

# **Investment Policy**

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## 1. **INVESTMENT POLICY**

### 1.1. Introduction

As per Pension Fund Regulatory & Development Authority (Pension Fund) Regulations, 2015, Pension Funds are required to draw up an investment policy. The Investment Policy for Tata Pension Management **Private** Limited “the Company” outlines the process and the guidelines for the management of all the assets under different National Pension Scheme (NPS) fund categories.

#### **Scope of Investment Policy:**

This policy will be applicable for the investment of corpus received under Private Sector NPS (All Citizens Model & Corporate Sector - Tier I and Tier II) under Public Sector (Central Government NPS Subscriber - Tier II) schemes as per the extant investment guidelines.

### 1.2. Objective

The aim of the document will be to –

- a) Define the investment objectives and process across the funds in each of the schemes mentioned below
- b) Set investment limits and prudential norms such that the portfolios are managed within acceptable levels of risk and meet all the regulatory compliance parameters.
- c) Cover all aspects related to investments, viz –
  - Liquidity
  - Prudential Norms
  - Exposure limits
  - Stop loss limits in securities trading
  - Investments and market risks
  - Asset liabilities mismatch
  - Investment Audit
  - Performance reporting

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

The Company will maintain separate schemes, each investing in a different asset class. The Asset class wise investment guidelines as per PFRDA is as given below–

## **Asset Classes and Investment guidelines**

### **2) Equity Scheme (Asset class E)**

The eligible investments under this Asset Class are as follows:

- a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment.
- b) Units of Equity Schemes of mutual funds, regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body, corporates listed on BSE or NSE. Provided that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the total portfolio of the fund at any point in time and the fresh investment in such mutual funds shall not be in excess of 5% of the fresh accretions invested in the year.
- c) Exchange Traded Funds (ETFs)/ Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.
- d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates.
- e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the

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

- f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI. The guidelines are as under:
- i. Investment shall be made in Equity Shares which are proposed to be "listed" through IPO.
  - ii. Investment shall **be** made **in** Equity Shares of such Companies through IPO where the full float market capitalization, calculated using the lower band of the issue price of the IPO, is higher than the market capitalization of 200th company in the list of Top 200 stocks of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE) as provided by NPS Trust for investment into equity space under the Investment Guidelines.
  - iii. The investment in Equity Shares through Follow on Public Offer (FPO)/ Offer for Sale (OFS) shall be made in the shares of body corporates listed on BSE or NSE, which are in top 200 stocks in terms of full market capitalization. The Pension Fund would be required to adopt the last published list of stocks prepared by NPS Trust in this regard from time to time.
  - iv. The Investment in Equity Shares through IPO/ FPO/ OFS should comply with prudential and exposure norms as prescribed in the Investment Guidelines- 2021 for Government Sector schemes and Private Sector schemes.

The Pension Fund has invested in equity shares of any company through an IPO and if the equity shares do not fulfil the market capitalization condition prescribed under investment guidelines post listing, a time period of maximum one year shall be provided to the PF 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 by the Pension Fund, the said stock shall be sold by the Pension Fund if it does not fall in the last list of Top 200 stocks published by NPS Trust.

Pension Fund who has received allotment in the IPO, can acquire fresh shares of the same company as long as the investment meets the conditions prescribed in Investment Guidelines/ Circulars issued in this regard.

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

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 required to adopt as per the list of 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, the Company would have to rebalance their portfolios (if required) in line with updated list, within a period of six month. The decision to hold such stocks in the portfolio shall have to be approved by the Investment Committee of the Pension Fund and to be informed to the Board of Pension Fund.

## **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.

The eligible investments under this Asset Class are as follows:

### **(i) Government Securities**

(ii) Other Securities {'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956} the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government.

Provided that the portfolio invested under this subcategory of securities shall not be in excess of 10% of the total portfolio of the G-Sec separately in the concerned NPS Scheme of the Pension Fund at any point of time.

(iii) Units of Mutual Funds set up as dedicated funds for investment in Govt, securities and regulated by the Securities and Exchange Board of India:

Provided that the portfolio invested in such mutual funds shall not be more than 5% of the G-Sec in the concerned NPS Scheme of the Pension Fund at any point of time.

(iv) Investments under Govt, of India- Fully Serviced Bonds" issued by PSUs under Extra Budgetary Resources (EBR)

### **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 credit rated debt securities and fixed deposits. 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

The eligible investments under this Asset Class are as follows:

a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates, including banks and public financial institutions (Public Financial Institutions as defined under Section 2 of the Companies Act, 2013).

