SBI PENSION FUNDS PRIVATE LTD.
INVESTMENT POLICY FOR PRIVATE SECTOR NPS

1 BACKGROUND:

The Company manages the pension corpus received under both Government Sector NPS covering government employees and Private Sector NPS covering other subscribers (all citizens model). Though both the Government and Private Sector Pension schemes fall under the common umbrella of the National Pension System (NPS), Pension Fund Regulatory Development Authority (PFRDA) have prescribed different investment guidelines for each sector. The Investment policy for the Private Sector NPS is based on instructions/guidelines issued by PFRDA from time to time and provisions of the Investment Management Agreement for the Private Sector entered into with the NPS Trust.

2 SCOPE:

This policy will be applicable for the investment of corpus received under Private Sector NPS (all citizens model Tier I and Tier II) schemes.

3. OBJECTIVE:

Considering the nature of the pension fund business, the Company has to look at generating best available returns for the subscribers over the long term while ensuring safety and security of such investments. Keeping in view the fact that returns are market related, it is proposed to strive for yield maximization within the investment pattern approved by PFRDA and chosen by the subscribers.

4. INVESTMENT PATTERN:

Investments in both Tier I & II schemes are to be managed by way of separate underlying asset classes and accordingly, asset class-wise investment guidelines as prescribed by PFRDA are as under-

4.1.1 Asset class E - Equity market instruments

The eligible investments are:

a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment.

b) Units of Equity Schemes of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body, corporates listed on BSE or NSE.

Provided 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 in time and the fresh investment in such mutual funds shall not be in excess of 5% of the fresh accretions invested in the year.

c) Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.

d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates.

e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging.

   Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) above.

f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI :

   i) Investment shall be made in Equity shares which are proposed to be "listed" through IPO.
   ii) Investment shall be made in Equity shares of such Companies through IPO where the full float market capitalization, calculated using the lower band of the issue price of the IPO, is higher that the market capitalization of 200th company in the list of Top 200 stocks of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE) as provided by NPS Trust (last published) for investment into equity space under the Investment Guidelines.

   Further, if an investment in equity shares of any company made through an IPO and if the equity shares do not fulfill the market capitalization condition prescribed under investment guidelines post listing, a time period of maximum one year shall be provided for making decision on selling/holding such stock. At the time of completion of one year, if no decision to sell such stock was made, the said stock shall be sold if it does not fall in the last list of Top 200 stocks published by NPS Trust.

Further, fresh shares of the same company can be acquired in which the allotment has been received through IPO as long as the investment meets the conditions prescribed in Investment guidelines/circulars issued in this regard.

iii) The investment in Equity Shares though Follow on Public Offer (FPO)/Offer for Sale (OFS) shall be made in the shares of body corporates listed on BSE or NSE which are in top 200 stock in terms of full market capitalization as provided by NPS Trust (last published) list of stocks prepared by NPS Trust in this regard from time to time.

iv) The details of all investments in Equity shares through IPO/FPO or OFS shall be reported to NPS Trust within 30 days of making such investments.

- A list of companies of top 200 stock as provided by NPS Trust (last published) for investment in equity shares from time to time to be strictly followed by investment team and reviewed by the Investment Sub-Committee. Subsequent to any updation in the list, rebalance of portfolio is to be done in line with updated list within a period of one month.

- The decisions of the Investment Sub-Committee shall be reported to the Investment Committee of the Company at its next meeting.

- Out of the list of top 200 companies as provided by NPS Trust from time to time for investment in equities, the due diligence process which is to be undertaken before making any investment in shares of body corporates are as under:

a) A detailed research note should cover the promoter credentials, reputation, corporate governance, performance evaluation versus peers and benchmarks.
b) A comparison of following parameters with the sector & Industry to be done:
   i) Revenue
   ii) EBITDA
   iii) PAT
   Large variations if any, need to be commented upon in detail.
c) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.
d) The research note should include detailed analysis of financials of company (past and projections), business strategy, liquidity position, industry characteristics, impact of economic conditions, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.

e) It should also comment upon pledge of shares by promoters, contingent liabilities and group level leverage.
f) The analyst should also analyze the following parameters to evaluate accounting quality of the investee companies :
   I) Contingent liabilities as % of Networth (for the latest available year) for analyzing off-balance sheet risk.
   II) CWIP to gross block, comments should be made in case of high ratio.
   III) Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.
   IV) Provisioning for debtors to check aggressive provisioning policies.
   V) Growth in auditors remuneration to growth in revenues. Faster growth in auditors remuneration vis-vis company's operations.

   All the above- mentioned parameters should be included in the research note of investee companies. In the absence of any of the aforesaid mentioned information, it should be recorded in the credit appraisal note and discussed by the Investment Sub-Committee before making an investment decision.

g) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.
h) Avoid investment in companies whose promotors/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.
i) The research note will be put up to Investment Sub-Committee (ISC) for approval.
j) The portfolio under this category shall be reviewed once in six months or more frequently in case of any adverse development.

