CANARA ROBECO

**CANARA ROBECO ASSET MANAGEMENT COMPANY LIMITED**

# *Valuation Policy & Procedure*

# CANARA ROBECO MUTUAL FUND
# Valuation Policy & Procedure

## A. Background

SEBI has amended Regulation 47 and the Eighth Schedule relating to valuation of investments on February 21, 2012 to introduce overriding principles in the form of "Principles of Fair Valuation".

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

The amended regulations require that mutual funds shall value their investments in accordance with principles of fair valuation so as to ensure fair treatment to all investors i.e. existing investors as well as investors seeking to subscribe or redeem units.

It further prescribes that the valuation shall be reflective of the realizable value of securities and shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures approved by the Board of the asset management company (AMC).

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

## B. Policy Coverage

This policy shall cover the following:

1. Valuation methodologies for particular types of securities.
2. Inter-scheme transfers.
3. Composition and role of the Valuation Committee.
4. Periodic review.
5. Exceptional events.
6. Record keeping.

## C. Valuation methodologies

1. The Annexure describes the methodologies for valuing each type of security held by the schemes.
2. Investment in any new type of security shall be made only after establishment of the valuation methodology for such security with the approval of the Valuation Committee which has been authorized by the boards of the AMC and the Trustees.

**D. Inter-scheme transfers**

1. Inter-scheme transfers shall be effected as per process defined in the valuation policy and at prevailing market price (essentially fair valuation price).
2. The Annexure describes the methodology to determine the fair valuation of securities which are intended to be transferred from one scheme to another.

**E. Valuation Committee**

1. Valuation committee shall comprise of the following personnel:
   a. Chief Operating Officer
   b. Head Fixed Income
   c. Head Equities
   d. Head Risk Management
   e. Head Compliance
   f. Head Operations

The Chief Executive Officer and the Chief Operating Officer jointly can reconstitute or nominate additional members for the valuation committee.

2. Following shall be the scope of the Valuation committee:
   a. Recommendation and drafting of valuation policy for AMC Board approval.
   b. Review the accuracy and appropriateness of methods used in arriving at the fair value of securities and recommend changes, if any.
   c. Recommend valuation methodology during exceptional events.
   d. Recommend valuation methodology for a new type of security.
   e. Report to the Board regarding any deviations or incorrect valuations which impact the NAV in excess of 1%, the current regulatory threshold.
   f. Recommend deviation from stated Valuation Policy in specific cases, with reasons, to give effect to the principle of fair valuation.
   g. Implement changes in Valuation norms arising out of changes as communicated by SEBI/AMFI to give effect to the principle of fair valuation.

**F. Periodic Review**

The valuation committee shall be responsible for ongoing review of the valuation methodologies in terms of its appropriateness and accuracy in determining the fair value of each and every security.

In addition, the valuation committee shall have the valuation policy reviewed by the Statutory Auditor at least once every calendar year, appraise them of any changes/modifications carried out to existing valuation norms, and have the valuation policy approved by the AMC Board .

## G. Exceptional Events

Following types of events could be classified as Exceptional events where current market information may not be available / sufficient for valuation of securities:

a. Major policy announcements by the Central Bank, the Government or the Regulator.
b. Natural disasters or public disturbances that force the markets to close unexpectedly.
c. Absence of trading in a specific security not covered in this valuation policy or similar securities.
d. Significant volatility in the capital and debt markets.
e. A credit default event by the issuer of any fixed income security will be considered as an exceptional event and the value of the security will be appropriately discounted by the valuation committee.

## H. Escalation Procedure:

a. Valuation Committee shall be responsible for monitoring Exceptional events and recommending appropriate valuation methods under the circumstances, with due reporting to the AMC board.
b. Under such circumstances, Valuation committee will be vested with powers by the AMC board in deciding the appropriate methodology for valuation of such securities.
c. Deviations from the valuation policy and principles, if any, will be communicated to the concerned unit holders in case the impact on the Net Asset Value exceeds the regulatory threshold of 1% of the Net Asset Value.