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

Provided that the investment under this category shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.

- b) Rupee Bonds issued by the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.

Provided that investment in Rupee Bonds with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio.

Provided Further that a single rating of AA or above by a domestic or international rating agency will be acceptable

- c) Term Deposit receipts of not less than 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:

- (i) having declared profit in the immediately preceding three financial years;
- (ii) 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.

(d) Units of Debt Schemes of Mutual Funds as regulated by Securities and Exchange Board of India:

Provided that these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year.

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

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

Provided that investment under this security 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.

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

Provided that investment under this security 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.

The Pension Fund shall not invest more than 15% of the total outstanding debt instruments issued by single InvIT/REIT issuer.

(g) The following infrastructure related debt instruments:

- (i) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors. Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding. This category shall also include securities

issued by any Authority of the Government which is not a body corporate and has been formed mainly with the purpose of promoting development of infrastructure.

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

- (ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified above for Term Deposits.
- (iii) Listed (or proposed to be listed in case of fresh issue) securities issued by Infrastructure debt funds operating as a Non-Banking Financial Company and regulated by Reserve Bank of India. Provided further that in case of this sub-category, the ratings shall relate to the Non-Banking Financial Company
- (iv) Listed (or proposed to be listed in case of fresh issue) units issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by Securities and Exchange Board of India.

Barring exceptions mentioned above, for the purpose of infrastructure related debt instruments, a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors:

Provided that the investment under this category shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that if the securities/entities

have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.

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

- (h) Listed and proposed to be listed Credit Rated Municipal Bonds.

Provided that the investment under this category shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.

- (i) Investment in units of Debt ETFs issued by Government of India specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other Government organizations, etc. provided that the portfolio invested in such Debt ETFs shall not be more than 5% of Asset Under Management of Corporate Bond Portfolio.

Provided further that, investments under this category-C requiring a minimum AA rating, as specified above, 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 Reserve Bank of India and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to be investment made under this category.

Provided further that debt securities covered under Other Securities {'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956} the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government are excluded for investment under Scheme C (Tier I & II).

Provided further that the Pension Funds are allowed to invest in corporate bonds/ securities which have a minimum of 'A' rating or equivalent in the applicable rating scale subject to the condition that the investment between 'A' and 'AA-' rated bonds is made to the extent of 10% of the overall corporate bond portfolio of the Pension Fund at any point of time.

If for any of the instruments mentioned above the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers

### **Alternative Assets Scheme (Asset class A**

The permissible securities for alternate asset class are as under:-

- (a) Commercial mortgage based Securities (CMBS) or Residential mortgage based securities (RMBS).
- (b) Asset Backed Securities (ABS) regulated by the Securities and Exchange Board of India.
- (c) Units issued by Real Estate Investment Trusts (REITS) regulated by the Securities and Exchange Board of India.
- (d) Units of Infrastructure Investment Trusts (INVEITS) regulated by the Securities and Exchange Board of India.
- (e) Investment in SEBI Regulated 'Alternative Investment Funds' AIF (Category I and Category II only) as defined under the SEBI (Alternative Investment Fund) Regulations, 2012.

The investments in this category is allowed subject to satisfaction of the following conditions:-

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

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

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

(v) Pension Funds to ensure that funds should not be invested in securities of the companies or Funds incorporated and operated outside the India in violation of Section 25 of the PFRDA Act 2013.

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

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

(f) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI Guidelines

The investments in this category is allowed provided that:-

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

(ii) Investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier 1 bonds are listed.

(iii) Total portfolio invested in this sub-category, at any time, shall not be more than 5% of the total portfolio of the fund, i.e. G+C+E+A for both Tier 1 and Tier II.

(iv) No investment in this sub-category in initial offerings shall exceed 20% of the initial offering.

Further, at any point of time, the aggregate value of Tier 1 bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by that Bank.

Provided that investment under this category shall only be in listed instruments or fresh issues that are proposed to be listed except in case of CMBS, RMBS or ABS.

Provided further that investment under this category CMBS, RMBS, ABS, REITS and INVEITS & Basel III Tier-1 bonds 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 and if the securities/ entities have been rated by more than two rating agencies, the lowest two of the ratings shall be considered.

Provided further that in case of the REITs and INVEITs, 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.

