

**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 a. 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.

4.1.3 b. Government of India (GOI) – Fully Serviced Bonds issued by PSUs under Extra Budgetary Resources (EBR) whereof bonds are serviced by GOI and repayment of principal and interest payments towards such bonds are borne by GOI. The investment under this category shall be implemented prospectively i.e. w.e.f. date of issuance of letter to the pension funds and only fresh issuances in the GOI fully serviced bonds shall be treated and classified under category 4.1 under sub-category 4.13 (a) Other securities.

The portfolio invested under sub-category 4.1.3 (a & b) 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).

Provided that investment in debt securities with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund.

In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity.

In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

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 Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors.

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 (a&b), 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.

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

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

4.2.3 Rupee bonds issued by institutions of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Asian Development Bank (ADB).

Provided that investment in Rupee Bonds with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund.

4.2.4 Investment in units of Debt ETFs issued 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 Asset Under Management of Corporate Bond Portfolio of the respective schemes.

4.2.5 Units of Debt Schemes of Mutual Funds as regulated by Securities and Exchange Board of India. Provided these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year.

4.2.6 Debt securities issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.

4.2.7 Debt securities issued by Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.

Provided that investment under category (4.2.6) & (4.2.7) shall be made only in such securities which are rated as AAA rating or equivalent in the applicable rating scale of the Trust from at least two credit rating agencies registered with SEBI. The rating of sponsor floating the Trust should be AA or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI.

4.2.8 Listed or proposed to be listed Credit rated Municipal bonds. Provided that investment under this category shall be made only in such securities which are rated as AAA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI.

Provided that the investment under sub-categories 4.2.1 (i- a&b), 4.2.1 (ii-a to d) of this category II (4.2) 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.

Provided further that Pension Fund can make investment in infrastructure companies rated not less than 'AA' along with an Expected Loss Rating of 'EL1'.

For sub-category (4.2.3), a single rating of AA or above by a domestic or international rating agency will be acceptable.

Debt securities covered under category I 4.1.3 (a&b) above are excluded from this category (4.2.).

#### 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.

In addition to the above-mentioned criteria, 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) PAT

Large 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 analyst should also analyze the following parameters to evaluate accounting quality of the investee companies :

- I) Contingent liabilities as % of Networth (for the latest available year) for analyzing off-balance sheet risk.
- II) CWIP to gross block, comments should be made in case of high ratio.
- III) Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.
- IV) Provisioning for debtors to check aggressive provisioning policies.
- V) Growth in auditors remuneration to growth in revenues. Faster growth in auditors remuneration vis-vis company's operations.

All the above mentioned parameters should be included in the credit appraisal note of investee companies. In the absence of any of the aforesaid mentioned information, it should be recorded in the credit appraisal note and discussed by the Investment Sub-Committee before making an investment decision.

i) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.

j) Avoid investment in companies whose promoters/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.

k) The credit proposal should be put up to the Investment Sub-Committee for approval.

l) All the corporate bonds shall be reviewed periodically. i.e. once in every six months, or more frequently in case of any adverse development.

m) In case of NBFCs other than Public Financial Institution (PFI), the following criteria should be considered before investment:

Total AUM	> Rs. 25000 crores
Networth	> Rs.500 crores
Over Gearing	< 7 times
Net NPA Level	< 2%
Capital Adequacy	Minimum 15%
PAT History	Net profit in at least last 3 years
Exposure norms	As per PFRDA guidelines

The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment.

In case of NBFC-PFI such as NABARD, PFC, IRFC etc., the following criteria should be considered before investment:

Total AUM	> Rs. 20000 crores
Networth	> Rs.500 crores
Over Gearing	=< 10 times
Net NPA Level	=< 5%
Capital Adequacy	As per the RBI guidelines
Exposure norms	As per PFRDA guidelines

The aforesaid criteria for Net NPA level may be relaxed up to 6% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

n) In case of Small Finance Bank (SFB) and Housing Finance Companies (HFC), the following criteria should be considered:

Turnover	> Rs. 2500 crore
Networth	> Rs.500 crore
Over Gearing	< 10 times
Net NPA Level	=< 2%
Capital Adequacy	Minimum 15%
PAT History	Net profit in at least last 3 years
Exposure norms	As per PFRDA Guidelines

