DSP
PENSION FUND MANAGERS

INVESTMENT POLICY

Sr. No	Version	Date of Review	Date of Approval	Policy Review (Yes / No)
1.	1.1	July 07, 2023	July 07, 2023	Yes
2.	1.2	January 16, 2024	January 16, 2024	Yes
3.	1.3	April 29, 2024	April 29, 2024	Yes
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5.	1.5	October 15, 2024	October 15, 2024	Yes
6.	1.6	January 16, 2025	January 16,2025	Yes

1. Introduction:

The Pension Fund Regulatory and Development Authority (PFRDA) regulations, investment guidelines along with the Investment Management Agreement with the NPS Trust, lay the regulatory framework for managing the investment portfolio. The Investment Policy ('Policy') is framed to ensure that the investment operations in capital markets are conducted in accordance with sound and acceptable business practices, in compliance with the regulatory and statutory requirements. The Policy does not detail the day-to-day operations / processes of DSP Pension Fund Managers (DSPPF) for management of investments or investment operations.

The following roles and responsibilities, as amended and approved by the Board of Directors from time to time, are defined.

2. Board

Schedule X of PFRDA Regulations, requires that every PFM should draw up an Investment Policy ('Policy') and place the same before the Board of Directors ('Board') for its review and implementation, on a half yearly basis.

The Board shall approve the Investment Policy and review its compliance. The Board shall review and approve changes to the Policy as and when the need arises, but at least semi-annually. The Board shall also review the investment performance. The constitution of the Investment Committee (IC) shall be approved by the Board.

The Board will also approve the Risk Management Policy and oversee its implementation.

a. Investment Committee of the Board of Directors

The Investment Committee ("Committee") of the Board shall consist of two independent directors, the Chief Executive Officer (CEO), Chief Risk Officer (CRO) and the Chief Investment Officer (CIO) or Fund Manager in case CEO and CIO are the same official and shall direct and oversee the investment function.

The roles and responsibilities of the Committee shall be as per the Terms of Reference (TOR) approved by the Board of Directors.

b. Investment team:

The Investment team, including the CIO and the fund manager, shall be responsible for market tracking, instrument/securities selection, deal negotiation, investment decision and deal conclusion, in line with the Policy. The Investment team shall also be responsible for research, portfolio management and trading.

c. Investment Operations team

An independent Investment Operations team shall be responsible for compliance with the Investment

Policy and regulatory guidelines, statutory and management reporting, treasury operations (trade settlement), banking, valuation, accounting and Net Asset Value (NAV) calculation.

DSPPF shall ensure, at all times, the separation between its staff responsible for investments, settlement and book-keeping, distribution and sales.

It is the responsibility of the investment and investment operations teams, to be familiar with the contents of the Policy/regulatory guidelines, to exercise sound judgment and to act within the framework, in their daily work. Guidance shall be sought from the Investment Committee where application of the framework described in the Policy is not clear.

d. Custodian and valuation agency

External custodian, appointed by the PFRDA/NPS Trust, is responsible for custody of the assets/ tracking corporate actions. Valuation of securities shall be carried out as per the price provided by the PFRDA/NPS Trust appointed valuation agency.

3. Investment strategy

The overall investment strategy is geared towards ensuring adequate returns to subscribers, consistent with protection, safety and liquidity of funds, while complying with the applicable regulations and investment guidelines. The investment strategy is guided by the principles of prudent portfolio and risk management practices.

4. Investment guidelines

At all times, the funds would be invested and kept invested, as per the applicable regulatory and internal norms, including exposure norms, subject to any specific exceptions sought from the PFRDA.

The investment policy and internal norms for management of subscribers' funds have been framed following the principle of fiduciary responsibility. The investments made out of the subscribers' funds shall be in compliance with the investment guidelines prescribed by the PFRDA from time to time, and will focus on safety and returns optimisation.

