L&T FINANCIAL SERVICES
(“LTFS”)

Valuation Policy & Procedures

Applicable to L&T Mutual Fund

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Background

The Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996 together with various circulars issued by SEBI from time to time prescribes the norms, methodology and guiding principles for valuation of investments held by Mutual Fund schemes. Valuation of securities held in all L&T mutual funds is done in conformity with these valuation norms. The Fund has placed the Investment Valuation Policy to document the SEBI regulations and the valuation policies followed by the Fund in the Board meeting held on July 27, 2004. Subsequently, all policy changes were approved by the Valuation Committee constituted and authorized by the Board.

SEBI, vide Gazette Notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 has brought about certain amendments to Regulations 25 and 47 and to the Eighth Schedule to the Securities and Exchange Board of India (SEBI) Mutual Funds Regulations, 1996. These amendments are a departure from the earlier prescriptive approach / methodology of valuation of investments. They instead are focussed on "Principles of Fair Valuation" to ensure at all points in time, fair treatment to all investors viz. existing investors, new investors and exiting investors. The key highlights of these amendments are as below:

(a) Valuation of investments should be done in good faith, in a true and fair manner through appropriate valuation policies and procedures to reflect the realizable value of the securities/assets ;
(b) The policies and procedures need to state the methodologies that will be used for valuing each type of security / asset held by the Mutual Fund Schemes ;
(c) Assets held by mutual funds should be consistently valued according to established policies and procedures ;
(d) The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security ;
(e) The valuation policies and procedures should seek to address conflict of interest ;
(f) The policies and procedures need to be approved by the Board of the Asset Management Company ;
(g) Investment in new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the Asset Management Company (AMC) ;
(h) Valuation policies and procedures need to be periodically reviewed to ensure appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. The Boards of the AMC and Trustee Company to be updated on the outcome of the review, at appropriate intervals ;
(i) Valuation policies and procedures shall be reviewed at least once in a financial year by an independent auditor to assess and confirm their continued appropriateness.
(j) The asset management company and the sponsor of the mutual fund shall be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation.
(k) Documentation/justification of rationale for valuation and inter-scheme transfers /price to be maintained.

While the amendment regulations mandate AMCs to establish valuation policies and procedures, it also allows the AMC to deviate from these policies and procedures where it is necessary and expedient to do so to ensure a true and fair valuation. Accordingly, in the event of a conflict between the principles of fair valuation and valuation guidelines, the principles of fair valuation shall prevail.

While L&T Mutual Fund's investment valuation norms and procedures have been in conformity with the Eighth Schedule, the same is being suitably modified to incorporate the changes brought about by this amendment.

Valuation Committee

L&T Mutual Fund's valuation committee comprises of the following personnel:

Across all Investments of the Fund

a. Chief Executive Officer
b. Compliance Officer or in his absence next senior officer from Compliance
c. Head of Operations or in his absence next senior officer from Operations
d. Head - Products or in his absence next senior officer from Products

Additionally,

for Equity Investments	***for Fixed Income Investments***
e1.Chief Investment Officer (CIO) or	e2. Chief Investment Officer (CIO) or
Head – Equity	Head - Fixed Income
g1. Fund Manager (Equity) - by invitation only for suggestions and inputs	g2. Fund Manager (Fixed Income) - by invitation only for suggestions and inputs
h1. Trader (Equity) - by invitation only for suggestions and inputs	h2. Trader (Fixed Income) - by invitation only for suggestions and inputs

The Quorum of the Committee shall be minimum three members. However, in case of equity valuation, approval of Head-Equity or CIO shall be mandatory and in case of fixed income valuation, approval of Head-Fixed Income or CIO shall be mandatory.

The valuation committee shall be responsible for ongoing review of the valuation procedures / methodologies adopted to assess their appropriateness and accuracy in determining the fair value of securities / assets.
The scope of activities of the Valuation Committee are listed below:

a. Reviewing and recommending the Valuation Policy to the AMC and Trustee Board of Directors for their noting/approval;
b. Review of accuracy and appropriateness of methods adopted for valuation of securities ;
c. Instilling procedural checks and controls to ensure consistency in valuation of securities across all Funds and prevent incorrect valuation of securities ;
d. Defining valuation procedure / methodology for new types of securities / assets ;
e. Determining fair valuation of securities / assets during exceptional events where the defined procedures / methods for valuation do not yield a fair value of the securities / assets ;
f. Identifying and addressing potential conflicts of interest situations in valuation of securities ;
g. Engaging with the Independent Auditor to ensure regular review of the valuation policy, procedures and methodology including rationale for deviations, if any ;
h. Reporting any deviations / incorrect valuations to the Board of Directors of the Trustee and the AMC and appropriate disclosures to the investors.
i. Review of regulatory amendments with regard to valuation and implementation of the same subject to approval/ ratification of the Board of AMC and Board of Trustees.

