VALUATION POLICY OF JM FINANCIAL MUTUAL FUND

Background:

SEBI has vide notification dated February 21, 2012 and circular no. Cir/IMD/DF/6/2012 dated February 28, 2012 has amended Regulation 47 and the Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, introducing the overarching principle of 'fair valuation' of securities wherein valuation should be reflective of the realizable value. As per the notification, a valuation policy should be framed and the same should be approved by the Board of the Asset Management Company (AMC).

Objective of the Policy:

The objective of this Policy is to set the broad valuation norms to enable JM Financial Asset Management Limited (JMF AMC) to value the investments of the Schemes of JM Financial Mutual Fund (JMF MF) in accordance with the overarching principles of 'fair valuation' or such other principles/regulations as may be prescribed by SEBI from time to time so as to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

Valuation Methodologies:

- The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets.
- The methodologies for valuing different type of securities are mentioned in table below.
- Investment in any new type of security shall be made only after establishment of the valuation methodology for such type of security with the approval of the Board of JMF AMC.

Inter-scheme transfers:

The table below describes the methodolgy to determine the fair valuation of securities which are intended to be transferred from one scheme to another.

Conflict of Interest:

In case if any situation arises that leads to conflict of interest, the same shall be raised to the Valuation Committee and the Committee shall endeavor to resolve the same such that the valuation provides for fair treatment to all investors including existing and prospective investors.

In case of ambiguity, the valuation committee shall endeavor to value the securities such that the valuation provides for fair treatment to all the existing and prospective investors. However, the Committee will keep the Boards of AMC and the Trustee Company informed about its decision, in their ensuing meetings.

Exceptional events/ circumstances:

Following events could be considered as 'exceptional events/ circumstances':

- Major policy announcement by Central/State Government or Central Bank or SEBI;
- Natural disasters, public disturbances, riots, war, global events etc., that may force market not to function normally;
- Absence of trading in specific security or similar securities;
- Significant volatility in the stock markets;
- Closure of the stock market of a particular country ;
- Events which lead to lack of availability of accurate or sufficient information to value the securities.

The above mentioned list is only indicative and may not reflect all the possible exceptional events/circumstances.

In case of exceptional events, the valuation committee shall assess the situation and recommend appropriate method of valuation for the impacted securities.

Deviation:

The investments of the JMF MF schemes shall be valued as per the methodologies mentioned in this Policy, which shall endeavor true and fairness in valuing the securities. However, if the valuation of any particular asset/security does not result in fair/ appropriate valuation or under exceptional circumstances, the Valuation Committee would have the right to deviate from the established policies in order to value the asset/ security at fair /appropriate value.

Deviations from the valuation policy, if any, will be informed to the AMC and Trustee Board and will be communicated to the investors vide appropriate disclosures on the Mutual Fund's website.

Review:

The Valuation Committee shall be responsible for ongoing review of the valuation methodology in terms of its appropriateness and accuracy in determining the fair value of each and every security. The Valuation Committee shall apprise the AMC & Trustee Boards, annually in terms of the effectiveness of the methodologies and deviations or incorrect valuations.

The Valuation Policy shall also be reviewed by Independent Auditors at least once a Financial Year to ensure the appropriateness of the valuation methodologies and to suggest alternative methods, if any.

Retention of records:

Documentation of rationale for valuation including inter scheme transfers shall be maintained and preserved by the asset management company as per regulation 50 of the Regulations to enable audit trail.

Disclosure of the policy:

The Valuation policy approved by the AMC Board shall be disclosed in Statement of Additional Information (SAI) on the Mutual Fund's website and any other document as may be prescribed by SEBI from time to time.

Valuation of Debt, Money Market Instruments and Sovereign Securities (including T Bills)

Category	Traded Assets / Non Traded Assets
For securities with residual maturity <= 60 days:	Instruments would be valued by amortisation methodology on a straight line basis to maturity from cost or last valuation price whichever is more recent as long as the value of such instruments remains within ±0.10% band of the reference price* derived from the benchmark yield for each bucket (benchmark yield for every 15-day bucket will be provided by CRISIL or other agencies). In case the amortized price falls outside the above referred price* band, the YTM of the security will be adjusted in order to bring the price within the ±0.10% reference price* band with a justification which will be recorded. **Illiquidity changes:** At the time of first purchase and additional transactions the spread between the purchase yield (or transaction yield as the case may be) and the benchmark yield would be kept constant. This spread would be kept constant through the life of the instrument and will be changed only if there is justification for the change and the same will be recorded. Note: (*) Reference price is the price derived from benchmark yields ± spread on account of trade. For Sovereign Securities (including T Bills) the valuation is applicable from 19th Sept 2013.

