LIC PENSION FUND LIMITED

INTERNAL INVESTMENT GUIDELINES

(Updated upto 02.08.2019)

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[1] Guidelines for investment in Debentures, Bonds

The internal guidelines for investment in Non-convertible Debentures, Bonds& Related Investments shall be as under:

1. All investments in Non-Convertible Debentures and Bonds shall be strictly in accordance with the instructions issued by PFRDA which are contained in the IMA {Investment Management Agreement dated 18th April 2012 (NPS Scheme for Govt. Sector) & 25th March 2015 (NPS Scheme for Private Sector), signed between NPS Trust and LIC Pension Fund Ltd.} and amendment in the guidelines as issued by PFRDA from time to time. The exposure limit under Debt Instruments & Related investment has increased from 40% to 45%.

2. The investment in listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions (Public Financial Institutions as defined under Section 2 of the Companies Act, 2013) and term deposits of scheduled commercial banks shall not exceed 45%of the AUM of the respective fund in case of Government Schemes including NPS Lite, Corporate CG & Atal Pension Yojana. In C Scheme (Tier I and Tier II) the investment can go up to 100%.

3. The instrument under consideration for investment should have a maturity of not less than 3 years tenure. This tenure should be calculated from the date of investment to the call option date or maturity date whichever is earlier.

4. All investment decisions shall be taken by the Chief Executive Officer based on the unanimous recommendation of the Internal Investment Committee taking into account the IMA, instructions issued by PFRDA, NPS Trust, Board of Directors of the Company and Investment Management Committee from time to time.

5. The Investment Committee, while deciding the securities for investment shall bear in mind all the associated risks as detailed in the Risk Management Policy, apart from the yield. The Internal Investment Committee of PFM will give utmost importance to safety and security aspects.

6. The borrower/issuer of the instrument under consideration should be a Regulator (NHB, NABARD, EXIM Bank etc) or a scheduled commercial bank or a Public Sector Undertaking or a Multinational Corporation or a large Financial Institution including NBFCs or a large corporate house.

7. In case of corporate borrowers, the company issuing the instrument should be a Public Limited Company and its shares should be listed in any one of the stock exchanges in India. In case, the shares of the borrowing company are not listed, at least, it should be a subsidiary of a listed holding company, whose holding in the borrower company should not be less than 51% of the paid up

capital of the company. Nevertheless, the instrument under consideration should be listed/proposed to be listed in case of fresh issue in WDM segment of NSE/ BSE. The Investment Management Committee of the Board can under exceptional circumstances relax this condition for a specific company where the instrument is AA+ rated by two rating agency.

8. LIC PFM shall invest the Trust funds only in companies, whose promoters /management are competent and have strong domain knowledge and track record. We shall avoid investment in companies, whose promoters/management do not have a good track record of being transparent to shareholders and have a history of not protecting the interest of small shareholders.
9. As far as possible, it should be ensured that the promoter/promoter group should not have got entangled in any corporate Governance issues.

10. The borrowing/issuing company should be a profit making one and should have earned a net profit in at least 3 out of 5 preceding accounting years, including the latest accounting year. Even in the years it has incurred a net loss, the company should have generated profit at PBDT level (PBDT level means Profit before Depreciation and Tax).* This condition of PBDT level can be relaxed in case of a new company which has shown net profits continuously during the latest 3 years.
    *PBDT level means profit before Depreciation and Tax.

    When the NCDs / NCBs are issued by a newly floated company whose Parent/Holding company is a listed entity belonging to BSE 100, the financials of the Parent / Holding company can be considered, if the instrument is Secured & rated AAA or AAA (SO) and any one of the following conditions is fulfilled.
    a) The issuer is a subsidiary of a holding company, with a holding of at least 75% of the equity share capital of the company.
    b) The promoter / holding company has given an irrevocable guarantee for the instrument issued by the company.

    However, in an exceptional case when the instrument is unsecured & comes with an irrevocable guarantee/comfort letter from the promoter of holding company, specific approval of Investment Committee has to be sought before such investment is considered.

11. The net worth of the company should be not less than Rs.500/- Crore.

12. In case of manufacturing companies, financial institutions and other companies classified as traditional in the aggregated matrix given by Stock Holding Corporation of India Ltd.(Aggregate of CRISIL and ICRA matrix), the instrument should have been rated AA by at least two reputed and SEBI approved rating agency such as CRISIL, ICRA, CARE, etc. Apart from the ratings by agencies, proper due diligence for assessment of risks associated with the securities should be done before investments.

13. In case of non-banking financial companies classified as NPR in the aggregated matrix given by SHCIL, such rating should not be less than AA+ from at least two rating agency. Apart from the rating by agency, proper due diligence for assessment of risks associated with the securities should be done before investments. If the securities have been rated by more than two rating agencies, the lowest rating of all the rating shall be considered.

14. In case of banking companies:
    a. The bank should be a scheduled commercial bank as per RBI guidelines.
    b. The rating of the instrument should not be less than AA.
    c. The bank should have earned a net profit in the immediately preceding three financial years.
    d. The Capital to Risk Weighted Assets Ratio should be at least 9%.
    e. Net NPA as a percentage of net advances in the last financial year should be less than 4%
    f. The net worth should be at least Rs.500 Crore.

15. In case of manufacturing companies, it is desirable that a minimum Interest Cover Ratio of two times and a Debt Equity Ratio of 2:1 is maintained by the company. However, if the instrument is a secured one and rated at least AA+, the Internal Investment Committee can waive the debt equity and interest cover requirements for reasons to be recorded in writing.
16. In case of Non-Banking Financing Companies classified as NPR in the aggregated matrix of SHCIL, the capital adequacy ratio should be at least 12% and the net NPA should be not more than 2%. It is desirable that the instrument is secured. However, in exceptional circumstances, investment in unsecured instruments can be considered up to a residual period of 5 years with approval of the Investment Committee of the Board. For this purpose, the Investment Committee may grant relaxation for specific companies after considering the financials of the company and other risks.

17. If the company had issued a Non-Convertible Debentures/Bonds earlier and if we have subscribed to the same, the debt servicing track record should also be taken into account while taking the investment decision.

18. In case of privately placed Non-Convertible Debentures/Bonds, the LIC PFM shall subscribe only when there is a co-investor and LIC PFM's share is not more than 50% of their issue. For one to one placement of Non-Convertible Debentures and Bonds, we should have subscribed to any of the earlier issues of the company and our experience with the company in terms of debt servicing has been satisfactory.

19. All deals are to be done only at market levels. Comparison of the offered yield should be done with aggregate matrix of SHCIL as benchmark and the valuation should not be negative on the date of investment decision. If the valuation is negative, the yield should be compared with the FIMMDA rate and in the event

the valuation is positive, decision can be taken on merits. This will prevent losing the opportunity to investment in reputed and good companies. Under any circumstances, the valuation should not be negative on the date of investment decision either with aggregate matrix of SHCIL or FIMMDA as stated above. However, this condition can be relaxed in case the issuer is a Govt., a Regulator (like EXIM Bank, NABARD etc.) or a PSU and rating is AAA.

20. All secondary market deals are to be done on case to case basis and all the criteria stated above should be fulfilled.

21. Investment in Zero Coupon Bonds with a residual maturity of not exceeding 5 years (Minimum of 3 years) can be considered, only if the issuer is a Bank or a Regulator or Public Sector Undertaking, provided that the instrument is rated at least AAA by two reputed Credit Rating Agency.