The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

o) In case of Scheduled Commercial Banks (SCBs), the following criteria should be considered:

Particulars	Public Sector Banks	Private Sector Banks
Net-worth	> Rs.500 crore	>Rs.500.00 crore
Gross NPA Level	=<10	=<6
Net NPA Level	=< 4%	=<2%
Capital Adequacy	Minimum 9%	Minimum 9%
Provision Coverage Ratio	>50%	>60%
Exposure norms	As per PFRDA Guidelines	As per PFRDA guidelines.

This is applicable for incremental investment under the category.

p) In case of Corporates other than Banks, NBFCs, SFBs & HFCs, the following criteria should be considered using consolidated financials:

Net-worth	> Rs.500 crore
Debt/Equity Ratio	<2.5
Interest Coverage Ratio*	>1.5
Profitability	Cash Profit in last 3 years
Exposure norms	As per PFRDA Guidelines

\*(EBITDA/Interest)

This is applicable for incremental investment under the category.

q) In case of Infrastructure Companies operating assets under Special Purpose Vehicle (SPV) route, the evaluation will be done on the following criteria only for such SPV which have achieved Commercial Operations Date (COD):

Net-worth	> Rs.100 crore
Debt/Equity Ratio	<6.5
DSCR	>1.15
Exposure norms	As per PFRDA Guidelines

This is applicable for incremental investment under the category.

#### **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).

Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of the ratings shall be considered.



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. Investments in units of a Debt scheme of a Mutual Fund as regulated by Securities and Exchange Board of India 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.8,000/- crores.
4. Term Deposit Receipts of up to one year issued by scheduled commercial banks which satisfy all conditions mentioned in category II.

#### **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) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment.
- b) Units of Equity Schemes of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body, corporates 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 at any point in time and the fresh investment in such 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.

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.

- f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI :

- i) Investment shall be made in Equity shares which are proposed to be “listed” through IPO.

- ii) Investment shall be made in Equity shares of such Companies through IPO where the full float market capitalization, calculated using the lower band of the issue price of the IPO, is higher than the market capitalization of 200th company in the list of Top 200 stocks of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE) as provided by NPS Trust (last published) for investment into equity space under the Investment Guidelines.

**Further, if an investment in equity shares of any company made through an IPO and if the equity shares do not fulfill the market capitalization condition prescribed under investment guidelines post listing, a time period of maximum one year shall be provided for making decision on selling/holding such stock. At the time of completion of one year, if no decision to sell such stock was made, the said stock shall be sold if it does not fall in the last list of Top 200 stocks published by NPS Trust.**

**Further, fresh shares of the same company can be acquired in which the allotment has been received through IPO as long as the investment meets the conditions prescribed in Investment guidelines/circulars issued in this regard.**

- iii) The investment in Equity Shares through Follow-on Public Offer (FPO)/Offer for Sale (OFS) shall be made in the shares of body corporates listed on BSE or NSE which are in top 200 stock in terms of full market capitalization as provided by NPS Trust (last published) list of stocks prepared by NPS Trust in this regard from time to time.

- iv) The details of all investments in Equity shares through IPO/FPO or OFS shall be reported to NPS Trust within 30 days of making such investments.

- A list of companies of top 200 stock as provided by NPS Trust (last published) for investment in equity shares from time to time to be strictly followed by investment team and reviewed by the Investment Sub-Committee. Subsequent to any updation in the list, rebalance of portfolio is to be done in line with updated list within a period of one month.
- 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 top 200 companies as provided by NPS Trust from time to time for investment in equities, the due diligence process which is to be undertaken before making any investment in shares of body corporates 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) PAT

Large 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 analyst should also analyze the following parameters to evaluate accounting quality of the investee companies :
    - I) Contingent liabilities as % of Networth (for the latest available year) for analyzing off-balance sheet risk.
    - II) CWIP to gross block, comments should be made in case of high ratio.
    - III) Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.
    - IV) Provisioning for debtors to check aggressive provisioning policies.
    - V) Growth in auditors remuneration to growth in revenues. Faster growth in auditors remuneration vis-vis company's operations.

