



**PGIM**  
India Mutual Fund

# **Risk Management Policy**

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**Policy Ref : 031/22**

**Ver. 1.2**

**Last updated July 20, 2023**



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**Document Change Control**

Version	Date	Particulars	Prepared By	Reviewed By
1.0	04-May-22	Base Document	Sanjana A	Prabha Shanker Vinod V.
1.1	25-Jun-22	Updation based on inputs from RMC and Board Members	Prabha Shanker	Vinod V.
1.2	20 <sup>th</sup> July 2022	Updated RMF for 1. Changes in status of process readiness shown against <ul style="list-style-type: none"> <li>• Risk management framework,</li> <li>• Risk coverage,</li> <li>• Risk identification,</li> <li>• Risk measurement – overall and schemes</li> <li>• Management Organisation structure,</li> <li>• Risk Appetite Framework</li> </ul> 2. Annexures - composition of various committees	Prabha Shanker	Vinod V

**Approval Details**

	Approved By	Date
1	CEO	05 <sup>th</sup> May 2022
2	AMC Risk Management Committee	29 <sup>th</sup> June 2022
3	AMC Board	05 <sup>th</sup> May 2022/ 28 <sup>th</sup> July 2022
4	Trustee Risk Management Committee	29 <sup>th</sup> June 2022
5	Trustee Board	06 <sup>th</sup> May 2022/ 29 <sup>th</sup> July 2022

## 1. Policy Background

PGIM India Asset Management Private Limited (PGIM India AMC) is the Investment Manager for PGIM India Mutual Fund (PGIM India MF), a mutual fund registered with the Securities and Exchange Board of India (SEBI) under SEBI (Mutual Funds) Regulations, 1996. PGIM India AMC is also registered with SEBI as a Portfolio Manager offering discretionary and non-discretionary portfolio management service. PGIM India AMC also holds an investment advisory license and advises overseas clients. PGIM India Trustees Private Limited (PGIM India Trustees) is the Trustee Company for PGIM India Mutual Fund. PGIM India AMC and PGIM India Trustees have their registered offices in 4-C, Laxmi Towers, Bandra Kurla Complex, Bandra East, Mumbai – 400 051. Besides, PGIM India AMC has ground presence across multiple geographies within India for market coverage and client servicing.

Being a wholly-owned subsidiary of Prudential Financial Inc., US, one of the largest financial institutions in the world, PGIM India is fully committed to protect its reputation and the reputation of its parent by always ensuring high integrity, fair and ethical business conduct and consistently acting in the best interest of its investors and other stakeholders.

PGIM India AMC, PGIM India Trustees and PGIM India MF are collectively referred to in this policy as PGIM India.

PGIM India has a robust risk management framework in place covering operational and investment risks with a dedicated and independent risk function complimenting line management responsibilities on risk management. PGIM India firmly believes that the cornerstone of strong and sustainable risk management is a risk-aware workforce. To this end, PGIM India's endeavour is to engrain a risk-aware culture and encourage and foster conversations and consultations on risk across the firm and its associated stakeholders to continually strengthen its risk management posture. To this end, PGIM

India AMC has an executive risk management committee chaired by the CEO with all department heads as members of the committee to foster cross-functional discussions on matters concerning risk management across the firm. Department heads maintain an open line of communication with their teams for early identification, analysis, treatment and reporting of risks. Besides, the risk team works closely with line functions to help risk and controls assessments, disseminate guidance / information to employees on a periodic basis on matters concerning risk, and track and monitor key risks and action items arising therefrom. Awareness and sensitivity towards risks and management of risks also forms a part of periodic townhalls and employee communication.

The fulcrum of a strong risk management framework is a robust, purposeful and accountable governance mechanism that helps early detection, reporting, assessment and treatment of risks. The risk management framework at PGIM India leverages the best practices on risk management and corporate programs implemented across the globe by its parent entity, appropriately adapting the same to local regulatory and business requirements.

## **2. Policy Objective**

The objective of this policy document is to lay out the firm's risk governance structure, key areas of risk management within the firm, its risk management framework and process and roles and responsibilities within the firm for various areas of risk with a view to aligning the firm's risk posture to its risk appetite.

The policy aims at establishing high standards of diligence across the firm to contain foreseeable risks and manage risks aligned to the risk tolerance of the firm. It defines roles and responsibilities of key personnel from a risk management perspective. The policy, through various tools and thresholds defined across functional areas, also aims to facilitate early identification and treatment of risks.