4.1.2. Investment Restrictions-

The Company shall comply with the following PFRDA guidelines:

a) The assets are not to be encumbered.
b) The PF shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance (except as permitted under the extant regulations, from time to time).

c) Investments have been restricted to 5% of the 'paid up equity capital'* of all the sponsor group companies or 5% of the total AUM under Equity exposure whichever is lower, in each respective scheme.
d) Investments have been restricted to 15% of the paid up equity capital of all the non-sponsor group companies or 15% of the total AUM under Equity exposure whichever is lower, in each respective scheme.
*Paid up share capital: Paid up share capital means market value of paid up and subscribed equity capital.
e) Investment in unlisted equity shares or equity related instruments is not permitted except in derivatives for the purpose of hedging and portfolio balancing only in accordance with guidelines issued by SEBI/RBI.
f) Investment in an Initial Public Offering (IPO) Follow on Public Offer (FPO) & Offer for Sale (OFS) is allowed, subject to fulfilment of conditions mentioned under guidelines in this regard.
g) No loans for any purpose can be advanced by the PF.
h) Investments in the shares of body corporates listed on BSE or NSE, which are in top 200 stocks is required to adopt the list of stocks prepared by NPS Trust which will be updated by NPS Trust every six months. Subsequent to any updation in the list, rebalance of portfolio is to be done in line with updated list within a period of one month.

4.2.1 **Asset Class G - Government Securities:** The eligible investments are:

4.2.1 (i) Government Securities:
Government Security means a security created and issued by the Central or a State Government for the purpose of raising a public loan as defined in Section 2(b) of the Securities Contract (Regulation Act) Act 1956.

4.2.1(ii-a) Other Securities are as defined under 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.

4.2.1 (ii- b). Government of India (GOI) – Fully Serviced Bonds issued by PSUs under Extra Budgetary Resources (EBR) whereof bonds are serviced by GOI and repayment of principal and interest payments towards such bonds are borne by GOI. The investment under this category shall be implemented prospectively i.e. w.e.f. date of issuance of letter to the pension funds and only fresh issuances in the GOI fully serviced bonds shall be treated and classified under category 4.2.1 under sub-category 4.2.1 (ii-a) Other securities.

The portfolio invested under sub-category 4.2.1 (ii- a&b) of securities shall not be in excess of 10% of the total AUM under the scheme G.

4.2.1 (iii) Units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities & Exchange Board of India (SEBI). Provided that the exposure to a mutual fund shall not be more than 5% of the total AUM under the Scheme G.

4.2.2 Restrictions

a. The assets are not to be encumbered.
b. No loans for any purpose can be advanced by the Company.

4.3.1 **Asset class C - Credit risk bearing fixed income instruments:**

The eligible investments as per PFRDA, subject to investment stipulations at 4.6 are:

4.3.1(i) 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).

Provided that investment in debt securities with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the total AUM under the scheme C.

In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity.

4.3.1 (ii) Rupee bonds issued by institutions of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Asian Development Bank (ADB).

Provided that investment in Rupee Bonds with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the total AUM under the scheme C.

4.3.1 (iii) Fixed Deposits of not less than 365 days of scheduled commercial banks with conditions of:

i. Continuous profitability for immediately preceding 3 years.
ii. Capital Adequacy Ratio should not be less than 9% for Public Sector Commercial Bank and not less than 11% for Private Sector Banks in last three years or mandated by prevailing RBI norms, whichever is higher.

iii. Having a net NPA of not more than 4% of the net advances.
iv. Having a minimum net worth of not less than Rs.500 crores for Public Sector Banks and Minimum Rs 10,000 crores for Private Sector Banks.
v. Private Sector Banks must have Long Term Rating of AA or above.

Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not bemore than 10% of the portfolio of the scheme.

4.3.1 (iv) Units of Debt Mutual Funds as regulated by SEBI. Provided that these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year.

Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio of the Debt investments in the concerned scheme at any point of time.

4.3.1 (v**)** The Fund can invest in following infrastructure related debt instruments:
(a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body Corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors.

Further, this category shall also include securities issued by Indian Railways or any of the body Corporates in which it has majority shareholding. This category shall also include securities issued by any Authority of the Government which is not a body corporate and has been formed mainly with the purpose of promoting development of infrastructure.

It is further clarified that any structural obligation undertaken or letter of comfort issued by the Central Government, Indian Railways or any Authority of the Central Government, for any security issued by a body corporate engaged in the business of infrastructure, which notwithstanding the terms in the letter of comfort or the obligation undertaken, fails to enable its inclusion as security covered under 4.2.1(ii a&b), shall be treated as an eligible security under this sub-category.

(b) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified under 4.3.1 (iii).

(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 Reserve Bank of India.

(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 Securities and Exchange Board of India.

It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category 4.3.1(v), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors.

4.3.1 (vi) Listed and proposed to be listed Credit Rated Municipal Bonds.

4.3.1 (vii) Investment in units of Debt ETFs issued by Government of India specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other government organizations, etc. provided that the portfolio invested in such Debt ETFs shall not be more than 5% of the total AUM under the Scheme C.

