

Funds Investment Policy

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1. PREAMBLE

The business of National Highway Infra Trust (“NHIT” or “Trust”) generates cash on periodic/daily basis, but its expenditure is incurred in longer intervals of monthly or even longer intervals, and distributions to lenders and unitholders are on quarterly or similar basis. In addition, NHIT needs to reserve cash to comply with the terms of the Concession Agreements and financing documents.

The Investment Manager has been authorized as per the Investment Management Agreement (IMA) to take all investment decisions on behalf of the InvIT and the underlying assets, including inter alia investing in MF’s and Deposits with Banks. Accordingly, it is desirable that the Investment Manager (for its own surpluses), the Trust and SPV’s be guided by an Investment Policy that would guide such investment decisions to manage liquidity.

2. PURPOSE OF THE POLICY

The purpose of this Investment Policy (“Policy”) is to assist the IM in managing the liquidity of the IM, the Trust and its SPV’s

The policy is expected to provide template for effective supervision, monitoring and evaluation of investment options and implementation of investment decisions.

3. OBJECTIVES

The primary objective of this policy, in order of priority shall be:

- a. **Safety** -- Safety of capital/principal shall be the foremost objective of the Policy. The investments shall be made in a manner that seeks to ensure the total preservation of capital in the overall portfolio. Credit risk will be minimized by diversification and by limiting investments to the safest types of securities. Market risk will be minimized by structuring the portfolio so that securities mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity, and by investing primarily in shorter term securities, unless and otherwise planned for.
- b. **Liquidity** -- The investment portfolio shall be structured so that investments mature or are cashable concurrent with anticipated cash demand. Further, since all cash demands cannot be

anticipated, the portfolio shall consist primarily of cash equivalents and securities with active secondary or resale markets.

- c. **Yield** -- The investment portfolio shall be structured with the objective of attaining a market rate of return taking into account the constraints of risk and liquidity described above.

4. RISK TOLERANCE, PERMITTED INVESTMENTS AND DIVERSIFICATION REQUIREMENTS

I. Risk Factors that would govern the investments include:

- a. **AAA rating of the InvIT:** The InvIT currently has a AAA rating and as such all investments of the InvIT and its SPV's should be in AAA rated instruments or with banks having a AAA rating
- b. **Financing Agreements:** The investments will adhere to the requirements or any covenants under the various financing documents.
- c. **Corporate Policy:** The corporate policy guidelines on risk as and when applicable.

II. Permitted investments*:

- a. Fixed Deposits with AAA rated scheduled commercial banks
- b. AAA or equivalent, Debt based Short term liquid/ overnight funds with mutual funds
- c. Placement of Inter Corporate Deposits with the Trust or other SPV's of the Trust

**Rated by at least two rating agencies. The lowest two ratings would be considered for this purpose*

III. Diversification

For the purpose of this Policy and keeping in mind that investments are permitted only in stated categories, diversification would mean:

- a. Having a portfolio of investments in diversified classes, within the stated / approved funds.
- b. Portfolio of MF's* / FD's spread across various fund houses, banks and various schemes to ensure maximum safety and adequate liquidity and return.

For this purpose, each Mutual Fund Scheme would be evaluated considering the following indicative safeguards as listed below:

- i) Fund AUM to be > 20000 crores with scheme size of > 5000 crore.
- ii) Total Group Exposure to a single fund house at the first stage not to exceed 1% of the Funds AUM . Consideration could be made for revision as per requirements to accommodate higher investable funds.
- iii) Exposure of funds to risk segments or NBFC & HFC to be kept minimal and in no case greater than 15%.
- iv) Additionally maximum exposure to tier 1 and tier 2 bonds of bank should not cross 10% of the total AUM
- v) Exposure to Papers of ratings less than AAA (or equivalent), Real estate segment, PTC or Loan Trusts to be kept minimal and in no event greater than 10 %.
- vi) Expense ratio should not be more than 25 bps.

**Care should be taken to avoid concentration of MF's into a single AMC. The endeavor should be to diversify investments across at least four AMC.*

- vii) Diversification of Fixed Deposits: Portfolio of FD's in various banks, judiciously distributed with a bench mark on the size of the bank.

