

# **KOTAK MAHINDRA MUTUAL FUND**

## **INVESTMENT VALUATION POLICY**

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## I. Introduction

SEBI vide Gazette Notification no. LAD-NRO/GN/2011-12/38/4290 dated February 21, 2012 has introduced the Principles of Fair Valuation by amending Regulation 47 and the Eighth schedule, which governs the valuation policy adopted by Kotak Mahindra Mutual Fund (KMMF), along with the various circulars issued by the SEBI from time to time.

The amended Regulations require that mutual funds shall value their investments in accordance with the principles of fair valuations so as to ensure fair treatment to all investors including the one's staying in the fund, the purchasing investor and the redeeming investor.

It further prescribes that the valuation shall be reflective of the realizable value of the securities and

- Should take into consideration prices of the same security or similar security reported on all available public platforms.
- Non traded debt and money market securities of short term maturities, may be valued on amortization basis, provided such valuations are reflective of the fair value of the securities.

The valuation shall be done in good faith and in a true and fair manner through appropriate valuation policies and procedures including dealing with exceptional events, duly approved by the Board of Asset Management Company.

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. AMC / Sponsor shall be liable to compensate investors / schemes for any unfair treatment to any investor as a result of inappropriate valuation.

The purpose of the Valuation Policy is primarily to:

- describe the methodologies for valuing each type of securities held by the schemes;
- ensure the appropriateness of the methodologies used;
- describe the process to deal with the exceptional events;
- address conflict of interest;
- ensure transparency by making appropriate disclosures.

## II. Valuation Policies and Procedures

Mutual Fund shall value its investments in accordance with the overarching principles of fair valuation as enshrined above. The methodologies for each type of securities held by the schemes are provided in **Annexure 1**.

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 Board of the AMC.

All inter-scheme transactions shall be carried out at fair valuation prices, taking into account the prices of same / similar securities / previous day valuations, at the time of the inter-scheme transaction, in accordance with the procedures laid down by the Investment Committee.

### **III. Exceptional events**

In case of exceptional events, the process and methodologies as determined by the Investment Committee shall be considered. Given the dynamic nature of the markets, defining standard processes and procedures for handling exceptional events may not be appropriate.

The illustrative list of exceptional events is as under:

- Policy announcements by the Reserve Bank of India (RBI), the Government or any Regulatory body for e.g. SEBI, AMFI etc.
- Significant volatility in the securities markets
- Market Illiquidity
- Any other event considered exceptional by the Investment Committee

### **IV. Conflict of Interest**

If any situation arises that leads to conflict of interest, the same shall be raised to the Investment Committee and the Committee shall address the same such that the valuation provides for fair treatment to all investors. In the normal course of business, so long as the standard valuation policies are adopted, no conflict of interest issue arises.

### **V. Deviation**

Investments shall be valued as per the methodologies mentioned in this Policy, which aim to enable true and fair valuation of securities. However, if the valuation of any particular security does not result in fair / appropriate valuation or under exceptional circumstances, the Investment Committee would have the right to deviate from the established policies in order to value the security at fair / appropriate value. Deviations from the valuation policy, if any, will be informed to the AMC and Trustee Board and will be communicated to the investors vide appropriate disclosures on the Mutual Fund's website.

### **VI. Periodic Review**

The Valuation Policy shall be reviewed periodically to ensure appropriateness by the AMC / Trustee boards. It shall also be reviewed periodically by the internal auditors and annually by the independent auditors to ensure appropriateness.

## **VII. Disclosure and Record keeping**

In order to ensure transparency of valuation norms by Kotak Mahindra Asset Management Company (KMAMC), the valuation policy and procedures shall be disclosed in the Statement of Additional Information (SAI) and on the website.

## Annexure 1 – Security wise valuation policy and procedures for Investments made by KMMF

### A. Equity and Equity Related Instruments - Investments are stated at market / fair value at the Balance Sheet date / date of determination.

