Kotak Mahindra Pension Fund Ltd.

Investment Policy

Approved at the Second Board Meeting held on June 6, 2009 amended from time to time(last reviewed on July 12, 2018)

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I Preamble:

Kotak Mahindra Pension Fund Ltd. (KMPFL) was appointed as a Pension Fund Manager (PF) vide letter dated March 13, 2009 for an initial period of three years. The company was then granted Certificate under Registration of Pension Funds for Private sector Guidelines 2012. KMPFL has signed Investment Management Agreement (IMA) dated 21st March 2013, with the Board of Trustees of the NPS Trust.

Clause 4.18 of the Investment Management Agreement dated 25 Mar 2015 prescribes that PF shall constitute an Investment Committee. The constitution and functions of the Investment Committee are as set forth in Schedule VI of IMA and is listed below:

1. PF shall constitute an Investment Committee consisting of two Directors, the Chief Executive Officer and the Chief Investment Officer or Fund Manager in case CEO and CIO are the same official.

2. PF shall draw up an Investment Policy and place the same before the Board of Directors for its approval. In framing such a policy, the Board will be guided by:

    a. Issues relating to liquidity, prudential norms, exposure limits, stop loss limits in securities trading, management of all investment & market risks, management of assets liabilities mismatch, investment audits and investment statistics, etc. and the provisions of the Authority guidelines/directions.
    b. Ensuring an optimum return to subscribers consistent with the protection, safety and liquidity of such funds.

II Constitution of Investment Committee:

The Board of Directors of KMPFL at their meeting held on June 5, 2009 has constituted an Investment Committee. The current members of the investment committee are:

Sr No	Name	
1	Mr.Balan Wasudeo (w.e.f. Mar 31, 2011)	Chairman (Independent director)
2	Mr.Sudhakar Shanbhag (w.e.f. July 26, 2018)	Director
3	Mr. Nilesh Shah (w.e.f. April 20, 2015)	Director
4	Mr. Sandeep Shrikhande (w.e.f. May 1, 2013)	Chief Executive Officer
5	Mr. Vinod A.N. (w.e.f. April 18, 2013)	Fund Manager

III Investment policy of KMPFL

KMPFL appreciates that the funds placed at disposal for management are in the nature of savings of the subscribers being accumulated as a financial safety net for their post retirement days and is committed to the safety, liquidity and prudence while managing such funds.

The investment policy will adhere to the investment guidelines and restrictions laid down in Schedule II of the IMA for Tier I & Tier II schemes and also Govt. of India Notification dated August 14, 2008 for NPS Lite Scheme and other notifications and guidelines issued by the Authority from time to time.

KMPFL appreciates that the restrictions prescribed by IMA or clarifications circulars issued by the PFRDA or under future regulations whether on investments, on business with associate companies, on fees and expenses, etc are meant to ensure that investors' interest is well protected. Kotak Corporate philosophy is to prescribe more stringent conditions in all those areas where the NPS / PFRDA has prescribed any restrictions so that the staff working in the Pension fund even accidentally do not breach the limits prescribed by NPS / PFRDA.

Schemes managed by KMPFL:

KMPFL shall manage eight schemes under Tier I(Pension Fund), Tier II (Savings fund)and NPS Lite each investing in different asset classes:

Authorised Investments are in accordance to IMA/ Investment Guidelines dated 4th May 2017 for Other than NPS Lite scheme (Annexure A-w.e.f.8th May 2017 along with clarifications issued vide PFRDA circular dated 9th October, 2017) and Guidelines dated 03rd June 2015 for NPS Lite Scheme (Annexure B-w.e.f. 10th June 2015) adopted by the Board in the Investment policy along with additional internal prudential norms.

