

Clarifications on EOI for appointment of Portfolio Managers for managing POLIF and RPOLIF dated 16.07.2019

Sr. No.	Reference (Clause No. / Page No.)	Content of EOI requiring clarification	Points of Clarification required	DoP's Response
FIRM 1				
1	Point 1 under 7.1 / Page No. 20	Definition of Debt Funds and Equity Funds	Debt funds & Equity Funds in case of mutual funds - It may be clarified if the definition of debt funds and equity funds could be basis SEBI Circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017. Please note Liquid Funds are part of Debt Funds & Hybrid Funds are a separate category.	The definition of debt funds and equity funds will be as per SEBI circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017. However, the definition of hybrid funds will be as per the EOI.
2	Point 1 under 7.1 / Page No. 20	Definition of Debt Funds and Equity Funds	Can we only consider open-ended funds for the purpose of showing Average AUM? Please note inclusion of Close-ended funds may complicate matters especially when it comes to showing returns, whenever required, as most of them (Fixed Maturity Plans) are similar to HTM portfolios, and passively managed.	All funds of the portfolio manager which qualify as per the definition of Debt funds and Equity funds defined in relevant sections of the EOI document should be considered.
3	Point 1 under 7.1 / Page No. 20	Definition of Debt Funds and Equity Funds	For the purpose of Qualifying Criteria (Minimum Rs. 40,000 Crs for Debt Schemes and Rs. 20,000 Crs for Equity Schemes), will it suffice if we show only Mutual Fund schemes (and not Retirement Schemes) or vice versa - only Retirement Schemes as long as the Qualifying Criteria are met?	All funds of the portfolio manager which qualify as per the definition of Debt funds and Equity funds defined in relevant sections of the EOI document should be considered.
4	4.1 / Page No. 12	Dedicated Fund Manager (s)	It may be clarified if a Fund Manager (s) having required experience in both Debt & Equity could be considered to serve this requirement of having a dedicated Fund Manager (s). Or will two separate Fund Managers - one each of debt and equity - required?	As per clause 4.1 of the EOI, dedicated fund managers one each for managing PLI's debt and equity investments would be required.
5	4.4.1 / Page No. 12	Investment Policy of PLI	The Investment Policy of PLI may be shared	As per clause 3.1 of the EOI, currently, the investment policy of PLI is primarily guided by the norms/ pattern of investment specified for life insurance funds by IRDAI. Further, the detailed investment policy for PLI's funds would be shared with portfolio managers post their appointment.
FIRM 2				
1	Clause 4.2 (Page 12 of 31)	Ensure that the dedicated Fund Managers responsible for managing the PLI's fund do not manage any other fund other than the PLI's fund.	The Portfolio Manager should be allowed to manage other government mandates as well beside PLI.	As per clause 4.2 of the EOI, the portfolio manager must ensure that the dedicated fund managers responsible for managing the PLI's fund do not manage any other fund other than the PLI's fund.
2	Clause 4.3 (Page 12 of 31)	Ensure, to the best possible extent, the Fund Managers appointed to manage the PLI's fund should continue in their role till the completion of the assignment. For any reason, if there is a proposed change in the Fund Manager(s) appointed to manage the PLI's fund, the same should be done with PLI's prior approval. The new Fund Manager(s) to be appointed to manage the PLI's fund should have relevant experience as stipulated in 4.1.	In case fund manager is leaving the company, there will be a change. While the portfolio manager will intimate this to PLI, however there cant be any approval for exit.	In case of resignation of existing fund manager, prior intimation of at least one month is required. Further, prior approval of PLI must be taken for appointment of the new fund manager.