4.3.1 (viii) Debt securities issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.

4.3.1 (ix) Debt securities issued by Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.

Provided that investment under category (4.3.1- viii) & (4.3.1- ix) shall bemade only in such securities which have minimum rating of AA or equivalent rating in the applicable rating scale ofthe Trust from at least two credit rating agencies registered by SEBI.

Provided that the investment under sub-categories of 4.3.1 (i), 4.3.1 (v- a to c) and 4.3.1 (vi) of this category-C (Corporate Bond) shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that in case of the sub-category 4.3.1(v-c) the ratings shall relate to the Non-Banking Financial Company.

Provided further that if the securities/entities have been rated by more than two rating agencies, the lowest of all the ratings shall be considered.

Provided further that Pension Fund can make investment in infrastructure companies rated not less than 'AA' along with an Expected Loss Rating of 'EL1'.

For sub-category 4.3.1 (ii) a single rating of AA or above by a domestic or international rating agency will be acceptable.

It is clarified that debt securities covered under category 4.2.1 (ii - a & b) above are excluded from this category 4.3.1.

In addition to the above-mentioned criteria, investments under debt instruments and related investments category shall be made after proper due diligence on the investee companies. The process which is to be followed are as under:

a) Proper credit appraisal has to be carried out to assess the risk associated with any particular security/bond before investment is made by the fund.

b) The risks analyzed should include, inter alia, credit risk, liquidity risk and solvency risk.

c) A comparison of following parameters with the sector & industry to be done:
i) Revenue
ii) EBITDA
iii) PAT
Large variations if any need to be commented upon in details.

d) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.

e) The credit appraisal should include detailed analysis of financials of company, the management of the issuer company, liquidity position and other parameters such as liquid investment or cash balances excess to unutilized credit lines, liquidity coverage ratio and adequacy of cash flows for servicing maturing debt obligation need to be analyzed.

f) It should also comment on the nature of business, industry characteristics, impact of economic conditions, business strategy, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.

g) Comment should also be made in credit appraisal regarding pledge of shares by promoters, contingent liabilities of the company and group level leverage.

h) The analyst should also analyze the following parameters to evaluate accounting quality of the investee companies :

   I) Contingent liabilities as % of Networth (for the latest available year) for analyzing off-balance sheet risk.

   II) CWIP to gross block, comments should be made in case of high ratio.

   III) Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.

   IV) Provisioning for debtors to check aggressive provisioning policies.

V) Growth in auditors remuneration to growth in revenues. Faster growth in auditors remuneration vis-vis company's operations.

All the above mentioned parameters should be included in the credit appraisal note of investee companies. In the absence of any of the aforesaid mentioned information, it should be recorded in the credit appraisal note and discussed by the Investment Sub-Committee before making an investment decision.

i) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.

j) Avoid investment in companies whose promotors/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.

k) The credit proposal should be put up to the Investment Sub-Committee for approval.

l) All the corporate bonds shall be reviewed periodically. i.e. once in every six months, or more frequently in case of any adverse development.

m) In case of NBFCs other than Public Financial Institution (PFI), the following criteria should be considered before investment:

Total AUM	> Rs. 25000 crores
Networth	> Rs.500 crores
Over Gearing	< 7 times
Net NPA Level	< 2%
Capital Adequacy	Minimum 15%
PAT History	Net profit in at least last 3 years
Exposure norms	As per PFRDA guidelines

The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment.

In case of NBFC-PFI such as NABARD, PFC, IRFC etc., the following criteria should be considered before investment:

Total AUM	> Rs. 20000 crores
Networth	> Rs.500 crores
Over Gearing	=< 10 times
Net NPA Level	=< 5%
Capital Adequacy	As per the RBI guidelines
Exposure norms	As per PFRDA guidelines

The aforesaid criteria for Net NPA level may be relaxed up to 6% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

n) In case of Small Finance Bank (SFB) and Housing Finance Companies (HFC), the following criteria should be considered:

Turnover	> Rs. 2500 crore
Networth	> Rs.500 crore
Over Gearing	< 10 times
Net NPA Level	=< 2%
Capital Adequacy	Minimum 15%
PAT History	Net profit in at least last 3 years
Exposure norms	As per PFRDA Guidelines

The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

o) In case of Scheduled Commercial Banks (SCBs), the following criteria should be considered:

Particulars	**Public Sector Banks**	**Private Sector Banks**
Net-worth	> Rs.500 crore	>Rs.500.00 crore
Gross NPA Level	=<10	=<6
Net NPA Level	=< 4%	=<2%
Capital Adequacy	Minimum 9%	Minimum 9%
Provision Coverage Ratio	>50%	>60%
Exposure norms	As per PFRDA Guidelines	As per PFRDA guidelines.