While the policy sets out the general, high-level contours of risk management within PGIM India, it is a macro-level document and gets supplemented by other specific policies, procedures, framework, methodology, SOPs and templates curated across various areas of operations of the business which, together, help developing a robust risk management framework for PGIM India.

### 3. Regulatory Context

The Securities and Exchange Board of India (SEBI) vide its [Circular dated September 27, 2021](#) titled “Risk Management Framework (RMF) for Mutual Funds” has revised the earlier published Risk Management Framework dated September 30, 2002 this far applicable to Mutual Funds.

The revised Risk Management Framework outlined by SEBI aims at fostering high standards of service, greater due diligence and proper care in the operations of mutual funds with a view to protecting interest of investors. The framework aims to provide a set of principles or standards, which inter alia comprise policies, procedures, risk management functions and roles & responsibilities of management, Boards of AMC and Trustees. The framework elements are segregated into

- a) mandatory elements to be compulsorily adopted by all mutual funds ; and
- b) recommendatory elements containing leading industry practices which may be adopted by mutual funds based on its relevance, applicability and utility to the individual businesses.

The circular is effective from April 1, 2022.

At PGIM India, while ensuring implementation of all mandatory elements, the endeavour would be to continually strengthen its risk management practices drawing on global best



practices duly adapted to the business context keeping with its fiduciary obligations to its investors and other stake holders in the business.

#### **4. Scope of the Policy**

Aligned to the way it is laid out in SEBI's [Circular dated September 27, 2021](#), the policy's scope has the following elements :

- a) **Scheme Specific Risks** – Risks associated with core activities of investment and portfolio management including :
  - i. Investment risk
  - ii. Credit risk
  - iii. Liquidity risk and
  - iv. Governance risk
- b) **Business Risks** – Referred in the SEBI Circular as AMC Specific Risks, these risks are associated with the functioning of the mutual fund business and include:
  - i. Operational Risk
  - ii. Technology, Information Security and Cyber Risk
  - iii. Reputation and Conduct Risks
  - iv. Outsourcing Risk
  - v. Sales and Distribution Risk
  - vi. Financial Reporting Risk
  - vii. Legal & Tax Risks and
  - viii. Talent Risk
- c) **Compliance Risk** – Applicable to both (a) and (b) above.

Further details on various categories of risk are listed in [Annexure I](#) titled Risk Taxonomy.



PGIM India recognises that the above enumeration of risks may change over time. Adaptations to the policy may be made after necessary deliberations to incorporate any new / emerging risks that do not strictly fall within the above-listed categories.

## **5. Risk Management Framework**

This Risk Management Framework (RMF) at PGIM India covering key areas like Risk Governance, Risk Identification, Risk Measurement and Management and Risk Reporting is included as [Annexure II](#) to this policy. The RMF aims to build holistic, agile and robust risk handling mechanisms within the firm to assist in :

- a) Clearly defining responsibility and accountability for Risk Management within the firm ;
- b) Ensuring high standards of diligence in risk management on an ongoing basis ;
- c) Early identification of risks ;
- d) Timely treatment of risks ;
- e) Managing the firm's risk posture aligned to defined risk appetite.

## **6. Risk Governance**

PGIM India shall, at all times have a robust risk governance structure in place that ensures necessary diligence in identifying, measuring, reporting, reviewing and treating risks.

The risk governance structure at PGIM India has the Board of Directors of PGIM India AMC and Board of Directors of PGIM India Trustees at the helm of the structure that defines the risk appetite of the firm, monitors overall risks and controls, guides on risk management strategies commensurate with the scale of the business and nature of risks that manifest in the business.





The Board of Directors of the AMC and the Trustee Company are assisted in their efforts by Risk Management Committee (RMC) constituted by the AMC Board and the Risk Management Committee (RMC) constituted by the Trustee Board which specifically focus their attention on various risks faced or likely to be faced by the business and work closely with the executive management to implement risk handling strategies for the firm. The RMCs conduct annual risk review and report to the Boards on matters concerning risk management and its functioning is governed by their respective RMC charters ([Annexure VII](#))

The Management Committee at PGIM India is the apex executive body responsible for management of affairs of the business and is responsible for drawing up business plans aligned to the business strategy and ensuring execution of the same and managing risks for the business and the schemes aligned to its defined risk tolerance and expected risk posture of the firm. The Management Committee is also responsible for establishing an organisation-wide risk conscious culture, addressing conflicts, if any, and implementation of appropriate HR practices to ensure alignment of the work force to expected standards on integrity, ethical behaviour, competence and risk management.

