

# **Deutsche Asset Management (India) Private Ltd**

## **Investment Valuation Policy and Procedures**

**Effective from June, 2014**

# **Deutsche Asset management (India) Pvt Ltd**

## **Valuation Policy and Procedures**

### **Background**

The valuation norm, methodology and principles for valuation of investments by Mutual Funds are defined in the Eighth Schedule to the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, along with circulars issued by Sebi from time to time.

Securities and Exchange Board of India (SEBI) vide circular No. Cir/IMD/DF/6/2012 dated February 28, 2012 and Gazette Notification No. LAD-NRO/GN/2012-12/38/4290 dated Feb 21, 2012 amended SEBI (mutual Funds) Regulations, 1996. One of the amendments pertains to the Valuation of investments encompassing the Principles of Fair Valuation. The essence of these amendments is the departure from the earlier prescriptive approach to principles of fair valuation to ensure that valuation methodology provides fair treatment to all investors – existing, new and those exiting.

Prior to this amendment, Schedule Eighth of SEBI MF Regulation and various circulars issued from time to time provided detailed guidelines on valuation of traded securities, non-traded securities, thinly traded securities, etc.

The amendment also states that in case of any conflict between the principles of fair valuation and guidelines as per Eighth Schedule and circulars issued by Sebi, the Principles of Fair Valuation shall prevail.

### **Principles of Fair Valuation**

As per the amended regulation, the overarching principles that shall be followed by the Asset Management Companies for valuation of its investments are:

- The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets.
- The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures
- The policies and procedures approved by the Board of the asset management company shall identify the methodologies that will be used for valuing each type of securities/assets held by the mutual fund schemes.
- Investment in new type of securities/assets by the mutual fund scheme shall be made only after establishment of the valuation methodologies for such securities with the approval of the Board of the asset management company.
- The assets held by the mutual funds shall be consistently valued according to the policies and procedures.
- The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security.

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- The asset management company shall provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets.
- The valuation policies and procedures shall be regularly reviewed (at least once in a Financial Year) by an independent auditor to seek to ensure their continued appropriateness.
- The valuation policies and procedures approved by the Board of Asset Management Company should seek to address conflict of interest.
- Disclosure of the valuation policy and procedures approved by the Board of the asset management company shall be made in Statement of Additional Information (SAI), AMC / MF website and at any other place as may be specified by Sebi.
- The responsibility of true and fairness of valuation and correct NAV shall be of the asset management company, irrespective of disclosure of the approved valuation policies and procedures.
- Any deviation from the disclosed valuation policy and procedures may be allowed with appropriate reporting to Board of Trustees and the Board of the asset Management Company and appropriate disclosures to investors.
- In case of any conflict between the Principles of Fair Valuation as detailed above and Valuation Guidelines issued by the Board hereunder or elsewhere, the Principles of Fair Valuation detailed above shall prevail.

AMFI had issued best practice guidelines circular No. 29/2012-13 dated May 15, 2012 on Valuation Principles for valuing Debt and Money Market Instruments. The same have been considered while framing this Valuation policy.

### **Deutsche Asset Management – Investment Policy Coverage**

This Valuation Policy of Deutsche Asset Management (India) Pvt Ltd covers the following:

1. Valuation methodologies for all types of securities.
2. Inter-scheme transfers
3. Role of the Valuation Committee
4. Handling conflict of interest
5. Exceptional events
6. Record Keeping

#### **1. Valuation methodologies**

The methodology that will be followed for valuing different types of securities held by the schemes of Deutsche Mutual Fund is given in ‘Annexure A’

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In case of any new security not covered by the present universe in Annexure, A, the valuation methodology for the same will be laid down with the approval of the board of the Deutsche Asset management (India) Pvt Ltd (DeAM)

#### **2. Inter-scheme transfers**

All the Inter-scheme transfers shall be done as per current policy viz. at prevailing market price.

**Annexure A** describes the methodology that is followed in arriving at the fair valuation of securities which are intended to be transferred from one scheme to another.

#### **3. Role of Valuation Committee**

DeAM Valuation committee currently comprises the following personnel:

- ❖ CEO
- ❖ COO
- ❖ CIO
- ❖ Head of Fixed Income
- ❖ Head of Compliance and Company Secretary
- ❖ Head of Operation
- ❖ Representative from Finance function

The CEO can reconstitute or nominate additional members of the valuation committee.