Provided further that in case of the CMBS, RMBS & ABS, rating from only one rating agency will be sufficient.

Provided further that the Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/ REIT issue.

The investment by Pension Fund in a single issuer shall not exceed 10% of the AUM of the scheme. The above norm shall not be applicable till the Scheme corpus reaches Rs.5 Crores.

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

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

#### **4. Short-term Debt Instruments and related Investments (Applicable across Asset Class and not exceeding a limit of 10% of the scheme corpus on temporary basis):**

- (i) **Money market instruments**: Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A1 + by at least two credit rating agencies registered with the Securities and Exchange Board of India.

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

Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks, will require the bank to satisfy all conditions mentioned in Corporate Bonds (Asset Class C)

- (ii) Investments in Term Deposit Receipts of up to one year maturity issued by such scheduled commercial banks which satisfy all conditions mentioned in category (ii) (c) above.
- (iii) Investments in units of a Debt scheme of a Mutual Fund as regulated by Securities and Exchange Board of India where investment is in short term 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.

The Pension Funds are allowed to invest in Government Securities as Lender in Triparty Repo conducted over the Triparty Repo (Dealing) System (TREPS) provided by RBI through Clearing Corporation of India Limited (CCIL) as the settlement guarantor. The fulfilment of margin requirement, etc. for TREPS shall be on similar lines as applicable for settlement of G-Sec outright trades currently managed by the Pension Funds.

Provided further that the limit with respect to investment in Money market instruments under Tier- II schemes shall be 20% of the scheme corpus and under Scheme A the limit shall be 10% of the scheme corpus however, this exposure shall not be applicable till the scheme corpus is below Rs.5 crores

If for any of the instruments mentioned above the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers

## **5. Operational Guidelines for National Pension Scheme Tier – II Tax Saver Scheme, 2020 (NPSTTS):**

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:

Asset Class	Limits
Equity*	10% - 25%
Debt**	Upto 90%
Cash/Money Market/Liquid MFs	Upto 20%

\*Investment Guidelines as applicable to E-II.

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

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.

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.

**Investment Restrictions as per PFRDA guidelines:**

The Company shall comply with the following PFRDA guidelines:

- a) The assets are not to be encumbered.
- b) The PF shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance (except as permitted under the extant regulations, from time to time).
- c) **Exposure to Sponsor Group Companies:** NPS Equity investments have been restricted to 5% of the 'paid up equity capital'\* of all the sponsor\*\* group\*\*\* companies or 5% of the **Total AUM** managed by the Pension Fund, whichever is lower, in each respective scheme.

- d) **Exposure to Non - Sponsor Group Companies:** Investments have been restricted to 15% in the paid up equity capital of all the non-sponsor group companies or 15% of the **Scheme AUM** whichever is lower, in each respective scheme.
- e) Investments have been restricted to 15% of the paid up equity capital of all the non- sponsor group companies or 15% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

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

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

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

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

- f) **Exposure to Sponsor Group Companies:** *NPS Debt Investments have been restricted to 5% of the 'net-worth' of all the sponsor group companies or 5% of the Scheme AUM whichever is lower in each respective scheme*
- g) **Exposure to Non - Sponsor Group Companies:** Debt Investments have been restricted

*10% of the net-worth of all the non-sponsor group companies or 10% of the Scheme AUM whichever is lower, in each respective scheme*

- h) \*Net Worth: Net worth would comprise of Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets.
- i) 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.
- j) Investment exposure to a single Industry has been restricted to 15% under all NPS Schemes by each Pension Fund Manager as per Level-5 of NIC classification.
- k) No loans for any purpose can be advanced by the PF
- l) The pension funds shall avoid speculative investments or transactions
- m) Due caution will be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable.
- n) It will be ensured that due diligence is carried out to assess risks associated with any particular asset before investment is made by the fund in that particular asset and also during the period over which it is held by the fund. The requirement of ratings as mandated in these guidelines merely intends to limit the risk associated with investments at a broad and general level. Accordingly, it should not be construed in any manner as an endorsement for investment in any asset satisfying the minimum prescribed rating or a substitute for the due diligence prescribed for being carried out by the fund.

## **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 Investment Committee may delegate this investment authority to the CIO and in his absence CEO 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/ Fund Manager

## **2.2. Functions of Investment Committee**

- 1) To Review the Investment Policy 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 and 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 that the funds are invested in accordance with investment regulations laid down by PFRDA
- 4) To review the changes if any in the matters relating to investments & forward its recommendation to the Board.