Policy Scope & Coverage

The following are covered within the scope of this policy:

(a) Defining valuation procedures / methodologies for various types of securities ;
(b) Valuation of securities / assets in the event of an inter-scheme transfer ;
(c) Review of valuation policies and procedures and reporting to the various stakeholders;
(d) Recording of deviations from established policies and procedures and rationale for same ;
(e) Dealing with Conflict of Interests (including potential conflict of interest) which has / may have a bearing on valuation of securities ;
(f) Valuation of securities / assets during exceptional events.

The Valuation Committee would conduct a periodic review of the policy to confirm its up datedness / appropriateness. If, as an outcome of such review, the scope and coverage of the policy needs to be amended, the same would be done and placed before the Board of Directors of the Trustee and the AMC for their approval.

It may be noted that the principles of fair valuation are very subjective and from the competition perspective each AMC can be either aggressive or conservative in their approach. However, management of LTIM, its directors and Board of Trustees shall use their best endeavour and judgement to protect the interest of the investors at all points in time.

Valuation Methodology

The standard valuation methodology for valuing each type of security / asset is explained in Annexure I.

The methodology adopted for valuation of securities / assets is drawn in conformance with the principles of fair valuation and the SEBI Valuation Guidelines and valuation is done in good faith in a true and fair manner to reflect the realisable value of the security / asset.

Any changes to the valuation policy, procedures and methodology set out in Annexure I would be progressive and prospective with a view to fine-tune the valuations to align with the guiding principles of fair valuation.

All assets held by the Fund shall be consistently valued according to the defined valuation methodology. Where it is observed that the above-defined methodology does not lead to fair valuation of securities / assets, the Valuation Committee may on a prospective basis deviate from the defined methodology and adopt alternate procedures / methods to arrive at the fair value. The rationale for any such deviations would be recorded in writing and placed before the Board of Directors of the Trustee and the AMC and appropriate disclosures to the investors would be made.

Investments in any new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities / assets with the approval of the Board of the Asset Management Company.

Waterfall Mechanism for valuation of money market, debt and Government securities. Refer Annexure- II

Policy review & reporting

The Valuation Committee shall review the Valuation policy and procedures adopted to assess appropriateness and accuracy of the methodologies used in determining the fair value of securities / assets once in a quarter.

The Valuation Committee shall place the following before the Board of Directors of the Trustee and the AMC:

(a) Recommended valuation procedure / methodology for new types of securities / assets for approval of the Board as and when occurs and confirmation of continued appropriateness of valuation policies and procedures for existing securities/assets annually with review of policy
(b) Deviations in methodology adopted for fair valuation of securities / assets on account of exceptional events with rationale for the same ;
(c) Incorrect Valuations, if any, and associated corrective action ;
(d) Identified conflicts of interest (including potential conflict of interest) if any, and mitigatory measures adopted to address the same.
(e) Any other matter incidental to principles of fair valuation.

Handling Conflict of Interest

The valuation policy, procedures and methodologies laid down in this policy would be uniformly followed to ensure consistency in valuation of securities / assets across all Funds except during exceptional events (as detailed in section titled Dealing with Exceptional Events).

The Valuation Committee shall be responsible to identify areas of conflict of interest (including potential areas, if any).

Some of the key areas where a potential conflict of interest may arise and the mitigatory measures are indicated below:

(a) **Inter Scheme Transfers** : Inter Scheme transfer of securities / assets between two funds managed by the same Fund Manager - For all inter-scheme transfers, for the purpose of valuation the procedure described in Section titled Inter-Scheme Transfer shall be followed ;

(b) **Investments in Associate/Group Companies**: Investments in any associate / group companies would be made only based on independent research recommendation (which would include independent internal research team recommendation) and the valuation procedures described in Section titled Valuation Methodology shall be followed. This will ensure that the Valuation Policy is applied to all securities uniformly.

