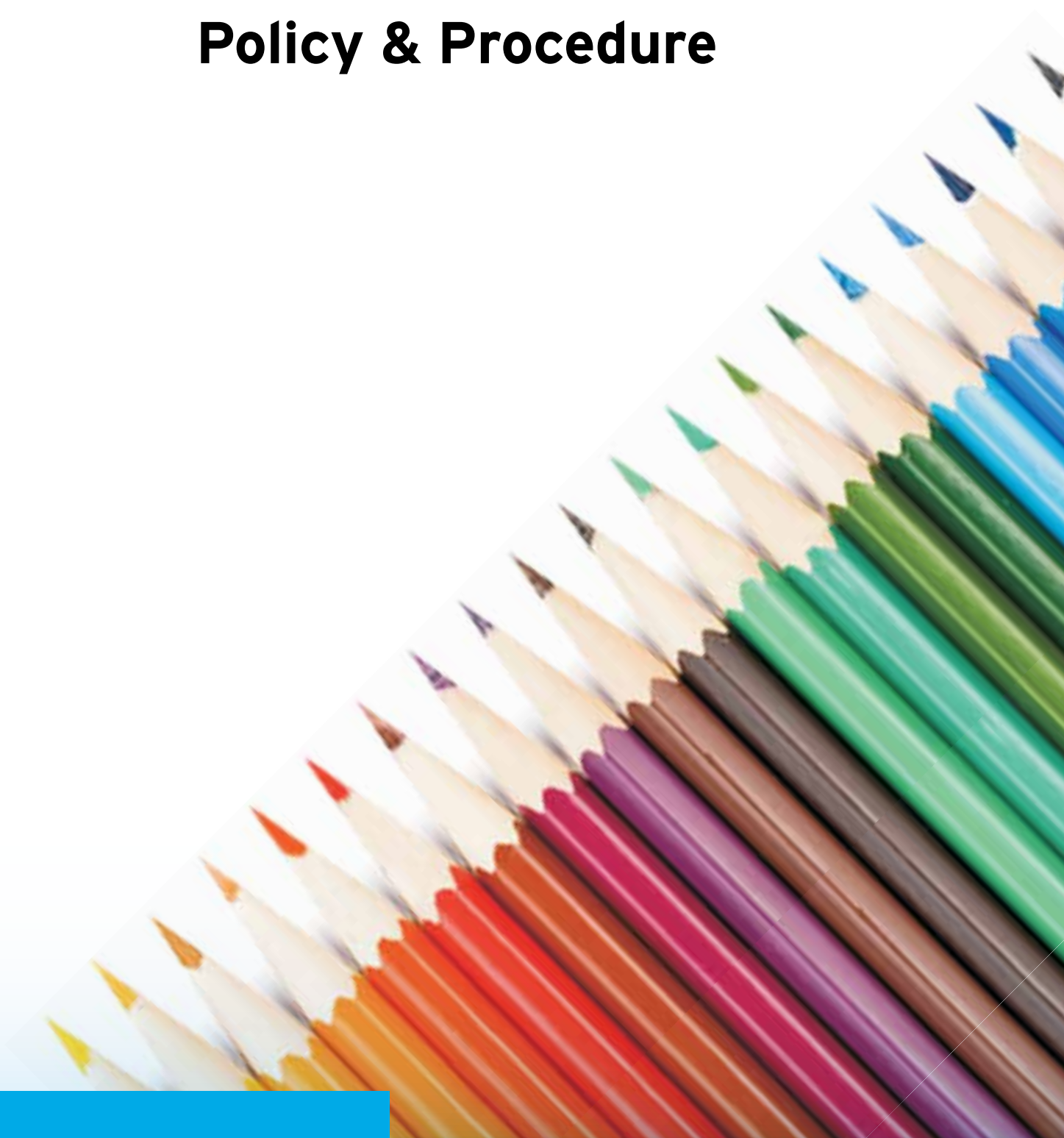


# Investment Valuation Policy & Procedure



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## 1. Introduction

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under SEBI (Mutual Funds) Regulations, 1996 as amended from time to time. The Investment Valuation Norms are defined in the Eighth Schedule of the regulations (regulation 47) and circulars issued by SEBI from time to time.

