



## Aditya Birla Sun Life Alternate Investment Funds

### **Valuation Policy & Procedures**

Approver	Managing Director & CEO
Owner	Head - Alternate Investments – (Equity/Fixed Income)
Copy	Risk Management Team; Fund Accounting Team
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## **Background**

Alternate Investment Fund (AIF) shall value their investments in accordance with principles of fair valuation to ensure fair treatment for all investors. It is further prescribed 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).

## **Policy Coverage**

This policy shall cover the following:

- A.** Composition and role of the Valuation Committee
- B.** Valuation methodologies for different types of securities
- C.** Exceptional Events
- D.** Deviation
- E.** Record Keeping
- F.** Sunset Clause
- G.** Annexure

### **A. Composition and role of the Valuation Committee**

1. Valuation committee shall comprise of the following personnel:

- a. Chief Executive Officer
- b. Chief Operating Officer
- c. Head – Alternate Investments (Equity)
- d. Head – Alternate Investments (Fixed Income)
- e. Chief Risk Officer
- f. Chief Compliance Officer

The quorum for any meeting of the Valuation Committee shall be any 3 of the above members, with minimum 2 members other than the Head – Alternate Investments . The Valuation Committee meeting, shall be attended by Head – Alternate Investments Equity/Fixed Income, as appropriate

2. Following shall be the scope of the Valuation committee:

- a. Recommendation and drafting of valuation policy for AMC Board approval and Trustee Board for noting
- b. Periodically 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 for a new type of security
- d. Determine an event to be abnormal & recommend valuation method to be adopted during such an event.
- e. Report to the Board regarding any deviations or incorrect valuations.

## **B. Valuation Methodologies**

Below is the valuation methodology as per SEBI AIF Regulations/ Circular:

- i. Valuation of securities for which valuation norms have already been prescribed under SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations'), other than unlisted securities and listed securities which are non-traded and thinly traded, will be carried out as per the norms prescribed under MF Regulations.
- ii. Valuation of securities which are not covered under point (i), will be carried out as per International Private Equity and Venture Capital Valuation (IPEV) Guidelines.

Detailed security/asset-wise valuation methodologies for each type of investment made by the product(s) of Aditya Birla Sun Life AIF are described in Annexure.

## **C. Exceptional Events**

Events such as monetary policy or other regulatory related events, large redemptions, absence of trading in a specific or similar security or other external factors could constitute abnormal events. The above-mentioned list is only indicative and may not reflect all the possible exceptional events/circumstances.

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

## **D. Deviation**

In cases where the established valuation policies and procedures do not result in a fair and appropriate valuation, the Manager shall deviate from these established policies and procedures to ensure that the securities are valued at fair value. The rationale for such deviation shall be documented in detail and shall be reported to the Trustee and Board of Directors of the Alternative Investment Fund as applicable.

Under exceptional circumstances, including but not limited to the following:

- a. Credit events affecting a company or sector
- b. RBI actions
- c. Valuation of covenants / collateral that impact the valuation of a security
- d. Any action taken by a foreign central bank / government that would affect the value of a security
- e. Change in regulations

## **E. Record Keeping**

All documents which form the basis of valuation (the approval notes & supporting documents) will be maintained in either electronic form or physical papers. The above records will be preserved in accordance with the norms prescribed by the SEBI regulations and internal record retention policy.

## **F. Sunset Clause**

The policy shall be reviewed at least once every year, in addition to the changes made from time to time, as required by regulations.

## **Annexure**

The detailed valuation policy for each asset type is listed below: -

### **I. Equity Shares**

#### **I.1 Listed / Traded Securities:**

Any security which has been traded on any specified stock exchange and has a combined trade value of more than Rs 5,00,000 and has a combined trade volume of more than 50,000 scrips during a period of thirty days is considered as traded security.

Traded securities shall be valued at the day's closing price of National Stock Exchange.

When on a particular day a security has not been traded on National Stock Exchange, the closing price on BSE shall be used for valuation.

When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on National Stock Exchange or Bombay Stock Exchange; as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to the valuation date.

For Index Funds, valuation shall be done at the closing prices of the underlying index.