## I. Record keeping

Valuation Policy document will be updated in SID / SAI, 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) will be maintained in electronic form or physical papers.
Above records will be preserved in accordance with the norms prescribed by the SEBI (Mutual Funds) Regulations 1996 and subsequent amendments thereto.

## Valuation Policy: Annexure

### A. Equity and related securities

| Asset Class | Traded / Non Traded | Current Valuation policy |
|---|---|---|
| Equity Shares, Preference Shares, Equity Warrants, Rights | Traded | On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE) or other stock exchange, where such security is listed. If not traded on the primary stock exchange, the closing price on the other stock exchange will be considered. NSE will be the primary stock exchange.<br><br>When a security is not traded on any stock exchange, on the date of valuation, then the previous closing price on NSE / BSE / any other Stock Exchange will be used provided such closing price is not exceeding a period of 30 calendar days prior to the valuation date. |
| | Non Traded | **Definition of a Non-traded security:** When a security is not traded on any Stock Exchange for a period of 30 days prior to the valuation date, it is treated as a 'non-traded' security and will be valued as follows:<br>**a. Equity Shares:** Valuation price will be in accordance with the norms prescribed in the SEBI guidelines for valuation, i.e., valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount as approved by valuation committee for lower liquidity), and using the last traded price if available.<br>**b. Preference Shares:** Convertible Preference Shares shall be valued based on underlying equity, discounted for illiquidity if required as decided by the Valuation Committee. Redeemable Preference Shares shall be valued by discounting the future cash flows based on discounting rate decided by the Valuation Committee.<br>**c. Rights Shares:** Valuation price will be arrived at after reducing the exercise price/issuance price from the closing price of the underlying equity shares in case a decision is made to apply for the rights. The computation of the valuation price will commence from the Ex-rights date and continue till the date of subscription to the rights shares. During this period, on days if traded prices are available for rights shares, they shall be valued as per the traded prices. If traded prices are not available on any particular day, the rights will be valued at the last available traded price. In case a decision is made not to apply for the rights the said rights entitlement will not be valued.<br>**d. Equity Warrants/partly paid up rights shares:** Valuation price will be arrived, after applying appropriate discount (valuation committee is delegated with the power to decide the discount factor based on company fundamentals), after reducing the exercise price / issuance price from the closing price of the underlying equity security. |

**e. Demerger: i.** Where there is one resulting Company along with the demerged company and such resulting company is unlisted, the resulting company will be valued by residual price methodology which would be traded value of the demerged company on the day before the demerger (Ex-date minus 1), less value of the demerged company immediately post demerger (Ex-date). However, if value of demerged company is greater or equal to the value of the demerged company before demerger, then the resulting company would be valued at zero.

**ii.** Where there are more than one resulting companies along with the demerged company and all or some resulting companies are unlisted, the resulting companies will be valued by residual price methodology which would be, traded value of the demerged company on the day before the demerger less value of the demerged company immediately post demerger. The residual value would be allocated into resulting companies in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee. If one of the resulting companies is listed, the residual value for unlisted companies would be further determined by reducing the traded value of listed resulting companies from the residual value computed as above.

**iii.** In case where the resulting company/ies and the demerged company are unlisted, the traded value of demerged company on the day before the demerger would be allocated between the resulting company/ies and demerged company in the ratio provided as a part of scheme of arrangement or such other ratio as decided by the Valuation Committee. If the above companies remained unlisted for more than 3 months, the Valuation Committee to decide on application of illiquidity discount as deemed appropriate on case to case basis. However, if the Valuation committee is of the opinion that a fair valuation has not been achieved in certain cases by applying the above guidelines, it reserves the right to decide on an alternate method of fair valuation, post considering facts on a case to case basis. Further, guidance from valuation committee would be sought for any exceptional cases not covered above.