As prescribed by the PFRDA, the subscribers have an option to invest their funds either in Asset class E, Asset class C, Asset class G, Asset Class A or NPS Lite-Government pattern or any other asset class, as notified by the PFRDA from time to time. The Investment guidelines prescribed for each of these asset classes is given below:

1) <u>ASSET CLASS E (EQUITY AND RELATED INVESTMENTS)</u>

- **Investment universe**

  - **Equity Shares:**

Regulatory guidelines

(a) Investments are permitted in equity shares of corporates listed on the 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.

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 and published within 5 calendar days from the end of 6 months period. Subsequent to any updation in the list of top 200 stocks, DSPPF shall rebalance its portfolio (if required) in line with the updated list, within a period of six months. In case of deviation the decision to hold stocks which are excluded in the revised list shall be approved by the Investment Committee and inform the same to the Board.

(b) Investments in initial public offering (IPO), follow on public offer (FPO) and offer for sale (OFS) of companies, approved by SEBI may be made subject to fulfilment of following conditions :-

(i) Investment shall be made in equity offering through IPO which are proposed to be "listed" on NSE or BSE.

(ii) Investment shall be made in equity offering through IPO of such companies where the full float market capitalization, calculated using the lower band of the issue price of IPO, is higher than the market capitalization of 200th Company as per the list of top 200 stocks as provided by NPS Trust (last published) for investment in equity space under the Investment Guidelines.

(iii) The investment in equity shares offered through FPO/OFS shall be made in companies listed on NSE/BSE and which are in list of top 200 stocks provided by NPS Trust (Last published).

(iv) The investment in equity shares through IPO/FPO/OFS should comply with prudential and exposure norms as prescribed in the Investment Guidelines- 2023 for private sector schemes.

(v) 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.

(vi) If investment is made in equity shares of any Company through an IPO and if the equity shares do not fulfill the market capitalisation condition prescribed under investment guidelines post listing or it fails to be in the latest published list of top 200 stocks provided by NPS trust, a time period of maximum one year shall be available for making the decision on selling such stock.

(vii) If allotment is received in an IPO, further investment can be made in the same Company as long as the investment meets the conditions prescribed in the investment guidelines/circulars issued in this regard.

(c) Exchange traded derivatives regulated by the Securities and Exchange Board of India (SEBI) having the underlying of any permissible listed stock as per the list of top 200 stocks provided by NSP trust (latest published) or any of the permissible indices (BSE Sensex index or NSE Nifty 50 Index), 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 AUM under Scheme/ Asset Class E at any point of time.

Risk Limits
Investments in equities should be subject to the following stock deviation limits vis a vis the benchmark (applicable on a monthly basis)

- *Maximum stock deviation of positive 5% (overweight) relative to the benchmark of the fund. i.e. If a stock has a weight of x % in the benchmark, the portfolio weightage for the stock should be within (x + 5) % and overall long term portfolio active share (overweight & underweight) relative to the benchmark should be within 75%, the above are further subject to regulatory limits.*

❖ **Mutual Funds Including Index Funds/Etfs:**

Regulatory guidelines

The following investments are permitted:

(i) Units of equity schemes of mutual funds regulated by SEBI, which have minimum 65% of their investment in shares of body corporates listed on the BSE or the NSE.

Provided that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the AUM of the Scheme / Asset class E 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.

(ii) Exchange Traded Funds (ETFs)/Index funds regulated by SEBI that replicate the portfolio of either the BSE Sensex Index or the NSE Nifty 50 Index.

(iii) ETFs issued by SEBI regulated mutual funds constructed specifically for divestment of shareholding of the Government of India in body corporates.

Risk Limits
Investments in mutual Funds including Index Funds other than ETFs shall follow the below norms:
(i) Maximum exposure to a mutual fund house is restricted to 5% of the Assets under Management (AUM) of that mutual fund house
(ii) Maximum exposure to an individual mutual fund scheme is restricted to 10% of the AUM of the mutual fund scheme
(iii) Maximum exposure to mutual funds including index funds, shall be restricted to 10% of the AUM of the respective scheme (E tier I or E tier II)
Investments in ETFs shall follow norms (i) as stated above for Mutual Funds/Index funds.

Attribution Analysis

The performance attribution of the underlying shares is carried out on a periodic basis and the same is presented to the Investment Committee in the ensuing meeting.