The broad role of the Committee is to:

- Define valuation procedure and methodology for different types of securities
- Review, approve and recommend the valuation policy/ procedures to the AMC board and Trustee Board for their approval and noting
- Review the policy and procedures on a periodic basis, at least once annually.
- Review and approve valuation methodologies at least annually or more frequently based on market condition
- Act as escalation body for pricing/ valuation issues, addressing areas of potential conflicts of interest
- Review and approve Asset Specific issue such as liquidity, stale price, valuation changes and the Non-performing Assets.
- Review and approve the spread adjustment in the value of asset based on liquidity and issuer risk consideration.
- Review MIS to provide oversight on exceptions such as missing prices, stale prices, big movers, tolerance check and trade V/s price comparison.
- Recommend valuation method during exceptional events
- Recommend valuation methodology for a new type of security to the AMC Board
- Reporting any deviation to valuation to the AMC Board / Trustees and disclosure to the investors

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### **4. Handling conflict of Interest**

The valuation committee shall be responsible for ongoing review of areas of conflict and should recommend to the DeAM board the procedures to mitigate it.

### **5. Exceptional Events**

Following are the some of the events that can broadly be classified as exceptional events:

- a. Major policy announcements by the Central Bank, the Government or the Regulator.
- b. Natural disasters or public disturbances that force the markets to close unexpectedly.
- c. Absence of trading in a specific security or similar securities
- d. Significant volatility in the capital markets
- e. Severe liquidity issue in the market
- e. Any other events where realizable value may be substantially different from benchmark based prices obtained.

The Valuation Committee shall be responsible for monitoring exceptional events and recommending appropriate valuation methods under the circumstances.

Further, the Valuation Committee shall seek the guidance of the AMC board in deciding the appropriate methodology for valuation of affected securities.

Deviations from the valuation policy and principles, if any, will be communicated to the unit holders' wide suitable disclosures on the fund website.

### **6. Record keeping**

This policy document will be updated in SID / SAI, AMC website and other documents as prescribed by the SEBI regulations and guidelines.

All the documents which form the basis of valuation including inter-scheme transfers (the approval notes & supporting documents) shall be maintained in electronic form or physical papers.

Above records shall be preserved in accordance with the norms prescribed by the SEBI regulations and guidelines.

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**Annexure A**

Following are the broad valuation methodology for each type of securities.

**1. Equity and related securities**

<b>Equity Shares, Preference Share, Equity Warrants</b>	
<b>Traded</b>	At the last quoted closing price on the Bombay Stock Exchange (BSE)/ National Stock Exchange (NSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.
<b>Non Traded</b>	<ol style="list-style-type: none"> <li>1. When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / any other Stock Exchange will be used, provided such closing price is not earlier than a period of 30 calendar days.</li> <li>2. In all other cases, the valuation methodology will be as under:               <ol style="list-style-type: none"> <li>a. Equity Shares non traded and not listed: Valuation will be computed in accordance with the method prescribed under SEBI (MF) Regulations. (i.e. on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to Industry PE), further discounted for illiquidity )</li> <li>b. Preference Shares: Intrinsic value will be considered</li> <li>c. Equity Warrants / Rights entitlement / partly paid up rights shares: Valuation price will be arrived at, after applying appropriate discount after reducing the exercise price / issuance price from the closing price of the underlying cash equity security.</li> <li>d. Demerger: Where at least one resultant company is not immediately listed, valuation price will be arrived at by using cum-price, before demerger reduced for quoted price of the listed resultant company(s). In case of a demerger pending listing, the resultant company/ies shall be valued at the intrinsic value arrived at on the date of corporate action</li> <li>e. Merger/ Amalgamation or any other corporate action The specific security valuation will arrived at, after considering the nature of corporate action.</li> </ol> </li> </ol> <p>In all the cases above, and also for other equity related instruments and corporate actions, valuation of the security will be pre-approved by Valuation Committee.</p>

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<p><b>Thinly Traded</b></p>	<p>Valuation will be computed in accordance with the method prescribed under SEBI (MF) Regulations. i.e. on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to Industry PE), further discounted for illiquidity.)</p> <p>Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in a calendar month is both less than INR 5 lacs and the total volume is less than 50,000 shares, it shall be considered as a thinly traded security</p> <p>In case of above, valuation of the security will be approved by Valuation Committee.</p>
<p><b>Futures and Options</b></p>	
<p><b>Traded</b></p>	<p>On the valuation day, at the settlement price provided by the respective stock exchanges.</p>
<p><b>Non Traded</b></p>	<p>When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price / any other derived price provided by the respective stock exchange.</p>

**2. Sovereign, Fixed Income and related securities**

All Fixed Income and related securities, including Bill rediscounting (BRDS), Government Securities, State Government Securities, Treasury Bills and Cash management Bills, will be valued as under:

➤ **For Instruments maturing in 60 days**

• **Traded Instruments**

All Sovereign, Fixed Income and related securities will be valued at traded yield / price if the same security is traded by AMC or were traded on any public platform.

