

ALPHAGREP INVESTMENT MANAGEMENT PRIVATE LIMITED

INVESTMENT VALUATION POLICY FOR MUTUAL FUND

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1. Background

The Securities and Exchange Board of India (SEBI) has outlined investment valuation norms and accounting policies under the SEBI (Mutual Funds) Regulations, 1996, as amended from time to time. The **Investment Valuation Norms** are detailed in the **Eighth Schedule** of the Regulations (Regulation 47) and further clarified through SEBI circulars issued periodically. These norms prescribe the methodology and guiding principles for valuation of investments held by mutual fund schemes.

All valuations of securities shall be determined in strict conformity with the SEBI-prescribed valuation norms.

2. Objective of the Policy

- The objective of this policy is to define the **valuation methods, principles, and procedures** to be followed by **AlphaGrep Investment Management Limited (AGAML)** for determining the fair value of investments held by its mutual fund schemes.
- This policy aims to ensure **consistency, transparency, and compliance** with SEBI regulations and industry best practices.
- The policy is subject to review and modification from time to time, in line with amendments issued by SEBI and changes in market conditions.

3. Regulatory Framework

- This policy has been framed in accordance with the SEBI Master Circular No. **SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90** dated **June 27, 2024**, which mandates that every Asset Management Company (AMC) shall constitute a **Valuation Committee** to review investment valuation practices and ensure regulatory compliance.

4. Valuation Committee

A. Composition

The Valuation Committee of AGAML shall comprise the following members:

- Chief Executive Officer (CEO)
- Chief Investment Officer (CIO)
- Head of Operations
- Head – Compliance
- Head – Risk / Chief Risk Officer (CRO)

B. Chairperson

- The **CEO** shall serve as the **Chairperson** of the Valuation Committee.
- In the absence of the CEO, the **CIO** shall chair the committee meetings.

C. Frequency of Meetings

- The Valuation Committee shall meet **at least annually** or **on a need basis**, as determined by circumstances or regulatory requirements.

D. Quorum

- A **minimum of three members** shall constitute a quorum for the meeting.
- Presence of **either the CEO or CIO** is mandatory to complete the quorum.
- In the absence of the CIO, the **respective Fund Manager (Equity or Fixed Income)** may represent the CIO, though such representation **will not count toward quorum requirements**.
- The **CEO** shall be the default Chairperson; in their absence, the **CIO** shall assume the role.

E. Scope of Activities

The Valuation Committee shall be responsible for the following functions:

- Review the Valuation Policy on a periodic basis and recommend necessary updates or changes.
- Approve or ratify any deviations from the established valuation policy, wherever required, for the purpose of fair valuation of a security.
- Recommend changes in the valuation methodologies or procedures to the Board of Directors of AlphaGrep Asset Management Limited (AGAML) and AlphaGrep Trustee Limited (AGTL) for approval.
- Ensure that new security types are invested in only after an appropriate valuation methodology for such instruments is formulated and duly approved by the Board.
- Invite Fund Managers or other relevant personnel to committee meetings, on a need basis, to provide insights on specific valuation matters.

I. EQUITY AND EQUITY RELATED SECURITIES

A. Traded Securities

1. Equity and Equity Related Securities

- AlphaGrep Asset Management Limited (AGAML) has designated the National Stock Exchange of India (NSE) as the Principal Stock Exchange for all equity and equity-related securities held across its mutual fund schemes.
- The relevant stock exchange for valuation purposes shall also be disclosed in the Statement of Additional Information (SAI).
- For Index Funds, the Principal Stock Exchange shall be the exchange where the underlying benchmark index is established.

a) Valuation Based on Market Closing Price

- Traded securities shall be valued at the closing price of the security on the National Stock Exchange (NSE) as on the valuation day.

b) Securities Not Traded on NSE

- If a particular security is not traded on the NSE on a given valuation day, the closing price on the Bombay Stock Exchange (BSE) shall be considered for valuation.
- If the security is not traded on any recognized stock exchange on the valuation day, the last available traded price on the NSE or BSE, whichever is later, shall be used provided such date is not more than 30 days prior to the valuation date.

c) Securities Not Traded for 30 Days or More

- If an equity security has not been traded on any stock exchange for a period of 30 days prior to the valuation date, such a security shall be treated as a 'non-traded' security and shall be valued in accordance with the norms for non-traded securities as specified under this Policy.
- In the case of unlisted equity securities, valuation shall also be carried out in accordance with the norms for non-traded / unlisted securities as specified in this Policy.

d) Valuation for Index Funds

- In the case of Index Funds, the valuation of the portfolio shall be carried out at the closing prices of the underlying benchmark index constituents on the valuation day.

2. Derivatives – Equity / Index Options and Futures

Valuation of derivative instruments shall be carried out in accordance with the SEBI-prescribed methodology and exchange-provided settlement data. The valuation shall be based on the settlement prices declared by the stock exchange on which the contract was originally traded.

a) Equity / Index Options

i. Exchange-Based Valuation:

The market value of traded **Equity / Index Option contracts** shall be determined with reference to the **exchange on which the contract was originally entered into**.

Accordingly, an option contract executed on the **National Stock Exchange (NSE)** shall be valued at the **daily settlement price** declared by the NSE.

ii. Valuation of Non-Traded Positions:

For option positions **not traded on the valuation day**, the **daily settlement price** published by the respective exchange (NSE or BSE) shall be adopted for valuation purposes.

b) Equity / Index Futures

i. Exchange-Based Valuation:

The market value of traded **Equity / Index Futures contracts** shall be determined based on the **exchange where the contract was originally executed**.

Thus, a futures position contracted on the **NSE** shall be valued at the **daily settlement price** declared by the NSE.

ii. Valuation of Non-Traded Positions:

For futures positions **not traded on the valuation day**, the **settlement price provided by the respective exchange** shall be adopted for valuation purposes.

B. Non-Traded / Thinly Traded Securities

Non-traded or thinly traded securities are those securities that have not been traded on any recognized stock exchange for a specified period prior to the valuation date or where trading volumes are not sufficient to reflect the fair value. Such securities shall be valued in accordance with the methodology prescribed under the SEBI (Mutual Funds) Regulations, 1996, read with applicable SEBI circulars and AMFI guidelines.

1. Application Money for Primary Market Issues

Application money pertaining to investments made in the primary market (i.e., new issues or IPOs/FPOs) shall be valued as under:

i. Prior to Allotment:

The application money shall be valued at the bid price (i.e., the price at which the investment has been applied for).

ii. Post Allotment but Awaiting Listing:

After allotment, but prior to the listing of the security, the investment shall be valued at the allotment price.

2. Non-Traded / Thinly Traded Equity Securities

A. Definition – Thinly Traded Securities

A security shall be classified as thinly traded when:

- The trading value of an equity or equity-related security (such as convertible debentures, equity warrants, etc.) on a recognized stock exchange during a calendar month is less than ₹5,00,000, and
- The total trading volume during the same period is less than 50,000 shares.

Only the trading volumes and values reported on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) shall be considered for this determination.

Where a security meets the above criteria during the preceding calendar month, it shall be classified and valued as a thinly traded security by AlphaGrep Asset Management Limited (AGAML) for the following month.

B. Securities Listed on Non-Reporting Exchanges

If a security is listed on an exchange that does not provide trading volume or value data, AGAML shall perform its own analysis in line with the above criteria to determine whether the security qualifies as thinly traded, and value it accordingly.

