Investment Valuation Policy

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Bajaj Asset Management Ltd
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INTRODUCTION

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under SEBI (Mutual Funds) Regulations, 1996 as amended from time to time. The Investment Valuation Norms are defined in the Eighth Schedule of the regulations (regulation 47) and circulars issued by SEBI from time to time, prescribed the norms, methodology and guiding principles for valuation of investments held by Mutual Fund schemes. Valuation of securities shall be determined in conformity with these valuation norms.

The objective of this policy is to specify valuation methods and manner in which instruments and investments should be valued by BAML. The valuation policy specifies he valuation norms to be followed.

This Investment Valuation Policy & Procedures is subject to review and change from time to time.

In accordance with the SEBI vide its Master Circular, every AMC should have a valuation committee to review investment valuation practices. Valuation committee of AMC consists of: -

A. Composition

Managing Director (MD) & Chief Executive Officer (CEO),
Chief Investment Officer (CIO),
Chief of Finance and Chief Operating Officer,
Chief Compliance Officer- Legal & Secretarial,
Head – Risk Management

B. Chairperson

The MD & CEO shall serve as the Chairperson of the Valuation Committee and in the absence of MD & CEO, the CIO shall chair the committee.

C. Frequency of meetings

Annually or on need basis.

D. Quorum

A minimum of three members is required to form the quorum. Presence of either the CIO or CEO/MD is mandatory to complete the quorum. If the CIO is absent, the respective Fund Manager (Equity or Fixed Income) can represent the CIO. However, the Fund Manager's presence does not count toward the quorum.

Terms of Reference (Scope of activities)

- Review of the Valuation policies on regular basis.
- Approval / ratification of any deviation to the Valuation Policy for the purpose of valuation of security.
- Any change in the existing valuation policies/methods should be recommended by the Valuation Committee and approved by the Board of Bajaj Asset Management Limited (BAML) and Bajaj Mutual Fund Trustee Limited (BFSMFTL).
- The Committee may invite the Fund managers in the Valuation committee meetings, on need basis.

Ensure that investment in any new type of security is made only after establishment of valuation methodology of such securities, duly approved by the Board of Directors.

I. EQUITY AND EQUITY RELATED SECURITIES

A. TRADED SECURITIES

1. Equity and Equity related securities

BAML has selected National Stock Exchange (NSE) as the Principal Stock Exchange for all its equity and equity related securities held by all the schemes. Appropriate stock exchange that would be considered for valuation is also specified in the Statement of Additional Information (SAI). In respect of the Index Funds, the Principal Stock Exchange would be the Exchange where the underlying benchmark index has been set up.

a) Traded securities shall be valued at the day's closing price on the NSE.

b) When, on a particular day a security is not traded on NSE, the closing price of the security on the Bombay Stock Exchange Limited (BSE) will be considered for valuation. When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the National Stock Exchange or the Bombay 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.

c) If the equity securities are not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as 'non-traded' scrip and should be valued as non-traded security as per the norms specified in the policy. In case of equity securities not listed on any stock exchange, the scrip is to be valued as per the norms specified in the policy.

d) For Index Funds, valuation shall be done at the closing prices of the underlying index.

2. Derivatives – Equity/Index Options and Futures

a) Equity/Index Options

i. Market values of traded option contracts shall be determined with respect to the exchange on which it is contracted originally, i.e., if an option contracted on the NSE would be valued at the Settlement price on the NSE.

ii. The Exchanges give daily settlement prices in respect of all derivatives positions. These settlements prices would be adopted for valuing the positions, which are not traded.

b) Equity/Index Futures

i. Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally, i.e., if futures position contracted on the NSE would be valued at the Settlement Price on the NSE.

ii. The Exchanges give daily settlement prices in respect of all derivatives positions. These settlements prices would be adopted for valuing the positions, which are not traded.

3. Valuation of QIP (Qualified Institutional Placement – Equity Shares)

The equity shares allotted through QIP process should be considered on the same lines as the existing listed equity shares and shall be valued at the market/traded price of the existing listed equity shares.

NON-TRADED/THINLY TRADED SECURITIES

Valuation of Initial Public Offering (IPO) Allotment / Anchor investments and Private Placement :

These shall be valued as below :

Stocks allotted under IPO / Anchor investments / Other Public Offers will be held at cost until listing and post listing shall be valued at the day's closing price on the Stock Exchange.

1. **Non-Traded/Thinly Traded Equity**

Thinly Traded: When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than ₹ 5,00,000 and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly. In order to consider a security as a thinly traded security, the volumes traded only on the NSE and the BSE shall be considered.

Where a security is identified as a "thinly traded" security by applying the above parameters for the preceding calendar month, the same will be valued by BAML as thinly traded security.

If the share is not listed on the stock exchanges which provide such information, then it will be obligatory on the part of the Fund to make its own analysis in line with the above criteria to check whether such securities are thinly traded which would then be valued accordingly.

Further, thinly traded securities would be monitored on calendar month basis and not on rolling basis. i.e., If a security in holding has been classified as thinly traded according to the criteria mentioned above, it would be fairly valued ignoring the primary and secondary stock exchange prices. This fair valuation would continue for the entire month even though, the volumes and value might have exceeded the limit in the current month.