22. Investment in Perpetual Bonds (Basel III compliant Tier I bond) of scheduled commercial banks in the Public sector as well as Private sector as permissible under all schemes by PFRDA Investment Guidelines and provided they fulfill the following conditions, at the time of investment :
    a) The Networth of the Bank is Rs.10,000 Crore.
    b) The rating of the instrument shall be AA or above. The rating has to be from at least two credit rating agencies.
    c) The investment shall be in the schemes as permitted by PFRDA Investment Guidelines
    d) The total Investment in any year in the Additional Tier I Bond compatible under Basel III shall not exceed more than 5% of the investment under Corporate Bond Category.
    e) The portfolio invested in Basel III Tier I bonds, at any time shall not be more than 2% of the total portfolio of the fund.
    f) The Bank should have maintained a minimum Capital to Risk weighted assets ratio of 9% consistently during the immediately preceding 3 years or as stipulated by RBO from time to time whichever is higher.
    g) The Bank should have earned a net profit after tax during the preceding 3 years.
    h) The Bank should have declared dividend for the preceding 3 years.
    i) The Bank selected for Investment should not have regulatory or governance issues.
    j) The investment under such bonds can be made at a rate over and above of 100bps of Government Securities rate of the same tenure.
    k) All such investment shall invariably ~~is to~~ be reported to the Investment Committee following –such investment in AT1 Bonds of scheduled commercial Banks.

23. **Exposure and Prudential Norms**:
    a. The investment exposure in an industry sector (classification as per Level - 5 NIC classification) for all classes of asset shall be restricted to 15% of all NPS schemes {Scheme E,C, CG, SG, NPS Lite, Corp CG& Atal

Pension Yojana (APY)} portfolio taken together. Investment in Scheduled Commercial Banks FDs would be exempted from exposure to Banking sector.

Exposure norms for Government Schemes& Scheme C (Tier I & II)

The investment exposure in debt securities of all sponsor groups companies shall be restricted to 5% of the net worth of all the sponsor group companies or 5% of total AUM in debt securities (excluding government securities) whichever is lower in each respective scheme.
The investment exposure in debt securities of a non-sponsor group shall be restricted to 10% of the net worth of all the sponsor group companies or 10% of total AUM in debt securities (excluding government securities) whichever is lower.

24. As and when there is a fall in the credit rating of the instrument, the exposure in the company shall be reviewed by the PFM. If the rating of the instrument falls below the investible grade (BBB-) a separate note shall be put up to the Investment Management Committee of the Board along with the recommendations of the Internal Investment Committee for taking an appropriate decision to continue or exit this investment.
25. Investment can be made in 'AAA' rated Infrastructure Development Funds floated by reputed Financial Institution. Rating should be obtained from two rating agency. The total exposure in Infrastructure Development Funds can be upto a maximum of 1% of credit risk bearing fixed income instruments of individual government scheme and C scheme. The fund house should have experience in managing infrastructure funds. Investment can be considered after 50% of the Fund gets tied up.

26. NPS Funds shall not be used by the PF to buy securities/bonds held in its own investment portfolio or any other portfolio held by it or in its subsidiary or in its Sponsor.
27. Transfer of investments from one Scheme to another Scheme in the same PF, shall be allowed only if:

    - Such transfers are made at the prevailing market price for quoted Securities on spot basis (Explanation: spot basis shall have the same meaning as specified by Stock Exchange for spot transactions)
    - The Securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.
28. Investment in Rupee Bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank.
29. Investment in the Units of Debt Mutual Funds as regulated by SEBI.

30. Investment in following infrastructure related debt instruments:
    a) Listed (or proposed to be listed in case of fresh issue) debt securities of Body Corporates engaged mainly in the business of development, or operation and maintenance of infrastructure, or development, construction or finance of low-cost housing.
    b) Infrastructure and affordable housing Bonds issued by any scheduled Commercial bank which meet the conditions specified in 14 above.
    c) Listed (or Proposed to be listed in case of fresh issue) securities issued by infrastructure debt funds operating as a Non- Banking Financial Company and regulated by RBI.
    d) Listed (or Proposed to be listed in case of fresh issue) units issued by infrastructure Debt Funds operating as a Mutual Fund and regulated by SEBI.

31. Investments have been allowed by PFRDA in Corporate Debt Securities with a minimum 'A' rating or equivalent in the applicable rating scale subject to a cap on investments between A to AA- rated Bonds to be not more than 10% of the overall Corporate Bond Portfolio. PFMs will submit a quarterly statement on the investments made in securities which have a minimum rating of 'A' and their performance including downgrades in this category, if any to NPS Trust for monitoring of such investments. This revision is applicable to both the referred investment guidelines for NPS Schemes viz. CG, SG, Corporate CG, NPS Lite, APY and C Tier I & II schemes. LIC PFL will continue to invest in papers with minimum credit rating AA by two rating agencies*.*

32. These guidelines shall be reviewed periodically, at least on half - yearly basis.

[2] Guidelines for Investment in Fixed Deposit of Scheduled Commercial Banks.

Following guidelines are to be followed while investing in term deposit of Scheduled Commercial Banks:

1. While investing NPS Trust funds in Scheduled Commercial Banks, Investment guidelines as specified in Schedule II of the Investment Management Agreement has to be adhered.
2. All investments in debt securities (Public & Private) including term deposit of Scheduled Commercial Banks (issued as per the guidelines of RBI) should not exceed 45% of the total AUM under each fund at any given time.
3. All investment decisions shall be taken by CEO (Chief Executive Officer) of LICPF Limited on the basis of unanimous recommendation of Internal Investment Committee, which shall comprise of a minimum of three members approved by the board.
4. Investment in term deposits of Scheduled Commercial Banks shall be for a period of not less than one year. (As per IMA all deposits with a maturity term of less than 1 year shall be classified as a money market instrument).
5. The Scheduled Commercial Public Sector Bank selected for investment of term deposits should qualify the following criteria:

a) The Bank should have earned a net profit after tax consistently during the immediately preceding three financial years.
b) The Bank should have maintained a minimum Capital to Risk Weighted Assets Ratio of 9% consistently during the immediately preceding 3 year.
c) Net NPA as a percentage of net advances in the last financial year should be less than 4%
d) The net worth of the Bank should be at least Rs 500crore.

6. The Scheduled Private Sector Commercial Bank selected for Investment in term deposits should qualify the following criteria:

a) The Bank should have earned net profit after tax consistently during the immediately preceding three years.
b) The Bank should have maintained a minimum Capital to Risk Weighted Assets Ratio or Capital Adequacy Ratio of 9% consistently during the immediately preceding 3 year.
c) Net NPA as a percentage of net advances in the last financial year should be less than 4%.
d) The Net worth should be not less than Rs. 500 Crore.
e) The maturity tenure should not be more than 5 years.
f) The Bank selected for Investment should not have regulatory or bank governance issues (CDR Etc).

7. Any Investment in term deposit in any Schedule Commercial Bank by the respective fund manager will be based on the mandate approved by the Internal Investment Committee. Such mandate shall be reviewed at least once in a year**.** However, it should be ensured that the prescribed criteria for investment in fixed deposit are fulfilled in each case before taking the investment decision. The mandate approved by the Internal Investment Committee shall remain valid till it is replaced by a fresh mandate.

