

**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 possible 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, therefore, the objective is 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 65% 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 and also includes fresh issuance of “Govt. of India- Fully Serviced Bonds” issued by Public Sector Undertakings under Extra Budgetary Resources (EBR). Provided that the portfolio invested under this sub-category of securities shall not exceed 10% of the total Govt. Securities portfolio in the concerned scheme 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 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).

4.2.2 Listed (or proposed to be listed in case of initial offering) Basel III Tier I bonds issued by scheduled commercial banks(SCB) under RBI Guidelines.

Provided that the portfolio invested in this sub-category shall not exceed 2% of the concerned Scheme AUM at any point of time.

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

4.2.3 The Fund can also invest in following infrastructure related debt instruments:

4.2.3 (i) 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.

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 4.1 (4.1.3) , shall be treated as an eligible security under this sub-category.

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

4.2.3 (iii) 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.

4.2.3 (iv) 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 4.2.3, a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors.

4.2.4 Term Deposit Receipts of more than one year duration issued by scheduled commercial banks as per stipulations at 5.2 (b).

Provided that such Term Deposits with any one scheduled commercial bank including its subsidiaries should not exceed 10% of the concerned scheme AUM at any point of time.

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

4.2.6 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 exceed 5% of total debt instruments portfolio in the concerned scheme at any point of time.

4.2.7 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.

Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio of the Debt investments in the concerned scheme at any point of time.

4.2.8 Debt securities issued by Real Estate Investment Trusts (REIT) regulated by the Securities and Exchange Board of India.

4.2.9 Debt securities issued by Infrastructure Investment Trusts (InVIT) regulated by the Securities and Exchange Board of India.

4.2.10 Listed or proposed to be listed Credit rated Municipal bonds.

Provided that the investment under sub-categories 4.2.1 , 4.2.2 and 4.2.3 (i) to (iv) of 4.2 - category II shall be made only in such securities with atleast AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India.

Provided further that in case of the sub-category 4.2.3 (iii) the ratings shall relate to the Non-Banking Financial Company and for the sub-category 4.2.3 (iv) the ratings shall relate to the investment in eligible securities of the Infrastructure Debt Fund. .

Provided further that under sub-category 4.2.3, investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1'.

Further, though investments under 4.2 category II require atleast AA rating as specified above, however, investment can be made in securities having investment grade rating below 'AA', provided that investments in securities rated from 'AA-' to 'A' shall not exceed 10% of the total debt instruments portfolio in the concerned scheme while making such investment. Any investments in securities rated below 'AA' in excess of 10% of the total debt instruments portfolio in the concerned scheme, the risk of default for such securities shall be fully covered with Credit Default Swaps (CDSs) issued under Guidelines of the Reserve Bank of India and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to investment made under this category.

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.

For sub-category (4.2.5), a single rating of AA or above by a domestic or international rating agency will be acceptable.

For sub-category 4.2.1 & 4.2.5, the investments made in debt securities and Rupee Bonds with residual maturity period of less than three years on the date of investment shall be limited to 10% of the investments made in debt instruments portfolio during the preceding 12 months in the concerned Scheme.

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 the security.

For sub-category 4.2.8 and 4.2.9, the Trust should be rated as 'AAA' or equivalent in the applicable rating scale by 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.

For sub-category 4.2.10, the Municipal Bonds should be rated 'AAA' or equivalent in the applicable rating scale by at least two credit rating agencies registered with SEBI.

Debt securities covered under 4.1 category I (4.1.3) above are excluded from 4.2 category II.

#### Investment restrictions under category II

(a) NPS Debt Investments have been restricted to 5% of the 'networth' # of all the sponsor group companies or 5% of the total AUM in debt instruments portfolio (excluding Govt. Securities) whichever is lower in each respective scheme.

(b) NPS Debt Investments have been restricted to 10% of the 'networth' # of all the non-sponsor group companies or 10% of the total AUM in debt instruments portfolio (excluding Govt. Securities) whichever is lower in each respective scheme.