Un-Listed / Thinly Traded / Non-Traded Securities: Any security which does not have trading volume of 50,000 shares and trading amount of Rs.5,00,000/- during a period of thirty days shall be categorized as thinly traded. When a security is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip shall be treated as a non-traded scrip.

Thinly traded / Unlisted / non-traded securities shall be valued based on the International Private Equity and Venture Capital Valuation (IPEV) Guidelines.

#### **I.2 Allotment of Equity Shares on Preferential Basis, Pre-IPO Offering:**

Shares allotted on preferential basis have a lock-in of 1 year.

a) Shares will be valued at cost up to two months from the date of purchase. If not listed within two months, will be valued as per unlisted equity shares valuation methodology after two months.

b) Post listing of shares, they shall be valued by applying illiquidity discount on the listed price during the lock in period.

i. If the shares are in future and option segment, 5% illiquidity discount will be applied which will be reduced by 1.25% after every 3 months.

ii. If the shares are not part of future and option segment, 10% illiquidity discount will be applied which will be reduced by 2.5% after every 3 months.

### **I.3 Rights Offer:**

Until the rights shares are traded, each rights share shall be valued at Ex- Rights price minus Rights Offer price.

In case the Offer price is higher than the Ex- Rights price, rights share shall be valued at 'Nil'. Any consideration paid prior to allotment will thus result in depreciation on rights shares.

Suitable discount will also be considered if the resultant shares are of a different share class with differential voting rights and differential dividend rates. Discounts so considered will be subject to approval of the Valuation Committee.

The above valuation prices to be used till the date of allotment. From the date of allotment, the security shall be valued at exchange closing price.

If rights share renunciation is traded and the value and volume ratio is fulfilled, then the traded price/ renunciation price shall be used for valuation.

Until they are traded, the value of the "rights" shares should be calculated as:

$$V_r = n/m \times (P_{ex} - P_{of})$$

Where

$V_r$  = Value of rights

$n$  = no. of rights offered

$m$  = no. of original shares held

$P_{ex}$  = Ex-rights price

$P_{of}$  = Rights Offer Price

Where the rights are not treated pari-passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

### **I.4 Reduction in Face Value and Refund of Money**

If a company reduces its face value and refunds the corresponding proceeds, the same shall be booked as revenue.

### **I.5 Partly Paid-Up Shares**

Traded: The closing price on the exchange shall be considered for valuation.

Non-Traded/Unlisted: To be valued basis the International Private Equity and Venture Capital Valuation (IPEV) Guidelines.

## **I.6 Buy Back of the Securities**

If a company offers to buy back 100% of the shares tendered, then shares will be valued at the price of buy back and ignoring the market price. Else, market price of the security will be considered for valuation till formal confirmation of acceptance of shares tendered under the buyback scheme. Quantum of shares accepted under buy back will be accounted as a sale trade.

## **I.7 Warrants**

Traded Warrants (fulfilling the traded security criteria) shall be valued based on the closing price.

Non-Traded Warrants shall be valued basis the International Private Equity and Venture Capital Valuation (IPEV) Guidelines.

## **I.8 Preference Shares**

If preference shares are qualified as traded, then the closing price of the day on NSE/BSE shall be considered for valuation. NSE will be the primary stock exchange.

Convertible preference shares shall be valued based on the underlying equity. This value shall be further discounted for illiquidity as per the policy to value illiquid shares. Traded Convertible preference shares shall be valued based on the closing price.

Price of Cumulative Convertible Preference Shares shall be derived based on the price of the underlying instrument. If Cumulative Convertible Preference Shares are traded, then the closing price will be considered for valuation.

## **I.9 Valuation of Convertible Debentures**

Traded convertible Debentures (as per the traded security criteria) shall be valued based on the cum-interest traded price.

## **II Futures & Options**

Market values of traded open future/option contracts shall be determined with respect to the exchange on which it is contracted originally, i.e., a future/option contracted on the National Stock Exchange (NSE) would be valued at the Settlement price of future/option on the NSE. In such a case, the price of the same future/option series on the Bombay Stock Exchange (BSE) cannot be considered for the purpose of valuation.

### **III Debt & Money Market Instruments**

All securities across residual maturities shall be valued on the basis of scrip level valuation as provided by the approved independent valuer, except as otherwise provided in the policy. Securities will either be valued using SEBI (Mutual Funds) Regulations, 1996 ('MF Regulations') or the International Private Equity and Venture Capital Valuation (IPEV) Guidelines, as applicable. Outlined below is an overview of the valuation methods for different types of debt securities.

