uti
Retirement Solutions

Annual Report of NPS Schemes

Managed by

UTI Retirement Solutions Limited

For the Financial Year 2021 – 22

Registered Office:	Corporate Office:
UTI Towers 'Gn' – Block Bandra – Kurla Complex Bandra (East) Mumbai – 400051	First Floor, Unit No. 2, Block 'B', JVPD Scheme, Gulmohar Cross Road No. 9, Andheri (West), Mumbai – 400049. Phone: 022 – 68990800

Index

1. Introduction

The National Pension System (NPS) is a '**Government of India**' initiative with an objective of Development of a sustainable and efficient voluntary defined contribution Pension System in India. It is regulated by Pension Fund Regulatory & Development Authority (PFRDA). NPS provides a platform for savings to create a Retirement Corpus (Pension Wealth), to enable subscriber for purchasing Annuity post retirement.

NPS is applicable on a mandatory basis to all Central Government Employees (except Armed Forces) who have joined services with effect from 1st January, 2004. Various State Governments have also introduced NPS for their employees.

The scheme was made open to the general public w.e.f. May 2009. Indian citizens in the age group of 18 to 70 are eligible to open NPS Account. The contributions can be made up to the age of 75 Years. The contributions made by investors are invested in 4 asset classes: E (Equities), C (Corporate Bonds), G (Govt. Securities) and A (Alternate Assets). The investment universe of each of the asset classes along with the investment objective of each scheme is well defined under the heading Investment Objective of Schemes from page 13 to Page 17 of this report.

Types of Schemes available under NPS

Types of Schemes available under NPS for the subscribers, can be divided into two Parts.

i) Schemes available for Government Sector Employees
ii) Schemes available for subscribers under Private Sector (All Citizens model)

UTI Retirement Solutions Limited Mumbai

Schemes available for Government Sector Employees with effect from 1st April, 2019

1. Default Choice

For Government Sector Employees, the default choice has an asset allocation pattern of up to 15% in Equity and the rest in Debt Securities. The detailed Asset allocation pattern for this default choice is as under:

Asset Class	Cap on Investment
Government Securities & Related Investments	Upto 55%
Debt Instruments & Related Investments	Upto 45%
Equity & Related investments	Upto 15%
Asset Backed, Trust Structured etc.	Upto 5%
Short Term Debt Instruments i.e. money market instruments	Upto 10%

This Asset Allocation Pattern is also applicable to Corporate CG Scheme, NPS Lite Scheme i.e. NPS Swavalamban Yojana and Atal Pension Yojana (APY)

In addition to the above, the Government Employees have been given two more choices of Investment Pattern w.e.f. 01st April, 2019 and they are:

2. 100% Government Securities Scheme (Scheme G) : Government Employees who prefer a fixed return with minimum amount of Risk are given an option to invest 100% of their funds in Government Securities i.e. Scheme G
3. Government Employees who prefer higher returns are given the option of choosing any one of the two Life Cycle based schemes i.e. Conservative Life Cycle Fund with maximum exposure of Equity capped at 25% (LC-25) OR Moderate Life Cycle Fund with maximum exposure of equity capped at 50% (LC 50).

UTI Retirement Solutions Limited Mumbai

Age	Moderate Life Cycle Fund (LC-50)			Conservative Life Cycle Fund (LC-25)		
	Asset Class (in %)			Asset Class (in %)		
	E	C	G	E	C	G
Up to 35 years	50	30	20	25	45	30
36 years	48	29	23	24	43	33
37 years	46	28	26	23	41	36
38 years	44	27	29	22	39	39
39 years	42	26	32	21	37	42
40 years	40	25	35	20	35	45
41 years	38	24	38	19	33	48
42 years	36	23	41	18	31	51
43 years	34	22	44	17	29	54
44 years	32	21	47	16	27	57
45 years	30	20	50	15	25	60
46 years	28	19	53	14	23	63
47 years	26	18	56	13	21	66
48 years	24	17	59	12	19	69
49 years	22	16	62	11	17	72
50 years	20	15	65	10	15	75
51 years	18	14	68	9	13	78
52 years	16	13	71	8	11	81
53 years	14	12	74	7	9	84
54 years	12	11	77	6	7	87
55 years and above	10	10	80	5	5	90

Further, the Central Government Employees NPS Subscribers have been given yet another choice from 17th August, 2020 and that is NPS Tier II Tax Savings Scheme (NPS-TTS) – Optional A/C with 80 C benefits.