#Net Worth: Net worth would comprise of Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve

and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets.

c) The exposure norms for investment in InvITs/REITs are as under:

- i) Cumulative investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of the total AUM of pension fund at any point of time.
- ii). Investments shall not exceed 15% of the total outstanding debt instruments issued by single InvIT/REIT issuer.
- iii). Investments shall not exceed 5% of the Units issued by a single InvIT/REIT issue.

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) 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 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 Internal 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 Internal Investment Sub-Committee (IISC) 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 (per issuances):

	Category I	Category II	Category III
Investment>	Amount as per Board approved policy	Max. Upto 200 crores per issue	Max. Upto 100 crores per issue
Total AUM	>=Rs. 25,000 crores	> Rs. 16,000 crores	> Rs. 8,000 crores
Networth	> Rs.2000 crores	> Rs.1500 crores	> Rs. 750 crores
Over Gearing	< 7 times	< 7 times	< 7 times
Net NPA Level *	< 2%	< 2%	< 2%
Capital Adequacy	Minimum 15%	Minimum 15%	Minimum 15%
PAT History	Net profit in at least last 3 years	Net profit in at least last 3 years	Net profit in at least last 3 years
Exposure norms	As per PFRDA guidelines	As per PFRDA guidelines	As per PFRDA guidelines

\* The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Internal Investment sub-committee (IISC) evaluate the proposal and give proper reasoning for investment. Provided further that the investments under category II & III should have AA+ & above rating at the time of 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 Internal 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:

AUM (Loan book or assets)	> Rs. 12,000 crore
Networth	> Rs. 1,000 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 Internal 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 shall 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.

\*However, above criteria will not be applicable to a Bank categorized as Private Bank by Reserve Bank of India but ownership is as under:

- More than 51% is owned by Central Government
- More than 51% is owned by State Government/Union Territory
- More than 51% is collectively owned by Central Government and State Government/ Union Territory.

For Banks with aforesaid ownership the criteria's listed under Public Sector Banks will be applicable. The above- mentioned change will be applicable for incremental investment under the category.

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

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

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.

Further, investments under Corporate Bonds with issue size of more than Rs.500 crore will be restricted to a maximum of 20% of the initial issuance amount. However, on a case-to-case basis, additional 5% investment (subscription) in an initial offering can be done i.e. maximum of 25% (including additional 5%) if there is a specific recommendation to the Internal Investment-Sub-Committee by the CIO/Debt Fund Manager providing justification for his/their recommendation.

In the rare need to invest more than 25%, the approval of the Investment Committee of the Board shall be obtained prior to such an investment through subscription in an initial offering.

In all the above three situations, the Company can subsequently take additional exposure through the secondary route within the prescribed limit/guidelines stipulated by PFRDA.

However, the aforesaid investment norms for subscribing to initial issuances shall not be applicable to Corporate listed 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.

Provided the Corporates mentioned above at a), b) and c) above are rated AA+ and above at the time of investment in initial offering.

#### **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 comprising of Treasury Bills, Commercial Paper and Certificate of Deposit.

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.

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 4.2 category II(4.2.4) Above.

2. 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 conditions stated in para 5.2 (c) below.
3. Term Deposit Receipts of up to one year issued by scheduled commercial banks which satisfy all conditions mentioned in 4.2 category II (4.2.4) above.
4. Investment in Government Securities as Lender in Triparty Repo conducted over the Triparty Repo (Dealing) System (TREPS) provided by RBI through Clearing Corporation of India Limited (CCIL).

#### **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 the list of 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 investment in such mutual funds shall not exceed 5% of the total equity portfolio in the concerned scheme 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.

- 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) Exchange Traded Funds regulated by Securities and Exchange Board of India (SEBI) that are 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 exceed 5% of the total equity portfolio in the concerned scheme at any point of time. .