2) **ASSET CLASS C: CREDIT RISK BEARING FIXED INCOME INSTRUMENTS**

- **Investment universe**

- **Fixed income securities:**

Regulatory guidelines

The following investments are permitted:

(i) Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions.

Provided investment shall be made only in such securities which have minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered with SEBI.

Provided further that investment in debt securities with minimum residual maturity period of less than 3 years from the date of investment, shall be limited to 10% of the investment made in Scheme / Asset Class C during preceding 12 months. 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 the weighted average maturity of the security.

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

Provided investment shall be made only in such securities which have a single rating of minimum AA or above by a domestic or international rating agency.

Provided further that investment in Rupee Bonds with minimum residual maturity period of less than 3 years, from the date of investment, shall be limited to 10% of the investment made in Scheme / Asset Class C during preceding 12 months. 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 the weighted average maturity of the security.

(iii) Term deposits issued by Scheduled Commercial Banks of not less than one year duration which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and satisfies all the conditions below:

a. Having declared profit in the immediate three preceding financial years;

b. Having net NPAs of not more than 4% of the net advances

Provided that the deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme at any point of time.

(iv) Units of debt schemes of mutual funds as regulated by SEBI

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

Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the Scheme AUM at any point of time.

(v) Investment in Debt securities issued by Real Estate Investment Trusts/ Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.

Provided that the Trust is rated as AA or equivalent in the applicable rating scale by at least two credit rating agencies registered with SEBI.

(vi) Infrastructure related debt instruments: A sector is to be treated as part of infrastructure as per Government of India's harmonized master list of infrastructure sub-sector.

a. Listed or proposed to be listed 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.

b. Securities issued by the Indian Railways or a body corporate in which it has majority holding.

c. Security 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.

d. 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 Other securities of Asset Class G, shall be treated as an eligible security under Asset Class C.

e. Infrastructure and affordable housing bonds issued by scheduled commercial banks which meets the conditions mentioned above for term deposits.

f. Listed or proposed to be listed securities issued by Infrastructure Debt Funds (IDF) operating as Non-Banking Financial Corporations (NBFC's) and regulated by the RBI.

g. Listed or proposed to be listed units of IDF operating as Mutual Fund and regulated by SEBI

(vii) Listed or proposed to be listed credit rated municipal bonds

(viii) Investment in units of Debt ETFs issued by the Government of India, specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other Government Organizations, etc.

Provided that the portfolio invested in such Debt ETFs shall not be more than 5% of the Assets under Management of Corporate Bond Portfolio of the respective schemes.

Risk Limits

1. Debt Securities

- Investments in fixed income securities shall be made only in securities having a credit rating of AA or

higher, from at least two credit rating agencies, subject to a cap on investments between AA- to A rated securities, to be not more than 10% of the Scheme AUM. Provided further that the investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1'.
However, investments under asset class 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 if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.
- Investments in fixed income securities of an issuer shall be restricted to 10% of the scheme size.
- Credit due diligence shall be carried out by the investment team before making investments and it will not rely solely on credit ratings.
- It is clarified that debt securities covered under Asset Class G are excluded from this Asset Class C.
- Credit review will be conducted by the Investment Committee at least once annually as detailed in section 5.1 below.

2. Debt mutual fund:

The Investment team may undertake investments in overnight fund. In case of any investment in other than Overnight fund the below will be the rating threshold:

- Debt mutual fund scheme should have minimum rating of AAA by at least one credit rating agency
- Maximum exposure to a mutual fund house is restricted to 5% of the Assets under Management (AUM) of that mutual fund house.
- Maximum exposure to an individual mutual fund scheme is restricted to 10% of the AUM of the mutual fund scheme.
- Maximum exposure in debt mutual funds shall be restricted to 5% of the debt investment in the respective scheme (C tier I and C tier II)

3. Bank deposits:

Investments in fixed deposits may be undertaken by the investment team in commercial banks rated AA and above.

4. IDF operating as Mutual Fund:

Investments in units issued by Infrastructure Debt Funds (IDF) operating as Mutual Funds may be undertaken.

