

## **SBI FUNDS MANAGEMENT LIMITED**

### **STEWARDSHIP CODE**

#### **INTRODUCTION**

SBI Funds Management Limited's (SBIFML) vision is to be a trusted and respected Asset Manager by being an ethical, responsive and innovative partner in investment solutions. The AMC's fiduciary responsibilities towards its clients include long-term wealth creation, protection of interest of investors and risk mitigation; and towards the community at large include matters of social, governance and environmental factors. At SBIFML, it is a core belief that a business run in best interests of all stakeholders seldom fails to create lasting value for its investors. This responsibility of not trying to maximise short-term profitability, but ensuring optimisation of long-term return and risks is well elucidated in our Responsible Investment Policy. The Stewardship Code is a natural extension of the AMC's responsibility to protect and enhance the long-term economic value of our clients' assets.

This Stewardship Code is applicable for Listed Equity covered by Mutual Fund as well as AIF (Alternative Investment Fund) activities undertaken by SBI Funds Management Limited.

**Principle 1: Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.**

SBIFML stands by the principles of responsible investment and uses a robust framework to overlay financial analysis with ESG analysis for every stock covered by the AMC. The **Responsible Investment Policy** details the procedures used internally to apply the ESG lens on the investee companies and the proxy voting system.

The processes to identify, monitor and engage with the investee companies are already in place at the AMC. The primary stewardship responsibilities undertaken are as follows:

1. **Monitoring:** SBIFML shall continue to monitor every investee company on its financial performance, short, mid and long-term business strategy and Corporate Governance (especially board structure, constitution and directors' remuneration). The AMC shall also continue to monitor the Environmental and Social risks and initiatives taken by the investee companies to manage the risks effectively along with any other ESG related, or financial anomalies, irregularities or controversies that the investee company may be involved in.
2. **Engagement:** SBIFML shall continue to engage with the investee companies in the following manner:
  - a. Primary intimation of issues identified/expected through emails/letters
  - b. Meetings with management, board or relevant personnel to identify, deliberate on and find possible solutions to the issues
  - c. Provide help with respect to successful examples/case studies from national/international peers
  - d. Continued discussions to formalise a better process to fill existing gaps

- Voting:** SBIFML considers voting to be an important shareholder right and a valuable tool in the engagement process and to vote on all resolutions of investee companies, which are critical for protecting and enhancing the investors' interests. The AMC shall compulsorily cast votes for all schemes of mutual fund. Although, the AMC may use proxy voting advisory services from reputed service providers to help analyse company proxy materials and statements, however, all final voting decisions are taken in house by Proxy Voting Committee, in consultation with analyst team or the portfolio manager/s or such other persons as it felt necessary. The Committee shall at all times have the discretion to decide to exercise a vote for or against the proposal in line with the Policy. These voting decisions and the process undertaken to arrive at the decision is uploaded on the AMC's website (Proxy Voting Policy). The AMC shall continue to engage with and vote on the various resolutions by the investee companies with related disclosures being made available online.

**Incorporating the ESG Lens:** SBIFML shall continue to enhance internal capabilities to identify risks/opportunities for investee companies and continue to engage with external entities for provision of in-depth insights on ESG ratings. The AMC has also subscribed to ESG rating providers (ERPs), one global and one domestic, where both provide customised frameworks for sector specific ESG analysis. The domestic ERP, being empanelled by AMFI, is in the process of covering top 1000 listed companies as these companies are mandated to disclosure ESG data under the Business Responsibility and Sustainability Reporting (BRSR) framework from 2023. Periodic calls and meetings with external experts will aid the training and capacity building of in-house team. Information dissemination will continue between teams through emails, and ESG sessions with the investment team.

- Public Policy & Market-wide Initiatives:** SBIFML seeks to influence and address thematic, sector and market related issues that could impact the performance of its investments. The AMC actively engages with the regulators and other stakeholders on policy advocacy matters. Active contributions are made to consultations and industry debates on these topics. SBIFML participates in various forums to share knowledge as well as create awareness regarding the experience of ESG integration and the roadmap ahead.
- This Stewardship Code highlights SBIFML's stewardship responsibilities. The Code will be made available on SBIMF website and will be reviewed on a periodic basis.

A training program shall be formulated for training of Investment team explaining the responsibility under the Code along with amendments, if any. This may be done through external agency or internal team presentations.

**Principle 2: Institutional Investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**

SBIFML has designed the Policy for Management of Conflict of Interest to ensure that the interest of the client/beneficiary is placed before the interest of the AMC.