3	Clause 4.5 (Page 12 of 31)	The Portfolio Manager shall be responsible for monitoring and sale of the investments forming part of legacy portfolio of PLI allocated to it and incremental investments made during the tenure of appointment, as per the investment policy of PLI (as amended from time to time).	Please share the framework or policy for exit/sale of investments prior to submission of EOI. However it may be noted that the exit/sale of investments will depend on the underlying liquidity/market conditions at the time of potential exit. It should also be understood that Indian corporate bond markets are relatively illiquid and any large unwinding of positions may lead to high impact costs.	As per clause 5.1 of the EOI, the appointment of the portfolio managers shall be on a non-discretionary basis for a period of three (3) years.
4	Clause 4.13 (Page 13 of 31)	Ensure that it shall not purchase securities of its Related Party and the Related Party of any other Portfolio Manager appointed by PLI in the Secondary Market.	Please confirm that the said clause is not applicable to deployment of funds in TREPS	Clause 4.13 of the EOI shall not be applicable to TREPS.
5	Clause 4.13 & 4.15 (Page 13 of 31)	Ensure that it shall not purchase securities of its Related Party and the Related Party of any other Portfolio Manager appointed by PLI in the Secondary Market. The Portfolio Manager shall not utilise the services of its Related Party or the Related Party of other Portfolio Manager appointed by PLI for the purpose of any securities transaction, distribution, sale and purchase in the Secondary Market.	Please confirm that the said clause is restricted and applicable to dealing in the voice/OTC market and is not applicable to dealing on CCIL which is an anonymous online trading platform	Clause 4.13 and 4.15 will not be applicable to dealing on CCIL which is an anonymous online trading platform
6	Clause 4.14 (Page 13 of 31)	The Portfolio Manager shall not invest in Primary Market issuances in which its Related Party is one of the lead managers or issuer of securities. The Portfolio Manager will have to submit a detailed list of its Related Party to the PLI and intimate PLI of any changes in that list thereon.	[a]Please confirm if one Portfolio manager can invest in a primary market issuance in which another portfolio manager's related party is the lead manager or issuer of security. [b]Please confirm if the Portfolio Manager can bid through the portfolio manager's related party or through other portfolio manager's related party in the primary auctions of GOI and SDL.	As per clause 4.14, the portfolio manager shall not invest in primary market issuances in which its related party is one of the lead managers or issuer of securities. This implies that investments in primary market issuances can be done in which another portfolio manager's related party is the lead manager or issuer of security.
7	Clause 4.19 (Page 13 of 31)	Ensure and be responsible for back office support for investment management including accounting and audit related services. The PLI will appoint custodian and open sub accounts (one for each Portfolio Manager) with the custodian. Subsequently, each Portfolio Manager has to submit MIS to the PLI on periodic basis.	1. Kindly clarify if this is an MTM portfolio, If yes, is the Portfolio Manager expected to appoint a valuation agents. 2. What is the scope of accounting activities the Portfolio Manager is expected to support. 3. Is the Portfolio Manager expected to appoint a auditors for audit services.	The debt portfolio will be normally an HTM portfolio while the equity portfolio will be MTM portfolio. The portfolio manager need not appoint any valuation agents. As per clause 5.3 of the EOI, the PLI will be responsible for the appointment of custodian of securities for PLI's fund. PLI will bear all the necessary charges and fees for the custodial and fund accounting services. As per clause 4.16 of the EOI, the portfolio manager should submit certificates from an auditor recognized by ICAI, appointed by the Portfolio Manager, for compliance of clause 4.4 of EOI on a monthly basis and section 4.12, 4.13, 4.14 and 4.15 on a quarterly basis. As per clause 4.17 of the EOI, the portfolio manager shall get the books of accounts and portfolio accounts audited by an independent chartered accountant on a quarterly basis. This chartered accountant should be recognized by ICAI, having experience of treasury/mutual fund audit operations.