1. Valuation of Money Market, Government Securities, Debt Securities (rated/ unrated / including below investment grade debt securities), Short Term Deposits (pending deployment) – Valuation shall be done based on the price determined by the approved independent valuer.

2. For *any date other than* fund's frequency of valuation (Annexure - XII), the valuation of instruments shall be carried out with accrual using the YTM as per the latest independent valuer's report, provided the report is not older than fund's frequency of valuation.

If the 10-year Benchmark G-Sec yield has moved by more than +/- 100 basis points between two valuation dates or the latest independent valuer's report is older than approved valuation frequency, then a fresh valuation from an independent valuer shall be obtained, irrespective of the age of the previous report.

3. Changes in Terms of Investment

Any changes to the terms of an investment, which may impact valuation, must also be informed to the approved independent valuer.

#### **III.1 Interest Rate Swaps (IRS)**

All IRSs will be valued at net present value after discounting the future cash flows. Future cash flows for IRS contracts will be computed daily based on the terms of the contract and discounted by suitable OIS rates as approved by Valuation Committee.

#### **III.2 Valuation for Instruments with options**

Valuation of securities with Call / Put option will also be based on prices as provided by the approved independent valuer.

### **IV Investments in Mutual Fund Units**

Mutual fund units listed and traded on exchanges (NSE & BSE) would be valued at closing traded price as on the valuation date. If on the valuation date, the variance between the traded price and the closing NAV exceeds 3%, mutual fund units will be valued at the closing NAV.

Unlisted Mutual fund units and listed but not traded mutual fund units would be valued at the last available NAV as on the valuation date.

## **V International Securities**

Investments are marked to market on a daily basis and Unrealized Gain/ Loss due to currency rate movement and Unrealized Gain/ Loss due to security price movement are accounted separately.

### **Equity/ADR/GDR:**

Valuation of securities is based on the closing price as reported by Reuters/Bloomberg/any other provider for the relevant Sedol. Asian markets closing price is of T day and for Europe & US markets last traded price is of T-1.

Forward positions on cross currencies are marked to market on a daily basis against INR till such date as the positions are settled. The difference between the exchange rate of the forward and the original FX rate on the contract is accounted as Realized Gain/ Loss on currency. The exchange rate available on Bloomberg / Reuters / RBI at the close of banking hours in India shall be used to mark to market the FX positions in the same order preference.

### **International Debt:**

In the case of securities traded by Alternate Assets business on a particular day, the security shall be valued by the approved independent valuator.

## **VI Valuation of Exchange Traded Funds**

Exchange Traded Funds shall be valued at the closing price on the National Stock Exchange (NSE) / Bombay Stock Exchange (BSE) on the valuation day. If not traded on the primary stock exchange (NSE), the closing price on the other stock exchange will be considered. If on the valuation date, the variance between the closing price on the exchange and the closing NAV exceeds 3%, exchange traded funds shall be valued at the closing NAV.

In case of no trades on either stock exchanges, the valuation shall be done basis the International Private Equity and Venture Capital Valuation (IPEV) Guidelines by the approved independent valuator.

## **VIII Valuation of Infrastructure Investment Trust (InvITs) units**

- Daily Closing price from Exchange (NSE- Primary, BSE- Secondary)
- Latest NAV declared by Investment managers of the trust in case the security is not traded for last 30 calendar days.
- In case the fund manager / valuation committee feels the NAV declared by the trust is not representative of the fair value, the fund manager would derive the fair value along with approval from the valuation committee with supporting.

IX Valuation of Exchange Traded Commodity Derivatives (ETCDs): Exchange Traded Commodity Derivatives (ETCDs) - Futures and Options:

- ETCD contracts shall be valued at the last quoted closing price on the exchange where such contracts are listed
- On a valuation day, if last quoted closing price is not available then such ETCD contracts shall be valued at the settlement price.
- In case necessary details to value ETCDs are not available or if the prices as per above do not represent fair price, the valuation committee, in order to ensure fair



valuation, will determine price, based on the available information.