This is applicable for incremental investment under the category.

p) In case of Corporates other than Banks, NBFCs, SFBs & HFCs, the following criteria should be considered using consolidated financials:

Net-worth	> Rs.500 crore
Debt/Equity Ratio	<2.5
Interest Coverage Ratio*	>1.5
Profitability	Cash Profit in last 3 years
Exposure norms	As per PFRDA Guidelines

*(EBITDA/Interest)

This is applicable for incremental investment under the category.

q) In case of Infrastructure Companies operating assets under Special Purpose Vehicle (SPV) route, the evaluation will be done on the following criteria only for such SPV which have achieved Commercial Operations Date (COD):

Net-worth	> Rs.100 crore
Debt/Equity Ratio	<6.5
DSCR	>1.15
Exposure norms	As per PFRDA Guidelines

This is applicable for incremental investment under the category.

Further, investments under Corporate Bonds with issue size of more than Rs.500 crore will be restricted to a maximum of 20% of the initial issuance amount.

However, on a case-to-case basis, additional 5% investment (subscription) in initial offering can be done i.e. maximum of 25% (including additional 5%) there is a specific recommendation by the Investment-Sub-Committee provided justification for their decision are recorded in an internal note.

In the rare need to invest more than 25%, the approval of the Investment Committee of the Board will have to be obtained prior to such investment through subscription in the initial offering.

In all the above three situations, the Company can subsequently take additional exposure through the secondary route within the prescribed limit stipulated by PFRDA.

However, the aforesaid investment norms for subscribing to initial issuances shall not be applicable to Corporate listed below:

a) Company which is 51% and above owned by Central Government or State Government.
b) State Government or Central Government collectively own 51% and above in the Company.
c) The Company enjoys Central Public Sector Entity Status.

Provided the Corporates mentioned above at a), b) and c) above are rated AA+ and above at the time of investment in initial offering.

4.4.1 Alternative Asset Class:

The eligible investments as per PFRDA, subject to investment stipulations at 4.6 are:

a. Commercial mortgage based securities or Residential mortgage based 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. Investments in SEBI Regulated Alternative Investment funds (AIF Category I & II) as defined under the SEBI (Alternate Investment Fund) regulations 2012.
f. **Basel III Tier I bonds issued by Scheduled Commercial Banks(SCB) under RBI Guidelines.**

Provided that investment under this category shall only be in listed instruments or fresh issues that are proposed to be listed except in case of category (a) and (c) above.

Provided further that investment under this category **(from (a) to (d) & (f)** above) shall be made only in such securities which have minimum AA equivalent ratings in the applicable rating scale from at least two credit rating agencies registered by the Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulations, 1999. If the securities/entities have been rated by more than two rating agencies, the two lowest of the ratings shall be considered.

Provided further that in case of the sub-categories (b) and (d), minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI shall be considered.

Further, in case of the sub-category (a) and (c), **rating from only one rating agency will be sufficient.**

4.4.2 – Investment under category (e) -Alternate Investment Funds (AIF, Category I & II): is allowed subject to satisfaction of the following conditions: -

1) The permitted funds under category I are Start-up Funds, Infrastructure Funds, SME Funds, Venture Capital Funds and Social Venture Capital Funds as detailed in Alternative Investment Funds Regulations, 2012 by SEBI.

2) For category II AIF as per Alternative Investment Funds Regulations, 2012 by SEBI, at least 51% of the funds of such AIF shall be invested in either of the Start-up entities, infrastructure entities or SMEs or venture capital or social welfare entities.

3) Pension Fund shall only invest in AIFs whose corpus is equal to or more than Rs. 100 crores.

4) The exposure to single AIF shall not exceed 10% of the AIF size.

5) It is to be ensured that funds should not be invested in securities of the companies or Funds incorporated and operated outside the India in violation of section 25 of the PFRDA Act 2013.

6) The sponsors of the Alternative investment funds should not be the promoter in Pension fund or the promoter group of the Pension Fund.

7) The AIFs shall not be managed by Investment manager, who is directly or indirectly controlled or managed by Pension fund or the promoter group of the Pension Fund.

4.4.3 - The investments in category (f) of Alternative Asset Class is allowed provided that:-

(i) In case of initial offering of the bonds, investment shall be made only in such Tier-I bonds which are proposed to be listed.

(ii) Investment shall be made in such bonds of a scheduled commercial bank (SCB) from the secondary market only if such Tier I bonds are listed.

(iii) Total portfolio invested in this sub-category, at any time, shall not be more than 5% of the total portfolio ofthe fund, i.e. G+C+E+A for both Tier I and Tier II.

(iv) No investment in this sub-category in initial offerings shall exceed 20% of the initial offering. Further, at any point of time, the aggregate value of Tier I bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by that Bank.

(v) The investment in single issuer shall not exceed 10% of the AUM of the scheme.

Further, it is required to ensure and apply all measures of due diligence in the best interest of subscribers before investing in Asset Class/Scheme A. Pension Funds are advised to consider all the risks such as liquidity risk, integrity risk, operational risk, and control issues and conflicts of interest while making a decision to invest in Asset Class/Scheme A and these are to be documented while making such decisions for scrutiny by Authority/NPS Trust.

