

Investment Valuation Policy & Procedure

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1. 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.

SEBI vide its Gazette Notification No. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 has introduced Principles of Fair Valuation in Eighth Schedule of the SEBI (Mutual Funds) Regulations, 1996 by amending Investment Valuation norms. SEBI has directed that a Mutual Fund should value its investments in a manner so as to reflect realizable value of the securities / assets and to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

Further, AMFI has issued best practice circular no.135/BP/29/2012-13 dated May 15, 2012 on valuation methodology for valuing Debt and Money Market instruments, providing guiding principle for valuation.

Based on these guidelines, Religare Invesco Asset Management Company Private Limited (“AMC”) has framed a policy on valuation of securities and assets held by Religare Invesco Mutual Fund to ensure fair valuation of all securities and assets as per appended table in **Annexure I** hereunder.

2. Objectives

The objective of the Valuation Policy and Procedure (“Policy”) adopted by the AMC for valuation of securities and assets held by Religare Invesco Mutual Fund is to:

- prescribe the methodology and the manner in which securities and assets held by the schemes of Religare Invesco Mutual Fund should be valued;
- ensure that securities / assets are valued accurately and consistently as per approved methodology;
- lay down the process to deal with exceptional circumstances;
- address the instances of conflict of interest, if any;
- set a process to detect and prevent incorrect valuation..

Thus, the primary objective is to value investments in a manner so as to reflect realizable value of the securities / assets and to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of Religare Invesco Mutual Fund in all schemes.

3. Valuation Methodologies

- Describe the methodologies for valuing each and every type of securities and assets held by the various schemes of Religare Invesco Mutual Fund as per appended table in **Annexure I** hereunder.
- Investment in any new type of security/asset shall be made only after establishment of the valuation methodology for such security/asset with the approval of the Board of the AMC.

4. Exceptional Events

Following are the illustrative types of events which could be classified as exceptional events where current market information may not be available / reliable / sufficient for valuation of securities and assets held by Religare Invesco Mutual Fund:

- Major policy announcements by Reserve Bank of India, the Government or SEBI including the monetary policy, budget or other regulatory related events;

- Natural disasters or public disturbances that force the markets to close unexpectedly;
- Significant volatility in the capital / currency / debt markets;
- Liquidity stress in the system;
- War;
- Other external factors which may be defined by the Valuation Committee from time to time.

Considering the exceptional nature of events, it is not possible to cover all the potential exceptional events above and to define a standard methodology to be adopted for fair valuation of securities for such events. The Board of AMC and Trustee authorized the Valuation Committee to determine the exceptional events and the process to deal with the same, under guidance of Board of AMC and Trustee, wherever required / possible and get the same ratified subsequently.

5. Deviation From the policy, if any

AMC will strictly adhere to the valuation norms stated hereunder, however, the Valuation Committee is authorized to approve deviation from the policy, if any, only for the purpose of ensuring true, fair & correct valuation of referred security. Such deviation shall be reported to the Board of AMC & Trustees and disclosed to Investors appropriately on the AMC’s website (www.religaireinvesco.com) and / or any other means of communication as may be decided by the AMC.

6. Conflict of interest

In case, any instance of conflict of interest arises; the same shall be referred to the Valuation Committee. The Valuation Committee shall review the same and address the issue of conflict of interest in such manner so as to ensure fair treatment to all investors in the schemes of Religare Invesco Mutual Fund.

7. Record maintenance

The rationale for valuation including inter scheme transfers shall be maintained and preserved to enable audit trail for a period as per regulation 50 of SEBI (Mutual Funds) Regulations, 1996 i.e. currently eight years.

8. Detection & prevention of incorrect valuation

The Internal Auditor will review the valuation policy and process of valuation of securities in order to detect & prevent incorrect valuation periodically.