For securities with residual maturity > 60 days W.e.f 29th November, 2013	All securities (including traded and non traded) will be valued as per the prices (simple average) provided by the AMFI approved agencies – currently CRISIL and /or ICRA..(refer point no. 4 in notes section)
Inter-scheme Transfers	(A) In case Debt & Money Market Instruments (Except G-Sec & T-Bills) are traded on the date of inter-scheme trade, Inter-scheme price will be at the weighted average traded price / yield available on public platform. The qualification criteria for considering the trades on the public platform will be: 1) At least three trades aggregating to Rs.100 crores or more of the same settlement cycle in case of instruments with maturity <= 365 days and 2) 5 crores (market lot) or more of the same settlement cycle in case of instruments with maturity > 365 days. Order of preference for the public platforms for consideration – 1) FIMMDA 2) NSE WDM 3) BSE WDM If market trades satisfying the above criteria are not available on the public platforms, AMC's own trade to be considered. Qualification criteria for considering AMC's own trades will be Trade of market lot or more i.e., Rs.5 crores or more. If the AMC's own trade(s) also do not satisfy the criteria, then the security will be treated as 'Not traded'. In case an instrument is not traded on inter scheme trade date, then the previous day closing price will be considered as inter scheme price. (B) Government Securities & T-bills: In case of Government securities & T-bills the spot traded price as reported on NDS-OM /CCIL will be considered and in the absence of a spot price the previous day's closing price will be considered as the inter scheme price.
Self Trades	A self traded security (including inter scheme) for all maturities with face value of at least INR 5 crore, will be recognized at weighted average price / yield for valuation across all schemes.

Notes:

1) Sovereign Securities (including T Bills) with residual maturity > 60 days will be valued at prices provided by Crisil and / or any other agency.
2) Following assets will be valued at cost plus accruals / amortization:
   a) Bank Fixed Deposits
   b) CBLO / Reverse Repo
3) Units / shares of mutual funds will be valued at the last published NAV.

4) In case of exceptional circumstances, the securities may be valued as per the norms approved by the Valuation Committee. For eg. In case of purchase of new security, price of which is not provided by the agencies.

Valuation of Equity and Equity Related Instruments

Equity and Equity Related Instruments	**Methodology**
Listed	
Traded	On a valuation date such securities will be valued at the last quoted closing price on the National Stock Exchange (NSE). NSE will be considered the principal stock exchange. In case a security is not traded on NSE, then the security will be valued at the last quoted closing price on Bombay Stock Exchange (BSE). If a security is not traded on NSE and BSE, it will be valued at the last quoted closing price on any other stock exchange. If a security is not traded on any stock exchange on a particular valuation day, then at the last quoted closing price on NSE or BSE or any other stock exchange will be used, provided such closing price is not more than a period of thirty days prior to the valuation day.
Thinly traded (Trade value in a calendar month is less than Rs. 5 lakhs and total volume is less than 50,000 Shares) Non-traded (Price not available for a period upto preceeding thirty days)	Non-traded/ and/or thinly traded equity securities: Based on the latest available Balance Sheet, Net Worth shall be calculated as follows: a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares. b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent i.e. only 25 per cent of the industry average P/E shall be taken as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts shall be considered for this purpose. c. The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10 per cent for illiquidity so as to arrive at the fair value per share. d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning. e. In case where the latest Balance Sheet of the company is not

	available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero. f. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent. of the total assets of the scheme, it shall be valued by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation. g. In case trading in an equity security is suspended up to thirty days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for more than thirty days, then the Valuation Committee will decide the valuation norms to be followed and such norms would be documented and recorded.
Unlisted	Investment in Unlisted Equity Shares a. Based on the latest available audited balance sheet, Net Worth shall be calculated as the lower of item (1) and (2) below: 1. Net Worth per share = [Share Capital + Free Reserves (excluding revaluation reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares. 2. After taking into account the outstanding warrants and options, Net Worth per share shall again be calculated and shall be = [Share Capital + consideration on exercise of Option and/or Warrants received/receivable by the Company + Free Reserves (excluding Revaluation Reserves) - Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] / Number of Paid up Shares plus Number of Shares that would be obtained on conversion and/or exercise of Outstanding Warrants and Options. 3. The lower of (1) and (2) above shall be used for calculation of Net Worth per share and for further calculation in (c) below. b. Average capitalisation rate (P/E ratio) for the industry based upon either BSE or NSE data (which shall be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75 per cent. i.e. only 25 per cent of the industry average P/E shall be taken as capitalisation rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts will be considered for this purpose. c. The value as per the Net Worth value per share and the capital earning value calculated as above shall be averaged and