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

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

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

## 2. Objectives

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

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

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

## 3. Valuation Methodologies

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

## 4. Exceptional Events

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

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

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

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

## 5. Deviation From the policy, if any

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

## 6. Conflict of interest

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

## 7. Record maintenance

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

## 8. Detection & prevention of incorrect valuation

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

## 9. Periodic review

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

## 10. Disclosure

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

## Annexure I

### Valuation Norms for Securities / Assets

#### A. Equity and Equity Related Securities

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

		<p>Computation of fair value per share to be considered for valuation at 15 % discount for illiquidity.</p> $[(\text{Net worth per share} + \text{Capitalized value of EPS}) / 2] * 0.85$ <p>In case the latest balance sheet i.e. balance sheet prepared within nine months from the close of the accounting year of the company, is not available (unless the accounting year is changed) the shares should be valued as zero.</p> <p>At the discretion of the AMC and with the approval of the trustees, unlisted equity scrip may be valued at a price lower than the value derived using the aforesaid methodology.</p>
4.	Equity / Index Options & Equity / Index Futures Derivatives	The Exchanges give daily settlement prices in respect of all derivatives positions. These settlements prices shall be used for the purpose of valuation.
5.	ADR/GDR/Offshore Securities	<ul style="list-style-type: none"> <li>• If the security is listed in a time zone ahead of ours than the same day price as provided by Reuters would be used for valuation.</li> <li>• If the security is listed in a time zone behind ours than the previous day's price would be used for valuation.</li> <li>• In case the security is not traded on the above mentioned days, price of previous day should be used provided the price is not prior than 30 days.</li> <li>• In case the security is not traded for more than 30 days, AMC shall provide the fair price for the same.</li> </ul> <p><b>Conversion of prices in foreign currency to Indian Rupees ('INR'):</b></p> <p>The prices of securities which are denominated in foreign currencies (i.e. ADR/GDR/Offshore securities/units of overseas mutual funds) need to be converted into INR. For converting the prices of overseas securities, the appropriate foreign currency INR exchange rate available on Reuters at 5.00 p.m. IST would be used.</p> <p>In case, the Reuters exchange rate is not available, then the following sources will be used for exchange rate in the order of priority.</p> <ul style="list-style-type: none"> <li>• Exchange rate available on Bloomberg at 5.00 p.m. IST; or</li> <li>• RBI Reference rate as at the close of banking hours on the relevant business day in India; or</li> <li>• Any other publicly available source.</li> </ul>
6.	Application Money for Primary Market Issue:	Application money should be valued at cost up to 60 days from the closure of the issue and / or allotment. If the security is not allotted within 60 days from the closure of the issue or listed within 60 days from the date of allotment, application money is to be valued as per the directives of valuation committee. Rationale of valuing such application money should also be recorded.
7.	Shares on De-merger and Other Corporate Action Events	<p><b>Both the shares are traded immediately on de-merger:</b> In this case both the shares are valued at respective traded prices.</p> <p><b>Shares of only one company continued to be traded on de-merger:</b> In such a scenario, the shares of Non Traded/Unlisted would be fairly valued in good faith by AMC on case to case basis. Traded share shall be valued at traded price.</p> <p><b>Both the shares are not traded on de-merger:</b> In such a scenario, the shares of both the companies would be fairly valued in good faith by AMC on case to case basis.</p> <p>In case of any other type of capital corporate action event, the same shall be valued at fair price on case to case basis.</p>