This NPS-TTS is a composite scheme with the following investment limits:

Asset Class	Limits
Equity	10% - 25%
Debt	0% - 90%
Cash/Money Market/Liquid MFs	0% - 5%

This Scheme will have a lock in period of 3 years from the date of unitization of contributions by CRA.

Further details of the scheme may be accessed from the official website of Pension Fund Regulatory & Development Authority and NPS Trust i.e. www.pfrda.org.in and www.npstrust.org.in.

Schemes Available to Subscribers under Private Sector

Under Private Sector, the subscribers have two choices; **Active Choice** and **Auto Choice** The Active Choice offers flexibility to subscribers to decide the asset allocation between the 4 asset classes namely Equity (E), Corporate Bonds (C), Government Securities (G) and Alternate Assets (A). The subscribers can choose their asset allocation pattern subject to the following limits under Active Choice. They also have the freedom to change their asset allocation pattern twice in a year.

Age (Years)	Cap on Equity (E)	Cap on Corp Bonds (C)	Cap on Govt Securities (G)	Cap on Alternate Assets (A)
Upto 50	75.0 %	100%	100%	5%
51	72.5 %	100%	100%	5%
52	70.0 %	100%	100%	5%
53	67.5 %	100%	100%	5%
54	65.0 %	100%	100%	5%
55	62.5 %	100%	100%	5%
56	60.0 %	100%	100%	5%
57	57.5 %	100%	100%	5%
58	55.0 %	100%	100%	5%
59	52.5 %	100%	100%	5%
60 and above	50.0 %	100%	100%	5%

The subscribers who do not want to choose their asset allocation pattern, can go for Auto Choice where they have choice of three Life Cycle Funds vis a vis Aggressive Life Cycle Fund (LC-75), Moderate Life Cycle Fund (LC-50) and Conservative Life Cycle Fund (LC-25). The asset allocation pattern under these Life Cycle Funds keeps on changing based on their age. The Asset allocation pattern under these Life Cycle Funds are as under:

UTI Retirement Solutions Ltd. Mumbai

Asset Allocation Pattern under Auto Choice

Age	Aggressive Life Cycle Fund (LC-75)			Moderate Life Cycle Fund (LC-50)			Conservative Life Cycle Fund (LC-25)		
	Asset Class (in %)			Asset Class (in %)			Asset Class (in %)		
	E	C	G	E	C	G	E	C	G
Up to 35 years	75	10	15	50	30	20	25	45	30
36 years	71	11	18	48	29	23	24	43	33
37 years	67	12	21	46	28	26	23	41	36
38 years	63	13	24	44	27	29	22	39	39
39 years	59	14	27	42	26	32	21	37	42
40 years	55	15	30	40	25	35	20	35	45
41 years	51	16	33	38	24	38	19	33	48
42 years	47	17	36	36	23	41	18	31	51
43 years	43	18	39	34	22	44	17	29	54
44 years	39	19	42	32	21	47	16	27	57
45 years	35	20	45	30	20	50	15	25	60
46 years	32	20	48	28	19	53	14	23	63
47 years	29	20	51	26	18	56	13	21	66
48 years	26	20	54	24	17	59	12	19	69
49 years	23	20	57	22	16	62	11	17	72
50 years	20	20	60	20	15	65	10	15	75
51 years	19	18	63	18	14	68	9	13	78
52 years	18	16	66	16	13	71	8	11	81
53 years	17	14	69	14	12	74	7	9	84
54 years	16	12	72	12	11	77	6	7	87
55 years & above	15	10	75	10	10	80	5	5	90

Even under Auto Choice, if the subscriber does not make any choice between Life Cycle Funds then the asset allocation would be as per the Moderate Life Cycle Fund (LC-50).

