Principal Pnb Asset Management Company Private Limited

Valuation Policy

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A. Introduction and Background

SEBI vide their notification dated February 21, 2012 amended Regulation 47 and Schedule Eighth of SEBI (Mutual Funds) Regulations, 1996 to introduce overriding principles in the form of "Principles of Fair Valuation".

As per the amended notification, Mutual Funds are required to value their investments in accordance with principles of fair valuation so as to ensure fair treatment to all investors including existing as well as investors seeking to purchase or redeem units of mutual funds in all schemes. It states that valuation shall be reflective of the realizable value of securities and shall be done in good faith and in a true and fair manner through appropriate valuation policies approved by the Board of Directors of the Asset Management Company.

In case of any conflict between the principles of fair valuation and valuation guidelines issued by SEBI, the Principles of Fair Valuation shall prevail.

Following is the Broad framework for valuation of securities which shall be followed by Principal Mutual Fund subject to Regulations/Circulars issued by SEBI/AMFI from time to time. Further, any regulatory prescribed modification to the Valuation Policy shall deem to form part of this Valuation Policy.

B. Valuation Methodology

Valuation done for each and every type of security held by the scheme shall be as follows:

I. *Equity Shares, Preference Shares and Equity Warrants*

i. ***Traded***: on the valuation day, at the last quoted price on the National Stock Exchange (NSE) / Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.

ii. ***Non traded/Thinly Traded***:

When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE/any other stock exchange will be used, provided such closing price is of a day falling within the previous 30 calendar days.

Non-Traded:

When a security is not traded on any stock exchange for a period exceeding 30 calendar days, it will be treated as non-traded security. Non Traded securities will be valued as follows:

Valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE), further discounted for illiquidity.

Detailed valuation methodology is defined as below:

A. Equity Shares:

Based on the latest available Balance Sheet, net worth shall be calculated as follows:

i) Net Worth per share = [share capital + reserves (excluding revaluation reserves) – Misc. expenditure and Debit Balance in P&L A/c] Divided by No. of Paid up Shares.

ii) Average capitalisation 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 capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

iii) 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.

iv) In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

v) 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.

vi) 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.

To determine if a security accounts for more than 5% of the total assets of the scheme, it would be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs would be compared on the date of valuation.

B. **Preference Shares:** Intrinsic value will be considered.

C. **Equity Warrants / Rights entitlement / partly paid up rights shares:** Valuation price will be arrived, after applying appropriate discount after reducing the exercise price / issuance price from the closing price of the underlying cash equity security.

D. **Demerger:** Where at least one resultant company is not immediately listed, valuation price will be worked out by using cum-price, before demerger reduced for quoted price of the listed resultant company(s). OR In case of a demerger pending listing, the resultant company/ies shall be valued at the intrinsic value arrived at on the date of corporate action.

Thinly Traded:

When trading in an equity/equity related security (such as convertible debentures, equity warrants etc.) in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares (all the stock exchanges where the security is listed, may be taken into account), it shall be considered as a thinly traded security.

Thinly trades securities will be valued on the basis of valuation process as described above for Non Traded Equity Shares.

iii. Unlisted Equity Shares:

Unlisted Equity Shares shall be valued "in good faith" on the basis of the valuation methodology laid down below:

a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:

(i) Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

(ii) Net worth per share shall again be calculated after taking into account the outstanding warrants and options, and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options}.

The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.

b) Average capitalisation 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 capitalisation rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

c) 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 15% for illiquidity so as to arrive at the fair value per share.

The above methodology for valuation shall be subject to the following conditions:

i. All calculations as aforesaid shall be based on audited accounts.

ii. 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.

iii. If the net worth of the company is negative, the share would be marked down to zero.

iv. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning.

v. 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. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on the date of valuation.

An unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology if considered appropriate by the Valuation Committee. Such exception shall be reported to the Board of AMC & Trustees at its periodical meetings.

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II Futures and Options

Traded: On the valuation day at the settlement price provided by the respective stock exchanges.

Non Traded: When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived price provided by the respective stock exchange.

III Fixed Income and related securities

Valuation of Debt & Money Market Instruments

i. *For securities with residual maturity <= 60 days:*

- Assets (including sovereign securities) may be amortized on straight line amortization as long as their valuation remains within ±0.10% band of the price derived from the reference rate for each bucket (reference rate for every 15-day bucket will be provided by CRISIL or other agencies).

  At the time of first purchase or at the time the residual maturity of an existing security falls to 60 days from 61 days (for Assets other than sovereign securities) the spread between the yield of the security and the reference yield shall be ascertained and the spread shall be applied consistently thereafter. The spread shall be changed only if there is justification for such change.

- In case there are any subsequent trades in the same security by our schemes with an external counterparty, the security will be valued considering the weighted average yield (of all the trades done during the day) as long as each of the trades are of market lot or more. (if the value of any of the recent trades is less than the market lot, the said trade shall not be considered material enough to cause any change in valuation and shall be ignored). The spread between the yield of the security so traded recently and the reference yield on that day shall be ascertained and the revised spread shall be applied consistently thereafter (including to existing holdings of the said security).

  Market lot is defined as a single trade with a face value of Rs.5 crore or more.

- Securities will be amortized as stated above as long as their valuation remains within ±0.10% band of the price derived from the reference rate for each bucket (reference rate for every 15-day bucket will be provided by CRISIL or other agencies).

- In case of amortised value falling outside the above band, the valuation price of the asset may be adjusted in order to bring the said valuation price within the ±0.10% band.