Asset Class wise highlights of the above said guidelines are given here below;

(a) Asset class E (equity market instruments)

i. Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which have
   1. Market capitalization of not less than Rs 5000 crore as on the date of investment and
   2. Derivatives with the shares as underlying traded in either of the two stock exchanges except in case of IPO but the same should be available in the F&O segment in either of the two stock exchanges within one year to remain invested in that stock.

ii. Units 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

iii. 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.

iv. ETFs issued by SEBI regulated Mutual Fund constructed specifically for disinvestment of shareholding of the Government of India in body corporates.

v. 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 the contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (i) to (iv) above

Further, exposure to non-sponsor Group companies is restricted to 15% of the paid-up capital of all the non-sponsor group companies or 15% of the total AUM under Equity exposure whichever is lower, in each respective scheme.
The following are the internal prudential norms:

KMPFL shall invest the fresh inflows, redemption from money market investments, money received through corporate actions like dividend and sale proceeds from the existing investments in units of Mutual Funds which have minimum 65% of their investment in shares of body corporates listed on BSE or NSE.
Nifty 50 index can be used as Benchmark index till further decision is taken by the Board.

The following are the internal prudential norms:

1) Prior approval from Investment committee is required for subscribing equity shares through Initial Public Offering (IPO) / Follow On Public Offer (FPO).
2) Investment per Equity MF Scheme should not to exceed 15% of the portfolio.

(b)**Asset class G (Government Securities)** –

<u>Authorised Investments as per IMA / Investment Guidelines</u>
The detailed investment guidelines issued by PFRDA is given in Annexure-A, which is effective from May 8, 2017. Highlights of the Annexure A under Asset Class G are given here below;

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. The exposure in these securities should not exceed 10% of the total portfolio of the G-Sec in the concerned scheme.
iii. Units of Mutual Funds set up as dedicated funds for the Investment in Government Securities and regulated by 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 and fresh investments made in them shall not 5% of the fresh accretions in the year.

The following are the internal prudential norms:

1) As per the investment guidelines, the assets under the scheme are not to be encumbered. However, as per the existing guidelines for participating in Govt. Securities / CBLO/Reverse Repo market, government securities can be offered as collaterals. As the guidelines are issued by RBI/RBI authorized CCIL, it is considered that offering government securities as collaterals for Govt. securities / CBLO/Reverse Repo transactions/investment are not encumbrance for the purpose of these guidelines.

2) For investment in SDL's , investments shall be made in SDLs of the following 11 States as approved by the Investment Committee. The below tabulated States have been selected on the basis of composite rating arrived at by evaluating and assigning weightage to various factors like financials of the state, geo-political factors, market liquidity, business climate, threat indicators and Management view of the state based on past performance. Evaluation Matrix is enclosed as Annexure.

STATE	RATING
Maharashtra	A
Gujarat	A
Karnataka	A
Uttar Pradesh	B
Haryana	B
Madhya Pradesh	B
Telengana	B
Tamil Nadu	C
Rajasthan	C
Andhra Pradesh	C
Punjab	C

3) Investment per security in Govt of India Bonds not to exceed 20% of the portfolio.

. These prudential norms may be modified by the Investment Committee as they may deem fit depending on the market conditions.

c) Asset class C (Credit risk bearing debt instruments) –
<u>Authorised Investments as per IMA / Investment Guidelines</u>

The detailed investment guidelines issued by PFRDA is given in Annexure-A, which is effective from Sep 10, 2015. Highlights of the Annexure A under Asset Class C are given here below;

i. Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions (PFI- as defined under Section 2 of the Companies Act, 2013), which have a minimum residual maturity period of three years from the date of investment.
ii. Rupee Bonds having an outstanding maturity of atleast 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.
iii. Term Deposit Receipts of not less than one year duration issued by Scheduled commercial banks, which satisfy the conditions given in the guidelines.
iv. Units of Debt Mutual Funds as regulated by Securities and Exchange Board of India (SEBI)
v. Infrastructure related debt instruments as detailed in the Annexure A
vi. Listed and proposed to be listed Credit Rated Municipal Bonds

Investment under the above mentioned sub-categories (except sub-category iv) 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. For the sub-category (iii), a single rating of AA or above by a domestic or international ratin g agency will be acceptable.

