



HDFC Pension Management Company Limited

Investment Policy

Last reviewed & updated: 13th July 2022

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Version Control

Version	Description	Date	Created / Updated by:
1	Detailed descriptions of investment process	09-April-2013	Ashish Narula
2	Detailed descriptions of investment process – Half yearly review	07-October 2013	Ashish Narula
3	Detailed descriptions of investment process – Quarterly review	14-January-2014	Ashish Narula
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16	Updation of NPS Tier II Tax Saving Scheme	15 th October 2020	Vishwas Katela
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18	Updation of new investment guidelines issued by PFRDA on 20 th July 2021	20 th October 2021	Vishwas Katela
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1. INVESTMENT POLICY

1.1. Introduction

The Investment Policy for the Company outlines the process and the principles for the management of all the invested assets under different fund categories. Invested assets are all the investments made in market instruments using the Subscribers funds under various schemes and Shareholder Fund.

The Pension Fund Manager will maintain separate schemes, each investing in a different asset class –

- 1) Equity Scheme (Asset class E)
As per PFRDA investment guidelines the investment by an NPS participant in this asset class would be subject to a cap of 75%. This asset class will be invested in i) equity shares of body corporate listed either on BSE/NSE which are in top 200 stocks in terms of full market capitalization as on date of investment ii) ETF's/ Index Funds which replicate the portfolio of either BSE Sensex index or NSE Nifty 50 index iii) Units of mutual funds which have minimum 65% of their investment in shares of body corporate listed on BSE or NSE iv) ETFs constructed specifically for disinvestment of shareholding of the Government of India in body corporate and iv) Exchange traded derivatives..
- 2) Government Securities Scheme (Asset class G)
Investments will be made only in Government securities, Government of India – Fully serviced bonds and securities which are unconditionally guaranteed by central or state government. . All investments in this asset class would be subject to restrictions outlined by PFRDA.
- 3) Corporate bond Scheme (Asset class C)
This asset class contains bonds issued by any entity other than Government. This asset class will be invested in fixed deposits and credit rated debt securities. This includes rated bonds/securities of Public Financial Institutions and Public sector companies, rated municipal bodies/infrastructure bonds, rated bonds of INVITs and REITs, Rupee bonds issued by identified institutions, units of debt mutual funds and units of Debt ETFs launched by Government of India. Investments will be made in rated bonds / debentures of all companies, subject to risk limits and liquidity considerations. All investments in this asset class would be subject to restrictions outlined by PFRDA
- 4) Alternative Assets Scheme (Asset class A)
This asset class will contain the following assets:
 - a) Alternate Investment Funds (category 1 & 2)
 - b) ReITS
 - c) Mortgage Backed Securities/ Asset Backed Securities
 - d) Basel III Tier-1 bonds
 - e) Infrastructure Investment Trusts

Each of the above schemes will have separate funds for Tier I and Tier II categories, except for Asset Class A which is offered to Tier I subscribers only. All references, henceforth, to each of the schemes will apply uniformly to Tier I and Tier II categories independently (unless specified otherwise), except for Asset Class A which has no Tier II offering.

The Pension Fund Manager will also manage a composite scheme named “NPS Tier II Tax Saving Scheme (NPS-TSS)”. This is a composite scheme open to Central Government NPS subscriber with the following investment limits:

- a) Asset Class Equity: 10%-25%
- b) Asset Class Debt: 0-90%
- c) Cash/ Money Market / Liquid MFs: 0-10%

Investment guidelines for Asset Class Equity would be as applicable to Asset Class E Tier II Scheme and that applicable to Asset Class Debt would be same as applicable to Asset Class G Tier II and Asset Class C Tier II. The above exposure norm shall not be applicable till the scheme corpus is below Rs.5 crores.

1.2. Policy Review Process

The Board shall review this investment policy and its implementation at least on a half-yearly basis and make such necessary modifications to bring it in tune with the requirements of law and regulations – in regard to protection of subscribers’ interest and pattern of investment laid down by PFRDA. The details of revisions/addendums in the Investment Policy or its review as periodically decided by the Board shall be submitted to the NPS Trust within 30 days of its decision

1.3. Objective

The aim of the document will be to –

- 1) Define the investment objectives and process across the funds in each of the schemes above
- 2) Set investment limits and prudential norms such that the portfolios are managed within acceptable levels of risk and meet all the regulatory compliance parameters.
- 3) Cover all aspects related to investments, viz –
 - a) Securities trading limits
 - b) Prudential exposure norms
 - c) Management of investment risks
 - d) Performance and risk reporting
 - e) Scope of audit of all the investment operations

PFRDA has laid down detailed guidelines and regulations regarding asset allocation and exposure limits across different investment options. These exposure norms will be the de jure policy norms regarding the exposure limits for the respective funds managed by the Company. Additional guidelines, limits as well as any norms along with the regulatory limits are laid out in the respective funds section.

2. INVESTMENT COMMITTEE

2.1. Investment Committee (IC)

The Board of Directors of the Company shall constitute an Investment Committee to oversee the investments of the Company. The responsibility for the selection and management of the invested assets rests in the first instance with the Investment Committee. The Investment Committee may delegate this investment authority subject to putting in place consistent control and monitoring mechanisms. This Investment Policy is defined by the Investment Committee to set the contours of the investment activity, process, prudential risk limits and performance objectives.

The Investment Committee oversees the activities of the investment function with regular monitoring of the investment exposures, performances, risk management, market developments and investment strategies. The reporting of the investment function to the IC shall take place once in every quarter. As per PFRDA regulations and amendments thereof, the Investment Committee should comprise of at least the following members

1. Two Independent Directors
2. Chief Executive Officer
3. Chief Risk Officer
4. Chief Investment Officer

2.2. Functions of Investment Committee

- 1) To draw up the Investment Policy, fund wise, and present the same to the Board of Directors for approval. The Investment Policy as approved by the Board shall be implemented by the Investment Committee. In framing such a policy, the board will be guided by Issues relating to liquidity, prudential norms, exposure limits, stop loss limits management of all investment & market risks, investment audit & investment statistics & provisions of PFRDA guidelines/directions
- 2) To ensure that the Investment Policy is compliant with exposure limits, & other investment restrictions laid down by PFRDA
- 3) To ensure adequate return on subscribers & shareholders' funds consistent with the protection, safety and liquidity of such funds
- 4) To ensure that the funds are invested in equity shares and debt instruments rated as per investment regulations laid down by PFRDA

- 5) To ensure proper internal control of investment function and operations by clear segregation of functions into Front, Mid and Back Office.
- 6) To review the changes if any in the engagement team & any other matter relating to investments & forward its recommendation to the Board.

3. INVESTMENT PROCESS

3.1. Fixed Income Process

Investment in Fixed income assets are largely made with one or more of the following objectives –

- Mandated investments as part of the fund objective definitions
 - Utilize the cash flows to manage interest rate risks
- 1) The objectives of the fixed income investments and asset allocation restrictions between different categories of fixed income assets, if any, are part of the mandate of each fund. These mandates help define the broad structure of the fixed income portfolio.
 - 2) The group, industry sector exposure limits define the limits on the exposure to different securities in the portfolio. These limits are defined in greater details in the relevant sections of the Prudential Exposure.
 - 3) Manage the active risks in the fixed income portfolios to meet the objectives for the funds. The primary active risks in the Fixed Income portfolios are Interest rate risk, Credit risk and Liquidity risk.