8. While preparing the mandate, all scheduled banks as defined in second schedule of Reserve Bank of India (RBI) Act, 1934. (RBI includes only those banks in this Schedule which satisfy the criteria laid down vide section 46(6)(a) of the Act) may be considered for Investment.
9. As and when investment in term deposit is considered by the fund manager, he shall call for quotes from at least three banks listed in the mandate, including scheduled banks from private sector. The final Investment decision shall be based on the highest interest quote, received from such banks. If the Internal Investment Committee feels that the exposure in any bank has to be minimized taking into account the risk and other factors, the Committee can decide to distribute the proposed amount among two or three banks or even ignore the quotation of a bank which has given higher rate. In all such circumstances the reasons for doing so has to be recorded in writing.
10. **Exposure and Prudential Norms:**
    a) Exposure in term deposits of any scheduled commercial bank shall not exceed 5% of the total AUM of that Fund.
    b) Investment in term deposits of all the scheduled commercial banks shall not exceed 10% of the total AUM of that Fund. In case of C Scheme, the limit shall not exceed 20% of the total Fund.
    c) It is to be ensured that the gross investments under all classes of assets i.e. long term and short term in a Company or a Bank or any Entity including State Govt. shall not exceed 5% of the AUM of the fund calculated on market value basis. Prior approval of IMC has to be obtained for breaching this limit and shall be brought to the notice of NPS trust as per prescribed format. Investment in Fixed deposit in a single bank shall not exceed Rs.250 Crore for all schemes taken together.

11. In case of investment in fixed deposit already made, further renewal of the investment shall not be considered if the bank fails to fulfill any of the conditions stated above in the quarterly review and the bank has been removed from the panel list. In case of private sector banks, the option of premature exit can also be considered if situation so warrants.
12. Premature exit of an investment in fixed deposit can be considered if the re-investment options are very attractive and will bring in substantial increase in future cash flow, taking into account the pre closure charges/ penalty.

13. These guidelines shall be reviewed periodically, at least on half - yearly basis.

[3] Guidelines for Stock Selection & Investment in Equity Shares.

While considering investment of NPS Trust funds in equity shares and selecting the sector/ stock for investment, the LIC PFM shall ensure the following:

1. All investments in equity shares are to be made in accordance with the provisions contained in the IMA (Investment Management Agreement).

2. Investment of NPS Trust funds in equity shares can be done only if Market Capitalization of not less than Rs 5000 Crore as on the date of investment and in shares of Companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked schemes of mutual fund or Exchange Traded Funds regulated by the Securities and Exchange Board of India, regulated by Securities and Exchange Board of India for NPS Schemes for Govt. Sector {including NPS Lite, Corporate CG Schemes& Atal Pension Yojana (APY)}and Private Sector (E-Tier-I and E-Tier-II).
3. The investment in equity shall not exceed 15% of the AUM (Asset under Management) of the respective fund on any given date. While this limit shall be strictly maintained at the end of the financial year. For E Scheme Tier I & II the same can be up to 100%.

4. The stock being considered for investment shall form part of BSE 200 Index, in addition to qualifying the conditions on derivatives as stated above.

5. LIC PFM shall invest the Trust funds only in companies, whose promoters /management are competent and have strong domain knowledge and track record. We shall avoid investment in companies, whose promoters/management do not have a good track record of being transparent to shareholders and have a history of not protecting the interest of small shareholders.

6. The company selected for investment should have earned net profit after tax consistently during the preceding three years and also should have paid dividend on equity shares during those three years. In the event, the stock do not meet the above stipulation but forms a part of NIFTY/BSE Sensex, it can be considered for investment based on company fundamentals and future prospect.

7. While the zone of selection of stock shall be confined to BSE 200 stocks, (Included in derivatives segment), the main focus will be on Nifty stocks. In any financial year, investment in Nifty stocks by a fund shall not be less than 75% of the total investment in equity by that fund during that year, calculated based on cost of investment.
8. All investment decisions shall be taken by CEO (Chief Executive Officer) on the basis of the unanimous recommendation of Internal Investment Committee, which shall comprise of a minimum of three members approved by the Board.

9. Investment in equity shares shall be made by the respective fund managers only based on the mandate approved by the Internal Investment Committee. Such mandate shall be reviewed frequently; at least once during a month. The mandate approved by Internal Investment Committee shall remain valid till it is replaced by another fresh mandate.

10. While preparing the mandate, the Internal Investment Committee shall consider all the associated risks as contained in the risk management policy approved by the Board.

11. The Internal Investment Committee, among other things shall consider all the fundamental aspects and also the performance of the company vis-à-vis the Sector/ Industry group.

12. As every sector has its own ups & downs, the sector selected for Investment under Government Schemes shall be one which has outperformed/ likely to outperform the diversified Index i.e. BSE 200. Investment in stocks under E-Scheme should be made in stocks based on performance and proper shifting of investment between the stocks are to be made to protect the NAV. Entry and exit should be on dynamic basis. Entry at higher level within 3 months of sale is required to be justified. Stocks not performing in medium to long term can be exited with minimum profit after approval of Internal Investment Committee

13. For the purpose of evaluating the performance of a sector, the performance of that sector during the immediately preceding month shall be compared in relation to the diversified Index (BSE 200). Only those sectors, which have outperformed during the preceding month and those sectors which are likely to outperform during the month under review, (based on changes in the investment environment) shall be considered for investment. While selection of sector will be based on evaluation of performance of that sector during the latest month, the performance of the sector in the long term say one year shall also be evaluated to rule out any wind fall gain for that sector. However, if the political, economic and environmental factors have made a positive influence in any sector and that sector is likely to grow by leaps and bounds in near future, that sector can be considered for investment by Internal Investment Committee irrespective of the performance of the sector during the one year period.

14. Selection of a stock within a sector shall be based on the performance of that stock as compared to the performance of the sector as a whole. While the latest performance during the preceding month shall be the main criteria for selection, the performance of that stock during the immediately preceding 52 weeks shall also be considered for evaluating the consistency of performance of that stock.

15. Stocks which are extraordinarily volatile and have a beta of more than 2shall be avoided as far as possible.

16. The Company selected for investment should not have entangled in any legal, regulatory or corporate governance issues (CDR etc.) which will have an impact on the market valuation of the stock of the Company.

17. The Company selected for investment should be either a PSU or a Bank or a Large Corporate.

18. In case of Corporate, the public shareholding shall not be less than 25% of the paid up capital of the Company.

19. No part of the NPS Trust fund shall be invested in the Equity shares/ Equity oriented investments of a private limited company.
20. The fund shall not subscribe to IPOs/FPOs of any Company. The fund also shall not purchase any shares through private placement or bulk or block deals. All purchase shall be through recognized stock exchanges only.

21. The Company shall not invest any part of its funds in convertible instruments and preference shares.

22. The Company also shall not consider any investment in derivative instruments like futures & options.

23. While the mandate shall be reviewed on monthly basis, during the currency of the mandate, if it comes to the notice of Internal Investment Committee that any particular stock which is currently undervalued, is likely to show an exceptional growth due to change of events like split, bonus, tax reliefs etc. These stocks may be added to the mandate with the unanimous approval of Internal Investment Committee after clearly recording the reasons in writing for such inclusion.

24. **Exposure and Prudential Norms**
    a) Exposure in any non-sponsor promoter company shall not exceed 10% of paid up equity capital of the group companies or 10% of the total Investment in equity relating to that fund for Government Scheme. For sponsor group the limit is reduced from is 5% for both group and fund exposure.