Dealing with Exceptional Events

Exceptional events are events during which reliance cannot, reasonably and in good faith, be placed on the available market information for a fair valuation of securities. These events generally lead to artificial, non-sustainable prices and may therefore warrant a departure from the established valuation methodology / procedures and adoption of alternate methods / judgement to reflect the realisable value of the securities / assets in conformance with the principles of fair valuation.

The Valuation Committee is authorized by the Board of AMC and Trustee to determine the exceptional events and devise the process to deal with the exceptional events.

Following events could potentially be classified as exceptional events:

a. Major policy announcements by the Reserve Bank of India, the Government or Regulator ;
b. Natural disasters or public disturbances that force markets to close unexpectedly ;
c. Absence of trading in specific security;
d. Significant volatility in the capital markets ;
e. Liquidity crunch in debt markets ;
f. Heavy redemption pressures.
g. Credit events affecting a company or sector falling below the investment grade.

The above list is illustrative and not exhaustive.

Given the exceptional nature of these events and the lack of clarity on how it would impact the markets, it is not possible to define a standard methodology to be adopted for fair valuation of securities for such events.

The Valuation Committee shall be responsible for identifying and monitoring exceptional events and recommending appropriate alternate procedures / valuation methodologies with necessary guidance from the AMC Board, wherever required. The Valuation Committee shall adopt such alternate procedures / methodologies in conformance with the guiding principles of fair valuation in good faith to arrive at a true and fair estimation of the realisable value of the security / asset under normal, business-as-usual circumstances. These alternate procedures / methodologies would be progressively and prospectively applied during the continuance of the exceptional events unless otherwise decided by the Valuation Committee in consultation with the AMC Board of Directors, wherever required.

The rationale for any such deviations from the valuation policy would be recorded in writing and placed before the Board of Directors of the AMC and Trustee Company for noting and information.

Deviation: Deviation in the valuation policy and procedures shall be allowed only with the approval of the Valuation Committee followed by reporting to the Board of AMC and Trustee. Such deviations shall be appropriately disclosed to the Investors as may be decided by the Valuation committee.

Records Management

The Policy shall be included in the Statement of Additional Information of the Fund and would also be made available on the website of the Fund.

All relevant documents which form the basis of valuation including inter-scheme transfers (the approval notes and supporting documents) shall be maintained and preserved.

Above records will be preserved in accordance with the norms prescribed by SEBI regulations and guidelines.

Annexure I

Equity and Equity related instruments

Category	Valuation Methodology
Equity Shares / Preference Shares / Warrants	
Traded	The securities shall be valued at the last quoted closing price on the primary stock exchange. When on a particular valuation day, a security has not been traded on the primary stock exchange; the value at which it is traded on another stock exchange may be used. National Stock Exchanges (NSE) has been selected as a primary stock exchange.
Non – Traded	When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to the valuation date. If the security is not traded even after 30 days, the same would be valued as per the norms prescribed by SEBI for thinly traded securities. Intrinsic value will be considered for the valuation of preference shares. Warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant, after providing for appropriate discount.
Thinly Traded	Any security for which the trading in a month is less than Rs 5 lakhs and total volume is less than 50,000 shares will be classified as a Thinly traded security. Such Thinly traded securities shall be valued in Good Faith by the AMC as per SEBI Regulations basis the principles described in Internal Notes 1.
Unlisted	Shall be valued in Good Faith by the AMC based on the latest available Annual Report of the company as per SEBI Regulations. In case of any deviation due to non-availability of any parameters required for valuation as per SEBI Regulations, the methodology used for valuation shall be documented and recorded. Refer Internal Notes 2 for detailed methodology.
Initial Public Offer (IPO's)	Valued at acquisition cost till the date of listing. Post listing, it will be valued as per the norms applicable for Traded equity shares.

Category	Valuation Methodology
Qualified Institutional Placement (QIP) / Follow on Public Offer (FPO)	Valued as per the normal underlying equity shares. Valuation for the additional quantity (allotted under (QIP)/ FPO) will commence on Actual Allotment only.
Amalgamation / Merger / De-merger / Spin off	In case if any of the resultant entities is not listed, the valuation for the same shall be arrived at in good faith by the Valuation Committee of the AMC basis the principles described in Internal Notes 3.
Rights	
Rights Entitlement	Until they are Allotted/traded, the value of the "rights" shares should be calculated as: Vr = (Pex - Pof) Where Vr = Value of rights Pex = Ex-rights price Pof = Rights Offer Price *Ratio of rights i.e. (n/m where n = No. of rights offered and m = No. of original shares held) will be adjusted in the Quantity directly while booking the rights and hence not considered again for valuation.* Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value. In case if the rights offer price is higher than the ex-rights price, value of the rights share is to be taken as zero. Valuation to commence from the date of entitlement (ex-date).
Applied Shares more than Entitled shares	The additional quantity to be shown as application money. Valuation for the additional quantity will commence only on receipt of Actual Allotment only.
Convertible Debentures	
Convertible Debentures	In respect of convertible debentures, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded *pari-passu* with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional, should also be factored in.