5. DELEGATION OF AUTHORITY

The authority to operate and manage the investments for the respective entities is granted to the Chief Financial Officer of the IM (“Investment Officer”) to act in accordance with the tenants of this Policy. The placement of investments into the permitted investments would be done by authorized persons (“Authorised Persons”), who will additionally, if required, be authorized by the respective boards of the IM, the Trust and SPV.

The monitoring / reporting of all investments would be done independently by a designated person (“Treasury Manager”) reporting to the Investment Officer.

The delegation of authority would be periodically reviewed based on the authorized signatories at each of the respective entities, and revisions to the delegation matrix would be appended as an annexure to this policy. The first review of the policy would be done based on the year ended 31st March 2022.

Till the time the Authorised Persons/Treasury Manager are on Board, the Investment Officer is authorized to manage the liquidity of the afore mentioned entities in lines with this policy.

6. ASSET ALLOCATION AND INVESTMENT PROCESS

- a. The Investment Officer, would, by the 15th of every month, circulate a list of permitted investments and the limits for such investments to the Authorised Persons.
- b. The Authorised Persons can choose from the shortlisted investments based on requirements, keeping liquidity requirements of the entity as the primary focus and simultaneously looking to maximizing returns.
- c. The Authorised Persons shall on a daily basis, ascertain the availability of funds, expected maturities and accordingly make investment decisions into the shortlisted investment options.
- d. The investments made shall be reported by the Authorised Persons of the investing entity to the Treasury Manager daily.

- e. The Authorised Persons shall also report immediately any errors, discrepancies that may have occurred while implementing the investment decisions.

7. REPORTING

Reports showing the actual comparison of the performance of the fund with a note for reason of selection of a particular fund is to be kept on record.

In case of Mutual Fund Investments, a note on the reason for usage of a specific brokerage code (if so required) is also to be kept on record for future reference.

I. Monthly reporting and shortlisting:

- a. The Treasury Manager should periodically call for mid-month portfolios from all MFs for the targeted investment sub type and meticulously mark out the various parameters as stated above.
- b. Once this is completed, the Treasury Manager should list out the indicative historical returns generated by these MF
- c. Current exposure of the group to specific MF's should be listed, with the balance permitted for investment into the selected MF
- d. In case exposures are to be reduced the following should be factored into while preparing the list of permitted investments for the month:
- e. In case portfolio is to be reduced on account of over exposure do to change in AUM, care should be exercised as a first stage to 1) stop further investments 2) prioritize withdrawals based on requirements first from these MF's
- f. In case portfolio is to be reduced on account of increase in undesirable exposure of a particular MF then based on the urgency all withdrawals should be prioritized from these MF's
- g. Based on the methodology as mentioned above, the shortlisted portfolio would be made available to the Authorised Persons by the end of the month. This shortlisted portfolio with interim modifications as communicated, would guide the investment philosophy of the respective entity for the coming month.
- h. Monthly reports of all investments made would be prepared as per Annexure I for the information of the MD & CEO

II. Deviation Reporting and escalation:

- a. In case funds are proposed to be invested other than as per the terms of this policy the same should be done with the specific approval of the Board with specific justifications as to the need of such investments.
- b. During the month in case there is a deviation on account of a shift in the exposure pattern of any MF, that renders any MF scheme not fit as per the framework of this policy, the Treasury Manager should take steps as mentioned in point 7(I)(f) above to shift investments away from the scheme. In the interim such investments should be reported as a temporary deviation to the MD & CEO.
- c. Any loss in Principal amount of any investment should be reported as a deviation through the Audit Committee to the Board.

8. CHANGES TO THE POLICY & REVIEW

Based on the changing scenario, any change to this policy could be made with the specific approval of the Board

The first review of the policy would be done by 30th June 2022.

Annexure I

Formats of Monthly reports

Mutual fund portfolio analysis

AMC	MF Scheme	AUM	IM	Trust	SPV	Total exposure during the previous month	Total Permissible Investment for the current Month	Specific papers in the portfolio under watch	Remarks

Fixed Deposits portfolio analysis

Bank Name	FD tenure		IM	Trust	SPV	Purpose for maintenance

The sheets containing the list of instruments invested into by the MF should be annexed with the above.