3.1.1. Fixed Income Investment universe

Fixed Income investments are made in Government securities in scheme G, Corporate bonds in scheme C and Alternative Asset class in scheme A

The authorized investments in the Government securities scheme are

- 1) Government securities
- 2) Other securities which are
 - a) Fully and unconditionally guaranteed by Central or State Government
 - b) Government of India – Fully Service bonds which are issued by PSUs on behalf of Government of India to raise Extra Budgetary ResourcesProvided that the portfolio invested under this sub-category of securities shall not be in excess of 10% of the total portfolio of the scheme G
- 3) Units of Government Securities Mutual Funds, regulated by SEBI, provided that the portfolio invested in such mutual funds shall not be more than 5% of the scheme G.

The authorized investments in the Corporate bond scheme (Asset class C) are

- 1) Debt securities, which are listed or proposed to be listed, issued by bodies corporate, including banks and public financial institutions [as defined under Section 2 of the Companies Act, 2013]. Provided that investment in debt securities with minimum residual maturity of three years or less than three year from the date of investment, shall be limited to 10% of the corporate bond portfolio.

In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

The investment in this category should be made in instruments which are listed or proposed to be listed having a credit rating of A or higher from at least two credit rating agency, subject to a cap on investments between A to AA- rated bonds to be not more than 10% of the portfolio. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.

- 2) The following infrastructure related debt instruments:
 - a. Listed or proposed to be listed debt securities issued by body corporate 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.. This shall also include securities issued by Indian Railways or any of the body corporate in which it has majority shareholding. This 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.

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 category "Other Securities" in Scheme G above, shall be treated as an eligible security under this sub-category.

- b. Infrastructure & Affordable housing bonds issued by any scheduled commercial bank, which meets the conditions specified below for term deposits receipt.

- c. Listed or proposed to be listed securities issued by Infrastructure Debt Funds operating as NBFCs and regulated by RBI. For such securities credit ratings shall relate to the NBFC.
- d. Listed or proposed to be listed securities issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by SEBI

It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category 2, a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub- sectors.

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

Pension Fund can make investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1', provided that investments shall be permissible in securities having investment grade rating below AA in case the risk of default for such securities is fully covered with Credit Default Swaps (CDSs) issued under Guidelines of the RBI and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to be investment made under this category.

- 3) Listed or proposed to be listed Credit Rated Municipal Bonds. Investment 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 SEBI. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.
- 4) Term Deposits receipts of scheduled commercial banks not less than one year duration, which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law:
 - a) having declared profit in the immediately preceding three financial years;
 - b) Having net non-performing assets of not more than 4% of the net advances;Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme.
- 5) 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 Deb investments in the concerned scheme at any point of time.

- 6) Rupee bonds issued by the International Bank for Reconstruction & Development, International Finance Corporation & Asian Development Bank. Provided that investment in Rupee bonds with minimum residual maturity of three years or less than three year from the date of investment, shall be limited to 10% of the corporate bond portfolio. For this category a single rating of AA or above by a domestic or international rating agency will be acceptable.
- 7) Debt securities issued by Real Estate Investment Trusts (REITs) regulated by the SEBI. Provided that investment shall be made only in such securities which have 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.
- 8) Debt securities issued by Infrastructure Investment Trusts (InvITs) regulated by the SEBI. Provided that investment shall be made only in such securities which have 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.
- 9) Units of Debt ETFs launched 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 Asset Under Management of corporate bond Portfolio.

If services of professional fund/assets managers for management of the assets is engaged, payment to whom is being made on the basis of the value of each transaction, the value of funds invested 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 in Liquid Mutual Funds and Overnight Funds would not be excluded for payment of investment management fee (IMF). Also, investment made 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.

The exposure norms for investment in InvITs/REITs would be as under:

- (i) The cumulative Investments in Units (Scheme A) and debt instruments of InvITs and REITs shall not exceed 3% of total AUM of the Pension Fund at any point of time.
- (ii) The Pension Fund shall not invest in more than 10% of the outstanding debt instruments issued by single InvIT/REIT issue.

The following limits will be applicable to all the investments in the Asset Class C

Credit Rating issued by at least two Rating Agency	Exposure Limit
AAA Rated instruments including money market instruments /cash and cash equivalents	At least 75% of AUM
AA or higher rated instruments including money market instruments/ cash and cash equivalents	At least 90% of AUM
A to AA- Rated instruments	Not more than 10% of AUM

In case of any instruments mentioned above being rated and their rating falling below A, the option of exit would be considered and exercised, as appropriate, in a manner that is in the best interest of the subscriber.

A quarterly statement on the investment 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.

3.1.2. Alternative Asset class Investment universe

The authorized investments in the Alternative Asset class scheme (Asset class A) are in following categories.

- 1) Commercial mortgage based Securities or Residential mortgage based securities
- 2) Asset Backed Securities regulated by the SEBI
- 3) Units issued by Real Estate Investment Trusts regulated by SEBI
- 4) Units of infrastructure Investment Trusts regulated by SEBI
- 5) Investments in SEBI Regulated 'Alternative Investment Fund' AIF (Category I and Category II only) as defined under the SEBI (Alternative Investment Fund) regulations 2012
- 6) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI guidelines

As stipulated by PFRDA, the investment in the above categories would be made in instruments which are listed or proposed to be listed except in case of category 1 and 2 above. Provided further that investment under this Scheme in Category 1 to 4 and 6 above shall be made only in such securities which have minimum AA equivalent rating in the applicable rating scale from at least two credit rating agencies registered with the Securities and Exchange Board of India (SEBI) under SEBI (Credit Rating Agency) Regulations, 1999. If the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered. For category 3 and 4 above, 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.

For category 1 and 2 above rating from only one rating agency will be sufficient.

The investment in AIF – category I and category 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 Regulation 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) Investment will be made only in those AIFs whose corpus is equal to more than Rs100 crores
- 4) Exposure to single AIF shall not exceed 10% of the AIF size
- 5) Funds shall not be invested in securities of the companies or funds incorporated and operated outside India in violation of section 25 of the PFRDA Act 2013
- 6) Sponsors of the Alternative Investment funds would not be the promoter in Pension fund or the promoter group of the pension fund
- 7) AIFs shall not be managed by investment manager, who is directly or indirectly controlled or managed by Pension fund or the promoter of the pension fund.

The investment in Basel-III Tier-1 bonds of Scheme A is allowed provided that –

- 1) Investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier-1 bonds are listed
- 2) In case of Initial offering of the bonds, investment shall be made only in such Tier-1 bonds which are proposed to be listed.
- 3) Total portfolio invested in this sub-category, at any time, can be upto a maximum of 5% of the total portfolio i.e. Scheme G+C+E+A for both Tier I and Tier II.
- 4) 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-1 bonds of any particular bank held by fund shall not exceed 20% of such bonds issued by that bank.
- 5) The investment by a single issuer shall not exceed 10% of the AUM of the scheme.

The exposure norms for sponsor/non-sponsor group shall not be applicable in Scheme A.

The exposure norms for investment in InvITs/REITs would be as under:

- (i) The cumulative Investments in Units and Debt Instruments of InVITs and REITs (Scheme C) shall not exceed 3% of total AUM of the Pension Fund at any point of time.
- ii) The Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.

Investment team is required to ensure diligence in the best interest of subscribers before investing in Scheme A. All the risks such as liquidity risk, integrity risk, operational risk and control issues and conflict of interest need to be considered while making a decision to invest in Scheme A and these are to be documented while making such decisions.

3.1.3. Fixed Income & Alternative Asset class Securities Selection Process

Asset Class G

As stipulated by PFRDA, the investments in this asset class should be made in Government Securities issued by RBI or other securities which are fully and unconditionally guaranteed by central or state government or Government of India – Fully serviced bonds. The selection of securities should be based on the view of the investment team on the interest rates, liquidity condition & managing the duration of the portfolio.