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3) <u>ASSET CLASS G: GOVERNMENT SECURITIES</u>

➢ **Investment universe**

❖ **Government and other securities:**

Regulatory guidelines

The following investments are permitted:

(i) Government securities.

(ii) Other securities{'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956}, the principle whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government and includes GOI - fully serviced bonds issued by PSUs under Extra Budgetary Resources after 3rd Jun 2020. . Provided that investment under this sub category shall not exceed 10% of AUM under Scheme / Asset Class G at any point of time.

Risk Limits

(i) Investment in other securities, the principle whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government including GOI - fully serviced bonds issued by PSUs under Extra Budgetary Resources shall be made with the approval of the Investment Committee.

❖ **Mutual funds (dedicated for investment in Government Securities)**

Regulatory guidelines

Investments are permitted in units of mutual funds set up as dedicated funds for investment in government securities and regulated by SEBI.
Provided maximum investment in such mutual funds is limited to 5% of the AUM under Asset Class G at any point in time.

Risk Limits
(i) Maximum exposure to a mutual fund house is restricted to 5% of the Assets under Management (AUM) of that mutual fund house
(ii) Maximum exposure to an individual mutual fund scheme is restricted to 10% of the AUM of the mutual fund scheme.
(iii) Maximum exposure in mutual funds/ index funds shall be restricted to 5% of the AUM of the respective scheme (G tier I and G tier II)

4) **ASSET CLASS A: ALTERNATE INVESTMENTS**

- **Investment universe**
- **Regulatory guidelines**

The following investments are permitted:

(i) Commercial mortgage based securities or residential mortgaged based securities (MBS) with minimum rating of AA or equivalent rating in the applicable rating scale from any one credit rating agency registered by SEBI

(ii) Assets backed securities regulated by the SEBI(ABS) with minimum rating of AA or equivalent rating in the applicable rating scale from any one credit rating agency registered by SEBI

(iii) Units issued by Real Estate Investment Trusts (REIT) regulated by the SEBI with minimum rating of AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered by SEBI

(iv) Units issued by Infrastructure Investment Trusts regulated by SEBI (InvIT) with minimum rating of AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered by SEBI

(v) Alternative investment funds (AIF category I & II) registered with SEBI subject to conditions prescribed in the Investment regulations

(vi) Listed Basel III tier-1 bonds issued by scheduled commercial banks under RBI guidelines, subject to conditions prescribed in the Investment regulations, with minimum rating of AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered by SEBI

Risk Limits

- Investments shall be made in MBS and ABS only if such securities have minimum 'AA' or equivalent rating in the applicable rating scale..
- Investment under asset class A shall only be in listed instruments or fresh issues that are proposed to be listed except in case of MBS or ABS mentioned above.
- Investment shall be made in tier-1 bonds issued by scheduled commercial banks with minimum credit rating of AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered with SEBI and if the securities/entities have been rated by more than two rating agencies, the lowest two of the ratings shall be considered.
- Investment in tier-1 bonds issued by scheduled commercial banks in initial offerings shall not 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.
- With respect to tier-1 bonds issued by scheduled commercial banks, the investments in a single issuer shall not exceed 10% of AUM of the scheme.
- The exposure to each REIT and InvIT shall not exceed 10% of the REIT or InvIT size respectively.
- Total portfolio invested in Basel III tier-1 bond shall not be more than 5% of the total portfolio

(G+C+E+A for both tier I and II) of the fund.

- The investments in AIF (Category I and II) shall be subject to approval by the Investment Committee and 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.

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.

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

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

(iv) 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.

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

(vi) 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.

(vii) Minimum AA or equivalent rating in the applicable rating scale from only one credit rating agency registered SEBI shall be sufficient. However, in case of Govt. owned AIFs, ratings would not be required.

- Due diligence shall be carried out by the Investment team before making investments.

5) TAX SAVER SCHEME

Regulatory guidelines

The following investments are permitted:

(i) Investment in Equity as applicable to asset class E.

(ii) Investment in Debt as applicable to asset class C & G.