- f) Investment in Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI are permitted subject to fulfilment of the following conditions :
  - i) Investment shall be made in Equity shares which are proposed to be issued through an IPO and listed on the stock exchanges provided the full float market capitalization on the date of investment, calculated at the lower band of the issue price of the IPO, should be greater than the market capitalization of the 200th company as per the List of Top 200 stocks provided by the NPS Trust at half-yearly intervals as referred to in 4.4.(a) hereinabove.
  - ii) Further, if an investment in equity shares of any company made through an IPO and if the equity shares does not fulfill the market capitalization condition prescribed under investment guidelines post listing or it fails to be in the latest published list of Top 200 stock provided by NPS Trust, the investment shall be examined for exit on a periodic basis by the Investment department but not beyond the timeline stipulated by PFRDA/NPS Trust in this matter.
  - iii) The investment in Equity Shares though Follow-on Public Offer (FPO)/Offer for Sale (OFS) shall be made in the shares of body corporates listed on BSE or NSE as defined in para no. 4.4 (a) in this policy.
  - iv) The details of all investments in Equity shares through IPO/FPO or OFS shall be reported to NPS Trust within 30 days from the date 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 Internal Investment Sub-Committee.
- The decisions of the Internal Investment Sub-Committee shall be reported to the Investment Committee of the Board 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 Internal Investment Sub-Committee before making an investment decision.

- g) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.
- h) Avoid investment in companies whose promotors/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, before making any investment in the company stock, will be put up to Internal Investment Sub-Committee (IISC) members for approval.
- j) Each stock shall be reviewed once in three/six months or more frequently especially in the case of any adverse development.

#### Investment restrictions under Category IV

4.4.1(a) NPS Equity 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 Portfolio , whichever is lower, in each respective scheme.

4.4.1(b) NPS Equity 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 portfolio 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.

**\*\*'Sponsor'** shall mean an entity described as "Sponsor" under Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 and subsequent amendments thereto.

**\*\*\*'Group'** means two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by the Authority, from time to time, by issuance of guidelines under these Regulations.

**Explanation:** Use of common brand names in conjunction with other parameters of significant influence and / or control whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group otherwise.

#### **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 4.5 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. .

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

#### **Investment restrictions under Category V**

4.5.1. The exposure norms for investment in InvITs/REITs are as under:

- a) Cumulative investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of the total AUM of pension fund at any point of time.
- b) Investments shall not exceed 15% of the total outstanding debt instruments issued by single InvIT/REIT issuer.
- c) Investments shall not exceed 5% of the Units issued by a single InvIT/REIT issue.

## 5. GENERAL STIPULATIONS:

### 5.1. As prescribed by PFRDA

- a) Inflows to the NPS/APY Schemes viz. Central Government, State Government, Corporate CG, NPS Lite, Atal Pension Yojna and APY Fund Scheme will be invested in the permissible categories stated above in a manner consistent with the specified maximum permissible percentage amounts in each such investment category, while also complying with such other restrictions as made applicable for various sub-categories of the permissible investments.

Inflows to the Schemes shall be the sum of un-invested funds from the past and receipts like contributions to the schemes, dividend/interest/commission, maturity amounts/sale proceeds of earlier investments etc., as reduced by redemptions and applicable charges.

- b) At any given point of time the percentage of assets under each 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.
- c) 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.
- d) The Company shall exit any security that it receives due to corporate action but is not an eligible security as per guidelines of the PFRDA and NPS trust. The exit shall be done within (a) the first three working day after the listing of such a security (b) but not later than a week if selling of the security is unsuccessful due to liquidity issues in the markets or (c) in accordance with PFRDA and NPS Trust guidelines issued from time to time in this regard.
- e) The Company shall not utilize the services of the sponsor or any of its associates, employees, or their relatives, for the purpose of any securities transaction and distribution and sale of securities unless and until it is first approved by the NPS Trust.
- f) The above prescribed investment pattern shall be achieved separately for each successive financial year through timely and appropriate planning.