In case trading in an equity security is suspended for trading on the stock exchange up to 30 days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for trading for more than 30 days, then it would be considered as non-Traded and valued accordingly.

Non-Traded: If the equity securities are not traded on NSE and BSE for a period of thirty days prior to the valuation date, the scrip must be treated as `non-traded' scrip.

Equity Shares:

Based on the latest available audited Balance Sheet, net worth shall be calculated as follows:

i. Net Worth per share = [Share Capital + Reserves (excluding Revaluation Reserves) – Misc. expenditure and Debit Balance in P&L A/c] / No. of Paid-up Shares. This shall be computed based on the latest available audited balance sheet.

ii. Average capitalization rate (P/E ratio) for the industry based upon either NSE or BSE 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 capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose.

iii. 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 to arrive at the fair value per share.

iv. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.

v. 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.

vi. 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.

vii. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation.

***Convertible Debentures*:**

In respect of convertible debentures and bonds, the non-convertible and convertible portion would be valued separately. The non-convertible portion would be valued on the same basis as is applicable to a debt instrument. The convertible component would be valued based 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 equity instrument which is traded, the value of the later 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 conversion is optional should also be factored in. The appropriate discount applied should be approved by the Committee and factored in.

The value of the optional conversion shall be determined as follows:

- If the option to exercise rests with the issuer, the lower of the value when exercised or value when not exercised shall be taken.
- If the option to exercise rests with the investor, the higher of the value when exercised or value when not exercised shall be taken. The valuation shall be approved by the Valuation Committee.

2. Unlisted Equity

These guidelines are similar to the guidelines issued by SEBI for non-traded / thinly traded securities mentioned above only except the following:
Computation of Net worth per share as lower of (a) and (b):

a)

- Net worth of the company = Paid up share capital + Reserves other than Revaluation reserve - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.
- Net worth per share = (Net worth of the company / Number of paid-up shares).

b)

- Net worth of the company = Paid up capital + Consideration on exercise of Option/Warrants received/receivable by the company + free reserves other than Revaluation reserve – Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses.
- Net worth per share = (Net worth of the company/{Number of paid-up shares + number of shares that would be obtained on conversion/exercise of outstanding warrants and options}).If the net worth of the company is negative, the share should be marked down to Zero.
    - Computation of fair value per share to be considered for valuation at 15 % discount for illiquidity.
      [(Net worth per share + Capitalised value of EPS) / 2] * 0.85
    - In case the latest balance sheet i.e., balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.
    - At the discretion of the Valuation Committee and with the approval of the AMC and Trustee Board, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.

3. Suspended Security

- In case trading in an equity security is suspended for trading on the stock exchange, the last traded price would be considered for valuation of that security upto 30 days.
- If an equity security remains suspended for trading on the stock exchange for more than 30 days, then it would be considered as non-traded and valued accordingly.

4. Non-Traded Rights Entitlements

a) Until they are traded, post the rights renunciation period, the value of the "rights" entitlement would be calculated as per the SEBI prescribed formula stated below:
Vr = n/m * (Pex – Pof)
where
Vr = Value of Rights
n = Number of rights offered
m = Number of original shares held
Pex = Ex-right 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.

b) Where the rights are not treated pari-passu with the existing shares, suitable adjustments would be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights would be valued at the renunciation value.

c) In case original shares on which the right entitlement accrues are not traded on the Stock Exchange on an ex-right basis, right entitlement should not be recognised as investments.

d) Where right entitlements are not traded and it was decided not to subscribe the rights, the right entitlements have to be valued at zero.

e) Post payment of the subscription amount for the rights entitlement, it will be valued in line with the normal valuation methodology for valuation of equities.

5. Non-Traded Warrants

Warrants can be valued at the value of the share which would be obtained on exercise of the Warrant after applying appropriate discount as decided by valuation committee prorated on a monthly basis after reducing the exercise price / issuance price from the closing price of the underlying cash equity security.

If the amount payable on exercise of the warrants is higher than the value of the share, the value of the warrants should be taken as zero.
Value of warrant = (Value of underlying shares – exercise price).

6. Non-Traded Preference Shares

Non traded preference shares shall be valued in good faith depending upon the type of the preference Share and after considering illiquidity discount, if any. Valuation of non-traded preference shares would depend on the terms of issue of preference shares. i.e., convertible/non-convertible.

- Convertible preference shares should be valued like convertible debentures
- Non-convertible preference shares should be valued like non-convertible debentures.
- In case, dividend is not received, it would be treated as NPA.

7. Shares on De-merger

On de-merger following possibilities arise which influence valuation

Both the shares are traded immediately on de-merger: In this case, shares of both the Companies are valued at respective traded prices.

Shares of only one company continued to be traded on de-merger: In case one entity is demerged into two or more entities and one of those entities continues to be listed, the value of unlisted entity(ies) will be difference between the closing price of the security on the ex-date (after demerger) and closing price of the security on previous trading day (before demerger) that continues to be listed. The difference in price of two dates will be the valuation price of the unlisted entity(ies) proportionately, till they are listed and traded on a stock exchange. The cost price of new entity/entities would be derived proportionately from the cost price of parent entity.