C. Monitoring Frequency

Thinly traded securities shall be monitored and classified on a calendar-month basis, not on a rolling basis.

Once a security has been classified as thinly traded for a month, it shall be fairly valued ignoring the prices on the primary or secondary stock exchanges.

This fair valuation treatment shall continue for the entire month, even if the trading value or volume subsequently exceeds the prescribed thresholds during that month.

D. Treatment of Suspended Securities

- If trading in an equity security is suspended on the stock exchange for up to 30 days, the last traded price shall be considered for valuation.
- If the suspension extends beyond 30 days, the security shall be treated as a non-traded security and valued accordingly.

E. Definition – Non-Traded Securities

An equity security shall be considered non-traded **if it** has not been traded on either the NSE or BSE for a continuous period of 30 days prior to the valuation date.

1. Net Worth-Based Valuation

The **net worth per share** shall be computed using the **latest available audited balance sheet** as follows:

$$\frac{[\text{Share Capital} + \text{Reserves (excluding Revaluation Reserves)} - \text{Misc. expenditure and Debit Balance in P\&L A/c}]}{\text{No. of Paid-up Shares}}$$

2. Capitalized Earnings Method

- Determine the **average industry capitalization rate (P/E ratio)** using data from either NSE or BSE, consistently applied across valuations.
- Apply a **discount of 75%** to the industry average P/E, i.e., only **25% of the industry average P/E** shall be used as the capitalization rate.
- Use the **Earnings Per Share (EPS)** from the latest audited annual accounts to calculate the capitalized earning value.
- If the **EPS is negative**, it shall be taken as **zero** for the purpose of calculating capitalized earnings.
- The **average of the net worth per share and the capitalized earning value** shall be further **discounted by 10%** to account for **illiquidity**, resulting in the **fair value per share**.
- If the **latest audited balance sheet** is not available within **nine months** from the close of the financial year (unless the accounting year has changed), the shares of such companies shall be **valued at zero**.
- If an individual security constitutes **more than 5% of the total assets of a scheme**, an **independent valuer** shall be appointed to determine its fair value.
- To assess whether a security exceeds the 5% threshold, it shall be valued as per the above procedure, and its proportion of the **total net assets of the scheme** shall be computed as of the valuation date.

F. Definition -Convertible Debentures

Convertible debentures and bonds consist of **two components** — the **non-convertible portion** and the **convertible portion** — each of which shall be valued separately in accordance with their respective characteristics.

1. Valuation of Non-Convertible Portion

- The non-convertible component shall be valued using the same methodology applicable to debt instruments, as specified in this Policy.

2. Valuation of Convertible Portion

1. The convertible component shall be valued based on the methodology applicable to equity instruments.
2. If, after conversion, the resulting equity instrument would be traded pari-passu with an existing listed equity security, the value of the listed security may be adopted.
 - An appropriate discount shall be applied to account for the non-tradability of the instrument during the period preceding conversion.
 - The discount rate shall be approved by the Valuation Committee and incorporated in the valuation.

3. Optional Conversion

Valuation of convertible debentures with optional conversion features shall be carried out as follows:

- Option exercised by issuer:
 - Take the lower of the value when exercised or the value when not exercised.
- Option exercised by investor:
 - Take the higher of the value when exercised or the value when not exercised.
- All valuations for optional conversion shall be reviewed and approved by the Valuation Committee prior to adoption.

3. Valuation of Unlisted Equity Securities

The valuation of **unlisted equity securities** shall broadly follow the **methodology applicable to non-traded / thinly traded securities**, with certain additional considerations as outlined below:

A. Net Worth-Based Valuation

The Net Worth per share shall be computed as the lower of the following two methods:

1. Method (a): Basic Net Worth Approach

Net Worth of the Company

= Paid-up Share Capital + Reserves (excluding Revaluation Reserve) – Miscellaneous Expenditure

not written off / Deferred Revenue Expenditure – Intangible Assets – Accumulated Losses

$$\text{Net Worth per Share} = \frac{\text{Net Worth of the Company}}{\text{Number of Paid-up Shares}}$$

2. Method (b): Adjusted for Option / Warrant Exercise

Net Worth of the Company
= Paid-up Share Capital + Consideration on Exercise of Options/Warrants received or receivable

+ Free Reserves (excluding Revaluation Reserve)

– Miscellaneous Expenditure not written off / Deferred Revenue Expenditure

– Intangible Assets – Accumulated Losses

Net Worth per Share

$$= \frac{\text{Net Worth of the Company}}{\text{Number of Paid-up Shares} + \text{Shares that would be obtained on conversion/exercise of outstanding warrants and options}}$$

- If the Net Worth of the Company is negative, the share shall be valued at zero.

B. Fair Value Computation

The fair value per share shall be computed as follows:

$$\text{Fair Value per Share} = \left[\frac{\text{Net Worth per Share} + \text{Capitalized Value of EPS}}{2} \right] \times 0.85$$

- The 15% discount reflects illiquidity typically associated with unlisted securities.
- Capitalized earnings shall be determined based on the latest available audited annual accounts.

C. Unavailable Latest Financial Statements

- If the latest balance sheet (i.e., prepared within nine months from the end of the company's accounting year) is not available—unless the accounting year has been changed—the shares shall be valued at zero.

D. Discretionary Adjustment

- At the discretion of the Valuation Committee, and with approval from the AMC and Trustee Board, the fair value of an unlisted equity security may be adjusted to a price lower than the value derived using the above methodology, based on qualitative or quantitative considerations.

4. Valuation of Suspended Securities

Equity securities whose trading has been suspended on a recognized stock exchange shall be valued as follows:

1. Suspension up to 30 Days:
 - If trading is suspended for up to 30 days, the last traded price of the security on the stock exchange shall be used for valuation.
2. Suspension Exceeding 30 Days:
 - If trading is suspended for more than 30 days, the security shall be treated as a non-traded security and valued in accordance with the methodology applicable to non-traded securities as outlined in this Policy.

5. Valuation of Non-Traded Rights Entitlements

Non-traded rights entitlements arising from equity holdings shall be valued as follows:

A. Rights Entitlement Formula

Until the rights are traded post the rights renunciation period, the value of the rights entitlement shall be calculated using the **SEBI-prescribed formula**:

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

Where:

- V_r = Value of the Rights
- n = Number of rights offered
- m = Number of original shares held
- P_{ex} = Ex-right price
- P_{of} = Rights offer price

Note: The ratio of rights (n/m) will be **adjusted in the quantity** directly while booking the rights and is **not considered again for valuation**.

B. Adjustments for Non-Pari-Passu Rights

- If the rights entitlement is **not treated pari-passu** with the existing shares, suitable adjustments shall be made to the value of the rights.
- If the investor **renounces the rights** and the renunciations are traded, the rights shall be valued at the **renunciation price**.

C. Rights on Non-Traded Shares

- If the **original shares**, on which the rights entitlement accrues, are **not traded on the stock exchange on an ex-right basis**, the rights entitlement shall **not be recognized as an investment**.

D. Unsubscribed and Non-Traded Rights

- If the rights are **not traded** and it is decided **not to subscribe**, the rights entitlement shall be **valued at zero**.
- Where it is decided to subscribe the rights, renunciation value might not be appropriate. Hence in such cases valuation of rights entitlement will be done as per the formula stated in clause a to d above.