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.

It is clarified that Debt securities covered under Asset Class G above are excluded from this category.

The following are the internal prudential norms:

- Investment per Issuer not to exceed 10% of the portfolio. Only investments in secured securities to be made. In case of investments in unsecured debt the approval of the Board needs to be obtained.
- No investments shall be made in papers below AA.
- Cumulative investments in less than AAA rated papers not to exceed 50%.
- Investments in private sector corporate bonds not to exceed a max tenure of 10 years and PSU bonds not to exceed 20 years.
- Prior approval from Investment committee is required for subscribing Debentures or money market instruments through Primary market.

The universe of debt & Money Market instruments (Annexure C) prescribes the list of Issuers in which investments can be made. If and when there is a need to expand the universe, necessary proposals may be placed before the committee.

These prudential norms may be modified by the Investment Committee as they may deem fit depending on the market conditions.

d) Short term debt instruments & related investments: (not Exceeding a limit of 5% of the scheme corpus on temporary basis only)
<u>Authorised Investments as per IMA / Investment Guidelines</u>

i. Commercial papers having rating of A1+ by at least two rating agencies. If it is rated by more than two agencies, the lowest of the two to be taken.
ii. Certificates of Deposit of up to one year duration issued by scheduled commercial banks provided the issuing bank should satisfy the conditions mentioned for Term Deposits.
iii. Units of Liquid mutual funds regulated by the SEBI with the condition that the average total asset under management of AMC for the most recent six month period of at least Rs. 5000 crore.
iv. Term Deposit Receipts of up to one year duration issued by such scheduled commercial banks which satisfy all conditions given for Term Deposit.
Provided further that the limit with respect to investment in Money Market instruments under Scheme A (under Tier I) shall be 5% the scheme corpus or Rs 10 lacs whichever is higher. The limit with respect to investment in Money Market instruments under schemes C-II and G-II shall be 10% of the scheme corpus.

Prudential Norms for Money Market Investments:

The Issuer of the commercial papers should be in the approved Universe.

e) NPS Lite- Govt. Pattern

PFRDA had introduced "NPS Lite to extend the coverage of NPS to the weaker and economically disadvantaged sections of the society with their limited investment potential. NPS lite works on "group" model targeting and servicing the old age savings needs of low income workers and promote small savings.

The detailed investment guidelines issued by PFRDA is given in Annexure-B, which is effective from Jun 10, 2015. Highlights of the Annexure B are given here below;

Asset Class E	Up to 15%
Asset Class C	Up to 45%
Asset Class G	Up to 50%
Miscellaneous Investments	Up to 5% (part of Asset class C above)
Short Term Investments	Up to 5% (money market instruments given above)

f) Asset class A

PFRDA has introduced a new asset class 'A' for the Tier I investors. The permissible securities for alternate asset class are as under:

- Commercial mortgage based securities or Residential mortgaged based securities
- Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India
- Asset backed securities regulated by the Securities and Exchange Board of India
- units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India
- Alternative Investment funds (AIF Category I & II) registered with SEBI .
- Basel III Tier 1 bonds issued by scheduled commercial banks under RBI guidelines.

Further, total portfolio invested under the sub-category Basel III Tier I Bonds, at any time, can be upto a maximum of 5% of the total portfolio i.e. G+C+E+A for both Tier-I & II.

The investments are subject to the parameters given in Annexure A.

Restrictions/ exposure norms will not be applicable to Asset Class "A" till its scheme corpus reaches to Rs 1 crore.

IV. Broker empanelment

The investment committee has laid down internal norms for empanelment of brokers (attached herewith). This has been modified to include the guidelines prescribed by PFRDA vide letter dated 14 September, 2012.

The guidelines may be reviewed annually or at such shorter duration by the Investment Committee/ Board as deemed fit.