- g) The fiduciary responsibility of investment of the funds must be exercised with utmost due diligence.
- h) Suitable steps should be taken to control and optimize the cost of management of the fund.
- i) It will be ensured that the process of investment is accountable and transparent. It should be ensured that due diligence is carried out to assess risks associated with any particular asset before investment is made in that particular asset and also during the period over which it is held in the scheme. The requirement of ratings as mandated is merely intended to limit the risk associated with investments at a broad and general level. Accordingly, it should not be construed in any manner as an endorsement for investment in any asset satisfying the minimum prescribed rating or a substitute for the due diligence prescribed for being carried out by the Pension Fund.
- j) Investment exposure to a single industry has been restricted to 15% of AUM under all schemes as per Level-5 of National Industrial Classification (NIC). Investment in scheduled commercial bank FDs would be exempted from exposure to Banking Sector.
- k) For investments made 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 Industry Concentration, Sponsor/ Non Sponsor group norms under these guidelines.
- l) Due caution should be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable.
- m) Transfer of securities within the same scheme or inter-scheme are allowed only if such transfers are done at the prevailing market price for traded instruments or at valuation price for non-traded instruments 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.

- n) As stated in para 4.4 (a), the NPS Trust provides the list of top 200 stocks every six months. Subsequent to any updation in the list by the NPS Trust, rebalance of portfolio shall to be done with regard to those stocks that are no longer in the said 200 list within a period of six months. The decision to hold such stocks in the portfolio, after they are out of the said 200 List and till they are actually sold, shall have to be approved by the

Investment Committee of the Company (Pension Fund) and also to be informed to the Board of the Company (Pension Fund).

- o) For equity investments through stock brokers, the amount of brokerage that can be debited to the schemes shall not exceed 0.03% of the equity transaction amount inclusive of stamp duty and applicable taxes.
- p) In APY Fund Scheme, there shall not be any deduction of NPS Trust charges/fee as the scheme is managed for a specific purpose.
- q) PF are permitted to keep securities as margin with the CCIL for margin requirements for investment in Government Securities and Triparty Repo (Dealing) system (TREPS).
- r) A list of group companies and those of their sponsor shall be published on website of the 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 4.2 category II will be made as per the following conditions:-
  - i. All investments (except at 4.2.5, 4.2.8, 4.2.9, 4.2.10 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 issued by scheduled commercial banks shall be made subject to the following stipulations:
- i. Having declared profit in the immediately preceding 3 (three) financial 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 the banks which meets the regulatory requirements of Networth and Capital to Risk Weighted ratio as stipulated by Reserve Bank of India (RBI), , whichever is higher.
  - iii. Having a net non-performing assets (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 must have CPR 3(Composite Performance Ranking 3).
- d) The decisions of the Internal Investment Sub-Committee shall be reported to the Investment Committee of the Board at its next meeting.
- e) The Company may alter the above stated restrictions from time to time to the extent the PFRDA Regulations change, to permit the Schemes to achieve their investment objective.
- f) The assets are not to be encumbered.
- g) No loans for any purpose can be advanced by the Company.
- h) NPS funds shall not be used to buy securities/bonds held by the Company or its subsidiary in their own investment portfolio or any other portfolio held by them.

Though the Company is permitted to enter into derivatives transactions, in the interest of the subscribers, for the purpose of hedging and portfolio balancing, this may not be resorted to in the initial period as no maturing of liabilities is anticipated.

- i) Investment decisions would be taken without maintaining idle funds for unduly long periods and in the best interest of subscribers with emphasis on safety and optimum return.

#### **6. i) TRANSACTIONS THROUGH BROKERS:**

A disproportionate part of the business should not be transacted through only one or a few brokers. Company should fix aggregate contract limits for each of the approved brokers. A limit of 5% of total transactions (both purchase and sales) by a company during a year should be treated as the aggregate upper contract limit for each of the approved brokers. This limit should cover both the business initiated by a company and the business offered/brought to the company by a broker. Company should ensure that the transactions entered through individual brokers during a year normally do not exceed this limit. However, if for any reason it becomes necessary to exceed the aggregate limit for any broker, the specific reasons for the same should be recorded, in writing, by the authority empowered to put through the deals. Further, the Board should be informed of this, post facto. However, the norm of 5% would not be applicable to Company's dealing through PDs. The reports of all such investments are to be sent to the Authority and the National Pension System Trust on a quarterly basis and reported to the NPS Trust on annual basis.