E. Post-Subscription Valuation

- Once the **subscription amount for the rights entitlement is paid**, the resulting shares shall be valued in accordance with the **normal equity valuation methodology** specified in this Policy.

6. Valuation of Non-Traded Warrants

Non-traded warrants shall be valued using the following methodology:

A. Valuation Based on Underlying Shares

- Warrants shall be valued at the value of the underlying shares that would be obtained upon exercise of the warrants.
- An appropriate discount for non-tradability, as determined and approved by the Valuation Committee, shall be applied.
- The value shall be prorated on a monthly basis after reducing the exercise price or issuance price from the closing price of the underlying equity security.

$$\text{Value of Warrant} = \text{Value of Underlying Shares} - \text{Exercise Price}$$

B. Zero Value Condition

- If the amount payable on exercise of the warrants is higher than the value of the underlying shares, the value of the warrants shall be taken as zero.

7. Valuation of Non-Traded Preference Shares

Non-traded **preference shares** shall be valued in **good faith**, taking into account the **type of preference shares** and any **illiquidity discounts** applicable. The valuation methodology shall depend on the **terms of issue**, i.e., whether the shares are **convertible or non-convertible**.

A. Convertible Preference Shares

- **Convertible preference shares** shall be valued using the **same methodology as convertible debentures**, considering both the equity conversion component and the non-convertible component.

B. Non-Convertible Preference Shares

- **Non-convertible preference shares** shall be valued using the **same methodology as non-convertible debentures**, based on their debt-like characteristics and applicable yield or market-based pricing.

C. Non-Receipt of Dividend

- In the event that the **dividend on preference shares is not received**, the security shall be treated as a **Non-Performing Asset (NPA)** for valuation purposes, in line with standard accounting practices and SEBI guidelines.

8. Valuation of Shares on De-Merger

On a de-merger, the valuation of shares is influenced by the trading status of the parent and resulting entities. The methodology shall be as follows:

A. Both Shares Traded Immediately on De-Merger

- If both the parent and resultant entity shares are traded immediately post de-merger, each shall be valued at their respective traded prices.

B. Only One Entity Traded on De-Merger

- If only one entity continues to be listed and traded:
 1. The value of the unlisted entity(ies) shall be determined as the difference between the opening price of the traded security on the ex-date (after de-merger) and the closing price on the previous trading day (before de-merger).
 2. This price difference shall be taken as the valuation price of the unlisted entity(ies) proportionately until such shares are listed and traded on a stock exchange.
 3. The cost price of the new entity/entities shall be derived proportionately from the cost price of the parent entity.
 4. If the traded security of the de-merged entity is equal to or higher than its pre-de-merger value, the non-traded entity shall be valued at zero.
 5. If the unlisted security is not listed within 30 days from the ex-date, the valuation price shall be reviewed after 30 days.

C. Neither Share Traded on De-Merger

- If shares of both entities are not traded:

1. The price of the parent shares one day prior to the ex-date shall be bifurcated over the de-merged shares based on:
 - Ratio of cost of shares of each de-merged entity, or
 - Net assets transferred, if available from the company, and
 - Any other relevant factors.
2. If the shares of both companies remain untraded for more than 60 days, they shall be treated as unlisted securities and valued according to the unlisted security methodology.
3. If the company specifies any regulations or methods for cost bifurcation or valuation, such instructions shall be adopted.
4. If the above methodology does not yield a fair valuation, the Valuation Committee shall determine the valuation on a case-by-case basis.

9. Valuation of Shares on Merger / Amalgamation

The valuation of securities resulting from a merger or amalgamation shall be determined based on the valuation of the merging / amalgamating companies immediately prior to the ex-date of the transaction. The methodology shall be as follows:

A. All Merging Companies Listed

- If all merging or amalgamating companies are listed, the resulting company shall be valued as the sum of the valuations of the constituent companies immediately prior to the merger date.
- If a listed company merges into an unlisted surviving company, the surviving company shall be valued at the traded price of the listed company immediately before the merger.

Example:

1. If Company A and Company B merge to form Company C, then Company C shall be valued as A + B.
2. If Company A (listed) merges into Company B (unlisted), then Company B shall be valued at the traded price of Company A immediately prior to the merger.

B. One or More Merging Companies Unlisted

- If one or more merging / amalgamating companies are unlisted, the resulting company shall be valued based on the principles of fair valuation as determined by the Valuation Committee.

C. Application of Illiquidity Discounts

- If the resulting company remains unlisted for more than three months, an illiquidity discount may be applied to the derived price based on the market capitalization of the issuer:
 - Large Cap: 5%
 - Mid Cap: 10%
 - Small Cap: 15%

D. Exceptional Cases

- The Valuation Committee may determine a fair value different from the above methodology based on facts and circumstances of each case.
- Guidance from the Valuation Committee shall also be sought for any exceptional cases not covered by the above methodology.

10. Valuation of Partly Paid-Up Equity Shares

The valuation of partly paid-up equity shares shall depend on whether the security is non-traded or thinly traded, as follows:

A. Non-Traded Partly Paid-Up Shares

1. The uncalled liability per share shall be deducted from the value of a fully paid-up share to derive the price of the non-traded partly paid-up shares, if the fully paid-up share is traded.
2. If the fully paid-up shares are not traded, the valuation methodology for non-traded equity shares (including illiquidity discounts) shall first be applied to the fully paid-up share, and then the uncalled liability per share shall be deducted to arrive at the value of the non-traded partly paid-up shares.

B. Thinly Traded Partly Paid-Up Shares

- Partly paid-up shares shall be valued at the lower of the following two prices:
 1. Current closing price of fully paid-up shares less the uncalled amount per share of partly paid shares.
 2. Closing price of the partly paid share if it has not been traded on the valuation day (not exceeding the last 30 days).

11. Valuation of Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs)

The valuation of units of InvITs and REITs shall be carried out as follows:

- 1. Non-Traded on a Particular Valuation Day:**
 - If units are not traded on any stock exchange on a valuation day, the last traded price on the selected stock exchange or any other recognized exchange immediately prior to the valuation day shall be used, provided that the trading date is not more than 30 days before the valuation date.
- 2. Non-Traded for 30 Consecutive Days:**
 - If units are not traded for a continuous period of 30 days, the valuation shall be determined by the Valuation Committee in consultation with the Internal Auditors or independent valuation agencies, as deemed appropriate.
- 3. Independent Agency Pricing:**
 - If an AMFI-approved independent agency provides valuations for units of InvITs or REITs, the AMC may engage with the agency to obtain security-level prices for valuation purposes.

12. To-Be-Listed Equity Shares and Equity-Related Instruments (Pre-IPO)

The valuation of securities pending listing shall be carried out as follows:

1. Up to 2 Months from Allotment:

- Such securities shall be valued at cost.

2. Beyond 2 Months from Allotment:

- Securities shall be valued as unlisted equity shares, following the valuation methodology for unlisted equity securities as prescribed in this Policy.

13. Valuation of Securities under Security Lending & Borrowing (SLB)

- Securities lent or borrowed under the Security Lending & Borrowing (SLB) mechanism shall be valued on the basis of amortization, in line with SEBI regulations and accounting principles.
- The valuation shall reflect the accrued interest, principal amount, and any adjustments applicable to the security for the period it is under the SLB arrangement.

This ensures that SLB transactions are valued consistently, accurately, and in accordance with SEBI guidelines, reflecting the true economic value of the securities during the lending or borrowing period.