9. Periodic review

- Valuation policy shall be updated upon changes in the Regulations/Practice and shall be approved by Board of AMC. The Board of Trustee shall be updated on changes to be made to valuation policy.
- The policy shall be reviewed by the Valuation Committee and the Internal Auditor at periodic intervals and shall be reported to the Board of AMC & Trustee.
- The Valuation Policy and Procedures shall be reviewed by the Statutory Auditor.

10. Disclosure

The detailed Valuation policy shall be disclosed in Statement of Additional Information and shall be put up on website of AMC to ensure transparency of valuation norms to be adopted by AMC.

Annexure I

Valuation Norms for Securities / Assets

A. Equity and Equity Related Securities

<p>1. Traded: Equity and Equity Related Securities (Including Normal Preference shares and Cumulative Convertible Preference Share (CCPS), Partly Paid-up Equity Shares, Rights)</p>	<p>Traded Securities are to be valued at the last quoted closing price on the selected Stock Exchange. Where security is not traded on the selected stock exchange, the last quoted closing price of another Stock Exchange may be used. If a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used, provided such date is not more than thirty days prior to valuation date. In case of preference share and CCPS, in case the same are not traded for more than 30 days, the same shall be valued in good faith by AMC depending on the type of preference share and appropriate Illiquidity discount can be given.</p> <p>The selected Stock exchange would be National Stock Exchange (NSE). If a security is not traded on NSE, the price on Bombay Stock Exchange (BSE) would be considered.</p> <p>If the security is not traded either on NSE and BSE, the earliest previous day's close price shall be used, provided such day is not more than thirty days prior to the valuation date.</p>
<p>2. Non-traded / Thinly traded Equity and Equity Related Securities (Including Normal Preference shares and Cumulative Convertible Preference Share (CCPS), Partly Paid-up Equity Shares)</p>	<p>Thinly traded equity/equity related security is defined as, when trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lacs and the total volume is less than 50,000 shares.</p> <p>Securities shall be valued in 'good faith' on the basis of the valuation procedure laid down by the Valuation Committee.</p> <p>In case security is not traded for 30 days the same shall be valued as below:</p> <ol style="list-style-type: none"> Based on the latest available Balance Sheet, net worth shall be calculated as follows: Net Worth per share = [share capital+ reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares. Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose. The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10% for ill-liquidity so as to arrive at the fair value per share. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning. 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. 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.
<p>3. Unlisted shares / preference shares/ warrants (excluding instruments issued by listed Companies and due for listing)</p>	<p>Securities shall be valued in 'good faith' on the basis of the valuation procedure laid down by Valuation Committee. These guidelines are similar to the guidelines applicable for non-traded / thinly traded securities mentioned above only except the following:</p> <p>Computation of Net worth per share as lower of (a) and (b):</p> <ol style="list-style-type: none"> <ol style="list-style-type: none"> 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). <ol style="list-style-type: none"> 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}). <p>If the net worth of the company is negative, the share should be marked down to Zero.</p>