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

It shall be done as per the PFRDA guidelines and Board approved policy on empanelment of brokers. The policy shall be reviewed on annual basis.

#### **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, in the 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:**

**Credit Rating from a SEBI registered rating agency or as prescribed by PFRDA.**

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 Internal 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.

<b>Period past due from due date of interest/installment of principal</b>	<b>Period past due from the date of classification of assets as NPA</b>	<b>% Provision on Book Value</b>
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:**

The Board of Directors at its meeting held on 18th April 2022 approved the set up of a new committee named Internal CIO-Level Investment Committee (ICIC) and approved the renaming of the Investment Sub-Committee (ISC) as the Internal Investment Sub-Committee (IISC). These two committees are subordinate to the Investment Committee of the Board (ICB). The functions of the committees are detailed below:

**12.1 Investment Committee of the Board (ICB):**

The Company has constituted an Investment Committee of the Board 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 or at lesser interval if necessary.

**12.2 a) Internal CIO-level Investment Committee (ICIC):**

- a) The Internal CIO-level Investment Committee (ICIC) will consist of the Chief Investment Officer as Chairman of the committee and will have the responsibility of convening the meeting on a daily basis to collectively decide on the investment ideas/proposals. The ICIC will also have as its members, the Fund Managers (Equity) including any future deputy/assistant Fund Managers (Equity), Fund Managers



- (Debt/Fixed Income) including any future deputy/assistant Fund Managers (Debt/Fixed Income). The minutes of the meeting to be recorded and kept as per the record retention policy of the company.
- b) The committee should meet every day preferably in the evening after market hours to draw up the strategy for the next day. Timing of the meeting would, however, be the discretion of the CIO in consultation with the Equity / Debt Fund Managers.
  - c) The quorum for holding of this meeting will be two with one of the two being the CIO / officiating CIO.
  - d) The ICIC may invite equity and/or debt analysts to the meetings but should ensure that no such information should be given out in their presence that is normally not to be divulged to the analysts, if any.
  - e) The decisions taken at the ICIC will be acted upon by the two vertical heads within the Investment department viz Equity & Debt by holding early morning hurdle meetings with their respective research analysts and dealers starting at least 30 minutes before the start of the day's trading hours.
  - f) The ICIC will have to ensure that investments in Bond issuances are done both in PSU and non-PSU corporates to achieve a better risk adjusted return for the subscriber. Therefore, an ideal ratio between PSU and non-PSU bond purchases will need to be maintained by the ICIC considering spreads and credit risks.
  - g) It will be the responsibility of the ICIC in general and that of the CIO in particular to ensure that direct participation in bond issuances through the NSE/BSE platforms and through Lead Arranger/ Arranger/ market intermediaries (indirect participation) are in a healthy proportion both in terms of bids put up and the total amount of successful bids, on an annual basis.
  - h) The senior-most Debt/credit/Fixed Income analyst (by date of joining the company) will be primarily responsible for putting up a list of all issuances coming up in the next 2 days as seen on the NSE/BSE platforms and/or other sources, to the MD&CEO through the Fund Manager and CIO. The analysts will also put their notes on each issuance with recommendations as to whether to participate in it or not. Such notes should unambiguously give details inter-alia like tenor, G-sec yield for corresponding tenor, spread expected over the said G-sec corresponding yield, etc. Notes should be put up at least two days before an issuance. This list will be used by the ICIC to take decisions.