14. Valuation of Other Instruments

- In the event of any other type of capital or corporate action, which is not specifically covered under the existing valuation methodology, the instrument shall be valued at fair value on a case-by-case basis.
- Such valuation shall be carried out only after obtaining necessary approval from the Valuation Committee and/or the Board, as deemed appropriate.

This ensures that all other instruments and exceptional corporate actions are valued transparently, consistently, and under proper governance, in line with SEBI regulations.

15. Commodities

Valuation of Exchange Traded Commodity Derivatives – Gold & Silver Gold & Silver

Exchange Traded Commodity Derivatives (ETCDs) shall be valued at the last traded price available at 5:30 pm which is the closest available price to the MCX Spot price at which the respective physical commodities are valued at. In the event the last quoted closing price as referred above is not available, such ETCD contracts shall be valued at the Settlement price of the respective stock exchange. When a security is not traded on the stock exchange from where the commodity was purchased on a particular valuation day, the value at which it was traded on the on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date. If no price is available for more than 30 days, then the security will be treated as a non-traded security and the valuation committee, in order to ensure fair valuation, will determine price, based on the available information.

(W.e.f 01 April 2026, in terms of Regulation 22(9) and Regulation 63(9) and subject to the investment valuation norms specified in Seventh Schedule of SEBI (Mutual Funds) Regulations, 2026, the mutual funds shall value physical Gold and Silver by using the polled spot prices published by the recognized stock exchanges which are used for settlement of physically delivered Gold and Silver derivatives contracts. The spot polling mechanism shall comply with the spot polling guidelines as specified by SEBI from time to time. AMFI in consultation with SEBI shall prescribe a uniform policy in this regard.)

Physical Commodities other than Gold & Silver

Physical stocks/Commodities received from the exchange accredited warehouse in the location (as notified and determined by the exchanges) will be valued based on latest spot market price of the respective location as published by the respective commodity exchanges. If on any day the spot market prices as above are not available due to holiday, then the prices of immediately preceding day will be considered for the purpose of valuation of such commodity. In case necessary details to value such commodities 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.

Valuation of Exchange Traded Commodity Derivatives – Other than Gold and Silver

Exchange Traded Commodity Derivatives (ETCDs) other than Gold & Silver shall be valued at the last quoted closing price on the exchange where such ETCD Contracts are Listed. In the event the last quoted closing price as referred above is not available, such ETCD contracts shall be valued at the Settlement price of the respective stock exchange. When a security is not traded on the stock exchange from where the commodity was purchased on a particular valuation day, the value at which it was traded on the on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date. If no price is available for more than 30 days, then the security will be treated as a non-traded security and the valuation committee, in order to ensure fair valuation, will determine price, based on the available information.

II. Investment Grade Money Market and Debt Securities

A. Valuation of Money Market and Debt Securities

Money market and debt instruments include, but are not limited to:

- **Commercial Papers (CPs)**
- **Certificates of Deposit (CDs)**
- **Fixed Coupon Bonds**
- **Zero Coupon Bonds**
- **Pass-Through Certificates**
- **Floating Rate Notes (FRNs)**
- **Bank/Corporate Borrowings (BRDS) and other investment-grade instruments**

1. Valuation Methodology

- **Primary Method:** Securities shall be valued at the **average of security-level prices** obtained from **AMFI-mandated valuation agencies**, such as **CRISIL** and **ICRA**.
- **New Securities:**
 - For securities for which **valuation agency prices are not available** (e.g., newly issued instruments not held by any mutual fund), valuation may be carried out at the **purchase yield on the date of allotment/purchase**.
- **Abnormal Situations / Market Disruptions:**
 - In cases where **current market information is not obtainable or is inadequate**, the **Valuation Committee** shall monitor and determine the appropriate valuation.
 - All such **abnormal situations or market disruption cases** shall be **reported to the Board** periodically.
- **Policy Updates:**
 - Any changes in the valuation methodology or related clarifications from **AMFI** or internal guidance shall be **communicated to the Board** in a timely manner.

B. Valuation of Other Money Market and Debt Securities

This section covers valuation of other money market and debt instruments not explicitly included under standard traded securities, as follows:

1. Government Securities

- Central Government Securities (CGS), State Development Loans (SDLs), Treasury Bills, Cash Management Bills, and similar instruments shall be valued at security-level prices obtained from AMFI-mandated valuation agencies, in line with SEBI regulations.

2. Bank Deposits

- Deposits with banks shall be valued at cost plus accrued interest.
- In case of prepayment penalties, the accrual rate shall be adjusted to reflect the rate applicable for that period minus any prepayment penalty.

3. Tri-Party Repo (TREPS), Repo ,Reverse Repo, and Corporate Bond Repo

- Valuation of all repo transactions, including TREPS, reverse repo, and corporate bond repos (except overnight repos), shall be obtained from valuation agencies.
- All money market and debt securities, including floating rate securities, shall be valued at the average of security-level prices obtained from valuation agencies.

- If security-level prices are not available for a newly issued instrument (not currently held by any mutual fund), the security shall be valued at the purchase yield on the date of allotment/purchase.

4. Securities Purchased on Private Placement Basis

- Securities purchased through private placement shall initially be valued at the purchase yield on the date of purchase.
- Subsequent valuations shall be carried out at the average of security-level prices obtained from AMFI-mandated valuation agencies.

5.Valuation of Securities with Put/Call Options

1. Securities with Call Option

- Securities with a call option shall be valued at the lower of:
 1. Value obtained by valuing the security to final maturity, and
 2. Value obtained by valuing the security to the call option date.
- If there are multiple call options, the lowest value obtained by valuing to the various call dates and to maturity shall be taken as the value of the instrument.

2. Securities with Put Option

- Securities with a put option shall be valued at the higher of:
 1. Value obtained by valuing the security to final maturity, and
 2. Value obtained by valuing the security to the put option date.
- If there are multiple put options, the highest value obtained by valuing to the various put dates and to maturity shall be taken as the value of the instrument.

3. Securities with Multiple Put Options Present Ab-Initio

- If a security has multiple put options factored into valuation by the valuation agency, and a put option is not exercised by the Fund while exercising it would have been favourable to the scheme:
 1. The Mutual Fund shall provide justification for not exercising the put option to the valuation agencies, AGAML, and Trustee Board on or before the last date of the notice period.
 2. The valuation agencies shall not consider the remaining put options for valuation.
- A put option shall be considered in favor of the scheme if the yield of the valuation price ignoring the put option exceeds the contractual yield/coupon rate by 30 basis points (bps).

4. Securities with Both Put and Call Options

- If a security has **both put and call options on the same day** with **identical put and call prices**, it shall be deemed to **mature on that date** and valued accordingly.
- In all other cases, the **cash flows of each put/call option** shall be evaluated as follows:
 1. Identify a **Put Trigger Date**: the date where the **price to put option** is highest compared to other put options and maturity price.
 2. Identify a **Call Trigger Date**: the date where the **price to call option** is lowest compared to other call options and maturity price.
 3. **Valuation Rules**:
 - If **no Trigger Date** is available, value to **maturity price**.
 - If **one Trigger Date** is available, value to that **Trigger Date**.
 - If **both Trigger Dates** are available, value to the **earliest date**.
- If a **put option is not exercised** while it would have been **favorable to the scheme**, justification must be provided to the **valuation agencies, AGAML Board, and Trustee Board** on or before the **last date of notice period**.
- The **valuation agencies shall ignore remaining put options** in such cases.
- A **put option** shall be considered **in favor of the scheme** if the **yield ignoring the put option** exceeds the **contractual yield/coupon rate by 30 bp**.