    For E-Scheme Tier I and Tier II Exposure in any non-sponsor promoter company shall not exceed 15% of paid up equity capital of the company or 15% of AUM whichever is lower. For investee company of sponsor group, the limit is 5% for both group and fund exposure.

    b) Exposure in any non-sponsor promoter group shall not exceed 10% of paid up equity capital of the group companies or 10% of the total investment in

equity relating to that fund for Government Schemes. For sponsor group the limit is reduced **is 5%** for both group and fund exposure.

Exposure in any non-sponsor promoter group shall not exceed 10% of paid up equity capital of the group companies or 10% of AUM for E Scheme Tier I and Tier II whichever is lower. For sponsor group the limit is reduced **is 5%** for both group and fund exposure.

c) The investment exposure in an industry sector (classification as per NIC classification) for all classes of asset shall be restricted to 15% of all NPS schemes (Scheme E,C, CG, SG, NPS Lite, Corp CG) portfolio taken together.

d) Any investment in Equity Mutual funds / ETFs will be made in a manner that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the total portfolio of the fund at any point of time and the fresh investment in such mutual funds shall not be in excess of 5% of the fresh accretions invested in the year.

25. Stocks with low P/E, high dividend yield and other good fundamental may be considered for averaging if the stock has outperformed the corresponding sectoral index.

26. These guidelines shall be reviewed periodically, at least on half - yearly basis**.**

[4] Guidelines for Investment in Government Securities& Related Investments

The maximum exposure in Govt. Securities & Related Investments **has been increased from 50% to 55%** for NPS Schemes for Govt Sector. Under Private sector Scheme G (Tier I & II) exposure in G-Sec can be upto 100%.

1) Investment in the Units of Mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities & Exchange Board of India will be considered for investment in Govt Securities **within the overall limit of 55%.**

   Provided that the portfolio invested in such mutual funds shall not be more than 5% of the G Sec in the concerned NPS Scheme of the pension fund at any point of time and fresh investment made in them shall not exceed 5% of the fresh accretions in the year.

2) Other securities { Securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956} the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central government or any state Government.

   The portfolio invested under this sub category shall not be in excess of 10% of the total portfolio of the G-Sec in the concerned NPS Scheme of the pension fund at any point of time.

These guidelines shall be reviewed periodically, at least on half - yearly basis**.**

[5] Guidelines for Investment in Short-term Debt Instruments and Related Investments

While investing NPS Trust funds in Money Market Mutual Fund Schemes, LICPFM shall be guided by the provisions of Investment Management Agreement (IMA). Accordingly, investments in Money Market instruments including units of liquid mutual funds **shall not exceed 10% of the Asset Under Management (AUM) of the respective Pension Fund under Government Schemes { including NPS Lite, Corp. CG Scheme and Atal Pension Yojana (APY) }**, 5% of corpus under private sector schemes E (Tier I & II), C (Tier I) & G (Tier I) and 10% of the corpus under private schemes C (Tier II) & G (Tier II).

The following instruments shall be classified as money market Instruments:

1. Liquid Fund Schemes of Mutual Funds
2. Certificate of Deposits
3. Commercial Papers
4. Short Term Fixed Deposits with Banks
5. Investment in Treasury Bills and Cash Management Bonds (CMB)

Liquid Fund Schemes of Mutual Funds:

As per IMA, every PFM shall invest their funds as soon as the same are made available to them by the trustee bank. LICPFM shall ensure that the funds received from NPS Trust and other sources are invested either on the same day or on the next working day when investment options are available. When the conditions prevailing in the Capital /Money Market are not conducive for investment in equity or long-term bonds, the funds available shall be parked temporarily in Liquid Fund Schemes as per the criteria given below. However, the funds can be allowed to be retained in the bank account till the next working day for deploying the same in securities where decision has already been taken.

Criteria for selection of Liquid Fund Schemes of Mutual Funds:

1. The Mutual Fund (SEBI regulated) shall have an Average total assets under management {AUM (Debt & Equity)} for the most recent six-month period of, at least Rs.5,000 Crore.
2. The Mutual Fund should have completed a minimum of 3 years of existence. Relaxation can be considered in exceptional cases by the IMC where the fund house is sponsored by a Nationalized Bank or PSU provided that the fund house has completed at least 1 year.
3. The Scheme selected for investment shall belong to Liquid Fund Category only. Under liquid fund category preference shall be given to Institutional (includes Super Institutional) Plan- Growth Option. Retail Plan- Growth Option may be opted only when the funds available for investment are less than the minimum investment amount required under Institutional Plan. Under no circumstances, investment shall be made under daily/ weekly dividend / dividend re- investment option plan etc.
4. No funds shall be invested in liquid fund schemes through New Fund Offer (NFO). All investments shall be done in existing schemes where sufficient data is available to study the portfolio and performance of the schemes.

5. The scheme selected for investment should be rated and should have earned the highest rating for e.g. "ICRA A1+ mfs" or "CRISIL AAAmfs" by at least two rating agencies namely ICRA/ CRISIL/ Fitch/ CARE.
6. The performance of the scheme shall be studied for a period of3 months, 6 months and 1 year.
7. The portfolio of the scheme shall also be studied, and due care shall be taken to ensure that appropriate mix of assets namely CD/ CPs/ Treasury Bills/ Cash and Cash Equivalents etc. are maintained. Schemes investing heavily on riskier assets shall be avoided.
8. The Risk grade classification of the scheme as per value research online shall be considered for short listing of the scheme. Caution shall be exercised with high risk grade schemes.
9. The average maturity of the fund portfolio should not be more than 60 days. SEBI has mandated 60 days average maturity for liquid fund schemes to be made effective from Sept. 2012.
10. The Fund selected for investment should have outperformed the benchmark index namely CRISIL Liquid Fund Index for at least two time periods namely 3 months, 6 months and 1 year as on the date of inclusion of the scheme in our eligible list.
11. A mandate shall be prepared taking into account the parameters such as the fund size of the scheme, return on the scheme for the time frame of 3 months, 6 months and 1 year, Avg. maturity of the portfolio, Performance over the CRISIL benchmark return for the time periods under study, No. of years in the business, risk grade of the fund as per Value Research etc. These funds shall be ranked based on the performance of during last 1 year. Due regard shall also be given to qualitative aspects such as the management of the Fund House, quality of services rendered by them to us, if already enrolled with us etc.
12. A performance list of all the empanelled mutual funds will be prepared on half yearly basis and reviewed. Currently, we have around 145 schemes under the liquid fund category for the Mutual Fund Industry as a whole.
13. There shall be an overall limit of Rs.50 Crore for investment per Fund House where AUM of the Fund House under liquid fund category is less than 3500 Crore and a limit of Rs.75 Crore where the AUM of the Fund House under liquid fund category is more than Rs. 3500 Crore. This limit is the overall limit per Fund House for all funds of LICPFM taken together viz. Central Govt. Scheme, State Govt. Scheme and NPS Lite Scheme. Also, under no circumstances, our investment in liquid fund schemes of any Fund House shall exceed 5% of the average AUM of liquid fund schemes of that Fund House, as on the date of preparing the ranking list.
14. The performance list as per 12 above shall be placed before the Internal Investment Management Committee for approval. The list will be reviewed on a half yearly basis, based on their performance.
15. LICPFM will open an account/folio with eligible Mutual Fund for investments as and when they approach us for the same or on our own as per our requirements.