Asset Class C

Credit risk is a key risk in Bond Portfolio Management. Credit risk arises from the possibility that a borrowing entity will be unable to meet its interest and / or principal repayment obligations on a bond within the timelines set in the bond indentures. Hence a careful analysis and scrutiny is required at the time of setting up limits, on the amount of exposures that can be taken to a single borrower, as well as monitoring the financial health on an ongoing basis.

Any investment in non-Govt Securities assets has to follow the process of application for credit limits, evaluation, approval and regular monitoring, as described below.

1. All proposals for setting up credit limits for any borrower, other than Central & State Government Securities, have to be initiated by the Investment team.
2. The team will study the financial and business health of the borrower and submit a credit rationale for setting up limits for the borrower. Any credit appraisal should address the following areas:
 - a) Industry characteristics and the company's competitive position in the industry
 - b) Review of the financial data including topline growth, cost structure, trends in profitability, cash flow, leverage, debt coverage ratios, debt repayment schedule.
 - c) Key business and financial risks and mitigants if any.
 - d) Comments on the management track record.
 - e) Key data points to be monitored.
 - f) If required, stress test the assumptions made for forecasting the company's earnings and debt repayment capacity, to verify the soundness of the company's capital structure.
3. The CIO shall present the credit proposal to the Investment Committee for approval. After studying and debating the merits of the credit exposure, the committee may approve or reject the proposal. If a proposal is accepted, the limits will be allocated for the exposure.
4. Alternatively, the credit proposal will be circulated to the CEO & the non executive directors for discussion & approval. The investments will be made only after the approvals from the CEO & the non executive directors are obtained. The

- exposure limit for the approval would be in line with approved credit limits for the respective ratings approval. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting.
5. The Investment team shall maintain the records of all the credit limits approved by the Investment committee.
 6. The actual investment in any particular credit shall in all cases be subject to the regulatory limits/internal limits, whichever is lower.

Asset Class A

All risks including liquidity risk, integrity risk, operational risk and control issues and conflicts of interest needs to be considered while making a decision to invest in Scheme A and these are to be documented while making such decisions. Hence a careful analysis and scrutiny is required at the time of approving a new investment as well as monitoring the financial health on an ongoing basis.

Any investment in Scheme A has to follow the process of evaluation, approval and regular monitoring, as described below.

1. All proposals for fresh investment proposal have to be initiated by the Investment team.
2. The team will study the financial and business health of the investee securities and submit a rationale for investment. Any investment proposal should address the following areas:
 - g) Industry characteristics and the company's competitive position in the industry
 - h) Review of the financial data including topline growth, cost structure, trends in profitability, cash flow, leverage, debt coverage ratios, debt repayment schedule.
 - i) Key business and financial risks and mitigants if any.
 - j) Comments on the management track record.
 - k) Key data points to be monitored.
 - l) If required, stress test the assumptions made for forecasting the company's earnings and debt repayment capacity, to verify the soundness of the company's capital structure.
3. The CIO shall present the investment proposal to the Investment Committee for approval. After studying and debating the merits the committee may approve or reject the proposal. If a proposal is accepted, the investment limits will be allocated for the exposure.
4. Alternatively, the investment proposal will be circulated to the CEO & the non executive directors for discussion & approval. The investments will be made only after the approvals from the CEO & the non executive directors are obtained. The exposure limit for the approval would be in line with approved credit limits for the respective ratings approval. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting.

5. The Investment team shall maintain the records of all the investment approved by the Investment committee.

The actual investment in any particular securities shall in all cases be subject to the regulatory limits/internal limits, whichever is lower.

3.1.4. Credit/ Investment Limits Review Process – Scheme C & A

- 1) Once a credit/investment limit has been approved, the Investment team shall maintain an ongoing watch for any developments that affect the credit/investment quality of the borrower.
- 2) The Investment team will need to submit a proposal for a review of existing limits, necessarily after material events like a ratings change or management structure change. Any change in the external rating downgrade will be communicated to the IC in the subsequent meeting.
- 3) The Investment Committee shall monitor the following credit/ investment risk parameters at each of their meeting:
 - a. Exposure and the approved limits for each issuer/ investment
 - b. Rating wise exposure for various funds
 - c. Any approvals/limit changes since the previous meeting
 - d. Any significant credit/ investment development for any of the holdings since the previous meeting

3.2. Equity Process

Equity investments are a natural asset class for pension funds which have a long-horizon of investment. Equity investments are usually more volatile than fixed income and, crucially do not throw up a fixed or known stream of cash flows. The higher volatility in equities also results in higher expected returns from these investments. Equity investments are made as per mandate requirements

- 1) The benchmark index composition with regards to the stocks as well as sector distribution forms the initial mandate for the portfolio construction.
- 2) The group, industry sector exposure limits define the limits on the exposure to different stocks in the portfolio.

3.2.1. Equity Universe :

Equity investments, in Scheme E, as stipulated by PFRDA shall be made in

- 1) Shares of body corporate 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.

- 2) Exchange Traded Funds (ETF's)/ Index Funds, regulated by SEBI, which replicate the portfolio of either BSE Sensex index or NSE Nifty 50 index.
- 3) Units of equity schemes of mutual funds, regulated by SEBI, which have minimum 65% of their investment in shares of body corporate 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.
- 4) ETFs constructed specifically for disinvestment of shareholding of the Government of India in body corporate
- 5) Exchange traded derivatives, regulated by SEBI, 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 above 4 categories.
- 6) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI. IPOs with market capitalization, at the lower end of the IPO band higher than market cap of 200th stock, are eligible for participation.

Investments in the shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks, would be done basis the list of such stocks prepared by NPS Trust. The list of stocks would be circulated by NPS Trust and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be circulated by NPS Trust within 5 calendar days from the end of the 6 months period. Subsequent to any updation in the list, Pension Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of six months. The decision to hold such stocks in the portfolio shall have to be approved by the Investment Committee and also to be informed to the Board.

While investing in MFs, ETFs and Index funds, the underlying scrips of these MFs, ETFs or index funds should also comply with the stipulations for investments in Equity directly as mentioned in Point 1) above. However, this shall not be applicable for ETFs/Index Funds involving disinvestment of shareholding of the Government of India in body corporates.

If services of professional fund/assets managers for management of the assets is engaged, payment to whom is being made on the basis of the value of each transaction, the value of funds invested 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 in Liquid Mutual Funds and Overnight Funds would not be excluded for payment of investment management fee (IMF). Also, Investment in ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall also be eligible for payment of IMF.

3.2.2. Equity Stock Selection Process

- 1) The stocks which meet the above mentioned criteria become a part of our investible universe. The NPS Trust on a half yearly basis reviews the stocks which are in Top 200 in market capitalisation and publishes a list of the stocks. All stocks in the list issued by NPS Trust automatically become a part of our investible universe provided it meets all the investment criteria.
- 2) Of the investible universe, the investment team shall identify the stocks where the investments are likely to be made. A detailed research note will be prepared on these names. The research note should encompass the following aspects
 - a. Company description – Promoters & professional management, product prospects, past performance, (trend analysis), projections and the future plans, policies of the government, management and its impact.
 - b. Emphasis on quality management, its track record & policies should be highest
 - c. Industry Scenario – Market share of the company should be analyzed
 - d. Valuation of the company vis-à-vis the industry based on past financials and future projections
- 3) The research note will be circulated to the CEO & the non executive directors for discussion & approval. The investments will be made only after the approvals from the CEO & the non executive directors are obtained. The investments thus made shall be taken up in the subsequent Investment committee meeting for ratification and noting
- 4) Once the investment in a particular stock is made, the investment team has to keep an ongoing watch on any developments or changes in the fundamentals of the company.
- 5) Industries and companies are monitored and reviewed on a regular basis with a view to increase / decrease the portfolio's exposure to them, The stocks in the portfolio are reviewed based on certain criteria like:
 - a. Fundamental changes in the company
 - b. Company valuations
 - c. Risk to Earning forecast
- 6) Special emphasis should be placed on the quality and consistency of the management, the quality of earnings, their expected growth and the liquidity of the company's shares.
- 7) For IPOs, similar process would be followed and a detailed research note covering the above aspects and the details of the IPO would be made and only after the approvals, as per above identified process, the investments would be made.