**f. Merger:** Valuation of resulting company would be determined by valuation of merging / amalgamating company immediately prior to the ex-date of merger / amalgamation

**i.** In case merging / amalgamating companies being listed, valuation of resulting companies would be summation of valuation of entities immediately prior to merger date. Further if listed company merges into an unlisted surviving company, then the surviving company should be valued at the traded value of merging company immediately before merger.

Example:

- If Company A and Company B merge to form a new Company C then Company C would be valued at the price equals to A+B
- If Company A which is a listed company merges into Company B which is an unlisted company the resultant would be valued at traded price of A immediately before merger

**ii.** In case, the merging / amalgamating companies being unlisted, valuation of resulting companies would be valued on the principles of fair valuation as guided by the valuation committee.

If the above companies remained unlisted for more than 3 months, the Valuation Committee to decide on application of illiquidity discount as deemed appropriate on case to case basis. However, if the Valuation committee is of the opinion that a fair valuation

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|---|---|---|
| | | has not been achieved in certain cases by applying the above guidelines, it reserves the right to decide on an alternate method of fair valuation, post considering facts on a case to case basis. Further, guidance from valuation committee would be sought for any exceptional cases not covered above. |
| | Thinly Traded | In line with the valuation formula prescribed under SEBI regulations for valuation, Valuation will be computed on the basis of average of book value and the price computed on the basis of the PE ratio (after appropriate discount to industry PE), further discounted for illiquidity.<br>Definition of thinly traded equity/ equity related security: When trading in an equity/equity related security in the preceding 30 days 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. Further, any security which is currently classified as "thinly traded" security, and is being valued at fair valuation prices, will be classified as a "traded security" if it meets any one of the two following criteria and will be valued at "traded prices:-"<br>1. Atleast a total of 50,000 shares are traded in the preceding 30 days or:-<br>2. Trading volume of Rs.5 lacs is achieved in the preceding 30 days. |
| Futures & Options | Traded & Non Traded | On the valuation day, Options premium received/paid is marked to market based on the closing price provided by the respective stock exchanges. Futures contracts are valued at the settlement price provided by the respective stock exchanges.<br>When a security is not traded on the respective stock exchange on the date of valuation, then at the settlement price provided by the respective stock exchange. |
| Gold Exchange Traded Funds | | On the valuation day, at the last quoted closing price on the National Stock Exchange (NSE)/ Bombay Stock Exchange (BSE). 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. In case of no trades on either stock exchange, then the last available NAV as per AMFI website shall be used. |
| Foreign Securities | | • Foreign Securities shall be valued based on the last quoted closing price at Overseas Stock Exchange on which respective securities are listed. However, the AMC shall select the appropriate stock exchange at the time of launch of a scheme in case a security is listed on more than one stock exchange and the reason for the selection will be recorded in writing. Any subsequent change in the reference stock exchange used for valuation will be necessarily backed by reason for such change being recorded in writing by the AMC and approved by the Valuation Committee. However, in case of extreme volatility in other markets post the closure of the relevant markets, the AMC shall value the security at suitable fair value determined by the Valuation Committee.<br>• When on a particular Valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on another stock exchange or last quoted closing price on selected stock exchange shall be used provided such date is not more than thirty days prior to the valuation date.<br>• Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAV for a Valuation Day, the AMC may source this information directly from Reuters or Bloomberg. In the event this information is not available, use the last available traded price / previous day price for the purpose of valuation. |

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| | | • On valuation date, all assets and liabilities in foreign currency shall be valued in Indian Rupees at the RBI reference rate as at the close of banking hours on the relevant business day in India. For Currencies where RBI reference rate is not available, Bloomberg / Reuters shall be used. If required the AMC may change the source of determining the exchange rate with the approval of the valuation committee.<br>• Non -traded ADR /GDRs shall be valued after considering prices/ issue terms of underlying security. Valuation Committee shall decide the appropriate discount for illiquidity. Non- traded foreign security shall be valued by AMC at fair value after considering relevant factors on case to case basis.<br>• Corporate Action (Foreign Security): In case of any corporate action event, the same shall be valued at fair price on case to case basis as may be determined by the Valuation Committee in consultation with Independent advisors (if required). |

