.Further,at any point of time, the aggregate value of Tier I bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by the bank.

4.2.1 (ii) The Fund can also invest in following infrastructure related debt instruments:

4.2.1 (ii) (a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body Corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of low cost housing. Further, this category shall also include securities issued by Indian Railways or any of the body Corporates in which it has majority shareholding. This category 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.

It is further clarified that 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 at under category (I) 4.1.3 , shall be treated as an eligible security under this sub-category.

4.2.1 (ii) (b) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified at 5.2

4.2.1 (ii) (c) Listed (or proposed to be listed in case of fresh issue) securities issued by Infrastructure debt funds operating as a Non-Banking Financial Company and regulated by Reserve Bank of India.

4.2.1 (ii) (d) Listed (or proposed to be listed in case of fresh issue) units issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by Securities and Exchange Board of India.

It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (4.2.1(ii)), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors:

Provided that the investment under sub-categories 4.2.1 (i-a,b/ii-a,b,c,d) of this category 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 Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that in case of the sub-category 4.2.1(ii-c) the ratings shall relate to the Non-Banking Financial Company and for the subcategory 4.2.1(ii-d) the ratings shall relate to the investment in eligible securities rated above investment grade of the scheme of the fund.

Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.

4.2.2 Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks as per stipulations at 5.2

4.2.3 Rupee bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Asian Development Bank (ADB).

4.2.4 Debt Mutual Funds as regulated by SEBI.

Investment restrictions under category II

(a) Investment exposure in debt securities of Sponsor Group Companies shall be restricted to 5 % of the net-worth of all Sponsor Group Companies or 5% of total debt securities (excluding G-Securities) under each scheme, whichever is lower.

(b) Investment exposure in debt securities of Non-Sponsor Group Companies shall be restricted to 10% of the net-worth of all Non-Sponsor Group Companies or 10 % of the total debt securities (excluding G-Securities) under each scheme, whichever is lower.

Debt Securities covered under Category I (4.1.3) are excluded from Category II.

In addition to the credit ratings, investments under debt instruments and related investments category shall be made after proper due diligence on the investee companies. The process which is to be followed are as under:

- a) Proper credit appraisal has to be carried out to assess the risk associated with any particular security/bond before investment is made by the fund.
- b) The risks analyzed should include, inter alia, credit risk, liquidity risk and solvency risk.
- c) A comparison of following parameters with the sector & industry to be done:
 - i) Revenue
 - ii) EBITDA
 - iii) PATLarge variations if any need to be commented upon in details.
- d) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.
- e) The credit appraisal should include detailed analysis of financials of company, the management of the issuer company, liquidity position and other parameters such as liquid investment or cash balances excess to unutilized credit lines, liquidity coverage ratio and adequacy of cash flows for servicing maturing debt obligation need to be analyzed.
- f) It should also comment on the nature of business, industry characteristics, impact of economic conditions, business strategy, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.
- g) Comment should also be made in credit appraisal regarding pledge of shares by promoters, contingent liabilities of the company and group level leverage.
- h) The Chief Investment officer (CIO) shall put up the credit proposal to the Investment Sub-Committee for approval.
- i) All the corporate bonds shall be reviewed periodically. i.e. once in every six months, or more frequently in case of any adverse development.

4.3 Investments under category III: Short Term Debt Instruments and Related Investments

The investment under this category can go up to 10% of the total AUM under respective schemes. The eligible investments as per PFRDA, subject to stipulations prescribed by Company at 5.2 are:

1. Money Market Instruments -Provided that investment in commercial paper issued by body Corporates shall be made only in such instruments which have minimum rating of A1+ by at least two credit rating agencies registered with the Securities and Exchange Board of India (SEBI).
2. Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks will require the bank to satisfy all conditions mentioned in category II
3. Units of liquid mutual funds regulated by SEBI.
4. Term Deposit Receipts of up to one year issued by scheduled commercial banks.
5. Investment in units of Overnight Funds and all such short duration funds as may be permitted by SEBI from time to time with the condition that the average total asset under management of AMC for the most recent six-month period should be at least Rs.5000.00 crore.

4.4 Investments under category IV: Equities and Related Investments

The investment under this category can go up to 15% of the total AUM under respective schemes. The eligible investments as per PFRDA, subject to stipulations prescribed by Company at 5.2 are:

- a. Investment in shares of companies which are listed in Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), on which derivatives are available and which have Market Capitalization of not less than Rs. 5000 crore as on the date of investment.
- b. Units of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body, corporate listed on BSE or NSE.
Provided that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the total portfolio of the fund in any point in time and the

fresh investment in such a mutual funds shall not be in excess of 5% of the fresh accretions invested in the year.