The traded yield / price will be used only if the following criteria is met:.

Residual Maturity	For Trades reported on Public Platform	For trades done by the AMC
For Instruments maturing in 60 days	At least five trades, aggregating to Rs. 250 crores or more.	At least one trade of Rs. 5 crores or more.

The weighted average yield will be considered as the traded yield. In case of forward settlement dates, traded yield shall to be considered for valuation.

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Where both the market and the AMC trades qualify, market trades will be considered for the traded price.

In case of multiple platforms reporting trades on the same day, the order of preference will be CDSIL F-Track, NSE OTC, BSE OTC, MCX OTC, NSE WDM & other exchange platform. In case of Sovereign securities, the order of preference will be RBI and NSE WDM. The qualifying criteria will be at the exchange/platform level.

- **Non Traded Instruments**

All Sovereign, Fixed Income and related securities which are not traded or traded but do not qualify as traded (not falling in the above criteria) will be valued as under:

Securities will be amortized from purchase price/ last traded price on straight line amortization as long as their valuation remains within  $\pm 0.10\%$  band of the price derived from the reference price for each bucket. The reference price shall be obtained from the Bond Valuer. The Valuation Committee or its subcommittee would ensure that the difference between valuation price and reference price is within  $\pm 0.10\%$ .

Where an instrument is purchased for the first time, the credit spread for the purpose of valuation would be fixed at the time of purchase. Such spread shall be difference between the purchase yield and the benchmark yield with no cap prescribed for illiquidity discount or premium. This credit spread may be changed based on factors like primary market supply, significant trading activity in the secondary market in same or similar assets, change in the credit rating or profile of the issuer or prospect of a significant credit event etc. The detailed justification for such price adjustment shall be documented and the same will be approved by CEO & Compliance Officer. The Valuation Committee shall also review it in its periodical meetings.

The existing methodology of using amortization will be continued till the availability of reference price from the Bond Valuer.

- **For Instruments maturing above 60 days**

All the securities maturing above 60 days would be valued at the average of the scrip level prices provided by the agencies nominated by AMFI (currently CRISIL & ICRA) on a daily basis.

In case, on any particular day, scrip level price is not provided for any debt instrument/instruments held in our portfolio, the Valuation Committee will decide on the valuation methodology to be followed for that day, for such instruments.

The prices provided by the agencies will be reviewed regularly by the Valuation Committee. The Fund Manager can override the security prices provided by agencies if the same is not representing the current market level for that security. However, detailed



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justification for such override shall be documented and the same will be approved by CEO / Compliance Officer and any other committee member. The Valuation Committee shall also review it in its periodical meetings.

### **3. Other types of securities**

Following methodology shall be adopted for valuation of other types of securities:

- a. Units of Mutual Funds will be valued at the last available NAV
- b. Following assets will be valued at cost plus accruals / amortization
  - Fixed Deposits
  - CBLO/ Reverse Repo

### **Inter Scheme Transfer**

In case of Inter Scheme Transfers, The Fund Manager shall check the traded price of the same or similar securities available on public platform before concluding inter scheme transfers. All inter-scheme transfer shall be done at weighted average YTM, which will be calculated as under:

Same Security: All trades in same security irrespective of the amount will be aggregated on the public platform. If there are no trades other than the AMC's own trade, then the AMC's trade shall be considered only if the size is Rs.5 crore and more. If there are no trades in same security, then trades of similar security will be considered.

Similar Security: All trades in a similar or any similar security on the public platform will be aggregated. If there are no trades other than AMC's own trade, then the AMC's trade shall be considered only if the size is Rs.5 crore and more.

Criteria for identifying the similar security:

For the purpose of valuation, similar security shall be identified by the following means:

#### **Step 1**

- Same issuer with maturity date within  $\pm 5$  days for securities with residual maturity  $\leq 91$  days and within  $\pm 30$  days for securities with residual maturity  $> 91$  days of security shall be considered first. If there is no such instance, then Step 2 shall be followed.

#### **Step 2**

- Similar security from a different issuer within the same category ( Eg:PSU Bank, Private Bank or Financial Institution etc) and similar credit rating (both Short term and long term), with maturity date within  $\pm 5$  days for securities with residual maturity  $\leq 91$  days and within  $\pm 30$  days for securities with residual

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maturity > 91 days, provided the maturity dates are within the same calendar quarter.

If there are no trades (including AMC's own trade) in same or similar security on a public platform at the time of inter-scheme transfer, then the Transfer shall be done at last valued price.

Note:

Outlier trades, if any, shall be ignored after suitable justification by Fund Managers is provided.