
**Policy to protect the interest of the investors of
Bandhan Midcap Fund & Bandhan Small Cap Fund
and Disclosure of Risk Parameters**

Of

Bandhan AMC Limited

(formerly known as IDFC Asset Management Company Limited)

Investment Manager to Bandhan Mutual Fund

Document Version Control

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March 12, 2024	Manish Gunwani	Vijayalaxmi Khatri	1/2024	Initial Setup As per the directive of SEBI on protecting the interest of the investors and disclosure of Risk Parameters of Mid & Small Cap Funds.

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1. Background and Purpose

AMFI, as directed by SEBI, requires the AMCs to put in place a Policy to protect the interest of the investors of Mid and Small Cap Equity Funds inter alia covering appropriate and proactive measures to be taken by the AMCs and Fund Managers to protect investors from the first mover advantage of redeeming investors. Further, AMFI vide a communication dated February 28, 2024, has issued an Advisory to the AMCs to disclose the Risk Parameters in respect of Mid Cap and Small Cap equity schemes on the AMC as well as AMFI's website as per the specified format (which has been prepared in consultation with SEBI), along with the guidance in simple language, assumptions and methodology to enable the investors to understand the risk associated with the aforesaid two categories of schemes.

Accordingly, Bandhan AMC Limited ("Bandhan AMC") has adopted the Policy to protect the interest of the investors of Bandhan Midcap Fund & Bandhan Small Cap Fund and Disclosure of Risk Parameters ("the Policy").

2. Scope, Objective and Schemes covered under the Policy:

The Policy aims to take appropriate measures by the AMC & Fund Managers to protect the investors of Bandhan Midcap Fund & Bandhan Small Cap Fund ("the Schemes"), including but not limited to moderating inflows, portfolio rebalancing etc. and lays down steps to ensure that the investors are protected from first mover advantage of redeeming investors.

Further, the Policy also aims to protect the interest of all the investors under the Schemes by assessing the liquidity of Schemes under a stress scenario by ascertaining the number of days required to liquidate 50% and 25% of the portfolio.

The Stress Test is a scenario created to check how a scheme will perform in panic-stricken market conditions. It is a simulation of stressed situations which market may face. In this policy, stress scenario is referred as a situation where large number of investors withdraw their money, and in such a situation in how many days 50% of scheme portfolio or 25% of scheme portfolio can be liquidated to meet redemption obligation. For Example, if there are two schemes, and based on Stress test result 'Scheme A' can liquidate 50% of portfolio in 5 days while 'Scheme B' can liquidate 50% of portfolio in 10 days, then in case of high redemption pressure, 'Scheme A' can generate liquidity faster as compared to 'Scheme B'.

Scheme covered under the Policy:

Bandhan Midcap Fund, launched on 18th August 2022 seeks to generate long-term capital appreciation by investing predominantly in equities and equity-linked securities of the mid cap segment.

Bandhan Small Cap fund, launched on 25th February 2020 focuses on building a diversified portfolio within the small cap segment. The fund follows a 3-pronged stock selection approach of Quality, Growth, and Reasonable Valuation.

3. Policy Owner

The Head-Equity, being the owner of the Policy, shall be responsible for updating the Policy in consultation with Chief Risk Officer (CRO) post which the Policy shall be reviewed by the Investment Management Committee.

The Policy is reviewed by the Unitholder Protection Committee (“UHPC”) and approved by the Boards of Bandhan AMC and the Board of Bandhan Mutual Fund Trustee Limited (“Trustees”).

4. Policy Review

This Policy shall be reviewed by the UHPC and approved by the Boards of Bandhan AMC and Trustees as and when need arises or at least annually. Further, in case of breach of thresholds, the same shall be informed to the UHPC and the Boards of AMC and Trustees in their immediately next Meeting.