- c. Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.
 - d. ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body Corporates.
 - e. Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging.
 - f. Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) above.
- A list of Companies conforming to the above requirement will be compiled and reviewed periodically by the Investment Sub- Committee.
 - NSE/IISL issues notifications for inclusion / exclusion of Companies in the Indices on which derivatives are available, with minimum Market Capitalization of Rs 5000 Crores from a future date. Depending on market conditions, the Company may invest in shares of to be included Companies from the date of notification.
 - No fresh investments shall be made in shares of to be excluded Companies. The Company would exit from existing equity investments in such Companies, at the appropriate time.
 - The decisions of the Investment Sub-Committee shall be reported to the Investment Committee of the Company at its next meeting.
 - Out of the list of companies compiled for investment in equities, the due diligence process which is to be undertaken before making any under equity market instruments are as under:
 - a) A detailed research note should cover the promoter credentials, reputation, corporate governance, performance evaluation versus peers and benchmarks as well as the duration of such track records.
 - b) A comparison of following parameters with the sector & Industry to be done:
 - i) Revenue
 - ii) EBITDA
 - iii) PATLarge variations if any, need to be commented upon in detail.
 - c) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.

- d) The research note should include detailed analysis of financials of company (past and projections), business strategy, liquidity position, industry characteristics, impact of economic conditions, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.
- e) It should also comment upon pledge of shares by promoters, contingent liabilities and group level leverage.
- f) The research note will be put up by Chief Investment Officer (CIO) to Investment Sub-Committee (ISC) for approval.
- g) The portfolio under this category shall be reviewed once in six months or more frequently in case of any adverse development.

Investment restrictions under Category IV

4.4.1(a) NPS investments have been restricted to 5% of the 'paid up equity capital'* of all the sponsor group companies or 5% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

4.4.1(b) NPS investments have been restricted to 10 % of the 'paid up equity capital'* of all the non-sponsor group companies or 10% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

*Paid up share capital': Paid up share capital means market value of paid up and subscribed equity capital.

4.5 Investments under category V: Asset Backed, Trust Structured & Miscellaneous Investments

The investment under this category can go up to 5% of the total AUM under respective schemes. The eligible investments are:

- a. Asset Backed Securities regulated by the Securities and Exchange Board of India.
- b. Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.
- c. Commercial mortgage based Securities or Residential mortgage based securities.
- d. Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.

Provided that investment under this category V shall only be in listed instruments or fresh issues that are proposed to be listed. Further, that investment under this category shall be made only in such securities which have minimum AA or equivalent rating in the applicable rating scale from at least two credit rating

agencies registered by the Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulations, 1999.

Further that in case of the sub-category (b & d) the ratings shall relate to the rating of the sponsor entity floating the trust. Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of the ratings shall be considered.

5. GENERAL STIPULATIONS:

5.1. As prescribed by PFRDA

- a) Any money received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in accordance with the above investment pattern.
- b) If for any of the instruments mentioned above the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers.
- c) The investment pattern may be achieved separately for each successive financial year. It is expected that throughout the year the investments are in conformity with the above pattern.
- d) The fiduciary responsibility of investment of the funds must be exercised with appropriate due diligence.
- e) Investment exposure to a single industry has been restricted to 15% under all NPS schemes, as per Level-5 of National Industrial Classification (NIC). Investment in scheduled commercial bank FDs would be exempted from exposure to Banking Sector.
- f) If investments are made 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 should be considered for compliance of the prescribed the Industry Concentration , Sponsor/ Non Sponsor group norms.(For example, if on account of investment in Index Funds/ ETFs/Debt MFs , if any of the concentration limits are being breached than further investment should not be made in the relative Industry /Company).

5.2 As prescribed by the Company

In addition to the above investment stipulations prescribed by PFRDA, considering the safety and security of the funds, as a prudent measure, the Company lays down the following guidelines for investments under different categories:

- a) Investments in debt securities under category II will be made as per the following conditions:-

- i. All investments (except at 4.2.3 and 4.2.4) to have minimum AA or equivalent investment grade rating (provided that the rating has been confirmed/retained at AA for more than one year, i.e. investment in newly upgraded companies will not be done for one year) from at least two rating agencies regulated by SEBI, under SEBI (Credit Rating Agency) Regulation 1999 and the maximum tenor shall be 15 years, except mentioned at 4.2.1(ii) b i.e. in BASEL III Tier-I Bonds. Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered. Under sub category 4.2.3 -in case of INR bonds issued by (IBRD/IFC/ADB--Institutions of International Repute), single rating of AA or above by a domestic or International rating agency can be accepted and tenor of bonds should not exceed 15 years.
- ii. No investment shall be made in perpetual bonds of any Body Corporate except in Basel III Tier-1 Bonds.
- b) Investments in term deposits under category II & category III and investments in Certificate of Deposits under Category III shall be made subject to the following stipulations:

The scheduled commercial banks above must meet the conditions of:

- i. Continuous profitability for immediately preceding 3 years.
- ii. Capital Adequacy Ratio should not be less than 9% for Public Sector Commercial Bank and not less than 11% for Private Sector Banks in last three years or mandated by prevailing RBI norms, whichever is higher.
- iii. Having a net NPA of not more than 4% of the net advances.
- iv. Having a minimum net worth of not less than Rs.500 crores for Public Sector Banks and Minimum Rs 10,000 crores for Private Sector Banks.
- v. Private Sector Banks must have Long Term Rating of AA or above.
- c) The Company will invest only in those units of liquid mutual funds which have:
 - i. The total corpus of the Scheme should be Rs.8,000/-cr more.
 - ii. Minimum Corpus of the fund house shall be Rs.30,000/- crore.
 - iii. The expense ratio shall be comparatively low.
 - iv. The minimum rating of the scheme has to be CPR 3(Composite Performance Ranking 3).
- d) Investments in shares of companies under category IV shall be guided by the following:

- i. A list of Companies conforming to the above requirement will be compiled and reviewed periodically by the Investment Sub- Committee.
- ii. NSE/IISL issues notifications for inclusion / exclusion of Companies in the Indices from a future date. Depending on market conditions, the Company may
 - Invest in shares of to be included Companies from the date of notification.
 - No fresh investments shall be made in shares of to be excluded Companies. The Company would exit from existing equity investments in such Companies, at the appropriate time.

The decisions of the Investment Sub-Committee shall be reported to the Investment Committee of the Company at its next meeting.

6. TRANSACTIONS THROUGH BROKERS:

Purchase and sale of securities through a broking firm should not exceed on an average 5% of the aggregate purchase/sale of securities under all schemes for the financial year. In case this limit is exceeded, the justification therefore should be recorded and all such investments reported to the Trustees on annual basis. The aforesaid limit of 5% shall apply for a block of 12 months. Only services of empaneled brokers may be availed

7. ASSET LIABILITY MANAGEMENT (ALM) /LIQUIDITY OF INVESTMENTS:

Achieving high return is of paramount importance, however liquidity aspect will be given due weightage in investment decisions to meet redemption requirement as and when it arise as part of ALM exercise.

As per redemption pattern observed, the in past, in Government Sector NPS Schemes (except Corporate CG Scheme), redemption requests are small and matched with corresponding inflows. However, if corresponding inflows are insufficient to match the outflows, the shortfall can be easily met by liquidating the securities. However, in case of Corporate CG scheme, in past we have seen mass redemptions from the scheme whenever a bank decides to change the Pension Fund Manager. To meet out that eventuality of mass redemption, liquidity and ALM concerns, the scheme should have sufficient investments in liquid securities in G-Secs and liquid equity scrips. To meet this requirement, we propose the following:

- a) Investment of Rs 200 crores and more on ongoing basis in Scheme Corporate CG should be made in liquid Government Securities which have average daily trading value of Rs 200 crores and above in a month.
- b) Investment of Rs 75 crores and more on ongoing basis, in Scheme Corporate CG should be made in liquid equity scrips which have average daily turnover of Rs 200 crores and above in a month.

8. CREDIT RATING:

SEBI-approved rating agencies identified for rating purposes are ICRA, CARE, India Ratings (earlier FITCH), CRISIL and Brickworks.

If the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered for investment.

9. MANAGEMENT ACTION TRIGGER POINT:

When the price of the securities in the portfolio is sliding down the investment subcommittee will review the position, depending on the view on the market to either cut loss or re-enter at lower level or wait for the market to reverse. Trigger points will be as defined in the Risk Management policy approved by the Board.

10. VALUATION OF PORTFOLIO:

This will be done in accordance with PFRDA guidelines from time to time.

11. INVESTMENT COMMITTEES:

- a) The Company has constituted an Investment Committee of the Company with two Independent Directors, the MD & CEO, Chief Investment Officer (CIO) as members. The Committee shall exercise Board level oversight over the Company's investment operations and implementation of the Company's Investment Policy as approved by the Board. The minimum quorum for the Committee meetings shall be two with at least one Independent Director present in the meeting. The Committee shall meet quarterly.
- b) For day-to-day investment activities, the Company will have an Investment Sub-Committee with full delegated powers comprising of the MD & CEO, CIO, Head-Equity Market and Head-Fixed Income Market. The minimum quorum of the Investment Sub-Committee shall be two, of which one should be CEO/ officiating CEO. All day-to-day investment decisions will be taken by the Sub-Committee and comments from Chief Risk Officer are invited on the same. The proceedings of the Investment Sub Committee meetings will be recorded and are subject to audit/inspection. Reports on the investments made with a certificate from the Chief Risk Officer that the investments are in conformity with Regulatory guidelines and Investment policy provisions, and any other matter relating to investments will be placed before the Investment Committee of the Company every quarter for review/scrutiny and guidance.

12. REPORTING:

The company would comply with disclosure requirements specified by PFRDA from time to time. The company shall furnish periodic reports as well as such information and

document as may be required by the PFRDA, NPS Trustees and the Central Record Keeping Agency from time to time.

13. REVIEW:

As per IMA provisions, the Policy shall be reviewed at half yearly intervals or earlier, if required.

14. If the pension fund has engaged services of professional fund/asset managers for management of its asset, payment to whom is being made on the basis of the value of each transaction, the value of funds invested by then 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 the double incidence of costs.