S. No.	Security Type	Valuation Policy
1.	Traded equity and equity related securities including Preference shares and Convertible Debentures	<p>These securities are valued at the last quoted closing price on the National Stock Exchange of India Limited (NSE) except for Kotak Sensex ETF, wherein the equity securities are valued at the last quoted closing price of Bombay Stock Exchange Ltd. (BSE).</p> <p>However, if these securities are not listed / traded on NSE / BSE, as the case may be, the securities are valued at the last quoted closing price on the exchange where it is principally traded.</p> <p>When these securities are not traded on any stock exchange on a particular valuation day, the value at which it was traded on NSE or any other stock exchange as the case may be, on the earliest previous day is used, provided that such day is not more than thirty days prior to the valuation date.</p>
2.	Non-traded / Thinly traded / Privately placed / Unlisted equity and preference shares	Non-traded / thinly traded / privately placed / unlisted equity and preference shares including those not traded within thirty days are valued at fair value as per procedures determined by the Investment Committee.
3.	Non traded Rights Entitlement	<p>Until they are traded, the value of "rights" shares shall be calculated as the difference between the ex-rights price and the rights offer price.</p> <p>Where the rights are not treated pari passu with the existing shares, suitable adjustments shall be made to the value of the 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.</p>
4.	Equity and Equity related securities awaiting listing (Merger, Demerger, etc.)	In respect of special circumstances, such as Merger, De-Merger, Split, Hiving off, etc., fair value principles are adopted. Such fair valuation principles could be the

		difference between the price as existed on the date previous to the ex-date and the ex-date price of the existing equity shares, duly adjusted for discount, if any.
5.	Initial Public Offering ('IPO') application	Prior to allotment – at Bid Price Post allotment but awaiting listing – at allotment price
6.	Non-traded Convertible debentures	In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount for the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.
7.	Non-traded warrants	In respect of warrants to subscribe for shares attached to instruments, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. Appropriate discount shall be deducted to account for the period, which must elapse before the warrant can be exercised.

#### B. Debt and Money Market (including Sovereign securities) Instruments

S. No.	Security Type	Valuation Policy
1.	For Securities with residual maturity greater than 30 days	All securities (including traded and non-traded) will be valued as per the prices provided by the AMFI approved valuation agencies currently CRISIL & ICRA (simple average).  Only in exceptional circumstances securities may be valued as per the norms laid down by the Investment Committee for

		e.g. first time purchase of a security for which price is not provided by the agencies.
2.	For Securities with residual maturity upto 30 days	<p>All securities with residual maturity of upto 30 days are valued on amortization basis from the last valuation price or cost, as the case may be.</p> <p>Reference price shall be the average of the security level price as provided by AMFI appointed valuation agencies, currently CRISIL and ICRA.</p> <p>The amortised price may be used for valuation as long as it is within <math>\pm 0.025\%</math> of the reference price In case the deviation exceeds <math>\pm 0.025\%</math>, the amortised price shall be adjusted to bring it within the <math>\pm 0.025\%</math> band.</p>
3.	Securities which are rated below investment grade	<p>Securities which are rated below investment grade shall be valued at the price provided by AMFI appointed valuation agencies, currently CRISIL and ICRA. Where the traded price is lower than such computed price, such traded price shall be considered for the purpose of valuation.</p> <p>Till such time the valuation agencies compute the valuation of securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by valuation agencies.</p> <p>These indicative haircuts shall be applied on the date of credit event i.e. migration of the security to sub-investment grade and shall continue till the valuation agencies compute the valuation price of such securities.</p> <p>These haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.</p> <p>In case of trades in such securities after the credit event, AMC shall consider such traded price for valuation if it is lower than the price post standard haircut.</p> <p>The trades referred above shall be of a minimum size as determined by CRISIL &amp;</p>



		ICRA.  Any deviation from the indicative haircuts and/or the valuation price may be as decided by the Investment Committee.
4.	Bank Deposit / Repo (including Tri Party Repo (TREPS))	Bank deposits are valued at cost.  Instruments bought on repo basis are valued at the resale price after deduction of applicable interest up to the date of resale. Instruments sold on repo basis are adjusted for the difference between the repurchase price (after deduction of applicable interest up to the date of repurchase) and the value of the instrument.