6) SHORT TERM DEBT INVESTMENT - ASSET CLASS E/C/G/A/TAX SAVER:

Regulatory guidelines

In addition to the permissible instruments as mentioned for each Scheme / Asset class, Pension Fund can temporarily park funds in short term debt instruments to the extent of 10% of AUM for each Scheme / Asset class under NPS-I and 20% of AUM for each Scheme / Asset class under NPS-II.

The following investments are permitted:

(i) Money market instruments including Treasury bills, provided that:

a. Investment in commercial papers issued by body corporates and having minimum rating of A1+ or higher, by at least two rating agencies registered with SEBI (Lowest of the two ratings to be considered)

b. Certificate of deposit and term deposits of up to one year duration as allowed in Asset Class C

(ii) Units of debt scheme of mutual fund (liquid/overnight/ultra short duration/low duration funds) regulated by SEBI with the condition that the average total AUM of the Asset Management Company, for the most recent six month period, should be at least ₹ 5,000 crores

(iii) Investment in Government Securities as lender in Triparty Repo conducted over the Triparty Repo (Dealing) System (TREPS) provided by RBI through CCIL as the settlement guarantor

(iv) The given limits shall not be applicable till the AUM of the respective Scheme / Asset class is below ₹ 5 Crores.

Risk Limits

(i) Mutual fund scheme should have minimum rating of AAA or equivalent by at least one credit rating agency. Further, the following internal exposure norms shall apply:

- Maximum exposure to a mutual fund house is restricted to 5% of the assets under management (AUM) of that mutual fund house.
- Maximum exposure to an individual mutual fund scheme is restricted to 10% of the AUM of the mutual fund scheme.

(ii) Investments in a commercial paper may be undertaken by the investment team if the issuing Company enjoys a long term rating of AA or above from at least one rating agency and after credit due diligence is done. The investments in a commercial paper would also be subjected to half yearly credit review by the Committee.

5. Risk management.

The Board approved Risk Management Policy details identification, measurement, monitoring and control standards relating to various individual risks, including risks relating to investments, namely market risk, credit risk and liquidity risk.

The liability for the scheme portfolio is backed by assets held under management in the scheme. To ensure appropriate asset liability management, the assets of each scheme would be invested following the investment objective and asset allocation.

DSPPF should follow additional Risk Limits measures as stated below:

5.1) Credit review

Credit review will be conducted by the Committee at least once annually.

i. Portfolio composition in terms of distribution by industry, ratings, instruments etc. would be reviewed by the Investment Committee at least once in a year.

ii. Credit triggers comprising quantitative parameters / events, which require a review of the credit risk, and are used to identify and monitor significant developments requiring credit review. The credit review triggers defined currently are as follows:

1. Default on the instrument / credit downgrade for the instrument/ issuer / guarantor
2. If the borrower / guarantor is a listed Company and the equity price falls by more than 20% relative to the relevant sectoral index
3. If the profits of the borrower / guarantor fall by more than 20% compared to the previous year
4. If the total sales of the borrower / guarantor falls by more than 20% in any quarter, compared to the previous year
5. If the debt equity ratio of the borrower (non-finance Company) is more than 0.50 and increases more than 20% (To be monitored annually when companies disclose full balance sheet.)

The Committee may review and change the triggers from time to time.

Rating downgrades for fixed income securities will be escalated to the Investment Committee for in-depth discussion, to determine the appropriate course of action.

5.2) Stop Loss Policy

The “Stop Loss Policy” has been defined to limit losses in NAV movement, and to identify the security which are materially down from its average cost or relative to the respective benchmark. If any specific investment materially underperforms basis below triggers, a review and considered decision to hold or disinvest would be triggered.

5.3) Stop Loss Triggers

The following stop loss triggers would be monitored at the end of each quarter:

1. Equity Investments

The following stop loss triggers would be applicable:

- Fall in equity share price by more than 20% as compared to weighted average cost of the security or/and
- Fall in equity share price by more than 20% compared to fall in benchmark over the preceding three months based on the valuation price used for calculation of the NAV

2. Fixed Income Securities

The Fixed Income securities shall be reviewed by the Investment Committee in case of rating downgrade(s) or when there are illiquidity or other credit concerns for the security or issuer of the security.