V. Policy for Stop Loss in securities held in the portfolio

Our strategy for investments into Equity schemes i.e. scheme E (both Tier-I & II) and equity portion of NPS Lite scheme was to invest into Nifty 50 stocks in the same weightage as the Nifty 50 index subject to regulatory restrictions of Group, industry exposure etc. as may be prescribed by PFRDA from time to time till the above new investment guidelines issued by the regulator. The constituent securities of the Nifty 50 index were periodically selected by NSE based on certain prescribed criterion viz; Liquidity, impact cost and free float market capitalization. Any substantial fall in market price of any stock will result in exclusion of the stock from the Index on account of fall in free float market capitalization. The portfolio rebalancing by Fund Manager, at his discretion, subsequent to exclusion of the stock from index will ensure exit from any underperforming stock in the equity portfolio.

Post issuance of the new guidelines, KMPFL strategy has been changed to invest in Units of Equity oriented Mutual funds scheme instead of investmenting directly in equities.

VI. Policy for Credit Risk Management & Review

- The strategy for investment into corporate debt securities under Scheme C (both Tier-I & II) , the permissible portion in corporate bonds under scheme NPS Lite and the Money Market Insturments under all schemes is to invest in securities of companies belonging to the "Universe of Companies" which is periodically approved by the Investment committee. The investment policy prescribes minimum AA rating for investing in these debt securities under scheme C (both Tier-I & II).

- The PFRDA guidelines as prescribed in the IMA requires the corporate debt securities under scheme C to be necessarily rated by at least two credit rating agencies. It is understood that the rating provided by the rating agencies incorporates its assessment on the credit quality of the corporate as mentioned in its rating rationale, the portfolio of these schemes shall be placed before the Investment committee for review on a periodic basis.

- The Fund Manager may appraise the Investment committee.in case of any downgrades, additional information based on events, news etc. pertaining to the ratings of the debt securities held in the portfolio. The Sub committee / Investment committee on the review of the portfolio may provide suitable guidance to the Fund Manager on further course of action, if any.

- Investment Committee may review the performance of the schemes once every two months by a sub group of Investment Committee consisting of any one director and Chief Executive Officer and issue suitable guidance to the Fund management team. The minutes of the Sub Investment Committee shall be placed before the meeting of the Investment Committee held immediately after such review.

VII Asset Liability Management (ALM) and Liquidity of the portfolio:

Under NPS Trust, Kotak Pension fund is handling two types of schemes

(1) Pension fund (Tier I & NPS lite schemes): Long term in nature, the investors are investing in these schemes to plan for their retirement. Mid period withdrawals are largely only in exceptional circumstances. Considering the same the investments are also largely long term in nature.. To meet liquidity, the Fund managers are permitted to invest in Money market instruments to the extent of 5% of each scheme. At the current levels of corpus we believe that this should be sufficient to meet the short term liquidity needs, if any.

(2) Savings fund (Tier II schemes): Short Term in Nature, Investor can withdraw the amount at any point in time from the schemes. However the investment pattern prescribed is same as that of Tier I. Hence there could be some ALM / Liquidity mismatch. The fund manager should be conscious of this and hence invest in liquid / rated instruments and the use the prescribed money market investment limits to provide for liquidity in the fund.

The current payout cycle for redemptions is T +3. The settlement cycle for the underlying asset classes range from T=0 to T=3. This ensures that assets are realized before the redemption payout cycle. It should also be noted that the normal subscriptions also act as a buffer in the event of any eventualities.

IX. Audit

As per the PFRDA (Appointment of Internal_Auditor) Guidance note 2013, internal auditor has been appointed and scope given to the auditors is also in compliance with the guidance note. Internal auditors have to complete the audit on a quarterly basis and submit their report to the Audit committee. Based on the Audit committee's recommendation the report is approved by the Board and forwarded to NPS trust. The audit scope covers in depth all the areas pertaining to investments by the PFM.

This policy may be reviewed on a Quarterly basis or such shorter duration as the Board deems fit.