5. Assumptions to ascertain the portfolio liquidity

- A stress scenario is defined as one wherein only 10% of market participation is available to any single scheme of a mutual fund.
- It is assumed that the average traded volume of the securities on BSE & NSE (observed over a period of three months) will be 3 times the volumes of normal times (hereinafter referred to as “Volume under Stress Scenario”).
- For this analysis, top least liquid stocks of the portfolio (aggregating 20% by portfolio weight) would not be taken into consideration and the number of days taken to liquidate 50% and 25% of the portfolio would be ascertained for the balance portfolio, following the steps mentioned under the Methodology section hereinbelow.
- Liquidation of the securities in the portfolio would be assumed to be carried out on a pro-rata basis.

6. AMFI prescribed Methodology for assessment of liquidity of Mid Cap and Small Cap Schemes.

The following methodology as prescribed by AMFI shall be adopted.

Number of days required to liquidate 50% & 25% of the portfolio to be calculated in the following manner:

- A. The volume available for liquidating the portfolio would be arrived at by multiplying market participation under stress scenario (i.e.10%) and the Volume under Stress Scenario (i.e. 3 times the volume observed over a period of three months) for the securities in the portfolio.
- B. Number of days required to liquidate each stock in the portfolio would be computed considering the volume available for liquidating the portfolio (calculated as per point A). The portfolio would then be sorted in decreasing order of number of days required to liquidate each stock (starting from the highest).

- C. Top least liquid stocks (i.e. those requiring higher days to liquidate, in the portfolio sorted in the manner mentioned under point B) aggregating 20% of portfolio weight would not be considered for the purpose of this analysis.
- D. The number of days required to liquidate the balance portfolio shall be the maximum number of days required for liquidating a stock in such portfolio. Such number of days would be divided by two to indicate the days required for liquidating 50% portfolio and by four to indicate days required to liquidate 25% of the portfolio.

Refer Annexure 1 for the Illustration.

The internal threshold (maximum number of days for the Scheme(s) to liquidate its holdings) for monitoring purposes are:

- 10 days for liquidating 25% of the portfolio
- 20 days for liquidating 50% of the portfolio

Note: The above methodology will stand amended to the extent provided by AMFI from time to time. In the event of any revisions to the methodology as stated above by AMFI, the new methodology will be adopted and the policy will stand amended accordingly. The changes will be submitted to the Unitholder Protection Committee of Bandhan AMC and Board of Trustee Company for subsequent ratification.

7. Additional Risk Measures for assessment of liquidity of Mid Cap and Small Cap Schemes

I. Free float of the securities in the portfolio

The term free float is used to describe the number of shares of a particular listed company that are available to the public for trading in secondary market.

As an additional parameter, the exposure in equity securities of individual listed company shall be limited to 10% of its free-float shares, thereby reducing the liquidation risk under stress scenarios.

Refer Annexure 2 for the Illustration

II. Investor Concentration

Additional parameter such as concentration of holdings of an investor in the Scheme, shall be considered and monitored by Bandhan AMC at scheme level.

Details of such parameters are stipulated below:

Bandhan AMC shall monitor investments/holdings of Top 1, 5 and 10 investors, as a percentage of total AUM of the respective Scheme.

Note: To determine the holding as a percentage of the AUM, all holdings in the Scheme will be cumulated at PAN level for the First Holder.

To ensure tracking of this metric, if the holdings of any one or more of the top 1, 5 or 10 investors (as aggregated above) exceed 10%, 20% and 40% respectively, at a Scheme level, then the same shall be reported to the Investment Management Committee for further course of action. Further, the same will be placed in the subsequent Meeting of UHPC and Boards of Bandhan AMC and Trustees along with the AUM of the Schemes for their noting.

8. Governance and Reporting

Head-Equity shall recommend the maximum number of days for the Scheme(s) to liquidate as a threshold for monitoring purposes. Such threshold shall be reviewed as and when the Head-Equity or Investment Management Committee deems necessary to moderate or tighten it.

Bandhan AMC shall undertake due evaluation and disclose results of Stress Test and Liquidity, Volatility, Valuation and Portfolio Turnover associated with Scheme(s) on the AMC's as well as on AMFI's website on a monthly basis within 15 days after each month in the specified format.

Outcome of the aforementioned report shall be monitored by the Fund Manager, Head-Equity as well as presented to the Investment Management Committee at least at a monthly frequency, so that any corrective measures, if need be, can be taken. Minutes of the meeting of such Investment Management Committee will be placed in the subsequent Meeting of UHPC and Boards of Bandhan AMC and Trustees for their noting.

