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# **Stewardship Policy (Equity)**

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**Of**

**Bandhan AMC Limited**

**(formerly known as IDFC Asset Management Company Limited)**

**Investment Manager to Bandhan Mutual Fund**

**(formerly known as IDFC Mutual Fund)**

**Document Version Control**

Date	Author	Reviewed by	Version	Change Reference
February 6, 2020	-	Sanjay Lakra	V1/2020	Initial Set Up
October 30, 2020	Hitesh Surati	Sanjay Lakra	V2/2020	Change of threshold level for intervention
October 28, 2021	Hitesh Surati	Sanjay Lakra	V2/2021	No Change (Annual Review)
October 19, 2022	Rashmi Ranade	Sanjay Lakra	V2/2022	No Change (Annual Review)
May 11, 2023	Rashmi Ranade	Sanjay Lakra	V2/2023	No Change (Annual Review)
May 10, 2024	Vratika Sardesai	Vijayalaxmi Khatri	V2/2024	Policy document format alignment

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## STEWARDSHIP POLICY

### Background and Rationale

With increasing importance of institutional investors in capital markets across the world, they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies. Such activities are commonly referred to as Stewardship Responsibilities of the institutional investors and are intended to protect their clients' wealth. Such increased engagement is also seen as an important step towards improved corporate governance in the investee companies and gives a greater fillip to the protection of the interest of investors in such companies.

Bearing this in mind, SEBI, vide its Circular No. CIR/CFD/CMD1/168/2019 dated December 24, 2019, has laid down a '**Stewardship Code**' which shall be followed by all Mutual Funds and AIFs, in relation to their investment in listed equities. The Stewardship Code consists of six broad principles and guidance on each principle.

### Objective

The purpose of this policy is to describe the approach taken by Bandhan AMC Limited ("**the AMC/Bandhan AMC**") to stewardship and in particular how its policies and procedures meet the requirements of Stewardship Code laid down by the Securities and Exchange Board of India ("**SEBI**"). The purpose of the Stewardship Code is to enhance the quality of communication between institutional investors and companies to protect the interests of investors in such companies and proper exercise of governance responsibilities.

### Scope

The Policy covers following processes:

- Discharging stewardship responsibilities
- Managing conflict of interest
- Monitoring investee companies
- Intervention in investee companies, escalation process
- Collaboration with other institutional investors
- Proxy Voting / Proxy Voting Committee
- Periodical Disclosures

### Policy Development and Review Procedures

#### a. Policy Owner

The custodian of the document is Head – Equity, Head - Quantitative Investments and Head – Legal and Compliance.

## **b. Periodicity of Review**

This policy document will be reviewed as and when need arises or at least annually by the Board of AMC and Trustees.

Any new circular / guideline which leads to any modification to any process / limits set out herein shall deem to form part of this policy. At the time of annual review all new enactments made during the year shall be made part of this Policy.

## **What is Stewardship Code?**

Stewardship aims to promote the long term success of companies in a way that the ultimate providers of capital (the shareholders) also prosper. Stewardship responsibilities include monitoring and actively engaging with investee companies on various matters including performance (operational, financial, etc.), strategy, corporate governance (including board structure, remuneration, etc.), material environmental, social, and governance (“**ESG**”) opportunities or risks, capital structure, etc. Such engagement may be through detailed discussions with management, interaction with investee company boards, voting in board or shareholders meetings, etc.

The Stewardship Code laid down by SEBI is a set of principles and guidance for institutional investors. It seeks to provide on how institutional investors should fulfil their stewardship responsibilities in relation to their investment in listed equities. The Stewardship Code consists of six main principles with guidance which set out how companies can aim to comply with their stewardship requirements.

The Principles state that:

1. Institutional investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
3. Institutional investors should monitor their investee companies.
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 interest of the ultimate investors, which should be disclosed.
5. Institutional investors should have a clear policy on voting and disclosure of voting activity.
6. Institutional investors should report periodically on their stewardship activities.

## **Compliance with the Stewardship Code**

The AMC acts as an Investment Manager to Bandhan Mutual Fund and Alternative Investment Fund (collectively referred to as “**the Funds**”).