4.5 Short-term Debt Instruments and related Investments (not exceeding a limit of 10% of the scheme corpus on temporary basis):

1. Money market instruments:

   a) Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A 1 + by at least two creditrating agencies registered with the Securities and Exchange Board of India.

      Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of theratings shall be considered.

   b) Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks, will require the bank to satisfy all conditions mentioned in category 4.3.1 (iii) above.

2. Investments in units of a Debt scheme of a Mutual Fund as regulated by Securities and

Exchange Board of India where investment is in short term securitieswith Macaulay duration of less than 1 year viz. Overnight fund, Liquid Fund, Ultra Short Duration Fund and Low duration fund with the condition that the average total asset under management of AMC for the most recent six-month period should be at least Rs. 8,000/- crores.

3. Investments in Term Deposit Receipts of up to one year maturity issued by such scheduled commercial banks which satisfy all conditions mentioned in category 4.3.1 (iii) above.

Provided further that the limit with respect to investment in Money market instruments under Scheme A (under Tier – I), C - Tier II and G - Tier II shall be 10% of the scheme corpus, however, this exposure norm shall not be applicable till the scheme corpus is below Rs.5.00 crore.

4.6. Operational Guidelines for National Pension Scheme Tier – II Tax Saver Scheme, 2020 (NPS-TTS): The following investment limits has been prescribed for NPS Tier-II – Tax Saver Scheme:

Asset Class	Limits
Equity*	10%-25%
Debt**	Upto 90%
Cash/Money Market/Liquid MFs	Upto 10%

***Investment Guidelines as applicable to E-II.**
****Investment Guidelines as applicable to G-II and C-II.**

Further, the above exposure norm shall not be applicable till the scheme corpus is below Rs.5.00 crores.

4.7 Investment Restrictions

a. All investments (except at 4.3.1 (i), 4.3.1 (ii), 4.3.1 (v- a to c) and 4.3.1 (vi) to have minimum AA or equivalent investment grade rating (provided the rating has been confirmed/retained at AA in one year, i.e. investment in newly upgraded companies will not be done for one year) from at least two rating agencies regulated by SEBI, under SEBI (Credit Rating Agency) Regulation 1999, with minimum tenor of 3 years & maximum tenor shall be 15 years from the date of investment except in case of Basel III Tier I Bonds. Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered. Tenor of bonds should not exceed 15 years. Investments under sub category 4.4.1.(e), to have minimum length of investment of 3 years and maximum length of investment of 15 years from the date of investment.

The aforesaid criteria of 15 years can be relaxed for investment in Companies with criteria mentioned below:

a) Company which is 51% and above owned by Central Government or State Government.
b) State Government or Central Government collectively own 51% and above in the Company.
c) The Company enjoys Central Public Sector Entity Status.
d) It should be rated AA+ and above at the time of Investment.

b. No investment shall be made in perpetual bonds of any Body Corporate except in BASEL III Tier –I Bonds.
c. NPS investments have been restricted to 10% of the net-worth of all the non-sponsor group companies or 10% of the total AUM in debt securities (excluding Govt. securities) whichever is lower, in each respective scheme.
d. Investment exposure to a single industry has been restricted to 15% under all NPS schemes, as per Level-5 of National Industrial Classification (NIC).
e. If the Pension Fund makes investments in Equity/Debt instruments, in addition to the investments in Index funds/ETF/Debt MF, the exposure limits under such Index funds/ETF/Debt MF shall not be considered for compliance of the prescribed the Industry Concentration, Sponsor/ Non Sponsor group norms under these guidelines.
f. Investments in fresh issuance of “Govt. of India- Fully Serviced Bonds” issued by PSUs under Extra Budgetary Resources (EBR) should be considered investments under “Asset Class G” instead of Investment in “Asset Class C.”
g. The following restrictions/filters/exposure norms would be applicable to reduce concentration risks. It would, however, not be applicable to Asset Class A (Scheme A) and Tier II Schemes till the scheme corpus reaches Rs.5 crore in each scheme:

   i). NPS **Equity** investments have been restricted to 5% of the ‘paid up equity capital’* of all the sponsor** group*** companies or 5% of the total AUM managed by the Pension Fund, whichever is lower, in each respective scheme and 15% in the paid up equity capital of all the non-sponsor group companies or 15% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

*'Paid up share capital': Paid up share capital means market value of paid up and subscribed equity capital.

**'Sponsor' shall mean an entity described as "Sponsor" under Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 and subsequent amendments thereto.

***'Group' means two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by the Authority, from time to time, by issuance of guidelines under these Regulations.

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group or otherwise.

All Pension Funds shall publish on their respective website a list of their group companies and those of their sponsor.

ii). NPS **Debt** investments have been restricted to 5% of the 'net-worth'# of all the sponsor group companies or 5% of the total AUM in debt securities (excluding Govt. securities) whichever is lower in each respective scheme and 10% of the net-worth of all the non-sponsor group companies or 10% of the total AUM in debt securities (excluding Govt. securities) whichever is lower, in each respective scheme.