Exchange Traded Commodity Derivatives (ETCDs) - Physical:

- Upon the receipt of physical stocks at the exchange accredited warehouse in the allocated location the commodity can be valued daily. The pooled physical price of the respective location is published by the respective commodity exchanges.

Example: Pooled price of Gold ex-Ahmedabad is published by 12:00 noon every day at the MCX website which can be referred for valuation of stocks lying in Ahmedabad warehouse / designated vaults under ABSL MF Schemes. These published prices will be considered for valuation.

### **X Valuation of Gold**

The gold acquired by the portfolio is in the form of standard bars and its value as on a particular day is determined as under:

AM fixing price as per regulatory norms in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to the following:

- a) Adjustment for conversion to metric measure as per standard conversion rates
- b) Adjustment for conversion of USD into Indian rupees as per the RBI reference rate
- c) Addition of transportation, notional customs duty, and other charges that may be normally incurred in bringing such gold from London to the place where it is actually stored on behalf of the mutual fund; and

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of gold to the place where it is stored on behalf of the mutual fund; Provided further that where the gold held by the portfolio has a greater fineness, prices of AM fixing as per regulatory norms shall be taken as the reference price under this sub- paragraph. GST will not be included for valuation of Gold as the portfolio will be eligible for input credit of GST paid on purchase of Gold.

If on any day AM fixing as per regulatory norms or RBI reference rate is not available due to holiday, then the immediately previous day's prices are applied for the purpose of calculating the value of gold.

MCX spot price would be considered for determining a suitable notional premium/discount to arrive at the fair valuation reflecting the domestic prices of Gold/Silver. Instances where MCX spot price is lower than the price as determined above, a suitable notional discount would be applied. If on any day MCX spot price is not available, any other appropriate source may be used as agreed upon by the Valuation Committee.

### **XI Valuation of Silver**

The silver held by a silver exchange traded fund scheme shall be valued at the AM fixing price as per regulatory norms in US dollars per troy ounce for silver having a fineness of 999.0 parts per thousand, subject to the following:

- a) adjustment for conversion to metric measure as per standard conversion rates.
- b) adjustment for conversion of US dollars into Indian rupees as per the RBI reference rate declared by the Foreign Exchange Dealers Association of India (FEDAI); and
- c) addition of-
  - (i) transportation and other charges that may be normally incurred in bringing such silver from London to the place where it is actually stored on behalf of the mutual fund; and
  - (ii) notional customs duty and other applicable taxes and levies that may be normally incurred to bring the silver from London to the place where it is actually stored on behalf of the mutual fund:

Provided that the adjustment under clause (c) above may be made on the basis of a notional premium that is usually charged for delivery of silver to the place where it is stored on behalf of the mutual fund:

Provided further that where the silver held by a silver exchange traded fund scheme has a greater fineness, the relevant prices of AM fixing shall be taken as the reference price under this sub-paragraph.

GST will not be included for valuation of Silver as the Scheme will be eligible for input credit of GST paid on purchase of Silver.

If on any day the AM fixing or RBI reference rate is not available due to holiday, then the immediately previous day's prices are applied for the purpose of calculating the value of Silver.

MCX spot price would be considered for determining a suitable notional premium/discount to arrive at the fair valuation reflecting the domestic prices of Gold/Silver. Instances where MCX spot price is lower than the price as determined above, a suitable notional discount would be applied. If on any day MCX spot price is not available, any other appropriate source may be used as agreed upon by the Valuation Committee.

## **XII Valuation Frequency & Methodology for AIF Cat I, II & III**

Category I and II AIF shall undertake valuation of their investments, at least once in every six months, by an independent valuer appointed by the AIF. Provided that such period may be enhanced to one year on approval of at least seventy-five percent of the investors by value of their investment in the Alternative Investment Fund.

Category III AIF is required to disclose NAV to the investors at intervals not longer than a quarter for close ended funds and at intervals not longer than a month for open ended funds.

For various portfolios in AIF I, II & III categories, where valuation methodology is envisaged to be different than what is stated above, or for which appropriate valuation methodology is not available, valuation methodology to be adopted would be determined by the Valuation Committee using principle of fair valuation.

### **XIII IPEV**

For the detailed IPEV methodology, please visit below link as updated from time to time.

<https://www.privateequityvaluation.com/Valuation-Guidelines>