Policy for liquidity Management in Mid-Cap and Small- Cap schemes

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Classification : Public

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Owner/ Author	Chief Risk Officer in consultation with Chief Investment Officer – Equity
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Validator(s)	Board of Directors of Baroda BNP Paribas Asset Management India Private Limited (“AMC”) Board of Directors of Baroda BNP Paribas Trustee Company Private Limited (“Trustees”)

VERSION MONITORING

Version	Owner	Writing date	Part(s) modified or to be updated	Modification (s) reason	Validator (s)	Validation date
1.0	Equity, Investment Team and Risk Management Team	March 13, 2024	New Policy	New Policy	Board of Directors of AMC & Trustee Company	AMC vide CR passed on March 15, 2024 Trustee Vide CR passed on March 17, 2024

DEPARTMENT IN CHARGE OF THE POLICY *

Risk Management Team in consultation with Equity Investment Team

REFERENCE or RELATED PROCEDURE(S) or TEXT(S)

AMFI letter No.35P/MEM-COR/116/2023-24 on February 27, 2024

TYPE OF RISK CONCERNED

Risk covered by the procedure:

- Investment Risk
- Liquidity/ Redemption Risk

CIRCULATION LIST

Investment Team

Risk Management Team

Compliance Team

AMC Website

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1 Introduction

The Securities and Exchange Board of India (SEBI) vide an email dated February 27, 2024, directed AMFI that each AMC must put in place a policy to protect the interest of investors in Mid-Cap and Small-Cap schemes due to the continuing flows in the mid and small-cap schemes of mutual funds.

The Policy reflects the guiding principles to ensure liquidity in both the Mid-cap and Small-cap schemes.

2 Scope and Objective

- Appropriate and proactive measures are taken by the Fund managers to protect the interest of investors, including but not limited to moderating inflows, portfolio rebalancing etc.
- Steps to ensure that investors are protected from the first mover advantage of redeeming investor.

3 Guidelines to address liquidity in Mid-Cap and Small-Cap schemes

a) The Fund manager(s) shall ensure that the scheme portfolio(s) is well structured from a liquidity perspective. The exposure to mid/small-cap stocks is supplemented by prudent exposure to more liquid stocks.

b) The minimum no. of companies/ stocks in a portfolio shall not be less than 50 in Small Cap scheme and 40 in Mid Cap scheme at any point.

c) The maximum allocation in a particular company/ stock as a % of Net Asset Value (NAV) of a scheme shall not exceed benchmark/ index weight + 4% in Small-Cap scheme and benchmark/ index weight +5% in Mid-Cap scheme. The benchmark would be as mentioned in the Scheme Information Document (SID)

d) The portfolio liquidity in both the schemes will be maintained having due regard to the AUM and profile of top 10 investors. For this purpose, one-day liquidity will be calculated after taking into account cash & cash equivalents and, equity and equity related instruments whose "days to liquidate" is within one day.

e) Method for calculating "days to liquidity": Three times the average traded volume of the securities on BSE & NSE observed over a period of past 3 months will be considered. Assuming the 10% participation rate is available for a particular scheme, this will be the volume available for liquidating the portfolio. The number of "days to liquidate" will be computed by dividing the holding quantity in a stock by volume available. This is as per AMFI circular no 35P/ MEM-COR/118 / 2023-24 dated 28th February 2024, and will be subject to change as and when directed by AMFI. The same will be intimated to Board accordingly.

f) Further, to address liquidity risk due to unsystematic risk in any company, a liquidity risk analysis will also be conducted at AMC level i.e., to check "days to liquidate" shares of any company held across schemes of Baroda BNP Paribas Mutual Fund.

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g) Cash & Cash equivalents would be in line with as defined by SEBI. Cash equivalent shall consist of following securities having residual maturity of less than 91 days:
    a. Government securities
    b. T- Bills and
    c. Repo on Government Securities

4 Monitoring liquidity in schemes

a) The Risk team will calculate "days to liquidate" on a monthly basis. The outcome of liquidity analysis will be brought to notice of the respective Fund managers and CIO – Equity, for necessary awareness/action.

b) The Risk team will monitor liquidity to be maintained in schemes considering top 10 investor concentration. Any dip in liquidity will have to be rebalanced at the earliest, keeping the investor interests in mind.

c) The outcome of liquidity analysis will be placed in the subsequent Investment Committee meeting.

5 Remedial Actions

If basis the prevailing market situation and liquidity analysis of portfolio, there is any stress anticipated in the portfolio, the appropriate actions may be taken to safeguard the interest of long-term investors. This shall include:

a) Raising liquidity cushions in the portfolio to meet anticipated outflows.
b) Ensuring appropriate borrowing lines in place to meet sudden redemptions, as permitted under the SEBI regulations,
c) Limiting and/or suspending inflows into the scheme on a pro-active basis to ensure the scheme size does not become too large to effectively unwind in case of outflows.
d) Any other remedial measures that may appear appropriate.

6 Periodic Review

The Policy shall be reviewed at least once in two financial years or on a need basis.

7 Disclosure

The Policy approved by the Board shall be disclosed on the website of the AMC along with any other documents as prescribed by the regulations and guidelines.

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