## B. Valuation of Physical Gold

| Category | Current Valuation policy |
|---|---|
| **Physical Gold** | Price of Physical Gold will be computed by using the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having fineness of 995.0 parts per thousand with adjustment for conversion to metric measure as per standard conversion rate, adjustment for conversion of US dollars into Indian Rupees as per RBI reference rate declared by Foreign Exchange Dealers Association of India (FEDAI) and addition of transportation, other charges, notional customs duty, stamp duty that may be normally incurred in bringing such Gold from London to the place where it is actually stored and average premium/discount. On days when the LBMA AM rate or the RBI reference rate is not available, the last available rates are considered.<br>The average premium/discount is arrived as a difference of the average of the closing traded prices to the computed NAV of the top 5 Gold ETFs whose cash components are available in the public domain, (identified based on the highest average daily turnover in rupee value terms of the immediate preceding month, computation of which will be done at the end of every calendar month) would be used to arrive at the discount / premium for the day (in US dollar per troy ounce) and will be added to the above to arrive at the value of the landed price of Physical Gold. Valuation computed by ICRA Management Consulting Services Ltd will be used for computing the premium as per the above methodology. Physical Gold will be valued at the EX-GST price arrived as per the above methodology. |

## C. Debt, Money Market and related securities

<table>
<tr><th>Category</th><th>Current Valuation Policy</th></tr>
<tr><td>Traded Assets (on valuation date)</td><td>For securities with residual maturity <= 60 days:<br>The price is derived from the weighted average YTM of the traded security for the day.<br><br>A security will qualify as traded security if:<ul><li>At least three trades and aggregate volume of INR 100 crore face value or more on a public platform.</li></ul>Price derived from the weighted average YTM of a self-traded security will be used even if the same does not qualify as a traded security.<br>(Any market trade including inter scheme done by any live scheme of the Mutual Fund is considered as a self-trade and is uniformly valued across all schemes at the self traded price derived as above on the date of valuation.)<br>For securities with residual maturity > 60 days<br>At average of scrip level prices provided by CRISIL Limited (CRISIL) & ICRA Management Consulting Services (IMACS) for individual securities.<br><br>Note: Bonds purchased in primary/secondary market having residual maturity greater than 60 days for which scrip level prices are not provided by CRISIL & IMACS shall be valued at cost on date of purchase. Commercial Paper & Certificate of Deposit purchased in primary/secondary market having residual maturity greater than 60 days for which scrip level prices are not provided by CRISIL & IMACS shall be valued at bought yield on date of purchase.</td></tr>
<tr><td>Non-traded Assets (on valuation day)</td><td>For securities with residual maturity <= 60 days:<br>Securities to be amortized on straight line basis using the last valuation price so long as their valuation remains within ±0.10% band of the price derived from the reference rate provided by CRISIL and IMACS. In case of amortized value falling outside the above band, the YTM of the asset will have to be adjusted by modifying the illiquidity premium in order to bring the price within the ±0.10% band with suitable justification.<br>Note: The illiquidity premium once applied can only be changed later based on primary market supply, significant trading activity in the secondary market in same or similar assets, prospects of a credit event, etc. The change in illiquidity premium will be backed up by a proper justification and documented with appropriate internal approvals. A higher mark-up / mark-down in the yield may be permitted by the valuation committee in exceptional circumstances.<br>For securities with residual maturity > 60 days<br>At average of scrip level prices provided by CRISIL & IMACS for individual securities.<br><br><u>Bonus Debentures</u><br>To be valued at face value till receipt of scrip level valuations from CRISIL & IMACS.</td></tr>
</table>