Category	Valuation Methodology
Foreign Securities – Equity	
Traded	The securities issued outside India and listed on the stock exchanges outside India shall be valued at the closing price on the stock exchange at which it is listed or at the last available traded price. However in case a security is listed on more than one stock exchange, the AMC reserves the right to determine the stock exchange, the price of which would be used for the purpose of valuation of that security. In such cases, the AMC shall record the justification for selecting a particular stock exchange whose price is used for valuation. Further in case of extreme volatility in the international markets, the securities listed in those markets may be valued on a fair value basis. Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAVs for a Valuation Day, the AMC may use the last available traded price for the purpose of valuation. The use of the closing price/last available traded price for the purpose of valuation will also be based on the practice followed in a particular market.
Non Traded	The same shall be valued on a fair value basis by the Valuation Committee of the AMC.
Assets & Liabilities denominated in foreign currencies	
Exchange Rate available on RBI Website	On the Valuation Day, all assets and liabilities denominated in foreign currency will be valued in Indian Rupees at the exchange rate available on RBI Website at the close of banking hours in India (currently taken as 16:30 p.m. IST).
Exchange Rate not available on RBI Website	In case the exchange rate is not available on RBI Website on a particular Valuation Day, the exchange rate available on Bloomberg / Reuters will be used for conversion. The Trustees reserve the right to change the source for determining the exchange rate.
Shares tendered for Buyback	
On tendering the shares for buyback	Valued normally at the NSE/BSE closing price
Acceptance of offer	On receipt of the information from the custodian / company, the quantity accepted would be removed from the holding at the buyback price.
Futures & Options	
Futures & Options	Traded - Valued as per NSE Settlement price. Non-Traded – Based on settlement price / any other equivalent price provided by the respective stock exchange.

Category	Valuation Methodology
Exchange Traded Funds (ETF's)	
ETF's	The ETF's shall be valued at the last quoted closing price on the primary stock exchange. When on a particular valuation day, a security has not been traded on the primary stock exchange; the value at which it is traded on another stock exchange may be used. When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to the valuation date. If ETF's not traded for more than 30 days shall be valued by AMC at fair value after considering relevant factors on case to case basis.

Fixed Income and related Instruments:

Category	Valuation Methodology
Debt and Money Market Instruments	
Debt and Money Market Instruments (including Government Securities, Treasury Bills, Cash Management Bills, State Development Loans, Ujwal DISCOM Assurance Yojana (UDAY) Bond etc.) (Including Reverse Repo, Corporate Debt Repo, TREPS all with residual maturity greater than 30 days),	At the average of the prices provided by the agencies nominated by AMFI (currently CRISIL & ICRA)# on a daily basis from the date of allotment / purchase In case of price being available from **only one agency**, the same will be considered for Valuation In case security level prices given by valuation agencies are not available for a new security, then such security may be valued at purchase yield on the date of allotment / purchase and the following non-business days. If the price is not available on designated agencies except on date of Allotment/purchase of the security and the following non-business days., the Valuation Committee shall adopt such alternate procedures / methodologies in conformance with the guiding principles of fair valuation in good faith to arrive at a true and fair estimation of the realisable value of the security / asset under normal, business-as-usual circumstances.
Other Fixed Income related Instruments	
Fixed Deposits	To be Valued at Cost
TREPS/ Reverse Repo (upto 30 days)	To be Valued at Cost plus Accrual basis.
Mutual Fund Units	To be valued as per the same day NAV or last available NAV
Interest Rate Swaps	Valuation would be done at average of Price provided by valuation agencies. In absence of Price from valuation agencies, valuation shall be arrived at basis guidance from Investment Committee.