In case the value of the traded security of de-merged entity is equal to or in excess of the value of that entity before de-merger, then the security of the non-traded entity will be valued at zero.

In case an unlisted security is not listed within a period of 60 days from the ex-date, the valuation price derived for the demerged security will be reviewed on expiry of 30 days.

Both the shares are not traded on de-merger: The price of the shares of the Company one day prior to ex-date of de-merger will be bifurcated over the de-merged shares in the ratio of cost of shares of each demerged entity or on the basis of net assets transferred if the same is available from the Company and any other relevant factors.
In case shares of both the companies are not traded for more than 60 days, these are to be treated as unlisted security and valued accordingly.

On merger/demerger, in case the company specifies any regulations/ method for cost bifurcation or valuation the same will be adopted. In case the above methodology does not derive the fair valuation of de-merged entities; the same may be determined by the Valuation Committee on case-to-case basis.

Merger/ Amalgamation:

Valuation of resulting company would be determined by valuation of merging / amalgamating company immediately prior to the ex-date of merger / amalgamation

- In case merging / amalgamating companies being listed, valuation of resulting companies would be summation of valuation of entities immediately prior to merger date. Further if listed company merges into an unlisted surviving company, then the surviving company should be valued at the traded value of merging company immediately before merger.
- Example:
  1. If Company A and Company B merge to form a new Company C then Company C would be valued at the price equals to A+B
  2. If Company A which is a listed company merges into Company B which is an unlisted company would be valued at traded price of A immediately before merger.

- In case, one of the merging / amalgamating companies being unlisted, valuation of resulting companies would be valued on the principles of fair valuation as guided by the valuation committee.

- If the above companies remained unlisted for more than 3 months, illiquidity discount on the derived prices may be applied on the basis of the market capitalization of the issuer viz. at 5% ,10% and 15%, for Large cap, Mid cap, Small cap respectively.

- In case of the above listed, Valuation committee may decide fair value other than guided above, post considering facts on a case to case basis. Further guidance from valuation committee would be sought for any exceptional cases not covered above.

8. Partly Paid-up Equity Shares

Non-traded: Uncalled liability per share shall be reduced from the value of fully paid share, if traded, to derive price of non-traded partly paid shares.

If the fully paid-up shares are not traded, the valuation principles for valuing non- traded equity shares shall be followed for valuing the fully paid up on-traded shares (with suitable illiquidity discounts) and then reduced by the uncalled liability per share to arrive at the value of non-traded partly paid shares

Thinly Traded: Partly paid shares should be valued at the lower of the following two prices:

- Current closing price per share of fully paid-up shares less uncalled amount per share of partly paid shares, and,
- Closing price of the partly paid share if it has not been traded on any particular valuation day (not exceeding the last 30 days).

9. Infrastructure Investment Trust (InvIT) and Real Estate Investment (ReIT)

- When units of InvITs and ReITs are not traded on any stock exchange on a particular valuation day, the value at which these were traded on the selected stock exchange or any other stock exchange, as the case may be, on any day immediately prior to valuation day, shall be considered for valuation provided that such date is not more than thirty days prior to the valuation date.
- Where units of InvITs and ReITs are not traded on any stock exchange for a continuous period of 30 days then the valuation for such units of InvITs and ReITs will be determined by the Valuation Committee in consultation with the Internal Auditors or independent valuation agencies as deemed appropriate by the Valuation Committee from time to time.
- In addition to the above, if the valuation of units of InvITs and REITs is provided by the independent agency as approved by AMFI, AMC may get into an arrangement with such agency to provide security level price for Valuation.

10. To be listed equity shares and equity related instruments (pre-public offering)

Pending listing Such securities shall be valued as below:

- At cost, up to 2 months from the date of allotment.
- Valued as unlisted equity shares after 2 months.

11. Security Lending & Borrowing (SLB)

Security Lending & Borrowing (SLB) will be valued on the basis of amortization.

12. Valuation of Shares acquired / allotted with lock-in period

In case of shares under lock-in for more than 3 months:

(a) from the date of purchase, in case of shares already listed on the date of purchase;
(b) from the date of listing of shares on recognised stock exchange, in case of shares acquired under Private Placement or under Pre-IPO;

The shares would be valued as per the valuation guidelines applicable to Traded and Thinly Traded / Non-Traded equity shares, further appropriate discount for illiquidity may be applied by Valuation Committee on case to case basis.

In case of shares under lock-in for upto 3 months from the original date of purchase or listing, as the case may be, these shares would be valued as per the valuation guidelines applicable to Traded and Thinly Traded / Non-Traded equity shares without applying any discount for illiquidity.

13. Other Instruments

In case of any other type of capital corporate action event, the same shall be valued at fair price on case-to-case basis after obtaining necessary approval from valuation committee / Board.