Further details of the same may be accessed from the official website of Pension Fund Regulatory & Development Authority and NPS Trust i.e. www.pfrda.org.in and www.npstrust.org.in.

The funds are invested in accordance with PFRDA guidelines and the Investment Prudential Norms laid down by the Board of Directors of the company with the objective of optimizing returns.

UTI Retirement Solutions Mumbai

2. Operation and future outlook

As on March 31, 2022 the company was managing following 13 schemes:

Sr. No.	Name of Scheme	AUM (₹ in Crore)	
		As on 31/03/2022	As on 31/03/2021
1.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme E – Tier I	1,239.61	871.56
2.	NPS Trust–A/C UTI Retirement Solutions Scheme E – Tier II	69.98	44.13
3.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme C – Tier I	622.87	449.94
4.	NPS Trust–A/C UTI Retirement Solutions Scheme C – Tier II	31.59	20.88
5.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme G – Tier I	1,104.79	805.78
6.	NPS Trust–A/C UTI Retirement Solutions Scheme G – Tier II	53.59	37.07
7.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme A – Tier I*	5.72	3.11
8.	NPS Trust - A/c UTI Retirement Solutions Pension Fund Scheme - Tax Saver- Tier II**	0.46	0.15
9.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme – Central Govt.	70,723.78	60,511.71
10.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme – State Govt.	1,19,847.18	97,045.58
11.	NPS Trust – A/C UTI Retirement Solutions Ltd. – NPS Lite Scheme –Govt. Pattern	1,339.49	1,241.53
12.	NPS Trust – A/C UTI Retirement Solutions Scheme – Atal Pension Yojana	6,879.47	5,178.21
13.	NPS Trust – A/C UTI Retirement Solutions Pension Fund Scheme –Corporate CG	0.00	0.00
	Total	**2,01,918.53**	**1,66,209.65**

* The scheme started its operation w.e.f. 14th October, 2016
** The scheme started its operation w.e.f. 4th September, 2020

With the overall pension coverage in India at around 12% - 13% only, the future outlook of NPS Schemes seems to be very bright. With the additional Tax sops for an investment up to Rs.50,000.00 in NPS under Section 80CCD(1B) and with the tax free withdrawal of 60% of the Retirement Corpus post retirement, NPS is more attractive and tax friendly for the investors.

As per the studies carried out by independent entities from time to time it has been reaffirmed that the Pension Market in India will grow to about ₹ 4064 billion by 2025.

3. Market Outlook for FY 2022 – 23

(a) Equity Market

India is expected to be among the fastest growing economies in world in coming year. Economic activity has gradually inched towards normalcy, after the second Covid wave, driven by unlocking of the economy, waning covid cases and significant progress in vaccination. The Indian economy has shown strength and resilience with key indicators pointing to a robust economic revival driven by the release of pent-up demand, stable financial policies, government's push for capital expenditure, and a normal monsoon. The faster resumption of contact-intensive services has also brightened near-term prospects for the economy. The continuous increase in vaccination coverage has aided recovery and built confidence.

Since February 2022, the global economic and financial environment has worsened with the escalation of geopolitical conflict and accompanying sanctions. Commodity prices have shot up substantially across the board amidst heightened volatility, with adverse fallouts on net commodity importers. Financial markets have exhibited increased volatility. Crude oil prices jumped to 14-year high in early March; despite some correction, they remain volatile at elevated levels. Several central banks, especially systemic ones, continue to be on the path of normalisation and tightening of monetary policy stances. Tightening of liquidity globally may impact FII flows which are expected to be made good by the optimist domestic inflows (SIP per month had witnessed significant growth from Rs.8641cr in March 2020 to Rs.12,328cr in March 2022).

The RBI in its recent policy meet also said that "the escalation of the geopolitical situation and the accompanying surge in international crude oil and other commodity prices, tightening of global financial conditions, persistence of supply-side disruptions and significantly weaker external demand pose downside risks to the GDP outlook. The future course of the pandemic and the uncertainties about the pace of monetary policy normalisation in major advanced economies also weigh on the outlook. Taking all these factors into consideration, the real GDP growth for FY23 is expected to be 7.2 per cent."