3.3. Other Investments

3.3.1. Short term investments

Pending deployment as per investment objective, the moneys under the respective Schemes may be invested in short-term deposits upto 1 year of Scheduled Commercial

Banks as eligible, in short-term money market instruments like Commercial Papers & Certificate of Deposits with minimum rating of A1+ by at least two credit rating agencies or other liquid instruments or liquid schemes or overnight schemes or all such short duration funds of mutual funds as may be permitted by SEBI from time to time for investment of surplus funds for short term investment with the average total assets under management for most recent six months period of at least Rs. 5000 crs subject to a maximum of 10% of the scheme corpus.

3.3.1.1. Mutual Funds:

Investments may be made in units of a Debt scheme of a Mutual Fund as regulated by SEBI where investment is in short term securities with 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. 5,000/- crores.

Investments are made with a very short term objective of cash management in the funds from which such investments are made.

Investments shall be made only in the Liquid Funds, Overnight Funds and all such short duration funds, for which limits have been approved by the Board of Directors. The total AUM of the Liquid Fund, total AUM of all debt schemes managed by the Mutual Fund house, parentage, past performance etc are some of the key parameters for proposing investment limits for the Funds.

3.3.1.2. Deposits:

Pending deployment as per investment objective, the moneys under the respective Schemes may be invested in Term Deposit Receipts of up to one year maturity issued by such scheduled commercial banks which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law

- 1) Having declared profit in immediately preceding three financial years
- 2) Having net NPA's of not more than 4% of net advances

The amount of deposits placed with any bank will form a part of the bank's overall credit limit. The funds placed in bank deposits shall not be counted towards calculating the exposure to the banking sector. However, investments in deposits of a bank falling under the promoter group of the insurer, shall continue to be subjected to the promoter group exposure norms, as specified in the section on 'Exposure Limits'. The investment restrictions for bank deposits as stipulated PFRDA would apply to all investment made in them.

3.3.1.3. Commercial Paper

Pending deployment as per investment objective, the moneys under the respective Schemes may be invested in short-term money market instruments like Commercial Papers and Certificate of Deposit issued by body corporate with minimum rating of A1+ by at least two credit rating agencies. If commercial paper has been rated by more than two credit rating agencies, the lowest of the ratings shall be considered.

Investment can be made in Certificates of Deposit of up to one year duration issued by scheduled commercial banks which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law

- 1) Having declared profit in immediately preceding three financial years
- 2) Having net NPA's of not more than 4% of net advances

3.3.1.4. Investment in Triparty Repo

Pending deployment as per investment objective, the money under the respective Schemes may be invested in Government Securities as Lender in Triparty Repo (TREPS), conducted over the TREPS Dealing system provided by RBI. The margin requirements for TREPS shall be on similar lines as applicable for settlement of Government securities.

3.3.2. Investment in Derivatives:

Investments in derivatives will be made in all instruments as approved by PFRDA and the Board of Directors. Reference may be made to the separate Derivative Policy, as and when it is framed and approved by the board, for the use and management of derivatives in the company's investments.

3.3.3. Application in IPO/FPO/OFS:

Investments in an Initial Public Offering (IPOs) / Follow On Public Offer (FPO's) and Offer For Sale (OFS) are allowed in the respective asset classes. IPOs with market capitalization, at the lower end of the IPO band higher than market cap of 200th stock, are eligible for participation.

If the allotment of shares is received in the IPO, the fund can acquire fresh shares of the same company as long as the investment meets the conditions prescribed in the investment guidelines.

If the investment is done in equity shares of any company 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 available 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.

3.3.4. Leverage in the schemes:

No leverage, in any manner, is allowed in any of the schemes. The PFM shall be deemed to have leveraged the portfolio if it:

- 1) enters into borrowings or other financial arrangements or creates or purports or attempts to create any security, charge, mortgage, pledge, lien or encumbrance of any kind whatsoever on the assets of the portfolio or any part thereof;
- 2) undertakes any transaction the result of which would overdraw the account maintained by the Custodian on behalf of the PFM for the purpose of settling transactions;
- 3) commits the Trustee to supplement the assets of the portfolio or the account maintained by the Custodian on behalf of the PFM for the purpose of settling transactions without the prior written consent of the Trustee by a Proper Instruction, either by borrowing in the name of the PFM or the Trustee or by committing the PFM or the Trustee to a contract which may require the Trustee to supplement those assets; or
- 4) allows market movement to result in a leveraged position.

3.4. Broker empanelment

All secondary market trading should be channeled through multiple brokers empanelled by the company, to reduce the concentration risk of placing trades through a few brokers. PFRDA guidelines stipulate that the company shall transact (purchase or sell securities) through any empanelled broker and that not more than 5% of the total volume of trades of all the schemes in a block of twelve months should be transacted through any single broker.

All business will be transacted through empanelled brokers only. Brokers who wish to be part of the empanelled list, should apply as such along with the following documents–

- 1) Application form in the Prescribed format
- 2) Client Broker Agreement duly stamped & signed in the prescribed format
- 3) SEBI registration Certificate of NSE/BSE
- 4) Membership Certificate of NSE/BSE
- 5) Status report of NSE/BSE
- 6) Latest Net worth Certificate
- 7) Memorandum & Article of Association
- 8) Audited Annual Report for Last 3 Years
- 9) Copy of Latest Income Tax Return Acknowledgement.
- 10) Broker Agreement on Rs 600/- Stamp Paper & acceptance on letter head.
- 11) Directors Profile.

The investment operation function has to verify the documents to check that all requirements are in order. The Investment operation along with the compliance has to review the history of any penalties imposed on the firm by the exchanges and verify that the firm has not been declared as a defaulter nor has been indicted for any economic offenses, as part of the appraisal process.

The selection of broker depends upon the following criteria

- 1) Broker to have minimum networth of Rs 5 crs
- 2) The Broker should be empanelled with at least 10 other Institutions / Insurance Companies / Mutual Funds
- 3) The broker has never been declared a defaulter or membership has never been suspended to trade by SEBI of any Exchange
- 4) Quality of Servicing in terms of Research & trade execution

If they are collectively satisfied that the broker is eligible for empanelment, the proposal has to be sent to the Investment Committee for approval. After the Investment Committee approves the empanelment, the broker will be added to the list of empanelled brokers and the dealers may transact deals through the broker.

The Company's fixed income trades may be executed through a broker on an exchange or directly with counter-party.

The PF shall not utilize the services of the sponsor or any of its associate, employees or their relatives for the purpose of any securities transaction. The PF may utilize such services only after obtaining prior permission of the Trustees.

On an annual basis, the Investment operations along with compliance has to review the financials of all the empanelled brokers and verify the following documents –

- 1) Net worth Certificate for Mar
- 2) Status report for BSE / NSE for Mar
- 3) Audited Annual Report

The list of brokers empanelled for the Debt and the Equity segments is detailed in Annexure 3.