Category	Valuation Methodology
Interest Rate Futures	The exchange traded Interest Rate Futures would be valued based on the Daily settlement Price or any other derived price provided by the exchange
Foreign Securities – Debt	In case of investments in foreign debt securities, on the Valuation Day, the securities shall be valued in line with the valuation norms as per the regulation. However, in case valuation of a specific debt security is not covered by SEBI Regulations, then the security will be valued on a fair value basis by the Valuation Committee of the AMC.
Securities with put and Call options	Would be valued as per security level prices provided by the valuation agencies.
Money Market & Debt Securities which are rated below Investment grade / Default	Circular No. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019. **<u>Valuation of money market and debt securities which are rated below Investment grade:</u>** • All money market and debt securities which are rated below investment grade shall be valued at the price provided by valuation agencies (ICRA & CRISIL) • In case valuation not available from valuation agencies then valuation will be on the basis of indicative haircuts provided by these agencies. **Consideration of Traded Price for Valuation:** • AMCs shall consider such traded price for valuation if it is lower than the price post standard haircut. The said traded price shall be considered for valuation till the valuation price is determined by the valuation agencies. • Marketable Lot would be as defined by AMFI in consultation with SEBI. AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies with detailed rationale for deviation, as per prescribed in SEBI Circulars, Rules, Regulation and Master Circulars time to time.

<u>Investment in ReITs, InvITs</u>

Category	
ReITs / InvITs	The Units will be Valued at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange. In case if it’s not traded the valuation committee would recommend appropriate valuation methodology to determine the fair value.

Internal Notes:

1. Non traded/ thinly traded securities shall be valued "in good faith" by the asset management company on the basis of the valuation principles laid down below :

(a) Based on the latest available Balance Sheet, net worth shall be calculated as follows

(b) Net Worth per share = [share capital+reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

(c) Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

(d) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10% for ill-liquidity so as to arrive at the fair value per share.

(e) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

(f) In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.

(g) In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security.

2. Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:

a. Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:

i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

ii. ii. After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options}

b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

c. The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.

The above methodology for valuation shall be subject to the following conditions:

i. All calculations as aforesaid shall be based on audited accounts.

ii. In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero. i. All calculations as aforesaid shall be based on audited accounts.

iii. If the net worth of the company is negative, the share would be marked down to zero.

iv. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.
v. In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on the date of valuation.

At the discretion of the AMC and with the approval of the trustees, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.

In case of any deviation due to non-availability of any parameters required for valuation as per SEBI Regulations quoted above, the methodology used for valuation shall be documented and recorded.

3. Valuation of merged/Demerged entity:

Valuation of merged entity will be arrived at by summation of previous day's last quoted closing price of the companies prior to merger.

Where one of the demerged companies is not immediately listed, valuation price will be worked out by using previous day's last quoted closing price before demerger ("Pre-demerger Price") reduced for the last quoted closing price of the listed company after demerger ("Listed Price"). In cases where the Listed Price is equal to or in excess of the Pre-demerger Price, it is proposed that the non - traded share of the hived off company be valued at zero. Currently if the Listed Price is less, the hived off company is valued at the difference between the Pre-demerger Price and Listed Price ("Valuation Price").

In cases where the hived off company is more than one and such companies are not listed, it is proposed that the Valuation Price be allocated between the unlisted hived off companies on an appropriate basis like price earnings ratio/ net worth/any other measure, as per the decision of the Valuation Committee.

In cases where post demerger, none of the companies are listed, it is proposed that Pre-demerger Price be allocated between all the resultant companies on an appropriate basis like price earnings ratio/ net worth/ any other measure, as per the decision of the Valuation Committee.

Cost allocation shall be proportionate to the derived value of all the resultant companies.

3.1 Un-Listed / Thinly Traded Securities by way of Corporate Action:

In case of corporate actions where the possible re-listing of the entity is envisaged or an adequate guidance is provided by the company, then no discount shall be applied to the derived price of unlisted entity. However, derived price shall be periodically (every three months from ex-date) reviewed by Valuation Committee.

"If at any point a conflict of interpretation / information between this Policy and any Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Circulars/ Directions by Securities Exchange Board of India(SEBI) arise then Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Directions issued by SEBI shall prevail.