- i) CIO would be primarily responsible to submit in his own capacity, a monthly compliance certificate to the Compliance Officer that all the instructions contained herein have been complied with, listing out all the items of compliance. The said compliance certificate will have to be submitted to the MD & CEO of the company as well as to the company's compliance officer for each calendar month by the 5<sup>th</sup> day of the succeeding month.
- j) The minutes of the ICIC will be recorded and are subject to audit/inspection.
- k) The powers of the ICIC committee will be based on each asset class on a per day investment limit, as under (**The delegated powers to the ICIC are for all the schemes put together, that is, all private sector and government sector schemes**):

Asset Class	Per day amount cap (Rs.) (Combined Limit)	Per day per stock/paper amount cap (Rs.) (Combined Limit)
Equity Stock purchase as per NPS Trust list of 200 stocks (Other than Stocks in MAT list)	Nifty Stocks: 150 crores  Non-Nifty stocks: 50 crores	<b>Nifty Stocks: 75 crores</b>  Non-Nifty stocks: 20 crores
Equity Stock Sell as per NPS Trust list of 200 stocks  (Other than Stocks in MAT list)	<b>Nifty Stocks: 100 crores</b>  Non-Nifty stocks: 25 crores	<b>Nifty Stocks: 40 crores</b>  Non-Nifty stocks: 20 crores
G-Sec Primary Market purchase	2,000 crores	--
SDL Primary Market purchase	2,000 crores	500 crores per State per day
G-Sec/SDL Secondary market Buying & Selling (including G-Sec STRIPS)	500 crores	No cap
Additional G-Sec/SDL Secondary market Buying & Selling (including G-Sec STRIPS) only in G1,G2,APY, NPS Lite schemes to take advantage of sudden market movement where prior approach to IISC is not feasible***	<b>300 crores</b>	No cap
Corporate Bonds (PSU) and Govt. guaranteed issuances Buying & Selling in full compliance of PFRDA & Board mandated norms	1,000 crores for primary market and <b>250 crores</b> for secondary market	750 crores for primary market and <b>250 crores</b> for secondary market
Corporate Bonds (Non-PSU) issuances Buying & Selling in full compliance of PFRDA & Board	300 crores for primary market and <b>100 crores</b> for secondary market	Max. 150 crores on single issuance for primary market and

mandated norms (AAA and AA+ rated issuances)		<b>100 crores</b> for secondary market
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\*\*\* Use of this limit shall be reported by the ICIC to the IISC with reasons, on the date of utilization.

**Notes:**

- 1) IISC in its monthly meetings, is empowered to temporarily allot additional limits to the ICIC in view of market conditions.
- 2) For purchase/Sell of equity stocks that are in the MAT List, there is no delegation of powers and the Equity Fund Manager will have to put up notes each time he would like to transaction in such stocks. The sign off for such transactions can be taken from each of the members of the IISC.
- 3) The above are the delegation of investment powers to the ICIC and are not to be confused/mistaken for the investment caps which would be governed by the Investment Policy of the Company.

**Delegated Powers will not be applicable to the following:**

- 1) The IISC meets twice a month. However, in the intervening period, if the Investment team needs to transact beyond the limits stipulated in the above chart, then the CIO and respective Fund Manager shall seek prior written approval of all the members of the IISC committee members through circulation preferably at least one day in advance.
- 2) The above delegation of investment powers will also not be applicable in the case of FIRST investment being done in any equity stock/debt paper of a corporate. In such cases, the CIO shall approach the IISC with a list of purchases to be made along with a narrow band of proposed purchase price. However, if it cannot be taken to the IISC, then the CIO and respective Fund Manager shall seek prior written approval of all the members of the IISC committee members through circulation preferably at least one day in advance.
- 3) Above powers to the ICIC will not be applicable for participation in bond issuances of Municipal Corporations across India for which a separate recommendation will have to be put up to the IISC for approval on a case-to-case basis.
- 4) The above powers will not be applicable for investment in INVITS & REITS.

Daily investments in Overnight/Liquid funds would shall require the sign off each day of the MD&CEO and in his absence that of the CFO with regard to the entity where these funds are being parked.

Decisions taken and acted upon by the ICIC committee will have to be put up to the Internal Investment Sub-Committee (IISC) regularly. The minutes of the ICIC committee shall be placed before the IISC meeting for noting and will then be placed as annexures to the minutes of the IISC meeting.