4. MANAGEMENT OF INVESTMENT RISKS

The broad risks in the investment portfolios can be classified under –

- 1) Interest rate risk
- 2) Credit Risk
- 3) Re-investment risk
- 4) Liquidity Risk (Market & Funding)
- 5) Asset Liability Mismatch Risk
- 6) Market Risk

These risks are the active risks that are to be managed through Investment management.

4.1. Liquidity Risk

Market liquidity risks arise due to the inability to buy or sell the required quantum of securities at the market prices without any impact on the market price of the securities whereas funding liquidity Risk is inability to meet short term obligations.

4.1.1. Fixed Income securities:

Liquidity risks are high in the fixed income market. A large portion of the traded volumes in the market can be attributed to a few ‘on-the-run’ benchmark securities. The rest of the securities are largely ‘illiquid’. Hence, liquidity risks are inherent in all fixed income portfolios.

Liquidity management in the fixed income portfolios depend on the fund objectives: Fixed income funds have a more active duration management and hence have higher level of portfolio turnover. Though there are no limits prescribed, the fixed income investments in these funds should endeavor to allocate a high proportion of the investments to ‘liquid’ on-the-run benchmark securities among Central Government & State Government securities. Investment in Corporate bonds should aim to invest a higher proportion in ‘liquid’ on-the-run bonds issued by highly rated companies in benchmark sizes and benchmark maturities.

4.1.2. Equity securities:

A large proportion of the equity cash market volumes are accounted for by the large cap index stocks. Liquidity in these large cap index stocks is very good with a good depth in the market to absorb large volumes. However, the market depth in most mid cap and small cap stocks is low and trading volumes are also low.

Liquidity in the equity portfolios is important & that is why the equity positions are mostly in the large cap names forming a part of the benchmark index. The level of liquidity risks should be assessed by the investment team to ensure that the equity portfolios do not have a high number of illiquid holdings. A liquidity report should be prepared at the end of every month to assess the liquidity position of the equity portfolio.

4.2. Interest Rate Risk

Interest rate risks arise in the Fixed Income portfolios from the changes in the value of securities due to changes in the interest rates.

Interest rate risk is the key risk for active management of fixed income portfolios. The level of interest rate risk is derived from the fund management team's views on interest rates and portfolio positioning.

4.3. Re-investment Risk

Re-investment risks arise in portfolios due to the changes in future interest rate levels such that future cash flows are invested at yields different from prevailing levels. Re-investment risks are acute when yields fall down such that the future cash flows in the form of regular subscription amounts and coupon payments are re-invested at lower yields, and reduce the total investment return from the initial estimates.

4.4. Credit Risk

Credit risk is an active risk that is managed by the fund management team based on market and credit views. Credit risks stem from a possible failure by an issuer of bonds to make the contracted payments in full at the specified time. Such failure results in a loss of returns and / or principal of the investment. Government securities are considered free from credit risks. All other securities have credit risks associated with the investments. All investments in instruments apart from Government securities have to be made in rated instruments only. The credit rating has to be assigned by a SEBI registered rating agency only.

The credit rating of a bond is the key indicator of the credit risk level of the bond investment. PFRDA regulations stipulate that apart from securities issued by state & central government, all the investments in Scheme C have to be rated A or above by atleast two credit rating agencies. These limits restrict the investments in lower rated instruments and mitigate the credit risk inherent in fixed income portfolios.

4.5. Asset Liability Mismatch Risk

Asset liability mismatch risk arises due to adverse liquidity and interest rate conditions on the financial statements due to unmatched asset and liability cash flows. The liability for the scheme is backed by assets held in the scheme. To ensure appropriate asset liability management, the assets of each scheme would be invested following the investment objective and liability profile.

4.6. Market Risk

Market risk arises from an adverse movement in the general levels of the equity or fixed income markets, possibly due to changes in the macro-economic conditions or any other factors that affect the market as a whole.

In fixed income portfolios with asset-liability matching these risks are minimal as long as the effect applies to both the assets as well as the liabilities.

Market risk is a key active risk that is managed by the funds management team in linked funds in both the Asset class E as well as Asset class G, C & A portfolios. These risks are managed based on market views and fund positioning.

4.6.1. Stop Loss Policy

Most equity investments are made with a medium to long term investment horizon. Fund managers implement their portfolio strategies based on market developments and fundamental research. Equity investments are volatile and may, at times, be influenced by short term developments which are not anticipated by the CIO/Fund Manager. Stop loss policy applicable to all equity investments in Asset Class E is covered under a separate Stop Loss policy.

There is no stop loss policy for fixed income investments. Fixed income securities have a known and fixed set of cash flows that accrue to the investors. These cash flows do not undergo any change during the life of the security. (for floating rate securities, there will be changes in the cash flows linked to market determined reference rate, which keep the value of the floating rate security close to par value.) Due to the known and fixed nature of cash flows that accrue to the investors, the volatility of the fixed income securities is lower. The investors of the fixed income securities will get the cash flows irrespective of the changes in the interest rate environment. Hence, there exists an upper and lower bound for values of fixed income securities as the level of interest rates does not have a large range.

5. SECURITIES TRADING LIMITS

The securities trading limits are defined separately for fixed income and equity assets. The current Authorization Limits for the Chief Investment Officer are as follows

- 1) Equity transactions
 - a. Limit of upto Rs.300 crores per transaction &
 - b. Limit of Rs.1,000 crores worth of transactions per day

- 2) Fixed Income Transactions
 - a. Limit of upto Rs.600 crores per transactions &
 - b. Limit of Rs.1,200 crores worth of transactions per day

Any transaction in excess of the above mentioned limits requires approval from the CEO.

6. PRUDENTIAL EXPOSURE LIMITS

6.1. Exposure limits

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. The PFRDA stipulated exposure norms for single company, group and industry sector are-

Type of Asset Class			Limit for entire 'group' of the investee company		Limit for Industry Sector to which the investee company belongs
			Sponsor Group	Non Sponsor Group	
Asset Class E			5% of Equity Paid up capital of all sponsor group companies or 5% of Total AUM managed by the pension fund, whichever is lower	15% of Equity Paid up capital of all non sponsor group companies or 15% of Total AUM under equity exposure, whichever is lower	Investment by the Pension Fund Manager in any industrial sector shall not exceed 15% of its total investment exposure across various schemes as per Level 5 of NIC classification.
Asset Class C	The Pension Fund shall not invest more than 10% of the Outstanding Debt instruments issued by single InvIT/REIT	The cumulative investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of total AUM of the Pension Fund	5% of the networth of all sponsor group companies or 5% of Total AUM in debt securities (excluding	10% of the networth of all non sponsor group companies or 10% of Total AUM in debt securities (excluding government securities) , whichever is	

	issue.	at any point of time.	government securities), whichever is lower	lower	
Asset Class G	Atleast 90% investments in Central or State Government Securities		Other securities which are – i) fully & unconditionally guaranteed by central or state government ii) Government of India – Fully Service bonds which are issued by PSUs on behalf of Government of India to raise Extra Budgetary Resources - limited to maximum 10% of AUM of Scheme		
Asset Class A	<p>Total portfolio invested in Basel III Tier-1 bonds, at any time, can be upto a maximum of 5% of the total portfolio i.e. Scheme G+C+E+A for both Tier I and Tier II.</p> <p>The cumulative investments in Units and Debt Instruments of InVITs and REITs shall not exceed 3% of total AUM of the Pension Fund at any point of time.</p> <p>The Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.</p>		<p>The investment by a single issuer shall not exceed 10% of the AUM of the scheme.</p> <p>The exposure norms for sponsor/non-sponsor group shall not be applicable on Scheme A.</p>		

If investments are made 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 Industry Concentration, Sponsor/ Non Sponsor group norms.

On a prudent basis, the total exposure in an individual group company stock would not be more than 10% of the total AUM of the Asset Class E.