II. INVESTMENT GRADE MONEY MARKET AND DEBT SECURITIES

A. MONEY MARKET AND DEBT SECURITIES

Money Market and Debt instruments include CP, CD, Fixed Coupon Bonds, Zero Coupon Bonds and Pass-Through Certificates, Floating rate security (FRN), BRDS, etc.

Money Market and Debt Instruments shall be valued at average of security level prices obtained from valuation agencies i.e. CRISIL and ICRA as mandated by AMFI.

- In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security may be valued at purchase yield on the date of allotment / purchase.
- Abnormal situations and market disruptions where current market information may not be obtainable / adequate for valuation of securities, valuation Committee shall be responsible for monitoring these kinds of events. Abnormal situations and market disruptions cases shall be reported to the board from time to time.
- Any change in the policy on account of clarification or communication from AMFI or internal shall be communicated to the board from time to time.

B. OTHER MONEY MARKET AND DEBT SECURITIES

1. Government Securities

Central Government Securities (CGs), State Development Loans (SDLs), Treasury Bill, Cash Management Bill, etc. shall be valued on the basis of security level prices obtained from valuation agencies, in line with SEBI Regulation.

2. Deposits

Deposits with banks shall be valued at cost plus accrual basis. In case of any prepayment penalty, accrual rate would be the rate applicable for that period less any prepayment penalty.

3. Tri-Party Repo (TREPS)/Reverse Repo/Corporate Bond Repo

Valuation of all repo transactions (including TREPS), except for overnight repos, in addition to the valuation of money market and debt securities, shall be obtained from valuation agencies.

Accordingly, all money market and debt securities including floating rate securities shall be valued at average of security level prices obtained from valuation agencies.

In case security level prices given by valuation agencies are not available for a new security (which is currently not held by any Mutual Fund), then such security shall be valued at purchase yield on the date of allotment / purchase.

4. Securities purchased on Private Placement Basis

In case the security is purchased on private placement basis, the same would be valued at Purchase Yield on the date of purchase. Subsequently valuation would be carried out at average of security level prices obtained from valuation agencies.

5. Securities with Put/Call Options

The option embedded securities would be valued as follows:

a) *Securities with call option*:

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

b) Securities with Put option:

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instrument.

c) Securities with multiple put options present ab-initio

In respect of valuation of securities with multiple put options present ab-initio wherein put option is factored into valuation of the security by the valuation agency. If put option is not exercised by the Fund, while exercising put option would have been in favour of the scheme:

i. Justification for not exercising put option shall be provided by the MF to valuation agencies, BAML and Trustee Board on or before last date of notice period.
ii. Valuation agencies shall not take into account remaining put options for the purpose of valuation of security.

Put option shall be considered in favour of the scheme if the yield of valuation price ignoring put option is more than contractual yield/coupon rate by 30 bps.

d) Securities with both Put and Call option on the same day:

Only securities with put / call options on the same day and having the same put and call option price, shall be deemed to mature on such put / call date and shall be valued accordingly. In all other cases, the cash flow of each put / call option shall be evaluated and the security shall be valued on the following basis:

i. Identify a 'Put Trigger Date', a date on which 'price to put option' is the highest when compared with price to other put options and maturity price.
ii. Identify a 'Call Trigger Date', a date on which 'price to call option' is the lowest when compared with price to other call options and maturity price.
iii. In case no Put Trigger Date or Call Trigger Date ('Trigger Date") is available, then valuation would be done to maturity price. In case one Trigger Date is available, then valuation would be done as to the said Trigger Date. In case both Trigger Dates are available, then valuation would be done to the earliest date.

If the put option is not exercised by a Mutual Fund, while exercising the put option would have been in favour of the scheme;

i. A justification for not exercising the put option shall be provided by the Mutual Fund to the Valuation Agencies, Board of BAML and BFSMFTL on or before the last date of the notice period.
ii. The Valuation Agencies shall not take into account the remaining put options for the purpose of valuation of the security.

The put option shall be considered as 'in favour of the scheme' if the yield of the valuation price ignoring the put option under evaluation is more than the contractual yield/coupon rate by 30 basis points.

6. AT-1 Bonds and Tier-2 Bonds

In accordance with the SEBI Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024, SEBI has specified the glide path for the purpose of valuation of existing as well as new bonds issued under Basel III framework.
Further, AMFI, vide its letter No. 135/BP/91/2020-21, has issued the detailed guidelines under the directive of SEBI for being uniformly followed and implemented by all Mutual Funds.

SEBI vide circular issued on 05-Aug-2024 pertaining to Valuation of Additional Tier 1 Bank Bonds ("AT-1 Bonds") reference is drawn to the clause 9.3.1.1 which relates to valuation of securities with call option and clause 9.4.2 which relates to valuation of perpetual bonds mentioned in the Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024, on valuation of bonds with multiple call options.

As per the mentioned circular, basis recommendation of National Financial Reporting Authority (NFRA), AT-1 bonds trade at or quote prices closer to Yield to Call (YTC) basis, valuation of AT-1 Bonds on Yield to Call basis (adjusted with appropriate risk spreads). Further, the YTC methodology is confined only to the interpretation of Ind AS 113 with reference to the valuation of AT-1 bonds.