6.Valuation of AT-1 Bonds and Tier-2 Bonds

In accordance with SEBI Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024, and AMFI guidelines (Letter No. 135/BP/91/2020-21), the valuation of Additional Tier-1 (AT-1) Bonds and Tier-2 Bonds issued under the Basel III framework shall follow a uniform methodology across all mutual funds.

1. Regulatory References

- SEBI circular dated 05-Aug-2024 provides guidance on:
 - Clause 9.3.1.1: Valuation of securities with call options
 - Clause 9.4.2: Valuation of perpetual bonds and bonds with multiple call options
- NFRA Recommendation: AT-1 bonds typically trade at or near Yield to Call (YTC), reflecting market conventions.

2. Valuation Methodology

- AT-1 Bonds:
 - Shall be valued based on Yield to Call (YTC), adjusted for appropriate risk spreads.
 - The YTC methodology is aligned with Ind AS 113 for valuation purposes.
 - Valuation Agencies shall provide YTC-based prices to the Mutual Fund.
- Effective Date: This methodology is effective from August 08, 2024.
- Tier-2 Bonds:
 - Shall follow standard debt security valuation principles, including average security-level prices from AMFI-mandated valuation agencies, or purchase yield for new/untraded securities, consistent with the general debt and money market valuation methodology.

This approach ensures that AT-1 and Tier-2 Bonds are valued consistently, fairly, and in line with SEBI and NFRA recommendations, while maintaining alignment with accounting standards and market conventions.

III OTHER SECURITIES

1. Mutual Fund Units

▪ Listed and Traded Units

- Mutual Fund Units that are listed and traded on a recognized stock exchange shall be valued at the closing traded price on the valuation date.

▪ Unlisted or Listed but Not Traded Units

- Mutual Fund Units that are unlisted or listed but not traded on the valuation date shall be valued at the last declared Net Asset Value (NAV) as published on the AMFI website.

2. Interest Rate Futures (IRF)

1.Traded Futures Contracts

- Market values of traded futures contracts shall be determined with respect to the exchange on which the contract was originally executed.
- Example: If an IRF contract is executed on NSE, its valuation shall be based on the **Daily settlement Price or any other derived price provided by the exchange**. Prices of the same contract on other exchanges shall not be considered unless the contract was specifically executed on that exchange.

2. Non-Traded Futures Contracts

- Exchanges provide daily settlement prices for all derivative positions.
- These settlement prices shall be adopted for valuing positions that are not traded on a particular valuation day.

3. Market Linked Debentures & OTC Derivatives (IRS/FRA)

- Irrespective of residual maturity, these securities shall be valued at the average of security-level prices obtained from AMFI-mandated valuation agencies.

4. Convertible Debentures & Bonds

- Non-convertible and convertible components shall be valued separately:
 - Non-convertible component: Valued as a debt instrument.
 - Convertible component: Valued as an equity instrument.
- If after conversion, the resultant equity is traded pari passu with an existing instrument, the value of the latter may be adopted after an appropriate discount for non-tradability prior to conversion.
- Optional conversions shall be factored into the valuation as per SEBI's Eighth Schedule.

5. Illiquid Securities

- Aggregate value of illiquid securities (non-traded, thinly traded, unlisted equities) shall not exceed 15% of scheme assets.
- Illiquid securities exceeding 15% shall be assigned zero value.
- AMC shall disclose scheme-wise illiquid securities value and % of net assets on March 31 and September 30 in half-yearly portfolios with an asterisk against illiquid securities.

6. ADR, GDR & Overseas Securities (Other than Overseas Mutual Fund)

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. 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.

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.

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 use the previous day price or the last available traded price as may be warranted / for the purpose of valuation.

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.

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).

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.

7. Indian Depository Receipts (IDRs)

- Valuation shall follow principles for **listed Indian equities**.
- If **thinly traded**, valuation will consider **company balance sheet** as per thinly traded equity guidelines.

8. Overseas Mutual Fund Units

Will be valued at the last available Net Asset Value of the underlying fund. On the valuation day, for conversion of foreign exchange currency into INR, RBI reference rate as at the close of banking hours on that day in India / Bloomberg / Reuters.

If required, the AMC may determine the reference rate from an alternative source as may be approved by the Valuation Committee from time to time.

9. Gold & Silver (for ETF schemes)

- Valued at **AM fixing price of LBMA** (Gold: 995 fineness, Silver: 999 fineness), adjusted for:
 - **Metric conversion**
 - **USD to INR conversion** via RBI/FEDAI rates
 - **Transportation, insurance, notional customs duty & taxes**
- If **non-standard bars**, assay and convert to **LBMA-compliant bars** before valuation.

If on any day the LBMA AM fixing or RBI reference rate is not available due to holiday, then the 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. If on any day MCX spot price is not available, any other appropriate source may be used as agreed upon by the Valuation Committee

(W.e.f 01 April 2026, in terms of Regulation 22(9) and Regulation 63(9) and subject to the investment valuation norms specified in Seventh Schedule of SEBI (Mutual Funds) Regulations, 2026, the mutual funds shall value physical Gold and Silver by using the polled spot prices published by the recognized stock exchanges which are used for settlement of physically delivered Gold and Silver derivatives contracts. The spot polling mechanism shall comply with the spot polling guidelines as specified by SEBI from time to time. AMFI in consultation with SEBI shall prescribe a uniform policy in this regard.)

10. Exchange Traded Fund Units

- **Listed & traded:** Closing traded price on valuation date
- **Unlisted or listed but not traded:** Last declared NAV

11. Sovereign Gold Bonds

- **Listed and traded:** Closing price on NSE
- **Not traded on a particular day:** Previous day's price

12. Credit Default Swaps (CDS)

- AMFI, in consultation with SEBI, shall issue guidelines for valuation of CDS based on a waterfall approach as follows:
 - Level I : Actual Traded Levels
 - Level II: Corporate bond credit spreads

13. Corporate Debt Market Development Fund (CDMDF)

Units of Corporate Debt Market Development Fund would be valued at Net Asset Value (NAV) as on the valuation date.

14. Deviation from Valuation Guidelines

- AMC is responsible for true and fair valuation and correct NAV as per SEBI Eighth Schedule.
- If AMC deviates from valuation agency prices, the following must be done:
 1. Record detailed rationale for each instance.
 2. Include security details (ISIN, issuer, rating), valuation price vs agency price, and impact on scheme NAV (amount & %).
 3. Report to AMC Board and Trustees.
 4. Disclose immediately and prominently on AMC website, under a separate head.
 5. In monthly and half-yearly portfolio statements, provide total deviations and link to detailed disclosure.

15. Money Market and Debt Securities Rated Below Investment Grade / Default

15.1 Classification Criteria

- A money market or debt security shall be classified as "Below Investment Grade" (BIG) if:
 - The long-term rating assigned by a SEBI-registered Credit Rating Agency (CRA) is below "BBB-", or
 - The short-term rating assigned by a CRA is below "A3".
- A money market or debt security shall be classified as "Default" if:
 - The interest and/or principal amount has not been received on the due date, or
 - The security has been downgraded to "Default" grade by a CRA.
- Mutual Funds shall promptly inform the valuation agencies and CRAs of any instance of non-receipt (full or partial) of interest and/or principal payments.