The AMC recognises its stewardship responsibilities to its clients as an Investment Manager and is committed to exercise the same in this context. We believe that regular contact with the companies in which we invest is central to our investment process. Our approach to the six Principles and how we intend to fulfil them are set out below:

## The Principles

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

The AMC's primary activity in the investment chain is as an asset manager for various categories of investors. Although we manage our equity portfolios using number of different investment processes, we are predominantly a long term active investor. Our aim is to provide the best risk-adjusted returns that align with our clients' objectives.

In this attempt, the AMC follows a research-driven approach to sustainable investing. Although the precise methodology is tailored to each investment strategy, we believe Environmental, Social and Governance ("ESG") considerations, particularly those related to governance, can play a critical role in long-term investment strategy. As an active investment manager, engagement is an important and ongoing component of our investment process, and we view frequent contact with company management as critically important. Engagement with companies takes place on a wide range of issues, including strategy, performance, risk, capital structure and corporate governance issues including board composition and oversight structures, skills and diversity, remuneration.

**Proxy Voting:** The AMC also recognises that while due diligence is exercised in the process of investment decision making; it would be the responsibility of the AMC to review performance on a continual basis including matters proposed by the management for shareholders' approval. The AMC has formulated a comprehensive Proxy Voting Policy, which is made available on our website i.e. [www.bandhanmutual.com](http://www.bandhanmutual.com)

**Training and Development:** The AMC offers a range of opportunities to support firm-wide and individual needs and interests. We finance education costs for post-graduation courses and encourage our personnel to gain professional qualifications and complete certification courses in areas related to stewardship. We strive to maintain an environment that encourages our professionals to chart new courses for their own development.

### **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.**

Like any financial services entity, the AMC may have conflicts of interest in relation to various activities with respect to its associates and/or group companies. However, the protection of our clients' interests is our prime concern. Following are examples of potential conflicts of interest related to the AMC's stewardship activities:

- The investee company is a client of the AMC or its group companies or affiliates
- The investee company is a partner in some aspect of the AMC's business
- Key managerial personnel of the AMC may have personal interest that conflict with their responsibility to act in the best interests of the Company

The AMC has a well-developed policy and framework to manage conflicts of interest. Conflicts in relation to our stewardship activities are covered by our Conflict of Interest Policy, which is available on website [www.bandhanmutual.com](http://www.bandhanmutual.com). The Conflicts of Interest Policy of the AMC forms part of this policy.

Some of the measures adopted to manage conflicts of interests are given below:

- **Investment in Group / Associate Companies and voting:** In line with the investment policy, such investments will be made only if:
  - ✓ Such investment is in accordance with the investment objective and strategy of the Scheme;
  - ✓ On pure commercial consideration after having evaluated the same on merits;
  - ✓ Transactions are on arm's length basis with no consideration of any existing/consequent investments by the Group/associate companies.

While deciding on a stance for proposal preferred by any such issuer being either a Group Company, Associate Company and/or company which has subscribed to the units of the schemes of Bandhan Mutual Fund, it shall be ensured that no special consideration has been accorded vis-a-vis such proposals/issuers and the decision on voting shall be arrived in line and at par with the other issuers as per the process and policy laid down herein.

- **Segregation of voting function and client relations / sales functions:** A segregation of proxy voting and client functions is implemented to eliminate potential conflicts in the proxy voting process. The personnel involved in voting function do not involve anyone whose primary duties include external client relationship management or sales.
- **Chinese Wall:** Stewardship activities are exercised with the aim to influence investee company behavior and are not intended to obtain non-public information. In case material non-public information is obtained through stewardship activity, a Chinese Wall is enforced. Stewardship personnel who possess any material non-public information are subject to Chinese Wall until public dissemination of such information.
- **Conflict of Interest Committee:** A Committee has been constituted as part of Conflict of Interest Policy. Conflicts for which various measures as provided in the policy cannot be applied, shall be referred to the Committee. The Committee will deliberate on the matters referred thereto and then decide on the course of action. If the Committee feels that there are no practical means of managing a conflict or where the proposed measures do not sufficiently protect clients' interests, we may recuse ourselves from that activity.

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

Effective monitoring of company performance is an essential element of our investment approach. The Investment Team of the AMC is responsible for monitoring the companies in which the AMC invests in. There will be no threshold limit applicable for monitoring purposes.

The Investment Team will endeavor to enter into a dialogue with investee companies as part of our engagement and seek to:

- Be up to date with the company's operating performance;
- Know the company's strategic priorities, to evaluate whether it can be managed and financed without giving rise to undue risks;
- Remain briefed on the risk factors, including Environmental, Social and Governance risks, which may impact a company's outlook and market valuation;
- Ensure that its corporate governance structures including remuneration, structure of the Board, diversity of the Board, participation and of Independence Directors, etc. adhere to best practices; and
- Obtain information on shareholder rights and their grievances, etc.