Investment of funds in Liquid Fund Schemes on a day to day basis:

1. On a daily basis, while parking the funds with empanelled liquid fund schemes, we will assess the performance of top 5 mutual funds as determined in the latest half yearly assessment and place our funds accordingly. Preference to be given to schemes generating higher weekly returns. In case, there is a tie in returns thus generated by two or more MF schemes, one month, three months return shall be compared and so on and so forth up to 1-year return.
2. Generally, we carry out the transfer of funds to the Mutual Funds through RTGS mode. The cut off time for receipt of funds by the Mutual Fund is 2 pm to get the previous day's NAV for our purchases. In case of delayed receipt of payment after 2 pm, current day's NAV is made applicable. Many a times, the funds are received from CRA after 1.30 pm leaving us with less time to carry out RTGS transfer of funds before 2 pm. Our banker, Bank of India has laid down a cut of time of 12 noon for receipt of instructions by them for RTGS transfer of funds. During such times, we park the funds with such Mutual Funds having banking arrangement with Bank of India on the basis of performance within such Funds so that intra- bank transfer of funds can be affected by 2 pm and thereby avoid un-utilization of funds. In view of this facility offered by some of the Mutual Funds, there shall be an enhanced limit by 20% for such Mutual Funds. However, the enhanced limit shall be utilized only for delayed receipt of funds from CRA or other sources and not on normal course. In all such situation the reasons are to be recorded in writing. The excess investment shall be withdrawn and re invested in other MF schemes at the earliest possible opportunity so that the limits fixed for each Mutual Fund are adhered to and our funds starts enjoying better returns.

Redemption of funds from Liquid Fund Schemes:

1. **Circumstances under which funds are to be redeemed:**
   - **a)** When there is a fall in the credit rating of the Fund or any of the conditions listed above are breached.
   - **b)** When the limits for exposure given in these guidelines are exceeded or likely to be exceeded.
   - **c)** When opportunity for investment in equity or other long-term assets have come and thereby a need has arisen for redemption of funds from liquid Fund schemes.
   - **d)** When the yield offered by some other Fund listed in the mandate is better than the current Fund/Scheme.
   - **e)** When the fund has been deployed in low yielding investments due to late receipt of funds and there is a need for switching over to another Scheme giving better returns.
2. **Criteria for withdrawal of funds:**
   - a) The Liquid Fund Schemes where we currently have holding shall be ranked in descending order of returns generated by them.
   - b) Schemes giving lowest monthly returns shall be withdrawn first. If there is a tie in the returns generated by two schemes, we shall compare the 3 months returns of those schemes and schemes delivering the lowest return for 3 months period shall be withdrawn and so on & so forth

comparison of returns shall be made upto 1 year in case of tie between two or more schemes.

Churning of investments made in Liquid Fund schemes.

Churning of investments made in Liquid Fund Schemes is essential with a view to increase the overall return on our portfolio. Our investment in Liquid Fund Schemes shall be studied at least on a weekly basis.

Schemes may be listed out in the descending order of the returns generated by them (monthly return) and switching of investments from schemes giving lower return to higher return shall be carried out, having regard to the exposure limit.

Competent Authority for investments and Redemption of funds:

On a daily basis, decision for investment and redemption of funds from within the approved Mutual Fund schemes shall be unanimously taken by the Internal Investment Committee having regard to the guidelines set therein.

Exposure Norms

The exposure of LICPFM in all Money Market Mutual Fund schemes of a particular Fund House shall not exceed the limit fixed for each scheme i.e. 2.5% of the AUM of the Scheme for Govt. Sector NPS.

NPS for Private Sector- The exposure of LICPFM in all Money Market Mutual Fund schemes of a particular Fund House shall not exceed the limit fixed for each scheme i.e. 5% of the AUM of the Scheme. This condition may be relaxed till the AUM under a particular scheme does not exceed Rs.100 Cr.

Overall exposure to any Fund House under liquid fund category shall not exceed 5% of the AUM of liquid fund schemes managed by them or Rs.500 Cr. whichever is lower (excluding Private Sector NPS).

- In case of sudden flow of huge funds, the Internal Investment Committee shall exceed the prescribed limit for temporary parking of funds by a day or so after duly recording reasons for the same and reporting it to the NPS Trust to avoid idling of funds, in the best interest of the subscribers.

Certificate of Deposits (CDs):

When there is a liquidity crunch in the market thereby necessitating banks and select Financial Institutions to borrow money for short term at higher levels of interest, the surplus funds can be parked in Certificate of Deposits. This option can be considered even when there is high volatility in yield offered by Liquid Money Market funds of Mutual Funds.

Criteria for investments of Funds in Certificate of Deposits:

1. Banks and select Financial Institutions as permitted by RBI issuing CDs must have continuous profitability for immediately preceding three financial years.
2. Banks and Financial Institutions shall have a minimum net worth of not less than Rs. 200 Crore.
3. Bank and Financial Institutions shall have a minimum Capital to Risk Weighted Asset Ratio of 9% and 12% respectively.

4. Gross NPA ratio shall not be more than 2.50% and Net non-performing assets shall not be more than 2% of the net advances.
5. CD shall be rated by a reputed rating agency and the rating shall be P1+ by CRISIL or its equivalent by any other reputed credit rating agency (i.e. highest rating under short term category).
6. Purchase of CDs will be done in dematerialized form only.
7. The minimum yield on CD shall be:
   a) 1.00% above the Avg. performance of Liquid Fund schemes for the corresponding period and;
   b) 0.50% above the fixed deposit rates of corresponding tenure OR;
   c) 1% above the treasury bill yield of corresponding tenure OR;
   d) 1.50% above the CBLO/ REPO rate; as on the date of deal.
8. The outstanding/ residual tenure of CD issued by the Banks/ Financial Institutions shall be between 7 days to 1 year. However, the minimum term can be relaxed where the yield offered on investment is exceptionally high.
9. Valuation of the CD shall be done for the purpose of NAV calculation in accordance with the market practices and as per SEBI guidelines
10. The CD can be bought either from the Primary or Secondary market
11. Rollover of CD shall not be permitted. The Banks and Financial Institutions shall honour the CD on due date.

Exposure Limit for Investment in CDs:

1. Exposure of LICPFM to Certificate of Deposits of any Bank or select FIs shall be restricted to 2% of the AUM of the respective scheme
2. Overall exposure to any Bank or FIs under CD for all schemes of LICPFM put together shall be restricted to 10% of the Bank/FI net worth.

Competent Authority for taking investments decision

The Internal Investment Committee shall unanimously decide on the investment proposal having regard to the guidelines set therein.

Commercial Paper (CP):

When there is high volatility in yields offered by MFs and the market condition for CDs are not attractive, investment in CPs of financially sound companies can be considered, if the yield offered by them is attractive.

Criteria for investments of funds in Commercial Papers:

1. The tangible net worth of the Company issuing the CP shall not be less than Rs. 500 Crore as per the latest Balance Sheet.
2. The equity shares of the Company should be listed in NSE and/ or BSE.
3. The Company should have a good financial track record and should have earned a net profit after tax (PAT) continuously for the last three financial years.
4. The Interest cover ratio shall not be less than 2 times. Current ratio shall not be less than 2.
5. The CP shall be rated by at least two ~~a~~ reputed rating agencies and the rating shall be P1+ or its equivalent (i.e. highest rating under Short term Category). For investment in CP the lowest of the two rating shall be considered.