All the above-mentioned parameters should be included in the **research note** of investee companies. In the absence of any of the aforesaid mentioned information, it should be recorded in the credit appraisal note and discussed by the Investment Sub-Committee before making an investment decision.

- g) As far as possible, it should be ensured that promotor/promotor group should not be involved in any corporate governance issues.
- h) Avoid investment in companies whose promoters/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.
- i) The research note will be put up to Investment Sub-Committee (ISC) for approval.
- j) 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. Provided 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.

Provided further that in case of the sub-categories (b) and (d), minimum rating of AAA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI shall be required and the sponsor entity floating the trust should have minimum rating of AA or equivalent in the applicable rating scale of the Trust from at least two credit rating agencies registered with SEBI.

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) Fresh accretions to the fund would be invested in the permissible categories specified in this investment pattern in a manner consistent with the above specified maximum permissible percentage amounts to be invested in each such investment category, while also complying with such other restrictions as made applicable for various sub-categories of the permissible investments.
- b) Fresh accretions to the funds shall be the sum of un-invested funds from the past and receipts like contributions to the funds, dividend/interest/commission, maturity amounts of earlier investments etc., as reduced by obligatory outgo during the financial year.
- c) Proceeds arising out of exercise of put option, tenure or asset switch or trade of any asset before maturity can be invested in any of the permissible categories described above in the manner that at any given point of time the percentage of assets under that category should not exceed the maximum limit prescribed for that category and also should not exceed the maximum limit prescribed for the sub-categories, if any. However, asset switch because of any RBI mandated Government debt switch would not be covered under this restriction.
- d) 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.

- e) The investment pattern should be achieved separately for each successive financial year through timely and appropriate planning.
- f) The fiduciary responsibility of investment of the funds must be exercised with utmost due diligence.
- g) Suitable steps should be taken to control and optimize the cost of management of the fund.
- h) 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.
- i) 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 of the prescribed the Industry Concentration, Sponsor/ Non Sponsor group norms under these guidelines.
- j) The following investment limits has been prescribed for NPS Tier-II – Tax Saver Scheme:

<b>Asset Class</b>	<b>Limits</b>
Equity*	10%-25%
Debt**	Upto 90%
Cash/Money Market/Liquid MFs	Upto 5%

\*Investment Guidelines as applicable to E-II.

\*\*Investment Guidelines as applicable to G-II and C-II.

- k) Due caution should be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable.
- l) Investments in fresh issuance of “Govt. of India- Fully Serviced Bonds” issued by PSUs under Extra Budgetary Resources (EBR) should be considered investments under “Government Securities and Related Investments” instead of Investment in “Debt Instruments and Related Investments.”
- m) Investments in the shares of body corporates listed on BSE or NSE, which are in top 200 stocks is required to adopt the list of stocks prepared by NPS Trust which will be updated by NPS Trust every six months. Subsequent to any updation in the list, rebalance of portfolio is to be done in line with updated list within a period of one month.
- n) 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 and 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:
  - i) To meet liquidity requirement in a scheme in case of unanticipated redemption pressure.
  - ii) To adjust securities received through corporate action.

The inter-scheme transfers are allowed only on exceptional basis and it should be informed to NPS Trust and Authority upon exercise of this option.

## 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 4.2.6, 4.2.7, 4.2.8 and 4.5 (b&d) 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. Tenor of bonds should not exceed 15 years.

The aforesaid criteria of 15 years can be relaxed for investment in Companies with criteria mentioned below:

- a) Company which is 51% and above owned by Central Government or State Government.
  - b) State Government or Central Government collectively own 51% and above in the Company.
  - c) The Company enjoys Central Public Sector Entity Status.
  - d) It should be rated AA+ and above at the time of Investment.
- 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).

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

#### **6. i) 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.

#### **ii). BROKER EMPANELMENT:**

As per the PFRDA guidelines, all the secondary market trades will be done through empanelled brokers only. In terms of guidelines issued by PFRDA for empanelment of brokers and as per best in house practices followed by the Company, the following principal criteria has to be fulfilled by the broking house/ firm for empanelment.