## B. Debt and Money Market Securities

1.	Traded Securities	<p><b>For securities with residual maturity &gt; 60 days:</b></p> <p>Debt securities, including Bills rediscounting, which have a security level price provided by both CRISIL and ICRA will be valued at the price derived from the aggregator.</p> <p>In case of first time issuance in the market for which CRISIL and ICRA cannot provide a security level price, the valuation of such securities shall be done at the weighted average clean price / weighted average yield of all the purchases made by the Religare Invesco Mutual Fund on the day of purchase.</p> <p>The prices received from CRISIL and ICRA shall be ignored during the notice period of a security which has either a Put or Call option. The notice period will begin from the date of exercise of the option (notice date) till the put or call date and the price will be amortized from the exercise date till the date of put or call.</p> <p>In abnormal situations, market disruptions where current market information may not be obtainable and in case CRISIL and ICRA are unable to provide a security level price for any security on particular day(s), the fund manager(s) will, with the approval of Valuation Committee, value the securities appropriately to ensure true and fair valuation.</p>
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		<p><b>For securities with residual maturity &lt;= 60 days:</b></p> <p>Assets will be amortized on straight line basis as long as their valuation remains within <math>\pm 0.10\%</math> band of the price derived from the reference yield (reference price) provided by agency(ies) appointed by AMFI).</p> <p>In case the amortised price falls outside the above band, the reference price of the asset will be adjusted in order to bring the price within <math>\pm 0.10\%</math> band.</p> <p>At the time of first purchase, the spread between the purchase yield and the benchmark yield, as provided by the AMFI designated agency(ies) will be fixed. The addition of this spread to the benchmark yield will provide the reference yield. This spread will remain fixed through the life of the instrument &amp; will be changed only after providing the justification for the change. In case of subsequent trades in the same security by the AMC of minimum Rs. 5 crores face value, including inter scheme transfer, the valuation will reflect the weighted average yield of the traded securities.</p> <p>The spread can also be changed after prior approval of the Chief Executive Officer (CEO), in case of change in the credit rating or credit profile of the issuer which would require a re-evaluation to reflect appropriate spread.</p>
2.	<b>Non-Traded Securities</b>	<p><b>For securities with residual maturity &gt; 60 days:</b></p> <p>Debt securities, including Bills rediscounting, which have a security level price provided by both CRISIL and ICRA will be valued at the price derived from the aggregator.</p> <p>In case of first time issuance in the market for which CRISIL and ICRA cannot provide a security level price, the valuation of such securities shall be done at the weighted average clean price / weighted average yield of all the purchases made by the Religare Invesco Mutual Fund on the day of purchase.</p> <p>The prices received from CRISIL and ICRA shall be ignored during the notice period of a security which has either a Put or Call option. The notice period will begin from the date of exercise of the option (notice date) till the put or call date and the price will be amortized from the exercise date till the date of put or call.</p> <p>In abnormal situations, market disruptions where current market information may not be obtainable and in case CRISIL and ICRA are unable to provide a security level price for any security on particular day(s), the fund manager(s) will, with the approval of Valuation Committee, value the securities appropriately to ensure true and fair valuation.</p> <p><b>For securities with residual maturity &lt;= 60 days:</b></p> <p>Assets will be amortized on straight line basis as long as their valuation remains within <math>\pm 0.10\%</math> band of the price derived from the reference yield (reference price) provided by agency(ies) appointed by AMFI).</p> <p>In case the amortised price falls outside the above band, the reference price of the asset will be adjusted in order to bring the price within <math>\pm 0.10\%</math> band.</p> <p>At the time of first purchase, the spread between the purchase yield and the benchmark yield, as provided by the AMFI designated agency(ies) will be fixed. The addition of this spread to the benchmark yield will provide the reference yield. This spread will remain fixed through the life of the instrument &amp; will be changed only after providing the justification for the change. In case of subsequent trades in the same security by the AMC or others (reported on a public platform), the valuation will reflect the weighted average yield of the traded securities as long as it meets the above mentioned criteria for traded securities maturing below 1 year.</p> <p>The spread can also be changed after prior approval of the Chief Executive Officer (CEO), in case of change in the credit rating or credit profile of the issuer which would require a re-evaluation to reflect appropriate spread.</p>
3.	<b>Inter-Scheme Transfer (IST)</b>	<p>IST would be at the price derived from the weighted average yield / price of traded securities at the time of the IST:</p> <p><b>For instruments maturing above 1 year:</b></p> <p>The weighted average yield / price of traded securities (excluding inter scheme transfers of others) will be considered if there are at least two trades aggregating to Rs. 25 crores or more for same or similar security on a public platform*; or</p> <p>Trades of the AMC of minimum Rs. 5 crores face value.</p> <p><b>For instruments maturing below 1 year:</b></p> <p>The weighted average yield / price of traded securities (excluding inter scheme transfers of others) will be taken if there are at least three trades, with each trade being of a minimum Rs. 25 crores face value, aggregating to Rs. 100 crores or more for same or similar security on a public platform*; or Trades of the AMC of minimum Rs. 5 crores face value.</p> <p><b>Note:</b> Outlier trades, if any, will be ignored after recording of suitable justification.</p> <p><b>Criteria for identifying similar securities:</b></p> <p>Similar security should be identified by the following waterfall logic, provided that the maturity date of the security is within the same calendar quarter:</p>



