

# Responsible Investment Policy

## I. Responsible Investment Approach

At SBI Funds Management Limited (SBIFM), our vision is to be a trusted and respected Asset Manager. Our mission is to be an ethical, responsive and innovative partner in investment solutions. As an asset manager, our fiduciary responsibilities towards our clients include long-term wealth creation and risk mitigation, and towards the community at large including matters of social, governance and environmental factors. At SBIFM, as part of our fiduciary responsibility, value system and risk management strategy, it is our core belief that a business, run in best interests of all stakeholders seldom fails to create a lasting value for its investors. This responsibility can be best served, not by trying to maximise short-term profitability, but by ensuring optimisation of long-term return and risks.

Our belief is that a Responsible Investment (RI) approach is perhaps the best way to ensure longer term wealth creation for our clients. We expect the regulatory framework to evolve towards increasing transparency and increased efforts towards environmental sustainability. We expect many corporations to start reporting and go beyond their mandate to create positive value within the matrices of environment and society in which they operate. SBIFM actively encourages the integration of ESG criteria in the investment process.

## II. Responsible Investment Foundation

At SBIFM, we showcase our commitment to responsible investment paradigm by supporting various national and international initiatives that aspire for long term sustainability. Some of the initiatives are as follows:

- UN Principles for Responsible Investments (UNPRI): We are signatories to the UNPRI and are thus committed to integrating ESG factors into our investment analysis, decision-making processes and asset management practices.
- Climate Action 100+: We are signatories to the CA100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
- We were the first large mutual fund in India to voluntarily adopt CFA Institute's Asset Manager Code of Conduct.
- We are a part of the India-UK Sustainable Finance Working Group and two sub-groups: Policy and Taxonomy; ESG and Capital Availability
- We are a part of the Green Finance Leaders' Consortium, a group that endeavours to aid the evolution of the green finance ecosystem in India
- We have been an active member of the India Focus Group (CII <IR> Lab) to promote "Integrated Reporting" in India.
- We are supporters of the Paris Agreement and Taskforce on Climate Related Financial Disclosures (TCFD)
- In resonance with our efforts to integrate ESG within our reporting framework, we launched our first Integrated Report in September 2019. Our Integrated Reports can be accessed on our website.
- We were among the earliest asset managers to start voting on company resolutions and also to engage proxy advisory firms. Increasingly, our focus has been on active engagement with investee companies on ESG related issues.
- We launched 'SBI Growth with Values Portfolio' focused on ESG and SRI principles, now renamed as SBI ESG Portfolio, under our Portfolio Management Services in 2016. One of our flagship

mutual fund schemes, SBI Magnum Equity Fund, has been re-positioned as SBI Magnum Equity ESG Fund, the first ESG fund in Indian Mutual Fund Industry.

- We were the first Asset Management Company in India to adopt a Stewardship Code in February 2020 and were awarded the ICGN Global Stewardship Champion Award in 2020 for our stewardship initiatives.

### III. Responsible Investment Strategy

The Responsible Investment strategy of SBIFM is focused on three core areas:

- **Integration:** We seek to include material environmental, social and corporate governance (ESG) considerations within the investment decision making processes.
- **Engagement, voting and stewardship:** We wish to fulfil our obligations as an active owner and use our influence as a major institutional investor to promote good ESG practices.
- **Market transformation activities:** We engage with various stakeholders including policy makers, regulators, industry bodies, market participants and media to create a supportive ecosystem for responsible investing.

The responsible investment strategy applies to all markets and all asset classes. We have integrated responsible investment considerations in the investment appraisal for equities since 2011. Since April 2022, the ESG integration lens has been expanded to Fixed Income asset class too.

#### III a. ESG Integration in Investment Decisions

At SBIFM, we integrate ESG factors into our research and investment decision making process. ESG research focuses on the critical environmental, social and governance factors which can have a material impact on the long-term sustainable performance of the company. We firmly believe companies with improved management of ESG practices, can optimise their business models thereby increasing productivity, creating a distinct competitive advantage and increasing consumers' brand trust to deliver sustainable shareholder value. It also presents an avenue to effectively manage risks as well as take advantage of opportunities. This will not only unlock greater value for the company and its shareholders, but also contribute to the desirable social and environmental outcomes we believe in.

