



NSE Indices Limited

(Formerly known as India Index Services & Products Limited-IISL)

NIFTY Dynamic Asset Allocation Indices Methodology Document

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Table of Contents

Introduction.....	2
Highlights.....	2
Methodology.....	3

Introduction

NSE Indices Limited (formerly known as India Index Services & Products Limited-IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

The NIFTY Dynamic Asset Allocation Index series includes hybrid indices that track multiple asset-classes (namely equity and debt). The dynamic asset allocation model assigns weights between the two asset classes based on relative market valuation. The index series presently consists of 2 indices namely NIFTY 50 & Short Duration Debt – Dynamic P/E Index and NIFTY 50 & Short Duration Debt – Dynamic P/B Index.

Within NIFTY 50 & Short Duration Debt – Dynamic P/E and NIFTY 50 & Short Duration Debt – Dynamic P/B indices, asset allocation between equity and debt is done by a model that uses Price-Earnings ratio (P/E) or Price-Book ratio (P/B) of NIFTY 50 index. While the allocation is primarily between equity and debt, in case the model prescribes allocation to equity that is lower than 65%, the equity arbitrage is used to maintain the equity allocation at 65%. Arbitrage is done by giving equal allocation to NIFTY 50 TR index and NIFTY 50 Futures index (short). In case arbitrage is used, 10% of the asset allocated to NIFTY 50 Futures index (short) is additionally allocated to NIFTY 1D Rate index (CBLO component) in order to capture the margin requirement.

Highlights

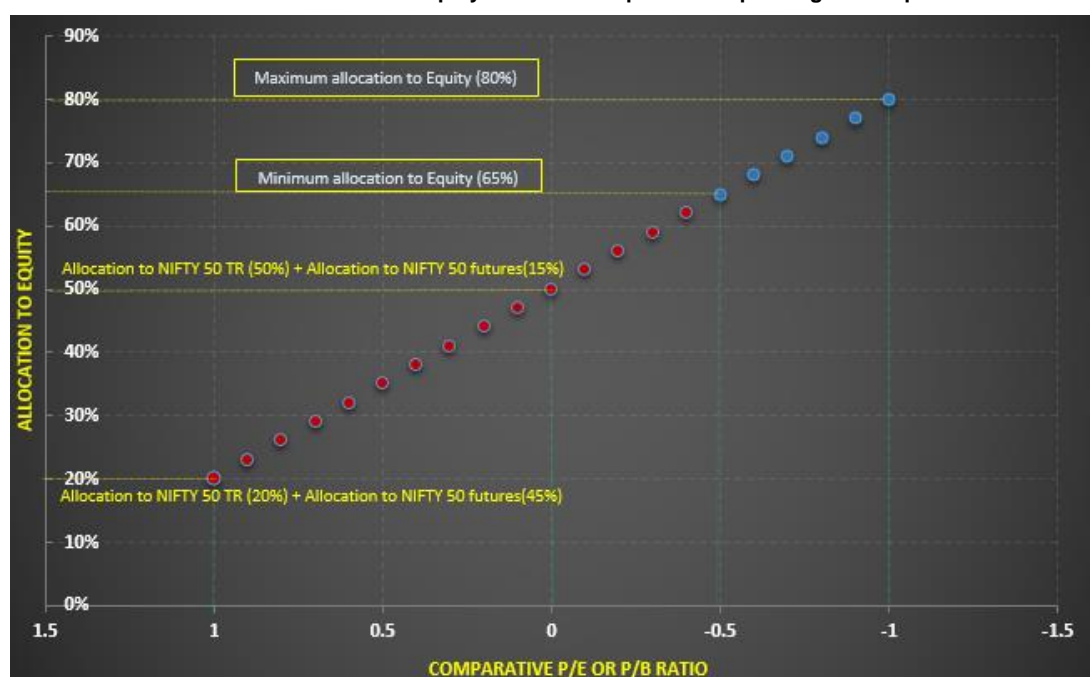
- The Indices have a base date of April 01, 2005 and base value of 1000
- Asset allocation is based on a model that compares current Price-Earnings ratio (P/E) or Price-Book ratio (P/B) with the average, maximum and minimum Price-Earnings ratio (P/E) or Price-Book ratio (P/B) of NIFTY 50 in previous 7 years
- Maximum allocation to equity component is 80% and minimum allocation is 65% (including arbitrage).
- Maximum allocation to debt (including CBLO) component is 35% and minimum allocation is 20%

- In case arbitrage is used, 10% of the asset allocated to NIFTY 50 Futures index (short) is allocated to NIFTY 1D Rate index (CBLO).
- The asset allocation in the index is rebalanced on a monthly basis
- Weights of the equity, fixed income, CBLO and arbitrage component can drift between monthly reset dates due to underlying asset price movement.