15.2 Valuation Methodology

- As per SEBI Master Circular SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024, valuation of such securities shall be based on prices provided by AMFI-notified valuation agencies (currently, CRISIL and ICRA).
- Till scrip-level prices become available, these securities shall be valued using indicative haircuts as provided by the valuation agencies.
- Haircuts shall be updated and refined as and when material information becomes available that impacts valuation.
- If market trades occur in the concerned security, such trades may be considered for valuation if the trade price is lower than the price post-haircut, subject to the minimum trade size determined by the valuation agencies.

15.3 Indicative Haircuts (as communicated by AMFI)

A. Senior, Secured Securities

Rating	Infrastructure, Real Estate, Hotels, LAS, Hospitals	Other Manufacturing & Financial Institutions	Trading, Gems & Jewellery, Others
BB	15%	20%	25%
B	25%	40%	50%
C	35%	55%	70%
D	50%	75%	100%

B. Subordinated, Unsecured, or Both

Rating	Infrastructure, Real Estate, Hotels, LAS, Hospitals	Other Manufacturing & Financial Institutions	Trading, Gems & Jewellery, Others
BB	25%	25%	25%
B	50%	50%	50%
C	70%	70%	70%
D	100%	100%	100%

15.4 Multiple Ratings

- If the security is rated by more than one CRA, the most conservative (lowest) rating shall be considered for determining whether it is below investment grade.

15.5 Deviation from Valuation Agency Haircuts or Prices

The AMC may deviate from the indicative haircuts and/or the valuation prices provided by the valuation agencies for below-investment-grade or defaulted securities only under the following conditions:

1. The detailed rationale for deviation shall be recorded by the Valuation Committee.
2. The rationale shall include details such as:
 - ISIN, issuer name, rating, sector, etc.
 - Price at which the security was valued vis-à-vis the post-haircut price or average of valuation agency prices.
 - Impact on scheme NAV (in absolute and percentage terms).
3. The details and rationale shall be reported to the Board of AMC and Trustees.
4. The same shall be disclosed on the AMC's website under a separate head.
5. The total number of such deviations shall also be disclosed in monthly and half-yearly portfolio statements, along with a direct website link to detailed disclosures.

16. Changes in Terms of Investment

In accordance with SEBI Master Circular **SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024**, any change in the terms and conditions of an existing investment shall be managed in a transparent and compliant manner to ensure true and fair valuation.

Mutual Funds shall adhere to the following principles while making or considering any such change:

16.1 Reporting Requirements

- Any change in the terms of investment, including but not limited to extension in maturity, modification of coupon rate, or restructuring of repayment terms, shall be immediately reported to:
 - Valuation Agencies, and
 - SEBI-registered Credit Rating Agencies (CRAs),along with the detailed reasons and rationale for such change.

16.2 Treatment for Valuation Purposes

- Any extension in the maturity of a money market or debt security shall result in the security being treated as "Default" for the purpose of valuation.
- If the maturity date is shortened and subsequently extended again, such a security shall continue to be treated as "Default" for valuation purposes.
- Any change in coupon terms, conversion options, or payment structures must be duly evaluated by the Valuation Committee to ensure the revised valuation reflects fair value as per SEBI norms.

16.3 Treatment of Post-Issuance Modifications

- Any put option inserted subsequent to the original issuance of the security shall not be considered for the purpose of valuation.
- The original terms of issue (as at the date of allotment) shall continue to be used for valuation, irrespective of any such subsequently introduced options or modifications.

17. Approach for Valuation of Traded and Non-Traded Money Market and Debt Securities

In accordance with SEBI Master Circular No. **SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90** dated **June 27, 2024**, which prescribes the principles for valuation of money-market and debt securities, the following methodology shall be adopted by AlphaGrep Mutual Fund and its Valuation Committee.

17.1 Overview

SEBI has defined a uniform framework for determining traded yields and valuation of both traded and non-traded money-market and debt securities.

The following aspects are covered:

- (a) Waterfall mechanism for valuation
- (b) Definition of tenure buckets for similar maturity
- (c) Process for determination of similar issuer
- (d) Recognition of trades and outlier criteria
- (e) Process for construction of spread matrix

Part A – Valuation of Money Market and Debt Securities (other than Government Securities)

(a) Waterfall Mechanism

Valuation agencies shall apply the following **hierarchical waterfall** sequence to determine the price/yield of money-market and debt securities:

1. **Volume Weighted Average Yield (VWAY) of primary re-issuances** (book-built or fixed-price) and **secondary trades** in the **same ISIN**.
2. **VWAY of primary issuances through book building** of the **same issuer**, similar maturity.
3. **VWAY of secondary trades** of the **same issuer**, similar maturity.
4. **VWAY of primary issuances through fixed-price auction** of the **same issuer**, similar maturity.
5. **VWAY of primary issuances through book building** of **similar issuer**, similar maturity.
6. **VWAY of secondary trades** of **similar issuer**, similar maturity.
7. **VWAY of primary issuances through fixed-price auction** of **similar issuer**, similar maturity.

8. **Construction of matrix**, with polling where required.
9. **Polling for security-level valuation** under **exceptional circumstances**.

Note 1:

Except for primary issuances through book building, polling shall be conducted to identify outlier trades. For book-built issuances below ₹100 crore, polling shall also be conducted.

Note 2 – Exceptional Circumstances:

Examples include stale spreads (not updated for 6 months), rating changes, corporate actions, sector-specific news, or market volatility.

All such cases shall be **documented** by valuation agencies and **reported** to AMCs; AMCs shall maintain detailed records for SEBI verification.

Note 3:

All trades reported on stock exchanges or trade-reporting platforms (excluding inter-scheme transfers) **till the end of trade-reporting time** shall be considered for that day's valuation.

Note 4 – Exceptional Events:

On days of major events such as Monetary/Credit Policy announcements, Union Budget, Government Borrowing/Auction Days, Sovereign Rating actions, Sector-specific material events, Central Government Election Days, or Quarter-end Days, only trades **post-event** shall be used for VWAY/outlier identification. All such exceptional events and corresponding valuations must be **documented with justification**.

(b) Definition of Tenure Buckets for Similar Maturity

Residual Tenure of Bond to be Priced Criteria for Similar Maturity

Up to 1 month	Calendar Weekly Bucket
> 1 month – 3 months	Calendar Fortnightly Bucket
> 3 months – 1 year	Calendar Monthly Bucket
> 1 year – 3 years	Calendar Quarterly Bucket
> 3 years	Calendar Half-Yearly or Greater Bucket

Additional provisions:

1. Valuation agencies may adjust or refine buckets to reflect market nuances (e.g., < 90 days vs > 90 days spreads, quarter-end effects).
2. For illiquid/semi-liquid bonds, traded spreads may be used for longer maturities (≥ 1 year) with yield-curve adjustment.
3. All deviations must be **documented with rationale** and retained for audit.

(c) Process for Determination of Similar Issuer

Valuation agencies shall identify “similar issuers” using one or a combination of the following criteria:

- Issuers within the **same sector/industry**;
- Issuers within the **same rating band**;
- Issuers belonging to the **same parent/group**;
- Issuers with **common guarantors**;
- Issuers with **similar collateral structures**, such as LAS/LAP.

Determination criteria, rationale, and documentation must be retained for verification.

Similar issuers are used both for **valuation substitution** and to **trigger review** of spreads across comparable names.

