

## INVESTMENT GUIDELINES FOR PRIVATE SECTOR NPS

### 1. Guidelines

1.1 The PF will manage the following separate schemes, each investing in a different asset class, being:

1.1.1 **Asset class E (equity market instruments)** – (a)The investment by an NPS participant in this asset class would be subject to a cap of 50%. This asset class will be invested in shares of the companies which are listed in Bombay Stock Exchange or National Stock Exchange and on which derivatives are available or are part of BSE Sensex or Nifty Fifty Index. subject to restrictions outlined in Clause 2 below

(b)The permitted cap, as mentioned above, is expected to be maintained at that level at all points in time. However, the amount of funds invested in that asset class can differ from the specified cap by no more than 5% for purposes of portfolio balancing.

1.1.2 **Asset class G (Government Securities)** – This asset class will be invested in central government bonds and state government bonds subject to restrictions outlined in Clause 2 below.

1.1.3 **Asset class C (credit risk bearing fixed income instruments)** – This asset class contains bonds issued by any entity other than Central and State Government. This asset class will be invested in Fixed deposits and credit rated debt securities. This includes rated bonds/securities of Public Financial Institutions and Public sector companies, rated municipal bodies/infrastructure bonds and bonds of all firms (including PSU/PSE), subject to restrictions outlined in Clause 2 below.

1.1.4 **Corporate CG** - Presently applicable to only SBI Pension Funds Private Ltd, UTI Retirement Solutions Ltd & LIC Pension Fund Ltd. and replicates the scheme as applicable to Central Government employees and subject to instructions from PFRDA/NPS Trust in this regard from time to time.

1.1.5 **NPS Lite** - Investment pattern similar to that prescribed by the Central Government for its own employees as amended from time to time (charges applicable as per Schedule VII).

1.2 The PF must not leverage the portfolio. For the purpose of this Schedule, the PF shall be deemed to have leveraged the portfolio if it:

- 1.2.1 enters into borrowings or other financial arrangements or creates or purports or attempts to create any security, charge, mortgage, pledge, lien or encumbrance of any kind whatsoever on the assets of the portfolio or any part thereof;
- 1.2.2 undertakes any transaction the result of which would overdraw the account maintained by the Custodian on behalf of the PF for the purpose of settling transactions;
- 1.2.3 commits the Trustee to supplement the assets of the portfolio or the account maintained by the Custodian on behalf of the PF for the purpose of settling transactions without the prior written consent of the Trustee by a Proper Instruction, either by borrowing in the name of the PF or the Trustee or by committing the PF or the Trustee to a contract which may require the Trustee to supplement those assets; or
- 1.2.4 allows market movement to result in a leveraged position.

## **2. Investment Universe**

### **2.1 Asset class E (equity market instruments)**

#### 2.1.1 Authorised Investments

Investment in shares of the companies which are listed in Bombay Stock Exchange or National Stock Exchange and on which derivatives are available or are part of BSE Sensex or Nifty Fifty Index.

#### 2.1.2 Restrictions

- a. the assets are not to be encumbered.
- b. the PF shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance (except as permitted under the extant regulations, from time to time).
- c. the investment exposure in an industry sector (classification as per NIC classification) shall be restricted to 15% of all NPS schemes portfolio of each PFM .
- d. the investment in any equity stock of a sponsor group shall be restricted to 5% of the paid up equity capital of all the sponsor group companies or 5% of the AUM of the concerned NPS scheme (Tier I and II taken together) , whichever is lower. The investment in equity stock of the investee company of sponsor group shall be restricted to 5% of the paid up equity capital of the concerned investee

company of the sponsor group or 5% of the AUM of the concerned NPS scheme (Tier I and II taken together) , whichever is lower

- e. the investment in any equity stock of a non-sponsor group shall be restricted to 10% of the paid up equity capital of the concerned group companies of a non-sponsor group or 10% of the AUM of the concerned NPS scheme (Tier I and II taken together) , whichever is lower. The investment in any equity stock of the concerned investee company of non-sponsor group shall be restricted to 10% of the paid up equity capital of the investee company of a non- sponsor group or 10% of the AUM of the concerned NPS schemes (Tier I and II taken together) , whichever is lower.
- f. investment in IPOs/FPOs is not allowed
- g. investment in unlisted equity shares or equity related instruments is not permitted except in derivatives for the purpose of hedging and portfolio balancing only in accordance with the guidelines issued by SEBI/RBI
- h. no loans for any purpose can be advanced by the PF.
- i. pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme, funds may be invested in short-term deposits of schedule commercial banks or in call deposits or in short term money market instruments or other liquid instruments or liquid schemes of mutual funds not exceeding a limit of 10% of the scheme corpus on temporary basis only.