6. Long term rating of the Company shall not be less than AA by any reputed rating agency**.**
7. CP can either be issued against working capital limits or on a standalone basis. However, CP carved out of working capital limits of the Corporate shall be preferred over CP issued on a standalone basis.
8. Purchase of CP will be done in dematerialized form only.
9. CP can be purchased from either Primary market or Secondary Market.
10. The outstanding/ residual tenure of CP shall be between 1 month to 1 year.
11. The minimum yield on CP shall be:
    a) 2.00% above the Avg. performance of Liquid Fund schemes for the corresponding period and;
    b) 1% above the fixed deposit rates of corresponding tenure OR;
    c) 2% above the treasury bill yield of corresponding term OR;
    d) 2.50% above the CBLO/ REPO rate; as on the date of deal.
    e) In case of CP issued by NBFCs higher yield differential may be asked for, depending on the market conditions.
12. The decision to invest in CP of a particular Company shall be taken on a case to case basis after studying the Company in detail about its financials, promoters background, promoters holding, key ratios, nature of business etc. Due care to be taken to ensure that the Company has not defaulted in any of its debt obligations or the Company should not have been admitted in CDR (Corporate Debt Restructuring Cell).
13. Valuation of the CP shall be done for the purpose of NAV calculation in accordance with the market practices and as per SEBI guidelines.
14. Rollover of CP shall not be permitted. The issuer shall honour the redemption on due date.
15. It shall be ensured that the issuer shall appoint a Scheduled Bank as an Issuing and Paying Authority (IPA).

Exposure Limit for Investment in CPs:

a) Exposure to a particular Company under CP shall be restricted to 2% of the AUM of the respective Scheme.
b) Overall exposure to any Company under CP for all schemes put together shall be restricted to 5% of the net worth the Company.

Competent Authority for taking investments decision

The Internal Investment Committee shall unanimously decide on the investment proposal having regard to the guidelines set therein.

Short Term Fixed Deposits of Banks:

Investments in Short term Fixed Deposits can be considered only when the interest rates offered by the Banks are at least 1% more than the average returns on the Liquid Funds for comparable tenure. The term shall range from 7 days to 1 year depending upon the market conditions and our need for future investments. This option can be exercised when investments in other money market

instruments are not possible due to delayed receipts of funds, especially at the close of the financial year.

Criteria for investment in Short term Fixed Deposits upto1-year tenure:
The criteria approved by the Board for investment in long term fixed deposits shall be made applicable for investments in short term deposits with tenure of less than 1 year.

Investment in Treasury Bills and Cash Management Bonds (CMB) may be considered for investment under money market category.

Exposure and Prudential Norms:

Exposure in short term deposits of any scheduled commercial bank shall not exceed 2% of the total AUM of that Fund.

The above guidelines shall be reviewed periodically, at least on half - yearly basis.

[6] Guidelines for Investment in Alternate Asset Class

1. Investment in Asset Backed, Trust Structured and Miscellaneous Investments is allowed upto 5% of corpus (under scheme CG, SG, NPS Lite, Corp CG and APY) in the following cases:
    a) In Commercial mortgage Backed Securities or Residential mortgage backed Securities.
    b) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.
    c) Asset Backed Securities regulated by the Securities and Exchange Board of India.
    d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India. Investment under this category shall only be in listed instruments or listed issues that are proposed to be listed. Investment under the above said category shall be made only in such securities which have minimum AA or equivalent rating from at least two rating agencies registered by SEBI and for clause (b) and (d) the rating shall relate to the rating of the sponsor entity floating the trust. If the securities/entities have been rated by more than two rating agencies, the two lowest of the rating shall be considered.

2. A separate asset class – A (for Alternate Investments) was created for Private sector NPS subscribers in addition to E, C and G, where investment upto 5% can be made. Investment in Asset Class A consists of the following:
    a) Commercial mortgage Backed Securities or Residential mortgage backed Securities.
    b) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.
    c) Asset Backed Securities regulated by the Securities and Exchange Board of India.
    d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.
    e) Alternate Investment Fund (AIF Category I & II) as defined under the SEBI (Alternate Investment Fund) regulations 2012.
    f) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI guidelines.
3. Investment under this category shall only be in listed instruments or listed issues that are proposed to be listed except in case of category (a) and (b) above.
4. Investment under this category (from (a) to (f) above) shall be made only in such securities which have minimum AA or equivalent rating from at least two rating agencies registered by SEBI under SEBI (Credit Rating Agency) Regulations 1999 and if the securities/entities have been rated by more than two rating agencies, the lowest two of the rating shall be considered.
5. In case of sub-category (a), (b) and (e) rating from only one rating agency will be sufficient. However in case of govt. owned AIFs under sub-category (e), ratings will not be required.

6. The investment in category (e) (i.e. AIF – Cat I & II) is allowed subject to satisfaction of the following conditions:
   a) The permitted funds under category I are Infrastructure Funds, SME Funds, Venture Capital Funds and social venture capital funds as detailed in Alternative Investment Funds Regulations 2012 by SEBI.
   b) For AIF-category II as per Alternative Investment Funds Regulations 2012 by SEBI, at least 51% of other funds of such AIF shall be invested in either infrastructure entities or SMEs or venture capital or social welfare entities.
   c) Pension Funds shall invest only in AIFs whose corpus is equal to or more than Rs. 100 cr.
   d) The exposure to a single AIF shall not exceed 10% of the AIF size.
   e) Pension Funds to ensure that funds are not invested in securities of the companies or Funds incorporated and operated outside India in violation of section 25 of PFRDA Act. 2013.
   f) The sponsors to the AIF should not be promoter in Pension fund or the promoter group of the pension fund.
   g) The AIF shall not be managed by investment manager who is directly controlled or managed by Pension fund or promoter group of pension fund.

The investment in category (f) of Alternate Asset Class is allowed provided that :

a) In case of initial offering of the bonds, investment shall be made only in such Tier-I bonds which are proposed to be listed.
b) Investment shall be made in such bonds of scheduled commercial banks from the secondary market only if such Tier I bonds are listed.
c) Total portfolio invested in this sub-category, at any time, can be upto a maximum of 5% of the total portfolio i.e. G+C+E+A for both Tier I & II.
d) No Investment in this sub-category in initial offering shall exceed 20% of the initial offering. Further at any point of time, the aggregate value of Tier I Bonds of a particular bank held by the fund shall not exceed more than 20% of such bonds issued by that Bank.
e) The rating of the instrument shall be AA or above. The rating has to be from at least two rating agencies.
f) All such investment invariably is to be reported to the Investment Committee following to such investment.
g) The investment under such bonds can be made at a rate over and above of 100 bps of Government Securities rate of the same tenure
h) The investments under this sub-category will be as per modified guidelines approved by Board for Tier-I bonds in its meeting on 10.08.2017, excluding specific scheme limit mentioned therein.

7. This asset class is available only under Tier I for private sector subscribers.

These guidelines shall be reviewed periodically, at least on half- yearly basis.

[7] Policy for Churning of Debt Securities-(Debentures & Bonds) and Strategies for Exit

The Investment Guidelines is embodied in the Investment Management Agreement (IMA) provides for churning of securities.

If any of the instruments the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers.

Though, Corporate Bonds/Debentures investments relating to pensions funds are generally viewed as long-term investments, it is essential to manage the portfolio risk in a dynamic manner to keep pace with the changing Interest rates pursuant to the policy of Government and Reserve Bank of India from time to time. This can be achieved only if the fund manager exits the investments from the portfolio at the most appropriate time and churns his investment regularly in order to maximize his yield.