In view of the above and to align the valuation methodology with the recommendation of NFRA, it has been decided that the valuation of AT-1 Bonds by Mutual Funds shall be based on Yield to Call which shall be effective from August 08, 2024. The valuation agencies shall provide the YTC based prices for AT-1 Bonds to the Mutual Funds accordingly.

III. OTHER SECURITIES

1. Mutual Fund Units

- Mutual Fund Units listed and traded would be valued at the closing traded price as on the valuation date.
- Unlisted Mutual Fund Units and listed but not traded Mutual Fund Units would be valued at the last declared NAV on AMFI website as on the valuation date.

2. Interest Rate Futures (IRF)

- Market values of traded futures contracts shall be determined with respect to the exchange on which contracted originally, i.e., if futures position contracted on the NSE would be valued at the closing price on the NSE. The price of the same futures contract on the BSE cannot be considered for the purpose of valuation, unless the futures contract itself has been contracted on the BSE.
- The Exchanges give daily settlement prices in respect of all derivatives positions. These settlements prices would be adopted for valuing the positions, which are not traded.

3. **Market Linked Debenture and all OTC Derivatives including Interest Rate SWAPS (IRS)/Forward Rate Agreements (FRA)**

Irrespective of the residual maturity, securities shall be valued at average of security level prices obtained from valuation agencies.

4. **Convertible Debentures and Bonds**

As per Eighth Schedule of SEBI (Mutual Fund) Regulation method of valuation of convertible debentures is prescribed and will be followed by Bajaj Mutual Fund. In respect of convertible debentures and bonds, 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 of 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.

5. **Illiquid Securities**

- Aggregate value of "illiquid securities" of scheme, which are defined as nontraded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.
- All funds shall disclose the scheme-wise total illiquid securities in value and percentage of the net assets while making disclosures in monthly portfolios to the unit holders. In the list of investments, an asterisk mark shall also be given against all such investments, which are recognized as illiquid securities.

6. **Valuation Policy for ADR & GDR and all Overseas Securities**

- For the purpose of computation of NAV on the same day If the security/ETF is listed in a time zone ahead of ours then the same days price would be used for valuation. The price in the local currency would be obtained and the closing RBI reference rate would be used to calculate the closing price in INR. If the INR price for the security is available, then the same would be used for valuation.
- If the security/ETF is listed in a time zone behind ours then the previous day's price would be used for valuation. The price in local currency would be obtained and the closing RBI reference rate would be used to calculate the closing price. If the INR price for the security is available, then the same would be used for valuation.
- If the stock/ETF is listed in currency for which RBI reference rate is not available, the exchange rates available from Reuters (at 5.00 P.M IST) will be used. In case the direct exchange rates are not available on Reuters, then cross currency rate with USD would be considered and converted as per the INR/USD RBI reference rate.
- For the purpose of computation of NAV on the next day (T+1), the latest available closing price of the exchange on which the security is listed and RBI reference rate would be considered for valuation. If the stock is listed in a currency for which RBI reference rate is not available, the exchange rates available from Reuters (at 5.00 P.M IST) on T will be used. In case the direct exchange rates are not available on Reuters, then cross currency rate with USD would be considered and converted as per the INR/USD RBI reference rate.

7. **Valuation of Indian Depository Receipts**

- Valuation of IDR's listed on the Indian Stock Exchange would follow the principles similar to Listed Indian Equity Shares. In case the IDR's are classified as thinly traded, the criteria as laid

above for Listed Indian Equity shares shall be applied taking into consideration the relevant company's balance sheet.

8. Overseas Mutual Fund

- Overseas mutual fund would be valued at the last published NAV as on the valuation day. The last published NAV of overseas Mutual Fund Units would be obtained at a cut-off of around 9 PM IST for schemes where the NAV is to be computed and disclosed on AMFI website on the same business day.
- In case of schemes wherein the NAV is to be computed and disclosed on AMFI website on the next business day, the NAV would be obtained at a cut-off of around 8 AM IST. In case if on any valuation day the overseas mutual fund is having a non-business day then previous day NAV would be considered for valuation.

9. Valuation of gold & Silver ascertained as per SEBI guidelines:

The gold & Silver held by an exchange traded fund schemes shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 & for Silver 999.0 parts per thousand, subject to the following:

- adjustment for conversion to metric measures as per standard conversion rates;
- adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and
- addition of – (i) transportation, insurance and other charges that may be normally incurred in bringing such gold & Silver from London to the place where it is actually stored on behalf of the mutual fund; and
- notional customs duty and other applicable taxes and levies that may be normally incurred to bring the gold from London to the place where it is actually stored on behalf of the mutual fund: Provided that the adjustment under clause
- above may be made on the basis of a notional premium that is usually charged for delivery of gold & silver to the place where it is stored on behalf of the mutual fund: Provided further that where the gold & silver held by an exchange traded fund schemes has a greater fineness, the relevant LBMA prices of AM fixing shall be taken as the reference price under this subparagraph.
- If the Gold acquired by the scheme is not in the form of standard bars, it shall be assayed and converted into standard bars which comply with the good delivery norms of the LBMA and thereafter valued in terms of above-paragraph.