8	Clause 4.20 (Page 13 of 31)	<p>Ensure that the Fund Manager(s) or the key personnel of the Portfolio Manager should not invest in their personal capacity, in securities where the PLI's fund is deployed. Portfolio Managers must report any existing securities holdings owned by the Fund Manager(s) or the key personnel which are part of the PLI's fund. For divesting such securities prior approval of the PLI must be obtained. The Portfolio Manager must also report to the PLI any information pertaining to investments and divestments by the Fund Manager(s) or the key personnel as and when required by the PLI.</p>	<p>1. Kindly provide the definition of Key Management Personnel.</p> <p>2. Please note that the designated Fund Manager is responsible for taking investment decisions and may not be aware of the securities held by Key Management Personnel in their personal capacity while taking investment decisions. We request you to please restrict the applicability of the clause only to the designated Fund Manager responsible for managing the corpus.</p>	<p>As per the EOI, key personnel is including but not limited to the Chief Executive Officer, Chief Investment Officer, Fund Manager, Compliance Officer etc.</p> <p>As per clause 4.20 of the EOI, The portfolio manager must ensure that the fund manager(s) or the key personnel of the portfolio manager should not invest in their personal capacity, in securities where the PLI's fund is deployed. portfolio managers must report any existing securities holdings owned by the fund manager(s) or the key personnel which are part of the PLI's fund. For divesting such securities prior approval of the PLI must be obtained. The portfolio manager must also report to the PLI any information pertaining to investments and divestments by the fund manager(s) or the key personnel as and when required by the PLI.</p>
---	--------------------------------	---	---	---

9	Clause 4.21 (Page 13 of 31)	Ensure that a firewall is maintained both in terms of staff and systems, in respect of the corpus managed for the PLI, to segregate it from its other businesses	The PMS back office will maintain a firewall segregating the mutual fund business. The back-office staff and systems will be common for the PMS business including PLI. Whilst we will have a common back office system, access to PLI data will be restricted as it will be for any other mandate. Commonality of systems and staff is to deliver the best controls and administration.	All the staff and systems used for managing PLI's fund should be clearly segregated from the other businesses of the portfolio manager.
10	Clause 5.4 (Page 15 of 31)	Review of performance The PLI will follow a process of periodic review of the performance of the Portfolio Managers. Such review will be carried out on a quarterly basis. The PLI reserves the right to change the allocation of fund for investments to Portfolio Managers based on its review of their performance, which would also include the efficiency of services which have been laid down in all such agreements in which the PLI and the appointed Portfolio Manager(s) are party to. The re-allocation of funds will be done annually based on review of performance.	Kindly clarify if there a monthly benchmark issued for performance evaluation. Kindly clarify whether the methodology adopted to compute portfolio returns is based on current yield or YTM.	The methodology and frequency of performance review would be communicated to the portfolio managers post their appointment as PLI's portfolio managers.
11	Clause 5.8 (Page 16 of 31)	Process for transfer of assets in case of termination The Portfolio Manager shall ensure smooth transfer of all the funds and provide all necessary support thereof. It shall also ensure the transfer of all the relevant documents/ records/ information in accordance with the directions issued by the PLI.	Can you please share a list of all documents/records/information to be maintained by the portfolio manager in accordance to this clause.	All the documents/records/information would be pertaining to the documents/records/information shared by the portfolio manager with PLI during the course of the assignment as highlighted in various clauses in section 4 (Duties & responsibilities of the Portfolio Manager) of the EOI.
12	Clause 5.8 (Page 16 of 31)	Any form of non-support or non-cooperation or obstructions from the Portfolio Manager shall amount to non-performance by the Portfolio Manager. The PLI reserves the right to invoke the PBG and / or take legal action against the Portfolio Manager in such cases.	Request you to clarify what all activities can be part of "non-support or non-cooperation or obstructions from the Portfolio Manager". Can you please provide the PBG Amount	As per clause 5.8 of the EOI, the portfolio manager shall provide all the necessary support in ensuring smooth transfer of all the funds. It shall also ensure the transfer of all the relevant documents/ records/ information in accordance with the directions issued by the PLI. Any action of portfolio managers not in line with the above stated shall be considered as non-support or non-cooperation or obstructions from the portfolio manager. The details of PBG would be specified at the appropriate stage.
13	Clause 7.1 (Page 20 of 31)	The pre-qualification criteria for selection of Portfolio Managers is as follows: The Portfolio Manager must have: iii. Average of Quarterly Average assets under management (AAUM)^ under equity fund** for the last four (4) quarters ending 31st March, 2019 must not be less than Rs 20,000 crore; excluding investment of its own funds;	HSBC AMC has relevant experience and it provides a comprehensive range of investment management solutions to a diverse client base, including discretionary segregated mandates and binding or non – binding advisory mandates. We have been managing the debt corpus for one of the largest provident fund in the country, since last 9 years. We would request you to waive off this requirement of excluding funds under advisory for calculating the minimum AUM.	The pre-qualification criteria for selection of portfolio managers will be as per clause 7.1 of the EOI.