		<p>Computation of fair value per share to be considered for valuation at 15 % discount for illiquidity.</p> $[(\text{Net worth per share} + \text{Capitalized value of EPS}) / 2] * 0.85$ <p>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.</p> <p>At the discretion of the AMC and with the approval of the trustees, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.</p>
4.	Right entitlements	<p>Right entitlements will be valued as difference between the value of closing price of the underlying equity share and the rights offer price.</p> <p>i) In case the Rights Offer Price is greater than the ex-rights price, the value of the rights share is to be taken as zero.</p> <p>ii) If the rights are traded separately then the traded price is the valuation price</p> <p>iii) If the rights are derived out of non traded shares or unlisted shares then the rights would be valued at zero market price</p> <p>However suitable illiquidity discount will be applied on Right entitlement from Ex-date till the date of listing/traded price is available</p>
5.	Equity / Index Options & Equity / Index Futures Derivatives	The Exchanges give daily settlement prices in respect of all derivatives positions. These settlements prices shall be used for the purpose of valuation.
6.	ADR/GDR/Offshore Securities	<ul style="list-style-type: none"> • If the security is listed in a time zone ahead of ours than the same day price as provided by Reuters would be used for valuation. • If the security is listed in a time zone behind ours than the previous day's price would be used for valuation. • In case the security is not traded on the above mentioned days, price of previous day should be used provided the price is not prior than 30 days. • In case the security is not traded for more than 30 days, AMC shall provide the fair price for the same.
7.	Application Money for Primary Market Issue:	Application money should be valued at cost up to 60 days from the closure of the issue and/or allotment. If the security is not allotted within 60 days from the closure of the issue or listed within 60 days from the date of allotment, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded.
8.	Shares on De-merger and Other Corporate Action Events	<p>Both the shares are traded immediately on de-merger: In this case both the shares are valued at respective traded prices.</p> <p>Shares of only one company continued to be traded on de-merger: In such a scenario, the shares of Non Traded/Unlisted would be fairly valued in good faith by AMC on case to case basis. Traded share shall be valued at traded price.</p> <p>Both the shares are not traded on de-merger: In such a scenario, the shares of both the companies would be fairly valued in good faith by AMC on case to case basis.</p> <p>In case of any other type of capital corporate action event, the same shall be valued at fair price on case to case basis.</p>