10. Valuation of Exchange Traded Funds units:

- Units listed and traded would be valued at the closing traded price as on the valuation date. Unlisted units and listed-but-not-traded units would be valued at the NAV as on the valuation date.

11. Valuation of Sovereign Gold Bonds.

- Sovereign Gold Bonds are listed on National Stock Exchange. Since these bonds are listed and traded on exchange, these bonds will be valued at closing price given by exchange. In case if these bonds are not traded on a particular day then previous day price will be considered.

12. Deviation from valuation guidelines

- As per the Principles of Fair Valuation specified in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, the AMC shall be responsible for true and fairness of valuation and correct NAV. Considering the same, in case the AMC decides to deviate from the valuation price given by the valuation agencies, the detailed rationale for each instance of deviation shall be recorded by the AMC.

- The rationale for deviation along-with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price as per the valuation agencies and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
- The rationale for deviation along-with details shall also be disclosed immediately and prominently, under a separate head on the website of AMC.
- Further, while disclosing the total number of instances of deviation in the monthly and half-yearly portfolio statements, AMCs shall also provide the exact link to their website for accessing the information.

13. Money Market and Debt securities rated below Investment Grade/Default

- A money market or debt security shall be classified as "below investment grade" if the long-term rating of the security issued by a SEBI registered Credit Rating Agency (CRA) is below BBB- or if the short-term rating of the security is below A3.
- A money market or debt security shall be classified as "Default" if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to "Default" grade by a CRA. In this respect, Mutual Funds shall promptly inform to the valuation agencies and the CRAs, any instance of non-receipt of payment of interest and / or principal amount (part or full) in any security.

  SEBI vide its Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 provides for valuation of money market and debt securities at prices
  provided by the valuation agencies notified by AMFI (currently, CRISIL and ICRA). Till the time scrip level valuation is not available from the valuation agencies, the securities are to be valued on the basis of indicative haircuts provided by the agencies. These haircuts shall be updated and refined as and when there is availability of material information which impacts the haircuts. During this period if there are trades in the security it may be considered for valuation if it is lower than the price post standard haircut. The minimum trade size in such cases will be determined by the valuation agencies.

  The current indicative haircuts as determined by the valuation agencies and communicated by AMFI are:

For senior, secured securities

Rating/ sector	***Infrastructure, Regal Estate, Hotels, Loan against shares and Hospitals***	***Other Manufacturing and Financial Institutions***	***Trading, Gems Jewellery and Others***
BB	15%	20%	25%
B	25%	40%	50%
C	35%	55%	70%
D	50%	75%	100%

For subordinated, unsecured or both

Rating/ sector	***Infrastructure, Regal Estate, Hotels, Loan against shares and Hospitals***	***Other Manufacturing and Financial Institutions***	***Trading, Gems Jewellery and Others***
BB	25%	25%	25%
B	50%	50%	50%
C	70%	70%	70%
D	100%	100%	100%

In terms of the above circular, the determination of whether the rating is below investment grade will be performed by considering the most conservative rating

on the instrument if it is rated by more than one rating agency.

The AMC 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 subject to the following:

i. The detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the Committee.
ii. The rationale for deviation along with details such as information about the security (ISIN, issuer name, rating etc.), price at which the security was valued vis-a-vis the price post haircuts or the average of the price provided by the valuation agencies (as applicable) and the impact of such deviation on scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.
iii. The rationale for deviation along with details shall also be disclosed to investors under a separate head on the website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along with an exact link to the website wherein the details of all such instances of deviation are available.

14. Changes in terms of Investment

While making any change to terms of an investment, Mutual Funds shall adhere to the following conditions:

- Any changes to the terms of investment, including extension in the maturity of a money market or debt security, shall be reported to valuation agencies and SEBI registered Credit Rating Agencies (CRAs) immediately, along with reasons for such changes.
- Any extension in the maturity of a money market or debt security shall result in the security being treated as "Default", for the purpose of valuation.
- If the maturity date of a money market or debt security is shortened and then subsequently extended, the security shall be treated as "Default" for the purpose of valuation.
- Any put option inserted subsequent to the issuance of the security shall not be considered for the purpose of valuation and original terms of the issue will be considered for valuation.

15. Approach for traded and non-traded money market and debt securities

SEBI vide its Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 that consist of provisions pertaining to Valuation of money market and debt securities, has laid down the broad principles for considering traded yields for the purpose of valuation of money market and debt securities. In this regard, the following are the areas identified for issuing standard guidelines.

a. Waterfall mechanism for valuation of money market and debt securities
b. Definition of tenure buckets for similar maturity
c. Process for determination of similar issuer
d. Recognition of trades and outlier criteria
e. Process for construction of spread matrix

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

a) <u>Waterfall Mechanism for valuation of money market and debt securities</u>:

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. 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.