#Net Worth: Net worth would comprise of Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets.

iii). Investment exposure to a single Industry has been restricted to 15% under all NPS Schemes by each Pension Fund Manager as per Level-5 of NIC classification.

iv). If the Pension Fund makes investments in Equity/Debt instruments, in addition to the investments in Index funds/ETF/Debt MF, the exposure limits under such Index funds/ETF/Debt MF shall not be considered for compliance of the prescribed the Industry Concentration, Sponsor/ Non- Sponsor group norms under these guidelines.

v) **The exposure norms for investment in InvITs/REITs are as under:**

a) **The cumulative investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of the total AUM of pension fund at any point of time.**
b) **The pension fund shall not invest more than 10% of the outstanding debt instruments issued by single InvIT/REIT issue.**
c) **The pension fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.**

5. **GENERAL STIPULATIONS:**

a) Investment decisions would be taken without maintaining idle funds for unduly long periods and in the best interest of subscribers with emphasis on safety and optimum return.
b) Proceeds arising out of exercise of put option, tenure or asset switch or trade of anyasset before maturity can be invested in any of the permissible categoriesdescribed above in the manner that at any given point of time the percentage of assets under that category should not exceed the maximum limit prescribed for that category and also should not exceed the maximum limit prescribed for the sub-categories, if any. However, asset switch because of any RBI mandatedGovernment debt switch would not be covered under this restriction.
c) If for any of the instruments mentioned above 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.
d) The Company shall not utilize the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities.
e) NPS funds shall not be used to buy securities/bonds held by the Company or its subsidiary in their own investment portfolio or any other portfolio held by them. Though the Company is permitted to enter into derivatives transactions, in the interest of the subscribers, for the purpose of hedging and portfolio balancing, this may not be resorted to in the initial period as no maturing of liabilities is anticipated.

f) The Company as PFM shall enter into transactions relating to securities only in dematerialized form except Fixed Deposits & Liquid Mutual Fund.

g) The Company as PFM shall, for securities purchased in the non-depository mode get the securities transferred in the name of the NPS Trust on account of the Scheme.

h) Transfer of securities within the same scheme or inter-scheme are allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made. Such transfers may be allowed in following scenarios:

    i) To meet liquidity requirement in a scheme in case of unanticipated redemption pressure.

    ii) To adjust securities received through corporate action.

   The inter-scheme transfers are allowed only on exceptional basis and it should be informed to NPS Trust and Authority upon exercise of this option.

i) The Company will invest only in units of Liquid Mutual Funds fulfilling the following-

    i. The total corpus of the Scheme should be Rs.8, 000.00 crore or more.
    ii. Minimum Corpus of the fund house shall be Rs.30, 000 crore.
    iii. The expense ratio shall be comparatively low.
    iv. The minimum rating of the scheme has to be CPR 3(Composite Performance Ranking 3).

j) Due caution should be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable.

k) The fiduciary responsibility of investment of the funds must be exercised with utmost due diligence.

l) Suitable steps should be taken to control and optimize the cost of management of the fund.

m) The Company may alter the above stated restrictions from time to time to the extent the PFRDA Regulations change, so as to permit the Schemes to achieve their investment objective.

6. i) **TRANSACTION THROUGH BROKERS:**

Purchase and sale of securities through a broker should not exceed on an average 5% of the aggregate purchase/sale of securities under all schemes for the financial year. In case this limit is exceeded, the justification therefore should be recorded and all such investments reported to the Trustees on annual basis. The aforesaid limit of 5% shall apply for a block of 12 months. Services of only empaneled brokers may be availed.

ii). **BROKER EMPANELMENT**:

As per the PFRDA guidelines, all the secondary market trades will be done through empanelled brokers only. In terms of guidelines issued by PFRDA for empanelment of brokers and as per best in house practices followed by the Company, the following principal criteria has to be fulfilled by the broking house/ firm for empanelment.

a) Valid SEBI registration certificate for the last three (3) years.
b) Member of both the NSE & BSE for the last three (3) years.
c) Body Corporate with at least five years in existence.
d) Corporate entity with minimum net worth of Rs.10.00 crores. (approved by Board in its meeting dated 23.07.2011)
e) Minimum Turnover of Rs 1000 Crores during last financial year (including cash and F&O segment)
f) Empaneled with at least five (5) institutions comprising Banks/Foreign Institutional Investor/Mutual Funds as brokers.
g) SEBI or any other regulator has not initiated any action against the firm in past (suspend, fined, debarred, expelled) & no criminal litigation or money laundering case is pending against any of the directors of firm.
h) Possess strong research capabilities and good market reputation.
i) No adverse market reputation / reports. (approved by Board in its meeting dated 23.07.2011)

Brokers, who would like to empanel with our company, should submit the following documents:

a) Application Form in Prescribed Format.
b) SEBI Registration Certificate of NSE/BSE.
c) Membership Certificate of NSE/BSE.
d) Memorandum and Article of Association.
e) Audited Annual Report for Last 3 years.
f) Latest Networth Certificate
g) Status Report of NSE/BSE.
h) Latest SEBI Inspection Report.
i) Undertaking from the Director and Company that SEBI or any other regulator has not initiated any action against the firm/company in past and no criminal litigation or money laundering case is pending against any of the directors of the Company.