While considering the exit option, especially in case of debt instruments the fund manager shall bear in mind the following:

a) The Liquidity for debt instrument as compared to equity is usually very thin, since most instruments are rarely traded in the stock exchanges.
b) When a company starts losing its Net worth, unless the fund manager takes the right action at the appropriate time, it may be too late for him to get back the money invested by him.
c) The valuation of debt instruments is done on MTM basis as per Regulatory requirements. This means, the subscribers are being allowed to exit at the NAV calculated on the basis of market value. If the fund manager fails to realize the capital appreciation on the debt instruments at the right time, he will get back only the face value at the time of maturity of the instrument.
d) The value of a debt instrument usually fluctuates up and down depending upon the external factors like global interest rates, monetary and fiscal measures taken by the Government of India/RBI and socio - economic factors.
e) A prudent fund manager will always exit the instrument when the valuation is high and enter again when the valuation is low and favourable.
f) Some of the instruments may provide for put or call option or both. These options virtually restrict the tenor of the instruments as either of the two i.e. the buyer or seller will always be exercising the option, in which case, such instruments will not have life beyond this date. A prudent fund manager will avail the put option as and when due and come out of the instrument, if it is in the larger interest of the fund.

Exit of an investment under debt category may become necessary under the following circumstances:

1. To comply with the regulatory requirement and exposure norms.
2. Sometimes it may become necessary for PFMs to compulsorily come out of the investment even at a loss to protect the Fund from further losses on the investment.
3. It may also become necessary to exit from investment to realize the capital appreciation on the investment.
4. Re-Balancing the portfolio may also be required to match the assets of the fund with their liabilities. At times, the fund manager may even have to liquidate some of his short-term investments and substitute it with long-term investments or vice a versa.

Under the following circumstances /situations, LICPFM shall put in their best efforts to exit the respective investments from the portfolio even if such a transaction results into loss:

a) As per GOI guidelines contained in IMA, the option of exit can be exercised by PFM, if the rating of any investment falls below Investment Grade i.e. (-BBB).
b) When the company gets involved in criminal, legal, regulatory or accounting issues, which are likely to create a dent in the market valuation of its shares and thereby enhancing its credit risk.
c) When the norm for investment prescribed for a company or a promoter group/industry group has been breached.
d) When the company has applied to CDR or BIFR or any other forum for debt restructuring or for compromising its dues.
e) When the Net worth of the company is likely to fall below zero due to adverse financials.
f) When there is a change in the promoter or management of the company, which is not conducive to the growth of the company.
g) When the company defaults regularly in payment of interest and installment dues.
h) In case of secured instruments, when there is a significant adverse change in the crucial ratios like Debt Equity, Interest Coverage Ratio etc.
i) In case of secured debentures/ bonds, when the company fails to create the security within the prescribed/extended time limit as per Information Memorandum (IM).

In all the situations narrated above, the decision to exit shall be taken by the CEO with the unanimous recommendations of Internal Investment Committee duly recording the reasons for the exit in writing. The matter shall thereafter be placed before the Investment Management Committee of the Board for their information, in the immediately succeeding meeting.

Under the following circumstances / situations, LICPFM will consider exiting the relevant investment with the prior approval of Investment Management Committee where disposal of the securities may result into losses:

a) When the credit rating of an investment falls down by at least by 3 notches in case of secured investments and 2 notches in case of unsecured investments as compared to the one which was prevailing at the time of investment

   In case, the investment is issued by a Nationalized Bank or a PSU or a Corporate with the guarantee/ letter of comfort by Govt. of India/ a Nationalized Bank, exit option may be considered only when the rating of the investment goes below the investible grade (BBB-). However, the fund manager can consider disposing off these investments at any time, for realizing capital appreciation.

b) When the financials of the company have been consistently falling and it may become essential for the fund to come out of the investment, in the larger interest of the subscribers.
c) When there is a put option for an investment and the IIC considers coming out of the investment as the best option taking into account the financials of the company, prevailing interest rates for comparable securities and other relevant aspects. However, the fund manager can consider this option for realizing the capital appreciation.
d) Exit out of an investment can be considered for trimming and re-balancing the portfolio and to match the assets of fund with its liabilities.

Under the following circumstances/situations, LICPFM will consider exiting the relevant investment with the unanimous approval of Internal Investment Management Committee and report the same to the Investment Management Committee in its succeeding meeting:

a) Sale of investments from one scheme to another scheme with the same PFM if the following conditions are satisfied:
   1. Such transfers are made at the prevailing market price for quoted Securities on spot basis (Explanation: spot basis shall have the same meaning as specified by the Stock Exchange for spot transactions).
   2. The Securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.

b) Exit option can also be considered on regular basis for realizing the capital appreciation when the conditions prevailing in the capital market in the opinion of IMC are the best for valuation of debt instruments. Realizing gains on regular basis and waiting for appropriate time to re-enter at lower level will enhance the returns to the subscribers. Unlike equity instruments, it is only the par value which will be payable at the time of maturity in case of debt instruments. The fund manager may therefore dispose off the investment at

the right time to book profits and may re-enter the same at lower level when the conditions are favourable and the valuations are low.

Methodology for disposal of Debt Instruments:

When a fund manager decides to dispose of a particular security under the circumstances narrated above the following procedure shall be followed:

a) Offer to sell securities shall be given to at least 3 brokers / arrangers / counterparties giving full details of securities.
b) While concluding the deal, the fund manager shall study the market levels for comparable traded securities and also be guided with the CRISIL aggregated matrix, FIMMDA debt market benchmark rates etc used for valuation purpose. In case of thinly traded securities, lower rated securities and junk bonds appropriate margin may be allowed over and above the benchmark spread in order to dispose off the securities at the earliest by recording the reasons thereof by the IIC.
c) Based upon the quotations received from the counterparties, the Internal Investment Committee shall unanimously decide on the sale of security. Deal shall be concluded with the counterparty offering the highest price.
d) All secondary market transactions/deals shall be routed either through the NSCCL or ICCL platform of NSE and BSE respectively to avoid counterparty/settlement risk and to also comply with the guidelines given NPS Trust in this regard.
e) These guidelines shall be reviewed periodically, at least on half - yearly basis.

[8]Policy for Churning of Equity Shares and Strategies for Exit

The Investment Guidelines which is embodied in the Investment Management Agreement (IMA) provides for churning of securities.

Though, equity investments relating to pensions funds are generally viewed as long-term investments, it is essential to manage the portfolio risk in a dynamic manner to keep pace with the changing market conditions and give optimum returns to the subscribers of the pension fund. This can be achieved only if the fund manager exits the portfolio at the most appropriate time and churns his investment regularly in order to maximize his yield.

Exit of an investment may become necessary under three circumstances:

a) A situation may arise warranting the fund manager compulsorily to come out of an investment, even at a loss.
b) The necessity for the exit may also arise when the overall limits prescribed by IMA or Internal Investment Policy is breached. This may happen in case of an individual company or for the industry group or for the promoter group.
c) Exit option may also be considered by the PFM on voluntary basis for profit booking, trimming the portfolio and to weed out unwanted stocks.

The following are the circumstances / situations under which, LICPFM shall compulsorily exit the respective investment from the portfolio:

1. As per GOI guidelines, PFM can invest only in shares of companies on which derivatives are available either in the BSE/NSE. Exit option shall be considered in respect of an existing investment when this condition is breached at any point of time.

2. Whenever the exposure in a company exceeds the permissible limits due to fluctuation in market value or otherwise, exit option shall be considered.

3. When the company gets involved in criminal, legal, regulatory or accounting issues, which are likely to create a dent in the market valuation of its shares.