The policy shall be reviewed and updated by the Committee constituted for management of Conflict of Interest, which constitutes Deputy CEO, Chief Risk Officer and Chief Compliance Officer. Chief Investment Officer – Equity / Chief Investment Officer – Fixed Income / Chief Investment Officer – Alternative (for matters relating to PMS & AIF) will be a permanent invitee to this committee.

SBIFML will identify actual or potential conflict of interest situations and shall manage them in line with the Policy.

### **1. Identifying conflict of interest:**

While dealing with investee companies, SBIFML may be faced with a conflict of interest, in an instance, where the investee company holds a material interest, in the overall business or is a distributor for the AMC. There may be a conflict of interest if a nominee of the AMC has been appointed as a director or a key managerial personnel of the investee company, or the AMC and the investee company are part of the same group. SBIFML would look out for any other situations that may potentially lead to a conflict of interest. Individual employees holding stocks of the investee companies may also face conflict of interest when dealing with the same companies on behalf of the AMC.

### **2. Managing Conflict of Interest:**

In order to ensure the protection and primacy of client's interests and to comply with the applicable regulations, SBIFML has implemented policy and procedures aimed at preventing situations involving conflicts of interests and resolving such situations should they arise.

SBIFML manages the potential conflict of interest situations as under:

- a) All decisions pertaining to votes will be taken in the best interest of the unit holders of SBIFML. In instances where the investments are in the group companies of the AMC or the investee company has substantial investments in the schemes of SBI Mutual Fund, the Proxy Voting Committee will specifically review all such proposals and will take voting decisions in the best interest of unit holders in line with the policy.
- b) While voting for the parent of SBIFML or a company of the same group, it will be made sure that any employee nominated by the parent does not form part of the Proxy Voting Committee for that decision.
- c) There will be a clear segregation of the voting function and sales functions. No sales team member shall form part of the Proxy Voting Committee.
- d) In the usual course of AMC's business, any services engaged with investee companies including associates, sponsor & group companies shall be selected in the best interests of the AMC/AMC's clients. The services shall be selected on an *arms-length basis* and based on policies adopted by SBIMF, SBIMFTCPL & SBIFML under direction & supervision of the Board of Directors of AMC & Trustee Company, if required.
- e) The policy will allow for persons to recuse from decision making in case of the person having any actual/potential conflict of interest in the transaction.
- f) For all matters related to Proxy Voting, the Proxy Voting Committee will take decisions keeping in view the conflicts.

- g) For all other possible instances of conflict, the Committee constituted for management of Conflict of Interest will decide the course of action.
- h) For managing internal conflicts of interests between teams and employees, the following steps have been taken:
  - i. Segregation of Functions: All permissible activities are clearly segregated, structured and carried in such a way so that potential conflicts of interests, if any, can be avoided. Further, all such activities are subject to compliance of applicable regulations.
  - ii. There are clear Chinese Walls within the Investment Management Division of the different activities carried by the SBIFML. The operation of a Chinese wall involves a range of practices including the segregation of data and computer systems, as well as physical separation of certain areas to ensure effective separation.
  - iii. A Code of Conduct & Employee Dealing Policy has been adopted for Directors, Key Personnel and Senior Management. A Code of Ethics has been adopted for all employees which provides general code of conduct, obligation, non-disclosure & protection of confidentiality of information including code for trading in securities & procedure for handling of Unauthenticated Market Related News or rumours.
  - iv. All employees shall comply with the Code of Conduct for Prevention of Insider Trading in compliance with SEBI (Prohibition of Insider Trading) Regulations.
  - v. Best Execution, Trade Allocation & Market Error Policy has been adopted to ensure fair allocation of trades executed for SBIFML's clients under all its businesses for whom the AMC has fiduciary responsibility.

Measures to prevent and manage Conflicts of Interests have been outlined in detail in the following policies:

1. Policy for Prevention and Management of Conflict of Interest
2. Code of Conduct and Employee Dealing Policy
3. Code of Ethics
4. Proxy Voting Policy
5. Best Execution, Trade Allocation and Market Error Policy

### **Principle 3: Institutional Investors should monitor their investee companies.**

1. The Fund Management & Research Team (referred as investment team) is responsible for the monitoring of the investee companies' performance. The investment team considers the investee companies' business strategy, financial performance, capital structure, leadership effectiveness, succession planning, corporate governance, ESG initiatives, disclosures and other parameters they consider important while making investment decisions. Corporate Governance parameters especially include board composition (with respect to independence and diversity), size and quality (with respect to leadership and credentials of the board members), director remuneration and related party transactions. Any instances of violation of shareholder rights and their grievances are also actively monitored.
2. The investment team carries out financial analysis of the investee companies, engages with the senior management/investor relations officials or the Chief Financial Officers

(CFOs) or any other management personnel/promoters of the investee companies as part of the research process that could lead to an investment in an investee company.