- a) Valid SEBI registration certificate for the last three (3) years.
- b) Member of both the NSE & BSE for the last three (3) years.
- c) Body Corporate with at least five years in existence.
- d) Corporate entity with minimum net worth of Rs.10.00 crores. (approved by Board in its meeting dated 23.07.2011)
- e) Minimum Turnover of Rs 1000 Crores during last financial year (including cash and F&O segment)



- f) Empaneled with at least five (5) institutions comprising Banks/Foreign Institutional Investor/Mutual Funds as brokers.
- g) SEBI or any other regulator has not initiated any action against the firm in past (suspend, fined, debarred, expelled) & no criminal litigation or money laundering case is pending against any of the directors of firm.
- h) Possess strong research capabilities and good market reputation.
- i) No adverse market reputation / reports. (approved by Board in its meeting dated 23.07.2011)

Brokers, who would like to empanel with our company, should submit the following documents:

- a) Application Form in Prescribed Format.
- b) SEBI Registration Certificate of NSE/BSE.
- c) Membership Certificate of NSE/BSE.
- d) Memorandum and Article of Association.
- e) Audited Annual Report for Last 3 years.
- f) Latest Networth Certificate
- g) Status Report of NSE/BSE.
- h) Latest SEBI Inspection Report.
- i) Undertaking from the Director and Company that SEBI or any other regulator has not initiated any action against the firm/company in past and no criminal litigation or money laundering case is pending against any of the directors of the Company.

The chief Risk Officer has to verify the documents to check that all requirements are fulfilled by the Broker. The Chief Risk Officer along with Compliance Officer has to review the history of any penalty imposed by the SEBI or exchanges on the firm/company and verify that the firm/company are not suspended/debarred/fined/expelled or no criminal litigation or money laundering case is pending against any of the directors of firm as part of appraisal procedure.

After appraisal, the note will be put up to the Investment sub-committee approval. After approval of the list of broker for empanelment, the same will be put up to the Investment Committee of the Company for recommendation and thereafter approval from the Board. Once approved by the Board, the dealer can transact deals through broker after execution of terms and condition documents by the broker.

## **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 and in case of downgrade of securities by the credit rating agency, the Investment Sub-Committee 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. PRUDENTIAL NORMS FOR INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING FOR INVESTMENT PORTFOLIO:**

**In terms of PFRDA (Identification, Income Recognition and Provisioning of NPA) Guidance Note 2013 and as per clause 13 of Part II in Schedule A of PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under National Pension System) Guidelines -2012', an investment is regarded as non-performing, if interest/payments or both amounts have not been received or have remained outstanding for 90 days" from the day such income/installment has fallen due. The prescribed guidelines are as under:**

i). **Identification of Non-Performing Asset (NPA):** A debt security ('asset') shall be classified as 'Non-Performing Asset' (NPA) if the interest and/or installment of principal have not been received or remained outstanding for one quarter, from the day such income and/or installment principal was due.

ii). **Treatment of Income accrued on NPA and further accruals :**

- a) After the expiry of the 1<sup>st</sup> quarter, from the date the interest has fallen due, there will be no further interest accrual on the asset i.e. from the beginning of the 2<sup>nd</sup> quarter from the date the interest has fallen due, interest should not be accrued on the asset.
- b) On classification of the asset as NPA, provision for all interest, accrued on that asset and recognized in the books of accounts of the scheme till date, should be made.
- c) However, for monitoring purpose, the calculation of the interest accrued and due on the NPA (security wise) should be done separately through the system, as a mirror account but should not be accounted for in the books of account of scheme.
- d) Interest on NPA is recognized and booked as income only when it is actually received (i.e. on cash basis).

iii). **Provisioning for NPAs:** On classification of the asset as NPA, provision must be made on the book value in the following manner or at a higher percentage at the discretion of the Pension Fund with the approval of the Investment Committee. However, Pension fund will not have the discretion to extend the period of provisioning. The provisioning against the book value should be made at the following rates irrespective of whether the principal is due for repayment or not.