	further discounted by 15 per cent for illiquidity so as to arrive at the fair value per share. The above valuation methodology shall be subject to the following conditions: a. All calculations shall be based on audited accounts. b. If the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero. c. If the Net Worth of the company is negative, the share would be marked down to zero. d. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalised earning. e. In case an individual security accounts for more than 5 per cent of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5 per cent of the total assets of the scheme, it shall be valued in accordance with the procedure as mentioned above on the date of valuation. At the discretion of the AMCs and with the approval of the Trustees, unlisted equity shares may be valued at a price lower than the value derived using the aforesaid methodology. In case the unlisted security is in the process of listing, and the price band for the same is being announced, the unlisted security shall be valued at the lower price of the price band from the date of announcement of the price band to the date of listing.
Illiquid Securities (Thinly traded, non-traded, unlisted equity securities)	If in excess of 15% of the total net assets of an open ended scheme and 20% in case of a close ended scheme - Nil Value
IPO Application	
Application money for IPO	At cost upto the date previous to the date of listing. If the security is not listed within 30 days from allotment of the securities, the valuation committee shall decide to value such securities in line with the valuation of unlisted shares.
Additional Issues of Listed Securities (FPOs) / Qualified Institutional Placement	At market price.
Demerger	
All resultant companies' shares are traded	At traded price

At least one company's shares traded	Traded Shares at traded price, non-traded share market value to be derived based on market value of the original traded shares on trading day prior to the date of demerger minus market value of demerged traded shares on ex-date. In case value of the traded share of the demerged company is equal or in excess of the value of pre demerger share, then the non-traded share is to be valued at zero.The value so arrived will be periodically reviewed by the valuation committee till listing of such share.
None of the resultant companies' shares are traded on de-merger	Shares of demerged companies are to be valued equal to the pre demerger value (one trading day prior to the ex-date) . The market value of the shares to be apportioned in the ratio of cost of shares as may be obtained by prescribed demerger ratio. The value so arrived will be periodically reviewed by valuation committee till listing of such shares.
Merger	
Shares Traded	Traded Price
The shares are not traded on Merger	Shares of merged company are to be valued equal to the pre merger value (one trading day prior to the ex-date) . The market value of the pre merger shares are to be added ..The value so arrived will be periodically reviewed by valuation committee till listing of such shares.
Preference Shares	
Traded	At traded price
Non - Traded - Non Convertible Preference Share	Will be valued as per debt valuation norms.
Non - Traded - Convertible Preference Share	In respect of convertible preference shares, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.
Convertible Debentures and Bonds	

Traded	At traded price
Non - Traded	In respect of convertible debentures and bonds, the non-convertible and convertible components shall be valued separately. The non-convertible component should be valued on the same basis as would be applicable to a debt instrument. The convertible component should be valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari passu with an existing instrument which is traded, the value of the latter instrument can be adopted after an appropriate discount of the non-tradability of the instrument during the period preceding the conversion while valuing such instruments, the fact whether the conversion is optional should also be factored in.
Rights	
Traded Rights Entitlement	At Traded Price
Non-Traded Rights entitlement	Until they are traded, the value of the “rights” shares should be calculated as: Vr = n/m x (Pex - Pof) Where Vr = Value of rights n = No. of rights offered m = No. of original shares held Pex = Ex-rights price Pof = Rights Offer Price Where the rights are not treated pari passu with the existing shares, suitable adjustment should be made to the value of rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value. In case of the rights on non-traded shares, value of rights will be zero.
Warrants	
Traded	At traded price
Non traded	In respect of warrants to subscribe for shares attached to instruments, where the exercise price is less than the value of the share, the warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures must be deducted to account for the period which must elapse before the warrant can be exercised. However, where the Exercise price is greater than the value of the share, the

	warrants will be valued at zero.
Futures & Options (F&O)	
Daily Valuation	
Traded	At the settlement price provided by the exchange, where the futures/options has been contracted. If the settlement price is not available, then closing price for the security will be considered for the valuation.
Non traded	When a security is not traded on the respective stock exchange on the date of valuation, then the settlement price or any other derived price provided by the respective stock exchange.
Investments in units / shares of mutual funds	Units / shares of mutual funds will be valued at the last published NAV
Interscheme Transfers	Inter-scheme for equity transactions will be done at the spot price.