While the current crisis has directly/indirectly impacted most of the sectors from a demand/supply chain perspective, we believe that Autos, Consumer, Consumer Durables and Cement have been the most adversely impacted sectors due to the spike in commodity and energy prices. The impact on gross margins for these sectors would be high. On the flipside, Metals and O&G have been the direct beneficiaries due to rising prices, while indirect beneficiaries include export-oriented sectors and non-crude linked sectors. At Nifty 50 Index aggregate level, though the net impact may not be very high but if the situation continues for longer, the consequent higher inflation and demand destruction could impact growth which in-turn could create downside risks to corporate earnings estimates.

Post the strong performance of the global equity markets last year, there was a mixed performance across geographies with India being one of the best performing equity markets globally. Continued outflows from the foreign institutional investors (Rs.2.74trn) during the year had a negative impact despite which the equity markets posted positive returns of 18.9% supported to a large extent by the domestic flows (Rs. 2.21trn). There was a mixed performance too on the sectoral Indices front with Metals, Technology, Cap goods, Realty and Consumer durables outperforming the Nifty 50 Index on 1 year basis.

Going forward, good prospects of rabi output augur well for rural demand. With the ebbing of the third wave and expanding vaccination coverage, the pick-up in contact-intensive services and urban demand is expected to be sustained. The government's thrust on capital expenditure coupled with

Retirement Solutions Mumbai

initiatives such as the production linked incentive (PLI) scheme should bolster private investment activity, amidst improving capacity utilisation, deleveraged corporate balance sheets, higher offtake of bank credit and congenial financial conditions and consequently may provide a benign equity return environment.

Nifty 50 earnings are estimated to grow at 14%-15% CAGR for next two years on base of FY22e (Bloomberg estimates). Given geo-political uncertainty and resultant inflationary environment the economy may face some slowdown in near term. The Nifty 50 Index is trading at a premium to its 10 year average. Our focus is on stock selection – the sectors/stocks which are supported by earnings growth, have strong balance sheet/cash flows and which demonstrated these attributes in the current crisis. Being a long term investor, we believe valuations with a long term perspective continue to remain attractive albeit with some correction in the near term.

(b) Fixed Income Market Outlook:

During FY22, we saw two more waves of Covid, however, the economic impact was progressively lower for both these waves. We saw economic activity improve during the year as witnessed by improvement in GST collections, railway freight, fuel consumption, higher PMI for manufacturing sector and similar other indicators. However, this also meant that the extraordinary measures to support the economy, which also supported the Fixed Income markets, are expected to be withdrawn sooner rather than later.

In February 2022 monetary policy, the RBI was more dovish than expected and it kept the Repo Rate unchanged and also its stance accommodative.

However, the announcements on April 08, 2022 were quite hawkish and more negative compared to market expectation. While RBI kept Repo Rate and Reverse Repo Rate unchanged at 4.00% and 3.35% respectively, it introduced Standing Deposit Facility (SDF) as the floor of LAF corridor at 3.75% for liquidity management. RBI stance continued to be accommodative, but now it is focusing on withdrawal of accommodation to contain risks due to inflation. The RBI Governor also stated later on that the inflation would get precedence over growth now. RBI also revised its inflation expectation for FY2023 upwards to 5.7%, from 4.5% earlier. This was a clear shift from earlier stance from RBI, and consequently yields rose by 15-20 bps across the curve immediately after the policy, with shorter end of the curve rising more than the longer end.

Budget for the year FY2022-23 had relatively conservative assumptions of nominal GDP growth at 11%, and disinvestment target of INR 75,000 crore. However, due to higher outlay for capex at INR 7.5 lakh crore, Fiscal Deficit of 6.4% was quite high and the gross borrowing of INR 14.95 Lakh crore was significantly higher than market expectation. The Government also did not announce any schedule for inclusion of Indian government bonds, which further dampened the sentiment in the market and yields rose across the maturities after budget announcements.