CXOs and Departmental Heads hold accountability within the firm for their respective domains and areas of risk and collaborate cross-functionally where so warranted to ensure efficient and effective day to day risk management within the firm. The executive risk management committee is an inter-departmental forum covering all departments and fosters cross-functional discussions on matters concerning risk management across the firm.

PGIM India AMC has a dedicated risk function with no line management responsibility for any of the core operational functions. The Risk Function is headed by the Head of Risk who works closely with other functions to ensure effective implementation and monitoring of the risk management framework within the firm and ensuring timely risk reporting to key stakeholders including the CEO, Risk Management Committees and the Boards.

The governance and reporting structure and roles and responsibilities of the Boards, Risk Management Committees, Other Board-constituted Committees and Executive Committees, Management, CEO, CIO, other CXOs and Head of Risk are defined in the Risk Management Framework included as [Annexure II](#) to this policy.

Roles and Responsibilities and Key Responsibility Areas of CXOs and Departmental Heads are listed in [Annexure III](#) to the policy. Delegation of Power across key functionaries within the firm is available as [Annexure IV](#) to the policy.

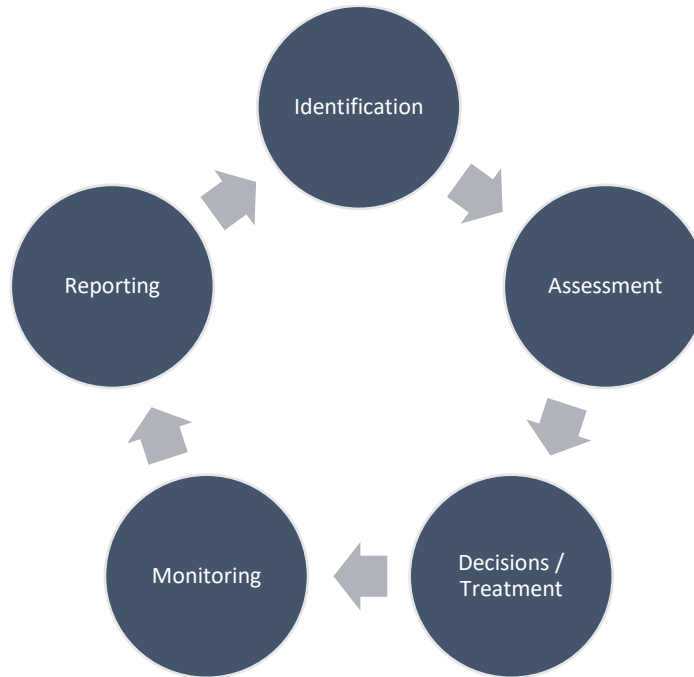
With a view to ensure independence, arrest likely / potential conflicts and ensure a robust and effective control environment, PGIM India's organisation is structured around three lines of defence viz.,

- a) Line management leadership (Primary line of defence) ;
- b) Risk and Compliance (Staff functions acting as secondary line of defence) ; and
- c) Internal Audit (Third line of defence).

More information on these lines of defence is available in the Risk Management Framework in [Annexure II](#) of the policy.

## 7. Risk Management Process

The key elements of the Risk Management Process at PGIM India is depicted in the below picture



The risk management process is an integral part of management. PGIM India endeavours to embed this in the culture, practices and business processes across the organization. The firm encourages an open and transparent culture and empowers its employees to actively identify and report perceived risks for assessment and necessary corrective measures.

- a) **Risk Identification** : This is the first step in the risk management process. This entails a systematic approach to identify potential risks to the business from its operations that may have an adverse impact on the achievement of its business objectives. Several different methods are adopted by the firm towards ensuring that Risk Identification is a structured, systematic, consciously carried out process rather than an ad hoc post facto discovery. Identified risks are included in a Risk Register maintained by the Risk Team and periodically reviewed and updated. Some of the commonly adopted Risk Identification tools and methods adopted at PGIM India are listed in the Risk Management Framework in [Annexure II](#).