6.2. Other Investment restrictions

- 1) The assets are not to be encumbered
- 2) The PF shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of the 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).
- 3) No investment in any unlisted security of an associate or group company is allowed.
- 4) No loans for any purpose can be advanced by the PF.
- 5) Pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme, the PF can invest the funds of the scheme in short-term deposits of scheduled commercial banks or in call deposits or in short term money market instruments or other liquid instruments or liquid schemes of mutual funds up to 10% of the scheme corpus on temporary basis.
- 6) NPS Funds shall not be used to buy securities/bonds held by the PF or its subsidiary in their own investment portfolio or any other portfolio held by them.
- 7) Transfer of investments from one Scheme to another Scheme in the same PF, shall be allowed only if:-
 - a. such transfers are made at the prevailing market price for quoted Securities on spot basis and
 - b. the Securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.

Such transfers may be allowed in following scenarios:

1. To meet liquidity requirement in a scheme in case of unanticipated redemption pressure
2. To adjust securities received through corporate action.

The inter scheme transfers are allowed only on exceptional basis. The Pension Fund shall inform NPS Trust and Authority upon exercise of this option.

- 8) Investments in Credit Default Swaps are also permitted only in accordance with the guidelines issued by SEBI
- 9) Suitable steps to be taken to control and optimize the cost of management of the fund.
- 10) A list of group companies of the fund and those of the sponsor shall be published on the Pension Fund's website

6.3. Exposure limits for Shareholders Funds

The Exposure limits for the shareholders funds is as follows

S. No	Asset Type	Description/Tenor	Exposure Limit
1	Government Securities	GSECs: upto 15 years maturity SDLs, GOI guarantee and GOI Serviced bonds: upto 10 years maturity	40%-60%
2	Corporate Debentures (AAA rated)	0 to 10 year maturity	30%-60%
3	Cash & cash Equivalents including Bank Fixed Deposits	Liquid funds, overnight funds or 0 to 6m FD	0%-30%

1. Liquidity of the investments should be the key parameter for the choice of instruments in this portfolio.
2. Interest rate risk is low in the fund due to the limited duration exposure.
3. Credit risk is a major risk inherent in this fund, hence the investments are to be made in highly liquid instruments, it is recommended that the all investments in Corporate Debentures are made in 'AAA' or equivalent rated instruments only.

7. VALUATION OF SECURITIES

The valuations of securities are done based on the security level valuation provided by the Valuation Agency. CRISIL Limited , which is one of the AMFI approved third party valuation agency has been appointed by NPS trust in consultation with all pension funds for providing valuation services for the schemes under NPS. CRISIL is providing the valuation to the Pension funds since 1st April 2022. The valuation policy of the Valuation Agency is based on valuation guidelines issued by PFRDA and as amended from time to time. Mutual fund units are valued at the latest available / previous day net asset values from AMFI website.

8. PERFORMANCE AND RISK REPORTING

The investment objectives for the three asset classes are outlined below:

8.1. Asset class E (Equity Scheme)

8.1.1. Benchmark

The performance of the scheme will be measured by reference to the total performance (dividends reinvested) of BSE 200 Index.

8.1.2. Performance objective

The investment objective is to optimise returns while investing in the chosen index over a rolling annual basis.

8.2. Asset class G (Government securities scheme)

8.2.1. Performance objective

The investment objective is to optimise returns.

8.2.2. Risk

The PF should identify and justify the additional risks relative to the return, while managing the portfolio on an absolute return basis.

8.3. Asset class C (Corporate bond scheme)

8.3.1. Performance objective

The investment objective is to optimise returns.

8.3.2. Risk

The PF should identify and justify the additional risks relative to the return, while managing the portfolio on an absolute return basis.

Performance measurement and communication is an important aspect of the investment function.

All funds have a daily NAV that includes the income earned by the fund from interest, dividends, profits and losses from sale of securities and the unrealized gains and losses on securities due to changes in the mark-to-market values of the securities in the funds. The change in the NAV, during the period for which the fund performance is being measured, gives the returns from the fund.

To avoid any conflict of interest, all performance measurement and reporting will be made by the operations department personnel independent of any front-office inputs.

All Funds performances are to be reported along with the relevant benchmark returns, for all the periods that the performances of the funds are reported.

Performance reporting forms a part of the risk reporting as well. The out-performance of the funds over the relevant benchmark returns quantifies the outcome of the active risk management in the portfolios. The key active risks are Interest rate risk, Market risk and Credit risk.

8.4. Breach/Deviation Reporting

Nature of Exception	Regularization Period
<p>I Active Breach:</p> <p>Active breach of investment are such where the breach has happened, due to non adherence of regulations / guidelines/ circular issued by the PFRDA except arising out of corporate action/events or due to extreme market fluctuations.</p>	<p>Such breaches have to be regularize immediately within 3 business days from the date of the Active breach</p>
<p>II Passive Breach:</p> <p>All other deviations which are not Active shall be treated as Passive breach.</p>	<p>Such breaches have to be regularize on priority</p>

All deviations / breaches, if any have to be reported by Pension Fund in its periodic reporting to NPS Trust, along with the date on which breach happened & the date of regularization.

Instances which could be treated as Breach/Deviation:

Active Breach	Passive Breach/Deviation
<p>Failure of Monitoring system resulted in exceeding the limits of investment in a particular asset class.</p>	<p>Any deviation which takes place due to Corporate action</p>
<p>Failure to take appropriate action on time when the limits are very much closer of exceeding the investment limit</p>	<p>Temporary deviation in asset class exposure arising due to extreme market fluctuation - Extreme market fluctuation are, 1) Equity indices (Nifty 50) movement of more than 2% OR</p>

	2) 10 year benchmark GOI yield movement of more than 25 basis points, On closing basis, on date of breach/deviation
Non-adherence of / to, 1) Issuer / exposure limits 2) Sectoral / Industry limits 3) Sub-limits of particular asset class 4) Sponsor/Non-sponsor group exposure limits 5) Credit rating requirement prescribed in the investment guidelines 6) Broker limits 7) Disclosure norms within the prescribed timelines on case to case basis	Any other breach/deviation recommended by NPS trust on case to case basis
Breaches due to incorrect classification of investments in different asset classes across schemes resulting into deviation of the limits	
Making new investments in the securities which are not in the Investment universe	
Non disclosure / Non reporting of breaches to NPS trust as per prescribed timeline	

Exception Approval Matrix

Nature of Exception	Approvals Required	Justification for Breach
Passive Breaches	Approval from CEO if the passive breach continues beyond one month of its occurrence.	While passive breaches have to be rectified on priority, there is no specified timeline for the same, as per PFRDA regulations. Investment team would try

		<p>to rectify any passive breach in the portfolios within one month of its occurrence.</p> <p>If the passive breach is not rectified within one month, the investment team would put up a justification note for the same.</p>
<p>Money Market Breaches in Scheme A Tier-1</p>	<p>Approval from any one of Compliance Officer/ CEO/CFO/ CRO</p>	<p>Basis the PFRDA Investment Guidelines, Scheme A-Tier-I is mandated to invest in specified alternative asset classes like Additional Tier 1 Bonds, AIFs, InVITs, REITs, etc. However, given the uncertainty of funds flow and limited availability of eligible securities in the market and the liquidity concerns, the only appropriate asset class for investment in the fund currently is additional Tier 1 bonds/InVITs/REITs.</p> <p>Further, given the limited availability of such AT1/InVITs/REITs issues (with dual ratings) in the market at reasonable valuations, it makes the investment universe further restrictive. Hence investments are made in the few available approved securities appropriate to the mandated asset classes, resulting in deviation to the</p>