SBIFM has developed a fundamental, bottom-up investment framework to evaluate companies on ESG for its equity investments. ESG analysis is a mandatory component of our equity initiation reports. The first step involves a thorough financial analysis through SBIFM coverage. This is followed by an in-depth ESG analysis to determine final investment recommendations. We have a two-pronged approach for integrating ESG considerations in our equity portfolio:

- **Internal Framework for ESG integration:** We have formulated an internal framework to score the ESG performance of every company in our coverage. Our ESG analysis is based on a *Best-in-Class approach*. The methodology consists of scoring companies on their ESG practices on 50 parameters related to a firm's disclosures on environmental, social and governance initiatives and aims at assessing its compliance as well as pro-active readiness for ESG issues on a scale of 1-100. The scores are assigned based on data available through primary and secondary sources. Sources of information include engagement with companies; websites, Annual Reports, Business Responsibility Reports (BRRs), Sustainability Reports and Integrated Reports of the companies; research materials published by sell-side, proxy voting or ESG rating agencies; third party databases like CDP, GRI etc. As mandated by SEBI, companies' Business Responsibility and Sustainability Reports (BRSRs) are also taken into account.

Material issues (key ESG factors) like carbon emissions, air emissions, waste management, water consumption, afforestation, effluent management and energy efficiency etc. are covered under the *environment* segment. The *social* aspect is assessed on the disclosures related to their relations with community, and workforce, especially with reference to diversity, wage, health and safety issues. We also have a firm belief that good *governance* is the key to a sustainable organisation, and therefore, we evaluate the board composition, accounting and audit quality and disclosures, anti-corruption policies etc. to assess their governance practices. Though overall ESG integration is the “best in class approach”, we also apply an exclusion methodology for our ESG specific funds. SBI Magnum Equity ESG Fund excludes sectors with negative social connotation like alcohol, tobacco, adult entertainment, gambling and controversial weapons and also screens the lowest rated/scored companies as flagged by the external rating providers. From April 2022, the same ESG integration lens has been applied on the fixed income universe where FI analysts and ESG analysts carry out ESG assessments of the issuers to integrate these in investment decisions. The internal ESG assessment framework of SBIFM is being used for the process along with the third party ESG Rating provider’s ESG scores.

- **External Agency rating on ESG performance:** We have partnered with both domestic and international service providers who rate companies on the basis of their ESG risk profiles and management initiatives. Risk profiles are determined on the basis of their business and geographic locations. The rating takes into account all environmental, social and governance issues material to the company. This provides us in depth data to assess a company’s performance year-on-year and across its sectoral peer groups.
- **Investment Process and Philosophy for ESG Fund:** The SBI Magnum Equity ESG Fund is benchmarked to the NIFTY 100 ESG index. The universe for the Fund are all listed entities as allowed under SEBI’s letter to AMFI on ESG Schemes’ Disclosures. As a first step, five sectors that the fund believes have a socially negative connotation are excluded viz. alcohol, tobacco, adult entertainment, gambling and controversial weapons. As an added layer of exclusions, companies which have the lowest rating/scoring on the third-party rating agency’s or SBIMF’s internal framework are excluded from the fund. The remaining stocks are assessed based on their financial and ESG performance and best-in-class stock selection strategy is employed to select stocks.
- **ESG Related Real World Outcomes for ESG Fund:** In the SBI Magnum Equity ESG Fund, the investments have been designed to generate a beneficial ESG/sustainability impact alongside a financial return. The Fund’s intended 'real world' outcomes related to Integration strategy include:
  - a. Avoidance of flow of funds to socially negative sectors like tobacco, alcohol, adult entertainment, gambling and controversial weapons (to the maximum extent possible)
  - b. Engagement with constituent companies on relevant, material ESG issues regularly to create positive impact in the long term
- **Due Diligence on ESG Funds:** The ESG Analysts review the portfolio of the SBI Magnum Equity ESG Fund and identify the investible universe with respect to sectoral exclusions, and the lowest rated/scored companies on ESG framework. The list of investible universe along with the list of exclusions is circulated monthly to the Fund Managers and to the Risk Team. The Risk team then uses these lists to block any transactions in the excluded entities through the internal software. As an additional step, in accordance to the latest guidance provided in SEBI’s letter to AMFI on ESG Schemes’ Disclosures, from October 1, 2022, SBIFM shall only invest in securities which have Business Responsibility and Sustainability Report (BRSR) disclosures. The AMC understands that the existing investments in the schemes for which there are no BRSR disclosures would be

grandfathered by SEBI for a period of one year i.e., till September 30, 2023. For the Fund's overseas securities, SBIFM will choose any global equivalent of the BRSR which will be specified by Association of Mutual Funds in India (AMFI). Relevant provisions will be made to ensure due diligence on this new aspect for the fund going forward.

While, SBIFM conducts this due diligence to the best of its abilities, there are limitations in this process. There is a risk of green washing by the constituent companies. The data may also have differences in quality and quantity year-on-year which may hamper assessments. As the field is evolving fast, newer ESG factors may be added or deleted in our assessment framework leading to rating changes. ESG rating agencies also differ in their opinion on the performance of companies and may provide contrary views.