Period past due from due date of interest/installment of principal	Period past due from the date of classification of assets as NPA	% Provision on Book Value
6 months	3 months	50%
9 months	6 months	75%
12 months	9 months	100%

iv). **Classification of Deep Discount Bonds as NPAs:** Investment in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied.

- a) If the rating of the Bond comes down below investment Grade.
- b) If the issuer is defaulting in their commitments in respect of other assets.

**c) Full net worth erosion of Issuer.**

**Provision should be made as per the norms set at point no. (iii) above as soon as the asset is classified as NPA.**

**v). Writing-back of provisioning and further accruals on re-classification of NPA as 'performing' :**

**a) Reclassification of Assets :** The non-performing asset shall be re-classified as 'performing asset, if all the arrears of interest and installment of principal are cleared and the debt is regularly serviced for consecutive two quarters, or subsequent coupon is paid on due date, whichever is later.

**b) Written-back of provisioning of interest:** Upon reclassification of asset as performing asset, in case an issuer has fully cleared all the arrears of interest, the interest provisions can be written back in full.

**c) Written-back of provisioning of principal:** The provision made for the principal can be written back in the following manner:

**i). 100% of the asset provided for in the books, will be written back at the end of the 2<sup>nd</sup> calendar quarter, where the provision of principal was made due to the interest defaults only.**

**ii.) 50% of the asset provided for in the books will be written back at the end of the 2<sup>nd</sup> calendar quarter and 25% after every subsequent quarter, where both principal and interest were in default earlier.**

**d) Accounting for accrual of interest:** Further, accrual of interest on the performing assets shall be made after it has been classified as performing asset. Till such time, interest on the asset should be recognized on cash basis only. The interest not credited on accrual basis would be credited only at the time of actual receipt of interest.

**vi). Re-schedulement of an asset:** In case any issuer of debt security defaults in the payment of interest and installment of principal, if any and the pension fund has accepted re-schedulement of NPA, it may be re-classified as 'performing asset' if the next two coupons/installments of principal, if applicable, is regularly serviced as re-scheduled. Point no. (v) will be applicable for written-back of provisioning and further accruals on its reclassification as 'performing asset'.

**vii). Disclosure of NPA in the monthly portfolio details :**

- a) The pension fund shall make security-wise monthly disclosures of NPAs in the monthly portfolio details.
- b) The total amount of provisions made against the NPAs shall be disclosed in addition to the total Book-Value of NPAs. Further, the proportion of NPA with respect to the Assets Under Management (AUM) of the respective scheme may also be disclosed. In the list of investments an asterisk mark shall be given against such investments which are recognized as NPAs.
- c) Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not as investment provided, that where an investment is redeemable by installments, it will be shown as an investment until all investments have become overdue.

**viii). Written off NPA on identification as 'loss assets':**

- a) A 'loss asset' is one which is deemed as un-recoverable or its value has been diminished and has been identified by the Pension Fund or scheme auditors as such. On classifying the NPAs as loss asset, the asset along with its provision should be written off by the Pension Fund after obtaining approval from its Board of Directors or its Investment Committee (subject to report to the Board of Directors).
- b) The 'Provision for Interest Overdue' made as mentioned in point no. (ii), may be written off against 'Interest Due on NPA account'.

**11. VALUATION OF PORTFOLIO:**

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

**12. INVESTMENT COMMITTEES:**

- a) The Company has constituted an Investment Committee of the Company with two Independent Directors, the MD & CEO, Chief Investment Officer (CIO) and Chief Risk Officer 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.

### **13. 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.

**14.** If the Pension Fund has engaged services of professional fund/asset managers for management of its assets, payment to whom is being made on the basis of the value of each transaction, the value of funds invested by them 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 by Pension Funds in Liquid Mutual Funds would not be excluded for payment of investment management fee. Accordingly, Pension Funds shall be eligible for payment of IMF for investment in liquid mutual funds. Also, investment in the ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall be eligible for payment of IMF to Pension Funds. The investment made by Pension Funds in Overnight Funds and all such short duration funds, as may be permitted by SEBI from time to time, shall be eligible for payment of IMF to Pension Funds. Also, investment made by Pension Funds 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 to Pension Funds.

### **15. REVIEW:**

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