14	Clause 7.1.9 (Page 21 of 31)	<p>The Portfolio Manager must have the following policies/guidelines and their effective ongoing implementation in place that is appropriate for the scale and nature of investments managed by the Portfolio Manager:</p> <p>> Investment policy/manual: The applicant should have an investment policy covering among others the following aspects</p> <p>a. Clearly articulated roles and responsibilities of investment, dealing and research teams</p> <p>b. Defined process of forming investment strategies and limits: investment strategy for each fund, long term and short term investment limits for each issuer, sector etc.</p> <p>c. Clear articulation of investment process with defined investment universe and its approval process and credit rating process</p> <p>d. Clearly defined constitution of the investment committee with their roles and responsibilities</p> <p>e. The approval process and the review frequency of investment policy/manual must be clearly defined.</p>	<p>With regards to point 'c', kindly explain as to what is the scope and responsibility of the portfolio manager in 'credit rating process'. The mandate permits investments only in papers which are rated by SEBI approved rating agencies. The portfolio manager has a well articulated internal credit evaluation process to identify the most suitable credits, within the rated universe, for the mandate.</p>	<p>With regards to the credit rating process, the responsibility of the portfolio manager is to have a well articulated internal credit evaluation process in place to identify the most suitable credits.</p>
----	------------------------------	---	--	--

FIRM 3

1	<p>7. Bid Evaluation Criteria</p> <p>7.1 .1 Prequalification Criteria</p> <p>Page 20</p>	<p>The Portfolio Manager must have:</p> <p>i. At least five (5) years of experience each in managing debt funds* and equity funds** (excluding management of own funds) as on date of issue of this EOI; and</p> <p>ii. Average of Quarterly Average assets under management (AAUM)^ under debt funds* for the last four (4) quarters ending 31st March, 2019 must not be less than Rs 40,000 crore; excluding investment of its own funds; and</p> <p>iii. Average of Quarterly Average assets under management (AAUM)^ under equity fund** for the last four (4) quarters ending 31st March, 2019 must not be less than Rs 20,000 crore; excluding investment of its own funds;</p>	<p>With reference to the pre-qualification criteria for the selection of portfolio manager, while the condition no. i highlights the requirement for the Portfolio Manager to have at least 5 years of experience as a SEBI PMS (1993) license holder, condition no. ii details the AUM of debt funds under discretionary or non-discretionary Portfolio Management Services and funds under National Pension Scheme and condition no. iii details the AAUM under equity funds under discretionary or non-discretionary Portfolio Management Services (PMS) and funds under National Pension System (NPS) will include 100% equity funds</p> <p>a. Sir, we would request to understand if Funds under Advisory may be included for consideration as SEBI Portfolio Managers (1993) license permits the licensee to provide advisory services.</p> <p>b. Furthermore, we would also request to understand that while computing the AAUM under both debt and equity funds, should the Investible Surplus considered in one quarter be considered as legacy portfolio and hence not be included while computing the AAUM for the next quarter</p>	<p>As per section 7.1 of the EOI, funds under advisory should be excluded for experience as well as for AUM calculation.</p> <p>As per the illustration in section 8.3 of the EOI, legacy portfolio refers to investments not made during the required period i.e. 1st April 2018 to 31st March 2019. Hence the investments made during quarter ending periods Jun'18, Sep'18 and Dec'18 will be considered in the AUM calculation for the subsequent quarters.</p>
---	--	---	---	---