## **3. INVESTMENT PROCESS**

### **A. Debt Investment Philosophy**

The broad guiding philosophy of Tata Pension Fund – Debt Investments is SLR, where “**S**” stands for **Safety** of the portfolio, “**L**” for adequate **liquidity** in Portfolio, and “**R**” providing optimum **risk adjusted Returns**.

## **Debt Securities Selection and Investment Process**

The Fund Manager / Credit analyst undertake the analysis of all the variables that affect the investment climate such as inflation data, the liquidity prevailing in the market, the state of money supply and global interest rates, steps taken by Central Banks globally, credit growth numbers which get reflected in the RBI bulletins, estimated supply of government securities in the days to come etc. Analysis of above data / information may be used for duration management and credit outlook.

### **Asset Class – Government Securities**

The selection of securities shall be based on the view of the investment team on the interest rates, liquidity condition & managing the duration of the portfolio.

### **Asset Class – Corporate Debt Securities**

The Primary objective of Corporate Debt Security selection process shall be managing the Credit risk in the portfolio. Credit risk entails both the downgrade and default risk. A careful analysis and scrutiny are required at the time of the investment, as well as monitoring the financial health on an ongoing basis.

Below given process of Evaluation, Approval, and Regular monitoring shall be followed:

- i) The Investment Team will maintain a list of approved universe of debt issuers. For each such issuer, the Investment Team will maintain a note on the credit worthiness of the issuer. Such notes shall be updated at least once in a year. Similarly, issuer universe is reviewed at least once a year.
- ii) The team will study the financial and business health of the borrower and submit a credit rationale for approval of the issuer for investment. Any credit appraisal should address the following areas:
  - a. Company profile and the company's competitive position in the industry
  - b. Review of the financial data to assess the Credit, Liquidity, Asset Liability mismatch and Solvency position of the Company.
  - c. Key business and financial risks and mitigants if any.
  - d. Assessment of Macro economic scenario and sectoral analysis
  - e. Investment Team may also look at equity research reports in case of the listed

companies for further due diligence

- iii) The CIO/Fund Manager shall present the credit proposal to the Investment Committee for approval. After studying and discussing the merits of the credit exposure, the committee may approve or reject the proposal.
- iv) Alternatively, the credit proposal may be circulated to the CEO, CIO, Risk Officer and Compliance Officer for discussion & approval. The investments will be made only after the approvals from atleast 2 of the above mentioned Officers is obtained. The investments thus made shall be taken up in the subsequent Investment committee meeting for noting.
- v) The actual investment in any particular credit shall in all cases be subject to the regulatory limits/internal limits, whichever is lower.
- vi) The Fund Manager may be assisted by Dealer(s) who are in constant touch with the debt/money market and update him about the prevailing market conditions

**Portfolio Construction Strategy:**

1. **Duration / Interest Rate risk:** Positioning portfolio risk based on outlook on rates
2. **Issuer Selection:** Based on credit risk (Safety being guiding principle)
3. **Security Selection:** Liquidity, pricing, demand & supply dynamics.
4. **Risk Monitoring:** Independent risk department monitoring risk guidelines real time basis

**B. Equity Investment Philosophy and Process**

As per PFRDA investment guidelines for Equity asset class, 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 will be eligible for investments under Asset Class E (Equity).

Investments in the shares of 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 of the Pension Fund and also to be informed to Board of Pension Fund. NPS Trust shall monitor the compliance of the above provision and inform PFRDA at regular interval.

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

### **Equity Securities Selection and Investment Process**

- a. The stocks which meet the above mentioned criteria become a part of Equity Asset Class investible universe. The NPS Trust on a half-yearly basis reviews the stocks which are in Top 200 in market capitalization 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.
- b. Of the investible universe, the investment team shall identify the stocks with potential capital appreciation over the medium to long term. A detailed research note shall be prepared on these companies. The research note should encompass the following aspects
  - i. Company and Industry background
  - ii. Key Investment rationale
  - iii. Key Risk and concerns
  - iv. Valuation view and Peer comparison if any along with Financials of the company like past financials and future projections if any.
- c. The Investment note shall be circulated to the Investment Committee for approval. The Investment Team may also present the investment case CEO,CIO, Risk Officer and Compliance Officer for discussion & approval. The investments will be made only after the approvals from atleast 2 of the above mentioned Officers is obtained.. The investments thus made shall be taken up in the

subsequent Investment committee meeting for noting

- i. Once the investment in a particular stock is made, the investment team shall continue to observe any developments or changes in the fundamentals of the company.
- ii. Industries and companies will be 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:
  1. Fundamental changes in the company
  2. Company valuations
  3. Risk to Earning forecast
  4. Change in Market outlook and Sentiments
- iii. For IPOs, 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.