- b) **Risk Assessment** : Risk assessment follows Risk Identification and is a continuous process of evaluation of various identified risks. PGIM India follows a Top Risk methodology of risk assessment at an entity level in addition to KRI based assessment of risks at a functional level.
- i. **Top Risks** : It involves assigning an objective measurement criterion to quantify the probability or occurrence or impact of risks. Risks to the business are evaluated in the context of the probability or likelihood of occurrence and impact of occurrence across 5 key dimensions viz.
- a) Financial Impact
  - b) Reputational Impact
  - c) Regulatory Impact
  - d) Operational Impact
  - e) Client Impact

The top risk ratings are determined by aggregating the probability and impact scores for each risk which forms the basis for categorisation of the severity of the risk on a 3 point scale (Low, Medium or High) for top risks. Risks are also assessed for interdependence and any second order impact. The Top Risk Assessment methodology for various key risks is included in [Annexure V](#).

- ii. **Key Risk Indicators** : Key risk indicators (KRIs) are an important component of PGIM's overall Operational Risk Management Program. KRIs track current risks that are significant enough to the business or corporate function that they must be monitored. KRIs help detect problems as part of an early warning system, enabling management to take corrective action as quickly as possible to eliminate or reduce the impact of an occurrence. The Key risk indicators for each functional area are marked on a 5 point scale – very low, low, Medium, high and very high in agreement with the respective



business owners. The template for recording and tracking KRIs is given in [Annexure VI](#)

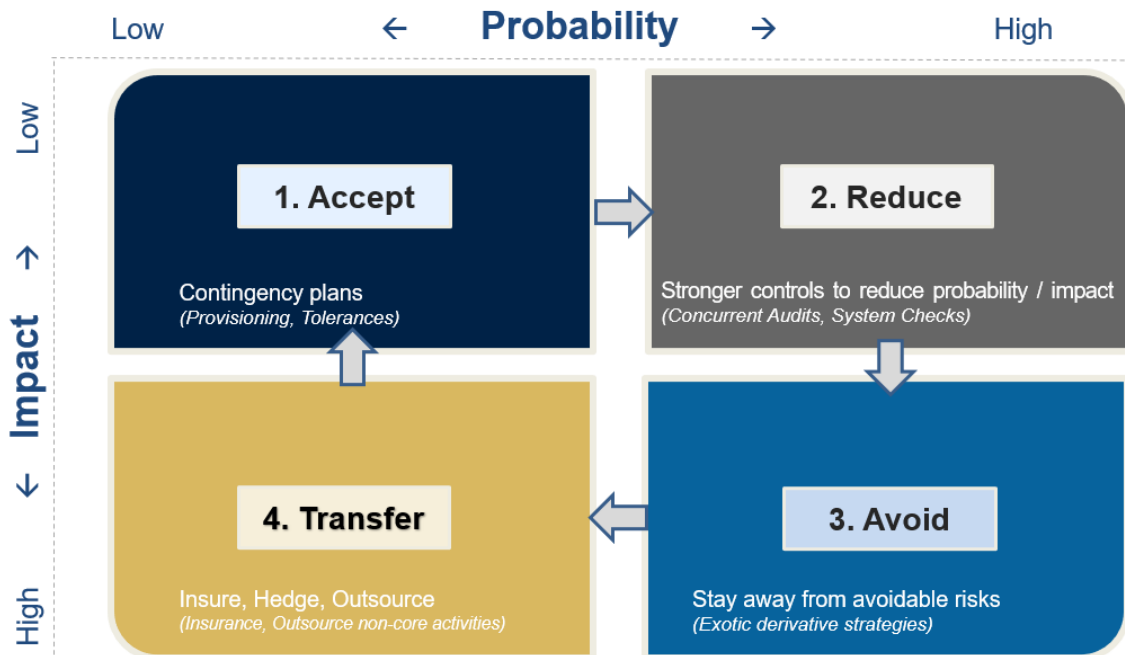
The Risk Assessment process for identified risks covers all key areas of business including but not limited to fund management, operations, customer service, sales and marketing and other business functions across dimensions of people, policy/ processes and systems.

While risk assessment is meant to be an on-going process, the AMC may, for specific areas of risk, perform periodic risk assessments to assess its risk posture vis-à-vis its Risk Appetite and take necessary corrective measures where required.

Some of the commonly adopted Risk Measurement tools and methods adopted at PGIM India are listed in the Risk Management Framework in [Annexure II](#).