Annexure- II

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

1. **Waterfall Mechanism for valuation of money market and debt securities:**

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

i. Volume Weighted Average Yield (VWAY) of primary reissuances of the same ISIN (whether through book building or fixed price) and secondary trades in the same ISIN
ii. VWAY of primary issuances through book building of same issuer, similar maturity (Refer Note 1 below)
iii. VWAY of secondary trades of same issuer, similar maturity
iv. VWAY of primary issuances through fixed price auction of same issuer, similar maturity
v. VWAY of primary issuances through book building of similar issuer, similar maturity (Refer Note 1 below)
vi. VWAY of secondary trades of similar issuer, similar maturity.
vii. VWAY of primary issuance through fixed price auction of similar issuer, similar maturity
viii. Construction of matrix (polling may also be used for matrix construction)
ix. In case of exceptional circumstances, polling for security level valuation (Refer Note 2 below)

Note 1
Except for primary issuance through book building, polling shall be conducted to identify outlier trades. However, in case of any issuance through book building which is less than INR 100 Cr, polling shall be conducted to identify outlier trades.

Note 2
Some examples of exceptional circumstance would be stale spreads, any event/news in particular sector/issuer, rating changes, high volatility, corporate action or such other event as may be considered by valuation agencies. Here stale spreads are defined as spreads of issuer which were not reviewed/updated through trades/primary/polls in same or similar security/issuers of same/similar maturities in waterfall approach in last 6 months.

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

Note 3
All trades on stock exchanges and trades reported on trade reporting platforms till end of trade reporting time (excluding Inter-scheme transfers) should be considered for valuation on that day.

Note4
It is understood that there are certain exceptional events, occurrence of which during market hours may lead to significant change in the yield of the debt securities. Hence, such exceptional events need to be factored in while calculating the price of the securities. Thus, for the purpose of calculation of VWAY of trades and identification of outliers, on the day of such exceptional events, rather than considering whole day

trades, only those trades shall be considered which have occurred post the event (on the same day).

The following events would be considered exceptional events:

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

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

2. Definition of tenure buckets for Similar Maturity

When a trade in the same ISIN has not taken place, reference should be taken to trades of either the same issuer or a similar issuer, where the residual tenure matches the tenure of the bond to be priced. However, as it may not be possible to match the exact tenure, it is proposed that tenure buckets are created and trades falling within such similar maturity be used as per table below.

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

In addition to the above:

a. In case of market events, or to account for specific market nuances, valuation agencies may be permitted to vary the bucket in which the trade is matched or to split buckets to finer time periods as necessary. Such changes shall be auditable. Some examples of market events / nuances include cases where traded yields for securities with residual tenure of less than 90 days and more than 90 days are markedly different even though both may fall within the same maturity bucket, similarly for less than 30 days and more than 30 days or cases where yields for the last week v/s second last week of certain months such as calendar quarter ends can differ.
b. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.
c. The changes / deviations mentioned in clauses a and b, above, should be documented, along with the detailed rationale for the same. Process for making any such deviations shall also be recorded. Such records shall be preserved for verification.

3. Process for determination of similar issuer

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

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

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

4. Recognition of trades and outlier criteria

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

Paragraph 1.1.1.1(a) of SEBI vide circular no.SEBI/HO/IMD/DF4/CIR/P/2019/102 dated September 24, 2019 on Valuation of money market and debt securities, prescribes that the marketable lots shall be defined by AMFI, in consultation with SEBI. In this regard, marketable lot is defined as under.

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

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

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

ii. Outlier criteria

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

a. Outlier trades shall be classified on the basis of liquidity buckets (Liquid, Semi-liquid, and Illiquid). Price discovery for liquid issuers is generally easier than that of illiquid issuers and hence a tighter pricing band as compared to illiquid issuers would be appropriate.
b. The outlier trades shall be determined basis the yield movement of the trade, over and above the yield movement of the matrix. Relative movement ensures that general market movements are accounted for in determining trades that are outliers. Hence, relative movement over and above benchmark movement shall be used to identify outlier trades.
c. Potential outlier trades which are identified through objective criteria defined above will be validated through polling from market participants. Potential outlier trades that are

not validated through polling shall be ignored for the purpose of valuation.

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

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

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

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

Liquidity classification criteria - liquid, semi liquid and Illiquid definition

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

a. Trading Volume
b. Spread over reference yield

Such criteria shall be reviewed on periodic basis in consultation with AMFI. Trading Volume (Traded days) based criteria:

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

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

Spread based criteria:

Spread over the matrix shall be computed and based on thresholds defined, issuers shall be classified as liquid, semi liquid and illiquid. For bonds thresholds are defined as up to 15 bps for liquid; >15-75 bps for semi-liquid; > 75 bps for illiquid. (Here, spread is computed as average spread of issuer over AAA Public Sector Undertakings/Financial Institutions/Banks matrix), For CP/ CD- up to 25 bps for liquid; >25- 50 bps for semiliquid; >50 bps for illiquid. (Here, spread is computed as average spread of issuer over A1+/AAA CD Bank matrix).