**12.2 (b) Internal Investment Sub-Committee (IISC):**

- a) The Internal Investment Sub-Committee (IISC) will consist of the MD & CEO of the company as Chairman, the Chief Investment Officer, the Fund Managers (Equity) including any deputy/assistant Fund Managers (Equity) if any, Fund Managers (Debt/Fixed Income) including any future deputy/assistant Fund Managers (Debt/Fixed Income) and the Chief Risk Officer (CRO) as the other members of the committee.
- b) The minimum quorum for holding of the IISC meeting will be two of which one should be MD&CEO / officiating CEO.
- c) Approvals for investing in new entities within the NPS Trust Investment Universe (Equity) will be accorded by the IISC. Similarly, all new corporates for corporate bonds/REITS/INVITS will be approved by IISC.
- d) The decisions taken at the IISC committee will be acted upon by the two vertical heads within the Investment department viz Equity & Debt by holding early morning hurdle meetings with their respective research analysts and dealers starting at least 30 minutes before the start of the day's trading hours.
- e) The IISC committee will meet twice in a calendar month. The first such meeting shall be held after the CIO submits the Monthly Approach Paper outlining the investment strategy of the department for the month.
- f) The CIO shall submit a Monthly Approach Paper outlining the investment strategy of the department for the calendar month. The investment strategy of the company's investment team would be guided by the monthly strategy approach paper. The Monthly Approach Paper will be put up to this committee in its first meeting of the calendar month.
- g) The Chief Investment Officer will have the primary responsibility of convening the meeting at the frequency mentioned, that is, twice every calendar month and to record the minutes of the meeting, to get the same signed, scanned and to arrange with the CISO to store the scanned digital copy of the minutes of the meetings on the server of the company.

- h) It will be the primary responsibility of the CIO to put before the IISC committee, the agenda that will enable the committee to take directional level decisions to be abided by the investment team headed by the CIO for the period till the next IISC meeting is scheduled to be held. The CIO will provide the detailed backup data preferably in a pre-defined format that will enable the committee to appreciate the investment environment current as well as that for the next 10 days' period.
- i) Besides giving the directional guidance for the investment to be made by the company's investment team, it will also take up the recommendations of the Internal CIO-level investment committee (ICIC) for investment approvals that are beyond the scope and authority of the ICIC committee.
- j) The Internal Investment Sub-Committee (IISC) will be guided by the monthly approach paper, the cash position (funds kept in Overnight + Liquid schemes of Mutual funds), market conditions and other quarterly/half-yearly/yearly data including the comparative returns by our peers, our performance vis-à-vis Benchmark, comments by the Chief Risk Officer, the regulatory and Board mandates, etc
- k) While arriving at investment decisions the committee will be also consider:
- Company Investment Policy Guidelines based on PFRDA guidelines, exposure limits, market risks, MAT.
  - Maximize return to subscribers, consistent with the protection, safety and liquidity of such funds.
  - Detailed investment note prepared for the investee company as per the investment policies and Risk Management Policy of the Company.
- l) The Internal Investment Sub Committee would also have the powers to review the investment decisions due to changes in the market conditions.
- m) The minutes of the IISC will be recorded and are subject to audit/inspection.

### **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.** The value of funds invested in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced from the respective scheme AUM before computing of investment management fees payable, to avoid double incidence of costs. However, investments made in ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, Bharat Bond ETF/Debt ETF issued by Government of India in respect of bonds issued by CPSEs, CPSUs, CPFIs and other Government Organizations and all short duration mutual funds (liquid mutual fund, overnight fund, ultra-short duration fund etc.) as permitted by SEBI, would be eligible for payment of Investment Management Fee (IMF).

**15. Recording of calls during trading hours:**

SEBI has issued regulation for the recording of communications by Dealers, Fund Managers, Brokers, etc. The spirit behind these regulations is to ensure that trading transactions are done in the most transparent manner. Firms are therefore required to take reasonable steps to record voice calls, prevent employees from making, sending, receiving phone calls on a privately-owned device that the firm cannot record. The Company shall enforce these requirements in the premises and off-premises in case of work-from-home situations.

**16. REVIEW:**

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