There will be no Stop loss policy for Fixed Income Securities.

3. Alternate assets class

The following are the stop loss triggers for the securities invested in scheme A:

- Fall in security price by more than 20% as compared to weighted average cost of the security or/and
- Fall in security price by more than 20% over the preceding 3 months based on valuation price

used for calculation of the NAV

5.4) Approval and Reporting

In case of occurrence of any stop loss trigger, the Chief investment officer shall review the investment and decide whether to disinvest or continue to hold, and the reasons for the same shall be documented.

All occurrences of stop loss triggers along with action taken, shall be reported to the Investment committee at its next meeting.

5.5) Hard Stop loss (Equity)

In addition to above stop loss policy, hard stop loss trigger is also in place to ensure the stocks in sustained loss are disposed off to limit the loss and invested into better alternate investment opportunity available in the market.

Below are the hard stop loss trigger conditions -

- Fall in equity share price by more than 50% as compared to the weighted average cost of the security
  and
- The valuation of the security was consistently below the weighted average cost of the security for last six month (basis prices of last working day of the month)

Illustration:
If the weighted average cost of the security A in the portfolio is INR 1500.00 per share and the current valuation is below 50% of the weighted average cost i.e. at INR 750 and the security was valued consistently below the average cost of the security for last 6 months i.e. valued consistently below INR 1500.

In case both the above conditions are met, the fund manager should immediately sell the security within 6 days post the quarter end stop loss trigger reporting by the operations team. In case the fund manager/CIO still sees value in the stock and wants to continue holding the security triggered under hard stop loss policy, approval from the CEO, CIO & CRO is required within above prescribed timelines.

5.6) Policy on Undeployed Cash

Daily, the equity markets are open until 3:30pm and bond markets are open until 5:00pm, whereas the window to subscribe to Mutual Fund Units is open only until 1:30pm. In an effort to invest cash opportunistically, some cash in the schemes could remain undeployed on a daily basis. The maximum permissible limit to keep uninvested cash is 10% of the AUM of the scheme, across all the schemes.

6. Controls and audit

6.1) Process Controls

1. Deal processing

- The fund manager shall ensure that all the concluded transactions are entered into the system promptly
- The Investment Operations team shall confirm the deal details with the counterparty, validate the same in the system and pass instructions to the custodian for settlement
- Deal processing / trade flow shall be as per the Investment Process Manual and Operations Manual.

2. The guidelines on prevention of insider trading and front-running activities will be applicable as defined in respective operating policy documents

3. The Disaster Recovery strategy and Business Continuity plan should be in place and must be tested at regular frequency

4. All debt and equity deals should be done over a phone line which is recorded or through email / written instructions.

5. Dealing through brokers

The Investment team shall deal only through the brokers empanelled by DSPPF. The guidelines stipulate that the pension fund shall not purchase or sell securities through a single broker which is in excess of 5% of the aggregate purchases and sale of securities under all schemes monitored annually

6. Regulatory exposure guidelines:

(a) NPS equity investments have been restricted to 5% of the paid up equity capital of sponsorˆ group* companies or 5% of the total AUM managed by the pension fund, whichever is lower, in each respective scheme and 15% in the paid up equity capital of non-sponsor group companies or 15% of the scheme AUM, whichever is lower, in each respective scheme.

(b) NPS debt investments have been restricted to 5% of the net-worth of sponsor group companies or 5% of the scheme AUM, whichever is lower, in each respective scheme and 10% of the net-worth of non-sponsor group companies or 10% of the scheme AUM whichever is lower, in each respective scheme.

ˆSponsor 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.

Further, 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.

A list of group companies and those of its sponsor, shall be published on the pension fund's website.

(c) The exposure norms as envisaged in point (a) and (b) above shall not be applicable for Scheme A.

(d) The exposure norms for investment in lnvlTs/REITs are as under:

a. The cumulative Investments in units and debt instruments of lnvlTs and REITs shall not exceed 3% of total AUM of the pension fund at any point in time.

b. The pension fund shall not invest more than 15% of the outstanding debt instruments issued by single lnvlT/REIT issuer.

c. The pension fund shall not invest more than 5% of the units issued by a single lnvlT/REIT issue.

