

## CLARIFICATION WITH REFERENCE TO THE INQUIRIES ON CMPFO FUNDS

1. In the quantitative parameters section 13.1:

**Background:** The provident fund portfolios are of held to maturity nature where the trustees typically do not sell/trade securities unless required for liability payouts. Further, typically PFs have restrictions on booking losses. The role of the fund managers in most of the cases is to invest the incremental accretions to the fund and they have limited role to play in the historical portfolio inherited by them. The incremental amounts once invested become part of the portfolio which cannot be sold to re-invest elsewhere.

**Query 1:** In light of the above, we would request you to clarify, what constitutes the portfolio when calculating the yields/returns. Whether it includes the full portfolio or the incremental investments made during that period.

Response: Full portfolio should be used for calculating yields / returns.

**Query 2:** Further, there would be certain investments in short term instruments like CBLO, FD which mature within the month/quarter. Would such investments be included in calculation of returns?

Response: All investments made in the portfolio are to be included in calculation of returns.

**Query 3:** Since MTM of the investments is not done, would Return and YTM be the same measure?

Response: Please clarify and also mention the reason for the query.

**Query 4:** Similarly, please clarify if only incremental investments should be used for calculation of current yield/YTM

Response: Full portfolio should be used for calculating current yield / YTM.

**Query 5:** Please explain the calculation of point to point returns. We would request you to provide a sample excel sheet with calculation of the required return measures. It would be extremely useful.

Response: Point to point returns can be computed using the formula

$$R = (X_n / X_{n-1} - 1) * 100$$

Where  $X_n$  is the Net Asset Value (or Value) for portfolio on later date and  $X_{n-1}$  is the Net Asset Value for the portfolio on the earlier date.

Example:

	1st April 2011	30th June 2011
Net asset value (Rs)	100	105
Point to point return =	$(105/100-1)*100$	
=	5.00%	

Additionally, the Fund Manager may use Time Weighted Returns (TWR) for the portfolios. If TWR is used, the method of computation may be provided.

2. In the quantitative parameters section 13.1 Q2:

**Query 5:** Only highest credit rated NCDs are allowed as investments in the explanation given under this question. Most of the provident funds are allowed to investment in PSU bonds rated lower than AAA. We would request you to clarify whether long term portfolios having lower than AAA rated bonds also may be used for calculating returns.

Response: No

3. **Query 6:** Would advisory portfolio AUM be considered for determining eligibility?

Response: Management of Discretionary Advisory Portfolios is considered for determining eligibility. A discretionary portfolio manager individually and independently manages the funds in accordance with the needs of the client.

4. **Query 7:** Is there any word limit for the qualitative questions?

Response: There is no limit on the content for qualitative evaluation. The information provided should be reasonable, concise and include sufficient information for evaluation. While information under Annex V – Qualitative (point 1) has 100 words limit, there is no penalty for exceeding the limit.

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