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

1. Process for construction of spread matrix

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

Steps	Detailed Process
Step 1	**Segmentation of corporates-** The entire corporate sector is first categorized across following four sectors i.e. all the corporates will be catalogued under one of the below mentioned bucket: 1. Public Sector Undertakings/Financial Institutions/Banks; 2. Non-Banking Finance Companies -except Housing Finance Companies; 3. Housing Finance Companies; 4. Other Corporates
Step 2	**Representative issuers -** For the aforesaid 4 sectors, representative issuers (Benchmark Issuers) shall be chosen by the valuation agencies for only higher rating {I.e. "AAA" or AA+). Benchmark/Representative Issuers will be identified basis high liquidity, availability across tenure in AAA/AA+ category and having lower credit/liquidity premium. Benchmark Issuers can be single or multiple for each sector. It may not be possible to find representative issuers in the lower rated segments, however in case of any change in spread in a particular rating segment, the spreads in lower rated segments should be suitably adjusted to reflect the market conditions. In this respect, in case spreads over benchmark are widening at a better rated segment, then adjustments should be made across lower rated segments, such that compression of spreads is not seen at any step. For instance, if there is widening of spread of AA segment over the AAA benchmark, then there should not be any compression in spreads between AA and A rated segment and so on.
Step 3	Calculation of benchmark curve and calculation of spread - 1. Yield curve to be calculated for representative issuers for each sector for maturities ranging from 1month till 20 years and above. 2. Waterfall approach as defined in Part A (1) above will be used for construction of yield curve of each sector. 3. In the event of no data related to trades/primary issuances in the securities of the representative issuer is available, polling shall be conducted from market participants 4. Yield curve for Representative Issuers will be created on daily basis for all 4 sectors. All other issuers will be pegged to the respective benchmark issuers depending on the sector, parentage and characteristics. Spread over the benchmark curve for each security is computed using latest available trades/primaries/polls for respective maturity bucket over the Benchmark Issuer. 5. Spreads will be carried forward in case no data points in terms of trades/primaries/polls are available for any issuer and respective benchmark movement will be given
Step 4	1. The principles of VWAY, outlier trades and exceptional events shall be applicable while constructing the benchmark curve on the basis of trades/primary issuances. 2. In case of rating downgrade/credit event/change in liquidity or any other material event in Representative Issuers, new Representative Issuers will be identified. Also, in case there are two credit ratings, the lower rating to be considered. 3. Residual tenure of the securities of representative issuers shall be used for construction of yield curve.

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

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

- VWAY of last one hour, subject to outlier validation
- VWAY for the day (including a two quote, not wider than 5 bps on NDSOM), subject to

outlier validation

- Two quote, not wider than 5 bps on NDSOM, subject to outlier validation
- Carry forward of spreads over the benchmark
- Polling etc.

Note:

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

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

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

Polling Guidelines:

1. Valuation agencies shall identify the Mutual Funds who shall participate in the polling process on a particular day, taking into account actors such as diversification of poll submitters and portfolio holding of the Mutual Funds. Mutual Funds who are identified by the valuation agencies shall necessarily participate in the polling process. However, in case any Mutual Fund does not participate in the polling process, detailed reason for the same shall be recorded at the time and subsequently made available during SEBI inspections. In this respect, since a Mutual Fund may have investments in similar securities, a security not forming part of investment universe may not be considered as an adequate reason for not participating in the polling process.
2. Polling will be carried out on a daily basis by the valuation agencies, in terms of points 9-11 below.
3. Each valuation agency needs to take polls from at least 5 unique Mutual Funds on a daily basis. Hence, between the two valuation agencies 10 unique Mutual Funds to be polled. They may cover more Mutual Funds, over and above this. For benchmark securities a poll constituting at least 5 responses will be considered as valid. In case of non-benchmark securities a poll constituting at least 3 responses will be considered as valid. The responses received by each valuation agency will be shared with the other agency also.
4. Median of polls shall be taken for usage in valuation process.
5. The valuation agencies will also need to cover as many non- Mutual Fund participants as possible, over and above the Mutual Funds, to improve on the polling output quality.
6. Endeavour would be made to have adequate representation of both holders and non-holders of the same bond/same issuer for non-benchmark securities in the poll process. Where this is not possible, valuation agencies may seek polls from holders of bonds with a similar structure.
7. In the case of issuers with multiple notch rating upgrades / downgrades over short periods of time, valuation agencies shall:

a. Conduct polls with a larger universe of pollers.
b. Increase the frequency of polling