## **C. Other Investments**

### **Asset Class A (Alternative Assets)**

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 Alternative Assets (Asset Class 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 Asset Class A must 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 shall address the following areas:

- a) Industry characteristics and the company's competitive position in the industry
  - b) Review of the financial data to assess the Credit, Liquidity, Asset Liability mismatch and Solvency position of the Company.
  - c) Key business and financial risks and mitigants if any.
  - d) Assessment of Macro economic scenario and sectoral analysis.
  - e) Key data points to be monitored.
3. The CIO/Fund Manager shall present the investment proposal to the Investment Committee for approval. After studying and discussing the merits the committee may approve or reject the proposal..
  4. The Investment note shall be circulated to the Investment Committee for approval. The Investment Team may also present the investment case CEO,CIO, Risk Officer and Compliance Officer for discussion & approval. The investments will be made only after the approvals from atleast 2 of the above mentioned Officers is obtained. The investments thus made shall be taken up in the subsequent Investment committee meeting for 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.

#### **D. Short Term investments/Fixed Deposits & Mutual Fund Investments**

Investments in Short Term Debt which may be in case of pending deployment or due to volatile markets will be guided by extant PFRDA regulations.

#### **E. Investment in Derivatives:**

Investments in derivatives will be made in all instruments as approved by PFRDA and the Board of Directors. Use of derivatives in the company's investments would be for the objective as highlighted and restricted to by PFRDA regulations.

**F. Application in IPO/FPO/OFS:**

Investments in IPO/FPO/OFS shall be guided by extant PFRDA regulations.

**G. Leverage in the schemes:**

No leverage, in any manner, is allowed in any of the schemes. The Schemes shall follow the PFRDA guidelines in this regard.

**H. Broker empanelment**

All secondary market trading should be channeled through multiple brokers empaneled by the company, to reduce the concentration risk of placing trades through a few brokers.

Broker Empanelment shall be done as per the PFRDA guidelines and Board approved policy on empanelment of brokers. The policy will be reviewed on annual basis.

**4. Management of Investment Risks**

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

**A. 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. The Interest Rate risk shall be managed using duration management strategies within the PFRDA guidelines on Investment exposure.

**B. Credit Risk**

Credit risk is the risk associated with loss resulted from default by or change in the credit quality of issuers of securities, counterparties, and intermediaries to whom the company has an exposure. The company shall work within the credit risk policy & framework to manage the credit risk.

**C. Liquidity Risk**

Liquidity Risk entails inability to buy or sell securities in the required quantity to either meet the investment objectives or Liquidity requirements for payout to subscribers. The Fund shall aim to invest in High to moderate Liquid Securities

By managing the credit quality and Duration of the Debt exposures and Market cap and Liquidity based exposure in case of Equity exposures.

#### **D. 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.

#### **E. 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

#### **F. Stop Loss Policy**

Equity markets have the potential to experience sharp volatilities in the short term due to unanticipated events. The Investment Team can review the position depending on the view on the market to either cut loss or re-enter at lower level or wait for the market to reverse through a stop loss policy outlined in Risk Policy.

In case of any significant development which can have material impact on company's financial performance, change in ownership control or any corporate governance issues that can impact the medium to long term outlook of the Company, the investment shall be reviewed

There will be no Stop loss policy for Fixed Income Securities. The Fixed Income securities shall be reviewed in case of extreme Liquidity or Credit concern scenarios.

#### **G. Risk Profiling of Pension Fund Schemes**

As per PFRDA guidelines, the Pension Fund shall carry out risk profiling of the various Pension Schemes as per the methodology provided under the PFRDA guidelines. Based on the Scheme characteristics Pension Fund shall assign the risk level of the Schemes under various Asset classes and Tier 1 & 2.

Risk profiling shall be evaluated on a quarterly basis and any change in risk profile shall be updated on website and be communicated to NPS Trust for updation on NPS Trust website.