Note 4
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.

b) 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 of similar maturity
Upto 1 month	Calendar Weekly Bucket
< 1 month to 3 months	Calendar Fortnightly Bucket
< 3 months to 1 year	Calendar Monthly Bucket
< 1 year to 3 years	Calendar Quarterly Budget
< 3 years	Calendar Half-yearly or Greater Bucket

In addition to the above:

i. 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.

ii. In the case of illiquid/ semi liquid bonds, it is proposed that traded spreads be permitted to be used for longer maturity buckets (1 year and above). However, the yield should be adjusted to account for steepness of the yield curve across maturities.

iii. 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.

c) <u>Process for determination of similar issuer</u>

Valuation agencies shall determine similar issuers using one or a combination of the following criteria. Similar issuer does 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.

- Issuers within same sector/industry and/or
- Issuers within same rating band and/or
- Issuers with same parent/ within same group and/or
- Issuers with debt securities having same guarantors and/or
- 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.

d) <u>Recognition of trades and outlier criteria</u>

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

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

Parameter	Minimum Volume Criteria for marketable lot
Primary	₹ 25 Cr for both Bonds/NCD/CP/CD and other money market instruments
Secondary	₹ 25 Cr for CP/CD, T-Bills and other money market instruments
Secondary	₹ 5 Cr for Bonds/NCO/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, 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)**		
	Upto 15 days	15-30 days	< 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

- Trading Volume
- 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 upto 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- upto 25 bps for liquid; >25- 50 bps for semiliquid; > 50 bps for illiquid. (Here, spread is computed as average spread of issuer over Al+/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.

e) *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 categorised 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 1 month 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 quotes, 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.

16. Treatment of upfront fees on trades

- Upfront fees on all trades (including primary market trades), by whatever name and manner called, shall be considered by the valuation agencies for the purpose of valuation of the security.
- Details of such upfront fees shall be shared by the AMC on the trade date to the valuation agencies as part of the trade reporting to enable them to arrive at the fair valuation for that date.
- For the purpose of accounting, such upfront fees shall be reduced from the cost of the investment in the scheme that made the investment.
- In case upfront fees are received across multiple schemes, then such upfront fees shall be shared on a pro-rata basis across such schemes.

17. Investment in partly paid debentures

a) Mutual Fund schemes shall make investment in partly paid debentures only when payment of the remaining amount is linked to clear, pre-defined events (i.e., is subject to conditions precedent). For avoidance of doubt any event which is purely time based shall not be considered as a pre-defined event. Such conditions precedent should be clearly outlined in the Agreement for subscription of the debentures/ Offer Document for the issue, as the case may be. Conditions precedent mean the clearly defined obligations/ events that need to be fulfilled before calling upon the investor to make payment for the remaining portion of the subscription. Such obligations/ events, to name a few, could include achievement of certain

milestones linked with the object for which the debentures were issued or linked to the enhancement of credit rating of the Issuer or linked to other financial or operating parameters of the Issuer or linked to the happening of an event. AMCs shall not resort to the practice of investing in partly paid debentures without any condition precedent.

- There should not be any linkages across schemes while investing in partly paid debentures. For example: if the agreement for partly paid debentures also envisages investment in any other type of instrument such as a commercial paper, then the AMC should ensure that subscription to the residual part of the issue/ the investment in the other instrument is made by the scheme which made the original investment in partly paid debentures.
- While investing in partly paid debentures, AMCs shall ensure that interest of one set of unitholders/ schemes is not compromised at the cost of another.
- All regulatory limits shall be complied with at the time of each such part payment.
- In order to avoid a situation where a MF scheme is unable to honor future part payments, AMCs should avoid excessive concentration in partly paid debentures.

b) Any investment in partly paid debentures shall be disclosed in the monthly portfolio disclosures of the scheme. This should include, inter-alia, the amount that has been contracted but not yet paid by the scheme, the dates of such future pay-ins, triggers for future pay-ins as well as any other detail that in the fund house's view may be of material interest to its investors.

AMFI, in consultation with SEBI, has updated guidelines for the valuation of Partly Paid Debentures (PPDs), in Section IV of AMFI Best Practices Guidelines Circular no. 83 dated 18-Nov-2019. Basis latest guidelines, the revised methodology for valuation of partly paid debentures (PPD) as given below.

a) **Price calculation**:

Cash flows are plotted using the details provided in the term sheet. The same is then discounted using YTM derived for that particular ISIN. Prices are sent on face value of Rs 100 (when fully paid), and as per actual paid up value as per valuation date. Cash flows are plotted till actual maturity or deemed maturity (explicit put call option on same date and same value). Two types of securities were available:

1. **Pay-in dates and pay-in values are clearly defined** – In such case future pay-ins are plotted as per details available in term sheet (Mutual Funds cannot buy these PPDs as per the AMFI Best Practices Guidelines circular no. 83 dt. 18-Nov-2019).
2. **Pay-in dates and pay-in values are not clearly defined or are linked to occurrence of some event or is optional linked to on demand from issuer/investor for making such pay-ins** – In such case, since pay-in dates/pay-in values can't be estimated, such future pay-ins are factored on actual basis on receipt of information.

b) **Yield Calculation**:

Yields for the ISIN are derived on a daily basis using the standard waterfall approach prescribed for corporate bonds. Definitions of similar maturity, similar issuer, outlier security remains same as other normal securities.