3. Once an investment is made, the investment team continues to monitor each investee company. As a part of this process, the fund manager/analysts, where feasible, attend meetings/conference calls conducted by the management of the investee company. Fund Managers and research analysts also use publicly available information, sell side research and industry information and endeavour to engage with the investee companies at least once a year, through any means detailed above. SBIFML uses an internal classification for assigning priority to investee companies on the basis of various parameters including their size. Investee companies where SBIFML has higher interest involves higher levels of monitoring as compared to companies where there is a lower interest. Details of the discussions, meetings etc. are maintained in an internal portal which ensures accountability and transparency in monitoring systems.
4. SBIFML's ESG analysts along with the equity analysts covering the companies monitor the ESG Ratings of the investee companies (provided by external agencies) and also use available disclosed information to arrive at an ESG Scoring with SBIFML's own questionnaire. In cases where enough disclosures on ESG parameters are not available, the analysts engage with the investee companies to get the information and in the process encourage companies to disclose ESG related information.
5. ESG Ratings of all investee companies are monitored for possible upgrades and downgrades and discussed in monthly ESG Review Presentations that are circulated to the ESG Committee Members. Any events concerning the investee companies (mergers, acquisitions, controversies, new launches, employee layoffs, strikes etc.) are also regularly tracked and are included in the ESG Review Presentations.
6. SBIFML participates in collaborative engagements with other domestic as well as foreign institutional investors as part of various initiatives like UN PRI, Climate Action 100+, etc. and engages with associations like Association of Mutual Funds in India (AMFI), with regulators and other stakeholders on policy advocacy matters.
7. The AMC has adopted Code of Conduct and Employee Dealing Policy which is established to control in dealing where a person comes into possession of unpublished price sensitive information ("UPSI") of the investee companies. Under this framework, detailed controls and processes are specified to be followed in case any person is in possession of UPSI. While engaging with the investee companies, in case we receive information i.e., material non-public information/ Unpublished Price Sensitive Information (UPSI). We do not pursue or seek for UPSI, however, if we are in receipt of UPSI, we shall follow our internal process as outlined in our Policy. Investment team has to strictly adhere to the Code of Conduct and Employee Dealing Policy.

**Principle 4: Institutional Investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.**

SBIFML would intervene in its investee companies, on a case-to-case basis, wherever it deems necessary. The decision in this regard will be taken by the Committee consisting of CIO - Equity, CIO - Fixed Income, respective Fund Managers(s), ESG analyst(s), Chief Risk Officer, Chief Compliance Officer or any other official(s) as invited.

### **1. Identifying possible circumstances of active intervention:**

- a. Poor financial performance of a company
- b. Poor corporate governance practices
- c. Improper Director/Executive remuneration
- d. Leadership issues
- e. Inequitable treatment of shareholders
- f. Poor business strategy
- g. Prevailing ESG Risks
- h. Lawsuits/Litigations
- i. Poor disclosures (insufficient as per regulatory requirement)
- j. Non-compliance with regulations
- k. Any other important issue

### **2. Mechanism of intervention and regular assessment of outcome of intervention**

The decision for intervention shall be decided by the Committee on a case-to-case basis, based on all available facts of the investee company at that point of time.

- a. **Engagement:** Sending letters to individual investee companies, one-to-one meetings with the management team, engagement with specific teams etc. to resolve any concerns including steps to be taken to mitigate such concerns.
- b. **Re-Engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by SBIFML within a reasonable timeframe, the AMC shall take all reasonable steps to re-engage with the management to resolve its concerns.
- c. **Collaboration:** The AMC shall also consider collaboration with other institutional investors, professional associations like AMFI, regulators, and any other entities it deems necessary for a collective engagement or joint representation with the investee company.
- d. **Escalation:** In case there is no progress despite the above three steps, SBIFML may engage with the Board of the investee company (through a formal written communication) and elaborate on the concerns. Further, the AMC may take appropriate steps to resolve the concerns including exiting its investments.
- e. **Voting:** SBIFML will vote against in case the governance practices of the investee company are improper.



- f. **Legal Recourse:** SBIFML may take a legal recourse against a company if deemed necessary instead of exiting its investment.
- g. **Blanket Bans:** SBIFML may consider extending a blanket ban on a section of companies or create a list of black-listed companies as required if there is no engagement or improvement from the companies' side.