4. When the company has come out with a proposal for delisting its shares from BSE and NSE. As per SEBI guidelines delisting of shares are to be done through the Reverse Book Building Mechanism through the stock exchanges or Tender Route. In the Reverse Book Building mechanism, the company specifies a floor price at which it will buyback its shares and the period of time for which it will keep the offer open. Shareholders are then invited to submit their shares for repurchase, specifying the price, which should be above or equal to the floor price. In case of delisting as per Tender Route, action is initiated by Fund Manager either based on the Public announcement made in the newspapers or based on the letter received from SHCIL/other Custodian. As delisting of shares of a company arrest the liquidity of the shares, the fund manager should explore the exit option.

5. When the published financials of a company have revealed a consistent decline in the revenue and profitability and as a result, the market valuation of the shares is likely to suffer in the long run. To exit the stock, a stop loss trigger mechanism as per below is recommended:
    a) The 1st stop loss limit of 20%, calculated based on the average cost of holding and closing market price of a day will be considered. When this limit is breached, the fund manager shall compare the performance of the stock with the performance of the corresponding Sectoral Indices (Performance of the corresponding Sectoral index is to be calculated as a difference between its 52-week high level and its current closing level expressed as a percentage to its 52-week high level). If the fall in the value of the stock is at least 20% more than the fall in the value of corresponding Sectoral index performance, the fund manager shall initiate disposal action. At this level the Internal Investment Committee (IIC) shall consider a disposal of at least 1/3rd of its holding.

    b) The second stop loss will be triggered when the fall in the value of the stock breaches 30% limit. At this point of time, the IIC shall consider disposal off further 1/3rd of its holding, provided that the fall in the value of the stock is at least 20% more than the fall in the value of the corresponding sectoral index performance.

    c) The third and final stop loss will be triggered when the fall in the value of stock breaches 50% limit as compared to its average book cost. At this point of time, the IIC shall consider disposal of the balance 1/3rd holding and thus fully come out of the respective stock provided that the fall in the value of the stock is at least 20% more than the fall in the value of corresponding Sectoral Index performance.

It may be noted that in all the above three circumstances, disposal action is initiated for a stock only if the fall in its value is at least more than 20% the fall in the value of the corresponding Sectoral Index.

6. When the market valuation of the shares of a company is likely to register a steep fall due to :
    a) The technology used by the company is becoming outdated.
    b) The products of the company becoming obsolete in the market due to environmental and other factors.
    c) There is a change in the Government policy on exports/imports, taxation etc.
    d) The business of a company is declared as illegal/unlawful.

7. Where the debt instruments issued by the company have been rated below investible grade(BBB-) by at least by one reputed credit rating agency and the same is likely to have severe impact on the market valuation of the company.

8. When the company applies to CDR or any other forum for debt restructuring and if it is not likely to come out of the financial difficulties in the near future.

   LICPFM shall consider exit option under all the above mentioned circumstances. The decision to exit shall be taken by the CEO with the unanimous approval of Internal Investment Committee by specifically recording the reasons in writing for arriving at such a conclusion. The company shall also report the matter to the Investment Management Committee of the Board in the immediately succeeding meeting.

   Under the following circumstances, LICPFM may consider exiting the respective investment from the portfolio with the unanimous approval of Internal Investment Committee and thereafter report the same to the Investment Management Committee.

   a) Whenever the fund has received a buyback offer from the company. The companies usually buy back its shares through open market operation or tender method. Open market purchases are made in secondary market through stock exchanges. This can be done over a given period of time and up to a maximum price. Buyback offer can also be through tender method, wherein, the company specifies the fixed price at which it will buy back the shares, the number of shares it intends to purchase and the period of time for which the offer will remain open. In this mechanism also PFM can dispose off shares. In both the cases, Shareholders are invited to tender their shares through the buy Back Offer. On receipt of such offer, the Internal Investment Committee will review the respective stocks with reference to its fundamentals and price pattern. If the price offered is attractive in relation to its market price and is more than our average book cost, the Internal Investment Committee may decide to dispose off the whole or part of its holding. On the other hand, if the price offered is below our book cost and the company's market valuation has been falling down consistently, the Internal Investment Committee may decide to dispose off the whole or any part of its holding even at a loss. In such circumstances, the reasons for taking such decision shall be recorded clearly in writing.
   b) The promoter or any other acquirer of a company may come out with an open offer specifying the offer price, time limit and the quantum of shares to be purchased. If the price offered for purchases is as per the price determination formula of SEBI and it is more than our average book cost, the Internal Investment Committee may decide to dispose the whole or any part of its holding. On the other hand, if the price offered is below our book cost and the company's market valuation has been falling down consistently, the Internal Investment Committee may decide to dispose off

the whole or any part of its holding even at a loss. In such circumstances, the reasons for taking decision shall be recorded clearly in writing.

c) Trimming the portfolio may also be considered to weed out the non-performing or thinly traded stocks. These stocks shall be identified based on the performance of the stocks in relation to diversified index/sectoral index. Prior approval of the Investment Management Committee shall be obtained if the disposal will result in a loss to the fund.

d) The Internal Investment Committee, for regular profit booking, can also consider sale of equity shares. This exercise should be undertaken on a regular basis to ensure that higher returns do not remain only on paper to be wiped off by subsequent fall in indices. Realizing gains on regular basis and waiting for opportune time to re-enter this stock at lower levels will enhance the returns to the subscribers. LIC PFM will :

   i. Review the performance of each sector on regular basis and identify the sector/s, which are likely to stagnate or under perform in future. The fund will also identify those stocks which had under-performed the sector and exit the same, provided the disposal will result in a profit as compared to the average book-cost and replace them with best performing stocks of some other best performing sector at the most appropriate time.

   ii. A stock, which has outperformed the benchmark index /sectoral index, may also be selected for profit booking when the level of appreciation reaches 50% as compared to the average book cost. The fund manager may consider disposing off around 25% of its holding initially and consider further disposal of 25% when the appreciation crosses 75% on the basis of average book cost and consider disposal of further 25% when the appreciation reaches 100% on the basis of average book cost. Under all such circumstances, he may also consider re-entering the stock at appropriate level on a future date in accordance with the policy for investment approved by the board.

e) Wherever the investment in a particular Industry Group/ Promoter Group has crossed the limit prescribed by the IMA/Internal Investment Policy, the fund can consider reducing its exposure by disposing of appropriate number of shares relating to that industry group/ promoter group. While considering such disposal, the guidelines stated at clause (i) & (ii) of (d) above shall be followed to the extent possible to ensure that the fund does not suffer a loss on such disposal.

General policy for disposal of Equity Holdings:

1. Except when the stocks are offered for sale in response a delisting /buyback/open offer all other disposals are to be made through recognized stock exchanges only. No disposal shall be made through private offer or block or bulk deals.

2. The turnover ratio i.e. the total value of the securities traded in the year (all purchases and sales) shall not exceed two times the average value of the portfolio at the beginning of the year and the end of the year. This shall be strictly complied with to meet the requirements of the IMA.

3. Sale of investments from one scheme to another scheme with the same PFM shall be allowed only if :
   a. Such transfers are made at the prevailing market price for quoted securities on spot basis (Explanation: spot basis shall have the same meaning as specified by the Stock Exchange for spot transactions).
   b. The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

4. No part of the investments of a fund shall be purchased from /disposed off to the sponsor or any of its subsidiaries or associates except with the written approval of NPS Trust/PFRDA.

These guidelines shall be reviewed periodically, at least on half- yearly basis**.**

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