(d) Recognition of Trades and Outlier Criteria

(i) Marketable Lot (Minimum Volume Criteria)

Market Segment	Instrument Type	Minimum Volume
Primary Market	Bonds/NCD/CP/CD	₹ 25 crore
Secondary Market	CP/CD/T-Bills/other MM instruments	₹ 25 crore
Secondary Market	Bonds/NCD/G-Secs	₹ 5 crore

Trades below these thresholds shall be **excluded** from valuation.

(ii) Outlier Identification

To prevent mispricing, valuation agencies shall:

- Classify issuers by **liquidity (Liquid, Semi-Liquid, Illiquid)**.
- Identify potential outliers based on **relative yield movement** vis-à-vis benchmark matrix.
- Validate suspected outliers through **polling**; unvalidated trades shall be **ignored**.

Liquidity Category ≤ 15 days 15–30 days > 30 days

Liquid	30 bps	20 bps	10 bps
Semi-Liquid	45 bps	35 bps	20 bps
Illiquid	70 bps	50 bps	35 bps

Criteria shall be **reviewed periodically** by valuation agencies in consultation with AMFI.

Liquidity Classification Parameters

Two factors determine liquidity:

1. **Trading Volume** – % of trading days in a calendar quarter
 - Liquid $\geq 50\%$, Semi-Liquid 10–50%, Illiquid $< 10\%$.
2. **Spread over Reference Yield** –
 - Bonds: ≤ 15 bps (Liquid), 15–75 bps (Semi-Liquid), > 75 bps (Illiquid)
 - CP/CD: ≤ 25 bps (Liquid), 25–50 bps (Semi-Liquid), > 50 bps (Illiquid)

The **better classification (more liquid)** from the two parameters shall be used.

Classification shall be **reviewed and updated periodically**.

(e) Process for Construction of Spread Matrix

Step 1 – Segmentation:

Corporate universe divided into four sectors:

1. PSUs / Financial Institutions / Banks
2. Non-Banking Finance Companies (excl. HFCs)
3. Housing Finance Companies
4. Other Corporates

Step 2 – Representative Issuers:

For each sector, valuation agencies shall select **benchmark issuers** (AAA/AA+) based on liquidity and maturity availability.

Spread adjustments shall be made across lower rating categories to ensure **consistent hierarchy** (no spread inversion).

Step 3 – Benchmark Curve & Spread Calculation:

- Construct **daily yield curves** for representative issuers (1 month–20 years+).
- Apply the waterfall approach and polling (if no data).
- Compute spreads for other issuers over respective benchmark curves using latest trades/primaries/polls.
- Carry forward spreads when no new data are available, adjusting for benchmark movement.

Step 4 – Governance:

- Apply VWAY, outlier, and exceptional-event rules in curve construction.
- Replace representative issuers in case of **rating downgrade, credit event, or liquidity change**.

- Maintain full audit trail of data sources and rationale.

Part B – Valuation of Government Securities (T-Bills, CMBs, G-Secs, SDLs)

Waterfall Mechanism:

1. **VWAY of last one hour**, subject to outlier validation.
2. **VWAY for the full day**, including two-quote data (≤ 5 bps spread) on NDS-OM, subject to outlier validation.
3. **Two quotes (≤ 5 bps spread)** on NDS-OM, subject to validation.
4. **Carry-forward of spreads** over benchmark.
5. **Polling**, where required.

Notes:

1. VWAY shall include only trades meeting the marketable-lot criteria specified in Part A.
2. Any trade deviating by more than ± 5 bps from benchmark movement shall be identified as an **outlier**.
 - Outliers must be **validated through polling**; unvalidated trades shall be **excluded**.

Governance and Documentation

- All methodologies, exceptions, and polling outcomes shall be **fully documented** by valuation agencies and **reviewed periodically** by the Valuation Committee.
- Any deviation or event-based adjustment shall include **rationale, data references, and date of effect**.
- Complete records shall be retained for **SEBI/Trustee inspection**.

18.Treatment of Upfront Fees on Trades

In accordance with SEBI Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024, and AMFI guidelines, the following principles shall be applied for treatment and valuation of upfront fees on trades:

1. Inclusion in Valuation

- Upfront fees on all trades — including those executed in the **primary market** — irrespective of the name or manner in which they are received, shall be **considered by valuation agencies** while determining the fair valuation of the concerned security.

2. Reporting to Valuation Agencies

- The AMC shall **report details of such upfront fees** to the valuation agencies **on the trade date** itself as part of its trade reporting, in order to enable accurate determination of fair valuation on that date.

3. Accounting Treatment

- For accounting purposes, the upfront fees received shall be **reduced from the cost of the investment** in the scheme that made the investment.
- This ensures that the **effective yield** of the security reflects the impact of such fees.

4. Apportionment Across Schemes

- In cases where **upfront fees are received across multiple schemes**, the total amount shall be **allocated on a pro-rata basis** across such schemes, in proportion to their respective investments in the concerned security.

19. Investment in Partly Paid Debentures (PPDs)

a) Investment Framework

1. Pre-defined Event-Based Payments

- Mutual Fund schemes shall invest in **partly paid debentures (PPDs)** only when the payment of the remaining amount is **linked to clear, pre-defined events (conditions precedent)**.
- Events that are **purely time-based** shall **not** qualify as pre-defined events.
- Such conditions precedent must be **clearly specified** in the *Subscription Agreement* or *Offer Document* of the issue.
- “Conditions precedent” refer to clearly defined obligations or events that must occur before the investor is called upon to pay the remaining subscription amount.
 - Examples include:
 - Achievement of specified project milestones.
 - Improvement in the credit rating of the issuer.
 - Fulfillment of operational or financial performance targets.
 - Occurrence of any pre-identified event.

2. No Cross-Scheme Linkages

- There shall be **no linkage across schemes** while investing in PPDs.

- For instance, if the subscription agreement for PPDs includes an investment in another instrument (e.g., Commercial Paper), the **same scheme** that made the original investment in PPDs shall also make the subsequent investment.

3. Protection of Investor Interest

- The AMC shall ensure that the **interests of one scheme's unitholders** are not compromised to the advantage of another scheme.
- All **regulatory investment limits** shall be adhered to **at each stage of part payment**.
- The AMC shall **avoid excessive concentration** in PPDs to prevent liquidity or funding constraints that may hinder future part payments.

b) Disclosure Requirements

- Each investment in PPDs shall be **disclosed in the monthly portfolio** of the scheme.
- Disclosures shall include, at a minimum:
 - The **total amount contracted** but not yet paid by the scheme.
 - The **dates of future pay-ins** and corresponding **trigger events**.
 - Any other information considered **material to investors** by the AMC.

c) Valuation Methodology

As per **AMFI Best Practices Guidelines Circular No. 83 dated November 18, 2019** and subsequent updates, the valuation of PPDs shall be carried out as follows:

1. Price Calculation

- **Cash flows** shall be plotted using the details provided in the **term sheet**.
- These cash flows shall be **discounted using the YTM** derived for that specific ISIN.
- Valuation agencies shall provide prices:
 - **On a fully paid-up face value basis (₹100)**, and
 - **On an actual paid-up value basis** as of the valuation date.
- Cash flows shall be plotted till the actual maturity or deemed maturity (i.e., till the date of explicit put/call option at the same value).