Corrective Measures may include but are not limited to Moderating Inflows, Portfolio Rebalancing, etc. Appropriate and proactive measures shall be undertaken to protect the interest of all investors.

9. Regulatory Reference

- AMFI letter Reference No. 35P/ MEM-COR/116 / 2023-24 dated February 27, 2024
- AMFI letter Reference No. 35P/ MEM-COR/118 / 2023-24 dated February 28, 2024

10. ANNEXURES

Annexure 1

Illustration on Number of days required to liquidate 50% & 25% of the portfolio.

Sample Working

After removing 20% bottom liquid portfolio - Highlighted in red

No. of days for 100% Pro-rata	67
No. of days for 50% Pro-rata	33
No. of days for 25% Pro-rata	17

Scheme Name	Date	Instrument Name	Holding (%)	Market Value (Cr)	No of Shares	Combined Volume of Shares	3x Volumes	10% of 3x volume	No. of Days (10% Participation)	Cummulative holding	Scheme AUM
ABC Midcap Fund	31-Jan-2024	Security 1	10.00	1,500.00	77,00,000	3,00,000	9,00,000	90,000	86	10.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 2	7.00	1,050.00	2,30,00,000	10,00,000	30,00,000	3,00,000	77	17.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 3	3.00	450.00	3,50,00,000	17,00,000	51,00,000	5,10,000	69	20.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 4	10.00	1,500.00	50,00,000	2,50,000	7,50,000	75,000	67	30.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 5	9.00	1,350.00	4,50,00,000	28,00,000	84,00,000	8,40,000	54	39.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 6	10.00	1,500.00	2,40,00,000	15,00,000	45,00,000	4,50,000	53	49.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 7	5.00	750.00	50,00,000	15,00,000	45,00,000	4,50,000	11	54.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 8	6.00	900.00	1,00,00,000	45,00,000	1,35,00,000	13,50,000	7	60.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 9	12.00	1,800.00	1,80,00,000	85,00,000	2,55,00,000	25,50,000	7	72.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 10	8.00	1,200.00	90,00,000	80,00,000	2,40,00,000	24,00,000	4	80.00	15,000
ABC Midcap Fund	31-Jan-2024	Nifty Long Current Month (Futures)	5.00	750.00	32,00,000	30,00,000	90,00,000	9,00,000	4	85.00	15,000
ABC Midcap Fund	31-Jan-2024	Nifty Short Current Month (Futures)	-5.00	-750.00	20,00,000	30,00,000	90,00,000	9,00,000	2	90.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 10 Short (Futures)	-3.00	-450.00	27,00,000	50,00,000	1,50,00,000	15,00,000	2	90.00	15,000
ABC Midcap Fund	31-Jan-2024	Security 11 Long (Futures)	5.00	750.00	30,00,000	75,00,000	2,25,00,000	22,50,000	1	95.00	15,000
ABC Midcap Fund	31-Jan-2024	Cash	5.00	750.00	-	-	-	-	0	100.00	15,000
Total			100.00								15,000

Methodology

No of days to liquidate each stock in the portfolio is calculated above.

For this 3 times the combined volumes on NSE and BSE has been considered.

Assuming a participation of 10%, number of days to liquidate each stock is calculated.

No. of days for 100% pro rata is the most illiquid stock after excluding top illiquid stocks in the portfolio (comprising upto 20% of the AUM).

No. of days for 50% and 25% Pro-rata is 50% and 25% of No. of days for 100% Pro-rata respectively.

Annexure 2

Illustration on Free Float of the securities in the portfolio.

Scheme Name	Date	Security Name	No of Shares (million)	Free Float (million)	Holding % to Free Float
ABC Midcap	29-Feb-2024	Security 1	1.52	14.6	10.41%
ABC Midcap	29-Feb-2024	Security 2	1.79	24.5	7.33%

As per the illustration above, 10% limit has breached for Security 1 in ABC Midcap Fund; such fund would be presented to the Investment Management Committee for discussion and reviewing the further course of action.