- c) **Risk Decisions / Treatment** : Risk Decisions / Treatment involves management action on risks aligned to the risk appetite of the firm. It is the process of optimising outcomes by selecting one or more available strategies to manage risks effectively and implementing such action plans. PGIM India may adopt and employ one or more of the following risk decisions / risk treatment strategies to deal with various forms of risks :
- a) Accept / Tolerate Risk
  - b) Reduce / Mitigate Risk
  - c) Avoid Risk
  - d) Transfer Risk

One or more of the above strategies may be deployed depending on the suitability for a treatment of an identified risk.



d) **Risk Monitoring** : Risk Monitoring involves regular assessment of the risks after accounting for the impact of the risk treatment / corrective measures implemented to mitigate / bring down the probability or impact of the risk. While individual functions are accountable for monitoring risks related to their respective domains on an on going basis, key risks to the business are monitored by the risk function and the CEO and reported to the risk management committees and the Boards. The Risk Officer collaborates with the function heads to ensure close monitoring of risks, effectiveness assessment of controls implemented, and tracking of actionables arising therefrom. This is in addition to the individual function heads being encouraged to carry out periodic self-assessment of risks and the effectiveness of control environment in their respective areas of operation.



- e) **Risk Reporting** : PGIM India has implemented a risk reporting framework that facilitates timely reporting of risk incidents and emerging risks to the management for review and corrective action. Risk Incidents are intimated by the Departmental Heads to the Risk Head as and when detected. Besides, monthly updates are received from departmental heads on Key Risk Indicators covering various areas of the business. Risk metrics related to areas covering investments by the mutual fund schemes are reported to the CIO and also presented in Investment Committee meetings. The Risk Officer collaborates with key process owners within the firm to ensure timeliness and accuracy of risk reporting. Besides, periodic reporting of risk metrics is done to the CEO, Management Committee, Executive Risk Committee, Board-constituted Risk Committees and the Boards of the AMC and Trustee Company. The list of key reports is available in [Annexure II](#) as a part of the Risk Management Framework.

## 8. Risk Management – Tools and Techniques

PGIM India, in its endeavour to effectively manage risk, would use relevant risk management tools and techniques including automated, systemic alerts and MIS to identify emerging risks. Some of the risk management tools used at PGIM India include Enforcement of Systemic Controls, Maker-Checker controls, Key Risk Indicators (KRIs), Top Risk Assessment, Risk Inventories, Management Reporting on Performance and Exceptions, Controls Assessment, Audit Reviews, etc.

## 9. Policy Ownership

This policy document is owned by the Risk Function. All updates to the policy would be carried out under the guidance of the Head of Risk and subject to necessary approvals. With a view to ensuring that the policy and associated annexures remain updated at all times, the Risk Officer may carry out necessary updates to the Annexures under appropriate Document Change Control and report the changes to the Risk Management



Committees of the Boards for review and approval in the subsequent Committee / Board Meetings.

Any queries / clarifications on the policy may be raised to :

Name	E-mail
Prabha Shanker	<a href="mailto:15anjan.shanker@pgimindia.com">15anjan.shanker@pgimindia.com</a>
Sanjana Adinarayan	<a href="mailto:15anjana.adinarayan@pgimindia.com">15anjana.adinarayan@pgimindia.com</a>

### 10. Policy Review and Attestation

The Risk Management Framework (RMF) and policy shall be reviewed by the Board Risk Committee (BRC) of the AMC / Trustee at least once every year or based on relevant triggers that necessitate a review of the risk management framework.

The Risk Officer shall provide half-yearly attestation on policy compliance and where necessary shall seek confirmation on specific constituents of policy implementation from the respective function owners.

### 11. Distribution List









- Board of Directors of PGIM India Asset Management Pvt. Ltd.
- Board of Directors of PGIM India Trustees Pvt. Ltd.
- PGIM India Management Committee
- PGIM India Trustee Risk Committee
- PGIM India AMC Risk Committee



Relevant extracts of the policy may be shared with members of the PGIM India AMC team not specifically identified in this plan on a need to know basis to help them execute their roles, if any, in the plan.

The plan and any documents related to the implementation of the plan may be made available to auditors and regulatory authorities as may be required by them to establish / evidence their audit / inspection procedures.

## 12. Annexures

Annexure I	 Risk taxonomy for Risk Management P
Annexure II	 Risk Management Framework (Final).p
Annexure III	 Roles & Responsibilities.doc
Annexure IV	 PGIM Delegation Of Power.xlsx
Annexure V	 Top Risk Assessment Method
Annexure VI	 KRI template.xlsx
Annexure VII	  AMC RMC.pdf      Trustee RMC.pdf



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