Two scenarios apply:

5. Clearly defined pay-in dates and values –

- If pay-in dates and values are **explicitly mentioned** in the term sheet, cash flows are plotted accordingly.

- *Note:* Mutual Funds **cannot invest** in such PPDs as per the AMFI Circular No. 83 dated November 18, 2019.

6. **Unclear or event-linked pay-ins –**

- If pay-ins are **linked to future events or optional triggers**, future cash flows shall be recognized **only on actual basis** upon receipt of information.

2. **Yield Calculation**

- Yields for each ISIN shall be derived **daily** using the **standard waterfall approach** applicable to corporate bonds.
- Definitions for **similar maturity, similar issuer, and outlier identification** shall remain **consistent with the valuation methodology for other debt securities**.

20. **Stressed Issuers and Perpetual Bonds**

1. **Stressed Issuers**

- The **financial stress** of the issuer and its **ability to service debt obligations** shall be duly considered in the **valuation of securities**.
- Adjustments shall be made **from the trigger date** of the stress event (e.g., rating downgrade, default, or any other material credit event).

2. **Perpetual Bonds**

- For valuation purposes, the **maturity of all perpetual bonds** shall be assumed as **100 years from the date of issuance**.
- This treatment ensures consistency with long-term discounting approaches while incorporating risk factors inherent to perpetual instruments.

21. **Securities Not Covered Under the Current Valuation Policy**

- In cases where a security purchased by a Mutual Fund does not fall within the existing valuation framework, the Mutual Fund shall immediately report the same to AMFI.
- At the time of investment, the AMC shall ensure that total exposure to such securities does not exceed 5% of the total assets under management (AUM) of the scheme.
- AMFI will coordinate with the valuation agencies to ensure that the valuation of such securities is incorporated into the valuation framework within six weeks from the date of receipt of the intimation from the Mutual Fund.
- Interim Valuation: Until the security is covered under the AMFI valuation framework, the Mutual Fund shall value the security using a proprietary valuation model, which must be approved by its Independent Trustees and Statutory Auditors.

22. Investment in New Types of Securities

- Investment in any new type of securities or assets by an AGMF scheme shall be undertaken only after the establishment of appropriate valuation methodologies for such securities.
- The valuation methodology for the new securities must be approved by the Board of AGML prior to making any investment.

23. Inter-Scheme Transfers (IST)

a) Debt Securities

- AMCs shall obtain prices for the IST of any money market or debt security (irrespective of maturity) from the **valuation agencies**.
- **AMFI**, in consultation with valuation agencies, shall define a **turn-around time (TAT)** within which IST prices shall be provided.
- **Price determination for IST:**
 - If prices from valuation agencies are received within the TAT, the **average of the prices** shall be used.
 - If only one valuation agency provides a price within the TAT, that price may be used.
 - If no price is received within the TAT, AMCs may determine the price in accordance with **Clause 3(a) of the Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996**, i.e., transfers shall be made at the **prevailing market price for quoted instruments on a spot basis**.

b) Equity Securities

- IST of equity securities shall be effected at the **prevailing spot market price** of the security at the time of transfer.
- At the time of transfer, a record of prices quoted on the relevant stock exchange (NSE/BSE) or via Bloomberg Terminal shall be obtained, indicating **date, time, and current quoted price**.
- The price given in the quotation of the stock exchange shall be the **effective price** for the inter-scheme transfer.

24. Review of Valuation Policies

- The implemented **valuation policies and procedures** shall be **regularly reviewed** (at least once in a financial year) by an **independent auditor** to ensure their continued appropriateness and compliance.
- The **Valuation Policy** shall be reviewed **at least annually**, or on an **as-needed basis**, by **AGAML**, to incorporate any regulatory changes, market developments, or internal process improvements.

25. Consideration of Price of Same/Similar Securities

- **CRISIL** and **ICRA** shall consider the **price of same or similar securities** under **Scrip Level Valuation**.
- The valuation methodology shall be **as discussed and agreed with AMFI**, ensuring consistency and alignment with industry standards.

26. Inter-day NAV Computation Methodology in Case of Debt ETF

- SEBI, vide its Master Circular **SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90** dated **June 27, 2024**, has clarified that for transactions by **Authorised Participants (APs) / Large Investors** directly with AMCs, **intra-day NAV** shall be applicable.
- The **intra-day NAV** will be based on the **executed price at which the securities representing the underlying index or underlying commodities are purchased/sold**.
- Detailed methodology for intra-day NAV computation for Debt ETFs is provided in **Annexure-1**.

27. Abnormal Events

- The following are illustrative examples of events that could be classified as **abnormal situations** or **market disruptions**, where current market information may be unavailable or inadequate for valuation of securities:
 - Significant volatility in the capital markets.
 - Natural disasters or public disturbances causing unexpected market closures.
 - Major policy announcements by the Central Bank, the Government, or the Regulator.
 - Large redemptions affecting market liquidity.
- The **Valuation Committee** shall be responsible for monitoring such abnormal situations.
- In case of the above events, the Valuation Committee shall seek guidance from the **AGAML Board** or a **committee of the Board of Directors appointed for this purpose** to decide the appropriate methodology for valuation of affected securities.
- Any abnormal situations and the resulting valuation decisions shall be reported to the **AMC Board** at the subsequent meeting.
- If the standard valuation policies and procedures do not result in a **fair or appropriate valuation**, **AlphaGrep Asset Management Limited** may deviate from these policies to value assets/securities at fair value.
- Any deviation from the disclosed valuation policies and procedures shall be:

- Reported to the **Board of Trustees** and the **Board of the Asset Management Company**, and
- Disclosed appropriately to investors.

ANNEXURE-1: Intra-day NAV Computation Methodology for Debt ETF

Scope:

This methodology applies to all ongoing subscription and redemption transactions received through **Authorized Participants** and **Large Investors** for Debt ETFs.

Procedure:

1. Execution of Trade:

- AGAML shall execute trades in the **index or similar securities** (subject to regulatory limits) for valid Large Investor / Authorized Participant transactions.

2. Basket Execution:

- Trades shall be executed for the **entire basket** subscribed or redeemed by the investor.

3. Calculation of Executed Trade Value:

- Executed trade value shall be considered at **clean price**, with **brokerage and other transaction charges** appropriately adjusted, for the computation of **Intra-day NAV** for the transaction.

4. Interest Accrual for Delayed Settlements:

- If trade settlement occurs at **T+1 or later**, the interest accrual amount from trade date to settlement date shall be **recovered from or paid to the investor**.

5. Cash Component:

- Calculated as the difference between the **number of units subscribed/redeemed** multiplied by:
 - Value of **per unit creation size** as per the previous day's NAV, and
 - Total **market value of executed securities** (as per previous day's valuation prices).

6. Intra-day NAV Computation:

- The sum of amounts in points **3, 4, and 5** shall be **divided by the number of units subscribed/redeemed** to arrive at the **Intra-day NAV applicable for the transaction**.

7. **Recovery of Statutory and Incidental Charges:**

- AGAML shall **recover statutory levies and incidental charges**, if applicable, from the investor for the transaction.

8. **Treatment of New Securities:**

- If trade involves a **new security** (new to the Mutual Fund universe) where **previous day's Scrip Level Valuation (SLV) prices** are not available:
 - Previous day's market value shall be obtained from valuation agencies.
 - If only **one agency provides the price**, that price shall be used.
 - If no price is available from the valuation agencies, the **executed trade price** will be used for NAV computation.