B. Debt and Money Market Securities

1.	For securities with residual maturity > 60 days: (including, Government Securities/ State Government Securities (SDL)/ T Bills/ Cash Management Bills)	<p>Debt securities, including Bills rediscounting will be valued at average of the prices provided by AMFI designated agencies viz. presently CRISIL & ICRA.</p> <p>If security level price for New security purchased (primary allotment or secondary market) is not available from AMFI designated agencies viz. presently CRISIL & ICRA, the valuation of such securities shall be done at the weighted average clean price / weighted average yield of all the purchases made by Religare Invesco Mutual Fund on the day of purchase.</p> <p>The prices received from CRISIL and ICRA shall be ignored during the notice period of a security which has either a Put or Call option. The notice period will begin from the date of exercise of the option (notice date) till the put or call date and the price will be amortized from the exercise date till the date of put or call.</p> <p>In abnormal situations, market disruptions etc. where current market information may not be obtainable and in case CRISIL and ICRA are unable to provide a security level price for any security on particular day(s), the fund manager(s) will, with the approval of Valuation Committee, value the securities appropriately to ensure true and fair valuation.</p>
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<p>2. For securities having residual maturity ≤ 60 days (including Government Securities/ State Government Securities (SDL)/ T Bills/ Cash Management Bills)</p>	<p>Debt Securities, including Bills rediscounting will be amortized on straight line basis to maturity from cost or last valuation price, whichever is more recent.</p> <p>The amortized price can be used for valuation, as long as their valuation remains within $\pm 0.10\%$ band of the reference price (i.e. the price derived from the reference yield provided by agency(ies) appointed by AMFI). In case the variance falls outside the above band, the valuation shall be adjusted in order to bring it within $\pm 0.10\%$ band.</p> <p>At the time of first purchase, the spread between the purchase yield and the benchmark yield, as provided by the AMFI designated agency(ies) will be fixed. The addition of this spread to the benchmark yield will provide the reference yield. This spread will remain fixed through the life of the instrument & will be changed only after providing the justification for the change for example, in case of subsequent trade in the same security by the AMC, such spread shall be adopted as long as the trade is of market lot (Rs. 5 crores and above).</p> <p>In case of subsequent trades in the same security by the AMC, valuation will reflect the amortisation using the weighted average traded price provided the AMC trade is of market lot (i.e. Rs. 5 crores and above) and such amortized price arrived is in line with $\pm 0.10\%$ band of the reference price as defined above.</p> <p>The spread can also be changed after prior approval of the Chief Executive Officer (CEO), in case of change in the credit rating or credit profile of the issuer which would require a re-evaluation to reflect appropriate spread.</p>
<p>3. Inter-scheme Transfer (IST)</p>	<p>IST would be at the price derived from the weighted average yield / price of traded securities at the time of the IST:</p> <p>For instruments maturing above 1 year:</p> <p>The weighted average yield / price of traded securities (excluding inter scheme transfers of others) will be considered if there are at least two trades aggregating to Rs. 25 crores or more for same or similar security on a public platform*; or</p> <p>Trades of the AMC of minimum Rs. 5 crores face value.</p> <p>For instruments maturing below 1 year:</p> <p>The weighted average yield / price of traded securities (excluding inter scheme transfers of others) will be taken if there are at least three trades, with each trade being of a minimum Rs. 25 crores face value, aggregating to Rs. 100 crores or more for same or similar security on a public platform*; or Trades of the AMC of minimum Rs. 5 crores face value.</p> <p>Note: Outlier trades, if any, will be ignored after recording of suitable justification.</p> <p>Criteria for identifying similar securities:</p> <p>Similar security should be identified by the following waterfall logic, provided that the maturity date of the security is within the same calendar quarter:</p> <p>i. Same issuer and same type of asset, with maturity date within ± 15 working days of maturity date of security shall be considered first. If no such instance is available, then Step ii to be followed:</p> <p>Example: For Punjab National Bank CD maturing on March 6, 2013, all secondary market trades of Punjab National Bank CDs maturing within February 13, 2013 to March 28, 2013 will be considered first.</p> <p>ii. Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc.) and similar long term credit rating**, with maturity date within ± 15 working days of maturity date of security will be considered.</p> <p>Example: For Punjab National Bank CD maturing on March 6, 2013, all secondary market trades of similar public sector bank CDs maturing within February 13, 2013 to March 28, 2013 will be considered.</p> <p>** In case of banks CDs -</p> <ul style="list-style-type: none"> • Issuer of the Securities having long term rating of AAA and/or AA+ and short term rating of A1+ will be considered as comparable. • Issuer of the Securities having long term rating of AA and/or AA- and short term rating of A1+ will be considered as comparable. • Issuer of the Securities having long term rating of A+ and below and short term rating of A1+ will be considered as comparable. <p>For the purpose of determining similar security, the data available on 'Bloomberg' will be used as a source for ratings.</p> <p>Further, the classification of the Issuer for similar securities will be into three sectors viz. Banking, Manufacturing and Non-Banking Finance Companies (NBFC). Bank CDs will be compared against bank CDs (within bank CDs, PSU Bank CDs will be compared to PSU Bank CDs and Private / Foreign bank CDs will be compared to Private / Foreign bank CDs), Manufacturing papers will be compared against manufacturing papers and NBFC will be compared against NBFC.</p> <p>Further, for the purpose of identification of similar securities, in case of security embedded with 'Put and Call' option, the maturity date of the security will be considered as of 'put/call day', whereas in case of security embedded with 'Put' or 'Call' option, the final maturity date of the security will be considered.</p> <p>Note:</p> <p>Outlier trades, if any, will be ignored after recording suitable justification.</p> <p>If due to the non-availability of traded securities, at the time of the IST, the above mentioned criteria cannot be fulfilled, the IST would be done at the previous day's price/yield.</p>