The chief Risk Officer has to verify the documents to check that all requirements are fulfilled by the Broker. The Chief Risk Officer along with Compliance Officer has to review the history of any penalty imposed by the SEBI or exchanges on the firm/company and verify that the firm/company are not suspended/debarred/fined/expelled or no criminal litigation or money laundering case is pending against any of the directors of firm as part of appraisal procedure.

After appraisal, the note will be put up to the Investment sub-committee approval. After approval of the list of broker for empanelment, the same will be put up to the Investment Committee of the Company for recommendation and thereafter approval from the Board. Once approved by the Board, the dealer can transact deals through broker after execution of terms and condition documents by the broker.

7. **ASSET LIABILITY MANAGEMENT (ALM) /LIQUIDITY OF INVESTMENTS:**

Achieving high return is of paramount importance, however liquidity aspect will be given due weightage in investment decisions to meet redemption requirement as & when it arise as part of ALM exercise.

As per redemption pattern observed in the past, in Private Sector NPS Schemes, redemption requests are small and matched with corresponding inflows. However, if corresponding inflows are insufficient to match the outflows, the shortfall can be met by liquidating the securities. To meet out any eventuality of mass redemption, liquidity and ALM concerns, in Scheme E Tier I and Scheme G Tier I, which may occur if a Corporate decides to change the Pension Fund Manager, the scheme should have sufficient investments in liquid securities in G-Secs and liquid equity scrips. To meet this requirement, we propose the following:

a) Investment of Rs 75 crores and more in Scheme G Tier I scheme should be made in liquid Government Securities which have average daily trading value of Rs 150 crores and above in a month.
b) Investment of Rs 25 crores and more on ongoing basis, in Scheme E Tier I should be made in liquid equity scrips which have average daily turnover of Rs 200 crores and above in a month.

8. **CREDIT RATING:** SEBI approved Credit Rating agencies identified for rating purposes are CRISIL, ICRA, India Ratings (FITCH), CARE and BRICKWORKS.

If the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered for investment.

9. **MANAGEMENT ACTION TRIGGER POINT:**

When the price of the securities in the portfolio is sliding down the management of the company can review the position depending on the view on the market to either cut loss or re-enter at lower level or wait for the market to reverse. Trigger points will be as defined in the Risk Management policy approved by the Board.

10. PRUDENTIAL NORMS FOR INCOME RECOGINITION, ASSET CLASSIFICATION AND PROVISIONING FOR INVESTMENT PORTFOLIO:

In terms of PFRDA (Identification, Income Recognition and Provisioning of NPA) Guidance Note 2013 and as per clause 13 of Part II in Schedule A of PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under National Pension System) Guidelines -2012', an investment is regarded as non-performing, if interest/payments or both amounts have not been received or have remained outstanding for 90 days" from the day such income/installment has fallen due. The prescribed guidelines are as under:

i). Identification of Non-Performing Asset (NPA): A debt security ('asset') shall be classified as 'Non-Performing Asset' (NPA) if the interest and/or installment of principal have not been received or remained outstanding for one quarter, from the day such income and/or installment principal was due.

ii). Treatment of Income accrued on NPA and further accruals :

a) After the expiry of the 1st quarter, from the date the interest has fallen due, there will be no further interest accrual on the asset i.e. from the beginning of the 2nd quarter from the date the interest has fallen due, interest should not be accrued on the asset.

b) On classification of the asset as NPA, provision for all interest, accrued on that asset and recognized in the books of accounts of the scheme till date, should be made.

c) However, for monitoring purpose, the calculation of the interest accrued and due on the NPA (security wise) should be done separately through the system, as a mirror account but should not be accounted for in the books of account of scheme.

d) Interest on NPA is recognized and booked as income only when it is actually received (i.e. on cash basis).

iii). Provisioning for NPAs: On classification of the asset as NPA, provision must be made on the book value in the following manner or at a higher percentage at the discretion of the Pension Fund with the approval of the Investment Committee. However, Pension fund will not have the discretion to extend the period of provisioning. The provisioning against the book value should be made at the following rates irrespective of whether the principal is due for repayment or not.

Period past due from due date of interest/installment of principal	Period past due from the date of classification of assets as NPA	% Provision on Book Value
6 months	3 months	50%
9 months	6 months	75%
12 months	9 months	100%

iv). Classification of Deep Discount Bonds as NPAs: Investment in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied.

a) If the rating of the Bond comes down below investment Grade.
b) If the issuer is defaulting in their commitments in respect of other assets.
c) Full net worth erosion of Issuer.