		<p>i. Same issuer and same type of asset, with maturity date within <math>\pm 15</math> working days of maturity date of security shall be considered first. If no such instance is available, then Step ii to be followed:</p> <p><b>Example:</b> For Punjab National Bank CD maturing on March 6, 2013, all secondary market trades of Punjab National Bank CDs maturing within February 13, 2013 to March 28, 2013 will be considered first.</p> <p>ii. Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution etc) and similar credit rating, with maturity date within <math>\pm 15</math> working days of maturity date of security will be considered.</p> <p><b>Example:</b> For Punjab National Bank CD maturing on March 6, 2013, all secondary market trades of similar public sector bank CDs maturing within February 13, 2013 to March 28, 2013 will be considered.</p> <p><b>Note:</b> Outlier trades, if any, will be ignored after recording suitable justification. The existing policy of valuation will be followed until the reference prices are available from the designated agencies. <b>If due to the non-availability of traded securities, at the time of the IST, the above mentioned criteria cannot be fulfilled, the IST would be done at the previous day's price.</b></p>
4.	Valuation of Government Securities/ State Government Securities (SDL)/ T Bills/ Cash Management Bills	<p><b>For securities with residual maturity &gt; 60 days:</b> Valuation basis would be the average of security level prices received from AMFI designated agencies.</p> <p><b>For securities with residual maturity <math>\leq 60</math> days:</b> Securities will be amortized on straight line basis as long as their valuation remains within <math>\pm 0.10\%</math> band of the price derived from the reference yield (reference price) provided by agency(ies) appointed by AMFI. In case the amortised price falls outside the above band, the reference price of the asset will be adjusted in order to bring the price within <math>\pm 0.10\%</math> band.</p>
5.	Interest Rate Swap (IRS)	<p>In case of IRS contracts, counter parties agree to exchange stream of interest payments on notional value at an agreed date. One party agrees to pay floating and another agrees to pay fixed rate of interest. Floating rate is decided on the basis of a benchmark such as NSE MIBOR/3 Day MIBOR.</p> <p>Valuation of IRS involves valuation of streams of interest payments. The underlying security is valued in the same manner as was valued before entering into IRS contract.</p> <p>Value of IRS contract is the present value of the difference between the fixed and floating interest to be received/paid on maturity of the contract. Floating rate interest till maturity is the interest accrued till the valuation date plus the interest on remaining period at reversal rate.</p> <p>Reversal rate for the day is available on Reuters/Bloomberg for different maturities. The relevant rate is taken on the basis of maturity of the contract. However, if the maturity date falls between the two years, the reversal rate is arrived by interpolation on valuation date.</p>
6.	Bank Fixed Deposits, CBLO / Reverse Repo, Bills rediscounting	Bank Fixed Deposits, CBLO / Reverse Repo, Bills rediscounting securities will be valued at cost plus accruals/ amortization.
7.	Money Market Instruments, Zero Coupon Debt and Government Securities with residual maturity > 60 days over weekends and holidays	To avoid distortion in prices over weekends and holidays, the prices (over weekends and holidays) for all Money Market Instruments, Zero Coupon Debt and Government Securities with residual maturity > 60 days will be amortised on a straight line basis adjusted for the settlement date.

**Notes:**

- 1) \*Public Platform refers to:-  
F-Trac/ NSE WDM/ BSE WDM: For corporate bonds / debentures, commercial papers, certificate of deposits and securitized debt.
- 2) Order of preference for the public platforms for consideration would be as follows:-
  - i. F-Trac
  - ii. NSE WDM
  - iii. BSE WDM
- 3) Weighted average yield shall be rounded up to two digits after decimal point.
- 4) Weighted average yield will be calculated for non-coupon bearing securities. Weighted average price will be calculated for coupon bearing securities.

## C. Other Securities

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





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