

**BAJAJ FINSERV
ASSET MANAGEMENT LIMITED**

**Protection of the interest of investors in Small Cap and
Mid Cap Schemes**

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1. Background

Bajaj Finserv Asset Management Limited (BFSAML) serves as the Investment Manager to Bajaj Finserv Mutual Fund (BFSMF), while Bajaj Finserv Mutual Fund Trustee Limited (BFSTL) acts as the Trustee to BFSMF.

Pursuant to SEBI's communication dated February 27, 2024, addressed to the Association of Mutual Funds in India (AMFI), Trustees of all Mutual Funds have been advised to frame a policy—developed in consultation with the Unit Holder Protection Committee (UHPC)—to protect investor interests in light of the increasing inflows and valuation concerns in the small and mid-cap market segments.

This policy is aligned with Clause 2.6 of SEBI's Master Circular dated June 27, 2024, pertaining to scheme categorization.

2. Definitions

The definitions of some of the key terms used in the Policy are given below:

Mid-Cap Segment: Companies ranked 101st to 250th by full market capitalization (as per SEBI Master Circular dated June 27, 2024).

Small-Cap Segment: Companies ranked 251st and beyond in terms of full market capitalization.

3. Our Existing – Equity Investment Philosophy

BFSAML follows a disciplined, team-based investment approach focused primarily on domestic macroeconomic and company-level fundamentals, while also accounting for relevant global developments. The investment philosophy aims to outperform respective scheme benchmarks (on a Total Return Index basis) over 3- and 5-year horizons.

Equity investment strategy is anchored on four pillars:

- **Fundamental Research:** Combination of top-down macroeconomic analysis and bottom-up company research to evaluate business quality and management strength.
- **Financial Modelling:** Use of financial models to assess earnings potential, balance sheet health, and industry outlook.
- **Valuation Framework:** Identification of value opportunities by determining intrinsic value and exploiting market inefficiencies.
- **Portfolio Construction:** Alignment with regulatory and internal risk management limits, scheme mandates, and liquidity considerations.

4. Existing Liquidity Monitoring Framework

Liquidity risk is actively monitored across all schemes through both normal and stress scenarios. Monthly reviews are presented to the Investment Committee.

Key liquidity metrics include:

- Investor and distributor concentration (Top 10).
- 5-day and 10-day liquidity estimates based on 30% market participation of 3-month average traded volume.
- Stress scenarios simulating extreme redemption conditions.
- Illiquidity exposure tracking at the portfolio level.

5. Measures to be taken by the AMC

- i. Portfolio Construction and Diversification
- ii. Given the typically lower liquidity and higher volatility of mid- and small-cap securities, Fund Managers shall construct portfolios with sufficient liquidity buffers to manage redemptions efficiently.
- iii. Minimum stock count thresholds will be maintained to ensure adequate diversification based on daily-monitored liquidity metrics.
- iv. Liquidity trends, investor concentration, and market trading volumes will guide real-time rebalancing decisions, and material deterioration below defined thresholds will trigger corrective actions.
- v. Liquidity profiles will be reviewed monthly by the Investment Committee.

In accordance with AMFI's Circular No. 35P/MEM-COR/118/2023-24 dated February 28, 2024, AMCs are required to conduct and disclose results of liquidity stress testing for Mid Cap and Small Cap equity schemes as per the format provided in Annexure 1 (subject to changes as prescribed by SEBI and/or AMFI from time to time).

Disclosures:

- Published monthly on BFSAML and AMFI websites.
- Reviewed monthly by the Investment Committee and quarterly by the Risk Management Committee (RMC), Unit Holder Protection Committee, AMC Board, and Trustee Board.

Required Parameters:

- Annualized Standard Deviation (portfolio vs. benchmark).
- Portfolio Beta.
- Trailing 12-month Price-to-Earnings Ratio (portfolio vs. benchmark).
- Portfolio Turnover Ratio

6. Assumptions

1. Stress scenario shall be defined as one wherein only 10% of market participation is available to any single scheme of a mutual fund.
2. Average traded volume of the securities on BSE & NSE (based on past 3 months) will be 3 times the volumes of normal times (hereinafter referred to as “Volume under Stress Scenario”).
3. For this analysis, top least liquid stocks of the portfolio (aggregating 20% by portfolio weight) would not be taken into consideration and the number of days taken to liquidate 50% and 25% of the portfolio would be ascertained for the balance portfolio, following the steps mentioned under the Methodology section hereinbelow.
4. Remaining securities are assumed to be liquidated on a pro-rata basis.