If the debt, sovereign and money market securities have put and call option attached to it, the valuation shall be made as under:

S. No.	Security Type	Valuation Policy
5.	Securities with Put / Call option	Securities with put / call option shall be valued based on average of prices provided by CRISIL/ ICRA. Where the put or call option is exercised and/or the residual maturity is up to 30 days, the same shall be amortized till the put or call date respectively subject to para B(2) above.  In respect of securities which are rated below investment grade, such securities with put / call option shall be valued as per para B(3) above.

### C. Other Instruments

S. No.	Security Type	Valuation Policy
1.	Real Estate Investment Trust ('ReITs') & Infrastructure Investment Trust ('InvITs')	<u>Allotted but awaiting listing</u> - At allotment price  <u>Listed / Traded / Non Traded</u> ReIT and InvIT are valued at the last quoted closing price at the principal stock exchange. In case ReIT / InvIT are not traded on the principal stock exchange on a particular date, the closing price at which it is traded on any other stock exchange will be considered. If the traded price is not available, then valuation shall be as per the direction of Investment Committee.

		<p>Investments in ReIT / InvIT shall be valued as follows:</p> <ul style="list-style-type: none"> <li>• In case ReIT / InvIT is not being traded on any given day, last traded price would be taken as fair market value provided such last trade is not beyond previous 30 days.</li> <li>• In case ReIT / InvIT is not being traded for previous 30 days, latest NAV declared by investment manager of ReIT / InvIT trust shall be deemed to be the fair price.</li> <li>• In case investment committee can establish a case that NAV as published by investment manager of ReIT / InvIT is not representative of fair value than at a price suggested to be fair value.</li> </ul>
2.	Futures and Options	<p>All open future positions are valued at the futures settlement price as determined by the exchange where it is traded.</p> <p>All option positions are valued at the last traded price where it is traded. In case there is no traded price available then the option position is valued at fair value based on a theoretical price as derived by Black &amp; Scholes option pricing formula.</p>
3.	Mutual Fund units	<p>In case of listed investments in mutual fund units, valuation shall be at the last quoted closing price at the principal stock exchange. If the traded price is not available, then last declared net asset value of the schemes available on AMFI site will be considered for valuation.</p> <p>Investments in unlisted mutual fund schemes are valued based on the last declared net asset value of the schemes available on AMFI website.</p>
4.	Gold	<p>Investments in gold are valued at the price arrived at by converting the price of gold quoted on the London Bullion Market Association [LBMA] in US Dollars into Indian Rupees at the exchange rate published by the Reserve Bank of India as increased by custom duty for import of gold and other charges as applicable.</p> <p>If on any day, LBMA price is not available due to holiday, the last published LBMA</p>

		price will be considered for valuation by applying last available RBI reference rate.
5.	Foreign Securities	<p>Investments in securities outside India are valued at the closing price on the stock exchange on which they are listed or at the last available traded price.</p> <p>Investment in units of overseas mutual funds is valued based on the last declared net asset value of the overseas mutual fund.</p> <p>On valuation date, all foreign securities shall be valued in Indian Rupees at the last available RBI reference rate.</p>
6.	Interest Rate Swaps (IRS)	Interest Rate Swaps (IRS) are valued on amortization basis for residual maturity upto 30 days. For cases where the residual maturity is greater than 30 days, independent external quotes are considered for valuation.
7.	Securities Lending Scheme	The lending fees received on securities lent under Securities lending scheme would be amortised till the maturity of the contract.