  Note – Government Securities will be valued basis average of the security level prices provided by CRISIL and ICRA or any other Agency. Post discontinuation of dissemination of prices by these agencies, government securities may be amortized on straight line amortization as long as their valuation remains within ±0.10% band of the price derived from the reference rate for each bucket (reference rate for every 15-day bucket will be provided by CRISIL or other agencies).

ii. *For securities with residual maturity > 60days:*

Securities will be valued at security level prices provided by CRISIL and ICRA or such other agency appointed by AMFI (without any discretionary spread).

In case a new security is purchased (through single or multiple trades) and the prices as mentioned above are not available, then; Securities will be valued at weighted average Purchase Yield (of all the trades done during the day).

On any valuation day, any decision of overruling the security level price of any security provided by CRISIL or such other agency appointed by AMFI, would have to be recommended by the Fund Manager based on the market data and it shall be approved by Head of Fixed Income and the Valuation Committee.

iii. Futures and Options:

Traded: On the valuation day at the settlement price provided by the respective stock exchanges.

Non Traded: When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived price provided by the respective stock exchange.

The valuation shall be done in good faith and in true and fair manner.

C. Inter-scheme transfers:

a) <u>For securities other than Certificate of Deposits:</u>

- If the security is traded (as defined below) then weighted average traded price/yield shall be taken;
- If no trades are available up to the time of Inter scheme, previous day valuation price/yield shall be taken.

b) <u>For Certificate of Deposits</u>:

- If the same or similar security is traded (as defined below) then weighted average traded price/yield shall be taken;
- If the same or similar security is not traded (as defined below) up to the time of Inter scheme, previous day valuation price/yield shall be taken.
- Similar security shall mean security with the same maturity date, same rating (both short term and long term) and same ownership pattern (public, private and foreign issuers).

A security shall be classified as 'Traded', as per details mentioned here below: -

<u>For securities with residual maturity >1 Year</u>: if at least two market trades aggregating to INR 25 crores face value or more reported on a public platform

<u>For securities with residual maturity > 60 days up to one year:</u> if at least three market trades aggregating to INR.100 crores face value or more reported on a public platform.

<u>For securities with residual maturity <= 60 days:</u> if at least three market trades aggregating to INR 100 crores face value or more reported on a public platform

Note: Market Trade with a face value of Rs.5 crore or more only to be considered.

<u>D. Valuation Committee</u>

The Valuation Committee comprises of senior management officials of AMC. The Valuation Committee is responsible for implementation of the Valuation Policy and Procedures.

The Committee shall keep the Boards of AMC and Trustee Company periodically updated on the effectiveness of valuation methodologies, effective implementation, and deviations if any.

The valuation policy shall be reviewed annually by the Valuation Committee and internal auditors and the same shall be noted by the board of AMC and Trustee

Further, the Valuation Committee will ensure that investment in any new type of security which is not captured in the Valuation Policy shall be made only after establishment of the valuation methodology for such security with the approval of the Board of Directors of Asset Management Company.

E. Conflict of Interest

The Valuation Committee shall be responsible for ongoing review of areas of conflict (including potential areas, if any) and should recommend to the board of Directors of the Asset Management Company the procedures to mitigate it.

F. Abnormal situations & market disruptions

In normal situations the above methods may be used for valuation. However in abnormal market conditions, due to lack of market trading or otherwise it may not be possible to obtain fair valuation using "normal" means. In such situations, the realizable value may be substantially different from the benchmark-based prices obtained. This could lead to, for example, an overvalued portfolio which could be used by some investors to redeem their holdings having an adverse impact on residual investors.

Following are the illustrative types of events which could be classified as abnormal situations where current market information may not be available / sufficient for valuation of securities:

a. Major policy announcements by the Central Bank, the Government or the Regulator.
b. Natural disasters or public disturbances that force the markets to close unexpectedly.
c. Absence of trading in a specific security or similar securities.
d. Significant volatility in the capital markets.

Escalation Procedure:

a. Valuation Committee shall be responsible for monitoring Exceptional events.
b. Deviation from the disclosed policy may be allowed with appropriate reporting to the Board of Trustees and Board of AMC at its meeting held immediately following such instance(s) of deviation(s).

G. Safe keeping of data/record:

Valuation policy should be updated in the Scheme Information Document/Statement of Additional Information, website and other documents as prescribed by SEBI regulation, guidelines and circulars. All documents that form the basis of valuation including inter-scheme deals should be maintained.

Notes:

1. For considering market trades, public platform refers to – F-Trac (FIMMDA), NSE, BSE and MCX-SX. In case of multiple platforms reporting trades on the same day, order of preference will be NSE OTC, BSE ICDM, MCX-SX and NSE WDM for Corporate Bonds and Securitized Debts. For Commercial Papers and Certificate of Deposits order of preference will be FIMMDA, NSE WDM and BSE ICDM. The qualifying criteria will be observed at the exchange/platform level.

2. Government Securities, Treasury Bills and Cash Management Bills with maturity greater than 60 days shall be valued at average of the security level prices provided by CRISIL and ICRA or any other Agency.

3. Following assets will be valued at cost plus accruals / amortization:-
   (a) Bank Fixed deposits
   (b) CBLO /reverse repo

4. Units/Shares of Mutual Funds (including Overseas Mutual Funds) will be valued at the latest available NAV.

5. Prices in foreign currency shall be valued in Indian Rupees at the RBI Reference Rate on the date of valuation.

6. Valuation of Securities with Put or Call Options on exercise of the option:
    a) Security with Put Option(s) – Once the Put option is exercised, the Security would be amortized to the Put date (being the Deemed Date of Maturity) ignoring the prices provided by AMFI appointed agencies (currently CRISIL and ICRA).
    b) Security with Call Option(s) – Once the Call option is exercised the Security would be amortized to the Call date (being the Deemed Date of Maturity) ignoring the prices provided by AMFI appointed agencies (currently CRISIL and ICRA).