Pension Fund Regulatory and Development Authority

DETAILED INVESTMENT GUIDELINES FOR ALL CITIZENS UNDER THE NEW PENSION SYSTEM

The investment guidelines for the New Pension System for all citizens of India other than Government employees covered by NPS have been under consideration of PFRDA subsequent to the submission of the Report of Expert Group chaired by Mr Deepak Parekh. The recommendations of the Expert Group and the draft views of PFRDA were posted on the Web site of PFRDA inviting comments from the public and stakeholders. The comments from the public and other stakeholders were considered and the following outline of the investment guidelines has been finalized for the New pension System for all citizens of India:

1. Guidelines

1.1 The PF will manage 3 separate schemes, each investing in a different asset class, being:

1.1.1 **Asset class E (equity market instruments)** – 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 index funds that replicate the portfolio of either BSE Sensitive index or NSE Nifty 50 index. Index Fund Schemes invest in securities in the same weightage comprising of an index. The PF will have to choose which index they intend to track in advance on a yearly basis.

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

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 liquid funds of Mutual Funds, 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 section 2 below.

1.2 Cash held in the schemes will be for trading and cash flow management purposes only. Cash will not exceed 10% of the assets of the scheme portfolios, except when ‘cash’ or specific cash instruments (such as treasury bills etc) are included in the investment universe.

1.3 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:

1.3.1 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;

1.3.2 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;

1.3.3 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

1.3.4 allows market movement to result in a leveraged position.

2. Investment Universe

2.1 Asset class E (equity market instruments)

2.2.1 Authorised Investments

Index Funds that replicate the portfolio of either BSE Sensitive Index or NSE Nifty 50 index. Index Fund Schemes invest in the securities in the same weightage comprising of an index.

2.2.2 Restrictions

- the assets are not to be encumbered
- 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).
- the investment in any equity stock is limited to the higher of its weight in the chosen index or a maximum of 10% of the issued capital of a company, as held by the PF in aggregate.
- the investment in the issued stock of a related party (such as the PF's sponsor or group company) is limited to its weight in the chosen index. No investment in any unlisted security of an associate or group company is allowed.
- investment in IPOs is not allowed
- investment in unlisted equity shares or equity related instruments is not allowed.
- no loans for any purpose can be advanced by the PF.
- pending deployment of funds of a scheme in securities in terms of investment objectives of the scheme, the PF can invest the funds of the scheme in short-term deposits of scheduled commercial banks or in call deposits up to 10% of the scheme corpus for up to 2 days.

2.2 Asset class G (Government Securities)

2.2.1 Authorised Investments

1. Government of India Bonds
2. State Government Bonds

2.2.2 Restrictions

- the assets are not to be encumbered
- no loans for any purpose can be advanced by the PF.

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

2.3.1 Authorised Investments

(i) Liquid Funds of AMCs regulated by SEBI with the following filters:

- AMCs are SEBI regulated, with Average total assets under management (AUM) for the most recent six-month period of, at least, Rs.5000 crore.

- All assets that are permitted for investment into liquid funds by SEBI.

(ii) Fixed Deposits of scheduled commercial banks with following filters:

- Net worth of at least Rs.500 crores and a track record of profitability in the last three years.
- 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

(iii) 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]

Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency.

(iv) Credit Rated Public Financial Institutions/PSU Bonds

(v) Credit Rated Municipal Bonds/Infrastructure Bonds

Investment Restrictions

3.1 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.

3.2 Any moneys received on the maturity of earlier investments reduced by obligatory outgoings shall be invested in accordance with the investment pattern.

3.3 In case of any instruments mentioned above being rated and their rating falling below investment grade, the option of exit should be exercised within 15 days of such occurrence.

3.4 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 on the day 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 made by the scheme, 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 and distribution and sale of securities. A PF may utilise such services only after obtaining prior permission of the Trustees.

3.5 NPS Funds shall not be used to buy securities/bonds held by the PF or its subsidiary in their own investment portfolio or any other portfolio held by them.

3.6 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).

3.7 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.

3.8 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 PF on account of the Scheme.

3.9 Transfer of investments from one Scheme to another Scheme in the same PF, shall be allowed only if:-

- o 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)
- o the Securities so transferred shall be in conformity with the investment objective of the Scheme to which such transfer has been made.

3.10 Each of the respective Schemes may invest in another scheme under the same PF or any other PF without charging any fees, provided that aggregate inter-scheme investment made by all schemes under the same PF or in schemes under the management of any other PF shall not exceed 5% of the net asset value of the scheme.

3.11 Pending deployment as per investment objective, the moneys under the respective Schemes may be invested in short-term deposits of Scheduled Commercial Banks as eligible under para 2.3.1(ii) above, in short-term money market instruments or other liquid instruments or both.

3.12 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.

4. Investment Objectives

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

4.1 Asset class E

4.1.1 Benchmark – the performance of the scheme will be measured by reference to the total performance (dividends reinvested) of either BSE Sensex or NSE Nifty 50 Index, as chosen by the PF. The PF will have to choose which index they intend to track in advance.

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

4.2 Asset class G

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

4.2.2 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.

4.3 Asset class C

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

4.3.2 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.

5. Allocation of funds across asset class for "Auto choice"

The methodology for allocating funds in the three asset classes are outlined below:

5.1 The table below illustrates the allocation of each asset class for "Auto Choice" option based on age of the investor.

Age	Asset Class E	Asset Class C	Asset Class G
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%

5.2 The permitted fraction, 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 can differ from the specified weight by no more or less than 5% for purposes of portfolio balancing.

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