It is important to note that, due to the constantly evolving nature of investee company practices and other circumstances, it may not be possible to identify or address all material factors or monitoring areas, although best endeavors will be exercised.

Our dialogue with the investee companies only seeks to make use of information which has been publicly disclosed. However, it is possible that as a result of our engagement, we may gain access to information that has not previously been disclosed. Such situations will be dealt in accordance with employee dealing guidelines adopted by the AMC.

**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 interest of the ultimate investors, which should be disclosed.**

Decision to intervene, to protect value of the investments, will always be made on a case-by-case basis considering the following broad parameters:

- The investment in the company should be above the threshold limit i.e. 3% of equity AUM managed by the AMC under Mutual Fund / Alternative Investment Fund, as the case may be. However, the AMC may decide to intervene even in such companies where the investment is below threshold level or where the investment is by way of a passive investment, depending on the seriousness of the issue.
- In case the investment is already earmarked for divestment or post planned divestment holding will be below threshold level, intervention may not be considered, unless there are other factors which warrants intervention.
- Seriousness of the issue at hand and if the matter has potential to vitiate overall corporate governance atmosphere.

Concerns may arise with respect to the investee companies from time to time mainly on account of inadequate disclosures, non-compliance to regulations, performance parameters, governance issues, corporate plans / strategy, CSR and ESG related matters, remuneration, leadership issues, litigations, etc.

The AMC will make best effort to engage with investee companies to know the way forward. The AMC will also conduct a regular assessment of the outcome of such interventions. In the event that responsiveness or strategy adopted by the investee company is not satisfactory, such issues are referred to Investment Committee of the AMC. This Committee will then decide to vote against the proposals of investee company.

We also reserve the right to sell out our holding in such company completely, if we feel that it is in the best interest of our clients.

Subject to applicable laws and regulations to which the AMC is subject to and wherever appropriate, the AMC may work with other institutional investors in collective engagement actions. This may take the form of direct engagement with specific shareholders or group of shareholders. Or it may take the form of indirect engagement with industry bodies. The AMC is a member of Association of Mutual Funds in India (AMFI), an association of SEBI registered mutual funds in India. In case AMFI engages in any such interventions, the AMC will actively participate and collaborate with AMFI in such engagements. However, it is only when the AMC believes collaborative action would be an effective means by which investors can exercise appropriate influence, the AMC will willingly initiate action or support other investors' actions.



**Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity.**

The AMC intends to manage the voting rights of the shares entrusted to us as we would manage any other asset. We vote for the shares held in the best interest of our clients, based on reasonable judgement of what will best serve the financial interests of our clients. In this regard, reference may be made to the Proxy Voting Policy adopted by the AMC. Proxy Voting Policy can be accessed on AMC's website i.e. [www.bandhanmutual.com](http://www.bandhanmutual.com). This policy lays down the procedures followed for voting on the issues related to the investee companies. The policy also lays down timelines for periodical disclosures of votes exercised, including rationale for voting decision, etc.

**Principle 6: Institutional investors should report periodically on their stewardship activities.**

The AMC maintains a clear record of voting, engagement and other stewardship activities. As described in our Proxy Voting Policy, a summary of all the votes cast shall be disclosed on the website of the AMC periodically. In addition, the AMC also intends to publish a report annually, which may include Voting and engagement statistics, selected voting and engagement highlights and commentary on market developments.

A summary report on how the AMC has fulfilled its stewardship responsibility on each of the six principles will also be placed on the AMC's website on annual basis. The report may also be sent as a part of annual intimation to its clients / beneficiaries.

It may be noted that public disclosure of certain ongoing engagement with companies would be prejudicial to that engagement activity and would not be in the best interests of our clients. In such circumstances, the AMC may decide not to disclose that activity publicly, or refrain from reporting until closure of the event.

**Review of policies and practices:** On an ongoing basis, the AMC will continue to adapt and endeavour to evolve its approach to responsible investment as we identify and evaluate new risks and issues affecting our investments. This policy will be revisited on an annual basis. Any updates in this regard will be disclosed on the AMC's website i.e. [www.bandhanmutual.com](http://www.bandhanmutual.com)