Methodology

- The NIFTY Dynamic Asset Allocation Indices present consist of 2 indices namely
 - NIFTY 50 & Short Duration Debt – Dynamic P/E Index where asset allocation is based on the comparison of NIFTY 50 P/E with the average, maximum, minimum P/E of NIFTY 50 in previous 7 years
 - NIFTY 50 & Short Duration Debt – Dynamic P/B Index where asset allocation is based on the comparison of NIFTY 50 P/B with the average, maximum, minimum P/B of NIFTY 50 in previous 7 years
- For both indices, the assets are allocated among following components:
 - Equity component – NIFTY 50 TR Index
 - Debt component - NIFTY Short duration debt index
 - Arbitrage Component – NIFTY 50 TR Index and NIFTY 50 Futures index (short)
 - CBLO Component – NIFTY 1D Rate Index

Exhibit 1: Allocation between equity and debt components depending on comparative ratio



Asset Allocation rules:

In case of NIFTY 50 & Short Duration Debt – Dynamic P/E and NIFTY 50 & Short Duration Debt – Dynamic P/B indices:

- Equity allocation (NIFTY 50 TR) is determined by an asset allocation model which compares the current value of P/E or P/B of NIFTY 50 with the average, maximum and minimum P/E or P/B of NIFTY 50 in previous 7 years
- Maximum allocation to equity component is 80% and minimum allocation is 65%
- In case, the model prescribes an allocation to equity that is lower than 65%, the equity arbitrage is used to maintain the equity allocation at 65%. Arbitrage is done by giving equal allocation to NIFTY 50 TR index and NIFTY 50 Futures index (short)
- In case arbitrage is used, 10% of the asset allocated to NIFTY 50 Futures index (short) is additionally allocated to NIFTY 1D Rate index (CBLO component) in order to capture the margin requirement
- Remaining allocation is given to debt component (NIFTY Short duration debt index), hence maximum allocation to debt (including CBLO) component is 35% and minimum allocation is 20%
- The asset allocation in the index is rebalanced on a monthly basis
- The month over month change in allocation to equity component (NIFTY 50 TR, excluding arbitrage component) by asset allocation model at the time of rebalancing is capped at 10%

Calculation Frequency:

The index is calculated on an end of day basis for all days National Stock Exchange of India is open for trading in equity shares.

Index Governance:

NSE Indices Limited Board has constituted the Index Policy Committee (IPC) to formulate policies governing NSE Indices Limited indices. In addition to IPC, two committees viz. Index Maintenance Sub Committee (IMSC) and Debt Index Management Committee (DIMC) have been constituted. The IMSC is responsible for

periodic review of equity indices based on the policies/ guidelines formulated by the IPC. DIMC takes decisions on the debt indices at NSE Indices Limited. Each of these committees is represented by the industry experts. None of the member in the above committee except the exchange representative(s) (who coordinates between IPC and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained. The Committees comprises representatives from financial market such as Asset Management Company, insurance company, academicians, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website.

About Us

About National Stock Exchange of India Limited (NSE):

The National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the second largest in the world by nos. of trades in equity shares from January to June 2018, according to World Federation of Exchanges (WFE) report. NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: www.nseindia.com

About NSE Indices Limited:

(Formerly known as India Index Services & Products Limited-IISL)

NSE Indices Limited, a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. The company focuses on the index as a core product. The company owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. NIFTY equity indices comprises broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. NSE Indices Limited also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on NIFTY indices have been developed within India and abroad. These include index based derivatives traded on NSE, NSE IFSC, Singapore Exchange Ltd. (SGX) and Taiwan Futures Exchange (TAIFEX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: www.niftyindices.com

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