### 3. Engagement Process and Levels:

SBIFML prioritizes companies for engagement through the course of a financial year based on high shareholding, and low ESG scores. However, based on requests from investee companies and due to any concerns, that are noticed through the year, ad-hoc engagements are added. The AMC reaches out to the companies via letters, emails or queries using various forums and meetings to raise ESG related issues. At least one meeting with the company, where ESG issues are discussed as considered as level 1 engagements. If a second meeting is held to discuss the ESG issues further, it is considered as level 2 engagement. Materiality assessments where SBIFML participates are considered level 2 engagements as they help companies define their ESG strategies. Level 3 engagements are those in which more than two meetings have been held to discuss the ESG issues in depth, or an outcome has been achieved. These outcomes can vary from improvement in ESG ratings of the firm, increased disclosures by the firm, improved initiatives by the firm, voting by the AMC based on their ESG initiatives or divestment or reduction in position due to ESG issues etc.

Select case studies from the engagements are presented in the Stewardship Report. Engagements can be a multi-year process, therefore SBIFML team keeps engaging with companies continuously when objective-led engagements are undertaken. SBIFML team records and circulates meeting notes as it not only helps to understand the progress in an engagement but also helps during ESG Audits.

#### Principle 5: Institutional Investors should have a clear policy on voting and disclosure of voting activity

SBIFML exercises its voting responsibilities for its investments through the corporate proxy voting process available to its members. When voting proxies, SBIFML shall take utmost care to ensure that all decisions are made solely in the interests of the funds/unitholders and with the goal of maximizing the value of their investments. However, at no point in time does it intend to participate directly or indirectly in the management of the companies. The details of the voting process is available in the **Proxy Voting Policy**.

- a. SBIFML has constituted a **Proxy Voting Committee** comprising of Senior Officials of the AMC. The Committee has the final authority to decide upon exercise of votes.
- b. Voting decisions are made in accordance with the AMC's **Proxy Voting Policy** available on its website.
- c. The Committee votes against resolutions that are not consistent with the company's voting policy including sustainability, growth prospects and profitability, impact on shareholder's value, governance issues, impact on minority shareholder's interest, impact on environment, impact on stakeholders like employees, customers, suppliers and surrounding community etc.
- d. SBIFML has subscribed to services offered by **domestic unaffiliated third-party research firm(s)** to receive analyses and recommendations on the shareholder

- meetings of companies. These analyses are reviewed and studied before taking a final voting decision. However, the Committee may / may not agree with the recommendation. In any situation, the decision of the Committee is regarded as final.
- e. The Proxy Voting Policy also provides the mechanism to deal with situations of conflict of interest, arises if any.
  - f. The voting decisions are recorded appropriately. The Committee may at discretion periodically reviews the internal mechanism for the control process for implementation of its decisions on voting The AMC has an option to cast its votes by electronic means.
  - g. Voting exercised along with the rationale supporting their voting decisions is **disclosed on a quarterly basis** within ten working days from the end of the quarter in the format prescribed by SEBI as amended from time to time.
  - h. A **summary of the voting exercised** across all the investee companies and its break-up in terms of total number of votes cast in favour or against is also uploaded.
  - i. The AMC discloses the proxy voting exercised on an annual basis in the Annual Report of the Schemes of SBI Mutual fund along with due certification from the 'scrutinizer' in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof.

#### Principle 6: Institutional Investors should report periodically on their stewardship activities

- a. SBIFML shall report to its clients/beneficiaries annually on how it has fulfilled its stewardship responsibilities as per this Stewardship Code in an easy-to-read format.
- b. As per SEBI's letter no SEBI/HO/OW/IMD-II/DOF3/P/5249/2022 to AMFI dated February 8, 2022, initiatives related to stewardship like monitoring, engagement and voting of companies under ESG Scheme i.e. SBI Magnum Equity ESG Fund will be provided in a separate section of the Stewardship Report
- c. The AMC understands that compliance with the principles of the Stewardship Code does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding when it is in the best interest of the clients/beneficiaries.
- d. SBIFML will report on each principle annually. While Voting will continue to be reported separately on a quarterly basis, the rest of the principles will be reported annually.
- e. Any updations in this Stewardship Code will be disclosed on the website.
- f. The disclosures will also be sent as a part of annual intimation to the clients/beneficiaries.

#### **REVIEW:**

The Code will be reviewed by the Board of Directors of the AMC and Trustee Company from time to time as may be necessary.

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