| Category | Current Valuation Policy |
|---|---|
| **Inter scheme Transfers debt / MMI securities** | At weighted average YTM taking into account all trades done up to that particular point of inter scheme transfer.<br><br>**For securities with residual maturity <= 60 days**: All trades with minimum traded lot of INR 50 crores value or more will be aggregated for **same or similar security** on a public platform.<br><br>**For securities with residual maturity > 60 days** : All trades with minimum traded lot of INR 25 crores of face value or more will be aggregated for **same or similar security** on a public platform.<br><br>**Criteria for identifying similar securities:**<br>Similar security should be identified by the following waterfall logic, Provided the maturity dates are within the same calendar quarter:<br>1. Same issuer with maturity date within ± 3 days of maturity date of security for inter-scheme transfer shall be considered first. If no such instance is available, then Step 2 to be followed:<br>▣ *Example: For inter-scheme transfer of Punjab National Bank CD maturing on 15-Jun-2017, all secondary market trades of Punjab National Bank CD maturing within 12-Jun-2017 to 18-Jun-2017 will be considered first*<br>2. Similar security from a different issuer within the same category (PSU Bank, Private Bank or Financial Institution, manufacturing, NBFC – broking, NBFC non-broking etc.) and similar credit rating(long term/short term), with maturity date within ± 3 days of maturity date of security considered for inter-scheme transfer<br>▣ *Example: For inter-scheme transfer of Punjab National Bank CD maturing on 15-Jun-2017, all secondary market trades of similar public sector bank CDs maturing within 12-Jun-2017 to 18-Jun-2017 will be considered.*<br><br>Note:<br>Outlier trades, if any, should be ignored after suitable justification by Fund Managers.<br>In case no data point is available for a security, in accordance with above principles: Transfer at previously valued price.<br><br>Price derived from the weighted average YTM of a self-traded same or similar security will be used even if the volume is less than the minimum stipulated. |

**Notes:**

1. Public Platform refers to:

   a) Corporate bond reporting platform of Stock Exchanges: for corporate bonds, debentures and securitized debts
   b) F-Trac: For commercial papers, certificate of deposits
   c) In case of multiple platforms reporting trades in corporate bonds, debentures and securitized debt, the order of preference would be Exchange (NSE OTC, NSE WDM, BSE) and own trades. The qualifying criteria will be observed at the exchange/platform level.
   d) In case of multiple platforms reporting trades in commercial paper and certificates of deposit, the order of preference would be FTRAC, Exchange (NSE WDM, BSE) and own trades. The qualifying criteria will be observed at the exchange/platform level.
   e) In case of multiple platform reporting trades in Government Securities, Treasury Bills & Cash Management bills, the order of preference would be Exchange (NDS OM, NSE WDM, BSE) and own trades. The qualifying criteria will be observed at the exchange/platform level.
   f) FTRAC/NDS OM/NSE WDM/NSE OTC/BSE WDM prices disseminated by Bilav Information Services LLP will be used for valuation.

2. Securities with Put option/(s): Once the put option is exercised, the security will be valued to Put date being the deemed maturity date.

   Securities with Call option/(s): Once the call option is exercised, the security will be valued to Call date being the deemed maturity date.

3. Following assets will be valued on amortization:

   a) Triparty Repo (TREPS)
   b) Bills rediscounting

4. Following assets will be valued at Cost:

   a) Reverse Repo
   b) Fixed Deposit

5. Units of mutual funds will be valued at the last published NAV As per AMFI website for nontraded funds and as per market prices for listed and traded funds on the valuation day. If market prices are not available for traded funds on a particular valuation day, the last available NAV as per AMFI website is considered for valuation.

6. Interest rate swaps will be valued at net present value derived on the basis of discounting rate available for the relevant tenor.

7. All securities with less than 60 days residual maturity other than sovereign securities will have long term rating (either by SEBI approved rating agency or internal long term rating assigned)

8. The policy will stand modified to the extent it is inconsistent with any regulatory pronouncements hereafter