18. Valuation of stressed issuers and perpetual bonds

Financial stress on the issuer and capability to repay borrowings shall be reflected in valuation of securities from trigger date.

Maturity of all perpetual bonds shall be treated as 100 years from the date of issuance for the purpose of valuation

19. Securities not covered under the current valuation policy

In case of securities purchased by mutual fund does not fall within the current framework of the valuation of securities then the mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual fund shall value such securities using their proprietary model which has been approved by their independent trustees and the statutory auditors.

20. Investment in new type of securities

Investment in new type of securities/assets by the Bajaj MF scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the BAML.

21. Inter-scheme transfers

a) Debt Securities:

- AMCs shall seek prices for IST of any money market or debt security (irrespective of maturity), from the valuation agencies.
- AMFI, in consultation with valuation agencies shall decide a turn-around-time (TAT), within which IST prices shall be provided by the agencies.
- If prices from the valuation agencies are received within the pre-agreed TAT, an average of the prices so received shall be used for IST pricing.
- If price from only one valuation agency is received within the agreed TAT, that price may be used for IST pricing.
- If prices are not received from any of the valuation agencies within the agreed TAT, AMCs may determine the price for the IST, in accordance with Clause 3 (a) of Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996.

Clause 3 (a) - such transfers are done at the prevailing market price for quoted instruments on spot basis.

b) Equity Securities

Inter-scheme transfer of equity securities would be affected at the prevailing spot market price of the security at the time the transfer is affected. For this purpose, at the time of affecting the inter-scheme transfer, a record of the prices for the security quoted in the relative stock exchange (i.e., NSE/BSE) or through the Bloomberg Terminal would be obtained, which would indicate the date, time and the currently quoted price. The price given in the quotation of the stock exchange would be the effective price for the inter-scheme transfer.

22. Review of valuation policies

The implemented valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.

The policy shall be reviewed at least annually or on need basis by BAML.

23. Consideration of price of same/similar securities

CRISIL and ICRA shall consider the price of same/similar securities under Scrip Level Valuation as per the methodology discussed and agreed with the AMFI.

24. Inter-day NAV computation methodology in case of debt ETF

SEBI vide its Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 has clarified that for transactions by Authorised Participants / Large investors, directly with AMCs, intra-day NAV, based on the executed price at which the securities representing the underlying index or underlying commodity(ies) are purchased / sold, shall be applicable.

Refer Annexure-1 for detailed Intra-day NAV computation methodology in case of Debt ETF.

25. Abnormal Events

Following are the illustrative types of events which could be classified as Abnormal situations and market disruptions where current market information may not be obtainable / adequate for valuation of securities: -

- Significant volatility in the capital markets.
- Natural disasters or public disturbances that force the markets to close unexpectedly.
- Major policy announcements by the Central Bank, the Government or the Regulator.
- Large redemptions.

Valuation Committee shall be responsible for monitoring abnormal situations. Under above mentioned abnormal situations and market disruptions, Valuation Committee shall seek the guidance of the BAML Board/committee of the Board of Directors appointed for this purpose in deciding the appropriate methodology for Valuation of affected securities. Any such abnormal situations shall be reported to the board of the AMC at the subsequent meeting.

If the above-mentioned policies and procedures of valuation do not result in fair/ appropriate valuation, the Bajaj Asset Management Limited shall deviate from the above-mentioned policies and procedures in order to value the assets/securities at fair value.

Any deviation from the disclosed valuation policy and procedures may be with appropriate reporting to Board of Trustees and the Board of the Asset Management Company and appropriate disclosures to investors.

ANNEXURE-1

INTRA-DAY NAV COMPUTATION METHODOLOGY IN CASE OF DEBT ETF

BAML shall follow the following procedure to compute the intra-day NAV of Debt ETF as per aforesaid circular. The same will be applicable for all ongoing subscription/redemption transactions received through Authorized Participants and Large Investors.

1. BAML will execute the trade in index/similar securities (subject to regulatory limits) for valid large investor / Authorised participant transactions.
2. Trade shall be executed for the entire basket subscribed/redeemed by investor.
3. Executed trade value (at clean price) (brokerage and other transaction charges shall be appropriately adjusted) will be considered to compute the Intra-day NAV for the transaction.
4. In case of executed trade settlement at T+1 or more, the interest accrual amount shall be recovered/paid from/to investor from the trade date to settlement date.

5. Cash component will be the difference of number of basket subscribed/redeemed by investor, multiplied by value of per unit creation size as per previous day's NAV and total market value of securities (as per previous day's valuation prices) executed on the date of transaction.
6. The sum of amounts as mentioned in point 3, 4 and 5 will be divided by number of units subscribed/redeemed by investor to arrive at Intra-day NAV applicable for the transaction.
7. Additionally, Bajaj Mutual Fund shall also recover the statutory levy and incidental charges, if any pertain to transaction from the investor.
8. In case of trade execution in new security (new in Mutual Fund universe) where previous day's SLV prices are not available, shall be obtained from valuation agencies to compute previous day's market value for executed securities. In case price is received from one valuation agency only, such price will be considered. Trade executed price will be used in case if previous day's valuation prices are not received from both the valuation agencies.