## **2.2 Asset class G (Government Securities)**

### **2.2.1 Authorised Investments**

- 1. Government of India Bonds
- 2. State Government Bonds restricted to 10% of the AUM of the Scheme and 5% to any individual state government

### **2.2.2 Restrictions**

- a) the assets are not to be encumbered
- b) no loans for any purpose can be advanced by the PF.
- c) pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme, funds may be invested in short-term deposits of schedule commercial banks or in call deposits or in short term money market instruments or other liquid instruments or liquid schemes of mutual funds not exceeding a limit of 10% of the scheme corpus on temporary basis only.

## **2.3 Asset class C (credit risk bearing fixed income instruments)**

### **2.3.1 Authorised Investments**

- (i) Fixed Deposits of not less than 365 days of scheduled commercial banks with following filters:
  - a) Net worth of at least Rs.500 crores and a track record of profitability in the last three years.
  - b) Capital adequacy ratio of not less than 9% in the last three years. Net NPA of under 5% as a percentage of net advances in the last year
  - c) List to be reviewed half-yearly
- (ii) (a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including scheduled commercial banks and public financial institutions [as defined in Section 4 (A) of the Companies Act]
  - (b) Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least two credit rating agency. Apart from the ratings by agencies, PFM shall undertake their own due diligence for assessment of risks associated with the securities before investments
- (iii) Credit Rated Public Financial Institutions/PSU Bonds
- (iv) Credit Rated Municipal Bonds/Infrastructure Bonds/Infrastructure Development Funds.

### **Investment Restrictions**

1. The assets are not to be encumbered
2. The investment exposure in an industry sector (classification as per NIC classification) shall be restricted to 15% of all NPS schemes portfolio of each PFM.
3. The investment exposure in debt securities of a sponsor group shall be restricted to 5% of the net worth of all the sponsor group companies or 5% of the AUM of the concerned NPS scheme (Tier I and II taken together), whichever is lower. The investment exposure in debt securities of the investee company of sponsor group shall be restricted to 5% of the net-worth of the concerned investee company of sponsor or 5% of the AUM of the concerned NPS scheme (Tier I and II taken together), whichever is lower.

4. The investment in debt securities of a non-sponsor group shall be restricted to 10% of the net worth of all companies of a non-sponsor group or 10% of the AUM of the concerned NPS scheme (Tier I and II taken together), whichever is lower. The investment in debt securities of the investee company of non-sponsor group shall be restricted to 10% of the net worth of the concerned investee company of a non-sponsor group or 10% of the AUM of the concerned NPS scheme (Tier I and II taken together), whichever is lower.
5. Investment decisions should be taken by PF in the best interest of subscribers with emphasis on safety, prudence, optimum return, sound commercial judgement and avoiding funds to remain idle.
6. Any moneys received on the maturity of earlier investments reduced by obligatory outgoings shall be invested in accordance with the investment pattern.
7. In case of any instruments mentioned above, the PF should take all steps to ensure that the interests of the subscribers are not compromised towards this and amongst other steps the investment should be under continuous monitoring and be reviewed from time to time to detect any signal of impairment /downgrade in rating of the security and the PF should take immediate steps to ensure that the interest of the subscriber are protected.
8. The investment should be made by the PF through a Stock Exchange, or directly with other counterparties in respect of Government Securities and other debt instruments at the best possible rate available at the material time of transactions. The PF shall not purchase or sell securities through any broker (other than an associate broker) which is an average of 5% or more of the aggregate purchases and sale of securities under all schemes, unless the PF has recorded in writing the justification for exceeding the limit of 5% and reports of all such investments are sent to the Trustees on a quarterly basis. Provided that the aforesaid limit of 5% shall apply for a block of three months. The PF shall not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction. A PF may utilise such services only after obtaining prior permission of the Trustees.
9. NPS Funds shall not be used by the PF to buy securities/bonds held in its own investment portfolio or any other portfolio held by it or in its subsidiary or in its Sponsor.
10. The PF shall buy and sell securities on the basis of deliveries and shall in all cases of purchase, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sales or carry forward transactions or engage in badla finance (carry forward).
11. The PF may enter into derivatives transactions, if it is in the interest of the subscribers', only for the purpose of hedging and portfolio balancing, in