		<p>exposure norms in Money market instruments. The cash surplus is invested in the liquid/overnight mutual funds to ensure optimum utilization of cash flow, in the best interest of the subscribers. Money Market Breaches may continue in the scheme till the time the investments universe for the scheme expands or more AT1/InVITs/REITs issues (with dual ratings) are available in the market at reasonable valuations and liquidity.</p>
<p>Non Sponsor Investee Group Exposure Max 10% of Scheme in Scheme A</p>	<p>Approval from any one of Compliance Officer/ CEO/CFO/ CRO</p>	<p>Scheme A's investment universe consists of specified alternative asset classes like Additional Tier 1 Bonds, AIFs, InVITs, REITs, etc. However, given the uncertainty of funds flow and limited availability of eligible securities in the market and the liquidity concerns, the only appropriate asset class for investment in the fund currently is additional Tier 1 bonds/InVITs/REITs. Further, given the limited availability of such AT1/InVITs/REITs issues (with dual ratings) available in the market at reasonable valuations, it makes the investment universe further restrictive. Hence</p>

		<p>investments are made in the few available approved securities appropriate to the mandated asset classes which results in deviation to the exposure norms. The scheme would be compelled to invest its fund basis the aforementioned approach till the time the available investment universe expands or is able to purchase Additional Tier 1 bonds/ REITs/ InVITs issued by issuers where PFM has credit comfort. The breach in the non-sponsor group exposure limit happens as we invest in AT-1 bonds of issuers with credit comfort beyond the 10% limit. This deployment of the cash beyond 10% limit allowed by the Authority helps us generate higher returns for the subscribers as the returns from overnight/liquid mutual funds are quite low.</p>
<p>Extreme Circumstances – Any active breach arising out of fund management action/ decision</p>	<p>Prior approval from any of Compliance Officer, CRO, CEO, Non Executive Directors</p>	<p>Such exceptions shall be allowed in Extreme scenarios only and justification shall be recorded in writing along with prior approval of the deviation.</p>

9. SCOPE OF AUDIT OF INVESTMENT FUNCTION

9.1. Scope

The scope of audit of the investment front office shall at least cover the following –

- To ensure compliance with applicable PFRDA guidelines and circulars and directives issued for time to time in respect of all Investment activities.
- Concurrent audit of all Investment activities covering Front Office operations, Back Office operations and Fund Accounting activities to be undertaken (including compliance with the delegation of financial powers, Limits monitoring, Risk mitigation, etc)
- Concurrent audit of all transactions/deals along with supporting documents viz. deal tickets, equity and bond master creation as per term sheet or company information memorandum, broker notes and also with respect to Authority Limits and Investment Policy as defined from time to time.
- Daily checking of NAV (including initialing of the NAV report on daily basis by the audit team leader) for all the schemes.
- Review of overall Investment related activities dealing with empanelment of brokers, segregation of responsibilities, code of conduct for dealers, allocation of expenses to various funds/Investments etc
- Review of Investment Policy and implementation thereof.
- Compliance to Employee Dealing Guidelines

9.2. Other areas

- Standard Operating Procedure review
- Delegation of Authority
- Front Office – Investment Operations – Segregation of duties
- Maintenance of voice recorder for transactions done
- Custodian Controls
- Exposure/Prudential/Other norms – Company/Group/Sector/Industry
- Non-performing Investments
- Inter Fund Transfers
- Controls & Compliance with Regulations for different types of Investments
- Investments in Debt instruments
- Investible Surplus determination
- Accounting policy adherences vis-à-vis the investment function
- Minimum Risk management system and Process review
- Investment in promoter groups
- Back up and restoration of the Investment System data is as per the Backup Management Policy
- Review of follow-up on PFRDA inspection reports
- Review of follow-up for recovery of overdue
- Follow-up on previous Audit Reports

- Review of half yearly and yearly scheme financials.

The finalization of the scope of work for the audit of the Investment function falls within the ambit of the Board of Directors of the Company.

10. EMPLOYEES' CODE OF CONDUCT

All employees of the Company are required, as part of their contracts of employment, to abide by the company's code of conduct, so as to enable the Company to ensure that there is no conflict of interest between transactions of employees and the Company and interest of the policyholders and stakeholders.

10.1. Objective

The purpose of the policy is to specify minimum guidelines and ensure that:

- All personal securities transactions are conducted in such a manner so as to avoid any actual or potential conflict of interest vis-à-vis investment transactions by HDFC PMC.
- Key Personnel should not take undue advantage of any price-sensitive information that they may have in the course of working with HDFC PMC
- The interests of the subscribers are not adversely affected.
- To guide employees in maintaining a high standard of probity that one would expect from an employee in a position of responsibility.

10.2. Investments Covered

- These guidelines cover transactions for purchase or sale of any securities in the primary, secondary market made in the employee's name, immediate family members either individually/jointly and/or as a member of HUF or as a nominee.

A complete description of the Code of Conduct and Employee Dealing Policy is part of the Compliance function and the reference may be made to the complete document for all the details regarding specific restrictions, safe-guards, approvals and disclosures.

Annexure 1

Approved Equity stocks for investment (Scheme E)

Sr. No.	Scrip Name	Sr. No.	Scrip Name
1	Tata Consultancy Services Ltd	33	Bajaj Finance Ltd
2	Reliance Industries Ltd	34	Yes Bank Ltd
3	HDFC Bank Ltd	35	Adani Ports & Special Economic Zone Ltd
4	ITC Ltd	36	Indus Towers Ltd
5	Oil & Natural Gas Corporation Ltd	37	Lupin Ltd
6	Housing Development Finance Corporation Ltd	38	Hero MotoCorp Ltd
7	State Bank of India	39	GAIL (India) Ltd
8	Infosys Ltd	40	Shree Cement Ltd
9	Indian Oil Corporation Ltd	41	Godrej Consumer Products Ltd
10	Hindustan Unilever Ltd	42	Hindustan Petroleum Corporation Ltd
11	Maruti Suzuki India Ltd	43	Motherson Sumi Systems Ltd
12	Coal India Ltd	44	Dabur India Ltd
13	Sun Pharmaceutical Industries Ltd	45	Zee Entertainment Enterprises Ltd
14	ICICI Bank Ltd	46	Grasim Industries Ltd
15	Kotak Mahindra Bank Ltd	47	Ambuja Cements Ltd
16	Larsen & Toubro Ltd	48	Cipla Ltd
17	Bharti Airtel Ltd	49	Zybus Lifesciences Ltd
18	NTPC Ltd	50	Siemens Ltd
19	Tata Motors Ltd	51	Tata Steel Ltd
20	Axis Bank Ltd	52	Dr Reddys Laboratories Ltd
21	Wipro Ltd	53	Tech Mahindra Ltd
22	HCL Technologies Ltd	54	Rural Electrification Corporation Ltd
23	UltraTech Cement Ltd	55	Britannia Industries Ltd
24	Bharat Petroleum Corporation Ltd	56	Bank of Baroda
25	Power Grid Corporation of India Ltd	57	Bharat Electronics Ltd
26	Asian Paints Ltd	58	Hindalco Industries Ltd
27	IndusInd Bank Ltd	59	UPL Ltd
28	Bajaj Auto Ltd	60	Punjab National Bank
29	Mahindra & Mahindra Ltd	61	LIC Housing Finance Ltd
30	Vedanta Ltd	62	Petronet LNG Ltd
31	Bosch Ltd	63	Vodafone Idea Ltd
32	Eicher Motors Ltd	64	Havells India Ltd