(e) Investment exposure to a single industry has been restricted to 15% of total AUM under all schemes as per level-5 of NIC classification.

(f) 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 above prescribed industry concentration and sponsor/non-sponsor group norms.

(g) The value of funds invested by Pension Fund in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced from the respective scheme AUM before computation of investment management fees payable to them, to avoid double incidence of costs. However, investments made by Pension Funds in ETFs/Index Funds for the purpose of disinvestment of shareholding of the Government of India in respect of Bonds issued by CPSEs, CPSUs, CPFIs and other government organizations and all short duration mutual funds (Liquid, Overnight, Ultra-Short Duration, etc) as permitted by SEBI, would be eligible for payment of investment management fee.

(h) Inter-Scheme Transfer of Securities:

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

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

(i) Pension Fund are permitted to keep securities as margin with the CCIL for margin requirements for investment in Government Securities and Triparty Repo (Dealing) System (TREPS).

(j) For National Pension Scheme Tier II - Tax Saver Scheme, 2020 (NPS–TTS) which is available for subscription only by Central Government employees, the following investments limits will apply;

Asset Class	Limits
Equity (as per Asset Class E of NPS Tier-II	10% - 25%

Debt (as per Asset Class C & G NPS Tier-II)	Upto 90%
Cash/Money Market, Liquid Mutual Funds*	Upto 20%

* this limit shall be applicable only after the scheme corpus reaches Rs 5 crore.

6.2) Compliance related controls

1. Any breaches from regulatory or internal norms should be reported to the Committee, the Committee in turn shall report material breaches to the Board.

1a. In line with PFRDA Circular No. PFRDA/2022/04/SUP-PF/01 dated February 04, 2022, the deviations which take place due to non-adherence of regulations/guidelines/circular issued by the Authority from time to time except arising out of corporate action or due to extreme market shall be treated as active and all other deviations which are not active shall be treated as passive.

In case of the listed active breaches/deviations, DSPPF would have to regularize the active breaches/deviations immediately within 3 business days from the date of the active deviation happened. However, all such instances of active breaches happened and regularized by the DSPPF within 3 business days have to be reported to NPS Trust in its periodic reporting along with the date on which breach happened and the date of regularization. All deviations/breaches, if any, have to be reported by DSPPF in its periodic reporting to the NPS Trust.

2. The Investment system should facilitate online limit monitoring for all investment norms

3. DSPPF should have prescribed Code of conduct for prevention of insider trading, in line with SEBI guidelines

4. To prevent the misuse of confidential information, DSPPF should ensure restricted access to the dealing room, and only authorized persons should be allowed to enter the dealing room

5. Arm's length relationship with group companies: DSPPF shall ensure arm's length relationship with all group companies. The following criteria would be used to ensure compliance with the principles of impartiality and arm's length transactions:

- The transaction should have the substantive characteristics of a transaction between independent parties
- The pricing for the product shall be at market rates

a. Audit controls

The audit of the pension fund is conducted in accordance with the PFRDA (Appointment of Auditors) Guidance Note 2012 or any further guidelines/circulars issued by the Authority from time to time. The audit findings are reported to the Audit Committee on a quarterly basis and the Audit Committee in turn will submit their findings to the Board.

b. Performance review and reporting

The following would be presented to the Committee at least quarterly:

1. A review of the investment performance would be presented to the Committee. Performance would be

reviewed relative to the respective benchmarks as well as peers. Benchmarks have been identified for each scheme based on the investment objective and as defined in the policy.

2. The key risk and portfolio parameters, including portfolio duration, rating wise portfolio distribution and large exposures by an investee Company, promoter group and industry.

3. Credit events including rating upgrades/ downgrades and defaults, if any

4. Compliance with the regulations and the Policy

The following would be presented to the Board at least quarterly:

1. A review of investment performance relative to benchmarks and peers.

2. Compliance with the regulations and the Policy.