4. Interest Rate Swap (IRS)	<p>In case of IRS contracts, counter parties agree to exchange stream of interest payments on notional value at an agreed date. One party agrees to pay floating and another agrees to pay fixed rate of interest. Floating rate is decided on the basis of a benchmark such as NSE MIBOR/3 Day MIBOR.</p> <p>Valuation of IRS involves valuation of streams of interest payments. The underlying security is valued in the same manner as was valued before entering into IRS contract.</p> <p>Value of IRS contract is the present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity is the interest accrued till the valuation date plus the interest on remaining period at reversal rate.</p> <p>Reversal rate for the day is available on Reuters/Bloomberg for different maturities. The relevant rate is taken on the basis of maturity of the contract. However, if the maturity date falls between the two years, the reversal rate is arrived by interpolation on valuation date.</p>
5. Interest Rate Futures	<p>The Exchanges give daily settlement prices in respect of all derivatives positions. These settlement prices shall be used for the purpose of valuation.</p>
6. Bank Fixed Deposits, CBLO / Reverse Repo	<p>Bank Fixed Deposits, CBLO / Reverse Repo securities will be valued at cost plus accruals/ amortization.</p>
7. Money Market Instruments, Zero Coupon Debt and Government Securities with residual maturity > 60 days over weekends and holidays	<p>To avoid distortion in prices over weekends and holidays, the prices (over weekends and holidays) for all Money Market Instruments, Zero Coupon Debt and Government Securities with residual maturity > 60 days will be amortised on a straight line basis adjusted for the settlement date.</p>

Notes:

- 1) *Public Platform refers to:
F-Trac/ NSE WDM/ BSE WDM/CBRICS ON LINE/ICMD: For corporate bonds / debentures, commercial papers, certificate of deposits and securitized debt. (Applicable only for pricing of IST and not for valuation).
Order of preference for the public platforms for consideration would be as follows:
 - i. F-Trac (Applicable only for pricing of IST and not for valuation) / CBRICS ON LINE
 - ii. NSE WDM
 - iii. BSE WDM
- 2) Weighted average yield shall be rounded up to two digits after decimal point.
- 4) Weighted average yield will be calculated for non-coupon bearing securities. Weighted average price will be calculated for coupon bearing securities.

C. Other Securities

1. Convertible Debentures	<p>The non-convertible and convertible components of convertible debentures and bonds shall be valued separately. The nonconvertible component would be valued on the same basis as would be applicable to a debt instrument. The convertible component shall 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 later instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding conversion. While valuing such instruments, the fact whether the conversion is optional will also be factored in.</p>
2. Valuation of Mutual Fund Unit (MFU)/ Valuation of Exchange Traded Fund (ETF)	<p>Listed: MFU and ETF listed and Traded would be valued at the closing price on the exchange as on the valuation date.</p> <p>In case on the valuation date if traded price is not available for listed MFU / ETF, then such MFU / ETF would be valued at applicable NAV of the respective scheme as on the valuation date.</p> <p>Unlisted: Unlisted MFU would be valued at the NAV as on the valuation date.</p>
3. Gold	<p>Since physical gold and other permitted instruments linked to gold are denominated in gold tonnage, it will be valued based on the market price of gold in the domestic market and will be marked to market on a daily basis. The market price of gold in the domestic market on any business day would be arrived at as under:</p> <p>Domestic price of gold = (London Bullion Market Association AM fixing in US\$/ounce X conversion factor for converting ounce into kg for 0.995 fineness X rate for US\$ into INR) + custom duty for import of gold + sales tax/octroi, stamp duty and other levies applicable.</p> <p>On any day the LBMA AM fixing or RBI reference rate is not available due to a holiday, then the previous day price is applied for the purpose of calculating the value of gold.</p>

4. Valuation of Units of Overseas Mutual Fund:	Units of Overseas Mutual Fund will be valued at last published Net Asset Value ("NAV") of underlying Overseas Mutual Fund security.
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D. Conversion of prices in foreign currency to Indian Rupees ('INR'):

The prices of securities which are denominated in foreign currencies (i.e. ADR/GDR/Offshore securities/units of overseas mutual funds) need to be converted into INR. For conversion, the Bid Rate of foreign currency INR exchange rate available on Reuters at 5.00 p.m. IST would be used.

In case, the Reuters exchange rate is not available, then the following sources will be used for exchange rate in the order of priority:

- Exchange rate (Bid Rate) available on Bloomberg at 5.00 p.m. IST;
- RBI Reference rate as at the close of banking hours on the relevant business day in India;
- Any other publicly available source.

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