accordance with the guidelines issued by SEBI/RBI. These derivatives transactions should be entered into only in recognised stock exchange. Credit default Swap are also approved derivatives for the purpose.

12. The PF shall enter into transactions relating to Securities only in dematerialised form. The PF shall, for securities purchased in the non depository mode get the securities transferred in the name of the NPS Trust on account of the Scheme.
13. Transfer of investments from one Scheme to another Scheme in the same PF, shall be allowed only if:-
  - 13.1 such transfers are made at the prevailing market price for quoted Securities on spot basis (Explanation: spot basis shall have the same meaning as specified by Stock Exchange for spot transactions)
  - 13.2 the Securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.
14. Pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme, funds may be invested in short-term deposits of schedule commercial banks or in call deposits or in short term money market instruments or other liquid instruments or liquid schemes of mutual funds not exceeding a limit of 10% of the scheme corpus on temporary basis only.
15. The PF may alter these above stated restrictions from time to time to the extent the PFRDA Regulations change, so as to permit the Schemes to achieve their investment objective.

### **3. Investment Objectives**

The investment objectives for the three asset classes are outlined below:

#### **3.1 Asset class E**

3.1.1 Benchmark – the performance of the scheme will be measured by reference to the total performance (dividends reinvested) of the BSE Sensex and NSE Nifty 50 Index.

3.1.2 Performance objective – the investment objective is to optimise returns while investing in the chosen index over a rolling annual basis.

#### **3.2 Asset class G**

3.2.1 Performance objective – the investment objective is to optimise returns.

3.2.2 Risk – It is expected that the PF will be able to identify and justify the additional risks relative to the return, while managing the portfolio on an absolute return basis.

### 3.3 Asset class C

3.3.1 Performance objective – the investment objective is to optimise returns.

3.3.2 Risk – It is expected that the PF will be able to identify and justify the additional risks relative to the return, while managing the portfolio on an absolute return basis.

## 4. Allocation of funds across asset class for “Auto choice”

The methodology for allocating funds in the three asset classes are outlined in the table below which illustrates the allocation of each asset class for “Auto Choice” option based on age of the investor:-

| <b>Age</b>     | <b>Asset Class E</b> | <b>Asset Class C</b> | <b>Asset Class G</b> |
|----------------|----------------------|----------------------|----------------------|
| Up to 35 years | 50%                  | 30%                  | 20%                  |
| 36 years       | 48%                  | 29%                  | 23%                  |
| 37 years       | 46%                  | 28%                  | 26%                  |
| 38 years       | 44%                  | 27%                  | 29%                  |
| 39 years       | 42%                  | 26%                  | 32%                  |
| 40 years       | 40%                  | 25%                  | 35%                  |
| 41 years       | 38%                  | 24%                  | 38%                  |
| 42 years       | 36%                  | 23%                  | 41%                  |
| 43 years       | 34%                  | 22%                  | 44%                  |
| 44 years       | 32%                  | 21%                  | 47%                  |
| 45 years       | 30%                  | 20%                  | 50%                  |
| 46 years       | 28%                  | 19%                  | 53%                  |
| 47 years       | 26%                  | 18%                  | 56%                  |
| 48 years       | 24%                  | 17%                  | 59%                  |
| 49 years       | 22%                  | 16%                  | 62%                  |
| 50 years       | 20%                  | 15%                  | 65%                  |
| 51 years       | 18%                  | 14%                  | 68%                  |
| 52 years       | 16%                  | 13%                  | 71%                  |
| 53 years       | 14%                  | 12%                  | 74%                  |
| 54 years       | 12%                  | 11%                  | 77%                  |
| 55 years       | 10%                  | 10%                  | 80%                  |