8. Suo-moto feedback on valuations should be entertained only through formal mails from persons designated by AMC for said purpose, and the same shall be validated through re-polling. Any such feedback shall be duly recorded by the valuation agencies, including the reason for the challenge, results of re-polling and subsequent changes in valuation on re- polling, if any. Such records shall be preserved by the valuation agencies, for verification.
9. Polling will be done for two sets of securities, Benchmark & Others.
10. Benchmark will be defined for the following categories across tenors.
   a) Treasury Bills
   b) Central Government Securities
   c) State Government Securities
   d) AAA PSU /PFI /PSU Banks
   e) AAA Private
   f) NBFC
   g) HFC
   h) Any other as required for improving fair valuations.

11. Polling shall be conducted in the following two scenarios:
   a) Validation of traded levels if they are outlier trades.
   b) Non-traded Securities (in exceptional circumstances as defined in the waterfall mechanism for valuation of money market and debt securities).
12. Best efforts should be made by poll submitters to provide fair valuation of a security.
13. The polling process will be revalidated by external audit of the valuation agencies with at least an annual frequency
14. AMCs shall have a written policy, approved by the Board of AMC and Trustees, on governance of the polling process. The aforesaid policy shall include measures for mitigation of potential conflicts of interest in the polling process and shall identify senior officials, with requisite knowledge and expertise, who shall be responsible for polling. Further, the policy should outline the following aspects:
   a. The process of participating in a polling exercise.
   b. Identify the roles and responsibilities of persons participating in the polling.
   c. Include policies and procedures for arriving at the poll submission
   d. Cover the role of the Board of AMC and Trustees, and the periodic reporting that needs to be submitted to them.
   e. All polling should be preferably over email. In case for any reason, the polling is done by way of a telephonic call then such a call should be over recorded lines, followed subsequently by an email.
   f. AMCs should have adequate business continuity arrangements for polling, with the necessary infrastructure /skill to ensure that consistent delivery of poll submissions is made without material interruption due to any failure, human or technical.

15. All polling done will have to be documented and preserved in format approved by the Board of AMC, for a period of eight years, along-with details of the basis of polling (such as market transactions, market quotes, expert judgement etc.).
16. AMCs shall ensure that participation in the polling process is not misused to inappropriately influence the valuation of securities. The officials of the AMC who are responsible for polling in terms of point no. 14 above, shall also be personally liable for any misuse of the polling process.
17. AMCs shall maintain an audit trail for all polls submitted to valuation agencies.

Inter-Scheme Transfer

Inter-scheme transfers shall be done in conformance with regulatory requirements and applicable internal policies at prevailing market prices.

For debt Securities

i. IST of Securities will be done as per the average prices provided by AMFI approved Valuation agencies currently CRISIL & ICRA.

ii. If prices from the valuation agencies are received within the pre- agreed TAT as per AMFI, an average of the prices so received shall be used for IST pricing.

iii. If price from only one valuation agency is received, that price may be used for IST pricing.

Iv If prices are not received from any of the valuation agencies, AMC may determine the price for the IST, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996

#Disclaimer:

By using the valuation contained in this document, the user acknowledges and accepts that the valuations are provided severally (and not jointly) by the service providers and are subject to the following disclaimers and exclusion of liability which operate severally to the benefit of the relevant service provider and AMFI. \The valuation uses the methodology discussed by the service providers with the Association of Mutual Funds of India (AMFI) and reflects the service providers' assessment as to the value of the relevant securities as at the date of the valuation. This is an indicative value of the relevant securities on the valuation date and can be different from the actual realizable value of the securities. The valuation is based on the information provided or arranged by or on behalf of the asset management company concerned (AMC) or obtained by the service providers from sources they consider reliable. Neither AMFI nor the service providers guarantee the completeness or accuracy of the information on which the valuation is based. The user of the valuations takes the full responsibility for any decisions made on the basis of the valuations. Neither AMFI nor the service providers accept any liability (and each of them expressly excludes all liability) for any such decision or use.

This policy will be effective from October 18, 2021, the date of approval of Board of AMC and Trustees and would over-ride the earlier policy