Risk levels of Schemes along with number of times the risk levels have changed over the year as on 31<sup>st</sup> March, shall be disclosed on website in the format prescribed by PFRDA. The same shall be published in the Scheme Annual Reports and Abridged Summary documents on an annual basis.

## **5. Securities Investment / Trading Limits**

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

### **A. Equity transactions**

#### **Fund Manager:**

- i. Limit of up to Rs.50 crores per transaction &
- ii. Limit of Rs.200 crores worth of transactions per day

#### **Chief Investment Officer**

- i. Limit of up to Rs.150 crores per transaction &
- ii. Limit of Rs.500 crores worth of transactions per day

### **B. Fixed Income Transactions including Asset Class G-sec and Corporate Debt**

#### **Fund Manager**

- i. Limit of up to Rs.100 crores per transactions &
- ii. Limit of Rs.500 crores worth of transactions per day

#### **Chief Investment Officer**

- I. Limit of up to Rs.300 crores per transactions &
- II. Limit of Rs.750 crores worth of transactions per day

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

The Limits shall be reviewed and upgraded as the Asset under Management grows over the period of time.

## **6. Exposure Limits**

Prudential exposure limits are soft limits within the PFRDA guidelines, the breach of the prudential exposure limits shall require review of investments by the CIO/Fund Manager and decide on the whether to continue with the exposure or reduce the same. The CIO/Fund Manager to ensure the exposure limits provided by PFRDA guidelines shall not be breached under any circumstances. The applicability of prudential exposure limits shall be as per the Risk Management Policy.

## **7. Inter Scheme Transfer**

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

- i. To meet liquidity requirement in a scheme in case of unanticipated redemption pressure
- ii. To adjust securities received through corporate action.

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

## **8. Valuation of Securities**

The valuations of securities are done based on the security level valuation provided by the Valuation Agency. CRISIL Limited, has been appointed by NPS trust 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.

## **9. Performance and Risk Reporting**

The Investment objective of the various asset class is to provide optimum returns at the appropriate level of risk of the respective asset classes.

Performance reporting as per PFRDA guidelines shall be done by a department independent of the Investment Team.

Various other Performance and Risk reports shall be presented to the Investment Committee for review and assess the performance & Risk in the portfolios.

## **10. Breach Reporting**

All deviations related to regulations / guidelines/ circular issued by the PFRDA shall be reported to Risk Management & Investment Committee and Board of Directors at the quarterly intervals. The breaches shall be classified in to Active and Passive breaches depending upon the nature of breach and the justification provided. The Deviations shall be regularized at the earliest within 3 business days from the date of active deviation happened

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.

Due to exceptional circumstances if the Fund Manager is unable to regularize the deviation, then the same shall be reported to Board of Directors along with the justification for the same. Additionally, the delay due to exceptional market conditions shall also be reported to NPS Trust and PFRDA.

## **11. Scope of Audit of Investment Function**

### **Scope**

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

- a) To ensure compliance with applicable PFRDA guidelines and circulars and directives issued for time to time in respect of all Investment activities.
- b) Daily checking of NAV (including initialing of the NAV report on daily basis by the audit team) for all the schemes.
- c) 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.
- d) Review of Investment Policy and implementation thereof.
- e) Compliance to Employee Dealing Guidelines

**Other areas**

- i. Standard Operating Procedure review
- ii. Maintenance of voice recorder for transactions done
- iii. Custodian Controls
- iv. Exposure/Prudential/Other norms – Company/Group/Sector/Industry
- v. Non-performing Investments
- vi. Inter Scheme Transfers
- vii. Controls & Compliance with Regulations for different types of Investments
- viii. Investments in Debt instruments
- ix. Investible Surplus determination
- x. Accounting policy adherences vis-à-vis the investment function
- xi. Minimum Risk management system and Process review
- xii. Investment in Sponsor groups
- xiii. Back up and restoration of the Investment System data is as per the Backup Management Policy
- xiv. Review of follow-up on PFRDA inspection reports
- xv. Review of follow-up for recovery of overdue
- xvi. Follow-up on previous Audit Reports

- xvii. Review of half yearly and yearly scheme financials

## **12. Employee's Code of Conduct**

All employees of the Company will be required to adhere to the Company's Code of Conduct thereby ensuring there are no conflicts of interest between the investment dealings of the employee and the Company and other stake holders.

## **13. 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 in the Investment Policy or its review as periodically decided by the Board shall be submitted to the NPS Trust within 30 days/.