### III B. Engagement and Voting

Engagement and voting at listed companies have been core RI activities at SBIFM. As an institutional investor that takes its fiduciary duty and stewardship obligations seriously, SBIFM is an active owner and considers the effective management and board oversight of ESG issues to be integral to long-term performance. SBIFM monitors investee assets and actively encourages responsible environmental, social and corporate governance practices and behavior.

#### **Engagement:**

The investment team monitors and engages with the investee companies on ESG matters. Engagement can take many forms, such as audio/video or written communication with individual investee companies, participating in collaborative engagements or one-to-one meetings with the investee companies' management team.

The aims of individual engagements can also vary, including for example:

- Stewardship engagement to monitor assets and ensure appropriate ESG standards are being applied.
- Relationship engagement to ensure that SBIFM develops a strong relationship with management, as a long-term investor.
- Active engagement to encourage change in order to see material value enhancement or ESG risk reduction. Some of the issues that we focus during such dialogues are:
  - Improvement in ESG standards and disclosures
  - Importance of sustainability initiatives and transparency, with relevance to their business
  - Peer comparison and global/national positioning with respect to sectors
  - Evolving regulatory frameworks with an increased focus towards ESG

SBIFM undertakes all the above forms of engagement on a continuous basis and as appropriate. The engagements may be proactive or reactive. Engagements may be event driven or undertaken in response to specific opportunities such as collaborative initiatives led by other investors. SBIFM also prepares and provides compendiums of relevant global as well as domestic best practices to encourage learning and knowledge sharing, if and when required.

Engagement priorities are determined by the investment team considering our stakes in the companies as well as their weights in various benchmark indices. For example, the engagement is much more intense with companies where the cumulative shareholdings of portfolios managed by SBIFM of the company's equity is higher. Also, specific issue-based engagements are undertaken under various collaborative agreements that SBIFM is a part of or in cases where an issue is identified as material across the companies.

**Voting:**

At SBIFM, we consider shareholder voting to be an important shareholder right and a valuable tool in the engagement process and endeavour to vote on all board resolutions of investee companies which are critical for protecting and enhancing the investor's interests. While we use proxy voting advisory services from reputed service providers to help analyse company proxy materials and statements, all votes are confirmed in house by the analyst team, in discussion with the portfolio manager/s. An additional layer of discussion with the research analysts from ESG Team has been added to the voting process, where there are discrepancies between views of analysts and the proxy advisors. This has been done to ensure transparency, upkeep of good governance practices and to remove any personal bias from the analyst decisions. The final decision on voting is taken by the Proxy Voting Committee. We aim to vote in an informed and pragmatic manner, taking into consideration a company's unique circumstances. We take into consideration any additional information we may receive from the company before making a final decision.

**III c. Public Policy & Market-wide Initiatives**

At SBIFM, we seek to influence and address thematic, sector and market related issues that could impact the performance of its investments. We actively engage with the regulators and other stakeholders on policy advocacy matters. We also actively contribute to consultations and participate in industry debates on these topics. We also participate in various forums regarding our experience of ESG integration and the roadmap ahead as a means to share knowledge as well as create awareness.

**IV. ESG specific resources****ESG Committee:**

SBIFM has set up an ESG committee comprised of both the Chief Investment Officers of Equity and / Fixed Income, Head of Research, Fund Managers of ESG Funds and dedicated analysts focusing on ESG. The investment universe is scanned and reviewed on a monthly basis by a dedicated ESG Committee. The ESG Committee also reviews and guides the team managing ESG compliant strategies in various aspects of ESG Integration and engagement with investee companies.

The monthly ESG Committee Review meetings take stock of the progress on ESG activities periodically. Following activities are undertaken in the periodic review meetings:

- Discussion on broader ESG trends, controversies and ESG performance of investee companies
- Tracking ESG scores and rating movements of companies in the investment universe
- Progress on deliverables of international commitments like UNPRI and CA100+
- Tracking and reporting the progress on engagement initiatives with investee companies
- Brainstorming on new ideas and strategies to initiate more companies on ESG disclosures and performance benchmarking
- Deliberating on new avenues of national and international cooperation for mainstreaming ESG initiatives
- Discussion on new ESG trends/regulations in the country and future actions for the committee
- Agenda and deliverables for next committee meeting

**Proxy Voting Committee:**

We have a high-level committee for Proxy Voting. The Committee is chaired by the Managing Director & Chief Executive Officer (MD&CEO) and constitutes of the Deputy CEO, Chief Investment Officers (CIOs), Chief Risk Officer (CRO), Chief Compliance Officer & Company Secretary and the Vice President

of Investment Process and Risk Control (VP-IP&RC). In the absence of the Chairperson, the Committee can be chaired by the Deputy CEO or the CIOs and requires a quorum of at least four members. For the voting process, at least three signatures are required, one of which should be of either the MD&CEO, Deputy CEO or the CIOs with the rest two from the other committee members.