Provision should be made as per the norms set at point no. (iii) above as soon as the asset is classified as NPA.

v). Writing-back of provisioning and further accruals on re-classification of NPA as 'performing' :

a) Reclassification of Assets : The non-performing asset shall be re-classified as 'performing asset, if all the arrears of interest and installment of principal are cleared and the debt is regularly serviced for consecutive two quarters, or subsequent coupon is paid on due date, whichever is later.
b) Written-back of provisioning of interest: Upon reclassification of asset as performing asset, in case an issuer has fully cleared all the arrears of interest, the interest provisions can be written back in full.
c) Written-back of provisioning of principal: The provision made for the principal can be written back in the following manner:

i). 100% of the asset provided for in the books, will be written back at the end of the 2nd calendar quarter, where the provision of principal was made due to the interest defaults only.
ii.) 50% of the asset provided for in the books will be written back at the end of the 2nd calendar quarter and 25% after every subsequent quarter, where both principal and interest were in default earlier.

d) Accounting for accrual of interest: Further, accrual of interest on the performing assets shall be made after it has been classified as performing asset. Till such time, interest on the asset should be recognized on cash basis only. The interest not credited on accrual basis would be credited only at the time of actual receipt of interest.

vi). Re-schedulement of an asset: In case any issuer of debt security defaults in the payment of interest and installment of principal, if any and the pension fund has accepted re-schedulement of NPA, it may be re-classified as ‘performing asset’ if the next two coupons/installments of principal, if applicable, is regularly serviced as re-scheduled. Point no. (v) will be applicable for written-back of provisioning and further accruals on its reclassification as ‘performing asset’.

vii). Disclosure of NPA in the monthly portfolio details :

a) The pension fund shall make security-wise monthly disclosures of NPAs in the monthly portfolio details.

b) The total amount of provisions made against the NPAs shall be disclosed in addition to the total Book-Value of NPAs. Further, the proportion of NPA with respect to the Assets Under Management (AUM) of the respective scheme may also be disclosed. In the list of investments an asterisk mark shall be given against such investments which are recognized as NPAs.

c) Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as ‘Sundry Debtors’ and not as investment provided, that where an investment is redeemable by installments, it will be shown as an investment until all investments have become overdue.

viii). Written off NPA on identification as ‘loss assets’:

A ‘loss asset’ is one which is deemed as un-recoverable or its value has been diminished and has been identified by the Pension Fund or scheme auditors as such. On classifying the NPAs as loss asset, the asset along with its provision should be written off by the Pension Fund after obtaining approval from its Board of Directors or its Investment Committee (subject to report to the Board of Directors).

The ‘Provision for Interest Overdue’ made as mentioned in point no. (ii), may be written off against ‘Interest Due on NPA account’.

11. VALUATION OF PORTFOLIO:

This will be done in accordance with PFRDA guidelines from time to time.

12. INVESTMENT COMMITTEES:

a) The Company has constituted an Investment Committee of the Company with two Independent Directors, the MD & CEO, Chief Investment Officer (CIO) and Chief Risk

Officer as members. The Committee shall exercise Board level oversight over the Company's investment operations and implementation of the Company's Investment Policy as approved by the Board. The minimum quorum for the Committee meetings shall be two with at least one Independent Director present in the meeting. The Committee shall meet quarterly.

b) For day-to-day investment activities, the Company will have an Investment Sub-Committee with full delegated powers comprising of the MD & CEO, CIO, Head-Equity Market and Head-Fixed Income Market. The minimum quorum of the Investment Sub- Committee shall be two, of which one should be CEO/ officiating CEO. All day-to-day investment decisions will be taken by the Sub-Committee and comments from Chief Risk Officer are invited on the same. The proceedings of the Investment Sub Committee meetings will be recorded and are subject to audit/inspection. Reports on the investments made with a certificate from the Chief Risk Officer that the investments are in conformity with Regulatory guidelines and Investment policy provisions, and any other matter relating to investments will be placed before the Investment Committee of the Company every quarter for review/scrutiny and guidance.

13. If the Pension Fund has engaged services of professional fund/asset managers for management of its assets, payment to whom is being made on the basis of the value of each transaction, the value of funds invested by them in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced before computing the payment due to them in order to avoid double incidence of costs. However, investments made by Pension Funds in Liquid Mutual Funds would not be excluded for payment of investment management fee. Accordingly, Pension Funds shall be eligible for payment of IMF for investment in liquid mutual funds. Also, investment in the ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall be eligible for payment of IMF to Pension Funds. The investment made by Pension Funds in Overnight Funds and all such short duration funds, as may be permitted by SEBI from time to time, shall be eligible for payment of IMF to Pension Funds. Also, investment made by Pension Funds in Bharat Bond ETF/Debt ETF issued by Government of India in respect of bonds issued by CPSEs, CPSUs, CPFIs and other Government Organizations, shall be eligible for payment of IMF to Pension Funds.

13. REPORTING:

The Company would comply with the disclosure requirements specified by PFRDA from time to time. The Company shall furnish periodic reports as well as such information and documents as may be required by the PFRDA, NPS Trustees and the Central Record Keeping Agency (CRA) from time to time.

14. **REVIEW OF INVESTMENT POLICY**:

As per IMA provisions, the Policy shall be reviewed at half yearly intervals or earlier, if required.