Geo political issues came to the forefront of the global economy with Russian invasion of Ukraine in late February 2022. This led to a significant spike in prices of Crude oil, Nickel, Palladium and many other commodities, sharp movement in many currencies, and outflow of money from Emerging markets towards Developed economies such as US, or European countries. While there are hopes now of a resolution of the conflict, and commodity prices have softened to some extent, the uncertainty still remains and markets may continue to remain volatile.

US Fed raised rates by 0.25% in March policy meeting and with inflation at multi decade high, there is strong chance of US Fed raising rates by 50 bps in the next meeting. As a result, US yields rose sharply in the last few weeks and outlook for yields in US remains negative as of now.

Overall outlook for Fixed Income is somewhat negative due to higher supply of G sec (Gross supply of Rs. 8,45,000 crore in H1FY2023), shift in RBI stance, higher commodity prices and outlook for inflation, and rising bond yields globally.

Strategy

During the year yields continued to rise and we explored various opportunities to reduce duration in our funds. While G sec yields continued to harden, corporate bonds yields especially in the shorter segment continued to be lower due to lower supply of bonds. Hence, we shifted some of our investments on incremental basis to State Development Loans (SDLs), which were available at more attractive level compared to corporate bonds.

Going forward, the Fund investment philosophy continues to remain conservative with focus on high credit and risk parameters with no fresh exposure below AA. We also would explore investment in certain issuers rated AA+ to improve the portfolio yield, where we are comfortable with fundamentals of the business and promoter and management quality.

4. **Liabilities and responsibilities of Pension Fund Manager (PF)**

Liabilities and responsibilities have been incorporated in the Investment Management Agreement (IMA) entered into by UTI Retirement Solutions Limited with NPS Trust, which *inter-alia* includes:

a. The PF shall assume day to day investment management of the Schemes and, in that capacity, make investment decisions and manage the Scheme in accordance with this agreement, the Investment Guidelines, Scheme Objectives, the Deed of Trust and provisions of the PFRDA, rules/ guidelines/ directions/ notifications/ circulars/ regulations and law in force from time to time. The PF shall act as the Investment Manager of the Schemes with respect to the investment and reinvestment of the investible funds including cash, securities and other properties comprising the assets of each scheme organized under the PF with full discretionary authority in accordance with the investment policies set forth in the Deed of Trust and by the PFRDA guidelines/directions from time to time. The transactions entered into by the PF shall be in accordance with the PFRDA Guidelines including the Guidelines for Registration, the Trust Deed and the Code of Ethics prescribed by the NPS Trust.

b. PF shall have regard to the investment guidelines set out in Schedule II when investing and managing the funds. However, nothing contained herein shall amount to the PF having assured any minimum rate of return on the investment.

c. The PF shall maintain books and records and comply with the disclosure requirements specified by PFRDA/NPS Trust from time to time.

d. The PF shall exercise all due diligence, prudence, promptness and vigilance in carrying out its duties and in protecting the rights and interests of the subscribers. The PF shall avoid all nature of speculative transactions/dealing in investments. Investment decisions should be taken by the PF with emphasis on safety and optimum returns.

e. The PF shall not give any undue or unfair advantage to any associates or deal with any of the associates of the Pension Fund in any manner detrimental to interest of the Subscribers.

f. The PF shall be responsible for the acts of commissions or omissions by its employees or the persons whose services have been procured by the PF and shall be liable to compensate for such acts of commissions or omissions.

5. Investment Objectives of NPS Schemes

The investment objective of the scheme is primarily to provide optimum returns through growth in the NAV. The Fund invests in accordance with PFRDA Investment Guidelines and Internal Investment norms laid down by the Board of Directors. The

Fund follows a conservative style of management offering stable returns with low volatility and more weightage to higher rated and longer duration investment options.

The investment objectives of NPS Schemes are as under:

Sr. No.	Name of Scheme	Investment Objective
1.	Scheme E – Tier I & Scheme E – Tier II	To optimize returns through investments in:- (a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on the date of investment. (b) Units of Equity Schemes of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body, corporates listed on BSE or NSE. (c) Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index. (d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates. (e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging. (f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI.

UTI Retirement Solutions Limited Mumbai