7. Methodology

The number of days required to liquidate 50% & 25% of the portfolio shall be calculated in the following manner:

- a) Volume Calculation: Available liquidation volume = 10% market participation × (3 × 3-month average traded volume)
- b) Number of days required to liquidate each stock in the portfolio would be computed considering the volume available for liquidating the portfolio (calculated as per point A). Securities are then ranked by days required for liquidation based on available volumes.
- c) Bottom 20% by portfolio weight (most illiquid) is excluded from calculation.
- d) Liquidation Days Estimation:
 - Days to liquidate 50% = Maximum days from remaining portfolio ÷ 2
 - Days to liquidate 25% = Maximum days from remaining portfolio ÷ 4

8. Liquidity Thresholds and Escalation

- a) The fund management team shall maintain adequate cash and/or large-cap holdings in the portfolio to manage potential liquidity challenges arising from adverse market conditions.
- b) Any deviation from these guidelines must be reported to the Board Risk Management Committee of the AMC and the Trustee, along with appropriate justification.
- c) There will be a minimum 5-day liquidity threshold to be decided internally by Investment committee and review the same on a periodic basis.
- d) The assessment of liquidity profile shall rest with the Fund Manager/ CIO.

9. Portfolio Rebalancing and Additional Measures

Where stress tests or market conditions indicate a breach of internal thresholds, the Fund Manager shall rebalance the portfolio within timelines prescribed by the Investment Committee.

Supplementary Measures Include:

- Imposing restrictions on large investments or incremental inflows.
- Capping SIP sizes during periods of froth or liquidity stress.
- Revising exit load structures to discourage short-term inflows.
- Introducing swing pricing or similar anti-dilution mechanisms to protect long-term investors.
- Strengthening investor education and aligning distributor communication with scheme suitability principles.
- Protect investors from first mover advantage of redeeming investors.

10. Communication

All advertisements and investor communications for Mid and Small Cap schemes shall prominently display:

- The risk-o-meter as mandated by SEBI.
- Specific scheme-related risk and performance metrics, if required as per Regulations.

11. Policy Review

- The policy shall be approved by AMC and Trustees and disclosed on BFSAML (AMC) website. This policy shall be reviewed at least annually or earlier if required due to regulatory or market developments.
- Any modifications will be placed before the Unitholders Protection Committee, Risk Management Committee, AMC Board, and Trustee Board for approval.

12. Annexure 1

Format for disclosure of Stress Test & Liquidity Analysis

AMFI Scheme Code	As of (Portfolio date)	Fund name	AUM (Rs. Cr)	Stress Test		Concentration					Volatility			Valuation			Portfolio Turnover Ratio	
				Pro-rata liquidation after removing bottom 20% of portfolio based on scrip liquidity (considering 10% PV with 3x volumes)	Liability side	Asset side (AUM held in)					Portfolio Annualised Standard Deviation (%)	Benchmark Annualised Standard Deviation (%)	Portfolio Beta	Portfolio Trailing 12m PE	Benchmark PE			
						50% portfolio	25% portfolio	Top 10 investor (%)	Large Cap (%)	Mid Cap (%)					Small Cap (%)	Cash (%)		Trailing 12m PE
(A)	(B)	(C.)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)				
29-02-2024	Mid Cap Fund	###																
29-02-2024	Small Cap Fund	###																

Note:

- (1) 3-Month Daily Average traded volumes on both NSE and BSE.
- (2) Large -Cap /Mid Cap /Small Cap as per List Published by AMFI
- (3) Standard Deviation(H), Beta(I) and Portfolio Turnover Ratio (N) as per AMFI Best Practice Guidelines Circulars no. 61 & 64 dated 14-Sep-2015 and 29-Oct-2015 respectively and as disclosed in Monthly Factsheets
- (4) Cash shall be assumed to be used on a Pro-rata basis
- (5) PV - Participation Volume
- (6) PE - Price to Earnings Ratio