Sr. No.	Scrip Name	Sr. No.	Scrip Name
65	Cummins India Ltd	86	SBI Life Insurance Company Ltd
66	MRF Ltd	87	CAMS
67	Glenmark Pharmaceuticals Ltd	88	Colgate India
68	United Spirits Ltd	89	Ramco Cement
69	Shriram Transport Finance Company Ltd	90	ICICI Lombard
70	Ashok Leyland Ltd	91	Gland Pharma
71	TVS Motor Company Ltd	92	Dr Lal Pathlab
72	L&T Finance Holdings Ltd	93	Indigo Paints
73	Exide Industries Ltd	94	Alkem Labs
74	Mahindra & Mahindra Financial Services Ltd	95	Alembic Pharma
75	Divis Laboratories Ltd	96	Gujarat Gas
76	Federal Bank Ltd	97	City Union Bank
77	Indraprastha Gas Ltd	98	Mindtree
78	Bajaj Finserv Ltd	99	Mphasis
79	Cholamandalam Investment & Finance Company Ltd	100	SBI Cards
80	ICICI Prudential Life Insurance Company Limited	101	Crompton Consumer
81	Nestle India Limited	102	Astral
82	RBL Bank Ltd	103	PB Fintech Ltd
83	Pidilite Industries	104	Bharat Forge
84	Voltas Limited	105	ACC
85	Titan Industries		

Annexure 2

Approved credit limits for investments (Scheme C & A)

S.No.	Issuer Name	Approved IC Limit (Face Value Rs cr)
1	Axis Bank Ltd.	600
2	Bajaj Finance Ltd.	500
3	Capital First Ltd.	250
4	Export Import Bank Of India	250
5	Food Corporation of India Ltd.	250
6	Hindalco Industries Ltd.	150
7	Housing Development Finance Corporation Ltd.	250
8	ICICI Bank Ltd.	250
9	IDFC First Bank Ltd	250
10	Indian Railway Finance Corporation Ltd.	600
11	Indusind Bank Ltd	150
12	Infrastructure Leasing And Financial Services Ltd.	NA
13	L&T Finance Ltd	500
14	L&T Limited	250
15	Lic Housing Finance Ltd.	1,000
16	Mahindra and Mahindra Financial Services Limited	250
17	National Bank for Agriculture & Rural Development	600
18	National Hydro Electric Power Corp	450
19	National Thermal Power Corporation Ltd.	600
20	Nuclear Power Corporation of India Limited	250
21	Power Finance Corporation Ltd./ Rural Electrification Corporation Limited	1,000
22	Power Grid Corporation of India Ltd.	450
23	Reliance Industries Ltd.	250
24	Reliance Ports & Terminals Ltd.	450
25	Shriram Transport Finance Co. Ltd.	250
26	State Bank of India	1,000
27	Tata Sons Ltd.	250
28	United Phosphorous Ltd.	250
29	Airport Authority of India	250
30	Bharat Petroleum Corporation Ltd	250
31	Grasim Industries Ltd	600
32	Hindustan Petroleum Corporation Ltd	450
33	India Infrastructure Finance Company Ltd	250
34	Kotak Mahindra Prime Ltd	250
35	Sundaram Finance Ltd	250

36	Ultratech Cements Ltd	250
37	ICICI Securities primary Dealership Ltd	250
38	Tata Capital Financial Services	150
39	National Highway Authority of India	600
40	HUDCO Government of India Serviced bonds	250
41	HDFC Credila Financial Services Pvt Ltd	250
42	SBI Cards and Payment Services Private Limited	250
43	ICICI Home Finance Co Ltd	250
44	Mangalore Refinery and Petrochemicals Limited	600
45	BSNL Gol guaranteed bonds	150
46	ICICI Pru Life	250
47	Bank of Baroda	250
48	Cholamandalam Investment & Finance Co	450
49	Fullerton India	450
50	SIDBI	600
51	NHB	600
52	Embassy REIT	30
53	Mindspace REIT	30
54	Powergrid InVIT	30
55	Max Life Insurance	150
56	Jamnagar Utilities & Power Private Limited	450
57	HDFC Ergo General Insurance Co Ltd	75
58	Muthoot Finance Limited (MFL)	450
59	India Grid Trust (Indigrid)	450
60	Canara Bank	500
61	Indian Bank	250
62	Indigrid InVIT	30
63	Bajaj Housing Finance Limited	450
64	Indian Oil Corporation Limited	600

Annexure 3

List of empanelled brokers

A) Equity segment

S. No.	Name of the Broker	Segment
1	Kotak Securities	Equity
2	Morgan Stanley India Company Pvt Ltd	Equity
3	EDELWEISS Securities	Equity
4	IIFL Securities Ltd	Equity
5	Motilal Oswal Securities Ltd	Equity
6	CLSA Securities	Equity
7	JM Financial Institutional Securities Pvt. Ltd.	Equity
8	Ambit Capital Private Limited	Equity
9	Anand Rathi Share and Stock Brokers Limited	Equity
10	Emkay Share and Stock Brokers P Ltd	Equity
11	Antique Stock Broking Limited	Equity
12	ICICI Broking	Equity
13	Dhanki Securities P Ltd	Equity
14	Prabhudas Lilladher Pvt, Ltd	Equity
15	Axis Capital Ltd	Equity
16	Asian Markets Securities Pvt Limited.	Equity
17	Daiwa Capital Markets India Private Limited	Equity
18	SBI Capital Markets Ltd	Equity
19	PhillipCapital (India) Pvt Ltd	Equity
20	B&K Securities India Pvt Ltd	Equity
21	Nirmal Bang Equities Pvt Ltd	Equity
22	Damani Financial Services Pvt Ltd	Equity
23	Mangal Keshav Capital Ltd	Equity
24	Keynote Capitals Limited	Equity
25	Centrum Broking Limited	Equity
26	BOB Capital Markets Limited	Equity
27	Jefferies India Private Limited	Equity
28	Equirus Securities Private Limited	Equity
29	Yes Securities	Equity
30	Elara Securities	Equity
31	Dolat Capital Private Limited	Equity
32	Sanford C. Bernstein (India) Private Limited	Equity
33	Spark Capital Advisors (India) Pvt.Ltd	Equity

B) Debt Segment

S. No.	Name of the Broker
1	Derivium Tradition Securities (India) Pvt.Ltd.
2	A.K. Stockmart Private Limited
3	ICAP India Pvt Ltd.
4	Crest Finserv Ltd
5	Trust Financial Consultancy Ser Pvt Limited (DEBT)
6	Arete Securities Ltd (Debt)
7	LKP Securities
8	Edelweiss Securities Ltd (Debt)
9	Taurus Corporate Advisory Services Ltd
10	Sunidhi Securities and Finance Ltd

Annexure 4

List of approved Liquid and Overnight Mutual Funds and investment limits

Name of Fund	Investment Limits (in Rs)
ICICI Prudential Liquid Fund – Direct plan – Growth / ICICI Prudential Overnight Fund – Direct Plan – Growth	1000 crs
Kotak Liquid Fund – Direct Plan – Growth Option/ Kotak Overnight Fund -Direct Plan-Growth Option	1000 crs
Aditya Birla Sun Life Liquid Fund – Growth - Direct Plan/ Aditya Birla Sun Life Overnight Fund-Direct Plan-Growth	1000 crs
SBI Liquid Fund – Direct Plan – Growth / SBI Overnight Fund - Direct Plan - Growth	1000 crs
Invesco India Liquid Fund – Direct – Growth / Invesco India Overnight Fund-Direct-Growth	100 crs
Axis Liquid Fund(G)-Direct Plan / Axis Overnight Fund(G)-Direct Plan	1000 crs

Combined limit of the liquid mutual fund and overnight mutual fund for each of AMC would be as given under investment limits above.